Research Paper No.79: Half-yearly Review of the Global and Local Securities Markets

30 July 2026

Executive Summary

1. During the first half of 2026, heightened geopolitical conflicts in the Middle East, concerns about potential US interest rate hikes as well as economic uncertainties stoked global market volatility. However, optimism around artificial intelligence (AI) offset or even overshadowed these headwinds in most other major markets as related benchmark indices advanced: SHCOMP (+3.2%), Dow (+8.9%), CAC (+3.1%) and DAX (+2.1%).

2. In contrast, the Hong Kong market has a different structure from many overseas markets, with a more diversified index composition and without large semiconductor stocks that have been key drivers in some other markets (see Box 1). As a result, the Hong Kong market did not benefit to the same extent from the global AI rally. The HSI, HSCEI and Hang Seng TECH Index fell 11 – 19% during the first half of 2026 following sizeable gains last year.

3. The Hong Kong stock market has remained highly liquid. Trading rose further to hit a monthly record high in June 2026. During the first half of 2026, the average daily turnover was $283.0 billion,[1] 13% higher than $249.8 billion in 2025. This was supported by the active trading of exchange-traded products (ETPs) in Hong Kong, which has been one of the world's top five ETP markets. The average daily trading of ETPs increased 32% from 2025, in part underpinned by leveraged and inverse (L&I) products (see Box 2).

4. For Stock Connect, southbound (SB) trading recorded a net buy of $301 billion during the first half – notching the longest streak (ie, 34 months) of net buy in history (see Box 3). As of end-June 2026, cumulative net buy reached $5.4 trillion under SB trading, while average daily turnover was $123.1 billion, accounting for 21.8% of Hong Kong market total during the first half of 2026.

5. As a competitive fund-raising centre, Hong Kong ranked second globally after the US in initial public offering (IPO) funds raised. For the first half of 2026, there were 83 IPOs on the Main Board, raising funds of $208.8 billion (2025: $286.8 billion).

6. The average daily volume of exchange-traded derivatives increased 8.8%. For over-the-counter (OTC) derivatives referencing Hong Kong stocks and indices, the notional value was around $1.9 trillion ($1.8 trillion in 2025), and remained relatively stable as a percentage of stock market capitalisation.

[1] Unless otherwise stated, $ denotes the Hong Kong dollar.

Hong Kong market performance and key factors

7. Key global markets including Hong Kong became more volatile amid intensifying conflicts in the Middle East in March 2026. The war impacted the real economy, causing energy shocks and weighing on industrial production, consumption and investments. These added to the risk of a global economic downturn and stagflation. The International Monetary Fund (IMF) anticipated that the war would lead to higher prices and slower growth. In the *World Economic Outlook* published in April, the IMF revised its projection of worldwide GDP growth to 3.1% this year, down 0.2 percentage points from its January estimate.

8. Uncertainties about the US interest rate policy grew. The blockade of the Strait of Hormuz and damage to regional infrastructure have led to disruptions to the global oil market. Amid high oil prices, the Federal Reserve might face a policy dilemma between cooling inflation by keeping rates elevated and supporting the economy by reducing rates. Worries about a higher-for-longer rate environment affected global and Hong Kong market sentiment. The Hong Kong market performance was dragged by tech stocks as profit-taking activities grew after strong gains earlier.

9. However, the appreciation of the renminbi (RMB), which rose by 3.4% at one point to a three-year high of around 6.75 per USD limited the downside. From international investors' perspective, a stronger RMB implies higher reported earnings in Hong Kong dollar terms for Mainland stocks. In addition, hopes for Mainland stimulus provided support.

