

Q3 / 2026

HSBC Perspectives

Shaping your investment portfolio



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The new investment trifecta: AI, energy and defence



Willem Sels

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The first half of the year has been a decidedly bumpy ride, dominated by the devastating conflict in the Middle East, which has driven up energy prices and disrupted supply chains. Yet earnings growth has continued to march higher, led by the US technology sector and the benefits of innovation. In this fastmoving landscape, our multi-asset, diversified approach continues to serve us well.

While the full impact of the conflict on the global economy is yet to become clear, ceasefire negotiations have shifted investors' focus back to the long-term structural trends that are reshaping our future, reinforcing our optimism for Q3 and beyond.

What does this mean for investors?

We've been through many periods of uncertainty in the recent past. A key difference from the COVID-19 pandemic, the Russia-Ukraine conflict and the shift in US tariff policies is that governments and businesses have taken steps to diversify their trade relationships and build more robust systems. Therefore, while we believe volatility will linger, it should remain manageable. The global economy is more resilient than many people fear.

This resilience allows us to look beyond short-term uncertainty and focus on long-term structural opportunities, supported by three strategic investment pillars: **AI, energy** and **defence**, which steer our four investment themes for the coming quarter.

Clearly, the AI story will continue to fuel earnings expectations across sectors and markets, driven by strong capex trends and productivity gains. The build-out of digital infrastructure and AI development are driving global capital not only into Technology, but also into a number of other sectors and key themes that benefit from it, including Industrials and Materials.

The Middle East conflict is adding to the case for diversified energy sources and national defence spending, and we can see some differentiation between winners and losers from elevated energy prices. We therefore maintain our overweight on energy stocks across regions and our underweight on the global consumer discretionary and staples sectors. Some oil-importing markets, such as India and Indonesia, are now less preferred.

One thing the three pillars have in common is that they all require substantial funding and government support, creating new jobs and driving capital market activity in both public and private markets. This also helps offset fears of reduced employment caused by automation.

Positioning for portfolio resilience and Asia's growing momentum.

While we're positioning to benefit from these three structural pillars, preparing for downside risk is equally important and should become routine in investing.

The traditional approach to diversification, relying on low correlations between equities, bonds and gold, didn't work well during the recent conflict. We see a growing case for adding alternative assets, with infrastructure complementing bonds for income generation, while hedge funds and gold can help dampen market volatility. Meanwhile, with private companies accounting for around 90% of the global corporate universe, the opportunities in private markets are enormous.

While the US remains resilient and continues to attract global investment in its technology sector and broader equity and bond markets, Asia remains a strategic focus in our portfolios for geographical diversification. Technology and innovation are the biggest engines of its stock markets, while total shareholder returns are also improving across a number of markets in the region.

Lastly, as part of our HSBC Think Wealth series, we're pleased to share insights on risk management from legendary Wall Street investor Howard Marks, Cochairman and Co-founder of Oaktree Capital Management, in our feature article.

We hope our reflections help you steer a course through today's turbulence and capture the opportunities that resilience and innovation are already bringing into view.

