Investment Outlook

Q1 2022

The Big Reset

HSBC

Global Private Banking

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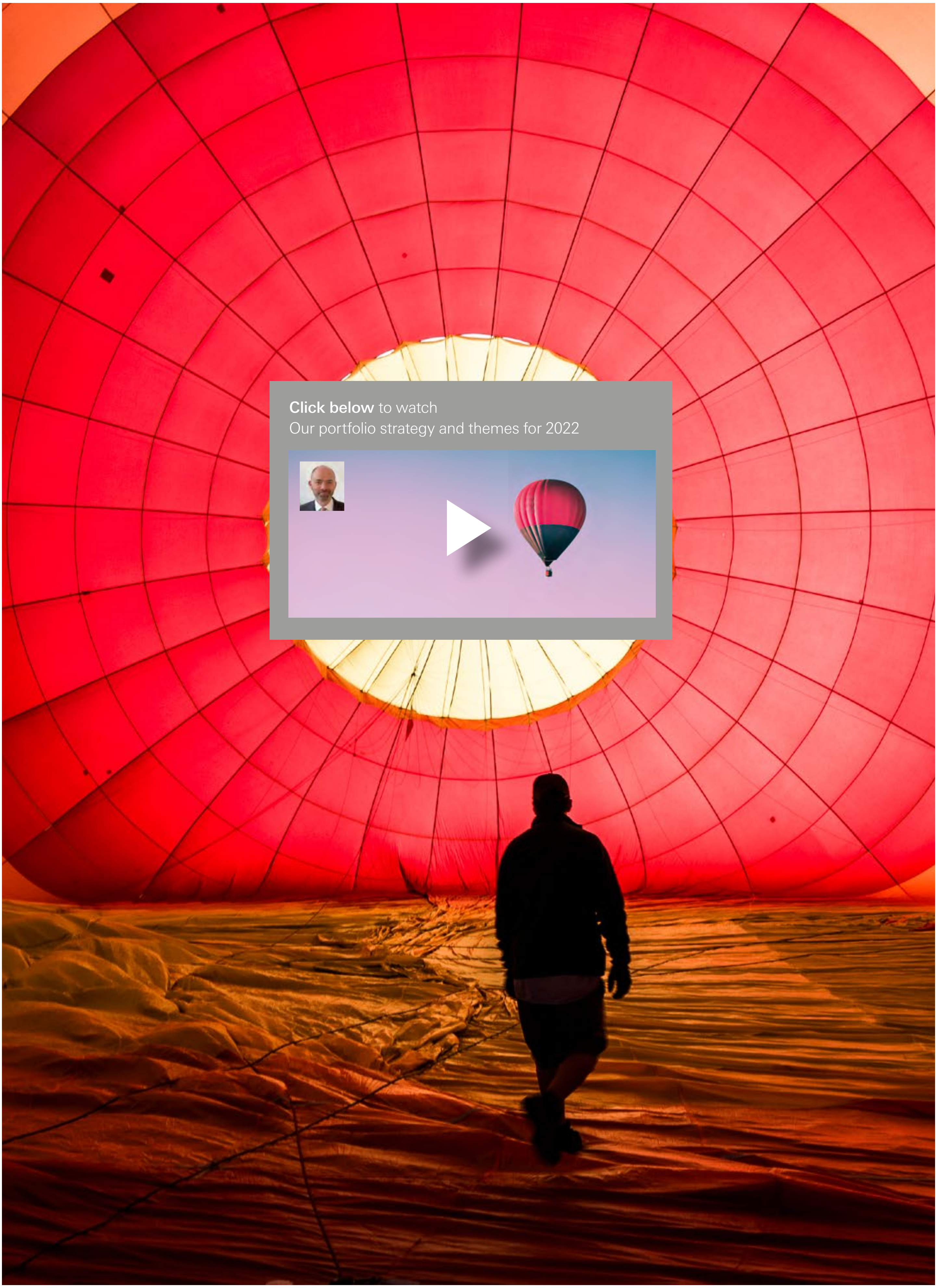
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Our portfolio strategy and themes for 2022

Welcome

Dear client

2021 was the year of the global reopening, which boosted investor optimism and companies' cash flows. And although the jump in demand contributed to supply chain issues and labour market shortages, causing inflation to spike, these factors did not halt global equity markets' progress. Most companies managed to protect their margins, and central banks very helpfully decided not to react too quickly to rising inflation, keeping interest rates very low.

As we head into 2022, the economy has moved from the reopening to the mid-cycle stage. In that part of the cycle, equity market returns typically slow but remain respectable, and volatility picks up somewhat. And policy is also transitioning: some central banks have started tapering, while the US Fed and the Bank of England should soon start to hike rates. On the fiscal side as well, we should see the start of some tax hikes and less fiscal support than during the pandemic.

But both fiscal and monetary tightening will be gradual. Central banks agree with us that inflation will come down some time in 2022, and hence, the four rate hikes we expect from the Fed between June 2022 and September 2023 are somewhat slower than what we've historically seen. And governments will try to avoid the backlash against the austerity that followed the Great Financial Crisis, and keep investing in priorities such as healthcare and infrastructure. That gradual approach should allow economic and earnings growth to continue, and keep bond yields low. Any transition, however, comes with some execution risk and the likelihood of more market volatility, especially as there is considerable uncertainty around the timing of the fall of global inflation and the potential for further COVID waves (as exemplified by the most recent volatility linked to the Omicron variant).

While policy makers are navigating this transition, they are also planning a big reset for the global economy, together with the world's CEOs, investors, voters and consumers. Clearly, the sustainability revolution is the biggest project of all, and it is no exaggeration to say that every company will be affected by the new regulation, huge investments and opportunities, shareholder pressure and changing consumer choices. We believe sustainability should be part of both the core portfolio and investment thematics to manage risks and exploit opportunities, and before we invest in any company, we need to understand where they stand on all ESG aspects.

We are already seeing evidence of companies participating in the big reset, as capex is picking up, and companies put some of their bumper cash positions to work. They want to make their supply chains more resilient by diversifying them and they are investing in automation and AI. In China, companies' investments are in line with the country's desire to become more technologically self-sufficient and upgrade its manufacturing.

So, as investors, we need to position for both the mid-cycle transition and the big reset. We do the former by remaining invested to capture the upside, but by constructing resilient portfolios to navigate the volatility. We therefore focus on portfolio diversification with a selective search for carry in bond markets and a preference for quality stocks, while we also hold an overweight position in hedge funds and position for mild further USD strength. We have reduced the number of sectors and markets that we have an overweight position in, with the US, the Eurozone and EM Asia being our principal overweights, while we keep a neutral stance on the UK and China for now.

At the same time, we position for the big reset by integrating sustainability throughout our portfolio, and by looking at long term structural themes. Asia remains a region with much potential, and our focus on long-term themes under the trend of "Remaking Asia's future" helps us balance the long term value and opportunity against short term uncertainty. And of course, the reset would never be possible without the digital transformation, with interesting opportunities in biotech, automation, digital security, and smart mobility.

Most of the market headlines may well continue to be around the short term policy transition. But it is key that investors position for the Big Reset which is redefining the investment landscape.

We wish our clients a happy and prosperous 2022.

Willem Sels,
Global Chief Investment Officer
1st of December 2021

Our portfolio strategy

The mid-cycle stage is still a positive environment for riskier assets, and hence we remain invested with a mild risk-on stance. But the exact inflation and growth path is uncertain and will remain hotly debated in coming months, leading to continued volatility. So how can investors prepare for continued growth, as well as the significant uncertainties? We become more selective in our country, sector and stock picks, focusing on areas with strong support, which warrant the valuation multiples. And to further increase portfolio resilience and broaden the opportunity set, we are now overweight on hedge funds.

Fixed income
Overweight: Global High yield, EM Hard currency bonds (government and corporate)
Underweight: Developed market sovereign bonds and inflation linked bonds
Equities
Overweight: USA, Eurozone, EM Asia
Underweight: EM Latin America, EM EMEA
Alternatives
Overweight Hedge Funds

What we believe we know: the cycle, inflation, policy and structural trends

The major market drivers for 2022 are relatively clear, in our mind. First and foremost, we are in the mid-cycle stage, and not at the end of the economic cycle. While growth is slowing, and we don't yet know the full impact of the new Omicron variant discovered in South Africa, some parts of the economy are still reopening and accelerating. Governments are making sure that any fiscal tightening will not crush the recovery. We are also seeing a strong pickup in corporate investment, boosting the capex cycle, as CEOs put to work some of their considerable cash piles, and invest to adapt to the post-pandemic world. Granted, corporate earnings growth will slow from the record levels we saw during the reopening, as demand growth will slow, input costs remain high for now and taxes are bound to rise. But earnings growth should still manage to match or beat historical averages.

We also remain of the view that inflation will remain high in the short term, but come down in the course of 2022, although it is impossible to know when exactly this will happen. This is largely because wage inflation and supply chain issues still push up inflation, but structural deflationary forces such as technology, increasingly global labour markets and the growth of the service industry remain in place. Central banks thus tend to refer to current high inflation levels as 'transitory'. And consequently, rightly or wrongly, the policy tightening they are planning will be done as slowly as possible. Most central banks still want to see further improvement in the labour market before doing any serious tightening, and neither tapering nor rate hikes can solve the short term supply-chain bottlenecks anyhow. We expect the Fed to hike rates by 0.25% in June 22, September 22, March 23 and September 23, but this gradual path should still leave its policy rate well below the historical average.

So the combination of growth and inflation that we foresee in 2022 does not correspond to the stagflation scenario that some investors worry about. As the cycle continues, we remain positive on equities, even though the slowdown means that we have reduced the cyclicality of our sector exposure. We have also become more selective in the geographies we are exposed to. The US remains our principal stock market overweight due to the resilience of the US economy and its quality style bias. We are also overweight on Eurozone stocks, as its economic recovery is lagging and therefore still has good momentum behind it, whilst also being supported by the EU Next Generation fund investments. By contrast we cut UK stocks to neutral in the last quarter of 2021 due to the planned rate hikes and fiscal tightening there, and remain neutral on China as investors want more policy clarity. Till then, we invest in our long term High Conviction Themes, and diversify within Asia, which is our overweight region within EM equities. Elsewhere, we are underweight on Latin America and EM EMEA as we believe commodity prices will start to plateau.

The low interest rate environment keeps us away from cash and directs us towards select carry opportunities in high yield and EM markets, with a preference for corporates over governments. The fact that the Fed policy normalisation remains ahead of most other central banks means that the US dollar should continue to see some mild upside.

Aside from these macro-economic drivers, there are a number of thematic drivers that are important for our asset allocation as well. Governments' fiscal priorities should support infrastructure investment, while the increased focus on people's health should benefit biotech, genomics and devices, given the great recent innovation in this space. But first and foremost, it is the sustainability topic that will see huge investment and focus from all stakeholders in 2022, and long into the future. One of the main insights we took away from the COP26 summit was the sheer number of aspects that will impact companies and investors, from regulation, to the huge government and private investment, collaboration on technological innovation, the rapid expansion of financing, and the focus on biodiversity. The stakes for companies have just gone up dramatically, when they put a foot wrong with clients or investors, miss out on the huge opportunity or lag their competitors. Hence investors should consider sustainability throughout their portfolio strategy, through an enhanced, thematic or impact approach.

How we see the 2022 investment environment: what we know and what's uncertain

What we know	How do we prepare
1. The economic cycle continues, but earnings growth slows	Still invested, but we trimmed our global equity OW and reduced cyclicality
2. Commodity base effects will fade over time	We cut EM Latam and EM EMEA to underweight
3. Although inflation remains well above normal, central bank tightening is gradual	Underweight cash. Stay invested in selective fixed income carry strategies
4. The Fed is ahead of most other major economies	Position for mild USD strength
5. Sustainability is high on the agenda for all stakeholders	Use ESG enhanced, thematic and impact approaches
6. Businesses start a capex cycle to innovate and prepare for the future	Automation & AI, Next Generation Asian Tech Leaders themes
7. Governments want to be better prepared for a pandemic	Biotechnology, Genomics & Devices theme
8. Fiscal policy has to tighten but spending on priorities continues	Infrastructure 2.0. Focus on companies with margin power
9. Long term opportunity in Asia vs short term challenges	Invest in long term Asian themes, diversification within Asia
10. The world's biggest economy keeps running above trend	US is our largest equity overweight, American Renewal theme

What's uncertain	How do we prepare
1. Timing of the fall in inflation and central bank policy changes	A focus on quality stocks with strong margin power. Recent cut of EM LC bonds
2. Will COVID waves extend labour market shortages and supply chain issues	Overweight consumer cyclicals, underweight industrials
3. Timing of the shifting market concerns over growth and inflation risks	Overweight hedge funds. Remain exposed to both growth & value, cyclicals & defensives
4. Timing of policy triggers to lift investor confidence and China's market performance	Tactically neutral Chinese equities and Chinese hard currency bonds.
5. Geopolitical risks and elections	Global diversification

What is uncertain: timing and sentiment

While we think the big drivers for markets are relatively clear, it is more difficult than usual to time the market or forecast changes in sentiment. Most importantly, it is almost impossible to know when inflation will come down. Our core case is that year-on-year changes in US CPI will start to ease late in Q2 or in Q3 2022. But we don't really know when supply chain bottlenecks will ease, or when labour markets will see fewer shortages. Some workers still seem uncomfortable with going back to work, and their return could be delayed if new variants such as the latest Omicron were shown to be easily transmitted or if the vaccines are less effective than previously hoped. Conversely, if new variants are not too threatening, any advances in COVID treatment or vaccination could speed up the return to work. Other workers may have made the decision to take a long break or retire. There are just too many moving variables for one to be absolutely sure about market timing and sentiment.

The good news is that we can manage this uncertainty, to some extent. To deal with the risk of inflation remaining higher for even longer, we focus on quality companies with strong margin power. Labour market shortages could boost wages more than expected, which should help consumer discretionary, while the risk of extended supply chain shortages argues for an underweight of industrials.

Uncertainty around the labour market is one reason why both the US Fed and Bank of England recently said they want to adopt a wait-and-see attitude and a slow approach to monetary policy normalisation. That should anchor Treasury yields, but market nervousness around the outlook should make those yields volatile. We therefore expect to see a 'low but volatile' Treasury environment, with 10-year yields in a broad 1-2% range. To manage our fixed income risk amid the expected volatility, we have cut EM local currency bonds to neutral, as they are the most volatile sub-asset class within fixed income.

