Top Trends and
High Conviction Themes
Q1 2023

What's trending in a world in flux?

HSBC

Global Private Banking

Contents

Welcome

Willem Sels,
Global Chief
Investment Officer
December 2022

Dear client
2022 was a difficult year, with equities and bonds both suffering, leaving investors with very few places to hide. Thematic investments, of course, were also affected as the tide went out. And what's more, many thematic funds and ETFs focus on structural long-term trends, giving them a growth-style bias and making them more vulnerable to rising rates.

It's no wonder therefore that thematic investing was somewhat out of fashion in 2022, and that flows into thematic funds slowed after strong gains in previous years. From our side, we also reduced the number of themes under our '**Digital Transformation**' trend as we wanted to limit the rate sensitivity of our themes. But this does not mean that the underlying support for the long-term trends and our High Conviction Themes has fallen away. We think it's important to understand that the themes have been subject to the same market-wide growth, inflation and rate factors as the rest of the market, but that the supportive long-term trends remain in place.

First and foremost, this is the case for our '**Investing for a Sustainable Future**' trend. The move towards sustainable investing is supported by science (climate change), regulation around the world, long-term commitments to achieve net-zero by 2050 or 2060, innovation and societal shifts that cause consumers to demand more responsible behaviour from companies. Investment vehicles that focus on clean energy unsurprisingly continued to see inflows in 2022 and we believe our themes under the sustainability trend are well supported, both by structural drivers and the current energy crisis.

Many of the changes we are seeing around us are supportive of our other top trends too. The reopening should help lift Asian economies and support businesses in retail and other services. The continued US-China strategic competition helps the *ASEAN Tigers* as companies reorient or diversify their supply chains. China continues to focus on its manufacturing upgrade and independence in key priority industries. Tech remains a fast growing area, not just in China but around the world, in spite of the poor performance of the sector's stocks in 2022. We have narrowed or focus on areas with the best structural support, namely *Smart Mobility* and *Total Security*. Digitalisation, 5G, AI and the move to electric vehicles provide structural support, while the end of semiconductor shortages is a critical short term positive.

Aside from the themes under our three structural trends, we also present a number of themes that are more focused on the current cyclical challenges. Given the importance of cyclical factors in driving current market sentiment, it is natural that we have expanded the number of themes under this trend. This allows clients to emphasise certain aspects that they can also find in the investment strategy for our core portfolio. For example, we look for relative resilience in US stocks vs global equity markets, we like companies with *Durable Dividends* and search for inflation protection in energy, staples and infrastructure stocks. Our fixed income themes are benefiting from the much more attractive yield levels, which allow investors to limit risk and stay in short-to-medium durations and high in the capital structure of financials bonds, while still generating good returns.

We believe thematic investing helps us better understand the world and thinking about the big trends reduces the risk that we are too myopic. But as all investments are subject to cyclical and macro factors, we need to combine both approaches. Our themes are designed to help investors see the big picture, capture returns from long-term trends, but also emphasise a particular bias which we may not be able to sufficiently express in the core portfolio (e.g. income, or protection against inflation and the slowdown).

In our view, core and satellites are both essential components. If the core is missing, a portfolio of satellites is likely to be suboptimal and insufficiently diversified, and will have many style, sector and geographical biases. Without satellites however, a core portfolio will miss out on the structural growth areas and companies that are driving the change.

Our Thematic View of the World

A thematic approach to investing
The world we live in has dramatically changed in recent years. We often discuss how this impacts economic growth, inflation, interest rates and sectors. But by using a thematic len, we can often identify new trends and opportunities that run across geographies and sectors, and that can be more long lasting. For many of us, this approach is more tangible and relatable than looking at economic data. When selecting themes to invest in, though, we need to make sure they have the potential to make money and that they can be implemented in portfolios. Moreover, a well-supported long-term trend can face short-term headwinds (e.g. the impact of rising rates on technology stocks). So while we consistently keep exposure to our top four trends, we sometimes temporarily emphasise one more than another, by adding or removing specific themes under those trends.

We have seen a number of changes in recent years that not only change the way we live, but also profoundly impact the investment landscape. We show a number of those that we find most material in our overview on next page, and how they influence our top four trends.

Following one of the deepest recessions in decades, the shape of the post-COVID reopening has lots of implications. The combination of increased demand with supply chain bottle-necks caused a big spike in inflation, triggering rapid rate hikes, which are directing investors to short duration assets with income, and to inflation hedges. When consumers were forced to sit at home, they could buy goods, but the reopening leads them to consume more services, so these sectors are now benefiting more. And timing-wise, the reopening occurred earlier in Europe and the US than in Asia, but is now a big supportive factor for economic activity in ASEAN, and increasingly also in China. So the reopening is having a big impact on our trends of 'Remaking Asia's Future' and 'Opportunities Amid High Rates and Slowing Growth', which we exploit in specific High Conviction Themes.

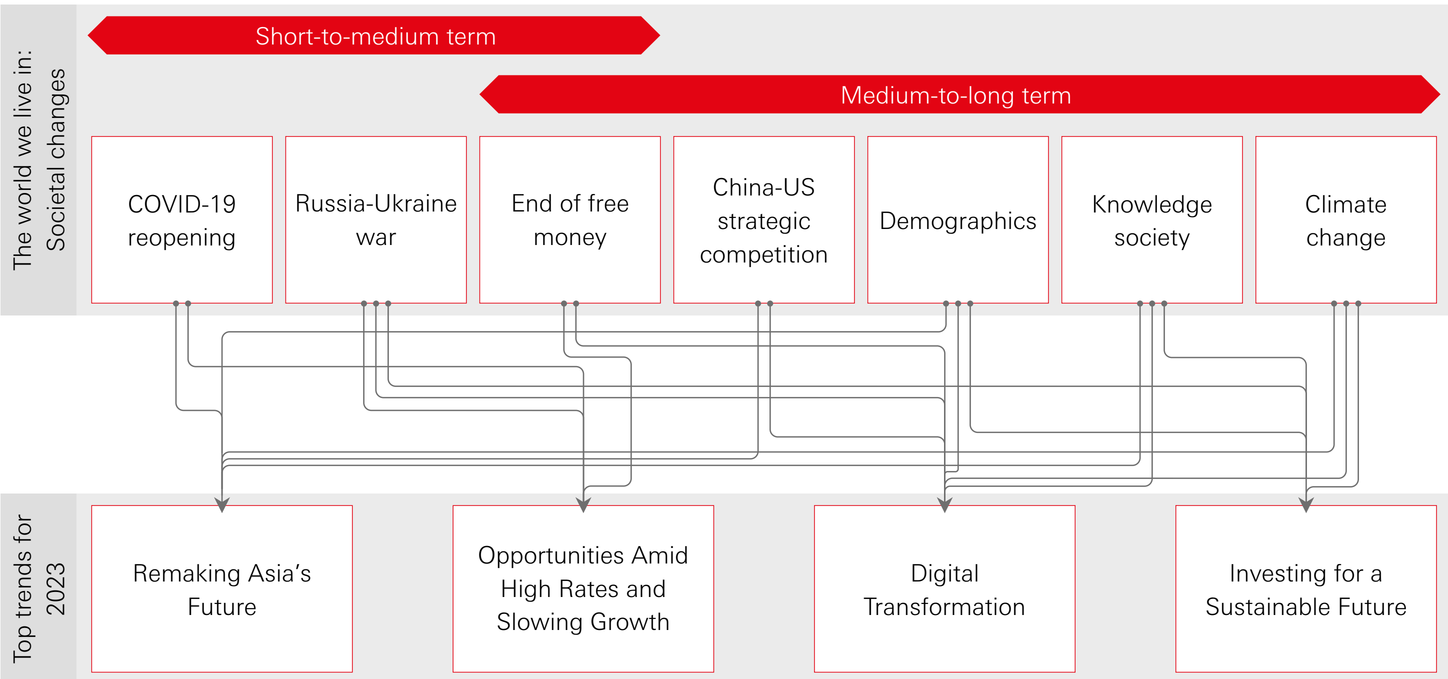
The devastating Russia-Ukraine war is a second key shock. It is causing a deep energy crisis currently, hurting European companies and consumers much more than America, where we see some resilience, as the US is a net energy exporter. The high cost of energy has lasting implications too, as it causes governments, households and companies to try to become more energy efficient, and generate more clean energy at home. And as Russia has targeted digital infrastructure before, many companies are seeing the war as one more reason to invest in cybersecurity. So, while we all hope that the war will end very soon, it will have lasting effects, supporting several of the key trends we identify.

A third big change around us is the monetary tightening, after years of almost free money. Of course, there is a short-term element to this, and we often discuss how many Fed rate hikes we will see in the coming months.

But there is a long-term aspect to this as well. Deglobalisation, the cost of emissions and the more flexible working arrangements workers want all result in inflation pressures which will force central banks to keep rates much higher than they were in the past decade if they want to keep their 2% inflation target. Rates impact all assets, and therefore all of our trends, but especially our second and third trend (our cyclical themes and our Digital Transformation trend).

Turning to geo-politics, the Biden-Xi talks at the G20 summit were positively received by markets and have lifted risk appetite. But the strategic competition between the US and China remains, as President Biden also made explicit in his speech. China continues to focus on advanced manufacturing and independence in key technologies where it wants to gain or keep leadership. ASEAN is benefiting as a manufacturing hub as companies move or diversify their supply chains to avoid being caught by sanctions.

Key changes in the world we live in, and how they support our top trends for 2023



Our Top Trends and High Conviction Themes

Remaking Asia's Future
- ASEAN Tigers
- Asia's Reopening Winners
- Asia's Green Transformation
- Asian Quality Credit

Opportunities Amid High Rates and Slowing Growth
- American Resilience
- DM Financials – Moving up the Capital Structure
- Durable Dividends
- Short-to-Medium Dated Quality Credit
- Hedging Against Inflation
- Recession Survivors

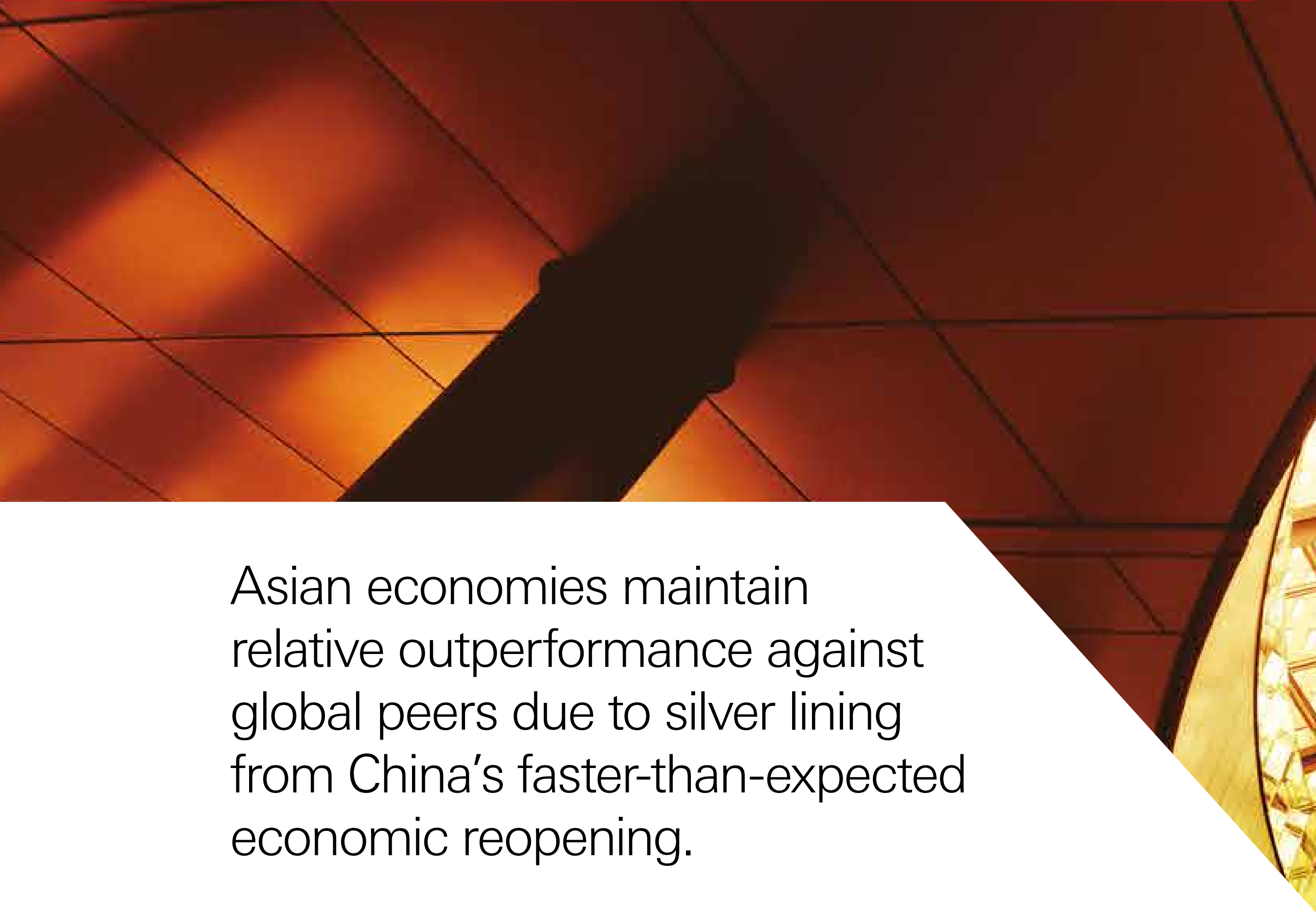
Digital Transformation
- Smart Mobility
- Total Security

Investing for a Sustainable Future
- Energy Transition and Independence
- Financing Biodiversity Action
- Sourcing Income in a Sustainable Way
- The Rise of S in ESG

Source: HSBC Global Private Banking, December 2022.

