

Top Trends and  
High Conviction Themes  
Mid-Year 2026

# Positioning for the Next Cycle: Conviction beyond Disruption

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# Welcome

Dear Client,

In our modern world, it can be hard to separate the noise from the trends.

All of us get bombarded with information through ever more and different channels. From the era of newspapers in the swinging 60s, we moved to cable TV in the 80s, social media platforms in the 2000s, influencers and personal media around 2015, and now increasingly to encrypted and private networks. Instead of news coming from editors, journalists and experts, it now comes from friends, community leaders, and from 'someone like me who shared it'. Information becomes less fact-checkable and more trust-based.

The quantity of the headlines has also multiplied – all of them trying to grab our attention. Within one day, contradicting headlines shout at us, as we have experienced regularly during the Middle East conflict, when investors were trying to figure out the actual policies and struggled with the many U-turns.

Amid this confusion and noise, investors naturally turn to thematic investing to find some direction. And in fact, despite that noise, some trends are remarkably clear and consistent.

Geopolitical developments of the past few years have increasingly moved our world from a multi-lateral model to one where the big powers compete, creating their own spheres of influence to ensure access to resources

and markets. The move from a liberalised global order to strategic competition is based on the belief that dependence creates vulnerability. National security therefore requires not just defence, but also secure access to resources (energy and materials) and advanced technological ecosystems.

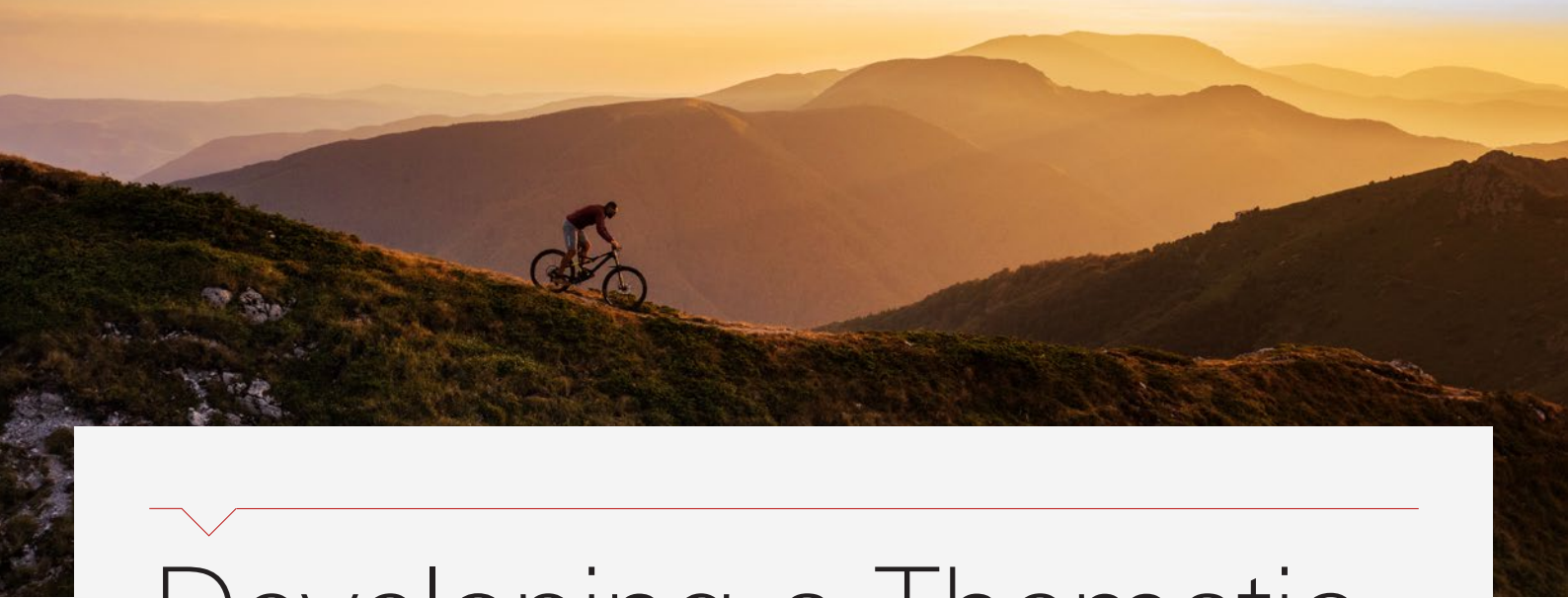
So it is no surprise that many countries around the world focus on building out strong regional or local AI, energy and defence capabilities. The US treats compute, energy and military strength as one interconnected system. Germany calls it 'Digital, energy and strategic sovereignty', while Poland calls it 'Security, energy and competitiveness', but everywhere, the direction is the same. Saudi Arabia's Vision 2030 programme has massive AI and energy agendas, and South Korea has an AI action plan across the economy, including AI-driven combat technology.

For investors, these three clear engines give comfort because it will generate a supportive regulatory environment and huge capital flows (both public and private) into these areas. Many of our investment themes in this publication are therefore linked to this concept, from 'Energy and Resource Security', to 'Booming AI Ecosystem', 'Aerospace & Security', 'North American Re-Industrialisation' and 'Asia's Data Centre Boom'. All of these themes reach across sectors and regions, with implementation strategies in public and private markets. Their structural nature also suggests that even if we see some cyclical headwinds in the short term, they should continue to see support.

We hope you will find a number of inspiring ideas in this publication to position your portfolio for the next cycle.



**Willem Sels,**  
Global Chief Investment Officer  
June 2026



# Developing a Thematic Investment Strategy

When we pick investment themes to add to a well-diversified multi-asset portfolio, we want to achieve a few things. Of course, first and foremost, they need to be solid investments with a positive outlook that can easily be implemented. They also need to be intuitive and ‘speak’ to investors, reflecting trends that are ‘live’ topics. And lastly, they need to span a range of ideas, sectors and regions, to provide choice and to avoid excessive concentration or dependency on one idea or event.

This is what we have tried to achieve in this publication. The themes under our structural trend are complemented by themes that are more cyclical in nature. In addition, as thematic investments are often tech-heavy, we have added themes that tap into opportunities in other sectors. And because many portfolios are US-heavy as US equity markets are so dominant, we point to exciting thematic opportunities in Asia to provide some diversification, including data centres, innovation and tech.

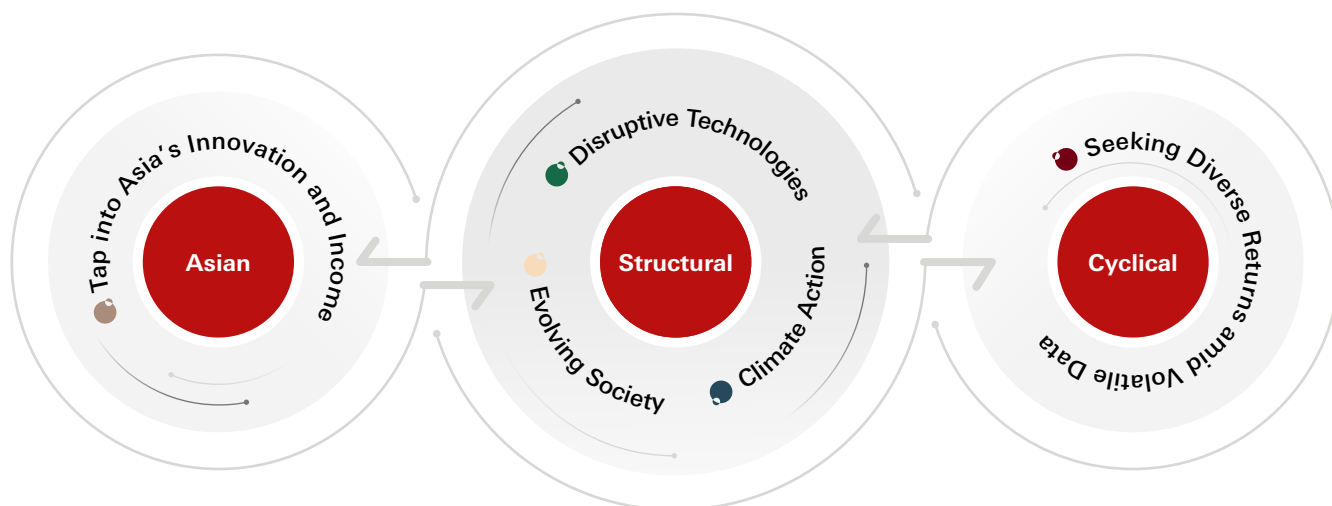
The three structural trends of Disruptive Technologies, Climate Action and Evolving Society are probably familiar by now to our regular readers, but remain very relevant. That is obvious for disruptive technology, where AI and all the related innovation is rapidly changing every company and all of our lives. In fact, companies that do not adopt and adapt to these technologies will be disrupted themselves, and the same could be said for workers who do not update their skills. Our climate action

trend remains key, but it is increasingly coupled with energy security, as our energy consumption rises quickly (in part because of AI) and the Middle East conflict has once again confirmed that dependency on foreign energy inputs can make you vulnerable. Because that search for strategic independence also includes other resources such as metals, we have created an ‘Energy and Resource Security’ theme and positioned it under our societal trend.

We recognise that even our cyclical themes are coloured by the long-term trends. That is because the short-term outlook largely faces a dichotomy: on the one hand, the high energy prices and uncertainty coming from the Middle East conflict create a strong headwind, while on the other hand, strong capex from AI, the energy build-out and defence support activity. So the more solid parts of the economy are again linked to those structural growth trends. Nevertheless, the indirect beneficiaries – the US industrials, global financials and M&A activity – still help broaden the range of investment options. And to top it all, we include two fixed income investment themes, to help balance the portfolio.

We show an overview of our trends and themes below, and discuss them in more detail in the following pages. Happy reading!

## Our Top Trends and High Conviction Themes



### Global High Conviction Themes

Asian	Structural			Cyclical
<ul style="list-style-type: none"> <li>Tap into Asia's Innovation and Income</li> <li>- Asia's Data Centre Boom</li> <li>- China's Tech and Manufacturing Leaders</li> <li>- Power Up Asian Shareholder Returns</li> <li>- High Quality Asian Credit</li> </ul>	<ul style="list-style-type: none"> <li>Disruptive Technologies</li> <li>- Aerospace &amp; Security</li> <li>- Booming AI Ecosystem</li> </ul>	<ul style="list-style-type: none"> <li>Climate Action</li> <li>- Biodiversity and Circular Economy</li> </ul>	<ul style="list-style-type: none"> <li>Evolving Society</li> <li>- Energy and Resource Security</li> <li>- Social Empowerment and Well-being</li> </ul>	<ul style="list-style-type: none"> <li>Seeking Diverse Returns amid Volatile Data</li> <li>- North American Re-industrialisation</li> <li>- Global Financials</li> <li>- M&amp;A and Shareholder Value Creation</li> <li>- Income Through Active Credit Selection</li> </ul>

# Tap into Asia's Innovation and Income

Asia sits at the heart of the global AI supply chain, combining unmatched scale in electronics and industrial production with rapidly expanding digital demand. That mix leaves the region well placed to capture the benefits of the next leg of AI and cloud-driven capital spending and the productivity uplift it will bring. We see a wide and differentiated set of investment opportunities across Asia's AI ecosystem, supported by improving market breadth and select valuation appeal. In parallel, Asia's comparatively resilient domestic demand backdrop continues to offer durable income streams. Our barbell positioning pairs exposure to innovation-led growth with the durable incomes from improving returns to shareholders and high-quality credit.

## ► Our four high conviction themes

- 1 | Asia's Data Centre Boom
- 2 | China's Tech and Manufacturing Leaders
- 3 | Power Up Asian Shareholder Returns
- 4 | High Quality Asian Credit

AI has moved beyond a technology cycle to become a strategic priority that is increasingly shaping economic competitiveness and policy agendas. Across Asia, governments and corporates are accelerating deployment – building the infrastructure that enables AI while driving adoption across core industries and everyday digital services. With some economies leaning on automation to offset labour constraints and others benefiting from rising online consumption, the region is creating multiple demand engines for AI. In our view, these forces reinforce Asia's role as both a builder and a user of AI, providing a supportive backdrop for innovation opportunities alongside more defensively anchored return streams.

A key expression of this cycle is the rapid expansion of AI infrastructure. Asia's data centre boom is turning Asia Pacific into an epicentre of global capacity growth. Data centre capacity is expected to more than double by 2030, reaching around

40% of worldwide capacity, driven by strong regional demand for AI and cloud services. As AI workloads increase power and cooling intensity, Asia's advantages are becoming more apparent: competitive energy pricing in parts of the region, improving renewable supply, more supportive regulatory settings in key markets, and practical cost benefits such as land and labour availability. We expect investment spillovers to extend beyond developers and operators to chip and hardware providers, semiconductor equipment manufacturers, server and cooling suppliers, and the commodities embedded in power and thermal infrastructure, including copper and aluminium. Supply constraints are also becoming a theme in their own right – global DRAM markets face a severe shortage amid surging AI demand, with tightness expected to persist well into 2027. As grid bottlenecks emerge, onsite power generation and energy storage are likely to see wider adoption as operators seek greater reliability, redundancy and flexibility.

