

# Investment Monthly

# Broadening out in 2026

February 2026

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 **HSBC** Asset Management | Opening up a world of opportunity

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Macro Outlook

- ◆ **US growth has been robust**, but there are some imbalances. K-shaped dynamics are in play: with AI capex booming, but a cooling labour market and tariff-driven price rises proving to be headwinds to consumers
- ◆ We expect **more balanced, trend-like US growth this year**. Tariffs and AI capex still pose upside risks to inflation
- ◆ **Geopolitical events** have been in focus in early 2026, and are expected to remain an important influence on the economic environment and markets
- ◆ Supportive macro policies and tech/industrial competitiveness aid **China’s growth resilience, but economic imbalances** remain a key challenge

House View

- ◆ **We expect a “role reversal”** this year in areas of the macro, policy, and market environment, with US exceptionalism fading, and growth converging in the west. Global market performance will be dependent on profits growth
- ◆ The **new year rally** concentrated in Asia and other emerging markets shows a **“broadening out”** of market leadership amid better EM corporate profits. EMs also look to be 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

Policy Outlook

- ◆ The **US Fed** is in wait-and-see mode as it assesses the impact on the economy of trade tariffs, immigration policy, and the AI investment boom
- ◆ Kevin Warsh’s nomination as the **next Fed Chair** resolves a key question for investors but the impact on policy is not clear cut
- ◆ With **EM Asia** approaching the end of its rate cutting cycle, governments have space to use fiscal policy to respond to growth disappointments
- ◆ **China will continue its targeted and calibrated policy support** to aid domestic demand, alongside **reform efforts** focused on strategic objectives such as technology innovation and self-reliance, and economic rebalancing

Scenarios

COME TOGETHER	US growth less exceptional in 2026. 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



As US exceptionalism continues to fade, **market leadership can continue to broaden out**, particularly to emerging and frontier markets, which are becoming structurally safer and less volatile. Asia is also well placed to benefit from the AI boom. And with conventional diversifiers less reliable, portfolios need alternative sources of resilience

- ◆ **Equities** – Re-ratings drove global returns last year, but profits growth will be increasingly important in 2026. Assuming these are delivered, there is scope for a further broadening out of performance beyond US large-cap tech to other sectors and regions, particularly emerging markets.
- ◆ **Government bonds** – Bond yields are expected to remain range-bound amid inflation risks, fiscal concerns, and growth imbalances. 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
<b>Global</b>	↗▲
US	↔
UK	↔
Eurozone	↔
Japan	▲
Emerging Markets (EM)	▲
CEE & Latam	↔
Frontier	▲

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

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

FX & Alternatives	
Asset Class	House view
<b>Gold</b>	▲
<b>Other commodities</b>	↔
<b>Real assets</b>	▲▲
<b>Hedge funds</b>	▲▲
<b>Private credit (Direct lending)</b>	▲
<b>Private equity (Buy out)</b>	▲
<b>US dollar (DXY)</b>	▼
<b>Crypto assets</b>	▼▼

Asian assets	
Asset Class	House view
<b>Asia local bonds</b>	▲
<b>RMB bonds</b>	▲
<b>Asia ex-Japan equities</b>	▲
China	▲
India	▲
Hong Kong	▲
<b>Asia FX (ADXY)</b>	▲

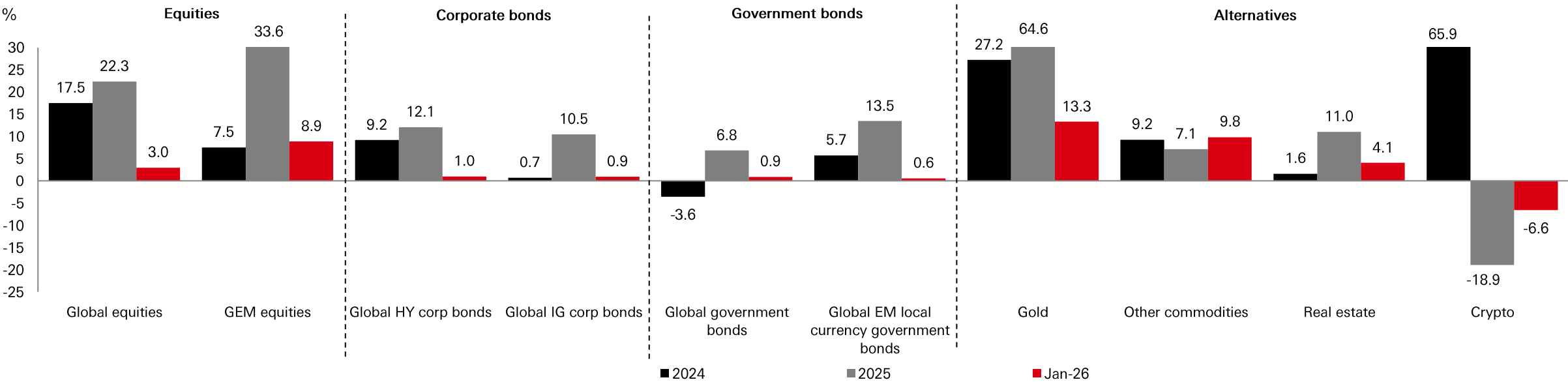
Key to views			
▲▲	Positive	↗▼	Neutral/Negative bias
▲	Positive Bias	▼	Negative Bias
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↔	Neutral		

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Source: HSBC Asset Management as at February 2026.

January saw some exceptionally strong returns across global stock markets, especially in emerging economies, as the broadening out trade continued. Some volatility in longer-dated bond yields reflected uncertainty over future rate cuts and fiscal concerns. A major rally in precious metals saw sharp reversals at month-end

- ◆ **Government bonds** – Sovereign bond yields saw volatility and divergence, with 10-year yields rising in Japan and the US, but moderating across the eurozone. Investors continue to weigh an uncertain fiscal, inflation, and growth outlook
- ◆ **Equities** – Stocks saw blistering gains in parts of Asia and Latam amid a weaker US dollar and rally in commodity prices. There were also strong positive moves in Japan, the UK, and US small-caps. India continued to underperform
- ◆ **Alternatives** – Gold and silver prices led a remarkable rally in precious metals, before declining sharply late in the month. Industrial metals prices were also strong. Oil prices strengthened on geopolitical tensions. Crypto prices slumped



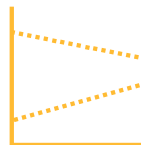
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Source: Bloomberg, all data above as at close of business 31 January 2026 in USD, total return, month-to-date terms. Note: Asset class performance is represented by different indices. **Global Equities:** MSCI ACWI Net Total Return USD Index. **Global 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.