Demographic changes are of course, by definition, a long-term trend with many predictable aspects. Asia's large, educated and technologically-savvy population is seeing increased wealth, supporting our Asian themes. But there are also subtler changes in what people want to consume, and how. That's not just because Gen Z consumers are different from Millennials and often get on their Gen X parents' nerves, but also because of our society is increasingly turning into a knowledge society. Besides the growing emphasis on services we already mentioned, consumers are more focused on experiences, on learning, on tech products and on digital ways to buy goods and services.

Luckily, Gen Z consumers (and increasingly, all of us) are getting much more environmentally aware and we are changing our consumption habits, while putting pressure on companies to behave in a more ESG-friendly way. Needless to say, no investment will be safe unless we have a liveable planet. So increasingly, sustainability is becoming the number one priority for some investors. Many already apply it throughout their investment process, across the multi-asset core portfolio and satellite themes. China is taking a lead in a number of sustainability-related technologies, but other big polluters such as the US and the EU also see the sustainability revolution as a huge new area of activity they cannot afford to miss. So, as money talks, we're hopeful that the attraction of a new growth area will propel progress, especially given the risk of old business models becoming obsolete. In addition, we think the current energy supply shock is fuelling the transformation too, as renewable energy costs continue to fall. And we're hopeful that the combination of the recent COP15 and COP27 summits, though disappointing in terms of practical steps and commitments, have highlighted that climate change and biodiversity often have the same causes and should be tackled together.



Asian economies maintain relative outperformance against global peers due to silver lining from China's faster-than-expected economic reopening.

Our four high conviction themes

1. ASEAN Tigers
2. Asia's Reopening Winners
3. Asia's Green Transformation
4. Asian Quality Credit

Against a challenging macro backdrop of global downturn, Asia continues to stand out as a relative safer haven with resilient domestic fundamentals and policy tailwinds to weather global recession risks. In contrast with the synchronised growth deterioration in most parts of the world in 2023, Asia ex-Japan will be the only region projected to deliver GDP growth acceleration to 4.3% in 2023 from 3.5% in 2022. We believe the Asian economies can maintain their relative outperformance against global peers due to silver lining from China's faster-than-expected economic reopening and rollout of policy stimuli to stabilise the property sector.

China's exit from Zero COVID has come much faster than markets have expected following the State Council's announcement of the 10 new measures on 7 December. This marks an important milestone of China's policy pivot towards growth stabilisation in 2023, as indicated by the recent rollout of more comprehensive credit and liquidity support for the property sector. An improved recovery outlook in China will boost the overall growth outlook for Asia, given China is the single largest trading partner of 16 major Asian economies. Our Top Trend of 'Remaking Asia's Future' looks for the most attractive structural and tactical opportunities in the region.

Remaking Asia's Future

Our new High Conviction Theme on **Asia's Reopening Winners** focus on beneficiaries of the widening reopening trends across the region, particularly in mainland China and Hong Kong. We expect mainland China will further speed up the pace of reopening when booster vaccinations are ramped up more broadly among the elderly population in the coming months. Riding on the reopening tailwinds, we position in quality industry leaders in the travel, airlines, hospitality, food and beverages, Macau gaming and mass consumption sectors in China and Asia. We anticipate China's reopening rally will likely broaden beyond travel-related sectors, as the relaxation of zero COVID control measures will provide a material boost to consumer confidence and business sentiment. We favour stocks and bonds of Chinese internet leaders in the ecommerce and online gaming sectors, as they benefit from improved investor sentiment on economic growth outlook and expected recovery of consumer demand from Q2 2023 onwards. We forecast China's reopening and increasing policy stimuli for the property sector will support 5.0% GDP growth in 2023, up from 3.0% this year.

Another supportive driver for the Asian markets is the resilient performance of the ASEAN economies which benefit from continued economic reopening, supply chain reorientation and strong consumer spending. The ASEAN stock markets have recorded one of the strongest earnings growths in 2022, outperforming global and regional peers, and we expect this trend is likely to continue in 2023. Southeast Asia should continue to benefit from the strong momentum of overseas traveller inflow and tourism boom. In Thailand, tourist arrivals have climbed to only half of pre-COVID-19 levels. We expect China's exit from Zero COVID is positive to the growth outlook of Southeast Asia, and tourism plays stand to benefit from the boom driven by expected return of the Chinese tourists.

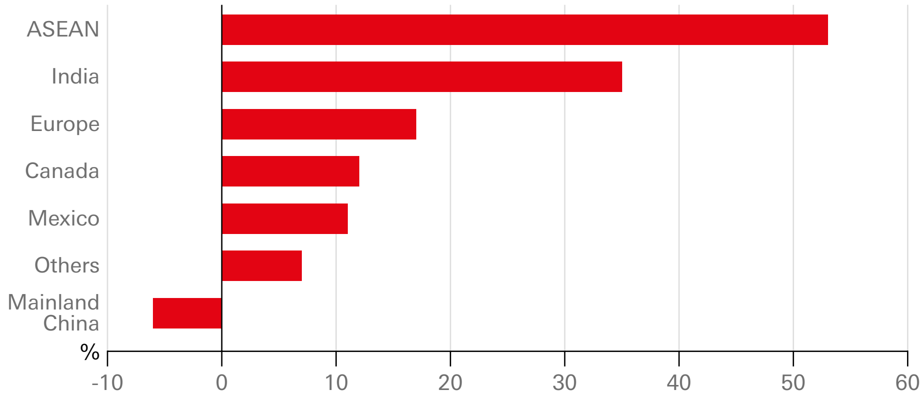
Our new theme on **ASEAN Tigers** capture growth opportunities in consumption companies, infrastructure plays, ASEAN banks and Singapore REITs. The ASEAN is now a more economically integrated region through the Regional Comprehensive Economic Partnership, which is the world's largest free trade bloc. We believe the ASEAN economies can also benefit from the reconfiguration and regionalisation of Asia's supply chains. Between 2018 and 2021, the ASEAN region has become the biggest winner in terms of percentage change in trade value of US imported goods when supply chains were reoriented away from mainland China during the US-China trade war. Indonesia, the world's number one nickel producer, can gain from high commodity prices and rapid battery demand growth in the EV industry.

The young population and rising middle class in the ASEAN region create a strong domestic consumption market, offering a distinctive competitive advantage for the region in a de-globalised world. Over the past decade, the ASEAN economies have undergone a healthy reset with deleveraging and continued infrastructure investment. As a result, ASEAN companies have developed resilient fundamental strengths and stronger balance sheets to withstand headwinds from the global downturn and higher US rates. Indonesia and Thailand have the most solid economic momentum within Southeast Asia, thanks to strong consumer demand. Valuations remain attractive relative to history and other regional markets. Within the ASEAN markets, we are overweight Indonesia and Thailand which see the strongest earnings momentum.

For structural growth opportunities, our High Conviction Theme on **Asia's Green Transformation** stays focused on opportunities from the **Energy Transition and Independence**, green infrastructure development and innovation of new energy vehicles technologies in the region. We favour renewable energy equipment makers of solar, wind and green hydrogen, smart grid manufacturers and leaders in the EV supply chains. The World Bank estimates that China needs to invest up to USD17 trillion for energy transition, green infrastructure and technologies to meet its carbon neutrality goals by 2060. China is growing into a global powerhouse in EV, with one out of three new cars sold in China now being electric. Pure EV plays, some conventional OEMs and battery companies can benefit from the net-zero transition. We expect China's annual solar installed capacity to reach 115GW by 2023 and to increase at a 15% CAGR to 150GW in 2025.

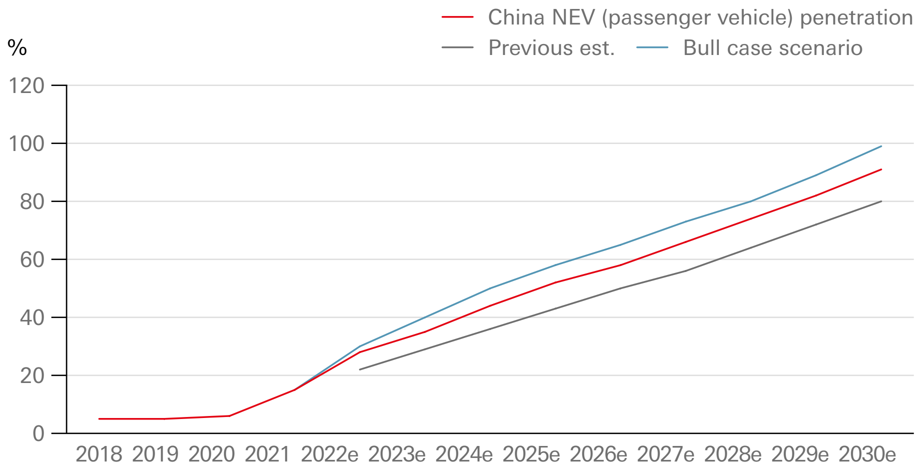
In India, investments of around USD300 billion will be needed to complete the 500GW of renewable energy capacity target by 2030. Southeast Asian countries are also rushing to issue green bonds to finance eco-friendly projects.

Change in US goods imports in value terms (2018 to 2021)



Source: US Census Bureau, HSBC Global Private Banking, December 2022.

We forecast China's EV penetration rate to surge to 52% by 2025 and 91% by 2030



Source: CPCA, HSBC Qianhai Securities estimates, HSBC Global Private Banking, December 2022.

In ASEAN and East Asia, the amount of sustainable bonds outstanding accounted for about 18% of world's total, trailing only Europe as the second-largest market, according to the Asian Development Bank.

Positioning for moderating inflation and the peaking US interest rate cycle, we remain bullish on the theme of **Asian Quality Credit**, especially after the substantial yield pick-up across the Asian credit markets in 2022. This theme stays focused on high quality corporate bonds in Asia, including high grade Hong Kong corporate bonds, Chinese TMT bonds and Indonesia hard currency bonds. With Hong Kong's accelerating reopening to the outside world, we favour investment grade bonds in the retail and property space. We continue to see attractive carry opportunities in Indonesia quasi-sovereign investment grade bonds, thanks to the country's improving fiscal position in a strong coal cycle. We prefer short-to-medium duration Asian investment grade bonds which are expected to see lower price volatility relative to longer-dated credit amid rate volatility.

ASEAN Tigers

Overview

- Against a gloomy global economic backdrop, ASEAN countries are showing silver linings of resilience.
- For 2023, ASEAN will gain from the confluence of cyclical and structural tailwinds. ASEAN companies are set to deliver solid earnings in 2023.

The Opportunity

- ASEAN economies can maintain their outperformance in 2023. Southeast Asia is reopening its doors after the peak of pandemic, resulting in a surge in consumer spending.
- ASEAN is closely integrated through the Regional Comprehensive Economic Partnership – the world's largest free trade agreement.

  Alongside the opportunities from the acceleration of e-commerce, we see revival of traditional industries such as commodities and manufacturing.
- ASEAN can benefit from the regionalisation of supply chains. This is because the region has a big consumer market – home to more than 680 million people, a young and a rising middle class.
- Some ASEAN markets (e.g. Indonesia) can gain from high commodity prices, proving to be defensive to inflation shocks. There are plentiful quality companies with resilient earnings and durable dividends in the region.
- We see opportunities in the consumer plays, infrastructure, select ASEAN banks and Singapore REITs.

Why now?

