

Investment Monthly

AI transformation broadens exposure across Asia and sectors

December 2025



Key takeaways

- ◆ The US government shutdown has come to an end. Historically, real GDP tends to rebound in the following months as federal spending resumes. We remain overweight on US stocks due to solid earnings momentum and the AI transformation broadening opportunities across IT, Communications, Utilities, Financials and Industrials. However, uncertainty over Fed policy, job creation and the build-out of AI has led us to trim US exposure and diversify into Asia, gold and hedge funds, while preferring investment grade over high yield.
- ◆ AI adoption and domestic consumption are twin tailwinds for Asia. In South Korea, strong memory demand, solid earnings expectations and the Corporate Value-Up programme justify our overweight stance. Japan is also upgraded to overweight, supported by a re-rating opportunity linked to the new Prime Minister's agenda, governance reforms and record-high share buybacks. These upgrades complement our preference for mainland China, Singapore and Hong Kong, as well as Asian investment grade credit, reflecting the positive momentum in the region.
- ◆ While the UK Budget has eased near-term fiscal concerns by increasing headroom to GBP22bn, economic momentum remains fragile, reinforcing market expectations of policy easing around year-end while we lean towards February 2026. The high level of net government debt and the reversal of quantitative easing policies mean that gilt yields trade with a risk premium. We prefer GBP investment grade credit and remain neutral on UK stocks as re-rating catalysts are lacking.



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Asset class	6-month view	Comment
Global equities	▲	We maintain our risk-on stance while broadening our exposure beyond the US into emerging markets and Asia, as the AI transformation expands opportunities across regions and sectors.
Government bonds	▶	DM government bond yields are expected to remain range-bound, with real yields remaining elevated. Despite fiscal concerns in some developed markets, government bonds still offer a stable income stream for portfolios.
Investment grade (IG) corporate bonds	▲	We remain focused on locking in quality bond yields by prioritising IG corporate bond markets for their all-in carry, offering stability and steady income amid falling policy rates. We maintain our preference for 5-7-year maturities.
High yield (HY) corporate bonds	▼	Stretched valuations and rising credit market volatility, driven by potential governance and fraud issues reinforce our underweight position for global high yield bonds.
Gold	▲	Central bank purchases, USD weakness and global uncertainty should support growth in gold prices, albeit at a slower pace.

▲ "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.

Talking points

Each month, we discuss 3 key issues facing investors

1. Will the US government reopening drive US stocks higher?

- ◆ The longest US government shutdown in history ended after 43 days when Congress passed a bipartisan funding bill, which was signed into law by President Trump. The agreement funds most federal agencies through 30 January 2026, while SNAP (Supplemental Nutrition Assistance Programme), Agriculture, the FDA and other key programmes will be funded through 30 September 2026.
- ◆ According to the Congressional Budget Office (CBO), the shutdown could lower 4Q GDP by as much as 2% in an eight-week scenario. However, once federal spending resumes, real GDP typically rebounds in the following months.
- ◆ Fundamentally, US equities remain supported by solid earnings momentum, an AI-driven investment boom and productivity gains and fiscal support from the Big Beautiful Bill. However, the risks of a sooner-than-expected end to the Fed easing cycle, less job creation, bottlenecks in AI development and January's funding cliff could create short-term volatility. We have reduced our US equity exposure while maintaining an overweight position. The AI transformation broadens opportunities beyond IT into Communications, Financials, Industrials and Utilities, and we are adding Asia, gold and hedge funds to further diversify portfolios. Although the deal is expected to ease pressure on short-term Treasury yields, we find investment grade bonds with 5-7-year maturities more attractive.

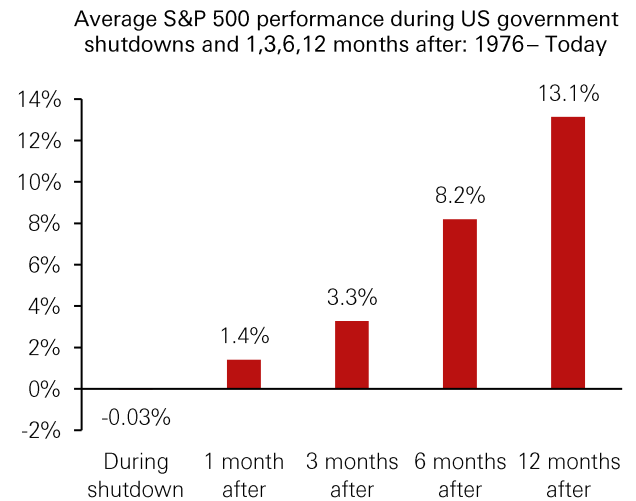
2. Where are the opportunities in Asia?