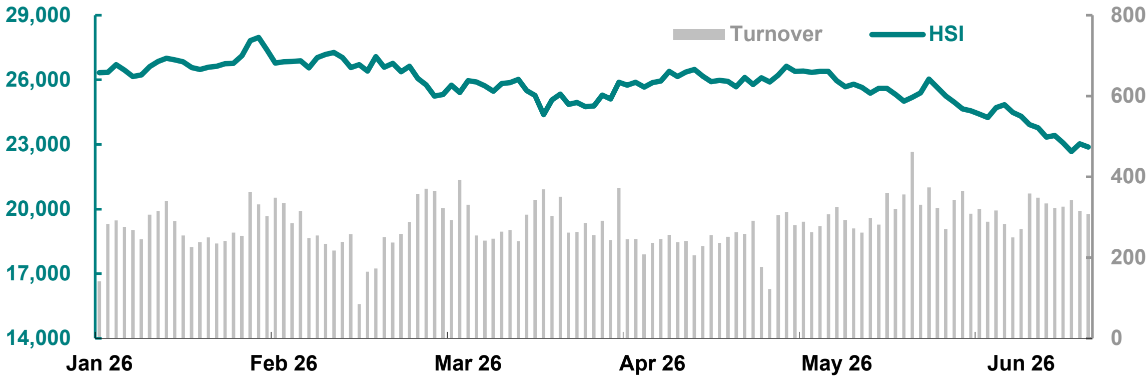
10. During the first half of 2026, the HSI, HSCEI and Hang Seng TECH Index fell 10.7%, 15.2% and 18.9% respectively, reflecting weak market sentiment amid poor consumption conditions. These declines followed the sharp rally of the HSI in 2025.

11. The Hong Kong market remained resilient despite some volatility. Trading and settlement in the market remained orderly, and various market segments continued to operate normally.

Performance of major stock markets

			% change		
		Index level	**2024**	**2025**	**2026 H1**
Hong Kong	-HSI	22,881.0	+17.7%	+27.8%	-10.7%
	-HSCEI	7,558.3	+26.4%	+22.3%	-15.2%
	-HS TECH	4,472.2	+18.7%	+23.5%	-18.9%
Chinese Mainland	-SHCOMP	4,094.4	+12.7%	+18.4%	+3.2%
	-SZCOMP	2,840.7	+6.5%	+29.3%	+12.2%
US	-Dow	52,319.2	+12.9%	+13.0%	+8.9%
	-Nasdaq	26,213.7	+28.6%	+20.4%	+12.8%
	-S&P500	7,499.4	+23.3%	+16.4%	+9.6%
UK	-FTSE	10,497.1	+5.7%	+21.5%	+5.7%
Germany	-DAX	24,995.8	+18.8%	+23.0%	+2.1%
France	-CAC	8,404.0	-2.2%	+10.4%	+3.1%

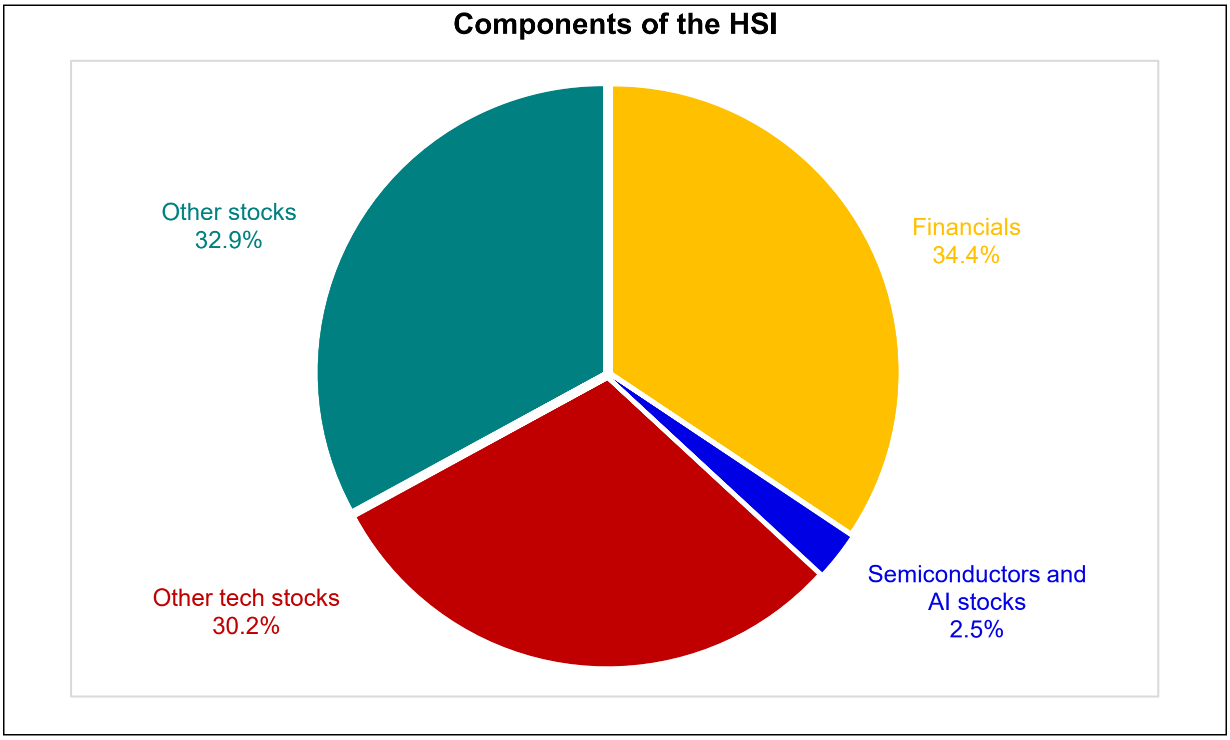
HSI performance and market turnover ($ billion) during the first half of 2026



