HSBC

Investment Monthly

Broadening earnings growth offsets bond yield volatility

September 2026

Key takeaways

- Concerns over increased bond supply from the US government and hyperscalers have caused bond yield volatility in recent months. While these concerns may persist in the short term, real yields remain at attractive levels. There is still good value in bonds for income generation, particularly investment grade credit. We do not expect bond yield volatility to derail equities, which are supported by solid earnings growth.
- Resilient economic growth, alongside AI-driven innovation and investment, is broadening earnings momentum across sectors, beyond Technology into Industrials and Financials. Geographically, the benefits of AI are not only evident in the US and Asia, but also in Europe, where improved productivity and earnings, as well as increased investment opportunities support our upgrade of Europe ex-UK equities to neutral.
- In Japan, the AI trend is creating attractive opportunities in Technology and advanced manufacturing, while Financials are set to benefit from the recent steepening of the yield curve. These are the three largest sectors in Japan's equity index. Robust earnings growth across these sectors supports valuations, while US-Japan intervention has helped limit further JPY downside, supporting equity risk appetite and our upgrade of Japanese equities to overweight.

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Asset class	6-month view	Comment
Global equities	▲	Resilient corporate earnings, improving business activity and easing concerns over energy supply support risk appetite. While the US and Asia remain our top picks, we stay diversified across sectors to build resilience against market volatility.
Government bonds	►	Supply concerns have created volatility and driven yields to attractive levels. We are focusing on clipping coupons to capture attractive income.
Investment grade (IG) corporate bonds	▲	Attractive yields and diversification benefits continue to support demand for global investment grade credit. Near-term returns are likely to favour coupon income over capital gains.
High yield (HY) corporate bonds	►	Risk appetite remains supportive amid attractive all-in yields. As macro risks remain elevated and credit spreads offer limited compensation for credit risk, we continue to be cautiously selective.
Gold	▲	Despite easing concerns over USD debasement, central bank purchases remain the backbone, with ongoing geopolitical uncertainty further supporting the outlook. We remain positive on gold over the long term.

▲ "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.

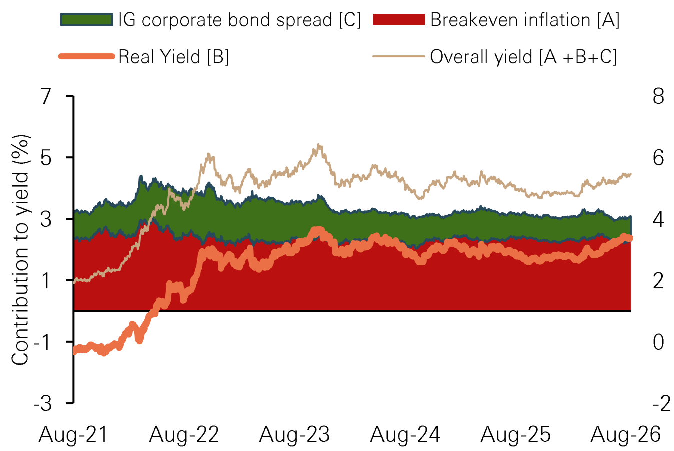
Talking points

Each month, we discuss 3 key issues facing investors

1. What is the impact of the bond market sell-off?

- Recent bond yield volatility has been primarily driven by concerns over increased bond supply from the US government and hyperscalers. Meanwhile the unresolved situation in the Strait of Hormuz continues to cause oil price fluctuations, creating two-way risks for the bond market. Although energy-led inflation is less severe than anticipated, Fed Chair Warsh reasserted the 2% inflation target in his Jackson Hole's speech. Our base scenario remains for rates to hold steady through the end of 2027, but the upside risk of further tightening has increased, hinging on upcoming inflation data.
- While these concerns are unlikely to disappear quickly, real yields are currently at attractive levels, with breakeven inflation expectations remaining in check and credit spreads not under much pressure. Short-dated yields have risen less than long-dated yields, resulting in a steeper yield curve. We continue to see good value in quality bonds for income generation, particularly investment grade credit, for investors with a longer-term investment horizon.
- Short-term volatility may persist, however, it is unlikely to cause significant and lasting damage to equities, which are supported by broadening earnings momentum.