- ◆ We see diverse and broadening opportunities in Asia, driven primarily by AI adoption and rising domestic consumption. These factors underpin our barbell approach, which balances innovation-focused stocks with high-dividend equities or quality bonds.
- ◆ In South Korea, the AI trend is supporting strong demand for memory and robust earnings expectations, with additional potential upside if the mobile upgrade cycle materialises. The 'Corporate Value-Up' programme can also help improve shareholder returns and balance the elevated tech exposure. These factors support our decision to upgrade South Korean stocks to overweight. Similarly, we move Japanese stocks to overweight, reflecting a potential re-rating opportunity driven by the new Prime Minister's expansionary agenda and corporate governance reforms. Record share buybacks and increasing dividends are also catalysts.
- ◆ These upgrades, along with our continued preference for mainland China, Singapore and Hong Kong, as well as Asian investment grade credit, highlight the growth momentum in the region.

3. What are the investment implications of the UK Budget?

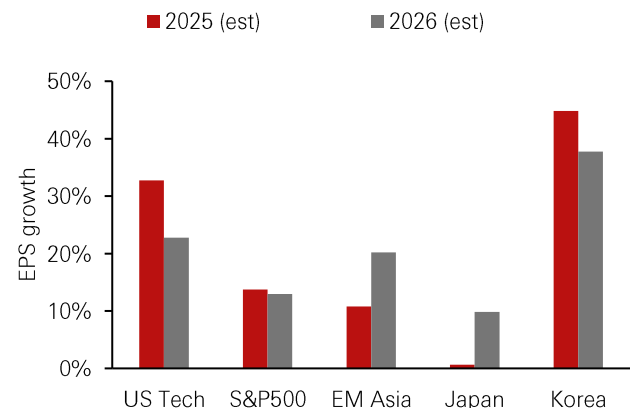
- ◆ The UK Budget increased tax by GBP26 billion in 2029/30, boosting the government's fiscal headroom to GBP22 billion. This helps reassure markets that the government can manage its borrowing needs without triggering volatility.
- ◆ With fiscal consolidation backloaded, the Bank of England can remain focused on the inflation and labour market developments in the near term and stick to a gradual path of rate cuts (we expect it to resume in February 2026). This should be supportive for gilts, but we refrain from getting overly optimistic as fiscal dynamics remain at risk.
- ◆ Although concerns over fiscal stability have eased, the high level of net government debt (94% of GDP) and the reversal of quantitative easing policies mean that gilt yields continue to trade with a risk premium. We prefer GBP investment grade credit. Despite trading at discounted valuations to global peers, UK stocks lack immediate catalysts for re-rating, so we remain neutral but see opportunities in Industrials, Financials and Utilities in the region.

Chart 1: US markets tend to overlook government shutdowns and see strong performance in the months that follow



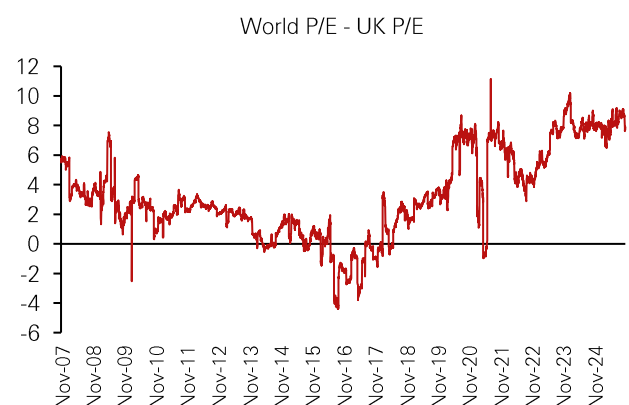
Source: Bloomberg, HSBC Private Bank and Premier Wealth as at 13 November 2025. Past performance is not a reliable indicator of future performance.

Chart 2: US earnings growth should remain above that of other regions, but the options are broadening



Source: Bloomberg, HSBC Private Bank and Premier Wealth as at 12 November 2025.

