Artificial Intelligence, Real Returns

2027 Investment Outlook



HSBC Private Bank

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Welcome

Dear Client,

Artificial Intelligence will continue to be the number one driving force for markets in 2027. But it is a technological revolution with many faces. It creates growth as well as debt, innovation and disruption, excitement and resistance. Add trade and tariff headlines, which are unlikely to stop after the US midterm elections, and investors can expect positive and negative headlines in quick succession, creating volatility and dispersion.

Investors should respond by building portfolio resilience and focusing on quality, but they should not step aside. We think that the recent fall of IT price/earnings ratios to 5-year lows reflects excessive scepticism on AI monetisation and short-term thinking.

Our eyes instead remain firmly on the 6–12-month opportunity. We maintain our risk-on stance as AI adoption should continue to accelerate, creating real productivity growth and triggering a wave of innovation.

Current adoption is still low, and the average US company only spends $16 on AI per employee each month, so there is plenty of upside. Productivity gains should accelerate further in 2027 for three reasons: AI models become more powerful, costs per token decline, and AI use shifts from chatbots to AI agents and physical AI. Next year should also bring many more breakthroughs and discoveries in healthcare, materials science and beyond. Productivity growth creates a broad earnings tailwind, while breakthroughs create specific big winners in both public and private markets.

This accelerating adoption is an enormous pull factor for the entire AI ecosystem that will help overcome obstacles or concerns. There is enough demand for both open source and frontier models to monetise the investment, and compute demand far outstrips the supply. Talk of an 'AI bubble' misses this point. So, rather than excess investment, we expect persistent bottlenecks, and these create opportunities for investors in semiconductors, cloud and infrastructure.

That structural need to invest in the AI stack also explains why we don't think that the higher borrowing costs will bring the economy to a standstill. The same applies to spending on energy independence, security, reshoring and nearshoring, which are not very rate- sensitive.

Borrowing to build growth or economic resilience should not be a problem. We think the rate environment is more of an obstacle for housing and office markets, lower-end consumption, M&A activity, lower-quality borrowers and European sentiment, where wider French spreads can weigh. The reason why we do not expect a damaging downturn in this credit cycle is that the debt problem is mostly a sovereign problem, as households and corporates have spent recent years reducing leverage. But of course, investors need to stick to quality borrowers in this high-for-longer rate environment.

The best opportunities remain those backed by our Top Trends and by the drive of governments and companies to innovate and build resilience. Helpfully, they span a large ecosystem, from infrastructure and advanced manufacturing to materials, energy and financials, in public and private markets, and through long-only or hedge fund approaches.

Our priorities for portfolios combine two strong areas of growth potential with two sources of stability and diversification.

1. Monetise AI deployment - with AI applications to capture innovation and productivity gains.

2. Invest in strategic infrastructure and capacity - including semiconductors and cloud, and the channels that enhance economic security and re-industrialisation.

3. Capture income opportunities – by locking in attractive yields to balance portfolios.

4. Enhance resilience with multi-asset diversification – as opportunities can be found in every corner of the investment world.



Willem Sels,
Global Chief Investment Officer

12 November 2026

Portfolio Strategy

We maintain a risk-on stance but focus on quality assets, the beneficiaries of AI-led innovation and strategic investments by companies and governments. That's because other parts of the economy are challenged due to sticky inflation and global uncertainties – including consumers and weaker companies. We favour US and select Asian stock markets, add quality bonds with medium maturities for income, and hedge funds, infrastructure and other alternatives where appropriate. Everywhere we look, differentiation is key as AI-led disruption and high rates create winners as well as losers.

