Investment Monthly

Bonds go back to the future

October 2026

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Marketing Communication.

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HSBC Asset Management | Opening up a world of opportunity

Summary

Macro Outlook

- **Continued Middle East tensions have boosted oil and refined product prices.** Elevated energy prices have raised concerns about upside inflation risks and contributed to a rise in bond yields across many economies
- **US domestic demand is solid but imbalanced**. However, strong profits should support a broadening out of investment beyond AI, improved labour market conditions, and a gradual rebalancing of the K-shaped dynamics
- AI and policy buffers have supported Asia's growth, but it is exposed to the risk of global AI demand shifts and energy supply shocks. **China's growth is resilient** amid technology and export strength, **but still imbalanced**

Policy Outlook

- **Policy uncertainty is high.** Central banks are facing difficult growth-inflation trade-offs due to supply-side shocks. Fiscal and industrial policy is more activist, but elevated government debt is a constraint
- **The Federal Reserve hiked by 25bp** with the projections suggesting 1-2 more increases in this cycle. Recent ECB comments suggest further tightening, but the rate path is dependent on energy prices. The **BoE** signalled a near-term rate hike
- The interplay of energy headwinds, tech tailwinds, and fiscal support has driven **a hawkish monetary policy tilt** across Asia amid higher global rates. **China's policy** balances short-term macro stability with longer-term structural priorities

House View

- Our **central scenario remains a "broadening out" of profits and market performance**, helped by AI spillover effects. Markets should remain resilient, but sticky inflation, higher real yields, and geopolitical risks could cause volatility
- **Equities are supported by strong earnings**, but stretched valuations, and concentrated AI exposure leave little room for disappointment. As the AI capex boom matures, upstream and downstream sectors should benefit
- We see **strength in Japan, emerging markets and selected European equities**, alongside high-quality investment-grade credit and EM fixed income. Elevated **DM government bond yields** can provide income for portfolios. In periods of market stress, bonds' hedging characteristics should also re-emerge

Scenarios

BROADENING OUT	Market returns broaden out amid AI spillovers. Oil shock moderates. EM bull market. Gradual dollar depreciation
SHOCKWAVE	Sharp US slowdown as real incomes undermined and profits disappoint. SPX bear market. Credit spreads widen
PRODUCTIVITY MIRACLE	AI-related productivity miracle. US bull market persists, EM gains. Strong US growth and higher US rates supports USD

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Source: HSBC Asset Management as at October 2026.

House View

Market leadership should broaden out as the AI boom matures, but sticky inflation, higher real yields and geopolitical uncertainty could cause volatility. Stocks are supported by strong profits, but stretched valuations and concentrated AI exposure are risks. Value plays – including emerging market stocks and fixed income – can provide portfolio diversification

- **Equities** – Global stock markets are being supported by strong earnings momentum, but valuations – particularly in the US – leave little room for error. High valuations, AI concentration, and geopolitical risks could cause episodic volatility
- **Government bonds** – A higher-for-longer rates regime offers an opportunity to generate income from DM bonds. If inflation stays anchored, bonds could re-emerge as an effective hedge in periods of macro weakness or equity market stress
- **Corporate bonds** – Investment grade spreads are tight, but attractive all-in yields and healthy balance sheets are supportive. Selectivity is key given that surging issuance by AI hyperscalers risks magnifying tech exposure in multi-asset portfolios

Equities

Asset Class	House view
Global	↔/▲
US	↔
UK	↔
Eurozone	↔/▼
Japan	↔/▲
Emerging Markets (EM)	▲
CEE & Latam	▲
Frontier	▲

Government bonds

Asset Class	House view
Developed Market (DM)	↔/▲
US 10-year	▲
UK 10-year	↔
German 10-year	↔
Japan	▼
Inflation-linked bonds	↔
EM (local currency)	▲

Corporate bonds

Asset Class	House view
Global investment grade (IG)	↔
USD IG	↔
EUR & GBP IG	↔
Asia IG	↔
Global high-yield	↔
US high-yield	↔
Europe high-yield	▼
Asia high-yield	↔/▲
Securitised credit	▲▲
EM hard currency (USD)	▲

FX & Alternatives

Asset Class	House view
Gold	▲
Other commodities	▲
Real assets	▲▲
Hedge funds	▲▲
Private credit (Direct lending)	▲
Private equity (Buy out)	▲
US dollar (broad index)	↔/▼
Crypto assets	▼▼

Asian assets

Asset Class	House view
Asia local bonds	↔/▲
RMB bonds	↔
Asia ex-Japan equities	▲
China	↔/▲
India	▲
Hong Kong	▲
Asia FX (ADXY)	▲

Key to views

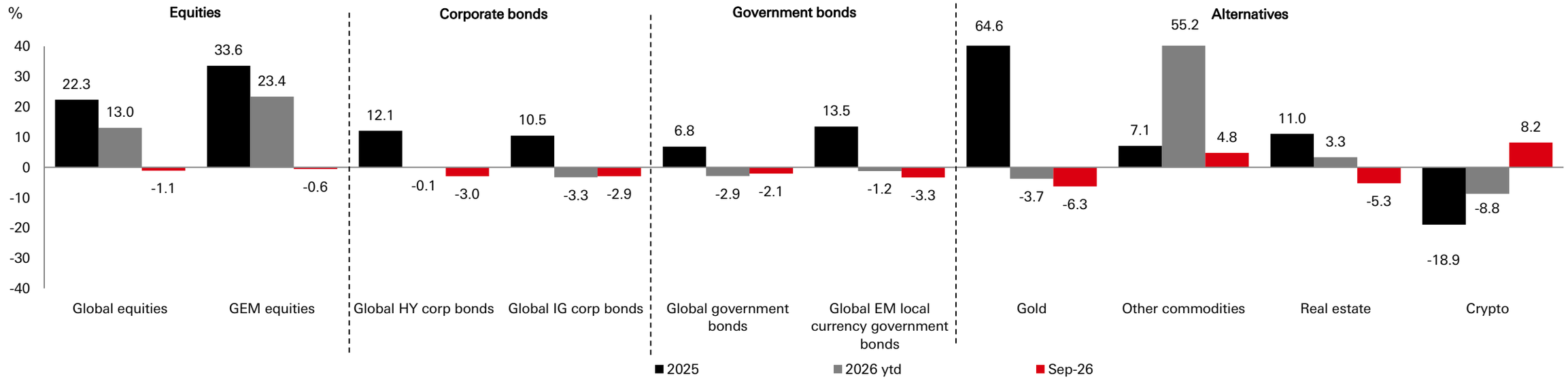
▲▲ Positive	↔/▼ Neutral/Negative bias
▲ Positive Bias	▼ Negative Bias
↔/▲ Neutral/Positive bias	▼▼ Negative
↔ Neutral	

