Investment Outlook

Q2 2023

Shifts and Turns

HSBC

Global Private Banking

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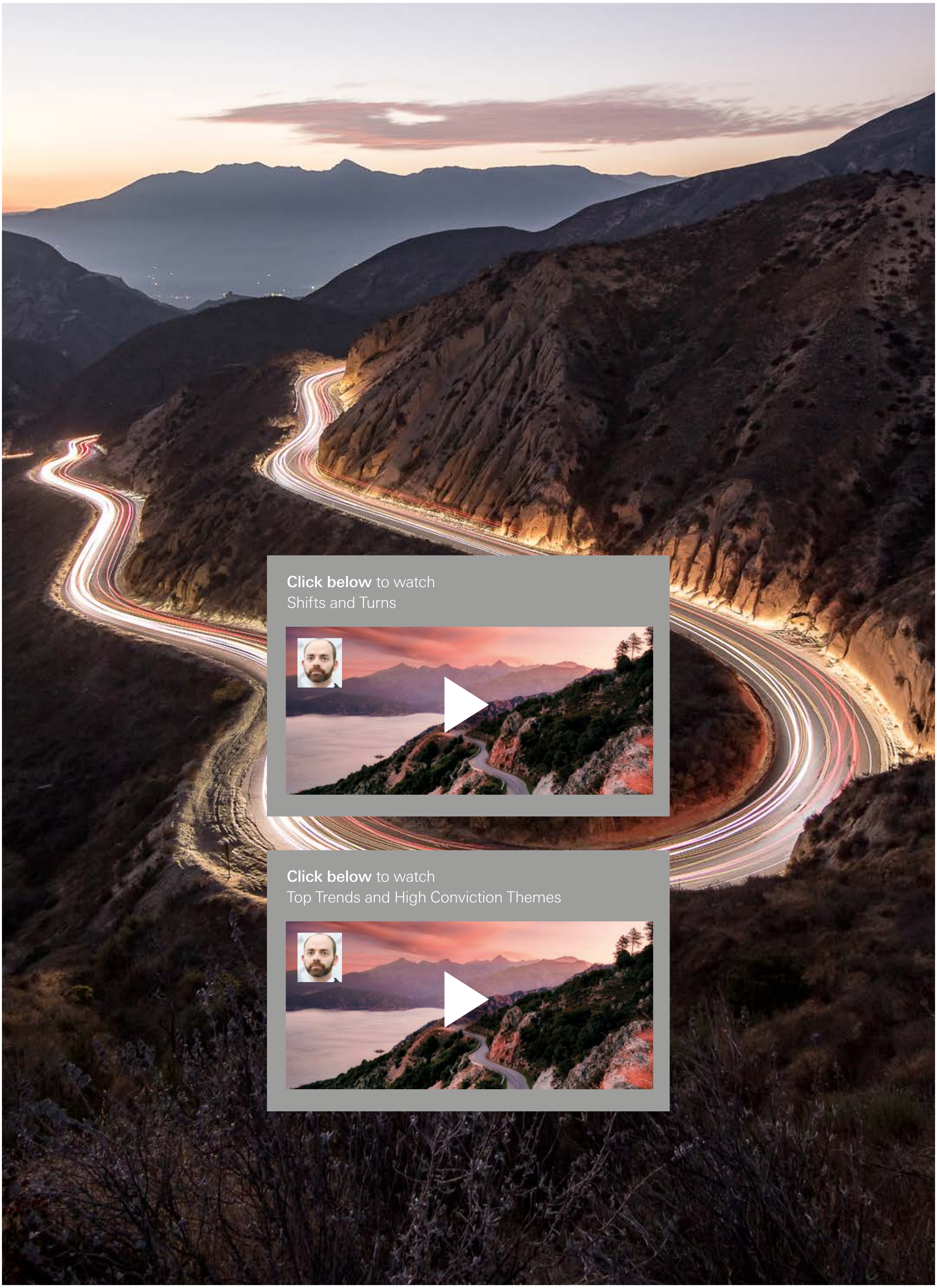


Click below to watch
Shifts and Turns

Click below to watch
Top Trends and High Conviction Themes

Welcome

Dear client

Markets have been shifting and turning since the start of the year. Risk appetite initially bounced sharply, but we've since seen a retracement and plenty of flip-flopping as there are many issues on which investors cannot make up their mind. The recent turmoil triggered by Silicon Valley Bank (SVB) and related events have added to the uncertainty. And although a banking crisis should be averted, it is yet another factor that will continue to lead to two-way market volatility.

The shifts in our own investment strategy continue to be guided by the milestones around inflation, interest rate and growth that we set out in our Investment Outlook publication late last year. Focusing on these fundamentals allows us to distinguish the noise from the real trends that we believe we can take a view on.

The most consequential changes in the investment landscape are the continued fall in US inflation, the prospect of an end to Fed rate hikes, the faster-than-expected reopening in China and lower energy prices. As a result, we've progressively adapted our positioning since the start of Q4 2022. We've extended our investment grade bond duration to 5-7 years and moved our USD view from bullish to bearish. Our allocation to China and Asia more broadly has moved to the largest overweight in several years. And in developed market equities, we've upgraded Eurozone stocks to neutral and narrowed the gap against the small US equity overweight. Clearly, those moves generally reflect a more constructive view than in 2022. But we still remain selective as there are plenty of uncertainties too.

So what will be the main drivers of market dynamics in the next 6 months? The Fed policy is key, of course. We think inflation will continue to fall, largely because of base effects and rental inflation, which should finally start to come down, and accounts for a very significant 30% of US CPI. That means the Fed will stop hiking rates by the end of H1. But the bad news is that the Fed is very unlikely to cut rates until Q2 2024, unless US growth slows more markedly than we anticipate. This 'high for longer' rate outlook has important consequences. Principally, it should steer investors away from highly levered areas of the market. High yield is more vulnerable than investment grade, low-rated emerging markets could see further stress, and we avoid over-levered real estate assets. However, opportunities will ultimately present themselves in distressed assets as prices get marked down, and 2023 could be a good vintage in private markets.

Another key driver is China's reopening and bounce in consumption, which we believe markets still underestimate. Moreover, China's change in policy focus towards growth is strategic and supported through many policy levers, and is therefore less prone to U-turns than many investors seem to fear. This helps China and Asia, but also reduces the risk of a global recession. Nevertheless, Western economies should continue to slow. So far, the US economy has been more resilient than expected, but the recent turmoil in the US IT and banking sectors may challenge this (even though we do not consider the recent events as systemic because loan delinquencies remain very low). In short, it seems to us that market conditions in the West remain mixed and uncertain for now, while they are improving in Asia, and that improvement is not yet fully factored in. We thus foresee more upside in Asian stock markets, while we should continue to go through some consolidation in the West.

We all appreciate forward guidance by central banks, CEOs and leading economic indicators, but markets will be prone to 'forward guessing' on a number of important topics. That should continue to lead to lots of volatility and flip-flopping in rate and FX views, sector and style rotation. The multitude of factors affecting CPI, the US debt ceiling negotiations which may go to the wire, geopolitical uncertainty and uncertainty around energy prices are just some of the likely causes of volatility. When we set our strategy, we prefer to stick to those areas where we can take a strong view, while exploiting volatility through our overweight in hedge funds, volatility strategies (for protection or to generate income) and through small opportunistic trades. Our focus is on investing in quality assets, select areas of conviction and key long term themes such as the energy transition, infrastructure, aerospace, automation & AI. To this, we add private assets at the right price, and hedge funds for diversification. This strategy should allow us to remain invested, taking advantage of the 2022 drop in markets, but manage some the volatility and unpredictable shifts and turns in markets we're very likely to continue to see.

Willem Sels,
Global Chief Investment Officer
15 March 2023

Our Portfolio Strategy

The prospect of peak Fed fund rates and 'less bad than expected' economic data support our overweight of investment grade bonds and neutral allocation to global equities. But as rates will remain high for longer, we focus on quality assets across bond, equity and real estate markets. That has become even more important following the turmoil triggered by SVB and related events. Given the significant uncertainty around key fundamentals, sentiment may continue to shift and turn, and we exploit this through hedge funds and volatility strategies. We remain selective in equities, with a clear preference for China and Asia over developed markets.

Fixed income: overweight

Focus on high quality borrowers

Medium duration

Equities: neutral

Neutral developed markets, with mild overweight in US and underweight in UK

Full overweight in Asia; mild overweight Latin America

Bias towards quality

Alternatives: overweight

Overweight in Hedge Funds

Keep core allocations to private markets and real estate

1. What the markets are telling us

The rebound in risk appetite early this year reflected two main drivers: first, the markets' assessment that US interest rates are close to their peak, and secondly, the markets' reaction to more resilient than expected economic data around the world. Both of these drivers are positive for stocks. Cyclicals and growth stocks have outperformed, while there has been less demand for quality stocks. Many of the moves were exacerbated by positioning adjustment, as many investors were positioned for the opposite scenario in 2022.

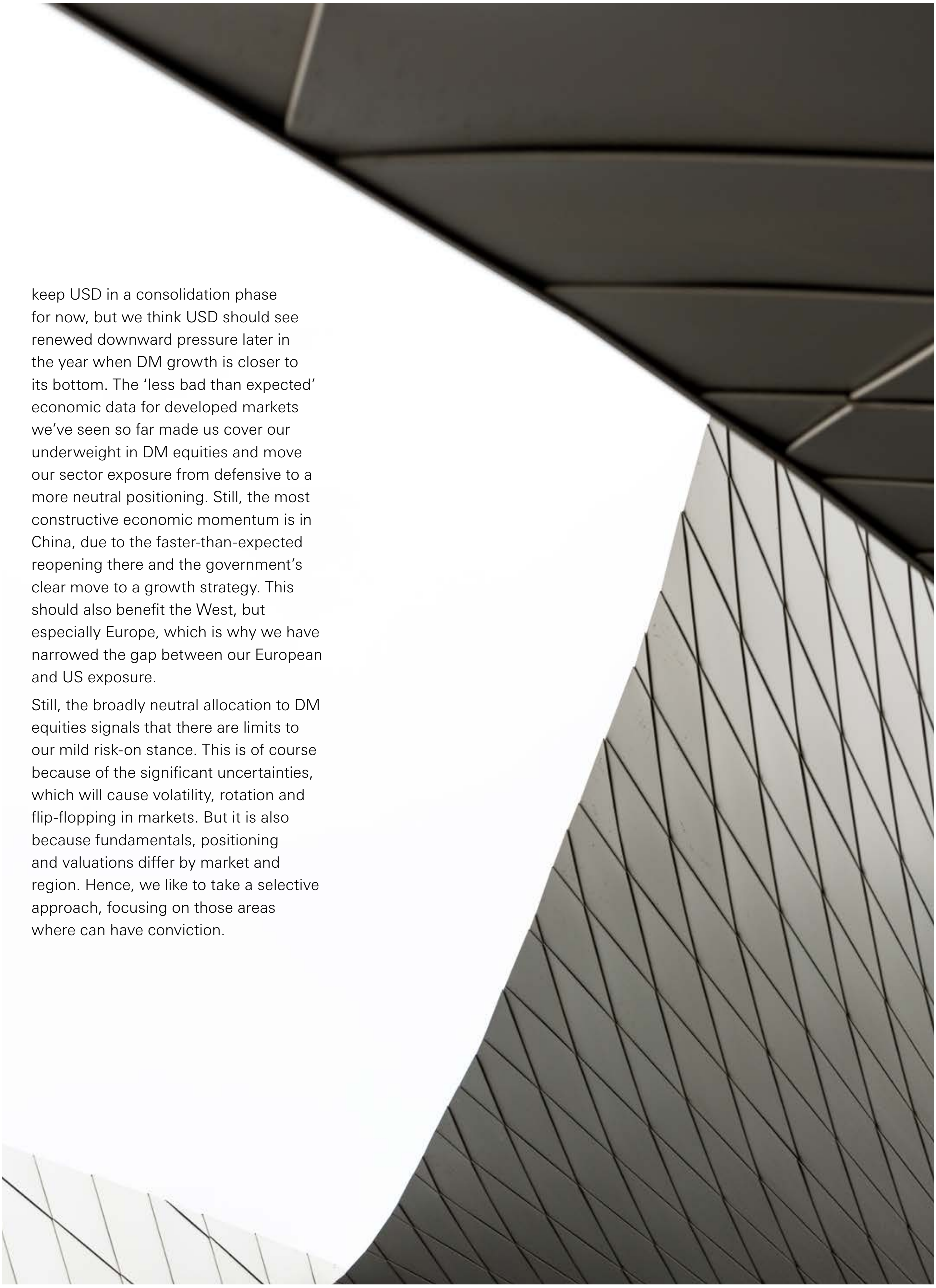
In recent weeks, the bounce in risk appetite has run out of steam. This is principally due to fears that stronger-than-expected US activity could lead to more rate hikes, and that rates will remain high for longer. The continued volatility and flip-flopping (including sharp moves around Fed meetings and important economic data) indicate that the market is uncertain about many macro variables. And the recent turmoil in the US banking and IT sectors has hit risk appetite, lowered the market's assessment of peak policy rates, and widened credit spreads, though the extent of the widening suggests the market does not expect a credit crisis to unfold.

2. How our positioning has evolved

In our 2023 investment outlook, we suggested that investors should look at the inflation, rate and growth cycle to gradually adapt their positioning when key milestones are reached. In fact, we have been making step-by-step changes since early Q4 2022 as shown in the diagram below.

The continued fall in inflation and the likely halt to the Fed rate hikes by the end of H1 were key triggers for our decision to extend bond duration. Peak rates were also a milestone for our downgrade of USD to a bearish view. The current market volatility may

Fixed Income	– We have moved from 3-5yr maturities to 5-7yr maturities
Equities	– Global allocation: we have moved from underweight to neutral – Sectors: no longer defensive but neutral – China moved to full overweight, and we have added to Asian exposure – Europe upgraded from underweight to neutral
Currencies	– We have moved USD from bullish to bearish



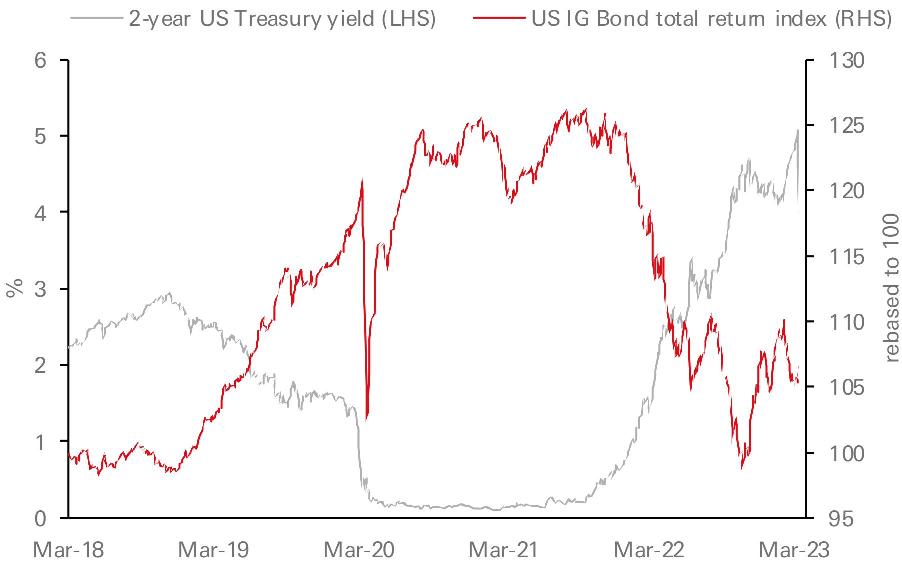
keep USD in a consolidation phase for now, but we think USD should see renewed downward pressure later in the year when DM growth is closer to its bottom. The 'less bad than expected' economic data for developed markets we've seen so far made us cover our underweight in DM equities and move our sector exposure from defensive to a more neutral positioning. Still, the most constructive economic momentum is in China, due to the faster-than-expected reopening there and the government's clear move to a growth strategy. This should also benefit the West, but especially Europe, which is why we have narrowed the gap between our European and US exposure.

Still, the broadly neutral allocation to DM equities signals that there are limits to our mild risk-on stance. This is of course because of the significant uncertainties, which will cause volatility, rotation and flip-flopping in markets. But it is also because fundamentals, positioning and valuations differ by market and region. Hence, we like to take a selective approach, focusing on those areas where can have conviction.

