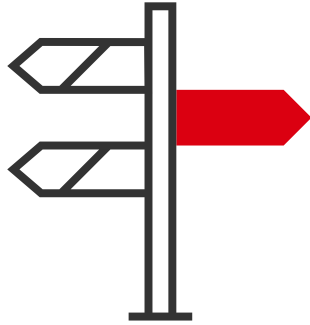


Different Worlds

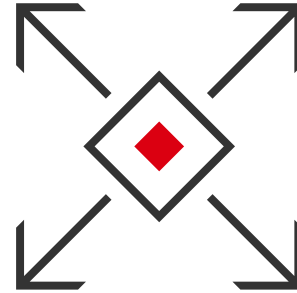
Mid year Investment Outlook 2026

For Professional Clients only and should not be distributed to or relied upon by Retail Clients. Marketing Communication.



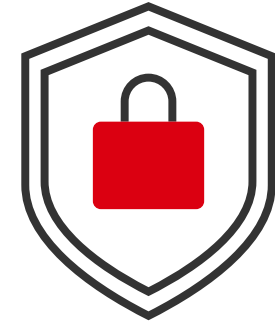
2 SHOCKS AND A BOOM

Economy shaped by supply-side shocks and the AI boom



BROADENING BEYOND BORDERS

A different, more selective, kind of broadening out in 2026



YIELD TO OPPORTUNITY

In a fragmented world order, which diversifiers can investors rely on?

The **global economy is facing a complex set of supply shocks** that are pulling the macro system in confusing and sometimes contradictory directions. Meanwhile, markets have shaken off geopolitical worries impressively, helped by strong corporate profits. Essentially, the economy and markets are living in “**DIFFERENT WORLDS**”.

The world is currently witnessing “**TWO SHOCKS AND A BOOM**”. First, the **oil shock** will hit growth. Energy importers – mainly in Europe and Asia – are most exposed. At the same time, China’s strong advanced technology centred export growth – **the China shock 2.0** – can offset some of the inflationary impacts. The **AI investment boom** means that the economy is looking “K-shaped”, with AI/tech contributing over half of US GDP growth.

As the spillovers of the AI capex boom become more apparent, we think strong profits performance can hold and importantly should continue to **broaden “BEYOND BORDERS”** into non-tech sectors. Bond yields will need to be monitored, but a low volatility summer in markets is a reasonable assumption.

EMs remain well placed to outperform with North Asia supported by the AI megatrend and Latin America by the materials boom. These distinct drivers imply portfolio diversification – our “**YIELD TO OPPORTUNITY**” - theme. We think the best approach is to **focus on active bond strategies** (e.g. short duration, 30-year Gilts, or linkers), **lower beta equity strategies** (real estate and infrastructure), or a **range of public and private credit market** strategies.

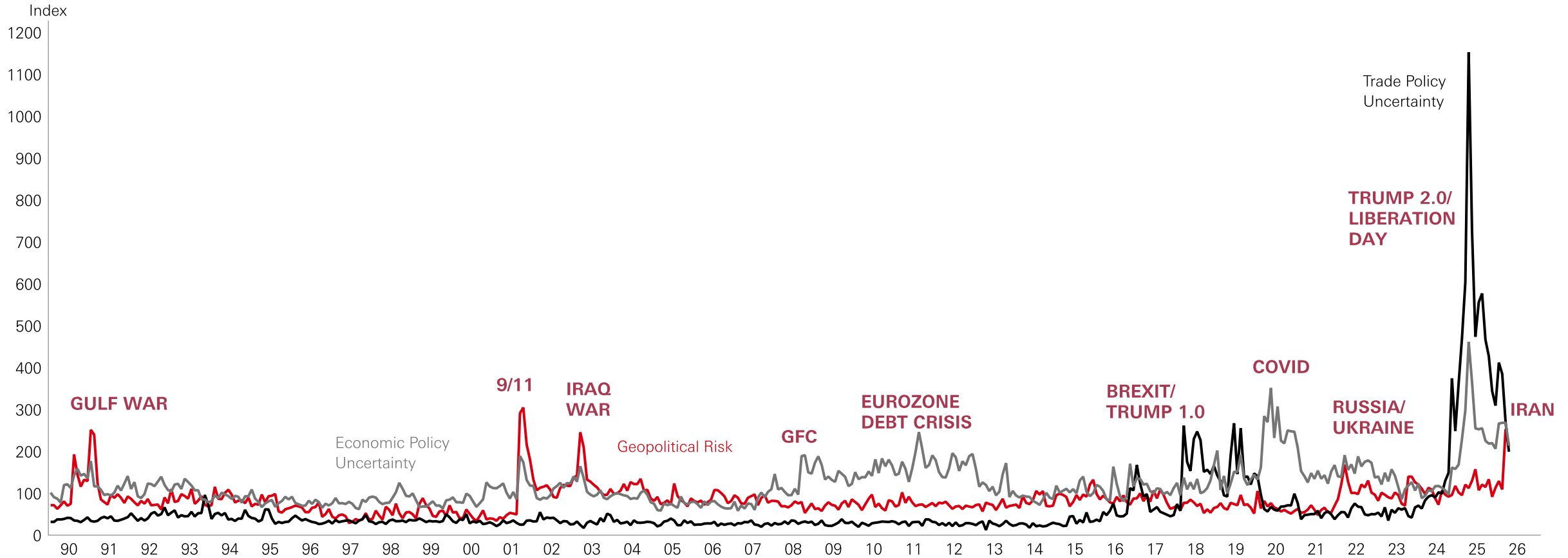
The commentary and analysis presented in this document reflect the opinion of HSBC Asset Management on the markets, according to the information available to date and are subject to change without notice. They do not constitute any kind of commitment from HSBC Asset Management. Consequently, HSBC Asset Management will not be held responsible for any investment or disinvestment decision taken on the basis of the commentary and/or analysis in this document. Any forecast, projection or target where provided is indicative only and is not guaranteed in any way. HSBC Asset Management accepts no liability for any failure to meet such forecast, projection, or target. Past performance does not predict future returns. For informational purposes only and should not be construed as a recommendation to invest in the specific country, product, strategy, sector, or security.

Source: HSBC Asset Management, May 2026.



2 SHOCKS AND A BOOM

Geopolitical risk and policy uncertainty indices

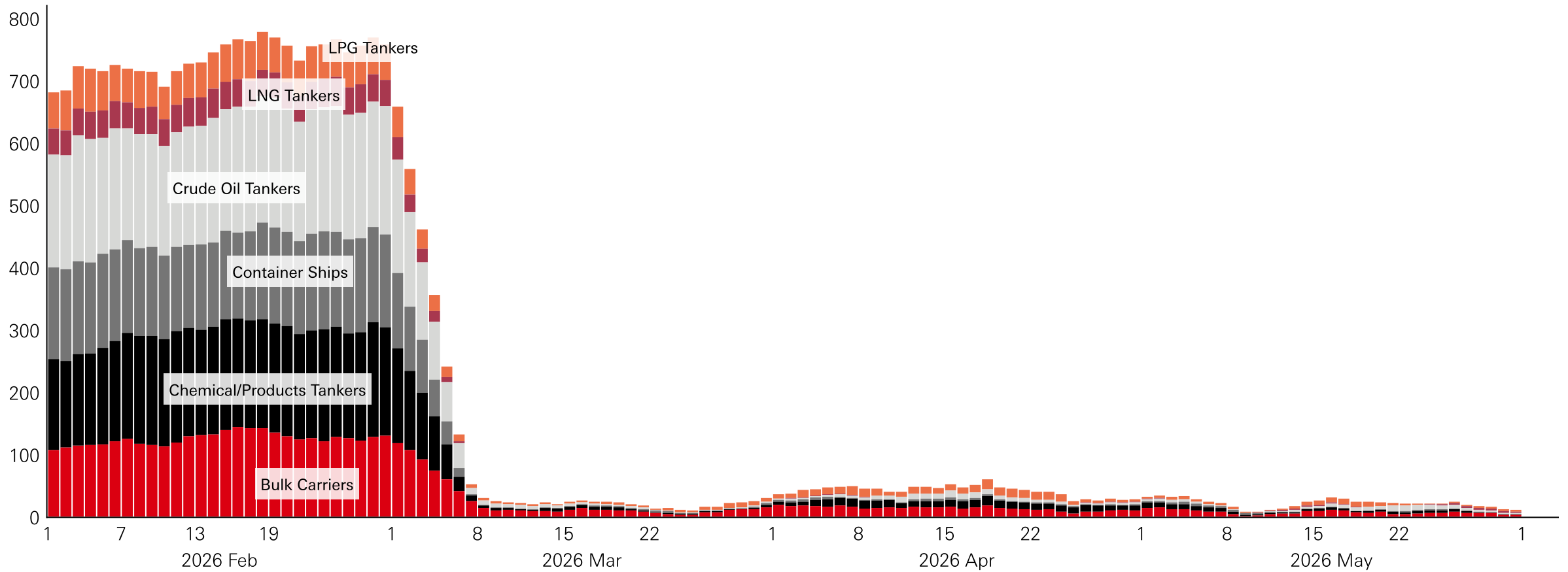


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Source: Macrobond, Bloomberg, HSBC Asset Management, June 2026.

Shock #1: Hormuz shutdown

Tracking vessels crossing the Strait of Hormuz



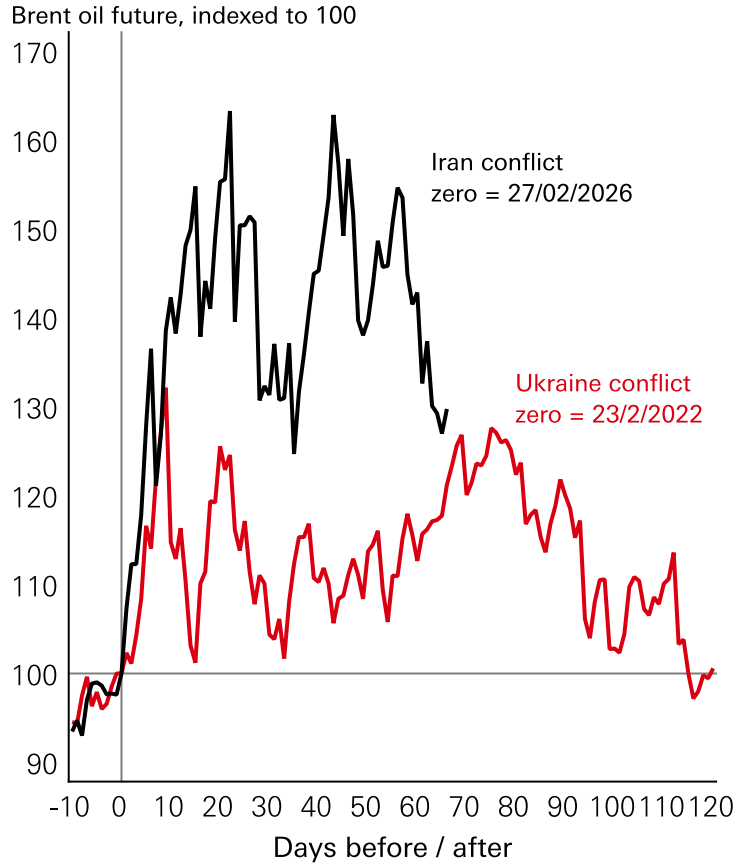
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Source: Macrobond, Bloomberg, HSBC Asset Management, June 2026.

