

Top Trends and
High Conviction Themes
Q3 2024

Innovation and Transformation: Trends and Themes Reshaping our World

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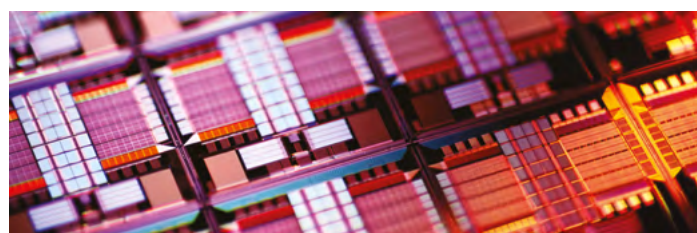
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Welcome



Willem Sels,
Global Chief
Investment Officer
May 2024

Dear client,

Many of us in the financial industry love to talk about our equity strategy, benefits of diversification and efficient portfolios. In fact, we do this at length in most of our publications, including our recently published Q3 Investment Outlook.

However, this is not the way most people think about the world. In reality we try to understand what is going on around us by connecting the dots, detecting big trends and building a narrative that helps explain how the world functions. These trends typically reach across sectors and geographies, causing equity analysts to change the way they work. Many of them now collaborate on thematics with colleagues covering different sectors or regions. This makes a lot of sense, as many companies do most of their business outside their home country, and sector classifications are blurring; so grouping stocks instead in thematic categories can sometimes be more instructive.

Real life topics of interest are bound to shape people's investment decisions and capture the imagination much more than the current state of the economic cycle

or the next interest rate decision will ever be able to do. So, it shouldn't come as a surprise that thematic investing continues to be popular, and the number of implementation choices continues to rapidly expand.

The three structural trends that we use to explain the world are the proliferation of **Disruptive Technologies**, the **Evolving Society**, and the urgent need for **Climate Action**. In our view, those three forces reinforce each other and apply in some way to all businesses. CEOs need to adapt their business models to capture both the opportunity and manage the risks related to these profound changes.

The other new reality is that we live in a world where travel and communication is fully global, but is nevertheless becoming more multipolar, with increased economic competition. Not all of this is negative, as it can help accelerate innovation. Some companies will benefit as supply chains adapt, and US legislation like the Inflation Reduction Act and the CHIPS & Science Act illustrate that governments see opportunities for growth in technology and the net-zero transition, which they want to capture.

There are several pitfalls in thematic investing, which we try to avoid. New innovative companies can be unprofitable and subject to disruption by other similar new technologies (think Betamax vs VHS). On the other hand, when looking at large companies, their exposure to a theme may only be a small part of the business which may not really move the needle. As such, we need to find the middle ground and make sure the theme is generating sufficient profits for the company. The other issue is that most themes will have a growth-style bias, and therefore be interest rate sensitive. Although we think this headwind should ease as a rate cut cycle and should start in H2 2024, it is nevertheless important to keep style and sector biases in mind to manage overall portfolio volatility.

We hope that some of our investment themes will be of interest. Even for investors who take a more traditional approach to stock analysis, we think it's important to check whether your favourite stocks are well positioned to prosper under these important global trends.



Our Thematic Investment Strategy





To find out what topics people care most about currently, we looked at some of the most commonly searched topics on the internet. In our word cloud on the next page, we only represent those that are both popular and much more commonly searched for than in the past 5 years – because both the trend and the number of searches matter.

Encouragingly, what we find is that the most popular topics are closely clustered around our five big investment trends that most of you will be familiar with.

Disruptive Technologies, Climate Action and the **Evolving Society** are clear structural trends that have not been out of the daily news. They are reflected in the huge interest in AI, automation, renewable energy, social media and the behaviour of Gen Z, for example.

Of course, those three structural trends interact and reinforce each other.

Disruptive Technologies are an important enabler for changes in our society and are one key component in the world's fight against climate change. But, our big data use also increases the need for electricity and mining for metals, which has an impact on our environment.

Many of our high conviction investment themes are therefore impacted by several of those structural forces and could arguably be classified under any of them. For example, we have moved our 'Next Gen Medicines' theme from the **Evolving Society** trend to the

Disruptive Technologies trend as the opportunities and stock behaviour are closely aligned with those of other areas of tech innovation. We don't mind these intersections between trends though, because we think that themes that are supported by several forces at once are probably to be more durable.

Our word cloud also shows that global dynamics around geopolitics, competition and supply changes remain top of mind for many people. Our 'North-American Re-Industrialisation' theme taps into the re-onshoring and nearshoring trend there. And our **Asia in the New World Order** trend looks at a number of implications as the impact on Asia is arguably even bigger. Here too, supply chains are being reshaped, with

India and ASEAN being key beneficiaries. Asian companies can be found as well under our other trends, as some of them have a leading position in areas of technology, in electric vehicle production or solar and wind, for example.

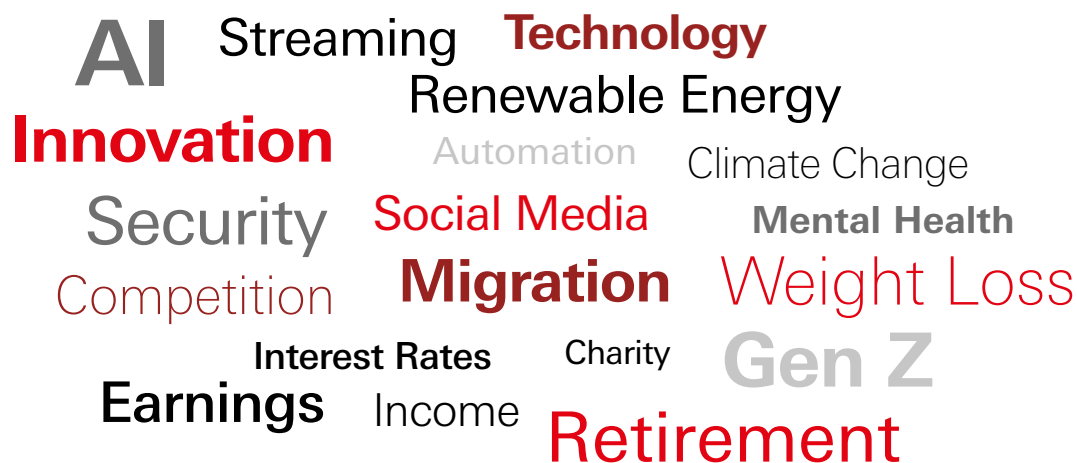
And from a shorter-term perspective, we think the current healthy stage of global growth explains why people seem to be searching less for terms like 'unemployment' or 'recession' and more for 'corporate earnings' and 'income'. That fits well with what we see in the economic data, and with our cyclical trend, which we have renamed **Riding the Earnings and Rate Cut Tailwinds**. Our 'American Resilience' theme remains in place because of the strong domestic demand. But we have also added a 'The

Magnificent Europeans' theme, which is Europe's answer to the Magnificent 7 in the US. Those European large caps are a set of companies that are leading and innovative but less focused on just the technology sector compared to their US cousins.

Both under our Asian and our cyclical trend, we include bond market themes, because thematic investing is otherwise heavily dominated by equity themes and we want to make sure portfolios remain balanced. Moreover, we reiterate our view that it's important to look at thematic satellites in conjunction with the core portfolio to ensure the overall risk is appropriate and sector and style biases are managed.

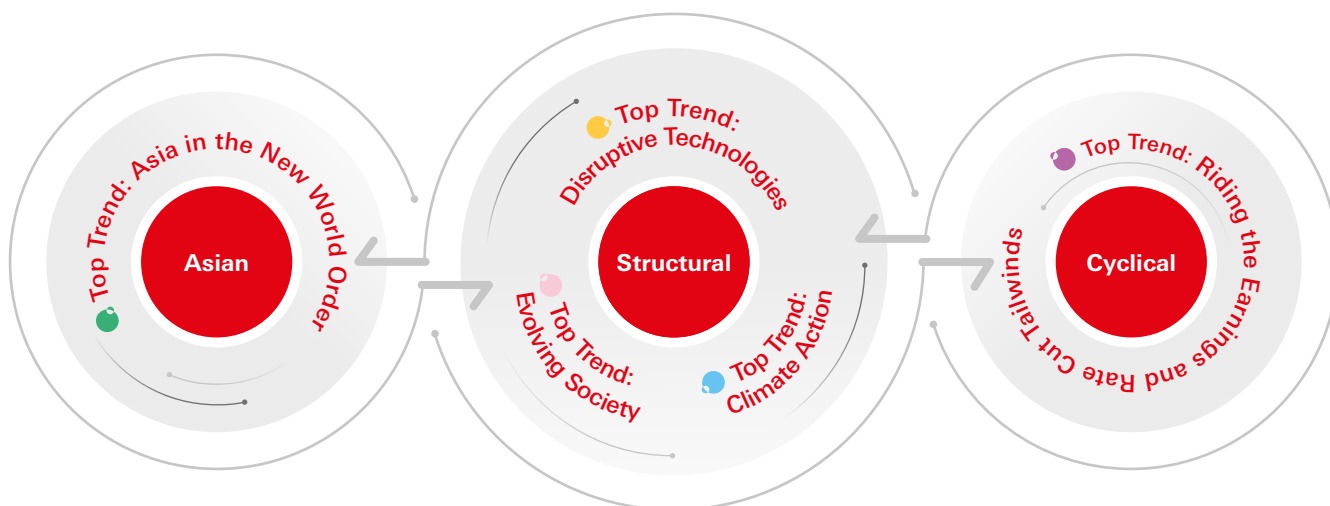


What topics are people currently searching about on the internet?



Source: Google Trends, HSBC Global Private Banking as at 31 May 2024. Terms shown represent a non-exhaustive selection of topics that are searched much more frequently currently than over the past 5 years.

Our Top Trends and High Conviction Themes



Global High Conviction Themes

Asian	Structural		Cyclical
<ul style="list-style-type: none"> Top Trend: Asia in the New World Order Asia’s Corporate Governance Reform Winners Reshaping Asia’s Supply Chain Rise of India and ASEAN Capturing Peaking Asian Yields 	<ul style="list-style-type: none"> Top Trend: Disruptive Technologies Aerospace Generative AI & Robots Next Gen Medicines Upgrading Digital Architecture 	<ul style="list-style-type: none"> Top Trend: Climate Action Biodiversity and Circular Economy Opportunities in Sustainable Energy 	<ul style="list-style-type: none"> Top Trend: Evolving Society Infrastructure and Future Cities Social Empowerment and Well-being Sports and Entertainment
			<ul style="list-style-type: none"> Top Trend: Riding the Earnings and Rate Cut Tailwinds American Resilience North American Re-Industrialisation The Magnificent Europeans Opportunities in Quality Credit

Asia remains the most important growth engine of the global economy with projected 4.6% GDP growth and 23% earnings growth in 2024. Despite the uneven recovery in China, Asia continues to deliver well-above global average economic growth due to outstanding cyclical tailwinds in India, solid economic expansion in ASEAN and more decisive policy stimulus and a property support package introduced by Beijing.

Our four high conviction themes

1. Asia's Corporate Governance Reform Winners
2. Reshaping Asia's Supply Chain
3. Rise of India and ASEAN
4. Capturing Peaking Asian Yields

India stands out as the superior growth leader in Asia with support of benign inflation, robust foreign and domestic investment, strong services exports, young demographics, and digital transformation. We expect multiple tailwinds to boost India's economic growth to accelerate to 6.6% in 2025 from 6.3% in 2024. China's recent

property rescue package is expected to curb the downward spiral in the housing market, providing much needed policy support to stabilise domestic demand. We anticipate China to achieve GDP growth of 4.9% this year and see moderate growth deceleration 4.5% in 2025. China and India will continue to lead global growth in 2024 – 2025.

Top Trend

Asia in the New World Order

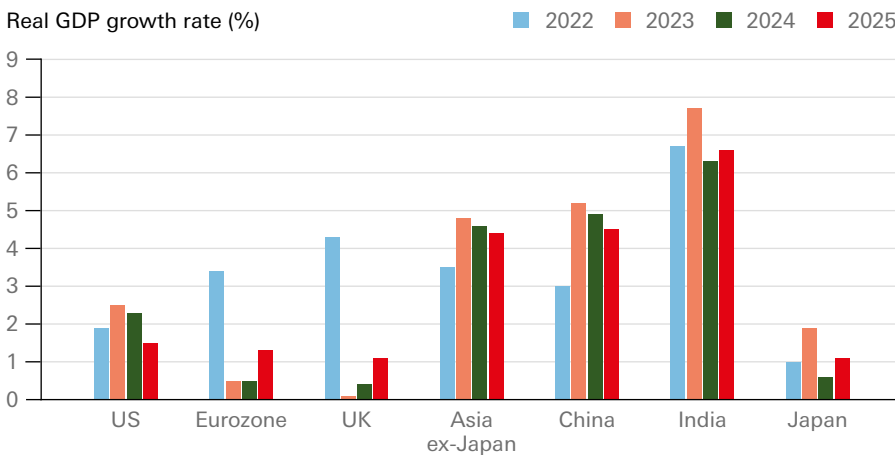
Among the major equity markets, Asia ex-Japan is expected to deliver the strongest 2024 earnings growth of 23%, doubling the 11% profit growth in the US (Source: HSBC Global Private Banking as at 31 May 2024). Thanks to more sustainable reflation trend and the accelerating corporate governance reform, Japan continues to attract strong foreign portfolio inflow. The AI-driven technological investment boom supports a sharp earnings turnaround of the North Asian equity markets, led by South Korea, Taiwan, and Japan. We expect South Korea and India, both are our overweight markets, to lead earnings momentum in the region with

consensus profit growth of 72% and 36%, respectively (Source: HSBC Global Private Banking as at 31 May 2024). We stay overweight in the equity markets of Japan, India, and South Korea, where we find the best opportunities to tap into Asia’s secular growth themes. In Mainland China and Hong Kong, more decisive policy stimulus and capital market reforms bring tactical opportunities for undervalued quality stocks.

We launch the new High Conviction Theme on **Asia’s Corporate Governance Reform Winners**, as Asian governments and regulators



Asia stands out as the most important global growth engine in 2024 – 2025



Source: Bloomberg, HSBC Global Private Banking as at 31 May 2024. Forecasts are subject to change.

2024 Asian earnings growth is well ahead of global peers



Source: HSBC Global Private Banking as at 31 May 2024. Forecasts are subject to change.

are pushing for corporate reforms to boost shareholders’ returns and close the valuation gaps of their equity markets relative to the global peers. Japan provides a prominent example to showcase how improved corporate governance standards can contribute to re-rating of the equity market. International portfolio inflows have been attracted to the Japanese stock market as Nikkei 225 companies returned a total of JPY20trn to shareholders in 2023 via dividends and buybacks, up sharply from around JPY6trn a decade ago (Source: HSBC Global Private Banking as at 31 May 2024).