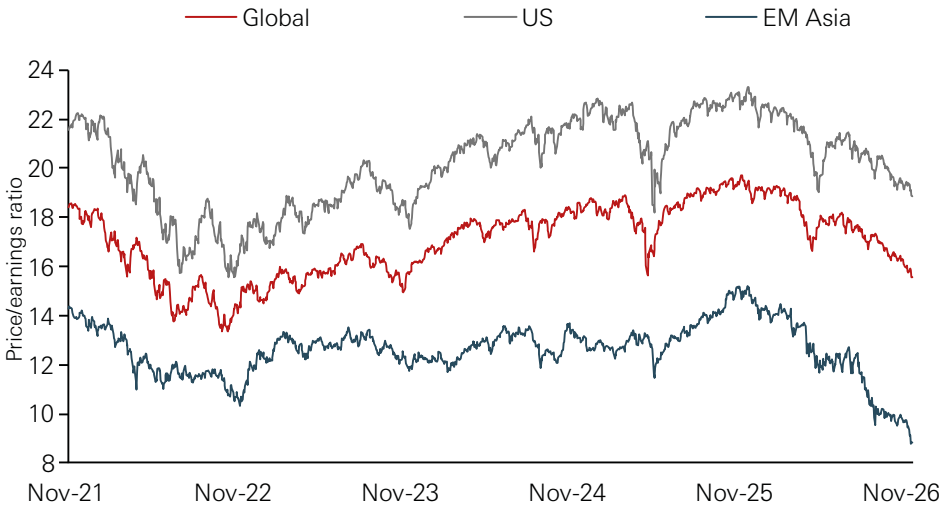
AI remains the number one driver

We're confident that AI adoption will accelerate as models become ever more powerful, the use of agents makes AI more useful, and more CFOs see clear productivity gains. They should therefore be willing to spend more on tokens and embed AI deeper into operations. Increasingly, AI use will separate fast adopters from laggards, so competitive pressure will further boost adoption. And finally, there are areas where AI is so powerful that it will lead to breakthroughs and discoveries – e.g., in medicine.

Whether adoption leads to monetisation will remain hotly debated, but we believe it will. Hyperscalers' sales growth should exceed their capex growth next year. Frontier model revenues have been accelerating quickly, as the fall in token costs is more than offset by rapidly rising demand (Jevon's paradox). Model builders face Chinese competition, but many users want the most advanced models and greatest security – at least for some tasks – so different models can co-exist. As for semiconductors, the recent volatility may overestimate the threat of a sharp and fast pickup of Chinese supply and ignore the current full order books.

As the AI pie grows, the question is who gets most of the economic benefit. In the current set-up, AI adopters (including applications) are a big beneficiary, as are the owners and builders of the infrastructure (data centres and electricity). More regulation after the US midterms could shrink the pie but lead value to shift towards data centres and the cloud, away from semiconductor chips, as costs would rise. Diversified exposure is therefore the way to go, and we look for strong players in each layer of the stack.

Global equities' cheap price / earnings ratios already price in a high-for-longer rate environment and a prudent view on EPS growth



Source: Bloomberg, HSBC Private Bank, 12 November 2026. Past performance is not a reliable indicator of future performance.

Growth beyond AI

The economic outlook remains K-shaped. Outside of the AI ecosystem, there is strategic investment by governments and companies in defence, energy and resource security, re-onshoring and near-shoring. We continue to tap into these areas to benefit from structural support and achieve some diversification from the dominant AI narrative.

China also has a profoundly K-shaped economy, with strong exports and fast growth in advanced manufacturing, clean energy and physical AI, but still challenged local consumption.

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A high-for-longer rate environment

Inflation may ease a bit due to energy price base effects, together with low wage and rental inflation. But as inflation has been above target for too long, the Fed and other central banks need to maintain a hawkish tilt for now.

As a result, we expect the Fed to hike

once more in December and then hold rates unchanged next year. The ECB and Bank of England may hike one more time and may have to wait till late next year before cutting.

The good news is that this is already in the price, with markets in fact, pricing in slightly more hikes. As such, we believe there is value in the front end of the yield curve, which should be well anchored.

For longer maturities, inflation expectations are also well anchored. But real yields and term premia are held high by economic uncertainties and high bond supply from governments and the AI stack. Hence, longer-dated bond yields will remain high and are unlikely to fall much.

That means that funding costs will remain much higher than they were. Equity markets largely already price this in on the aggregate, as price/earnings ratios have dropped, in part to account for this. Higher funding costs may not affect the structural investment made by the highest quality borrowers, but it will affect more discretionary spending by weaker players. We think housing and other real estate activity, M&A and big-ticket consumer durables may face headwinds. In addition, bond markets, banks and private credit markets will distinguish more between borrowers, leading to widening of credit spreads and potentially reduced availability of funding for weaker borrowers.

This is why we maintain a preference for quality credit in public and private markets. And in Europe, the combination of France's debt problems and major elections (France, Spain and regional elections in Germany) may put pressure on relative performance.

So, what does it mean for our investment strategy?

In our K-shaped economy, where the cyclical impetus is mixed and not hugely inspiring, investors are well served by continuing to look for structural support, including AI innovation and governments' strategic priorities.

Our first investment priority taps into the growth opportunities coming from AI, while the second priority exploits the steady earnings support from strategic priorities and bottlenecks.

These themes need to be implemented with the appropriate differentiation and diversification. That's because within each sector or activity, there are AI leaders and laggards, as well as strong and weak borrowers. Diversification is key too, not just because it can help stabilise portfolios, but also because it opens up opportunities. We continue to see the best innovation-led growth opportunities in the US and Asia, where we overweight Japanese, South Korean and Hong Kong stocks.

