

Seizing the AI Liftoff, Riding the Fed Cuts

Investment Outlook

Q4 2025



HSBC Private Bank

Contents

04

Client Letter

05

Portfolio Strategy

10

Top Five Trends and High Conviction Themes

- 10 Asia in the New World Order
- 12 Disruptive Technologies
- 14 Climate Action
- 16 Evolving Society
- 18 Riding the Earnings and Rate Cut Tailwinds

20

Equities

22

Fixed Income

24

Currencies and Commodities

26

Hedge Funds

28

Real Estate

30

Private Markets

32

Contributors

33

Disclaimers



India Consumer Fed Investment flows Gold Rate cuts Style Automation Singapore
Productivity AI Industrials Deficit Tech
Anti-involution Growing clarity Energy security Slowing Defence M&A
Inflation Private markets Communications Shareholder Asia's returns enduring Quality titans UK credit Infrastructure UAE Asia Innovation Champions Volatility strategies Semi-conductors Geopolitics Hedge funds Opportunity US dollar
Earnings Valuations Active management Cloud Trade tariffs Payrolls China Yield curve
Guidance Dividends Diversification Eurozone Active management Cloud Trade tariffs Payrolls China Yield curve
Financials

Welcome

Dear client,

Market narratives and investors' focus tend to shift over time. That's particularly true now, amid the many policy changes in the US and rapid technological innovation.

So far this year, tariff uncertainty, inflation and growing US debt were the main concerns, but they were overcome by economic resilience and strong AI-driven earnings. That allowed risk assets to do well year-to-date, with many equity indices reaching new record highs.

Looking ahead, we see further upside for risk assets, though for different reasons. The biggest change is that the wait for US rate cuts will soon be over: the Fed is more comfortable that inflation pressures will be mild and gradual, and concerns are instead turning to a mild growth slowdown. Bond markets should benefit from the cuts, and we recently moved high-rated bonds back to overweight, lowering hedge funds back to neutral. Falling equity/bond correlations improve bonds' diversification power. Moreover, investors who felt comfortable in cash may move into bonds as cash rates are cut.

The impact of US policies will change too. Tariffs may continue to change and cause some volatility, but the broad lines are now visible. The Big Beautiful Bill has been voted into law, so the next US policy focus will be deregulation – a clear positive for sentiment for financials and IT. Granted, we're only just starting to see the real impact of tariffs, but companies are adapting and earnings guidance is quite positive. The impact of goods tariffs may be most felt in consumer stocks, while industrials and infrastructure should benefit from re-industrialisation. Lower rates and more clarity should

boost M&A and IPO activity – benefiting both public and private markets.

So, we see plenty of areas of economic resilience compensating for weaker areas. Keep in mind too that while the tech and data economy is only 8.5% of US GDP, it is 48% of the S&P500 market cap. Therefore, if tech continues to do well, stocks should do better than the broad economy would suggest.

On that topic, the one trend that remains firmly in place is AI innovation, which is in a real liftoff phase. In this piece, we have used AI to spot trends in newspaper coverage and earnings announcements, gather data, edit, and repurpose texts – all activities we didn't do just three months ago. Across industries, there is plenty of evidence of AI helping firms cut costs and improve services. While AI may not yet sufficiently move the needle on earnings growth for many firms, their combined investment in software, cloud services, networks and themes like automation, aerospace and streaming is enormous. So, we think firms in the AI ecosystem have plenty of earnings upside, which should ease concerns about their elevated valuation multiples.

Investors looking for cheaper tech firms can find them in China, where AI innovation is one of the reasons for our optimism on Chinese stocks. Here too, there are new drivers for investor sentiment: China's renewed focus on tackling deflation through supply-side reforms ('anti-involution') should help lift earnings expectations, and we expect more structural reform initiatives at the Fourth Plenum in October. The Fed cuts and weaker USD are key positives for Asia too. Beyond China, we hold an overweight view on Singapore equities, which have defensive characteristics and

offer an attractive dividend yield.

The drivers for currency markets are changing too. 'De-dollarisation' has been a hot topic, but it should be a gradual structural phenomenon rather than an acute one. Instead, the dollar should start to be more closely linked to cyclical forces, such as the Fed rate cuts and shrinking rate differentials. We therefore foresee further mild USD weakness against other currencies such as EUR and maintain our FX diversification strategy.

Our four priorities going into Q4 2025 are as follows:

1. Add to quality bonds to position for the new round of Fed cuts –

because the Fed's focus is turning to slightly lower growth.

2. Capture expanding global opportunities in AI adoption and monetisation –

because this area should continue to lead equity market upside.

3. Mitigate currency and portfolio risks with alternatives, multi-asset and volatility strategies –

to manage uncertainty and headline risks while broadening the opportunity set.

4. Ride on Asia's policy tailwinds and structural trends –

because central bank rate cuts, AI innovation, China's demand-side stimulus, supply-side reform and corporate governance reforms across Asia offer positive drivers for Asian equities and bonds.



Willem Sels,
Global Chief
Investment Officer

4th September 2025

Portfolio Strategy

The US administration's trade, tax and deregulation policies will start to reveal their real-world effects on growth and inflation. But while the data flow will lead to volatility and swings in sentiment, we remain constructive. Challenges in some parts of the economy are offset by areas of strength. The wait for Fed rate cuts will soon be over, helping both economic activity and market sentiment. AI-led innovation will continue and lead equities higher, given the substantial weight of tech and AI in equity indices. We maintain our overweight in global stocks with a preference for the US, China, and Singapore. Fed cuts are bullish for bonds, bearish for USD, and should lead investors to put cash to work.

Why economists' worries are not weighing on market sentiment

It has been popular to take a bearish view on the US, with concerns over unconventional policies and rising debt leading investors to call for 'the end of US exceptionalism', 'de-dollarisation' and slower economic growth. Yet, US stocks have rebounded strongly since April, economic data have generally surprised on the upside, and the latest earnings season had a near-record percentage of upward surprises. As key US trade tariff and tax policies are now in place, economists again warn that stagflationary forces will intensify. We think they're again being too negative. Trade tariffs are on goods, not services, which is the bigger share of the economy. Tariffs may impact consumption and consumer-related stocks, as higher prices reduce purchasing power. But that's partly offset by the tax cuts from the Big Beautiful

Bill, especially for higher earners, who also benefit from the higher State and Local Tax (SALT) exemptions. And while weaker payroll figures spooked the market, wage growth is still resilient, and unemployment is low (in part due to lower net migration).

So, we foresee mild weakness in consumption, but more activity in other areas such as investment, thanks to re-onshoring and the need to innovate. Lower rates reduce financing costs, and more policy clarity helps CEOs pull the trigger (that confidence was shown in much more bullish guidance in the Q2 earnings season).

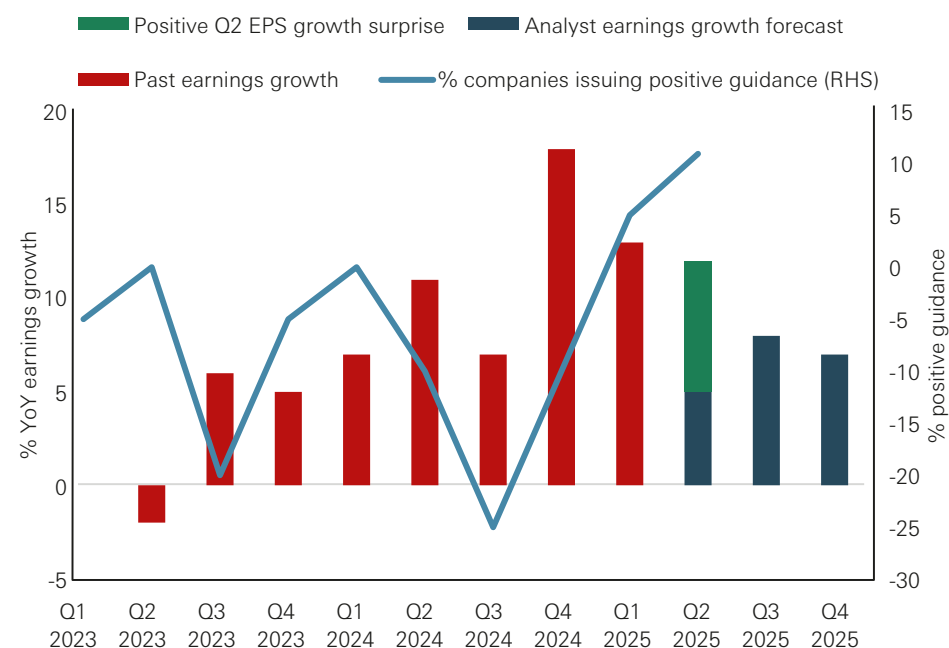
The Q2 earnings season also suggested that companies have been adapting to the new rules and tariff headwinds by cutting costs, sourcing new suppliers and markets. That should help ease the risks that they would need to raise prices once their lower-cost inventories run out; in fact, most companies only plan

to raise prices gradually, assessing their clients' reaction first. US earnings are also benefiting from the weaker USD, which has been an important reason why US earnings revisions are much stronger than in Europe. The other reason, of course is the all-important AI trade.

Even as US economic growth slows a bit, the stock market should do well as long as tech innovation continues. That's because the stock market is not the economy. The tech and data economy only represents 8.5% of US GDP, but it is a whopping 48% of the S&P500 market cap. The growth of IT and Communications (and a few tech stocks classified in the consumer discretionary sector) has made the stock market much less sensitive to economic data than in the previous decade.

The other reason why markets are not the economy is that Fed rate cuts should help support valuations, investment flows and sentiment. Many investors rightly felt

The Q2 US earnings season saw near record earnings surprises and a jump in positive corporate guidance

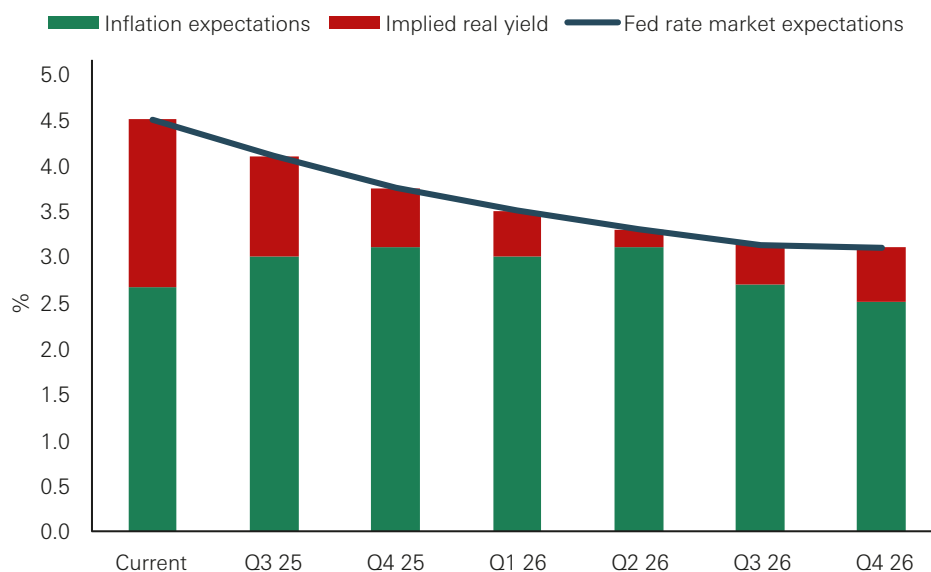


Source: HSBC Private Bank, HSBC Global Investment Research, LSEG consensus earnings forecasts as at 4 September 2025. Forecasts are subject to change.

comfortable in cash, but as the wait for Fed cuts will soon be over, cash returns will become less attractive, while the urgency to lock in current bond yields will grow. Any changes in Fed membership, if confirmed, could lead the market to incorporate more rate cuts, but mostly benefiting the front end of the curve.

Importantly, AI innovation is real and contributing to investment, economic activity and productivity, and should therefore continue to outperform and lead markets higher. The OECD expects labour productivity to grow between 0.9% and 2.5% each year, for the next 10 years. Although that's a wide range and varies by country, even the low estimate is substantial. Moreover, the benefits for the AI ecosystem are already here, as illustrated by a leading global chipmaker reporting data-centre revenue growth of more than 100% year-on-year. Cloud-infrastructure providers are signing major multi-billion-dollar and multi-year contracts to provide AI computing power. AI-driven retail platforms have recorded sales boost of 50-60% for newly launched products in the past 12 months, using algorithms to predict demand before items are manufactured. And in Asia, AI-powered logistics pilots in several megacities cut delivery times by more than 20% and reduced inventory costs by double digits. We think that such stats and applications are bound to accelerate further, as AI model's algorithmic efficiency typically doubles every 16 months and LLM training data volumes double every 9 months (source: arXiv, Our World in Data).

The Fed has ample scope to cut rates as the real yield is elevated



Source: HSBC Private Bank, Bloomberg as at 4 September 2025. Forecasts are subject to change.

What it means for our investment strategy

With the broader tech theme accounting for 48% of the US equity market, and US stocks accounting for 63% of global equities, our positive stance on tech explains our continued overweight on US and global equity markets. The combination of the AI liftoff and Fed rate cuts supports global risk sentiment in both public and private markets, thereby driving our underweight on cash.

We don't ignore the headwinds. Firstly, US policy making will remain unconventional, with sectoral tariffs being raised or specific companies getting exemptions. Although markets seem to be numbing to these surprises, they can still create volatility. We also fully expect economic data to flip-flop and show contradictory messages, leading to rapid ups, downs and reversals in growth, inflation and rate expectations. And given the run-up in valuations, such headlines could be an excuse for some profit taking for some investors. That suggests a fair degree of two-way volatility, which even bullish investors like us need to take into account.

How do we go about it?

Within US equity markets, we use some sector rotation to address some of the growth, inflation and valuation challenges. We recently downgraded the consumer discretionary sector to a mild underweight, while raising materials from mild underweight to a neutral allocation and cutting the communication services sector from a full overweight to a mild overweight. Our overweight position in financials (a value sector) helps diversify the growth-style bias of tech-heavy portfolios, and we think financials should be well supported thanks to the steeper yield curve, increased capital markets and trading activity, and benign provisioning.

While we have confidence that the US economy is resilient, we also look for global diversification. Our first port of call is Chinese tech stocks, because China's rapid innovation is clear for all to see, yet tech leaders' onshore stocks are trading at 30%-40% discounts to their global peers. Tariffs could still hurt Chinese growth, but ongoing trade talks and the extension of tariff deadlines suggest that the risk is easing. China is now also addressing the deflationary

challenges, which have been one of the key concerns of global investors. By reducing overcapacity through supply-side reform 2.0, margins and earnings expectations should gradually start to rise. So, it's no surprise that we are starting to see more interest in Chinese stocks from global investors. Elsewhere in Asia, we hold a mild overweight view on Singaporean stocks, thanks to their defensive characteristics and high dividend yield. We maintain a neutral view on European (Eurozone and UK) stocks though: economic growth remains slow as we await more evidence of an acceleration in fiscal spending (e.g. on defense).

