Investment Monthly

Building multi-asset resilience against geopolitical uncertainty

July 2025

Key takeaways

- The geopolitical conflict in the Middle East has caused oil prices to spike, while gold and quality bonds held up well and became negatively correlated with equities. Despite the de-escalation of tensions, uncertainties around trade tariffs, inflation and growth still linger. It is vital to build resilient portfolios through diversification and quality assets, which has worked well in recent market volatility.
- US earnings growth is expected to be bolstered by continued rate cuts, AI innovation, structural trends and deregulation, benefitting Industrials, IT, Communications and Financials. We upgrade European Utilities to overweight due to improved earnings momentum, cheaper valuations and Germany's infrastructure plan. The tech revolution and policy tailwinds are positive for Industrials, Communications, Consumer Discretionary and Financials in Asia.
- Following a rate cut pause in June amid tariff and policy uncertainties, the FOMC is expected to resume easing in September. Despite concerns about the US fiscal deficit, US Treasuries are still fundamentally resilient. Yet, rate volatility warrants a neutral stance for now. While the Bank of England reinforced a gradual approach to easing, we expect another 1.25% of rate cuts from this easing cycle and remain positive on UK gilts for their attractive valuations against a backdrop of slowing growth. While a potential rate hike in October is likely, JGB yields remain unattractive.

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Asset class	6-month view	Comment
Global equities	▲	Although markets will likely refocus on economic fundamentals and the trade outlook, we believe building portfolio resilience with multi-asset diversification remains key amid market volatility and prefer the US and Asia geographically.
Government bonds	▶	While inflation expectations are up, rate cuts and safe-haven flows support quality bonds. We maintain our 7-10-year duration positioning (except Japan) for income generation and portfolio resilience.
Investment grade (IG) corporate bonds	▶	Credit spreads have been resilient as investors may prefer investment grade credit over Treasuries. We continue to see quality bonds as a good portfolio diversifier amid growth, tariff and geopolitical headwinds.
High yield (HY) corporate bonds	▶	Spreads are tight despite high volatility as high yield contains energy bonds. We hold a shorter duration bias of 3 to 5 years.
Gold	▲	Gold remains a key diversifier amid geopolitical and policy uncertainties. Central bank buying is another catalyst.

▲ "Overweight" implies a positive tilt towards the asset class, within the context of a well-diversified, typically multi-asset portfolio.
▼ "Underweight" implies a negative tilt towards the asset class, within the context of a well-diversified, typically multi-asset portfolio.
▶ "Neutral" implies neither a particularly negative nor a positive tilt towards the asset class, within the context of a well-diversified, typically multi-asset portfolio.
Icons: ↑ View on this asset class has been upgraded; ↓ View on this asset class has been downgraded.

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Talking points

Each month, we discuss 3 key issues facing investors

1. How should investors manage geopolitical risk in the Middle East?

- Market concerns over potential oil supply disruptions have led to oil prices spiking (currently close to USD69/bbl) and the energy sector gains. However, global risk appetite only saw a mild hit.
- The situation continues to evolve, with a ceasefire agreement in place at the time of writing. Although oil prices tend to have a material impact on inflation if they stay elevated for longer, they are excluded from core PCE, the Fed's preferred inflation measure. Moreover, the oil market is in a surplus situation from Q2 2025 and is expected to continue in 2026 thanks to supply increases by OPEC+.
- Given the unpredictable nature of the conflict, we focus on building resilient portfolios through a multi-asset and active strategy, including gold and quality bonds, which have held up well and are now negatively correlated with equities. For equities, the US, China, India and Singapore remain our top picks. While the easing of the conflict may lead to mild downside for the USD, it should remain the pre-eminent reserve currency at this point in time. We think diversification across asset classes, markets, sectors and currencies remains critical.