Chart 1: Yields are driven higher by real yields, while inflation expectations and spreads are stable

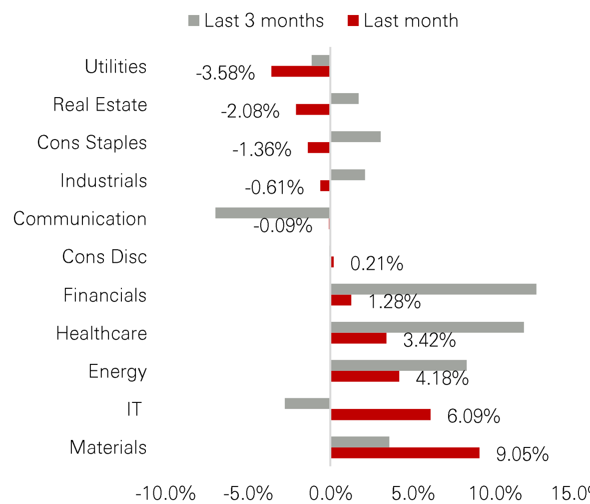


Source: Bloomberg, HSBC Private Bank and Premier Wealth as at 23 August 2026. Past performance is not a reliable indicator of future performance.

2. What is driving broadening earnings growth?

- Equities are well supported by global economic resilience and AI-driven innovation, both of which contribute to robust and broadening earnings growth. Additionally, favourable structural trends, such as re-onshoring, increased defence spending, the push for energy independence driving higher electricity demand, and continued AI capex, which is expected to reach USD 1 trillion by 2027, collectively provide a boost.
- This explains the many positive surprises from US Q2 earnings results, extending beyond Technology into Industrials, Financials and other sectors, helping the market rally become less reliant on a few maga-cap stocks. We maintain our overweight stance on US equities across these sectors, along with Materials, Energy and Communications.
- Earnings momentum is also broadening geographically. Although Technology represents a relatively small sector in Europe, AI adopters are experiencing improved productivity and profitability. Together with continued fiscal spending and stronger-than-expected activity data, this supports our upgrade of Europe ex-UK equities to neutral. Asia is likewise poised to benefit from its unrivalled semiconductor output, particularly in North Asian markets.

Chart 2: AI innovation, re-onshoring and energy independence support sector performance

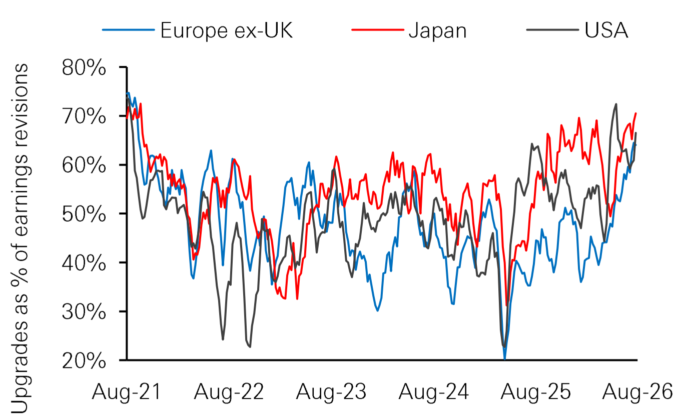


Source: Bloomberg, HSBC Private Bank and Premier Wealth as at 1 September 2026. Past performance is not a reliable indicator of future performance.

3. Why are Japanese equities becoming more attractive?

- Concerns over JPY volatility and rising bond yields had posed challenges for Japan in the past few months. However, the situation has improved. The recent US-Japan intervention has helped stabilise the JPY, providing some comfort for the currency and supporting risk appetite.
- AI innovation remains a key driver of earnings growth in Japan, alongside wage growth and corporate governance reform, broadening earnings momentum across sectors and bringing down valuation multiples. The market offers attractive opportunities in Technology and advanced manufacturing, while Financials should benefit from the recent steepening of the yield curve.
- Technology, Financials and Industrials, our favoured sectors, are key components of Japan's equity index. With all these positive factors in place, we upgrade Japanese equities to overweight, which tend to be good diversifiers in global equity portfolios.

