Investment Monthly

Markets shift towards tech-led structural opportunities

May 2026

Key takeaways

- Since early April, ceasefire negotiations have led to a rebound in risk appetite. As it will take time for the Strait of Hormuz and oil production to normalise, we believe energy prices are likely to remain elevated. We upgrade Energy to overweight across regions following its recent sell-off, to navigate oil price volatility and generate strong cash flows, while continuing to build resilient portfolios with quality bonds, gold and multi-asset diversification.
- Recent headlines around the US Q1 earnings season affirm the continuation of the tech capex cycle. As previous concerns over excessive investment and AI disrupting software companies have eased, and Technology continues to be supported by improving earnings expectations and reduced valuations, we have further increased our exposure to global and US technology and upgrade European IT to overweight due to stronger earnings visibility.


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- China's Q1 GDP grew 5% y-o-y, supported by robust manufacturing and solid exports, along with a policy tilt towards domestic support and innovation. With a diversified energy mix, the Middle East conflict appears to have had a limited impact. Earnings growth is expected to be around 10%, with valuations broadly in line with historical averages at 11x. We continue to favour Chinese equities, balancing innovation and high-quality dividend stocks. We downgrade Japanese equities to neutral due to the country's vulnerability to higher oil prices and less attractive valuations.

Asset class	6-month view	Comment
Global equities	▲	Global equities remain supported by resilient earnings and structural growth drivers despite ongoing geopolitical uncertainty and elevated inflation. Diversification is key to strengthening portfolios against market volatility.
Government bonds	▶	As higher oil and gas prices have raised short-term inflation expectations, markets now see less scope for rate cuts and expect developed market government bond yields to trade within their multi-year ranges.
Investment grade (IG) corporate bonds	▲	Corporate credit has shown resilience to the external energy shock so far. We continue to focus on corporate IG bonds for their attractive yields and emerging market local currency debt for its diversification benefits.
High yield (HY) corporate bonds	▼	Emerging signs of stress in credit markets and rising equity volatility are putting upward pressure on credit spreads, which remain unattractive.
Gold	▲	We still see scope for gradual gains in gold, supported by potential USD weakness and ongoing safe-haven demand, and view the recent pullback as an entry opportunity.

▲ "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.

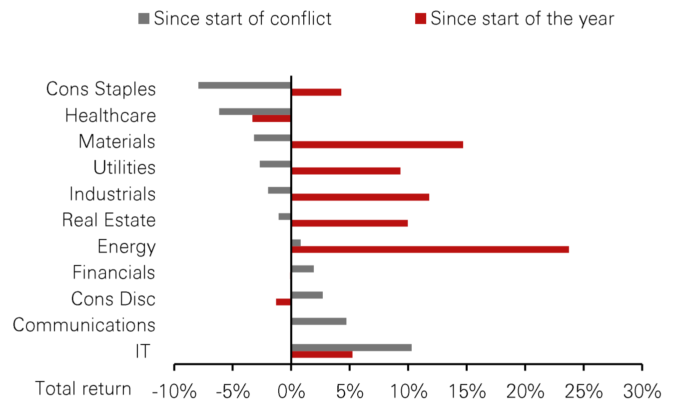
Talking points

Each month, we discuss 3 key issues facing investors

1. How should investors interpret the current Middle East situation?

- Higher energy prices and low risk appetite hurt stocks and supported the USD during the Middle East conflict from late February to late March. However, since early April, progress towards a ceasefire and potential negotiations has prompted a much more hopeful outlook.
- Energy stocks are now back to pre-conflict levels. While markets typically look ahead and risk appetite has rebounded, we believe it will take some time for the Strait of Hormuz and oil production to normalise. This indicates that energy prices are likely to stay elevated in the near term. Overall, supply constraints, resilient demand and attractive valuations are positive factors for the energy sector.
- As a result, we see some tactical opportunities in energy stocks following their sell-off in April, supporting our upgrade of energy to overweight across regions, as a hedge against oil price volatility given its ability to generate strong cash flows. As market uncertainty is likely to persist, we believe it remains prudent to build resilient portfolios with quality bonds, gold and multi-asset diversification.