Regarding investor sentiment, we find it difficult to assess when international investors in particular will feel that they have enough clarity to move back into Chinese stocks. Low valuations are a good starting point, though, and more monetary or fiscal support measures, and clarity around the 20th National Party Congress priorities should help create a rebound some time in 2022. Until that happens, we remain neutral

Four growth / inflation scenarios and what they mean for portfolio strategy

1 High growth, high inflation

Continued rebound, with some bottlenecks

Mild risk-on environment

Equity style bias: value

EM: selective in EM bonds, more support for EM equities but DM outperforms EM

FX: mild USD strength

Real assets including commodities and infrastructure

3 Lower growth, high inflation

Bottlenecks restrict growth, inflation hurts disposable income

Policy action hurts sentiment

Risk-off environment, volatility spikes

Sector stance: defensive

EM: high volatility across equities and bonds: highly selective stance with focus on quality

FX: pronounced USD strength

Real assets including infrastructure

2 Still good growth, falling inflation

Bottlenecks prove to be temporary while the cycle continues

Risk-on environment, volatility drops

Sector / style stance: mildly cyclical

EM: positive for equities and bonds. Strong support for carry strategies

FX: USD stalls

4 Normalised growth and normalised inflation

With time, the cycle naturally matures and bottlenecks ease

Mild risk-on environment

Equity style bias: growth

EM: support for carry and quality strategies

FX: mild USD weakness

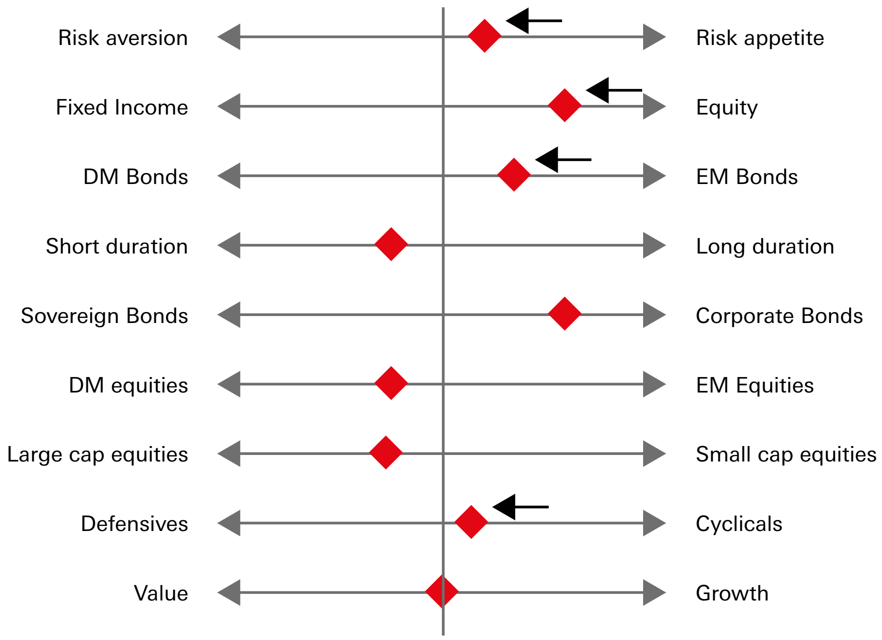
on Chinese equities and Chinese hard currency bonds, and focus on longer term themes.

We think that in 2022, markets will continue to see periods of optimism and pessimism on both inflation and growth, and flip-flop between those views until there is more clarity. In our four quadrant scenario analysis on the previous page, we show what areas of the market would typically do well in each of those circumstances. Our view is that scenarios 1 and 2 (above average growth) are much more realistic than scenarios 3 and 4 (significantly lower growth), but we think that market opinion will shift between all four, and bad news around the omicron variant could temporarily push us into scenario 3.

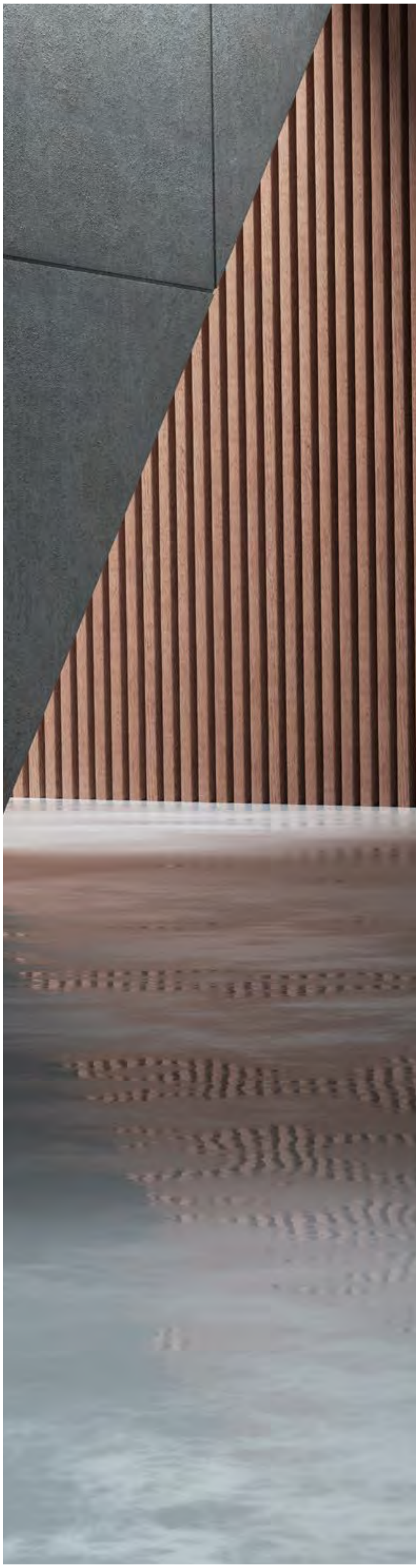
As market opinion shifts back and forth, we think we will have periods of outperformance of cyclicals over defensives, and value over growth, but other periods where we get the opposite. Timing this will be near impossible and could be counterproductive. But it should create a lot of opportunities for hedge funds to exploit. We are overweight on hedge funds to diversify our portfolios, which is important in a year where we expect more volatility and lower returns for equities. We particularly like macro, multi-strategy, event driven and distressed strategies as they should be well positioned to take advantage of the differences between countries' positioning in the cycle, relative market valuations, the M&A and credit default cycle, and companies' competitive positioning in a rapidly changing world.

We prefer hedge funds over gold as a diversifier, as mild US dollar strength, market fears of tapering pushing up real yields, and the mild risk-on tone of equity markets are headwinds for gold. We think that the market is less enamoured with gold, possibly because some see cryptocurrencies as a diversifier. We indeed find that cryptocurrencies can help diversify portfolios with equities and risky fixed income, but they are not safe havens and do not seem to behave as an inflation hedge. Correlations of crypto with riskier assets have been rising and we do not have a return forecast for them, making it difficult to include them in a portfolio optimisation process at this stage.

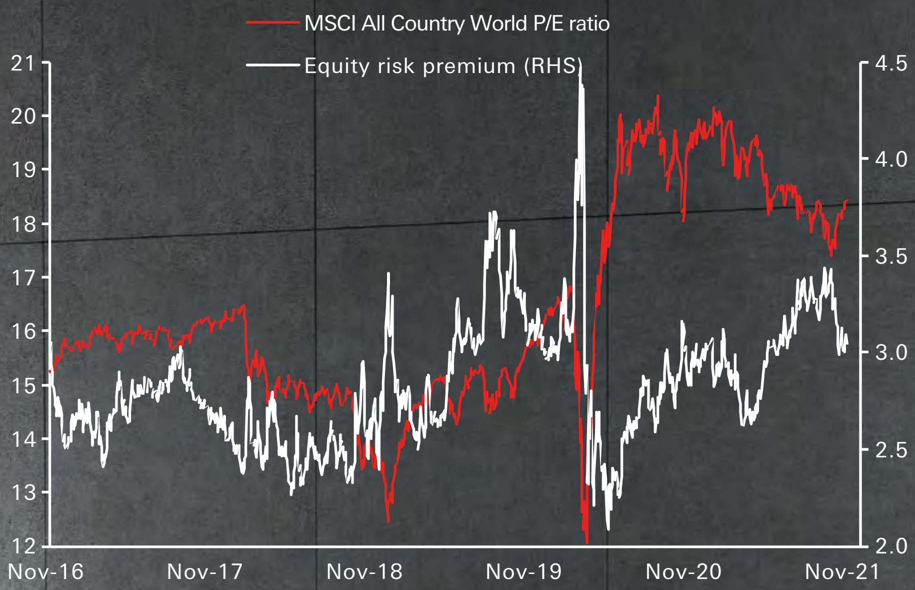
Our current positioning along different risk assets



Note: arrows show how we have adjusted our views and positioning in the past quarter.



Although equities are not expensive compared to bonds, valuations are above the historical average and we have become more selective



Source: Bloomberg, I/B/E/S, HSBC Global Private Banking as at 30 November 2021.
Past performance is not a reliable indicator of future performance

Strategic Asset Allocation: A long term view for the low-yield world

Low yields and low interest rates indicate that returns over the next decade are unlikely to be as strong as over the last ten years. Traditional portfolio diversifiers such as high grade bonds look expensive in historical context. And following an uninterrupted rally since March 2020, our expected returns for equities are also substantially lower than their long-term average performance. So how can investors construct a portfolio with best possible risk-adjusted returns? Hedge funds and private equity can be helpful additions, and we believe that an ESG approach can add elements of quality in the security selection without hurting returns.

Some of the asset classes that are currently valued more attractively are emerging market equities and bonds, including corporate EM debt, and these allocations are currently emphasised in our strategic asset allocation. Furthermore, we see attractive opportunities to diversify the portfolios and reduce downside risk via hedge funds, and to boost expected portfolio returns by building and maintaining long term allocations to Private Equity. Our chart below shows the detailed breakdown of our moderate risk strategic asset allocation.

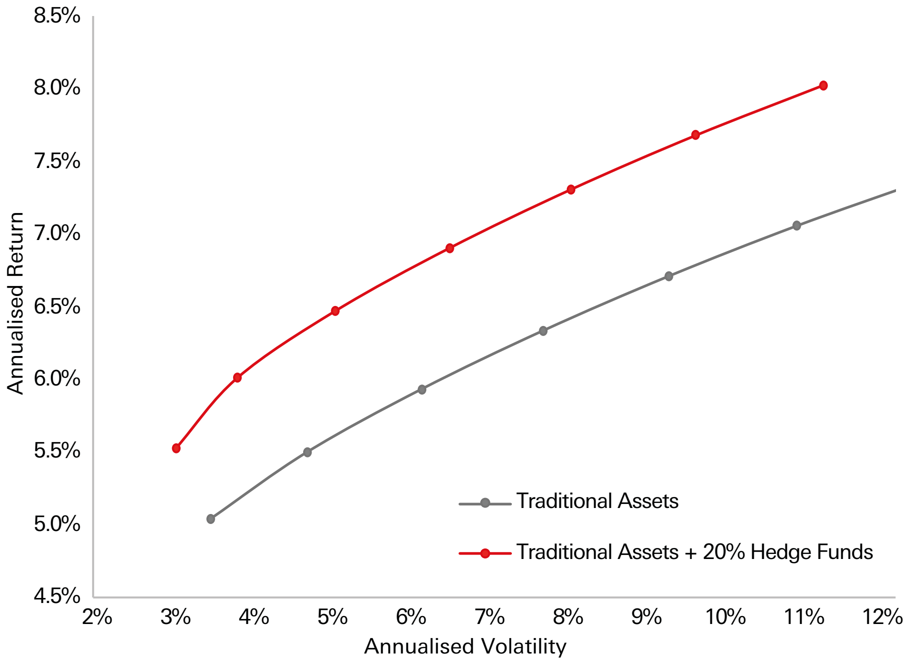
Government bonds have been a very effective portfolio diversifier in recent years, but we expect very low returns from this asset class in the coming decades. Government bonds are particularly vulnerable to rising inflation, and such scenarios may challenge their typical negative correlation with equities. In this context, hedge funds present a more flexible alternative with a potential to be more adaptive to evolving market conditions. The rich universe of hedge funds strategies can help improve risk/return outcomes by introducing low-correlated sources of return to investment portfolios. Our second chart, below, illustrates two historical efficient frontiers from a simplified investment universe consisting of a mix of global stocks and global bonds, and a composite of hedge funds. With a crude 20% allocation to hedge funds integrated into naïve stock-bond portfolios, risk-adjusted returns were enhanced through an upward, or leftward, shift of the efficient frontier all across the risk spectrum.

Strategic Asset Allocation, Moderate risk (USD)

Equity related	Credit related	Rates related	Diversifiers
Developed markets (29%)	Global IG Credit (11%)	Global Government Bonds (10%)	Cash (2%)
	Global High Yield (5%)		Commodity (5%)
	EMD Hard Currency (2%)	EMD Local Currency (3%)	*Other HFs (3%)
Emerging Markets (6%)	EM Corporates (2%)		
	Credit HFs (2%)	Inflation-linked (1%)	Real Estate (3%)
Equity Long/Short (2%)		Macro (3%)	
Event Driven (2%)			
Private Equity (5%)	Private Debt (3%)		

* Other HFs: Market Neutral, Managed Futures, Multi-Strategy Source: HSBC Global Private Banking, as at 30th November 2021.

Realised risk and return outcomes with and without Hedge Funds



Source: Refinitiv, Bloomberg, HSBC Global Private Banking, 30th November 2021. Annualised historical total returns and volatility of global MSCI, ICE BofA, HFRI indices denominated in USD, FX-hedged for bonds. Time period between 1996 and 2021.

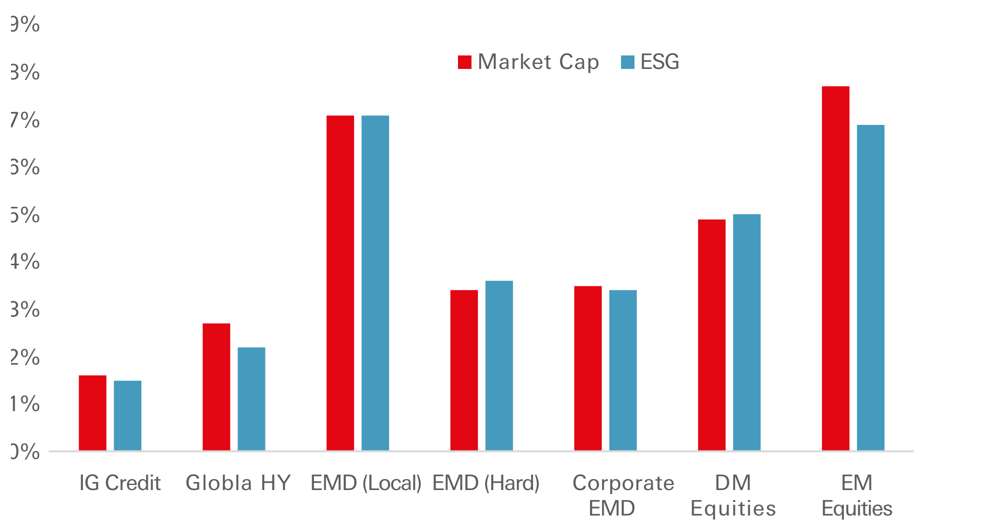
Private equity is one of the asset classes that continues to offer a high return potential, due to the long-term nature, carefully crafted leverage, and highly active management. This asset class continues to experience strong growth, both in the size of the overall opportunity set and in investor interest, but incorporating private equity into the broader portfolio is not always straightforward. The "right" portfolio allocation to private equity can vary widely, and largely depends on each investor's time horizon and tolerance for illiquidity, amongst other factors, including eligibility.

Another challenge in private equity is to actively maintain the strategic asset allocation at target, as opposed to allowing the capital calls and distributions to dictate the broader asset allocation dynamics. This can be done by funding capital calls from existing liquid investments and using bridge financing or leverage when making the initial allocation. In subsequent years, as distributions begin to flow in, remaining fully invested and maintaining diversification can be done by regularly reinvesting distributions into new vintages, but also incorporating coinvestments and secondaries as additional opportunities to diversify and keep the allocation at target.

On the subject of risks and return, most investors now readily accept that companies with better ESG credentials will on average run lower risk of missing opportunities or making costly mistakes. But some investors still question how the inclusion of environmental, social, and governance (ESG) objectives is likely to affect the overall portfolio returns. The analysis in our chart below shows that expected returns for ESG market indices are not materially different from the traditional market-cap indices. This should encourage investors to incorporate ESG considerations in their investment choices across the multi-asset universe as a strategic proposition.