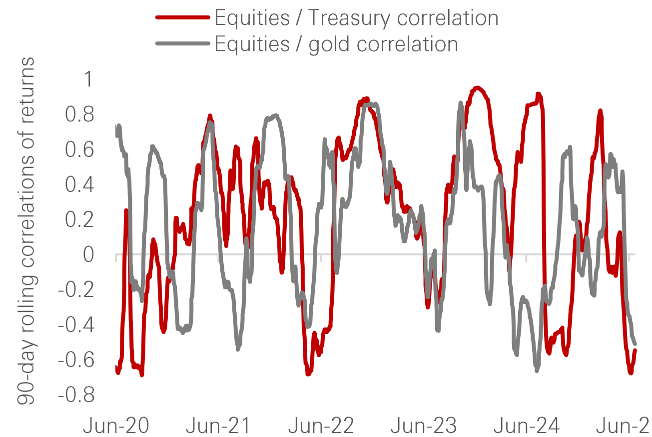
2. Where can investors unlock sector opportunities for diversification?

- The geopolitical conflict did not change the positive outlook for AI and those long-term structural themes, such as the US re-industrialisation. According to FactSet, S&P 500 earnings are expected to rise 9% in 2025 and 13.7% in 2026. Together with deregulation as a key strategic focus of the US administration, we continue to favour Industrials, Communications, IT and Financials.
- In Europe, improved earnings momentum, cheaper valuations and Germany's infrastructure plan support our upgrade of Utilities to overweight, along with Industrials and Financials. Following significant gains and growing vulnerability to US pricing policy, we downgrade Healthcare to neutral.
- Asia's economic growth remains healthy with attractive valuations and subdued trade concerns with the US. The tech revolution remains the region's driving force for growth and productivity. China's policy tailwinds for domestic consumption, Singapore's robust earnings from banks and a solid dividend yield, as well as India's supportive central bank policies, support our preference for Industrials, Consumer Discretionary, Communications and Financials in the region.

3. What are the implications of central banks' policy decisions?

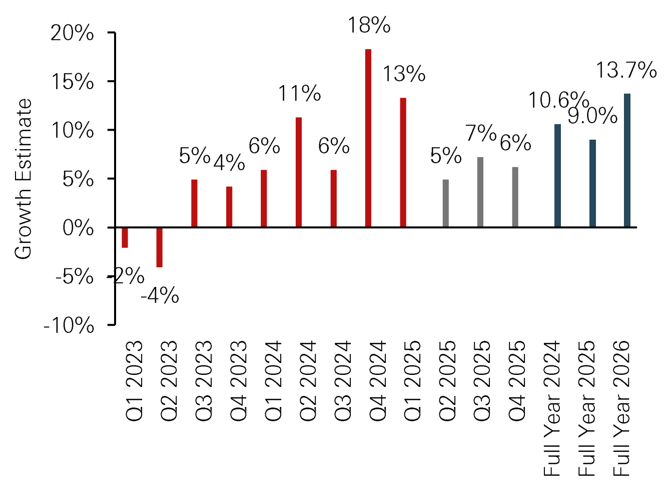
- The FOMC left policy rates unchanged at 4.25-4.50% in June, with growth expectations lowered to 1.4% and inflation up from 2.8% to 3.1% for 2025 amid tariff and policy uncertainties. We expect the FOMC to resume rate cuts in September, followed by two 0.25% cuts in December and next March, taking the federal funds target range to 3.50-3.75% by end-2026. Despite concerns about US fiscal deficit and debt implications, we believe the Treasury market is still fundamentally resilient, but rate volatility supports a neutral stance on US Treasuries and investment grade credit, with a preference for 7-10-year duration and taking spikes in yields as opportunities to add exposure.
- The Bank of England maintained its Bank Rate at 4.25% and reiterated a gradual and cautious approach to easing, flagging a 'significant slowing' in pay growth and job market momentum. We maintain an overweight stance on UK gilts, where valuations look compelling against a backdrop of slowing inflation and weakening growth.
- The Bank of Japan also kept its policy rate steady at 0.5% in June and decided to reduce its Japanese government bond (JGB) purchases by half to JPY200bn per quarter from March 2026 onwards. With more clarity on the JGB buying plan, market attention will likely shift to the timing of the next rate hike, which we expect to occur in October. We remain underweight on Japanese government bonds.