China’s State Council last month announced the ‘Nine-Point Guideline’ which stresses the importance of high dividends and share buybacks. In South Korea, regulators have announced the ‘Corporate Value-Up’ Programme which aims at improving return on equity and narrowing the ‘Korea discount’ versus the global peers. Accelerating corporate governance reforms in Japan, China, and South Korea bring attractive re-rating opportunities.



Our theme on **Reshaping Asia's Supply Chain** focus on winners of the accelerating supply chain reconfiguration and friend-shoring trend amid de-globalisation. This has resulted in rapid trade integration in Asia, with the share of intra-regional trade surging to almost 60% of Asia's total trade flow from 53% in 2000 (Source: HSBC Global Private Banking as at 31 May 2024). We project intra-Asian exports to rise from USD4.3trn in 2023 to USD7.1trn in 2030 and cross-border FDI flows within Asia to double to over USD700bn by 2030, led by the China-ASEAN and India-ASEAN trade corridors. According to EY's Capital Confidence Barometer, almost 70% of Asia-Pacific corporate leaders indicated they are taking steps to revamp supply chains to strengthen their competitive positions.

We favour high-end manufacturing leaders in Japan, South Korea and Taiwan given their pivotal roles in the global semiconductor supply chains. In ASEAN, Singapore, Malaysia and Vietnam are strengthening their leadership positions in the electronics industry. Indonesia is playing a critical

role in the global electric vehicle (EV) supply chains, as it holds the world's largest nickel reserves with an estimated 21m tonnes or 22% of global reserves (Source: HSBC Global Private Banking as at 31 May 2024). Electronics and EV manufacturers from North Asia are ramping up production capacity in ASEAN to expand market shares.

ASEAN represents a big new market and a low-cost production base for Chinese companies facing slower growth at home. We like quality Chinese industry leaders which have successfully diversified their supply chain and markets outside China.

Our theme on **Rise of India and ASEAN** captures promising secular growth opportunities from the young demographics, rising middle-class consumers, robust FDI and domestic investment spending, technological innovation and green transformation. The working age populations (aged 15 – 64) in India and ASEAN are expected to grow from now to 2050 which make up nearly 70% of their populations (Source: HSBC

Global Private Banking as at 31 May 2024). We favour growth leaders in the financials, property, infrastructure, retail REITs, and telecom sectors in India and Southeast Asia.

India's strong cyclical and structural growth outlook underpins significant headroom for sustained Foreign Institutional Investors (FIIs) inflows ahead given FIIs ownership of India equities at 17.6% is below the long-term average of 19% (Source: HSBC Global Private Banking as at 31 May 2024). India's April composite output index surged at the fastest pace in nearly 14 years, with services new orders showing accelerated expansion (Source: HSBC Global Private Banking as at 31 May 2024). We expect private capex and Foreign Direct Investment (FDI) to increase after India's general elections. Indian banks and infrastructure companies will benefit from the investment boom. India's services export growth has stayed strong with the rapid rise of the Global Capability Centres (GCCs) set up by multinational companies. ANSR statistics show that India now commands over 50% of the global GCC market with an estimated 5,000 global leadership roles situated in Indian GCCs.

For income opportunities, our theme on **Capturing Peaking Asian Yields** stays focused on locking in near decade-high yields from Asian IG bonds with 5 – 7 years duration. The rates repricing since the beginning of this year opens a window to lock in attractive yields in Asian high-grade bonds. With continued disinflation trend and the Fed's rate cuts starting in September, we expect many Asian central banks will start cutting interest rates in H2 2024. We expect Asian bond supply to stay tight this year as companies are more hesitant to seek USD financing due to the resurgence of bond yields YTD. We favour Japanese and Korean financials and IG corporate bonds, Indian local currency bonds, Indonesian quasi-sovereign IGs, Macau gaming and Chinese TMT credits.

Top Trend – Asia in the New World Order

01 Asia's Corporate Governance Reform Winners

Overview

- Asian governments and regulators have pushed for corporate governance reform in part to close the valuation gap of their equity markets relative to the DM peers, in our view. Japan is a prime example on how better corporate governance can contribute to re-rating of stocks, in the Asian context. Chinese regulators are promoting the quality and investment value of listed companies, while South Korea, which is similar to Japan due to their histories, has announced its 'Corporate Value-up' program to address the 'Korea discount'.
- In the near-term, these reform efforts can typically translate into improved shareholders' returns, through higher

dividends and share buybacks, as well as better return on equity, through faster capital distribution and more efficient capital allocation.

The Opportunity

- Following the introduction of Corporate Governance Code by the Tokyo Stock Exchange (TSE), management of more Japanese companies have prioritised profitability and valuation. The TSE has launched an index to make it easier for investors to identify companies who have taken measures to strengthen their corporate governance.
- In April this year, China State Council published the 'Nine-Point Guideline' which included measures to improve the quality of listed companies, tighten delisting regulations and encourage

more long-term capital into the market. These reinforce regulations announced earlier in March, which effectively requested companies to consider stable dividend payouts and share buybacks. The Chinese companies listed in the Hong Kong stock market as well as the local companies in Hong Kong are conducting more share buybacks as well.

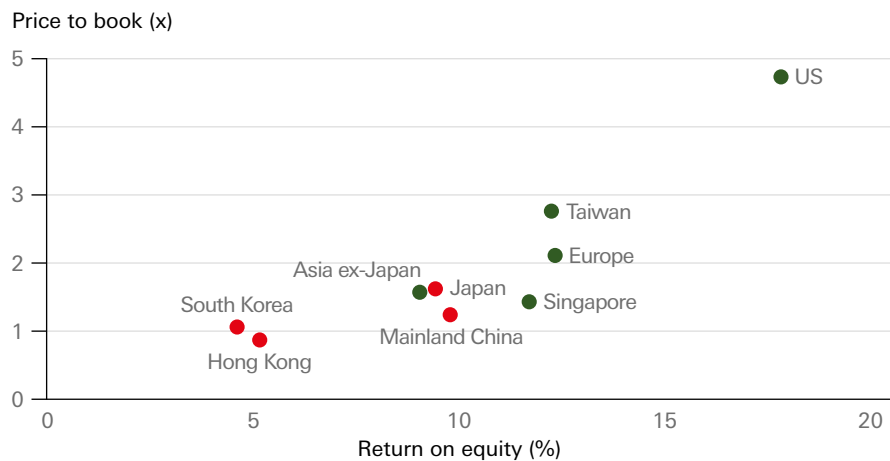
- In South Korea, the 'Corporate Value-up' Program was launched earlier this year, which garnered significant investor interest. The program aims at companies with low valuations and encourages them to enhance profitability, with the goal to narrow the 'Korea discount'. Referencing the experience in Japan, we expect this will attract more foreign inflows.



Why now?

- Corporate reforms have been one key driver of stock rally in Japan. We expect this to continue as the reform unfolds.
- China's recent 'Nine-Point Guideline' stresses the importance of dividends and share buybacks which could pave the way to unlock value in Chinese SOEs with high dividend yields.
- Regulators in South Korea have recently issued guidelines on the 'Corporate Value-up' Program which should set the groundwork for corporates to improve corporate governance and increase shareholder returns.

Japanese, China/HK, and South Korean equities have room to improve valuation/profitability mix relative to their DM peers



Note: MSCI indices are used in the above respective regional equity markets.
Source: Bloomberg, HSBC Global Private Banking as at 31 May 2024.



02 Reshaping Asia’s Supply Chain

Overview

- Concerns about geopolitical tensions, export restrictions on cutting-edge and essential technologies, as well as intermittent supply chain disruptions, have led many Asian companies to diversify their production to achieve supply chain resilience. These companies can benefit from the comparative advantages of various Asian economies.
- Japan, South Korea and Taiwan play pivotal roles in the global semiconductor supply chain. ASEAN is an attractive location for production, given the skilled and sizeable labour force and is among the emerging leaders in the electronics industry. Meanwhile, India is well-placed given its low-cost and large-scale manufacturing resources, supported by policy reforms and improving macro stability.

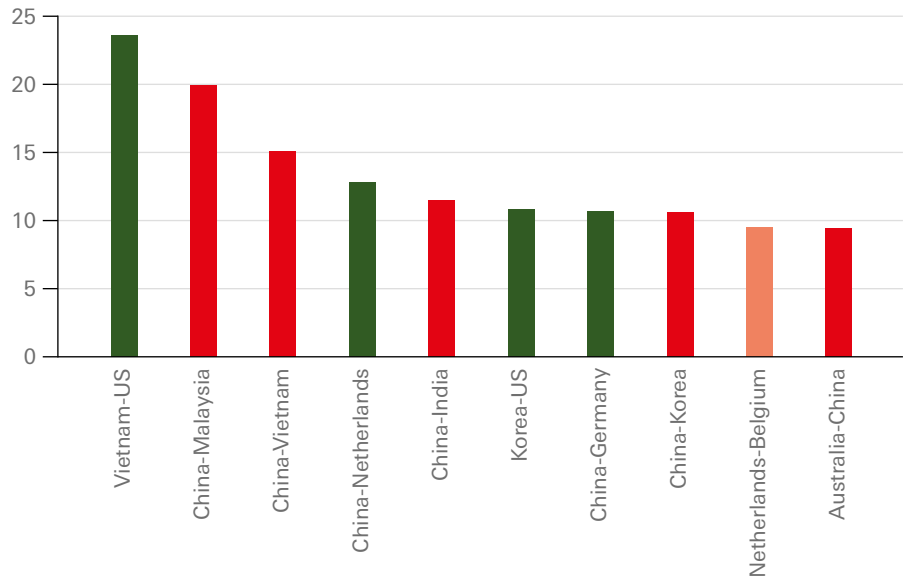
- The Asian industry leaders that should benefit from the reshaping supply chains can be found in IT hardware, semiconductors and high-end manufacturing sectors. Logistic REITs can also benefit from supporting the supply chain redesign.

The Opportunity

- Chinese companies could enjoy labour cost savings if they relocate their factories to ASEAN economies and India. For example, wages in Vietnam can be as low as one-third of Chinese workers. The moves can also bring production closer to consumers in the region.
- In the EV sector, Original equipment manufacturers (OEMs) have established manufacturing plants in ASEAN to facilitate expansion. A large Chinese EV battery player is expanding in Indonesia for the country’s rich nickel deposits – a critical material for EV battery production.

Asia has half of the world’s 10 fastest growing trade corridors

Fastest growing trade corridors among the top 30, 2018 – 2022 average annual growth rate (%)



Note: China refers to mainland China. Red = economies at both ends of the corridor are in Asia, Green = one end is Asia, Orange = neither end is Asia.

Source: UN Trade and Development, HSBC Global Private Banking as at 31 May 2024.

- While leading semiconductor companies in Taiwan and South Korea may have the more advanced production at home, they could diversify some other chips production overseas. On the other hand, Asian hardware companies are ramping up production in ASEAN.
- Leading logistic REITs are well positioned in the supply chain revamp.

Why now?

- Concerns about geopolitical risks have increased the focus on supply chain reorientation.
- Supply chain resilience is key to navigate in the increasingly complex world. Asian companies who own a resilient supply chain should perform better than their peers.



03 Rise of India and ASEAN

Overview

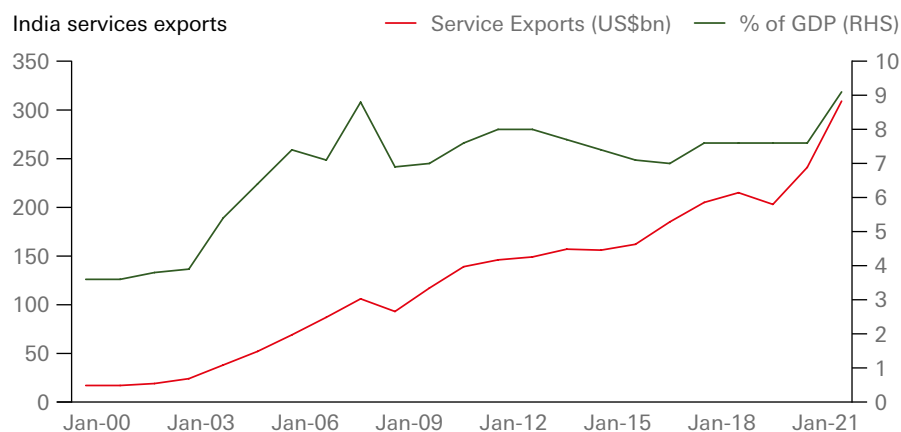
- India and ASEAN countries are enjoying strong domestic growth, driven by favourable demographics, rising consumption and strong investment growth. This bodes well for a number of corporate sectors including financials, property, infrastructure, retail REITs, and telecommunications.
- We expect Indian and ASEAN economies to stay on a strong footing this year and beyond. India is expected to achieve a 6.3% GDP growth in 2024, while ASEAN growth of 4.6% is forecasted to surpass the Asia ex-Japan growth rate of 4.5% this year.

The Opportunity

- In India, a disciplined budget with rising infrastructure spending bodes well for its longer-term economic outlook. Private capex and FDI are also expected to increase post elections. Banks and infrastructure companies are expected to benefit from this upbeat capex environment.
- In fixed income, we like Indian local currency bonds which stand to benefit from the inclusion in a global bond index, driving both passive and active inflows and a stronger INR over time. We like the diversification benefit and attractive risk-adjusted yield offered by them. Following the recent rate hike by Bank Indonesia (BI), we also like high quality quasi sovereign IDR bonds.
- In Singapore, we see pockets of opportunity in high-quality REITs which are well positioned to benefit from easing policy stance from the Central Bank in 2024 and 2025. Retail REITs could potentially benefit from the enhanced Assurance Package from the Singapore Budget 2024.



India has been a leader in developing digitally advanced services sector, witnessing strong growth in services exports



Source: World Bank, HSBC Global Private Banking as at 31 May 2024.

- We are also positive on ASEAN and Indian consumption. Robust growth, rise in middle-class population and moderating inflation points towards a greater spending power for consumers in ASEAN and India.

Why now?

- We expect half of the ASEAN central banks to start policy rate cuts in H2 2024 as the Fed embarks on its rate cut cycle. For India, we also see some

space for the Reserve Bank of India (RBI) to cut rates by 50bps in the later part of 2024.

- The basket of ASEAN consumption focused plays, Indian and Indonesian government bonds and Singapore REITs are largely correlated with domestic business cycles and provide uncorrelated returns and diversification benefits for global investors.

Top Trend – Asia in the New World Order

04 Capturing Peaking Asian Yields

Overview

- Asian yields are close to multi-year high levels and have risen in the recent weeks amid rates repricing. We believe the risk-reward is attractive at these levels and recommend to lock in current yields, with 5 – 7 years being our preferred duration.
- Our end-2024 forecast for 10-year US Treasury yield is at 3.5%. The lower yield over the course of this year should translate into positive bond capital returns.
- The fundamentals for Asian IG credits remain solid and the current valuations are well supported by the tight supply.

