HSBC Global Investment Research

4 June 2026

What would make us bearish?

Multi-Asset Strategy

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Global

- It's the one consistent question we get right now: given our aggressive risk-on stance, what would make us bearish?
- Loftier earnings expectations, geopolitics, and higher UST yields all rank pretty low on the list
- Any signs of stretched sentiment and positioning, slowing AI spending, and increase in chip supply are our biggest worries

Max bullish

While we remain aggressively risk-on in our tactical asset allocation, we've had one consistent question in our recent conversations: **what would make us bearish?**

Low on the list

1. **Lofty earnings expectations**: the consensus expectation is for Q2 US EPS to *drop* slightly q/q. So, earnings expectations in the near term should actually be another *upside* catalyst given they should be easy to beat. There's a higher bar to beat in H2, but if Q2 sees similar surprises to Q1, such concerns may well vanish.

2. **Geopolitics**: energy prices have stabilised of late, so for the conflict to start weighing on risk assets more broadly again, we'd have to see escalation to a level that that overrides optimism from tech/AI/potential Q2 EPS surprises.

3. **Higher rates:** strong Q1 earnings, heavy index concentration masking weakness under the hood in equity and credit markets, lower levels of rates vol, and notably lower sensitivity to rates in the US are all reasons for the stability of risk assets. The US front-end has re-priced some 30bp (Dec26) since the last FOMC meeting. So out-hawking this may prove tricky.

High on the list

4. **Sentiment and positioning:** we're not overly worried about the upcoming mega-IPOs. Potential headwinds from higher equity supply might well be countered by wealth so far 'trapped' in private markets being 'unlocked'. We're more worried about any supportive news flow from the Middle East prompting a genuinely broad-based rally in equities and credit alike – which in turn could easily prompt a proper sell signal in our positioning framework.

5. **Slowdown in tech/AI:** tech/AI being the major driver for US equities now presents a risk to US household wealth. If tech/AI were to weaken, it would present a downside risk to *overall* growth. Slowing AI spending is certainly a risk. But significant backlogs make it unlikely to happen in the coming months. Lower memory prices from potential efficiency gains and China catching up in the DDR5 market is another risk, but unlikely to hit in the coming quarter.

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What would make us bearish?

1. Earnings expectations too lofty

One of the things we've been wary of in the last few months has been sequentially higher earnings expectations, particularly in the US. After continued above-average positive earnings surprises, any disappointment risks putting current US equity valuations into question.
But certainly, for Q2, earnings expectations look very manageable to beat (chart 1).

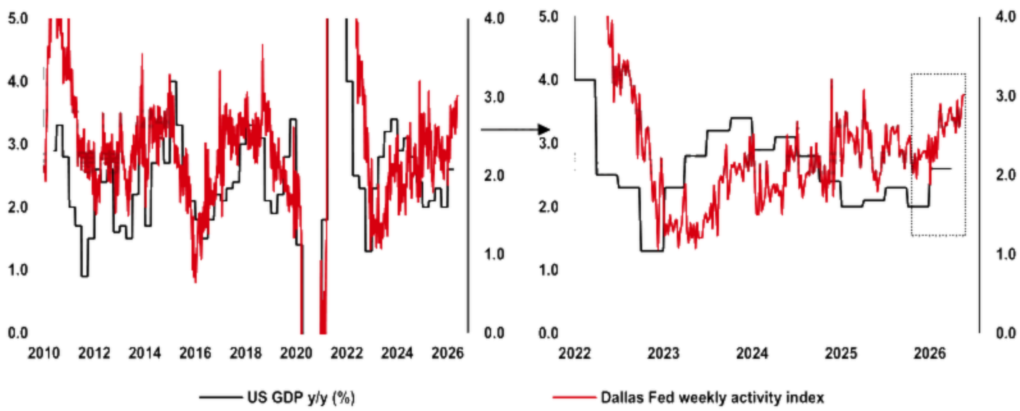
1. Earnings expectations in H2 too high?