- ASEAN markets have one of the strongest earnings growth with equities outperforming in 2022, and this trend is likely to continue going into 2023.
- Indonesia and Thailand exhibit solid economic momentum within Southeast Asia, with strong consumer demand. Valuations remain attractive relative to history and other regional markets.
- Southeast Asia has undergone a healthy reset over the past decade with deleveraging and continuing infrastructure investment. As a result, ASEAN companies have been generally resilient amid the stronger dollar and the higher US rates volatility.

New opportunities in the coming decades

ASEAN is attracting FDI into the EV space from global car manufacturers to battery manufacturers with the goal of exporting finished products.

Southeast Asia's digital economy is predicted to reach USD330 billion by 2025 from USD200 billion now.

Combining as a region through the free trade agreement, Southeast Asia has the potential to become a leading digital and manufacturing hub of the future, one that is built on automation, robotics, and AI.

In the years ahead, the economic gravity is shifting to Southeast Asia. We see Southeast Asia being an important pillar of investment portfolios.

Source: HSBC Global Private Banking, November 2022.

Asia's Reopening Winners

Overview

- Asia has joined the globe on the reopening journey. Tourism, travel and related segments should directly benefit.
- Consumption will get a boost from relaxation of social distancing measures and revival in domestic travelling, in our view. Stronger economic growth in the region should also lift consumer confidence.
- Asia's companies should also benefit from other tailwinds such as shifting consumer preferences, cheaper currencies, and better tourism technology.

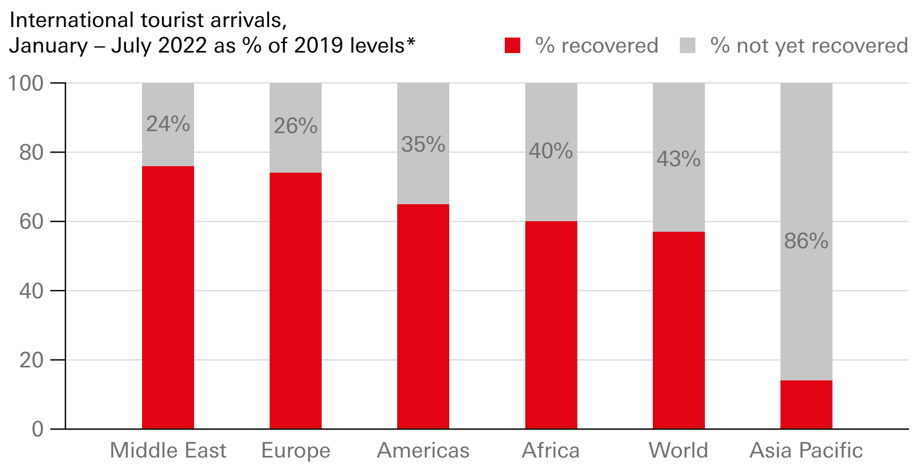
The Opportunity

- The removal of COVID-19 related measures should provide a reopening impulse, leading to a recovery in domestic demand in Asia. Particularly, travel and tourism industries including airlines, hotels, travel agents and consumer service sectors are the direct beneficiaries.
- North Asian economies, including Hong Kong, Taiwan, South Korea and Japan, should feel the largest reopening impact given the recent relaxation of COVID-19 related measures.
- China's COVID-19 policy remains the wildcard. Our expectation is that the signs for reopening will eventually become more apparent after the 20 new measures on 11 November. Alongside a potential "reopening bounce", we prefer travel, airlines, Macau gaming, food & beverages and mass consumption.
- Southeast Asia should continue to see a solid recovery from reopening. For example, in Thailand, tourist arrivals have climbed to only half of pre-COVID-19 levels. We expect the recovery to continue and tourism plays stand to benefit.

Why now?

- Some North Asian economies have recently removed many of their COVID-19 related restrictions. While Southeast Asian economies are more advanced in reopening, the recovery is still far from done and their tourist arrivals have yet to reach pre-pandemic levels.
- The persistent strength in the USD has placed downward pressure on Asian currencies, which should work in favour of attracting tourist spending in the region.

Asia has the largest upside in reopening



* Percentage of January – July 2019 arrivals reached in January – July 2022
Source: UNWTO, HSBC Global Private Banking, November 2022.

Asia's Green Transformation

Overview

- Asia is home to the biggest contributors of global warming, and is one of the regions most vulnerable to climate change. By 2050, Asia will risk losing USD2.8-4.7 trillions in GDP due to losses of outdoor working hours as temperature and humidity rise, according to McKinsey.
- China aims to double power capacity for solar and wind by 2025. The country has pledged to peak carbon emissions by 2030, and become carbon neutral by 2060.
- Major Asian economies, including China, Japan, India, and Indonesia, have pledged to achieve net-zero by 2050-70, underpinning the structural demand for renewables.

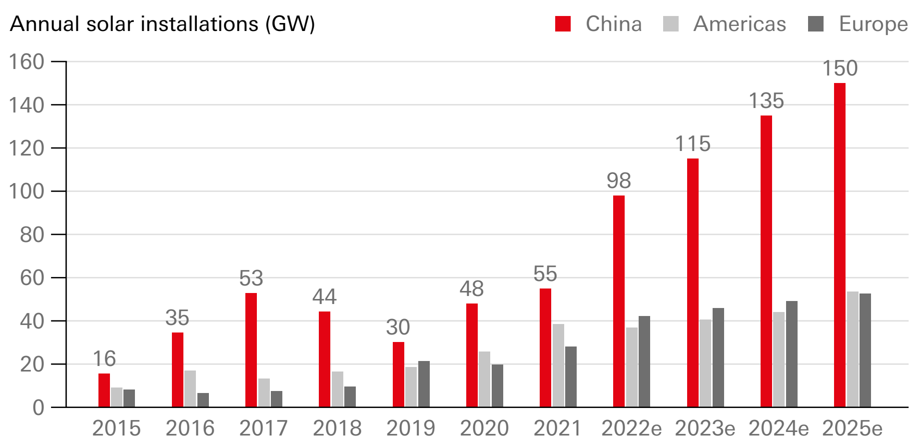
The Opportunity

- We expect China's annual solar installed capacity to reach 115GW by 2023. This is projected to increase further to 150GW in 2025. The forecasts have been revised upwards, largely driven by higher long-run demand, as well as demand carried forward from utilities projects, which had been delayed by high module prices and insufficient grid capacity.
- The rapid development in India also increased its power demand, where it is reported that the country may need additional investments of around USD300 billion to complete the 500GW of renewable energy capacity target by 2030.
- China is growing into a global powerhouse in Electric Vehicles (EVs). One out of three new cars sold in China is now an EV. Pure EV plays, some conventional Original Equipment Manufacturers (OEMs) and battery companies can benefit in the longer term.
- Southeast Asian countries are rushing to issue green bonds to finance eco-friendly projects.

Why now?

- China reiterated its climate targets during the 20th National Congress of the Chinese Communist Party, underpinning the country's commitment to green transformation.
- Singapore recently raised its climate ambition to achieve net-zero emissions by 2050. Monetary Authority of Singapore (MAS) also recently noted that Singapore can play a key role in mobilising capital to help Asia achieve net-zero by 2050.

We continue to see China having the largest solar demand over the next few years



Source: SolarPower Europe, BNEF, HSBC estimates, HSBC Global Research, HSBC Global Private Banking, November 2022.

Asian Quality Credit

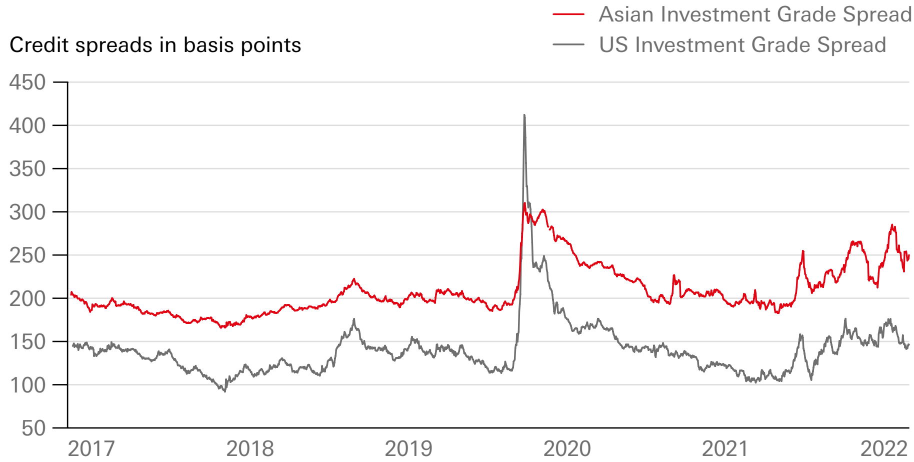
Overview

- We remain defensively positioned in Asian credit market, with a focus on high quality amid high and volatile rates and the challenging economic outlook.
- We prefer short-to-medium duration bonds which may see lower price volatility relative to longer-dated ones.
- Chinese rates have likely bottomed, but the economic recovery remains bumpy. Consequently, we stay selective in China investment grade.

The Opportunity

- We think the regulatory challenges and elevated uncertainty towards Chinese privately owned tech giants over the past two years has likely come to an end. The policy focus has now shifted towards more state influence in governance and in corporate decision making. While it may be viewed as equity unfriendly, it presents opportunity for credit investors who find current valuation inexpensive.
- While top Chinese developers saw some relief rally and short covering lately, we still advise caution toward this sector as property sales stays weak and cash flow generation remains tough.
- With HK's official reopening to the outside world starting Q4 2022, we think high quality local credit in the retail and property space present upside opportunity in Q1 2023.
- We continue to think Indonesian quasi-sovereign investment grade bonds have an attractive carry, thanks to the country's improving fiscal position in a strong coal cycle.

Asian investment grade credit spreads are attractive versus US peers



Source: Bloomberg, HSBC Global Private Banking, December 2022.

Why now?

- We think the current US interest rate cycle is now in the process of peaking. The Fed has now slowed the pace of its rate hikes, which we expect to end in Q1. This has to some extent reduced the risk of significant emerging market financial condition disruption in coming months.
- Global economic slowdown in 2023 remains our base case. We stay firmly with high quality credits for their defensiveness in this time of turbulence.
- The valuation of Asian investment grade remains attractive thanks to real money exodus over China related concerns.

We look for the best opportunities in equities and bonds, balancing the attraction of improved valuations and declining inflation against the deterioration of cyclical momentum.

Our six high conviction themes

1. American Resilience
2. DM Financials – Moving up the Capital Structure
3. Durable Dividends
4. Short-to-Medium Dated Quality Credit
5. Hedging Against Inflation
6. Recession Survivors

Our second trend is different from the three others because it focuses more on the 6-12 months macro-economic outlook, while the others focus more on structural and long-term changes. The set of themes under our second trend balance the attraction of improved valuations in equities and bonds against the current deterioration of the cyclical momentum and the high level of uncertainty. They recognise that although inflation is falling, it still remains high compared to history, and portfolios need to be protected against this. They are focused on quality assets and defensive characteristics as the economic cycle slows. Some of the themes have an income bias because slower profit growth means we need to look for additional returns elsewhere. And finally, the themes under this trend act as a counter-weight to many of our other themes, which typically have a growth-style bias. In short, the themes under this trend are great complements both to a diversified core portfolio that needs extra protection, or to balance out any style biases of other thematic satellites.

Opportunities Amid High Rates and Slowing Growth

Let's start with a recap of the macro-economic outlook and the current investment landscape. The global economy is slowing as a result of a cost of living crisis, which is particularly deep in Europe. The source of consumers' pain is not the labour market (which remains, in fact, quite resilient) but it is the damage caused by inflation. Higher consumer prices were initially triggered by shortages and bottle-necks when economies first reopened, but higher oil, food and labour costs are now the key drivers. In a services economy, where so much of the cost is driven by wages, inflation can remain sticky for longer, as high inflation increases wage demands, which enters into companies' costs and therefore translates in even more inflation. Until workers are confident that inflation is falling, they will insist on higher wages, keeping inflation high, unless the labour market weakens and their bargaining power weakens with it.

So while lower energy and transportation costs are already leading US CPI to come down, it will take time before inflation goes back to normal. For example, in the US, we expect CPI to reach 4.5% by end of 2023, still well above the Federal Reserve's target.

The fall in inflation we're starting to see – in part because of slowing demand – means that many G10 central banks can slow their rate hikes, and end them in Q1 or Q2. But we shouldn't get carried away: with inflation still well above target, G10 central banks are unlikely to cut rates in 2023, and should keep them in restrictive territory till the inflation dragon is slain. Central bankers tend to feel that they run much more career risk by not hiking enough (and inflation remaining sticky) than from hiking too much (and causing a recession).

