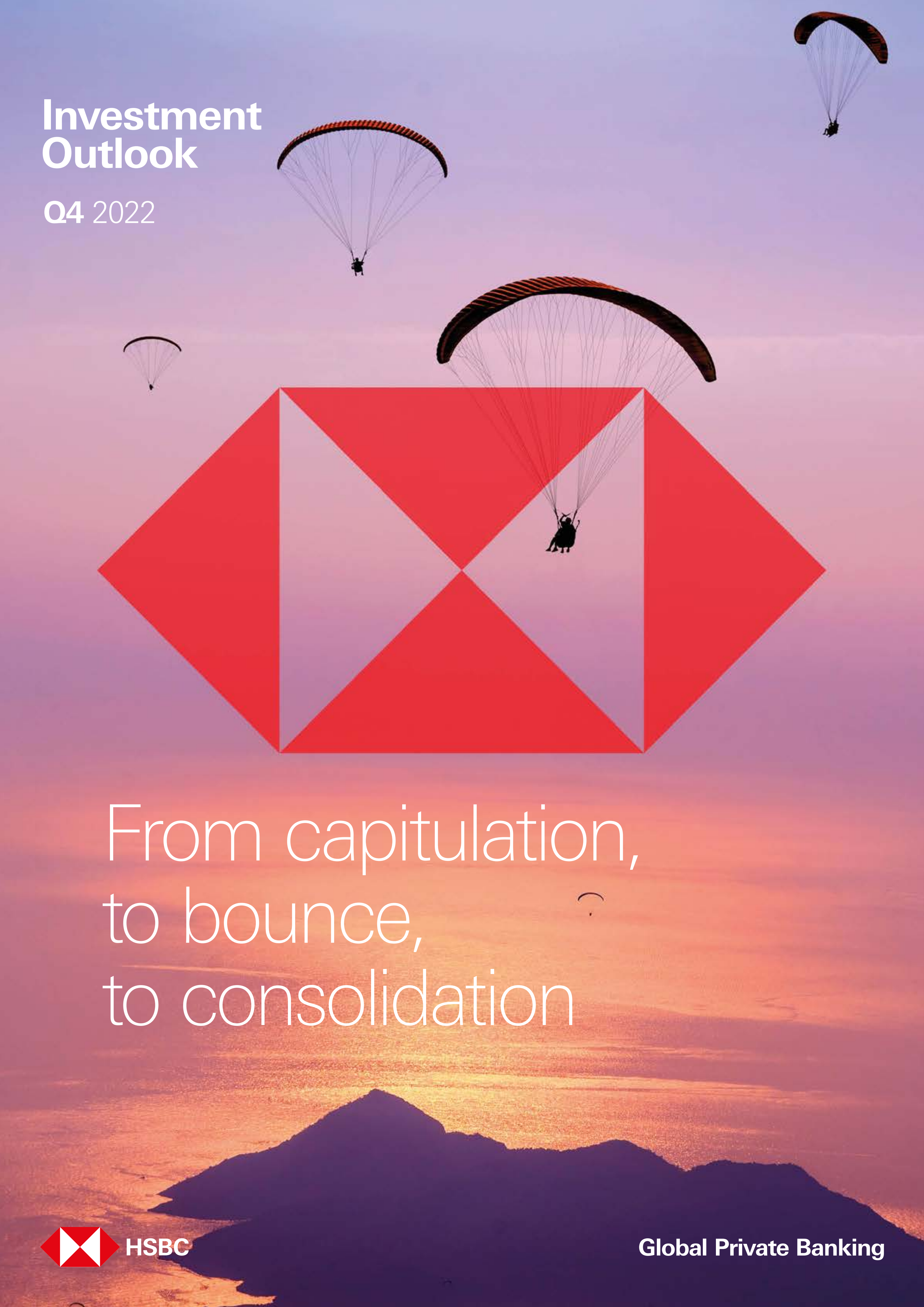

Investment Outlook

Q4 2022

From capitulation, to bounce, to consolidation

HSBC

Global Private Banking

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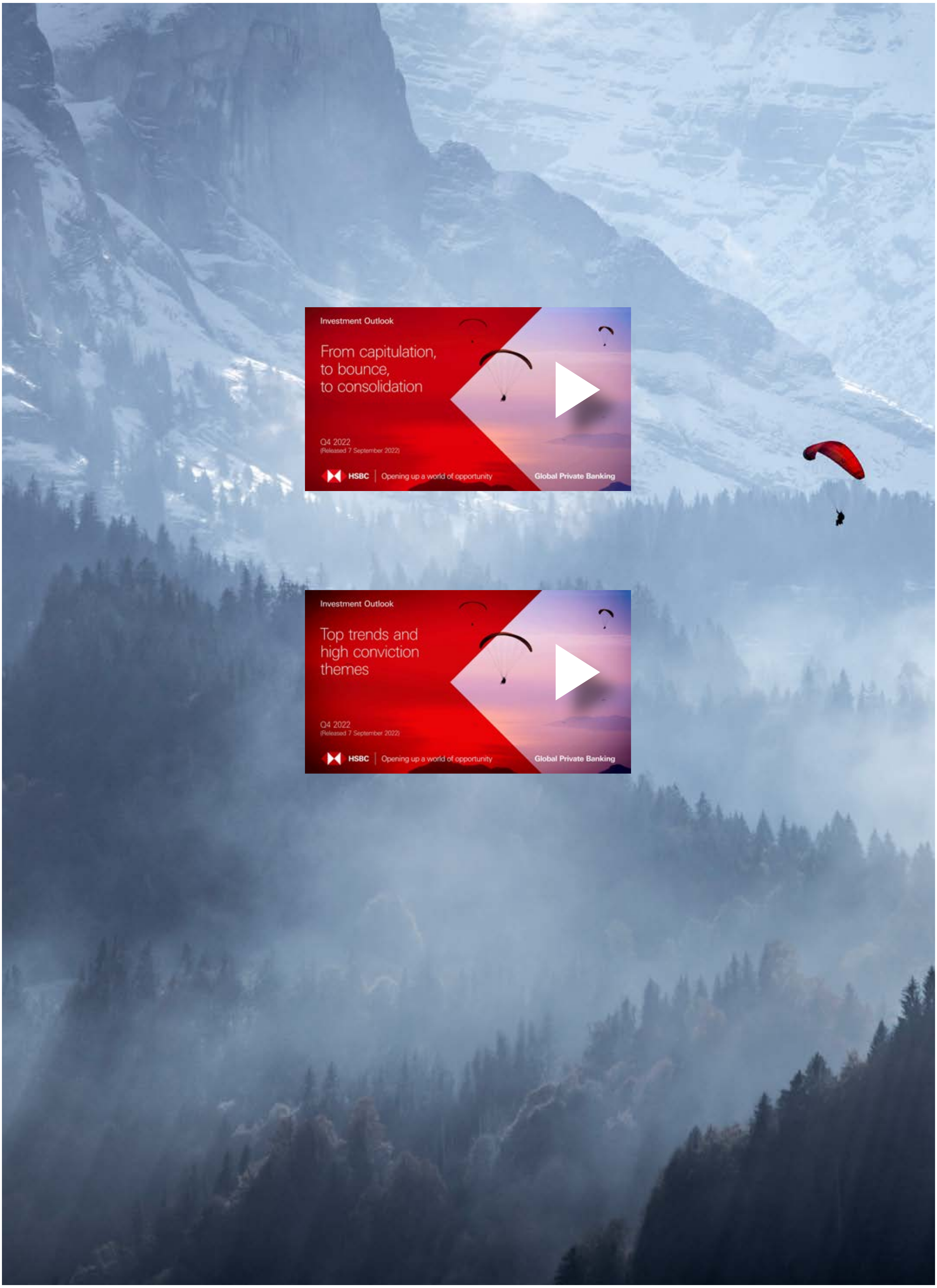
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(Released 7 September 2022)
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Welcome

Dear client

We all know that markets like to anticipate, but sometimes they can get ahead of themselves. In the first half of 2022, stocks and bonds fell sharply as markets were spooked by the stagflation scenario and were right to anticipate rapid Fed rate hikes. But during the summer months, both bonds and stocks bounced sharply, in the hope that central banks won't hike as much as previously feared and that this will allow the global economy to achieve a soft landing.

We believe it is premature to fully price in this positive scenario and indeed markets have had to give back part of the gains as we don't have the all-clear yet: some inflation components are proving quite sticky and central banks are not ready to slow rate hikes, let alone pivot towards rate cuts. And while there is relative economic resilience in the US, the heightened recession risks in Europe and the likely delay in China's economic rebound mean global data are still on a downtrend. So, instead of a V-shaped market bounce, we believe a period of consolidation would be more appropriate first. A sustained rally should follow thereafter, when some of the fundamental headwinds have eased and there is more clarity on policy and geopolitics.

So we may be stuck in a wide and volatile trading range for now. When markets fall towards the bottom of that range, opportunistic buyers will continue to step in, because the June lows priced in quite a negative scenario. But towards the top of the range, the mixed economic data we foresee, and the potential for surprises from central banks should remind investors not to anticipate too much.

So what can investors do in a period of consolidation, where volatility remains elevated?

First, they can **express some key relative views** instead of betting on overall market direction. We think the US economy and stock market are much more resilient than Europe, where energy supply interruptions risk triggering a recession. We don't think this diverging outlook is sufficiently priced in, and have therefore further increased our preference for US over Eurozone stocks. USD should be well supported against EUR, and USD tends to do well when markets flip flop between 'risk on' and 'risk off' episodes, as we expect. Style wise, we continue to prefer quality stocks, as differentiation should continue to benefit the winners. And lastly, our view that markets won't drift much while inflation still remains elevated, implies that income generation will be a key component of total returns: hence, we look for dividend stocks and keep investment grade as our principal overweight.

Second, we think investors can **benefit from volatility** in a number of ways. Selling volatility when it spikes can generate income. Using market weakness to accumulate positions of the favourite stocks on your bucket list also makes sense, while you can use excessive rallies to clean up the portfolio and eliminate positions with weaker fundamentals. Rate volatility should remain substantial, and provide opportunities to add to FRNs (when market expectations for rate hikes have dropped too far) or fixed rate bonds (when those expectations are towards the high end). Rate volatility will also cause the relative performance of value and growth stocks to move up and down, allowing investors to use that volatility to move to a more balanced exposure. Of course, hedge funds are well placed to take all these timing and relative value decisions, and hence they remain a key overweight for us.

Third and finally, during a consolidation period, investors may want to **look at longer-term structural opportunities,** especially as some of them have become cheaper after the drop in valuations in H1. We have re-positioned our Energy Transition theme (which was focused on sustainability) to also include countries' growing energy independence objective, as the two objectives re-enforce each other, in our view. The topics of self-sufficiency and deglobalisation are also represented in our 'Total Security' theme, which include supply chain, cybersecurity and food security. And finally, we maintain our long term optimism on Asia's economic growth and stock market potential in spite of our current neutral view on Chinese stocks. Our theme of 'Asian Champions at Great Value' positions in quality stocks with strong market positions which are currently trading at deep valuation discounts. Following the consolidation we foresee, any notable rebound in Chinese economic data or a break-out in global risk appetite should help unlock that long-term value for the years to come.

Willem Sels,
Global Chief Investment Officer
7 September 2022

Our Portfolio Strategy

After the equity markets' and other risk assets' sharp sell-off in H1, their rapid bounce in July, followed by some retracement in August, we think markets will need to consolidate until inflation is clearly trending down and central banks are slowing the pace of their rate hikes. We position for this consolidation by making some relative calls (e.g. overweight US stocks vs Europe), by exploiting the volatility we foresee (e.g. accumulating quality stocks on weakness, and overweight hedge funds) and by investing in some structural themes to look beyond the short term (e.g. Energy Transition and Independence, and buying into the strongest Asian companies with a long term view).

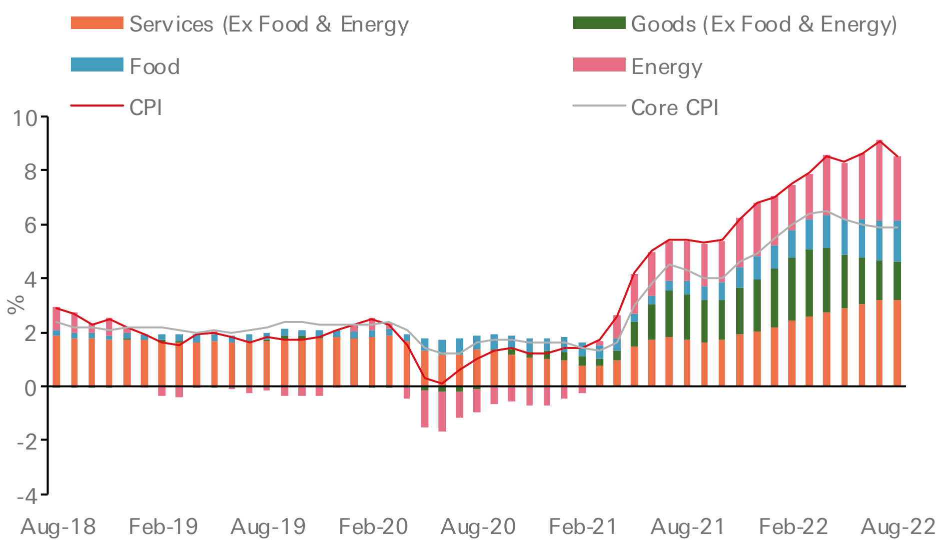
Fixed income
Overweight: Global Investment Grade and EM Hard Currency corporate bonds
Underweight: Developed market government bonds
Equities
Overweight: USA, Canada, Mexico, Hong Kong, Thailand
Underweight: Eurozone, EM EMEA
Alternatives
Overweight: Hedge Funds

Markets should continue to be driven by macro-economic fundamentals including the debate around recession risks, near record inflation in many countries and central bank's interest rate policies. On top of this, geo-political concerns also influence investor confidence. So we will examine the outlook for all of these factors below, and whether we think they are priced in, to determine our investment strategy.

1. Our economic view

The negative reading of US GDP in two successive quarters (Q1 at -1.6% and Q2 at -0.9%) put the country in a technical recession. But there are some measurement issues with US GDP, and economists usually take a much broader set of factors into account before they

Inflation is moving from the commodity and goods space into services



Source: US Bureau of Labor Statistics, HSBC Global Private Banking, as at 6th of September 2022.

deem the US economy weak enough to qualify for the 'recession' label. In particular, employment and wage growth are too high to say that the US is in recession. Looking ahead, the economic momentum is slowing, and there are clear areas of weakness, such as the housing market. But we think that strong demand for services, energy and a rebound in fiscal spending should make the US resilient relative to other economic blocs.

This contrasts with the Eurozone and the UK, where we are forecasting a recession – the question is how deep. In the UK, the cost of living crisis is key, as bills for electricity and groceries are rising more rapidly than wages (fiscal support may help but will not keep the country out of recession). In the Eurozone, inflation is biting too. Russia's closure of Nord Stream 1 has intensified gas shortages and will lead to interruption of some activities and lower industrial output.

As for China, COVID and the continued housing market slowdown are the strongest headwinds to economic activity, and normalisation will take time. More proactive fiscal policy, continuous accommodative monetary policy and regulatory policy fine-tuning will be needed to ultimately help pave the way for a recovery in the coming months.

