

Multi-Asset Insights

Building resilience across
regimes and regions

May 2026

Marketing Communication

For professional investors only

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Foreword



In search of diversification: the benefits of defensive assets and emerging markets.

Diversification has rarely felt more necessary – or more complicated. A world of higher public debt, an uncertain geopolitical backdrop and frequent macro regime changes have blurred the line between risk assets and traditional safe havens (bonds), exposing the limits of static 60/40 portfolios.

This edition revisits the foundations of diversification when it is really needed (bad times), asking what it really means to hedge equity tail risk when stock-bond correlations are no longer reliably negative and sovereign balance sheets are under pressure. Our analysis shows that the behaviour of government bonds, equity sectors and factors, currencies, commodities, and options is highly regime-dependent and tightly linked to macro dynamics, the origin of shocks and market microstructure. Importantly, it shows why no single asset can be counted on as an evergreen hedge.

The final part of the publication turns to emerging markets, arguing that their recent strength reflects more than dollar weakness. Improved policy frameworks, healthier external balances and credible inflation management have combined with powerful structural themes – from AI supply chains and data centre build out to critical metals and resource nationalism – to create a more resilient, but also more dispersed, EM universe. That dispersion reinforces the case for selective, active allocations that differentiate between beneficiaries of AI capex and data infrastructure, commodity exporters with improving fiscal positions, and economies still vulnerable to energy shocks and trade chokepoints.

Taken together, these perspectives point towards a more dynamic, regime-aware approach to portfolio construction – one that treats safe havens as evolving roles rather than fixed labels, and that blends sovereign bonds, alternatives, options and carefully chosen EM exposures into a coherent framework. I hope the analysis that follows helps you test existing assumptions, refine your hedging toolkit and identify where genuine diversification can still be built in a changing world.

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Jean Charles Bertrand
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In a nutshell

Rethinking safe havens for equity tail risk


- ◆ There is no single evergreen hedge for equity tail risk; the defensive behaviour of bonds, FX, commodities and options is highly regime dependent and shaped by growth-inflation dynamics, the origin of shocks, fiscal conditions and market structure.
- ◆ Government bonds hedge equities effectively when the stock bond correlation is negative and bond specific risks are low. Rising real rates, higher inflation variance and elevated fiscal uncertainty can push correlations positive and weaken their safe haven role.
- ◆ Within risk assets, diversification is increasingly found through sectors, factors and options rather than simple regional splits, with defensive sectors and tailored option overlays helping to reduce drawdowns when correlations spike.
- ◆ Effective tail risk management now calls for a dynamic, regime based framework that blends sovereign bonds, alternatives, FX, commodities and options, rather than relying on any single static safe haven.


Emerging markets: Beyond dollar luck

- ◆ Recent EM strength reflects more than a weaker US dollar; stronger fundamentals, improved external balances and credible inflation frameworks have reduced vulnerability to global risk off shocks.
- ◆ Structural themes around AI, data centre build out and digital infrastructure are increasingly central to the EM story, with North Asia and China at the core of the AI supply chain and India and parts of the Middle East emerging as key data and AI hubs.
- ◆ Metals sit at the heart of the EM story, as precious and industrial metals benefit from tight supply and long term demand from urbanisation, electrification, energy transition and AI infrastructure, creating opportunities across EM FX, equities and fixed income.
- ◆ EM remains highly heterogeneous: commodity exporters, AI beneficiaries and oil import dependent Asia face very different risk profiles, reinforcing the need for selective, active allocations.

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Rethinking safe havens for equity tail risk



Defensive assets are back in focus, but the behaviour of potential safe havens is strongly conditioned by macro regimes, crisis origins and market structure.

Harry Markowitz, the Nobel prize winning US economist and pioneer of Modern Portfolio Theory, once famously said that “diversification is the only free lunch”. If we do not have perfect knowledge of future returns, an investor can reduce overall portfolio risk without sacrificing potential returns by diversifying their portfolio.

But even well diversified portfolios can still carry significant risk. Historically, globally diversified portfolios containing only equities have seen stretches of more than 20 years of negative real returns, while similar bond only portfolios have in some cases faced multi decade real wealth destruction, particularly around major wars and inflationary episodes. The risks associated with these portfolios are still lower than investing in a single stock or bond, but they remain considerable nonetheless.

When thinking about diversification, we tend to focus on building portfolios with more than one asset class – the 60/40 portfolio of stocks and bonds being the classic example. The idea hinges on combining uncorrelated (or negatively correlated) assets to achieve the “free lunch” Markowitz described.

However, asset class dynamics mean this hasn’t always been easy to do, particularly during macro shocks. Even the 60/40 portfolio suffered deep drawdowns in systemic crises such as the First World War and the Great Depression, underlining that simple diversification is not a guarantee against large losses when macro shocks are severe.

Over recent years, average correlations within multi-asset portfolios have trended higher as markets have become more globally integrated. Against this backdrop, defensive assets are back in focus, but historical evidence suggests there is no evergreen hedge for equity tail risk. Instead, the behaviour of potential safe havens is strongly conditioned by macro regimes, crisis origins and market structure.



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Marcel Pilger

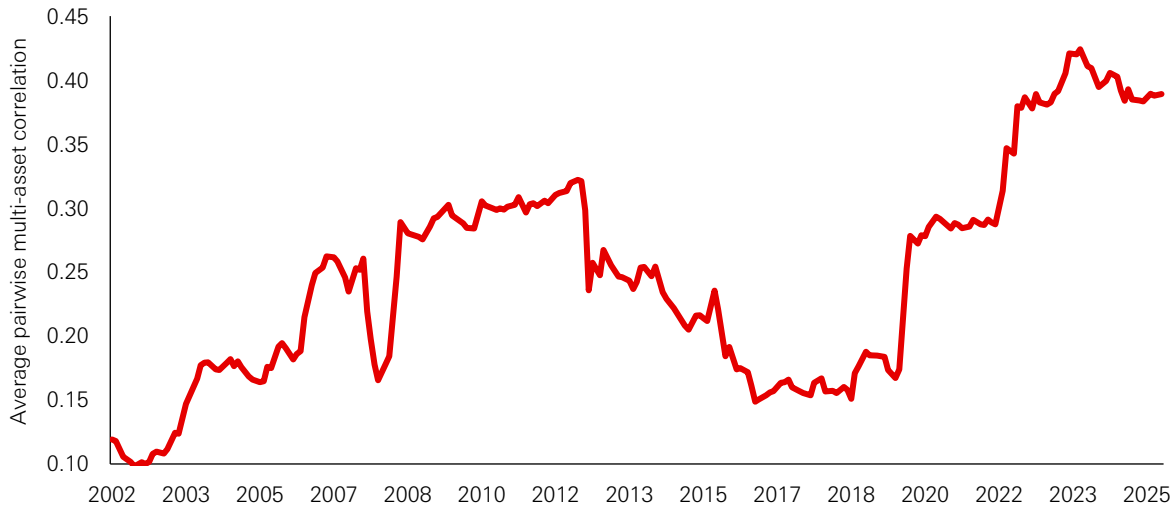
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Figure 1: Multi-asset correlations have risen



