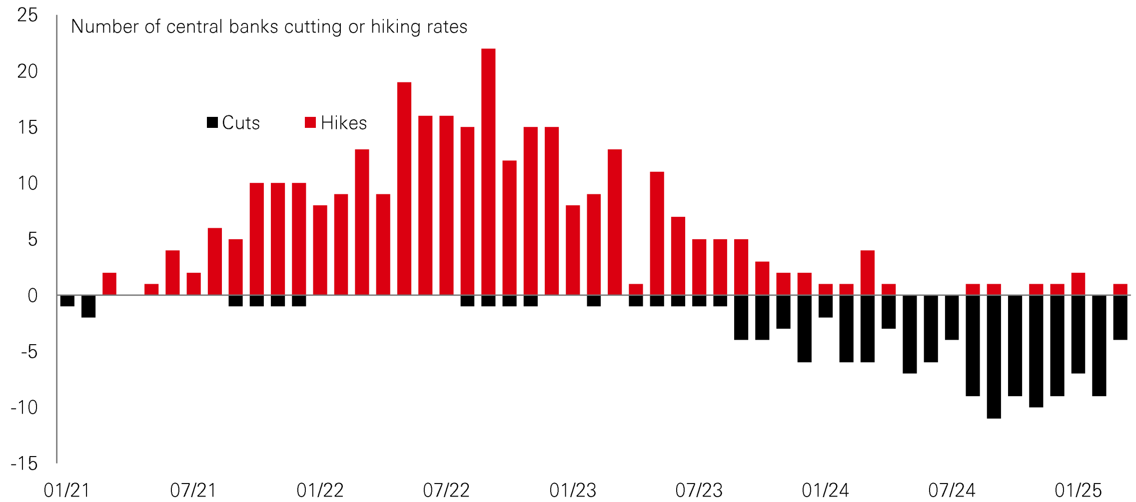
Investment Weekly

24 March 2025

Chart of the week – Central banks in 'wait–and–see' mode



Uncertainty was very much the broad theme of last week's central bank policy meetings, with an increasingly complex macro reality clouding the outlook.

As expected, **the Fed kept rates on hold, maintaining 'wait-and-see' mode in the face of heightened policy uncertainty**. Fed Chair Jerome Powell signalled no hurry to cut rates as the central bank seeks to balance competing considerations of upward inflation pressure, downside growth risks, and fragile sentiment. The Fed revised down its 2025 GDP growth forecasts to 1.7% from 2.1% and nudged up its inflation expectations – an uneasy mix that raises the spectre of stagflation. The inescapable message was that uncertainty is "remarkably high", with the so-called 'dot plot', which tracks the year-end rate projections of Fed officials, more scattered now than it was three months ago.

For other central banks, there was modest divergence but few surprises. Banco do Brasil's ongoing efforts to tackle resurgent inflation saw it hike rates by 1%. By contrast, Swiss policymakers responded to persistently low inflation with a 0.25% cut. Others, including China, the UK, and Sweden, all followed the Fed's cautious stance.

On balance, we think global central banks remain on course to cut rates this year as cooling labour markets allow inflation considerations to give way to shoring up growth that is being damaged by uncertainty. Barring a major shock, this would be **a decent backdrop for global risk assets to perform and laggard markets to continue to catch up**.

Uncertainty Trade →

Why volatility is back in stock markets

China's Policy →

New plans to boost weak consumer confidence

Indian Stocks →

Why recent weakness could be a buying opportunity

Market Spotlight

Sustainable thinking

Ten years ago, the United Nations agreed a set of Sustainable Development Goals (SDGs) aimed at promoting a fairer, healthier, and more sustainable future. Since then, asset allocators have used them to measure sustainability outcomes in portfolios. But there have been challenges, particularly because there is no one-size-fits-all way of measuring companies against broad and often overlapping goals.

Part of the challenge with SDGs is that they were designed with sovereigns, rather than corporates, in mind and many of them are qualitative. That can make them difficult to measure and apply to investment portfolios, especially at scale. The ambiguity raises the risk of greenwashing and missing out on investment opportunities.

