Power Up with Income and Growth

Investment Outlook

Q3 2024

HSBC

Global Private Banking

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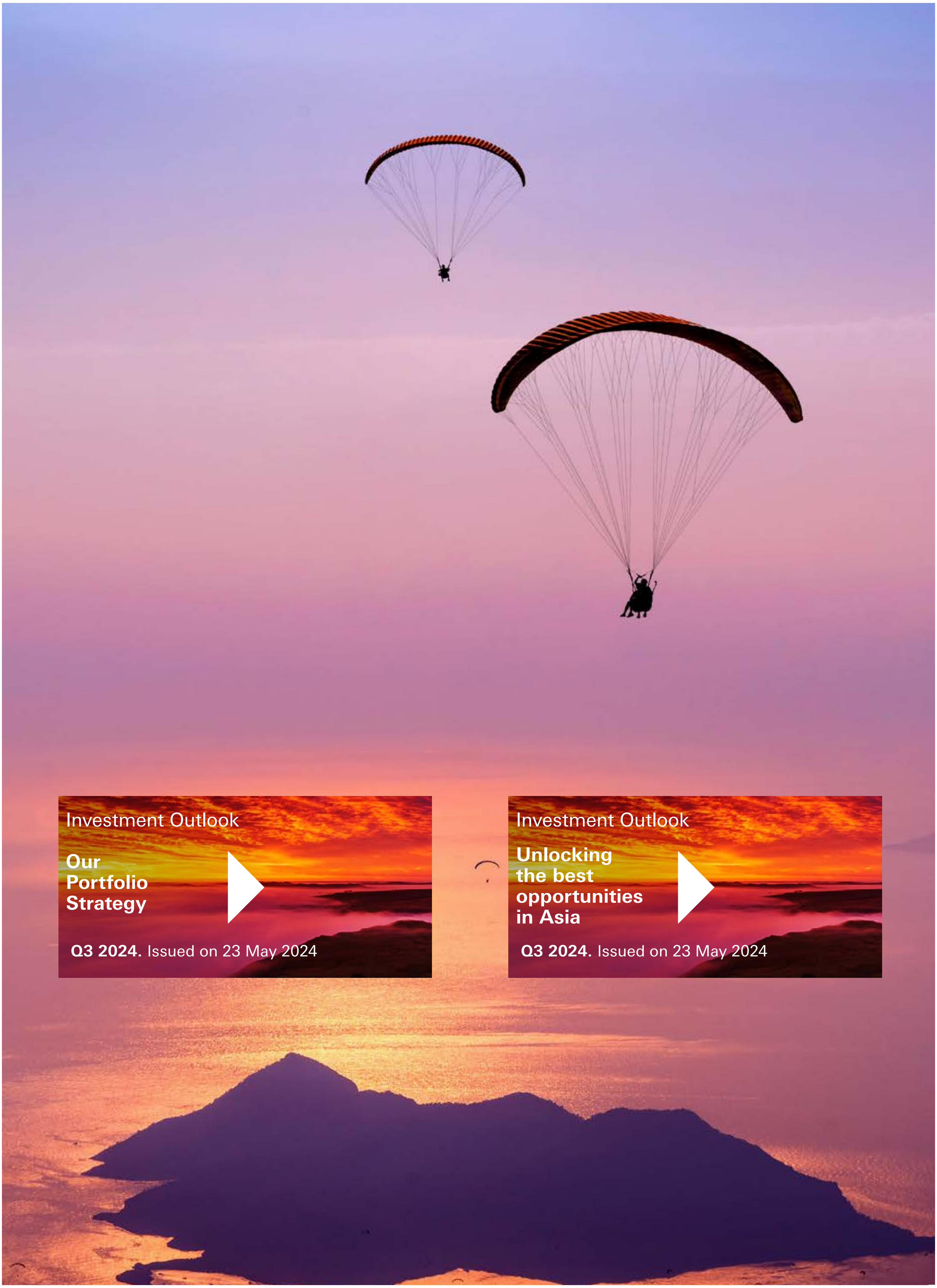
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Welcome

Dear client

Investors have been facing many uncertainties this year, including elections and military conflict, mixed growth and inflation data, and the difficulty of predicting what central banks will do next. But in spite of this, well-diversified portfolios have fared relatively well. What's more, we think fundamentals remain supportive as we head in the second half of the year, and investors face an even richer set of opportunities to put their cash to work.

To power up portfolio performance, we start by locking in the attractive bond yields to earn a solid income stream. Fed Chair Powell helped clarify that he does not intend to hike interest rates any further and continues to expect to cut rates later this year. That suggests that bond yields have now seen their peak so we continue to have an overweight position in bonds.

In addition to income, we look for earnings growth as the second engine of portfolio returns. Profits are well supported by the broadening global cyclical tailwind and signs of easing cost pressures. US domestic demand is resilient, the Eurozone and UK are accelerating somewhat, Chinese growth momentum seems to have bottomed, and India's economic activity remains impressive. Granted, valuations are high in some markets like the US, but this concern is offset by cyclical and structural support for earnings, as well as rising M&A and a healthy focus on shareholder returns.

We complete our portfolio construction with private assets and infrastructure, which help broaden the opportunity set. Private lenders and investors are in a powerful position to negotiate attractive conditions as there is a very substantial need for funding to complement bank lending with private credit, and finance global infrastructure needs. New ways to access these markets provide more options for investors.

This wide range of choices suggests that holding large cash balances is likely to be sub-optimal. The range of options also provides diversification and should allow investors to weather the mild level of volatility we may well see. Clearly, the US elections is an important event to monitor, but the outcome seems quite unpredictable, so it would be unwise to speculate. Usually, markets only see a brief period of volatility ahead of the elections and then rally again when the outcome is known. We believe remaining invested in a well-diversified portfolio of quality assets is the best way to go. Changes in volatility can tactically be exploited to put in place some partial hedges where desirable.

So, what are our key actions in portfolios? As our first priority, we broaden our equity exposure across geographies and sectors. Secondly, we put cash to work in bonds and multi-asset strategies. Thirdly, we tap into private assets and infrastructure. And lastly, we attempt to unlock the best opportunities in Asia.

Many of these topics can also be approached through our investment themes, which we frame, as usual, along our five top trends. The structural tailwinds of these long-term trends intersect with the current cyclical momentum for markets and should help sustain it. Whatever exact combination of assets investors choose to adopt to achieve the best risk-adjusted returns, looking for both quality income and earnings growth, across geographies and asset classes is a powerful combination.

Willem Sels,
Global Chief
Investment Officer

23rd May 2024

Our Portfolio Strategy

Attractive yields in bond and private credit markets allow investors to build a solid income stream in portfolios. In addition, equity returns should be supported by broadening global economic and profit growth, even if rate cuts are delayed. The high-for-longer rate environment is largely driven by strong-for-longer activity, so while we continue to lock in bond yield at attractive levels, equities are our biggest overweight. In addition, we see structural opportunities in infrastructure, private assets and our investment themes. So, investors have plenty of reasons and choices to put their cash to work. By tapping into that broad range of options, while focusing on quality, we widen the opportunity set, diversify and create portfolios that can withstand potential short-term volatility.

Cash: underweight

Fixed Income: overweight

A preference for Treasuries and investment grade corporate bonds over high yield

Equities: overweight

Overweight: US, Japan and EM Asia

Underweight: EM EMEA

Sector and style biases: cyclical in the US; quality and large cap in Europe and Asia

Alternatives: neutral

Core allocations to Private Markets and Infrastructure

Cyclical support for equities

When we look at the market drivers for the remainder of the year, we start with the economic cycle. GDP growth in the US is resilient, while the Eurozone and UK are accelerating and India continues to fire on all cylinders. China's growth momentum will probably be underpinned by the recent macroeconomic and housing policy support, but it seems the housing starts may need more time to find a bottom. Recent support measures seem to be enough for some investors to dip their toe in both Mainland China and Hong Kong stocks lately, given low valuations. Global trade has seen some green shoots and low inventories need to be replenished, which should boost activity. In this environment, companies' earnings are well supported, especially as wage and interest-related cost pressures are starting to ease.

Profit growth is the key reason for our overweight of global equities. Technology has continued to beat earnings estimates, and the fact that several 'old-economy' large-cap companies have entered into major contracts with tech firms to use AI, tells us that AI already has a real effect on activity and productivity. Importantly, the cyclical tailwind should help profit growth spread beyond technology to other sectors, as illustrated by the Q1 earnings season. And as our High Conviction investment themes show, there are plenty of areas with exciting innovation that act as engines for structural growth and profit generation.

We, therefore, maintain our global equity overweight and have broadened our sector exposure. We also broadened it geographically in Q2, by upgrading Europe ex-UK to neutral, given the bottoming of the cycle there. And in Asia, we continue to see opportunities in Japan, India and South Korea. Equity markets have shown in recent months that when profits are strong, stocks can rally even while interest rates created a headwind, and in fact, we think this headwind will fade away.

Rate headwind to turn into tailwind

During the first four months of 2024, markets became much more cautious on the prospect of rate cuts as inflation remained stickier than investors and Fed members thought. But some of the reasons for that sticky inflation are temporary in our view (for e.g. car insurance) while others such as rent are driven by longer-term supply/demand factors which the Fed cannot address by delaying cuts by a few months. Consequently, Fed Chair Powell still expects inflation to come down further and suggested that further rate hikes are quite unlikely (he also pushed back on stagflation fears). As Fed policy has already been quite tight for much longer than in past cycles, we still believe the rate cutting process will start this year, probably in September.

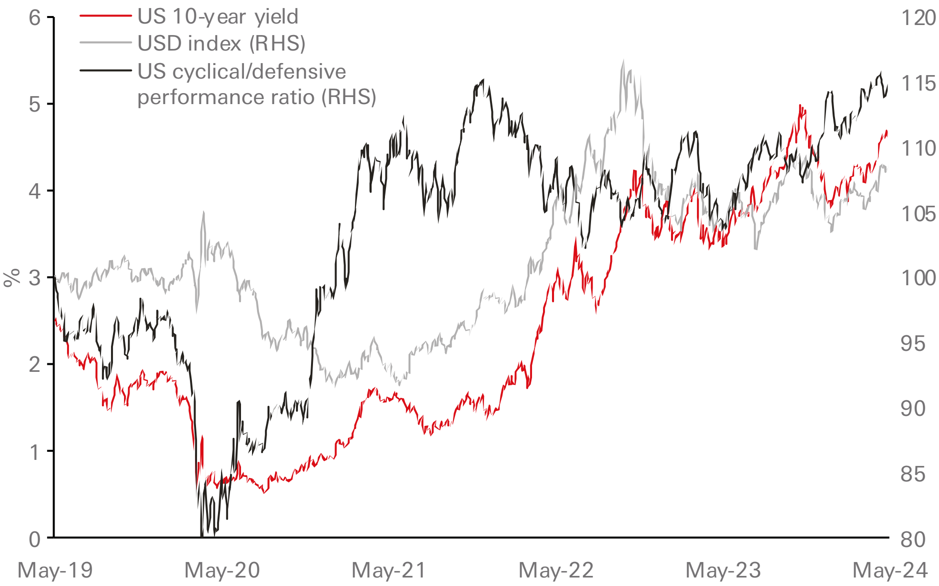
So given that market pricing is already cautious on rates, this provides a good starting point for returns looking ahead. Most importantly of course, it provides an elevated yield level that investors can lock in, allowing us to create a solid income component for our portfolio returns. When investing in bonds, we continue to focus on quality (Treasuries and investment grade) as the compensation for rate risk is more attractive than the compensation of credit risk. As markets become more comfortable with rate cuts, we could gradually also see some price gains for bonds, and support for valuation multiples in equities – but for now, we principally focus on clipping coupons in bonds and focusing on earnings delivery in equities. Finally, for currencies, rates matter too, as rate differentials between countries are the principal driver of FX movements. As the Fed may cut later than the ECB and the Bank of England, we continue to expect some further support for the US dollar.

Private markets and Infrastructure

In addition to the income from bonds and returns from equities, we add the return potential from alternatives to further broaden the opportunity set.

Infrastructure needs are huge around the world, stemming from urbanisation, re-onshoring, decarbonisation and digitalisation. As many governments

The forces that pushed up bond yields are also supportive for our strong USD stance and cyclical US equity position



Source: Bloomberg, HSBC Global Private Banking as of 22nd May 2024. Past performance is not a reliable indicator of future performance.

have stretched fiscal positions, the role of the private sector is important, boosting investors' ability to negotiate attractive conditions. And of course, infrastructure's inflation-linked return characteristics are interesting in a world where inflation could remain structurally higher than in past decades.

Private credit investors benefit from attractive spreads, while its different profile compared to most bonds (floating-rate and senior secured) can help diversify. Finally, private equity is benefiting from a pick-up in M&A, which should further accelerate as rates start to fall and there is a desire to monetise investments and return capital to limited partners. PE can also help take a longer-term view to look through short term volatility.

Geopolitics and other risks

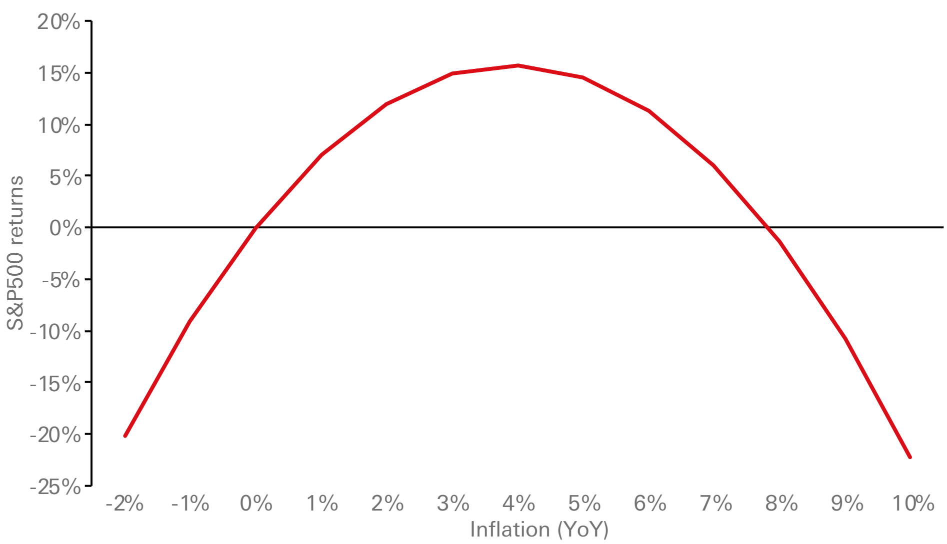
We continue to take the view that it is better to stay invested in resilient portfolios with a broad set of high-quality sources of returns, rather than staying in cash or trying to time and second-guess geopolitical events.