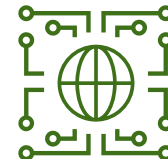




## CRACKS WIDEN



## 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 in 2026**, 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

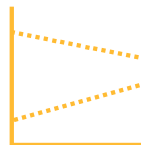
Geopolitics and trade tensions weigh on already **fragile confidence**

**Resilient but uneven growth** as reflation policies offset tariff headwinds

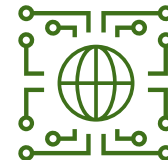
**Growth pickup** amid AI, and property sector and confidence recovery



## 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

Fed in wait-and-see mode

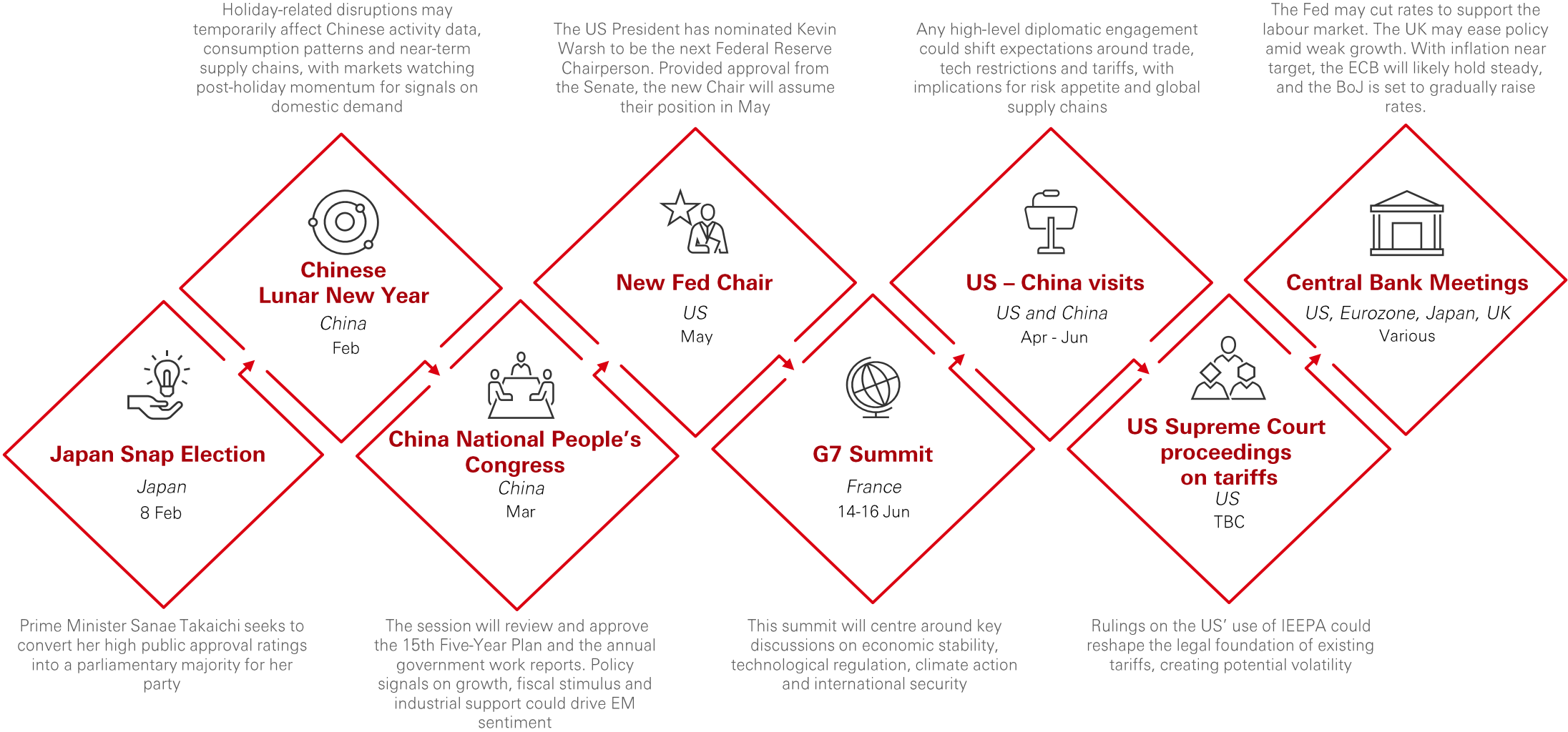
		Consensus		Policy 	
		Growth (%) 	Inflation (%) 	12m ahead policy rate (HSBC AM)	2026 Fiscal impulse
		■ 2025 ■ 2026	■ 2025 ■ 2026		
US	The Fed kept policy unchanged, with two members favouring a 25bp rate cut. Fed Chair Powell stated that policy is “well positioned”, the economic outlook “has clearly improved” with “some signs” of stabilisation in the labour market. Consumer spending should moderate in Q4. Apart from AI, investment is soft	<div><div></div><div></div></div> <div>2.22.4</div>	<div><div></div><div></div></div> <div>2.62.6</div>	3.00-3.50%	Neutral
Eurozone	The ECB is in a holding pattern, with interest rates in neutral territory. Q4 GDP rose modestly, led by Spain. Germany’s sizeable fiscal stimulus should boost growth in 2026. The euro’s appreciation and softer wage growth imply some modest downside inflation risk, keeping door ajar for further policy easing	<div><div></div><div></div></div> <div>1.41.2</div>	<div><div></div><div></div></div> <div>2.11.8</div>	1.50-2.00%	Neutral
UK	The BoE remains divided and cautious over the rate outlook, reflecting diverging views on UK inflation. Moderating wage growth bodes well for softer services inflation. Company and household price expectations remain elevated. Employment intentions are weak amid rising cost pressures	<div><div></div><div></div></div> <div>1.41.0</div>	<div><div></div><div></div></div> <div>3.42.4</div>	3.25-3.75%	Drag
Japan	The BoJ left policy on hold, with Governor Ueda signalling no urgency to raise rates. BoJ upgraded its FY26 core inflation forecasts and expects risks to the growth and price outlook to be “generally balanced”	<div><div></div><div></div></div> <div>1.20.8</div>	<div><div></div><div></div></div> <div>3.21.9</div>	0.75-1.25%	Moderate boost
China	Growth should stay resilient as deflationary pressures ease, albeit with persistent underlying imbalances. The government is prioritising boosting consumption and stabilising investment for this year. Policy support is likely to remain targeted, aligned with long-term economic transition and rebalancing priorities	<div><div></div><div></div></div> <div>5.04.5</div>	<div><div></div><div></div></div> <div>0.00.7</div>	1.20-1.40%	Moderate boost
India	The FY27 budget targets mild fiscal consolidation with a focus on medium-term growth support for key sectors (e.g. semiconductors & AI data centres) and capex on defence, infra and energy security. The US trade deal offers relief to India's economy and assets. The RBI will remain proactive in its liquidity support	<div><div></div><div></div></div> <div>7.56.6</div>	<div><div></div><div></div></div> <div>2.04.0</div>	5.00-5.25%	Neutral

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Source: HSBC Asset Management, consensus numbers from Bloomberg, February 2026.



