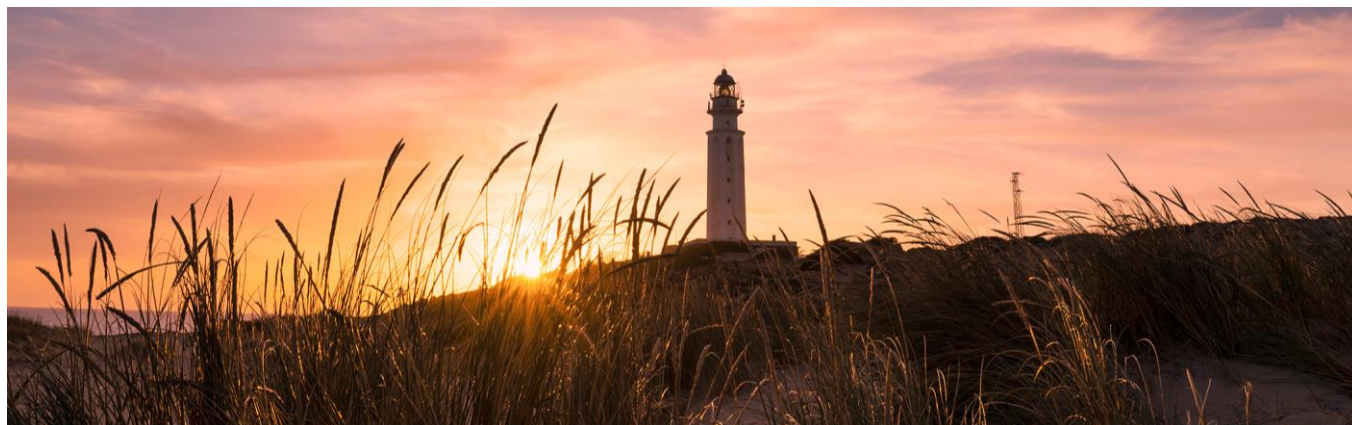


GIC Monthly View Summary October 2023

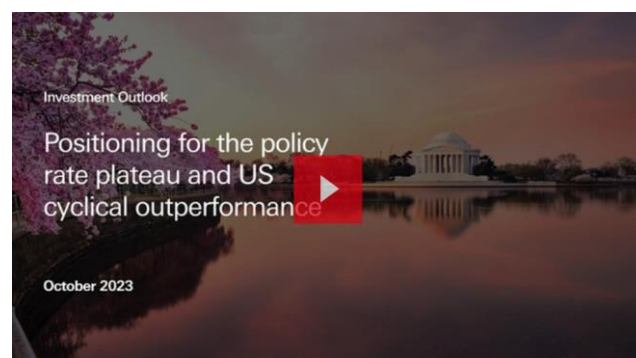
27 September 2023



Positioning for the policy rate plateau and US cyclical outperformance

- ◆ We believe that we have now reached the policy rate peak in developed markets. Even in the US, there should not be any further hikes in this cycle, as we move to a rate plateau instead.
- ◆ The other big driver of our positioning is the contrasting economic and earnings outlook, with the US showing much more resilience than the Eurozone and the UK.
- ◆ The first implication is for currencies, where the cyclical outlook now gives us more direction than rates. We thus continue to look for USD strength, against EUR, GBP and NZD. Within Europe, CHF should appreciate against EUR. And in EM, we continue to like INR, BRL and MXN.
- ◆ In equities, we favour the US over Europe due to its better growth/inflation mix. We downgrade German stocks and continue to be much more comfortable with a pro-cyclical sector stance in the US than in Europe. But although the rate plateau should ease the headwinds for IT, we continue to diversify our tech exposure with our High Conviction themes on US Healthcare and the North American Re-Industrialisation.
- ◆ In bond markets, high real yields, very short speculative positioning and peak policy rates support the case for high quality credit. We maintain a neutral duration stance except in the UK, where the dovish BoE tone allows us to go longer. And we upgrade Indian local currency bonds following their inclusion in a key benchmark index.

