Investment Monthly

After the 2025 rally, what next?

January 2026

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HSBC Asset Management | Opening up a world of opportunity

Summary

Macro Outlook

- **The US is expanding at a solid pace, but growth is unbalanced.** AI-related capex is providing strong support, but a cooling labour market and tariff-driven price rises are a headwind to consumers
- We expect **US growth to converge towards rates seen in other developed economies**. Tariffs pose upside risks to inflation
- Supportive macro policies and tech/industrial competitiveness aid **China's growth resilience, but economic imbalances** remain a key challenge
- **We think premium growth opportunities** lie in emerging and frontier markets, with economic power shifting to Asia and the Global South

Policy Outlook

- **The US Fed is divided** over the rate outlook, reflecting differing views on the medium-term trajectory for inflation and the labour market
- After eight rate cuts, eurozone inflation is close to target and policy is in neutral territory, with the **ECB taking a "watch-and-wait" stance**
- **Fiscal policy stands ready to respond to growth disappointments in EM Asia**, as the region approaches the end of its monetary easing cycle
- **China will continue its targeted and calibrated policy supports** to aid domestic demand, alongside **reform efforts** focused on strategic objectives such as technology innovation and self-reliance, and economic rebalancing

House View

- **In 2026, we expect a "role reversal"** in areas of the macro, policy, and market environment, with US leadership fading, and growth converging in the west. Global market performance will be dependent on profits growth
- **Market leadership and corporate profits will keep "broadening out"**, especially in Asia and other emerging markets. Economic derisking and improved policy have made those regions structurally safer and less volatile
- With government bonds potentially less reliable as a portfolio hedge, investors should **manage volatility by seeking to "diversify the diversifiers"** with bond substitutes like hedge funds and private markets

Scenarios

COME TOGETHER	US growth less exceptional at around 2%. Market returns continue to broaden out. Further dollar weakness and Asia tech innovation boost EM returns
CRACKS WIDEN	Labour market cracks and the lopsided "K-shaped" economy intensifies. Damage to risk assets significant given skinny risk premiums in many market areas
AI BOOM	AI investment boom means US market leadership resumes. EM performs well as global growth remains resilient and risk appetite remains strong. China tech performs very well

Source: HSBC Asset Management as at January 2026. The value of investments and any income from them can go down as well as up and investors may not get back the amount originally invested. The views expressed above were held at the time of preparation and are subject to change without notice. Diversification does not ensure a profit or protect against loss. This information shouldn't be considered as a recommendation to invest in the country or sector shown. This information shouldn't be considered as a recommendation to invest in the country or sector shown.

House View

In 2026, we expect a role reversal in the macro, policy, and market environment. As US growth leadership fades, GDP and profits growth will converge in the west, with emerging markets seeing further structural improvements. With conventional diversifiers less reliable, investors will need to seek alternative sources of portfolio resilience and returns

- **Equities** – We expect 2026 profits growth to be driven by the AI super-cycle – but there is a risk that expectations, and valuations, are too high. Global stocks should perform as GDP and profits growth converge – but while re-ratings drove returns last year, profit growth will be increasingly important in 2026
- **Government bonds** – DM yields should remain range-bound amid inflation risks, fiscal concerns, and below-trend growth. EM local currency bonds benefit from lower inflation, stronger growth and improved debt sustainability
- **Corporate bonds** – Investment grade credit spreads remain tight, but strong technicals, healthy balance sheets, and a positive profits outlook are supportive. We maintain a defensive stance with a preference for higher quality credits

Equities

Asset Class	House view
Global	↔/▲
US	↔
UK	↔
Eurozone	↔
Japan	▲
Emerging Markets (EM)	▲
CEE & Latam	↔
Frontier	▲

Government bonds

Asset Class	House view
Developed Market (DM)	↔
US 10-year	↔
UK 10-year	▲
German 10-year	▲
Japan	▼
Inflation-linked bonds	↔/▲
EM (local currency)	▲▲

Corporate bonds

Asset Class	House view
Global investment grade (IG)	↔/▲
USD IG	↔/▲
EUR & GBP IG	↔/▲
Asia IG	↔/▲
Global high-yield	▼
US high-yield	▼
Europe high-yield	▼
Asia high-yield	▲
Securitised credit	▲
EM hard currency (USD)	▲

FX & Alternatives

Asset Class	House view
Gold	▲
Other commodities	↔
Real assets	▲▲
Hedge funds	▲▲
Private credit (Direct lending)	▲
Private equity (Buy out)	▲
US dollar (DXY)	▼
Crypto assets	▼▼

Asian assets

Asset Class	House view
Asia local bonds	▲
RMB bonds	▲
Asia ex-Japan equities	▲
China	▲
India	▲
Hong Kong	▲
Asia FX (ADXY)	▲

Key to views

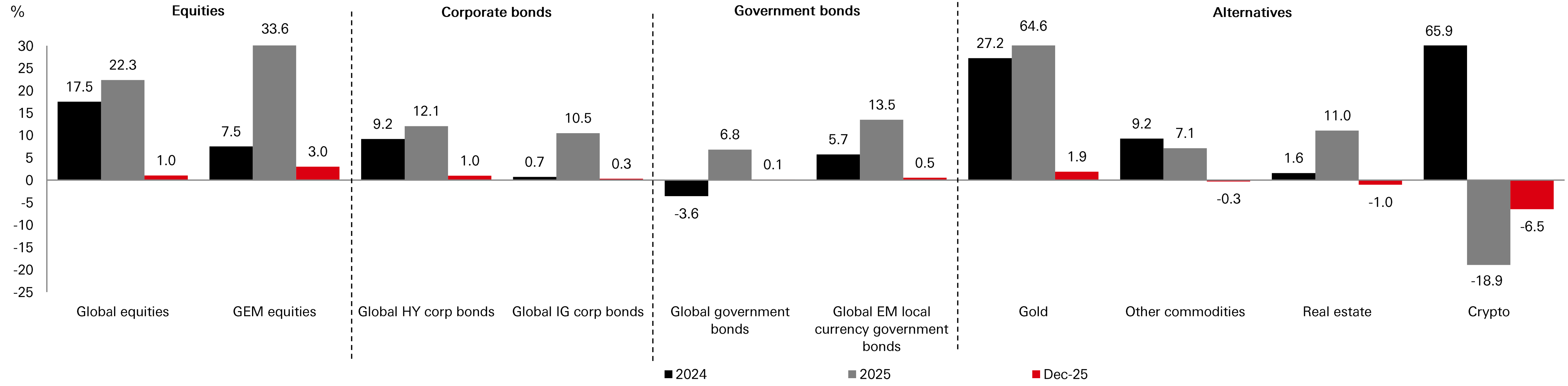
▲▲	Positive	↔/▼	Neutral/Negative bias
▲	Positive Bias	▼	Negative Bias
↔/▲	Neutral/Positive bias	▼▼	Negative
↔	Neutral		

House view represents a >12-month investment view across major asset classes in our portfolios. Source: HSBC Asset Management as at January 2026. The level of yield is not guaranteed and may rise or fall in the future. Any forecast, projection or target where provided is indicative only and not guaranteed in any way. The views expressed above were held at the time of preparation and are subject to change without notice. This information shouldn't be considered as a recommendation to invest in the country or sector shown. Diversification does not ensure a profit or protect against loss.