The Opportunity

- Although the Bank of Japan has started the gradual monetary policy normalisation process, we expect an increase global investors' inflows and improving corporate profitability. We prefer select Japanese corporate and financial bonds.
- The credit market in South Korea generally remains buoyant, supported by investors' appetite. We prefer South Korean medium duration IG bonds of high-quality companies.
- We remain very selective on Chinese issuers, with a focus on high-quality credit, and prefer Macau gaming and Chinese Technology, Media, and Telecommunications (TMT) credits. We stay cautious on China property risks, noting the mixed developments in restructuring, subdued housing sales and relaxation of home purchase restrictions.
- We like Asian financials credits, which are trading at relatively attractive valuations. Apart from those in Japan and South Korea,



we like banks in Australia, Singapore and Thailand as the macro backdrop remains favourable with the banks boasting strong capital ratios.

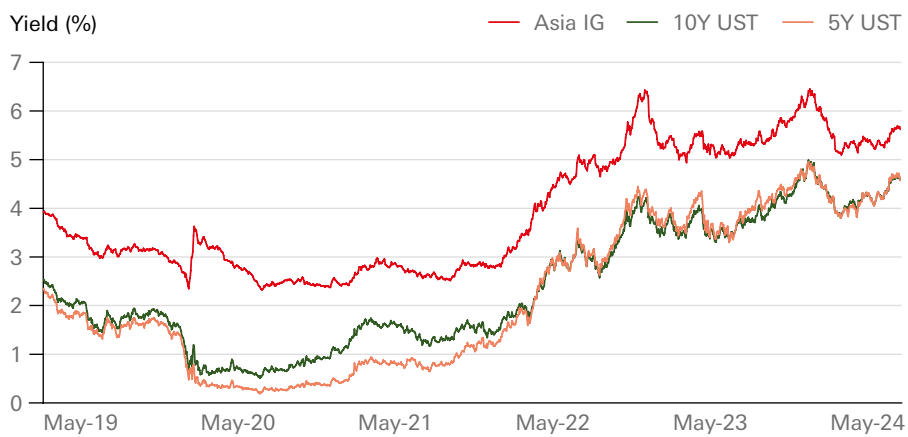
- In India, we like local currency bonds which can see strong inflows, following the global index inclusion. This is well supported by our bullish view on India Rupee (INR).
- Indonesian quasi-sovereign IGs remain our preferred play in Southeast Asia, due to its strong fundamentals, including strong economic growth and still benign inflation.

Why now?

- Ahead of the first Fed rate cut expected in September this year, we believe it is time to put cash to work towards quality credits to lock in yields at multi-year highs.
- We continue to prefer high-quality credits in Asia on the back of our expectations of US Treasury yields heading lower this year.
- The cyclical growth momentum in Asia remains solid, as suggested by latest PMIs, which point to improving manufacturing conditions in Asia.



Rates repricing this year opens a window to lock in attractive yields in high grade bonds



Note: J.P. Morgan Asia Credit Index (JACI) is used above for Asia IG.
Source: Bloomberg, HSBC Global Private Banking as at 31 May 2024.

Top Trend

Disruptive Technologies

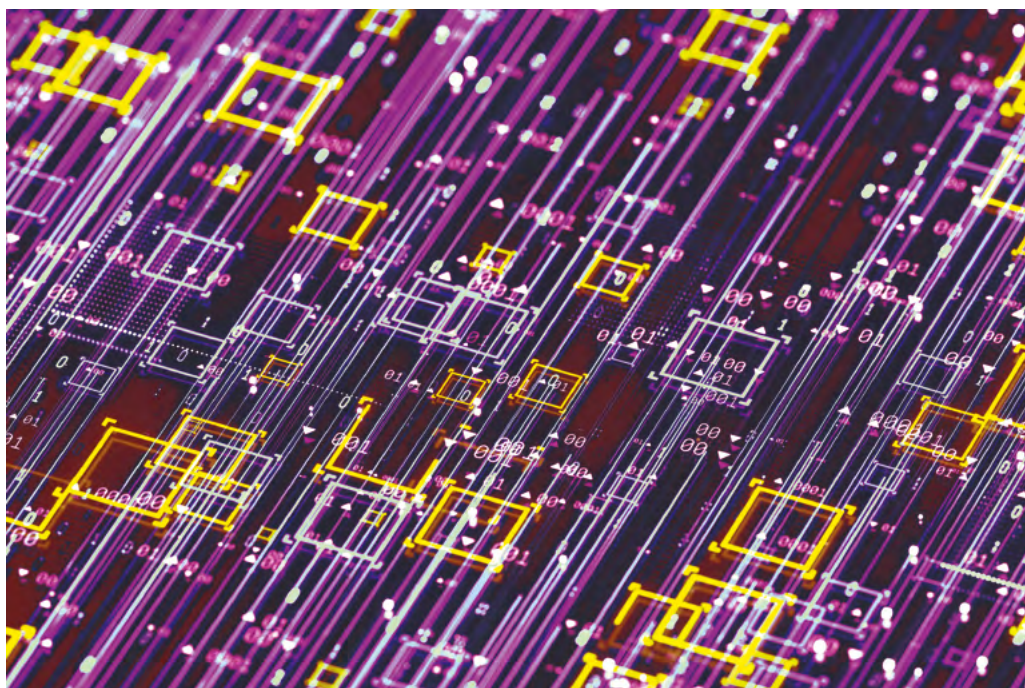
Economics may be considered more of an art than a science, given the random success of its practitioners. But in reality, economics often plays a pivotal factor in determining the adoption, development and/or success of new technologies.

Our four high conviction themes

1. Aerospace
2. Generative AI & Robots
3. Next Gen Medicines
4. Upgrading Digital Architecture

This reality is increasingly evident in the healthcare sector, as spiraling budgets are forcing governments to search for more efficient solutions. Unfavourable demographic trends including aging and rising populations have added to this sense of urgency. Governments applying tested approaches such as cost-benefit models to help determine appropriate treatment prices for proven patient outcomes. In addition, new medicines that bring limited incremental benefits to existing treatments are facing ever greater

scrutiny. This environment creates pressure on companies to be more innovative and search for potential treatments for conditions with unmet medical needs. For the latter category, regulatory authorities incentivise research by periodically granting 'orphan drug' statuses to new medicines where the commercial potential is limited. This effectively blocks competitors and allows healthcare companies to recoup its costs and hopefully make a return on its investments.



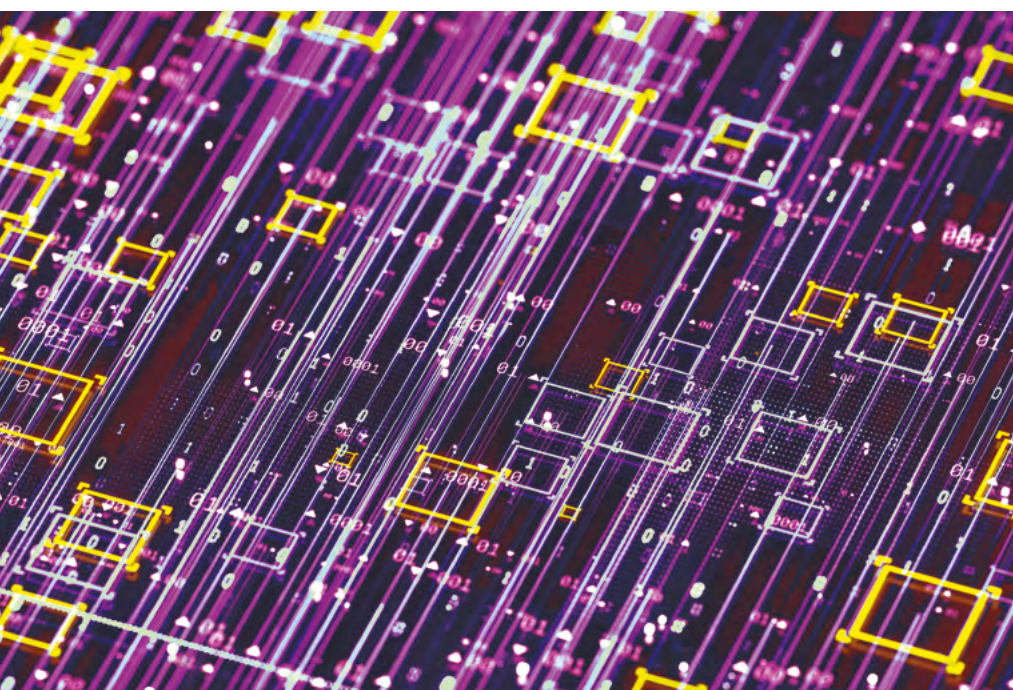
However, medicine costs represent only a fraction of the healthcare budget. To provide some context, in 2022, the world's largest healthcare market in the US spent USD4.5 trillion, or 17.3% of its GDP, on healthcare of which medicines represents only USD429bn, or 9.5% of total healthcare budget spent (Source: US Centers for Medicare & Medicaid Services/The Iqvia Institute as at 31 May 2024).

It is estimated that the average cost of an overnight stay in a US hospital is about USD3,000 (Source: Debt.org) and that quickly rises if the patient requires treatment in an ICU (intensive care unit). Therefore, treatments that minimise or avoid the need for hospitalisation are both preferable for patients and have significant economic benefits, a true 'win-win' situation. Our **Next Gen Medicines** theme identifies those companies that are bringing transformations to new medicines in the market.

A recent success story has been the introduction of a new class of medicine called GLP-1 agonist, that was originally

being developed as a diabetes treatment but has since become a weight-loss treatment. According to the World Health Organisation in 2022, 2.5 billion people are classified as being overweight and of these, 980 million are obese. Despite the enormous market potential, strikingly, treatment options were very limited until GLP-1 medicines arrived. Today, despite a hefty price tag, supply cannot meet demand. Healthcare insurers and governments are recognising the broader health benefits and cost savings from treating obesity and are starting to reimburse medicine costs for some patients.

Scientific advances often spillover into multiple practical applications, technologies and industries. Staying with the healthcare industry, often cited as being slow to adopt IT, we are seeing promising examples of the industry starting to embrace new technologies. Pharmaceutical companies are constantly challenged with the proverbial "needle in a haystack" to identify new drugs. AI offers a potential helping hand with its ability to rapidly screen vast quantities of data and



identify patterns and key characteristics. AlphaFold is one such example, this AI software tool accurately predicts a protein's folded structure, which is a key feature in its ability to interact with other biological structures. AlphaFold has identified 600 million potential new medicine candidates in a matter of months compared to the few hundred thousand candidates identified in the previous five decades.

It is not just the healthcare industry that is benefitting from Disruptive Technologies, as we highlight in our **Generative AI & Robots** theme, AI software is rapidly being incorporated into more advanced products and services. These include customer answering services and chatbots; automobile diagnostic systems; building environmental controls; industrial and manufacturing process monitoring. Advances in software and automation technologies are enabling hardware to operate with a greater degree of autonomy that increases the number of potential applications. Sales of intelligent machines have grown strongly in the food industry as more complex tasks

can now be automated. Rising wages and labour shortages provide strong incentives for the sector to automate even with higher interest rates impacting investments. Automated solutions are now becoming available for many tasks in the food supply chain, from crop monitoring and animal husbandry to peeling fruit and making sandwiches. Advances in visual, audio, and olfactory sensory technologies are offering great potential in more labour-intensive control tasks such as monitoring, sorting and quality control which have potential uses in most business sectors.

As with theatre, less glamorous supporting roles are often overlooked, so it is with digital infrastructure that plays an essential supporting role for many of the developments highlighted above. As demand for processing and storage capacity from governments, businesses and private individuals is set to grow strongly in the coming years, datacentre and cloud computing businesses should benefit directly, including related areas such as electricity suppliers, cooling technology companies and cyber security providers. High quality,

secure digital infrastructure is critical for economies to maintain or enhance their competitiveness while facilitating the development of new innovative industries. The **Upgrading Digital Architecture** theme identified potential beneficiaries of this expansionary phase in the areas mentioned above. Digital highways are important enablers to an economy, like how physical infrastructure roads, railways and waterways have been in the past.

The **Aerospace** industry has even more ambitious infrastructure plans with private companies embarking on the most comprehensive and rapid expansion of satellite networks in history. The majority of newly launched satellites are smaller, cheaper low-earth orbit (LEO) types rather than the bigger, more expensive geo-stationary types launched in the past. The cost of satellites has fallen substantially mainly due to lower launch costs; use of off-the-shelf hardware; ongoing trend of technology miniaturisation reducing size and weight of payloads. This has made satellites more accessible to a far greater number of companies and organisations. A myriad of new uses is being imagined including tracking methane emissions and migrating wildebeests to studying weathers patterns. Some larger private companies are building comprehensive global satellite networks, some involving thousands of LEO satellites. Terrestrial users can easily connect with these networks anywhere on the planet, helping remote communities integrate into the global community.

Significant scientific and technological advances often disrupt existing business models, markets, jobs, lives etc., but they also have huge potential to offer broader benefits to humanity. Hopefully, these evolving powerful new technologies will also benefit mother Earth and all its inhabitants too.

01 Aerospace

Overview

- Aerospace companies have seen the demand for airplanes, associated products and services continues to rise, with large orders increasing the manufacturing backlogs.
- Recent achievements by private companies in delivering private citizens to space, and in demonstrating the viability of reusable space crafts have crafted new opportunities in the space economy.
- Aerospace, as an industry, is underpinned by stable government contracts, which have been increasing annually in all the major countries.
- The rising demand for data and interconnectivity is providing a key support to the growth of the small satellite industry.

The Opportunity

- We see opportunities in companies that manufacture aircrafts, spacecrafts, satellites and Aerospace services, as there has been growing demand across the industry.
- The demand for airplanes has been growing, as the number of flights continues to grow with global Revenue Passenger-Kilometers (RPK) rising 13.8% y-o-y in March, which is now in line with pre-pandemic levels, according to the IATA data.
- In 2023, small satellites represented 97% of all spacecrafts launched. Small sat launches are up 7x in the last 6 years (Bryce Tech small satellites report, 2024).
- Aerospace companies also benefit from a stable, secure and growing income stream of governments and their agencies.