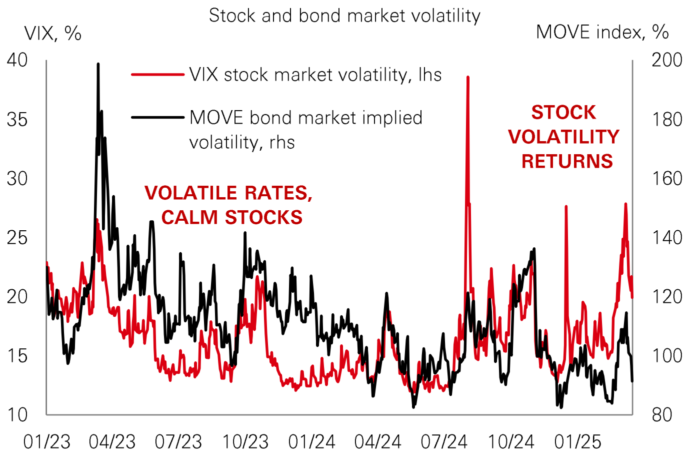
The quant solution is to move away from viewing SDGs primarily as reporting metrics aiming to measure every company against every SDG and instead break them into granular investment themes that are easier to link to specific company activities. That way, it's possible to be more precise about how firms' impact on those individual themes within SDGs, and do it – with the help of AI – at scale. **The result is a more robust, quantitative process for thematic portfolios, that offers a competitive edge in rapidly changing markets**.

The new uncertainty trade

The noise level in markets remains very high. A dramatic rise in policy uncertainty is creating a more volatile environment, which could persist.

What's new is that volatility is back in the stock market. After the 2021-22 inflation burst, volatility in 2023 and 2024 was mostly contained to short-term interest rates and bond markets, with technical factors also keeping the VIX index supressed. This year, elevated policy uncertainty, the AI wobble, and investors' reduced faith in US exceptionalism are all creating a rockier journey in US stocks. The US market has gone from hero to zero. China, broad emerging markets, the eurozone, and even the FTSEs are all outperforming.

Uncertainty is not great for macro trends either. Both consumers and businesses move into wait-and-see mode, which can stall economic activity. For now, we don't think the system is in imminent recession danger. Instead, the situation is one of growth cooling down. But even without a more adverse scenario materialising, uncertainty has a price. Investors should prepare for more surprises as we head toward Q2. **Only one thing is for sure: the uncertainty trade is back**.

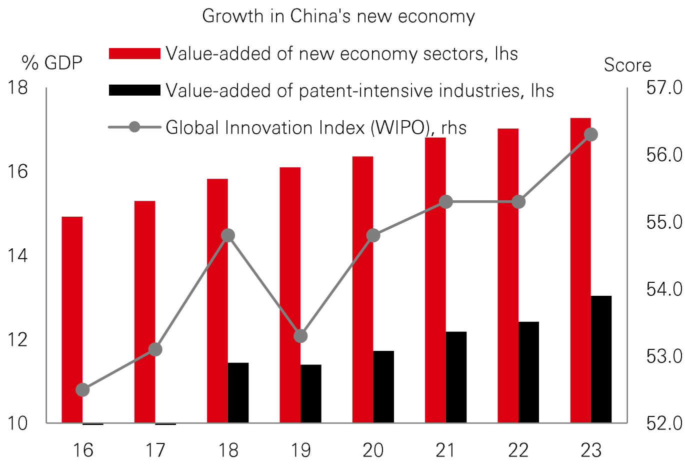


China's consumer boost

Chinese policymakers have unveiled a new 30-point plan to boost domestic consumption as part of efforts to fire-up the country's economy. It follows recent National People's Congress meetings, where domestic demand stimulus was billed as the government's top priority.

The plan reiterates previous announcements designed to raise wages, cut financial burdens, and encourage spending. It includes measures to stabilise the stock market – a driving force of consumer confidence – and develop more bond products suitable for individual investors. As well as promoting traditional consumer sectors like cars and property, the plan also encourages high-growth areas of consumer spend, such as 'silver tourism', and AI-powered technologies like autonomous driving, smart wearables, ultra-high-definition video, robotics, and 3D printing.

For now, **China looks to be in 'wait and see' mode amid elevated global economic and trade policy uncertainty**. But the policy shift toward consumption is positive. And while there is no magic bullet to drive a quick or strong turnaround in consumer spending, the perceived policy put may continue to support investor sentiment, propagating a virtuous cycle between consumption and the stock market.