The devastating conflict in the Middle East of course remains top of mind.

From an investor perspective, oil price volatility and worries about shipping delays causing supply chain issues could hit risk appetite. But the impact on markets tends to be temporary in nature and is often best managed through volatility strategies while staying invested. The considerable spare capacity within OPEC+ (currently at 6 million barrels per day as per HSBC Global Research) limits the scope for a durable jump in oil prices. Most importantly perhaps, we do not think central banks would delay rate cuts in case of an oil price spike as their inflation worries principally stem from the strength of local labour markets and services demand, not oil prices or global goods.

The US election will be another key area of focus, but second-guessing the result seems dangerous and counterproductive as polls suggest the result will depend on just 4-7 swing states. History suggests that markets could see some volatility just before the elections due to the uncertainty, but typically rebound after the result is known. The election outcome will have an impact on relative sector performance (for e.g. energy and financials) and on global trade, where higher global tariffs and tit-for-tat measures could lead to slower growth and higher-for-longer inflation. But given the uncertainty around the polls and whether election promises will actually materialise, we are managing this scenario risk by broadening our sector and geographical exposure, and by focusing on companies that benefit from strong structural growth trends, reflected in our themes.

Historically, inflation around 3-3.5% has been a favourable environment for equity returns



Source: Bloomberg, HSBC Global Private Banking as of 22nd May 2024. Analysis since 1988. Past performance is not a reliable indicator of future performance.

Our four investment priorities

1. Broadening our equity exposure across geographies and sectors

Why? The improvement in global PMIs and the broadening of cyclical momentum should support companies' earnings growth across more geographies and sectors. Tech sector earnings are underpinned by cyclical and structural growth, but as valuations are rich, active diversification is important .

What? In developed markets, we maintain the US as our principal overweight position but also see opportunities in Europe. We upgraded Japan to mildly overweight and Europe ex-UK to neutral in Q1, while maintaining the UK at neutral. Across developed markets, good recent earnings momentum underpins our overweight position in technology, consumer discretionary, financials, industrials and healthcare. Our high conviction themes also highlight some specific areas of opportunity.

2. Putting cash to work in bonds and multi-asset strategies

Why? Cash returns should start to fall later this year and cannot be locked in. Bond yields on the other hand can, and they are currently near decade-high levels. A core allocation to bonds in diversified portfolios can help generate a stable income stream, while also providing portfolio diversification for tail risk events. As we find a broadening opportunity set as well in global equities and private assets and the improved global outlook argues in favour of adding some risk, we think investors can move out of cash into both bonds and multi-asset strategies.

What? In the bond market, we favour high quality bonds (including Treasuries and investment grade) over high yield. In our multi-asset portfolios, we favour broad exposure across geographies, asset classes (including alternatives, where appropriate) and thematic investment themes (see later).

3. Tapping into private assets and infrastructure

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

What? Private credit, private equity and infrastructure. Manager selection is key as returns and access to good opportunities can vary significantly between managers.

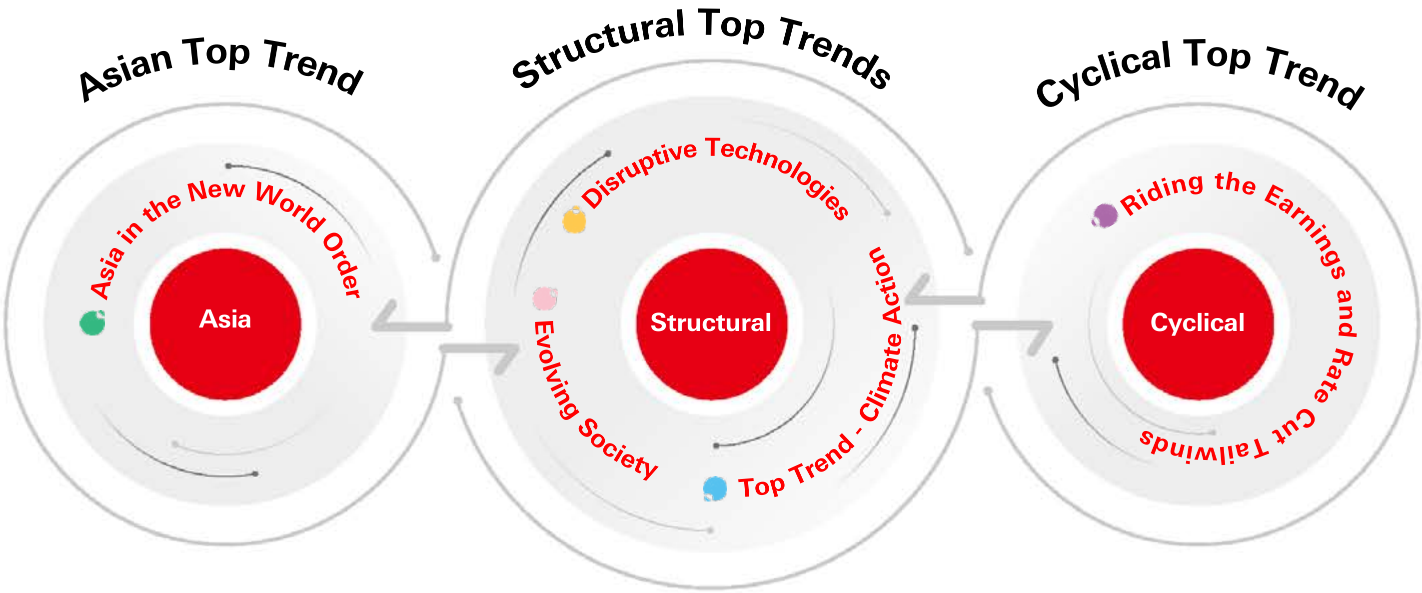
4. Unlocking the best opportunities in Asia

Why? Asia's economic and earnings growth continue to far exceed the global average. We maintain our overweight positions in Japan, India and South Korea, where we see the best opportunities to tap into Asia's structural growth themes. In Mainland China and Hong Kong, more decisive policy stimulus and capital market reforms bring tactical opportunities for undervalued quality stocks.

What? We favour corporate governance reform winners in Japan, China and South Korea, which are cash-rich companies with low leverage and the power to deploy cash to improve shareholders' returns (through dividend payments, share buybacks and corporate actions). We also identify Asian industry leaders who navigate geopolitical uncertainty and benefit from friend-shoring, supply chain reorientation and upgrading. We stay bullish on Indian stocks, which are well supported by global supply chain diversification, young demographics, and the boom in investment and manufacturing upgrades. Finally, we capture attractive income opportunities from Asian investment grade bonds as we expect Asian central banks to start cutting rates in H2 2024.

Top Trends and High Conviction Themes

Our five top trends balance three structural areas of growth with the exciting transformation that is happening in Asia and the shorter-term cyclical dynamics of our fifth trend. When investing thematically, it is important to choose themes from a number of these trends to avoid building up significant sector or style biases, and to analyse overall portfolio risk including both core and satellite positions.



Global High Conviction Themes

Asia

Asia in the New World Order

- Asia's Corporate Governance Reform Winners
- Reshaping Asia's Supply Chain
- Rise of India and ASEAN
- Capturing Peaking Asian Yields

Structural

Disruptive Technologies

- Aerospace
- Generative AI & Robots
- NextGen medicines
- Upgrading Digital Infrastructure

Top Trend - Climate Action

- Biodiversity and Circular Economy
- Opportunities in Sustainable Energy

Evolving Society

- Infrastructure and Future Cities
- Social Empowerment and Well-being
- Sports and Entertainment

Cyclical

Riding the Earnings and Rate Cut Tailwinds

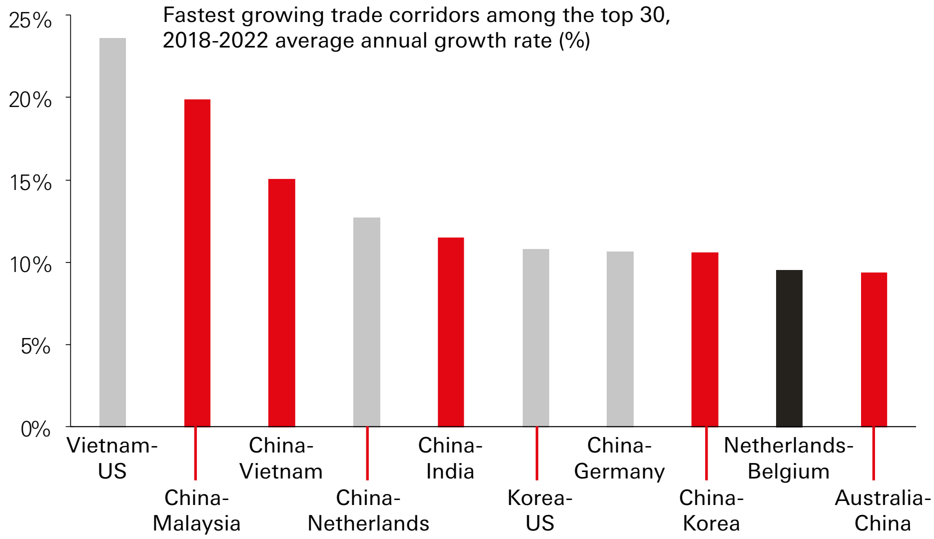
- American Resilience
- North American Re-Industrialisation
- The Magnificent Europeans
- Opportunities in Quality Credit

Source: HSBC Global Private Banking as of 22nd May 2024.

Top Trend
Asia in the New World Order

To unlock Asia's best structural growth opportunities amid fast evolving geopolitical dynamics, we actively diversify and adopt a thematic approach to pick long-term winners. We find promising and diverse opportunities from the corporate governance reforms, supply chain revamp, manufacturing upgrading and robust consumption in Asia.

Half of the world's 10 fastest growing trade corridors are in Asia



Note: Red = economies at both ends of the trade corridor are in Asia; Light Grey = one end of the corridor is in Asia; Black = neither end is in Asia.

Source: UNCTAD, HSBC Global Private Banking as of 22nd May 2024.

Our Four High Conviction Themes	
1. Asia's Corporate Governance Reform Winners	We favour corporate governance reform winners in Japan, China and South Korea, which are cash-rich companies with low leverage and financial power to deploy cash to boost shareholders' returns through increasing dividend payments, share buybacks and value-adding corporate actions.
2. Reshaping Asia's Supply Chain	This theme focuses on Asian industry leaders which benefit from the integration and reconfiguration of the manufacturing supply chains. We favour companies in India and ASEAN that gain from supply chain reorientation under the "China+1" strategy of multinational and Asian corporations.
3. Rise of India and ASEAN	We find promising secular growth opportunities in India and ASEAN, riding on the secular tailwinds from the young demographics, rising middle-class consumers, robust FDI and domestic investment spending, technological innovation and green transformation.
4. Capturing Peaking Asian Yields	The repricing of bond markets earlier this year opens an attractive window to lock in multi-year high yields from Asian IG bonds. We favour Japanese and Korean financials and IG corporate bonds, Indian local currency bonds, Indonesian quasi-sovereign IGs, Macau gaming and Chinese TMT credits.

Asia ex-Japan GDP is forecast to grow 4.6% in 2024; well above global average growth

50% of the world's 10 fastest growing trade corridors are in Asia

India commands around 50% of the world's Global Capability Centres

Source: UNCTAD, Bloomberg, HSBC Global Research forecasts, HSBC Global Private Banking as of 22nd May 2024.

Asia remains the most important growth engine of the global economy with projected 4.6% GDP growth and 23% earnings growth in 2024 (source: Bloomberg, May 2024). We find promising opportunities from Asia which continue to dominate the world's manufacturing supply chains and consumption market. We maintain our overweight in Japan, India and South Korea, where we find the best opportunities to tap into Asia's secular growth themes. In Mainland China and Hong Kong, more decisive policy stimulus and capital market reforms bring tactical opportunities for undervalued quality stocks.

We launch the new High Conviction Theme of **Asia's Corporate Governance Reform Winners**, as Asian governments and regulators are pushing for corporate reforms to boost shareholders' returns and close the valuation gaps of their equity markets relative to the global peers. Japan provides a prominent example to showcase how improved corporate governance standards can contribute to a re-rating of the equity market. International portfolio inflows have been attracted to the Japanese stock market as Nikkei 225 companies returned a total of JPY20trn to shareholders in 2023 via dividends and buybacks, up sharply from around JPY6trn a decade ago (Source: FactSet, HSBC, May 2024).

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

Our theme on **Reshaping Asia's Supply Chain** focuses on winners of the accelerating supply chain reconfiguration and the friend-shoring trend amid de-globalisation. This has resulted in rapid trade integration in Asia, with the share of intra-regional trade surging to almost 60% of Asia's total trade flow from 53% in 2000 (Source: IMF Direction of Trade Statistics, HSBC, March 2024). We project intra-Asian exports to rise from USD4.3trn in 2023 to USD7.1trn in 2030 and cross-border FDI flows within Asia to double to over USD700bn by 2030, led by the China-ASEAN and India-ASEAN trade corridors (Source: HSBC forecasts, March 2024).

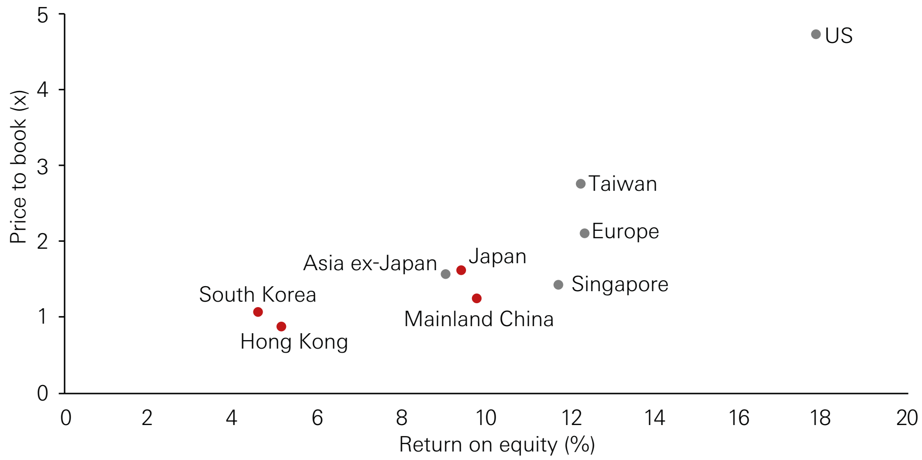
We favour high-end manufacturing leaders in Japan, South Korea and Taiwan given their pivotal roles in the global semiconductor supply chains. In ASEAN, Singapore, Malaysia and Vietnam are strengthening their leadership positions in the electronics industry. Indonesia holds the world's largest nickel reserves and is therefore playing a crucial role in the global EV supply chain. Electronics and EV manufacturers from North Asia are ramping up production capacity in ASEAN to expand market shares. ASEAN represents a big new market and a low-cost production base for Chinese companies facing slower growth at home. We like quality Chinese industry leaders which have successfully diversified their supply chain and market outside China.

