

Investment Monthly

Age of uncertainty

March 2026

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 **HSBC** Asset Management | Opening up a world of opportunity

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Macro Outlook

- ◆ **Recent events in Iran and surrounding US tariffs confirm that the only certainty is uncertainty**
- ◆ **If the recent spike in oil and gas prices** proves temporary, our base case scenario should not be heavily impacted. But the risk of a prolonged conflict – and oil prices breaching USD100 – would be disruptive to growth
- ◆ **US growth** has been robust, but there are some imbalances. K-shaped dynamics are in play: with AI capex booming. The labour market is stabilising, but tariff-driven price rises pose a headwind to consumers
- ◆ In **China**, supportive macro policies and tech/industrial competitiveness support growth, but economic imbalances remain a key challenge

House View

- ◆ Markets have seen a “**great rotation**” from growth and momentum, into value and emerging markets. We think that process has much further to run, but global market performance will continue to depend on profits growth
- ◆ Continuing good performance in Asia and other emerging markets shows a “**broadening out**” of market leadership amid a backdrop of improving profits, with EMs looking structurally safer and relatively good value
- ◆ Bonds have performed well recently, but have not been a consistently reliable portfolio diversifier. Investors should “**diversify the diversifiers**” to **manage volatility** with bond substitutes like hedge funds and real assets

Policy Outlook

- ◆ Rising macro uncertainty is likely to keep **Fed policy** on hold in the coming months. We expect modest easing, with two 25bp rate cuts, later in 2026
- ◆ Kevin Warsh’s nomination as the **next Fed Chair** resolves a key question for investors but the impact on policy is not clear cut
- ◆ Countries in **EM Asia** are adopting varying policy approaches, but support is broadly focused on tackling uneven growth and long-term strategic goals
- ◆ **China** will continue to focus policy support on boosting domestic demand, alongside reforms to progress its strategic objectives in areas like technology innovation and self-reliance, and economic rebalancing

Scenarios

COME TOGETHER	US growth less exceptional in 2026. Market returns continue to broaden out. Further dollar weakness and Asia tech innovation boost EM returns
CRACKS WIDEN	Labour market cracks and the lopsided “K-shaped” economy intensifies. Damage to risk assets significant given skinny risk premiums in many market areas
AI BOOM	AI investment boom means US market leadership resumes. EM performs well as global growth remains resilient and risk appetite remains strong. China tech performs very well

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Source: HSBC Asset Management as at March 2026.

Geopolitical and policy uncertainty is driving up **market volatility**. But unless there is a sustained oil price spike, the ongoing rotation in performance across sectors, countries, and styles, could continue, benefiting Europe, Asia, and EMs. Given heightened uncertainty, investors should **“diversify the diversifiers”** to build portfolio resilience

- ◆ **Equities** – While the AI megatrend still dominates, we expect to see a continuation of the recent “great rotation” from growth and momentum, into value, which has benefitted Europe, Asia, and emerging markets. Global market performance depends on the outlook for oil prices, as well as profits growth
- ◆ **Government bonds** – Inflation risks and fiscal concerns are weighing on developed market government bond performance. EM local currency bonds benefit from lower inflation and stronger growth
- ◆ **Corporate bonds** – Investment grade credit spreads remain tight, but strong technicals, healthy balance sheets, and a positive profits outlook are supportive. We maintain a defensive stance with a preference for higher quality credits

Equities		Government bonds		Corporate bonds		FX & Alternatives		Asian assets	
Asset Class	House view	Asset Class	House view	Asset Class	House view	Asset Class	House view	Asset Class	House view
Global	↔▲	Developed Market (DM)	↔	Global investment grade (IG)	↔▲	Gold	▲	Asia local bonds	▲
US	↔	US 10-year	↔	USD IG	↔▲	Other commodities	↔	RMB bonds	▲
UK	↔	UK 10-year	▲	EUR & GBP IG	↔▲	Real assets	▲▲	Asia ex-Japan equities	▲
Eurozone	↔	German 10-year	▲	Asia IG	↔▲	Hedge funds	▲▲	China	▲
Japan	▲	Japan	▼	Global high-yield	▼	Private credit (Direct lending)	▲	India	▲
Emerging Markets (EM)	▲	Inflation-linked bonds	↔▲	US high-yield	▼	Private equity (Buy out)	▲	Hong Kong	▲
CEE & Latam	↔	EM (local currency)	▲▲	Europe high-yield	▼	US dollar (DXY)	▼	Asia FX (ADXY)	▲
Frontier	▲			Asia high-yield	▲	Crypto assets	▼▼		
				Securitised credit	▲				
				EM hard currency (USD)	▲				

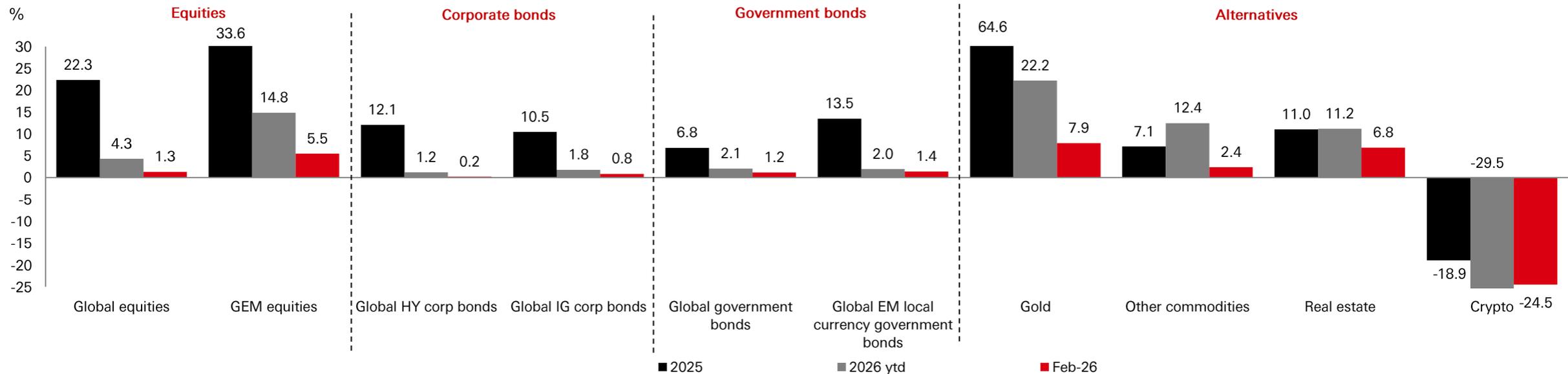
Key to views			
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▲	Positive Bias	▼	Negative Bias
↔▲	Neutral/Positive bias	▼▼	Negative
↔	Neutral		

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Asset class performance at a glance

Markets continued to see a rotation away from US large-cap tech and growth towards value, income, and previously lagging sectors and regions. In fixed income, long-duration sovereign bonds gained, while credit spreads saw some widening but remained relatively tight. Gold and oil both trended higher, while crypto prices weakened

