

Investment Monthly

Balancing energy-driven volatility and longer-term opportunities

April 2026



Key takeaways

- ◆ Recent energy price spikes have increased inflation expectations and market volatility. While we believe the impact should be temporary, we downgrade Consumer Discretionary in Asia and globally, following our reduced exposure to oil-importing markets such as India, to reflect higher inflationary pressures. Inflation concerns are likely to prompt policymakers to delay easing. We continue to seek attractive yields in investment grade and EM local currency debt and use gold and alternative assets to enhance diversification.
- ◆ As an energy exporter, US resilience stands out and continues to be supported by technology and AI-related investment, contributing to strong earnings growth across Communications, Industrials and Materials. Fed easing, M&A activity and a recovery in capital markets are positive factors for Financials. While we continue to favour US equities and USD investment grade credit, we emphasise the importance of diversification to reduce concentration risk.
- ◆ The outlook for Asia is mixed. India and some emerging markets are sensitive to oil prices, while South Korea benefits from AI-driven growth, and energy reserves provide an added advantage to China. In Japan, fiscal expansion, wage growth and corporate governance reforms should help offset higher energy costs. As only a limited portion of Europe’s energy supply is sourced from the Middle East, the risk of severe disruption is reduced, though growth expectations have moderated but opportunities remain in the materials, industrials, communications, financials and utilities sectors.



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Asset class	6-month view	Comment
Global equities	▲	While market uncertainty persists, the fundamental backdrop for global equities remains supportive. With AI broadening opportunities across sectors and regions, we continue to diversify beyond the US and technology to reduce concentration risk.
Government bonds	▶	Higher oil and gas prices have pushed up short-term inflation expectations. We expect DM government bond yields to remain range-bound and prefer UK gilts and Australian bonds among DM government bonds.
Investment grade (IG) corporate bonds	▲	We favour high-quality bonds both as a diversifier and a stable income generator, preferring investment grade credit for its attractive yields and emerging market local currency debt for diversification.
High yield (HY) corporate bonds	▼	Emerging signs of stress in credit markets and rising equity volatility are putting upward pressure on credit spreads. While the large weight of energy in the index tempers the impact, spreads still look unattractive.
Gold	▲	The recent headwinds are expected to be short-lived as underlying fundamentals remain supportive. Gold continues to serve as a compelling portfolio diversifier amid geopolitical uncertainty and central bank buying.

▲ “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. What is the impact of higher energy prices?

- ◆ Both oil and gas prices have risen sharply amid significant uncertainty surrounding the conflict in the Middle East. Nevertheless, markets have raised inflation expectations and shifted towards sectors and regions that are more resilient to higher energy costs.
- ◆ While we expect the impact of higher-for-longer energy prices on markets to be temporary, some Asian markets, particularly oil-importing economies, are more directly affected. Following the downgrade of Indian equities, we further downgrade Consumer Discretionary in Asia to neutral and globally to underweight to reflect the increased pressure from inflation.
- ◆ Inflation concerns have also led to rate volatility and a repricing of monetary policy expectations. Policymakers are likely to maintain current interest rates for some time before easing later. We continue to seek quality yields from investment grade credit and EM local currency bonds for income generation. However, as cross-asset correlations have increased, we use gold and alternative assets to enhance diversification. Despite the recent pullback, we remain bullish on gold over the medium to long term due to its diversification benefits and safe-haven demand.

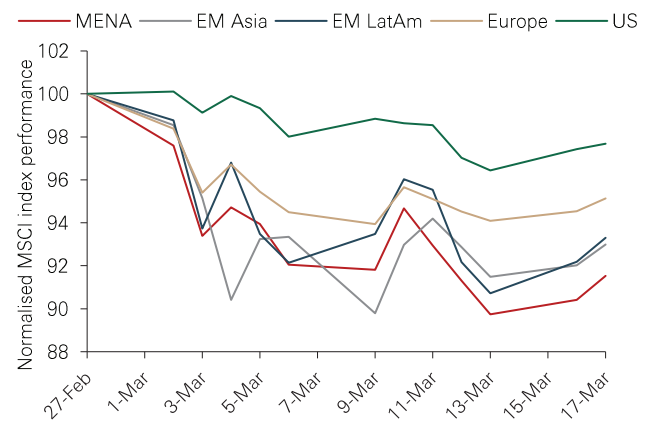
2. Why do US assets remain attractive?