We balance our first two priorities with income and diversification. The upside of our high-for-longer view is that income is attractive. That means bonds, infrastructure and private credit, but of course we remain selective. Volatility strategies can also generate income.

Finally, we look across asset classes in public and private markets, as well as hedge funds. That's because we see them as complementary implementation strategies, allowing investors to pick the exposure that is right for them.

Our four priorities are as follows:

1. Monetise AI deployment

AI-related activity will continue to be the fastest growing part of the global economy, so we want to capture the earnings upside from AI deployment. Across sectors, we favour AI adopters over non-adopters, as they see better earnings, margin and revenue growth in their existing business. We also tap into particular areas where adoption enables rapid innovation, including AI advanced manufacturing and robotics, or life sciences, where we foresee scientific breakthroughs.

2. Invest in strategic infrastructure and capacity

Companies that provide essential products and services can benefit from solid margins and predictable cash flows, especially where there are bottle necks. In the AI ecosystem, this is the case for memory chips, data centres and the cloud. Beyond AI, governments' goals of energy and resource security and re-industrialisation require huge investment in clean energy, the electric grid, as well as digital infrastructure. We see opportunities in building, operating and funding this infrastructure, in public and private markets.

3. Capture income opportunities

Income adds to portfolio returns and can help stabilise portfolios. Bond yields have risen to attractive levels where more buyers step in, as real yields are elevated and markets price in more Fed rate hikes than we expect. We focus on medium maturities as high energy prices and supply concerns continue to lead to volatility. And while we are not expecting a sharp pickup in defaults, quality is key in this high-for-longer environment. Beyond bonds, there is attractive income in infrastructure, selective private credit and volatility strategies.

4. Enhance resilience with multi-asset diversification

While equities can capture growth and bonds add income, hedge funds provide uncorrelated returns that can benefit from the volatility and dispersion we're likely to see. Private assets can add sector or style diversification to concentrated and tech-heavy stock portfolios. With inflation likely to remain above normal, many investors like to include hard assets such as gold, infrastructure and real estate. Gathering quality assets with different return drivers is wise in our uncertain and complex environment.

Equities

We remain positive on global equities due to resilient earnings and the diffusion of artificial intelligence (AI), coupled with relatively cheap valuations. The investment opportunity is broadening from the AI infrastructure build-out toward businesses adopting it to increase productivity and develop new revenue streams. We maintain our preference for US and North Asian markets, as their leadership in AI should result in better earnings growth than in Europe. Selectivity is important as markets focus on the returns on AI spending. We diversify sector and style exposure to avoid excessive concentration.

Global equities enter 2027 with opportunities across two complementary stages of the AI investment cycle. The first is the infrastructure buildout, which supports demand for semiconductors, advanced memory, cloud computing, power generation, and electrical equipment. The second is adoption, as companies integrate AI into operations, lifting profitability, or make breakthroughs and develop entirely new products.

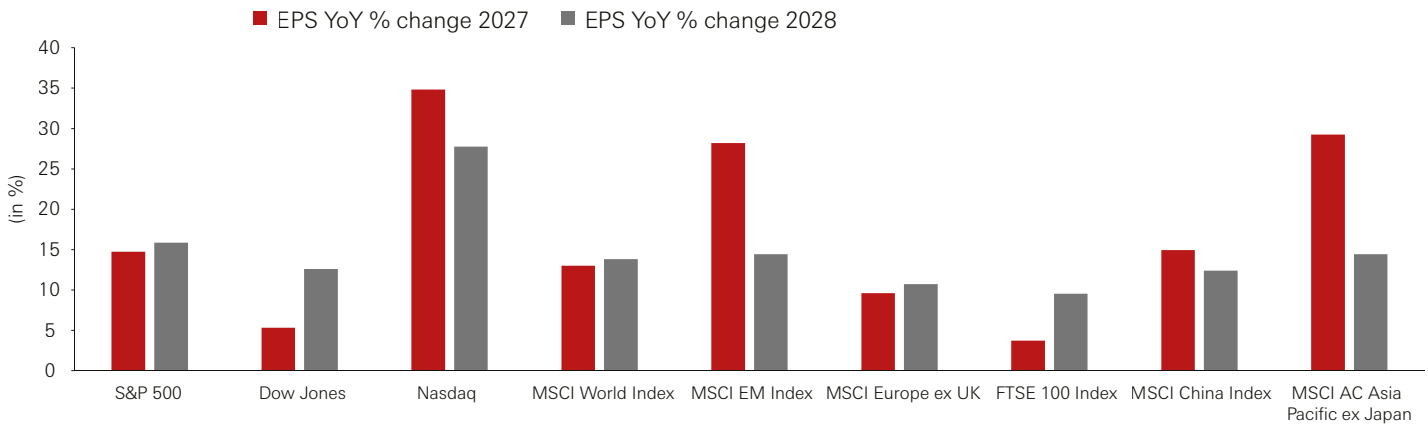
Markets have been increasingly skeptical on AI-led earnings growth and returns on invested capital. While this will continue to separate potential winners from laggards, arguing for selectivity, we think sentiment is now starting to be too conservative on the AI opportunity and valuations are attractive.