Our theme on **Rise of India and ASEAN** captures promising secular growth opportunities from the young demographics, rising middle-class consumers, robust FDI and domestic investment spending, technological innovation and green transformation., 2022).

The working age populations (aged 15-64) in India and ASEAN are expected to grow from now to 2050 and make up nearly 70% of their populations (Source: United Nations World Urbanization Prospects estimates, 2022). We favour growth leaders in the financials, property, infrastructure, retail REITs, and telecom sectors in India and Southeast Asia. India's April composite output index surged at the fastest pace in nearly 14 years, with services new orders showing accelerated expansion (Source: S&P Global, 2 May 2024). We expect private capex and FDI to increase after India's general elections. Indian banks and infrastructure companies will benefit from the investment boom. India's services export growth has stayed strong with the rapid rise of the Global Capability Centres (GCCs) set up by multinational companies. ANSR statistics show that India now commands over 50% of the global GCC market with an estimated 5,000 global leadership roles situated in Indian GCCs.

For income opportunities, our theme on **Capturing Peaking Asian Yields** stays focused on locking in multi-year high yields from Asian IG bonds with 5-7 years duration. With continued disinflation and the Fed's rate cuts likely to start in September, we expect many Asian countries' rate cuts will start in H2 2024. We favour Japanese and Korean financials and IG corporate bonds, Indian local currency bonds, Indonesian quasi-sovereign IGs, Macau gaming and Chinese TMT credits.

Japanese, Mainland China, Hong Kong, and South Korean equities have room to improve their P/B and ROE metrics thanks to corporate governance reforms.

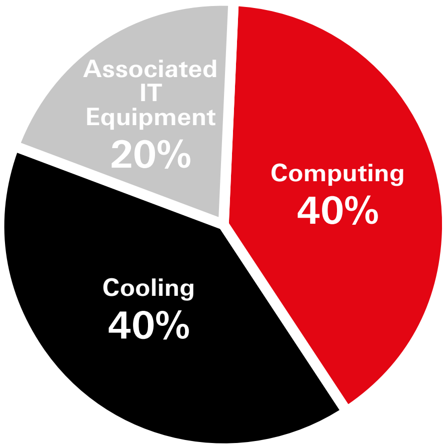


Note: MSCI indices are used to represent the respective regional equity markets.
Source: Bloomberg, HSBC Global Private Banking as of 22nd May 2024.

Top Trend
Disruptive Technologies

Automation, digitisation, low-cost satellites, autonomous avionics and new medicines are already disrupting established markets. Integration of artificial intelligence will truly transform the whole business landscape.

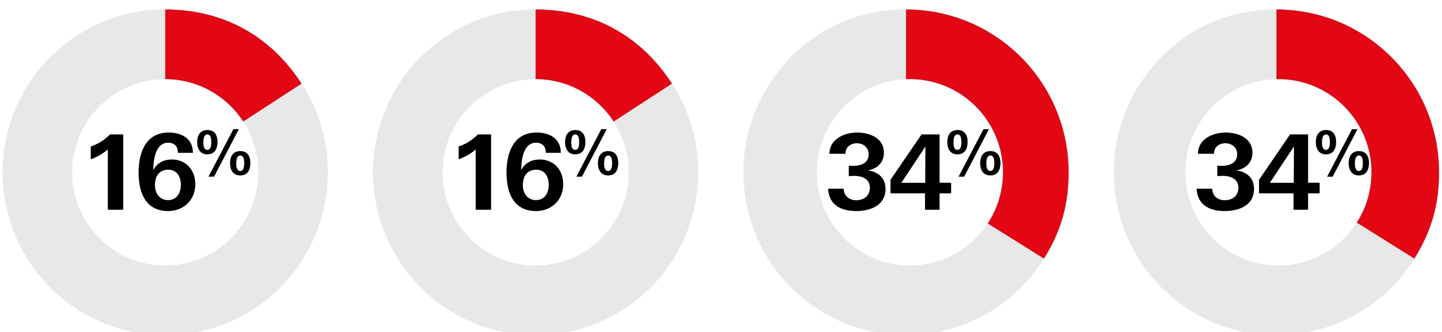
Datacentre Costs Breakdown



Source: International Energy Agency, HSBC Global Private Banking as of 22nd May 2024.

Our Four High Conviction Themes	
1. NextGen Medicines	Highly targeted new therapies offer the potential to transform treatment regimens and patient outcomes, while generating substantial commercial opportunities for the companies.
2. Upgrading Digital Architecture	Digital architecture was expanding rapidly already but the introduction of AI demand has brought forward company spending. Cloud servers, datacentres, cooling, cyber security and network services are being upgraded.
3. Generative AI & Robots	The rapidly evolving generative AI landscape is already causing companies across sectors to accelerate the roll-out of products and services that embed AI capabilities and are enabling robots to become more autonomous.
4. Aerospace	Billionaires and companies have re-awakened this dormant sector with commercial development in LEO satellites, space vehicles, flying taxis, hypersonic rockets and much more.

Revenue increases expected from AI adoption



increase by >10% | increase by 6%-10% | increase by 0%-5% | no change

Source: McKinsey, HSBC Global Private Banking as of 22nd May 2024.

AI is everywhere

The evolution of AI is happening at a breathtaking pace after years of hype followed by underwhelming delivery. But now, the simultaneous launch of several AI software models or LLMs (large language models) has been the catalyst for the development of first-generation AI-enabled or enhanced products and services. The embedding of AI software has expanded capabilities and some degree of autonomy. In our four related investment themes, you will see how scientific advances are bringing substantial benefits and opportunities to industries that embrace these disruptive technologies.

Some sectors reap commercial rewards across industries including semiconductor manufacturers and designers, automation providers and electric motor companies.

Others may choose to specialise and lead in a particular market or segment, such as surgical robots, AI semiconductors or a particular satellite service. The following four areas are particularly exciting in terms of the pace of development and the opportunities they are creating.

NextGen Medicines

Many medicines are toxic to normal human cells and are often not well tolerated by patients with numerous potential side effects. The 'silver bullet' or targeted therapies has long been the elusive goal of biopharma companies The appeal to both doctors and patients is compelling: the more accurate and targeted the drug, the lower the risk of collateral damage. The introduction of monoclonal antibody-based (Mab) cancer treatments was a big step in achieving this goal and continues to show great promise for tailored treatments.

Accidental discoveries have proven useful as illustrated with the blockbuster drugs called GLP-1 agonists. Originally developed to treat diabetes, doctors noticed patients experienced significant weight loss. Further investigations revealed its potential as a treatment of obesity. The alarming rise in obesity and its impact on human health are well documented.

Worldwide, a staggering 1 billion people are classified as being obese (source: The Lancet 2022). GLP-1 agonists are now being researched as treatment for other medical conditions too, indicating a great potential for healthcare.

Upgrading Digital Architecture

Typically, over the last three decades, IT firms' newest generation of a technology product requires more energy, processing power and data capacity. That trend is about to go exponential with expanding digital technologies and the spread of AI. The technologies will demand very large increases in data storage and handling capacity. A wide range of digital architecture companies are experiencing a notable rise in demand for their products and services including cloud computing, datacentres, cyber security and cooling technologies. This is likely to be a multi-year growth cycle given the scale of expected demand.

Generative AI & Robots

The automation cycle in Asia, particularly in China, appears to have bottomed-out with demand expected to pick-up in H2. This is a positive development after 2 years of lack-lustre sales. Other markets are also seeing a pick-up in demand as most companies are forecasting an increase in capital spending, with tech being prioritised by many companies.

The introduction of generative AI software has the potential to expand automation capabilities while improving productivity of manufacturing and service industries. Leading-edge automation and robot manufacturers should benefit from improving order books and premium product pricing.

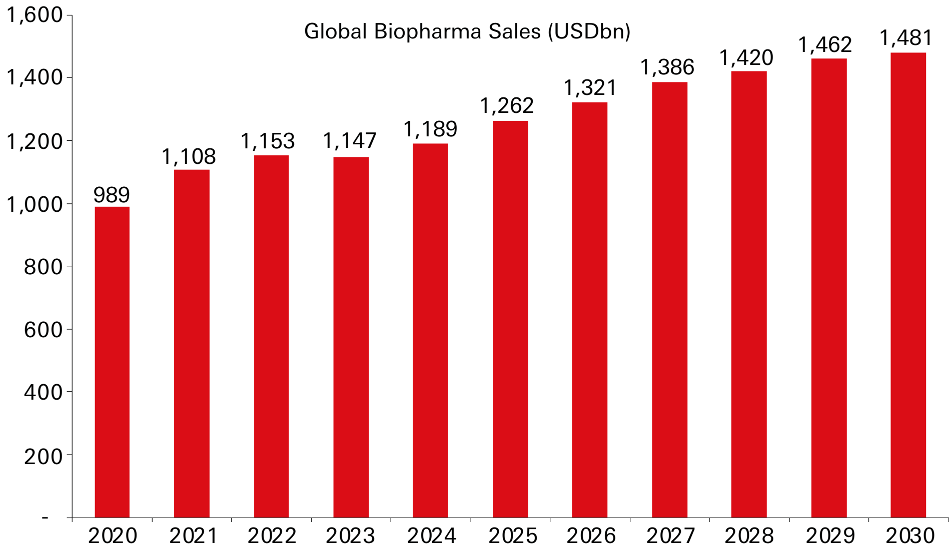
Aerospace

Aerospace industries are seeing a renaissance across all segments including aircraft, rockets, satellites, UAV and infrastructure. This is largely due to private individuals. Private companies and government initiatives are being driven by commercial and geopolitical considerations. The breadth and depth of the trend is eye-catching from rocketry to drones to commercial aircrafts.

Demand is growing with many companies announcing healthy order books and launch of new products including the Starship and Starliner.

Small low-cost satellites have found an array of new customers and increased demand for limited launch capacity. International travel too, is still gaining momentum post-pandemic, with commercial airlines struggling to add capacity as new airplanes remain in short-supply. Business is booming for the whole spectrum of companies from small specialised companies to large corporations. Blue skies ahead!

The biopharma market size is expanding

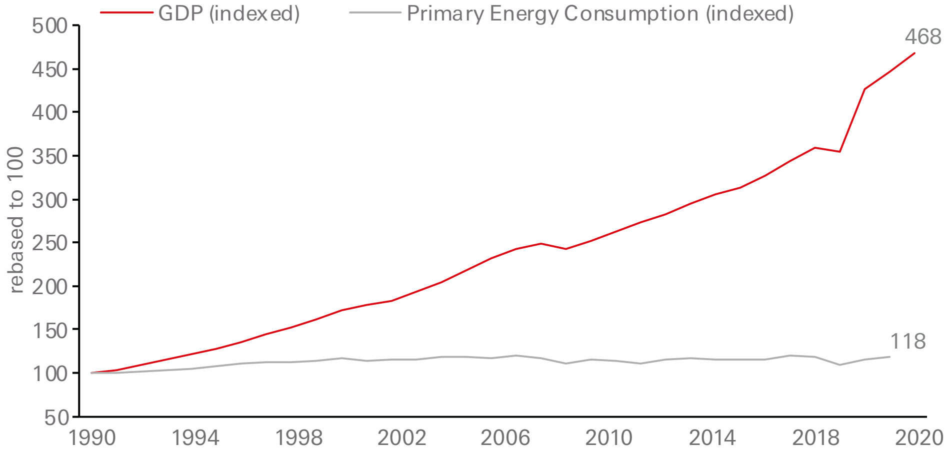


Source: Visible Alpha, HSBC Global Private Banking as of 22nd May 2024.

Top Trend
Climate Action

Investment in sustainability continues to present opportunities around the globe. Europe and Asia lead in several ways but in the US, less known for being a sustainability leader, the momentum of investment and action is sizeable.

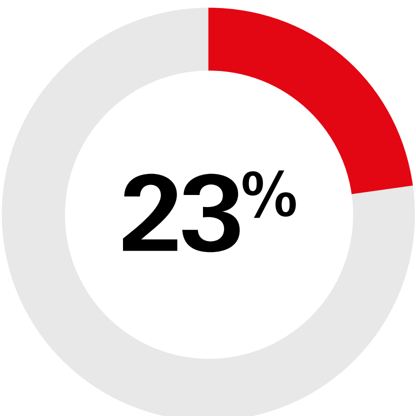
While US energy consumption continues to grow, it grows less quickly than GDP



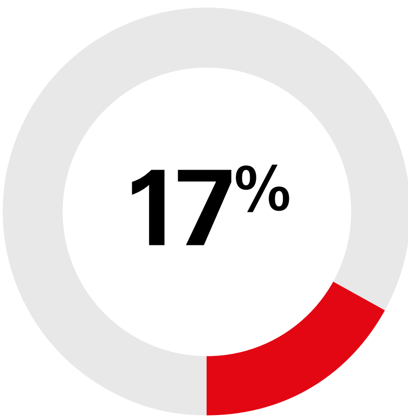
Source: US Energy Information Administration, St. Louis Federal Reserve, HSBC Global Private Banking as of 22nd May 2024.