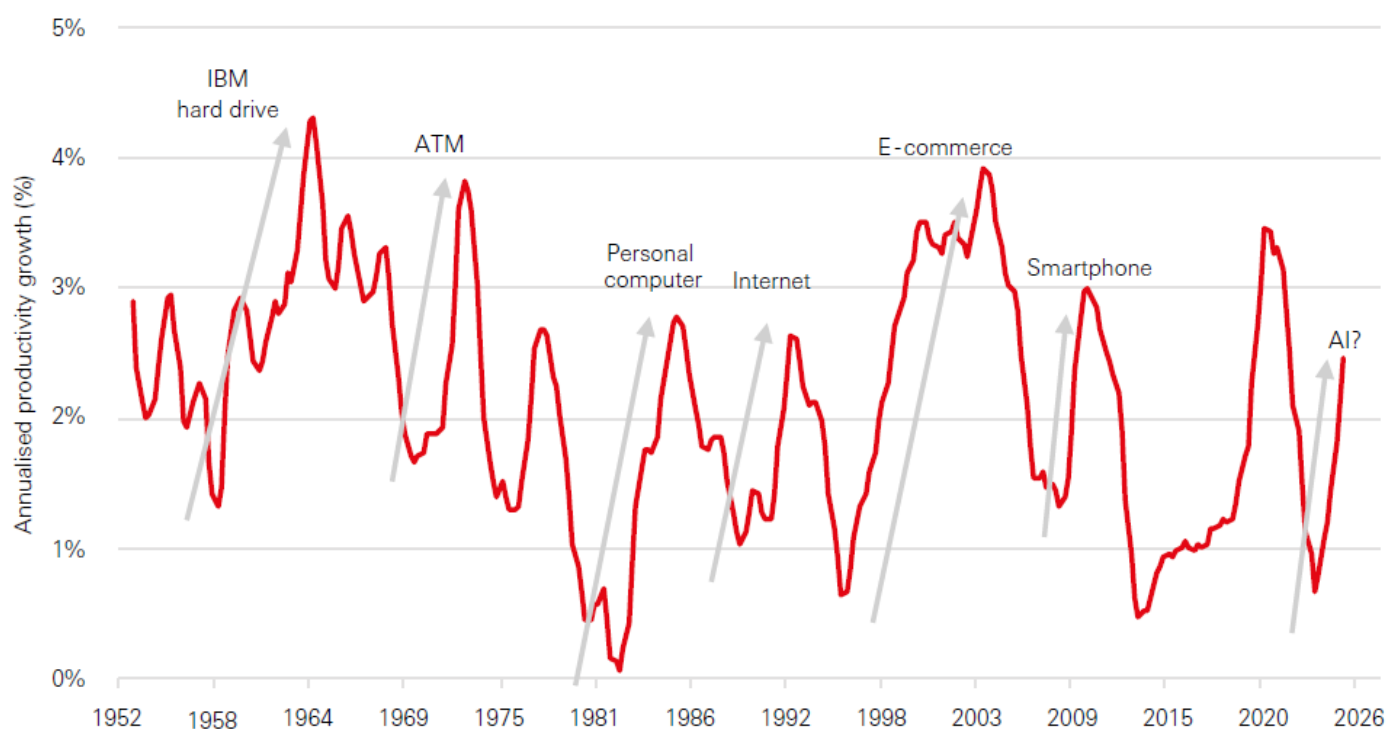
Key data to watch

Growth moderates but remains resilient amid rising inflation expectations in 2026

	GDP growth			Inflation		
	2025	2026f	2027f	2025	2026f	2027f
World	2.8	2.5	2.6	3.1	3.7	2.9
US	2.1	2.1	2.0	2.7	3.5	2.7
Eurozone	1.5	0.5	0.7	2.1	3.3	2.4
UK	1.4	1.1	1.0	3.4	3.4	3.1
Japan	1.2	0.7	1.0	3.2	2.2	1.7
India	7.5	6.1	6.4	2.2	5.6	5.0

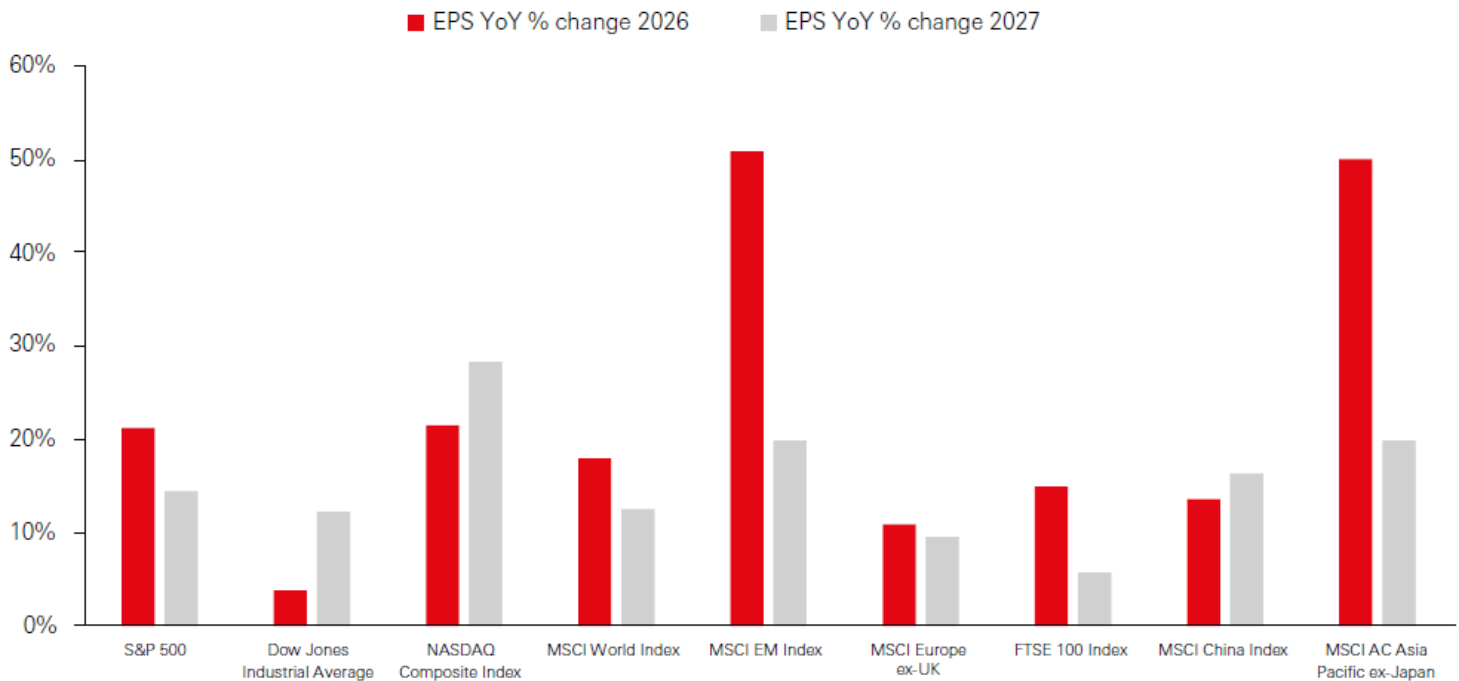
Source: HSBC Global Investment Research as at 15 May 2026. Estimates and forecasts are subject to change. India's inflation forecasts are based on the fiscal year.

