# Investment Monthly

## A bullish outlook still requires strategic diversification

January 2026

### Key takeaways

- While we remain optimistic about 2026, supported by strong AI adoption and a favourable earnings outlook, the recent geopolitical tensions in Venezuela highlight the continued importance of managing market volatility through multi-asset strategies. Beyond the US and Technology, we are diversifying by broadening our exposure across Asia and other sectors, by investing in gold and diversifying our currency exposure.
- We remain overweight on US equities, including IT and Communications, while diversifying into Industrials, Utilities and Financials to capture a broadening range of opportunities. Although we do not expect further Fed rate cuts, bonds are important for income generation in portfolios. We prefer US investment grade credit with medium duration.


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- China's Central Economic Work Conference (CEWC) 2025 reaffirmed policy priorities centred on innovation-driven structural growth, industrial upgrading and a revival in domestic demand through consumption and investment. With a significant EPS growth projection for 2026 (12.5%) and undemanding valuations at 12.3x forward P/E with a ROE of 11.2%, we remain positive on Chinese equities. Our investment approach balances exposure to AI themes and innovation leaders, with high-dividend, quality companies that benefit from both cyclical drivers and structural policy tailwinds.

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| Asset class | 6-month view | Comment |
|---|---|---|
| Global equities | ▲ | We maintain a mild risk-on stance with an overweight allocation for global equities, while broadening diversification across Asia and sectors to mitigate concentration risk. |
| Government bonds | ▶ | Although economic growth remains moderate and fiscal concerns could lead to potential rating downgrades in some developed markets, DM government bonds continue to provide a stable income stream for portfolios. |
| Investment grade (IG) corporate bonds | ▲ | We remain focused on locking in quality bond yields by prioritising investment grade corporate bonds for their all-in carry, offering stability and steady income amid falling policy rates. |
| High yield (HY) corporate bonds | ▼ | Tight high yield spreads and rising credit market volatility reinforce our underweight position in global high yield bonds, where valuations appear stretched. |
| Gold | ▲ | Safe-haven demand amid geopolitical uncertainty and USD diversification trends reinforce gold's role as a portfolio diversifier. |

▲ "Overweight" implies a positive tilt towards the asset class, within the context of a well-diversified, typically multi-asset portfolio.
▼ "Underweight" implies a negative tilt towards the asset class, within the context of a well-diversified, typically multi-asset portfolio.
▶ "Neutral" implies neither a particularly negative nor a positive tilt towards the asset class, within the context of a well-diversified, typically multi-asset portfolio.
Icons: ↑ View on this asset class has been upgraded; ↓ View on this asset class has been downgraded.

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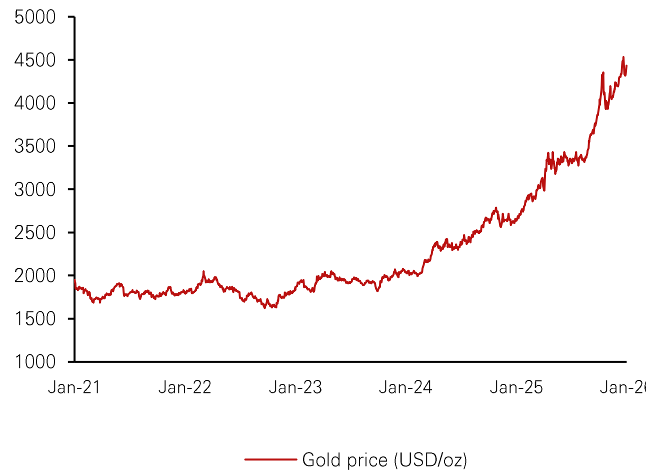
# Talking points