Chart 3: UK equities are cheaper than global peers



Source: Bloomberg, HSBC Private Bank and Premier Wealth as at 26 November 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	▲	We maintain our risk-on stance while broadening our exposure beyond the US into emerging markets and Asia, as the AI transformation expands opportunities across regions and sectors.
United States	▲	Although AI adoption continues to accelerate productivity gains and earnings growth, we have slightly reduced our exposure to hedge against elevated valuations, as well as uncertainties around Fed cuts and any potential delays in AI roll-out.
United Kingdom	▶	UK stocks are global in nature with compelling value, but near-term fiscal headwinds and a fragile growth outlook limit upside potential.
Europe ex-UK	▶	Economic growth is moderate, while a strong euro remains a headwind. As the pace of infrastructure investment in Germany is still slow, and France's budget issues and political uncertainty linger, we prefer periphery markets, such as Spain and Italy.
Japan	▲↑	We see a potential re-rating opportunity driven by the new PM's reflationary and expansionary agenda, which should stimulate economic activity and valuations, while corporate governance reforms may lead to improved shareholder returns.
Emerging Market (EM)	▶	Fed rate cuts, a weaker USD, easing inflation, and positive fiscal positions are attracting capital inflows. EM Asia is preferred.
EM EMEA	▶	The region shows improving fundamentals and dividend strength while benefitting from a weaker dollar. The UAE offers structural opportunities, while South Africa is supported by expectations of lower policy rates and elevated gold prices.
EM LatAm	▶	USD weakness and rate cuts are supportive, but the region still faces high tariffs and political uncertainty in Brazil.
Asia ex-Japan equities		
Asia ex-Japan	▲	Asia remains a key engine of growth, with the robust AI investment cycle, pro-growth policy priorities, and de-escalation of trade tensions following the latest round of US trade deals creating diverse opportunities for diversification.
China	▲	As high-quality development and self-sufficiency remain the country's strategic focus, Chinese stocks should continue to be supported by AI-driven innovation, capital expenditure and supportive policies. Valuations remain reasonable.
India	▶	Subdued earnings and weak foreign investor flows remain near-term headwinds. We wait for evidence that the government reforms will improve the growth and earnings outlook but maintain our positive longer-term view.
Hong Kong	▲	Improving retail sales, a stabilising housing market, and policy support to further develop finance, fintech, technology and innovation are growth drivers. We prefer undervalued banks, insurance, telecom, utilities and quality developers.
Singapore	▲	With a robust financial and stable policy backdrop, elevated dividends and a defensive appeal, Singapore stocks remain attractive to investors. The new equity market measures announced by the MAS are additional catalysts.
South Korea	▲↑	We upgrade South Korean equities as strong demand for memory chips and the healthy order books for 2026 are supporting the market's elevated earnings expectations, while the 'Corporate Value-Up' Programme promotes shareholder returns.
Taiwan	▶	Taiwan is not fully benefitting from AI tailwinds, while valuations are near the top of the five-year range.
Government bonds		
Developed markets (DM)	▶	DM government bond yields are expected to remain range-bound, with real yields remaining elevated. Despite fiscal concerns in some developed markets, government bonds still offer a stable income stream for portfolios.
United States	▶	Fiscal concerns are likely already priced in the term premium of longer UST yields. While the risk to the Fed's independence is relatively low, yields may remain volatile until the final nomination is confirmed. We maintain a 5-7-year duration preference.
United Kingdom	▶	Given the MPC's tone towards cautious optimism on disinflation, we have brought forward our expectation for the next rate cut to February 2026 (from April). The Budget was well received by gilt traders, but we remain cautious of fiscal fragility.
Eurozone	▶	Core government bonds remain challenged by fiscal-deficit concerns and are sensitive to political developments, while peripheral government bonds are benefitting from improved credit ratings and see yield convergence.
Japan	▼	With the fiscal stimulus measures set to boost growth and hawkish sentiment appearing to be growing within the BoJ, we maintain our expectation for a rate hike in December. However, JGB yields remain unattractive.
EM (Local currency)	▲	There is potential for EM rate cuts and for EM currencies to strengthen against the dollar. Overall yield levels are attractive, and rating upgrades are possible. EM local currency sovereign bonds also offer a relatively low correlation with risk assets.
EM (Hard currency)	▶	The US dollar could remain volatile. We still find yields attractive but remain selective and generally focus on quality bonds.
Corporate bonds		
Global investment grade (IG)	▲	We remain focused on locking in quality bond yields by prioritising IG corporate bond markets for their all-in carry, offering stability and steady income amid falling policy rates. We maintain our preference for 5-7-year maturities.
USD investment grade	▲	US investment grade bonds offer an elevated carry and an opportunity to lock in yields from quality credit amid falling policy rates. We maintain a medium duration in US investment grade.
EUR investment grade	▲	We believe investment grade credit can better compensate for the fiscal risks reflected in the rate markets and position at the long end of the curve to seek additional carry, as credit spreads remain near cyclical lows.
GBP investment grade	▲	We prefer GBP investment grade credit with a 7-10-year duration target, which offers an attractive carry relative to gilts.
Asian investment grade	▲	Lower Fed rates, local disinflation, and solid credit fundamentals support Asian IG bond performance. We favour Japanese and Australian IG bonds, Asian financials, as well as Chinese hard currency and Indian local currency bonds.
Global high yield (HY)	▼	Stretched valuations and rising credit market volatility, driven by potential governance and fraud issues reinforce our underweight position for global high yield bonds.
USD high yield	▼	Despite a below-average default rate and a resilient economic outlook, potential negative news flow may affect issuers in the lowest segment of credit ratings. We prefer investment grade over high yield bonds.
EUR high yield	▼	Our quality bias keeps us underweight EUR high yield credit to avoid spread-widening risks from cyclically-low levels.
GBP high yield	▼	With credit spreads below long-term averages, we see more attractive risk-reward in the GBP IG space.
Asian high yield	▼	We maintain our preference for quality credit amid external uncertainty in the region.
Commodities		
Gold	▲	Central bank purchases, USD weakness and global uncertainty should support growth in gold prices, albeit at a slower pace.
Oil	▶	Oil prices remain range-bound due to higher production and weaker demand.