Better than expected data have supported a rebound of equities and risk sentiment since late last year.

Source: Bloomberg, HSBC Global Private Banking as at 14th March 2023. Past performance is not a reliable indicator of future performance.

Although bond investors have given up some of the recent gains, we think it remains attractive to lock in high current yield levels.



Source: Bloomberg, HSBC Global Private Banking as at 14th March 2023. Past performance is not a reliable indicator of future performance.

3. Eight key views and what they mean for our positioning

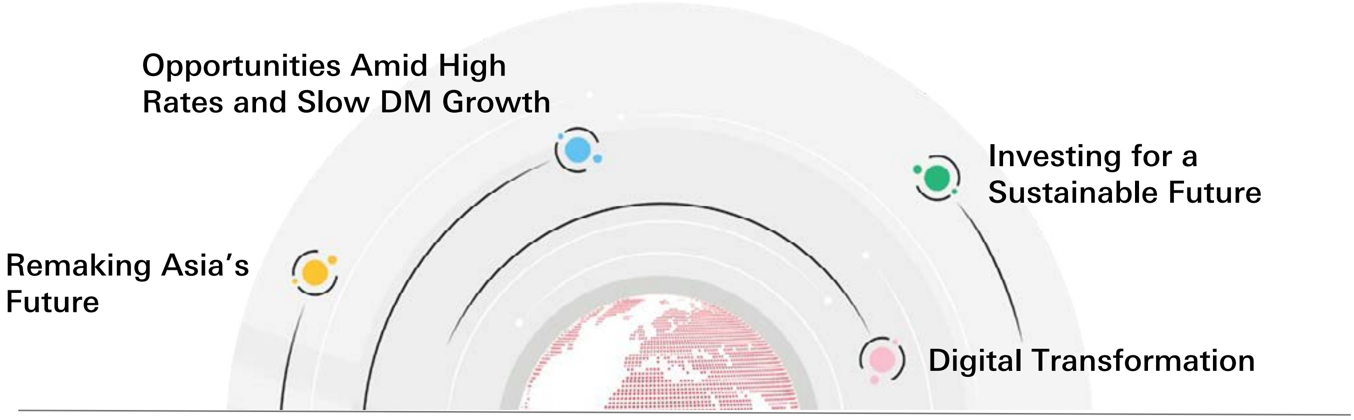
Peak policy rates: we believe the Fed is comfortable that inflation will continue to ease. This is in part because of powerful base effects and the lagged effects of the rate hikes to date. But we also agree with Fed chair Powell that rents should soon start to increase less rapidly as they tend to follow house prices, which have been declining for some time. The recent turmoil in the global banking and IT sector should remain contained, but it may deter the Fed from hiking too far. Some investors are concerned that China's reopening will lead to a reacceleration of global inflation, but we don't think so, as China is currently experiencing benign inflation. Moreover, China's growth pickup is mostly related to consumption and services, which are much less commodity-intensive than the construction-led growth spurts of the past. The prospect of peak policy rates driven by a more benign inflation outlook is bearish for USD (with a 6-month view), positive for bonds and good for global risk appetite. (Note: the recent fall in rate expectations related to the SVB turmoil was of course linked to a risk-off mood, but we think that fears of a banking crisis are overdone. When the turmoil eases, rate expectations will realign again with the inflation outlook)

High for longer: the bearish aspect of the rate outlook, however, is that the Fed is very unlikely to cut rates till early next year unless the US economy slows much faster than we currently think. This is because the initial fall of CPI from 9% to the current 6% was much more easily achieved than the move to 4% will be (let alone the move to the 2% target). The longer rates stay high, the longer the stress on highly leveraged borrowers, as more and more loans need to be reset, and bonds need to be refinanced. This is a key reason why we look for quality in all asset classes: we prefer investment grade over high yield, focus on quality in emerging markets and are careful to avoid excessive leverage in real estate. Defaults in high yield and emerging markets are likely to rise from here (although the pressure on EM is eased by the weakening USD). On the flipside, this should lead to distressed opportunities, and we think that investors in private markets will find that the 2023 vintage should benefit from good entry points. You will find more details of what a 'high for longer' scenario has historically meant for markets in the next chapter.

China's reopening: we believe the market underestimates the speed of China's reopening. We have observed in other countries how sharply consumption can spike in a post-COVID reopening. What's more, Chinese consumers have accumulated RMB 6trn of savings (almost USD1trn) during the zero-COVID period, much of which they will be eager to spend. We therefore primarily execute our full overweight on Chinese stocks in consumer-related themes, such as retail, e-commerce, hospitality, entertainment, travel and Macao gaming. Thailand and Indonesia are our two overweight markets which should benefit significantly from increased Chinese travel.

China's growth focus: the acceleration in Chinese growth should go beyond the reopening. We view the policy shift back to growth stability as strategic in nature, and believe that a U-turn is much less likely than some investors fear. This is because issues like local authorities' growing deficits and high youth unemployment can be eased by stabilising the property sector and boosting private sector growth. Moreover, technology needs to continue to grow as the strategic competition with the US continues. The energy transition is another structural growth area. To achieve this growth, targeted lending to the private sector, continued credit expansion and increased fiscal support have been announced. So we think that there is less policy uncertainty than many investors seem to believe, and Chinese equity valuations compensate for the remaining risk. But we acknowledge that some investors will want to take indirect rather than direct exposure to Chinese growth, through ASEAN stocks or developed market exporters (see also our new High Conviction Theme 'Asia through DM').

Top Trends and High Conviction Themes



Remaking Asia's Future

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

Opportunities Amid High Rates and Slow DM growth

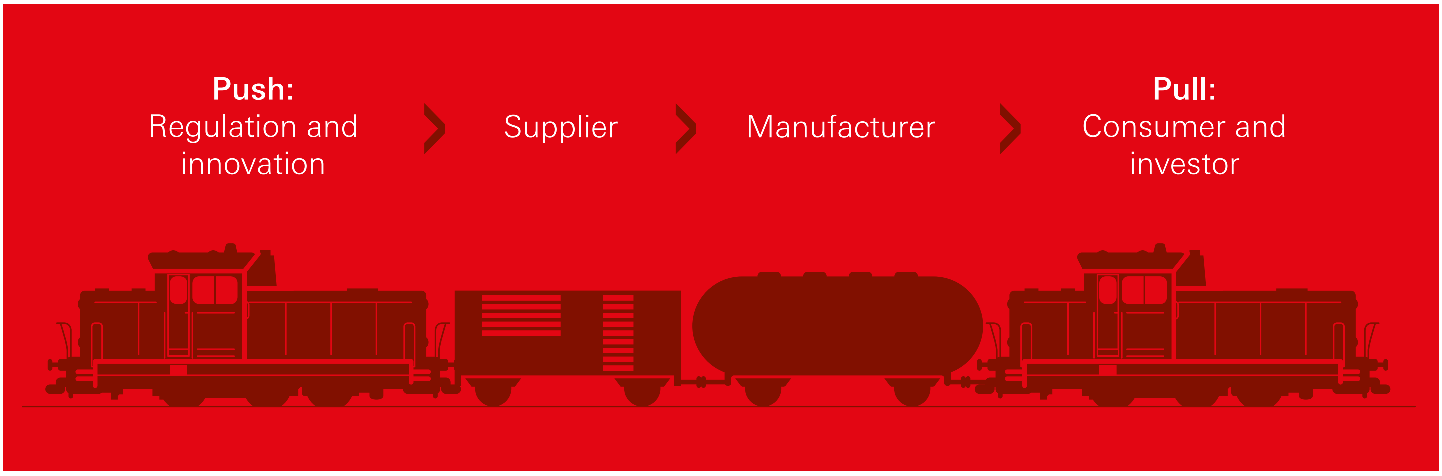
- American Resilience
- DM Financials – Moving Up the Capital Structure
- Durable Dividends
- Infrastructure
- Opportunities in Quality Credit
- Asia through DM

Digital Transformation

- Smart Mobility
- AI & Automation
- Aerospace

Investing for a Sustainable Future

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



The sustainability train is unstoppable: The Russia-Ukraine war has forced many governments to speed up energy security efforts, which has triggered investments in fossil fuels. This does not question the energy transition though: the UK's creation of a 'Department for Energy Security and Net Zero' demonstrates that both can go hand in hand. As our train diagram shows, the sustainability move is unstoppable, as it is pushed forward by regulation and enabled by innovation and subsidies. At the same time, it is pulled forward by consumers and investors who want to buy from more responsible firms. Companies anywhere in the supply chain want their suppliers to be more ESG-friendly, and many banks want their corporate clients to transition. We therefore continue to incorporate sustainability throughout our investment process, in our stock and bond analysis and in our High Conviction themes.

A sudden or delayed recession? most of the key topics we've addressed above are positives for investors, but there were two issues with the January rally. First, equity markets had rebounded on the view that economic forecasts were too bearish. But while data are indeed 'less bad than expected', the economic cycle in the West is still weakening, and earnings are still being downgraded. Analysts have become more realistic on earnings, which is good news, but the US equity market has bounced a bit earlier in the downgrade process than has historically been the case. Secondly, we don't know how quickly or sharply the US economy will slow. The stronger-than-expected starting point for the US economy could mean that the recession could be delayed, and that in turn makes it more difficult for DM markets to rally much further until we're further advanced in the cycle. Alternatively, if the recent turmoil in the US banking and IT sectors were to lead to a more abrupt slowdown, the headwind for US markets could be shorter but sharper. In any case, we think the consolidation we've seen lately in DM equities and the US dollar may continue in the short term, with a more constructive outlook for risk assets to follow later in the year.

Uncertainties: There are plenty of uncertainties, including the multitude of factors affecting CPI, the US debt ceiling negotiations which may go to the wire, geopolitical uncertainty and the uncertainty around energy prices, to name a few. Markets may remain jittery for some time in light of the issues in the banking and IT sector in the US and Europe and the widening of credit spreads and default swaps. All of these are likely causes of volatility and of markets changing their minds, especially around the release of important data points. Volatility can provide opportunities for hedge funds, especially for macro and multi-strategy managers. We think CTAs may continue to find it more difficult to capture the right trends as there will be a lot of flip-flopping in sentiment and market direction. We also exploit volatility to provide income or a degree of downside protection.

High Conviction Themes: as we show in our diagram on the previous page, the current environment of 'High Rates and Slow DM growth' can be exploited through strategies that create income or focus on quality. Our other themes fall under the by now familiar trends of Remaking Asia's Future, Digital Transformation and Investing for a Sustainable future. While rates were rising, we limited the number of themes under the Digital Transition trend, as growth stocks saw great headwinds. But that headwind should now ease. By investing in the structural trends, we avoid missing the big picture and can look through some of the short-term uncertainties. That said, we believe that core and satellite investments need to be considered when looking at portfolio risk and investors' objectives.

Market Performance During the Final Phases of Rate Hiking Cycles

Our belief is that history will continue to rhyme, so we continue to study historical market cycles to construct more resilient portfolios. While rates have been rising, market performance has been very similar to that seen in other inflationary environments. As rate hikes should reach a plateau, we focus less on directionality, and look for relative value in quality stocks, capturing carry in investment grade credit, and allocate to hedge funds as a way of seizing opportunities as the market shifts and turns.

Historical inflationary scenarios were a very useful reference for asset allocation in 2022, when the Fed began to hike interest rates at a pace not seen in decades. The correlation between stocks and bonds turned positive, commodity prices soared, and value stocks outperformed growth, in line with the experience from the 1970s. So what could happen when the Fed stops hiking rates and we move to a 'high for longer' rate plateau stage? The figure below shows a stylised summary of asset class performance under different phases of the Fed rate hike cycle – all in the context of a high inflation regime.

How do assets behave in the different stages of the Fed rate hike cycle in a high inflation regime?

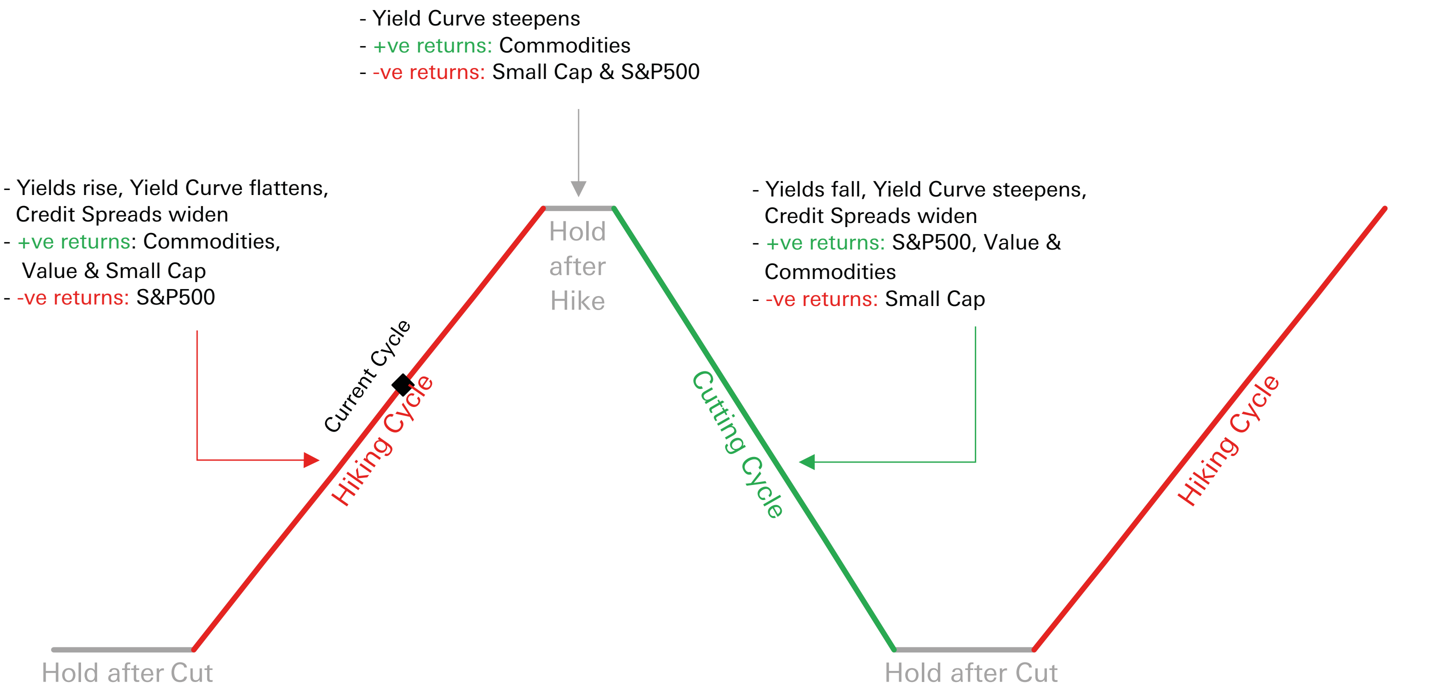


Table 1 – Scenario analysis of all historical Fed hiking cycles

				Fed Funds (%)			Inflation		ISM Dynamics				Recession	
First Hike Date	Last Hike Date	Length (Month)	Hike Pace	Start	End	Change	Consumer prices % change	Initial Inflation Regime	Start	End	Dynamics	End < 50	12m after first Hike	24m after first Hike
15/04/1955	23/08/1957	28	Slow	1.4	3.5	2.1	2.3	Low Inflation	68.7	45.3	Falling	✓		
12/08/1958	11/09/1959	13	Fast	1.8	4.0	2.3	1.0	Low Inflation	57.3	48.3	Falling	✓		✓
17/07/1963	07/09/1966	38	Slow	3.0	6.0	3.0	2.1	Low Inflation	55.5	58.7	Rising			
20/11/1967	17/07/1969	20	Fast	4.0	9.8	5.8	5.1	Low Inflation	54.2	53.1	Falling			
30/03/1972	26/04/1974	25	Fast	4.0	11.0	7.0	7.5	Low Inflation	59.8	59.9	Rising			✓
01/08/1977	18/03/1980	32	Fast	4.8	16.5	11.8	10.8	High Inflation	54.9	43.6	Falling	✓		
21/10/1980	18/05/1981	7	Fast	11.0	19.0	8.0	10.5	High Inflation	55.5	53.5	Falling		✓	✓
31/03/1983	08/08/1984	16	Slow	8.5	11.3	2.8	4.7	Low Inflation	53.9	53.0	Falling			
04/12/1986	04/05/1989	29	Slow	5.9	9.8	3.9	4.7	Low Inflation	50.5	49.3	Falling	✓		
04/02/1994	01/02/1995	12	Fast	3.0	6.0	3.0	2.9	Low Inflation	56.5	55.1	Falling			
30/06/1999	16/05/2000	11	Slow	4.8	6.5	1.8	3.6	Low Inflation	55.8	53.2	Falling			✓
30/06/2004	29/06/2006	24	Fast	1.0	5.3	4.3	3.4	Low Inflation	60.5	52.0	Falling			
17/12/2015	20/12/2018	36	Slow	0.3	2.5	2.3	2.1	Low Inflation	48.7	54.9	Rising			
17/03/2022	-	11	Fast	0.3	4.8	4.5	4.8	High Inflation	57.0	47.4	Falling	✓		

Source: HSBC Global Private Banking, Refinitiv, Yale University, University of Lausanne, March 2023. Consumer price % changes are annualised.