Watch a summary of our latest views



Click on the image to hear from our **Global Chief Investment Officer, Willem Sels**



Global Private Banking

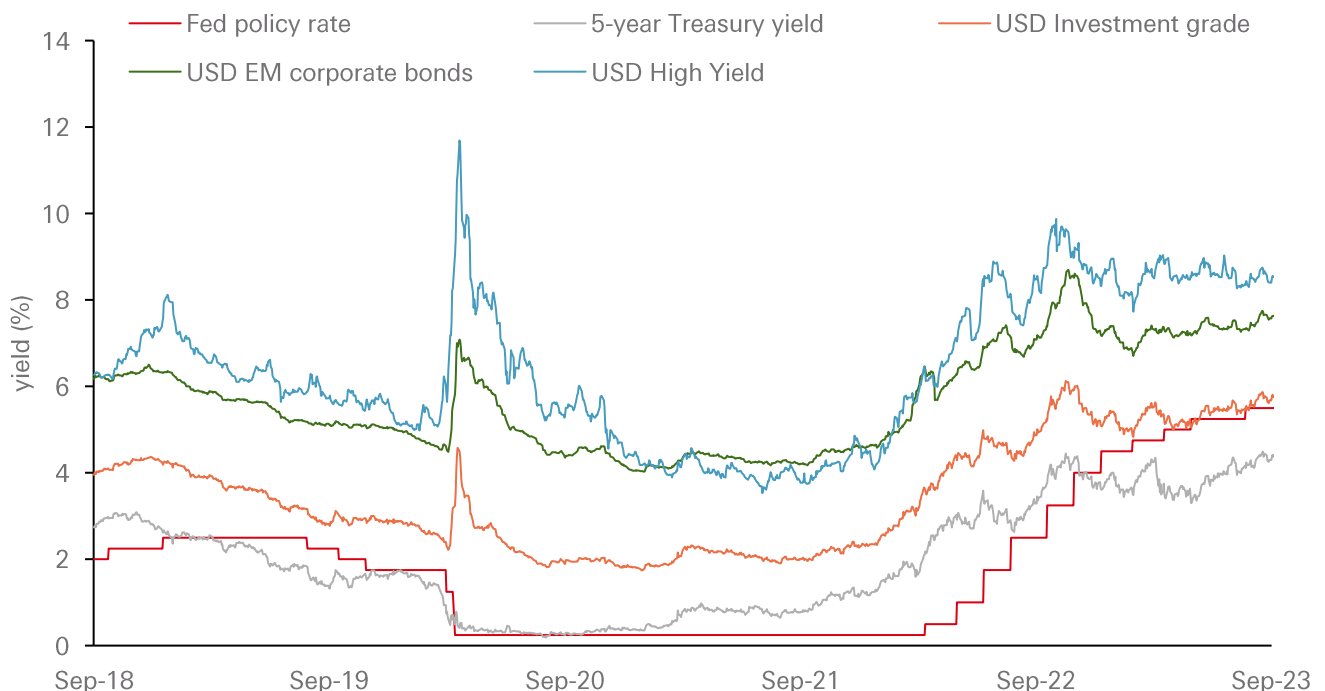
Priority #1 > Lock in bond yields of medium duration quality credit

- ◆ This priority addresses the temptation to continue to sit in cash, as cash rates have risen sharply. But cash rates cannot be locked in, so we lock in bond yields instead.
- ◆ As our chart shows, bond yields remain at attractive levels, and we think the recent spike in Treasury yields (which also pushed up corporate bond yields) is exaggerated, providing a good entry point.
- ◆ We believe cash rates have now peaked in the US, Eurozone and UK. The next step for markets will, therefore, be to anticipate cuts. If markets now start to anticipate more cuts, which eventually will push up bond prices and boost returns.

Our focus:

- ◆ Our two themes—Opportunities in Quality Credit and Defensive Positioning across DM Financial Bonds—focus on opportunities aligned to this priority.
- ◆ We focus on quality credit, preferring investment grade (IG) over high yield (HY), as growth is slow and the spread pickup between IG and HY is insufficient.
- ◆ We see opportunities in DM as well as select EM.

Bond yields remain at attractive levels in our view and should be capped by the end of Fed's rate hikes



Source: Bloomberg, HSBC Global Private Banking as at 27 September 2023. Past performance is not a reliable indicator of future performance.

Priority #2 > Broaden the opportunity set

- ◆ With this priority, we address concerns around the run-up in IT valuations, which remain high in spite of a recent mild drop. We think the equity market rally will broaden out in the US, and we also see opportunities in other countries that investors could sometimes overlook—the less usual suspects.
- ◆ Earnings delivery will be key, as most of the upside, so far, has come from the expansion in valuation multiples (see chart), so we continue to focus on quality stocks, which we think we can find in many sectors apart from IT.
- ◆ We further broaden the opportunity set by looking at other markets with strong fundamentals.

Our focus:

- ◆ We maintain our overweight on US IT but also see opportunities in US industrials, financials, consumer discretionary and healthcare. We recently launched two High Conviction themes: 'North American Re-Industrialisation' and 'Innovation and Opportunities in US Healthcare'. Equal-weighted indices can cap the impact of the mega-caps. We remain size agnostic but acknowledge that tightening credit conditions could hurt some small caps disproportionately. Geographically, we are overweight on the US but also like stocks in India, Indonesia, Mexico and Brazil.

