

HSBC Investment Outlook Q1 2026 (Issued 20 November 2025)**Capture diversification opportunities from Asia's innovation and income****Cheuk Wan Fan**

China's policy focus on innovation and technology self-reliance in the new five-year plan, Asia's AI investment boom, corporate governance reforms, pro-growth policy initiatives and de-escalation of trade tensions offer multiple supportive tailwinds for the Asian equity and credit markets in 2026. We see attractive diversification opportunities from Asia's vast and rapidly growing AI ecosystem at attractive valuations while the region's resilient domestically oriented economies offer diverse sources of enduring income.

Our barbell strategy positions in a diverse opportunity set of structural growth leaders and resilient income opportunities in Asia. We overweight equity markets in Mainland China, Hong Kong, Japan, Singapore and South Korea, where we balance our focused exposure to AI-driven innovation leaders with a strong focus on high dividend stocks and quality bonds.

We have launched the new High Conviction Theme on **Asia's Data Centre Boom** that captures structural growth opportunities from the rapid buildout of data centres and energy infrastructure across the region. We believe Asia commands distinctive competitive advantages in the data centre buildout due to strong government policy support, competitive energy costs, high renewable potential, manufacturing proximity and massive digital consumption data and user scale. Asia Pacific is projected to deliver the world's fastest buildout of data centres by 2030, driven by strong local AI demand with deep penetration of digital services.

According to KPMG estimates, data centre capacity in Asia Pacific is projected to grow at CAGR of 13% over 2025-2030, faster than 9.2% in North America and 5.3% in Europe. We favour Asian chipmakers and semiconductor equipment manufacturers which benefit from supercharged demand for data centres. Industry leaders in the data centre supply chains, power equipment and smart grid suppliers benefit from strong investments in AI infrastructure.

Our theme on **China's Innovation Champions** positions for the rapid AI adoption and monetisation in China. We like national champions across the AI value chains, spanning from AI cloud and agents, software, to physical AI and AI-enabled biotech leaders. China's 15th Five-Year Plan sets top priority on technology self-reliance and innovation-driven growth model. AI-enabled drug discovery is supercharging Chinese biotech leaders which now command a stronger competitive position in the global biotech sector driven by globalisation via business development deals.

Under the barbell strategy that balances our tech exposure with resilient income, we stay bullish on the theme on **Power Up Asian Shareholder Returns** that focuses on quality companies with strong financial fundamentals to improve ROE by paying high dividends and increasing

share buybacks. Corporate governance reforms in Japan, China, South Korea and Singapore bode well for the ROE outlook, supporting our overweight positions in these markets. The “Value Unlock” package launched by the Singapore government in September and the “Value-up Programme” in South Korea encourage more listed companies to take corporate actions to lift ROE. Higher dividend payouts and increasing share buybacks are expected to improve Asia ex-Japan’s ROE to 13% in 2027 from 10.8% in 2024.

Lower Fed rates create room for Asian central banks to cut rates further amid soft inflation and stable Asian currencies. Our theme on **High Quality Asian Credit** captures attractive income from Asian investment grade bonds with medium duration. We are overweight Chinese hard currency bonds and Indian local currency debt for their attractive carry. We also favour Japanese and Australian corporate investment grade bonds and financials. We seek opportunities in Asian quality bonds denominated in EUR, AUD and GBP to diversify FX exposure.