Chart 1: Energy is back to pre-conflict levels, providing attractive tactical opportunities

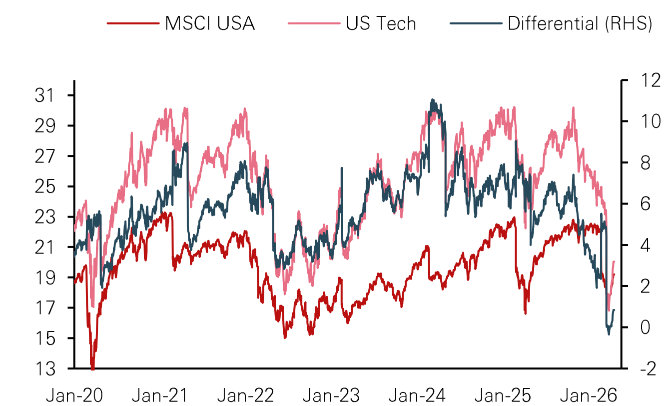


Source: Bloomberg, HSBC Private Bank and Premier Wealth as at 21 April 2026. Past performance is not a reliable indicator of future performance.

2. How is the technology sector performing?

- As the short-term outlook remains uncertain, we focus on longer-term structural opportunities. Market leadership continues to be driven by growth sectors, led by technology. Recent headlines around the Q1 earnings season affirm the continuation of the tech capex cycle, supporting demand for semiconductors and fuelling everything from automation to robotics, drones and personalised medicine. Policy support, such as tax incentives, provides an additional boost.
- Following the underperformance in early 2026, largely driven by concerns over excessive investment and worries about software companies being challenged by AI, tech valuations have fallen to their lowest levels in many years.
- As earlier concerns have eased and earnings expectations for the US tech sector remains solid at 38% y-o-y for 2026 (versus 18% for the S&P 500), alongside a significant valuation reset, we have further increased our exposure to global and US Technology. We also upgrade European IT to overweight due to stronger earnings visibility, and continue to see many opportunities in Asia, notably in South Korea.

Chart 2: IT now trades at the lowest P/E premium compared to other sectors in more than 5 years

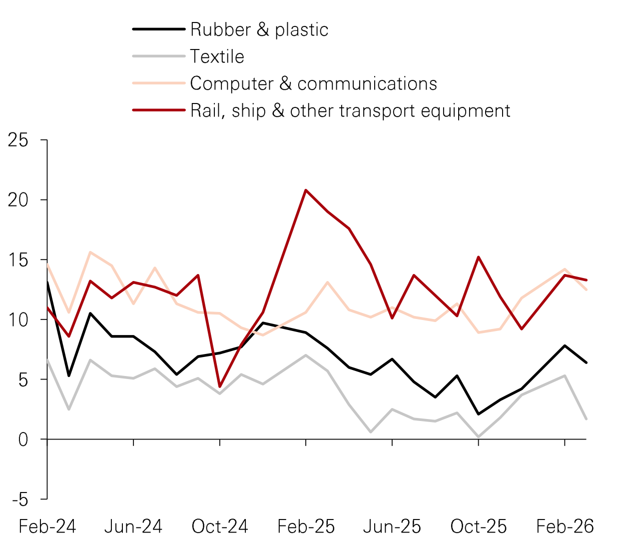


Source: Bloomberg, HSBC Private Bank and Premier Wealth as at 21 April 2026. Past performance is not a reliable indicator of future performance.

3. What does China's Q1 GDP mean for markets?

- China's Q1 GDP grew 5% y-o-y, supported by robust manufacturing and solid exports, along with a policy tilt towards domestic support and innovation.
- With China's diversified energy mix (approximately 50% coal, 20% oil and 10% gas, plus renewables), the Middle East conflict appears to have had a limited impact. Industrial production rose 5.7% y-o-y in March, driven particularly by electronics and transport goods. Retail sales were mixed, with communication appliances and services consumption remaining bright spots, while home appliances turned negative.
- We expect the government to continue its supportive fiscal and monetary policies, including a total RRR cut of 0.5% to boost liquidity. We remain overweight on Chinese equities, balancing innovation and high-quality dividend stocks. MSCI China earnings growth is projected to be around 10%, with valuations broadly in line with historical averages at 11x and below those of regional peers. Elsewhere in Asia, we downgrade Japanese equities to neutral due to the country's vulnerability to higher oil prices. Both valuations and earnings forecasts are also less attractive than in other developed markets.

Chart 3: China's strong industrial production is supported by electronics and transport equipment



Source: CEIC, HSBC Private Bank and Premier Wealth as at 20 April 2026.

