Investment Monthly

Profits power ahead

November 2026

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Marketing Communication.

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HSBC Asset Management | Opening up a world of opportunity

Summary

Macro Outlook

- **A re-intensification of** Middle East tensions has pushed oil prices back towards their 2026 highs and raised concerns about the supply of some refined products. Upside inflation risks and downside growth **risks** have increased accordingly
- **US domestic demand is robust but uneven**. Strong profits should broaden investment beyond AI, drive an improvement in labour market conditions, and gradually rebalance K-shaped dynamics
- AI and policy buffers have supported Asia's growth, but it is exposed to the risk of global AI demand shifts and energy supply shocks. **China's growth is resilient** amid technology and export strength, **but still imbalanced**

Policy Outlook

- **Policy uncertainty persists.** Central banks are facing difficult growth-inflation trade-offs due to supply-side shocks. Fiscal and industrial policy is more activist, but elevated government debt is a constraint
- The **Federal Reserve** left policy on hold but is widely **expected to raise rates in late 2026 and early 2027.** Further modest **ECB tightening is likely** despite volatility in bonds markets. The **BoE signalled a near-term rate hike**
- Asia's central banks are adopting a defensive and vigilant stance amid concerns over AI capex, oil prices and global rates. **China** has recently pivoted from fiscal austerity towards **targeted easing** to stabilise investment and domestic demand

House View

- **Our central scenario remains a "broadening out"** of profits and market leadership as AI spillovers widen and policy tightening nears its limits. While strong corporate fundamentals underpin resilience, supply-side inflation risks, fiscal strains, and higher-for-longer rates could drive episodic volatility
- **Exceptional profit growth is doing the heavy lifting for equities**, but US mega-cap concentration and stretched valuations breed fragility. Compelling opportunities lie in left-behind sectors, smaller caps, and non-US markets
- **Elevated starting yields have put the income back into fixed income** and improved bonds' ability to hedge growth or tech scares. But amid inflation and fiscal risks, diversifying across EM, real assets, and hedge funds is key

Scenarios

BROADENING OUT	Market returns broaden out amid AI spillovers. Oil shock moderates. EM bull market. Gradual dollar depreciation
SHOCKWAVE	Sharp US slowdown as real incomes undermined and profits disappoint. SPX bear market. Credit spreads widen
PRODUCTIVITY MIRACLE	AI-related productivity miracle. US bull market persists, EM gains. Strong US growth and higher US rates supports USD

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Source: HSBC Asset Management as at November 2026.

House View

Profit growth and market leadership should broaden out as the AI boom widens, though supply-side shocks, fiscal strains, and higher-for-longer rates could cause episodic volatility. US mega-cap concentration argues for rotating toward international and emerging markets, while pairing higher-yielding bonds with alternative diversifiers

- **Equities** – Robust profit growth underpins global stocks, but heavy US mega-cap concentration leaves markets sensitive to shifts in AI sentiment. Broadening earnings momentum favours rotating into emerging markets and Japan
- **Government bonds** – Elevated DM yields restore compelling carry and the ability to hedge against growth scares or tech sell-offs. But fiscal strains and supply-driven inflation risks mean bonds should be paired with alternative diversifiers
- **Corporate bonds** – Healthy balance sheets and attractive all-in yields support investment grade, though tight spreads and AI hyperscaler supply call for selectivity. Floating-rate securitised credit and EM debt offer better value

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

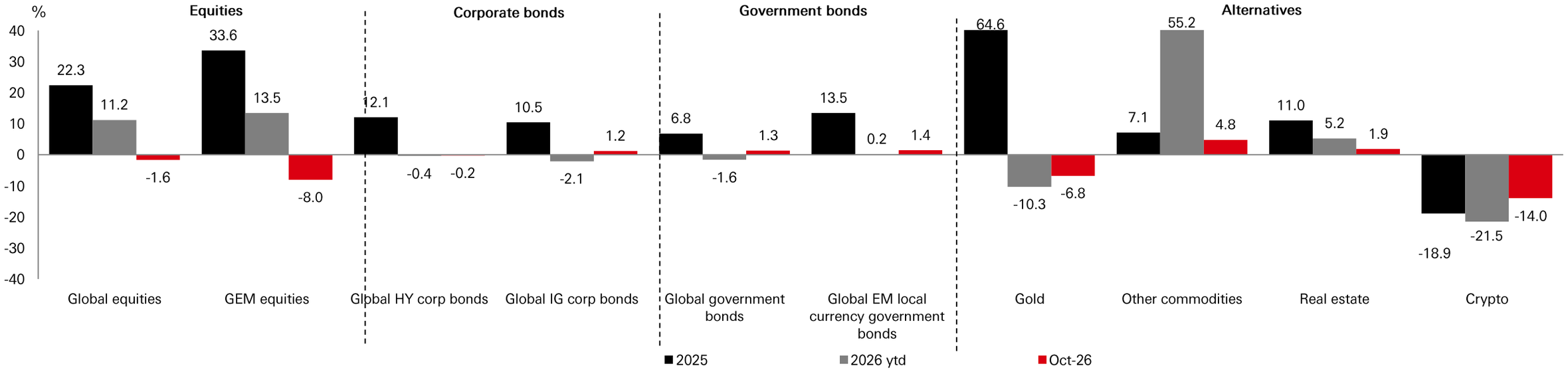
▲▲ Positive	↔/▼ Neutral/Negative bias
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↔/▲ Neutral/Positive bias	▼▼ Negative
↔ Neutral	

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Asset class performance at a glance

Renewed concerns about the durability of massive AI capex weighed on tech shares in October. Meanwhile, **rising market volatility and political uncertainty fuelled safe-haven demand**, driving a retreat in major DM sovereign yields. Alternatives were mixed: oil prices rallied further, and listed real estate rebounded, while gold and crypto weakened