Within Asia's broader innovation landscape, China's technology and manufacturing leaders remain a critical pillar. AI development appears poised for another step up, supported by capex plans from major domestic tech firms, continued policy backing, and tangible upgrades across software and semiconductors. Adoption momentum is already striking: daily token usage has surged from around 2 trillion in H2 2024 to roughly 140 trillion by March this year, as use cases broaden and AI becomes more deeply embedded in consumer and enterprise workflows. We see China's opportunity set not only in foundation models, but increasingly in cost-effective, industry-specific AI agents and in "physical AI", where software capability intersects with manufacturing depth. China's industrial transition – from low-cost scale production towards advanced manufacturing leadership – supports this evolution across renewables and energy storage, EVs, advanced materials and biotech. Semiconductors remain strategically important, and

localisation efforts are intensifying, with industry ambitions pointing to around 80% domestic self-sufficiency by 2030. Meanwhile, AI-enabled drug discovery and improved development efficiency continue to strengthen the global competitiveness of leading Chinese biotech companies.

At the same time, the region's return profile is no longer defined solely by growth. A parallel opportunity is emerging to power up Asian shareholder returns, as corporate governance reforms deepen across multiple markets and place greater emphasis on dividends, share buybacks and value-enhancing corporate actions. These forces are expected to lift Asia's return on equity meaningfully – from roughly 11% in 2025 to around 15% by 2027e. We see opportunities among reform beneficiaries across Japan, Singapore, Chinese SOEs and South Korea, alongside high-quality dividend names in markets such as Hong Kong and

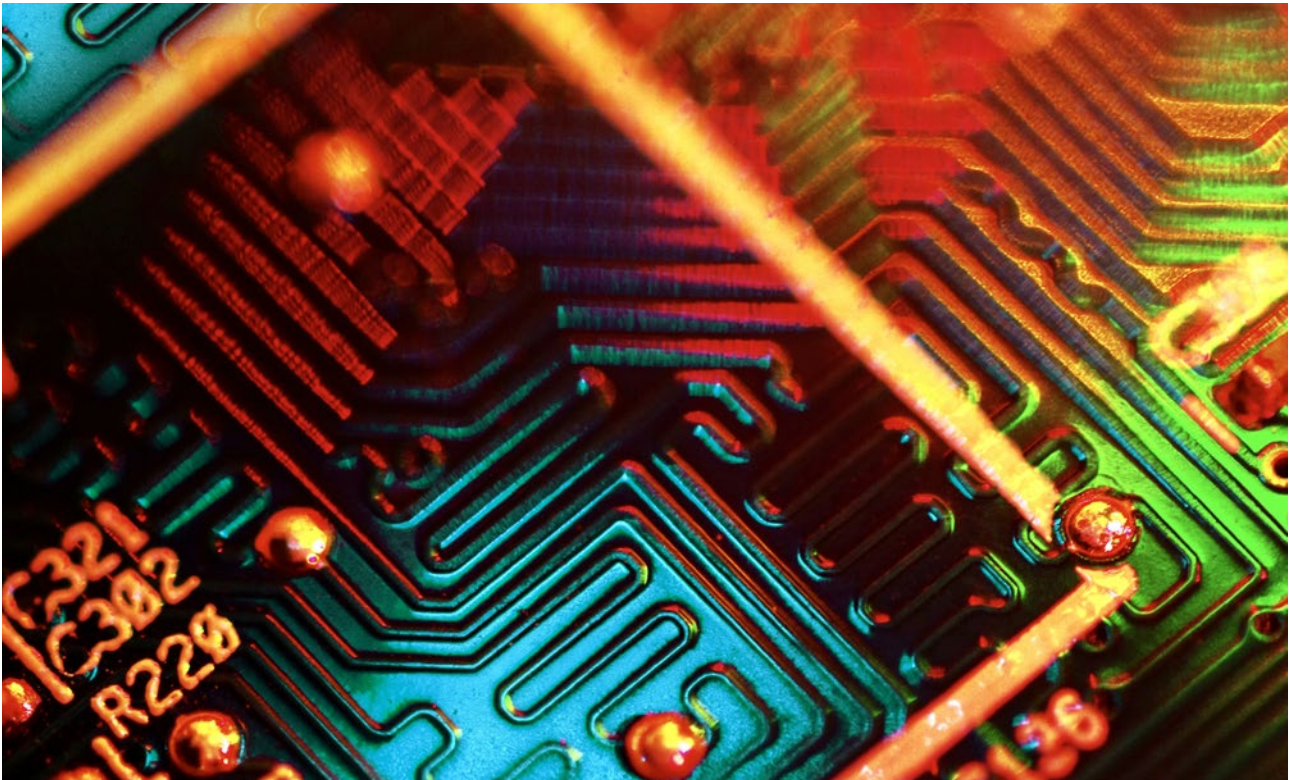
parts of ASEAN. Japan's ongoing push – reinforced by governance revisions expected around summer 2026 – aims to improve capital allocation efficiency and strengthen board accountability, while buybacks have already reached record levels in fiscal 2025. South Korea's reform momentum has supported confidence and market performance, and Singapore's "value unlock" initiative is designed to encourage stronger shareholder returns and engagement. In our view, these trends broaden Asia's equity appeal, particularly for investors seeking a steadier blend of participation and payout.

Income diversification also extends into fixed income, where high-quality Asian credit has shown resilience amid global fiscal uncertainty and geopolitical pressures. The asset class benefits from generally shorter duration profiles and relatively limited net issuance, creating a supportive demand-supply backdrop that

can help stabilise pricing. We focus on higher quality carry opportunities, including Financial Tier 2 bonds, select Australian IG banks and corporates, and some USD Japanese credit and hybrid issuance. We also remain constructive on carry opportunities among mainland China SOEs and developers, where policy support and improving confidence can strengthen fundamentals.

Overall, Asia's opportunity set is widening in a way that supports a barbell approach. On one side sits structural growth linked to AI adoption, infrastructure build-outs and advanced manufacturing. On the other sits improving income quality, supported by governance-driven shareholder returns and resilient credit carry. In a world where AI is reshaping competitive advantage and investment cycles, we believe Asia offers a differentiated mix: innovation at scale, paired with increasingly investable income.

# 1 Asia's Data Centre Boom



## ► Overview

– Asia Pacific is emerging as the epicentre of the global data centre boom. Capacity in the region is forecasted to more than double by 2030, reaching around 40% of worldwide capacity. This rapid growth is being driven by the region's strong appetite for AI and cloud adoption, backed by supportive government policies, competitive energy pricing, and proximity to manufacturing hubs.

– The region is well positioned for the data centre boom due to expanding renewable capacity, favourable cost dynamics, ample land availability, lower labour costs, stronger grid reliability, and more supportive regulatory settings. Australia and Japan are expected to lead growth in demand for computational resources, while Southeast Asia is increasingly viewed as a key investment destination. Mainland China is likely to remain relatively closed, with the market largely shaped by domestic workloads.

## ► The Opportunity

– Leaders in data centre supply chain spanning from chips, hardware, semi equipment, cooling systems, servers and commodities (e.g. copper, aluminium) are expected to see supercharged demand from the fast build-out of data centres. Power infrastructure providers also stand to benefit.

– The global DRAM market is facing a severe shortage given massive AI demand, with some referring to as "RAMmageddon". Shortages are expected to persist well into 2027.

# 1 Asia's Data Centre Boom (continued)

- Demand for key materials has risen sharply, driven by capacity additions in power and cooling infrastructure. This includes higher requirements for copper and aluminium, alongside a growing need for critical minerals.
- Onsite power generation should become more common over the coming years as organisations look to supplement grid-supplied electricity and mitigate constraints

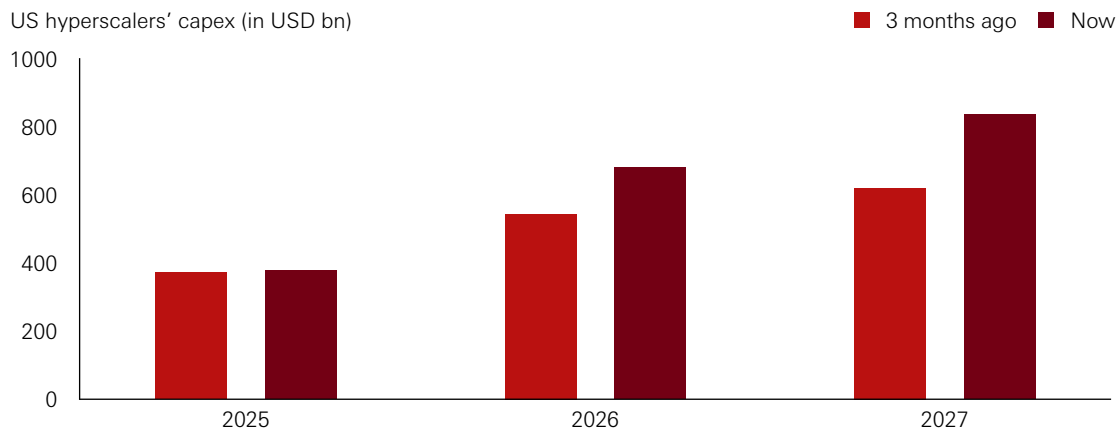
in grid capacity. This trend is likely to support increased demand for high-power generators.

- Energy storage is another important aspect for much-needed power reliability. In the event of a power outage or grid failure, battery backup can ensure uninterrupted operations. As renewables produce power intermittently, batteries are also needed for power storage.

### ► Why Now?

- Asia is the central to global data centre investment and is progressing at a relatively early stage. AI capex continues to soar as demand surges. Asia Pacific will be a key recipient of the massive investments.

## Asia Pacific can be a key recipient of the surging AI capex spending from US hyperscalers



Note: US hyperscalers include Amazon, Google, Meta, Microsoft, Oracle.  
 Source: Bloomberg, HSBC Private Bank as at 29 May 2026. Forecasts are subject to change.

## 2 China's Tech and Manufacturing Leaders

### ► Overview

- AI development in China should see a supercharged growth, given the capex plans from major Chinese tech leaders, supportive government policies and the step upgrades in software and semiconductors.
- The end-user demand for AI in China is booming, with daily token usage surging from just 2 trillion in H2 2024 to 140 trillion by March this year. As Chinese players focus on the development of cost-effective and industry-specific AI agents, we believe AI adoption in China should spread quickly.
- At the same time, China's competitive advantages have extended from low-cost mass production to advanced manufacturing at scale, leading in renewables, green tech, batteries, EVs, advanced materials, biotech, robotics, etc.

### ► The Opportunity

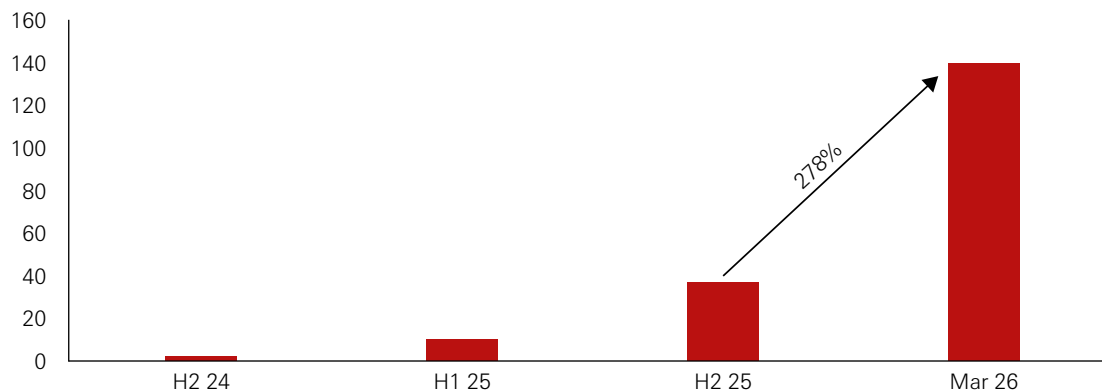
- We favour leaders across the AI value chain – LLMs, AI cloud and agents, software, semiconductors manufacturers and physical AI. We also position in advanced manufacturing leaders in renewables, batteries, EVs, advanced materials, and biotech.



## 2 China's Tech and Manufacturing Leaders (continued)

### China is experiencing explosive growth in AI usage, as reflected by the exponential increase in token consumption

Daily token consumption of China's LLM (trillion)



Source: Frost & Sullivan, National Data Administration, HSBC Private Bank as at 29 May 2026.

- The performance gap between China and US AI foundation models is expected to narrow further. Chinese models have seen a surge in usage, recently overtaking US models as measured in weekly usage. On the other hand, agentic AI has reached a critical inflection point this year, progressing from experimental pilots to enterprise workflow-ready.
  - China is moving fast to localise the humanoid supply chain, starting with hardware. We think China is uniquely positioned at the intersection of AI software and high-end manufacturing to drive the next wave of physical AI.
  - The biotech sector is evolving into a global leader in drug discovery and development, with faster clinical trials, lower costs and supportive policies.
  - China is a leader in EVs and renewable energy technology. It also leads the energy storage market, with cumulative new-type energy storage capacity exceeding 100GW by early 2026, representing over half of the world's total.
- **Why Now?**
- AI in China has evolved into a fundamental pillar of the country's industrial strategy, and we expect higher AI adoption to drive the next leg of growth.
  - It is reported that China's semis industry plans to achieve 80% domestic self-sufficiency by 2030, as the country seeks to catch up with global peers through tech development and capacity expansion.

# 3 Power Up Asian Shareholder Returns

## ► Overview

- Asian equity investors stand to benefit from ongoing corporate reform initiatives across the region. Government and corporate focus on improving total shareholder returns should improve share price performance over time.
- Higher dividend distributions and increased share buybacks are expected to lift Asian stock markets' return on equity (ROE) from approximately 11% in 2025 to around 15% in 2027e.

Against this backdrop, we highlight resilient and high-quality stocks that are well positioned to enhance ROE and deliver increasing returns to shareholders.