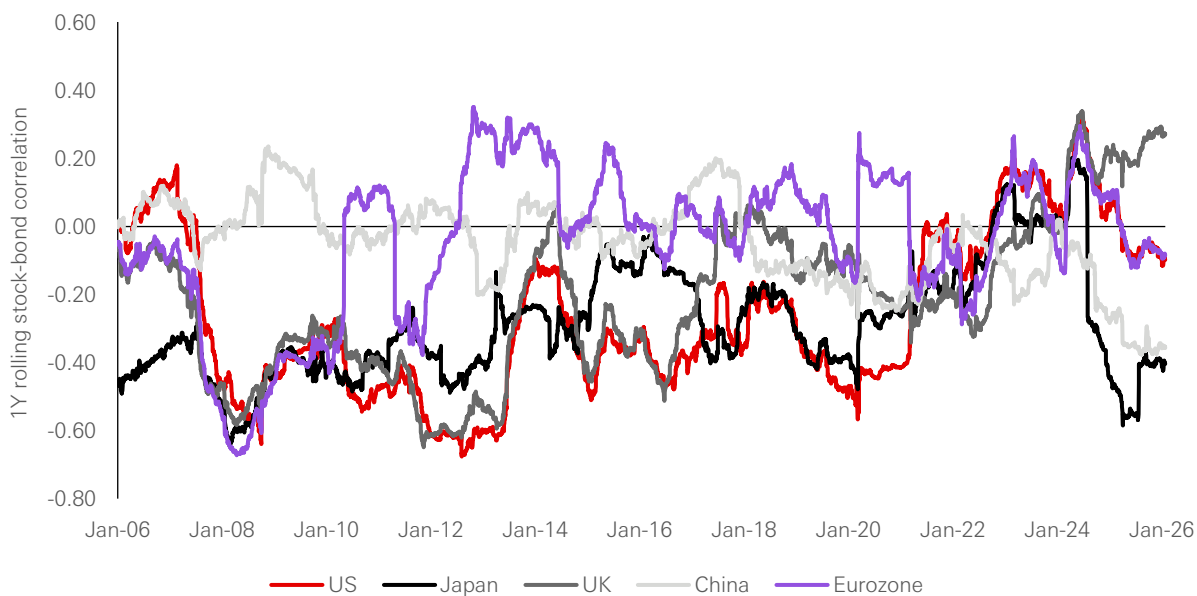
Source: HSBC Asset Management, Bloomberg. Data as of March 2026.

Fixed income and the importance of the stock-bond correlation

Government bonds have been the default hedge for equity risk, but their effectiveness is fundamentally tied to the stock-bond correlation (SBC). When correlations are negative and bond-specific risk is low, sovereign bonds can effectively exhibit a negative risk premium, behaving as defensive assets and thus providing an effective equity hedge.

The SBC is dynamic, and historically a positive SBC has been the most persistent regime over time. SBCs also vary between economies. For example, the negative correlation exhibited between 2000 and 2020 was mostly limited to North America, whereas in Europe it had already reversed during the European sovereign debt crisis, led by periphery countries and later joined by core European nations.

Figure 2: Different economies = different behaviour of SBC



Source: HSBC Asset Management, Bloomberg. Data as of March 2026.

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This divergence is an example of how macro conditions play a central role in determining SBC, and thus the suitability of bonds as a diversifying or safe haven asset. Rising real rates and higher inflation variance relative to growth variance tend to push SBC higher, as both equities and bonds sell off in response to inflation or policy shocks. By contrast, rising growth risks, increased risk aversion, flight-to-quality flows and more accommodative monetary policy tend to pull SBC lower, as bonds rally when equities fall.

The origin of the shock matters a great deal in this respect. Trade and tariff shocks have historically seen sovereign bonds perform relatively well in equity drawdowns, as growth concerns dominate the potential inflation impacts. By contrast, periods of elevated military spending often involve shifting part of the fiscal burden onto bondholders through surprise inflation and financial repression, leading to weak real bond performance even as risk assets sell off.

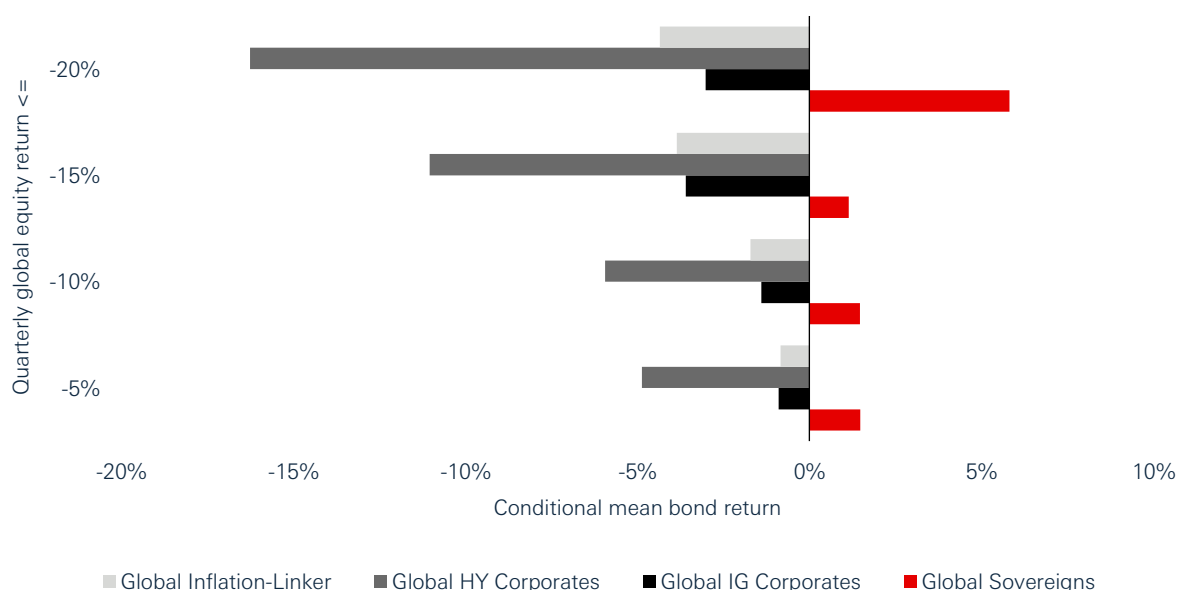
Recent history has highlighted an additional layer: market microstructure. During the early phase of the Covid pandemic, US Treasuries briefly sold off alongside equities as dealer balance sheet constraints and forced liquidations overwhelmed safe haven flows, showing that even benchmark sovereigns can experience pro-cyclical price action when intermediation capacity is strained.

