HSBC

Video Transcript

In Conversation: Desmond Kuang and Daniel Ivascyn

Desmond Kuang:
Hello everyone, thank you for tuning in.
My name is Desmond Kuang.
China CIO for HSBC Private Bank and Premier Wealth.

We have the great pleasure of having Daniel Ivascyn, PIMCO's Group CIO joining us here today to share his insights into various topics into 2026.
Dan, it's such a pleasure having you here today.

Daniel Ivascyn
Thanks Desmond.

Desmond Kuang
Well, we had an exceptional year in 2025 where most assets went up quite substantially.
But we are seeing more volatility as we head into 2026.
I want to start with the basics on growth.
Do you think growth outlook will stay resilient in 2026?
And what are the key drivers for growth?

Daniel Ivascyn
We do believe so.
In general, when you look at global growth there's going to be significant differences across different regions of the world.
But we are generally optimistic on a global basis and optimistic in terms of US growth as well.
A key driver will continue to be a lot of the technological innovation that we've seen.
It has driven markets and economies forward across Asia and China as well.
We do think that this is quite important in terms of the US economy as well.
The challenge as allocators in this market is that there's also a lot of optimism embedded in market pricing.
But at least, the base case should be another year of reasonably positive growth and decent outcomes.

Desmond Kuang
You did mention technology and there is obviously growing chorus of opinion that the development of AI (Artificial Intelligence) is pushing the growth envelope through the increase of productivity.
How sustainable is the AI CAPEX, as you see?
And what are the long-term implications?

Daniel Ivascyn
Sure.
Now when you look throughout history it's quite hard to forecast productivity.
We've had some good numbers more recently.
So this is going to be an area of significant uncertainty and this uncertainty is going to have broad implications for economies and markets.
But our base case view is that you're going to continue to see significant capital spending in this area even in energy infrastructure related to driving some of these investment needs on the technology side and then steadily improving productivity.
So the base case high-level impact on growth and markets is positive.
But as we know, beneath the surface there are issues.
AI is a disruptive technology.
It's going to create winners and losers both at the industry or corporate level as well as other segments

of the economy that may not benefit as much.
So this is going to be another year of dispersion and the need to differentiate.
But in general we do believe we're in the midst of a multi-year period where, as long as the geopolitical environment remains stable and as long as you continue to have sufficient liquidity in markets, you're going to see a lot of the spending drive growth forward and be supportive of the economy more broadly.

Desmond Kuang
Thank you very much, Dan.
On growth, let's talk about it a bit more.
In your recent cyclical outlook, which is called Compounding Opportunities, you introduced this theme called "K-shaped economy" that we are seeing in different parts of the world.
Could you help us understand this concept a bit more?
And what are the implications for financial markets?

Daniel Ivascyn
Sure.
A lot of people in the United States have talked about a K-shaped economy in regard to winners and losers within the local economy.
I think if you extend that to China, you see a similar dynamic.
Some segments of the economy are very strong while other segments of the economy are much weaker.
So overall growth may be generally constructive.
But there is significant disparity depending on which segment of the economy that you're looking at.

We think that dynamic still exists within economies.
But I think you can also extend that analogy to different countries in the world.
Some countries in the world, like China and the United States, are benefiting from this incredible technological innovation.
Not all countries benefit from that type of vibrancy within that area of the corporate sector.
So you're also going to see winners and losers at the local economy level as well.
That's very exciting for active management.
It's very exciting if you take a global opportunity set into account.
As an allocator, that creates winners and losers.
It creates a lot of localized volatility, lower correlations.
We think that's quite important.

The other piece relates to corporate spreads.
And I'm sure we'll talk about this.
They are quite tight.
They typically are tight when stocks go up and economic growth is strong.
But also technologies are leading to winners and losers at the industry or the corporate level.
The more productive this exciting new technology – AI and related technologies – is, the more disruptive it could be to old-economy-type companies.
So I think this also creates winners and losers within a country's corporate sector.
And it's going to lead to continued volatility.
We saw some of that late last year with a few high-profile names that got into a distressed situation.
We think this is an environment we need to be much more selective to do much more bottoms-up portfolio construction to be able to drive returns versus passive alternatives.

Desmond Kuang
Thank you.
And that really relates to my next question, which is on monetary policy.

What are your expectations for the Fed outlook in 2026?
And also there is the issue of independence and political influence, right?
What would a posturing power FOMC (Federal Open Market Committee) look like in your opinion?

Daniel Ivascyn
You know we believe Powell.
And we believe the next chair is going to be very focused on the data.
Inflation remains above their target in the United States.
But in some other key areas of the world central banks don't like to see inflation and in particular, inflationary expectations get too far beyond their stated target.
So this is going to continue to be an area of focus.
Then again, in the United States, given the dual mandate there will be a focus on employment as well.

Our sense is that this Fed would like to get interest rates lower.
They'd like to get interest rates down around 3%.
But if inflation re-accelerates, if the economy re-accelerates – and we do believe that in the first half of the year in the United States you are going to see some upward pressure on growth primarily because a lot of the Trump administration tax cuts are just now kicking in for households in the United States – then I think it wouldn't be surprising at all if we have a Federal Reserve that stays on hold for quite some time.

There is going to be a new chair in a few months.
And we as well as other market participants are focused on Fed independence.
Our bottom-line thinking is that the Federal Reserve is a committee that has a lot of safeguards.
The new chair will need to get through the Senate confirmation process.
A chair is only one vote on the committee.
And you have a committee that, again, takes its key mandate of stable inflation and employment quite seriously.