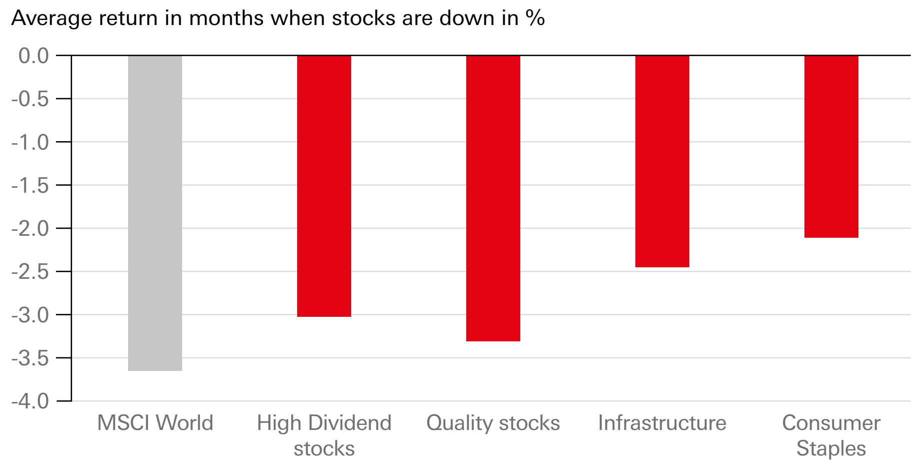
What does this mean for investors? In our core portfolio, we are ready to take on some more rate risk, but not yet too much cyclical risk. This is because rate hikes weigh on the economy with a lag, and we're likely to see rates peak before we see growth bottom. So we have an overweight in bonds, but an underweight in equities. Slowing growth means we invest in quality stocks and bonds, focusing on investment grade ratings and on defensive sectors when we invest in equities.

Our thematics reinforce many of these same ideas, but allow investors to further emphasise certain characteristics. For example, our **American Resilience** theme recognises that the US economy remains much more resilient than the Eurozone and the UK in particular. Its large energy sector helps support US business activity, and the fact that many households saved a large part of the big handouts given by the Biden administration during the lockdown now allows many to continue to spend more than their European counterparts.

The other key concern for investors of course inflation, and our theme of **Hedging Against Inflation** looks for business models and investments that are likely to be resilient while inflation remains high. High energy costs and food prices are part of the inflation issue, and companies in this sector are generally doing well. We like infrastructure firms as regulated business models often allow prices to rise with inflation, while non-regulated infrastructure companies often have inflation clauses in the contract with the user. We have removed real estate from our High Conviction Themes as higher bond yields are putting downward pressure on real estate prices. Still, rents are often resilient, and real estate remains part of a well diversified portfolio.

Income is a key component to provide stability to returns, especially when earnings growth is coming down. In equities, this points to high dividend stocks, but with an emphasis on resilient business models and durable dividends, because companies whose earnings or cash flow fall sharply during the slowdown may balk at paying out big dividends. It is especially in the bond space, however, that income is now much easier to obtain, following the rise in yields. We go for the safer part of the universe, though, firstly limiting our duration risk to short-to-medium, and by sticking to investment grade ratings (or very select BB ratings), in both developed and emerging markets. We also see value in financials, but stick to the top end of the capital structure, as slowing growth, rising delinquencies and lower capital market activity may weigh on banks' profitability.

In months where equity markets were down, a defensive sector stance, infrastructure, quality and dividends all typically help limit losses



Source: Bloomberg, HSBC Global Private Banking, December 2022. We show average monthly returns since 2010, for months where the MSCI World was down.

The Macro-wheel: while inflation may have already peaked, rates are still going up, and growth will slow down for even longer

Source: HSBC Global Private Banking, December 2022.

American Resilience

Overview

- The US economy remains relatively resilient, despite growing at a slower pace. Higher interest rates and inflation are headwinds, but investment opportunities remain in businesses that can better navigate the challenging environment.

- Slower demand, combined with compressed margins, should slow corporate profit gains, while companies continue to deploy capital on projects that will maintain operating efficiency.

- The US economy should benefit from healthy consumer balance sheets, sustainability initiatives, and the technology revolution – which is a favourable structural change.

The Opportunity

- We remain constructive on US equities, with a current bias toward more defensive market segments.

- US labour markets should slow and unemployment should rise, but from historically strong levels.

- Services spending is back above pre-COVID-19 levels, as the economy remains open.

- Corporate R&D remains strong, improving future productivity.

- US dollar strength provides tailwinds for domestically focused industries.

- Due to the sticky inflation, we are focused on sectors that have pricing power, like Consumer Staples (food) and Energy.

- Elevated corporate cash levels continue to provide opportunity for returns through dividends, share buybacks, and strategic M&A.

- The US forward valuations have begun recalibrating while earnings downgrades expand. The combination of slower earnings and lower forward multiples should make the US equities more attractive.

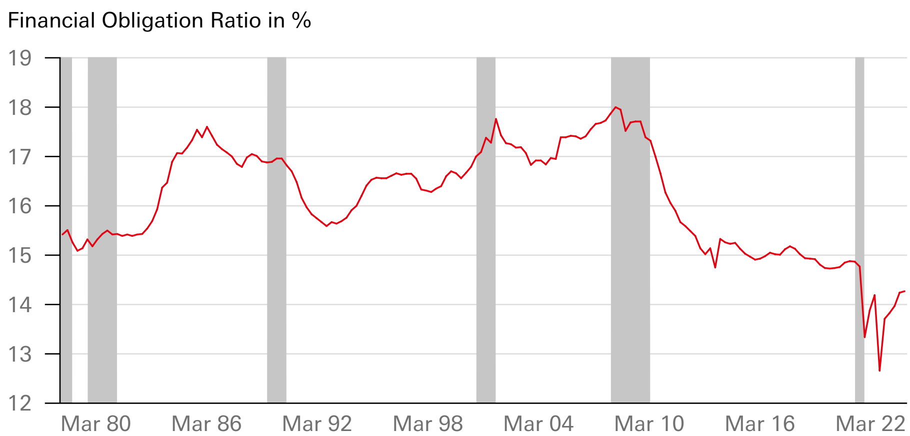
Why now?

- The US economy remains relatively resilient in comparison to other major economies in Europe and Asia, where we could see slower growth, or outright recession, in 2023.

- This year's selloff in the US equities lowered forward multiples which has made the US equity valuations relatively attractive.

- While demand for goods is slowing, demand for services remains solid and should provide growth opportunities.
- The US corporates continue to exhibit resilience. Corporate cash levels are high following the historic restructuring of balance sheets in 2021. The US corporate profits should remain healthier than in many other major markets. We remain focused on quality opportunities with strong cash flows and low levels of net debt.

Despite the increased use of debt, US consumers are capable of handling higher interest rates



Source: Federal Reserve, HSBC Global Private Banking, November 2022.

DM Financials – Moving up the Capital Structure

Overview

- The Developed Market (DM) Financials sector has been through a period of transformation since the Global Financial Crisis, with a strong focus on capital adequacy. It's an industry wide endeavour which remains in place over ten years later.

- Banks have strengthened their balance sheets significantly in response to stringent regulatory requirements under the Basel III accord, evidenced by stronger capital and liquidity ratios. Meanwhile, asset quality remains resilient owing to a host of targeted fiscal measures during the COVID-19 pandemic and more recently in response to the European energy crisis. Insurers have also built large equity cushions in recent years.

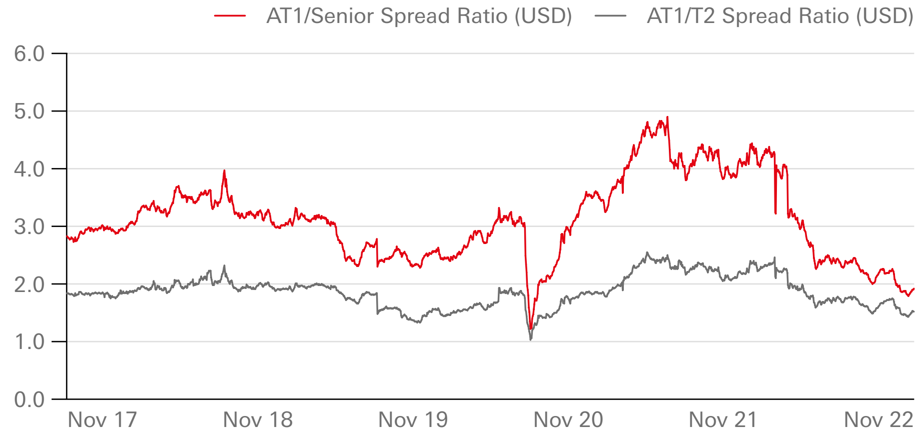
The Opportunity

- Despite risks to the economic outlook from high inflation, DM banks continue to post good earnings, benefiting from a combination of modest loan loss charges and higher net interest income. Looking ahead, Non-Performing Loan ratios may rise due to tighter financial conditions – albeit this is from a low base.

- Financial exposures to Russia are generally small. For the few European banks with notable operations in Russia, we believe the impact on Group capital from credit losses will be manageable.

- Banks' Common Equity Tier 1 (CET1) capital ratios remain robust, especially in Europe where the average was 14.3% at 3Q22.

USD AT1 vs Senior and Tier 2 spread ratios have declined – Valuations on Senior and Tier 2 look relatively more attractive



Source: HSBC Global Private Banking, ICE/BAML Indices, CreditSights, November 2022.
Note: Subordinated instruments have additional eligibility and documentation requirements and are not available to all investors.

- The more stringent Solvency II regulation in Europe has been a positive for bondholders, as insurers have since built significant equity buffers and exhibited capital prudence. We estimate that the average Solvency II Capital Ratio (SCR) among insurers stood at 219% at 1H22, over double the 100% regulatory minimum.

Why now?

- DM Banks are well positioned to navigate a period of slower economic growth, owing to a strong starting point on capital but also non-performing loans; which remain below historic norms.

- For Banks, we now have a preference further up the capital structure for USD and EUR currency Basel III Tier 2 bonds and senior unsecured debt. Tier 2 bonds issued by European and US banks in particular provide attractive yields, on a selective basis for institutions with high quality fundamentals. In Europe, we look for capital buffers comfortably above minimum regulatory requirements in order to manage the risks of a recession. In such a scenario, we are likely to see a rise in loan loss provisions, a contraction in loan growth & lower investment banking income.

- At an index level, USD Tier 2 bonds yield around 5.8% (spread 196bp), while in EUR index yields are just over 4.6% (spread 229bp), as at 15 December 2022*. Relative to AT1 capital instruments, valuations on Senior and Tier 2 bonds look quite attractive.

Note: *Index data from IHS Markit iBoxx.

Durable Dividends

Overview

- Risks are elevated in the global economy which is experiencing a more fragile geopolitical environment, elevated inflation and slowing growth. Therefore, with so much uncertainty looking forward, gaining **Durable Dividends** exposure in a diversified portfolio looks attractive.

- As the global economy slows down, corporate earnings are slowing from the high levels seen in 2021 but dividend levels of quality companies will likely remain solid even with earnings levels expected to be flat for 2023 for the equity market in general. Demand for dividend stocks remains high.

The Opportunity

- Dividends can act as a bulwark against high inflation, delivering yield to investors at a time when risks are elevated.

- Companies are seeing the demand for yield in the market and are adjusting accordingly. Rising rates will also put pressure on corporates to ensure yield levels remain competitive.

- Some economies are still growing out of the pandemic with many sectors still not fully back to normal, especially hospitality and leisure. As they reopen, high consumer demand should underpin their revenues and profits which in turn support dividend pay-outs of high quality companies.

Why now?

- Dividend payers are typically more value-oriented companies in financials, energy, autos and real estate which should be more insulated to rate rises.

- Investors have been rotating away from long duration strategies towards exposures with clearer sight on nearer term paths.

- Rising rates will raise competition for yield, putting pressure on dividend payers to maintain or even grow levels.

- Earnings have been more resilient through the pandemic than many expected and forward earnings of quality companies are expected to remain relatively healthy supporting dividend levels.

- Payout ratios have been declining while yields have been rising so the opportunity looks relatively attractive at this time from a risk perspective.

Global Durable Dividend Yield

Source: Bloomberg Finance L.P., HSBC Global Private Banking, SPDR S&P Global Dividend Aristocrats, November 2022.