Our Two High Conviction Themes

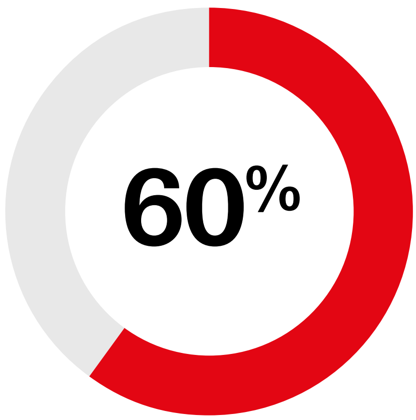
1. Opportunities in Sustainable Energy	There has been a marked rise in the desire of global economies to move to lower carbon energy production while also increasing the independence of their domestic energy production. Sustainable energy offers a solution.
2. Biodiversity and Circular Economy	Biodiversity across the globe has been materially impacted by human activity in the last 50 years (Source: Living Planet Index 2024). Investment initiatives to finance action to conserve and reverse the damage are now gathering pace.



Share of renewable energy in 2023 US energy demand



Share of total global emissions linked to the production and life cycle of materials



China accounted for 60% of global new electric vehicle registrations in 2023

Sources: Sustainable Energy in America 2024 Factbook, International Energy Agency, Blackrock, IEA Global EV Outlook 2024, HSBC Global Private Banking as of 22nd May 2024.

The US equity market led equity markets higher in recent years, largely due to its leadership in the tech sector and the excitement about AI. Sustainability however is one area the region is less known for, and the perception may be that if you want sustainable investment opportunities then the US is not the place to look. The numbers however tell a different story.

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

Our theme, **Opportunities in Sustainable Energy** aims to capture investment opportunities around the world, linked to this sustainable energy trend. In our view, change is occurring across the entire energy framework from generation to the network and to the service model. Many may find it surprising to learn that electric vehicle (EV) sales also surged last year and delivered a record year in the US. Sales of EV's and fuel-cell vehicles were up 50% on 2022 to 1.46m units (Source: Bloomberg NEF and The Business Council for Sustainable Energy Factbook, 2024). And the US is not alone in this – electric car sales jumped by 35% in 2023 compared to 2022, accounting for 18% of all cars sold (Source: International Energy Agency – Global Electric Vehicle Outlook 2024).

Price competition, expanding choice and government incentives all contributed to the rise. Energy storage is another segment of sustainable energy opportunities that is expanding rapidly. An estimated 7.5 gigawatts of battery storage was commissioned in the US in 2023, a 62% rise year on year bringing the total installed capacity to 19.2 gigawatts (Source: Bloomberg NEF and The Business Council for Sustainable Energy Factbook, 2024).

Behind all of this change there are several drivers. The Inflation Reduction Act aims to lower prices by investing in areas like domestic energy production while promoting clean energy. It has been a key component of the transition thanks to substantial subsidies and tax credits. Incentives have been implemented right across the supply chains of companies looking to base manufacturing in the US or for companies who can produce carbon credits.

Two very important trends are presenting themselves. Firstly, as our chart below shows, power is leading the charge over other activities in the reduction of its carbon footprint. In fact, it is the only industry that has made any significant progress. It has managed a 36% reduction in the last 15 years due to the improving mix within energy production. Also, in the last decade, renewable energy has steadily grown from 13% of the market share of US energy generation to be over 23% and growing (Source: US Energy Information Administration Greenhouse Gas Inventory Data Explorer, 2022).

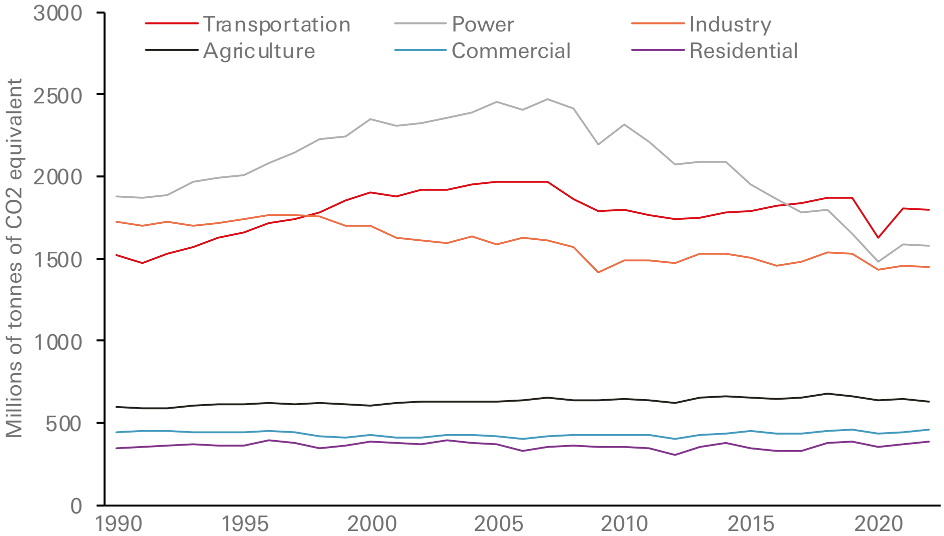
Secondly, this reduction in emissions has not come at the cost of GDP growth. As our chart on the previous page shows, the US is becoming more energy efficient, allowing its energy consumption to grow much less than its GDP. Clearly, a lot more needs to be done, not just in the US but around the world. As such, the opportunities we see in sustainable energy are also present in Europe and Asia.

China leads the world in energy storage and last year they built on their lead to now represent 42.7% of global storage capacity (Bloomberg NEF, 2024). In Europe carbon pricing reforms are starting to progress and it is expected that industrials there will have to start to really weigh up the cost of carbon production and seek cleaner methods of production.

Biodiversity and the circular economy are also in focus in the US with the current administration. In May 2021, the Biden Administration launched the 'America the Beautiful' initiative to tackle the climate and biodiversity crises and to address inequitable access to nature. It includes the first-ever national conservation goal for the United States to conserve at least 30 percent of its lands and waters by 2030. We engage with this trend through our **Biodiversity and Circular Economy theme.**

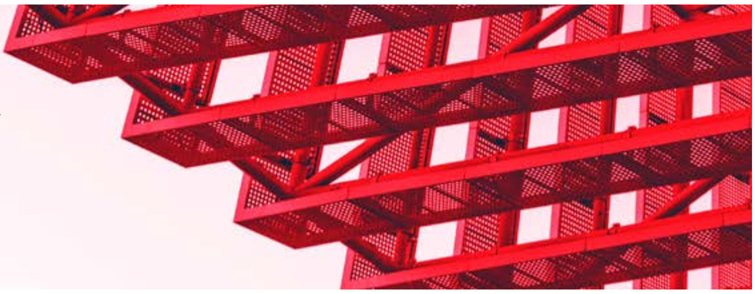
The excessive use of our planetary resources calls for a shift from the linear 'Make – Take – Use - Waste' economic model which is damaging biodiversity and natural habitats at an unprecedented scale, to a circular economic model of 'Reduce – Repair – Reuse – Recycle and Re-design' (5Rs). Some companies will benefit from the resulting changes in consumer demand and new businesses needed to effect this change, while others may manage to bring costs down, through the use of recycled materials.

US Greenhouse Gas Emissions by Sector since 1990



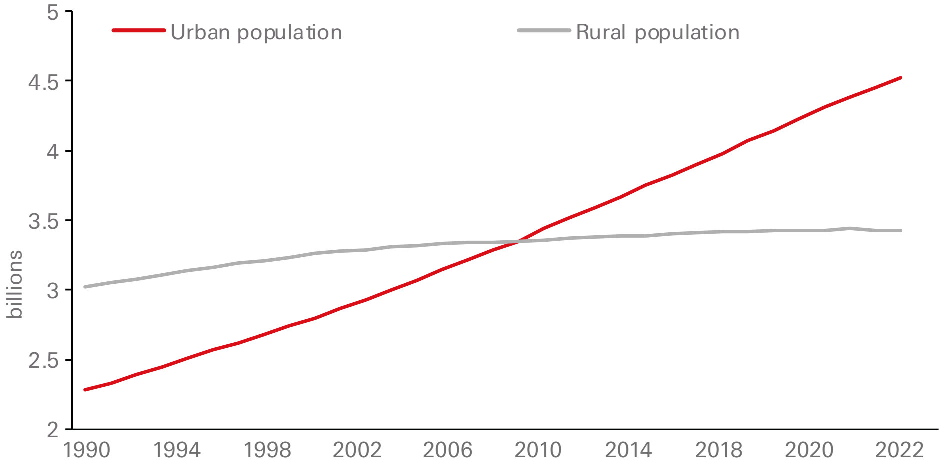
Source: US Energy Information Administration Greenhouse Gas Inventory Data Explorer. HSBC Global Private Banking as of 22nd May 2024.

Top Trend
Evolving Society



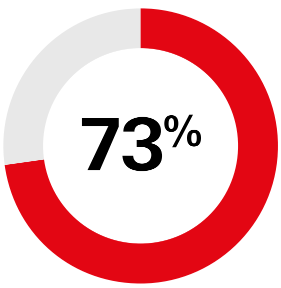
Our society is undergoing big changes in demographics, living conditions and consumers' expectations. Most of these changes are slow moving but they can also have quick and lasting effects: companies need to adapt to them to be successful.

Global urbanisation continues apace



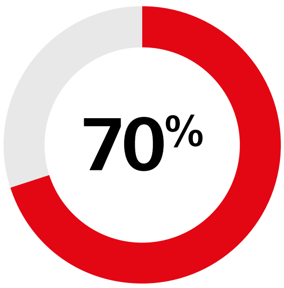
Source: Statista, HSBC Global Private Banking as of 22nd May 2024.

Our Three High Conviction Themes	
1. Infrastructure and Future Cities	There is a big need for more infrastructure as a result of the decarbonisation, digitalisation, re-onshoring and urbanisation trends. Governments globally have underinvested and do not have much fiscal space, thus raising the role for private investors. As inflation may remain higher than in the past, the inflation-adjusted returns of infrastructure are another attraction.
2. Social Empowerment and Well-being	Gender equality, female workforce participation, access to quality education and healthcare are important goals that investors and consumers care about. While generating appropriate financial returns, investors can use an impact or thematic approach to this theme, or even select companies that are making a positive transition to better social values and practices.
3. Sports and Entertainment	This theme is at the intersection of cyclical support for consumption, evolving consumer tastes putting more emphasis on fun experiences, and technological innovations such as virtual reality and AI. Sports and entertainment are a big business, and we see opportunities across events, advertising, content generators, clothing, equipment and immersive technology.



Share of Gen Z customers who want to buy from ethical companies

Female labour force participation in South Asia (compared to 68% in North America)



Percentage of fans willing to switch TV provider to continue to watch favourite sports

Source: McKinsey, World Bank, AltmanSolon, HSBC Global Private Banking as of 22nd May 2024.

When we think of societal changes, we typically have slow moves in mind. And indeed, global ageing is a slow but steady process, with one generation following another.

But that doesn't mean that the impact on companies is slow or marginal. The tech-savvy Generation Z consumes differently and - given low unemployment - has the power to demand changes in working habits. Roughly four fifths of them live in the emerging markets so companies need to cater to that growing demographic,

Other societal changes are caused by shocks, such as the COVID pandemic, which increased the importance we attach to our health. So, after the COVID-19 lockdowns ended globally, the focus has turned to services, with restaurants, travel and sports & entertainment rapidly gaining share in consumer expenditure. Some people who could afford to move to the countryside during COVID are now moving back to cities, restarting the global urbanisation trend that saw only a small and temporary slowdown.

Given the vast scope and implications of our Evolving Society trend, the themes under it will certainly change over time. We believe it will include themes related to consumption trends, the silver economy, NextGen, social inclusion and health innovation, among other things. For now, we focus on four high conviction themes, as highlighted below.

Infrastructure and Future Cities

We classify infrastructure under 'evolving society' because much of the build-out will be happening in cities, which are growing fast as a result of the urbanisation trend. But other trends support the infrastructure theme too. Most notably, the digitalisation of our global economy, which requires data centres and better communications. And of course, the transition to net zero requires the build-out of clean energy generation and more versatile electric grids.

Finally, companies' desire to re-onshore production requires new ports and roads.

At a time when governments' fiscal room is limited, there is bound to be strong demand for private sector participation in the infrastructure build-out and financing, which should allow large investors to negotiate good conditions.

Our view that inflation may stay somewhat higher than in the past provides another reason to look at infrastructure, which typically offers inflation adjusted returns. The link to inflation can be regulatory in case of utilities, or contractual. It can also result from the importance of the service provided, which allows the operator to pass on any increase in costs.

Our theme of **Social Empowerment and Well-being** is one that is gaining more attention under the Diversity, Equity and Inclusion (DEI) trend which seeks to promote the fair treatment and full participation of all people. The theme overlaps with a number of UN Sustainable Development Goals such as good health and well-being, quality education and gender equality. Investors can select companies that are making a positive transition to better social values and practices, while still targeting appropriate financial returns. Please refer to our ESG disclosures at the back of this brochure.

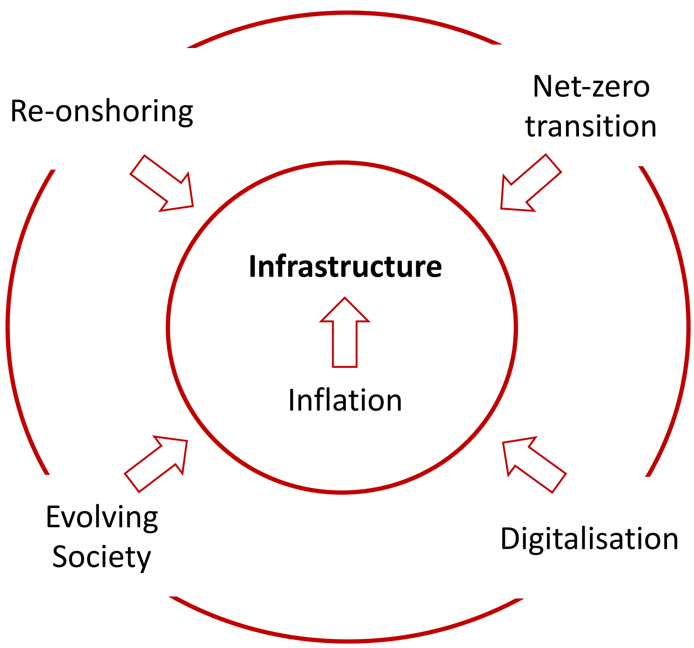
Sports and Entertainment is big business, with countries and investors competing to attract the best talent.

Consumers, particularly at the middle and high end of the consumption spectrum continue to have decent purchasing power. This is especially true as inflation has fallen from recent high levels and US wage increases have therefore become positive in real terms. Consequently, US consumers have been increasingly spending their income on experiences rather than goods. We believe this demand for experiences is getting a further boost by the boom in women sports and events such as the Summer Olympics.