When we look for potential historical precedents, we find that the current monetary tightening cycle has some common characteristics with the hiking cycles that began in August 1977 and October 1980, both with regards to the pace of rate hikes and the high level of inflation. As seen in Table 1, in both of these periods the Fed was aggressively raising policy rates to keep a lid on soaring inflation. Moreover, the business cycle was deteriorating, and a recession seemed to be on the cards – as indicated by the negative slope of the yield curve.

Table 2 – Average asset classes performance during historical rate hiking cycles, split by inflation regime

	10-year yield	2s10s yield curve	3m10y yield curve	Credit Spreads	Commodities	S&P 500^	Value*	Size*
Overall	+147	-128	-160	+11	23.96	7.32	9.73	2.92
Low Inflation (<4%)	+110	-106	-128	-7	23.62	9.56	11.00	-0.79
High Inflation (>4%)	+354	-197	-338	+108	25.85	-4.98	2.77	23.31
Current Cycle (17/3/22-28/2/23)	+172	-113	-274	-3	-11.67	-11.23	10.12	5.52

Source: HSBC Global Private Banking, Refinitiv, Yale University, University of Lausanne, March 2023.

Percentage changes in excess of cash for all columns except for 10-year yield, 2s10s yield curve, 3m10y yield curve and Credit Spreads which are basis point changes.

*Value and Size represent the returns of High-minus-Low and Small-minus-Big Fama and French long-short portfolios, except in the "Current Cycle" row where they are calculated using the MSCI Indices.

^S&P 500 reconstructed aggregating sectors performance based on present sectors weightings to account for the evolving sector composition

Back in the 1970s, the Fed was fighting particularly high and entrenched inflation. The major part of these hiking cycles took place under the helm of Paul Volcker, who started his Fed chairmanship in the summer of 1979. History books now agree that his predecessor, Arthur Burns, had been too hasty to declare victory over inflation, pivoting to rate cuts before the underlying inflationary pressures were fully under control. Volcker changed the policy in a radical way, and his draconian rate hikes are today celebrated as necessary and successful measures, despite eventually leading to a painful double-dip recession. Under Jerome Powell, today's Fed is facing inflation rates not seen in many decades. Over the last year, interest rate hikes have repeatedly surprised to the upside, triggering sustained sell-offs in bond and equity markets.

Currently, money market futures are pricing the present hiking cycle to continue for another few months, before the rates begin to stabilise. With the end of this latest round of hikes seemingly around the corner, we examine how markets historically behaved during the final months of similar monetary tightening cycles.

In order to extract key patterns across the cycles and eliminate any idiosyncrasies, we take the average of market movements across the two categories, with the "High Inflation" category indicating a plausible path for the first half of 2023. As shown in Table 2, treasuries sold off by 354 basis points on average during the Volcker hikes and the yield curve flattened by up to 338 basis points. Credit spreads tightened by 108bps on average. The S&P 500 – reconstructed based on present sector weightings to account for the evolving sector composition – fell by 4.98% on average in these scenarios. Value stocks outperformed growth stocks, while "long duration" growth equities were penalised by the increases in borrowing costs. Small-cap equities delivered higher returns than their large-cap counterparts only in high-inflation periods. Importantly, the sharpest hikes and related market moves occurred during the final six months of these historical hiking cycles.

Market moves in the current cycle have been very similar to these historical scenarios. As seen in the bottom row of table 2, treasuries sold off, the yield curve flattened substantially (and inverted) and the S&P 500 fell. There are some differences, too. For example, credit spreads have not widened during the present cycle, and commodity prices reversed previous gains. Equities began pricing the inflationary scenario very quickly even prior to rate hikes commencing, and therefore the scope for further downside is limited from these levels. However, historical scenarios do point to a risk of further weakness in government bonds and credit spreads, should the Fed re-accelerate their rate hikes in the coming months in response to hot inflation prints (not our core view). The yield curve is already substantially inverted, but is still well above the levels seen in similar cycles historically, when it reached -1.7% on average. Value stocks have also shown quite a bit of resilience compared to growth stocks thus far, to a degree that has outpaced historical scenarios. Small caps stocks, on the other hand, are also outperforming, but to a much smaller degree compared to history, and may be a particularly interesting play in the forthcoming months.

What happens next in the markets will be largely a function of how the Fed proceeds with their monetary policymaking. If they decided to eliminate any chances of inflation re-accelerating, they may act as decisively as they did in 1979 and 1980 at the risk of consciously engineering a recession. However, our base case is that the Fed is now close to the plateau, and it is time to start preparing for the phase where rates remain on hold a while.

Table 3: "Fed on Hold" after hiking cycles

	10-year yield	2s10s yield curve	3m10y yield curve	Credit Spreads	Commodities	S&P 500^	Value*	Size*
Overall	-66	+33	+5	+8	3.73	6.02	3.09	-1.78
Low Inflation (<4%)	-101	+19	-75	+6	4.30	11.23	5.12	-0.93
High Inflation (>4%)	-19	+53	+111	+11	2.97	-0.94	0.39	-2.91

Source: HSBC Global Private Banking, Refinitiv, Yale University, University of Lausanne, March 2023.

Percentage changes in excess of cash for all columns except for 10-year yield, 2s10s yield curve, 3m10y yield curve and Credit Spreads which are basis point changes.

*Value and Size represent the returns of High-minus-Low and Small-minus-Big Fama and French long-short portfolios.

^S&P 500 reconstructed aggregating sectors performance based on present sectors weightings to account for the evolving sector composition

Once the Fed is on hold after hiking, as shown in Table 3, we typically see some re-steepening of the curve, and a stabilisation in longer dated yields, credit spreads, commodities, and equity prices. These are the periods when the economy and financial markets are forced to cope with elevated interest rates for a period of time, so the scenario is not particularly bullish. This scenario aligns with our view of focussing less on directionality, and looking for relative value in quality stocks, capturing carry in investment grade credit, and allocating to hedge funds as a way of seizing opportunities as the market shifts and turns.

Table 4: Cutting cycles

	10-year yield	2s10s yield curve	3m10y yield curve	Credit Spreads	Commodities	S&P 500	Value*	Size*
Overall	-148	+121	+181	+56	-6.69	14.97	6.23	-1.34
Low Inflation (<4%)	-97	+76	+120	+70	-15.12	9.93	4.75	0.79
High Inflation (>4%)	-207	+165	+253	+38	3.16	20.87	7.95	-3.82

Source: HSBC Global Private Banking, Refinitiv, Yale University, University of Lausanne, March 2023.

Percentage changes in excess of cash for all columns except for 10-year yield, 2s10s yield curve, 3m10y yield curve and Credit Spreads which are basis point changes.

*Value and Size represent the returns of High-minus-Low and Small-minus-Big Fama and French long-short portfolios.

^S&P 500 reconstructed aggregating sectors performance based on present sectors weightings to account for the evolving sector composition

In summary, historical scenarios highlight the risk that the markets may be underestimating the further potential weakness in fixed income if the Fed continues to fight inflation by hiking rates (Table 2) rather than just holding them high for longer (Table 3). If history is any guide, the time to turn bullish across risk assets and move away from quality may not come before the Fed begins to cut rates and the yield curve begins to re-steepen, as summarised in Table 4.

Remaking Asia's Future

Our four high conviction themes

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

China's faster-than-expected reopening and consumption recovery has provided a notable lift to the Asian economies, supporting a broad-based improvement in manufacturing and services PMIs across the region. Being the largest trading partner of 16 major economies in Asia, China's demand recovery helps mitigate the drag from the global downturn for the Asian exporters. We are fully overweight on China and EM Asia equities due to their improved growth outlook and attractive risk-reward profile. Our Top Trend of Remaking Asia's Future captures the most attractive structural and tactical opportunities in the region.

New orders in Asia have already expanded in January and continued to improve in February. As for exports, the pace of contraction has eased considerably in all Asian exporting

Asia's growth acceleration versus DM slowdown in 2023

Source: CEIC, HSBC Global Research forecasts, HSBC Global Private Banking as at 14th March 2023 economies except Japan. Upside surprises from China's February manufacturing and services PMI data reaffirm that the economy is on track to stage a strong cyclical recovery in 2023.

We have upgraded our 2023 China GDP growth forecasts, expecting a speedy growth acceleration from 2.2% y-o-y in Q1 to 7.4% in Q2, and 5.6% for full-year 2023. We expect China can over-achieve its conservative 2023 GDP growth target of "around 5%" set at the China NPC. In contrast to the DM growth slowdown, Asia stands out as the only region that is expected to deliver growth acceleration to 4.3% in 2023 from 3.5% in 2022 (see graph). Alongside China's recovery, India's service sector boom is reflected in the surge of its services PMI to 59.4 at a 12-year high, adding momentum to Asia's resilient growth.

Our High Conviction Theme on **Asia's Reopening Winners** positions in the beneficiaries of China's speedy reopening and resumption of international travel. We favour quality leaders in travel, airlines, mass consumption, hospitality, food and beverages and Macau gaming. China's rapid reopening should lead to a broadening of the economic recovery, and we believe Chinese internet leaders will benefit from the better growth outlook, improving consumer confidence and business sentiment. Stronger growth could also bring more investments in China, supporting demand for metals and heavy equipment.

We are mildly overweight Hong Kong equities to capture opportunities from the full reopening of the mainland China-Hong Kong borders. Historically, mainland Chinese travellers have made up about 80% of all travellers to Hong Kong. Consumption and travel related companies in Hong Kong are major beneficiaries of the border reopening. The recovery outlook of retail landlords is promising on the back of higher occupancy rates, positive rental reversion and additional revenue from turnover rents. The insurance sector can benefit from a normalisation of activity levels, and so can banks and exchanges.

The ASEAN economies also emerge as major beneficiaries of China's border reopening, as Thailand, Vietnam and Singapore are the top three travel destinations in Southeast Asia that are most favoured by the mainland Chinese tourists. In Thailand and Vietnam, Chinese tourists made up about 30% of their overseas visitors before the pandemic. In Thailand, the government targets 5 million tourists from mainland China to visit the country this year, implying total tourist arrivals will almost triple 2022's levels. According to the United Nations World Tourism Organization (UNWTO), last year the return of international visitors to Asia Pacific only reached 23% of pre-pandemic levels, giving plenty of scope for a strong recovery to take place this year.

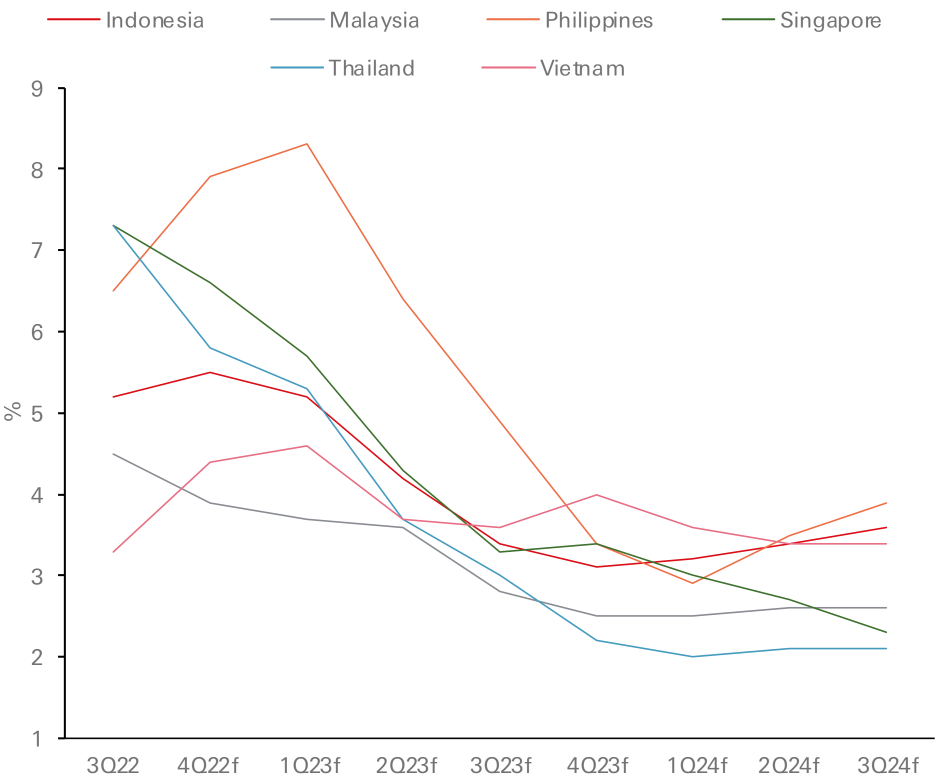
China's border reopening brings significant upside for Asia's tourism recovery

Tourist arrivals from China

	% of total arrivals	**Millions**	
	2019	**2019**	**2022**
Thailand	27.9	11.1	0.3
Japan	30.1	9.6	0.2
South Korea	34.8	6.0	0.2
Vietnam	32.2	5.8	0.1
Singapore	19.0	3.6	0.1
Malaysia*	11.9	3.1	0.1
US	3.6	2.8	0.4

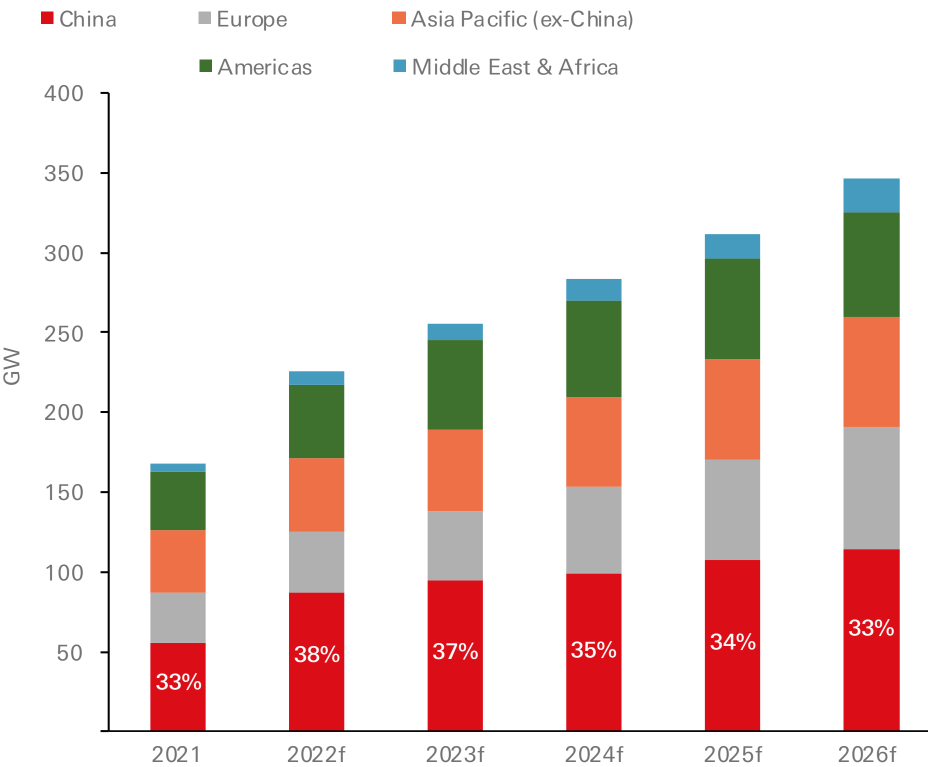
Source: CEIC, national sources, HSBC Global Private Banking as at 14th March 2023.

