Investment Monthly

Diverging worlds

May 2026

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Marketing Communication.

HSBC Asset Management | Opening up a world of opportunity

Summary

Macro Outlook

- **Geopolitical uncertainty remains in focus** with the blockade of the Strait of Hormuz pushing oil back above USD 100/barrel. The futures curve is starting to price a more persistent supply problem, implying higher-for-longer inflation and a greater the likelihood of a negative growth shock
- **US growth is solid but uneven** – "K shaped" dynamics remain in play. AI investment is booming, but other forms of capex are soft, and consumers' real incomes are being squeezed. **European growth is weak**
- **In China**, macro policies, the tech cycle and industrial competitiveness are **supporting growth**. **Korea** is benefitting from the **AI boom,** but the high oil price is a headwind for some other EM Asia economies

Policy Outlook

- **Policy uncertainty remains high** amid ongoing geopolitical and trade tensions, high government debt levels in some major economies, and central banks caught between upside inflation and downside growth risks
- The **Fed** should have room to look through a near-term inflation bump and **cut modestly** from late 2026. But the **ECB** and **BoE** have signalled a **bias to hike** reflecting concerns over inflation expectations
- **China will continue to focus on fiscal policy** to boost domestic demand. Reforms are needed to enhance strategic objectives (technology innovation, self-reliance, and economic rebalancing). **EM Asia** economies are adopting varying policy approaches, reflecting relative exposure to AI and the oil shock

House View

- Markets and economists describe **diverging worlds**: with strong corporate profits and AI enthusiasm lifting markets, while the oil shock and elevated macro risks present significant economic headwinds. That means bursts of **episodic volatility** are expected to be a recurring theme
- **A broadening out of market returns across regions is still possible in 2026**. In particular, emerging and frontier market equities offer a potentially attractive blend of **value and profits growth**, with strong exposure to the AI and tech themes
- Investors should also "diversify the diversifiers" by tilting to alternatives like hedge funds and real assets

Scenarios

COME TOGETHER	End of US exceptionalism. Slower US growth. Further dollar weakness and Asia tech innovation boost EM returns
CRACKS WIDEN	Supply side shocks affect growth. 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 May 2026.

Exceptional profits growth is driving stock market performance, but economic headwinds from higher oil prices and sticky inflation may translate to episodic bursts of volatility. Emerging markets continue to impress, supported by an attractive combination of value and profits growth, and exposure to the AI/tech theme

- **Equities** – Higher energy prices have disrupted the past year's theme of "broadening out". But markets have rebounded from the Q1 sell-off, and could see a further broadening of profits and price performance beyond the US
- **Government bonds** – Yields remain elevated amid inflation concerns, geopolitical risks, and uncertainty over the path for policy rates. Ultimately, weaker growth could limit central bank tightening and push yields lower
- **Corporate bonds** – Investment grade credit spreads remain tight amid robust fundamentals. High yield credit faces pressure from uneven US growth and geopolitics. We maintain a preference for higher quality

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 (broad index)	▼
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
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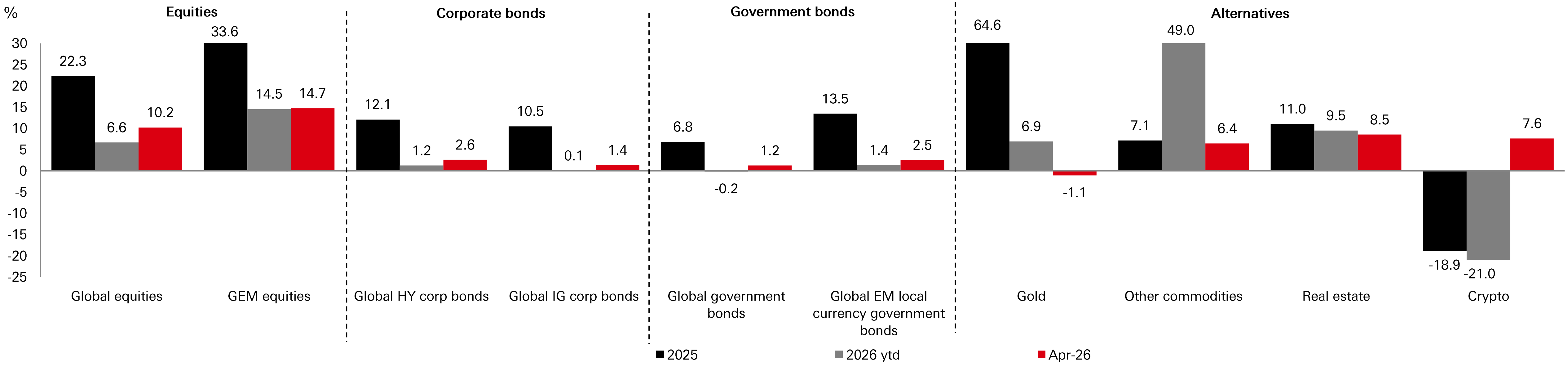
Asset class performance at a glance

Global stocks rallied in April, with markets in the US and parts of Asia reaching new highs, driven by strong profits growth. Sovereign bonds were steady as investors weighed the impact of geopolitical tensions, fiscal concerns, and potentially higher-for-longer rates. The US dollar ended the month lower, with gold also weaker

- **Government bonds** – US 10-year Treasury yields were largely range-bond but closed the month higher on the ongoing closure of the Strait of Hormuz and a more hawkish tone from the US Fed. Thirty-year UK Gilt yields rose steeply
- **Equities** – Global stock markets rallied on evidence of a strong Q1-26 earnings season. Tech and AI remain a key driver, particularly in the US and Asia. Hong Kong, UK, and Latam markets were the main laggards
- **Alternatives** – Industrial metals, led by copper, experienced a strong month, but precious metals came under pressure. Listed real estate and infrastructure both delivered a robust performance. Digital assets enjoyed a rebound



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Macro scenarios

	CRACKS WIDEN	COME TOGETHER	AI BOOM
Driving forces	**Supply side shocks collide with unbalanced growth**	**End of US exceptionalism** amid policy uncertainty and labour market slowdown	**Surging AI investment and wealth effects** create broader economic boom
Growth	**Sharp slowdown** as households retrench and profits disappoint	**US growth around 2.0-2.5%**, 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 core rate around 2.5%**. 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 (3.25-3.75%)**. 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, May 2026.

