Innovate or Stagnate

Investment Outlook

Q2 2025

HSBC

Global Private Banking

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Welcome

Dear client

The world is going through some major changes, including rapid AI-led innovation, where China is challenging the established US dominance. Trade is being shaken up by tariffs and frictions, while international relations are becoming less predictable. All of these changes force governments and businesses to innovate quickly to avoid stagnation and to remain competitive.

Luckily, these shocks are occurring while the global economy – although slowing a bit - is in good health, most central banks maintain an easing bias and many corporates are cash-rich. So, we think the fundamentals continue to support our risk-on stance and our overweight on global equities, as we see many cyclical and thematic opportunities.

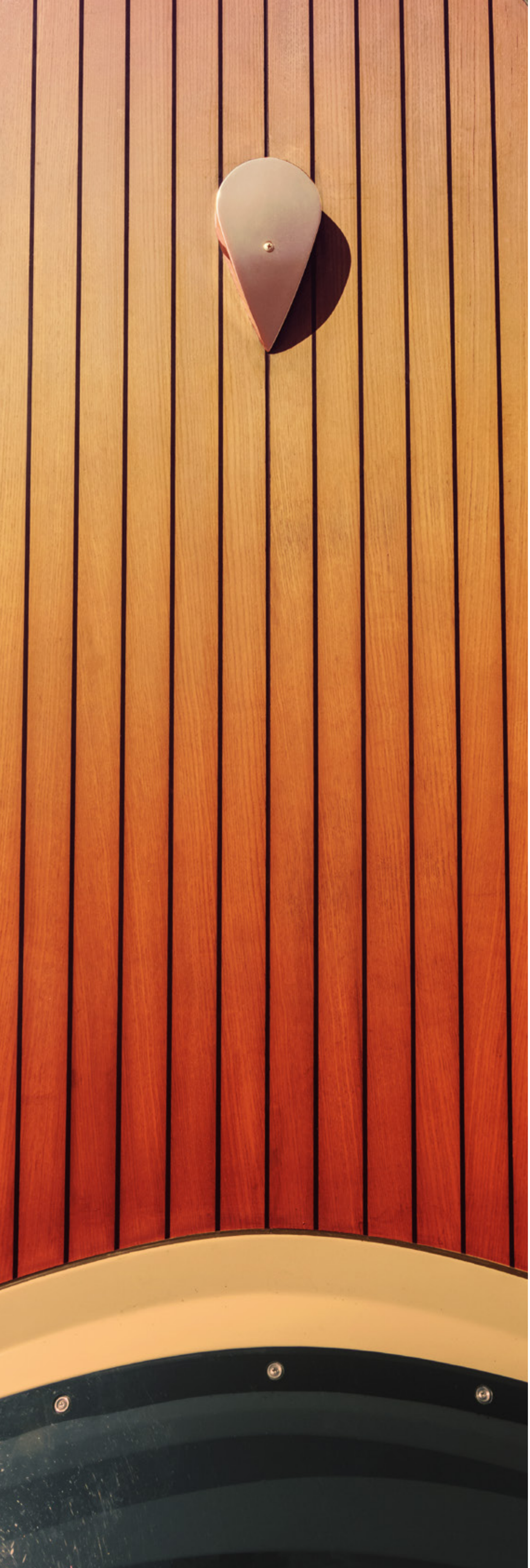
Still, these changes are not mere blips but new trends with a real market impact, so investors need to innovate too.

1. Accelerating AI innovation is a positive for productivity, earnings growth and risk appetite. The development of new models (like DeepSeek's) that are cheaper to operate, should multiply AI applications. They should also help spread the benefits from the Magnificent 7 to the forgotten 493 S&P500 stocks, from the chips to AI adopters, and from the US to the rest of the world. Another consequence of the AI ecosystem's hunger for power is a rapid build out of electricity generation and the grid, and broader infrastructure opportunities.

2. China's stock market is benefiting from a long-awaited improvement in risk appetite. The trigger is enthusiasm over tech innovation and the Chinese government's policy pivot towards consumption and a friendlier stance on the private sector. This should lead to more investment (especially in tech) and lower regulatory risk, helping boost valuations – even though we do not expect a quick acceleration in earnings or GDP growth.

3. Trade obstacles and tariffs are top of the news, but our view is that they should not lead to global stagflation. That's in part because of the current health of the economy but also because tariffs encourage further regional integration, for example between China, ASEAN countries and India. Services will be more resilient to tariffs than goods, with autos and consumer staples most at risk, in our view. Consumers may shift to local brands because of rising costs of imports, or to support home-grown products. And while the North American re-industrialisation used to be principally driven by US firms wanting to produce more at home to secure supply chains, it may now be boosted by foreign firms producing more in the US to escape tariffs.

4. Lastly, the rule book on international relations is being re-written, moving from multi-lateral agreements to bilateral deals. That creates more uncertainty, to which governments will adapt by focusing on security in all its aspects. This includes defence and cybersecurity, while ensuring access to materials and energy, and targeting economic security by striving for leadership in the industries of the future. The EU and Germany are taking measures to raise defence spending and some are planning to make much overdue investments to lift competitiveness. Moreover, a durable ceasefire in Ukraine could generate a small peace dividend for the Eurozone (GDP up 0.2-0.3%, inflation down -0.4%; i.e. much smaller than the hit we observed in 2022). In our complex world, gold should see continued support.



What does this mean for investors?

Multi-asset portfolios with an active approach remain the best way to manage these changes and to exploit both structural and tactical opportunities. Bonds may not rally sharply as we foresee only a few Fed rate cuts in 2025, but the steady income from quality bonds is still attractive in portfolios. The correlation between equities and bonds has become negative again, boosting Treasuries' power to hedge against risks of slowing growth. On the equity side, we maintain a mild overweight in the US, but recognise that tariffs and increased uncertainty may reduce US growth levels and growth differentials with the rest of the world. Moreover, as AI innovation spreads, the US now looks less exceptional. So, we look for more diversification at less stretched valuations around the world and have already upgraded Chinese and UAE stocks to overweight in February. We also raised the Eurozone to neutral and maintain our overweight positions in Japan, Singapore and India.

The long-term trends are best exploited through our thematics and via private assets. The new global realities reinforce the rationale behind our 'Aerospace & Security', 'Intelligent Automation & AI' and 'North American Re-industrialisation' themes. We have launched a new theme called 'China's Innovation Champions'. We have also launched a new high conviction theme called 'Streaming and Subscribing' to tap into these rapidly growing business models and a third new theme called 'Global Financials' to tap into rising M&A and fee income. In private markets, we think many companies will take full advantage of AI democratisation to compete with their bigger rivals, while infrastructure opportunities remain ample.

Therefore, our four priorities going into Q2 2025 are as follows:

1. Invest in the global AI adopters and electrification
2. Power up portfolio with multi-asset and active fixed income strategies
3. Build out your core allocation to private markets and hedge funds
4. Discover domestic resilience in an evolving Asia

Willem Sels
Global Chief Investment Officer,
HSBC Global Private Banking
and Wealth

Our Portfolio Strategy

The global economy - though slowing somewhat - is still resilient and most central banks maintain an easing bias, leading us to hold on to our mild risk-on stance. That said, the past run-up in US equity valuations – especially the Magnificent 7 – is pushing investors to screen for other options and broaden geographical and sector exposure. We maintain our medium-term optimism for the US but with a policy to diversify into the Forgotten 493 stocks and AI adopters across industries. China's rapid technological progress and friendlier stance towards the private sector led us to upgrade Chinese stocks to overweight in February 2025. We also added UAE stocks to our list of overweights and upgraded the Eurozone to neutral. Accelerating M&A and AI create many opportunities in private equity, and we diversify with a broad investment opportunity set across IG and HY bonds, hedge funds and gold.

Cash: underweight

Fixed Income: mildly underweight

Overweight EM hard currency corporate bonds and UK gilts, European and UK corporate IG bonds

Neutral most of the global bond markets

Underweight Japanese government bonds

Equities: mildly overweight

Overweight US, Japan, China, India, Singapore and UAE

Underweight Canada, EM EMEA, Latin America

Alternatives: overweight

Overweight hedge funds and gold

Core allocations to Private Markets and Infrastructure

The world around us: cyclical and structural picture

The economist consensus is looking for 2.9% global real GDP growth and 2.3% in the US in 2025, about 0.4% below the historical average in both cases, but still respectable.

Challenges to global trade are a clear obstacle and a risk to this outlook. Policy uncertainty on the international and domestic front (including in the US) gives companies and consumers less visibility, which tends to weigh on investment spending and durable goods sales. And while inflation has dropped, many consumers still limit their spending as they continue to be wary about a return of inflation. We therefore expect US growth to be downgraded – especially for the next two quarters – but still remain close to the historical average for 2025. Earnings growth estimates for US stocks may be revised too, but still stand at 12% for 2025 compared to 10% last year.

There are still many positives that offset the tariff uncertainty. We believe investment spending by both corporates and governments will play a big role in supporting economic activity, because innovation is an imperative. The rapid progress of AI is the first trigger for this, as it moves from the model stage to the applications. The propagation of cheap and powerful models like DeepSeek will create a rush by companies to invest in software and automation across the industrials and services sectors. It will allow companies to cut costs. This is key at a time when companies want to protect their margins at the current near-record levels, and the share of wages in corporate revenues cannot easily be reduced further.

AI-enabled progress is real and it's happening already: in the latest earnings season, a major oil company said it cut maintenance costs by 20% using AI; a global consumer goods company saved USD 200m by optimising logistics; and an industrial company saved 20% in electricity costs. Importantly, innovation in AI can take place around the world: while some areas of tech such as the internet are dominated by the US, due to network effects, this should not apply to AI. That gives China and even Europe a chance to exploit AI-related productivity gains.

As we have seen from policy announcements in the US, India, France and UAE for example, governments understand that AI is a strategic priority, so they are eager to invest too to help the private sector. Huge investments in data centres have been announced, coupled with the build-out of power generation and electricity transmission investments. That is much needed and not just because of AI: the electrification of our economy is a long-term and rapid trend that was in place well before AI. Our colleagues at HSBC Global Research have calculated that only 4% of the increase in global electricity demand till 2030 will come from AI and datacentres. The rest comes from rising industrial processes, buildings, transport, and desalination. So, investment in power is bound to remain an engine of growth.

China will be a key market to watch, as so many investors were very negative on Chinese stocks, forcing short covering when the DeepSeek news triggered a rally. A quick economic turnaround may not be on the cards though, as the property market recovery remains slow, leading Chinese consumers to keep higher precautionary savings. Investment in Chinese real estate continues to shrink by about 10% p.a., but investment in the new economy is growing at around 20%, and this should continue as China works on its priority sectors and increasingly incorporates AI. Perhaps just as important is the recent policy pivot towards a friendlier and more supportive stance to the private sector. This shift took place at the high-level symposium chaired by Chinese President Xi Jinping in February 2025, where he reassured private businesses should "get rich first, and then promote common prosperity" (Sources: Xinhua News Agency, Associated Press). More supportive government policies towards the private sector and technological innovation should lead to more investment in tech-related capex. While it may take time for spillovers into other sectors, jobs and consumer confidence, lower regulatory risks can help push up valuation multiples further.

Meanwhile Japan continues to see better growth than in past years thanks to mildly positive inflation, while we think Indian activity will rebound thanks to government stimulus.

The tariff challenge and policy uncertainty

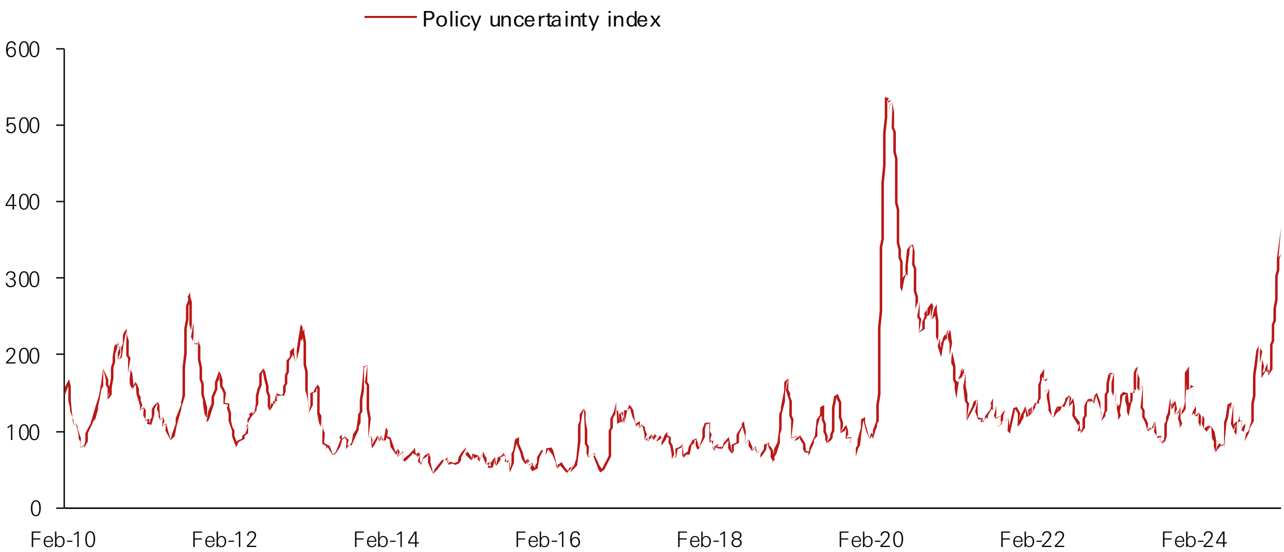
Trade tariffs are unloved by economists, and the general perception is that they can lead to stagflation – i.e. hurt growth while also boosting inflation.

But the current resilient starting point is a first bulwark against the stagflation threat. Secondly, trade tariffs often just lead to trade diversion and re-orientation. That could, in fact, create a deflationary force, as many countries may fear that Chinese goods that are redirected from the US will flood the market. And on the activity side, the evidence is mixed too. When the US increased tariffs on Chinese goods during Mr Trump's first presidency, its overall trade deficit did not decline. China's share in US imports did decline (at least temporarily), but Mexico's and Canada's increased. Universal tariffs would be more damaging, but we expect there to be some exceptions to recent announcements. Third, tariffs mostly target goods trade and not services, which is a relief in our economies that are increasingly service-oriented. And in America, the hope is that the economy will get a boost from increased investment spending. Indeed, while re-industrialisation in the US after COVID was principally driven by US companies that brought production back home to secure supply chains, the re-industrialisation process may now be given a new boost by foreign companies investing and producing more in the US to escape tariffs.

Global uncertainties of course go beyond just tariffs. The new US administration is clearly less supportive of a multi-lateral approach in its international relations, preferring bilateral negotiations and deals. As well-established frameworks and rules no longer apply, we think governments around the world will react by focusing on security, in three key aspects.

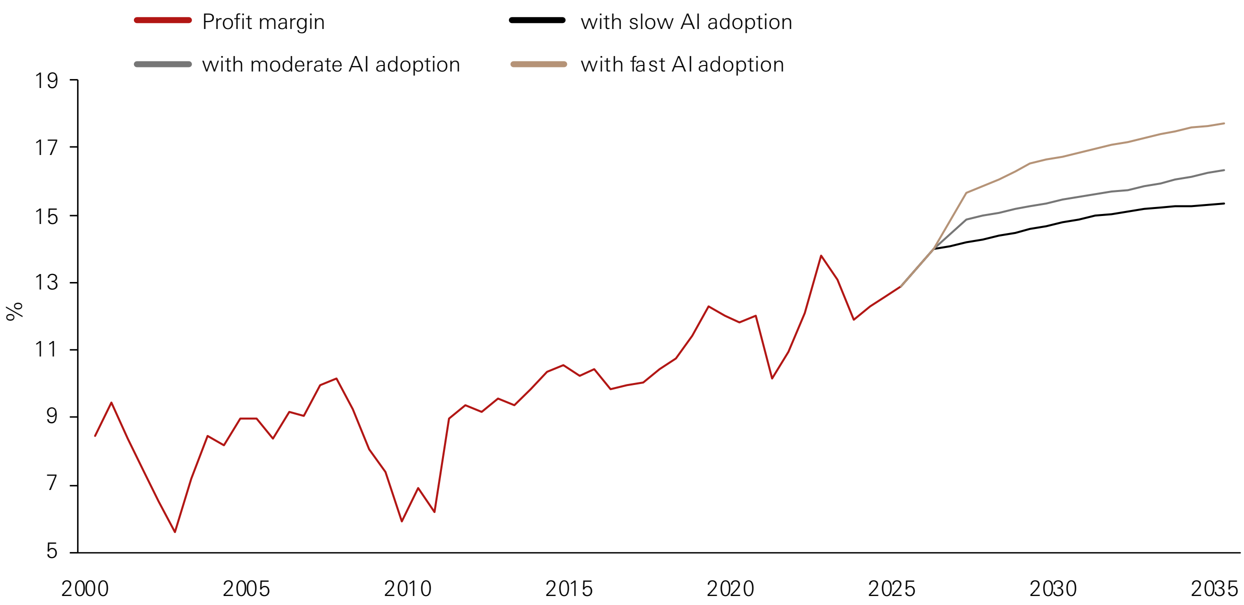
- Firstly, defence, in its traditional form as well as cybersecurity, which is key in our data-led and connected economies.
- Secondly, governments will want to ensure access to electricity and resources. We have discussed the economic reasons for this above, and the geopolitical reasons reinforce this further. Access to other resources is key too, especially those that are rare and are important inputs in technological processes (e.g. rare earth metals).
- Lastly, economic security in our multi-polar and competitive world requires a solid plan to keep up with innovation and be competitive in the strategically important industries. It is no surprise that the big economic blocks are all formulating strong industrial policies. The one laggard so far was the EU, which, according to Mario Draghi's report on competitiveness, needs to create more funding for R&D, reduce regulatory burdens and invest more in education and skills training. The German and EU plans to spend much more on defence and infrastructure, to raise security and competitiveness, illustrate the wake-up call the EU has recently had. Another positive could be a durable ceasefire or peace in Ukraine, which could cause a drop in inflation, but only a mild one, in the order of -0.4%, as gas flows to Europe are unlikely to return in a meaningful way. Lower inflation could give a small boost to consumption, while reconstruction of housing and transportation could also help lift Eurozone GDP by around 0.2%-0.3%. But clearly, these positive impacts are much smaller than the hit we saw at the start of the Russian invasion in 2022.

