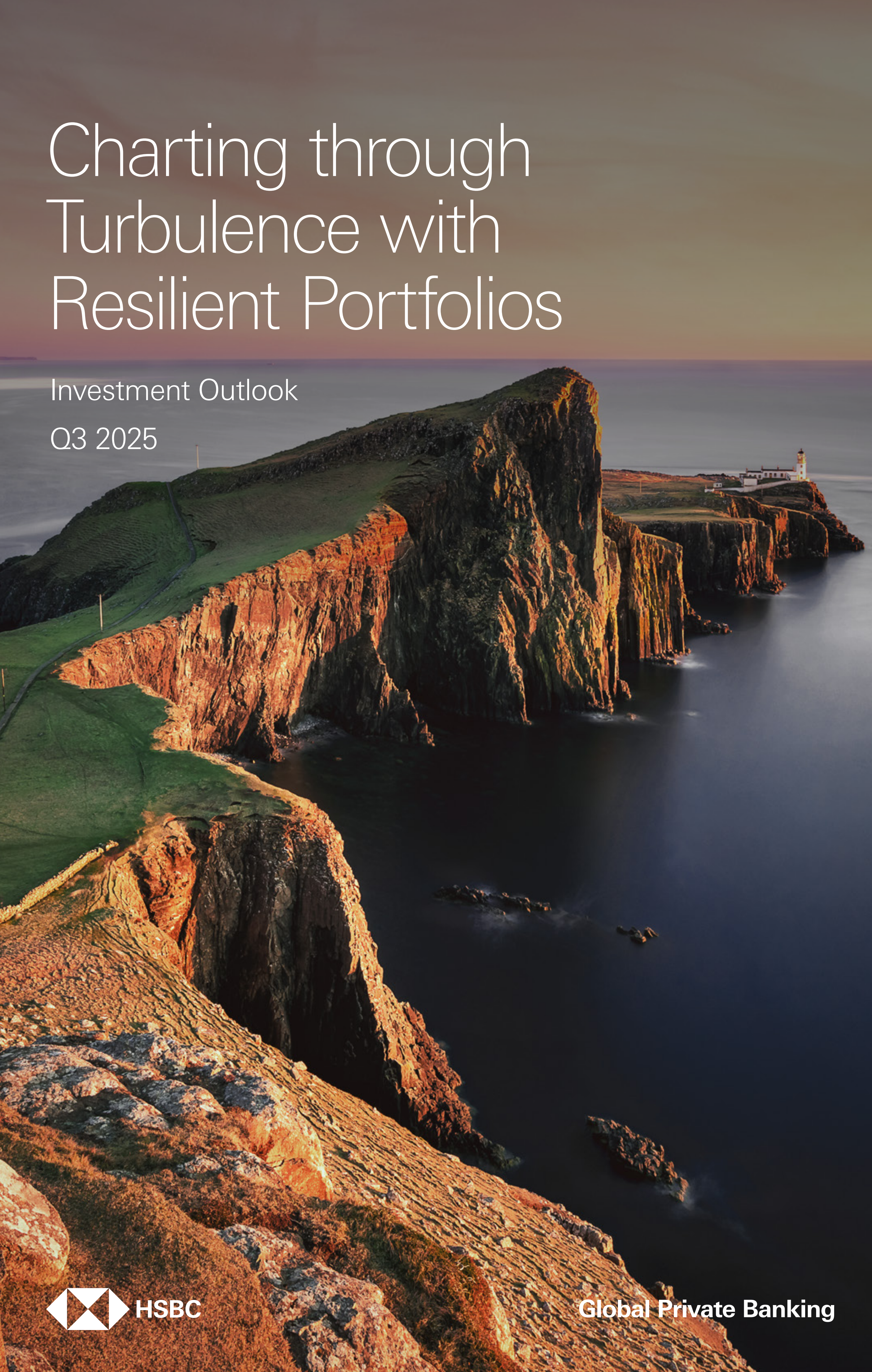
Charting through Turbulence with Resilient Portfolios

Investment Outlook

Q3 2025



HSBC

Global Private Banking

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Q3 2025.
Issued on 22 May 2025

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Tap into Asia's Domestic Resilience and Structural Growth

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Welcome

Dear client,

Markets have had a roller-coaster ride since late last year, swinging from post-election optimism to tariff-related shock and pessimism, and then back to hope as the US gave all countries a 90-day reprieve on reciprocal trade tariffs. The sheer volume of US policy announcements and many U-turns make it difficult for investors to take strong views or to quantify the impact on growth and earnings.

This policy uncertainty will remain with us, as the US administration is not just changing tariffs, but aims to accelerate deregulation and shift its global economic power, challenging many norms while doing so. Investors should therefore expect to continue to be surprised. They can also count on further two-way volatility ahead as they watch every headline and scratch their heads.

The best approach in this environment is to develop a core scenario for the key variables that could impact market performance, but, above all, to put the emphasis on portfolio resilience amid the uncertainty.

Trade tariffs, of course, will remain an important topic, but the 90-day reprieve reduces the headline risk for markets until the 90 days run out. The quick US-China negotiations and the policy turnaround when Treasury markets became too volatile give investors the sense that the US policymakers are listening to markets and businesses. And the US tax bill deal should reduce the uncertainty on the fiscal side. So, while the headlines will continue to impact market sentiment, they are more balanced than investors feared just a few weeks ago.

The real economic effects of tariffs still need to be felt, as economic data are typically backward looking. Tariffs hurt global growth, raise inflation, compress margins and reduce consumers' spending power. And the uncertainty due to all the policy changes can lead businesses to hold back on investment decisions. But ultimately, local and foreign businesses want to bring supply chains closer to the US. More stable policies after the first trade tariff shock faded, potential tax cuts and continued AI-led innovation are other reasons to expect investment to gradually pick up.

So, while we expect to see lower US growth this year, the economy should not slide into recession or stagflation. Earnings growth will probably only be in the single digits, but expectations have already been reduced, and valuations are reasonable, around historical averages. To boost return potential, we think equity investors will benefit from adopting an active and selective approach.

Central banks remain on an easing path. The Fed of course has the hardest task, as it weighs the effects of tariffs on growth and inflation. But we still expect three US rate cuts this year. Other central banks are less worried about inflation, as only imports from the US are subject to the new tariffs. So, we expect to see further rate cuts in Europe, Asia and other Emerging Markets.

Europe is determined to spend more on defence, as its peace dividend is over. The new German government has some more fiscal room, and other nations can tap into EU funds. Much will now depend on how ambitious Europe's initiatives will be to innovate, deregulate and invest in digitalisation and energy security.

China's 90-day tariff reprieve is good news, but additional targeted stimulus may still be needed to support domestic demand. China's manufacturing will continue to benefit from clusters of suppliers and expertise that cannot easily be broken up. Most companies will continue their China +1 strategy, but as some ASEAN countries are now subject to big US tariffs, we think India's manufacturing sector will be the big winner.

Among all the political noise, the market almost seems to have forgotten about its previous obsession: Artificial Intelligence. But we keep getting loads of examples of AI revolutionising business models or making a real difference in companies' efficiency. Therefore, not only do we find attractive opportunities in the adopters of AI technology around the world, but also in AI enablers like networks, software, datacentres and associated services.

Our four priorities going into Q3 2025 are as follows:

1. **Rebuild equity exposure with more diversified regional and sector positioning** – because many of the best thematic opportunities span across regions and sectors. Broad exposure helps widen the opportunity set and screen for attractive assets.
2. **Capture expanding global opportunities in AI adoption and monetisation** – because many AI-related stocks have sold-off, but we think AI-led innovation continues to revolutionise areas such as the Evolving AI Ecosystem and Robots & Automation.
3. **Mitigate currency and portfolio risks with alternatives, multi-asset and volatility strategies** – because the uncertainty around political headlines and their uncertain impact on economic and earnings growth creates volatility as well as medium-term opportunities.
4. **Tap into Asia's domestic resilience and structural growth** – because large sections of Asia's stock market are domestically oriented in nature, and government stimulus will support local demand.

Willem Sels,
Global Chief Investment Officer

22nd May 2025

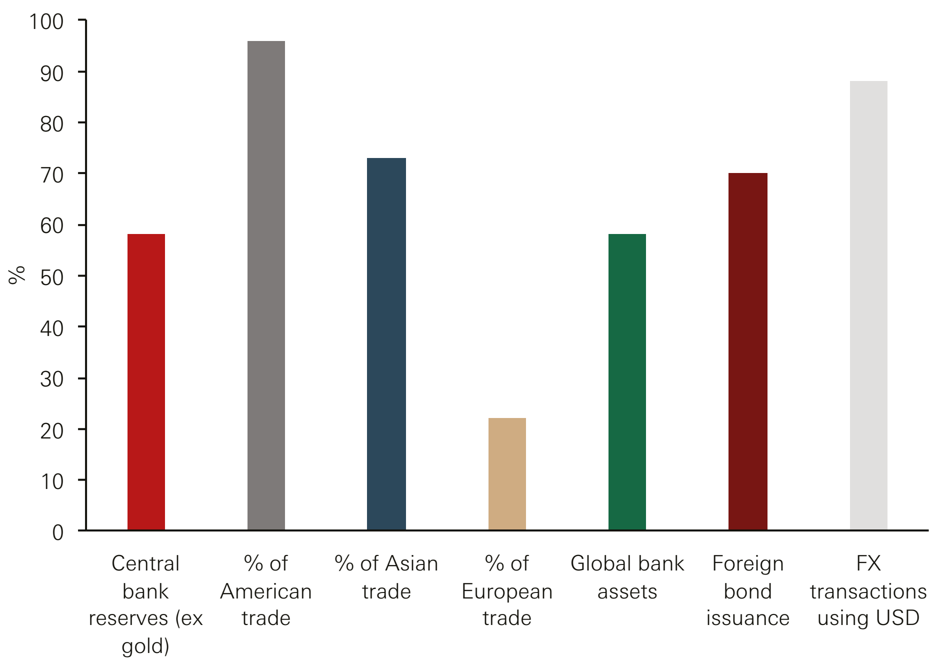
Key Topics and Investment Priorities

1. What will happen to the US trade tariffs?

The US administration shocked markets, businesses, and consumers when it announced reciprocal tariffs on 2nd April. But a Treasury market sell-off caused the government to give a 90-day reprieve to all countries, while business pressure helped exclude certain goods and later led to a reprieve on tariffs for Chinese goods. US stock markets bounced back to pre-April levels and therefore seem to assume only a minimum tariff (30% for China, 10% for Europe) will apply after the 90-day period.

Much now depends on the trade negotiations, but until the 90-day period runs out, headline risks have clearly decreased. That said, if there is little further progress within the 90-day reprieve (i.e. by 9 July for most countries, but 11 October for China), investors will assume much stickier tariffs. In that case, European and Asian nations would mitigate the headwinds by further intensifying regional trade and alliances between them. Conversely, when looking for a bullish scenario, US trade deals with the EU or China could really change the market mood, given the size of those trade relationships. In our core case, we foresee a number of trade deals, which would allow those countries to keep tariffs at the current rate. We do not expect tariffs to fall below the 10% level though as the US wants to raise some revenue and sees tariffs as a way to help boost US firms' competitiveness.

Share of the USD compared to other currencies in key activities



Source: Federal Reserve, HSBC Global Private Banking as at 22 May 2025.

2. How likely are US recession or stagflation scenarios?

Given that US GDP contracted by 0.3% YoY in Q1, it is natural to ask the question. And while the initial surprise and consternation around the tariff announcements are easing, their real economic impact is only just starting to be felt. Trade frictions slow growth and push up prices, while policy uncertainty causes consumers and businesses to freeze big purchases and investments.

But in our core case, we assume the US will avoid recession and stagflation. The negative Q1 growth figure was hugely influenced by a big surge in imports (+5%) as businesses replenished stocks ahead of the tariff announcements. In Q2, underlying demand will probably slow, as consumers worry about inflation; but some may, conversely, boost some purchases if they fear that tariffs will rise again after the 90-day reprieve. Meanwhile, the US government's ultimate goal of re-onshoring and a boost to corporate investment will take time to materialise, but some foreign governments have promised to buy more US goods to help achieve a trade deal. So, the economic data will be messy in the coming months, with big and staggered swings in the components of GDP. That erratic behaviour means we cannot fully exclude the possibility of having another negative quarter of growth, but our core case is one of below normal but positive US growth in 2025, of 1.6% (1.0% when comparing Q4 25 to Q4 24). We expect US inflation to rise from the current 2.4% to 3.2% by year end, translating to an average of 2.9% for 2025. And of course, the tariff reprieve and signs of more trade deals further reduce the recession and stagflation tail risks.

Elsewhere in the world, inflation is less of an issue as companies there can import goods from other countries as before, without onerous tariffs. In some emerging markets, we may even see inflation decline, thanks to lower commodity prices, providing scope for EM rate cuts (e.g. in China, India, Indonesia, South Korea, Philippines, Mexico and Turkey). China's growth picture of course is vulnerable if the tariffs return to highly punitive levels but in that case, we expect more stimulus to come. We think Chinese stimulus will be very targeted to help boost domestic activity and support GDP growth near 4.3% for 2025.

3. What does this mean for interest rates and the US dollar?

The Fed chair seems to be secure in his job, which is a great relief to markets. However, the job is difficult, as he balances the effects of the tariffs on inflation and the maximum employment mandate. The weakening USD also risks adding to inflation. That said, we think any trade deals and the tariff reprieves may help the Fed decide that the inflationary effects will be transitory and shift the attention more to the growth aspect. Therefore, we still foresee three US rate cuts this year.

The US dollar was under pressure in recent months because of downward revisions to US growth, erratic policies and investors rebalancing their portfolios towards more non-US assets. Improving risk appetite due to the U-turns on tariffs, hopes of an imminent tax deal and a renewed interest in AI and technology should help support US assets, reduce the flows and stop the downward pressure on USD.

"De-dollarisation" is also a popular market narrative. But while there is clearly a structural shift, it is slow and should not be the principal driver for short-term market direction. While some countries want to diversify their central bank reserves and do more trade in other currencies, the US dollar is still dominant in most of its key uses.

Implications of our three trade tariff scenarios

Bullish Scenario: Tariffs are cut back to pre-Liberation Day levels.	**Economic goldilocks:** Trend-like US growth and stable inflation. **Strategy:** Add exposure as US and global equity markets rebound. Increase cyclical exposure and shorten bond duration.
Core Scenario: Tariffs are negotiated down but remain at 10% minimum, with China around 30-50%, with some exemptions for specific sectors.	**Growth slowdown:** With volatile economic and earnings data. **Strategy:** Take global equity exposure but with preference for US and Asia. Favour large caps over small caps, domestic leaders over exporters and services over goods. Use diversification and tail risk hedges including gold, long-dated quality bonds, hedge funds and multi-asset strategies. Structural exposure to private equity, private credit and infrastructure. In Asia, position in domestically oriented markets and sectors (China's AI innovation, Asia's corporate governance reforms, India's domestic leaders and Singapore REITs).
Bearish Scenario: Negotiations are difficult and yield little progress during 90-day period; reciprocal tariffs of most countries revert back to levels announced on Liberation Day.	**Stagflation risk rises:** High-for-longer inflation pressures impacting demand. Strategy: Overweight cash and short-dated quality bonds and underweight stocks. Expect rotation into non-US assets and into safe haven assets (gold, JPY, CHF) and rising volatility.

Source: HSBC Global Private Banking as at 22 May 2025.