## ► The Opportunity

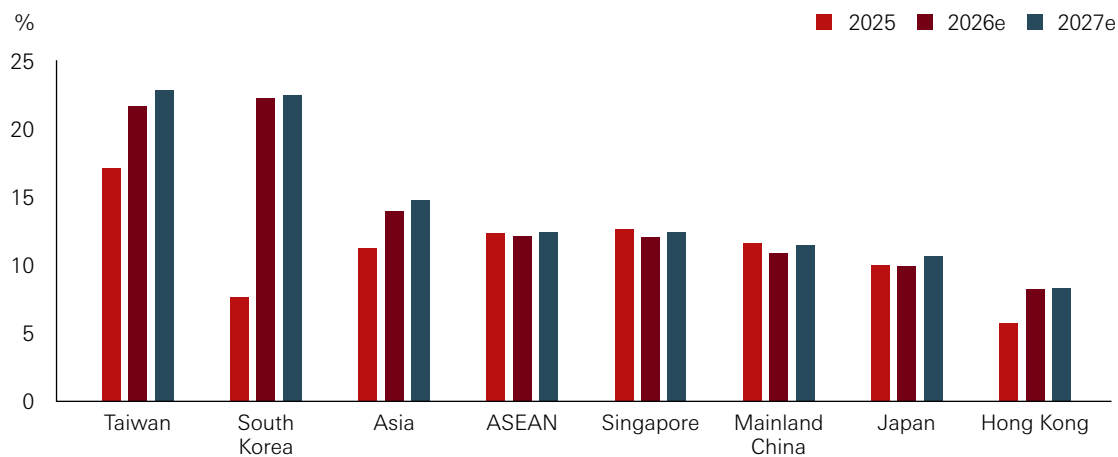
- Investment opportunities exist in corporate governance reform winners in Singapore, Japan, China, and South Korea, as well as quality high dividend stocks in Hong Kong and ASEAN markets committed to increasing shareholder returns.

- In Japan, a boost to corporate governance should result in investments for growth, better efficiency in capital allocation, and strengthening board responsibilities, with adoption expected this summer. Corporate buybacks reached an all-time high in 2025 and the trend should continue in 2026. This, together with rising dividends, continues to underscore improving shareholder returns in Japan.



## 3

## Power Up Asian Shareholder Returns (continued)

**ROEs across Asian markets are projected to improve in 2026 and 2027 – South Korea's ROE expected to climb to 22%**

Source: Bloomberg, HSBC Private Bank as at 29 May 2026. Forecasts are subject to change.

- In South Korea, governance reforms have helped rebuild investor confidence, supporting the market's recent strong performance. Momentum has been underpinned by growth in AI-related and security-linked sectors.
- Singapore's "value unlock" initiative for listed companies is expected to enhance shareholder returns and strengthen investor engagement. In addition, the planned dual-listing bridge between SGX and NASDAQ

should enable issuers to access capital markets in both Asia and the US, broadening funding options and investor reach.

- High-dividend Chinese equities continue to look compelling amid ultra-low onshore bond yields. Ongoing improvements in dividend distributions and share buyback programmes can be attractive for income-focused investors.

#### ► Why Now?

- Despite the energy supply shock, we think Asia 10-year yields will move around the current levels in the coming quarters, increasing the attractiveness of high dividends against lower rates.
- Investors can balance AI-powered Asian growth stocks by owning high dividend names with good earnings visibility, enhancing portfolio resilience.

# 4 High Quality Asian Credit



## ► Overview

- Asian credit markets have proved resilient amid global fiscal and geopolitical pressures. Their generally shorter durations across ratings can support more agile positioning, helping investors capture carry while adapting to evolving conditions.
- Although higher inflation may weigh on activity, the economic

growth of most large economies (e.g., mainland China, Korea, Japan, Australia) should remain resilient, underpinned by strong exports and domestic factors.

- Asian credit issuance remains relatively limited. This demand-supply imbalance should help support price stability and performance,

while also reinforcing issuers' funding discipline.

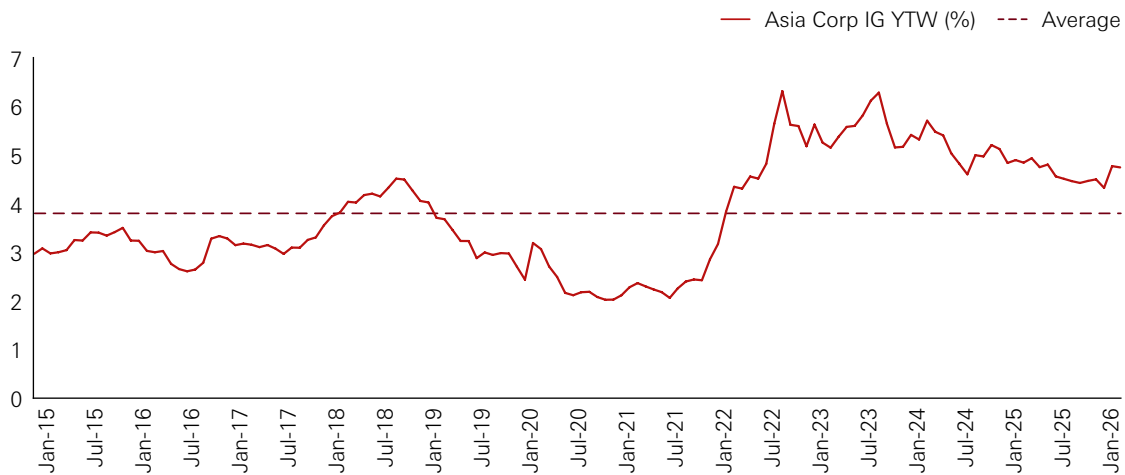
## ► The Opportunity

- We favour Asian Financial Tier 2 bonds. With strong bank fundamentals and the overall constructive sector outlook, the yield premium over senior debt remains compelling.

# 4 High Quality Asian Credit (continued)

- We prefer Australian IG bonds from high-quality banks and corporates, in both USD and AUD. The market's exposure to energy and base metals can help insulate Australia from external shocks, supporting repayment capacity. The RBA's recent rate hikes also help anchor yields.
- We are selective in USD-denominated Japanese bonds and favour hybrids for yield enhancement – their “bond-plus-equity” structure can provide downside protection while retaining meaningful upside. These are typically long-dated with mid-term call features, aligning with our preferred duration.
- We remain constructive on carry opportunities among mainland Chinese SOE issuers and Hong Kong bonds (e.g., HK developers). We foresee stronger policy focus on China infrastructure investment in 2026, supporting Utilities and Communications sector. Meanwhile, improving confidence level in Hong Kong has helped the residential property sector bottom out.
- **Why Now?**
  - Asia is seeing inflationary pressure linked to the Middle East conflict. In response, some regional central banks have turned more hawkish and markets are pricing out rate cuts, supporting higher Asian bond yields at the shorter end of the curve and enabling investors to lock in attractive income.
  - Steady interest income from high-quality Asian bonds can help mitigate portfolio risk during periods of elevated geopolitical tensions, while allowing investors to remain invested.

## Asian IGs' corporate all-in yields are still attractive, trading above long-term average



Note: Asian IG = BAIGTRUU Index. Yield-to-worst (YTW) is the lowest possible yield that can be received on a bond with an early retirement provision. Source: Bloomberg, HSBC Private Bank as at 29 May 2026.

# Disruptive Technologies



Automation has already transformed many organisations for the better, the recent introduction of a new generation of AI software is already disrupting the workplace by accelerating decision-making to intelligent automation of routine tasks. It is bringing benefits across all sectors boosting the speed, quality and accuracy of information being provided.

## ► Our two high conviction themes

- 1 | Aerospace & Security
- 2 | Booming AI Ecosystem

In McKinsey's 2024 global survey reported around two-thirds of organisations use generative AI regularly, and many are embedding it into core processes. PwC estimates AI could contribute up to \$15.7 trillion to the global economy by 2030 (through productivity and consumption effects), illustrating why boards are treating AI as a strategic priority rather than an IT upgrade.

In software and knowledge work, productivity gains are increasingly evidenced. A widely cited field experiment with customer-support agents (Brynjolfsson, Li & Raymond, 2023) found access to an AI assistant increased productivity by around 14% on average, with the largest gains for less-experienced workers. For developers, GitHub reported that in controlled studies, Copilot users completed coding tasks significantly faster (often cited around ~50% faster on specific tasks), suggesting AI can compress delivery cycles when paired with good engineering practices.

Risk and compliance functions are also adopting AI to cope with scale. The volume problem is real with global financial crime losses are estimated in the trillions of dollars annually (UNODC estimates for money laundering are often cited at 2 – 5% of global GDP). AI-based can analyse vast amount of data to identify anomalies while reducing false positives allowing investigators on higher-risk cases.

Aerospace is a natural fit for AI because it generates vast sensor data and operates in environments where reliability matters. Predictive maintenance is one of the clearest value cases. Aircraft and engines stream health-monitoring data; AI can detect patterns that precede failures, enabling condition-based maintenance. This matters because disruption is expensive: IATA has estimated the annual cost of flight delays is in the tens of billions of dollars globally, so reducing unscheduled maintenance and improving dispatch reliability has direct financial and customer benefits.

Fuel optimisation is another data-driven lever. Depending on energy prices, fuel is typically around 30% of an airline's operating costs. Even small efficiency gains compound across a fleet of aircraft can translate into substantial cost savings and emissions reductions over a year. AI-supported flight planning can combine weather, air traffic constraints, aircraft performance, and operational priorities to recommend routes and speeds that reduce burn while maintaining schedule integrity.

Defence is adopting AI to accelerate the "sense – decide – act" loop. ISR systems generate overwhelming volumes of data; AI can triage imagery and signals, flag anomalies, and prioritise analyst attention. The scale challenge is stark: modern platforms and multi-sensor systems can generate terabytes of data per day, making manual review infeasible and increasing the value of automated filtering and fusion.

Autonomy is expanding through uncrewed systems. AI-enabled navigation, object recognition, and collaborative behaviours (including swarming concepts) substantially expand unmanned system capabilities and reduce risk to personnel. Defence investment signals intent: the Stockholm International Peace Research Institute (SIPRI) reports global military expenditure reached \$2.9 trillion in 2025, with a growing share of modernisation budgets is directed toward software-defined capabilities, autonomy, and data-centric systems.

Digitalisation is driving ever greater need for robust cybersecurity. IBM's 2024 Cost of a Data Breach Report put the average cost of a data breach at \$4.88 million.

Organisations are rapidly automating detection and response systems to combat the growing threats. AI is ideally suited to identify unusual behaviour, correlate weak signals across logs, and speed containment – while defenders must also prepare for AI-enabled attackers (phishing at scale, faster vulnerability discovery, and more convincing social engineering).

Across business, a differentiated rather than an 'AI everywhere' approach is likely to optimise efficiency, boost productivity and generate the best outcomes. The scale of data collection and harvesting has risen exponentially over the last decade, but until recently there were very limited IT tools capable of handling the

data at scale and at speed. This situation has now changed with the latest generations of AI software and IT hardware. These capabilities could be further enhanced if quantum computers become a full commercial reality.

# 1 Aerospace & Security

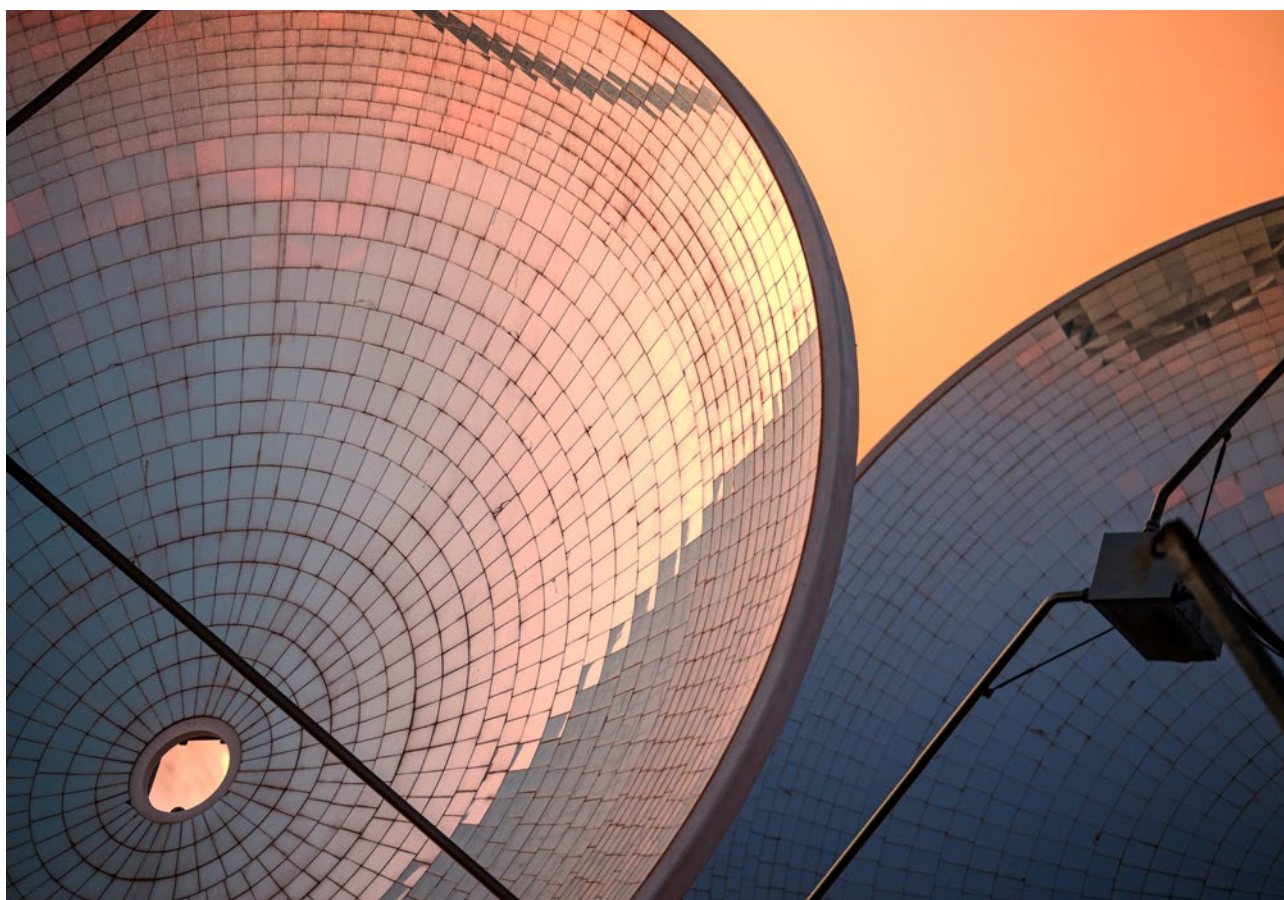
## ► Overview

- AI is bringing a wave of innovations, including in autonomous aircrafts and seacrafts; enhanced cybersecurity and predictive software; data pattern analysis; and surveillance.
- The private sector is transforming the space economy by substantially reducing costs and commercialising services for satellites, launchers, landers and other new technologies.