Policy uncertainty has picked up in an otherwise healthy US economy



Source: Bloomberg, HSBC Global Private Banking as at 13 March 2025. Past performance is not a reliable indicator of future performance.

S&P500 companies' profit margins are high but should be lifted further by AI innovation



Source: Bloomberg, HSBC Global Research, HSBC Global Private Banking as at 13 March 2025. Forecasts are subject to change.

Investment implications

We maintain our mild risk-on stance as the global economy – while slowing a bit - is healthy and we do not think tariffs and geopolitical uncertainty will lead to stagflation. As AI and innovation are currently accelerating and governments around the world are taking initiatives to make their economies more competitive, we think investment and productivity growth will support economic activity and earnings growth.

We hold on to our mild overweight view on US stocks but have been diversifying across countries and sectors. We upgraded China to an overweight in February, and are also positive on the Japanese, Indian, Singaporean and UAE stock markets, illustrating the opportunity for diversification. We maintain a neutral view on the UK and raised our allocation to the Eurozone to neutral as fiscal stimulus could help growth in the coming years and the initiatives are raising market sentiment.

We attribute the underperformance of the US in the year to date principally to increased optimism about other countries and opportunities outside of tech, and do not want to become overly bearish on US growth. As opportunities spread and the US becomes somewhat less exceptional, it is natural that investors find it harder to keep adding to the US with its high valuations, and instead diversify. We have done the same by trimming the extent of our US overweight, moving Canada and Mexico to mildly underweight and thus reducing the allocation to North America, while raising our European and Asian exposure. Within the US, we maintain our strategy to look for sector diversification in the Forgotten 493 (the S&P500 stocks outside of the Magnificent 7) and especially into the AI adopters.

We think private equity is well placed to benefit from the AI boom, as we see AI as a democratiser that helps smaller and younger companies compete with more established public market peers. US private equity companies trade at a substantial discount compared to public market companies. Their Enterprise Value / EBITDA multiples are at 12.7x (Holding multiple) and 10.9x (purchase multiple) compared to 16.5x for the S&P500 (source: HarbourVest). We think that this gap will start to narrow as M&A and IPO activity accelerate, thanks to lower borrowing costs, positive risk appetite and a supportive US government stance on M&A.

We further diversify our portfolio strategy to address tail risks, through bonds, hedge funds and gold. In addition, our longer-duration positioning acts as a natural hedge against a risk-off environment, which may become more frequent in the future. We think the Fed will cut rates further in H2, supporting US Treasury and high-quality bond returns, especially as the real yield remains attractive. We lengthened our duration in Q1 to increase the bonds' diversification properties and we believe it is important to include a solid block of quality income to stabilise portfolio returns. Hedge funds not only help manage volatility in portfolios but can actively benefit from it. As for gold, it should continue to benefit from central bank purchases. In our multipolar world, central banks want to diversify away from the US dollar, but as there is no credible other currency that can challenge USD, we think gold holdings will continue to rise.

Our four investment priorities for Q2 2025

1. Invest in the global AI adopters and electrification

Why? Technology-driven earnings growth is moving from the AI enablers to the AI adopters. We believe this can be found across sectors, as companies use AI to develop new business models, cut costs and raise efficiencies. AI and datacentres are power-hungry, but the electrification trend goes well beyond that.

What? We see AI-related opportunities in software, engineering and communication as models are transformed into real world applications. The beneficiaries can be found across industries and geographies. The rapidly growing electricity consumption requires a diverse set of electricity generation capacity (nuclear, gas-powered, solar, wind etc.) and a big investment in the electric grid. Power is one of the key drivers of our optimism on infrastructure.

2. Power up your portfolio with multi-asset and active fixed income strategies

Why? As the Magnificent 7 stocks have lost their leadership, we look for diversification across equity sectors and countries. Moreover, the big structural trends can best be expressed across public and private markets, which multi-asset strategies should have access to. And given our complex multi-polar world with significant headline risks, we believe it is important to diversify and tackle tail risks through holdings in gold, a broad investment opportunity set across IG and HY bonds and hedge funds.

What? We like multi-asset strategies with a global reach across all public and private markets assets. We prefer active management as the busy news flow will give active managers the opportunity to adapt to or exploit the resulting volatility. This is particularly the case in fixed income, where managers will be able to lengthen or shorten duration, go up or down the credit curve, and tap into sub-asset classes.

3. Build out core allocation to private markets and hedge funds

Why? We think investors should consider expressing their growth, rates and thematic views across public, private and relative value (hedge funds) avenues. This helps widen the opportunity set and allows investors to choose the amount of market exposure (beta), liquidity and investment horizon that best fits their needs.

What? Private equity can give investors access to different business models and smaller companies at cheaper valuations than in public markets, helping with diversification. Private Credit benefits from wider spreads and lower historical default rates than public markets. Both private equity and infrastructure have historically experienced shallower drawdowns and quicker recoveries during market stress (source: S&P Capital IQ analysis over the past 20 years).
And hedge funds should be well positioned to monetise volatility and relative value opportunities. We particularly like equity market neutral strategies, equity long/short managers with low net exposure or focused on Asia, structured credit and Multi-Strat and Multi-PM managers.

4. Discover domestic resilience in an evolving Asia

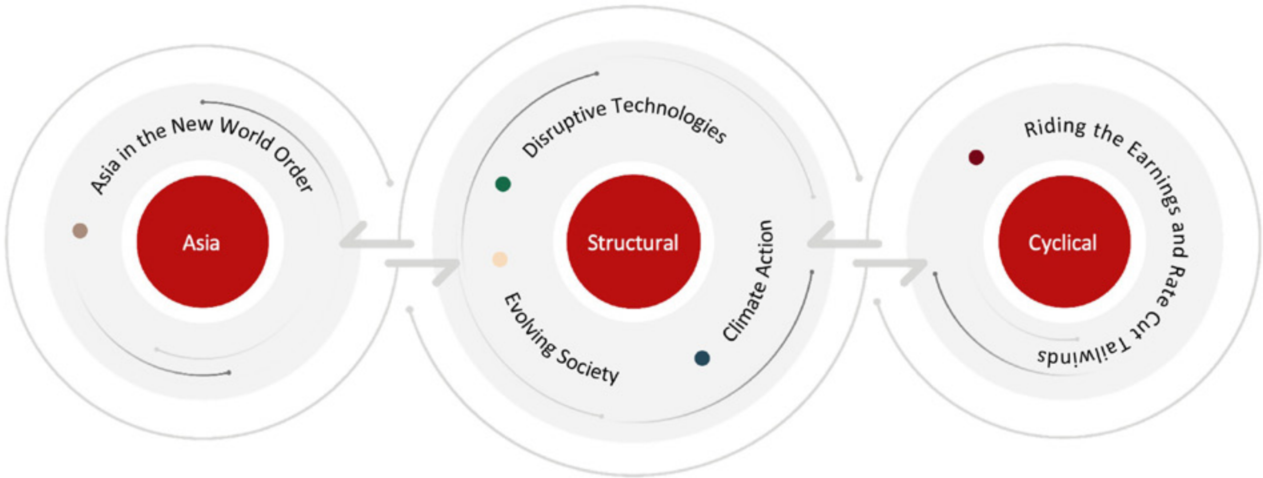
Why? Asia's resilient domestic fundamentals and structural growth drivers should help the region withstand headwinds from global trade uncertainties. The surprising emergence of DeepSeek has demonstrated China's under-appreciated capability to deliver significant technological advancement.
We expect Asian equities will outperform the global benchmark with China's AI-led innovation and policy stimulus, corporate governance reforms across multiple countries to enhance shareholder returns and structural upswing of India and ASEAN.

What? We are mildly overweight on Chinese equities, with a preference for China's Innovation Champions, especially AI enablers and adopters. We are also overweight on Indian, Singapore and Japanese stocks as Asia's diverse markets present a broad range of opportunities, linked to our themes of 'Rise of India and ASEAN' and 'Power Up Asian Shareholder Returns' including quality Chinese SOEs paying high dividends. In fixed income, we see opportunities in High Quality Asian Credit.

Top Trends and High Conviction Themes

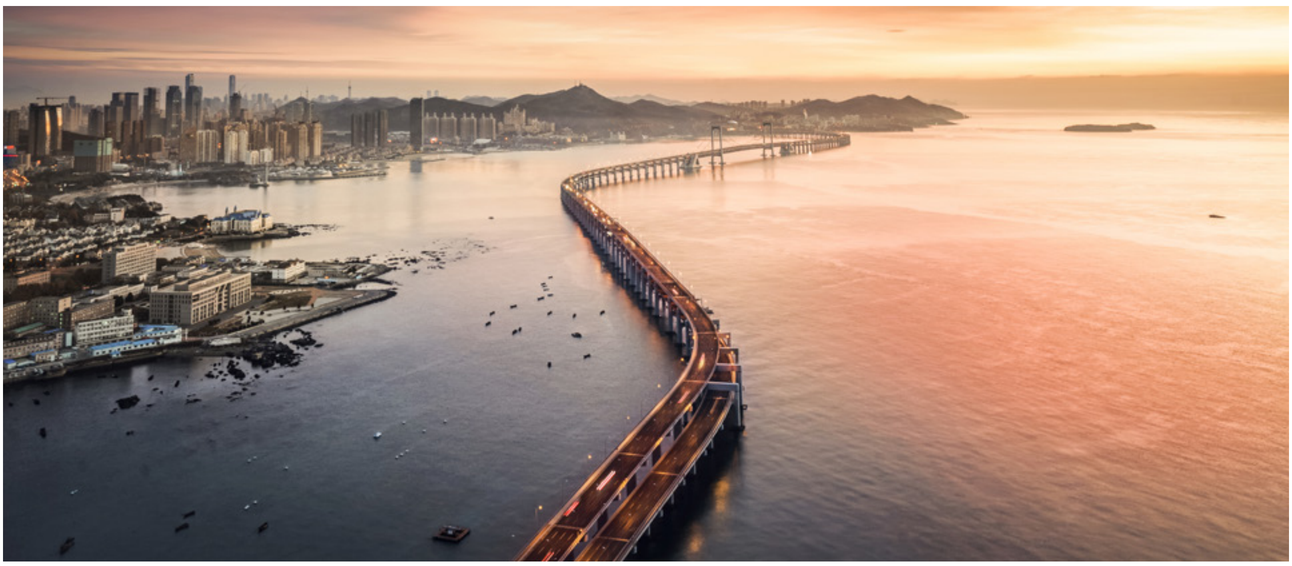
Our Top Trends remain in place, as they fit very well with our picture of intense global competition, AI-led innovation and energy needs. We discuss these trends in the following pages, and reveal our three new themes: 'China's Innovation Champions', 'Streaming and Subscriptions' and 'Global Financials'.

Top Five Trends for 2025 and Q2 High Conviction Themes



Asia	Structural			Cyclical
Asia in the New World Order	Disruptive Technologies	Climate Action	Evolving Society	Riding the Earnings and Rate Cut Tailwinds
– China's Innovation Champions – Power Up Asian Shareholder Returns – Rise of India and ASEAN – High Quality Asian Credit	– Aerospace & Security – Digital Infrastructure – Intelligent Automation & AI	– Energy Security – Biodiversity and Circular Economy	– Social Empowerment and Well-being – Silver Economy & Demographics – Streaming and Subscriptions	– North American Re-industrialisation – Global Financials – Income Through Active Credit Selection

Source: HSBC Global Private Banking as at 13 March 2025.



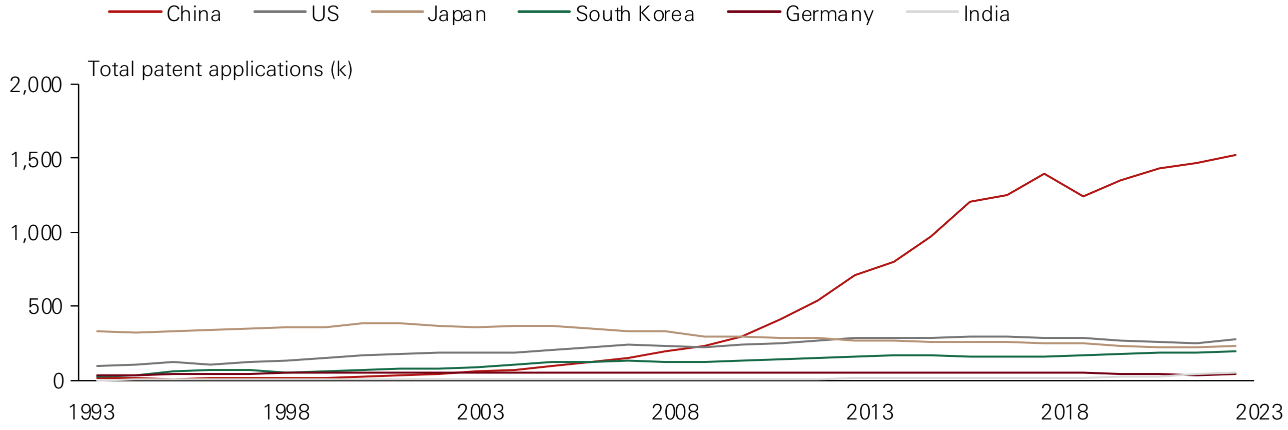
Top Five Trends and
High Conviction Themes

1

Asia in the New World Order

Asian economies continue to stay resilient to withstand global trade uncertainty and tariff headwinds, thanks to their robust domestic fundamentals and structural growth drivers. We identify a diverse and broadening opportunity set in the Asian equity and credit markets, focusing on China's rising AI innovation champions, structural growth leaders in India and ASEAN, and high-quality Asian credit.

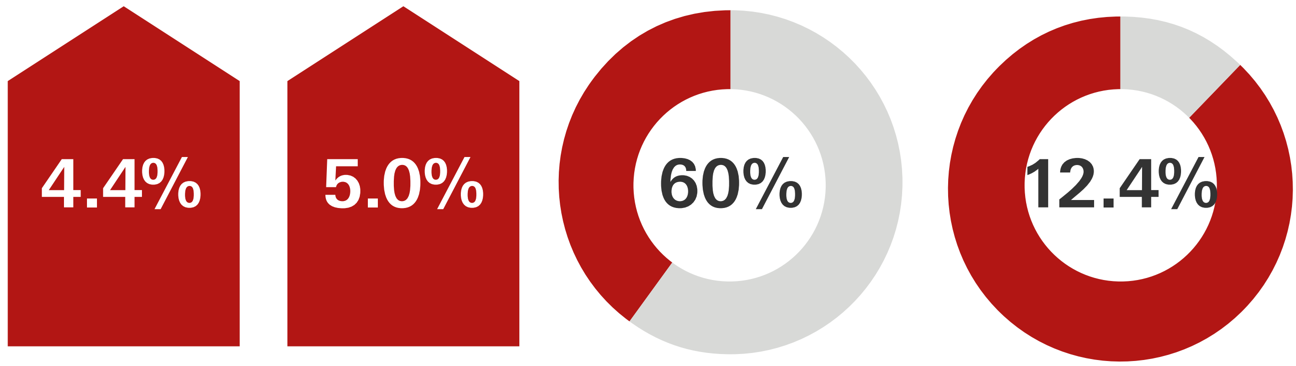
China's progress in technological innovation as it contributed over 1.5 million global patent applications in 2023



Source: World Intellectual Property Organization, HSBC Global Private Banking as at 13 March 2025.

Our Four High Conviction Themes

1. China's Innovation Champions	DeepSeek's breakthrough is unlocking a new wave of AI investment boom in China. We favour AI enablers and adopters, including Chinese industry leaders in the internet, ecommerce, software, smartphones, semiconductor, autonomous driving, and humanoid robotics sectors.
2. Power Up Asian Shareholder Returns	This theme seeks for resilient and defensive equity returns by positioning in quality companies which enhance ROE by paying high dividends or increasing share buybacks. Consensus estimates forecast Asia ex-Japan return on equity (ROE) will rise from 10.8% in 2024 to 12.4% in 2026.
3. Rise of India and ASEAN	We find promising domestically driven opportunities in India and ASEAN, riding on the structural tailwinds from young demographics, rising middle-class consumers, strong foreign and domestic investment flows, and technology boom. India and Singapore stand out as relative safe havens against tariff risks.
4. High Quality Asian Credit	Disinflation trend, solid credit fundamentals and the easing monetary stance of Asian central banks are all supportive drivers for Asian USD IG bonds. We favour Asian financials, Indian and Indonesian USD local currency bonds, Indonesian quasi-sovereign IG bonds, Chinese hard currency bonds in technology, financials, SOEs, and Macau gaming.