Each month, we discuss 3 key issues facing investors

## 1. How should investors manage unexpected market volatility?

- While we think the spillover effects of the US military strikes in Venezuela are likely to be short-term and limited, the event serves as a reminder to investors that market volatility is not going away. It is essential to balance risks and opportunities through diversification across asset classes, sectors, markets and currencies. Geopolitical concerns will continue supporting strong demand for gold.
- AI adoption should remain a defining theme in 2026, expanding opportunities across sectors and beyond the US. While tech valuations there have increased, they remain well below the levels of the dot-com era, and earnings forecasts for Q1 2026 remain conservative. Meanwhile, the fast-growing AI ecosystem in Asia is supported by attractive valuations and supportive policy measures. Mainland China, Hong Kong, Singapore, South Korea and Japan present attractive opportunities due to their exposure to the AI investment cycle and favourable local dynamics, offering geographical diversification benefits.
- Our four investment themes for 2026 include 1) Look to emerging markets and Asia to complement the US; 2) Uncover opportunities in the broadening AI ecosystem; 3) Navigate volatility with quality bonds and FX diversification; and 4) Expand the investment mix with gold and alternative assets. Please refer to our Think Future 2026 brochure for more information.

**Chart 1: Gold should remain as a key portfolio diversifier amid elevated geopolitical uncertainty**




Source: Bloomberg, HSBC Private Bank and Premier Wealth as at 5 January 2026.

## 2. Will the Fed's December rate cut mark the end of the easing cycle?

- While the Fed lowered interest rates by 0.25% to 3.50-3.75% in December as expected, differing views persist among FOMC officials.
- Economic projections point to stronger growth and lower inflation, with a notable mechanical rebound in the 2026 GDP following the shutdown. As the underlying economy remains resilient and corporate earnings are projected to grow by roughly 14.5% in 2026, we expect the policy rate to remain unchanged through 2026-2027, though double-sided risks remain as the economy transitions into 2026.
- Lower policy rates are accretive to corporate earnings and should help keep valuation multiples around current levels. Rate-sensitive sectors and companies are likely to benefit from robust AI-driven investment and the ongoing re-industrialisation trend in the US. We remain overweight on US equities, including IT and Communications, while diversifying into Industrials and Utilities, which stand to benefit from the AI transformation. Financials can provide style diversification for growth-heavy portfolios. The continued decline in inflation expectations supports fixed income. We favour US investment grade bonds with medium duration and remain cautious on high yield.

**Chart 2: Median of the FOMC economic projections**

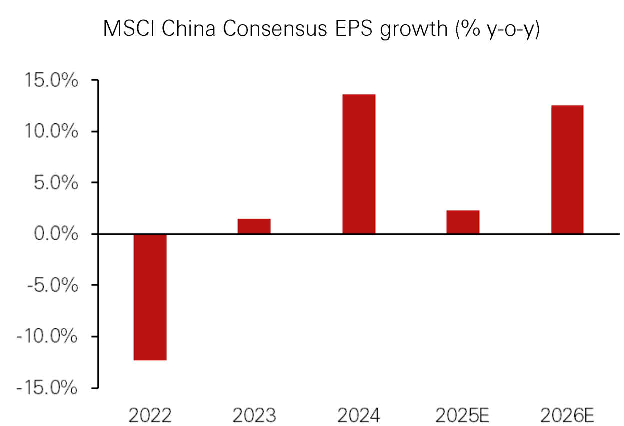
| Variable % | Median | | | | |
|---|---|---|---|---|---|
| | 2025 | 2026 | 2027 | 2028 | Longer run |
| Change in real GDP | 1.7 | 2.3 | 2.0 | 1.9 | 1.8 |
| September projection | 1.6 | 1.8 | 1.9 | 1.8 | 1.8 |
| Unemployment rate | 4.5 | 4.4 | 4.2 | 4.2 | 4.2 |
| September projection | 4.5 | 4.4 | 4.3 | 4.2 | 4.2 |
| PCE inflation | 2.9 | 2.4 | 2.1 | 2.0 | 2.0 |
| September projection | 3.0 | 2.6 | 2.1 | 2.0 | 2.0 |
| Core PCE inflation | 3.0 | 2.5 | 2.1 | 2.0 | |
| September projection | 3.1 | 2.6 | 2.1 | 2.0 | |
| Memo: Projected appropriate policy path | | | | | |
| Federal funds rate | 3.6 | 3.4 | 3.1 | 3.1 | 3.0 |
| September projection | 3.6 | 3.4 | 3.1 | 3.1 | 3.0 |

Source: Federal Reserve, HSBC Private Bank and Premier Wealth as at 10 December 2025. Forecasts are subject to change.