Innovation cycles have driven productivity gains, with AI coming next



Source: Bloomberg, HSBC Global Investment Research, HSBC Private Bank and Premier Wealth as at 21 May 2026.

The US, Asia ex-Japan and emerging markets lead in earnings growth in 2026 and 2027



Source: Bloomberg, HSBC Private Bank and Premier Wealth as at 8 May 2026. Past performance isn't a reliable indicator of future performance.

Global calendar

Key events – second half of 2026

23 Jul	European Central Bank (ECB) policy decision	28 Oct	FOMC policy decision
29 Jul	Federal Open Market Committee (FOMC) policy decision	29 Oct	ECB policy decision
30 Jul	Bank of England (BoE) policy decision	5 Nov	BoE policy decision
10 Sep	ECB policy decision	9 Dec	FOMC policy decision
16 Sep	FOMC policy decision	14-15 Dec	G20 Summit
17 Sep	BoE policy decision	17 Dec	BoE and ECB policy decisions

Four investment themes to help shape your portfolio

1 Invest in the AI-led future

Earnings growth, a key driver of equity performance, continues to edge higher in the US, led by Technology and Communications, and powered by two major AI-related forces: strong capex trends and productivity gains.

Earnings growth should help drive global equity markets up further, and we don't see current levels as an obstacle. In fact, following the sell-off in early 2026, tech valuations are now reasonably priced compared to other sectors. Analysts expect earnings to grow by 56% in US tech this year, and 25% for the S&P 500. AI's productivity gains are spreading across sectors. Policy support, including tax incentives in the US and the supportive policy of mainland China to growth, provides a further catalyst. Globally, we see attractive opportunities in semiconductors, data centres and innovative AI adopters across sectors.

AI continues to transform how businesses operate and compete, making it a long-term investment theme that's not to be missed. In fact, opportunities should broaden beyond Technology into Industrials, Materials and Utilities, which benefit from the build-out of new data centres and electricity networks, while Financials are supported by strong capital market activity.

- ◆ **A broad set of opportunities across the AI ecosystem supports our overweight on Technology and Communications across regions.**
- ◆ **We favour Materials and Financials (across regions) as well as Industrials and Utilities (Global, US and Europe) as key beneficiaries of AI.**

2 Benefit from governments' focus on security and energy independence

As a result of the Russia-Ukraine conflict and US trade tariffs, many governments have refocused their industrial policies and national security strategies to achieve security and energy independence. High energy prices arising from the Middle East conflict have further strengthened the case for diversifying energy sources and suppliers.

Oil importer and exporter may show divergent trends: the US is an oil exporter and China has managed its energy needs carefully, while oil-importing markets, such as India and Indonesia, have proven more vulnerable.

