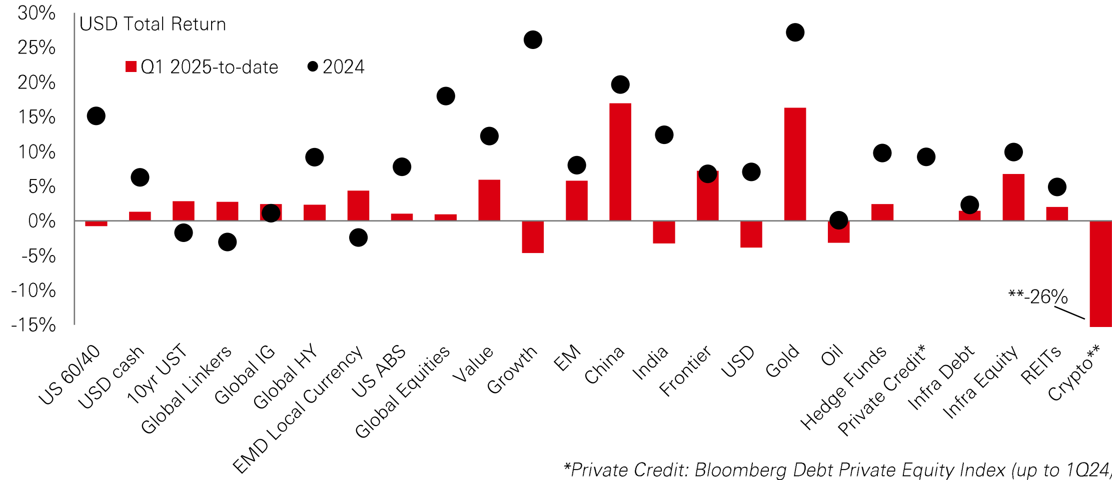
HSBC

Investment Weekly

31 March 2025

Chart of the week – Markets spin around in Q1



Private Credit: Bloomberg Debt Private Equity Index (up to 1Q24)

First quarter action in investment markets has been dominated by policy uncertainty, volatility, and a broadening-out of performance beyond the US.

It was a quarter marked by sharp moves and rotations across asset classes. Among the starkest was a sell-off, and then partial recovery, in US stocks. Worst hit were mega-cap tech names, which despite still-strong profits growth, saw momentum slip. A mix of frothy valuations and signs of China's growing competitiveness in AI (evidenced by advances at tech firm DeepSeek), unsettled confidence. By contrast, **European and Chinese stock markets recorded double-digit rallies, with broad emerging markets also seeing gains**. That was captured in a swift change of fortune for major style premia, with Value paying off, and Growth losing ground.

Coming into the year, post-US election consensus trades had formed, betting on further upside to US stocks and the dollar and higher US bond yields. All three quickly unwound in Q1 on trade uncertainty and signs of weaker US GDP and profits growth. In response, **fixed income assets, including government bonds and credits, provided an effective hedge**. Other diversifiers – including gold, hedge funds, real estate, and infrastructure – also proved resilient.

So, what's next? After some wild narrative shifts in Q1, the base case is that 'spinning around' will persist in markets in 2025, but **the growth outlook remains a key question for investors**. Policy uncertainty looks set to continue being a risk to the cycle, but it's not clear when, or even whether, that will translate to the real economy. For Q2, we could see more of a stop-start performance, as investors and policymakers remain in wait-and-see mode.

Risk Scenarios →

Why policy uncertainty could see growth 'topple over'

Fiscal Policy →

The UK's Spring Statement in a global context

Global Real Estate →

The drivers behind a pick-up in investment volumes

Market Spotlight

China sets the pace in Asia

Chinese stocks set the pace in Asian stock markets in Q1, rising 17% in a rally driven by the technology sector. Hong Kong stocks (as measured by MSCI HK) also outperformed, with financials leading the gains. A key theme was a rotation favouring cheaper markets, with China beating India, and South Korea beating Taiwan.

This came amidst a cautious backdrop, with global policy uncertainty sparking broad fund outflows (excluding Chinese stocks). Regional currencies were mostly positive in response to lower US Treasury yields and a weaker US dollar index, but were still volatile. Inflation continued to ease in most of the region, giving space for central banks to focus on growth risks. In response, government bond yields fell in most Asian economies. One exception was Indonesia, where fiscal and macro concerns drove the rupiah to its lowest level since the late 90s Asian financial crisis, and bond yields rose. In fixed income, Asia credits were resilient despite weaker global risk sentiment, with high yield outperforming investment grade. Overall, global trade policy and regional politics continue to be key issues to watch in Asia in 2025.

