

Opportunities in a Complex World

Investment Outlook

Q1 2024



Contributors



Head of Asset Allocation

Stanko Milojevic
stanko.milojevic@hsbcpb.com
+44 (0)207 024 6577



Global Chief Investment Officer

Willem Sels
willem.sels@hsbcpb.com
+44 (0)207 860 5258



Director, Global Market Strategist and Managing Editor

Neha Sahni
neha.sahni@hsbcpb.com
+44 (0)207 024 1341

Regional Chief Investment Officers



Chief Investment Officer, Asia

Cheuk Wan Fan
cheuk.wan.fan@hsbcpb.com
+852 2899 8648



Chief Investment Officer, North Asia

Patrick Ho
patrick.w.w.ho@hsbcpb.com
+852 2899 8691



Chief Investment Officer, Southeast Asia and India

James Cheo
james.cheo@hsbcpb.com
+65 6658 3885



Chief Investment Officer, China

Desmond Kuang
Desmond.kuang@hsbc.com.cn
+86 21 38881020



Chief Investment Officer, EMEA and Switzerland

Georgios Leontaris
georgios.leontaris@hsbcpb.com
+41 (0)58 705 5746



Investment Strategist, Chief Investment Office - EMEA and Switzerland

Sabrina Janna Zeyher
sabrina-janna.zeyher@hsbcpb.com
+41 58 705 5963



Chief Investment Officer, Americas

Jose Rasco



Chief Investment Officer, UK & CI

Jonathan Sparks
jonathan.sparks@hsbcpb.com
+44 (0)20 7860 3248



Global Head of Fixed Income

Laurent Lacroix
laurent.lacroix@hsbcpb.com
+44 (0)207 024 0613



Global Head of Equities

Kevin Lyne Smith
kevin.lyne-smith@hsbc.com
+44 (0)207 860 6597



Currencies and Commodities Strategist

Rodolphe Bohn
rodolphe.bohn@hsbcpb.com
+44 (0)203 359 1177



Director, Global Equities

Bryan O'Carroll
bryan.ocarroll@hsbcpb.com
+44 (0)203 268 4220



Global Market Analyst, Real Estate Investment

Guy Sheppard
guy.r.sheppard@hsbc.com
+44 (0)207 024 0522



Head of European Hedge Fund Research

Alex Grievson
Alex.grievson@hsbc.com
+44 (0)203 359 7065



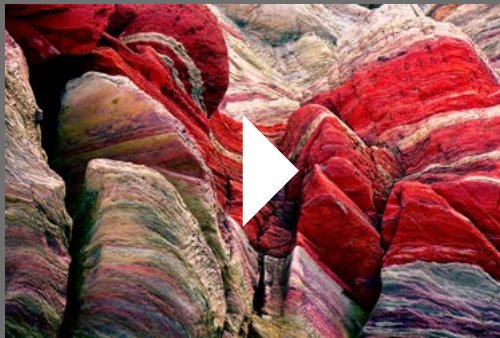
Senior Product Specialist, Private Market Investments

Jorge Huitron
jorge.emilio.huitron@hsbc.com
+44 (0)203 359 7040

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Opportunities in a Complex World



Q1 2024. Issued on 23 November 2023

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Asia in the New World Order



Q1 2024. Issued on 23 November 2023

Welcome

Dear client

As we look into 2024, investors face many complexities, but in this Investment Outlook, we try to unearth the opportunities. To do this, we think it helps if we put the big questions in three categories.

The first fundamental question is that of economic and earnings growth. Global economic growth should be well below normal, but the US engine continues to run, thanks to a strong US consumer, government stimulus supporting investment and innovation in tech and healthcare. Chinese growth is held back by the property sector challenges, but more monetary stimulus and deficit spending should put a floor under growth. Europe is flirting with recession, causing us to maintain our clear preference for the US stocks and our strong USD view. But overall, we think that those calling for a global recession will again be proven wrong.

There is good news on the rate front too. Rising rates were the number one challenge for bond and stock markets in 2023, as central banks kept hiking for longer than we and others had expected. But as inflation is down markedly, the major western central banks have now paused. This should help ease rate volatility and support asset valuations. We see value in quality bonds following the repricing, and equity valuations have come down too, providing upside for stocks that can deliver on earnings expectations.

As policy rates stay high for longer, financing conditions may tighten further, but we do not expect a credit crunch. That's because corporate cash balances are high and they locked in low funding rates in recent years. So the pain of refinancing will not be a sudden shock but spread out over time. Still, credit spreads may widen, and we manage this by focusing on quality – i.e. bonds and stocks of companies with manageable leverage and strong cash flows – preferably large

caps. And as the relative value has shifted from the credit to the rate side, our strategic asset allocation also rebalances towards lower risk bonds (sovereigns and investment grade) from higher risk bonds (high yield and emerging markets).

The third source of complexity includes the busy 2024 election calendar, the challenged US-China relationship, the multi-polar world, and the unknown path and effects of the Russia-Ukraine and Israel-Hamas wars. It is hard to take directional views on these topics, but what we do know is that they add to volatility and increase tail risks. As for the net zero transition, there is valid concern over how governments will work together. But after the hottest 12 months ever recorded, there should be no doubt that all parties need to deliver on their promises, creating risks as well as opportunities.

So, our analysis of fundamentals, valuations and positioning supports a constructive (though selective) stance, with the following priorities:

1. Extending bond duration ahead of policy easing: Bond investors will gather confidence from the fact that central banks paused at their most recent meetings. We lengthen duration ahead of the Fed rate cuts, which we expect to see from Q3 2024. These cuts will weigh on cash returns but should benefit bonds. We are overweight in developed market government bonds with 7-10 year maturities and prefer investment grade corporates over high yield.

2. Broadening US equity exposure to benefit from soft landing: The US economy should continue to outperform the bearish consensus. High tech valuations are warranted by strong structural growth in areas such as Generative AI & Robots and New Energy Transportation. But the resilient economy should support other – cheaper – sectors too, reflected in our North American Re-Industrialisation and Healthcare Innovation themes. The US consumers'

resilience should benefit our American Resilience theme and strategies with exposure to broad US indices.

3. Hedging tail risks via alternatives, multi-asset and volatility strategies:

Markets will continue to worry about cyclical, interest rate and geopolitical risks. A core allocation to private markets and multi-asset strategies can add diversification, while nimble hedge funds can take advantage of market volatility. Volatility strategies can help take a directional view on volatility or can be used to generate income to stabilise portfolios' total returns.

4. Diversifying EM exposure into structural growth leaders:

Slow Chinese growth, high rates and a strong USD should impact EM countries to different degrees. So we look for markets with positive cyclical momentum and structural growth stories, with India standing out on both counts. ASEAN and Mexico are well placed to ride on the supply chain diversification trend and the growth of middle-class consumers. Given the very low valuations, we also see select opportunities in Hong Kong and mainland China growth leaders in the service consumption, internet, and electric vehicle sectors. Our Asia High Conviction Themes tap into all these topics.

After a big repricing like we've seen in the past 24 months, it's important to rebalance portfolios. Amid low growth and a policy rate plateau, putting cash to work in quality assets tends to be the right approach. Our strategy for 2024 is to find diverse sources of return and income, to boost the return potential and manage volatility.

We wish all our clients a happy, healthy and prosperous new year.



Willem Sels,
Global Chief
Investment Officer

23 November 2023

Our Portfolio Strategy

We continue to put our cash to work because valuations have improved and US resilience should keep us from going into a global recession. But in this complex world we focus on quality, resilience and diversification throughout, preferring Treasuries and investment grade over high yield; choosing US, EM Asia and Latin American stocks over Europe; and adding hedge funds and tail risk hedges. We formulate four priorities to help capture diversified sources of returns and manage volatility.

Cash: underweight

Fixed Income: overweight

Overweight developed market (DM) government bonds

A preference for investment grade over high yield

Equities: neutral

Overweight US, EM Asia and Latin America

Underweight Eurozone and EM EMEA

Style biases: quality and large cap

Alternatives: overweight

Overweight Hedge Funds

Keep core allocations to Private Markets and Real Estate

The cyclical outlook continues to support US stocks and USD

'US exceptionalism' dominated markets in 2023. The US economy defied investors' fears that Fed tightening would lead to a recession, and it seems that the

Fed has indeed managed to find the very narrow 'soft landing' strip. In fact, it's better than that, considering that Q3 GDP growth stood at 4.9%: resilient labour markets and falling inflation continue to boost consumer spending, and government stimulus programmes re-invigorate manufacturing and investment activity. The relative outperformance is stark, as Europe flirts with recession and China's property sector continues to be a drag on growth. In this context, we have been holding a preference for US stocks, a mild cyclical US sector stance and a strong USD view, and we continue to do so.

2024 will be a journey though, as economic growth in the West should bottom in Q1, followed by a mild acceleration. Falling CPI and the comfort that rates have peaked, should support consumption and investment spending across Western nations. There are two-way risks around this due to the two devastating wars, which could ease or deteriorate, and would impact Europe more than the US. As for China, our base case is GDP growth that roughly goes sideways as the property sector continues to be an obstacle to growth acceleration. But the government's willingness to widen the deficit to boost growth should ease the downside risk for Chinese stocks and create an upside scenario if things go well. For now, we maintain our underweight on Eurozone stocks and our neutral view on the UK and China. But we prepare to be nimble in equity markets when the situation changes and think USD strength will probably start to stall in Q2 or Q3.

Any relief from the rate side?

The biggest obstacle to Western equity markets has come from the rate side in 2023, as it has forced price/earnings

valuation multiples to contract (see graph). Luckily, the earnings side has offset this: there has been relief that most economies have not gone into recession, and easing cost pressures have boosted earnings. There is some concern that S&P 500 valuations are too high compared to bond markets, but as our graph shows, this is mainly due to the high valuations of the megacap tech stocks with support of their high RoE. When we weigh all stocks the same way, the valuation gap is less. Still, with full valuations in equity markets, we need to make sure that the companies we choose warrant the multiples, and we therefore focus very strongly on companies that can deliver on earnings expectations. This confirms the quality bias that we have held throughout 2023 and continue to hold.

The good news, now, is that the rate headwind should start to ease. The Federal Reserve (Fed), European Central Bank (ECB) and Bank of England (BoE) have all paused in their latest meetings, and we think they are done hiking rates. That should anchor the short end of the bond yield curve, and as inflation continues to ease, we think 2-year yields should even fall later in 2024 as markets start to anticipate rate cuts in coming years. We expect the first Fed rate cut in Q3 2024 and the first rate cut by the ECB in December 2024 (the BoE may only cut in 2025).

The longer end of the yield curve is impacted by other factors and was pushed up by stronger economic data and concerns about rising US deficits, leading to rising supply at a time when the Fed is selling bonds (quantitative tightening). We think much is now priced in, and expect longer dated yields to come down. For one, US real yields are attractive compared to other markets,

which could lead to flows into USD bonds. The current high real yields contribute to tightening of financial conditions, which is doing the work of the Fed, and may therefore lead to market hopes of earlier cuts. The Treasury Department has signalled it will issue more shorter-dated bonds, which should help lower the cost of long-dated bonds, while the Fed will probably halt QT in 2024. All of this made the spike of 10-year Treasury yields to 5% in October, unsustainable, and we therefore recently extended duration to 7-10 years. In investment grade, we keep duration to 5-7 years, and in high yield to 3-5 years.

This is mainly because of the risk of some spread volatility.

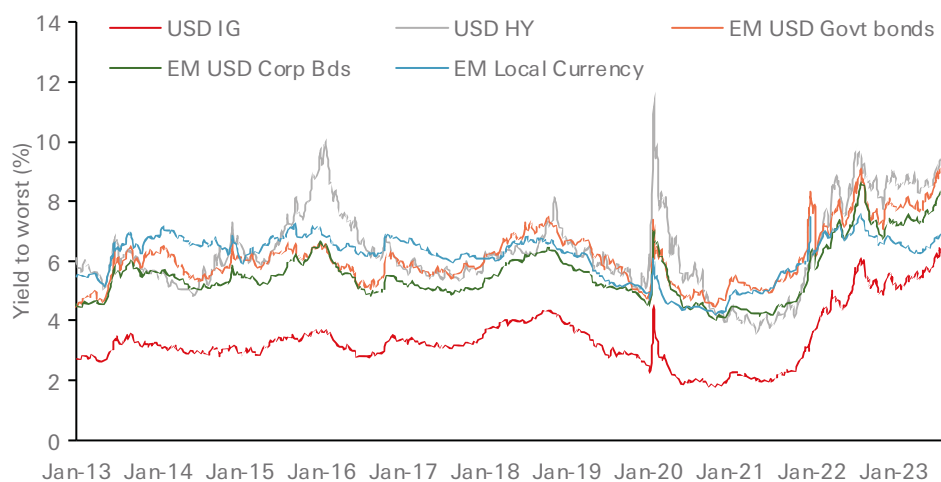
Indeed, the question is by how much and when the big move in policy and Treasury yields we've seen to date will push up credit spreads, loan delinquencies and corporate defaults. This concern surfaced first in March 2023, when tightening lending standards and US regional bank stress caused some investors to become very negative on credit. But this proved to be very premature, and the long lags between the rate hikes and the real economic impact have puzzled investors. Where do those lags come from? Companies

and consumers had both extended the maturities on their loans and mortgages when rates were low, which means that many are not yet hit by the increased costs. But once the debt needs to be refinanced, costs can jump quite significantly, causing some distress. So the good news is that borrowers are not all hit at the same time and the pain will be gradual; the bad news is that some of the pain still needs to come (though for some, rates may be cut by the time they need to refinance).

For investors, this implies that we should continue to focus on companies with manageable leverage and solid cash flows, and we continue to prefer investment grade over high yield. We worry that lower real estate values, higher borrowing costs and refinancing requirements will continue to put pressure on real estate and therefore also on US regional banks. As for private credit, managers can be selective and achieve quite attractive pricing on new loans. Performance of older loans will vary depending on the borrowers, though the securitised nature and covenants may help.

In our strategic asset allocation (see next chapter), we make some changes as well, recognising that while Treasury yields have moved up a lot, credit spreads have not, which means that the relative value has shifted. As a result, we have increased our strategic allocation to developed market government bonds, away from risky fixed income (also adding to equities to keep the overall portfolio volatility unchanged).

Yields of high risk and low risk bonds have not gone up proportionally, but almost in parallel. That suggests that the value has shifted in favour of high quality bonds



Source: Bloomberg, HSBC Global Private Banking as at 22 November 2023. Past performance is not a reliable indicator of future performance.

How expensive are US stocks really? When we weigh all stocks equally, they are still more expensive than bonds, but not dramatically so



Source: LSEG, Moody's Investor Services, HSBC Global Private Banking as at 22 November 2023. Past performance is not a reliable indicator of future performance.

Investing in a complex world

Getting the view on economic growth, earnings, rates and spreads right is only the first step. In addition, a number of other hot topics will influence markets in 2024. The government debt pile is an important topic of discussion, as some wonder whether it will result in lower structural growth (arguably, in Japan and Italy, for example, it has). We're hopeful that this headwind will be countered by innovations in technology, and the fact that much of the US spending has been on productive investments towards re-onshoring and the net-zero transition, which should be accretive to growth.

Debt will be an important topic in the US elections and will be centre stage in the dysfunctional Congress. The US-China relationship meanwhile may remain challenged as election candidates try to capture the attention throughout the

year. Other topics in the US election debate may include global tariffs and healthcare costs, which could impact the inflation outlook, but the fourth year of a Presidential term tends to be good for stocks. A busy election calendar in other economies too – including Mexico, India, Indonesia, Taiwan, the EU and probably the UK – may add to two-way volatility.

The multi-polar world further complicates things, and collaboration may become even harder because of the geopolitical conflict. Some collaboration in areas where there is a clear imperative is likely though, and we believe this includes the net-zero transition. COP28 may suffer from the many divisions, but there is a lot of pressure on the host. And where governments don't deliver, we think there is still a big impetus from companies, consumers, cities and investors to progress.

That's why we continue to integrate sustainability across our core portfolio and the satellites. Thematic satellites are often growth-style companies, which suffered from rising rates in 2023, but that headwind should ease, as we have discussed above. Integrating sustainability in the core can often be done with less tracking error risk and lower style biases, especially if investors include companies that are making the transition and don't only include those with already high ESG scores (the latter tends to result in a sector and style bias).

Priorities for the next 6 months

Our table below shows our priorities for investors, which are focused on capturing the improved valuations, while quality, diversified sources of returns and tail risk hedges are there to navigate our volatile and complex world.

