

Top Trends and
High Conviction Themes
Q1 2026

Building the Future: Navigating the Next Wave

Contents

03 Welcome

04 Developing a Thematic Investment Strategy

06 **Asia in the
New World Order**

10 Asia's Data Centre Boom
12 China's Innovation Champions
14 Power Up Asian Shareholder Returns
16 High Quality Asian Credit

18 **Disruptive Technologies**

21 Aerospace and Security
23 Evolving AI Ecosystem

25 **Climate Action**

28 Energy Security
30 Biodiversity and Circular Economy

32 **Evolving Society**

35 Social Empowerment and Well-being
37 Streaming and Subscriptions

39 **Seeking Diverse Returns
as Fed Rate Cuts End**

42 North American Re-industrialisation
44 Global Financials
46 M&A and Shareholder Value Creation
48 Income Through Active Credit Selection

50 Disclaimers

Welcome

Dear Client,

When we heard who received this year's Nobel Prize, we interpreted it as a stamp of approval for our investment themes. Not the Nobel Peace Prize, that is, but the prize for Economics.

The three gentlemen who won the prize highlighted the role of innovation in creating economic growth. One emphasised technological progress and the accumulation of useful knowledge, while the others formalised the concept of 'creative destruction'.

We couldn't agree more. We believe it is innovation – spurred by Artificial Intelligence (AI) – that will keep global economic growth going in 2026. Even more importantly, it will also be the main engine for earnings growth. Not surprisingly, all the equity markets we currently overweight are among the world's 15 most innovative countries – led by the US and Asia, with Europe lagging.

The investment themes we discuss in this publication also centre around innovation. The themes under our 'Disruptive Technologies' trend are, of course, the direct beneficiaries, tapping into the evolving AI ecosystem and Aerospace and Security. But as the distinguished gentlemen highlight, institutions, regulation and ecosystems matter greatly too. That's why social empowerment is key too in enabling that innovation, while energy security is crucial to literally 'power up' the innovation economy.

We recognise, however, the risks of excessively concentrating on themes that are very correlated. For one, even as the trend in AI is very well supported, there could be some temporary delays, or investors could start to worry about valuations, which have run up significantly in 2025. Most themes around innovation are also interest-rate sensitive, as much of the profits lie in the future and hence such stocks are often of the 'growth-style' variety.

That's why you will find some less correlated themes too, to help you diversify a bit. Firstly, we present a number of Asia-focused themes, as we see more support for those stock markets and tech-related portfolios are all too often very US-heavy. In addition, we add income-oriented opportunities, a theme around M&A, as well as sector diversification with industrials and financials. Diversifying your implementation strategies across public markets, private markets and hedge funds can also help to find better value or manage short-term risks.

It's by adopting all of these strategies that we manage volatility while tapping into exciting trends to improve the portfolio's long-term return potential.



Willem Sels,
Global Chief Investment Officer
December 2025



Developing a Thematic Investment Strategy

The traditional equity strategy framework using sectors and geographies is outdated. And you just have to look at a number of examples to quickly realise this.

One UK utility company now derives much of its value from a cloud-based software and operating platform that has transformed it into a high-margin tech business. An Indian energy conglomerate created one of the world's largest 4G/5G networks and has invested massively in AI, cloud, digital payments and edge computing. And a French consumer staples company is now a world leader in computer vision. Geographical classifications can be misleading too. No one really looks at the Danish producer of diabetes and obesity drugs or the Taiwanese world leading semiconductor foundry, as local Danish or Taiwanese businesses, but as truly global companies.

What these examples do have in common is that they are all on the forefront of technological innovation. (They also show that tech is not just the domain of the US). So, all of them could be considered tech companies in some way. It is no surprise, therefore, that more and more investors and analysts compare companies from different parts of the world and across different sectors to see who is winning and who will lag.

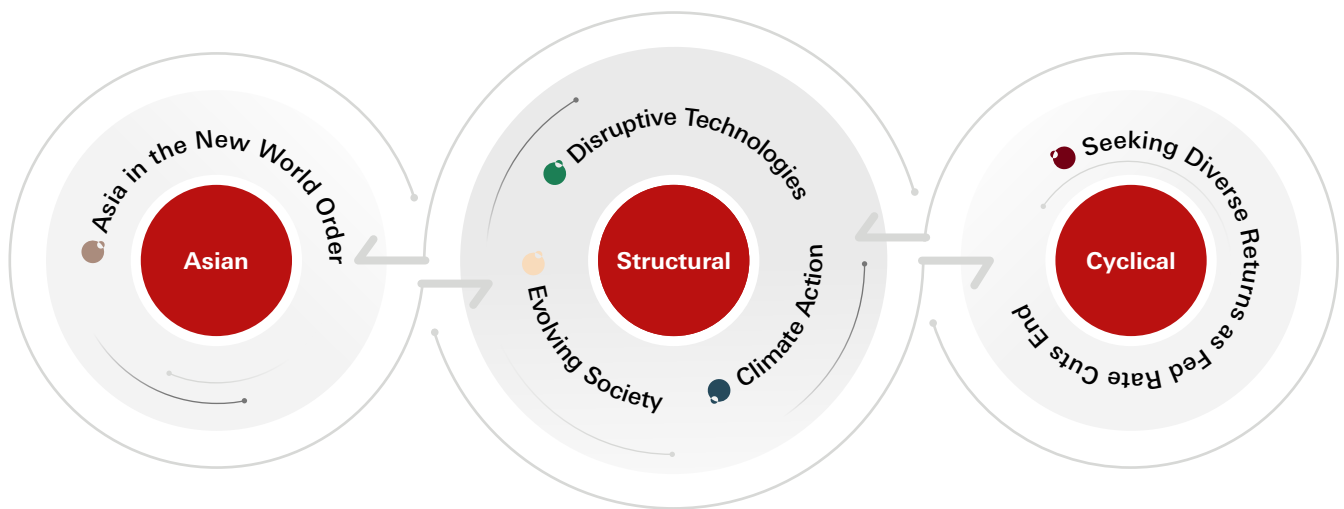
And herein lies the value of Thematic Investing. If, like us, you believe that there are solid long-term trends in place around Disruptive Technologies, our Evolving Society or Climate Action trends, you will want to incorporate those into your portfolio strategy in some way. We complement these trends with a number of Asia-focused themes and some more cyclical themes.

Those five trends will be familiar to our regular readers, because they have been in place for several years now. However, under these trends, we shift some of the themes depending on short-term forces. For example, we have put our Robots & Automation theme on hold because Chinese demand has slowed as the drive against overcapacity reduces investment in new factories. In Asia, we launched a new theme called 'Asia's Data Centre Boom' to tap into the very rapid build-out of data centres, which is supported by policy and is benefiting chipmakers, semiconductor equipment manufacturers, power equipment and smart grid suppliers. And in developed markets, we added a new 'M&A and Shareholder Value Creation' theme under our cyclical trend, as corporate activity increases and investors value event-driven returns that show low correlation to market direction.

We hope that our overview of themes can help you invest across borders and sectors. But we also want to highlight one of the pitfalls of thematic investing, which is that they typically are very tech focused and often have some

overlap. That can make portfolios interest-rate sensitive or concentrated. It is therefore best to size investments appropriately, look for some less correlated themes and consider the risk of the portfolio in its entirety.

Our Top Trends and High Conviction Themes



Global High Conviction Themes

Asian	Structural			Cyclical
<ul style="list-style-type: none"> Asia in the New World Order Asia's Data Centre Boom China's Innovation Champions Power Up Asian Shareholder Returns High Quality Asian Credit 	<ul style="list-style-type: none"> Disruptive Technologies Aerospace and Security Evolving AI Ecosystem 	<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"> Seeking Diverse Returns as Fed Rate Cuts End North American Re-industrialisation Global Financials M&A and Shareholder Value Creation Income Through Active Credit Selection

Asia in the New World Order

Being the world's technology hardware powerhouse, largest consumer and manufacturer, Asia stands out as a geared beneficiary of the super AI investment cycle and innovation-driven productivity gains. We see compelling diversification opportunities from Asia's vast, heterogeneous and rapidly growing AI ecosystem at attractive valuations while the region's resilient domestically oriented economies offer diverse sources of enduring income. Our barbell strategy balances our preference for tech innovation champions with strong focus on high dividend stocks and quality bonds.

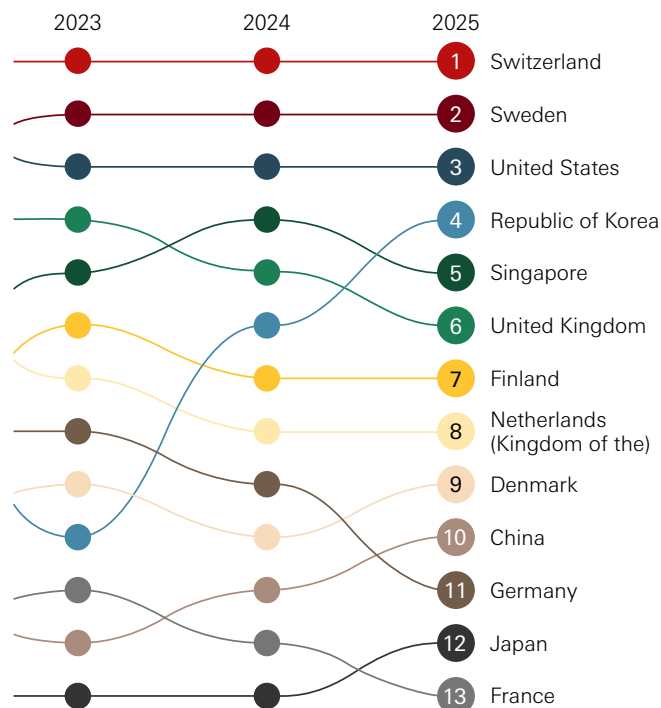
Our four high conviction themes

- 1 | Asia's Data Centre Boom
- 2 | China's Innovation Champions
- 3 | Power Up Asian Shareholder Returns
- 4 | High Quality Asian Credit

The global AI race is reshaping the world economic order and becoming a battleground of geopolitical innovation race to strengthen national power, security and global influence. National AI strategies are firmly in place in China, Japan, South Korea, India, Singapore, Malaysia and Indonesia with direct state funding, tax breaks and industrial policy incentives to support AI infrastructure investments. Ageing demographics in North Asia drives rapid adoption of robotics and automation in the manufacturing sector while young populations in India and ASEAN create enormous digital consumption demand.

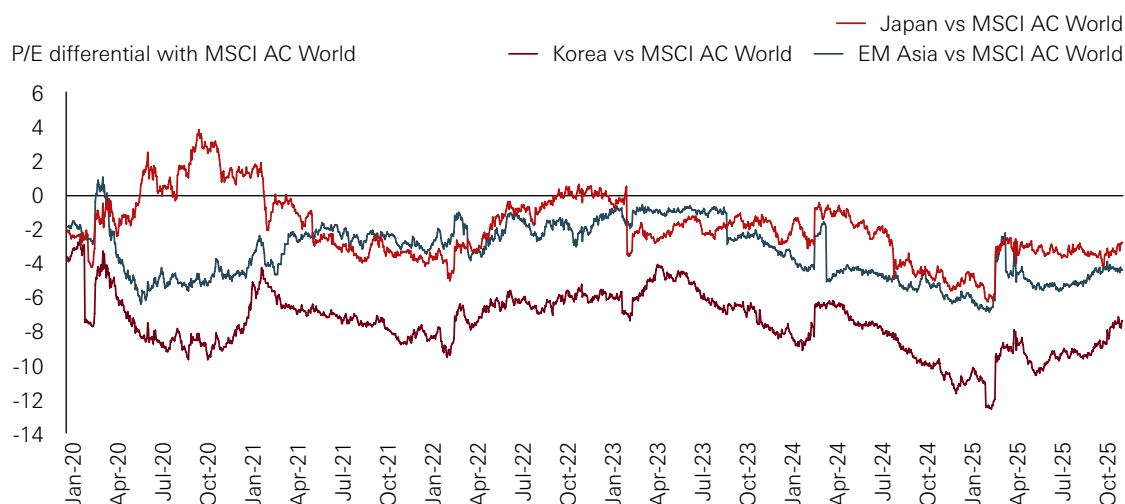
Amid growing concerns about the risks of delayed AI earnings in the US, we launched the new theme on **Asia's Data Centre Boom** that captures structural growth opportunities from the rapid buildout of data centres and energy infrastructure across the region. We believe Asia commands distinctive competitive advantages over the US in the data centre buildout due to strong government policy support, competitive energy costs, high renewable potential, manufacturing proximity and massive digital consumption data and user scale. Asia's 2.9 billion internet users (over 50% of global online population) generate huge cloud and AI workloads (Source: Statista, 2025).

2025 Global Innovation Index rankings show Asia's ascent in innovation capabilities



Source: Global Innovation Index Database, World Intellectual Property Organisation (WIPO), 2025, HSBC Private Bank as at 15 December 2025.

Asia equity valuations are still cheap compared to world averages and in line with history



Source: Bloomberg, HSBC Private Bank as at 15 December 2025. Past performance is not a reliable indicator of future performance.

Asia Pacific is projected to deliver the world's fastest buildout of data centres by 2030, driven by strong local AI demand with deep penetration of digital services. According to KPMG estimates, data centre capacity in Asia Pacific is projected to grow at CAGR of 13.1% over the 2025 – 2030 period, much faster than 9.2% in North America and 5.3% in Europe.

Asia's robust renewable energy infrastructure, land availability, lower labour and electricity costs, power grid stability and more friendly regulatory environment have attracted many US hyperscalers to invest in data centres, especially in ASEAN and India. We favour Asian

chipmakers and semiconductor equipment manufacturers which benefit from supercharged demand for data centres. Industry leaders in the data centre supply chains, power equipment and smart grid suppliers benefit from strong investments in AI infrastructure.

Since the DeepSeek breakthrough in January 2025, China's rising global leadership in AI innovation and advanced manufacturing has driven strong re-rating of the China equity market. Our theme on **China's Innovation Champions** focuses on national champions across the AI value chains, spanning from AI cloud and agents, software, to physical AI and AI-enabled biotech leaders.

China's Fourth Plenum endorsed the 15th Five-Year Plan (2026 – 2030) that set top policy priority on technology self-reliance and innovation-driven growth model. China's unrivalled cost advantages, outstanding engineering capabilities and rapid commercialisation have accelerated the pace of AI adoption across many industries.

According to International Data Corporation (IDC) data, China's AI cloud market surged 122.4% y-o-y in H1 2025, driven by rapid AI adoption and training demand growth after the DeepSeek success. AI-enabled drug discovery is supercharging Chinese biotech leaders which now command a stronger competitive position in the global biotech sector driven by globalisation via business development deals.

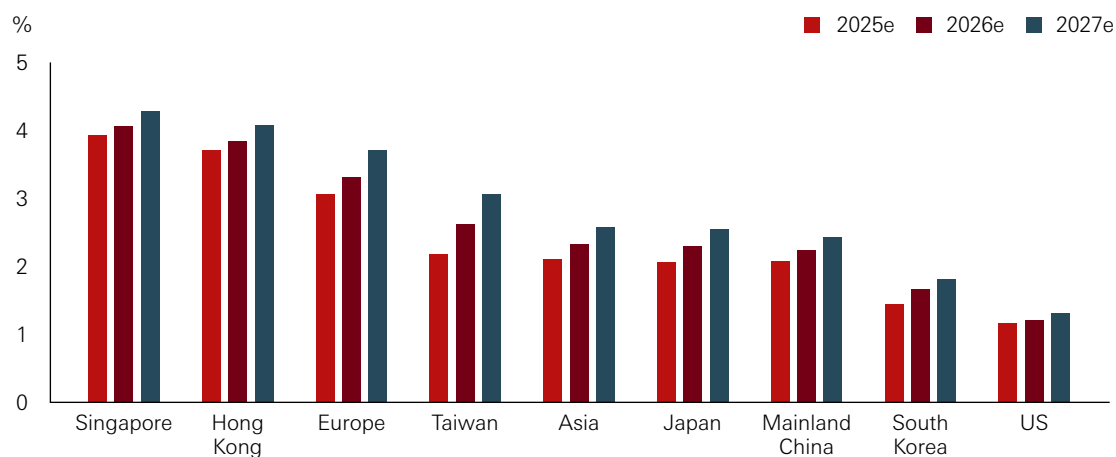
Our barbell strategy balances our Asian equity exposure beyond AI with strong focus on quality income. Our theme on **Power Up Asian Shareholder Returns** stays focused on quality companies that improve ROE by paying high dividends, increasing share buybacks, and taking value-adding corporate actions. Corporate governance reforms in Japan, China, South Korea and Singapore support our overweight positions in these markets. The “value unlock” package launched by the Singapore government in September and the “Value-up Programme” in South Korea encourage more

listed companies to take corporate actions to lift ROE.