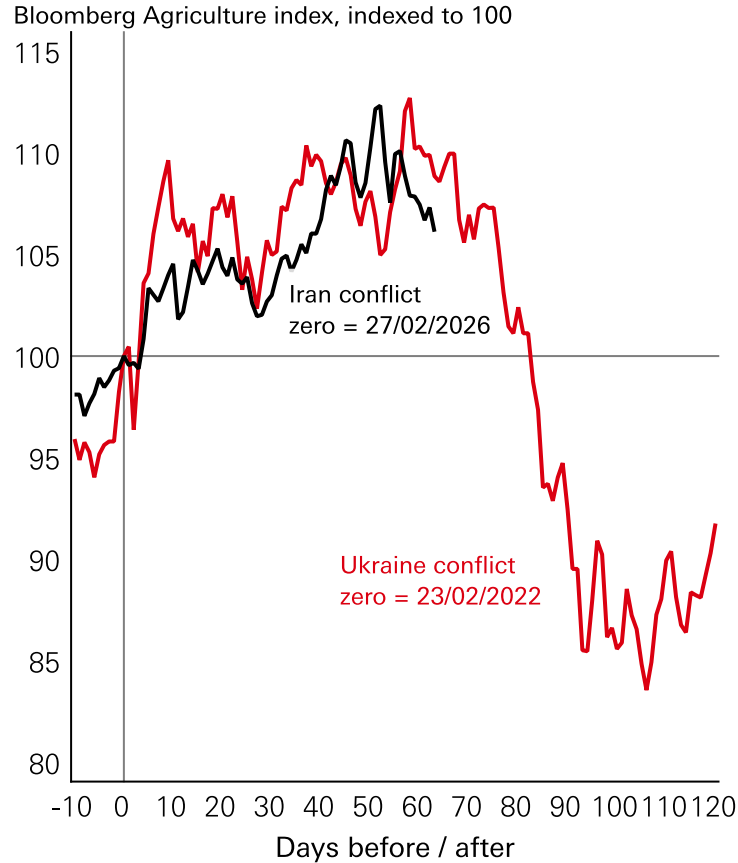
Shock #1: Hormuz shutdown

Commodity prices during Iran conflict versus 2022 Russia/Ukraine conflict

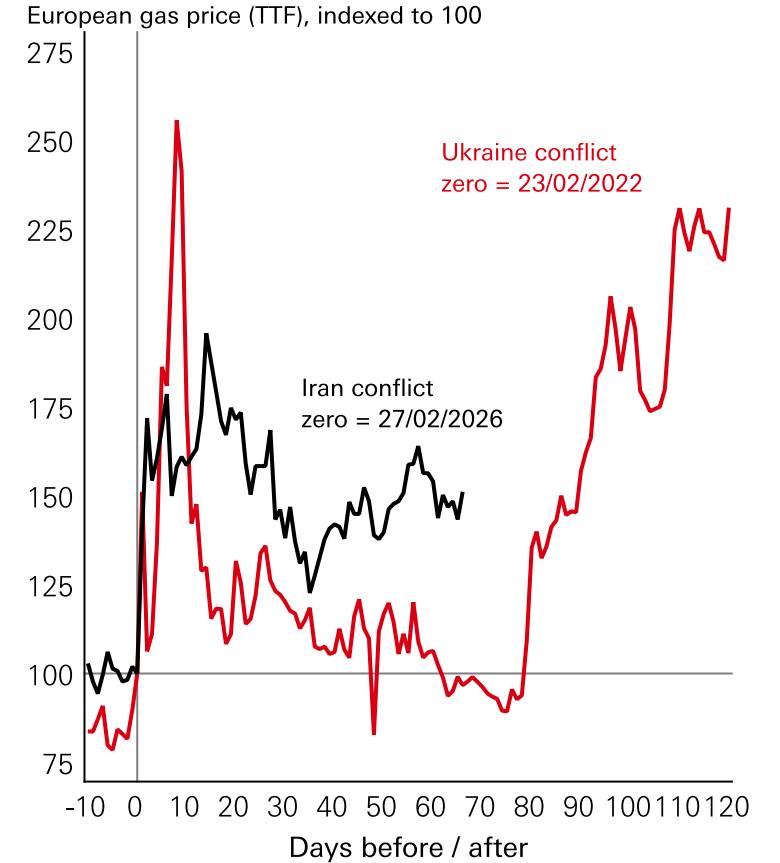
BRENT OIL



AGRICULTURE



EUROPEAN GAS

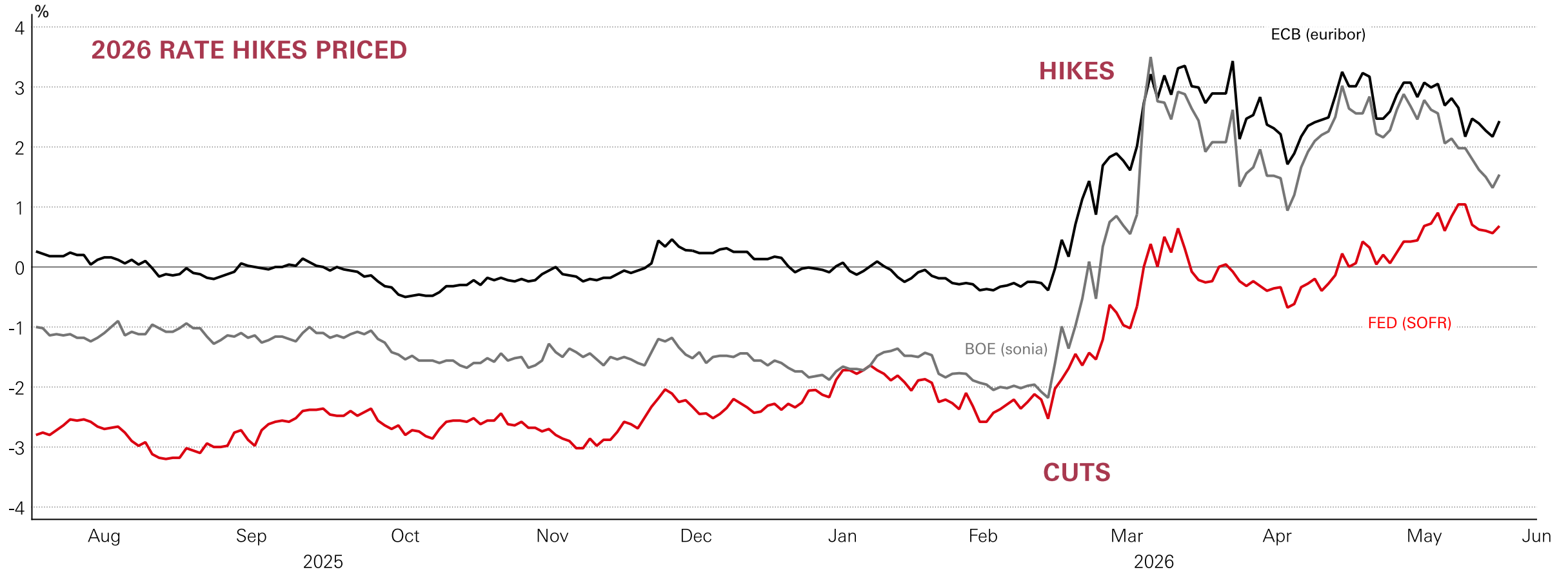


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Source: Macrobond, Bloomberg, HSBC Asset Management, June 2026.

Shock #1: Hormuz shutdown

How many rate hikes from Fed, ECB, BoE in 2026?

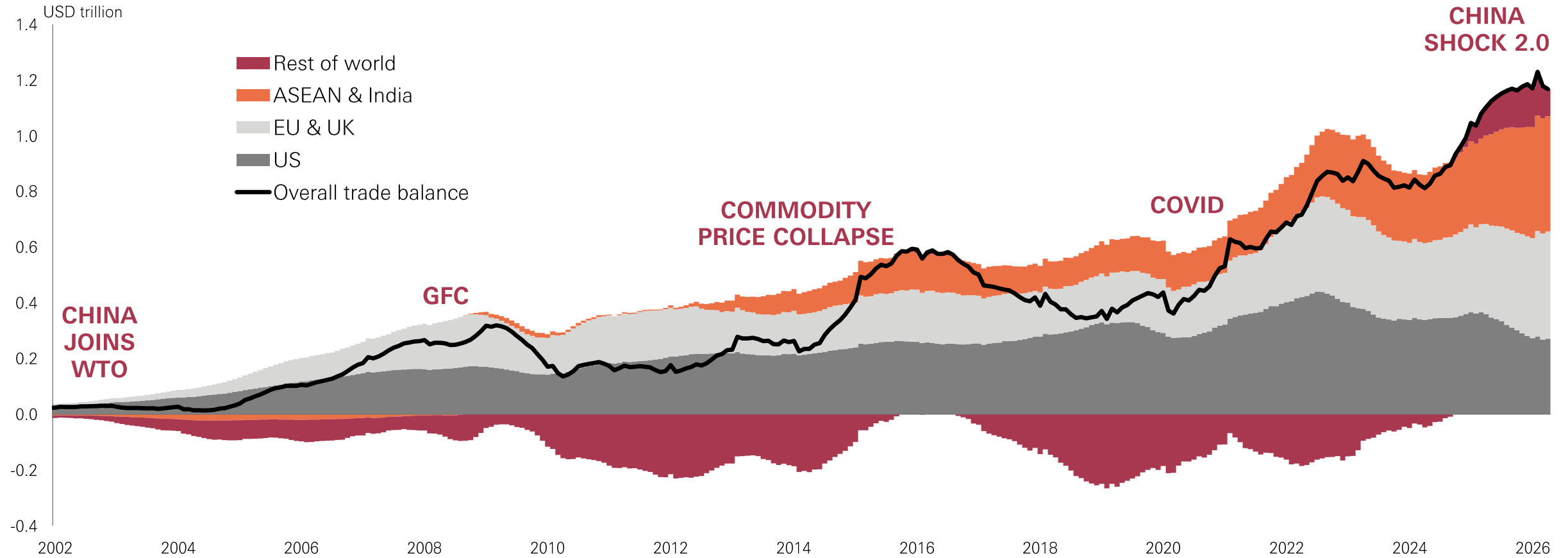


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Source: Macrobond, Bloomberg, HSBC Asset Management, June 2026.

Shock #2: China export boom

China's trade surplus versus the rest of the world

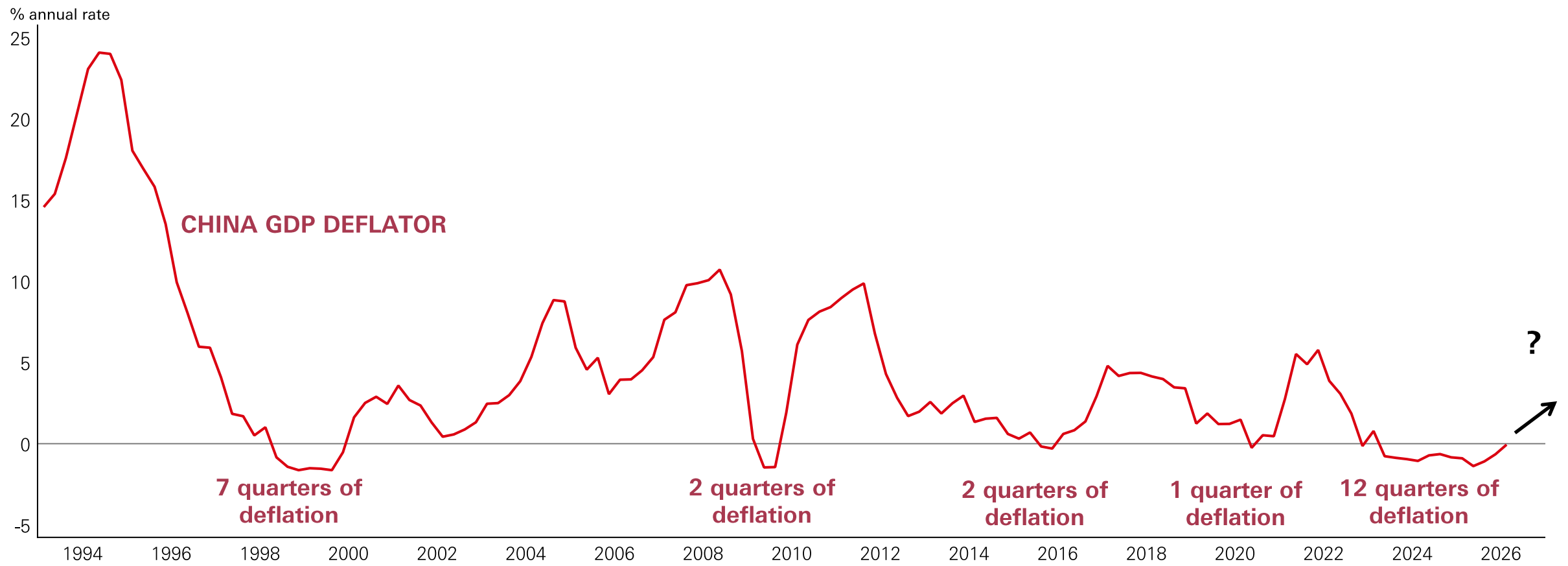


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Source: CEIC, HSBC Asset Management, June 2026.

Shock #2: China export boom

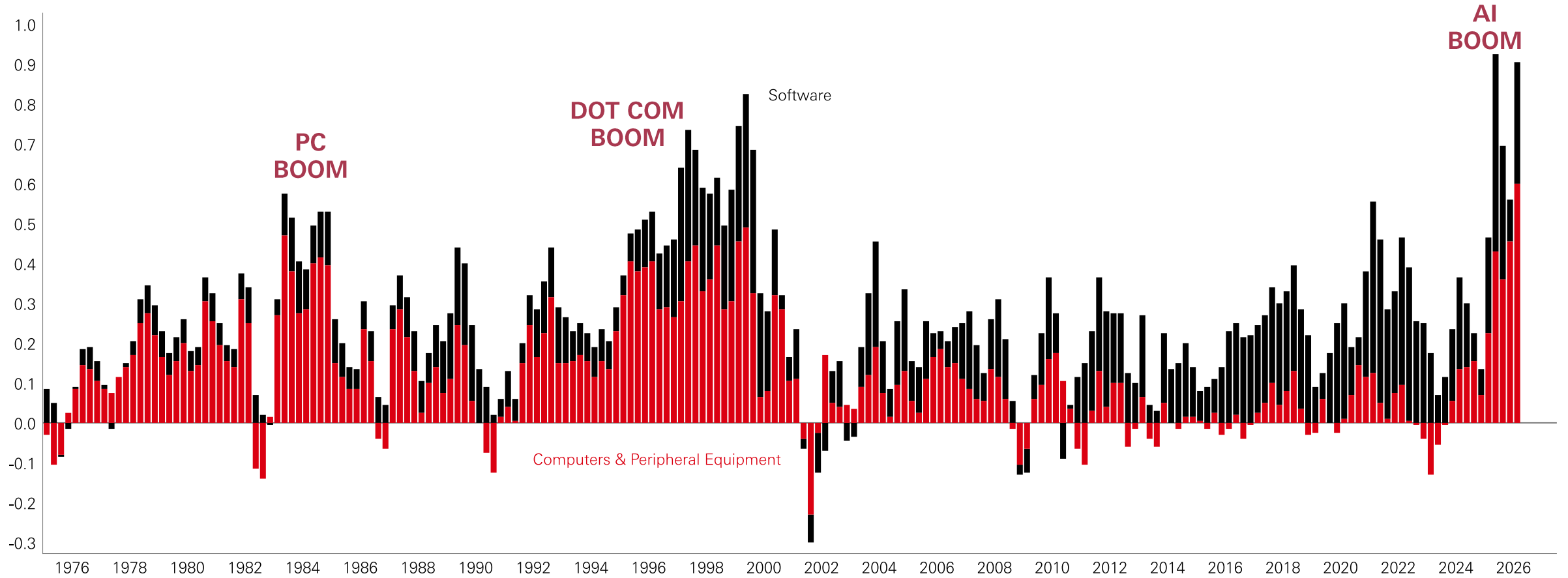
Is China exporting deflation?