Our four investment priorities

1. Extending bond duration ahead of policy easing

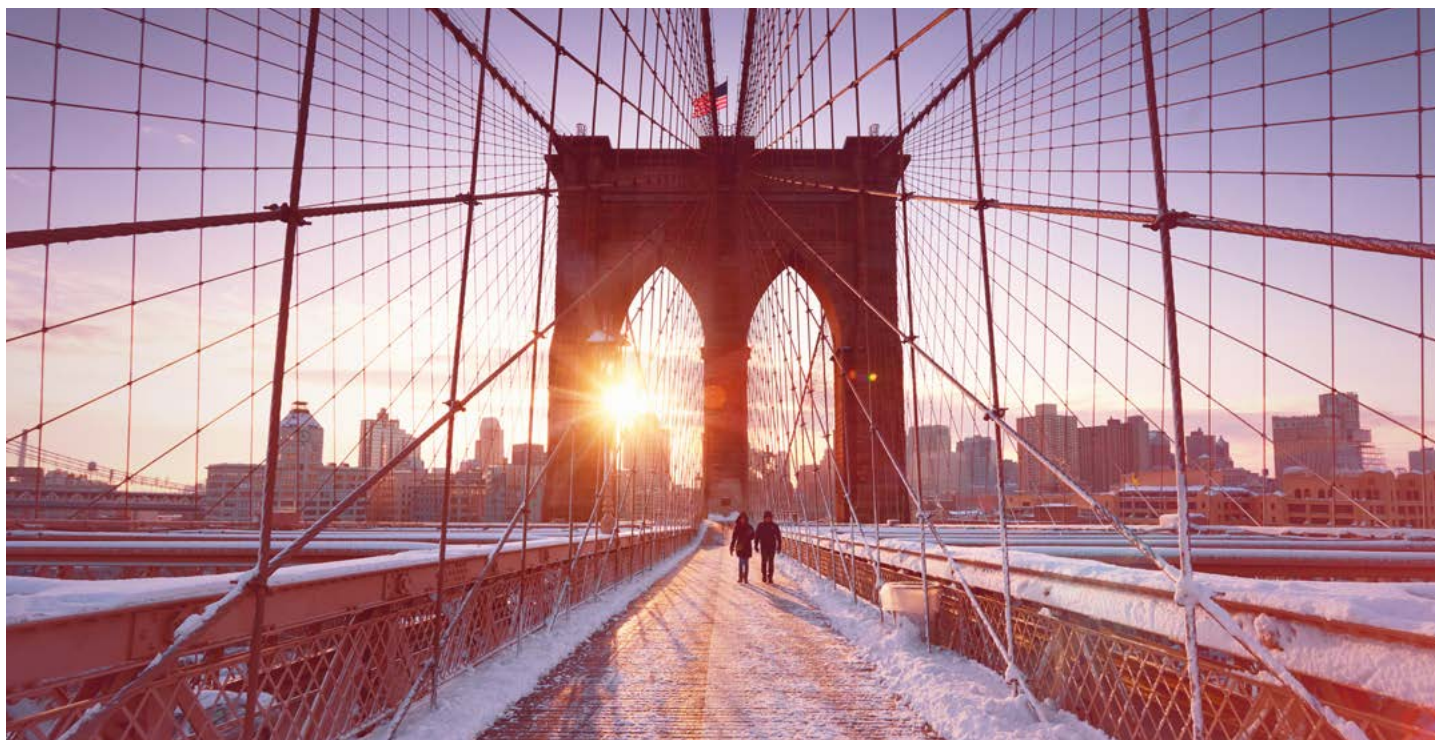
Why? Bond yields rose more than expected in 2023 because central banks kept hiking for longer than anticipated. But the Fed and others have now paused and this has already caused yields to drop somewhat from recent highs. We lengthen duration ahead of rate cuts we expect to see from Q3 2024, because when the Fed starts cutting, markets typically underestimate the pace of those cuts. That will weigh on cash returns but should benefit bond returns. Investors' current high cash balances, big negative speculative Treasury positions and the gradual end of quantitative tightening should also help support bonds.

What? We are overweight in developed market government bonds and are comfortable with 7-10 year maturities as we want to lock in current attractive yields. In corporate credit, we have an overweight position in investment grade corporates. But as spreads could see some volatility, we have a 5-7 year duration preference in investment grade, and are much more selective in high yield. We see opportunities in strategies that exploit the downward shift and mild dis-inversion of the yield curve.

2. Broadening US equity exposure to benefit from soft landing

Why? The US economy has continued to surprise to the upside and remains resilient. Strong labour markets and falling CPI help consumer spending; government stimulus programmes support investment spending; and the US is relatively self-sufficient in energy, making it less sensitive to the risk of an oil price shock. US tech valuations are elevated but off the peak, and they are warranted by the considerable structural growth in this area and high RoE. We broaden exposure to other sectors with strong fundamentals that are cheaper and can provide sector and style diversification.

What? We maintain our overweight position in technology names, in particular Generative AI and Robots, New Energy Transportation and diversified tech leaders, which have shown they can perform well even in a high rate environment. The Inflation Reduction and CHIPS & Science acts support our North American Re-Industrialisation and Healthcare Innovation themes. The US consumer continues to show resilience, thanks to strong labour markets and falling inflation, which should benefit our American Resilience theme and strategies with exposure to broad US equity indices.



3. Hedging tail risks via alternatives, multi-asset and volatility strategies

Why? Markets will continue to worry about cyclical, interest rate and geopolitical risks. Central banks remain data dependent, Europe flirts with recession, China could see two-way growth risks and there are plenty of elections to create market-moving headlines. Military conflicts in Ukraine and Gaza continue to fuel volatility in the energy, commodity, and currency markets. All these factors are bound to keep volatility elevated, create dispersion between markets and generate opportunities for nimble investors.

What? We mitigate these risks through several strategies. First, a strategic allocation to private markets as a core holding should add protection to portfolios via risk diversification. Second, hedge funds are much nimbler than the typical individual investor and can take advantage of mispricing created by market volatility. Multi-asset strategies can dampen volatility thanks to diversification. As the rate cycle has reached a plateau, we think bonds and equities should become less correlated, generating better diversification. Lastly, volatility strategies can take a directional view on volatility, exploit spikes in volatility or generate income to stabilise portfolios' total returns.

4. Diversifying EM exposure into structural growth leaders

Why? Slow Chinese and global growth, high rates, a strong USD and upside risk to oil prices should impact all emerging markets to different degrees. So we look for markets with positive cyclical momentum and structural growth stories. Investors are sometimes over-exposed to their home markets or most familiar stock markets so we believe diversification can help reduce risks while also widening the opportunity set.

What? India's stock and bond markets should benefit from the country's strong cyclical momentum and structural growth. ASEAN and Mexico are well placed to ride on the supply chain diversification trend and growth of the middle-class consumers. Given the very bearish growth expectations, valuations and investor positioning, we also see select opportunities in Hong Kong and mainland China growth leaders in the service consumption, internet and electric vehicle sectors. Our Asia High Conviction Themes tap into all these opportunities.

Changes to our Strategic Asset Allocation

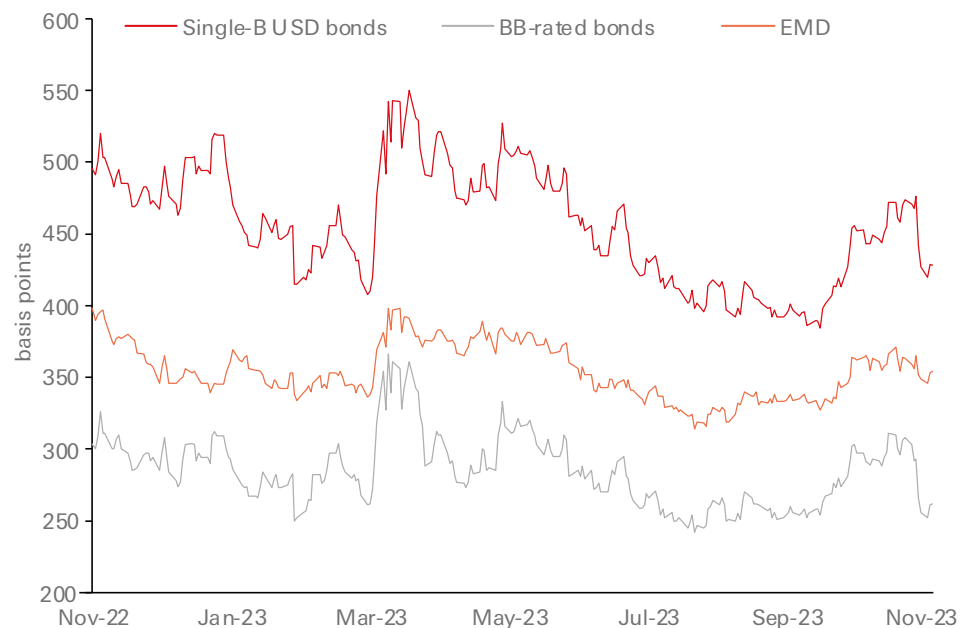
In our annual update to our strategic asset allocation, we are incorporating our refreshed 10-year capital market expected returns, courtesy of HSBC Asset Management. The major move in government bond yields and changes in macroeconomic projections warrant a decreased allocation to high yield and emerging market debt, an increased allocation to government bonds, and a slight increase to equity allocations in 2024. We continue to see value in maintaining non-directional exposures via hedge funds and utilising private markets for further diversification. Overall, our return expectations have generally moved up, indicating the current valuations are a good long-term entry point for well diversified portfolios.

There has been a significant adjustment in expected returns over the past year, primarily driven by changes to current valuations and assumptions regarding the prospective interest rate paths. Even though projections include interest rate cuts in the next few years, we now expect interest rates to remain elevated for an extended period of time, and have slightly increased our assumption of the terminal rate. The higher cash rates warrant uniformly higher expected returns across all asset classes as they are a foundational building block for return forecasts.

Relative attractiveness however remains driven by asset-class specific factors. Expected excess returns continue to vary across the different asset classes and regions. Equity markets across the globe have seen a decline in the equity risk premium over the last 12 months. But the higher cash rates make the overall expected return broadly unchanged for US equities, and meaningfully higher across other key regions. We observe the largest increases in expected returns in Japan (11.6% now vs 9.6% last year), UK (9.6% now vs. 8.9% last year) and emerging markets (10.3% now vs 9.6% last year). Intuitively, this makes sense as price / earnings multiples have generally dropped.

The relative attractiveness of non-US equity markets is also aided by the high valuation of the US dollar based on the enhanced purchasing power parity (PPP) framework. In fact, we see USD as overvalued against all major currencies from a long term perspective (though well supported in the short term), and expect a gradual reversion to fair value from 0.74% p.a. for CHF and 5.26% p.a. for JPY. We also expect the US dollar to depreciate across most emerging market currencies in the long term, with the notable exception being the Mexican Peso which has been pushed higher of late as a beneficiary of near-shoring.

Option-adjusted spreads have tightened in USD HY and EM markets



Source: Refinitiv, HSBC Global Private Banking as at 22 November 2023. Past performance is not a reliable indicator of future performance.



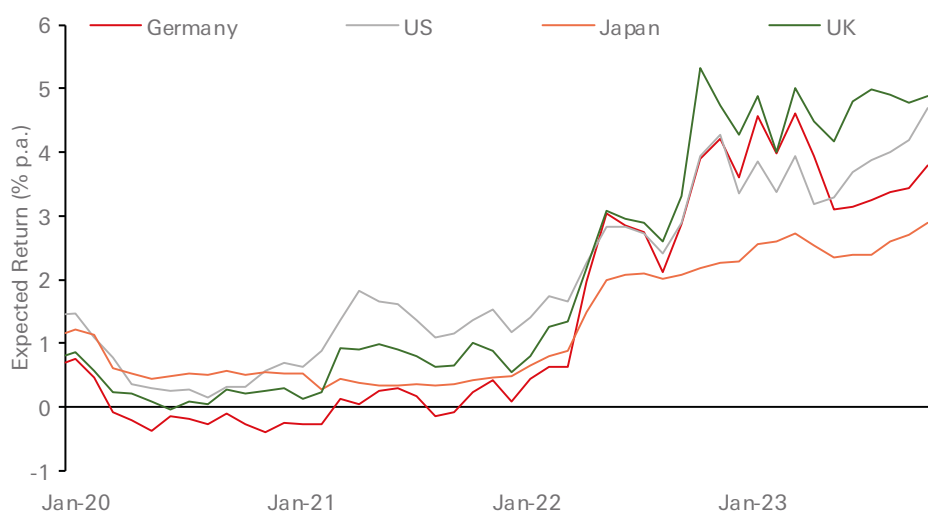
Across fixed income markets, the sharp rise of policy rates over the year naturally translates into higher expected returns across all maturities. The slight re-steepening of the yield curve since 2022 has also been positive for the term premium in government bonds. As an example, yields in the 4%-5% range on US Treasuries provide a decent cushion against further volatility in rates, and indeed we see a substantial improvement in long-term expected returns on Treasuries on a risk-adjusted basis. In credit markets, we have witnessed a tightening of credit spreads across most geographies without a corresponding improvement in default outlook, most notably in the riskier

segments of the market. Over the last 12 months, our total expected return for global high yield fell from 6.6% to 5.3%, and from 7.5 to 6.5% for hard currency emerging market debt.

With value moving from credit spreads towards the underlying rates, our SAA update naturally favours a reduction in high yield and emerging market debt allocations and an increase in government bond allocations; a long-term move that is also in line with our shorter-term views. We also observe a slight increase in equity allocations supported by the higher equity risk premium outside of the US, and therefore improved overall risk return profile.

Macroeconomic and policy uncertainty is likely to stay. We continue to see value in maintaining non-directional exposures via hedge funds, where we've seen modest increases in expected returns since a year ago. Furthermore, we also continue to favour diversifying portfolios by allocating to private markets and other alternatives.

Expected returns on sovereign bonds have risen substantially in the post-Covid world



Source: Refinitiv, HSBC Global Private Banking, as at 22 November 2023. All expected returns are shown in FX-hedged USD terms. Forecasts are subject to change.

Top Five Trends and High Conviction Themes

We have reorganised our framework for thematic investing. In terms of structural trends, disruptive technologies continue to push the boundaries of what we are able to do, while climate action is probably the first thing on the list of things we have to do. To complete our structural trends, we launch 'Evolving Society' which is all about what we want to do – our preferences, tastes and how we want to live. The themes under this trend will evolve of course, but for now, we focus on the Infrastructure and

Future Cities; Healthcare Innovation; and Social Empowerment and Well-being.

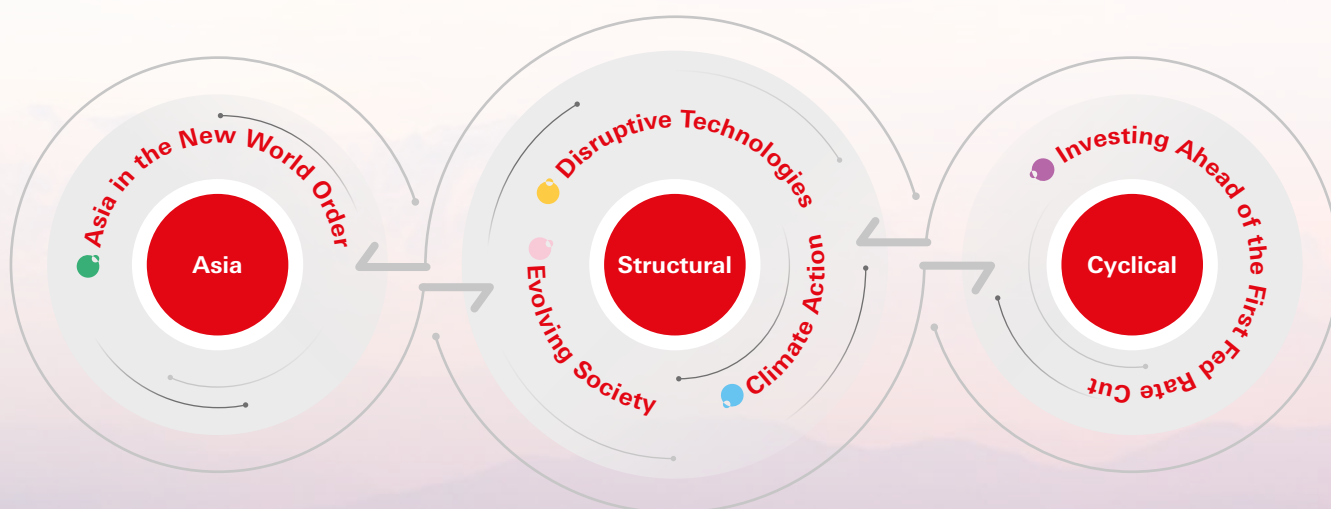
Many of these structural themes may need a longer term approach to fully see their potential, so we complete them with a set of shorter-term ones, which are well adapted to the current environment of low growth and peak policy rates. This is also because the structural themes often have a growth-style bias (i.e. they are interest rate sensitive) and we want to balance them out. For example, American

Resilience has a quality tilt, while North-American Re-Industrialisation has a value tilt. The two bond-focused themes add income as an important stabiliser of returns.

You will read about our new Asia-focused themes in the next chapter. The region remains by far the biggest contributor to global growth, but we are picking our spots, looking for quality earnings and structural growth leaders.



Top trends for 2024 and Q1 High Conviction themes.