Higher dividend payouts and increasing share buybacks are expected to improve Asia ex-Japan’s ROE to 13% in 2027e from 10.8% in 2024 (Source: HSBC Private Bank as at 15 December 2025). Driven by the corporate governance reform, Japanese companies announced share buybacks in April that surged 220% y-o-y. Despite the YTD market rally, 2025e dividend yields still look attractive in Singapore at 4.0%, and Hong Kong at 3.8% (rated overweight), compared with 1.8% for the MSCI World Index (Source: Bloomberg).

Lower Fed rates create room for Asian central banks to cut rates further amid soft inflation and stable Asian currencies. Our theme on **High Quality Asian Credit** focuses on Asian IG credit with medium duration (5 – 7 years). We are overweight Chinese hard currency bonds and Indian local currency debt for their attractive carry. We also favour Japanese and Australian corporate IG and financials. We seek opportunities in Asian IG bonds denominated in EUR, AUD and GBP to diversify FX exposure. Asian IG bonds offer attractive headline yields of around 4.4% (Source: Bloomberg) and should benefit from global diversification flows and strong local investor demand.

Rising dividend yields create good value and help balance portfolios



Source: Bloomberg, HSBC Private Bank as at 15 December 2025.

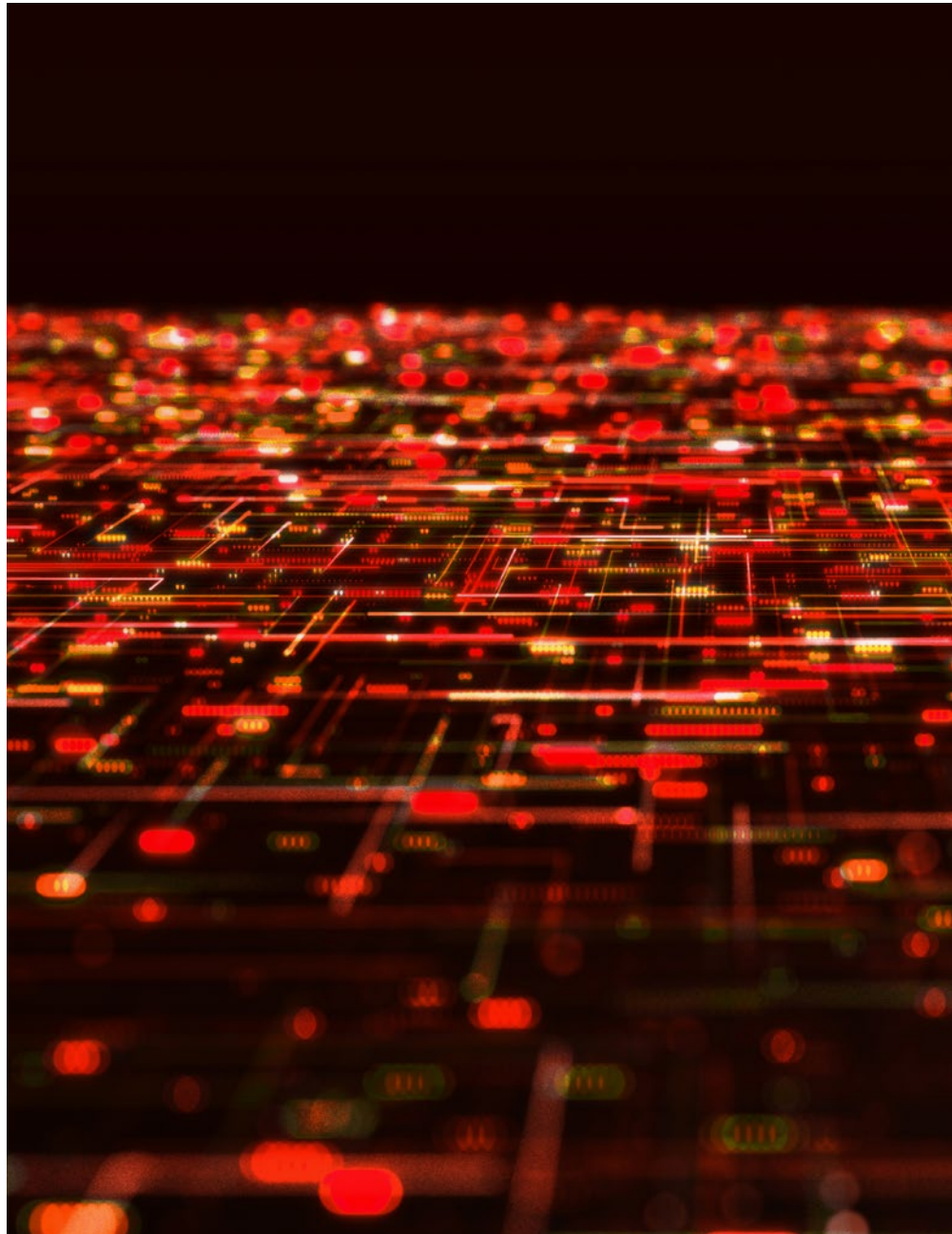
1 Asia's Data Centre Boom

Overview

- Asia Pacific is forecasted to have the fastest build-out of data centres by 2030, at a pace much faster than the US and Europe. This is due to strong government policy support, competitive energy costs, manufacturing proximity, and strong local AI demand with deep penetration of digital services.
- To meet the extremely high energy requirement, Asia is uniquely positioned to provide this enormous power by feeding new renewable energy capacity with cost advantages. Asia's robust renewable energy infrastructure, land availability, lower labour and electricity costs, power grid stability and more friendly regulatory environment have attracted many US hyperscalers to invest in data centres, especially in ASEAN and India.

The Opportunity

- The investment opportunities include leaders in data centre supply chain as well as those involved in building the power infrastructure to meet the energy requirements of data centres.
- Leaders in data centre supply chains are expected to see supercharged demand from the fast build-out of data centres, including chipmakers, semi equipment manufacturers, cooling systems, servers and data cables.



1 Asia's Data Centre Boom (continued)

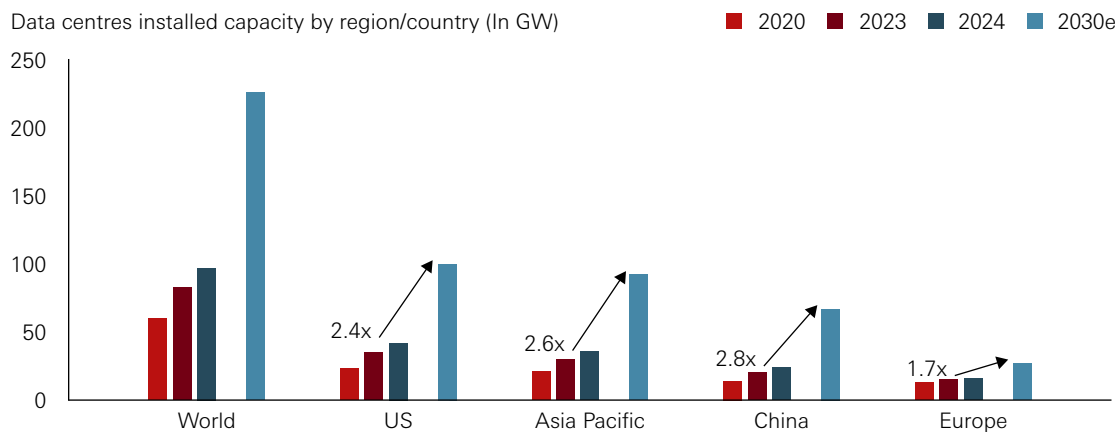
- Nuclear power is key to AI data centres' power demand and leading companies in the region can provide the required solutions.
- Energy storage is another important aspect to provide the much-needed power reliability. In the event of a power outage or grid failure, battery backup provides instant power, ensuring uninterrupted operations. It can also help data centres optimise energy usage through techniques like load shifting and peak shaving.

Why Now?

- The build-out of data centres in the US may see some bottlenecks, given labour and cost issues. As the US has seen decades of underinvestment in electricity infrastructure, the country does not have established supply chains and trained workforce for rapid infrastructure deployment. The cost of building new power plants has therefore reached unprecedented levels.

- In contrast, Asia is well-positioned to ride on the data centre boom, given cost advantages. Countries that see consistent electricity demand growth are also more capable of deploying the necessary power infrastructure.

Data centres in Asia Pacific are expected to see the fastest growth, led by China, outpacing the US and Europe



Source: International Energy Agency (IEA), HSBC Private Bank as at 15 December 2025. Forecasts are subject to change.

2 China's Innovation Champions

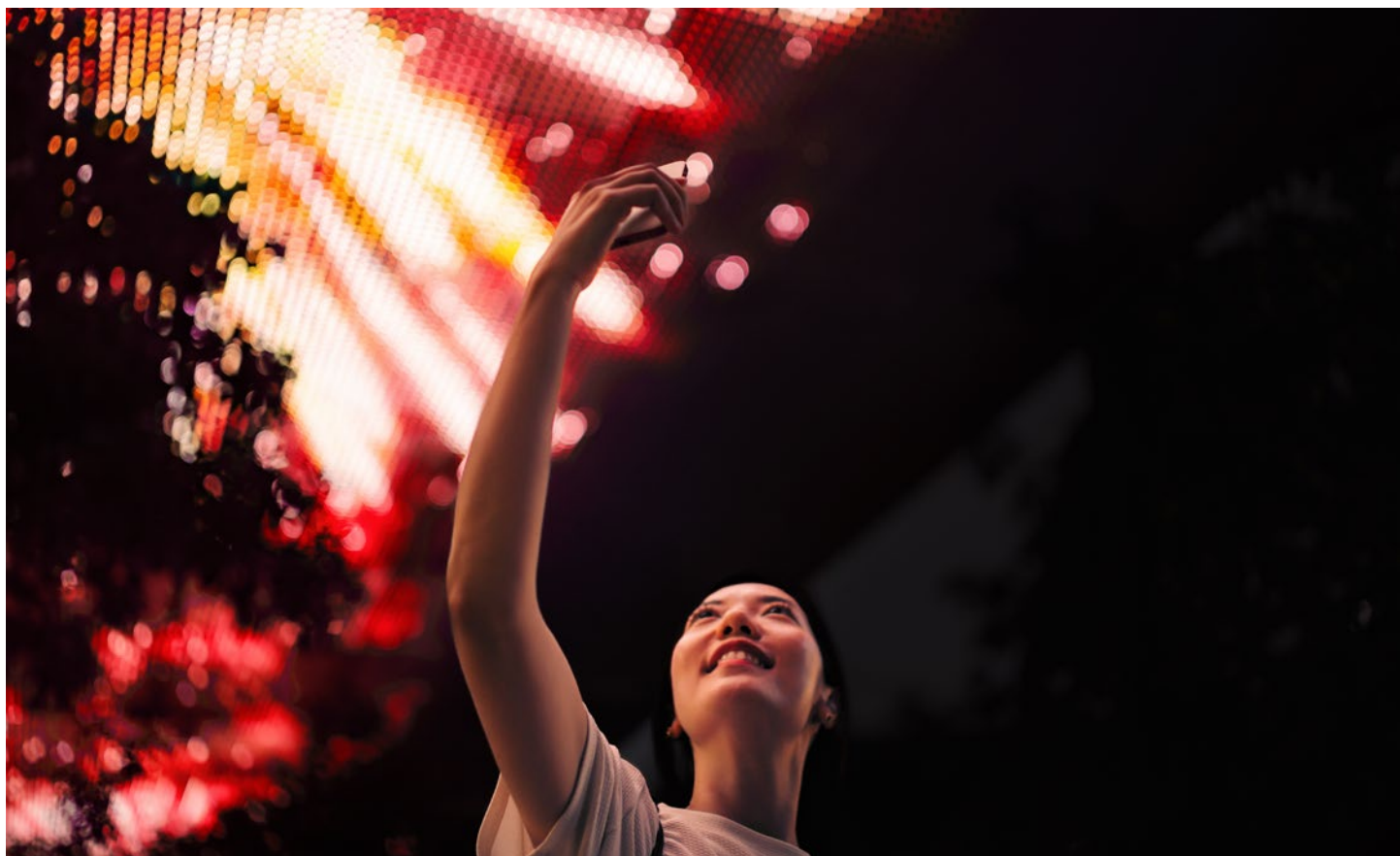
Overview

- AI development in China should see a supercharged growth in the next few years with the expanding AI capex plans from major Chinese tech leaders, supportive government policies and the step changes in software and semiconductors. The open-source large language models could be one of the biggest leaps in China's innovation in the global market.

- The demand for computing power has surged. International Data Corporation (IDC) estimates that China's AI computing power is projected to reach over 1000 EFLOPS* in 2025, double that in 2023, and projected to double again by 2027. Given China's advantage in bringing costs down and the ability to innovate, AI adoption in China should spread quickly.

The Opportunity

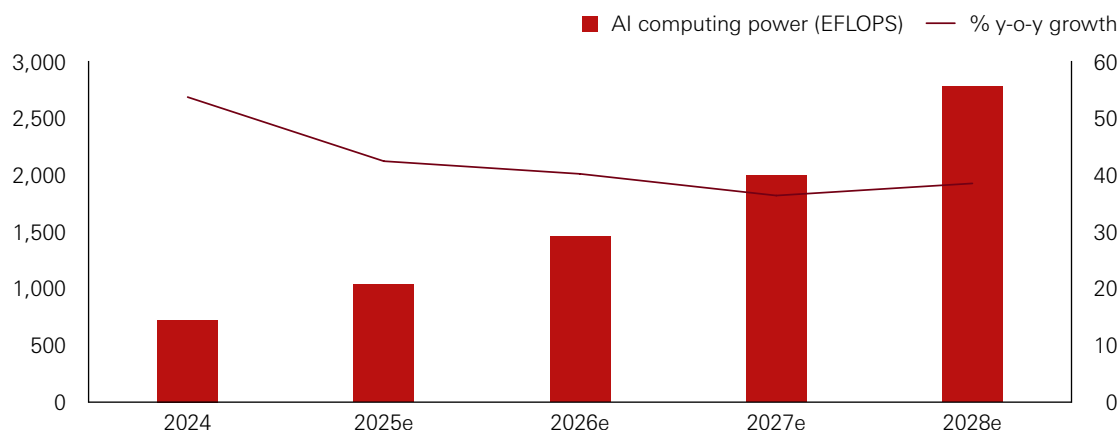
- We focus on national champions across the AI value chain, spanning from AI cloud and agents, software, to physical AI and AI-enabled biotech leaders.
- The market size of China's AI public cloud is projected to more than double in 2025, driven by surging demand for AI training and applications (Source: IDC).



Note: * FLOPS: Floating-point Operations Per Second. One EFLOPS equals one quintillion (short scale) or one hundred quintillion (long scale) floating-point operations per second (10^{18} FLOPS).

