GIC Monthly View Summary August 2024

25 July 2024

Sticking to our strategy as markets adapt to US politics

- Markets saw some interesting moves last week, which are being labelled 'the Trump trade' as investors felt Donald Trump's election chances rose sharply after the Presidential debate and the assassination attempt. That said, we don't agree with all aspects of this trade. Moreover, the election seems quite open with Kamala Harris now likely being the Democrats' nominee.
- We think the recent equity market rotation is due to profit taking in tech and short covering in small caps rather than a change in fundamentals. Broadening sector exposure remains one of our key priorities but we would not rotate into low quality stocks. As sector rotation may remain erratic and volatility may be somewhat higher in coming months, strategies that provide some downside protection can be useful. But good earnings momentum and the prospect of rate cuts continue to support our equity market overweight.
- On the fixed income side, the concern of a potential rise in deficits under Mr. Trump is for now more than offset by the continued gradual decline in inflation and the prospect of rate cuts. We maintain our mild overweight in quality bonds.
- As for USD, we do not think Mr. Trump can sustainably 'talk down' the dollar, which is supported by rate differentials, investment flows, resilient US growth and strong US innovation. USD should rebound after recent weakness.
- As a result of these points and the tightening polls, we stick to our current investment strategy.

Watch a summary of our latest views

Click on the image to hear from our
Global Chief Investment Officer, Willem Sels

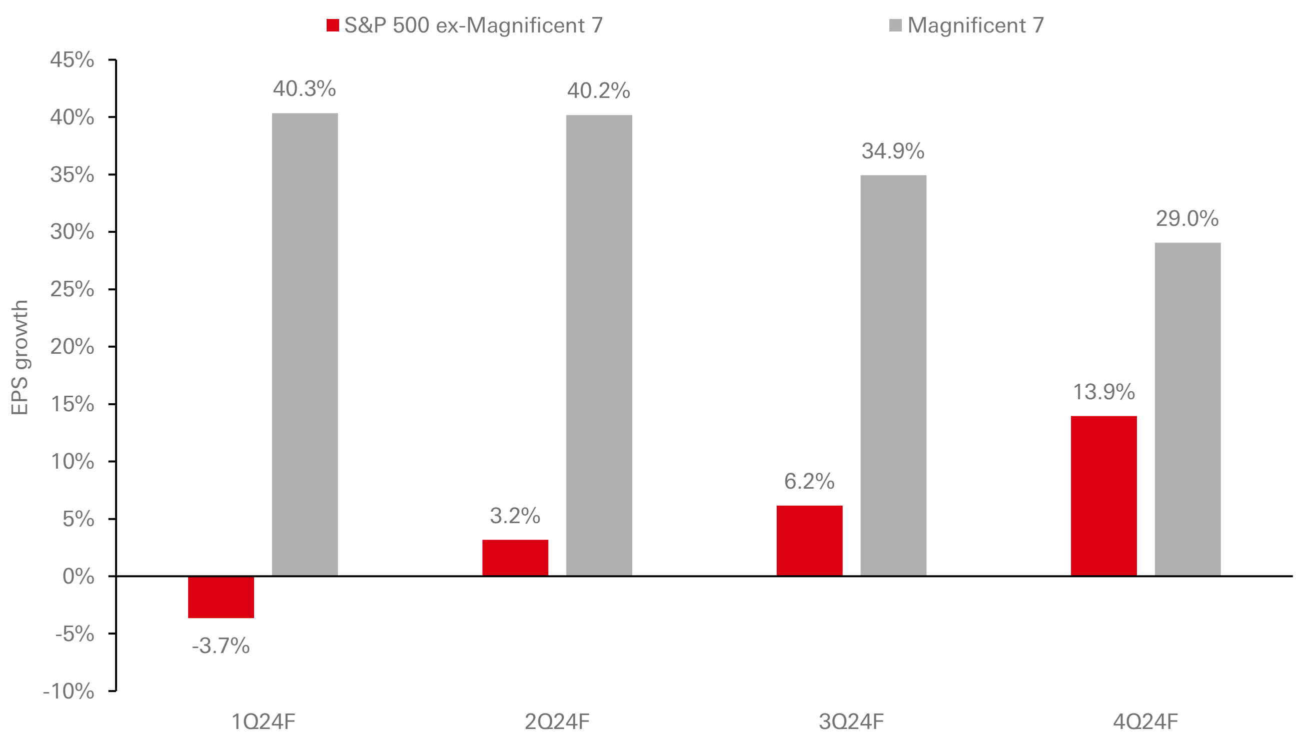
Priority #1 〉 Broadening our equity exposure across geographies and sectors