Box 1: Tech sector constituents in benchmark indices: Hong Kong vs. overseas markets

The outperformance of overseas markets, particularly the tech sector, reflects the different composition of major overseas indices from Hong Kong's. Whilst the performance of some overseas benchmark indices has been largely driven by semiconductor and AI-related stocks, tech stocks in Hong Kong's indices are mainly e-commerce platform, software and consumer-oriented stocks.

- Semiconductor and AI-related stocks only account for about 2.5% of the HSI and nearly 17% of the Hang Seng TECH Index. Thus, they have moderate impact on the broader market. In contrast, in Korea and Taiwan, China, top tech stocks from such sectors have index weightings of some 40% – 50%.
- Some semiconductor and AI-related companies listed in Hong Kong over the past years recorded strong performance. However, due to their relatively smaller market capitalisation, they are either not included as index constituents or have minimal weightings within the index.
- Going forward, the composition of the Hong Kong tech sector may evolve over time following the listings of companies with businesses relating to AI infrastructure development. These developments will enrich the profile of the tech sector and enhance the diversity of tech companies.

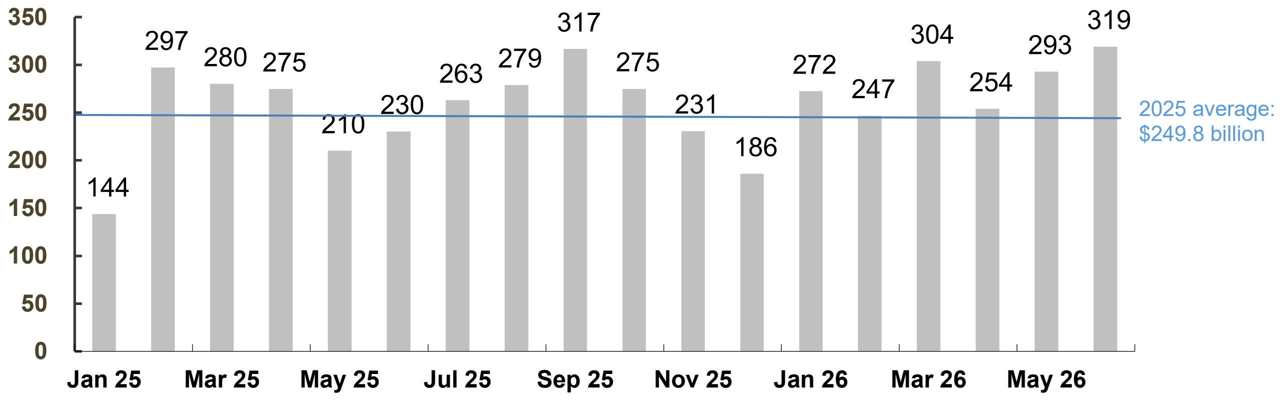


Trading and fund-raising activities

12. During the first half of 2026, the average daily turnover in the Hong Kong stock market increased 13% to $283.0 billion from $249.8 billion in 2025. In particular, the average daily turnover in June 2026 hit a monthly record high of $319.1 billion.