2 China's Innovation Champions (continued)

China's AI computing power is projected to see a 40% CAGR in 2025 – 2028 period



Source: IDC, HSBC Private Bank as at 15 December 2025.

We expect this trend to continue as more generative-AI applications will drive higher demand for AI cloud services.

- China is uniquely positioned at the intersection of AI software and high-end manufacturing to drive the next wave of physical AI, connecting AI with the physical world. There are industry-specific innovations as Chinese companies invest heavily in the AI development.

- AI can be applied in various industries such as healthcare, industrial manufacturing, finance, etc. AI-enabled drug discovery is accelerating China's role as a prominent player in global biotech, given their fast timelines, lower costs, and supportive policies.

Why Now?

- Tech innovation and self-sufficiency were highlighted as key focus areas in China's Fourth

Plenum and 15th Five-Year Plan.

We expect AI in China to become one of the key drivers for its economic growth as it penetrates across industries to provide new growth engines.

- China's biotech leaders demonstrate improving innovation capability, and we see an optimistic outlook driven by globalisation via business development (BD) deals.

3 Power Up Asian Shareholder Returns



Overview

- Equity investors should continue to benefit from the ongoing corporate reform programmes in Asia. We think improving total shareholder returns will translate into better share price performance.
- Higher dividend payouts and more share buybacks in the region are expected to lift Asia ex-Japan's ROE from c12% in 2025 to c13% in 2027e (Source: HSBC Private Bank as at 15 December 2025).

- We identify resilient, defensive and quality stocks which can enhance their ROE through improved corporate governance and reward shareholders by paying higher dividends and buying back more shares.

The Opportunity

- The Singapore government unveiled plans for a “value unlock” package in September and encouraged Singapore listed firms to improve governance

and shareholder returns. More stock market incentives are due to be announced.

- In China, the renewed decline in long-term government bond yields could make high-dividend Chinese stocks more attractive for the carry. The enhancement of dividend payouts and share buybacks remain in focus, which can create opportunities for yield-searching investors.

3 Power Up Asian Shareholder Returns (continued)

- In South Korea, there is government support for investor-friendly reforms to enhance corporate governance and improve rights of minority shareholders. The “Value-up Programme” aims to improve the corporate governance discount in the valuations of the stock market.
- Japan is seeing record share buybacks and rising dividends, underscoring the Japanese companies’ improving returns to shareholders.

- Investment opportunities exist in corporate governance reform names in Japan, quality Chinese SOEs, and South Korea, as well as undervalued high dividend stocks in Hong Kong and ASEAN markets.

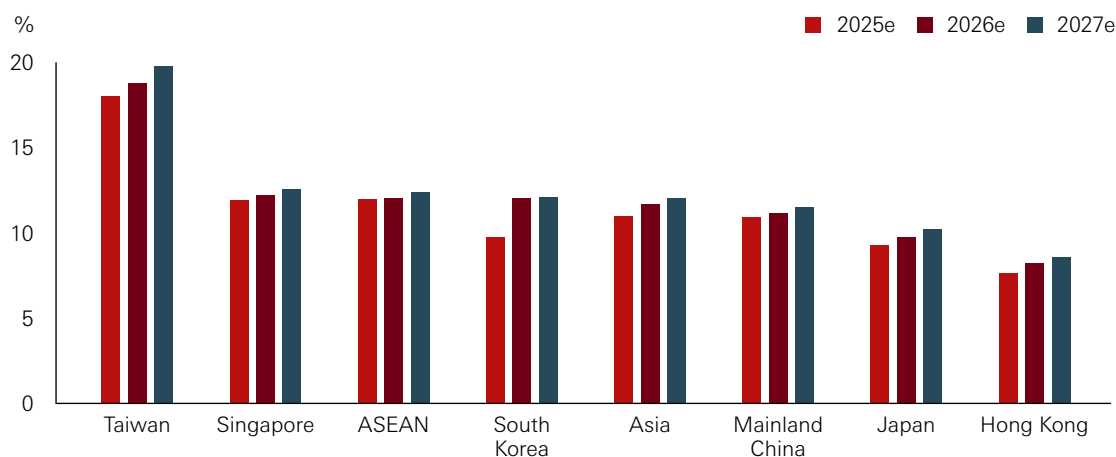
Why Now?

- As the Fed has lowered its policy rates, Asian central banks have scope to cut rates

further (with Japan as the only bigger exception), increasing the attractiveness of high dividends as the gap between dividend yield and bond yield is expected to widen.

- Investors can enjoy stable returns through dividends by owning high dividend names with good earnings visibility.

ROEs across Asian markets should see improvements



Source: Bloomberg, HSBC Private Bank as at 15 December 2025. Forecasts are subject to change.

4 High Quality Asian Credit



Overview

- Asian quality bonds offer attractive headline yields, supported by further interest rate cuts by Asian central banks amid mild inflationary pressure and resilient Asian currencies.
- The strong demand for Asian hard currency bonds meets shrinking supply, supporting Asian USD-denominated credit spreads.

- We focus on medium duration for Asian USD IGs.

The Opportunity

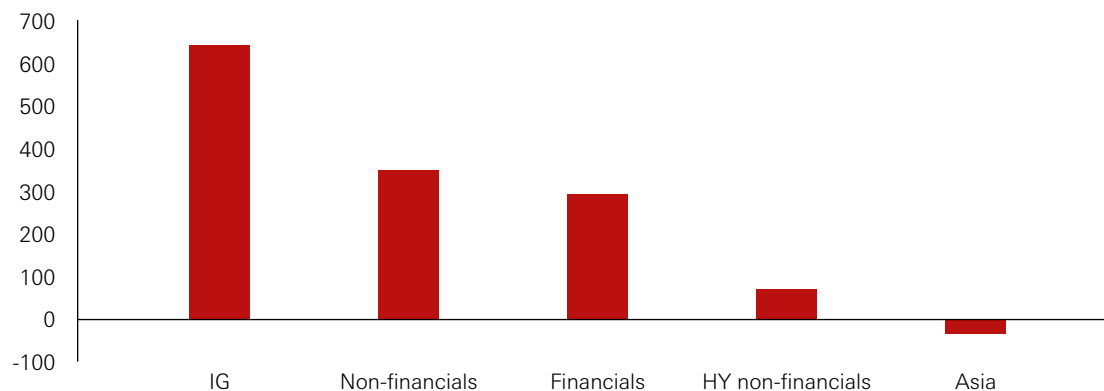
- The improved sentiment towards Chinese capital markets should drive more foreign inflows into offshore Chinese bond markets, sparked by its AI-led innovation and supportive policies. We prefer

Chinese Technology, Media, and Telecommunications (TMT) issuers with strong balance sheets, while Macau gaming remains backed by strong fundamentals of casino operators. We stay cautious on Chinese property names as more supportive measures are needed to cushion the potential downside in Chinese real estate markets.

4 High Quality Asian Credit (continued)

Asian credits are supported by favourable supply-demand dynamics

USD credits' net supply forecasts for 2025 (In USD bn)



Note: Net supply is gross issuance net of redemptions. For Asia, it includes sovereigns, financials, IG & HY.

Source: Bloomberg, HSBC Private Bank as at 15 December 2025. Forecasts are subject to change.

- Japanese IG bonds offer yield enhancement. The macro backdrop of Japan remains supportive amid strong economic growth. We prefer select Japanese IG corporates, financial bonds as well as insurance hybrids.
- We like Australian IG bonds issued by high quality banks/ companies with medium duration, denominated in both USD and AUD. The market is tilted towards high quality issuers with established commodity producers, services businesses and well-capitalised banks.

- We also seek opportunities in high quality Asian credits denominated in EUR, AUD and GBP to diversify FX exposure.

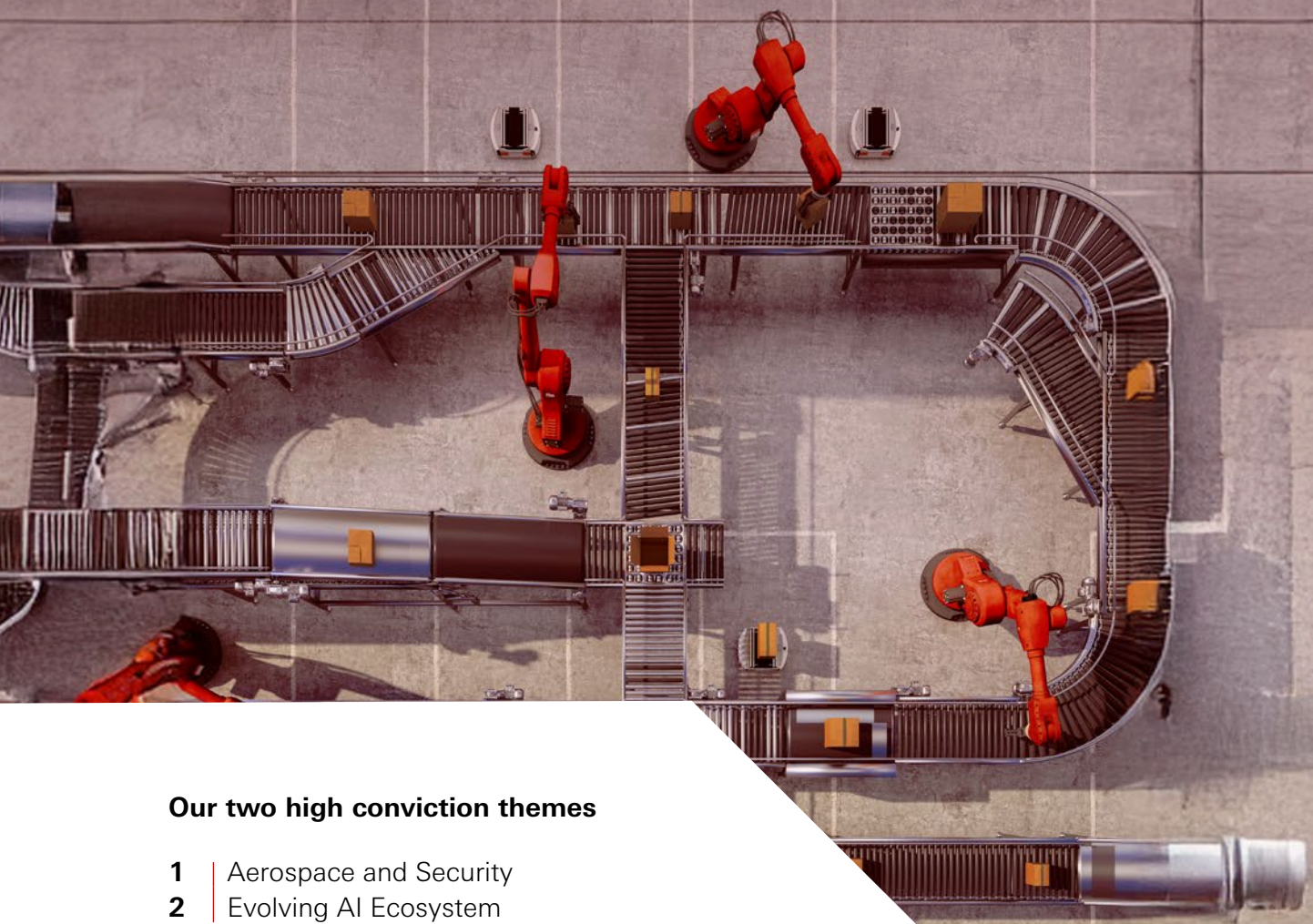
Why Now?

- Given resilient Asian currencies and low inflation among Asian economies, Asian central banks have room for further monetary easing. We expect central bankers in Asia to further cut interest rates.

- Demand for Asian credit remains solid given attractive yields and investors' interest. Global funds have started to re-allocate investments towards China, given improving investor sentiment and policy clarity.

Disruptive Technologies

A perfect storm is brewing for employees across the spectrum as the commercial deployment of quantum computing and agentic AI gains momentum. Processes, products, services and jobs will either have to be re-imagined or may in fact become redundant. Some changes will be less radical than others, but overall the developments will be overwhelming positive as we will illustrate below using practical examples.



Our two high conviction themes

- 1 | Aerospace and Security
- 2 | Evolving AI Ecosystem

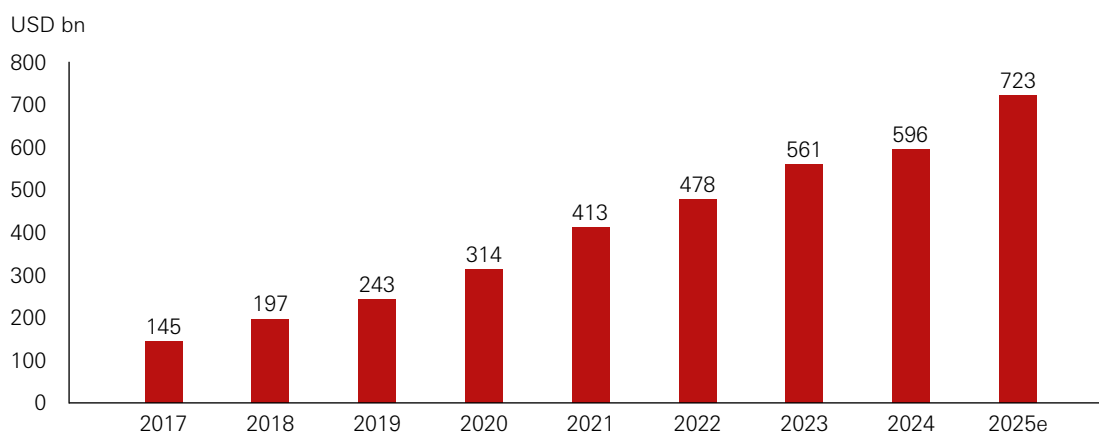
Scalable AI services are now a reality as tens of billions of US dollar have and are being poured into the build-out of digital infrastructure adding capacity in semiconductors, data centres, utilities (electricity and water), storage, high speed connectors etc. Leading providers have already established global networks of data centres, both owned and rented, with one announcing it had over 900 data centres in 50 countries. The build-out of supporting infrastructure is often a major factor limiting factor that delays or restricts the full potential of a new technology. There are plenty of recent examples including 5G mobile networks and electric vehicle charging infrastructure. The basic infrastructure is now built, but as new AI applications are deployed

and its capability expanded, digital infrastructure capacity will need to be massively expanded to meet the demand.

In addition, we are already seeing an explosion of data generation in the last two decades that is only going to grow further. This data will require storage capacity and suitable software to analyse it. For example, digital sensors are appearing everywhere from satellites to Bluetooth connected refrigerators, all are generating vast amounts of new data. Current AI software and data centres are becoming an increasingly important and essential means of analysing all this data. AI software is in need of more powerful computers. Quantum computer offers great promise for certain tasks.

The promise of AI combined with the computation power of quantum computers promise to provide answers or solutions to some of science's fundamental questions that will test long held theories such as the Standard Model used in particle physics or in forecasting financial market movements. Quantum computing is particularly suited to optimisation problems and simulations. Optimisation means finding the best solution among many possibilities, particularly useful in fields such as traffic management, financial modelling, and logistics. Simulations are good for simulating complex molecular structures at the atomic level, which could revolutionise drug discovery, materials science, and energy solutions.

The end-user spending on public cloud services has been on a steady rise worldwide



Source: Statista, HSBC Private Bank as at 15 December 2025.

In healthcare, these capabilities combined with those already evident from AlphaFold could be transformational. AlphaFold is an AI system developed by Google DeepMind that predicts a protein's 3D structure from its amino acid sequence. It regularly achieves accuracy competitive with experiment.

As recently as September 2025, HSBC and IBM embarked on a collaborative initiative to harness the capabilities of IBM's Quantum "Heron" class processor, which operates within the 133-156 qubit range and employs superconducting technology. This partnership achieved a remarkable 34% enhancement in forecasting the likelihood of a corporate bond being filled at a quoted price, compared to traditional techniques utilised in trading systems.

