Investment Monthly

Fed easing creates opportunities across markets

October 2025

Key takeaways

- The re-start of the Fed's rate cut cycle boosts equities, bonds and gold to new highs. Historically, equities and bonds tend to perform well in the 12 months after the Fed resumes easing. We now expect two more 0.25% rate cuts this year. As the 10-year US Treasury yield is now below our year-end forecast of 4.3%, we reduce our maturity preference for US Treasuries to 5-7 years.
- We see further upside for US equities due to multiple drivers in place, with rate cuts being one of those. The AI liftoff drives huge activity and investment in the AI ecosystem. Together with a healthy pick-up in M&A activity, steady increases in share buybacks and dividends, as well as a constructive cyclical outlook and structural drivers such as nearshoring and the US re-industrialisation, we stay bullish on US equities, preferring IT, Communications, Industrials and Financials.
- Apart from a positive outlook for the US market, diversification across geographies, sectors, asset classes and FX can help capture additional opportunities and manage risks. Geographically, we also like China and Singapore for their different economic cycles and growth drivers compared to those of the US. We overweight Financials and Industrials in most regions for their cheaper valuations than IT and attractive opportunities. Quality bonds, gold and alternative assets are good diversifiers amid slowing growth. A multi-asset strategy is an effective way to achieve all of the above.


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Asset class	6-month view	Comment
Global equities	▲	Global equities are supported by resilient earnings, central bank easing and AI-driven productivity gains. We see further upside for equities and maintain a mild risk-on stance with a large-cap and quality bias across regions and sectors.
Government bonds	▶	Government bonds are a good diversifier against the risk of any slowdown, and still provide an attractive compensation above inflation, which helps build a key income stream for portfolios.
Investment grade (IG) corporate bonds	▲	The resumption of Fed rate cuts provides a good opportunity for investors to lock in current attractive yields of global IG bonds for stability and income before cash rates fall further. We keep our 7-10-year maturity preference unchanged.
High yield (HY) corporate bonds	▶	Credit spreads are tight but the elevated overall yield still supports a neutral stance with a 3-5-year maturity preference as the US and global economies remain relatively resilient.
Gold	▲	Fed rate cuts, USD weakness, lingering geopolitical tensions, and ongoing inflows into gold ETFs are tailwinds for gold. We see it as a good source of portfolio diversification against global risks.

▲ "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 will the resumption of the Fed's easing cycle affect markets?

- The 0.25% rate cut by the Federal Reserve in September indicates that they are a bit more concerned about growth than inflation, which remains sticky but manageable. Fed Chair Powell also commented that it makes sense to move from a restrictive monetary policy towards a more neutral policy. As a result, we have changed our Fed rate forecasts to two 0.25% rate cuts in October and December this year.
- Since 1990, whenever the Fed resumed its monetary policy easing, the US financial markets tended to rally in the subsequent 12 months. The S&P 500 rallied 22% on average, outperforming the MSCI World Index, which delivered 19%, while US bonds also returned 7.3% during the same periods.
- We think policy easing will drive investors to move from cash to bonds, where we see the best value in the 7-10 years of the curve for investment grade credit and most DM sovereigns (excluding Japan). As the 10-year Treasury yield is now below our year-end forecast of 4.3%, we reduce our duration target for US Treasuries to 5-7 years.

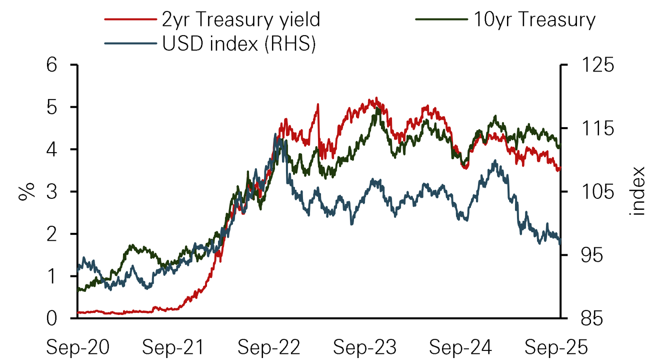
2. Do US equities still have room to rise further and why?