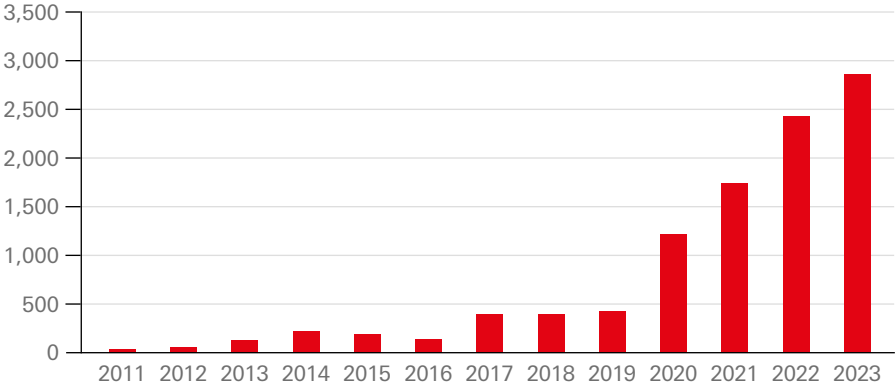
- Companies which are heavily reliant on larger, faster and lower latency data are also expected to benefit from this trend.
- Rising demand for flights and air travel has seen delivery numbers and order books at Aerospace manufacturers swell and the resulting backlog will take many years to reduce.

Why now?

- Recent progress in Aerospace technology has driven a resurgence of interest in the space economy with private company space flights growing rapidly.
- The rising demand for data from an ever-increasing number of connected devices from all corners of the globe has raised the competition among entrepreneurs to try and meet that demand via private low-earth orbit satellite solutions.



Small Satellite launches in 2011 – 2023



Source: Bryce Tech, Small Satellites by the Numbers 2024, HSBC Global Private Banking as at 31 May 2024.

02 Generative AI & Robots

Overview

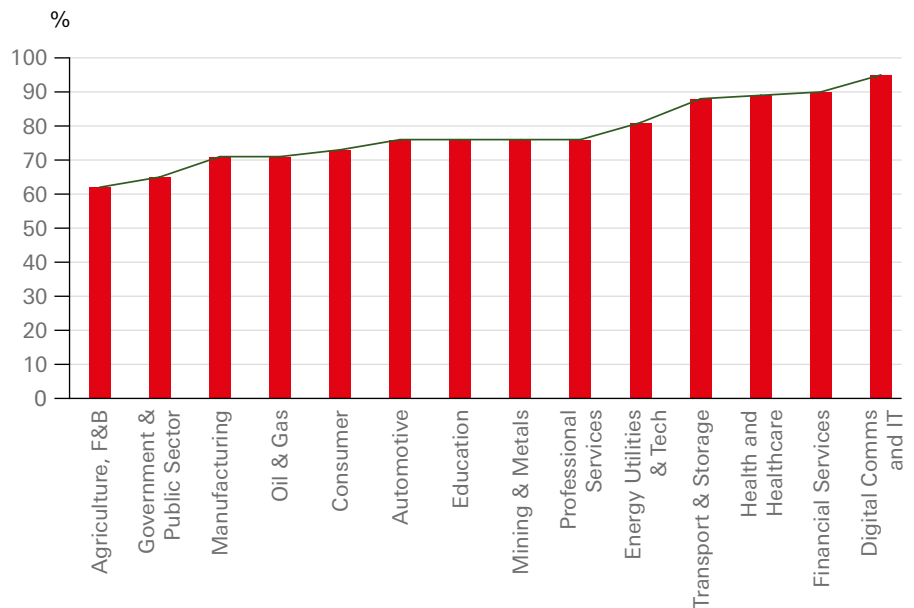
- Advancements in AI are bringing in new applications as product and service capabilities are expanding rapidly across multiple industries and government services.
- The services sector is already benefitting from new AI applications, including in the content production, where AI can now generate text or images based on simple prompts; and in software development, where code can now be readily generated.
- Robots are key to an automated future and some high-profile companies recently announced their new line of offerings. The number of operational industrial robots reached 3.9 million units in 2023 (IFR, February 2024), with an estimated value of USD17.5bn.

The Opportunity

- Healthcare applications such as monitoring, tracking, data and image analysis and sample testing can now be improved through AI and robot implementation.
- Financial services are increasingly being consumed online, meaning several processes can now be automated and improved, including identification verification; insurance, bank account and card applications; and securities trading and controls.
- Automated advice via online chat functions by using large language model AI software can improve the customer service experience, while also keeping the costs down for corporates.
- Agriculture is being automated in many developed markets, from GPS controlled tractors and harvesters, to soil and crop management using drones and AI.



Share of firms proposing to use AI by 2025



Source: WEF The Future of Jobs Report, HSBC Global Private Banking as at 31 May 2024.

- ‘Miniaturisation’ is enabling sensors, cameras, batteries and antennas to be incorporated into more products and places, increasing the amount of data feeding into the AI programs.
- Labour shortages and rising costs are driving a fresh wave of investment in robotic automation, as potential investment returns become increasingly attractive.

Why now?

- The integration of AI and other technological advances have expanded the capabilities of automated products and services, whilst also expanding their potential uses.
- The roll-out of 5G, cable and low-earth orbit satellite networks have significantly expanded data capacity and reducing the latency.

03 Next Gen Medicines

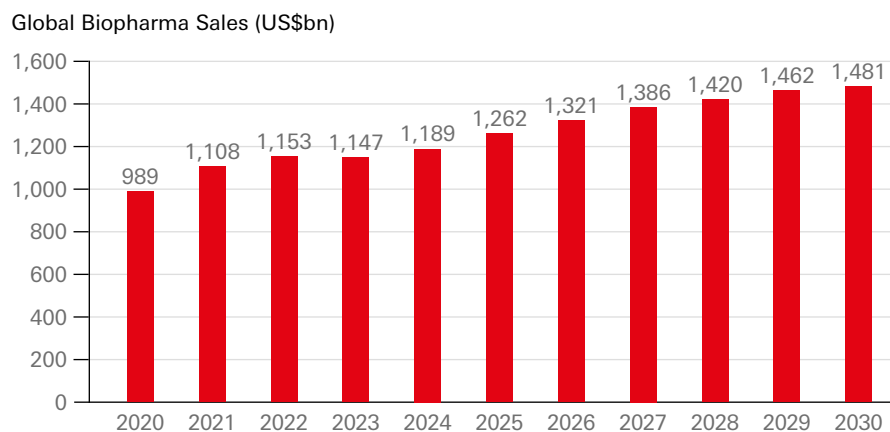
Overview

- Global healthcare sales touched USD1.2trn (Source: HSBC Global Private Banking as at 31 May 2024), with biotechnology companies being the primary innovators with new medicines, clinically unmet needs and often commanding a premium.
- New product launches and the development of medicines are driving sales growth and positive sentiment for select companies.
- Treatments for rare disease and 'break-through' therapies are often granted periods of sales exclusivity.
- The USD350bn Consumer Health market should benefit from several important structural growth drivers (Source: HSBC Global Private Banking as at 31 May 2024).

The Opportunity

- Targeted therapies are already being launched and these under-development therapies offer better patient outcomes and often a lower overall treatment cost.
- Cutting-edge technologies including mRNA vaccines, cell & gene therapies, and stem cells are revolutionising treatments.
- AI initiatives (e.g. AlphaFold) are identifying millions of potential new medicines and targets for medicines.
- Sophisticated software, high-throughput screening and testing are accelerating the testing and development.
- Orphan drug status provides additional commercial benefits for some medicines helping to mitigate development risks.

The biopharma market size is expanding



Source: Visible Alpha, HSBC Global Private Banking as at 31 May 2024. Forecasts are subject to change.



- Licensing and M&A activity are expected to pick up as companies restructure and look to bolster their product pipelines.
- Rising healthcare costs, driven by demographics and societal trends, favour cost effective treatments and potential cures.
- Targeted therapies potentially offer multiple benefits over some established treatments including better patient outcomes, lower costs, shorter treatment cycles, and fewer side-effects.
- Elevated consumer awareness and new category product launches are expanding the demand for healthcare products and services, including dental and skin treatments, weight loss medicines, and routine diagnostics and testing.

Why now?

- As the sector continues to transition to biologics, recent technological developments (gene editing, mRNA vaccines, immunology therapies) are boosting the efficacy and commercial potential of new medicines around them.
- Expansion of testing and screening facilities due to COVID is favouring the early detection and treatment of some diseases.

04 Upgrading Digital Architecture

Overview

- Datacentres, cloud demand, cybersecurity and cooling systems are all set to see expanded demand as corporate capex budgets loosen on improving outlooks and demand for resource hungry AI surges.
- According to a report from P&S Intelligence, the datacentre market is expected to grow from c.USD302bn in 2023 to c.USD622bn in 2030, a CAGR of over 10.5%.
- Demand for AI will have a major impact on datacentres, cloud and related services as AI needs vastly more energy and computing power to run.

The Opportunity

- The demand for both traditional cloud offerings and AI-related cloud services is on the rise, following a period of higher fiscal caution among corporates.
- Manufacturers of cloud servers and related hardware should see a rise in demand from both traditional cloud needs and AI-related demand, with the increase in data consumption.
- AI provides a new, more powerful toolset for cyber criminals and when further coupled with the prospect of quantum computing, adds to the need for organisations to improve their cybersecurity.

- Cooling is a major component of digital architecture, making up to 40% of the data center costs already (Source: HSBC Global Private Banking as at 31 May 2024). AI needs far more energy and server rack density is expanding too, so more and better cooling will be needed.

Why now?

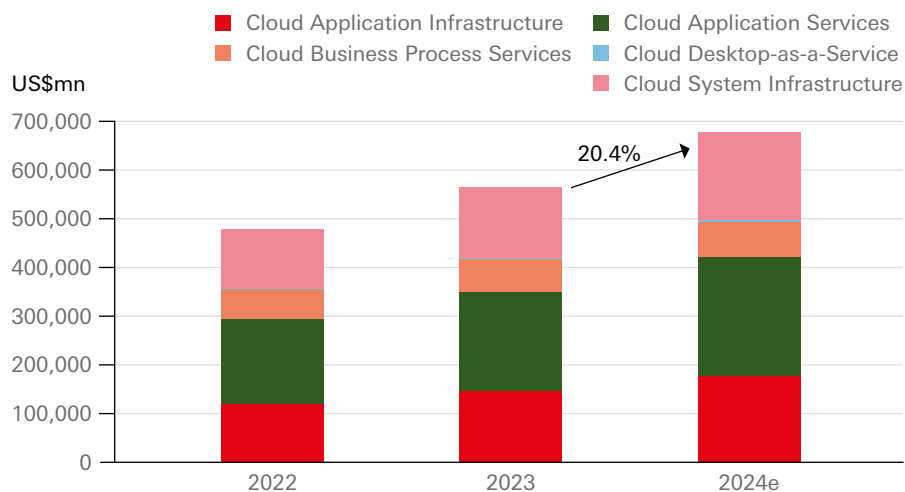
- Companies are seeing their economic outlooks improving almost every month and, as such, they are willing to spend more on their digital architecture.
- In a recent McKinsey study, the number of large organisations who felt they had the appropriate skills to manage their cybersecurity fell from



88% in 2022 to 82% in 2024. In the small-to-medium sized organisations, fall was even more drastic, down from 94% in 2022 to 49% in 2024.

- The arrival of AI has created a flurry of demand for AI capabilities across all sectors and industries. Earlier like with software, companies that embrace this new tool are more likely to succeed in the future and this can be seen in the huge multi-billion dollar outlays for AI capex that companies have outlined in the recent months.
- More powerful cyber tools enhance both good faith and bad faith actors and as a result, organisations will need to improve their cybersecurity and adapt it to the changing landscape of cyber attacks.

Cloud Services spending forecast



Source: Gartner, HSBC Global Private Banking as at 31 May 2024. Forecasts are subject to change.





Top Trend
Climate Action

Globally, the sustainability initiative is moving forward at pace. New energy capacity is predominantly coming from renewables, transportation is seeing progress from EV's to aviation where sustainable jet fuel is being developed and used, industry is facing ever greater scrutiny in monitoring its impact and mechanisms such as carbon markets are developing to facilitate transition to a cleaner way of doing things.

Our two high conviction themes

1. Biodiversity and Circular Economy
2. Opportunities in Sustainable Energy

At all levels, sustainability is being considered and action is being taken and with it comes investment opportunity.

The US is a great example of a region which has had a contentious relationship with sustainability but is still forging ahead with a range of initiatives and projects that are materially moving the dial. The US equity market has

been the standout performer in global equity market performance in recent years driven by its global technology leaders. Sustainability, however, is one industry the region is less known for and the general perception amongst the investment community is that if you want sustainable investment opportunities, then the US is not the place to look. The numbers however tell a different story.

Data from the recent Sustainable Energy in America 2024 Factbook points to some major shifts in the carbon footprint of America. The US added a record 42GW of new renewable power generating capacity to the grid. Solar and wind had a divergent year though where solar set records for new build while additions to wind capacity were the lowest they have been since 2015. Renewable energy hit a record for share of US energy demand, accounting for 23% (972TWh) of the consumption in 2023.

Many may find it surprising to learn that electric vehicle sales also surged last year and delivered a record year in the US. Sales of EV's and fuel-cell vehicles were up 50% on 2022 to 1.46 million units (Source: HSBC Global Private Banking as at 31 May 2024). Price competition, expanding choice and government incentives all contributed to the rise. Energy storage is another segment of sustainable opportunities that is expanding rapidly. An estimated 7.5 gigawatts of battery storage was commissioned in the US in 2023, a 62% rise year-on-year bringing the total installed capacity to 19.2 gigawatts (Source: HSBC Global Private Banking as at 31 May 2024).

Behind all of this change are a mix of factors, the Inflation Reduction Act is a key driver of much of the transition by making subsidies and tax credits available to consumers of cleaner products and across the supply chains of companies looking to base manufacturing in the US or for companies looking to sell or buy any carbon reduction credits. This has been a key support to the level of demand for cleaner products and services but the economics are quite robust in many channels too, particularly solar where the economics for many projects look better than traditional fossil fuel approaches.

Two very important trends are presenting themselves in terms of US power generation. Firstly, in terms of cleaning up its carbon footprint, power is leading the charge over Transport, Industry, Agriculture, Residential and Commercial.

In fact, Power is the only industry that has made any significant change.