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Asset class performance at a glance

Developed market government bonds sold-off sharply in September as markets priced higher-for-longer rates, fiscal concerns, and robust growth. Global equities declined, but tech stocks were resilient given their strong earnings outlook and the AI investment boom. Alternatives were mixed, with oil and crypto strong but gold and listed real assets weak

- **Government bonds** – Sovereign bonds fell (yields rose sharply) in response to sticky inflation and a higher-for-longer rates outlook, fiscal concerns, and competition for flows amid heavy credit issuance by AI hyperscalers
- **Equities** – Global equities saw modest declines, but the AI boom provided some resilience, with technology-led markets still strong. Japan and Latin American indices also managed to deliver positive returns. China and India remained subdued
- **Alternatives** – Rising bond yields and a stronger US dollar contributed to a slump in the gold price during the month. Oil prices remained elevated and crypto assets saw further gains, while infrastructure and real estate indices declined



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Macro scenarios

	SHOCKWAVE	BROADENING OUT	PRODUCTIVITY MIRACLE
Driving forces	**Supply side shocks collide with unbalanced growth**	**AI strength gradually broadens out, oil shock moderates**	Broad demand boom matched by **rapid AI-related productivity gains**
Growth	**Sharp slowdown** as real incomes undermined and profits disappoint	**US growth 2.0-2.5%**, becomes more balanced. Other DMs grow at trend rate	**US reaccelerates to around 3.0%**. Positive spillovers to global growth
Inflation	Uncomfortably high inflation but **recession destroys demand**	**US core rate around 2.5%** but slowing. Approaching target in many DMs/EMs	**Stronger supply side** prevents US inflation problem
Monetary Policy	**Fed initially on hold/hikes, but then eases** amid growth damage	**Modest Fed hikes (c.4.50%)**. Fiscal/industrial policy as drivers	**Fed funds 5.00% or above** but reflects higher neutral rate
China	Geopolitics and trade tensions worsen the **structural imbalance**	**Resilient but uneven growth**; policy focus on tech/innovation and energy security	**Growth pickup** on AI/export strength and domestic demand recovery

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Market scenarios

	SHOCKWAVE	BROADENING OUT	PRODUCTIVITY MIRACLE
Stocks	**SPX bear market.** Cyclicals most vulnerable. VIX spike	**Broadening** out of market leadership amid AI spillovers. Episodic volatility	**US bull market continues** Korea/Taiwan/high-beta stocks shine
Fixed income	**Curve initially flattens then steepens**. Credit spreads widen	Range-bound yields. Some upside risk to credit spreads. **IG as bond substitute**	**Upside risk to yields** given higher neutral rate. Credit spreads still tight
EM	**EMs hit**, but find support if Fed can cut and US yields fall	**EM bull market** on Asia tech exposure, strong growth, and low valuations	**EM gains on +ve risk appetite/Asia tech** but limited by USD performance
USD	**USD** can gain initially, but undermined by eventual Fed cuts	**Gradual USD depreciation** from overvalued levels, Asia/EM benefits	**USD supported** by stronger US growth and higher US rates
Top bets	*High inflation*: USD, gold, hedge funds *Lower inflation*: USTs, CHF, JPY, quality IG, defensives, quality, momentum	Value, tech, small-caps. EM > Europe/Japan. IG > HY	US/EM > Europe/China. HY credits. Industrial metals. Crypto>gold

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Managing inflation risks

		Consensus		Policy	
		Growth (%)	Inflation (%)	12m ahead policy rate (HSBC AM)	2026 Fiscal impulse
		2026 2027	2026 2027		
US	The Fed raised rates 25bp as it sought to bolster policy credibility following five-plus years of above target inflation. The FOMC dot plot suggests 1-2 more hikes in 2026-27. The AI boom continues to support growth. Labour market conditions appear to be improving but wages are not a source of inflation	2.2 2.2	3.6 2.5	**c. 4.50%**	**Neutral**
Eurozone	The ECB delivered its second 25bp hike, taking the deposit rate to 2.50%. While core inflation shows few signs of second round effects from high energy prices, the ECB staff forecasts show it remaining above the 2% target over the medium-term across all scenarios, pointing to further modest tightening	0.9 1.3	2.9 2.5	**2.50-3.00%**	**Neutral**
UK	The BoE left policy unchanged but warned inflation risks are "tilted to the upside". This points to a near-term rate hike unless oil prices fall. The BoE sees a further rise in headline inflation in Q426, with a peak above 4% in Q127. Wage growth moderation appears to have stalled, while inflation expectations remain elevated	1.2 1.2	3.1 2.7	**c. 4.50%**	**Drag**
Japan	The BoJ hiked rates 25bp, although two members voted to leave policy unchanged. BoJ governor Ueda signalled a "shift in the policy phase", citing greater upside risks to underlying inflation. Core goods inflation rose on energy price passthrough and a weaker yen, while services inflation remains stable	0.8 0.8	1.9 2.1	**1.75-2.00%**	**Moderate boost**
China	China's two-speed economy persists with AI/green-tech-led export/industrial strength vs. tepid domestic demand and property stress, limiting broader reflation. The recent pickup in fiscal implementation helps ease earlier fiscal austerity (on infrastructure). The PBoC focuses on targeted credit easing and structural reforms	4.6 4.4	1.0 1.1	**c. 1.40%**	**Neutral**
India	Domestic growth resilience has been aided by policy support and structural reforms amid headwinds from external supply shocks. The RBI has drained surplus liquidity from policy-induced FX inflows and may deliver calibrated rate hikes on (core) inflation risks, with its liquidity management and FX policy options in focus	6.8 6.8	5.0 4.6	**5.50-6.00%**	**Neutral**

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Source: HSBC Asset Management, consensus numbers from Bloomberg, October 2026.

