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New Rules

2025 Mid Year Investment Outlook

Navigating the 'New Rules'

The first half of 2025 has brought major changes to the global economy, introducing what we call the 'New Rules' for investing. The world is shifting away from an era of strong US leadership, global cooperation, and stable inflation. Instead, we're seeing a more fragmented landscape with greater political uncertainty, unpredictable inflation, and realignments in how countries trade and invest globally.

This has challenged traditional strategies like the 60/40 stock-bond portfolio, which no longer behaves as reliably as it once did. The US, while still important, is facing slower growth and a weaker dollar. Meanwhile, Europe and Asia are becoming more attractive, supported by more flexible policies and increased investment flows. Emerging markets are also showing promise, offering fresh opportunities for diversification.

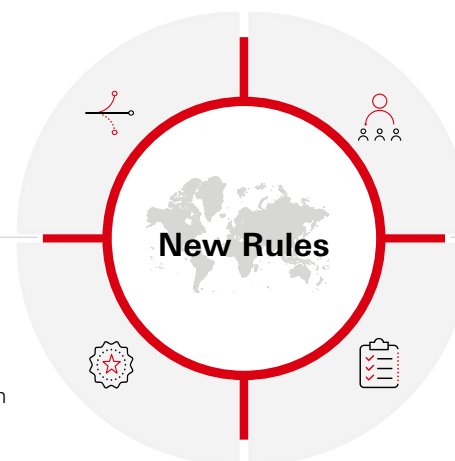
In this new environment, uncertainty isn't temporary – it's here to stay. Leadership is no longer concentrated in one geography or asset class. For investors, this means building portfolios that are more flexible, globally diversified, and ready to adapt to a fast-changing world.

Volatile market narratives

Volatility becomes a feature of the current system, not a bug

End of exceptionalism

Asset classes that have been overlooked by investors during the era of US exceptionalism come into focus

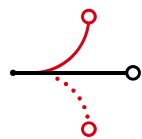


Safety substitutes

Global fixed income, high quality credit, private credit and hedge funds are set to play a greater role in asset allocations

Global to local

Country correlations are likely to fall which creates a strong argument for more granularity in country allocation (notably with emerging markets)



Volatile market narratives

Investors will have to accept that uncertainty is a feature of the system, not a bug.

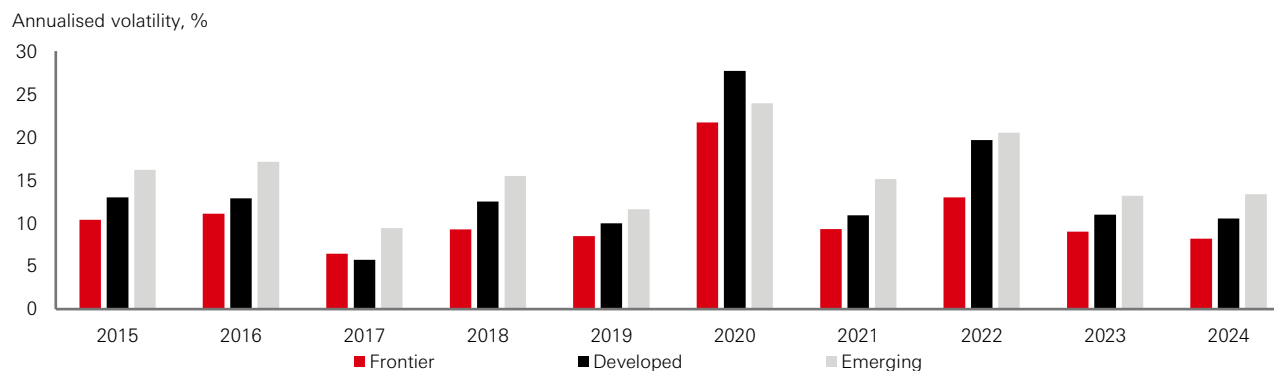
With inflation still high, the Federal Reserve has limited room to cut rates, which means long-term bond yields may stay elevated.

At the same time, global supply chains are under fresh pressure from tariffs and geopolitical tensions, adding to market ups and downs and reducing potential returns.

What's more, some traditional patterns – like stocks and bonds moving in opposite directions – are no longer holding true. This makes it harder to rely on old ways of diversifying portfolios.