Chart 3: Earnings growth continues to broaden across markets, including Japan



Source: LSEG, I/B/E/S, HSBC Private Bank and Premier Wealth as at 23 August 2026. 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	▲	Resilient corporate earnings, improving business activity and easing concerns over energy supply support risk appetite. While the US and Asia remain our top picks, we stay diversified across sectors to build resilience against market volatility.
United States	▲	US stocks are supported by resilient economic growth, robust earnings and continued AI-led leadership. Q2 earnings growth has broadened beyond mega-cap tech stocks, reinforcing a diversified approach to capturing opportunities across sectors.
United Kingdom	▶	The value style of UK equities can offer diversification, but weak growth and domestic politics remain headwinds. We maintain a neutral stance with selective exposure.
Europe ex-UK	▶↑	Our upgrade of Europe ex-UK equities to neutral is backed by resilient activity data and improved productivity and profitability driven by AI adoption. Increased defence spending and infrastructure investment also contribute to earnings growth.
Japan	▲↑	We upgrade Japanese equities to overweight as Technology and Industrials are underpinned by the AI trend, while a steeper yield curve benefits Financials, supporting earnings growth and valuations. JPY intervention has improved market stability.
Emerging Market (EM)	▶	USD strength and elevated oil prices will exacerbate growth dispersion within the region. EM Asia is relatively more resilient given its strategic role in the global AI supply chain.
EM EMEA	▶	While South Africa benefits from a bullish outlook for gold, the region is still challenged by the unresolved Middle East conflict.
EM LatAm	▶	Elections continue to present two-way risks, but stronger commodity prices and trade flows with China remain supportive.
Asia ex-Japan equities		
Asia ex-Japan	▲	We adopt a selective approach to capturing the region's diverse opportunities, with North Asia particularly well-positioned to benefit from AI momentum.
China	▲	Policy support favours service consumption and infrastructure, while tech and manufacturing leaders benefit from tech self-reliance initiatives and demand for the AI build-out. We continue to balance innovation with high-quality dividend stocks.
India	▼	Rich valuations, uneven inflation pressures and limited exposure to the AI theme remain headwinds for Indian equities. We prefer large caps and domestically oriented sectors such as financials and industrials.
Hong Kong	▲	Hong Kong is supported by resilient trade flows and improved consumption and property activity, with IT and green-related industries adding to growth momentum. We prefer banks, insurance, telecoms, utilities and quality developers.
Singapore	▲	While the market is viewed as relatively defensive, it offers exposure to opportunities across AI, defence and Financials. Valuations have moved higher following strong market performance.
South Korea	▲	South Korea continues to benefit from the global memory and AI investment cycle, with strong demand supporting the earnings outlook.
Taiwan	▶	While structural opportunities in AI continue to support earnings momentum among key tech enablers, current valuations remain relatively less attractive. The universal cash handout programme in 2027 is expected to boost private consumption.
Government bonds		
Developed markets (DM)	▶	Supply concerns have created volatility and driven yields to attractive levels. We are focusing on clipping coupons to capture attractive income.
United States	▶	The Fed Chair's hawkish message at Jackson Hole has kept the door open to further tightening if inflation exceeds the target, weighing on US Treasuries. We expect the Fed to hold rates steady through end-2027, but the upside risk has increased.
United Kingdom	▶	Gilts remain sensitive to inflation and fiscal concerns, with better value at the medium-to-long end.
Eurozone	▶	The ECB's cautious tone and the recent rebound in energy prices have led us to expect a rate hike in September.
Japan	▶	Fiscal concerns are offset by ongoing bond purchases by the Bank of Japan, while gradual normalisation is expected to continue. We now expect one rate hike in September and another hike in Q1 next year, taking the policy rate to 1.5% by then.
EM (Local currency)	▶	A stronger USD can pose some challenges, while oil price movements and tech exposure remain key differentiating factors.
EM (Hard currency)	▶	While both USD strength and attractive yields are supportive, we remain selective and generally focus on quality.
Corporate bonds		
Global investment grade (IG)	▲	Attractive yields and diversification benefits continue to support demand for global investment grade credit. Near-term returns are likely to favour coupon income over capital gains.
USD investment grade	▲	While increased supply has pushed up long-dated yields, it is being well absorbed by investors seeking attractive yields.
EUR investment grade	▲	We continue to prioritise carry and income through EUR investment grade credit with a medium-to-long duration bias.
GBP investment grade	▲	We favour GBP investment grade credit to build portfolio resilience while maintaining a medium duration stance (5-7 years).
Asian investment grade	▲	Asian credit combines attractive yields with strong liquidity and manageable refinancing needs. We prefer Australian IG bonds, Asian financials and Chinese hard currency bonds.
Global high yield (HY)	▶	Risk appetite remains supportive amid attractive all-in yields. As macro risks remain elevated and credit spreads offer limited compensation for credit risk, we continue to be cautiously selective.
USD high yield	▶	Although risk appetite is strong, we see better value in quality bonds, especially if rate volatility remains elevated.
EUR high yield	▶	We adopt a cautious stance on EUR high yield, focusing on short-to-medium duration (3-5 years) with less rate sensitivity.
GBP high yield	▶	A weaker currency and softer growth outlook temper enthusiasm for risk assets. We remain neutral on GBP high yield.
Asian high yield	▶	Higher oil prices and geopolitically driven volatility can tighten financial conditions in the region. We maintain a neutral position in line with our global high yield allocation, preferring quality issuers.
Commodities		
Gold	▲	Despite easing concerns over USD debasement, central bank purchases remain the backbone, with ongoing geopolitical uncertainty further supporting the outlook. We remain positive on gold over the long term.
Oil	▶	Even with signs of de-escalation, disruption risks remain elevated. Near-term pricing will be driven by geopolitical headlines. We expect oil prices to trade within a volatile range and maintain a neutral stance.