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Source: Macrobond, HSBC Asset Management, June 2026

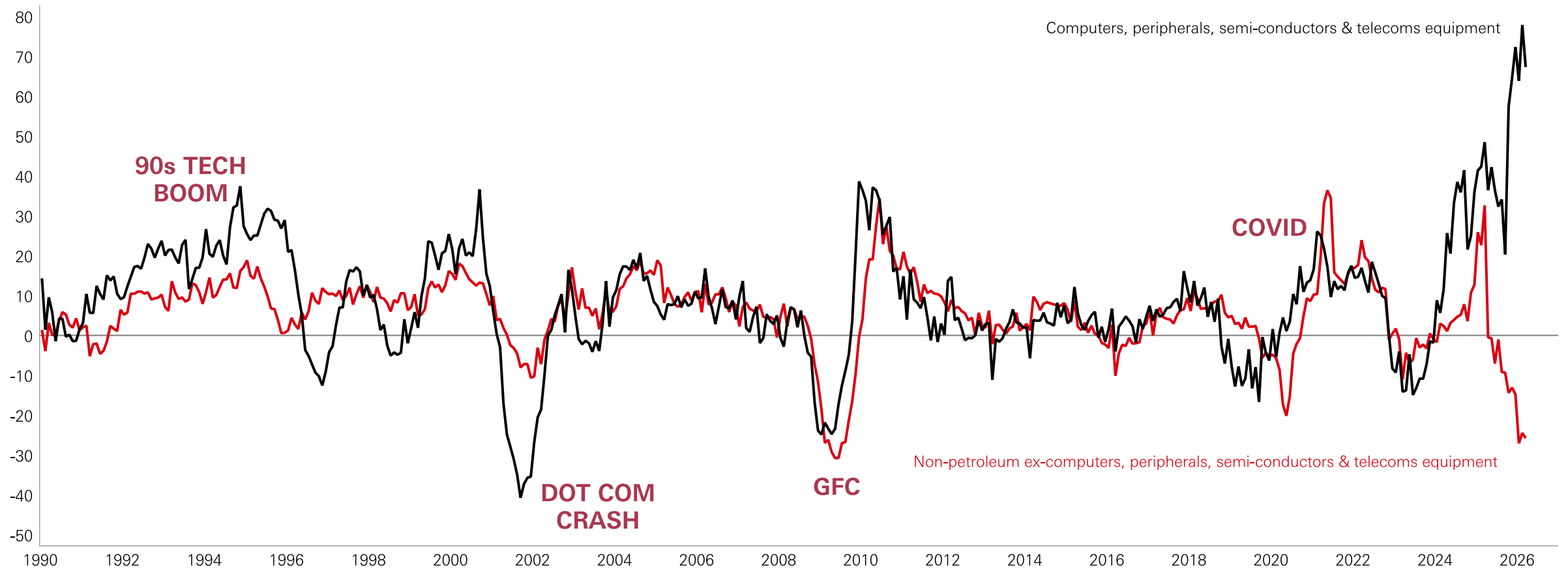
Contributions to qoq annualised US GDP growth



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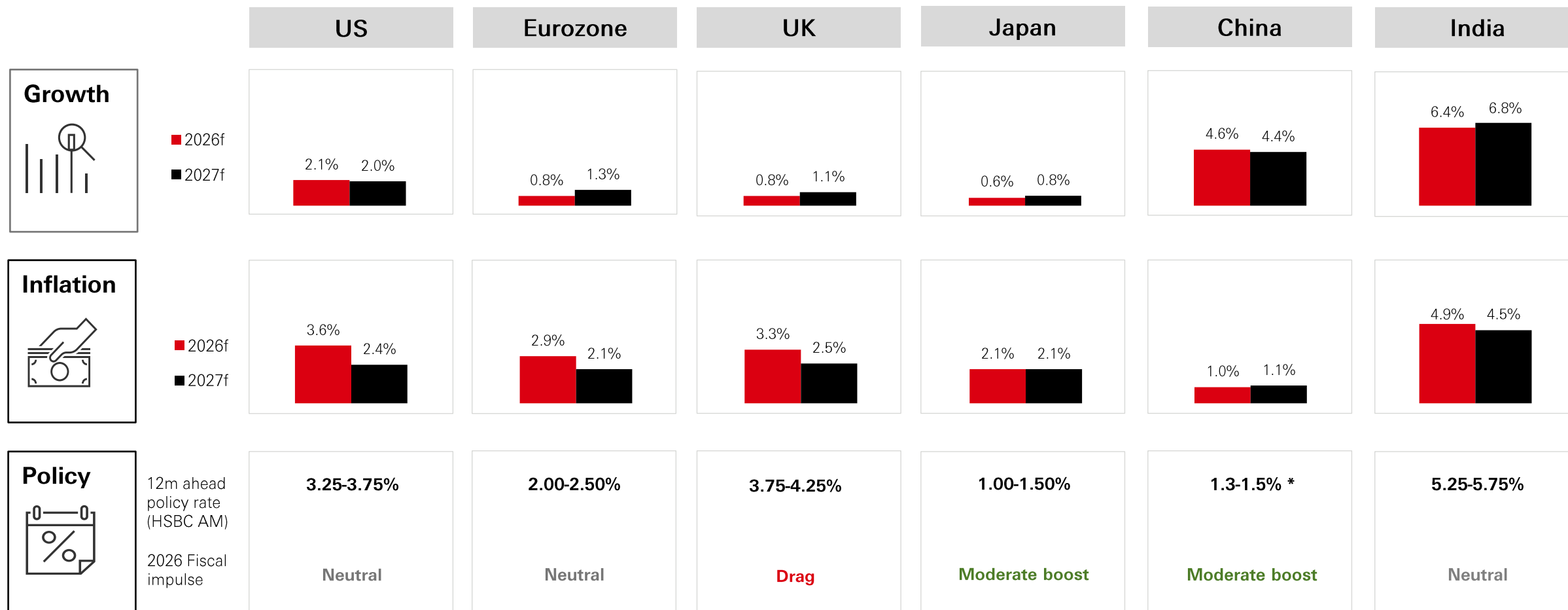
Source: Macrobond, Bloomberg, HSBC Asset Management, June 2026.

US imports (nominal USD, % yoy)



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Source: Macrobond, Bloomberg, HSBC Asset Management, June 2026.



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Note: * 7-day reverse repo rate. Source: HSBC Asset Management, Bloomberg, June 2026.



BROADENING BEYOND BORDERS

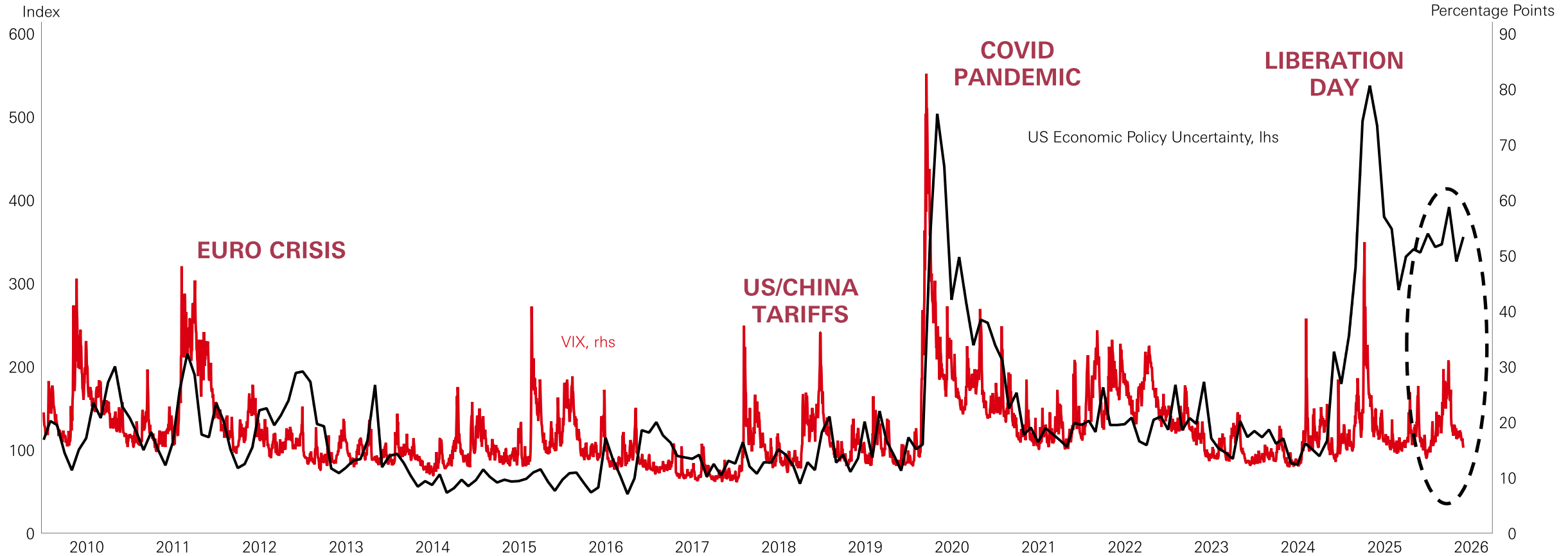
S&P 500 around geopolitical events since 1939



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Source: Macrobond, Bloomberg, HSBC Asset Management, June 2026.

US policy uncertainty index (black) and VIX volatility (red)

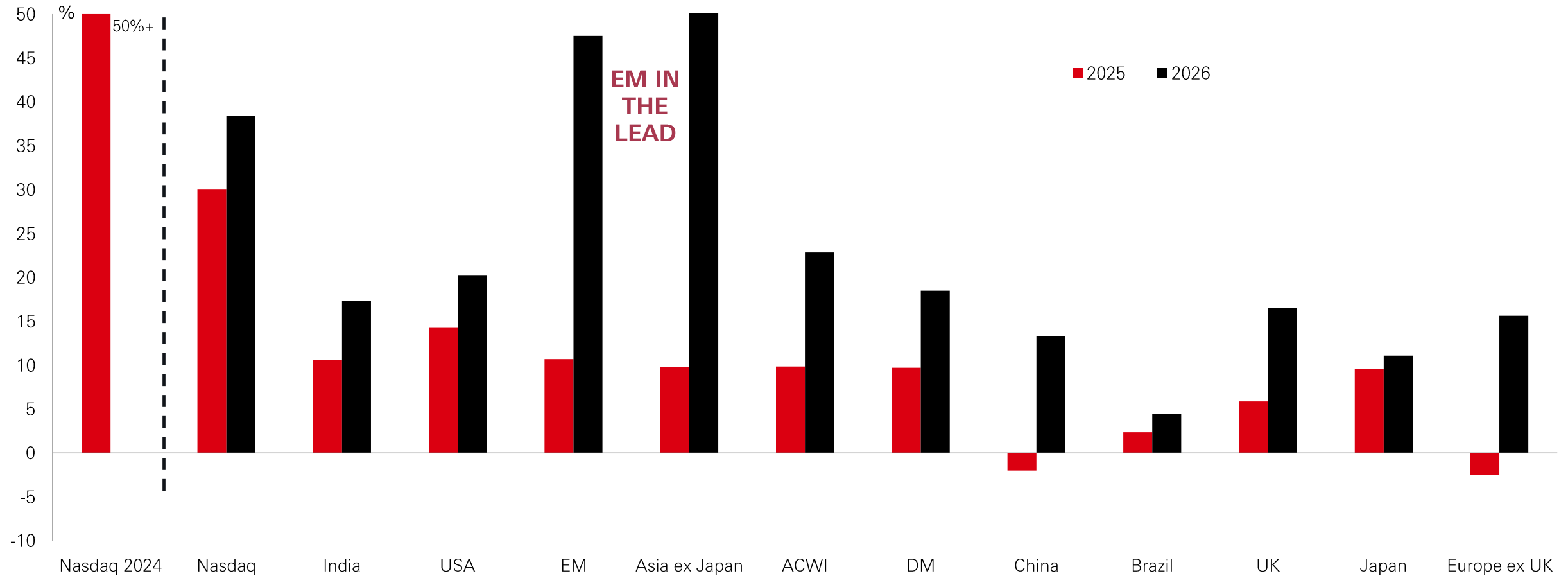


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Source: Macrobond, Bloomberg, HSBC Asset Management, June 2026.

