Q1 / 2026

Think Future 2026

Your guide to the global investment landscape

HSBC | Opening up a world of opportunity

Contents

Source: Bloomberg, HSBC Private Bank and Premier Wealth as at 19 November 2025. Past performance isn't a reliable indicator of future performance. Chinese equity views herein are from HSBC PB and Wealth Global Investment Committee

AI transformation underpins a bull market outlook

As a year of surprises draws to a close, it's a good time to filter out the noise and refocus on the fundamental drivers of performance to position our portfolios for 2026.

Recent months have provided more clarity on the tariff front, while US earnings delivery remains strong, supported by tech-led productivity gains and a robust capex cycle that's still under-estimated by markets. However, a sharp runup in valuations, debt piles and the longest government shutdown in US history spurred some profit-taking recently. Some investors are wondering how long the bull market can last.

What does this mean for the 2026 market outlook?

We believe the key drivers behind our positive view are likely to persist. The rapid adoption of artificial intelligence (AI) should remain a defining theme in 2026 globally. Not only is a reversal of this trend very unlikely, but we also see opportunities widening across sectors in the AI ecosystem. Industrials and Utilities should benefit from the growing demand for digital infrastructure and electricity, while long-term structural initiatives continue to prioritise reshoring and re-industrialisation to strengthen strategic autonomy in supply chains, especially in technology and defence.

According to the OECD, AI could add between 1% and 2.5% to labour productivity in the next 10 years. Unlike other regions, most of the US equity market returns have come from earnings growth rather than P/E multiple expansion. Valuations have risen, yet they're still far below the levels of the dot-com period. And Q1 2026 earnings forecasts still look a bit conservative, creating room for positive surprises in Q1. Hence, we're not worried about an AI bubble, but do believe that short-term market dips should be expected.

Outside of the US, Asia enjoys twin tailwinds – a diverse, fast-growing AI ecosystem at attractive valuations and resilient domestic demand supported by policy measures. As far as data-centre growth capacity is concerned, Asia is expected to outpace its global peers for the period of 2025-2030. Corporate governance reforms will also help enhance return on equity (ROE) in the region. Our barbell strategy, balancing our preference between tech innovation champions and high dividend stocks or quality bonds, has been working well. These dynamics support our recent upgrade of Hong Kong SAR China, Japanese and South Korean equities to overweight, alongside the US, mainland China and Singapore. We also favour the structural and cyclical opportunities in the UAE and South Africa within the EM EMEA region.

Preparing for short-term market dips amid a positive trend

Nevertheless, we remain mindful of policy and macro uncertainty. The US Federal Reserve could end its rate-cutting cycle sooner than expected, and data-centre construction could face delays due to labour shortages – not to mention the potential for escalating geopolitical tensions in any region.

Our analysis of different asset classes finds that there's no silver bullet in achieving portfolio resilience under various risk scenarios. We therefore continue to diversify across assets, regions, sectors and currencies via multi-asset strategies to manage concentration and downside risks. We've repositioned our strategy by trimming exposure to US equities a bit, while still maintaining a positive view. We've added to Asia, underweighting US Consumer Staples and high yield bonds, while leaning on global investment grade and EM local currency government bonds, as well as gold, to build resilience.

A growing need to diversify the diversifiers

Moreover, as markets focus a lot on Fed policy, assets have become more correlated in recent months. We see value in adding alternatives as an additional layer of diversification.

We hope our investment themes and the broader content in our Think Future 2026 will help you navigate the year ahead.

Best wishes for a successful investment journey.

Willem Sels
Global Chief Investment Officer,
HSBC Private Bank and Premier Wealth