We thus maintain our equity overweight, anchored in resilient earnings rather than just AI enthusiasm alone. Sector diversification is key to avoid excessive concentration, but many industries – including industrials, materials, healthcare and financials – benefit from the AI opportunity. We also favour global exposure to allow investors to pick the best companies from a wider opportunity set.

The US remains our preferred developed market, reflecting its leadership across the AI ecosystem, from cloud infrastructure and enterprise software to innovative applications. AI narratives may continue to evolve, arguing for broad exposure across the AI stack. For example, fears of slowing investment principally hurt chips and infrastructure builders, while the cloud is more resilient. Fast adoption outside of tech creates potential for broader market participation alongside continued strength in AI leaders.

US tech valuations have dropped significantly, with their forward P/E ratios now close to a 5-year low and below the average P/E ratio of other sectors, which have fallen less. This is a rare occurrence and suggests that markets already price in much more conservative earnings assumptions than the analyst consensus. We therefore see potential for tech outperformance as IT companies continue to deliver strong earnings growth.

Strong expected earnings provide a broad foundation for global equities



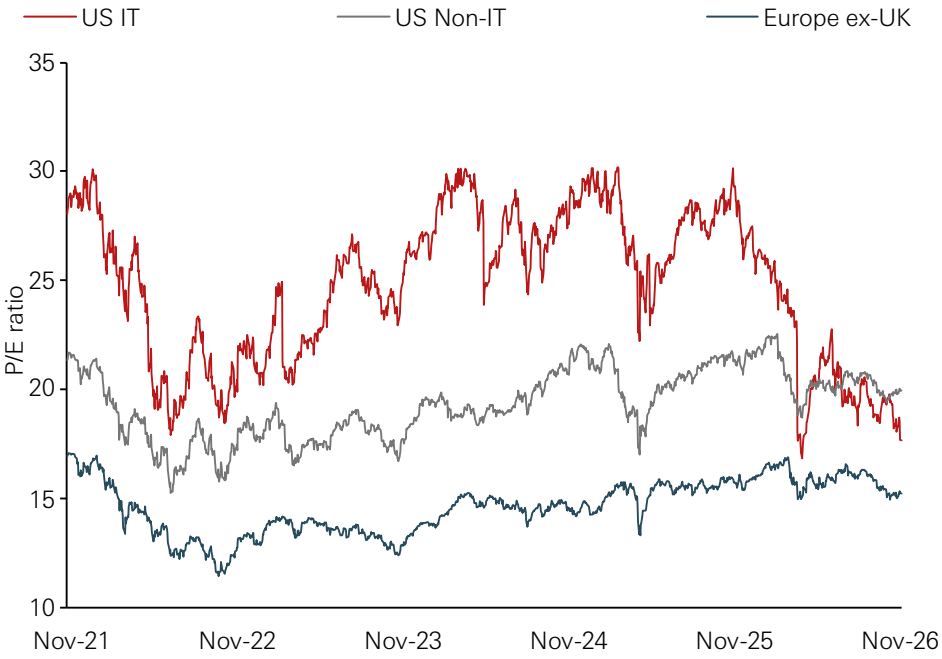
Source: Consensus earnings forecasts from Bloomberg, HSBC Private Bank as at 12 November 2026.
Forecasts are subject to change.

In Asia, we favour targeted exposure to the technology supply chain and emerging applications. South Korea stands out for its advanced memory industry and attractive valuations.

Japan offers opportunities in automation, robotics, and specialised technology. In China, domestic computing, cloud services, and innovative healthcare present selective avenues for growth, even as broader economic challenges lower our regional conviction. Robotics and AI-enabled drug development could provide additional sources of longer-term growth.