Finally, keeping a long-term focus, being and remaining invested, and building diversified portfolios will remain the key ingredients for success in investing, in our view. It may be tempting to ignore these principles at times when markets are seemingly driven by hype, fear and greed. However, history has shown that sticking to a strategic asset allocation framework remains a reliable method of achieving investment objectives over the long term.

Comparison of expected returns between traditional market-cap and ESG indices



Source: HSBC Asset Management, as at 30th November 2021. For illustrative purpose only. Based on a range of index data from Bloomberg, MSCI and JP Morgan.

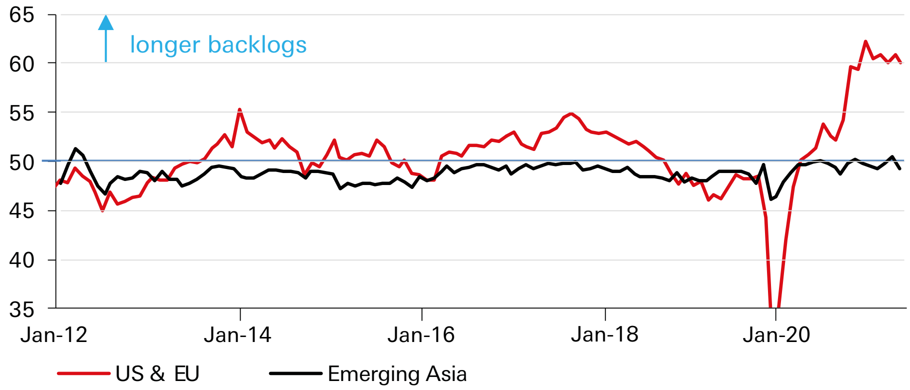
Top four trends and high conviction themes

1. Remaking Asia's Future

Asia's fundamental strength has been on full display as the region has gained market share in global trade during the pandemic and stayed relatively resilient to supply chain disruptions. In response to the pandemic, supply chain bottlenecks and the energy crunch, Asian economies have stepped up the technology upgrade, energy transition, vaccination and structural reforms to remake their economies into a more sustainable, quality-focused and resilient growth model. Beijing's pursuit of "common prosperity" and the shift of its economic growth model from property construction towards high-end manufacturing and green investments reflects a significant change from the decades-long focus on quantity of growth to high-quality, low-carbon and inclusive growth.

As the home of 80% of global semiconductor manufacturing capacity, Asia is well placed to lead the world's electronics supply chain upgrade and technological innovation to meet unabated demand growth for chips and electronic products resulting from the global wave of digitalization and automation. Continued supply chain disruptions in the West have shifted

PMI order backlogs in the US and EU much more severe than in Asia



Source: Markit, HSBC Global Private Banking as at 30 November 2021.

demand towards consumer goods and industrial products manufactured in Asia. Export volumes in Asia ex-Japan are currently 15% above the pre-pandemic level, and the region's market share has risen due to its highly competitive manufacturing supply chains.

But notably, around 60% of goods traded by the Asian economies and 60% of FDI are intra-regional. ASEAN has become China's largest trading partner for the first time, overtaking the EU, with the share of China's exports to ASEAN economies jumping from 12% in 2015 to 15% in H1 2021. We believe Asia's powerful intra-regional trade networks and positive structural growth will underpin further concentration of the global manufacturing supply chains in the region. This will provide a strong driver to support robust capex investment in Asia's manufacturing upgrade, automation and technological innovation.

Asia stands out as a global leader in energy transition and clean energy investments, and revamping the region's power mix and industrial processes away from coal power towards clean energy and electrification will be key to the successful implementation of COP26's 'Glasgow Climate Pact'. Asia accounted for 52% of global carbon emissions in 2020 while China and India are the world's number one and third-largest carbon emitting countries. Asia currently has 45% share of global installed renewable capacity, well above 25% in Europe and 16% in North America. The International Energy

Agency (IEA) projects Asia alone will account for 64% of new renewable capacity additions globally between 2019 and 2040.

The surprise China-US joint declaration on enhancing climate actions announced during COP26, together with new net zero targets announced by India (2070), Thailand (2050, CO2 only) and Vietnam (2050), should offer new catalysts to accelerate Asia's green investments to achieve carbon neutrality. The IEA estimates that China would need to invest more than RMB200trn (equivalent to 200% of GDP in 2020) in the next 40 years to achieve carbon neutrality. We see a potential RMB2trn (around 2% of GDP) technology and green stimulus package to be rolled out by Beijing in 2022 to accelerate corporate investment in industrial upgrading and net zero transition.

Our four high conviction themes

1. Next Generation Asia Tech Leaders
2. China's Green Revolution
3. Asia's Consumer Revival
4. Asian Credit Opportunities

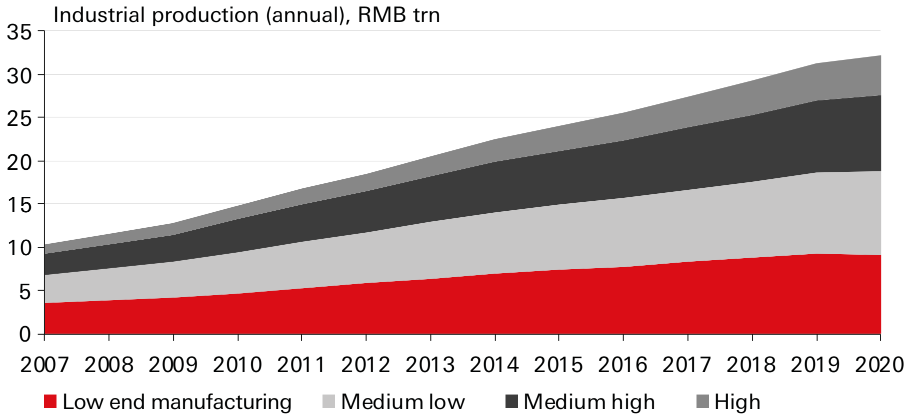
Next Generation Asia Tech Leaders

Asia is currently a global centre of technological innovation with mainland China, Japan, South Korea, Taiwan and Singapore being recognised as world leaders in the development of 5G technology, artificial intelligence, big data, semiconductor, fintech, automation and health sciences. Under the common trade rules in the Regional Comprehensive Economic Partnership signed by 10 ASEAN countries, China, Japan, South Korea, Australia and New Zealand, effective on 1 January 2022, the optimisation of the Asian supply chains will be further enhanced.

In its 14th Five-Year Plan (2021-2025), the technology upgrade and self-sufficiency is a strategic focus for China. We forecast Chinese high-end manufacturing investment to grow by over 12% y-o-y per annum in the next five years. China is now the world's second largest spender on R&D and accounts for over 20% of global R&D spending. We see attractive opportunities in domestic leaders in innovative industries, high-tech hardware industries, and providers of critical technologies. Metaverse should take off with the successful launch of Oculus Quest 2 to be followed by social networking and fitness apps. Asia supply chains in displays, Fresnel lenses, waveguide optics and cameras should benefit from the metaverse innovation.

We find attractive investment opportunities in Asia's technology leaders in the semiconductor, smart manufacturing, robotics, advanced machinery, electric vehicles, high-tech materials and semiconductor materials sectors in mainland China, Japan, Taiwan and South Korea. Taking advantage of the global supply chain diversification trend, ASEAN countries are expected to record an increase in manufacturing FDI of up to USD22bn per annum, according to BCG forecasts. Strong FDI inflows into ASEAN and India should bring new opportunities for the domestic leaders in advanced and smart manufacturing.

China is transitioning to more high-end manufacturing



Source: CEIC, HSBC Global Private Banking as of 30 November 2021. Past performance is not a reliable indicator of the future performance.

China's Green Revolution

As China aims to reach the peak of its carbon emissions by 2030 and carbon neutrality by 2060, it will significantly ramp up investments in renewable energy, EV supply chains and green technologies with strong green financing support from the PBoC. The IEA estimates that China will need to invest an average RMB5trn every year till 2060 in clean energy and industrial upgrading to achieve carbon neutrality, with electrification likely the largest driver of green investments in the years ahead.

On 8 November, the PBoC rolled out a new liquidity tool to offer low-cost re-lending to encourage bank lending to green projects with preferential rates. This should help drive rapid growth in solar and wind energy installations during the 14th Five-Year Plan. China has targeted to raise its total energy mix from non-fossil fuel sources to 80% by 2060 to achieve the net zero goals. China's total installed capacity of renewable energy is estimated to surge to over 1,200GW by 2030. We expect the cumulative solar and wind installations to rise to 602GW and 557GW in 2025, respectively, from 252GW and 282GW in 2020. The recent nationwide power crunch has highlighted the urgency to secure stable renewable energy supply via better energy storage. So, we expect China's renewable energy storage demand to jump dramatically to 890GW in 2030, up 24.4x from 35GW in 2020.

Thanks to strong government policy support and changing consumer preference, the adoption of NEV (New Energy Vehicles) is picking up rapidly across the country under Beijing's appeal to step up electrification of the transportation sector. We project 2021-23e NEV annual growth to reach 117%, 37% and 28%, respectively, and EV penetration rate could hit 31% in 2025e and 59% in 2030e, offering strong support for companies in the EV and EV supply chains sector.

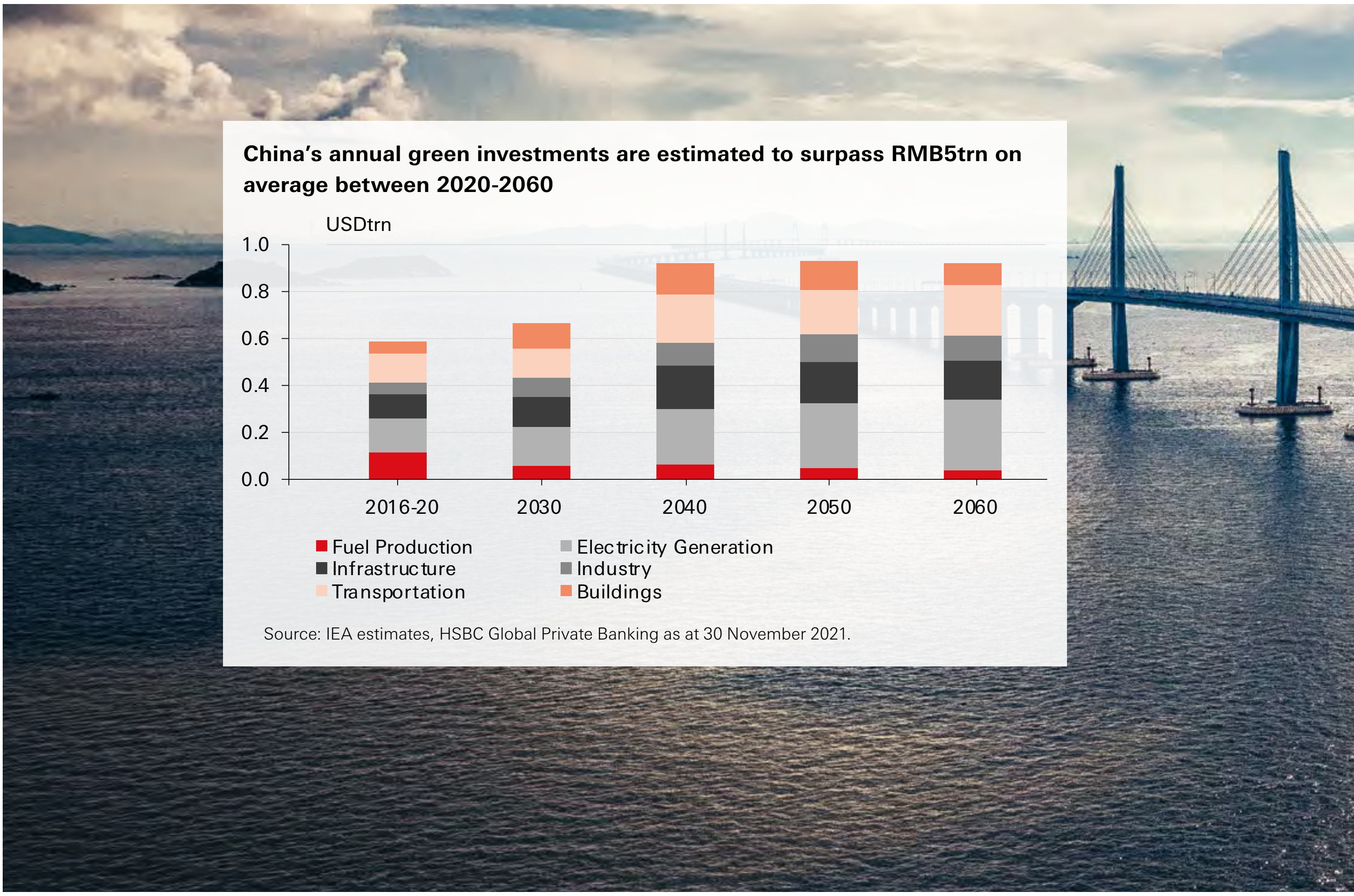
Asia's Consumer Revival

With rising vaccination rates and medical breakthroughs in oral antiviral COVID-19 drugs, more Asian countries are moving away from lockdowns towards the "Living with COVID-19" strategy. China, Singapore, South Korea, Japan and Malaysia have vaccinated close to 80% of their populations. In our view, the positive vaccination progress and new developments in COVID treatment should facilitate the economic reopening and recovery of consumer spending in Asia, supporting a rebound in the service industry.

Southeast Asia is now quickly reopening, led by Singapore which has expanded its Vaccinated Travel Lane with 17 countries for quarantine-free travel. And since 1 November, Thailand has allowed vaccinated tourists from 63 low-risk countries to visit the country without quarantine requirement. We therefore see attractive opportunities in the domestic leaders in the travel, hospitality and ecommerce in Southeast Asia.

In China, the pursuit of "common prosperity" should lead to further urbanisation, rising personal income and the expansion of middle class consumers. During the CCP's Sixth Plenum in November, Chinese President Xi Jinping highlighted the strategic

China's annual green investments are estimated to surpass RMB5trn on average between 2020-2060



Source: IEA estimates, HSBC Global Private Banking as at 30 November 2021.

goal to achieve "common prosperity" which aims to boost household income and promote a more even distribution of wealth. We expect the promotion of "common prosperity" to support demand for mass consumption, consumption upgrade, digital and green consumption and healthcare services. The increased consumer preference for local Chinese goods and services should provide tailwinds for strong domestic consumer brands. In February 2022, China will host the Winter Olympics which will boost aspiration consumption and bring tactical opportunities in domestic sportswear companies with strong brand names.

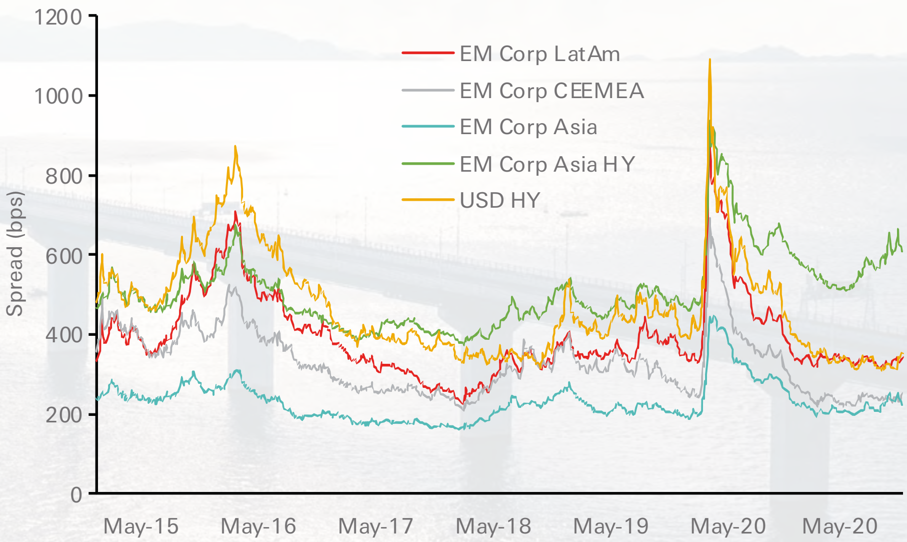
Asian Credit Opportunities

The sharp selloff in the Asian credit markets in recent months has been driven by intensified market concerns about China's property contagion risks. Notably, the selloff has been mostly concentrated on the more fragile lower-rated developers while the Asian high-grade sector has remained resilient as IG issuers benefit from their safe-haven qualities. We continue see credit opportunities in Asia, as the region offers an important source of yield pickup over DM bonds. We manage China property contagion risks by increasing our focus on quality issuers in Asian IG and Chinese SOEs. We also search for carry opportunities in Indonesian hard currency bonds, better quality Chinese green-tier developers and selected Indian hard currency corporate credit.