In environments where the SBC is positive and fiscal uncertainty elevated, alternative strategies have historically played a larger role, including commodity carry, credit carry and bond trend-following, which has delivered strong returns at near-zero correlation to 60/40 portfolios and tended to outperform in inflationary periods.

Rate and credit derivatives – such as CDS index protection buyers and receiver swaptions – can also provide targeted hedges to shifts in policy expectations and credit spreads when duration is less reliable as a defensive tool.

Looking ahead, several indicators are relevant for assessing the appropriateness of sovereign bonds as hedges. These include net debt-to-GDP, defence-spending trends, measures of market liquidity and other components of the convenience yield on benchmark sovereign bonds. The supply and demand backdrop is another consideration as government borrowing has crept higher in a number of countries, an effect that may be further exacerbated if geopolitical tensions escalate.

Figure 3: Nominal sovereign bonds can be a safe-haven



Source: HSBC Asset Management, Bloomberg. Data as of March 2026.

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Look to sectors for equity diversification

Finding diversification within equities has become an increasing point of focus for investors as rising index concentration has increased equity risk, particularly in the US where mega-cap tech stocks have surged. The top 10 stocks now account for an elevated share of returns, making downside risks more asymmetric if leadership reverses.

At the same time, cross-country equity correlations have risen. Once a popular avenue for diversification, most major regional pairs now exhibit correlations in the 0.6-0.8 range, suggesting that global macro policy and liquidity conditions increasingly dominate local drivers. This reduces the diversification value of simple regional allocation.

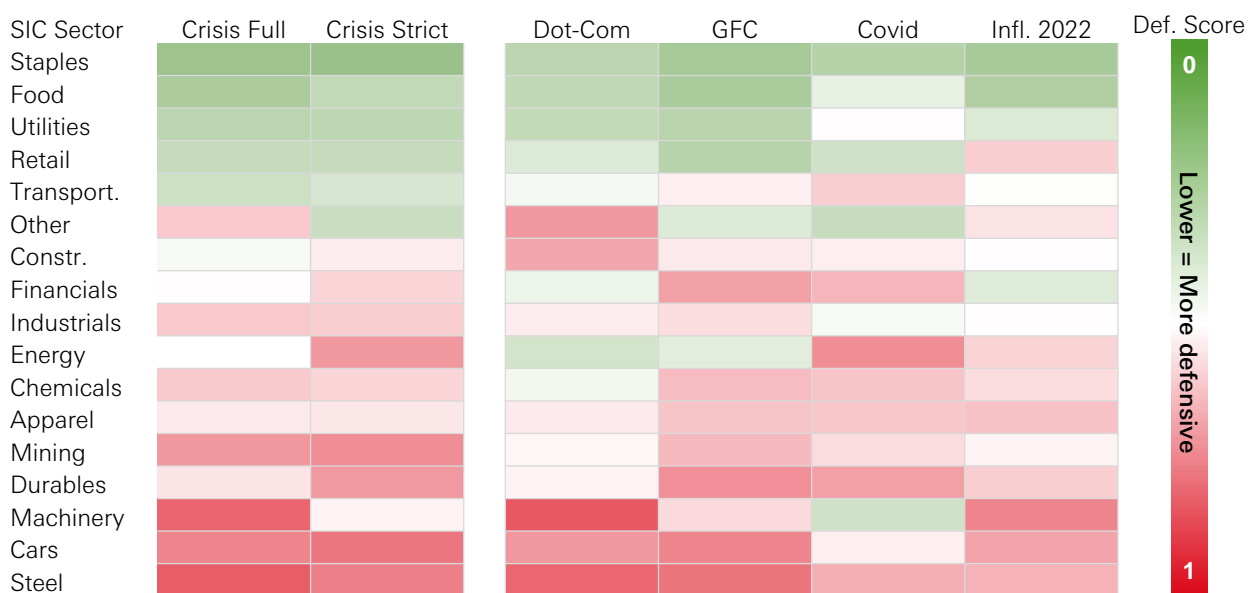
Instead, cross-sector correlations display a much broader range of correlation metrics, with sectors such as utilities, telecoms and consumer staples displaying defensive qualities. Further sector analysis using Fama–French industry portfolios shows that defensive leadership is persistent, but downside sensitivity is regime dependent. A good illustration of this is the performance of food and utilities during the Covid pandemic.