# Events to look out for in H1 2026



# Investment Views



# 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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Asset class		House view	Comments
Equities	Global	↔▲	Last year, global equity returns 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 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 seen improving momentum despite muted earnings growth. 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 is evident in EMs, with equity valuations still exhibiting material discounts to DMs. They could benefit from several structural and cyclical tailwinds, though ongoing uncertainties could also trigger episodic volatility. Asset allocation strategies should increasingly consider country- and sector-specific factors given local idiosyncrasies
	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	↔	Yields have been in a relatively narrow channel of late and the near-term outlook appears range bound. Sticky inflation, fiscal concerns and better-than expected growth could push yields higher. Significantly lower yields are likely to require clear evidence that the labour market is cracking
	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. Real rates remain high in many EM majors, and while EM disinflation is slowing down, the trend for policy easing should continue in 2026, with some potentially significant rate cuts in places

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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 solid credit fundamentals. An anticipated supply pick-up in 2026 should meet robust demand amid a large pool of local savings. Asia IG's shorter duration and strong quality bias help reduce overall volatility. We emphasise credit selection focusing on idiosyncrasies amid global rate volatility and macro uncertainty
	Global high-yield (HY)	▼ Global high yield spreads have compressed further from already tight levels amid strong risk-on sentiment. Growth and inflation risks and policy uncertainty present potential risks, but strong corporate earnings could offset this. We prefer a defensive stance with a focus on 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 offers attractive carry/all-in yields and spread compression potential compared to global peers, despite high valuations and headwinds from China's property sector. Default rates have fallen back to the low levels seen prior to 2020. Selectivity with a quality focus offers alpha potential as idiosyncratic drivers can create dispersion and opportunities
	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
FX & Alternatives	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 also have a positive story in their own right, as well as a constructive ratings backdrop
	Gold	▲ Gold has seen exceptional gains, 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 shows signs of improvement, and the returns outlook appears healthy given yield expansion on the back of higher income. Meanwhile, infrastructure assets currently offer high dividend yields and provide exposure to key growth themes like AI and the energy transition
	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	▼▼ 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	▲	Bond market regulation changes provided some relief for long-duration CGBs, with low inflation, loose liquidity conditions, global asset allocation, and PBoC bond purchases also supportive, although strong equities are a headwind. Despite PBoC’s dovish guidance, its focus has been more on targeted support via structural tools than broad-based easing
	Asia ex-Japan equities	▲	Asian markets offer broad sector diversification and high-quality growth opportunities. Supportive macro policies, exposure to the AI supply chain/infrastructure, and other long-term themes remain positives, alongside the potential for further diversification fund inflows. However, persistent external uncertainties could amplify market volatility
	China equities	▲	Tech innovation remains the key driver of re-ratings and could be further fuelled by the monetisation of AI/cloud investments and supply chain localisation. While reflationary efforts and an extended US-China trade truce should support sentiment, further market upside is likely to depend on a continued pick-up in earnings, particularly in non-tech sectors
	India equities	▲	The earnings outlook is improving, aided by supportive macro policies and deregulatory reforms, despite clear sectoral divergence. India’s strong structural growth drivers, ongoing reform initiatives and a continued structural shift in household savings into financial savings serve as positive medium-term catalysts. Valuations are now more reasonable
	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 and a modest recovery in the residential property market and local macro momentum support earnings, alongside potential positive spillovers from US rate cuts and Chinese policy developments, despite persistent structural challenges. Relatively low price-to-book ratios and decent dividend yields remain supportive
	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





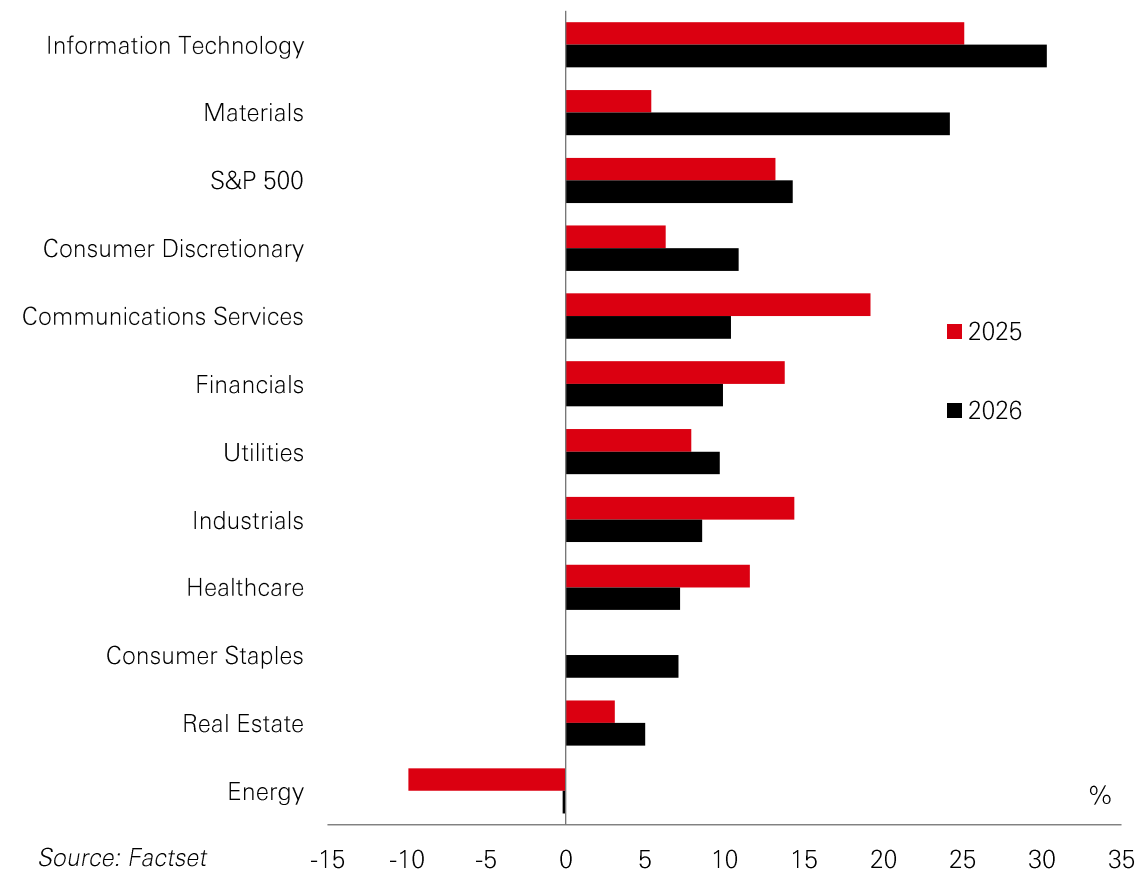
## What have been the eye-catching themes in stock markets this year?