- **Equities** – Global equities fell, as AI-related stocks declined, although the latest earnings season continued to show solid profit momentum. Japan and eurozone indices underperformed among DM, while tech-heavy markets led losses across EM
- **Government bonds** – Major sovereign bond yields mostly retreated amid rising safe-haven demand. US Treasury and German Bund yield curves bull-flattened, while French OAT yields pared gains amid lingering political concerns
- **Alternatives** – Gold prices extended their losses, and crypto assets also declined. Oil prices climbed further amid lingering geopolitical concerns, while real estate indices rebounded as yields retreated



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Macro scenarios

	SHOCKWAVE	BROADENING OUT	PRODUCTIVITY MIRACLE
Driving forces	**Supply side shocks collide with unbalanced growth**	**AI strength gradually broadens out, oil shock moderates**	Broad demand boom matched by **rapid AI-related productivity gains**
Growth	**Sharp slowdown** as real incomes undermined and profits disappoint	**US growth 2.0-2.5%**, becomes more balanced. Other DMs grow at trend rate	**US reaccelerates to around 3.0%**. Positive spillovers to global growth
Inflation	Uncomfortably high inflation but **recession destroys demand**	**US core rate around 2.5%** but slowing. Approaching target in many DMs/EMs	**Stronger supply side** prevents US inflation problem
Monetary Policy	**Fed initially on hold/hikes, but then eases** amid growth damage	**Modest Fed hikes (c.4.50%)**. Fiscal/industrial policy as drivers	**Fed funds 5.00% or above** but reflects higher neutral rate
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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Market scenarios

	SHOCKWAVE	BROADENING OUT	PRODUCTIVITY MIRACLE
Stocks	**SPX bear market.** Cyclicals most vulnerable. VIX spike	**Broadening** out of market leadership amid AI spillovers. Episodic volatility	**US bull market continues** Korea/Taiwan/high-beta stocks shine
Fixed income	**Curve initially flattens then steepens**. Credit spreads widen	Range-bound yields. Some upside risk to credit spreads. **IG as bond substitute**	**Upside risk to yields** given higher neutral rate. 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** from overvalued levels, Asia/EM benefits	**USD supported** by stronger US growth and higher US rates
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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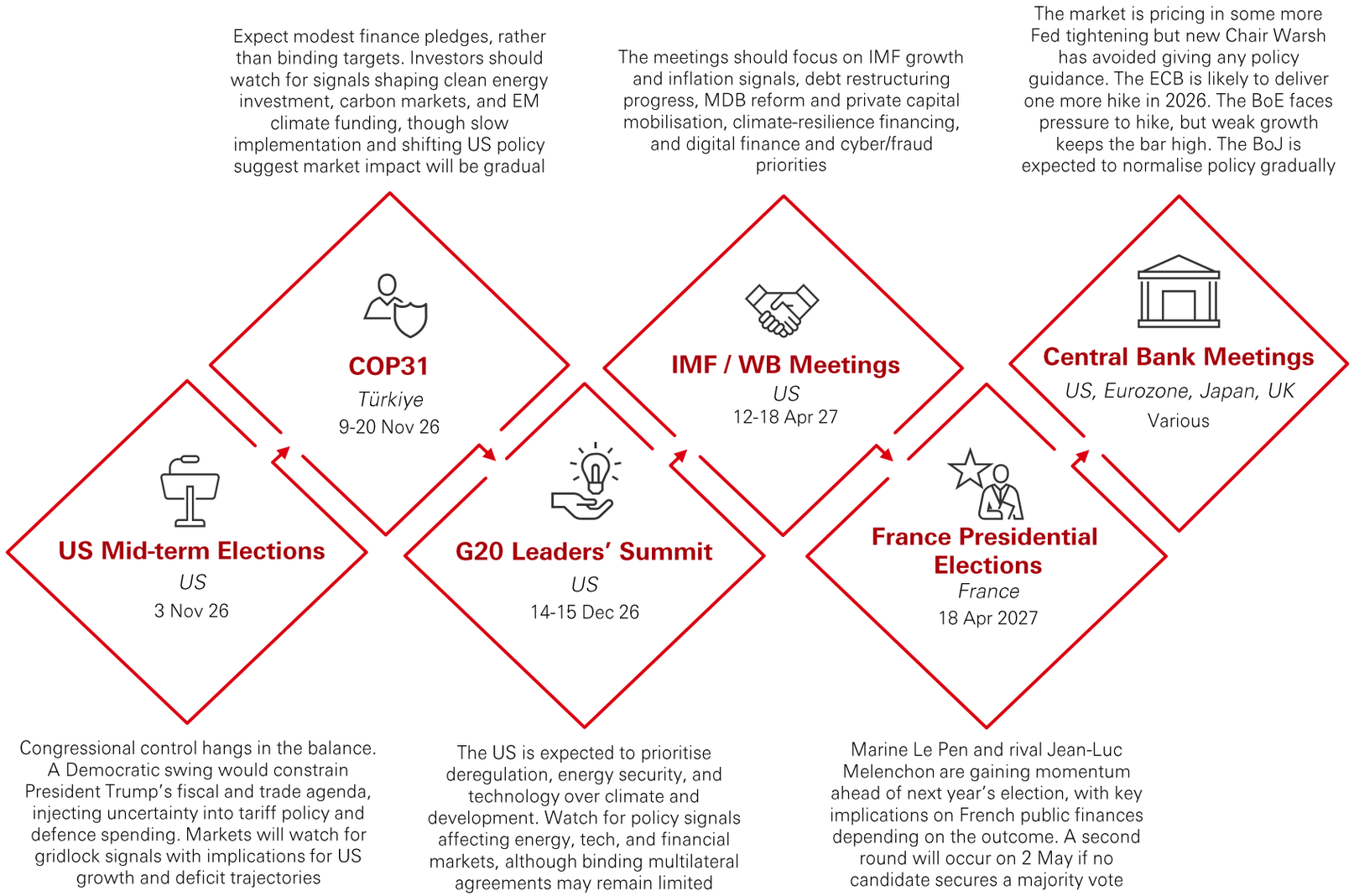
Spotlight on inflation risks

