

# Investment Monthly

## Positive outlook remains amid tech sell-off and new tariffs

March 2026



### Key takeaways

- ◆ The recent market sell-off was triggered by concerns that incumbent software companies could be replaced by AI start-ups. We believe these fears are exaggerated, as these companies are also well positioned to benefit from AI for greater efficiency. The investor rotation from IT to other sectors broadens opportunities in industrials, materials and utilities. A multi-asset solution will help diversify across asset classes, sectors, markets and currencies.
- ◆ While the US Supreme Court limited the use of IEEPA, the administration quickly responded with a 15% global tariff using Section 122. Import-reliant sectors may benefit from lower near-term cost pressures and reduced legal uncertainty. Overall, resilient US growth, solid earnings and continued AI momentum support our bullish view on US equities, while total tariff revenue is expected to remain stable in 2026, which is also positive for bonds. We favour US investment grade credit over high yield.
- ◆ We assess the potential market impact under different scenarios in the Middle East. Continued strikes across several countries would increase oil and gold prices, while putting pressure on European economies, emerging-market oil importers and cyclical sectors. Conversely, these market segments would benefit if tensions ease. Although gold prices may decline in this scenario, gold is expected to remain a key diversifier. Solid earnings growth across sectors and regions supports our market optimism. Outside the US, Asia sees the most positive earnings revisions.



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Asset class	6-month view	Comment
Global equities	▲	A robust economic and earnings outlook reinforces our risk-on strategy. We remain diversified geographically across asset classes and sectors to take advantage of broadening AI-driven opportunities while mitigating concentration risk.
Government bonds	▶	As fiscal concerns ease somewhat, global bond yields are facing less pressure. We prefer UK Gilts and Australian bonds among all DM government bonds.
Investment grade (IG) corporate bonds	▲	As credit spread volatility is expected to rise, we prefer quality bonds which offer attractive yields and diversification benefits.
High yield (HY) corporate bonds	▼	Despite a below-average default rate and a resilient economic outlook, we view high yield as unattractive as spreads are near multi-year lows.
Gold	▲	Gold has stabilised and benefits from fears of USD debasement. Geopolitical uncertainty and government debt concerns remain supportive.

▲ "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.

# Talking points

Each month, we discuss 3 key issues facing investors

## 1. What does the recent market correction indicate?

- ◆ The tech sell-off in February reflected investor concerns about AI disrupting traditional software business models, prompting a shift from IT to other sectors and income-paying stocks. We think this is overstated as AI cannot operate effectively in isolation and continues to rely on robust software platforms to manage data, ensure security and integrate workflows.
- ◆ Therefore, we see the correction as a buying opportunity to increase exposure to companies that can successfully combine AI innovation with sustainable earnings growth. IT valuations are less stretched now.
- ◆ As investors further diversify their portfolios, they are able to access a broader set of opportunities. Industrials continue to benefit from fiscal spending and capital investment, with positive spillovers into Materials. Utilities have benefitted from the shift to more defensive stocks, investors' desire for income and the increasing demand for electricity. Gold has overtaken US Treasuries as the world's largest reserve asset since 1996. We expect gold prices to remain elevated in H1 due to geopolitical uncertainty and government debt concerns. Nevertheless, excessive reliance on any asset class is not a good strategy. A multi-asset solution can help weather market volatility by diversifying across asset classes, sectors, markets and currencies.

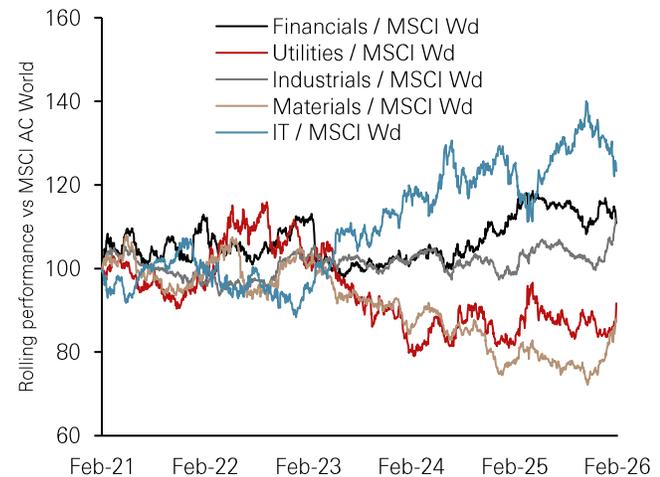
## 2. What is the impact of the US Supreme Court's ruling?