Figure 4: Cross-sector correlations display route to equity diversification

	Europe			USA			ConStap	Health	Util	Energy	RE	Materials	Comms	Inds	Tech	ConDis	Fins		
Autos	1.0						1.0	0.5	0.5	0.3	0.6	0.5	0.3	0.4	0.1	0.3	0.4	ConStap	
Banks	0.5	1.0						1.0	0.4	0.3	0.6	0.6	0.4	0.5	0.3	0.4	0.5	Health	
Res	0.5	0.6	1.0						1.0	0.3	0.6	0.4	0.3	0.4	0.2	0.3	0.4	Util	
Chem	0.7	0.5	0.5	1.0						1.0	0.4	0.6	0.4	0.6	0.4	0.4	0.5	Energy	
ConMat	0.6	0.7	0.5	0.7	1.0						1.0	0.6	0.4	0.6	0.3	0.5	0.6	RE	
FinSvc	0.4	0.5	0.4	0.4	0.5	1.0						1.0	0.6	0.8	0.6	0.7	0.7	Materials	
F&B	0.4	0.2	0.2	0.6	0.4	0.2	1.0						1.0	0.7	0.7	0.8	0.7	Comms	
HC	0.3	0.4	0.3	0.5	0.5	0.3	0.5	1.0						1.0	0.7	0.8	0.8	Inds	
Indus	0.6	0.7	0.6	0.6	0.8	0.6	0.3	0.5	1.0						1.0	0.7	0.5	Tech	
Insur	0.4	0.7	0.3	0.5	0.6	0.5	0.4	0.4	0.6	1.0						1.0	0.7	ConDis	
Media	0.4	0.4	0.3	0.5	0.5	0.5	0.4	0.5	0.5	0.4	1.0						1.0	Fins	
O&G	0.4	0.5	0.6	0.3	0.4	0.3	0.2	0.3	0.5	0.4	0.2	1.0							
PHG	0.5	0.5	0.5	0.7	0.5	0.4	0.6	0.5	0.5	0.5	0.5	0.3	1.0						
RE	0.2	0.2	0.2	0.4	0.4	0.3	0.4	0.4	0.3	0.4	0.4	0.2	0.4	1.0					
Retail	0.5	0.5	0.4	0.6	0.6	0.5	0.4	0.4	0.6	0.5	0.5	0.4	0.5	0.4	1.0				
Tech	0.5	0.5	0.5	0.5	0.6	0.5	0.2	0.4	0.7	0.4	0.5	0.4	0.5	0.2	0.5	1.0			
Telco	0.2	0.4	0.2	0.4	0.3	0.2	0.5	0.4	0.3	0.5	0.4	0.2	0.4	0.5	0.4	0.1	1.0		
T&L	0.5	0.6	0.4	0.5	0.6	0.5	0.3	0.3	0.6	0.5	0.4	0.3	0.5	0.3	0.6	0.5	0.3	1.0	
Util	0.1	0.2	0.2	0.3	0.3	0.2	0.5	0.3	0.2	0.5	0.2	0.3	0.3	0.6	0.3	0.1	0.6	0.2	1.0
	Autos	Banks	Res	Chem	ConMat	FinSvc	F&B	HC	Indus	Insur	Media	O&G	PHG	RE	Retail	Tech	Telco	T&L	Util

Source: Bloomberg as of March 2026. Note: The correlation is for the last 24 months.

Figure 5: Traditional defensives are consistently more resilient across stress episodes



Source: Eugene F. Fama and Kenneth R. French, Bloomberg as of March 2026. Note: “Crisis Full” represents a broad stress regime capturing the full market event (build-up, drawdown and recovery), providing more observations and more stable defensive metrics. “Crisis Strict” represents a narrower, high-intensity window isolating the peak stress phase, resulting in fewer observations. Dot-com period: 1 Jan 1998–31 Dec 2002. “Now” period: 1 Jan 2021–present. Block for Block-bootstrap had size of 6M.

Factor behaviour adds further nuance. In the US, returns remain heavily influenced by momentum and large-cap leadership, consistent with narrow index breadth. The value factor has been cyclical – lagging in growth-dominant, momentum-heavy phases, but stabilising as macro dispersion and rate volatility increase. Outside the US, value performance has been more stable in Europe, the UK and emerging markets, reflecting different sector mixes and lower exposure to US-style mega-cap technology.

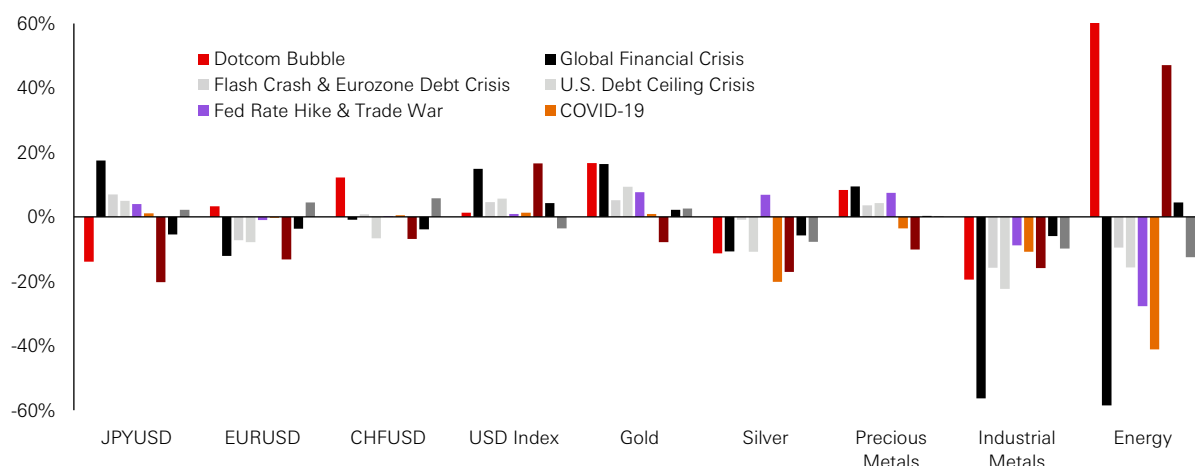
FX and commodities in a fragmenting world

Currencies and commodities have long provided important safe haven candidates, but their hedging roles are being reshaped by geopolitical fragmentation, fiscal trajectories and evolving central bank action.

Historically, the US dollar, Swiss franc and gold have been among the assets most frequently providing protection during equity drawdowns. Analysing past crises including the global financial crisis, Covid-19 and recent geopolitical shocks confirms that these assets have often delivered positive returns when equities sold off, although notable exceptions highlight the conditional nature of their safe haven status.

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Figure 6: Performance during major historical risk-off events



Source: HSBC Asset Management, Bloomberg, February 2026. Periods were defined as: Dotcom Bubble: Apr. 2000 - Sep. 2002, Global Financial Crisis: Nov. 2007 - Feb. 2009, Flash Crash & Eurozone Debt Crisis: May. 2010 - Jun. 2010, U.S. Debt Ceiling Crisis: Jul. 2011 - Sep. 2011, Fed Rate Hike & Trade War: Oct. 2018 - Dec. 2018, Covid-19: Feb. 2020 - Mar. 2020, Ukraine War: Jan. 2022 - Sep. 2022, Bond Market Rout & Recession Fears: Aug. 2023 - Oct. 2023, Liberation Day: Mar. 2025 - Mid Apr. 2025.

The US dollar depreciated sharply in 2025, despite heightened volatility, as aggressive tariffs and debates over Federal Reserve independence eroded confidence, prompting some investors to reduce exposure to US Treasuries. However, during the current episode of tensions in the Middle East, the dollar's behaviour reverted toward a more traditional safe haven asset, illustrating how political and institutional factors can temporarily override standard risk-off patterns.

