

Trade uncertainty returns

Investment Event | 26 February 2026



The only certainty is uncertainty

Trade uncertainty is once again top of mind for investors. Last week, we had the verdict of the US Supreme Court (SCOTUS), ruling against the “reciprocal tariffs” from April 2025. This week, we have seen new trade measures being discussed by the US administration, this time deployed under different legislation – the 1974 Trade Act. And while financial markets have – so far – largely taken the news in their stride, indicators like the news-based policy uncertainty metrics have rocketed higher. The investment narrative is focussed on US tariffs again. But how should investors weigh this theme in the context of the prevailing economic trends, or against other key 2026 market themes like the rotation into value stocks?

Figure 1: US effective tariff rate

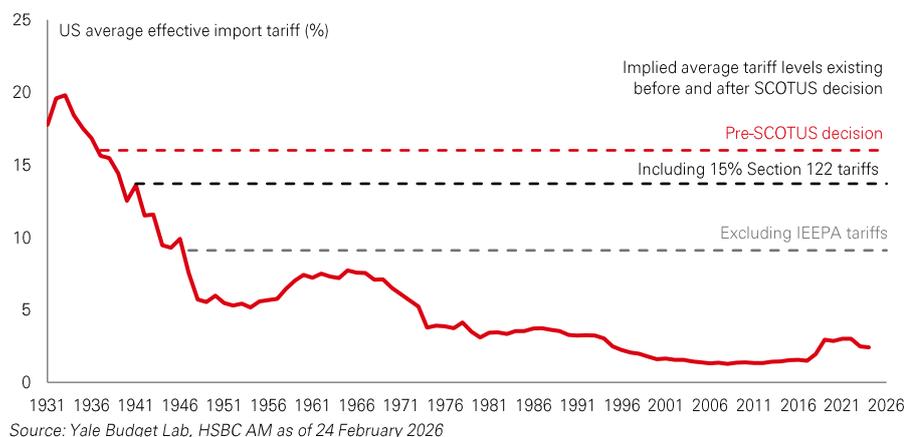


Figure 1 shows the data on average US import tariffs since the early 1930s. According to the calculations by the Yale Budget Lab¹, the expected average tariff rate has changed significantly over the last week. Before the SCOTUS decision, the estimate was in the mid-teens. Immediately after the SCOTUS ruling, it was in the high single digits. While the latest estimates, with the new policy announcements incorporated, are in the low teens.

Taken together, **recent events have modestly lowered the average tariff rate. But the only certainty is uncertainty.** The new measures have a different shape across countries and geographies, creating relative winners and losers. However, at this stage, it is difficult to speculate because we don't know what is subject to further negotiation and if there will be further announcements. Investors also need to be mindful of the possibility of policy retaliation.

Economic implications

Other things equal, a lower effective tariff rate is positive news for GDP growth and inflation. But with significant uncertainty around the final schedule of tariffs, those effects are likely to be modest. This means that we still see:

1. **US economic growth around its trend pace.** The prolonged uncertainty about tariffs needs to be seen in the context of robust profit growth and the AI investment megatrend. Both provide ongoing support for GDP. Over time, we see growth becoming more balanced in our base case scenario, as the limbs of the K economy come closer together.
2. US inflation is likely to remain a bit sticky in 2026. **Recent data is showing a gradual trend back to the inflation target, but that journey is likely to be bumpy during 2026.** Wages and services inflation are slowly declining. But goods inflation is rising as businesses continue to pass through previous tariff increases (see figure 2). The minutes from the latest Fed² decision have recognised the inflation outlook as two-sided.

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¹ State of Tariffs: February 21, 2026 | The Budget Lab at Yale

² The Fed - Monetary Policy

Tariff uncertainty has returned to investment markets

We retain our baseline scenario for trend-like growth, sticky inflation and modest Fed easing

At this stage, the only certainty is uncertainty, and it is important to consider multiple scenarios

Our house view remains for a broadening out and rotation in stock markets in 2026

Emerging markets are the global leaders year-to-date. We expect this outperformance to continue

