

**HSBC Investment Outlook – May 2026 Monthly View****Willem Sels**

Markets like to look ahead, so it should not come as a surprise that they rebounded in April on hopes of a lasting ceasefire. We think that the relative global economic resilience and positive earnings momentum will also support the risk-on tone in coming months. That said, the recent market moves have been sharp, with some indices hitting new highs and the relative performance of cyclicals compared to defensives at a new peak level, while energy stocks have fallen back to the level where the conflict started.

So while we maintain our mild global equity overweight, we also use the pronounced moves of the past weeks to make some tactical tweaks, because we don't have an all clear for the economy and data will no doubt remain volatile. For example, energy prices will still remain high, so we upgrade energy stocks to an overweight after the sharp fall that we saw in April.

The sector can act as a portfolio hedge, strong cash flows should provide fundamental support, and energy independence is a major investment theme. Elsewhere, we think that the sharp rebound of Japanese stocks will probably fade, because the stock market remains vulnerable to equity price volatility, and earnings forecasts are less bullish than in most other developed markets. So, following strong year to date performance, we cut back Japanese stocks from overweight to neutral.

But beyond these small tactical changes, we think that the new-found market optimism is also allowing investors to look through the short-term noise towards more structural trends. The focus has clearly turned back towards AI-led innovation, which benefits a very wide ecosystem. Recent headlines around the first quarter earnings season once again confirm that the tech CapEx cycle will continue, supporting demand for semiconductors.

Compute is doubling every four months, driven largely by AI innovation, which is fuelling everything from automation to robotics, drones and personalised medicine. Given that strong and structural final demand growth, we are not overly worried by the huge capital investment, especially as hyperscalers are also generating solid profits. IT valuations have also become more attractive, after the weak performance earlier in the year.

The sector's price earnings premium over other sectors is now near the lowest level since 2026, so we upgrade the IT sector from a mild to a full overweight. Clearly, this also supports our continued overweight of US stocks. In Asia, following our downgrade of Japan and given the sensitivity of South Asian markets to energy prices, we have a preference for mainland China, Hong Kong, South Korea and Singapore – which are also well positioned to benefit from the tech innovation.

So in summary, the positive market tone should continue, but it is still important to build resilient portfolios amid the flurry of headlines. We do that by picking quality assets and diversifying the diversifiers. We also try to look through the noise by investing in energy security and the AI ecosystem. That allows us to tap into the many structural opportunities while managing the remaining short-term volatility.