4. Will Europe's wake-up call lead to a European revival?

The 80-year long peace dividend is over as Europe now needs to spend more on defence and improve its strategic autonomy. That will trigger more industrial activity and R&D, with positive spill-over effects. Germany's constitutional reform gives it more fiscal room and EU-wide funding is available too. But Germany's coalition agreement lacks ambition and the tough trade negotiations with the US are causing prior enthusiasm for European markets to fade. Much depends on whether the EU can agree on strong concerted action to boost digitalisation and market reforms to boost its competitiveness. The UK has seen some more constructive news flow as a result of its trade deals with the US and India, but as growth remains meagre, a real change in its relationship with the EU would be required to materially lift investor sentiment.

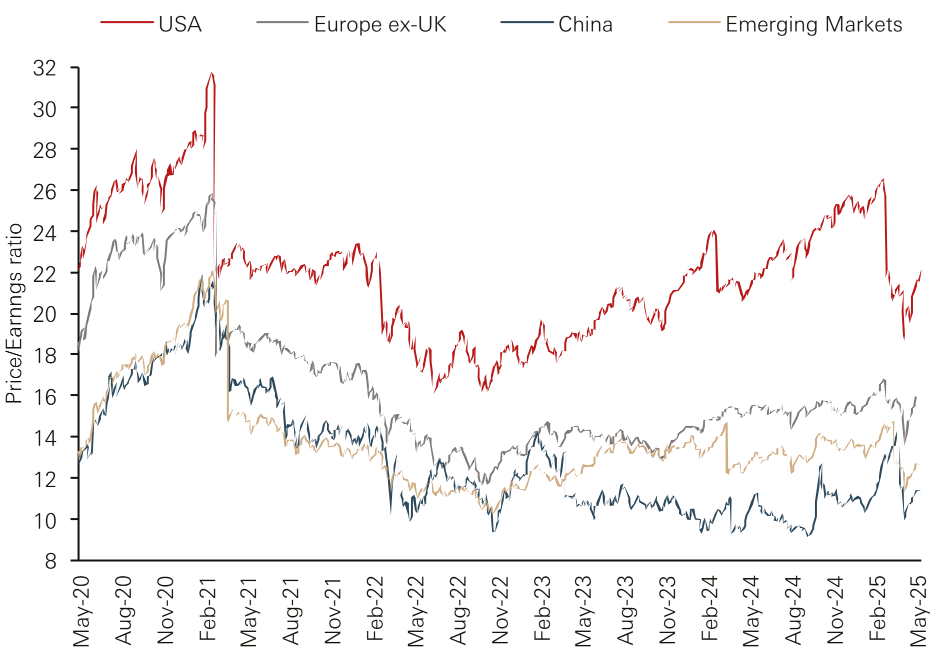
There are specific opportunities though. Defence equipment demand will boost related industries, while infrastructure investment (after decades of underinvestment) will boost related materials demand, and utilities need to upgrade to ensure energy security and to stay on the energy transition path.

5. How will Asia handle the impact of US tariffs on supply chains?

Even though the US and China agreed to postpone the eyewatering reciprocal tariffs, US-China tariff negotiations need to be seen in the context of their strategic competition, so they will not be easy. That said, both countries have reduced their dependency on imports from the other and will try to further reduce this. Moreover, China will ensure that domestic activity is well supported. Measures so far underwhelmed the market a bit, but we think more will follow as authorities get a clearer view on the trade negotiations and where the economic impact is most significant. We therefore focus our equity strategy in China to tap into the DeepSeek-driven AI innovation boom and high dividends paying quality SOEs. China's valuation attraction is clear, as it continues to trade at a substantial discount to EM and global peers.

We have been asked whether the reciprocal tariffs across much of Asia have killed off companies' China+1 strategy, but we don't think this is the case. Not all the production can be brought back to the US, either because of higher costs in the US, a lack of availability of expertise and labour, or the better economies of scale in Asia. We see India as a new winner as it is rapidly building up its manufacturing base and may be one of the first Asian countries to ink a trade deal with the US. Media reports on Apple's plan to source all US iPhones from India offered just one (key) example of that rebalancing within the region. So, we maintain our overweight on the Chinese, Indian and Singapore equity markets.

Chinese stocks remain cheap, while US multiples are relatively close to their 5-year average



Source: Bloomberg, HSBC Global Private Banking as at 22 May 2025. Past performance is not a reliable indicator of future performance.

6. Can the market get excited again about Artificial Intelligence?

The American AI stocks' rally came to an end when DeepSeek's model seemed to question the return on investment in datacentres and reduce the need for chips, while the Treasury market sell-off was another headwind for growth stocks.

We continue to put our faith in the Jevons paradox, which states that the increased efficiency of technology will support greater adoption, thereby creating additional demand. So while there were concerns about the profitability of investments in data centres and hardware earlier this year, we are comforted by recent tech companies showing strong AI-driven cloud revenues and major 2025 capex plans in the Q1 earnings season. Hardly a day passes without newspaper articles about new business models based on AI innovation or companies substantially increasing productivity thanks to AI. So we think interest in AI adopters will see a resurgence when we get a bit of a break from the geopolitical noise.

Our core market views

We position for slow but positive growth, volatile economic and earnings data, and mild rate cuts. This implies a mild risk-on tone, but with a strong emphasis on quality assets and management of short-term volatility. On the equity side, a focus on large caps and quality, a preference for services over goods and a focus on themes with long-term structural support make sense. In bonds, we continue to tap into the broad opportunity set across sub-asset classes, but use a tactical and active approach. Swings in rate cut expectations and risk appetite allow active managers to opportunistically lengthen or shorten duration, and move up or down the credit quality spectrum.

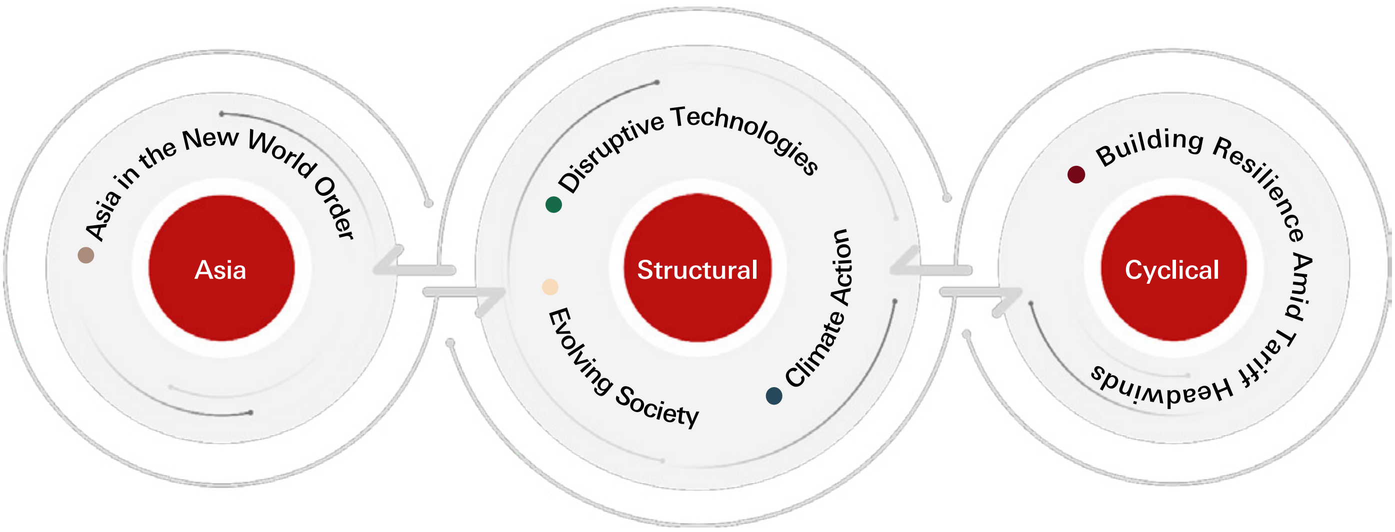
We overweight gold and hedge funds as diversifiers but think Private Credit and Private Equity play an important role here too. Private Credit's historical track record with lower default rates and higher recovery rates than public markets is important in the current environment. And while Private Equity is not helped by the subdued M&A and IPO activity, which is leading to below average distributions, the market volatility can provide attractive long-term entry multiples for managers with capital to deploy. There are some interesting opportunities in secondaries too as illustrated by the much-covered secondary sales by US university endowments. And as public equity markets are not seeing the impetus from the Magnificent 7 that we observed in the past few years, it is much easier for PE to compete with public equity market performance. Infrastructure meanwhile can provide relatively stable and inflation-linked cash flows, which will be welcome to investors in the current environment.

Investment strategies under four US growth / inflation scenarios

Goldilocks: Positive growth, low inflation Favoured assets: DM equities, Credit Favoured sectors: IT, Industrials, Consumer Discretionary	**Overheating: Positive growth, high inflation** Favoured assets: EM equities, Commodities, Real Estate Favoured sectors: IT, financials, industrials
Recession: Negative growth, low inflation Favoured assets: Safe haven bonds Favoured sectors: Consumer Staples, Healthcare, Utilities	**Stagflation: Negative growth, high inflation** Favoured assets: Gold, Real Estate, TIPs Favoured sectors: Energy & Materials, Consumer Staples, Healthcare

Source: HSBC Global Private Banking as at 22 May 2025.

Top Five Trends for 2025 and Q3 High Conviction Themes



Asia	Structural			Cyclical
Asia in the New World Order	**Disruptive Technologies**	**Climate Action**	**Evolving Society**	**Building Resilience Amid Tariff Headwinds**
– China's Innovation Champions – Power Up Asian Shareholder Returns – Asia's Enduring Titans – High Quality Asian Credit	– Evolving AI Ecosystem – Robots & Automation – Aerospace & Security	– Energy Security – Biodiversity and Circular Economy	– Social Empowerment and Well-being – Streaming and Subscribing – Silver Economy & Demographics	– North American Re-industrialisation – Global Financials – Income Through Active Credit Selection

Source: HSBC Global Private Banking as at 22 May 2025.

Our four investment priorities for Q3 2025

1. Rebuild equity exposure with more diversified regional and sector positioning	
Why? Because many of the best thematic opportunities span across regions and sectors. Broad exposure helps widen the opportunity set and screen for attractive assets. Diversifying exposure also helps ease the impact of quick market and flow reversals.	**What?** While we overweight the US and Asia, there are opportunities in Europe too, in defence, industrials and utilities. And while we like US technology, we avoid excessive concentrated exposure and also overweight global industrials, communication services and financials. Most of our High Conviction Themes tap into global opportunities and are agnostic to the firm's location.

2. Capture expanding global opportunities in AI adoption and monetisation	
Why? Markets have been focusing almost exclusively on tariffs in recent months, selling some of their most liquid and largest holdings, which include a lot of AI-related tech names. However, AI-led innovation continues at full speed across sectors, as illustrated during earnings calls and constant company communications in the press.	**What?** We continue to switch from upstream chips, semiconductor equipment and tech hardware into mid-to-downstream software and AI adopters which benefit from broadening AI proliferation and commercialization, including AI agents, smart robotics, autonomous driving, new medicines, AI computers and AI smartphones. This priority action should not be limited to US Big Tech, as the AI ecosystem spans across different regions.

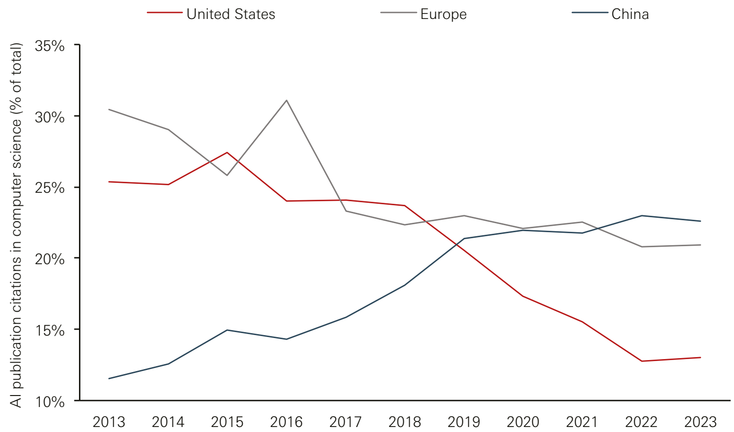
3. Mitigate currency and portfolio risks with alternatives, multi-asset and volatility strategies	
Why? Policy uncertainty will remain with us and creates volatility across equity, bond and currency markets, which needs to be managed.	**What?** While a focus on quality assets and large cap companies can help reduce the risk of permanent losses, a multi-asset approach is the best time-tested way to manage portfolio volatility. Alternative assets play a key role to diversify and limit portfolio drawdowns. Volatility strategies in equity, bond or currency markets can help generate income to help stabilise returns, or can directly protect against portfolio downside.

4. Tap into Asia's domestic resilience and structural growth	
Why? Amid lingering uncertainties surrounding the US trade talks with China and other Asian countries, investors will focus on areas of domestic resilience, supported by local policy stimulus, as well as key Asian structural growth drivers, which remain in place.	**What?** We continue to build exposure to Asia's durable domestic growth engines and structural trends including China's AI innovation, Asia's corporate governance reforms and domestic consumption boom. Our overweight equity markets in China, India and Singapore are expected to deliver most attractive diversification opportunities from the region amid global trade uncertainty.

Asia in the New World Order

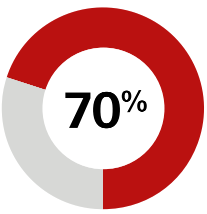
Recent de-escalation of trade tensions benefits the key US trading partners in Asia, especially China. India and Singapore stand out as relative trade safe havens. Navigating global trade uncertainty, we tap into Asia's domestic resilience and structural growth opportunities by focusing on quality stocks and bonds in the domestically oriented sectors exposed to China's AI innovation, Asia's corporate governance reforms, rising ROE trend and domestic consumption boom.

China overtakes the US and Europe in AI research, as measured by the number of AI publications' citations



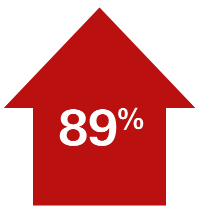
Source: Artificial Intelligence Index Report 2025, HSBC Global Private Banking as at 22 May 2025.

Our Four High Conviction Themes	
1. China's Innovation Champions	DeepSeek's open-source innovation is supercharging a new wave of AI investment boom in China. We favour AI enablers and adopters, including innovation champions in the internet, ecommerce, social media, software, smartphones, semiconductor, autonomous driving, and 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, increasing share buybacks and driving M&A. Consensus estimates project Asia ex-Japan return on equity (ROE) will rise from 10.8% in 2024 to 12.5% in 2026.
3. Asia's Enduring Titans	We favour distinctive Asian industry champions which are well positioned to withstand global headwinds with their proven business models, outstanding competitive position, strong balance sheets, and powerful brands. We like Asian industry giants in the technology, financial, and consumer discretionary sectors.
4. High Quality Asian Credit	Disinflation trend, solid credit fundamentals, monetary easing stance of Asian central banks are supportive drivers for Asian USD IG bonds. We favour Asian financials, Indian local currency bonds, Chinese hard currency corporate bonds, including Chinese TMT issuers and Macau gaming bonds.