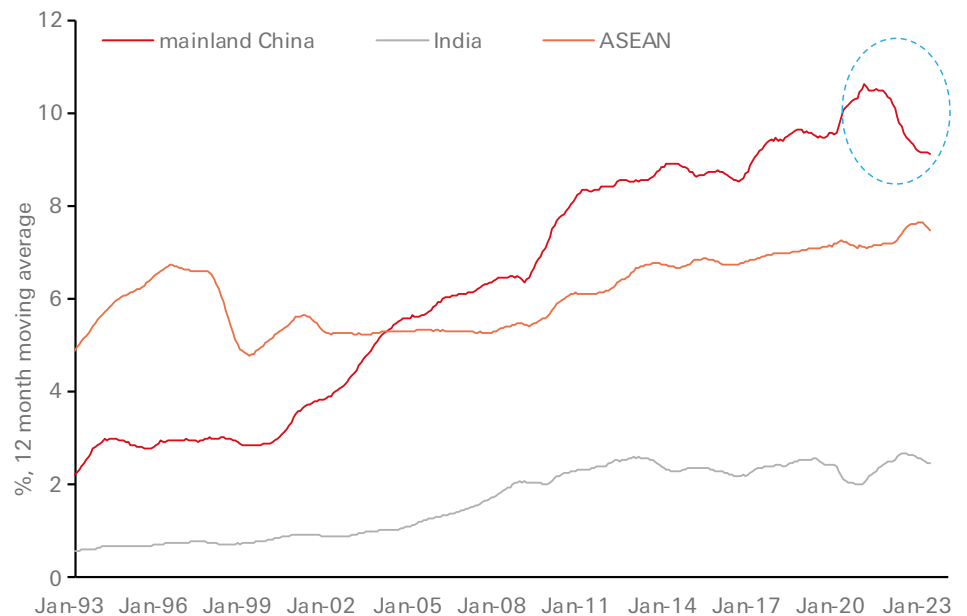
Asia	Structural			Cyclical
<ul style="list-style-type: none"> ● Asia in the New World Order ◆ Reshaping Asia's Supply Chain ◆ Future Asian Consumer ◆ Rise of India and ASEAN ◆ Capturing Peaking Asian Yields 	<ul style="list-style-type: none"> ● Disruptive Technologies ◆ Generative AI & Robots ◆ New Energy Transportation ◆ Aerospace 	<ul style="list-style-type: none"> ● Climate Action ◆ Biodiversity and Circular Economy ◆ Opportunities in Sustainable Energy 	<ul style="list-style-type: none"> ● Evolving Society ◆ Infrastructure and Future Cities ◆ Healthcare Innovation ◆ Social Empowerment and Well-being 	<ul style="list-style-type: none"> ● Investing Ahead of the First Fed Rate Cut ◆ American Resilience ◆ North American Re-Industrialisation ◆ Defensive Positioning across DM Financial Bonds ◆ Opportunities in Quality Credit

Asia in the New World Order



We find diverse and compelling Asian growth opportunities from the powerful structural trends of supply chain reorientation, rising Asian wealth and middle class consumers, the digital transformation and green transition. We adopt a thematic approach with a focus on idiosyncratic drivers and growth differentials to generate alpha.

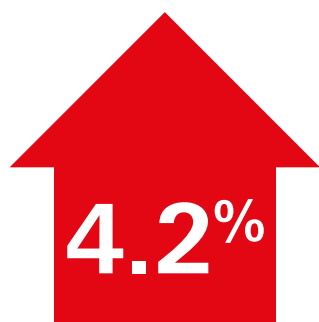
Changing global export market share driven by supply chain reorientation



Source: IMF, HSBC Global Research, HSBC Global Private Banking as at 22 November 2023.

Our Four High Conviction Themes

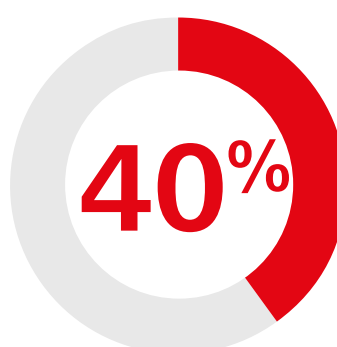
1. Reshaping Asia's Supply Chain	This new theme focuses on Chinese and Asian industry leaders which have successfully diversified their supply chains to enhance competitive edges. We also like companies in India and ASEAN that benefit from the China+1 strategy.
2. Rise of India and ASEAN	We see promising secular growth opportunities in India and ASEAN, riding on the structural tailwinds from strong foreign and domestic private investments, young demographics, the technology boom and green transformation.
3. Future Asian Consumer	Driven by rising Asia wealth and middle class consumers, Asia's consumer discretionary sector stands out as a bright spot, including select Chinese internet leaders, Asian consumer discretionary companies, AI-driven and digital consumption and Asian financial services providers.
4. Capturing Peaking Asian Yields	We focus on locking in compelling yields from quality Asian bonds. We favour Asian financials, Indian local currency bonds, Indonesian quasi-sovereign IGs, Korean IG bonds, Macau gaming and Chinese TMT credits.



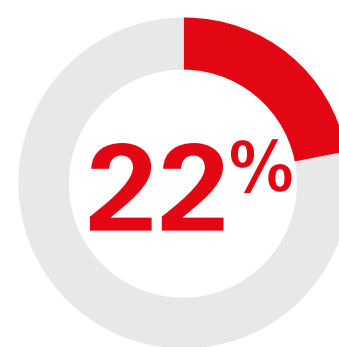
4.2% GDP growth forecast for Asia ex-Japan in 2024



19% earnings growth is projected for Asia's Consumer Discretionary sector in 2024



40% of Global Capability Centres are located in India



22% of global nickel reserves are located in Indonesia

Source: Bloomberg, HSBC Global Research, HSBC Global Private Banking as at 22 November 2023.

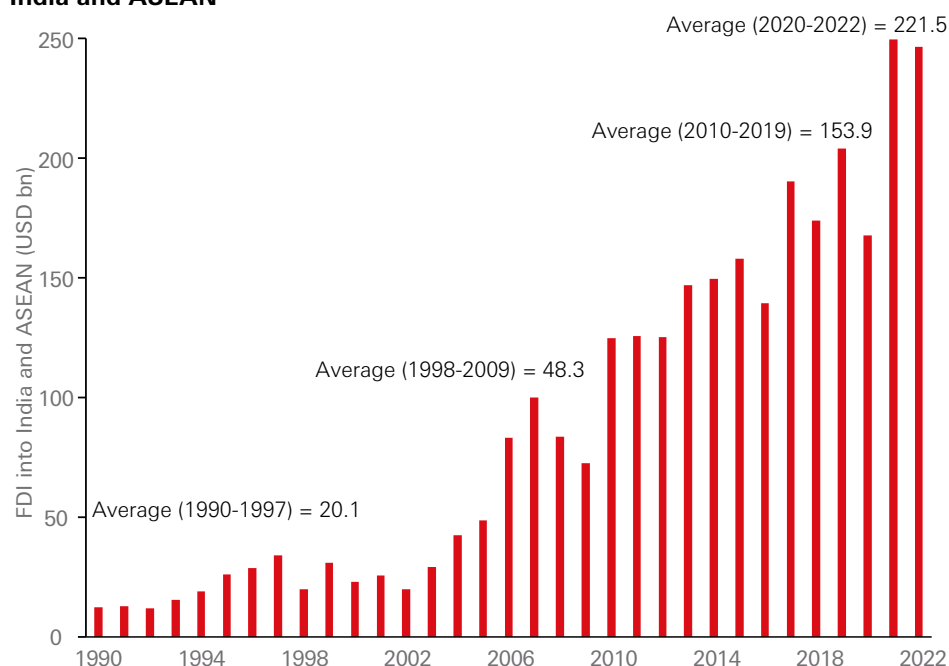
While Asia remains on track to contribute two-thirds of global growth in 2023, the region is facing multiple challenges from elevated USD rates, weaker global demand, slow Chinese growth, tightened global liquidity and geo-economic fragmentation. US-China trade tensions and US technology restrictions have prompted many multinational corporations and also Chinese manufacturers to diversify their manufacturing supply chains towards Southeast Asia and India. Asian corporates are actively adapting to the new world order by revamping their supply chains in order to enhance competitive edges and hedge geopolitical risks.

Going against the global headwinds, Asia's robust private wealth accumulation, resilient middle class consumers, digital transformation and green transition offer solid domestic drivers to support healthy economic growth. We forecast Asia ex-Japan GDP to grow 4.2% in 2024, close to double the average global growth of 2.3%.

We launch the new High Conviction Theme on **Reshaping Asia's Supply Chain**, as the driving forces of geopolitical tensions, trade

fragmentation and technology restrictions are accelerating global supply chain diversification across the region. Driven by US trade tariffs and

Global supply chain diversification is driving strong FDI inflows into India and ASEAN



Note: For ASEAN, it includes Indonesia, Malaysia, Philippines, Thailand and Singapore.
Source: World Bank, HSBC Global Private Banking as at 22 November 2023.

COVID pandemic disruptions, many international and Chinese manufacturing companies have actively rebuilt their manufacturing supply chains in ASEAN and India while many critical production components continue to be sourced from China.

Despite the supply chain reconfiguration trend, China retains its leading global export market share due to strong growth of high-value-added machinery products, EVs, consumer electronics and services exports. China maintains its central role in the global manufacturing supply chains as a dominant supplier of components to manufacturers in other parts of Asia.

We favour Chinese and Asian industry leaders which have successfully diversified manufacturing supply chains outside their home countries. Many of them are building material production capacities in Southeast Asia and India to tap into their large and young working populations to improve cost advantages.

Notably, China's outward direct investment (ODI) into ASEAN surged by 8% CAGR between 2018 and 2022 since the beginning of US-China trade tensions, expanding to USD18.7bn in 2022 or 11% of China's total ODI. China's leading textile, consumer electronics and EV companies have been investing heavily in ASEAN.

To mitigate geopolitical risks and alleviate the impact of trade tariffs, western multinational corporates implement the China+1 strategy by building new production facilities in India and ASEAN to supplement their supply chain in China. We identify geared winners in South Asia which gain from strong FDI inflows driven by supply chain reconfiguration.

In India, services exports surged by USD60bn to USD300bn over the past year due to the rise of Global Capability Centres (GCCs) set up by multinational companies, a reflection of the value chain upgrade. By some estimates, 40% of GCCs globally are located in India, employing 1.7m people alone.

In ASEAN, Indonesia and Thailand are key beneficiaries of FDI inflows into the EV sector while Singapore, Vietnam and Malaysia stand out to gain from strong foreign investments in the technology and consumer electronics industries.

Our theme on Rise of India and ASEAN captures promising secular growth opportunities in South Asia, riding on the structural tailwinds from strong foreign and domestic private investments, young demographics, technology boom and green transformation. India has consistently delivered stronger-than-expected growth in manufacturing and service activities throughout 2023, with strong FDI inflows and booming services

exports powering employment, private consumption and productivity gains.

Indonesia offers one of the best growth and investment stories in Asia, supported by its large, young and growing population, with rapid urbanisation and robust private consumption being the key growth engine. Indonesia further benefits from upgrading of its manufacturing value chain. The country's abundant reserves of green minerals and metals are vital inputs for the EV and battery industries. Indonesia holds the world's largest nickel reserves with an estimated 21m tonnes or 22% of global reserves.

Another bright spot in the Asian market is the service consumption sector.

Our new High Conviction Theme on **Future Asian Consumer** focuses on the consumer discretionary sector which is projected to deliver 19% earnings growth in 2024 despite the high comparison base this year.

Asian consumers are gaining influence in shaping global spending trends, as the balance of consumption shifts from the West to East as a result of rising Asian private wealth, healthy household balance sheets, solid personal income growth and a high saving rate – all supported by the region's higher than global average economic growth.

The rise of middle-class consumers in China, India and ASEAN countries is



reshaping the consumption patterns across sectors given their diverse needs and rising demand for services consumption.

In China, we favour select internet leaders, consumer discretionary plays and new opportunities from the applications of AI and digital consumption devices. The shift in Asia's consumer spending patterns from consumer goods towards services, such as travel, catering, movies and online entertainment, is expected to sustain strong growth in the years to come. We also position in Asian financial services providers which can capture the growing middle-class consumer demand for wealth management and insurance services.

In Southeast Asia and India, the promising consumption outlook is driven by digital consumption and rise of the young middle class. Leading IT companies and financial institutions in ASEAN and India are well positioned to capture the growth opportunities.

Positioning ahead of the Fed's rate cuts in 2024, our theme on **Capturing Peaking Asian Yields** focuses on locking in compelling yields from quality Asian bonds. The all-in yield of the Asian IG bond index is attractive at around 6.3%, well above the 3-year average of 4.5%. Disinflation is on track in most Asian economies, with inflation

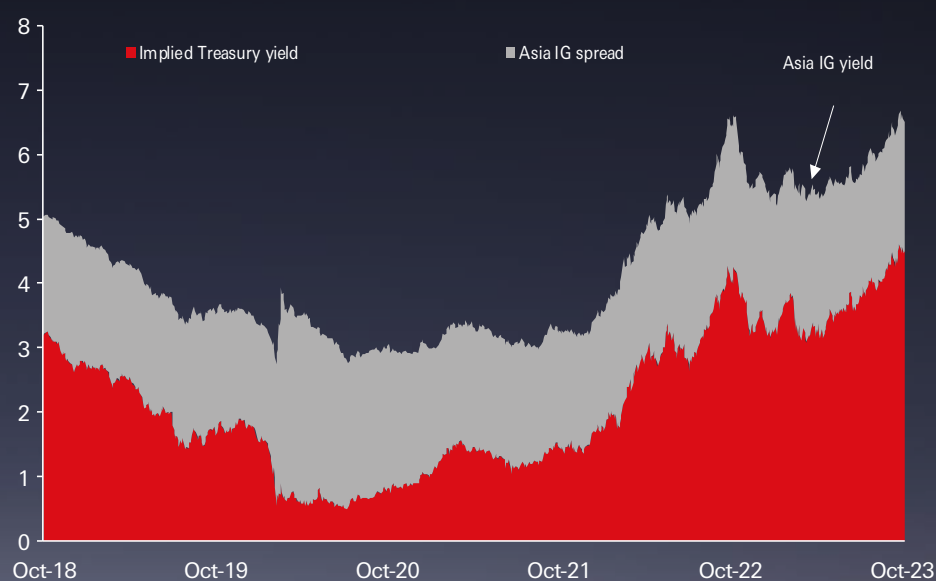
now expected to return to central bank target ranges in 2024 in most countries, well ahead of most other regions. We believe Asian yields are peaking and expect policy rate cuts in Australia, mainland China, Hong Kong, India, Indonesia, South Korea, the Philippines and Singapore in 2024. Monetary easing of Asian central banks will bring policy tailwinds for the Asian bond markets in the coming year.

We favour Asian financials, which are trading at attractive valuations, including Japanese and Korean banks and life insurers, and banks in Australia,

Singapore and Thailand. Among Asian corporates, we like Korean IG bonds issued by high-quality companies, Macau gaming and Chinese TMT credits.

We stay overweight Indian local currency bonds which are well supported by favourable liquidity drivers from the global EM bond index inclusion and strong structural growth of the economy. Indonesian quasi-sovereign IGs remain our most preferred play in Southeast Asia, thanks to the country's strong fundamentals, robust government balance sheet and benign inflation outlook.

Asian IG bonds offer attractive yield pickup



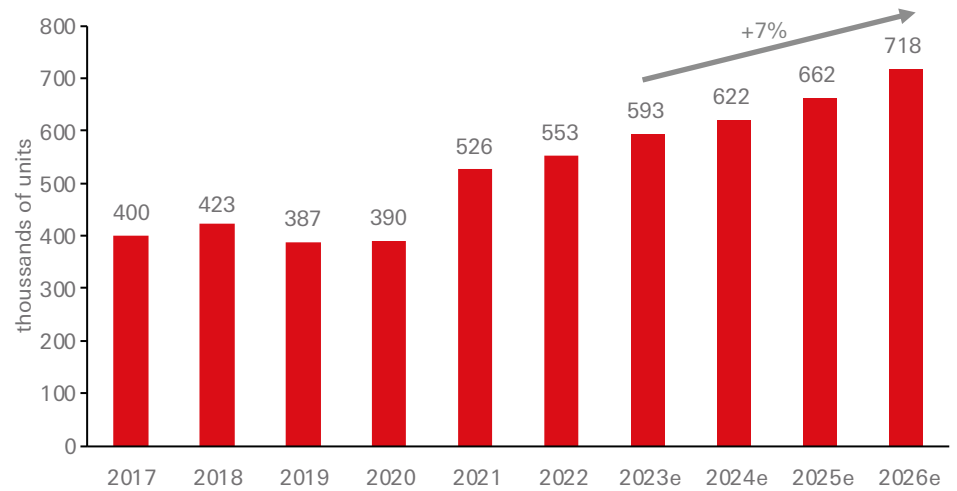
Source: Bloomberg, HSBC Global Private Banking as at 22 November 2023. Past performance is not a reliable indicator of future performance.



Disruptive Technologies

The internet provides the digital highway facilitating worldwide availability of products and services from cloud computing and satellite-based services to surgeons operating on patients located in another continent.

Global annual installations of industrial robots



Source: World Robotics 2023 report, IFR as at September 2023. HSBC Global Private Banking as at 22 November 2023.