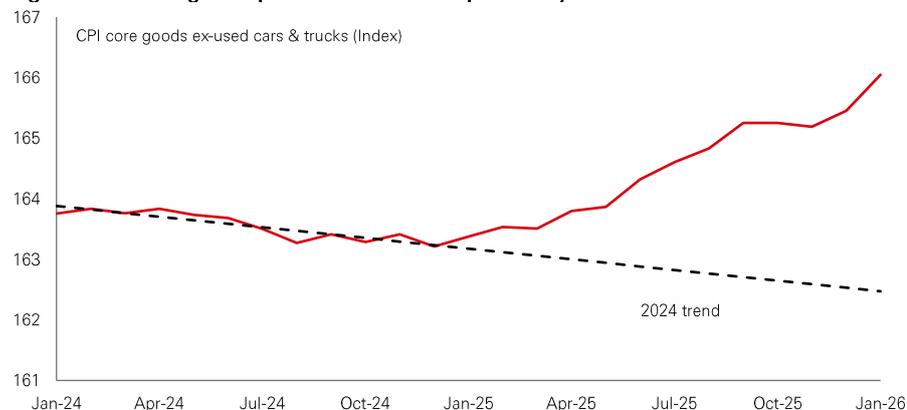
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- The Fed has already signalled that it is likely to keep policy unchanged in the coming months. Rising macro uncertainty is likely to reinforce that view. **Our central scenario remains for modest policy easing (two 25bp cuts) later in 2026.**

Figure 2: US CPI goods prices have been impacted by tariffs

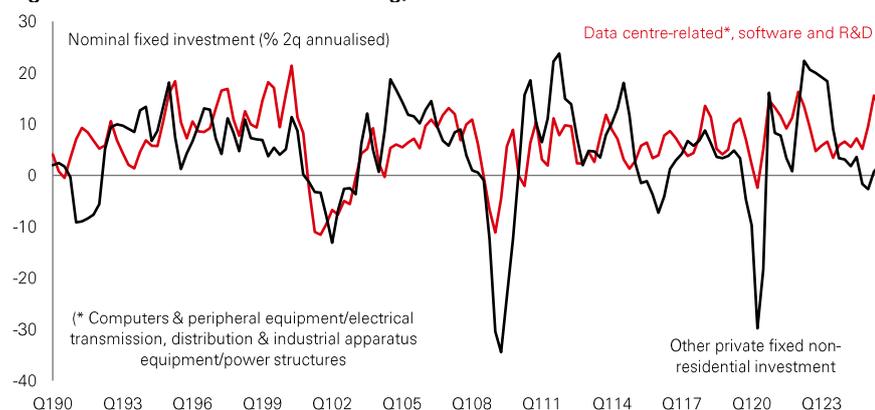


Source: Macrobond, HSBC AM as of 24 February 2026

Several more economic themes are worth watching very closely as the situation evolves:

- A key question is **whether the previous “reciprocal tariffs” will be refunded**. The University of Pennsylvania³ estimates that as of January, these tariffs had raised USD 165bn, or around 0.5% of GDP. Refunds would accrue to importers, but it is not clear whether these would be passed on to businesses and consumers. This would be a fiscal easing, potentially creating a positive impulse for growth and inflation.
- Tariff refunds may reignite concerns about public finances. But **the impact on the fiscal position is likely to be a one-off and shouldn’t imply wider deficits over time**. In investment markets, measures of the term premium in US Treasuries have also been falling of late (more below).
- Uncertainty about where tariffs will ultimately settle, and the administrative burden of frequent changes to the tariff regime, can also impact corporate decision-making. **Firms may look to front-load or delay orders, depending on individual trade investigations**, which creates noise in the data and makes the economic tea leaves hard to read.
- The changes in tariffs can also impact investment plans as firms try to restructure supply chains. **Investment could be delayed until there is greater clarity on where tariff rates finally settle**. This is unlikely to affect investment in AI related sectors, which are booming. But it could be a further headwind to other forms of investment in today’s K economy (see figure 3).

Figure 3: Tech investment is booming, but non-tech is soft



Source: Macrobond HSBC AM as of 24 February 2026

Investment house views

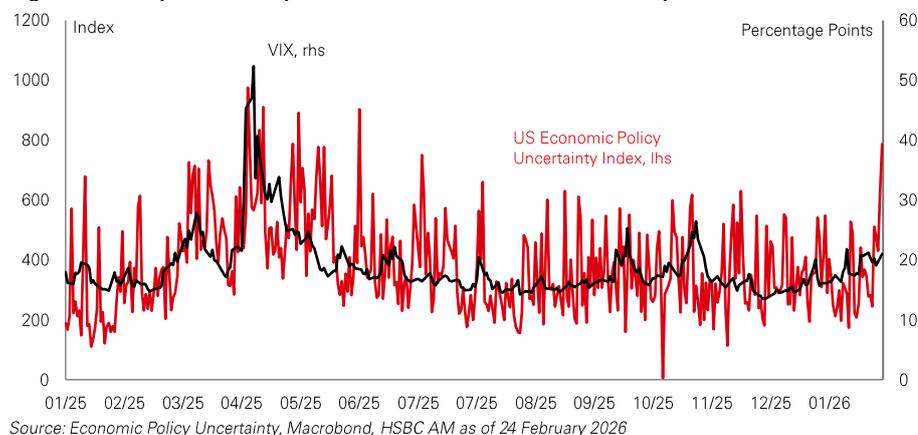
Figure 4 shows how the news-based policy uncertainty index has rocketed higher since the weekend’s events. It makes for a dramatic chart, but these textual measures overstate real uncertainty. **Measures of market risk, such as the VIX implied volatility index, have drifted higher, but remain relatively contained.**