First, is that the S&P 500 is delivering bumper profits again in Q4 2025 earnings season. Year-on-year growth for Q4 was pencilled-in at 8%, but that figure has already risen closer to 12% and could rise further. Among the surprises has been a stellar pick-up in 2026 profits expectations for the Materials sector.

Second, is that mega-cap tech and AI stocks – which have driven US profits and price gains for three years – are diverging a bit. The sector still dominates the broad profits picture, but investors are being picky, and some stocks have slumped after disappointing the market. There are also signs that some software firms could suffer because of AI, as well as persistent concerns about stretched valuations, high concentration, and a potential bubble in AI stocks given uncertainty about when vast capex investments will pay-off. Overall, it has left the sector lagging the broader index this year.

Finally, last year's broadening out of market leadership is continuing – both within the US (notably to small-caps and value) and to emerging markets and Europe. Outside the US, a pick-up in momentum has been helped by a weaker US dollar, but valuation discounts, better fundamentals, and policy support are also playing a role.

S&P 500 year-on-year expected earnings growth



## Why have emerging market stocks been so strong in early 2026?

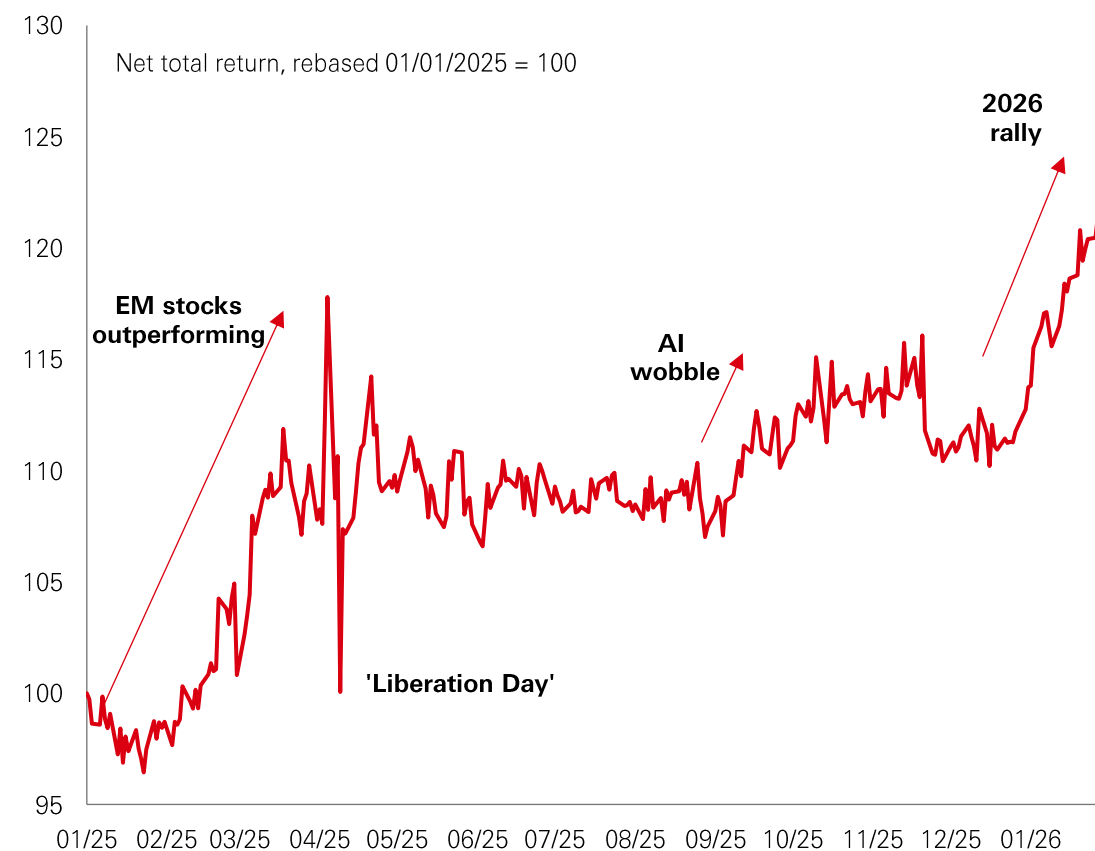
Emerging market stocks have got off to an exceptionally strong start in 2026. In some ways, it's a case of history repeating. This time last year, a sharp decline in the US dollar was under way, and EM stocks were strengthening just as US stocks were fading. After the volatility around April's 'Liberation Day' tariff surprise, EM markets went on to outperform the US for the full year.

Amid further signs that global investors have cooled towards dollar assets, the EM momentum trend is accelerating. But unlike last year, there is more to this outperformance than EMs just being lucky. Improvements in both regional structural stories and company fundamentals are playing a role too.

Korea and Taiwan have extended last year's world-beating gains as the global AI build-out boosts the outlook for tech and semiconductor names. Meanwhile in Brazil, structural reforms and the prospect of lower rates is providing relief to the fiscal outlook. The mining sector has benefit from the current commodities rally.

Overall, EMs are proving again in 2026 that they can be both lucky and good – with the tailwind of dollar weakness acting as a catalyst to attractive structural stories and improving fundamentals and profits.