ASEAN economies should have passed the inflation peak



Source: CEIC, HSBC Global Research forecasts, HSBC Global Private Banking as at 14th March 2023.

China is expected to maintain its dominance in the global solar market



Source: SolarPower Europe, HSBC Global Private Banking as at 14th March 2023.

Apart from cyclical catalysts, the ASEAN economies ride on structural growth tailwinds in the next decade with the economic gravity shifting to Southeast Asia. Our High Conviction Theme of **ASEAN Tigers** captures secular growth opportunities in ASEAN consumption companies, infrastructure plays, banks and Singaporean REITs. ASEAN economies were supercharged by robust domestic demand and reopening tailwinds in 2022. We expect consumption to stay supportive of growth, though with a smaller impact given slowing global growth and base effects.

ASEAN equities witnessed one of the strongest earnings growth profiles last year, outperforming global and regional peers. We expect this trend to sustain in 2023. In addition, peaking US interest rates and a weaker USD should work in favour of Southeast Asia, which may point to a better external funding environment ahead. Amid global headwinds of higher living costs, it is encouraging to see that more ASEAN economies are providing fiscal relief to offset rising costs of living. For instance, the recent Singapore budget 2023 provided support to lower to middle income households.

Asia's Green Transformation continues to be our High Conviction Theme that taps into opportunities from the energy transition and independence, green infrastructure development and innovation of new energy vehicles technologies in the region. According to McKinsey, the addressable market size for green businesses in Asia will reach between USD4trn and 5trn by 2030, as sustainability is increasingly valued by various stakeholders, including investors, customers and employees.

China's transition towards renewable energy and electric vehicles is well underway, backed by strong policy support and catalysed by the global energy crisis. During the recent China NPC, the government announced fiscal stimulus measures including targeted tax cuts and fee reductions for green transition and exemptions of purchase taxes for new electric vehicles. Following the normalisation of construction activities post-COVID, our 2023 solar installation forecast for China is now at 120GW, translating into robust growth of 38% y-o-y. Meanwhile, energy storage is gaining traction, in particular batteries for use in new energy vehicles and the renewable energy industry.

As the Fed is getting closer to the end of its tightening cycle, we see an improving outlook for the Asian credit market. We are bullish on the theme on **Asian Quality Credit**, as we see an opportune time to switch from time deposits to high quality credits to lock in yields at attractive levels. Within Asian fixed income, our duration preference remains short to medium, due to the inverted credit curve.

In terms of high-quality corporate bonds in Asia, we find a few sectors offering attractive investment cases, including high quality Hong Kong corporate bonds which enjoy reopening tailwinds, Chinese TMT bonds on the back of a normalisation in the regulatory environment and Indonesian quasi-sovereign high-grade bonds given the country's improving fundamentals. In Chinese property high yield credit, investor risk appetite may have stabilised following the implementation of the "Three Arrows" policy initiatives to ramp up funding support for the real estate sector. But we nevertheless stay cautious as the debt restructuring process of defaulted issuers will likely take years. Hence, we continue to prefer higher quality issuers including the state-owned developers which generally have much stronger financial positions compared to privately-owned and highly geared developers.

Asian IG bonds still offer decent yield pickup

Source: Bloomberg, HSBC Global Private Banking as at 14 March 2023. Past performance is not a reliable indicator of future performance

Opportunities amid high rates and slow DM growth

Our expectation that economic growth forecasts may have bottomed and Fed rates may soon peak are positive for risk assets. But we will continue to be in an environment where rate levels remain high and growth levels remain low. This should direct investors towards quality businesses with manageable leverage, and to specific areas in the global economy where we see better than average growth prospects. Lastly, with earnings growth still under pressure in Developed Markets (DM), investment returns that instead rely more on income may be more predictable. Our six investment themes below tap into some of these strategies.

Our six high conviction themes

1. American Resilience
2. Durable Dividends
3. Infrastructure
4. Asia through DM
5. Opportunities in Quality Credit
6. DM Financials – Moving Up the Capital Structure

American Resilience: The US economy is growing at below-normal speed, but it still remains more resilient than other economies. Key to this is the resilience of the labour market, even though job creation is off recent highs and redundancies have started to pick up. Many US households have been tapping into the savings accumulated during the pandemic, and we think those savings will continue to support consumption till early 2024. Under this theme, we therefore principally look at consumer-related companies and see opportunities across consumer staples and consumer discretionary.

Durable Dividends: Dividends can substantially add to total returns, especially when the potential for sustained upside in equity markets is limited. Of course, as the cycle slows, it is important to select companies that have sufficiently strong cash flows to pay out constant or growing dividends. But dividend expectations have been recovering, in part because banks (typically among the high dividend payers) are getting a lift from rising rates. From a style perspective, dividend stocks tend to be value oriented, which can help balance portfolios that are heavy on growth stocks. They also tend to have a quality bias and often qualify as 'low volatility' stocks, which should help as we expect market volatility to remain higher than usual.

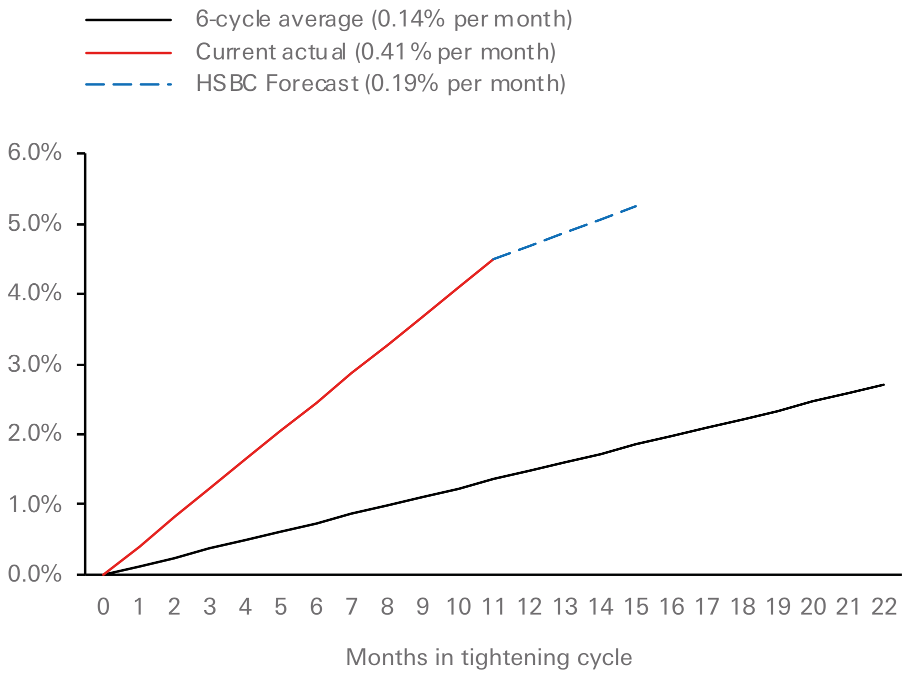
Infrastructure: Although inflation should continue to come down, it will remain higher than in the past decade, and investors will continue to look for partial hedges. One option is infrastructure stocks, as many of them benefit from a link (often set by the regulator) between their input costs and the prices they charge, which protects their profits.

Asia through DM: We discussed the reasons for our positive view on China and the rest of Asia in our portfolio strategy section and our Asian thematic ideas. In our conversations with clients, and in the media, we recognise that many investors still worry more about policy risk and geo-politics than we do. A good indirect way to tap into Chinese and Asian short- and long-term opportunities is through DM companies that cater to Asian consumption. Many European consumer brands are strong and loved in Asia, and we see opportunities in some US exporters as well.

Opportunities in Quality Credit: our overweight of high-rated bonds in our core portfolio is also reflected in our high conviction themes. We continue to focus on investment grade, because we think high yield spreads are somewhat too tight and sensitive to the growth slowdown. We see opportunities in better quality EM hard currency corporate bonds as well. We have moved our duration from 'short-to-medium' (3-5 years) to 'medium' (5-7 years). Nevertheless, investors who worry that policy rates could go even higher than what is currently priced in can add floating rate notes or stick to shorter durations.

DM Financials – Moving up the Capital Structure: Banks have strengthened their capital and liquidity ratios in response to stringent regulatory requirements under the Basel III accord. That said, Tier 1 capital can be sensitive to the local economy and sovereign spreads, especially in Europe, where the economy is weakening. In addition, the recent turmoil in the US IT and banking sector has shown that credit spreads can be volatile. So even though we think the issues will remain idiosyncratic and not systemic, we continue to focus on the top end of the capital structure, ie Tier 2 and Senior unsecured bonds. We find yields attractive in this area, compared to both sovereign and non-financial bond yields. While banks may see an increase in non-performing loans, they are still low compared to history, and profits are boosted by solid net interest income.

Most of the rate hikes are behind us, but rate levels should remain high for some time as rate cuts in 2023 are unlikely in G10.



Source: Bloomberg, HSBC Global Private Banking as at 14th March 2023. Past performance is not a reliable indicator of future performance

Digital Transformation

As the global economy continues to face challenges, we focus on three investment topics that are employing leading edge technological developments to help deliver qualitative improvements in outcomes; a source of competitive advantage; differentiation; and/or new opportunities. We have selected three exciting themes that are on the cusp of transformation.

Our three high conviction themes

1. Aerospace
2. AI & Automation
3. Smart Mobility

Aerospace

The aerospace industry has been living in the shadow of the achievements of the 1960s-1970s space race, but the industry is undergoing a renaissance as commercial companies and new technologies are reigniting interest in aerospace.

Historically, government agencies and contracts in the US, Europe and China have been the major source of funding for company research and development programs. But now, rising demand for data and reliable global interconnectivity is providing a commercial opportunity that should support growth of the industry

Recent successes include commercial companies transporting astronauts to the International Space Station (ISS); private citizens or 'space tourists' being flown to the edge of space (beyond the Karman line); viability of reusable spacecraft; and private enterprises launching an array of low earth orbit ('LEO') satellites.

Another timely development has been the emergence of ever smaller satellites (microsats (100kg-10kg) and nanostats (weighing less than 10kg)), including cubesats that typically are only 10 cm across. Small satellites benefit from the convergence of technology miniaturisation; increasingly powerful components and falling costs, making manufacturing far simpler and cheaper. Innovative new entrants have grasped the opportunity that a decade ago was unthinkable. The graph below shows the number of satellite launches has been increasing year-on-year, particularly within the important small satellite segment of the industry. In 2022, smallsats represented 95% of spacecraft launched and 54% of up-mass with small sat launches up 18x in 6 years (source: Future Timeline).

The rising demand for data from an ever-increasing number of connected devices from all corners of the globe has raised competition among entrepreneurs to try and meet that demand via private LEO satellites. These commercial opportunities are highlighted in our aerospace investment theme.

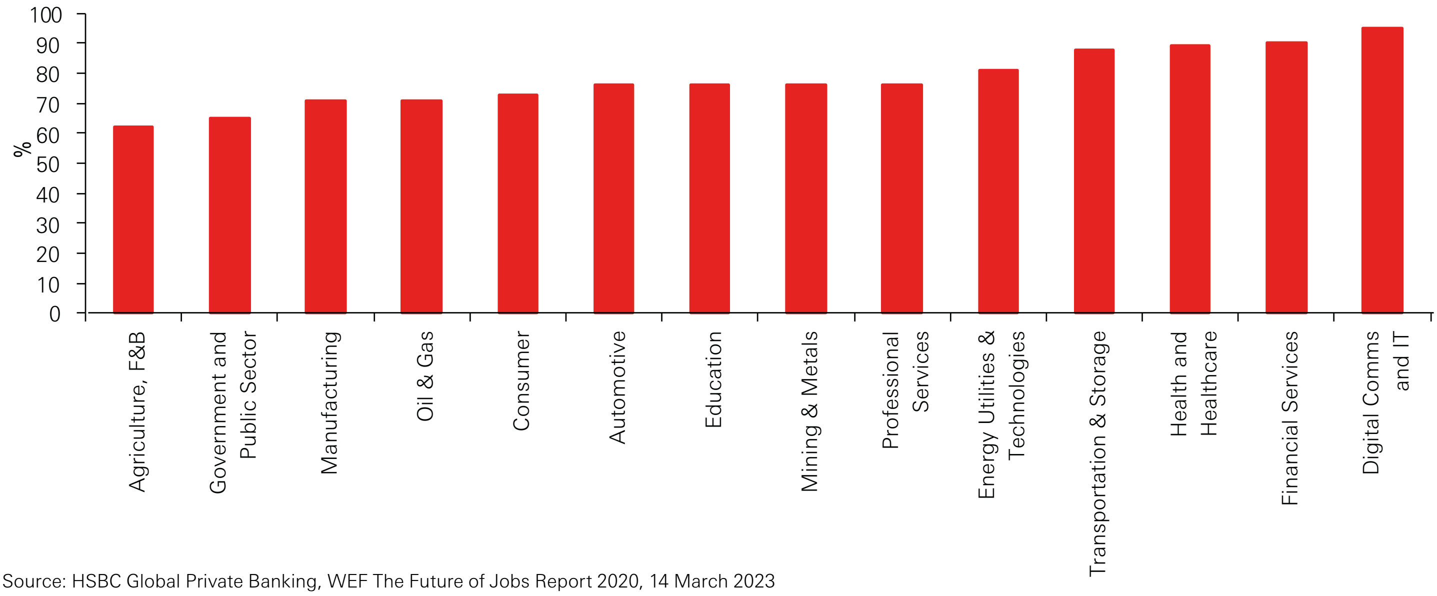
AI & Automation

Automation continues to evolve from industrial robots used so effectively in the auto industry, to other segments of the economy - in particular service industries. Recent advances in AI software and sensor technologies should provide a step change in capabilities that could transform and significantly expand the use of automation.

The service industry already benefits in a limited way from automated processes, products and interfaces such as customer identification; email and telephone answering; examinations and surveys. AI is increasingly being incorporated services and customer interfaces. Significant advances in artificial intelligence (AI), voice and facial recognition software combined with more powerful computer processors have been key enablers. As the technology has become more accessible and capable, businesses are increasingly looking to embrace its usage (see graph). Breakthroughs such as, most recently, OpenAI's ChatGPT, are potentially game changing for many industries with its more natural language, broad appeal and multiple applications capturing the world's attention.

Powerful, intelligent AI software applications already include rapid analysis and diagnosis of medical x-rays and CRT scans with an accuracy that matches or exceeds that of humans, and further improvements are ongoing. Other practical applications include data intensive work including quality controls; supply chains; scientific research; astronomy and in the defence and finance industries. Our AI & Automation theme aims to capture these multiple opportunities from these fast evolving technologies.

Share of firms thinking that they will use AI by 2025

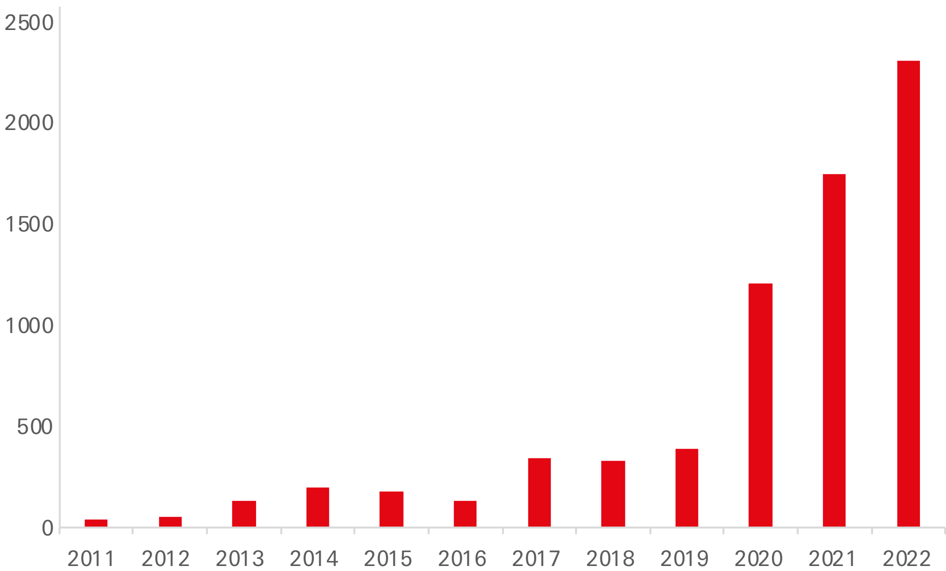


Source: HSBC Global Private Banking, WEF The Future of Jobs Report 2020, 14 March 2023

Smart Mobility

The transition away from internal combustion engines was always going to be difficult given the technology, cost and competitive barriers, but these have largely been overcome. In addition, technology convergence has brought other tangible benefits including lower vehicle complexity, integration of new technologies; and new materials. As previously discussed, AI is a key transformational driver to the evolution of autonomous capabilities and is therefore relevant to the emergence of smart mobility. AI is the key enabler of self-navigating trains, cars, truck, boats etc. and while it has greatly evolved self-driving car are some years away. That said, AI can both improve the experience of travel whilst reducing the risks to people and goods being transported. Drivers have a number of intelligent systems at their fingertips that can alert them to potential danger or automatically intervene to avert an accident.