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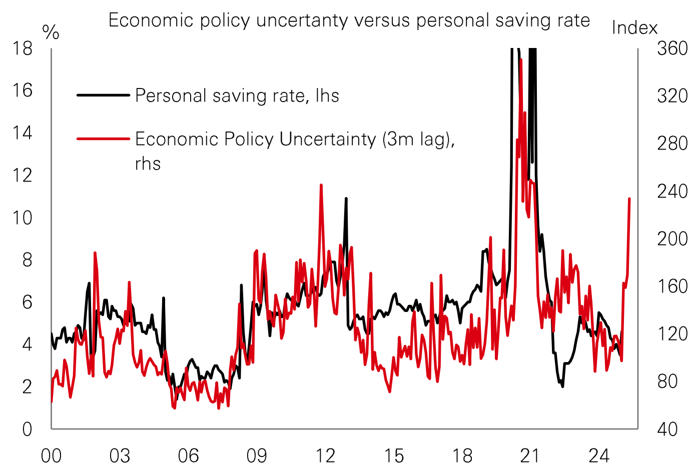
What could go wrong?

The unusually uncertain outlook means it pays to **consider risk scenarios**. The base case – 'spinning around' – assumes above target inflation and a period of below trend growth, but there is a risk of a more damaging scenario – 'toppling over' as we call it – playing out.

At the limit, changes to US trade policy could result in the effective US tariff rate jumping to levels last seen in the 1930s. For consumers, elevated policy uncertainty is driving fears of unemployment, which is often (but not always) a precursor of a marked labour market deterioration. Even if unemployment does not rise abruptly, consumers could curb spending as a precaution. This would further deter firms from investing and weigh on profits, ultimately **putting pressure on stock prices**. This could then further undermine spending – a vicious cycle.

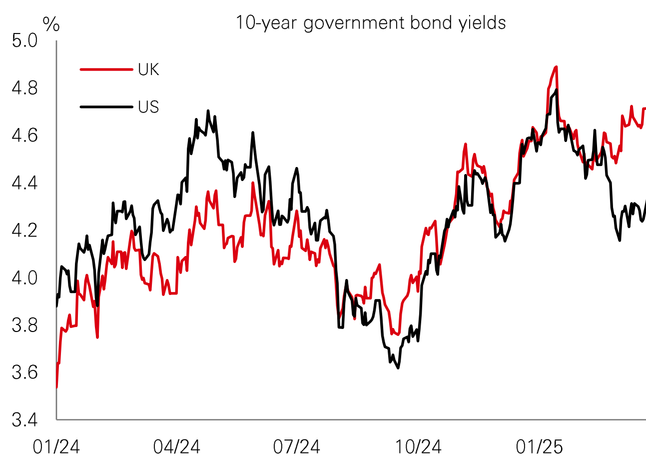
In the past, the Fed may have leant against elevated uncertainty by pre-emptively easing policy. But the risk is that renewed price pressures from any large-scale tariffs may mean it can only ease policy once confident that a weak economy would rein in inflation. Overall, this would be an environment where volatility spikes and risk asset valuations are damaged, especially where risk premiums are skinny.



Fiscal tightropes

After spooking markets in last October's UK Budget by raising taxes but unexpectedly increasing public spending, Rachel Reeves' Spring Statement was more restrained. With the Office for Budget Responsibility (OBR) downgrading its 2025 growth forecast, and the Gilt-Treasury 10-year spread widening by around 0.5% since mid-February, the Chancellor unveiled back-loaded spending cuts to meet her fiscal rules. Even with these changes, there is little room for slippage and UK net debt-to-GDP ratio (excluding debt held by the Bank of England) is expected to trend higher. **The UK is walking a tightrope** – debt concerns are putting upward pressure on Gilt yields, which worsens the public finances. But cutting spending or raising taxes to narrow the deficit would undermine already lacklustre growth.

This is a potentially cautionary tale for other advanced economies. In Europe, much has been made of recent commitments to boost public investment in Germany – a country with ample fiscal space. But the likes of France and Italy are more likely to face the same constraints as the UK if they try the German approach. With most governments facing pressure to open the fiscal taps to deliver social, economic, and geopolitical objectives, the bond market vigilantes are watching closely.