It has cut its emissions from c.2.4bn metric tons of CO2 equivalent to c.1.4bn metric tons of CO2 equivalent over the last 15 years on the back of the growth in renewable energy and the momentum shows little sign of wavering (Source: HSBC Global Private Banking as at 31 May 2024). In the last decade renewable energy has steadily grown from 13% of the market share of US energy generation to be over 23% (Source: HSBC Global Private Banking as at 31 May 2024) and that growth is ongoing,

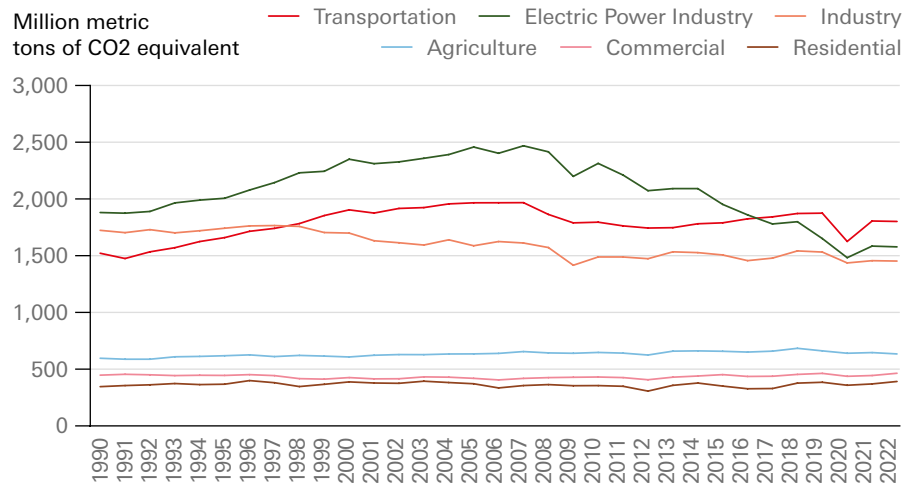
which may be surprising to many who feel that sustainability does not have much of a foothold in the US markets.

Secondly, the reduction in emissions has not come at a cost to productivity. Not only has the per units of GDP per units of BTU not gone down, they have continued to rise at an impressive pace.

The US is producing more value to the economy per unit of energy every year but also that unit of energy is getting cleaner every year.

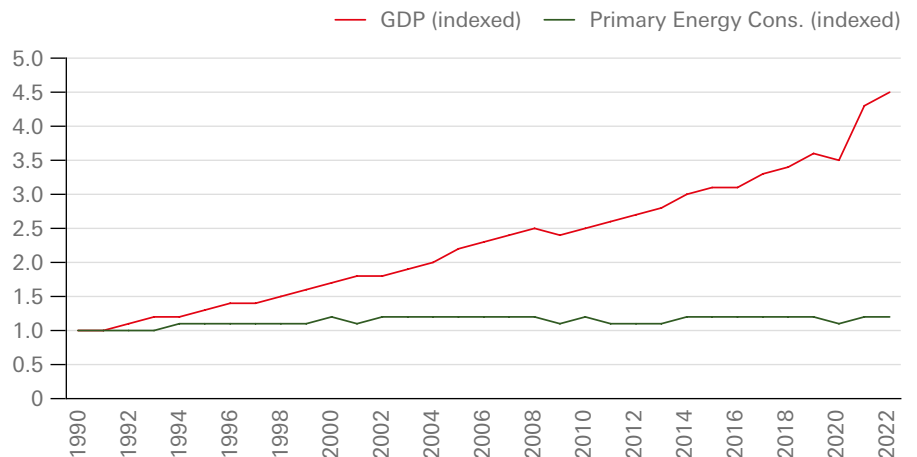
The US demonstrates that taking a more sustainable approach to energy

US Greenhouse Gas Emissions by Sector



Source: Bloomberg New Energy Finance, HSBC Global Private Banking as at 31 May 2024.

US Greenhouse Gas Emissions by Sector



Source: Bloomberg New Energy Finance, HSBC Global Private Banking as at 31 May 2024.

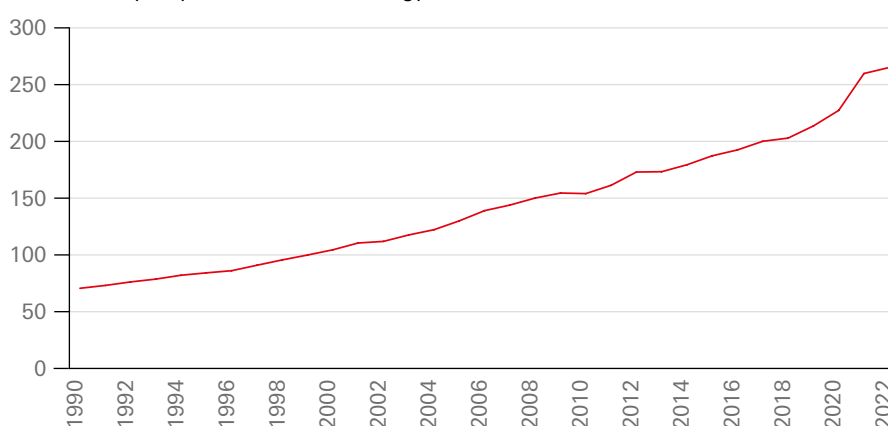


production does not hamper economic progress and is good for the climate.

Globally, investor sentiment is picking up again in line with macro conditions. Private markets are a good bell weather for where investors are looking for opportunity and they are seeing ample in a sustainable future with significant capital flowing into funds dedicated to climate tech in Q1. According to Bloomberg New Energy Finance, 31 new climate focused venture capital and private equity funds closed in the first quarter of 2024 for a total of USD13.7bn of dry powder to be deployed into climate focused initiatives. This figure represents a quadrupling of the Q1 2023 figure of USD3.3bn. Aramco Ventures was a key driver of this with a USD4bn cash injection while the other two large funds of USD3.3bn and USD1.2bn were in Sweden and Norway respectively. Notably though, the US leads the way over the last few years in funds raised by investors.

The US is producing more value to the economy per unit of energy

US\$bn GDP per quadrillion BTU of energy



Source: HSBC Global Private Banking as at 31 May 2024.

Positive **Climate Action** is taking place across the globe and the US is a particularly interesting case study as it is often viewed as not doing much on this front but as this data shows, it is doing a lot. It serves to highlight that the opportunities for investors to support the

transition to a more sustainable future while also generating attractive returns remain plentiful. The opportunity set is broad too, crossing many sub industries as well as cutting across supply chains from source, all the way downstream to consumption.

01 Biodiversity and Circular Economy



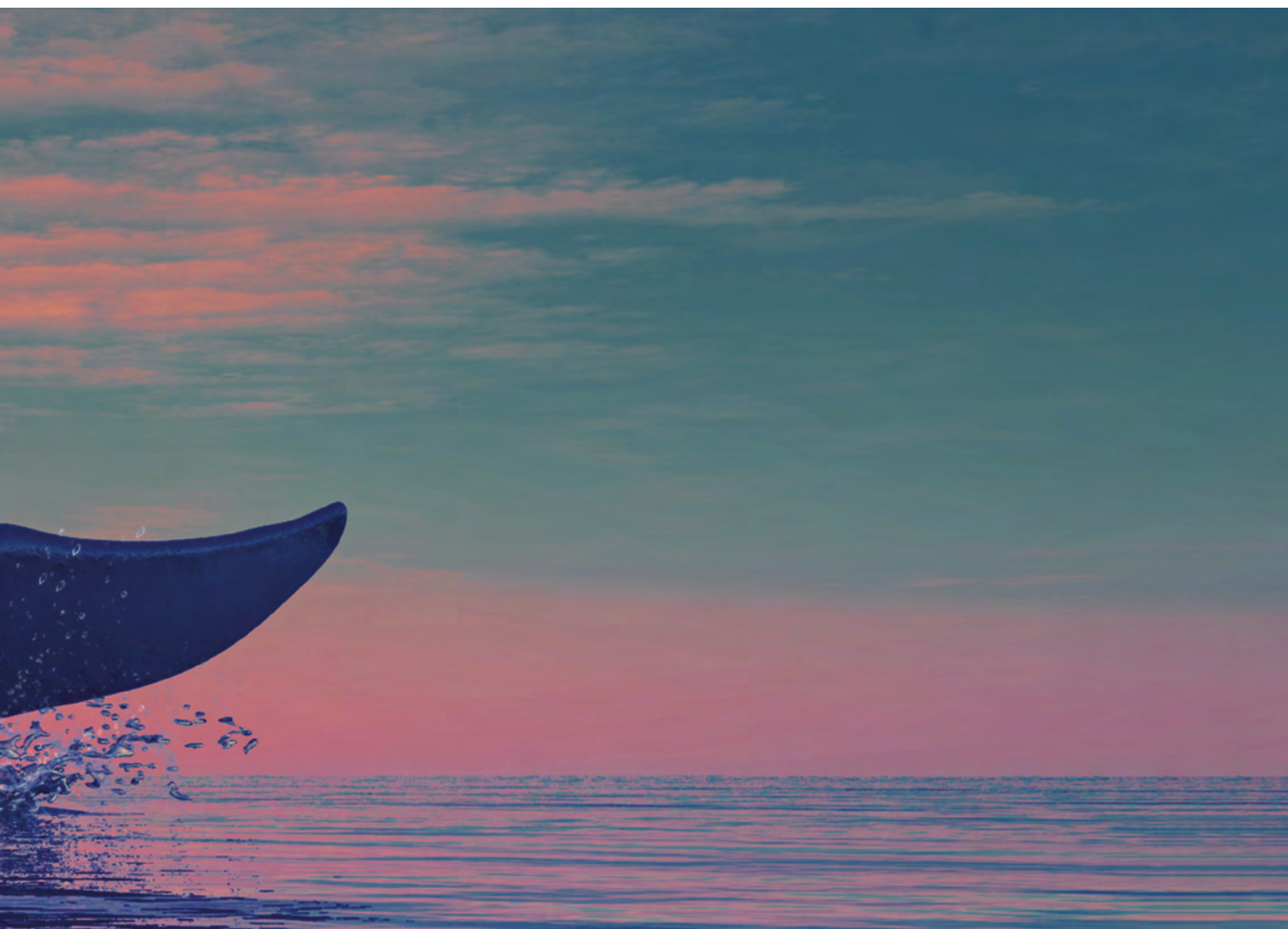
Overview

- Earth's biodiversity is imperative for human existence. Our societies, livelihoods and economies depend on nature for the natural regulation of weather patterns and provision of basic materials like food and wood.
- The linear 'Make – Take – Use – Waste' economic model is damaging the biodiversity and natural habitats. Conservation efforts alone are insufficient to halt biodiversity loss. Adoption of a circular economic model should help minimise waste of essential resources and help in stemming biodiversity loss.

The Opportunity

- As per the World Economic Forum, half of global GDP – USD44 trillion – is dependent on nature to some extent. Biodiversity loss and ecosystem collapse are cited by the WEF Global Risks Report 2024 as one of the top three risks over the next decade. This therefore creates an opportunity to act. New business models and solutions that transition business from a Linear to a Circular economic model of 'Reduce – Repair – Reuse – Recycle and Re-design' provide new investment opportunities.

- While the business world has paid great attention to climate change, the issue of biodiversity has largely gone unnoticed until recently. But the good news is that the transition to a circular economy is already in motion due to increased regulation, market, consumer and investor forces. Companies that harness and preserve biodiversity could offer investors the potential to access growth, provide relative outperformance and support long-term change.

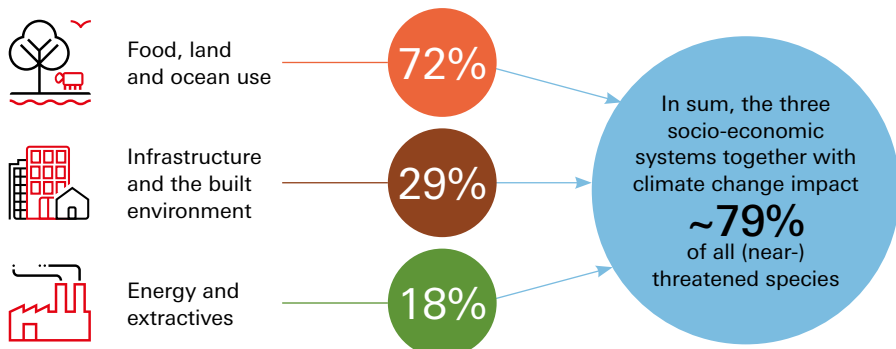


Why now?

- According to the World Economic Forum, failure to address nature risks could result in an estimated loss in global GDP of USD2.7 trillion by 2030. Given the economic risk, businesses need to adapt their operations to mitigate the impact on the nature and simultaneously, the consequences of biodiversity loss on their business.
- UN member states agreed on terms of the High Seas Treaty in March 2023, aiming to oversee and protect seas outside areas of exclusive economic zones. This will have a direct monetary impact in food, pharmaceutical and cosmetics industries.

Three socio-economic systems endanger around 80% of threatened or near-threatened species

Share of (near-) threatened species impacted



Source: World Economic Forum, HSBC Global Private Banking as at 31 May 2024. Due to partial overlap between the species impacted by the three systems, the percentage of species impacted by all systems is smaller than the sum of percentages of the species impacted by each system.

02 Opportunities in Sustainable Energy

Overview

- Clean energy technologies and renewable energy sources are the enablers in creating a net-zero world in line with the Paris Agreement.
- While the transition has been underway for decades, global investments in the low-carbon energy transformation have topped USD1.8trn in 2023 but is only around one third of what is needed. To keep the world on a net-zero trajectory by 2050, an average of USD4.8trn per year in renewable energy will be needed between 2024 and 2030 (Source: BNEF, February 24).

The Opportunity

- Renewable energy adoption has seen a steep rise over the past decades, thanks to rising awareness and policy push. Rising demand has made clean energy more competitive from a cost perspective too. The average cost of renewable energy sources has been declining, underscoring the rising economic and environmental benefits of sustainable energy sources.
- As countries pledge net-zero strategies for decades to come, the transition to sustainable and alternative energy solutions is underway. The global policy momentum remains strong, supporting large-scale deployment of clean power initiatives in the coming years. Global energy security concerns and fading supply chain disruptions post-pandemic should also drive further renewable energy capacity additions. The global renewable energy capacity expanded by 50% in 2023, reaching almost 510 gigawatts (GW) (Source: Electricity Renewables 2023 Analysis – IEA).

Why now?

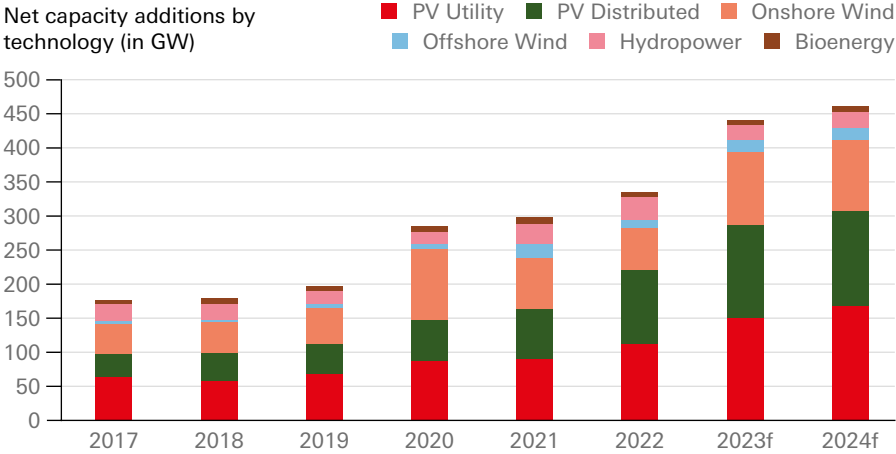
- The COP28 concluded with the global stocktake confirming the world is not on track to meet the Paris Agreement target, and as global emissions have not yet peaked, they would need to be cut by at least 30% by 2030 (Bloomberg New Energy Finance, 2023). This increases the opportunity set for cost-effective and efficient energy solutions in renewables and alternative low-carbon resources.
- Despite higher costs and interest rates in 2023, global investments in offshore wind surged 79%, reaching USD76.7bn, and investments

in global power grids reached USD310bn highlighting the structural opportunities in place. (Source: Bloomberg New Energy Finance, 2023)

- The Fed remains likely to cut rates, even if the timing and pace have been pushed back aggressively since the start of the year. Expectations are no longer unrealistic, and the prospect of lower rates should ease headwinds for growth stocks, including renewable energy pure plays. We see structural investment opportunities in energies such as renewables, hydrogen, energy storage and carbon capture.