- Besides rate cuts, the AI liftoff gives rise to huge activity and investment in the AI ecosystem. The recent earnings season showed that cloud-related activities have far exceeded expectations, with the bulk of the new data centres in construction having been pre-leased well before they are completed. The continued rise in rents also suggests huge data centre demand, driven by AI. Other structural trends, such as nearshoring/onshoring and the re-industrialisation of the US, should also lift growth prospects and support valuations.
- The bullish equity market picture is also bolstered by a healthy pick-up in M&A activity, as well as steady increases in both dividends and share buybacks. The constructive cyclical outlook is another driver. Given that the consensus expectation for Q4 GDP growth is just 1.1%, which is too conservative in our view, any upward revisions could provide a boost to the equity market.
- As these key factors will likely stay in place, we continue to like US equities, favouring IT, Communications, Financials, and Industrials. We upgrade US Consumer Discretionary to neutral and downgrade Consumer Staples to underweight to reflect the continued divergence in the consumption patterns of high-end and low-end consumers.

3. How should investors diversify their US-and tech-heavy portfolios?

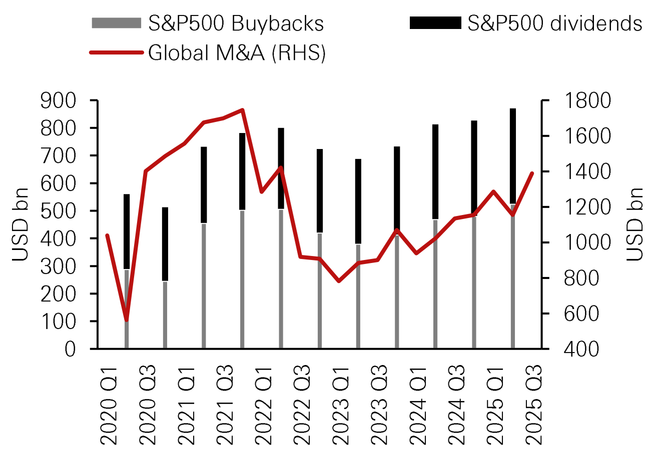
- Diversification remains at the core of our strategy, as it helps broaden the opportunity set and manage investment risks. Investors should diversify across geographies, sectors, asset classes and FX holistically.
- Besides the US, we continue to like Asian stocks, particularly China and Singapore, which have different economic cycles from that of the US. China's supply-side reforms and shareholder value focus are another uncorrelated area of support, while low valuations of Chinese equities can address concerns over elevated US valuations. Singapore's attractive dividend payouts help offer portfolio stability. Sectorwise, financials and industrials are cheaper than IT and communications, and the former can offer an income component, which is absent in tech. We like these two sectors in almost all regions.
- Gold and bonds are good diversifiers if equities are hit by disappointing growth. We remain overweight on investment grade credit but downgrade UK government bonds (gilts) to neutral due to concerns over the deficit and market volatility ahead of the Autumn Budget in November. Some alternative assets, such as private credit and infrastructure, can also help stabilise returns. Given a softer USD, FX diversification should not be overlooked too, and this can be achieved through bond positions denominated in various currencies. A multi-asset strategy may offer a simpler solution for investors.

Chart 1: The Fed cutting cycle supports asset prices, weighing on the USD and incentivising bond holders to move beyond 5-year maturities



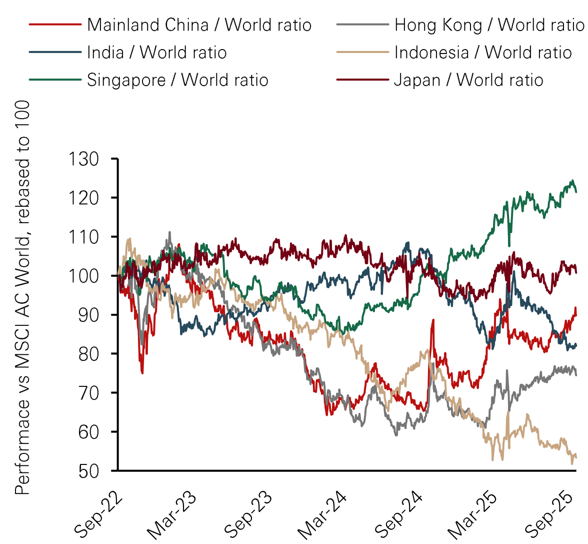
Source: Bloomberg, HSBC Private Bank and Premier Wealth as at 22 September 2025. Past performance is not a reliable indicator of future performance.

