Investment Outlook

Q4 2023

The less usual suspects

HSBC

Global Private Banking

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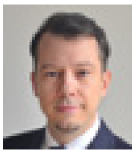

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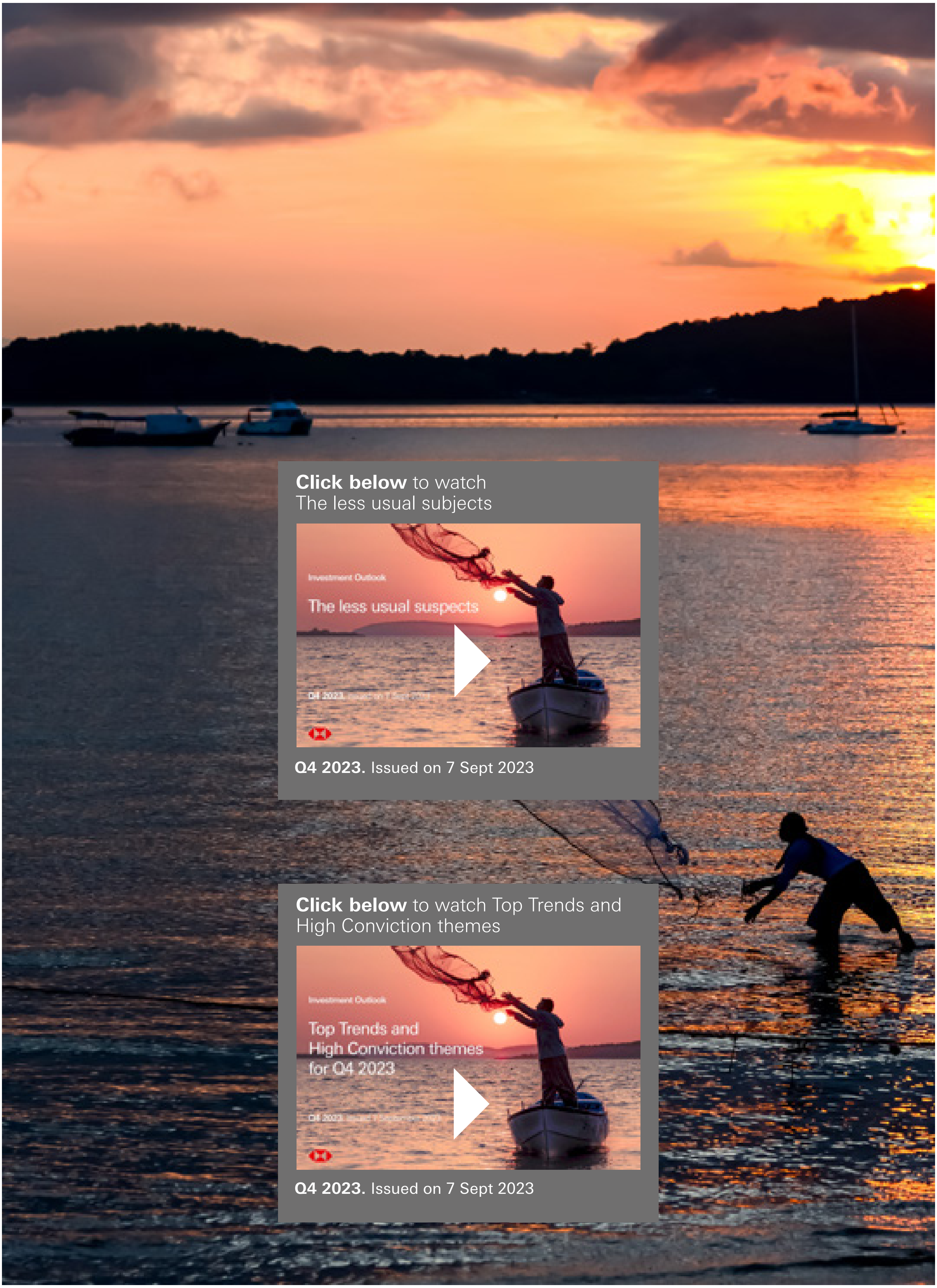
Contents



Click below to watch
The less usual subjects

Q4 2023. Issued on 7 Sept 2023

Click below to watch Top Trends and
High Conviction themes

Q4 2023. Issued on 7 Sept 2023

Welcome

Dear client

Global stock markets have powered ahead in 2023, with only two mild setbacks. The big driving force has been what some call 'US exceptionalism'. US inflation has fallen quickly, and although it is not yet at the 2% target, the Fed has probably already completed its rate hikes. Impressively, they have achieved this without crushing US consumption, in spite of tightening bank lending conditions. And as a result, economists are pushing out their US recession forecasts ever further.

History teaches us that equities and corporate bonds typically do well in the 6 months after the final Fed hike, especially if a recession is avoided. The recent spike in Treasury yields on the back of supply concerns should not alter that conclusion, and looks exaggerated, as the end of Fed rate hikes should help anchor bond yields. So we continue to put our cash to work in high quality medium duration bonds, global stocks and alternative assets.

But investors are now grappling with two issues. US price/earnings ratios have run up, while in some other countries, fundamentals are much more challenging. In this multi-speed world, investors need to think outside of the box, towards the less usual suspects, to broaden the opportunity set and to find the best risk-adjusted value.

For example, the US economy is more resilient than Europe, the US should see rate cuts earlier, and it benefits more from AI innovation and the Digital Transformation. So we continue to prefer US stocks over European markets. Mega-cap IT stocks have led the race, but we think investors should also look at strong US companies in what we call 'the peloton'. Those stocks should still do well, are more attractively valued and can provide more diversification. So we're not just overweight on US IT, but also on consumer discretionary, industrials, healthcare and financials. We also introduce two new US investment themes: 'North American Re-Industrialisation' and 'Innovation and Opportunities in US Healthcare'.

In Asia, we've had a diversified and selective approach for some time, but as the Chinese recovery remains uneven and bumpy, we recently cut mainland China and Hong Kong stocks back to neutral and are now focusing on India and Indonesia. Those two stock markets have done well, benefiting from strong cyclical momentum, the global supply chain diversification and portfolio inflows. In China, very low inflation allows for more monetary and fiscal stimulus, but the property sector will remain a drag on activity and sentiment. Given the very low valuations and pronounced underweight of foreign investors, we see selective pockets of opportunities in consumer services, in line with our new theme of 'Asia's Consumer Spending Boom'.

Our four priorities for Q4 try to solve clients' practical problems. Firstly, with cash rates near multi-year highs, we address the temptation to sit on cash, and argue that it is better to lock in bond yields of medium duration quality credit instead. You can't lock in cash yields, and when markets start to anticipate rate cuts, bonds will benefit, while cash returns will fall.

Our second priority addresses the issue that those stocks that clients typically feel enthusiastic about are also among the most expensive. By thinking outside of the box, we broaden the opportunity set, looking for quality stocks across the US market. Our overweight positions in Mexico, Brazil, Indonesia and India diversify our exposure beyond the world's largest economy. And in the currency market, we now hold bullish views on INR, MXN and BRL.

Thirdly, while the soft landing narrative should remain dominant in the US, data will remain volatile and show global divergence, creating market volatility, but also opportunities. We use uncorrelated assets and volatility strategies, to tap into tactical and relative value opportunities, and to diversify.

Last but not least, investors worry about climate change and threats to biodiversity. As the public policy focus on these topics increases and innovation and investment accelerate, we think there are many opportunities for investors to participate in the truly transformative sustainability revolution.

Willem Sels,
Global Chief Investment Officer
7 September 2023

Our Portfolio Strategy

The end of the Fed's rate hikes is a clear positive for bond markets, and high quality medium-duration credit and US Treasuries therefore remain our largest overweight positions. Peak rates have been a big area of support for growth stocks (including IT mega caps), and as the US economy remains resilient, we think the equity rally will broaden beyond those 'usual suspects'. We focus on areas with relative earnings strength (US, India and Indonesia) or structural growth linked to our High Conviction themes. To complete our approach, we add hedge funds and volatility strategies, to take advantage of dispersion and to temper volatility in this changeable world.

Cash: underweight

Fixed Income: overweight

Focus on high quality borrowers

Medium duration

Equities: neutral

Overweight in the US, Asia and Latin America

Underweight in the Eurozone and EM EMEA

Bias towards quality

Alternatives: overweight

Overweight in Hedge Funds

Keep core allocations to Private Markets and Real Estate

Is the Fed's mission accomplished?

The number one question markets have been asking economists is whether the central banks (and the US Fed in particular) would be able to crush inflation without crushing the economy. Inflation has fallen to 3.2% already in the US, and even in the UK, where it has been stickier, the Bank of England believes inflation is on a path towards its 2% target by early 2025. As we were hoping, this seems to be happening without any deep recessions (in the Eurozone, a number of countries have seen one or two quarters of slightly negative growth).

Achieving such a soft landing while setting inflation on the path towards the 2% target is quite a feat. The mission has been helped by the fall in goods prices and base effects, while in the labour market, wage inflation has come down thanks to lower job openings, but without a sharp rise in unemployment. Falling inflation, coupled with resilient labour markets, helps support consumer sentiment and explains much of the resilience in retail spending and services. Economists who feared that tightening of bank lending standards would quickly lead to slower growth have been wrong-footed: broad financial conditions have remained accommodative, in part because borrowers had extended maturities in recent years, high yield spreads have remained tight and private lenders have stepped in. So it seems that the effect of higher policy rates and tighter credit conditions will have a much longer lag than people thought. US recession calls thus continue to be pushed out.

We think the Fed has now finished its rate hikes, and in the Eurozone and the UK too, we should see the final rate hikes very soon. As we discuss in the next chapter, bond and equity markets tend to do well when policy rates plateau. With the big rate moves behind us, and recession fears fading, the market may instead start to focus more on the relative differences between the big economic blocks. On that front, the US economy is seeing more resilient growth, and less sticky inflation than Europe. That should allow the Fed to cut rates from Q2 2024, while rates should remain high and unchanged in Europe throughout 2024. So clearly, this supports our overweight on US stocks versus our underweight in the Eurozone.

China's growth has disappointed, in part because of weak domestic demand due to the drag from the downward spiral of the property sector, but also because of slow Western demand and weak global manufacturing. Low Chinese inflation should allow further easing of monetary policy, and we expect additional targeted fiscal expansion as well. But the targeted and measured approach of policy easing is less likely to quickly lift investor and business confidence than a big bang approach might have done. Moreover, the property sector will remain a drag on growth for longer than we expected, so we recently cut our exposure to the mainland China and Hong Kong stock markets back to neutral. The cyclical outlook is brighter in India and Indonesia, which are benefiting from the supply chain diversification, as well as the rapid digitalisation of India's economy. Big investments in the net zero transition are a positive as well across the Asia region.

A supportive growth / inflation mix for markets

Market sentiment is heavily influenced by the macro backdrop and the changing growth / inflation regimes. 2022 was a major challenge for markets, because of slowing growth and high inflation. As our table below shows, that in a 'stagflation environment', where policy rates were also moving up quickly, cash was king, while bonds and equities were both down. Investors were advised to have a defensive approach. Towards the end of 2022, markets were happy to see that inflation was falling, though they remained concerned about economic growth, so we moved to the right in our table, to what we have called a 'cyclical slowdown'. Bonds and equities recovered, and hopes that the rate peak was not too far off supported tech stocks while also arguing for somewhat more duration in bond portfolios. From the spring, the regime shifted again, to 'soft landing' hopes, on the bottom right. Reduced recession fears created a more solid risk-on environment, supporting cyclical stocks, while pushing USD down due to lower demand for its safe haven character. But in August, markets started to worry that strong data would mean that the Fed would hold rates high for longer, and delay cuts, moving markets to the 'economic resilience' box.

So what lies ahead? We think markets will continue to spend most of Q4 in the 'soft landing' box. But investors' views are fickle, and stronger or weaker-than-expected growth or inflation numbers could lead markets to temporarily move to the left, or upwards, in our macro regime box. That could be because of weaker than expected European or Chinese numbers, or strong US data affecting the global growth outlook. So while most of our calls are in line with those in the 'soft landing' box, we have moved USD from bearish to neutral, following the sharp fall of USD to date. Temporary regime shifts are likely to lead to some continued volatility, and we try to manage this through our overweight position on hedge funds, portfolio diversification and volatility strategies.

Style-wise, growth stocks and large caps (including mega caps) have outperformed strongly. But as rates have peaked, we think it is better to find a balance between value and growth stocks rather than moving all the way to an overweight of value stocks. As for the size issue, we remain size agnostic, but note that tightening credit conditions could hurt some small caps disproportionately. So rather than completely moving away from the usual IT suspects, we like to balance and broaden our exposure by including some less usual suspects across a wider range of sectors, evening out the growth / value and size biases.

The evolution of macro regimes

	Inflation runs too hot	Inflation less of a concern
Recession fears	'Stagflation environment' (2022): ◆ Cash was king ◆ Broad equity and bond market weakness ◆ Focus on defensive sectors and quality ◆ Value stocks ◆ Keep bond duration short	'Cyclical slowdown' (early 2023): ◆ Bonds and equities start to recover ◆ Continue to focus on defensive sectors and quality ◆ Growth stocks (including IT) outperform ◆ Extend duration (5-7 years)
Economic growth OK	'Economic resilience': ◆ Support for financials, commodities, energy and materials stocks ◆ Value stocks outperform ◆ USD strength Note: small cap stocks and lower-quality credit sometimes do well here, but tightening of lending standards should preclude this, we think.	'Soft landing' (recent months) ◆ Risk-on environment ◆ Equity market strength broadens out ◆ Cyclicals rebound ◆ Support for EM assets ◆ Lower USD

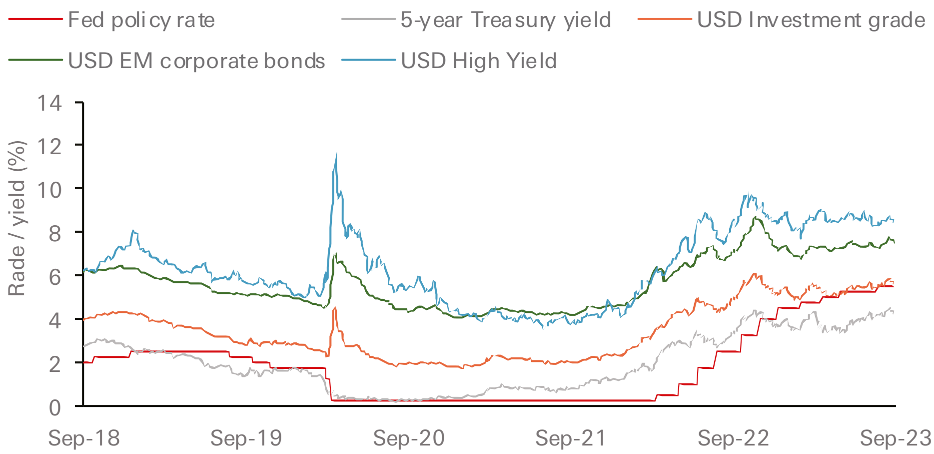
Source: HSBC Global Private Banking as at 6 September 2023.

Priorities for the remainder of the year

When we think about the priorities for Q4, we try to address clients' most common challenges and concerns. As shown in our table on the next page, we think there are four actions to consider.

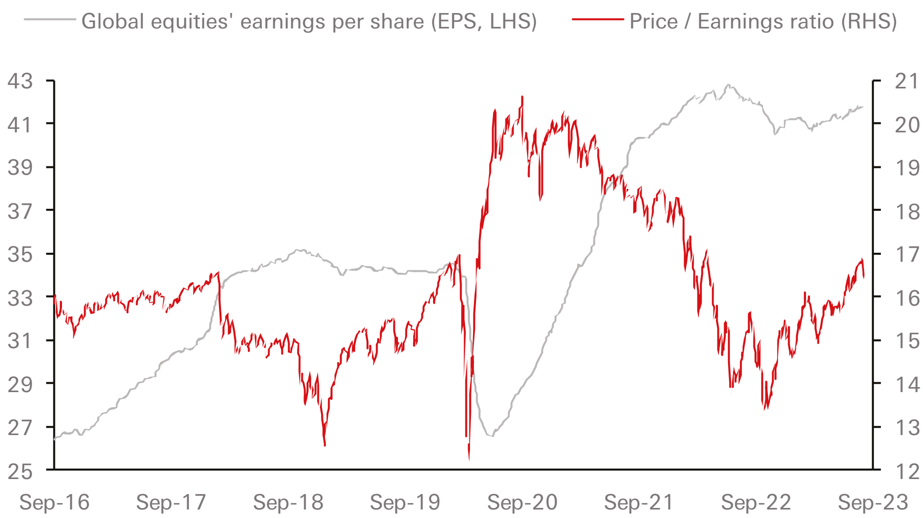
- Our first priority – 'Lock in bond yields of medium duration quality credit' – addresses the temptation to continue to sit in cash, as cash rates have risen sharply. But cash rates cannot be locked in, so we lock in bond yields instead. As our chart on the top right shows, bond yields remain at attractive levels and we think the recent spike in Treasury yields (which also pushed up corporate bond yields) is exaggerated, providing a good entry point. If markets now start to anticipate more cuts, bonds yields could fall, pushing up bond prices and boosting returns.
- The second priority is to 'Broaden the opportunity set' to address concerns around the run-up in IT valuations. We think the equity market rally will broaden out in the US, and we also see opportunities in other countries that investors could sometimes overlook. Earnings delivery will be key, as most of the upside so far has come from the expansion in valuation multiples (see chart on the bottom right), so we continue to focus on quality stocks, which we think we can find in many sectors – not only IT.
- Thirdly, we manage risks through uncorrelated assets and volatility strategies, because macro-economic and policy uncertainties remain, creating tactical and relative value opportunities as well as the need to diversify.
- Last but not least, investors worry about climate change and threats to biodiversity. As the public policy focus on these topics increases and innovation and investment accelerate, we think there are many opportunities for investors to participate in the truly transformative sustainability revolution.