Asset class performance at a glance

Global stocks delivered a mixed performance in December, with US markets flat but Europe, Asia, and emerging market equity indices generally moving higher. Government bond yields were subdued, and credit spreads remained close to historic tights. There were eye-catching gains in gold and silver, while oil weakened further

- **Government bonds** – Sovereign bonds were largely subdued as investors weighed fiscal and inflation risks, and cooling growth. Ten-year yields edged higher in the US and Europe, and rose close to multi-decade highs in Japan
- **Equities** – US stocks finished flat after recovering from mid-month volatility driven by uncertainty over high tech valuations and ongoing policy uncertainty. There were positive year-end rallies in European and Asian markets
- **Alternatives** – December saw sizeable upward moves in the prices of both gold and silver – reinforcing the position of precious metals as one of the strongest performing asset classes of 2025. The oil price saw further weakness



Past performance does not predict future returns. The level of yield is not guaranteed and may rise or fall in the future. This information shouldn't be considered as a recommendation to invest in the country or sector shown. The views expressed above were held at the time of preparation and are subject to change without notice. Source: Bloomberg, all data above as at close of business 31 December 2025 in USD, total return, month-to-date terms. Note: Asset class performance is represented by different indices. **Global Equities:** MSCI ACWI Net Total Return USD Index. **Global Emerging Market Equities**: MSCI Emerging Market Net Total Return USD Index. **Corporate Bonds:** Bloomberg Barclays Global HY Total Return Index value unhedged. Bloomberg Barclays Global IG Total Return Index unhedged. **Government bonds**: Bloomberg Barclays Global Aggregate Treasuries Total Return Index. JP Morgan EMBI Global Total Return local currency. **Commodities and real estate:** Gold Spot $/OZ, Other commodities: S&P GSCI Total Return CME. **Real Estate**: FTSE EPRA/NAREIT Global Index TR USD. **Crypto**: Bloomberg Galaxy Crypto Index.

Macro scenarios

	CRACKS WIDEN	COME TOGETHER	AI BOOM
Driving forces	**Restrictive policy and unbalanced growth** mean labour market cracks	**Tariffs** weigh on US but some offset from AI capex. "Policy puts" in Europe/China	**Surging AI investment and wealth effects** create broader economic boom
Growth	**Sharp slowdown** as households retrench and profits disappoint	**US growth less exceptional at around 2.0%**, despite strong AI investment	**US reaccelerates to around 3.0%**. Animal spirits and AI boost global growth
Inflation	Uncomfortably high inflation but **recession destroys demand**	**US peaks above 3%** before receding. Approaching target in many DMs/EMs	Strong, broad-based demand keeps **US inflation around 3.0%**
Monetary Policy	Initially more cautious Fed, but then **big easing** amid growth damage	**Fed cuts to neutral (3.00-3.50%)**. Modest easing across many DMs/EMs	**Easing cycle cut short** but Fed accommodates above-target inflation
China	Geopolitics and trade tensions weigh on already **fragile confidence**	**Resilient but uneven growth** as reflation policies offset tariff headwinds	**Growth pickup** amid AI, and property sector and confidence recovery

Source: HSBC Asset Management, January 2026.

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Market scenarios

	CRACKS WIDEN	COME TOGETHER	AI BOOM
Stocks	**Historic SPX bear market**. Cyclicals most vulnerable. VIX spike	**Broadening out** of market leadership. SPX lags other markets. Episodic volatility	**US outperforms**. SPX 7000+. Korea/Taiwan/high-beta stocks shine
Fixed income	**Curve steepens** as longer-dated yields sticky. Credit spreads widen	Range-bound yields. Some upside risk to credit spreads. **IG as bond substitute**	Some **upside risk to yields** as growth remains strong. Credit spreads still tight
EM	**EMs hit** amid weaker global growth and trade challenges	**EM bull market** on superior growth, Asia tech innovation, and low valuations	**EM gains on +ve risk appetite/Asia tech** but limited by USD performance
USD	**USD** struggles to rally amid Fed cuts and as haven status under question	**Gradual USD depreciation** amid Fed cuts and fading US exceptionalism	**USD supported** by stronger US growth and limited rate cuts
Top bets	USTs, gold, CHF, macro HFs, best IG, defensives, quality, momentum	Value, defensives, small-caps. EM/Japan > US. IG > HY	US > Europe/China. HY credits. Industrial metals. Crypto>gold

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Economic outlook

Fed policy close to neutral

		Consensus: Growth (%) 2025	Consensus: Growth (%) 2026	Consensus: Inflation (%) 2025	Consensus: Inflation (%) 2026	Policy: 12m ahead policy rate (HSBC AM)	Policy: 2026 Fiscal impulse
US	The Fed delivered a third successive 25bp rate cut in December, but the committee was divided. Chair Powell signalled the policy rate was close to neutral, with the weak labour market a key risk. Q3 GDP was solid, led by consumer spending. AI-related investment supportive. 2026 growth likely near trend in 2026	2.0	2.1	2.6	2.6	**3.00-3.50%**	Neutral
Eurozone	The ECB is in a holding pattern, with interest rates in neutral territory. The ECB upgraded its medium-term growth forecasts, aided by Germany's sizeable fiscal stimulus. Euro appreciation in 2025 and softer wage growth imply some modest downside inflation risk, keeping the door ajar for further policy easing	1.4	1.2	2.1	1.8	**1.50-2.00%**	Neutral
UK	The BoE lowered rates 25bp, but signalled further easing "will become a closer call" as the neutral rate approaches. Moderating wage growth portends softer services inflation, but household inflation expectations remain elevated. Surveys point to little, if any, growth in Q4. Employment intentions are weak	1.4	1.1	3.4	2.5	**3.25-3.75%**	**Drag**
Japan	The BoJ raised rates 25bp to a 30-year high. BoJ governor Ueda noted real interest rates are expected to remain "at significantly low levels". Recent rate hikes have "not exerted a strong tightening effect" on the economy, with "considerable uncertainty" in estimating the neutral rate. Q4 Tankan survey was upbeat	1.2	0.8	3.1	1.9	**0.75-1.25%**	**Moderate boost**
China	Economic growth should stay resilient and deflationary pressures ease, albeit with continued sectoral divergence and supply-demand imbalances. Targeted policy support and industry-specific supply-side reforms continue. Tech innovation and self-reliance, and economic rebalancing are among the priorities	4.9	4.5	0.0	0.7	**1.20-1.40%**	**Moderate boost**
India	Supportive fiscal and monetary policies and (financial) deregulation support a domestic/consumer demand revival into FY27 amid external uncertainties. Recent GST and labour reforms reinforce India's structural story. Inflation is likely to normalize into FY27 but stay benign. Fiscal pragmatism should continue	7.3	6.5	2.1	3.9	**5.00-5.25%**	Neutral

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Source: HSBC Asset Management, consensus numbers from Bloomberg, January 2026. Any views expressed were held at the time of preparation and are subject to change without notice. While any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Asset Management Limited accepts no liability for any failure to meet such forecast, projection or target. This information shouldn't be considered as a recommendation to invest in the specific country mentioned.

Events to look out for in 2026

World Economic Forum
Switzerland
19-23 Jan 2026

This early-year gathering sets the narrative agenda for the year, particularly on themes like climate, inequality, supply chains, and AI. Strong messaging or alignment here often sets the mood for the year

New Fed Chair
US
May 2026

The US President will nominate a new Federal Reserve chair to replace Powell when his term ends in May. Hassett is the leading candidate among a shortlist that also includes Warsh, Waller, Bowman, and Rieder

G7 Summit
France
14-16 Jun 2026

This summit will centre around key discussions on economic stability, technological regulation, climate action, international security (including ongoing geopolitical conflicts), and global health

NATO Summit
Turkey
7-8 Jul 2026

This summit will anchor the next tranche of defence spending pledges and force clarity on burden sharing and alliance strategy. This can ripple through to equity flows, spread moves, and risk premia

IMF / World Bank Meetings
Thailand
12-18 Oct 2026

Global finance ministers, central bankers, and private capital convene to revise forecasts, set multilateral finance packages, or debt relief initiatives. These typically play a role in bond market shifts, EM flows, and policy repricing

US Midterm Elections
US
3 Nov 2026

The US midterms will determine the composition of Congress, mid-way into the US presidential term. With the Democrats gaining momentum in the 2025 off-year elections, this will offer headwinds to the current Republican control

APEC Economic Leaders
China
Nov 2026

APEC leaders are expected to meet in Shenzhen, with priorities likely to centre on regional economic integration, connectivity, digital economy, and AI governance and adoption. Sustainability will also be a key theme.