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**, but find support if Fed can cut and US yields fall	**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** can gain initially, but undermined by eventual Fed cuts	**Gradual USD depreciation** amid Fed cuts and fading US exceptionalism	**USD supported** by stronger US growth and limited rate cuts
Top bets	*High inflation*: USD, gold, hedge funds *Lower inflation*: USTs, CHF, JPY, quality IG, defensives, quality, momentum	Value, non-US tech, small-caps. EM/Japan > US. IG > HY	US > Europe/China. HY credits. Industrial metals. Crypto>gold

Source: HSBC Asset Management, May 2026.

Economic outlook

Fed in wait-and-see mode, ECB and BoE bias to hike

		Consensus: Growth (%) 2026	Consensus: Growth (%) 2027	Consensus: Inflation (%) 2026	Consensus: Inflation (%) 2027	Policy: 12m ahead policy rate (HSBC AM)	Policy: 2026 Fiscal impulse
US	Fed officials have adopted a cautious stance. Fed Governor Waller warned about the potential inflationary impact of a sequence of transitory shocks, but growth remains "K shaped" with weak non-AI investment and soft consumer spending growth in early 2026. Higher gasoline prices will further squeeze real incomes	2.2	2.0	3.0	2.2	**3.25-3.75%**	**Neutral**
Eurozone	ECB President Lagarde stressed that further data is needed before deciding on the trajectory of interest rates. Headline inflation is likely to exceed 2% in 2026 while lower wage growth should keep core inflation stable. Fiscal expansion should support German growth	0.9	1.3	2.7	2.0	**2.00-2.50%**	**Neutral**
UK	BoE Governor Bailey stated there is "no rush" to raise rates due to uncertainty over the impact of the oil price shock. Bank officials estimate higher energy prices keeping inflation above 3% for most of 2026. Household long-term inflation expectations rose but employment intentions remain weak	0.8	1.2	3.0	2.3	**3.75-4.25%**	**Drag**
Japan	BoJ Governor Ueda's latest speech was balanced, suggesting an early rate hike is unlikely. The BoJ is "closely watching" the impact of higher energy prices on underlying inflation. Early signs suggest the FY26 shunto pay round exceeded 5% for third year but consumer spending remains sluggish	0.7	0.9	2.0	2.0	**1.00-1.50%**	**Moderate boost**
China	China's economy had a solid, albeit uneven, start to 2026. Energy security push, incl. diversified supply, domestic production and renewables growth, enhances its resistance to energy shocks. PPI reflation aids nominal GDP and profit growth. PBoC vows better fiscal-financial policy coordination to promote stability	4.6	4.4	1.0	1.0	**1.20-1.40%**	**Moderate boost**
India	India faces a global energy-led terms of trade shock, stagflation risks, and a policy dilemma. Policymakers have taken a multi-pronged approach to limit and delay the impact on the domestic economy. The RBI will likely take a cautious stance, weighing fiscal offsets and prioritising stability in FX and rates markets	6.7	6.9	4.5	4.3	**5.00-5.50%**	**Neutral**

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

Events calendar 2026 - 6-month forward looking

New Fed Chair
US
11 May

The US President has nominated Kevin Warsh to be the next Federal Reserve Chairperson. Provided approval from the Senate, the new Chair will assume their position in May

US visit to China
US and China
14-15 May

Any high-level diplomatic engagement could shift expectations around trade, tech restrictions and tariffs, with implications for risk appetite and global supply chains

OPEC+ 41st Full Ministerial Meeting
Various
7 Jun

The first full ministerial gathering of 2026 excluding the UAE will set the tone for H2 supply policy. Markets will watch closely for signals on whether the alliance proceeds with planned output increases or extends its production pause amid demand uncertainty

G7 Summit
France
14-16 Jun

This summit will centre around key discussions on the Middle East conflict, economic stability, technological regulation, climate action and international security

NATO Summit
Türkiye
7-8 Jul

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

G20 Finance Meeting
US
Early Aug

The meeting brings together the world's largest economies to coordinate on fiscal stability, debt vulnerabilities and global growth risks. Markets will watch signals on policy coordination, trade tensions or currency alignment

Jackson Hole Economic Policy Symposium
US
Late Aug

High-profile forum where central bankers will debate structural shifts in monetary policy and inflation dynamics. Any shift in tone from major governors can reprice interest rate expectations and drive volatility

UN General Assembly
US
8-22 Sep

World leaders convene in New York for the annual high-level debate, providing a key forum for diplomatic signalling on conflicts, sanctions regimes, and multilateral cooperations at a moment of elevated geopolitical fragmentation

Central Bank Meetings
US, Eurozone, Japan, UK
Various

The Fed may deliver modest cuts in H2 2026/early 2027, while the ECB sounds more hawkish. The BoE faces pressure to hike, but weak growth keeps the bar high. The BoJ is expected to normalise policy gradually