Companies in the sector are innovating to create more value, through streaming of events and data analysis to allow more targeted ticket sales, for example. Moreover, virtual and augmented reality is a game changer, allowing fans to feel they are in the stadium even when they sit at home.

We see opportunities across events, advertising and content generators, as well as clothing and equipment. As immersive technology gets even better, the lines between the physical and virtual worlds will blur further.

Infrastructure is benefiting from key structural forces

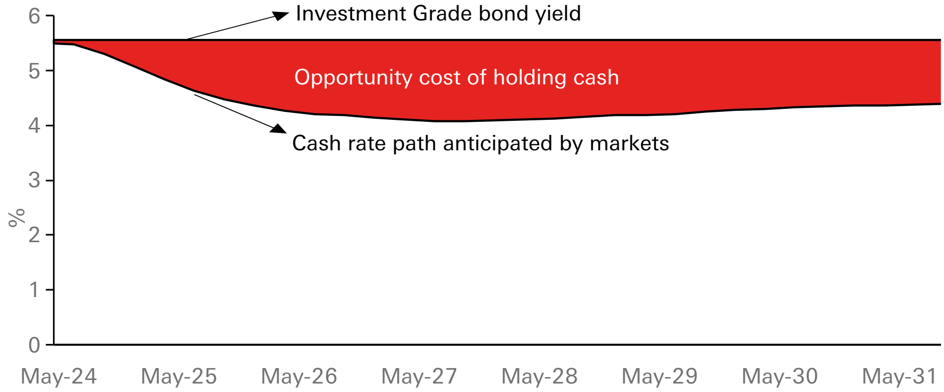


Source: HSBC Global Private Banking as of 22nd May 2024.

Top Trend
Riding the Earnings and Rate Cut Tailwinds

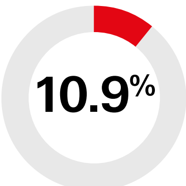
The global economic cycle has bottomed and is broadening, translating in positive global earnings momentum. As a series of rate cuts unfold in the West, this creates attractive opportunities in equities and quality credit.

Investment grade bond yields are attractive, so holding cash has a big opportunity cost

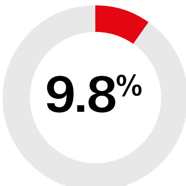


Source: Bloomberg, HSBC Global Private Banking as of 22nd May 2024.

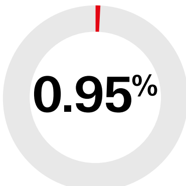
Our Four High Conviction Themes	
1. American Resilience	US domestic demand remains strong, driven largely by a strong labour market, rising consumer confidence and increasing disposable income. This is creating solid earnings growth for companies in the consumer space (discretionary and staples) and financials. Rate cuts and AI-led innovation should start to reduce costs, while confidence in the economy should rise ahead of the elections.
2. North American Re-industrialisation	Manufacturing indicators have been picking up across North America, causing earnings upgrades and strong stock price momentum in the industrials sector. But the support is also structural in nature, thanks to the onshoring and near-shoring resulting from changes in the global supply chains. Existing legislation and the Presidential campaigns underpin the manufacturing renaissance.
3. The Magnificent Europeans	Most investors are still underweight but as cyclical momentum and earnings potential picks up, the attraction of the best positioned European companies will increase – in part because of their relatively cheap valuations. We look for companies that are leaders in their sector and have the strong cash flow and balance sheet to invest in innovation.
4. Opportunities in Quality Credit	Uncertainty about the timing of Fed rate cuts has driven up bond yields to attractive yield levels that are close to multi-year highs. We lock-in those yields of high quality bonds and believe returns will be further enhanced by price gains as uncertainty about rate cuts eases. While we look for companies with healthy balance sheets, we do not expect a big jump in defaults.



The low percentage of Americans who think it is hard to get a job (vs 28% historical average)



The still low share of income US households spend on interest (vs 13.3% in 2007)



The very low delinquency ate on corporate loans at large US banks

Source: Federal Reserve, Bloomberg, HSBC Global Private Banking as of 22nd May 2024.

As we look into H2 2024, the set-up of the key fundamentals is favourable for markets. First, expectations of rate cuts have now been pushed out excessively far in our view. This means that any easing of inflation concerns and, of course, the actual delivery of the first rate cut, will create a tailwind for asset prices. Secondly, the global economic momentum is broadening out. As we have been highlighting, domestic demand in the US remains very healthy thanks to strong labour markets. But we also want to highlight the signs of mild acceleration in Europe and Japan, the strong growth in India and the hopes of stabilisation in China. That means the global economy is firing on a larger number of engines, which makes the cycle more robust, even if geopolitical risks of course exist.

For investors, the prospect of rate cuts combined with the solid support for earnings growth is bullish for both quality bonds and equities, as highlighted by our themes. This quarter, we have added a European theme, to reflect the broadening of the global opportunity set, and our view that opportunities in this cheap equity market are increasing as Europe has exited recession.

American Resilience

The US remains our largest overweight in our equity strategy. Q1 GDP figures showed a bifurcation between strong domestic demand, while exports were hit by the strong USD. We continue to focus on companies that benefit from strong local labour market and consumption, which includes consumer-related stocks of course, but also banks.

On the consumer side, some households which are still feeling the heat from high inflation are 'trading down' towards cheaper goods. On the other hand, higher earners continue to spend on consumer services, retail and travel. So, we think that companies catering to either end of the spectrum can do well, while those in the middle may feel squeezed.

As for financials, they are an interesting cyclical sector too. Net interest income may have peaked, but the rise in delinquencies should be manageable, while loan demand and M&A should pick up together with capital markets fee income. However, we stick to the large banks as there are valid concerns about the small and regional banks (including their commercial real estate exposure), especially if markets were to remain cautious on the prospect for rate cuts.

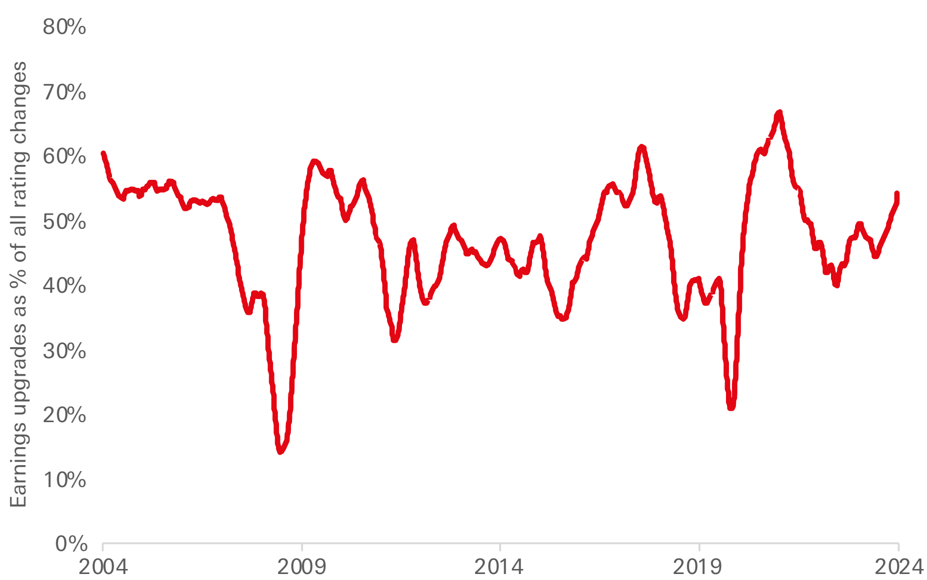
Our **North American Re-industrialisation** theme taps into the cyclical and structural pickup in manfacturing. Companies' urge to re-onshore some production, to make supply chains more reliable is a key driver here. And it is further helped by government incentives through the CHIPS & Science Act, the Inflation Reduction Act and the Infrastructure Investment and Jobs Act. Ahead of the US elections, manufacturing workers are an important constituency of voters which both presidential candidates will want to cater to, so we expect the run-up to the elections to be favourable for the sector.

We introduce our new **Magnificent Europeans** theme because we believe that the improvement in Europe's cyclical momentum will create earnings growth that will help unlock the value in this cheap market. Most investors are still underweight Eurozone stocks, so we think improving fundamentals could create inflows. We are not restricting ourselves to specific sectors but look for global market leaders with high levels of profitability and leaders in product innovation in their sector. Such companies typically have top class management and the strong balance sheets that enable them to invest and adapt to new trends.

Opportunities in Quality Credit

Under this theme, we principally focus on USD investment grade bonds as we think the compensation for rate risk is more generous than compensation for credit risk. High yield has performed well, but spreads are now quite tight, and any equity volatility or fears of even further delays in rate cuts could lead to some spread widening for low-rated issuers (we would rather hold a barbell of high-quality bonds and equities). We see opportunities in both financials and non-financials. While financials used to offer an attractive pickup vs non-financials, this gap has been tightening, so we like to diversify and widen the opportunity set. Within financials, we focus on the senior part of the bank capital structure of large diversified banks as the yield pickup for more subordinated bonds is not very attractive.

Our themes focus on areas supported by good earnings momentum

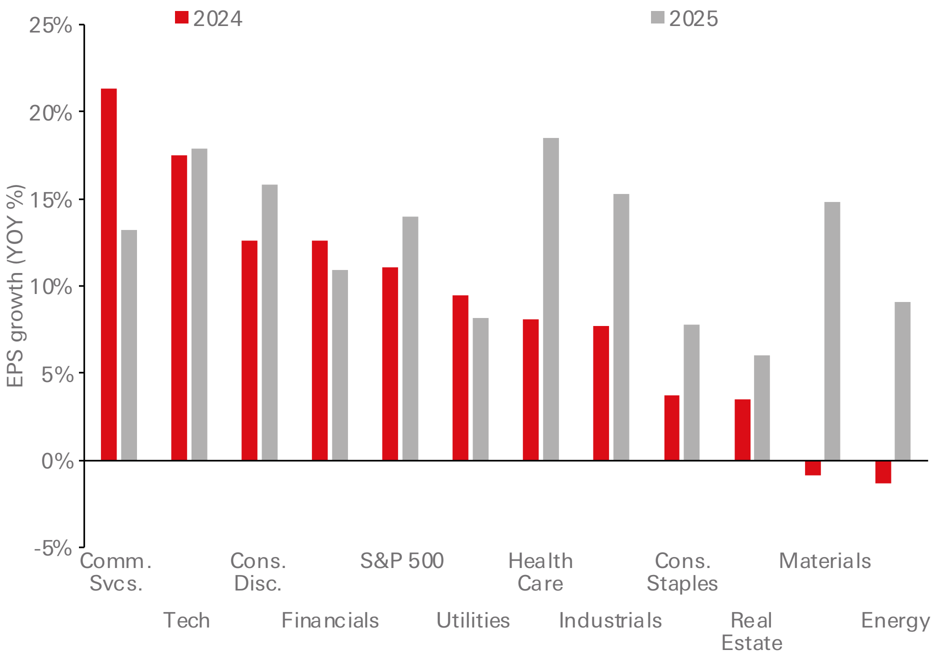


Source: LSEG, HSBC Global Private Banking as of 22nd May 2024. Past performance is not a reliable indicator of future performance.

Equities

The global backdrop for equities remains solid and we maintain our overweight. Global economic growth is broadening, inflation appears to be contained, and policy rates seem poised to begin their descent. The US remains our principal overweight but we are also bullish on EM Asia and moved Eurozone stocks from underweight to neutral in Q1. While we continue to focus on quality and large cap in Europe and Asia, we hold a more cyclical stance in the US. As equity valuations have run up, we principally look for earnings as the engine of equity market returns. But some undervalued markets are capturing more interest, while global valuations could see a boost when rate cuts start to materialise.

Earnings growth in the US remains strong



Source: LSEG, HSBC Global Private Banking as of 22nd May 2024.

The strong US profit engine

In the US economic growth has peaked but remains healthy and above trend. Inflation has been stubborn but does not show signs of accelerating. That has allowed Fed Chair Powell to suggest rate cuts are still on the cards for this year, while stagflation is an unlikely scenario. So, in short, the macro environment is supportive for stock markets.

US corporate profits grew at an above consensus pace in the first quarter. Margins remain healthy as input costs are not expanding. Expectations for corporate profits currently stand at 11% in 2024 and 14% in 2025. Valuations have expanded but still remain below prior market peaks.

The increased use of technology is beginning to lower costs and expand revenue opportunities, which should keep earnings momentum quite strong. With the aid of lower interest rates, this innovation should lift productivity and the Return on Invested Capital. Moreover, automation and AI should be a disinflationary force, which is another positive.

The theme of American resilience remains firmly in place as despite the near-term hurdles, US domestic demand remains healthy. The Re-industrialisation of North America is just beginning. Corporate investment in new manufacturing facilities to secure supply chains is quite strong.

Development of NextGen Medicines in the US is quite strong, and we see great potential in new product launches, rare disease products, the under-penetrated dental markets, and an expanding diagnostics market with structural growth opportunities in new disruptive technologies.

Asian technology and consumers

Performance throughout the region has been mixed but we like the diversity of Asia's earnings drivers. Prospects for growth and earnings remain supportive for the region as a whole.

While the momentum of the equity markets in India has slowed somewhat, medium to long term prospects remain strong. India's impressive economic growth should further accelerate into 2025, and we expect renewed reforms after the election to boost market sentiment again.

Corporate governance reforms have been lifting Japanese stocks, but the focus on shareholders has been

spreading to South Korea and China, leading to rerating opportunities for quality stocks.

The global technology revolution will help lift equity valuations in Asia. Improving demand for hardware and software should continue to benefit various Asian markets, including South Korea. A rising and expanding middle class in numerous countries points to better spending and investment opportunities. Higher incomes also should result in increased use of technology creating further demand for those products and services.

European outlook improving but still weak

European valuations remain attractive, and as the economic cycle appears to have bottomed out, investors have taken this as a signal to become less negative. We have done the same and moved from underweight to neutral on Europe ex-UK. However, as domestic growth is still weak in both continental Europe and the UK, and the exposure to tech and exciting new innovations is less than in the US, we maintain a neutral view. That said, many European companies are in fact very global in nature, and we see opportunities in global leaders with strong balance sheets and strong innovation. Global demand for European products remains healthy, and the luxury goods market cycle has bottomed. We await more positive growth dynamics in China and more clarity about the US elections before considering further upgrades to the region.