S&P 500	Q1 25	Q2 25	Q3 25	Q4 25	Q1 26	Q2 26f	Q3 26f	Q4 26f
EPS y/y in %	12.7%	11.5%	12.5%	13.3%	27.9%	20.8%	25.0%	22.1%
EPS in USD	**62.78**	**66.36**	**69.47**	**73.44**	**80.31**	**80.16**	**86.87**	**89.68**
% change, q-o-q					*9.4%*	*(0.2%)*	*8.4%*	*3.2%*
Consumer Discretionary	12.57	15.12	16.91	14.59	16.99	15.30	17.15	16.95
% change, q-o-q					*16.4%*	*(9.9%)*	*12.1%*	*(1.2%)*
Consumer Staples	8.50	9.46	9.75	9.39	8.97	9.77	10.42	10.12
% change, q-o-q					*(4.4%)*	*8.9%*	*6.6%*	*(2.9%)*
Energy	10.14	9.73	10.71	10.03	10.28	21.25	19.46	17.38
% change, q-o-q					*2.5%*	*106.7%*	*(8.4%)*	*(10.7%)*
Financials	11.83	12.82	13.77	13.45	14.40	13.60	14.14	14.72
% change, q-o-q					*7.1%*	*(5.6%)*	*4.0%*	*4.1%*
Health Care	22.96	22.59	22.81	20.94	22.36	20.66	25.08	24.23
% change, q-o-q					*6.8%*	*(7.6%)*	*21.4%*	*(3.4%)*
Industrials	11.10	12.33	12.45	14.83	13.41	13.39	14.27	14.75
% change, q-o-q					*(9.6%)*	*(0.1%)*	*6.6%*	*3.3%*
Materials	5.08	7.07	6.93	6.08	7.08	9.57	9.63	8.70
% change, q-o-q					*16.3%*	*35.2%*	*0.6%*	*(9.6%)*
Real Estate	3.45	3.54	3.59	3.56	3.57	3.67	3.71	3.85
% change, q-o-q					*0.2%*	*2.9%*	*1.0%*	*3.8%*
Information Technology	35.54	37.71	43.19	52.75	54.62	59.06	65.17	73.98
% change, q-o-q					*3.5%*	*8.1%*	*10.4%*	*13.5%*
Communication Services	4.72	4.72	3.50	5.01	7.05	5.04	5.27	5.53
% change, q-o-q					*40.6%*	*(28.6%)*	*4.6%*	*5.1%*
Utilities	5.90	4.57	6.99	4.53	6.68	5.12	7.41	5.23
% change, q-o-q					*47.3%*	*(23.3%)*	*44.7%*	*(29.5%)*

Source: FactSet, HSBC

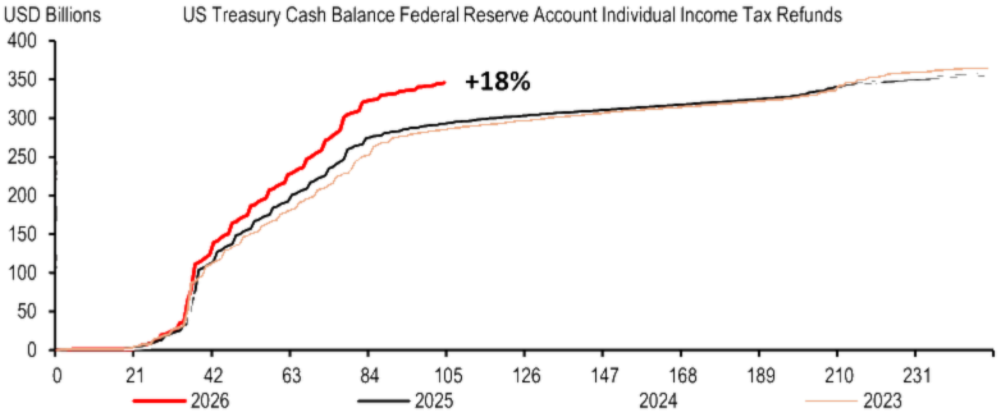
So potential earnings disappointment is more a story for H2 – and even here when we look at consensus Q3 EPS expectations, there's a lot of dispersion across sectors. With continued support from tech earnings and perhaps a further re-acceleration of top-down US growth dynamics (given y/y comparisons may look better in the next few weeks), we'd put potential earnings disappointment low on our bearish list (charts 2 & 3).