- ◆ **Government bonds** – Government bonds gained on a combination of cooling risk sentiment and the global influence of a sharp relative move in Japanese bonds. There was evidence of the stock-bond correlation turning negative again
- ◆ **Equities** – Returns were muted in the US, with performance rotating to Japan, the UK and parts of Europe, and emerging market regions including Latam and Asia, and particularly South Korea and Taiwan. India continued to lag
- ◆ **Alternatives** – Listed real estate continued to perform well, buoyed by the ongoing rotation that is benefitting asset-heavy sectors. Gold saw further gains on haven flows, and oil prices also rose on intensifying geopolitical tensions



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Source: Bloomberg, all data above as at close of business 28 February 2026 in USD, total return, month-to-date terms. Note: Asset class performance is represented by different indices. **Global Equities:** MSCI ACWI Net Total Return USD Index. **Global Emerging Market Equities:** MSCI Emerging Market Net Total Return USD Index. **Corporate Bonds:** Bloomberg Barclays Global HY Total Return Index value unhedged. Bloomberg Barclays Global IG Total Return Index unhedged. **Government bonds:** Bloomberg Barclays Global Aggregate Treasuries Total Return Index. JP Morgan EMBI Global Total Return local currency. **Commodities and real estate:** Gold Spot \$/OZ, Other commodities: S&P GSCI Total Return CME. **Real Estate:** FTSE EPRA/NAREIT Global Index TR USD. **Crypto:** Bloomberg Galaxy Crypto Index.



CRACKS WIDEN



COME TOGETHER



AI BOOM



Driving forces

Supply side shocks and unbalanced growth

Tariffs weigh on US but some offset from AI capex. "Policy puts" in Europe/China

Surging AI investment and wealth effects create broader economic boom



Growth

Sharp slowdown as households retrench and profits disappoint

US growth less exceptional in 2026, despite strong AI investment

US reaccelerates to around 3.0%. Animal spirits and AI boost global growth



Inflation

Uncomfortably high inflation but **recession destroys demand**

US peaks above 3% before receding. Approaching target in many DMs/EMs

Strong, broad-based demand keeps **US inflation around 3.0%**



Monetary Policy

Initially more cautious Fed, but then **big easing** amid growth damage

Fed cuts to neutral (3.00-3.50%). Modest easing across many DMs/EMs

Easing cycle cut short but Fed accommodates above-target inflation



China

Geopolitics and trade tensions weigh on already **fragile confidence**

Resilient but uneven growth as reflation policies offset tariff headwinds

Growth pickup amid AI, and property sector and confidence recovery



Stocks

Historic SPX bear market.
Cyclicals most vulnerable. VIX spike

Broadening out of market leadership. SPX lags other markets. Episodic volatility

US outperforms. SPX 7000+. Korea/Taiwan/high-beta stocks shine



Fixed income

Curve steepens as longer-dated yields sticky. Credit spreads widen

Range-bound yields. Some upside risk to credit spreads. **IG as bond substitute**

Some **upside risk to yields** as growth remains strong. Credit spreads still tight



EM

EMs hit amid weaker global growth and trade challenges

EM bull market on superior growth, Asia tech innovation, and low valuations

EM gains on +ve risk appetite/Asia tech but limited by USD performance



USD

USD struggles to rally amid Fed cuts and as haven status under question

Gradual USD depreciation amid Fed cuts and fading US exceptionalism

USD supported by stronger US growth and limited rate cuts



Top bets

USTs, gold, CHF, macro HFs, best IG, defensives, quality, momentum

Value, defensives, small-caps. EM/Japan > US. IG > HY

US > Europe/China. HY credits. Industrial metals. Crypto > gold

The commentary and analysis presented in this document reflect the opinion of HSBC Asset Management on the markets, according to the information available to date. They do not constitute any kind of commitment from HSBC Asset Management. Consequently, HSBC Asset Management will not be held responsible for any investment or divestment decision taken on the basis of the commentary and/or analysis in this document. Any forecast, projection or target where provided is indicative only and is not guaranteed in any way. HSBC Asset Management accepts no liability for any failure to meet such forecast, projection or target. This information shouldn't be considered as a recommendation to invest in the country or sector shown.

Source: HSBC Asset Management, March 2026.

A divided Federal Reserve

		Consensus		Policy 	
		Growth (%) 	Inflation (%) 	12m ahead policy rate (HSBC AM)	2026 Fiscal impulse
		■ 2025 ■ 2026	■ 2025 ■ 2026		
US	January's FOMC minutes revealed diverging opinions on the US rate outlook. Q4 GDP weakened on erratic items. Solid consumer spending is now dependent on higher real incomes given that the savings rate fell in 2025. A "K-shaped" investment profile is evident – AI capex is strong, but non-tech investment is soft	2.2 2.4	2.6 2.6	3.00-3.50%	Neutral
Eurozone	The ECB is in a holding pattern, with interest rates in neutral territory. German growth could pick-up in 2026 on expansionary fiscal policy, but spillover effects are likely to be limited. The euro's appreciation and softer wage growth imply some modest downside inflation risk, keeping the door ajar for policy easing	1.4 1.2	2.1 1.8	1.50-2.00%	Neutral
UK	The BoE downgraded its medium-term inflation forecast, with new Bank Staff analysis suggesting no structural shift in wage bargaining. Services inflation is sticky but should soften on moderating labour costs. Company and household price expectations are mixed. Employment intentions are weak	1.4 1.0	3.4 2.4	3.25-3.75%	Drag
Japan	A landslide LDP election victory secured a strong mandate for PM Takaichi, lessening the likelihood of a permanent cut in consumption tax on food. Q4 GDP rose slightly. Consumer spending slowed, whilst business investment rebounded. The BoJ is gradually raising rates, with the policy stance close to neutral	1.2 0.8	3.2 1.9	0.75-1.25%	Moderate boost
China	Growth should stay resilient as deflationary pressures ease, albeit with persistent underlying imbalances. The government is prioritising boosting consumption and stabilising investment for this year. Policy support is likely to remain targeted, aligned with long-term economic transition and rebalancing priorities	5.0 4.5	0.0 0.7	1.20-1.40%	Moderate boost
India	The FY27 budget targets mild fiscal consolidation with a focus on medium-term growth support for key sectors (e.g. semiconductors & AI data centres) and capex on defence, infra and energy security. Recent trade deals offer relief to India's economy and assets. The RBI will remain proactive in its liquidity support	7.5 6.6	2.0 4.0	5.00-5.25%	Neutral

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

Events calendar 2026 - 6-month forward looking



Investment Views



Asset class positioning

House view represents a >12-month investment view across major asset classes in our portfolios