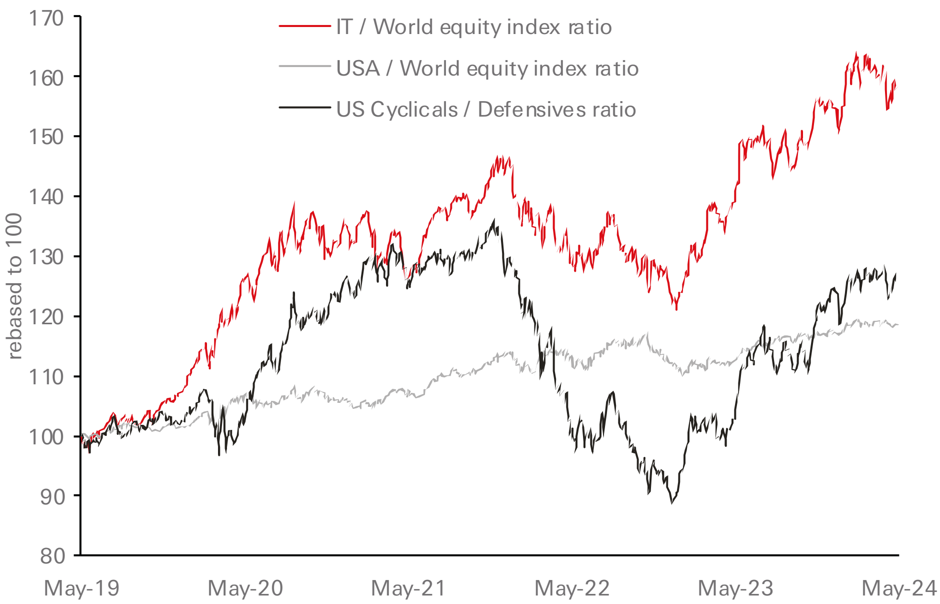
Geopolitics and rate risks

While there are risks on the horizon, we think the solid profit outlook and the prospect for rate cuts (even with an uncertain timing) provide a solid foundation for our overweight on global equities. A very healthy focus on shareholder value creation, coupled with rising M&A activity, add further support. And while we have focused mostly on cyclical drivers in this chapter, the many structural tailwinds reflected in our High Conviction Themes are providing further support.

Some investors will worry about sticky inflation and high-for-longer rates. But sticky inflation is a sign of stronger-than-expected demand rather than a supply shock and should be good for earnings. We note that historically, equities do well with inflation around 3-3.5% as companies can grow their earnings if prices appreciate in a measured way.

The US elections will be a key area of focus, but polls are tight and even if we knew the result, we would still not be certain that campaign promises would materialise (in part because of the risk of gridlock in Congress). While a democratic win could mean continuity, a republican win could mean tax cuts, so the market reaction is not clear cut. Sector-wise, a democratic victory could lead to more healthcare regulation but continued support for sustainability. A republican victory could see higher oil and gas production and financial deregulation but increased trade tariffs. We think a focus on some of our structural themes can help look through short-term uncertainty, while a broadening of sector and geographical exposure provides diversification and widens the opportunity set.

Markets have been driven by the US, IT and cyclicals



Source: Bloomberg, HSBC Global Private Banking as of 22nd May 2024. Past performance is not a reliable indicator of future performance.

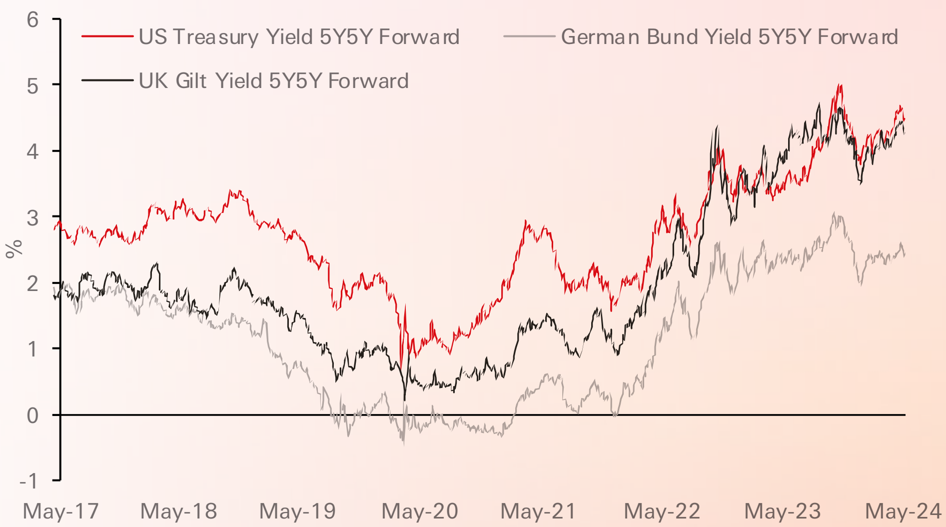
Fixed Income

Contrary to our expectations, US Treasury and other DM sovereign bond yields increased and reached a five-month high in April. But we believe the peak is now behind us and yields have indeed started to come down a bit lately. This is largely because of Fed Chairman Powell, who delivered a dovish message by pushing back against any further rate hikes, while slowing the pace of Quantitative Tightening (QT) from June. These key developments have put a de facto cap on US Treasury yields in our opinion. Structurally, global trends like aging demographics, geopolitical risks and investors' large cash balances further add to the appeal of high quality bonds. Consequently, we continue to lock in attractive bond yields of Treasuries and quality credit in both developed and emerging markets.

A string of stronger-than-expected economic data over the last quarter, especially from the US, pushed yields higher and shifted markets' US rate cut expectations to just 40bps for 2024 (compared to 150bps just three months ago). The US Treasury yield curve moved upwards in a parallel shift, pushing the 10-year maturity to a five-month high of 4.7%. Similar patterns were seen across other DM sovereign bond markets. The spike in yields was generally driven by higher real rates, which had already been pricing in a generous risk premium for the uncertainty around the economic and fiscal outlook a quarter ago. This is somewhat surprising given that current policy rates have been in restrictive territory for several months and may be detrimental to future economic growth. However, the FOMC delivered a dovish message on May 1st, stating that additional rate hikes were unlikely and announcing the cap on redemptions of Treasuries and Mortgage-Backed Securities held on its balance sheet will fall to USD 45bn from USD 80bn per month from June. We believe these two developments have put a de facto cap on US Treasury yields and take comfort from the fact that rates have come down since then. We expect gradual further declines in yields over the coming months.

Tight credit spreads and high DM sovereign bond yields suggest we are priced for a strong economy. Hence, risks appear asymmetric in our opinion, especially if rates stay high for longer than we expect, which could lead to economic damage and larger rate cuts down the line. A tail risk worth monitoring is related to US credit card balances and consumer loan delinquencies. The former is at the highest level per capita in fifteen years, while the latter has been on rising trend since early 2022, likely reflecting the impact of elevated inflation on household

DM Sovereign bond yields have likely seen their cyclical peaks post the Fed's May meeting



Source: Bloomberg, HSBC Global Private Banking as of 22nd May 2024. Past performance is not a reliable indicator of the future performance.

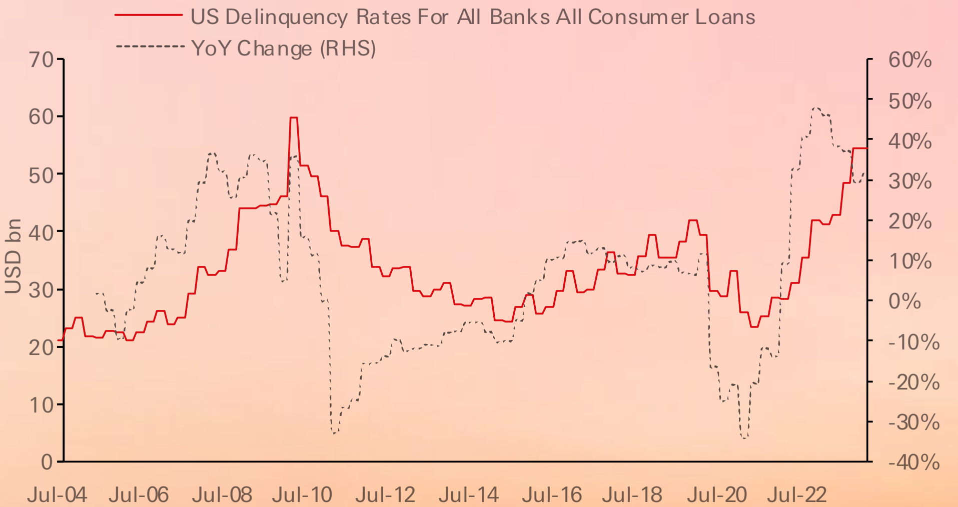
budgets. A persistent rise in household delinquencies could eventually lead to a downturn in consumer spending, with negative spillovers for the broader US economy. However, resilient labour markets and strong US wage growth tame this risk. We are not worried about the impact of delinquencies on financial institutions, especially large banks, which remain well capitalised and adequately provisioned. Their senior unsecured bonds continue to offer a premium relative to similarly rated bonds from corporate issuers and remain relatively appealing.

Global IG continues to be our largest overweight exposure across our bond allocation and its absolute yields remain attractive, despite tight credit spreads. As the level of risk-free rates currently represents 80% of US IG nominal yields and we anticipate a fall in Treasury yields, we focus on 5-7 year maturities in IG but take additional duration via DM government bonds (7-10 years). This prospect reduces the relative appeal for short-dated instruments, and therefore the opportunity of buying longer-dated bonds and locking-in yields has improved.

Global High Yield (HY) continues to outperform, despite its tight spread amid the high interest rate environment. We continue to believe that spreads are too tight from a historical point of view. Therefore, we prefer to focus on IG corporate credit, complemented by equity holdings in the case of multi-asset portfolios.

In terms of sectors, we continue to favour Technology, Financials and EM SOEs (State Owned Enterprises). At the credit level, we focus on quality companies which prioritise bondholder-friendly policies, have sound leverage ratios and lower short-term refinancing needs. This is valid for DM but also for EM companies, which continue to offer carry opportunities and bring diversification across ratings, sectors and countries. Consequently, we remain comfortable in retaining a modest overweight stance on EM corporate credit, specifically within Latin America.

Rising delinquencies on US Consumer Loans are worth monitoring



Source: Federal Reserve, Bloomberg, HSBC Global Private Banking as of 22nd May 2024.

Currencies and Commodities

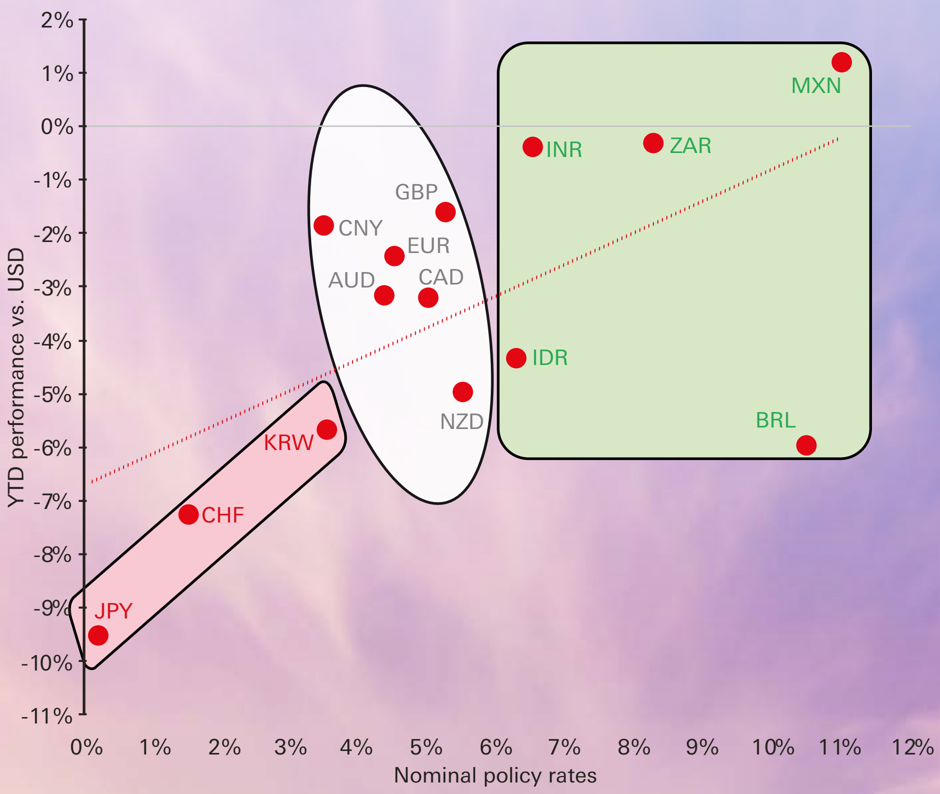
Rate differentials have been driving FX markets, and the expectation that the Fed may be slower to cut than previously thought is weighing on low-yielding currencies. In the absence of a clear risk-on mood in the FX markets, we think rate differentials will continue to be the key driver of FX in the second half of this year. The economic cycle matters too, as it can impact monetary policy and market sentiment. Therefore, we remain constructive on USD and CAD but keep a cautious stance on EUR, GBP and CHF. We keep a neutral view on AUD and NZD as they are not widely used for carry trades against USD. Both these currencies have a risk-on characteristics, but mixed economics. JPY's weak valuation and the risk of further FX interventions offset downward pressure from JPY's negative carry. In EM, we still prefer currencies with high yields and resilient economics, like INR and BRL, but keep in mind valuation and cyclical dynamics. Meanwhile, commodity prices could benefit from the rebound in global growth. However, gold, silver and oil prices have substantially rallied in 1H. Hence, we see limited potential for an extended uptrend.

Bullish
In G10: USD and CAD
In EM: INR, KRW and BRL
Neutral
In G-10: JPY, AUD and NZD
In DM and EM: SGD, RMB, IDR, PHP, THB and TRY
Commodities: Gold, Silver, and Oil
Bearish
In G10: EUR, GBP and CHF
In EM: ZAR

Although the US dollar saw less positive momentum in Q2 than in Q1, there were still signs that the FX market was driven by interest rates differentials more than cyclical dynamics or risk appetite. Indeed, USD recorded its biggest gains against low-yielding currencies like JPY and CHF, while it overall lost against risk-on currencies like AUD and NZD. The yield differential weighed on EUR (in spite of better economic news) and on GBP (in spite of the risk-on tone which often helps GBP). CAD's negative performance in Q2 can be explained both by its mild yield disadvantage and a dip in oil prices (after a strong Q1).