Bond yields remain at attractive levels in our view and should be capped by the end of Fed's rate hikes



Source: Bloomberg, HSBC Global Private Banking as at 6 September 2023.
Past performance is not a reliable indicator of future performance.

Most of the equity market rally this year has been driven by rising valuation multiples. Earnings delivery will become increasingly important



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Our four investment priorities this quarter

1. Lock in bond yields of medium duration quality credit	
Why? Because bond yields are high and the Fed has finished its hiking cycle. Markets may start to look forward to rate cuts, which should add to bond returns in Q4.	**What?** We focus on quality credit, preferring investment grade (IG) over high yield (HY), as growth is slow and the spread pickup between IG and HY is insufficient. We see opportunities in DM as well as EM.
2. Broaden the opportunity set	
Why? In equities, the large IT and tech-related firms have driven the bulk of the rally, leading investors to worry about valuations. But economic resilience should allow the rally to broaden beyond IT. We further broaden the opportunity set by looking at other markets with strong fundamentals.	**What?** We maintain our overweight on US IT but also see opportunities in US industrials, financials, consumer discretionary and healthcare. We have launched two High Conviction themes: 'North American Re-Industrialisation' and 'Innovation and Opportunities in US Healthcare'. Equal-weighted indices can cap the impact of the mega-caps. We remain size agnostic but acknowledge that tightening credit conditions could hurt some small caps disproportionally. Geographically, we are overweight on the US but also like stocks in India, Indonesia, Mexico and Brazil.
3. Manage risks through uncorrelated assets and volatility strategies	
Why? The market's perception of the growth / inflation mix may continue to shift, creating volatility. Valuation dispersion is high. And implied equity volatility is remarkably low.	**What?** Hedge funds are better able to exploit quick shifts in market perceptions than traditional investors. Relative valuation differentials offer further opportunities to hedge funds. We favour Discretionary Macro, Equity Market Neutral, Equity Long/Short with low net approaches, Structured Credit, Multi-Strategy and Multi-PM approaches. Volatility strategies can exploit the low implied equity volatility. And private asset exposure can help look through volatility or take advantage of dislocations.
4. Tap into the sustainability revolution	
Why? Climate change and threats to biodiversity have been very visible this summer. The focus should intensify as we approach the December COP28 summit in Dubai. Stimulus plans in the US, China and the EU include huge green infrastructure investment. And electric vehicle innovation and adoption continues apace.	**What?** Our high conviction themes include 'Energy Transition and Independence', 'Investing in Biodiversity' and 'Asia's Green Transformation'. Our global 'Infrastructure' theme taps into green infrastructure.

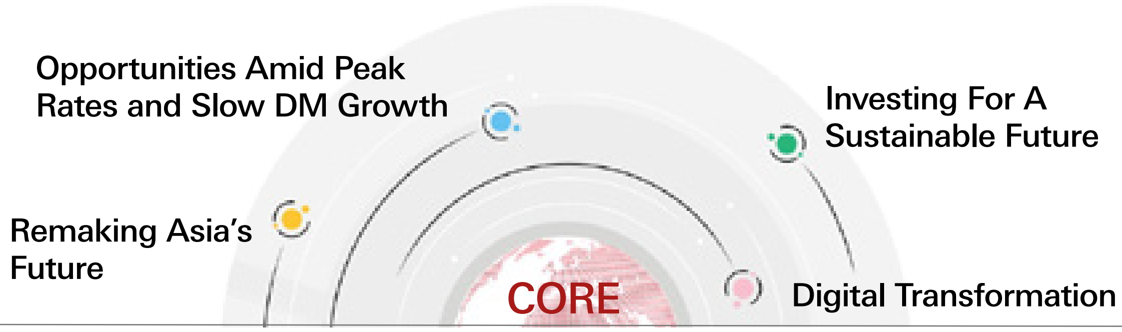
Source: HSBC Global Private Banking as at 6 September 2023.

Top Trends and High Conviction Themes

We have not made any changes to our top trends, as we continue to strongly believe in the structural growth in Asia, the digital economy and the sustainability revolution. Moreover, these trends intersect and reinforce each other. And of course, the peak rate and slow growth environment remains a key source of high conviction themes as well.

The next few chapters will discuss these trends and themes in more detail. What we want to give away here, though, is that we have removed our 'European Champions' theme as a result of the challenging outlook for Eurozone stock markets and our 'Asia through DM' theme due to slower-than-expected Chinese demand. At the same time, we have added two new US themes to our existing consumer-focused 'American Resilience' theme, namely '**North American Re-Industrialisation**' and '**Innovation and Opportunities in US Healthcare**'. Taking into account that there are also many US companies under our Digital Transformation theme, these High Conviction Themes illustrate our broad optimism on US stocks and our willingness to look beyond the usual suspects.

Top Four Trends and Q4 High Conviction Themes



Remaking Asia's Future

- Asia's Consumer Spending Boom
- Asia's Rising Tigers
- Asia's Green Transformation
- Asian Quality Credit

Opportunities Amid Peak Rates and Slow DM Growth

- American Resilience
- North American Re-Industrialisation
- Innovation and Opportunities in US Healthcare
- Durable Dividends
- Infrastructure
- Opportunities in Quality Credit
- Defensive Positioning across DM Financial Bonds

Digital Transformation

- AI and Automation
- Aerospace
- Smart Mobility

Investing For A Sustainable Future

- Energy Transition and Independence
- Investing in Biodiversity
- Sourcing Income in a Sustainable Way
- Social Empowerment and Well-being

Source: HSBC Global Private Banking as at 6 September 2023.

Market Implications of Peak Policy Rates

Our analysis shows that periods of plateauing policy rates are generally good for risk appetite because recessions are generally not yet imminent at this stage. In the past four cycles, we only had one recession within 12 months from the final rate hike. In contrast, the period after the initial rate cut is more likely to pose a challenge for equities and credit spreads, because cuts are often motivated by an impending recession.

While every cycle is different, we also show that US stocks generally perform better than Europe and Asia during the past interest rate plateaus. Value and quality stocks typically outperformed, and defensive bonds provided good returns with little volatility. USD typically depreciated, and CTAs often post strong performance.

Cycle-specific concerns matter. Taking out the 2001 period from the sample would lead to a different conclusion, with value and growth performing in line with one another, and consumer discretionary, IT and financials performing better on average. The outlook for the technology sector will clearly remain key for market-wide performance in coming months.

Our analysis of the period between the last hike and the first rate cut

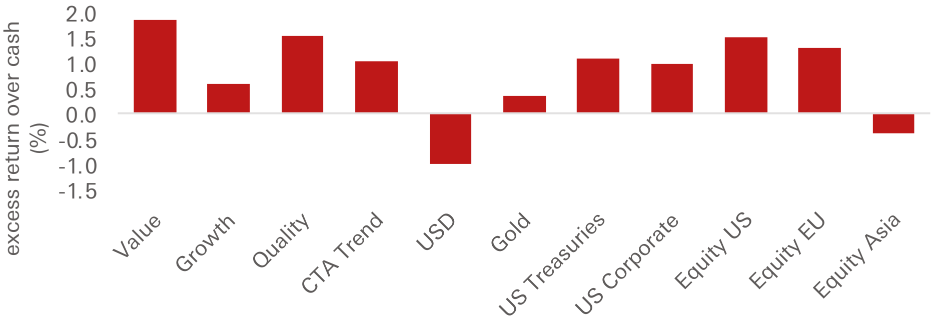
Selecting historical periods that are appropriate to current conditions is never easy, especially with respect to infrequent events such as monetary policy actions. In our analysis, we focus on the four most recent interest rate cycles since 1989. In earlier cycles from 1974 to 1989, the average time period between the last hike and the first cut was 1 month (suggesting the Fed probably hiked too far and quickly realised it needed to cut). But since then, this period increased to 9 months on average. This is not too different from our expectation this time around, as we expect the first rate cut in Q2 2024, 7-9 months from the July hike.

Even though the post-COVID reflationary environment is in some ways reminiscent of the 1970, the absolute level of interest and inflation rates is presently closer to the post-1989 cycles. Furthermore, the FOMC began to recognise the long and varying lags in the transmission of monetary policy in the 1990s and is more likely to keep rates high for a while to ensure inflation is under control before considering rate cuts. This stance is also implied in the content of recent official monetary policy statements and meeting minutes. So we're comfortable that there is at least some commonality between the current cycle and the four most recent cycles.

Our charts show the average monthly performance in two different periods of the Fed's hiking cycles: between the last hike and the first cut (the environment in which we are probably now), and in the six months after the first cut, a scenario that we could experience at some point next year. We show returns net of cash returns (i.e. excess returns).

In terms of US equity sectors, the case is less clear cut. In some cycles, Consumer Staples, Financials and Utilities were the top performers, while Telecoms, Consumer Discretionary and Technology were the worst performers, implying a preference for defensives against Cyclicals. Looking at styles, Value and large cap stocks outperformed Growth and Small Caps. However, outside of the 2001 period, when technology crashed,

Monthly average excess returns between the final rate hike and the first rate cut



Source: Bloomberg, LSEG, HSBC Global Private Banking, as at 6 September 2023.
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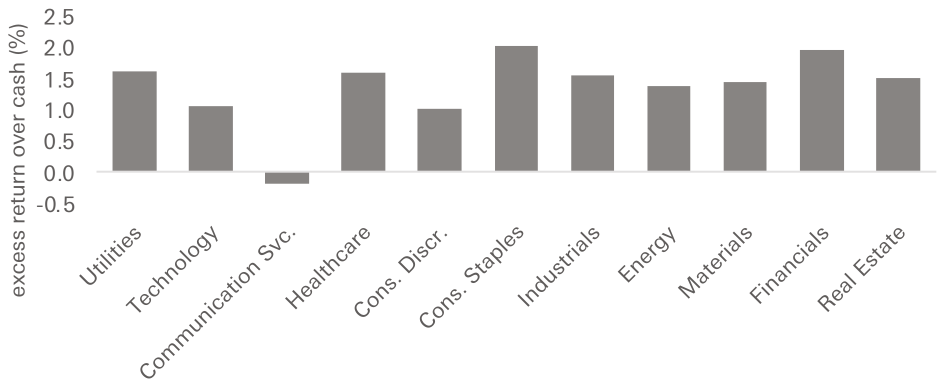
US sectors' monthly excess returns between the final rate hike and the first rate cut



Source: Bloomberg, LSEG, HSBC Global Private Banking, as at 6 September 2023.
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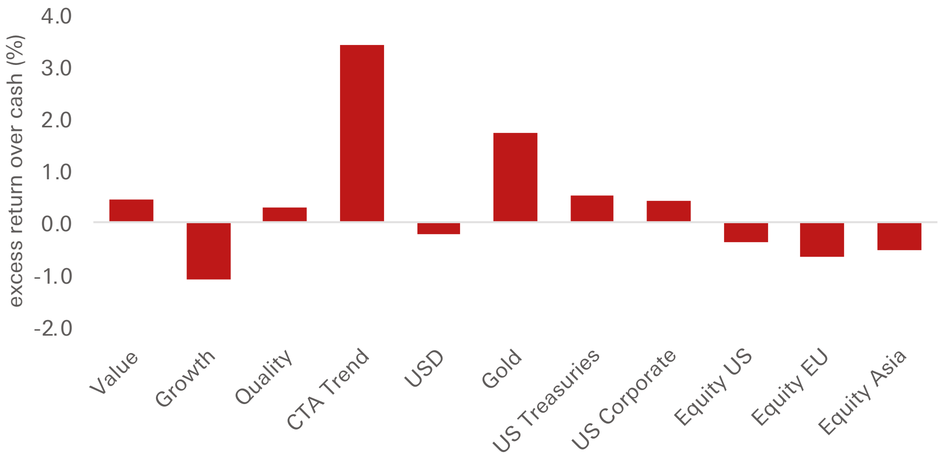
Monthly average excess returns in the 6 months after the first rate cut



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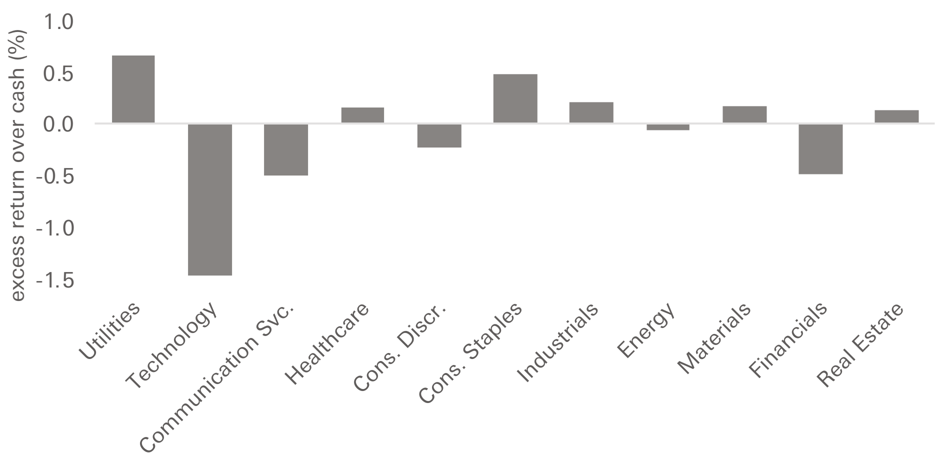
US sectors' monthly excess returns in the 6 months after the first rate cut



Source: Bloomberg, LSEG, HSBC Global Private Banking, as at 6 September 2023.
Past performance is not a reliable indicator of future performance.

value-style matched growth-style performance, and there was less of a bias in favour of defensives.

Initial 6-months period from the first rate cut

We also look at the initial months from the first rate cut, in case the Fed surprises by cutting rates earlier than we expect, or markets start to anticipate this scenario. Rate cuts typically take place in response to rising recession risks, but in some cycles, the recession takes longer to materialise. In two cycles, it did so after three months; in another cycle, we were in recession after 6 months; and in one cycle, the recession never materialised. The recession call seems to dominate performance: if it does materialise, risk assets perform poorly, with the rate cuts providing little solace, and defensive stocks outperforming. CTAs and Treasuries perform best in this scenario, followed by Gold and other Commodities. Equity markets and USD typically perform poorly in this scenario, with equity market weakness being driven by recession risk, and USD weakness driven by rate cuts. Of course, if rate cuts are sufficient to prevent or delay the recession, risky assets can continue to do well under these conditions (which is what we saw in 1995-1996 and 2019-2020).

Growth sectors were particularly weak in these scenarios. Technology, Financials and Telecoms were the worst performers, while Utilities, Consumer Staple and Healthcare led the tables. The poor performance of Financials should be evaluated with caution because it is skewed by one observation during the great financial crisis. More generally, Value and Small caps outperform growth and large cap stocks during the initial 6 months after the first rate cut.

Conclusion

Market conditions typically remain supportive for risk assets once interest rates plateau, and this environment tends to last 9 months on average. The market environment becomes more challenging in the immediate aftermath of the initial rate cuts, if indeed a recession materialises or markets attach high probabilities to a downturn.

A Busy Climate Agenda Lies Ahead

This summer has evidenced, again, the extraordinary pace of climate warming as July 2023, with an average global temperature at around 1.5°C above pre-industrial levels, was the hottest month ever recorded. Coupled with new record temperatures in the world's oceans and record low sea ice coverage in July, these extremes have consequences for society and biodiversity, including forest fires, accelerated coral bleaching and warnings of more severe tropical storms, to name just a few. Moreover, the World Meteorological Organization (WMO) estimates that the five-year period until 2027 will become the warmest on record, underscoring that climate challenge is not even close to being tackled. Being on the cusp of a new "era of global boiling" after years of global warming (as expressed by the UN Secretary General) highlights the unmistakable need for climate action to accelerate. All of this will be addressed at some key global climate events that are just around the corner.

All eyes are on the UN Climate Change Conference (COP28), taking place in Dubai from 30 November until 12 December 2023. COP28 will mark the conclusion of the first-ever Global Stocktake, which is the assessment of the world's progress towards achieving the goals outlined in the 2015 Paris Agreement. While technical in nature, the Global Stocktake will be a crucial health check of climate action taken so far in order to identify gaps and define ways forward to ensure the right global engagement and collaboration that is needed to fulfil the ambition to limit global warming to 2°C or below - ideally to 1.5°C.