- ◆ After the US Supreme Court ruled that President Trump could not use the International Emergency Economic Powers Act (IEEPA), the administration announced a 15% global tariff using Section 122, applicable for up to 150 days (currently at 10%, targeted to rise to 15% later).
- ◆ As both the ruling and the administration's swift response were widely expected, the financial markets' reaction was muted. In fact, import-reliant sectors such as retail, consumer discretionary, autos, and select industrials may benefit from lower near-term cost pressures and reduced legal uncertainty.
- ◆ Despite some short-term uncertainty, the removal of one sweeping mechanism to impose tariffs (IEEPA) should improve market sentiment. We remain bullish on US equities due to resilient economic growth, robust corporate earnings and continued AI momentum. The indication from Treasury officials that total tariff revenue in 2026 is expected to remain stable suggests policy continuity and a limited impact on bonds. We continue to favour investment grade credit. The USD could be slightly weaker on positive global sentiment.

## 3. What supports our positive outlook amid geopolitical risk?

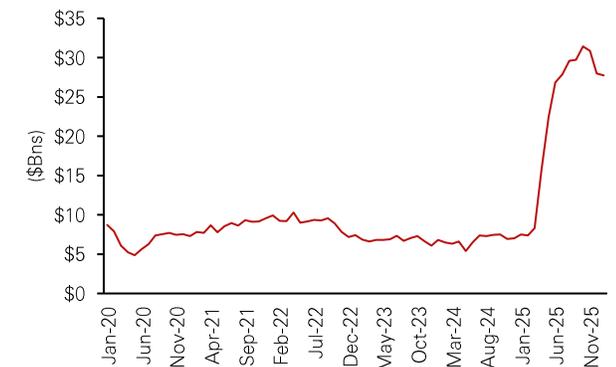
- ◆ While we do not speculate on how the situation in the Middle East will evolve, we assess the potential market implications across various scenarios and emphasise the importance of building resilient portfolios.
- ◆ Should strikes continue across several countries, oil price spikes could lift short-term inflation expectations, hurting real incomes in Europe and emerging-market importers. Equity markets would likely sell off, while gold would rally further, with alternative assets adding diversification benefits. Conversely, should tensions ease, oil prices would decline, reducing inflation concerns and benefitting energy importers and cyclical stocks. Even if equity volatility falls, gold should remain a key diversifier as market uncertainty persists.
- ◆ We remain optimistic due to solid earnings growth across sectors and regions. US economic growth has proven more resilient than anticipated, with many households set to benefit from fiscal support under the One Big Beautiful Bill. The recent dip in inflation and near-record-high corporate margins are also positive drivers. Outside the US, Asia continues to play a key role in geographical diversification, where we see the most positive earnings revisions.

**Chart 1: While IT has given back some of last year's gains, other sectors have benefitted from the rotation**



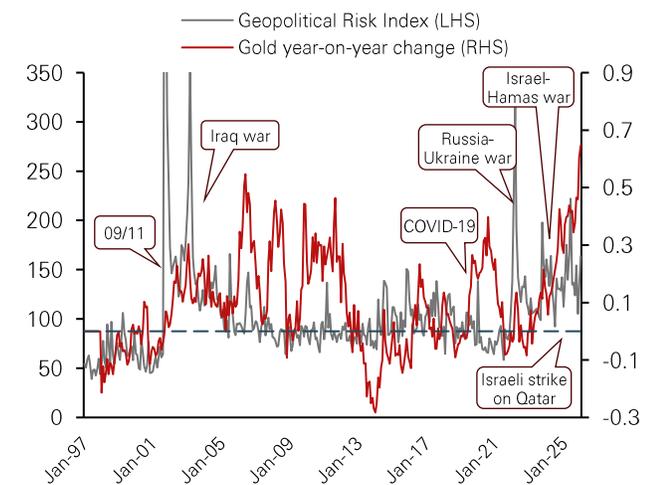
Source: Bloomberg, HSBC Private Bank and Premier Wealth as at 20 February 2026. Past performance is not a reliable indicator of future performance.

**Chart 2: Monthly customs duty revenue in billions (2025 dollars)**



Source: Yale University, HSBC Private Bank and Premier Wealth as at 20 February 2026.

**Chart 3: Gold's performance on geopolitical events**



Source: Bloomberg, Macrobond, HSBC Private Bank and Premier Wealth as at 13 February 2026. Past performance is not a reliable indicator of future performance.

