28 August 2026

1H 2026 Strategy Commentary (as at 30 June 2026)

Multi-Asset Strategy

Over the first half of the year, our portfolio maintained a modest overweight to equities while staying agile as market conditions evolved. We trimmed equity exposure and increased liquidity during a period of heightened geopolitical uncertainty, then gradually increased exposure to risk assets as conditions stabilised and markets recovered.

We stayed modestly pro-risk in equities, leaning towards the US on resilient growth and continued Artificial Intelligence (AI) investment, and towards Japan, Korea and Taiwan given their leverage to the AI and semiconductor capital-spending cycle. As returns became more uneven, we trimmed these exposures slightly to keep portfolio risk balanced. We also maintained a small overweight to China, supported by progress in AI and tech hardware and supportive policy, while remaining underweight Hong Kong where the market has fewer direct beneficiaries of the AI supply chain and has faced less supportive investor flows.

In fixed income, we maintained an overweight to Asia investment grade credit, supported by stable spreads, lower interest-rate sensitivity, strong local funding conditions and healthy corporate balance sheets, focusing on quality carry. We also held smaller allocations to US investment grade credit, US Treasuries and Euro area government bonds for diversification.

North American Equity Strategy

Our North American strategy uses a systematic process, rooted in discipline and scalability to invest in North American equities. By screening a broad universe, it aims to build a diversified portfolio which is less concentrated versus traditional market-cap weighted indices, which are often dominated by mega-cap AI and technology names.

As US market leadership broadened in the first half of 2026 towards cheaper, smaller-cap and lower-volatility stocks, our quantitative approach well captures these opportunities. The strategy’s disciplined and resilient approach aims to reduce macro biases, diversify the diversifiers and deliver long term outperformance across all market environments.

Chinese Equity Strategy

The Chinese equity market weakened in the first half of 2026, weighed by geopolitical uncertainty.

We maintain our quality-growth investment approach - the process is bottom-up, research-driven and disciplined, with the experience and track record to navigate market noise while protecting and compounding capital. During the first-quarter volatility driven by geopolitical conflict, which weighed on performance, we did not materially de-risk the portfolio, viewing the sell-off as sentiment-led and temporary rather than indicative of a deterioration in fundamentals.

The strategy continues to focus on top themes:

1. **AI adaptation and technology localisation** - Rising capex from major internet platforms is lifting confidence in the localisation of China's compute supply chain; we favour cloud platforms, application software and semiconductor equipment.
2. **Biotech breakthrough** - Out-licensing of innovative drugs continues to rise as China produces more high-quality medicines meeting international standards; we focus on pharmaceutical outsourcing, biotechnology and innovative drugs.
3. **Upstream sector** - We prefer upstream, asset-focused sectors; under anti-involution, modest supply discipline and improving pricing, plus Middle East supply disruptions, keep us positive on select metals and materials.

Hong Kong Equity Strategy

Our positioning reflects a conviction that China's recovery, while K-shaped, remains fundamentally intact, with leadership still concentrated in AI trades. This narrow breadth can drive sentiment-led dislocations, which we use to test fundamentals—while recognizing volatility may persist.

Anchored in earnings visibility as the key driver of performance, we focus on structural growth and see ample scope for alpha across three themes: AI adoption and localization, where rising internet-giant capex lift sentiment toward hardware self-sufficiency; Biotech breakthroughs, as innovative-drug out-licensing accelerates on globally competitive quality; and Upstream sectors, where anti-involution output cuts and Middle East disruption drive better pricing. Collectively, this diversification cushions tech volatility while positioning for a catch-up into results season.

Looking into second half of 2026, we expect moderate upside on improving earnings, AI and energy capex, and RMB strength, with resilient southbound flows and a supportive national-team backstop limiting downside. Near-term, offshore equities may stay volatile amid the Hong Kong IPO unlock and fading Federal Reserve cut expectations, before stabilizing after the summer.

Asia Pacific Equity Strategy

We remain constructively positioned in the Asian technology hardware supply chain where we believe the fundamental backdrop is still intact, strong technology-led performance in North Asia during first half 2026 has raised questions about whether leadership will persist in the second half. We are selective in where the returns are and are mindful that there could be market and stock volatility, as we could expect when a theme becomes crowded.

Our view remains anchored in earnings, which continue to be the key driver to equity performance, while dispersion among Asian constituents remains an important source of diversification. Thematically across the region, ongoing corporate governance reforms, policy initiatives, and deepening intra-regional integration are enhancing shareholder returns, strengthening manufacturing, and reshaping trade dynamics. Collectively, these factors position Asia as a compelling destination for investors seeking both growth and resilience in a dynamic global environment.

European Equity Strategy

European equities had a strong start to 2026, despite a bumpy second quarter. Markets were shaken by the Middle East conflict, which led to a sharp rise in crude oil prices. The 'oil shock' hit Europe particularly hard, as many companies rely heavily on energy and consumer spending. Luxury and other consumer-focused stocks were among the biggest fallers. Sentiment then improved quickly after an interim US–Iran peace deal which helped reopen the Strait of Hormuz, easing concerns about energy supply. This sparked a strong rebound, making Q2 2026 the best quarter for European equities since late 2020.

Performance varied by sector. Technology helped drive the late-quarter rally. Energy stocks also benefited from higher crude oil prices, while Utilities and Financials held up relatively well. Consumer Discretionary was the weakest area overall. Economic conditions remain mixed. The European Central Bank (ECB) lowered its 2026 eurozone growth forecast to 0.8% and raised its inflation view to 3.0%, reflecting the impact of higher energy costs. In response, the ECB increased its policy rate by 0.25% to 2.25% in June.

Looking ahead, European shares are close to recent highs, and company results for Q2 2026 will be important in shaping market direction—particularly as investors weigh AI enthusiasm, US rate expectations and global liquidity conditions.

Source: HSBC Asset Management, 30 June 2026

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