High-end manufacturing activity is an area of resilience due to increased policy support and technology upgrading. And infrastructure investment should be supported by frontloading of local government special bonds quota, and replenishment of infrastructure funds through policy banks.

2. Inflation and central bank policy

In addition to growth concerns, inflation of course has been the second key part of the stagflation debate. There are signs that inflation may finally be peaking in some countries, including the US. As our graph shows, energy had been one of the biggest contributors to inflation, but the drop in gasoline and crude oil prices is one of the key reasons why we expect headline inflation to fall further from here. In addition, businesses are reporting that input costs are now rising less rapidly, and they find it easier to get supplies, as some of the supply chain issues have eased. But there are some areas where inflation is sticky: rents continue to drift up (in part because higher mortgage rates mean many households cannot afford to buy) and inflation in the service sector is heightened by strong wage inflation. Although headline inflation seems on its way down, the fall in core inflation will be slow, and structural factors (e.g. changes in the labour market and reorientation of global supply chains) will keep inflation well above pre-COVID levels for at least 12 months.

With core inflation (ex food and energy) likely to remain well above G7 central banks' comfort zone, we expect them to continue to raise rates for now. We believe they will want to see several months of declining inflation before they decide to hike less rapidly, and see a significant drop in inflation from the peak before they halt rate hikes altogether. For the US Fed, we think this means further hikes to a 4% policy rate in February (i.e. +1.5% from here, as of early September). The ECB will probably bring rates to 1.5% (i.e. +1%), while the Bank of England should move them to 2.5% (i.e. +0.75%).

In China meanwhile, inflation is much less of a problem, and hence, the PBoC has not hiked rates, and even surprised markets recently by a rate cut. That said, we think that policy stimulus will mainly come from the fiscal rather than the monetary side. Most other Asian countries also have less of an inflation problem than in the West and we thus foresee less tightening in Asia. In Latin America, rate hikes are well advanced, with the market even looking for some rate cuts next year.

3. Geopolitics, key risks and hot topics

While macro factors and corporate earnings tend to set most of the market direction, geopolitics can affect some of those fundamentals, create short term volatility and affect risk appetite. The Russia-Ukraine war has a key impact on inflation through commodity prices and the shutdown of Nord Stream 1 is likely to drag Europe into a recession in Q4. That war, and other geo-political issues around the world can create a cap on global risk appetite, as buyers are less likely to step in when there is uncertainty.

The market continues to watch US politics on several fronts. The recent Inflation Reduction Act supports energy independence, which should benefit our Energy Transition and Independence theme. The US midterm elections may lead to some volatility, especially if the fight around the debt ceiling were to go to the wire again. That said, if polls are right and Republicans gain control of the Senate or the House, the resulting stalemate has historically been good for equity markets. In Europe, the Italian elections in September are adding to the market nervousness.

Finally, the drought, fires and flooding have hit very close to home this year for many investors on all continents. It has again highlighted the vulnerability of our supply chains, with crops wilting on fields, and dry rivers causing boats to get stuck and causing hydropower and nuclear power production to be interrupted. Just like our theme of Energy Transition and Independence, our food security (part of our Total Security theme) and the theme of Financing Biodiversity Action are very topical in the context of the devastation of the war and climate change.

4. What does the market think?

Rate movements have been the number one driver for markets, and although the rate hikes that are priced in are not far from our view, central bank meetings will continue to lead to some volatility in bond and currency markets, also causing ups and downs in the relative performance of value stocks vs growth stocks. Currently (as of early September) the market prices in one less Fed rate hike than we foresee, and we do not subscribe to the market's hopes of two rate cuts in 2023. We think it will take time for the Fed to turn dovish, and this should support USD, though of course the further upside from already strong levels is becoming more limited.

As for economic growth, we think the market now prices in a small recession around the world; we think the economic risk is much larger for Europe than for the US and our sector positioning in the US is therefore less defensive than elsewhere. When we look at relative valuations, we do not think a European recession, and tail risks around the impact of interruptions of gas supply are sufficiently priced in; this has caused us to further widen the differential between our US equity overweight and Eurozone underweight. It also means that the US dollar strength we foresee should mainly occur versus EUR and GBP.

5. Our positioning

Starting with the negative, the global economy continues to slow and inflation has not yet fallen enough for central banks to deviate from their signalled path. As is often the case, markets like to anticipate but ultimately have to live with slow economic cycles. In this case, they seem to have anticipated a quick pivot in central bank policy and a soft landing for the economy while we're still in mid-air. At Jackson Hole, central bankers led by Fed Chair Powell pushed back against pivot hopes. So it is no surprise that we have retraced some of the June-August bounce. When we look at previous cycles, equity markets only tend to see a sustained recovery when economic momentum is close to bottoming, profit margins have meaningfully contracted, defensives have considerably outperformed cyclicals and yield curves have started to steepen, which is not yet the case.

On the positive side, we are comforted by the fact that markets have already incorporated a lot of bad news (from recession risk to rate hikes and geopolitics). The latest earnings season has provided us with the comfort that even in the current environment, there are still plenty of companies that can grow their earnings. Both of these factors should limit the downside.

So we're likely in a range-trading scenario until we're closer to a bottom in economic activity and until policy rates are closer to the peak. So how should investors position in such a period of consolidation, with little direction in markets but still elevated volatility? We see three priorities, as shown in our table.

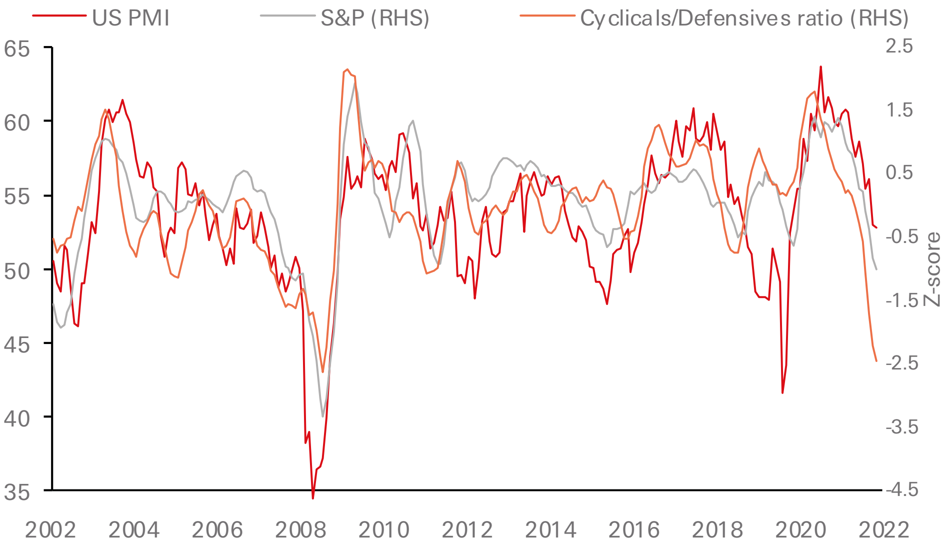
First, we take a position on those factors which we think will matter most for portfolio performance. We think the US equity market outlook is much more favourable than the Eurozone outlook, and hence we maintain our preference for the US and our underweight in the Eurozone. Our strategy also focuses on quality, because inflation will still remain high and growth is slowing, pointing to the need to select quality stocks with margin power. And amid still elevated inflation, we think it's important to have a high income component to portfolio returns, which we find

in dividend stocks and fixed income (where we prefer investment grade). As for FX, we are more optimistic than the market consensus that USD will remain well supported.

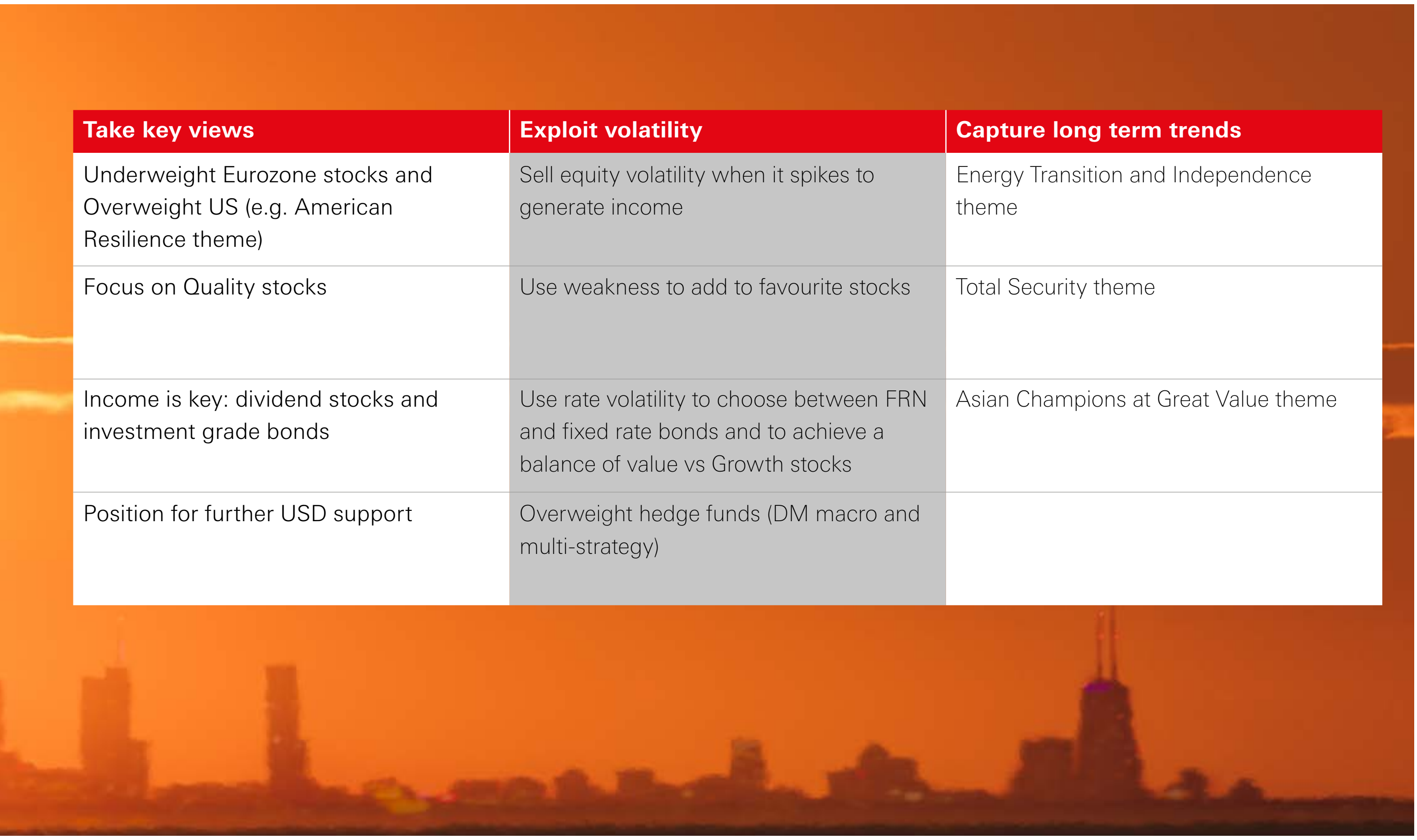
Second, the volatility we will continue to see in the consolidation period is not just an enemy but can be exploited. Selling volatility when it spikes can generate income. In fixed income, investors may look at FRNs when rate expectations drop too far, and, conversely, to lock in yield levels with fixed rate bonds after market rate expectations spike. In equities, investors can accumulate their favourite stocks on temporary weakness. They can also use swings in relative performance of value and growth stocks to balance their portfolio between these two styles. And hedge funds remain a big overweight for us as they are well placed to exploit volatility (we prefer developed market macro and multi-strategy funds).

Third, those investors who cannot get excited over sideways trading markets or want to look through the volatility, can position for some key long term themes. We have broadened our Energy Transition theme to include many countries' objective of energy independence, encompassing the build-out of diversified energy sources, including nuclear. A related theme of security amid global uncertainty is that of Total Security, which remains very valid, and includes cybersecurity, food security, supply chain diversification and re-onshoring (or near-shoring, which caused us to upgrade Mexican stocks to overweight). Finally, in spite of the short term obstacles that keep Chinese and EM Asia equities at a neutral allocation for now, we continue to see long-term value and return potential in Asia. Our themes of Asian champions at great value focuses on companies with strong market positions that are a key component of globally diversified portfolios.

The US equity market correction and underperformance of cyclicals suggest investors are pricing in a small recession, worse than what the current PMI is suggesting.

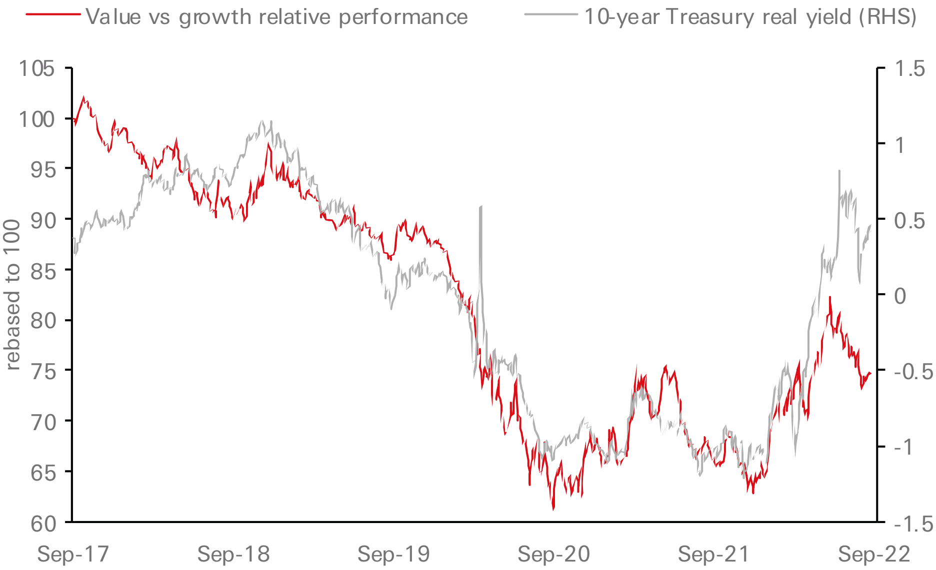


Source: Bloomberg, HSBC Global Private Banking, as at 6th of September 2022. Past performance is not a reliable indicator of future performance.



Take key views	Exploit volatility	Capture long term trends
Underweight Eurozone stocks and Overweight US (e.g. American Resilience theme)	Sell equity volatility when it spikes to generate income	Energy Transition and Independence theme
Focus on Quality stocks	Use weakness to add to favourite stocks	Total Security theme
Income is key: dividend stocks and investment grade bonds	Use rate volatility to choose between FRN and fixed rate bonds and to achieve a balance of value vs Growth stocks	Asian Champions at Great Value theme
Position for further USD support	Overweight hedge funds (DM macro and multi-strategy)	

Rate volatility has a big impact on all markets. In equities, it should continue to lead to variable performance of value vs growth stocks.



Source: Bloomberg, HSBC Global Private Banking, as at 6th of September 2022. Past performance is not a reliable indicator of future performance.