Events calendar: H2 2026

IMF / WB Meetings
Thailand
12-18 Oct

The meetings should focus on IMF growth and inflation signals, debt restructuring progress, MDB reform and private capital mobilisation, climate-resilience financing, and digital finance and cyber/fraud priorities

International AI Summit
Ireland
14 Oct

The summit will explore how applied AI, infrastructure capacity and frontier developments can strengthen Europe's competitiveness. Government, business, academic and investor leaders will attend, alongside an exhibition showcasing emerging Irish and international solutions

Brazil General Elections
Brazil
25 Oct

Bolsonaro topped the first round of elections, setting up a tight runoff with Lula. The outcome could shape fiscal policy, commodity regulation, and Brazil's stance on trade and climate. A shift rightward could unwind social spending commitments, while a Lula victory risks renewed concerns on debt sustainability

G20 Finance Ministers & Central Bank Governors' Meeting
Thailand
15 Oct

The focus will be on boosting productivity and private sector-led growth, addressing global trade imbalances, especially China's export surplus. Sovereign debt transparency and digital assets will also be a priority, alongside other financial regulation issues

UNCTAD World Investment Forum
Doha
25-27 Oct

With the 2026 theme being "Investing in the Future", the forum will convene global leaders to advance resilient, sustainable investment amid geopolitical, climate, technological, and economic challenges

US Mid-term Elections
US
3 Nov

Congressional control hangs in the balance. A Democratic swing would constrain President Trump's fiscal and trade agenda, injecting uncertainty into tariff policy and defence spending. Markets will watch for gridlock signals with implications for US growth and deficit trajectories

COP31
Türkiye
9-20 Nov

Expect modest finance pledges, rather than binding targets. Investors should watch for signals shaping clean energy investment, carbon markets, and EM climate funding, though slow implementation and shifting US policy suggest market impact will be gradual

G20 Leaders' Summit
US
14-15 Dec

The US is expected to prioritise deregulation, energy security, and technology over climate and development. Watch for policy signals affecting energy, tech, and financial markets, although binding multilateral agreements may remain limited

Central Bank Meetings
US, Eurozone, Japan, UK
Various

The market is pricing in some more Fed tightening but new Chair Warsh has avoided giving any policy guidance. The ECB is likely to deliver one more hike this year. The BoE faces pressure to hike, but weak growth keeps the bar high. The BoJ is expected to normalise policy gradually

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Investment Views



Asset class positioning

House view represents a >12-month investment view across major asset classes in our portfolios

Key to views

▲▲	Positive	↔/▼	Neutral/Negative bias
▲	Positive Bias	▼	Negative Bias
↔/▲	Neutral/Positive bias	▼▼	Negative
↔	Neutral		

	Asset class	House view	Comments
Equities	**Global**	↔/▲	Strong earnings and resilient growth support equities, but higher oil prices, real yields, and geopolitical risks could drive volatility. We favour broadening beyond US mega-cap technology, with attractive opportunities in Japan, emerging markets, and selected European equities
	US	↔	US earnings remain strong, supported by the AI investment boom, but elevated Treasury yields, sticky inflation, and concentrated AI exposure limit room for earnings disappointments. A modest de-rating has improved the market's relative valuation this year. Volatility may rise around the mid-term elections
	UK	↔	A defensive, commodity-heavy index offers resilience despite energy-related uncertainty, while record valuation discounts and attractive shareholder distributions support the investment case. Sluggish domestic activity and the UK's fiscal and current-account deficits remain important risks
	Eurozone	↔/▼	Energy-price risks and renewed inflation pressure cloud the outlook, but improving margins, returns on equity, and a re-emergence of financial sector stocks as a profits engine all support a pick-up in the earnings outlook. Valuations remain attractive, although fiscal delivery and political uncertainty could challenge sentiment and earnings momentum
	Japan	↔/▲	Japan's AI exposure, broad earnings growth beyond just the tech sector, a largely stable macro backdrop, a modestly expansionary fiscal stance, and ongoing corporate reforms all continue to support a further re-rating. While its P/B ratio remains low relative to DM peers, energy supply disruptions, the sustainability of AI capex, and higher JGB yields pose risks
	Emerging Markets (EM)	▲	Overall EM valuations remain attractive, supported by a robust earnings outlook and improved fundamentals despite higher global yields and market volatility. Idiosyncratic drivers offer diversification opportunities. Country- and sector-specific factors should play a greater role in asset allocation, which helps mitigate concentration risks from tech exposure
	CEE & Latam	▲	Latam stocks are well-positioned in the current environment given their relatively high exposure to energy and commodity sectors and undemanding valuations. Politics and trade remain key medium-term downside risks. Central and Eastern European economies face mixed challenges complicated by global trade tensions and geopolitical developments
	Frontier Markets	▲	Frontier markets offer exposure to smaller, rapidly-growing, domestically-driven economies that benefit from local idiosyncrasies. There tends to be low intra-country correlation between them, and they benefit from comparatively low volatility, potentially attractive valuations, and relatively strong earnings growth
Government bonds	**Developed Markets (DM)**	↔/▲	A combination of geopolitical tensions, policy uncertainty, global growth concerns, and rising fiscal and inflation risks has resulted in longer-duration government bond yields rising and yield curves steepening. Rising inflation pressures would be expected to lift longer-dated bond yields, although weaker growth could keep upward pressure on yields in check
	US 10-year	▲	Yields are expected to remain range-bound in the near-term, reflecting both resilient growth and continued fiscal uncertainty. Further ahead, easing inflation and a restrictive policy stance should put some modest downward pressure on 10-year rates
	UK 10-year	↔	The Bank of England's hawkish stance and renewed inflation risks argue for caution on duration. Softer domestic activity and available slack could eventually support lower yields, but fiscal vulnerabilities and higher energy prices may keep volatility elevated
	German 10-year	↔	Fiscal support and improving investment are constructive for growth, but energy-price pressures may challenge the ECB's inflation credibility. Political uncertainty and uneven national exposures favour selectivity, while higher issuance could keep term premia elevated
	Japan	▼	Investors continue to adopt a cautious stance amid rising concerns over a more expansionary fiscal policy. The Bank of Japan has signalled a more hawkish stance to contain underlying inflation below 2% over the medium-term. However, lingering inflation and fiscal concerns warrant an underweight in JGBs
	Inflation-linked bonds	↔	Real yields remain positive and attractive across the US, Europe and UK, but are likely to stay elevated and range-bound. Short-term inflation expectations remain vulnerable to energy shocks, while renewed central-bank hawkishness and higher term premia could weigh on linker valuations
	EM local currency	▲	EM debt offers attractive diversification and income/return potential, supported by improved macro, fiscal and external dynamics, policy frameworks, and central bank credibility in select markets, while some are central to structural AI and industrial-metal themes. But EM performance will likely remain divergent, driven by idiosyncratic macro and policy factors