The Swiss franc continues to display classic safe haven characteristics, but its small market size limits its capacity to absorb large global flows. The Japanese yen, meanwhile, transitioned into a more counter-cyclical currency after 2005, when net foreign income began to exceed the trade surplus, but it remains vulnerable to oil price spikes due to Japan's net energy importer status.

On the commodity side, gold has evolved from a passive inflation hedge into a strategic competitor to US Treasuries as a reserve asset, particularly for non-Western central banks seeking sanction resistant assets with zero counterparty risk. At the same time, gold's short-term performance remains sensitive to real yields, positioning and technical factors; for example, during the early phase of the Ukraine war, rising real yields weighed on gold despite elevated geopolitical risk. More recently, gold has failed to provide an effective hedge during the current Middle East conflict after its strong run in 2025 and early 2026 meant that it was overvalued coming into the volatility.

Energy prices are generally not an equity hedge, apart from in certain circumstances where geopolitical tensions are centred on oil-producing regions and supply fears dominate.

Using options for diversification

Options can be used to gain exposure to volatility, particularly through long (equity) option positions that typically benefit from rising implied volatility and negative equity returns during drawdowns. Equity sell-offs are often accompanied by volatility spikes and rising cross-asset correlations, which can weaken traditional diversification. In such regimes, long-volatility option overlays may provide a more defensive, convex return profile.

Options markets are usually accessible during sell-offs, although bid-ask spreads can widen and execution costs can rise. A wide range of strikes and maturities allows payoff profiles to be tailored to specific risks.

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Figure 7: Option based strategies as safe havens and reliable diversifiers

	Protective Put	Collar	Covered Call
Economic Objective	Tail hedge / Crash insurance	Downside protection at reduced cost	Harvest volatility risk premium
Payoff & risk characteristics	<ul style="list-style-type: none"> • Long put = full downside protection below strike • Unlimited upside participation • Negative carry (premium cost) 	<ul style="list-style-type: none"> • Long put financed by short call • Downside protection below put strike • Upside capped above call strike • Lower or zero net premium 	<ul style="list-style-type: none"> • Short call generates premium income • Full downside exposure • Upside capped • Positive carry in calm markets
Portfolio implications	<ul style="list-style-type: none"> • Strongest convexity • Best crises hedge • Lower drawdowns, reduces left-tail risk • Reduces long-term returns due to insurance cost 	<ul style="list-style-type: none"> • Balanced risk reduction • Reduced volatility • Limited participation in strong bull markets • Compromise between carry and protection 	<ul style="list-style-type: none"> • Volatility reduction in normal markets • Partial drawdown mitigation • Limited crisis protection • Performs well in sideways markets

Source: HSBC Asset Management, March 2026.

Long-term benchmark evidence for protective put, collar and covered call strategies suggest that option overlays can reduce maximum drawdowns relative to unhedged equity exposure, but outcomes depend materially on implementation choices (strike, tenor, roll rules) and transaction costs, and they typically reduce upside participation in strong bull markets.

Protective puts tend to offer the strongest crisis protection; collars provide more balanced risk reduction by partially funding the hedge; and covered calls are short volatility strategies that monetise volatility risk premia but generally provide only limited drawdown protection.

Importantly, no single options strategy dominates across all environments; the choice between long- and short-volatility structures depends on expectations about crisis frequency and severity, the level of implied volatility and tolerance for carry costs versus drawdowns. However, they can play a structural role in tail-risk management, particularly when traditional hedges such as bonds, FX or commodities are less reliable.

Dynamic, regime-based hedging

Across fixed income, equities, FX, commodities and options, the evidence points to a common conclusion: safe-haven behaviour is highly regime-dependent rather than fixed. Hedging characteristics have varied with growth-inflation dynamics, the origin of shocks, policy responses, fiscal conditions and market structure, so assets that appeared defensive in one episode have not always played the same role in the next.

Historical crises and the recent experience of 2025–26 illustrate this point clearly: nominal sovereign bonds, traditional safe-haven currencies, gold, defensive equity sectors and option strategies have each provided material diversification benefits in some environments, yet all have also faced periods when their protective qualities were weaker or briefly reversed. Taken together, this suggests that no single static hedge works across all macro and market regimes, and that effective diversification may call for a more dynamic approach.

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Emerging markets: Beyond dollar luck



EM is no longer a single 'risk-on' trade – it's a heterogeneous opportunity set demanding selective consideration.

In 2025, the stars aligned for emerging markets and the asset class delivered stellar returns. Much of the credit for this performance has been given to a weaker US dollar but there is a great deal more happening under the hood. The EM story has evolved, with macro, valuation and thematic tailwinds of AI and commodities all now providing structural support for EM assets. Even with stronger structural tailwinds, performance is uneven across EM, making active, selective positioning critical.

EM performance is about fundamentals, not just luck

The performance of EM assets has long been intertwined with movements in the dollar. EM economies often issue debt in USD, so a weaker dollar makes servicing this debt in local currency cheaper. It also improves the competitiveness of EM exports, especially in commodities, which are key exports for many EM economies .

In 2025 and the start of 2026, the US dollar weakened as confidence in US economic policy and Federal Reserve independence eroded. As one would expect against this backdrop, the performance of EM assets was strong.



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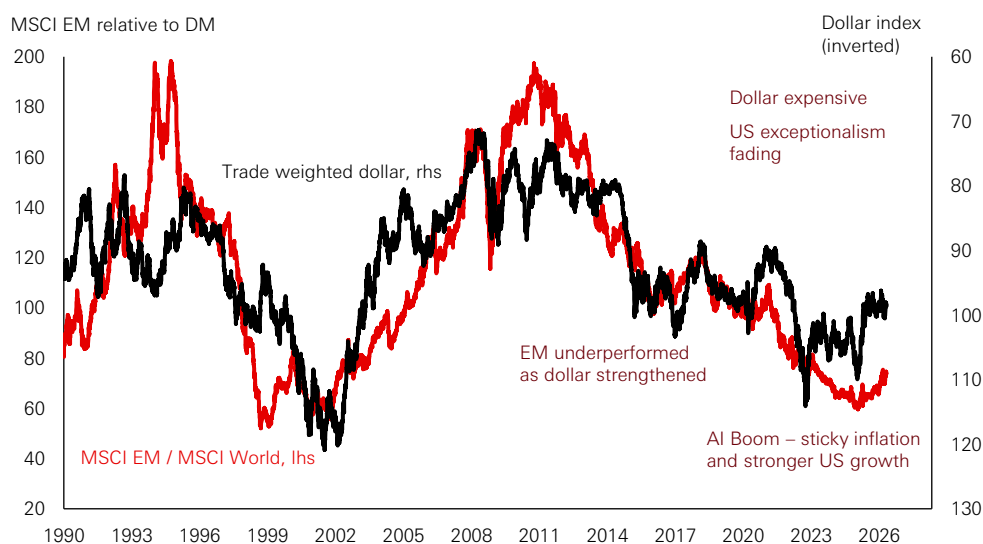


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Figure 1: Weaker dollar (black) correlates with strong EM stocks (red)



Source: Refinitiv, MSCI, HSBC Asset Management, February 2026.