2. US activity has reaccelerated since the end of last year



Source: Bloomberg, HSBC

3. Tax refunds much higher compared to last year



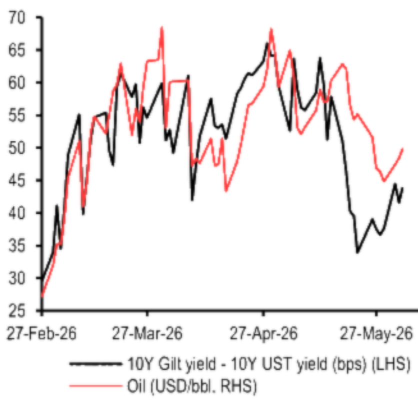
Source: HSBC, Bloomberg, Daily Treasury Statement

2. Geopolitics

Geopolitics is perhaps the most obvious risk – not just the Middle East conflict but also renewed US tariff announcements (see *US-Iran talks*, 25 May; and *US tariff announcements*, 3 Jun). But once again, that's not high on our list of bearish concerns. The US administration has frequently backtracked on tariffs in the last 13 months such that it looks unlikely for risk assets to price a significant risk premium.

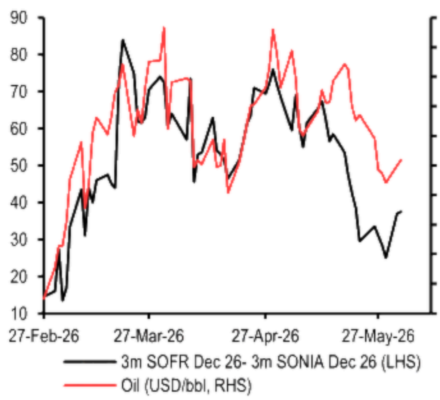
The conflict in the Middle East continues to be a major force for oil, rates, and some parts of the FX markets (charts 4 & 5). But for the conflict to start weighing on risk assets more broadly again, we'd likely have to see escalation to a level that overrides any optimism around AI, chips, and memory, where sentiment is high after a bumper Q1 reporting season *globally*.

4. Oil has been…



Source: HSBC, Bloomberg

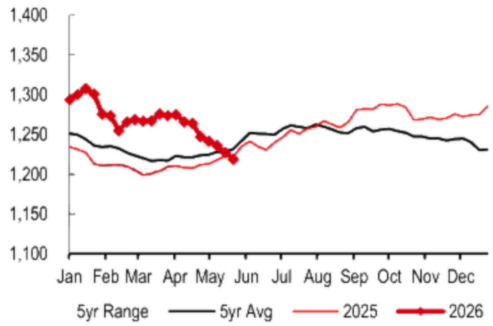
5. … the main driver of rates lately



Source: HSBC, Bloomberg

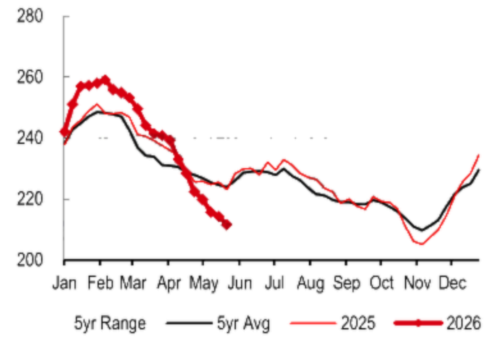
Another angle is energy: at current levels of global inventory drawdowns (charts 6 & 7), we may hit critically low levels by August – but that is assuming current inventory drawdowns continue and no other ways of bypassing lost output are found by then.