We forecast Asia ex-Japan GDP growth of 4.4% in 2025, well above global average of 2.7%

China set a robust GDP growth target of "around 5.0%" at the annual NPC session

Around 60% of Indian and ASEAN GDP is powered by private consumption

Asia ex-Japan ROE is on a steady uptrend from 10.8% in 2024 to 12.4% in 2026

Source: Xinhua News Agency, Bloomberg, HSBC Global Research forecasts, HSBC Global Private Banking as at 13 March 2025.

1 Asia in the New World Order

Navigating global uncertainty with US tariff threats and a strong USD, we focus on discovering domestic resilience and diversification opportunities in the Asian equity and credit markets. Asian economies continue to stay resilient to withstand the external headwinds, thanks to their robust domestic fundamentals and structural growth drivers.

In January, China's private start-up DeepSeek shocked the world by launching the low-cost, high-performing R1 AI model, unlocking a new wave of AI investment boom and accelerating AI adoption and monetisation across many industries. We see new growth engines empowered by AI innovation boosting corporate capex spending and private consumption.

At the annual China NPC, Beijing has set a robust GDP growth target of "around 5%" for 2025, signalling more policy stimulus and consumption boosting support to revive domestic demand and promote technological innovation. Together with robust domestic growth drivers in India and ASEAN, with around 60% of their GDP powered by private consumption, we expect Asia ex-Japan GDP growth will sustain at 4.4% this year, well above the global average of 2.7% growth.

China's Innovation Champions

Tapping into opportunities from China's accelerating AI disruption, we launch a new theme on China's Innovation Champions with focus on AI enablers and adopters. We find newly emerging growth opportunities in China's internet, ecommerce, software, smartphones, semiconductor, autonomous driving, and humanoid robotics sectors amid accelerating AI adoption. We also like the beneficiaries of rising corporate spending in AI infrastructure and applications, including cloud computing, data centres and cybersecurity providers.

The rapid rise of DeepSeek has shifted global investor sentiment, as it has demonstrated China's under-appreciated capability to deliver significant technological innovation despite US export restrictions on advanced chips and technologies.

Beijing's recent policy pivot towards AI-led tech innovation and a friendlier policy stance for the private sector should bode well for re-rating outlook of the Chinese tech leaders and AI-related stocks, which are still trading at steep valuation discount to their US peers after the tech rally in February.

Power Up Asian Shareholder Returns

Quality Asian companies with strong cash flows and improving shareholder returns are expected to deliver resilient and defensive portfolio returns. Our theme on Power Up Asian Shareholder Returns positions in high quality companies which can enhance ROE by paying high dividends and/or increasing share buybacks. Latest consensus estimates project Asia ex-Japan's ROE to increase steadily from 10.8% in 2024 to 12.4% in 2026.

Under this theme, we find attractive opportunities from the corporate governance reform winners in Japan, South Korea, quality Chinese SOEs, undervalued high dividend stocks in Hong Kong, as well as high dividend plays in ASEAN such as Singapore REITs. Many Asia equity markets offer enticing dividend yields, including Indonesia (6.6%), Hong Kong (4.1%), Singapore (3.7%), which compare favourably to MSCI World's 1.8%.

Rise of India and ASEAN

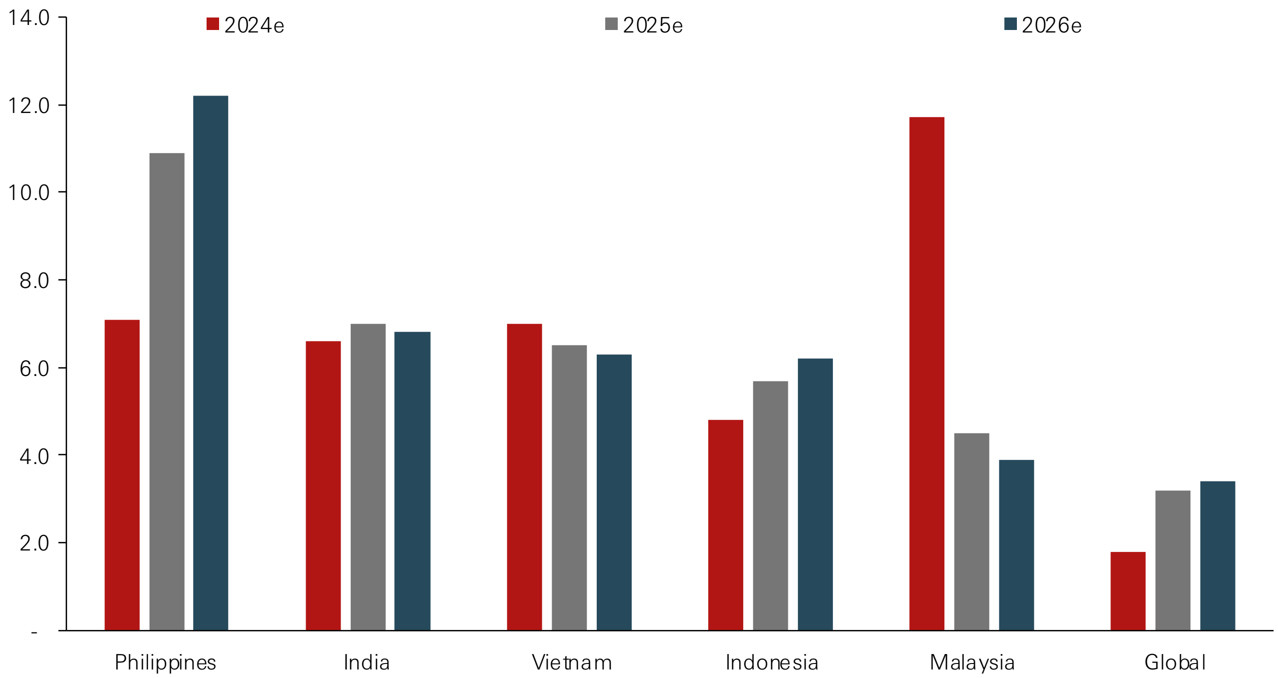
Our theme on the Rise of India and ASEAN remains well supported by structural tailwinds from young demographics, rising middle-class consumers, strong foreign and domestic private investments, and technology boom. This bodes well for a number of sectors, including financials, consumer, real estate, infrastructure and communication services.

India and Singapore, both are our overweight markets, and stand out as relative safe havens against tariff threats, thanks to their close strategic relations with the US. Singapore has a modest trade deficit against the US, placing it in a more defensive position amid global trade uncertainty. The recent pullback in Indian equities presents an attractive tactical opportunity as the market is supported by mid-teens earnings growth, high ROE and strong inflows from domestic investors.

High Quality Asian Credit

Sustained disinflationary trend should allow Asian central banks to cut rates further this year. This should bode well for return outlook of Asian quality bonds, supporting our theme on High Quality Asian Credit. We favour Japanese and Australian IG bonds, Asian financials, Indian and Indonesian local currency debt and Indonesian quasi-sovereign IGs in USD. We have turned more constructive on Chinese hard currency corporate bonds given improving fund flows and investor sentiment towards Chinese assets. We continue to like Chinese hard currency bonds in technology, financials, SOEs, and Macau gaming.

Investment spending growth in India and ASEAN stays ahead of the global average in 2025-2026



Source: CEIC, HSBC Global Research forecasts, HSBC Global Private Banking as at 13 March 2025. Forecasts are subject to change.

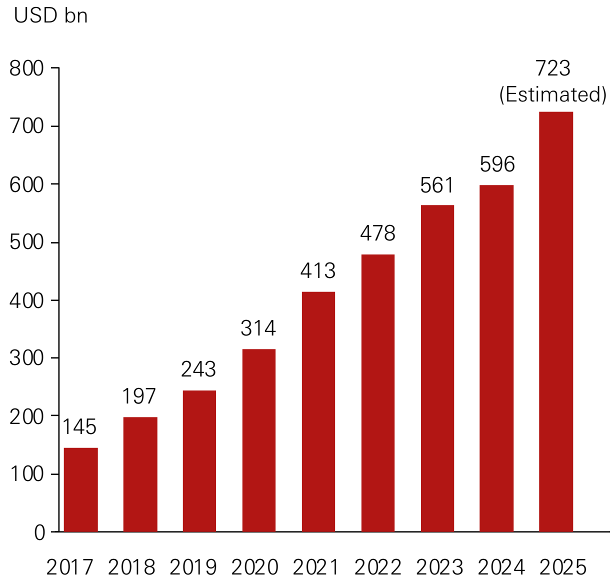
Top Five Trends and High Conviction Themes

2

Disruptive Technologies

Smart technologies are reshaping markets and creating new commercial opportunities as adopters race to deploy new AI capabilities to boost productivity and gain competitive advantage.

Public cloud services end-user spending worldwide

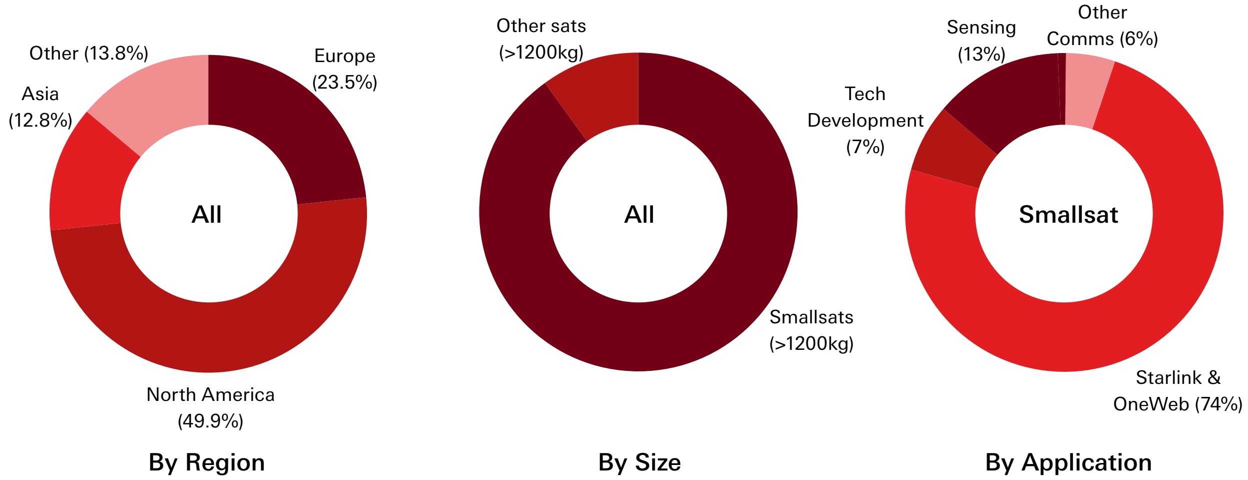


Source: Statista, HSBC Global Private Banking, 13 March 2025.

Our Three High Conviction Themes

1. Aerospace & Security	Security of people, infrastructure, data, assets, etc. is providing a growing challenge to companies and governments. Low-cost technologies such as micro satellites, drones, tracking tags, facial recognition software are helping neutralise some of these threats.
2. Digital Infrastructure	Demand for digital infrastructure is outpacing capacity despite substantial ongoing investments as cloud-based services, storage and AI usage grow rapidly. New data centres will drive growth in construction, cables, semiconductors, cooling equipment and energy infrastructure.
3. Intelligent Automation & AI	Intelligent products and services are heralding a wave of global innovation bringing new and enhanced capabilities that often trigger further related innovations such as 24/7 services, continuous monitoring and autonomous activity.

Satellites launched: smallsats have become dominant



Source: Statista, HSBC Global Private Banking as at 13 March 2025.

It's time for change

For technology, companies, until recently, have favoured low risk incremental improvements in products and services as a strategy rather than developing radical or step-changing technologies. But the emergence of disruptive technologies is changing the status quo and is acting as a catalyst for change. We explore three areas being disrupted by the rapid adoption of new innovative technologies.

Aerospace & Security

Security of our assets is a major concern to everyone whether it's the nomadic Maasai people protecting their cattle or governments protecting subsea energy cables or communication satellites. Newly developed technologies offer some protection and comfort albeit transient given security challenges are continuously evolving as we have seen with recent cryptocurrency thefts.

Ongoing digitalisation initiatives are bringing enormous efficiency benefits that facilitate far greater data sharing whether that is scientific research, medical records, photographs or the latest movies. This not only brings a multitude of commercial opportunities, but also substantial risks.

File or data sharing brings risks particularly relating to security. Commercial and state espionage is an ongoing threat in areas such as intellectual property (IP), software, physical and digital infrastructure where malefactors not only seek information but also control and influence. Recent targeted attacks include government elections; energy infrastructure; hospitals and research establishments.

Digital Infrastructure

A key enabler of digitalisation and the propagation to AI enabled products and services is the infrastructure on which it depends to operate effectively. There are already approximately 11,800 data centres worldwide (source: Statista, March 2024) with capacity set to double over the next few years based on existing investment plans.

Data centres consume significant resources to build and to operate including semiconductors, copper cables, fibre optic cables, environmental control (mainly cooling) and electricity. As cloud-based services, data storage and AI enabled products and services expand so does the need for the infrastructure that supports them. For example, for a surgeon operating remotely on a patient in another country using a surgical robot requires minimal latency between their movements and the corresponding movements of the robot.

Data centres consume significant amounts of electricity to both handle the data processing and cool the equipment. Utility companies are often struggling to meet existing demand from consumers and businesses at peak times. Data centres need secure, reliable supplies of electricity. Owners of data centres are looking at alternative solutions including sponsoring expansion of solar, wind and nuclear capacity that should help mitigate their environmental impact.

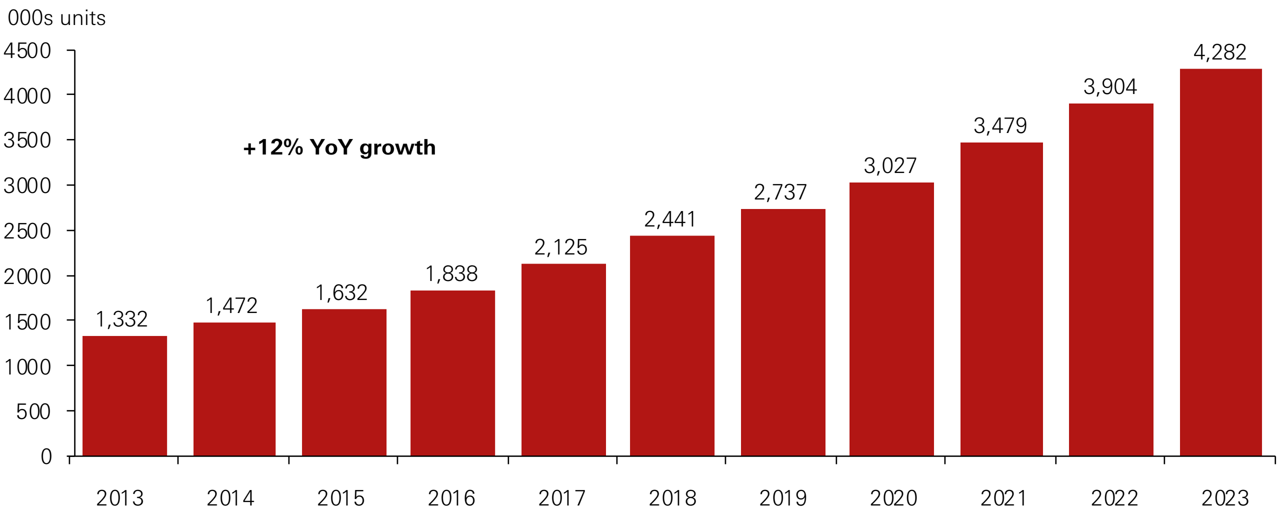
Intelligent Automation & AI

Companies are continuously searching for new ways to improve productivity and reliability, but in recent years improvements have been small and incremental. Recent advancements in intelligent automation and AI (Artificial Intelligence) offer many businesses a potential transformational opportunity. In 2025, competition for dominance in AI development increased substantially, fuelled by new entrants that are bringing both new approaches and open-source software that may offer lower cost alternatives. This is good news for consumers as increased competition usually accelerates innovations and drives down costs. Also, some models may be better suited to different tasks or applications. For example, smaller smart devices may not have the connectivity or capacity to operate effectively using existing large language model software and may be better suited to a 'lite' version or a smaller model tailored for that device's tasks.

A simple, everyday example is the advances in speech recognition and replication software that underpin intelligent automated services such as automated client answering services. These have been available for some time now, but they are becoming increasingly sophisticated in the type and form of information they ask the client and their ability to direct the consumer to the right department while providing the company representative with the client's details and the reason for the call as they pick up the call.