Key to views			
▲▲	Positive	↔▼	Neutral/Negative bias
▲	Positive Bias	▼	Negative Bias
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Asset class	House view	Comments
Equities	Global	↔▲ We expect global profits growth gaps to narrow in 2026, with sustained broadening of market leadership beyond the US, but with periods of volatility. EM markets continue to show relative attractiveness from an earnings growth and valuation perspective. Amid heightened geopolitical risks, market performance also depends on the outlook for oil prices
	US	↔ US profits continue to be driven by strong performance in technology and AI-related sectors, with double-digit profits growth expected in 2026. The market continues to trade at a substantial price/earnings premium to the rest of the world, which we expect to narrow amid the ongoing rotation from growth and momentum, into value and emerging markets
	UK	↔ UK stocks have performed well recently but continue to trade at a valuation discount relative to other regions and offer an attractive combined dividend and buyback yield. Weak domestic growth is a risk, but further policy easing should be beneficial. Firms remain vulnerable to volatility driven by signs of slowing global growth and policy uncertainty
	Eurozone	↔ Markets have seen improving momentum despite muted earnings growth. A recovery in eurozone activity has been interrupted by tariffs, political uncertainty, and a stronger euro, although industrial surveys point to some resilience. On the downside, heightened geopolitical tensions, a spike in energy prices, and policy uncertainty could weigh on sentiment
	Japan	▲ Valuations are compelling versus other DM markets, bolstered by continuing corporate governance reforms. Domestically-oriented sectors look favourable on increasing fiscal support, but the earnings outlook for exporters/cyclicals remains highly sensitive to global macro and trade conditions, with additional downside risks from higher JGB yields and a stronger yen
	Emerging Markets (EM)	▲ Premium growth is evident in EMs, with equity valuations still exhibiting material discounts to DMs. They could benefit from several structural and cyclical tailwinds, though ongoing uncertainties could also trigger episodic volatility. Asset allocation strategies should increasingly consider country- and sector-specific factors given local idiosyncrasies
	CEE & Latam	↔ In Central and Eastern Europe, economies face mixed challenges complicated by global trade tensions and geopolitical developments. Latam equities are well-positioned to benefit from the continuing risk-on environment for EMs, with a P/E re-rating expected to be a driver of returns. Politics and trade remain key medium-term risks
	Frontier Markets	▲ A key attraction of frontier markets is exposure to smaller, rapidly-growing, domestically-driven economies that benefit from local idiosyncrasies. There tends to be low intra-country correlation between them, and they benefit from comparatively low volatility, potentially attractive valuations, and relatively strong earnings growth
Government bonds	Developed Markets (DM)	↔ A combination of geopolitical risks, global policy uncertainty, the re-emergence of global growth concerns, and rising fiscal and inflation risks has resulted in government bond yields remaining elevated and yield curves steepening. Outside of a US recession scenario, a sustained decline in yields is unlikely
	US 10-year	↔ USTs have rallied recently on a combination of cooling risk sentiment and the global influence of a sharp relative move in Japanese bonds. However, sticky inflation, fiscal concerns, and better-than expected growth could continue to keep yields relatively elevated. Significantly lower yields are likely to require clear evidence that the labour market is cracking
	UK 10-year	▲ Gilt yields have fallen recently though rising geopolitical uncertainty has injected a dose of volatility. Fiscal concerns have eased though renewed inflation worries could limit scope for further BoE easing. The weak UK growth outlook should be supportive for Gilts
	German 10-year	▲ German Bund yields are being driven by a significant shift in fiscal policy, which is expected to see substantial new issuance this year. Meanwhile, a sustained rise in energy costs resulting from tensions in the Middle East could prompt rising concerns about the medium-term inflation outlook, potentially prompting a hawkish ECB stance and lifting Bund yields
	Japan	▼ Following a change in Japan's political leadership, investors are adopting a cautious stance amid rising concerns over a more expansionary fiscal policy. This could herald a potential rise in the fiscal risk premium medium-term. With modest bond risk premia, we remain underweight Japanese government bonds
	Inflation-linked bonds	↔▲ Global (ex-US) breakevens (the difference between nominal yields and real yields) have been relatively stable, but US breakevens have drifted higher. Valuations remain relatively cheap for US ILBs, with markets pricing almost no inflation risk premium. The main downside risk is recession, where breakevens would be likely to suffer despite low valuations
	EM local currency	▲▲ EM local currency bonds have benefited from a backdrop of high real yields, strong fundamentals, and a weaker US dollar. Real rates remain high in many EM majors, and while EM disinflation is slowing down, the trend for policy easing should continue in 2026, with some potentially significant rate cuts in places

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Asset class	House view	Comments
Corporate bonds	Global investment grade (IG)	↔▲ IG credit spreads remain close to long-run tights, but all-in yields are reasonable. The balance sheets of investment grade issuers are healthy, and the profits outlook remains positive. We think parts of the IG universe can be a potential substitute hedge to government bonds in portfolios. Global policy uncertainty remains a potential risk
	USD IG	↔▲ Despite macroeconomic uncertainties and above-target inflation, US IG credit has moved to spreads that are close to 25-year tights. Technicals remain highly supportive, and all-in yields continue to attract inflows. Fundamental credit metrics remain solid as balance sheets for USD issuers remain healthy
	EUR and GBP IG	↔▲ In European IG credit, we expect modest near-term spread-widening mainly for valuation reasons, with supply in the long-end and some term premium restoration in the rates market driving an orderly correction. Given expensive valuations, the main risk to EU IG would be from a global liquidity/volatility event and the resultant worries over credit quality
	Asia IG	↔▲ Asia IG benefits from attractive all-in yields and solid credit fundamentals. An anticipated supply pick-up in 2026 should meet robust demand amid a large pool of local savings. Asia IG's shorter duration and strong quality bias help reduce overall volatility. We emphasise credit selection focusing on idiosyncrasies amid global rate volatility and macro uncertainty
	Global high-yield (HY)	▼ Global high yield spreads remain at relatively tight levels amid strong risk-on sentiment. Growth and inflation risks and policy uncertainty present potential risks, but strong corporate earnings could offset this. We prefer a defensive stance with a focus on quality credits
	US HY	▼ US high yield has seen some spread widening recently. Earnings have been generally resilient, with pockets such as cyclicals and industrials experiencing select weakness, but others such as consumer and technology doing well. Unless recession risks rise markedly, robust earnings should limit any meaningful spread widening
	Europe HY	▼ Current valuations are not compelling, with spreads remaining tight at a time when macro momentum is slowing in the US. Single-B valuations look very expensive, with these issuers sensitive to growth risks and financing rates. We like banks and insurers where credit fundamentals are strong, but we are underweight cyclicals given the macro risk
	Asia HY	▲ Asia HY offers attractive carry/all-in yields and spread compression potential compared to global peers, despite high valuations and headwinds from China's property sector. Default rates have fallen back to the low levels seen prior to 2020. Selectivity with a quality focus offers alpha potential as idiosyncratic drivers can create dispersion and opportunities
	Securitised credit	▲ There has been marginal spread widening across the market recently, and spreads remain wider than the tights of the range since 2009 so there is long-term value in securitised credit compared to other credit markets. As long as rates remain high, floating securitised credit will generate high income as base rates feed directly into the income paid
	EM hard currency (USD)	▲ The backdrop is constructive, with EM hard currency sovereign bonds continuing to benefit from strong fundamentals. Spreads have been well-behaved, reflecting the positive ratings stories of many EMs. EM corporate bonds are highly correlated to EM sovereigns but also have a positive story in their own right, as well as a constructive ratings backdrop
FX & Alternatives	Gold	▲ Gold has seen exceptional gains, with central banks continuing to be major buyers. Investor demand has also been strong, driven by a flight to safe-haven assets as a result of rising geopolitical tensions, global policy uncertainty, and financial market volatility. Anticipated rate cuts and inflation concerns enhance gold's appeal as an inflation hedge
	Other commodities	↔ Geopolitical tensions have emerged as a heightened risk factor. The recent spike in oil prices has been driven by global supply fears, and is a key macro variable to watch. Investors will need to monitor the size, speed and persistence of the oil shock to gauge its impact on the growth/inflation mix, corporate profits, and market sentiment
	Real assets	▲▲ Real estate investment activity shows signs of improvement, and the returns outlook appears healthy given yield expansion on the back of higher income. Meanwhile, infrastructure assets currently offer high dividend yields and provide exposure to key growth themes like AI and the energy transition
	Hedge funds	▲▲ Hedge funds can be good diversifiers in an environment of elevated inflation and market phases where there are sharp upticks in volatility. Macro and CTA strategies can be particularly attractive alternatives to bonds when there are positive stock-bond correlations
	Private credit (D/lending)	▲ With elevated macro uncertainty, private credit yields remain attractive due to their continued illiquidity premium. Private credit strategies continue to diversify across a range of sub-strategies, with Direct Lending remaining the largest focus. Strong capital inflows are testament to investor appetite for diversification
	Private equity (Buy out)	▲ Private equity-funded buy-out activity has turned positive recently, aided by strong equity markets, moderating inflation, and US rate cuts. With the asset class historically achieving strong returns after challenging periods, the recent pick-up could widen its appeal as a source of long-term returns and a portfolio diversifier
	US dollar (DXY)	▼ The US dollar index will likely face more downside risks as yield differentials with other developed market countries shrink and the US economy converges towards its peers. We expect a continued weakening trend for the USD, albeit more gradual than in H1 2025, driven mostly by cyclical developments
	Crypto	▼▼ Crypto prices continue to be highly volatile. Performance remains correlated to prevailing risk sentiment and US policy news flow – therefore it lacks hedging qualities (like gold). More regulatory certainty could provide upside, but high sensitivity to sentiment and thin liquidity could deter institutional investors