We believe the greenback will continue to lead the FX market, supported by its attractive yield and our view that the Fed may be later to cut rates than some other major central banks (including the ECB and BoE). It is true that considering latest mixed inflation and labour data in the US, as well as improved economic figures in the rest of the G10 space especially the Eurozone and the UK, the US exceptionalism seems to be fading somewhat. However, with yields being the key driver, we believe USD will remain the strongest currency, although the uptrend may be slower. While much of this is already priced in, a strong USD can also be seen as a hedge against a high-for-longer rate environment and is therefore attractive to many investors as part of their portfolio strategy. Low-yielding currencies such as CHF are facing downside risks as a substantial rate differential with USD will linger for quite some time, just as the Fed implements mild and gradual cuts.

On average, currencies with high policy rates have performed better than low-yielding currencies this year. We expect this trend to continue.



Source: Bloomberg, HSBC Global Private Banking as of 22nd May 2024. Past performance is not a reliable indicator of future performance.

However, the risk of hikes in Japan could offset part of the negative pressure if they are synced with Fed's cuts and the Bank of Japan convinces the market through more hawkish language and actions.

In EM, we still favour high-yielding currencies with strong economics. With global growth showing signs of improvement, increasing risk appetite would likely support EM currencies overall, but we prefer Latin American currencies over Asian and EMEA currencies. China's flatlining economic growth remains a significant headwind for Asian currencies, and EMEA currencies suffer from higher uncertainty and negative cyclical dynamics.

Global growth could increase demand for commodities. However, with gold, silver and oil prices already up around 14.75%, 29% and 7% YTD respectively, the room for further gains is quite limited. Gold may continue to benefit from strong demand from Central Banks and from investors, mainly for diversification purpose, but the current high level caps the upward potential in our view.

Silver will also benefit from resilient demand for industrial purpose, especially photovoltaic and EVs uses, but current levels are also very high compared to historical standards, hence, our neutral stance. We still believe we are in a supply squeeze environment for oil, as OPEC+ supply remains compressed by extended output cuts and uncertainties in the Middle East. That said, substantial spare capacity makes deeper cuts unlikely and protects the price from higher levels despite strong demand ahead.

Hedge Funds

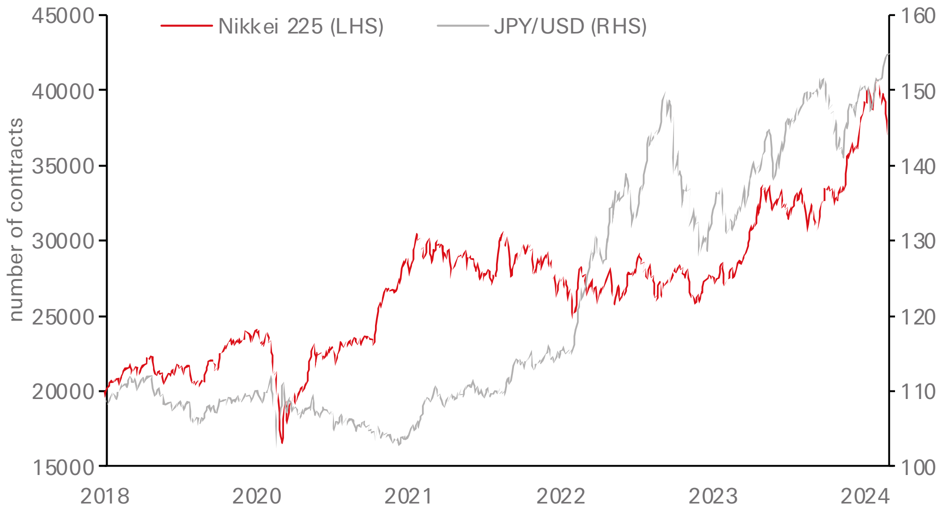
Hedge funds had a strong first quarter thanks to the prevalence of trends (e.g. in FX, equity and commodity markets) and the boost provided by high returns on cash holdings. This favoured trend followers, though April's reversal caused CTAs to give up some of their gains. Within equity markets the dispersion between winners and losers at the corporate level has become ever more apparent, and this is creating many opportunities for hedge funds. We are positive on discretionary macro managers, systematic equity market neutral strategies, structured credit, multi-strategy and multi-PM strategies. Within equity long/short, we favour strategies with low net exposure and Asia-focused strategies.

We remain positive on the opportunity set for discretionary macro managers. While mindful of probable rate cuts, many managers trading two-way rate risk and relative value opportunities within and between the US, European and UK rate curves. They also exploit opportunities in commodity markets, as some expect an increase in demand as global economic momentum broadens. China's economic trajectory remains somewhat uncertain with consumer spending and exports improving but real estate remaining a drag. After a difficult start to the year, macro managers are carefully managing risk in a more tactical way, for example by reducing bullish bets in the bond market as yields rose.

CTA managers' performance has been boosted by long equity, long cocoa, short JPY and short natural gas positioning. The Yen has been hitting the lowest level in several decades, while natural gas pricing weakness reflected a relatively mild US winter. Some CTAs that are slower to adjust and were still short fixed income made money earlier in the year, but generally, fixed income positioning represented a detracting driver of performance for the sector as a whole. Mindful of the difficulty of accurately predicting a prevalence of trends across asset classes we retain a neutral outlook on CTAs going forward.

For systematic equity market neutral strategies, we have a mildly overweight view due to the constructive market environment supporting the strategy. We have upgraded our forecasts for two of the three sub sectors of equity long/short due to our more constructive views on earnings and the more benign liquidity outlook. The operating environment is supportive for stock selection which is driving alpha opportunities for managers on both the long and short sides of their portfolios. In addition, individual stock price movements appear to better represent the fortunes of their related companies rather than macro concerns. In the light of this we have upgraded low net exposure strategies to outright overweight (from mildly overweight) and Asia-focused strategies to mildly positive

Hedge funds have been taking active short JPY positions



Source: Bloomberg, HSBC Global Private Banking as of 22nd May 2024. Past performance is not a reliable indicator of future performance.

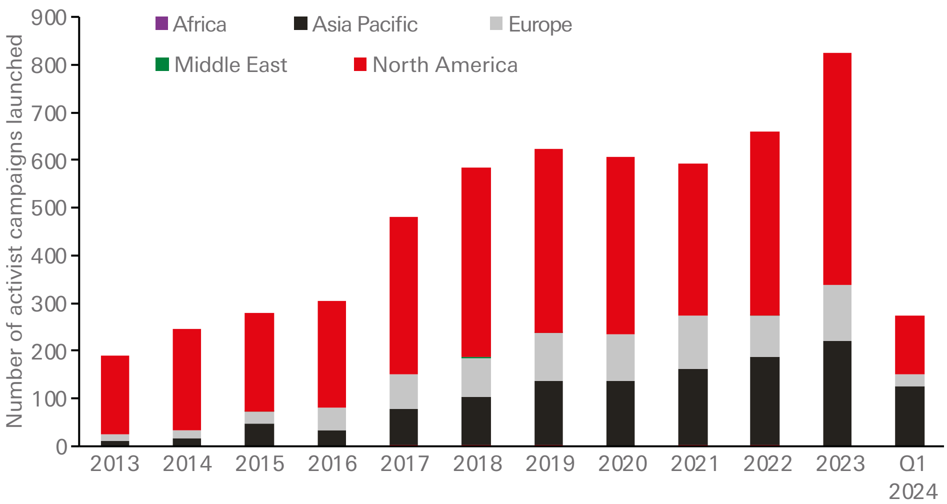
(from neutral). We have maintained the outlook for variable net strategies at neutral as valuations arguably look rather full in the US.

We maintain our outlook at neutral for event driven strategies. Corporate activism continues to be the most interesting sub-theme in our view. There is a clear focus on Japan, where the number of campaigns has increased demonstrably as shareholders' needs appear now to be front and centre of corporate managements' concerns. While there is some similarity in the names that managers are invested in, leading to some potentially crowded trades, the dispersion in how managers approach each strategy somewhat alleviates these concerns.

Our neutral outlook for credit long/short strategies is maintained as valuations appear relatively stretched, particularly within high yield. However, carry is still positive as the environment is supportive for clipping meaningful coupons and in addition, dispersion represents a bright spot with a sizeable part of the market still trading below 90 cents on the dollar. For distressed strategies - which we also maintain at neutral - a marginal uplift in the incidence of defaults reflects just pockets of opportunities mainly to be found amongst cable, telecom and media sectors. Within structured credit where we are mildly overweight, core areas of opportunity lie in Residential Mortgage-Backed Securities (RMBS) and consumer credit.

We maintain our overweight view on the operating environment for Multi-Strat and Multi-PM managers. As a group they developed strong performance so far this year from trading, quantitative and fundamentally driven processes.

Shareholder activism has taken another leap forward in the past 12 months



Source: Bloomberg, HSBC Global Private Banking as of 22nd May 2024.

Private Markets

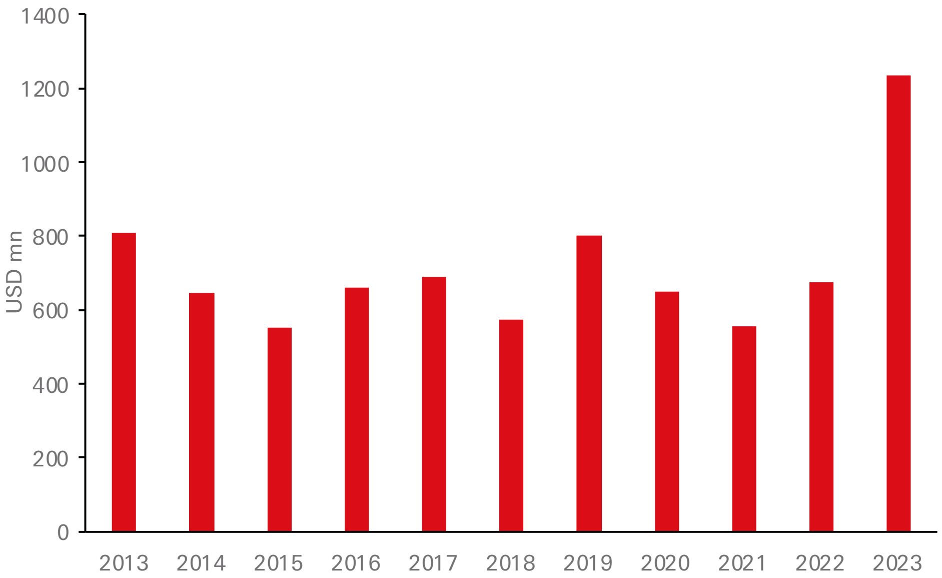
We maintain our view that 2024 could be a year of increased activity in private market asset classes. It is true that we are past the recent peak in private market fundraising, with 2021 likely to be the high point for the short-term at least. But private equity fundraising is in fact relatively resilient: between 2022 and 2023, it was down just 1.1% (falling from $560.7bn in 2022 to $554bn in 2023[1]).

Investors remain committed to private equity investment. Aggregate capital raised across the industry was down only slightly in 2023 – a resilient performance in the face of many headwinds. While some investors were focused on the denominator effect in 2022, rising public equity markets in 2023 have reduced the impacts, freeing them to increase allocations in many cases. While many investors have been limited in their ability to allocate capital to private equity, due to concerns around a lack of liquidity and the recycling of capital, others have stuck with their long-term investment programmes.

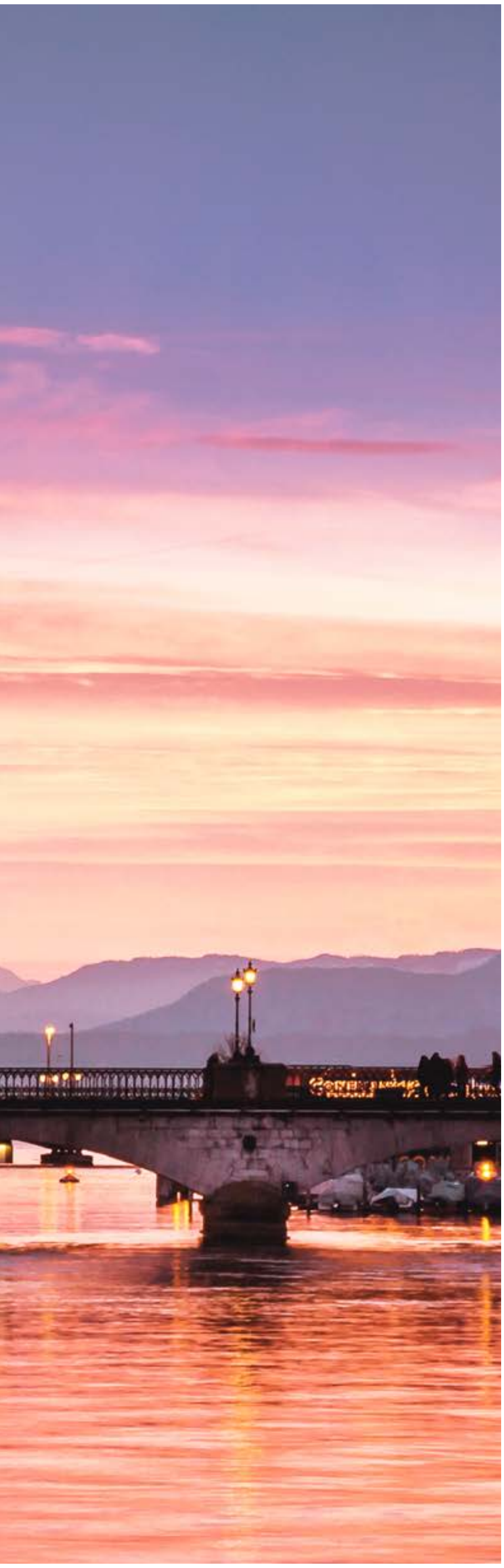
Headline fundraising figures, also mask some important changes in the composition of the private equity market. As funds have continued to increase in size, managers are also launching and closing funds over longer fund series. During 2023, 42.3% of private equity capital raised was secured by the eighth fund or more in a fund series. This compares to just 0.9% in 2010, according to Pitchbook's 2023 fundraising summary (released in March 2024). In other words, many allocators are choosing to stay loyal to managers with which they have partnered in the past, to the detriment of those managers raising funds for the first time.