Chart 1: Equity correlations with gold and bonds are now negative, reflecting the power of diversification



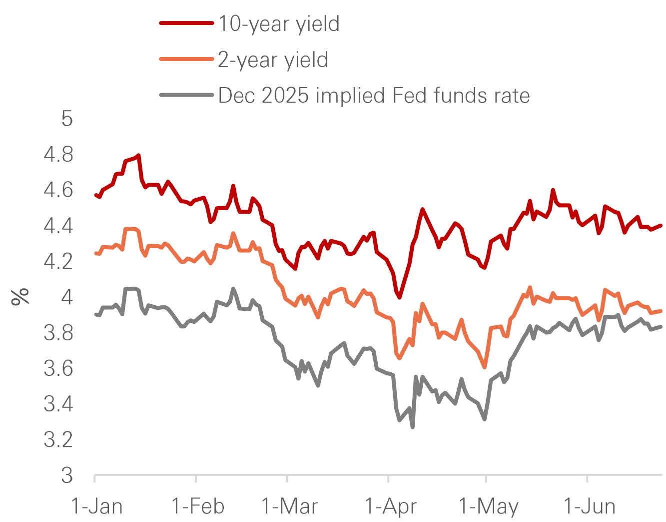
Source: Bloomberg, HSBC Private Bank and Premier Wealth, as at 25 June 2025. Past performance is not a reliable indicator of future performance.

Chart 2: US earnings growth remains strong (S&P 500 EPS YoY % change)



Source: FactSet, HSBC Private Bank and Premier Wealth, as at 25 June 2025. Past performance is not a reliable indicator of future performance.

Chart 3: Bonds saw a safe-haven bid despite higher inflation expectations and US deficit concerns



Source: Bloomberg, HSBC Private Bank and Premier Wealth, as at 25 June 2025. Past performance is not a reliable indicator of future performance.

