

# Investment Monthly

## Diversifying further amid evolving geopolitical risks

February 2026



### Key takeaways

- ◆ Geopolitical tensions have increased market volatility, with recent developments around Greenland and Iran adding to the complexity. However, we anticipate that any sell-off will be less severe than that of last April. Our investment strategy aims to capture the broadening opportunities driven by AI-led innovation while navigating geopolitical uncertainties through multi-asset diversification, including increased exposure to alternatives and gold.
- ◆ While we remain positive on global and US stocks and continue to position in Asia for geographical diversification, we have adjusted our equity allocation by upgrading Materials across regions and underweighting Europe ex-UK stocks after taking profits on European peripheral markets. UK Gilts have performed well since the Autumn Budget and benefit from favourable tailwinds, supporting our upgrade to overweight, and aligning with our investment grade credit positioning. We also upgrade Japanese government bonds to neutral following the recent sell-off.
- ◆ Asia's growth drivers remain robust, underpinned by resilient domestic demand and strong AI-related exposure, along with solid upstream industrial activity. Fiscal stimulus, supportive monetary measures and investment boosts outlined in China's 15<sup>th</sup> Five-Year Plan provide a positive backdrop for the equity market. Hong Kong benefits from an improving property market outlook and strong capital inflows. Japan's expansionary policy and solid earnings growth, South Korea's rising memory-chip cycle, and Singapore's safe-haven appeal add to Asia's allure for investors.



**Willem Sels**

Global Chief Investment Officer,  
HSBC Private Bank and Premier  
Wealth



**Lucia Ku**

Global Head of Wealth Insights,  
HSBC International Wealth and  
Premier Banking

Asset class	6-month view	Comment
Global equities	▲	Resilient economic growth and increased investments tied to AI and physical infrastructure continue to provide a favourable backdrop for equities. Earnings growth is expected to spread well beyond IT. However, it remains essential to manage market volatility through multi-asset diversification.
Government bonds	►	DM government bond yields are expected to remain range-bound, after reaching the lower end of their trading ranges, with UK gilts likely to be an exception. We upgrade gilts to overweight and Japanese JGBs to neutral.
Investment grade (IG) corporate bonds	▲	As credit spread volatility is expected to rise, we remain focused on locking in quality bond yields by prioritising investment grade credit for its all-in carry, and EM local currency debt for its diversification benefits.
High yield (HY) corporate bonds	▼	Global high yield returns are expected to be slightly lower, reflecting current elevated valuations and a modest spread widening over the coming 12 months.
Gold	▲	Gold remains an effective diversifier amid sustained safe-haven demand, persistent geopolitical risks, and concerns around USD debasement.

▲ “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. Should investors expect a big sell-off amid rising geopolitical risks?

- ◆ Markets have seen heightened volatility since the beginning of 2026, triggered by geopolitical tensions in Venezuela and Iran. Given the current oversupply in oil markets, we expect the impact on oil prices to be temporary and the recent oil price spike to revert.
- ◆ Meanwhile, the US-EU tensions around Greenland have added to the complexity. However, recent negotiations appear to have prevented further escalation of the trade conflict, while other markets are not involved. The impact is likely to be less severe than what we experienced in April last year, and the quick turnaround following that sell-off is still fresh in investors' minds.
- ◆ During periods of increased volatility, investors often look for areas offering greater stability and solid fundamentals or those supported by long-term trends. Our strategy aims to capture the broadening opportunities driven by AI-led innovation while navigating geopolitical uncertainties through multi-asset portfolios. We further diversify by adding exposure to alternatives, including hedge funds, which allow managers to identify winners in AI adoption, and private markets, which can complement public market holdings. Gold remains in favour amid demand for safe-haven assets and FX diversification.

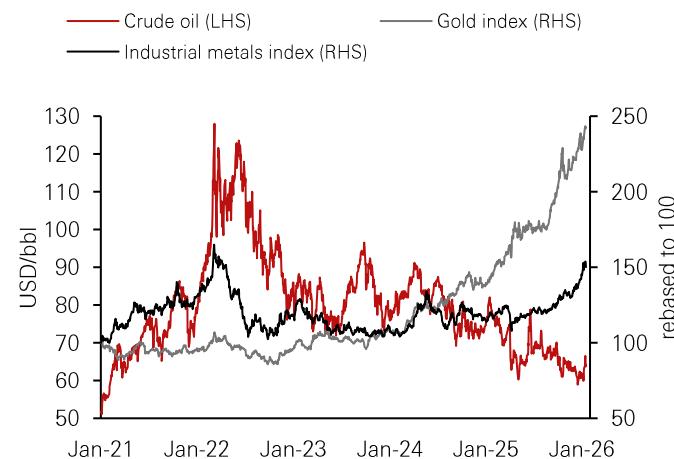
## 2. How should investors adjust their equity and bond positioning?