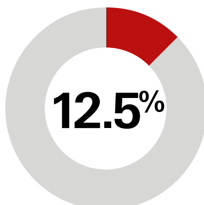


China is currently the largest holder of AI patents globally, accounting for nearly 70% of world's total

Singapore and Hong Kong stock markets offer attractive average dividend yields at around 4.0%, well above 1.9% of MSCI World



In Japan, share buybacks in 2024 surged 89% y-o-y to around USD120bn



Asia ex-Japan ROE is on steady uptrend from 10.8% in 2024 to 12.5% in 2026%

Source: Artificial Intelligence Index Report 2025, Bloomberg, Japan Times, HSBC Global Research forecasts, HSBC Global Private Banking as at 22 May 2025.

The speedy US-China agreement on a 90-day tariff reprieve and ongoing trade talks between the US and its key Asian trading partners support recovery of risk sentiment across the Asian markets. The temporary rollback of US tariffs represents a substantial de-escalation of trade tensions, supporting our mild overweight position on EM Asia equities. We believe reduced tail risks of US-China decoupling should help stabilise business sentiment and investor confidence in Asia, containing the disruptions caused by elevated tariffs on the supply chains stability in the region. We stay overweight Asian equity markets supported by strong domestic drivers and policy stimulus, including China, India, and Singapore.

Given the tariff pause is only temporary and the outcomes of trade talks remain uncertain, we expect Asian policymakers will stick with an accommodative policy bias to provide further monetary and fiscal stimulus to boost domestic consumption to counter tariff headwinds. We tap into Asia's domestic resilience and structural growth opportunities by positioning in domestically oriented sectors and quality industry leaders.

Navigating global trade uncertainty, our theme on **China's Innovation Champions** focuses on structural growth opportunities from China's accelerating AI disruption and adoption driven by DeepSeek's open-source innovation. China's policy priority on technology self-sufficiency and AI investment boom is supercharging strong growth of AI enablers and adopters in the ecommerce, social media, online gaming, software, smartphones, semiconductor, autonomous driving, and robotics sectors.

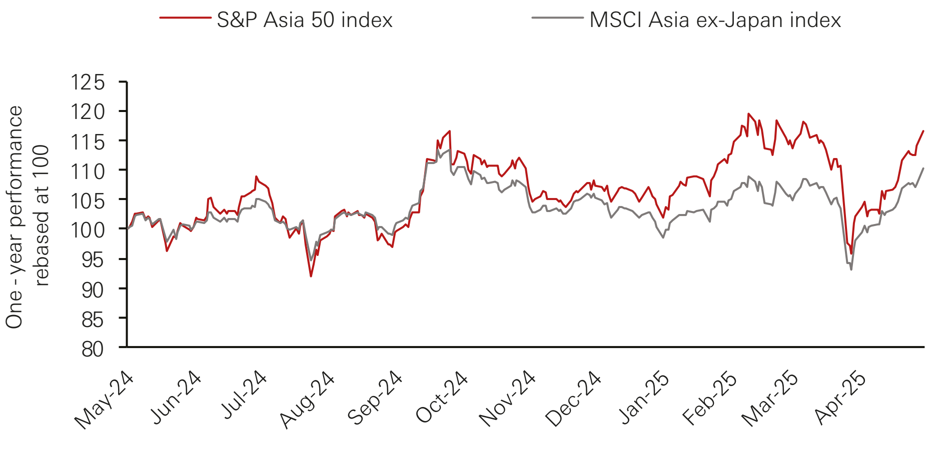
We favour national champions across the AI value chain, from semiconductors, software to infrastructure, AI cloud & agents and physical AI. Even after the DeepSeek-led re-rating of the Chinese AI plays, the tech sector is still trading at significant valuation discounts to their US peers. China is currently the largest holder of AI patents globally, accounting for nearly 70% of world's total. China's continued AI breakthrough should pave the way for its valuation gap to narrow over time.

Our theme on **Power Up Asian Shareholder Returns** rides on Asia's accelerating corporate governance reforms and continues to position in quality companies that improve ROE by paying high dividends, increasing share buybacks, and taking value-adding corporate actions. Asia ex-Japan's ROE is forecast to rise from 10.8% in 2024 to 12.5% in 2026, driven by higher dividend payouts and more share buyback activities. Dividend yields across Asian equity markets remain attractive, with Singapore and Hong Kong offering average dividend yields at around 4.0%, well above 1.9% of MSCI World. Share buybacks are growing at a record pace in Asia, especially in Japan, mainland China and Hong Kong. In Japan, share buybacks in 2024 surged 89% y-o-y to around USD120bn. For HSCEI, the net cash yields generated from dividends and share buybacks are expected to surpass 5% for 2025.

We have launched a new theme on **Asia's Enduring Titans**, which are distinctive industry champions which are well positioned to weather the global headwinds with their proven business models, outstanding competitive position, strong balance sheets, powerful brands, and high-quality management. They offer attractive opportunities for long-term investors who are looking to build core Asian equity holdings with durable growth, earnings resilience, and financial stability. We favour select Asian industry giants in the technology, financial, and consumer discretionary sectors which are priced at attractive valuations. The S&P Asia 50 Index, which covers the 50 largest blue-chip market leaders in Asia, is trading at only 11x forward P/E at a notable discount to the global peers.

In response to the tariff challenge, Asian central banks are expected to further loosen their monetary policies amid continued disinflation trend and growth uncertainty. We expect the Asian credit markets will benefit from global diversification flows and strong local investor demand for resilient income. Our theme on **High Quality Asian Credit** focuses on Asian IG credit, including Japanese and Australian IG bonds, Asian financials, including bank issuers in Australia, Singapore, and Thailand. We are overweight Chinese hard currency corporate bonds and Indian local currency debt for their attractive carry. We like Chinese TMT bonds which benefit from the AI investment boom and Macau gaming credit with strong fundamentals.

Asia's blue-chip industry leaders are trading at a valuation discount to MSCI Asia ex-Japan



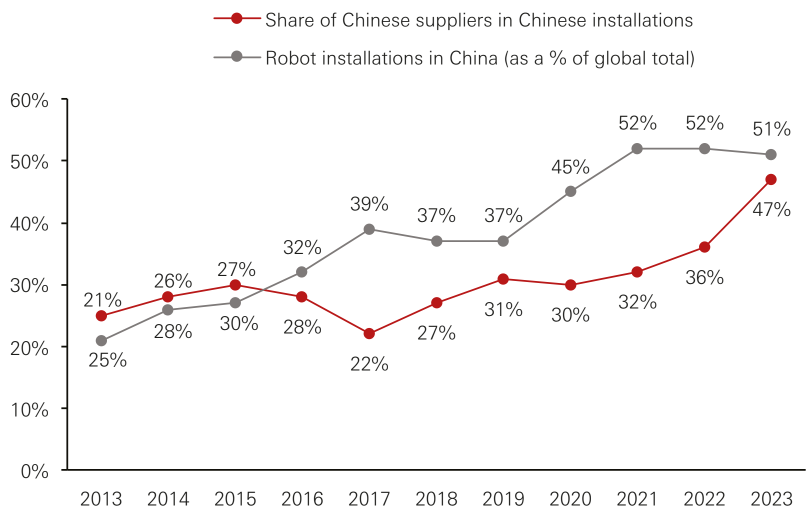
Note: S&P Asia 50 index serves as a proxy for Asia's Blue Chips in the chart. The index consists of 50 leading blue-chip companies that are listed in Hong Kong, Korea, Singapore and Taiwan.

Source: Bloomberg, HSBC Global Private Banking as at 22 May 2025.

Disruptive Technologies

The proliferation of low earth orbit satellites combined with 5G and cable networks are helping AI-enabled devices and services to reach their full potential with super-fast data flows and greater autonomy and roaming capabilities.

China's share of annual industrial robot installations (%)

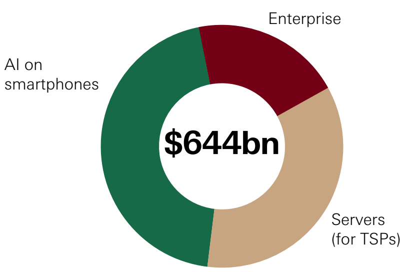


Source: IFR 2025, HSBC Global Private Banking as at 22 May 2025.

Our Three High Conviction Themes	
1. Evolving AI Ecosystem	The AI technology scene is rapidly evolving with rising demand for memory and processing capacity. It is essential that critical systems and hardware are upgraded in tandem to meet these needs including semiconductors, cloud storage, networks, software, data centres and associated services.
2. Robots & Automation	Intelligent products and service are heralding a wave of global innovation bringing new and enhanced capabilities that often trigger further related innovations such as 24/7 services or continuous monitoring or autonomous activity.
3. Aerospace & Security	Cybersecurity incidents are again on the rise with attacks reported regularly. People, infrastructure, property, data, assets, etc. are also facing multiple threats. Low-cost technologies including micro satellites, drones, tracking tags, facial recognition software can help neutralise these threats.

Generative AI spending trends - 80% on hardware

Generative AI spending, 2025



CAGR +133% by 2028e	CAGR +132% by 2028e	CAGR +171% by 2028e	CAGR +69% by 2028e
AI service apps	AI managed services	AI on smartphones	AI infrastructure

Source: Gartner 2025, HSBC Global Private Banking as at 22 May 2025.

AI everywhere

First there was decades of Artificial Intelligence (AI) fantasy anchored in science fiction, then 2 years ago fiction started to become fact with the launch of OpenAI's large language model (LLM). Fast forward to the present and AI models have proliferated with companies racing to embed AI-capabilities in their products, services and their business processes to improve productivity. Soon, AI will be everywhere, all at once. Our disruptive innovation trend explores three areas that are already benefitting from the expansion of AI.

Evolving AI Ecosystem

The ability to communicate is a fundamental need for humans and businesses and governments throughout history. What is relatively new is that software, machines and networks also need to communicate. The rising complexity of their development is driving the parallel development of 'digital highways' that can handle the demands of new innovative technologies such as neural networks, quantum computing, AI models, sensors etc. All these new technologies are highly dependent on the ability to collect data, analyse information and the ability to interact with machines, networks, the environment and people.

Recent technological developments have facilitated the formation of digital highways. Key components include digital transmission (cable and 5G networks; low earth orbit satellites); processing and storing of information (data centres); grid/off-grid power (solar, wind and nuclear power generation); data collection integrated and remote sensors. Linking the estimated 12,000 data centres worldwide (source: Statista, March 2025) with sensors, manufacturing and service facilities, terminals, etc. requires substantial ongoing investments as demand and needs evolve.

Robots & Automation

Humanoid robots may still be some way from becoming an everyday reality, but very capable humanoid robots already exist albeit at a high price. Their evolution continues at a pace with costs steadily declining due to new materials and technologies, but further potential cost reductions could be achieved through mass production.

Less eye-catching forms of automation have gradually been introduced in most companies since the late 1970s, where they have boosted quality and productivity. AI software incorporating advanced visual and sensory processing capabilities can use optical, haptic and other sensors data feeds which substantially enhance automation capabilities to perform far more complex tasks. Examples of enhanced automation include automated passport control; body scanners; automobile driver assistance features; facial recognition systems.

As AI software and processing capacity has improved it has facilitated a degree of autonomous decision making by the machine. For example, air and sea drones may at times operate in communication 'dead zones' where there is no connection with the remote operator, so it is essential they have the capability to operate independently. This ensures these drones can be recovered.

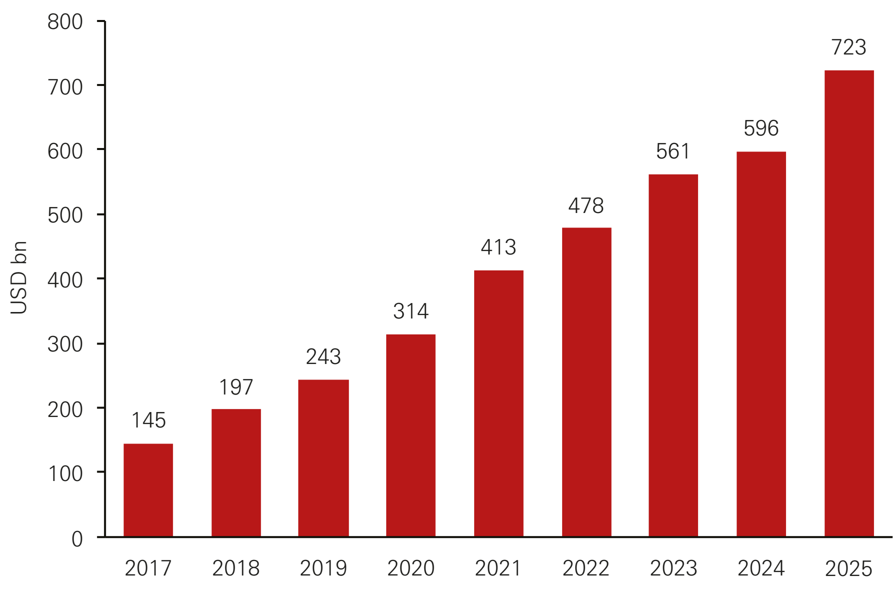
For earth-bound automation applications, the availability of easily accessible digital ecosystems is often essential requirement for the machine or service to operate.

Aerospace & Security

The aerospace industry and security in its broadest sense share many areas of interest and development. Aerospace activities offer unique vantage points and capabilities that are often useful to providing enhanced security. Digitalisation has also enabled interoperability of systems and the exchange of data. For example, unmanned aerial vehicle needs real time live video feeds to the remote pilot to operate the vehicle safely and effectively whether that is for crop monitoring or crowd monitoring or inspecting high voltage cables. Low earth orbiting satellites are enabling remotely operating vehicles such as sea drone to upload data gathered intermittently via satellite antenna. Face recognition software and hardware has multiple security uses including automated passport control checks; and opening banking apps on mobile phones. Face recognition software could also be used for commercial purposes to identify consumers and retrieve records or show tailored promotions.

These and many other new applications are providing new business and investment opportunities.

Public cloud services end-user spending worldwide (USD billions)

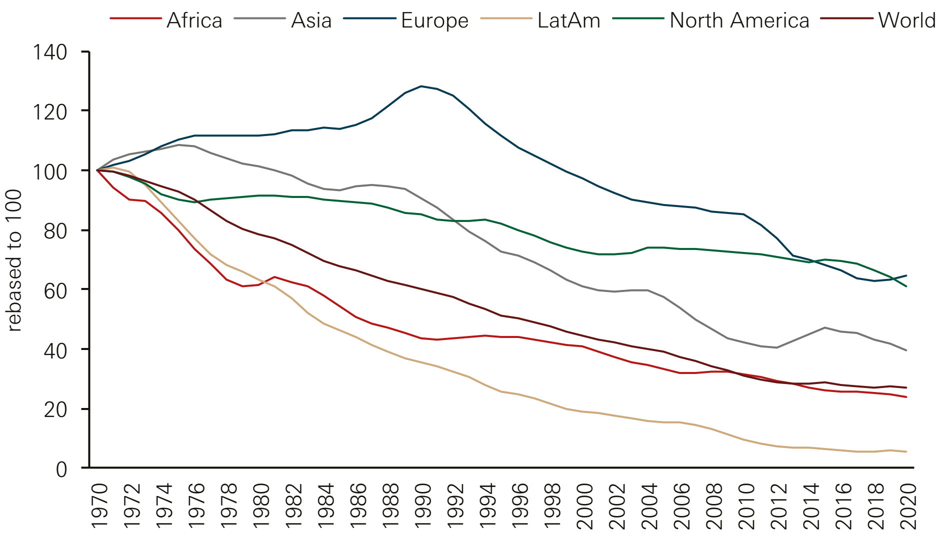


Source: Statista, HSBC Global Private Banking as at 22 May 2025. 2025 numbers are estimates.