With the technology landscape evolving fast, it is critical that investors understand these changes, their implications and adapt accordingly.

Worldwide operational stock of industrial robots



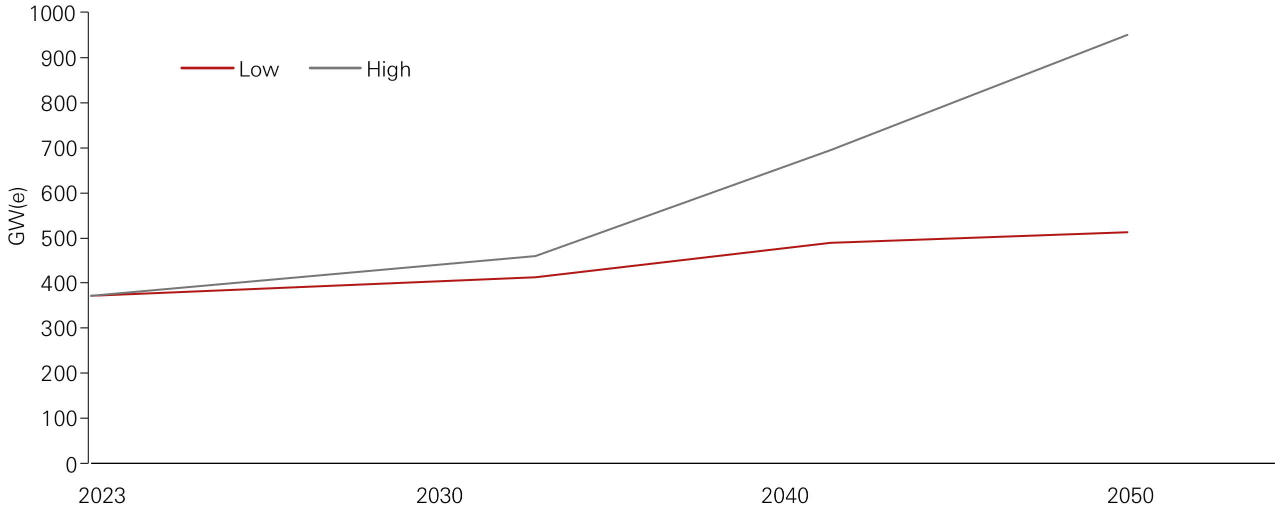
Source: IFR World Robotics 2024, HSBC Global Private Banking as at 13 March 2025.

3

Climate Action

Energy security, independence, cleanliness and sustainability remain long term priorities for corporates and governments all over the world. Likewise, biodiversity is seeing impressive global support with the recent COP 16 on biodiversity achieving some key agreements.

Estimated nuclear energy capacity growth to 2050

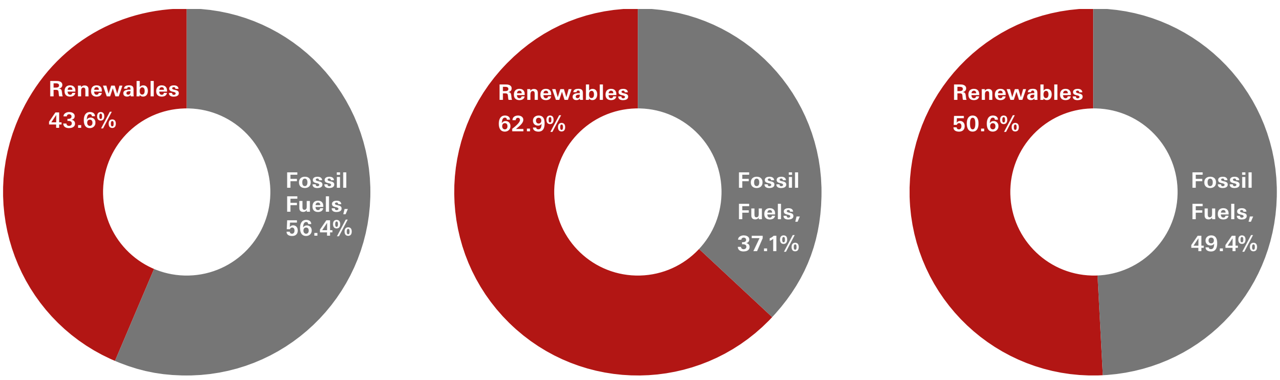


Source: International Atomic Energy Agency, HSBC Global Private Banking, as at 13 March 2025

Our High Conviction Themes

1. Energy Security	Demand from governments and corporates for independent, secure, lower carbon energy production such as nuclear and hydrogen energy is on the rise. This demand is driving major changes in the energy mix and we're seeing a reinvigoration of interest in less traditional energy sources.
2. Biodiversity and Circular Economy	International bodies recently developed quantitative frameworks and measurement tools to gauge individual companies' impact on natural capital and biodiversity, which is creating a new lens through which investors can identify risks but also seek out opportunity.

The share of renewables has grown in the global energy mix



Renewables have grown from 29.3% of the US Energy mix in 2013 to 43.6% today.

Renewables have grown from 48% of the European Energy mix in 2013 to 62.9% today.

Renewables have grown from 29.7% of the Asian Energy mix in 2013 to 50.6% today.

Source: Forbes, WEF, IEA, Living Planet Index, HSBC Global Private Banking as at 13 March 2025.

The Energy industry is undergoing major change driven by a rising urgency from governments and corporates to secure energy for their future needs. They are stepping outside of traditional channels which is boosting areas such as nuclear and hydrogen. Some major corporations are seeking to future proof their demand through private nuclear contracts while governments all over the world have begun plans to implement much higher supply from hydrogen, a largely under invested technology. Importantly, the solutions that governments and corporations are gravitating towards are low emission in nature.

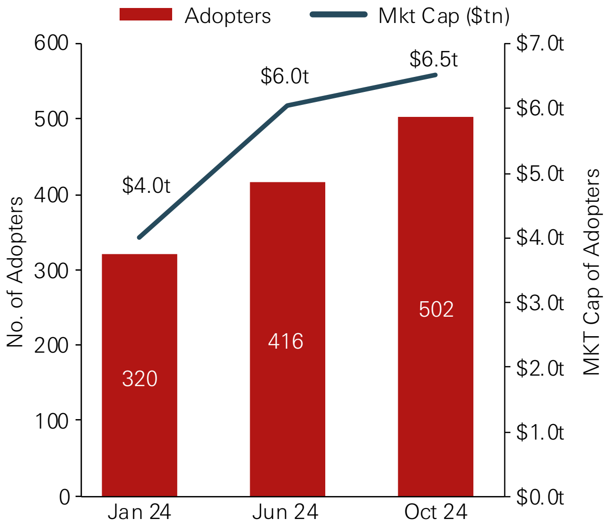
Recent natural disasters, wildfires, abnormal weather conditions and the unmanaged waste in our water ways serve to remind us that the need for sustainable solutions is as high as it has ever been. The combination of high demand for energy security and high demand for clean energy means that the future is going to be a more sustainable one. Incremental capacity investment is going towards renewable energy. Major companies are now active in trying to position for the rising demand for nuclear particularly for small modular reactor technology.

Energy Security

The global energy mix has been shifting over the last decade, but this is likely to accelerate as governments race to secure their energy needs for a future that needs a step level increase in energy supply. The race to be the global leader in AI is reliant on the availability of abundant energy which is driving investment into energy security. We have seen some of the major corporates reignite interest in nuclear energy by engaging with operators to secure low emission energy for their data businesses.

Small modular nuclear reactors for example, are a technology with limited emissions seeing high interest. They are designed to be cost effective, portable, easier to manage and quicker to launch. They present an attractive solution for energy hungry industry that wants zero carbon emissions and can't wait for a full-scale nuclear plant.

Growth in adopters of TFND



Source: Taskforce on Nature Related Financial Disclosures, HSBC Global Private Banking, as at 13 March 2025.

Some of the designs being touted also have hydrogen as an offshoot of the process. Some high-profile companies have begun to announce partnerships in the space to develop products and accelerate their ability to service the demand. Likewise, governments are building out their hydrogen plans to boost their current energy needs.

Low emissions remain an important aspect of the demand and sustainable energy continues to grow around the world at an impressive rate. The energy transition is moving at pace in all regions, and this looks set to continue into the future.

Energy grids as a result will also change shape where infrastructure will need to accommodate energy sources in a more matrix like layout compared to the traditional wheel and spoke that currently exists. While this change has already begun to some degree it will need to accelerate to accommodate the rise in renewables and electrification.

Biodiversity and Circular Economy

Biodiversity is an area that is seeing significant growth and interest. Biodiversity funds have seen their inflows grow over 5X in the last 4 years according to a recent Morningstar report and yet, it is still only early days for the sector.

The recent Assessment Report on the Interlinkages Among Biodiversity, Water, Food and Health from the Intergovernmental Platform on Biodiversity and Ecosystem Services (IPBES) highlighted that more than half of global GDP, c.$58tn is moderately to highly dependent on nature. It outlines a figure of c.$1tn annual financing gap to support biodiversity which may seem like a lot, but it also notes that c.$1.7tn of public subsidies incentivise diversity loss, trade distortion and increasing pressure on resources.

In a strong signal that commitment to biodiversity and global cooperation remains a priority for many, more than 140 countries agreed on a set of measures aimed at getting $200bn annually for biodiversity. This occurred at the continued COP 16 on Biodiversity in the last week of February 2025.

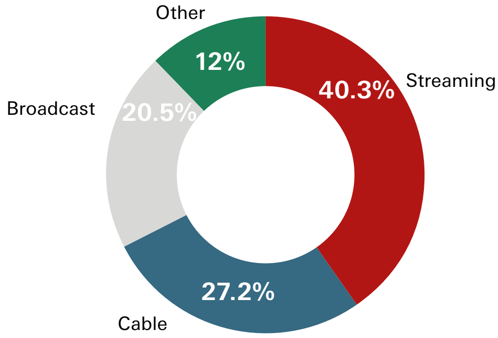
The agreement highlighted the need to outline relevant subsidies and reform where necessary. They also recognised the need for "innovative schemes" such as debt-for-nature swaps and biodiversity offsets. The Taskforce for Nature-Related Disclosures (TNFD) is also an important recent framework for businesses to assess, report and act on nature-related dependencies, impacts, risks and opportunities. The number of companies adopting the framework is rising steadily.

4

Evolving Society

Society is evolving at a rapid pace driven by aging populations, changing attitudes to societal roles, technology and the distribution of wealth within society. We have selected three themes which we think are durable and have strong investment potential.

Streaming crosses 40% of TV usage in the US

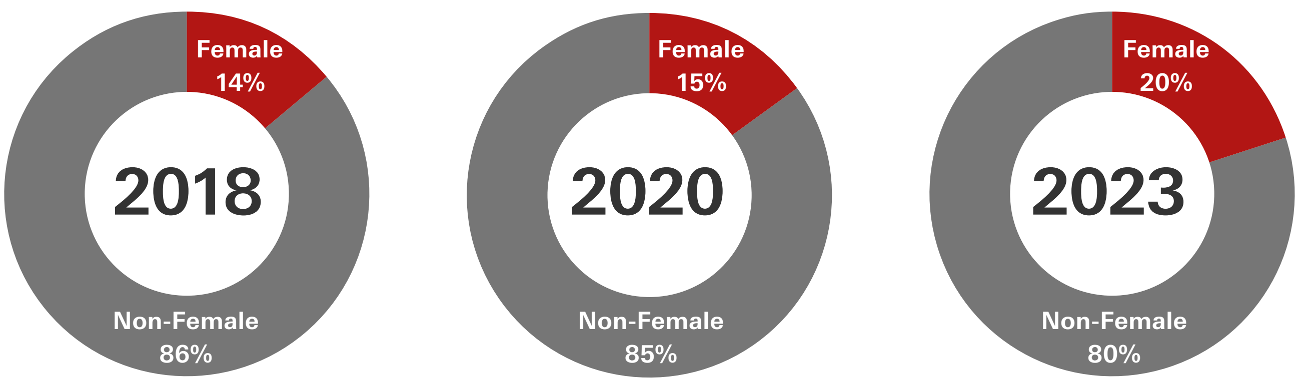


Source: Nielsen, HSBC Global Private Banking, Data until June 2024 as at 13 March 2025.

Our Three High Conviction Themes

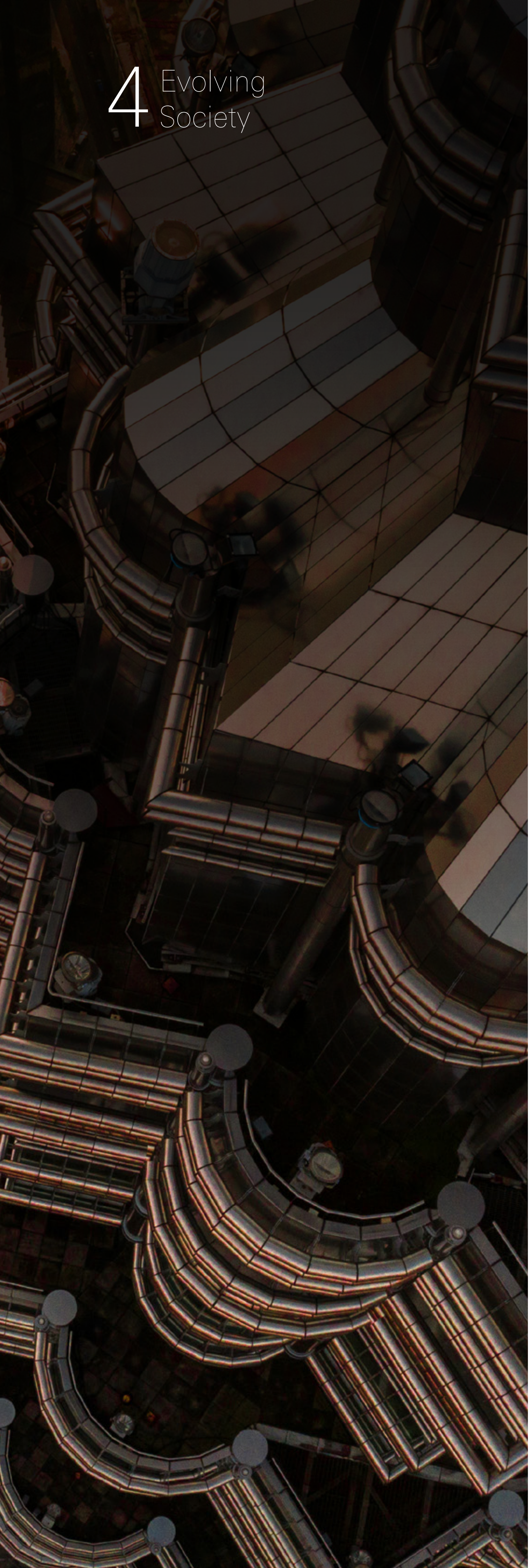
1. Social Empowerment and Well-being	Our theme focuses on gender equality, diversity, female workforce participation, access to quality education and healthcare. This is not just because investors and consumers care about these topics, but also because studies have shown that more diverse organisations tend to perform better.
2. Streaming and Subscriptions	This theme focuses on streaming and subscription businesses that have become the dominant way to consume entertainment. They continue to grow and develop new products, growing market share and leveraging technology.
3. Silver Economy & Demographics	The theme focuses on the investment opportunities that look set to benefit as the world gets older. Demand for health and personal care, assisted living, mobility, security and leisure products and services is in an upward trend that is set to continue for several decades.

Average female representation on executive teams is gradually rising across 23 countries



Source: Mckinsey, HSBC Global Private Banking as at 13 March 2025.

4 Evolving Society



Society is evolving rapidly across many strands of life. Work, commuting, lifestyles, entertainment, consumption and demographics are all in flux. Technology is playing a major role in as a trigger and enabler of change, but wealth distribution is also a key factor.

Our high conviction themes under the Evolving Society trend will shift over time, but we present three of them here.

Social Empowerment and Well-being

Empowering diversity and inclusion in organisations is an important trend for society but it should also be a consideration for investors looking for resilience in their portfolios.

The universities of Leicester and Glasgow showed companies with more than 30% female executives tend to outperform while McKinsey calculates that companies in the top quartile for gender diversity on executive teams are 18% more likely to be more profitable than the bottom quartile set of companies. Top quartile companies for ethnic diversity have a 27% greater chance of outperforming companies in the bottom quartile. Companies in the bottom quartile for executives on both gender and ethnic representation are 66% less likely to outperform top quartile companies.

What’s more, unsurprisingly, research suggests that workplaces with senior management and executive teams that are more diverse across gender and ethnicity are more likely to have workforces that have better diversity which in turn leads to more robust decision making and financial outcomes.

So although the DEI agenda is facing new obstacles, as some companies follow a change in US government policies, others choose to continue to see diversity as an asset.

Streaming and Subsciptions

Technological change is also playing a major role in reshaping society. Entertainment is one such area, as consumption has gone from cable companies and broadcasters to digital streaming and subscription-based models. These new ways of consuming entertainment have established themselves quickly and are now driving the future. Our new theme, Streaming and Subscriptions, focuses on opportunities coming out of this change. Streaming services and subscription services across TV, movies, music and videogames demonstrated their resilience as business models through the recent cost of living crisis demonstrating their established nature with expectations that they will continue to grow. Streaming, for example, now makes up over 40% of TV usage in the US surpassing broadcast TV and cable TV by a wide margin. Falling inflation, falling interest rates, high value content and new product and service types are opening new channels of revenue and new segments of customers which tend to be stickier due to the model.