- ◆ As AI momentum continues to drive demand across industrial supply chains, including data centre construction, power grid upgrades, and related infrastructure globally, we upgrade Materials to overweight across regions. This adds to our preference for IT, Communications, Financials, Industrials and Utilities in global and US stocks.
- ◆ Conversely, we downgrade Europe ex-UK equities to underweight as valuations are now beyond their long-term regional averages following the year-end rebound, which was driven by valuations rather than earnings momentum. Evolving geopolitical risks remain a headwind.
- ◆ We continue to build portfolio resilience through investment grade credit and emerging market bonds. UK gilts have performed well since the Autumn Budget announcement, with fiscal tightening now pushed towards the end of 2029-30. Moreover, we expect the Bank of England to continue easing amid declining inflation and worsening growth expectations, supporting our upgrade of UK gilts to overweight. We also upgrade Japanese government bonds to neutral, following the recent sharp sell-off and significant repricing, with a 7-10-year duration target, where the impact of PM Takaichi's expansionary policy is reflected in the term premium.

## 3. Do Asia's growth drivers remain intact?

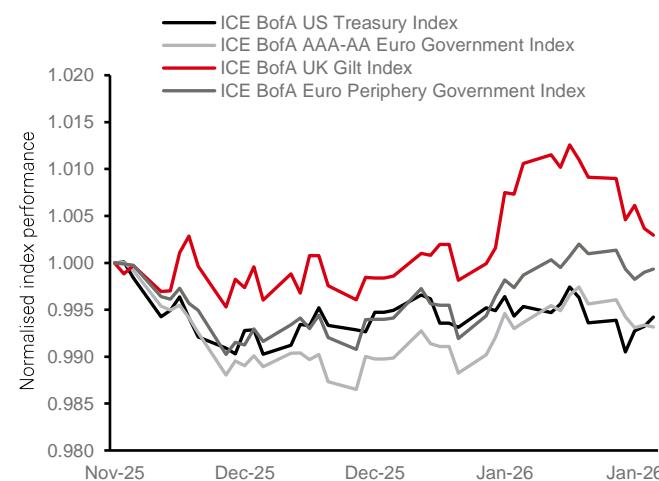
- ◆ Asia remains tactically important for geographical diversification, supported by its appealing domestic dynamics and AI exposure through technology and semiconductor leaders, complemented by upstream industrial support.
- ◆ While China has achieved its 2025 full-year GDP growth target of 5%, we believe additional policy measures are needed to boost domestic demand. Attractive valuations and a sustainable pro-growth stance, with a focus on fiscal stimulus, supportive monetary policies and investment boosts outlined in the 15<sup>th</sup> Five-Year Plan are positive drivers for the equity market. Hong Kong is supported by stabilising macro conditions, an improving property market outlook and strong capital inflows.
- ◆ In Japan, the Prime Minister's broad-based JPY21.3 trillion stimulus package, solid earnings growth expectations (11% for 2026) and corporate reforms aimed at increasing share buybacks and dividends are likely to lead to a re-rating opportunity. South Korea is benefitting from strong demand for memory chips, while Singapore is regarded as a safe-haven market with an attractive dividend yield.

Chart 1: Oil markets remain oversupplied, while the demand for metals drives up prices



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

Chart 2: Gilts have outperformed their peers since the Autumn Budget announcement



Source: ICE BofA indices, HSBC Private Bank and Premier Wealth as at 23 January 2026.