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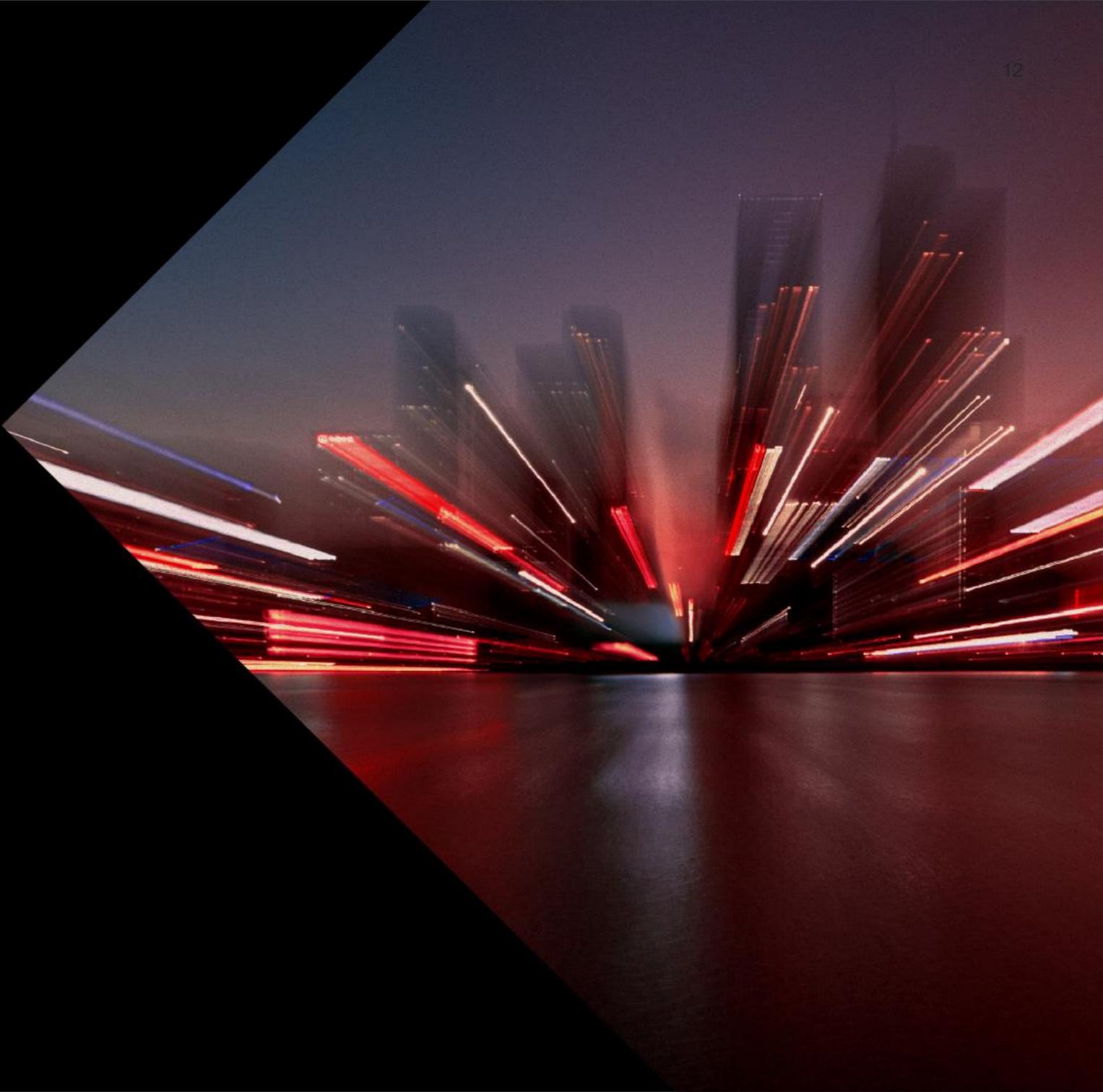
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Asset class	House view	Comments
Asian assets	Asia local bonds	▲ Asia's sound external fundamentals, debt profiles, and policy mix help lower the sensitivity of local rates to external financial volatility. The local inflation and liquidity backdrop is still supportive, though the monetary easing cycle is at a mature stage. Real yields are attractive in places, with prospective index inclusion for Korea and the Philippines aiding inflows
	RMB bonds	▲ Bond market regulation changes have provided some relief for long-duration CGBs, with low inflation, loose liquidity conditions, global asset allocation, and PBoC bond purchases also supportive, although strong equities are a headwind. Despite PBoC's dovish guidance, its focus has been more on targeted support via structural tools than broad-based easing
	Asia ex-Japan equities	▲ Asian markets offer broad sector diversification and high-quality growth opportunities. Supportive macro policies, exposure to the AI supply chain/infrastructure, and other long-term themes remain positives, alongside the potential for further diversification fund inflows. However, persistent external uncertainties could amplify market volatility
	China equities	▲ Tech innovation remains the key driver of re-ratings and could be further fuelled by the monetisation of AI/cloud investments and supply chain localisation. While reflationary efforts and an extended US-China trade truce should support sentiment, further market upside is likely to depend on a continued pick-up in earnings, particularly in non-tech sectors
	India equities	▲ The earnings outlook is improving, aided by supportive macro policies and deregulatory reforms, despite clear sectoral divergence. India's strong structural growth drivers, ongoing reform initiatives and a continued structural shift in household savings into financial savings serve as positive medium-term catalysts. Valuations are now more reasonable
	ASEAN equities	↔▲ Overall valuations are fair with a largely stable earnings outlook, despite divergence across markets. Global trade/geopolitical uncertainties and domestic idiosyncratic risks are sources of return volatility. But more policy/reform efforts will support domestic demand and structural growth drivers. ASEAN equities offer exposure to a variety of sectoral themes
	Hong Kong equities	▲ Dynamic capital market activities and a modest recovery in the residential property market and local macro momentum support earnings, alongside potential positive spillovers from US rate cuts and Chinese policy developments, despite persistent structural challenges. Relatively low price-to-book ratios and decent dividend yields remain supportive
Asia FX (ADXY)	▲ Asian currencies are supported by sound external balances, relative growth resilience, and prudent macro policies, though local idiosyncrasies drive the relative performance. FX conversion by exporters and diversification flows into non-US assets provide support. Carry remains in demand. But global trade and geopolitical uncertainties could trigger volatility	