		Consensus		Policy	
		Growth (%)	Inflation (%)	12m ahead policy rate (HSBC AM)	2027 Fiscal impulse
		■2026 ■2027	■2026 ■2027		
US	The Fed left policy on hold with Lisa Cook and Beth Hammack favouring a 25bp rate hike. Fed Chair Warsh announced eight FOMC meetings in 2027, with one focused on long-run strategy rather than interest rates. US growth accelerated in Q3. Consumer spending remains resilient, labour markets have stabilised	2.3 2.2	3.4 2.5	**c. 4.50%**	**Mild drag**
Eurozone	The ECB remains committed to its meeting-by-meeting and data-dependent approach, with no precommitment on future policy. Persistent inflation concerns point to a 25bp rate hike in December despite tighter financial conditions. Hard data points to softer growth in Q4, while surveys remain resilient	1.0 1.3	3.0 2.6	**2.50-3.00%**	**Neutral**
UK	Chancellor Healey's Budget delivered limited fiscal support, focused on easing household energy costs. However, this is unlikely to prevent a renewed real income squeeze in early 2027, with inflation likely to exceed 4% yoy. Rising inflation concerns are expected to prompt the start of a gradual BoE tightening cycle	1.3 1.2	3.2 3.0	**c. 4.50%**	**Drag**
Japan	The BoJ voted 8-1 to keep policy unchanged, acknowledging underlying inflation is at a level generally consistent with its 2% price stability target. Governor Ueda highlighted upside inflation risks. Standardised core CPI (exc food and energy) has moved above 2% yoy. Price pressures broadening in goods and services	0.8 0.8	1.9 2.1	**1.75-2.00%**	**Neutral**
China	China's two-speed economy persists with AI/green-tech-led export/industrial strength vs. tepid domestic demand and property stress, limiting broader reflation. The recent pickup in fiscal implementation helps ease earlier fiscal austerity (on infrastructure). The PBoC focuses on targeted credit easing and structural reforms	4.6 4.4	1.0 1.1	**c. 1.40%**	**Neutral**
India	Amid signs of broadening price pressures, the RBI raised policy rates by 25bp and changed its policy stance to "calibrated tightening." We see scope for further modest tightening to anchor inflation expectations given resilient growth and upside price risks. The RBI will also actively manage liquidity and FX risks via other tools	7.1 7.0	5.1 4.6	**5.50-6.00%**	**Neutral**

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

Events calendar: Q4 2026 and H1 2027



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Investment Views



Asset class positioning

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Key to views

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

Asset class		House view	Comments
Equities	**Global**	↔/▲	Strong earnings and resilient growth support equities, but higher oil prices, real yields, and geopolitical risks could drive volatility. We favour broadening beyond US mega-cap technology, with attractive opportunities in Japan, emerging markets, and selected European equities
	US	↔	US earnings remain strong, supported by the AI investment boom, but elevated Treasury yields and heavy mega-cap concentration breed fragility. While headline tech earnings growth is set to moderate in 2027, peaking Fed hawkishness and AI spillovers should support equal-weight and smaller-cap stocks as midterm election uncertainty passes
	UK	↔	A defensive, commodity-heavy index offers resilience and a natural shelter during tech pullbacks, while record valuation discounts and attractive shareholder distributions support the investment case. However, sluggish domestic growth and tax-heavy fiscal consolidation following the Autumn Budget remain important headwinds
	Eurozone	↔/▼	Energy-price risks and renewed inflation pressure cloud the outlook, but improving margins, returns on equity, and a re-emergence of financial sector stocks as a profits engine all support a pick-up in the earnings outlook. Valuations remain attractive, although fiscal delivery and political uncertainty could challenge sentiment and earnings momentum
	Japan	↔/▲	Japan's exposure to AI, broad-based earnings growth beyond the tech sector, a pro-growth fiscal stance and ongoing corporate reforms continue to support further re-rating. However, energy supply disruptions, the sustainability of AI capex and higher yields pose risks, despite Japan's P/B ratio remaining low relative to its DM peers
	Emerging Markets (EM)	▲	Overall EM valuations remain attractive, supported by upward earnings revisions and improved fundamentals despite higher global yields. With recent gains concentrated in Korean and Taiwanese chipmakers, country- and sector-specific drivers—including lagging markets like China and India—offer valuable diversification if the global AI trade falters.
	CEE & Latam	▲	Latam stocks are well-positioned given their high exposure to energy and commodity sectors, deeply discounted valuations, and hefty dividend yields—which offer a generous buffer against post-election fiscal noise in Brazil. Central and Eastern European economies face mixed challenges complicated by higher energy import costs and geopolitical developments
	Frontier Markets	▲	Frontier markets offer exposure to some of the world's fastest-growing, domestically-driven economies that benefit from local idiosyncrasies. Strong local ownership and lower sensitivity to the global AI cycle help keep volatility subdued, complementing their low intra-country correlation, attractive valuations, and robust earnings growth
Government bonds	**Developed Markets (DM)**	↔/▲	Fiscal deficits, resilient growth, and structural competition for capital have pushed sovereign yields higher. While sticky inflation and heavy issuance limit capital gains, elevated starting yields restore compelling income and bonds' ability to hedge against equity sell-offs or growth scares—provided longer-term inflation expectations remain anchored
	US 10-year	▲	Yields are expected to remain range-bound in the near term, reflecting resilient growth and continued fiscal uncertainty. However, with the Fed likely nearing the limits of policy hawkishness and higher yields already tightening financial conditions, easing inflation should put modest downward pressure on 10-year rates in 2027
	UK 10-year	↔	Front-loaded, tax-heavy consolidation in the Autumn Budget has calmed gilt market nerves, though fiscal implementation challenges and a likely near-term BoE hike remain headwinds. Elevated gilt yields offer decent income now, while cooling growth and moderating oil prices in 2027 should allow yields to drift modestly lower
	German 10-year	↔	German 10yr yields have increased to the highest level since 2011. Rising oil prices, increased issuance, and higher 10yr US Treasury yields have put upward pressure on bund yields Whilst the inflation premium should gradually decrease over time, upcoming spending plans, risks of higher deficits, and the global debt glut should keep pressure on real yields
	Japan	▼	Investors continue to adopt a cautious stance amid rising concerns over a more expansionary fiscal policy. The Bank of Japan has signalled a more hawkish stance to contain underlying inflation below 2% over the medium-term. However, lingering inflation and fiscal concerns warrant an underweight in JGBs
	Inflation-linked bonds	↔	Real yields remain positive and attractive across the US, Europe and UK, but are likely to stay elevated and range-bound. Short-term inflation expectations remain vulnerable to energy shocks, while renewed central-bank hawkishness and higher term premia could weigh on linker valuations
	EM local currency	▲	EM debt offers attractive diversification and income/return potential, supported by improved macro, fiscal and external dynamics, policy frameworks, and central bank credibility in select markets, while some are central to structural AI and industrial-metal themes. But EM performance will likely remain divergent, driven by idiosyncratic macro and policy factors