Chart 3: Valuations of Chinese equities remain reasonable



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

# Asset Class Views

Our latest house view on various asset classes

Asset class	6-month view	Comment
<b>Global equities</b>		
Global	▲	Resilient economic growth and increased investments tied to AI and physical infrastructure continue to provide a favourable backdrop for equities. Earnings growth is expected to spread well beyond IT. However, it remains essential to manage market volatility through multi-asset diversification.
United States	▲	US equities remain supported by resilient economic growth, improving productivity trends, and solid earnings momentum, driven by AI adoption and long-term structural trends that continue to broaden investment opportunities across sectors.
United Kingdom	▶	Despite a mild uplift to our GDP forecasts for 2026 and 2027, we believe there is still an absence of near-term upside catalysts for UK equities, while domestic demand remains subdued. We remain neutral for now.
Europe ex-UK	▼ ↓	As we expect evolving geopolitical risks to weigh on stock performance, we take profits on peripheral equity markets and move Europe ex-UK equities to underweight. Valuations currently sit above their long-term regional averages.
Japan	▲	Supportive fiscal policy, corporate reform momentum, and a weaker yen could lead to a further domestically-driven re-rating of Japanese stocks, making them a good diversifier within DM stocks.
Emerging Market (EM)	▶	Fed rate cuts, a weaker USD, easing inflation, and positive fiscal positions are attracting capital inflows. EM Asia is preferred.
EM EMEA	▶	The region shows improving fundamentals and dividend strength while benefitting from a weaker dollar.
EM LatAm	▶	Following a strong rally, the region may see some volatility, but elections may offer upside.
<b>Asia ex-Japan equities</b>		
Asia ex-Japan	▲	Strong policy tailwinds and a rapidly expanding AI ecosystem remain key growth engines for Asia, which should continue to benefit from diversification flows. We prefer mainland China, Hong Kong, Singapore and South Korea.
China	▲	The recent monetary easing measures are supportive of boosting domestic demand, a key growth driver alongside innovation. Low returns on cash and bonds should also drive flows into the equity market.
India	▶	While we expect GDP growth to remain strong in 2026, elevated valuations and modest earnings growth remain near-term headwinds.
Hong Kong	▲	Strong southbound flows, reasonable valuations, increased IPO activity and an improving property market outlook support our overweight on Hong Kong equities.
Singapore	▲	Singapore remains attractive to international investors, given its stable policy backdrop, exposure to high-quality companies, compelling dividend yields and defensive appeal. Both economic and earnings fundamentals remain solid.
South Korea	▲	South Korea is benefitting from a rising semiconductor and memory cycle driven by AI momentum. Attractive valuations and the 'Corporate Value-Up' Programme, which aims to enhance shareholder returns, are positive for the equity market.
Taiwan	▶	The impact of the AI ecosystem is not yet fully reflected in the market, while valuations and earnings momentum are less attractive than those of regional peers.
<b>Government bonds</b>		
Developed markets (DM)	▶	DM government bond yields are expected to remain range-bound, after reaching the lower end of their trading ranges, with UK gilts likely to be an exception. We upgrade gilts to overweight and Japanese JGBs to neutral.
United States	▶	As markets shift focus to the upcoming change in Fed leadership in May, we expect US Treasury yields to stay volatile within the current range and prefer the 5-7-year duration segment.
United Kingdom	▲↑	The Autumn Budget pushed major fiscal tightening towards the end of the current government term, while the ongoing disinflationary trend and our expectation of more rate cuts than markets have priced in lead us to upgrade gilts to overweight.
Eurozone	▶	Eurozone core markets face heightened fiscal spending needs and increased sensitivity to geopolitical developments. We take profits on periphery bonds after a strong rally and move our view on the region's government bonds to neutral.
Japan	▶↑	We move Japanese government bonds up to a neutral position as JGB yields appear to have overshot and valuations are more attractive now. We maintain our view of a 0.25% hike in Q3.
EM (Local currency)	▲	There is scope for EM rate cuts and for EM currencies to strengthen versus the USD, supporting performance.
EM (Hard currency)	▶	The US dollar could remain volatile. While yields remain attractive, we stay selective and focus on quality bonds.
<b>Corporate bonds</b>		
Global investment grade (IG)	▲	As credit spread volatility is expected to rise, we remain focused on locking in quality bond yields by prioritising investment grade credit for its all-in carry, and EM local currency debt for its diversification benefits.
USD investment grade	▲	We expect bond supply in the investment grade space to increase to fund infrastructure investments. While credit spreads have tightened, total yields remain attractive. We maintain our duration preference to medium.
EUR investment grade	▲	While sovereign bonds see less scope for capital gains in the long end and no further policy rate cuts from the ECB are expected, EUR investment grade credit offers relatively attractive value, particularly in the 7-10-year range.
GBP investment grade	▲	We prefer GBP investment grade credit with a 7-10-year duration target, which offers attractive value.
Asian investment grade	▲	Compelling yields and diversification flows continue to bolster Asian credit. We favour Japanese and Australian IG bonds, Asian financials, as well as Chinese hard currency and Indian local currency bonds.
Global high yield (HY)	▼	Global high yield returns are expected to be slightly lower, reflecting current elevated valuations and a modest spread widening over the coming 12 months.
USD high yield	▼	Despite a below-average default rate and a resilient economic outlook, geopolitical uncertainty and headline news on idiosyncratic credit events remain headwinds. Spreads are near multi-year lows and hence unattractive.
EUR high yield	▼	Although the risk of systemic issues is not high, we see better risk-adjusted returns in EUR investment grade credit.
GBP high yield	▼	With credit spreads below long-term averages, we see a more attractive risk-reward profile in GBP IG credit.
Asian high yield	▼	The subdued property market in China and external uncertainties reinforce our cautious stance on Asian high yield.
<b>Commodities</b>		
Gold	▲	Gold remains an effective diversifier amid sustained safe-haven demand, persistent geopolitical risks, and concerns around USD debasement.
Oil	▶	Oil prices have spiked due to uncertainty around Iran, but excess supply should cause this to revert in coming weeks.