The UN's Intergovernmental Panel on Climate Change (IPCC) already warned in March that the existing climate pledges of the 195 parties of the Paris Agreement do not align with the overarching goal. Their actions would probably lead to climate warming to just above 3°C by the end of the century, and we expect the Global Stocktake report to yield a similar conclusion. Discussions are therefore underway in the run-up to COP28 to draft a solutions-driven roadmap of actions that will yield tangible change in the current climate crisis and a global transformation towards a greener, more resilient world. This will be a key determinant whether this year's COP will successfully shape the course of direction in the climate agenda for the next decade. To further drive these climate ambitions on the road to COP28, this month's UN Climate Ambition Summit in New York should accelerate the pace of change with high expectations on leaders from governments, businesses, communities and finance to ensure credible and tangible climate action plans in line with the Global Stocktake.

Apart from the Global Stocktake, the wide topic of climate finance will return to focus at the COP28. Details and practicalities of the Loss & Damage Fund (L&D Fund) should be ironed out at this year's summit. This is needed to move ahead with financial assistance to developing countries so they can deal with the negative consequences stemming from climate change. But negotiations around the New Collective Quantified Goal on Climate Finance (which is expected to replace the developed world's persistently failed pledge to provide $100bn annually to developing countries for climate mitigation and adaptation efforts) are only progressing slowly, with no decision on this framework expected until next year. In the absence of a definition for climate finance, COP28 might again exhibit widening discontent between developing and developed countries. This may also emphasize the topic of a "just transition", which has been recognised more widely and is even considered to be included in future stocktakes. Yet failure to put a conceptual framework around it will make the implementation and oversight complex. This exemplifies that an increasing economic and geopolitical divisions are a major challenge when we try to build consensus among the parties to address one of the major crises of our times.

Finally, COP28's approach towards fossil fuels will be closely watched especially as this year marks the second climate conference held in the MENA region. Led by the UAE, which is the first GCC state to make a net zero pledge, COP28 underlines the rising engagement of the MENA region in the energy transition, despite its reliance on fossil fuels.

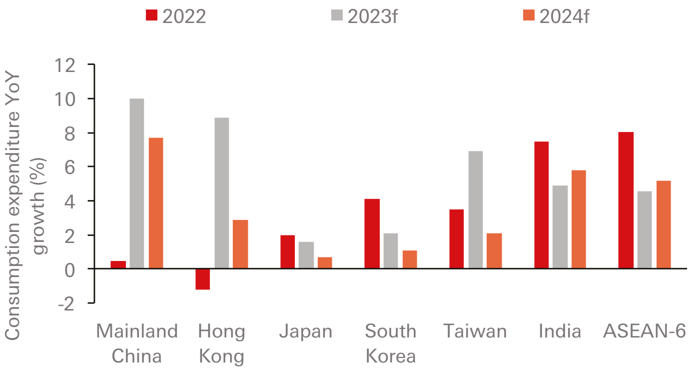
Global air temperatures have been well above average and reached a record high in July

Source: Climate Change Institute, HSBC Global Private Banking as at 6 September 2023.

Remaking Asia's Future

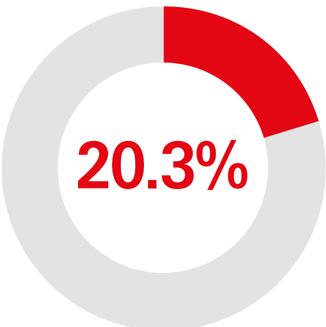
We find compelling Asian growth opportunities from the powerful structural shifts driven by rising middle class consumers, supply chain reorientation, technological innovation and green transition. We adopt a thematic approach with focus on idiosyncratic drivers and growth differentials to generate alpha.

Asian consumer spending is expected to see strong growth in 2023-2024, led by China and Hong Kong

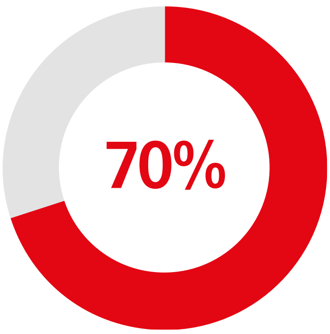


Note: For ASEAN-6, a simple average of Indonesia, Malaysia, Philippines, Thailand, Singapore and Vietnam is used. Source: CEIC, HSBC Global Private Banking as at 6 September 2023.

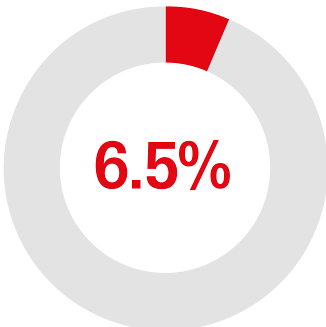
Our Four High Conviction Themes	
1. Asia's Consumer Spending Boom	This new theme focuses on distinctive pockets of growth opportunities from the consumption-led recovery across Asia, including the China internet, Asian airlines and travel plays, consumer discretionary and Macau gaming sectors.
2. Asia's Rising Tigers	We see attractive structural opportunities in Asia's Rising Tigers and focus on secular trends in India and Southeast Asia. Demographic tailwinds, robust consumption and strong investment growth support the local industry leaders.
3. Asia's Green Transformation	We focus on opportunities from the energy transition, green infrastructure development and innovation of EV technologies across Asia. We forecast China's EV penetration to surge to 53% in 2025 and 90% in 2030.
4. Asian Quality Credit	We find attractive carry opportunities in Asian IG bonds due to their compelling yields and remarkable resilience. We favour Asian financials, Indonesian quasi-sovereign IGs, Macau gaming and Chinese TMT credits.



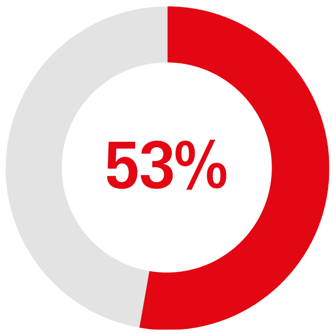
20.3% growth in China's service retail sales in first seven months of 2023



70% y-o-y growth in Macau's gross gaming revenue (GGR) run rate year-to-date



6.5% annual GDP growth forecast for India during 2023-2032



53% EV penetration forecast for China in 2025

Source: China's National Bureau of Statistics, Macau Gaming Inspection and Coordination Bureau (DICJ), HSBC Global Private Banking as at 6 September 2023.

Against the backdrop of a global growth slowdown and China's uneven recovery, we find compelling Asian growth opportunities from powerful structural shifts. These include rising middle class consumers, supply chain reorientation, technological innovation and green transformation. Asia offers distinctive pockets of secular growth with its global leadership position in e-commerce, semiconductor manufacturing, robotics and automation, renewable energy and electric vehicles (EVs). Despite the slower pace of China's recovery due to the drag from the property slump, we expect Asia ex-Japan to remain on track to deliver solid GDP growth, double the pace of global growth.

We believe a diversified and thematic approach with a strong focus on idiosyncratic drivers of markets and sectors will be an effective strategy to generate excess returns in the Asian markets. Asia enjoys significant fundamental divergence and high return dispersion, offering plenty of opportunities for sector and stock selection. Under the Top Trend of Remaking Asia's Future, our four High Conviction Themes capture promising opportunities from Asia's structural trends and economic transformation.

In China, policymakers are stepping up policy initiatives to accelerate the strategic transformation from the old property-led growth model towards a higher quality, more sustainable consumption-led growth model. We have turned more selective in positioning in the Chinese equity market to mitigate the property contagion risks. Hence we have retired the High Conviction Theme on China's Recovery Opportunities and replaced it with the new theme, **Asia's Consumer Spending Boom**, to capture broader opportunities from the consumption-led recovery across the region. We see the strongest earnings recovery potential in the service consumption sectors, as Asian consumers continue to shift their spending focus from consumer goods to consumer services in the post-pandemic recovery. Riding on Asia's consumption boom, we favour China's internet, Asian airlines and travel plays, consumer discretionary and Macau gaming.

China's State Council has launched a 20-point policy package to boost consumer spending across tourism, housing, digital and green consumption. China's retail sales of services surged 20.3% y-o-y in the first seven months of this year, according to China's National Bureau of Statistics (NBS), reflective of a sustained switch from goods consumption towards service consumption. In India and Southeast Asia, consumer spending is well supported by structural drivers of young demographics, rising personal income and an emerging middle class.

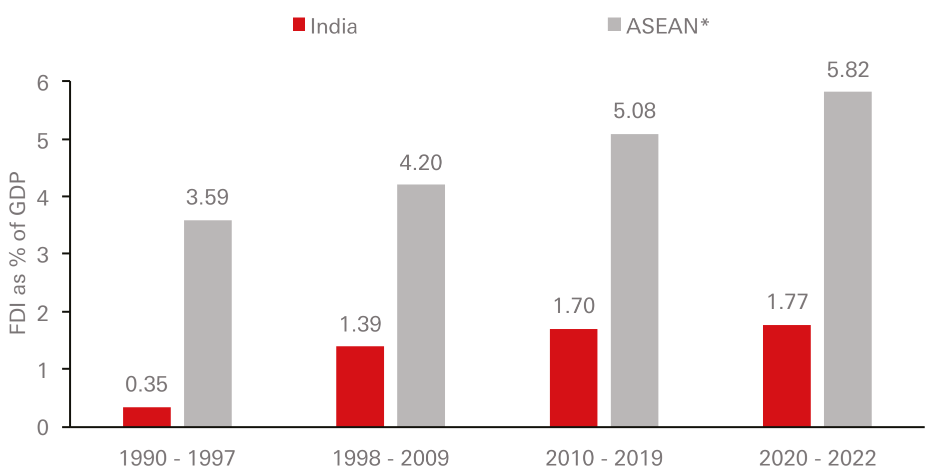
We expect China's travel boom will have further room to expand, as the number of international flights has returned to only around half of the pre-pandemic level. The Chinese government has announced the third batch of countries and regions for the resumption of outbound group tours, adding popular travel destinations such as Japan, South Korea, Australia and the US. The policy move is anticipated to boost international travel in H2 2023. We believe airlines, travel and Macau gaming companies will benefit from the rising demand for outbound travel, especially during the October Golden Week holidays.

The Macau gaming sector has witnessed a strong recovery with the gross gaming revenue (GGR) run rate at around 70% y-o-y, according to Macau Gaming Inspection and Coordination Bureau. We forecast GGR to surpass the 2019 level in 2024 and the growth is expected to extend into 2025.

Chinese internet leaders are well positioned to benefit from the solid digital consumption trends, as manifested by the 12.5% online retail sales growth in the first seven months of this year, versus 7.3% growth in consumer goods sales during the same period, according to NBS data. Thanks to easing regulatory headwinds and the reopening benefits, China's internet leaders have started to deliver better revenue growth and profit margins in Q2 2023.

For structural growth opportunities, we stay bullish on the theme on **Asia's Rising Tigers** due to robust growth momentum in India and Southeast Asia. In contrast with the broad-based economic slowdown in the developed economies and EM, India and Indonesia continue to stand out as the bright spots in Asia. India's August manufacturing PMI accelerated to 58.6 from 57.7 in July, according to S&P. We expect it will remain on track to deliver 5.8% GDP growth in 2023 and 6.5% growth per annum during 2023-2032, which could double the economy's size in a decade.

The structural growth in ASEAN economies and India attracts strong FDI inflows



Note: For ASEAN, it includes Indonesia, Malaysia, Philippines, Thailand and Singapore.
Source: World Bank, HSBC Global Private Banking as at 6 September 2023.

The positive momentum of India's manufacturing activity, investment growth, international trade, foreign direct investment and government capex are all supportive of the equity market performance. We favour Indian banks, IT software services and pharmaceuticals that are gaining global market share. India's strong growth in high-tech exports and a dynamic IT start-up ecosystem should form the country's growth engine for the next decade.

Inflation is slowing in the ASEAN economies which should soon give way to rate cuts. We think Indonesia has room to cut rates first given falling inflation and solid economic fundamentals. Indonesia is our most preferred equity market within ASEAN on the back of its attractive valuation, improving corporate balance sheets and accelerating capex.

We look for opportunities in the ASEAN consumption sector which benefits from the expansion of middle class consumers and China's outbound travel. We also like ASEAN banks and infrastructure companies as they can ride on solid domestic consumption and tailwinds from the supply chain relocation.

Asia's Green Transformation continues to be our High Conviction Theme that taps into the opportunities from the energy transition and independence, green infrastructure development and innovation of EV technologies in the region. We see a clear structural uptrend in Asia's solar industry and have revised up our forecast for new solar installations in China to 140GW in 2023, translating into 60% y-o-y growth. Lower polysilicon prices should continue to serve as a short-to-medium term catalyst to accelerate solar investments in China, mainly across utility-scale projects. We think equipment manufacturers are better placed along the solar value chain.

The rapid electrification of the consumer auto market is another bright spot in Asia's green transition.

With China's global leadership position in the production of EVs, the country became a net vehicle exporter last year. Currently one in three cars sold in China is an EV. The increased customer adoption has translated into higher EV penetration, which has reached 36% in July, based on statistics of China Passenger Car Association. We forecast China's EV penetration rate to surge to 53% in 2025 and 90% in 2030, which allows the Chinese and Asian battery makers to grow fast and gain global dominance. Nearly 80% of global fast-charging stations and 60% of normal charging stations are in China, according to the International Energy Agency.

Pure EV plays, conventional Original Equipment Manufacturers (OEMs) and battery companies in China should see strong structural growth potential. Besides the wide application in the clean transport sector, energy storage solutions should help integrate power produced by renewable sources into the traditional grid by storing excess energy produced.

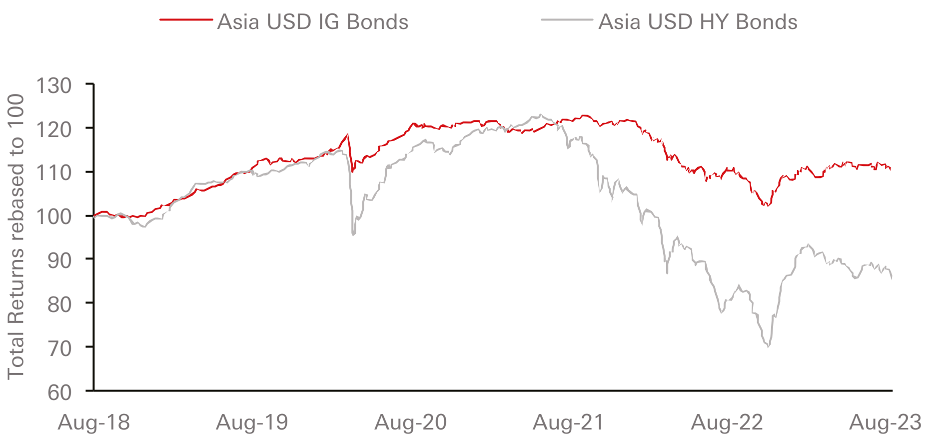
After the sharp spike in global bond yields in August, we find attractive carry opportunities under our theme on **Asian Quality Credit**. Positioning for the peak in US rates, we favour Asian IG bonds with a medium duration of 5-7 years due to their resilience, which is sometimes underappreciated. Current valuations are well supported by the tight supply in the Asian credit market.

The all-in yield of Asian IG bonds is attractive at over 5.9%, well above the 3-year average of 3.6%, according to Bloomberg data.

We highlight Asian financials which are trading at attractive valuations. Our focus is on Japanese and Korean banks and life insurers, and banks in Australia, Singapore and Thailand. We continue to identify names with defensive characteristics to weather the macro headwinds. Asian banking and financial systems enjoy strong support from respective national governments which promote financial stability. We also favour Korean IG bonds (especially Korean financials) for their relatively attractive valuations. We also position in Indonesian quasi-sovereign IGs, thanks to the country's strong fundamentals with low inflation, current account surplus and declining fiscal deficit.

We remain very selective on Chinese issuers, focusing on high quality credit amid lingering concerns over contagion risks of the property slump. Even better quality SOE property issuers are affected by volatility caused by the property stress. Among the Chinese quality bonds, we prefer Macau gaming and Chinese TMT credits with rising consumer leisure demand and stronger-than-expected earnings.

Asian IG bonds are resilient versus Asian High Yield amid financial stress in Chinese property developers

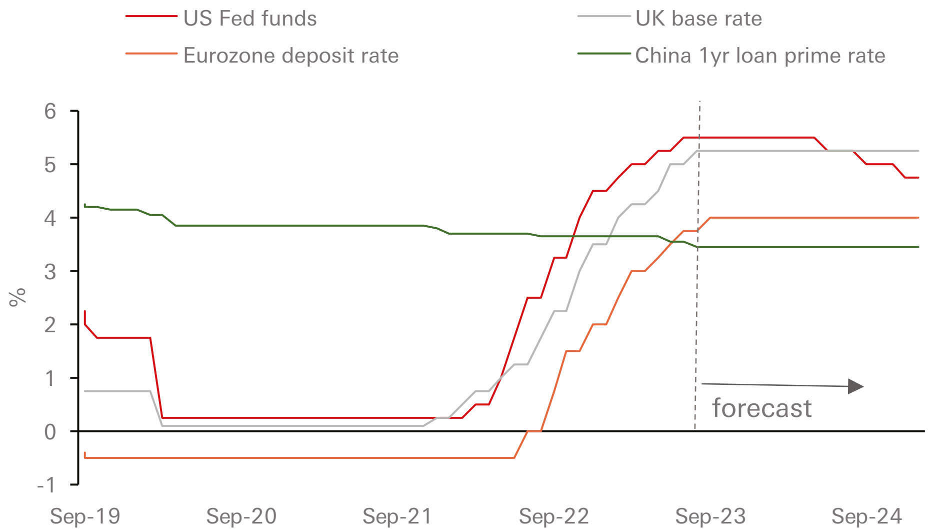


Source: Bloomberg, HSBC Global Private Banking as at 6 September 2023.
Past performance is not a reliable indicator of future performance.