- The recent increase in trading was broad-based in the Hong Kong market and spread across various investor types: market makers, fund and asset managers, investment banks (proprietary trading), retail investors and SB investors all traded more actively.
- Market makers and SB investors together accounted for around half of the increase in average daily trading in Hong Kong.
- Some 80% of the increase in trading was contributed by existing investors and the remaining 20% by new investors.

Average daily trading on Hong Kong stock market ($ billion)

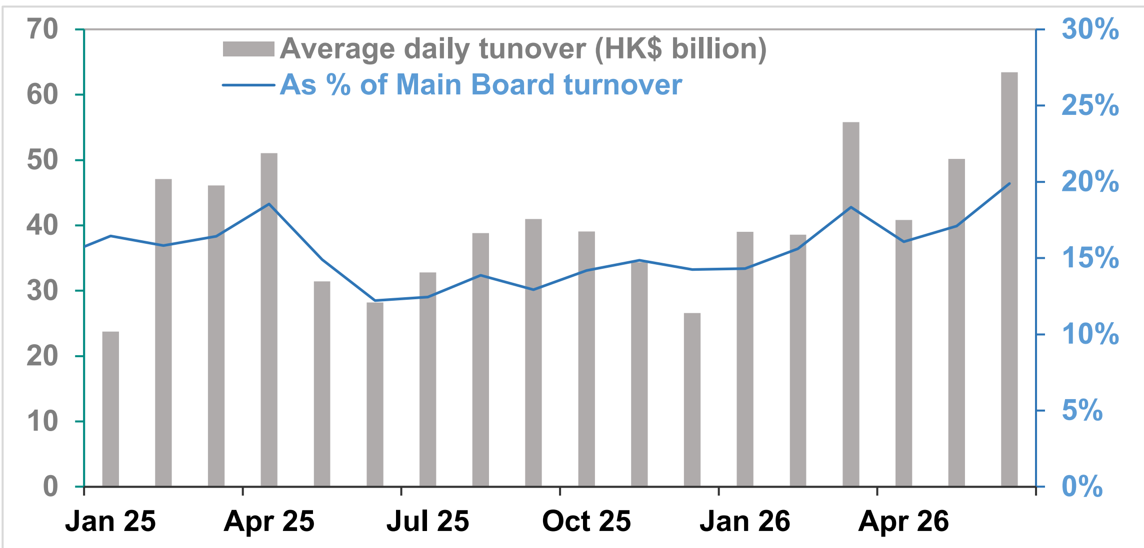


13. The primary market remained highly active. Hong Kong was the world's second largest IPO fund-raising centre during the first half of 2026. There were 83 IPOs listed on the Main Board, raising funds of $208.8 billion ($286.8 billion in 2025). Post-IPO fund raising activities (including placements and rights issues) also remained vibrant. During the first half, placement and rights issue activities reached $121.7 billion ($279.8 billion in 2025).

Box 2: Active trading of ETPs in Hong Kong

Hong Kong has been one of the world's top five ETP markets by turnover since 2025. Average daily trading of ETPs rose 32.1% from 2025 to $48.4 billion, attributable to strong interests in tech-themed ETPs. This accounted for 17.1% of the total market trading (compared to only 5.0% in 2020).

Average daily turnover of ETPs



Hong Kong saw the listings of Asia's first single stock L&I products[2] in March 2025, providing directional exposure to daily returns of stocks, and offering investors more tools to

[2] Single Stock L&I Products are designed to deliver a daily return that is a multiple of the daily price return of a single stock.

enhance returns and manage risks. The first batch of nine single stock L&I products in Hong Kong covered five US stocks. These enrich Hong Kong's product ecosystem and reinforce its role as the region's leading ETP marketplace.