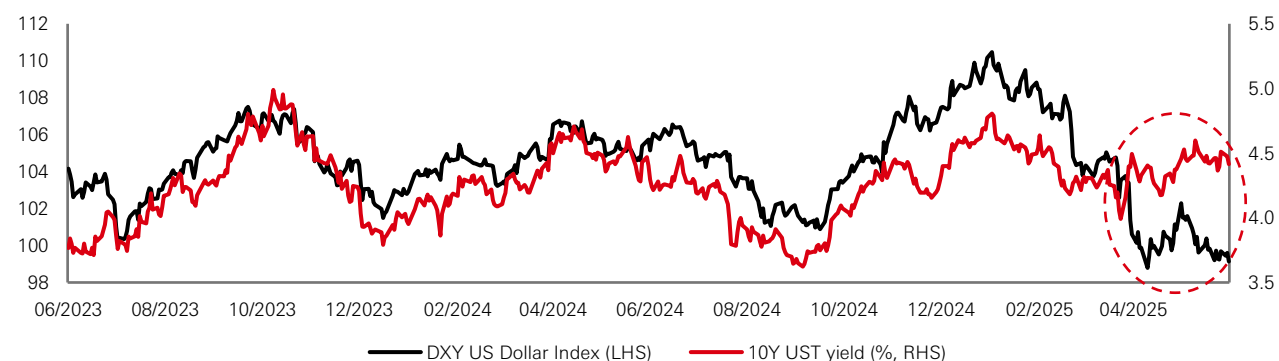
All of this points to a big shift: US assets, once seen as safe havens, are no longer as dependable given questions such as debt sustainability. Investors may need to rethink what 'safe' really means and look for new ways to protect their portfolios.

Annualised equity market volatility in global regions

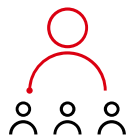


Source: HSBC AM, Bloomberg, June 2025

Dollar has short-term decoupled from rates



Source: HSBC AM, Refinitiv, June 2025



Safety substitutes

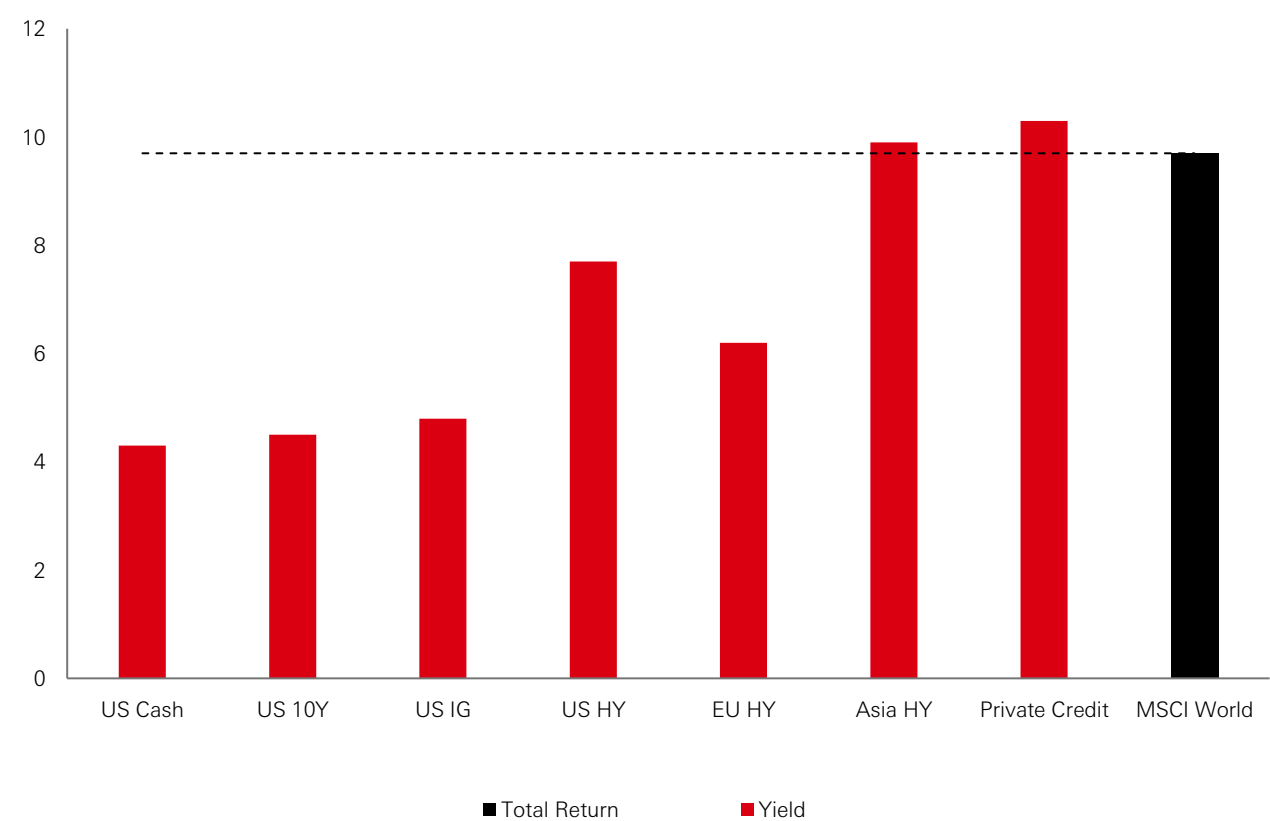
As traditional safe havens have become less effective, it's time to look at new ways to protect your portfolio.