- New entrants and technologies are redefining the competitive landscape as commercial barriers to market entry are lowered.
- Shifting geopolitical alliances and decades of under-investment are driving a robust multi-year defence investment cycle, expanding capacity and R&D capabilities.

## ► The Opportunity

- Government defence spending over the next 5 years is set to increase substantially after decades of declining spending by many countries.
- Space-based technology platforms and exploration are being recognised for their strategic importance after a 50-year hiatus, as private enterprises have substantially lowered the cost of satellites and launches.

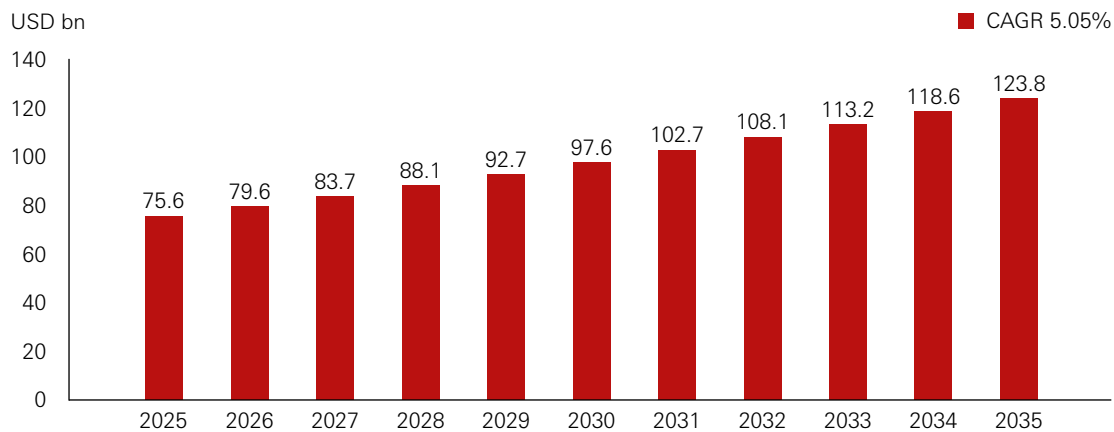


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## Aerospace & Security (continued)

- The number of commercial flights continues to grow with global revenue passenger-kilometres (RPK) rising 3.8% YoY in January 2026 (IATA). Total capacity, measured in Available Seat Kilometers (ASK), increased 3.5% YoY.
  - Securing key input materials has become a priority for supply chain security; protecting advanced technologies; assuring manufacturing dependencies; and reducing logistical risks.
- Why Now?**
- Recent technological advances and cost reductions have driven a resurgence of interest in the space economy, with private company space flights growing rapidly.
  - Rising tourism is driving demand for flights, with air travel delivery numbers and order books at aerospace manufacturers swelling.
- Geopolitical developments and changing security commitments are driving rise in defence spending, especially in Europe, Middle East & Asia.
  - Infrastructure and supply chain resilience are gaining importance given the recent increase in both physical and cyber incidents.

### Rockets and missiles market size 2025 – 2035e (USD billions)



Source: Precedence Research, HSBC Private Bank as at 29 May 2026.

## 2 Booming AI Ecosystem



### ► Overview

- AI is transforming the world, initially through its capacity to analyse and propose solutions, more recently through its ability to act, facilitated by AI agents.
- AI-related infrastructure capacity is expanding, and McKinsey estimates USD 5.2trn of investments are needed in data centres by 2030.

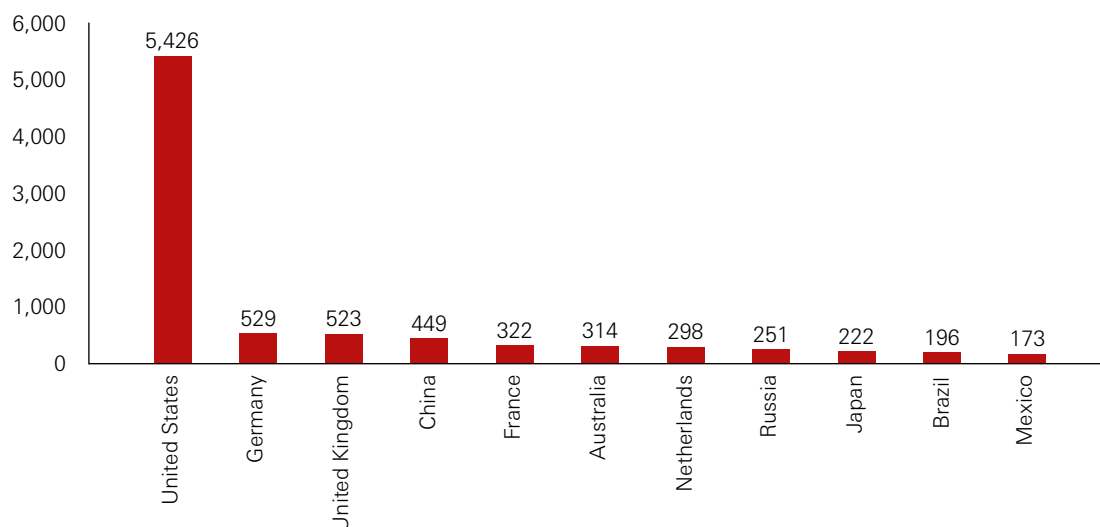
- Proliferation of large language models (LLMs) with specific usages e.g. AlphaFold (predicts 3D structure of proteins); AlphaGenome (deciphers the regulatory code in DNA) and Claude Mythos (cybersecurity) are disrupting industries.
- AI infrastructure investment is driving strong growth in cloud/software-as-a-service and GPU/CPU semiconductor demand.

### ► The Opportunity

- Substantial investments are being made into AI software development and related infrastructure capacity, with Alphabet, Microsoft, Meta and Amazon alone expected to spend over \$700bn in 2026.

## 2 Booming AI Ecosystem (continued)

### Number of data centres by country



Source: Brightlio, Brookings (November 2025), HSBC Private Bank as at 29 May 2026.

- Digital infrastructure hardware, including semiconductors, servers, cooling, cables, energy equipment, and sensors, is already benefitting from rising demand and a strong pricing environment.
- According to a report from P&S Intelligence, the data centre market is expected to grow from c. USD 302bn in 2023 to c. USD 622bn in 2030, a CAGR of over 10.5%, providing attractive opportunities.
- Software-as-a-service and cloud services are beneficiaries as well.
- ▶ **Why Now?**
  - While general AI software LLMs have proliferated, software companies are now releasing specialised versions of their LLMs designed for specific tasks, including Claude Mythos for cybersecurity and coding capabilities.
  - AI agents – autonomous softwares that use AI to perform actions – are rapidly proliferating, enabling real-world applications to be developed.
- Large multi-year investments in infrastructure and software development are facilitating the rapid adoption and integration of AI software and its capabilities across businesses.
- The exponential growth in data generation and collection over the last decade has until now lacked the powerful AI tools necessary to comprehensively analyse and benefit from all the data collected.

# Climate Action

Alongside decarbonisation, circular business models and nature-focused AI can help tackle accelerating biodiversity loss and strengthen long-term resilience. Another key trend in climate action is clean and reliable power, which is becoming as a strategic priority as fossil-fuel price volatility continues. Electricity already underpins modern economies and everyday life, and its role will expand further. Through 2035, electricity demand is expected to grow significantly faster than overall energy demand, driven by electric vehicles, digitalisation, AI adoption, and initiatives to broaden electricity access. Solar PV is now the biggest growth driver in global power generation, with China leading deployment and manufacturing while hyperscalers accelerate clean power purchasing. Nuclear and battery storage are gaining momentum to provide firm, flexible power for grids and data centres.

## ► Our one high conviction theme

### 1 | Biodiversity and Circular Economy

Biodiversity loss is accelerating at an alarming rate. The Ellen MacArthur Foundation estimates that 90% of biodiversity loss is linked to how resources are extracted and processed. Circular business models – designed to reduce waste, extend product life, and keep materials in use – offer a practical framework to address biodiversity loss. Circularity is not only an environmental imperative but also a business opportunity, supporting risk management, cost efficiency, and long-term resilience.

Policy momentum is building. The European Union's latest review indicates the bloc is on track to achieve 16 of its 45 targets under the Kunming-Montreal Global Biodiversity Framework. The UN Biodiversity Conference in 2026 will take stock of progress and help shape next steps.

Ultimately, halting and reversing biodiversity loss will require fundamental changes in how we produce, use, and consume goods and food. Nature-focused AI can support this shift by improving operational efficiency, strengthening monitoring, and streamlining workflows – helping organisations tackle challenges in a more integrated way.

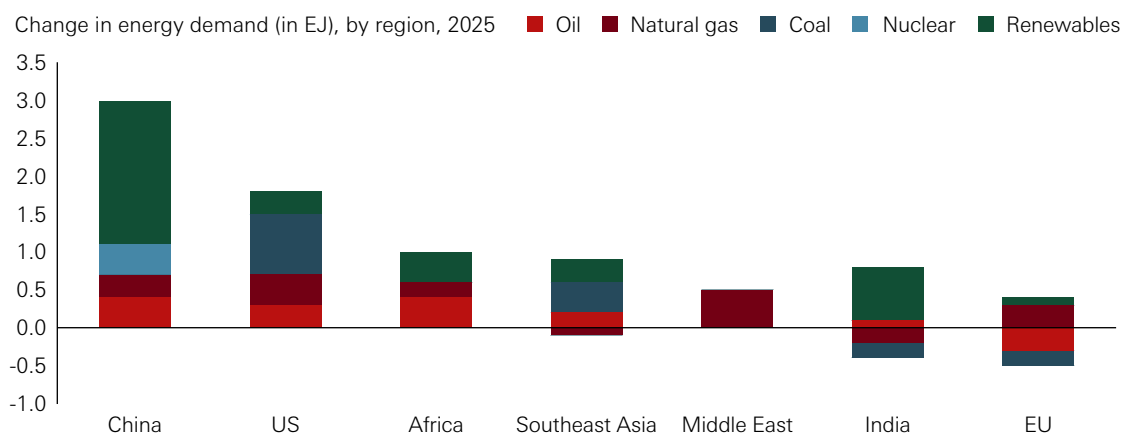
Renewables continue to scale rapidly, led by solar photovoltaics (PV). Mainland China remains the largest renewables market and is expected to deliver 45 – 60% of global renewable deployment over the next decade. It also leads manufacturing across many renewable technologies, with scale helping to keep global costs competitive. In parallel, hyperscalers are accelerating clean power procurement; mega tech companies represented more than half of clean

power purchase agreements signed last year, reinforcing the growing interdependence between digital infrastructure and clean electricity.

In 2025, global solar PV generation increased by an additional 600 terawatt-hours, the largest single-year structural increase recorded for any power generation technology. This expansion contributed to a reduction in coal-fired electricity generation. In markets such as Saudi Arabia, solar PV paired with battery storage is gaining traction, enabling near-continuous power supply at increasingly competitive costs across the day.

Nuclear power is also regaining momentum after a prolonged period of limited growth. Investment is rising in both large-scale plants and newer designs, particularly small modular reactors (SMRs). In the US, policy support is strengthening due

### China is the largest contributor of global energy demand growth last year, with over 60% coming from renewables



Source: IEA Global Energy Review 2026, HSBC Private Bank as at 14 May 2026.

to national security considerations, energy independence, and the power requirements associated with AI leadership. SMRs are viewed as a potential inflection point given their lower upfront costs, enhanced safety features, and faster deployment timelines. Asia is also investing heavily, with 59 of the world's 70 reactors under construction located in the region, according to the World Nuclear Association. China is expected to reach 35 GW of SMR capacity by 2050, and technology firms are increasingly exploring SMR-based models to supply power to data centres.

Energy storage is widely recognised as a critical enabler of the transition, providing the flexibility required to integrate variable renewables and support electrification. Around 110 GW of new battery storage capacity was added during the year, exceeding the largest-ever annual additions for natural gas. Looking ahead, global Battery Energy Storage System (BESS) additions are forecast to quadruple by 2030, with mainland China expected to be the largest market by 2050.

Climate action is increasingly viewed as both an environmental imperative and a strategic investment trend. As the energy system shifts, investors

can access growth opportunities across renewables, energy solutions, and biodiversity management – aligning capital with transition goals while positioning for long-term value creation.