MSCI Emerging Market index performance relative to MSCI US index



## What does a Kevin Warsh-led Fed mean for markets?

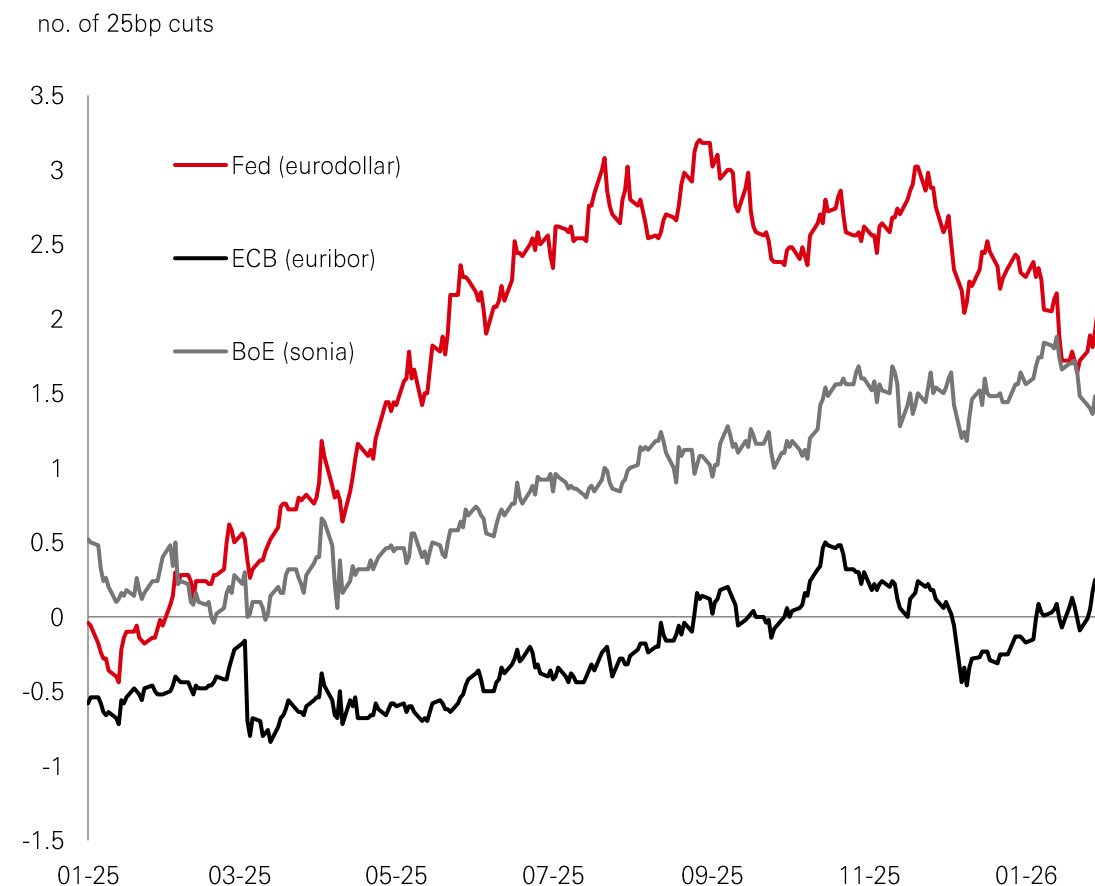
President Trump's decision to back Kevin Warsh as the next Chair of the Federal Reserve was a bit of a surprise. However, Fed rate expectations and US Treasury yields have been stable, suggesting investors have placed greater weight on other factors when determining the policy and rate outlook.

It is important to remember that US monetary policy is set by the Federal Open Market Committee (FOMC), not just the Chair. At the margin, the Fed Chair could push through policy changes if the data are ambiguous and FOMC is split, but it would be difficult for any Fed Chair to force through changes in policy that are not broadly supported by the economic data.

Warsh has been regarded as a policy hawk during his career. However, more recently, he has focussed on the disinflationary impact of AI, which could allow for lower rates despite a strong economy. Warsh has also advocated for a much smaller Fed balance sheet. But again, this would require committee approval, and needs to consider the impact on liquidity conditions.

The pick of a perceived "orthodox" candidate may temper concerns over the erosion of Fed independence and policy rates being cut too far, allowing runaway inflation. January's US dollar and gold volatility reflect this. But with policy uncertainty still high, the US dollar's role as a reliable haven asset is still questionable.

### How many rate cuts from Fed, ECB, BoE in 2026?





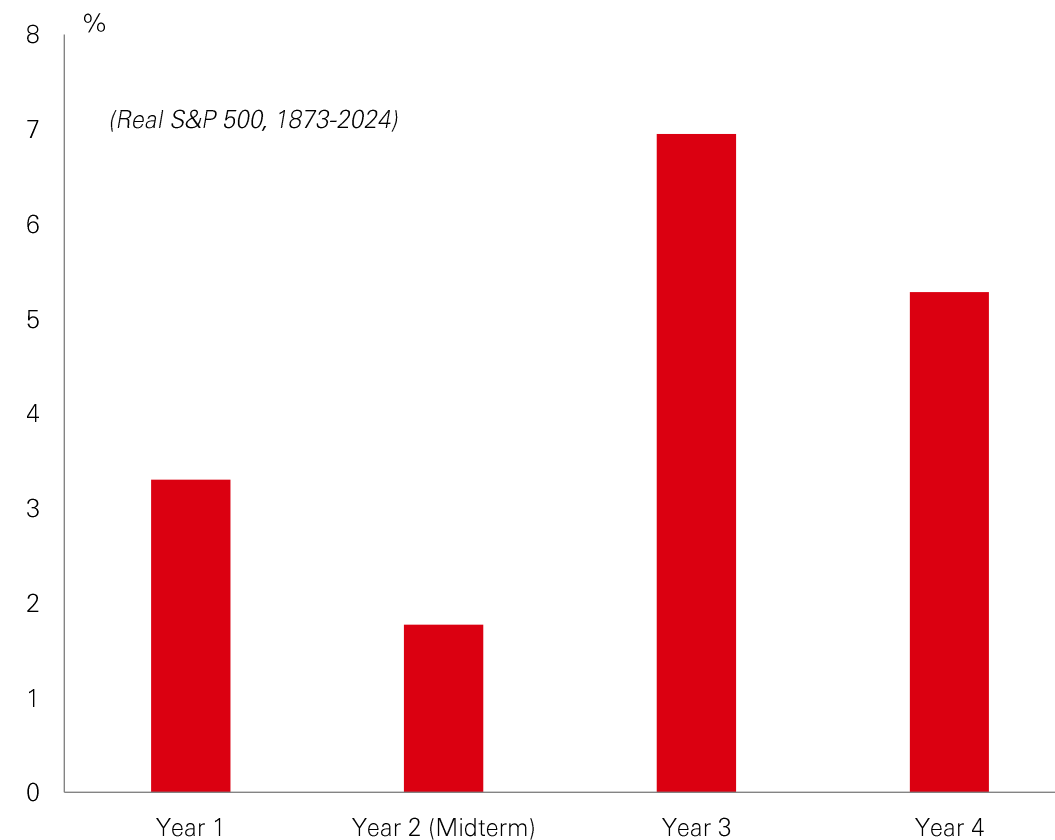
## How could the US midterm elections impact markets?