Opportunities Amid Peak Rates and Slow DM Growth

Amid slow DM growth, resilience of the US economy stands out and we therefore now have three US equity themes. We also add to portfolio returns by looking for income, in both equity and bond markets.

The wave of rate hikes is behind us but aggressive rate cuts are unlikely



Source: HSBC Global Private Banking as at 6 September 2023.

Our Seven High Conviction Themes	
1. American Resilience	The US labour market is strong, and falling inflation helps protect consumers' real disposable income. Our theme focuses on the resilient US consumer.
2. North American Re-Industrialisation	Manufacturing is seeing a revival as companies want to re-onshore production. The move is further helped by government stimulus programmes.
3. Innovation and Opportunities in US Healthcare	As US and global populations age, healthcare spending continues to rise. Innovation is considerable in areas such as oncology and obesity.
4. Durable Dividends	Income from dividends can be an important component of total returns, especially when market valuations are high and earnings growth is slow.
5. Infrastructure	Infrastructure stocks can help diversify portfolios as their correlation with equity markets is relatively low and their revenues often rise with inflation.
6. Opportunities in Quality Credit	We like to lock in elevated bond yields. Valuations are now well anchored due to the end of Fed rate hikes but we focus on quality amid slow DM growth.
7. Defensive Positioning Across DM Financial Bonds	Financials are attractively valued compared to corporates. But we focus on senior bank bonds as the yield pickup for subordinated debt is not sufficient.

25% tax credit

Incentive under the US CHIPS & Science Act for capital investments in US manufacturing

$ 7.2trn

US national healthcare expenditure in 2031, up from $4.4trn now

First Fed cut: Q2 2024

We want to buy bonds well ahead of this date

Source: KPMG, HSBC Global Research, HSBC Global Private Banking, as at 6 September 2023.

The seven themes under this trend can be thought of along three poles, which all adapt to the current environment of slow DM growth and peak rates. Those poles are : US exceptionalism, sources of relative equity market stability and income through bond markets.

US Exceptionalism

'US exceptionalism' is used as a term to describe the superior growth and inflation position the US is in when compared to other markets. US inflation is lower and less sticky than in Europe, which will also allow the Fed to cut rates more quickly, and of course, that's a positive for US stocks.

But where to invest in US equities? The US has a very strong Technology sector, which we already exploit in our Digital Transformation themes (see later). The three High Conviction themes we list here are in other sectors, which provides diversification, but also generally more attractive valuations.

First, our **American Resilience** theme remains in place. This theme focuses on companies in the discretionary consumer sector (and some consumer staples) that benefit from resilient US consumption, helped by strong labour markets. Our new '**North American Re-Industrialisation**' theme recognises that manufacturing has probably passed its cyclical low (as illustrated in business confidence) but, more importantly, may be starting a structural uptrend. This is mainly due to companies' urge to re-onshore some production, as they want to make supply chains more reliable. It is further helped by government incentives for manufacturing and R&D. We have also launched '**Innovation and Opportunities in US Healthcare**'. The sector has lagged the index so far this year, but we think this is largely due to difficult comparisons versus the COVID period. We see strong structural demand and innovation in immuno-oncology, obesity, rare diseases and central nervous system treatments. Ageing societies around the world are likely to sustain demand for treatments of age-related and chronic conditions.

Sources of relative equity market stability

Low growth and high interest rate costs can be obstacles for earnings growth, so we look for areas where earnings growth is more stable, or where investor income is a strong component of returns.

Infrastructure falls in the first category. For many infrastructure companies, sales volumes are not very cyclical or price sensitive. In addition, sales prices often have a link to inflation (thanks to regulation or long term contracts), which means that margins are not immediately threatened by higher costs and inflation. As a result, earnings are often relatively stable, and infrastructure investment have low correlation with equities and bonds, making them good diversifiers.

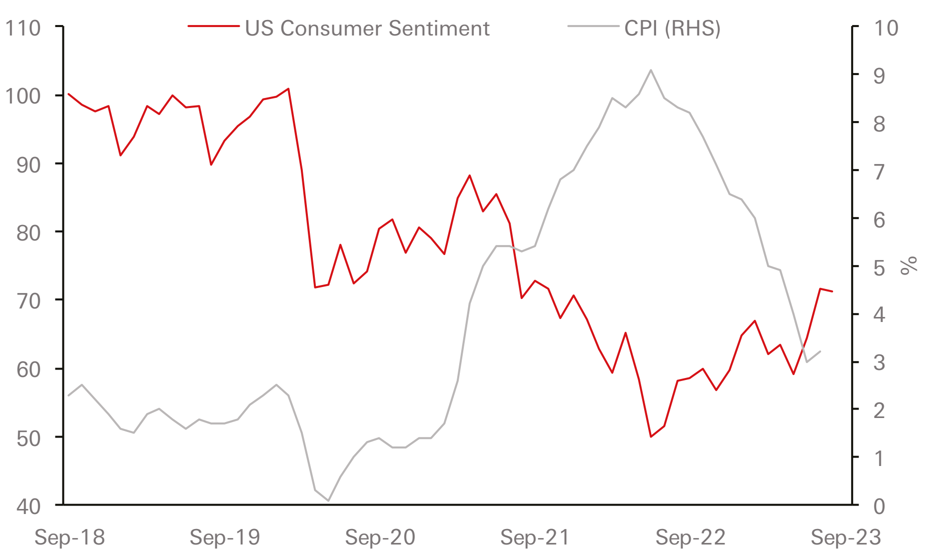
Our **Durable Dividends** theme is designed to provide a stable contribution to total returns through dividends. As economic growth is below normal, we put the emphasis on the durability of those returns and be careful in our stock picks. Dividend strategies tend to focus on quality-style companies and also often qualify as 'low volatility' stocks, which can help balance style biases in portfolios.

Income through bond markets

While Treasury yields are near 5-year highs, investment grade spreads are close to the 5-year average, and high yield spreads are well below that average. So we focus on quality credit, and make sure that rate duration exposure is sufficient, with medium durations. All of these points are clearly expressed in our '**Opportunities in Quality Credit**' theme.

In addition, we see opportunities in financials, which we express through our theme of '**Defensive Positioning Across DM Financial Bonds**'. Banks are facing the headwinds of slow DM economic growth, increasing delinquencies (albeit from a low level) and stress in real estate (especially offices). That said, capital ratios for the sector are well above the minimum regulatory requirements and interest income is strong. In addition, spreads are attractive when compared to non-financials. So we find opportunities but go for large diversified businesses and focus on the senior part of the bank capital structure as the yield pickup of Tier II is generally not very generous. We also find opportunities in insurance and are more willing to select some subordinated bonds there.

As inflation is coming down, US consumer confidence is recovering

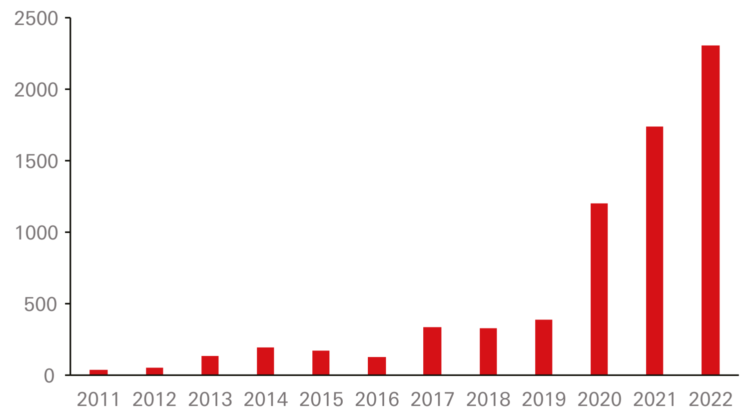


Source: Bloomberg, HSBC Global Private Banking as at 6 September 2023.

Digital Transformation

The world is being transformed by the digitalisation of products, services and processes enabling interoperability and boosting efficiency. Opportunities for new products and services are almost limitless.

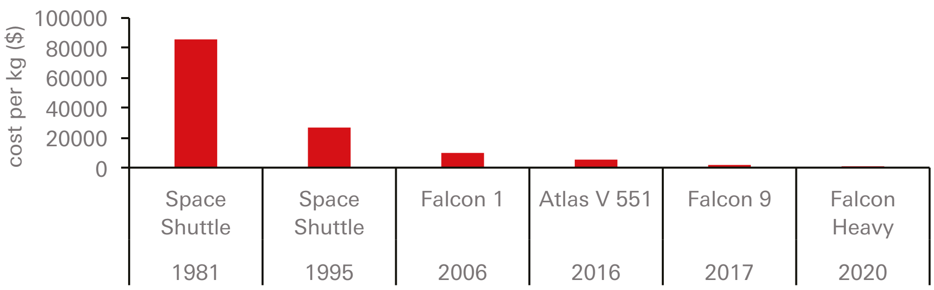
Small satellite launches are becoming much more frequent



Source: Brycetech.com, HSBC Global Private Banking as at 6 September 2023.

Our Three High Conviction Themes	
1. AI and Automation	AI software is evolving rapidly with companies rushing to introduce new applications that provide a competitive advantage. The combination of AI and automation hardware that leverages these new capabilities is proving to be a particularly powerful source of differentiation.
2. Aerospace	Terrestrial based technical solutions have their limitations, some of which can be overcome by taking to the skies. Companies that have been able to exploit the latest small satellites, drones and other aerospace technologies are benefitting from demand for the new or enhanced services that they bring.
3. Smart Mobility	Millennials and Generation X consumers are expecting more from their mode of transport than older consumers who were happy to just watch the world go by. They demand environmentally friendly transport that provides seamless connectivity to the internet and the smart devices with intelligent software.

Satellite launch costs have declined exponentially



Source: Futuretimeline.net, HSBC Global Private Banking as at 6 September 2023.

The Third Industrial Revolution

Revolution is a word that evokes drama and is often overused, but in this example it seems a suitable noun as the transformation has indeed been dramatic. The digital revolution started in 1980s with the introduction of the internet, but quickly spread to devices, communications and networks. The changes have impacted many aspects of daily life from the way we manage our bank accounts and watch movies, to medical diagnosis and virtual tours of properties. The list is vast. Through three investment themes we explore areas we believe are particularly interesting for investors.

AI and Automation

It is estimated that the number of installed industrial robots worldwide is likely to be close to 4 million this year or nearly double the level of just five years ago (Source: IFR, 2023). The growth in industrial robot utilisation reflects several converging trends including affordability and demographics, but is principally due to the technological advances that have significantly expanded robotic capabilities and their applications. In addition, nearshoring and reshoring are likely to accelerate growth in automation in the near term.

At the Long Beach port facility in California, for example, a terminal has been fully automated to handle shipping containers. This includes the entire process, from off-loading container ships to transferring containers to trucks for road transportation. AI helps coordinate the automation equipment at the various steps of the container, from ship, to storage and then onward by road. Each step of the container's journey is logged and tracked using its unique QR code that also links to a digital bill of laden required for cross border transportation, thus avoiding the need for over 100 pages of physical paperwork.

Such examples help illustrate how digital automation and AI are increasingly working in tandem to improve productivity and reliability, and other benefits. Our investment theme AI and Automation focuses on leading companies in this fast evolving field.

Aerospace

Aerospace is providing the world with new perspectives and opportunities with satellites often being at the leading edge of developments. In our times, information is arguably the most valuable commodity and a potential source of advantage.

Low earth orbit satellites and small satellites are opening numerous commercial opportunities for companies due to their far lower costs and the ease of deployment. Companies are able to operate independently, providing data and information on a wide range of areas including sea temperatures and ice coverage. Several companies are working to provide global satellite coverage to enable reliable telephone and internet based anywhere in the world and are independent of ground-based infrastructure - all at relatively low cost.

An even cheaper alternative to tiny satellites are drones. Recent advances in the related technology have boosted capabilities, reduced weight and costs while extending their range.

These developments together with the integration of AI software have seen their usage expand rapidly in a wide range of roles including in agriculture to monitor soil hydration, crops and livestock monitoring; law enforcement to monitor crowds and investigate inaccessible places; or utility firms to check power lines.

Smart Mobility

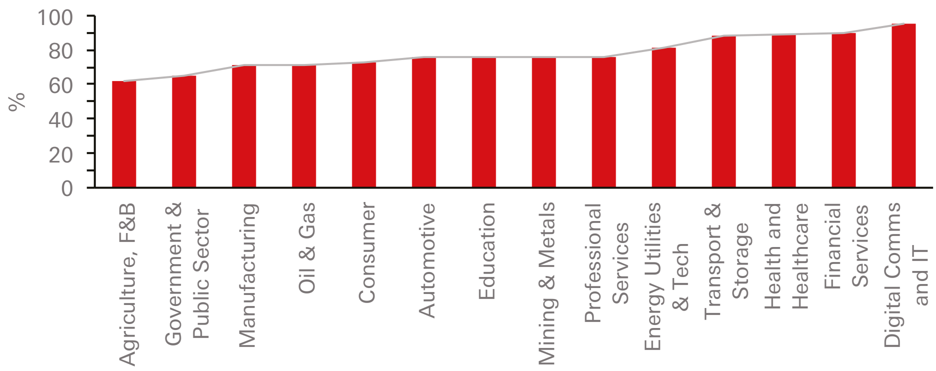
A smart person is generally considered as 'having or showing a high degree of mental ability'. So it can be said of smart mobility from both the perspective of the traveller and the mode of transport itself. Today's automobiles and particularly electric vehicles are far more 'intelligent' than their counterparts of the 1990s. The internal cabin environment is automatically modulated adjusting the temperature, airflow and sunroof to maintain an ambient temperature. Windscreen wipers and lights are automatically activated by rain and darkness respectively.

All these things have been around for several years and have become somewhat smarter. The next generation of smart mobility essentially makes the transition between regular spaces of home-vehicle-office seamless. In addition, new and enhanced capabilities are being added continuously whilst producing a rich set of data on traveller preferences, helping to fine tune products and services.

Electrification enables the rapid adoption of new technologies as electric vehicles are already hard wired and contain an array of sensors and substantial on-board computing power. EVs typically have eight times more semiconductors than in traditional ICE (internal combustion engine) cars. They can more easily interact with other vehicles, mobile, GPS and other networks, exchanging data and facilitating smart driver/passenger choices. In addition, it enables monitoring and control of our transport systems and infrastructure.

Transport for London provides commuters with online real time updates on its trains, metro and buses. AI and sensor enhancements can easily identify regular travellers and alert them to delays or closures on the usual routes and propose alternative travel options.

Share of firms proposing to use AI by 2025

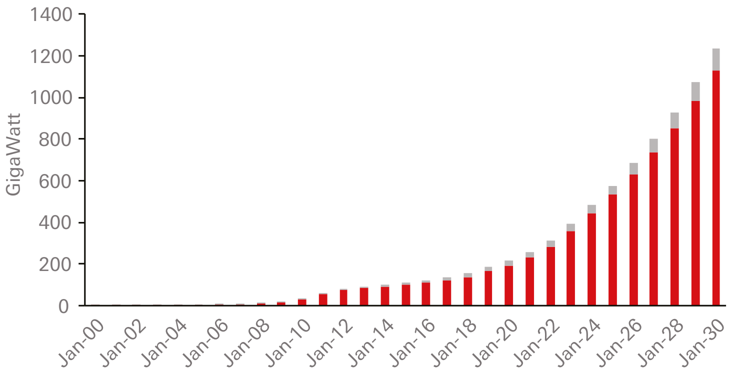


Source: World Economic Forum, HSBC Global Private Banking as at 6 September 2023.

Investing For a Sustainable Future

We are only in the foothills of a sustainable future but there is already significant momentum in the trend driven by new technology, global investment and the desire for sustainable solutions. Sustainability is a trend that will continue to grow investor opportunities into the future.