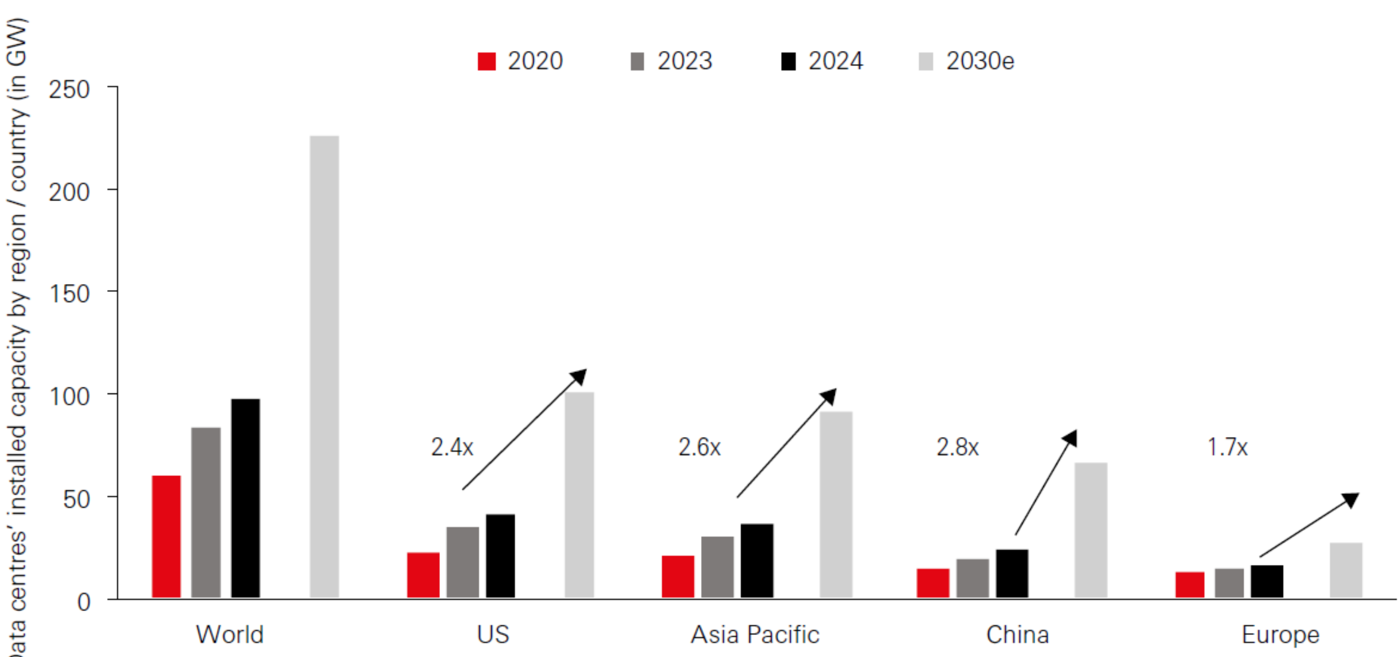
Key data to watch

Economic growth is expected to moderate across the regions but remain positive, while inflationary pressures are relatively less evident in the Eurozone and Japan

	GDP		Inflation	
	2025f	2026f	2025f	2026f
World	2.6	2.4	3.0	3.0
US	1.9	1.7	2.7	3.0
Eurozone	1.2	1.0	2.1	1.8
UK	1.5	1.2	3.4	2.5
Japan	0.8	0.5	3.0	1.6
India	7.2	6.3	2.6	4.8

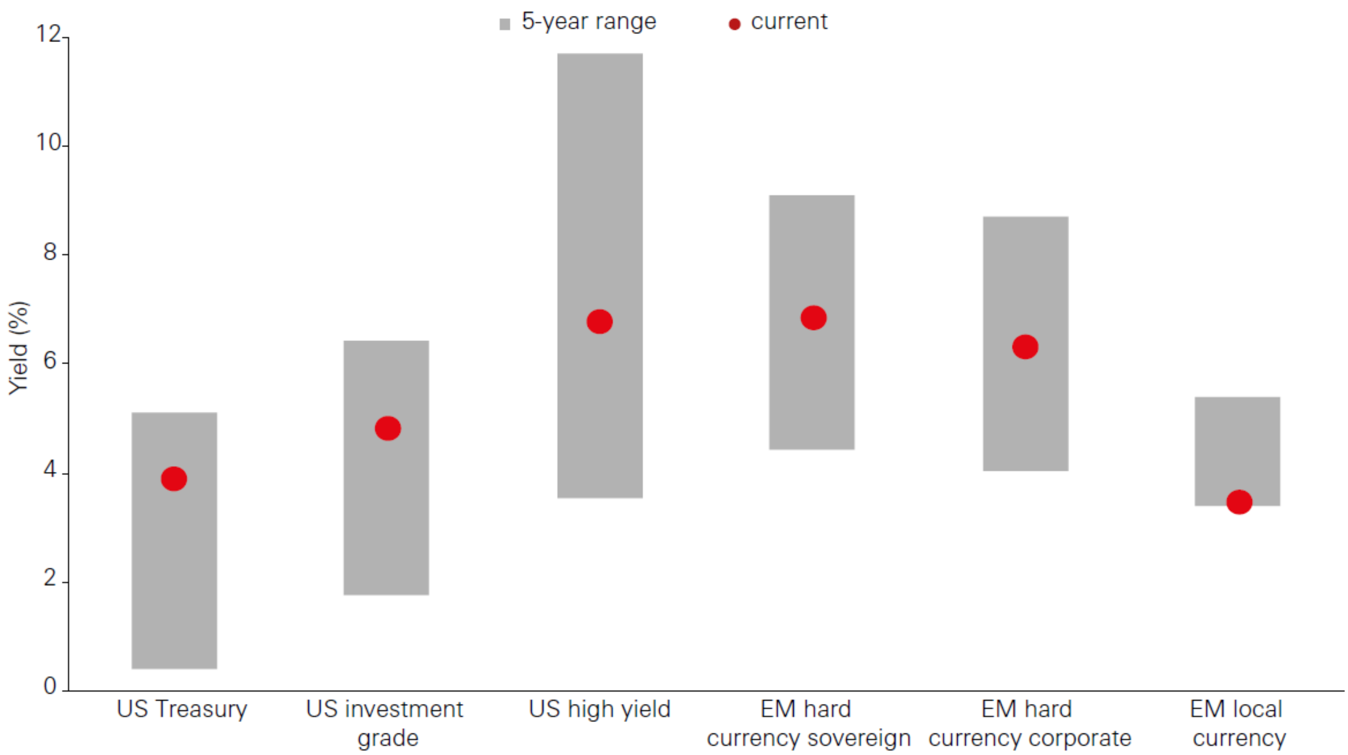
Source: HSBC Global Investment Research as at 14 November 2025. Estimates and forecasts are subject to change. India inflation forecasts are fiscal year.