Historically, the second year of a US presidential term tends to be a tricky one for markets. It's often the weakest for real stock returns in the S&P 500, thanks to the uncertainty that midterm elections bring. Investors don't like surprises; unexpected policy shifts and questions about the economic outlook often weigh on risk appetite during this time.

We also know that almost every midterm election has resulted in the incumbent president's party losing seats in the House of Representatives. If Republicans lose their slim House majority this year, it could result in a Republican president and a Democrat-controlled House: a political gridlock scenario. The good news is that markets often welcome this. A divided government means a lower chance of large policy changes, which tends to calm volatility and boost stocks post-election.

Nonetheless, in an environment where AI enthusiasm persists but there are risks of episodic volatility caused by high policy and economic uncertainty, high tech sector valuations, and elevated geopolitical concerns, the impact of the US midterms on market sentiment is also worth monitoring

Average annual real equity price returns in a US presidential term



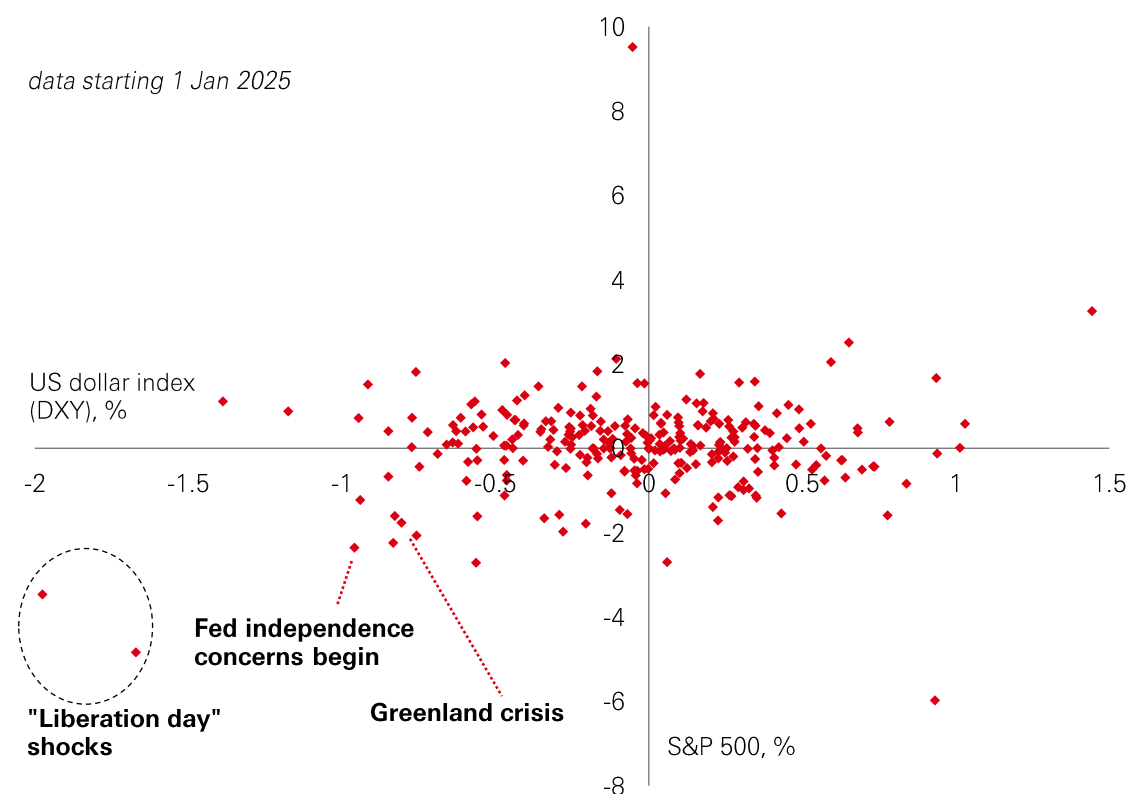
## Where are the safe havens?

Amid January's geopolitical turmoil, we saw echoes of last April's "Liberation Day" market action: US stocks declining in lockstep with US Treasuries and the US dollar. This is important. It provides further evidence that traditional portfolio diversifiers may struggle to perform as expected, particularly when US policy decisions – whether it be around trade, the Fed, and foreign relations – are driving investor caution.

For investors looking to hedge against further market turbulence in 2026 we think it makes sense to look elsewhere for protection. Gold and the Swiss franc, for example, performed very well in January. And with concerns about the health of US public finances overlaying the geopolitics, high-quality corporate bonds may be structurally less risky. Meanwhile, private markets continue to offer a route to dampen portfolio volatility and gain exposure to Fed cuts. And amid elevated dispersion and macroeconomic volatility, hedge funds are displaying uncorrelated returns.

However, recent sharp moves in gold serve as a reminder that no single safe haven is flawless. These fluctuations underscore the importance of "diversifying the diversifiers" – adopting an active, multi-asset approach that captures uncorrelated performance across a broader spectrum of assets.