Source: HSBC Asset Management, May 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**	↔/▲	Surging energy prices have stalled the past year's defining market theme: the "broadening out" that delivered strong performance across Europe and emerging markets. While energy disruptions could mean that US stocks perform relatively well, a retreat in oil prices below the USD100 mark could quickly revive the broadening out trade
	US	↔	Technology and AI-related sectors continue to be the main driver of US profits. The overall market has de-rated recently, which has eased previously high valuations, but the price-earnings valuation gap between US and non-US markets still remains wider than average. Pressure on consumers from high energy prices and sticky inflation could be a headwind
	UK	↔	UK stocks have performed well recently but geopolitical tensions and rising energy prices have resurrected fears over rising inflation. The UK's sector mix offers more visibility in an energy shock given the index's tilt towards commodities and defensive sectors. The valuation discount to other regions, plus a strong dividend and buy-back yield, are attractions
	Eurozone	↔	After a strong start to 2026, markets face uncertainty over the impact of geopolitical tensions and the inflationary impact of the energy price shock. We expect to see modest profits growth this year, with the region's broad sector exposure (relative to the US) offering potential resilience. Geopolitical and trade uncertainties remain downside risks
	Japan	↔/▲	Japanese equities compare favorably in the developed market universe due to their re-rating potential and high single-figure profits growth outlook. Recent changes to the political backdrop appear to have boosted market sentiment, while ongoing market reforms have improved medium term profitability and shareholder returns
	Emerging Markets (EM)	▲	After a strong start to the year, geopolitical tensions have been a headwind to emerging market stocks. But while global shocks have been significantly disruptive in the past, EM's are now much more structurally resilient. While volatility is expected to persist, a backdrop of favorable relative valuations and improving profits growth should support performance
	CEE & Latam	↔/▲	Latam stocks are well-positioned in the current environment given their relatively high exposure to energy and mining sectors and undemanding valuations. Politics and trade remain key medium-term downside risks. Central and Eastern European economies face mixed challenges complicated by global trade tensions and geopolitical developments
	Frontier Markets	▲	Frontier markets offer 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 geopolitical tensions, policy uncertainty, global growth concerns, and rising fiscal and inflation risks has resulted in government bond yields remaining elevated and yield curves steepening. Rising inflation pressures would be expected to lift longer-dated bond yields, although weaker growth could keep upward pressure on yields in check
	US 10-year	↔	Yields are expected to rise modestly near-term, but remain within the 4.00-4.40% range. Persistent inflation and fiscal sustainability concerns could put upward pressure on yields. Conversely, a real income squeeze could undermine consumer spending, profits, and confidence prompting renewed labour market concern, and put downward pressure on yields
	UK 10-year	▲	Recent underperformance of Gilts versus USTs and Bunds reflects relatively low levels of central bank inflation credibility and greater fiscal concerns. In the coming months, rising UK growth concerns and risk-off sentiment could potentially boost Gilts, but higher inflation, fiscal, and political risks could have a potentially negative impact
	German 10-year	↔	A combination of rising oil prices, increased issuance, and higher 10-year US Treasury yields have put upward pressure on Bund yields. However, we expect 10-year yields to range-trade this year as the market balances rising growth worries against increased inflation jitters. A pick-up in activity related to German fiscal spending could drive yields higher
	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	↔/▲	Geopolitics is the key near-term driver: an oil supply shock typically lifts breakevens (the difference between nominal yields and real yields), while real yields may fall if the shock is growth-negative. While short-term inflation expectations are diverging across developed markets, we expect the broader disinflation trend to resume gradually
	EM local currency	▲	Local rates are likely to remain differentiated as the Middle East conflict feeds through unevenly to inflation and policy expectations. Latam and parts of Africa are potentially better-placed to continue easing, while supply disruptions and higher energy-driven inflation are potentially more of a near-term issue for the rates path in EM Europe and Asia

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↔	Neutral		

	Asset class	House view	Comments
Corporate bonds	**Global investment grade (IG)**	↔/▲	Investment grade credit spreads remain tight, despite geopolitical headwinds. Fundamentals remain supportive, with the balance sheets of investment grade issuers remaining healthy. We maintain a defensive stance with a preference for higher quality credits
Corporate bonds	USD IG	↔/▲	Issuance is expected to reach record levels in response to AI-related financing demand, and this has caused valuations to soften from previous multi-decade tights. As a result, we are positive on adding to overall credit risk/spread duration with a bias towards quality. Fundamental IG credit metrics are solid as balance sheets for USD issuers remain healthy
Corporate bonds	EUR and GBP IG	↔/▲	Against a backdrop of elevated geopolitical uncertainty, we have a low conviction view. Fundamentals remain strong, but valuations are unattractive with spreads historically low. Technicals are still supportive, with strong "yield-buyer" demand persisting even at tight spreads. But an escalation of geopolitical tensions could cause spreads to widen sharply
Corporate bonds	Asia IG	↔/▲	Asian IG in on a solid footing, supported by improving fundamentals, modest net issuance, and sustained domestic demand – driven by pension demand, rotation out of equities/ money markets, China stimulus, and still-attractive all-in yields. Given tight valuations, returns should be mainly carry-driven, with alpha from relative value and security selection
Corporate bonds	**Global high-yield (HY)**	▼	Global high yield spreads remain at relatively tight levels, although spreads have widened recently. Growth and inflation risks linked to geopolitical tensions and policy uncertainty present potential headwinds, but robust corporate earnings could offset this. We prefer a defensive stance with a focus on quality credits
Corporate bonds	US HY	▼	Outside narratives continue to drive US HY sentiment. Spreads have widened recently and could move wider if uncertainties surrounding geopolitics, oil supply, macro weakness, and uncertainties in specific sectors like software, persist. A US recession, which would lead to job cuts and a weaker profits picture, remains the main downside risk
Corporate bonds	Europe HY	▼	Current valuations are not compelling, with spreads still tight at a time when macro and monetary conditions are not especially supportive. Single-B looks expensive and remains most sensitive to growth downgrades and refinancing costs. We like banks and insurers where credit fundamentals are strong, but we are underweight cyclicals given the macro risk
Corporate bonds	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
Corporate bonds	**Securitised credit**	▲	Spreads remain wider than the tights of the range since 2009, so there is value in securitised credit compared to other credit markets. Elevated rates mean floating securitised credit will generate high income because base rates feed directly into the income paid. Credit enhancement in senior tranches means those securities can withstand stress from a recession
Corporate bonds	**EM hard currency (USD)**	▲	In EM sovereigns and corporates, spreads could trend wider as markets mean revert amid slower growth and persistent geopolitical uncertainties. The broad EM opportunity set enables selective positioning away from concentrated geopolitical hotspots, while staying ready to add risk where valuations compensate
FX & Alternatives	**Gold**	▲	Gold has seen strong gains, with central banks continuing to be major buyers. But rising retail participation has driven higher volatility. The long-term outlook is supportive: with gold retaining its appeal as a haven, a portfolio diversifier, and a store of value amid geopolitical turmoil and growing fiscal concerns
FX & Alternatives	**Other commodities**	↔	Geopolitical tensions have emerged as a heightened risk factor. The recent spike in oil prices has been driven by global supply fears, and is a key macro variable to watch. Investors will need to monitor the size, speed and persistence of the oil shock to gauge its impact on the growth/inflation mix, corporate profits, and market sentiment
FX & Alternatives	**Real assets**	▲▲	In Real Estate, investment volumes have increased recently. Total returns are expected to be driven by income, rather than yield compression as high-quality office and retail sectors are expected to perform particularly well. Infrastructure investment trends point to increasing interest in Europe and Asia due to stable environments and diversification benefits
FX & Alternatives	**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
FX & Alternatives	**Private credit (D/lending)**	▲	Private Credit fundamentals remain intact, and yields remain attractive, but ongoing geopolitical headwinds and evolving market sentiment regarding liquidity alignment and redemptions in parts of the market could result in spill-over effects across the broader Private Credit universe.
FX & Alternatives	**Private equity (Buy out)**	▲	The outlook is cautiously optimistic with exit (asset sale) markets having recovered from previous challenges, supported by rate cuts, strong corporate earnings, resurging mergers and acquisitions, and increasing activity in the market for new company listings (IPOs). However, elevated geopolitical risks and ongoing tariff uncertainties remain key concerns
FX & Alternatives	**US dollar (broad index)**	▼	Near term, geopolitical risk could keep the dollar supported, with macro fundamentals taking a back seat, and the recent pricing out of rate cuts also positive for the currency. Longer term, the dollar is expected to see persistent weakness driven by rising US deficits, Federal Reserve policy easing, and global investors diversifying away from US assets
FX & Alternatives	**Crypto**	▼▼	Crypto prices continue to be highly volatile, supporting the view that the asset class's high sensitivity to prevailing risk sentiment is a challenge to its potential role as a credible portfolio diversifier. While regulatory clarity and better tokenization are positives, volatility and thin liquidity could deter institutional investors