6. US total commercial (crude oil and products) inventories (mb)



Source: EIA

7. US gasoline inventories (mb)

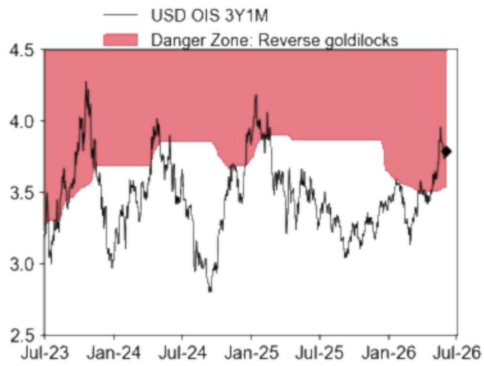


Source: EIA

3. Higher bond yields

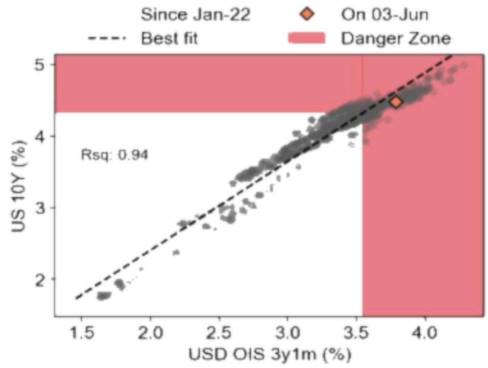
Another potential bearish catalyst is rates. The long end of the US Treasury yield curve is already in the 'Danger Zone' (the level of 10Y UST that puts pressure on virtually all asset classes (charts 8 & 9) and our new US-Treasury cycle model shows them in a max sell-off regime (see *TYCCLES*, 3 Jun).

8. Long-end UST yields are…



Source: HSBC, Bloomberg

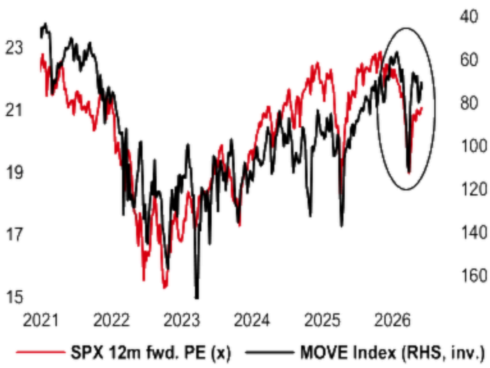
9. … already in the 'Danger Zone'



Source: HSBC, Bloomberg

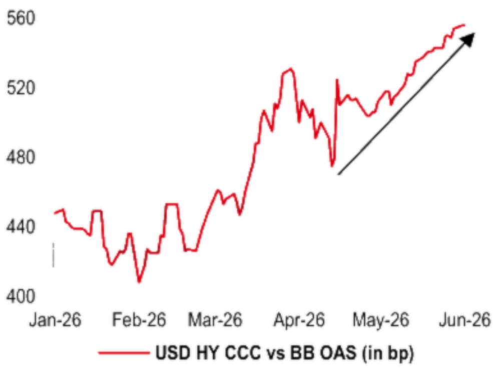
So far, however, equities, credit, and even EMD and EM FX have been undeterred by that – which to us makes sense (see *Why are higher yields not biting?*, 21 May). Strong Q1 earnings, with heavy index concentration masking weakness under the hood in equity and credit markets, and lower levels of rates vol are all reasons for the stability of risk assets (charts 10 and 11).

10. US rates vol vs equities



Source: Bloomberg, HSBC

11. CCCs still significantly weaker vs BBs

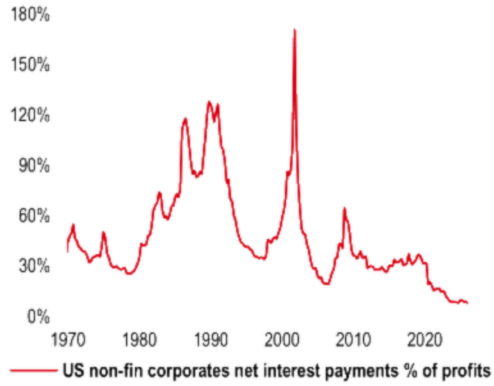


Source: Bloomberg, HSBC

Especially after the hawkish repricing of the US front end since the last FOMC meeting, it would be hard for the Fed to out hawk this pricing next week. Even if the FOMC did, we'd also note that corporates and household, especially in the US, have simply become less rates sensitive since COVID-19 anyway (charts 12 and 13). This makes any 'Danger Zone' related sell-off a buy-on-dip opportunity for risk assets, in our view.