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Asset class positioning

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Key to views

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↔ Neutral	

	Asset class	House view	Comments
Corporate bonds	**Global investment grade (IG)**	↔	Tight spreads are balanced by attractive all-in yields and healthy balance sheets, keeping IG a credible Treasury supplement. However, surging long-dated issuance from AI hyperscalers is extending index duration and amplifying tech equity correlation, favouring active selection and shorter-duration quality
	USD IG	↔	US investment grade spreads are likely to remain range-bound as strong earnings and demand for all-in yields offset heavy supply. With spreads near multi-decade tights and long-dated AI hyperscaler issuance increasing rate and equity sensitivity, we favour carry via shorter-duration, higher-quality issuers
	EUR and GBP IG	↔	European investment grade benefits from improving profitability, resilient balance sheets, positive net rating upgrades, and modest net supply. However, higher energy prices, French fiscal uncertainty, and elevated yields could weigh on margins, keeping us focused on higher-quality issuers
	Asia IG	↔	Asia investment grade offers attractive all-in yields and resilient fundamentals. While tight spreads leave limited buffer for energy or geopolitical shocks, resilience is reinforced by shorter duration, strong local technicals amid negative net supply, and lower exposure to AI hyperscaler issuance
	Global high-yield (HY)	↔	Resilient growth supports corporate fundamentals, but tight spreads provide limited compensation for downside risks. Higher-for-longer rates, elevated energy costs, and geopolitical shocks could widen spreads, favouring selectivity and stronger issuers over broad high-yield exposure
	US HY	↔	US high yield fundamentals remain resilient amid solid domestic demand, but tight spreads offer limited compensation for risk. Higher-for-longer rates, energy-price shocks, and geopolitical uncertainty could widen spreads, favouring selective exposure to stronger issuers and avoiding excessive duration or leverage
	Europe HY	▼	EU high yield offers carry, but the outlook is challenged by energy-driven inflation, weaker growth, and rising refinancing walls. With single-B spreads looking particularly expensive, we remain underweight cyclicals and favour stronger balance sheets in financials and defensive sectors
	Asia HY	↔/▲	Asia high yield offers attractive carry, with non-property corporates maintaining solid fundamentals and diverse funding channels. However, rich BB valuations, China's lingering property drag, and energy-import vulnerabilities warrant selective exposure to stronger balance sheets and commodity or policy beneficiaries
	Securitised credit	▲▲	Securitised credit offers compelling income and wider spreads than comparable corporate bonds. Floating-rate coupons eliminate duration risk, while subordination insulates senior AAA and single-A tranches from loan defaults—though structural complexity and lower liquidity make rigorous security selection essential
	EM hard currency (USD)	▲	The EM debt outlook is constructive, trading as a resilient haven even amid Western sovereign spread volatility. Lighter public debt burdens, faster growth, orthodox monetary policy, and steady rating upgrades toward investment grade make EMD an increasingly durable portfolio diversifier
FX & Alternatives	**Gold**	▲	After surging above USD 5,000/oz earlier this year, gold has pulled back and experienced higher volatility as leveraged positions unwound during equity sell-offs. While not a guaranteed short-term hedge, central-bank reserve diversification, fiscal debasement concerns, and multipolar geopolitics keep its strategic case intact
	Other commodities	▲	Oil performance remains driven by the persistence of the Middle East crisis and its impact on the growth-inflation mix. Alongside structural demand for copper from AI data centres and the green transition, commodities remain a vital real-asset hedge against supply-driven inflation shocks
	Real assets	▲▲	In Real Estate, investment activity is stabilising with investors increasingly seeing fair value and defensive appeal in the asset class. Capital value growth continues to be driven by rental income and income growth. Infrastructure is in demand as the backbone of long-term themes like AI data centres, energy transition, and transport networks
	Hedge funds	▲▲	Hedge funds can be good diversifiers in an environment of sticky inflation, more active fiscal policy, elevated macro uncertainty, and market phases where there are sharp upticks in volatility. They can perform in both rising and falling markets, with Macro and CTA strategies potentially attractive alternatives to bonds when stock-bond correlations are positive
	Private credit (D/lending)	▲	Private credit fundamentals and yields remain attractive, though crowded Western markets and evolving sentiment around liquidity terms warrant selectivity. Increasing allocations to under-penetrated Asian private credit can provide 200–400bp yield pick-up, shorter durations, stronger covenants, and diversification away from Western cycles
	Private equity (Buy out)	▲	The outlook is cautiously optimistic and tops our long-term return expectations: exit markets have improved despite higher-for-longer interest rates, supported by resilient corporate earnings, resurging M&A, and a pick-up in IPO activity. Operational value creation is key as higher financing costs and geopolitical risks persist
	US dollar (broad index)	↔/▼	Near-term, geopolitical risks and US resilience support the dollar, though its slip during recent tech sell-offs highlights waning safe-haven reliability. With the Fed nearing the limits of hawkishness and other central banks tightening, narrowing rate differentials and expensive valuations point to gradual medium-term depreciation
	Crypto	▼▼	Crypto prices continue to be 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 tokenisation are positives, volatility and thin liquidity could deter institutional investors

