



Equities in Focus: Divergence, AI Tailwinds, and Where to Position

Key Insights:

1. **Performance divergence across markets:** Hong Kong broad based equities lagged; meanwhile, investors favoured defensive, high-dividend/low-volatility stocks. In the US and Asia (ex-Japan), markets were lifted by AI-driven momentum and semiconductor-heavy tech leadership.
2. **US equities:** We're positive because valuations have de-rated while earnings momentum has strengthened, with unusually strong upward EPS revisions providing a supportive backdrop.
3. **Japan:** Japan's rally is being driven by structural tailwinds—stronger corporate governance (higher buybacks/dividends) and the NISA-led shift from cash savings into equities and funds.
4. **Chinese equities:** Growth is holding up on exports and infrastructure, policy is likely to stay targeted (not big-bang stimulus), and positioning favours underweight consumers and overweight AI/tech and export-linked names.

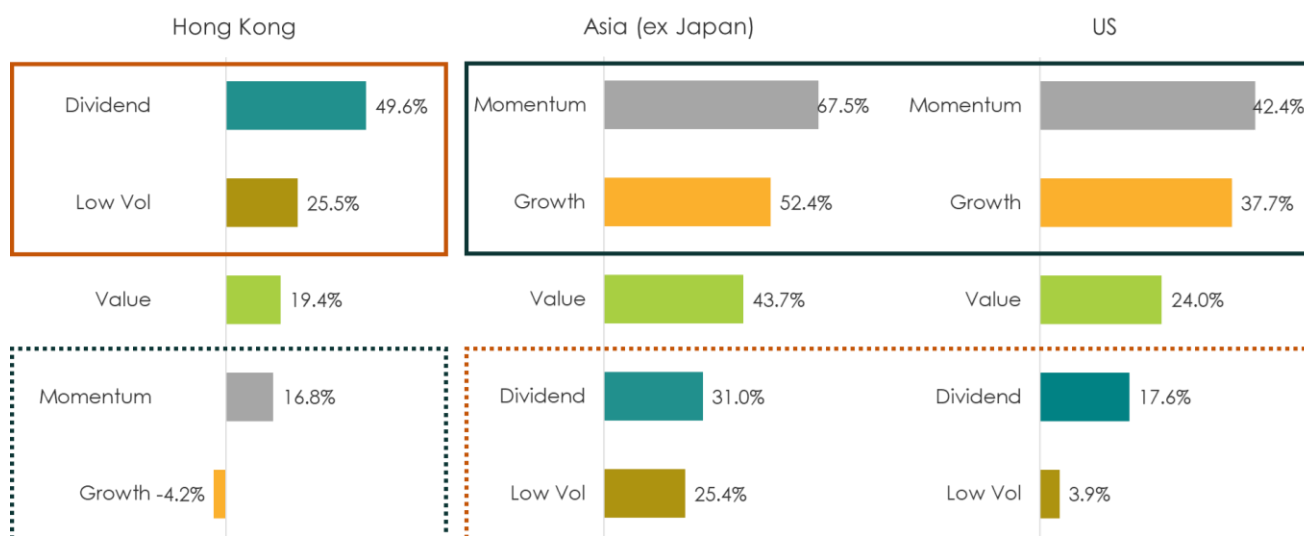
With our view tilting to equities, this quarter's HSVM Outlook brings together four timely market Q&As to clarify what has been driving recent equity performance across key regions and what it implies for positioning. It covers the divergence between Hong Kong and other major markets, the current support for US equities, the structural forces underpinning Japan's multi-year strength, and how China's growth mix and policy stance shape the outlook for Chinese equities.

#1 Performance divergence across markets

What explains the divergence in performance across markets over the past year —particularly between Hong Kong equities and other major markets?

Over the past year, Hong Kong equities have moved in the opposite direction to broader Asian equities (ex-Japan) and US equities. In Hong Kong, high-dividend and low-volatility stocks have led performance while momentum and growth stocks have lagged, pointing to a more defensive, income-oriented investor preference. By contrast, in Asia (ex-Japan) and the US, momentum and growth have outperformed, suggesting a more risk-on stance supported by strong interest in AI-related technology leaders.

Graph 1: Equity market factor returns in the past year ended 30 April 2026



Source: HSVI, Bloomberg, price return data covering 30 April 2025 to 30 April 2026. Hong Kong stock market factor returns are represented by Hang Seng High Dividend 30 Index, Hang Seng Large-mid Cap Low Volatility Comprehensive Index, Hang Seng Large-mid Cap Value Comprehensive Index and Hang Seng Large-mid Cap Momentum Comprehensive Index. The growth factor is represented by Hang Seng Tech Index as there is no growth index covering Hang Seng Large-Mid Cap (Investable) universe. Asia (ex-Japan) equity factor returns are represented by MSCI AC Asia (ex-Japan) Momentum Index, MSCI AC Asia (ex-Japan) Growth Index, MSCI AC Asia (ex-Japan) Value Index, MSCI AC Asia (ex-Japan) High Dividend Yield Index and MSCI AC Asia (ex-Japan) Low Volatility Index. US equity factor returns are represented by S&P 500 Momentum Index, S&P 500 Growth Index, S&P 500 Value Index, S&P 500 High Dividend Index and S&P 500 Low Volatility Index.

