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Different Worlds

2026 Mid-year Global Investment Outlook

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HSBC Asset Management

Different Worlds: Complicated backdrop but resilient markets

Markets look resilient, but investors should stay balanced and build portfolio resilience because the economy is still uneven.

The first half of 2026 has been difficult to read. The global economy is dealing with volatile oil prices, supply disruption, geopolitical uncertainty and central banks that are still worried about inflation. At the same time, governments are spending more on defence, energy security and industrial resilience. Normally, that would be a difficult environment for markets.

Yet markets have held up better than expected. Equity markets have recovered, company profits have remained strong and emerging markets have been more resilient than many investors would usually expect during a period of uncertainty. This is because despite the shocks, company profits have been strong, especially in technology and AI-related sectors. Also, interest rates have not risen enough to break the valuation story.

This creates a gap between what the economy is facing and what markets are pricing. Our outlook titled ‘Different Worlds’ reflects this environment where the macro backdrop looks harder, but markets are still being supported by profits, AI investment and income opportunities.

Key themes

Two 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?

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Two shocks and a boom

Higher energy prices are a risk, but AI spending is still helping profits.

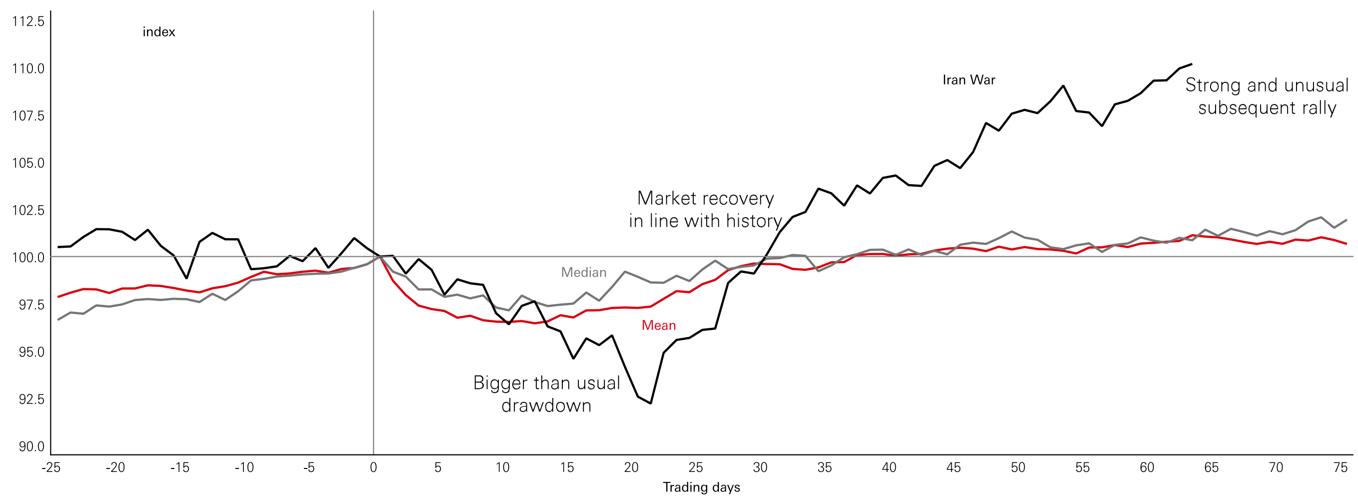
The global economy is being pulled in different directions by three forces. The first force is the oil shock. Higher energy prices can make it more expensive to run businesses, transport goods and heat or power homes. They can also fuel higher inflation, especially in regions that import energy, such as Europe and parts of Asia.

The second force is China's export strength. China is still dealing with weak domestic demand and a difficult property market, but its manufacturing and technology exports remain strong. This can help keep some global goods prices lower, but it also creates tougher competition for companies in other countries.

The force offsetting the two shocks is the AI investment boom. Large technology companies are still spending heavily on AI infrastructure, including semiconductors, data centres and cloud computing. This is supporting company profits and helping explain why markets have remained resilient.

Together, these forces are creating an uneven cycle. Some parts of the economy are under pressure from higher costs. Others are benefiting from technology spending and stronger earnings.

S&P 500 around geopolitical events since 1939



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Broadening beyond borders

Look beyond the biggest AI names, but stay selective.