Sector Views

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

Sector	Global	US	Europe	Asia	Comment
Consumer Discretionary	▼	▶	▼	▶	Consumer sentiment is weak in Europe, but more mixed in the US and Asia. The pricing environment remains challenging. The US consumer is benefitting from the continued strength of the US economy. Solar panels, batteries, EVs and air conditioners are in strong demand. Luxury goods demand is mixed. The auto segment outside of the US remains in crisis.
Financials	▲	▲	▲	▲	Quarterly results continue to beat high expectations in most geographies. Trading desks are seeing sustained strong order flow, with corporate advisory (M&A and IPOs) and debt issuance businesses still booming. Sector momentum remains supportive. The outlook for the insurance sector is more mixed, given the rise in weather-related and other catastrophic events.
Industrials	▲	▲	▲	▶	Industrials continue to perform well due to robust demand in several areas, including AI and digital infrastructure build-out, energy capacity upgrades, automation, aerospace and defence. Growing order books and sustained demand are leading to substantial manufacturing capacity expansion across the sector. A positive pricing environment is supporting margins and profitability.
Information Technology	▲	▲	▲	▲	Investment spending continues to drive short-term market volatility and may weigh on performance. Valuations remain attractive relative to historical levels and the broader market, particularly given the sector's strong quarterly results and forecasts for future growth. Demand for AI software, related hardware and semiconductors is particularly strong. Earnings visibility continues to improve in Europe.
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. We downgrade Europe due to slowing earnings momentum in its heavily weighted telecom services segment.
Materials	▲	▲	▲	▲	Mining companies are benefitting from rising demand for a range of commodities, with prices rising modestly, especially for copper. Margins in the chemicals industry have been under pressure due to higher energy and feedstock prices. Speciality materials, including rare earth metals used in high-tech products, are seeing robust demand.
Real Estate	▶	▶	▶	▶	Uncertainty over interest rate policy and the direction of potential changes is weighing on sentiment. Demand for high-quality office space and high-tech facilities, including data centres and specialist manufacturing, remains solid. Retail real estate remains challenged. The US market is particularly benefitting from reshoring trends, while China's property market remains in a difficult situation.
Consumer Staples	▼	▼	▼	▼	It is one of the weakest-performing sectors across most markets as margins remain under pressure. El Niño is likely to drive soft commodity prices higher, further squeezing margins as consumers are very resistant to price increases. Valuations reflect the sector's limited growth potential.
Energy	▲	▲	▲	▲	Oil and gas supply has somewhat eased, but prices remain elevated as the Middle East conflict continues and gas storage levels in Europe are at seasonally low levels. Global energy supply chains, together with damage to energy infrastructure, may delay a swift return to normality. Energy producers and refiners are likely to continue benefitting from elevated energy prices for several quarters. Valuations, free cash flow and dividend yields remain attractive for now.
Healthcare	▶	▶	▶	▲	An improving outlook, combined with easing US pricing concerns, new innovative products, and a pick-up in M&A, has improved sentiment. Innovative Chinese biotech companies are helping to fill pharmaceutical pipelines with new medicines. AI is also helping to improve productivity in drug discovery and testing. Meanwhile, healthcare services are far less appealing.
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. We downgrade US Utilities as the sector has underperformed the broader US market despite the favourable electricity-demand backdrop, while stronger earnings growth is more evident elsewhere. Regulated utilities also face limitations on pricing.

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