UN COP31 Conference
Türkiye
Nov 2026

COP31 should force actionable commitments on carbon pricing, regulations, net-zero transitions, and climate finance. These can materially shape cost curves and impact valuations, particular in energy-intensive sectors

G20 Summit
US
14-15 Dec 2026

As the capstone of the USA host year, the leaders' meeting will set the global policy tone – especially on tax rules, energy, tech governance, and trade. This should influence capital flows, cross border regulation, and investor sentiment

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Investment Views

Asset class positioning

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Asset class		House view	Comments
Equities	**Global**	↔/▲	Global equity returns in 2025 were driven by earnings growth in the US and re-ratings elsewhere. We expect profits growth gaps to narrow in 2026, with sustained broadening of global market leadership beyond the US, but with periods of volatility. EM markets continue to show relative attractiveness from an earnings growth and valuation perspective
	US	↔	US profits were revised up materially between during 2025, driven by strong performance in technology and AI-related sectors. Double-digit profits growth is expected in 2026. The market continues to trade at a substantial price/earnings premium to the rest of the world, and while we expect this to narrow, the continuation of the AI capex boom is key
	UK	↔	UK stocks continue to trade at a record valuation discount relative to other regions and offer an attractive combined dividend and buyback yield. Weak domestic growth is a risk, but further policy easing should be beneficial. Firms remain vulnerable to volatility driven by signs of slowing global growth and policy uncertainty
	Eurozone	↔	A recovery in eurozone activity has been interrupted by tariffs, political uncertainty, and a stronger euro, although industrial surveys point to some resilience. Markets have lacked direction on muted earnings growth – although there could be a pick-up in 2026. On the downside, political and tariff uncertainty could weigh on activity and sentiment
	Japan	▲	Valuations are compelling versus other DM markets, bolstered by continuing corporate governance reforms. Domestically-oriented sectors look favourable on increasing fiscal support, but the earnings outlook for exporters/cyclicals remains highly sensitive to global macro and trade conditions, with additional downside risks from higher JGB yields and a stronger yen
	Emerging Markets (EM)	▲	Premium growth rates are evident in EMs, with equity valuations still exhibiting material discounts to DMs. They could benefit from a weaker US dollar and diversification flows into non-US assets. However, EMs should not be treated as a single bloc given their idiosyncrasies. It's crucial to remain selective amid ongoing trade policy and geopolitical uncertainty
	CEE & Latam	↔	In Central and Eastern Europe, economies face mixed challenges complicated by global trade tensions and geopolitical developments. Latam equities are well-positioned to benefit from the continuing risk-on environment for EMs, with a P/E re-rating expected to be a driver of returns. Politics and trade remain key medium-term risks
	Frontier Markets	▲	A key attraction of frontier markets is exposure to smaller, rapidly-growing, domestically-driven economies that benefit from local idiosyncrasies. There tends to be low intra-country correlation between them, and they benefit from comparatively low volatility, potentially attractive valuations, and relatively strong earnings growth
Government bonds	**Developed Markets (DM)**	↔	A combination of global policy uncertainty, the re-emergence of global growth concerns, and rising fiscal and inflation risks has resulted in government bond yields remaining elevated and yield curves steepening. Outside of a US recession scenario, a sustained decline in yields is unlikely
	US 10-year	↔	Range-bound yields reflect continuing macro and policy uncertainty. While downside data surprises could prompt a rally, it would probably need major labour market weakness for yields to fall meaningfully below 4%. In 2026, mildly expansionary fiscal policy and AI-driven investment should support the US economy, exerting modest upward pressure on yields
	UK 10-year	▲	Gilt yields declined during late 2025 in response to better inflation news amid the continuing uncertain fiscal outlook. Declining UK policy rate expectations relative to the US have prompted a narrowing of the 10-year yield spread between the UK and US. We think there is room for Gilt yields to fall modestly as UK growth remains weak
	German 10-year	▲	Bund yields have been range-bound given that supply worries have eased, eurozone growth is relatively lacklustre, and 10-year US yields have lacked direction. Sticky service sector inflation in the eurozone should leave Bund yields little changed near-term, rising gradually during 2026 due to a rebuilding of the fiscal risk premium
	Japan	▼	Following a change in Japan's political leadership, investors are adopting a cautious stance amid rising concerns over a more expansionary fiscal policy. This could herald a potential rise in the fiscal risk premium medium-term. With modest bond risk premia, we remain underweight Japanese government bonds
	Inflation-linked bonds	↔/▲	Global (ex-US) breakevens (the difference between nominal yields and real yields) have been relatively stable, but US breakevens have drifted higher. Valuations remain relatively cheap for US ILBs, with markets pricing almost no inflation risk premium. The main downside risk is recession, where breakevens would be likely to suffer despite low valuations
	EM local currency	▲▲	EM local currency bonds have benefited from a backdrop of high real yields, strong fundamentals, and a weaker US dollar in 2025. Real rates remain high in many EM majors, and while EM disinflation is slowing down, the trend for policy easing should continue next year, with some potentially significant rate cuts in places

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Asset class positioning

House view represents a >12-month investment view across major asset classes in our portfolios