Asset Class Views

Our latest house view on various asset classes

Asset class	6-month view	Comment
Global equities		
Global	▲	Global equities remain supported by resilient earnings and structural growth drivers despite ongoing geopolitical uncertainty and elevated inflation. Diversification is key to strengthening portfolios against market volatility.
United States	▲	The US continues to stand out as a global equity leader, backed by strong earnings growth, resilient domestic fundamentals, and structural leadership in technology. US energy independence helps reduce external vulnerability to external shocks.
United Kingdom	►	The UK's defensive tilt provides global diversification, but growth remains challenged. We maintain our neutral position.
Europe ex-UK	▼	Earnings momentum has improved and valuations look relatively attractive, but Europe remains vulnerable as an energy importer and broader macro conditions are still constrained. The tech sector shows relatively stronger earnings visibility.
Japan	►↓	Higher energy prices weigh on corporate profit margins and earnings growth while valuations also look less compelling versus historical levels and developed market peers. We take profits and downgrade Japanese stocks to neutral.
Emerging Market (EM)	►	While fundamentals remain resilient, elevated energy prices remain a headwind for oil-importing markets. We maintain a neutral position.
EM EMEA	►	The region shows improving structural fundamentals, but the near-term outlook is heavily weighed by the Middle East conflict. South Africa benefits from a bullish outlook for gold over the medium-to-long term.
EM LatAm	►	Elections offer two-way risks, but stronger commodity prices are positive. Latin America should benefit from further rate cuts.
Asia ex-Japan equities		
Asia ex-Japan	▲	While favourable policy measures, expanding AI ecosystems and structural reforms continue to offer compelling diversification and innovation opportunities, we remain selective as growth dynamics are mixed in the region.
China	▲	We expect the government to maintain policy support, primarily through fiscal measures and new spending tools, to cushion the impact of geopolitical risks. We adopt a barbell strategy balancing innovation and high-quality dividend stocks.
India	▼	Given our assumption that India may be vulnerable to a wider fiscal deficit and growth drag if the energy shock lingers, we remain underweight on Indian equities and prefer defensive large-cap stocks in the financials and industrials sectors.
Hong Kong	▲	Hong Kong equities have shown relative resilience despite global volatility linked to the Middle East. Strong liquidity inflows, a stabilising property market and robust M&A activity remain supportive.
Singapore	▲	The market's defensive appeal is supported by reasonable valuations and attractive yields, along with the presence of large and profitable banks, improving shareholder returns and supportive regulatory initiatives for the equity market.
South Korea	▲	While high-for-longer energy prices could complicate South Korea's inflation outlook, its high exposure to the AI and broader technology megatrend should support resilient earnings while corporate governance reforms remain a key catalyst for equities.
Taiwan	►	Strong demand for high-performance AI chips is positive, but valuations remain less attractive relative to regional peers.
Government bonds		
Developed markets (DM)	►	As higher oil and gas prices have pushed up short-term inflation expectations, markets now see less scope for rate cuts and expect developed market government bond yields to trade within their multi-year ranges.
United States	►	We expect rate volatility to persist, and Treasury yields to trade within their two-year ranges. Our duration preference for 5-7 years remains valid.
United Kingdom	▲	Although the country's reliance on imported oil and gas has weighed on gilt performance, markets are not fully extrapolating the energy shock into a sustained inflation problem. The risk of higher yields will be assessed. Valuations remain attractive.
Eurozone	►	While near-term inflation may trend higher due to elevated energy prices, medium-term inflation should be contained. We continue to expect policy rates to remain on hold at 2% this year.
Japan	►	Domestic real wage growth dynamics and policy developments over the coming months may shape the pace of tightening. We maintain our view of one 0.25% rate hike in Q3, taking the policy rate to 1%, but the risk of a June hike has increased.
EM (Local currency)	▲	There is still scope for selective EM rate cuts. The USD may see renewed weakness versus some EM currencies. Yields are attractive and rating upgrades are possible.
EM (Hard currency)	►	The US dollar could remain volatile. While yields remain attractive, we focus on quality bonds.
Corporate bonds		
Global investment grade (IG)	▲	Corporate credit has shown resilience to the external energy shock so far. We continue to focus on corporate investment grade bonds for their attractive yields and emerging market local currency debt for its diversification benefits.
USD investment grade	▲	While overall yields are still attractive, we keep our preference for medium duration (5-7 years).
EUR investment grade	▲	The medium-to-long duration of EUR investment grade credit still offers a more attractive risk-return trade off.
GBP investment grade	▲	We prefer GBP investment grade credit with a 7-10-year duration target, which offers an attractive all-in yield.
Asian investment grade	▲	We continue to favour Asian investment grade credit for its attractive yields, diversification benefits and strong local demand, with a preference for Australian IG bonds, Asian financials, as well as Chinese hard currency bonds.
Global high yield (HY)	▼	Emerging signs of stress in credit markets and rising equity volatility put upward pressure on credit spreads, which remain unattractive.
USD high yield	▼	Despite a below-average default rate and a resilient economic outlook, spreads do not sufficiently compensate for the risks.
EUR high yield	▼	Europe's large oil imports and the low share of energy companies in the high yield space make the asset class vulnerable.
GBP high yield	▼	Credit spreads have widened as risk sentiment has soured recently. GBP investment grade credit offers a more attractive risk-reward profile than high yield.
Asian high yield	▼	Less attractive valuations and increased spread volatility reinforce our cautious stance on Asian high yield.
Commodities		
Gold	▲	We continue to see scope for gradual gains in gold, supported by potential USD weakness and ongoing safe-haven demand, and view the recent pullback as an entry opportunity.
Oil	►	Oil prices are supported by the Middle East conflict, but negotiations create two-way risks.