# 1 Biodiversity and Circular Economy



## ► Overview

- Biodiversity loss is accelerating at an alarming rate. The Ellen MacArthur Foundation estimates that 90% of biodiversity loss is linked to how resources are extracted and processed.
- Circular business models – designed to reduce waste, extend product life, and keep materials in use – offer a practical framework to address biodiversity loss.
- Circularity is not only an environmental imperative but also a business opportunity, supporting risk management, cost efficiency, and long-term resilience.

## ► The Opportunity

- The circular economy, estimated to bring economic benefits worth USD4.5trn by 2030 according to the UNDP, offers countries a practical framework to tackle biodiversity loss. The circular economy not only addresses an important environmental issue but also provides an opportunity for companies if it is properly and diligently managed. We are seeing a rise in approaches adopting circular economy principles, including durability, reusability, recyclability, and closed-loop systems.

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Biodiversity and Circular Economy (continued)

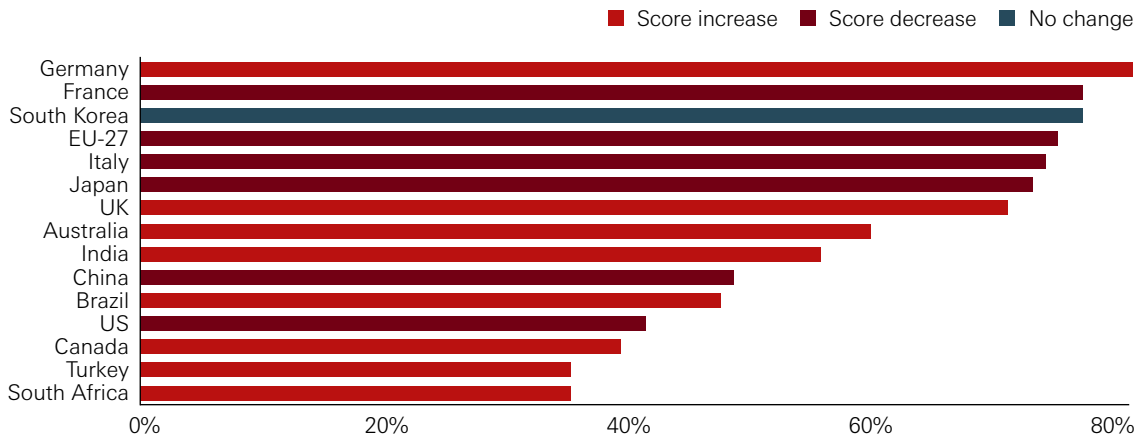
– Companies are reinventing supply chains to transition from a “take-make-dispose” model to a closed-loop system of production, distribution, and consumption in order to reduce waste. To address resource scarcity, there is a growing focus on resource longevity. For example, almost one-fourth of Apple’s product materials by mass are now from recycled content.

► Why Now?

– Policy momentum is building. The European Union’s latest review indicates the bloc is on track to achieve 16 of its 45 targets under the Kunming – Montreal Global Biodiversity Framework. The United Nations Biodiversity Conference in 2026 (COP17) will be held in Yerevan, Armenia this October, taking stock of progress in implementing the Kunming-Montreal Global Biodiversity Framework and shaping next steps.

– Nature-focused AI can support the fundamental changes in how we produce, use, and consume goods and food by improving operational efficiency, strengthening monitoring, and streamlining workflows – helping organisations tackle challenges in a more integrated way.

European economies leading in Circular Economy Scores\*



\* The scorecard tracks government support for the green economy among G20 countries in 2025. The change in scores are compared to the assessment in 2024.

Source: BloombergNEF, HSBC Private Bank as at 29 May 2026.

# Evolving Society

Demographic and technological changes are bringing greater attention to the growing focus on wellbeing, and shifts in consumer behaviour. At the same time, diversity and inclusion are increasingly recognised as important drivers of innovation and stronger financial performance. Society is also evolving quickly due to geopolitical developments and changing public attitudes. Global pressures are encouraging countries to strengthen the security of their energy and resource supplies.

## • Our two high conviction theme

- 1 | Energy and Resource Security
- 2 | Social Empowerment and Well-being

Rising expectations around quality of life, inclusive workplaces, and equal opportunity are reshaping societies and influencing economic outcomes globally. As demographics change, digital connectivity expands, and workforce preferences evolve, organisations and governments are placing greater emphasis on social empowerment, diversity, and employee wellbeing. In parallel, recent geopolitical developments have increased governments' focus on security and energy independence. Together, these long-term shifts may create enduring opportunities for investors.

Diversity and inclusion are increasingly viewed as drivers of innovation and financial performance. Several studies indicate that the linkage between diversity and financial outperformance is becoming clearer with each passing year. Multiple studies consistently demonstrate that leadership diversity correlates with stronger financial results. These outcomes reflect broader perspectives in decision-making, more robust governance and closer alignment with diverse customer bases.

Flexible working, skills development and wellness programmes are key tools for attracting and retaining talent. Surveys suggest that over 80% of employees globally consider wellbeing initiatives important when evaluating employers, and organisations that invest in engagement and wellbeing often see improvements in productivity, innovation and retention. Research from Deloitte shows that a sense of

belonging can increase employee engagement by up to 45% while companies with strong DEI practices see a 50% reduction in turnover risk. As a result, organisations that prioritise engagement and wellbeing often benefit from improved productivity, innovation, and retention.

Younger workers increasingly value purpose, sustainability, and inclusive corporate cultures. Rising female participation in the workforce is also expanding economic potential; closing gender employment gaps could add an estimated US\$12 trillion to global GDP. At the same time, physical and mental wellbeing is becoming more important across society, with the United Nations projecting the global population aged 65+ will reach around 1.6 billion by 2050.

As awareness grows, consumers are increasingly willing to spend on personal wellbeing. With rising affluence, Millennials and Gen Z are also shaping consumption patterns through their focus on wellness, transparency, and ethical choices. A 2025 McKinsey study found 84% of consumers in the US and 94% in China consider wellness a "top" or "important" priority. From 2013 to 2024, the wellness economy grew by approximately 6.5% per year, compared with global GDP growth of 3.2% per year, and is projected to grow at nearly 7.6% annually to 2029, reaching close to US\$10 trillion. This trend is creating new opportunities for brands and, for investors, may support growth in areas such as education technology, human capital

management platforms, workplace collaboration tools, and healthcare and wellness services.

Recent geopolitical shocks have highlighted how quickly energy markets and global logistics can be disrupted – driving sharp increases in oil and power costs and exposing the fragility of "just-in-time" supply chains. Strengthening energy security increasingly means diversifying supply sources and routes, investing in resilient grids and storage, and accelerating the shift towards more stable domestic generation. This may include a mix of renewable and non-renewable solutions such as wind, solar, nuclear, and oil, helping reduce the impact of external events on households and businesses.

Supply chain security is also becoming a priority, with greater focus on transparency, strategic buffers for critical inputs, and regional resilience to keep essential goods moving when trade routes or suppliers are disrupted. This extends to the materials supporting AI infrastructure – such as semiconductors and the critical minerals and metals used in data centres, networking equipment, and advanced chips – so that digital expansion is not constrained by concentrated supply, export controls, or sudden price shocks.

In response, governments are increasingly treating energy and resource security as a core part of their broader economic security strategies. This structural shift may offer investors attractive long-term opportunities.

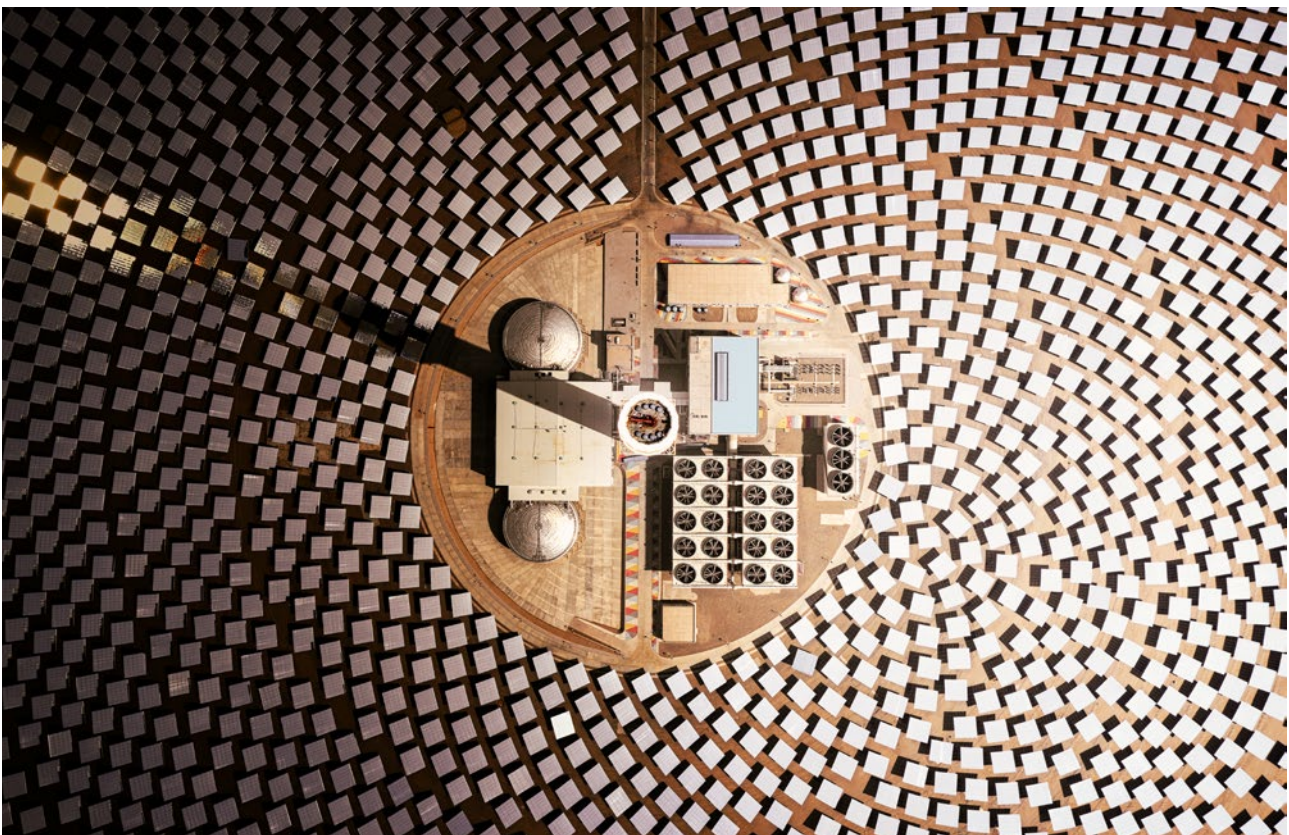
# 1 Energy and Resource Security

## ► Overview

- Recent geopolitical shocks have underlined how quickly energy markets and global logistics can be disrupted, driving sharp spikes in oil and power costs and exposing the fragility of just in time supply chains. Plus, AI's ever-rising energy demand is pushing governments and businesses to find ways to achieve greater energy independence. As such, strengthening energy security is a priority.

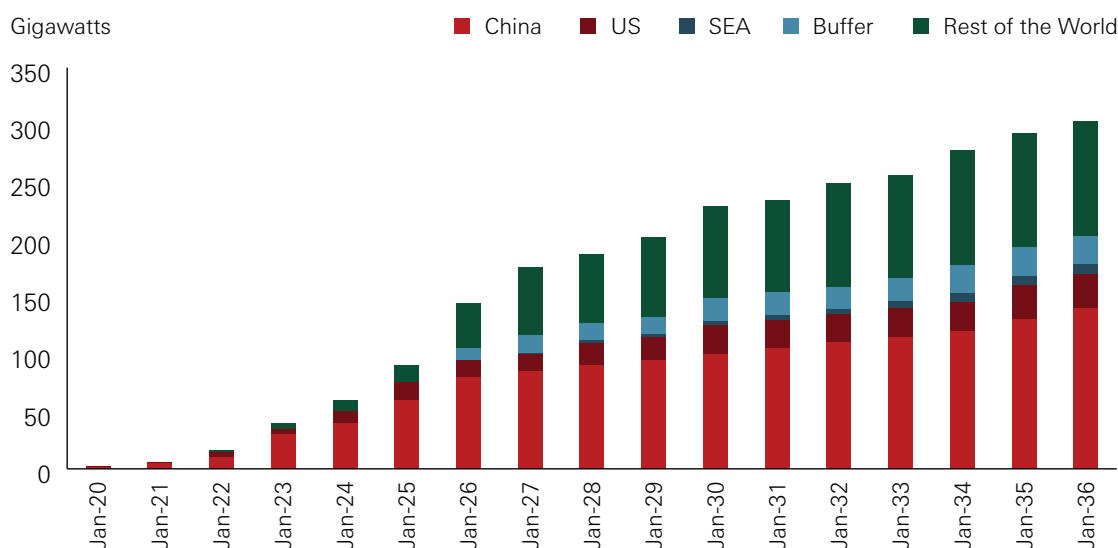
## ► The Opportunity

- Strengthening energy security now means diversifying sources and routes, investing in resilient grids and storage, and accelerating the transition to lower volatility domestic generation that includes both renewable and non-renewable solutions like oil, nuclear, wind and solar energy – so households and businesses aren't whiplashed by external events.
- The global race to lead in AI underscores the necessity for abundant and reliable energy, prompting significant investments in energy security.
- Adjusting to this new reality, global governments are making energy and resource security an integral part of their economic security strategy.



## Energy and Resource Security (continued)

### Declining costs of battery storage is fuelling a global energy storage revolution, which keep setting records and is projected to grow over the next 10 years



Source: Bloomberg NEF, HSBC Private Bank as at 29 May 2026. Forecasts are subject to change.

