Video Transcript

HSBC Investment Outlook – Q4 2026 (Issued 3 September 2026)
Willem Sels

Market sentiment has been repeatedly stress tested by conflict, oil price spikes, inflation angst, bond market volatility and worries about AI's impact on labour markets. Many of these questions also remain unresolved, so it can be tempting to hunker down. But markets have rebounded after each moment of nervousness, thanks to stronger profits and resilient activity.

So why is this happening?

Well, mostly because governments and CEOs aren't just standing on the sidelines watching these shocks unfold. They have been strengthening their defences, investing in resilience by diversifying energy resources, re-onshoring part of the supply chain and by building out electricity generation and grids. And that reduces vulnerabilities and it boosts activity.

The second pillar of support is AI, which powers much of the investment and productivity gains that we're witnessing today. AI adoption keeps accelerating as models become more capable, familiarity spreads and monetisation improves quickly. This is a defining shift of our era, and it has considerable room to run.

Now, the good news is that AI doesn't just support the US tech sector. AI depends on electricity, raw materials, consultants and financing, and it's sparking innovation across robotics, automation, healthcare and consumer services. And beyond the US mega-caps, Asia is a major beneficiary of global chip demand, while the gains from adoption extend worldwide, reaching even Europe.

So, there are good reasons to expect continued broadening of earnings growth, and we therefore maintain our global equity market overweight, favouring the US, but also Japan and North Asian equities including mainland China, Hong Kong, Singapore and South Korea.

That broad-based exposure beyond US IT into financials, industrials and commodity sectors, and into other countries also helps address any concern that the equity markets are tech-heavy and concentrated.

Now adding bonds helps diversify too, and they currently generate attractive income. Bond yields have been driven up by excessive fears of rate hikes and bond supply, in our view, and we therefore like to lock in current attractive yield levels.

We don't think that bond market volatility poses a significant lasting threat to equity market upside, which should continue to be driven instead by solid earnings growth.

So how do we tap into the broad opportunity set and still build resilient portfolios?

Firstly, as AI investment and adoption continue to accelerate and useful applications multiply, we want to take broad exposure across the ecosystem. But because the technology is so new and needs so much investment, markets will naturally continue to ask many questions, creating bouts of volatility and strong differentiation.

So, we focus on monetisation, and companies which are already posting real and sustainable AI-related profits now. We therefore prefer the cloud, semiconductors and AI-enabled applications over the software and AI models space.

Secondly, global conflict, choke points, volatile commodity prices all force companies and governments to address their vulnerabilities. So physical security, cybersecurity, climate change mitigation and energy supply are all big growth areas.

And we also like investing in the build-out of electricity generation and the electric grid, especially as AI will lead to a surge in electricity demand.

Thirdly, in our complex world, markets will remain volatile but also full of opportunity. And luckily, those two aspects are complementary because the many opportunities to generate income can help stabilise portfolios; and the opportunities in alternative assets help diversify and temper volatility.

So, we like multi-asset strategies with income from bonds or infrastructure, with hedge funds where appropriate, and private markets for growth opportunities outside of the big cap tech stocks.

And lastly, we tap into Asia's innovation and income. Asia's semiconductor, robotics, advanced manufacturing firms they are all clear beneficiaries from the global AI supply chain and local innovation, both as enablers and as adopters. And they provide good diversification for global portfolios and often at cheaper valuations.

But just like we do in the West, we balance tech exposure with income from dividends and bonds.

So, the key for the remainder of 2026 will be to balance opportunities with risk and volatility management, stemming from global uncertainties and all of those exciting new technologies. Both aspects are critical and we are ready to help.