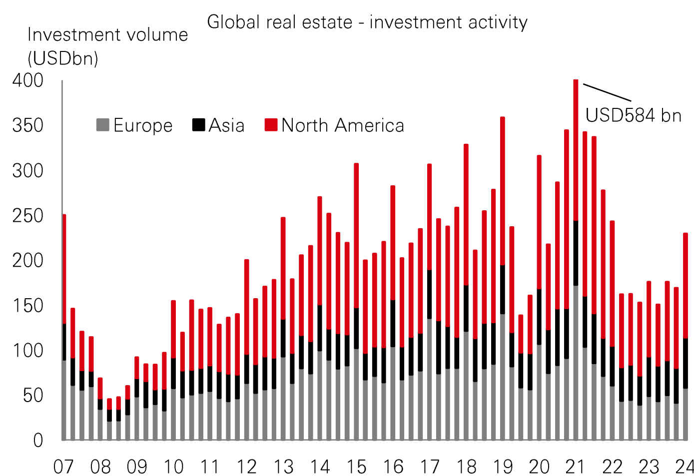


Build it up

Global real estate investment volumes picked up late last year, rising 31% in Q4 2024 versus the same quarter in 2023. It came as investors took advantage of stabilising interest rates and lower valuations. MSCI data shows that real estate capital values edged up 0.2% in Q4 last year, having fallen 16% over the prior nine quarters.

Occupancy levels are being supported by falling development activity, with rising costs making new projects uneconomic. Retail has been a key beneficiary, with stable leasing and falling vacancy rates boosting rental income. Office vacancy rates were stable in Q4 but remain elevated, especially in the US. Meanwhile, logistics leasing was subdued but is expected to pick up in 2025. Finally, non-traditional sectors are still delivering the strongest rental growth – including senior housing and data centre leasing.

Despite uncertainty, **some real estate specialists expect capital values to grow in 2025**, driven by growing incomes rather than yield compression. And although the outlook for leasing is mixed, **low development activity should support property fundamentals across sectors**.



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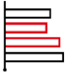

Key Events and Data Releases

Last week

Date	Country	Indicator	Data as of	Actual	Prior
Mon. 24 March	US	Composite PMI, Flash	Mar	53.5	51.6
	EZ	Composite PMI, Flash	Mar	50.4	50.2
	UK	Composite PMI, Flash	Mar	52.0	50.5
	IN	Composite PMI, Flash	Mar	58.6	58.8
Tue. 25 March	US	Consumer Confidence Index, Conference Board	Mar	92.9	100.1
	GE	IFO Business Confidence Index	Mar	86.7	85.3
Wed. 26 March	UK	CPI (yoy)	Feb	2.8%	3.0%
	UK	Spring Statement Forecast			
Thu. 27 March	MX	Banxico de Mexico, Overnight Lending Rate	Mar	9.00%	9.50%
	NW	Norges Bank Sight Deposit Rate	Mar	4.50%	4.50%
Fri. 28 March	US	PCE Price Index (yoy)	Feb	-	2.5%

The week ahead

Date	Country	Indicator	Data as of	Survey	Prior
Mon. 31 March	JP	TANKAN Business Conditions Manufacturing Index	Q1	12.0	14.0
	CN	NBS Composite PMI	Mar	-	51.1
Tue. 01 April	US	ISM Manufacturing Index	Mar	49.8	50.3
	US	JOLTS Job Openings	Feb	-	7.74mn
	BR	Manufacturing PMI	Mar	-	53.0
	MX	Manufacturing PMI	Mar	-	47.6
	AU	RBA Cash Target Rate	Apr	4.10%	4.10%
	EZ	HICP, Flash (yoy)	Mar	2.3%	2.3%
Wed. 02 April	US	President Trump's Tariff Regime Announcement			
Thu. 03 April	US	ISM Services Index	Mar	53.2	53.5
Fri. 04 April	US	Change in Non-Farm Payrolls	Mar	120k	151k

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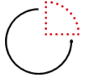

Market review

Global trade uncertainty continued to overhang risk markets last week, with the US dollar index trading sideways. US Treasuries fell, and the yield curve steepened while eurozone sovereign bonds remained relatively unchanged. US IG and HY stayed close to recent lows. US equities extended modest gains, whereas the Euro Stoxx 50 index edged lower, primarily driven by lower auto stocks, with Germany's DAX index being the main casualty. Japan's Nikkei 225 fell due to weaker export-oriented stocks. Other Asian markets were largely on the defensive, with the most significant weakness observed in South Korea's Kospi index, followed by the Hang Seng and Shanghai Composite. In contrast, India's Sensex bucked the trend, rising on the strength of financials. In Latin America, Mexican stocks led the gains in the region as Banxico, the central bank lowered policy rate by 0.5% with dovish guidance. In commodities, oil and gold increased, while copper ended a volatile week with little change.

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