There are currently 12 single stock L&I products in Hong Kong, with average daily turnover of $6.2 billion, or 13% of the total ETP turnover.

Among others, single stock L&I products referencing top Korean tech stocks have seen remarkable growth, driven by strong demand for AI hardware and semiconductors. These products have been one of the most actively traded ETPs in Hong Kong with trading spreading across different investor types while showing price volatility.

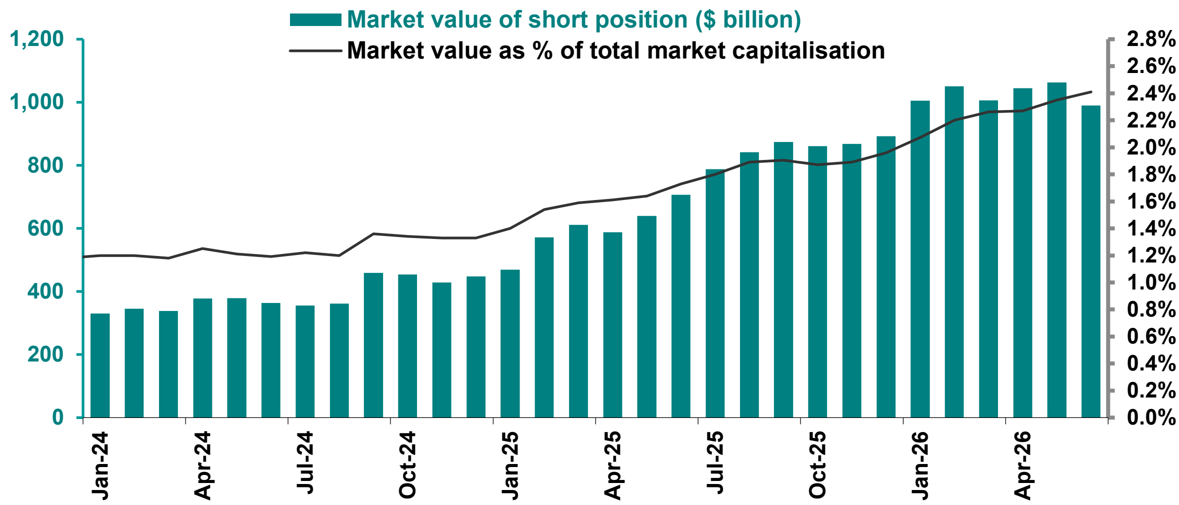
Short-selling activities

14. During the period, short selling in Hong Kong increased both in value terms and as a percentage of total market turnover during the period. Daily short selling averaged $49.1 billion, or 17.4% of total market turnover ($37.6 billion or 15.1% in 2025).

    - Of this amount, $12.5 billion or 25.5% was attributable to ETPs.
    - Excluding ETPs, average daily short selling amounted to $36.6 billion, or 15.2% of market turnover.

15. Aggregated short positions totalled $990.1 billion as of end-June, compared to $891.9 billion as of end-2025. Short positions accounted for 2.41% of market capitalisation, compared to 1.96% as of end-2025. We observed that the increase was driven by normal business needs, with no concentration in any particular stocks or holders. Increased short positions were also spread across a large number of stocks and many market participants.

Short positions in the Hong Kong stock market



<u>Market outlook and risks</u>

16. Going forward, major stock markets may remain volatile. Lingering military conflicts in the Middle East have raised concerns about higher oil prices, adding to inflationary pressures and uncertainties around the economic outlook. The commodity market may stay volatile. Also, uncertainties over tariff and trade policies may affect investor sentiment, while the paths of interest rate changes by major central banks is likely to weigh on stock market outlook. Meanwhile, correction risks following recent market rallies persist as major overseas markets remain elevated with stretched valuation. High debt levels in major economies, together with caution about ongoing geopolitical uncertainties, may also raise volatility in bond yields and exchange rates, which may weigh on the market.