Renewable energy continues to grow rapidly, driven by policy support, energy security concerns and improving cost competitiveness



Source: IEA, HSBC Global Private Banking as at 31 May 2024. Forecasts are subject to change.



Top Trend

Evolving Society

The typically slow changes in the way we want to live, how we consume and what we value are typically also very consequential. Companies need to adapt and ideally anticipate these changes.

Our three high conviction themes

1. Infrastructure and Future Cities
2. Social Empowerment and Well-being
3. Sports and Entertainment

Our society is in constant flux but it's easy to miss the slower moving changes. So it can be helpful to take a step back. If a person who died 20 years ago came back, what would they be surprised about? The great technological progress, of course, and the rapid climate change, which we cover under our two other trends. But there are a myriad of other changes too which we classify under our broad umbrella of **'Evolving Society'**.

For example, Europe and China are ageing quickly, while the populations of most emerging markets continue to expand. People continue to flock to

cities, leading to housing shortages and bottle necks in infrastructure. The high street has changed as people seem to consume differently: there are now plenty of boxes with deliveries in buildings' reception rooms all around the world. People seem to do everything last minute, and when they're not behind their computer screens, they spend a lot of money on travel, entertainment and interesting experiences in the search of fulfilling lives. Progress in healthcare is enormous, but not everyone has equal access to it. And while board diversity has improved, women are still paid less for the same job than men.



It's clear that the implications of these changes in demographics, living conditions and people's expectations are vast. Therefore, the small selection of thematic that we choose to focus on will evolve over time. Our selection is a function of what we can implement and what should be supported by short-term forces as well as the longer term trend.

Infrastructure is a case in point. Many countries have grossly underinvested in infrastructure in the past decade, and it shows in the poor state of the road and rail networks in many countries. Governments have trouble keeping up with the need for ever more and ever faster digital infrastructure. And as people flock back to cities, it is clear that they can only function if there is enough investment in communication, water and waste management. Infrastructure quite literally provides the pipes needed for our society to function, and when there is a bottle neck, activity slows while costs and inflation rise. Clearly, another inflation spike is not what governments want. So they welcome private sector investment, especially as fiscal room is limited in many countries. Investors are

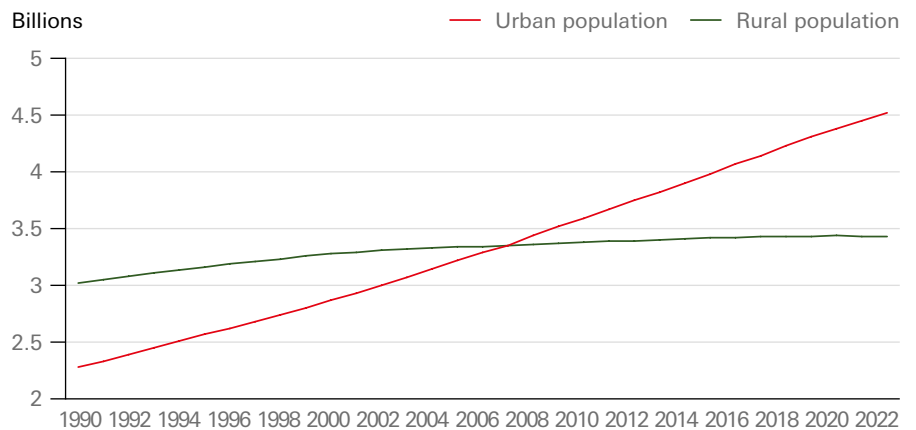
therefore in a strong position, in our view, to negotiate attractive conditions. And with returns on infrastructure often linked to inflation (through regulation or as stipulated in the contract), infrastructure assets can be an attractive diversifier in portfolios.

Our theme of Social Empowerment and Well-being is one that is gaining more attention under the Diversity, Equity and Inclusion (DEI) trend which seeks to promote the fair treatment

and full participation of all people. The theme overlaps with a number of UN Sustainable Development Goals such as good health and well-being, quality education and gender equality. Investors can select companies that are making a positive transition to better social values and practices, while still targeting appropriate financial returns.

Lastly, we have chosen a theme at the intersection of new exciting technologies and societal change, in the form of

Global urbanisation continues apace

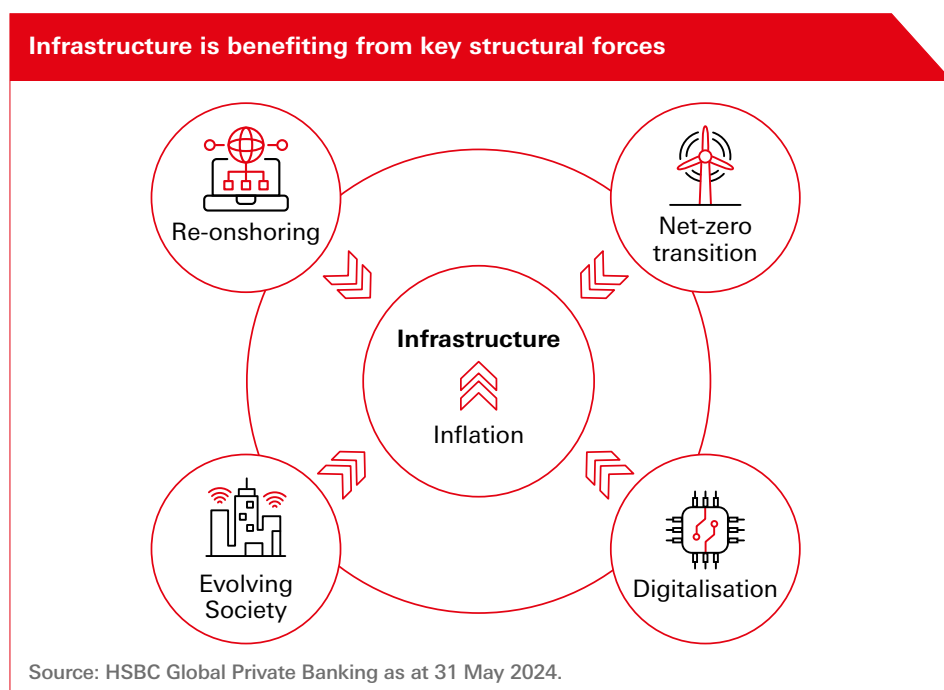


Source: Statista, HSBC Global Private Banking as at 31 May 2024.

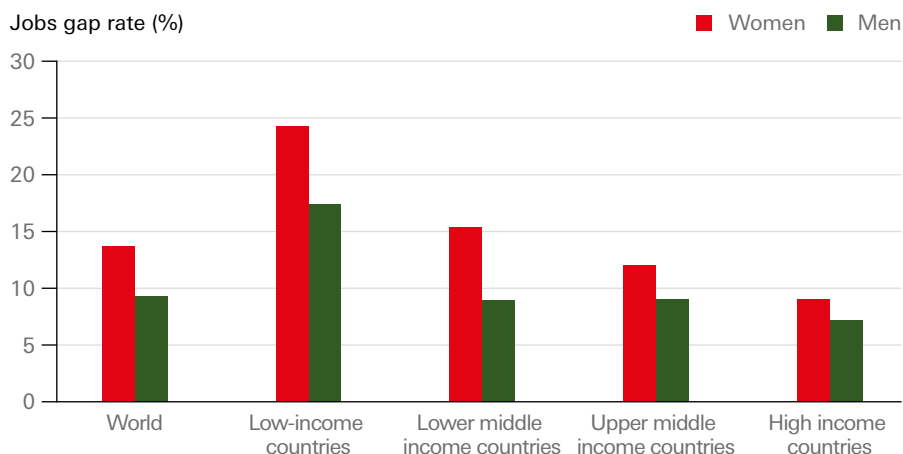
‘Sports and Entertainment’. The huge success of concerts by Taylor Swift in Singapore and Madonna in Rio show the interest of consumers in exciting experiences. Many concerts and sport events are now live streamed, and docu-series, merchandise and sponsoring create a major source of additional revenues. With virtual headsets and thanks to AI, people can

feel they are in the stadium, and the lines between reality and the virtual world blur ever further.

Our three themes are clear illustrations of global trends that apply across geographies and across sectors. As such, they can help with the broadening of our geographical and sector exposure that we try to achieve in our portfolio strategy.



The jobs gap rate is more elevated than average for women and lower income countries



Source: International Labour Organisation – World Employment Social Outlook 2024, HSBC Global Private Banking as at 31 May 2024. Jobs gap rate is the percentage of people who would like to work but are jobless.

01 Infrastructure and Future Cities

Overview

- The pandemic has changed the way we think about city living and urbanisation. It raised challenges and new ideas about innovation in well-being, mobility, infrastructure, housing and work practices. To be successful, cities that are truly built for the future need to consider all of these aspects in their planning.
- To create cities fit for the future, adequate infrastructure investments are needed in transportation, creating green spaces, building flood defenses, education and health care facilities.
- Much of the focus will be on developing 'smart' cities, which use data gathering and analysis to optimise traffic and energy consumption.

The Opportunity

- Cities account for 80% of global GDP. Given global mobility and international competition between economic blocks, investment in cities is thus expected to be enormous in coming years. 4.2bn people already live in cities, and that should rise to 5.2bn in 2030 and 6.7bn in 2050 according to the UN, with most of the growth coming from the emerging markets.

- Investment in energy resilience, lowering emissions and flood defenses has become crucial. We foresee continued rapid urbanisation, with EM markets leading the charge.
- Investment in infrastructure provides exposure to long-life, high-quality assets which form the backbone of global economy, like physical infrastructure, renewable power, energy transition, utilities, midstream assets that transport hydrocarbons, datacentres which often have inelastic demand.
- Attractive Risk-Adjusted Returns: Infrastructure assets tend to outperform during economic booms and protect on the downside during periods of economic stress.

- Net Zero: Is a tailwind. Global commitment of governments and corporates to achieve their net zero targets and invest in renewable energy infrastructure provides a big opportunity.

Why now?

- Infrastructure stocks/funds offer exposure to a secular growth story given the sovereign backings infrastructure development enjoys, especially from recent US legislations like the Inflation Reduction Act, and the US CHIPS and Jobs Act.
- In the current environment of uncertainty, it provides stable cash flows/dividends and also acts as a partial inflation hedge.

Key features of Infrastructure stocks/Funds

Stable Cash Flows



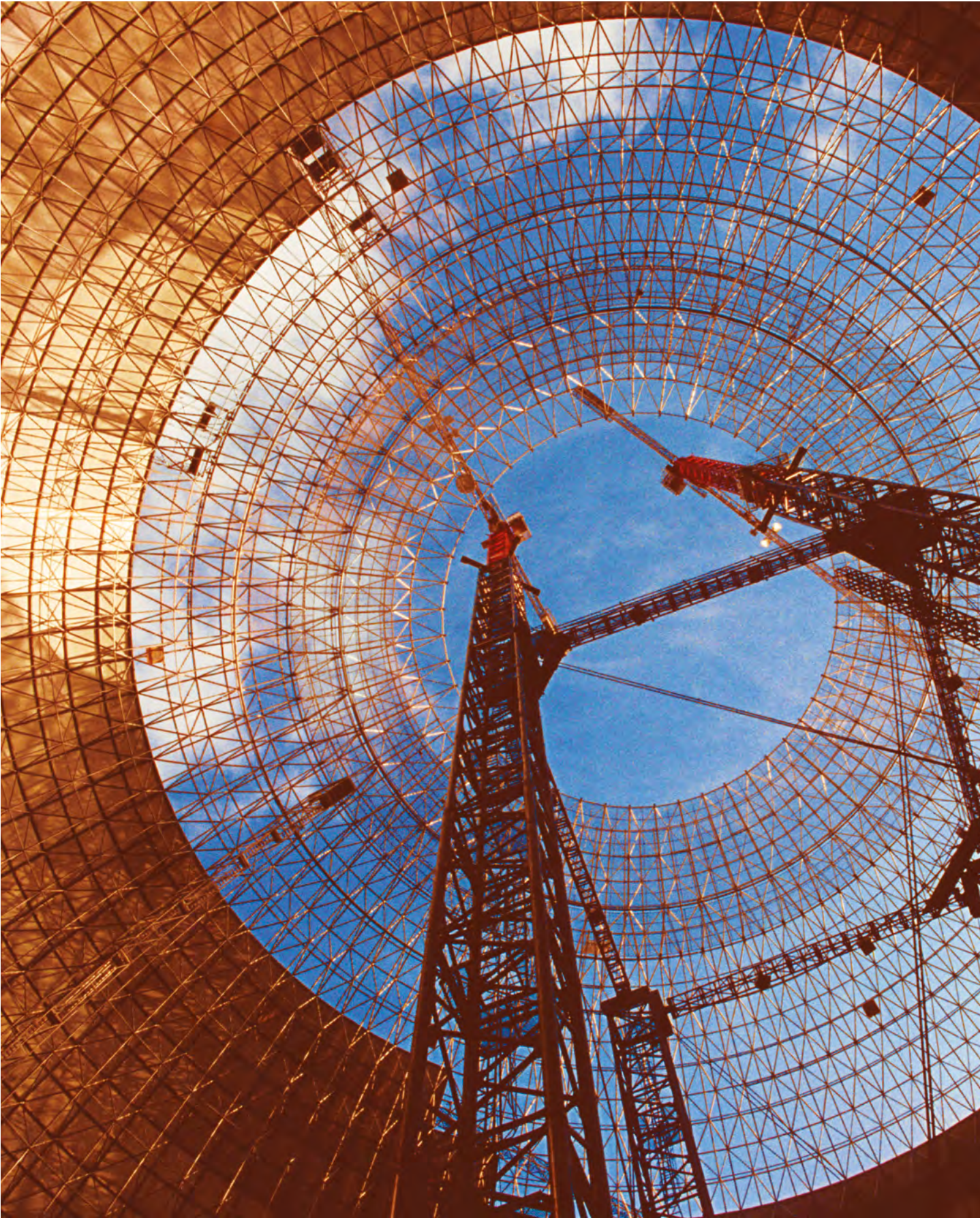
Contracted or regulated revenues

Inflation-Linked Revenues



Revenues grow with inflation due to contractual inflation indexation

Source: HSBC Global Private Banking as at 31 May 2024.