### S&P 500 daily versus US dollar index (DXY) daily return



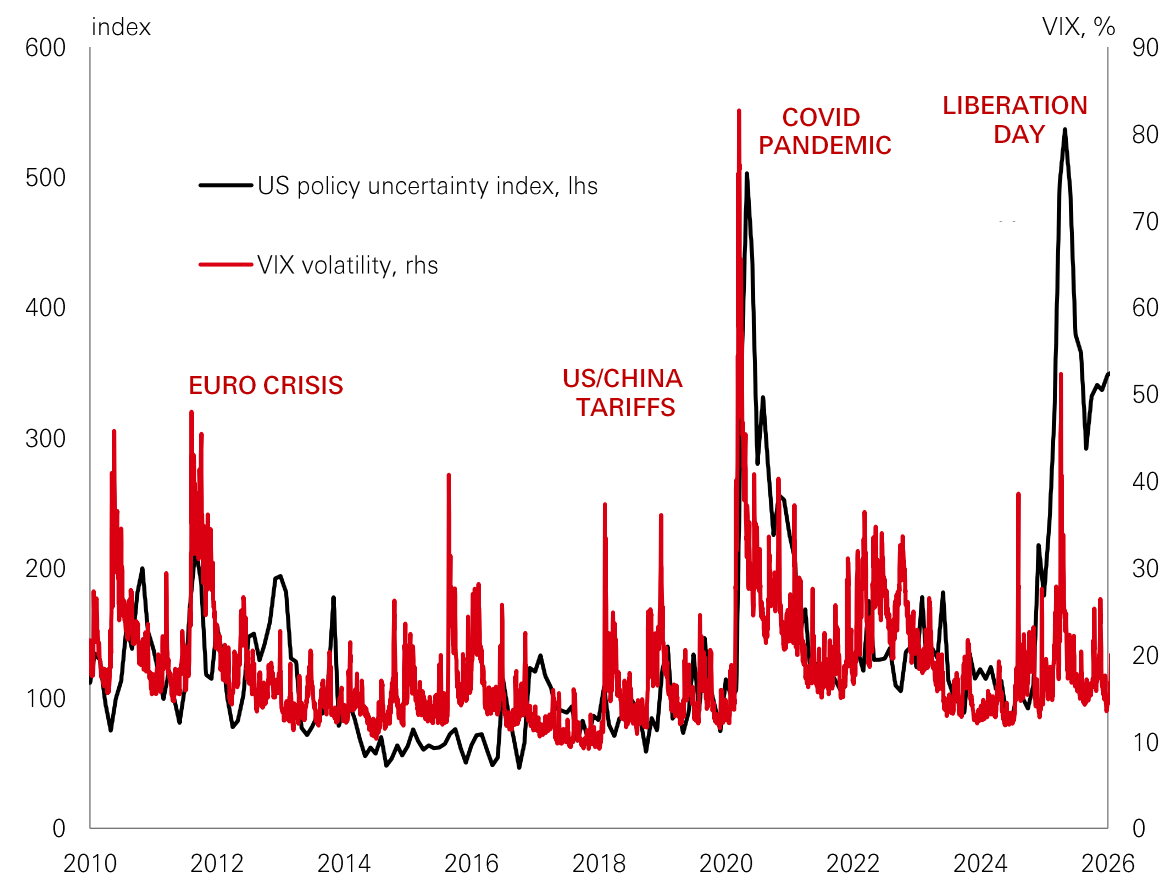
## What impact is geopolitics expected to play in markets this year?

Geopolitical events have been in focus in early 2026, with investors digesting news on Venezuela, Greenland, Iran, and Ukraine. But commodity and investment markets have remained mostly unperturbed. Oil prices – which tend to be a key channel for geopolitical events to shock the macro system – have been stable. And global stocks have enjoyed a solid start to the year, with Asian indices reaching record highs.

This contrast between elevated uncertainty and calm markets seems puzzling, but makes sense in the context of a good global growth outlook, and an expected “coming together” of global profits growth in 2026. But as in 2025, we think geopolitical events will be a key influence on markets this year. That’s important because despite the bullish mood, a continuation of last year’s “bull market in almost everything” depends on good fundamental news being delivered. With some asset classes arguably “priced for perfection”, any burst of adverse news could stoke volatility.

Currently, we remain moderately pro-risk but wary that episodic volatility is possible. A complex economic and geopolitical environment means a changed playbook for investors too. That means re-assessing the old stereotypes about emerging markets and using new diversifiers to secure portfolio resilience.

### Decomposing 2025 stock market returns



# Market Data





January 2026

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)	1,044	2.9	3.8	20.2	2.9	1,055	723	21.8
North America								
US Dow Jones Industrial Average	48,892	1.7	2.8	9.8	1.7	49,653	36,612	23.0
US S&P 500 Index	6,939	1.4	1.4	14.9	1.4	7,002	4,835	25.0
US NASDAQ Composite Index	23,462	0.9	-1.1	19.5	0.9	24,020	14,784	35.3
Canada S&P/TSX Composite Index	31,924	0.7	5.5	25.0	0.7	33,428	22,228	0.2
Europe								
MSCI AC Europe (USD)	731	4.6	10.0	29.4	4.6	744	516	17.4
Euro STOXX 50 Index	5,948	2.7	5.0	12.5	2.7	6,073	4,540	18.1
UK FTSE 100 Index	10,224	2.9	5.2	17.9	2.9	10,373	7,545	15.3
Germany DAX Index*	24,539	0.2	2.4	12.9	0.2	25,508	18,490	18.2
France CAC-40 Index	8,127	-0.3	0.1	2.2	-0.3	8,397	6,764	18.1
Spain IBEX 35 Index	17,881	3.3	11.5	44.6	3.3	18,271	11,583	15.5
Italy FTSE MIB	45,527	1.3	5.4	24.8	1.3	46,528	31,946	14.5
Asia Pacific								
MSCI AC Asia Pacific ex Japan (USD)	780	8.0	7.5	35.2	8.0	792	507	18.3
Japan Nikkei-225 Stock Average	53,323	5.9	1.7	34.7	5.9	54,783	30,793	22.1
Australian Stock Exchange 200	8,869	1.8	-0.1	3.9	1.8	9,115	7,169	20.4
Hong Kong Hang Seng Index	27,387	6.9	5.7	35.4	6.9	28,056	19,260	13.0
Shanghai Stock Exchange Composite Index	4,118	3.8	4.1	26.7	3.8	4,191	3,041	15.7
Hang Seng China Enterprises Index	9,317	4.5	1.6	26.2	4.5	9,770	7,101	11.6
Taiwan TAIEX Index	32,064	10.7	13.6	36.3	10.7	32,996	17,307	23.0
Korea KOSPI Index	5,224	24.0	27.2	107.5	24.0	5,377	2,285	19.1
India SENSEX 30 Index	82,270	-3.5	-2.0	6.2	-3.5	86,159	71,425	20.9
Indonesia Jakarta Stock Price Index	8,330	-3.7	2.0	17.2	-3.7	9,174	5,883	15.3
Malaysia Kuala Lumpur Composite Index	1,741	3.6	8.2	11.8	3.6	1,771	1,387	16.3
Philippines Stock Exchange PSE Index	6,329	4.6	6.7	8.0	4.6	6,592	5,584	10.4
Singapore FTSE Straits Times Index	4,905	5.6	10.8	27.2	5.6	4,966	3,372	16.4
Thailand SET Index	1,326	5.2	1.2	0.8	5.2	1,349	1,054	15.0
Latam								
Argentina Merval Index	3,199,554	4.8	6.6	24.8	4.8	3,296,502	1,635,451	19.3
Brazil Bovespa Index*	181,364	12.6	21.3	43.8	12.6	187,334	122,530	11.4
Chile IPSA Index	11,420	9.0	21.1	58.6	9.0	11,721	7,136	16.2
Colombia COLCAP Index	2,475	19.7	24.5	62.6	19.7	2,562	1,503	11.0
Mexico S&P/BMV IPC Index	67,599	5.1	7.7	32.0	5.1	70,483	49,799	15.2
EEMEA								
Saudi Arabia Tadawul All Share Index	11,382	8.5	-2.3	-8.3	8.5	12,482	10,281	17.7
South Africa JSE Index	120,046	3.6	9.9	39.7	3.6	126,937	77,165	14.5
Turkey index	12,992.7	22.9	26.1	38.3	22.9	13,926.6	8,872.8	6.5

