

Investment Monthly

Differentiation matters as the market rally continues

June 2026



Key takeaways

- ◆ We expect the market rebound in April to continue as significant investments in AI, security and energy independence should keep activity going, supporting margins and earnings. However, the lagged impact of the Middle East conflict may create short-term volatility. To build portfolio resilience, we employ a multi-asset strategy and add alternative assets to enhance diversification.
- ◆ As high energy prices have raised inflation expectations, we favour the US and mainland China over oil-importing markets and prefer energy stocks to consumer staples stocks across regions. In addition to higher inflation and lower growth risks, political uncertainty over the UK government leadership and fiscal concerns weigh on UK gilts. As a result, we downgrade gilts to neutral and expect two 0.25% rate hikes by the Bank of England this year.
- ◆ The US-China summit concluded with a potential tariff reduction in “non-critical and non-strategic” areas, along with China’s purchases of aircraft, energy products and agricultural goods, as well as the establishment of a Board of Investment to boost China’s overseas direct investment in the US. The summit has helped restore some degree of business confidence and is aligned with China’s pro-growth stance. The improved bilateral relations further reinforce our overweight position on Chinese equities.



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Asset class	6-month view	Comment
Global equities	▲	Despite ongoing geopolitical uncertainty and inflation concerns, we expect global equities to remain supported by resilient earnings and structural growth drivers. The US and Asia remain our top picks.
Government bonds	▶	Markets now see less scope for rate cuts amid higher inflation expectations. We expect government bond yields to trade within a range and downgrade UK gilts to neutral.
Investment grade (IG) corporate bonds	▲	We focus on coupon income rather than capital gains and continue to favour investment grade credit for its attractive yields and diversification benefits.
High yield (HY) corporate bonds	▼	Signs of some stress in credit markets are emerging, and potential spread widening if equity volatility picks up remains a headwind for high yield bonds.
Gold	▲	Gold continues to offer diversification benefits and potential upside, making it an essential component to build portfolio resilience amid market uncertainty. Central banks continue to diversify their currency exposure by adding to gold holdings.

▲ “Overweight” implies a positive tilt towards the asset class, within the context of a well-diversified, typically multi-asset portfolio.

▼ “Underweight” implies a negative tilt towards the asset class, within the context of a well-diversified, typically multi-asset portfolio.

▶ “Neutral” implies neither a particularly negative nor a positive tilt towards the asset class, within the context of a well-diversified, typically multi-asset portfolio.

Icons: ↑ View on this asset class has been upgraded; ↓ View on this asset class has been downgraded.

Talking points

Each month, we discuss 3 key issues facing investors

1. Can April's market rally go further?

- ◆ While expectations of a lasting ceasefire and strong earnings results pushed markets to rebound in April, we will keep an eye on vulnerable markets. Meanwhile, the full impact on growth and inflation is also yet to be seen.
- ◆ That said, we believe significant government and corporate investments in AI, defence and energy independence should keep the global economy going, supporting margins and earnings. However, until a final deal is reached, market consolidation, especially in cyclical sectors, may persist.
- ◆ Both the commitment to high capital expenditure and the rapid monetisation of these investments should foster optimism over the long-term market outlook. We maintain a multi-asset strategy across asset classes, sectors, regions and currencies. While bonds and gold are not perfect diversifiers in complex market conditions, they remain essential in diversified portfolios for managing downside risks. Our exposure to alternative assets has worked well, given their lower correlation with traditional assets.

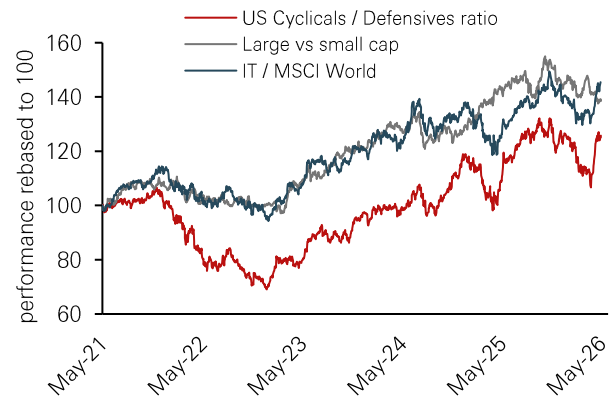
2. How can investors identify winners amid high energy prices?