In October 2025, Google's Quantum AI team made a significant announcement regarding its research findings. It revealed that its Willow quantum computer executed a verifiable algorithm on hardware at a speed 13,000 times faster than the most advanced classical supercomputer. This breakthrough enabled it to compute the structure of a molecule, paving the way for tangible real-world applications.

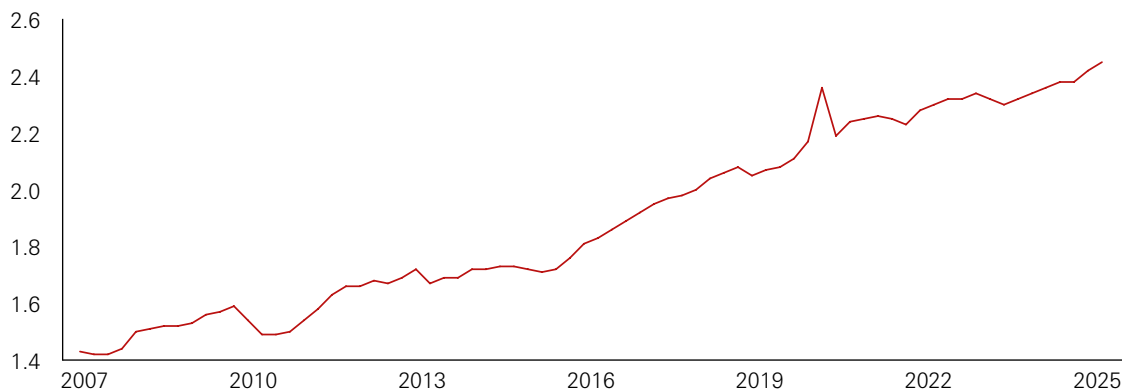
However, more advanced agentic commerce is the area with the greatest potential. Agentic AI is an intelligent system autonomous decision-making and action made up of autonomous agents that can act, adapt, and interact with both humans and machines. Agentic AI promises much more as it combines multiple types of

artificial intelligence that, together, make it capable of planning, acting, learning, and improving. To put this in perspective, the current leading AI model is arguably GPT, which mainly focuses on text generation.

The power and practical applications of the rapidly evolving AI software are already evident. Its potential to transform the workplace and daily lives is becoming increasingly apparent. Its potential could be further unlocked with greater computation power. The human brain's capacity to solve problems has often been a limiting factor whether it is in astronomy, medicine, physics or how to optimise out electrical grids. That looks set to change as we embark on the next exciting technology cycle.

AI-led Investments are driving the US economic growth

US: Software investment share of GDP (%)



Source: World Intellectual Property Organisation (WIPO), HSBC Private Bank as at 15 December 2025.

1 Aerospace and Security

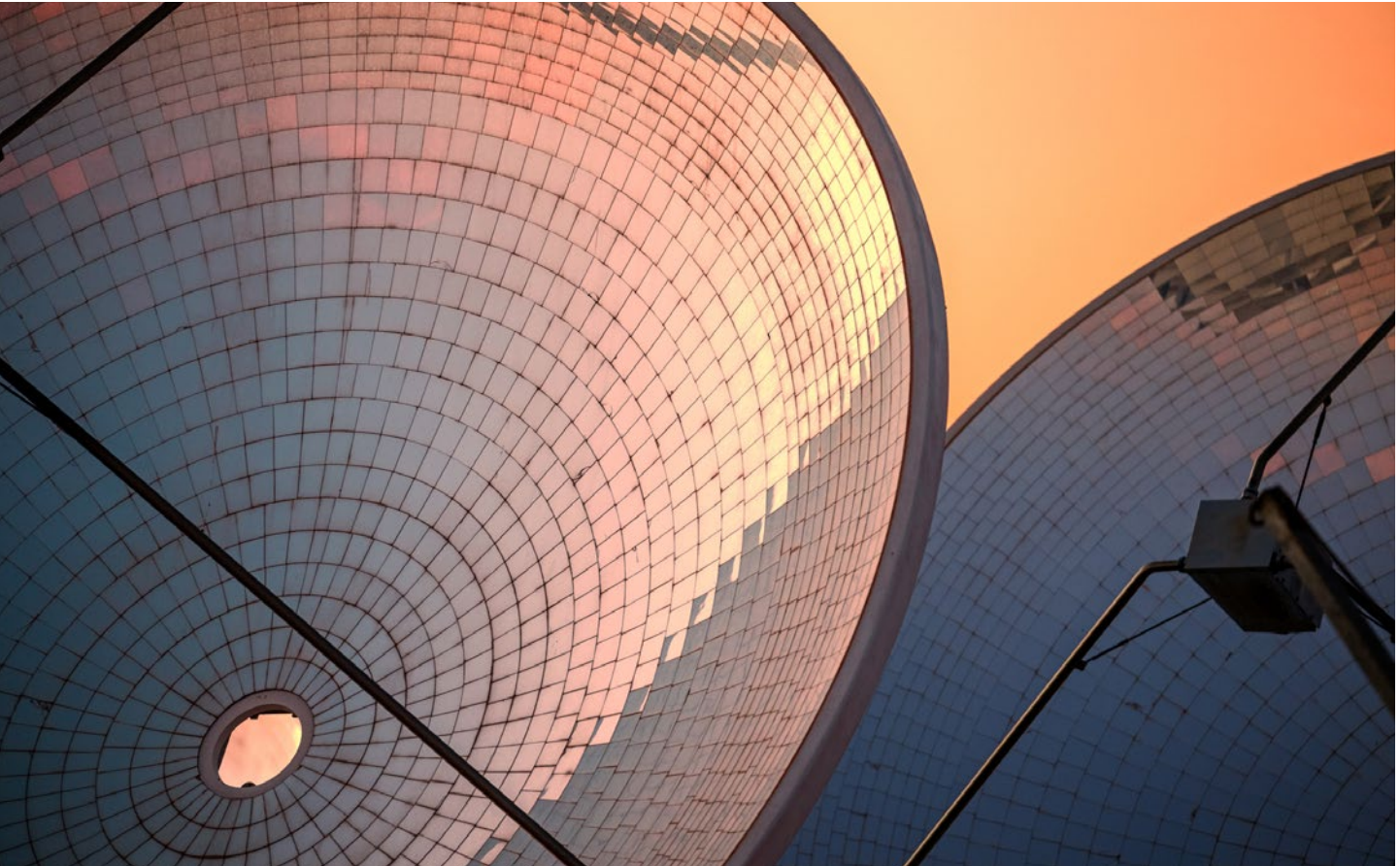
Overview

- A realignment of geo-political alliances and recent events have led to a re-evaluation of national priorities and large increases in defence budgets.
- Commercial aircraft businesses continue to experience strong demand with order books filled for several years as airlines look to improve efficiency and expand capacity.

- New technologies are reshaping the industry. Cybersecurity is in high demand, as threats are evolving quickly too.
- The space economy is transitioning as the cost of satellites, launchers, landers and other new technologies has plummeted, and new entrants have invested.

The Opportunity

- The space and defence industries have shrunk and consolidated over the last three decades which has reduced competition and concentrated the commercial opportunities, while demand has increased sharply.
- New technologies provide commercial opportunities, including unmanned air and sea drones; autonomous software vehicles and ultra small satellites.



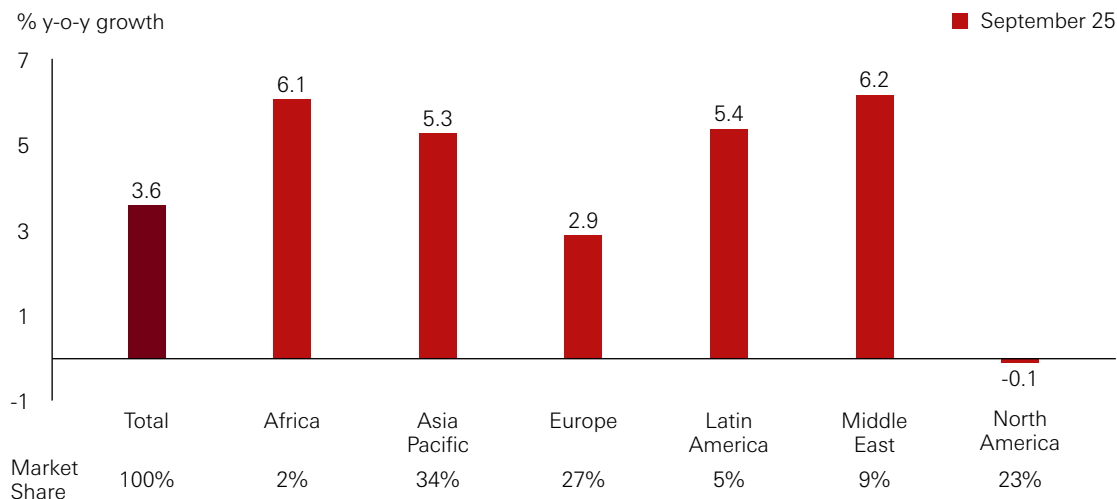
1 Aerospace and Security (continued)

- Demand for commercial aircraft has been on an uptrend, as the number of flights continue to grow with global Revenue Passenger-Kilometers (RPK) rising 2.6% y-o-y in March 2025 (Source: IATA).
- Small satellite launches are up 7x in the last 6 years (Source: Bryce Tech small satellites report, 2024) as companies race to provide wider and faster data coverage to their customers.

Why Now?

- Recent advances in aerospace technology have driven a resurgence of interest in the space economy, with private company space flights growing rapidly.
- Rising tourism is driving demand for flights and air travel has seen delivery numbers and order books at aerospace manufacturers swell, and the resulting backlog is expected to take many years to reduce.
- Geopolitical developments and changing security commitments are triggering rises in defence spending in Europe.
- Infrastructure resilience is gaining importance given the recent increase in both physical and cyber incidents.

Commercial aircraft revenue passenger-kilometers (RPK) is rising



Source: IATA, HSBC Private Bank as at 15 December 2025.

2 Evolving AI Ecosystem



Overview

- The rapid evolution of the AI ecosystem is driving substantial investments in digital infrastructure, processing and cloud computing capacity. McKinsey estimates USD5.2trn of investments are needed in data centres by 2030.
- Multi billion-dollar alliances, collaborations and acquisitions

have surged as major players seek to establish a full stack of AI capabilities and ensure access to support services like cloud and data centre capacity.

- Businesses are racing to embed AI functionality in their processes, products and services to improve productivity and consumer experience and stay ahead in the AI race.

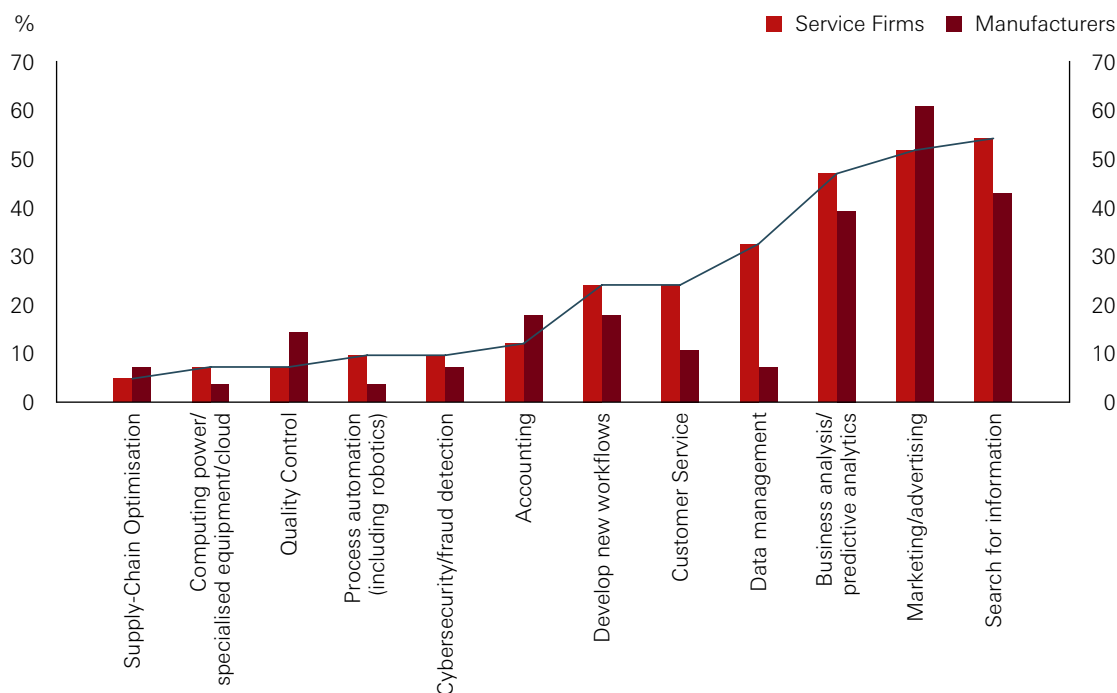
- Supporting digitalisation has facilitated the efficient collection and exchange of data between databases, systems, sensors and devices.

The Opportunity

- Traditional cloud services are showing strong growth across all market segments.

2 Evolving AI Ecosystem (continued)

Several types of companies are using AI to a varying extent



Source: Federal Reserve Bank of New York, Regional Business Surveys, HSBC Private Bank as at 15 December 2025. Data as of August 2025.

- Manufacturers of digital infrastructure hardware (servers, cooling, cables, energy equipment, sensors) are reporting sustained sales demand.

- According to a report from P&S Intelligence, the data centre market is expected to grow from c.USD302bn in 2023 to c.USD622bn in 2030, a CAGR of over 10.5%, providing attractive opportunities.

- As AI-enabled products and services are deployed, demand for processing and transmission capacity is set to rise further.

Why Now?

- The rapid evolution of AI models (five generations of ChatGPT have been released over the last 2 years) is accompanied by an explosion of innovative new applications for AI-enabled products, processes and services.

- AI is already raising productivity and improving margins in multiple sectors through process efficiencies, manpower reductions, expanded services and/or improved product offerings.

- Substantial investments are required to expand capacity to meet the soaring demand for expanding digital ecosystems and increasing processing capacity, among other elements of the AI ecosystem.

Climate Action

Ten years ago, 195 nations signed the Paris Agreement at the United Nations Climate Change Conference (COP21), and since then, many countries, including China and the EU, have made net-zero pledges. After a decade, an interesting turn in the drivers for climate action has emerged. The urgent requirement to address the rising sustainable power demand for rapid AI adoption and the quest for broad national security have shaped the market demand for renewable energy. With the AI's seemingly insatiable energy demand and the advantages of colocation of power sources with AI data centers, the world needs even more renewable energy.

Our two high conviction themes

- 1 | Energy Security
- 2 | Biodiversity and Circular Economy

Energy security has become more apparent as many nations are reviewing the stability of their sources of critical inputs for their economies on the back of trade conflicts and the rare earth supply concerns. As climate and ecosystems degradation risks intensify with expected increase in power demand, biodiversity management has become both an environmental concern and an investment opportunity.