Low volatility markets require: (1) Good profits

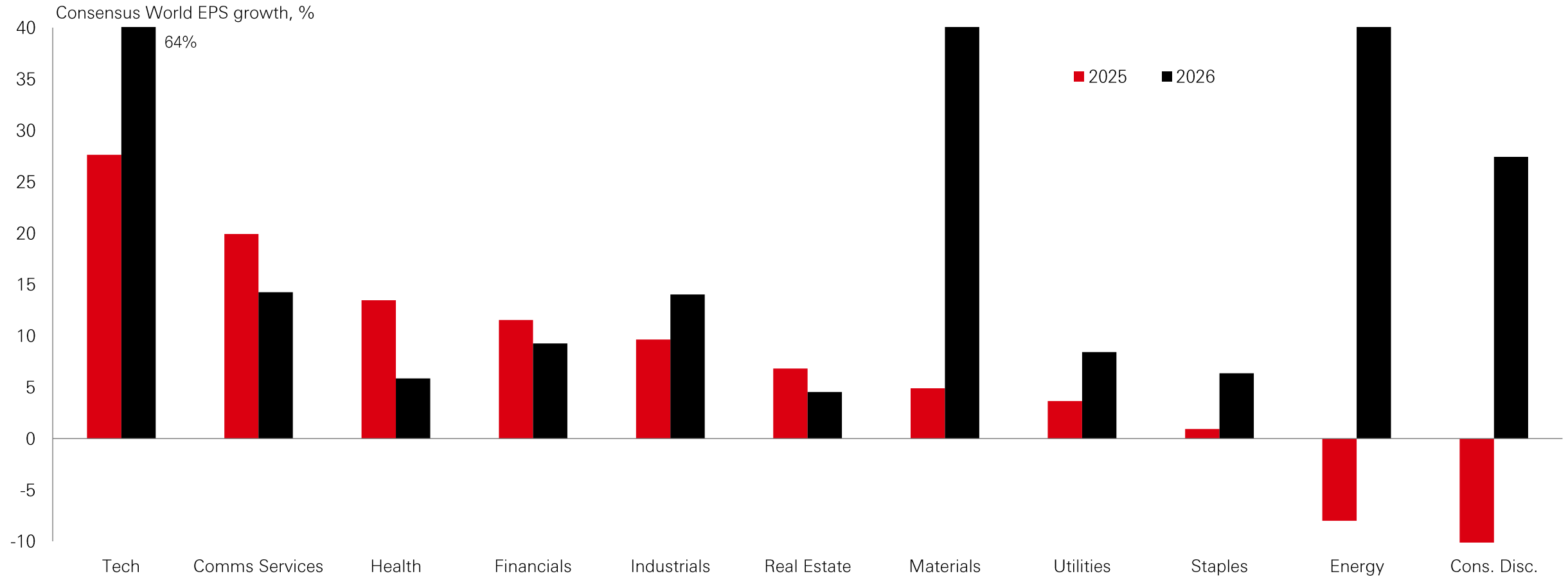
Global EPS growth in 2025 and 2026 (IBES consensus forecast)



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Source: Refinitiv, IBES, HSBC Asset Management, June 2026.

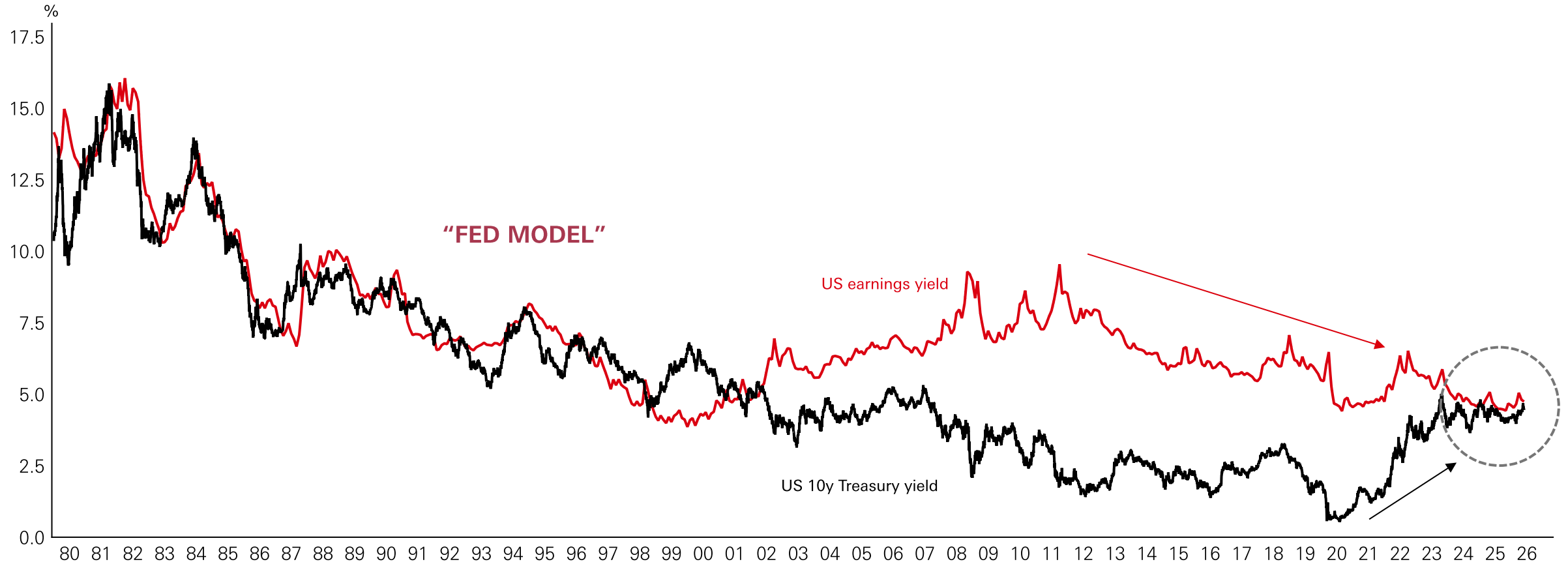
Global sector profit growth is broadening out beyond Tech



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Source: Refinitiv, HSBC Asset Management, June 2026.

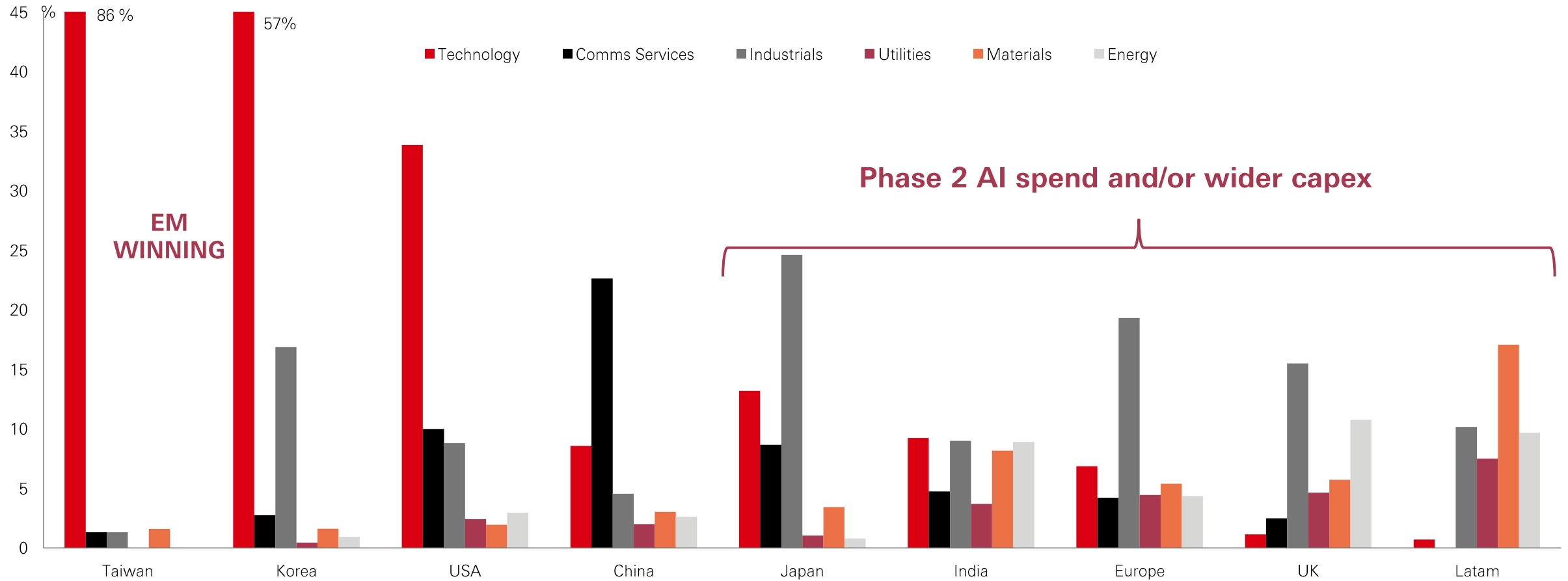
Fed model: US 10y yield versus 12m forward S&P 500 earnings yield



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Source: Macrobond, Bloomberg, HSBC Asset Management, June 2026.

Sector weights

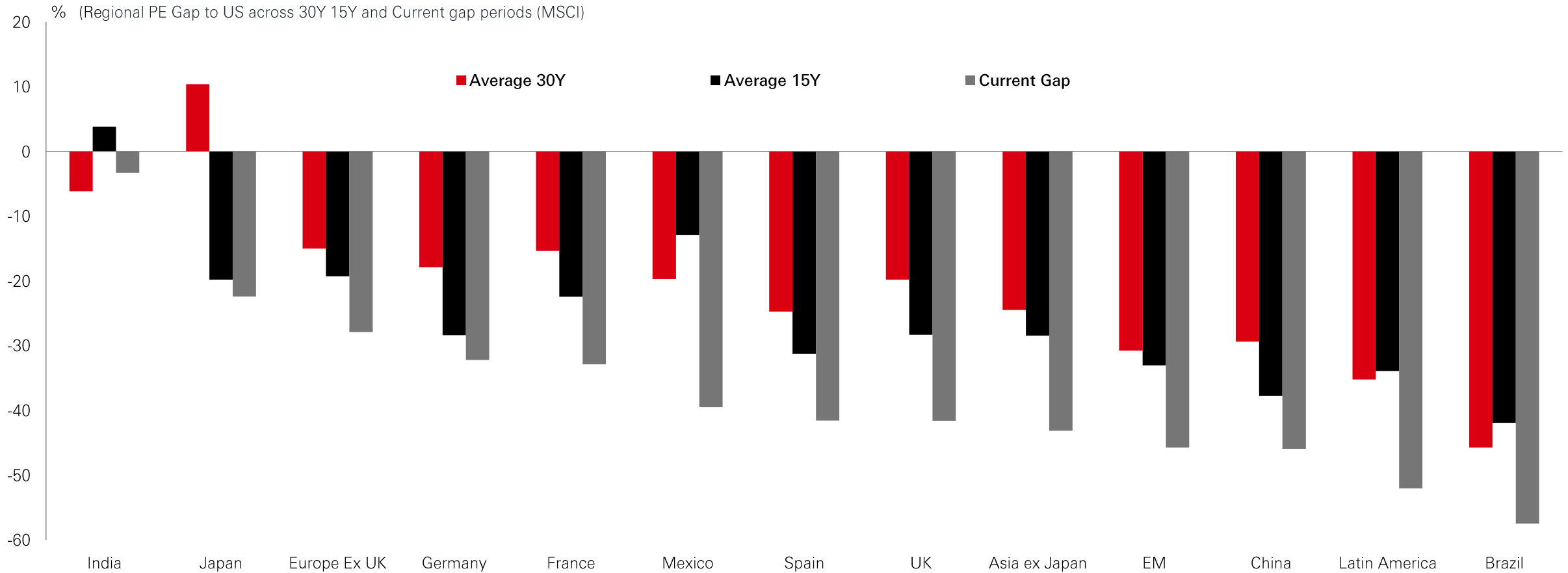


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Source: Macrobond, Bloomberg, HSBC Asset Management, June 2026.

Valuation gaps remain wide

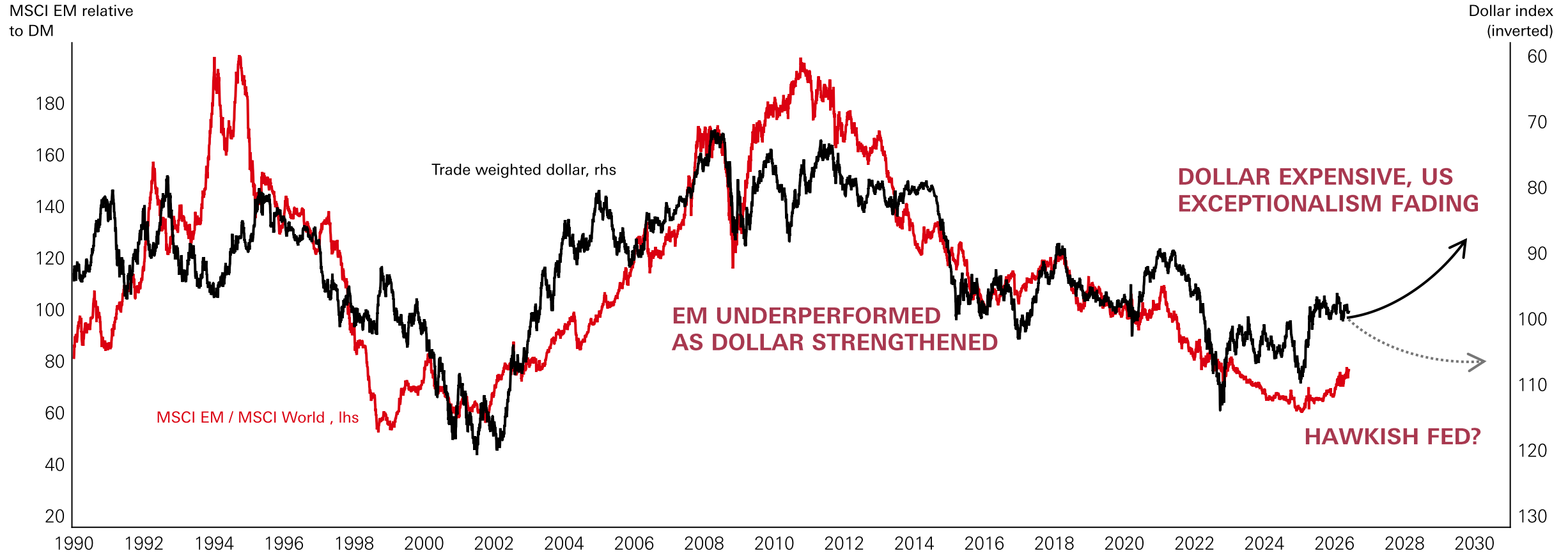
Regional PE valuation gaps



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Source: Refinitiv, Datastream, HSBC Asset Management, June 2026.