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On Top of Investors' Minds



What are the implications of heightened geopolitical tensions in the Middle East?

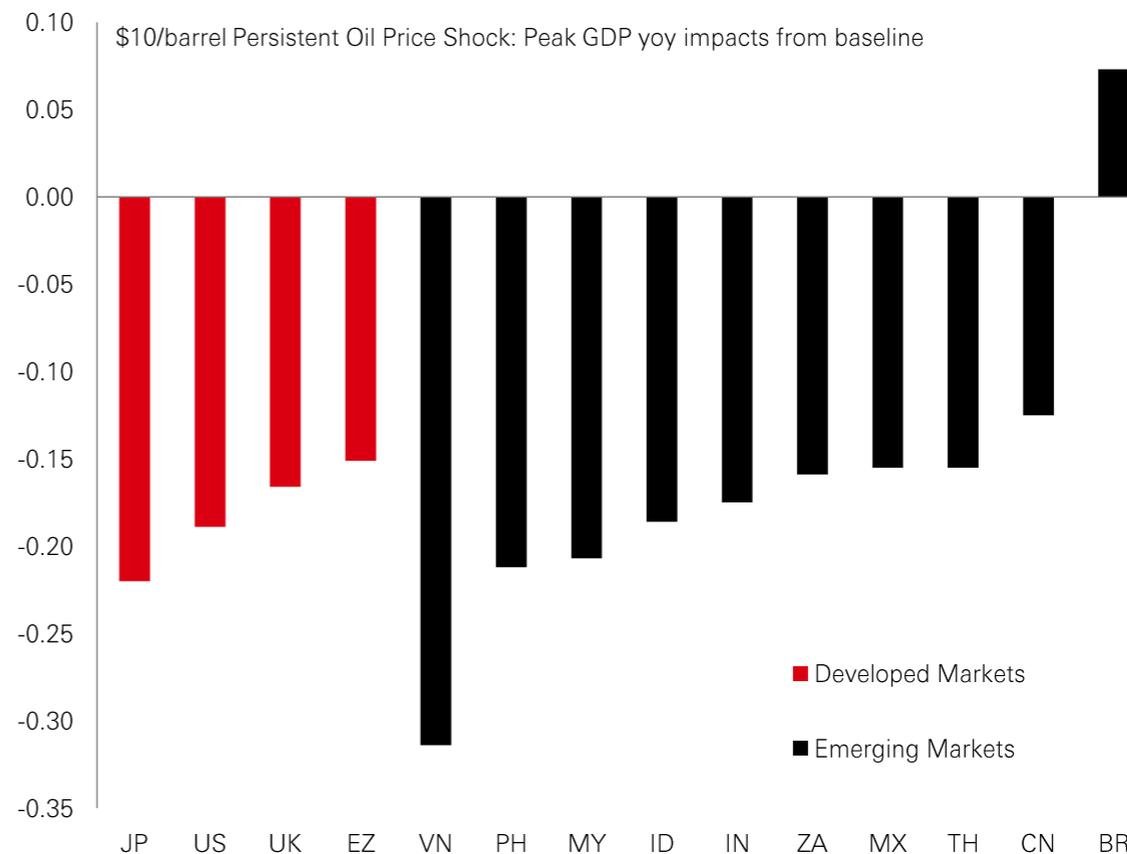
Geopolitical risks and uncertainty have crystallised in the Middle East, and there are many possibilities for how future events will play out. In the narrow domain of financial markets, there are some important implications for investors.

First, **the oil price has spiked**. Historically, this is the usual channel for how geopolitical risk impacts the economy and investment markets. Concerns over oil supply routes through the Strait of Hormuz will remain a key concern, potentially affecting some 20% of global oil supply.

Initial moves in the oil price were notable. But it is the full shape of any oil shock (including in inflation-adjusted terms), which will determine the **implication for the growth/inflation mix, the profits trajectory, and the effect on investor sentiment**.

In the case of either a temporary spike in oil prices – around USD10-20 higher – or if the oil price rise is contained, growth can remain acceptable due to supportive policy, resilient corporate profits, and the strong AI capex cycle. But a period of much more elevated oil prices, a persistent shock of more than \$20, or oil prices breaching USD100, would be far more disruptive to growth, which could hamper profits, and potentially undermine stock market multiples.