- ◆ In addition to being an oil exporter, US resilience is supported by robust earnings growth, with a projected 15% increase in 2026. Both technology and AI-related investment continue to drive revenue growth and productivity gains across sectors, complemented by ongoing infrastructure buildout (e.g. data centres) and structural opportunities that bolster broader economic activity. Industrials, Communications and Materials are key beneficiaries.
- ◆ Valuations of Financials also appear attractive, underpinned by Fed easing, M&A activity and a recovery in capital markets. Additionally, stable labour markets, elevated real disposable income and fiscal tailwinds, such as tax refunds, should help offset some of the drag from higher fuel costs.
- ◆ We continue to favour US equities and USD investment grade credit given the market's earnings resilience, leadership in innovation, and relative macro stability, while the risk of stagflation remains low in our view. Nevertheless, we emphasise the importance of diversification across regions, sectors and currencies to reduce concentration risk.

3. What is the market outlook for other regions?

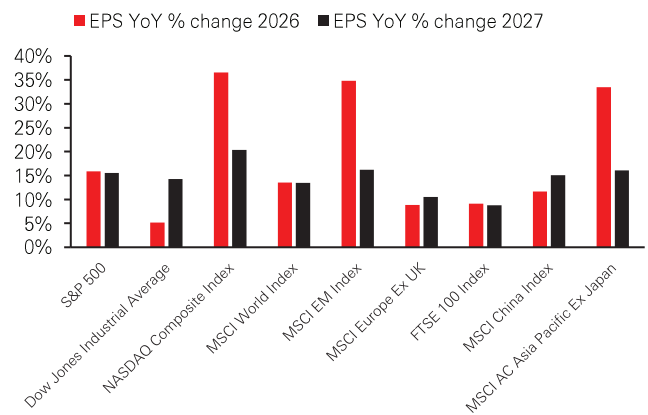
- ◆ The outlook for Asia is mixed. While India and some emerging markets such as the Philippines and Thailand are sensitive to oil prices, tech-heavy markets, including South Korea and Taiwan, have also seen pullbacks recently. South Korea is better positioned to benefit from AI-driven growth, while policy support helps stabilise growth in mainland China and Hong Kong, and energy reserves provide mainland China with an added edge.
- ◆ Although Japan is a heavy oil importer, we believe fiscal expansion, which should help both economic activity and valuation multiples, along with wage growth and corporate governance reforms, will support a domestically driven re-rating of Japanese equities. We remain overweight on Japanese and Asia ex-Japan equities.
- ◆ In Europe, defensive stocks have outperformed cyclical stocks during periods of heightened uncertainty. As only a limited portion of Europe's energy supply is directly sourced from the Middle East, the risk of severe disruption is reduced. Yet, expectations for accelerating growth are declining. We see selective opportunities in Materials, Industrials, Communications, Financials and Utilities in the region.

Chart 1: Energy importers are more sensitive to higher energy prices



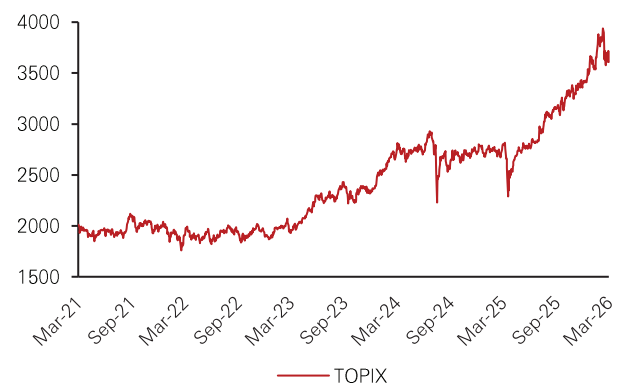
Source: Bloomberg, HSBC Private Bank and Premier Wealth as at 17 March 2026. Past performance is not a reliable indicator of future performance.

Chart 2: The US leads in expected earnings growth this year and the next, but momentum broadens across other regions



Source: Bloomberg, HSBC Private Bank and Premier Wealth as at 24 March 2026. Past performance is not a reliable indicator of future performance.