Although we may have a slightly more dovish Fed than we've accustomed to, we don't think it's going to have massive or meaningful implications for markets.
So our bottom-line thinking is that by the end of the year you will probably get a cut or two.
We're not disagreeing too much because that's what the markets are beginning to expect.
But investors should not be surprised if growth remains solid and the Fed is very comfortable, for the time being, just sitting here keeping the funds right where it is.

One other point I think that's important to note is that a new chair combined with more creative thinking from the Treasury or other governmental entities in the United States could certainly lead to some surprises.
We saw it with the mortgage agencies of the United States announcing recently that they were going to buy mortgages by expanding their balance sheet.
We do think this is an environment where investors have to be comfortable with the fact that you could see some surprises, you could see some nontraditional policies.
But again, that's nice as an active manager because that creates even more localized volatility that we can take advantage of.

Desmond Kuang
Yes. Thank you very much.
Let's zoom into the markets a bit.
You guys are the experts in global bond market and given where yields are now and also the macro backdrop you just described, where do you think the bond market is heading into 2026?

Daniel Ivascyn

Sure.
I think it's important just to look at valuations.
In addition to bonds, we operate a variety of multi-asset mandates.
So we're regularly looking at where bond yields are versus stocks, versus commodities, even compared to what you earn just sitting in cash.
And I think the bottom line is that when you look at starting valuations across most markets around the world, bonds look attractive in a historical context, stocks look a little bit expensive, and cash rates in many parts of the world, including the United States, are going lower.

So a lot of investors that have been sitting in cash for the last several years were rewarded by being in cash, certainly during the 2022 period.
Now we're facing a situation where for the first time in a long time there's a penalty to own cash or a benefit to extending into longer-maturity bonds.
So at current valuations we think this will likely be another good year for fixed-income investing.

We think it's a year where not only are yields attractive in the United States but yields are attractive in other parts of the world.
You have very high yields in the United Kingdom today and in Australia.
Both countries also have a bit of an inflation problem.
Even across Asia yields still look reasonably attractive relative to their respective inflation rates.
And Japan, a very volatile market, is an area where we have become a bit more optimistic.
It's not about the overall macro situation in Japan, which is challenging—just the fact that you've had such significant underperformance of some longer maturities that, again, you could put together a portfolio with attractive yields.

So the bottom line is that although there's a lot of uncertainty in the world, we see good absolute valuations in fixed income and we see great valuations relative to equities, which sets up fixed income for the likelihood of good absolute and relative returns for a multi-year period.
What is important is to diversify to take advantage of all these exciting opportunities outside the United States, even some opportunities in different currency markets other than the US.

Desmond Kuang
Thank you.
That's certainly one of the key messages we are telling our clients to do, which is: to diversify.
We are clearly heading into a late-cycle economic period and also a late-cycle credit period as well.
Is there any area where you think valuations look a bit stretched versus fundamentals and also areas of opportunity?
And you mentioned Japan, what else?

Daniel Ivascyn
Yes. You're absolutely right.
So when you look at the last 15 years or so in markets – I'll usually be a little bit US-centric – the S&P 500 (Standard & Poor's 500) is up about 15 percent per year for 15 years.
And in that type of environment, credit tends to do really well.
This is one of the best 15-year periods for lower-quality corporate credit performance that we've seen in the history of markets.
And because of that strong performance – again, in an absolute sense and relative to high-quality bonds – we do see, as you're well aware, a lot of money rushing into that area of the market.

So when we look at the world today and we see tight credit spreads, elevated equity valuations and a lot of AI-related potential for disruption, we think investors should just be a lot more cautious in the more economically sensitive or lower-quality areas of the corporate credit market.

What we're trying to do across mandates, whether we're talking about multi-asset portfolios or fixed-income portfolios, is find ways to go up in quality and up in liquidity, which means more flexibility if you see bouts of volatility ahead and resiliency.

So areas of the market that have grown significantly would be things like senior secured bank loans and mid-market direct lending.
Those areas of the market are areas where we don't expect a catastrophe, we don't expect a collapse, and we just expect some disappointment – some higher credit losses in the coming years.

We've gone up in quality.
We've looked to take advantage of, again, some of these higher yields outside the US market and then focus on good old-fashioned diversification and active management adjusting to all of the volatility that we're seeing across and within markets.

I think by doing that, you could end up with return generation close to or even at times better than what you can get in some of those credit-heavy sectors of the market with meaningful downside protection for investors – if you were to see a deterioration in geopolitics or if you were to see growth surprise to the downside.

Desmond Kuang
Thank you. And I want to use the last question to touch upon the dollar.
The US dollar lost around 10 percent in 2025, which is the worst performance since 2017.
What is in store for US dollar this year?
And how does FX (Foreign Exchange) affect the market outlook?

Daniel Ivascyn
Yes.
The dollar lost about 10 percent mostly during the first half of last year versus other currencies.
The dollar also lost more value versus gold and other precious metals.

So our general view is that when you look at the political environment globally and when you look at starting valuations for the dollar – which are elevated versus most currencies – you probably will see over the course of the next few years a little bit of additional dollar weakness.
So we, as a firm, have slight overweights to currencies outside the United States – not a massive size.

But it's important to note that although the US dollar may have some challenges from a valuation perspective and from a flow perspective, we still have one of the strongest, most vibrant economies in the world.
So our bottom-line thinking is that over a multi-year period you can see some weakness and some slight diversification away from the dollar.

So we are focusing on some of those other currency opportunities but not in a massive way.
We don't think the dollar is at risk of losing its reserve currency status.
We don't think the dollar is at risk of a major depreciation.
But we do think you could expect to see a little bit of weakness throughout 2026.

Desmond Kuang
Thank you very much, Dan.
That was a truly insightful conversation we just had.
This is Dan Ivascyn from PIMCO.
It's really a pleasure to have you here.

Daniel Ivascyn

Thank you very much.
It’s great to be here. Thank you.