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↔/▲	Neutral/Positive bias	▼▼	Negative
↔	Neutral		

	Asset class	House view	Comments
Corporate bonds	**Global investment grade (IG)**	↔	Tight spreads are balanced by attractive all-in yields and healthy balance sheets. However, higher yields, energy-related margin pressure, and rich valuations argue for a quality bias, with investment grade remaining a credible bond substitute
	USD IG	↔	US investment grade spreads are likely to remain broadly range-bound. Strong earnings, improving fundamentals and robust demand for attractive all-in yields offset record supply and rich valuations. With spreads close to multi-decade tights, the scope for further compression appears limited. Given rich valuations, we favour higher-quality exposure
	EUR and GBP IG	↔	EU investment grade benefits from improving corporate profitability, resilient balance sheets and attractive income. However, higher energy prices, renewed inflation pressure and elevated yields could weigh on margins and spread performance. We favour quality and remain selective given tight valuations
	Asia IG	↔	Asia investment grade offers comparatively attractive income and resilient fundamentals, supported by regional growth and technology exports. Higher global yields, energy shocks and currency volatility argue for selectivity, particularly where domestic inflation pressures are rising
	Global high-yield (HY)	↔	Resilient growth supports corporate fundamentals, but tight spreads provide limited compensation for downside risks. Higher-for-longer rates, elevated energy costs, and geopolitical shocks could widen spreads, favouring selectivity and stronger issuers over broad high-yield exposure
	US HY	↔	US high yield fundamentals remain resilient amid solid domestic demand, but tight spreads offer limited compensation for risk. Higher-for-longer rates, energy-price shocks, and geopolitical uncertainty could widen spreads, favouring selective exposure to stronger issuers and avoiding excessive duration or leverage
	Europe HY	▼	EU high yield offers carry, but the outlook is challenged by energy-driven inflation, weaker purchasing power, and potential ECB tightening. Tight spreads leave limited room for disappointment, so we favour selective exposure to stronger balance sheets and less cyclical issuers
	Asia HY	↔/▲	Asia high yield offers income and potential spread carry, but dispersion remains high. China's uneven recovery, property-related risks, and sensitivity to global yields favour selective exposure to stronger balance sheets and sectors benefiting from policy priorities
	Securitised credit	▲▲	Securitised credit can provide diversification and attractive income within a resilient growth environment. However, valuations, consumer stress and higher funding costs warrant careful security selection, with preference for robust structures and stronger underlying collateral
	EM hard currency (USD)	▲	The EM fixed income outlook is constructive, supported by improving quality, supply discipline, and AI-driven growth in Asia. Scarcity and improving fundamentals make EM an increasingly attractive diversifier, and enables selective positioning away from concentrated geopolitical hotspots
FX & Alternatives	**Gold**	▲	The gold price has been resilient, supported by central-bank demand, investment inflows, and macroeconomic uncertainty. Momentum remains constructive despite intermittent volatility and shifting rate expectations. Geopolitical risks and reserve diversification should support prices, but elevated yields and a stronger US dollar remain risks
	Other commodities	▲	Geopolitical tensions are a heightened risk factor, and price volatility caused by supply concerns is a key macro variable to watch. In copper, demand from AI and the energy transition, particularly in China, has been supportive. "Security of supply" and "real asset" themes could support further investor demand for commodities
	Real assets	▲▲	In Real Estate, investment activity is stabilising with investors increasingly seeing fair value and defensive appeal in the asset class. Capital value growth continues to be driven by rental income and income growth. Infrastructure is in demand as the backbone of long-term themes like AI data centres, energy transition, and transport networks
	Hedge funds	▲▲	Hedge funds can be good diversifiers in an environment of sticky inflation, more active fiscal policy, elevated macro uncertainty, and market phases where there are sharp upticks in volatility. They can perform in both rising and falling markets, with Macro and CTA strategies potentially attractive alternatives to bonds when stock-bond correlations are positive
	Private credit (D/lending)	▲	Private Credit fundamentals remain intact, and yields remain attractive, but ongoing geopolitical headwinds and evolving market sentiment around liquidity terms and redemptions in parts of the market could result in spillover effects across the broader Private Credit universe
	Private equity (Buy out)	▲	The outlook is cautiously optimistic: exit markets (for asset sales) have improved, supported by rate cuts, strong corporate earnings, resurging mergers and acquisitions, and a pick-up in new company listings (IPO) activity. However, geopolitical risks remain a key concern
	US dollar (broad index)	↔/▼	Near-term, the dollar is expected to be supported by the resilient US economy, Fed tightening, favourable rate differentials, and heightened geopolitical risk and safe-haven demand. On longer-term valuation measures, the dollar still looks expensive. Structural diversification away from the dollar remains a long-term theme
	Crypto	▼▼	Crypto prices continue to be volatile, supporting the view that the asset class's high sensitivity to prevailing risk sentiment is a challenge to its potential role as a credible portfolio diversifier. While regulatory clarity and better tokenisation are positives, volatility and thin liquidity could deter institutional investors

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↔	Neutral		

	Asset class	House view	Comments
Asian assets	**Asia local bonds**	↔/▲	Asian central banks face a delicate balancing act as they navigate global interest rate volatility, Fed policy, energy headwinds, weather risks, AI/tech tailwinds, and fiscal support trade-offs. Despite a hawkish tilt, macro policy responses vary across Asia, creating idiosyncratic market opportunities. Asian bonds offer valuable diversification benefits for global portfolios
	RMB bonds	↔	RMB bonds are less exposed to global interest-rate volatility, given China's distinct economic cycle, the decoupling of its monetary policy cycle from those of major global central banks, and a massive domestic savings glut. RMB bonds' low correlation with global markets and relative FX stability enhance their appeal as a diversification asset for global portfolios
	Asia ex-Japan equities	▲	Asia's earnings outlook remains supported by substantial AI-related capex, but the region also offers diversification beyond tech hardware exposure. While uncertainty over the durability of AI spending and geopolitical risks may amplify volatility, long-term growth themes remain intact and supportive policies could continue to attract fund inflows
	China equities	↔/▲	Structural tailwinds for strategic sectors remain intact. Chinese stocks could also be a key equity portfolio diversifier given their reasonable valuations, with earnings less sensitive to the global/US AI capex cycle. A broader re-rating likely needs clearer AI monetisation, stronger non-tech earnings, and a firmer domestic macro backdrop
	India equities	▲	India's earnings outlook and macro backdrop remain resilient despite an external supply shock. Valuations are more reasonable after the de-rating, with opportunities in selective sectors/stocks on solid structural growth drivers. Energy prices, INR movements, and the global AI trade could impact foreign investor sentiment towards the Indian market
	ASEAN equities	↔/▲	Domestic idiosyncratic factors should continue to drive dispersion in earnings outlooks and fund flows across markets. Policy and reform efforts are positive, despite lingering energy supply disruptions and other external uncertainties. Overall valuations are fair and they offer diversification beyond sectors exposed to the global AI trade
	Hong Kong equities	▲	A continued recovery in residential property and active capital market activities should underpin the earnings outlook, despite the risk of tighter global financial conditions from higher-for-longer rates, policy uncertainty, and near-term market liquidity constraints. Relatively low price-to-book ratios and decent dividend yields versus regional peers are also supportive
	Asia FX (ADXY)	▲	US-Asia rate differentials, balance of payments flows, domestic energy and policy buffers, and exposure to AI supply chains are driving near-term relative performance alongside policy actions to defend stability in places. Innovation-led export competitiveness, RMB internationalisation, and global geopolitical/trade fragmentation are structural themes supporting CNY