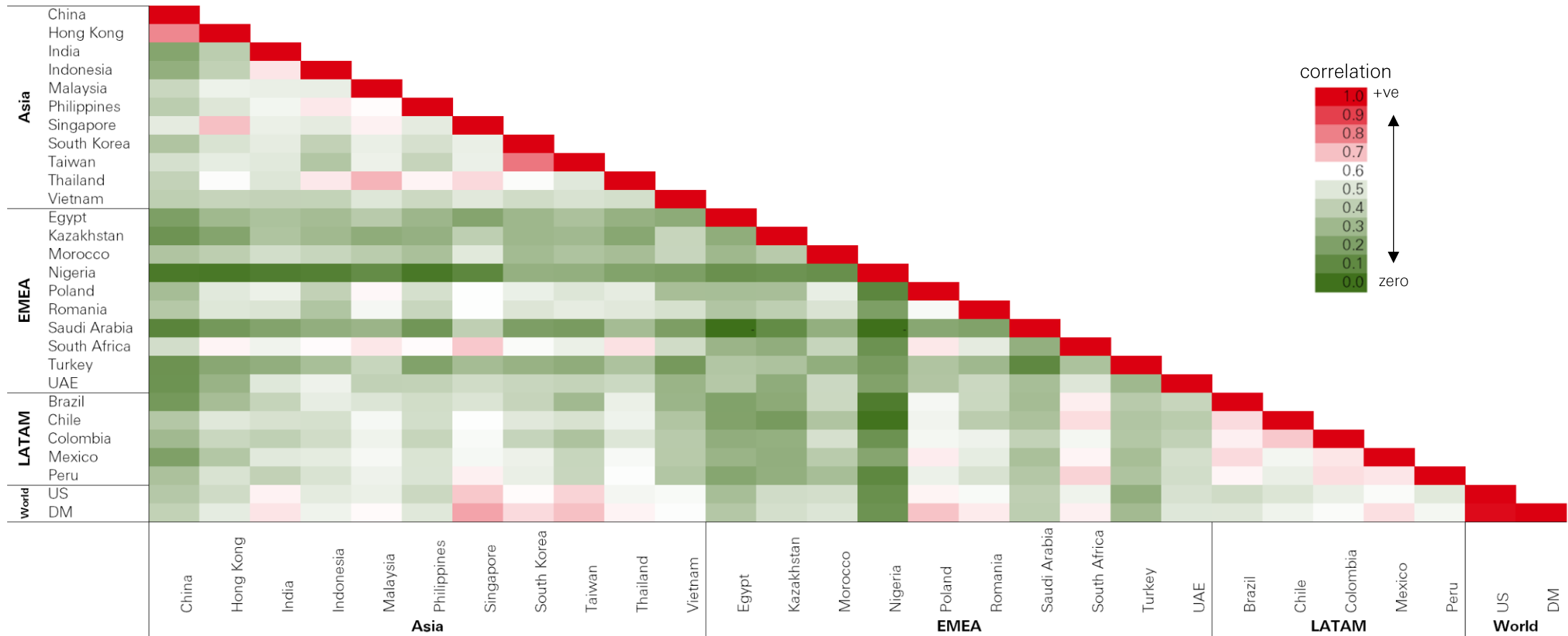
Weaker dollar (black) correlates with strong EM (red)



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Source: Refinitiv, MSCI, HSBC Asset Management, June 2026.

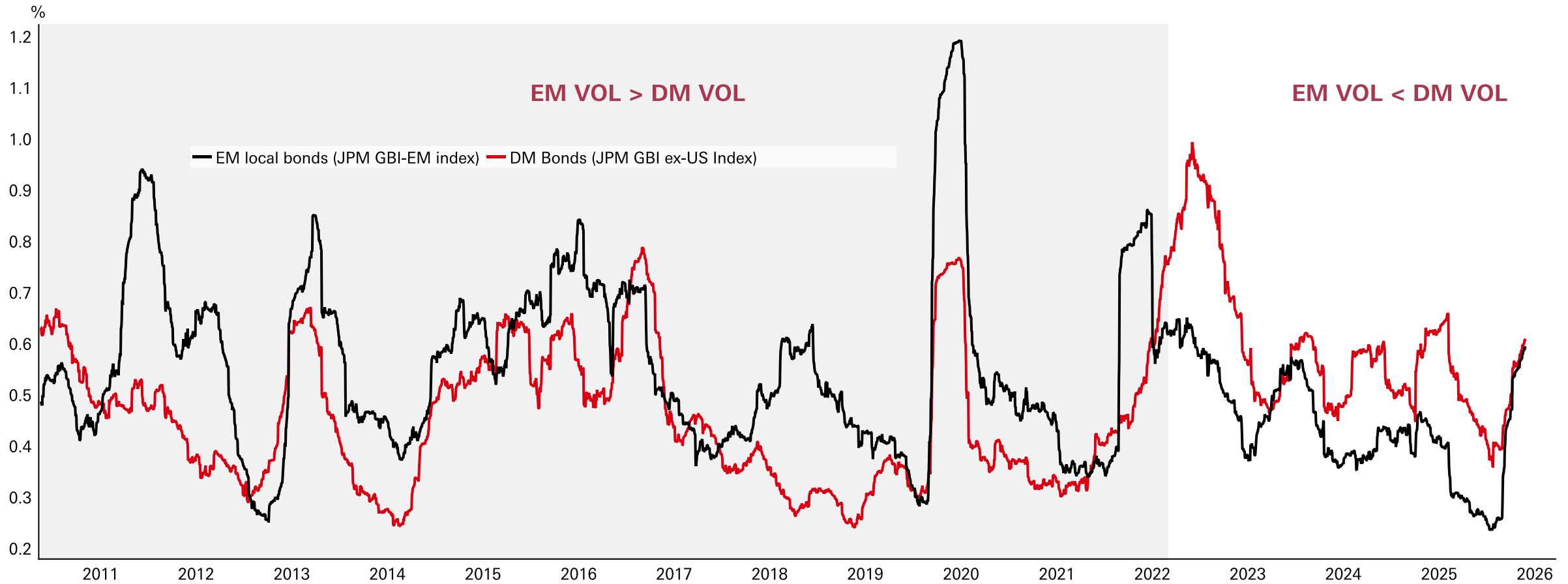
EM correlations are lower than you think



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Source: Global Trade Alert, HSBC Asset Management, June 2026.

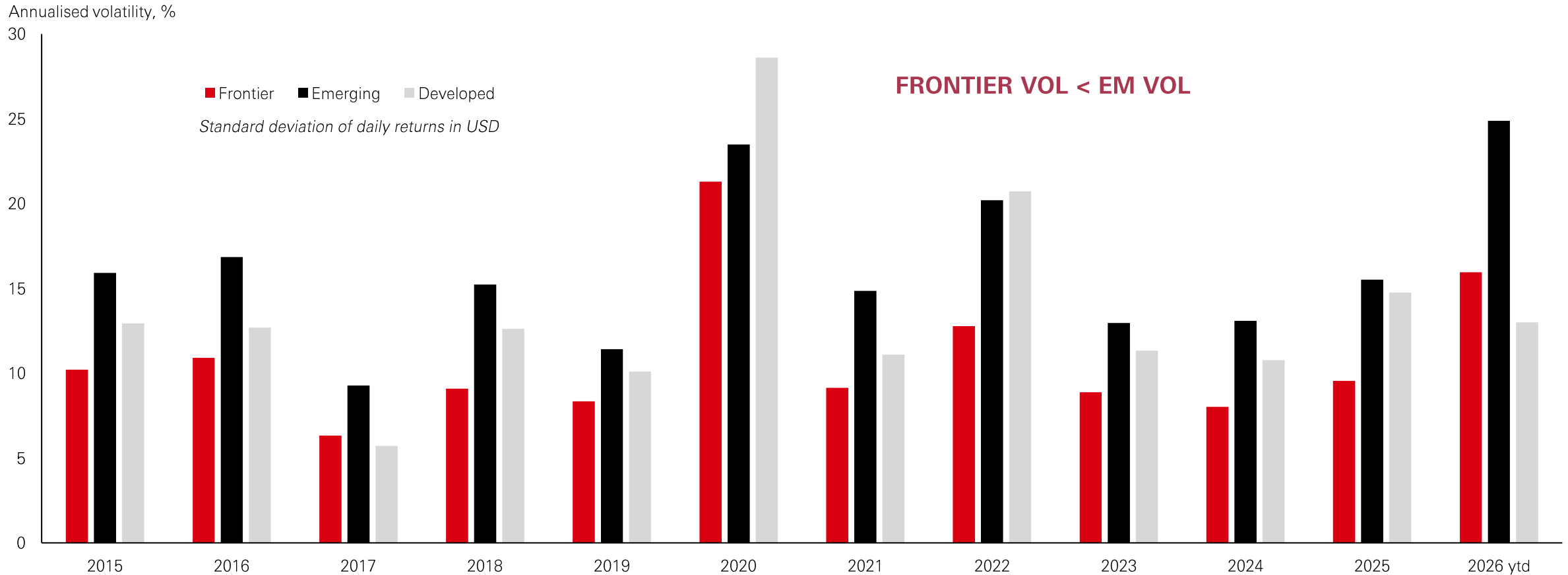
EM versus DM bond volatility (90 day rolling measure)



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Source: Refinitiv, MSCI, HSBC Asset Management, June 2026.

Stock market volatility in key regions



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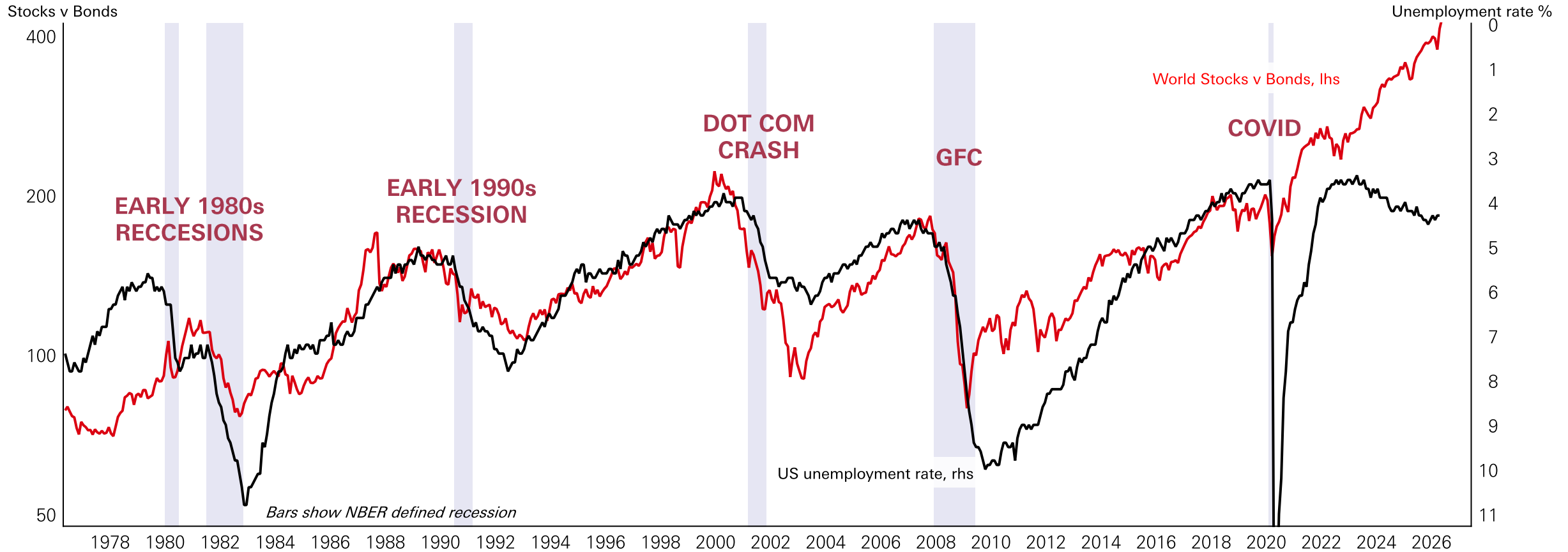
Source: Bloomberg, HSBC Asset Management, June 2026.