- ◆ As higher energy prices have raised inflation expectations and bond yields since the Middle East conflict in March, it is important to differentiate winners from losers based on the relative impact of energy prices.
- ◆ Geographically, we prefer the US to Europe, and North Asia to South Asia, given that the US is an oil exporter, while mainland China has managed its reserves carefully, and Hong Kong benefits from it. From a sector perspective, we remain overweight on energy and underweight on consumer staples across regions.
- ◆ On the bond side, elevated oil prices linked to supply-chain disruption are limiting the Bank of England's flexibility to ease policy. Uncertainty over government leadership and fiscal credibility has put further pressure on UK gilts, leading us to downgrade gilts to neutral and reduce the duration of GBP investment grade to medium (5-7 years), in line with the benchmark. We also anticipate that policymakers in the Eurozone will focus on mitigating similar risks. As a result, we now expect three 0.25% rate hikes by the ECB and two 0.25% rate hikes by the Bank of England by the end of 2026 (we foresee no hikes by the US Fed). We remain overweight on EUR investment grade credit, with a medium-to-long duration preference.

3. What are the key takeaways from the US-China summit?

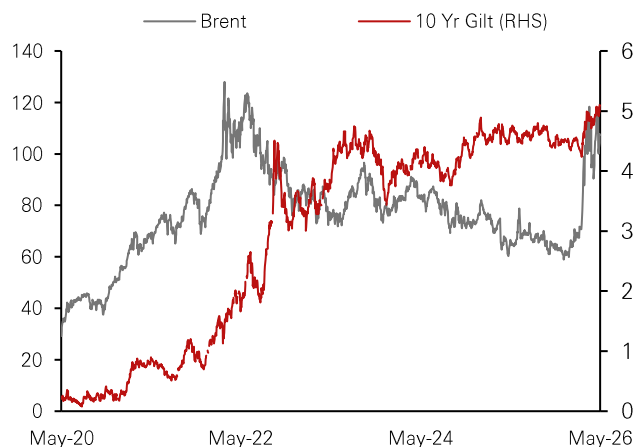
- ◆ The US-China summit concluded with a potential tariff reduction in "non-critical and non-strategic" areas, which account for around 10% of US imports from China. Additionally, China has committed to purchasing aircraft, energy products and agricultural goods. The establishment of a Board of Investment is expected to boost China's overseas direct investment (ODI) in the US. The summit has helped restore some degree of business confidence and is aligned with China's pro-growth stance. The improved bilateral relations further reinforce our bullish view on Chinese equities.
- ◆ Hong Kong should be well-positioned to benefit from mainland China's positive market outlook. Driven by increased consumption and investment, Hong Kong's Q1 GDP rose by 5.9% y-o-y, marking the fastest pace of growth since Q2 2021. The economy continues to demonstrate resilience, supported by energy mainly imported from mainland China, government support for AI, and projects such as the North Metropolis. Attractive valuations, liquidity inflows, increased IPO activity and an improved outlook for consumption and the property market remain positive for Hong Kong equities.

Chart 1: Cyclical may consolidate, and we prefer large-cap stocks and exposure to profitable tech



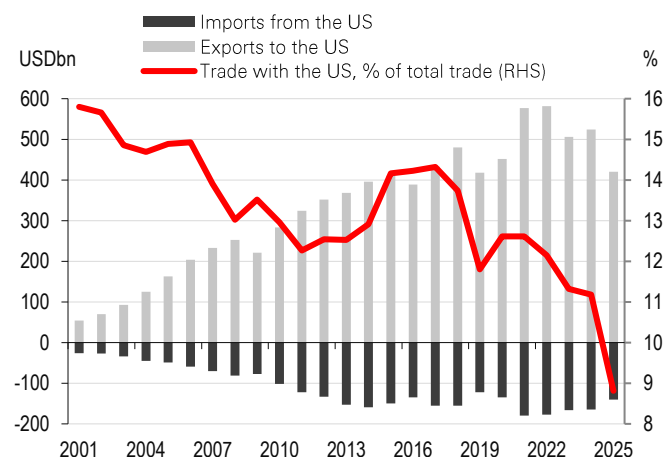
Source: Bloomberg, HSBC Private Bank and Premier Wealth as at 12 May 2026. Past performance is not a reliable indicator of future performance.

Chart 2: Energy-driven inflation fears have pushed gilt yields higher



Source: Bloomberg, HSBC Private Bank and Premier Wealth as at 13 May 2026.

Chart 3: One key goal of the US-China summit was to help address the sharp fall in US-China trade



Source: China General Administration of Customs, HSBC Private Bank and Premier Wealth as at 18 May 2026.