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On Top of Investors’ Minds



Will stocks crack under the weight of higher bond yields?

G7 bond yields have continued to increase in September. The rationale for the move higher probably reflects a combination of lingering fiscal concerns, stronger growth and sticky inflation, and indigestion coming from government and AI hyperscaler issuance.

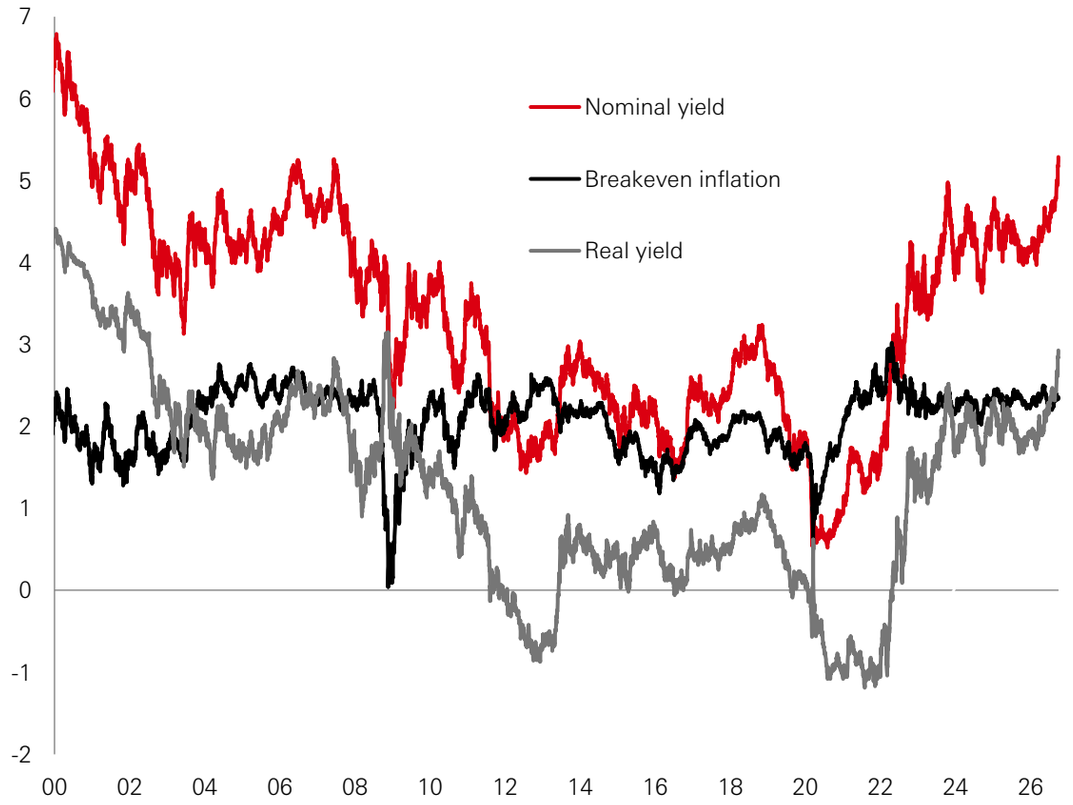
For investors, a higher-for-longer regime could offer an opportunity to generate income from G7 bonds. But another key consideration is whether higher yields will break the stock market, along with other riskier asset classes. The 10-year yield at 5% has been widely touted as a key tipping point.

The good news right now is the **positive impact of the AI boom**, that offsets other headwinds and buoys investor confidence and equity multiples. There will likely need to be a more decisive swing in investor enthusiasm around AI for there to be a major problem.

It will also be important to monitor the reaction of government to higher yields. At some point there could be pressure to cut deficits to keep debt trajectories under control. But **a return to 2010s levels of austerity remains highly unlikely**.

But crucially we know that if inflation is anchored at 2–3%, **central banks would retain the flexibility to adopt a dovish stance** in periods of significant macro or market stress.

US 10-year yields and breakeven inflation, %



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Could recent US dollar strength persist and how vulnerable is EM?