What could go right for value investing?

Value investing delivered spectacular outperformance for much of the past century, but it also faced perhaps one of its most painful challenges in the 2010s. Following its sharp resurgence in 2021 and first half of 2022, this summer's retracement of value stocks provides an attractive entry point to balance portfolios that are overweight on growth stocks. Successful value investing is evolving, as simple price/book ratios may no longer be appropriate, and sector-specific approaches and a broad set of measures are needed to avoid falling into value traps.

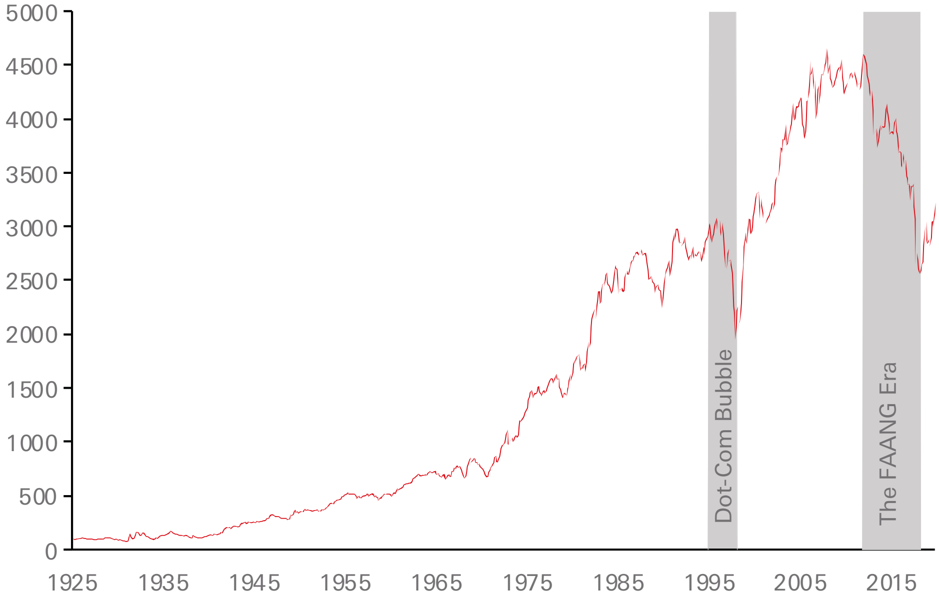
Zooming out...

Value strategies have been known to investors since at least the early 20th century, when they were brilliantly advocated by business school professors Benjamin Graham and David Dodd. A modern revival took place many decades later, triggered by the early 1990s research by another famous pair of academics, Eugene Fama and Ken French, showing that value strategies beat growth strategies by a wide margin over the long term, as illustrated in our graph. But as popularity of value investing broadened and fund launches proliferated, a difficult period was looming ahead.

The dot-com bubble of the late 1990s was the first significant challenge that forced many value oriented hedged funds to shut down. Value stocks eventually staged a spectacular recovery in the aftermath of the bubble in early 2000s. But this was followed by an era of easy money in the 2010s, which presented another painful period for value, culminating in the COVID-related selloff in 2020, which again favoured growth stocks. This was followed by a sharp snap-back of value in 2021 and 2022, but the majority of the underperformance is yet to be recouped.

The jury is still out on whether the value premium is simply a mispricing anomaly or a fair compensation for bearing additional risk, and the implications of this distinction are of profound importance. If value is indeed an anomaly, then wide adoption of the strategy should naturally lead to alpha decay. But if the value premium is a compensation for risk, value is likely to continue to outperform and frustrate growth investors in years to come. Pragmatic investors may agnostically assume that the value premium is explained by some combination of the two forces, the implication of which is that value strategies will likely continue to outperform over the long term, whilst continuing to experience a bumpy ride.

Value stocks have substantially outperformed growth stocks over the long term



Source: Ken French's data library, HSBC Global Private Banking, as at 6th September 2022.

What could go right for value?

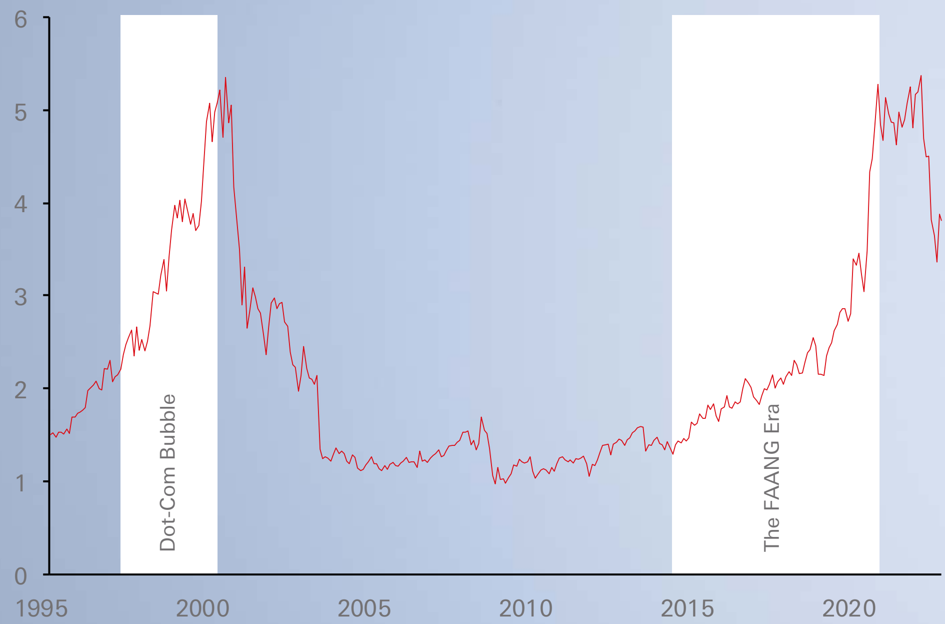
The most recent snapback of value stocks is really not exceptional in historical context, and a portion of the move has already retraced in the last couple of months, prompting a question whether this might be a favourable entry point to increase the allocation to value strategies. In contemplating this tactical question, investors should consider the following:

1) The valuation gap is at historically wide levels. Valuations are not very useful as a timing tool, but extreme deviations from sustainable levels have typically been followed by prolonged periods of normalisation. In this instance, the valuation gap between value and growth stocks remains at above average levels.

2) The interest rate outlook is key for the relative performance of growth versus value. A sudden surge of inflation to levels not seen since at least 50 years in the developed world is forcing much tighter central bank policy, which has been particularly damaging for growth stocks this year. While most of the Fed rate hikes we foresee are already priced in, interest rate volatility should lead to more volatility for growth stocks than value stocks. As hawkish surprises from central banks would hurt most assets in investors' portfolios, it makes sense to avoid excessive exposure to long duration growth stocks and balance with value.

3) The ongoing tech sector turmoil presents a conducive environment for value investing. This certainly was the case in the aftermath of other historical tech manias. The "Nifty Fifty" bubble of the 1970s and the "dot-com" bubble of the 1990s were both followed by resurgence of value strategies. Interestingly, the timing of the FAANGs bubble of the 2010s seems to be forming an uncanny 20-year tech cycle. We maintain exposure to technology, but more selectively, and our selection of High Conviction themes shows that we are focusing on areas where we think innovation and earnings potential is highest.

The valuation spread between value and growth stocks remains elevated



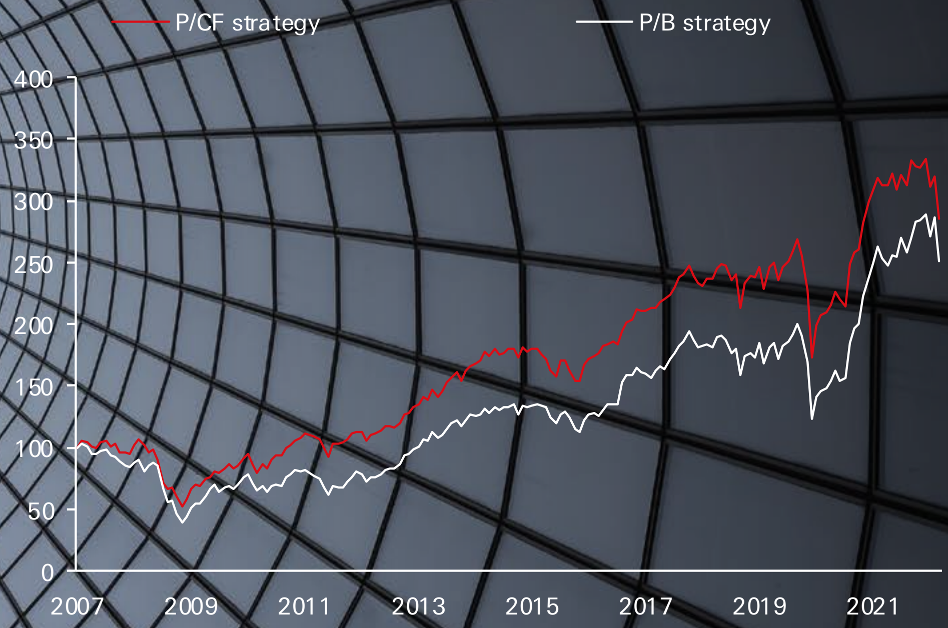
Source: Bloomberg, HSBC Global Private Banking, as at 6 September 2022. The red line represents the difference between the price to book ratios for MSCI World Growth and MSCI World Value indices.

Evolving the definition of 'value'

At least one part of the lacklustre performance of value strategies in recent decades can be explained by methodological choices in Fama and French's original research. Price to book ratios have not been great indicators of value in the 21st century due to the growing importance of intangible capital, which is systematically understated on companies' balance sheets. Instead, value strategies based on cash flow multiples for example have been more effective, as reported cash-flows reflect hard facts, as opposed to subjective accounting estimates relating to intangible capital.

Contemporary value strategies will also use different proxies for value across different industries, based on each sector's specific accounting rules and business environment. Furthermore, they would incorporate additional predictors to reduce the exposure to possible value traps. They may also incorporate machine learning methods in order to more comprehensively capture the value premium. Continuing to adapt and improve an investment process will remain paramount for value investors as markets continue to evolve.

Cash flows have been a better indicator of value compared to book values in recent years



Source: Ken French's data library, HSBC Global Private Banking, as at 6 September 2022.

Conclusion

Value stocks outperformed growth in 61 out of 95 years since 1927. If one were to assume that style performance is a coin flip, the probability of this outcome occurring by chance alone is as slim as 0.37%, or 1 in 274. Private investors' portfolios, which often have a structural bias towards growth stocks, need to closely consider balancing their portfolios by adding value stocks, which historically benefit from some combination of mispricing and risk premium. In the tactical context, the valuation spread is supportive for value, while rate volatility will continue to affect growth stocks disproportionally.

Remaking Asia's Future

Looming recession risks in Europe and the sharp slowdown in global growth are posing mounting challenges to Asia's export-oriented economies and its technology sector. Sharp deterioration in external demand adds strong pressure on Asian policymakers to accelerate structural transformation and provide policy support to build a more sustainable domestic-driven growth model. Against this macro backdrop, the themes under this trend focus on opportunities from the region's progressive adaptation to disruptive changes resulting from the COVID-19 pandemic, supply chain challenges, energy shock and net zero transition.

Our four high conviction themes

1. Asia's Consumer Revival
2. Asia's Green Transformation
3. Asian Champions at Great Value
4. Asian Quality Credit

Asia's Consumer Revival

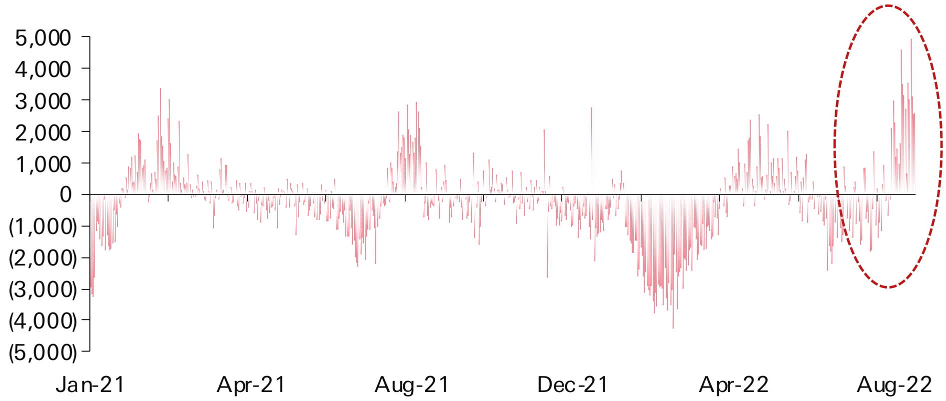
TThe slump in global new orders for consumer electronics and a sharp downturn in Electronics' PMIs in Taiwan and Korea in July not only reflect demand destruction caused by high energy prices in Europe and the US, but also underscore the normalisation of consumer spending patterns from goods back to services. In Asia, the shift from goods towards consumer services like travel, retail, catering and entertainment has been accelerated by the economic reopening and resumption of international travel. Under the "Living with COVID" strategy, many Southeast Asian countries have relaxed most of their pandemic restrictions and border controls. We expect a travel boom to help support the domestic consumption recovery in Asia. Thailand, being the second-largest economy in Southeast Asia, recorded economic growth of 2.5% y-o-y in Q2 2022, marking the fastest growth since mid-2021, as relaxation of COVID-related restrictions boosted economic activity and tourism.

This theme focuses on opportunities in the consumer discretionary and consumer staples sectors rather than consumer electronics. Given close to one-third of EM Asia's total exports are tech-related, we have turned more cautious on Asia's semiconductor and technology hardware sectors. We believe the structural growth opportunities of Asian consumers remain intact, but we adopt a more selective approach to focus on quality consumer discretionary and consumer staples companies with strong pricing power and high profit margins.

It is worth noting that Hong Kong, despite having relatively strict COVID-related rules since the pandemic, has been catching up with its Asian peers in economic reopening over the past month. We expect hotel quarantine and other travel restrictions to be eased further in the coming months, as the Hong Kong Sevens and HKMA's Global Banking Summit are scheduled to take place in November. Normalisation of international travel is supportive of a recovery in the retail and travel-related sectors, as indicated by the stronger-than-expected rebound in Hong Kong's retail sales in July. We position in quality companies in airlines, tourism, retail, hotels, retail properties and catering.

First signs of visitors returning to Hong Kong

Net passenger arrivals, in number of people



Source: Immigration Department of HKSAR, HSBC Global Private Banking as at 6 September 2022.

Asia's Green Transformation

The energy crisis triggered by the protracted Russia-Ukraine war has reinforced the strategic initiatives of the Asian countries to pursue energy security and independence through massive investments in renewable energy. Hence, this theme focuses on opportunities from Asia's acceleration of its net zero transition. Asia stands out as the most vulnerable to climate change, as the region is home to the biggest contributors of global warming in the world, including China and India. Notably, China is rapidly expanding into a global powerhouse of solar power and electric vehicles (EV) production. The total number of EVs in China is now nearly double that of Europe and the US combined. The European market currently sources more than 90% of its solar components from China.