- Even amid ongoing geopolitical uncertainties around the US elections, global PMIs are improving. So, we stick to our strategy and continue to broaden our opportunity set across geographies and sectors to find attractively priced stocks and maintain our preference for quality.
- We keep an eye on the recent events in the US around the elections but continue to base our decisions on earnings, rates and growth fundamentals, which remain supportive.
- Tech sector earnings are underpinned by cyclical and structural growth, but as valuations are rich, active diversification is important.

Our focus:

- In developed markets, the US remains our principal overweight with a balanced sector approach; we also see opportunities (quality and large caps) in Europe and Asia; we maintain our mild overweight positions in the UK and Japan.
- Across developed markets, we maintain our positive view on US Financials, Consumer Discretionary and Healthcare.

As earnings momentum outside of the Mag-7 improves, we broaden our exposure but not regardless of the company's fundamental quality



Source: LSEG, I/B/E/S, HSBC Global Private Banking as at 23 July 2024. Forecasts are subject to change

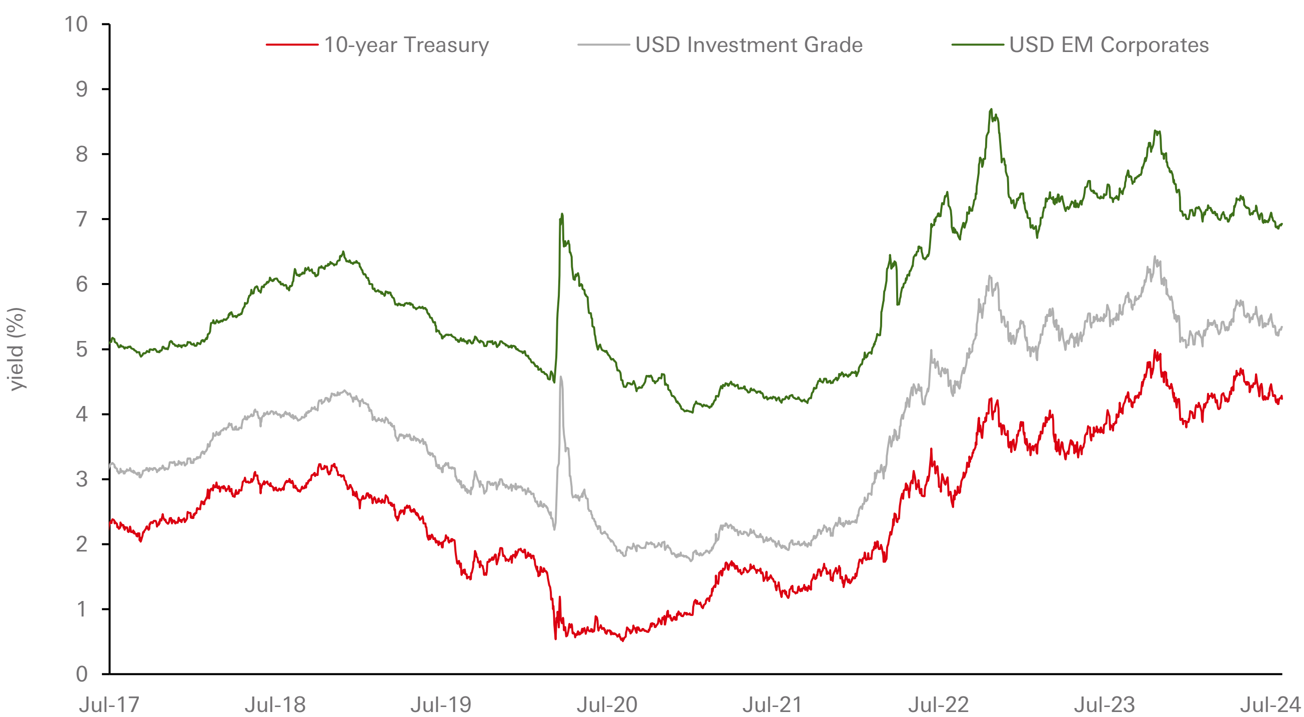
Priority #2 〉 Putting cash to work in bonds and multi-asset strategies

- Ahead of the first US rate cut, we want to lock in current attractive bond yields before they come down. The concern around mixed US data and a potential rise in deficits under Mr. Trump (which might be true for both the candidates) for now is more than offset by the continued gradual decline in inflation and the prospect of rate cuts, supporting bond markets.
- Bonds in diversified portfolios can help generate a stable income stream while providing diversification benefits.
- We also find broadening opportunities in global equities and private assets. The improved global outlook argues in favour of adding some risk, so we think investors should move out of cash into both bonds and multi-asset strategies.