Key to views

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↔	Neutral		

	Asset class	House view	Comments
Corporate bonds	**Global investment grade (IG)**	↔/▲	IG credit spreads remain close to long-run tights, but all-in yields are reasonable. The balance sheets of investment grade issuers are healthy, and the profits outlook remains positive. We think parts of the IG universe can be a potential substitute hedge to government bonds in portfolios. Global policy uncertainty remains a potential risk
	USD IG	↔/▲	Despite macroeconomic uncertainties and above-target inflation, US IG credit has moved to spreads that are at 25-year tights. Technicals remain highly supportive, and all-in yields continue to attract inflows. Fundamental credit metrics remain solid as balance sheets for USD issuers remain healthy
	EUR and GBP IG	↔/▲	In European IG credit, we expect modest near-term spread-widening mainly for valuation reasons, with supply in the long-end and some term premium restoration in the rates market driving an orderly correction. Given expensive valuations, the main risk to EU IG would be from a global liquidity/volatility event and the resultant worries over credit quality
	Asia IG	↔/▲	Asia IG benefits from attractive all-in yields and limited issuance amid accommodative onshore funding conditions, as credit fundamentals remain sound. Asia IG's shorter duration and strong quality bias help reduce overall volatility. We emphasise credit selection with a focus on idiosyncrasies amid global rate volatility and macro/policy uncertainty
	Global high-yield (HY)	▼	Global high yield spreads have widened amid a cooling in the macro-outlook. Slower growth, inflation risks, and ongoing policy uncertainty all present potential risks, but strong corporate earnings could offset this. We maintain a more defensive stance with a preference for higher quality credits
	US HY	▼	US high yield has seen some spread widening recently. Earnings have been generally resilient, with pockets such as cyclicals and industrials experiencing select weakness, but others such as consumer and technology doing well. Unless recession risks rise markedly, robust earnings should limit any meaningful spread widening
	Europe HY	▼	Current valuations are not compelling, with spreads remaining tight at a time when macro momentum is slowing in the US. Single-B valuations look very expensive, with these issuers sensitive to growth risks and financing rates. We like banks and insurers where credit fundamentals are strong, but we are underweight cyclicals given the macro risk
	Asia HY	▲	Asia HY spreads may see some near-term widening due to high valuations and headwinds from China's property sector. Selectivity offers alpha potential as idiosyncratic drivers can create dispersion and opportunities. We prefer a low-duration stance and a selective quality focus, with disciplined hedging to navigate cross-market shocks
	Securitised credit	▲	There has been marginal spread widening across the market recently, and spreads remain wider than the tights of the range since 2009 so there is long-term value in securitised credit compared to other credit markets. As long as rates remain high, floating securitised credit will generate high income as base rates feed directly into the income paid
	EM hard currency (USD)	▲	The backdrop is constructive, with EM hard currency sovereign bonds continuing to benefit from strong fundamentals. Spreads have been well-behaved, reflecting the positive ratings stories of many EMs. EM corporate bonds are highly correlated to EM sovereigns but have also had a positive story in their own right, and they have a constructive ratings backdrop
FX & Alternatives	**Gold**	▲	Gold has seen exceptional gains in 2025, with central banks continuing to be major buyers. Investor demand has also been strong, driven by a flight to safe-haven assets as a result of rising geopolitical tensions, global policy uncertainty, and financial market volatility. Anticipated rate cuts and inflation concerns enhance gold's appeal as an inflation hedge
	Other commodities	↔	Geopolitical tensions have emerged as a heightened risk factor. China's economic story will be a critical driver, with a meaningful recovery likely to provide a boost to prices. OPEC+ market management remains a key influence on oil prices at a time when a global supply surplus is leading to surging oil inventories
	Real assets	▲▲	Real estate investment activity slowed in 2025 amid macro uncertainty, but US rate cuts could provide a tailwind for the sector. The returns outlook is healthy given yield expansion on the back of higher income. Meanwhile, infrastructure debt offers better expected returns than global credits, and lower spread volatility during economic slowdowns
	Hedge funds	▲▲	Hedge funds can be good diversifiers in an environment of elevated inflation and market phases where there are sharp upticks in volatility. Macro and CTA strategies can be particularly attractive alternatives to bonds when there are positive stock-bond correlations
	Private credit (D/lending)	▲	With elevated macro uncertainty, private credit yields remain attractive due to their continued illiquidity premium. Private credit strategies continue to diversify across a range of sub-strategies, with Direct Lending remaining the largest focus. Strong capital inflows are testament to investor appetite for diversification
	Private equity (Buy out)	▲	Private equity-funded buy-out activity turned positive in the second half of 2025, aided by strong equity markets, moderating inflation, and US rate cuts. With the asset class historically achieving strong returns after challenging periods, the recent pick-up could widen its appeal as a source of long-term returns and a portfolio diversifier
	US dollar (DXY)	▼	The US dollar index will likely face more downside risks as yield differentials with other developed market countries shrink and the US economy converges towards its peers. We expect a continued weakening trend for the USD, albeit more gradual than in H1 2025, driven mostly by cyclical developments
	Crypto	▼▼	Crypto prices continue to be highly volatile and saw sustained weakness in 2025. Performance remains correlated to prevailing risk sentiment and US policy news flow – therefore it lacks hedging qualities (like gold). More regulatory certainty could provide upside, but high sensitivity to sentiment and thin liquidity could deter institutional investors

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	Asset class	House view	Comments
Asian assets	**Asia local bonds**	▲	Asia's sound external fundamentals, debt profiles, and policy mix help lower the sensitivity of local rates to external financial volatility. The local inflation and liquidity backdrop is still supportive, though the monetary easing cycle is at a mature stage. Real yields are attractive in places, with prospective index inclusion for Korea and the Philippines aiding inflows
	RMB bonds	▲	A resumption of PBoC bond purchases – aimed at improving liquidity and policy transmission – has been a key stabiliser after reflation hopes, rising risk sentiment (on recent equity gains), and regulatory changes on bond investments all weighed on demand for long-duration bonds. CGBs are supported by benign inflation and global asset diversification flows
	Asia ex-Japan equities	▲	Asian markets offer broad sector diversification and high-quality growth opportunities. China's reflationary efforts, prudent policy support across the region, and other long-term themes still serve as positives, on top of potential diversification flows into non-USD assets. However, persistent external uncertainties could amplify market volatility
	China equities	▲	Tech innovation remains the re-rating engine, with "anti-involution" initiatives, pro-market policy, and an extended US-China tariff truce supporting sentiment. Firms' relatively low overseas exposure may partially shield them from external headwinds. Further market upside is likely to depend on a continued pick-up in earnings, particularly in non-tech sectors
	India equities	▲	Valuations remain rich, but the P/E premium over Asian peers has narrowed. The latest earnings season reflects stronger cyclical/profit growth momentum under a supportive policy environment, despite clear sectoral divergence. India's domestic-oriented market backdrop, strong structural story, and GST reforms serve as positive medium-term catalysts
	ASEAN equities	↔/▲	Overall valuations are fair with a largely stable earnings outlook, despite divergence across markets. Global trade/geopolitical uncertainties and domestic idiosyncratic risks are sources of return volatility. But more policy/reform efforts will support domestic demand and structural growth drivers. ASEAN equities offer exposure to a variety of sectoral themes
	Hong Kong equities	▲	Dynamic capital market activities (including IPOs) support earnings. Despite persistent structural challenges, local macro momentum has recovered modestly, with potential positive spillovers from the US rate cuts and Chinese policy/tech developments. Valuations are fair, reflected in below long-term average multiples and relatively high dividend yields
	Asia FX (ADXY)	▲	Asian currencies are supported by sound external balances, relative growth resilience, and prudent macro policies, though local idiosyncrasies drive the relative performance. FX conversion by exporters and diversification flows into non-US assets provide support. Carry remains in demand. But global trade and geopolitical uncertainties could trigger volatility

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On Top of Investors' Minds

What are the key issues facing investors in 2026?

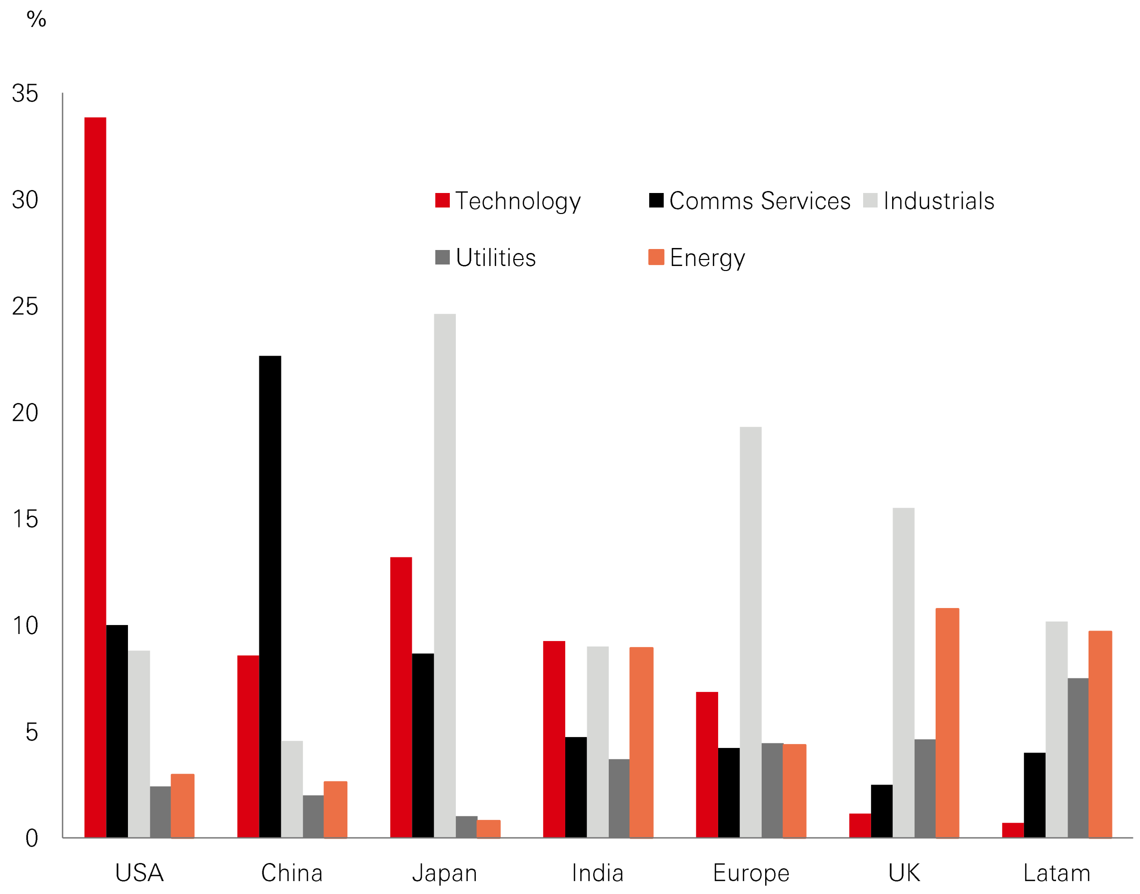
Geopolitical events have been in focus in early 2026. Investors have been digesting news on Venezuela, Iran, and Ukraine – but markets have remained mostly unperturbed. We think geopolitical events will be a key influence on markets in 2026. After the "bull market in almost everything" last year, the mood is optimistic. But much rests on good fundamental news actually being delivered – and with some asset classes arguably "priced for perfection", any burst of adverse news could be doubly bad for markets.