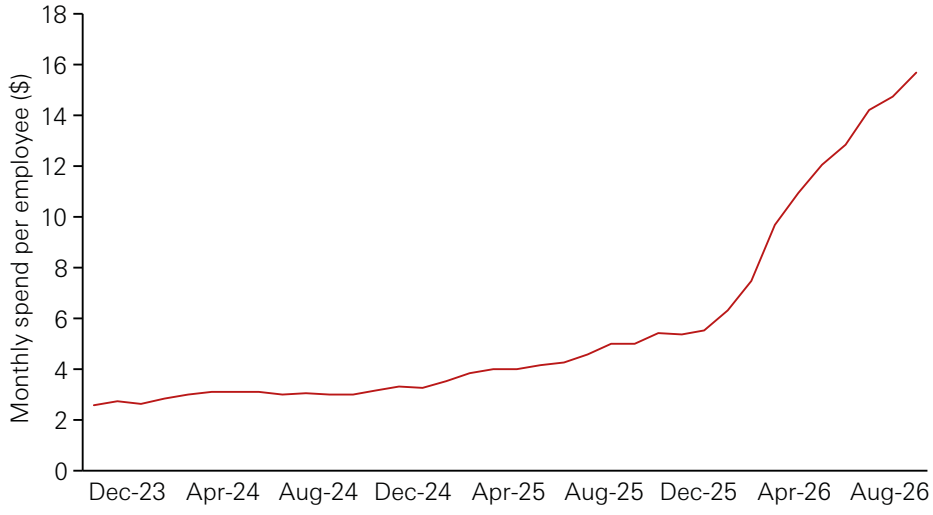
Europe offers more selective opportunities compared to the US or Asia. Investment in electrification, grid modernisation, energy security, and industrial automation supports demand for specialised equipment and related services. However, these structural themes may not translate into outperformance for the wider market, given more uneven earnings prospects and competitive pressures. We focus on businesses with clear exposure to investment demand, pricing power, and resilient margins.

US tech valuation multiples have fallen back considerably and now look cheap

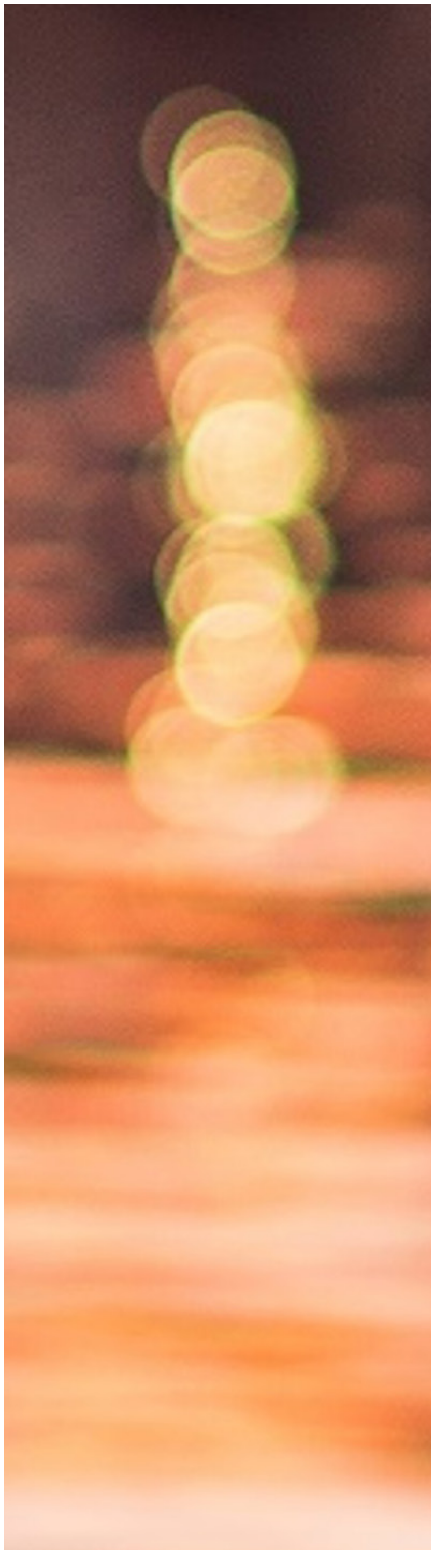


Source: Bloomberg, HSBC Private Bank as at 12 November 2026. Past performance is not a reliable indicator of future performance

AI spend is still low but accelerating quickly



Source: Ramp, HSBC Private Bank as at 12 November 2026.



Fixed Income

Global bond markets experienced a significant sell-off over the past three months, driven by resilient economic growth, surging oil prices and persistent headline inflation. While the peak in yields remains difficult to identify, a tipping point may be approaching, as higher yields entice more investors to lock in the income. Elevated yields also provide a buffer against any losses from volatility. And finally, bond/equity correlations have dropped, increasing bonds' diversification credentials. We therefore continue to allocate to bonds, focusing on high-quality corporate credit.