Even with an end to the conflict in the Middle East, the lagged effects on supply chains and inflation will keep energy prices elevated in the near term, not to mention the upside risks from prolonged disruption. Moreover, rising demand for electricity to support AI adoption, energy independence and electrification, as well as investment in defence to modernise national and regional capabilities, present significant opportunities.

- ◆ **Valuations, cash flows and dividend yields remain attractive for energy stocks across regions, and they can help hedge against oil price volatility.**
- ◆ **Renewable energy also benefits from a policy shift away from fossil fuels towards net zero emissions.**

3 Build portfolio resilience with multi-asset strategies

As change has become a constant in financial markets, building portfolio resilience should be an all-weather strategy. The question is how to achieve this in different market conditions.

Traditionally, bonds have helped dampen portfolio volatility through their stable income, while gold's safe-haven appeal has been justified by its lower correlation with equities and the supportive role of central bank purchases. However, the recent conflict has demonstrated that bonds and gold aren't perfect diversifiers, and they may not be sufficient in today's highly complex and interconnected financial landscape.

While bonds and gold remain key components of any well-balanced portfolio, it helps to add alternatives, including hedge funds and private markets, where appropriate. Innovative technology is creating new business models and opportunities that require enormous funding from the private markets. Infrastructure can also offer another option for income generation. This means our multi-asset strategies should go wider and deeper.

- ◆ **We focus on investment grade credit with different duration preferences to capture attractive yields, and on emerging market bonds for their diversification benefits.**
- ◆ **Gold, infrastructure and alternative assets can complement traditional equities and bonds to support a more holistic approach to diversification across asset classes, sectors, geographies and currencies.**

4 Tap into Asia's innovation and income

We remain optimistic but selective on Asia, focusing on markets with strong economic growth and earnings momentum, driven by a strong capex cycle linked to innovation and manufacturing strength.

With the rapid adoption of AI and cloud technologies, Asia Pacific is expected to account for 40% of global data centre capacity by 2030, and growth is continuing at speed. Mainland China is at the forefront of AI development, as technology and industrial leaders are benefitting from favourable government policies and improving margins.

Leading hardware companies in South Korea are faring well amid rising demand for high-performance semiconductors. In Hong Kong, we see multiple growth drivers beyond AI adoption, including a pick-up in consumption, increased IPO activity, strong liquidity inflows and an improving housing market.

Meanwhile, there are plenty of income opportunities from high-quality dividend stocks, thanks to corporate governance reforms in markets such as South Korea and Japan that are boosting shareholder returns. Asian bonds also offer attractive yields and are less sensitive to interest rate volatility in developed markets.

- ◆ **Our focus on innovation aligns well with our overweight positions in mainland China, Hong Kong, Singapore and South Korea.**
- ◆ **Our barbell strategy balances exciting growth opportunities with compelling income from high-quality dividend stocks and Asian investment grade bonds.**

Think Wealth with Howard Marks: Navigating risk and building resilient portfolios

Key takeaways

- ◆ Investors should assess risk holistically, considering personal circumstances, market cycles and valuations, rather than focusing solely on volatility or short-term fluctuations.
- ◆ Shifting from ownership strategies, such as equities, to lending strategies, such as bonds, can reduce risk and provide consistent, contractual returns during uncertain market conditions.
- ◆ Intelligent portfolio diversification balances known advantages and unknown risks, helping to ensure long-term stability in changing market cycles.

Our HSBC Think Wealth thought leadership series brings you insights from the industry's top minds and aims to answer the most pressing questions for investors.

In a world of constant market swings, how can investors better assess their risk profile and remain flexible in their strategy?

This question lies at the heart of the investment philosophy of **Howard Marks, legendary Wall Street investor and Co-chairman and Co-founder of Oaktree Capital Management**. We discuss today's global asset market trends and explore how investors can align their portfolios with their own risk tolerance. Throughout the conversation, Howard breaks down complex ideas with the clarity and humour he's known for.

In your recent memo "A Look Under the Hood", you wrote that people perhaps focus too much on volatility as the primary measure of risk. What should they be thinking about?

Howard: Over the last three years, we've been in a very optimistic mood. Optimism has been rising, and that's why asset prices have been rising so strongly.

At the beginning of November 2022, the market took a pronounced turn towards optimism, and that has continued unabated. Now, the companies didn't double in quality, they didn't double in potential, and they didn't double in earnings. They just became more expensive.

The world has become perhaps more uncertain this year, and yet most stock markets have become higher priced, so certainly more expensive. We have to take that into consideration when we make our investment decisions.