Short-to-Medium Dated Quality Credit

Overview

- Following the repricing for tighter monetary policies in rate markets and the high level of DM nominal rates (which are almost back to pre-2008) we have increased our allocation to quality fixed income.
- We continue to focus on carry opportunities at the short-to-medium part of the corporate credit curves (2-5-year maturities), focusing on Global investment grade (IG) and high BB-rated companies, where the carry trade is the most optimal.
- Standalone fundamentals remain robust for several EM companies and quality emerging markets (EM) credits should therefore also add value in well diversified portfolios.

The Opportunity

- Although DM rates may be approaching their peak, we prefer to focus on short-to-medium duration until there is a more sustained downward trend in inflation.
- Given still elevated economic risks, our focus remains on DM IG corporate credit. At the same time, we find that selective BB-rated High Yield companies also offer good value. We particularly like the "Rising Star" candidates from commodities' related sectors (e.g. Energy) and subordinated capital instruments from Financials.
- Within EM credit, we remain selective, focusing on cash rich companies with low refinancing risks and stress the importance of diversification. On a regional basis we prefer Brazil, Mexico and the GCC which have demonstrated more economic resilience in the current global environment.

Why now?

- Following aggressive rate hikes from the major central banks, short-to-medium dated IG bonds across DM now offer attractive yields. The ICE BofA US IG 1-5 year index offers a yield of 5.1% with a duration of 2.6 years. The broader ICE BofA US IG index offers a similar yield of 5.1% but carries a significantly longer duration of 7.0 years (as at 15 December 2022).
- EM corporate bonds also carry an IG rating of BBB on average and offer a yield of 7.1%, with a relatively short duration of 4.2 years (based on JPM CEMBI Broad index).
- Thanks to a focus on cash generation and de-leveraging, credit metrics of many EM companies remain robust. As of the end of Q2 2022, the average net leverage of Global EM was 1.3x (based on JPM estimates). US IG companies had an average net leverage of 2.5x and European IG at 3.2x.

The recent rise in yields on short-to-medium US investment grade bonds presents an interesting opportunity

Source: HSBC Global Private Banking, ICE BofA, December 2022. Past performance is not a reliable indicator of future performance.

Hedging Against Inflation

Overview

- Although there are signs of inflation rolling over in the US, it still remains extremely elevated; is much more broad-based; and is firmly entrenched globally. Global supply constraints have eased recently and therefore goods inflation is coming down. But it's the services inflation that still remains elevated mainly due to high labour costs in the US. High food inflation and the after effects of the recent Energy price shocks persist in Europe.

- Therefore, key central banks, in particular the Fed, remain resolute on clamping down high inflation by keeping a hawkish policy intact. But it's unlikely that these inflationary pressures will abate meaningfully anytime soon, as monetary policy works with long and variable lags. Investors should therefore hedge their portfolios.

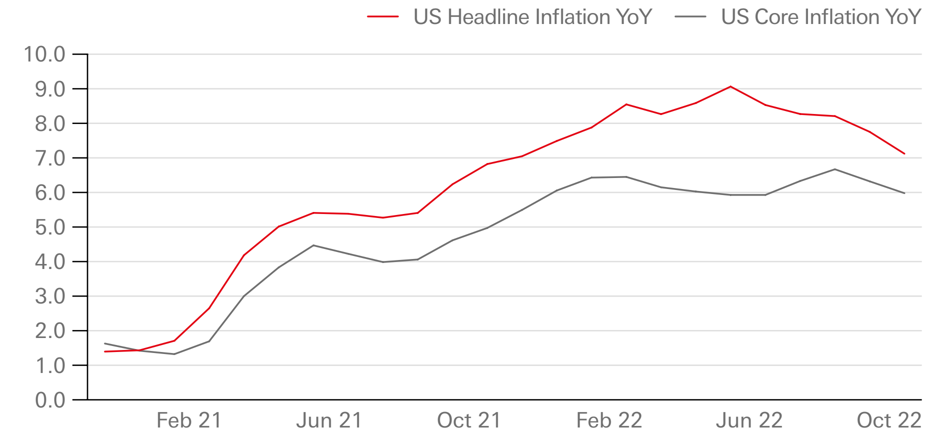
The Opportunity

- **Energy sector:** is an under owned relative to its history and is trading at attractive valuations despite going up by 45% in 2021 and circa 60% YTD. Energy companies benefit from buoyant oil and gas prices, and the high demand for energy in the winter months. Their green energy focus and reinvestment of profits in net-zero transition are a major pull.

- **We like exposure to consumer staples**, specifically companies with high margin power like those producing food and essential items, to hedge against high inflation.

- **Income yielding Infrastructure funds:** benefit from a link (often set by the regulator) between their input costs and the prices they charge, which protects their profits. We have removed exposure from real estate rentals from this high conviction theme, as higher borrowing costs may continue to weigh on real estate values.

Even though US inflation has peaked, it is likely to remain elevated and way above the Fed's 2% inflation target



Source: HSBC Global Private Banking, Eikon DataStream, December 2022.

Why now?

- Even though inflation may have peaked, it is unlikely to hit Fed's 2% inflation target anytime soon. We expect US inflation to be circa 3.7% in 2023. Core inflation is likely to remain sticky over the coming quarters until significant softness is witnessed in the jobs market. Therefore investors need to hedge their portfolios against high inflation by having exposure to energy and high quality consumer stocks which benefit in an inflationary regime and have the pricing power to pass on higher input costs to their consumers, lifting revenues for those companies.

- In inflationary times gaining exposure to income generating infrastructure funds often provides a yield in excess of the average CPI. The cash flows of the companies they invest in are often underpinned by regulation or long term contracts.

Recession Survivors

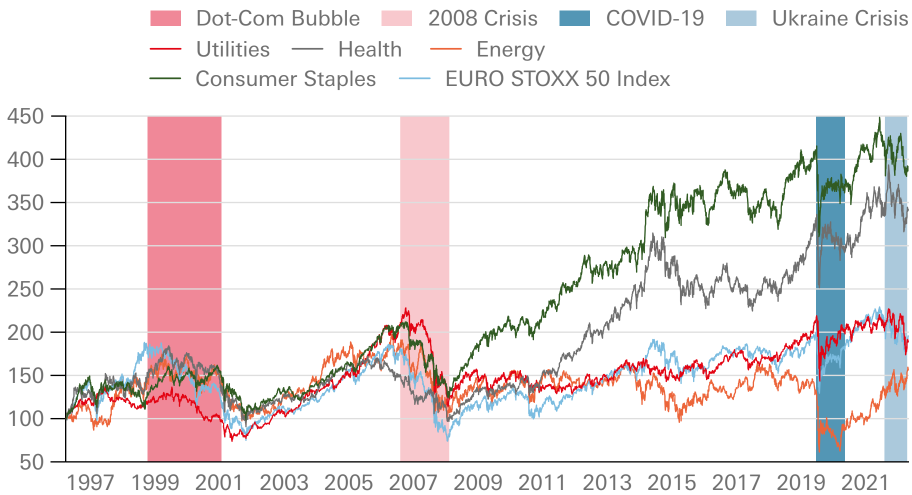
Overview

- A deceleration of the global economy is clearly evident with some countries teetering on the edge of recession just as central bankers try to tame inflation by raising interest rates.
- Consumers are trimming spending as wages fail to keep pace with the rising cost of living.
- As a result, many companies are facing a perfect storm of rising financing costs just as sales are softening but costs are rising due to labour shortages, higher input costs and some supply issues.

The Opportunity

- Europe appears at greatest risk of recession than other regions, so European stocks in defensive sectors offer a relative haven against equity market volatility.
- Sector providing essential goods and services (consumer staples, healthcare, utilities and energy) should be somewhat insulated from weakening discretionary spending.

European defensive sectors outperform Eurostoxx50 index during recessions or major market downturns

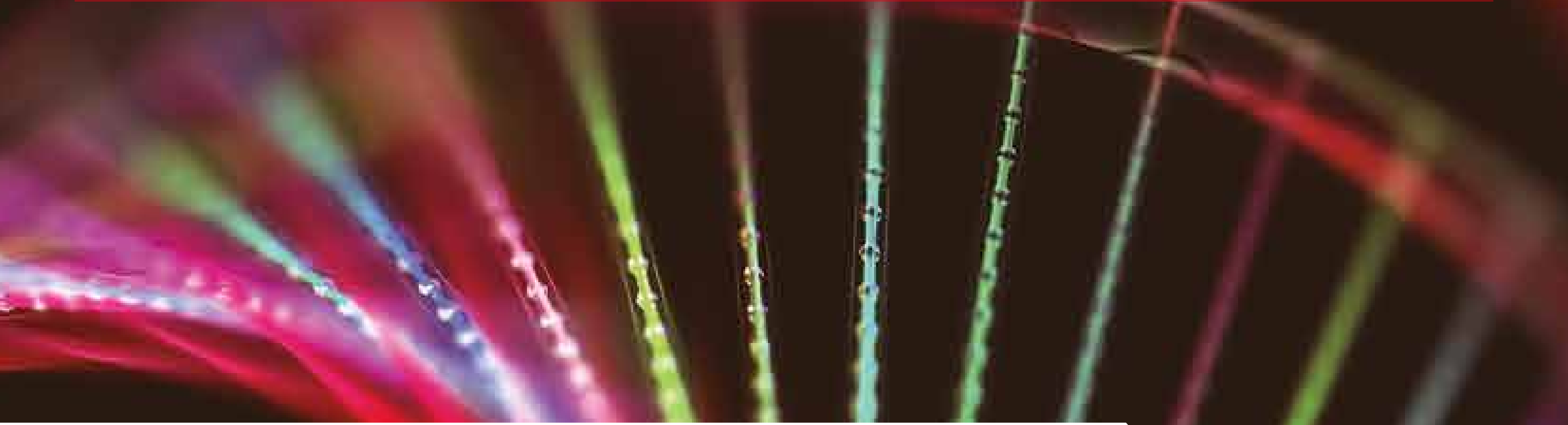


Source: Bloomberg, HSBC Global Private Banking, November 2022.

- Companies focused on export markets may benefit from stronger demand in other regions where the economy is still growing.
- Companies with no or low levels of debt should be less impacted by rising interest rates.

Why now?

- High quality defensive stocks typically outperform the broader equity market during times of recession.
- Investors have been rotating out of more cyclical stocks as earnings, sales and order books decline.
- Earnings have been more resilient than many expected until Q3/Q4, but our forecasts are now being trimmed, particularly in cyclical sectors.
- Payout ratios were reset by many companies during the pandemic improving resilience. Stocks in defensive sectors tend to have higher dividend yields which is important given the recent rise in bond yields.



The Digital Transformation, which started a few decades ago, continues to transform businesses, products and services we use.

Our two high conviction themes

1. Smart Mobility
2. Total Security

The digital transformation started a few decades ago as is evident by the relative absence of several 1990s mainstream analogue media and devices from retail outlets. All superseded or displaced by digital alternatives, in some examples the digital device itself has since be replaced by a digital service. From the explosive growth in electronic gadgets and devices led initially by Japanese consumer electronics companies the pattern shifted one of fewer, multifunctional digital devices such a smartphones and increasing digital services.

The music industry has been at the forefront of these recent changes and experienced significant disruptive changes to its business model. As such, it provides an illustration of the many twists and turns that industries and sectors face and the opportunities they create.

In 1931, RCA launched the first commercially available vinyl record. It was not until 1963 that the next major commercial innovation happened when Philips introduced the compact audio cassette. The industry then hit the fast forward innovation button with numerous new formats including compact discs and DAC. Then in the early 2001, Rhapsody introduced the first digitalised music streaming services and the industry from publishers to music players was thrown into turmoil.

For the consumer the proposition is simple – either you invest considerable money and space in a music playing system and a stack of vinyl records/cds or, you can subscribe for under USD10 per month and stream any music from a vast library wherever you are in the world to your existing mobile device.

Digital Transformation

Clearly, it was not the end for vinyl records that recently have made a limited comeback as vinyl decks automatically digitally convert the signals enabling WiFi/Bluetooth connections breathing new life into an old format.

The music industry could be a case study for other industries, with television and film media or education offering a similar transformational journey as digitisation enabled different formats and business models to evolve. Let's turn our attention to those industries presently undergoing significant change or are in the early stages digitisation.

In a previous brochure, we looked at the change being brought be electrification of the transport sector in particular the automobile industry. The switch from the internal combustion engine (ICE) to electric motors with all the ramifications that brings is somewhat self-evident, However, there are other subtler changers and opportunities that are being facilitated through connectivity and digitisation.

For example, after the initial shock of realising the ICE business (67 million cars per year car in 2021) was becoming a legacy segment, established automakers are only now turning their vast resources to how they can now benefit from the switch to electric vehicles.