The International Energy Agency estimates China will need to invest over RMB200trn between 2020 and 2060 to achieve its climate goals. China's investment in solar power generation projects soared 284% y-o-y in H1 2022 while exports of photovoltaic products spiked 113% y-o-y to hit a new record. We expect China's annual solar installed capacity to reach 79GW by end-2022, up 46% y-o-y from 54GW in 2021. This is projected to increase further to 102GW in 2025, equivalent to a 13.6% annualised rate. By 2030, we see solar as the most dominant source of renewable additions in China, accounting for nearly 70% of total annual increase, followed by wind energy (22%).

In India, the rapid economic development has increased its power demand, with a majority of capacity addition coming from renewables, where solar accounted for 90% of renewable addition. Several Southeast Asian countries are rushing to issue green bonds to finance eco-friendly projects, which provide investors with attractive investment opportunities.

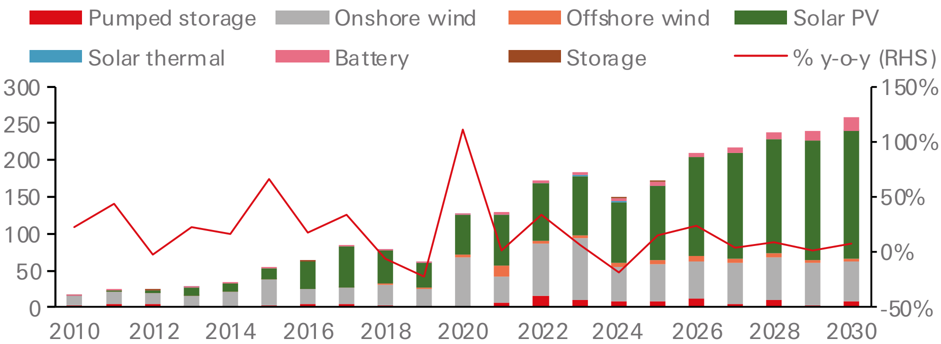
Asian Champions at Great Value

Asian equity markets have fallen significantly over the past year, leaving us with quality stocks trading at deeply discounted valuations, including industry leaders in respective sectors. After Asia ex-Japan's forward P/E dropped by one-third in the past 20 months, the market has underperformed US equities significantly again since mid-June after the summer rally. The forward P/Es of Asian markets trade at a one-third discount to that of US equities, more than one standard deviation below their five-year average.

We expect the risk premium for the Asian markets to compress in the longer term, while earnings expectations should have room for upward revisions. Therefore, investing in Asian champions at attractive valuations should offer investors with outsized upside potential relative to the broad market.

Apart from picking the undervalued Asian champions using bottom-up analysis, we screen companies by their key financial metrics including ROE, P/E, dividend yield and gearing ratio to identify these fundamentally attractive opportunities. On its own, the Asia ex-Japan stock market is also trading much cheaper relative to history, with its forward P/E at 0.9 standard deviation below its five-year average.

We expect solar and wind to remain the two key renewable additions in China till 2030



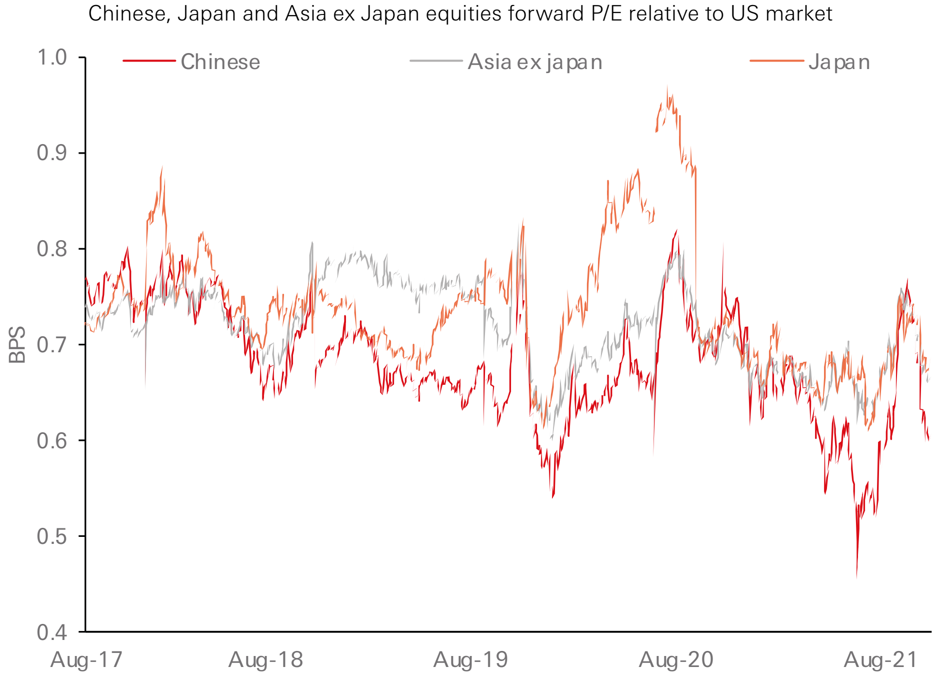
Source: HSBC Global Research, HSBC Global Private Banking as at 6 September 2022.

Asian Quality Credit

Some positives for Asian credit are the recent PBoC rate cuts and rising market expectations of more monetary easing actions to ease China's growth headwinds. We expect more monetary and fiscal stimulus to backstop demand in coming months. With the Chinese government now showing willingness to provide more liquidity and credit support to refinance top-tier private developers, the contagion risk of the property credit crisis moving up to IG (mainly SOEs) is relatively limited. This theme focuses on generating resilient income in a volatile market. We have a strong preference for Asian IG bonds, which account for 80% of the overall Asian credit market, and we focus on quality and yield pick-up over developed markets IG. We seek carry opportunities in Asian banks, energy bonds, Chinese SOEs and banks, selective Hong Kong property companies and Indonesian hard currency bonds. We prefer short-to-medium duration (3-5 years) bonds, as they are less exposed to rate volatility compared to long duration bonds.

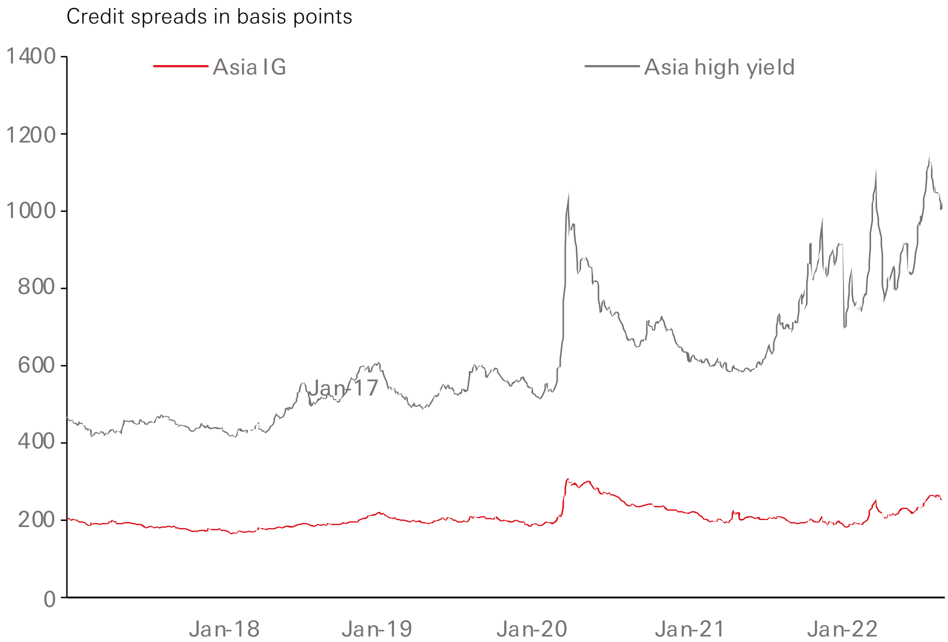
With the Fed's front loaded tightening and increasing recession fears in the markets, we have stronger conviction in Asian quality credit for its defensive merit. Technical factors are supportive for Asian credit as we have seen an exodus of international capital from this asset class due to concerns about China's property slump, resulting in China IG credit spreads being oversold relative to fundamentals. The remaining investor base of Asian credit is now more local and home-biased, providing additional downside support. Indonesia's sovereign fundamentals remain strong due to the fiscal discipline. Although Indonesian SOE credit metrics may have weakened in recent years due higher capex as a result of the government's infrastructure push, we believe SOEs with USD bonds will continue to receive support.

Sharp valuation discount of Asian equities to the US market

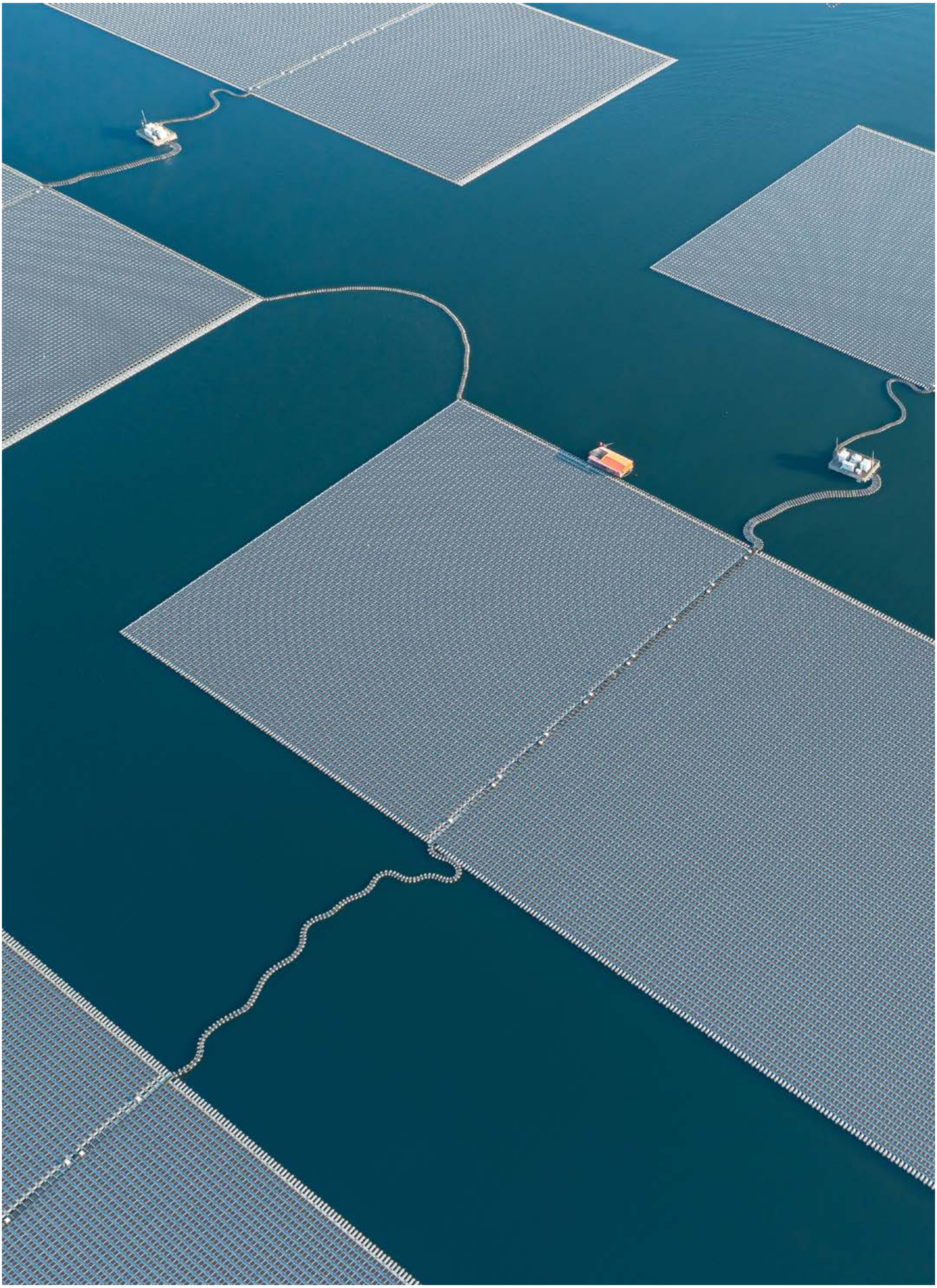


Source: Bloomberg, HSBC Global Private Banking, as at 6th of September 2022.
Note: Data based on two-week moving average

Asian IG credit spreads are attractive



Source: Bloomberg, HSBC Global Private Banking, as at 6th of September 2022.



Opportunities in Policy Transition

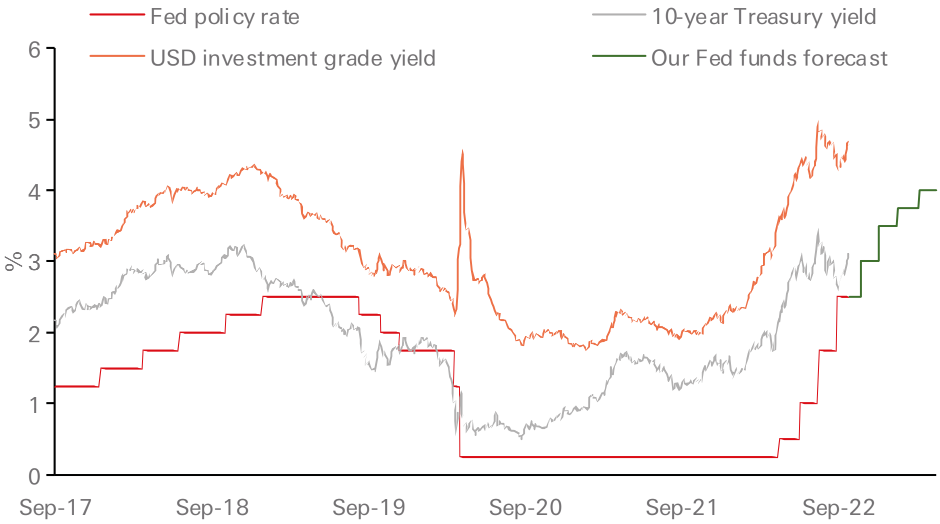
As we wait for the global economy to bottom and central banks to slow their rate hikes, we are positioning our portfolio strategy for market consolidation. As we discuss in our Portfolio Strategy section, our approach during that consolidation phase is to select some key focus areas: in particular, we have a clear preference for the US stocks, and put a big emphasis on earning income. Our American Resilience, Durable Dividends and Fixed Income themes are well aligned with these portfolio priorities. In addition, inflation will remain high across developed markets, even though it may have peaked in the US, hedging portfolios against inflation still remains key.

Our five high conviction themes

1. American Resilience
2. Durable Dividends
3. Short-dated Quality Credit
4. DM Financials – Moving up the Capital Structure
3. Hedging Against Inflation

American Resilience: One of our key views is that the US economy is much more resilient than Europe's, where we foresee a recession (with risks skewed further to the downside). Moreover, we do not believe that this diverging outlook is priced into markets, and hence, the US remains our biggest overweight. The US market is very deep and liquid, and the earnings season has proven that there are many companies with resilient earnings and strong market positions reflective of their 'quality-style' classification. The energy sector is benefiting from high prices, and energy companies will remain very profitable even with oil prices off their recent highs. Clean energy is getting a clear uplift in outlook and investment from the recent 'Inflation Reduction Act'. On the consumer side, spending is more resilient than consumer confidence surveys would let us believe. Some consumers are trading down to lower cost goods, allowing them to keep spending. Overall, many consumer staples companies' revenues are benefiting from higher prices, especially for quality stocks which can maintain their margins.