This notable divergence can be largely attributed to two key factors:

- 1) US and Asian markets (particularly Korea and Taiwan) have been heavily concentrated in AI-linked technology winners;
- 2) Hong Kong stock's growth and technology exposure is dominated by internet platforms, which benefit less directly from the AI boom compared to the semiconductor supply chain, while also facing intense competition and pressure in the domestic consumption space.

In this environment, Hong Kong high-dividend and low-volatility stocks have offered investors portfolio resilience alongside attractive income and cash flows, particularly as interest rates trend lower. For income-focused investors, income strategies such as covered call writing can be considered during volatile market conditions. In general, when market volatility and implied volatility rise, option premiums tend to be higher, which can help enhance income potential.

#2 US Equities

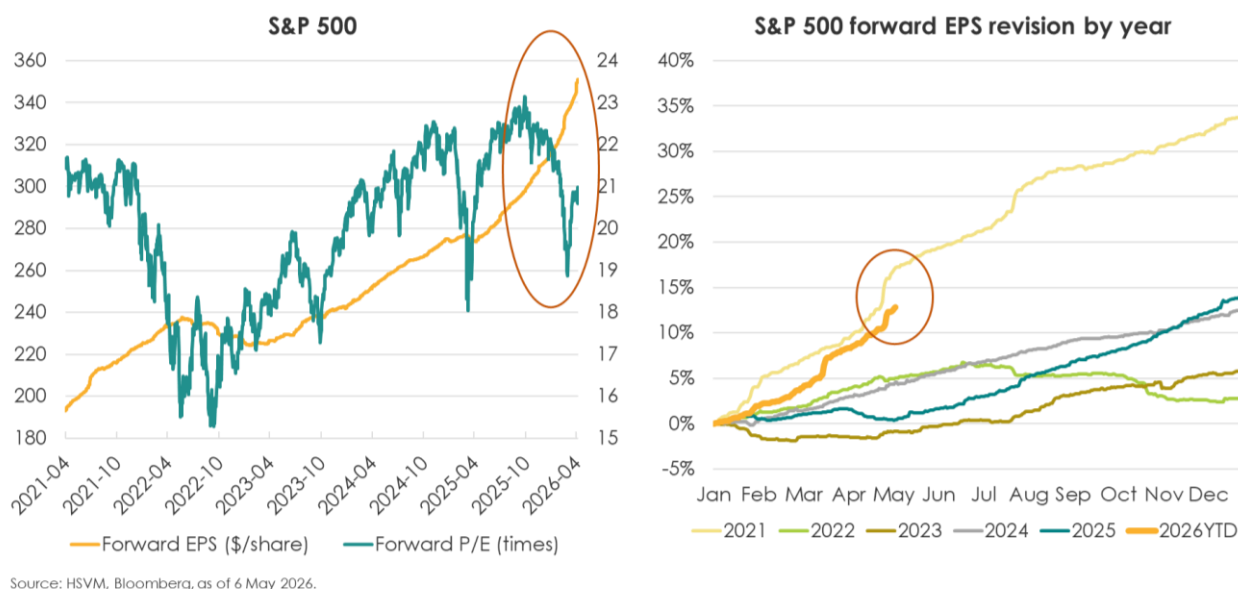
Why are we positive on US equities right now?

We're constructive on US equities because valuation pressure has eased while earnings momentum has strengthened, which is typically a healthier mix for equity performance. On valuations, the S&P 500's forward P/E has pulled back about 10%, from 23.1x (28 Oct's peak last year) to 20.7x (end-April), helping to partly absorb concerns about the market being "too expensive."

At the same time, fundamentals are improving: Over the past five years, S&P 500 EPS has grown steadily, and earnings expectations have re-accelerated, with estimates revised up 16% over the past six months. Importantly, year-to-date earnings expectations are up 12%, more than double the typical revision range seen across 2022–2025 (roughly -0.8% to 5%) and the strongest upgrade cycle since 2021 (when the S&P

500 delivered over 28% total return over the year). If this earnings strength—supported in part by AI-led technology investment and productivity gains—can be maintained, it should help support US equities through the remainder of the year.

Graphs 2 & 3: US Equities – Robust earnings growth outweighs valuation concerns



#3 Japan

What are the key drivers behind the strong performance and new highs in the Japanese stock market in recent years?