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	Asset class	House view	Comments
Asian assets	**Asia local bonds**	↔/▲	Concerns over inflation, FX volatility, and fiscal strains have driven Asia rate repricing (excessive in some) despite solid macro fundamentals. Central banks are balancing the need to support economic growth and market stability (incl. liquidity support and bond purchases) against inflation/financial stability risks. Fiscal responses help ease/delay inflation impacts
	RMB bonds	↔	The Chinese economy looks better prepared amid the global energy supply shock than many Asian peers. Higher energy prices drive PPI reflation but administrative measures to limit the pass-through help cushion broader inflation concerns. Further hawkish PBoC repricing is likely to be limited absent a major rebound in domestic demand or large fiscal stimulus
	Asia ex-Japan equities	▲	Asian markets offer broad sector diversification and high-quality growth opportunities, despite external uncertainties, including the potential impact from energy supply disruptions. 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
	China equities	▲	China's low oil intensity and the indices' limited overseas revenue exposure should cushion external uncertainties. A steady stream of policy effort should support liquidity and fund flows, with investors monitoring earnings momentum across sectors, monetisation of AI/cloud investments, supply chain localisation progress and the local macro backdrop
	India equities	▲	The earnings outlook continues to improve, aided by supportive policies and deregulatory reforms, despite clear sectoral divergence and a threat from higher energy costs. India's strong structural growth drivers, ongoing reform initiatives and better external trade prospects serve as positive medium-term catalysts. Valuations are now more reasonable
	ASEAN equities	↔/▲	While structural growth drivers are supported by additional policy/reform efforts, domestic idiosyncratic factors are expected to drive a divergence in the earnings outlook and fund flows across markets. Although external uncertainties could amplify volatility, ASEAN equities' overall valuations are fair and offer alternative sectoral themes versus regional peers
	Hong Kong equities	▲	A continued recovery in the residential property market and local macro backdrop support earnings, alongside dynamic capital market activities and potential spillovers from Chinese policies, despite persistent structural challenges and rising uncertainty around the US rate outlook. Relatively low price-to-book ratios and decent dividend yields are supportive
	Asia FX (ADXY)	▲	A volatile global backdrop tests EM Asia resilience, though the region's benign starting macro conditions provide some cushion. Asia FX may be driven by oil/commodity prices and risk sentiment in the near term, as local idiosyncrasies e.g. the growth-inflation policy trade-off, fiscal risks, FX intervention, and local investor support affect the relative performance

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On Top of Investors’ Minds

Markets rallied in April. What should investors be watching now?

April's rally after the US/Iran ceasefire has left markets and economists describing two completely different worlds: strong corporate profits are lifting markets, while the oil shock and unresolved Hormuz disruption keep recession-style macro risks in play. There are three factors to pay attention to:

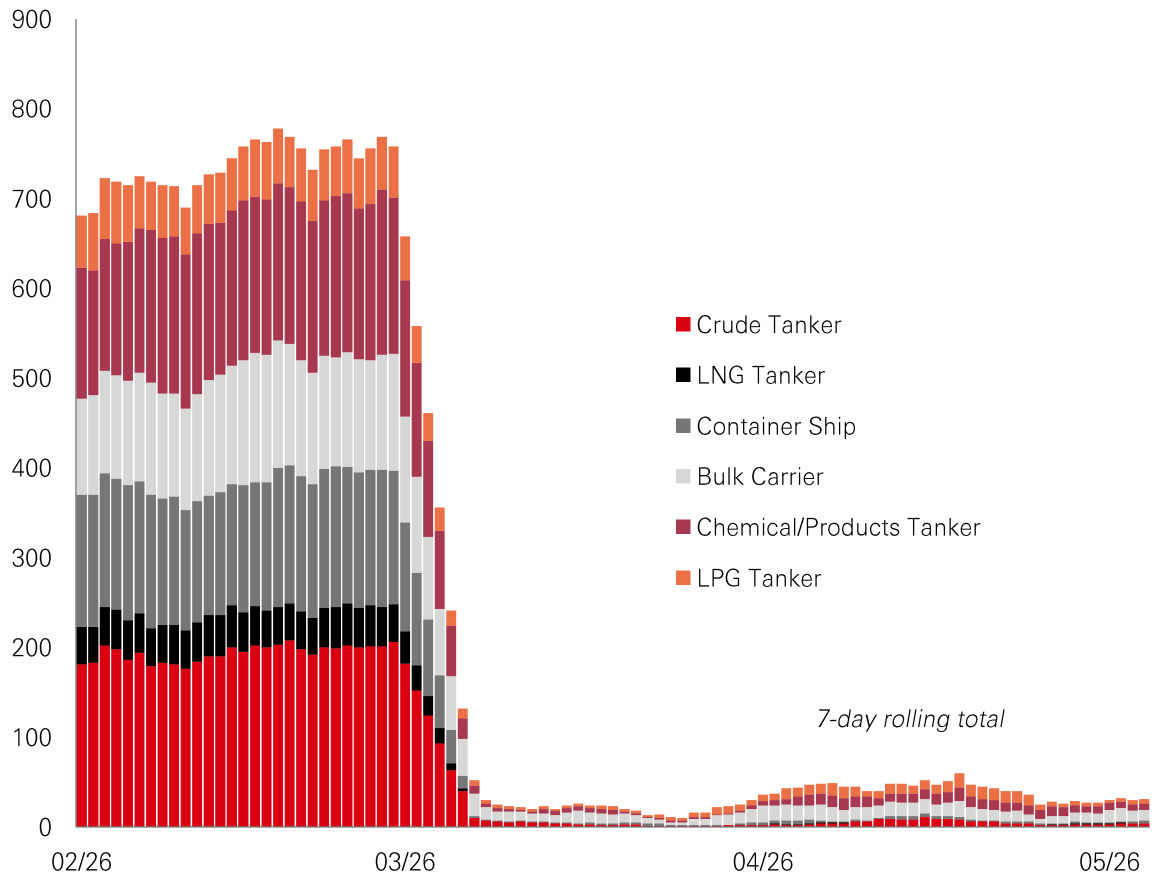
Profits vs rates. Earnings – especially in US tech and energy – are doing the heavy lifting in driving market performance. The main threat is higher policy rates. If they keep moving higher, it will put pressure on valuations – and that's when the balance breaks.