Global bond markets experienced a significant sell-off over the past three months, driven by resilient economic growth, high oil prices, persistent headline inflation, geopolitical tensions and fiscal concerns. The 10-year US Treasury (UST) yield surged 60bp during the period to reach 5.35% in early October, before retreating below 5.0%. The 30-year yield even reached 5.73%, its highest level since 2002. The repricing extended across other markets, including Europe and Japan.

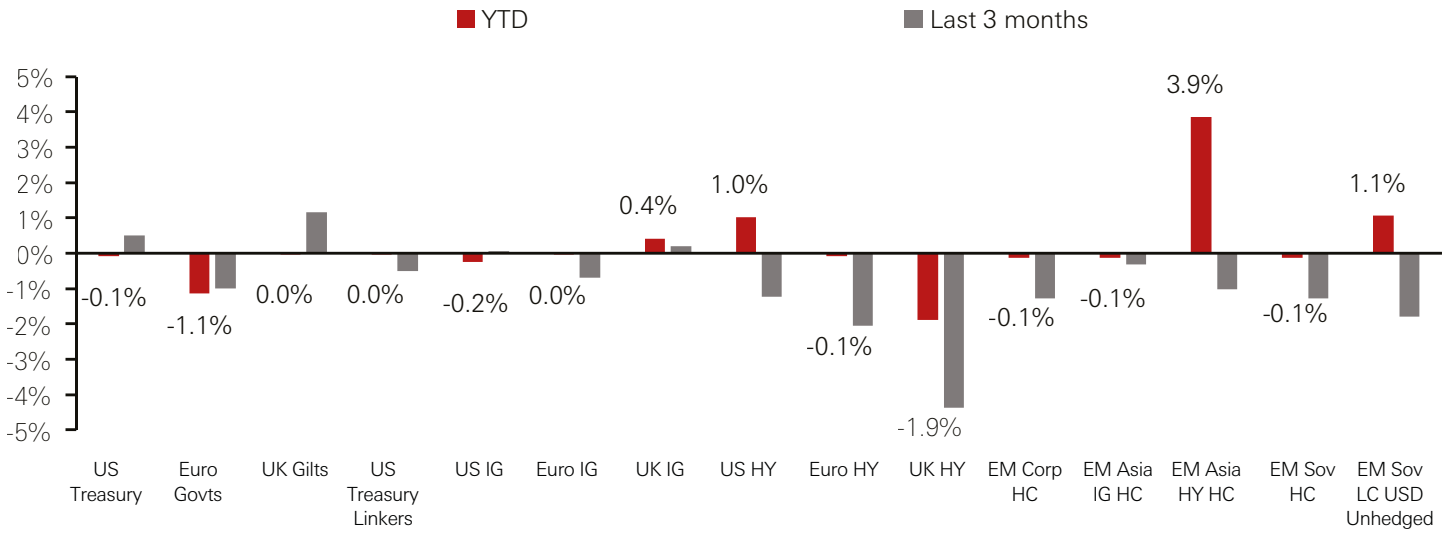
Other factors driving up yields included heavy bond issuance from the AI ecosystem, which particularly impacted longer-dated yields. We also think that the shift of buyers in recent years towards hedge funds – which are particularly price-sensitive - exacerbated the yield moves. What drove longer dated bond yields higher is not inflation expectations, but real yields, reflecting expectations for stronger long-term growth and higher neutral policy rates.

Despite a late-October retracement, markets continue to be vulnerable to renewed inflationary pressures, fiscal uncertainty and geopolitical developments. Our view has been that it will take time for policy rates and bond yields to decline and that investors should therefore not expect rapid capital gains. We have therefore been focused on clipping coupon income.

That said, we think there is growing interest in bonds as higher yields improve bonds' risk-adjusted returns and could encourage institutional investors to reallocate across asset classes. Elevated yields also provide a greater buffer against any further rate increases than in the past, creating a more asymmetric risk–return profile for investors (see graph on the next page).

We are also encouraged by DM government bond yields recently decoupling from their previously positive relationship with energy prices, and by the drop in bonds' correlation with equities. If markets shift their attention from inflation concerns towards growth concerns or a risk-on / risk-off pattern, yields may peak, high rated bonds may gather increased interest, and investors

Bond market's performance has been weak so far this year



Source: Bloomberg, HSBC Private Bank as at 12 November 2026. Past performance is not a reliable indicator of future performance.

may increasingly want to allocate to them in diversified portfolios. We think that point is approaching.