The third level of diversification is across asset classes. As the market shifts its focus from inflation to growth risks, the correlation between bonds and equities falls, making bonds better diversifiers. We used to prefer hedge funds because of erratic policy making and elevated volatility. As these factors ease, we now prefer bonds, though we still keep a substantial core allocation to hedge funds. We also think that shifting from cash to bonds makes sense, to lock in attractive yields. This is now starting to happen: after a dip in March and April, bond ETFs saw the biggest quarterly inflows in the past five years. And of course, rate cuts and a weakening USD

should continue to support gold.

Beyond hedge funds, we continue to build out our core allocation to private markets as well, including private equity, private credit and infrastructure. While private equity fundraising and deal flow have softened, leading GPs continue to generate decent returns in resilient sectors such as technology, healthcare, and services. As confidence returns and funding costs fall, a rebound in deal activity should benefit the asset class. As for infrastructure, it helps 'diversify our diversifiers' thanks to its defensive, consistent and growing cash flows which are typically inflation hedged.

	Main drivers of sentiment	Why the shift matters for markets
Rate outlook	<p>Year-to-date topics: Concern over US deficit; uncertain impact of tariffs on inflation</p> <p>Looking ahead: Fed attention shifting to growth risks; markets worry about Fed independence</p>	The Fed is likely to restart rate cuts in September, helping quality bonds but weighing on USD (e.g. vs EUR).
Tariffs & other US policy	<p>Year-to-date topics: Unconventional policies fuelling de-dollarisation topic; more clarity on tax policies following the vote on the Big Beautiful Bill</p> <p>Looking ahead: attention may turn to deregulation; real-world effect of tariffs vs positive effect of more clarity</p>	Underweight consumer sector on mild deterioration of growth / inflation mix. Industrials to benefit from re-onshoring and financials from deregulation and M&A and investment activity.
AI	<p>Year-to-date topics: great AI enthusiasm vs concerns over return on investment; export controls and US / China competition</p> <p>Looking ahead: growing valuation concerns eased by strong earnings outlook</p>	Tech sector and AI continue to lead markets higher; we broaden exposure across the AI ecosystem but do not advocate equally-weighted S&P500
Asia and Europe	<p>Year-to-date topics: Tariffs hitting Asia outlook, focusing investors on domestic stocks. Hopes of European fiscal spending and market reforms.</p> <p>Looking ahead: Chinese anti-involution drive, Fed cuts and cheap China tech valuations supporting flows into Asia. Low European growth outlook, with EUR/USD strength weighing on earnings.</p>	Overweight select Asian equity markets (China and Singapore). Maintain neutral allocation on European stocks.

Our four investment priorities for Q4 2025

1. Add to quality bonds to position for the new round of Fed cuts

Why? The Fed's focus is turning to slightly lower growth, which should trigger a new rate cut wave starting in September. As cash rates fall, bond yields should come down too so we want to lock them in now and put cash to work. Bond / equity correlations have dropped as growth slows, making bonds important portfolio diversifiers. They can also add attractive income.

What? We focus on quality bonds amid the mild growth slowdown, and because the compensation for rate risk is more generous than the compensation for credit risk. USD IG bonds are our preferred choice to benefit from the Fed rate cuts. But FX diversification is important too, with opportunities in other markets. Where possible, we extend duration beyond 5 years into 7-10 years because that's where the yield curve is steepest.

2. Capture expanding global opportunities in AI adoption and monetisation

Why? AI is in the liftoff phase, and this should benefit the entire AI ecosystem. Rapid earnings growth warrants the recent run-up in valuations. Moreover, the rate cuts are supportive for growth-style companies.

What? The big US AI players benefit from their strong positions and network effects and should continue to do well. But we see opportunities across the AI ecosystem, in chips, software, cloud services networks and infrastructure. Our themes of Robotics and Automation, Aerospace & Security and Energy Security are all benefiting from AI too.

3. Mitigate currency and portfolio risks with alternatives, multi-asset and volatility strategies

Why? US policy making remains unconventional and economic data may be volatile, as there are many moving variables affecting growth, inflation and rates. To manage volatility, we 'diversify our diversifiers'. Tapping into alternatives also broadens the opportunity set.

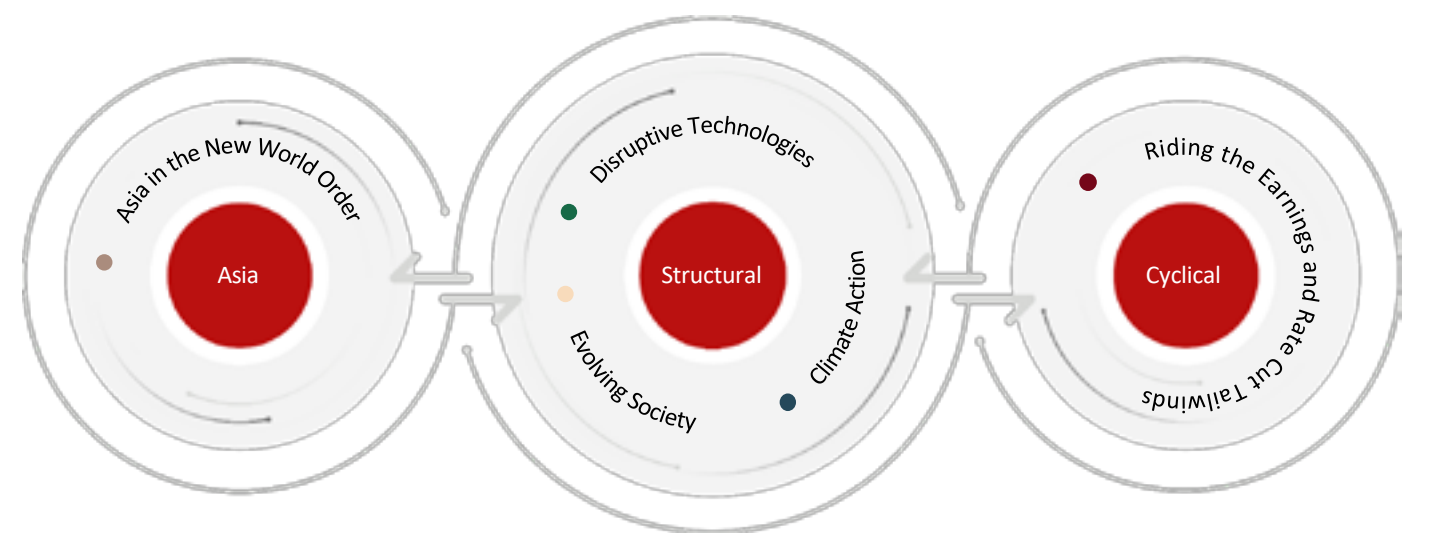
What? Beyond bonds, we diversify portfolios by including gold, hedge funds, private credit, private equity and infrastructure. We also like using a multi-asset approach to achieve diversification in one step. We use volatility spikes and falls to generate income or protect against the downside.

4. Ride on Asia's policy tailwinds and structural trends

Why? Policy tailwinds (central bank rate cuts, China's demand-side stimulus) and structural growth trends (AI innovation, China's supply-side reforms 2.0, anti-involution, corporate governance reforms across Asia) offer supportive drivers for Asian equities and bonds.

What? Our overweight positions in China and Singapore as well as our High Conviction themes - China's Innovation Champions, Power Up Asian Shareholder Returns, Asia's Enduring Titans and High Quality Asian Credit - should benefit from these policy tailwinds and structural trends in Asia.

Top Five Trends for 2025 and Q4 High Conviction Themes



Asia	Structural			Cyclical
<ul style="list-style-type: none">● Asia in the New World Order— China’s Innovation Champions— Power Up Asian Shareholder Returns— Asia’s Enduring Titans— High Quality Asian Credit	<ul style="list-style-type: none">● Disruptive Technologies— Aerospace & Security— Evolving AI Ecosystem— Robots and Automation	<ul style="list-style-type: none">● Climate Action— Energy Security— Biodiversity and Circular Economy	<ul style="list-style-type: none">● Evolving Society— Social Empowerment and Well-being— Streaming and Subscriptions	<ul style="list-style-type: none">● Riding the Earnings and Rate Cut Tailwinds— North American Re-industrialisation— Global Financials— Income Through Active Credit Selection

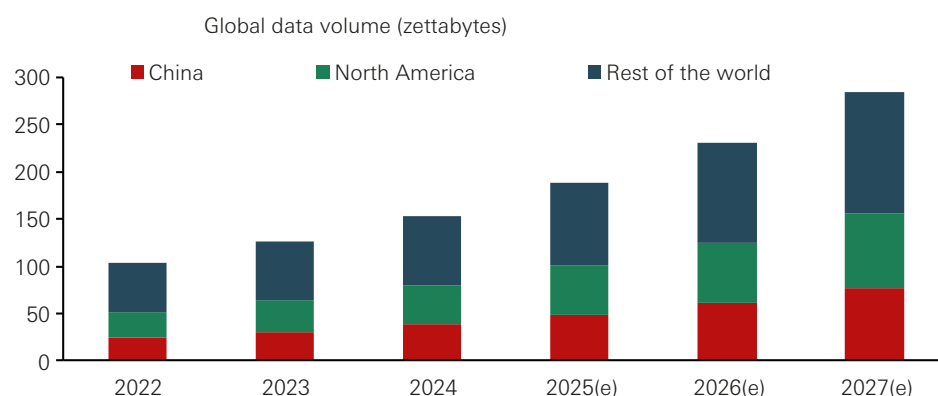
Source: HSBC Private Bank as at 4 September 2025.



Asia in the New World Order

Asia should benefit from cyclical tailwinds of Fed rate cuts and domestic policy stimulus, coupled with secular drivers of AI investment boom and structural reforms. Asian equity and bond markets offer income and diversification, powered by China's AI innovation and supply-side reforms, Asia's corporate governance reforms and domestic consumption.

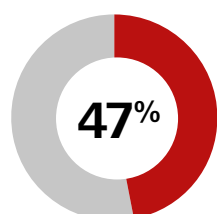
China is projected to record 26% annual data volume growth till 2027 – the fastest in the world



Source: IDC Global DataSphere, HSBC Private Bank as at 4 September 2025. *(e) = estimated.

Our Four High Conviction Themes

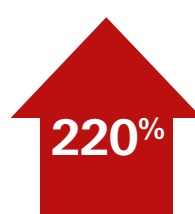
1. China's Innovation Champions	China's strong strategic focus on technology self-sufficiency and DeepSeek's open-source innovation are supercharging a new wave of AI investment in China. We favour AI enablers and adopters, from software, semiconductors, and digital infrastructure to AI cloud & agents, physical AI and biotech leaders.
2. Power Up Asian Shareholder Returns	This theme positions in quality companies which enhance ROE by paying high dividends, increasing share buybacks and driving value-adding M&A. Asia ex-Japan's return on equity (ROE) should rise from 10.8% in 2024 to 12.2% in 2026 with support of corporate governance reforms.
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 industry giants in the technology, financial, and consumer discretionary sectors.
4. High Quality Asian Credit	Imminent Fed rate cuts, disinflation, solid credit fundamentals and the monetary easing stance of Asian central banks support Asian IG bond performance. We favour Asian financials, Indian local currency bonds, Chinese USD corporate bonds, including Chinese TMT and Macau gaming bonds.



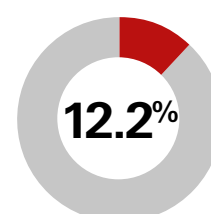
Global AI Talent Tracker shows that 47% of the world's AI researchers are in China



Singapore stocks offer a compelling average 2025e dividend yield of 4.0%, well above the 1.8% global average



Japanese share buybacks announced in April surged 220% y-o-y



Asia ex-Japan ROE is on a steady uptrend from 10.8% in 2024 to 12.2% in 2026

Source: IDC Global DataSphere, MacroPolo, Bloomberg, Nikkei Asia, HSBC Global Investment Research forecasts, HSBC Private Bank as at 4 September 2025.

Asian economies and markets have shown remarkable resilience against the US tariff headwinds with support of solid domestic demand, policy stimulus, trade diversification, the AI investment boom and structural reforms. Asia is poised to benefit from the upcoming Fed rate cuts and further domestic policy stimulus, as well as structural trends – including accelerating AI adoption, corporate governance reforms and private consumption growth.

We expect the imminent Fed policy easing in September to create more room for Asian central banks (except in Japan) to cut rates further to support growth in the months ahead, including mainland China, India, Indonesia, and South Korea. We stay mildly overweight Asian equity markets with overweight positioning in China and Singapore.

To capture structural growth opportunities from the global AI liftoff, our theme on **China's Innovation Champions** positions for China's rising global leadership in AI innovation. Against the geopolitical backdrop of intensifying US-China technology competition, China has attached strong strategic focus on building technology self-sufficiency - even with the recent relaxation of US export restrictions on advanced chips. During the recent Q2 earnings season, Chinese tech leaders revised up their AI capex spending guidance in response to the multi-fold increase in inferencing demand.

China's distinctive cost advantages, outstanding engineering capabilities and rapid commercialisation have accelerated the pace of AI adoption across many industries. Notably, AI-enabled drug discovery is supercharging Chinese biotech stocks. They now command a more prominent competitive position in the global biotech sector. China's AI cloud market recorded an increase of 55% last year, driven by a rapid surge in demand for AI training and applications, according to IDC data.

We favour national champions across the AI value chain, from software, semiconductors and digital infrastructure to AI cloud & agents, physical AI and AI-enabled biotech leaders. We see further re-rating potential in Chinese AI plays,

given China's global leadership in AI innovation. About half of the world's AI researchers are currently based in China, which is the largest holder of AI patents globally, accounting for nearly 70% of the world's total. We expect China's continued AI breakthroughs to pave the way for the valuation discount of its technology leaders compared to Western peers to narrow over time.

Our theme on **Power Up Asian Shareholder Returns** stays focused on quality companies that improve ROE by paying high dividends, increasing share buybacks, and taking value-adding corporate actions. Higher dividend payouts and increasing share buybacks are expected to improve Asia ex-Japan's ROE to 12.2% in 2026 from 10.8% in 2024. Dividend yields in most Asian markets are now above 5-year average levels, with compelling 2025e dividend yields in Indonesia at 6.3%, Singapore at 4.0%, and Hong Kong at 3.7%, well above the 1.8% of MSCI World index.

