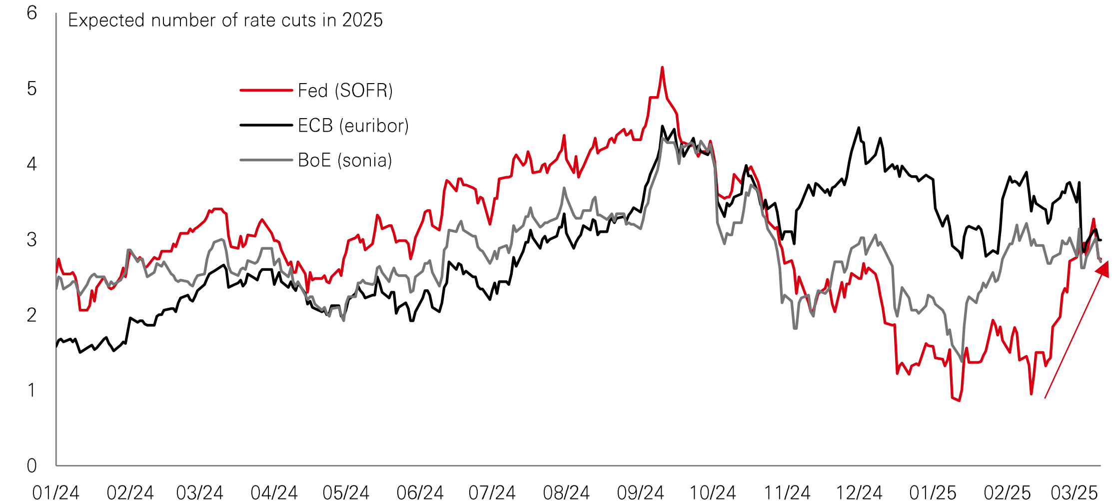
Investment Weekly

17 March 2025

Chart of the week – The Fed 'put' in investment markets



US stock markets have fallen sharply in recent weeks, with tech sector shares leading the decline. It's the latest of several episodic waves of market volatility that investors have endured already in 2025.

The latest moves come amid elevated uncertainty over trade and economic policy. Investors are concerned about the growth outlook for US GDP and corporate earnings. And that's jarring against stretched US stock valuations. It also comes as events outside the US are **forcing a reassessment of TINA – "there is no alternative" to US stocks**. Plans for fiscal stimulus in Germany have caused a reassessment of Europe's long-term growth and earnings prospects. Tech sector advancements in China are also catching investor attention.

Arguably, the latest sell-off would have been worse without the recent fall in government bond yields, and the rise in 2025 Fed rate cut expectations, to 3-4. But a key question now is where is the "Fed put"? If the Fed stays in wait-and-see mode amid tariff uncertainty and sticky inflation, while growth continues to slide, then markets have a problem. **But if inflation can stay low, the Fed has a lot of policy space and could cut rates hard, if needed**. So far, inflation progress looks good, with core inflation excluding shelter and used cars now running close to 2%.

We think a broadening out of returns can continue across sectors, styles and regions. But the probability that growth "topples over" has clearly risen. So, it could pay to consider which asset classes – like private and securitised credits – can hedge against volatility. **It will also be important to remain agile and dynamic in investment portfolios given today's complex macro reality**.

Market Spotlight

Confidence building in Asian real estate

There were signs of growing confidence in the Asia-Pacific real estate market last year. Industry data from JLL shows that regional investment volumes grew by 23% year-on-year to USD131.3bn. In Q4 2024 alone, volumes were up by 10% year-on-year, marking the fifth consecutive quarter of annualised growth.

Japan set the pace overall, with a second consecutive year of record-breaking deal volumes propelled by the relatively weak yen and low borrowing costs. Developments in mainland China were also notable – where there was further guidance on policy stimulus and early signs of improving demand in some markets, like Shenzhen, hinting at a pick-up in investor interest. There were also signs of recovery in Hong Kong's office leasing volumes.

But sector risks remain. If policy and geopolitical uncertainty prove to be inflationary, it could disrupt the global rate cutting cycle. And with some Chinese property developers in the headlines over default risk concerns, the country's property market still faces headwinds. Despite that, there are potential grounds for cautious optimism for a continuing revival in Asian real estate in 2025. **While the path to recovery is likely to be patchy, regional supply overhang is easing, leasing markets are improving, and global rate cuts should be a benefit**.