For rates to become a longer-term bearish factor for risk assets, we'd likely need things like Fed independence concerns to resurface. This could then lead to structurally higher rates volatility, in turn pressuring valuations across equities, credit, and the broader risk asset spectrum.

12. US economy…



Source: HSBC, St Louis Fed

13. … less sensitive to rates nowadays

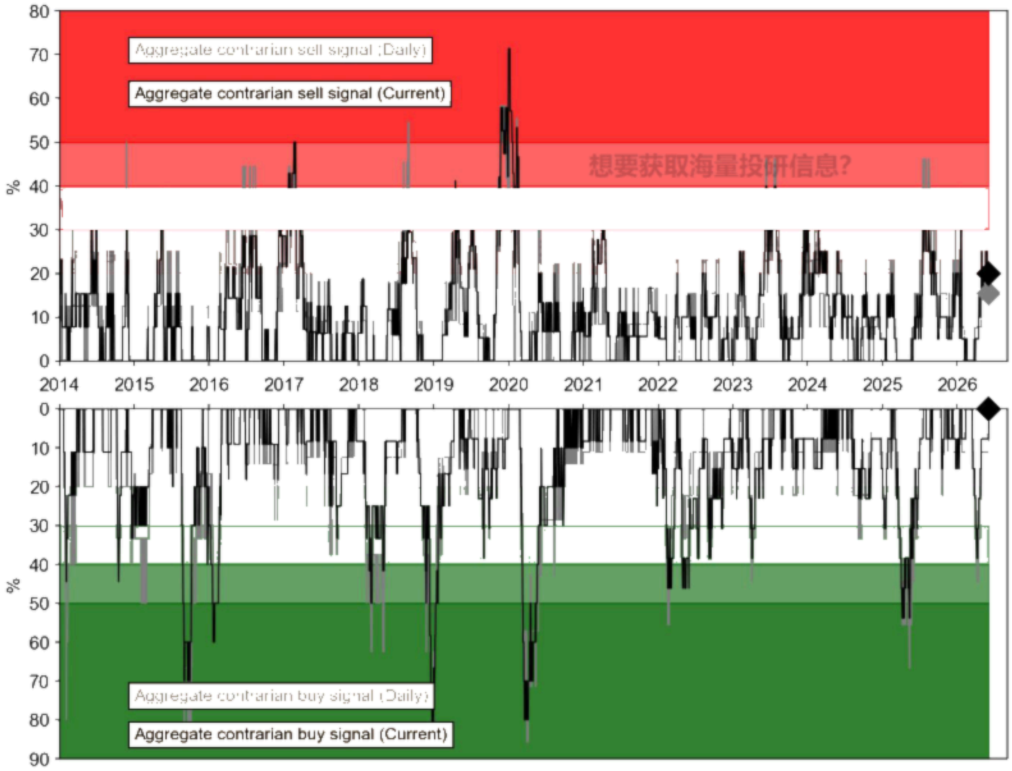
Source: HSBC, Macrobond, MBA

4. The bigger worries: sentiment and positioning…

The two things that we are most worried about are: i) stretched sentiment and positioning; and ii) slowdowns in AI spending, AI rollout, or a drop in chip prices.