Share buybacks are growing at a record pace in Asia, especially in Japan, mainland China and Hong Kong. Driven by the corporate governance reforms, Japanese companies' share buybacks in April surged 220% y-o-y.

Our theme on **Asia's Enduring Titans** positions in distinctive industry champions which are well positioned to capture cyclical and structural growth opportunities in Asia with their proven business models, outstanding competitive positions, strong balance sheets, powerful brands, and high-quality

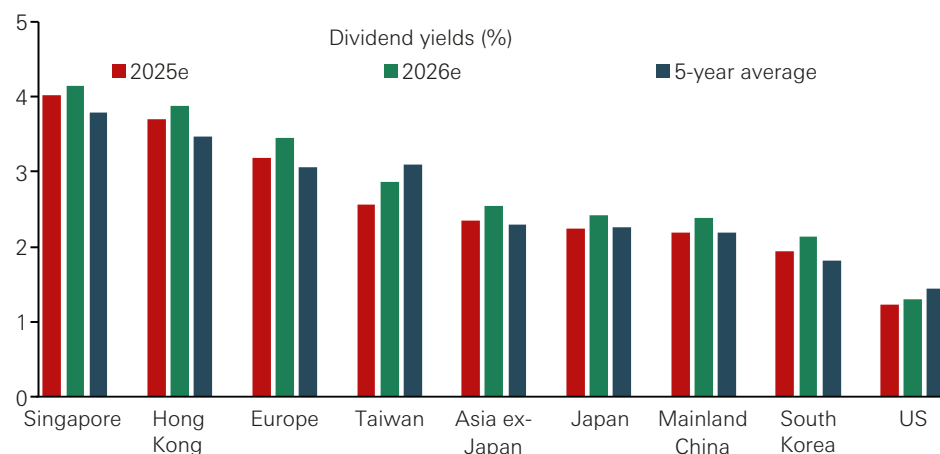
management. They offer attractive opportunities for long-term investors who are looking to build core Asian equity holdings with durable growth, earnings resilience and financial stability. We favour select Asian industry giants in the technology, financial, and consumer discretionary sectors. Asian blue-chip stocks are trading at a valuation discount to the global benchmark, with the Bloomberg Asia Large Cap Index priced at 14.4x forward P/E versus 19x for the MSCI World.

High Quality Asian Credit

As imminent Fed easing will create room for Asian central banks to further cut rates amid soft inflation and stable Asian currencies, we tap into Asian IG bonds which offer attractive headline yields of around 4.6%. The strong demand for Asian hard currency bonds meets shrinking supply, supporting Asian USD credit spreads.

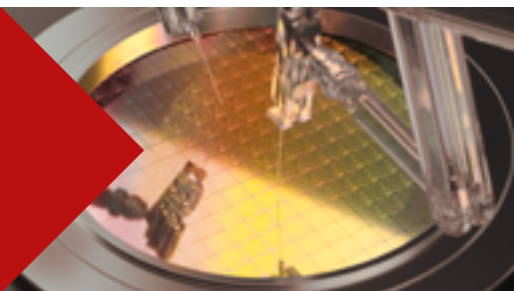
Asian credit markets will also benefit from global diversification flows and strong local investor demand for domestic debt. Our investment theme focuses on Asian IG credit, including Japanese and Australian IG bonds, Asian financials, including bank issuers in Australia, Singapore, and Thailand. We are overweight on Chinese hard currency corporate bonds and Indian local currency debt for their attractive carry. We like quality Chinese SOE issuers, Chinese TMT bonds which benefit from the AI investment boom and Macau gaming credit with strong fundamentals.

Dividend yields in many Asian markets are now higher than the 5-year average thanks to corporate governance reforms

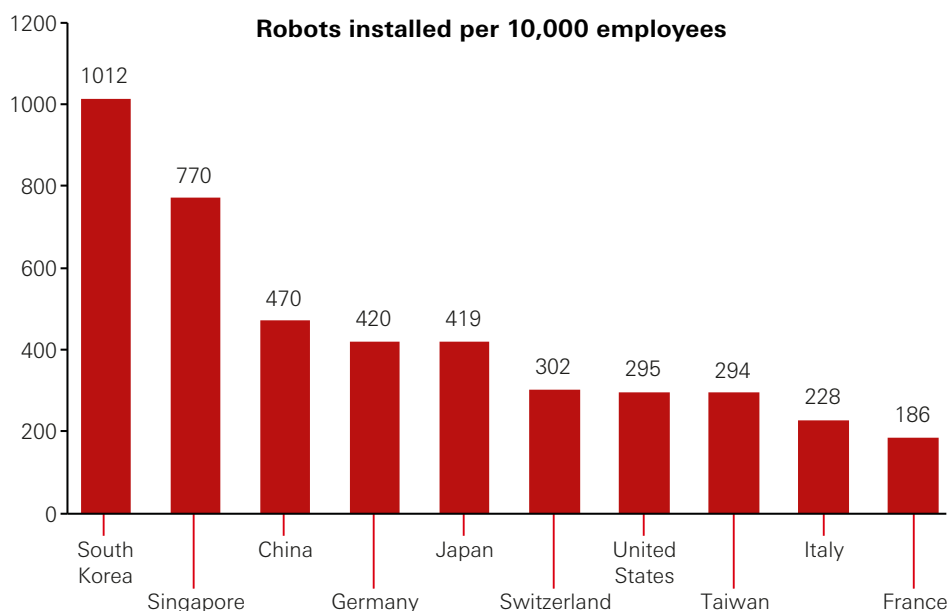


Source: Bloomberg, HSBC Private Bank as at 4 September 2025. Forecasts are subject to change.

Disruptive Technologies



Artificial Intelligence (AI) is the dominant technological development of the 2020s and it is likely to impact all industries and almost every facet of human life within the next decade.

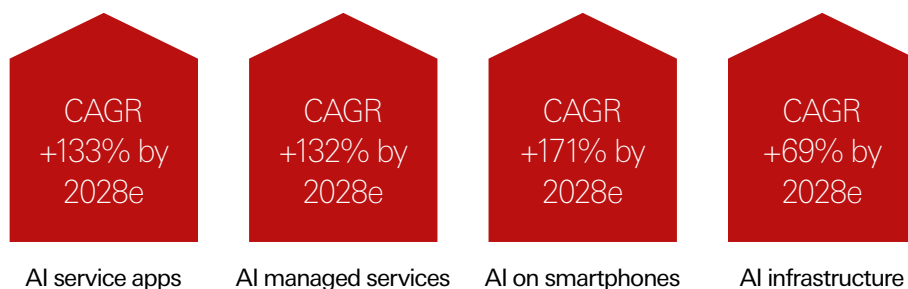
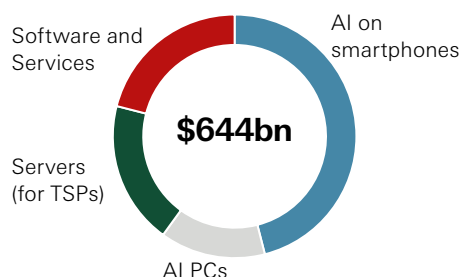


Source: International Federation of Robotics, 2023, HSBC Private Bank as at 4 September 2025

Our Three High Conviction Themes

1. Evolving AI Ecosystem	After the buzz caused by the introduction of AI LLMs, the focus has shifted to the AI infrastructure including data centres, servers, semis and utilities, but also to those companies directly benefitting from the shift including software-as-a service, cloud services, and intelligent automation.
2. Aerospace & Security	The aerospace and defence industries are expanding due to technological advances; rising tourism; and geo-political changes. Advances in satellite technology, launch vehicles, aircraft, drones, VTOLs and the use of AI capabilities are radically changing applications and redefining markets.
3. Robots & Automation	AI promises to revolutionise both robots and automation by enhancing capabilities and making them more autonomous. Further innovations and new applications will quickly follow transforming the workplace, home and other environments, boosting efficiency.

Generative AI spending trends - 80% on hardware



Source: Gartner, HSBC Private Bank as at 4 September 2025.

In the shadows

We are all on the cusp of a remarkable technological transformation that will impact many facets of our daily lives. And yet when the changes happen, some may not even be noticed or attributed to the specific technology that is powering the next technology revolution - namely artificial intelligence or AI. Those changes and capabilities are evolving rapidly with some are already being deployed in diverse areas including facial recognition, drug development, search engines and administrative tasks. We explore three area where change is well underway in our investment themes.

Evolving AI Ecosystem

In November 2022, OpenAI surprised the world when it launched its first large language model (LLM) called ChatGPT-1. Other companies have since launched their own LLMs, but in January 2025 the launch of DeepSeek's model changed the narrative and served as a reality check that bigger is not always best. For investors, the focus has shifted too from the LLMs to the enabling technologies and infrastructure that is needed for AI to achieve its potential. Substantial investments are being made by the owners of LLMs and those that look to benefit from the use of AI. H1 company results certainly confirmed that these investments are materially impacting the profits of data centre providers; server manufacturers; semiconductor producers; cloud service providers; and increasingly utilities that supply electricity and water to data centre facilities. A second wave of beneficiaries are starting to appear in such areas as software-as-a-service segment; security; defence; autonomous vehicles and support services.

As a result, AI and digital infrastructure capacity need to expand quickly. According to a report from P&S Intelligence, the data centre market is expected to grow from c.\$302bn in 2023 to c.\$622bn in 2030, a CAGR of over 10.5%, providing attractive opportunities.

Aerospace & Security

Two converging trends are likely to continue to drive the expansion of commercial air travel. Firstly, the world's human population is expected to reach 10.3bn by mid-2080 according to the UN (from 8.2bn today). Secondly, wealth is rising, reaching USD305trn in 2024 (source: BCG). More wealthy people usually translates into more travel.

This translates into a particularly positive growth environment for airline manufacturers and their suppliers.

The global commercial airline fleet is estimated to be about 25,000 aircraft.

The non-commercial aircraft market is somewhat smaller but offers a positive outlook too as defence spending is set to rise in many countries - especially in Europe - due to elevated geopolitical tensions. From a market perspective, this should benefit a broader range of defence equipment suppliers.

A more recent security challenge - faced by countries, companies and people - follows the spread of technology and connectivity. Cyber threats are rising and becoming more sophisticated, with companies on the dark web offering hacking software as a service. In a recent McKinsey study, the number of large organisations who felt they had the appropriate skills to manage their cyber security fell from 88% in 2022 to 82% in 2024. In small-to-medium sized organisations, the drop was even more drastic, down from 94% in 2022 to 49% in 2024.

This is a major risk for companies and governments alike and is likely to fuel the expansion of the cybersecurity industry.

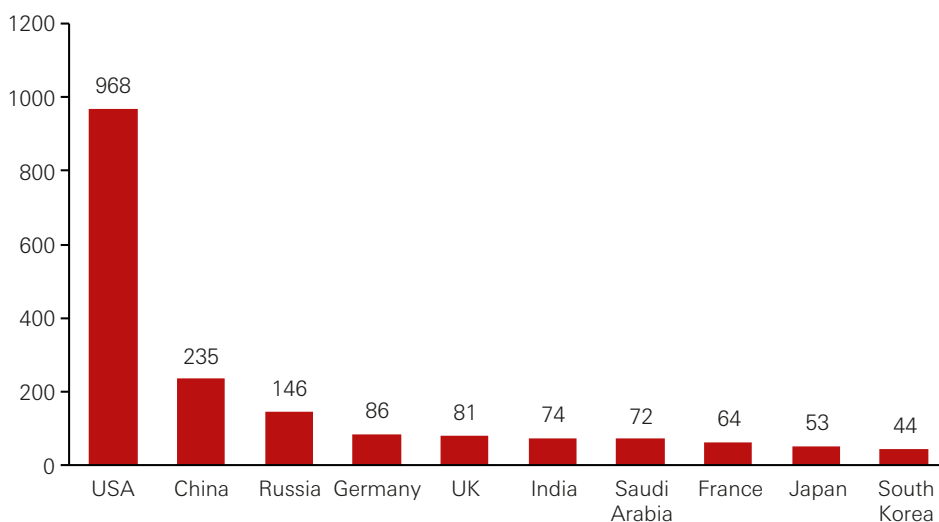
Robots and Automation

Several long-term trends have been driving the increasing use of robots and automation including declining worker forces in many developed countries; improving technology; potential productivity gains; and 24/7 operating capability. In addition, the reshoring of manufacturing and services (responding to tariffs or global supply chain risks) will probably require extensive use of automation in order to be economically justifiable.

The technological developments identified earlier in this text are enabling new and more complex tasks to be performed with robots and automation, including the increasing ability to operate independently.

And of course, the declining interest rates and an improving Chinese economic outlook should lift investments. China has for several years actively invested in automation and now consumes over 50% of all industrial robots produced annually. China now has 470 industrial robots per 10,000 workers, the third highest worldwide.

Defence spending in 2024 (USD billions)

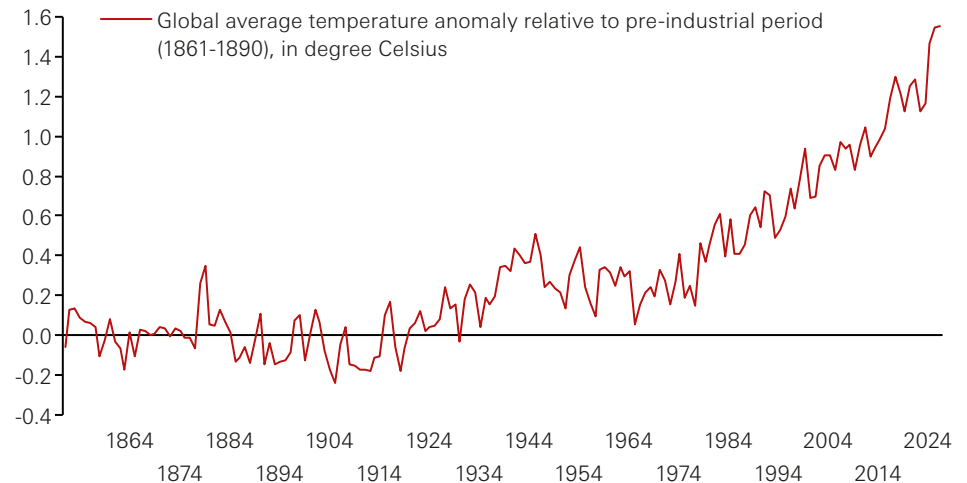


Source: International Institute for Strategic Studies, HSBC Private Bank as at 4 September 2025.

Climate Action

Climate actions have become even more urgent as businesses and people are already paying the price for storms, floods, heat waves and droughts. As clean energy technologies have become much cheaper and nuclear fusion is seeing some breakthroughs, renewables have become mainstream. Other key factors are governments' focus on energy independence and the climate implications of the global competition in AI.