Stock Connect

17. Stock Connect continued to account for an important share of market turnover. During the first half of 2026:

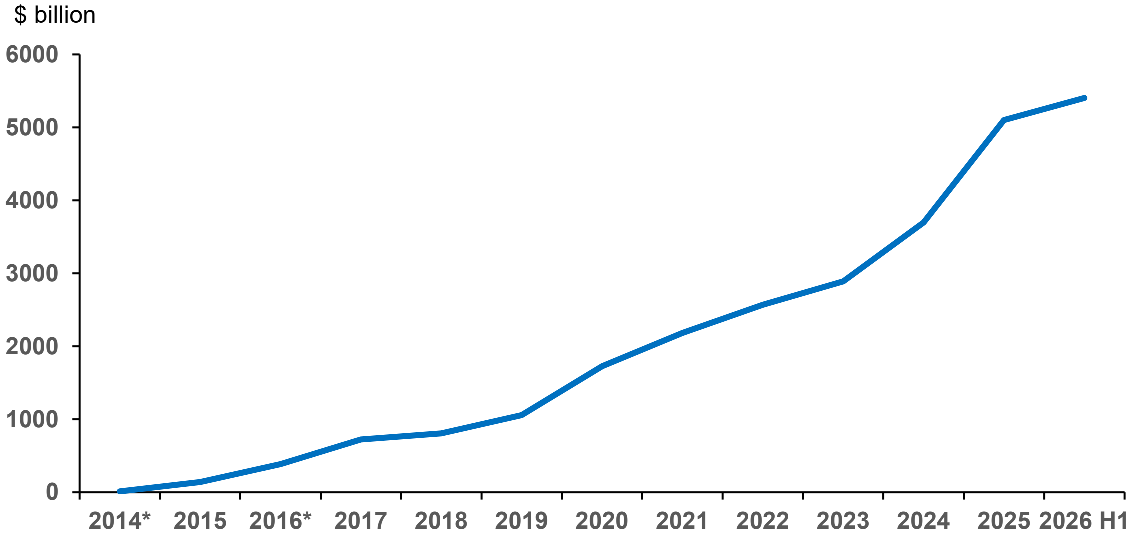
- daily NB trading averaged RMB345.3 billion, or 6.4% of turnover in the Mainland market (compared to RMB212.4 billion, or 6.2% of market turnover in 2025); and
- daily SB trading averaged $123.1 billion, or 21.8% of turnover in the Hong Kong market (compared to $121.1 billion, or 24.2% of market turnover in 2025).

Box 3: SB trading recorded longest streak of net buy on record

SB Stock Connect has brought around $5.4 trillion in net inflows into the Hong Kong securities market since launch. This accounted for over 12% of total market capitalisation. SB trading has recorded 34 consecutive months of net buy during July 2023 – April 2026, marking the longest period of inflows on record. This attracted a total of RMB2.5 trillion ($2.7 trillion) to the Hong Kong market.

Even during challenging periods for the Hong Kong stock market, SB Stock Connect consistently recorded steady net inflows. For example, SB inflow of $61.4 billion was posted in March 2026, when the HSI dropped 6.9% due to geopolitical uncertainties in the Middle East.

SB cumulative net buy since the launch of Stock Connect



*Shanghai-Hong Kong Stock Connect was launched on 17 November 2014 and Shenzhen-Hong Kong Stock Connect on 5 December 2016.

SB investors appear to have a stronger interest in large-cap stocks in Hong Kong. Since the launch of Stock Connect, the top 10 SB net buy stocks are all Hang Seng Composite LargeCap Index stocks. In aggregate, these 10 stocks accounted for about one-third of total SB net buy. By sector, four are tech stocks and four are financials.

