

HSBC 2026 Mid-Year Investment Outlook (Issued 21 May 2026)**Tap into Asia's Innovation and Income****Desmond Kuang**

Heading into the third quarter, we continue to see compelling opportunities across Asia. AI-powered innovation and improving income prospects are converging to create a distinctive market landscape. Our core strategy remains a barbell approach, which pairs exposure to innovation-led growth with a focus on shareholder returns and high-quality credit.

On the growth side, Asia now sits at the heart of the global AI supply chain. It combines unmatched electronics and industrial production scale with fast-expanding digital demand. This unique advantage positions the region to capture the next wave of AI- and cloud-driven capital spending and productivity gains. Asia's role as both a builder and a user of AI, set up a supportive backdrop for innovation opportunities and relatively stable return streams.

AI has become a strategic priority that is reshaping policy and corporate agendas across the region. A central expression of this is our theme, "**Asia's Data Centre Boom**". Governments and corporates are accelerating AI infrastructure construction and application deployment. This boom is turning Asia Pacific into the epicentre of global capacity growth. It is supported by competitive energy pricing in parts of the region, improving renewable supply, and more supportive regulation in key markets. We expect the investment ripple effects to extend beyond developers and operators, to chips and hardware providers, semiconductor equipment makers, server and cooling suppliers and related commodities. Moreover, global DRAM markets face a severe shortage amid surging AI demand. Grid bottlenecks are pushing for wider onsite power generation and energy storage.

Within Asia's innovation landscape, our theme "**China's Tech and Manufacturing Leaders**" remain a critical pillar. Supported by corporate capital spending, continued policy backing and tech upgrades, China AI development is poised for another step up. With China's industrial shift from low-cost scale production to advanced manufacturing, we see opportunities not only in foundation models, but increasingly in cost-effective industry-specific AI agents and physical AI. Semiconductor localization is also accelerating, targeting 80% domestic self-sufficiency by 2030. AI-enabled drug discovery is giving Chinese biotech firms a stronger competitive position globally.

On the income side, Asia's return story is no longer just about growth. A parallel opportunity is emerging in our theme "**Power Up Asian Shareholder Returns**". Corporate governance reforms across Asia are lifting dividends, share buybacks, and value-adding corporate actions. We see opportunities in reform beneficiaries across Japan, Singapore, Chinese SOEs and South Korea, alongside high-quality dividend names in markets such as Hong Kong and parts of

ASEAN. In our view, these trends help to broaden Asia's equity appeal, particularly for investors seeking a steadier blend of participation and payout.

Income diversification also extends naturally into fixed income. Our **"High Quality Asian Credit"** theme targets a resilient asset class with shorter duration and limited net issuance. We focus on higher-quality carry opportunities, including Financial Tier 2 bonds, select Australian Investment Grade banks and corporates, and some USD Japanese credit and hybrid issuance. We also remain constructive on carry opportunities among mainland China SOEs and Hong Kong developers, where policy support and improving confidence can strengthen foundations.

Overall, Asia's opportunity set is widening in a way that fits our barbell approach. One side captures the structural transformation driven by AI infrastructure, chips, software and biotech. The other locks in resilient yield from governance-driven returns and high-quality credit.