Chart 3: Despite the recent correction, Japanese equities have delivered solid returns year-to-date



Source: Bloomberg, HSBC Private Bank and Premier Wealth as at 19 March 2026.

Asset Class Views

Our latest house view on various asset classes

Asset class	6-month view	Comment
Global equities		
Global	▲	While market uncertainty persists, the fundamental backdrop for global equities remains supportive. With AI broadening opportunities across sectors and regions, we continue to diversify beyond the US and technology to reduce concentration risk.
United States	▲	Stagflation risks remain low despite the Middle East conflict. Resilient economic growth, solid corporate earnings and continued innovation continue to drive revenue growth and productivity gains across sectors.
United Kingdom	▶	The UK's defensive tilt and commodity exposure provide a potential hedge in volatile periods, but growth remains challenged.
Europe ex-UK	▼	While the region remains sensitive to global trade developments, the Middle East conflict and currency dynamics, we see sectoral opportunities in communications, financials, industrials, materials and utilities. France remains a key drag.
Japan	▲	Wage growth and fiscal expansion should boost consumption and economic activity, supporting a further domestically driven re-rating of the stock market. Corporate governance reforms continue to drive shareholder value.
Emerging Market (EM)	▶	While fundamentals remain resilient, the region's exposure to higher-for-longer energy prices could drive inflation higher, disrupt supply chains and soften global economy activity. We maintain a neutral position.
EM EMEA	▶	The region shows improving structural fundamentals but the near-term outlook is heavily weighed by the Middle East conflict.
EM LatAm	▶	Following a strong rally, the region may see some volatility. Elections offer two-way risks, but stronger commodity prices are supportive.
Asia ex-Japan equities		
Asia ex-Japan	▲	Asia ex-Japan equities are supported by cyclical earnings growth and investors chasing quality dividends. Favourable policy measures, expanding AI ecosystems, and structural reforms offer compelling diversification and innovation opportunities.
China	▲	The government's pro-growth stance and more market-friendly policy priorities towards AI-led innovation, consumption and capital market reforms provide a favourable backdrop for Chinese equities.
India	▼	As we expect India to face elevated inflation risks amid higher energy prices, coupled with muted investor flows and a current account deficit, we hold a bearish near-term view on Indian equities.
Hong Kong	▲	Despite headwinds from regulatory tightening on IPOs, strong liquidity inflows, a stabilising property market and a revival in M&A activity remain positive drivers.
Singapore	▲	Singapore should be seen as a safe haven and continue to attract capital inflows. Improving fundamentals and attractive dividend yields remain tailwinds.
South Korea	▲	The market's semiconductor exposure positions it well within the global AI supply chain, while its 'Corporate Value-Up' Programme continues to enhance shareholder returns. Valuations appear attractive.
Taiwan	▶	The impact of the AI ecosystem is not yet fully reflected in the market, while valuations and earnings momentum are less attractive relative to regional peers.
Government bonds		
Developed markets (DM)	▶	Higher oil and gas prices have pushed up short-term inflation expectations. We expect DM government bond yields to remain range-bound and prefer UK gilts and Australian bonds among DM government bonds.
United States	▶	Treasury yields are expected to remain volatile. We maintain our preference for medium (5-7 years) duration as shorter duration offers better protection against curve moves and expect the FOMC to hold policy rates steady throughout 2026-27.
United Kingdom	▲	Rising inflation expectations should delay rates cuts, with 3.0% not expected to be reached before mid-2027. However, as markets are not fully extrapolating the energy shock into a sustained inflation problem, this should be supportive for UK gilts.
Eurozone	▶	While near-term inflation may trend higher due to elevated energy prices, medium-term inflation should be contained. We continue to expect policy rates to remain on hold at 2% this year.
Japan	▶	The impact of fiscal expansion is reflected in the JGB term premium, particularly at the medium-to-long end of the yield curve. We still expect one 0.25% rate hike in Q3, but the risk of hiking earlier may arise if elevated energy prices persist.
EM (Local currency)	▲	We expect the correlation between EM local currency debt and risk assets to normalise as markets stabilise. There is still scope for EM rate cuts. While EM currencies have been volatile, 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 favour high-quality bonds both as a diversifier and a stable income generator, preferring investment grade credit for its attractive yields and emerging market local currency debt for diversification.
USD investment grade	▲	Total yields remain attractive, and we keep duration to medium (5-7 years).
EUR investment grade	▲	The medium-to-long duration of EUR investment grade credit still offers more attractive risk-return trade off.
GBP investment grade	▲	We prefer GBP investment grade credit with a 7-10-year duration target, which offers an attractive all-in yield.
Asian investment grade	▲	Asian investment grade bonds continue to benefit from global diversification flows and strong local demand.
Global high yield (HY)	▼	Emerging signs of stress in credit markets and rising equity volatility are putting upward pressure on credit spreads. While the large weight of energy in the index tempers the impact, spreads still look unattractive.
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 EUR HY make the asset class vulnerable.
GBP high yield	▼	Credit spreads have widened as risk sentiment has soured recently. GBP investment grade credit offers a more attractive risk-reward profile than high yield.
Asian high yield	▼	The subdued property market in China and external uncertainties reinforce our cautious stance on Asian high yield.
Commodities		
Gold	▲	The recent headwinds are expected to be short-lived as underlying fundamentals remain supportive. Gold continues to serve as a compelling portfolio diversifier amid geopolitical uncertainty and central bank buying.
Oil	▶	Oil prices are currently supported by supply disruption risks and uncertainty around the Strait of Hormuz. However, sufficient underlying global supply and subdued demand could bring down oil prices to more average levels once the conflict eases.