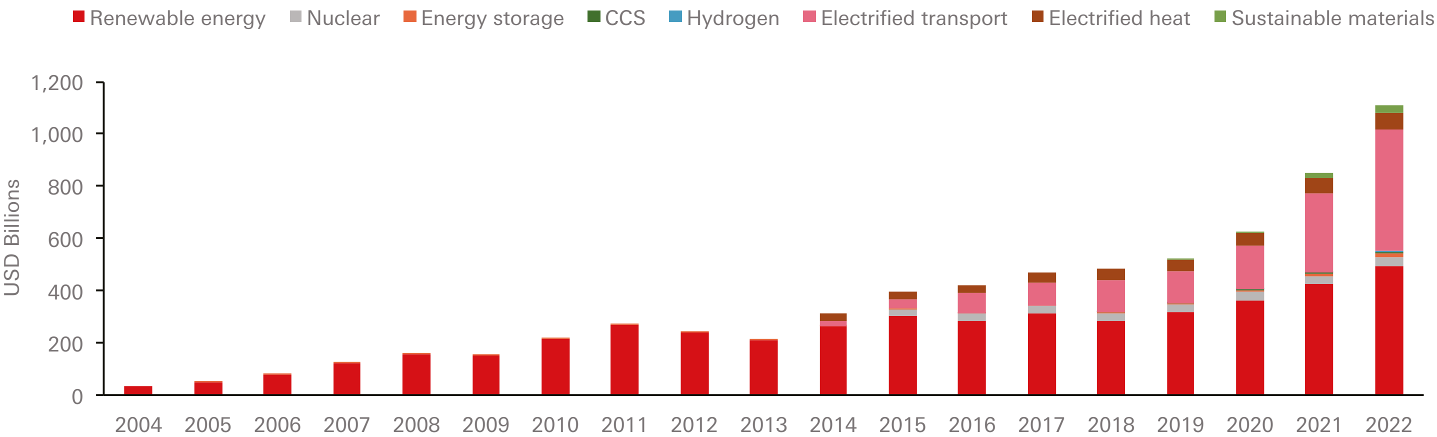
Renewable energy capacity is expected to grow rapidly



Source: Bloomberg, HSBC Global Private Banking, as at 6 September 2023.

Our Four High Conviction Themes	
1. Energy Transition and Independence	There has been a marked rise in the desire of global economies to move to lower carbon energy production while also increasing the independence of their domestic energy production. Renewable energy offers a solution.
2. Investing in Biodiversity	Biodiversity across the globe has been materially impacted by human activity in the last 50 years. Investment initiatives to finance action to conserve and reverse the damage are now gathering pace.
3. Sourcing Income in a Sustainable Way	In an environment with low growth, income producing strategies (in equities or bonds) are a valuable source of returns. This theme allows investors to achieve this in a sustainable way.
4. Social Empowerment and Well-being	Social Empowerment and Wellbeing is becoming an important consideration for investors when making asset allocation decisions. Companies operating in alignment with this structural trend should benefit.

The sustainable energy industry is growing at pace and there are no signs it will slow



Source: Bloomberg, HSBC Global Private Banking, as at 6 September 2023.

The recent weather patterns are a stark reminder that not enough has happened to ward off the threat of climate change and that the targets laid out in the Paris Agreement and other initiatives are not high enough nor are they being implemented fast enough. Policy changes and actions at the national, corporate and social level will need to be turbocharged in the coming years to meet the levels needed to limit the impact of the changing climate. While this is a huge concern for many of us, it is also an attractive opportunity to invest in a sustainable future.

Investment into renewable energy continues at pace globally, driven by the **Energy Transition and Independence** goals. It is on course to come in slightly ahead of 2022 investment levels with $334.5bn of investment in 1H 2023 versus $564bn for the full year 2022. This is particularly impressive given the more challenging economic environment facing much of the globe. Driven by the experience of the Ukraine conflict, Europe is a key purchaser of renewable energy but it is not the only region progressing its investment in renewable energy. There is a clear global demand, with Southeast Asia, India, China and Australia all seeing a boost in their demand for renewable energy. Net-zero targets, supportive national policies and more and more favourable economics are all coming together to support the build out of clean energy.

Australia is earlier than many nations in their journey to net zero and the build out of their renewable infrastructure but there has been a clear desire and subsequent momentum behind their efforts. There is an estimated $439m in large scale renewable capacity in 2Q 2023 with the majority (c.94% of this) going to wind. Australia is only getting started on their potential, which is exciting.

In Southeast Asia, new solar and wind investment is outpacing 2022 levels by 21% for the first half of the year. The Philippines accounted for nearly half of the new build capacity with its 80MW Vena Energy MGen Renewable Currimao PV Plant which was commissioned in March.

In India, to meet their long term goals it is estimated that c.$12.7Tn will need to be invested by 2050 which will result in 3 terawatts of installed wind and solar capacity by 2050.

Investing in Biodiversity has only relatively recently come to the fore as a priority within global sustainability agenda. The damage that human activity has wrought on global biodiversity in the last 50 years has been profound but the last year has been a good one towards reversing that damage.

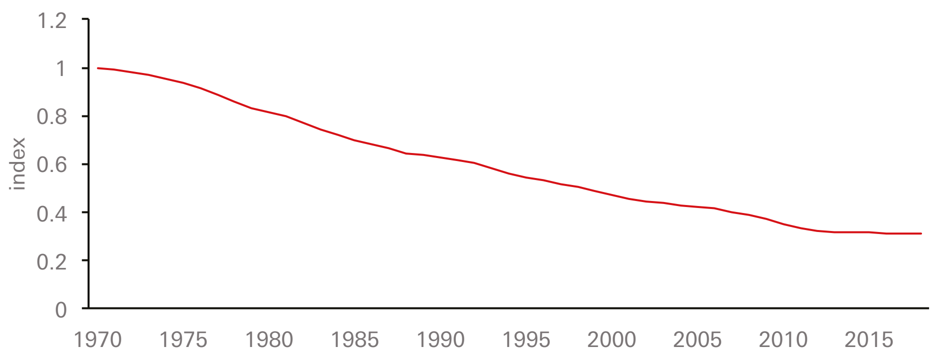
In December 2022, a breakthrough deal, the Kunming-Montreal Global Biodiversity Framework, was agreed during the Convention on Biological Diversity COP15 summit in Montreal. It set new goals on the conservation, restoration, and sustainable use of biodiversity and ecosystems by 2030. Further to this, the Global Environment Facility Council approved a program providing $1.4 billion in direct support for developing countries' efforts to protect and ensure the sustainable use of biodiversity, in line with commitments made in Montreal. Together these initiatives highlight the momentum behind biodiversity and the potential investment towards the space and our **Investing in Biodiversity** theme reflects this.

Although markets have improved in 2023, it has not been broad based. A small subset of securities has been seeing the majority of investor flows while more generally, interest has been muted. Risks still remain and the full impact of the rapid rate rises remain in investor minds so investors are remaining cautious and not moving too aggressively across markets at this time. Through our theme of **Sourcing Income in a Sustainable Way**, we have identified solutions that have a stable foundation at the business level and can deliver an attractive income in the near term and they do so in a sustainable way. This way investors can get the benefits of an attractive investment approach which is aligned to their income needs (in equities or bonds) while at the same time, support a sustainable future.

Social Empowerment and Well-being is becoming an important consideration for investors and society when making asset allocation decisions. COVID-19 pandemic underlined the rising disparities between and within countries - in terms of access to resources (such as water or energy), products and services (such as healthcare, education and internet) and markets (such as labour, housing and financial markets).

Companies operating in alignment with the structural trends will focus on offering innovative products and services to address the social and environmental challenges alongside delivering on their financial metrics. Such companies will perform well in the face of these challenges, will have the draw of talent, consumer demand and be favoured by regulatory bodies.

Global biodiversity continues to be in rapid decline



Source: livingplanetindex.org, HSBC Global Private Banking, as at 6 September 2023.

Equities

We remain neutral on global equities given high valuations compared to bonds, which offsets the good news coming from a more resilient economic cycle. But the asynchronous nature of the business cycle (aka the multi-speed world) suggests diverging performance between countries and between sectors. The rate outlook will remain key as well, with peak rates helping in the West. The relative US economic resilience, and earlier rate hikes in the US compared to Europe favour US stocks over European ones. In China, monetary and policy stimulus should counter cyclical headwinds and support our neutral view. India and Indonesia's stock markets are benefiting from better cyclical momentum and investor interest. Many emerging market central banks have begun to lower policy rates and we are overweight on Latin America for this reason.

Resilient US markets

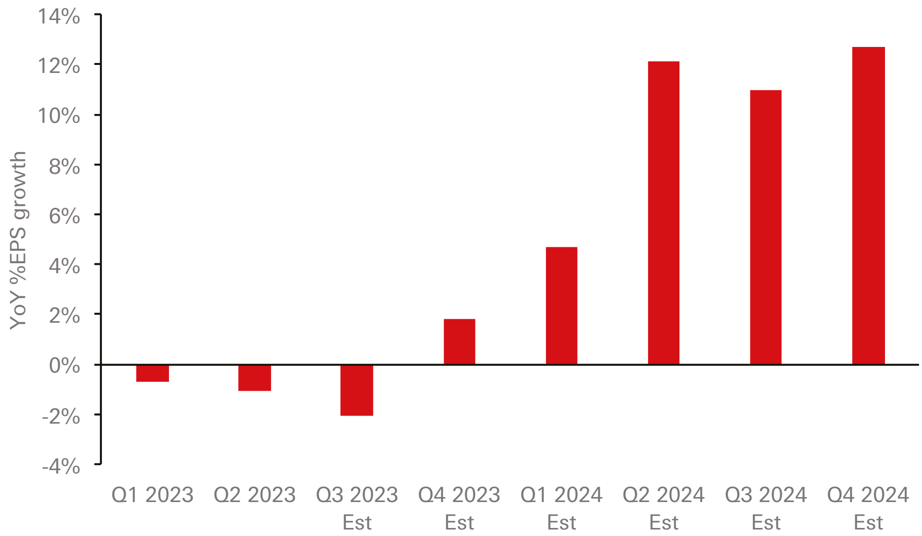
US equities have led global markets and fundamentals suggest that this should continue. The economy is resilient, labour markets remain strong, and the unemployment rate remains near 60-year lows. Inflation continues to unwind, as it has fallen from 9% to 3.2% in the last year. Less input cost inflation should help lift profits and provide a lift to consumers' real disposable incomes. Margins have stabilised, which is positive for earnings expectations. US corporate earnings have fallen for three consecutive quarters, but are set to rebound in the second half of 2023.

Consensus earnings growth expectations for 2024 are 12%. While economic growth next year is expected to slow, falling inflation should help counter that effect on earnings for next year. Finally, in 2024 as the Fed begins to cut interest rates and analysts put in projections for a lower cost of capital, it should be accretive to earnings.

From a sector perspective, consumer spending remains healthy, supporting consumer related companies. While COVID-related excess savings may dissipate soon, wages are rising at double the pace of the last cycle and consumption thus seems capable of withstanding a slight increase in unemployment. Following the sharp rally in valuation multiples, technology has seen some increased volatility recently,

Overweight
Markets: US, Mexico, Brazil, France, India and Indonesia
Sectors: IT, Industrials, Consumer Discretionary and Financials
Underweight
Markets: Italy, Spain, South Africa and Malaysia
Sectors: Real Estate
Global style bias
Quality

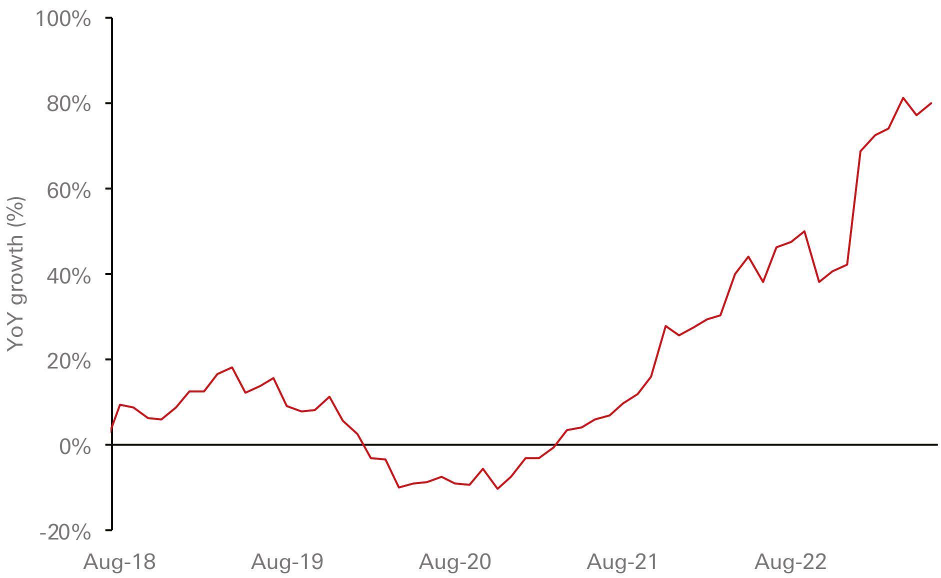
US earnings are set to rebound later in the year and in 2024



Source: Bloomberg Consensus Estimates, HSBC Global Private Banking as at 6 September 2023.

triggered by the spike in Treasury yields. But we think those yields may have overshot, and the prospect of the Fed being on hold should ease the pressure. In addition, earnings growth in the sector looks promising, supported by structural growth, including in AI. More broadly, earnings expectations for the next four quarters point to above-market gains for consumer, technology, and industrials. The re-industrialisation of the US, led by policy initiatives, is also supportive of the industrial sector as building of new infrastructure is rising at historic rates. All of this supports our mild cyclical stance in the US, in contrast with a more balanced sector stance in other regions.

Spending on manufacturing construction has soared in the US



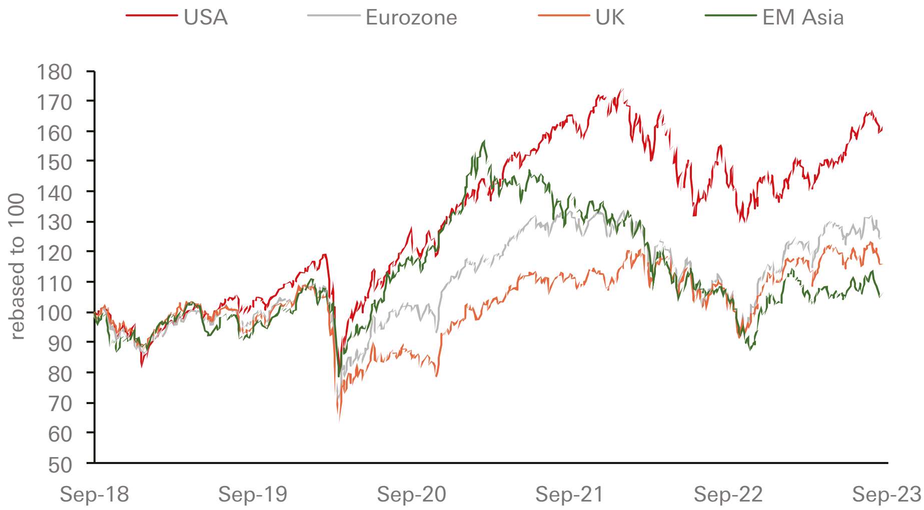
Source: Bloomberg, HSBC Global Private Banking as at 6 September 2023.

Asian growth markets

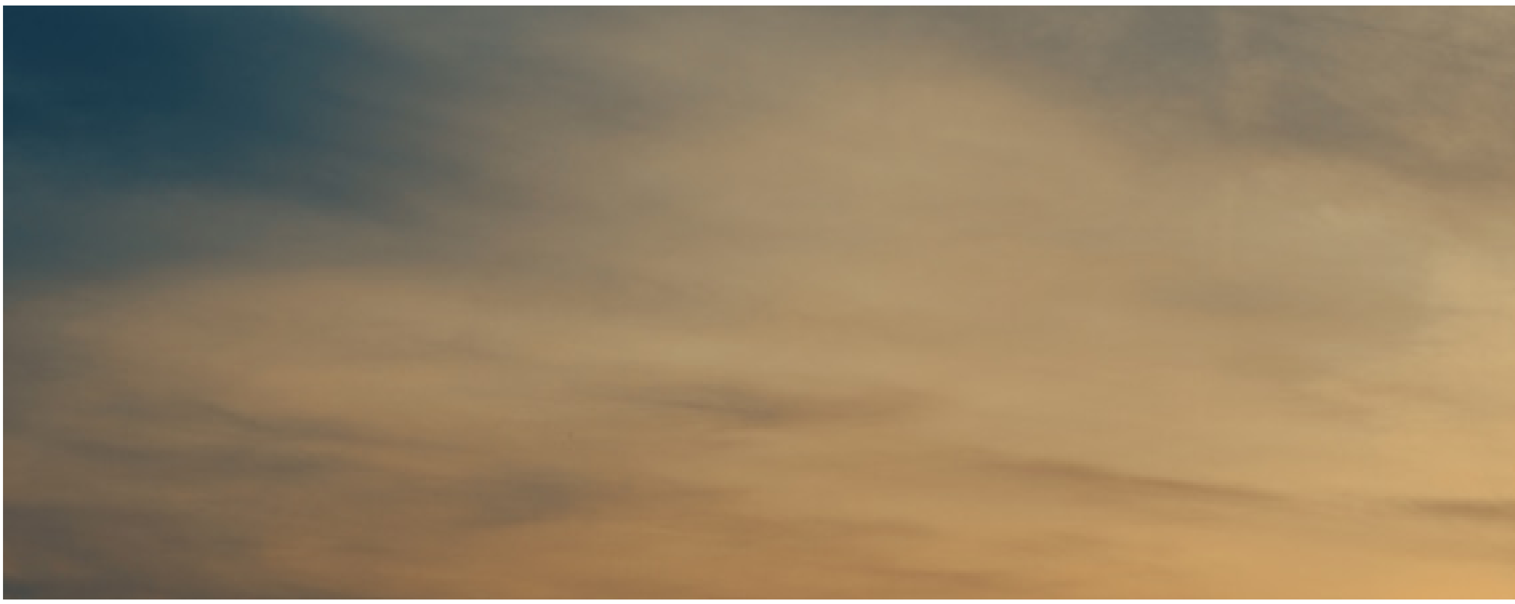
Weaker growth expectations for China have kept equities from rising despite historically attractive valuations, big valuation gaps with other countries, and an investor community that is already very underweight. That said, policy stimulus is accumulating, both from the monetary and the fiscal side, with the aim of boosting demand and loan growth. Continued weakness in the property sector and spill over into the shadow banking sector are obstacles for the market to move meaningfully higher, in our view. Hence, we hold a neutral view on mainland China and Hong Kong stocks, preferring India and Indonesia instead. India's growth story remains firmly intact and the market has performed accordingly. While technology shares have been top performers, and they remain expensive, earnings growth next year looks healthy.