Growth impact of oil shock across economies



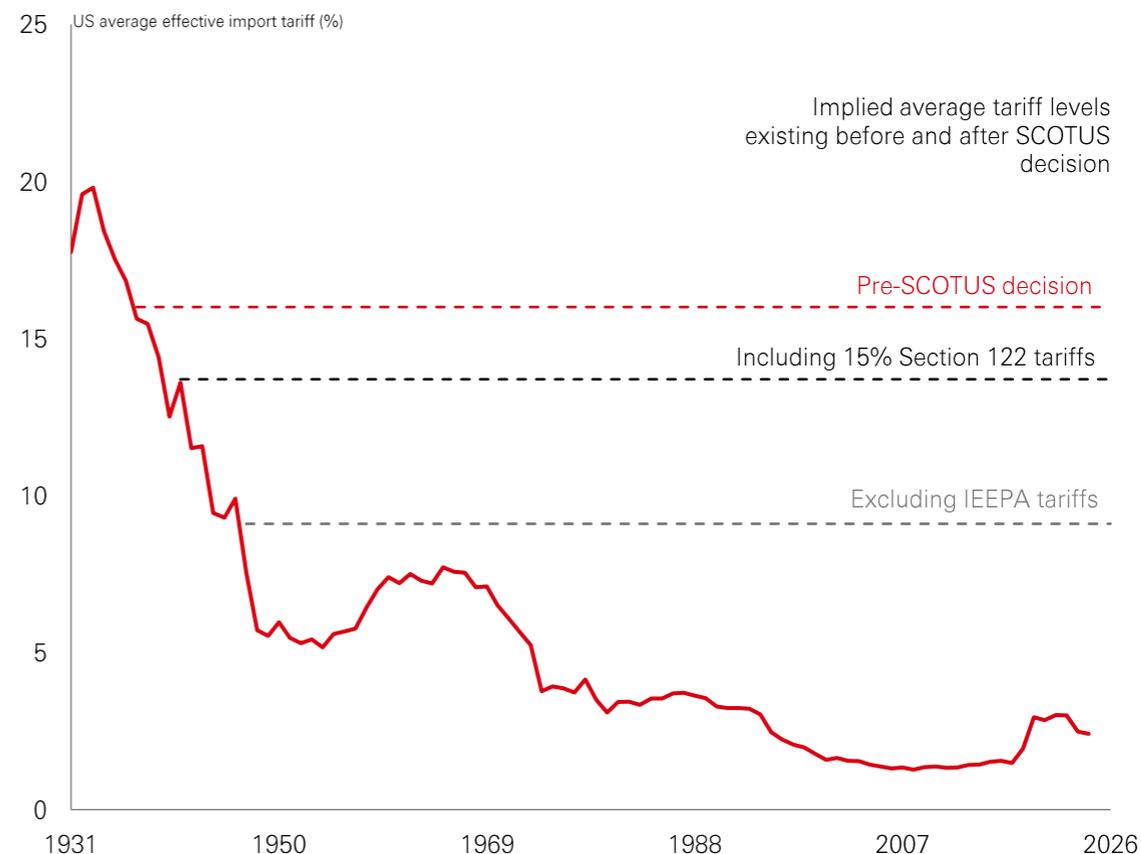
What might the recent changes to US trade policy mean for markets?

The recent ruling by the US Supreme Court against last year's "reciprocal tariffs" has led to the introduction of a new set of measures, this time deployed under different legislation. And while this has **modestly lowered the overall tariff rate** for now, there is still uncertainty about who the longer-term winners and losers will be.

A lower effective tariff rate is **good news for GDP growth and inflation**. US growth is running around its trend pace, thanks to robust profits and the AI capex boom. And, while US inflation is likely to remain a bit sticky through 2026, recent data shows a gradual, bumpy journey back to the inflation target. Our central scenario remains for modest Fed policy easing later in 2026; likely two 25bp cuts. Rising policy uncertainty reinforces the idea that the Fed stays on hold in the next few months.

Last year, investment markets climbed the "tariff wall of worry", performing strongly despite policy uncertainty. That was down to profits staying strong and rates being cut. The real test for investment markets in 2026 – amid heightened geopolitical risks – will come if inflation remains high, which would constrain the Fed. Or if profits start to wobble.

US effective tariff rate



Can the recent rally in value and small cap stocks continue?

Although US stocks have been moving sideways for a while now, underneath the surface there has been a significant **rotation into value and small cap names as US big tech performance falters**. This is reflected in sector performance too, with materials, industrials and energy outpacing traditional winners such as tech, comms and consumer discretionary.

For the rest of 2026, there is a good chance this dynamic continues. The current macro backdrop of sticky inflation and interest rates is traditionally a positive one for value names, as we saw in 2022. Sector broadening is also helped by spillover effects of the AI capex boom and surge in metals prices.

All of this comes as the growth factor is vulnerable to ongoing concerns over the return on investment on tech capex, and AI damaging traditional business models within the tech industry, as we have seen with the recent software selloff.

The picture for small caps is a bit more complicated. Smaller businesses are more cyclically sensitive, and likely to do well amid a reasonable robust GDP growth environment and further Fed cuts. Many small cap names look undervalued too. But debt sensitivities mean they would be most at risk from a scenario of higher inflation.

Value versus growth, and small cap versus large cap relative performance



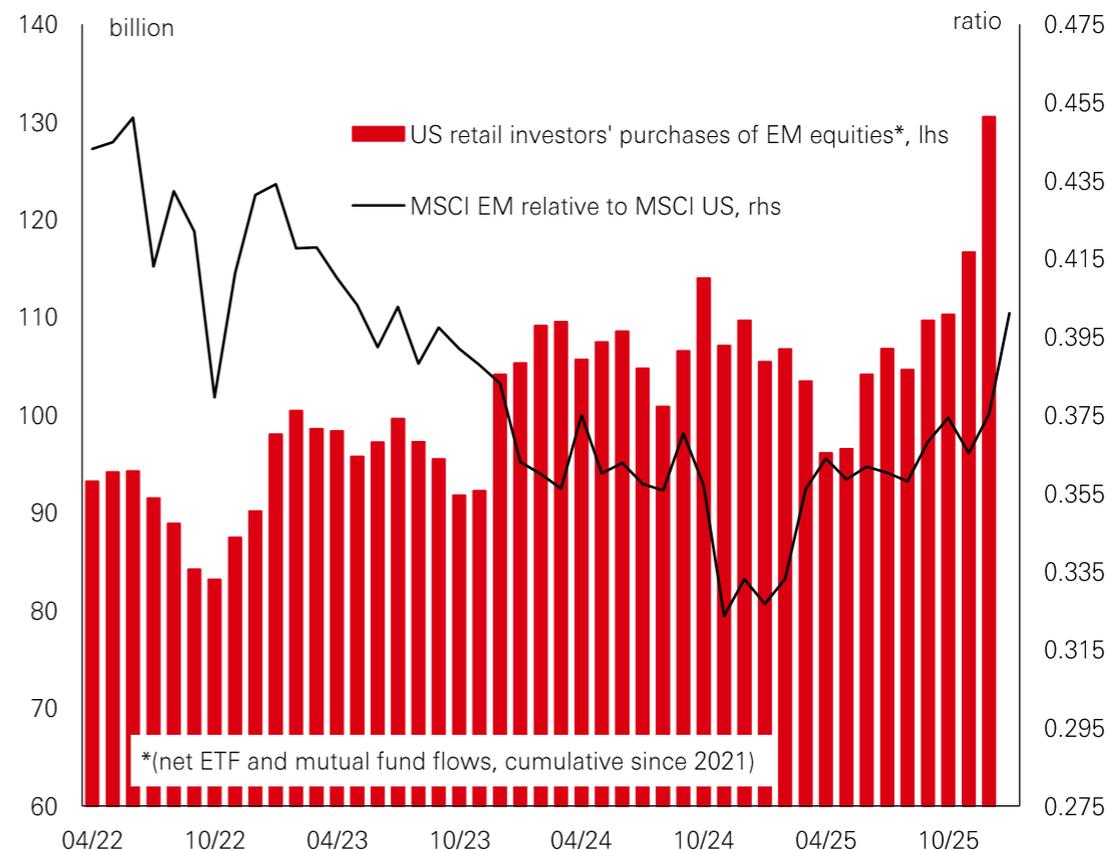
What explains EM leadership so far in 2026?

It has been hard to miss the outperformance of emerging market stocks versus the US recently. And when you look under the bonnet, there are signs that investors are reallocating away from concentrated US exposure to regions with potentially more balanced growth and better diversification. This is increasingly evident in portfolio flows. Indeed, **US retail investors' purchases of EM stocks have been rising since the middle of last year.** Given that EM is coming from a lower base, even a modest reallocation from the US to EM can potentially drive outsized performance.