Asset Class Views

Our latest house view on various asset classes

Asset class	6-month view	Comment
Global equities		
Global	▲	Although markets will likely refocus on economic fundamentals and the trade outlook, we believe building portfolio resilience with multi-asset diversification remains key amid market volatility and prefer the US and Asia geographically.
United States	▲	Economic growth is expected to slow while earnings expectations are set too low, which we think most companies should be able to exceed. AI-driven productivity gains and long-term structural trends remain key growth engines.
United Kingdom	▶	The recent rally is driven by sentiment rather than earnings strength while the housing market remains a drag on the domestic cycle. With fiscal risks also rising, we believe upside in equities may be limited, so maintain a neutral stance.
Europe ex-UK	▶	The latest ECB projections indicated weaker growth ahead and lower inflation next year. Ongoing risks from prolonged trade negotiations with the US and energy-linked geopolitical uncertainty weigh on European stocks.
Japan	▶	Corporate revenues have a high exposure to the US, reinforcing our neutral stance on Japanese equities for now.
Emerging Markets (EM)	▶	Lower inflation is positive for some emerging markets while an improved outlook for trade deals reinforces our preference for EM Asia, in particular.
EM EMEA	▼	While we see attractive structural opportunities in the UAE, the region is impacted by growth, monetary and geopolitical uncertainties.
EM LatAm	▶	The exemption from US reciprocal tariffs is a positive for Mexico while Brazil's rate hikes remain a headwind.
Asia ex Japan equities		
Asia ex-Japan	▲	Out positive view on Asia rests on its valuation support and structural opportunities, as well as increased trade flows within the region. China, India and Singapore stand out for their stronger fundamentals and policy support.
Mainland China	▲	Retail sales surprised on the upside and we expect more policy support to boost domestic demand amid trade uncertainty. We prefer industry leaders exposed to AI innovation, domestic consumption, and quality SOEs paying high dividends.
India	▲	Indian equities are underpinned by ongoing rate cuts, robust economic activity and strong government spending, supporting resilient earnings growth. We prefer large-cap stocks in the financials, healthcare and industrials sectors.
Hong Kong	▶	Despite muted retail sales and trade uncertainty, the liquidity inflows since May and anticipated Fed rate cuts are positive drivers for equities. We prefer banks, insurance, telecom and utilities for dividend income, and selective quality developers.
Singapore	▲	Singapore remains a defensive anchor with relatively less exposure to tariff risks. The equity market is supported by robust earnings growth from banks and a solid dividend yield.
South Korea	▶	While we anticipate more expansionary fiscal policies and an acceleration of the Corporate Value Up programme post-election, we will wait for more clarity on the country's trade outlook. Valuations are not demanding.
Taiwan	▶	The high-tech exposure to the US remains a key challenge, with the impact on semiconductor manufacturing subject to further clarity on chip tariffs. We maintain a neutral position for now.
Government bonds		
Developed markets (DM)	▶	While inflation expectations are up, rate cuts and safe-haven flows support quality bonds. We maintain our 7-10-year duration positioning (except Japan) for income generation and portfolio resilience.
United States	▶	Considering the Fed's wait-and-see stance and renewed market concerns on the fiscal pressure, we have revised up our US Treasury estimates across the yield curve. Nevertheless, the market still enjoys strong structural demand and liquidity.
United Kingdom	▲	Given the disinflation trend, a dovish policy pivot and attractive valuations across the curve, we remain overweight on UK gilts. They continue to offer one of the most attractive yields across the sovereign bond markets in developed economies.
Eurozone	▶	We believe the 0.25% rate cut in June is the end of this easing cycle and the ECB will maintain its data-dependent approach. Rotational flows in Eurozone sovereign bonds will likely wane.
Japan	▼	Although inflation remains higher than expected, the Bank of Japan seems to want to keep policy unchanged amid global uncertainty. JGB yields remain unattractive in our view.
EM (Local currency)	▶	Falling inflation offers scope for rate cuts in the region.
EM (Hard currency)	▶	We still find yields but remain selective with a focus on quality.
Corporate bonds		
Global investment grade (IG)	▶	Credit spreads have been resilient as investors may prefer investment grade credit over Treasuries. We continue to see quality bonds as a good portfolio diversifier amid growth, tariff and geopolitical headwinds.
USD investment grade (IG)	▶	US corporates enjoy strong fundamentals, but their credit metrices will likely deteriorate from a strong base. Spreads may remain choppy but all-in yields remain attractive.
EUR investment grade (IG)	▲	Despite tight credit spreads, we believe EUR investment grade bonds can better compensate duration risk and offer attractive yields.
GBP investment grade (IG)	▲	GBP bonds are under-owned by international investors but offer yield levels similar to those of the USD market and a better risk-adjusted return trade-off based on the rate outlook.
Asian investment grade (IG)	▶	The disinflation trend and solid credit fundamentals are positive for Asian investment grade credit, where we favour Asian financials, Indian local currency bonds, and Chinese hard currency bonds in the technology, media and telecom sectors.
Global high-yield (HY)	▶	Spreads are tight despite high volatility as high yield contains energy bonds. We hold a shorter duration bias of 3 to 5 years.
USD high-yield (HY)	▶	USD high yield provides a substantial overall yield, but equity volatility often feeds through into higher HY bond volatility. Delinquencies and debt levels bear monitoring, but non-performing loans remain below their five-year averages.
EUR high-yield (HY)	▶	In line with our global high yield view, we remain selective on EUR high yield bonds and stick to a 3-5-year positioning.
GBP high-yield (HY)	▶	We have a neutral view and short duration exposure on GBP high yield as spreads are below their long-term average.
Asian high-yield (HY)	▶	We remain cautious about China's property market given its policy priorities for boosting domestic consumption and prefer quality issuers in selective areas of the region.
Commodities		
Gold	▲	Gold remains a key diversifier amid geopolitical and policy uncertainties. Central bank buying is another catalyst.
Oil	▶	De-escalation of the tensions in the Middle East and OPEC+ spare capacity will limit the upside for oil prices.