Climate Action

The demand for secure, independent and clean energy has never been higher with security becoming a priority more recently. Biodiversity is also fast becoming an area of focus for sustainable investing and opportunities are growing.

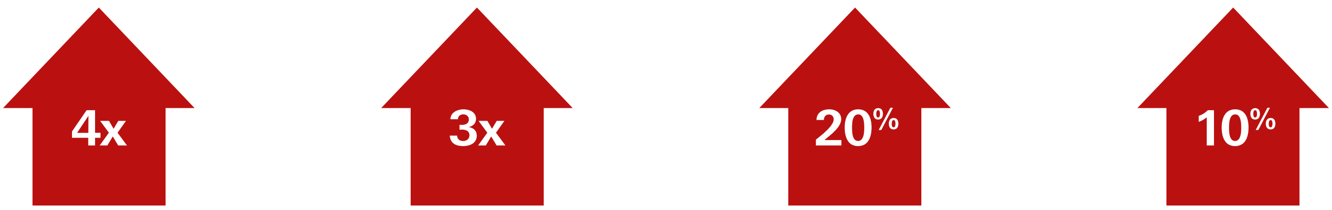
Decline in monitored wildlife populations by region



Source: Our World in Data. HSBC Global Private Banking as at 22 May 2025. Data to end 2020.

Our Two High Conviction Themes	
1. Energy Security	Demand from governments and corporates for independent, lower carbon energy production such as nuclear and hydrogen energy is on the rise. This demand is driving major change 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.

Renewable Energy estimating high growth aided by AI



Solar deployments are forecast to increase fourfold by 2035.

Wind deployments are forecast to increase threefold by 2035.

20% is the estimated efficiency improvement AI can deliver to installed wind turbines.

10% is the estimated lifespan improvement AI can deliver to installed wind turbines.

Source: HSBC Global Research, Bloomberg New Energy Finance, HSBC Global Private Banking as at 22 May 2025.

Securing energy to meet future demand has become increasingly critical for governments, especially in a world where advancements in energy-intensive AI can significantly boost GDP as well as energy needs. Globally, governments and corporations are striving to develop larger, domestic, independent, and sustainable energy systems.

The recent power outages in Spain, Portugal, and parts of France underscore the urgent need for investment in infrastructure to facilitate the energy transition. The growing reliance on renewable energy sources necessitates the integration and support of grid systems. At the corporate level, AI deployment is being optimized to ensure energy efficiency, aligning AI demand with renewable energy sources.

Meanwhile, biodiversity is emerging as a focal point for investors, alongside renewable energy. This shift is driven by recent advancements in quantifying and standardizing valuation methods for natural resources. The ability to assign monetary values to land and natural capital is unlocking new opportunities within the industry.

Collectively, these two areas represent significant interest and opportunity for investors, leading to the development of two related investment themes.

Energy Security

In recent months and years, geopolitical uncertainty has significantly increased, prompting governments and corporations to prioritize and urgently pursue energy independence. Achieving energy sustainability is a critical objective, with renewable energy sources being the optimal solution for securing domestic energy supply.

Additionally, the AI industry, as a major driver of future energy demand, is actively seeking to address its energy requirements through renewable sources.

While there are challenges facing sustainability the fundamentals are still robust. For example, on a global basis, the levelized cost of electricity puts renewables ahead of coal and gas per the chart below. The levelized cost of electricity is a calculation of the average cost of generating electricity from a specific energy source over its entire lifecycle. It's measured as a cost per unit of electricity generated, typically in dollars per megawatt-hour (e.g. US$/MWh).

Bloomberg New Energy Finance notes that solar energy is also expected to be deployed to levels 4x greater than current levels by 2035 and deployment of wind projects will be 3x greater than today. 2024 was also the first year that investment in the global energy transition crossed the USD2 trillion mark.

The rising demand for independent and renewable energy sources in most regions around the globe from governments and corporates is driving continued growth and opportunities in energy security.

Biodiversity and Circular Economy

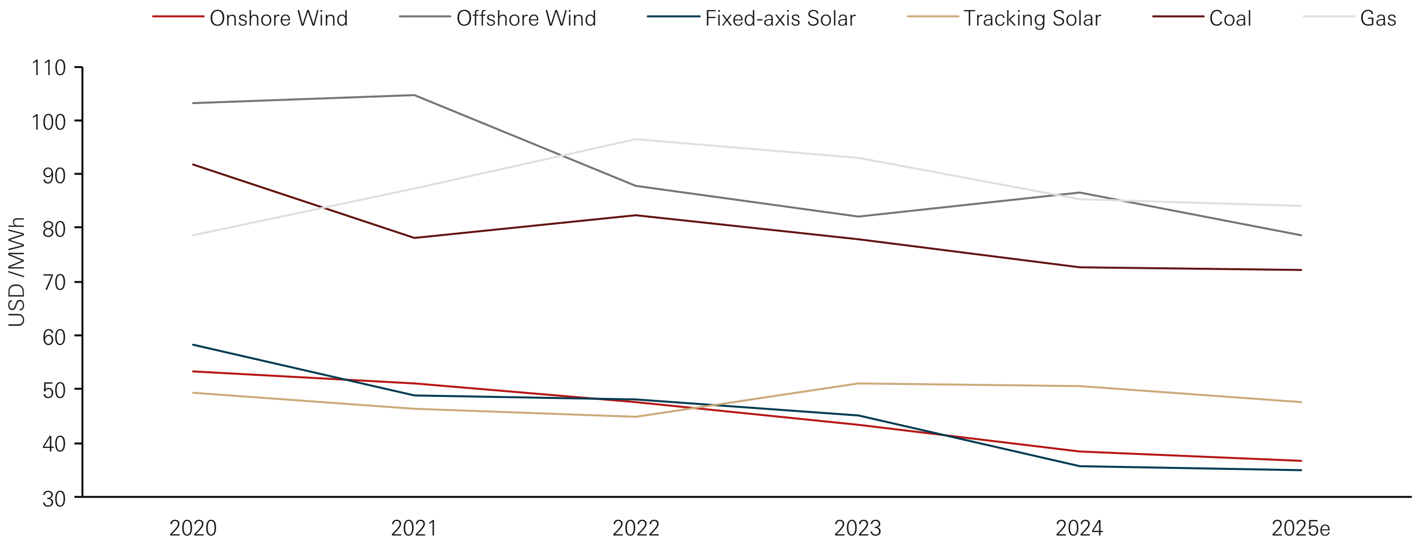
Rising awareness of the extent of the damage that has been done to the planet's biodiversity has driven policymakers globally to develop the Kunming-Montreal framework for measuring and comparing natural resource use through a financial lens.

It means we can now assign a value to natural resource use. Per BNEF humanity relies on nature's services for 99% of our food supply and 60% of our medicines and it is estimated that USD58 trillion of global output annually is dependent on nature. According to MSCI, 75% of global food crops rely on animal pollination while 50% of our food crops are at risk of soil erosion so getting this right is a must.

Financing and investment is a challenge but one area under review globally is subsidies that harm the environment. If these harmful subsidies are repurposed towards environmentally positive enterprise, it would materially change financing for biodiversity. When combined, government subsidies for agriculture, water use, and fossil fuels could be as much as USD1.8tn.

The developments in the space have driven a surge in biodiversity investment with AUM increasing 50% in the year to September 2024. It is coming from a low base, but the Kunming-agreement has given it a framework to really build on. The approach to biodiversity investing incorporates a variety of metrics from ESG scores to climate indicators to biodiversity dedicated measures and frameworks and as a result there are many opportunities presenting themselves.

Global levelised cost of electricity benchmarks

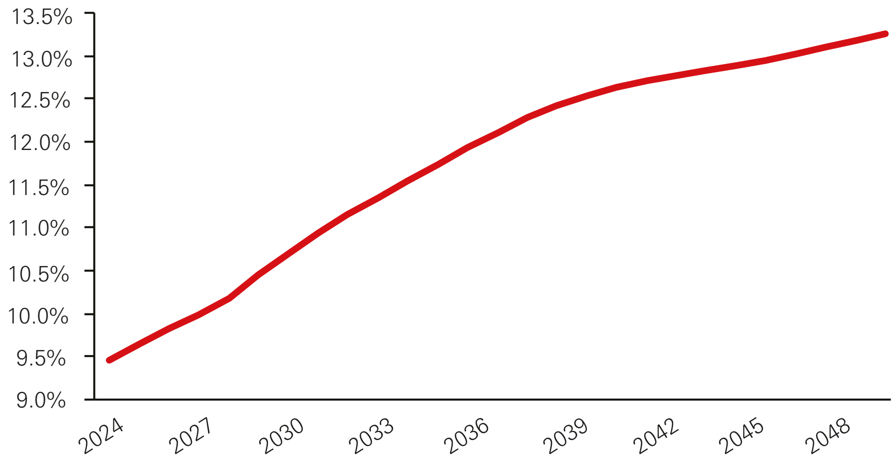


Source: Bloomberg New Energy Finance, HSBC Global Private Banking as at 22 May 2025. Data for 2025 is estimated.

Evolving Society

Aging populations, changing attitudes to societal roles, technology and the distribution of wealth within society are all reshaping society as we know it. We have three themes built on these trends are durable and have strong investment potential.

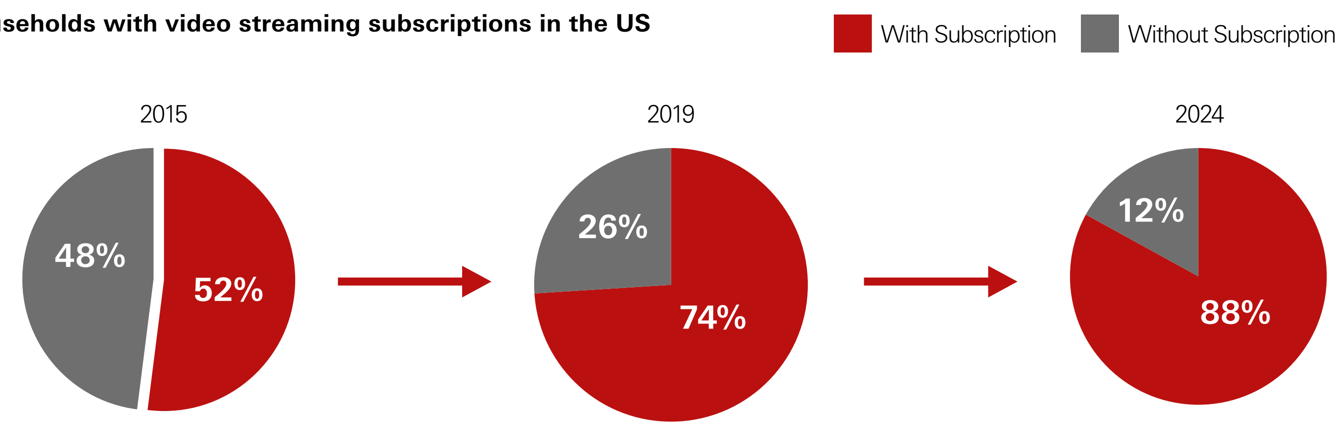
UN estimate of over 65s as a % of the global population up to 2050



Source: UN World Population Prospects 2024, HSBC Global Private Banking as at 22 May 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 because studies have shown that more diverse organisations tend to perform better.
2. Streaming and Subscribing	The theme focuses on streaming and subscription businesses that have become the dominant way to consume entertainment. They continue to grow and develop new products, grow market share and leverage technology.
3. Silver Economy & Demographics	The theme focuses on the investment opportunities coming about as the world gets older. Demand from over 65s for health care, assisted living, mobility, security and leisure is rising and that is set to continue for several decades.

Households with video streaming subscriptions in the US



Source: Nielsen, Leichtman Research Group, HSBC Global Private Banking as at 22 May 2025. Data to March 2024.

Around the world, society at large is changing at a significant pace. Aging populations, falling birth rates, rapidly advancing technology, shifting role expectations and growing wealth are driving demand for goods and services that is opening up a range of opportunities for investors.

Our high conviction themes under the Evolving Society trend are designed to capture the best of the opportunities being presented in public equity markets.

Social Empowerment and Well-being

Empowering diversity and inclusion in organisations remains an important consideration for investors looking for resilience in their portfolios.

Shifts in the demographics of corporations bringing better balance to gender representation and to ethnicity representation are creating opportunities for investors and research suggests that it is linked to corporate profitability.

According to McKinsey & Company, companies in the top quartile for gender diversity on executive teams are 21% more likely to outperform on profitability, and those in the top quartile for ethnic diversity are 33% more likely to have industry-leading profitability.

Elsewhere, research from Deloitte shows that a sense of belonging can increase employee engagement by up to 45% while companies with strong DEI practices see a 50% reduction in turnover risk.

What's more, companies with high workforce experiences (as laid out by Deloitte as the sum of a human's lived experiences at work and how they feel about their organization) are 1.6x more likely to achieve customer outcomes, enjoy 25% greater profitability, double the customer satisfaction, have lower absenteeism, and more than 2.5x the market performance of their competitors.

At the heart of societal change is technology which is advancing rapidly and entertainment is one area where consumption has shifted to digital streaming under subscription-based models. This new reality of how entertainment is consumed is now driving the future.

Our theme **Streaming and Subscribing** spans across TV, movies, music and videogames. These formats have shown the resilience of their business models through the recent cost of living crisis demonstrating their established nature with consumers and expectations are that their businesses will continue to grow.

Streaming 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, new consumption formats and new product and services are opening new channels of revenue for these companies and embedding their clients deeper into their models.

Our **Silver Economy & Demographics** theme seeks opportunities from an aging, wealthy, population who spend differently than their younger counterparts.

We are looking for opportunities beyond the typical products and services for over 65's such as through hotels, cruises, technology, dedicated financial services and entertainment such as casinos. These are areas that fitter, healthier and wealthier retirees will also be looking to spend outside of the typical care and lifestyle opportunities.

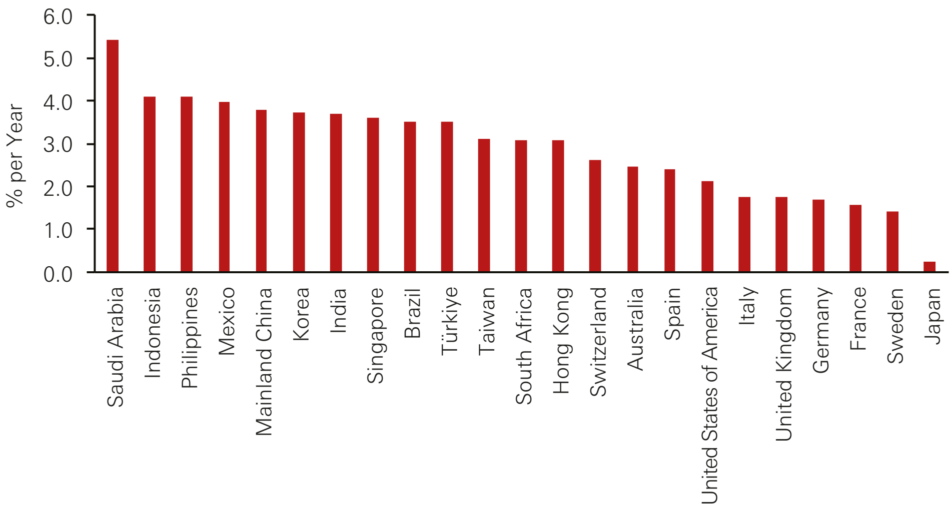
Having spent a lifetime building up wealth, pension and home equity, the net worth of the over 60's is the highest in society on average and this wealth can be used for experiences and lifestyle.