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↔	Neutral		

Asset class		House view	Comments
Asian assets	**Asia local bonds**	↔/▲	Asian central banks navigate AI capex concerns, energy headwinds and global rate volatility with varying policy responses, creating idiosyncratic market opportunities. Asian bonds offer diversification benefits for global portfolios, with relative resilience aided by policy credibility, a deep local investor base, large domestic savings, and active central bank management
	RMB bonds	↔	RMB bonds are less exposed to global interest-rate volatility, given China's distinct economic cycle, the decoupling of its monetary policy cycle from those of major global central banks, and a massive domestic savings glut. RMB bonds' low correlation with global markets and relative FX stability enhance their appeal as a diversification asset for global portfolios
	Asia ex-Japan equities	▲	Asia's earnings outlook remains supported by substantial AI-related capex, but the region also offers diversification beyond tech hardware exposure. While uncertainty over the durability of AI spending and geopolitical risks may amplify volatility, long-term growth themes remain intact and supportive policies could continue to attract fund inflows
	China equities	↔/▲	Chinese stocks offer a compelling hedge against global AI concentration, with domestic tech localisation leaving earnings insulated from US hyperscaler capex risk. A positive Q2 GDP deflator, "anti-involution" policies curbing price wars, advanced-manufacturing export strength, and targeted fiscal easing support an earnings turnaround
	India equities	▲	Low exposure to AI hardware made India a laggard this year but provides shelter during tech pullbacks. Beneath the surface, 7.8% Q2 GDP growth, rebounding corporate profits, 20-year-low corporate debt, and price-to-book multiples below 10-year averages offer superior domestic growth at a rare discount
	ASEAN equities	↔/▲	Domestic idiosyncratic factors should continue to drive dispersion in earnings outlooks and fund flows across markets. Policy and reform efforts are positive, despite lingering energy supply disruptions and other external uncertainties. Overall valuations are fair and they offer diversification beyond sectors exposed to the global AI trade
	Hong Kong equities	▲	A largely stable residential property and active capital market activities should underpin the earnings outlook, despite the risk of tighter global financial conditions from higher-for-longer rates, policy uncertainty, and near-term market liquidity constraints. Relatively low price-to-book ratios and decent dividend yields versus regional peers are also supportive
	Asia FX (ADXY)	▲	US-Asia rate differentials, balance of payments flows, domestic energy and policy buffers, and exposure to AI supply chains are driving near-term relative performance alongside policy actions to defend stability in places. Innovation-led export competitiveness, RMB internationalisation, and global geopolitical/trade fragmentation are structural themes supporting CNY

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On Top of Investors’ Minds



On Top of Investors' Minds

How come stocks have been so resilient?

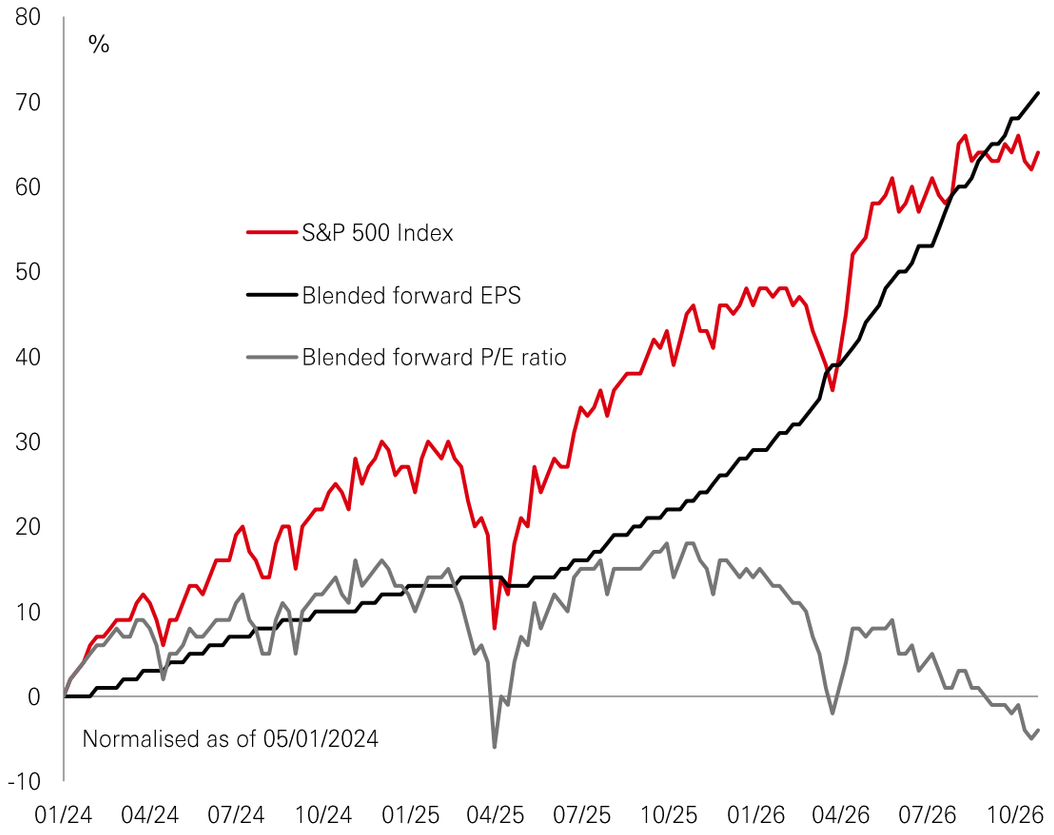
Global equities have demonstrated remarkable resilience this year, holding near record highs despite a barrage of macroeconomic headwinds. Markets have had to contend with surging oil prices, 10-year US Treasury yields exceeding 5%, renewed Fed rate hikes, and growing scrutiny over the durability of the AI boom.

Part of this resilience reflects **powerful buffers within the broader macro system**. More activist fiscal and industrial policy, cushioned energy reserves and market flexibility, and rapid private-sector supply-chain adaptation have enabled economies to absorb external shocks that might previously have triggered a downturn.