Data-centre capacity in Asia Pacific is expected to see the fastest growth by 2030, led by China, outpacing the US and Europe



Source: International Energy Agency (IEA), HSBC Private Bank and Premier Wealth as at 19 November 2025. Forecasts are subject to change.

Compared to history, investment grade bonds are more attractive priced than high yield



Source: Bloomberg, HSBC Private Bank and Premier Wealth as at 19 November 2025. Past performance isn't a reliable indicator of future performance.

Global calendar

Key events – first half of 2026			
28 Jan	Federal Open Market Committee (FOMC) policy decision	**29 Apr**	FOMC policy decision
5 Feb	Bank of England (BoE) and European Central Bank (ECB) policy decisions	**30 Apr**	BoE and ECB policy decisions
18 Mar	FOMC policy decision	**11 Jun**	ECB policy decision
19 Mar	BoE and ECB policy decisions	**14-16 Jun**	G7 Summit
Mar (date TBC)	The National People's Congress of the Chinese Communist Party	**17 Jun**	FOMC policy decision
Mar (date TBC)	The National Committee of the Chinese People's Political Consultative Conference	**18 Jun**	BoE policy decision

Four investment themes to help shape your portfolio

1 Look to emerging markets and Asia to complement the US

In the US, positive earnings surprises have pushed equities higher, underpinned by US tech leadership, together with robust AI-related investment, Fed rate cuts, deregulation and long-term structural trends. Given that these positive drivers remain intact, we don't think the era of 'US exceptionalism' is over. Concentration risk, however, should be managed, as US valuations are elevated. While we remain positive on the US, we've slightly trimmed our exposure there and increased our geographical diversification.

A weaker USD and lower US rates, coupled with attractive valuations, are drawing liquidity into emerging markets. Asia stands out, with mainland China reaffirming its strategic focus on high-quality development and self-sufficiency under its 15th Five-Year Plan. AI innovation and domestic consumption remain the two biggest engines. South Korea offers a strong tech-driven earnings outlook and improving shareholder returns, while Japan benefits from its new Prime Minister's reflationary agenda, corporate governance reforms, and stabilising yen dynamics. Strong inflows and increased local IPO activity are supportive for Hong Kong, while Singapore offers a defensive appeal with a high dividend yield.

Elsewhere, the UAE presents solid structural opportunities, and South Africa benefits from expectations of lower policy rates and a supportive gold backdrop. The budget management of many emerging markets is also in better shape than in most developed markets.

- **We remain overweight on global equities, with the US continuing to represent an overweight.**
- **We favour mainland China, Singapore, South Korea, Japan and Hong Kong in Asia. We prefer the UAE and South Africa in the EM EMEA region.**

2 Uncover opportunities in the broadening AI ecosystem

The recent rally in US mega-caps has been supported by solid earnings growth, which is expected to accelerate to 14% or even higher in 2026, thanks to the US's ongoing tech leadership. This is further fuelled by substantial capital investment in software and infrastructure, from chips and cloud to data centres and power systems.