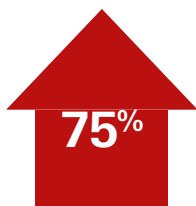
Global average temperatures have risen sharply since industrial revolution, reaching the hottest level on record



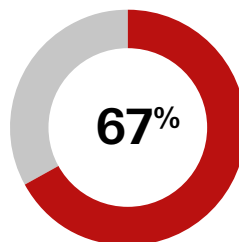
Source: Our World in Data, HSBC Private Bank as at 4 September 2025.

Our Two High Conviction Themes

1. Energy Security	Energy independence is a key government aim around the world, as exemplified by Prime Minister Modi's speech on India's 79th Independence Day. Together with a sharp fall in clean energy costs, it is driving major changes in the global energy mix, creating attractive investment opportunities.
2. Biodiversity and Circular Economy	The circular economy, estimated to be worth USD4.5trn, is set to unlock many investment opportunities. Companies reinvent supply chains to transition from the old "take-make-dispose" model to a closed-loop system of production, distribution, and consumption to reduce waste and extend resource longevity.



Demand for electric power is estimated to rise 75% by 2050, driven by economic development, EVs, cooling and data centres



Solar, wind and other renewables may meet 67% of the world's electric demand by 2050, doubling the share in 2024



Clean energy equipment is now half the price compared to a decade ago, making a compelling economic case for energy transition

Source: BNEF New Energy Outlook 2025, IEA World Energy Investment 2025, HSBC Private Bank as at 4 September 2025.

We see encouraging progress for renewables to replace fossil fuels despite increasing concerns about policy commitment and global cooperation for climate goals.

According to the International Energy Agency (IEA), global investment in clean energy technologies is set to be double that of fossil fuels in 2025. US\$2.2trn is expected to go to renewables (including nuclear, grids, etc.) compared to US\$1.1trn going to oil, natural gas and coal. This is driven by efforts to reduce emissions as well as the rising significance of industrial policy, energy security and the cost competitiveness of electricity-based solutions.

The IEA says we are in “the age of electricity” in which electricity demand jumps, coming from industrial sectors, electric mobility and - perhaps most importantly - the AI use cases. With AI’s seemingly insatiable energy demand, the world needs a renewable energy source that can generate much more power than what we are using now.

Coupling the surging electricity demand and the objective of energy independence, it is no surprise that nuclear fusion is often considered as the future of clean energy. It can unlock enormous energy supply with minimal environmental impact. The construction of the world’s first commercial nuclear fusion plant has recently started in the US, aiming to produce electricity by

2028 for data centres of a major US technology company. That said, many challenges remain to meet the timeline.

The economic costs of climate change could be huge if the necessary investments to reduce global warming are not made. According to Boston Consulting Group’s estimates, a worst-case scenario where global average temperatures rise by 3°C between now and 2100 would shave 0.5% from annual GDP growth.

Following COP29 (which focused on the finances of achieving global clean energy goals), the upcoming COP30 conference to be held in Brazil should be pivotal as it is just 5 years until 2030, the year by which the Paris Agreement has attempted to limit global warming.

Energy Security

The demand for energy security rides on a rapidly growing desire of global economies to move to a more independent and reliable supply of energy.

This, together with sharp fall in clean energy equipment costs, is driving major changes in the global energy mix. Indeed, we are seeing a reinvigoration of interest in alternative energy sources as part of the mix, leading to attractive investment opportunities.

Amid geopolitical uncertainty, more protectionist measures have been adopted, including those for energy

supply. For the solar industry, the US has imposed tariffs on solar panels from China as the US aims to support the domestic solar industry. Another example is India buying Russian oil, citing the need for energy security as a justification. In our view, these potential policy obstacles are other good reasons for governments to diversify energy sources.

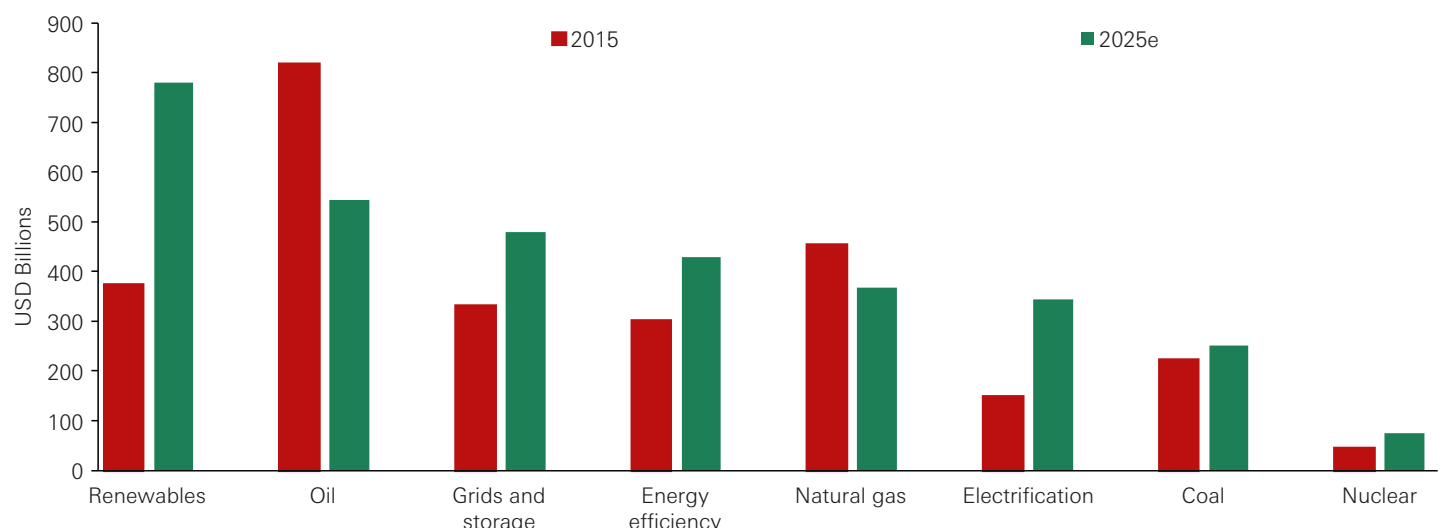
Biodiversity and Circular Economy

The circular economy, estimated to be worth USD4.5trn, is set to unlock many investment opportunities. We are seeing a rise of approaches adopting circular economy principles, including durability, reusability, recyclability, and closed-loop systems.

Companies are reinventing supply chains to transition from a “take-make-dispose” model to a closed-loop system of production, distribution, and consumption in order to reduce waste. And to address resource scarcity, there is a growing focus on resource longevity. For example, almost one-fourth of Apple’s product materials by mass are now from recycled content.

The circular economy is expanding around us, especially if we look harder into the different steps of our supply chains. Water is becoming increasingly deglobalised, and much less waste goods are now being shipped to Asia. The value of the market for second-hand apparel is rising rapidly.

Over the past decade, global investment in renewables has risen more than other energy sources



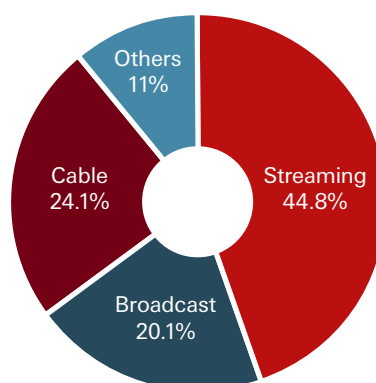
Source: IEA World Energy Investment 2025, HSBC Private Bank as at 4 September 2025.

Evolving Society



In the ever-evolving society, inclusion, generational changes and digitalisation are powerful forces of change that often interact. Positioning portfolios to capture these themes can help investors tap into attractive opportunities benefitting from long-term societal shifts.

Streaming has eclipsed traditional broadcast and cable TV viewership in the US

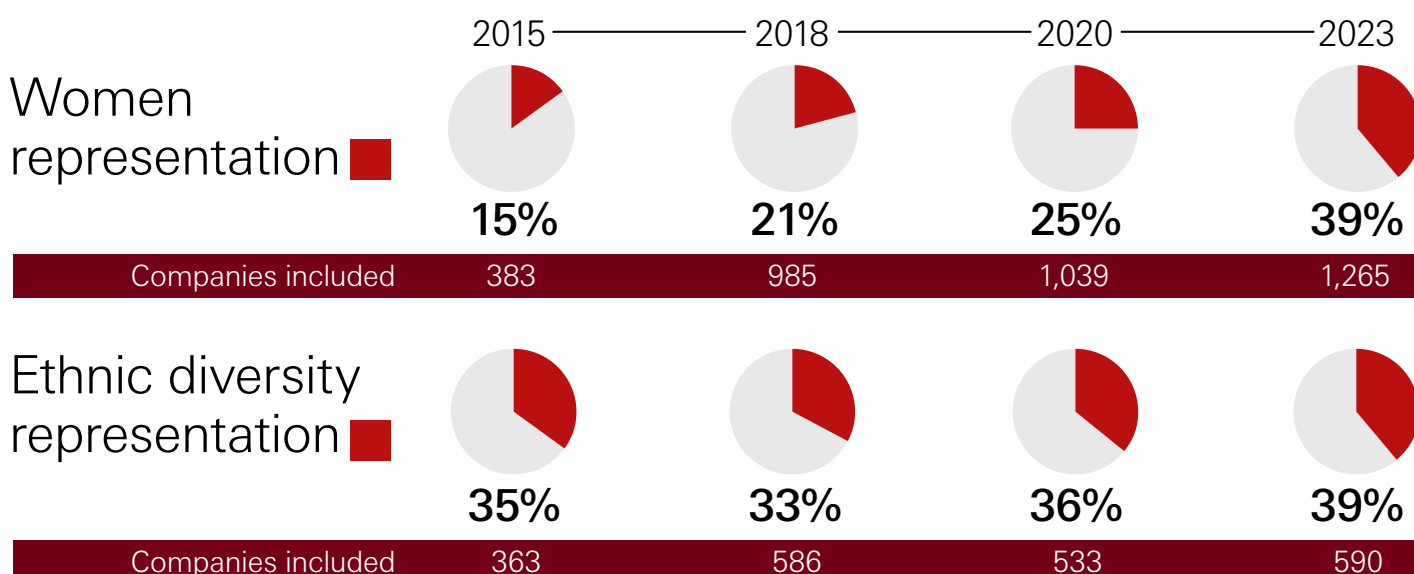


Source: Nielsen (2025), HSBC Private Bank as at 4 September 2025.

Our Two 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 in the long run.
2. Streaming and Subscriptions	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.

Diversity in executive teams has a clear link to financial outperformance (Difference in outperformance of companies in 1st and 4th quartile for diversity)



In 2023, 8 new countries were incorporated in gender analyses and 2 new countries for ethnicity analyses.

Source: McKinsey, HSBC Private Bank as at 4 September 2025.

Societies around the world are changing at a rapid pace, influenced by trends ranging from aging populations and falling birth rates to change in consumer preferences. All these are reshaping the way individuals access opportunities, consume services, and interact with one another. For investors, these shifts present both challenges and long-term opportunities.

Within our Evolving Society framework, we highlight two areas of opportunity: Social Empowerment & Well-Being and Streaming & Subscription Services. These themes are designed to capture the best 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.

Multiple studies consistently demonstrate that leadership diversity correlates with stronger financial results. Firms with balanced boards and executive teams can benefit from this, particularly in consumer-facing sectors such as financial services and retail, where representation can align closely with customer demographics.

A 2023 McKinsey study found that companies in the top quartile for gender diversity on executive teams were 39% more likely to achieve above-average profitability than those in the bottom quartile (see our chart on previous page). Similarly, ethnically diverse leadership teams were associated with a 39% higher likelihood of outperformance. These findings are consistent with academic research suggesting that diverse leadership fosters more robust decision-making, higher employee engagement, and stronger innovation pipelines. In fact, companies with low gender and ethnic diversity were 66% more likely to trail their peers in financial performance

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 organisation) 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.

Streaming and Subscriptions

At the heart of societal change is technology which is advancing rapidly. Entertainment is one area where consumption has shifted to digital streaming under subscription-based models.

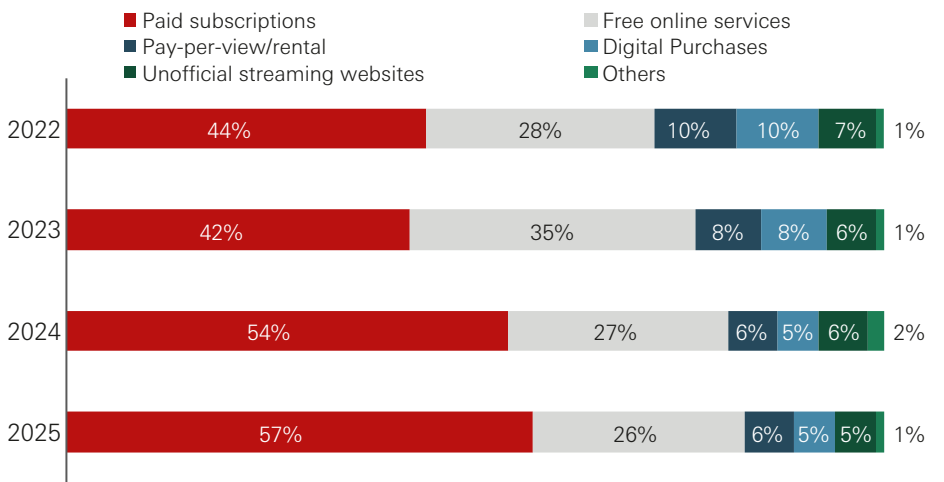
Streaming has overtaken traditional television as the dominant mode of entertainment. As of May 2025, streaming accounts for nearly 45% of all TV usage, compared with 24.1% for cable and 20.1% for broadcast (Nielsen, 2025). A survey by Simon-Kucher indicates that 70% of respondents in Spain, Singapore and India see streaming as a replacement for traditional TV. This reflects not just a shift in preference, but a structural change in how people consume media—on-demand, personalised, and subscription-based.

The market potential for growth in streaming is substantial. Paid subscriptions usage continues to grow while usage of free streaming services continues its multi-year decline. At the same time, the number of paid subscriptions per household has steadily risen over the past few years.

While the first wave of streaming adoption was driven by video platforms, the subscription economy has since expanded across music, gaming, fitness, education, and even food delivery. Dimension Market Research estimates the current subscription market to be USD 565bn in 2025 and projects it to grow to USD 2.1tn by 2034, implying at CAGR of 15.7%.

For investors, the implications extend beyond content platforms. The broader ecosystem—from production studios and data infrastructure to device makers and telecom providers—stands to benefit from the continued migration to digital subscriptions. The recurring revenue model of subscriptions also provides visibility and resilience, even in uncertain macroeconomic conditions.