We have focused previously on the concentration within fundraising, as the largest managers and funds dominate. This can be seen in 2023 data, which shows the average size of global buyout funds topping $1.2bn – an increase of 83% on 2022[2].

Average size of buyout funds globally



Source: Pitchbook, HSBC Global Private Banking as of 22nd May 2024.
[1]Research Center (pitchbook.com)
[2]Q4 2023 Quantitative Perspectives: The Waiting Game (pitchbook.com)

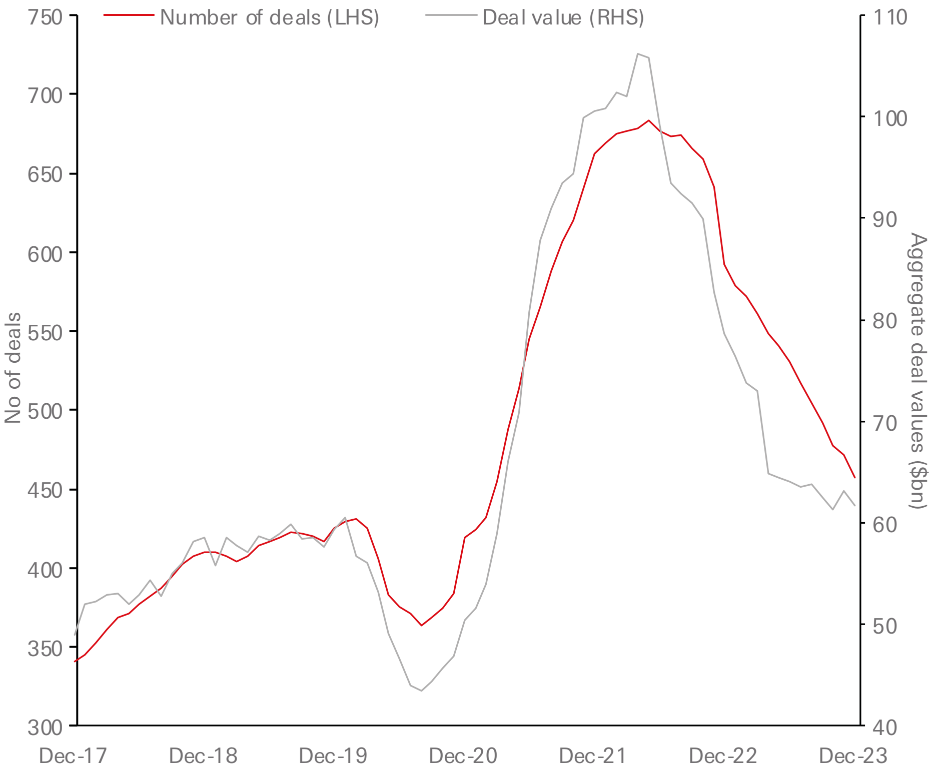


Higher interest rates in the US and Europe have made their presence felt in private equity and venture capital markets, which have experienced a slowdown in activity in 2023, compared to 2022. The US is the largest and most liquid private equity market, yet it has not been immune. Exit values hit an air pocket in Q3 2023, falling 40.7% from the prior quarter to the lowest quarterly level since the global financial crisis (GFC)—excluding during the lockdown of Q2 2020—and are now down 83.7% from the Q2 2021 peak[2]. This significant hit to activity impacts distributions back to investors, in theory, creating a negative feedback loop. But this is not necessarily the case in practice, given the strength in private equity fundraising markets.

While headlines often focus on the decline in buyout deal activity since 2022, levels are not vastly different than prior to the pandemic. At that point, activity was solid and on an upward path. Given the well-known headwinds to activity since interest rates began to increase, it's not surprising to see that deal numbers and values have fallen.

There is, however, a feeling that there is still some caution among General Partners (GPs). Despite high levels of dry powder (committed but not drawn down capital), GPs are still being cautious in their approach to deals and transaction underwriting. There does not appear to be capital deployment simply for the sake of it. In fact, the number of potential deals in the pipeline has increased, but GPs are being cautious about deploying and are sensitive when it comes to price. Rates and borrowing costs continue to be key. Since return targets are relatively constant, higher borrowing costs mean more cautious underwriting expectations, which is leading to buyers seeking a lower entry price to compensate. This is reflected in the shifting valuations. Solid economic growth could entice buyers to transact at today's prices. A more negative scenario for currently invested capital would be if more rate increases or a broad faltering of private company performance pressures sellers to transact at more modest prices, which would reduce returns. We note that both scenarios are attractive for funds being raised today.

US PE deal activity: rolling 4QA (monthly data)



Source: Pitchbook, HSBC Global Private Banking as of 22nd May 2024.

Real Estate

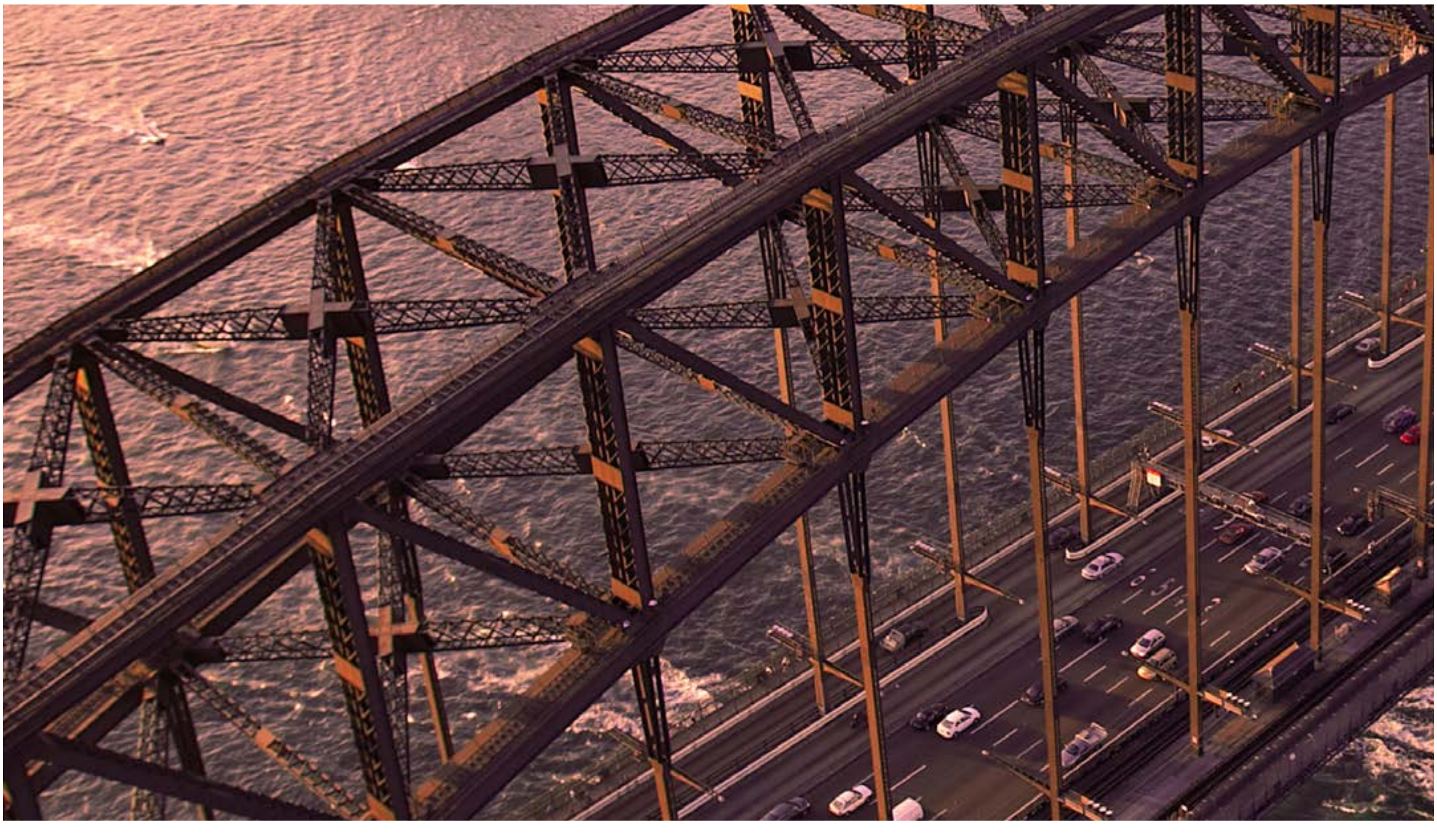
Whilst global capital values continue to decline, the rate at which values are falling is moderating. Moreover, 2024 is expected to be the year values bottom out as investment volumes pick up from multi decade lows and interest rates start to decline. Still, investment returns will be driven by income as rates remain higher for longer and so outperformance will be increasingly driven by the ability of the investor to implement effective asset management strategies.

According to the MSCI global property index, global capital values fell by 14% between Q2 2022 and Q4 2023, led by Europe, while they were more stable in Asia. A particularly sharp decline in global capital values in Q4 2023 indicated growing acceptance amongst appraisers that interest rates, and consequently the discount rates used to assess future income streams, were likely to remain high for an extended period.

Despite the decline in appraised values, there remains a disparity between buyer and seller price expectations, indicating values have further to decline. However, where Q1 2024 data is available, indications are that the scale of declines is moderating. For example, capital declines in MSCI's US property index halved from -4% in Q4 2023 to -2.1% in Q1 2024. This moderation is expected to continue during 2024 as values bottom out, partly due to a recovery in investment volumes.

There are promising signs that the investment market could 'normalise' in 2024. While widespread central bank policy rate declines have yet to occur (as of mid-May 2024), the expectation remains for interest rates to be cut as inflation moderates towards target levels. This potential improvement in the cost of capital could stimulate activity. Stabilising interest rates have already led to an increase in the number of parties bidding on assets. Furthermore, recent M&A activity, such as Blackstone's $10bn deal to take private Apartment Income REIT in the US, underscores investor interest in taking advantage of ongoing discounts to the underlying values in the listed market.

One cloud on the horizon is that lower values and higher financing costs have pushed many investments towards breaching loan-to-value covenants. If investors are unwilling or unable to inject equity into these assets, lenders will seek to recover their investment via distressed sales. This is most likely in the office sector, where values have seen the most significant decline.



In occupier markets, despite the uncertainty of recent years, vacancy rates have remained relatively stable in most sectors. However, the office sector has faced significant challenges, with occupiers reducing their space requirements due to a combination of weak business confidence and the rise of remote working. This reduced demand has often been accompanied by a shift towards better quality space in more central locations. In short, the office market is bifurcating. Compared with the broader market, recently developed offices with good environmental credentials have seen robust leasing demand and stable vacancy rates, leading to prime rents reaching record levels.

Meanwhile, the logistics sector is showing signs of cooling as occupier demand has returned to pre-pandemic levels, following record demand in 2021 and 2022. In many markets, leasing was brought forward during the pandemic and now firms are focussed on operationalising existing space rather than leasing more of it. Meanwhile, e-commerce sales, a significant driver of leasing demand during the pandemic, have fallen back into line with the pre-pandemic trend. As a result, demand is lower, market vacancy rates have risen in all regions, and rental growth has slowed. However, projected income growth should remain healthy as l eases continue to be re-set at higher market levels.

The living sector, which includes multifamily apartments as well as student, senior and single-family housing, remains broadly attractive due to a widespread lack of development and recovering demand as urbanisation has resumed after temporarily dipping during the pandemic. Moreover, given the current high interest rates, the relative affordability of renting compared with buying has shifted in favour of renting in most major global cities.

One benefit of higher interest rates has been the sharp decline in new development across most geographies and sectors. Lower supply, combined with resilient demand for better quality space should support greater competition and rental growth for prime space.

Overall, we anticipate investment activity stabilising in 2024 with total returns underpinned by income return. Performance will be driven by how effectively asset management teams can grow rental incomes by capturing reversions, increasing occupancy, or repositioning ageing assets, for example by upgrading or changing use where appropriate.

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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 invest-ment may include, but are not limited to:

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

Risks associated with high yield fixed income instruments

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

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

Risks associated with subordinated debentures, perpetual 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 in-cur reinvestment and subordination risks. Investors may lose all their invested principal in certain circumstances. Interest pay-ments may be variable, deferred or cancelled. Investors may face uncertainties over when and how much they can receive such payments.
- Contingent convertible or bail-in debentures - Contingent con-vertible and bail-in debentures are hybrid debt-equity instruments that may be written off or converted to common stock on the oc-currence of a trigger event. Contingent convertible debentures re-fer to debentures that contain a clause requiring them to be writ-ten 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 mecha-nisms (i.e. cotractual 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 mech-anisms (i.e. statutory bail-in) whereby a national resolution au-thority writes down or converts debentures under specified con-ditions 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 princi-pal.

Contingent convertible securities (CoCos) or bail-in debentures are highly complex, high risk hybrid capital instruments with unusual loss-absorbency features written into their contractual terms.
Investors should note that their capital is at risk and they may lose some or all of their capital.

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

Nationalisation risk
The uncertainty as to the coupons and principal will be paid on sched-ule and/or that the risk on the ranking of the bond seniority would be compromised following nationalisation.

Reinvestment risk
A decline in interest rate would affect investors as coupons received and any return of principal may be reinvested at a lower rate. Changes in interest rate, volatility, credit spread, rating agencies actions, liquidi-ty and market conditions may have a negative effect on the prices, mark-to-market valuations and your overall investment.

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

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

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

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

Alternative Investments

Hedge Fund - Please note Hedge Funds often engage in leveraging and other speculative investment practices that may increase the risk of investment loss. They can also be highly illiquid, are not required to provide periodic pricing or valuation information to investors, and may involve complex tax structures and delays in distributing important information. Alternative investments are often not subject to the same regulatory requirements as, say, mutual funds, and often charge high fees that may potentially offset trading profits when they occur.
Private Equity - Please note Private Equity is generally illiquid, involving long term investments that do not display the liquid or transparency characteristics often found in other investments (e.g. Listed securities). It can take time for money to be invested (cash drag) and for invest-ments to produce returns after initial losses.

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

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

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

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

Currency risk – where product relates to other currencies
When an investment is denominated in a currency other than your local or reporting currency, changes in exchange rates may have a negative effect on your investment.

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

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

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

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

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

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