Small satellite launches from 2011 – 2022



Source: Brytech, HSBC Global Private Banking, 14 March 2023

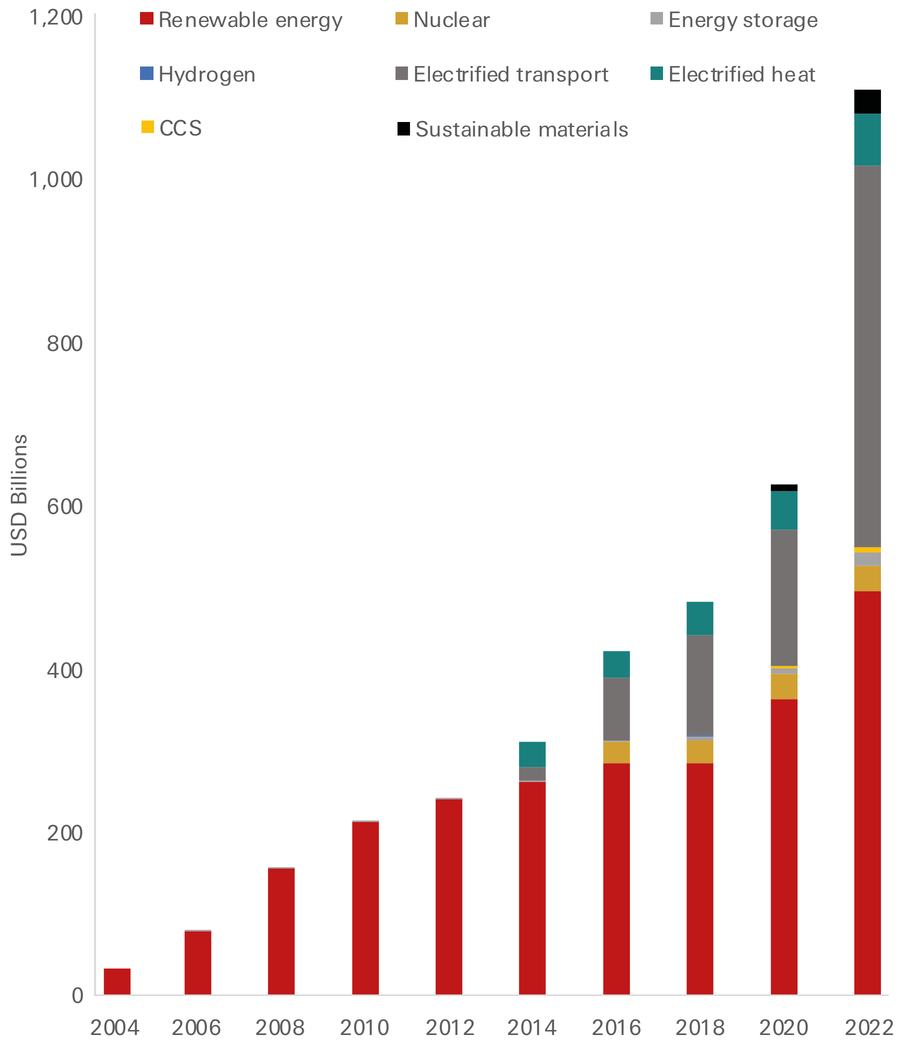
Interconnected transport systems are increasingly able to detect and alert passenger to problems and keep them informed. Before they start their journey, travellers can check the best route, transport alternatives and cost available to their destination before travelling. They can receive live updates throughout their journey sometimes enabling alternatives to be selected, or switch reservations and tickets purchased in advance. This flexibility requires data and interconnectedness, increasingly provided by digital infrastructure with mobile networks being key to smart mobility.

Our smart mobility theme focuses on new energy vehicles, battery technologies, 5G and sensor hardware.

Investing for a Sustainable Future

2022 was a difficult year for business globally. There are few areas one could find which enjoyed steady growth over the year. Budgets have been tightened, layoffs have been occurring in many sectors, outlook forecasts have been adjusted and earnings growth has flattened in many industries. Sustainability however is one of the few areas that experienced continued business growth. This was, in part, because the issues of 2022 were in many ways, a positive for the fundamentals of sustainability. The Ukraine conflict, rising energy costs and growing climate crises all support the opportunities in sustainability. People, corporates and sovereigns have seen their desire for sustainable and renewable solutions rise in response to the events of 2022 and as a result, new investment into the space has been hitting record levels.

Global Energy Transition Investment by Sector



Source: Bloomberg Finance L.P. HSBC Global Private Banking 14 March 2023

Our four high conviction themes

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

Energy Transition and Independence

Investment in the global energy transition has crossed the $1tn mark for the first time in 2022 and was up 31% over the previous year[1]. Key factors in this growth are the major supply chain delays and geopolitical conflict. These issues brought corporate and sovereign dependence on others into the spotlight. Renewables provide a solution to overreliance on foreign players for energy but the energy transition also encompasses the wider ecosystem of sustainable infrastructure such as charging, hydrogen production, recycling and carbon capture and storage. To resolve the issue of intermittence of most renewable energy sources, governments are investing in interconnectivity, which sharply reduces the risk of blackouts.

Renewable energy remains the leader in terms of investment but its historical

[1]BNEF, Energy Transition Investment Trends 2023, January 2023

lead has been closed rapidly by electrified transport which measures spending on electric vehicles and charging infrastructure. The sector grew by c.54% in the year as spending on EVs and the wider market continued to grow globally, particularly in China. Electrified heat and energy storage both saw major advances in investment in the year and Hydrogen, albeit the smallest sector, tripled its size over the year. The combination of economic, societal and political demand, technological progress and now the additional desire for independence in energy make the Energy Transition and Independence theme an attractive opportunity.

Financing Biodiversity Action

More and more, humanity is beginning to understand the benefits of biodiversity that go beyond metrics that we can quantify. Our oceans were historically seen as a source of endless bounty that was plundered for decades, but we know now that they act as a carbon sink, as a reflector of sunlight back into space and as a system of temperature regulation. Our actions on the oceans since the industrial age have damaged their ability to perform for our climate but we are now taking steps to reverse the damage. A key step towards this was achieved on March 4th 2023 when UN member states agreed to a historic High Seas treaty. This treaty set out a legal framework for the establishment of areas of marine protection. It is an important step towards the goal of conserving 30% of land and oceans by 2030 as set out by the COP15 Biodiversity Conference last December. The treaty outlines ways to sustainably use, conserve and apportion the financial and non-financial benefits of the marine biodiversity within the protected areas. Our Financing Biodiversity Action theme reflects the momentum and opportunity happening in this space

Sourcing Income in a Sustainable Way

Global risk appetite is still mixed and some investors are looking for investments with manageable volatility that can deliver consistent income rather than relying on a valuation expansion. Through our theme of Sourcing Income in a Sustainable Way, we have identified solutions that have a stable foundation at the business level and can deliver an attractive dividend, but, they do so in a sustainable way. This way investors can get the benefits of an attractive investment approach which is aligned to their income needs while at the same time supporting a sustainable future.

The Rise of S in ESG

Companies' Social or 'S' factor is becoming an ever more important consideration for investors and society. The pandemic played a significant role in bringing the social element of corporate behaviour to the forefront of the headlines. Inflation has now added to employee motivations and created a renewed urgency within worker bodies for better pay and conditions. Strikes have increased in many countries and the focus on corporate attitudes to their employees are in focus. For investors, some companies will be better positioned than others to navigate the mounting pressures and potential risks of these issues. Companies that perform well will have the draw of talent, consumer demand and be favoured by regulatory bodies. In the medium to long term, we believe such companies will outperform.

Equities

Global equities: a mixed bag for now

Given rising interest rates, equities have faced more competition from cash and bonds, while the upward move in rates also challenged equity valuations. That said, accelerating growth in Asia, a milder recession in Europe, and improving fundamentals in the US and a potential Fed pause all point to better potential equity market returns in the not-too-distant future. However, the continued slowdown in global economic activity, combined with higher policy rates in many countries continue to weigh on prospects for equity returns in the short term. As global economic activity softens and in the context of a high for longer rate environment, we focus on quality stocks and those areas where the growth outlook is more promising (eg Asia).

Overweight
Markets: US, Mexico, Brazil, Mainland China, Indonesia, Thailand and Hong Kong
Sectors: Consumer Discretionary, Communication, Energy (including renewables) and Healthcare

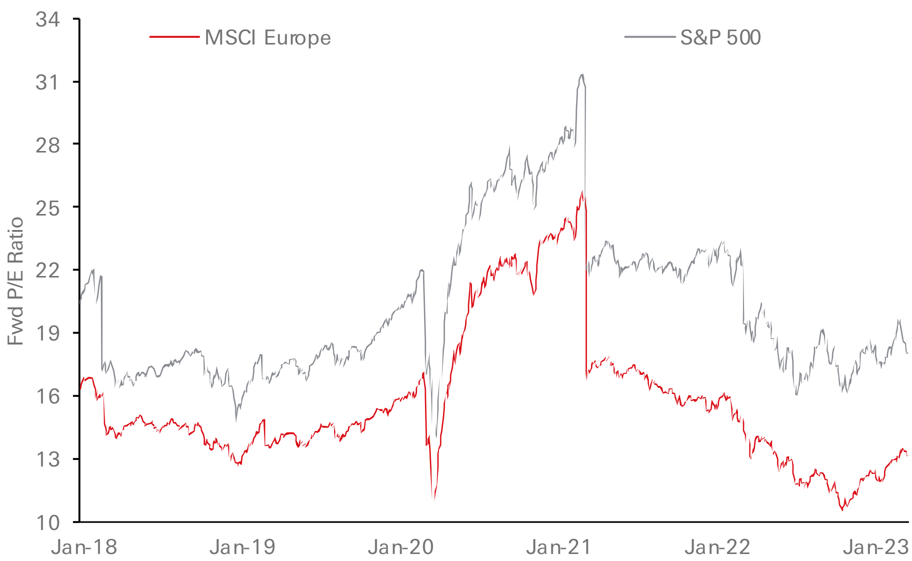
Underweight
Markets: UK, Italy, South Africa, Turkey, South Korea and Malaysia
Sectors: N/A

Global style bias
Quality

Europe rebounding

In Europe, equities have performed well. Given the milder winter and the fall in energy prices, European equities have risen on the improving growth prospects and economic reduced tail risks. Moreover, while European equities have closed some of the valuation discount gap with US equities, they remain attractive from a global perspective. In addition, the reopening of the Chinese economy and increased trade and growth in the broader Asian region holds promise for European exporters especially in areas such as consumer goods and services and industrial equipment. The fact that the recession is expected to be milder than originally forecast, together with rising rates and a hawkish ECB, should be a positive for the financials sector as well. We view these areas as interesting for investors who want to tap into the Asian economic rebound but are worried about Chinese policy risks (see our new High Conviction theme of 'Asia through DM').

European equities remain attractive globally



Source: Bloomberg, HSBC Global Private Banking as at 14th March 2023. Past performance is not a reliable indicator of future performance.

Asian opportunities

Opportunities in Asia abound as the region is being driven by better intraregional trade and the reopening of the Chinese economy. We maintain our overweight position in Chinese equities, as well as the broader EM Asia region. In China, the reopening is forecast to provide solid growth as Chinese consumers are expected to spend given the strong pent-up demand there should be after the shift in COVID policy. In the pre-COVID economy, the power of the Chinese and Asian consumer was evident in the local as well as global economy, and the effects on financial markets were noticeable. Within the Asian region, we have become less defensive in our sector selection. We do not expect the technology sector to lead markets as equities rebound, but we do expect demand to bottom soon which could help lift economic activity and market returns in the region.

US: Getting fundamentals aligned

The Federal Reserve has made clear that they are fully committed to bringing US inflation back to the FOMC's symmetric target rate of 2%. Fed Chairman Jerome

Powell has stated often that he hopes recession can be avoided but has made it clear the FOMC is inflexible on the inflation goal. We are probably near the end of the Fed monetary policy tightening cycle. This is good news for US equity investors, but as our analysis shows, equity markets sometimes show little direction during the 'high for longer' interest rate phase, until inflation has come down more significantly and markets can start to price in rate cuts.

We forecast US economic growth will slow to below 1% throughout most of 2023, which should result in lower sales volumes. As inflation continues to slow, corporations will struggle to pass on still high input prices to the end consumer. As a result, we should expect margin compression to continue. Not surprisingly, analysts are now projecting slightly negative earnings growth of -1% for 2023. The good news is that in the first half of the year the forecast is for a decline in earnings of -4.4%, whereas in the second half of the year should see a bounce in earnings. Moreover, as we look to 2024, earnings are forecast to rise about 10% next year.

Nevertheless, in the short term, we continue to expect further consolidation for US equities to reflect the downgrade in earnings expectations in 2023. The recent turmoil in the US banking and IT sectors is unlikely to lead to a credit or systemic banking crisis, but will nevertheless weigh on economic confidence and activity. It is clear that in this context, we focus on quality stocks, not only when investing in financials and IT, but across the US market.

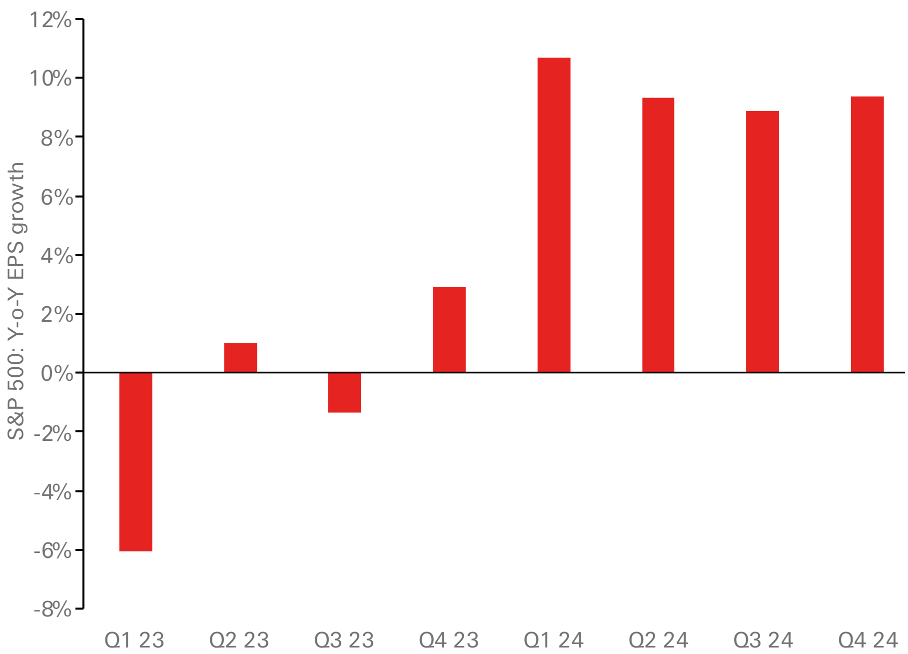
Investment Summary

Global equity investors continue to face several issues like divergent growth economic rates, persistent inflation, and higher interest rates. The global slowdown in economic activity does not appear to be as severe as forecast, which has led us to become less defensive in our global equity sector selections. However, rates expectations have shifted up and the higher for longer environment often leads to volatile equity markets with little direction. We therefore focus on quality companies with strong balance sheets, cash generating capabilities, and low levels of net debt. We also pay close attention to sector bets, but this remains a stock-pickers market, and close attention should be paid to resilience of underlying business models and the ability to navigate growing pressures ranging from rising interest rates to painfully slow disinflation. Globally, equity investors should notice the improving economic and financial fundamentals in Asia. In the US, a pause from the Fed could be a boost to equity fundamentals once inflation has come down sufficiently and we are closer to the bottom of the growth cycle.