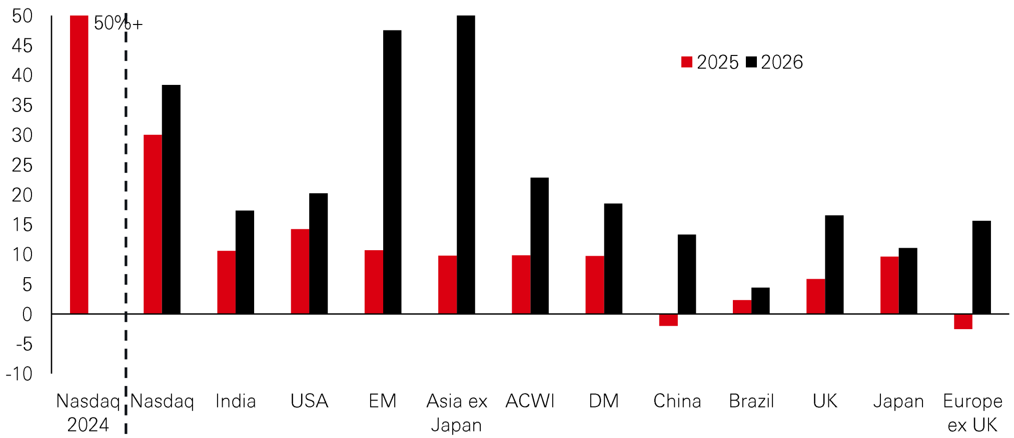
Artificial intelligence remains one of the most important stories in the market, but the next phase may not only be about the largest technology companies.

The AI buildout needs more than software and chips. It also needs power, infrastructure, industrial equipment, cooling systems, materials and data centres. That means some opportunities may appear in companies that help support the wider AI ecosystem.

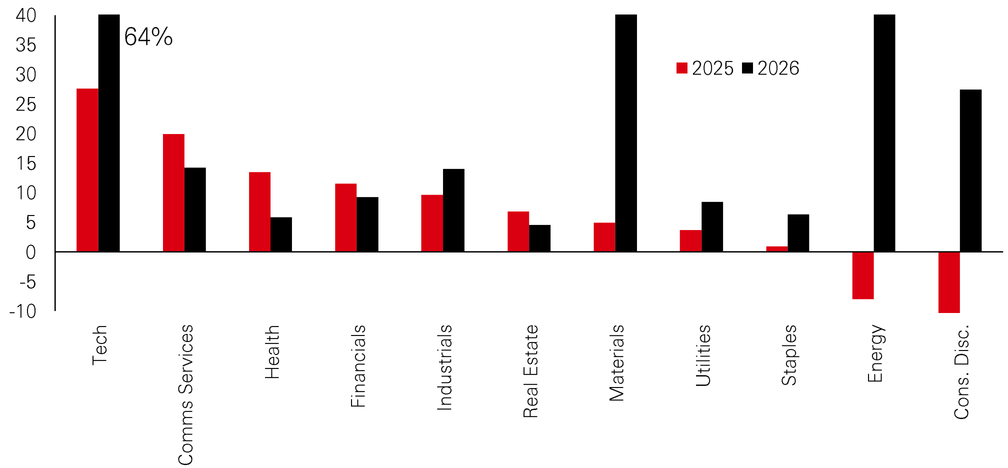
There may also be opportunities outside the US. North Asia benefits from demand for semiconductors, while Latin America is rich in commodities and materials. Some emerging markets also have lower valuations and stronger domestic investor support than in previous cycles.

This does not mean everything will rise together. It means more parts of the market may be able to contribute, but only where profits are improving and valuations remain sensible. Hence, selectivity will remain the key.

Global earnings per share growth in 2025 and 2026 (%)



Global sector earnings per share growth in 2025 and 2026 (%)



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

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Yield to opportunity

Income is attractive again, but quality matters more than chasing yield.

The world has moved away from the very low interest rate environment of the 2010s. Bond yields are higher, inflation is more uneven and governments are spending more on areas such as defence, energy security and infrastructure. This changes how portfolios need to work.

In the past, government bonds helped protect portfolios when shares fell. That relationship is less reliable today. When inflation is still a concern, shares and bonds can sometimes fall at the same time.