Our Three High Conviction Themes

<p>1. Generative AI & Robots</p>	<p>Over the last 12 months, Artificial Intelligence (AI) has been disrupting the IT landscape with fast evolving large language models (LLMs) and Generative AI models that are starting to transform companies and excite consumers.</p>
<p>2. New Energy Transportation</p>	<p>Transportation is transitioning to commercially competitive alternative fuels including electricity, hydrogen and biofuels, that offer lower environmental impact, a superior consumer experience and better facilitate the integration of other advanced technologies.</p>
<p>3. Aerospace</p>	<p>After decades in the doldrums, the aerospace sector is undergoing a renaissance driven by recent technological advances; rising geo-political tensions; and by private enterprises and rising economies striving to become major players in what was previously a US-Russia super-power duopoly.</p>

When science fiction becomes reality

Space may indeed be the ‘final frontier’ with human intergalactic travel still a distant dream that can only be experienced through

immersive video games, films or the book reader’s mind. But in the interim here on earth, scientists have made substantial technological advances in the last few years that appear to come from the pages of novels by HG

Wells or Isaac Asimov. The following investment themes capture three areas of technological advancement that have been launched and are being commercialised, with real and present investment opportunities.

Generative AI & Robots

The ‘march of the machines’ headlines depicting scenes from HG Wells’ novel ‘War of the Worlds’ or robots from Fritz Lang’s film Metropolis eliciting fear of a dystopian future with robots replacing humans still litter the press. In reality, intelligent machines are enhancing and improving the lives of many humans. There are numerous practical examples, from aircraft auto pilots, cars’ automatic braking systems to quality checking machines in the food processing industry. To date, the scope for automation has been limited by their capabilities. The introduction of a new generation of more advanced AI software combined with the latest optical and sound sensing technologies has substantially expanded the capabilities and therefore the potential applications that can be automated. In parallel, robots are becoming not only more mobile but also more agile so they can independently and easily navigate various terrains and obstacles. These developments will enable robots to perform more complex tasks such as maintenance and monitoring tasks throughout a facility.

Besides powering more intelligent machines, AI is also working in tandem with humans to improve outcomes and decisions. For example, reviewing X-rays and scans from hospital patients

is an important but repetitive, labour intensive task performed by trained highly skilled specialists.

A number of recent studies have illustrated that AI software is now better at detecting certain types of cancers than the specialists by a significant margin. Through this theme, we embrace the investment opportunities that benefit from AI and machines’ new capabilities.

New Energy Transportation

History is littered with examples of accepted norms in society becoming unacceptable in a relatively short period of time as people are alerted to potential adverse health effects.

Examples include lead water pipes; lead in petrol; and coal burning in inner cities. A similar public awareness is starting to emerge with respect to the pollution arising from our transport systems. Carbon dioxide, carbon monoxide, methane, nitrous oxide gases all harm human health, while also contributing to global warming. Advances in lithium ion battery and fuel cells technologies create an alternative affordable source of power for many modes of transport. Electric cars and buses, hydrogen powered trains and passenger aircrafts using biofuel are already a reality. Their numbers are set to increase due to government legislation and positive

choices by consumers and companies.

Clearly, there will be winners and losers as these technologies evolve and create new industries and supply chains. For example, electric vehicle batteries require metals such as lithium, cobalt and nickel, whilst electric motors require rare earth metals.

It is important to navigate the present while keeping an eye on the future given the shifting market dynamics including the potential switch from lithium ion to state batteries at the end of the decade.

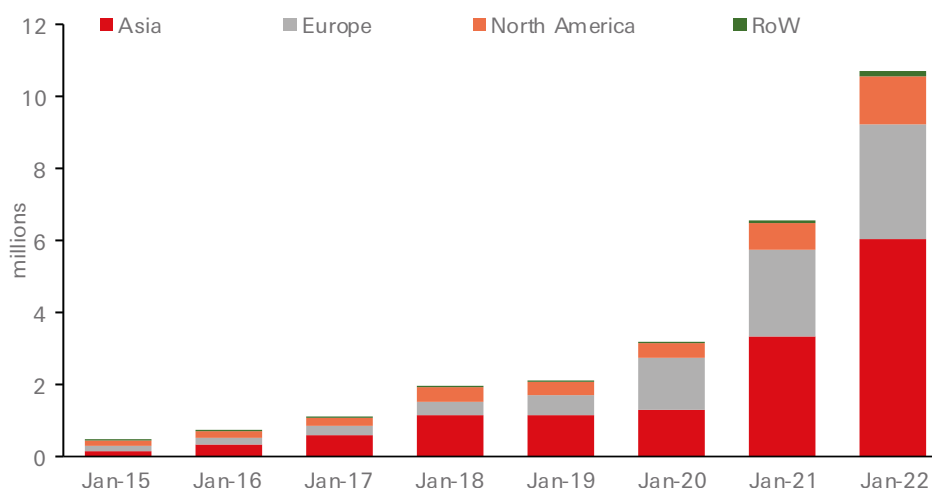
Aerospace

Until recently, space exploration was the preserve of a duopoly of the US and Russian governments due to the costs, risks and access to the necessary technologies. Since the early 1980s, space programs appear to have been deprioritised with the subsequent loss of momentum and funding.

Over the last decade, as the barriers to entry have fallen, new entrants have rekindled the spirit of the ‘space race’ of the 1960s with Chinese, Indian and Israeli governments developing home-grown space programs. In addition, several private initiatives have been launched. The breadth of these varied initiatives include global satellite networks; space tourism; moon shots; interplanetary travel to Mars; orbiting powerful telescopes; meteor sampling missions.

Other interesting areas experiencing a surge in development interest include hypersonic technologies for use in aircraft, spacecraft and rockets. The boundary between the earth’s atmosphere and space is becoming increasingly blurred. As an example, one company has developed an engine that can operate hypersonically as a jet engine breathing air, and as a rocket engine in space, enabling an aircraft to fly from earth to space more efficiently than a rocket.

Electric Vehicles’ Unit Sales by Region



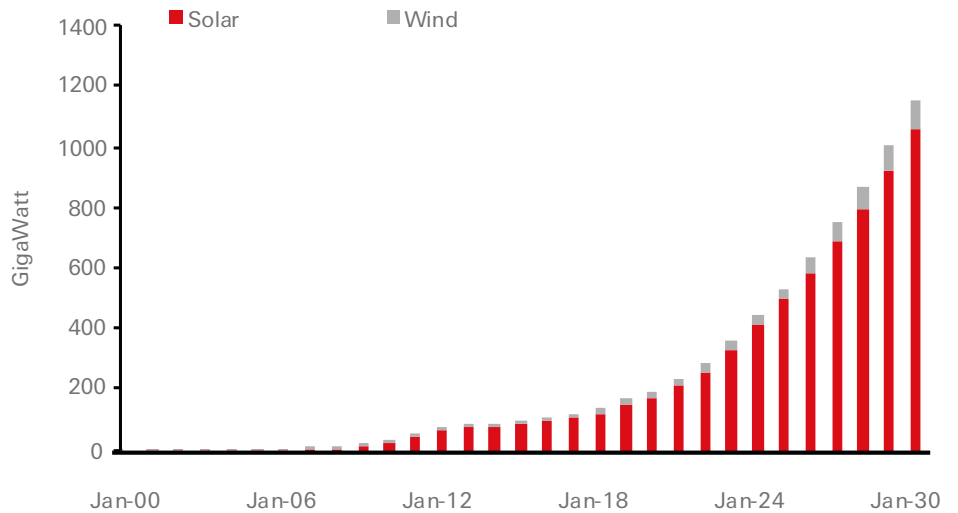
Source: Bloomberg, HSBC Global Private Banking as at 22 November 2023.



Climate Action

We are only in the foothills of a sustainable future and there is already significant momentum in the trend driven by new technology, global investment and the desire for sustainable solutions. Sustainability is a trend that will continue to grow and provide investment opportunities.

Global renewable energy capacity continues to grow rapidly

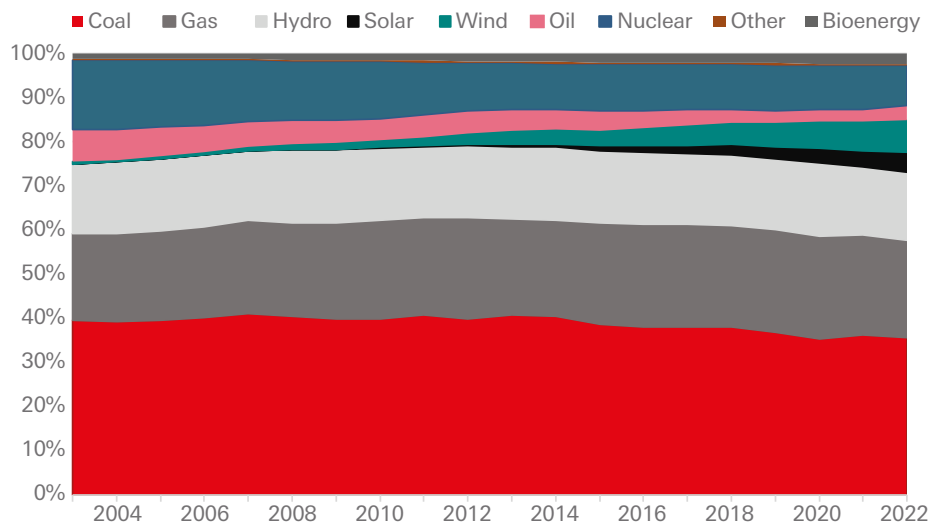


Source: Bloomberg Finance L.P., HSBC Global Private Banking as at 22 November 2023. (2023 – 2030 figures estimated).

Our Two High Conviction Themes

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

Solar and wind power are replacing coal and nuclear in the energy mix



Source: Our World in Data, HSBC Global Private Banking as at 22 November 2023, data is to end 2022.

Like wider markets, sustainable investments have experienced a challenging year. With rates and inflation costs having risen rapidly in the prior 18 months, projects are being reviewed and capex spends are being adjusted. This however is not a reflection of the fundamental opportunity sitting within the space. The changes happening across corporates, governments and at the individual level are growing every day and driving the world further towards a sustainable future. Recent progress towards this future include;

1. The US Department of Energy (DOE) has announced USD7bn to launch seven Regional Clean Hydrogen Hubs (H2Hubs) across the nation and accelerate the commercial-scale deployment of low-cost, clean hydrogen
2. Saudi Arabia has launched the Greenhouse Gas Crediting and Offsetting Mechanism (GCOM) aimed at reducing greenhouse gas emissions and fostering sustainability and,
3. Starting from 2026, it was announced by Brazil's Securities and Exchange Commission (CVM) and Ministry of Finance that public companies in Brazil will be required to provide annual sustainability and climate related disclosures.

Our theme, **Opportunities in Sustainable Energy** aims to capture the most attractive potential of the sustainability trend which is the change crossing the entire energy framework. Energy is the primary channel through which positive change for the climate is occurring. The technologies to deliver sustainable energy are now largely available and in some cases they are economically competitive with traditional fossil fuels. Approaches such as solar, wind, biofuels, hydrogen and hydro and their associated supply chains and services are opening up a whole new set of opportunities to investors. These new economies are also being supported by government regulations all over the world which is a key support to driving change.

Despite the ongoing challenges of the industry and higher costs for projects, the trend toward the uptake of these technologies continues and this can be demonstrated in EMEA where investment in solar and wind projects rose to \$78bn for the first half of 2023 alone. This is a 47% increase over the same period the prior year. The majority of this was in solar which accounted for \$51.5bn while wind attracted \$26.7bn of investment (Source: Bloomberg NEF, November 2023).

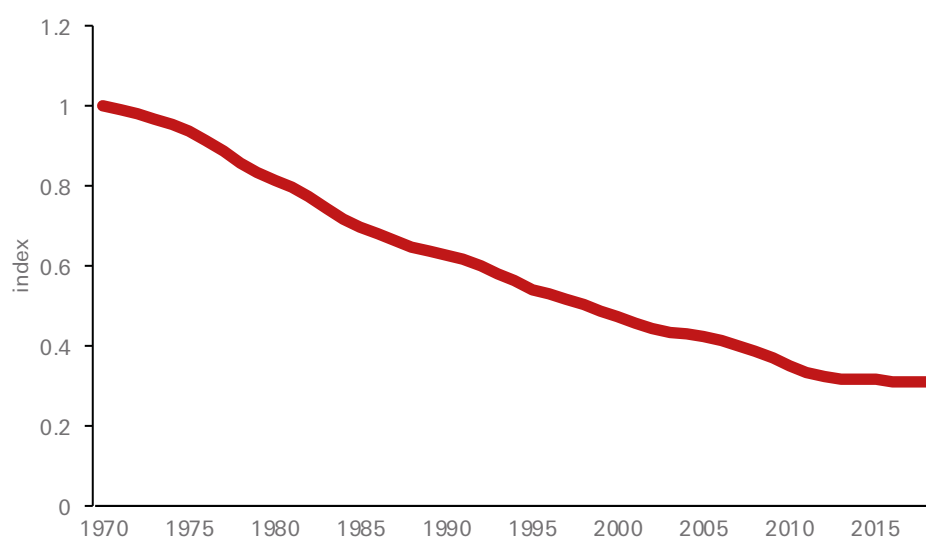
Energy is not the only industry undergoing major change toward a sustainable future. Biodiversity has risen up the order of priorities too and with it the circular economy is also coming into sharper focus. We engage with this trend through our **Biodiversity and Circular Economy** theme.

Biodiversity across our planet has been severely impacted over the last 50 years and the continued expansion of human activities in fishing, farming and manufacturing destroy ever more ecosystems that are key to a sustainable future. The living planet index has fallen nearly 70% in 50 years which is catastrophic for our planet and for its ability to host us, humanity, in an ongoing manner.

Much is happening within the Biodiversity space in recent years to address this loss and to invest in improving it. The governance of biodiversity is overseen on a global level by the UN body, the Convention on Biological Diversity which is supported by the Kunming-Montreal Global biodiversity framework which outlines targets and actions for governments and corporates within a financial framework of benefit sharing. There is also the Taskforce on Nature Related Financial Disclosures who provide a framework for companies to disclose their dependencies on nature and indicate how they are managing their interactions with nature and if they are financially material. The Taskforce on Nature Related Financial Disclosures (TNFD) is in place too and recommends the LEAP approach to identifying and assessing nature related issues. Locate where a business interacts with nature, Evaluate the dependency and impact on nature, Assess the risks and opportunities and Prepare to respond accordingly in line with the TNFD recommended disclosures.

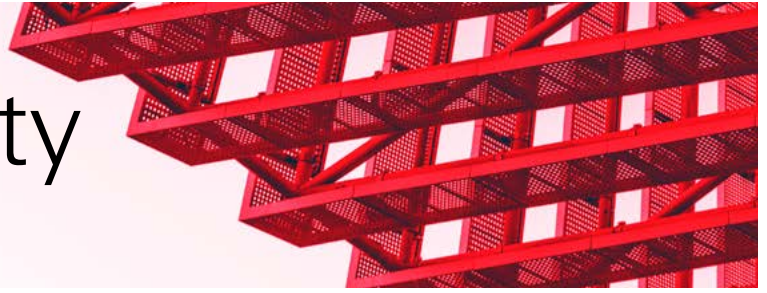
The continued growth of investment in the industry and supportive guidelines and frameworks for corporates to use is creating attractive opportunities for investors.

Global biodiversity continues to decline rapidly



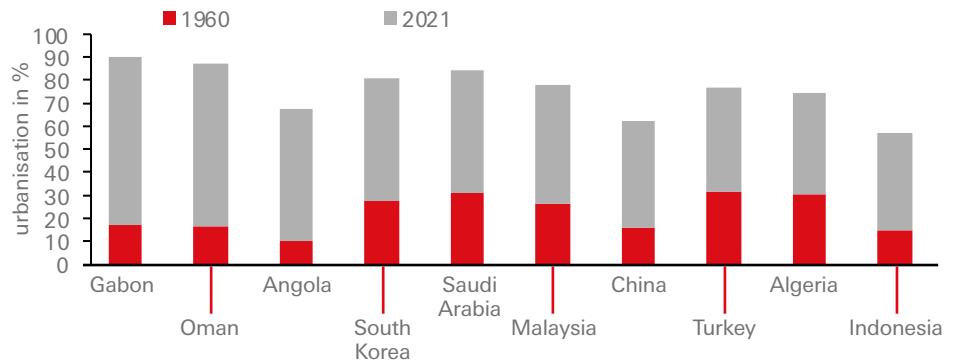
Source: livingplanetindex.org, HSBC Global Private Banking as at 22 November 2023.

Evolving Society



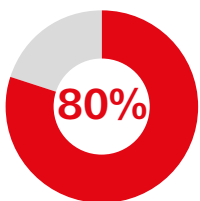
The way we want to live and what we value most is undergoing structural change. The themes under this trend may change from time to time, but we focus on urbanisation, healthcare and social empowerment for now.

Many EM countries are continuing to see very rapid urbanisation

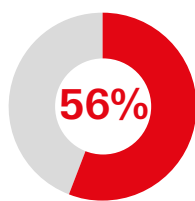


Source: UN population division, HSBC Global Private Banking as at 22 November 2023.