Paid streaming subscriptions continue to grow

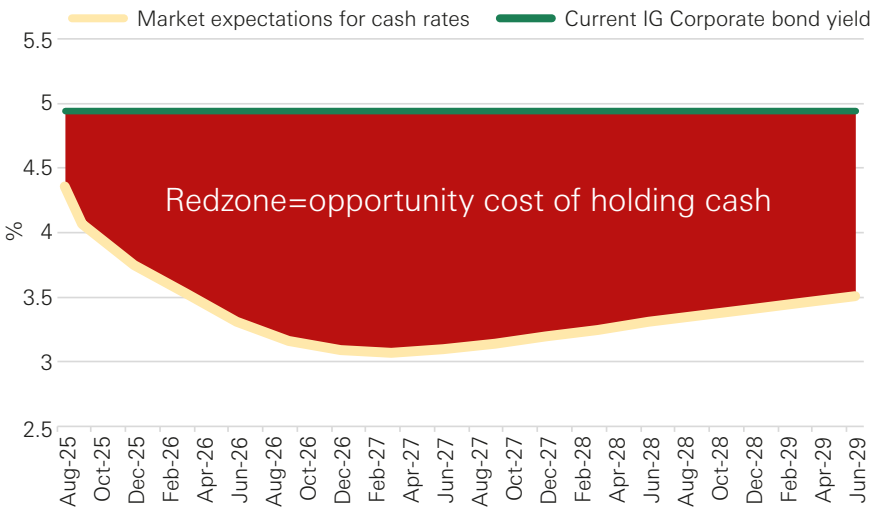


Source: Simon-Kucher Global Streaming Study 2025, HSBC Private Bank as at 4 September 2025.

Riding the Earnings and Rate Cut Tailwinds

In recent months, our cyclical trend focused on building resilience amid tariff risks. Now, our focus is on earnings growth and the Fed cuts. We see good opportunities in industrials and financials to diversify tech-heavy portfolios. We also move into quality bonds as cash rates fall.

We lock-in attractive yields of quality credit. Holding cash has a growing opportunity cost.



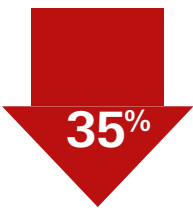
Source: Bloomberg, HSBC Private Bank as at 4 September 2025. Forecasts are subject to change.

Our Three High Conviction Themes	
1. North American Re-industrialisation	The US administration is targeting a manufacturing revival, using tariff and tax policies as well as deregulation to boost companies’ competitive position and to attract new investment into the USA. As more local or foreign companies expand in the US, this benefits manufacturing, construction, logistics and resources. In addition, industrials tend to benefit a lot from Fed rate cuts.
2. Global Financials	Financial stocks benefit from strong earnings potential, low valuations compared to other sectors and strong style diversification potential for tech-heavy portfolios. Brokerage and asset management activity are strong, helping fee income. Some increased policy clarity, coupled with Fed rate cuts, should help boost capital market, M&A and IPO activity.
3. Income Through Active Credit Selection	Investors were comfortable sitting in cash in recent months as the Fed was in a wait-and-see mode. Many people will now want to lock in their income, and we think investment grade yields are still attractive. As spreads have tightened and we will likely see some two-way volatility, we use a selective and active approach to find the best opportunities and exploit market movements. We like USD IG bonds but also diversify into other currencies amid USD weakness.

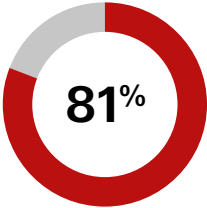


■ Tech & data ■ Other

The tech and data economy is overrepresented in the S&P500 (48%) compared to its weight in US GDP (8.5%)



The US lost 35% of its manufacturing jobs since 1979, which the government wants to reverse.



A near-record 81% of S&P500 companies exceeded earnings expectations in Q2 25.

Source: US Bureau of Economic Analysis, US Bureau of Labor Statistics, HSBC Private Bank as at 4 September 2025.

North American Re-industrialisation

Industrials have been doing well in the past year and is in close competition with communications as the third best performing sector over the past five years.

Industrials have been helped by a cyclical tailwind as the US economy has been more resilient than people feared. The sector is clearly benefiting from the tax cuts too. As for the trade tariffs, they raise the input costs, but they help protect local producers' local demand by reducing foreign competition, while the increased clarity on the tariffs has helped sentiment.

One of the goals of the US administration – through trade tariffs, tax policy and deregulation – is to bring more manufacturing back home. The government's policies also encourage foreign companies to produce more in the US. Several companies have promised to do so; and while there it is uncertain how much of these promises will materialise, and how soon, some investments will surely take place. Local and foreign companies may use a combination of brownfield investment, expansion of existing facilities, or combining with other entities (M&A). The industrials sector should continue to do well as a result, but there are beneficiaries in other sectors too. We think engineering, construction, logistics and materials are some of the clear winners. Clearly, this theme also interlocks with our Energy Security theme, Robots and Automation, as well as our Aerospace & Security themes.

Global Financials

Financials are a cyclical sector, so it may sound odd to include it as a high conviction theme when US growth is seeing a mild slowdown. But in Q2 results, banks actually reduced provisioning, as the slowdown is less pronounced than banks had previously feared.

In addition, loan growth remains healthy and may actually accelerate, as interest rate cuts, and more economic clarity and AI-led innovation incentivise companies to borrow more and invest. The same forces may also increase capital market activity (bond and equity IPOs) and M&A fees.

Bears may also worry that rate cuts will reduce net interest income. But in fact, banks' revenues are much more closely linked to the steepness of the yield curve rather than yield levels. The good news is that the US yield curve has been steepening, and rate cuts may cause mild further steepening. At the same time, market volatility and rising valuations have increased wealth revenues.

One of the key reasons we like to add financials as a satellite is that many portfolios are skewed towards technology and communications – because these sectors represent a big share of indices and because investors often add extra exposure through tech-related satellites. Financials is a value-style sector, while tech is a growth-style sector, so they are great complements. Financials often provide good dividend income, while share buyback activity is elevated too, which is another attraction. That's particularly relevant for European and Asian banks, while rising M&A activity is another plus in Europe.

Income Through Active Credit Selection

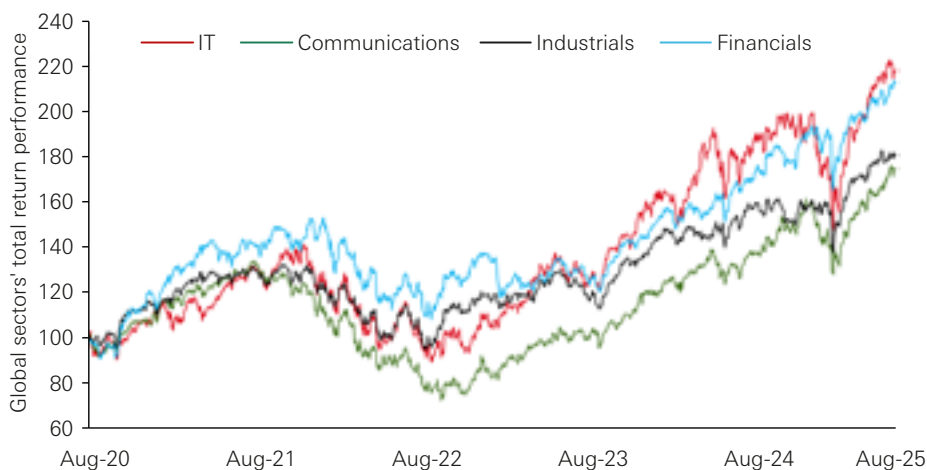
The wait for US rate cuts will soon be over, and we think the Fed will re-initiate its rate cut cycle in September, with further cuts to come in December and March. There is quite a bit of scope for rate cuts, in spite of worries about inflation, as the current US policy rate stands 1.8% above the current inflation rate, while that difference (the real rate) is only 0.4% in the UK, 0% in the Eurozone and negative -2.8% in Japan.

As cash rates start to fall, fewer investors will want to stay in cash. We think the yield level of investment grade bonds is attractive and it makes sense to lock it in before more rate cuts bring it down too.

Granted, that IG yield level is predominantly the compensation for rate risk, because credit spreads are relatively tight. That means that we are not tempted to migrate towards high yield and take too much credit risk. It also means that we are selective in our bond picks and use volatility in the market through an active approach.

The USD yield curve is quite flat up to 5-year maturities, but steeper thereafter. So, we think it makes sense to extend beyond that – if possible, to 7-10 year maturities. And while we like USD IG because of the rate cuts, USD weakness argues for some diversification and the search for opportunities in other currencies.

Industrials and Financials have been performing strongly and are good complements to IT & Communications exposure



Source: Bloomberg, HSBC Private Bank as at 4 September 2025. Past performance is not a reliable indicator of future performance.

Equities

We maintain our mild risk-on approach with our overweight in global and US equities. We could see some volatility in the short term due to profit taking or because of the big performance gap between growth and value stocks, and between the 'Magnificent 7' and the 'Forgotten 493'. But we would manage this risk through volatility strategies, style and sector diversification and stock selection. Earnings remain supportive and accommodative central bank policies help support activity and valuation multiples. Even a small increase in policy clarity can help redirect markets' attention on those constructive fundamentals. We maintain our overweight on the US, Chinese, Singapore, and UAE stocks.

US productivity gains outweigh tariff fears

US equities remain one of our key overweight positions. Analysts had downgraded earnings early this year, but Q2 results delivered some one of the highest earnings beats this decade. Earnings forecasts remain above-trend in 2025 and that's also true for next year. While tariffs and other policy announcements could

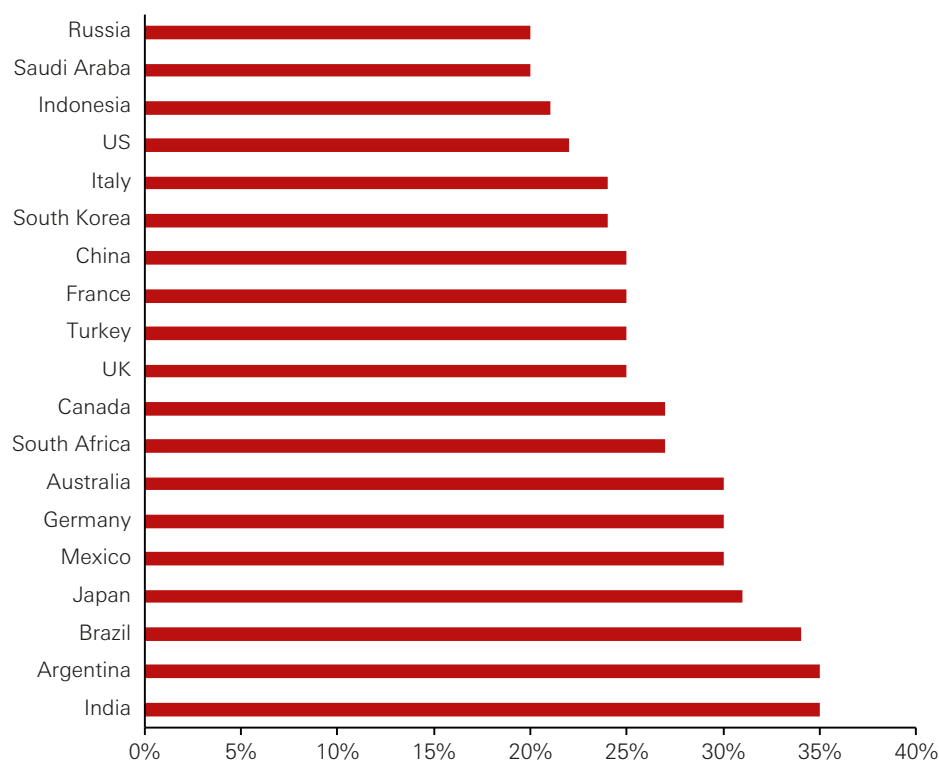
continue to create some volatility in the short term, the resumption of the Fed easing cycle, combined with the diffusion of productivity-enhancing technologies, will lift profitability. What's often underestimated is the impact of the weak US dollar, which continues to benefit the earnings power of US companies, as we already saw in Q2. Finally, with strong equity markets, some more policy clarity and lower interest

rates, we look for improving M&A activity, more IPOs, and an increase in stock buybacks.

This bull market has been led by real growth drivers, but valuations have jumped and the gap between growth and value stocks has widened, profit-taking or mean reversion could lead to some temporary volatility. As we look ahead, analysts expect Mag 7 earnings growth to slow from 24% (Q3 2025) to 10% (Q4 2026), which looks conservative in light of the AI liftoff we're clearly seeing in the real world. At the same time, analysts expect earnings growth for the 'Forgotten 493' stocks in the S&P500 to accelerate meaningfully from 4% to 14%, which could broaden the rally and support sectors like industrials and financials. As for valuations, we recognise that they have expanded, but they are below the peak market multiples going back to 1990s.

In our view, technology will continue to drive equities 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 re-onshoring, especially if the Trump administration can deliver on deregulation. Clearly, the drive to bring manufacturing jobs back to the US will remain a focal point going into the mid-term election year. The combination of fiscal policy drivers (tariffs, lower taxes,

Low corporate tax rates continue to drive investments into the US



Source: Bloomberg, HSBC Private Bank as at 4 September 2025.

and deregulation) and the technology revolution continue to attract capital as the US has been the top global destination for foreign direct investments since 2018.

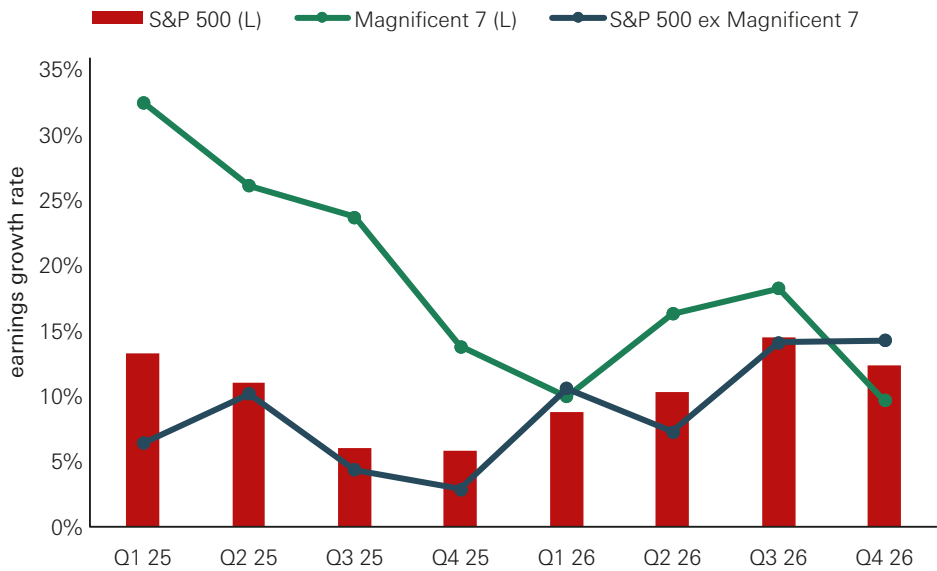
Asian growth & attractive valuations

Asia’s broad rebound is driven by easing monetary and expansive fiscal policy, AI optimism, improving sentiment and flows. We remain overweight on China and Singapore. China benefits from targeted stimulus and impressive innovation driven by technology and artificial intelligence. Moreover, even though valuation differences have narrowed, they remain attractive to global investors. Flows may further be encouraged by China’s focus on supply-side reforms (anti-involution) which raises hopes that deflation will ease, thereby helping companies’ margin power and earnings growth. Reduced trade frictions with the US have also eased on key concern for global investors. Singapore meanwhile is a defensive market with high dividend income, which are attractive features in the current environment. We recently downgraded Indian stocks back to neutral because of cyclical headwinds and reduced foreign buying but remain constructive in the longer term.