Today, building a resilient portfolio means going beyond the usual asset classes. High-quality bonds from regions like Europe, where interest rates are moving lower, along with other select government and private credit opportunities, can offer more stability. Gold also remains a trusted option for managing risk.

If you're investing in US assets from abroad, currency hedging is becoming more important to protect returns.

Looking beyond stocks and bonds, alternative investments like private credit and hedge funds can add less correlated sources of return. They don't always move with the market, which can help smooth out your portfolio during volatile times.

Private credit is stand out for 'all-in yields' (%)



IG: Investment grade (higher credit quality), HY: High Yield (lower credit quality)
Source: Macrobond, Bloomberg, HSBC Asset Management, June 2025

Past performance is no guarantee of future returns. The level of yield is not guaranteed and may rise or fall in the future..The views expressed above were held at the time of preparation and are subject to change without notice.



End of exceptionalism

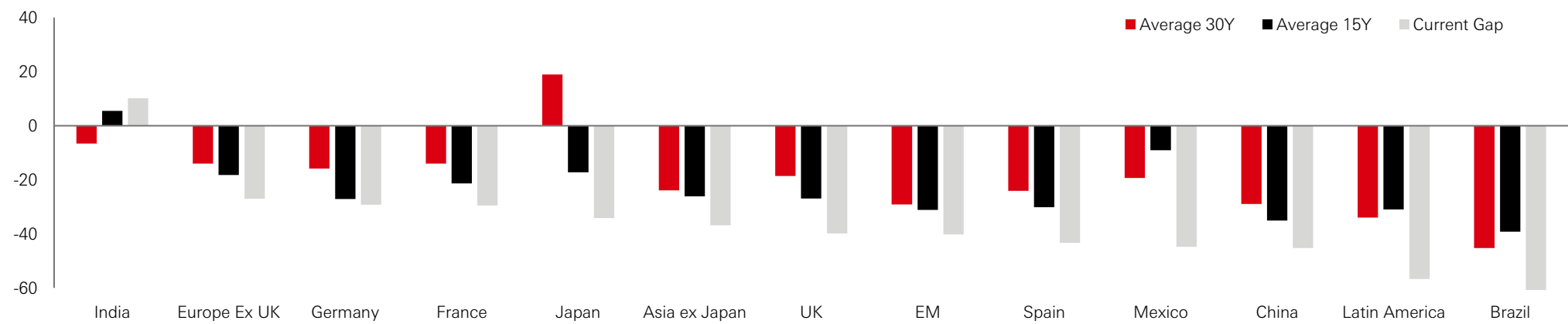
Asset classes that have been overlooked by investors outside of the US come into focus.

For years, US markets have dominated global investing, thanks to strong economic growth, booming stock returns, and a strong dollar. But that era – often called ‘US exceptionalism’ – is starting to shift. Today, US economic signals are weakening, profit growth is slowing, and policy uncertainty is rising. At the same time, other developed markets are showing signs of strength. Corporate profits are improving outside the US, and valuations in Europe and other regions remain inexpensive.