Another key question is the resilience of the US economy to a cooling labour market and weak consumer dynamics. Tech capex and policy support should keep growth robust. But does this drive inflation higher? And what does it mean for Fed cuts?

AI bubble fears are likely feature heavily. There is a good chance that AI-related stocks continue to do well, but a more discriminate eye from investors could mean increasingly divergent performance. A big risk is that tech profits and returns on investment disappoint.

Meanwhile, 2025 was a vintage year for emerging market returns. But 2026 could be more challenging: a softer US dollar is not guaranteed, and China still faces deflationary challenges. But EM assets now look structurally safer and less volatile thanks to efforts to derisk economies and improve policy frameworks.

Sector weights of sectors that are likely to benefit from the AI boom



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2025 was strong for global stocks. Can that continue in 2026?

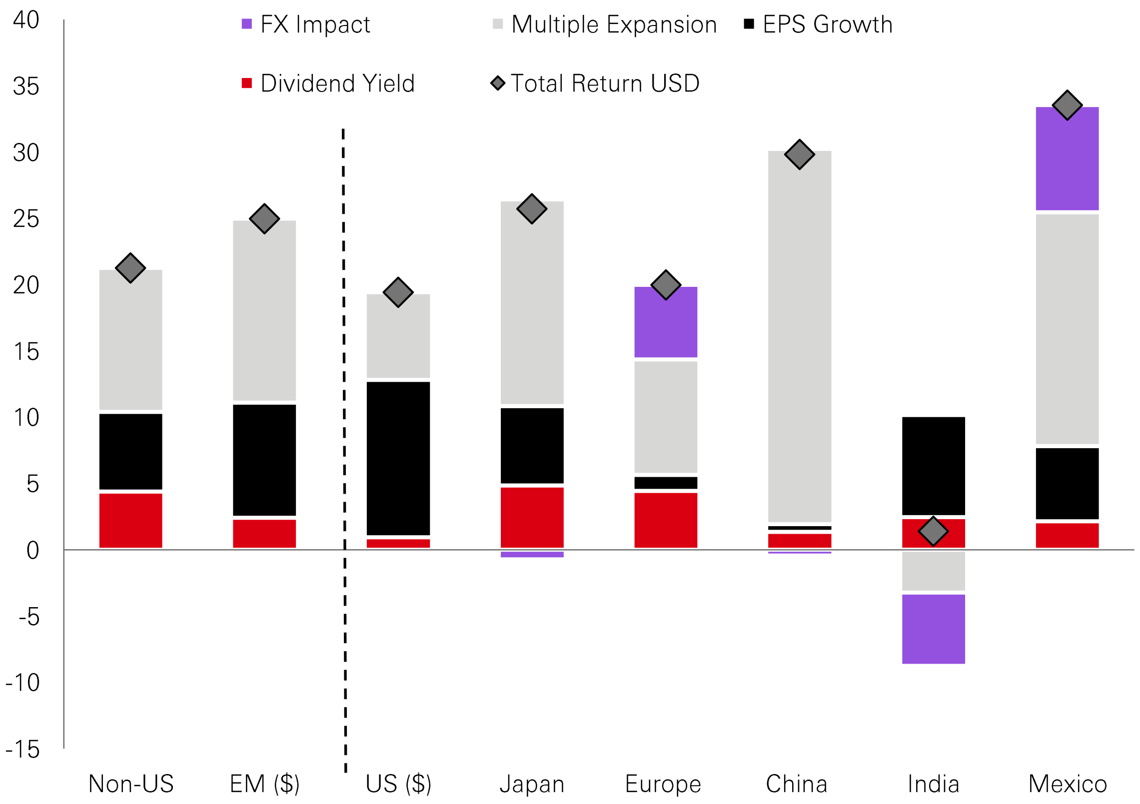
The macro and market environment in 2025 was characterised by resilient growth, moderating (though sticky), inflation, policy uncertainty, and broadly positive markets. But as we explain in our Investment Outlook 2026, we expect a "Role Reversal" in market drivers in the coming year. So, what will that look like?

For a start, global markets were driven by improving sentiment last year – helped by fading US exceptionalism and a weaker dollar. Price-to-earnings multiples in stocks expanded, and corporate credit spreads reached decade-lows. But with valuations no longer a tailwind, and further big falls in the dollar not guaranteed, we think 2026 performance will be much more dependent on profits growth and credit fundamentals.

Secondly, the US's role as a growth leader faces challenges. While tech investment is driving growth, other parts of the economy – like employment and consumer spending – are fragile. So, we expect growth rates across western economies to come together this year, with the fastest growth still in Asia, the Gulf, and Frontier regions.

Thirdly, while EM policymakers are expected to cut rates in 2026, after delivering considerable easing already, it will be more a case of them following the Fed than leading it.

Decomposing 2025 stock market returns



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AI has dominated US market returns in 2025. Could other markets benefit in 2026?