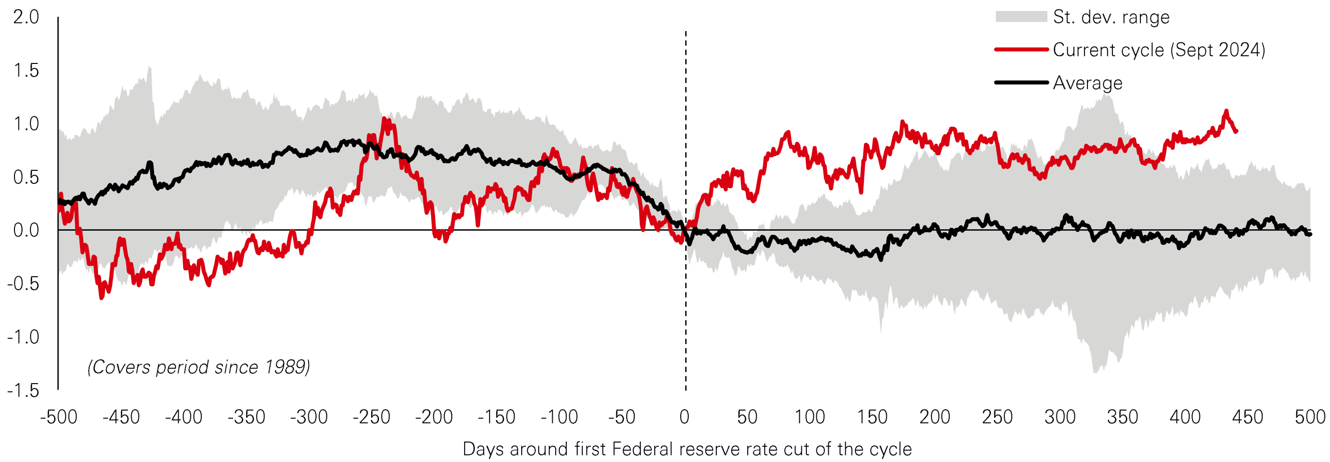
But higher yields also create opportunities. Investors can now earn more income from a wider range of assets, including government bonds, corporate bonds, emerging market bonds, infrastructure, private credit and dividend paying shares.

This does not mean chase the highest yield. Some parts of the market already price a benign outcome.

Hence, the focus should be on higher income but only when it is backed by quality, strong finances and cash flows that can hold up if the economy slows.

The shift is from simply chasing yield to using income more carefully.

Difference in 30 years yield from the time of first Federal Reserve rate cut (percentage points)



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Source: Macrobond, HSBC Asset Management, June 2026.

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The next phase of broadening

AI remains important, but future opportunities may come from the wider ecosystem around it.

Equity markets have held up well because company profits have remained strong, even as the economic backdrop has become more uncertain.

A big part of this strength still comes from artificial intelligence. Large technology companies continue to spend heavily on AI infrastructure. For instance, US large technology companies are expected to exceed US$ 1 trillion in investment by 2027.

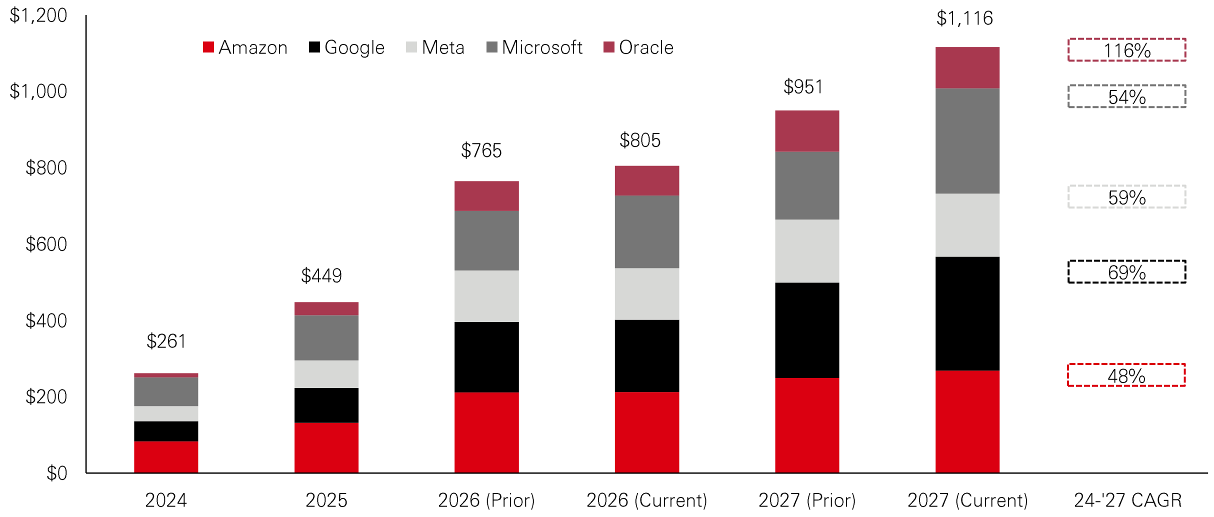
This has supported earnings growth and helped markets look through volatile oil prices and geopolitical uncertainty. For example, in the US, 82% of S&P 500 companies beat earnings expectations.