YIELD TO OPPORTUNITY

The BLISS trade: Big Lasting State Support

A market cycle powered by fiscal and industrial policy, not macro and policy rates

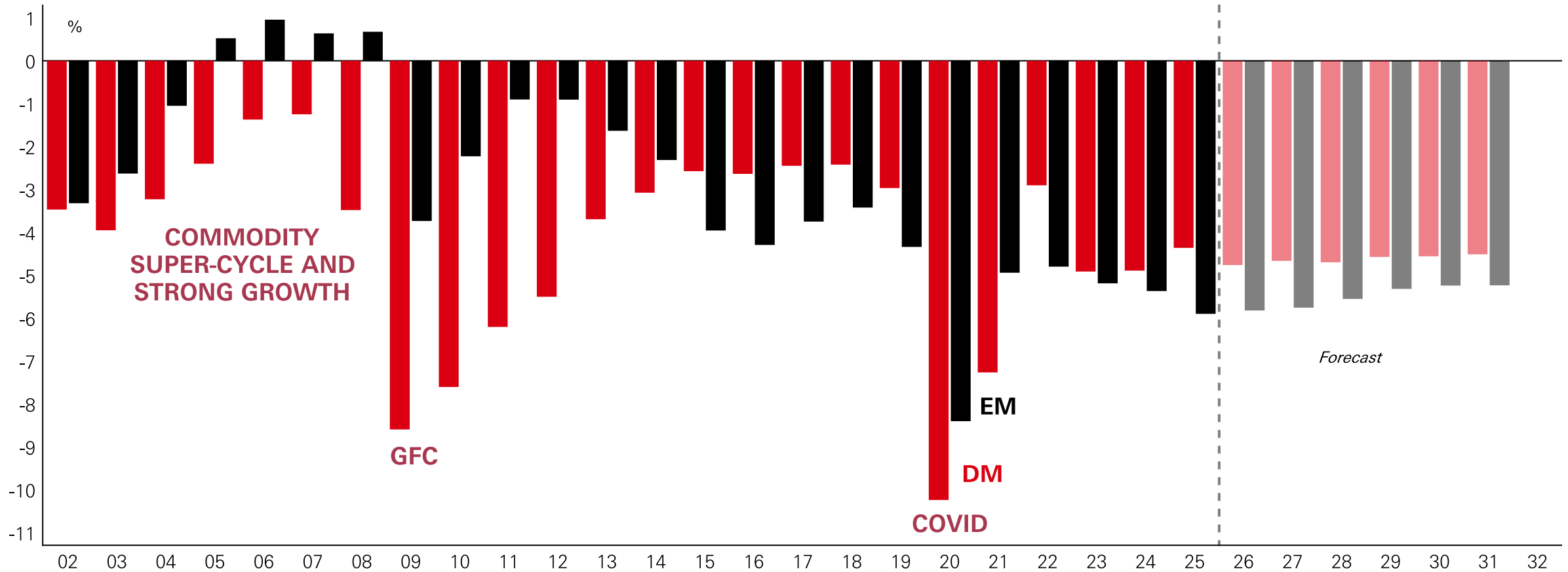


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Source: Macrobond, Bloomberg, HSBC Asset Management, June 2026.

A regime of "deficits forever"

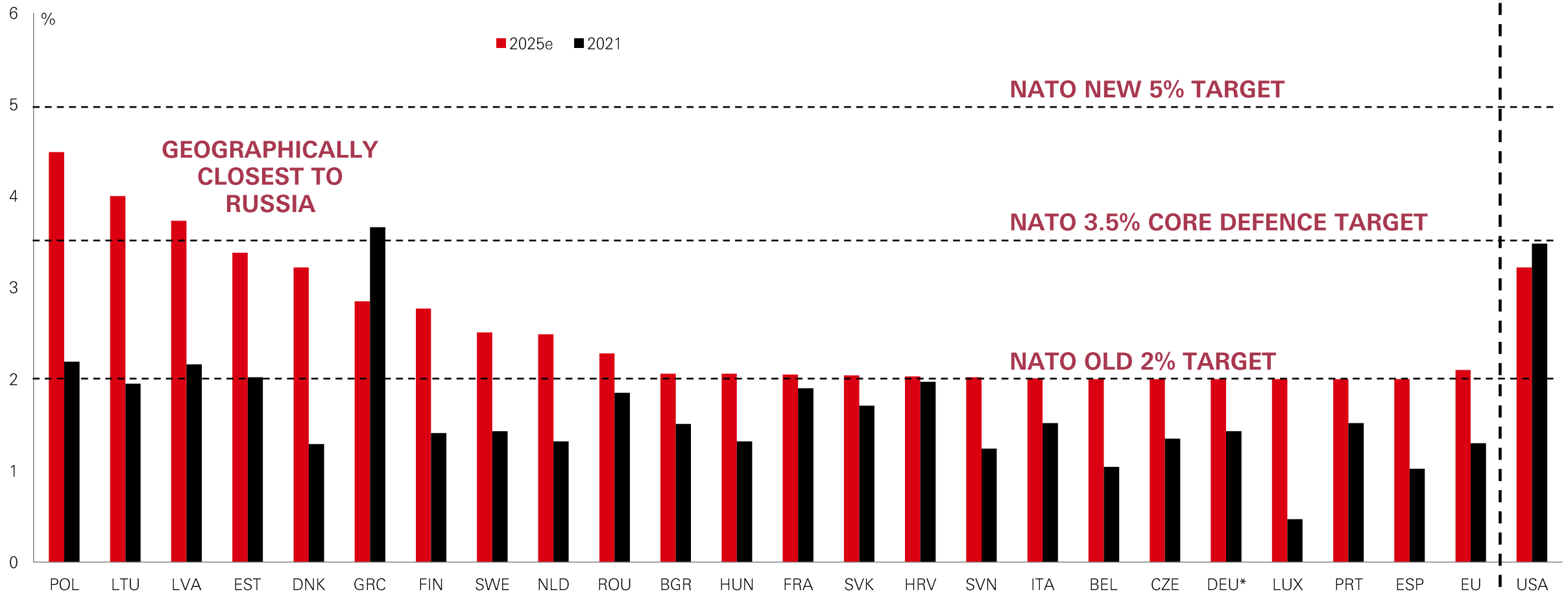
General government budget balances (% of GDP, IMF estimates)



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Source: Macrobond, Bloomberg, HSBC Asset Management, June 2026.

Defence Spending as % of GDP



*DEU is 2024e, not 2025e

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Source: Macrobond, Bloomberg, HSBC Asset Management, June 2026. Note country names in order as they appear in the chart: Poland, Lithuania, Latvia, Estonia, Denmark, Greece, Finland, Sweden, Netherlands, Romania, Bulgaria, Hungary, France, Slovakia, Italy, Belgium, Czech Republic, Germany, Luxembourg, Portugal, Spain, European Union, United States of America

US PCE Inflation % yoy

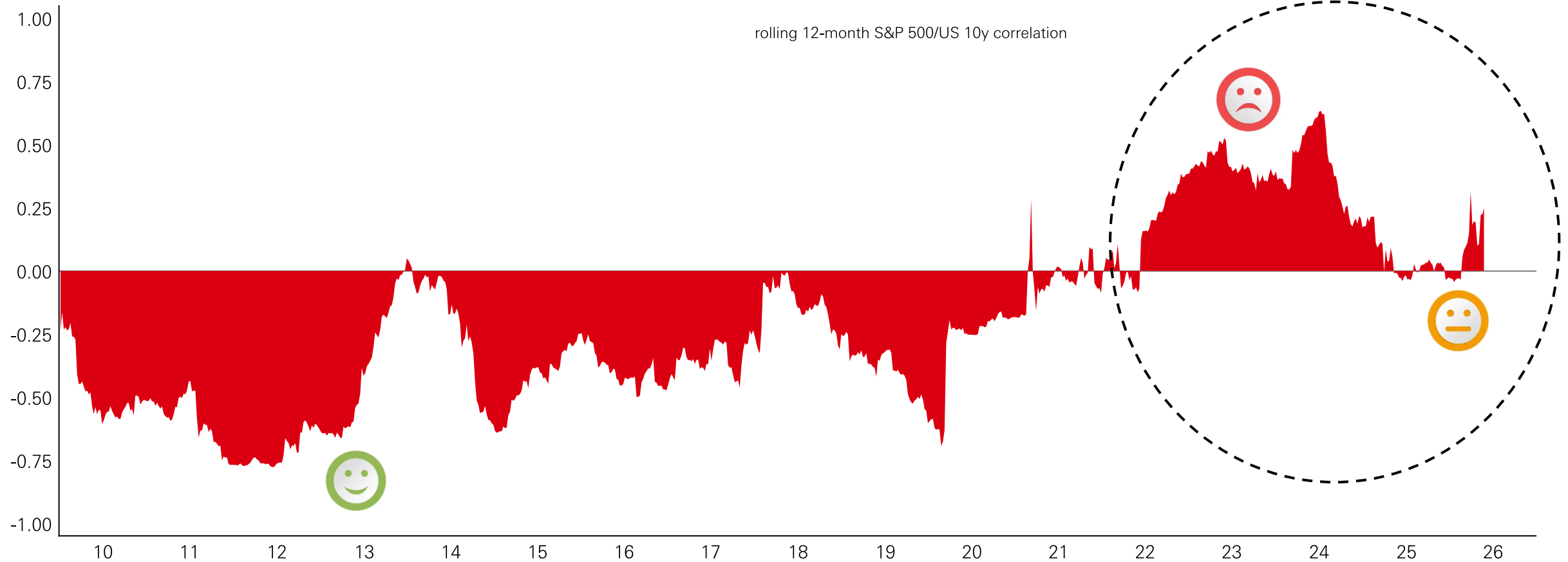


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Source: Macrobond, Bloomberg, HSBC Asset Management, June 2026.

A positive stock-bond correlation

Rolling 12-month S&P 500/US 10y correlation

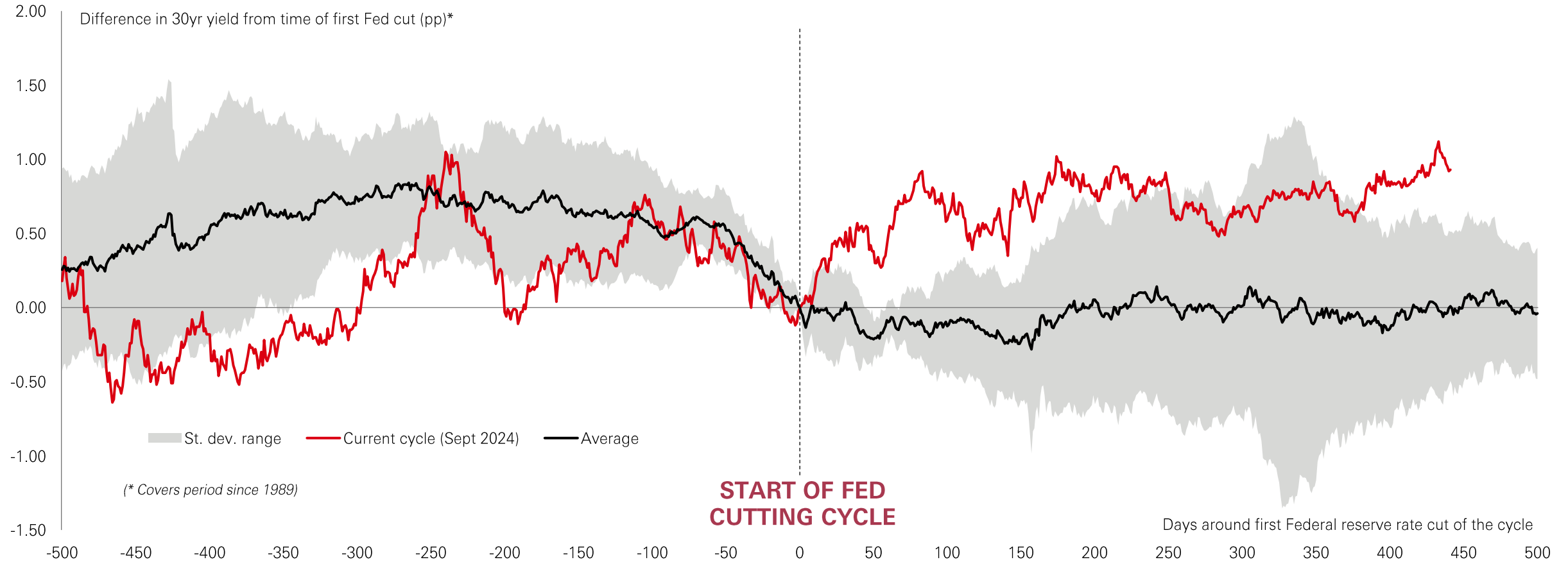


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Source: Macrobond, Bloomberg, HSBC Asset Management, June 2026.