AI and humanoid robots are also likely to have a major role to play with the over 65's as recent advances in the technology enables these robots to conduct a huge range of helpful tasks that would be extremely valuable to elderly consumers.

This theme is a long-term theme but there are opportunities available now that are attractive.

Overall, society is materially changing along some key fault lines and these areas of transition are where opportunities are presenting themselves.

Growth in population of over 65 (2025-2035)



Source: UN Population Division Data 2024, HSBC Global Private Banking as at 22 May 2025.

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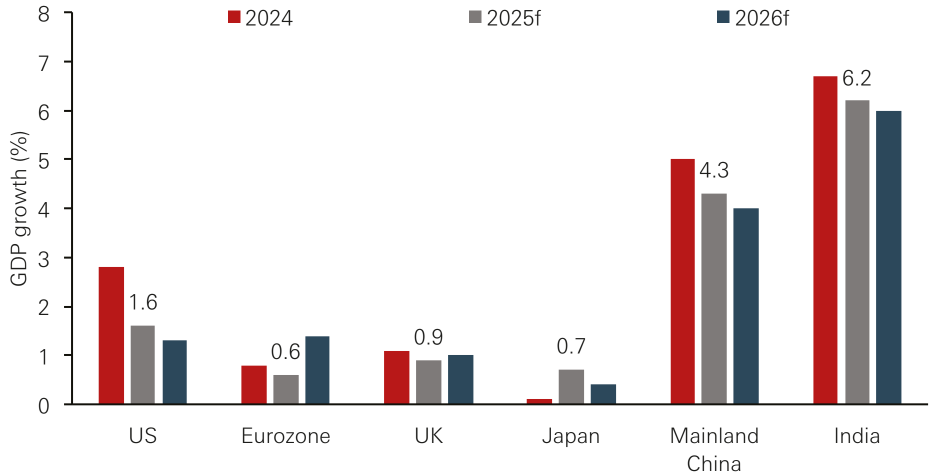
Building Resilience Amid Tariff Headwinds

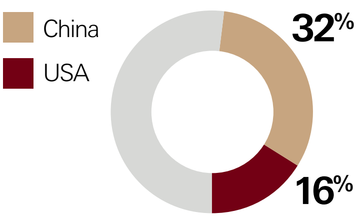
While we do not forecast a US recession, trade tariffs will start to impact activity data and earnings around the world. Investors should consider areas benefiting from policy support and quality assets to reduce tariffs' impact on portfolio returns and volatility.

Our GDP growth forecasts are relatively muted but remain out of recession



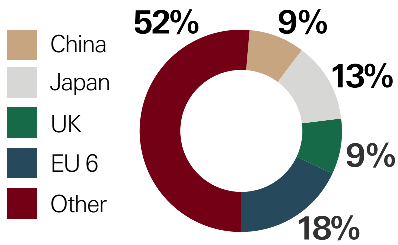
Source: HSBC Global Research, HSBC Global Private Banking as at 22 May 2025. Forecasts are subject to change

Our Three High Conviction Themes	
1. North American Re-industrialisation	One of the key objectives of US trade tariffs is to help bring manufacturing back to the US. Tariffs are driving companies to bring back more of their supply chains to the US, while some countries have offered to invest in the US or buy more US goods in the hope of getting a trade deal. We see beneficiaries in engineering, transportation, logistics and construction.
2. Global Financials	Financials have been one of the best performing sectors and we maintain our positive view. Strong net interest margins remain in place as the yield curve remains relatively steep. Market volatility has helped trading revenues that compensate for muted M&A and investment banking activity. And while delinquencies on loans have risen, they remain low by historical standards.
3. Income Through Active Credit Selection	A solid block of quality bonds can create stable income in portfolios, which is valuable amid volatile global risk appetite. We tap into a broad opportunity set across IG and HY markets from DM and EM to do this. We currently prefer slightly above-average duration to capture the potential for rate cuts and benefit if tariffs negatively affect growth. However, we maintain an active approach as we continue to foresee two-way volatility which managers can exploit.



The US wants to increase its share in global manufacturing from the current 16%

A 41% surge in US imports ahead of the Liberation Day tariffs announcement led to a contraction of GDP in Q1.



China owns fewer US Treasuries than many investors think, thus reducing the risk of sales.

Source: US Department of Economic Affairs, World Bank, Safeguard Global, HSBC Global Private Banking as at 22 May 2025.

North American Re-industrialisation

It is clear that it is important to the US administration to re-invigorate US manufacturing, to grow its global manufacturing share, increase local investment in the sector and protect and create manufacturing jobs.

While the previous administration used tax and other incentives to attract investment in the US, the current administration uses tariffs, which almost force companies to produce more locally.

This should lead to more US construction in production facilities, and benefit ancillary services, from logistics to engineering, energy and water providers. Advanced manufacturing also needs strong technological expertise, where the US continues to have an advantage. If the US is successful in attracting investment, this can act like a snowball effect, as companies are more likely to invest when their suppliers or business customers have also already relocated to the US, bringing sector expertise back.

So, while there are obstacles to quickly bringing production back to the US, many companies will probably choose to revive and upgrade mothballed facilities and do quick add-on investments to rapidly increase capacity where possible. Several companies have already announced investments, while many foreign governments have offered to buy more US goods in an attempt to achieve trade deals.

Global Financials

Bank earnings for Q1 generally surprised on the upside and illustrated a number of interesting trends.

While most sectors were hurt by tariffs, banks reaped the highest trading revenues in more than a decade. As volatility is likely to stay with us, trading and asset management revenues should stay high.

For some banks, this is offset by lower investment banking revenues as IPOs and M&A have fallen back. But as volatility comes down, many companies will look for bolt-on M&A and investments to change supply chains and invest in AI-led innovation.

The interest rate outlook is another key driver of bank earnings, of course. Rate cuts will be slow, and the yield curve is relatively steep, which helps net interest income.

And while the growth cycle is slowing, our view that the US should stay out of recession should provide some comfort. Delinquencies on the loan book are rising only very gradually and are still low, easing concerns on that front.

Finally, financials are still the second cheapest sector after healthcare, which provides additional attraction.

Income Through Active Credit Selection

Adding bonds can help generate income and diversify portfolios.

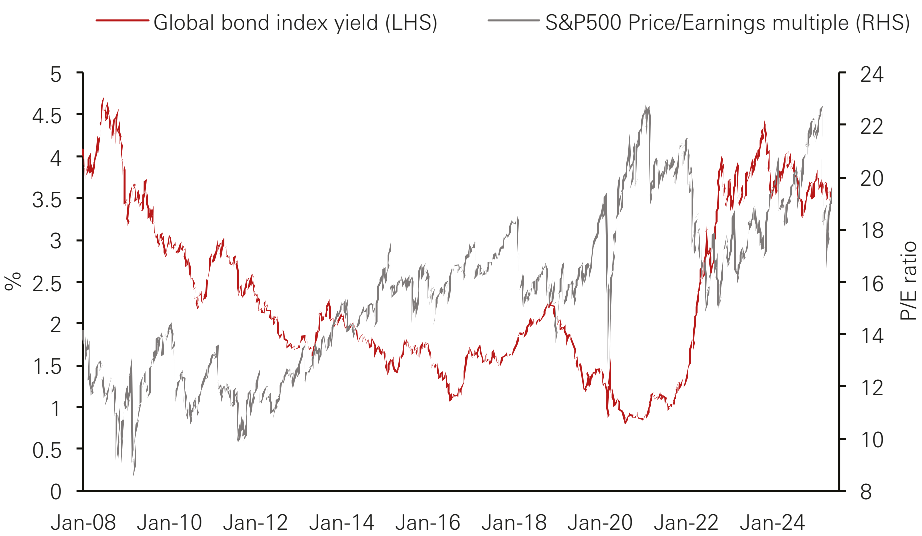
The overall yield of a global bond portfolio remains well above anything that could be achieved since the 2008 financial crisis. This contrasts with equity valuations, which are close to the average (not the lows) of the past two decades.

We like to tap into opportunities across the bond market, to widen the opportunity set for income seeking portfolios. Relatively steep developed market government bond yield curves currently argue in favour of somewhat longer-than-average duration. And of course, longer dated safe haven bonds would be more powerful diversifiers than shorter-dated bonds in case of a growth slowdown.

Corporate bonds' credit spreads are not particularly generous, but they nevertheless give investors extra yield. Spreads have been relatively stable when compared to the volatility observed in equity markets.

We like an active approach as fund managers 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.

Global bond yields are still elevated, and therefore offer relative value and a decent hedge to equities



Source: Bloomberg, HSBC Global Private Banking as at 22 May 2025. Past performance is not a reliable indicator of future performance.

Equities

While equity markets remain volatile, the big shock to sentiment coming from the reciprocal tariff announcement has faded, as countries are negotiating trade deals during the 90-day reprieve. So, while we still need to see the tariff effects on the real economy, better sentiment and visibility led us to move back to a mild overweight on US and global equities in May. Earnings growth will remain muted, but expectations have already come down. And valuations are much less demanding than last year, trading close to historical averages. As investors feel less of an urge to move away from US assets and tax cuts should help sentiment in coming months, we overweight US equities. We are also overweight on Asia (China, India and Singapore) as the region remains at the center of global growth and benefits from strong innovation and support from local demand.

While much of the focus in recent months has been on the tariffs and their macro implications, AI-led innovation and technological progress remain very important topics for equity investors. Across the world, we see selective upside in areas benefiting from or enabling AI-driven productivity, including software, security, automation and robotics and the utilities that provide related services. Globally, AI remains a focus and a technology that should help lift productivity and profitability across sectors, leading us to move back to a mild overweight on US and global IT in May. In a recent study, the St. Louis Fed estimates that AI has been the most rapidly adopted technology in history. FactSet said that through the end of 2024, 50% of the S&P is using AI. Moreover, the St. Louis Fed estimates that AI has been adding 1.1% to productivity in the US and that workers are 33% more productive each hour they use AI.

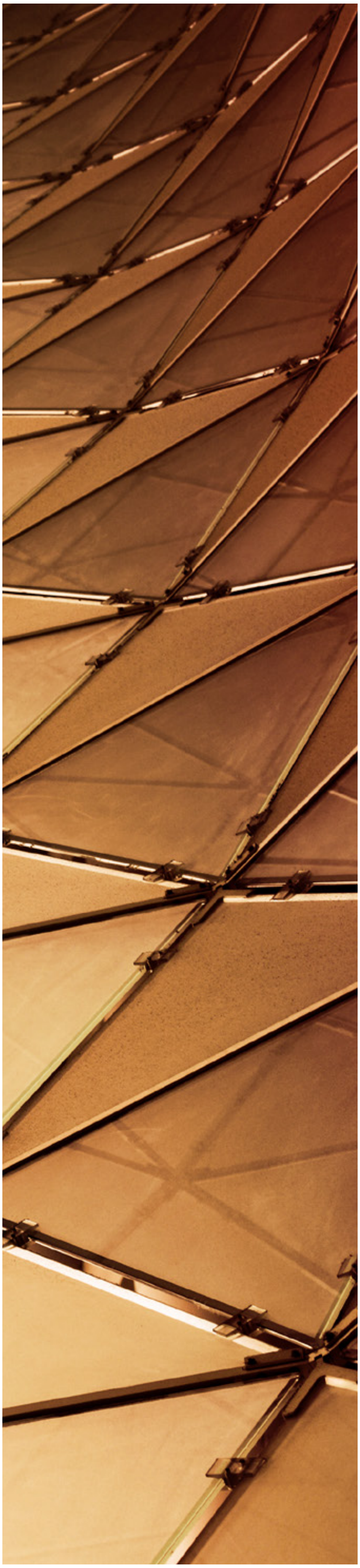
Asian growth & attractive valuations

Asia's broad rebound is driven by easing monetary and fiscal policies, AI optimism, and rising hope that these factors will make the region's economies and markets resilient to the tariff headwinds. We remain overweight on China, India and Singapore. China benefits from targeted stimulus and a renewed focus on technology, recognising its rapid advances in AI models, EVs, robotics and other technologies. Moreover, Chinese equities' valuations are low and therefore, they remain attractive to global investors. Finally, reduced trade frictions with the US have taken away most of the downside risk from this issue for 90 days. In India, strong growth, new trade deals, and a diversified economy continue to lift earnings and domestic support for local equities. The country's rapid digitalisation, together with its ambition in manufacturing lead us to believe that India will be one of the winners of the supply chain reorientation in the region. Singapore's market is relatively defensive and local in nature, which are two desirable characteristics in the current environment. In Japan, the rise of the yen has hurt exporters on the margin. However, the markets should continue to benefit from the technology revolution and reduced trade friction.

The valuation of MSCI China is still near five-year lows

MSCI China: 12-month Fwd P/E

Source: Bloomberg, HSBC Global Private Banking as at 22 May 2025. Past performance is not a reliable indicator of future performance.



Will Europe come together?

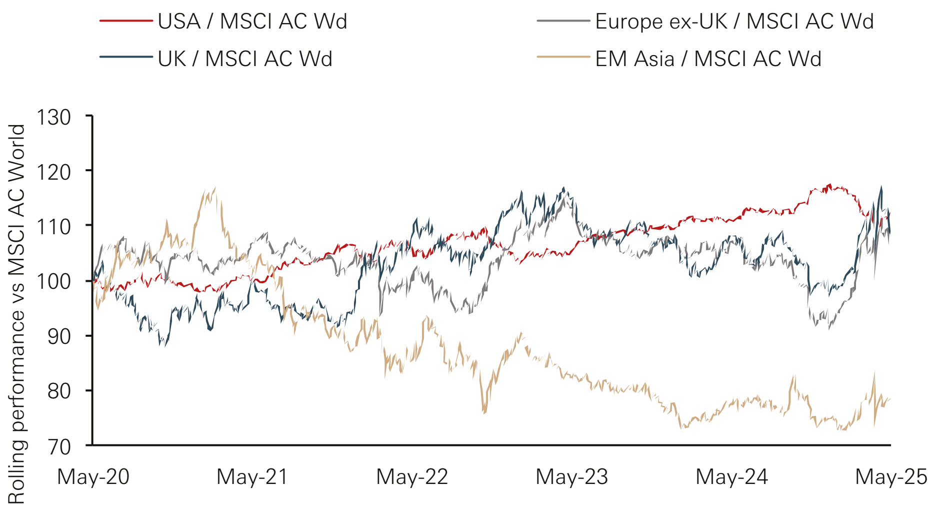
European countries are being shocked into action due to the tariffs and military conflict on its borders. While fiscal room has been created in Germany and is available at an EU-level as well, the question is whether change will go beyond defense and filter through into market reforms and rapid digitalisation. As investor fears about US growth and US policies have recently eased, active diversification towards Europe is slowing. As for Europe's consumer sector, global luxury demand is not driving markets, as Asian consumers have not returned in full and trade uncertainty weighs on the consumer discretionary sector. Given the need for a coordinated industrial policy, we see some specific opportunities around infrastructure investment, industrials and energy demand.

A US policy reset also triggers a US equity reset

Following the big shock on Liberation day, some more business and market friendly announcements have tentatively restored market confidence. And while slow growth may weigh on earnings, consensus expectations have already come down, while valuations are clearly also much less demanding than they were last year. As a result, we are now again overweight on US stocks, and also on the large US tech and communications sectors. We believe the resumption of Fed easing in coming months should help as the easing of monetary policy tends to be accretive to earnings and US equity market valuations.