Chart 2: Equities are supported by increased M&A activity, rising dividends and share buybacks



Source: Bloomberg, HSBC Private Bank and Premier Wealth as at 22 September 2025.

Chart 3: China and Singapore benefit from diversification flows, a search for value and a weaker USD



Source: Bloomberg, HSBC Private Bank and Premier Wealth as at 22 September 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	▲	Global equities are supported by resilient earnings, central bank easing and AI-driven productivity gains. We see further upside for equities and maintain a mild risk-on stance with a large-cap and quality bias across regions and sectors.
United States	▲	While the resumption of rate cuts helps lower funding costs, enhance corporate earnings growth and support equity valuations, structural drivers such as AI adoption and the US re-industrialisation continue to provide support.
United Kingdom	►	We maintain a neutral stance given sluggish macro indicators, subdued consumer confidence, and limited valuation appeal. Domestic politics and fiscal credibility issues also weigh on investor sentiment.
Europe ex-UK	►	Although the trade outlook provides some clarity, sluggish economic growth, a stronger euro and slowing external demand remain headwinds for growth. We prefer Spain and Italy for their stronger cyclical momentum.
Japan	►	While political uncertainty remains a headwind, Japan's strong innovation is a positive driver. Technology leaders and consumption related stocks are preferred.
Emerging Market (EM)	►	Fed rate cuts should allow EM central banks to follow, while stronger fundamentals reinforce our preference for EM Asia.
EM EMEA	▼	The region remains challenged by weak growth, as well as monetary and geopolitical uncertainties. We prefer the UAE for its attractive structural opportunities.
EM LatAm	►	Given a weaker dollar, improved earnings momentum and cheaper valuations, we are more positive on Brazilian equites although high rates remain a headwind for the economy. We stay neutral on the region's equity outlook.
Asia ex Japan equities		
Asia ex-Japan	▲	Asia should benefit from cyclical tailwinds of Fed rate cuts and domestic policy support. Investor flows and valuations remain attractive. We prefer innovation leaders in China, as well as high dividend banks and REITs in Singapore.
China	▲	Despite mixed economic data, solid earnings growth, reasonable valuations and policy support for AI innovation and domestic demand remain key drivers. We favour tech and internet leaders, domestic consumption plays, and high-dividend SOE stocks.
India	►	The GST cut is expected to lift domestic consumption somewhat, which helps offset the impact of high US tariffs on Indian goods and ongoing investment outflows. However, slowing earnings momentum is still a challenge over the short term.
Hong Kong	►	While the Policy Address announced new initiatives to boost the economy, we look for a sustainable improvement in the fundamental outlook and corporate earnings. Banks, insurance, telecom, utilities and quality developers are preferred.
Singapore	▲	The equity outperformance is supported by the market's strong fundamentals, attractive dividend yield and defensive appeal. Banks, property and telecoms have performed well recently and should continue to benefit from the Fed easing cycle.
South Korea	►	Despite a strong rally on post-election optimism and expectations of an acceleration in the Corporate Value-Up Programme, these positive factors may already be priced in. The fiscal deficit and exports risk also limit the upside potential.
Taiwan	►	The market remains heavily concentrated in its dominant semiconductor sector, and the hardware and non-tech segments are not fully benefitting from AI tailwinds. Valuations are near the top of the five-year range.
Government bonds		
Developed markets (DM)	►	Government bonds are a good diversifier against the risk of any slowdown, and still provide an attractive compensation above inflation, which helps build a key income stream for portfolios.
United States	►	With the current 10-year Treasury yield below our year-end forecast of 4.3%, we move our maturity preference to a medium stance (5-7 years) while maintaining our neutral stance on Treasuries.
United Kingdom	►↓	Persistent fiscal and inflation uncertainties weigh on UK gilts. As we expect the Bank of England to pause its monetary policy easing until April 2026 and see the Autumn Budget as a key risk event, we downgrade gilts to neutral.
Eurozone	►	Periphery sovereign yields continue to converge, as political uncertainty and fiscal deficits weigh on the core Eurozone economies. Improved credit ratings, and relative performance make periphery bonds attractive for international investors.
Japan	▼	We stay underweight on JGBs to reflect fiscal concerns due to political pressure from the opposition parties for more aggressive debt issuance to fund fiscal funding. We expect a potential rate hike of 0.25% in Q4.
EM (Local currency)	►	There is scope for EM rate cuts, thanks to falling inflation, Fed cuts and a weakish USD.
EM (Hard currency)	►	We still find yields but remain selective and generally focus on quality bonds.
Corporate bonds		
Global investment grade (IG)	▲	The resumption of Fed rate cuts provides a good opportunity for investors to lock in current attractive yields of global IG bonds for stability and income before cash rates fall further. We keep our 7-10-year duration positioning unchanged.
USD investment grade	▲	Solid earnings growth and resilient credit fundamentals remain supportive of the investment grade market.
EUR investment grade	▲	Despite stretched valuations, we think EUR IG bonds can better compensate for duration risk and still offer attractive yields.
GBP investment grade	▲	GBP investment grade bonds offer attractive yields and are less impacted by rate volatility compared to gilts.
Asian investment grade	►	The Asian credit market should continue to benefit from global diversification flows and strong local demand for income. We favour Japanese and Australian IG bonds, Asian financials, as well as Chinese hard currency and Indian local currency bonds.
Global high yield (HY)	►	Credit spreads are tight but the elevated overall yield still supports a neutral stance with a 3-5-year maturity preference as the US and global economies remain relatively resilient.
USD high yield	►	Despite a substantial overall yield, spreads remain tight, and equity volatility often feeds through into high yield volatility.
EUR high yield	►	As the growth outlook remains sluggish, we stay selective on EUR high yield bonds and prefer 3-5-year maturities.
GBP high yield	►	We hold a neutral view and a short-duration exposure on GBP high yield, as spreads are below their long-term average.
Asian high yield	►	We remain cautious about China's property market and adopt an active credit selection approach for high yield bonds.
Commodities		
Gold	▲	Fed rate cuts, USD weakness, lingering geopolitical tensions, and ongoing inflows into gold ETFs are tailwinds for gold. We see it as a good source of portfolio diversification against global risks.
Oil	►	We expect oil prices to remain range-bound due to excess supply.