The International Energy Agency (IEA) has dubbed this era “the age of electricity,” highlighting the increasing electricity demand from industrial sectors, electric mobility, and AI applications. Share prices of renewable energy companies have soared in 2025, buoyed by optimism around AI-related energy demand. This demand underscores the necessity for more renewable energy sources, particularly as AI’s

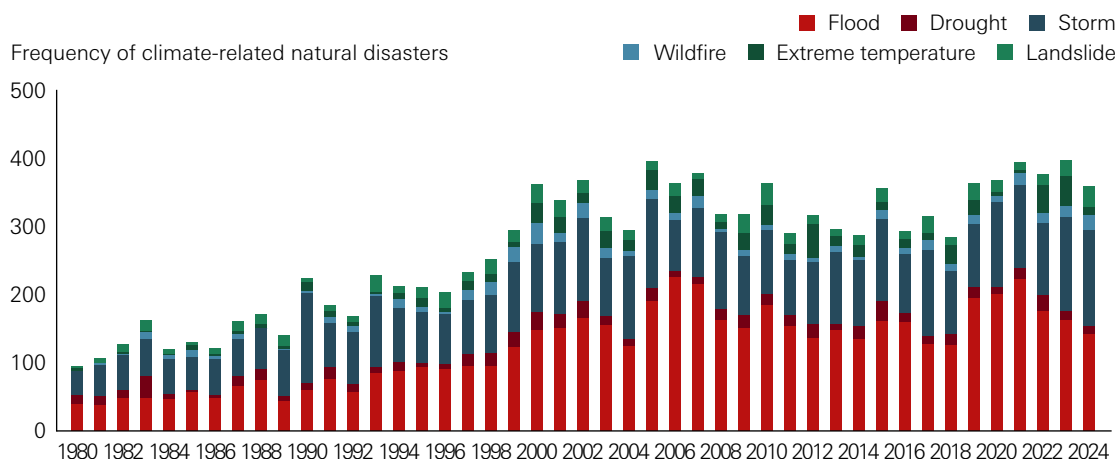
energy consumption continues to rise. According to the IEA, global investments in clean energy technologies are set to double that of fossil fuels in 2025, driven by efforts to reduce emissions as well as the rising significance of industrial policy, energy security and the cost competitiveness of electricity-based solutions.

Renewable energy, led by solar photovoltaic (PV) technology, is at the forefront of this investment trend as it remains one of the most cost-effective options for new generation capacity in many economies. The IEA forecasts a substantial increase in installed renewable power, projecting an addition of 4,600 gigawatts by 2030. This growth is roughly equivalent to the combined power generation capacity of China, the EU, and Japan, with solar PV accounting for a significant portion of this expansion.

Elevated geopolitical tensions and the rapid rise in energy demand from AI are prompting governments and businesses to seek greater energy independence and security. The adoption of clean energy technologies not only aids in decarbonisation but also enhances energy security. As the cost of clean energy equipment continues to fall, the global energy mix is shifting towards more sustainable sources. This transition presents attractive investment opportunities in alternative energy supply chains.

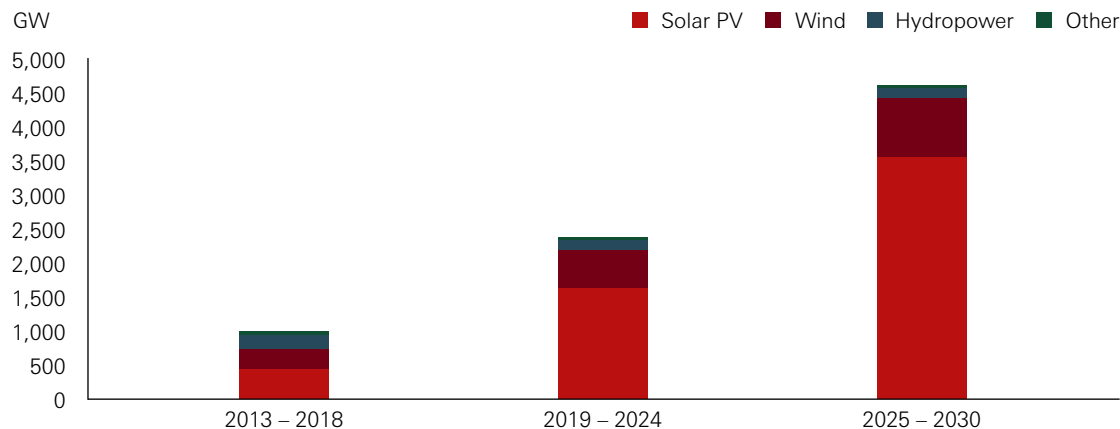
In view of the new source electricity demand and the request for energy independence and security, nuclear fusion is often considered as the future of clean energy as it can unlock enormous energy supply with minimal environmental impact. The construction of the world’s first commercial nuclear fusion plant has recently started in the US, aiming

More frequent climate-related natural disasters over the past two decades



Source: International Monetary Fund (IMF)’s Climate Change Dashboard, HSBC Private Bank as at 15 December 2025.

Solar PV is expected to lead the capacity growth of renewable electricity, which is forecasted to double by 2030



Source: International Energy Agency (IEA) Renewables 2025, HSBC Private Bank as at 15 December 2025.

to produce electricity by 2028 to data centers of a US technology company, although many challenges remain to meet the timeline.

International cooperation in the energy sector is on the rise. For instance, India and the US are engaging in discussions on energy security and oil trade, strengthening their strategic partnership. Similarly, the UK and the US have signed significant agreements to accelerate the construction of new nuclear power stations, further diversifying their energy portfolios.

The transition to renewable energy is heavily reliant on critical minerals, such as rare earths, which are essential components in technologies like wind turbines, solar panels, and energy storage systems. However, the supply of these minerals is concentrated among a few leading suppliers,

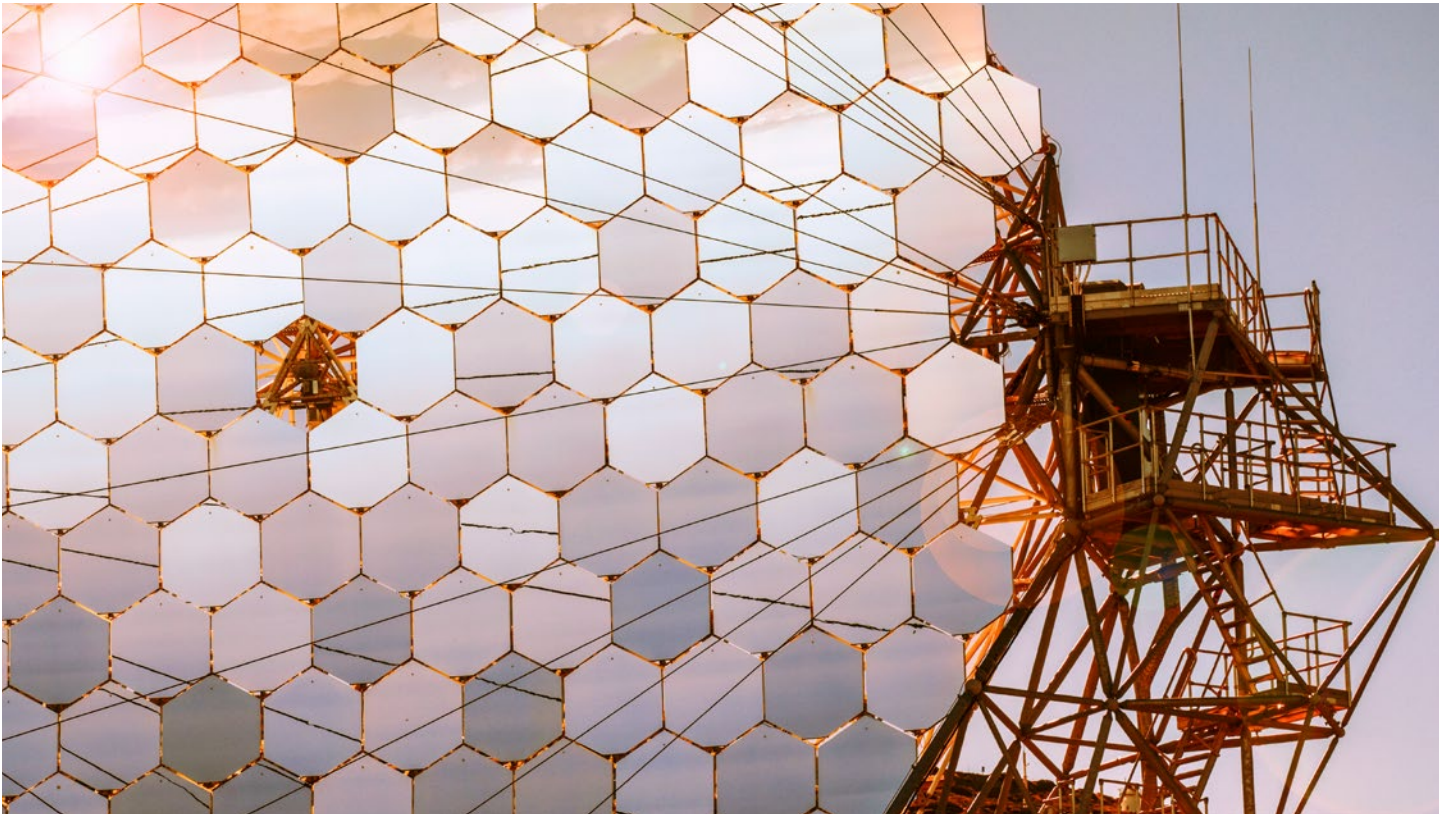
highlighting the need for diversification to ensure long-term availability. Recent trade tensions have brought the restrictions on rare earth exports into focus, emphasising the importance of securing a stable supply chain for these critical materials.

As climate risks intensify and ecosystems degrade, biodiversity management has become both an environmental concern and an investment opportunity. Companies that effectively manage biodiversity can gain a competitive edge, as investors, regulators, and consumers increasingly prioritise sustainable practices. The European Union's Nature Restoration Regulation, introduced in 2024, sets binding targets to restore degraded ecosystems, signaling a commitment to biodiversity conservation.

The circular economy, estimated to be worth USD4.5trn (Source: OECD), offers a framework for transforming production and consumption patterns. The circular economy aims to halt and reverse biodiversity loss by fundamentally changing how we produce, use, and consume products and food. This approach not only supports environmental sustainability but also opens up new avenues for investment in innovative business models and technologies.

Climate action is no longer just an environmental imperative – it is a strategic investment opportunity. As the world transitions to a more sustainable energy landscape, investors have the chance to capitalise on the growth of renewable energy, energy security initiatives, and biodiversity management. By aligning investment strategies with climate action goals, investors can contribute to a more sustainable future while reaping the benefits of this transformative trend.

1 Energy Security



Overview

- Higher geopolitical tensions and AI's ever rising energy demand are pushing governments and businesses to find ways to achieve greater energy independence.
- Renewable sources of energy such as solar, wind, and biofuels are becoming increasingly cost-competitive, offering viable alternatives to traditional fossil fuels. Nuclear energy is also benefiting from renewed interest as a long-term, low-emission power source. The global shift

towards electrification is also accelerating, driven by economic imperatives, climate goals, and the pursuit for energy security.

The Opportunity

- Government policies and incentives are playing a pivotal role to attract private investments in clean electricity capacity, infrastructure and research.
- The global race to lead in AI underscores the necessity for abundant and reliable energy, prompting significant investments in energy security.
- Key factors leading to rapid electrification are: social (rising population and affluence; online activities); climate (cooling and desalination); and technical (digitalisation, AI, electric vehicles, trains, expansion of data centers).

1 Energy Security (continued)

- The global transition toward electrification and clean energy will advance despite a notable shift in the US political will. BNEF projects that solar and wind deployments are forecast to increase fourfold and threefold respectively by 2035 (Source: Bloomberg BNEF Summit, May 2025).

Why Now?

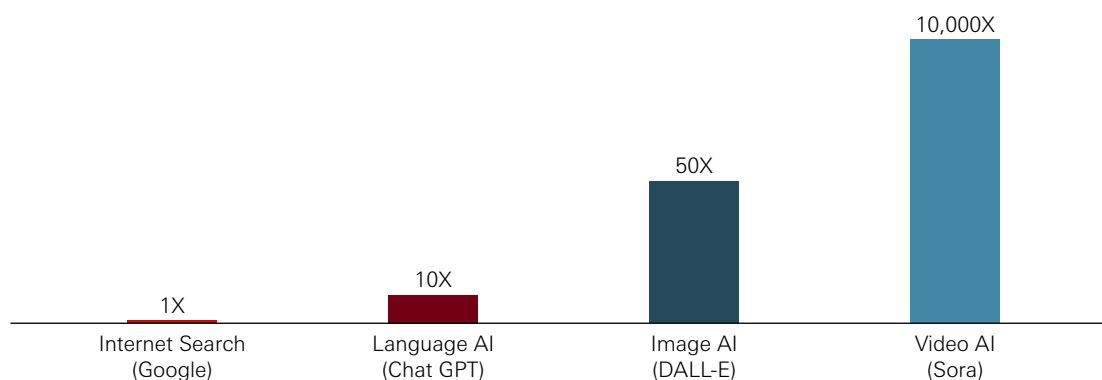
- The world is at a turning point where power demand will increase materially, whether it is from data centres, general electrification or the reshoring of manufacturing. Utilities worldwide are grappling with surging energy demand and consequences of years of underinvestment. A robust energy infrastructure is essential for sustainable economic growth and maintaining global competitiveness.
- Technological advancements have rendered solar and wind power

the most cost-effective sources of electricity in many regions. Simultaneously, nuclear energy is regaining prominence as a clean and dependable power option.

- According to BNEF, global investment in the energy transition has exceeded USD2trn for the first time and clean energy is cost-competitive with coal and natural gas in most of the world, driving major changes in the global energy mix and creating attractive investment opportunities (Source: Bloomberg BNEF Summit, May 2025).

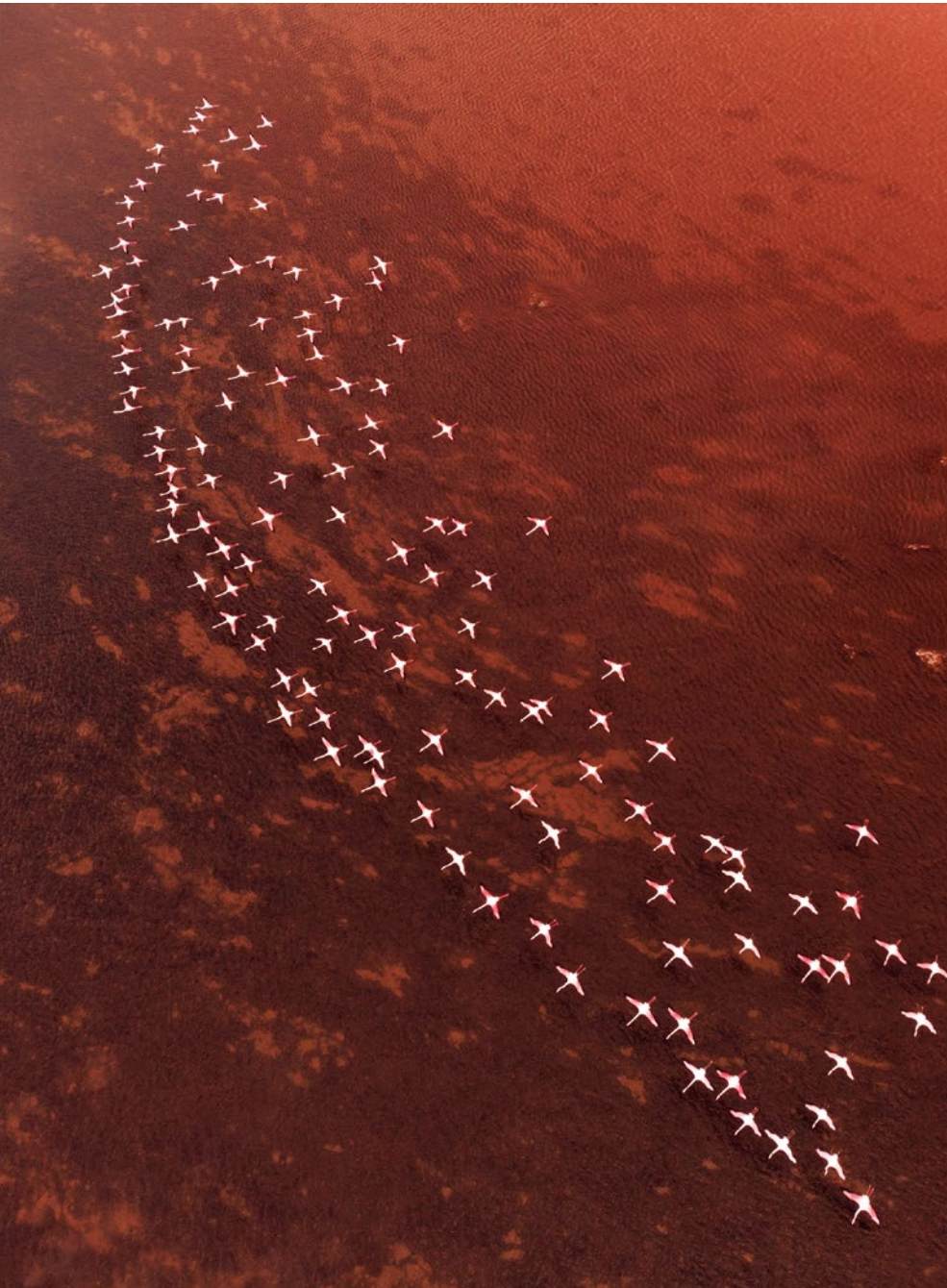
AI revolution is fuelling a surge in demand for power

AI Compute Power Required vs Google search



Source: Blackstone, Internet Search and Language AI: Reuters, HSBC Private Bank as at 15 December 2025.