I don't apply the word "bubble" – this is just a judgment call. The hallmark of a bubble is mania, irrationality. I think today people are optimistic, but hopefully rationally so. Markets are expensive, lofty; they've gone from elevated to worrisome, and they're certainly not cheap. But I don't apply the bubble word now.

So it's not a bubble yet, but you're on watch, and valuations are elevated. What do we do in that kind of environment?

Howard: One of the things that every investor should do is to sit down, have a conversation with himself or herself and figure out what their normal risk posture should be.

Your risk posture should be a function of your age, wealth, income, perhaps your proximity to retirement, and, importantly, your intestinal fortitude – your ability to live through fluctuations.

I think about a speedometer in a car, where zero is no risk and 100 is maximum risk. Where should you be normally, based on that matrix of

characteristics? We have an extended bull market cycle that has gone on almost without interruption for 16 years. We have high valuation metrics and narrow credit spreads. So, valuations are elevated. The world is uncertain.

It really depends on how conservative you want to be. But I think this is a time, if you want to try these things, to be a little more defensive than your normal posture, a little less than a 75. I'm not saying you should sell everything and hide under the mattress.

The world isn't so black and white. It's a matter of gradation.

To me, I think the best way to do it is to shift somewhat from what I call ownership strategies, which are stocks, companies and buildings, to lending strategies – debt, bonds, notes and loans – because the risks in lending strategies are much lower, and the returns there are contractual.

You manage both public and private market strategies. What advice do you have for investors looking to build a credit portfolio today?

Howard: I want to talk about diversification for a minute, because if it's done intelligently, it increases the probability of accomplishing your goals. And it's "free".

When I think about a portfolio of credit for investors like yourselves, one of the important dimensions is public versus private. Another dimension is fixed or floating rate. And then, of course, we have dimensions by geography, company and sector. We concentrate our investments to take advantage of what we think we know, but we diversify to protect against what we don't know.

I'd like to assert that I know something, but not everything. And for those of us who feel that way, I think intelligent diversification is the answer.

Can you share one principle that has guided your thought process through the many market cycles you have seen over your career that stood the test of time?

Howard: I think that the most important thing is to be invested significantly and steadily and not tinker with it. I think short-term trading is the enemy of investment success. You can try to put it in the right thing at the right time and have more offence at some times and more defence at other times.

It's not easy. If you do it right, you can improve the process. The most important thing is to invest, to have an intelligently constructed portfolio – a diversified portfolio – so you can get through a variety of environments. That's the most important single thing.

Glossary

Alternative investments: A broad term referring to investments other than traditional cash and bonds. They may include real estate, hedge funds, private equities and commodities investments, among other things. Some of these investments may offer diversification benefits within a portfolio.

Asset class: A group of securities that show similar characteristics, behave similarly in the marketplace and are subject to the same laws and regulations. The main asset classes are equities, fixed income and commodities.

Asset allocation: The allocation of funds held on behalf of an investor to various categories of assets, such as equities and bonds, based on their investment objectives.

Company fundamentals: The intrinsic value of a company as analysed by looking at its revenue, expenses, assets, liabilities and other financial aspects.

Diversification: Often referred to as “not putting all your eggs in one basket”, diversification means to invest in a variety of different sectors, asset classes and regions to spread the risk of loss.

Fiscal policy: The use of government spending and tax policies to influence macroeconomic conditions, such as aggregate demand, employment, inflation and economic growth.

Investment strategy: The internal guidelines that a fund follows in investing the money received from its investors.

Inflation: The rise in the general price levels of goods and services in an economy over a period of time.

Monetary policy: The process by which the authorities of a country control the supply of money. This often involves targeting a rate of interest for the purpose of promoting economic growth and stability.

Quantitative easing: Also known as large-scale asset purchases, a monetary policy whereby a central bank buys government securities or other financial assets from the market in order to increase the money supply and encourage lending and investment.

Strategic asset allocation: A practice of maintaining a mix of asset classes that aims to meet an investor’s risk and return objectives over a long-term horizon, rather than to take advantage of short-term market opportunities.

Tactical asset allocation: An active management strategy that deviates from the long-term strategic asset allocation in order to capitalise on economic or market conditions that may offer near-term opportunities.

Tapering: The reduction of the interest rate at which a central bank accumulates new assets on its balance sheet under a policy of quantitative easing.

Volatility: A term for the fluctuation in the price of financial instruments over time.

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Opening up a world of opportunity