Asset Class Views

Our latest house view on various asset classes

Asset class	6-month view	Comment
Global equities		
Global	▲	Despite ongoing geopolitical uncertainty and inflation concerns, we expect global equities to remain supported by resilient earnings and structural growth drivers. The US and Asia remain our top picks.
United States	▲	The macro backdrop is supported by economic resilience, structural growth drivers in AI and innovation, and a stable labour market. Q1 earnings growth remains strong, led by Technology and Communications, keeping valuations supportive.
United Kingdom	▶	The value style of UK stocks offers global diversification, but growth is challenged by subdued consumer confidence, stagnant house price growth and lower job vacancies. Political uncertainty has added another layer of uncertainty.
Europe ex-UK	▼	Despite improving earnings momentum and attractive valuations, the region continues to face energy-related challenges as an oil importer. We prefer most European markets over France.
Japan	▶	While policy stimulus, corporate governance reforms and AI development remain positive drivers, higher energy prices are impacting profit margins, leading to a more conservative earnings outlook. Valuations appear less attractive.
Emerging Market (EM)	▶	While fundamentals remain resilient, elevated energy prices remain a headwind for oil-importing markets.
EM EMEA	▶	The region's improving structural fundamentals are clouded by the impact of the Middle East conflict in the near term.
EM LatAm	▶	Elections offer two-way risks, but stronger commodity prices and trade flows with China are supportive.
Asia ex-Japan equities		
Asia ex-Japan	▲	Asia continues to offer strong structural growth opportunities, backed by expanding AI ecosystems and policy support, and benefits from supply chain realignment as trade and investment intensify.
China	▲	With undemanding valuations and a sustainable pro-growth policy stance, we remain positive on Chinese stocks. Favourable fiscal policies, liquidity support and new financing policy tools will continue to drive innovation and domestic consumption.
India	▼	While valuations have moderated, weak investor sentiment due to higher oil prices and limited exposure to the AI investment cycle weigh on performance. We favour large-cap stocks, preferring the financials and industrials sectors.
Hong Kong	▲	Strong Q1 GDP growth of 5.9% y-o-y has raised our full-year forecast to 3.8% for 2026 (previously 2.7%). We prefer banks, insurance, telecom and utilities offering stable income, and developers with strong balance sheets and competitive positions.
Singapore	▲	Reasonable valuations and attractive yields, along with the presence of large and profitable banks, improving shareholder returns and supportive regulatory initiatives, remain tailwinds for the equity market.
South Korea	▲	South Korea offers strong exposure to technology and AI, while corporate governance reforms remain a positive driver.
Taiwan	▶	Despite improved performance driven by high exposure to AI and semiconductors, valuations and earnings momentum remain less competitive than regional peers.
Government bonds		
Developed markets (DM)	▶	Markets now see less scope for rate cuts amid higher inflation expectations. We expect government bond yields to trade within a range and downgrade UK gilts to neutral.
United States	▶	Given the mandate to manage inflation while maintaining full employment, we believe the Fed will keep the federal funds target range unchanged through 2026 and 2027. Yields are likely to remain range bound in the near term.
United Kingdom	▶↓	With higher inflation risk, we now expect two 0.25% policy rate hikes in 2026. Uncertainty over government leadership and fiscal credibility has put UK gilts under pressure, leading us to downgrade UK gilts to neutral.
Eurozone	▶	Amid higher inflation expectations, we now expect the ECB to hike rates three times this year.
Japan	▶	A strong directional stance on JGBs is unlikely amid elevated inflation expectations and heightened growth uncertainty, while near-term range-bound trading and curve volatility are likely to persist.
EM (Local currency)	▲	There is still scope for selective EM rate cuts. The USD may see renewed weakness versus some EM currencies. Yields are attractive and rating upgrades are possible.
EM (Hard currency)	▶	The US dollar could remain volatile. While yields remain attractive, we focus on quality bonds.
Corporate bonds		
Global investment grade (IG)	▲	We focus on coupon income rather than capital gains and continue to favour investment grade credit for its attractive yields and diversification benefits.
USD investment grade	▲	While overall yields are still attractive, we keep our preference for medium duration (5-7 years).
EUR investment grade	▲	The medium-to-long duration of EUR investment grade credit still offers a more attractive risk-return trade-off.
GBP investment grade	▲	We cut our duration exposure from medium-to-long (7-10 years) to medium (5-7 years) to reflect a neutral stance on duration.
Asian investment grade	▲	Backed by sovereign ownership and robust local demand, Asian credit has shown resilience and continues to offer attractive yields. We prefer Australian IG bonds, Asian financials and Chinese hard currency bonds.
Global high yield (HY)	▼	Signs of some stress in credit markets are emerging, and potential spread widening if equity volatility picks up remains a headwind for high yield bonds.
USD high yield	▼	Despite a below-average default rate and a resilient economic outlook, spreads do not sufficiently compensate for the risks.
EUR high yield	▼	Europe's large oil imports and the low share of energy companies in the high yield space make the asset class vulnerable.
GBP high yield	▼	Credit spreads have widened as risk sentiment has soured recently. Quality credit offers a more attractive risk-reward profile.
Asian high yield	▼	Less attractive valuations and increased spread volatility reinforce our cautious stance on Asian high yield.
Commodities		
Gold	▲	Gold continues to offer diversification benefits and potential upside, making it an essential component to build portfolio resilience amid market uncertainty. Central banks continue to diversify their currency exposure by adding to gold holdings.
Oil	▶	Oil prices remain elevated and volatile as they move with the news flow.