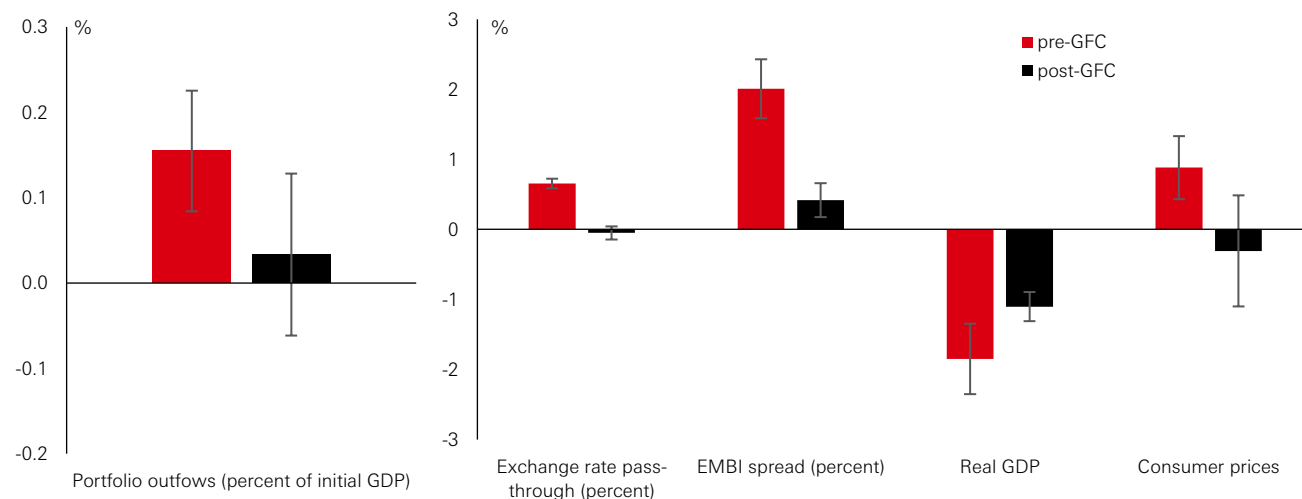
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The weaker US dollar was clearly a meaningful tailwind for emerging market performance, but it's far from the only driver. EM economies have become more fundamentally sound, delivering trend GDP growth that has generally exceeded that of developed markets since the financial crisis, strengthening fiscal management and FX reserves, and enhancing central bank credibility. The latter is closely linked to the inflation backdrop in EM economies.

EM central banks were generally quicker than their DM counterparts to hike interest rates after the Covid pandemic, and many EM economies were able to get inflation back under control quicker than DM peers. Today, the inflation picture is broadly positive for most EM countries, with issues in China centred on a lack of inflation, in contrast to DM peers. There is still ample room for EM policy rates to fall: Latin American countries such as Brazil, Colombia and Mexico remain near the top of their five-year ranges, as do many CEEMEA economies, whereas Asian rates tend to sit towards the lower end.

Improving fiscal positions have also reduced vulnerability to external shocks. EMs have lowered external debt to GDP ratios and reduced reliance on US dollar borrowing, diminishing the sensitivity of local bond yields to dollar strength and global risk off episodes. Current account positions have meanwhile shifted from widespread deficits in 2009–2010 towards narrower gaps or surpluses in several economies, including China and South Korea.

Figure 2: EM response to global risk-off shocks



Source: IMF, HSBC Asset Management, October 2025.

EM at the heart of the AI boom

While EM countries have built resilience against further shocks, when looking at growth, there are two major themes that have dominated over the last year. These are artificial intelligence and commodities. That said, the benefits won't accrue evenly across emerging markets and capturing them will depend on investing in the right countries, sectors and asset classes.

EM tech companies are at the centre of the global proliferation of AI and, similar to their US peers, they dominate their respective equity markets. In fact, the EM equity universe is more exposed to tech companies than the US, while stock concentration in major AI players is also greater.

Among these concentrated exposures are Taiwanese and Korean chipmakers. These companies are wholly integrated into the global AI supply chain and well placed to benefit from the surge in US hyperscaler capex. We also find EM AI hyperscalers, large companies at the heart of the AI trend that are building out AI networks, compute capabilities and storage at scale. China dominates the hyperscaler market in EM, but it is also focusing its efforts on AI independence versus the west, potentially offering some diversification in the space.

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India is also an emerging AI player. Its large IT services sector highlights key vulnerabilities in India's economy, with AI threatening to replace many of its business. However, the government is trying to pivot towards developing India as an AI hub by incentivising investment from US hyperscalers and hosting global summits. If India successfully rotates towards an AI-hub model, we could see a growth rotation from white collar vulnerability to a hyperscaler capex beneficiary.

Building EM's data centre backbone

One key opportunity for India's AI transition, and EM more broadly, is in data centres. The data centre landscape in EM is relatively nascent – outside China, where it is more established – but things are changing. There is growing demand from US and Chinese hyperscalers to build data centres closer to large populations to reduce latency for end users, and governments such as India's are offering incentives to attract this investment and boost growth.

China's position in the data centre market is strengthened by its streamlined permitting system, which allows data centres to be built much faster than in the US and Europe. US export restrictions on high performance chips, which are vital for training AI models domestically, are an obstacle for Chinese hyperscalers but data centres in Southeast Asia provide a means for China to access these chips.

More broadly, ever increasing geopolitical tensions have seen many EM countries reevaluate their reliance on US tech, with China, India, and countries in the Middle East focusing on greater ownership of data and building out their own domestic infrastructure.

The biggest hurdle facing countries building out data centres is utility capacity. Outside China, power supply constraints have led governments such as Malaysia's to impose limits on new data centre projects to safeguard grid stability around key urban areas. Over time, resolving these constraints could provide a meaningful growth impulse and create AI-related tailwinds for local fixed income and FX markets.