02 Social Empowerment and Well-being

Overview

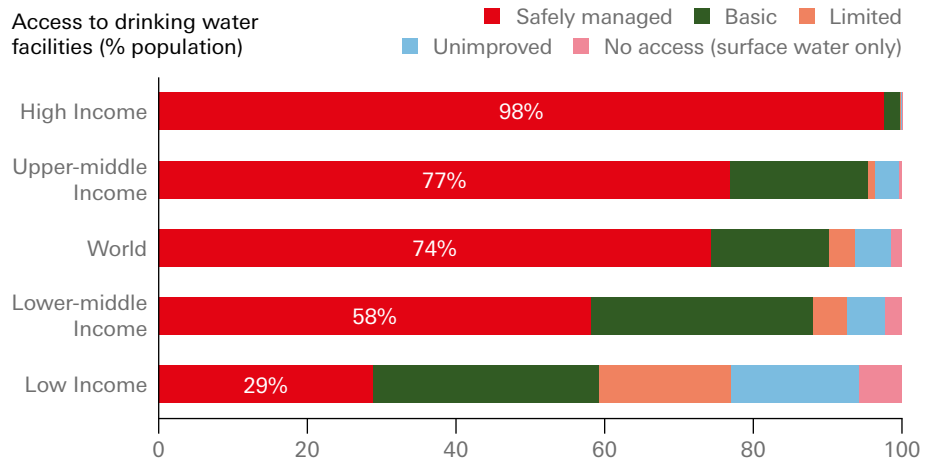
- The cost-of-living crisis, geopolitical tensions and rising impact of climate change has caused a widening in disparities between, and within nations. Food insecurity and access to basic fundamental rights have come into focus as investors look beyond the ‘E’ in ESG and seek to contribute to a more sustainable world.
- Growing awareness and initiatives such as the UN Sustainable Development Goals increases the pressure on businesses to address the social and environmental challenges alongside delivering on their financial metrics.

The Opportunity

- Amid the unraveling of structural forces such as demographic shifts, climate change and technological revolution, companies are increasingly adopting business strategies that offer innovative products and services which incorporate solutions to long-term challenges, while also delivering sustainable shareholder value.
- Thanks to innovative products and services, companies will be able to access underserved markets and generate new revenue streams and business growth and build greater economic inclusion. Investors will be able to participate in the growth of currently untapped markets and opportunities around clean water, financial inclusion and healthcare access.
- Governments and regulators are increasingly implementing policies for the public and private sector to encourage social inclusion and practices to address social issues, such as nutrition, clean water and access to education. Investors could position in areas that are supported by policy incentives, whilst also contributing to the transition



The move towards a more inclusive world starts by ensuring basic fundamental rights are met globally



Source: WHO/UNICEF Joint Monitoring Program for Water Supply and Sanitation, HSBC Global Private Banking as at 31 May 2024.

towards a more sustainable world. Although investors should primarily focus on the financial and investment considerations, ESG factors are also important. Please refer to our ESG disclosures.

Why now?

- In the backdrop of still elevated interest rates, we broadly don't expect fiscal tightening in 2024. However, with more than 70 elections this year, uncertainty around the fiscal outlook and public investment spending continues to persist.
- Implications could vary from trade protectionism to immigration policy, and amid the ripple effects of economic and geopolitical conditions, there is a greater need for private capital flows to address the ongoing social topics.
- We believe businesses that address social (and environmental) challenges tend to have more forward-thinking strategies in their stakeholder interactions and achieve stronger business resilience.

03 Sports and Entertainment



- Esports are growing rapidly too and are attracting large global audiences as well as bringing people to the associated games and platforms.
- This year sees two of the most watched global sporting events taking place, the Summer Olympics with over 2bn viewers and the Men's European football championships with over 300 million viewers.
- We see opportunities in facilitators of the events, advertising, clothing and equipment, content generators and technology.

Overview

- The Sports and Entertainment industries are still seeing elevated post-pandemic demand, particularly around the live experiences. Investment activity in Sports and Entertainment, including in esports, is also high across sports teams, venues and streaming content.
- Millennials and Gen Z are preferring to rather spend on life experiences than save for retirement (Source: Experian report, June 2023).
- The physical and virtual worlds are becoming blurred with the success of esports and the advances in VR and AR tech.
- The Olympics and European Football championships will attract large audiences this summer and act as a tailwind for the industry.

The Opportunity

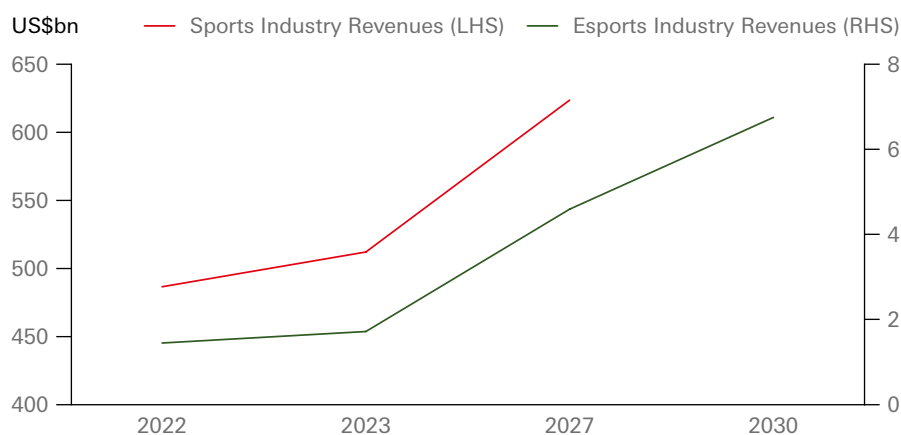
- Investment in Sports and Entertainment has been growing on several fronts. Saudi Arabia, in particular, has been investing heavily across global sports, most notably in football and golf, (c.USD10bn) in recent years.

- Streaming companies such as Amazon and Netflix have been spending heavily too, competing for live content and creating docu-series which act as promotional tools.
- New business models in music entertainment focus on live events, complementary movie theater showings and VR concert experiences. Live music revenues are expected to grow at a CAGR of 9.6% through 2027 (Source: PWC Global Media and Entertainment Outlook 2023 – 2027).

Why now?

- Investment in Sports and Entertainment is currently at historic highs, both in activity and dollar spend.
- Technology is now enhancing the experience of sports and creating a variety of new ways to experience events.
- The Summer Olympics and European Men's Football championships will act as catalysts for sports spending in the summer.

Global Sports revenue estimates



Source: Statista, HSBC Global Private Banking as at 31 May 2024. Forecasts are subject to change.

Top Trend

Riding the Earnings and Rate Cut Tailwinds

We want to lock in current attractive bond yields to generate a solid income stream. In equities, we tap into broadening earnings growth with our US and European themes.

Our four high conviction themes

1. American Resilience
2. North American Re-Industrialisation
3. The Magnificent Europeans
4. Opportunities in Quality Credit

Regular readers know that to determine our cyclical positioning, we start by looking at two variables. First, we examine whether inflation and rate dynamics are benign or present a headwind. Second, we look at whether earnings and economic growth are accelerating or decelerating. With two variables and two options for each of them, there are four possibilities.

The most bearish scenario for markets would be stagflation, where inflation is too high, and growth is falling. Fed Chairman Jerome Powell all but ruled

out this option during the May press conference, as he said "I don't see the 'stag' or the '-flation'".

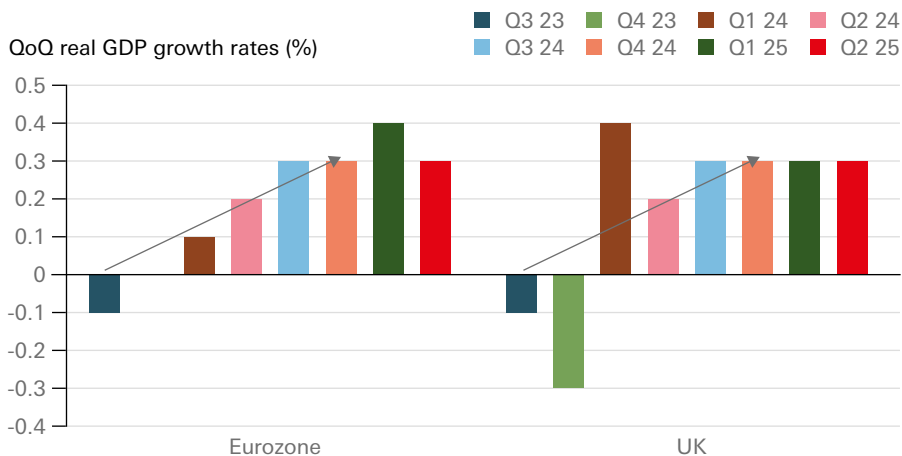
Clearly, that's good news. Bears can't have it both ways and be negative on both variables. In our view, even those who worry the Fed will not be able to achieve both its inflation and growth goals need to choose. The principal risk is that inflation would remain stickier by maintaining higher rates for a longer period, but if this materialised, this would lead to be the result of strong domestic growth to a large extent.

While our core scenario agrees with Mr Powell (i.e. good news on both inflation and growth), our portfolio strategy also takes into account the risk of the 'higher-for-longer and stronger-for-longer' scenario. Indeed, our biggest overweight is in stocks, and we have broadened our geographical and sector exposure as a result of broadening earnings and economic growth. Equities don't worry too much about inflation remaining at 3 – 3.5%; in fact, they historically do quite well when inflation is at that level.

But we still maintain a mild overweight in bonds too, as Mr Powell stated the next move would be a rate cut, thereby effectively putting a cap on bond yields, in our view. That cap cannot be too far from current levels as we are close to the recent Treasury yield peak and markets are quite conservative on the number of rate cuts, not just this year but also for the foreseeable future. We continue to favour US Treasury bonds and investment grade corporate bonds, as reflected in our high conviction theme of **Opportunities in Quality Credit**. High yield has performed well too, but spreads are now quite tight, and any equity volatility or fears of even further delays in rate cuts could lead to some spread widening for low-rated issuers (we would rather hold a barbell of high-quality bonds and equities).

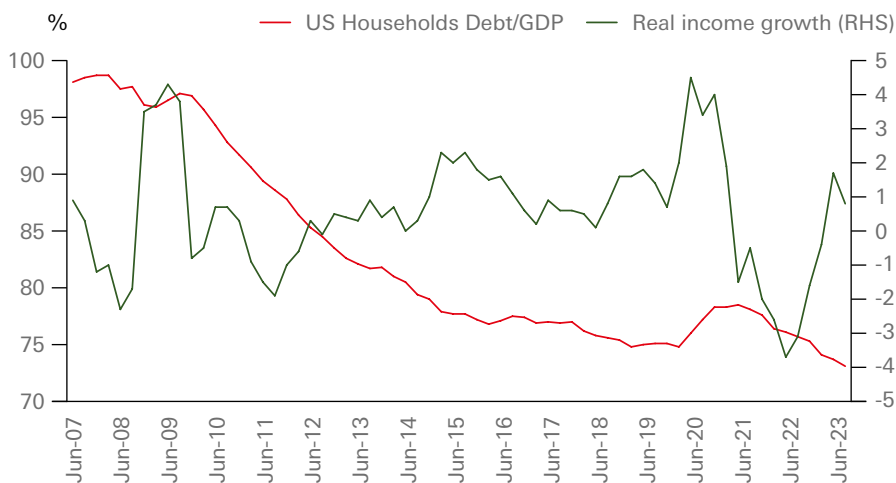
In equities, we maintain our two US-focused themes and have added a European theme, to reflect our view that global opportunities are broadening. During Q2, we upgraded Eurozone stocks from underweight to neutral as the economic cycle there seems to have bottomed. There are signs that this is causing some of the attractive value in European stocks to be unlocked, so we have introduced a new **The Magnificent Europeans** theme, which is an answer to the better known Magnificent 7 in the US. However, while our European version also focuses on large caps and leading innovators in their sector, the sector

We have added a European theme as growth has bottomed and cyclical momentum is improving



Source: HSBC Global Private Banking as at 31 May 2024. Forecasts are subject to change.

US households are generally in a good financial position as leverage remains manageable



Source: Bloomberg, Federal Reserve, HSBC Global Private Banking as at 31 May 2024.

exposure is naturally broader: Europe has a much smaller tech sector and has competitive advantages in other areas such as consumer goods.

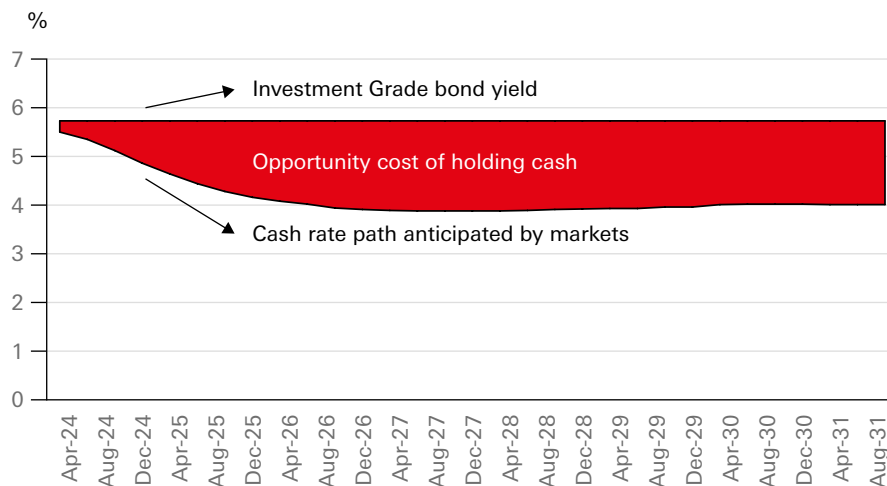
In the US, we continue to tap into the strength of domestic demand through our **American Resilience** theme. Most US consumers are in a relatively strong position as real wage growth has rebounded thanks to falling inflation. Job markets are still solid and interest payments are manageable (thanks to

deleveraging after the financial crisis and the long-term nature of most mortgages). US consumer goods and services companies, as well as US financials should benefit from strong domestic demand. While a high-for-longer rate environment will put some pressure on the most highly leveraged households and companies, we expect the pickup in delinquencies to remain mild. As for commercial real estate, we are more worried about the regional banks, as large banks continue to see strong

revenues from net interest, lending, trading and rising M&A activity.