Fresh dollar weakness in January and the prospect of US monetary easing are catalysing investor interest in EM assets. Valuations remain supportive: EM equities trade at a discount to developed markets, and real yields in many EM bond markets remain compelling relative to history. Plus, fundamentals are improving, with profits momentum strengthening across large parts of Asia and Latin America, helped by resilient domestic demand, easing inflation, and robust global trade.

Taken together, **recent trends in portfolio flows point to EM assets as beneficiaries of an evolving global macro and capital allocation regime.**

MSCI EM outperformance and flows into EM



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Source: HSBC Asset Management as at March 2026.

Have bonds regained their status as a haven asset?

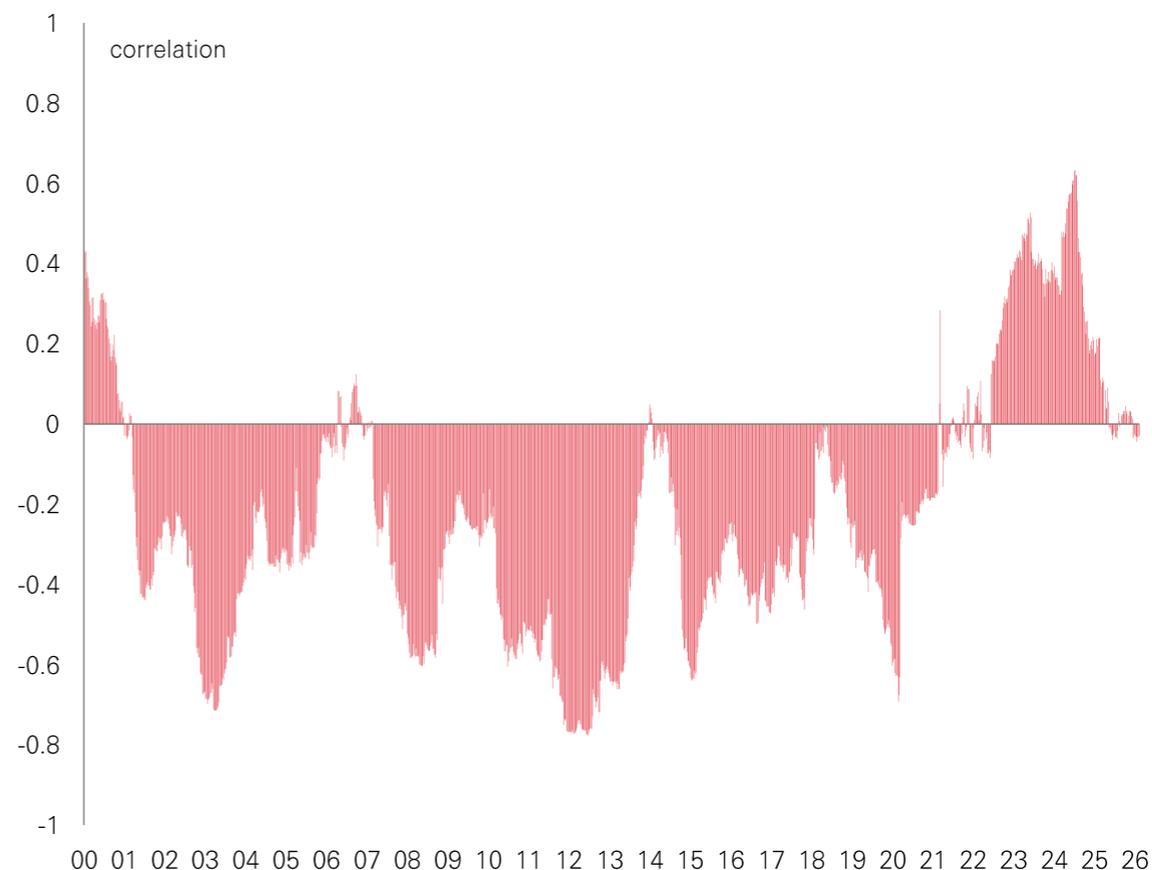
February saw an impressive rally in duration. That's despite a policy focus to run the US economy hot and some upside data surprises.

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. With the US tech trade faltering, crypto slipping, and gold and silver losing their lustre simultaneously, investors looked to traditional havens.

For the 60/40 investor, this was a welcome return to orthodoxy: after a long hiatus, **Treasuries worked as a portfolio shock absorber again. But recent events in Iran saw Treasuries sell off despite a jump in market volatility and some risk-off moves.** This reflects concerns over higher oil prices and the impact on inflation. And with tariffs keeping goods prices frothy and the colossal AI capex binge also posing upside inflation risks, a negative correlation between stocks and bonds isn't guaranteed.

The spectre of fiscal dominance also looms large, with the debt burden and weight of Treasury supply this year. So, while bonds have offered some shelter from the risk-off storm in the last few weeks, **there's still a need for other diversifiers in resilient portfolios.**

Rolling 12-month S&P 500/US 10-year correlation



Market Data



February 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)	1,057	1.2	5.1	22.5	4.2	1,064	723	19.2
North America								
US Dow Jones Industrial Average	48,978	0.2	2.6	11.7	1.9	50,513	36,612	21.8
US S&P 500 Index	6,879	-0.9	0.4	15.5	0.5	7,002	4,835	21.9
US NASDAQ Composite Index	22,668	-3.4	-3.0	20.3	-2.5	24,020	14,784	26.1
Canada S&P/TSX Composite Index	34,340	7.6	9.4	35.2	8.3	34,544	22,228	17.9
Europe								
MSCI AC Europe (USD)	754	3.0	11.9	28.8	7.7	756	516	15.9
Euro STOXX 50 Index	6,138	3.2	8.3	12.4	6.0	6,200	4,540	15.9
UK FTSE 100 Index	10,911	6.7	12.2	23.8	9.9	10,935	7,545	15.2
Germany DAX Index*	25,284	3.0	6.1	12.1	3.2	25,508	18,490	15.3
France CAC-40 Index	8,581	5.6	5.6	5.8	5.3	8,642	6,764	15.8
Spain IBEX 35 Index	18,361	2.7	12.2	37.6	6.1	18,574	11,583	13.6
Italy FTSE MIB	47,210	3.7	8.9	22.1	5.0	47,651	31,946	13.8
Asia Pacific								
MSCI AC Asia Pacific ex Japan (USD)	826	6.0	17.5	43.2	14.4	831	507	19.4
Japan Nikkei-225 Stock Average	58,850	10.4	17.1	58.4	16.9	59,332	30,793	23.1
Australian Stock Exchange 200	9,199	3.7	6.8	12.6	5.6	9,201	7,169	18.1
Hong Kong Hang Seng Index	26,631	-2.8	3.0	16.1	3.9	28,056	19,260	12.3
Shanghai Stock Exchange Composite Index	4,163	1.1	7.1	25.4	4.9	4,191	3,041	15.9
Hang Seng China Enterprises Index	8,859	-4.9	-3.0	5.3	-0.6	9,770	7,101	11.1
Taiwan TAIEX Index	35,414	10.5	28.2	53.6	22.3	35,579	17,307	18.6
Korea KOSPI Index	6,244	19.5	59.0	146.5	48.2	6,347	2,285	9.7
India SENSEX 30 Index	81,287	-1.2	-5.2	11.1	-4.6	86,159	71,425	19.8
Indonesia Jakarta Stock Price Index	8,235	-1.1	-3.2	31.3	-4.8	9,174	5,883	14.8
Malaysia Kuala Lumpur Composite Index	1,717	-1.4	7.0	9.0	2.2	1,771	1,387	15.0
Philippines Stock Exchange PSE Index	6,611	4.5	9.8	10.2	9.2	6,674	5,584	10.3
Singapore FTSE Straits Times Index	4,995	1.8	10.4	28.2	7.5	5,041	3,372	15.0
Thailand SET Index	1,528	15.3	21.6	27.0	21.3	1,545	1,054	15.6
Latam								
Argentina Merval Index	2,642,106	-17.4	-12.7	19.8	-13.4	3,296,502	1,635,451	18.4
Brazil Bovespa Index*	188,787	4.1	18.7	53.7	17.2	192,624	122,530	12.9
Chile IPSA Index	10,878	-4.7	7.4	48.4	3.8	11,721	7,136	13.7
Colombia COLCAP Index	2,223	-10.2	7.2	38.3	7.5	2,562	1,536	9.8
Mexico S&P/BMV IPC Index	71,406	5.6	12.3	36.5	11.0	72,111	49,799	13.9
EEMEA								
Saudi Arabia Tadawul All Share Index	10,709	-5.9	1.1	-11.6	2.1	12,146	10,194	16.9
South Africa JSE Index	128,456	7.0	15.8	49.5	10.9	129,339	77,165	14.9
Turkey index	13,934.1	-0.9	25.9	42.0	21.8	14,532.7	8,872.8	6.7