2 Biodiversity and Circular Economy



Overview

- Earth's biodiversity is imperative for human existence. Our societies, livelihoods and economies depend on nature for the natural regulation of weather patterns and provision of basic materials like food and wood.
- The linear 'Make – Take – Use – Waste' economic model is damaging biodiversity and natural habitats. Conservation efforts alone are insufficient to halt the biodiversity loss. Adoption of a circular economic model should help minimise waste of essential resources and help in stemming biodiversity loss.

The Opportunity

- The circular economy, estimated to be worth USD4.5trn (Source: OECD), 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.

2 Biodiversity and Circular Economy (continued)

Why Now?

– Forests were in focus at the recently concluded COP30 in Brazil, where several scientists highlighted the important role tropical forests play as natural carbon sinks and prevent climate change. They highlighted the need for interventions ranging from modernising farming methods and sustainable use of forests to finance mechanisms such as debt-for-nature swaps through which countries refinance their

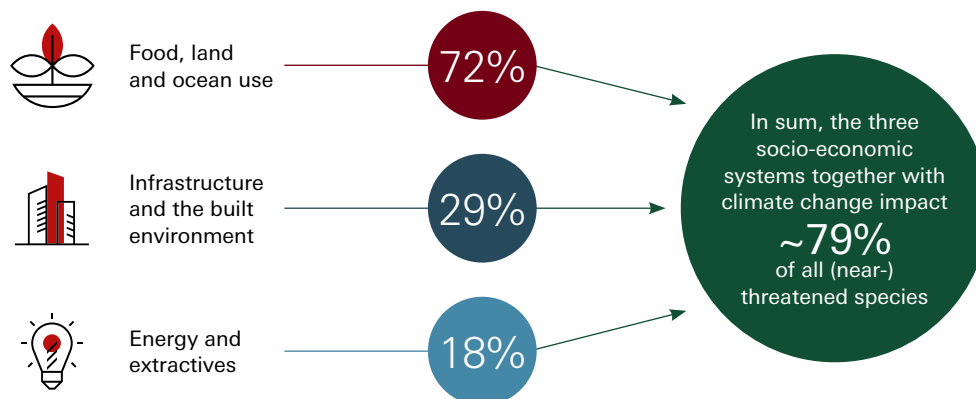
debt and allocate any savings to conservation projects.

- The Taskforce for Nature-Related Disclosures (TNFD) is an important recent framework for businesses to assess, report and act on nature-related dependencies, impacts, risks and opportunities.
- According to the World Economic Forum, failure to address nature risks could result in an estimated

loss in global GDP of USD2.7trn by 2030. As such, the number of companies adopting the framework is rising steadily, especially if we look harder into the different steps of our supply chains. The value of the market for second-hand apparel is rising rapidly and there's a greater willingness to recycle and reuse. These changes create attractive investment opportunities in the sphere of biodiversity and circular economy.

Three socio-economic systems endanger around 80% of threatened or near-threatened species

Share of (near-) threatened species impacted



Source: World Economic Forum, HSBC Private Bank as at 15 December 2025. Due to partial overlap between the species impacted by the three systems, the percentage of species impacted by all systems is smaller than the sum of percentages of the species impacted by each system.

Evolving Society



Demographic and technological shifts have cast a spotlight on the importance of diversity, inclusion, growing importance of wellness and changing consumer behaviour. Positioning portfolios to capture these themes can help investors tap into attractive opportunities benefitting from long-term societal shifts.

Our two high conviction themes

- 1 | Social Empowerment and Well-being
- 2 | Streaming and Subscriptions

Societal transformation is reshaping consumption, labour markets and investment flows at a rapid pace. Ageing demographics, the increasing influence of Millennials and Gen-Z, rising expectations around fairness and access, and a shift from ownership to subscription-based lifestyles are creating new industry leaders while challenging old business models.

The rapid evolution of how people consume entertainment is one of the most visible markers of how technology is changing our society. Consumer preferences have shifted from desire for ownership to subscription-based, on-demand access. This is true across a broad spectrum of services ranging from entertainment to gaming and even

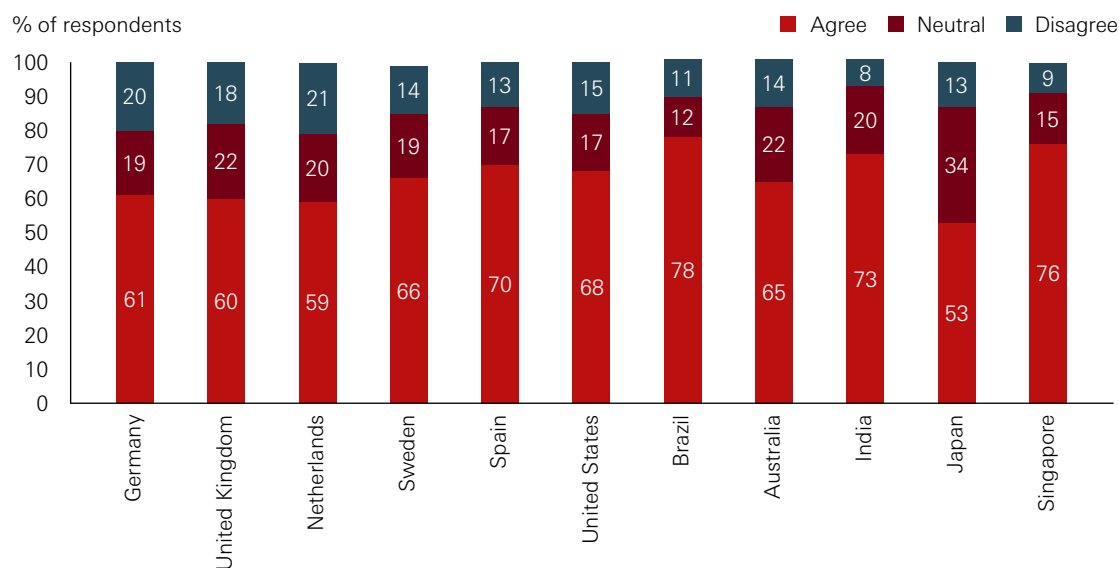
software. Streaming has overtaken traditional television as the dominant mode of entertainment. It now accounts for nearly 47% of all TV usage, compared with 22.2% for cable and 18.4% for broadcast (Source: Nielsen, 2025). This reflects not just a shift in preference, but a structural change in how people 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. 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.

Ageing populations, economic inequity, and heightened awareness of physical and mental wellness are influencing policy, corporate strategies and household spending patterns. Individuals are demanding greater control over their financial futures and personal health, with a willingness to pay for transparency, protection and quality of life. At the

Most respondents agreed with the statement “Streaming services replace traditional TV for me”

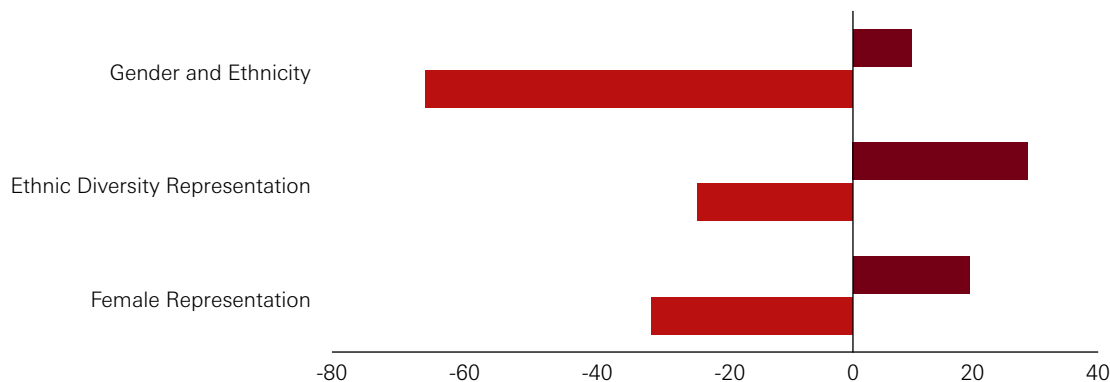


Source: Simon-Kucher Global Streaming Study 2025. HSBC Private Bank as at 15 December 2025.

Diversity drives financial performance

The difference in likelihood of financial outperformane (%)

■ Bottom quartile ■ Top quartile



Source: Diversity matters even more dataset. HSBC Private Bank as at 15 December 2025.

corporate governance level, multiple studies consistently demonstrate that leadership diversity correlates with stronger financial results. Firms with balanced boards and executive teams, particularly in consumer-facing sectors such as financial services and retail, can benefit when representation aligns closely with customer demographics. Therefore, empowering diversity and inclusion in organisations remains an important consideration for investors looking for resilience in their portfolios.

Companies with high workforce experiences (as laid out by Deloitte as the sum of a person's lived experiences at work and how they feel about their organisation) are 1.6x more likely to achieve

good customer outcomes, enjoy 25% greater profitability, double customer satisfaction, have lower absenteeism, and more than 2.5x the market performance of their competitors.

With rising spending power and affluence, Millennials and Gen-Z are increasingly shaping the consumption landscape with their focus on wellness, transparency and ethical consumption. A 2025 McKinsey study showed that 84% of consumers in the US and 94% in China view wellness as a "top" or "important" priority.

Unsurprisingly, the global wellness economy was pegged at nearly USD6.3trn in 2023 as per data by the Global Wellness Institute and

is poised to grow at a faster rate than global GDP growth. Brands that offer products with embedded purpose, transparency and ethical sourcing could enjoy greater customer loyalty and pricing power in the coming years.

The evolving societal trend offers a wealth of opportunities for investors willing to adapt and innovate. By focusing on diversity and inclusion, leveraging technological advancements, and catering to the unique needs of the evolving demographic mix, investors can unlock new pathways to success. As we move forward, it is essential to remain vigilant and responsive to the ongoing changes, ensuring that investment strategies are aligned with the transformative forces shaping our world.

1 Social Empowerment and Well-being



Overview

– Shifting policies, economic balances, and demographics are rapidly changing labour markets and dynamics, creating wider discrepancies between and within societies. Rising inequality, unaffordable housing, widening educational gaps and limited access to healthcare and financial services can all be headwinds to economic prosperity. Yet these same challenges are pushing

governments, corporates and investors to search for scalable solutions that strengthen human inclusion and wellbeing.

– Policy momentum is accelerating this transition in most regions. Frameworks like the UN Sustainable Development Goals and the EU's latest sustainability disclosure and due-diligence directives are making social outcomes measurable and

investable. Public awareness around mental health, work conditions and digital access is also reaching unprecedented levels. Businesses that embed these priorities are increasingly seen as better positioned for durable growth and reduced operational risk, turning social empowerment from a values-driven topic into emerging performance driver.

1 Social Empowerment and Well-being (continued)

The Opportunity

- Empowering people to live healthier, more productive lives creates tangible economic value. Companies that invest in their workforce and customer communities often benefit from higher productivity, lower turnover, and stronger brand affinity. This theme spans across human wellbeing, inclusion and empowerment through access.
- Across these pillars, tech-enabled delivery models, supportive public funding and corporate

adoption are increasingly aligning, creating a growing universe of investable companies where profit and social advancement reinforce each other.

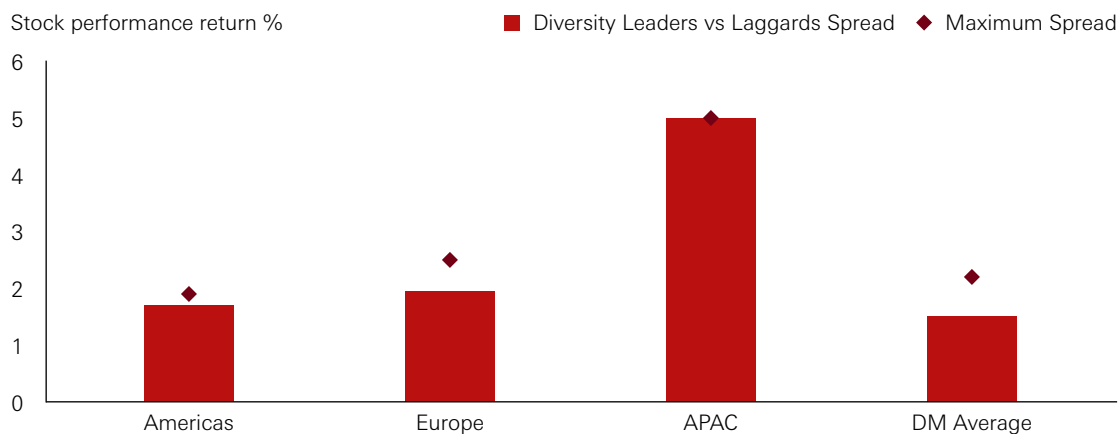
Why Now?

- Interest rates are stabilising globally at lower levels after central banks' rate cuts, creating favourable financing conditions for infrastructure, affordable housing and innovative healthcare deployment. Most governments are channelling resources into health equity, workforce reskilling

and digital access, creating commercial opportunities for private partners.

- Meanwhile, mandatory sustainability disclosure and supply-chain accountability in major markets are transforming social outcomes into financially priced factors. Investment vehicles, including mental-health and wellbeing funds, gender-lens strategies and inclusive-finance are rapidly expanding, signalling that capital is ready to scale into this theme.

Studies show that companies that progressed towards diversity inclusion goals improved decision making and increased profits



Sources: Bloomberg Intelligence, HSBC Private Bank as at 15 December 2025. Past performance is not a reliable indicator of future performance.

2 Streaming and Subscriptions

Overview

- Younger consumers prefer flexible, low-cost streaming and subscription services vs investing in costly hardware and content libraries that risk redundancy, as new formats are introduced.
- The current subscription market is estimated to be USD565bn in 2025 and projected to grow to USD2.1trn by 2034, implying a CAGR of 15.7%, according to Dimension Market Research.
- Technological advances and integration are facilitating real-time interactions with very low latency (e.g. in online gaming) and ultrafast data transfers (e.g. in films), which have already significantly improved the user experience.
- AI is expected to bring further productivity and operational gains, including in the content generation process.

- Streaming services remain resilient, and the introduction of innovative tiered-pricing can help better adapt to changing economic conditions.

The Opportunity

- Generation X, Z and Millennials have driven the change in distribution channels for media content away from televisions, to streaming via mobile devices and computers. Other generations are following too.