Our focus:

- In the bond market, we favour quality and like Treasuries and investment grade over high yield. We also see select opportunities in quality emerging market credits.
- With the major central banks now starting their rate cutting cycles, we reiterate to lock in the historically high yields.
- In our multi-asset portfolios, we favour broad exposure across geographies, asset classes (including alternatives, where appropriate) and thematic investments (detailed in our Q3 2024 Investment Outlook brochure).

Attractive yields in bond markets allow investors to build a solid income stream in portfolios



Source: Bloomberg, HSBC Global Private Banking as at 25 July 2024. Past performance is not a reliable indicator of future performance.

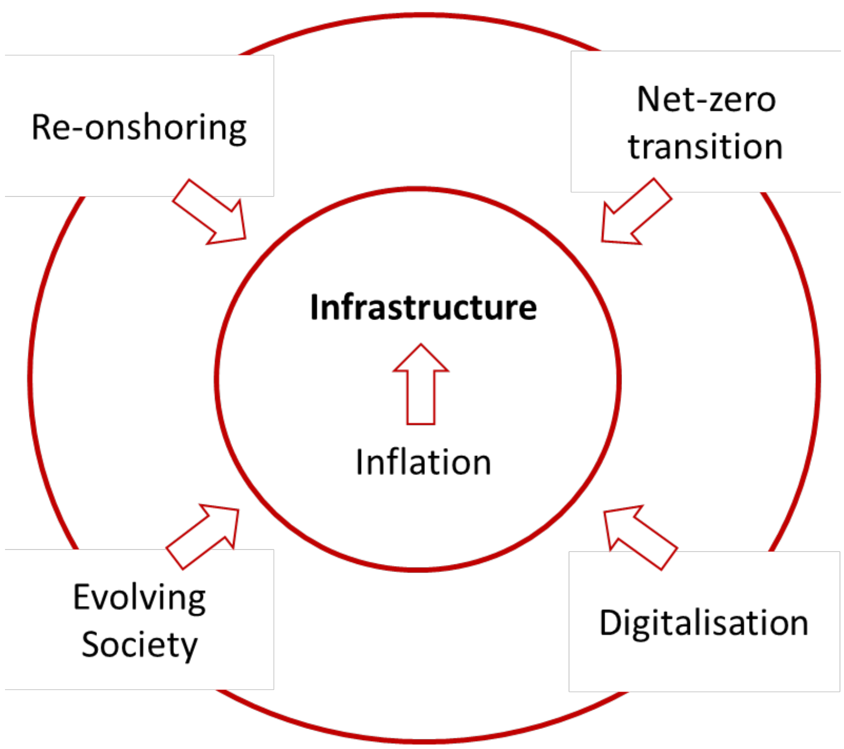
Priority #3 〉 Tapping into private assets and infrastructure

- Private assets can broaden the opportunity set, giving access to companies and activities that are not represented in public markets.
- As more companies are staying private for longer and more investors enter the market, the depth, diversity, liquidity and ways to access the market continue to grow.
- Strong demand for infrastructure is driven by structural global trends of decarbonisation, digitalisation and re-onshoring, while its returns are often linked to inflation – an attractive feature to include in portfolios.
- In both private credit and infrastructure, the need for private capital puts investors in a powerful position to negotiate good conditions.

Our focus:

- We strategically allocate to private credit, private equity and infrastructure.
- Manager selection is key as returns and access to good opportunities can vary significantly between managers.
- Infrastructure returns are often inflation-linked, which can be an attractive characteristic in a high-inflation environment.

Infrastructure is benefiting from key structural forces



Source: HSBC Global Private Banking, July 2024.