Chinese and EM Asia equities look attractive especially on improving growth outlook

Source: Bloomberg, HSBC Global Private Banking as at 14th March 2023. Past performance is not a reliable indicator of future performance.

Earnings expectations set to improve in 2H 2023



Source: Bloomberg consensus earnings forecasts, HSBC Global Private Banking as at 14th March 2023.

Fixed Income

Bonds continue to offer attractive carry opportunities and we feel more confident about their returns in 2023. As such, Fixed Income remains our asset class of predilection for the time being, on a risk-adjusted basis. We continue to focus on quality corporate credit, mostly in Global and EM Investment Grade (IG) markets and at the "belly" of the yield curves for US, European and UK IG (i.e. 5-7 years – medium duration).

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

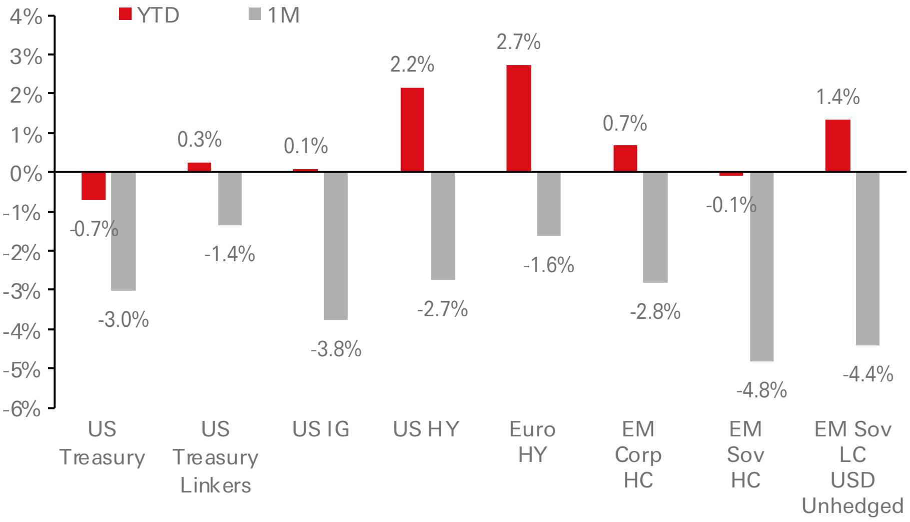
Underweight
Government bonds: German and Japanese government bonds, European Periphery debt
Credit and EM: Argentinian, Turkish and Ukrainian Hard Currency bonds; Turkish and Indian Local Currency bonds

There have been some interesting developments in bond markets over the past month, particularly across DM rates, where sovereign yields bounced back from the bottom of their recent trading ranges and recently broke the upper bound of their channels. There are multiple explanations for this sell-off, ranging from hawkish statements from members of the Federal Reserve and the ECB, to resilient economic data (PMIs, employment) and sticky core inflation figures in the US and Eurozone. Policy rate hike expectations therefore materially increased in January and February, though they fell back recently. For example, Fed Fund futures were pricing in a peak policy rate of 4.8% just two months ago, but rose to 5.7% before recently falling back almost exactly to the 4.8% starting point. The drop was due to concern that turmoil in the US banking and IT sectors would reduce economic growth, and that excessive rate hikes would make the situation worse for banks. Our view remains that the turmoil will gradually ease and that Fed will probably make three more small rate hikes of 0.25% each in March, May and June, before keeping rates unchanged still Q2 2024. The uncertainty around this call has clearly increased, but the risks are no longer only skewed to the upside.

This rosy economic scenario that markets were pricing in early in 2022 is quite difficult to square with the Fed having delivered the most rapid tightening in monetary policy since the early 80s, which is now well into restrictive territory. After more than a decade of ultra-low rates, cracks within the economy will certainly appear, especially among those with leveraged balance sheets, ranging from individuals to banks, corporates and sovereigns. The rising cost of servicing debt will mobilise more financial resources and is likely to compromise both consumption and Capital Expenditure (CapEx) spending, while the returns and viability of new projects will certainly come under greater scrutiny versus a previous era of near-zero interest rates. The direction of travel will very much depend on the duration of this new high rate environment. The longer rates stay high, the more we focus on quality and borrowers with solid balance sheets.

Another noticeable feature of this extraordinary time has been the triangular contradiction between (1) the rates' investors expecting DM central banks to pivot later this year; (2) risk investors (i.e. equity, credit) believing in a soft or "no-landing" scenario and, (3) policy makers fighting inflation "at all costs". It is difficult to say which party will ultimately be proven correct, but until then, these strains will continue to create bouts of volatility across both risk assets and rates markets in our view.

Duration asset performances have been hurt by the recent bounce in DM rates



Source: Bloomberg, HSBC Global Private Banking as at 14th March 2023. Past performance is not a reliable indicator of future performance

Developed Markets - We have increased the duration targets on our Global Investment Grade allocation, amid the recent sell-off in rate markets

Despite improving economic data in the US and Europe and hawkish rhetoric from DM central banks, we continue to believe that the cyclical peak in rates has passed (probably in October 2022). We therefore felt it was time to increase the duration target on our Global Investment Grade allocation (i.e. DM IG) to a Medium stance (5-7 years), from Short-to-Medium (3-5 years). This change allows us to lock in attractive yields for a longer period of time and will benefit from steeper price appreciation if our view of lower rates materialises. This view is mainly dictated by structural forces which weakened considerably during the pandemic but are now coming back slowly to the fore. These forces are diverse and range from technological progress and demographics, to elevated debt levels on the balance sheets of DM sovereigns.

Developed Markets – We have increased the duration targets on our Global Investment Grade allocation, amid the recent sell-off in rate markets

At the corporate level, we continue to focus on quality companies which prioritise bondholder-friendly policies, have sound leverage ratios and lower short-term refinancing needs. Our largest overweight is still on Global IG and we are mindful of Fallen Angel risk (i.e. companies losing their IG credit ratings and migrating to the High Yield indices). However, the deterioration in DM corporate credit ratings (not only Fallen Angels) already started in late 2021 and we expect it to stabilise at these low levels for now. We are cognisant, however, that the economic outlook is uncertain and the share of BBB-ratings in the US corporate bond market has doubled in value relative to the size of the US IG market since the Global Financial Crisis. Consequently, the risk of Fallen Angels has increased drastically over time. Over the last twelve months though, there have been 47 and 11 Rising Stars within the North American and European corporate bond market respectively (according to Bloomberg, based on S&P credit ratings). The equivalent figures for Fallen Angels are far lower at just and 9 and 5 and therefore there is a chance this trend could reverse over the coming quarters. Corporates are still motivated to maintain an IG rating in order to keep funding costs low, but also for the diversification of their investor base. In general, we expect companies to take the necessary steps to do so (through deleveraging, less friendly shareholder policies, etc.), but we prefer to err on side of caution when selecting lower-rated IG companies and opt for those with stronger balance sheets, improving credit fundamentals and healthy cash flow generation. We remain neutral on Global High Yield markets amid tight spread valuations, which we believe do not compensate for the risk of a harder landing for DM economies.

At the sector level, we continue to favour Energy, Technology and Financial companies, with a preference for the top-end of the capital structure for the latter (refer to our High Conviction Theme on DM Financials: Moving Up the Capital Structure).

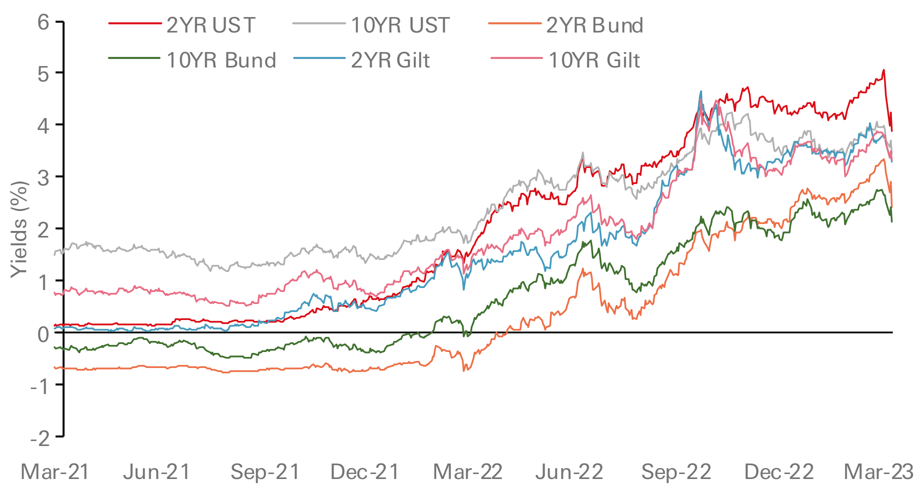
Emerging Markets - Focus on Quality Credit

In 2022, EM corporate bonds in Hard Currencies (HC) delivered their weakest total returns performance since 2008 (-13.8%). In addition to rising interest rates, the asset class suffered from the Russia-Ukraine conflict and a collapse of Chinese property developers. However, the widening of the JP Morgan CEMBI Broad credit spread of 47bp was relatively modest.

EM credit fundamentals remain strong and better on average compared to both DM IG and DM HY. Net leverage of EM HY is estimated at 1.8x and EM IG at 0.9x. Excluding Chinese property developers and Russia/Ukraine companies, EM HY corporate default rates remain comparable to US HY at 1.8%.

We continue to be wary of the uncertain global economic outlook and the 'high

Short-dated bond yields recently reached cycle-highs before falling back



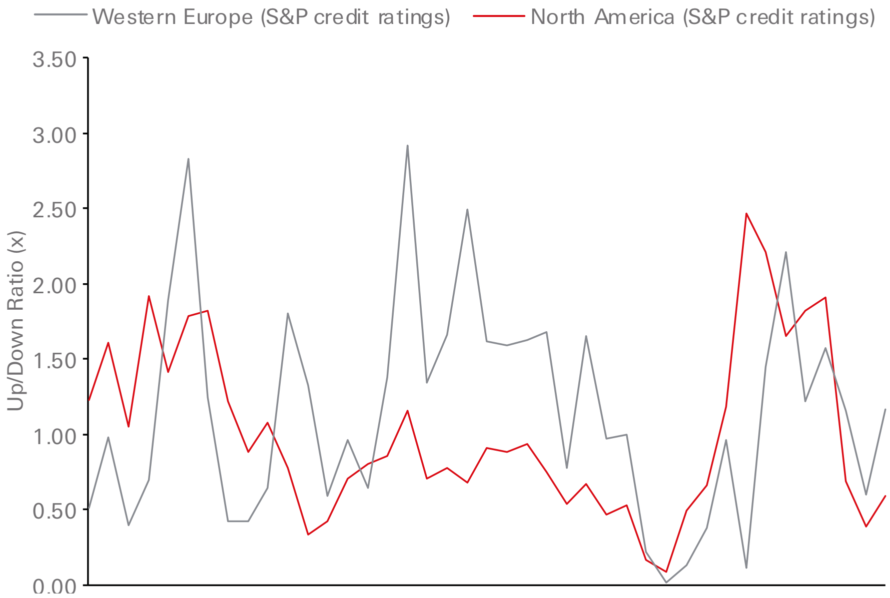
Source: Bloomberg, HSBC Global Private Banking as at 14th March 2023. Past performance is not a reliable indicator of future performance

for longer' Fed rate environment, and therefore focus on quality credits. We are overweight Asia IG and higher-rated companies from the Middle East, Brazil and Mexico. We selectively invest in strong credits from other regions, mainly commodity producers, financial and technology companies.

We downgraded China corporates in HC to a neutral stance in October 2021 and have been focusing on quality credit since then. The move was to address the uncertainty around the property sector and to mitigate tail risk from any contagion. Things have changed since then and strong positive catalysts have appeared in China, such as the gradual re-opening of its economy and the focus on growth. At the same time, the overall Asia credit market should benefit from the peak in the USD and US Treasury yields, light investor positioning and appealing valuations. We keep our focus on quality and our preference continues to be on Chinese State-Owned Enterprises (SOEs), TMT and Financials.

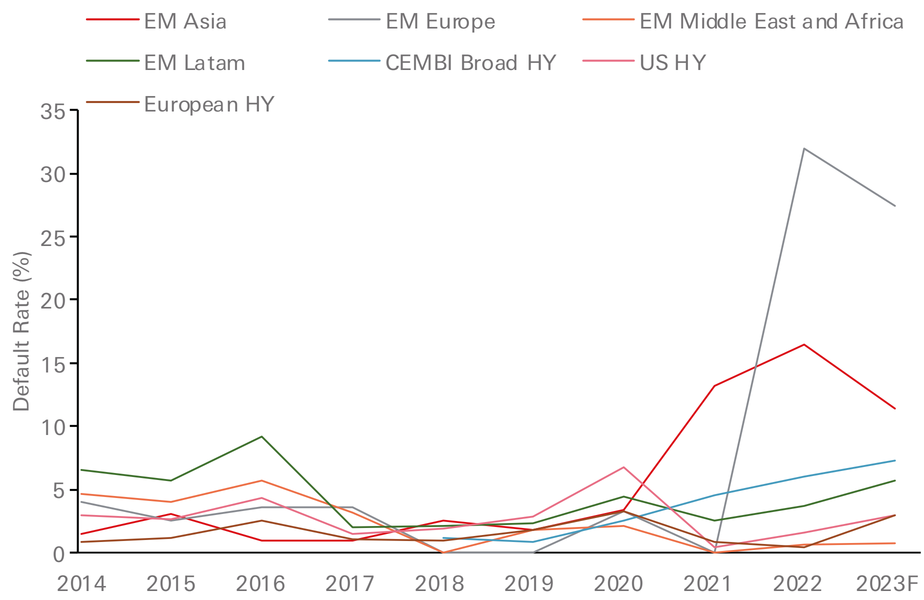
We remain neutral on EM LC markets as global risks remain elevated, pressuring EM nations' fiscal and current accounts. The only two local markets where we are positive are Brazil and Mexico.

The Deterioration in Rating Migrations already started in late 2021 and we expect it to stabilise



Source: HSBC Global Private Banking, Bloomberg as at 14th March 2023.

EM Default Rates ex idiosyncratic stories (Russia/Ukraine, China Property) remain contained



Source: HSBC Global Private Banking, JP Morgan estimates as at 14th March 2023.

Currencies and Commodities

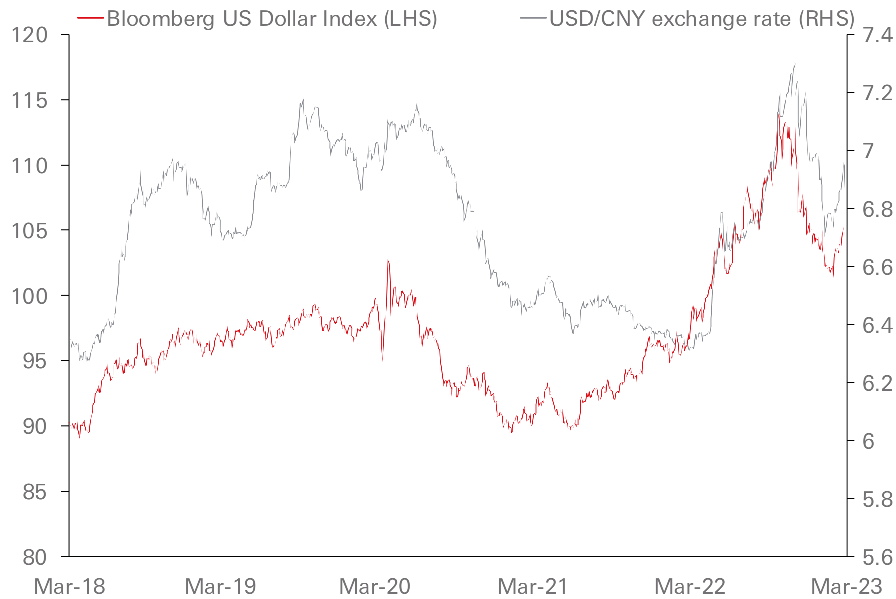
After a sharp fall of USD since October, the greenback has been more resilient than expected lately, supported by stronger-than-expected US economic data and market's hawkish policy expectations. With more rate hikes priced in and a high-for-longer rate environment, it may be difficult for USD to see a strong downtrend in 2Q23. In the short term, lingering inflation pressures may keep the focus on the hawkish Fed tone, though the recent turmoil in the US banking and IT sector has reduced the number of hikes the market is expecting from here. In the long run, the large cumulative policy tightening and the impact of increased uncertainty on business sentiment should compress US growth, and we think that it will become more difficult for the US economy to continue to outperform other Western economies. Slowing US growth and peak rates should cause the US dollar to start trending down again from 3Q23 until the rest of the year.