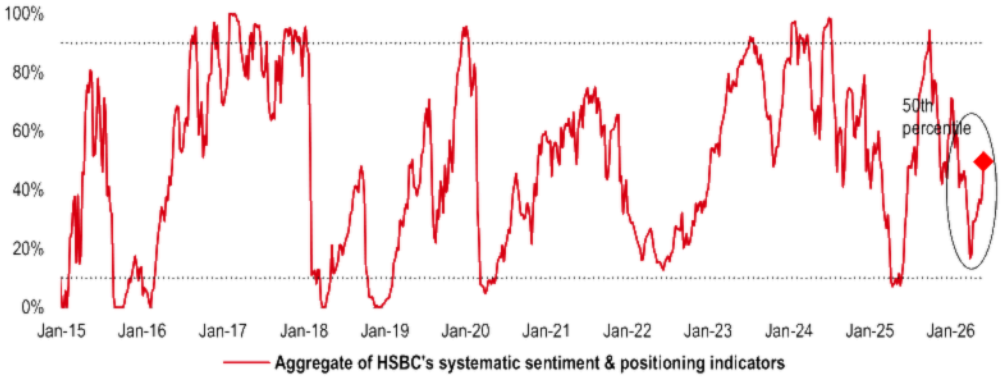
In terms of sentiment and positioning, our short-term framework isn't suggesting a sell signal for risk assets (chart 14). It is also not when it comes to positioning of systematic strategies – though there are signs of positioning finally being more neutral (CTAs, risk parity, vol target, chart 15). Moreover, the upcoming mega-IPOs don't really worry us as higher equity supply should be outweighed by the 'unlocking' of liquidity that has so far been 'locked' in private markets.

14. Our sentiment and positioning framework isn't flashing a sell signal yet



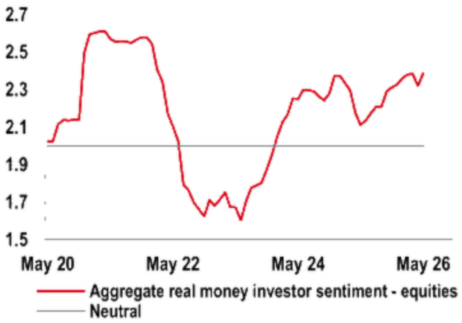
Source: HSBC, Bloomberg, LSEG Datastream, FactSet, NAAIM. Note: The percentage represents the proportion of inputs sending a signal rounded to the nearest integer.

15. Aggregate systematic sentiment indicator – shooting up to neutral



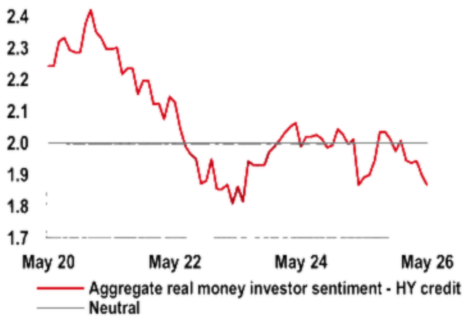
Source: HSBC, Bloomberg, LSEG Datastream, FactSet, NAAIM

16. Global equities real money positioning



Source: HSBC, Company websites, Fund factsheets

17. HY credit real money positioning



Source: HSBC, Company websites, Fund factsheets

One thing that is different to Liberation Day is the positioning of long-only investors (charts 16 and 17). They've clearly not de-risked to the same degree as last year and have been quick to snap up the dip in equities in particular (less so in credit).

What's been unusual is that so far, the equity and credit rallies have been pretty narrow. Any sustained positive Middle East news flow should result in breadth improving and laggards catching up. Such a more broad-based rally could then easily prompt a sell signal, especially with long-only investors already having a higher equity exposure than post Liberation Day.

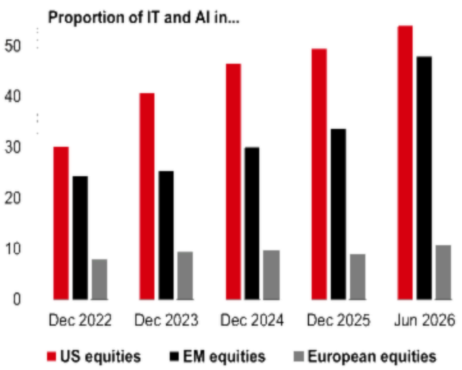
5. …. and the really big one: a slowdown in AI

The biggest concern we have is any slowdown in AI spending, AI adoption, or a decline in memory prices. Tech and AI are now the main components of US and EM equities (chart 18).