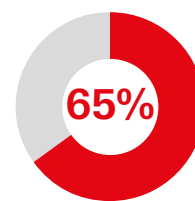
Our Three High Conviction Themes	
<p>1. Infrastructure and Future Cities</p>	<p>Given their economic importance, cities compete with each other to offer the highest efficiency and most enjoyable living environment. Smart cities invest huge amounts to gather and use data that help optimise traffic and energy consumption. Investment in energy resilience, lowering emissions and flood defenses has become crucial. We foresee continued rapid urbanisation, with EM markets leading the charge.</p>
<p>2. Healthcare Innovation</p>	<p>Our healthcare theme recognises the very rapid innovation in healthcare, as well as the increased importance people place on their own health, and healthy living. Life sciences is a rapid growth sector benefiting from government stimulus and advances in AI, which speed up drug development. Health monitoring devices are becoming increasingly popular Christmas presents, and technology lowers the cost of healthcare services.</p>
<p>3. Social Empowerment and Well-being</p>	<p>Gender equality, female workforce participation, access to quality education and healthcare are important goals that are seeing widespread progress, though much remains to be done. Investors can use an impact or thematic approach to this theme, or even select companies that are making a positive transition to better social values and practices. While investors should focus on financial and investment considerations primarily, ESG considerations are important too. (Please refer to our ESG disclosures at the end).</p>



The share of global GDP generated in cities



Percentage of people living in cities



Percentage of people who say the pandemic made them think of their life purpose

Source: McKinsey, World Bank, HSBC Global Private Banking as at 22 November 2023.

Societies are dynamic entities that undergo constant change and evolution over time. If one thinks of the world that one lived in when they were a teen, or how our children or nieces and nephews sometimes make us feel like we come from another planet.

Some of those changes are linked to technological innovation, which we already exploit through our 'Disruptive Technology' trend and is all about what we are able to do. Our society is also changing because it needs to adapt to and halt Climate Change – something we absolutely have to do. But under our new 'Evolving Society' trend we mainly look at what we want to do and how we want to live.

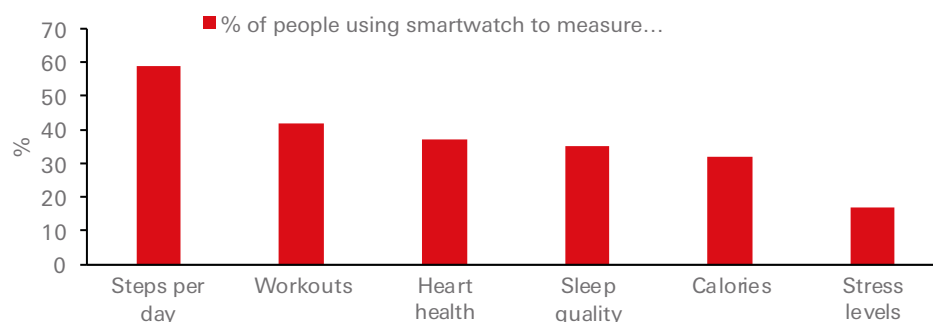
What we value and care about most is influenced by our culture and traditions, of course, but it is not set in stone.

Gender roles continue to evolve; social media influences how we engage with others; fashion and body image ideals have shifted; food and dietary choices continue to broaden and include more sustainable options; attitudes towards the elderly put greater emphasis on active aging and inclusion, etc... the list goes on.

Some of these changes are slow-moving: the move from an agricultural society to city living for example has been going on for millennia, but still continues. Other changes however have been triggered by recent events. The COVID-19 pandemic of course changed the way we lived, and some of these changes have stuck. The way we work will probably never be the same, and hybrid work has a big effect on real estate, transportation and communication. The pandemic forced many of us to stand still, and realise how precious our health is, which is translating in much increased discretionary spending on home fitness equipment, health and wellness products and online fitness classes.

So, it is clear that our new trend is broad in scope, and can include themes

Consumers are rapid adopters of health monitoring devices



Source: Deloitte, HSBC Global Private Banking as at 22 November 2023.

related to consumption trends, the silver economy, NextGen, social inclusion and health innovation.

For now, we focus on three themes which we believe are topical, investable, and offer medium term return potential.

Infrastructure and Future Cities

The pandemic has changed the way we think about city living and urbanisation. It raised challenges and new ideas about innovation in well-being, mobility, infrastructure, housing and work practices.

To be successful, cities that are truly built for the future need to consider all of these aspects in their planning. Connectivity is key, as many people moved out of cities to greener areas during the pandemic, but now want to commute back to work. That's just one part of the important role of infrastructure. Communication infrastructure, green spaces, flood defenses, education and healthcare facilities are all key aspects. Much of the focus will be on developing 'smart' cities, which use data gathering and analysis to optimise traffic and energy consumption.

Cities account for 80% of global GDP. Given global mobility and international competition between economic blocks, investment in cities is thus expected to be enormous in coming years. 4.2bn people already live in cities, and that should rise to 5.2bn in 2030 and 6.7bn in

2050 according to the UN, with most of the growth coming from the emerging markets.

That will involve 1.2mn km² of new urban build-up area by 2030.

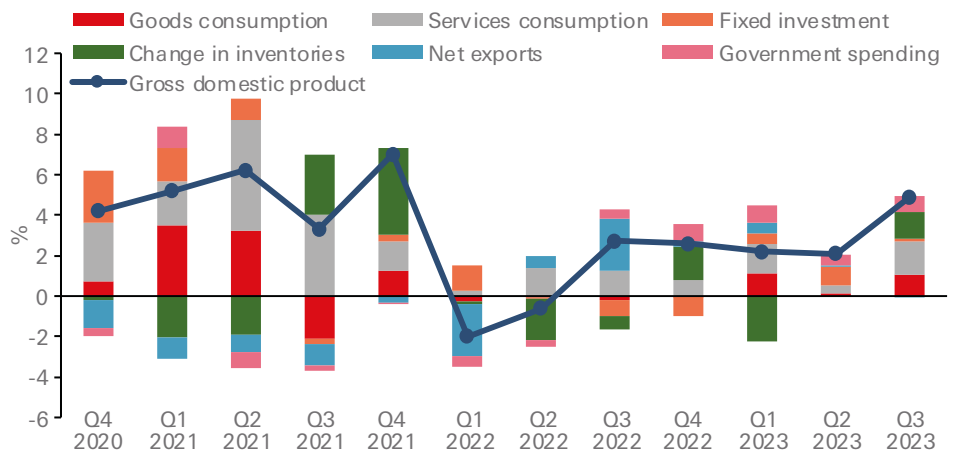
Our **Healthcare Innovation** theme extends our existing US healthcare theme into a global approach, and takes a more structural and long term approach. Demand for obesity and diabetes drugs for example is rising strongly. Medtech innovation is accelerating, with AI helping speed up diagnostics and drug development. No wonder that many governments see life sciences as a key growth area where they want to stimulate innovation. At the same time, there is increased emphasis on the sustainability and affordability of healthcare services, both in developed and emerging markets.

Our third theme of **Social Empowerment & Well-being** overlaps with a number of UN Sustainable Development Goals such as good health and well-being, quality education and gender equality. Investor interest and entrepreneurial innovation in this area are clear examples of the evolving society and what people care about. We believe investors can use an impact or thematic approach to this theme, or even select companies that are making a positive transition to better social values and practices. Please refer to our ESG disclosures at the back of this brochure.

Investing Ahead of the First Fed Rate Cut

Amid slow DM growth, where do we see the best potential for earnings expansion and steady returns? And as policy rates finally seem to have peaked, where are the best areas to lock in attractive bond yields?

The US economy and US consumer are showing much resilience



Source: US Bureau of Economic Analysis, HSBC Global Private Banking as at 22 November 2023.

Our Four High Conviction Themes

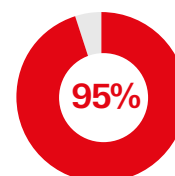
<p>1. American Resilience</p>	<p>'Don't count out the US consumer' is an adage that continues to apply. We are not too worried about rising interest payments and high oil prices, as labour markets remain strong and falling inflation is boosting disposable income. We also look bottom-up for resilience, selecting companies with solid cash balances and strong market positions – typically called 'quality' stocks.</p>
<p>2. North American Re-industrialisation</p>	<p>Many governments are intensifying their industrial policies to compete globally, but the US has spent an enormous amount to bring back manufacturing. This helps accelerates the supply chain reorientation and re-onshoring exercise many companies were already planning after the pandemic. We see opportunities in industrials, engineering, construction and technology.</p>
<p>3. Opportunities in Quality Credit</p>	<p>Portfolio returns can benefit significantly from a steady income stream, which now is in the mid-to-high single digits for quality credit. As Treasury and safe haven bond yields are near 5-year highs, but credit spreads just close to the 5-year average, we do not take excessive credit risk. Amid slow economic growth, quality credit tends to outperform, which means we favour investment grade.</p>
<p>4. Defensive Positioning Across DM Financials Bonds</p>	<p>In our selective search for yield, we like bonds issued by financials as they are attractively valued compared to corporates. But we focus on senior bank bonds as the yield pickup for subordinated debt is not sufficient to compensate for slow growth and the gradual rise in loan loss provisions.</p>



US corporates' cash on hand or in money market assets



Linked to re-onshoring in 2022, compared to 265k in 2021



Percent of time that investment grade bond yields were below current level in past 20 years

HSBC Global Private Banking, Federal Reserve, reshorennow.org, Bloomberg as at 22 November 2023.

At first glance, a world with low growth and high interest rates does not sound like a very favourable investment environment. Yet, on both counts, there are some positive aspects.

Global growth is indeed slow, but for most countries around the world, Q4 2023 or Q1 2024 should be the bottom of the economic cycle, after which we expect a gradual acceleration. In the themes that follow, we will look for areas of particular growth resilience.

As for the rate environment, the recent central bank meetings in the US, UK and Eurozone have given us comfort that the sharp series of hikes are now behind us. That should anchor the 'front end' of the yield curve (short maturities), while at the longer end, the high real yields now provide generous compensation for bond supply concern. Credit spreads however are not overly generous, and in the slow growth environment, we think it is wise to stick to quality for now.

So all of our themes under this trend look for quality and resilience, across the equity and bond markets.

American Resilience

Starting with the choice of geography, we remain of the view that the US economy is more resilient than most other markets. This has served US stock performance in 2023 and we think this will remain the case in 2024.

Strong labour markets have been the main source of US economic resilience and explain much of the almost constant

stream of positive economic surprises in 2023. Consumption therefore has defied investors' fears that high oil prices and interest rates would start to bite. In fact, the latest GDP numbers show a re-acceleration in consumption in Q3 2023, both on goods and services. As a result, we remain positive on the opportunities for consumer companies.

Of course, some more levered and lower income households are feeling the squeeze, and may be choosing lower cost options. And at the top end, slow Chinese demand is impacting some companies. Good stock picking to select companies with the right positioning and strong fundamentals is therefore important.

Lower income households are trading down though, so we pick stocks with the right positioning and strong fundamentals.

Our **North American Re-industrialisation** theme recognises that manufacturing has probably bottomed and may be starting a structural uptrend. This is mainly due to companies' urge to re-onshore some production, as they want to make supply chains more reliable. And it is further helped by government incentives for manufacturing and R&D.

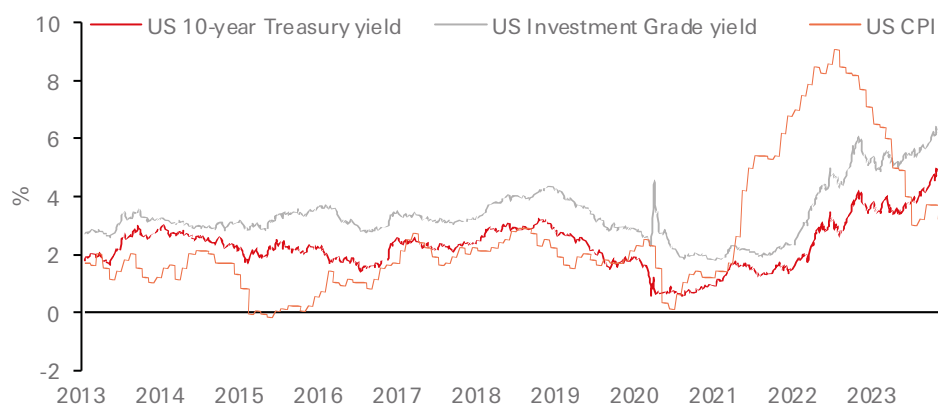
For example, in the one year since the CHIPS & Science act was signed into law, companies have announced over \$166 billion in manufacturing in semiconductors and electronics according to the White House.

Opportunities in Quality Credit

We maintain our overweight in investment grade and developed market government bonds (except Japan, where yields are too low). Investment grade traditionally is one of the best performing asset classes in an environment where growth is slow but positive. We believe that, the longer policy rates remain elevated, the higher the risk of tightening financial conditions. This would disproportionately affect high yield and hence we prefer investment grade.

In addition, we see opportunities in financials, which we express through our theme of **Defensive Positioning across DM Financial Bonds**. Banks are facing the headwinds of slow DM economic growth, increasing delinquencies (albeit from a low level) and stress in real estate (especially offices). That said, capital ratios for the sector are well above the minimum regulatory requirements and interest income is strong. In addition, spreads are attractive when compared to non-financials. So we find opportunities but go for large diversified businesses and focus on the senior part of the bank capital structure as the yield pickup of Tier II is generally not very generous.

Bond yields are near historical highs, providing an attractive income component to diversified portfolios



Source: HSBC Global Private Banking as at 22 November 2023. Past performance is not a reliable indicator of future performance.

Equities

As we enter a new year, several high probability events must be accounted for. Concerns over slower global economic growth are offset by continued disinflation supporting margins. Peak policy rates (followed by cuts later in 2024) provide some breathing space, while structural factors should also help markets. Therefore, we remain constructive on equities with a focus on the US, EM Asia and Latin America. We remain focused on quality and large cap and maintain a mild cyclical position in the US but a mild defensive one in Europe.

Overweight

Markets: US, Mexico, Brazil, France, India, South Korea and Indonesia

Sectors: IT, Industrials, Consumer Discretionary, Financials, Healthcare and Energy

Underweight

Markets: Germany, Italy, Spain, South Africa, Thailand and Malaysia

Sectors: Real Estate

Global style bias

Quality and Large Cap

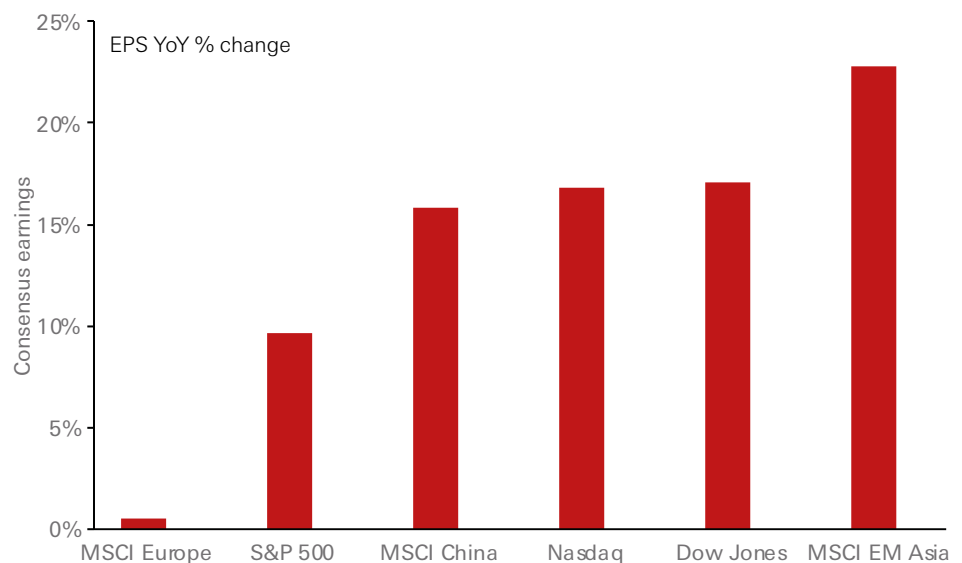
US equities: Resilience and Re-Industrialisation

After enduring the most aggressive monetary policy tightening cycle in decades, the US economy is set to slow in 2024. Corporate and household balance sheets were refinanced in 2021 and remain healthy, even though they are under pressure due to higher interest rates and restarting student loan payments. Corporate earnings are forecast to rise meaningfully next year and US markets have historically outperformed in the twelve months following a Fed pause. The cyclical headwind will be countered by several secular themes that should provide tailwinds for US markets in 2024.

- ◆ First, the theme of American Resilience remains firmly in place as the US economy has more momentum than the rest of the world and labour markets are strong.

- ◆ Second, North American Re-Industrialisation is just beginning. Corporate investment in new manufacturing facilities to secure supply chains is quite strong.
- ◆ Third, rapid Healthcare Innovation results in product launches in the rare disease and under-penetrated dental markets, and an expanding diagnostics market thanks to new disruptive technologies.
- ◆ In 2024, the technology sector will continue to release many new technologies that will lift productivity and the return on invested capital. Moreover, this will provide more disinflation in the US economy, which could help drive equity market valuations higher.