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.

Sources: Bloomberg, HSBC Asset Management. Data as at close of business 28 February 2026. (*) Indices expressed as total returns. All others are price returns.

Market Data (continued)

February 2026

EQUITY INDICES - TOTAL RETURN	3-month Change (%)	YTD Change (%)	1-year Change (%)	3-year Change (%)	5-year Change (%)	Dividend Yield (%)
Global equities	5.4	4.3	24.2	76.0	74.0	1.6
US equities	0.3	0.3	16.1	78.5	85.1	1.2
Europe equities	12.1	7.9	31.8	65.0	74.4	2.8
Asia Pacific ex Japan equities	17.8	14.6	46.1	73.3	34.1	2.1
Japan equities	16.4	15.7	43.9	84.0	58.5	1.8
Latam equities	21.0	19.7	72.4	75.7	100.3	4.7
Emerging Markets equities	18.3	14.8	50.0	79.5	35.8	2.1

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	3.66	3.65	3.80	4.29	3.63
2-Year	3.37	3.52	3.49	3.99	3.47
5-Year	3.50	3.79	3.60	4.02	3.73
10-Year	3.94	4.24	4.01	4.21	4.17
30-Year	4.61	4.87	4.66	4.49	4.84
Developed market 10-year bond yields (%)					
Japan	2.11	2.24	1.81	1.37	2.06
UK	4.23	4.52	4.44	4.48	4.48
Germany	2.64	2.84	2.69	2.41	2.85
France	3.22	3.43	3.41	3.14	3.56
Italy	3.27	3.46	3.40	3.54	3.55
Spain	3.06	3.21	3.16	3.04	3.29

BOND INDICES - TOTAL RETURN	Close	MTD Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)
BarCap GlobalAqq (Hedged in USD)	618	1.4	1.4	4.9	1.7
JPM EMBI Global	1038	1.4	2.5	12.4	2.0
BarCap US Corporate Index (USD)	3,597	1.3	1.3	6.6	1.5
BarCap Euro Corporate Index (Eur)	269	0.5	1.1	3.3	1.3
BarCap Global High Yield (USD)	698	0.4	1.9	9.0	1.1
BarCap US High Yield (USD)	2935	0.2	1.3	7.2	0.7
BarCap pan-European High Yield (USD)	650	0.4	1.8	6.7	1.2
BarCap EM Debt Hard Currency	504	1.0	2.3	11.2	1.7
Markit iBoxx Asia ex-Japan Bond Index (USD)	246	0.9	1.5	6.8	1.3
Markit iBoxx Asia ex-Japan High-Yield Bond Index (USD)	292	0.5	3.1	9.2	2.2

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Sources: Bloomberg, HSBC Asset Management. Data as at close of business 28 February 2026. Total return includes income from dividends and interest as well as appreciation or depreciation in the price of an asset over the given period.

Market Data (continued)

February 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	97.61	96.99	99.46	107.61	98.32	107.41	95.55
EUR/USD	1.18	1.19	1.16	1.04	1.17	1.21	1.05
GBP/USD	1.35	1.37	1.32	1.26	1.35	1.39	1.27
CHF/USD	1.30	1.29	1.24	1.11	1.26	1.32	1.11
CAD	1.36	1.36	1.40	1.45	1.37	1.45	1.35
JPY	156.1	154.8	156.2	150.6	156.7	159.5	139.9
AUD	1.41	1.44	1.53	1.61	1.50	1.69	1.40
NZD	1.67	1.66	1.74	1.79	1.74	1.82	1.63
Asia							
HKD	7.82	7.81	7.79	7.78	7.78	7.85	7.75
CNY	6.86	6.96	7.07	7.28	6.99	7.35	6.83
INR	90.98	91.99	89.46	87.51	89.88	92.00	83.76
MYR	3.89	3.95	4.13	4.46	4.06	4.51	3.88
KRW	1,440	1,445	1,468	1,459	1,445	1,508	1,347
TWD	31.32	31.47	31.39	32.91	31.42	33.28	28.79
Latam							
BRL	5.13	5.26	5.33	5.88	5.50	6.10	5.12
COP	3,757	3,697	3,755	4,154	3,775	4,477	3,598
MXN	17.23	17.46	18.30	20.55	18.01	21.08	17.09
ARS	1,397.88	1,446.67	1,450.07	1,063.69	1,451.62	1,491.87	1,063.11
EEMEA							
RUB	77.02	75.99	77.54	89.46	78.75	91.47	74.05
ZAR	15.94	16.15	17.11	18.69	16.56	19.93	15.64

COMMODITIES	Latest	MTD Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low
Gold	5,279	7.9	24.5	84.7	22.2	5,595	2,856
Brent Oil	72.5	2.5	14.7	-1.0	19.1	85	58
WTI Crude Oil	67.0	2.8	14.5	-3.9	16.7	78	55
R/J CRB Futures Index	313	-2.3	3.7	3.6	4.6	324	280
LME Copper	13,344	1.4	19.3	42.6	7.4	14,528	8,105

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Sources: Bloomberg, HSBC Asset Management. Data as at close of business 28 February 2026.

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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 **February 2026**, HSBC Asset Management's long-term expected return forecasts which were generated as at **31 January 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.
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- ◆ 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 **31 January 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 **28 February 2026**.

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