2 Streaming and Subscriptions (continued)

- The average estimated consumer spending on subscriptions is currently at USD133 per month.
- Low cost-for-consumer models are expanding rapidly, though they favour large providers that have scale, customer base and capital to invest.
- There is a large addressable market with an estimated 2.8 billion 5G smartphone users.

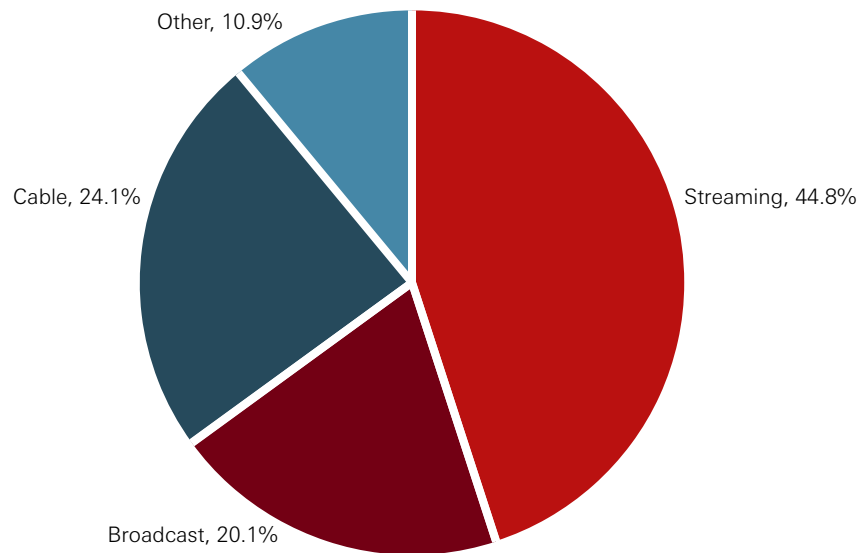
Rising popularity of live sports and eSport events is further expanding the audience base.

Why Now?

- Generation X, Z and Millennials have fully embraced the on-demand, asset-lite, mobile media consumption model, which form one of the largest consumer segments.

- Monetising intellectual property and other digital assets has become easier with pay-walls, flexible pricing models, mobile platforms and content, and through harvesting consumer data.
- EM consumers are avid users of online content, enabling new entrants with locally tailored content to enter the market where scale matters.

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



Source: Nielsen 2025, HSBC Private Bank as at 15 December 2025.

Seeking Diverse Returns as Fed Rate Cuts End

When we think about the shorter-term satellite themes that we want to add to a well-diversified core portfolio, we need to start by assessing what we already hold in that core portfolio. Clearly, multi-asset portfolios hold a lot of technology stocks these days, and many of our other themes directly or indirectly add further to tech exposure. So, one objective of the themes under this trend is to seek more diverse returns that are less dependent on the AI trade.

Our four high conviction themes

- 1 North American Re-industrialisation
- 2 Global Financials
- 3 M&A and Shareholder Value Creation
- 4 Income Through Active Credit Selection

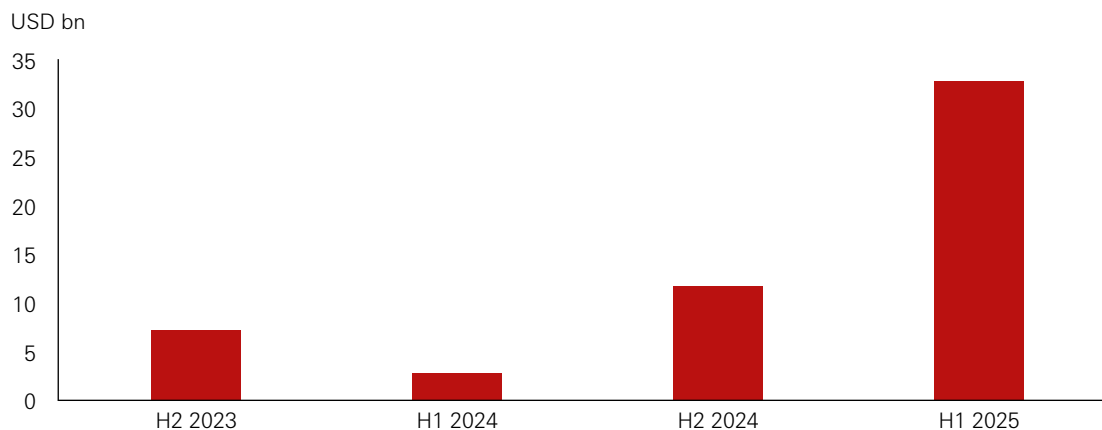
The other objective is to address one of the key portfolio risks we foresee, which is our belief that the market's Fed view is too dovish. We worry that the Fed could cut much less than the markets expect, simply because the US economy does not need more rate cuts and inflation remains somewhat sticky. There are two key consequences here.

Firstly, when investing in the bond market, capital appreciation will be less likely than it used to be if the Fed stops cutting rates. So, we look for opportunities in emerging market bonds and in quality credit rather than interest-rate related gains (we have shortened duration to 5 – 7 years because of this). EM local currency bonds are more correlated to their local interest rate cycle than to the Fed's rate cuts, and quality credit is much less vulnerable

to dips in the economic cycle than high yield is.

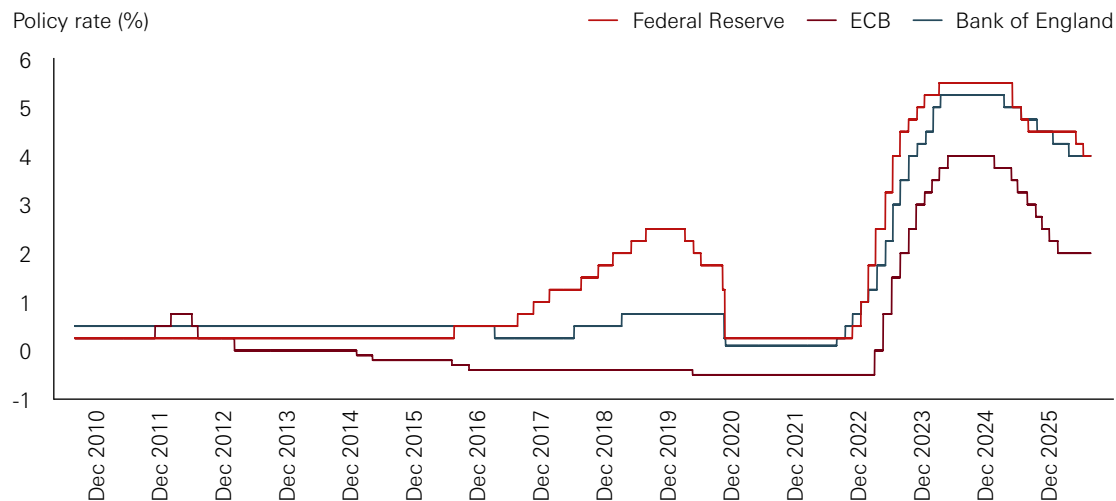
Another consequence of the end of the Fed rate cuts is that P/E multiple expansion in the equity market will be less straightforward than it used to be. Therefore, more emphasis needs to be put on earnings growth as a source of returns. Luckily, our positive cyclical view means that there are plenty of such opportunities.

Rising manufacturing investment benefits industrials and financials, as capital market activity accelerates



Source: Apollo, HSBC Private Bank as at 15 December 2025.

The Fed may cut rates much less than the market expects, and the ECB has already finished



Source: Bloomberg, HSBC Private Bank as at 15 December 2025.

Industrials are benefiting a lot from the structural trend towards re-onshoring, as companies seek to bring supply chains closer to home. The US administration incentivises this by exempting these companies from its trade tariffs and by extending the favourable amortisation rules. All of this investment is also one of the reasons why we are positive on global financials, as companies are increasingly willing to borrow to invest. This either leads to

loan growth or to more capital market activity. Another option for companies is to grow by acquiring other companies, which leads us to expect a further increase in M&A activity. Investors can tap into this trend through public or private markets, as well as hedge funds, providing a wide set of choices. We also point out the idiosyncratic nature of this theme's returns, which helps reduce its correlation to the economic cycle.

Our three equity themes under this trend are closer to the value-style than growth-style camp, and our fixed income theme limits the duration exposure. As a result, they are well suited for the imminent end of the Fed rate cut cycle and a good complement to most of our other themes.

1 North American Re-industrialisation



Overview

- Since 2018, the US has been the number one global destination for foreign direct investment. Much of this capital is targeted to increase the production capacity of the US economy.
- Structural forces have driven a powerful wave of US re-industrialisation.
- Tariff agreements continue to evolve and now are more integrated into corporate planning, creating greater policy clarity and investment visibility. Productivity gains from automation and advanced technologies should help offset tariff-related cost pressures.
- Fiscal incentives, deregulation, and productivity gains from automation continue to make the US an attractive global production hub.

The Opportunity

- Re-industrialisation is reshaping the US economy through broad-based investments in advanced manufacturing, energy infrastructure, and technology integration. Factory construction and capital spending remain strong, while capacity addition in semiconductors, distributed energy, and defence manufacturing underscores ongoing structural growth.

1 North American Re-industrialisation (continued)

– Re-onshoring and the technological revolution around robotics, automation, AI, and 3D printing are enhancing productivity. As facilities transition from build-out to production, this wave of investment is beginning to flow through to corporate earnings which should support revenue growth, margin expansion, and stronger balance sheet fundamentals.

– A combination of policy incentives, private capital commitments, and technology adoption likely points to structural growth opportunities in the North American manufacturing ecosystem and energy production in the years to come.

Why Now?

– The administration's second-term policy agenda continues to prioritise job creation and foreign

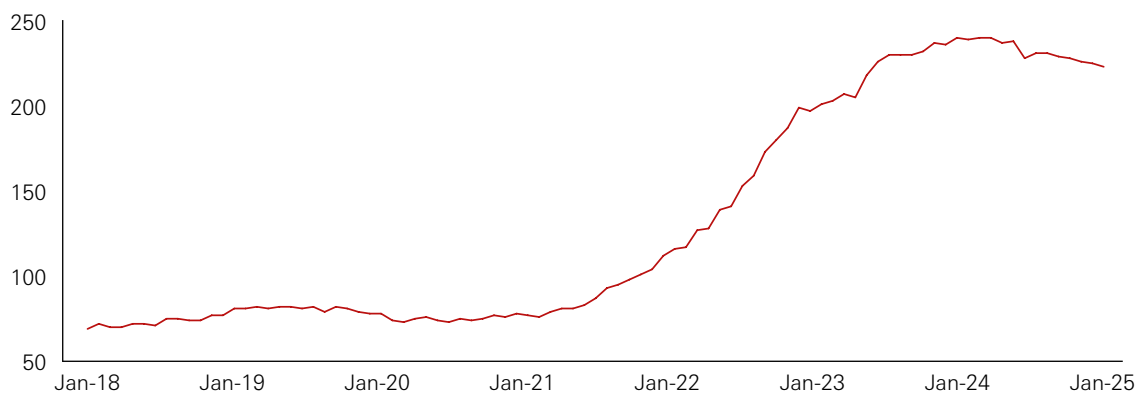
investment in the US, in an effort to expand US manufacturing.

– The tariff framework is ongoing, providing policy clarity and helping to reduce uncertainty as trade talks continue.

– With monetary conditions less restrictive and inflation moderating, capital remains accessible for industrial expansion.

Spending on construction of manufacturing spaces in the US remains strong

Total Construction Spending (USD bn)



Source: Federal Reserve Bank of St. Louis, HSBC Private Bank as at 15 December 2025.

2 Global Financials

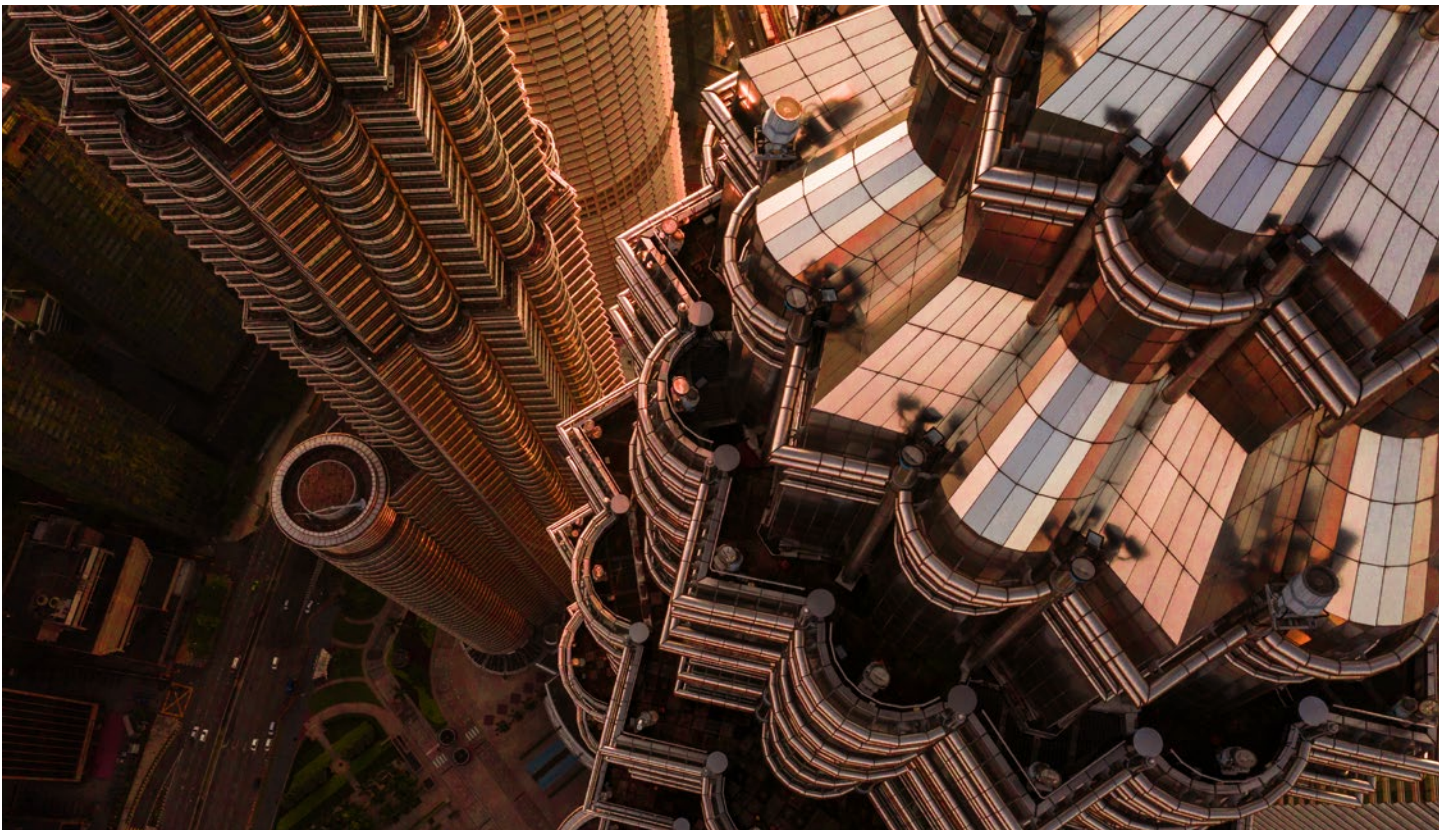
Overview

- After a stellar performance last year, we maintain our conviction and believe global Financials are well positioned to outperform in the near term.
- Global Financials should continue to benefit from the re-start of the credit cycle as central bank rate cuts increase loan demand. Steep yield curves should also benefit banks which are more relevant for net interest profit margins than rate levels.

- Structural tailwinds such as deregulation and productivity gains from artificial intelligence application in the sector should be supportive for profitability and high dividend payout.
- Contained valuations with high earnings growth potential, and value-style attributes should maintain attractiveness, compared to the wider market.