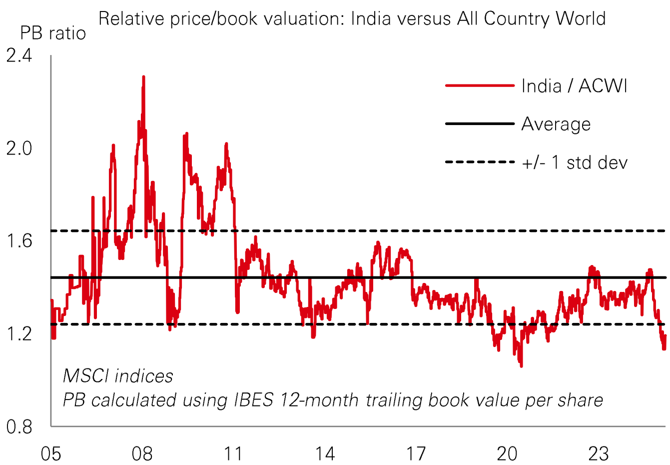


India stocks – on sale?

After an impressive two-year rally driven by strong inflows and high growth expectations, Indian stocks have lagged their global peers in 2025 – with MSCI India down 7%. After recent falls, India's price/book valuation relative to the rest of the world (excluding the Covid sell-off) has slipped to a 20-year low. But why?

Recent weakness has been driven by a mix of **foreign investment outflows, lacklustre Q3-FY25 profits news, and trade policy uncertainty**. That's despite the stimulative effects of an RBI rate cut, measures to boost system liquidity, and positive signals from February's Union Budget. In addition, India's relatively closed economy could make it less sensitive to trade tariffs than some of its Asian neighbours.

Against that backdrop, its stocks are still expected to deliver mid-teens earnings growth in each of the next two years. Near-term performance could be driven by favourable base effects, a pick-up in government capex, and strong rural growth. **Longer-term, India's structural growth story remains intact**, underpinned by favourable demographics, rising incomes, supply chain diversification, and government reforms – making recent market weakness a potential buying opportunity.



Source: HSBC Asset Management. Macrobond, Bloomberg, Datastream, MOVE: BofA ICE. Data as at 7.30am UK time 21 March 2025.

Key Events and Data Releases

Last week

Date	Country	Indicator	Data as of	Actual	Prior
Mon. 17 March	US	Retail Sales (mom)	Feb	0.2%	-1.2%
	CN	Industrial Production (yoy)	Feb	5.9%	6.2%
	CN	Retail Sales (yoy)	Feb	4.0%	3.7%
Tue. 18 March	US	Industrial Production (mom)	Feb	0.7%	0.3%
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	3.7%	4.0%
	CH	SNB Policy Rate	Mar	0.25%	0.50%
	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%

US - United States, CN - China, JP - Japan, BR - Brazil, ID - Indonesia, CH - Switzerland, UK - United Kingdom, SW - Sweden, CH - Chile

The week ahead

Date	Country	Indicator	Data as of	Survey	Prior
Mon. 24 March	US	S&P Global Composite PMI (Flash)	Mar	-	51.6
	EZ	S&P Global Composite PMI (Flash)	Mar	-	50.2
	UK	S&P Global Composite PMI (Flash)	Mar	-	50.5
	IN	S&P Global Composite PMI (Flash)	Mar	-	58.8
Tue. 25 March	US	Consumer Confidence Index, Conference Board	Mar	94.0	98.3
	GE	IFO Business Confidence Index	Mar	-	85.2
Wed. 26 March	UK	CPI (yoy)	Feb	2.90%	3.0%
	UK	Spring Budget Forecast			
Thu. 27 March	MX	Banxico de Mexico, Overnight Lending Rate	Mar	9%	9.50%
Fri. 28 March	US	PCE Price Index (yoy)	Feb	2.5%	2.5%

US - United States, EZ - Eurozone, UK - United Kingdom, IN - India, GE - Germany, MX - Mexico

Source: HSBC Asset Management. Data as at 7.30am UK time 21 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 markets rebounded as investors digested the latest Federal Reserve FOMC meeting and Chair Powell's post-meeting remarks, while the US dollar index remained range-bound. Core government bonds saw a broad-based rally. The FOMC downgraded its growth projection, upgraded its near-term inflation forecast and maintained its projection for further gradual easing. US equities mostly rose, led by the Russell 2000. The Euro Stoxx 50 posted decent gains. Japan's Nikkei 225 moved higher, driven by Financials, as the latest data and the BoJ officials' comments reinforced market expectations of further gradual BoJ policy normalisation. In emerging markets, India's Sensex rose strongly, and South Korea's Kospi performed well, while Chinese equities drifted lower. In commodities, oil prices advanced, with geopolitical developments remaining in focus, and both copper and gold rose.

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