Silver Economy & Demographics

Our theme on Silver Economy & Demographics is designed to capture the best opportunities resulting from the aging and wealthy cohort, with much different saving and spending habits than younger working people.

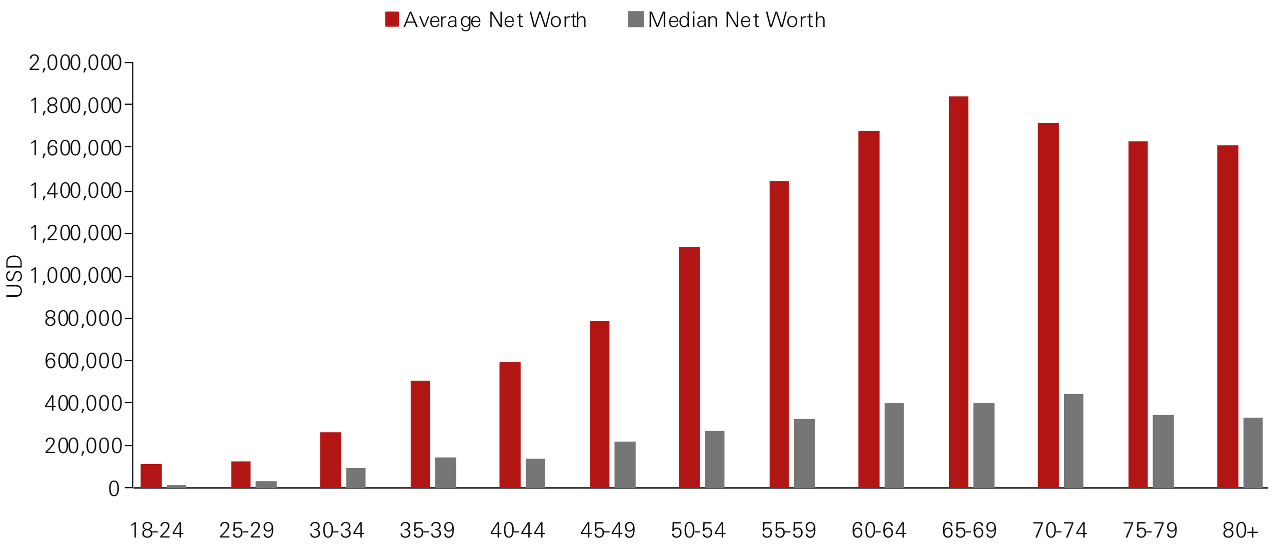
Opportunities in this space present themselves in a variety of places. New retirement lifestyles of fitter retirees that are keen and able to travel, supported by a high purchasing power, are fuelling the Silver Economy. The typical industries we think of, such as pharmaceuticals, healthcare, assisted living and mobility equipment should also have hotels, cruise liners, airlines, consumer goods and specialist financials considered alongside them.

The over 60's also have the highest average net worth. Research shows that the wealthier among them increase their spending in their 60's and 70's and this only starts to decline in their 80's. Retirees will typically spend on experiences, travel, leisure and hospitality.

Technology also has a major role to play and older societies such as Japan are already using robotics and technology to support older customers as they age. AI and humanoid robots also create new opportunities to service an aging population.

In our view, this is a global trend that is set to persist for the very long term as society is still adjusting and businesses are meeting the opportunities as they reveal themselves.

Average and median wealth levels in the US by age groups



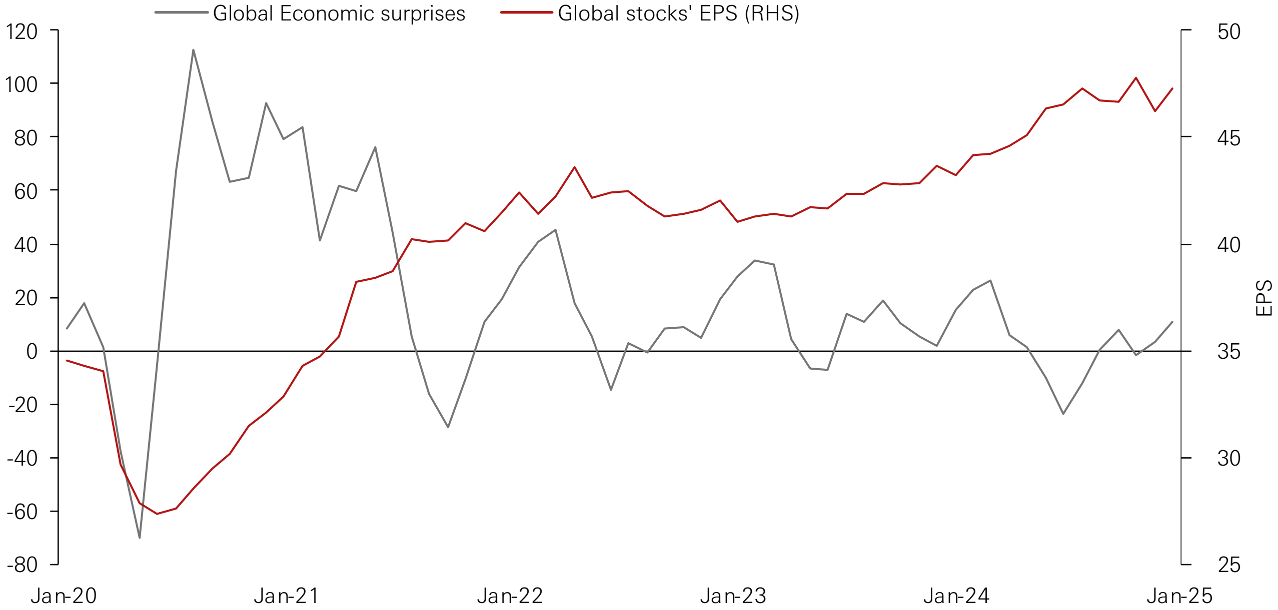
Source: Federal Reserve Survey of consumer Finances 2022, HSBC Global Private Banking as at 13 March 2025.

5

Riding the Earnings and Rate Cut Tailwinds

There are many areas with strong earnings potential in our resilient economy. The re-industrialisation of North America is ongoing, and financials should benefit from deregulation, M&A and trading income. Bond income is at attractive levels and helps diversify and balance portfolios.

The economic cycle and earnings remain resilient

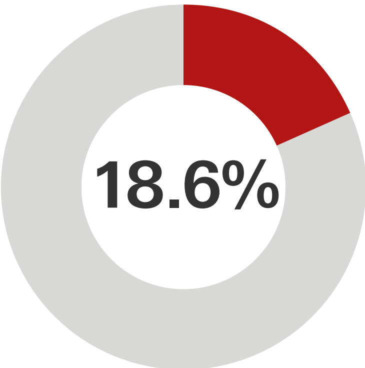


Source: Bloomberg, HSBC Global Private Banking as at 13 March 2025. Forecasts are subject to change.

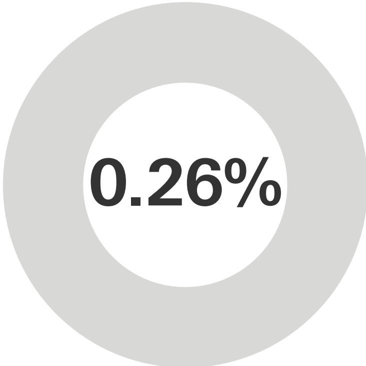
Our Three High Conviction Themes

1. North American Re-industrialisation	While Mr. Biden and President Trump have different approaches to industrial policy, the focus on re-industrialisation remains in place under the new US administration. Foreign and local companies are increasing their investments in US-based production facilities to avoid costly tariffs for their clients. This increased investment should benefit local construction, engineering, logistics and energy providers. In addition, we think foreign companies which produce locally in the US may see their stock price benefit from improved investor sentiment.
2. Global Financials	Banks are benefiting from rising demand for commercial and industrial loans, and while delinquencies have risen, they remain low by historical standards. Strong net interest margins remain in place as interest rate cuts are likely to be relatively slow. Improving capital markets and rising M&A activity are further positives. Valuations are still attractive and as a cyclical sector, banks benefit from resilient global growth.
3. Income Through Active Credit Selection	We exploit a broad investment opportunity set across IG and HY markets from DM and EM, given the backdrop of still resilient global economic growth. We currently prefer a slightly above-average duration to capture the potential for rate cuts and benefit if tariffs and the economic data flow lead to a mild reduction in growth expectations. That said, we think the news flow will be volatile, so we like an active approach where investors can adapt positioning, and a strong credit selection process to pick bonds with the best risk adjusted value.

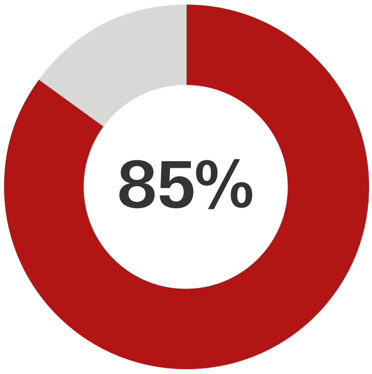
5 Riding the Earnings and Rate cut Tailwinds



The US accounts for 18.6% of global manufacturing – a share which the government wants to increase



The charge-off rate on US commercial real estate loans is still very low



Most of the yield in investment grade comes from the rate component, not the credit spread

Source: Federal Reserve, HSBC Global Private Banking as at 13 March 2025.

The themes under our final trend tap into the shorter-term and cyclical opportunities. While we remain optimistic about the prospects for global growth, the tariff headwinds and uncertainty mean that cyclical support is not uniform across regions or sectors. Hence, we look for themes in areas where we are most confident of earnings growth in the next 12 months. Moreover, as price/earnings ratios have up a lot in recent years, returns will need to come from earnings rather than multiple expansion.

We also think that the continued easing bias of the major central banks – in developed and emerging markets – leads to opportunities in credit.

North American Re-industrialisation

We first launched our North American Re-industrialisation theme after the COVID epidemic, when US companies brought their supply chains closer to home to reduce their vulnerabilities. US re-onshoring was actively encouraged by the Biden administration through the Infrastructure Investment and Jobs Act and federal R&D funding to encourage domestic industrial innovation.

We think that the threat of universal tariffs by the new US administration now adds another reason for inward investment into the US. Companies that want to sell their products into the US will now want to produce more locally to avoid import tariffs. We think this applies to both US and foreign companies and should lead to a pickup in manufacturing construction and jobs. All of the ancillary services, from logistics to engineering, energy and water providers should benefit too.

Advanced manufacturing needs strong technological expertise, and we think the US continues to have an advantage here. While AI innovation is taking place around the world, the US has big clusters of innovation around Silicon Valley and its universities, which should help attract the talent needed to staff its most innovative enterprises.

Global Financials

The interest rate outlook is a key driver of bank earnings, of course. Profits were given an important boost during the high-rate environment. So, it is a relief that rates will likely stay high-for-longer. This tends to benefit banks, in contrast to other sectors.

At the same time, rates are not high enough to cause major issues for the loan book. Indeed, while defaults are up somewhat, they remain low by historical standards. The rate environment is also a reflection of a resilient economy, which tends to benefit banks because of solid loan demand. Lending volumes for residential and consumer loans are no longer contracting, and there is renewed expansion in commercial and industrial loans.

Recent bank earnings illustrated that other sources of revenues are growing too. M&A and IPO activity is picking up, generating more fee income. And amid the more volatile markets, trading and asset management fees are growing too.

Financials are the second cheapest sector on a global basis with a P/E for 2025 at c.13.1x. They also come with the 4th highest dividend yield at 3.1% and the second lowest Price to Book of 1.7x.

Income Through Active Credit Selection

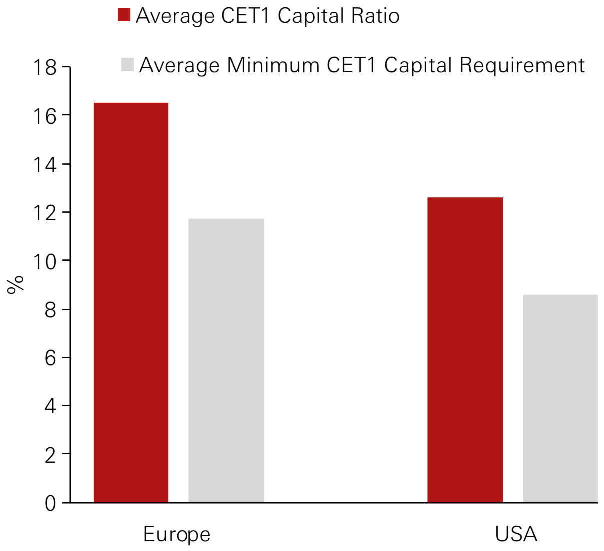
Our bond strategy is composed of three aspects: income generation, diversification and tactical opportunities.

We exploit a broad investment opportunity set across IG and HY markets from DM and EM. However, credit selection becomes even more relevant due to uncertainty around the US administration's policy measures. DM central banks should carry on with their monetary policy easing in 2025, amid further progress on inflation moving slowly towards their targets. We continue to see corporate credit as a good way of diversifying multi-asset portfolios and like income as a solid building block of total returns in our portfolios.

Secondly, while we maintain a risk-on stance, there is a lot of rotation in equity markets, and tail risks should not be ignored. Bonds can help provide much welcome diversification as Treasury / equity correlations have turned negative again.

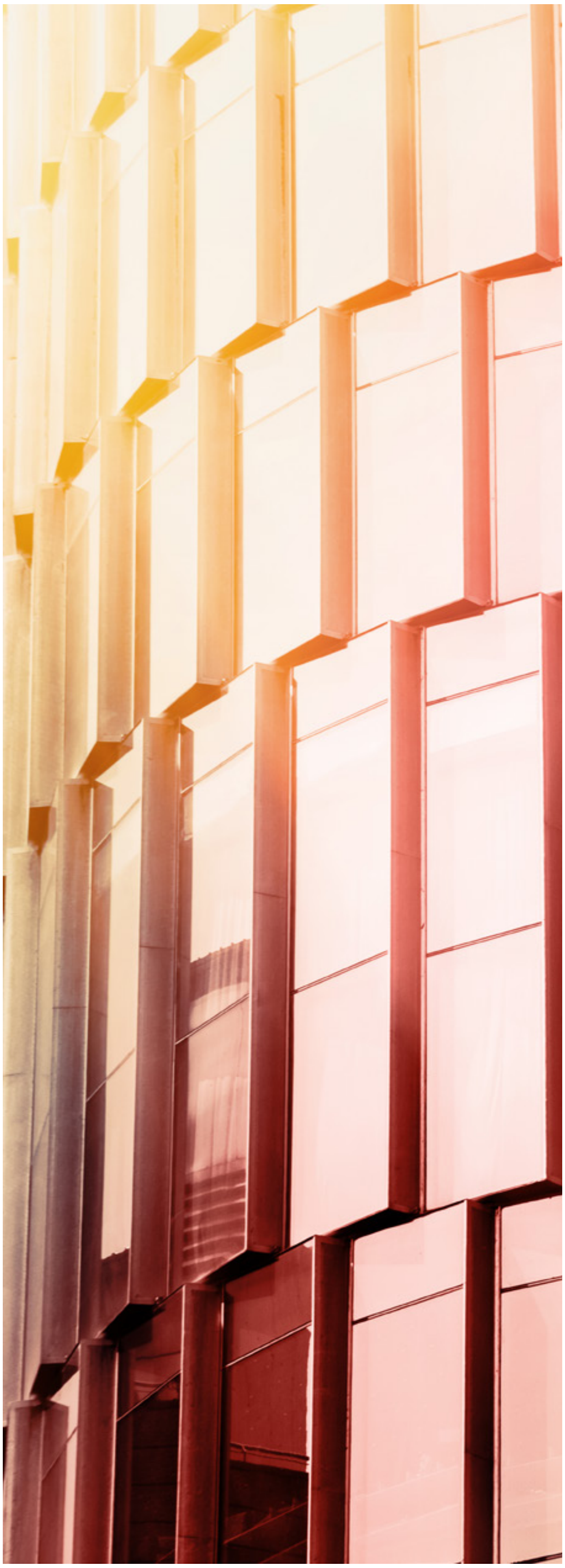
And thirdly, bonds are rich in relative value opportunities and potential tactical trades. Active fund managers and hedge funds can take advantage of volatility to lengthen or shorten duration and move up or down the credit spectrum. Smart credit selection to find the best risk-adjusted value is the final ingredient in our bond strategy.

Both US and European banks have healthy capital buffers, creating opportunities in credit



Source: Nielsen, HSBC Global Private Banking as at 13 March 2025. CET1 ratio = CET1 Capital divided by Risk Weighted Assets.

Equities



Exogenous factors like political, geopolitical, and military issues continue to cloud the outlook for global equities. Yet, earnings have continued to surprise on the upside and while there are some new headwinds for earnings, consensus expectations are already quite conservative. In fact, we continue to see many sustained themes that should give companies scope to further grow these earnings. Furthermore, central banks maintain their easing bias and Treasury yields are out of the 'danger zone', easing the potential pressure on equities from that angle. We maintain our mild overweight in global equities but continue to diversify both our geographical and sector exposure.