As AI adoption widens, we believe its advantages will increasingly extend beyond the early winners. To avoid excessive concentration in tech, we add exposure to sectors with expanding monetisation potential. Utilities are well positioned to capture rising electricity demand and infrastructure investments, while Financials can harness AI to accelerate efficiency and automation. Industrials stand to gain not only from digital infrastructure, but also from reshoring and higher defence spending.

In Asia, beyond Technology, consumption continues to benefit from policy measures aimed at bolstering domestic demand amid heightened external uncertainty. Attractive valuations and advances in medical innovation strengthen the case for Healthcare. Europe is still catching up on AI deployment, yet Industrials and Utilities offer selective upside potential, as national security and digital capability enhancements remain in focus.

- **In the US, we diversify beyond IT and Communications into Financials, Industrials and Utilities, while remaining overweight on Financials, Industrials and Utilities in Europe.**
- **In Asia, IT, consumer discretionary, financials, communications and healthcare are our preferred sectors.**

3 Navigate volatility with quality bonds and FX diversification

Markets continue to be shaped by inflation data and trade negotiations. Above all, the ongoing assessment of Fed policy remains a key driver of volatility. We've equipped our multi-asset portfolios with quality bonds to secure a stable income stream, regardless of the form that uncertainty takes.

Against a backdrop of still-sticky inflation and resilient economic activity, the Fed may cut less than markets expect, limiting further downside in US Treasury yields. Therefore, we've reduced our preferred duration for USD exposure to 5-7 years to reflect the risk of increasing volatility in longer-dated bonds. We prefer global investment grade credit for its still attractive yields and diversification benefits, while remaining cautious on high yield bonds given tightening spreads and a relatively fragile risk environment.

In emerging markets, select local currency bonds offer opportunities, with room for policy easing and resilient fiscal positions leading to improved credit ratings. USD weakness adds to their appeal, and this also underscores the need for non-USD exposure. Multi-asset solutions can help achieve diversification across asset classes, sectors and currencies.

- **We remain overweight on Global (including USD, EUR and GBP) and Asian investment grade credit and favour EM local currency government bonds, which offer lower correlations with risk assets.**
- **We emphasise FX diversification to position for USD volatility and strength in other currencies.**

4 Expand the investment mix with gold and alternative assets

While we believe the bull market will stay on course, so too will volatility. Given the high correlation between traditional assets, the need for low-correlation assets to deepen diversification is increasingly recognised. Gold has experienced its best performance since 1979, with a year-to-date return of more than 50%. The uptrend, though slowing, will continue to benefit from strong central bank demand, concerns about dollar debasement, and steady inflows into gold ETFs. As such, gold's role as a key diversifier remains firmly in place.

Alternatives are gaining traction. Hedge funds offer diverse strategies that can capture opportunities amid macroeconomic shifts, dispersion between winners and losers from AI, and rising M&A activity. Private equity is exploring growth potential in emerging industries. Private credit can help deliver steady income through yield-focused lending, while infrastructure provides a hedge against inflation.

The clean-energy transition remains an enduring theme aimed at achieving energy self-sufficiency and environmental preservation. Long-term policy support and sustained investment flows keep the momentum going, with the industry remaining relatively insulated from short-term market volatility.

- **Both gold and energy-transition assets can help strengthen portfolio balance and weather downside risks.**
- **Investors can add exposure to alternatives strategically.**

Regional market outlook

Where should you invest your money?

United States

Domestic and international politics continue to grab headlines, but market sentiment is encouraged by strong investment (especially in AI and infrastructure) and resilient earnings growth. While tariffs are hurting lower-income households, spending by those with higher incomes keeps consumption going. Companies generally seem able to pass on rising costs to their clients, thereby protecting their margins. The downside is that inflation could remain higher than markets expect, causing the Fed to delay or stop its rate cuts. Hence, while we're positive on US stocks, we're more selective on bonds, preferring investment grade over high yield. The US dollar is likely to remain volatile without a clear trend.