Asian IG, which accounts for 80% of the overall Asian credit market, has seen credit spreads remaining elevated compared to pre-pandemic levels and remains attractive versus their DM and EM IG. We see scope for credit spreading tightening for Asian IG credit in coming months. Within EM Asia credit, we favour Indonesian hard currency bonds whose credit fundamentals remain strong in the face of the easing pandemic headwinds and most SOEs with USD bonds will continue to receive support from the government. The Indonesian HY sector is well supported by the positive demand-supply dynamics and recent sharp rally of coal prices amid the global energy crunch.

China property HY bond yields are trading at a decade high, as aftershocks from defaults, missed payments and ratings downgrades ripple through the China HY bond market. To capture opportunities from the China property sector dislocation, we selectively position in the BB+ to BBB- developers with improving balance sheets, decent credit profiles, clear deleveraging plans and a strong track record on sales momentum and cash flow generation.

Asian IG credit has remained resilient amid the China property HY selloff



Source: HSBC Global Private Banking, Bloomberg, JPM, ICE BOFAML indices as at 30 November 2021.
Past performance is not a reliable indicator of the future performance.

2. Investing for a Sustainable future

Mother nature is yearning for help. If the recent natural calamities around the globe epitomise anything, it is the urgency to tackle climate change. It is really here and we all need to do our bit to halt what some scientists call the potential beginning of the 'Sixth Mass Extinction'. It's time to turn words into action as humanity stands at the "edge of an abyss", using the phrase of UN Secretary-General Antonio Guterres.

The COP26 conference held in Glasgow in November 2021 marked one such time to take action. Thousands of delegates from the private sector, climate activists and hundreds of heads of states gathered together with the ambition to keep global warming limited to 1.5C, mostly by targeting net zero carbon emissions by 2050 and halving global emissions by 2030. To get there, it is clear that action is needed at every level.

HSBC and other financial institutions have taken several initiatives to stem climate change and reverse its adverse impact. At COP26, for example, HSBC joined the "Powering Past Coal Alliance" to tackle the hard issues head-on, which includes phasing out the financing of coal-fired power and thermal coal mining by 2030 in the EU and the OECD and 2040 in all other markets. We are working on structuring a relatively speedy decarbonisation strategy; aligned with science-based targets for limiting global warming to 1.5C above pre-industrial levels in 2100.

Beyond the action by governments and institutions, individuals will play a key role as well, and the way we invest will need to become more sustainable. We believe sustainability should feature both in the core portfolio strategy, but also in the thematic satellites, under our trend of **'Investing for a Sustainable Future'**. By doing so, investors would not only help save the planet, they'd also be able to take advantage of structural investment opportunities which offer the potential to generate handsome returns.

Energy Transition: With the realisation that tackling climate change is an urgency, global initiatives to move away from fossil fuels towards climate friendly renewable sources of energy have started in earnest. These include development of green infrastructure which will reshape the energy model for the society, technology upgrade which will help renewable energy generation, carbon capture, sequestration and energy management. Heavy infrastructure spending in these areas offer attractive investment opportunities for investors in our view.

Our four high conviction themes

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

Sourcing Income in a Sustainable Way: Finding income in a 'low growth, low yield' world remains a challenge for all investors in today's investment landscape. But by investing in sustainable companies, investors will tend to increase their exposure to high quality growth companies, while also weaving in ESG and sustainability factors. That can make the portfolio more resilient, without denting its returns or income. It is also noteworthy that since the sustainable investments universe is multi-asset in nature, investing in an array of sustainable investments diversifies the risk exposure.

The rise of 'S' in ESG: While environmental issues are often in the spotlight, social issues are just as important and form an important part of almost all UN SDGs (Sustainable Development Goals). Research shows that socially responsible companies greatly benefit from a diverse workforce. Companies with more diversity and inclusion are more innovative and less prone to making big mistakes, due to diversity of thought. A diverse work force can improve employee motivation and retention, broaden the talent pool and better serve their diverse clientele. All these are key components of corporate success. Beyond D&I, social issues such as nutrition, quality education, access to clean water and sanitation are all growing in importance. Well-being is another UN SDG which has gained relevance in the wake of the pandemic. Plus, longer expectancy of life in general and higher government deficits have raised the demand for sustainable healthcare, a key component of fiscal spending in the developed world. Sustainable healthcare needs to be affordable, made possible by technological and pharmaceutical research and advancements. These areas offer attractive sustainable investment opportunities, in our view.

Financing Biodiversity Action: Biodiversity is vital for maintaining natural cycles of weather, the food chain and life on earth. But climate change and rising pollution levels are increasingly contributing to loss of natural habitats and as a result, the earth's biodiversity is in a sharp decline. The population sizes of mammals, birds, fish, amphibians and reptiles have seen an alarming average drop of 68% since 1970. It's alarming that 50% of world's habitable land area is being used for agriculture and is leading to a sharp reduction in biodiversity. With more and more of such stark statistics coming to the fore, public opinion is turning against companies which harm biodiversity, putting pressure on corporates to preserve resources by facilitating recycling and focusing on development of a circular economy. Shareholders are calling on companies to adopt targets to cut carbon emissions. But focusing on this isn't just a charitable effort. Adoption of such sustainability focused measures comes with big potential economic benefits too. Innovative new technologies which lead to better farming practices, use of new ingredients like alternative protein open up new sustainable possibilities to meet the demand of a rising population. Sustainable fishing practices and water sanitisation, development of new biodegradable materials as alternatives for plastic - all offer attractive structural investment opportunities for investors.

Along with the above four High Conviction investment themes, we think that an adequate allocation to sustainable investments via Hedge Funds and Private Equity (PE) also offers new and attractive investment opportunities. Hedge Funds and PE can play a pivotal role in decarbonising the economy through their active ownership approach. As new technologies often originate in private markets and need time to develop, the longer-term investment horizon of PE may be well adapted. HF and PE are often able to spot early stage investment opportunities, which, if successful, can proliferate and be exited later at lucrative multiples.

More needs to be done

10/130

The number of female world leaders at COP26 against the number of male leaders depicts how we are still far from gender parity.

0.82c

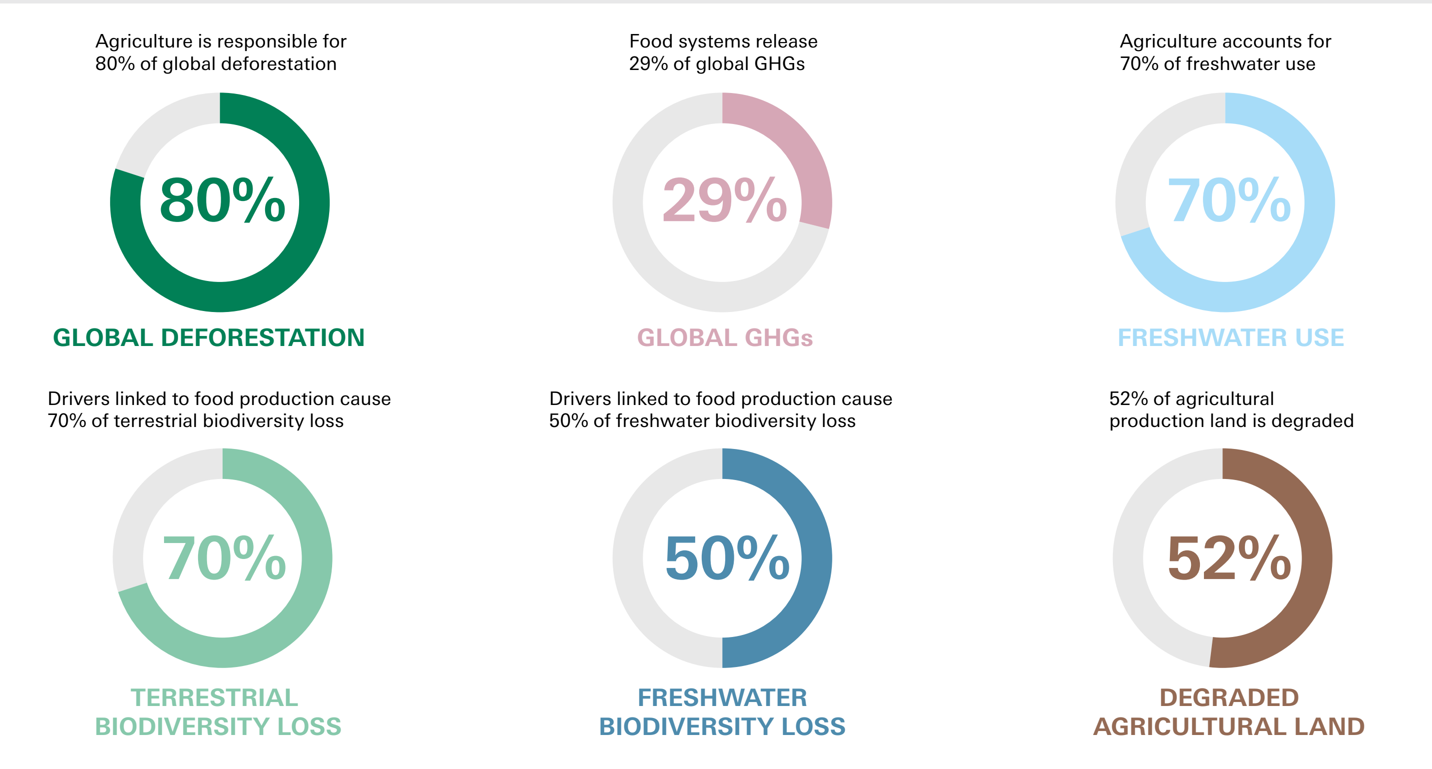
What women get paid for every 1$ men get paid in the US.

33yr

US women's labour force participation is at a 33-year low, as more take on a caretaker role at home due to remote schooling.

Source: HSBC Global Private Banking, COP 26, UK Office of National Statistics, US Bureau of Labor Statistics, as at 30th November

The environmental impact of food production



Source: WWF Living planet report 2020; - CBD, GSDR, ELD initiative. As at 30th November 2021.

3. Digital Transformation

The world has been undergoing incremental disruptive technological change in a host of areas for several decades. However, it is only in recent years that the transformation has gained serious momentum as technological advances have caught up with ambitions and the real benefits are starting to emerge. Digitalisation is not merely the switching of analogue to an electronic data format, it is what that new format facilitates. A parallel analogy would be if suddenly everyone in the world could fluently speak and read a single language, which would transform communication and society. An example of the new formats is the shift of businesses to the metaverse that is gaining traction with the introduction of an interactive and more immersive 3D virtual world, which is helping to drive growth in the digital economy. Digitisation facilitates and enables these developments.

Our four high conviction themes

1. Smart Mobility
2. Automation & AI
3. Biotechnology, Genomics & Devices
4. Total Security

We have decided to focus on four key areas where the wave of transformational changes is underway and offer the greatest opportunity to investors given their current state of flux.

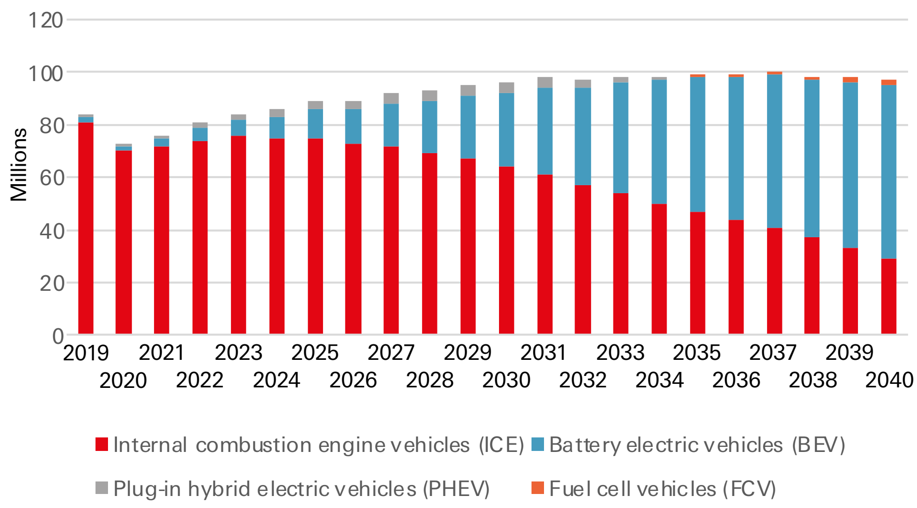
In an increasingly environmentally challenged world where transportation is a significant source of harmful emissions and pollution, the move to smarter forms of mobility is logical and socially necessary. But smart mobility is not just about smarter choices or modes of transport, it is also about the integration of intelligent technologies in transportation systems. If the world's population expands by the predicted 2 billion over the next 30 years, this will stress transportation systems and the climate even further unless we adopt new transportation-related technologies. A number of industry segments should benefit from these positive trends including electric vehicle manufacturers and their suppliers; hydrogen and fuel cell industries; electrical and 5G infrastructure manufacturers; battery manufacturers and developers; and the semiconductors and sensors industries.

The industrial economy is reliant on automation to improve productivity, especially at a time of rising inflation and wage costs. Until recently the limits of technology hardware and software have limited their applications. But that has started to change. The World Robotics 2021 Industrial Robots report showed there are 3 million robots in factories around the world with robot sales booming. The International Federation of Robotics (IFR) forecasts unit sales of autonomous mobile robots rising by 31% between 2020 and 2023.

The majority of the market is in five countries: China, Japan, the US, South Korea and Germany with Asia being the largest consumer with 71% of new installations in 2020 coming from the region. Automation is undergoing a wave of innovation spurred by advances in AI (artificial intelligence) facilitating a greater number of applications. AI use of deep learning, specialised semiconductors and gaming engines enables automation software to be enhanced through self-teaching, thus expanding and improving their capabilities. Whether that is reading text on a parcel or letter; selecting the right components on a production line; or recognising a person in a crowd, these new technologies will require continual software and hardware development, especially in semiconductors. For example, an electric vehicle requires over eight times more semiconductors compared with its petrol engine equivalent. This rapidly evolving area provides much potential for investors.