The combination of slightly weaker global economic growth and fear of tariffs has led analysts to cut earnings and margin forecasts. That said, their assumptions are now quite conservative in our view, as they now pencil in negative QoQ US earnings growth assumptions for Q1 2025. In addition, the global monetary policy easing cycle remains on track, which should be accretive to earnings and provide a tailwind for global equities. Fiscal stimulus - in the US, China and now even in Europe according to recent announcements - should be pro-cyclical and provide another tailwind for equities. All of these factors suggest that markets remain opportunity-rich, which causes us to maintain our bullish view on stocks.

That said, wide valuation disparities persist, and those will continue to lead investors to look for opportunities outside of the US. We thus expect geographical rotation and recalibration to continue throughout the year, with the direction of flows depending on the regional opportunities and the news flow.

US shifting politics with strong earnings

US equities have been repricing risk (tariffs, inflation, Fed easing cycle slowing, political shifts) and opportunities (resilient growth, expanding margins, broadening profits, technology revolution, re-industrialisation, & re/onshoring). The Magnificent 7 will continue to lead technological change but we look for broader market participation as the "Forgotten 493" should post better earnings well into 2025. The "Forgotten 493" have outperformed, and in fact, we think this should make US equity support more sustainable. While we acknowledge short-term risks to growth in Q1 and Q2 due to the uncertain effects of tariffs and domestic measures on inflation, confidence and growth, we see support in the medium to longer term. AI adoption and re-industrialisation, especially in advanced manufacturing and semiconductors, should drive capital investment, and cement US competitiveness in innovation. Hence, while we could see some continued US volatility, we think analysts and investors should not become overly pessimistic as there are many solid and innovative companies in the deep and liquid US market. Some measures of investor sentiment already look overstretched (too pessimistic) to us.

Asian growth & markets are strong

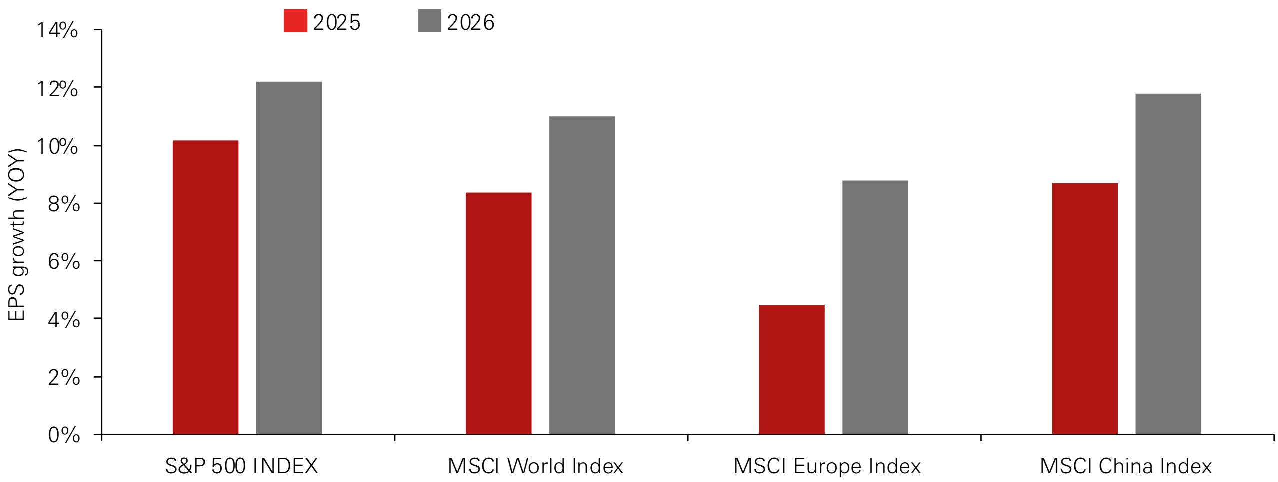
Asia's outlook has improved, propelled by China's policy support and the structural support for India's and Southeast Asian economies.

China's rebound stems from government backing of IT and AI innovation, drawing foreign capital and boosting sentiment – especially as so many investors had very low allocations to Chinese equities before the rally. AI investment and digital infrastructure are reshaping growth prospects, supporting Chinese equities. Yet the sustainability of the rally hinges on macroeconomic stability and support for domestic consumption, as the debt deflationary spiral has not yet been broken and external trade faces tariff headwinds.

India is undergoing a cyclical slowdown but long-term prospects remain very constructive thanks to innovation in manufacturing and tech. Southeast Asia gains from supply chain shifts, with Vietnam, Indonesia, and Thailand hosting more multinational operations as firms diversify from China. Taiwan and South Korea face headwinds from trade uncertainty and slower AI uptake, US tariff hikes could hit Taiwan's semiconductor exports, while a strong dollar pressurises South Korean won and export margins.

Earnings remain solid and the US leads

These earnings data are projected for both 2025 and 2026.



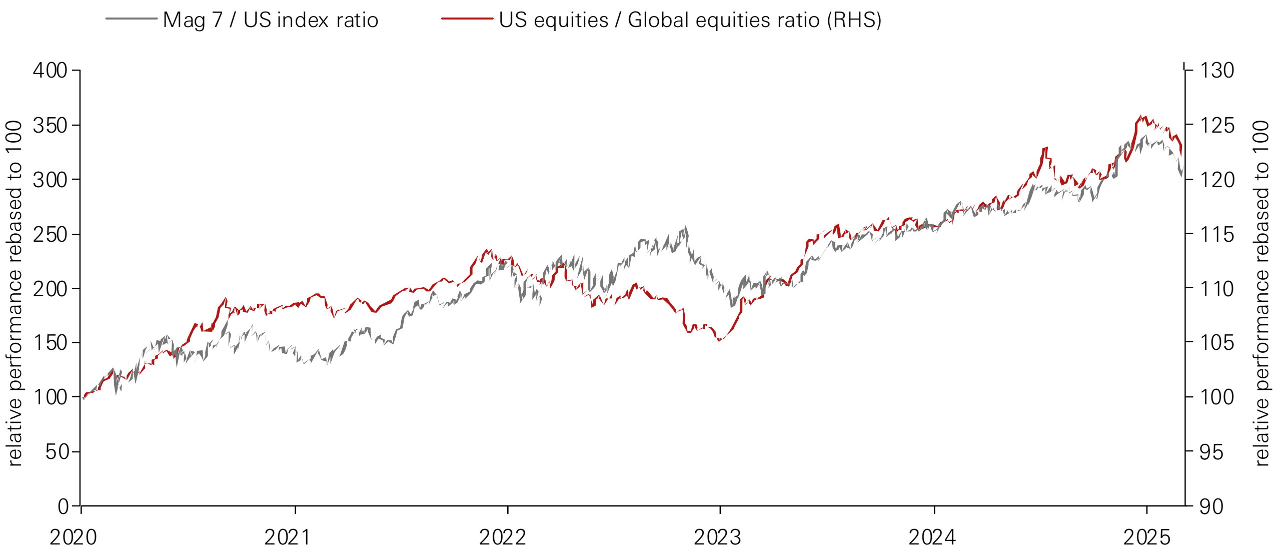
Source: Bloomberg, HSBC Global Private Banking as at 13 March 2025. Earnings forecasts are subject to change.

European outperformance is normalising valuations

European equity markets have outperformed domestic economic conditions as their global footprint has enabled them to benefit from growth in other parts of the world. The decisive fiscal plans by the EU and some member states have positively surprised investors and should gradually boost growth, subject to legislative approvals. Plus, the potential for a lasting cease-fire in Ukraine would be a positive too. That said, the political conflicts with the new US administration remain a key factor of uncertainty: the absence of high universal tariffs has so far led to relief, but higher tariffs could still follow. We upgraded the Eurozone to neutral in Q1, recognising the more balanced risks and adding to our efforts to diversify beyond the US.

In the UK, economic data have not been as bad as expected, but much depends on continued government spending and international developments. As the UK does not have a trade surplus with the US, this could insulate it from potential tariff impacts, causing us to prefer UK stocks over those in the Eurozone.

The Magnificent 7 and the US have lost their leadership as investors broaden sector and geographical exposure.



Source: Bloomberg, HSBC Global Private Banking as at 13 March 2025. Past performance is not a reliable indicator of future performance.

Fixed Income

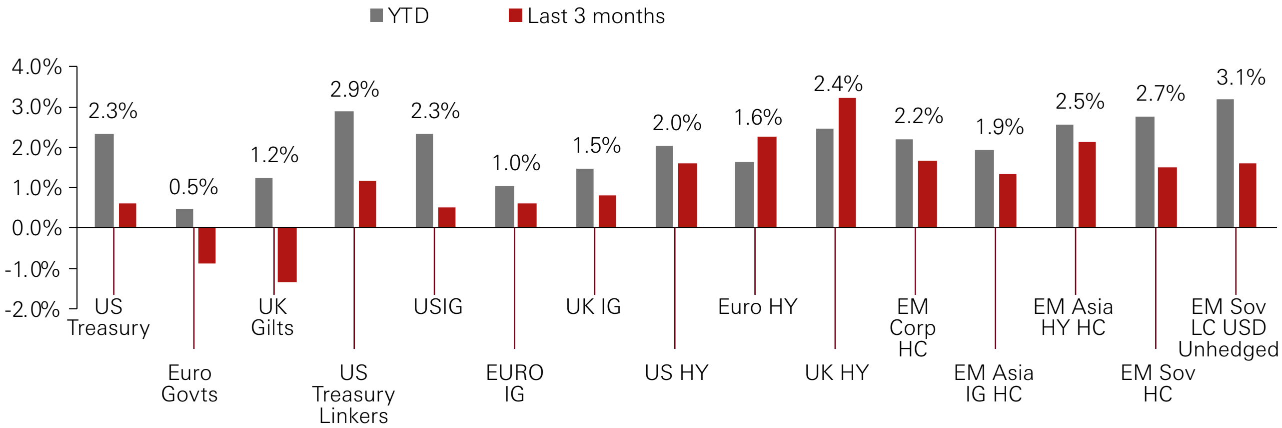
We continue to believe it is important to include a solid income stream in portfolios using the diverse opportunity set on offer in developed market government bonds, Investment Grade (IG) and High Yield (HY) bonds. We adopt a tactical approach as market conditions remain fluid, but currently hold a medium-to-long duration stance on safe-haven bonds. We continue to see corporate credit, including USD IG bonds and global HY, as a good way of diversifying multi-asset portfolios and generating income by locking in elevated yields, despite tight credit spread levels. Active credit selection becomes even more relevant considering the uncertainty around the new US administration's policy measures.

The year started with an abrupt sell-off in developed market government bond markets, propelled by the Fed's more upbeat view on the US economy and an upward shift in the dot plot. We took this sell-off as an opportunity to increase our duration targets on DM government bonds and global corporate IG markets (to 7-10 years from a 5–7-year stance). Since then, yields have fallen substantially as investors have been slowly shifting their attention from inflation to the growth implications when tariffs are deployed.

We also proceeded with some modest changes to our bond allocation by upgrading Gilts and China corporate external debt to a mild overweight from a neutral stance, based on attractive valuations for the former, and strong technicals for the latter.

Treasury yields have been volatile in recent months, moving from a low point in September 2024 to a high in early January 2025 in anticipation of the 'Trump reflation trade'. Since then, they have been trending downwards, retracing about half of the upward movement. We have always been sceptical about such reflation prospects and argued that a lot of it was already priced in government bond yields, in the form of a high 'term premium'. A string of lower-than-expected inflation figures in recent months in the US and the UK, coupled with some weaker economic surveys triggered

Bond markets had a difficult start to the year but have recovered since last month



Source: Bloomberg, HSBC Global Private Banking as at 13 March 2025. Past performance is not a reliable indicator of the future performance the move lower in yields. Investors have also shifted their attention from inflation to the growth implications when tariffs are deployed. While tariffs may boost inflation in the short run, similarly to a tax increase on goods, their effect on growth may be more lasting and damaging, through CapEx spending, manufacturing employment and goods consumption. Fortunately, private consumption has been driven by services lately and has remained resilient to tariff rhetoric so far, but risks remain elevated.

Where do we stand?

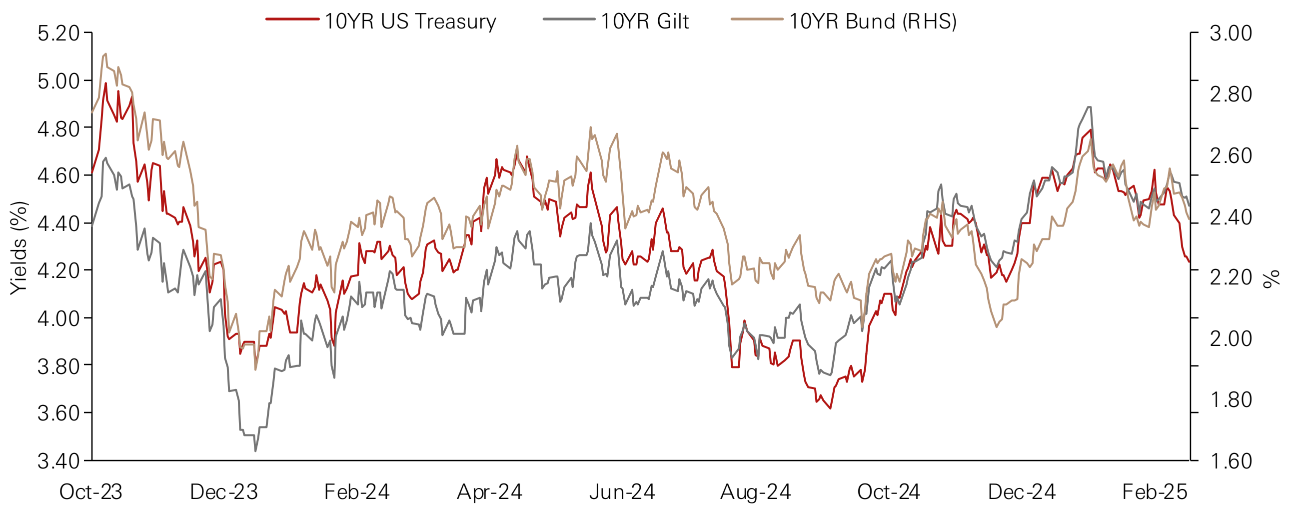
Looking at the broader picture, government bond yields have been moving within wide trading ranges over the past two years. While yields have already started to fall, we believe there is further room to go and therefore keep our long-duration positioning (i.e. 7-10 years) on DM sovereign bonds (ex-Japan) and Global IG (ex-Japan) markets.

While we continue to foresee resilient economic growth in the US, downside risks have increased, considering the uncertainty around the new US administration's policies. For yields to go lower, we need the Fed to acknowledge such uncertainties and reverse its hawkish forward guidance from December. This would allow a repricing of its monetary policy at the short-end of the curve and open the way for longer-dated yields to also move down. A softening or pause in Quantitative Tightening may also help the narrative for lower yields via a psychological effect. Global inflation also continues to move slowly towards central banks' targets, albeit not in a linear fashion. This should help DM central banks carry on with their monetary policy easing.

Corporate credit spreads remain at historically tight levels and are not pricing in any softening of the global economy, nor the adverse market impact from tariff implementation. Fortunately, any widening of spreads in a less-friendly market environment should be partially offset by a fall in rates, which continue to represent about 80% of nominal yields for the USD corporate IG market (60% for USD HY). As exhibited in the chart below, bonds and equities have recently moved back to an environment of negative correlation, which supports this statement. Therefore, investment grade yields should see their volatility dampened. Moreover, we continue to see corporate credit, including USD IG bonds and Global HY, as a good way of diversifying multi-asset portfolios and generating income by locking in elevated yields. Our longer-duration positioning acts as a natural hedge against a risk-off environment, which may become more frequent in the future.

Active credit selection becomes even more relevant considering the uncertainty around the economic impacts of tariff escalation. Some companies may be better positioned to navigate this environment. We believe that Financials, especially Banks, could fare relatively well thanks to their strong capitalisation, benign Non-Performing Loans (NPLs) and resilience towards tariffs.

Bond yields have retraced a large part of their September-January sell-off



Source: Bloomberg, HSBC Global Private Banking as at 13 March 2025. Past performance is not a reliable indicator of the future performance.