Exchange-traded derivatives

18. During the first half of 2026, the average daily volume of exchange-traded derivatives increased 8.8% from 2025.

- Futures: The average daily volume of futures products rose 8.0%.
  - HSI futures, HSCEI futures and Hang Seng TECH futures were the most actively traded contracts, accounting for 18.5%, 22.7% and 28.2% of total futures turnover, respectively.
  - The average daily volume of Hang Seng TECH Index futures rose 31.7% from the previous year, driven partly by increasing hedging needs amid the high volatility in technology stocks. The average daily volume of HSI futures and HSCEI futures rose 6.6% and 11.4%, respectively.
- Options: The average daily volume of options products increased 9.4%, amongst which stock options remained the most actively traded, accounting for 86.4% of total turnover of options products. Compared to 2025, the average daily volume of stock options rose 7.1%, whilst that of Hang Seng TECH Index options surged 90.3%.

OTC equity derivatives

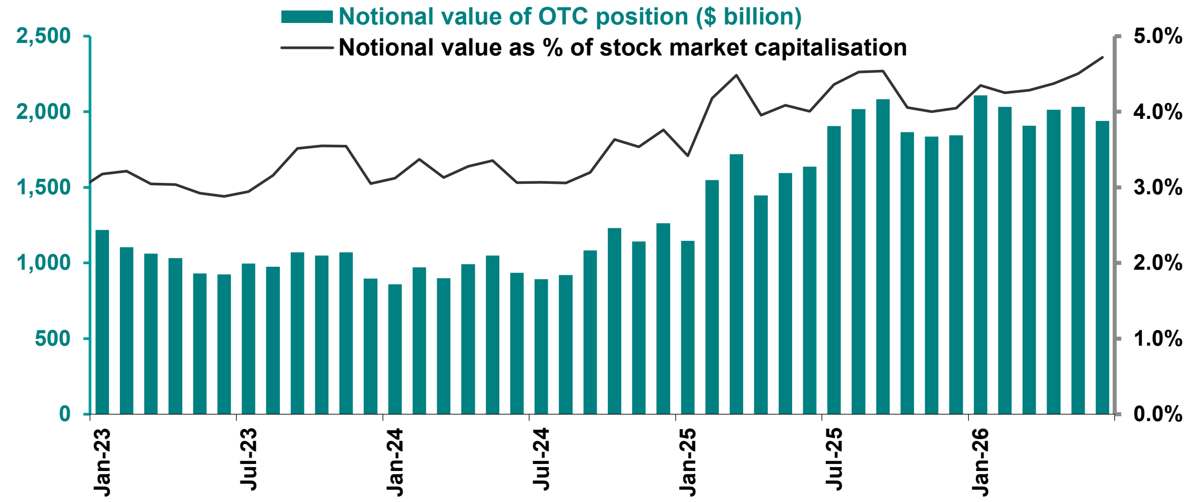
19. As of end-June 2026, the total notional value of OTC equity derivatives referencing Hong Kong stocks and indices amounted to approximately $1.9 trillion. This accounted for 5% of the stock market capitalisation, similar to the level in 2025.

- The composition of OTC equity derivatives market remained relatively stable. Delta one products[3] were the most common (about 70-80% of the total notional value), followed by plain vanilla options (about 15-25%) and other complex products (about 5%).
- The OTC market featured a diverse range of investors. At the investor type level, OTC positions were spread across over 2,400 counterparties. Investment banks were major players, driven by their client facilitation activities. Other players included asset managers (such as mutual funds, pension funds and hedge funds), securities firms and other financial institutions.
- OTC equity derivatives referencing stocks listed on the Hong Kong market accounted for 83% of the total notional value, and indices tracking stocks listed on the Hong Kong market accounted for the remaining 17%.

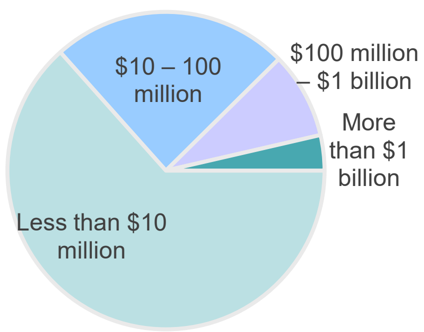
20. There was no concentration of OTC positions at the underlying securities level. OTC positions were spread across more than 2,500 securities. About 75% of Hong Kong-listed securities had outstanding positions of less than $100 million.

