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Video Transcript

HSBC Investment Outlook – Q1 2027 (Issued 12 November 2026)
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Markets have been subject to rapidly changing narratives around AI, inflation, interest rates and geopolitics. And that won't change in 2027, and we should therefore continue to see two-way volatility. Geopolitics remains uncertain, but on AI and rates, the market may now be too pessimistic.

We think bond markets price in too many rate hikes, and the recent fall in US tech valuation multiples to five-year lows probably reflects too much scepticism. So instead of hunkering down and risk missing the many opportunities, investors should manage the volatility by focusing on quality, differentiation and diversification – but not by stepping aside. We think the opportunity set is rich in the next 6 to 12 months, so we keep our risk-on stance.

Let's start with the outlook for AI. It is fair, of course, that markets focus on monetisation of the huge investment; but focusing solely on who gets the biggest slice of the profits risks missing the point that the pie is growing quickly. Adoption is still low and there is plenty of upside as the average US company currently spends just 16 dollars per employee a month on AI.

And AI-led productivity growth should accelerate in 2027 for three reasons. Models are getting more powerful, the cost per token keeps falling, and AI is moving from chatbots to agents and physical AI. And that accelerating adoption means that demand for computing power far outstrips supply, and hyperscalers' sales should grow faster than their capital spending next year. So rather than too much investment, we expect lasting bottlenecks, which create opportunities in semiconductors, cloud and infrastructure.

Now, beyond AI, though, the economy is K-shaped. Governments and companies are investing heavily in defence, energy security and re-onshoring. And that strategic investment isn't very sensitive to interest rates, so it should continue and be a nice complement to AI exposure.

Elsewhere though, economic growth will face more headwinds. Government spending is being cut, consumers face sticky inflation and higher mortgage rates, and some of them worry about the impact of AI on their job security. So we much prefer themes with structural support over cyclical exposure.

The rate outlook is key too, of course. Inflation has been above target for too long, so central banks will stay hawkish. But the good news is that markets already price this in, meaning that bond yields provide interesting income opportunities, even though yields may not fall. Yields that stay high for longer put pressure on lower quality companies or sovereign borrowers. So we stick to quality in public and private credit markets.

Quality, in fact, applies to all asset classes and has several features: we like companies with strong balance sheets, and that are either resilient to AI disruption or leading the innovation.

So, practically speaking, what does this mean for portfolios? Well, we have four priorities.

Firstly, we monetise AI deployment, because AI is the fastest-growing part of the global economy. And across sectors, we favour companies adopting AI, because they see better earnings, margins

and revenue growth than non-adopters. We also target areas where AI is driving rapid innovation or breakthroughs, such as advanced manufacturing, robotics and life sciences.

Second, we invest in strategic infrastructure and capacity. Companies providing essential products and services enjoy solid margins and predictable cash flows, especially where supply is tight, including in memory chips, data centres and the cloud. Energy security and re-industrialisation also require huge investment in clean energy, power grids and digital infrastructure.

But amid the potential market volatility, we need to stabilise portfolios. So our third priority captures income. Bond yields have risen to attractive levels, which we want to lock in. We focus on quality bonds with medium maturities, and we also see attractive income in infrastructure.

And lastly, we build resilience through diversification across asset classes. Hedge funds can benefit from the volatility and dispersion that we expect. Private assets, where appropriate, give access to different opportunities than public markets, and hard assets like gold, infrastructure and real estate can help while inflation stays above normal.

By region, we see the best innovation-led growth in the US and Asia, especially Japan, South Korea and Hong Kong.

So, in short, the AI boom continues, and the bottlenecks it creates present interesting opportunities. By combining growth with income and diversification, and staying selective, we believe investors can turn a noisy 2027 into opportunity.