Yields are not following the usual pattern

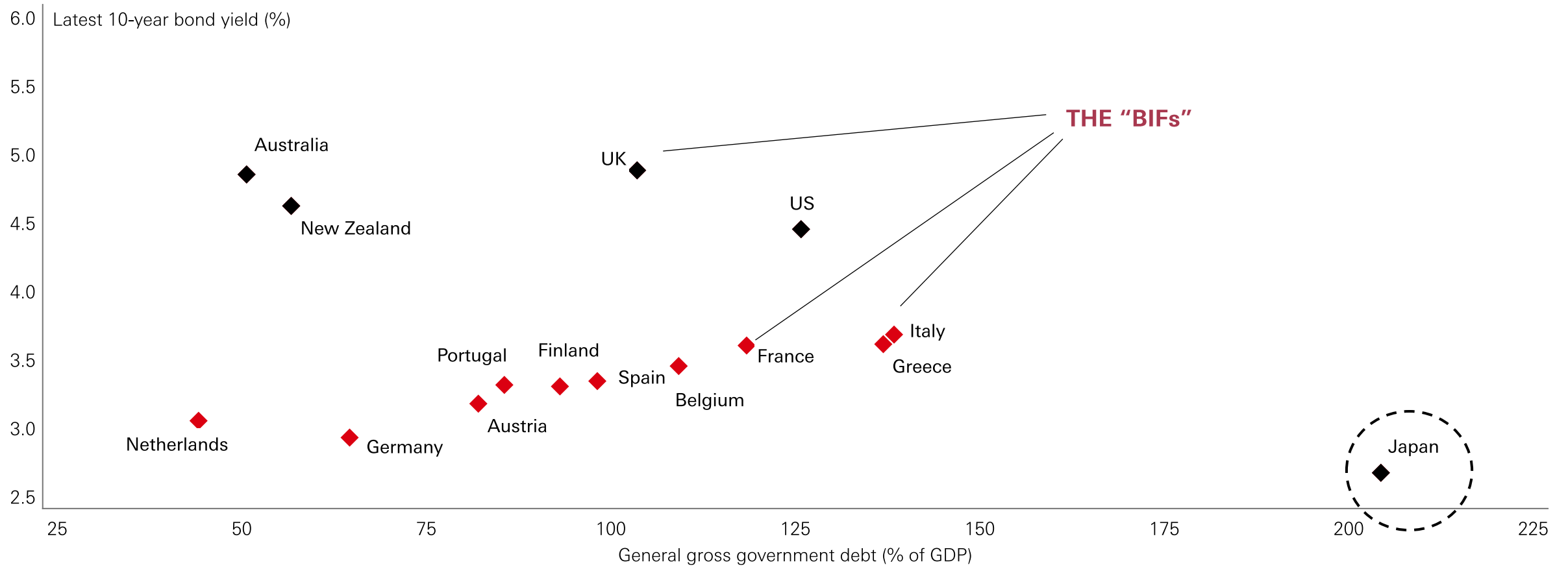
Difference in 30-year Treasury yield from time of first Fed cut



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Source: Macrobond, HSBC Asset Management, June 2026.

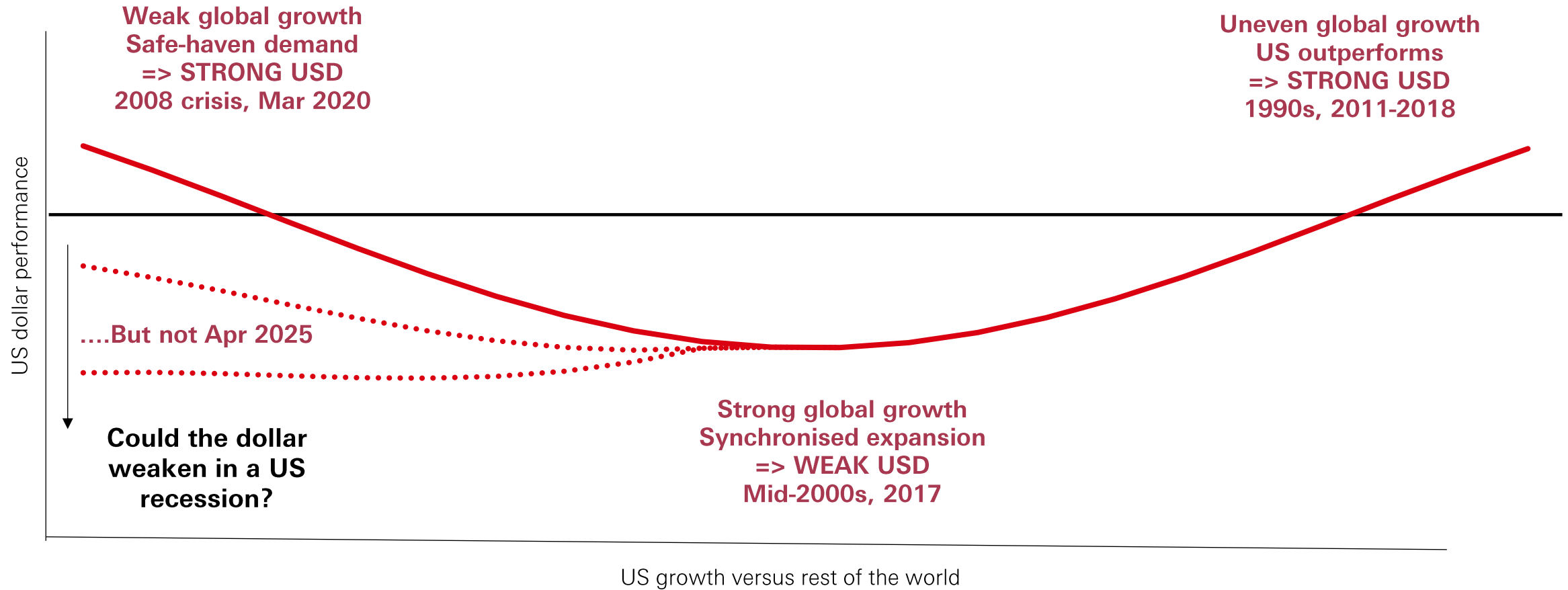
Long bond yields versus debt levels



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Source: Macrobond, Bloomberg, HSBC Asset Management, June 2026.

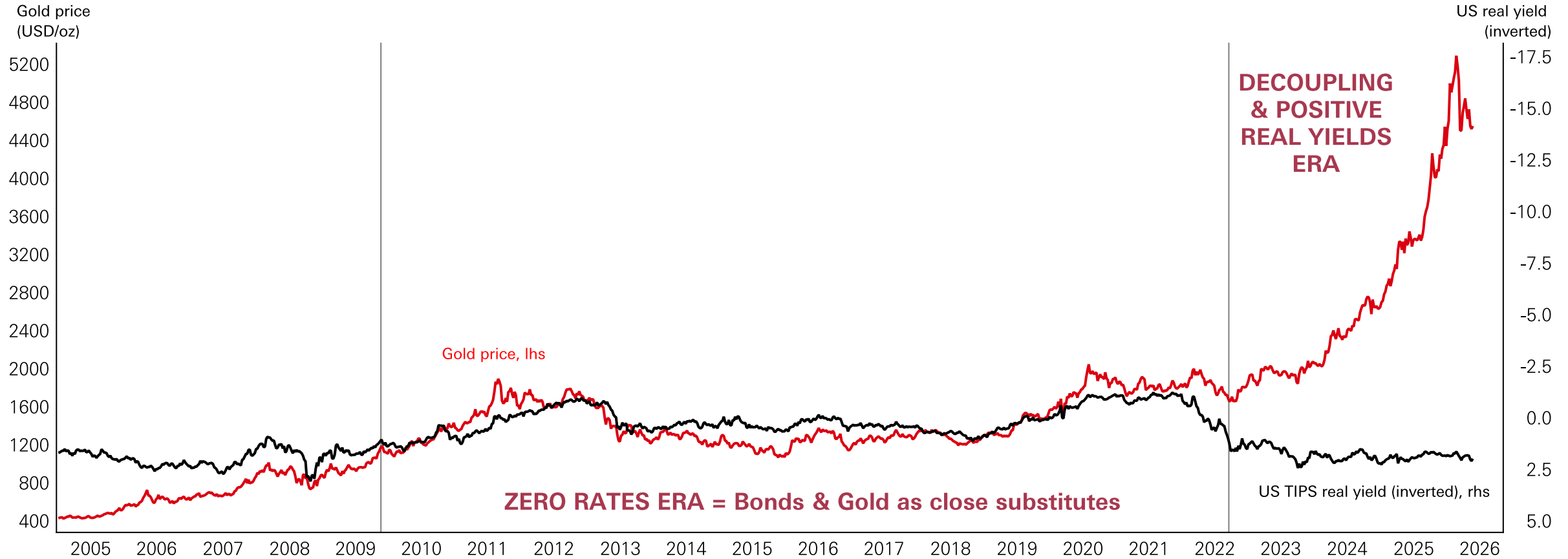
The dollar "smirk"



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Source: HSBC Asset Management, June 2026.

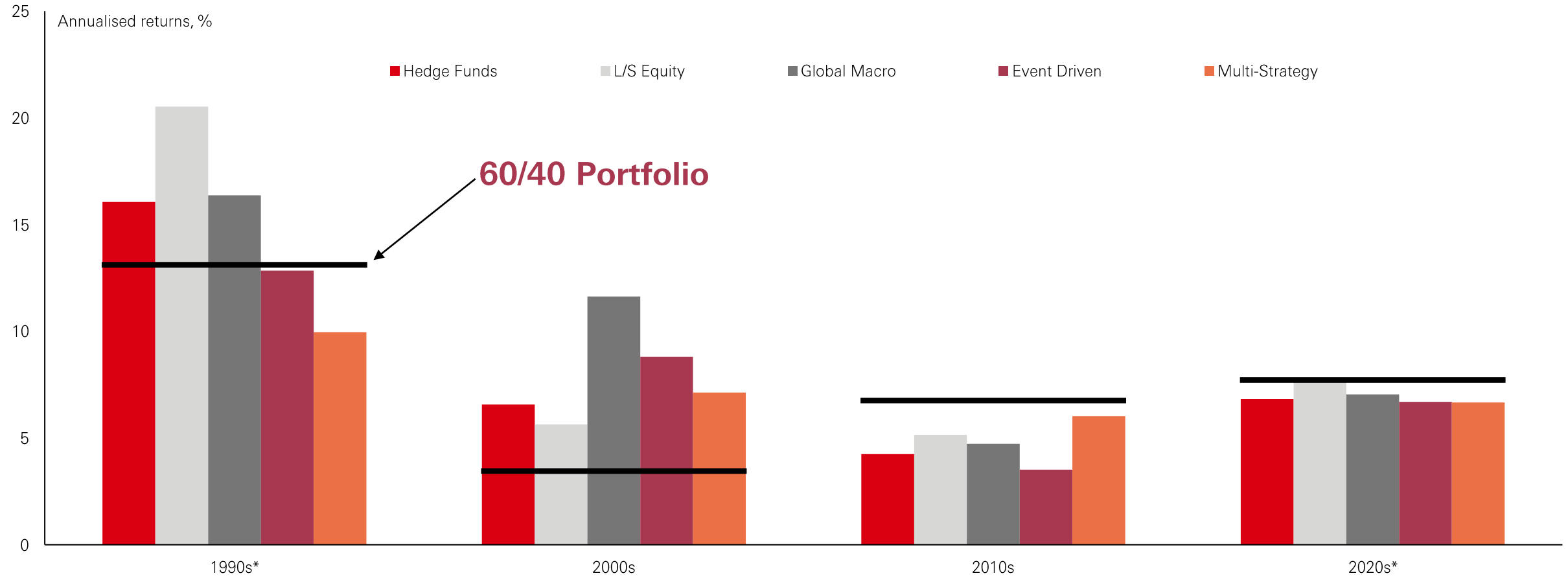
Gold price versus US 10y TIPS yield



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Source: Macrobond, Bloomberg, HSBC Asset Management, June 2026.

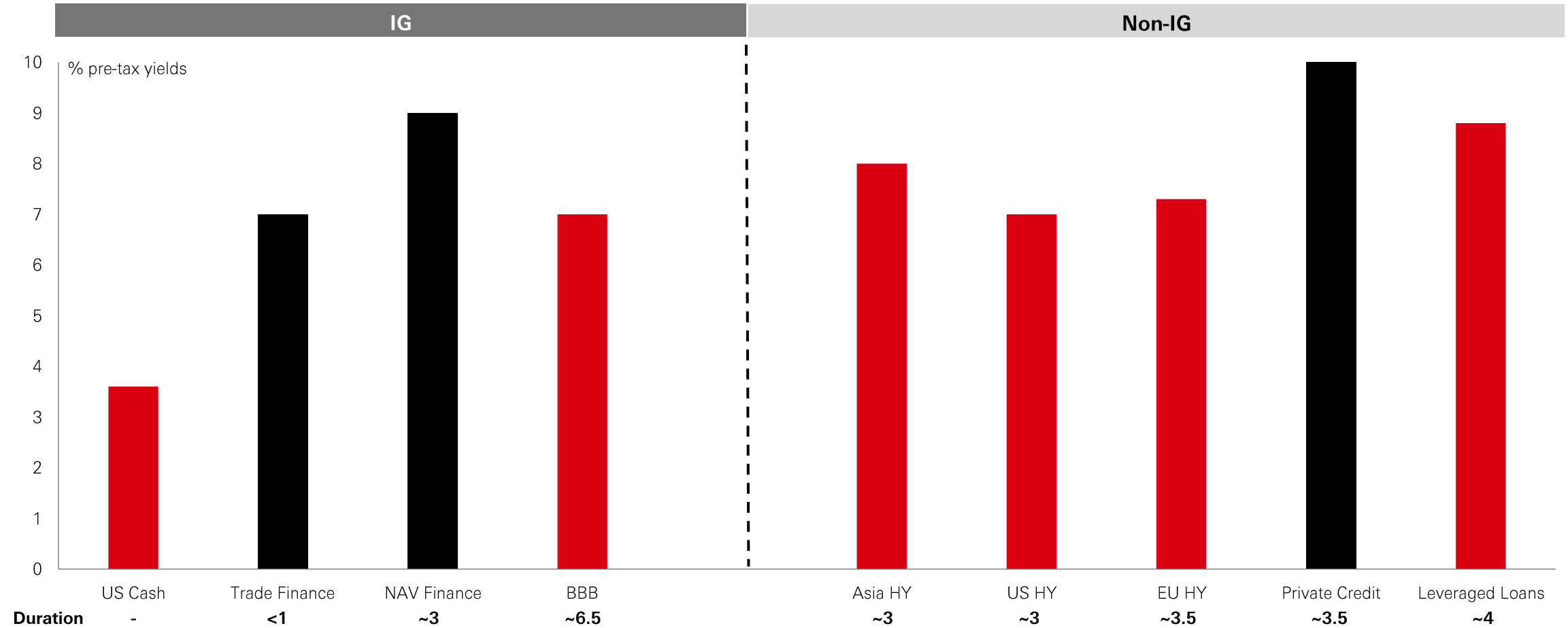
Hedge funds versus 60/40 portfolio¹



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Source: Bloomberg, HSBC Asset Management, June 2026. *Data ranges between April 1994 and April 2026. ¹ 60/40 calculated as 60% MSCI ACWI 40% Bloomberg Global Aggregate.