Most of the equity market rally this year has been driven by rising valuation multiples. Earnings delivery will become increasingly important



Source: Bloomberg, LSEG, HSBC Global Private Banking, as at 27 September 2023. Past performance is not a reliable indicator of future performance.

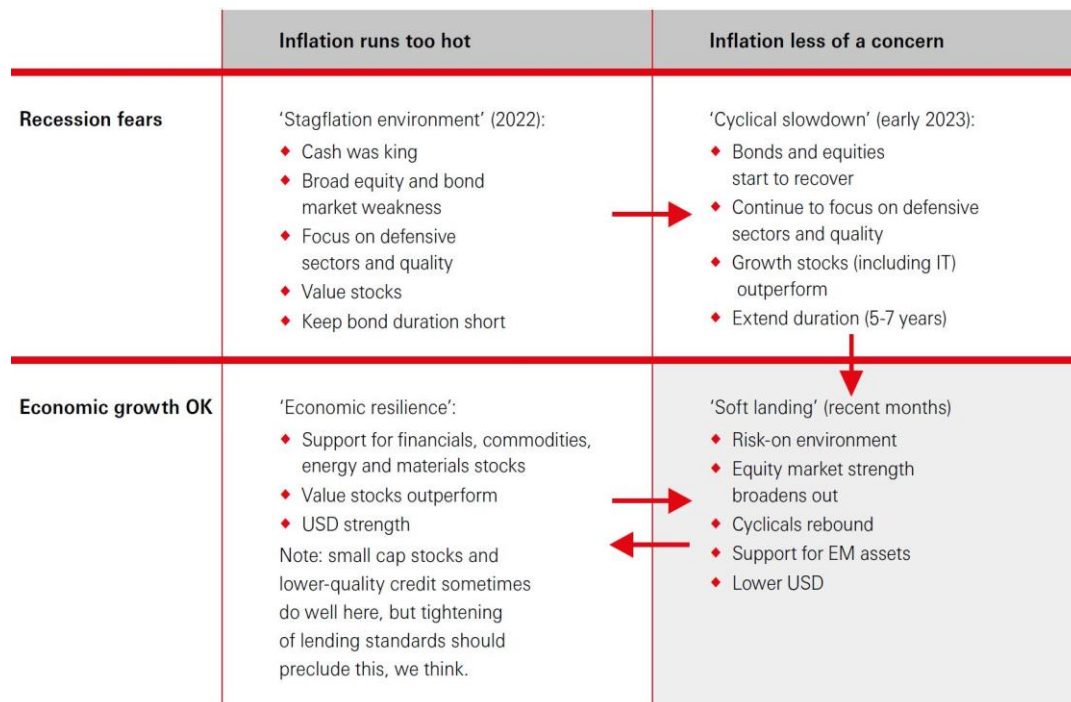
Priority #3 > Manage risks through uncorrelated assets and volatility strategies

- ◆ The market's perception of the growth/inflation mix may continue to shift, creating volatility. Valuation dispersion is high. And implied equity volatility is remarkably low.
- ◆ We manage risks through uncorrelated assets and volatility strategies because macro-economic and policy uncertainties remain, creating tactical and relative value opportunities as well as the need to diversify.

Our focus:

- ◆ Hedge funds are better able to exploit quick shifts in market perceptions than traditional investors. Relative valuation differentials offer further opportunities to hedge funds.
- ◆ We favour Discretionary Macro, Equity Market Neutral, Equity Long/Short with low net approaches, Structured Credit, Multi-Strategy and Multi-PM approaches.
- ◆ Volatility strategies can exploit the low implied equity volatility and private asset exposure can help look through volatility or take advantage of dislocations.

The evolution of macro regimes



Source: HSBC Global Private Banking as at 27 September 2023.