Earnings for 2024 are expected to rebound



Source: Bloomberg, HSBC Global Private Banking as at 22 November 2023.

Asian consumerism

Asia remains key to prospects for economic growth in 2024. Expectations for Chinese growth remain steady and investors will take a wait-and-see approach in our view, in spite of low valuations and low consensus expectations. By contrast, forecasts are for even faster growth in India and solid trade flows within the region. Corporate earnings are expected to rebound meaningfully in 2024 for EM Asian markets.

Asian consumerism remains an important thematic focus for us in the region. Many economies are growing quickly. Increasing trade flows and rising per capita incomes are providing further opportunities for equity investors. Economic growth in India is expected to accelerate in 2024. The diversification in its manufacturing and services sectors provide upside. Throughout the region, the reshaping of Asia's supply chain is lifting economic growth in several markets and providing more diversified opportunities throughout the region.

Europe looks abroad

In Europe, valuations are attractive, but growth remains elusive, and earnings downgrades are possible. Inflation remains a concern and central banks must be vigilant. In addition, tail risks are more elevated than in the US due to Europe's energy deficit and its proximity to two devastating wars.

Organic domestic growth is still lacking in Europe. For equity markets to rebound meaningfully, European companies must continue to look abroad. A large percentage of European earnings originate in other regions of the world, and European markets remain quite global. Growth and trade flows are likely to remain anemic next year, dimming the prospects for European markets.

Investment Summary

Volatility in financial markets will remain next year due to cyclical and geopolitical uncertainties. Global equity investors will also face other issues like divergent economic growth rates and the unknown effect of high rates on funding costs and availability. Quality remains key in uncertain times, so we focus on companies with strong balance sheets and cash generation. That said, the potential of lower policy and market rates, combined with prospects of well above-trend earnings growth next year, suggests good equity market returns.



Fixed Income

The price action in bond markets has been remarkable over the past two months. We initially witnessed a surge in DM sovereign bond yields due to concerns over excessive US budget deficits and their resulting funding needs. Additionally, a hawkish statement from the September FOMC meeting left the door open for an additional hike in December, creating more uncertainty. This door, however, was seemingly closed in early November, when Chairman Powell indicated that the peak in policy rates has been reached. Reduced uncertainty around global monetary policy compressed the term premium and caused government bond yields to fall sharply in November.

This is aligned with our investment strategy and way of thinking: the surge in US real yields, which captured most of the term premium, went too far at this late cycle stage of the global economy, but also relative to the lower levels of other DM sovereign real yields. We thus took advantage of the surge in yields in

Overweight

Government bonds: US, UK, Australian and New Zealand government bonds

Credit and EM: US, European and UK IG; Australian and New Zealand corporate bonds; GCC and Mexican Hard Currency bonds; Indian Local Currency bonds

Underweight

Government bonds: Japanese government bonds

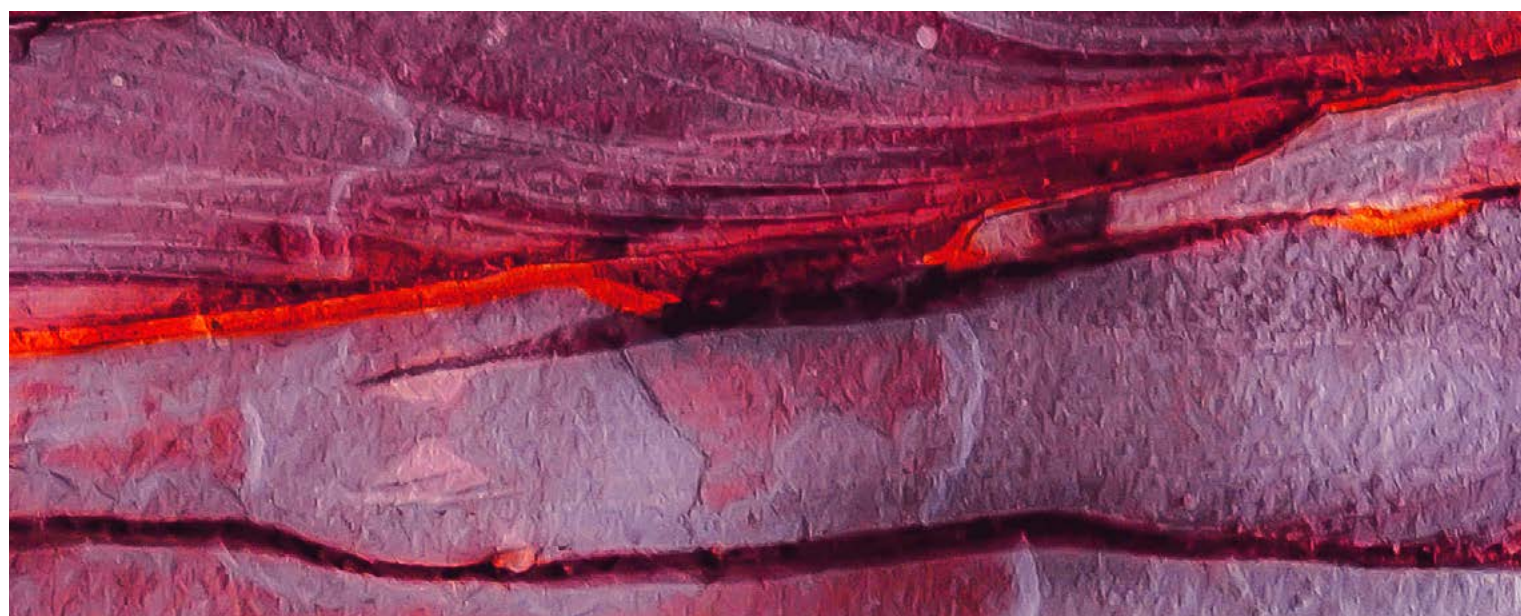
Credit and EM: Argentinian and Ukrainian Hard Currency bonds; Turkish Local Currency bonds

October 2023 and increased the duration target on all DM government bond markets under our coverage, except Japan. The November rally comforts us that the next big movement in yields is likely to be downwards.

We continue to focus selectively on quality credit across DM and EM, as we

expect credit spread volatility to pick up in the coming months, catching up with the current environment of tightening credit conditions, stretched valuations and weakening growth momentum. Amid this backdrop, we decided to reduce risk in our bond allocation by downgrading EM Local Currency Debt to a mild underweight.

Global High Yield (HY) has so far outperformed other bond segments, despite tight valuations, a high interest rate environment and increasing risks to economic and earnings growth. The relatively short duration of high yield has been an advantage so far, but can't explain all of the difference. The distant wall of bond maturities (2025-2026) could justify currently stretched HY valuations, as well as a low realised default rate; yet these are backward-looking indicators in our opinion. Therefore, we continue to believe that Global HY is quite expensive relative to both future economic prospects (even in a US "soft landing" scenario) and to Global Investment Grade (IG), especially in USD.



Developed Markets - The peak in DM policy rates has been reached and Government bond valuations look attractive

Currently at 4.6%, long-term rate expectations such as the 5-year US Treasury yield in 5 years (5Yr-5Yr Forward), are already pricing in a generous risk premium for the uncertainty around the economic and fiscal outlook. In addition, this level of rates stands 80bps or so above the

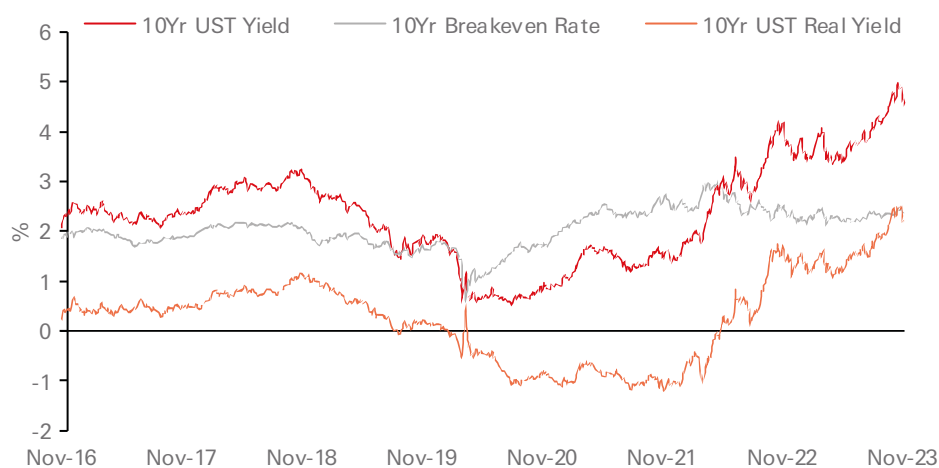
nominal economic growth rate projected by the Fed over the long run, which is a rare occurrence. While the rate outlook over the short-term is difficult to forecast, we believe that current levels of yields represent an attractive entry point and this justifies our recent increase of duration targets to 7-10 years for all DM government bond markets, except Japan. In addition, the normalisation (disinversion) of the yield curve is reducing the appeal for short-dated

bonds and therefore the opportunity cost of buying longer-dated bonds and locking-in yields has receded.

Bonds should also be helped by our view that the policy rate peak has been reached across DM economies. The Fed cited that the higher term premium embedded in US Treasury yields is tightening financial and credit conditions in the US and having an impact similar to additional interest rate hikes. Hence, markets are doing some of the work for the central banks, allowing them to adopt a wait-and-see mode.

Interestingly, previous worries about fiscal deficits and bond supply eased when the US Treasury unexpectedly projected a moderate quarterly refunding rate in early November, mostly in longer-dated tenors. Funding a large part of the deficit through bill issuances would alleviate some of the supply pressure for longer dated bonds. In fact, we think investors had overreacted to the supply concerns and the deficit outlook, which have been well known by market participants for some time.

The surge in US Treasury yields was mainly driven by Real Rates



Source: Bloomberg, HSBC Global Private Banking as at 22 November 2023. Past performance is not a reliable indicator of future performance.



What is the resulting asset allocation across bond markets?

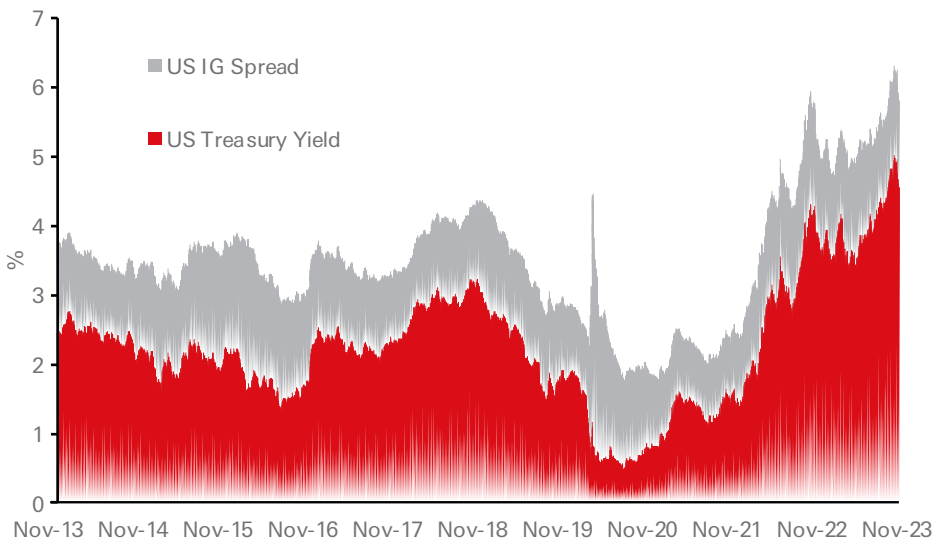
Global investment grade (IG) continues to be our largest overweight and absolute yields remain attractive, against a backdrop of declining inflation and peak policy rates. In addition, our focus on quality corporate credit at the “belly” of the yield curve (i.e. 5-7 years) resonates well in the context of the late economic cycle. While a US recession is not our core scenario, the risks have increased and we expect the volatility of growth-

sensitive credit spreads to pick up in the coming months. As highlighted in the chart below, the level of risk-free rates represents almost 80% of the US IG nominal yields and therefore should benefit from steeper price appreciation if our view of lower rates materialises.

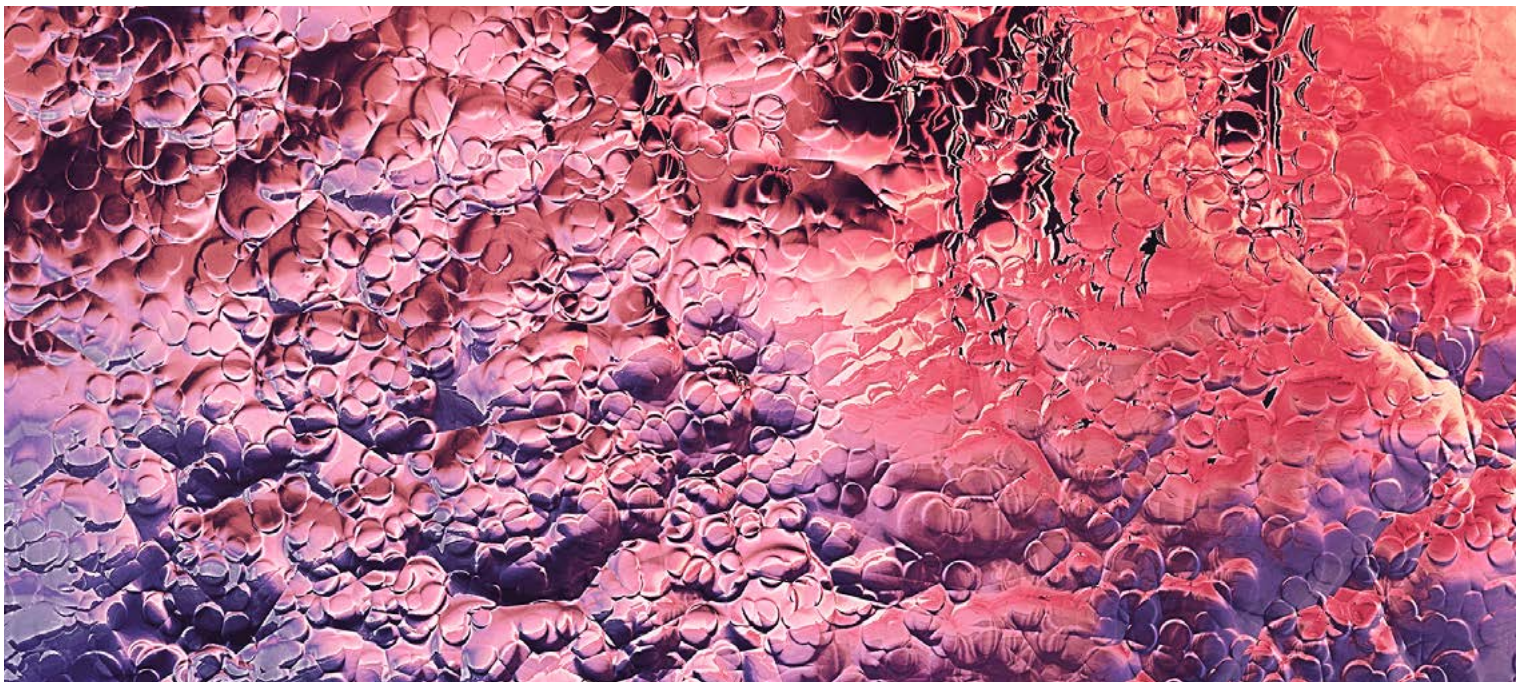
In terms of sectors, we continue to focus on Energy, Technology and Financials. Following the repricing in the Banking sector in March, we continue to favour bonds issued by financial institutions. As such, we reiterate our High Conviction

Theme on DM Financials but focus exclusively on Banks’ Senior Unsecured debt. When comparing Financial to Non-Financial corporate bonds, the credit spread ratio remains appealing, supporting our preference for Financials. At the corporate level, we continue to focus on quality companies which prioritise bondholder-friendly policies, have sound leverage ratios and lower short-term refinancing needs.

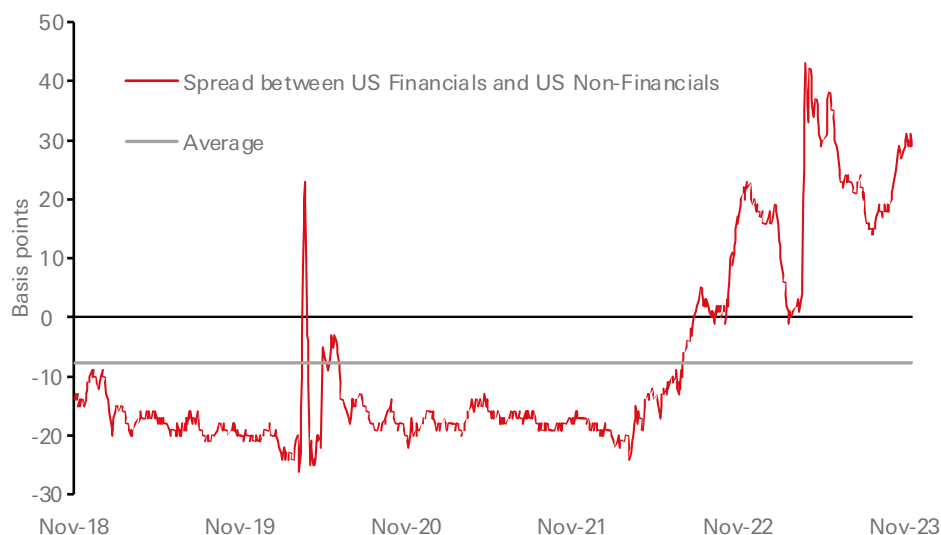
Risk-free Rates represent a large part of US IG Yields



Source: Bloomberg, HSBC Global Private Banking as at 22 November 2023. Past performance is not a reliable indicator of future performance.