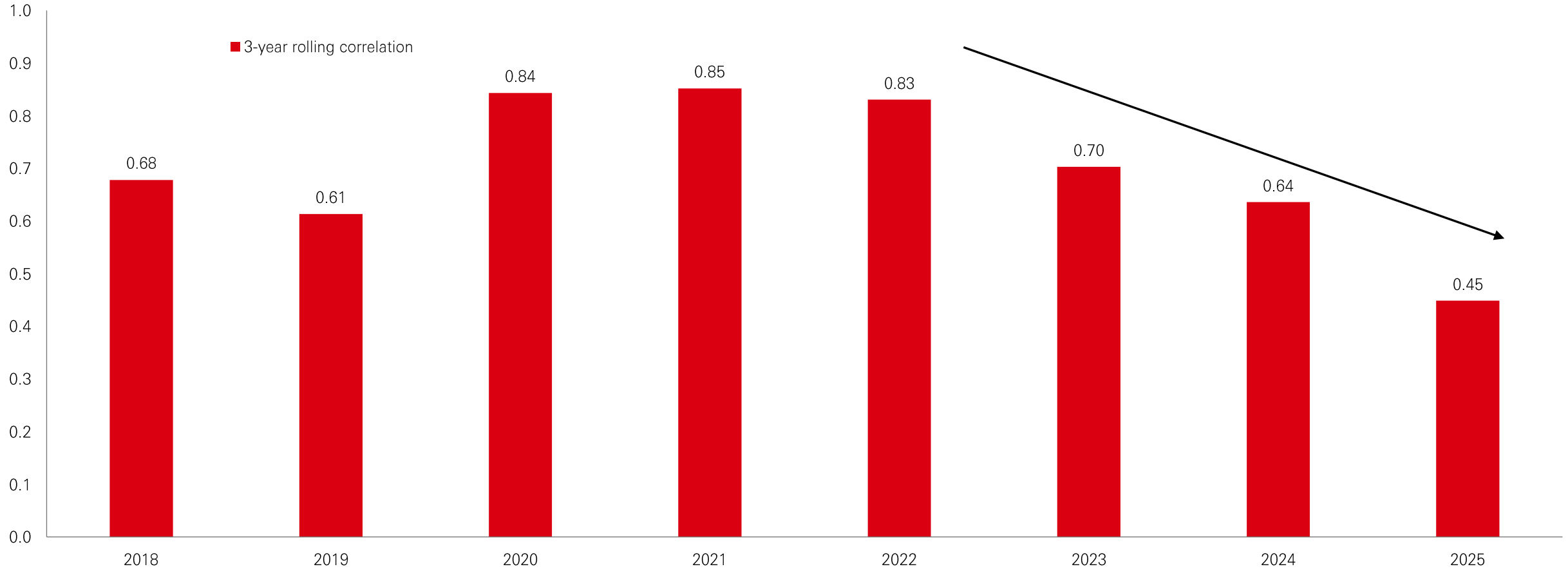
Asia credits and private credits stand out for “all in yields”



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Source: Macrobond, Bloomberg, Cliffwater, HSBC Asset Management, June 2026. **Note – Black bars represent Private Credit.**

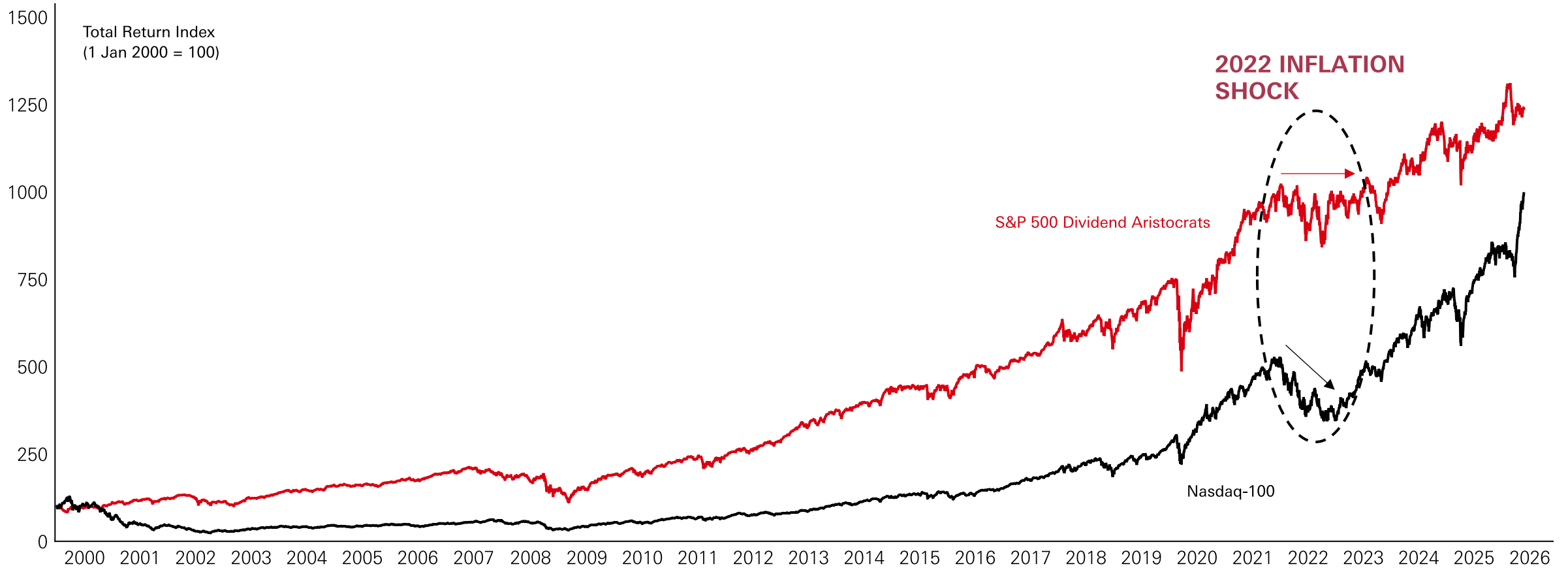
3-year correlation analysis between global infrastructure equities' components of the MSCI and MSCI



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Source: HSBC Asset Management, Bloomberg, data as of June 2026.

High-dividend stocks have outperformed over long-term, and were more resilient in 2022



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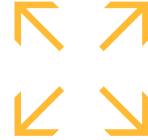
Source: HSBC Asset Management, June 2026.



APPENDIX



SHOCKWAVE



BROADENING OUT



BOOM BOOM



Driving forces

Supply side shocks collide with unbalanced growth

AI strength gradually broadens out, oil shock moderates

Surging AI investment and wealth effects create broader economic boom



Growth

Sharp slowdown as households retrench and profits disappoint

US growth around 2.0%, becomes more balanced. Other DMs strengthen into 2027

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% but easing. Approaching target in many DMs/EMs

Strong, broad-based demand keeps **US core inflation around 2.5-3.0%**

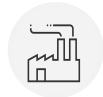


Monetary Policy

Initially more cautious Fed, but then **big easing** amid growth damage

Fed cuts to neutral (3.25-3.75%). Fiscal/industrial policy as drivers

Fed on hold/modest hikes but accommodates above-target inflation



China

Geopolitics and trade tensions worsen the **structural imbalance**

Resilient but uneven growth; policy focus on tech/innovation and energy security

Growth pickup on AI/export strength and domestic demand recovery

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Source: HSBC Asset Management, June 2026.



SHOCKWAVE



BROADENING OUT



BOOM BOOM



Stocks

Historic SPX bear market.
Cyclicals most vulnerable. VIX spike

Broadening out of market leadership amid
AI spillovers. Episodic volatility

US outperforms. SPX 8000+.
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 Asia tech exposure,
strong growth, 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
relatively dovish Fed

USD supported by stronger US
growth and absence of rate cuts



Top bets

High inflation: USD, gold, hedge funds
Lower inflation: USTs, CHF, JPY, quality
IG, defensives, quality, momentum

Value, tech, small-caps.
EM > Europe/Japan. IG > HY

US/EM > Europe/China. HY credits.
Industrial metals. Crypto > gold

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Macro Scenario		Government Bonds		Corporate Bonds		Equities		FX & Alternatives	
Macro Factor	House view	Asset Class	House view	Asset Class	House view	Asset Class	House view	Asset Class	House view
Growth	↔/▲	Global Bonds	↔/▲	Global Investment Grade (IG)	↔/▲	Global Equity	↔/▲	US Dollar (broad index)	▼
Rates	↔/▲	US 2yr	▲	USD IG	↔/▲	US	↔	EUR	↔/▲
EM Factor	▲	US 10yr	↔/▲	EUR IG	↔	Eurozone	↔	GBP	↔/▲
		German 2yr	▲	GBP IG	↔	Southern Europe	▲	JPY	▲
		German 10yr	▲	Asia IG	↔/▲	UK	↔	CNY	▲
Policy Rates	12m ahead	France/Germany	↔	Global High-Yield	↔	Japan	↔/▲	EM FX	▲
US	3.25-3.75%	Italy/Germany	↔	US High-Yield	↔	GEM Equity	▲	Asia FX (ADXY)	▲
Eurozone	2.00-2.50%	UK 2yr	▲	Europe High-Yield	▼	Asia ex Japan	▲	Commodities	▲
UK	3.75-4.25%	UK 10yr	▲	Asia High-Yield	↔/▲	Hong Kong	▲	Gold	▲
Japan	1.00-1.50%	Pan-Asia	↔/▲	Other Credits	▲	China	▲	Oil	▼
China	1.4% (1.30-1.50%)	Japan	▼	EM hard currency	▲	India	▲	Copper	▲
India	5.25-5.75%	Global ILBs	↔	Securitised Credit	▲	LatAm	↔/▲	Alternatives	▲
		EM (local currency)	▲			Frontier	▲	Hedge Funds	▲▲
		Brazil	▲			Equity Factors		Infrastructure	▲▲
		China	↔			Small cap	▲	Private Credit (Direct Lending)	▲
		India	▲			Value	▲	Private Equity (Buy Out)	▲
		Indonesia	↔			Growth	↔	Crypto Assets	▼▼
		Mexico	▲			Cyclicals	▲		
						Defensives	▼		

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

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Capital Market Line (10-year return expectations in USD)



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Source: HSBC Asset Management as at May 2026 1. Portfolio is based on 60/40 calculated as 60% MSCI ACWI 40% Bloomberg Global Aggregate.

Macro Outlook

- ◆ While there are **signs of progress towards reopening the Strait of Hormuz**, geopolitical risk remains elevated. With oil still around USD100/barrel and supply constraints for some other commodities, inflation pressures are likely to persist, acting as a headwind to growth
- ◆ **US activity is solid but imbalanced**. Booming AI investment and wealth effects are offsetting soft non-tech capex and weak household real income growth. Surveys suggest tepid **European growth could weaken further**
- ◆ Asia's **AI-led industrial upcycle faces energy constraints**, as well as intense import competition from China. China's growth remains **resilient**, supported by technology and exports, but continues to look **unbalanced**

House View

- ◆ Markets and economists describe **different worlds**. The global economy faces a complex set of supply shocks, but markets have shaken off geopolitical worries, helped by **strong corporate profits**. The confusing macro landscape means **episodic volatility** is to be expected
- ◆ As spillovers from the AI capex boom become more apparent, strong profits performance should hold and **broaden beyond borders into non-tech sectors**. Emerging markets could be well-placed to benefit
- ◆ Investors should also **"diversify the diversifiers"**. Higher yields in bond markets mean that "diversified income" opportunities have improved across fixed income and defensive equity sectors

Policy Outlook

- ◆ **Policy uncertainty remains high**. Central banks face difficult trade-offs between growth and inflation, pushing governments to make greater use of fiscal and industrial policy. But high government debt levels are a constraint
- ◆ Concern over persistent US inflation may **delay further Fed easing until 2027**. Comments by **ECB** policy makers point to a **near-term rate hike** while the **BoE** may be pushed into tightening if inflation expectations rise
- ◆ China's policy support remains focused on balancing short-term macro stability with longer-term structural priorities (innovation & tech self-reliance, energy security and economic rebalancing). In Asia, relative exposure to AI and the energy shock is driving a **varied pace and scale of policy support**

Scenarios

BROADENING OUT	US growth more balanced. Positive AI spillover lifts non-US equities, particularly EM. Gradual dollar depreciation
SHOCKWAVE	Pronounced US downturn as households retrench. Rising risk aversion. US equity bear market, EMs decline
BOOM BOOM	US economy booms on surging AI and wealth impact. US stocks outperform, firmer dollar dampens EM returns

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Source: HSBC Asset Management as at June 2026.



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