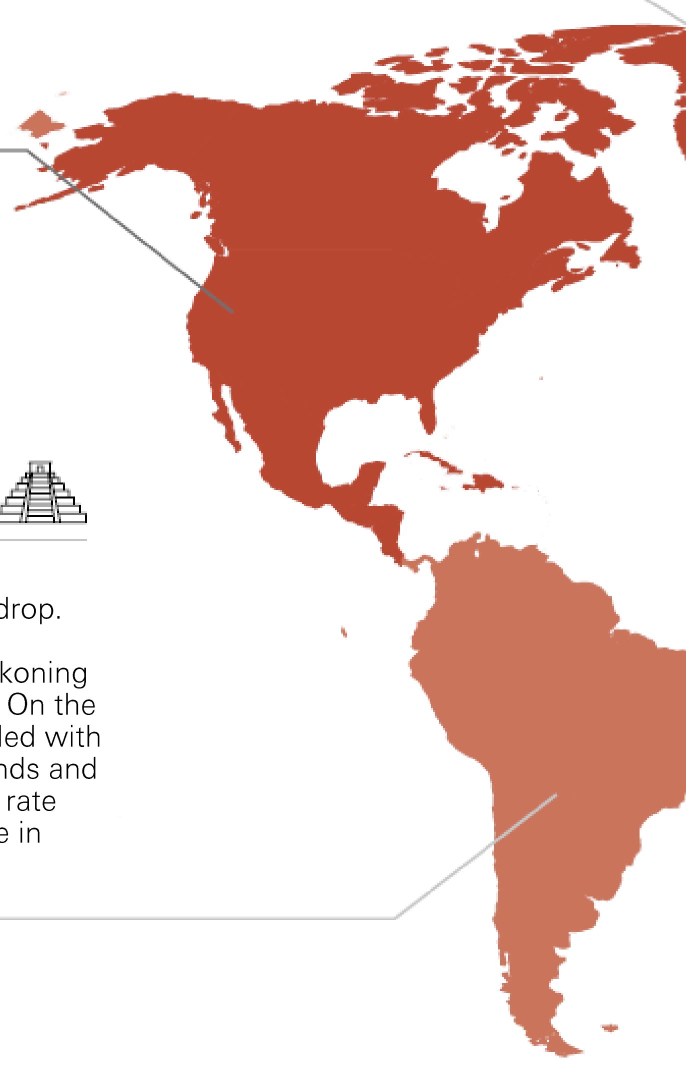
The Eurozone and UK

The ECB has finished its rate cuts, economic growth is moderate, and earnings face headwinds from the relatively strong euro. While Germany has fiscal room, markets are disappointed by its slow pace of investment. France's political uncertainties continue, leading us to remain bearish on French stocks. Compared to these two core European countries, we prefer the periphery (Spain and Italy) in both stock and bond markets.

In the UK, growth is stuck in a low gear and inflation is sticky, which means that there's little scope for rapid rate cuts. Much hinges on the government's Autumn Budget to set the market tone: too much fiscal tightening could hurt stocks, while insufficient tax hikes could hurt bonds.

EM EMEA and EM Latin America

We've a neutral view on EM EMEA and Latin American stocks, despite a challenging backdrop. Latin America faces high tariffs and election uncertainties in Brazil, while EM EMEA is reckoning with geopolitical issues and slow EU growth. On the other hand, a relatively weak US dollar, coupled with Fed rate cuts, tends to be positive for EM bonds and equities. We believe there's scope for further rate cuts in both regions and mild currency upside in Mexico and South Africa.



Asia (ex-Japan)

Mainland China benefits from the government's anti-involution drive, and foreigners attracted by its cheap tech companies. Singapore's economic and political stability, as well as its high dividends, make it attractive for portfolios and support further upside. As for Hong Kong SAR China, we see evidence of stabilisation of retail consumption and residential property. We believe that inbound investment and an improving financial sector outlook will gradually support the office market, too. For Indian equities, we remain cautious about the subdued earnings growth, even as the impact of government measures becomes clear. We favour South Korea for its strong tech-driven opportunities and the 'Corporate Value-Up Programme', which aims to improve shareholder returns.

Japan

Japan's stock market has potential for a domestically driven re-rating, supported by the new Prime Minister's reflationary and expansionary agenda and corporate governance reforms, which help boost return on equity. These developments support a more positive outlook for the equity market. While we see an improvement in the US-Japan strategic partnership, exporters continue to face challenges, especially in automotives, though this should be offset by the stabilisation of the yen. We prefer domestic exposure in tech, financials and consumer stocks.

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Glossary

Alternative investments: A broad term referring to investments other than traditional cash and bonds. These 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, bonds and others, 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 investing 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 to increase the money supply and encourage lending and investment.

Strategic asset allocation: A practice of maintaining a mix of asset classes what 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.

Contributors

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Willem joined HSBC in 2009, where his career has spanned fixed income and investment research. He led the UK Investment Group and, most recently, assumed the role of Global Chief Investment Officer. He chairs the Global Investment Committee and the CIO Office for Private Bank and Premier Wealth. Willem holds an MBA from the University of Chicago and an MSc from the University of Louvain (Belgium).

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