Markets have now priced in most of the Fed rate hikes, providing interesting income opportunities. But the Fed is unlikely to cut soon and stock market upside should come from areas with strong earnings rather than multiple expansion.



Source: Bloomberg, HSBC Global Research, HSBC Global Private Banking, as at 6th of September 2022. Past performance is not a reliable indicator of future performance. Forecasts are subject to change

Durable Dividends: When markets consolidate and do not show a clear upward drift, picking stocks that generate income through dividends can substantially add to total returns. During the crisis, dividends fell, as dividends are of course sensitive to the growth outlook. It is therefore important to select companies that have sufficiently strong cash flows to pay out constant or growing dividends. But the dividend expectations priced in by the market are relatively conservative currently, and banks (typically among the high dividend payers) are getting a lift from rising rates. From a style perspective, dividend stocks tend to be value oriented, which can help balance portfolios that are heavy on growth stocks. They also tend to have a quality bias, in line with our portfolio preference, and often qualify as 'low volatility' stocks, which could serve investors well as we expect market volatility to remain higher than usual.

Short-dated Quality Credit: In our search for income, bonds obviously play a key role. From a credit risk perspective, we continue to focus on investment grade, which is our biggest overweight in our tactical asset allocation. This is principally because we think high yield spreads are somewhat too tight and of course more sensitive to the growth slowdown than investment grade. From a maturity perspective, we focus on shorter maturities. As some government bond yield curves are inverted, investment grade yield curves are very flat and hence, it does not pay to try to get a higher yield by extending duration. In addition, longer-dated bonds are more sensitive to the gyrations of bond yields that we expect to continue to see. Within investment grade, investors who are interested in floating rate notes can add those to their fixed rate bond exposure when the volatility temporarily brings yields and interest rate expectations to lower levels.

DM Financials – Moving up the Capital Structure: Banks have strengthened their capital and liquidity ratios in response to stringent regulatory requirements under the Basel III accord. That said, Tier 1 capital can be sensitive to the local economy and sovereign spreads, especially in Europe, where the economy is weakening. In that context, we are moving up the capital structure, to Tier 2 and Senior unsecured bonds. We find yields attractive in this area, compared to both sovereign and non-financial bond yields.

Hedging Against Inflation: In financial markets, no inflation hedge is perfect, but among them, we find three avenues attractive. First comes real estate, a hard asset that provides good inflation protection in the long run. In the short term, high rents are one of the causes of sticky inflation, so exposure to residential multi-family rentals in the US can be attractive. In commercial real estate, we focus on quality prime office space, preferably with short or indexed leases, while logistics assets also continue to see strong demand. Second, the energy and clean energy sector benefit from continued high energy prices. And third, we like consumer staples stocks with strong market positions as food and goods inflation is often passed on to the consumer, lifting revenues for those companies.

Digital Transformation

The convergence of technologies has gained momentum since the start of the 21st century with the common thread being digitalisation of hardware, systems and content. Digitalised systems and data facilitate sharing of content such as films, music, patient records, engineering drawings etc. This is spurring new industries and redefining existing businesses in areas including creative media, distribution, online services and mapping. The opportunities are endless.

Our three high conviction themes

1. The Metaverse
2. Total Security
3. Smart Mobility

The Metaverse

The Metaverse is a 3D digital universe connected to the real world, where people can interact, work, play and socialise and is economically gaining traction. Associated technologies include wearables, 5G, chips, 3D software engines, optical tech, Blockchain, Virtual Reality (VR), Augmented Reality (AR) and smart contracts, which are all creating new opportunities for investors. During the pandemic, many peoples' working methods adapted quickly to a digital work place with many businesses moving partially or completely on-line. Suddenly, the Metaverse becomes almost tangible and the opportunities more real even to the non-digital natives.

The expansion of the Metaverse and its ongoing development will very much depend on advances in the associated technologies enhancing the user experience. For example, VR headsets are finding new applications by corporates for use for more immersive 3D virtual meetings, sales events, viewings etc. Entertainers are starting to deliver their art virtually to vast audiences simultaneously, as shown when Fortnite hosted a Travis Scott Concert in 2020 to an audience of 12m and generated $20m in income for the artist. Retail could also be vastly different with NFT technology allowing to authenticate the originality of a digital outfit, and some luxury brands have therefore begun to experiment with digital offerings. Travel, socialising, healthcare and finance are all facing disruption from the Metaverse opportunity.

Recent developments of faster and better data networks via 5G, cloud networks, 3D engines and the supporting data management techniques provide the infrastructure for

the Metaverse to be built out. Several large corporates have announced their Metaverse strategies and have committed capital and expertise to the opportunity.

Total Security

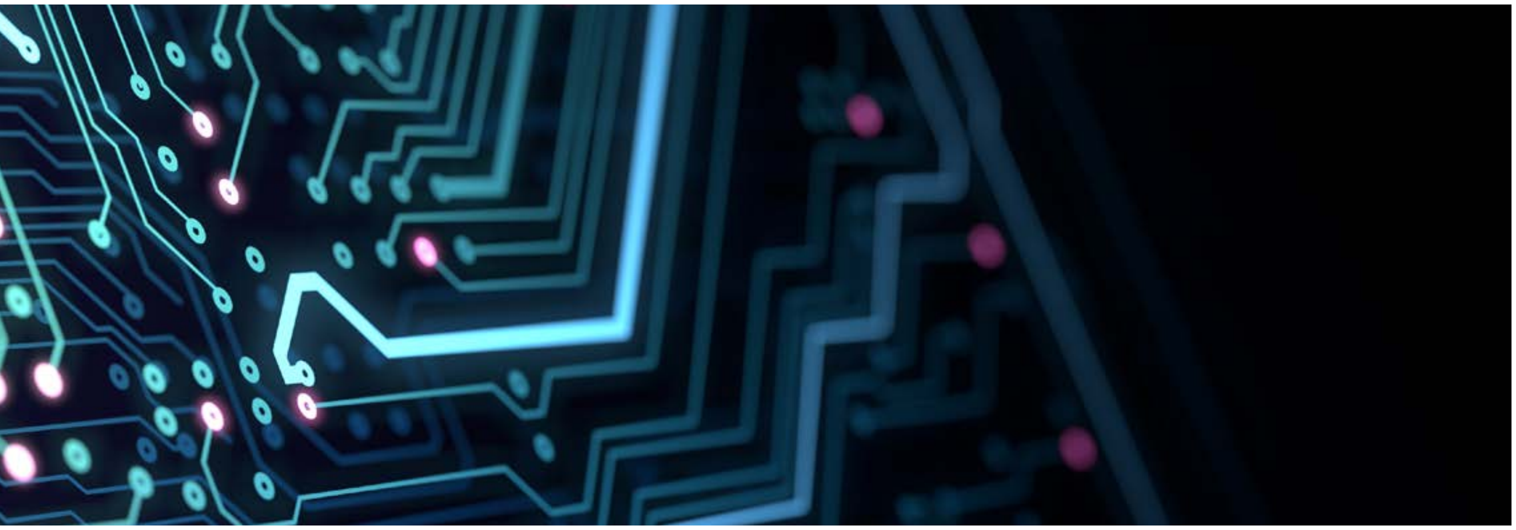
Back to reality, recent geopolitical conflicts have raised awareness of vulnerabilities at national, corporate, and personal level and increased demand for security in all its forms. Those vulnerabilities are not just military, criminal or property-related, but also include supply chains, energy, food, water, personal data and ecommerce. Our Total Security investment theme includes all of these aspects and their potential for investors.

The last decade has witnessed the rapid expansion of digital services by both governments and corporates (financial, education, healthcare) with the explosion of ecommerce. Security has not kept pace with these developments and now needs to catch up. Rogue states and criminals have quickly identified and exploited cyber weaknesses, often finding them far more effective, lucrative and at lower risk than the physical form of action. Unprotected devices and networks provide potential access points or back doors to the unsuspecting target.

As a result, new infrastructure spending must incorporate both physical and digital security of hardware, software, and services to prevent and deter physical and digital attacks.

Broader security risks, armed or political conflicts and inflation have cut supplies and increased prices of many goods including food and energy. At all levels of the economy, people are starting to plan for such disruptions and the negative impacts it will have on growth, margins and finances. A simple example is evident at the corporate level as companies look to near or onshore production and supplies in the medium term whilst increasing inventories in the short term in an attempt to insulate themselves from externalities.

Governments, corporations, and individuals will increasingly demand greater security in an effort to protect themselves, their privacy and data whilst ensuring transactions and supplies are safe.



Smart Mobility

Our third investment theme is using digitalisation to transform transportation by the integration of intelligent technologies into the infrastructure that facilitates the movement of people and goods. Governments, companies and individuals also play a critical role by making smart decisions about their choices of mobility given the environmental and demographic challenges. In particular, the Paris Agreement, COP26 and the IPCC climate study give an even greater sense of urgency to the adoption of zero-emission technologies. Electricity, hydrogen, biofuels and ammonia are potential zero-emission or green fuels that should help reduce emissions.

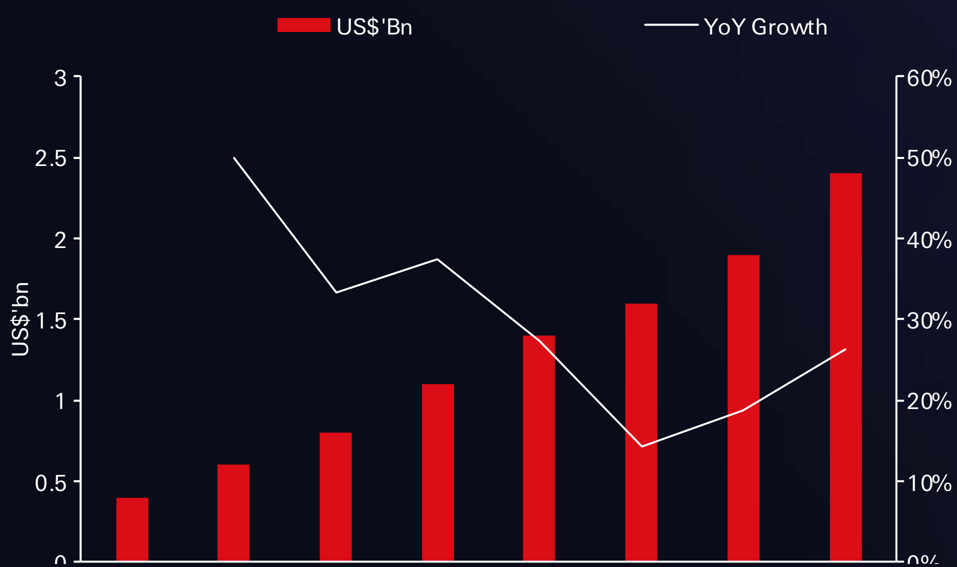
In the last two years, Electric Vehicle (EV) purchases have sharply accelerated in major economies as consumer adoption gains momentum and new models are introduced. Critically, battery technology continues to advance rapidly as manufacturers look to address 'range anxiety', a major concern that has held back wider consumer adoption of EVs. The limited EV infrastructure is steadily improving with a number of major companies supporting the roll-out of charging points in several countries.

Smart mobility is so much more than simply replacing petrol-powered vehicles with EVs. The benefit of EVs is that they are mobile digital platforms that that can easily interact with the rapidly evolving digital landscape around them unlike their more mechanical predecessors. The roll-out of 5G networks, in-vehicle and sensor technologies allow EVs to connect to the surrounding environment and other forms of transport.

Commercial vehicles and trains could also benefit from the advancements in hydrogen fuel cell technology. Transportation companies and systems are being forced to phase out the use of fossil fuels over the next decade as countries strive to achieve net zero emissions. Technologies have advanced sufficiently to make alternative energy formats (lithium batteries, fuel cells, bio-fuels) to provide a viable economic zero-emission alternative source of power to fossil fuels for transportation.

Connectivity between people, transport infrastructure and their locality thus facilitate advances in efficiencies, safety and integration of various modes of transport and the urban environments in which they operate.

Global virtual reality (VR) Gaming Revenue (USDbn)



Source: HSBC Global Private Banking, Statista, 2020 – 2024 estimated, 6 September 2022.

Investing for a Sustainable Future

Amid the turbulence of global markets and the daily headlines on rising inflation, rising rates or increased geopolitical tensions, sustainable investing continues to move forward and the underlying thesis has only strengthened amid the uncertainty.

CConsider the current environment – record heat waves have been felt around the globe, water systems around the world are experiencing some of the severest droughts on record and with winter on the horizon, already high energy prices could go higher.

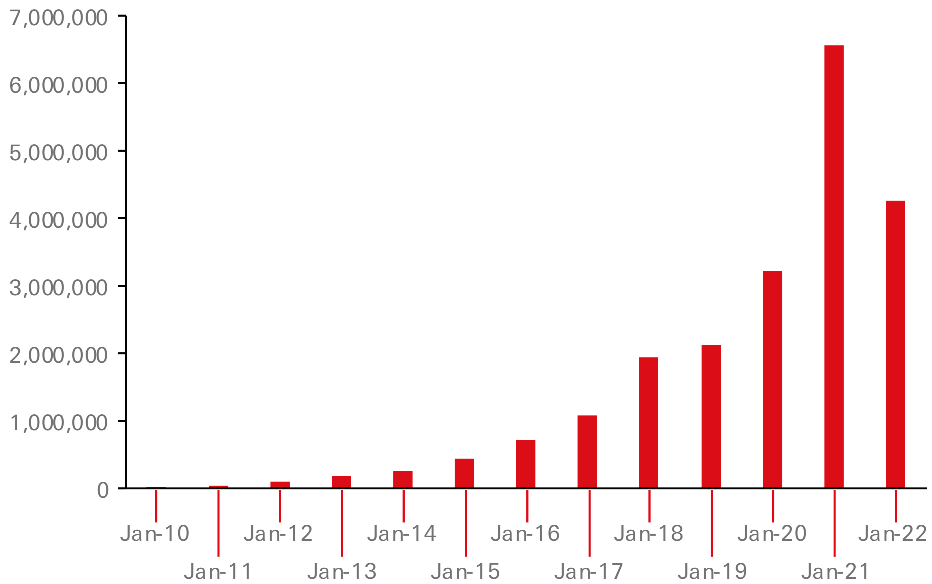
On top of these factors we are still seeing constraints in supply chains and a huge desire to near shore. There is a housing crisis in many major economies and governments are under pressure to improve the living conditions of their people. The economic and political outlook from here looks bleak in many parts of the world. The case for investing in a sustainable future however, is, for the most part, made stronger by these risks and we have four themes exposed to different facets of this trend.