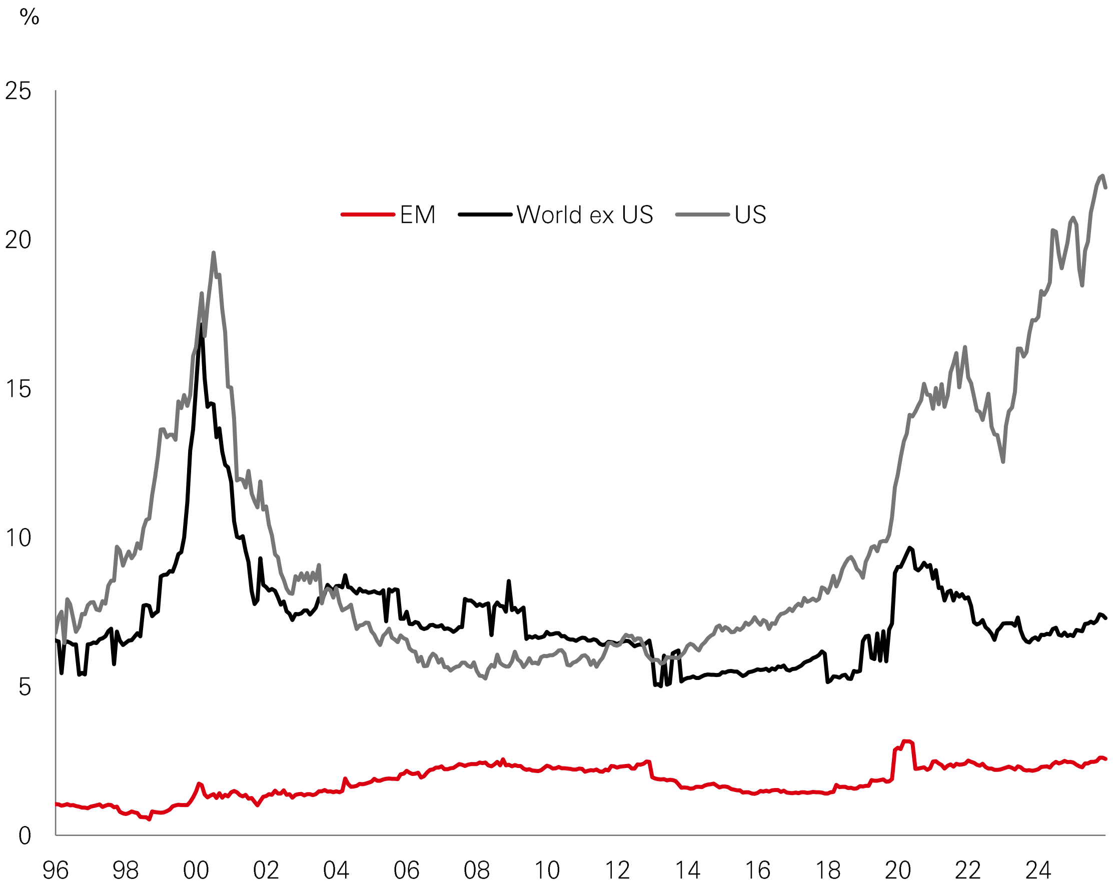
The AI boom fuelled investment markets in 2025, with US stocks in the technology and communications services sectors delivering exceptional profits growth. Given the surging valuations, those two US sectors alone now account for nearly a quarter of the market cap of all global stocks.

For 2026, it's difficult to deny that the outlook continues to be supported by AI and the strong revenue generation potential that comes with it. But there are some big questions around mega-cap tech valuations now, and uncertainty about the returns from vast capex spending and the circularity of the financing involved.

So, this year we think a "broadening out" of investment returns that was under way in global markets in 2025, could spread to the technology sector. That means tech in Asia – including China and India – could be just as profitable, but with less concentration and valuation risk for investors. Innovation in China's tech sector has already captured attention in the West.

But broadening out doesn't stop there. The AI investment boom isn't just a tech play, and could benefit other sectors like utilities, construction, healthcare, and basic materials – driving performance in sectors that lagged in 2025, and reinforcing our positive view on Asian and other EM stocks

Tech and communications services sector weight as % of global equities (USD)



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If we are worried about inflation in 2026, how can we effectively diversify portfolios?

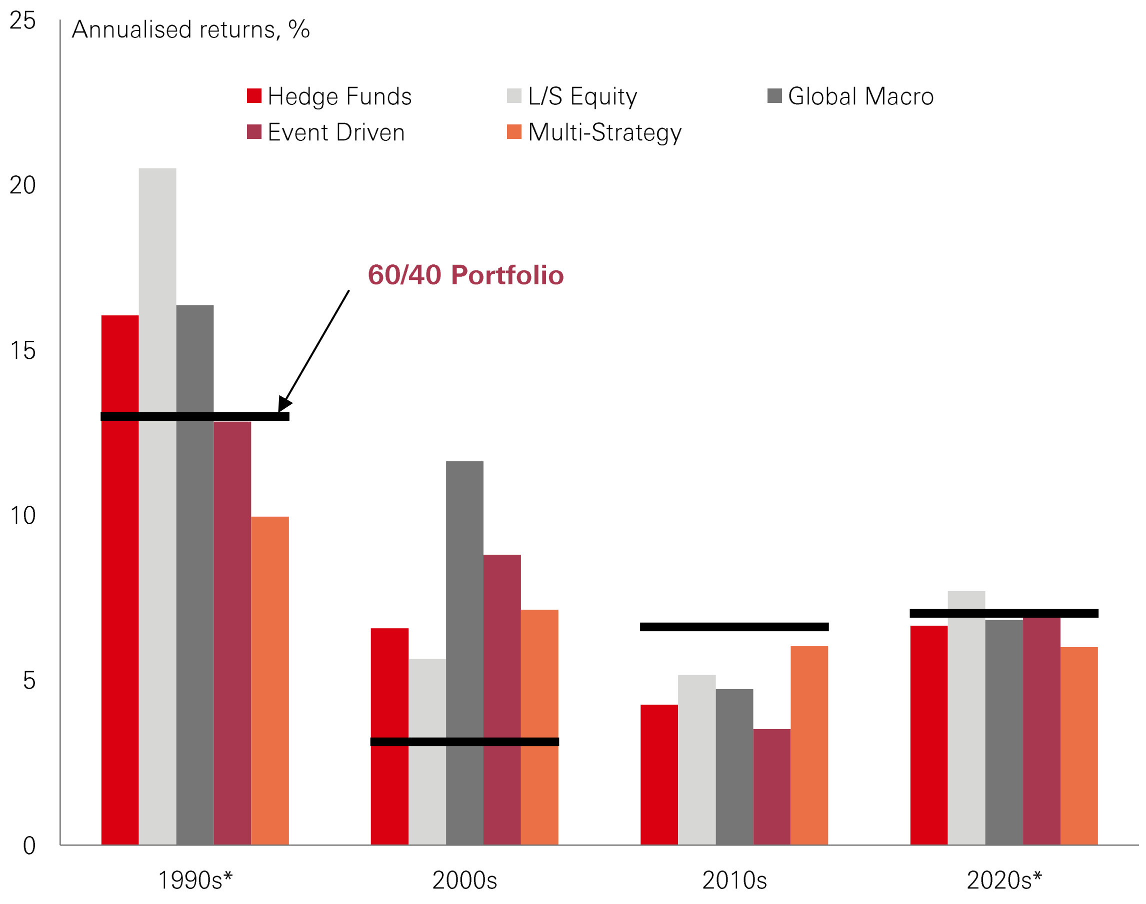
For the first two decades of the 2000s, the performance of stocks and bonds was negatively correlated: when stocks lagged, bonds tended to do better. That pattern of performance drove the popularity of portfolio strategies like the 60/40 stocks/bonds allocation – where bonds provided ballast and diversification.

But that correlation has flipped to positive in the post-pandemic era, driven by inflation volatility and policy uncertainty. And with growth holding up, policy supportive, and supply shocks in the mix, we could see faster cyclical inflation in 2026, and that points to potentially sticky long bond yields. Because of this, the traditional role of bonds as a diversifier could continue to prove less reliable.

It means liquid alternatives are back in focus – including hedge funds. Indeed, today's environment, characterised by sticky inflation, a limited role for central banks, and active fiscal policy, is similar to the 1990s when hedge funds performed well.

With the stock/bond correlation potentially remaining positive in this new higher inflation environment, "bond substitutes" in the form of hedge funds – as well as other alternative asset classes – can offer a way to "diversify the diversifiers".

Hedge funds versus 60/40 portfolio



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Is Japan the canary in the coalmine when it comes to fiscal risks?