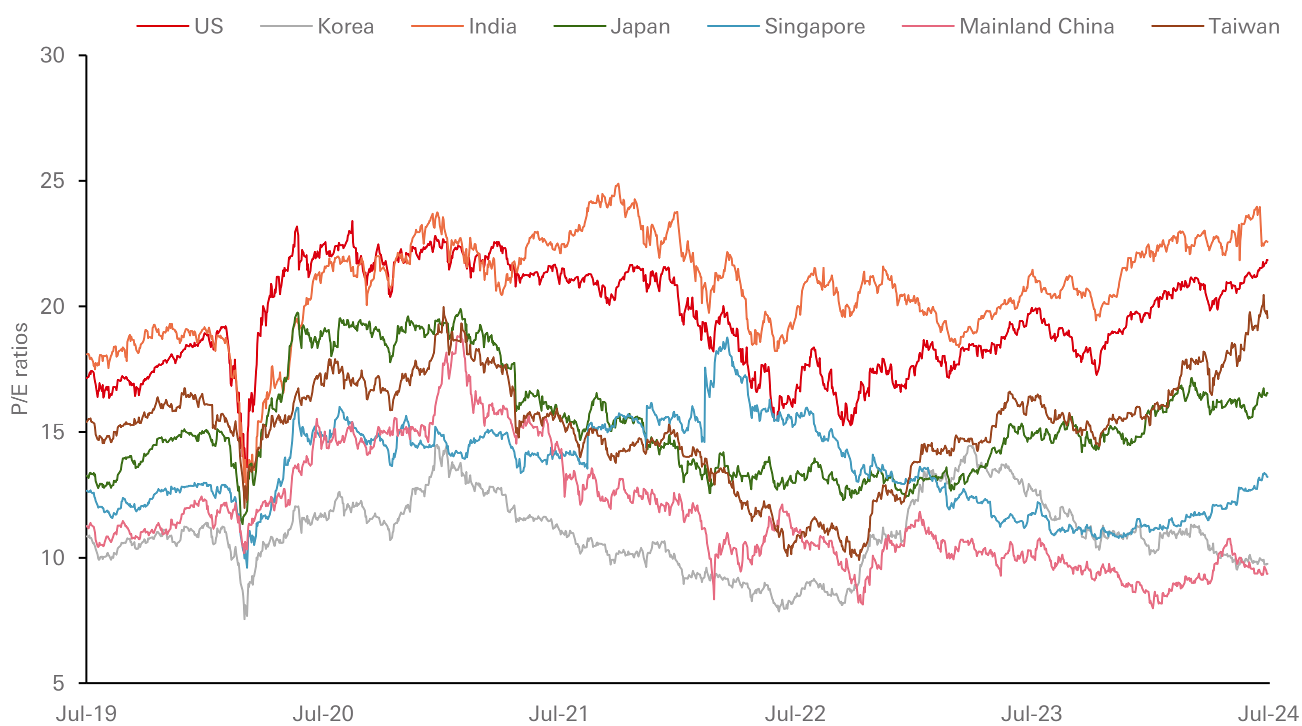
Priority #4 〉 Unlocking the best opportunities in Asia

- Strategic competition with China will continue regardless of who wins the US elections, but China's progress on various key technologies and increased integration with the rest of Asia somewhat reduce the vulnerabilities. For now, we remain neutral on Chinese stocks and wait for more effective policy stimulus or the reacceleration of growth.
- Asia's economic and earnings growth continue to far exceed the global average. We maintain our overweight positions in Japan, India and South Korea, where we see the best opportunities to tap into Asia's structural growth themes.

Our focus:

- We favour corporate governance reform winners in Japan, China and South Korea.
- We identify Asian industry leaders who navigate geopolitical uncertainty and benefit from friend-shoring, supply chain reorientation and upgrading. Our theme of Reshaping Asia's Supply Chain remains very topical, and the recent rally of Taiwanese stocks shows the importance of high-performance semiconductors and regional integration.
- We stay bullish on Indian stocks because of its non-aligned position with the US elections and strong domestic demand.
- We capture attractive income opportunities from Asian investment grade bonds amid rate cut expectations from Asian central banks in H2 2024.

Asian integration has benefited Singapore and Taiwan lately. India should benefit from reforms



Source: Bloomberg, HSBC Global Private Banking as at 24 July 2024.