AI adoption across EM

The adoption and monetisation of AI could offer further opportunities, but progress has been quite uneven across countries and sectors. Strong top-down policy support has enabled rapid AI adoption in the Middle East, while the lack of cloud infrastructure and homogeneous enterprise platforms present an obstacle in other EM regions. However, there are several uniquely EM solutions that could be adopted. For the consumer sector, EM countries – particularly China – have a strong history of building 'super apps' that blend multiple functionalities. These apps can combine personal and commercial data that could create new opportunities not seen in DM.

Health care and robotics both represent further opportunities. China's health care infrastructure and data are relatively centralised and ripe for extensive AI deployment. The country, alongside Korea, is also an adopter of AI robotics to assist in blue collar work. However, many companies engaged in these activities remain privately owned, and while publicly listed opportunities exist, they remain limited compared to the size of the industry.

The EM AI investment landscape

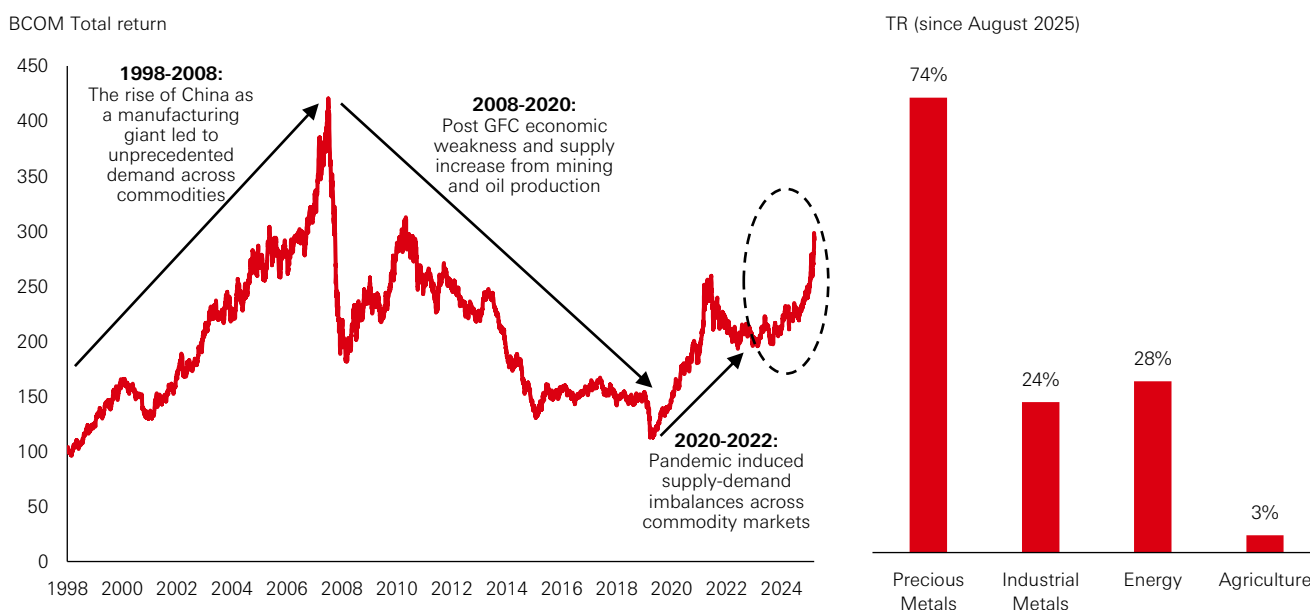
From an asset allocation perspective, Korea and Taiwan are already recognised as deeply entrenched AI beneficiaries, but moves so far this year have highlighted how volatile these concentrated AI plays can be. China, meanwhile, spans multiple AI sub-themes and its pursuit of AI independence offers some diversification versus its narrower North Asian peers, though it would not be completely immune to downturn in US AI stocks.

Outside North Asia, AI is primarily a stock selection story, with limited near term feedthrough to country-level equity and bond indices. Over time, more opportunities are likely, but they depend on a favourable sequencing of AI employment disruption, global AI capex, domestic infrastructure build out, regulation, AI driven productivity improvements and macro conditions.

Metals at the core of EM

Commodities are among the key exports for EM countries and are central to the investment case. The latest rally in commodity prices has been largely focused on metals, with both precious and industrial metals outperforming since last year, while agriculture and energy have been broadly flat outside the recent Middle East conflict.

Figure 3: EM response to global risk-off shocks



Source: HSBC Asset Management, Bloomberg, March 2025.

The uptick in metal prices is not just due to the weaker dollar; there is evidence of a structural shift. We [recently wrote](#) about how gold is becoming a strategic asset rather than a purely tactical inflation hedge, with central banks now a key component of demand. Additionally, gold has a niche application in AI accelerator chips, which is a small but growing part of its demand.

Demand for industrial metals is also underpinned by long-term structural themes such as urbanisation, electrification, energy storage systems, and AI and data centre build-out. Rising geopolitical tensions and de-globalisation have also ushered in an era of 'resource nationalism', with governments building up stocks of critical metals that are seen as essential to national security and industrial policy.

Supply scarcity is another important factor supporting higher prices. Much of the value of precious metals is derived from their scarcity, and the marked slowdown in discoveries of large-scale gold reserves, as well as the depletion of easily accessible gold deposits, is likely to maintain tight supply.

Source: HSBC Asset Management, May 2026. The views expressed above were held at the time of preparation and are subject to change without notice. Any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Asset Management accepts no liability for any failure to meet such forecast, projection or target.

Industrial metals are also witnessing supply tightness. Years of underinvestment, declining copper ore grades and much longer mine development timelines are limiting the ability of new supply to respond quickly to higher prices. Higher prices can help incentivise secondary scrap supply, but this potentially tightens the market further down the line. As a result, we have entered a new environment where higher prices no longer narrow the supply-demand gap.

Other factors are more policy led such as China’s anti-involution campaign, which has led to cancellations of lithium mining permits and a production cap for aluminium.

Several metals are now already in deficit territory, with balances still tightening. Many EM producers are positively exposed to this supply-demand imbalance. In Latin America, Chile is the world’s largest copper producer while Brazil has exposure to bauxite, which is used in aluminium production. Africa is a large producer of precious metals, while in Asia, China leads in rare earth metals and Indonesia in nickel production.