Technology will continue to drive productivity and profitability as the next iteration of AI provides more value-added products and services that should further lift productivity and profitability. Industrials look supported by re-industrialisation and near/onshoring, especially if the US administration can deliver on deregulation in addition to the tax cuts. We are also mildly overweight on Financials, which are supported by a positively sloped yield curve and our view that markets should become less concerned about recession risks.

US equity underperformance should be behind us as confidence returns



Source: Bloomberg, HSBC Global Private Banking as at 22 May 2025. Past performance is not a reliable indicator of future performance.

Fixed Income

Our neutral stance on bond markets hides a slightly long duration bias, as we believe it serves as a natural hedge against our risk-on positioning in equities. There is also a mild probability that the upcoming economic data, especially in the US, may deteriorate over the next few months, which should be supportive to government bond markets. Consequently, we keep our longer duration targets on DM government bonds (ex-Japan) and Global corporate Investment Grade (IG) markets unchanged at 7-10 years. In terms of allocation, we prefer sovereign debt in the UK and corporate IG markets from both the UK and core Eurozone. We have a small overweight on EM hard currency debt, with a focus on quality credit in Asia. We remain mindful of tight valuations on Global High Yield (HY) given the current economic cycle and heightened market volatility.

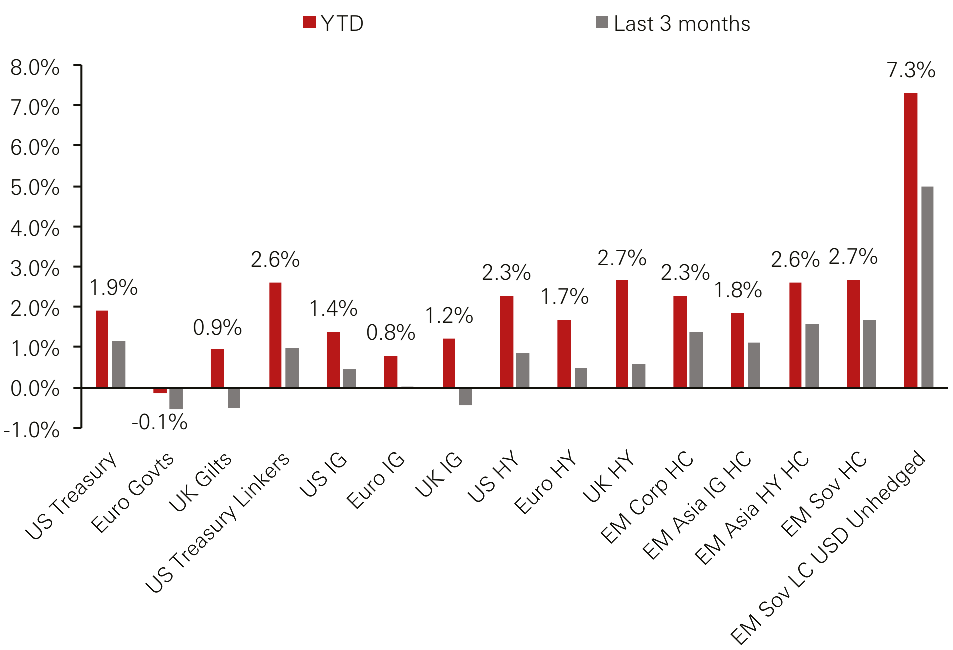
Overall, we continue to see corporate IG credit, including USD IG bonds as a good way of diversifying multi-asset portfolios and generating income by locking in elevated yields. Active credit selection remains relevant considering the uncertainty around the US administration's policy measures and the endgame in tariff deployment.

The prospect of foreign investors reducing their exposure to USD assets (i.e. "de-dollarisation") has been at the centre of market debate over the past few months. It is true that US Treasuries have not behaved in a way one would have expected since "Liberation Day" on 2 April, as their returns have been uncorrelated with US stock markets. However, we have been generally wary about bold statements on structural shifts, especially when they are based on a few exceptional days of trading patterns. Any change in the importance of USD assets will take years to materialise, not days, in our opinion. Shunning US Treasuries in a diversified bond portfolio or in passive investments is complicated, as the US Treasury market is the largest and the most liquid public market in the world. Its value represents 50% of DM sovereign debt, compared to 6% for German Bunds and 6% for UK gilts. Global trade is very often expressed in USD (i.e. invoicing) and proceeds must be recycled into USD assets, emphasising the importance of the largest economy in the world. We believe a lack of alternatives makes any rapid change almost impossible.

So, we look to other factors as the main drivers of bond markets in the coming months. After the initial tariff shock, followed by negotiations, relief and hopes, the attention will now turn to the second-order impact, such as knock-on effects on private consumption and corporate spending.

The weakness in current business and consumer surveys in the US is broad-based and may eventually impact hard economic data. If this happens, which is certainly not our core case, the Fed may have to acknowledge this economic weakness and focus on the employment market stability rather than the temporary inflationary impact from tariffs, even if the risk has been reduced lately. This may allow further repricing of their monetary policy and US Treasury yields to move lower.

Volatility across bond markets has remained elevated post "Liberation Day" on 2 April



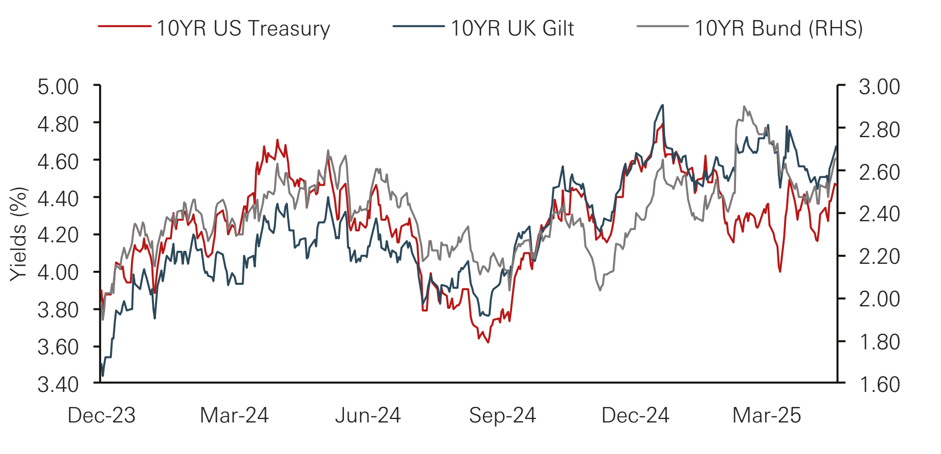
Source: Bloomberg, HSBC Global Private Banking as at 22 May 2025. Past performance is not a reliable indicator of the future performance.

We acknowledge this is not the current market consensus as there is a tendency among investors to focus on the positive side of recent events, such as the de-escalation of the trade war between the US and China, leading to a surge in risk assets and yields. However, US consumers may not regain confidence as quickly as investors due to the uncertainty around economic growth and upcoming job cuts. We continue to expect three 25bp rate cuts for this easing cycle, while the market is pricing around 100bp (Fed fund futures as of 12 May). It is worth noting that even 100bp of rate cuts would still position Fed fund rates above the neutral stance defined by the Fed (i.e. 3%) and a restrictive policy may not be warranted in case of an economic slowdown.

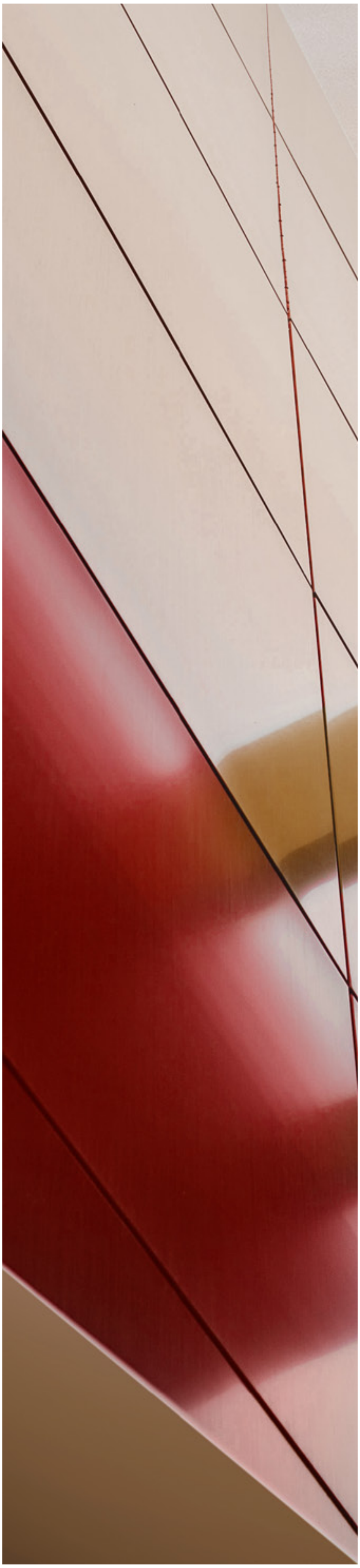
Inflation outlook

US inflation may mechanically move up over the next few months if tariff levels are maintained. While some actual trade deals will probably be agreed by 9 July, a minimum 10% tariff should be kept on all US imports, meaning the level of such levies will be at the highest since the early 1900s. Ultimately, US consumers will pay the price for the tariff implementation, but there is also a chance that retail sales volumes may decline. Another big question remains on corporate margins: how much will US companies recover from the price increase, considering limited pricing power in a weakening economy? We continue to believe that while tariffs boost inflation in the short run (similarly to a tax increase on goods), their effects on economic activity should be more pronounced than widely perceived - through lower CapEx spending, margin compression, manufacturing employment and goods consumption. Moreover, the trend in disinflation is well anchored across most DM economies. Tariffs will have to first reverse this trend before increasing inflation in the US. Not to mention other large regions (such as Mainland China which exhibit low or a more pronounced decline in inflation), could anchor global inflation to some extent. The ECB and BoE acknowledged that US tariffs could have disinflationary effects on their domestic economies, in a non-retaliatory scenario.

DM government bond yields currently stand close to the top of their 2-year ranges



Source: Bloomberg, HSBC Global Private Banking as at 22 May 2025. Past performance is not a reliable indicator of the future performance



Where do we stand?

When looking at the broader picture, government bond yields have been moving within wide trading ranges over the past two years. At this juncture, yields are closer to the top and have some potential to go lower, justifying our long-duration positioning (i.e. 7-10 years) on DM sovereign bonds (ex-Japan) and Global IG markets. Among government bond markets, we favour UK gilts for their attractive valuation relative to other DM sovereign bonds. Concerns about a weak UK growth outlook and looser labour market conditions should also support gilts. We have a preference for UK gilts over German Bunds as the latter have outperformed since end of March, when the German fiscal stimulus was announced.

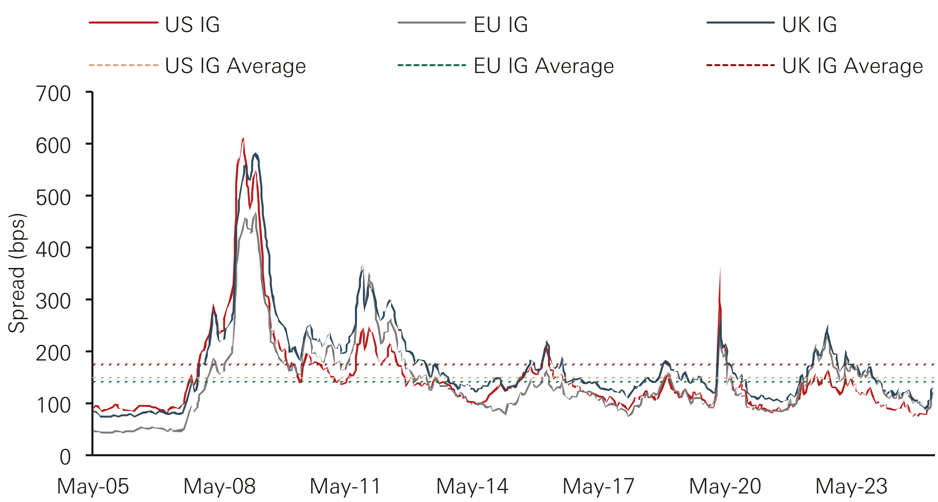
Corporate credit spreads have recently compressed following an initial widening of 20-40bp for Global IG and 110-150bp for Global HY, making their valuation less appealing. Hence, we retain our neutral stance on USD IG and Global HY, while favouring EUR and GBP IG corporate credit. Although headline tariff risks seem to have subsided somewhat, we do not think credit markets are fully out of the woods yet. The market will scrutinise incoming hard data for any signs of a slowdown across DM economies, but more specifically the US. In our view, there is a disconnect across different segment of bond markets; it is hard to reconcile USD IG spreads close to 100bp with 100bp Fed rate cuts priced into Fed funds futures in the next twelve months. The gap is likely to close, and in our view, the balance of probability is skewed towards slightly wider spreads.

Active credit selection becomes even more relevant considering the uncertainty around the economic impacts of tariff implementation, even if scaled back. 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. There is also value in European single-As, particularly in sectors such as Chemicals and Energy where much of the downside risk is already reflected in the price.

For EM, a relatively stable USD allows central banks to focus on local factors and continue to ease as inflation pressures are benign in most cases. Still, due to the high level of uncertainty around tariffs, we are 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 run a modest overweight on EM corporate external debt, thanks to China, where we focus on the IG segment, mostly via Technology, Bank and SOE issuers.

Corporate credit spreads remain tight relative to history

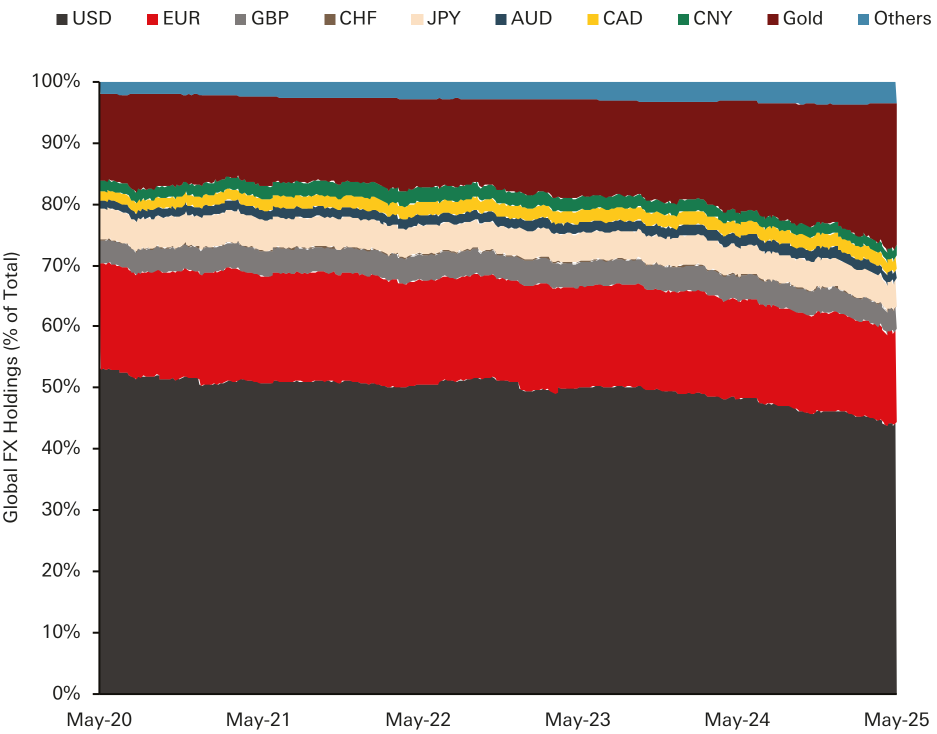


Source: Bloomberg, HSBC Global Private Banking as at 22 May 2025. Past performance is not a reliable indicator of the future performance

Currencies and Commodities

FX markets have been highly volatile recently due to mixed headlines on trade tariffs. The US dollar has suffered from a de-dollarisation process as the market assumed slower trade and higher prices in its US economic assessment, accelerating the rotation away from the greenback. However, trade optimism later reversed this trend, rekindling hope around USD. We now foresee limited downside risks for the US dollar, which we see supported by renewed optimism on US growth amid hopes of trade deals and a potential fiscal boost from the tax cuts. Increased demand for US equities may further enhance foreign direct investment, providing additional support for the USD. Despite this, we emphasise the importance of currency diversification given the persistent uncertainties and unresolved risks to global economic growth. We expect FX markets to remain volatile, with potential fluctuations in various directions until a clearer understanding of the broader economic landscape emerge. Consequently, we are patient before turning overly confident on risk-on currencies. Gold remains a key portfolio diversifier, in our view.