In other parts of the region, Japan, South Korea and Taiwan have provided solid performance and the potential for lower rates should support risk on and long duration assets. Technology related companies have performed well.

Equity performance has been very differentiated, principally because of growth differentials



Source: Bloomberg, HSBC Global Private Banking as at 6 September 2023.
Past performance is not a reliable indicator of future performance.



Europe remains troubled

Europe continues to struggle with disappointing economic growth, sticky inflation, and aggressive central bank tightening. While the ECB and BoE should finish their rate hikes very soon, the scope for cuts is much less than in the US, so the policy should remain relatively more hawkish.

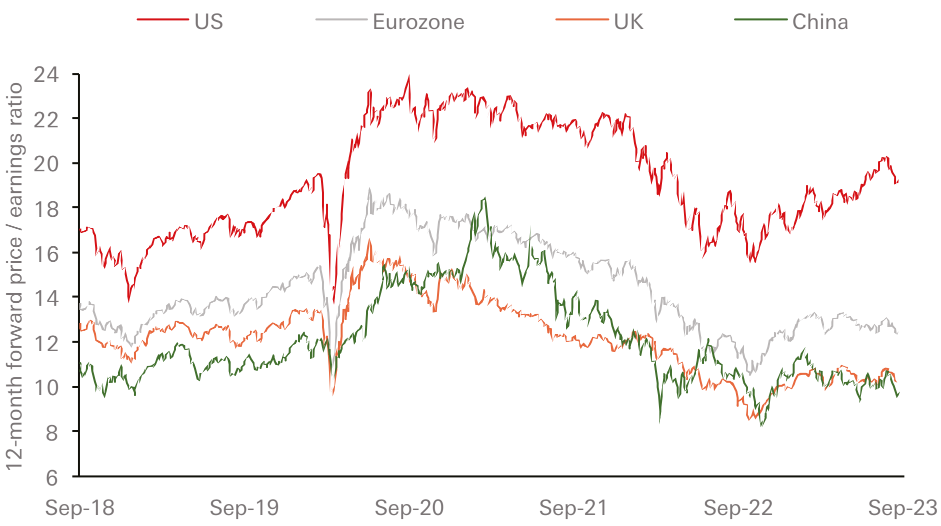
Political and military conflicts continue to create a fiscal drag, and economic growth is mixed – in part because of Europe's considerable exposure to China's disappointing recovery.

The disappointing performance from Chinese consumers has not helped European equities, as analysts had hoped to see healthy Chinese and Asian consumption and travel. This is true in the manufacturing sector as well. Unsurprisingly, earnings expectations remain weak for the second half of 2023 and the outlook for 2024 may be negatively affected.

European markets led global markets at the beginning of the year, but have lagged since, due to growth differentials with the US and the relatively more hawkish tone from the ECB compared to the Fed. In addition, the cyclicality of the European market, and the absence of a big tech sector are weighing on performance too.

All of this more than offsets the valuation advantage European stocks continue to present, in our view. Country valuations remain near the bottom of the 5-year average, but the lack of growth, sticky inflation, and central bank policy remain concerning. As a result, we remain mildly underweight on Eurozone stocks and neutral in the UK.

The big valuation gap between Europe and the US is largely explained by fundamentals, including the big US tech sector



Source: Bloomberg, HSBC Global Private Banking as at 6 September 2023.
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Summary

Global equity investors continue to face several issues like divergent economic growth rates, persistent inflation, and high interest rates. The global slowdown in economic activity does not appear to be as severe as feared though, especially in the US, which is where we have the more cyclical sector exposure. We focus on quality companies with strong balance sheets, cash generating capabilities, and low levels of net debt. We believe this remains a stock-pickers' market, and close attention should be paid to resilience of underlying business models and the ability to navigate continued pressures ranging from tighter financing conditions and slowing demand. In addition, total return strategies continue to make sense, especially for companies that can afford to continue paying dividends, as per our Durable Dividends High Conviction theme.

Fixed Income

After the 2022 sell-off, Treasury yields settled in a range but recently moved up again. Worries over US fiscal dynamics, higher US bond supply and a rating downgrade of the US Federal government have pushed the 10-year US Treasury yield up by more than 0.50% (50bps). The recent positive correlation between bond and equity returns is much like 2022, where most asset classes sold off in tandem. However, we believe it is different this time due to the nearing peak in policy rates and an entrenched disinflationary trend. Renewed concerns about China's fading recovery have also dented risk appetite. Interestingly, corporate bond markets remain resilient, with IG credit spreads near the 5-year average and HY somewhat below that average. Yet, we fear that credit spread volatility will pick up in the coming months, due to tightening credit conditions, stretched valuations and weakening growth momentum. Consequently, we continue to focus on quality corporate credit, mostly in Global Investment Grade (IG) markets with 5-to-7-year maturities. We are neutral on Global HY and EM sovereign debt.

Overweight
Government bonds: US, UK and New Zealand government bonds
Credit and EM: US, European and UK IG; Australian and New Zealand corporate bonds; GCC and Mexican Hard Currency bonds; Mexican and Brazilian Local Currency bonds

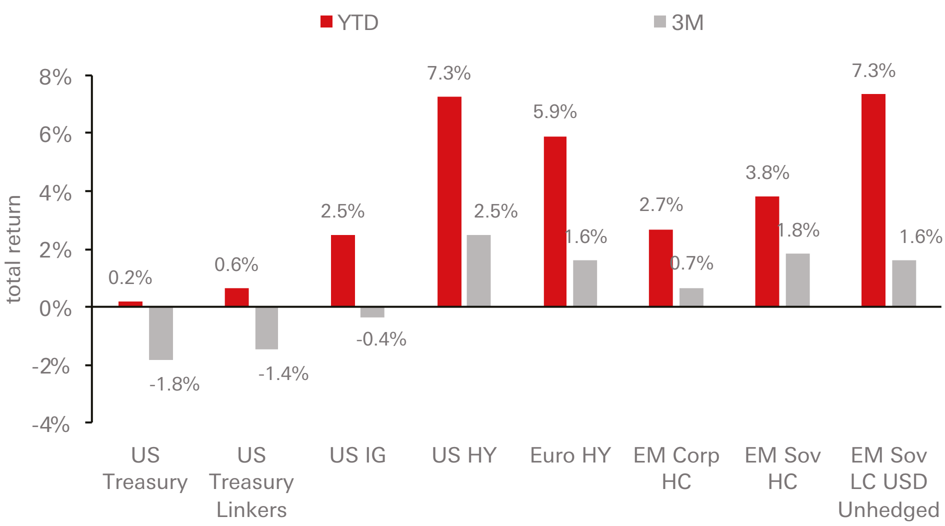
Underweight
Government bonds: Japanese government bonds
Credit and EM: Argentinian and Ukrainian Hard Currency bonds; Turkish Local Currency bonds

We have taken advantage of recent market developments and made some important changes to our bond allocation:

i. We trimmed our full overweight in USD and Global IG markets, taking some profit amid tighter credit spreads and moved into US Treasuries, in order to capture a multi-year high yield entry level.

ii. We downgraded Chinese corporate offshore bonds to neutral from a mild overweight following a softening recovery momentum in economic growth and more pessimistic forecasts on China's property market.

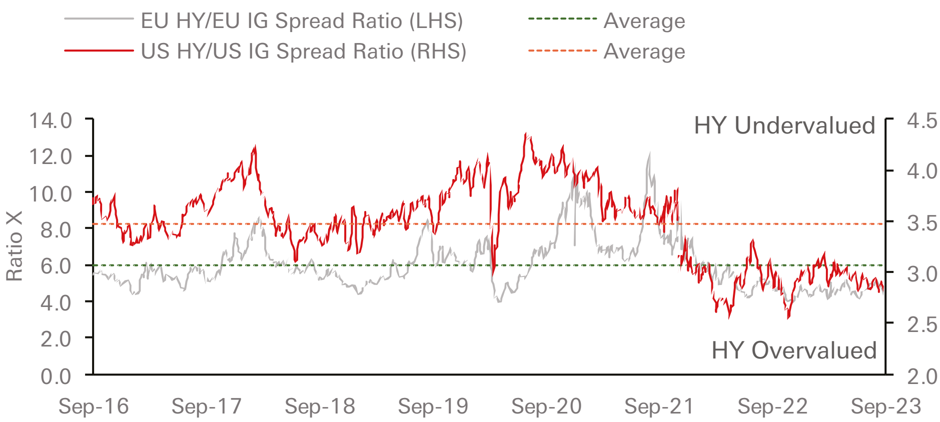
Performance Review - Global HY performed well despite tightening credit conditions



Source: Bloomberg, HSBC Global Private Banking as at 6 September 2023.
Past performance is not a reliable indicator of the future performance

Global HY continues to outperform, despite the recent negative market sentiment, tight valuations, a high interest rate environment and increasing risks to economic and earnings growth. A distant wall of bond maturities (2025-2026), a low realised default rate and stable EBITDA generation are seen as key factors supporting the tight credit spread environment. It is, however, a backward-looking representation in our opinion and we continue to believe that Global HY is quite expensive relative to both future economic prospects (even in a US “soft landing” scenario) and to Global IG, especially in USD (see the graph below).

USD HY valuations are too tight relative to USD IG



Source: Bloomberg, HSBC Global Private Banking as at 6 September 2023.
Past performance is not a reliable indicator of the future performance

Developed Markets - The peak in DM policy rates is getting closer and Government bond yield valuations look attractive

The last few weeks witnessed an interesting development in DM rate markets, especially in US Treasuries: long-dated bonds sold-off, while the short-end remained relatively stable. This is at odds with the current phase of the economic cycle, but also with movements from previous months, which witnessed additional repricing of monetary policy tightening at the short-end. The triggers of this movement appeared to be a Fitch downgrade of the AAA credit rating of the US Federal government, mostly justified by poor governance around the debt ceiling management and uncertainty around its future fiscal deficits. At the same time, the US Treasury confirmed its intention to front-load its debt borrowing over the coming months. We believe, however, that both events will have short-lived consequences and investors likely overreacted.

At 4.2%, we believe that the 5-year US Treasury yield in 5 years' time (5Y5Y Forward) is already pricing in a generous risk premium for the uncertainty around the economic and fiscal outlook. In addition, it stands 40bps or so above the nominal economic growth projected by the Fed over the long run; this is a rare occurrence. Consequently, while the short-term rate outlook is difficult to forecast, we believe that current yields represent a fair entry level, which justifies an upgrade of our allocation to US Treasuries to a mild overweight. At the same time, we take some partial profit on our sizable exposure to USD IG, after credit spreads tightened 30bps or so since turning fully overweight. Despite this fine tuning, Global IG continues to be our largest overweight exposure in our bond allocation and absolute yields remain attractive, against a backdrop of declining inflation. In addition, our focus on quality corporate credit resonates well in the current stage of the economic cycle.

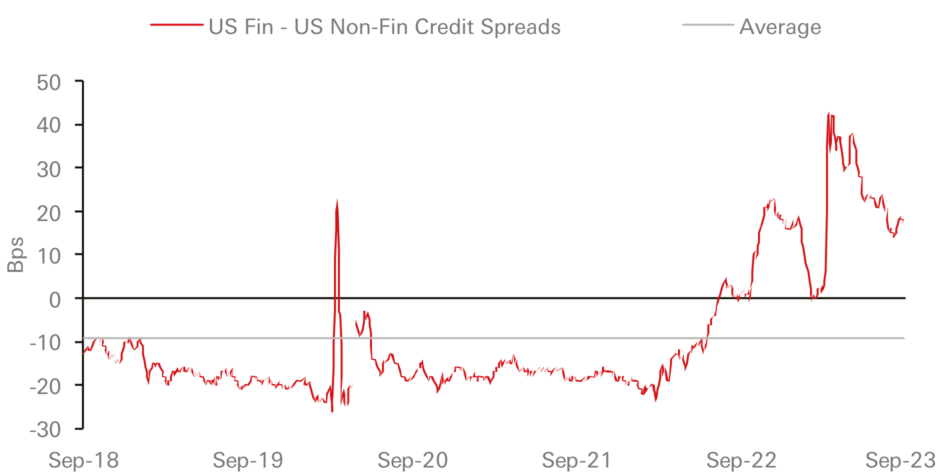
We also take comfort from the fact that the Fed, BoE and the ECB have almost finished their rate hikes, even if core inflation remains sticky. The recent Beige Book published by the Fed confirmed this view and reported that the tumult in the Regional banking sector from last March has had the effect of incrementally tightening credit conditions. While Europe enjoys strong banking capitalisation even at smaller banks (which are under stricter regulations compared to the US), the backdrop of tightening credit conditions is also a theme. The latest ECB bank lending survey revealed that credit conditions are likely to tighten further due to the cumulative effect of all the rate hikes to date, which is putting a brake on loan demand.

Where does it take us in terms of asset allocation across bond markets?

We reiterate our focus on quality corporate bonds, at the "belly" of the yield curve (i.e. 5-7 years). This allows us to lock in attractive yields for a longer period of time and benefit from price appreciation if our view of lower rates materialises. We remain selective on EM credit, with a preference for the LatAm and GCC regions. At the corporate level, we continue to focus on companies which prioritise bondholder-friendly policies, have sound leverage ratios and lower short-term refinancing needs.

In terms of sectors, we continue to focus on Energy, Technology and Financials. DM Banks face challenges in terms of regulation and profitability, and the risks were emphasized further by S&P Global Ratings and Moody's which recently downgraded credit ratings for several US regional banks. They cited the impact of increased funding costs from higher interest rates and lower liquidity attributable to declining deposits. While these rating downgrades were expected, we remain confident these challenges should not materially impact the solid levels of capital and liquidity that the largest DM banks benefit from. We believe that subordinated capital instruments (Tier 2, AT1) will remain volatile in the near-term and their valuations relative to Senior Unsecured bonds are not so appealing at this juncture. As such, we feel comfortable with our High Conviction Theme on DM Financials but focus exclusively on Banks' Senior Unsecured debt. When comparing Financial to Non-Financial corporate bonds, the credit spread ratio remains appealing, despite having tightened over the last quarter, supporting our preference for Financials.

Financial bonds still offer value relative to Non-Financials



Source: Bloomberg, HSBC Private Banking as at 6 September 2023.
Past performance is not a reliable indicator of the future performance

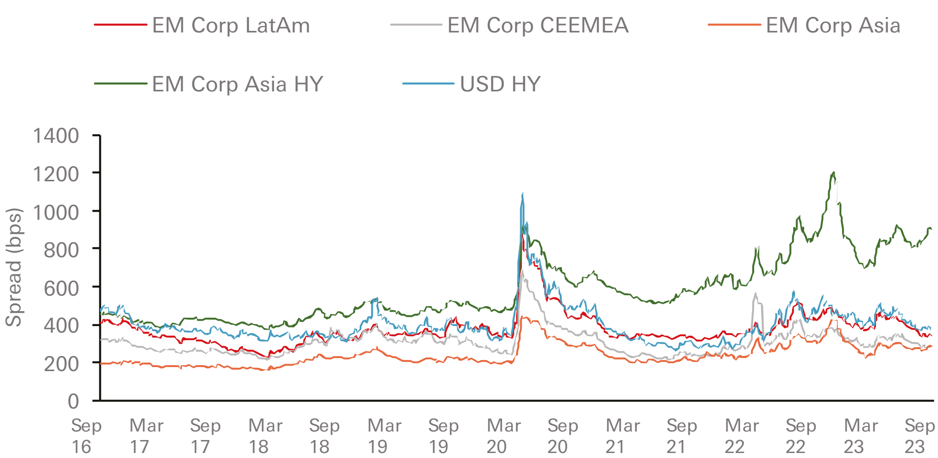
Emerging Markets – We trim our exposure by downgrading Chinese Corporate Offshore bonds to a neutral stance amid a fading economic recovery

Higher US Treasury yields and the fading recovery in China have weakened investor sentiment towards EM debt, which has translated into negative fund flow dynamics over the past few weeks, with EM Hard Currency bond funds suffering the largest outflows. In addition, there is renewed pressure on the property market, after the 3rd largest private developer by sales missed a coupon payment on two of its USD bonds. Its potential default has had a negative spill over effect across the broader Chinese housing market but also for the shadow banking sector. As a result, we maintain our preference for Asian IG corporate bonds, mostly financials and avoid Chinese property developers. We also favour Indonesian quasi-sovereign IG, Chinese Technology and South Korean IG credits.