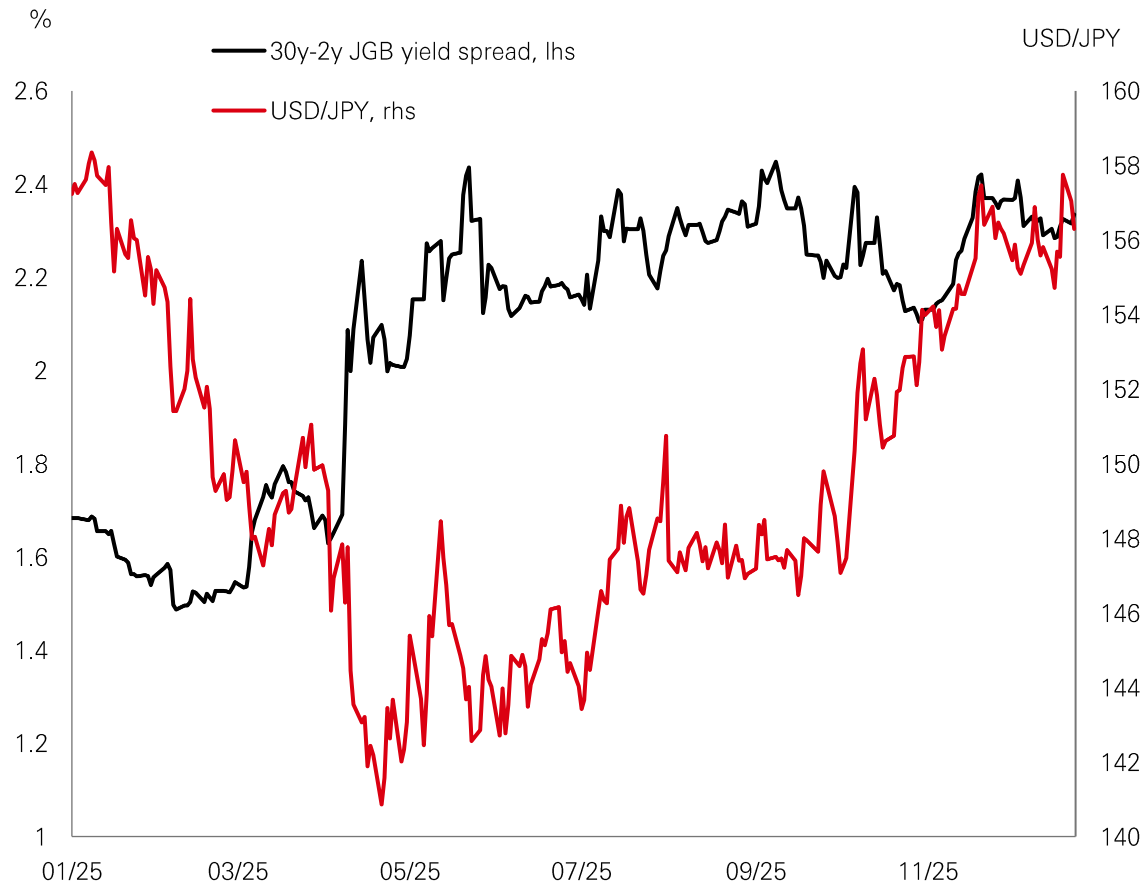
Japanese policymakers face a trilemma – balancing a desire for fiscal stimulus and accommodative monetary policy while avoiding yen weakness. Any two are achievable, but at the cost of the third.

Under newly-elected PM Sanae Takaichi, the government has passed a sizeable fiscal stimulus package (estimated at around 3% of GDP). It's now clear that the new leadership is prepared to use more active fiscal policy to support growth.

But given Japan's already high debt level, this has driven longer dated yields higher. It has also put downward pressure on the yen, leaving the BoJ in a bind. Having trodden carefully since starting to normalise policy in March 2024, pressure is building on the central bank to raise the policy rate more quickly, and possibly implement other measures, to support the currency.

Japan, alongside other economies such as the UK, is discovering that the pre-Covid world of markets accommodating easy fiscal and monetary policy is a thing of the past. Policy makers now face constraints, trade-offs, and no easy choices. This is a key reason why the reliability of traditional hedges – such as the yen – are increasingly under question and why investors need to seriously rethink their diversification strategies in 2026.

Japanese yen and 30y-2y bond spread



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Market Data

Market Data

December 2025

EQUITY INDICES	Close	MTD Change (%)	3M Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low	Fwd P/E (X)
World								
MSCI AC World Index (USD)	1,015	0.9	3.0	20.6	20.6	1,017	723	21.5
North America								
US Dow Jones Industrial Average	48,063	0.7	3.6	13.0	13.0	48,432	36,612	22.7
US S&P 500 Index	6,846	-0.1	2.3	16.4	16.4	6,920	4,835	25.0
US NASDAQ Composite Index	23,242	-0.5	2.6	20.4	20.4	24,020	14,784	35.2
Canada S&P/TSX Composite Index	31,713	1.1	5.6	28.2	28.2	31,411	22,228	19.0
Europe								
MSCI AC Europe (USD)	699	3.9	5.9	32.2	32.2	687	516	16.2
Euro STOXX 50 Index	5,791	2.2	4.7	18.3	18.3	5,818	4,540	17.1
UK FTSE 100 Index	9,931	2.2	6.2	21.5	21.5	9,930	7,545	14.2
Germany DAX Index*	24,490	2.7	2.6	23.0	23.0	24,771	18,490	17.5
France CAC-40 Index	8,150	0.3	3.2	10.4	10.4	8,314	6,764	17.5
Spain IBEX 35 Index	17,308	5.7	11.8	49.3	49.3	16,662	11,311	14.3
Italy FTSE MIB	44,945	3.7	5.2	31.5	31.5	45,072	31,946	13.5
Asia Pacific								
MSCI AC Asia Pacific ex Japan (USD)	722	2.7	3.2	26.8	26.8	737	507	17.1
Japan Nikkei-225 Stock Average	50,339	0.2	12.0	26.2	26.2	52,637	30,793	21.0
Australian Stock Exchange 200	8,714	1.2	-1.5	6.8	6.8	9,115	7,169	19.6
Hong Kong Hang Seng Index	25,631	-0.9	-4.6	27.8	27.8	27,382	18,671	12.4
Shanghai Stock Exchange Composite Index	3,969	2.1	2.2	18.4	18.4	4,034	3,041	15.0
Hang Seng China Enterprises Index	8,914	-2.4	-6.7	22.3	22.3	9,770	6,763	11.5
Taiwan TAIEX Index	28,964	4.8	12.2	25.7	25.7	28,555	17,307	20.3
Korea KOSPI Index	4,214	7.3	23.1	75.6	75.6	4,227	2,285	13.9
India SENSEX 30 Index	85,221	-0.6	6.2	9.1	9.1	86,159	71,425	21.4
Indonesia Jakarta Stock Price Index	8,647	1.6	7.3	22.1	22.1	8,626	5,883	16.0
Malaysia Kuala Lumpur Composite Index	1,680	4.7	4.2	2.3	2.3	1,659	1,387	15.2
Philippines Stock Exchange PSE Index	6,053	0.5	1.7	-7.3	-7.3	6,772	5,584	9.7
Singapore FTSE Straits Times Index	4,646	2.7	8.0	22.7	22.7	4,576	3,372	15.0
Thailand SET Index	1,260	0.2	-1.1	-10.0	-10.0	1,458	1,054	14.4
Latam								
Argentina Merval Index	3,051,617	0.8	72.1	20.4	20.4	3,181,450	1,635,451	17.6
Brazil Bovespa Index*	161,125	1.3	10.2	34.0	34.0	159,689	118,223	10.1
Chile IPSA Index	10,481	3.5	16.8	56.2	56.2	10,147	6,568	14.0
Colombia COLCAP Index	2,068	-0.3	10.4	49.9	49.9	2,093	1,360	9.5
Mexico S&P/BMV IPC Index	64,308	1.1	2.2	29.9	29.9	64,406	48,770	13.8
EEMEA								
Saudi Arabia Tadawul All Share Index	10,491	-0.9	-8.8	-12.8	-12.8	12,536	10,367	15.5
South Africa JSE Index	115,832	4.4	7.3	37.7	37.7	115,717	77,165	13.1
Turkey index	11,340.1	3.3	2.3	14.6	14.6	11,605.3	8,872.8	0.2

Sources: Bloomberg, HSBC Asset Management. Data as at close of business 31 December 2025. (*) Indices expressed as total returns. All others are price returns.
Past performance does not predict future returns. The level of yield is not guaranteed and may rise or fall in the future. This information shouldn't be considered as a recommendation to invest in the country or sector shown.