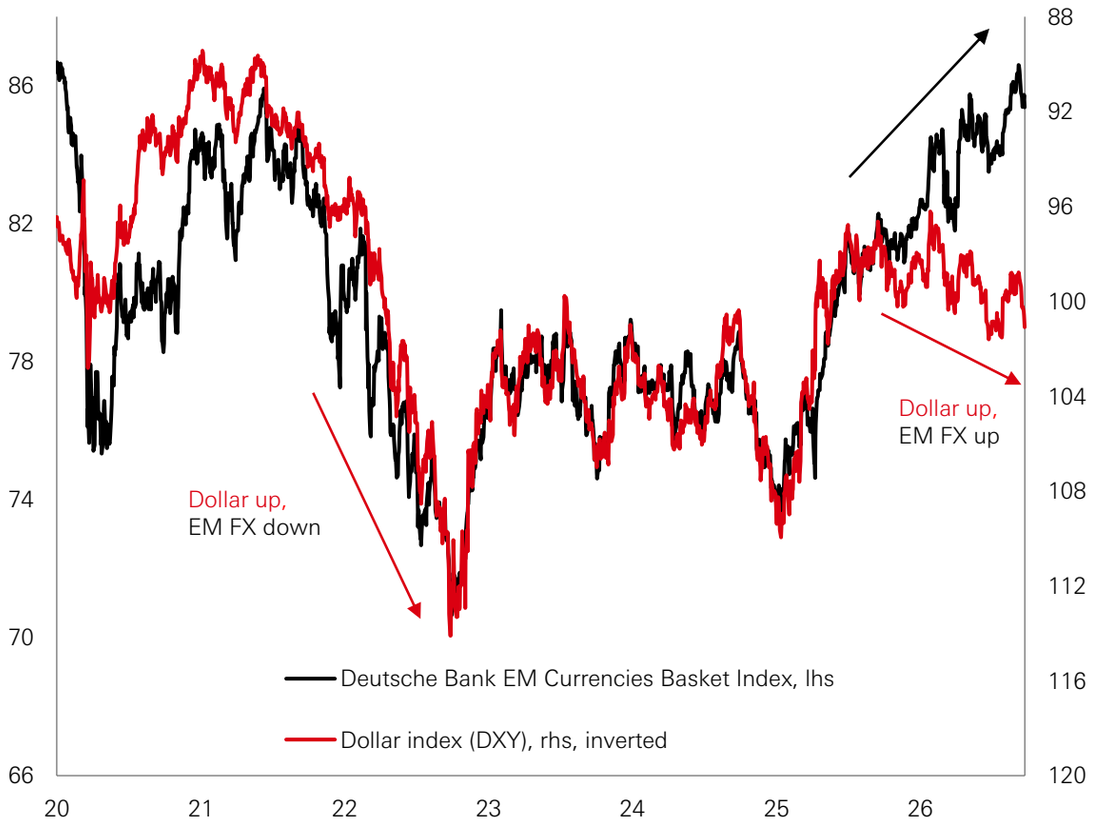
The US dollar has strengthened recently, supported by higher Treasury yields and rising oil prices. A hawkish 25bp Federal Reserve hike reinforced expectations of higher-for-longer interest rates, lifting both US yields and the dollar.

There are a few reasons to suggest why dollar strength may not persist. Other major central banks also face renewed inflation pressures, potentially limiting the US interest-rate advantage. Moreover, the relationship between the dollar and relative interest rates has been unstable in recent years and higher yields alone may not be enough to boost the currency. We also know that the dollar is still expensive on longer-term valuation measures.

But even if the dollar were to strengthen further, this may not be as bad for the EM complex as it has traditionally been. This year **EM currencies have gained despite a strong dollar**. This likely reflects the effects of better **and more orthodox policymaking, the development of macro "fortresses", and wide real yield cushions** established by early rate hikes.

With EM currencies trading at historically cheap valuations and increasingly detached from Western cycles, we think there are opportunities for EM currency exposure to provide a durable, independent source of total return in global portfolios.

US dollar and EM FX indices



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Will Western central banks deliver the hikes markets expect?

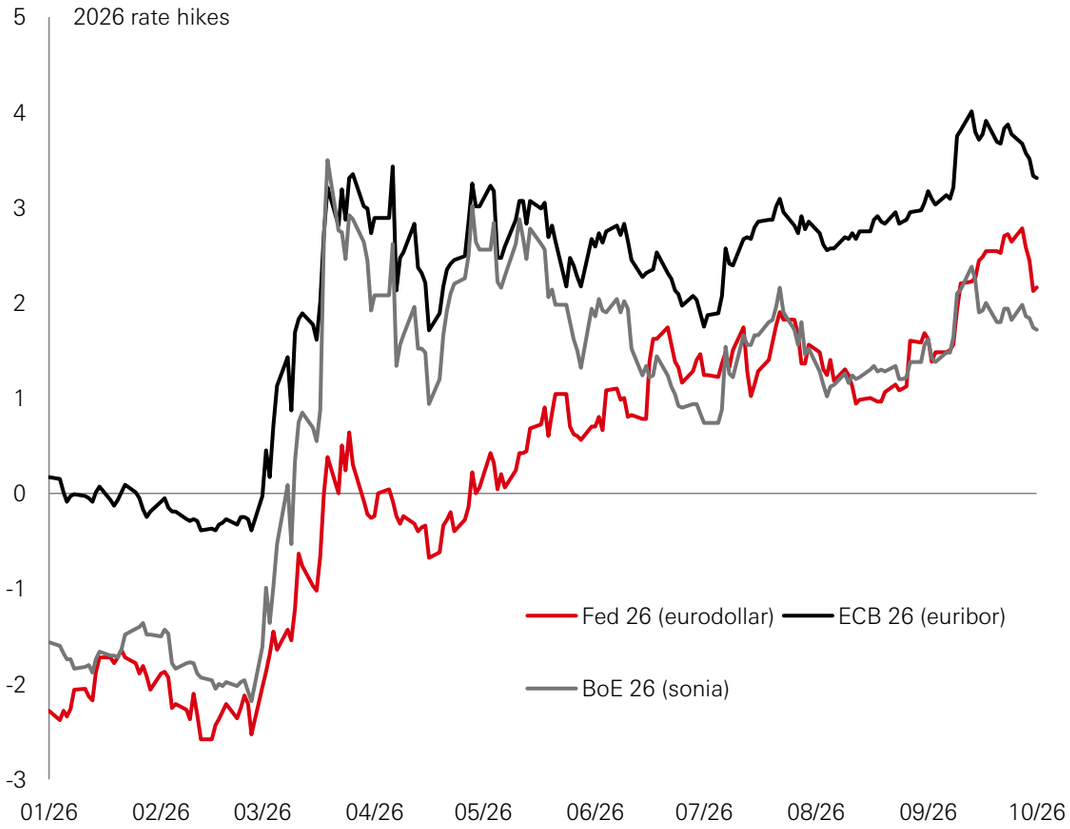
It's been clear from recent Fed communications and September's rate hike that ignoring persistently above-target inflation is no longer an option. Amid higher oil prices, markets have responded by pricing in a significant degree of tightening: another Fed hike this year and two more in 2027.

However, the unbalanced nature of growth, combined with potential for supply-driven inflation to squeeze real incomes and profits of weaker consumers and businesses, means policy tightening could have unintended negative consequences.

Therefore, **another one or two rate hikes appears to be a sensible middle ground** that allows the Fed to manage upside inflation risks while limiting the chances of precipitating a downturn. It is also worth keeping in mind that core PCE, the Fed's preferred measure of underlying inflation may be overstating inflation – other measures are closer to the Fed's 2% target.