Our bond strategy

We continue to identify opportunities among high-quality issuers, particularly in the corporate Investment Grade (IG) bond market, while maintaining exposure to the middle of the yield curve (i.e. 5-7 years for USD and GBP and 7-10 years for EUR, and AUD). The short end may not benefit in the near term unless the Federal Reserve adopts a less hawkish stance, while the long end remains vulnerable to the negative narrative about fiscal deficits. We generally favour IG over High Yield (HY) bonds on valuation grounds, except for the Asian HY market, where we hold a mild overweight.

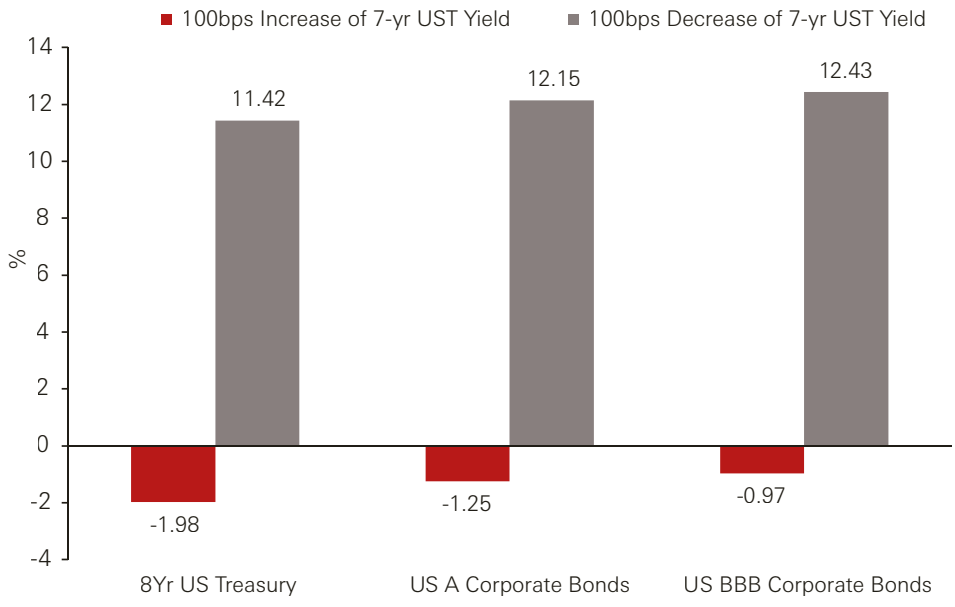
By sector, we gain indirect exposure to AI adoption through utilities, energy and, to some extent, financials, primarily in the US and Europe, including the UK. In Asia, our focus is on Chinese TMT, Japanese Financials and Australian banks, as well as selected Macau gaming companies.

Geographically speaking, we hold a mild overweight on Australian government and Corporate IG bonds. While we are neutral on European sovereign and credit, we believe France's fiscal debate is likely to remain a key focus for European markets, as investors continue to be unconvinced by the 2027 budget proposal. Hedge-fund activity may be contributing to the heightened volatility. We expect the Bund–OAT spread to trade within a volatile range, with 165bp as the near-term target, while political uncertainty keeps investors on the sidelines. As for financials, most French banks do not hold excessive OAT exposures relative to their total equity base. We believe the more relevant risk is a negative feedback loop, whereby widening credit spreads increase banks' funding costs. However, French banks continue to have access to markets and have successfully issued debt during the recent period of volatility. We also take note that a proportion of French corporate bonds trade inside the OAT yield curve, which means, they are perceived "safer" than their domestic sovereign debt. This is an interesting and rare feature for DM. We do not read too much into this situation and continue to favour French credit over OATs.

Overall, we focus on quality in corporate credit. We do not think there will be a downturn in this credit cycle because corporates have been deleveraging for more than a decade, but nevertheless a high-for-longer rate environment can lead to spread widening and worries about defaults. As quality bond yields have risen already, we think it is not worth taking on more credit risk by going down further in quality.



Elevated yields provide a greater buffer against rate increases, reducing the risk of negative total returns



Source: Bloomberg, HSBC Private Bank as at 12 November 2026. Modelled performance under different scenarios.

Currencies and Commodities

We expect a more selective market environment as US dollar strength has faded and gives way to increasing differentiation across currencies. We remain neutral on USD and most G10 currencies, favouring AUD while being cautious on GBP. RMB and KRW remain our preferred EM currencies alongside bearish views on INR and TRY. In precious metals, we view the recent weakness in gold as a cyclical correction rather than a change in trend, maintaining a bullish stance on gold and a neutral view on silver. Oil prices remain subject to elevated volatility and unpredictable headlines.