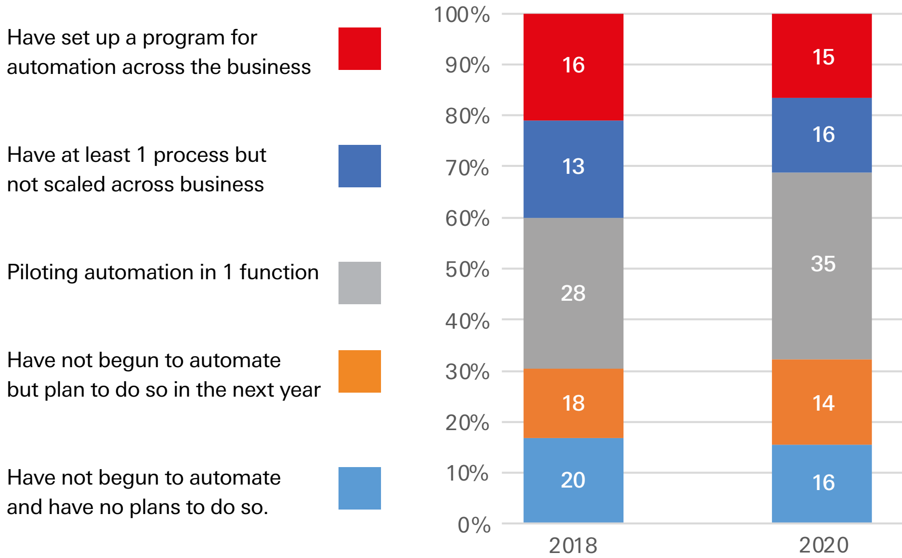
Healthcare budgets continue to be challenged, so the sector needs to act intelligently. The use of AI offers some interesting application opportunities for healthcare companies. Let's start by considering the fundamental building blocks for life, namely DNA and the sequence of chemical bases that provide the unique biological code for each living organism. The human genome contains 3 billion chemical bases that are unique to that individual. That is a

Smart Mobility
Global passenger vehicle sales by powertrain



Source: Bloomberg, HSBC Global Private Bank as at 30th November 2021.

Automation and AI
Organisational Actions to Automate Business Functions (%)

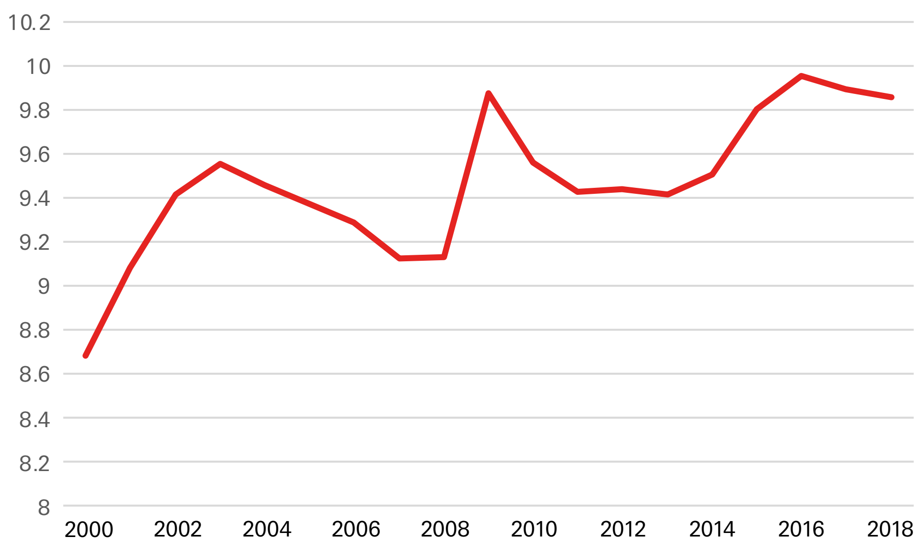


Source: Mckinsey & Company, HSBC Global Private Bank as at 30th November 2021.

large amount of data in itself. Imagine scientists wanting to compare the genomes of several thousand humans to detect genetics anomalies or mutations that may be responsible for a particular medical condition. A combination of automated sequencing and screening using AI software can both enhance and accelerate a process that would be almost impossible by manual methods.

Biotechnology companies have been very effective at working on these new AI applications and developing new targeted medicines that have greater efficacy and fewer side-effects. By identifying specific genetic mutations, scientists can develop proteins that can act directly on a gene to prevent its expression, thereby blocking any harmful effects.

Biotechnology, Genomics and Devices
Global average national health expenditure (% of GDP)



Source: The World Bank, HSBC Global Private Bank as at 30th November 2021.

Biotechnology companies have used other innovative technologies, such as CRISPR to totally replace faulty genetic sequences with corrected versions, and they are using stem cells to regenerate irreparably damaged tissue. The benefits are clear even if the science is complex.

The need for physical and digital security has increased with globalization and more connected devices, companies, governments, and people. Recent cybercrime and terrorist attacks on financial, infrastructure and government networks have served to underline the need for greater vigilance and more robust security. This should exponentially increase the cybersecurity spending in the near future, offering attractive investment opportunities to investors.

Digitalisation brings many positive aspects associated with the unhindered flow of data, but that in itself brings certain security risks. The digital transformation that has accelerated in recent years with the rise in remote working, contactless payments, e-commerce, video conferencing, etc., has brought with it an increase in security risks to people, business and the state.

The increase in capital spending by companies and through government infrastructure spending programs should also boost spending on both physical and digital security. Digital security incorporates hardware, software, and services to prevent and deter physical and digital attacks.

The four different areas we have selected clearly illustrate how digitalisation is not only driving a wave of innovation, but also positively transforming businesses and the global economy.

4. Policy support for mid-cycle growth

Economic growth and inflation have been well above normal in 2021, and both should come down in 2022. In the case of economic growth, the fear is that it slows too quickly, while for inflation, the fear is that it does not come down quickly enough. In other words, our hope and belief is that the inflation cycle is shorter than the economic cycle; while those who worry about stagflation believe the opposite, i.e. that the inflation will remain stubbornly high and contribute to the economic slowdown. Policy makers have a big role to play on both fronts and markets will therefore pay very close attention to the policy measures they will take, on both the fiscal and monetary policy front.

We believe the policy mix still remains favourable, and supports a range of thematics across equity and fixed income markets.

Our five high conviction themes

1. Infrastructure 2.0
2. European Growth Leaders
3. American Renewal
4. Resilient Carry in High Yield and EM
5. DM Financials – Focus on Subordination

Fiscal policy: spending and taxes

Through fiscal policy, governments can have a direct impact on economic growth. Big investments in infrastructure are likely to boost activity for several years and extend the economic cycle, given the long duration of most infrastructure projects. This is taking place around the world, in the US, Europe and Asia. Investment in infrastructure such as roads, bridges, schools, healthcare and digital infrastructure is much overdue in many countries across developed and emerging markets.

Infrastructure can help fulfil another increasingly common objective as well, of increased fairness and the fight against inequality. The pandemic has further increased inequalities, and inflation has put pressure on lower income households' finances. We think that governments will try to fine-tune their fiscal and social policies to try to halt or reverse the growing inequality. So while governments cannot continue to spend at the same pace as they did during the pandemic, and need to address the rapid growth of the debt pile over the past few years, it is unlikely that they will resort to the austerity measures that were common after the great financial crisis, because they increased inequality and produced a political backlash. This time around, any tax reform will probably be highly progressive, with tax increases oriented towards high incomes and strong corporates on the one hand, but improved social security and rising minimum wages on the other.

If tax policies are implemented in this way, labour markets continue to improve, and governments continue to roll out effective vaccination programmes, consumer spending and the outlook for consumer stocks should remain resilient. A resilient consumer and infrastructure investment should both contribute to a soft landing for the economy. However, rising taxation and rising wages will probably lead earnings growth to slow from the record pace of recent months.

Monetary policy

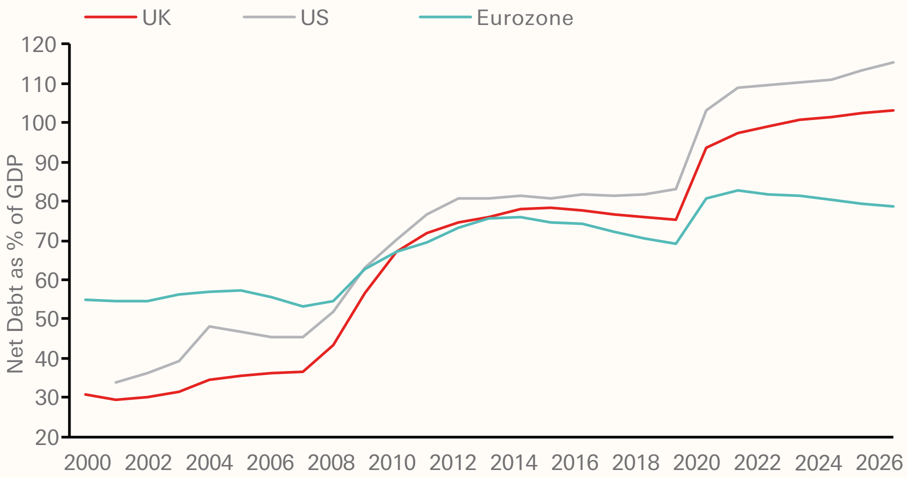
Engineering a soft landing of inflation is the task of central banks. They generally believe that some of the drivers of inflation (such as used car prices and commodity price base effects) are temporary, and that inflation should therefore come down in the coming quarters. That should allow them to take a gradual approach to policy tightening, and in turn keep real yields relatively low. But on the other hand, it is impossible to know when the supply chain issues and shortages in the labour market will start to ease, and markets will therefore continue to react to the volatile economic news flow. So there are two aspects to the rate outlook: still low, but more volatile. And as a result, we continue to forecast a 'low but volatile' Treasury outlook. Relative to 2021, where the 10-year US Treasury mostly traded in a 1-1.5% range, we think we will see a broader 1-2% range in 2022, as there is more uncertainty and inflation may stay high for most of H1.

In summary, our 'policy support for mid-cycle growth' Top Trend refers to the stabilising forces coming from fiscal and monetary policy, which will help extend the cycle and dampen stagflation risks by trying to engineer a soft landing of growth and inflation. There are of course execution risks and potential market surprises, which we will continue to monitor. But overall, the fiscal policy measures we've seen so far support our high conviction themes related to infrastructure, the American renewal and European growth leaders. Monetary policy is supportive of the search for yield and our High Conviction Investment Themes of Resilient carry in high yield and EM, and DM financials – focus on subordination.

Our investment themes

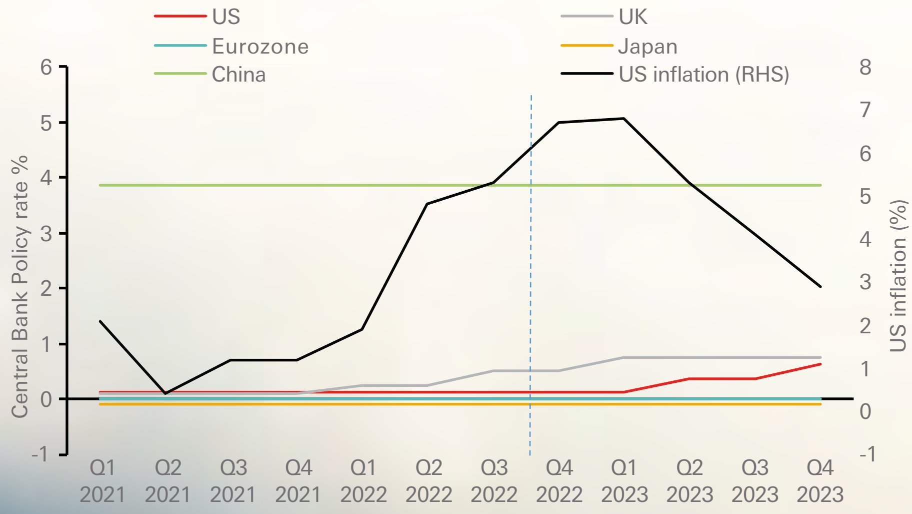
Infrastructure 2.0: We are at the beginning of a multi-year rollout of next generation technologies that are expected to lift productivity and profitability across the globe. Physical infrastructure should benefit from renewal, upgrades or replacements, while digital infrastructure, especially next generation mobile networks like 5G, is a key enabling component of the infrastructure upgrade.

Growing debt piles will force governments to raise taxes, but they will do so only slowly to avoid hurting the economy



Source: IMF, HSBC Global Private Banking as at 30th November 2021.

Central bank tightening should remain very gradual as the big spike in inflation is generally assumed to be transitory



Source: Bloomberg, HSBC Global Research, HSBC Global Private Banking as at 30th November 2021. Forecasts are subject to change

European Growth Leaders Eurozone growth should reach 4% next year, driven by strong domestic and global demand, robust labour markets and investments linked to the NextGenerationEU fund. We see good support for financials, infrastructure and the consumer discretionary sector.

American Renewal: We remain constructive on US equities and its consumer related areas, as unemployment is falling and wage growth is strong. Low interest rates, and rising consumer optimism supports areas such as housing, autos and consumer technology. Vaccines and therapeutics should enable the services sector to reopen.

Resilient Carry in High Yield and EM: In this mid-economic cycle, we are overweight on Global High Yield and EM bonds in Hard Currencies (HC). The former benefits from positive rating migration on the back of falling leverage and improving economic prospects. The latter enjoys low levels of interest rates in DM countries and to some extent, higher commodity prices. However, we focus mainly on resilient carry opportunities given the expected slowdown of global economic growth.

DM Financials – Focus on Subordination: Banks have strengthened their capital and liquidity ratios in response to stringent regulatory requirements under the Basel III accord. We view subordinated debt instruments as a valuable source of carry in the structurally low yield environment but look for issuers with large buffers above minimum regulatory capital requirements.

Equities

After a very strong year for developed market equities, 2022 should be a year of normalisation. Monetary and fiscal policy, earnings and rate fundamentals should all still be positive for equities, but the positive momentum will ease somewhat, and volatility may remain more elevated. We are therefore more selective, with a preference for the US and the Eurozone, while we diversify and focus on long term themes in Asia. We continue to favour quality stocks and our sector exposure is now only marginally cyclical.

Overweight
Countries: US, France, Italy, Singapore, Taiwan, Thailand and Indonesia
Sectors: Consumer Discretionary, Technology, Communications Services, Financials

Underweight
Countries: South Africa and Turkey
Sectors: Industrials, Consumer Staples, Utilities

We maintain our overweight view on global equities as fundamentals – though mixed – are still supportive. Inflation is high, but earnings have been resilient.

COVID has been a big driver of sentiment. Throughout 2021, news of new waves or delays in the vaccination roll-out have caused some ups and downs in the stock markets, but no major correction as markets assumed that the vaccines and treatments should continue to work. At time of writing, the Omicron variant causes some nervousness, precisely because it is not clear yet how effective the vaccine will be. At this point, we assume that the current vaccine, or an adaptation of it, will work, and that therefore, volatility should be temporary. When we gain clarity, vaccination becomes even more wide-spread and new therapeutic drugs are approved, consumers may start to put the bulk of their concerns behind them, which should be good for market sentiment too.

On the economic growth side, the momentum is already slowing somewhat, but GDP rates in developed markets should still be higher than the historical average. The 3.8% GDP growth we expect for the US, and 4.0% for the Eurozone far exceed the numbers we are used to. Inventories need to be rebuilt as they remain depleted, companies are investing in R&D and technology, and governments are starting large infrastructure projects (including clean energy).

Inflation has created a lot of headlines, but US equities in particular have been able to rally regardless. Inflation has lifted sales figures and most companies with strong margin power have passed along higher costs to their customers. We think inflation will remain a big discussion point but we manage it by focusing on quality stocks, while we remain underweight on industrials due to supply chain issues. We are overweight on consumer cyclicals as wages are rising, though of course, nervousness around new variants could temporarily weigh on the sector's performance.

Of course, central banks are starting a gradual normalisation process, and while we believe it will be slow, we position for any surprise by being overweight financials, as this sector would benefit from any unexpected hawkish move.