Europe comes together, but will this boost earnings?

We maintain a neutral allocation to both Eurozone and UK stocks in spite of attractive valuations, as we fail to see a trigger for renewed enthusiasm. Granted, European countries have come together to tackle global economic and geopolitical issues. In fact, markets rallied sharply after Germany’s new government promised to spend more on defense, later followed by other European countries. But growth still remains low as consumers are challenged, and companies’ earnings are hurt by the strong EUR and GBP (mainly a result of the weak USD). Monetary policy is unlikely to trigger a rally, as the ECB is probably done cutting rates, while sticky inflation in the UK limits the number of potential rate cuts there. We see benefits in including European stocks to pick up a solid dividend or diversify tech-heavy portfolios with value-style stocks. Investment in infrastructure should help support industrials and utilities, while financials are attractively priced and could benefit from increased consolidation.

Broader market rally could be driven by broader earnings gains



Source: LSEG, HSBC Private Bank as at 4 September 2025. Forecasts are subject to change.



Fixed Income

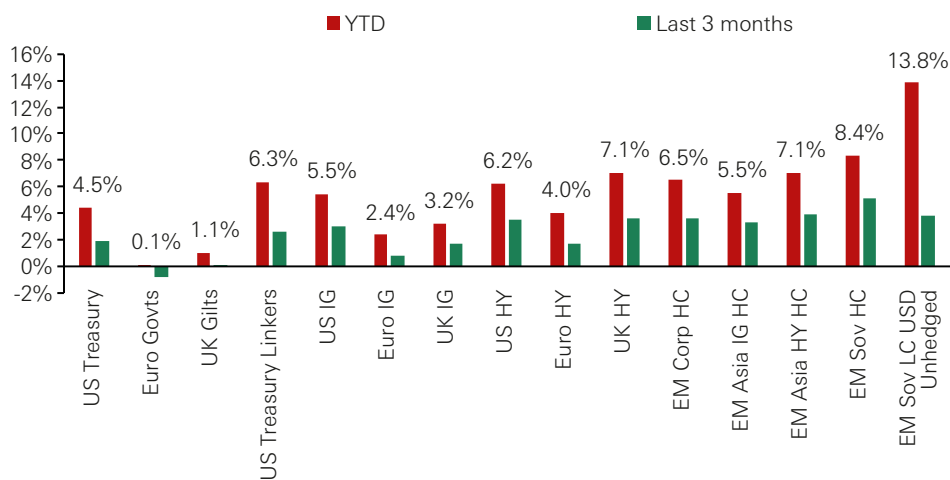
Over the past three months, bond markets have seen volatility, but yields have been relatively range-bound. The global risk-on tone has caused credit spreads to tighten, especially for high yield which now looks quite tight. EM Local Currency bonds (LC) continued to benefit from EM rate cuts, attractive carry, and USD depreciation. We recently upgraded US Investment Grade (IG) to a mild overweight, ahead of the expected resumption of Fed rate cuts. Our duration target for DM government and IG bonds (excluding Japan) remains unchanged at 7-10 years, even amidst challenges at the long end of the curve. We believe this positioning benefits from the steeper curve and increases bonds' diversification potential vs equities. Our allocation strategy prioritises DM sovereign debt and IG corporate bond markets, while we have a broadly neutral position on EM debt, with a particular emphasis on quality credit in Asia. Given the uncertainties surrounding the economic implications of the US tariff policy, active credit selection remains crucial.

We have been advocating for some time that a reduction in US Treasury yields would be contingent on a return to Fed easing, with a focus on the employment market stability rather than a temporary inflationary impact from tariffs. The July payrolls data (+73K vs. c/f +105K) and the revision to the prior two-months (-258K) served as the catalyst we were waiting for. Dissent from two Fed Governors at the July FOMC meeting already reflected a growing perspective that the economic data warranted a resumption of rate cuts. Fed Chair Powell

suggested that the balance of risks has changed and that inflationary effects of tariffs would likely be one-off, effectively opening the door to a September rate cut.

Markets reacted to these developments by pricing in more interest rate cuts, with the anticipated terminal policy rate for this cycle adjusted downward to 3.0%. It is worth noting that there is quite a bit of room for cuts: even 150bp of rate cuts would only position Fed fund rates at their neutral stance (i.e. 3% indicated by the Fed).

Bond markets' performance has been subdued by range-bound DM sovereign debt yields



Source: HSBC Private Bank as at 4 September 2025. Past performance is not a reliable indicator of the future performance.



We recently upgraded Global IG Corporate debt to a mild overweight

Given the significant increase in the likelihood of the Federal Reserve easing, we recently upgraded US, Australia and Canada IG Corporate bonds to a mild overweight. This added to our pre-existing mild overweight position in the European and UK markets.

We note that spreads on IG credit are tight across all markets, with US levels at cyclical lows. But this tightness may partly stem from a generous term premium build-up in the sovereign debt market, which has elevated government bond yields and thus compressed the risk premium required for corporate borrowing. When adjusting for this term premium surge, or when looking at the

overall yield, credit appears much less expensive. The tightness in spreads may also stem from strong earnings and supportive credit fundamentals. In essence, the trust in corporates and improvement in their balance sheets contrasts with the deterioration in public finances.

Upgrading IG Credit is more a strategy focused on rates (i.e. DM government bond yields) rather than spreads, given that rates account for 85% of nominal yields in the US IG Corporate bond market (see graph). We adopt a 7-10 year stance for both Treasuries and IG bonds to benefit from the curve steepness and from the rate cuts we expect to see. Strong IG demand and positive rating migration continue to provide

support and may cushion against any spread widening if macroeconomic data deteriorates.

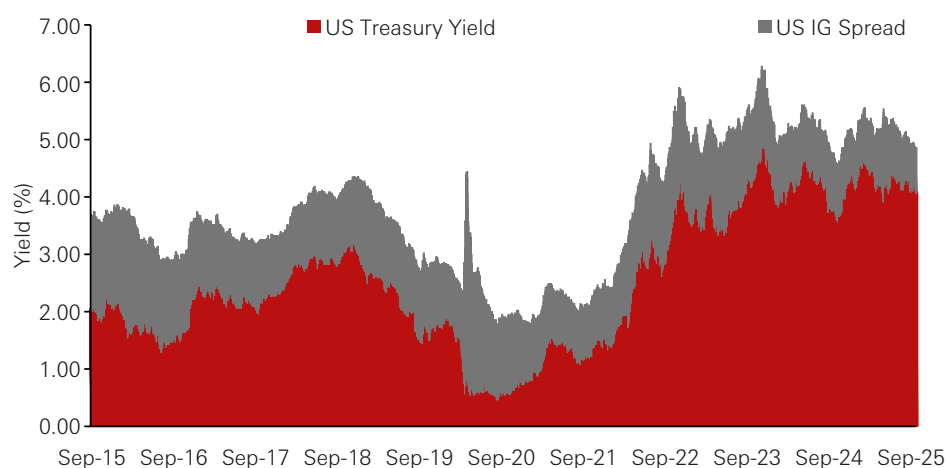
Concerns about fiscal slippage, rumours of “de-dollarisation” and threats to the Federal Reserve’s independence have all contributed to the increase in term premium, but we think these headlines are overstated. For instance, S&P Global Ratings has recently suggested that revenue from trade tariffs will offset the effects of recent tax cuts and the spending bill on the US budget position. This allows the country to maintain its current AA+ long-term credit rating with a stable outlook.

We are conscious of the tight valuations in Global HY markets, especially given the mild economic slowdown, but their elevated carry still justifies a neutral stance.

For EM, a weak USD supports the compression of risk premiums in EM local rates, enhancing confidence that EM central banks can concentrate on local factors and continue easing. However, following the strong rally in the first half of the year, Local Currency debt appears to be trading at a premium. Therefore, we maintain a neutral stance on EM Local Currency debt, favouring high-yielding countries like India and Indonesia for their attractive carry where domestic inflation has decreased swiftly, and central banks are easing policy rapidly. While we remain neutral on EM Government Hard Currency bonds, we hold a modest overweight position in EM Corporate External debt, particularly in China. Our focus is on the IG segment, primarily through Technology, Bank, and State-Owned Enterprise issuers.

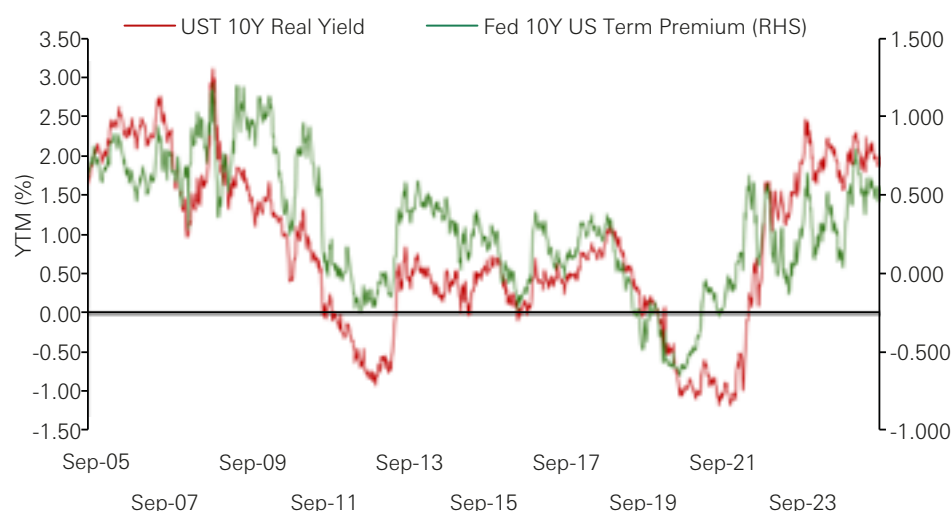
Active credit selection is increasingly important given the uncertainty surrounding the economic impact of tariff implementation. Certain companies may be better equipped to manage this environment. We believe that Financials, particularly Banks, could perform relatively well due to their strong capitalisation, low levels of Non-Performing Loans (NPLs), and resilience to tariffs.

US Treasury yields account for 85% of nominal yields in the US IG Corporate bond market



Source: Bloomberg, HSBC Private Bank, as at 4 September 2025. Past performance is not a reliable indicator of the future performance.

Long-dated US Treasury yields continue to show significant risk premium and the potential for compression offers value



Source: Bloomberg, HSBC Private Bank, as at 4 September 2025. Past performance is not a reliable indicator of the future performance.

Currencies and Commodities

As trade tariff uncertainties diminish, FX market dynamics are evolving. Cyclical factors have resurfaced as the key drivers of FX, as the market reassesses the effects of recent trade agreements on growth and inflation. Rate expectations and yield differentials should therefore set the direction of the US dollar, especially as we think the Fed will restart its rate cuts in September. While rate cuts should weigh on the US dollar, plentiful headlines will probably lead to two-way volatility, causing us to diversify our FX exposure.

In this environment, we expect the US dollar to underperform against certain G10 currencies, particularly those with strong economic and fiscal outlooks, and those likely to experience a narrowing yield differential with USD as the Fed cuts rates. Conversely, currencies with unstable cyclical or fiscal conditions are likely to remain vulnerable. This divergence leads us to adopt a neutral stance on USD and a policy of global FX diversification.

In the G10 space, we anticipate EUR to outperform USD, GBP and CHF:

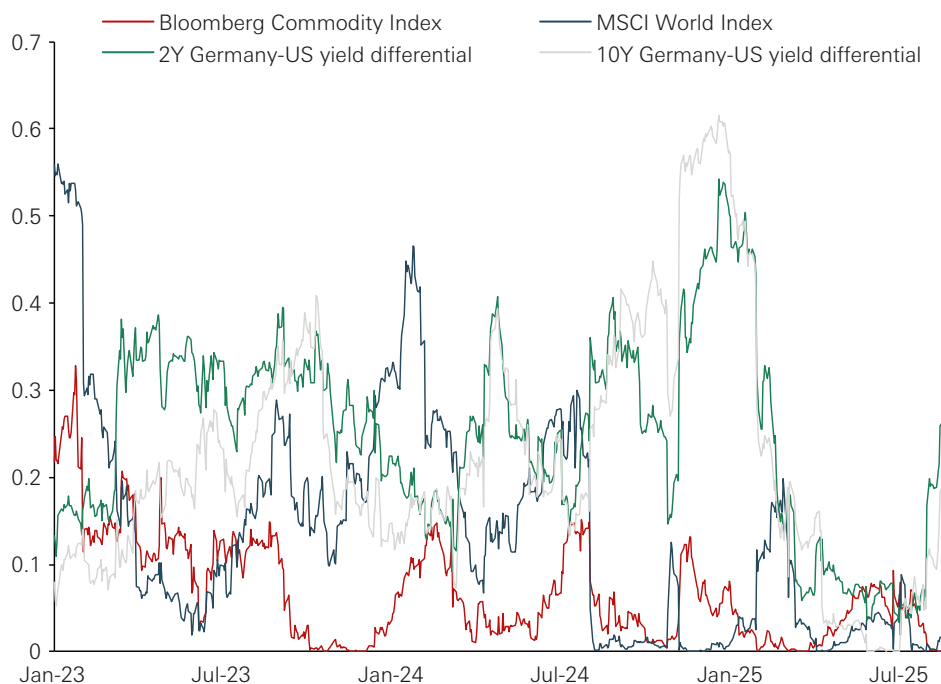
— EUR/USD is expected to strengthen due to a tighter yield differential as the ECB appears to have concluded its easing while the Fed will resume its rate cut cycle. Cyclical expectations also look more favourable for EUR than USD, as Eurozone growth finds some support (even at these slow levels) while US growth slows somewhat. In addition, the scenario of a sustainable ceasefire between Russia and Ukraine could be supportive to EUR sentiment, although political uncertainties in Europe could cause some short-term volatility.