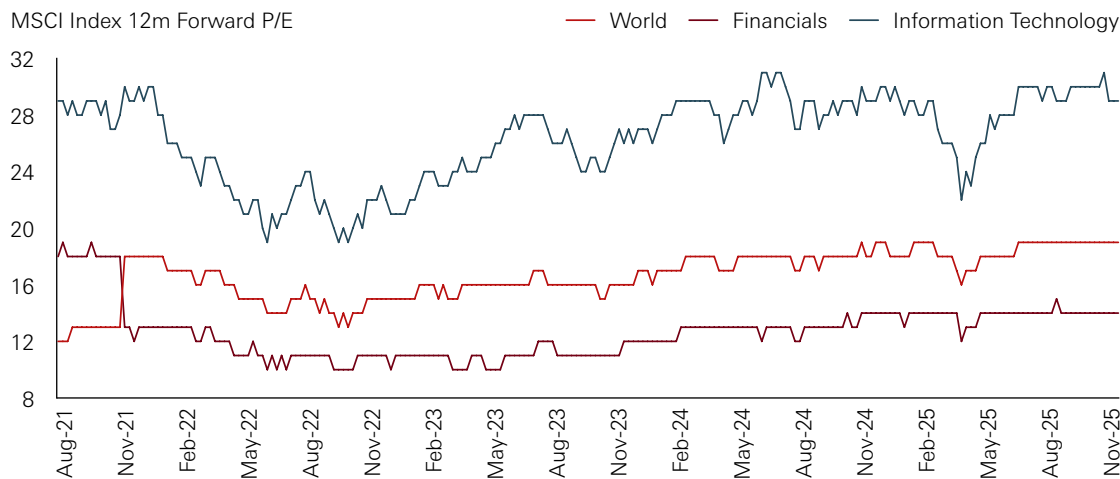
The Opportunity

- With lower global policy rates, we should see a pick-up in loan demand for both mortgages and capital investments in the US and Europe. Asian banks are underpinned by modernisation efforts and capital market development in the region.
- Mounting debt and fiscal concerns in developed markets are adding term premia in long-end yields, keeping yield curves steep and supporting net interest margins.



2 Global Financials (continued)

Despite a run-up in valuations, Financials remain attractively priced compared to the broader market



Source: Bloomberg, MSCI, HSBC Private Bank as at 15 December 2025. Forecasts are subject to change.

- The sector is set to benefit from a broader de-regulation agenda which is only starting to unfold, while more consolidation should contribute to improved efficiencies and higher returns. The deployment of AI applications is also accelerating the transition to digital banking.

Why Now?

- Corporate guidance during the most recent earnings season has been very strong, advocating for a positive outlook in the months and quarters ahead.
- With greater clarity around the US administration's policy agenda, we expect the recent pause of activity in M&A and IPO to gradually reverse and deliver

solid fee revenues to capital markets businesses.

- Earnings improvement has largely kept valuations contained, and Financials continue to trade at a discount to broader global markets. We believe that its value-oriented characteristics, combined with attractive dividend yields, can offer effective diversification for tech-heavy portfolios.

3 M&A and Shareholder Value Creation



Overview

- Companies pursuing M&A or share buybacks display strong capital discipline and strategic clarity, using excess cash to fund higher-growth projects or optimise their capital structure. Management in such firms often have superior insight into their company's value, acting when opportunities appear attractively priced. These actions signal alignment with shareholders and confidence in long-term performance.

- Following a period of global policy uncertainty, clarity is returning in Q4 2025, prompting a rebound in corporate deals. Easier regulations, recent rate cuts, and improved financing conditions are boosting activity.

The Opportunity

- Companies engaged in corporate actions such as M&A and share buybacks have higher capabilities to identify profitable opportunities and make the most efficient allocation of their capital. By

investing their free cash-flows outside standard operations, companies can take higher growth projects or optimise their cost of equity and cost of debt funding mix.

- The management of such companies are better placed to look for prospects of the corporate success and thus see the opportunity attractively priced based on its potential. Companies with clear-set M&A and/or buyback ambitions show

3 M&A and Shareholder Value Creation (continued)

strategic clarity, disciplined management and greater alignment with shareholders' interest; attributes which should be supportive for the broader corporate performance beyond the corporate action success.

2025. As this policy uncertainty is slowly abating, market consensus expects the delayed pipeline of M&A deals to be executed and accelerate to catch-up with all the paused opportunities, as shown in early Q3 data.

— With the Fed and other G10 central banks having delivered rate cuts across 2025, funding and financial conditions have been more supportive for those who opted to wait.

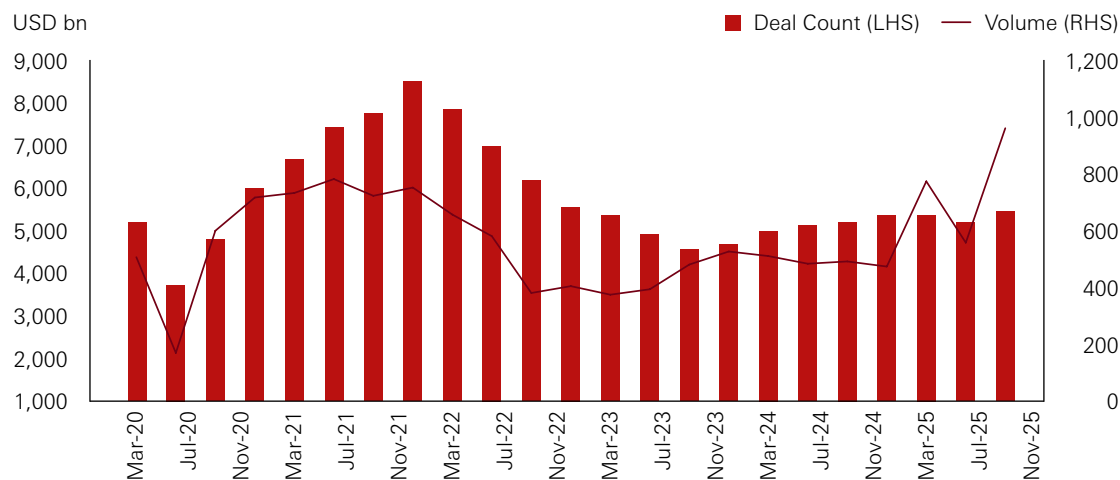
Why Now?

— The new US administration policy agenda and important policy moments in Europe, China, and Japan, have all collectively kept uncertainty high for most of

— Deregulation should provide additional boost as the US administration revoked the 2021 Biden competition policy order in August 2025.

— Conditions for buybacks seem to be supportive with momentum building at the fastest pace in history. By Q3 2025, USD1trn in buybacks was announced by US companies, a record-high pace (Source: Bloomberg).

The deal count and volume of M&A activity slowed in H1 2025 amid heightened policy uncertainty, but we expect it to rebound

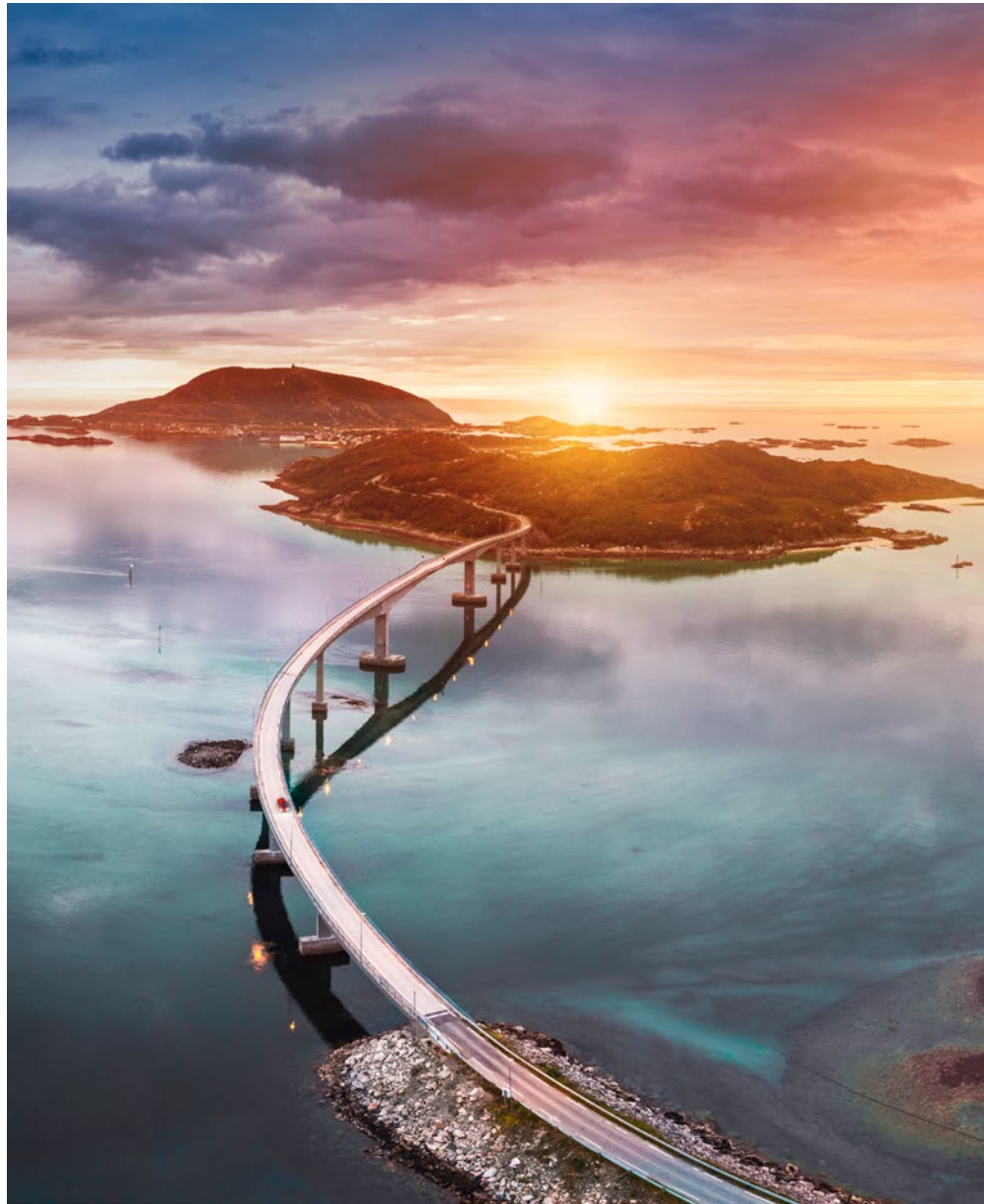


Source: Bloomberg, HSBC Private Bank as at 15 December 2025.

4 Income Through Active Credit Selection

Overview

- We hold a clear preference for Investment Grade (IG) relative to High Yield (HY) across both DM and EM, given tight spreads and tentative signs of strain in credit markets, even if they remain idiosyncratic for now. US government shutdown has delayed release of economic data. And although US trade tensions have eased, active credit selection remains relevant in an environment of heightened policy uncertainty.
- Most central banks globally should carry on with policy easing as growth slows, which is supportive for bonds. The data-driven resumption for Fed rate cuts is justified by a cooling US labour market and contained inflationary pressures. We prefer corporate IG credit for diversifying multi-asset portfolios and securing income through still elevated yields.



4 Income Through Active Credit Selection (continued)

The Opportunity

- Active credit selection is the call of the hour as some companies may be better positioned to navigate policy uncertainty and its impact on the economy, while others may not. We believe DM financials, especially banks, could fare well due to their strong capitalisation, benign Non-Performing Loan (NPL) ratios and resilience towards tariffs. Within European IG, there is also value in high quality issuers from sectors such as Energy and Utilities.
- We are conscious that global IG credit spreads are near cyclical lows, but their levels may reflect a significant improvement of corporate balance sheets.

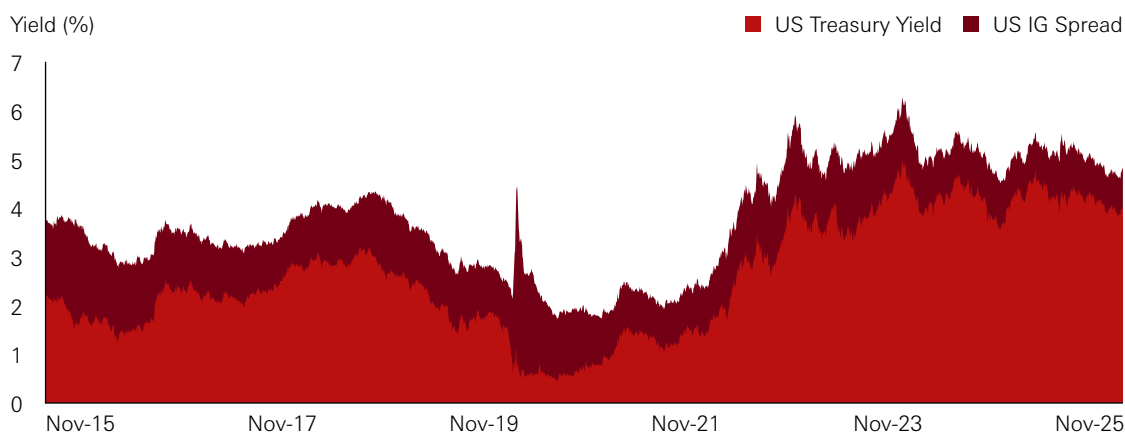
Technical factors such as robust investor demand and positive credit rating migrations are also anchor for global IG spreads. To manage risks, we focus on companies prioritising bondholder-friendly policies with sound leverage ratios, and robust supply chains to mitigate tariff vulnerability.

- We prefer a longer duration on DM IG relative to DM HY, where we exercise caution as investors may become more sensitive to negative credit headlines at a time when spread valuations are stretched.

Why Now?

- Global IG may benefit from further Fed rate cuts and compression in the risk premium embedded in US Treasuries, which has been driven by concerns around fiscal slippage and threats to the Fed's independence. We look for opportunities in IG which can provide additional carry over sovereign rates.
- Fundamentals remain robust across DM IG credits and companies have made good progress on refinancing the maturity wall in 2025/26. In addition, high quality EM corporate bonds provide a strong carry, while also diversifying exposure across ratings, sectors and nations.

UST yields represent over 80% of nominal yields for the US IG market



Source: Bloomberg, HSBC Private Bank as at 15 December 2025. Past performance is not a reliable indicator of future performance.

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Today we finance a number of industries that significantly contribute to greenhouse gas emissions. We have a strategy to help our customers to reduce their emissions and to reduce our own. For more information, visit www.hsbc.com/sustainability.

Risk Disclosures

Risks of investment in fixed income

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

Credit risk

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

Risks associated with high yield fixed income instruments

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

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

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

- Subordinated debentures – subordinated debentures will bear higher risks than holders of senior debentures of the issuer due to a lower priority of claim in the event of the issuer's liquidation.
- Perpetual debentures – perpetual debentures often are callable, do not have maturity dates and are subordinated. Investors may incur reinvestment and subordination risks. Investors may lose all their invested principal in certain circumstances. Interest payments may be variable, deferred or cancelled. Investors may face uncertainties over when and how much they can receive such payments.
- Contingent convertible or bail-in debentures – Contingent convertible and bail-in debentures are hybrid debt-equity instruments that may be written off or converted to common stock on the occurrence of a trigger event. Contingent

convertible debentures refer to debentures that contain a clause requiring them to be written off or converted to common stock on the occurrence of a trigger event. These debentures generally absorb losses while the issuer remains a going concern (i.e. in advance of the point of non-viability). "Bail-in" generally refers to (a) contractual mechanisms (i.e. 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.

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Risk disclosure on FX Margin

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

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

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

Currency risk – where product relates to other currencies

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

Chinese Yuan (“CNY”) risks

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

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

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

Illiquid markets/products

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

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

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

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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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For SAA/TAA

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