The strong performance of Japanese equities has been supported by two powerful structural tailwinds:

1. Corporate Governance Reforms

Since the Tokyo Stock Exchange’s market reorganization in April 2022, Japanese companies have significantly improved shareholder returns. Dividends and share buybacks have risen sharply, with both reaching new record highs. Morgan Stanley expects buybacks and dividends to hit fresh records again in fiscal year 2025. Net profits have also grown strongly, reflecting more disciplined capital management and better corporate governance.

2. Shift in Household Investment Behavior via NISA

Japanese households have historically been overly concentrated in cash and deposits. The new NISA (Nippon Individual Savings Account) program, with its expanded quota, indefinite tax-exempt period, and broader investment options, is successfully encouraging a “from saving to investing” shift.

Households are increasingly moving money from bank deposits into stocks and investment trusts from 10% in Q3 2022 to 13% in Q3 2025 through NISA accounts. This gradual, rising allocation to equities is expected to provide sustained long-term support for Japanese stock prices.

How successful is the NISA programme?

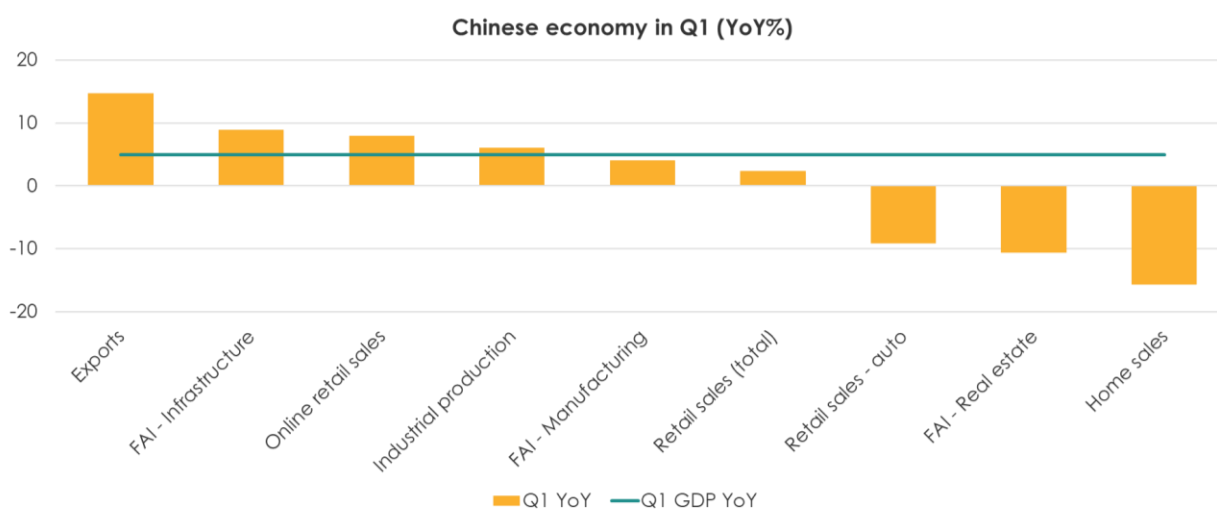
Launched in 2014 and upgraded in 2024, NISA has been very successful. In Q1 2026 it saw record inflows of about ¥6 trillion (c. US\$38.1 billion), up from just over ¥4 trillion (c. US\$25.4 billion) in Q4 2025. For context, full-year 2025 purchases were about ¥18 trillion (c. US\$114.2 billion), so Q1 2026 alone was roughly one-third of that total. Cumulative purchases are nearing ¥100 trillion (c. US\$634.6 billion), well above the government’s original target. The programme is also encouraging households to shift savings from low-yield deposits into equities and funds, supporting Japanese equities over the long term.

#4 Chinese/ Hong Kong Equities

With Q1 growth strong but domestic demand still weak, what’s the outlook and how should we position equities?

Chinese mainland’s Q1 GDP grew 5% year-on-year, supported mainly by exports and infrastructure investment, which points to a solid start to the year. Online retail sales (goods and services) also rose 8% year-on-year. That said, the recovery in domestic demand looks uneven: total retail sales (including offline) and manufacturing investment stayed positive but lagged overall macro momentum, while autos and property continued to weigh on growth.

Graph 4: Chinese economy in Q1: Divergence between external and domestic factors



Source: HSVM, Bloomberg, as of 30 April 2026.

Against this relatively steady macro backdrop, the near-term policy bias is likely towards optimisation rather than large-scale stimulus. The April Politburo meeting reinforced this, highlighting more targeted and effective fiscal and monetary tools and reducing the likelihood of aggressive broad-based easing.

From an equity positioning perspective, exports remain the key engine of resilience, while domestic

demand still lacks a clear catalyst. This supports staying underweight consumer stocks and leaning towards areas with clearer tailwinds, particularly technology benefiting from the AI “super-cycle” and export-related names.

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