Bullish	
In G-10: EUR, GBP, JPY, AUD, and NZD	
In EM: BRL, SGD ant THB	
Neutral	
In G-10: CHF and CAD	
In EM: RMB, INR, IDR, PHP, TRY, ZAR, and MXN	
Commodities: Gold, Silver, and Oil	
Bearish	
USD	

In our view, USD will remain in focus in Q2 as market participants will monitor economic releases to gauge USD's momentum. Positive US data surprises could help USD but given the recent repricing of the Fed's terminal rate and already strong economic figures, we believe most of upside risks have already been integrated by the market. On the contrary, we believe downside risks could have a stronger impact on the currency and a rapid deterioration in economic drivers would likely quickly reflect through a softer USD.

In addition, if rates peak in the US, this could help the global economic recovery through more accommodative financial conditions, and therefore intensify negative pressure on USD. We expect

We think USD should settle in a volatile range in the short term but weaken again later in the year



Source: Bloomberg, HSBC Global Private Banking as at 14th March 2023. Past performance is not a reliable indicator of future performance.

this to happen slightly later this year after a period of consolidation.

A weakening in USD will likely be the trigger for FX peers to rally, as we saw in the first leg of the USD sell-off (October 2022 - January 2023), which was very broad-based. Given the significance of USD and US bond yields for FX, we think there would be a sustainable change in currency momentum when markets start to hope for the end of the 'high for longer' phase. Although the momentum should be broad-based, currencies with resilient economic drivers and reduced inflation pressure should outperform USD. We see EUR and GBP benefitting from this backdrop.

At the same time, we see China's economic landscape improving further, although it already outperformed expectations. This should contribute to improving the global sentiment, weighing on safe-havens and boosting risk-on currencies.

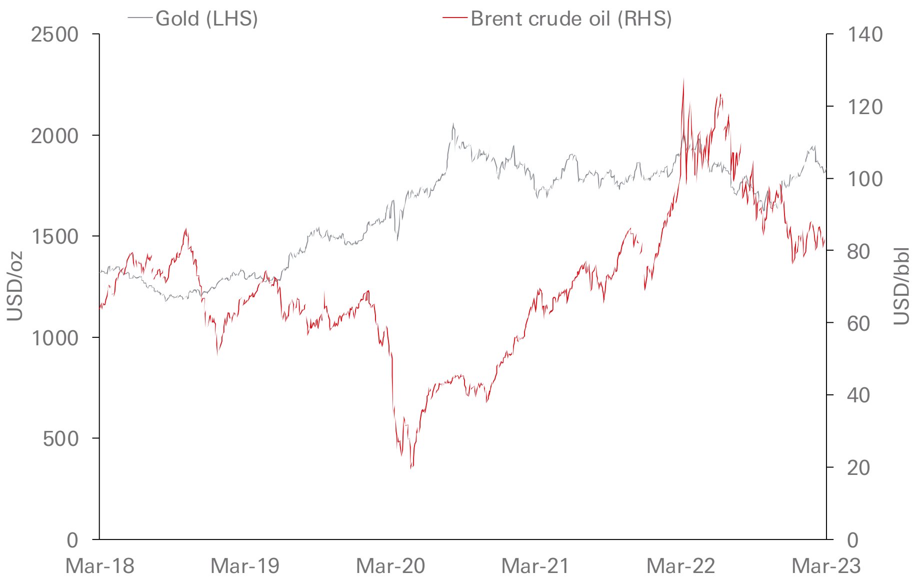
On the back of this bottoming of global growth expectations, we believe AUD, NZD and JPY will rally. We do not believe that the remaining hawkish bias in Australia and New Zealand will massively help the currencies as most of the tightening is already behind us. But in JPY's case, which faced negative yields for a very long time, a change in the monetary guidance could be strongly positive for the currency. This explains our constructive outlook despite an improvement in the global sentiment: we think that for JPY's direction, monetary policy currently matters more than its safe haven status.

A softer USD and constructive risk environment will also likely leave further room for EM currencies to strengthen, but economic drivers will be key in our currency-picking strategy. Currencies with a relatively strong economy or yield advantage will likely be the winners in this configuration, such as BRL for now.

RMB could benefit from China's economic reopening and growth focus following the end of the "zero COVID-19" policy as it boosts activity and increases investment inflows. A change in risk appetite could also support the currency. However, despite strong economic figures, downside risks are still in place and the People's Bank of China's loose policy might help stem upward pressure, keeping the currency competitive.

An economic rebound in China could also boost demand for some commodities, including Silver widely used in the industrial and manufacturing sector as well as oil used for transportation and tourist activities. These commodities could also positively react to an improvement in the global environment, as opposed to Gold which could suffer from its safe-haven characteristic in a period where investors are willing to take more risk, and a high-for-longer rate environment. However, USD's consolidation will likely stem Gold's poor performance in our view, and gold-backed investments could rebound from a two-year low.

We hold a neutral view on gold and crude oil



Source: Bloomberg, HSBC Global Private Banking as at 14th March 2023. Past performance is not a reliable indicator of future performance.

Hedge Funds

Despite the welcome 'risk-on' relief rally we witnessed from October to January, which was fuelled by easing inflation, we maintain a preference for hedge fund strategies with a prudent or diversified approach. Inflation remains sticky suggesting a 'high for longer' rate outlook, which could limit market directionality and the performance of 'risk-on' strategies. But the volatility that is typical for this phase of the Fed cycle can be exploited by hedge funds to generate alpha.

Risk-off strategies: a preference for macro, multi-strategy and multi-PM strategies

It should not come as a surprise that we retain our positive outlook on market macro managers. While we do not expect the same magnitude of directional opportunities as last year, the degree of uncertainty around the economic outlook and path of monetary policy tightening combined with divergence between geographic regions and continued elevated asset price volatility ought to provide a fertile environment for macro strategies. As the Fed and other central banks reach the end of their tightening cycles, the lagged impact of monetary policy tightening on underlying economies creates the risk of a policy over or undershoot.

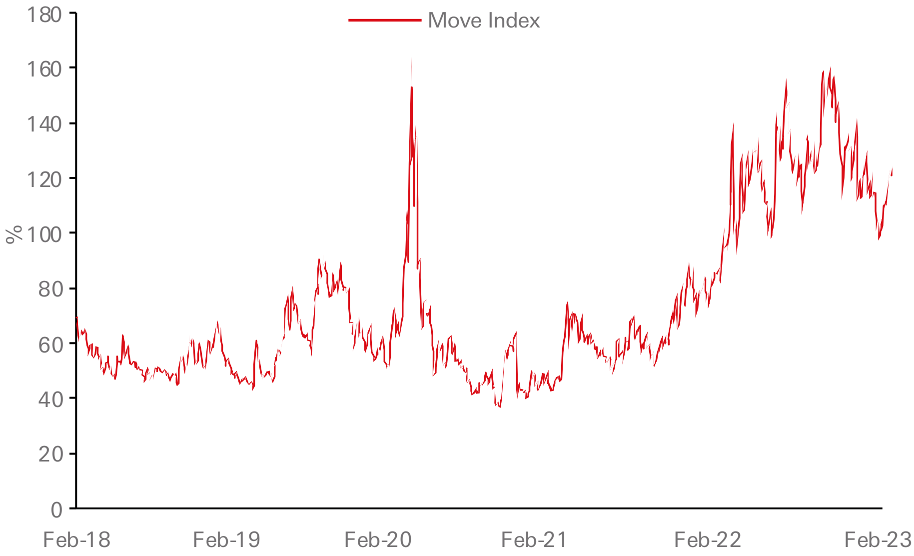
We remain neutral on Managed Futures, neutral positive on Market Neutral Systematic and upgraded our outlook on Multi-Strategy Systematic to neutral positive.

Forecasting the outlook for Managed Futures strategies is notoriously difficult. We do however value them highly for their return properties which make them a valuable portfolio allocation: long-term low correlation to risk assets, a performance tailwind from normalising interest rates and an ability to profit whether markets are rising or falling. We are more constructive on those approaches which have allocations to alternative markets.

For Equity Market Neutral managers, the current environment of healthy dispersion between sectors, factors, and themes is good for the strategy and we can expect to continue to see positive contributions from idiosyncratic stock selection.

We maintain an outright positive outlook on multi-strategy and multi-PM managers. Superior risk management processes during uncertain times and their ability to attract and maintain talent are important differentiating factors at top tier multi-PM firms. In fixed income, rates trading continues to be accretive given the Fed's intervention on inflation. Credit is continuing to become more interesting, with platforms preparing for this by adding new credit teams, particularly in structured credit and distressed credit. Commodities also provide a fertile source of alpha for certain managers while the opportunity

Volatility creates opportunities for hedge funds



Source: Bloomberg, HSBC Global Private Banking as at 14th March 2023. Past performance is not a reliable indicator of future performance

sets for merger arbitrage and equity arbitrage index rebalancing remain somewhat muted.

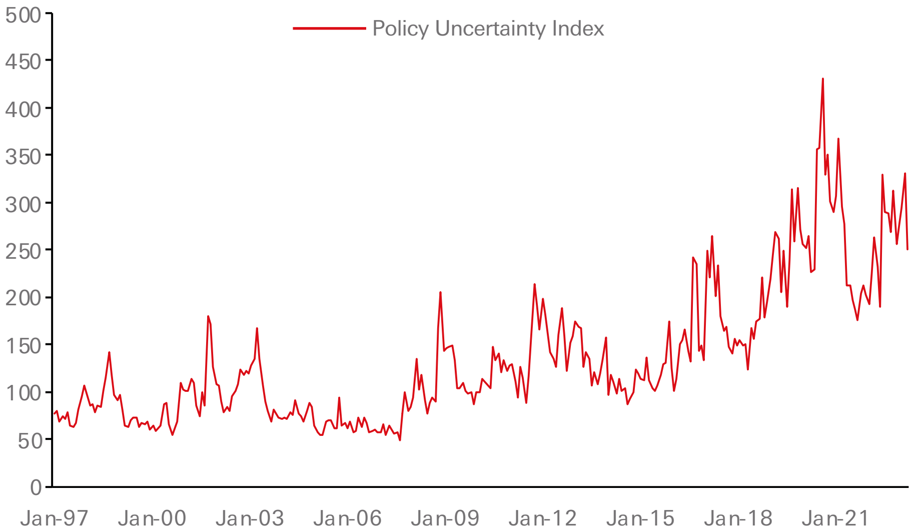
Risk-On Strategies: a preference for Asian equity long/short

We remain neutral on Equity long/short across US and Europe, but have a more constructive outlook for Asia Equity long/short. Global equity valuations are near fair value with Europe, UK and Japan cheaper than the US. Valuations in the US have compressed with price declines to its 10-year rolling average. However, we expect continued earnings downgrades. We therefore continue to focus on managers who run lower net exposure and are nimble and trading oriented. On the long side, there are still good opportunities to add to strong secular growth industries where earnings power is more resilient in an economic downturn. On the short side, managers are focused on businesses that have benefitted from lower rates / inflated revenues over the past few years.

We maintain our neutral rating on Event Driven strategies and continue to favour those managers who have broad expertise across sub-strategies. With market valuations in the US remaining full and restrictive monetary policy increasing the cost of capital this has resulted in a marked slowing in the pace of corporate activity (most notably in global M&A volume falling 37% with US activity down 33%). In contrast despite a general pullback in risk taking globally, there remains a robust level of activist campaigns with new activity last year up 36% year over year.

In credit, we are becoming more constructive. Considerable improvements in spread, carry and dispersion continue to get our attention as we believe the next credit cycle to be nearing. The size and persistence of the opportunity set appears largely dependent upon how committed central banks continue to be in fighting inflation, normalizing monetary policy and reducing balance sheets. The sheer size of the credit universe should provide a robust idiosyncratic opportunity set, and we have already started to see its emergence.

Policy uncertainty index (Baker, Bloom & Davis).



Source: Bloomberg, HSBC Global Private Banking as at 14th March 2023. Past performance is not a reliable indicator of future performance

Private Markets

Q1 2023 has followed a similar pattern to H2 2022 with deal volume down, the cost of debt increasing, and corporate margins squeezed. However, we see encouraging signs with fund raising remaining strong and believe there is an abundance of undeployed capital for managers to take advantage of depressed valuations. Historically, fund vintages immediately following economic downturns have produced some of the strongest returns.

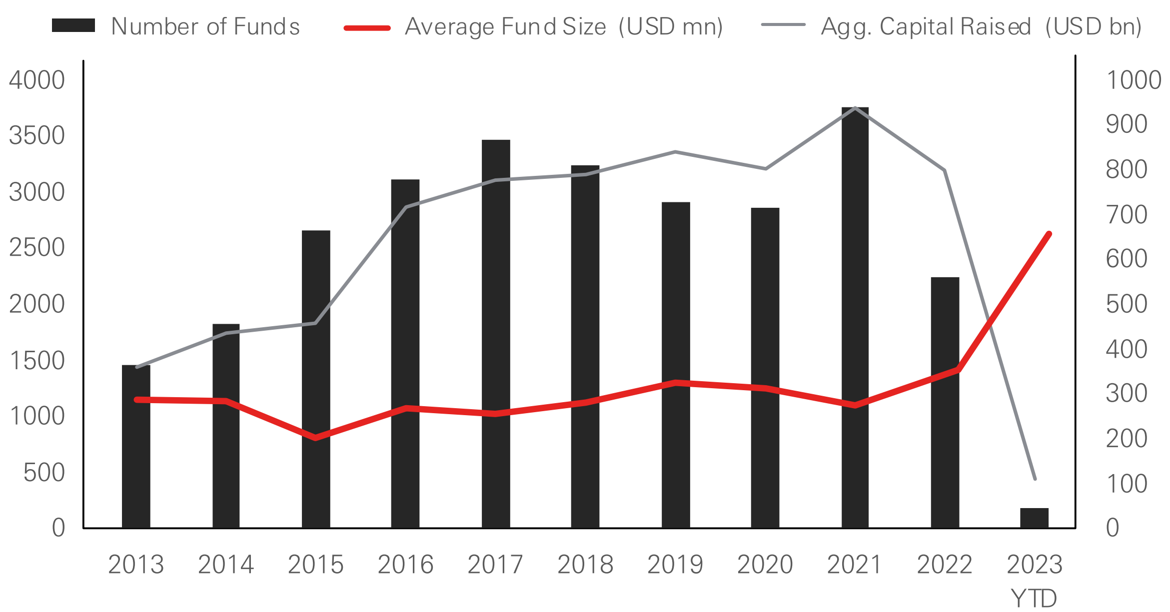
As we approach the end of the Q1 2023, the economic landscape continues to change quickly both for the global economy and for Private Equity. With the IMF predicting 2.9% growth in 2023 and some analysts even forecasting a global recession, the PE industry has felt the strain on all four stages of the investment cycle. A quiet M&A market has led to fewer investment opportunities, rising interest rates has made financing conditions more challenging and liquidity less abundant, higher input and labour costs are squeezing corporate margins and a hibernating IPO market has limited exit options. That said, it's certainly not all doom and gloom in the world of Private Equity and some indicators give reason for optimism.

As was the case throughout H2 of 2022, deal volume has remained slow during the beginning of 2023 as a result of the macro forces at play, creating uncertainty, large price discrepancies between buyers and sellers, and continued interest rate hikes which has seen public lenders shutting the doors on funding of leveraged transactions. In 2022, the total number of buyout deals was down 9.8%1 from 2021 and on a total value basis down 20.3%, although it should be noted that this was still above pre-pandemic levels. 2023 has continued this trend, producing 6.1% of the total value of deals in 2022 during the first two months.

However, moving towards H2, we expect that deal activity will start to trend up again as we see inflation beginning to ease off, debt markets starting to reopen and a rebound in public markets helping to increase depressed valuations for sellers. Two areas of the investment market where we have seen maintained levels of activity are public to private, as GPs look to take advantage of depressed public market valuations, and corporate carve outs, as corporates that are struggling with increasing costs of capital look to sell off underperforming parts of their business, both of which saw uplifts on completed deal numbers in 2022 compared with 20212.