At the market level, booming corporate profits have done the heavy lifting. Surging forward earnings estimates have outpaced index price gains in 2026, resulting in a P/E valuation de-rating.

However, this leaves markets in a delicate balancing act. With cash and short-duration bonds now yielding around 5%, the opportunity cost of holding equities has risen. Against a backdrop of elevated rates and geopolitical uncertainty, **any slippage in mega-cap profit momentum could test market resilience—reinforcing the need to broaden equity exposure across sectors and regions**.

S&P 500, earnings, and P/E ratio



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How could the US midterm elections impact markets?

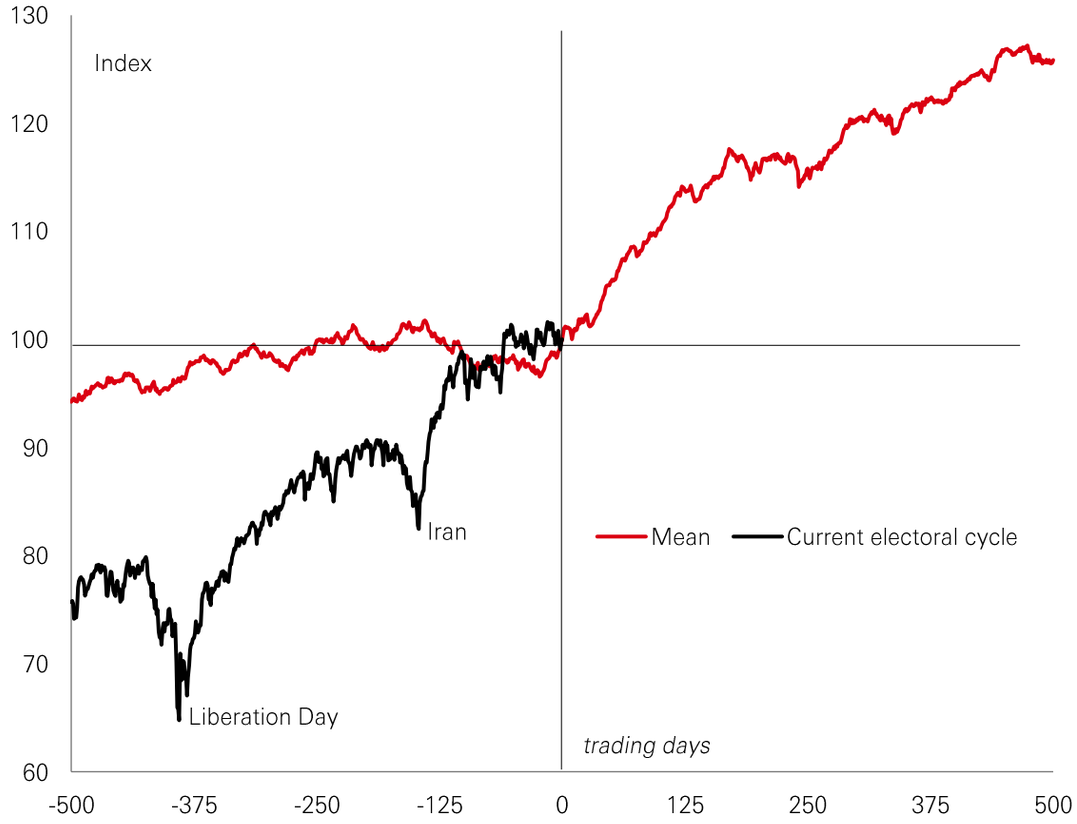
As Americans head to the polls, history offers equity investors an encouraging pattern: since 1950, US stock market performance has consistently accelerated in the year following midterm elections. Of course, political calendars do not drive markets alone; many post-midterm rallies coincided with powerful secular tailwinds, from 1980s disinflation and the 1990s tech surge to post-GFC monetary stimulus and the rise of mega-cap tech.

Still, the electoral cycle plays a role because **markets dislike uncertainty, and passing the midterms provides clearer visibility on the policy agenda**. If the administration loses one or both chambers of Congress, it may lean more on executive actions and tariffs. Yet divided government reduces the risk of sweeping fiscal surprises—a reassuring prospect for bond markets sensitive to deficit trajectories.

Given how strongly stocks have run in recent years, another 20% gain is a tall order today. Key volatility drivers remain, including sticky inflation, elevated yields, and concentrated AI valuations.

Yet after a stretch where political events—from "Liberation Day" to the Iran conflict—rattled sentiment, clearing the midterms can turn politics from a headwind into a market tailwind.

S&P 500 around midterm elections since 1950



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On Top of Investors' Minds

Where do we see the best long-term risk-adjusted returns across asset classes?