Firstly, electric vehicles have vastly more sensors provide far greater levels of data. As we have seen in the tech industry, such rich sources of data can be used to develop and improve the product and service, whilst providing a significant competitive edge. Auto companies can see how the product is performing in different conditions across hundreds of thousands of vehicles and detect issues early.

Also, greater connectivity between electric vehicles already enables automakers to offer new high-margin services such as software updates; subscription features such as increased performance or heated seats for an additional annual fee. This business model has some elements already offered by commercial jet engine manufacturers that make significant revenues from multi-year service and monitoring contracts with airlines. Automakers could adopt a similar model.

Connectivity brings many other benefits besides the practicalities of remotely monitoring deliveries or engine performance or detecting a service requirements. It opens up digital ecosystems and the interplay of various factors over time as only continuous monitoring over a large population can provide. A parallel would be a vast ongoing clinical study. Smartphones already do this admirably by tracking your movements; location; who you speak to; who and what you text; your internet roaming history; your favourite music and films……not to mention all the apps including the banking data.

Other industries see the benefits of knowing their customers better and see great commercial opportunities. It is therefore not surprising that as things become more connected and electrification and digitisation spread, technologies start to crossover between segments and businesses. Technology companies are pursuing ways to expand the application of the software and hardware while applying AI capabilities into new product service areas. For example, a duopoly of tech companies is already becoming dominant providers of technology for auto dashboards (instrument panels). Both companies are major players in mapping, media, telephony and many other areas, so this is an expansion of existing capabilities and an opportunity to further embed their proprietary technology in another mass product. Thus, as technologies further converge, consumer have seamless connectivity with the car and their telephone and automakers avoid the costly investment to develop their own user interface.

Homes are only just starting to be digitised with utility companies installing smart meters to avoid the costly meter reading visits and enable utilities to automate the whole use-to-billing value. Video doorbells, WiFi security systems, smart thermostats and WiFi connected lamps can already be found in many houses. The internet of things promises to connect many other devices to the list.

Security is also being transformed by digitisation enabling huge efficiencies and significant improvements in outcomes. The introduction of embedded microchips with stored biometric data into passports has made them more difficult to forge and enabled passport control at country borders to become automate. Reducing queues, reducing staff and improving traveller experience. Digital bag tags enable travellers to monitor the location of their luggage on their smartphone.

There are many other examples of how digitisation has or is transforming businesses, products or services we use. Companies and people are resourceful and creative, as we have seen in the vinyl records and player example that is again on a reasonable commercial footing after almost disappearing.

As investors it important to be aware of the opportunities this ongoing transformation is creating whilst also noting the laggard businesses.

Smart Mobility

Overview

- **Smart Mobility** includes the integration of intelligent technologies in transportation, but it is also about governments, companies and individuals making smart decisions about their choices of mobility given the environmental and demographic challenges.
- The Paris Agreement, COP27 and the IPCC climate study give an even greater sense of urgency to the adoption of zero-emission technologies, including in transportation. Electricity, hydrogen, biofuels and ammonia are potential zero-emission or green fuels that should help reduce emissions.

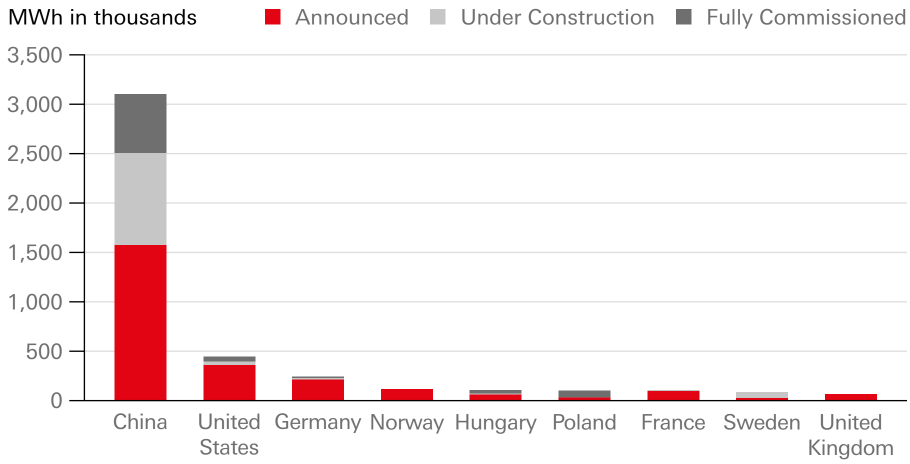
The Opportunity

- Electric vehicle (EV) purchases have accelerated significantly in major economies as consumer adoption gains momentum and new models are introduced.
- EV infrastructure is being added at a rapid pace in several countries to meet growing demand.
- Battery technology continues to advance benefiting from increased R&D budgets and soaring applications.
- 5G networks are supporting in-vehicle and sensor technologies connecting vehicles to the surrounding environment and other vehicles.
- Commercial vehicles and trains could benefit from the advancements in hydrogen fuel cell technology.

Why now?

- Transportation companies and systems are being forced to phase out the use of fossil fuels over the next decade as countries strive to achieve net-zero emissions.
- Technologies have advanced sufficiently to make alternative energy formats (lithium batteries, fuel cells, bio-fuels) to provide a viable economic zero-emission alternative source of power to fossil fuels for transportation.
- Fiscal stimulus packages in several major economies have environmental and infrastructure provisions that should also provide some additional financial impetus.

National capacity for battery manufacturing



Source: Bloomberg, HSBC Global Private Banking, November 2022.

Total Security

Overview

- Ongoing geopolitical conflicts demonstrate the need for continued investment in security infrastructure, as governments and private sector participants alike remain focused on securing supply chains across key industries like Energy, Consumer staple (food), and Semiconductors.

- Advances in technology and utilisation of connected devices are likely to increase the need for physical and digital security.

- The global pandemic pulled forward key work-from-home and e-commerce trends, making cybersecurity an area of focus. And the more recent war in Ukraine has brought both energy and food security to the forefront of investor attention.

The Opportunity

- Supply chain constrains and rising inflation have added pressures across the global economy.

- In order to achieve supply chain security, government entities are promoting localisation of production in sectors like technology, semiconductors, energy, and food. In addition, nearshoring efforts should lower costs, reduce risks, and increase supply chain security.

- New fiscal spending is prioritising both physical and digital security. As an example, in the US, the recent CHIPS Act legislation encourages localisation of production of semiconductors. CapEx spending across the semiconductor industry are likely to continue in the near term, resulting in industry-wide beneficiaries.

- More secular trends, including utilisation of connected devices, the internet-of-things, and the rollout of added 5G technology, suggest that businesses providing hardware and software to protect against cyberattacks are likely to continue to benefit.

- Governments, corporations, and individuals will drive demand for all forms of security in an effort to protect privacy, transactions, data and supply chains. Investors should consider security of intellectual property as a key consideration of **Total Security**.

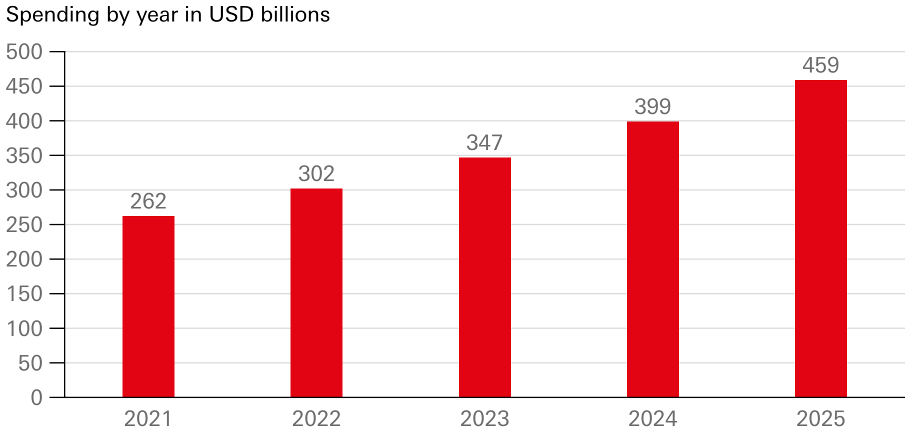
Why now?

- Ongoing global conflicts and growth of the economy emerging from the pandemic have affected supply chains and lifted inflation. Security of digital and physical supply chains are now as important than ever before.

- Governmental entities globally remain focused on fiscal spending to support security. Examples include the CHIPS Act and Inflation Reduction Act in the US, and LNG/energy policy in Europe.

- The drive to modernise infrastructure comes at a time when the global economy is trying to get back to a more stable footing, against a backdrop of higher inflationary pressures. As a result, businesses that can provide more security and more stability in digital and physical supply chains are likely to benefit – with the end objective of creating a more sustainable global economy.

Global Cyber Security Spending



Source: Cybersecurity Ventures, HSBC Global Private Banking, November 2022.

The focus and real action on sustainability issues is markedly higher than it has ever been. Its opportunity set is getting deeper and broader every day for investors.

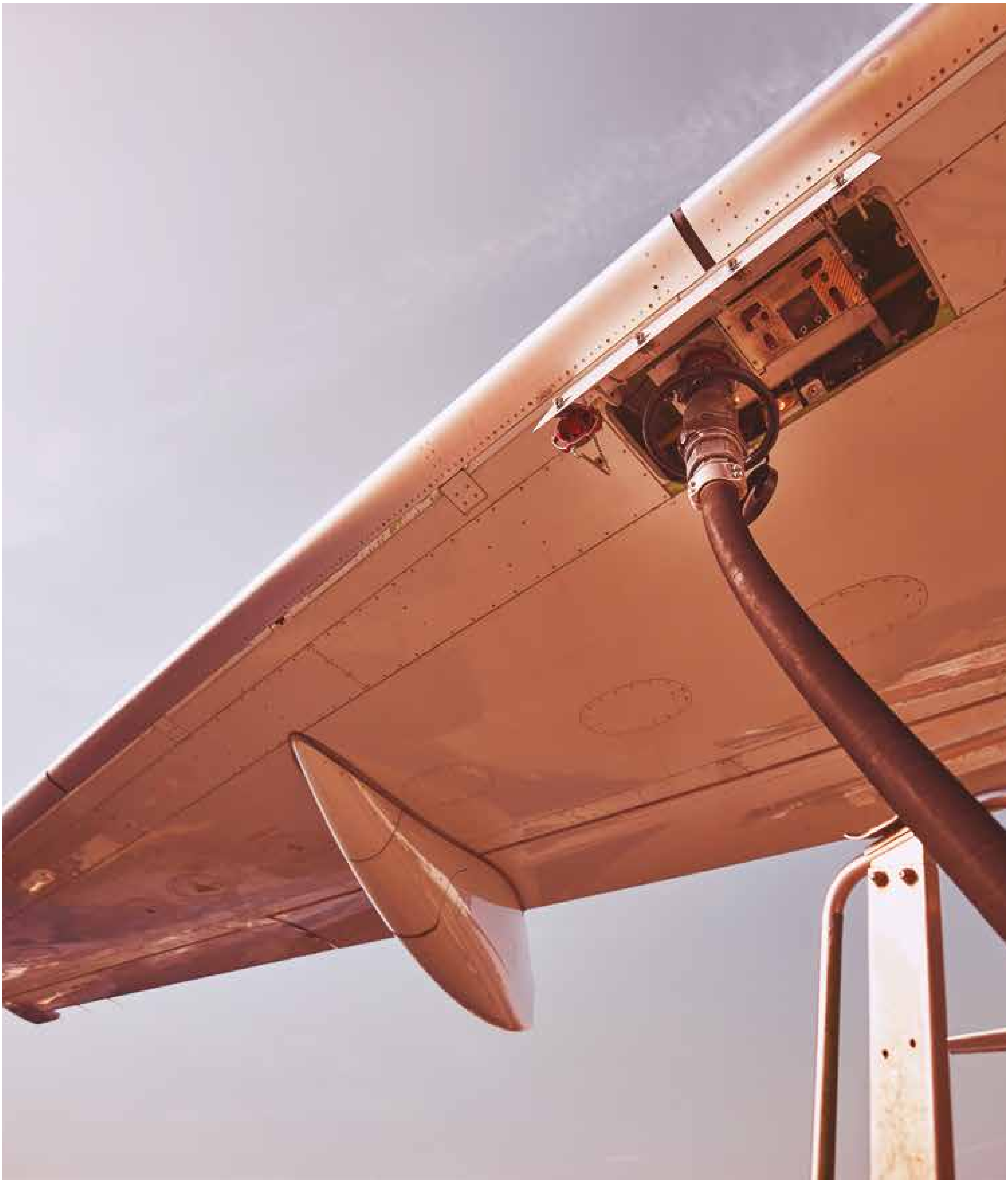
Our four high conviction themes

1. Energy Transition and Independence
2. Financing Biodiversity Action
3. Sourcing Income in a Sustainable Way
4. The Rise of S in ESG

The 27th Conference of the Parties of the United Nations Framework Convention on Climate Change (COP 27) had a raised urgency compared to other years and the acceptance and activity on sustainability issues is markedly higher than it has ever been. There is a broad spectrum of crises facing life on earth, the majority of which are a result of human activity and it is now widely accepted that we need to move quickly to limit the impact of our historic mistakes. The good news is that we have everything we need to get to where we need to in terms of sustainability, we have the understanding, the technology, the capital and increasingly the desire. As a result, for investors, the opportunity set is getting deeper and broader every day.