Nevertheless, the performance of EM corporate debt in Hard Currencies has been stable and is aligned with Global IG. On average, EM corporate bonds have a 7.7% yield, a 4-year duration and an IG rating of BBB. Their high carry, diversification across sectors & countries and stable credit fundamentals means we are comfortable retaining a modest overweight stance, with a focus on quality corporate issuers within Asia, LatAm and GCC.

While EM local debt has been quite resilient, its diminishing carry appeal versus US Treasuries makes us comfortable with a neutral stance, but selectively so. While monetary policy easing has started in LatAm, with a 50bp cut by Brazil in August and 100bp rate cut by Chile in July, much deeper cuts are now already priced in to their forward yield curves. As such, there is little value in domestic bonds ahead of further policy rate cuts.

EM Corporate bonds in Hard Currencies continue to offer interesting carry opportunities



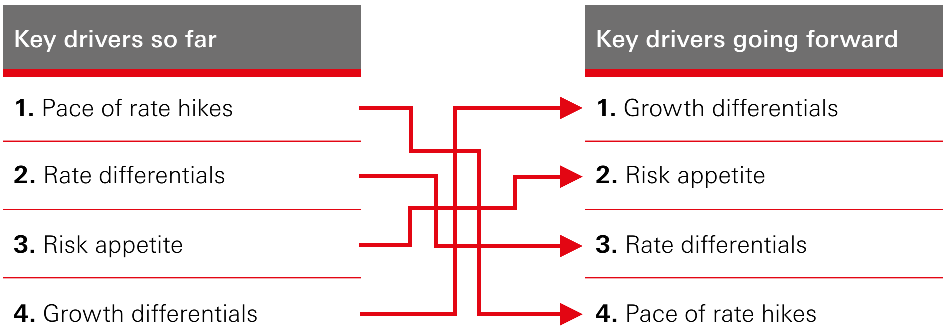
Source: Bloomberg, HSBC Private Banking as at 6 September 2023.
Past performance is not a reliable indicator of the future performance

Currencies and Commodities

After a sharp fall in 2022, USD performance has been more mixed in 2023. USD fell early in the year but rebounded somewhat lately, due to the US dollar's yield advantage and mixed global risk appetite. As the rate hiking cycle in the West is now almost behind us and central banks give FX markets less direction, the focus should instead turn more to growth differentials. Given the US economy's relative outperformance, we think USD weakness is now behind us, and we recently moved to a neutral USD view, against EUR and GBP. USD may see some gradual further appreciation after consolidating recent gains, thanks to that growth differential, though the mild risk-on environment should cap the extent of USD's upward potential. In EM, our bullish calls include INR, BRL and MXN.

With most of the tightening cycle behind us, cyclical factors will be key in our view, especially, the growth differentials with the US. The risk environment remains essential too, but yield differentials take a step back for now, as drivers of currency performance. As we move into 2024, markets will start to anticipate rate cuts, and central banks could be back in the drivers' seat, but for now, the key drivers in our view are shown in the chart below.

The changing drivers of currency markets



Source: HSBC Global Private Banking as at 6 September 2023.

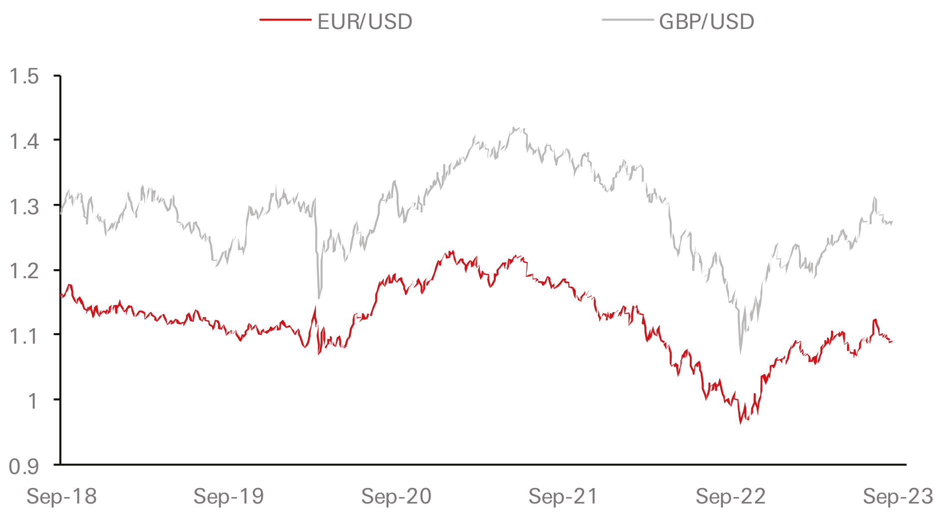
In the current market context, we expect the US dollar to consolidate recent gains first, with the potential for some mild and gradual upside from here. The growth picture looks better than in most G10 countries, but a soft-landing scenario should boost risk appetite and limit the dollar's upward potential. Although US yields remain relatively high, opportunities look greater in the EM space. For instance, we see opportunities emerging in India, where the strong manufacturing sector and large equity inflows continue to support the domestic economy and INR demand, despite a small yield disadvantage. We also see opportunities in Brazil and Mexico helped by resilient domestic figures and large yield advantages versus other currencies. Mexico could also benefit from the US strong growth as a neighbouring country. Therefore, we are constructive on INR, BRL and MXN, and note that these calls are in line with our bullish equity market stance in these countries.

RMB took a hit lately and we maintain our neutral view. China's monetary policy remains unsupportive for the currency as it maintains a yield disadvantage versus the US dollar. However, policy stimulus to support Chinese activity, and resilient global risk appetite should put a floor under RMB in the medium to long term. We are more cautious on TRY where it will take time to reach monetary and financial stability, although policy seems to be going to the right direction.

In G10, the degree of divergence in growth momentum of our multi-speed global economy will be key in determining the extent of further USD strength. This applies to EUR and GBP, and also to the other G10 currencies. We believe that AUD could trade higher once China shows signs of improvement, but for now, we see AUD trading sideways. On JPY, although further intervention from the Bank of Japan will likely trigger upward pressure on the currency, we do not expect any uptrend to persist meaningfully, hence, our neutral view.

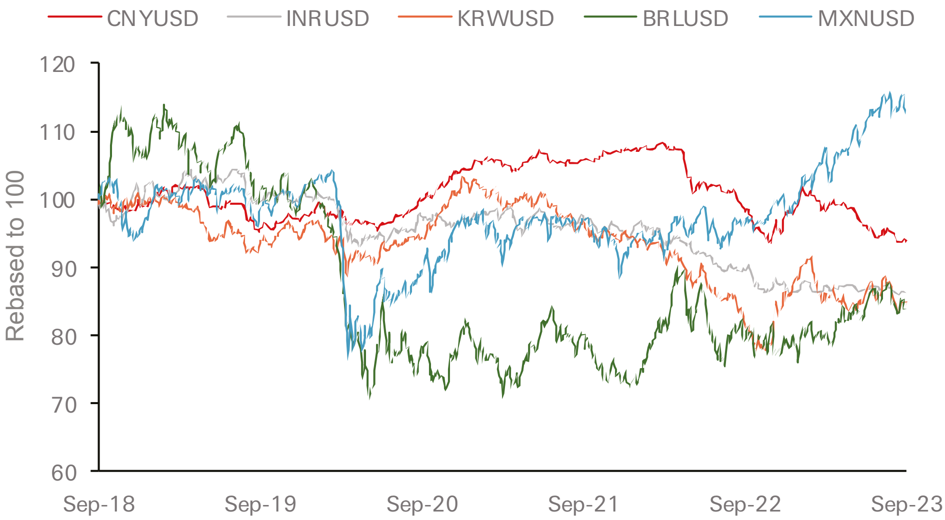
Precious metals should remain undermined by the mixed risk appetite, as well as the absence of yield amid a global high yield regime. Falling inflation and higher real yields are also negatives for gold. Meanwhile, silver demand could rebound eventually with China's manufacturing sector, but this may take some time. We thus opt for a neutral view on gold and silver, which is in line with the stable to slightly stronger USD. As for oil, the risk-on environment and supply shortage have helped fuel the recent rebound in prices. But we expect the market to stabilise in the medium term and hence hold a neutral view.

ECB and BoE rate hikes helped EUR and GBP rebound but growth challenges have become a headwind



Source: Bloomberg, HSBC Global Private Banking as at 6 September 2023.
Past performance is not a reliable indicator of future performance.

Latin American currencies have been strong, while in Asia, we think INR has the potential to rebound



Source: Bloomberg, HSBC Global Private Banking as at 6 September 2023.
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Hedge Funds

Hedge fund investors have again been the recipients of positive returns in the year to date, building on the moderate gains they achieved during 2022. While hedge fund performance lagged that of global equity markets so far in 2023, the equity rally has happened in spite of the jump in the future rate path. So managers will continue to have plenty of opportunity to judge the fairness of these moves and exploit relative value opportunities. We like Discretionary Macro, Equity Market Neutral, Equity Long/Short with low net approaches, Structured Credit, Multi-Strategy and Multi-PM approaches.

A closer look at the performance behaviour of multi-strategy hedge fund solutions during 2023 reveals a moderation of returns from the risk mitigating and diversifying strategies which served portfolios so well in 2022. These include discretionary macro managers and trend-followers (CTAs).

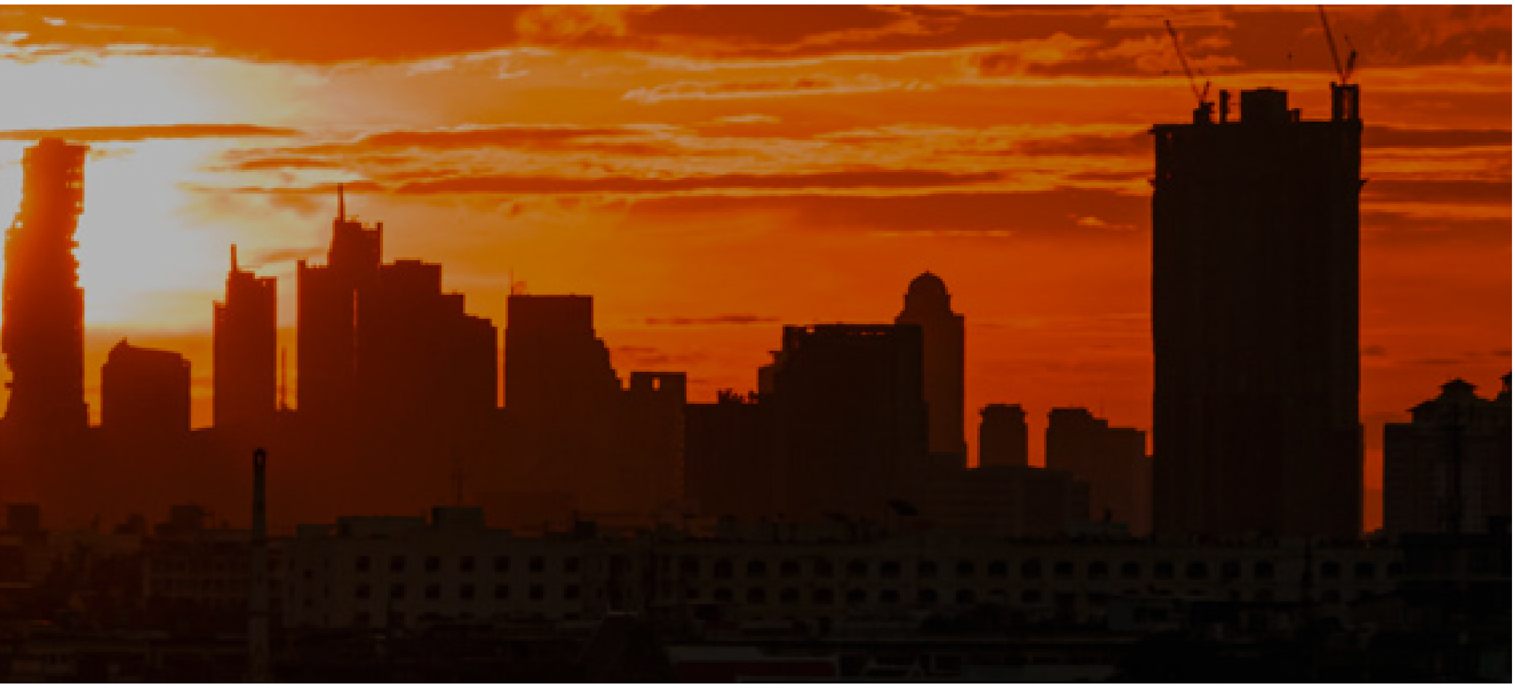
The typical positioning in equity markets by discretionary macro managers has been and remains rather cautious on risk assets. Many managers expect the lagged effects of higher interest rates and quantitative tightening in the US to impact economic activity and earnings, which isn't necessarily priced into current equity valuations.

Since the tumultuous days earlier in the year, CTAs (trend-followers) have been steadily generating performance from short fixed income positioning, as rates have continued higher. They have also been short certain commodities as the global economy has materially slowed and earlier in the quarter were long the US Dollar, reflecting a world still very much in the throes of uncertainty. They are therefore very much performing a role of a source of diversified alpha for portfolios.

Given that market dynamics continue to exhibit elevated fixed income volatility, macro-economic and geo-political uncertainty and restrictive monetary policy, we still advocate a healthy allocation to such strategies that provided meaningful alpha and portfolio diversification last year. Our positive outlook for the coming quarters for discretionary macro managers is therefore maintained.

Similarly, for systematic strategies we maintain our neutral outlook on managed futures allocations. For equity market neutral strategies our mildly overweight view is supported by reasonable levels of dispersion across equity markets, an expectation of an uplift in volatility as we head towards the end of 2023 and our observation that the strategy benefits from an uplift in short rebate returns.

Equity long/short strategies have so far in 2023 benefited from rising markets in the US and Europe and some healthy idiosyncratic movements in individual equities. Alpha from the long side has been confined to a fairly narrow sector defined opportunity set however opportunities from short positioning from a wider set of strategies have availed themselves. Given our forecast market environment for risk assets over the coming 6 months we retain a mildly overweight forecast for low net approaches. We have upgraded our outlook for variable net strategies to neutral as the stock picking environment continues to offer opportunities. We adjusted down our outlook for Asia to neutral from mildly overweight despite supportive valuations due to policy dependent markets and weaker sentiment.

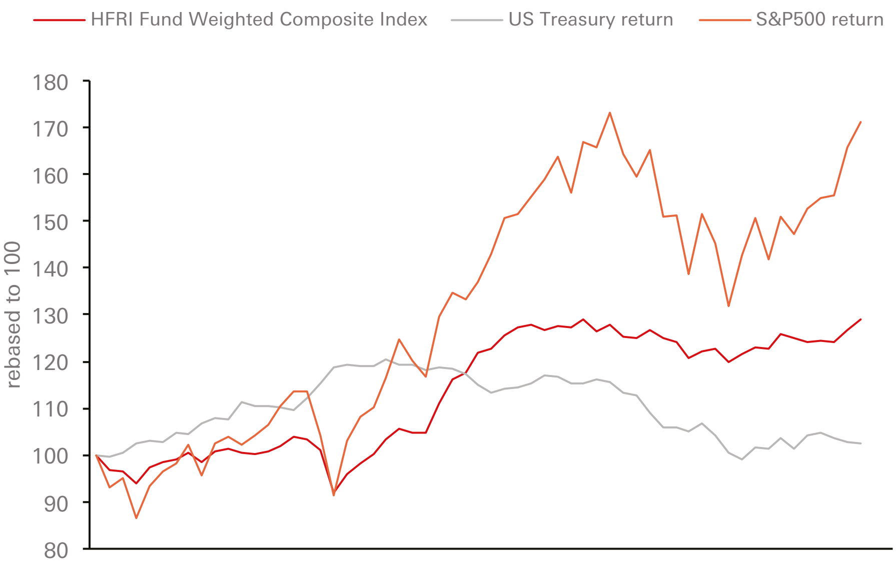


We maintain our outlook at neutral for event driven. The fact that spreads on announced merger and acquisition deals are near cyclical wides reflects, amongst other things, regulatory uncertainty. Alongside this, activism engagement levels remain healthy, supported by corporates' need to support their bottom lines.

Credit long/short managers are looking forward to the wider opportunity set produced by the arrival of a default cycle which should be upon us by the beginning of next year. Portfolio teams specialising in distressed situations are looking forward to more opportunities, as they have been relatively starved of them during the previous extended period of free money. We remain neutral on the outlook for credit long/short and distressed, and mildly overweight on structured credit.