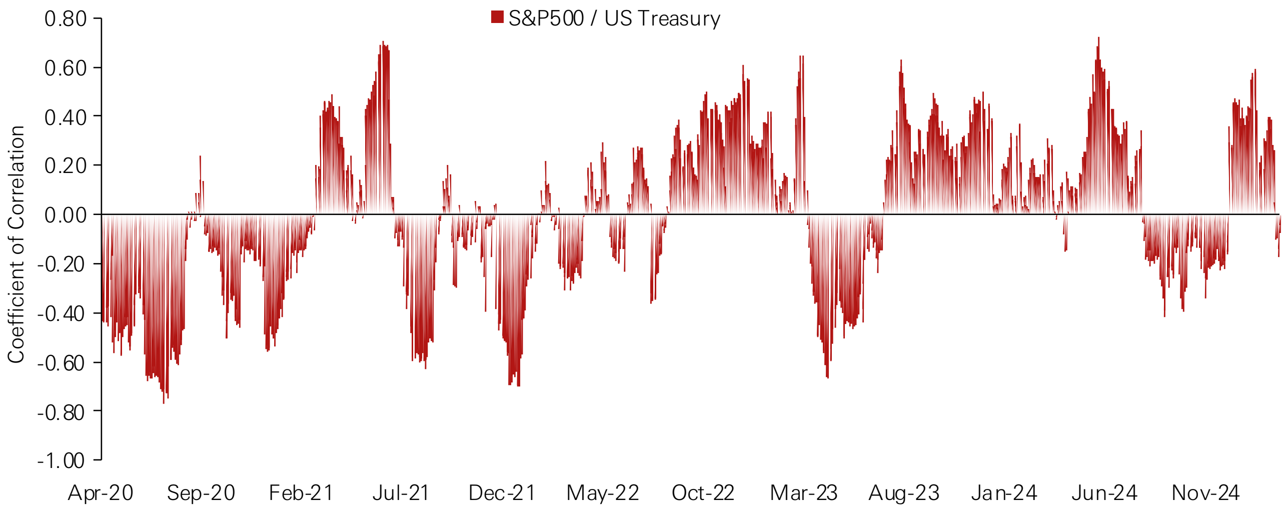
Among government bond markets, we favour UK Gilts for their attractive valuation relative to other DM sovereign bonds and against GBP swaps. Concerns about a weak UK growth outlook and looser labour market conditions should also support Gilts.

While we currently have a neutral stance on bonds issued by Eurozone governments, the growing impetus on military spending and reconstruction efforts for Ukraine could mean more supply in the future. While this may limit the extent to which yields move down in the short-term, we continue to foresee lower German Bund yields at year-end amid downside economic risks, and less sticky domestic inflation.

For EM, a resilient USD and the unpredictability of tariff escalation make it difficult to form a strong conviction. We remain neutral on EM Local Currency debt markets and prefer high yielding countries such as India and Indonesia for the carry they offer.

While we are neutral on EM government hard currency bonds, we now run a modest overweight on EM corporate external debt, following our recent upgrade of China to a mild overweight. Global funds have started to re-allocate investments towards China and the technical momentum is building up. The high correlation between domestic and offshore credit spreads may also benefit corporate external debt. We focus on the IG segment, mostly via Technology, Bank and SOE issuers, while favouring Macau gaming credits in the HY sector.

The bond/equity correlation has oscillated but diversification continues to be effective in risk-off periods



Source: Bloomberg, HSBC Global Private Banking as at 13 March 2025. JP Morgan as of 28 February 2025. Past performance is not a reliable indicator of the future performance

Currencies and Commodities

Like the previous Trump presidency, the greenback has drifted lower in the first few months. However, the reasons are different this time, with US economic data disappointing compared to high expectations, and some positive surprises occurring outside of the US. While headlines can continue to create two-way volatility, we remain constructive on USD for the medium term as it should benefit from a relatively higher yield, a better economic outlook compared to the rest of the world and continued demand for safe havens amid elevated global uncertainties.

We expect most G10 currencies to erase recent gains against USD in the medium term, especially currencies with low yields and a poor economic picture. Market participants should continue to pick cross currency pairs on the basis of relative economic and yield expectations.

In commodities, we view gold as a great portfolio diversifier, especially given the uncertainties around the US dollar, global markets and geopolitics.

Bullish

In G10: USD

Commodities: Gold

Neutral

In G-10: GBP, JPY, and AUD

Other: SGD, RMB, INR, IDR, PHP, THB, BRL, and ZAR

Commodities: Silver, and Oil

Bearish

In G10: EUR, CHF, CAD and NZD

Other: KRW, MXN and TRY

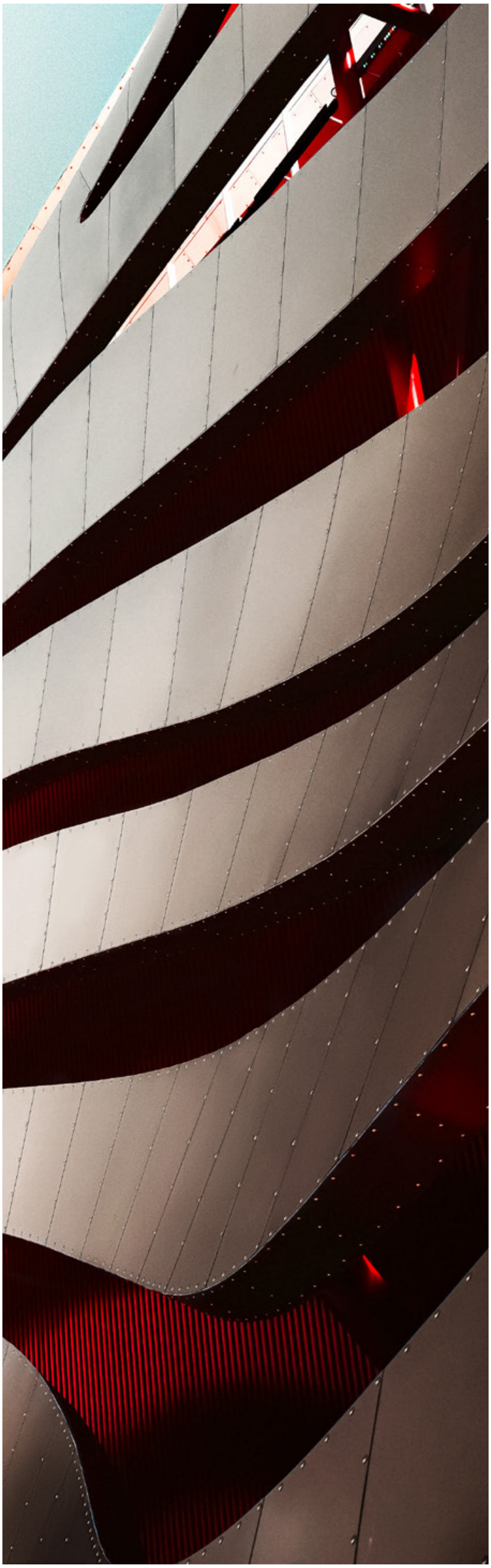
Ahead of President Trump's second inauguration, the market priced a strong performance in USD in anticipation of increasing trade tensions, US-supportive fiscal policies and US exceptionalism. However, three months in, reality does not match the hopes - the latest US economic data have been mixed, disappointing high expectations, hurting the US dollar. In our view though, US growth should remain more resilient than in many other countries, despite the tariffs' impact hitting all of them. The somewhat slower pace of disinflation has also pushed the Fed to delay further cuts and maintain a relatively higher yield compared to the rest of the world, which should limit the potential for recent USD weakness to continue.

Since we believe that recent USD softness is mainly due to the market's disappointment, our medium-to-long term view has not materially changed. We still expect the greenback to outperform the rest of G10, especially currencies offering relatively weak economic growth and/or with relatively lower real yield. We see CHF as the main underperformer, due to the large interest rate differential with the US, while CAD and NZD are vulnerable due to their weak economic outlook. CAD is also a prime target for US tariffs, adding negative pressure to the already challenging domestic picture. However, NZD, like AUD and GBP may be supported, especially if global risk appetite is well supported.

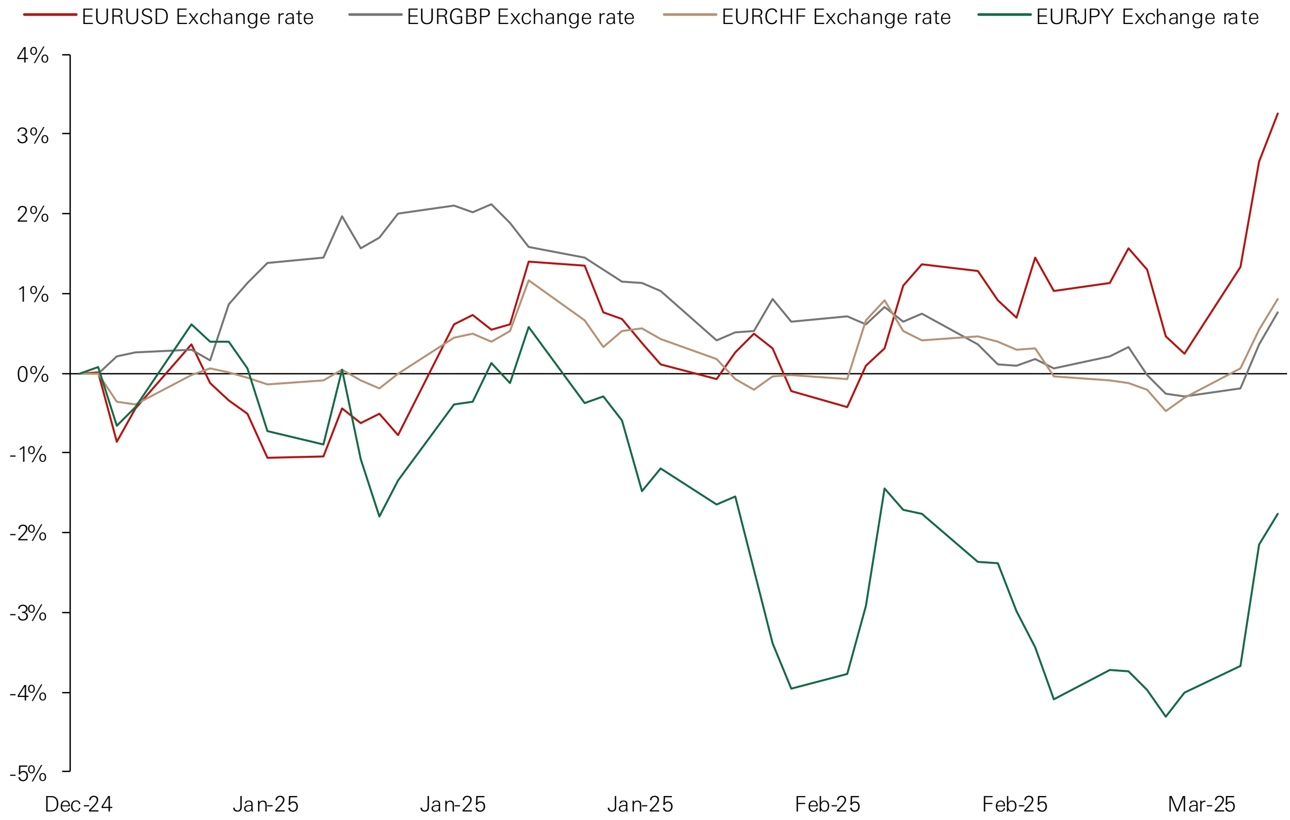
EUR is currently boosted by a potential increase in defence spending from the bloc. Such a fiscal boost could lead to some improvement in the European growth outlook, stronger European equities as well as upward revisions to yield expectations in the Eurozone. However, the implementation among 27 nations could be more challenging than first anticipated and economic results are uncertain until measurable. All of this could lead to a potential retracement of recent EUR strength. In addition, key concerns related to the Ukraine/Russia conflict and US tariffs remain significant and negative for EUR outlook. Therefore, we acknowledge some potential risk to our bearish view, but do not think the recent strength can continue in the medium to long term.

While Japanese government bond yields are comparable to Swiss yields (and lower than in Europe), the Bank of Japan sounded more hawkish than the SNB (and the ECB) lately, suggesting more tightening to come, and therefore further narrowing in yield differential with other currencies. However, with a nominal yield differential of 4% (potentially reduced to 3% by year-end according to markets implied rates), there is limited room for JPY to outperform USD.

We remain selective on EM currencies, and hardly see any strong candidates which could outperform USD unless there is a more sustainable risk-on sentiment. For now, our selection is based on the level of local government bond yields, domestic drivers, and each country's economic architecture. For instance, we could see open economies like South Korea being challenged



EUR has been stronger against USD than any other G10 currencies year-to-date



Source: Bloomberg, HSBC Global Private Banking, 13 March 2025.

Based on our Q3 and Q4 forecasts and DXY Index' components, we see the Bloomberg US index rebounding in the coming months.

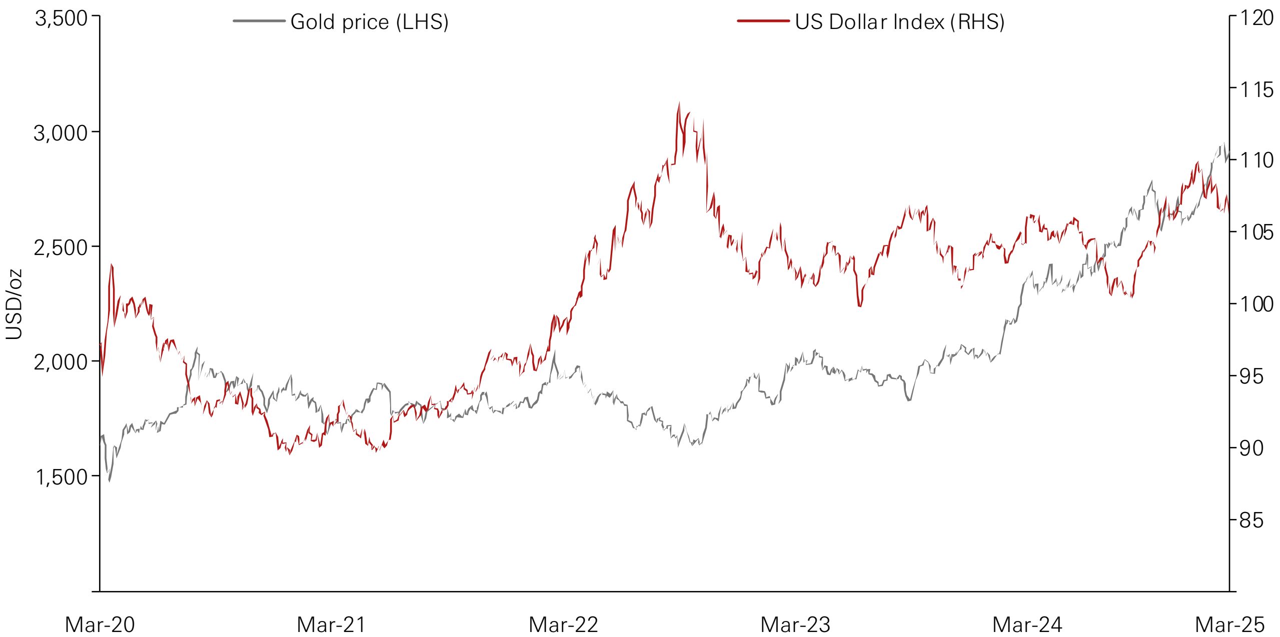
Source: Bloomberg, HSBC Global Private Banking, 13 March 2025. Forecasts are subject to change.

by tariffs as they would face increasing costs of imports. Also, countries like China or Mexico, where a large part of exports are directed to the US, will remain under pressure. That said, we believe China could be more resilient than other EM countries. Domestic policy support and a friendlier stance towards the private sector could lift sentiment and reduce concerns of negative economic tail risks. The People's Bank of China has also shown its willingness to support the domestic economy if needed, hence our neutral outlook on CNY. Beyond China, current market conditions are challenging for the overall EM region.

Our gold outlook remains unchanged and constructive. We continue to promote portfolio diversification through gold as it provides investors with a hedge against unexpected drift of the greenback, as well as being a portfolio hedge with the longest proven track record. Silver may gain from gold's strength, but its hybrid character of being both a precious and industrial metal makes it more sensitive to global headlines and therefore more volatile.

We remain neutral on oil prices and view the overall balance as slightly tilted to an oversupply despite risks of further delays in OPEC+ output increases. We doubt a resolution in the Ukraine/Russia conflict would have a major effect on oil prices as Russia's output seems to be more correlated to agreements with OPEC than any sanctions from the EU or the US.

While gold and USD had been moving higher in tandem, the recent pull back in the US dollar has provided a further boost to the yellow metal, thanks to the typical negative correlation.



Source: Bloomberg, HSBC Global Private Banking as at 13 March 2025. Past performance is not a reliable indicator of future performance.

Hedge Funds

Hedge funds benefit when markets ask themselves important questions about the global outlook, when those answers see some two-way (but not overly erratic) shifts, when dispersion is elevated and when risk appetite is well supported. We believe all those conditions are in place, so we continue to overweight hedge funds in portfolios, considering them as both alpha generators and portfolio diversifiers. We particularly favour discretionary macro and equity market neutral strategies, equity long/short managers with low net exposure or focused on Asia, structured credit and Multi-Strat and Multi-PM managers.

A key driver of US equity underperformance and USD weakness in Q1 was the gap between elevated market expectations from the new US administration and the policy implementation to date. Whether 'US exceptionalism' has peaked will remain a key discussion point and influence whether investors are willing to pay the elevated US equity multiples. The extent and impact of US tariffs, potential U-turns and the reaction of other countries are other key variables and likely drivers of two-way volatility. China's own plans to fix its internal macro-economic challenges and friendlier policy stance towards the private sector will determine how much Chinese valuations can bounce. Meanwhile inflation, while culled, is certainly not dead and might well re-emerge as a driver of volatility and pricing, especially if fiscal spending accelerates. That suggests further ups and downs in markets' interest rate expectations and two-way volatility in bonds and stocks.