Sector Views

Global and regional sector views based on a 6-month horizon

Sector	Global	US	Europe	Asia	Comment
Consumer Discretionary	▼	►	▼	►	The consumer discretionary segment is under pressure due to geopolitical events, higher energy and labour costs, competition, and a weaker pricing environment. As inflationary pressures build, interest rates may rise, further hurting sentiment. Airlines and travel companies have raised prices to offset higher fuel prices, potentially weighing on demand. The hospitality segment is seeing some signs of reduced bookings. In contrast, electric vehicle demand has risen sharply in many markets as consumers look to mitigate higher fuel prices.
Financials	▲	▲	▲	▲	Market sentiment is mixed this year even though results have been above market expectations. Volatile capital markets have favoured trading activities, while corporate advisory (M&A and IPOs) and debt issuance businesses are also booming. Net interest income may stay elevated, with an upside risk that interest rates may be raised further to combat inflationary pressures. The insurance sector outlook is more mixed, given the rise in weather-related and other catastrophic events.
Industrials	▲	▲	▲	►	Industrials are benefitting from the multi-year roll-out of new technologies, including infrastructure (energy, digital and AI), aerospace, defence, electric transportation, automation and robotics. Order books continue to grow, with companies committing capital to new and upgraded production. Limited excess capacity is providing a supportive pricing environment. Tariff concerns have eased considerably.
Information Technology	▲	▲	▲	▲	Despite a sustained period of underperformance, strong quarterly results and growth forecasts in the US continue to exceed the rest of the market. Valuations are particularly attractive, with the sector now trading in line with the broader equity market rather than at a historical premium. Demand for AI software, related hardware and semiconductors is driving robust growth as companies in every sector deploy AI-enabled products and services. Earnings visibility continues to improve in Europe.
Communications Services	▲	▲	▲	▲	Media and entertainment continue to report above-average sales and earnings growth, combined with undemanding valuations, although consumer demand may be affected by rising energy prices and other costs. Asia remains attractive, although relative valuations are less compelling. The telecom services segment has attractive defensive qualities, supported by improving fundamentals, low valuations, high dividend yields and low exposure to tariffs.
Materials	▲	▲	▲	▲	Miners continue to benefit from a supportive macroeconomic backdrop, steady demand and sustainable price rises. Construction materials are seeing early signs of improvement. In contrast, margins in the chemicals industry are under pressure from higher energy and feedstock prices. Speciality materials/miners, including rare earth metals used in high technology products, are seeing robust demand.
Real Estate	►	►	►	►	The uncertainty regarding interest rate policy and the direction of potential changes is weighing on sentiment. Demand for high-quality office space and high-tech facilities, including data centres and specialist manufacturing, remains solid. Retail real estate remains challenged. The US market is particularly benefitting from reshoring trends and an improving residential market.
Consumer Staples	▼	▼	▼	▼	Sentiment is weak as margins are squeezed by rising costs (including energy, labour, and soft commodities). The pricing environment is challenging as inflation is changing consumer demand patterns. Valuations reflect the sector's limited growth potential.
Energy	▲	▲	▲	▲	Regional conflicts are causing severe disruption to global energy supply chains with damage to energy infrastructure delaying any swift return to normality. Energy producers and refiners have been benefitting from elevated energy prices for several quarters. Valuations, free cash flow and dividend yields remain very attractive. Energy service companies may be less impacted by the immediate dynamics of the conflict.
Healthcare	►	►	►	▲	The US government's healthcare policies remain in flux, affecting the sector's sales and profits. M&A activity has picked up as companies seek to offset pricing pressure on older medicines with new innovative products. Healthcare companies in Asia, particularly in China, are benefitting from new product launches, improving demand dynamics and relatively low valuations. New technologies in drug discovery, testing, patient records and diagnosis are set to transform the sector.
Utilities	▲	▲	▲	►	Utilities are managing a multi-year surge in demand for electricity as many segments of the economy transition away from fossil fuels, while IT-related demand for electricity continues to soar. With limited spare capacity, substantial capital investment is required to upgrade generation capacity and transmission infrastructure. Valuations and yields remain attractive.

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