Our four high conviction themes

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

In a less stable world, where cross-border alliances and agreements on energy are less reliable, energy independence becomes a high priority. This is particularly true in Europe where the broad desire for a more sustainable economy has been traditionally strong while the need to be energy independent has recently spiked as a result of the Russia-Ukraine conflict. The move to sustainable energy alternatives is revealing itself in the numbers. According to Bloomberg, EU Households purchased 50% more solar panels for the year to date than they did for the whole of last year. They have done this in an effort to reduce their energy bills but also to cut their reliance on Russian energy. Solar technology now means that the cost to install panels is not prohibitive in itself and with energy costs so high, the savings made from home solar panels can make up for the installation costs relatively quickly. Likewise, as the sun doesn't always shine, a battery pack is also proving to be a sensible option and in Germany, major home battery producers have seen their sales for the year to date double over 2021 full year sales. Similar patterns are being seen globally as consumers and governments recognise the benefits of energy independence on costs, on financial planning and it is also clean for the environment. This trend is being captured in our **Energy Transition and Independence** theme which focuses on the companies who will benefit from the ongoing drive toward less carbon intensive energy systems and energy independence.

Global Electric Vehicle Sales to June 2022



Source: Marklines, Bloomberg NEF, HSBC Global Private Banking, as at 6th of September 2022.

Beyond the nearer term need for sustainable energy independence, record heat waves this summer have elevated concerns that climate change has gone too far and the urgency of a response should be greater than currently being delivered. When heat records are being broken annually and people can physically feel the hotter conditions then the reality of the risks to the climate are understood far more clearly. This will undoubtedly drive people and governments to move even quicker at making the changes they need to slow the pace of global warming. Electric Vehicles are an easy and accessible way that people can meaningfully reduce their carbon emissions through their day to day lives without much upheaval in what they do already. This sector is moving along at pace and Asia leads the way with China, in particular, hitting a 26.7% Battery EV penetration rate in July 2022. EV's are a key focus for the government in China and the steps they have taken to support the build out of the sector there are bearing fruit. In conjunction with the vehicles themselves, the number of charging points is growing rapidly too and charging station numbers have doubled within the last 2 years and there is no indication of that slowing. Feeding all of this growth are a range of companies, providing the metals and materials, the components, the battery technologies and many other elements of the chain that are needed. Many of these companies also provide relatively high levels of income which is very attractive in the current environment. We have combined these dual attractions of higher income and riding the sustainability trend into one theme; **Sourcing Income in a Sustainable Way** which offers investment solutions dedicated to higher yielding sustainable exposures.

Unfortunately, through the recent heatwaves and resulting droughts, we have come to learn that there are a variety of threats from climate change beyond carbon production. The droughts impacted the global supply chain as major rivers, particularly the Danube and the Rhine were affected. Intertwined with water systems are the ecosystems connected to them. Through our theme **Financing Biodiversity Action** we aim to support the sustainability of these systems through investable opportunities which are addressing this need. Similarly, the social aspect of doing business has never been more in the spotlight and having diverse workforces and leaders and ensuring a fair and balanced work culture is being shown to be a more resilient way of operating.
We have captured this trend through our theme, **The Rise of the S in ESG.**

Long term demand for a greener world, independent energy solutions, income, improved biodiversity and more diverse and equitable work places are all on the rise. Overall, the opportunity set of sustainable investments is advancing and expanding giving investors ample opportunity right now to benefit from this trend.

[1] HSBC Research

Equities

As investors continue to reprice the potential for tighter margins (due to sticky inflation and higher rates) and slower future earnings growth, equity markets are likely to see their upside capped. At the same time, cheap valuations compared to history suggest much of the bad news is already priced in and the downside has become more limited too. We therefore focus on differentiation between sectors and geographies, and look for quality companies that produce free cash flow and maintain low levels of net debt. Also, we look to generate income from companies that produce solid dividends and have repurchase programs in place, to help lift total returns.
We are defensively positioned in Europe and Asia, and maintain a balance between value and growth-style stocks.

Overweight
Countries: US, Canada, Mexico, Hong Kong, and Thailand
Sectors: Communication Services, Energy, Consumer Staples
Underweight
Countries: Germany, Spain, Italy, South Africa, Turkey and Taiwan
Sectors: Industrials and Utilities
Global style bias
Quality and Income

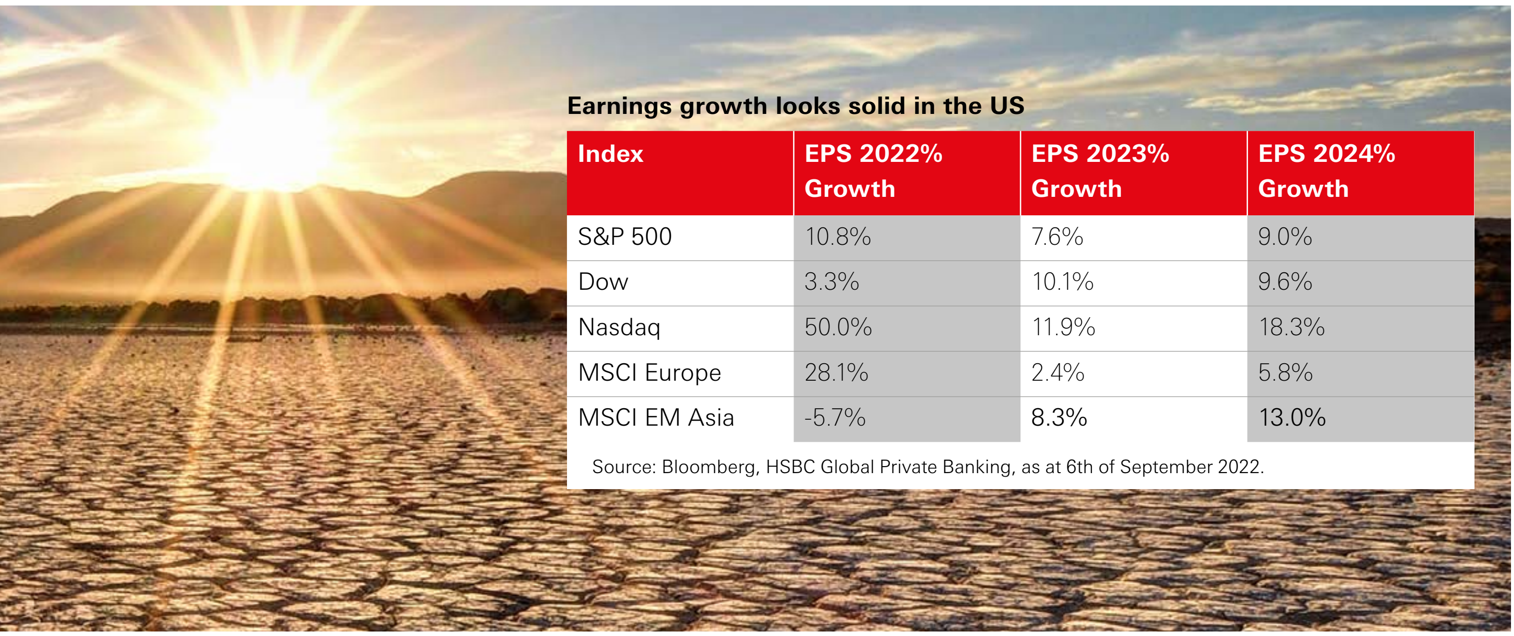
US resilience

Compared to other economies and stock markets, the US looks resilient, though of course it also has its challenges.
We fully expect US equities to remain volatile, especially as we get through the midterm elections and investors recalibrate potential returns in the new political environment. US economic activity has slowed noticeably, especially from last year's strong 5.7% gain. The combination of high inflation and rising interest rates has crimped consumers' wallets and is likely to cause sectors such as housing, manufacturing and discretionary spending to slow noticeably. As inventory building and production activity slows, the materials sector could be adversely affected. And as global prices of raw materials slow, we have downgraded our exposure to the materials sector.

The Biden administration recently introduced a 15% minimum corporate tax that must be paid by companies generating more than $1 Billion USD of profits each year. While there will undoubtedly be offsets and other potential accounting adjustments provided, the new corporate tax may hamper future earnings potential in certain sectors and companies. Secondly, the Inflation Reduction Act (IRA) of 2022 also introduced a new tax on stock repurchase programs for the corporate sector. While the tax is small, it is designed to try to balance returns between stock repurchase and dividend pay-out programs. However, it is important to remember that this legislation does not go into effect until October 2025. In the IRA legislation, key provisions allowing Medicare to negotiate select drug prices or capping drug price increases to the rate of inflation, are likely to put pressure on certain drug prices across the healthcare industry. While this is not going to take place immediately and only affects a certain limited number of drugs, it will hinder the potential upside for future earnings in the pharmaceutical sector as the market adjusts to the new political guidelines. As a result, we recently downgraded the healthcare sector from mildly overweight to neutral.

Globally, severe drought and historically high temperatures continue to put pressure on food production. In addition, the war in the Ukraine and several other factors have affected fertilizer and phosphate prices. As a result, even though multiples remain high for consumer staples companies, food producers, distributors, and retailers should continue to benefit from the confluence of factors that could keep prices high. Therefore, we hold a mildly overweight view on consumer staples to reflect the pricing power in the food and beverage sector.

While the US economy is slowing, the large US energy sector is benefiting from strong local and foreign demand. Moreover, given the continued supply constraints globally, the lack of investment in exploration in many countries, and the war in Ukraine, the supply/demand balance remains tenuous. Significantly, energy companies posted outsized returns in the second quarter as earnings rose more than 300% year-over-year. While those earnings growth rates are likely to slow, margins should remain healthy and valuations remain attractive. As for clean energy, the Inflation Reduction Act aims to increase its capacity, and should greatly benefit companies involved in this area. As a result, we now hold an outright overweight view on the energy sector, with a focus on clean energy, to capture the further potential upside.



Earnings growth looks solid in the US

Index	EPS 2022% Growth	EPS 2023% Growth	EPS 2024% Growth
S&P 500	10.8%	7.6%	9.0%
Dow	3.3%	10.1%	9.6%
Nasdaq	50.0%	11.9%	18.3%
MSCI Europe	28.1%	2.4%	5.8%
MSCI EM Asia	-5.7%	8.3%	13.0%

Source: Bloomberg, HSBC Global Private Banking, as at 6th of September 2022.

Asian slowdown

We maintain a neutral view on Chinese equities. While the growth path remains bumpy, we believe the worst point in the economy has passed and Chinese equities have largely priced in a longer and low-gradient rebound extending well into 2023. For onshore A-shares, we do not see the basis for a broad based rally as the property sector is hurting many activities in its value chain and COVID restrictions continue to suppress consumption. For offshore Chinese equities, we think the recent escalation in US-China geopolitical tensions in the Taiwan Strait and the China ADR delisting mean investors will continue to require a risk premium. The markets will look closely at the 20th National Congress of the Chinese Communist Party this fall and the policy initiatives stemming from it.

Many countries in emerging Asia have been affected by slowing global demand, which has left inventory levels somewhat bloated, especially for consumer goods. On the positive side, bottlenecks have eased somewhat, which is visible in falling shipping costs and the price reduction of some semi-conductors. In turn, it is putting less pressure on global inflation, at least for goods (services, food and rent are typically still seeing high inflation). Inflation is much less elevated in Asia than in many Western countries and we foresee fewer rate hikes and less pressure on valuations, which are undemanding in most Asian countries. Due to cyclical headwinds though, we only overweight those areas benefiting from the reopening, namely Hong Kong and Thailand.

European recession

The Russia-Ukraine war and the resulting energy price rises and supply disruptions have led to pervasive problems for consumers and businesses alike. The risk of rolling brownouts, energy rationing, and the potential to periodically close some businesses due to extreme energy constraints is not sufficiently priced into Eurozone equity valuations, in our view. As a result, we have continued to cut our allocation to Eurozone equities, and hold a quite defensive sector stance there. EUR weakness should also be a negative contributor to total returns for foreign investors.

In the UK, a deep cost of living crisis will lead the country in recession, with the Bank of England expecting it to last at least 12 months. Markets will closely watch what fiscal support will be provided by the new government, but we do not think a recession can be avoided. That said, UK stocks are very global in nature, and the high exposure to energy, as well as the gain in competitiveness stemming from a weak GBP should support the index level. We thus hold a neutral view on UK stocks, with a preference for global rather than local exposure.

US stocks continue to benefit from a resilient US economy and multitude of strong quality companies.

Source: Bloomberg, HSBC Global Private Banking, as at 6th of September 2022. Past performance is not a reliable indicator of future performance.

We maintain our balanced exposure between value and growth, and a preference for defensives (especially outside of the US).

Source: Bloomberg, HSBC Global Private Banking, as at 6th of September 2022. Past performance is not a reliable indicator of future performance.

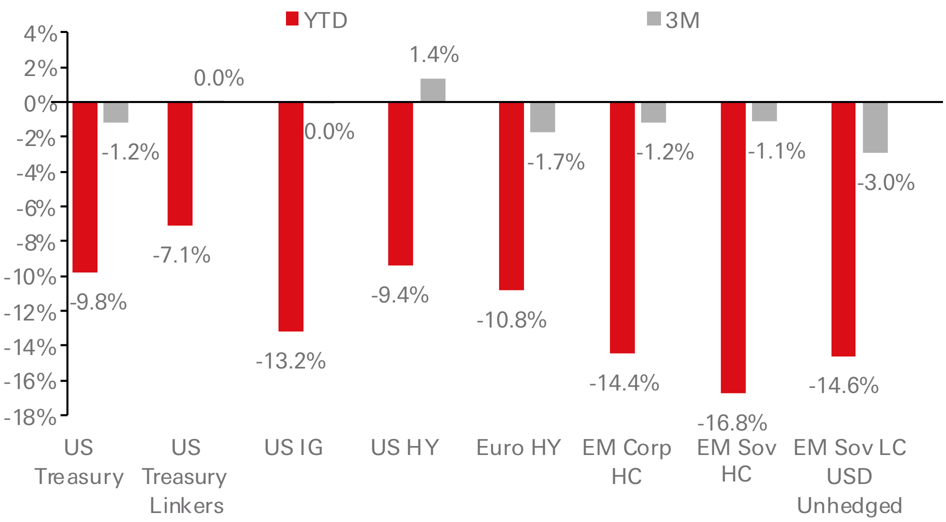
Fixed Income

Bond yields are not far from where they were three months ago, but there have been many ups and downs. While yields moved up for most of H1, there was a relief rally from mid-June supported by hopes of a quick Fed pivot in 2023 and of a soft landing in the US. Engineering a soft landing when rate hike expectations are so elevated and inflation is high and sticky will be difficult to achieve, and as the Fed seems determined to fight inflation at all costs, we think it will stick to its rate hike path. We do not forecast a global nor a US recession, but tail-risks have increased lately. This explains the trimming of our Global High Yield (HY) exposure back to a neutral stance two months ago. At this juncture, we overweight on Global Investment Grade (IG) bonds and EM quality corporates in Hard Currencies (HC) bonds, through which we capture carry at the short-end of the curve.