China Tech →
Why Chinese technology stocks have rallied in 2025

Euro-Dollar →
Explaining a change in sentiment in FX markets

Frontier Markets →
Why Vietnam stocks have resisted recent volatility

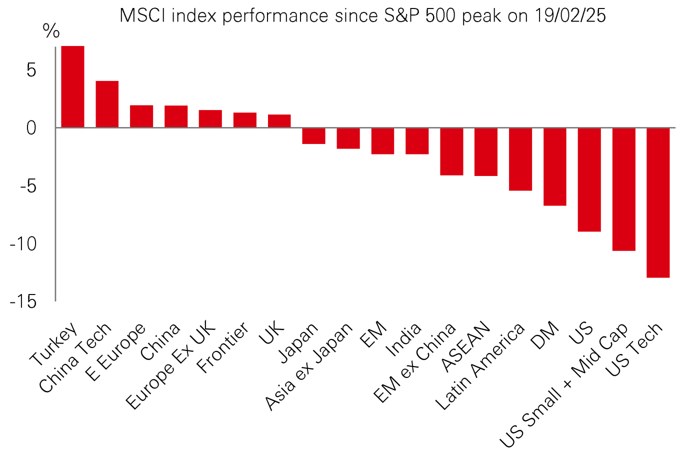
Lens on...

A tale of two tech sectors

Chinese equities have delivered one of the strongest performances in global markets in 2025, helped by surging momentum in technology stocks. The pick-up has come just as US markets have weakened – led by a slump in 'big tech' names, with Magnificent Seven stocks down a combined 15% this year. So, why are Chinese tech stocks doing so well?

Recent industry developments – like the emergence of AI start-up DeepSeek and its R1 model – have reset investor assumptions about Chinese tech's ability to compete for supremacy in fields like AI and robotics. Chinese authorities have also redoubled their support for the sector. This month's NPC meetings saw plans to accelerate AI adoption and digital tech, with an expansion of the PBoC's tech industry re-lending programme and a new bond platform to support innovation funding.

For investors, evidence of Chinese tech leadership, government support, and **sector valuations that remain at a deep discount to the US**, have been enough to fire-up optimism. Evidence of new AI and tech advancements benefitting China's tech sector and other industries could drive a further re-rating for the sector, and the wider market.

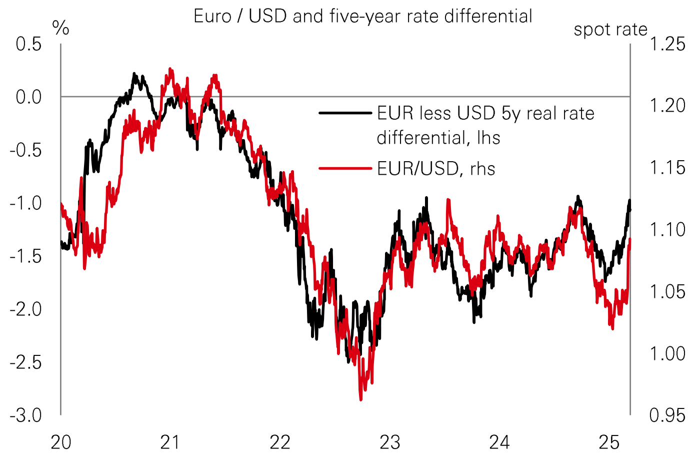


Make the euro great again

There has been a sudden shift in the market mood music surrounding the euro of late. Until recently, the dominant narrative for the single currency was based on weak growth that prevailed for much of last year even as inflation remained high. Yet, the euro has found a base in recent weeks amid a story of fading US exceptionalism and divergent macro momentum relative to the US, where some recent data has been soft.

Perhaps more importantly, there is now excitement in FX markets regarding a significant increase in eurozone government spending on energy, climate and, most recently, defence and infrastructure. In places, it's reignited speculative talk of more fiscal and strategic cohesion across the bloc. These positives for the euro have shielded it from the impact of global trade policy uncertainty which, until recently, had been holding the euro back from strengthening in line with interest-rate differentials.

While escalating trade tensions could complicate the story, **those rate differentials should remain supportive of further euro strength** as the business cycle outlook for the eurozone and the US is re-assessed. The softening in US CPI inflation last week adds further impetus to this divergence story.

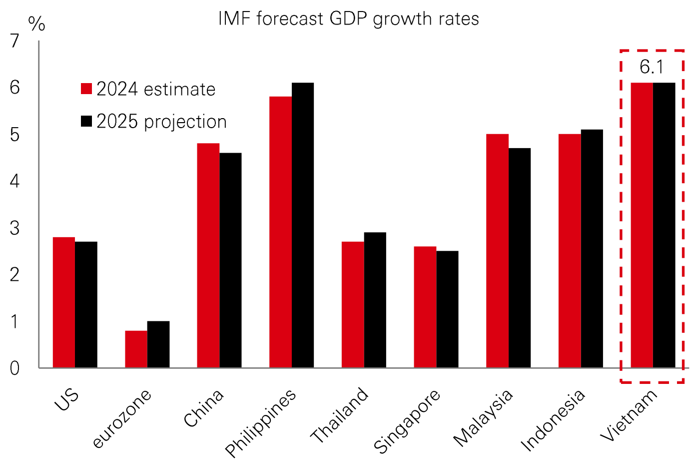


Vietnam – leading from the frontier

Frontier markets have been impressively resilient to global volatility this year, with Vietnam stocks – which account for around a quarter of the MSCI Frontier Markets index – advancing 6% in Q1 so far.