Sector Views

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

Sector	Global	US	Europe	Asia	Comment
Consumer Discretionary	▶↑	▶↑	▼	▲	We upgrade Global and US Consumer Discretionary as momentum, spending and macroeconomic data continue to surprise positively. European companies are struggling with the lingering effects of past price inflation. This comes at a time when demand for autos and luxury goods is soft, and competition is rising in some segments, such as EVs and durable goods. In contrast, Asian companies remain attractive, trading at a discount to their Western peers, even as demand for local brands continues to rise.
Financials	▲	▲	▲	▲	Global Financials reported stronger-than-expected results for Q2. Net interest income is likely to remain elevated as inflation remains stubbornly higher than expected, keeping interest rates elevated. Trading activity and bond issuance are likely to remain strong in the near term. 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 impacts all other sectors. Strong demand for AI software, related hardware and services is driving robust growth across many segments. Second-quarter results uniformly exceeded expectations, with reassuringly confident management guidance alleviating concerns over high valuations.
Communications Services	▲	▲	▶	▲	Communications stocks continue their reassuring outperformance. In the US. attractive valuations combine with 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	▶	▶	▶	▶	Both the sector's fundamentals and commodity prices appear to have troughed, while macroeconomic indicators are slowly improving in China and Europe. In addition, we expect oil prices to decline over the next 12-18 months, providing some support for 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 refurbishments 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 emerging markets.
Consumer Staples	▼↓	▼↓	▶	▶	We downgrade Global and US Consumer Staples to underweight due to a weak pricing environment, which particularly affects mass-market branded goods and mainstream food retailers. Valuations may be undemanding but there appears limited potential for sales growth or margin expansion. 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. 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	▶	▶	▶	▲	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 sector sentiment.
Utilities	▶	▶	▲	▶	European Utilities are benefitting from favourable energy demand, positive price trends, and rising spending on energy infrastructure. Many economies are undergoing electrification of transportation and expansion of digital infrastructure, while rising affluence 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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