The Strait of Hormuz is the key macro tell. Investors should track vessel crossings through the strait. A clear, sustained rise would support risk assets even if broader geopolitical issues linger.

Oil and central banks. Spot oil has eased, but an elevated spot–futures spread signals ongoing supply stress. If disruptions fade, the futures curve should flatten, giving the Fed/BoE/ECB more room to "look through" the shock rather than hike.

In 2026, profits are the engine and rates are the constraint; macro risk matters most when it threatens either. Meanwhile, episodic bursts of volatility are likely to be a recurring feature in markets. Investors should stay diversified, disciplined, and data-led.

Number of vessels crossing the Strait of Hormuz



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Source: HSBC Asset Management as at May 2026.

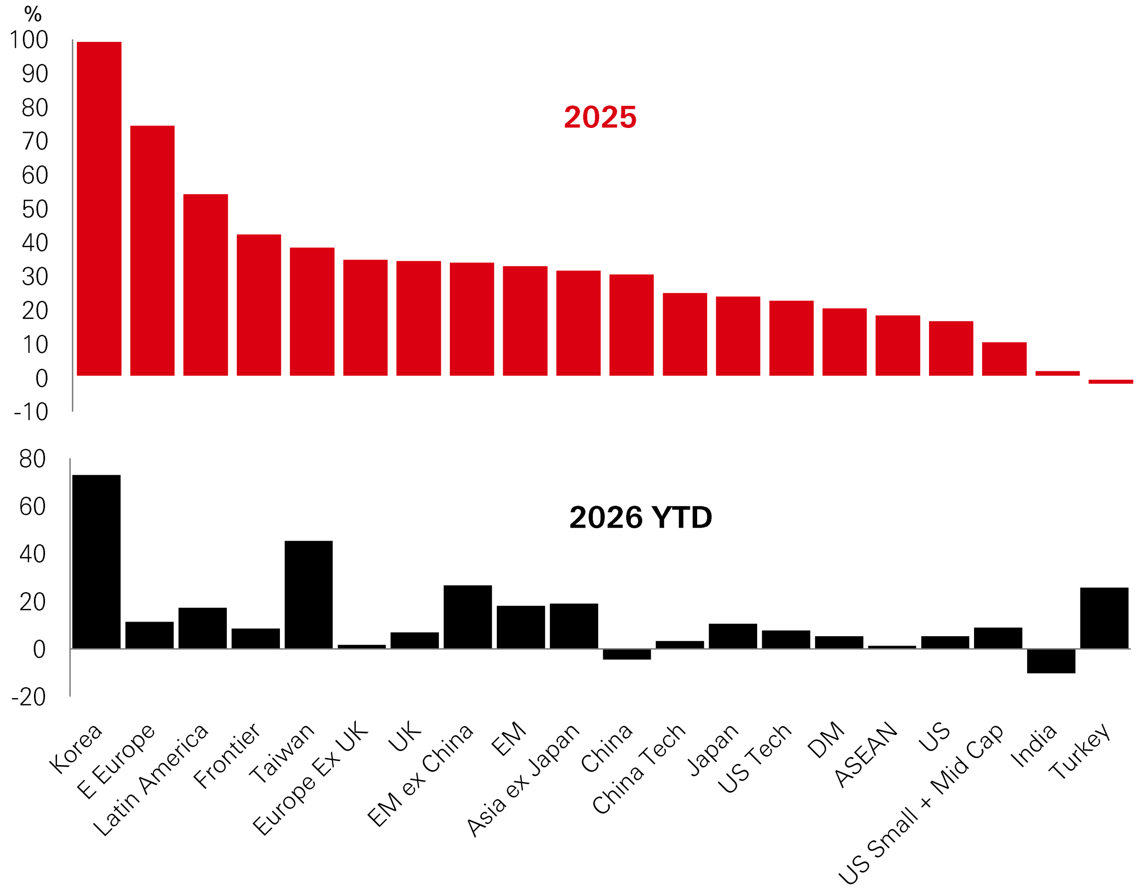
What now for broadening out?

A broadening out of returns was a key market development in 2025. This was achieved via a combination of a weaker dollar, global central bank policy easing, steady GDP growth across economies and stronger profits growth outside of US mega-cap tech. The Hormuz crisis is a challenge to this theme in 2026. With US energy independence and the AI boom helping keep US growth supported, other regions may face more significant GDP and profits downgrades. Recent US tech earnings have been very solid. And the bar to further central bank rate cuts looks high.