Finally, our **North American Re-Industrialisation** theme benefits both from a cyclical pickup in manufacturing across the region, and structural support. The broadening cyclical momentum has triggered earnings upgrades and strong stock price momentum in the industrials sector. The structural tailwind comes from the onshoring and near-shoring resulting from changes in the global supply chains. Lastly, we note that existing legislation and the Presidential campaigns underpin the manufacturing renaissance.

We continue to lock in current attractive yield levels as holding cash presents a big opportunity cost



Source: Bloomberg, HSBC Global Private Banking as at 31 May 2024. Past performance is not a reliable indicator of future performance.



Top Trend – Riding the Earnings and Rate Cut Tailwinds

01 American Resilience

Overview

- The US economy is expected to slow. Secular themes like near/onshoring, re-industrialisation of US manufacturing, and emerging technologies will add to growth.
- Labour markets remain healthy with unemployment near 60-year lows and rising real incomes are lifting consumer purchasing power.
- Companies are investing to enhance productivity and return on capital. US earnings are forecasted to rise 11% in 2024 and further accelerate 14% in 2025 (Source: FactSet as at 10 May 2024).
- Post Fed pause, US equities historically outperform global markets.

The Opportunity

- We remain constructive on US equities, with a slightly cyclical sector allocation. A pause in Fed tightening cycle has historically been beneficial for consumer discretionary, industrials, technology, healthcare and financials.
- Market consolidation and sector rotation have brought down the valuations. Looking ahead, the outlook around lower rates and multiples expansion should drive the equity returns.
- Consumer spending should remain healthy, with focus on services and discounted goods.
- The technology revolution, supply chain near/onshoring and re-industrialisation should lift growth. Companies have invested in hardware, software, and numerous technologies that will improve productivity and return on capital.



- The prospect of a lower cost of capital this year should help drive earnings upgrades and better equity returns. We do not believe this is fully priced into the markets yet.

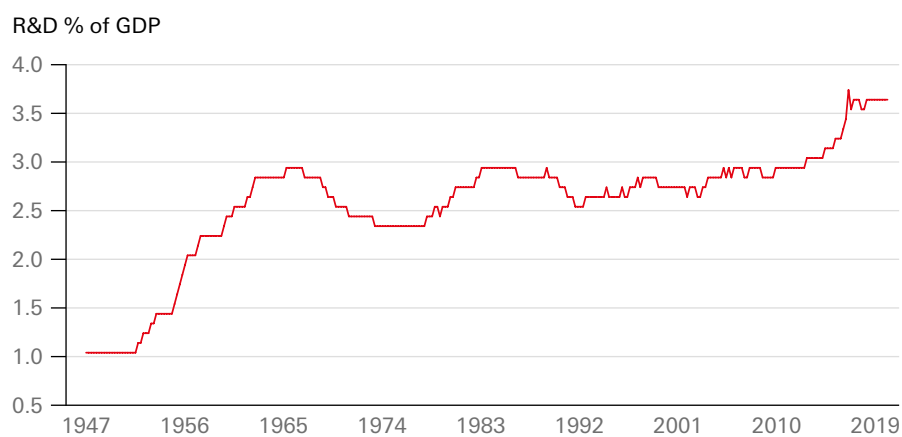
Why now?

- Historically, after a Fed pause, US equities outperform global markets in the next year, with the S&P 500 rallying an average of 19% in the next 12 months (Source: Analysis of historical data from Bloomberg, 2024).



- As the Fed begins to lower rates, it should be accretive to earnings. We expect earnings upgrades, especially in interest-sensitive sectors.
- Improving earnings expectations should result in meaningful multiples expansion. In bull markets, the average expansion of forward multiples has been 5X.
- The above mentioned secular trends should provide a tailwind for corporate earnings, equity market valuations and the overall US economy.

Research and Development continues to rise



Source: Fred, HSBC Global Private Banking as at 31 May 2024.

Top Trend – Riding the Earnings and Rate Cut Tailwinds

02 North American Re-Industrialisation

Overview

- The US is trying to secure supply chain of intermediate and finished goods. In certain industries, local production is essential to maintain resilient supply chains.
- The Federal, state, and local governments, all are pushing to lift employment. Re-industrialisation is creating jobs in the US.
- The use of revolutionary technologies has reduced the cost of manufacturing dramatically, making US a viable competitor in global manufacturing.

The Opportunity

- The federal government is providing funds, and other tools to incentivise investment for building new manufacturing plants.
- Governments are pursuing new manufacturing facilities and the accompanying jobs will boost local employment and wealth creation.
- After declining for years, manufacturing employment has risen almost 6% in the last three years (Source: HSBC Global Private Banking as at 31 May 2024).
- Industrial companies are thriving, as new plants are being designed and built. The surrounding infrastructure must also be updated to support the larger levels of employment.





- In addition to the new plants, local logistics must be updated to reflect the increased flow of activity. Over the last six months, construction spending on new manufacturing facilities has risen by 50% y-o-y (Source: Fred, May 2024).
- Re-onshoring has been on focus due to the need to create jobs in the US. Both major US political parties have championed this idea and US companies are looking to establish supply chain relationships in countries that are friendly, nearby and provide cheap labour.

Why now?

- This year is the US Presidential election and job creation will be a major political issue. New spending or preferential tax abatements will remain

key. Post COVID, many companies have relocated their manufacturing to secure basic, intermediate and finished goods.

- Next generation technologies, led by robotics, automation, AI and 3D printing, to name a few, are increasing productivity in manufacturing and lowering costs.
- As the Fed begins to lower interest rates this year, the start-up cost of new manufacturing plants should continue to drop.
- Global geopolitical instability has caused many companies to relocate and diversify production to countries that offer better proximity to end users with more political stability.

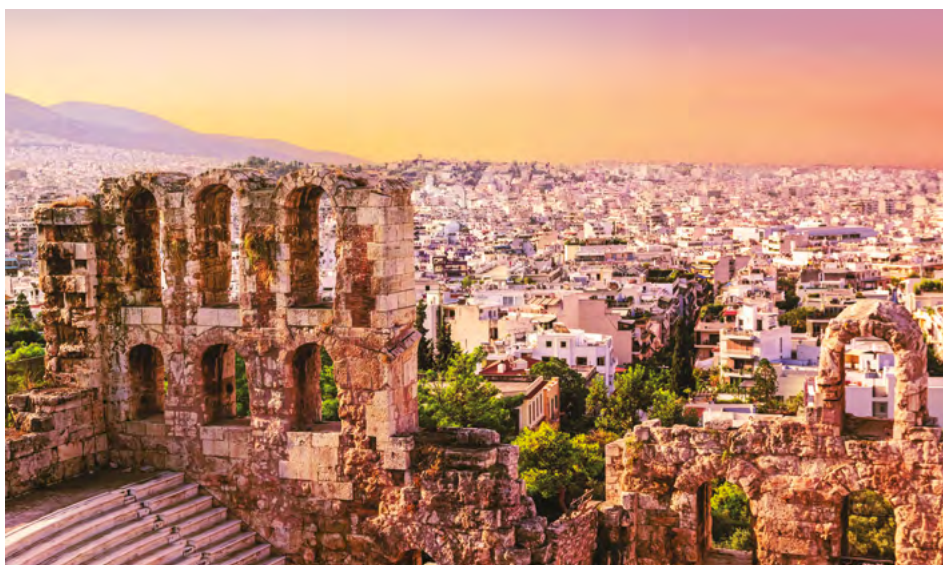
Spending on manufacturing remains strong



Source: Bloomberg, HSBC Global Private Banking as at 31 May 2024.

Top Trend – Riding the Earnings and Rate Cut Tailwinds

03 The Magnificent Europeans



Overview

- European growth has bottomed in H2 of 2023, with forward-looking indicators and business surveys pointing to mild growth this year, led by services and the economies in the periphery.
- The ECB has grown more confident about the outlook on inflation, with the 2% goal closer in sight, paving the way for rate cuts to begin in Q3 this year and with expectation of further cuts in Q4. Corporate earnings are likely to bottom in Q1, and set to rise heading towards year-end, which should support our preference for quality stocks and large caps within the Eurozone.

The Opportunity

- There has been much talk around the Magnificent 7 of US. However, Europe also boasts some large cap companies that share similar characteristics and have nothing to be jealous of their US peers.
- These European champions, or so-called 'Magnificent Europeans' are global innovators that enjoy double-digit earnings growth and high ROE yields. They have a global customer base and strong balance sheets that helped them outperform

European peers in challenging times, and yet are very well positioned for the secular thematic trends around AI, healthcare innovation and energy transition.

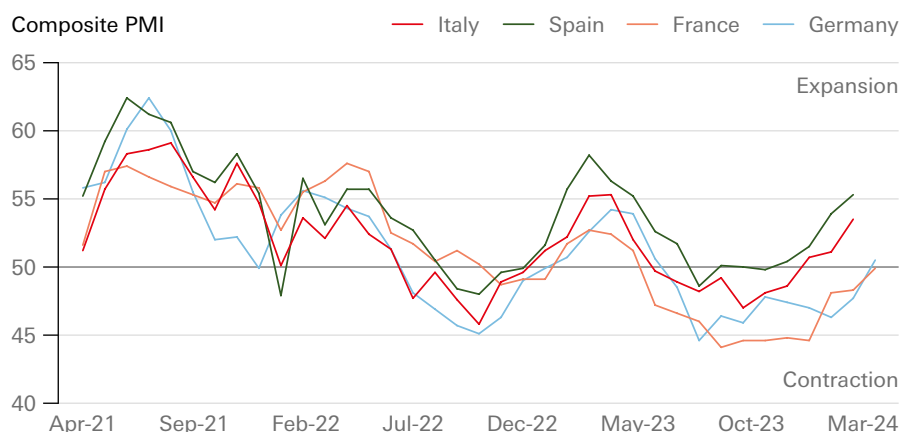
- European equities continue to trade at meaningful discounts relative to their US peers and remain shy of their own 5- and 10-year historical averages half-way through Q2 2024 (Source: HSBC Global Private Banking as at 31 May 2024).

Why now?

- European assets have been neglected by some investors in recent years, due to the stagflationary concerns and greater vulnerability to ongoing geopolitical conflicts. The focus has instead been on US exceptionalism in the West, Japan's structural reforms and India's remarkable growth in the East. Although these stories remain exciting in our view, European assets have been trading firmer of late, as growth is showing a cyclical improvement, inflation continues to demonstrate progress and confidence for policy rate cuts becomes stronger.

- This backdrop should also translate to improved earnings, although a number of quality large caps in Europe have demonstrated their ability to grow their earnings and innovate even under periods of muted regional economic prospects.
- Valuations remain cheap versus US stocks, even when adjusting for sector discrepancies, making them an attractive diversification play for global portfolios.

Europe averted a recession with growth poised for a mild upswing supported by forthcoming rate cuts and improved confidence



Source: S&P Global, Bloomberg, HSBC Global Private Banking as at 31 May 2024. Forecasts are subject to change.

04 Opportunities in Quality Credit

Overview

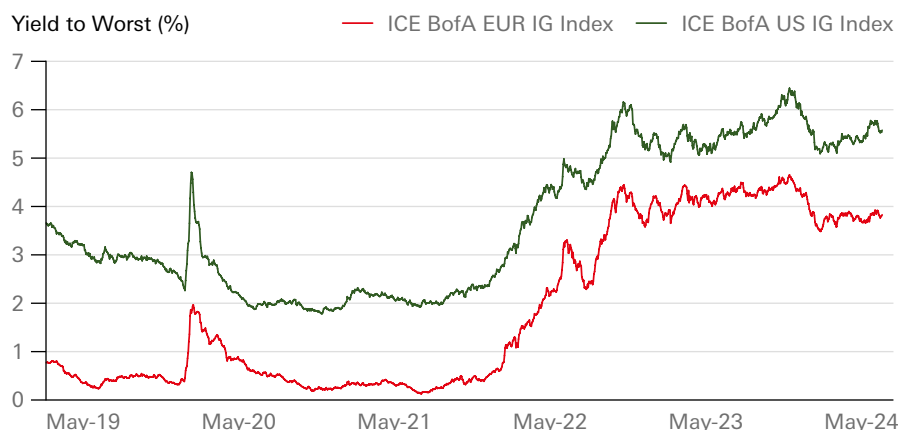
- Our preference for high quality corporate bonds is underpinned by the attractive yields in an environment of declining inflation and low global economic growth. We believe we are at the peak in policy rates, yet risks remain as the impact of higher rates on leveraged companies is difficult to assess, due to the lagged effect of monetary policy. A focus on quality credit in the 5 – 7 year part of the yield curve thus feels appropriate, across both global and EM IG market.

- Fundamentals remain robust across many EM companies and quality EM bonds present a strong carry opportunity, while giving diversification across ratings, sectors and nations.

The Opportunity

- Major central banks have exhausted their rate hike potential, in our view, yet policy rates could remain high for longer to ensure inflation returns to their targets. Global IG bonds with a duration exposure of 5 – 7 years should benefit from slower GDP growth, given real rates currently appear too restrictive.
- With tight credit spreads, the risk-reward remains in favour of high-quality bonds as the risk-free US Treasury component now represents about 80% of the overall US IG index nominal yield (Source: HSBC Global Private Banking as at 31 May 2024). Investing in medium duration bonds allows us to lock-in attractive carry for a longer period and benefit from price appreciation, when interest rates start declining.
- Our largest overweight in Fixed Income remains on DM IG companies, while we selectively invest in EM IG companies with strong balance sheets and low

DM IG bond yields remain attractive in the context of peak policy rates and slower growth



Source: ICE BofA, HSBC Global Private Banking as at 31 May 2024. Past performance is not a reliable indicator of future performance.

refinancing risks. We prefer selective EM LatAm and Asian corporates while on a sectoral basis, we like technology and financials globally.

Why now?

- With policy rates now firmly in restrictive territory, DM IG bonds offer attractive yields across the curve. Based on the ICE BofA indices, US IG bonds offer a yield of 5.6%, while European IG bonds yield 3.8% on average as of 13 May 2024. US HY credit spreads appear rich versus US IG historically, particularly as higher rates could weigh on more leveraged balance sheets.

- EM corporate bonds carry an IG rating of BBB on average and offer a yield of 7.2% as of 13 May 2024, with a relatively shorter duration of 4.2 years (as per JPM CEMBI Broad index).

- At 4.7% on average, US Treasuries (UST) are already pricing in a generous risk premium for the uncertainty around the inflation, fiscal deficit and elevated UST supply outlook. We believe current market levels represent a compelling entry point and look for opportunities to invest in quality IG credits to provide a source of additional carry above the benchmark.



HSBC and Sustainability

Today we finance a number of industries that significantly contribute to greenhouse gas emissions. We have a strategy to help our customers to reduce their emissions and to reduce our own. For more information, visit www.hsbc.com/sustainability.

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 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; (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 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 “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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