## Sector Views

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

Sector	Global	US	Europe	Asia	Comment
Consumer Discretionary	►	►	▼	▲	Discretionary spending is highly selective as consumers prioritise value purchases and/or a select few brands. High valuations and a weaker pricing environment make the sector less appealing. Asia has seen more resilient demand, particularly for domestic brands. US demand has flattened as tariffs have raised prices many imported goods. European companies are reporting soft domestic and overseas sales and profits across most segments due to changing demand, competition and rising costs.
Financials	▲	▲	▲	▲	Financials services should benefit from another year of robust demand across trading, advisory, M&A, IPOs and issuance. Interest rates are likely to remain somewhat elevated, easing the impact of declining net interest income. The sector outlook in Europe and Asia appears most attractive. 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 robots. Order books continue to grow, with companies committing capital to new/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 the build-out of digital infrastructure, data centres, cloud capacity, electric vehicles and AI-enabled products.
Communications Services	▲	▲	►	▲	The media and entertainment segments continue to report above-average sales and earnings growth, especially in the US. Telecom services are starting to attract interest. Valuations remain undemanding. Asia remains attractive, although relative valuations are less compelling. Europe's telecom services offer a far less attractive proposition due to fierce competition, lack of scale, market complexity and high capital spending requirements.
Materials	▲↑	▲↑	▲↑	▲↑	We upgrade the sector as 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 over the last 8 months. Construction material demand and prices remain supportive. Chemical company margins and profits continue to be under pressure.
Real Estate	►	►	►	►	The outlook for the sector has somewhat 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 troughed for now. In terms of countries and regions, China faces specific challenges, but elsewhere in Asia, North America and Europe, demand for new office, warehousing, manufacturing facilities and housing is experiencing more favourable supply-demand dynamics. The US market is particularly benefitting from the reshoring trend.
Consumer Staples	▼	▼	▼	▼	The sales and earnings outlook for the majority of the sector remains unappealing. Consumers continue to increase purchases of value products while reducing spending on higher-margin branded goods. This is evident from the market share gains of value retailers. Undemanding valuations reflect the sector's limited growth potential.
Energy	▼	▼	▼	▼	We remain bearish on the sector due to sustained oil price weakness, as excess supply is likely to persist. In contrast, gas prices and demand appear more resilient. While the sector's low valuations, high dividends and robust cash flows may appeal, margins are unlikely to improve in the short term. The industry is undergoing a period of recalibration as it adapts to new geopolitical realities.
Healthcare	►	►	►	▲	The US government's healthcare policies remain in flux, impacting 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. Asian healthcare companies, particularly in China, benefit 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 most segments of the economy transition away from fossil fuels, while IT-related demand for electricity continues to soar. As many utilities have limited spare capacity, substantial capital investment is required to upgrade generation capacity and transmission infrastructure. Valuations and yield remain attractive.

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