The energy transition from high carbon fossil fuels to a lower carbon mix of fossil fuels and renewables has been well underway for many years with solar, wind and other renewable sources such as hydro gaining more share of the energy mix. What has changed this year is that the conflict in Ukraine has highlighted the dangers and cost of being overly reliant on others for domestic energy supplies. Europe and especially Germany, have suffered rapidly rising energy prices and threats of blackouts due to their dependence on Russian energy. This gave governments and individuals around the world a further reason to support and accelerate their own sustainable energy plans because a sustainable energy future is also a domestically generated future.

Investing for a Sustainable Future

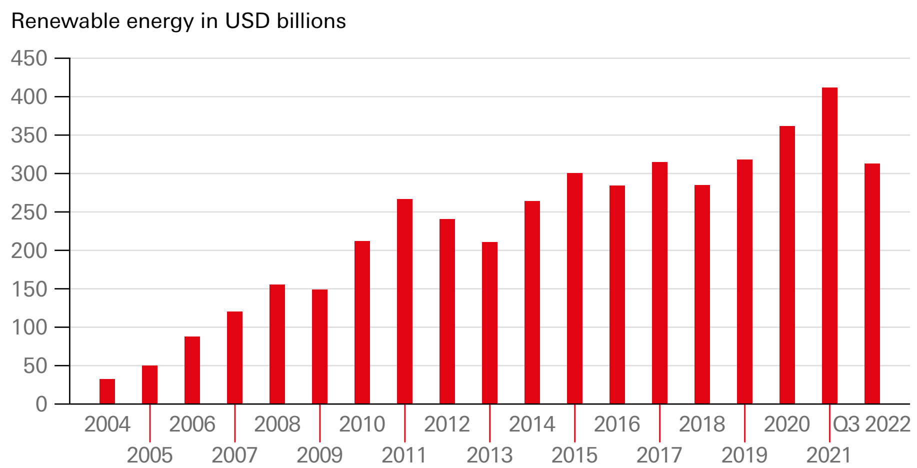


Germany is already seeing this, with demand for residential solar panels surging following the onset of the conflict. Sales of solar panels in the first 6 months of 2022 are equivalent to the total number for 2021.

That being said, the transition to a lower carbon future is still in a relatively early stage of its development and there is plenty of opportunity left for investors to explore. Grids, cables and substations for example need to be updated to accommodate renewable energy formats and the growing trend for residential renewable energy generation also needs support and frameworks to operate effectively within. Likewise, battery technology and its wider infrastructure needs to be considered alongside these technologies.

Sustainability is about more than clean energy of course and Biodiversity is an area that is undergoing increased scrutiny and is seeing many initiatives being adopted to try and reverse some of the damage that we have caused to our natural environment. The recent win by Luiz Inácio Lula da Silva in the Brazilian presidential race is a great example of environmental concerns rising up the list of political priorities. This win was in large part a result of his stance on the protection of the Amazon which was in marked contrast to his opponent, incumbent, Jair Bolsonaro. It was a clear message from the people of Brazil, echoed by those concerned with sustainability around the world that preservation and regeneration of our planets biodiversity are now a top priority. At the local level we are seeing a growing appetite for rewilding, refilling clear areas of land with the natural wild flora, native grasses, trees and flowers which, we have learned, carry benefits to our natural ecosystem far beyond what is immediately apparent. The biodiversity of our planet has been greatly reduced in the last 150 years and we are only now realising the roles that many plants and animals play in protecting our environment and keeping it in balance. Policy and social demand is now building strong momentum behind this theme. Sustainability is about more than just the environment of course, because to raise standards and achieve buy-in across the spectrum of societies stakeholders there must be an economic case in place. As a result, the Social factor in a company's exposure is becoming an ever more important consideration for investors and society. The pandemic played a significant role in bringing the social side of corporate behaviours to the forefront of the headlines. Workers who had been considered disposable were reclassified as essential and as a result their bargaining power has gained ground. Inflation has now added to employee motivations and created a further drive within worker bodies for better pay and conditions. In the UK, train strikes have been ongoing for the last few months for example, as the unions there look for a larger portion of company profits to go to the workers. In the US, calls for higher minimum wage levels and resulting unionisation discussions have been dampened as some major retailers raised their pay and benefits beyond the level legally required, a positive step towards a fair deal for all involved. What this means for investors is that some companies will be better positioned than others to navigate the mounting pressures from these issues. Companies that perform well in these areas will have the draw of talent, consumer demand and be favoured by regulatory bodies.

Annual Renewable Energy Capacity Pipeline



Source: Bloomberg Finance L.P., HSBC Global Private Banking as at 15 November 2022.

Energy Transition and Independence

Overview

- Elevated global energy prices are pulling forward investment in **Energy Transition and Independence**, as creation of a more sustainable global economy takes center stage.
- The energy mix and sources of energy (both renewable and traditional) remain key areas of focus for investors. In addition, investments in infrastructure, products, and services focused on sustainable energy production methods are increasing.
- As energy inputs like oil and natural gas remain volatile, globally, the public and private sector remain committed to finding alternative energy sources to help smooth out energy price shocks.
- In the US, the Biden Administration's focus on infrastructure and sustainability provides impetus for private sector investments.
- In Europe, higher electricity production costs (and higher LNG prices) are directly impacting industrial production, making Energy Transition a key area of focus for the region.
- In China, the multi-year plans to create an innovative economy are directly tied to energy transition and climate change programs.

The Opportunity

- Climate change initiatives and prioritisation of the reduction of carbon emissions are leading to investment in non-traditional energy production and distribution models.
- Key infrastructure spending programs introduced in recent quarters are designed to develop and support sustainable energy transition across markets.
- The global economy is entering a multi-year rollout of emerging technologies that can improve productivity and provide sustainable alternatives including nuclear, wind, solar, smart-grid technologies, and other alternative energy and carbon capture technologies.

Why now?

- New budgets across major global economies are focused on modernising and expanding infrastructure to enhance domestic energy production and independence.
- Investors are looking for ways to deploy assets in sustainable investments and the energy transition movement provides multiple solutions for an industry that needs to modernise and become more sustainable in the near term.
- Elevated energy prices from traditional energy sources and existing supply chain constraints are adding pressures to develop market competitive solutions for energy transition. Investment in the space is likely to accelerate.

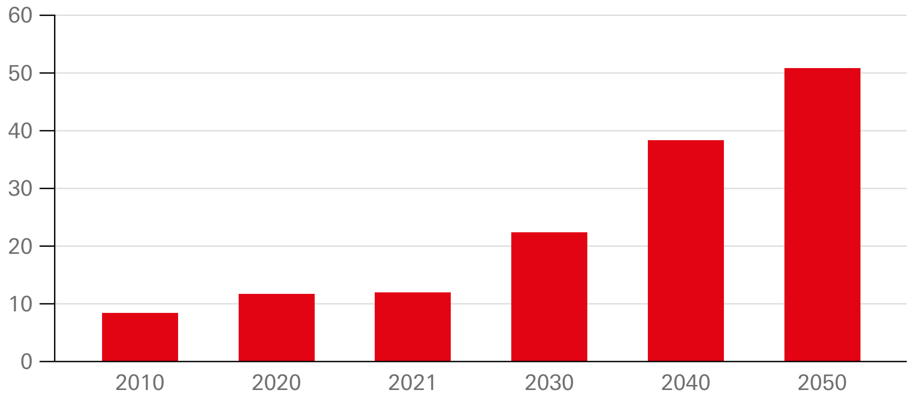
Financing Biodiversity Action

Overview

- Since the 1970s, there has been a nearly 70% average decline in population sizes of various species, according to the World Wildlife Fund. Biodiversity loss is primarily driven by land use change, pollution, climate change and depletion of natural resources, as human activities put a strain on ecosystems to replenish themselves.

Renewables are expected to be half of the global energy supply by 2050

Renewables/Total world energy supply in %



Source: IEA World Energy Outlook, HSBC Global Private Banking, November 2022.

- The Convention on Biological Diversity is a framework to preserve biodiversity and to encourage sustainable use of resources. Its 2050 vision for biodiversity calls to live in harmony with nature. This requires actions ranging from restoring ecosystems to changing consumption pattern and tackling climate change.

The Opportunity

- To address ecosystems degradation, the UN identifies a USD4.1 trillions financing gap in nature which must be closed by 2050. This implies a tripling of the current investments in nature-based solutions by 2030 and a 4x increase by 2050.

- Biodiversity is key to the production of food, raw materials and medicine. Innovative technologies, and circular business models open up new sustainable possibilities to meet the demand of a rising global population, while reducing overproduction and ensuring a sustainable use of limited resources.

- Sustainable fishing and agriculture practices as well as sustainable forest management are key to safeguard biodiversity and its wide range of eco system services, including helping the fight to tackle climate warming.

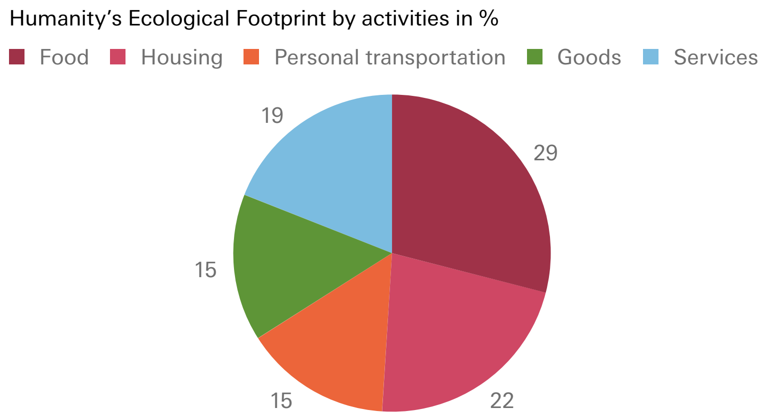
Why now?

- Biodiversity loss presents a systemic risk for the global economy according to the UN, and it ranks as the third most significant risk over the next decade, after climate change and extreme events, although they are interconnected.

- Biodiversity policies and emerging reporting requirements, such as the Taskforce on Nature-related Financial Disclosures, will be discussed at the COP15 in December 2022 and beyond.

- Given the reputational and physical risks stemming from biodiversity loss, nature-intensive sectors need to rethink to address biodiversity risks and future-proof their business models.

The Earth's ability of ecosystems to regenerate is being rapidly depleted by humans' demands



Source: HSBC Global Private Banking, World Economic Forum, November 2022.

Sourcing Income in a Sustainable Way

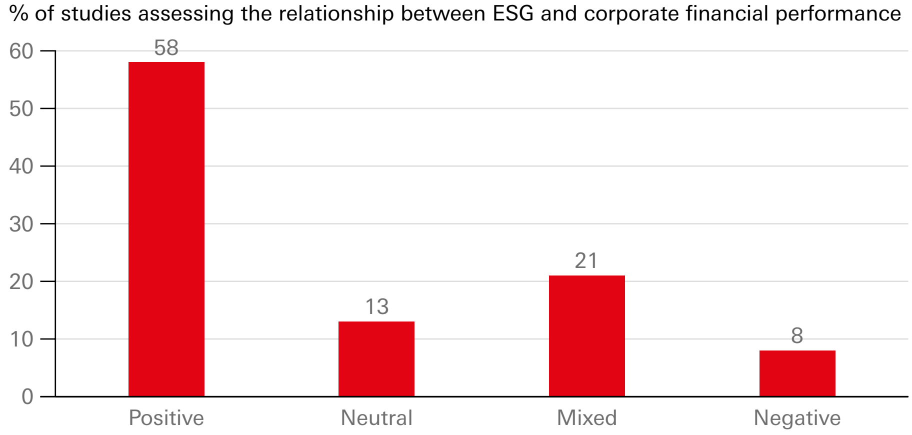
Overview

- Market performance in 2022 was driven by the repricing of the rate outlook amid more persistent inflation. As markets expectations for future policy rates are no longer rising, investors' focus turns towards the more pronounced growth challenges for the global economy.
- With lingering geopolitical tensions, we expect market volatility to stay and thus focus on risk mitigation by building resilient portfolios, underpinned by quality and environmental, social, governance (ESG) considerations.
- Despite rising interest rates, real income opportunities remain constrained, challenging investors' income objectives. Investors will thus need to seek out diversified sources of income while building resilient portfolios in light of the complex investment landscape.