Overweight
Government bonds: Australia and New Zealand
Credit and EM: US, European and UK IG; Australian and New Zealand corporate bonds; Indonesian, GCC and Mexican Hard Currency bonds; Chinese and Mexican Local Currency bonds

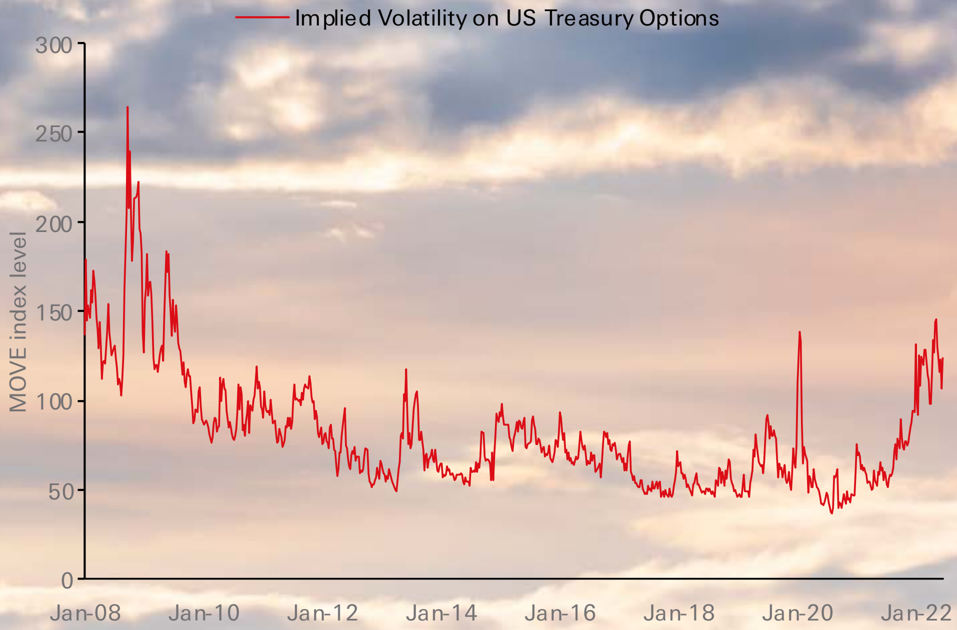
Underweight
Government bonds: German and Japanese government bonds, European Periphery debt
Credit and EM: Argentinian, Turkish and Ukrainian Hard Currency bonds; Turkish and Indian Local Currency bonds, Russian debt in Hard and Local currency

A relief rally has supported riskier asset classes lately



Source: Bloomberg, HSBC Global Private Banking, as at 6th of September 2022. Past performance is not a reliable indicator of future performance.

US Treasury rate volatility has remained at 14-year high



Source: Bloomberg, HSBC Global Private Banking, as at 6th of September 2022. Past performance is not a reliable indicator of future performance.

Developed Markets - Focus on Carry Opportunities at the Short-End of the Corporate Credit Curve

Within Developed Markets (DM) we are overweight Global IG (i.e. USD, EUR, GBP), neutral Global HY and underweight sovereign debt. While DM sovereign bond yields should be range-bound in the short-to-medium term, their high volatility reduces their attractiveness. In addition, yield curves are either very flat or inverted, and they thus do not compensate for duration risk in our opinion.

Therefore, we continue to focus on carry opportunities at the short-end of the corporate credit curves (2-5-year maturities), focusing on Global IG and high BB-rated companies. The former should be resilient when risk appetite is challenged and offer a good carry over DM sovereign bond yields. The latter should benefit from positive rating migration on the back of falling leverage and remains to a certain extent immune to the elevated rate volatility. Although a prolonged period of higher energy costs could hurt the profitability of many SMEs, DM default rates for this year should remain benign compared to their peak in 2020.

At the sector level, we mostly focus on Energy and Financial companies. We also decided to move up the capital structure of DM Financial institutions, to focus on lower beta segments, such as Tier 2 and senior unsecured debt. This is especially relevant for European banks which are highly exposed to any weaknesses of their domestic economies (see our High Conviction Theme 'DM Financials- Moving Up the Capital Structure').

In other sectors, we focus on companies with stronger balance sheets and improving credit fundamentals, such as declining leverage and increasing cash flow generation.

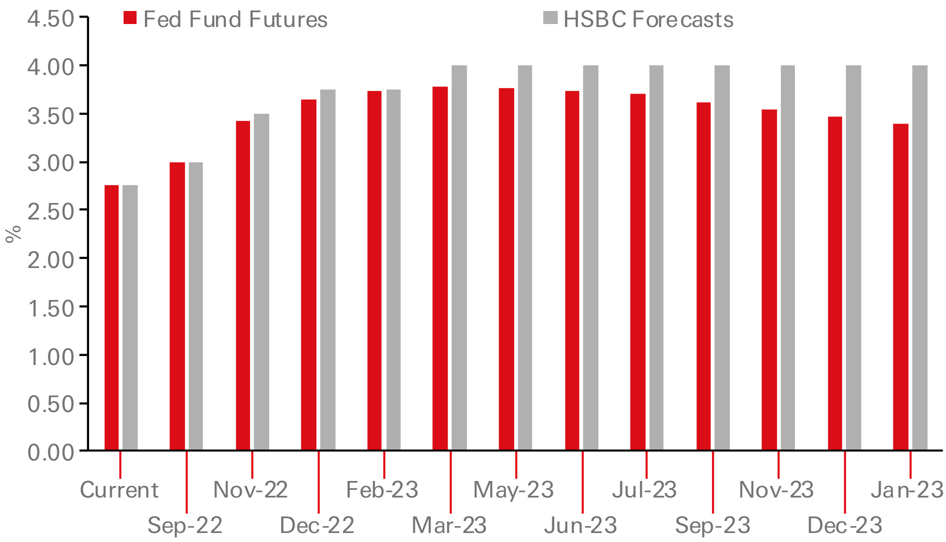
Emerging Markets - Remain Overweight on Corporate and Focus on Short Dated Quality Credit

EM bonds along with other risk assets saw some recovery in recent weeks, supported by signs of stabilisation in US inflation. At the same time, EM corporate bonds lagged other credit markets due to continued weakness in China Property sector and the ongoing Russia-Ukraine conflict.

The performance of Chinese corporate bonds has diverged sharply from other EM corporates as China's Property market remains under significant stress. Amid the industry turmoil which included shrinking land banks, continued margin pressure, decelerating revenue growth and mounting refinancing issues, no real estate company is immune and only more active actions from the regulator could reverse the trend. It has been reported that Chinese authorities are working on providing liquidity support to selected developers via new CNY bonds guaranteed and underwritten by state-owned firms. We believe this is an essential move in preventing additional developers from losing their refinancing access in the onshore bond market, but the magnitude of support is yet to be seen.

We expect EM bonds in hard currencies (HC) to trade in a range for the rest of the year. On the one hand the major risks are already priced in, but on the other hand macroeconomic uncertainty remains high. We therefore keep our modest overweight stance and focus on quality issuers. EM corporate fundamentals continue to demonstrate resilience

Expectations of higher policy rates offer carry opportunities at the short-end.



Source: Bloomberg, HSBC Global Private Banking, as at 6th of September 2022. Past performance is not a reliable indicator of future performance.

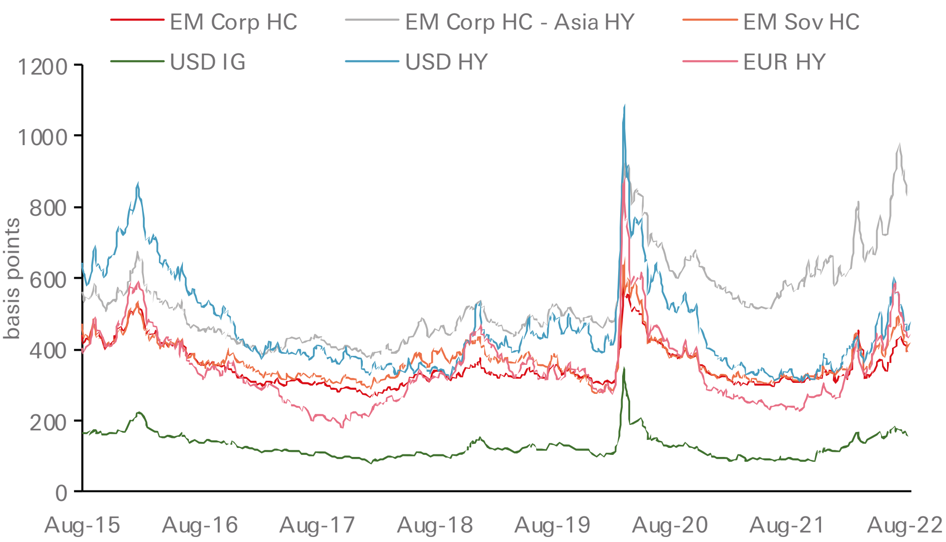
thanks to a favourable commodity price environment, resilient margins and the consequences of conservative financial policies in previous years aimed at cash preservation and low leverage. Based on recent financial reports, many EM companies have reported unchanged or improved credit metrics. Net leverage of EM companies is expected to remain at 1.2x on average during 2022 (vs 0.9x for EM IG companies and 2.1x for EM HY companies). EM default rates increased to 8.8% but are concentrated mainly within isolated market segments such as China Property (accounting for 59% of all defaults in 2022), Russia (38%) and Ukraine (4%). Outside these markets, default rates remain moderate at 2.2% in LatAm and close to zero in Middle East and Africa.

Finally, on the technical side, supply trends remain very supportive for EM corporates as minimal issuance and strong cash flows are leading to negative net financing needs YTD.

On balance, we believe that resilient short-dated EM quality credit brings value to diversified portfolios, while providing a high carry. EM corporate bonds have an average rating of BBB and offer a yield of 6.9% with a moderate duration of 4 years.

Within EM credit, we favour solid companies with stable cash flows from GCC, Latin America and Indonesia. These areas should continue to benefit from the favourable commodity price environment and a continued reallocation of investors' flows from EM Europe and China.

EM credit spreads have tightened from their peak in mid-March.



Source: Bloomberg, HSBC Global Private Banking, as at 6th of September 2022. Past performance is not a reliable indicator of future performance.

Currencies and Commodities

USD strength has been almost uninterrupted since early 2021, and we believe the dollar will continue to be well supported, even at current levels. The Jackson Hole meeting reduced hopes that the Fed will slow the pace of its rate hikes, which means USD will retain its yield attraction. And while growth is slowing around the world, the US economy is more resilient than the Eurozone or the UK where a recession is now our base case. Economic releases will continue to be a source of volatility as markets will continue to gauge recession risks and central bank policies. As a result, we are moving to a risk on / risk off environment, which is typically supportive for USD. We expect EUR and GBP to underperform due to significant local challenges, while JPY should trade sideways as further downward potential from near record levels is now limited. In the commodities space, we remain neutral on Gold, Silver, and Oil as the headwinds of slowing growth and a strong USD are compensated by some supply risks and broad-based inflation pressures.

Bullish
USD
Neutral
CHF, JPY, AUD, NZD, CAD, EM FX (including RMB), Gold Silver and Oil
Bearish
EUR, GBP, INR

Although the US dollar has gained around 14% since the start of the year and should still be well supported, some market drivers have changed.

The commodity market saw a sharp correction in June after prices reached an all-time high. Increasing risks of recession raised concerns that global commodity demand may drop. However, despite that retreat in prices, the supply/demand balance remains tight, and prices have bounced back lately. In turn, those high commodity prices continue to darken commodity importers' currency outlook. For instance, many European countries and the UK are dependent on external energy sources and are therefore hurt by the higher prices. Higher energy costs are compressing purchasing power and limit household consumption. As a result, as inflation continues to rise, growth prospects are weaker and central banks are left in a dilemma just as the room for tightening narrows further.

As the Fed continues on its rate hike path, the US yield advantage over other G-10 currencies remains in its favour. In spite of the fact that the US, Eurozone, UK and many EM central banks are all hiking, we believe the greenback will remain the leading currency. Although the US showed signs of stabilising inflation, we believe the Fed will wait for further proof that inflation has peaked before turning more dovish. We do not expect central banks to deviate from their signalled rate path in the short term, and the message we took away from Jackson Hole was that the Fed is not ready to pivot.

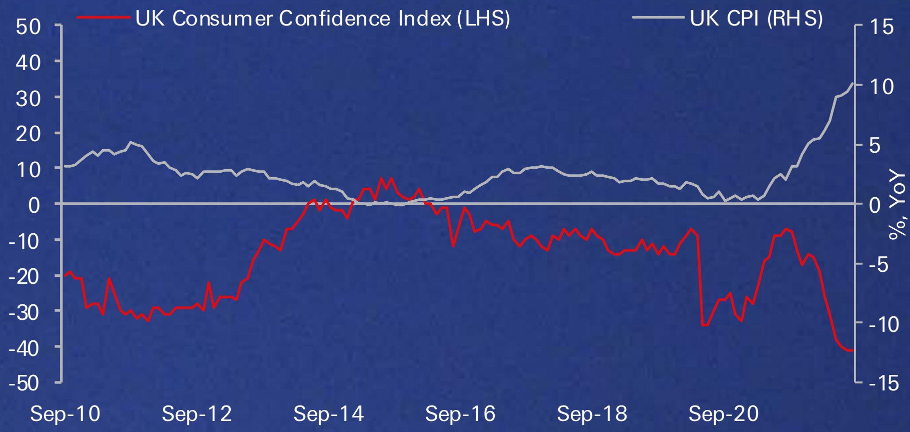
However, while the focus of markets has so far mostly been on interest rate differentials, we believe the market will pay more attention to economic drivers than before, and this will likely increase the volatility in FX markets. Still, in a risk on / risk off environment, the US dollar typically tends to do well.

Putting all of this together, the outlook for EUR and Sterling is negative due to the challenging economic outlook and the prospect of continued stagflation. We believe JPY will manage to trade sideways in the coming months, helped by a strong reduction in bearish positioning and some volatility in global risk appetite. After maintaining a bearish position from October 2021 to August 2022 and a sharp fall of JPY, we have taken profit and believe the room for further weakness is now limited.

Despite the recent bounce in commodity prices, we do not expect Gold and Silver to outperform in the coming months. The US dollar's positive outlook will weigh on both metals, and the yield advantage will continue to favour USD.

Oil prices have decreased since the beginning of June and although we do not expect them to decrease further, we do not expect a strong rebound either. Global supply seems to be picking up given the increase in Russia's production and the possibility of increased exports by Iran, but demand seems softer than before. The market seems adequately supplied for now, so we believe prices will trade sideways in the coming months.

UK consumer confidence has dropped to a low level as inflation soars, hurting GBP.



Source: Bloomberg, HSBC Global Private Banking, as at 6th of September 2022.

Hedge Funds

The hedge fund environment has been volatile, with much differentiation in performance. Managed futures, market neutral and multi-strategy/multi-PM continue to be the strongest performing strategies, whilst equity long/short and event driven strategies have broadly detracted. While Developed Market Macro and Multi-Strategy remain our favourite strategies, we upgrade Market Neutral Systematic and Equity long/short Asia strategies and downgrade Emerging Markets Macro. We continue to see a strong opportunity set to generate alpha as markets consolidate, and hedge funds remain important portfolio diversifiers amid continued market volatility.

The uncertain environment has led risk-on strategies (equity long/short, credit long/short and event driven) to run with lower than average risk to protect capital. But the volatility within and across asset classes has also created many attractive opportunities for managers particularly in the macro and managed futures space as they have captured trends within rates, commodity and equity markets.