All of these points support the case for hedge funds. The evolving interest rate picture will support the opportunity set for macro strategies, elevated dispersion in equity markets the case for equity long/short strategies and a more deregulated US economy the case for event and credit strategies.

Greater market dispersion creates a bigger opportunity set for hedge funds

Source: Bloomberg, HSBC Global Private Bnaking, Bloomberg, 13 March 2025.

We remain positive on the opportunity set for discretionary macro managers. The strategy generated outsized returns in Q4 thanks to the so-called Trump trades (long USD, long equities and short fixed income), and smart managers reversed some of those positions in Q1. Looking through Q2 2025 uncertainty over policy efficacy in the US, the rather mixed current outlook for Europe and China's plans to find a solution to its macro-economic travails present themselves as opportunities for managers to exercise risk within the strategy set.

The end of last year provided some respite for trend following strategies as they in aggregate etched out marginal gains over this period extending their very moderate gains for the year after two difficult quarters. Faster strategies underperformed slower strategies over the full year as the changeable and erratic markets can be difficult to navigate for followers of slower trends. The trends that were easier to capture were in agricultural commodities, gold, equities and credit markets. We retain a neutral outlook on the performance credentials of CTA's going forward. For systematic equity market neutral strategies, we have a neutral/positive view due to the constructive market environment supporting the strategy.

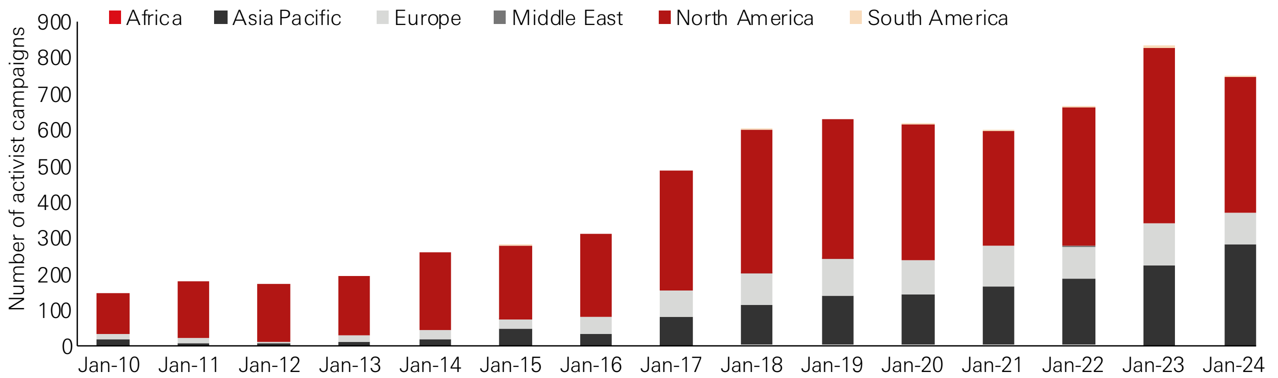
Our outlook for the three equity long/short strategy groups is directed by our observation of persistently high dispersion of individual stock price movements within markets - a characteristic which we expect to persist for some time to come. This is tempered somewhat by relatively full valuations prevailing across US markets, leading to us to refrain from taking our outlook for variable net strategies up from neutral/positive to outright positive. The favourable operating environment for both low net approaches and strategies focused on Asia is expected to continue after a strong 2024. We maintain an outright positive outlook for both these strategies.

We maintain our neutral outlook for event driven managers. While valuations in US equity markets look full, we have upgraded our outlook for the corporate activity driver. Corporate management now also has more clarity, with a new pro-growth and pro-business administration in place. M&A spreads have come in somewhat, but the number of activist campaigns remains elevated.

Our neutral outlook for credit long/short strategies is maintained. From a pricing perspective, valuations in corporate credit are richer again after a further rally in lower rated segments, but carry is still interesting despite the 100bps of Fed rate cuts to date. Balance sheet leverage and coverage are in the middle of historic levels, and as we should see mild further rate cuts, this should help credit quality. Distressed opportunities remain relatively sparse and are concentrated in certain sectors such as paper & packaging and retail. We favour structured credit where the 150bps of yield pick-up for similarly rated issues supports its allocation.

We maintain our positive view for the performance potential of Multi-Strat and Multi-PM managers. After a busy major launch calendar for the strategy in 2024, we continue to see strong risk adjusted returns from its leading constituents.

Higher shareholder activism benefits event driven strategies



Source: Bloomberg, HSBC Global Private Banking, 13 March 2025.

Real Estate

Global commercial real estate values stabilised during 2024, with declines limited to the office sector, which faces a unique set of headwinds. Lower property values, lower interest rates and generally stable occupier fundamentals encouraged a pick-up in investment activity towards the end of 2024. Economic and geopolitical challenges continue to weigh on investment sentiment with activity focussed on sectors with long-term demand drivers that underpin occupancy and income.

Having declined by a total of 15% (in local currency terms) since mid-2022, global property values stabilised by the end of 2024 according to MSCI's Global Property Index. At the sector level, declines only persisted for offices, due to rising vacancy rates and capital expenditure requirements. Values for the other traditional property types – retail, logistics, residential – all turned modestly positive during 2024.

The resetting of cap rates to higher levels over the past years, to reflect the higher interest rate environment, widened the yield spread and increased the appeal for investors, and this has increased even further as central banks have started to cut rates. As a result, investment activity has started to accelerate, increasing by 31% in Q4 2024 vs Q4 2023 and by 11% for the whole of 2024, indicating a new phase of the recovery may have begun.

Investors are targeting property types underpinned by long-term demand tailwinds such as urbanisation, demographic shifts, and the rise of artificial intelligence. A striking example is the $15.7 billion acquisition of the AirTrunk data centre business in Asia Pacific by Blackstone and CPPIB – the largest deal of the year.

Data centre investor confidence was shaken in January 2025 when China's DeepSeek unveiled AI advances apparently achieved using far less computing power than US tech groups, casting doubt on the need for the vast capital expenditures made by US tech companies. However, we believe that cheaper AI is likely to expand use cases, ultimately boosting demand. Meanwhile, demand growth from cloud computing and the ongoing digitization of work (video conferencing), entertainment (streaming), and retail (e-commerce) remains strong and steady. Persistent challenges in securing power connections also limit supply, keeping upward pressure on rents.

The residential sector continues to deliver rising income streams. A widespread lack of residential development and stable demand, underpinned by the affordability advantage for renting versus buying in an era of higher interest rates, are sustaining rental growth. In the US, there have been pockets of excessive multifamily development, which is limiting the ability to raise rents, most notably in the Sunbelt markets. However, other segments such as single-family homes, manufactured housing, and senior housing continue to benefit from demographic tailwinds and a lack of new supply which is driving above inflation rental growth.

Retail occupancy has been steadily improving for several years, finally reaching a level that supports rising rents. Since the global financial crisis, very little new retail space has been developed, which has contributed to this increasing occupancy. While e-commerce poses a direct challenge to some retailers (such as department stores), others recognise the importance of physical stores in complementing online channels for functions such as collection and returns.

The logistics sector, which has enjoyed significant rental gains over the past few years, now faces a period of weaker fundamentals in all regions. A slowdown in leasing activity coincides with a surge in completions from projects initiated when leasing was surging during 2022–23. Nevertheless, the impressive rental gains achieved over the previous years are expected to take time to fully filter through, supporting near-term income growth in key global logistics hubs.

Office real estate remains the outlier. Although gradually improving, leasing activity continues to lag pre-pandemic norms, and vacancy rates are elevated – often significantly above pre-pandemic levels. Yet there is a silver lining: demand is increasingly concentrated on modern, high-quality, centrally located buildings. In major financial centres like New York and London, recently developed offices are commanding record rents. Moreover, many office tenants are now instructing their workers to be in the office for the majority of the working week, and as a result office occupiers are scaling back planned reductions in office space.

As we move through 2025, the global real estate market appears poised for another year of transition. Although borrowing costs are likely to remain higher than in the previous cycle, stabilising values, resilient rental income, and some further interest rate cuts, are providing investors with greater confidence to make acquisitions. As economic and geopolitical challenges continue to influence market sentiment, it is crucial that investors tap into local market expertise and active asset management.

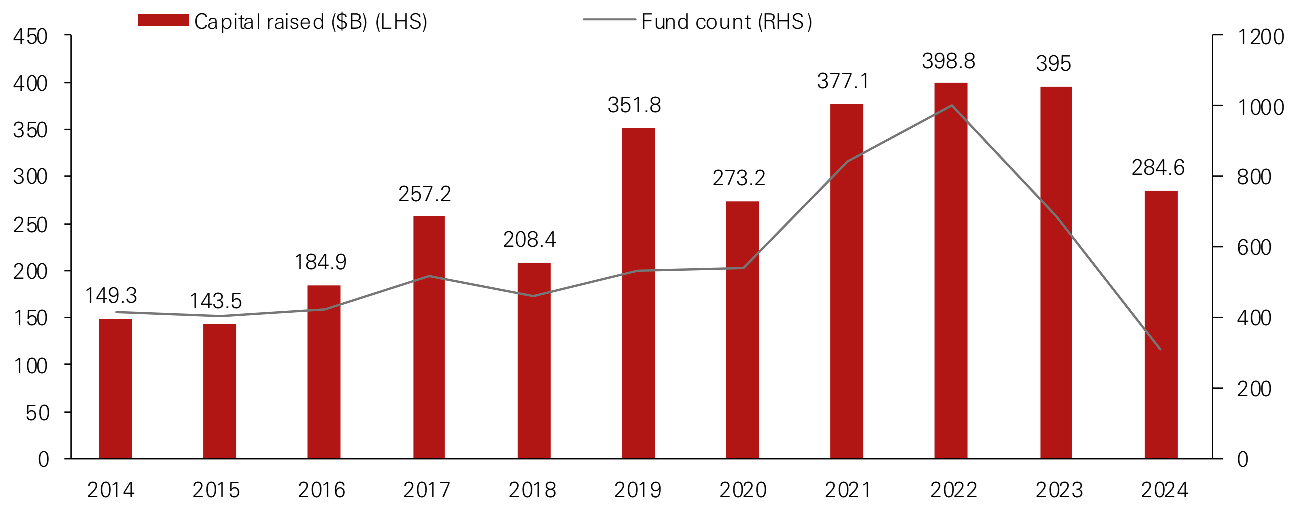
Private Assets

The start of 2025 has shown global private equity exhibiting signs of recovery, driven by a more favourable economic environment. An uptick in deployment and exit activity is reducing dry powder from elevated levels and allowing a gradual return to standard private equity cycles. While public markets valuations have been rising in recent years, private equity valuations have been slower to respond, creating attractive entry points for investment. Private credit meanwhile has continued to establish itself as a key asset class. Asset based lending (ABL) is rapidly emerging as a preferred solution and has seen significant growth due to demand for flexible financing solutions.

Exit markets have proved challenging in recent years and reduced activity post 2021 has left investors wary due to multiple false starts and signs of hope not materialising. 2024 saw numerous fundraising constraints, reduced deal flow, lengthy exit timelines and limited distributions. However, distributions overtook capital calls in 2024 for the first time in almost a decade and we expect this upward course to continue given renewed deal market activity and progression towards a more supportive rate environment.

Momentum is starting to build in the market as IPO activity is up year on year 28% in EMEA and 39% in the Americas. Global M&A activity is also showing signs of a potential rebound in 2025 as deal making has already increased. This is particularly the case in the US, where expectations about regulatory easing could drive larger deal volumes. The US technology sector for example, has been attracting significant interest and has emerged as a key area of activity with software deal value increasing 38% year on year thanks to the AI driver.

US PE fundraising activity



Source: Pitchbook, HSBC Global Private Banking as at 13 March 2025.

Although new deals are approached with caution, top tier transactions still command strong valuations. Longer term, we do see the ecosystem across the lower and mid-market transactions generating interest due to more reasonable valuations, solid company fundamentals and the potential for a wider range of future exit opportunities. A stronger exit market where portfolio companies can be sold, will drive returns and inevitably lead to more frequent distributions.

While public markets valuations have adjusted, private equity valuations have been slower to respond, potentially creating attractive entry points for investment. In 2024, private equity valuations rose incrementally from 2023 levels driven by attractive assets entering the market. Moving forward, we anticipate valuations will become more transparent as activity increases.

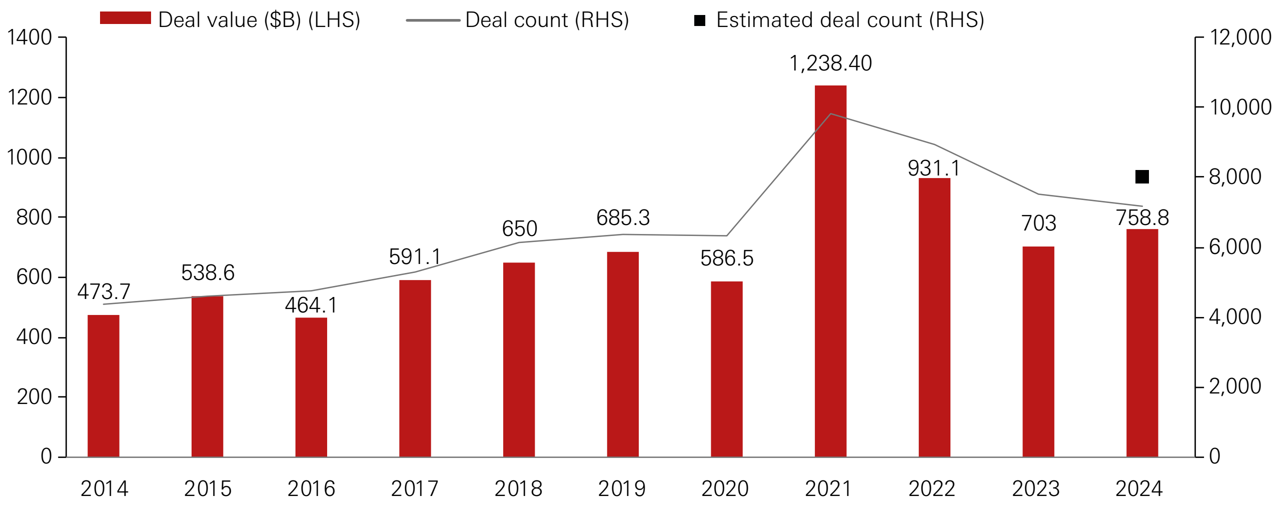
Private credit has continued to establish itself as a key asset class. Driven by robust demand for non-bank lending, attractive risk-adjusted returns and a shifting macroeconomic landscape, private credit saw significant growth in 2024, In our view, it is poised for continued expansion in 2025.

The private credit and broadly syndicated loan (BSL) markets are moving to a more balanced state and appear to be progressing towards equilibrium as competition, demand and economic conditions drive convergence. Asset based lending (ABL) is rapidly emerging as a preferred solution and has seen significant growth due to demand for flexible financing solutions. ABL is a type of loan that uses assets as collateral to secure funding and this could be across various sectors (consumer, non-consumer/corporate or mortgages). The market in the US alone is about $20 trillion in size, which is about 4x the size of the US and European leveraged finance and private corporate direct lending markets combined.

Whilst global dry powder levels remain elevated, particularly across private equity, infrastructure, and private credit, deployment continues to pick up speed. As deal making activity has increased, opportunities for acquisition have naturally followed, and many fund managers have significant resources to fund new investments. Private credit funds are particularly well positioned to deploy capital as regulation and risk appetite continue to drive traditional lenders from bespoke financing. Dry powder fell by 10% in 2024 and we expect this trend to continue into 2025 as we continue to move towards a post pandemic normal.

The private markets landscape remains dynamic, with conditions shaped by shifting valuations and sector specific opportunities. While persistent interest rate uncertainty and regulatory scrutiny continue to pose challenges, a more stable deal environment and increased market activity are setting the stage for renewed momentum. To capture opportunities in the market, it is important to maintain disciplined deployments, ideally across multiple vintages and in a diversified manner.

US PE deal activity



Source: Pitchbook, HSBC Global Private Banking as at 13 March 2025.

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HSBC and Sustainability

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Risk Disclosures

Risks of investment in fixed income

There are several key issues that one should consider before making an investment into fixed income. The risk specific to this type of 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. cotractual bail-in) under which debentures contain a clause requiring them to be written off or converted to common stock on the occurrence of a trigger event, or (b) statutory 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; (c) higher rates of inflation; (f) less oversight by a regulator of local securities market; (g) longer settlement periods in so far as securities transactions and (h) less stringent laws in so far the duties of company officers and protection of Investors.

Risk disclosure on FX Margin

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

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

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 and/or other sustainability factors to varying degrees. Certain instruments we classify as ESG or sustainable investing products may be in the process of changing to deliver sustainability outcomes. There is no guarantee that ESG and Sustainable investing products will produce returns similar to those which don't have any ESG or sustainable characteristics. ESG and Sustainable investing products may diverge from traditional market benchmarks. In addition, there is no standard definition of, or measurement criteria for, ESG and Sustainable investing or the effect of ESG and Sustainable investing products. ESG and Sustainable investing and related measurement criteria are (a) highly subjective and (b) may vary significantly across and within sectors.

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