– We think this secular shift offers investors attractive long-term opportunities in areas like nuclear energy, battery storage and energy infrastructure. Regionally, we see attractive opportunities in the US and Chinese investments in energy infrastructure.

#### ► Why Now?

– The world is at a turning point where power demand will increase materially, whether it is from data centres, general

electrification or the reshoring of manufacturing. Utilities worldwide are grappling with surging energy demand and the consequences of years of underinvestment. A robust energy infrastructure is essential for sustainable economic growth and maintaining global competitiveness.

– In parallel, supply chain security requires greater transparency, strategic buffers for critical inputs and more regional resilience to

keep essential goods moving when trade lanes or suppliers are interrupted. This focus also needs to extend to the materials underpinning AI infrastructure – such as semiconductors and the critical minerals and metals used in data centres, networking equipment, and advanced chips – so that the build out of digital capacity isn't constrained by concentrated supply, export controls, or sudden price shocks.

## 2 Social Empowerment and Well-being



### ► Overview

- Shifts in policy priorities, demographic trends and labour market dynamics are reshaping economic participation across societies. Challenges such as inequality, mental health, uneven access to technological skills and education pose potential headwinds to long-term economic prosperity. These pressures are encouraging governments and corporates to pursue scalable solutions that strengthen inclusion and improve wellbeing for their workforce and customers.
- Policy momentum and frameworks like the UN Sustainable Development Goals, along with expanding EU sustainability disclosure and due-diligence regulations, are increasingly translating social outcomes into measurable metrics. Awareness around mental health, workplace conditions, as well as digital access and technological literacy continues to rise too. Companies integrating these priorities into their strategy are being viewed as better positioned for durable growth and reduced operational risks.

## 2 Social Empowerment and Well-being (continued)

### ► The Opportunity

- Expanding access to healthcare, education, financial services and employment opportunities can generate tangible economic value. Businesses that invest in their workforce and customer communities often benefit from higher productivity, improved retention and stronger brand loyalty. Hence, this theme spans several interconnected pillars, including human wellbeing, financial inclusion and broader social empowerment.
- Across these areas, technological innovation, supportive public policy and corporate adoption

are increasingly aligning. Digital platforms, telehealth solutions, education technology and inclusive financial services are expanding access while improving efficiency, creating a growing universe of companies where commercial and social progress reinforce each other.

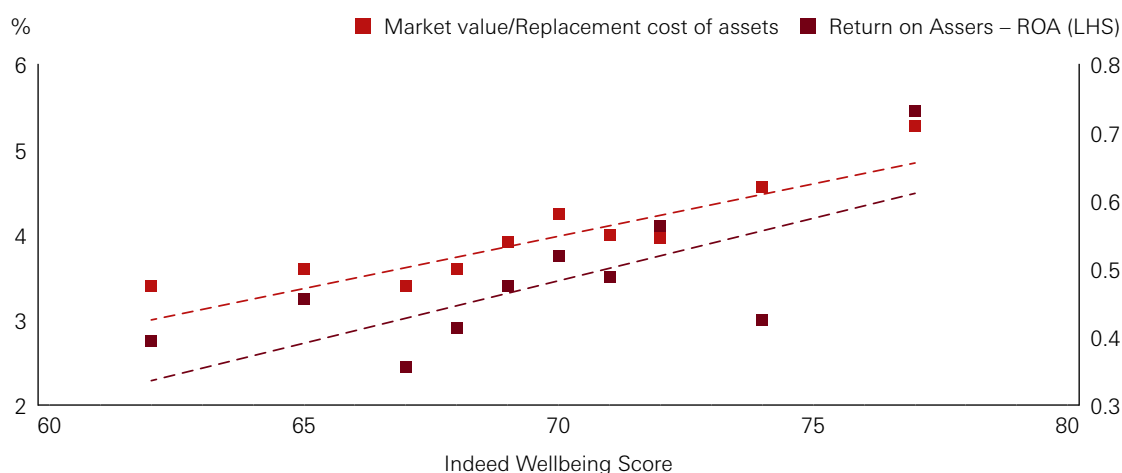
### ► Why Now?

- Governments across major economies are increasingly prioritising AI-era workforce reskilling, responding to technological disruption and demographic pressures. Governments programmes and international organisations

such as the World Economic Forum are expanding efforts to equip workers with digital and technical skills.

- At the same time, housing affordability has become a growing policy priority across regions, prompting new public spending initiatives and public-private partnerships aimed at expanding access to affordable housing and essential services. Together with expanding sustainability disclosure requirements, these initiatives are helping embed social outcomes more firmly into corporate strategy and investment decisions.

### Recent studies by Indeed and the University of Oxford show how corporate well-being practices contribute to financial value



Source: Workplace Wellbeing and Firm Performance, De Neve, J-E., Kaats, M., Ward, G. (2024), HSBC Private Bank as at 29 May 2026.

# Seeking Diverse Returns amid Volatile Data

Our cyclical trend has a somewhat convoluted title because the short-term outlook for the economy is complex. The lagged effects of the Middle East crisis on global growth and inflation are difficult to assess, resulting in a wide range of different forecasts, depending on which economist you ask. Moreover, the economic outlook is very uneven, with big differences between different economies, and even within each economy, from sector to sector.

## ► Our four high conviction themes

- 1 North American Re-industrialisation
- 2 Global Financials
- 3 M&A and Shareholder Value Creation
- 4 Income Through Active Credit Selection

So the data will be volatile in coming months, and, at times confusing. While the structural trends that we have discussed in previous chapters help us look through the short-term volatility, the themes under this cyclical trend instead try to selectively pick those areas where we think there is the strongest support and resilience. The good news is that there are enough areas with solid growth to offset those where activity is weaker, keeping the global economy on a healthy footing.

Unsurprisingly, our first stop is in the US and in industrials, because capex is propelling investment and construction activity. We have discussed the key drivers around AI, energy security and defence as strategic areas of support, which channel investment into the US. But the re-industrialisation of North America started even earlier, and independently from government initiatives, as US companies wanted to make their supply chains more secure by producing locally. All these factors continue to lift industrial optimism and activity, supporting an ecosystem from construction to materials, logistics and business services.

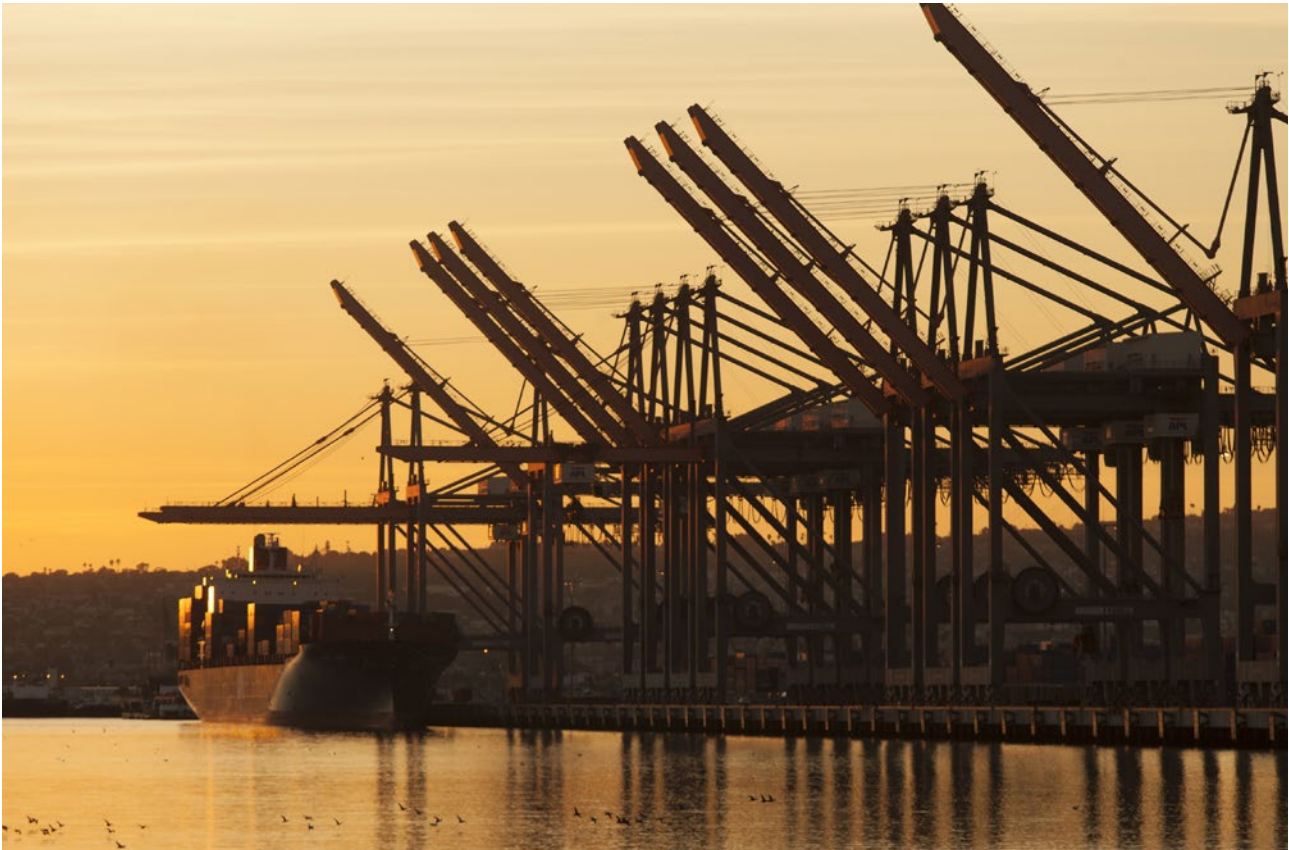
Other businesses choose to acquire new expertise, resources or markets through M&A. We don't think it is a surprise that M&A has picked up sharply this year and is close to historical record levels (before naturally dipping a bit during the conflict). This can be a faster avenue to adapt to the rapidly changing realities and disruption than building things from scratch. Sometimes, it is the only realistic way if the company is too far behind or the barriers are too high. We also see companies optimising their balance sheets and shareholder returns through increased share buybacks or dividends.

Whatever avenue companies take, the financial industry is often the facilitator. Building, expanding and adapting needs funding, from banks or the capital markets. The three structural trends, the re-industrialisation and M&A are already leading to elevated bond issuance and healthy lending volumes. Banks will benefit through lending, advising on deals, or trading the bonds, asset management vehicles and private market instruments. Although the higher-for-longer rate environment and weakness in some pockets

of the economy will lead to some delinquencies, we think the default cycle will remain manageable.

Next to the growth cycle, we are also looking at opportunities coming from the rate cycle. While many central banks cut rates in recent years, this has come to a halt for most of them, and some are even raising rates as the Middle East conflict contributes to higher energy costs. Those costs filter through into other areas, such as utility bills, higher packaging and transportation costs or food prices, raising broad-based CPI readings. So, we expect the ECB and the Bank of England to raise rates in coming months, but the Fed to stay put, thanks to its dual mandate. While this may sound bad for bonds, markets have anticipated this and already price in the rate hikes for the ECB and the BoE for example. And in the US, market expectations are a bit hawkish in our view. As a result, current bond yield levels are attractive for investors who can consider holding bonds to maturity and 'lock in' the current yield level. Of course, a selective approach is needed in this economic environment; we generally prefer investment grade over high yield, and duration close to benchmark.

# 1 North American Re-industrialisation



## ► Overview

- Since 2018, the US has remained the leading global destination for foreign direct investment. Structural forces such as re-shoring, supply-chain resilience, AI infrastructure investment, energy security, and data centre construction continue to drive a multi-year re-industrialisation cycle in the US.

- Fiscal incentives, deregulation, and productivity gains from automation and digitised manufacturing processes continue to reinforce the US as an attractive global manufacturing and investment hub.

## ► The Opportunity

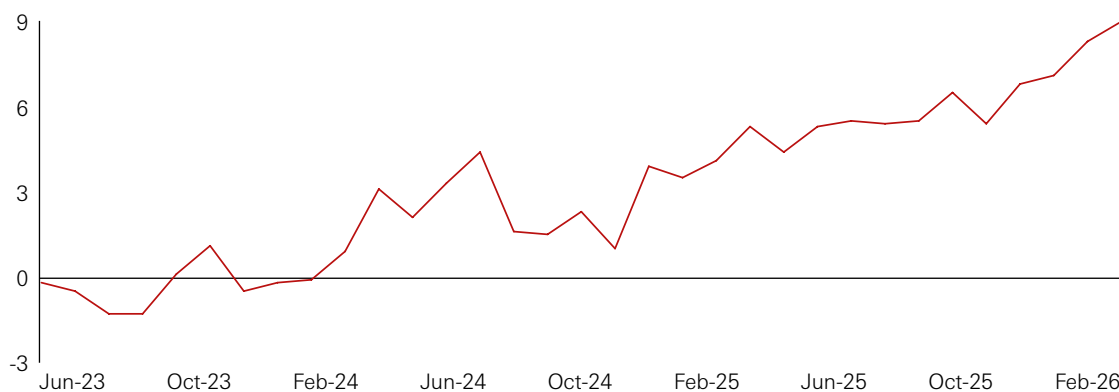
- Re-industrialisation is driving investment across semiconductors, advanced manufacturing, defence production, AI data centre, electrical equipment, and power infrastructure. Robotics, automation, additive manufacturing, and AI integration are improving productivity while helping offset labour shortages and rising production complexity.