But market leadership is still narrow. A small group of AI related companies continues to drive a large share of returns. That creates a risk if investors begin to question how quickly AI investment can turn into future revenues and profits.

The next phase may therefore be about selective broadening. Opportunities could appear in companies that help build the AI ecosystem, such as infrastructure, power, industrial equipment and data centre supply chains. Moreover, some of these areas are under owned relative to their fundamentals.

Emerging markets is one such area. Within the region, Korea and Taiwan benefits from semiconductors, Latin America from commodities, and India offers a more domestic growth story. The region has also been actively raising funds to support businesses in their fast growth and innovation.

Large technology companies' AI related cash capital expenditure breakdown (US$ bn)



Source: Company data, Morgan Stanley Research estimates, May 2026

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Energy shocks and Asian markets

Asia is still a relevant opportunity but don't treat it as one single investment story. Higher energy prices create pressure in some markets, but technology and energy security themes favour others.

The closure of the Strait of Hormuz and the resulting jump in energy prices hit Asia hard because many economies rely on this route for oil, gas and key commodities.

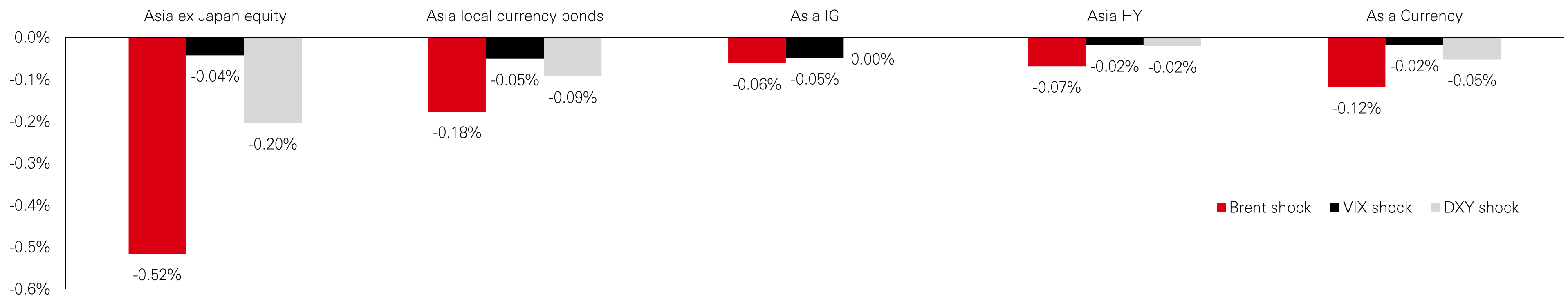
Initially, existing stockpiles softened the blow, but inventories have been run down and now any renewal in disruption risks real shortages as well as higher prices.

The reaction in Asian markets have varied. Equities are typically the most sensitive to an oil shock, while high quality credit has been more resilient, and local bonds and currencies fall somewhere in between. Korea and Taiwan move the most when oil, the US dollar or volatility spike, whereas China, Malaysia and Singapore have historically been steadier.

Policy choices also matter. Governments using subsidies, tax tweaks or fuel price controls can cushion households and companies, while tighter budgets and higher inflation can force rate hikes and slower growth.

At the same time, powerful long-term trends – especially the AI and semiconductor boom and the energy transition – are supporting parts of the region. The result is greater dispersion with clear winners and losers across countries and asset classes, rather than one simple "Asia" trade.

Impact of oil, dollar and volatility shocks to Asian assets



Source: Bloomberg, HSBC Asset Management. Data as of April 2026.

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What this means for portfolios

In a world of supply shocks, AI investment and more volatile inflation, portfolios need balance across profits, income and long term themes.