We maintain our positive view on the operating environment for Multi-Strat and Multi-PM managers looking through to the end of 2023. Year to date we have witnessed prominence in terms of performance from both equity and commodity strategies. We would expect to see stronger return contributions from both fixed income and macro allocations during the remainder of the year.

Hedge funds continue to play their role of diversifier, especially during periods of market weakness



Source: Bloomberg, HSBC Global Private Banking as at 6 September 2023.
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Private Markets

There have been few major surprises during 2023 for the industry but taking a deeper look, this year has painted a more complex picture. We continue to see strong fundraising competition, but transaction sizes are getting smaller, and General Partners (GPs) are holding on to assets and waiting for more favourable selling conditions.

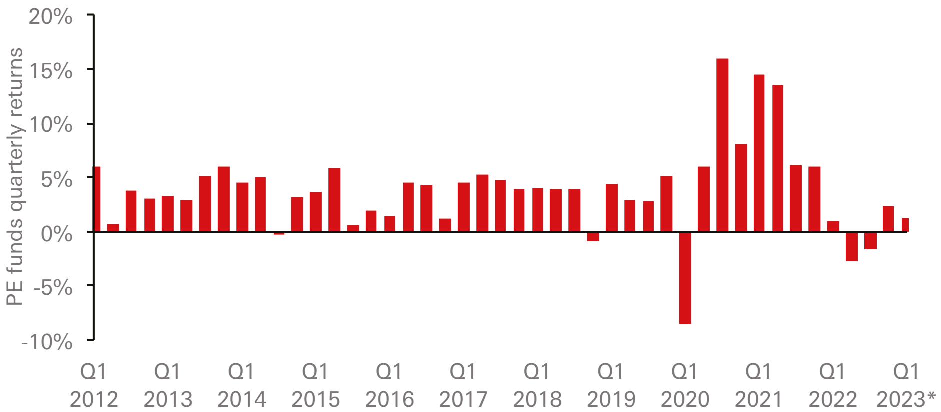
Global fundraising remains competitive, but is down compared to last year. In some regions, though, including in Europe, there is a suggestion that fundraising could be on par with and could even exceed 2022 levels. In general, we have seen a number of GPs limit the size of upcoming Funds due to smaller near-term opportunity sets and to position themselves for the highest quality of returns for their investors.

PE firms remain cautious in their deal making and have held on to their portfolio companies for longer, reducing transactions between sponsors. However, in the US, we have seen PE GPs adapt to a rising rate environment by seeking smaller deal sizes or finding alternative sources of capital to fill gaps.

Certain private market sub-segments are robust, such as pockets of technology or healthcare managed by specifically sought after GPs that have a proven ability to invest and profit from more complex situations. Within tech, our preference is for mission critical software-focused companies, as software tends to be more resilient than hardware during an economic slowdown. Within the global healthcare space, buyouts in Q2 2023 reached $26 billion after a lacklustre first-quarter result of $8 billion. Biopharma and Asia-Pacific posted the greatest gains in terms of deal activity. Secondary opportunities continue to grow and evolve and have shown a certain resilience given increasing demand for liquidity from institutional clients and GPs alike. We believe secondary investments can play an integral role in building well-diversified exposure to private markets asset classes. Macroeconomic factors have widened bid-ask spreads, and there is a compelling opportunity for buyers to acquire fundamentally sound assets at a discount from motivated sellers. Over the longer term, as private markets continue to grow and more large-scale private equity funds mature, we expect to see secondary market activity increase further. 2022 was the second busiest year on record in the secondary market, with $108 billion of transactions closing. The market is experiencing a compound annual growth rate (CAGR) of 17% in transaction volume between 2013 and 2022.

Global PE fund performance for Q4 2022 came in at 2.3% according to Pitchbook, reversing recent negative performance of -1.6% and -2.7% respectively in both Q3 2022 and Q2 2022. When looking at the past three years, US buyout funds have still experienced a cumulative gain of 81.4% while the S&P 500 Index returned just 25.6% during the same period.

PE returns have picked up recently and compare well to S&P500 returns for the past three years



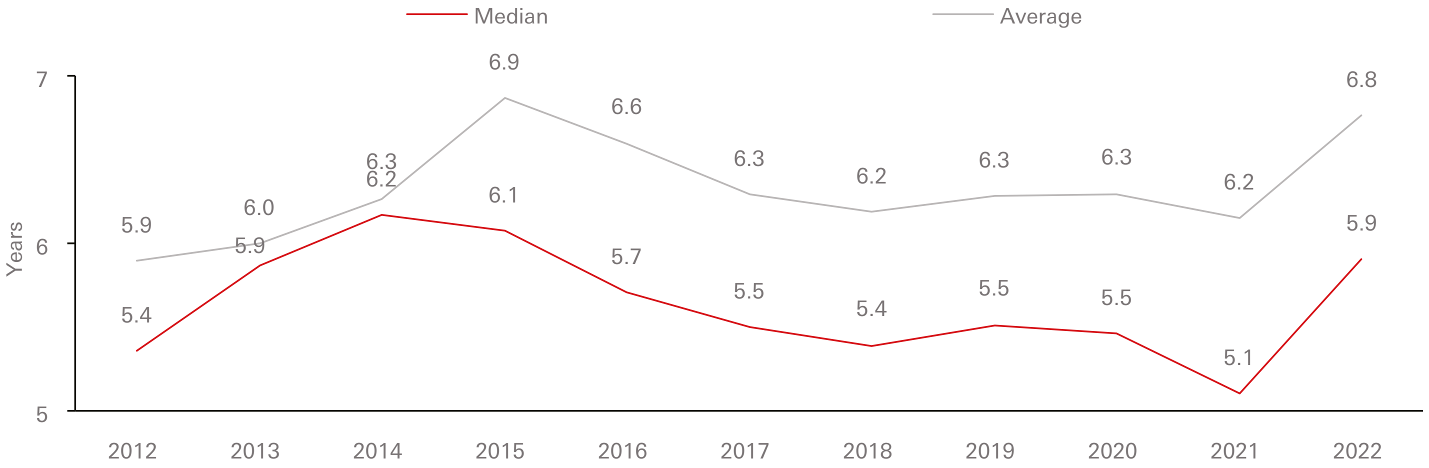
Source: HSBC Global Private Banking as at 6 September 2023.
(*) Note: Q1 2023 data is preliminary. Past performance is not a reliable indicator of future performance

We continue to see a more muted exit environment both in value and count, resulting in longer holding periods and lower distributions as GPs wait for more favourable selling conditions and seek to build larger, higher-multiple portfolio companies through add-on acquisitions. For example, in the US we are seeing an average holding period for PE buyouts of 6.8 years in 2022 which is a 10% increase compared to 2021.

Global geopolitical tensions remain elevated across the globe, and we are seeing an array of new laws and regulatory proposals. For example, on August 9, 2023, President Biden issued an Executive Order that restricts US persons from making semiconductors, microelectronics, quantum information technologies, and artificial intelligence investments in China, Hong Kong and Macau. This would make deal making more challenging, resulting in less investment opportunities if it were to hold back some technological developments.

In summary, return disparities have widened during the current market slowdown and investors need to continue to seek top quartile managers that can take action to protect existing investments and take advantage of market dislocations. Investing in PE requires a long-term mind-set and timing the market is not advisable in our view. We think that where possible, a PE strategy is well served by sticking to a disciplined annual commitment plan and diversification of vintages.

The holding period for US PE Buyouts has increased



Source: HSBC Global Private Banking as at 6 September 2023.

Real Estate

As macro variables continue to drive global market sentiment, real estate continues its yield-driven correction. A narrowing of debt availability, increased borrowing rates, and moderating tenant demand have put downward pressure on asset prices. Appraisal values are moving closer to levels which would resume buyer and seller price alignment, but more value declines are necessary to support a recovery in investment activity.

Property capital values continue to decline across developed property markets as property yields rebase to reflect higher interest rates. In the 12 months to Q2 2023, property values have fallen between 20% (the UK) and 5% (Asia). An outlier is Japan where capital growth has been positive due to the Bank of Japan's very accommodative monetary policy.

So far, steadily rising rental income has partially cushioned values from the effects of rising property yields. This has been most apparent in the logistics and residential sectors, which have experienced sharp rental growth in many markets. Even for structurally challenged sectors, such as offices and retail, the appeal of best-in-class space has supported overall rental growth.

However, higher interest rates are now impacting occupier appetite to borrow to fund expansion, which is leading to reduced occupier demand and rising vacancy rates across sectors, which should impact rental income going forward. However, property fundamentals are being supported by a drop in the amount of construction activity as higher input costs for materials, labour and debt have impacted the profitability of projects, leading many to be delayed.

The leasing slowdown has been most noticeable for the logistics sector as the amount of take-up has fallen back to pre-pandemic levels. This highlights a scaling back of expansion plans following the exceptional level of demand of the previous three years. Online sales have moderated, though remain well ahead of the 2019 level. Some occupiers over-expanded during the pandemic and have therefore scaled back leasing new space. Still, underpinned by elevated re-leasing spreads (the difference between in-place and market rents) and high occupancy, the return on logistic assets should remain relatively attractive.

The office sector has the most challenging backdrop as the cyclical economic pressures have come at a time when vacancy rates were already elevated. Many occupiers are shifting towards hybrid working, which often means less office space is required.

Whilst the impact of working from home varies by country and city (e.g. sunbelt cities in the US have higher office utilisation than coastal cities), some impact on leasing demand is expected everywhere.

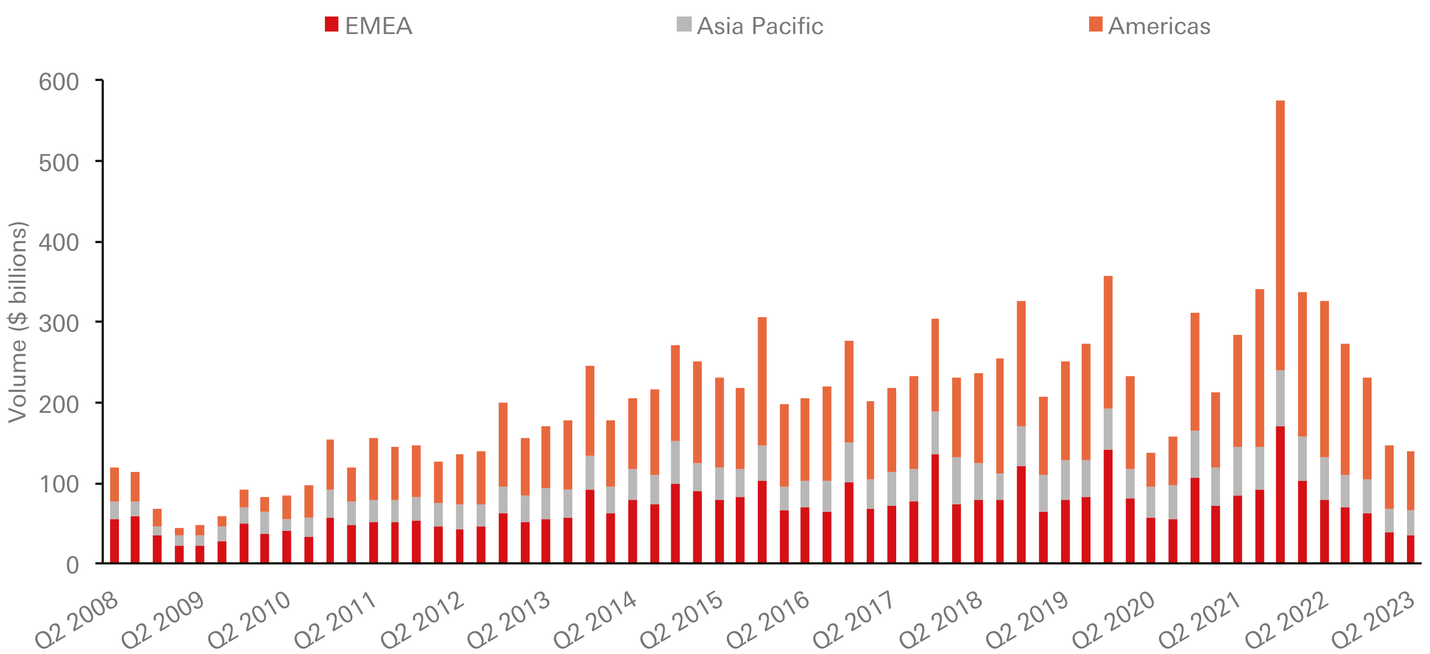
Still, offices remain central to productive work, and even businesses central to the remote working shift - such as Zoom and Google – have begun instructing employees to return to the office some of the time. Occupiers' focus on high quality, environmentally sustainable offices in the best locations is driving a bifurcation in rental performance (and capital values) between prime and average buildings.

Though retail property is exposed to the widespread pressures on real household incomes, parts of the market have been resilient. Examples include the better-quality grocery anchored retail parks, for example in the US, as well as prime retail in locations which are benefitting from the tourism rebound, such as Tokyo.

Despite the slowing jobs market, fundamentals for rental apartments and housing have also been resilient. Higher interest rates have pushed homeownership out of reach for many, whilst the trend to remote working has triggered a long term pick up in household formation as renters share with fewer people to ensure space for an office. New construction is limited in most markets due to the rising cost of construction (materials, labour and financing), as well as planning constraints.

The future path of inflation and interest rates will have a large influence of property valuations. Although inflation has dropped, we expect the Fed to only start cutting in Q2 2024, and further value declines are thus likely in the coming 6-12 months. That said, we believe the value correction is over halfway, with Europe and North America further advanced than countries in Asia-Pacific. Once the repricing is done, returns should be underpinned by higher income returns, modest income growth, and the potential for some property yield compression.

Global investment volumes have fallen back considerably



Source: Real Capital Analytics, HSBC Global Private Banking as at 6 September 2023.

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 in-vestment may include, but are not limited to:

Credit risk
Investor is subject to the credit risk of the issuer. Investor is also sub-ject 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 invest-ment 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 spe-cial 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) de-fault risk rises.

Risks associated with subordinated debentures, perpetual deben-tures, 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 pay-ments may be variable, deferred or cancelled. Investors may face uncertainties over when and how much they can receive such payments.
- Contingent convertible or bail-in debentures - Contingent con-vertible and bail-in debentures are hybrid debt-equity instru-ments that may be written off or converted to common stock on the occurrence of a trigger event. Contingent convertible deben-tures 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) statu-tory mechanisms (i.e. statutory bail-in) whereby a national resolu-tion authority writes down or converts debentures under speci-fied conditions to common stock. Bail-in debentures generally absorb losses at the point of non viability. These features can in-troduce notable risks to investors who may lose all their invested principal.

Contingent convertible securities (CoCos) or bail-in debentures are highly complex, high risk hybrid capital instruments with unusual loss-absorbency features written into their contractual terms.

Investors should note that their capital is at risk and they may lose some or all of their capital.

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, liquidi-ty and market conditions may have a negative effect on the prices, mark-to-market valuations and your overall investment.

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 Govern-ment 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.

Alternative Investments
Hedge Fund - Please note Hedge Funds often engage in leveraging and other speculative investment practices that may increase the risk of investment loss. They can also be highly illiquid, are not required to provide periodic pricing or valuation information to investors, and may involve complex tax structures and delays in distributing im-portant information. Alternative investments are often not subject to the same regulatory requirements as, say, mutual funds, and often charge high fees that may potentially offset trading profits when they occur.

Private Equity - Please note Private Equity is generally illiquid, involv-ing long term investments that do not display the liquid or transpar-ency characteristics often found in other investments (e.g. Listed securities). It can take time for money to be invested (cash drag) and for investments to produce returns after initial losses.

Risk disclosure on Emerging Markets
Investment in emerging markets may involve certain, additional risks which may not be typically associated with investing in more estab-lished 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 compa-ny 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 develop-ments 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. Custom-ers could face substantial margin calls and therefore liquidity prob-lems if the relevant price of the currency goes against them.

The leverage of a product can work against you and losses can exceed those of a direct investment. If the market value of a portfolio falls by a certain amount, this could result in a situation where the value of collateral no longer covers all outstanding loan amounts. This means that investors might have to respond promptly to margin calls. If a portfolio's return is lower than its financing cost then leverage would reduce a portfolio's overall performance and even generate a negative return.

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.

Environmental, Social and Governance ("ESG") Customer Disclosure
In broad terms "sustainable investments" include investment ap-proaches or instruments which consider environmental, social, gov-ernance and/or other sustainability factors to varying degrees. Certain instruments we classify as sustainable may be in the process of changing to deliver improved sustainability outcomes.

There is no guarantee that sustainable investments will produce re-turns 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. Sustainable investment and sustainability impact measurement criteria are (a) highly subjective and (b) may vary significantly across and with-in sectors.

HSBC may rely on measurement criteria devised and 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 measure-ment criteria of an investment will be aligned with any particular in-vestor'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 regulatory frame-works are being developed which will affect how sustainable invest-ments can be categorised or labelled. An investment which is consid-ered to fulfil sustainable criteria today may not meet those criteria at some point in the future.

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