# 1 North American Re-industrialisation (continued)

- Manufacturing construction spending remains historically elevated, while the transition from construction toward production is increasingly translating into revenue growth, operating leverage expansion, and stronger free cash flow generation.
  - Rising electricity demand from AI workloads and advanced manufacturing is accelerating investment across transmission networks, distributed power systems, utilities, and energy infrastructure, supporting a multi-year earnings tailwind across Industrials, Utilities, Materials, and select Energy companies.
- Why Now?**
- Policy support, private capital commitments, and AI-driven infrastructure demand continue to reinforce domestic investment and job creation across the US manufacturing and energy ecosystem.
  - As projects increasingly transition from planning and construction toward production and deployment, earnings sensitivity to the re-industrialisation cycle is expected to rise into 2026 and beyond.
- The One Big Beautiful Bill Act strengthens incentives for capital expenditure, and reinforces domestic production through accelerated depreciation, schedules, deeper and broader investment and production, tax credits, and matching trade agreements designed to push for domestic investment.

## Electrical prices are accelerating in the face of increased demand

Average retail price of electricity in the US monthly: YoY% change



Source: EIA, HSBC Private Bank as at 29 May 2026.

## 2 Global Financials



### ► Overview

- We continue to see global Financials well positioned to outperform in the coming months and quarters. Yield curves remain relatively steep, which is generally supportive for banks' net interest margins. While the recent oil shock has made the growth/inflation mix more complicated and rates should remain higher in many places, banks are entering this period with solid capital and resilient operating fundamentals. Valuations can still be influenced by shifts in risk premia but the starting point is constructive.
- After a strong performance last year, Financials has had a softer start to the year amid profit taking, broader market rotation and some market concerns in a few pockets. While this reduces some of the relative valuation advantage, structural tailwinds remain supportive. A gradually more favourable regulatory backdrop is helping support capital returns, while digital innovation continues to improve efficiency.

# 2 Global Financials (continued)

## ► The Opportunity

- In developed markets, the opportunity set is increasingly differentiated. In the US, operating fundamentals and regulatory support remain strong, supporting capital returns, although after recent performance the risk/reward looks more balanced.
- In Europe, recent underperformance looks overdone. The curve has steepened, and fiscal support could help cushion the macro impact if energy prices stay elevated. In the UK, high energy-related prices and domestic politics complicate the outlook, with us now expecting two 25bps rate hikes this year.

- In Japan, expansionary fiscal policy measures and rate hikes are supportive of earnings and profitability, with country risk premia seen as too elevated. In mainland China, attractive dividend yields and valuation re-rating potential, supported by policy measures and a recalibration of underweight positioning, remain key supports despite modest earnings growth.

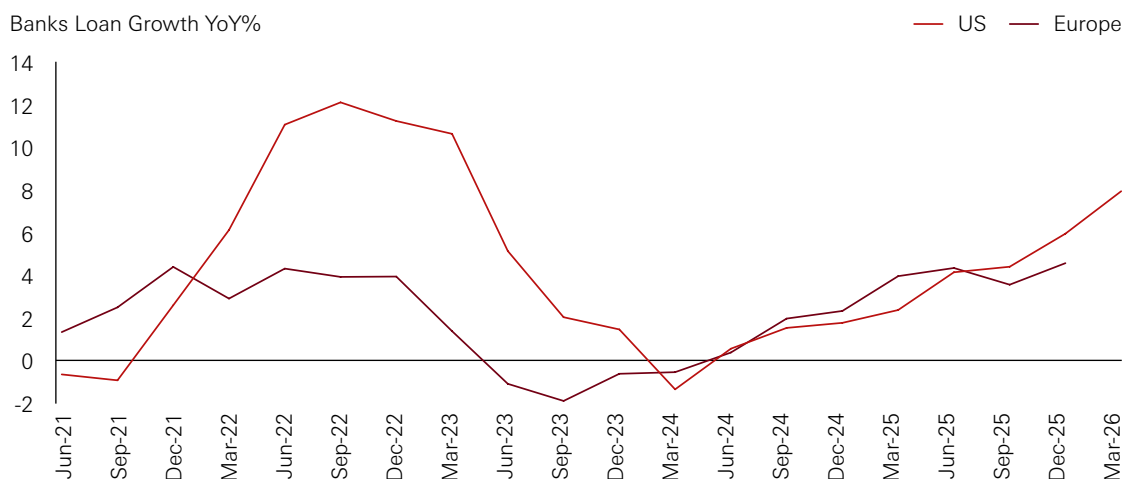
## ► Why Now?

- Corporate guidance during the recent earnings season stayed broadly constructive, with banks

highlighting resilient balance sheets, stable credit quality, and solid capital levels. The key swing factor ahead is how the oil shock feeds into inflation expectations, fiscal responses and risk premia.

- Amid resilient global growth, Financials are well positioned to offer attractive dividend yields and diversification, but regional positioning remains key: Europe (notably Germany, Italy and Spain) and Japan screen more positively, while the US and UK look more balanced on a risk/reward basis.

### Loan demand has re-ignited in recent quarters, supporting organic revenues for banks in a new credit cycle



Source: Bloomberg, HSBC Private Bank as at 29 May 2026.

# 3 M&A and Shareholder Value Creation

## ► Overview

- Companies pursuing M&A and share buybacks typically demonstrate better capital discipline and strategic clarity, deploying excess cash either to acquire capabilities that accelerate growth or to optimise capital structure through shareholder returns. These decisions can also signal management's conviction in intrinsic value, particularly when executed at scale and alongside resilient free cash flow.

- Prolonged uncertainty in recent quarters amid policy shifts, tariffs, and the energy supply shock amid the Middle East conflict, has put some corporate decisions on stand-by. However, as major banks have confirmed during their Q1 earnings calls recently, there are very strong pipelines that should extend the late-2025 recovery to new highs. Also, with artificial intelligence reshaping parts of certain sectors, more opportunities for synergies arise.

## ► The Opportunity

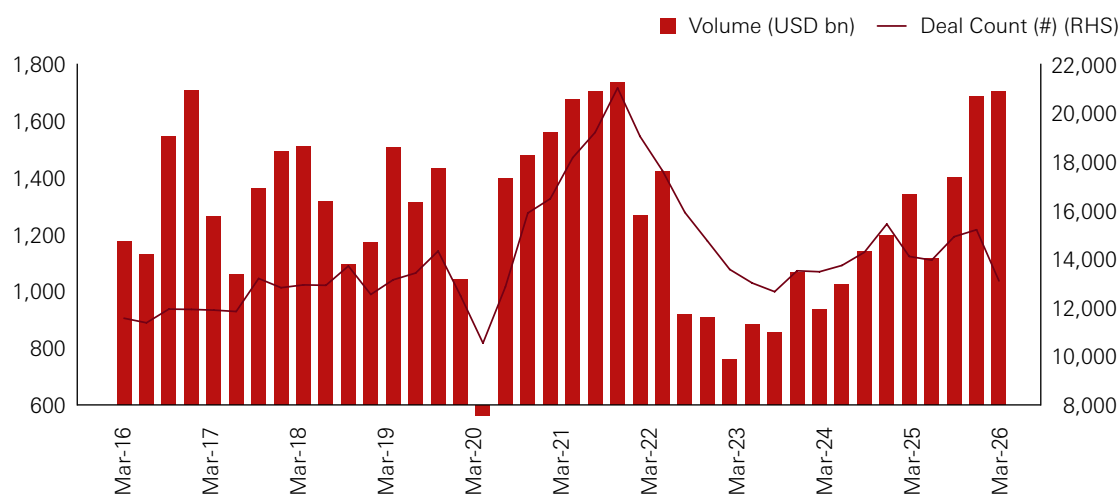
- The current cycle appears increasingly "top-end" driven. While overall deal count has been broadly stable compared to previous years, the rebound in deal value has been led by larger strategic transactions and a return of megadeals, reflecting well-capitalised buyers with clearer strategic priorities.



# 3 M&A and Shareholder Value Creation (continued)

- Buybacks remain an important parallel channel of capital deployment. US and European repurchase activity has stayed elevated and increasingly concentrated among the largest firms, reinforcing the role of buybacks as a core lever for shareholder returns and earnings support.
- ▶ **Why Now?**
    - While funding terms might have deteriorated with interest rates climbing post the Middle-East conflict, financial conditions remain far from concerning levels. In the US, a shift toward a more permissive regulatory stance is also viewed as a potential catalyst for further corporate actions.
- Importantly, the software sell-off at the start of the year, and market weakness in March amid geopolitical concerns have shown that buybacks can accelerate when valuations correct. Corporates have taken advantage of the attractive valuations to buy back their shares, as management maintain conviction in the future prospects of their firms, while payout policies continue at record-high rates.

## M&A pipelines remain very strong despite prolonged uncertainty according to major banks

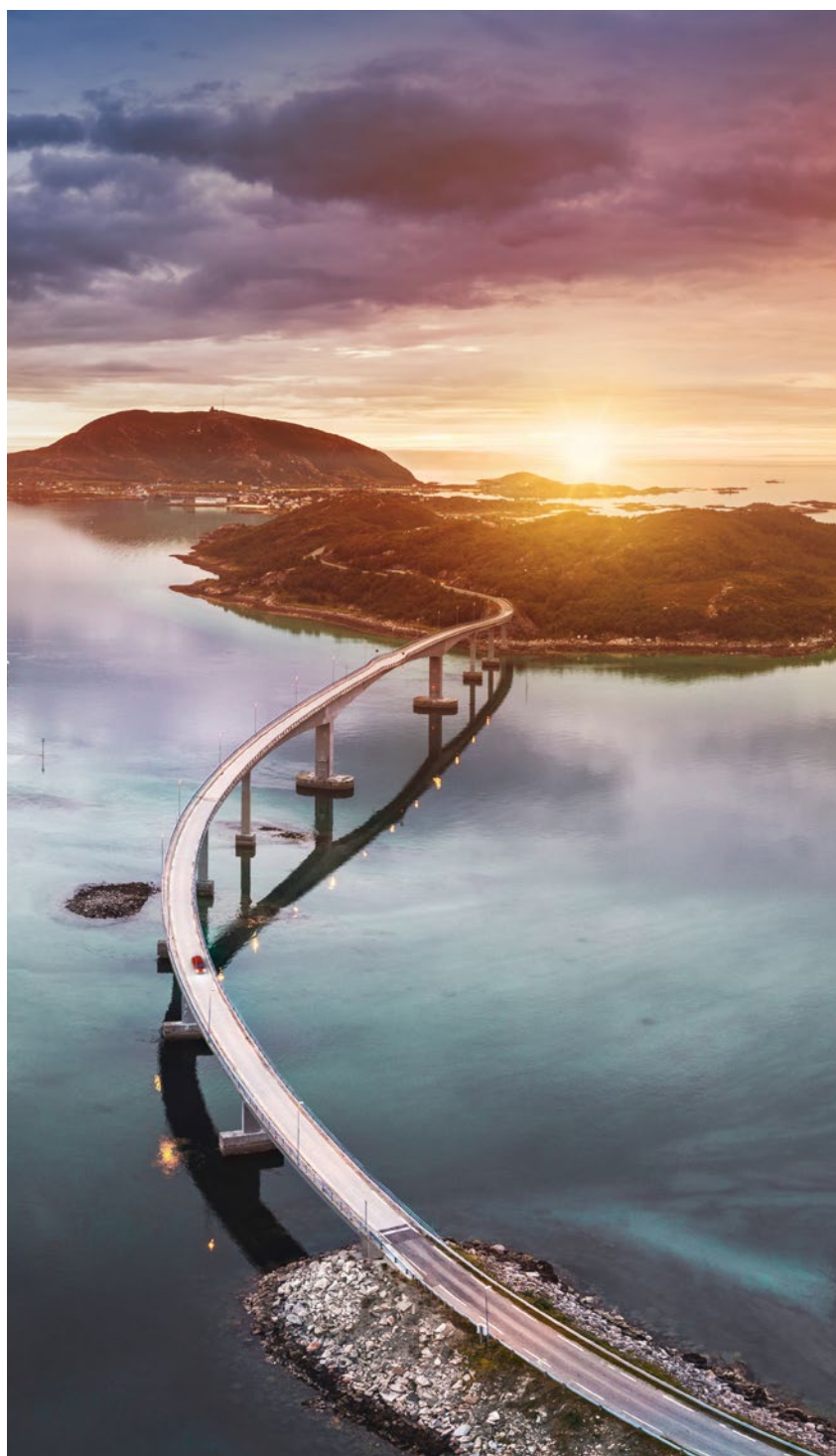


Source: Bloomberg, HSBC Private Bank as at 29 May 2026.