A re-routing of global supply chains in recent years has transformed Vietnam into a major manufacturing hub and a global exporter. Government efforts to simplify regulations, cut red tape, and attract foreign investment have paid off, and the country is now gaining a foothold in more advanced industries like semiconductors and AI. While trade policy uncertainty remains a risk, the latest forecasts from the IMF expect Vietnam's 6% GDP growth last year to be matched in 2025 – outpacing its ASEAN peers. Its moderate debt-to-GDP ratio of roughly 34% in 2024 is also lower than many regional neighbours.

In terms of valuations, Vietnamese stocks command a premium to broader frontier markets – with a PE ratio of 16x for MSCI Vietnam versus 11x for MSCI Frontier Markets.



Key Events and Data Releases

Last week

Date	Country	Indicator	Data as of	Actual	Prior
Sun. 09 March	CN	CPI (yoy)	Feb	-0.7%	0.5%
Tue. 11 March	US	NFIB Index of Small Business Optimism	Feb	100.7	102.8
Wed. 12 March	US	CPI (yoy)	Feb	2.8%	3.0%
	IN	Industrial Production (yoy)	Jan	5.0%	3.5%
	CA	BoC Policy Rate	Mar	2.75%	3.00%
	IN	CPI (yoy)	Feb	3.6%	4.3%
Thu. 13 March	US	PPI (mom)	Feb	0.0%	0.6%
	EZ	Industrial Production (mom)	Jan	0.8%	-0.4%
Fri. 14 March	US	Univ. of Michigan Sentiment Index (Prelim)	Mar	-	64.7
	JP	FY25 Shunto Pay Round			

CN - China, US - United States, IN - India, CA - Canada, EZ - Eurozone, JP - Japan

The week ahead

Date	Country	Indicator	Data as of	Survey	Prior
Mon. 17 March	EZ	Earnings	Q4		
	US	Retail Sales (mom)	Feb	0.7%	-0.9%
	CN	Industrial Production (yoy)	Jan-Feb	5.4%	6.2%
Tue. 18 March	US	Industrial Production (mom)	Feb	0.0	0.5%
	GE	Bundestag 2nd/3rd vote on German fiscal package			
Wed. 19 March	US	Fed Funds Rate (upper bound)	Mar	4.50%	4.50%
	JP	BoJ Policy Rate	Mar	0.50%	0.50%
	BR	Banco de Brazil SELIC Target Rate	Mar	14.25%	13.25%
	ID	Bank Indonesia Rate	Mar	5.75%	5.75%
Thu. 20 March	JP	CPI (yoy)	Feb	3.6%	4.0%
	UK	Unemployment Rate, ILO	Jan	-	4.4%
	UK	BoE MPC Base Rate	Mar	4.50%	4.50%
	SW	Riksbank Policy Rate	Mar	2.25%	2.25%
Fri. 21 March	CH	Banco Central de Chile Policy Rate	Mar	-	5.0%

EZ - Eurozone, US - United States, CN - China, GE - Germany, JP - Japan, BR - Brazil, ID - Indonesia, UK - United Kingdom, SW - Sweden, CH - Chile

Source: HSBC Asset Management. Data as at 7.30am UK time 14 March 2025. For informational purposes only and should not be construed as a recommendation to invest in the specific country, product, strategy, sector or security. Any views expressed were held at the time of preparation and are subject to change without notice.

Market review

Risk appetite remained weak amid continued trade policy uncertainty, with the US dollar index trading sideways. US Treasuries edged higher as investors digested the latest US CPI data in the run-up to the March FOMC meeting, while European government bonds were range-bound. US investment grade and high-yield corporate bond spreads widened significantly, driven by rising worries over US growth. Among stock markets, US indices weakened across the board, led by a sell-off in tech stocks in volatile trading as negative market sentiment persisted. The Euro Stoxx 50 index fell alongside the German DAX index, while Japan's Nikkei 225 index rebounded after declines in previous weeks ahead of the upcoming BoJ meeting. In other Asian markets, the retreat in tech stocks weighed on the Hang Seng, whereas China's Shanghai Composite rose. India's Sensex index fell, as South Korea's Kospi index ended barely changed. In commodities, oil prices were stable, with gold and copper extending their gains.

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