# Asset Class Views

Our latest house view on various asset classes

Asset class	6-month view	Comment
<b>Global equities</b>		
Global	▲	A robust economic and earnings outlook reinforces our risk-on strategy. We remain diversified geographically across asset classes and sectors to take advantage of broadening AI-driven opportunities while mitigating concentration risk.
United States	▲	The combination of resilient economic growth, solid corporate earnings and continued innovation supports our preference for companies with pricing power and global diversification.
United Kingdom	▶	While some sectors are benefitting from the external environment, high financing costs, weak growth momentum, and higher taxes continue to weigh on domestic earnings. Therefore, domestically focused stocks are likely to keep lagging.
Europe ex-UK	▼	We expect the region to remain sensitive to evolving geopolitical developments in the short term. The underweight position is mainly driven by our bearish view on France.
Japan	▲	With Takaichi's stronger power to push through her expansionary fiscal agenda, we expect higher spending to fuel further domestic economic growth in Japan. Earnings growth is expected to drive a domestically driven re-rating opportunity.
Emerging Market (EM)	▶	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. South Africa benefits from a bullish outlook for gold.
EM LatAm	▶	Following a strong rally, the region may see some volatility. Elections offer two-way risks, but stronger commodity prices are supportive.
<b>Asia ex-Japan equities</b>		
Asia ex-Japan	▲	Asia offers compelling diversification opportunities due to its vast and rapidly growing AI ecosystem, domestic growth drivers and structural trends in the region. We focus on tech innovation leaders and quality companies paying high dividends.
China	▲	We expect the AI-led equity rally to extend into 2026, supported by favourable policy measures and strong AI capex spending across many industries. Low returns on cash and bonds should continue to drive flows into the equity market.
India	▶	While the US-India trade deal and the Union Budget, which focuses on continued capex, are positive drivers, elevated valuations and lacklustre earnings growth remain headwinds. We prefer Consumer Discretionary, Financials and Industrials.
Hong Kong	▲	The Hong Kong Budget highlights alignment with mainland China's Five-Year Plan, with a focus on promoting AI and technology. Strong liquidity inflows, an improving housing market and increased IPO activity are positive drivers.
Singapore	▲	The 2026 Budget reflects the government's ongoing pro-growth stance while maintaining fiscal prudence. Improving fundamentals and compelling dividend yields, amid a solid economic and earnings backdrop, support our overweight stance.
South Korea	▲	The semiconductor and memory cycle is supported by AI momentum while the 'Corporate Value-Up' Programme aims to enhance shareholder returns. Valuations appear attractive.
Taiwan	▶	The impact of the AI ecosystem is not yet fully reflected in the market, while valuations and earnings momentum are less attractive than those of regional peers.
<b>Government bonds</b>		
Developed markets (DM)	▶	As fiscal concerns ease somewhat, global bond yields are facing less pressure. We prefer UK Gilts and Australian bonds among all DM government bonds.
United States	▶	As recently-released labour market data indicated resilience, we believe the FOMC will keep policy rates unchanged throughout 2026 and maintain our neutral stance on Treasuries with a preference for medium (5-7 years) duration.
United Kingdom	▲	The BoE's dovish pause and guidance strengthen the case for UK Gilts, which offer attractive opportunities, particularly in the 7-10-year segment. We maintain our expectation for three 0.25% gradual policy rate cuts starting this spring.
Eurozone	▶	With inflation expected to oscillate around the ECB's target and no significant risks on the horizon for now, we expect the ECB to keep rates on hold, supporting our neutral stance on government bonds in the region.
Japan	▶	We believe the impact of fiscal expansion is already reflected in the Japanese JGB term premium and maintain our view of a 0.25% hike in Q3, but the risk of earlier or additional hikes is rising.
EM (Local currency)	▲	There is scope for EM rate cuts and EM currency strength. Yields are attractive, rating upgrades are possible, and EM local currency can be a good portfolio diversifier.
EM (Hard currency)	▶	The US dollar could remain volatile. While yields remain attractive, we focus on quality bonds.
<b>Corporate bonds</b>		
Global investment grade (IG)	▲	As credit spread volatility is expected to rise, we prefer quality bonds which offer attractive yields and diversification benefits.
USD investment grade	▲	Total yields remain attractive. We maintain a medium-duration stance to balance income and rate risk.
EUR investment grade	▲	While sovereign bonds see less scope for capital gains in the long end and no further policy rate cuts from the ECB are expected, EUR investment grade credit offers relatively attractive value, particularly in the 7-10-year range.
GBP investment grade	▲	We prefer GBP investment grade credit with a 7-10-year duration target, which offers attractive value.
Asian investment grade	▲	Asian IG bonds should benefit from global diversification flows and strong local demand. Japanese and Australian IG bonds, Asian financials, as well as Chinese hard currency and Indian local currency bonds are preferred.
Global high yield (HY)	▼	Despite a below-average default rate and a resilient economic outlook, we view high yield as unattractive as spreads are near multi-year lows.
USD high yield	▼	Despite a below-average default rate and a resilient economic outlook, spreads are near multi-year lows.
EUR high yield	▼	Although the risk of systemic issues is not high, we see better risk-adjusted returns in EUR investment grade credit.
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	▼	The subdued property market in China and external uncertainties reinforce our cautious stance on Asian high yield.
<b>Commodities</b>		
Gold	▲	Gold has stabilised and benefits from fears of USD debasement. Geopolitical uncertainty and government debt concerns remain supportive.
Oil	▶	Oil prices benefit from global uncertainties, but the market remains oversupplied.