Sector Views

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

Sector	Global	US	Europe	Asia	Comment
Consumer Discretionary	►	►	▼	▲	The momentum, spending and macroeconomic data continue to surprise positively. DM valuations are full, and the pricing environment is facing headwinds. European companies are struggling with the lingering effects of past price inflation, which are now limiting their growth potential as demand is soft (autos/luxury) and competition is rising in some segments (EVs/durable goods). In contrast, Asian companies remain attractive, trading at a discount to Western peers, even as demand for local brands continues to rise and US sales remain supportive.
Financials	▲	▲	▲	▲	Global Financials reported stronger-than-expected results for Q3. Net interest income is likely to remain elevated, as inflation remains stubbornly higher than expected, keeping interest rates elevated. Equity trading activity, bond issuance, IPOs and M&A remain strong. In Asia, we remain positive on China's economy and the improving sentiment in the region.
Industrials	▲	▲	▲	►	The Industrials sector is benefitting from long-term developments including electrification, reshoring, supply-chain security, digital infrastructure, aerospace and rising defence spending. However, uncertainty around tariffs remains a headwind to investment. Order books remain relatively healthy.
Information Technology	▲	▲	►	▲↑	The AI revolution underpins the resilience of the IT sector, as its deployment affects other sectors globally. Strong demand for AI software, related hardware and services is driving robust growth across many segments. Third-quarter results have so far alleviated concerns over high valuations. We upgrade Asia on the expectation of a pick-up in hardware and semiconductor growth supported by several demand drivers, including the build-out of digital infrastructure, data centres, cloud capacity and electric vehicles.
Communications Services	▲	▲	►	▲	Communications stocks continue to deliver reassuring outperformance. In the US, attractive valuations are supported by above-average growth in sales and earnings, driven by media and entertainment segments. Asia remains attractive, although relative valuations are less compelling. Europe's telecom services sector offers a far less attractive proposition in terms of investment returns due to fierce competition, a lack of scale, market complexity and high capital spending requirements.
Materials	►	►	►	►	The sector's fundamentals and commodity prices (excluding energy) appear to have troughed, with macroeconomic indicators slowly improving in China and Europe. In addition, we expect oil prices to decline over the next 12-18 months, providing some benefits to the chemicals industry. Valuations remain undemanding, but tariffs remain a risk.
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 remain 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	▼	▼	▼	▼↓	The sector continues to experience a weak pricing environment, particularly impacting mass-market branded goods and mainstream food retailers. We downgrade Asia to reflect these factors, which are now affecting the region as well. Undemanding valuations reflect limited potential for sales growth or margin expansion. Consumers are trading down and seeking lower cost alternatives when purchasing goods.
Energy	▼	▼	▼	▼	Oil prices are likely to continue to be range-bound for most of 2026 due to higher production and weaker demand. Gas prices are likely to remain resilient, as seasonal demand, especially in the northern hemisphere, is likely to keep gas prices elevated. The sector's low valuations, high dividends and robust cash flows are appealing, especially when combined with the exposure to the gas segment, but integrated oil producers and energy service companies are likely to face challenging growth conditions.
Healthcare	►	►	►	▲	Asian Healthcare should benefit from improving demand dynamics, attractive valuations that are below their 5-year average, and rising investor interest in a new wave of innovative medicines. Tariffs, pricing, market access and policy uncertainty related to the US are major concerns for all non-US healthcare companies and will continue to weigh on sentiment.
Utilities	▲	▲	▲	►	We remain positive on the sector given the growing demand for electricity from multiple consumer groups, including the electrification of transportation, the expansion of digital infrastructure, air conditioning and refrigerators. As Utilities are operating at or close to full capacity, so substantial capital investment is required to upgrade generation capacity and transmission infrastructure. Valuations are undemanding.

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