# 4 Income Through Active Credit Selection

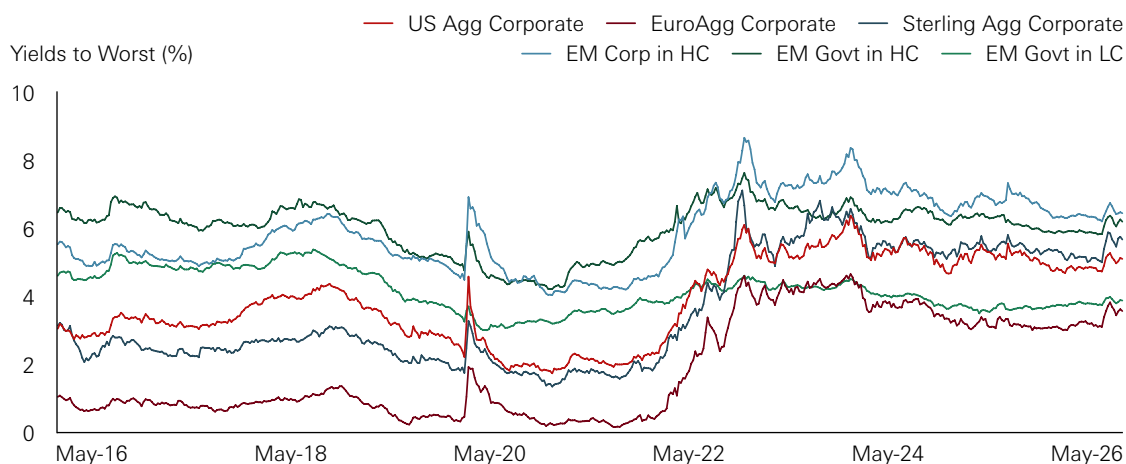
## ► Overview

- We hold a preference for Investment Grade (IG) relative to High Yield (HY) across both DM and EM, given tight spreads and tentative signs of strain in leveraged credit markets, even if they remain idiosyncratic for now. IG corporate credit spreads have already retraced to levels prior to the US-Iran conflict, and near-term catalysts for meaningful widening appear limited.
- Investors are evaluating the impact of rising oil and gas prices on inflation, and the potential response from DM central banks. DM government bond yields are therefore trading near the top of their two-year trading ranges.
- We prefer quality corporate IG for diversifying multi-asset portfolios and securing coupon income through elevated yields. This has proven effective, as it continues to provide good carry even with tight spreads, thanks to elevated term premiums in the underlying government bond markets.



## 4 Income Through Active Credit Selection (continued)

### Investing in credit markets can generate income by locking in elevated yields



Source: Bloomberg, HSBC Private Bank as at 29 May 2026. Past performance is not a reliable indicator of future performance.

#### ► The Opportunity

- We expect DM government bond yields to stay range-bound, as markets are already pricing in imminent tightening from the ECB and BoE but no further rate cuts from the Fed this year.
- Prior to the US-Iran conflict, speculation of AI disruption in the software sector had a limited impact on wider credit markets. This reflects strong investor demand, stellar earnings momentum and a major improvement of corporate balance sheets over the past decade – factors which justify tight global IG spreads. Net leverage is steady across DM and EM IG credits.

- Active credit selection is essential, as some companies may be better positioned to navigate geopolitical uncertainty and its impact on the economy. Solid earnings and limited direct exposure to the Middle East should support relative resilience in US credits. We believe IG banks globally could fare well due to strong capitalisation and low Non-Performing Loan ratios, while we also see value in the DM Utilities sector. For EM, LatAm corporates are fairly insulated, given their low dependence on oil imports.

#### ► Why Now?

- Global IG benefits from elevated underlying government bond yields. The reflation trade driven by the Middle East conflict means price appreciation will be limited in the near-term, but compression of the risk premium embedded in DM sovereign bonds could resume in 2H26. This is because any further oil price gains could ultimately pull yields lower, if markets pivot from inflation concerns to weaker final demand. We prefer exposure through global IG bonds given its additional carry over sovereign rates.

# Contributors



**Global Chief Investment Officer**

Willem Sels  
willem.sels@hsbcpb.com



**China Chief Investment Officer**

Desmond Kuang  
desmond.kuang@hsbc.com.cn



**North Asia Chief Investment Officer**

Patrick Ho  
patrick.w.w.ho@hsbcpb.com



**Global Head of Equities**

Kevin Lyne Smith  
kevin.lyne-smith@hsbc.com



**Global Market Strategist and Managing Editor**

Neha Sahni  
neha.sahni@hsbcpb.com



**Investment Strategist**

Wilson Cheung  
wilson.c.h.cheung@hsbcpb.com



**Investment Strategist**

Abhilash Narayan  
abhilash.narayan@hsbcpb.com



**Head of Global Engagement and Asia Investment Content Strategy**

Florence Cheng  
florence.h.y.cheng@hsbcpb.com

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## HSBC and Sustainability

Today we finance a number of industries that significantly contribute to greenhouse gas emissions. We have a strategy to help our customers to reduce their emissions and to reduce our own. For more information, visit [www.hsbc.com/sustainability](http://www.hsbc.com/sustainability).

## Risk disclosures

### Risks of investment in fixed income

There are several key issues that one should consider before making an investment into fixed income. The risk specific to this type of investment may include, but are not limited to:

#### Credit risk

Investor is subject to the credit risk of the issuer. Investor is also subject to the credit risk of the government and/or the appointed trustee for debts that are guaranteed by the government.

#### Risks associated with high yield fixed income instruments

High yield fixed income instruments are typically rated below investment grade or are unrated and as such are often subject to a higher risk of issuer default. The net asset value of a high-yield bond fund may decline or be negatively affected if there is a default of any of the high yield bonds that it invests in or if interest rates change. The special features and risks of high-yield bond funds may also include the following:

- Capital growth risk – some high-yield bond funds may have fees and/or dividends paid out of capital. As a result, the capital that the fund has available for investment in the future and capital growth may be reduced; and
- Dividend distributions – some high-yield bond funds may not distribute dividends, but instead reinvest the dividends into the fund or alternatively, the investment manager may have discretion on whether or not to make any distribution out of income and/or capital of the fund. Also, a high distribution yield does not imply a positive or high return on the total investment.
- Vulnerability to economic cycles – during economic downturns such instruments may typically fall more in value than investment grade bonds as (i) investors become more risk averse and (ii) default risk rises.

#### Risks associated with subordinated debentures, perpetual debentures, and contingent convertible or bail-in debentures

- Subordinated debentures – subordinated debentures will bear higher risks than holders of senior debentures of the issuer due to a lower priority of claim in the event of the issuer's liquidation.
- Perpetual debentures – perpetual debentures often are callable, do not have maturity dates and are subordinated. Investors may incur reinvestment and subordination risks. Investors may lose all their invested principal in certain circumstances. Interest payments may be variable, deferred or cancelled. Investors may face uncertainties over when and how much they can receive such payments.
- Contingent convertible or bail-in debentures – Contingent convertible and bail-in debentures are hybrid debt-equity instruments that may be written off or converted to common stock on the occurrence of a trigger event. Contingent

convertible debentures refer to debentures that contain a clause requiring them to be written off or converted to common stock on the occurrence of a trigger event. These debentures generally absorb losses while the issuer remains a going concern (i.e. in advance of the point of non-viability). "Bail-in" generally refers to (a) contractual mechanisms (i.e. contractual bail-in) under which debentures contain a clause requiring them to be written off or converted to common stock on the occurrence of a trigger event, or (b) statutory mechanisms (i.e. statutory bail-in) whereby a national resolution authority writes down or converts debentures under specified conditions to common stock. Bail-in debentures generally absorb losses at the point of non viability. These features can introduce notable risks to investors who may lose all their invested principal.

#### Contingent convertible securities (CoCos) or bail-in debentures are highly complex, high risk hybrid capital instruments with unusual loss-absorbency features written into their contractual terms.

Investors should note that their capital is at risk and they may lose some or all of their capital.

#### Changes in legislation and/or regulation

Changes in legislation and/or regulation could affect the performance, prices and mark-to-market valuation on the investment.

#### Nationalisation risk

The uncertainty as to the coupons and principal will be paid on schedule and/or that the risk on the ranking of the bond seniority would be compromised following nationalisation.

#### Reinvestment risk

A decline in interest rate would affect investors as coupons received and any return of principal may be reinvested at a lower rate. Changes in interest rate, volatility, credit spread, rating agencies actions, liquidity and market conditions may have a negative effect on the prices, mark-to-market valuations and your overall investment.

#### Risk disclosure on Dim Sum Bonds

Although sovereign bonds may be guaranteed by the China Central Government, investors should note that unless otherwise specified, other renminbi bonds will not be guaranteed by the China Central Government.

Renminbi bonds are settled in renminbi, changes in exchange rates may have an adverse effect on the value of that investment. You may not get back the same amount of Hong Kong Dollars upon maturity of the bond.

There may not be active secondary market available even if a renminbi bond is listed. Therefore, you need to face a certain degree of liquidity risk.

Renminbi is subject to foreign exchange control. Renminbi is not freely convertible in Hong Kong. Should the China Central Government tighten the control, the liquidity of renminbi or even renminbi bonds in Hong Kong will be affected and you may be exposed to higher liquidity risks. Investors should be prepared that you may need to hold a renminbi bond until maturity.

#### Alternative Investments

**Hedge Fund** – Please note Hedge Funds often engage in leveraging and other speculative investment practices that may increase the risk of investment loss. They can also be highly illiquid, are not required to provide periodic pricing or valuation

information to investors, and may involve complex tax structures and delays in distributing important information. Alternative investments are often not subject to the same regulatory requirements as, say, mutual funds, and often charge high fees that may potentially offset trading profits when they occur.

**Private Equity** – Please note Private Equity is generally illiquid, involving long term investments that do not display the liquid or transparency characteristics often found in other investments (e.g. Listed securities). It can take time for money to be invested (cash drag) and for investments to produce returns after initial losses.

#### Risks of investing in private markets

The value of investments and any income from them can go down as well as up and investors may not get back the amount originally invested. Past performance information presented is not indicative of future performance. The return and costs may increase or decrease as a result of currency fluctuations.

- **Liquidity Risk** – Investors may be unable to dispose of an investment quickly and at a price that's closely related to recent similar transactions. There is no guarantee of distributions and no established secondary market.
- **Event Risk** – A significant event may cause a substantial decline in the market value of all securities.
- **Long-term Horizon** – Investors should expect to be locked-in for the full term of the investment, which is subject to extensions.
- **No Capital Protection** – Investors may lose the entirety of invested capital.
- **Unpredictable Cashflows** – Capital may be called and distributed at short notice.
- **Economic Conditions** – Ability to realise/divest from existing investments depends on market conditions and the regulatory environment.
- **Risk of Forfeiture** – Failure to make call payments could result in forfeiture of commitment, including invested capital, without compensation.
- **Default Risk** – in the event of default investors risk losing their entire remaining interest in the vehicle and may be subject to legal proceedings to recover unfunded commitments.
- **Reliance on Third-party Management Teams** – Underlying investments will be managed by various third-party management teams that will in aggregate determine the eventual returns for the investor.

The risk factors listed above are not exhaustive, always refer to product specific documentation for full details and risk disclosures.

#### Risk disclosure on Emerging Markets

Investment in emerging markets may involve certain, additional risks which may not be typically associated with investing in more established economies and/or securities markets. Such risks include (a) the risk of nationalisation or expropriation of assets; (b) economic and political uncertainty; (c) less liquidity in so far of securities markets; (d) fluctuations in currency exchange rate; (e) higher rates of inflation; (f) less oversight by a regulator of local securities market; (g) longer settlement periods in so far as securities transactions and (h) less stringent laws in so far the duties of company officers and protection of Investors.

## Disclaimers (continued)

### Risk disclosure on FX Margin

The price fluctuation of FX could be substantial under certain market conditions and/or occurrence of certain events, news or developments and this could pose significant risk to the Customer.

Leveraged FX trading carry a high degree of risk and the Customer may suffer losses exceeding their initial margin funds. Market conditions may make it impossible to square/close-out FX contracts/options. Customers could face substantial margin calls and therefore liquidity problems if the relevant price of the currency goes against them.

The leverage of a product can work against you and losses can exceed those of a direct investment. If the market value of a portfolio falls by a certain amount, this could result in a situation where the value of collateral no longer covers all outstanding loan amounts. This means that investors might have to respond promptly to margin calls. If a portfolio's return is lower than its financing cost then leverage would reduce a portfolio's overall performance and even generate a negative return.

### Currency risk – where product relates to other currencies

When an investment is denominated in a currency other than your local or reporting currency, changes in exchange rates may have a negative effect on your investment.

### Chinese Yuan (“CNY”) risks

There is a liquidity risk associated with CNY products, especially if such investments do not have an active secondary market and their prices have large bid/offer spreads.

CNY is currently not freely convertible and conversion of CNY through banks in Hong Kong and Singapore is subject to certain restrictions. CNY products are denominated and settled in CNY deliverable in Hong Kong and Singapore, which represents a market which is different from that of CNY deliverable in Mainland China.

There is a possibility of not receiving the full amount in CNY upon settlement, if the Bank is not able to obtain sufficient amount of CNY in a timely manner due to the exchange controls and restrictions applicable to the currency.

### Illiquid markets/products

In the case of investments for which there is no recognised market, it may be difficult for investors to sell their investments or to obtain reliable information about their value or the extent of the risk to which they are exposed.

### Environmental, Social and Governance (“ESG”) Customer Disclosure

In broad terms “ESG and sustainable investing” products include investment approaches or instruments which consider environmental, social, governance and/or other sustainability factors to varying degrees. Certain instruments we classify as ESG or sustainable investing products may be in the process of changing to deliver sustainability outcomes. There is no guarantee that ESG and Sustainable investing products will produce returns similar to those which don't have any ESG or sustainable characteristics. ESG and Sustainable investing products may diverge from traditional market benchmarks. In addition, there is no standard

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An investment which is considered to fulfil sustainable criteria today may not meet those criteria at some point in the future. When we allocate an HSBC ESG and Sustainable Investing (SI) classification: HSBC ESG Enhanced, HSBC Thematic or HSBC Impact (this is known as HSBC Purpose in the UK) to an investment product, this does not mean that all individual underlying holdings in the investment product or portfolio individually qualify for the classification. Similarly, when we classify an equity or fixed income under an HSBC ESG Enhanced, HSBC Thematic or HSBC Impact (this is known as HSBC Purpose in the UK) category, this does not mean that the underlying issuer's activities are fully aligned with the relevant ESG or sustainable characteristics attributable to the classification. Not all investments, portfolios or services are eligible to be classified under our ESG and SI classifications. This may be because there is insufficient information available or because a particular investment product does not meet HSBC's SI classifications criteria.

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