Sector Views

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

Sector	Global	US	Europe	Asia	Comment
Consumer Discretionary	▼	▶	▼	▶	The macroeconomic impact of the Middle East conflict is negatively affecting discretionary spending. Inflationary pressures are building, with price rises evident across many goods and services. Airlines and travel companies are already raising prices to offset higher fuel prices, potentially weighing on demand. The hospitality segment is seeing some signs of reduced bookings. In contrast, electric vehicle demand has risen sharply in many markets as consumers look to mitigate higher fuel prices.
Financials	▲	▲	▲	▲	Financial 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.
Industrials	▲	▲	▲	▶	Industrials are 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 and upgraded production. Limited excess capacity is providing a supportive pricing environment. Tariff concerns have eased considerably.
Information Technology	▲	▲	▲↑	▲	Despite a sustained period of underperformance, strong quarterly results and growth forecasts in the US continue to exceed the rest of the market. Valuations are particularly attractive, with the sector now trading in line with the broader equity market rather than at a historical premium. Demand for AI software, related hardware and semiconductors is driving robust growth as companies in every sector deploy AI-enabled products and services. We upgrade European IT due to strong earnings visibility.
Communications Services	▲	▲	▲	▲	Media and entertainment segments continue to report above-average sales and earnings growth, combined with undemanding valuations, although consumer demand may be affected by rising energy prices and other costs. Asia remains attractive, although relative valuations are less compelling. The telecom services segment has attractive defensive qualities, supported by improving fundamentals, low valuations, high dividend yields and low exposure to tariffs.
Materials	▲	▲	▲	▲	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 remain range-bound for most of the last 12 months. Demand for construction materials remains supportive, while chemical company margins and profits continue to be under pressure.
Real Estate	▶	▶	▶	▶	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, as well as in North America and Europe, demand for new office space, warehousing, manufacturing facilities and housing is experiencing more favourale supply-demand dynamics. The US market is benefitting from the reshoring trend.
Consumer Staples	▼	▼	▼	▼	As discerning consumers continue to shift purchases towards 'value' products while reducing spending on higher-margin branded goods, the company outlook for 2026 offers few reasons for optimism, while valuations also reflect the sector's limited potential.
Energy	▲↑	▲↑	▲↑	▲↑	We upgrade the sector on the assumption that energy prices will remain higher for longer, with the Middle East conflict disrupting the energy supply chains across regions. This may create a positive impact on Q2 earnings for integrated producers and refiners. Valuations, free cash flow and dividend yields remain attractive. Energy services companies are less impacted by the dynamics of the conflict.
Healthcare	▶	▶	▶	▲	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. Healthcare companies in Asia, 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.
Utilities	▲	▲	▲	▶	Utilities are managing a multi-year surge in demand for electricity as many segments of the economy transition away from fossil fuels, while IT-related demand for electricity continues to soar. With limited spare capacity, substantial capital investment is required to upgrade generation capacity and transmission infrastructure. Valuations and yields remain attractive.

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