Multi Strategy

We continue to hold a positive outlook for Multi-Strategy/Multi-PM managers and a neutral/positive view on Market Neutral Multi-PM strategies. Within sub-strategies, we are positive on Commodity strategies, as geopolitical risks persist. We are also neutral-positive on fundamental equity, as these strategies are market-neutral and are more consistent performers in uncertain markets with elevated volatility. We are neutral-positive on Quantitative strategies, where increasing idiosyncratic volatility and high stock dispersion allow managers to capitalise on the strategy’s alpha potential.

Macro

We hold a positive rating on Developed Markets (DM) strategies, but have downgraded Emerging Markets (EM) to neutral-negative. In DM, we are constructive on the opportunity set: a hawkish Fed policy, with the ECB’s path complicated by the energy crisis and Russia-Ukraine war, opens the door to relative value trades. Moreover, there are lots of opportunities to trade the secular bull market on commodities, energy and agriculture, as well as the potential for a Fed misstep. Being tactical will be key for managers, and nimbler managers have the advantage.

Emerging markets face a challenging period ahead with spill-over risks from DM central bank tightening, continued geopolitical tensions and commodity price spikes (energy and food). EM sentiment has deteriorated significantly, while lower global liquidity is a negative for fund flows into EM. Still, we see some pockets of opportunity in select economies, including those that have commodity and tourism tailwinds.

Systematic and Managed Futures

While bullish USD trades were profitable as the currency reached new highs, commodities have been more volatile, recently declining after a strong run.

We upgrade Market Neutral Systematic to neutral-positive, and remain neutral on all sub-strategies with the exception of Equity Long Bias Systematic, which remains neutral-negative. The market outlook is getting more positive for systematic market neutral strategies which have benefitted from elevated volatility. The resurgence of single-stock shorting amongst equity long-short managers has increased market liquidity and dispersion, providing opportunities for idiosyncratic alpha generation.

Long/Short Equity

In the Equity Long/Short space, we maintain a neutral outlook for the US, Europe, and Tech, and upgrade Asia to neutral-positive. Many managers believe that consensus earnings could see some downside revisions due to the tougher economic outlook and higher rates and inflation impacting margins. Whilst US and European valuations have fallen significantly, many managers are looking to generate returns through long-short spread and continue to run lower net market beta exposure.

In Asia, investor sentiment has improved marginally from the low base in H1. Market liquidity remains ample and policy support in China should ultimately help stabilise the economy and market sentiment.

Event Driven and Credit

For Event-Driven strategies, we continue to hold a neutral rating. We see the current environment as supportive of Event-Driven strategies, despite riskier assets repricing with falling liquidity and rising discount rates. Activity remains relatively robust but has slowed somewhat and managers are reducing beta.

In Credit, we remain neutral on distressed and long/short strategies, and maintain a neutral-positive view on structured credit. Moody's forecast the global high yield default rate will be 3.3% in the coming year (up from 2.1%), with an upside risk depending on inflation, supply chain and recession risks.

Hedge fund strategy views

Strategy Return Drivers	Negative	Neutral / Negative	Neutral	Neutral / Positive	Positive
Macro					
Developed Markets Macro					●
Emerging Markets Macro		●	○		
Systematic and Managed Futures					
Managed Futures			●		
Market Neutral Systematic			○	●	
Multi-Strategy Systematic			●		
Equity Long Bias Systematic		●			
Multi-Strategy and Multi-PM					
Multi-Strategy Multi-PM					●
Market Neutral Multi-PM				●	
Equity Long/Short					
Equity L/S US			●		
Equity L/S Europe			●		
Equity L/S Asia			○	●	
Equity L/S Tech			●		
Event Driven and Credit					
Event Driven			●		
Credit Structured				●	
Credit Distressed			●		
Credit Long/Short			●		

● Q4 2022
○ Q3 2022

Note: The change in colour from grey to red would indicate a change in view between the quarters

Source: Bloomberg, HSBC Global Private Banking, as at 6th of September 2022.

Private Markets

Throughout the first half of the year, many areas of the private markets continued to outpace public market equivalents (such as MSCI World)[1]. However, we are beginning to see a softening of private market valuations, a decline in levels of fundraising and delays in exits. Manager performance continues to vary considerably and the gap between top and bottom quartile funds is increasingly apparent, highlighting the importance of manager selection. Looking ahead, we note that Private Equity (PE) performance has generally exhibited resilience during historic public market downturns. We are confident that we will continue to find attractive investment opportunities within certain thematic strategies during the second part of the year.

We are beginning to see signs that **PE performance** metrics at the asset class level are under temporary pressure, which we believe could be explained by higher costs of borrowing and longer holding periods. Specifically, interest rates have had an impact on the cost of leverage which is resulting in funds taking on less debt or face higher borrowing costs. Meanwhile, rising inflation potentially hurts company growth prospects across certain sectors, as is the case in public markets too. These market headwinds could potentially reduce fund returns. We therefore continue to focus on PE investments aimed to withstand late-cycle downturns and deliver target returns via a focus on non-cyclical and defensive sectors. To mitigate the impact of inflation, we believe it is important to focus on those market segments and business models that may allow companies to nimbly increase prices. Furthermore, to counter rising financing costs, it is important to look for value creating General Partners (GP) that are generating alpha by helping portfolio companies make operational and strategic improvements through better management, as opposed to relying on returns attributed to multiple expansion or high levels of leverage. Lastly, we focus on proven managers with long track records of investing through economic cycles.

Despite the current market challenges, we believe this is an attractive environment for deployment in PE and in fact the internal rate of returns (IRR) of investments facilitated coming out of a downturn and during recovery years has typically been strong, especially investments in top-quartile funds (see graph).

Following the record-setting pace of **fund-raising** in recent years, we are seeing a general decline in fund-raising both in terms of total value and time taken by GPs to raise capital. Private equity fundraising has returned to pre-pandemic levels, dropping 50.5% by value and 57.8% by number of funds closed in Q2 compared with the same period last year[2]. In our view, this can be explained by two reasons. Firstly, investors have faced a market downturn on the public market side, leaving investors over allocated to PE and requiring rebalancing. Secondly, some investors may be holding off on new commitments as they adjust to the more volatile economic outlook. However, we continue to believe in the benefits of disciplined deployment into the private equity asset class in line with the strategic asset allocation, through a high-conviction approach.

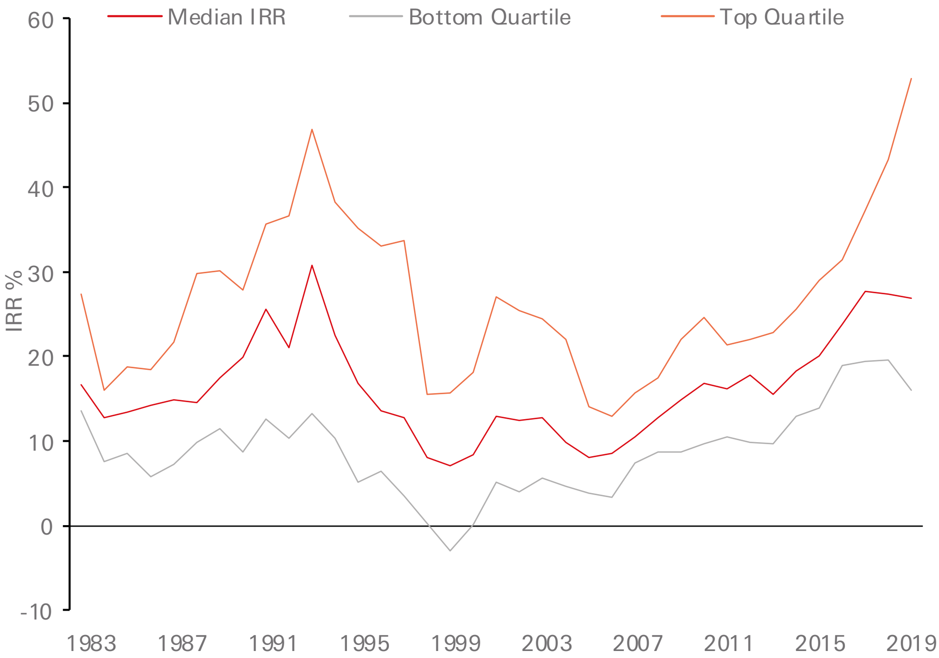
We continue to expect **PE exits** to slow down. As some GPs are reconsidering exit strategies, this causes longer holding periods for portfolio companies and delayed exits. Looking at exit strategies, there has been a significant slowdown in Initial Public Offerings (IPOs) and Special Purpose Acquisition Company (SPACs) activity, which may lead to fewer companies going public in the near term. However, we continue to see the rise of one particular exit strategy in the form of GP-led secondaries focusing on increasing liquidity. The volume of secondary transactions grew from $40 billion in 2015 to $132 billion in 2021[3], with the share of GP-led deals increasing steadily. We have previously written about this rise in GP-led secondaries reinforcing our belief in the necessity of very thorough due diligence. For example, we analyse the dynamics of each transaction to ensure their alignment is appropriate for our investors. Despite the potential for longer holding periods, it is important to note that PE's longer investment horizons can be a benefit that allows GPs to weather difficult markets.

[1]Preqin Private Capital Quarterly Index, Dec 21
[2]Bain, Shifting Gears: Private Equity Report Midyear 2022 | Bain & Company
[3]Preqin, August 2022 - Fundraising Challenges | Private Equity (preqin.com)
[4]Preqin, August 2022

Deal making has been robust in 2022, partly explained by the increasing levels of dry powder in PE, which is estimated to represent $2.4 trillion[4]. As a result, general partners (GPs) are well positioned to take full advantage of attractive targets whose public valuations have fallen sharply. We expect robust deal making to continue in the second part of the year.

As we look towards the end of 2022, we continue to pursue a high conviction strategy aimed at building exposure to companies and sectors that demonstrate three main characteristics. First, we are looking for top-down macro or micro conviction in sectors based on their long-term growth drivers. Secondly, we look for a compelling need for private capital, preferably demonstrated through success of private investors in a given area. Lastly, we seek a robust investible universe with sufficient breadth of quality opportunities to ensure we can selectively build a high-quality portfolio of the best-in-class opportunities.

Historical IRRs throughout recent downturns



Source: Preqin, HSBC Global Private Banking, as at 6th of September 2022. Past performance is not a reliable indicator of future performance.

Real Estate

Though rising interest rates are weighing on capital values, rental growth has so far held up relatively well, despite the deteriorating global economic outlook. This partly reflects the expectation that the economic downturn should remain modest, and a number of sector specific factors remain important. Higher interest rates have thinned the number of bidders who are increasingly focussed on a narrowing range of property types.

The economic disruption caused by rising inflation and interest rates is starting to negatively impact commercial real estate capital values. Two factors are responsible for the downward correction. Firstly, the economic situation has deteriorated, impacting investors' rental growth assumptions. Secondly, in order to cool inflation, central banks have been increasing policy rates. As one would expect, the result is that property yields have started to rise and values to fall.

The adjustment to values so far has been modest, and few are anticipating a value correction of the magnitude of 2008/09 when, according to MSCI data, values declined 33% in the US and 40% in the UK. Banks today are less exposed to commercial property lending, leverage is at more conservative levels, and interest rates are expected to peak at a relatively low level in a historical context, lowering the risk of large forced disposals.

We believe rising interest rates have had the greatest impact on commercial property values so far. The sharply rising cost of debt has squeezed the spread with property yields to levels, which has thinned out the number of prospective buyers, particularly given the absence of improved rental growth to compensate.

Despite the decline in economic sentiment, rental yields, for now, are not under significant pressure to decline. This is partly due to the resilience of labour markets, a key driver of leasing activity, but also a general lack of new supply, which rising input costs have helped curtail. Other reasons vary by sector and geography.

In most cities, prime office rents have been notably resilient despite vacancy rates rising, as tenant appetite for best-in-class space has maintained (and sometimes increased) the level of prime rents. The greatest risk for office space is a reduction in overall demand as a result of home working. Offices in secondary locations, especially those needing substantial capital expenditure due to environmental regulations, are considered most at risk.

Given the widespread decline in consumer confidence and falling real household incomes, the retail sector appears most vulnerable to a rental correction. However, rents in many markets have already been substantially rebased during the pandemic and sit at far more sustainable levels today. At the ICSC retail conference in Las Vegas in May 2022, the list of vulnerable tenants was at record lows as many less profitable retailers became insolvent during 2020.

Logistics properties, especially urban logistics and well-located prime distribution centres, continue to have low vacancy rates and rising rents. Strong leasing demand is being driven by occupier supply-chain investment to reduce delivery times, and retailers and manufacturers building in greater supply chain resilience triggered by the pandemic and recent geopolitical uncertainty.

The residential sector is typically amongst the most defensive sectors during an economic downturn as discretionary spending (such as eating out and holidays) tends to be cut before paying the rent. Higher interest rates also make renting relatively more affordable than buying, thereby increasing demand. Contrary to initial trends, the pandemic has not reduced demand in major cities, despite the fall in office utilisation.

If the economic downturn is more severe and prolonged than current expectations, then further downgrades to forward looking rental growth assumptions would be expected. As a result, investors would then further reduce the price they would be willing to pay for an asset.

Although there remains plenty of capital targeting real estate, investment volumes have slowed over recent months as buyer and seller price expectations have diverged. According to MSCI, the volume of pending sales at the end of June 2022 – a good indicator for the direction of travel in the second half of the year – is significantly lower than the level one year ago.

Moreover, the range of sectors in demand has narrowed. These include those with robust long-term demand drivers such as logistics (e-commerce and supply chain resilience), parts of the residential sector with demographic tailwinds (single family, student, senior and affordable housing), and self-storage (which can benefit throughout the economic cycle). These sectors have the prospect of providing continued income growth due to strong recent market rental growth.

Finally, real estate can provide investors with some inflation protection as rents in shorter lease duration sectors such as residential, logistics, hotels, and self-storage rebase frequently. Some areas have inflation linkages within their leases such as in Continental Europe or fixed uplifts (as in North America/Australia). However, a prolonged period of high inflation accompanied by low economic growth (stagflation) could leave parts of the market over-rented (rents paid higher than market levels), ultimately weighing on future income returns.

Disclaimer

Risks to our View

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

Risk Disclosures

Risks of investment in fixed income

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

Credit risk

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

Risks associated with high yield fixed income instruments

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

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

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

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

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

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

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

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

Changes in legislation and/or regulation

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

Nationalization risk

The uncertainty as to the coupons and principal will be paid on schedule and/or that the risk on the ranking of the bond seniority would be compromised following nationalization.

Reinvestment risk

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

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

Risk disclosure on Dim Sum Bonds

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

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

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

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

Risk disclosure on Emerging Markets

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

Risk disclosure on FX Margin

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

Currency risk – where product relates to other currencies

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

Chinese Yuan ("CNY") risks

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

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

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

Illiquid markets/products

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

Disclosure concerning sustainable investments

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

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

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

HSBC may rely on measurement criteria devised and/or reported by third party providers or issuers. HSBC does not always conduct its own specific due diligence in relation to measurement criteria. There is no guarantee: (a) that the nature of the sustainability impact or measurement criteria of an investment will be aligned with any particular investor's sustainability goals; or (b) that the stated level or target level of sustainability impact will be achieved.

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

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

Alternative Investments

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

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