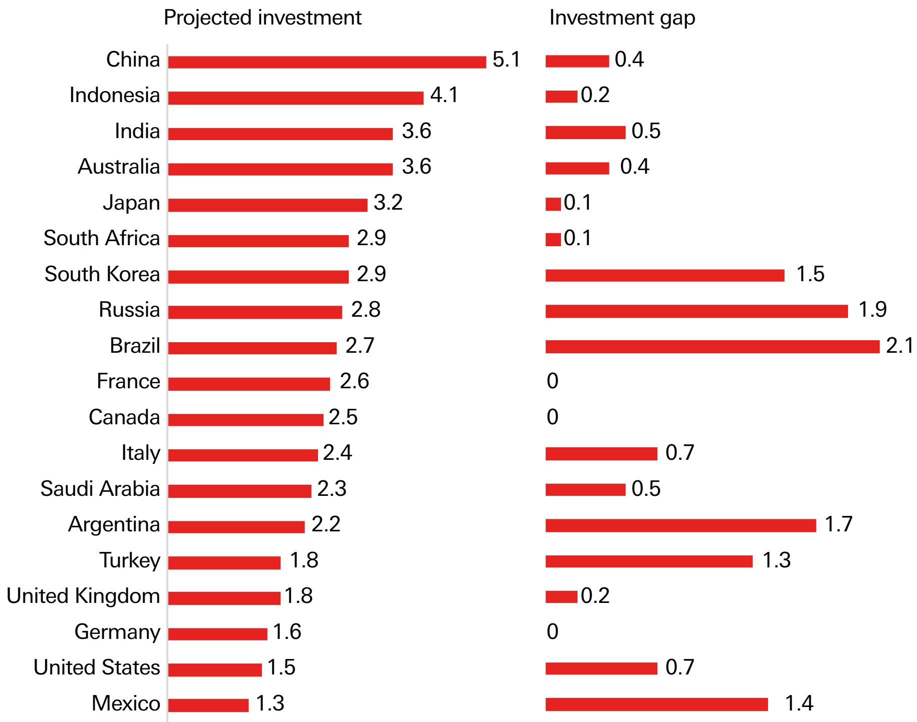
We remain constructive on the profit outlook. Of course, earnings will rise more slowly than during the V-shaped recovery but analysts' earnings expectations have already fallen, which is healthy. Corporate earnings should rise at a reasonable rate, close to the historical average.

Multiple drivers: secular trends and cyclical opportunities

We believe we are beginning a period where there is a confluence of positive drivers for equity markets. The high level of inflation we are seeing is a result of strong demand, supply issues and labour market shortages. That will force companies to invest in automation and raise their productivity,

G20 Infrastructure Spending by 2040

Projected public and private infrastructure investment as a percentage of gross domestic product (GDP), 2016–2040



Notes: Investment gap is the difference between projected investment and the investment required to match the best-performing peer countries. Projected investment assumes countries continue to invest at current levels.

Source: Global Infrastructure Hub and Council on Foreign Relations, HSBC Global Private Banking as at 30th November 2021,

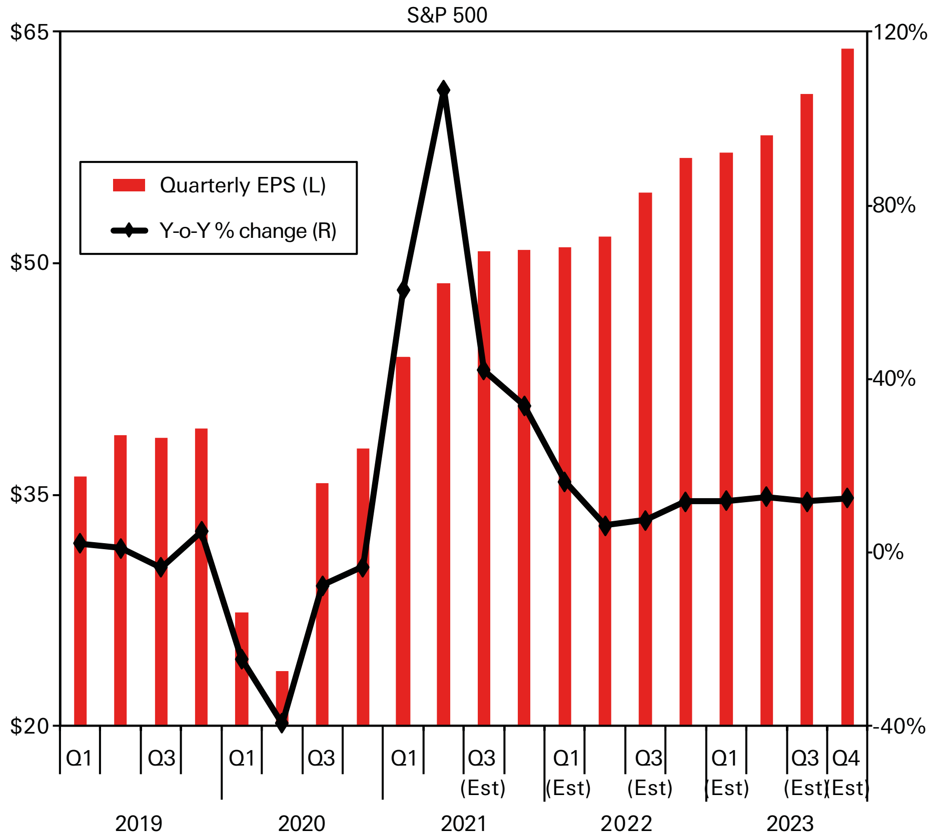
which should be a good thing in the long run. Rebuilding and modernising infrastructure is occurring concurrently as the new technology revolution and the global movement to truly integrate sustainability into the global economy. The combination of these trends should provide opportunities, especially in investments focused on sustainability, manufacturing, construction, and technology. We are already seeing a pickup in capital expenditures and think this should continue throughout 2022

Regional Views

One key reason for maintaining our US equity overweight position is the strong profit outlook. Moreover, the declining unemployment rate and rising wages suggest consumer spending should remain strong. In addition, investment in infrastructure, technology, and sustainability combined with the rebuilding of inventories should keep the manufacturing sector healthy. Finally, with the Fed keeping policy rates low we look for sectors such as housing, autos, and technology to benefit. It is often argued that the US is an expensive market, but thanks to strong earnings, the Price/Earnings ratio dropped somewhat in 2021, and US stocks are not expensive when compared to corporate bonds.

In Asia, the pandemic and supply chain issues have hurt sentiment but are triggering adjustments in trade flows and boosting investment. Emerging market valuations have become quite attractive from a long term perspective, and the reopening of economies could start to

The analysts' consensus expects US earnings to grow up to 18% next year



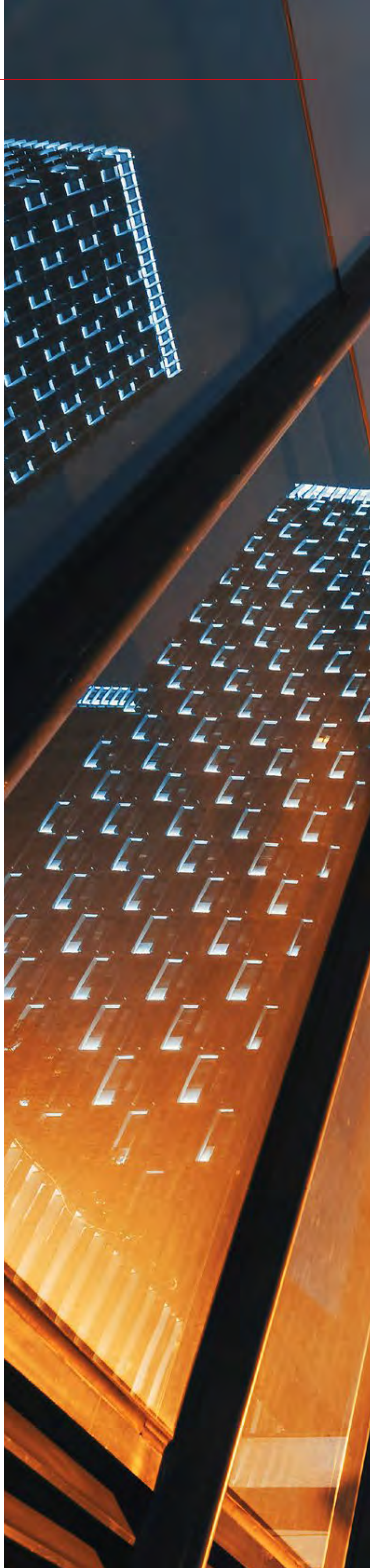
Source: Bloomberg, HSBC Global Private Banking as at 30th November 2021.

help performance of Southeast Asian markets. That said, in China, investors will still want more clarity around technology regulation and property developers' debt loads before putting more money to work. As a result, we focus on the positive long-term themes surrounding the secular trends of technology investment, innovation, and the rise of consumerism.

European valuations remain attractive and investors can look to these markets for solid dividend payouts and a plethora of global brands that should do well in the expanding global economy. But as Chinese demand may remain on the weak side for now, we turn our focus on from European exporters to more domestic demand. While COVID is still hitting hard in some economies, those with strong vaccination rates are seeing good consumer demand. And the EUR 750bn Next Generation fund should give structural support to economic growth, especially in digital and green infrastructure. The sustainability effort has a real home in Europe where regulators, companies, and the broad population are firmly behind the environmental movement and social change. That infrastructure build out should help create jobs and wealth.

Still overweight but more selective

As we head towards the new year, equities remain our biggest overweight but we focus on quality stocks and those sectors and markets where we think the trade-off between growth, inflation and valuations is the most constructive. Income investors increasingly look towards equities as fixed income markets remain mired in a low yield world. Above all, we think it's important to keep the longer term trends in mind: as Asia remakes its future, and the digital transformation and sustainability revolution roll on, there are very significant thematic, sector and stock implications, and it would be a shame to miss those trends by focusing too much on the short term noise.



Fixed Income

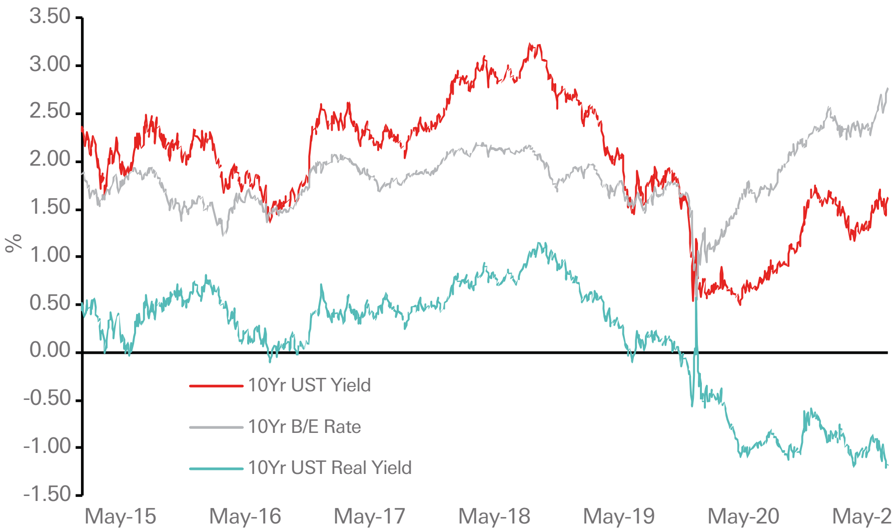
The fixed income market remains captivated by the surge in inflation and the start of the central bank normalisation process. But while inflation expectations have risen, real yields have remained low, and Treasury yields should continue to trade in line with our 'low but volatile' view. We therefore need to manage duration and look for a yield pickup, and favour global high yield and EM hard currency bonds over investment grade and EM local currency bonds. Asian credit spreads have widened, but we stick to quality and focus on Asian IG, Chinese SOE issuers and better quality Chinese green-tier developers.

Overweight
Government bonds: no overweights
Credit and EM: US, European and UK HY, EM Hard Currency bonds (Indonesia, GCC, Mexico and Brazil) and EM Local Currency bonds (China and Mexico)

Underweight
Government bonds: US TIPS, German and Japanese government bonds
Credit and EM: Argentinian and Ukrainian bonds

The spike in inflation took its roots from supply-side disruptions and surging energy prices, and markets wonder whether this could also damage global economic growth. While we continue to believe inflation should ease gradually in 2022, it may become more anchored than initially expected and not only be the result of post-pandemic base effects. These factors have pushed breakeven rates (i.e. market expectations of inflation levels over the next 2, 5 or 10 years) to the highest levels since the TIPS market was launched in 1997. There are, however, some good reasons to believe that supply bottlenecks will ease and capacity will grow next year. A softer economic expansion in the short run could also help alleviate energy costs. The uncertainty, however, makes the bond market difficult to navigate, which has been evidenced in mixed performance over the past few months. Duration-sensitive markets such as DM sovereign and Global Investment Grade (IG), but also EM government debt in Hard Currencies (HC) benefited from the surprise decision by the Bank of England (BoE) to leave policy rate unchanged, but also from the ECB's dovish stance at the start of November. While the FOMC started tapering its asset purchases from November 2021 and we expect to see two 0.25% rate hikes in June 2022 and September 2022 and another two in 2023, we believe that the pace of Fed's tightening is still slow compared to history. This slower pace of monetary tightening should underpin the bond markets and help keep the rates low.

10-Year Implied Inflation has reached the highest levels since the TIPS market was launched in 1997

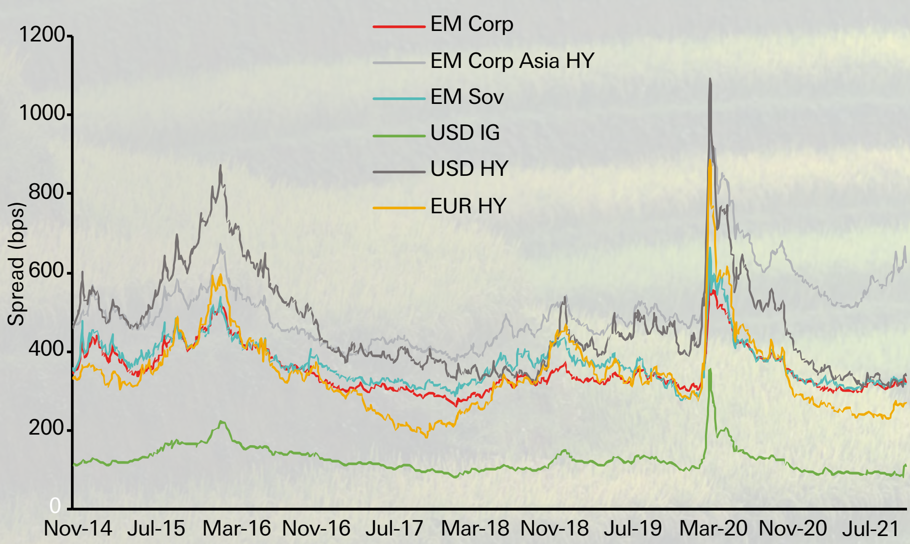


Source: Bloomberg, HSBC Global Private Banking as at 30th November 2021. Past performance is not a reliable indicator of future performance

With the notable exception of Asian HY, credit markets have been resilient so far. Credit spreads on Global High Yield (HY) have remained stable over the past months and even tightened year-to-date. They continue to resist the sell-off shock from Chinese HY markets, which has remained largely contained within China. Even EM corporate bonds in HC have shrugged off the Asian credit volatility (-2.9% YTD) and managed to deliver positive returns in Europe (+2.9%) and Middle East (+2.6%).