Financial bonds continue to offer value relative to Non-Financials



Source: Bloomberg, HSBC Global Private Banking as at 22 November 2023. Past performance is not a reliable indicator of future performance.

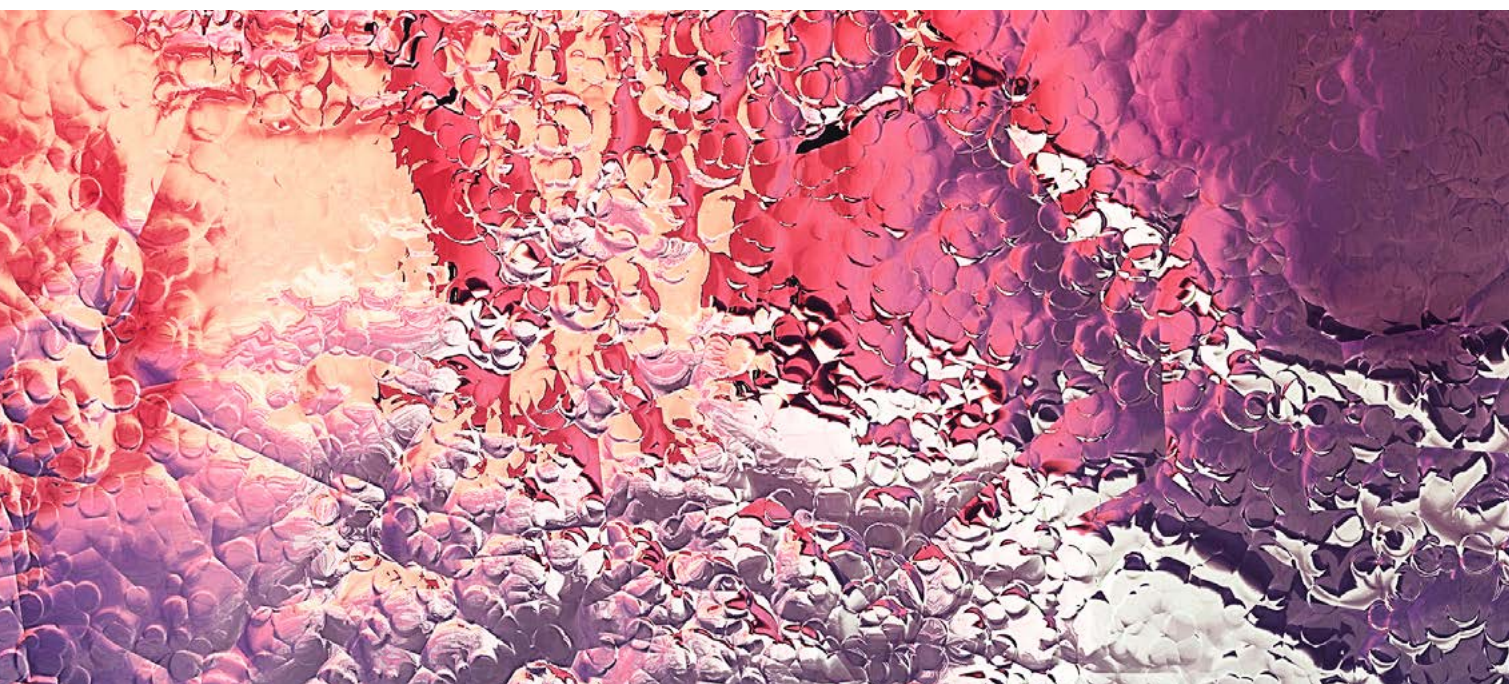
Emerging Markets - We reduce risk by downgrading EM Local Currency Debt to a mild underweight amid a weakening global growth momentum, a stronger US dollar and challenging technicals

EM Local Currency Debt (LCD) performed well between October 2022 and July 2023. A weaker US dollar allowed investors to look beyond the last cyclical rate hikes in EM economies during this period and to position for the start of easing cycles in countries such as Brazil, Chile and Hungary. However, this backdrop has changed since July, even after factoring in the FOMC's tilt

towards a neutral stance and subsequent fall in US Treasury yields. In essence, higher DM rate volatility and US Treasury real yields, a stronger US dollar and a slower pace of disinflation across EM economies, have all been detrimental to EM LCD market performance of late. With a rise in geopolitical risks, market drivers have shifted from domestic to global factors. We also notice that a reassessment of policy rate expectations is materialising across EMs, with fiscal slippage and bond supply-related risks rising in some countries such as Brazil and Mexico. We take this opportunity to reassess our views on these two economies and decide to downgrade

their local rate market allocation to a neutral from a mild overweight stance. Thus, local rates are likely to see a rebuilding of risk premia in our view. In addition, technicals appear to be less supportive considering material mutual fund outflows since the end of July. Such redemptions are forcing fund managers to increase cash balances at the detriment of their bond allocation, adding more pressure to local debt markets. Should the global economy continue to slow down and experience bouts of volatility along the way, the defensive aspect of the US dollar could weigh on EM FX performance. Indeed, EM FX has generally driven weakness for the EM LCD returns in the past.

As for the rest of our EM bond allocation, we keep the current neutral exposure on EM hard currency sovereign bonds and a mild overweight on corporate bonds in hard currencies. Their performance has been generally aligned with Global IG, yet has underperformed Global HY markets so far this year though differences in duration play a big role. Overall, EM corporate bonds continue to exhibit a strong carry opportunity and bring diversification across ratings, sectors & countries. Hence, we remain comfortable retaining a modest overweight stance, with a focus on quality corporate issuers within the Asia and LatAm regions.



Currencies and Commodities

The US dollar has traded higher through 2023, supported by high US Treasury yields, US economic outperformance and global uncertainties linked to the devastating conflict in the Middle East. While the US dollar should continue to be supported by these factors as we move into 2024, we think the risk to this bullish view will increase in the second half of 2024. We are selective on EM currencies as tight global financial conditions are increasing downside economic risks for EM. We prefer currencies with strong fundamentals and substantial real yields (e.g. BRL and INR), allowing central banks to cut rates where needed. We do not expect commodities to be a major drag on FX in 1Q24, but any oil price spikes linked to geopolitical events would affect global risk appetite and could impact global growth.

Bullish

In G10: USD

In EM: INR, BRL and MXN

Neutral

In G-10: CHF, JPY, CAD, and AUD

In DM and EM: SGD, RMB, IDR, KRW, PHP and THB

Commodities: Gold, Silver, and Oil

Bearish

In G10: EUR, GBP and NZD

In EM: ZAR and TRY

The US dollar recorded strong positive performance in 3Q23, but is still well below its high of October 2022. The key drivers have not changed and remain threefold:

- ◆ **US cyclical outperformance:** the US economy should remain among the most resilient in G10, even though the speed of growth will be below the 2023 level.
- ◆ **Yield advantage:** investors will try to assess whether the Fed cuts earlier or later than other G10 central banks. In our core scenario, the Fed could lead other central banks by a few months, and the rate differential will therefore narrow a bit. Nevertheless, that differential is currently substantial and should support USD in early 2024.
- ◆ **Risk environment:** Coming to the risk environment, the Israel-Hamas war has added to the already quite uncertain global landscape, supporting demand for safe-havens and therefore helping the greenback.

We do not expect these factors to quickly reverse in 2024; hence, before the dollar stalls, one of the above factors needs to lose steam. For example, a negative growth surprise in the US could lead to a more rapid dovish path from the Fed. At the same time, a large drop in economic figures could also trigger a risk-off environment, which would ultimately support USD. Therefore, we, for the time being, see a risk of a plateauing USD at the most, but quite low risk of a downward trend

for USD. In the run-up to the November Presidential elections, milestones such as the primaries can create some more volatility. USD typically benefits from uncertainty, but we think that other fundamentals such as US growth and the rate outlook will remain the key drivers for USD.

Meanwhile, EUR should remain challenged over the next few months. But as quarterly growth figures could find a bottom, that weakening trend could stall in coming months. In the UK, the challenges are stickier and could therefore weigh on GBP for longer. CHF should continue to benefit from encouraging domestic drivers, but for JPY, we see upward potential only in case of a sustainable change in the monetary policy. As for the rest of G10, it is hard to see strong momentum on AUD, NZD and CAD, although upside could come from an oil price spike or positive surprises on Chinese growth.

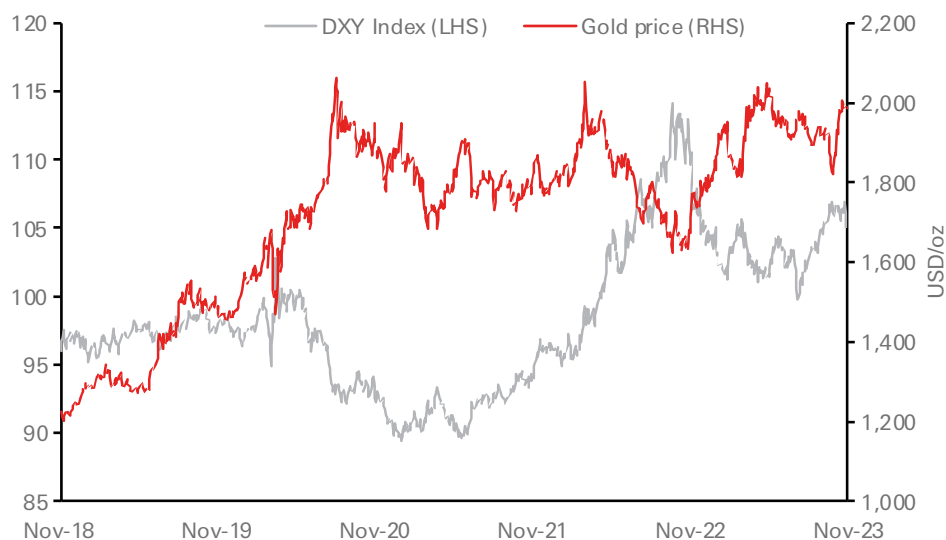
In Emerging Markets, we remain selective as we move into 2024. Domestic drivers will be key, with a focus on solid current accounts and external balances. We also like currencies offering a large yield advantage as they provide good carry opportunities and leave room for the central banks to cut rates if needed (e.g. BRL and INR). Lastly, when China picks up later in 2024, there could be support for the currencies of its main trading partners, especially given current low expectations. Meanwhile, we dislike



ZAR and TRY as domestic challenges are high. In South Africa, structural headwind intensifies due to the wide current account deficit and mounting fiscal uncertainties ahead of the general elections. In Turkey, the twin deficit coupled with the sizeable negative real rate will continue to weigh on the currency although recent aggressive tightening from the Central Bank could lead to a faster monetary rebalancing.

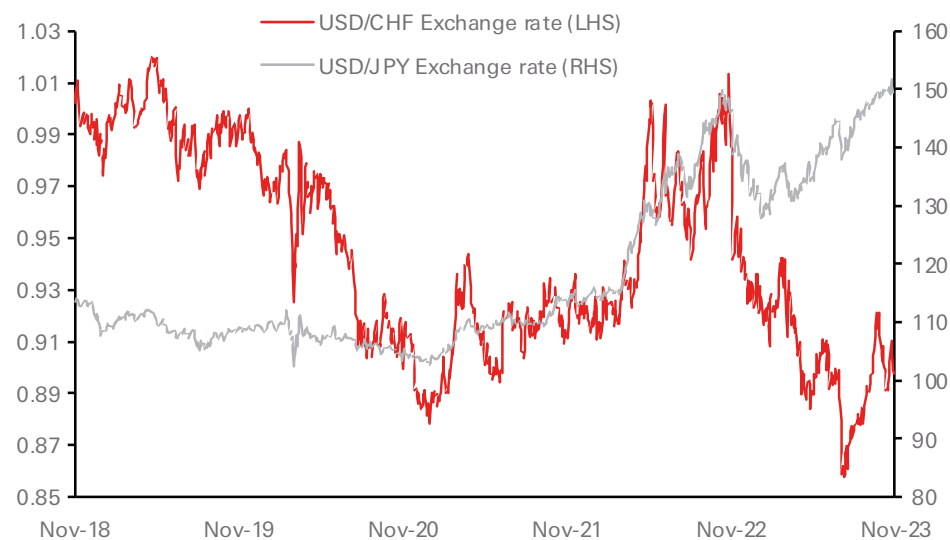
In the commodity space, gold has been remarkably resilient, but we find it hard to be positive amid high real yields and a strong dollar. A flattening USD, rate cuts and lingering uncertainties could provide support later in 2024. Silver and PGMs could benefit from a rebound in China's manufacturing sector coupled with greater interest in green technologies, but the strong USD remains an obstacle for now. Meanwhile, the oil market will remain tight due to extended supply cuts. But given the remarkable low price despite the conflict in the Middle East, we believe any strong rally would require an improvement in demand. But with Chinese demand already above pre-pandemic levels, and the winter season coming up, we do not see much scope for a further pickup in demand.

The typical negative correlation between USD and Gold has not held back gold much recently as USD has lost some steam



Source: Bloomberg, HSBC Global Private Banking as at 22 November 2023. Past performance is not a reliable indicator of future performance.

Although they are both considered safe havens, CHF and JPY have been relatively unsynchronized in 2023. JPY is currently strongly linked to Japan's monetary policy



Source: Bloomberg, HSBC Global Private Banking as at 22 November 2023. Past performance is not a reliable indicator of future performance.

Hedge Funds



Throughout 2023, the hawkish rhetoric of the Fed has been a headwind for bonds and equities, though the end of the rate hikes provided relief recently. Hedge fund portfolios generally proved their diversification characteristics this year, and seeking such diversified sources of return represents a perennial investment objective of our client-base. We maintain a positive view on macro managers, equity market neutral strategies, equity long/short with low net exposure, multi-strategy and multi-PM managers.

Returns from trend-followers have recently been predominantly led by short fixed income positioning. Meanwhile discretionary macro managers have successfully traded the

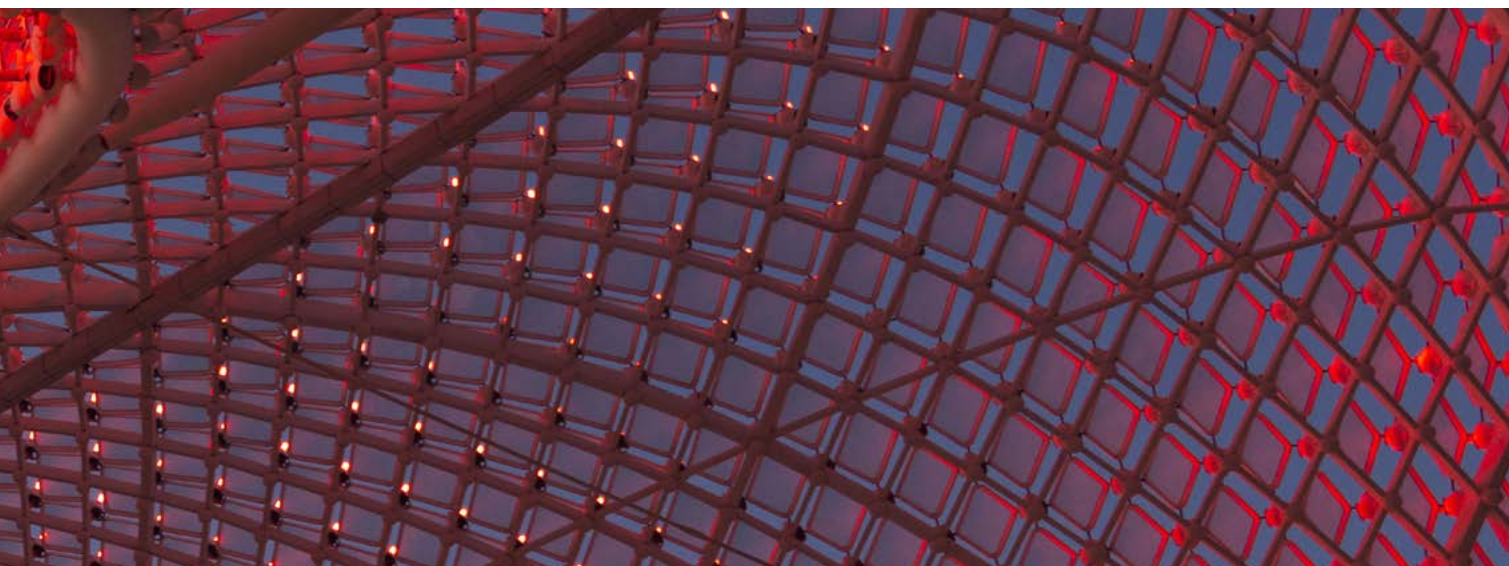
same asset class from a relative value perspective. Consummation of the elusive opportunities available within merger arbitrage supported event driven allocations. Specialisation in structured credit sub strategies protected alternative credit managers from the losses incurred by traditional credit managers. Equity long/short managers' performance was aided by short positioning cushioning losses during periods of market weakness.