³ [Supreme Court Tariff Ruling: IEEPA Revenue and Potential Refunds — Penn Wharton Budget Model](#)

The chart reminds us of an important market theme. **Last year, investment markets climbed a tariff “wall of worry”.** Despite the uncertainty, markets were able to perform because profits growth stayed resilient and Fed cuts came into view. **If the US macro data plays out that way again in 2026, then there is precedent for risk assets to perform.**

This framework also helps us to understand which alternative scenarios to monitor. **The real test for markets would come if inflation ends up being much stickier than expected, constraining the Fed. Or if the profits data wobbles.** There is little hard evidence for either scenario at present.

Figure 4: Policy uncertainty has risen, but markets are relatively calm



Source: Economic Policy Uncertainty, Macrobond, HSBC AM as of 24 February 2026

Since the middle of January, **there has been an impressive rally in duration. Long-term yields have fallen from 4.30% to around 4.00%.** That’s despite a policy focus to run the economy hot and a higher oil price (which typically lifts breakeven inflation). The yield curve has flattened, the term premium has reduced, and **the stock bond correlation has turned negative.**

We think a big influence on recent US bond yields comes from international markets, like Japan, where investors are worrying less about fiscal and inflation risks. That means the US duration rally could be short-lived, **But for now, the backdrop of lower bond yields is a helpful shock absorber and supports stock markets.**

US stocks have been in a volatile and sideways trading pattern since the start of the year. The equal weighted index has notably outperformed the main S&P500 index, due to lower weights in tech, communications and financials. A lot of the **action has been taking place underneath the surface: dispersion is rising, and sector returns are rotating.** Investors have seen a dramatic rally in value relative to growth and momentum in 2026.

This theme of “broadening out” and “rotation” was a key part of our 2026 investment outlook. As AI investment spills-over into sectors like materials, utilities and industrials, and while valuations remain low and inflation sticky, we think that value stocks can continue to perform.

Figure 5 shows the anticipated profits scenario across the key market sectors. **The distribution of corporate profits is set to change in 2026, becoming less skewed towards technology, and more evenly distributed across sectors.** Crucially, profits growth looks resilient for now. We think this will be a key indicator to monitor this year.

Figure 5: S&P 500 expected profits growth across economic groups



Source: Factset, HSBC AM as of 24 February 2026

The dollar has continued to weaken, and we expect it to remain under gradual depreciation pressure through 2026. **The dollar continues to look expensive on our valuation models**, with the potential catalysts for softening being Fed easing, question marks over US exceptionalism, and FX hedging by international investors. **Importantly, a sustained weaker dollar oxygenates emerging markets** (Figure 6).

Figure 6: USD weakness correlates with emerging market outperformance



Source: Bloomberg, HSBC AM as of 24 February 2026

In Asia, many investors have grown used to the tariff news and adjusted to a constant state of flux. Importantly, regional trade integration is helping to offset weaker trade with the US. Like in other stock markets, there are probably more important drivers on a 6–18-month time horizon.

Most Asian markets have fared well, with Asia ex-Japan up following Friday’s announcement.

Even Japan, heavily dependent on exports, is flat, which is probably more to do with a reduction in its own policy risk premium (following a clearer political mandate). Taiwan and Korea have seen strong gains, but this is driven more about its concentrated exposure to a scarcity of memory chips than anything else. China and Vietnam reopened higher following the Lunar New Year holiday. India, however, continued to lag but again, our equities team suggest this is more about its exposure to software.

Overall, for emerging markets, **we see outperformance continuing in 2026**. But rather than a rerating story as we saw last year, or relying solely on material dollar weakness, **we think further gains will come on the back of improving fundamentals**. Profits momentum is strengthening across large parts of Asia and Latin America, helped by resilient domestic demand and easing inflation. Valuations also remain supportive: EM equities trade at a discount to developed markets, and real yields in many EM bond markets remain compelling relative to history.

Beyond that, **economic derisking in the shape of macro reforms, stronger institutions, and more developed financial markets have also made EM assets structurally safer and less volatile.**

While EMs certainly face challenges in 2026 – and further policy support is expected, particularly in China – these improvements, and the recent run of good performance, could continue to catalyse investor interest.

We continue to monitor the evolving situation closely.

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