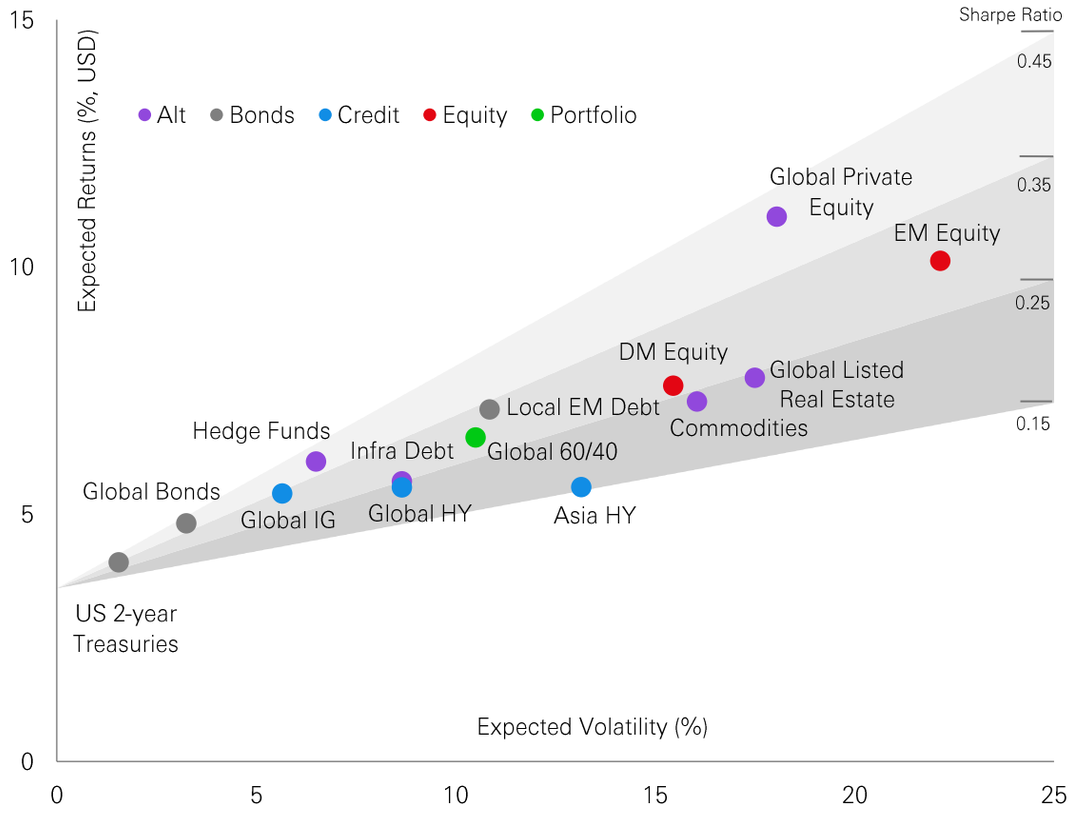
While market debate often fixates on near-term earnings and central bank moves, medium-term expected returns are the foundation of strategic asset allocation. Our 2026 Capital Market Assumptions—built from policy scenarios, economic trends, and starting valuations—highlight three key conclusions for portfolios.

First, **we are in a world of "shocks and a boom"—**combining supply-side disruptions with surging AI investment. This points to higher-for-longer interest rates, which have meaningfully lifted expected returns across cash, government bonds, credit, and emerging market debt.

Second, **higher rates are squeezing equity valuations**. Given US mega-cap concentration and stretched multiples, prospective returns favour rotating toward international and emerging markets—where more attractive valuations and risk premia leave EM equities and private equity topping our forecasts.

Third, **supply-driven volatility forces us to rethink "safe assets"**. G7 bonds offer higher carry and can hedge growth scares, but sticky inflation risks mean no single asset hedges every shock. Investors must diversify their diversifiers across real assets, commodities, and hedge funds.

HSBC AM "pecking order" of expected returns



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Market Data



Market Data

October 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)	1,116	-1.7	-0.4	10.9	9.9	1,163	958	17.6
North America								
US Dow Jones Industrial Average	51,770	1.7	-1.4	8.8	7.7	54,744	45,057	20.6
US S&P 500 Index	7,580	-0.9	1.2	10.8	10.7	7,845	6,317	20.6
US NASDAQ Composite Index	25,437	-5.3	0.2	7.2	9.4	27,723	20,690	27.8
Canada S&P/TSX Composite Index	35,620	1.1	1.1	17.7	12.3	37,069	29,531	16.9
Europe								
MSCI AC Europe (USD)	730	0.2	-3.2	9.8	4.3	777	646	15.2
Euro STOXX 50 Index	6,131	-2.2	-3.6	8.3	5.9	6,577	5,377	15.4
UK FTSE 100 Index	10,730	1.2	-1.3	10.4	8.0	10,989	9,424	12.6
Germany DAX Index*	25,818	2.5	0.7	7.8	5.4	26,619	21,864	17.1
France CAC-40 Index	7,969	0.1	-6.3	-1.9	-2.2	8,755	7,505	13.9
Spain IBEX 35 Index	18,653	-4.0	-5.7	16.3	7.8	20,357	15,725	13.7
Italy FTSE MIB	49,501	-3.6	-5.1	14.7	10.1	54,042	41,616	13.2
Asia Pacific								
MSCI AC Asia Pacific ex Japan (USD)	819	-6.9	-5.3	12.9	13.3	929	684	11.4
Japan Nikkei-225 Stock Average	63,290	-5.2	-1.7	20.8	25.7	72,832	48,235	20.6
Australian Stock Exchange 200	8,908	1.4	-0.8	0.3	2.2	9,297	8,262	18.4
Hong Kong Hang Seng Index	23,294	-5.4	-10.0	-10.1	-9.1	28,056	22,518	10.6
Shanghai Stock Exchange Composite Index	3,599	-6.3	-6.1	-9.0	-9.3	4,259	3,574	13.2
Hang Seng China Enterprises Index	7,862	-4.4	-8.7	-14.2	-11.8	9,646	7,404	9.6
Taiwan TAIEX Index	45,212	-5.7	4.9	60.1	56.1	49,969	26,396	19.7
Korea KOSPI Index	5,731	-16.2	-13.1	39.5	36.0	9,386	3,833	5.6
India SENSEX 30 Index	74,460	2.7	-4.7	-11.3	-12.6	86,159	71,293	19.1
Indonesia Jakarta Stock Price Index	5,057	-16.7	-18.9	-38.1	-41.5	9,174	4,907	8.3
Malaysia Kuala Lumpur Composite Index	1,616	-2.2	-6.3	0.4	-3.8	1,771	1,593	14.4
Philippines Stock Exchange PSE Index	5,680	0.0	-8.9	-4.2	-6.2	6,674	5,564	8.8
Singapore FTSE Straits Times Index	5,377	-5.3	-4.5	21.4	15.7	5,829	4,373	16.2
Thailand SET Index	1,519	-2.6	-6.5	16.0	20.6	1,658	1,232	13.4
Latam								
Argentina Merval Index	2,848,945	1.1	-13.4	-5.1	-6.6	3,395,937	2,516,582	7.8
Brazil Bovespa Index*	167,922	-9.9	-5.7	12.3	4.2	209,713	149,551	8.1
Chile IPSA Index	5,145	-6.6	-7.3	4.9	-5.1	6,062	4,847	11.4
Colombia COLCAP Index	2,491	-2.3	4.1	25.4	20.5	2,627	1,974	10.0
Mexico S&P/BMV IPC Index	69,779	8.7	4.2	11.2	8.5	72,111	61,290	13.6
EEMEA								
Saudi Arabia Tadawul All Share Index	9,922	-5.0	-6.3	-14.9	-5.4	11,638	9,368	13.4
South Africa JSE Index	107,622	-0.8	-3.5	-1.5	-7.1	129,339	106,047	10.0
Turkey index	11,117.0	-9.9	-20.1	-1.9	-4.5	15,204.9	10,373.8	4.8