Risk Disclosures

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

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

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

- Capital growth risk - some high-yield bond funds may have fees and/ or dividends paid out of capital. As a result, the capital that the fund has available for investment in the future and capital growth may be reduced; and
- Dividend distributions - some high-yield bond funds may not distribute dividends, but instead reinvest the dividends into the fund or alternatively, the investment manager may have discretion on whether or not to make any distribution out of income and/ or capital of the fund. Also, a high distribution yield does not imply a positive or high return on the total investment.
- Vulnerability to economic cycles - during economic downturns such instruments may typically fall more in value than investment grade bonds as (i) investors become more risk averse and (ii) default risk rises.

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

- Subordinated debentures - subordinated debentures will bear higher risks than holders of senior debentures of the issuer due to a lower priority of claim in the event of the issuer's liquidation.
- Perpetual debentures - perpetual debentures often are callable, do not have maturity dates and are subordinated. Investors may incur reinvestment and subordination risks. Investors may lose all their invested principal in certain circumstances. Interest payments may be variable, deferred or cancelled. Investors may face uncertainties over when and how much they can receive such payments.
- Contingent convertible or bail-in debentures - Contingent convertible and bail-in debentures are hybrid debt-equity instruments that may be written off or converted to common stock on the occurrence of a trigger event. Contingent convertible debentures refer to debentures that contain a clause requiring them to be written off or converted to common stock on the occurrence of a trigger event. These debentures generally absorb losses while the issuer remains a going concern (i.e. in advance of the point of non-viability). "Bail-in" generally refers to (a) contractual mechanisms (i.e. contractual bail-in) under which debentures contain a clause requiring them to be written off or converted to common stock on the occurrence of a trigger event, or (b) statutory mechanisms (i.e. statutory bail-in) whereby a national resolution authority writes down or converts debentures under specified conditions to common stock. Bail-in debentures generally absorb losses at the point of non-viability. These features can introduce notable risks to investors who may lose all their invested principal.

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

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 important 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, involving long term investments that do not display the liquid or transparency 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 established economies and/or securities markets. Such risks include (a) the risk of nationalization or expropriation of assets; (b) economic and political uncertainty; (c) less liquidity in so far of securities markets; (d) fluctuations in currency exchange rate; (e) higher rates of inflation; (f) less oversight by a regulator of local securities market; (g) longer settlement periods in so far as securities transactions and (h) less stringent laws in so far the duties of company officers and protection of Investors.

Risk disclosure on FX Margin

The price fluctuation of FX could be substantial under certain market conditions and/or occurrence of certain events, news or developments and this could pose significant risk to the Customer.

Leveraged FX trading carry a high degree of risk and the Customer may suffer losses exceeding their initial margin funds. Market conditions may make it impossible to square/close-out FX contracts/options. Customers could face substantial margin calls and therefore liquidity problems if the relevant price of the currency goes against them.

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 recognized 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 "ESG and sustainable investing" products include investment approaches or instruments which consider environmental, social, governance and/or other sustainability factors to varying degrees. Certain instruments we classify as ESG or sustainable investing products may be in the process of changing to deliver sustainability outcomes. There is no guarantee that ESG and Sustainable investing products will produce returns similar to those which don't have any ESG or sustainable characteristics. ESG and Sustainable investing products may diverge from traditional market benchmarks. In addition, there is no standard definition of, or measurement criteria for, ESG and Sustainable investing or the effect of ESG and Sustainable investing products. ESG and Sustainable investing and related measurement criteria are (a) highly subjective and (b) may vary significantly across and within sectors.

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An investment which is considered to fulfil sustainable criteria today may not meet those criteria at some point in the future. When we allocate an HSBC ESG and Sustainable Investing (SI) classification: HSBC ESG Enhanced, HSBC Thematic or HSBC Impact (this is known as HSBC Purpose in the UK) to an investment product, this does not mean that all individual underlying holdings in the investment product or portfolio individually qualify for the classification. Similarly, when we classify an equity or fixed income under an HSBC ESG Enhanced, HSBC Thematic or HSBC Impact (this is known as HSBC Purpose in the UK) category, this does not mean that the underlying issuer's activities are fully aligned with the relevant ESG or sustainable characteristics attributable to the classification. Not all investments, portfolios or services are eligible to be classified under our ESG and SI classifications. This may be because there is insufficient information available or because a particular investment product does not meet HSBC's SI classifications criteria.

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For SAA/TAA

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