But there are **plenty of factors that can keep the broadening out trade alive in 2026**. Central banks outside of the US may end up being more hawkish, keeping the **dollar-down trend intact**. **EM is also a well-recognised play on the tech and AI theme**, given the big exposure to Korea and Taiwan. This is reflected in year-to-date performance. Meanwhile, the recent surge in commodity prices not only benefits many EMs (mainly LatAM) and Frontiers, but also energy and materials names.

And although the AI boom continues to benefit mega-cap tech, the broader **infrastructure build-out** remains a major boost to industrials, utilities, and materials, while the AI adoption and productivity story is a positive for sectors outside of core tech.

MSCI performance by region



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Source: HSBC Asset Management as at May 2026.

Gilt yields have risen sharply. Should investors fear bond vigilantes, or welcome the income opportunity?

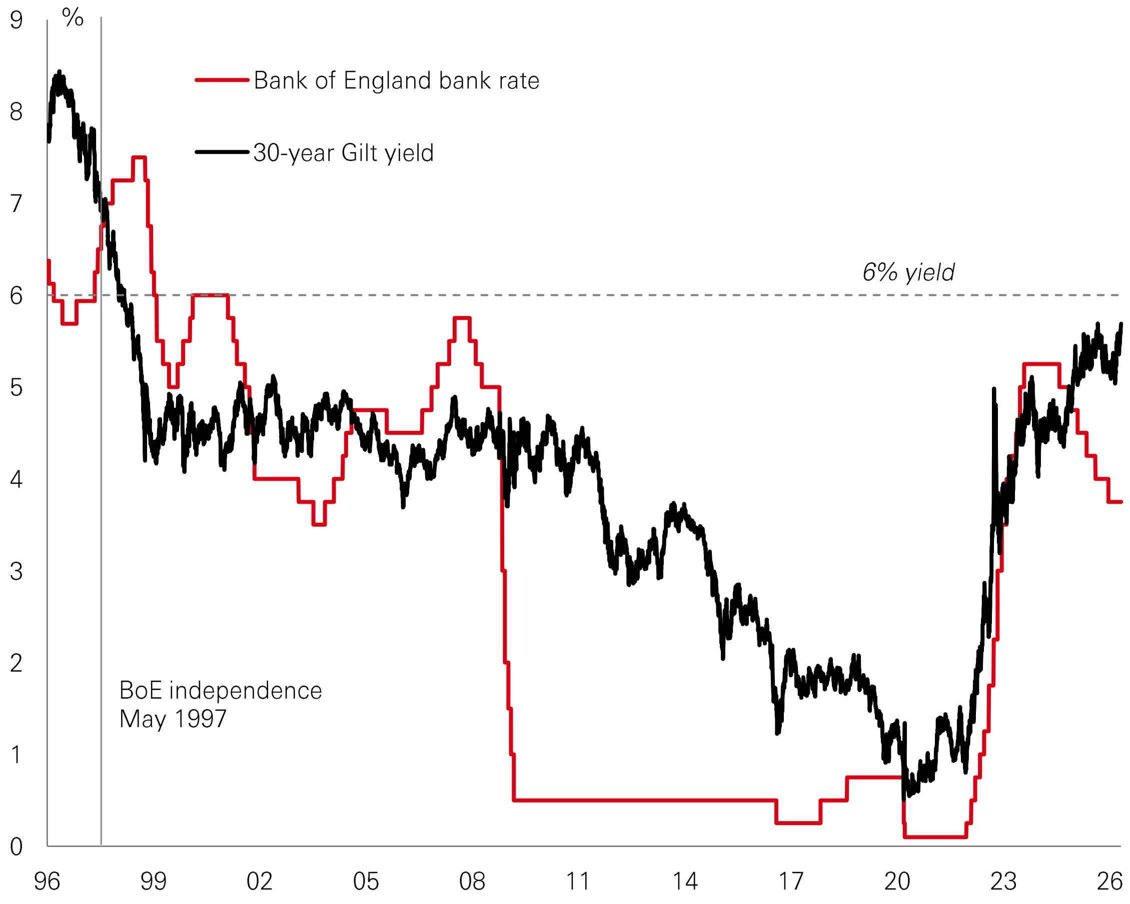
While 30-year Gilt yields are back at levels last seen in the late 1990s, most of the recent action in Gilts has been at the short end. In March, rate expectations surged, forecasting three hikes from the Bank of England in 2026. In April, that's dropped back to just over two hikes. So, **what happens to long term Gilts if those rate hikes are delivered?**

One possibility is that long-term bonds would sell off even more. After all, investors are worrying about high UK debt, the inflation-prone economy, and less policy co-ordination than in Europe. But there is also a lot of bad news already baked in. And that means that yields themselves can shape the short term.

The long end can rally, even if the BoE is hiking. That can happen if growth concerns begin to dominate, if inflation credibility is restored, or if investors are attracted by the income opportunity. And finance theory tells us that high starting yields and upward sloping curves are the two best predictors of high future bond returns. The quantitative signals are starting to look good for Gilts.

So, while the yield curve can steepen further, **the carry in Gilts is hard for investors to ignore**.

Bank of England bank rate and 30-year Gilt yields



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Source: HSBC Asset Management as at May 2026.

With Q1 2026 earnings season under way, what's the outlook for corporate profits?