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

Market Data (continued)

October 2026

EQUITY INDICES - TOTAL RETURN	3-month Change (%)	YTD Change (%)	1-year Change (%)	3-year Change (%)	5-year Change (%)	Dividend Yield (%)
Global equities	-0.1	11.2	12.3	82.9	61.8	1.6
US equities	1.3	11.2	11.2	86.1	69.5	1.1
Europe equities	-2.8	6.4	12.2	69.2	51.1	2.9
Asia Pacific ex Japan equities	-4.7	15.3	15.1	85.0	42.2	2.4
Japan equities	0.5	17.6	17.4	79.7	58.1	2.0
Latam equities	-8.5	6.0	13.7	49.2	79.6	4.8
Emerging Markets equities	-5.5	13.5	14.1	82.8	39.7	2.3

All total returns quoted in USD terms.

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

BONDS	Close	End of last month	3-months Ago	1-year Ago	Year End 2025
US Treasury yields (%)					
3-Month	4.08	4.11	3.75	3.80	3.63
2-Year	4.59	4.89	4.29	3.57	3.47
5-Year	4.72	5.09	4.45	3.69	3.73
10-Year	4.93	5.28	4.73	4.08	4.17
30-Year	5.31	5.63	5.27	4.65	4.84
Developed market 10-year bond yields (%)					
Japan	2.77	3.05	2.79	1.66	2.06
UK	5.28	5.42	5.05	4.41	4.48
Germany	3.32	3.59	3.21	2.63	2.85
France	4.97	4.86	4.00	3.42	3.56
Italy	4.51	4.61	4.02	3.38	3.55
Spain	3.95	4.13	3.65	3.14	3.29

BOND INDICES - TOTAL RETURN	Close	MTD Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)
BarCap GlobalAgg (Hedged in USD)	610	1.7	0.2	0.3	0.3
JPM EMBI Global	1020	1.4	-1.1	1.0	0.2
BarCap US Corporate Index (USD)	3,509	2.2	-0.2	-0.6	-1.0
BarCap Euro Corporate Index (Eur)	265	0.8	-0.8	-0.9	-0.5
BarCap Global High Yield (USD)	695	0.1	-1.6	2.1	0.8
BarCap US High Yield (USD)	2926	0.3	-1.3	1.6	0.4
BarCap pan-European High Yield (USD)	643	-1.1	-2.2	1.1	0.2
BarCap EM Debt Hard Currency	491	1.0	-1.4	-0.1	-0.9
Markit iBoxx Asia ex-Japan Bond Index (USD)	243	0.9	-0.2	0.6	0.3
Markit iBoxx Asia ex-Japan High-Yield Bond Index (USD)	292	-0.9	-0.8	2.7	2.4

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

Market Data (continued)

October 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	101.88	101.45	99.91	99.80	98.32	102.95	95.55
EUR/USD	1.12	1.13	1.15	1.15	1.17	1.21	1.11
GBP/USD	1.34	1.33	1.35	1.32	1.35	1.39	1.30
CHF/USD	1.21	1.20	1.24	1.24	1.26	1.32	1.19
CAD	1.40	1.42	1.40	1.40	1.37	1.43	1.35
JPY	157.6	157.4	157.4	154.0	156.7	164.0	152.1
AUD	1.42	1.44	1.42	1.53	1.50	1.56	1.37
NZD	1.78	1.78	1.70	1.75	1.74	1.80	1.64
Asia							
HKD	7.84	7.85	7.84	7.77	7.78	7.85	7.77
CNY	6.65	6.71	6.75	7.12	6.99	7.13	6.65
INR	94.96	95.83	95.39	88.77	89.88	96.97	88.39
MYR	4.06	4.08	4.09	4.19	4.06	4.21	3.88
KRW	1,334	1,357	1,439	1,430	1,445	1,562	1,321
TWD	32.52	31.84	32.31	30.74	31.42	32.71	30.75
Latam							
BRL	5.44	5.17	5.07	5.38	5.50	5.61	4.88
COP	3,195	3,309	3,155	3,855	3,775	3,928	3,024
MXN	18.79	18.07	17.34	18.55	18.01	18.93	16.86
ARS	1,536.72	1,520.25	1,487.66	1,445.23	1,451.62	1,541.84	1,347.06
EEMEA							
RUB	80.50	83.39	79.40	80.85	78.75	88.02	70.05
ZAR	16.71	16.42	16.53	17.33	16.56	17.58	15.64

COMMODITIES	Latest	MTD Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low
Gold	3,875	-6.8	-4.2	-3.2	-10.3	5,595	3,870
Brent Oil	117.6	13.6	30.5	80.8	93.3	126	59
WTI Crude Oil	104.1	15.2	23.0	70.7	81.3	119	55
R/J CRB Futures Index	411	0.2	6.8	35.9	37.6	429	292
LME Copper	14,155	-1.8	2.6	30.0	13.9	14,875	10,578

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

- Views are based on regional HSBC Asset Management Asset Allocation meetings held throughout **October 2026**, HSBC Asset Management's long-term expected return forecasts which were generated as at **30September 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.
- "*Underweight*" 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 negative tilt towards the asset class.
- "*Neutral*" 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) neither a particularly negative or positive tilt towards the asset class.
- 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 **30 September 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 **31 October 2026**.

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