Sector Views

Global and regional sector views based on a 6-month horizon

Sector	Global	US	Europe	Asia	Comment
Consumer Discretionary	▶	▶	▼	▲	The US sector recorded a solid Q1 earnings season as the US consumer appears to be more resilient than expected. Asian consumer sentiment continues to improve as valuations remain attractive relative to their history and other regions. Europe saw a mixed earnings season with companies guiding flat to negative sales growth. Luxury goods and European auto companies face the greatest headwinds.
Financials	▲	▲	▲	▲	Global Financials reported stronger-than-expected results for Q1. Net interest income is likely to remain elevated as inflation remains stubbornly higher than expected, keeping interest rates elevated. Strong trading activity and bond issuance are likely to persist in the near term. In Asia, we remain positive on China's economy and the improving sentiment in the region.
Industrials	▲	▲	▲	▲	At the start of the year, US tariff concerns weighed on sentiment and guidance, but stocks gained on robust Q1 results, with many segments (machinery, construction, aerospace, trucks, trains and freight) projecting solid y-o-y growth from robust order books. Digital infrastructure, aerospace, defence and construction are likely to benefit from a pick-up in capital spending.
Information Technology	▲	▲	▶	▶	AI demand remains resilient, with new AI-enabled products and services being launched across many industries and sectors. First-quarter results have beaten expectations, providing a reassuring outlook for software and hardware growth. The roll-out of AI-enabled products and services is gaining momentum, along with embedded AI-enhanced processes. These should fuel additional demand for software, hardware and IT services.
Communications Services	▲	▲	▶	▲	In the US, the media and entertainment industry is forecast to have above-average sales and earnings growth for 2025, even after its stellar performance over the past two years. In Europe, the outlook for the telecom services sector is plagued by strong competition, low investment returns and a lack of pan-European scale. In Asia, the sector is more balanced with attractive valuations and easing regulation.
Materials	▼	▼	▼	▼	The demand outlook is expected to remain weak amid a challenging pricing environment. Persistently high energy and feedstock costs will likely squeeze margins and profits. Mining and chemical stock valuations are undemanding, but growth is likely to remain elusive. Tariffs remain a significant risk and are hurting sentiment. Refining, processing and chemical stocks remain unappealing in the short term.
Real Estate	▶	▶	▶	▶	The sector appears to have stabilised except in China where some uncertainty remains. Retail space and older offices are particularly challenged as alternative consumer purchasing channels evolve and refurbishment costs are high. New office developments and housing are experiencing better supply-demand dynamics. The re-routing of supply chains is driving demand for new facilities in developed and some emerging markets.
Consumer Staples	▶	▶	▶	▶	Strong competition and consumers trading down have created a weak pricing environment for companies in many markets. Limited potential for sales growth and margin expansion, combined with high valuations relative to other sectors (in line with history), makes the sector unattractive. Consumers are trading down and seeking lower-cost alternatives when purchasing goods.
Energy	▶	▶	▶	▶	Elevated geopolitical tensions have pushed energy prices higher but rising supply and weakening demand are expected to lead to lower oil prices in the next 12 months, although the relatively higher cost of production for shale gas may limit production and therefore oversupply induced price declines. Seasonal demand in the northern hemisphere is likely to support gas prices. Low valuations, strong cash flow and high dividends somewhat offset the sector's speculative nature.
Healthcare	▶	▶	▶↓	▶	We downgrade European Healthcare due to ongoing US government healthcare policy uncertainty and rising medicine pricing pressure. The sector trades at a 20% discount to its US peers, but sentiment continues to be negative. We expect Asia healthcare stocks to perform in line with the broader market.
Utilities	▶	▶	▲↑	▶	We upgrade European Utilities based on favourable energy demand trends, positive price trends, and rising spending on European energy infrastructure. Many economies are undergoing the electrification of transportation, expansion of digital infrastructure, and rising affluence, which drives demand for air conditioning, freezers, etc. Utilities are already operating at full capacity, so substantial capital investments are required to upgrade generation capacity and transmission infrastructure. Valuations are undemanding.

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