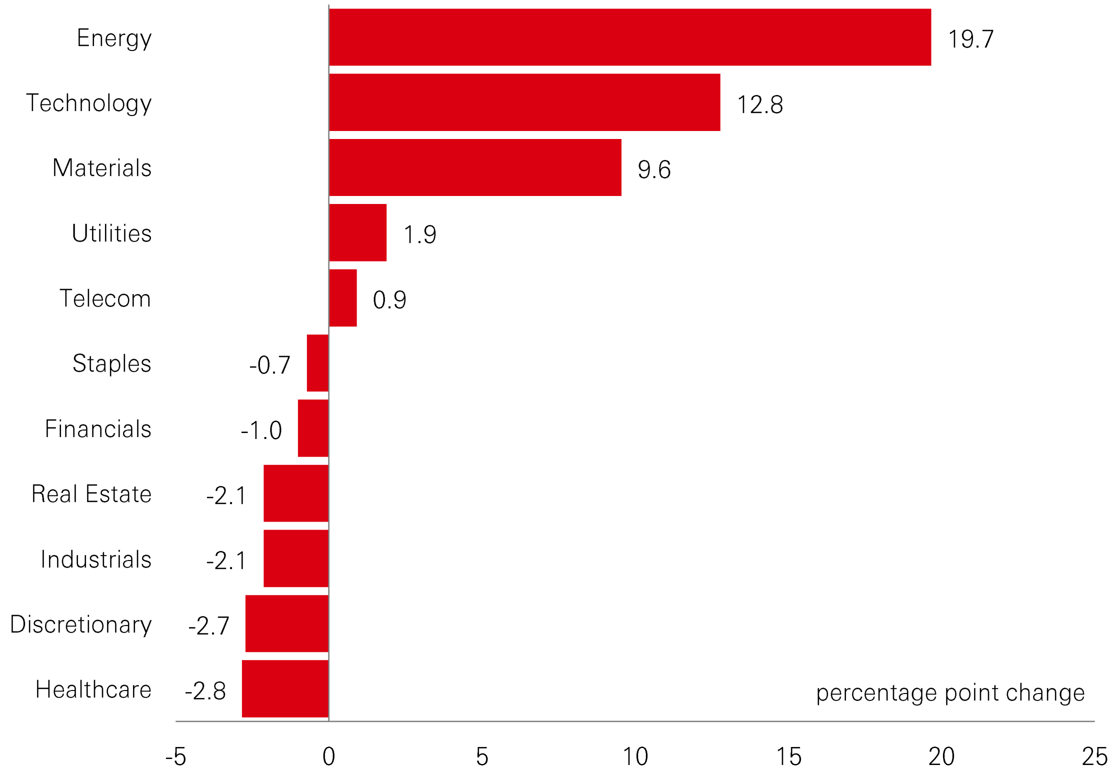
With the Middle East conflict unresolved, but the S&P 500 rallying hard, Q1 earnings season comes at a pivotal time. The early signs are positive – but **there are reasons for caution**.

There have been some powerful profits upgrades in the S&P since the start of 2026. **Consensus year-on-year estimates stand at 13% for Q1, and high double-digits for the full year**. Energy leads the way in the upgrades race this quarter, with profits set to rise sharply. Technology and Communications have also seen strong upgrades on AI enthusiasm. They are jointly set to contribute 64% of total index profits this year.

But there are catches. One is that concentration in profits in Tech and Comms could be an increasing risk if questions persist over capex spending and eventual AI productivity gains. A second is that recent data implies consumer spending could be close to flat for Q1, not helped by a soft labour market. Add to that higher oil prices and higher-for-longer rates on inflation fears, and it could hurt profits in cyclical and consumer-facing sectors.

Overall, Q1 profits should be good, but **uncertainties around tech and AI, geopolitics, and the consumer**, mean it's worth being wary.

Three-month change in IBES 2026 earnings estimates (end-March 2026)



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Source: HSBC Asset Management as at May 2026.

Market Data

Market Data

April 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)	1,077	10.0	3.1	29.2	6.2	1,079	832	18.4
North America								
US Dow Jones Industrial Average	49,652	7.1	1.6	22.1	3.3	50,513	40,706	21.6
US S&P 500 Index	7,209	10.4	3.9	29.4	5.3	7,220	5,579	21.7
US NASDAQ Composite Index	24,892	15.3	6.1	42.7	7.1	24,936	17,503	27.7
Canada S&P/TSX Composite Index	33,964	3.7	6.4	36.7	7.1	34,544	24,750	16.4
Europe								
MSCI AC Europe (USD)	721	6.6	-1.4	19.5	3.1	756	598	15.0
Euro STOXX 50 Index	5,882	5.6	-1.1	14.0	1.6	6,200	5,155	15.6
UK FTSE 100 Index	10,379	2.0	1.5	22.2	4.5	10,935	8,468	13.1
Germany DAX Index*	24,292	7.1	-1.0	8.0	-0.8	25,508	21,864	15.8
France CAC-40 Index	8,115	3.8	-0.1	6.9	-0.4	8,642	7,505	15.1
Spain IBEX 35 Index	17,781	4.3	-0.6	33.8	2.7	18,574	13,316	13.8
Italy FTSE MIB	48,246	8.9	6.0	28.3	7.3	48,958	37,902	13.1
Asia Pacific								
MSCI AC Asia Pacific ex Japan (USD)	822	15.0	5.4	41.5	13.8	840	579	13.4
Japan Nikkei-225 Stock Average	59,285	16.1	11.2	64.5	17.8	60,904	36,040	23.7
Australian Stock Exchange 200	8,666	2.2	-2.3	6.6	-0.6	9,201	8,110	17.3
Hong Kong Hang Seng Index	25,777	4.0	-5.9	16.5	0.6	28,056	22,058	11.5
Shanghai Stock Exchange Composite Index	4,112	5.7	-0.1	25.4	3.6	4,197	3,287	14.4
Hang Seng China Enterprises Index	8,682	3.7	-6.8	7.5	-2.6	9,770	8,059	10.5
Taiwan TAIEX Index	38,927	22.7	21.4	92.4	34.4	40,195	20,321	19.7
Korea KOSPI Index	6,599	30.6	26.3	158.1	56.6	6,750	2,541	8.3
India SENSEX 30 Index	76,914	6.9	-6.5	-4.1	-9.7	86,159	71,546	19.2
Indonesia Jakarta Stock Price Index	6,957	-1.3	-16.5	2.8	-19.5	9,174	6,745	11.0
Malaysia Kuala Lumpur Composite Index	1,722	1.9	-1.1	11.8	2.5	1,771	1,489	15.0
Philippines Stock Exchange PSE Index	5,834	-1.9	-7.8	-8.2	-3.6	6,674	5,584	8.8
Singapore FTSE Straits Times Index	4,913	0.6	0.2	28.2	5.7	5,041	3,831	15.1
Thailand SET Index	1,494	3.1	12.7	24.8	18.6	1,545	1,054	15.4
Latam								
Argentina Merval Index	2,832,851	-5.5	-11.5	34.8	-7.2	3,296,502	1,635,451	9.6
Brazil Bovespa Index*	187,318	-0.1	3.3	38.7	16.3	199,355	131,550	9.2
Chile IPSA Index	10,908	2.5	-4.5	35.7	4.1	11,721	7,944	13.6
Colombia COLCAP Index	2,178	-4.7	-12.0	33.1	5.3	2,562	1,609	9.1
Mexico S&P/BMV IPC Index	67,858	-1.1	0.4	20.6	5.5	72,111	55,288	13.2
EEMEA								
Saudi Arabia Tadawul All Share Index	11,188	-0.6	-1.7	-4.1	6.6	11,782	10,194	15.0
South Africa JSE Index	115,181	1.0	-4.1	25.8	-0.6	129,339	90,890	9.6
Turkey index	14,335.5	12.9	4.4	59.1	28.2	14,622.0	8,965.0	4.7

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Sources: Bloomberg, HSBC Asset Management. Data as at close of business 30 April 2026. (*) Indices expressed as total returns. All others are price returns.