— EUR/GBP could edge higher as Eurozone fiscal developments contrast with the UK's tighter conditions. While the pair's yield differential should also gradually narrow, we don't expect rapid rate cuts by the Bank of England. We also note that GBP did not find much support from recent positive growth surprises, which reflects the complicated fiscal picture and challenging growth / inflation

dynamics. Overall, we expect GBP/USD to trade sideways while EUR/GBP trends upward.

— Against CHF, the outlook favours EUR outperformance too, as the SNB remains dovish, and Switzerland's limited domestic growth momentum offers little support for appreciation. We expect EUR/CHF to edge higher, while USD/CHF is likely to remain range bound.

What drives EUR/USD changes over time; currently, it is the yield differential which matters most.



Note: This chart shows the 60-day rolling R-squared of daily changes in the EUR/USD compared to each of the four factors. Source: Bloomberg, HSBC Private Bank as at 4 September 2025. Past performance is not a reliable indicator of future performance.

Besides EUR, we also favour AUD, supported by Australia's relatively low exposure to US tariffs, strong cyclical drivers in consumer spending, low inflation, tax cuts and greater fiscal room compared to other G10 nations. We expect limited additional monetary easing, which should sustain favourable yields and exert further upward pressure on AUD.

By contrast, we are less constructive on NZD (although it could benefit from a push higher in AUD) and have a neutral view on it, as New Zealand is more exposed to US trade policy due to its trade surplus with the US and higher tariffs relative to Australia. The dovish stance of the RBNZ suggests further rate cuts, limiting support from yield-seeking flows. CAD is also challenged by the lack of progress in US-Canada trade negotiations, leaving Canadian cyclicals vulnerable. Unless constructive progress

is made on a comprehensive trade deal, we expect CAD to remain under pressure, even if USD softens.

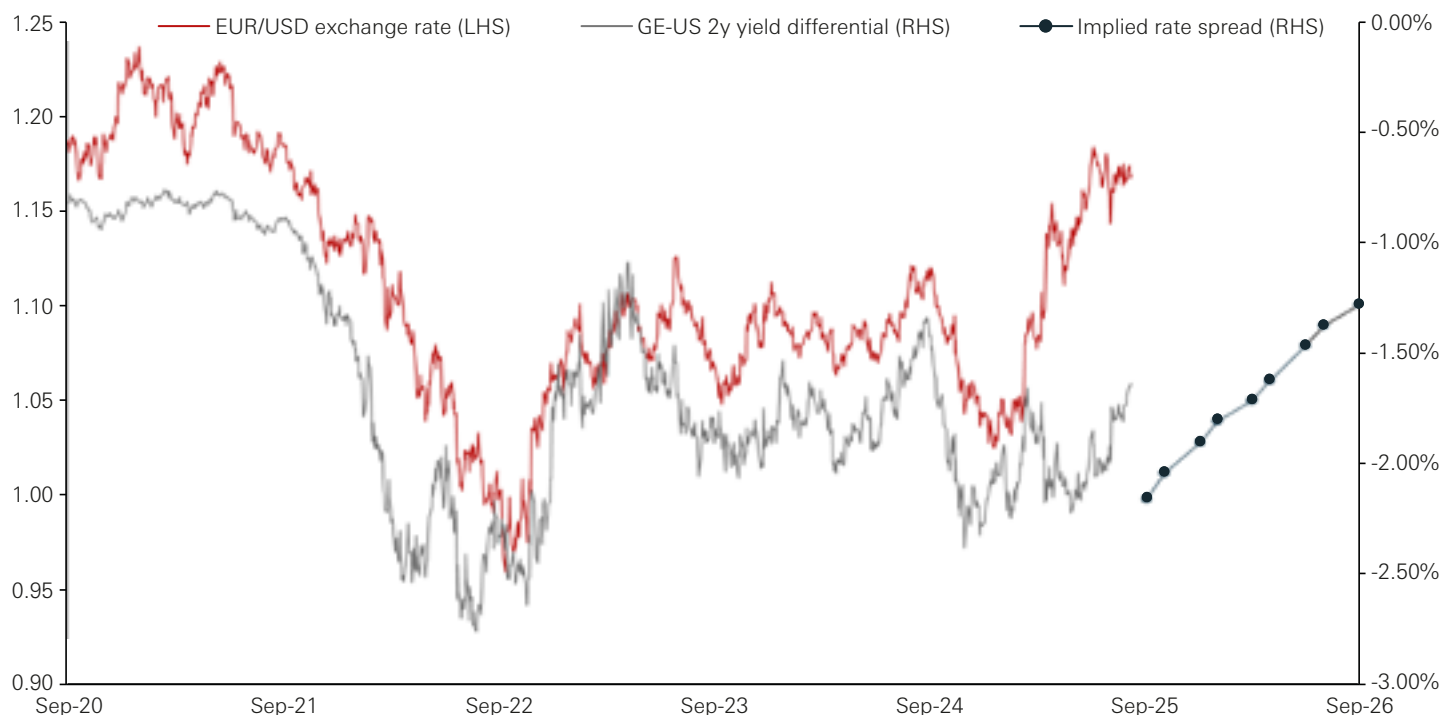
In Japan, persistent inflation and reduced growth uncertainties have increased the risk of rate hikes. As a result, JPY may benefit from a narrowing yield differential. But political instability, after the Prime Minister's loss of majority in the Upper House, and Japan's high debt level continue to cloud the outlook.

Outside of G10, we have recently upgraded our outlook on SGD and KRW to bullish. We expect SGD to rally on a mix of reduced monetary easing and stronger near-term growth prospects. In Korea, we anticipate continued investment inflows, particularly into the tech sector, while growth expectations may continue to improve. In China, RMB has failed to benefit from recent positive dynamics, and while USD and rate differentials remain the key drivers, we

do not see a clear directional trend for now. We therefore continue to maintain a neutral view on RMB.

In the commodity space, we expect the gold price to remain resilient, supported by ongoing USD weakness and global monetary easing, particularly in the US. While improving risk sentiment may cap further gains for gold, it continues to serve as a crucial portfolio diversifier. Given gold's elevated valuation, alternative precious metals have attracted interest, though most of the recent price surge has been driven by gold rather than fundamentals. We expect this trend to persist but changing dynamics in key sectors like photovoltaics or automotives could impact industrial demand. So, although a rally in gold may support other precious metals, they do not offer the same diversification benefits from a portfolio perspective.

While the gap between EUR/USD and the yield differential is already significant, the trend may remain upward considering implied rates.



Source: Bloomberg, HSBC Private Bank as at 4 September 2025. Past performance is not a reliable indicator of future performance.

Hedge Funds

While hedge funds have outperformed cash and lived up to their diversification credentials so far this year, we have moved our positioning down to neutral from mildly overweight, as we are increasingly constructive on bonds as portfolio diversifiers ahead of the September rate cuts. The decline in volatility and the increased visibility make us more willing to take directional exposure in bonds and stocks. That said, we think a solid core allocation to hedge funds remains important, and the opportunity set remains rich, given the high dispersion between stocks, the interesting relative yield curve dynamics etc. Among the different hedge fund strategies, we prefer discretionary macro, equity market neutral and low net strategies, Asian long/short strategies, structured credit, multi-strategy and multi-PM strategies.

Hedge funds have a wide range of topics to take a position on, including oil price dynamics linked to geopolitical risks in the Middle East; fiscal largesse, exemplified by the OBBBA (One Big Beautiful Bill Act) in the US and defence spending in the EU; the topic of de-dollarisation and diversification away from US assets; central Bank divergence and the debate around Fed independence; and the winners and losers at the corporate level due to tariffs or AI.

We maintain our constructive outlook for discretionary macro. The significant swings and reversals in asset pricing this year highlighted the need for agility and risk management. US yield curve steepeners and short USD positions

were popular trades. Basis trades on corporate bonds initially lost ground but enjoyed positive months more recently, while many EM bond strategies have done well. Looking ahead, the persistence of uncertainty both from a political and macro point of view should provide opportunity for higher returns for discretionary macro strategies.

Our outlook for managed futures as a strategy remains unchanged at neutral. The environment has remained tough both for medium and longer-term trend followers due to the often erratic oscillations in fixed income, equity, FX and commodity markets. Shorter-term trend therefore remains better placed to find return opportunities across asset classes. For systematic equity market neutral strategies, we maintain our mildly overweight view due to the constructive market environment.

Within equities, many managers managed overall risk relatively coherently (in spite of the swings in equity volatility) and produced strong alpha (e.g. by positioning in the industrial and defence sectors in addition to IT). Importantly, dispersion witnessed within markets remains highly supportive for astute stock-pickers. In the light of this our outlook for variable net strategies remains at neutral (given the sharp recent market rally) and low net strategies outright positive. We also maintain our mildly overweight view on Asian long/short amidst more tempered valuations.

We maintain our outlook at neutral for event driven strategies. Returns have been positive, driven by AI stocks, M&A developments, and industrial equities. Despite healthcare sector challenges, activist strategies benefited from strong earnings and an attractive opportunity set. The number of new





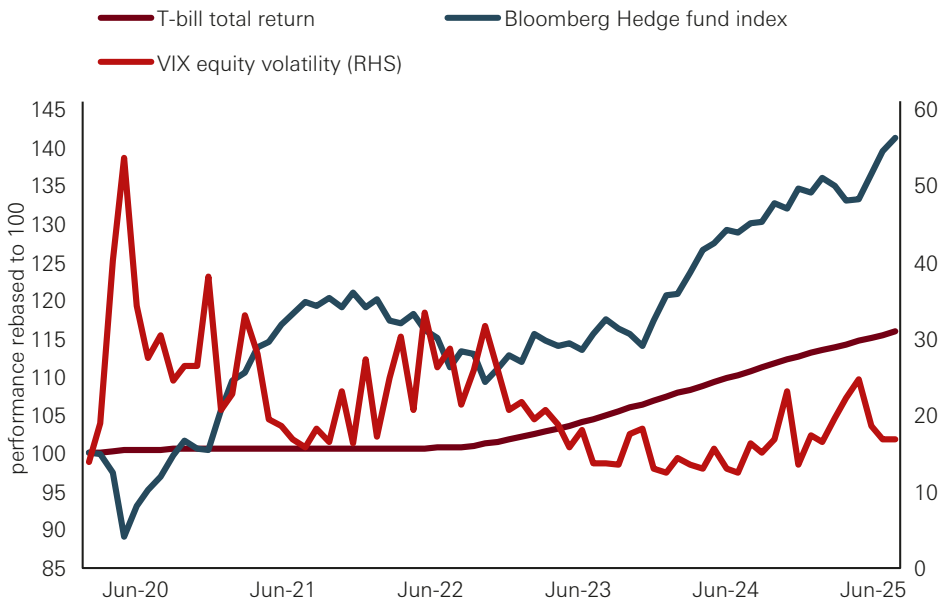
M&A announcements moderated in early Q2 due to tariff uncertainty, but opportunities have been dominated by a smaller number of larger headline deals. Looking ahead, we expect the opportunity set for event driven managers to be reasonably supportive especially as increased clarity and lower rates may start to support M&A.

We maintain our neutral outlook for credit long/short strategies. From a pricing perspective, valuations look relatively full after tightening recently. Still, the high single digit overall yield level on US loans and High Yield is reasonable on an absolute basis. Distressed opportunities continue to

be few and far between at present with the incidence of defaults ticking down. We continue to favour structured credit where, we believe, there continues to exist some additional value.

We maintain our overweight view for the performance potential of Multi-Strat and Multi-PM managers. After the deleveraging by some of the leading managers earlier in the years, more recently we witnessed steady positive performance led by quant biased sub-strategies. In summary, we feel that the funds find themselves neatly positioned to act with flexibility in more uncertain markets.

Hedge funds have continued to outperform cash and short-dated bonds in recent months in spite of relatively low implied volatility.



Source: Bloomberg, HSBC Private Bank as at 4 September 2025. Past performance is not a reliable indicator of future performance.

Real Estate

We believe direct real estate will deliver attractive prospective returns due to a combination of high current income and a gradual income growth, which is the result of a widespread decline in development activity. However, the outlook varies by sector and market. Retail property with a non-discretionary tenant focus should outperform whilst logistics softness is expected to persist in the near term. Whilst the office outlook remains challenging overall, prime offices in key submarkets are anticipated to perform well.

Recent real estate dynamics

Following a 16% decline in global capital values between 2022 and 2024, capital values were flat in Q1 2025 as yield expansion has largely come to a halt. Despite the drop in values, investment activity remains subdued because of economic uncertainty and the ongoing tight yield spread compared to financing costs. Data from Real Capital Analytics indicates that global investment activity in H1 2025 was 5% below H1 2024 and 37% below the five-year quarterly average.

Declining development activity has restricted the rise in vacancy rates and thus helped sustain positive rental growth for most sectors. On the leasing side, demand has held up well for premium space across property types,

particularly for office and retail assets, driving healthy prime rental growth. There is a widening vacancy spread between prime and secondary property.

Amongst the traditional property types, the retail sector now has the lowest vacancy rate globally, which is supporting steady rental growth. The surer footing for retail reflects a prolonged period of low supply, which is particularly pronounced in the US and Europe. There is also a stronger tenant base, as stores vacated by failed retailers during the pandemic have been replaced by more resilient occupants, paying rents at more sustainable levels.

Logistics conditions have softened globally over the last 12-months and vacancy rates in that space continued to rise in Q2 2025. This is being driven by



the US where leasing remains subdued, and the recent wave of development is still washing through. In Europe, logistics vacancy rates are stabilising and remain historically low. Asia-Pacific fundamentals are mixed with Australia still having very low vacancy rates around Sydney and Melbourne, whilst in Japan a recent surge in development has increased vacancy rates in Tokyo.

Residential sector vacancy rates remain low, reflecting stable demand from a diversified tenant base. In the US, vacancy rates remain higher in sunbelt markets than coastal markets due to a wave of supply in 2023-24, though there are signs that this divergence is starting

to narrow in H1 2025 as new supply falls away and sunbelt leasing demand remains robust.

Office fundamentals have weakened more than in other sectors, with the US national office vacancy rate having risen to approximately 20% in Q2 2025, according to C&W. Europe's vacancy rose slightly in Q2, but prime CBD space remains notably scarce, e.g. the London new-build vacancy rate is just 1.3% according to JLL. In Asia-Pacific, whilst office vacancy rates are very low in Tokyo (Grade A is 1.4% according to CBRE), they are significantly higher in Hong Kong, Australia (particularly Melbourne), and Singapore.