## 3. What are the key highlights of China's CEWC 2025?

- China's Central Economic Work Conference (CEWC) 2025 reaffirmed policy priorities centred on innovation-driven structural growth, industrial upgrading and a revival in domestic demand through consumption and investment.
- We anticipate a more proactive fiscal stance, with the fiscal deficit target set at 4% of the 2026 GDP and additional stimulus from special government bonds. Meanwhile, the PBoC is expected to deliver 0.2% of interest rate cuts and 0.5% of RRR cuts in 2026.
- With MSCI China EPS growth projected to rebound from 2.3% in 2025 to 12.5% in 2026, and valuations remaining undemanding at 12.3x forward P/E with a ROE of 11.2% (10.9% in 2025), we remain overweight on Chinese equities. Our investment approach balances exposure to AI themes and innovation leaders, including semiconductors, cloud and software, with high-dividend, quality companies that benefit from both cyclical drivers and structural policy tailwinds.

**Chart 3:Acceleration of China's earnings growth in 2026**




Source: Bloomberg, HSBC Private Bank and Premier Wealth as at 15 December 2025. Forecasts are subject to change.

# Asset Class Views

Our latest house view on various asset classes

| Asset class | 6-month view | Comment |
|---|---|---|
| **Global equities** | | |
| Global | ▲ | We maintain a mild risk-on stance with an overweight allocation for global equities, while broadening diversification across Asia and sectors to mitigate concentration risk. |
| United States | ▲ | Although we have reduced our US equity exposure to hedge against elevated valuations, Fed policy uncertainty and potential delays in AI roll-out, US equities remain supported by ongoing AI adoption and solid consensus earnings growth expectations. |
| United Kingdom | ▶ | UK equities are supported by compelling valuations and dividend yields but currently lack catalysts to trigger a re-rating and attract international investor inflows, so we remain neutral for now. |
| Europe ex-UK | ▶ | Some core European markets continue to struggle with high debt loads and weak economic growth, for example, slow infrastructure investment in Germany and budget challenges in France. We prefer periphery markets, such as Spain and Italy. |
| Japan | ▲ | A potential re-rating opportunity is driven by the new PM's reflationary and expansionary agenda, leading to increased economic activity, a supportive corporate earnings outlook and Japan's strong position in key AI-related manufacturing. |
| Emerging Market (EM) | ▶ | Fed rate cuts, a weaker USD, easing inflation, and positive fiscal positions are attracting capital inflows. EM Asia is preferred. |
| EM EMEA | ▶ | The region shows improving fundamentals and dividend strength while benefitting from a weaker dollar. The UAE offers structural opportunities, while South Africa is supported by expectations of lower policy rates and elevated gold prices. |
| EM LatAm | ▶ | While USD weakness and rate cuts are supportive, political uncertainty is likely to temper short-term risk appetite. |
| **Asia ex-Japan equities** | | |
| Asia ex-Japan | ▲ | Asia offers one of the broadest and most compelling opportunity sets globally, supported by strong policy tailwinds and a rapidly expanding AI ecosystem. We favour mainland China, Hong Kong, Singapore and South Korea. |
| China | ▲ | As the government focuses on boosting innovation, technological self-sufficiency and corporate profitability with its anti-involution measures, we maintain exposure to tech leaders, domestic consumption plays, and high-dividend SOE stocks. |
| India | ▶ | While strong GDP growth, robust domestic investor flows and an expected uptick in earnings growth are positive drivers, we wait for evidence that the government reform measures will improve the growth and earnings outlook. |
| Hong Kong | ▲ | We remain overweight on Hong Kong stocks due to attractive valuations, strong liquidity inflows from mainland China and increased IPO activity. Stabilisation in residential housing and a positive wealth effect support domestic consumption. |
| Singapore | ▲ | Singapore remains attractive to international investors, with its stable policy backdrop, exposure to high quality companies, compelling dividend yields and defensive appeal, making it a strong complement to other portfolio holdings. |