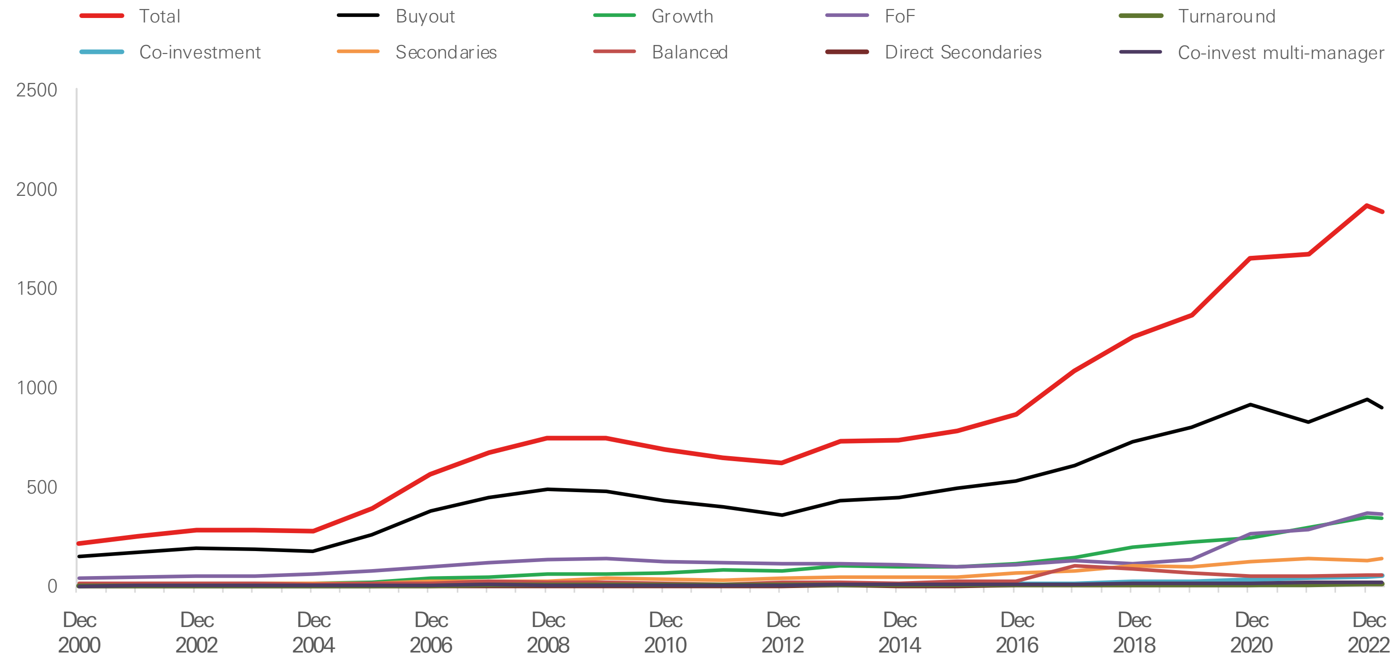
Unlike deal volume, fund raising has maintained some momentum throughout 2022 and into 2023. Despite fewer GPs raising capital, which led to an overall reduction in capital raised, the average amount raised per fund in 2022 increased by 51%3 vs 2021, with further uplifts on top of this in Q1 2023 (see graph). This tells us that the GPs that have come to market are receiving increasingly strong demand from investors.

Historical PE Fundraising – upward trending average fund sizes



Source: HSBC Global Private Banking, Preqin as at 14th March 2023.

Private Equity dry powder since 2000 ex. Venture (USD bn)



Source: HSBC Global Private Banking, Preqin as at 14th March 2023.

The combination of sustained levels of fund raising and reduced deal volume has created a situation of record levels of undeployed capital within the Private Equity market. It's estimated that at the end of 2022 there was around $1.9trn4 of dry powder waiting to be invested, almost half of which is within the buyout space (see graph). We expect that this quantity of equity capital should be more than sufficient to cover the gap that the debt market has left in the near term, allowing GPs to take advantage of the lower entry multiples and more opportunistic transactions created from the current environment.

Due to the mix of undeployed capital and reduced abundance of cheap debt, it is likely that the average leverage multiples of deals will lessen in the near term, after reaching 20-year highs in 20215. Managers can no longer fall back on inexpensive debt and will have to put greater focus on operational enhancements to create value and drive returns. For portfolio companies, the emphasis will shift from growth to profitability, cost control and pricing power in order to maintain corporate margins. We believe that this need for GPs to adapt to the changing conditions will enable high quality managers to further outperform, widening the gap between top and bottom quartile, and increasing the importance of investing with best-in-class partners.

Overall, we remain optimistic about the return potential of Private Equity. Historically, fund vintages immediately following economic downturns have produced some of the strongest returns and we see no reason why this will not be the case today.

In conclusion, despite the challenges across the market, we believe that the Private Equity industry is well positioned for long-term growth and outperformance of public markets, albeit with the expectation that valuations might soften further in the short term. As inflation begins to ease off and debt markets reopen, we remain optimistic about fund raising statistics and believe there is abundant capital in the market to take advantage of depressed valuations, particularly in the more complex public to private and corporate carve out spaces. We maintain high conviction for the private equity asset class for investors looking to deploy capital and continue to emphasise the importance of investing with best-in-class managers.

1. Preqin, Buyout total deals by number and value, March 2023
2. Preqin, Number and Value of Private Equity Deals, March 2023
3. Preqin, Historical Private Equity fundraising, March 2023
4. Preqin, Private Equity Dry Powder, March 2023
5. Bloomberg, 'Private Equity's Latest Deal Wave Brings More Leverage Than Ever', January 2022

Real Estate

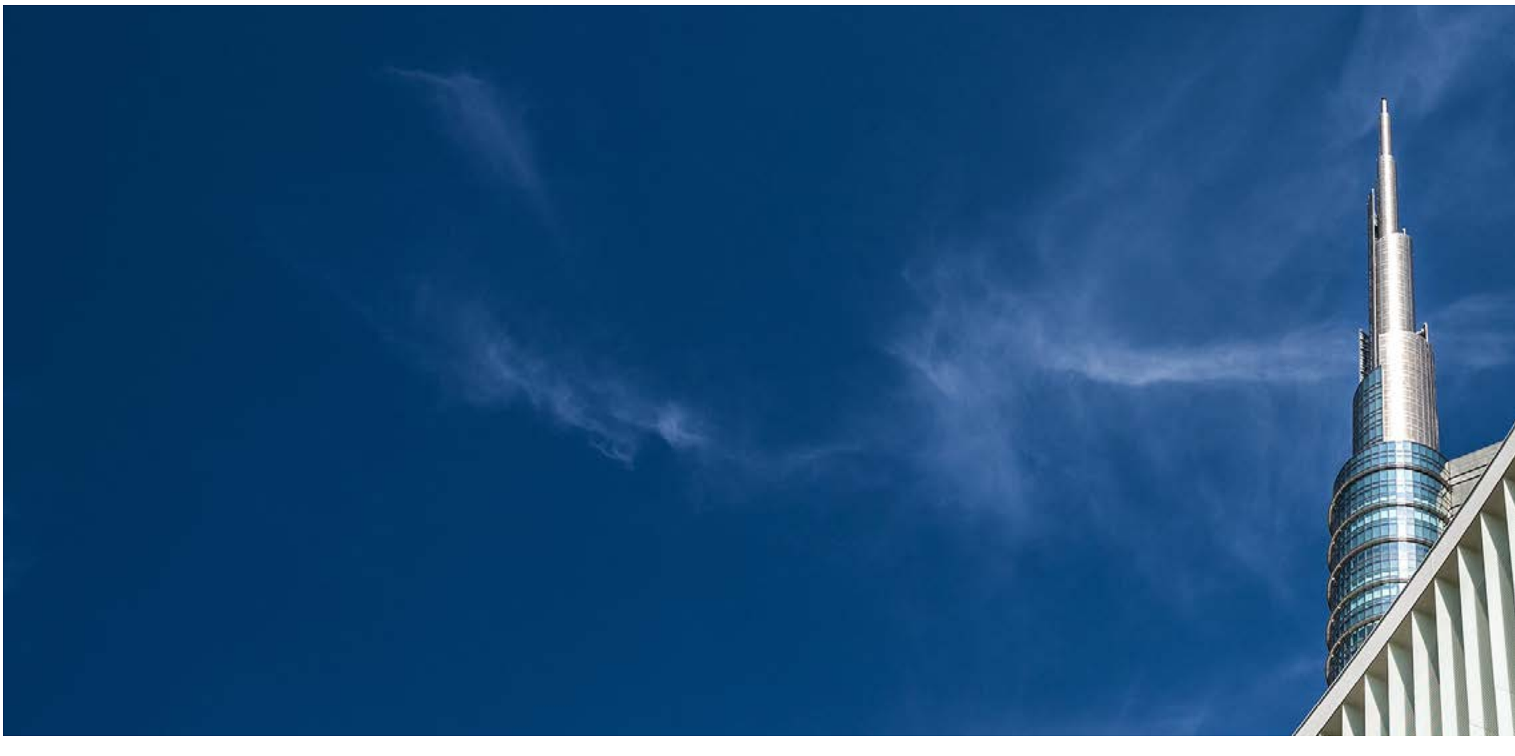
Although higher interest rates have pushed up property yields, putting downward pressure on property values, the gap in price expectations between potential buyers and sellers remains wide, indicating the need for further capital value declines. Occupier markets are more differentiated with the strongest rental outlook for those with strong long-term demand drivers such as residential and logistics whilst the outlook for offices is particularly challenging.

Private real estate valuations are under downward pressure as property yields increase in response to higher interest rates. However, unlike more liquid asset classes, especially for equities and bonds, property yields are taking longer adjust. The difficulty in accurately assessing market value is largely due to the method in which properties are valued, which is typically based on comparable transactional evidence. However, transactional evidence is in short supply, due largely to the wide gap between buyer and seller price expectations.

The UK stands out as an exception as values have fallen faster than all previous market downturns and when compared to other countries. A key reason for this has been a greater willingness for valuers to increase property yields in the absence of comparable transactional evidence. Despite this, yields still do not offer investors a sufficient spread over government bond yields to encourage a normalisation of investment activity.

In short, the physical real estate investment market has stalled because of a wide bid-ask spread. This is despite there being significant dry powder for investors seeking distressed sellers. Few owners are compelled to sell. Unlike after the Global Financial Crisis, credit markets are still operating and landlords are typically using lower loan-to-value ratios. However, as loans mature and need refinancing at higher interest rates, the risk is that interest-coverage covenants may be breached. This may bring more assets to the market, providing transactional evidence, and restoring buyer-seller value alignment.

According to RCA, Global investment activity for income producing properties was 64% lower in Q4 2022 than in Q4 2021 and was the weakest fourth-quarter since 2012. The scale of this decline, in part, reflects the record activity in Q4 2021, though the decline remains substantial. The drop in volumes has been most severe in Europe (-66%) and North America (-62%). Globally, all of the major sectors were impacted to a similar extent, ranging from -58% (offices) to apartments (-72%).



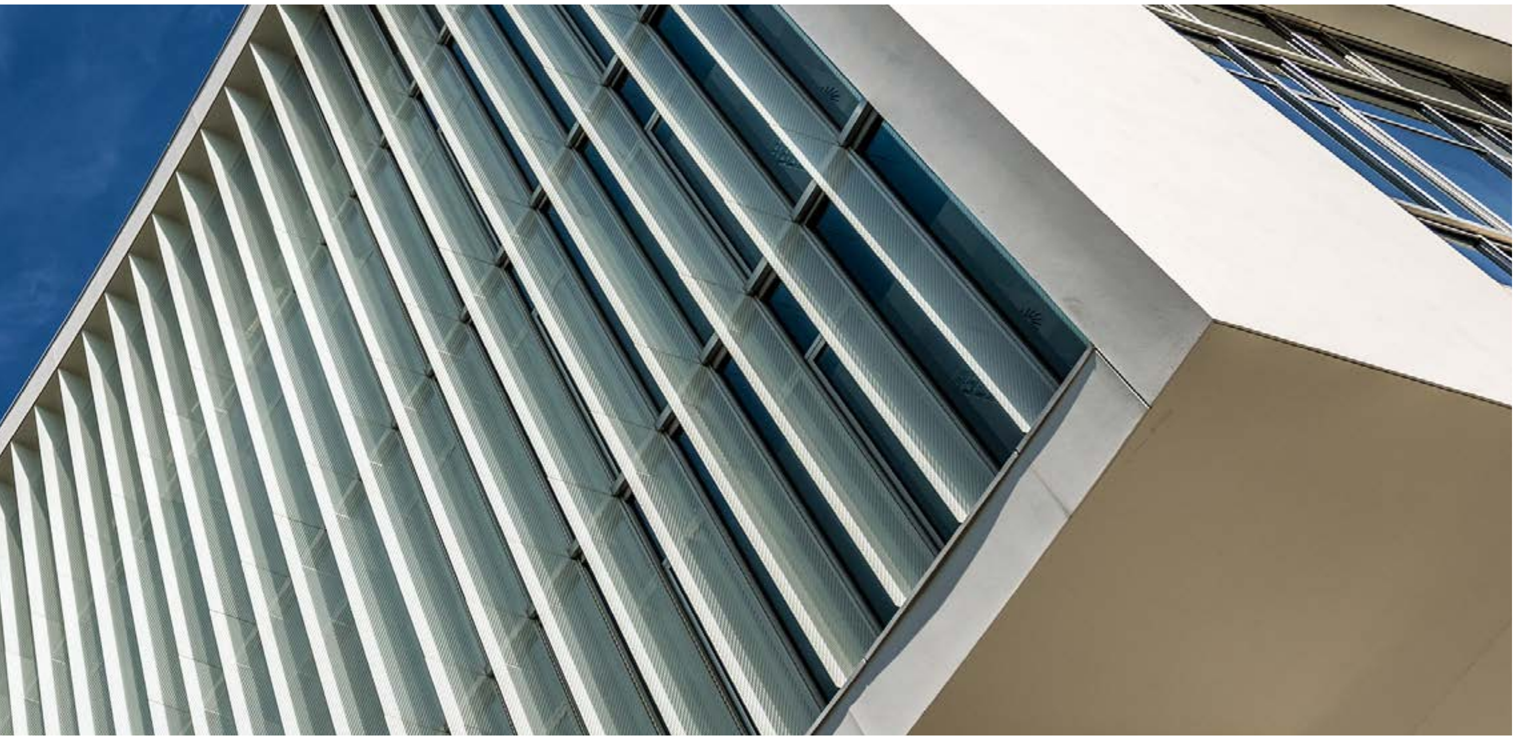
Whilst real estate investing is challenging at current valuations across all sectors, there is greater sector differentiation for occupier fundamentals. It must be noted that due to the elevated costs of debt, labour and materials, most sectors are facing a reduced amount of new space being delivered in the coming couple of years, providing some ballast to property fundamentals at a time when weakening economic growth may limit near term occupier demand.

We retain our most negative conviction for the office sector due to a combination of cyclical and secular factors. Retrenchment announcements from major technology, banking and management consultant businesses have removed a big source of demand for office landlords. Meanwhile, working from home poses a long-term structural challenge to the amount of office space occupiers need. The outlook is particularly weak in North America a nd parts of Europe – such as London's City market.

Globally, logistics remains our most favoured sector. Vacancy rates for logistics assets are at historically low levels whilst demand remains significantly above long-run averages. This is underpinning ongoing rental growth, though it has been moderating since June 2022. Businesses continue to invest in their storage networks to cater not only for changing consumer behaviour, but also in order to hold more stock closer to their end consumers as businesses look to build greater resilience into their supply-chains.

Sustainability continues to become more entrenched in the decision making process for both occupiers and investors. For occupiers, greener buildings can reduce their energy consumption costs, whilst also supporting their own sustainability targets. For real estate investors, shifting occupier focus along with tightening regulatory standards, poses a risk of assets becoming stranded and being impacted by a "brown discount". Such stranded assets face a considerable loss of value without significant capital investment by the landlord.

Whilst direct property valuations are taking time to adjust to the current environment of higher interest rates, slowing economies and weaker investor demand, publicly-listed real estate equities are marked to market and have adjusted quickly. Based on our assumptions for future rents and prevailing yields, we believe real estate equities should outperform direct property markets over the long run, albeit with higher volatility.



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.

Disclosure concerning sustainable investments

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

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

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

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

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

Alternative Investments

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

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