For the Bank of England and European Central Bank (ECB), the outlook is more challenging. Their sensitivity to oil prices has also resulted in a significant degree of tightening being priced in. But much weaker growth, strained public finances and the possibility that energy prices normalise implies a **higher chance that less tightening is actually delivered**.

How many rate hikes from Fed, ECB, BoE in 2026?



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Market Data



Market Data

September 2026

EQUITY INDICES	Close	MTD Change (%)	3M Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low	Fwd P/E (X)
World								
MSCI AC World Index (USD)	1,135	-1.3	1.3	15.2	11.8	1,163	958	18.1
North America								
US Dow Jones Industrial Average	50,906	-4.3	-2.7	9.7	5.9	54,744	45,057	20.7
US S&P 500 Index	7,652	-0.5	2.0	14.4	11.8	7,817	6,317	21.2
US NASDAQ Composite Index	26,861	1.9	2.5	18.5	15.6	27,544	20,690	30.9
Canada S&P/TSX Composite Index	35,236	-2.9	1.1	17.4	11.1	37,069	29,531	16.9
Europe								
MSCI AC Europe (USD)	729	-4.6	-1.8	10.3	4.2	777	646	15.1
Euro STOXX 50 Index	6,269	-2.4	-0.9	13.4	8.2	6,577	5,377	15.9
UK FTSE 100 Index	10,606	-2.0	1.0	13.4	6.8	10,989	9,277	12.5
Germany DAX Index*	25,199	-4.0	0.8	5.5	2.9	26,619	21,864	16.5
France CAC-40 Index	7,965	-4.4	-5.2	0.9	-2.3	8,755	7,505	13.9
Spain IBEX 35 Index	19,426	-2.7	-0.2	25.5	12.2	20,357	15,409	14.2
Italy FTSE MIB	51,372	-2.4	-0.6	20.2	14.3	54,042	41,360	13.7
Asia Pacific								
MSCI AC Asia Pacific ex Japan (USD)	879	-1.2	-0.8	25.7	21.8	929	684	12.3
Japan Nikkei-225 Stock Average	66,754	0.7	-4.7	48.6	32.6	72,832	46,544	23.2
Australian Stock Exchange 200	8,789	-3.2	0.1	-0.7	0.9	9,297	8,262	17.6
Hong Kong Hang Seng Index	24,613	-3.7	7.6	-8.3	-4.0	28,056	22,518	10.9
Shanghai Stock Exchange Composite Index	3,842	-3.6	-6.2	-1.0	-3.2	4,259	3,741	13.7
Hang Seng China Enterprises Index	8,220	-3.4	8.8	-14.0	-7.8	9,646	7,404	9.8
Taiwan TAIEX Index	47,940	3.9	3.9	85.7	65.5	49,771	26,396	22.2
Korea KOSPI Index	6,838	0.3	-19.3	99.7	62.3	9,386	3,523	6.9
India SENSEX 30 Index	72,480	-5.8	-5.2	-9.7	-14.9	86,159	71,293	17.9
Indonesia Jakarta Stock Price Index	6,071	-7.0	7.6	-24.7	-29.8	9,174	5,318	10.1
Malaysia Kuala Lumpur Composite Index	1,651	-4.3	-0.8	2.4	-1.7	1,771	1,598	14.5
Philippines Stock Exchange PSE Index	5,679	-4.6	-5.9	-4.6	-6.2	6,674	5,584	9.0
Singapore FTSE Straits Times Index	5,676	-1.4	9.8	32.0	22.2	5,829	4,312	17.0
Thailand SET Index	1,559	-2.3	-2.0	22.4	23.8	1,658	1,232	14.1
Latam								
Argentina Merval Index	2,819,323	-7.1	-11.0	59.0	-7.6	3,395,937	1,777,766	7.9
Brazil Bovespa Index*	186,340	5.0	8.3	27.4	15.6	209,606	140,231	9.7
Chile IPSA Index	11,315	0.0	4.4	26.1	8.0	11,721	8,669	12.8
Colombia COLCAP Index	2,549	5.1	12.3	36.1	23.3	2,627	1,851	10.8
Mexico S&P/BMV IPC Index	64,214	-1.9	-4.1	2.1	-0.1	72,111	60,110	12.8
EEMEA								
Saudi Arabia Tadawul All Share Index	10,441	-6.2	-3.3	-9.2	-0.5	11,782	10,194	14.0
South Africa JSE Index	108,507	-6.7	-1.6	0.5	-6.3	129,339	106,179	10.0
Turkey index	13,251.9	-16.7	-15.4	8.5	6.1	15,204.9	10,053.7	5.7

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Sources: Bloomberg, HSBC Asset Management. Data as at close of business 30 September 2026. (*) Indices expressed as total returns. All others are price returns.

Market Data (continued)

September 2026

EQUITY INDICES - TOTAL RETURN	3-month Change (%)	YTD Change (%)	1-year Change (%)	3-year Change (%)	5-year Change (%)	Dividend Yield (%)
Global equities	1.6	13.0	16.8	80.4	72.9	1.6
US equities	2.2	12.3	15.0	83.6	83.1	1.1
Europe equities	-1.6	6.0	12.6	62.3	57.3	3.0
Asia Pacific ex Japan equities	-0.1	23.8	28.2	90.5	55.3	2.0
Japan equities	6.0	22.7	26.6	79.1	59.5	1.8
Latam equities	3.9	14.8	24.2	53.7	84.0	4.7
Emerging Markets equities	-0.4	23.4	29.2	91.1	53.4	2.0

All total returns quoted in USD terms.
Data sourced from MSCI AC World Total Return Index, MSCI USA Total Return Index, MSCI AC Europe Total Return Index, MSCI AC Asia Pacific ex Japan Total Return Index, MSCI Japan Total Return Index, MSCI Latam Total Return Index and MSCI Emerging Markets Total Return Index.