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Sources: Bloomberg, HSBC Asset Management. Data as at close of business 31 January 2026. (\*) Indices expressed as total returns. All others are price returns.

# Market Data (continued)

## January 2026

EQUITY INDICES - TOTAL RETURN	3-month Change (%)	YTD Change (%)	1-year Change (%)	3-year Change (%)	5-year Change (%)	Dividend Yield (%)
Global equities	4.0	3.0	21.9	68.8	75.8	1.7
US equities	1.2	1.3	15.3	75.7	91.6	1.1
Europe equities	10.1	4.4	32.3	58.8	73.0	2.9
Asia Pacific ex Japan equities	7.8	8.0	38.0	52.3	28.1	2.2
Japan equities	6.4	6.6	30.8	62.9	48.2	1.9
Latam equities	23.6	15.3	63.0	58.8	87.2	5.0
Emerging Markets equities	9.4	8.9	42.8	59.1	29.7	2.2

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 2025
US Treasury yields (%)					
3-Month	3.65	3.63	3.80	4.28	3.63
2-Year	3.52	3.47	3.57	4.20	3.47
5-Year	3.79	3.73	3.69	4.33	3.73
10-Year	4.24	4.17	4.08	4.54	4.17
30-Year	4.87	4.84	4.65	4.79	4.84
Developed market 10-year bond yields (%)					
Japan	2.24	2.06	1.66	1.24	2.06
UK	4.52	4.48	4.41	4.54	4.48
Germany	2.84	2.85	2.63	2.46	2.85
France	3.43	3.56	3.42	3.20	3.56
Italy	3.46	3.55	3.38	3.55	3.55
Spain	3.21	3.29	3.14	3.07	3.29

BOND INDICES - TOTAL RETURN	Close	MTD Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)
BarCap GlobalAqq (Hedged in USD)	610	0.2	0.2	4.7	0.2
JPM EMBI Global	1024	0.6	1.4	12.7	0.6
BarCap US Corporate Index (USD)	3,552	0.2	0.6	7.4	0.2
BarCap Euro Corporate Index (Eur)	268	0.8	0.3	3.4	0.8
BarCap Global High Yield (USD)	695	0.8	2.0	9.4	0.8
BarCap US High Yield (USD)	2929	0.5	1.7	7.7	0.5
BarCap pan-European High Yield (USD)	648	0.9	1.7	7.5	0.9
BarCap EM Debt Hard Currency	499	0.7	1.5	11.8	0.7
Markit iBoxx Asia ex-Japan Bond Index (USD)	243	0.3	0.7	7.5	0.3
Markit iBoxx Asia ex-Japan High-Yield Bond Index (USD)	290	1.7	2.0	11.0	1.7

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Sources: Bloomberg, HSBC Asset Management. Data as at close of business 31 January 2026. Total return includes income from dividends and interest as well as appreciation or depreciation in the price of an asset over the given period.

Market Data (continued)

January 2026

CURRENCIES (VS USD)	Latest	End of last month	3-months Ago	1-year Ago	Year End 2025	52-week High	52-week Low
Developed markets							
DXY index	96.99	98.32	99.80	108.37	98.32	109.04	95.55
EUR/USD	1.19	1.17	1.15	1.04	1.17	1.21	1.03
GBP/USD	1.37	1.35	1.32	1.24	1.35	1.39	1.23
CHF/USD	1.29	1.26	1.24	1.10	1.26	1.32	1.09
CAD	1.36	1.37	1.40	1.45	1.37	1.45	1.35
JPY	154.8	156.7	154.0	155.2	156.7	159.5	139.9
AUD	1.44	1.50	1.53	1.61	1.50	1.69	1.41
NZD	1.66	1.74	1.75	1.78	1.74	1.82	1.63
Asia							
HKD	7.81	7.78	7.77	7.79	7.78	7.85	7.75
CNY	6.96	6.99	7.12	7.24	6.99	7.35	6.93
INR	91.99	89.88	88.77	86.62	89.88	92.00	83.76
MYR	3.95	4.06	4.19	4.46	4.06	4.51	3.91
KRW	1,445	1,445	1,430	1,454	1,445	1,487	1,347
TWD	31.47	31.42	30.74	32.68	31.42	33.28	28.79
Latam							
BRL	5.26	5.50	5.38	5.84	5.50	6.10	5.17
COP	3,697	3,775	3,856	4,209	3,775	4,477	3,598
MXN	17.46	18.01	18.55	20.68	18.01	21.08	17.11
ARS	1,446.67	1,451.62	1,445.23	1,050.75	1,451.62	1,491.87	1,051.60
EEMEA							
RUB	75.99	78.75	80.85	98.69	78.75	100.70	74.05
ZAR	16.15	16.56	17.33	18.67	16.56	19.93	15.64

COMMODITIES	Latest	MTD Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low
Gold	4,894	13.3	22.3	74.9	13.3	5,595	2,807
Brent Oil	70.7	16.2	8.6	-7.9	16.2	81	58
WTI Crude Oil	65.2	13.6	6.9	-10.1	13.6	78	55
R/J CRB Futures Index	320	7.1	5.8	5.0	7.1	324	280
LME Copper	13,158	5.9	20.8	45.4	5.9	14,528	8,105

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Sources: Bloomberg, HSBC Asset Management. Data as at close of business 31 January 2026.

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- ◆ Views are based on regional HSBC Asset Management Asset Allocation meetings held throughout **January 2026**, HSBC Asset Management's long-term expected return forecasts which were generated as at **31 December 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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- ◆ 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 January 2025**.

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