[3] Delta measures the sensitivity of a derivative's value to changes in the price of its underlying securities. A delta-one product is a derivative with a delta of one, giving an investor exposure similar to directly owning the underlying securities.

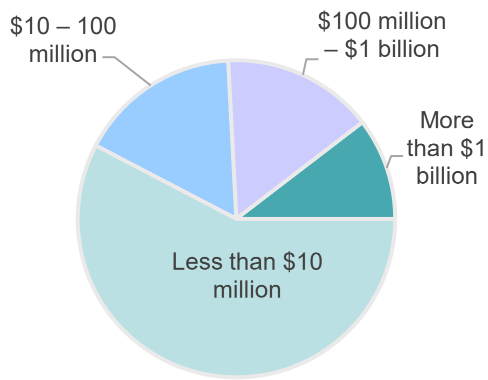
Notional value of OTC equity derivatives market



Distribution of OTC positions at investor level

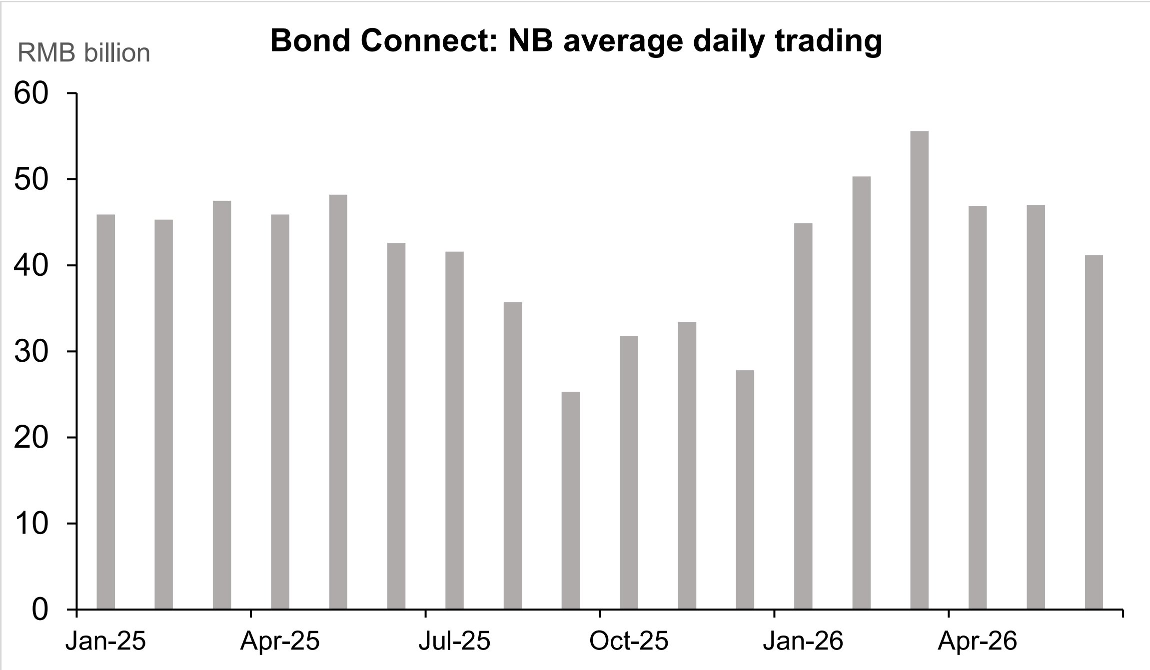


Distribution of OTC positions at underlying securities level



Bond Connect

21. Trading under Bond Connect was active, with NB average daily turnover in March 2026 hitting an all-time high of RMB55.6 billion, signifying Hong Kong's pivotal position as a hub for overseas investors to take part in the Mainland bond market. During the first half of 2026, average daily trading under Bond Connect was RMB47.6 billion under NB trading (RMB39.0 billion in 2025).


Bond Connect: NB average daily trading
RMB billion
60
50
40
30
20
10
0
Jan-25
Apr-25
Jul-25
Oct-25
Jan-26
Apr-26