## Sector Views

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

Sector	Global	US	Europe	Asia	Comment
<b>Consumer Discretionary</b>	▶	▶	▼	▲	Discretionary spending is highly selective as consumers prioritise value purchases and/or a select few brands. High valuations and a weaker pricing environment make the sector less appealing. Asia has seen more resilient demand, particularly for domestic brands. US demand has flattened 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, competition and rising costs.
<b>Financials</b>	▲	▲	▲	▲	Financials services should benefit from another year of robust demand across trading, advisory (M&A and IPOs) and issuance. Interest rates are likely to remain somewhat elevated given ongoing inflationary pressures, easing the impact of declining net interest income. The outlook for Europe and Asia appears most attractive. The outlook for insurance is more mixed, given the rise in weather-related and other catastrophic events.
<b>Industrials</b>	▲	▲	▲	▶	Industrials are benefitting from the multi-year roll-out of new technologies, including infrastructure (energy, digital and AI), aerospace, defence, electric transportation, automation and robots. Order books continue to grow, with companies committing capital to new and upgraded production. Limited excess capacity is providing a supportive pricing environment. Tariff concerns have eased somewhat.
<b>Information Technology</b>	▲	▲	▶	▲	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, although market bubble concerns remain a headwind. In Asia, demand for hardware and semiconductors has picked up due to the build-out of digital infrastructure, data centres, cloud capacity, electric vehicles and AI-enabled products.
<b>Communications Services</b>	▲	▲	▲↑	▲	We upgrade the sector in Europe on rising earnings growth, fuelled by increasing data usage, data-centre build-out and governments stimulus. In addition, investors are attracted by low valuations, high dividend yields and low exposure to tariffs. 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.
<b>Materials</b>	▲	▲	▲	▲	Fundamentals for construction, metals and mining sub-sectors continue to improve in terms of demand and prices, although not all commodities are benefitting equally. The prices of copper, aluminium, nickel, cobalt, zinc, gold and silver have all risen significantly in recent months. A notable exception is iron ore, where prices have remained range-bound for most of the last 12 months. Demand for construction materials remains supportive while prices have held up. Chemical company margins and profits continue to be under pressure.
<b>Real Estate</b>	▶	▶	▶	▶	The outlook for the sector has improved, supported by rising demand for high-quality office space and new facilities to meet evolving needs from the technology sector. Retail real estate remains challenging but appears to have bottomed out for now. China faces specific challenges, but elsewhere in Asia, North America and Europe, demand for new office, warehousing, manufacturing facilities and housing is experiencing more favourable supply-demand dynamics. The US market is benefitting from the reshoring trend.
<b>Consumer Staples</b>	▼	▼	▼	▼	The company outlook for 2026 offers few reasons for optimism, given the sector's relatively elevated valuations. Discerning consumers continue to shift purchases towards 'value' products while reducing spending on higher-margin branded goods. Undemanding valuations reflect the sector's limited potential.
<b>Energy</b>	▼	▼	▼	▼	The sector's roller-coaster performance is driven by geopolitical developments rather than industry fundamentals, as persistent excess supply remains a major headwind for oil prices. In contrast, gas prices and demand appear more resilient. While the sector's low valuations, high dividends and robust cash flows may appeal, margins are unlikely to improve in the short term.
<b>Healthcare</b>	▶	▶	▶	▲	The US government's healthcare policies remain in flux, affecting the sector's sales and profits. M&A activity has picked up as companies seek to offset pricing pressure on older medicines with new innovative products. Asian healthcare companies, particularly in China, are benefitting from new product launches, improving demand dynamics and relatively low valuations. New technologies in drug discovery, testing, patient records and diagnosis are set to transform the sector.
<b>Utilities</b>	▲	▲	▲	▶	Utilities are managing a multi-year surge in electricity demand as most segments of the economy transition away from fossil fuels, while IT-related demand for electricity continues to soar. As many utilities have limited spare capacity, substantial capital investment is required to upgrade generation capacity and transmission infrastructure. Valuations and yields remain attractive.

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