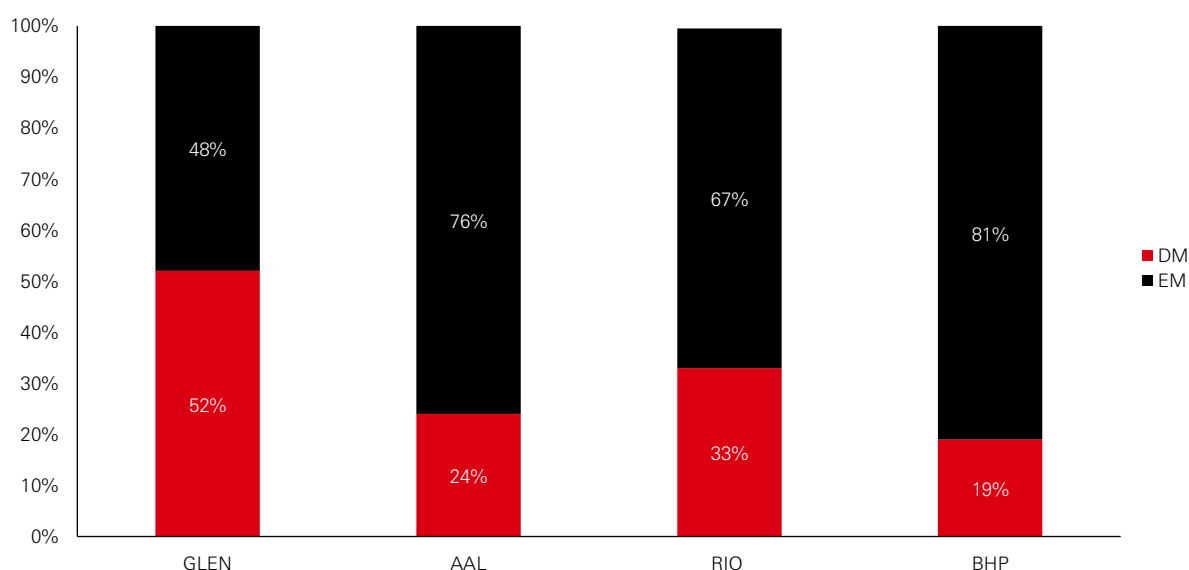
Accessing the metals story

Commodity-linked derivatives are often the first route that comes to mind when trying to gain exposure to commodities. But for many resources, this avenue isn’t always optimal. For example, there are currently no futures for rare earth metals, lithium is not in the Bloomberg Commodity Index, and even where futures exist (such as copper), they are not always the most liquid.

Equity metal-linked exposure is therefore a potentially more efficient way for investors to access this theme. The EM metals and mining sector accounts for a larger share of the broader EM index than the equivalent DM sector. At the country level, South Africa stands out, with around 22% of its equity index revenues coming from precious metals, while Poland, Greece and Mexico have the strongest listed links to copper.

Interestingly, there is a disconnect between where resources are mined and where equity revenue exposure sits. For example, Chile has no copper revenue exposure in its listed equity market, since Codelco – the largest copper miner in the world – is state-owned. As a result, it is often appropriate to look at DM companies operating in EM countries to get the most direct exposure to the EM commodity theme.

Figure 4: DM listed diversified miners revenue split by geography



Source: HSBC Asset Management, annual company reports. Data as of end 2025.

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The limitations around EM equity exposure to commodities centre on idiosyncratic country risk and corporate governance concerns. Examples include cartel issues in Mexico and governance concerns in Indonesia, which saw it downgraded to frontier status. While there have been improvements in select EM equity markets, it will take time to bring EM to parity with DM standards. Risk management and position sizing become key when expressing this theme via EM.

Outside equities, currencies are arguably a more direct play on the commodity theme. Commodity-orientated currencies in Latin America and EMEA have outperformed during the recent commodity rally. These gains still look quite subdued if we compare against the improvement in terms of trade. More generally, there is potential for a virtuous cycle in these economies: improved trade balances support FX appreciation, which lowers imported inflation and creates room for rate cuts, which in turn supports growth and fiscal outlooks, attracting further inflows.

One way in which fixed income exposures can benefit is via higher metal prices increasing government revenue. This can be done through royalties, corporate taxes on mining profits, and export duties improving fiscal positions and reducing risk premia, which can benefit local bond markets. Countries with high mineral resource rents as a % of GDP include Chile, Brazil, South Africa and Indonesia.

Oil vulnerabilities and trade chokepoints

While metals provide a structural tailwind to many EM commodity exporters, oil vulnerability has come sharply into focus, especially for Asian importers. Korea, Taiwan and much of ASEAN (excluding Malaysia) are heavily dependent on imported oil and gas, and rely on political stability in the Middle East and frictionless maritime shipments.

For India and China, oil and gas imports represent a smaller share of GDP, and China's overall energy mix is less reliant on oil, with heavy coal use gradually giving way to cleaner sources. However, both countries still face significant route dependency: roughly 80% of China's imported crude passes through the Strait of Malacca, and around 90% of Japan and South Korea's energy imports transit the same corridor, with Taiwan similarly reliant on seaborne flows.

Recent geopolitical flare-ups have underlined how fragile these arteries can be. Iranian threats to the Strait of Hormuz, renewed piracy in the South China Sea and around the Strait of Malacca, the 2021 Suez Canal blockage and US efforts to exert greater influence over the Panama Canal all highlight the risk of sudden disruptions. For EM, this creates asymmetric downside for oil importing Asian markets in any prolonged supply shock. Bottom-up differentiation across EM becomes increasingly important.

A more resilient EM landscape, but granularity is key

EM's appeal today rests on more than dollar weakness. Strong macro fundamentals, improved debt profiles and credible inflation frameworks have reduced vulnerability to risk-off shocks, while policy rates in many markets remain well above pre-Covid levels, leaving room to ease as inflation normalises. At the same time, valuations are still compelling: EM FX is heavily undervalued versus the dollar, real yields sit near the top of their 10-year ranges in key markets, and EM equities trade at a sizeable discount to DM, despite strong earnings momentum in tech and commodity-heavy indices.

These foundations are reinforced by structural themes. North Asia sits at the heart of the global AI supply chain, whilst China is pushing to establish itself as a self-reliant global leader in AI technology. The Middle East stands out for its rapid adoption of AI, whilst India is racing to attract data centre and AI hub investment. Thanks to these trends, metals-exporting EMs in Latin America, Africa and Asia stand to benefit from a persistent supply-demand imbalance in critical minerals.

While EMs benefit from powerful structural tailwinds, improving fundamentals and attractive valuations, they represent a highly heterogeneous group of countries that cannot be treated as a single, binary 'risk-on/risk-off' bloc. This reinforces the case for a selective, active and fundamentals driven approach to the asset class.

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