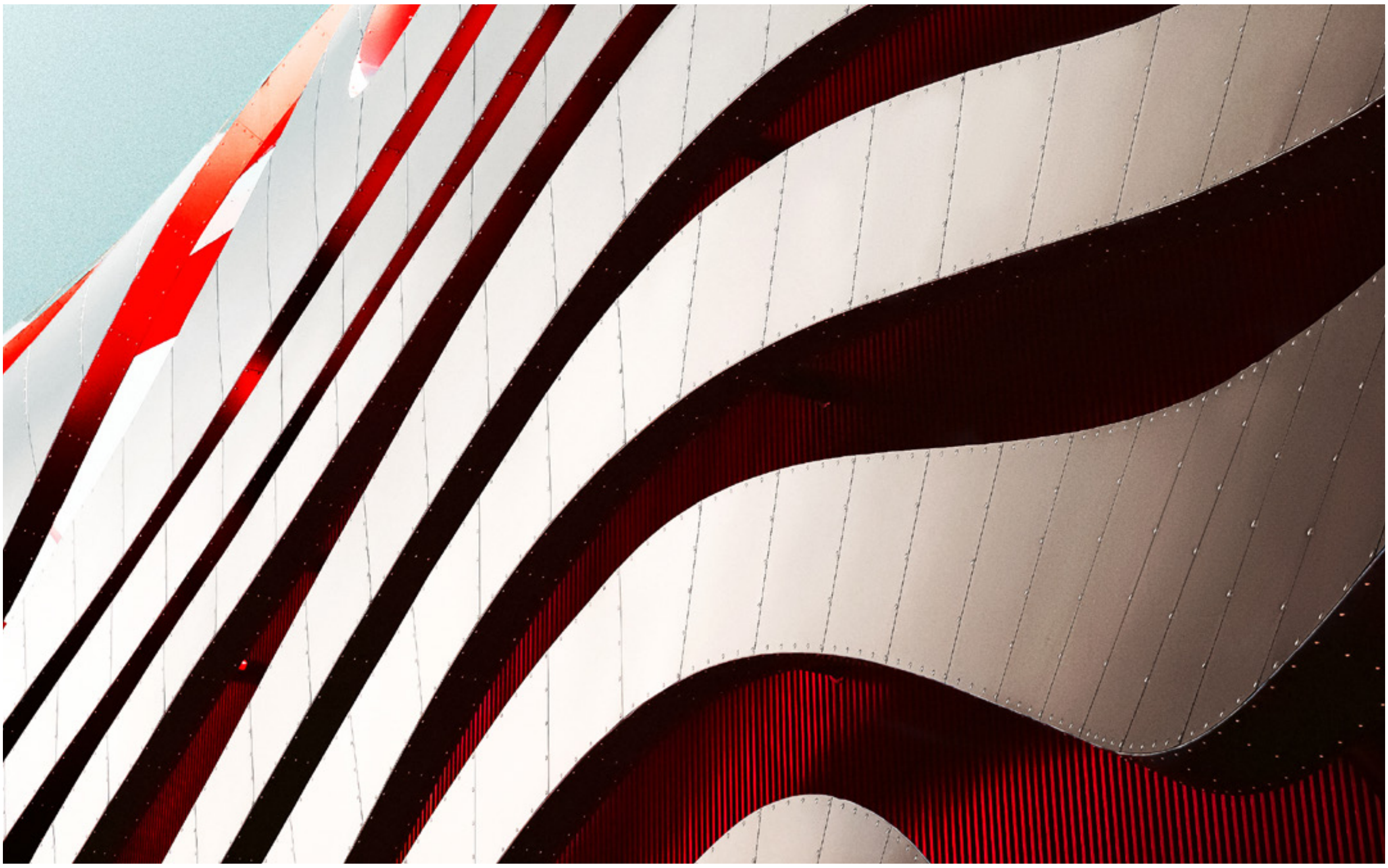
International reserves show great diversification by global central banks, but mostly towards gold rather than non-USD currencies



Source: Bloomberg, HSBC Global Private Banking, as at 22 May 2025

While the effects of the tariffs will start to filter through into the US and other economies, the recent tariff reductions and US tax cuts should support the growth outlook. We expect relatively slow but positive growth, with fears of recession and stagflation easing. So, while the US data will clearly remain volatile, we expect the market sentiment towards the US to improve somewhat, likely cushioning any further drift in USD.

Amid the volatile data, we think many currency pairs will remain volatile but trade in a range, without significant outperformance of one compared to the other. We therefore strategically diversify our FX exposure. Nonetheless, it is important to note that the US dollar is currently more sensitive to US growth-related news than to global risk appetite. Consequently, if the market exhibits increased confidence in US growth, this could lead to a strengthening of the USD, exerting downward pressure on safe-haven currencies while benefiting risk assets. Conversely, renewed concerns regarding US growth—potentially stemming from ongoing tariff impacts and insufficient fiscal support—could weaken the USD, thereby increasing demand for safe-haven currencies at the expense of risk-on currencies. Given the current lack of definitive evidence, it is crucial to maintain a diversified currency exposure or to use volatility to implement tactical hedges or investments to effectively navigate these market fluctuations.

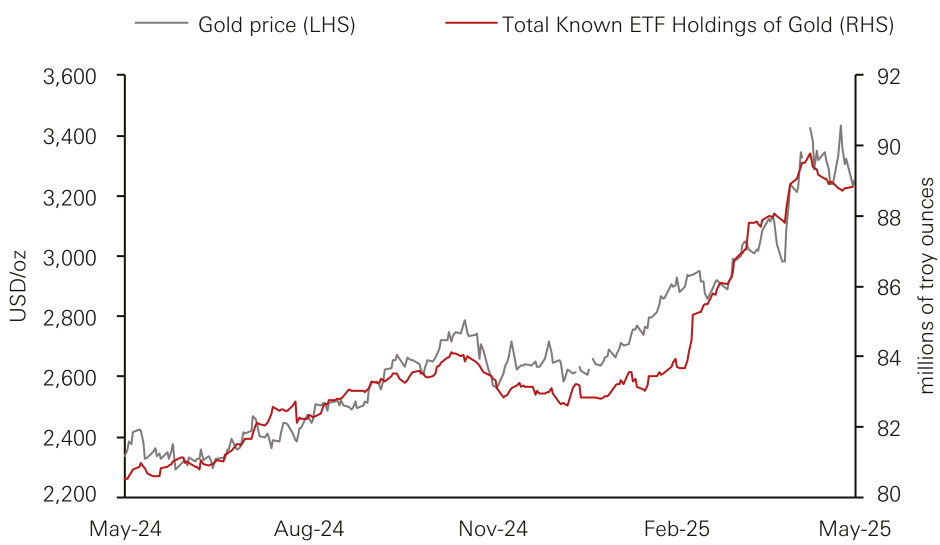


In Emerging Markets, we are confident that USD/RMB will trade sideways as the People's Bank of China remains committed to safeguarding stability of the exchange rate, despite high volatility caused by international headlines. Additionally, the Chinese economy appears resilient for now, but there is a risk that we do not yet fully understand the impact of the trade tariffs on the real economy (just like for the US).

Beyond China, we are also neutral on most EM currencies and prefer to remain cautious on risk-on currencies for the time being. However, India could benefit from the trade deal with the UK and current low oil prices; South Korea could benefit from reduced political uncertainties and a deal with the US on tech products; Brazil could benefit from its high yields and its connection to China, should the Chinese economy remain robust; while Mexico could also benefit from its yield and potential improvement in its relationship with the US.

Lastly, we do not anticipate industrial metals prices to see much support in the coming months due to their intrinsic characteristic of being positively correlated with global trade. However, we see continued upward potential for gold as a substitute for the USD in a context of portfolio diversification, likely exerting positive pressure on silver too. However, given its exposure to the industrial sector and overall global activity, we foresee higher volatility and greater downside risks for silver. Meanwhile, oil prices may remain volatile due to mixed headlines regarding OPEC+ and non-OPEC countries' output, the geopolitical situation, and the overall global growth outlook.

Interest in gold remains strong, supporting the price.



Source: Bloomberg, HSBC Global Private Banking as at 22 May 2025

Hedge Funds

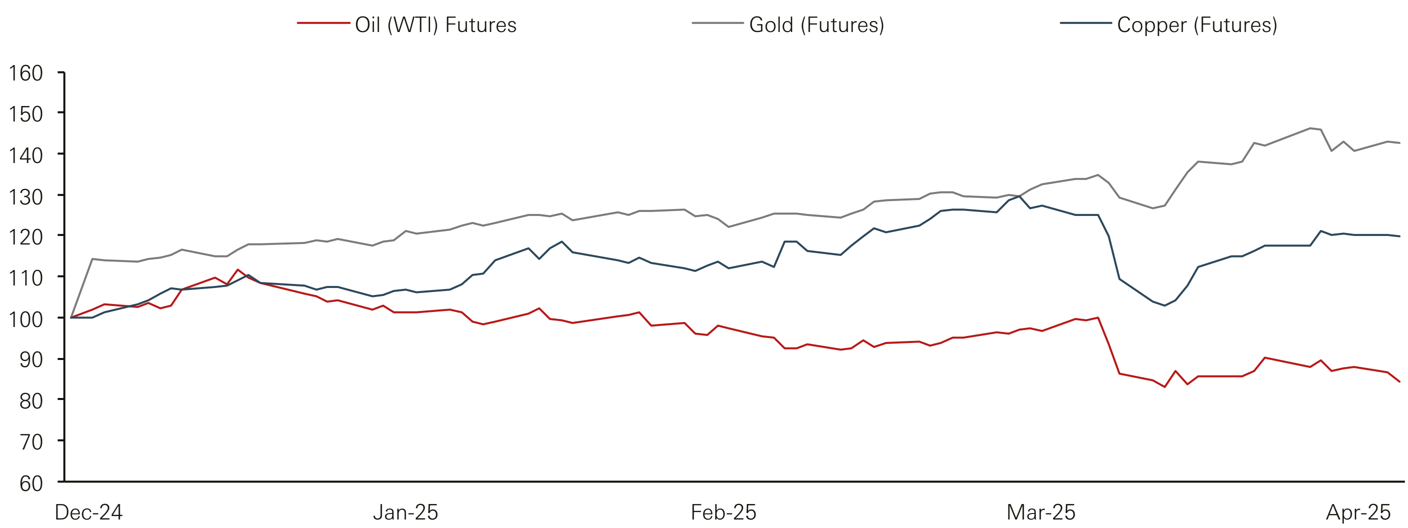
We maintain our overweight on hedge funds as an asset class as we think the volatile market environment requires both portfolio diversification as well as strategies that can exploit tactical opportunities. We are positive on discretionary macro, equity market neutral, variable net equity and Asia long/short strategies, in addition to multi-strategy or multi-PM approaches.

Hedge funds have proved resilient during the tumultuous period witnessed recently with typical balanced hedge fund portfolios insulating against 90% of the downside in market moves over the period to date. Indeed, certain strategies have found the recent period of uncertainty to be supportive for returns namely equity market neutral strategies which benefited from the volatility. Macro managers have also enjoyed some success particularly trading rates and commodity markets. Given the magnitude of the pullback in equity markets, variable net (net long) equity long/short strategies found trading to be the trickiest.

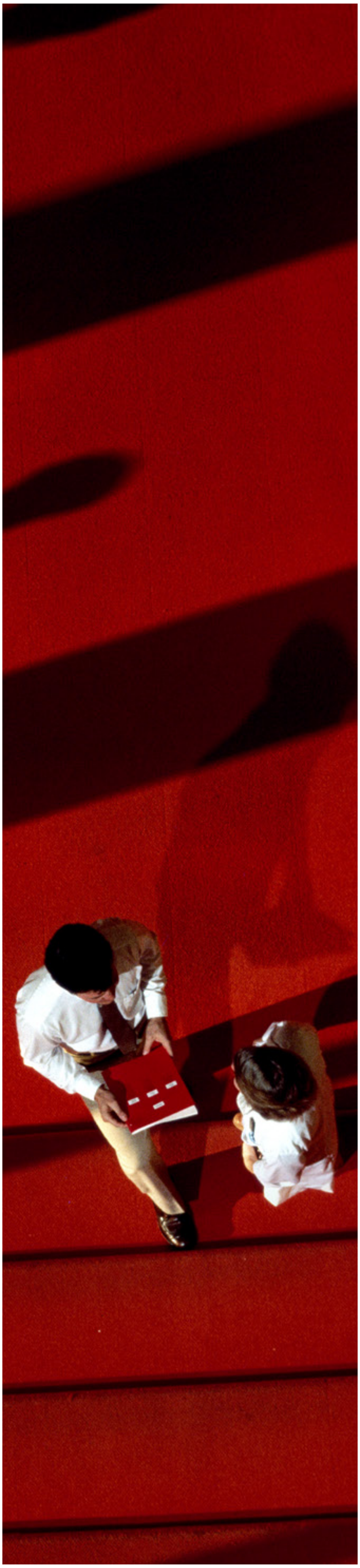
We have reprised our outlook for discretionary macro. While the opportunity set for the strategy remains deep, the sources of the market uncertainty - being primarily political in nature and the outsized volatility witnessed across markets - have resulted in a trickier environment within which to establish positions. We remain constructive on the strategy but take the outlook down from outright positive to mildly positive. Rates trading is proving to be a fertile source of returns with US yield curve steepeners yielding results and German Bund yield movements creating opportunities. Within FX, the gyrations of USD wrongfooted some managers but not all of them. Meanwhile trading in commodities and gold has proved accretive for performance.

Our outlook for managed futures remains unchanged at neutral. The first quarter proved to be a tough environment for medium/longer term trend followers due to the substantial and quick reversals in equity, credit and FX markets. Trends in precious and non-precious metals provided some support for returns. Shorter-term trend followers fared better generally finding opportunity for returns across the majority of asset classes but particularly in equity and rates markets. For systematic equity market neutral strategies, we have a mildly positive view due to the constructive market environment supporting the strategy. Recent events have driven positive performance led by asset selection in the US and tempered somewhat by style exposure.

The differentiation in commodities' performance has been a clear trend during the last several months



Source: Bloomberg, HSBC Global Private Banking as at 22 May 2025.



