

HSBC Investment Outlook – March 2023**Willem Sels and Kevin Lyne-Smith**

Hi Kevin, thank you for joining me to discuss our thematic approach to investing. Now, one of the big aspects of the investment world currently is this high for longer interest rate environment, together with actually quite slow growth in the developed markets, so how can investors tap into this in a thematic way?

I think there's two themes I'd like to highlight here Willem, The first is infrastructure, and by that I mean things like green infrastructure, digital networks and also data centers and things like that which should benefit rather than the traditional roads and rail areas.

The second theme is what is called American revival. And what we mean by that is basically US consumers are particularly resilient at the moment. US corporates are benefiting from the buoyant economy still, but particularly what we're seeing at the moment is the on-shoring trend combined with the Inflation Reduction Act.

These are fuelling additional growth in the economy, so where we're seeing growth is in areas such as green infrastructure, we're seeing EV networks and charging points and also things like data centers and IT benefiting from this trend.

Now, of course, Kevin, there are opportunities in the bond market as well in this interest rate environment, and we've extended our duration in credit and we also see opportunities in financial bonds.

Talking of interest rates, peak rates should actually ease some of the headwinds for growth stocks. So we've added two new themes under digital transformation. Can you explain those two new additions, please?

Yeah, I'm very excited about the two new themes. The first is aerospace. What we're trying to do here is capture the momentum that's going with the renaissance in the industry. We've looked at things like low-Earth orbit satellites, CubeSats, also things like propulsion systems, rockets.

I think there's lots of different areas that are particularly interesting, particularly with the current trend where there's an increase in need for interconnectivity and data flows.

The second theme is AI and automation. As you are aware, there's been a lot of developments and this has led to greater capabilities and we've seen recently in the news, a lot about Chat GPT. I think where we really focus here on this theme is more about AI, the various IT services also things like sensors and technologies.

Very interesting ideas, Kevin. And on top of the macro factors of stabilisation in interest rates, we also see an improvement in Asia's tech cycle. So talking of which, you know what are some of the main themes under our trend of 'Remaking Asia's future'?

I like to call out two themes. The first is ASEAN Tigers. And where this is really focusing on is the greater integration within the region.

Also, the benefit of the Regional Comprehensive Economic Partnership. And what that creates is the largest economic bloc within the world and the beneficiaries of that are going to be things like the banks, real estate and also also areas like infrastructure.

The second theme I'd like to call out is Asia's green transformation. And this is really about the investments we've seen in environmentally friendly technologies such as the green infrastructure and also things like energy transmission, new energy vehicles that will give greater energy resilience to the region.

And I would add to that, Kevin, that there is very significant investor interest in Asia's green transformation, and that's of course because the sustainability trend is unstoppable. You have regulation, you have industrial policy in the US, in Europe in China pushing this train forward.

And with each COP there is some incremental progress and we're confident that will be the case as well in Abu Dhabi later this year. Energy transition and energy independence are not exclusive or contradictory, they actually go hand in hand.

So whether it's the Asian themes or digital transformation or sustainability, all of those longer term trends in addition to a well-diversified portfolio can help investors look through some of the short term shifts and turns that we're likely to continue to see.