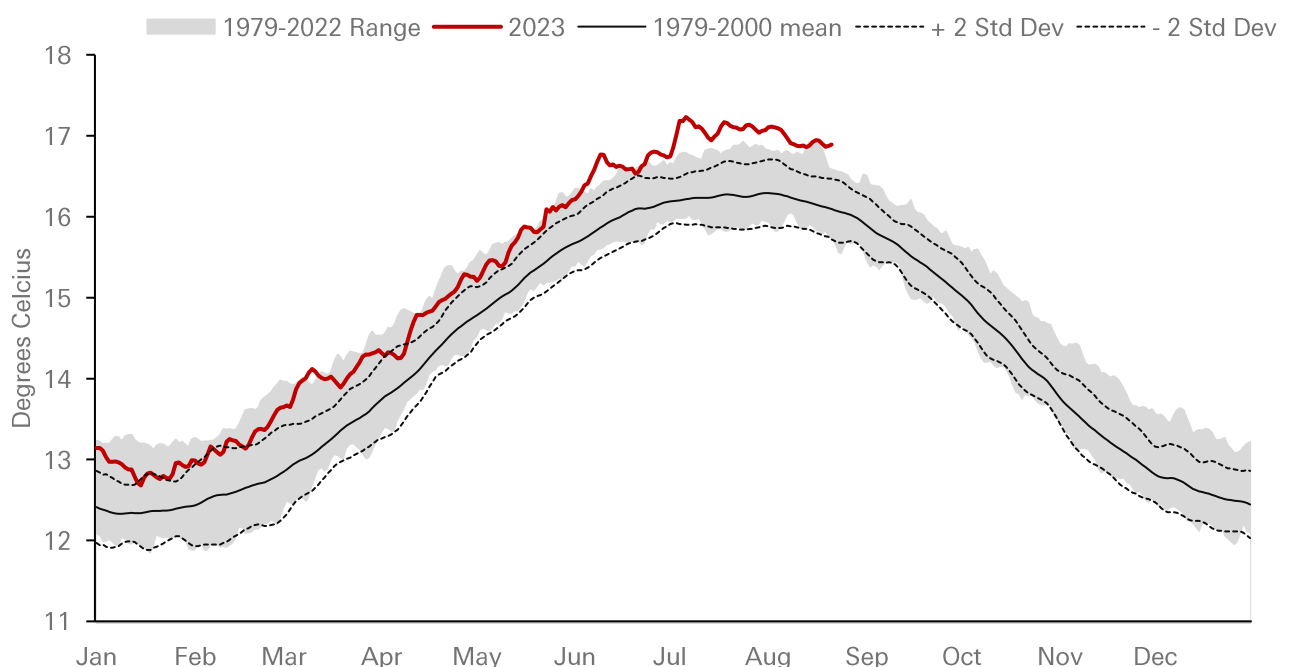
Priority #4 > Tap into the sustainability revolution

- ◆ Climate change and threats to biodiversity have been very visible this summer. Investors' worry around them is also evident.
- ◆ The focus should intensify as we approach the December COP28 summit in Dubai. Stimulus plans in the US, China and the EU include huge green infrastructure investments. And electric vehicle (EVs) innovation and adoption continues apace.
- ◆ As the public policy focus on these topics increases and innovation and investment accelerate, we think there are many opportunities for investors to participate in the truly transformative sustainability revolution.

Our focus:

- ◆ We tap into the potential of this priority via our high-conviction themes, including 'Energy Transition and Independence', 'Investing in Biodiversity' and 'Asia's Green Transformation'. Also, our global 'Infrastructure' theme taps into green infrastructure.

Global air temperatures have been well above average and reached a record high in July



Source: Climate Change Institute, HSBC Global Private Banking as at 27 September 2023.

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 cancelled. 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.

Contingent convertible securities (CoCos) or bail-in debentures are highly complex, high risk hybrid capital instruments with unusual loss-absorbency features written into their contractual terms.

Investors should note that their capital is at risk and they may lose some or all of their capital.

Changes in legislation and/or regulation

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

Nationalisation risk

The uncertainty as to the coupons and principal will be paid on 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 have a negative effect on the prices, mark-to-market valuations and your overall investment.

Risk disclosure on Dim Sum Bonds

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

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

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

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

Alternative Investments

Hedge Fund - Please note Hedge Funds often engage in leveraging and other speculative investment practices that may increase the risk of investment loss. They can also be highly illiquid, are not required to provide periodic pricing or valuation information to investors, and may involve complex tax structures and delays in distributing important

Information. Alternative investments are often not subject to the same regulatory requirements as, say, mutual funds, and often charge high fees that may potentially offset trading profits when they occur.

Private Equity - Please note Private Equity is generally illiquid, involving long term investments that do not display the liquid or transparency characteristics often found in other investments (e.g. Listed securities). It can take time for money to be invested (cash drag) and for investments to produce returns after initial losses.

Risk disclosure on Emerging Markets

Investment in emerging markets may involve certain, additional risks which may not be typically associated with investing in more 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; (e) 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.

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

Currency risk – where product relates to other currencies

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

Chinese Yuan (“CNY”) risks

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

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

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

Illiquid markets/products

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

Environmental, Social and Governance (“ESG”) Customer Disclosure

In broad terms “sustainable investments” include investment approaches or instruments which consider environmental, social, governance and/or other sustainability factors to varying degrees. Certain instruments we classify as sustainable may be in the process of changing to deliver improved 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. 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 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 regulatory frameworks are being developed which will affect how sustainable investments can be categorised or labelled. An investment which is considered to fulfil sustainable criteria today may not meet those criteria at some point in the future.

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