The Opportunity

- Companies with high ESG credentials often tend to exhibit characteristics of the quality style, and we consider ESG considerations across asset classes to enhance our diversification and portfolio resilience.
- Adapting the corporate business model to the sustainability revolution helps businesses to enhance their corporate resilience and to deliver a better long-term risk/return profile to investors.
- Investors can contribute to and participate in the sustainability revolution thanks to different investment approaches, such as ESG enhanced, impact or thematic investing. This enables investors to generate income in a multi-asset approach, while doing good and supporting the planet.

Studies show there is a positive link between ESG and corporate performance



Source: HSBC Global Private Banking, Rockefeller Asset Management, NYU Stern – Center for Sustainable Business, November 2022.

Why now?

- After recent exogenous shocks, investors are realising that it is paramount to have a good understanding of a company's environmental, social and governance dynamics to truly understand a company's future earnings path and risks.
- We expect cyclical risks to stay high and policy rates to plateau in Q1 2023, while geopolitical uncertainties prevail. This requires investors to adopt risk diversification strategies and quality focus in the company selection.
- Assessing ESG related opportunities and risks should position investors in companies with strong governance, robust business models and healthy earnings streams to manoeuvre uncertain times.

The Rise of S in ESG

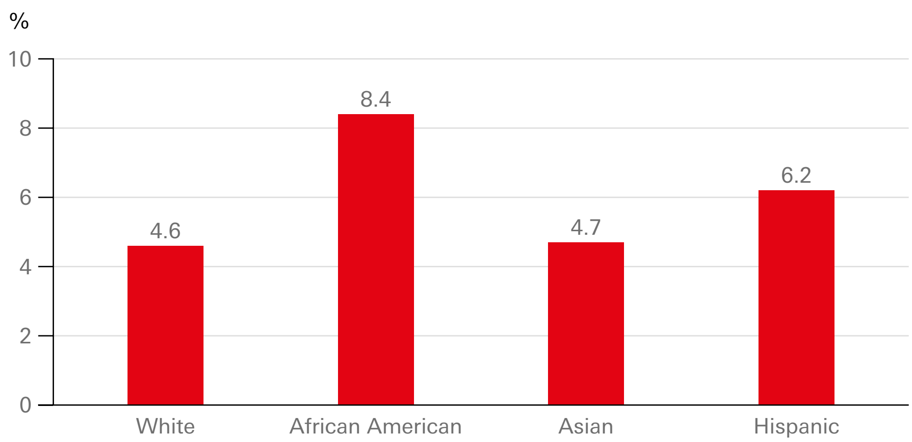
Overview

- The Social factor of ESG investing is rising in importance in the minds of investors and corporates driven by a variety of factors including the pandemic, COP 26 and the BLM movement.
- The nature of work is changing rapidly as a result of the pandemic and employers need to maintain high standards in their relationships to employees.
- Women's representation is also rising in the corporate world but it has further to go.

The Opportunity

- Research suggests that companies with more diversity are more innovative and less prone to making big mistakes.
- The great resignation resulting from the pandemic, saw companies that were flexible and fair with employees rewarded while others are seeing historically higher turnover resulting in the higher administration costs and opportunity costs.
- Social issues such as nutrition, quality of education, clean water and sanitation are all growing in importance as society demands more of their stakeholders.

Respective unemployment rates by ethnicity in the US



Sources: Payscale, UK Office of National Statistics, US Bureau of Labor Statistics, Bloomberg, November 2022.

- Also, the pandemic, and increased life expectancy are highlighting the need for better healthcare. This needs to come at an affordable cost, which is possible more and more thanks to technology and pharmaceutical innovation.

Why now?

- COVID-19 pandemic and climate change have been impacting women, ethnic minorities, lower income households and poorer countries harder than others. COP27 raised the profile of women, indigenous populations and minorities as key allies in the fight for sustainability.
- Governments, shareholders, employees, consumers and activists are increasingly demanding that companies integrate all social aspects in their business strategy.
- The great resignation and movements such as Black Lives Matter highlighted the social demand for better practices and companies that support these approaches are being rewarded by consumers.

Disclaimer

Risks to our View

The key risk factors include adverse regulatory changes, health concerns, spectrum cost and allocation issues excess capital expenditure by telecom operators, trade tensions, evolvement of 5G standards, uncertainties in pricing and demand for new products and services in 5G and related offerings.

Risk Disclosures

Risks of investment in fixed income

There are several key issues that one should consider before making an investment into fixed income. The risk specific to this type of investment may include, but are not limited to:

Credit risk

Investor is subject to the credit risk of the issuer. Investor is also subject to the credit risk of the government and/or the appointed trustee for debts that are guaranteed by the government.

Risks associated with high yield fixed income instruments

High yield fixed income instruments are typically rated below investment grade or are unrated and as such are often subject to a higher risk of issuer default. The net asset value of a high-yield bond fund may decline or be negatively affected if there is a default of any of the high yield bonds that it invests in or if interest rates change. The special features and risks of high-yield bond funds may also include the following:

• Capital growth risk – some high-yield bond funds may have fees and/or dividends paid out of capital. As a result, the capital that the fund has available for investment in the future and capital growth may be reduced; and

• Dividend distributions – some high-yield bond funds may not distribute dividends, but instead reinvest the dividends into the fund or alternatively, the investment manager may have discretion on whether or not to make any distribution out of income and/or capital of the fund. Also, a high distribution yield does not imply a positive or high return on the total investment.

• Vulnerability to economic cycles – during economic downturns such instruments may typically fall more in value than investment grade bonds as (i) investors become more risk averse and (ii) default risk rises.

Risks associated with subordinated debentures, perpetual debentures, and contingent convertible or bail-in debentures

• Subordinated debentures – subordinated debentures will bear higher risks than holders of senior debentures of the issuer due to a lower priority of claim in the event of the issuer's liquidation.

• Perpetual debentures – perpetual debentures often are callable, do not have maturity dates and are subordinated. Investors may incur reinvestment and subordination risks. Investors may lose all their invested principal in certain circumstances. Interest payments may be variable, deferred or canceled. Investors may face uncertainties over when and how much they can receive such payments.

• Contingent convertible or bail-in debentures – Contingent convertible and bail-in debentures are hybrid debt-equity instruments that may be written off or converted to common stock on the occurrence of a trigger event. Contingent convertible debentures refer to debentures that contain a clause requiring them to be written off or converted to common stock on the occurrence of a trigger event. These debentures generally absorb losses while the issuer remains a going concern (i.e. in advance of the point of non-viability). "Bail-in" generally refers to (a) contractual mechanisms (i.e. contractual bail-in) under which debentures contain a clause requiring them to be written off or converted to common stock on the occurrence of a trigger event, or (b) statutory mechanisms (i.e. statutory bail-in) whereby a national resolution authority writes down or converts debentures under specified conditions to common stock. Bail-in debentures generally absorb losses at the point of non-viability. These features can introduce notable risks to investors who may lose all their invested principal.

Changes in legislation and/or regulation

Changes in legislation and/or regulation could affect the performance, prices and mark-to-market valuation on the investment.

Nationalisation risk

The uncertainty as to the coupons and principal will be paid on schedule and/or that the risk on the ranking of the bond seniority would be compromised following nationalisation.

Reinvestment risk

A decline in interest rate would affect investors as coupons received and any return of principal may be reinvested at a lower rate.

Changes in interest rate, volatility, credit spread, rating agencies actions, liquidity and market conditions may significantly affect the prices and mark-to-market valuation.

Risk disclosure on Dim Sum Bonds

Although sovereign bonds may be guaranteed by the China Central Government, investors should note that unless otherwise specified, other renminbi bonds will not be guaranteed by the China Central Government.

Renminbi bonds are settled in renminbi, changes in exchange rates may have an adverse effect on the value of that investment. You may not get back the same amount of Hong Kong Dollars upon maturity of the bond.

There may not be active secondary market available even if a renminbi bond is listed. Therefore, you need to face a certain degree of liquidity risk.

Renminbi is subject to foreign exchange control. Renminbi is not freely convertible in Hong Kong.

Should the China Central Government tighten the control, the liquidity of renminbi or even renminbi bonds in Hong Kong will be affected and you may be exposed to higher liquidity risks. Investors should be prepared that you may need to hold a renminbi bond until maturity.

Risk disclosure on Emerging Markets

Investment in emerging markets may involve certain, additional risks which may not be typically associated with investing in more established economies and/or securities markets. Such risks include (a) the risk of nationalisation or expropriation of assets; (b) economic and political uncertainty; (c) less liquidity in so far of securities markets; (d) fluctuations in currency exchange rate; (c) higher rates of inflation; (f) less oversight by a regulator of local securities market; (g) longer settlement periods in so far as securities transactions and (h) less stringent laws in so far the duties of company officers and protection of Investors.

Risk disclosure on FX Margin

The price fluctuation of FX could be substantial under certain market conditions and/or occurrence of certain events, news or developments and this could pose significant risk to the Customer. Leveraged FX trading carry a high degree of risk and the Customer may suffer losses exceeding their initial margin funds. Market conditions may make it impossible to square/close-out FX contracts/options. Customers could face substantial margin calls and therefore liquidity problems if the relevant price of the currency goes against them.

Currency risk – where product relates to other currencies

When an investment is denominated in a currency other than your local or reporting currency, changes in exchange rates may have a negative effect on your investment.

Chinese Yuan ("CNY") risks

There is a liquidity risk associated with CNY products, especially if such investments do not have an active secondary market and their prices have large bid/offer spreads.

CNY is currently not freely convertible and conversion of CNY through banks in Hong Kong and Singapore is subject to certain restrictions. CNY products are denominated and settled in CNY deliverable in Hong Kong and Singapore, which represents a market which is different from that of CNY deliverable in Mainland China.

There is a possibility of not receiving the full amount in CNY upon settlement, if the Bank is not able to obtain sufficient amount of CNY in a timely manner due to the exchange controls and restrictions applicable to the currency.

Illiquid markets/products

In the case of investments for which there is no recognised market, it may be difficult for investors to sell their investments or to obtain reliable information about their value or the extent of the risk to which they are exposed.

Disclosure concerning sustainable investments

"Sustainable investments" include investment approaches or instruments which consider environmental, social, governance and/or other sustainability factors (collectively, "sustainability") to varying degrees. Certain instruments we include within this category may be in the process of changing to deliver sustainability outcomes.

There is no guarantee that sustainable investments will produce returns similar to those which don't consider these factors. Sustainable investments may diverge from traditional market benchmarks.

In addition, there is no standard definition of, or measurement criteria for sustainable investments, or the impact of sustainable investments ("sustainability impact"). Sustainable investment and sustainability impact measurement criteria are (a) highly subjective and (b) may vary significantly across and within sectors.

HSBC may rely on measurement criteria devised and/or reported by third party providers or issuers. HSBC does not always conduct its own specific due diligence in relation to measurement criteria. There is no guarantee: (a) that the nature of the sustainability impact or measurement criteria of an investment will be aligned with any particular investor's sustainability goals; or (b) that the stated level or target level of sustainability impact will be achieved.

Sustainable investing is an evolving area and new regulations may come into effect which may affect how an investment is categorised or labelled. An investment which is considered to fulfil sustainable criteria today may not meet those criteria at some point in the future.

Greenwashing risk is defined as giving a false impression or misleading information of a product's climate and environmental friendly credentials and, whilst not considered a standalone risk, can manifest through sales outcomes, marketing materials, product design and external disclosures at product and firm level.

Alternative Investments

Investors in Hedge Funds and Private Equity should bear in mind that these products can be highly speculative and may not be suitable for all clients. Investors should ensure they understand the features of the products and fund strategies and the risks involved before deciding whether or not to invest in such products. Such investments are generally intended for experienced and financially sophisticated investors who are willing to bear the risks associated with such investments, which can include: loss of all or a substantial portion of the investment, increased risk of loss due to leveraging, short-selling, or other speculative investment practices; lack of liquidity in that there may be no secondary market for the fund and none expected to develop; volatility of returns; prohibitions and/or material restrictions on transferring interests in the fund; absence of information regarding valuations and pricing; delays in tax reporting; – key man and adviser risk; limited or no transparency to underlying investments; limited or no regulatory oversight and less regulation and higher fees than mutual funds.

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