Outlook

The resetting of income returns at higher levels, following recent capital value declines, should underpin attractive direct market real estate returns. Furthermore, the recent decline in development activity across sectors and geographies is expected to support an improvement in income growth via improved occupancy and higher rental growth, particularly for prime quality assets.

The retail sector is well placed to outperform other sectors. Having been out of favour with investors since before the pandemic, retail yields today offer an attractive spread over other property types in most markets. Meanwhile, stable leasing activity and low development pipelines point to positive rental growth, especially for assets with an emphasis on non-discretionary retail.

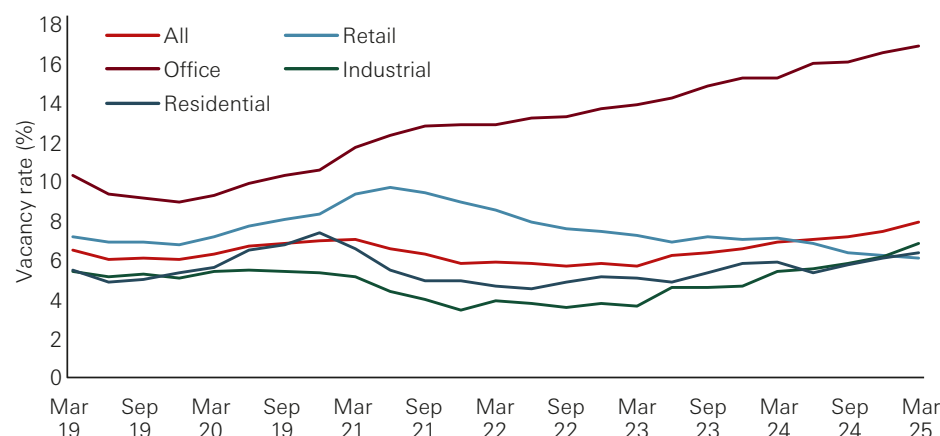
We remain wary about the near-term outlook for the logistics sector. Property yields remain low relative to other sectors, and the income outlook remains under pressure from weakening market fundamentals. Though vacancy rates may improve in H2 2025 as development slows, the leasing backdrop remains uncertain given the risks around tariff policy.

Although the outlook for offices remains challenging overall, the sharp repricing and tightening prime vacancy rate are prompting some investors to selectively return to the sector. Whilst overall office leasing activity is expected to remain below historic averages, prime offices are expected to outperform the wider office sector in the coming 12-months as office utilisation continues to normalise whilst limited development has resulted in competition for the best office stock.

The multifamily apartment sector should remain a solid performer with high occupancy, steady leasing demand and stable rental growth, though this stability is offset by relatively low yields. Stronger income growth is expected in senior housing, particularly in the US, which will continue to benefit from demographic tailwinds associated with an ageing population.



Retail vacancies are dropping, while they are rising for industrial real estate. In offices, a focus on prime assets is required



Source: HSBC Private Bank as at 4 September 2025.

Private Markets

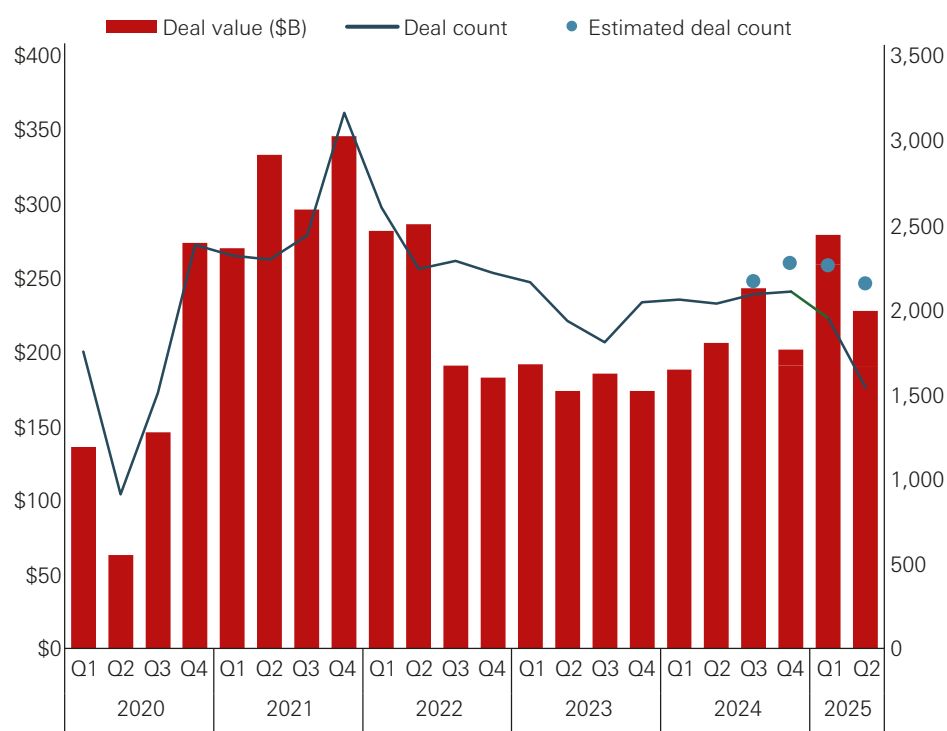
Private markets have continued to demonstrate resilience in 2025 despite persistent macro and policy headwinds. Tariff frictions, inflation pressures, and a “higher-for-longer” interest rate environment have weighed on transaction volumes across private equity (PE) and private credit (PC). Yet strong investor demand, disciplined capital deployment, and the potential for monetary easing later this year provide a cautiously optimistic outlook for the remainder of 2025 and into 2026.

Private Equity: waiting for more clarity

Private equity deal flow eased modestly from the prior quarter but remained stronger than a year ago. Q2 closed with 2,158 announced and estimated transactions, representing a 5% dip from Q1 but a 6.3% increase year-on-year. Total deal value came in at \$227.7 billion, including late-reported and undisclosed transactions – an 18.4% sequential decline, yet still up 10.7% versus 2024. Year-to-date, activity has been more robust, with aggregate deal value reaching \$506.7 billion, 28.7% higher than the same period last year, helped by a resurgence in large-cap transactions. After a slowdown in April and May linked to tariff-policy concerns, momentum improved in June as clarity around US-China trade negotiations provided some stability.

Exit markets told a different story, with liquidity remaining constrained. Exit values fell 46% compared to Q1, and

US PE deal activity by quarter



Source: Pitchbook as of June 2025; HSBC Private Bank as at 4 September 2025.

the number of exits was down 25%, with approximately 314 transactions worth \$119 billion completed during the quarter. The backlog of unrealised deals highlights ongoing challenges around pricing and financing conditions.

Still, selective activity continues. GPs remain focused on acquiring resilient, higher-quality assets in sectors such as technology and healthcare, where buyer appetite has held up. Continuation funds have also gained ground, totalling \$22 billion across 70 vehicles in H1 - up 44% from last year - as managers sought to provide partial liquidity while retaining investment in high-quality companies.

Private Credit: Flexibility in a High-Rate World

For Private Credit, activity moderated early in the year as the broadly syndicated loan (BSL) market absorbed refinancing flow before issuance slowed on tariff and policy concerns. Against this backdrop, private credit continued to play a crucial role in providing liquidity and refinancing solutions.

Investor demand has been exceptionally strong, with inflows into semi-liquid open-ended private credit funds underscoring its appeal as a yield and diversification source in a “higher-for-longer” environment. Spreads have compressed across market segments,



more significantly in the upper mid-market, but lenders have maintained underwriting discipline. Innovative deal structures such as payment-in-kind (PIK) interest, amend-and-extend facilities, and extendable tenors are increasingly used to help borrowers manage near-term refinancing pressures. This flexibility has supported deal flow even as headline transaction volumes remain below historical averages.

Credit fundamentals remain broadly stable. The Proskauer Private Credit Default Index recorded a 1.76% default rate in Q2 2025, down from 2.42% in Q1,

demonstrating resilience despite macro headwinds. Factors in the market do require monitoring, for instance rising use of PIK, maturity extensions, and debt restructurings could overlay underlying stress, particularly in cyclical industries. Looking forward, the prospect of a few Federal Reserve rate cuts in late 2025 or early 2026 could help reduce financing costs and spur refinancing activity.

Outlook: Navigating Challenges, Positioning for Opportunity

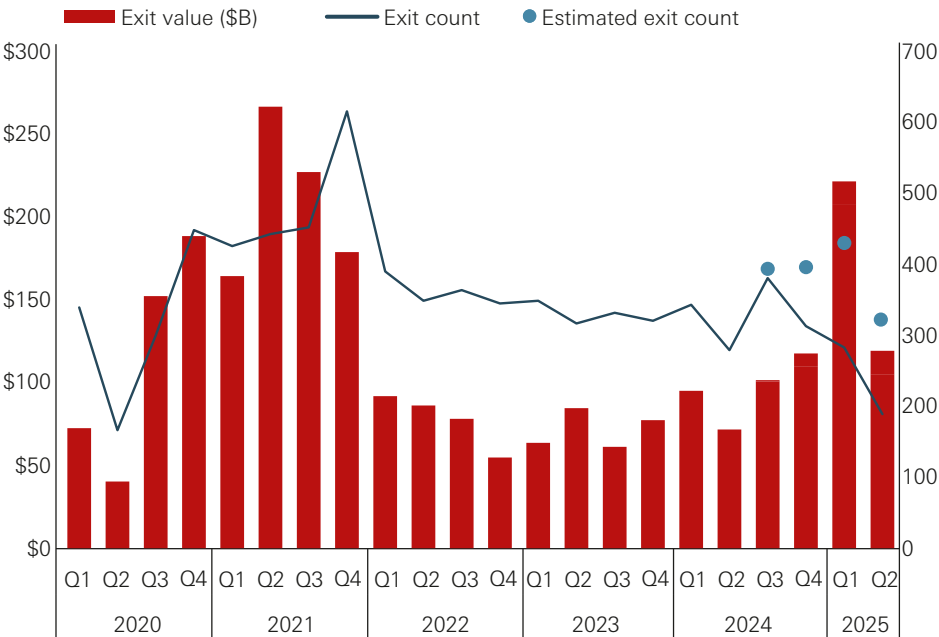
As we look toward late 2025 and into 2026, the private markets landscape presents a balance of opportunity and consideration. On the positive

side, the prospect of Federal Reserve rate cuts offers the potential for a meaningful easing in financing costs, which could revive both private equity exits and refinancing activity in private credit. Equity markets trading at highs, combined with strong earnings in technology, healthcare, and industrials, suggest that the IPO and M&A windows may gradually reopen, particularly for high-quality assets. Investor appetite remains strong across both asset classes.

Yet these tailwinds must be weighed against persistent risks. Tariff and policy uncertainty continues to cast a shadow, threatening supply chains and borrower profitability, while broader geopolitical tensions – from US-China relations to approaching elections – could inject fresh volatility. In private equity, transaction volumes remain subdued by historical standards, and in private credit, low default rates mask some underlying stress as borrowers increasingly rely on payment-in-kind structures and maturity extensions.

Taken together, the outlook is best characterised as cautiously optimistic. Conditions are clearly more constructive than a year ago, but success will hinge on selectivity and manager discipline. For investors, the focus should remain on high-quality managers, resilient sectors, disciplined deployment, and strategies designed to navigate volatility while capturing opportunities as markets reopen.

US PE Exit Activity by Quarter



Source: Pitchbook, HSBC Private Bank as at 4 September 2025.

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Risk disclosures

Risks of investment in fixed income

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

Credit risk

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

Risks associated with high yield fixed income instruments

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

- Capital growth risk - some high-yield bond funds may have fees and/ or dividends paid out of capital. As a result, the capital that the fund has available for investment in the future and capital growth may be reduced; and
- Dividend distributions - some high-yield bond funds may not distribute dividends, but instead reinvest the dividends into the fund or alternatively, the investment manager may have discretion on whether or not to make any distribution out of income and/ or capital of the fund. Also, a high distribution yield does not imply a positive or high return on the total investment.
- Vulnerability to economic cycles - during economic downturns such instruments may typically fall more in value than investment grade bonds as (i) investors become more risk averse and (ii) default risk rises.

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

- Subordinated debentures - subordinated debentures will bear higher risks than holders of senior debentures of the issuer due to a lower priority of claim in the event of the issuer's liquidation.
- Perpetual debentures - perpetual debentures often are callable, do not have maturity dates and are subordinated. Investors may incur reinvestment and subordination risks. Investors may lose all their invested principal in certain circumstances. Interest payments may be variable, deferred or cancelled. Investors may face uncertainties over when and how much they can receive such payments.

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

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

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

Changes in legislation and/or regulation

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

Nationalisation risk

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

Reinvestment risk

A decline in interest rate would affect investors as coupons received and any return of principal may be reinvested at a lower rate. Changes in interest rate, volatility, credit spread, rating agencies actions, liquidity and market conditions may have a negative effect on the prices, mark-to-market valuations and your overall investment.

Risk disclosure on Dim Sum Bonds

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

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

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

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

Alternative Investments

Hedge Fund - Please note Hedge Funds often engage in leveraging and other speculative investment practices that may increase the risk of investment loss. They can also be highly illiquid, are not required to provide periodic pricing or valuation information to investors, and may involve complex tax structures and delays in distributing important information. Alternative investments are often not subject to the same regulatory requirements as, say, mutual funds, and often charge high fees that may potentially offset trading profits when they occur.

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

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; (e) higher rates of inflation; (f) less oversight by a regulator of local securities market; (g) longer settlement periods in so far as securities transactions and (h) less stringent laws in so far the duties of company officers and protection of Investors.

Risk disclosure on FX Margin

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

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

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

Currency risk – where product relates to other currencies

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

Chinese Yuan (“CNY”) risks

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

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

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

Illiquid markets/products

In the case of investments for which there is no recognised market,

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

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

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An investment which is considered to fulfil sustainable criteria today may not meet those criteria at some point in the future. When we allocate an HSBC ESG and Sustainable Investing (SI) classification: HSBC ESG Enhanced, HSBC Thematic or HSBC Impact (this is known as HSBC Purpose in the UK) to an investment product, this does not mean that all individual underlying holdings in the investment product or portfolio individually qualify for the classification. Similarly, when we classify an equity or fixed income under an HSBC ESG Enhanced, HSBC Thematic or HSBC Impact (this is known as HSBC Purpose in the UK) category, this does not mean that the underlying issuer's activities are fully aligned with the relevant ESG or sustainable characteristics attributable to the classification. Not all investments, portfolios or services are eligible to be classified under our ESG and SI classifications. This may be because there is insufficient information available or because a particular investment product does not meet HSBC's SI classifications criteria.

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