Market Data (continued)

April 2026

EQUITY INDICES - TOTAL RETURN	3-month Change (%)	YTD Change (%)	1-year Change (%)	3-year Change (%)	5-year Change (%)	Dividend Yield (%)
Global equities	3.6	6.6	31.0	72.1	66.1	1.6
US equities	4.1	5.4	30.3	78.9	77.8	1.1
Europe equities	-0.4	4.1	22.2	49.4	56.1	3.0
Asia Pacific ex Japan equities	5.9	14.3	44.2	71.2	32.9	2.1
Japan equities	3.8	10.6	30.6	68.6	52.3	1.9
Latam equities	2.5	18.2	51.8	67.5	82.2	4.9
Emerging Markets equities	5.2	14.5	46.7	75.7	34.2	2.1

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	3.66	3.67	3.65	4.29	3.63
2-Year	3.87	3.79	3.52	3.60	3.47
5-Year	4.01	3.94	3.79	3.73	3.73
10-Year	4.37	4.32	4.24	4.16	4.17
30-Year	4.97	4.91	4.87	4.68	4.84
Developed market 10-year bond yields (%)					
Japan	2.52	2.35	2.24	1.31	2.06
UK	5.01	4.91	4.52	4.44	4.48
Germany	3.04	3.00	2.84	2.44	2.85
France	3.69	3.72	3.43	3.17	3.56
Italy	3.86	3.91	3.46	3.56	3.55
Spain	3.50	3.50	3.21	3.11	3.29

BOND INDICES - TOTAL RETURN	Close	MTD Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)
BarCap GlobalAgg (Hedged in USD)	609	0.3	-0.1	2.8	0.1
JPM EMBI Global	1032	2.5	0.8	12.5	1.4
BarCap US Corporate Index (USD)	3,542	0.5	-0.3	5.3	-0.1
BarCap Euro Corporate Index (Eur)	266	0.9	-0.8	2.0	-0.1
BarCap Global High Yield (USD)	699	2.2	0.6	10.2	1.4
BarCap US High Yield (USD)	2949	1.7	0.7	8.8	1.2
BarCap pan-European High Yield (USD)	648	2.0	0.0	6.9	0.9
BarCap EM Debt Hard Currency	498	2.3	0.0	9.2	0.6
Markit iBoxx Asia ex-Japan Bond Index (USD)	244	0.7	0.2	5.8	0.6
Markit iBoxx Asia ex-Japan High-Yield Bond Index (USD)	289	2.0	-0.3	8.9	1.5

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. Index returns assume reinvestment of all distributions and do not reflect fees or expenses. You cannot invest directly in an index.

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Market Data (continued)

April 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	98.06	99.96	96.99	99.47	98.32	101.98	95.55
EUR/USD	1.17	1.16	1.19	1.13	1.17	1.21	1.11
GBP/USD	1.36	1.32	1.37	1.33	1.35	1.39	1.30
CHF/USD	1.28	1.25	1.29	1.21	1.26	1.32	1.18
CAD	1.36	1.39	1.36	1.38	1.37	1.41	1.35
JPY	156.6	158.7	154.8	143.1	156.7	160.7	142.1
AUD	1.39	1.45	1.44	1.56	1.50	1.57	1.38
NZD	1.69	1.74	1.66	1.68	1.74	1.79	1.63
Asia							
HKD	7.83	7.84	7.81	7.76	7.78	7.85	7.75
CNY	6.83	6.89	6.96	7.27	6.99	7.25	6.81
INR	94.92	94.83	91.99	84.50	89.88	95.33	83.75
MYR	3.97	4.05	3.95	4.32	4.06	4.34	3.88
KRW	1,477	1,519	1,441	1,424	1,440	1,537	1,347
TWD	31.67	32.01	31.47	32.00	31.42	32.19	28.80
Latam							
BRL	4.96	5.18	5.26	5.67	5.47	5.76	4.94
COP	3,639	3,674	3,697	4,227	3,778	4,326	3,531
MXN	17.47	17.94	17.46	19.62	18.01	19.78	17.09
ARS	1,391.12	1,381.97	1,446.67	1,171.30	1,451.62	1,491.87	1,098.00
EEMEA							
RUB	75.06	81.35	75.99	82.00	78.75	86.56	74.05
ZAR	16.67	16.94	16.15	18.61	16.56	18.63	15.64

COMMODITIES	Latest	MTD Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low
Gold	4,618	-1.1	-5.6	40.4	6.9	5,595	3,121
Brent Oil	114.0	-3.7	61.3	80.6	87.4	126	59
WTI Crude Oil	105.1	3.6	61.1	80.5	83.0	119	55
R/J CRB Futures Index	395	6.1	23.4	36.8	32.2	395	288
LME Copper	12,987	5.3	-1.3	42.3	4.5	14,528	9,125

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Sources: Bloomberg, HSBC Asset Management. Data as at close of business 30 April 2026.

Important information

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

- Views are based on regional HSBC Asset Management Asset Allocation meetings held throughout **April 2026**, HSBC Asset Management's long-term expected return forecasts which were generated as at **31 March 2026**, 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.
- "*Overweight*" implies that, within the context of a well-diversified typically multi-asset portfolio, and relative to relevant internal or external benchmarks, HSBC Global Asset Management has (or would have) a positive tilt towards the asset class.
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- For global investment-grade corporate 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, USD investment-grade corporate bonds and EUR and GBP investment-grade corporate bonds are determined relative to the global investment-grade corporate bond universe.
- 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 **31 March 2026.**
- 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 **30 April 2026**.

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