HSBC Investment Outlook – August 2026 Monthly View
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Markets have been anything but calm the past few weeks, but if you look under the hood, the picture is more nuanced. It's a story of rotation and rapid changes in momentum, rather than broad-based weakness; and in fact, the outlook continues to be positive.

Semiconductor and technology hardware stocks have come under pressure as investors assess the pace of AI-related capex, and investors have rotated toward other segments of the AI ecosystem. So that rotation illustrates three things. Firstly, investors are not abandoning the structural AI trend, they are repositioning within it. There is a very wide spectrum of businesses and valuations within IT.

But on average, tech sector valuations are little changed versus a year ago, so valuations should not be an obstacle to invest in tech.

Secondly, current volatility reflects healthy scepticism. Now there is of course genuine uncertainty around return on investment and other aspects of AI, and that means that markets will continue to reassess winners and losers. But that scepticism also limits the risks of exuberance and of disorderly corrections.

Thirdly, the rotation is leading to a broadening of the rally, and that's helped by broadening US earnings growth. Second quarter consensus earnings look conservative outside of energy and materials, and that creates scope for positive surprises.

So given this backdrop, we maintain our global, US and tech overweights, but with exposure across the full AI ecosystem, from infrastructure and hardware, all the way through enablers and adopters, rather than concentrating in any single layer of the AI stack. And that approach, of course helps reduce the risks of being caught by rapid changes in momentum, while also preserving the exposure to this structural, long-term AI trend.

Now, let's turn to the East. The Hang Seng Tech Index and MSCI China underperformed onshore A-shares in recent months, partly due to uncertainty around cross-border investment and the global preference for hardware over internet leaders.

That could now be changing, as the global AI rotation should support investor interest in China's wider opportunity set, and several large Chinese internet companies look attractively valued relative to their cloud and AI businesses.

On the Middle East, the announced blockade of the Strait of Hormuz has driven a renewed spike in oil prices. And markets have responded by pricing in around fifty basis points of additional rate hikes from the Fed, the ECB and the Bank of England by March, a reaction which we view as overstated, given the current inflation trajectory and central banks tone.

But futures markets price Brent above seventy dollars a barrel through 2030, which suggests that markets expect this uncertainty to persist for an extended period. And that supports our Energy and Resource Security theme, spanning commodity producers, energy generation and electricity infrastructure.

We also view this theme as an effective hedge against inflationary uncertainty and market volatility. So, in light of these dynamics, we maintain three key positions.

Firstly, diversified exposure to the AI value chain rather than concentration in any single segment.

Secondly, our continued overweight in Asia, including mainland China, Hong Kong, South Korea and Singapore. And thirdly, our Energy and Resource Security theme.

In our rapidly changing world, volatility is a feature of markets. But we manage it through diversification while staying in the market, because there is plenty of earnings growth and income that we want to capture.