Video Transcript

HSBC Investment Outlook – Q1 2026 (Issued 20 November 2025)
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When we write our investment outlook publications, the first question we always ask is whether the economy will continue to grow and companies can make money. The answer here is a clear yes. There is little chance that AI development will suddenly stop. It's much more likely that it will accelerate as applications widen and big players in the US and China race for the tech leadership.

And that requires huge investment in R&D, data centres and electricity, which should keep the economy going, as we have already seen in recent GDP data. Earnings are well-supported, too, and analysts have consistently been too negative, in part because they expected trade tariffs to hurt profit margins. But margins remain near record highs as companies pass on those higher costs.

Rate cuts to reduce interest expense and innovation boosts productivity. This is also the reason why we don't think AI and tech stocks or the US markets are in bubble territory. While US tech has outperformed, this is almost entirely driven by superior earnings growth and looking ahead, we think AI adoption as well as monetisation should keep that earnings engine going.

So where are the risks. Firstly, our positive growth picture implies that the US economy does not need as many rate cuts as the market currently expects. The state may stop after its December cut, which could cause some volatility, and that's why we have reduced our bond duration back to 5 to 7 years, and why we expect the US dollar to trade sideways rather than being on a weakening trend.

The second risk is that all the investment we expect to see could face a bottleneck in the US labour market, as immigration has dropped, or another bottleneck from insufficient electricity supply. Utilities and infrastructure builders and operators are a clear beneficiary, but any delay in the build out of AI capacity could lead analysts to push out earnings a little bit without signalling, of course, the end to the positive AI trend.

So while we remain positive on tech and on the US, we have trimmed the extent of our US overweight a little bit, looking to broaden our investment options. Now we find those options mostly in Asia. China's tech companies are trading at lower multiples, and in the US they innovate quickly and they benefit from policy support as well as competitive energy costs.

Policy initiatives to boost consumption, stabilise the property markets and raise corporate margins through supply side reform. If successful, should help bring investors back to mainland China. Stocks. Hong Kong, meanwhile, benefits from a stabilisation in residential housing, a jump in IPO activity and strong Chinese liquidity inflows. And in Japan, the pro stimulus policy agenda of a new prime minister should support a sustained reflation trend.

We've progressively been broadening our exposure to tap into those widening opportunities and to have less concentrated exposure. And that's also reflected in our four investment priorities, which are as follows. Firstly, we look across and beyond AI for equity returns as opportunities widen, even further. And we want to avoid excessive concentration in mega tech. We look for smart AI adopters.

We overweight utilities, financials and industrials and exploit the pick up in M&A activity. Secondly, we manage market dips with alternatives and multi-asset strategies as we should fully expect some volatility after the sharp rally of 2025. We diversify our hedge, our US dollar exposure and overweight gold while including hedge funds and other alternatives where appropriate. Thirdly, we unleash the power of income for portfolio strength with a clear preference for investment grade and emerging markets compared to a high yield.

Given the very tight high yield spreads and the mild increase in default rates that we expect to see. Infrastructure and volatility strategies can add to income, too. And lastly, we capture diversification opportunities from Asia innovation and income through our equity weights in mainland China, Singapore, Hong Kong and South Korea. We also added Japan to deal for rates recently in Asian fixed income.

We overweight Chinese hard currency bonds and India local currency bonds and across Asia.
Our barbell strategy balances tech innovation champions with a strong focus on high dividend stocks and quality bonds.