In the short-run, however, the balance of risks seems to have become slightly less positive as the growth momentum has peaked and the longer-than expected inflationary pressure may continue to dampen sentiment for bonds, especially in EM local markets. Having considered these risks, we decided to trim our EM debt in Local Currencies (LC) allocation to a neutral stance last month, but remain comfortable with our overweight on external debt from EM corporates and selected governments (i.e. in HC).

Higher-beta markets have seen their spreads widen over the past months, mostly in EM Asia



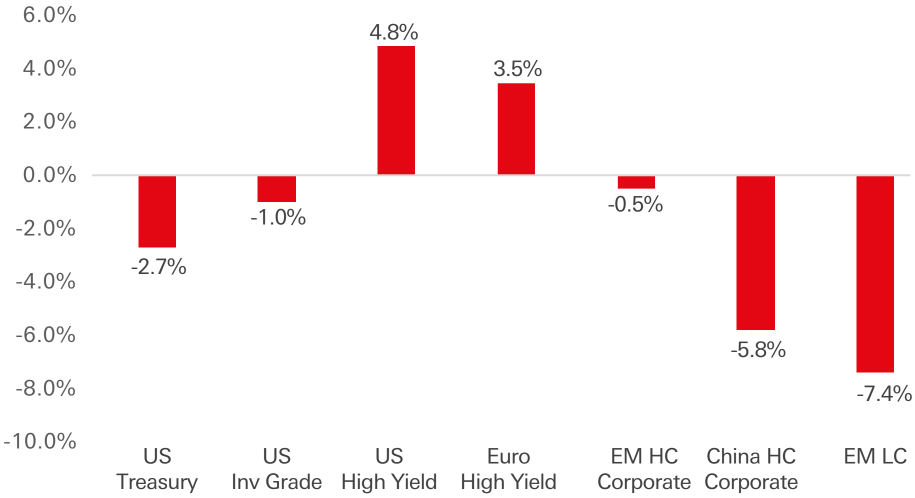
Source: HSBC Global Private Banking, Bloomberg, JPM, iBoxx, ICE BOFAML indices as at 30th November 2021. Past performance is not a reliable indicator of the future performance

Developed Markets - Focus on Carry

We remain underweight DM Sovereign debt as we are close to our YE yield targets. As expected, the Fed tapering announcement did not have any meaningful impact on financial markets nor on US Treasury yields. There is a chance that long-dated US Treasury yields peaked in March, despite the sudden rise witnessed in October. We expect the 10-year Treasury yield to trade between 1% and 2% in 2022, and the low but volatile yield does not make it an attractive asset to hold (except for diversification).

In the mid-cycle stage of economic growth, we prefer carry opportunities and are overweight in Global HY and EM bonds in HC.

YTD Bond Performance



Source: HSBC Global Private Banking, JP Morgan, BOFAML indices as at 30th November 2021. Past performance is not a reliable indicator of the future performance

In terms of corporate credit, we continue to favour US, European and UK HY as we expect them to continue to benefit from the economic expansion and firm oil prices, which are improving their fundamentals. Ratings agencies have started to upgrade some of the companies that had negative credit migration at the height of the crisis, and Rising Stars now outnumber Falling Angels. In addition, default rates for this year should remain benign compared to their peak in 2020. We continue to adopt a cyclical stance across corporate credit markets and favour the Energy, Leisure and to some extent Travel sectors, but in a very selective manner. We focus on companies with stronger balance sheets and improving credit fundamentals, such as declining leverage and increasing cash flow generation.

Emerging Markets – We Remain Overweight and Focus on Quality

Emerging market corporate bonds have delivered positive returns across all regions except Asia. EM debt benefited from the continued search for yield, the reopening of the global economy, and the surge of commodity prices. With a rebound in earnings coupled with still cautious investment programmes, leverage ratios for most EM companies declined to pre-pandemic levels and in case of commodity producers could even fall to historical lows by the end of the year.

Asian credit markets however suffered from a sell-off in China Property Developers, although the negative impact was largely contained within China. The tightening of domestic regulation over China Property companies and lower demand for new real estate due to the pandemic resulted in several defaults, and raised concern over the refinancing ability of the overall sector. Despite this, we believe the longer-term outlook remains positive as the stronger developers will prevail, improving industry credit metrics and standards. We closed our overweight on Chinese corporate credit a few months ago, as the volatility was starting to spill-over towards better-rated companies in China. We maintain our mild overweight on Asian credit but with a strong quality bias in favour of Asian IG, Chinese SOE issuers and better quality Chinese green-tier developers. We also look for carry opportunities in Indonesian and selected Indian HC corporate credit.

Outside of Asia, we have recently upgraded GCC HC credit to a mild overweight. Higher oil prices and conservative oil supply bode well for the revenue generation, fiscal balances and external positions of the Gulf Cooperation Council (GCC).

We believe that EM hard currency bonds will continue to provide positive returns over 2022, but the focus should be on resilient quality names given the expected slowdown of global economic growth.

Currencies and Commodities

We expect further mild USD strength as the dollar benefits from its carry advantage over most DM currencies, the expected tightening of Fed policies and its safe haven appeal amid more volatile markets. EUR and GBP should weaken somewhat further, while DM yielders (AUD, NZD and CAD) may be more resilient. EM currencies benefit from a yield pickup but may need to see more policy clarity in China before they rebound. We think the oil and metals rally is already starting to fade, and we fail to see a trigger for a strong upside in gold.

Selected currency views

Bullish
USD, SGD, MXN
Neutral
CAD, AUD, NZD, EM FX (including RMB)
Bearish
EUR, GBP, CHF, JPY

Currencies

The US dollar has rallied sharply against G10 currencies and the widely used USD Bloomberg index is up 7% so far this year. For most of the year, the dollar has benefited from its positive interest rate differential vs other big currencies such as EUR and JPY. And since the early summer, the dollar has further benefited as markets started to anticipate policy normalisation by the Fed. We think the Fed will stay ahead of most other big central banks (with some exceptions) in this gradual normalisation process, but as the data remain mixed around the world, there will be plenty of scope for surprises around central bank announcements, which is likely to lead to a data-driven and volatile FX market.

While AUD, CAD and NZD provide decent yields and may find some support from their central banks' hawkishness, we think they will range trade next year. Slower global growth and the consequent deterioration of the market sentiment favour the greenback over the risk-on yielders in G10 and EM, due to the dollar's countercyclical credentials.

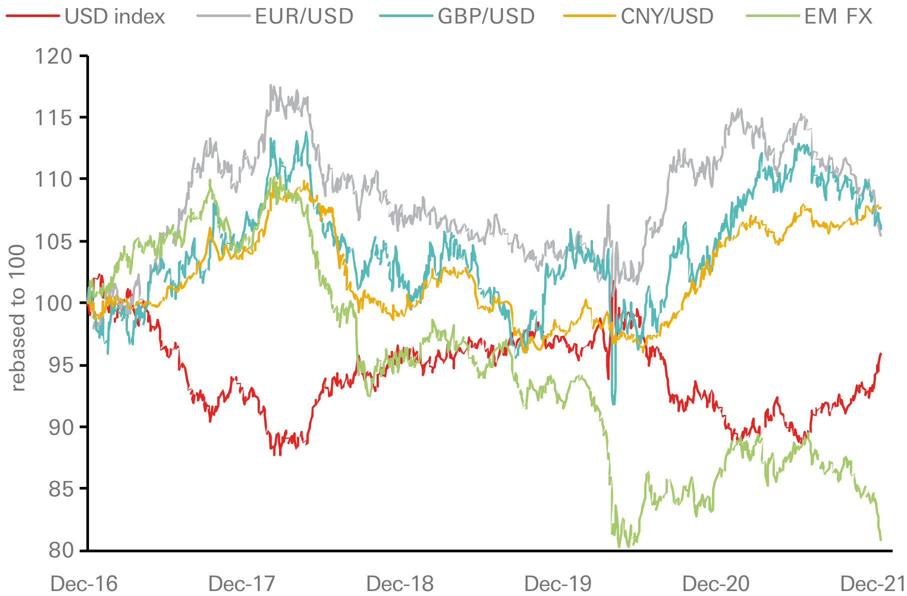
Currencies like EUR, CHF, and JPY meanwhile should continue to be under pressure due to their low or negative return, unfavourable rate differentials, and slow-moving monetary policy decisions. If sticky inflation were to trigger global growth concerns, the negative sentiment could theoretically provide some support to CHF and JPY. But as we already observed this year, USD has recently done well in times of stress, because the USD also has safe-haven characteristics, but a much better yield than the EUR or JPY. And of course, US Treasuries often act as the ultimate and very safe diversifier in such market circumstances too.

The Euro seems to lack a positive catalyst and is increasingly used for funding purposes, which puts it under downward pressure. Inflation in the Eurozone is less than in the US, and its economic cycle is less advanced, which makes any tightening decision still distant. Political uncertainty could also add to currency outflows next year. Polls ahead of France's presidential elections in April show an increasingly euro-skeptic picture, and the market will probably start to discount rising political risk early next year.

As for GBP, its yield is not enough to count it among the G10 high yielders mentioned above that will stand up to USD. The Bank of England is starting a rate hike cycle, but given challenges to growth, and with significant fiscal tightening in the offing, we believe the market is overestimating the pace of rate hikes. The UK had a strong start after the pandemic, but the advantage is dissipating, and the factors that initially pressured up the currency are fading away. Disappointing cyclical data, the current account deficit, and the implications of Brexit have come to the surface again and will probably continue to lead to a softer GBP.

USD strength has rarely been good for EM currencies. But for 2022, we keep a neutral stance on EM FX as we think economic fundamentals in EM countries are still generally healthy and many of the EM Central Banks are already giving out hawkishness signals. Global investors' hunger for yield is a positive, which could lead to flows into EM FX when sentiment on China starts to improve, and regulatory uncertainties ease. We think RMB will also trade in a range, as the US and China continue talks and work together on sustainability-related issues. China's inclusion in the World Government Bond Index (WGBI) should lead to inflows.

USD has strengthened against DM and EM currencies, but CNY has been resilient



Source: Bloomberg, HSBC Global Private Banking as at 30 November 2021. Past performance is not a reliable indicator of future performance.

Commodities

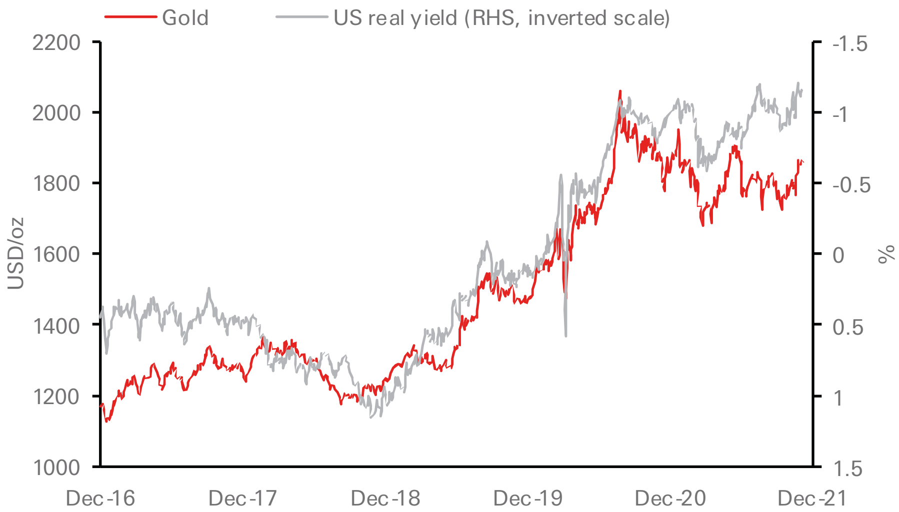
Commodities will still continue to play a role for currencies such as AUD or CAD in G10 and RUB in the EM space, but we think momentum will fade next year. Oil prices rose this year due to the imbalance between demand and supply as OPEC + was more cautious and disciplined than usual, even as demand rose. But demand is usually lower in the first quarter, and there is thus some downside risk to prices early next year: our $75/bbl forecast for Brent is somewhat below the current level. But with much depending on an uncertain growth outlook and on OPEC+ decisions, we can expect significant volatility, especially as few producers are able to accommodate any potential increase in demand.

Metals were up significantly in 2021 due to the chain reaction of an energy shortage, mainly in China. Primary beneficiaries were copper and platinum. We expect prices to stay high but to gradually stabilise as the restocking of the global supply chain has started. This should also help to mitigate inflation pressures. However, demand for metals should continue to be driven by energy transition and green investments and the metals used in the sustainability revolution should outperform others.

Finally, let's address the outlook for gold – historically a favourite in many clients' portfolios, but not much in favour in 2021. Tapering, the expectation of rates hikes and USD strength are negative factors for Gold, and the yellow metal will probably continue to be under pressure. That said, physical demand remains strong and should be able to sustain the price not too far from the current level. For example, we have recently seen a much stronger-than-expected pick-up in seasonal Indian demand. The retail market (coins and bars) can also continue to play a role in maintaining prices stable. On the other hand, we think that some investors now see cryptocurrencies as a potential diversifier, reducing the uniqueness of gold in some investors' eyes. On balance therefore, we have a neutral stance on Gold, with an average price target of USD 1740/oz for 2022.

As for silver, physical demand will be key going forward. Amid low investment demand (like for gold), silver can benefit from still high demand from the industrial sector and may see less volatility in 2022.

While gold may have benefited from a low real yield, it is being held back by the strong USD and healthy risk appetite



Source: Bloomberg, HSBC Global Private Banking as at 30th November 2021. Past performance is not a reliable indicator of future performance.

Hedge funds

Hedge funds remain important diversifiers and we see a strong opportunity set across a number of strategies. We continue to prefer macro and multi-strategy managers and have milder overweights in event-driven, Asia and Tech equity long short (L/S) and structured credit strategies. The environment has been more challenging for equity L/S in 2021, with several factor rotations and short squeezes. However, we have witnessed an improvement in active return (alpha) over recent months and a more fundamentally-driven equity environment in 2022 should be beneficial for the strategy.

Within macro, we maintain our outright positive rating on developed markets (DM) and move our EM rating down one notch to neutral. DM macro has recently been under pressure as high inflation numbers have resulted in fixed income volatility, negatively impacting relative value rates trades. However, looking ahead we expect diverging central bank policy to create numerous relative value opportunities across FX and rates. Meanwhile, global supply and demand imbalances are also fuelling energy and commodity trading opportunities for these managers. By comparison, EM markets are currently dealing with a number of crosscurrents, including slower COVID vaccination rates, inflation, the threat of higher rates and a stronger USD. Additionally, China's regulatory crackdown and slower growth, competition for natural resources, and other localised events make for a choppier outlook for the space. Correlation between asset classes is normalising and we are now seeing risky assets show levels of dispersion last seen pre-pandemic. We therefore expect DM macro managers to increase their risk positioning in the coming months, following a stint of risk reduction as a result of volatility in rates in H2 2021. Liquidity remains healthy and these themes should provide a fertile investment environment for macro strategies.

