

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

Equity markets have seen a fair amount of headlines and volatility, but mainly driven by semiconductor stocks and tech heavy markets. Other sectors have been much more resilient, and global equities are therefore only down around 2.5% from their August peak, which highlights the benefits of diversification.

Semiconductor companies have sold off despite strong results and solid current order books. The concern, instead, is principally about future growth and profitability.

The main triggers are fears that China's increased chip production will compress margins, and concerns that excessive leverage at some of the smaller cloud service providers could slow the build-out of data centres.

Now, we think that some of those concerns are overdone. 80% of current US data centre construction is pre-leased. The biggest cloud operators are not overleveraged and have therefore not seen major credit spread widening.

And building new semiconductor capacity is very expensive and slow and as a result, whilst some short-term volatility could linger, we think that markets will stabilise when investors are confident that semiconductor orders don't deteriorate and hyperscalers guidance remains strong.

Now our view remains very positive on AI adoption, which will create a lot of economic value for the AI ecosystem as a whole. But the increased questions about monetisation reflect the uncertainty about who will capture that value, which means that investors need to greatly differentiate and focus on quality.

And because of the current periodic rotations within the AI stack, we think it is important to participate across the AI stack. For example, while semis sold off this month, AI adopters remained quite resilient. Investors will want to separate the AI innovation leaders from the laggards.

And as we have seen, they also want to differentiate the overleveraged companies from those with more solid balance sheets, which makes sense of course in a high-for-longer rate environment. Both of those aspects lead us to adopt more of a quality bias this month in our equity strategy.

Quality of course also applies to our bond strategy, where we continue to favour investment grade over high yield, and in private credit, where differentiation is key. It's interesting and comforting to note that bonds rallied amid the equity market volatility, which illustrates that they still have good diversification qualities.

We continue to complement equity and bond portfolios with infrastructure, hedge funds, gold and other diversifiers to achieve well-balanced portfolios. That is because no single diversifier can address the challenges of sticky inflation, sovereign debt concerns, K-shaped economic growth, volatility and dispersion on their own.

Diversifying the diversifiers continues to be the best strategy.

The good news is that many challenges are now priced in. Markets price in too many Fed rate hikes, in our view; lower-quality spreads now better account for the risks, and equities' price/earnings ratios are near multi-year lows.

Cyclical momentum is moderate, but there is structural support for earnings growth thanks to AI-led innovation and investment in energy independence and re-onshoring. We think that at current valuations, there are many interesting opportunities that help investors tap into those structural ideas, with the appropriate diversification and focus on quality.