| South Korea | ▲ | Strong demand for memory chips and the healthy order books for 2026 support the market's elevated earnings expectations, while the 'Corporate Value-Up' Programme promotes shareholder returns. |
| Taiwan | ▶ | Taiwan is not fully benefitting from AI tailwinds, while valuations are near the top of the five-year range. |
| **Government bonds** | | |
| Developed markets (DM) | ▶ | Although economic growth remains moderate and fiscal concerns could lead to potential rating downgrades in some developed markets, DM government bonds continue to provide a stable income stream for portfolios. |
| United States | ▶ | Despite a 0.25% rate cut in December, divergence views among FOMC officials on the future rate path continue to drive volatility in US Treasuries. We maintain a neutral stance, with a preference for 5-7-year duration. |
| United Kingdom | ▶ | While risks from the Autumn Budget have receded, we remain cautious on gilts due to fiscal fragility. With BoE hawks standing firm, we now expect the next cut in April, followed by further cuts in July and November. |
| Eurozone | ▶ | While Eurozone core sovereign yields trade near multi-year highs amid increased fiscal spending expectations and ongoing political hurdles, improving fiscal dynamics are supporting peripheral government bonds and narrowing spreads. |
| Japan | ▼ | Market concerns over higher government debt issuance and fiscal sustainability risks may create near-term volatility, particularly at the longer end of the curve. We maintain our forecast for the next hike in Q3. |
| EM (Local currency) | ▲ | Potential rate cuts in emerging markets and sovereign rating upgrades support sentiment. EM local currency sovereign bonds also offer a relatively low correlation with risk assets and help diversify USD exposure. |
| EM (Hard currency) | ▶ | The US dollar could remain volatile. While yields remain attractive, we stay selective and focus on quality bonds. |
| **Corporate bonds** | | |
| Global investment grade (IG) | ▲ | We remain focused on locking in quality bond yields by prioritising investment grade corporate bonds for their all-in carry, offering stability and steady income amid falling policy rates. |
| USD investment grade | ▲ | US investment grade bonds continue to provide attractive returns relative to risk. We maintain a medium duration preference. |
| EUR investment grade | ▲ | We believe investment grade credit is the sweet spot as sovereign bonds could see negative rating actions and rate cuts in the region are now behind us. We favour medium-to-long duration (7-10 years). |
| GBP investment grade | ▲ | We prefer GBP investment grade credit with a 7-10-year duration target, which offers attractive yields relative to gilts. |
| Asian investment grade | ▲ | Asian IG bonds offer compelling yields and should benefit from global diversification flows and strong local demand. We favour Japanese and Australian IG bonds, Asian financials, as well as Chinese hard currency and Indian local currency bonds. |
| Global high yield (HY) | ▼ | Tight high yield spreads and rising credit market volatility reinforce our underweight position in global high yield bonds, where valuations appear stretched. |
| USD high yield | ▼ | Despite a below-average default rate and a resilient economic outlook, potential negative news flow may affect issuers in the lowest segment of credit ratings. Spreads are near multi-year lows and hence unattractive. |
| EUR high yield | ▼ | Our quality bias leads us to underweight on EUR high yield credit, given the risk of spread widening from cyclically low levels. |
| GBP high yield | ▼ | With credit spreads below long-term averages, we see a more attractive risk-reward profile in GBP IG credit. |
| Asian high yield | ▼ | Our preference for quality credit amid external uncertainty leads us to underweight Asian high yield bonds in portfolios. |
| **Commodities** | | |
| Gold | ▲ | Safe-haven demand amid geopolitical uncertainty and USD diversification trends reinforce gold's role as a portfolio diversifier. |
| Oil | ▶ | Given limited oil production from Venezuela and ample global supply, we believe oil prices will remain range-bound. |