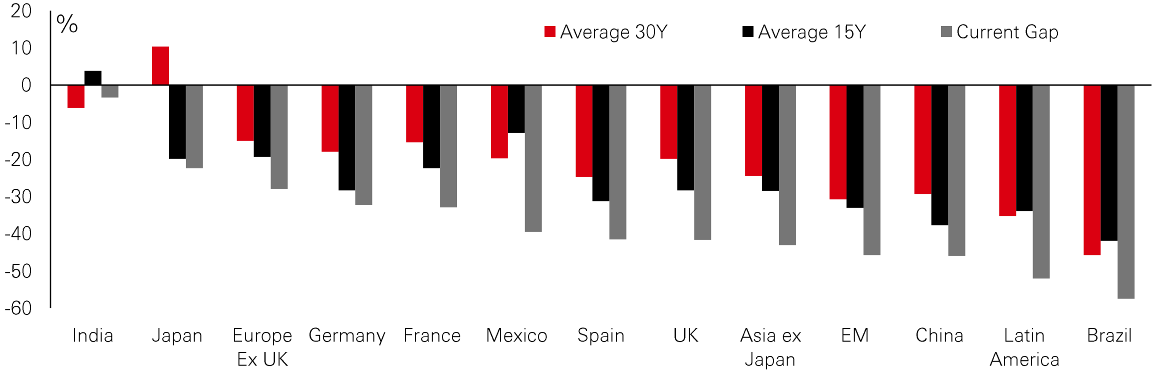
In equities, investors may need to look beyond the largest AI companies and focus on areas where profits can keep growing. This may include AI related infrastructure, selected emerging markets, and dividend paying companies.

In bonds, higher yields have made income more attractive again. But investors still need to be selective, because some parts of the bond market already assume that the economic backdrop will remain fairly stable.

Emerging markets also remain important. They should not be seen as one single group. North Asia has technology exposure, Latin America has commodity exposure, and some emerging economies have stronger policy frameworks than in the past.

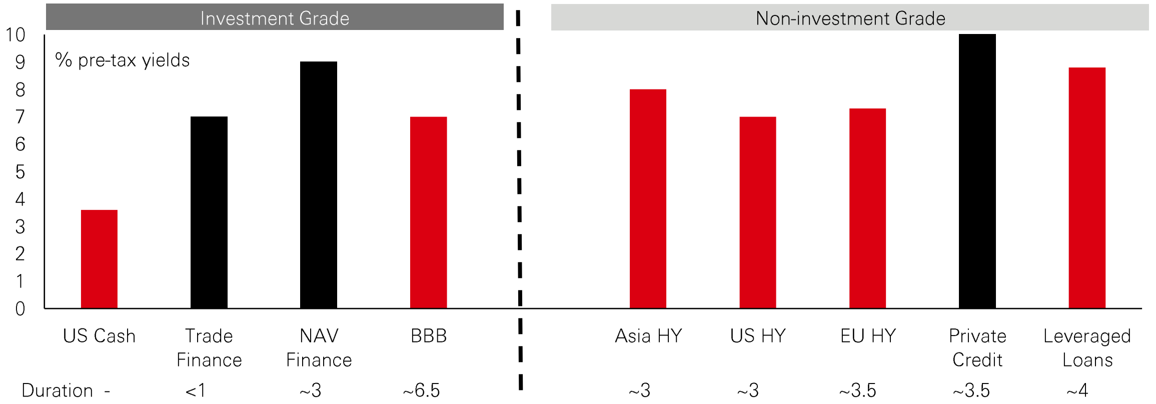
Thus, the message is not to ignore the risks, but also not to assume that every shock leads to a broad market sell off. Durable profits, sensible valuations, quality income and exposure to long term themes supported by real demand will matter more now.

Regional price-to-earnings valuation gaps versus US across 30 years, 15 years and current period



Source: Refinitiv, Datastream, HSBC Asset Management. Data as of June 2026.

Income opportunities in public and private credits



Past performance is not a reliable indicator of future performance.
Source: Macrobond, Bloomberg, Cliffwater, HSBC Asset Management, May 2026. Note: Black bars represent Private Credit.

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Key investment takeaways

Stay invested, but stay selective

Markets have been resilient, but the economic backdrop is still uncertain. This is not a market where everything is likely to rise together.

Look beyond the biggest AI names

AI remains an important long term theme, but future opportunities may also come from infrastructure, power, industrials, materials and selected emerging markets.

Income is attractive again

Higer yields mean bonds, credit and dividend paying shares can play a bigger role in returns than they did in the low rate years.

Do not chase yield blindly

Higher income is only useful when it is supported by strong finances, reliable cash flows and good quality assets.

Be selective in Asia and emerging markets

Energy shocks create risks for some countries, while technology, semiconductors and energy security investment support others.

Build portfolios for different worlds

A more resilient portfolio should combine profit growth, sensible valuations, quality income and long term investment themes.

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