While a well-managed hedge fund solution is designed to elicit returns throughout the cycle, we are cognisant that macro-economic scenarios affect return opportunities for different strategies. Our hedge fund strategy views are predicated on a forecast for some persistence of choppy markets going into 2024, slow economic growth

and the start of rate cuts somewhere during the second half of the year.

The ability of macro managers to operate with full flexibility during these uncertain times should serve the strategy well during 2024. It was the strongest group representing a single strategy in terms of contribution to returns during the last full quarter with the opportunity set expanding into emerging market themes over the period. In addition, as 2020 demonstrated, managers in this sector can generate outsized returns under a falling rate environment, so we would expect to see a greater proportion of returns emanating from directional rates positioning in 2024 compared to 2023. We retain our positive outlook for the strategy.

In addition to the short, fixed income positioning mentioned above, many



CTAs elicited performance from agricultural contracts and other commodities most recently, highlighting their diversification credentials. Mindful of the difficulty in accurately predicting a prevalence of trends across asset classes we retain a neutral outlook on CTAs' performance credentials going forward.

For equity market neutral strategies our mildly overweight view is supported by the observation that single stock correlations are low on a historical basis. While market volatility has fallen steadily this year, managers expect it to pick up as we get further into the high for longer interest rate regime.

Equity long/short managers were heartened by the wider opportunity set offered with the recent emergence of choppy markets. Within the strategy

set we favour low net exposure approaches with a mildly positive forecast for returns for next year. We maintain our outlook for variable net strategies at neutral as the stock picking environment continues to offer opportunities. Our downgraded mildly underweight outlook for Asia focused strategies is premised upon a relatively flat Chinese growth environment, delaying a strong recovery for the region.

We maintain our outlook at neutral for event driven. Activist campaigns continue to be popular with managers and investors alike fanned by the necessity for companies to find synergies in a non-zero interest rate environment. This is tempered by M&A activity remaining sparse and spreads narrowing markedly on resolution of anti-trust risk on bigger deals recently.

Credit long/short managers have sourced their returns from a combination of high carry, structured credit positioning and in certain circumstances the resolution of a small number of distressed situations. The emergence of the default cycle is proving more elusive in terms of timing than previously expected so we remain neutral on distressed specialists, the same for credit long/short while we are more constructive on structured credit.

We maintain our positive view on the operating environment for Multi-Strat and Multi-PM managers looking ahead through 2024. This is premised on their strong risk management principles and their ability to hire the best talent. Index rebalancing and commodity strategies were good contributors to return opportunities over the summer.

Real Estate

Real estate capital values in developed markets are declining due to higher interest rates impacting property yields. Occupier fundamentals have remained resilient, except for offices, keeping vacancy rates below trend in aggregate. Rental growth is moderating, but indexed leases provide protection. Logistics and multifamily residential sectors maintain low vacancy rates. Retail faces ongoing e-commerce challenges, and we expect further price corrections, particularly in a recession.

Real estate capital values continue to decline across developed property markets as property yields rise to reflect higher interest rates. Value declines have been widespread, though they have varied by geography and sector. The sharpest declines have been in Europe and North America, whilst values have been relatively stable in Asia-Pacific.

By sector, values have fallen furthest for those sectors, such as logistics and residential, where real estate yields also declined the furthest when interest rates were low. When interest rates moved back out, the impact was more dramatic on lower-yielding assets than on those with higher yields.

Those declines in property values would have been more severe if not for the widespread resilience of occupier fundamentals over the last 12-months. Though leasing demand has undoubtedly moderated across most sectors as occupiers delay plans to expand or invest in new space, a decline in development activity has ensured that vacancy rates, in aggregate, remain below the long-run average. Rental growth may be moderating from recent highs, but incomes are continuing to

grow as rents paid by tenants gradually mark to market. Moreover, where leases are indexed to inflation, cash flows and capital values benefit from a degree of protection.

Logistics has undoubtedly seen a sharp pullback in leasing activity. Some of this is because of a drop in build-to-suit construction, as developers cannot profitably develop due to the high cost of development finance. In addition, the pullback in online spending has impacted the demand for space from online retailers and third-party logistics providers. However, leasing demand, though coming off record levels experienced in the last three years, is still roughly in line with the pre-pandemic level, which was already at multi-decade highs. Vacancy rates are rising but remain historically low, and rental growth remains positive, which will continue to support healthy positive net income growth as leases mark-to-market.

Similarly, vacancy rates in multifamily residential property remain near multi-decade low levels. Higher interest rates have pushed homeownership out of reach for many, whilst the trend to remote working has triggered a long-term pick up in household formation as renters devote spare rooms to an office instead of an extra flatmate. Whilst new construction activity was elevated in some sunbelt markets in the US, it has generally been restrained and is now declining in most markets, due to the rising cost of construction (materials, labour, and financing).

Retail fundamentals were under pressure prior to the pandemic as growing demand for ecommerce hit traditional retailers, particularly department stores and fashion retailers. The early months of the pandemic saw vacancy rates





peaking as struggling retailers filed for bankruptcy, vacating many stores. However, as restrictions have been eased, shoppers have returned, and the empty stores have been backfilled by profitable expanding brands and food and beverage occupiers.

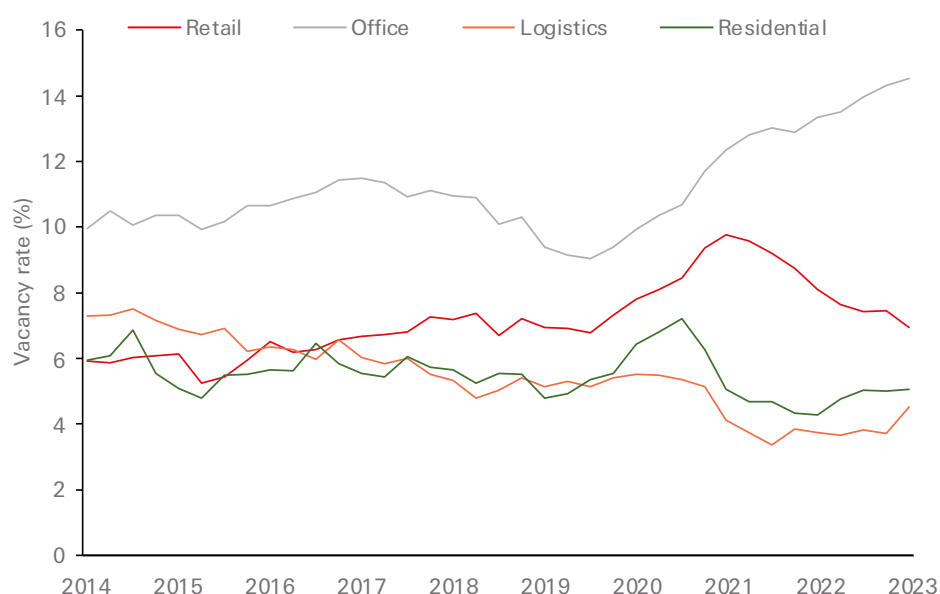
E-commerce remains an ongoing headwind for retailers which struggle to integrate online retail into their in-store offerings. In addition, the short-term economic headwinds created by higher interest rates are anticipated to exert pressure on household budgets as people lose their jobs and pandemic savings are depleted. However, for the top locations, strong leasing demand is supporting rising occupancy and (gradually) improving rental levels.

The office sector has the most challenging backdrop as the cyclical economic pressures have come at a time when vacancy rates were already elevated. Still, a growing number of businesses are encouraging their employees back to the office which

may limit the amount of space handed back by tenants shifting towards hybrid working practices. Occupiers are increasingly focussed on high quality, environmentally sustainable offices in the best locations. This is driving a bifurcation in rental performance (and capital values) between prime and average buildings.

Looking ahead, the majority of any further price correction is expected to be due to rising property yields as the spread between borrowing costs and property yields may not be sufficient to restore liquidity. Should economies fall into recession, then occupier fundamentals can also be expected to soften and we may see a secondary wave of value declines in some markets, particularly for the cyclically vulnerable office and retail sectors, as happened after the Global Financial Crisis (GFC). In general, we expect the correction in capital values to be over halfway, although this will vary depending on region and property type.

Low vacancies should provide some support, except for offices



Source: MSCI, HSBC Global Private Banking as at 22 November 2023.

Private Markets

Private equity and venture capital markets have experienced a slowdown in activity in 2023. In the US, exit values hit an air pocket in Q3, falling 40.7% from the prior quarter to its lowest quarterly level since the global financial crisis (GFC)—excluding the lockdown of Q2 2020—and are now down 83.7% from the Q2 2021 peak¹. This significant hit to activity also impacts distributions back to investors. Private credit remains a popular asset class as the supply / demand imbalance creates attractive conditions for investors.

Since the 2021 peak, weaker distributions have negatively impacted fundraising for private equity – although to a lesser extent than might have been

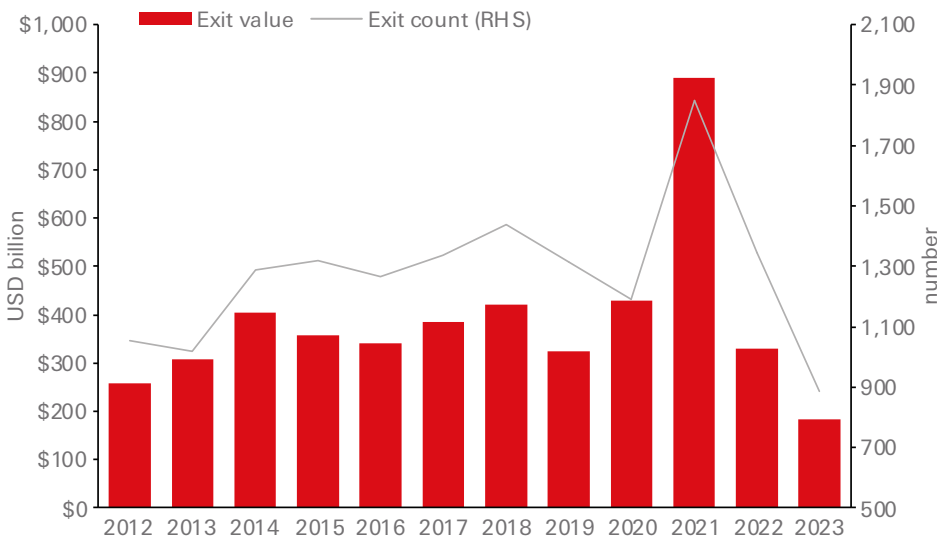
expected. Investors still committed significant sums to private equity funds in 2023. While some investors had to rebalance portfolios away from alternatives after bonds and equities dropped in 2022 (the ‘denominator effect’), rising public equity markets in 2023 have reduced this impact. As a result, while the focus remains on larger funds, private equity fundraising has remained relatively solid, with \$618bn raised in the year to October 2nd. This is above the annual average between 2010-2020 of \$549bn. It is, however, likely to struggle to hit the \$949bn average of 2021 and 2022, when market activity was at its peak.

While higher rates are having an impact on exit volumes and valuations, many investors could be positioning

themselves to take a more proactive stance. Should we move towards more of a recessionary environment, it is likely that we will see additional volatility in private equity markets. This, in turn, would reduce investment volume in the short term. However, over time, that would probably reverse, as the resulting lower interest rates in this scenario would lower borrowing costs. This should increase investment activity in H2 2024 and into 2025, when 2024’s primary commitments are likely to be deploying.

One impact the current higher rate environment has had thus far, and should continue to have, is to widen the performance gap between winners and losers. For more recently closed funds, the gap between the top and bottom

Private Equity exit activity is low but we expect it to pick up in 2024



Source: Pitchbook, HSBC Global Private Banking as at 22 November 2023.

decile has never been wider. While funds from 2021 and 2022 vintages are still in their relative infancy, this dispersion in performance is to be expected. However, it does highlight the importance of selecting the 'right' manager.

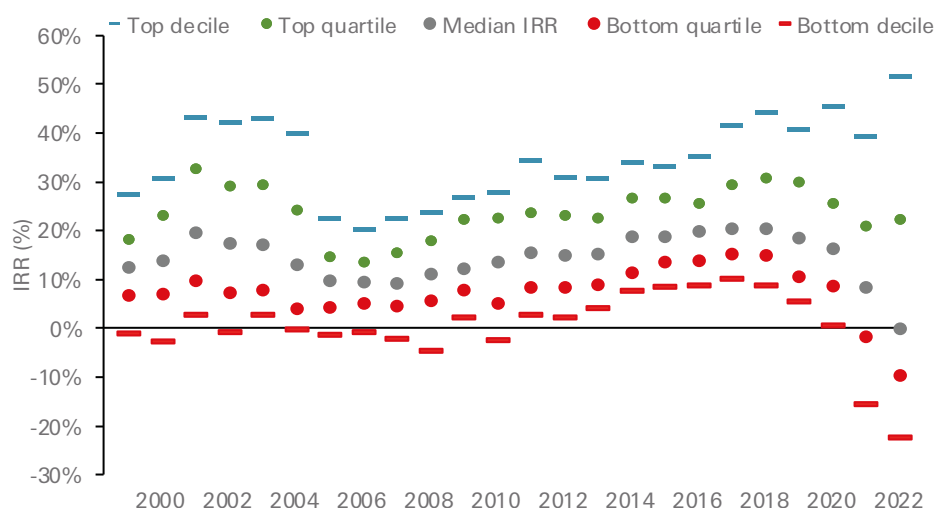
Throughout 2023, interest rate payments spiked to a 16-year high, which resulted in PE-backed company leverage being at a 13-year low. Investors could be concerned about whether GPs in the current high interest rates environment can access leverage to support value creation, but higher interest rates might not be necessarily all negative: when access to credit is easier, acquirers may bid up purchase prices leading to lower potential future returns for the vintage. In 2024, we will continue to focus on PE firms that have demonstrated a track

record of employing other levers to generate value for investors by redefining operational processes, raising efficiency with new tools, seeking new areas of growth or focusing on higher earnings growth.

While global secondary volume for the first half of 2023 commitments declined 25% to \$43bn from the record levels in H1 2022 of \$57bn², this remains a key conviction for us going into 2024. LP secondaries volume fell as we continue to see little distressed selling from investors and the denominator effect also lessened in H1 2023 due to rising public markets valuations. Overall, the bid ask spread has narrowed in H1 2023 and we expect similar trends through H2 2023 and H1 2024 as pricing continues to stabilize.

Despite 2023 challenges, we believe the private equity asset class is poised to thrive in 2024. LPs have a more positive outlook for 2024, with 71% believing that 2024 will represent a strong vintage (source: Collier Capital), which may suggest a continued approach on their part to committing new capital. We continue to believe in the benefits of disciplined deployment into the private equity asset class, through a high-conviction approach and consistent vintage diversification. In 2024 we expect to see a competitive buyer's market with deal making and exit activity picking up along with a growing slate of mature assets coming to market. We expect therefore in turn to see a normalisation of distributions to investors over the medium term.

Dispersion of Private equity IRRs is exceptionally high currently



Source: Pitchbook, HSBC Global Private Banking as at 22 November 2023. Past performance is not a reliable indicator of future performance.

¹ Pitchbook, as of October 2023

² Jefferies, H1 2023 Global Secondary Market Review, as of July 2023

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 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 nationalisation.

Reinvestment risk

A decline in interest rate would affect investors as coupons received and any return of principal may be reinvested at a lower rate. Changes in interest rate, volatility, credit spread, rating agencies actions, 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 nationalisation or expropriation of assets;

(b) economic and political uncertainty; (c) less liquidity in so far of securities markets; (d) fluctuations in currency exchange rate;

(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 recognised market, it may be difficult for investors to sell their investments or to obtain reliable information about their value or the extent of the risk to which they are exposed.

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

In broad terms “ESG and sustainable investing” products include investment approaches or instruments which consider environmental, social, governance (“ESG”) and/or other sustainability factors to varying degrees. Certain instruments we classify as sustainable may be in the process of changing to deliver sustainability outcomes. There is no guarantee that ESG and sustainable investing products will produce returns similar to those which don’t consider these factors. ESG and Sustainable investing products may diverge from traditional market benchmarks. In addition, there is no standard definition of, or measurement criteria for, ESG and sustainable investing or the impact of ESG and sustainable investing products. ESG and Sustainable investing and related measurement criteria are (a) highly subjective and (b) may vary significantly across and within sectors. 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 ESG / 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 ESG / sustainability impact will be achieved. ESG and Sustainable investing is an evolving area and new regulations are being developed which will affect how 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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Investment Outlook

Q1 2024