Sector Views

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

Sector	Global	US	Europe	Asia	Comment
Consumer Discretionary	▼↓	▶	▼	▶↓	We downgrade the sector in Asia and globally, reflecting declining consumer sentiment, as the macroeconomic impact of the Middle East conflict leads to softer discretionary spending. We expect ultra-luxury demand to remain resilient. Airlines and travel companies are already raising prices to offset higher fuel costs, which may weigh on demand. The hospitality segment is showing signs of reduced bookings. In contrast, electric vehicle demand has risen sharply in many markets, as consumers seek to mitigate higher fuel prices.
Financials	▲	▲	▲	▲	Financials services should benefit from another year of robust demand across trading, advisory (M&A and IPOs) and issuance. Interest rates are likely to remain somewhat elevated given ongoing inflationary pressures, easing the impact of declining net interest income. The outlook for Europe and Asia appears most attractive. The outlook for insurance 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.
Information Technology	▲	▲	▶	▲	The AI revolution continues, with the roll-out of numerous new and enhanced products and services. Demand for AI software, related hardware and services is driving robust growth, although market bubble concerns remain a headwind. In Asia, demand for hardware and semiconductors has picked up due to infrastructure build-out and the roll-out of AI-enabled products.
Communications Services	▲	▲	▲	▲	Media and entertainment segments 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	▲	▲	▲	▲	Fundamentals for construction, metals and mining sub-sectors continue to improve in terms of demand and prices, although not all commodities are benefitting equally. The prices of copper, aluminium, nickel, cobalt, zinc, gold and silver have all risen significantly in recent months. A notable exception is iron ore, where prices have remained range-bound for most of the last 12 months. Demand for construction materials remains supportive, while prices have held up. Chemical company margins and profits continue to be under pressure.
Real Estate	▶	▶	▶	▶	The outlook for the sector has improved, supported by rising demand for high-quality office space and new facilities to meet evolving needs from the technology sector. Retail real estate remains challenging but appears to have bottomed out for now. China faces specific challenges, but elsewhere in Asia, as well as in North America and Europe, demand for new office space, warehousing, manufacturing facilities and housing is experiencing more favourable supply-demand dynamics. The US market is benefitting from the reshoring trend.
Consumer Staples	▼	▼	▼	▼	The company outlook for 2026 offers few reasons for optimism, given the sector's relatively elevated valuations. Discerning consumers continue to shift purchases towards 'value' products while reducing spending on higher-margin branded goods. Undemanding valuations reflect the sector's limited potential.
Energy	▶	▶	▶	▶	In the short term, the Middle East conflict is likely to continue driving higher energy prices. A protracted conflict would be negative for equity markets, but relatively positive for the sector. Assuming the former, there may be a positive impact on Q2 earnings for integrated producers and refiners. Valuations, free cash flow and dividend yields remain attractive.
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 electricity demand 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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