As controversial as that may sound, the outlook for things like consumption or the labour market therefore don't really matter as much any longer for risk assets. In other words, any combination of strong labour markets, consumption, and overall growth would likely be taken as very bearish if they coincided with a slowdown of the AI and memory theme.

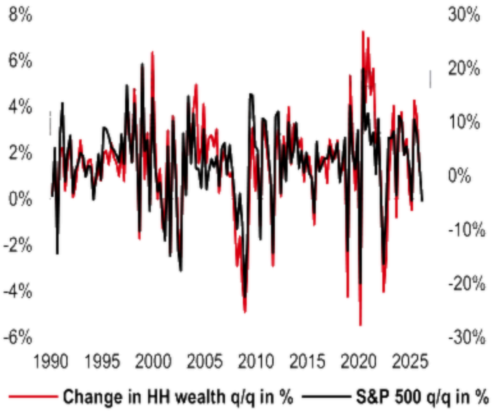
The wealth effect nowadays arguably matters more, especially in the US. This wealth effect is even more a function of equities compared to pre-GFC (chart 19). This means any sustained drop in tech and AI stock prices would also drag down *overall* equity prices. Such a drop would then probably result in a negative wealth effect. Given that higher-income households now account for an even larger share of spending, this also risks having a negative effect on consumption – a classic doom loop.

18. AI and tech share of equity market cap



Source: Bloomberg, Factset, HSBC

19. US wealth vs SPX

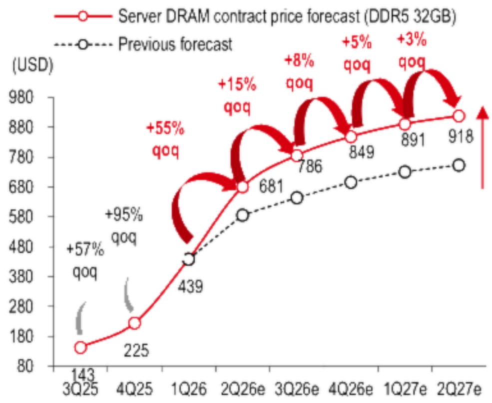


Source: Bloomberg, HSBC

Where might such a slowdown in the AI/tech theme come from? One angle is a slowdown in AI spending/capex: however, demand remains so strong, capacity constrained, and – even more notably – backlogs so significant that it's hard to see spending on AI slowing down significantly in the coming months.

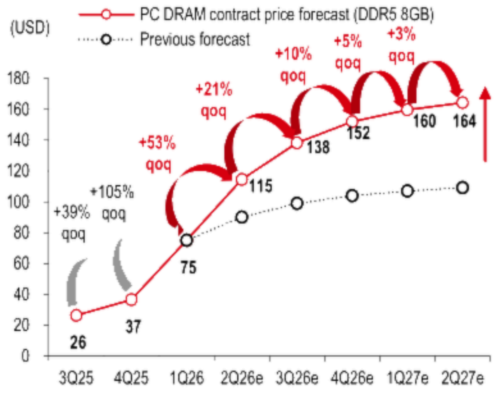
Another angle is a drop in memory prices: our tech colleagues expect the higher memory price trend should continue until yearend and potentially extend into H1 27 (see *Global Tech*, 22 May and *SK Hynix (000660 KP)* (12 May) – charts 20 and 21).

20. Server DRAM pricing: HSBC estimates



Source: DRAMeXchange, HSBC estimates

21. PC DRAM prices: HSBC estimates



Source: DRAMeXchange, HSBC estimates

Risks come from: 1) efficiency gains from new models that could dampen demand – e.g. Google's recent TurboQuant paper highlights new methods to potential reduce the amount of memory usage (TurboQuant notes compression potential of LLM KV-cache of up to 6x without quality loss, freeing GPU memory and boosting inference speed, and possibly leading to as much as 8x faster processing speed with no need for re-training, for example).

2) Memory prices could also be set to fall amid an increased presence of mainland China as it catches up in the DDR5 market, though relief may well only come through in the second half of next year. Markets will likely anticipate such a change and start pricing in any potential rollover of the supply deficit before that – which may be the case towards Q4 of this year or early-2027.