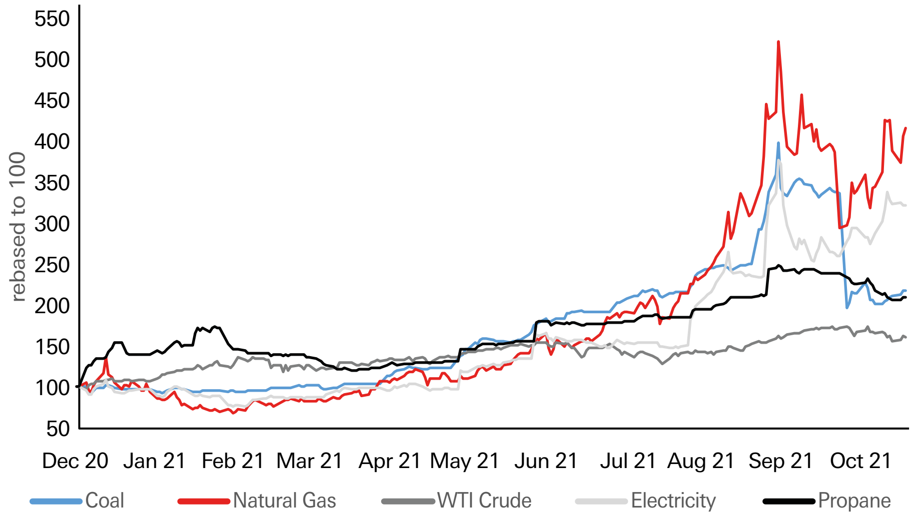
Our overall rating for the systematic space remains neutral. We saw heightened volatility during Q3, primarily due to surges in energy markets, rising bonds yields and equity weakness in September, which led to performance bifurcation across sub-strategies. As supply-demand imbalances continue to shift between commodity markets, the opportunity set for trend-followers in alternative markets remains attractive. However, our view for trend followers in more traditional markets remains less optimistic. We see two key areas for innovation in this space being additions to strategies within systematic credit in developed markets and China onshore assets. Whilst China is the second most liquid market in the world, the credit markets' size and breadth, alongside the fact it's becoming more electronic, makes both areas amenable to data-based signals.

We maintain our positive outlook on multi strategy and multi-PM managers (MSMP) and these strategies have performed strongly in 2021. Managers have noted that price action around earning announcements has improved, and factor rotations have benefitted managers who have tended to deploy a higher level of idiosyncratic risk, which generally protects against market drawdowns. Overall, multi-strategy and multi-PM managers continue to showcase the strength of their risk management and diversifying benefits of their various strategies through limited losses during this year's inflation fears, value rotations and deleveraging.

In equity long/short, we maintain our mild overweight in technology L/S and neutral rating for US and European L/S strategies but upgrade our Asian L/S one notch to a mild overweight. Although we have transitioned from the initial recovery phase to a mid-cycle environment, we believe the economic backdrop remains broadly favourable for equities. Thus far, 2021 has proven to be a tougher year for equity long short managers (relative to equity markets), with Q1's short squeezes and a rally in lower quality assets. Vast amounts of liquidity drove up equity prices during the pandemic, but as we get a moderation in this liquidity (from central banks, governments and equity fund flows), we expect to see increased market volatility, but also more classic price discovery, as the importance of fundamentals returns. Shorting is generating alpha once again, and whilst short exposures are still low compared to historical averages, managers cite a strong opportunity set and are adding resources in the space. So, whilst the beta-trade may be largely behind us, we are optimistic that the environment for equity long/short alpha is improving.

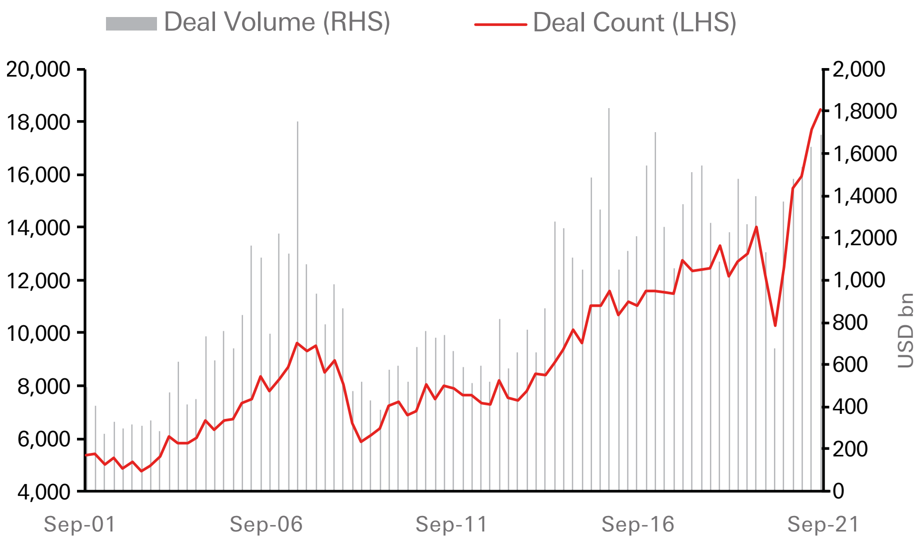
For event driven strategies, our rating remains neutral/positive. Within the M&A space activity remains high as companies are confident in their prospects, there is a record level of private equity capital on the sidelines and ongoing industry consolidation is happing across multiple sectors. In addition, the threat of higher interest rates and corporate taxes are serving to accelerate deal activity as companies try to anticipate a less favourable business regime. Within credit, we have kept our neutral rating and favour managers that can trade various products (including structured credit), asset classes, jurisdictions and have the ability to flex their net exposure. The near-term outlook for credit quality remains favourable due to central bank-enabled record levels of refinancing and new issuance coupled with reopening of the global economy. We remain marginally overweight credit distressed where although the bulk of the opportunity set remains in less attractive businesses and/or sectors that were impacted by COVID-19, there remains a healthy pipeline of situations as a result of the sheer size of the credit universe.

Strong price action in energy markets this year has benefitted trend followers with a focus on alternative markets



Source: Bloomberg, HSBC Global Private Banking, as at 30th November 2021. Past performance is not a reliable indicator of future performance.

Quarterly M&A deal activity



Source: Bloomberg. as at 30th November 2021

Private markets

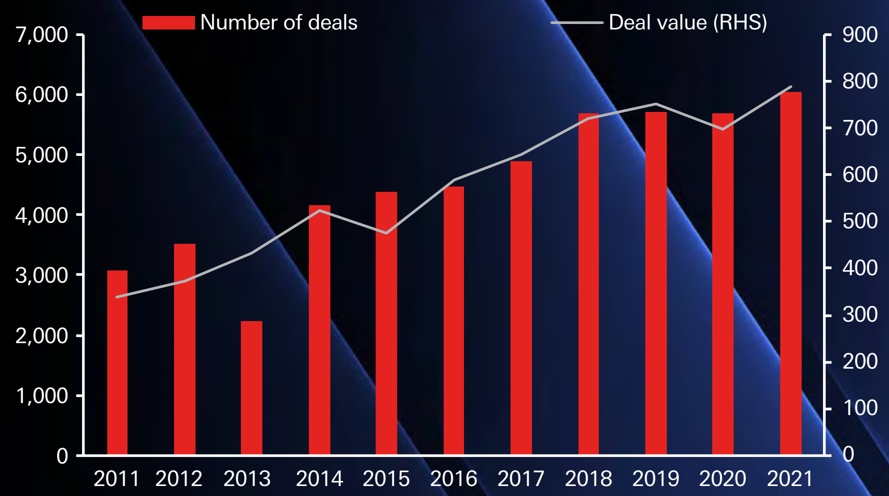
During the third quarter of 2021, private equity experienced bullish momentum across primary, secondary and co-investment funds, as private equity firms took advantage of the highly liquid markets. This is in line with record activity in the global M&A market, at over $1.5tn as of the end of Q3 2021. Despite a few anticipated setbacks on the horizon, including inflation and interest rate hikes, we think the outlook remains positive with a broad opportunity set in 2022. Our strategy focuses on technology, Asia, data infrastructure, healthcare and secondary opportunities.

In the first nine months of 2021, private equity buyouts surged 133% to $818 bn, compared to the same period last year, as investment firms rushed to deploy capital, often paying high prices. In the US, over 6000 deals worth $787.6 billion have closed so far this year. Although there is consensus that valuations are high at present, funds are focusing on opportunities where they have the conviction that they can add value.

We maintain our focus on high conviction themes. This currently includes technology, Asia, data infrastructure, healthcare and secondary opportunities. The focus on technology as one of its high conviction themes is mirrored by market sentiment, as software deals more than tripled in the first nine months of the year vs the same period last year.

Another trend we have seen the continuation of, is the rise of co-investments. A co-investment offers sophisticated institutional and high net-worth investors the opportunity to gain exposure to a single underlying asset within a fund, but at no fee (in most cases), thus improving returns significantly. For LPs, having the flexibility to choose single underlying assets, allows them to target the most attractive sectors, geographies and business models at any given point in

US PE deal value and count by vintage year, as of September 2021



Source: Preqin, Pitchbook, HSBC Global Private Banking as at 30 November 2021.

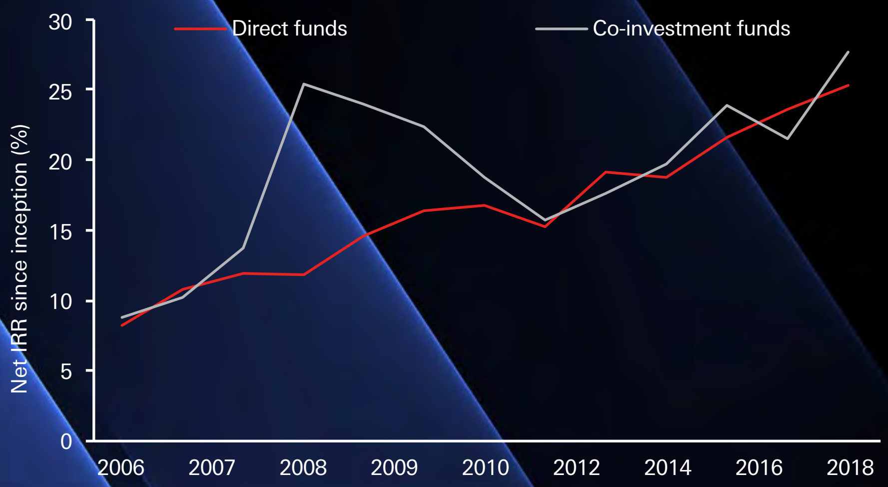
time. Co-investments are also attractive because they tend to be deployed immediately and at a faster rate, which helps accelerate deployment.

Since 2000, over $175 billion has been raised in co-investment funds across a total of 1,101 funds -with a significant increase in the past seven years. Private equity vehicles focused on co-investments have raised $26.2 billion, so far this year. According to Preqin's performance data, co-investment funds have outperformed or performed in line with direct private equity funds, based on median net IRR since 2009.

We believe that a portfolio should be overweight secondaries and co-investments and think it is important to have a disciplined approach to co-investments focusing on market leading companies in sectors that are growing faster than GDP and driven by secular themes. We like to complement this with defensive sectors where revenues are driven by recurring and non-cyclical factors. This includes areas such as analytics software companies, infrastructure and environmental solutions companies, telecom towers and healthcare services.

Overall, the private equity class is set to continue its upward trajectory, with 90% of private equity investors looking to increase their level of capital commitments. Amidst this overflow of deals, we think it is important to maintain a selective approach focusing on best in class opportunities through conducting extensive operational and investment due diligence. As always, investors also need to be mindful of the long term nature of private equity investments, along with the eligibility criteria and illiquidity risk.

Private Equity median net IRRs by vintage year: Co-investment vs. direct funds



Source: HSBC Global Private Banking. Preqin as at 30 November 2021. Past performance is not a reliable indicator of future performance.

Real estate

Although property yields have fallen due to the low rate environment, investment activity has picked up and is now largely back to pre-pandemic levels. A selective approach remains warranted, with the pandemic shifting investor interest towards logistics, residential and specific areas such as data centres, while retail yields have only just started to stabilise. As monetary policy normalisation is starting, valuations could be negatively impacted and finding properties with the potential for rental growth will be key.

Loosening of lockdown restrictions has not triggered a return to pre-pandemic lifestyles. Some new habits, specifically those related to how people shop and work (for white-collar work), are not expected to return to pre-pandemic patterns.

The office market has been particularly disrupted. Although improving, data for how busy offices are suggest that office utilisation remains at a fraction of pre-pandemic levels in many cities. According to Kastle.com data, office utilisation across the ten largest US cities was just 38% of the pre-pandemic level in November. The return to the office has been lacklustre, improving by just 1-2% per month as people continue to work predominantly from home.

Surprisingly, current high office vacancy rates have not been accompanied by widespread rent declines as demand has been focussed on modern, well-located, energy-efficient buildings, holding up prime rents. For lesser quality offices however, landlords may find it difficult to lease the space without significant capex spending or offering potential tenants rental discounts. Overall, the long-term shift to hybrid working should reduce the amount of office space needed by businesses and this will slow the speed with which fundamentals can recover.

The easing of lockdowns has boosted retail sales in shops whilst the share of retail captured by online stores has receded. However, online sales, as a percentage of total retail sales, is still significantly ahead of pre-pandemic levels. This accelerated shift to online has underpinned record global demand for logistics space during the pandemic.

In addition, manufacturers and retailers are looking to improve the resilience of their supply chains. Their fragility was exposed by the disruptions caused during the pandemic and the subsequent recovery. Improvements may take various forms, including diversifying supply networks, but many companies seem to want to raise inventory levels, which should be good for logistics demand in the coming years.

Strong logistics demand has pulled vacancy rates down to current low levels in many geographies, underpinning solid rental growth. Logistics developers are slowly responding to these rental impulses, but a lack of suitable locations (particularly for last-mile logistics in urban locations), along with the increased costs of labour and raw materials, have put a limit on what can be delivered.

At the pandemic's peak in 2020, retail rents, particularly for covered shopping centres without a grocery anchor, fell significantly. More recently, rents have started to stabilise, albeit at much lower levels. The rapid rebasing of retail rents has set them on a more sustainable path for the remaining retailers. Moreover, as rents have fallen, there is a growing trend of online-only retailers looking to take physical space to help with marketing and the difficult and costly issue of returns.

Despite lower rents, the outlook remains challenging, with vacancy rates expected to stay elevated. The shift to online is expected to have significantly further to run, diverting sales away from physical stores. In addition, uncertainty surrounding the future of international travel, particularly of Chinese tourists, is a key risk for many prime retail destinations.

Investment activity has largely recovered to pre-pandemic levels. However, the pandemic has accelerated the shift in investor activity away from the most challenged offices and retail sectors towards residential, logistics and less traditional sectors such as self-storage, life sciences and data centres.

With the notable exception of the retail sector, property yields are near record lows as unprecedented central bank intervention supported the attractiveness of higher-yielding assets such as property.

The outlook may be more challenging as central banks start to withdraw monetary policy support, prompted by rising inflation, firming labour markets, and sustainable economic recoveries. Any rise in interest rates may put upward pressure on property yields, reducing values. In such a scenario, rental growth will be increasingly significant as a driver of returns.

Disclaimer

Risks to our View

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

Risk Disclosures

Risks of investment in fixed income

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

Credit risk

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

Risks associated with high yield fixed income instruments

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

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

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

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

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

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

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

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

Changes in legislation and/or regulation

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

Nationalization 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 nationalization.

Reinvestment risk

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

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

Risk disclosure on Dim Sum Bonds

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

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

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

Renminbi is subject to foreign exchange control. Renminbi is not freely convertible in Hong Kong. Should the China Central Government tighten the control, the liquidity of renminbi or even renminbi bonds in Hong Kong will be affected and you may be exposed to higher liquidity risks. Investors should be prepared that you may need to hold a renminbi bond until maturity.

Risk disclosure on Emerging Markets

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

Risk disclosure on FX Margin

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

Currency risk – where product relates to other currencies

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

Chinese Yuan ("CNY") risks

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

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

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

Illiquid markets/products

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

Alternative Investments

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

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