BONDS	Close	End of last month	3-months Ago	1-year Ago	Year End 2025
US Treasury yields (%)					
3-Month	4.11	3.83	3.81	3.93	3.63
2-Year	4.89	4.34	4.17	3.61	3.47
5-Year	5.09	4.50	4.23	3.74	3.73
10-Year	5.28	4.75	4.47	4.15	4.17
30-Year	5.63	5.24	4.95	4.73	4.84
Developed market 10-year bond yields (%)					
Japan	3.05	2.94	2.67	1.64	2.06
UK	5.42	5.06	4.76	4.70	4.48
Germany	3.59	3.32	2.86	2.71	2.85
France	4.86	4.18	3.65	3.53	3.56
Italy	4.61	4.15	3.63	3.53	3.55
Spain	4.13	3.78	3.34	3.26	3.29

BOND INDICES - TOTAL RETURN	Close	MTD Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)
BarCap GlobalAgg (Hedged in USD)	600	-1.6	-2.5	-0.6	-1.4
JPM EMBI Global	1005	-3.3	-4.0	1.8	-1.2
BarCap US Corporate Index (USD)	3,435	-2.7	-3.9	-2.3	-3.1
BarCap Euro Corporate Index (Eur)	263	-1.3	-2.5	-0.9	-1.2
BarCap Global High Yield (USD)	695	-2.5	-2.0	3.1	0.7
BarCap US High Yield (USD)	2917	-2.5	-1.8	1.4	0.1
BarCap pan-European High Yield (USD)	651	-1.7	-1.2	2.5	1.4
BarCap EM Debt Hard Currency	486	-3.1	-3.5	0.3	-1.9
Markit iBoxx Asia ex-Japan Bond Index (USD)	241	-1.6	-1.9	0.4	-0.7
Markit iBoxx Asia ex-Japan High-Yield Bond Index (USD)	295	-1.0	0.1	4.5	3.4

Total return includes income from dividends and interest as well as appreciation or depreciation in the price of an asset over the given period. Past performance does not predict future returns. The level of yield is not guaranteed and may rise or fall in the future. This information shouldn't be considered as a recommendation to invest in the country or sector shown. Index returns assume reinvestment of all distributions and do not reflect fees or expenses. You cannot invest directly in an index. Sources: Bloomberg, HSBC Asset Management. Data as at close of business 30 September 2026.

Market Data (continued)

September 2026

CURRENCIES (VS USD)	Latest	End of last month	3-months Ago	1-year Ago	Year End 2025	52-week High	52-week Low
Developed markets							
DXY index	101.45	99.43	101.19	97.78	98.32	102.54	95.55
EUR/USD	1.13	1.16	1.14	1.17	1.17	1.21	1.12
GBP/USD	1.33	1.35	1.33	1.34	1.35	1.39	1.30
CHF/USD	1.20	1.24	1.24	1.26	1.26	1.32	1.19
CAD	1.42	1.39	1.42	1.39	1.37	1.43	1.35
JPY	157.4	159.7	162.6	147.9	156.7	164.0	149.4
AUD	1.44	1.40	1.45	1.51	1.50	1.56	1.37
NZD	1.78	1.69	1.76	1.73	1.74	1.79	1.64
Asia							
HKD	7.85	7.84	7.84	7.78	7.78	7.85	7.77
CNY	6.71	6.72	6.79	7.12	6.99	7.14	6.69
INR	95.83	95.17	94.67	88.79	89.88	96.96	87.64
MYR	4.08	4.03	4.08	4.21	4.06	4.23	3.88
KRW	1,358	1,367	1,549	1,404	1,445	1,562	1,335
TWD	31.86	31.68	31.85	30.46	31.42	32.53	30.36
Latam							
BRL	5.17	5.19	5.16	5.32	5.50	5.61	4.89
COP	3,313	3,224	3,429	3,921	3,775	3,990	3,028
MXN	18.07	17.00	17.49	18.31	18.01	18.77	16.86
ARS	1,520.25	1,509.08	1,483.45	1,379.70	1,451.62	1,527.69	1,338.75
EEMEA							
RUB	83.39	86.02	78.51	82.85	78.75	88.02	70.05
ZAR	16.42	16.12	16.39	17.27	16.56	17.58	15.64

COMMODITIES	Latest	MTD Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low
Gold	4,157	-6.3	3.7	7.7	-3.7	5,595	3,887
Brent Oil	103.5	14.4	42.0	54.5	70.1	126	59
WTI Crude Oil	90.4	5.4	30.1	45.0	57.5	119	55
R/J CRB Futures Index	410	-0.1	16.0	36.5	37.3	429	292
LME Copper	14,410	0.8	7.7	40.3	16.0	14,875	10,326

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Basis of Views and Definitions of 'Asset class positioning' tables

- Views are based on regional HSBC Asset Management Asset Allocation meetings held throughout **September 2026**, HSBC Asset Management's long-term expected return forecasts which were generated as at **31 August 2026**, our portfolio optimisation process and actual portfolio positions.
- **Icons:** ↑ View on this asset class has been upgraded **–** No change ↓ View on this asset class has been downgraded.
- Underweight, overweight and neutral classifications are the high-level asset allocations tilts applied in diversified, typically multi-asset portfolios, which reflect a combination of our long-term valuation signals, our shorter-term cyclical views and actual positioning in portfolios. The views are expressed with reference to global portfolios. However, individual portfolio positions may vary according to mandate, benchmark, risk profile and the availability and riskiness of individual asset classes in different regions.
- "*Overweight*" implies that, within the context of a well-diversified typically multi-asset portfolio, and relative to relevant internal or external benchmarks, HSBC Global Asset Management has (or would have) a positive tilt towards the asset class.
- "*Underweight*" implies that, within the context of a well-diversified typically multi-asset portfolio, and relative to relevant internal or external benchmarks, HSBC Global Asset Management has (or would) have a negative tilt towards the asset class.
- "*Neutral*" implies that, within the context of a well-diversified typically multi-asset portfolio, and relative to relevant internal or external benchmarks HSBC Global Asset Management has (or would have) neither a particularly negative or positive tilt towards the asset class.
- For global investment-grade corporate bonds, the underweight, overweight and neutral categories for the asset class at the aggregate level are also based on high-level asset allocation considerations applied in diversified, typically multi-asset portfolios. However, USD investment-grade corporate bonds and EUR and GBP investment-grade corporate bonds are determined relative to the global investment-grade corporate bond universe.
- For Asia ex Japan equities, the underweight, overweight and neutral categories for the region at the aggregate level are also based on high-level asset allocation considerations applied in diversified, typically multi-asset portfolios. However, individual country views are determined relative to the Asia ex Japan equities universe as of **31 August 2026.**
- Similarly, for EM government bonds, the underweight, overweight and neutral categories for the asset class at the aggregate level are also based on high-level asset allocation considerations applied in diversified, typically multi-asset portfolios. However, EM Asian Fixed income views are determined relative to the EM government bonds (hard currency) universe as of **30 September 2026**.

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