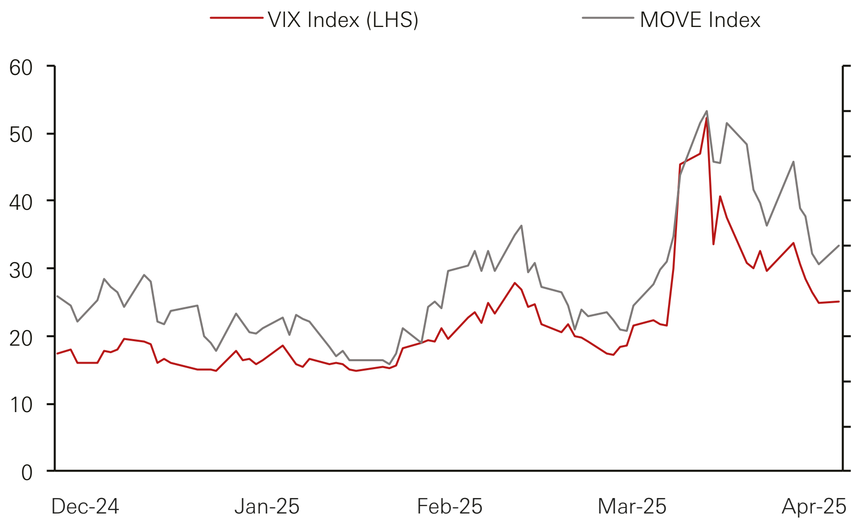
The background to our reconstituted but largely unchanged outlook for the three equity long/short strategy groups is one of a rapidly developing environment of market volatility, less challenging valuations and a tempered earnings growth framework. This dynamic environment caught out certain funds that held long exposure to US names operating in the AI related businesses. Other funds were able to find pockets of opportunity in European industrial names specifically in the defence sector as well as short positioning in Asia in companies most affected by tariff uncertainty. Dispersion within markets remains supportive for the opportunity set. In the light of this our outlook for variable net strategies remains at mildly positive and low net strategies outright positive. We have however reduced our outright positive outlook for Asia long/short to mildly positive in this more uncertain environment for trade.

We maintain a neutral outlook for event driven strategies. Despite the recent pullback in pricing, US equity valuation multiples are unlikely to rise sharply. Assuming a persistence of the environment that we elucidated above it seems sensible to downgrade our outlook for the corporate activity driver at least until there is some clarity on the actuality of the much talked about pro-growth/pro-business administration. M&A spreads have understandably widened somewhat during Q1 2025 on tariff uncertainty but the number of activist campaigns announced year on year continues to increase.

Our neutral outlook for credit long/short strategies is maintained. From a pricing perspective, valuations in corporate credit are cheaper QoQ after a sell-off in lower-rated segments and carry is still interesting with both US loan and High Yield markets offering double digit/high single digit yields that are attractive on both an absolute and relative basis. Distressed opportunities remain relatively sparse at present. We continue to favour structured credit where the 150bps of yield pickup for similarly rated issues supports its allocation.

We maintain our positive view for the performance potential of Multi-Strategy and Multi-PM managers. After the deleveraging witnessed in early March, which resulted in interim negative performance for a number of the leading lights in this sector, we feel that the funds find themselves neatly positioned to act with flexibility in more uncertain markets.

Elevated volatility is a tailwind for systematic strategies



Source: Bloomberg, HSBC Global Private Banking as at 22 May 2025. Past performance is not a reliable indicator of future performance

Private Markets

Market volatility is a potential challenge for private equity activity and distributions, but can also lead to attractive long-term entry points, while secondary activity is picking up. In private credit, default and loss rates are low, while the floating rate seniority features can be an advantage. We highlight the role of alternative assets in mitigating portfolio drawdowns in times of uncertainty.

Private Equity

US tariffs have reintroduced uncertainty into markets for both traditional and private assets. After a sharp fall, global equity markets rebounded, but uncertainty remains and implied volatility remains above the historical average. This volatility has emerged just as private equity (PE) was beginning to regain momentum, with deal activity picking up in late 2024 and early 2025. However, fundraising remains challenged.

Pitchbook data show that global PE fundraising has steadily declined since 2021, reaching $492bn in 2024 down 18% from 2023 and roughly in line with 2013 levels. The decline is attributed to a weaker market environment, delayed exits, lower asset pricing, and reduced distributions to LPs. Secondaries were the exception, with a 29% increase in capital raised.

But there have been some encouraging signs in dealmaking. Pitchbook data show global deal value increased 14% year-on-year in Q1 2025. The proportion of $1 billion+ deals has risen, with buyers targeting larger, higher-quality assets to defend returns. Private equity activity already improved notably in Q4 2024, with over $4tn of dry powder across private capital and $1.7tn in PE alone. Valuations are beginning to moderate, supported by more functional credit markets and reduced competition, though tariff-related uncertainty lingers.

Exit activity remains subdued, though. Since Q2 2024, the ratio of PE exits to investments has fallen to a record low of 0.34x. Global buyout distributions as a percentage of NAV have fallen from an average of 29% from 2014-2017 to 11% in 2024. The result is that LPs are not receiving the same levels of distributions as they were previously.

In response, GPs are pursuing alternative liquidity strategies. Secondary fundraising hit a record $102bn in 2024, with deal volume reaching $160bn. Secondaries offer capital recycling, faster exits, and access to seasoned assets. Other liquidity tools include dividend recapitalisations and NAV financing.

Looking ahead, the outlook for PE will hinge on tariff negotiations. Current uncertainty has depressed deal volumes, particularly for M&A and IPOs. If central banks raise rates to counter inflation, costs could rise further. However, indications that the administration may prefer negotiation over escalation could help stabilise markets and rebuild investor confidence.

There are other reasons for cautious optimism. PE deal values have remained firm, and GPs may be able to deploy capital at attractive valuations, particularly in sectors like technology, healthcare, defence, and energy. AI-related opportunities, and companies' need to think about supply chain reorientation and security, will lead to some corporate activity too. With substantial dry powder available, disciplined deployment and diversification will be key in capturing emerging opportunities.

Private Credit

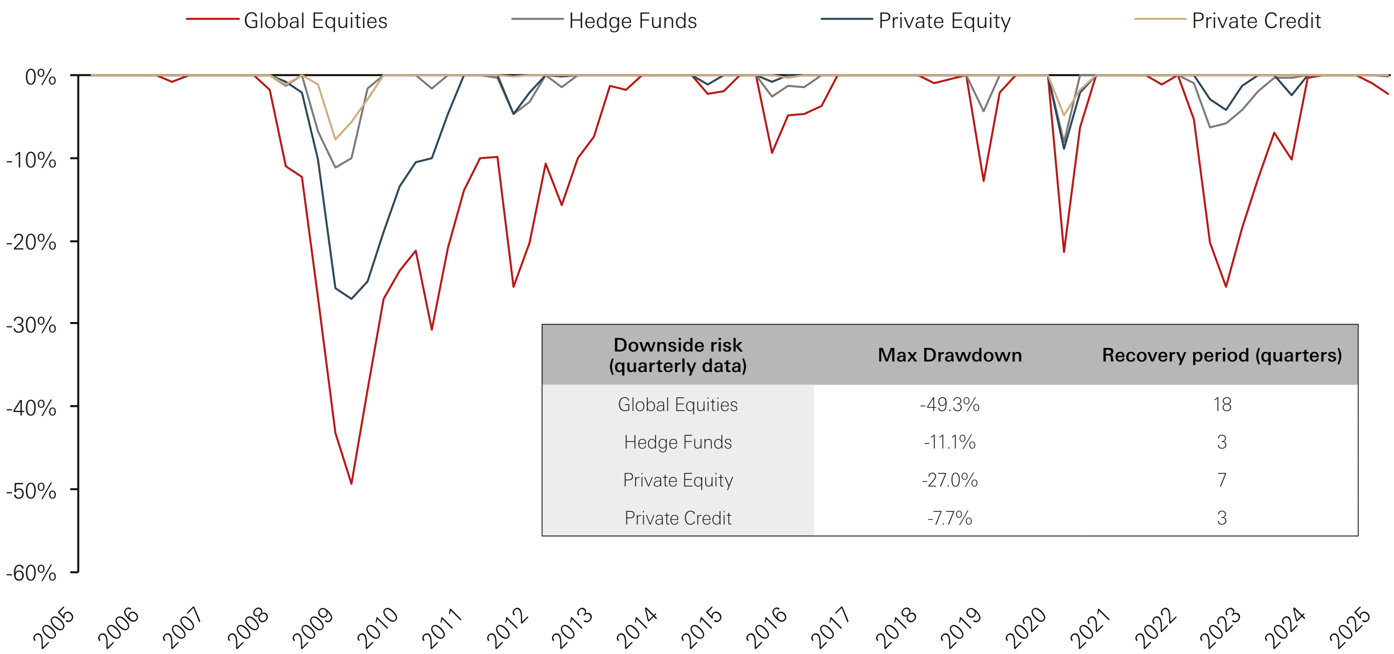
Private credit also faces uncertainty from tariffs, which increase costs for businesses and consumers. Tariffs particularly impact sectors reliant on global trade, such as industrials, and can widen credit spreads. A volatile macro backdrop also supports demand for more stable credit solutions.

But private credit investors may have a degree of protection. Loans are typically senior, floating rate, and less sensitive to market volatility. Private credit deals also tend to feature stronger covenants, lower leverage, and better risk-adjusted returns. And in an inflationary environment, floating-rate structures may benefit from delayed rate cuts and elevated base rates – an attractive feature in portfolios where most other assets would be negatively affected by higher-than-expected policy rates.

Default rates remain low by historical standards, although there have been some signs of weakening credit in a few deals. These include increased use of payment-in-kind (PIK) income, where borrowers pay interest in debt rather than cash, and amend-and-extend (A&E) agreements that extend repayment periods. M&A and IPO activity, which normally drive financing demand, remain muted. This highlights the importance of active portfolio management, including strong deal selection, risk monitoring, and refinancing strategies.

In this current environment it is important to focus on senior secured debt high in the capital structure, with conservative leverage. It remains imperative to be diversified across geographies, sectors, and issuers, with limited exposure to any individual borrower.

Alternative assets have historically shown smaller drawdowns and more rapid recoveries than global stocks



Downside risk (quarterly data)	Max Drawdown	Recovery period (quarters)
Global Equities	-49.3%	18
Hedge Funds	-11.1%	3
Private Equity	-27.0%	7
Private Credit	-7.7%	3

Source: LSEG, HSBC Global Private Banking as at 22 May 2025. Past performance is not a reliable indicator of future performance.

Real Estate

Despite high interest rates and geopolitical uncertainty, we expect to see attractive returns on real estate thanks to the rebased yields and stable outlook for income growth, as a result of a widespread decline in development activity. Real estate sectors with long-term tailwinds such as senior housing and logistics or those with more defensive characteristics like non-discretionary retail are best positioned.

Given the typical lag between agreement and completion in property transactions, it will take time for the impact of recent US tariff uncertainty to filter into the direct real estate investment market, unlike the public equity or bond markets. Nonetheless, the higher investment volume momentum of late 2024 has moderated in Q1 2025. According to data from Real Capital Analytics, global investment volumes in Q1 2025 were 3% below Q1 2024 and were 37% below the five-year quarterly average.

Though investment volumes were subdued, MSCI global real estate total returns improved again in Q1 2025 underpinned by a sequential improvement in capital growth. The only exception is offices, where capital growth is negative, due to rising vacancy rates and capital expenditure requirements.

Against this backdrop, occupier fundamentals have been shaped by a widespread decline in development activity, as rising financing, material, and labour costs have reduced the profitability of new construction. The fall in new supply is most pronounced in the retail sector, where development was already minimal prior to the pandemic. Retail leasing has been notably resilient, particularly for neighbourhood formats with a non-discretionary, grocery-anchored focus. This has spurred a fall in vacancy rates and driven rental growth across many markets.

Office sector vacancy rates were largely stable in Q1 2025, having risen for several years in response to falling demand. Vacancies remain notably higher in the US – especially in West Coast markets – than in Europe or Asia. Despite elevated overall vacancy rates, well-located prime space remains in short supply, as occupiers continue to target high-quality buildings in global gateway cities such as London, Paris, New York, and Tokyo.

Logistics leasing remains subdued as occupiers focus on optimising existing space. At the same time, a recent wave of new supply has pushed vacancy rates higher. This has led to rents falling in the US and parts of Asia (such as Tokyo and Singapore), and more moderate rental growth in Europe and Australia.

Residential vacancy rates remain low, supported by continued urban population growth that has not been matched by new supply. Meanwhile, high interest rates continue to bolster the relative appeal of renting over home ownership. In the US, whilst rental growth in coastal markets continues to outperform the over-supplied Sunbelt, there are signs that this divergence is narrowing in early 2025.

Non-traditional sectors continue to demonstrate solid leasing activity and rental growth into early 2025. Senior housing is benefiting from demographic tailwinds, particularly in the US and Canada. Data centre leasing also remains strong – supported not only by ongoing demand for cloud computing and digital infrastructure but also by the rollout of large language models (LLMs) and the Internet of Things (IoT).

What lies ahead?

Despite the backdrop of increased macroeconomic uncertainty, our base case remains for capital values to grow in 2025, predominantly due to rising income. The leasing outlook varies by sector, but a falling pipeline of new supply should support stable occupancy across most property types.

Investors are expected to remain focused on sectors with secular demand tailwinds – such as senior housing, driven by ageing populations, and data centres, underpinned by AI and digitalisation. In addition, sectors with more defensive or countercyclical characteristics – such as residential, net-lease (characterised by long duration leases and where tenants bear responsibility for taxes, insurance, and maintenance), self-storage, and non-discretionary retail – should prove more resilient should the economic backdrop weaken.

While logistics fundamentals have recently softened, an inflection point is expected in 2025 as development completions decline and leasing demand gradually recovers, supported by structural trends in e-commerce and supply chain optimisation. Significant rental reversion in the US, Europe, and parts of Asia (including Australia) will support income growth, as in-place rents adjust to higher market levels.

Although borrowing costs are likely to remain higher than in the previous cycle, prospective returns for direct real estate are higher than they have been for some time as growing rental income combines with higher property yields that have rebased to reflect the higher cost of borrowing. As economic and geopolitical challenges continue to influence market sentiment, local market expertise and active asset management will be essential to achieve potential outperformance.

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www.hsbc.com/sustainability.

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.

Risks of investing in private markets
The value of investments and any income from them can go down as well as up and investors may not get back the amount originally invested. Past performance information presented is not indicative of future performance. The return and costs may increase or decrease as a result of currency fluctuations.

- **Liquidity Risk** - Investors may be unable to dispose of an investment quickly and at a price that's closely related to recent similar transactions. There is no guarantee of distributions and no established secondary market.
- **Event Risk** - A significant event may cause a substantial decline in the market value of all securities.
- **Long-term Horizon** - Investors should expect to be locked-in for the full term of the investment, which is subject to extensions.
- **No Capital Protection** - Investors may lose the entirety of invested capital.
- **Unpredictable Cashflows** - Capital may be called and distributed at short notice.
- **Economic Conditions** - Ability to realise/divest from existing investments depends on market conditions and the regulatory environment.
- **Risk of Forfeiture** - Failure to make call payments could result in forfeiture of commitment, including invested capital, without compensation.
- **Default Risk** - in the event of default investors risk losing their entire remaining interest in the vehicle and may be subject to legal proceedings to recover unfunded commitments.
- **Reliance on Third-party Management Teams** - Underlying investments will be managed by various third-party management teams that will in aggregate determine the eventual returns for the investor.

The risk factors listed above are not exhaustive, always refer to product specific documentation for full details and risk disclosures.

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.

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