Market Data (continued)

December 2025

EQUITY INDICES - TOTAL RETURN	3-month Change (%)	YTD Change (%)	1-year Change (%)	3-year Change (%)	5-year Change (%)	Dividend Yield (%)
Global equities	3.3	22.3	22.3	75.6	70.0	1.7
US equities	2.3	17.3	17.3	84.9	87.4	1.1
Europe equities	6.2	35.4	35.4	65.2	63.2	3.0
Asia Pacific ex Japan equities	3.6	29.6	29.6	53.2	22.8	2.4
Japan equities	3.2	24.6	24.6	62.4	37.7	2.0
Latam equities	8.2	54.8	54.8	51.3	51.4	5.5
Emerging Markets equities	4.7	33.6	33.6	57.7	22.8	2.3

All total returns quoted in USD terms.

Data sourced from MSCI AC World Total Return Index, MSCI USA Total Return Index, MSCI AC Europe Total Return Index, MSCI AC Asia Pacific ex Japan Total Return Index, MSCI Japan Total Return Index, MSCI Latam Total Return Index and MSCI Emerging Markets Total Return Index.

BONDS	Close	End of last month	3-months Ago	1-year Ago	Year End 2024
US Treasury yields (%)					
3-Month	3.63	3.80	3.93	4.31	4.31
2-Year	3.47	3.49	3.61	4.24	4.24
5-Year	3.73	3.60	3.74	4.38	4.38
10-Year	4.17	4.01	4.15	4.57	4.57
30-Year	4.84	4.66	4.73	4.78	4.78
Developed market 10-year bond yields (%)					
Japan	2.06	1.81	1.64	1.09	1.09
UK	4.48	4.44	4.70	4.56	4.56
Germany	2.85	2.69	2.71	2.36	2.36
France	3.56	3.41	3.53	3.19	3.19
Italy	3.55	3.40	3.53	3.52	3.52
Spain	3.29	3.16	3.26	3.06	3.06

BOND INDICES - TOTAL RETURN	Close	MTD Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)
BarCap GlobalAgg (Hedged in USD)	608	-0.2	0.8	4.9	4.9
JPM EMBI Global	1018	0.5	3.0	13.5	13.5
BarCap US Corporate Index (USD)	3,545	-0.2	0.8	7.8	7.8
BarCap Euro Corporate Index (Eur)	266	-0.2	0.3	3.0	3.0
BarCap Global High Yield (USD)	690	0.8	2.4	10.0	10.0
BarCap US High Yield (USD)	2914	0.6	1.3	8.6	8.6
BarCap pan-European High Yield (USD)	642	0.6	1.2	7.4	7.4
BarCap EM Debt Hard Currency	495	0.5	2.2	12.2	12.2
Markit iBoxx Asia ex-Japan Bond Index (USD)	242	0.2	1.1	7.7	7.7
Markit iBoxx Asia ex-Japan High-Yield Bond Index (USD)	285	0.9	1.1	9.4	9.4

Sources: Bloomberg, HSBC Asset Management. Data as at close of business 31 December 2025. Total return includes income from dividends and interest as well as appreciation or depreciation in the price of an asset over the given period. Past performance does not predict future returns. The level of yield is not guaranteed and may rise or fall in the future. This information shouldn't be considered as a recommendation to invest in the country or sector shown.

Market Data (continued)

December 2025

CURRENCIES (VS USD)	Latest	End of last month	3-months Ago	1-year Ago	Year End 2024	52-week High	52-week Low
Developed markets							
DXY index	98.32	99.46	97.78	108.49	108.49	110.18	96.22
EUR/USD	1.17	1.16	1.17	1.04	1.04	1.19	1.01
GBP/USD	1.35	1.32	1.34	1.25	1.25	1.38	1.21
CHF/USD	1.26	1.24	1.26	1.10	1.10	1.28	1.09
CAD	1.37	1.40	1.39	1.44	1.44	1.48	1.35
JPY	156.7	156.2	147.9	157.2	157.2	158.9	139.9
AUD	1.50	1.53	1.51	1.62	1.62	1.69	1.49
NZD	1.74	1.74	1.73	1.79	1.79	1.82	1.63
Asia							
HKD	7.78	7.79	7.78	7.77	7.77	7.85	7.75
CNY	6.99	7.07	7.12	7.30	7.30	7.35	7.07
INR	89.88	89.46	88.79	85.61	85.61	89.96	83.76
MYR	4.06	4.13	4.21	4.47	4.47	4.52	4.12
KRW	1,440	1,467	1,404	1,472	1,472	1,487	1,347
TWD	31.42	31.40	30.46	32.79	32.79	33.28	28.79
Latam							
BRL	5.47	5.34	5.32	6.18	6.18	6.32	5.26
COP	3,778	3,755	3,920	4,406	4,406	4,477	3,687
MXN	18.01	18.30	18.31	20.83	20.83	21.29	18.20
ARS	1,451.62	1,450.07	1,379.70	1,030.99	1,030.99	1,491.87	1,009.29
EEMEA							
RUB	78.75	77.54	82.85	113.52	113.52	108.67	74.05
ZAR	16.56	17.11	17.27	18.84	18.84	19.93	16.95

COMMODITIES	Latest	MTD Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low
Gold	4,319	1.9	11.9	64.6	64.6	4,382	2,584
Brent Oil	60.9	-3.7	-9.2	-18.5	-18.5	83	58
WTI Crude Oil	57.4	-1.9	-7.9	-19.9	-19.9	81	55
R/J CRB Futures Index	299	-0.9	-0.6	0.7	0.7	317	280
LME Copper	12,423	11.0	21.0	41.7	41.7	11,334	8,105

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Basis of Views and Definitions of 'Asset class positioning' tables

- Views are based on regional HSBC Asset Management Asset Allocation meetings held throughout **December 2025**, HSBC Asset Management's long-term expected return forecasts which were generated as at **30 November 2025**, our portfolio optimisation process and actual portfolio positions.
- **Icons:** ↑ View on this asset class has been upgraded **–** No change ↓ View on this asset class has been downgraded.
- Underweight, overweight and neutral classifications are the high-level asset allocations tilts applied in diversified, typically multi-asset portfolios, which reflect a combination of our long-term valuation signals, our shorter-term cyclical views and actual positioning in portfolios. The views are expressed with reference to global portfolios. However, individual portfolio positions may vary according to mandate, benchmark, risk profile and the availability and riskiness of individual asset classes in different regions.
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- For Asia ex Japan equities, the underweight, overweight and neutral categories for the region at the aggregate level are also based on high-level asset allocation considerations applied in diversified, typically multi-asset portfolios. However, individual country views are determined relative to the Asia ex Japan equities universe as of **30 November 2025.**
- Similarly, for EM government bonds, the underweight, overweight and neutral categories for the asset class at the aggregate level are also based on high-level asset allocation considerations applied in diversified, typically multi-asset portfolios. However, EM Asian Fixed income views are determined relative to the EM government bonds (hard currency) universe as of **31 December 2025**.

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