Furthermore, supportive policy changes abroad tend to reinforce this trend. In Europe, for example, falling inflation and expected interest rate cuts by the European Central Bank stand in contrast to the US. Germany is also easing fiscal rules around government spending to boost long-term growth.

In short, the investment case for markets outside the US is gaining momentum. With global growth becoming more balanced, this could be the right time to diversify and explore undervalued opportunities beyond the US.

Price to Earnings gaps versus US over time (long/medium vs current)



Source: HSBC AM, Refinitiv, MSCI. Data as of May 2025.

Source: HSBC AM, June 2025. Any views expressed were held at the time of preparation and are subject to change without notice. This information shouldn't be considered as a recommendation to invest in the specific country mentioned.



Global to local

Emerging markets (EMs) are starting to shine again after years of being overshadowed by strong US performance.

For years, strong US market performance kept EM returns in the background. However, with the dollar expected to weaken over time, EM central banks now have more room to act proactively, supporting returns in both stocks and local currency bonds.

Importantly, we're seeing a clear shift toward a multi-polar world, where different countries' economies move less in sync.

India and China are perfect examples – both major EMs, but with very different recent market outcomes.

China continues to stimulate its economy to meet a 5% growth target. Beyond that, Chinese innovation is accelerating – breakthroughs in AI, and electric vehicle battery technology are beginning to challenge US tech dominance. This could be a powerful engine of growth for EM investors.

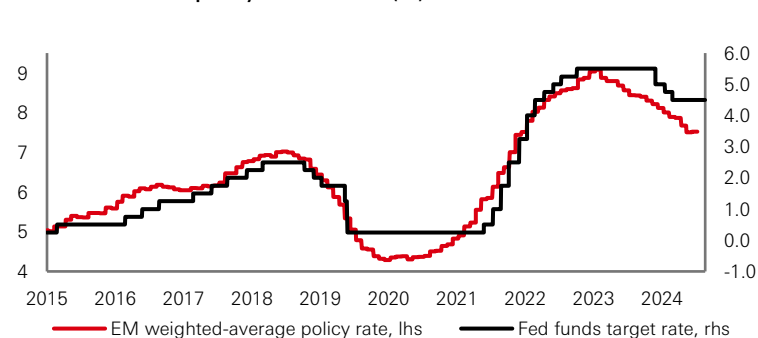
India's transformation is another case in point. Once seen as economically vulnerable, it's now a structural growth leader because of its years of reforms and

stability. Local currency bonds from countries like India offer an attractive combination of yield, stability, and diversification.

This makes the case for looking at EMs country by country – not just as one big block. It also means EM investments could offer diversification at a time when US assets may not be as reliably resilient.

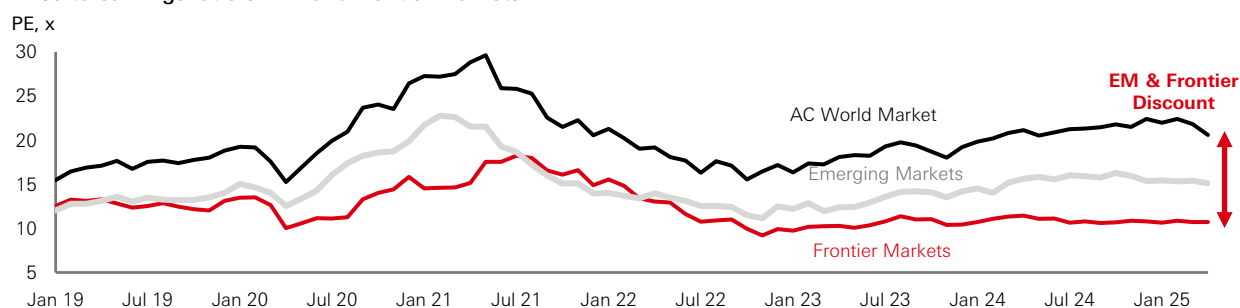
Finally, frontier markets – smaller, lesser-known economies – are also worth watching. They offer strong growth and earnings potential, often with lower volatility and more attractive valuations.

EM central banks policy rates vs. US (%)



Source: HSBC AM, Bloomberg. Data as of June 2025.

Price-to-earnings ratio of EM and frontier markets



Source: HSBC AM, MSCI, Refinitiv. Data as of May 2025.

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