# Sector Views

Global and regional sector views based on a 6-month horizon

| Sector | Global | US | Europe | Asia | Comment |
|---|---|---|---|---|---|
| **Consumer Discretionary** | ▶ | ▶ | ▼ | ▲ | Discretionary spending is highly selective as consumers prioritise value purchases and/or very select brands. High valuations and the weaker pricing environment make the sector less appealing. Asia has seen more resilient demand, particularly for domestic brands. US demand has flatlined as tariffs have raised prices for many imported goods. European companies are reporting soft domestic and overseas sales and profits across most segments due to changing demand, increased competition and rising costs. |
| **Financials** | ▲ | ▲ | ▲ | ▲ | Financials services should benefit from another year of robust demand (trading, advisory, M&A, IPOs and issuance). Interest rates are likely to remain somewhat elevated, despite ongoing inflationary pressures, easing the impact of declining net interest income. A more positive outlook for Asia and EM generally should provide a tailwind for Asian Financials. The insurance sector outlook is more mixed, given the rise in weather and other catastrophic events. |
| **Industrials** | ▲ | ▲ | ▲ | ▶ | The Industrials sector is benefitting from the multi-year roll-out of new technologies, including infrastructure (energy, digital and AI), aerospace, defence, electric transportation, automation and robotics. Order books continue to grow, with companies committing capital to new/upgraded production. Limited excess capacity is providing a favourable pricing environment. Tariff concerns have eased considerably. |
| **Information Technology** | ▲ | ▲ | ▶ | ▲ | The AI revolution continues with the roll-out of numerous new and enhanced products and services. Demand for AI software, related hardware and services is driving robust growth. Market bubble concerns are a headwind. In Asia, we expect a pick-up in hardware and semiconductor growth due to the build-out of digital infrastructure, data centres, cloud capacity and electric vehicles. |
| **Communications Services** | ▲ | ▲ | ▶ | ▲ | The media and entertainment segments continue to report above-average sales and earnings growth, especially in the US. Telecom services are starting to attract interest. Valuations remain undemanding. Asia remains attractive, although relative valuations are less compelling. Europe's telecom services offer a far less attractive proposition in terms of investment returns due to intense competition, lack of scale, market complexity and high capital spending requirements. |
| **Materials** | ▶ | ▶ | ▶ | ▶ | Fundamentals for most commodities are likely to continue improving, with iron ore as a key exception. Macroeconomic indicators are slowly improving, except in China and Europe, where the situation is still in flux. Oil price declines are supportive of the chemicals industry, but high geographical variability in energy prices is intensifying the competitive landscape. Valuations look undemanding. Tariffs are now a manageable risk for most companies. |
| **Real Estate** | ▶ | ▶ | ▶ | ▶ | The outlook for the sector has somewhat improved, with rising demand for high-quality office space and new facilities to meet evolving demand from the technology sector. Retail real estate remains challenging but appears to have troughed for now. In terms of countries and regions, China faces specific challenges, but elsewhere in Asia, North America and Europe, demand for new offices, warehouses, manufacturing facilities and housing is experiencing better supply-demand dynamics. The US market is particularly benefitting from the reshoring trend. |
| **Consumer Staples** | ▼ | ▼ | ▼ | ▼ | The sales and earnings outlook for the majority of the sector remains unappealing. Consumers continue to increase purchases of 'value' products while reducing purchases of higher margin branded goods. This is evident from market share gains of 'value' retailers. Demand for alcohol and tobacco appears to be in secular decline. Undemanding valuations reflect the sector's limited growth potential. |
| **Energy** | ▼ | ▼ | ▼ | ▼ | Oil prices are likely to remain range-bound for most of 2026 due to higher production and weaker demand. Gas prices are likely to remain resilient, as seasonal demand, especially in the northern hemisphere, is likely to keep gas prices elevated. The sector's low valuations, high dividends and robust cash flows are appealing, especially when combined with the gas segment exposure, but integrated oil producers and energy service companies are likely to face challenging growth conditions. |
| **Healthcare** | ▶ | ▶ | ▶ | ▲ | The US government's healthcare policies remain in flux, impacting the largest single healthcare market in terms of sales and profits. M&A activity has picked up as companies look to offset pressure on the price of older medicines with new innovative products. Asian healthcare companies, particularly in China, benefit from their innovative new products and improving demand dynamics and relatively low valuations. New technologies in drug discovery, testing, patient records and diagnosis are set to transform the sector. |
| **Utilities** | ▲ | ▲ | ▲ | ▶ | Utilities are managing a multi-year surge in demand for electricity as most segments of the economy transition away from fossil fuels, while IT-related demand for electricity is soaring. As many utilities have limited spare capacity, substantial capital investment is required to upgrade generation capacity and transmission infrastructure. Valuations and yield remain attractive. |

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