Currencies

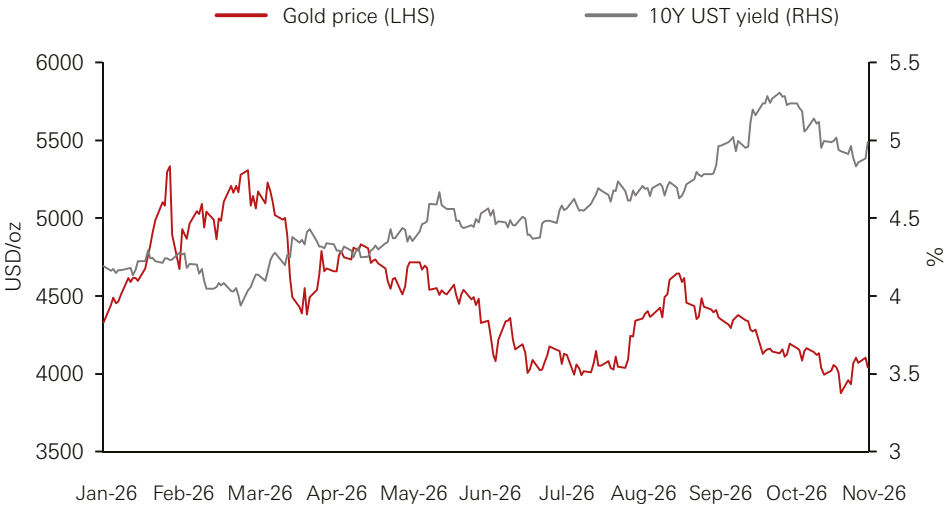
Currency markets continue to be shaped by US monetary policy expectations, energy prices and global risk sentiment. While the US dollar strengthened in recent months on the back of resilient US economic activity, higher oil prices and firmer US Treasury yields, we believe the next phase for FX markets is likely to be characterised by greater differentiation across currencies rather than a continuation of broad US dollar strength. Differences in economic growth, central-bank policies and capital flows are becoming increasingly important and should play a larger role in determining performance going forward.

Although USD has benefited from recent market developments, we do not expect the recent rally to develop into a sustained multi-quarter trend. Much of the US growth outperformance (or 'US exceptionalism') is already reflected in market pricing, while the Fed appears to be approaching the end of its tightening cycle. As rate differentials become more stable and other major central banks continue to normalise policy, support for USD already appears to be fading. This creates a more balanced environment for FX markets and increases the importance of relative country-specific factors rather than broad directional moves.

Within G10, we remain broadly neutral, including on USD. We see limited scope for a persistent trend across most developed-market currencies and continue to favour a diversified approach. Our preferred G10 currency remains AUD, which should benefit from resilient domestic fundamentals, exposure to commodity demand and improving growth prospects. By contrast, GBP remains our least favoured G10 currency. We believe sterling could face headwinds from a challenging fiscal backdrop, softer economic momentum and the risk that Bank of England tightening ultimately proves more limited than markets currently expect, leaving GBP vulnerable to underperformance relative to other G10 currencies.

Across emerging markets, we continue to favour selective opportunities over broad regional positions. We are constructive on RMB and KRW. RMB should benefit from policy support, while strong manufacturing exports and competitiveness allow the currency to gradually strengthen for economic and political reasons. KRW is well positioned to benefit from AI related investment and strong semiconductor demand. Conversely, we remain bearish on INR and TRY,

Rising US yields have been a key headwind for gold



Source: Bloomberg, HSBC Private Bank as at 12 November 2026. Past performance is not a reliable indicator of future performance.

as both currencies continue to face domestic and external challenges that could become more apparent in a less supportive global environment. Elsewhere, we remain broadly neutral across the EM FX universe.

Commodities

In precious metals, gold has softened significantly in recent months as higher real yields, a stronger US dollar and reduced expectations for near-term policy easing weighed on investor sentiment. Looking ahead, we expect these headwinds to gradually ease as US monetary policy reaches its peak and real yields stabilise. At the same time, robust central-bank demand, reserve diversification and ongoing geopolitical uncertainty should continue to underpin the longer-term outlook. We therefore remain bullish on gold and view the recent weakness as a correction rather than a change in trend.

Silver has also softened alongside gold, but its outlook remains more closely tied to industrial activity and global growth. While demand linked to technology and energy-transition themes should remain supportive, we maintain a neutral view on silver.

We expect the oil price to gradually trend down as exports from the Middle East could increase, but the headline risk is so elevated that it is impossible to take a strong directional view.



Hedge Funds

The higher than usual bond/equity correlation drives more investors towards hedge funds to help diversify portfolios. The higher cash rates tend to benefit hedge fund returns, while alpha generation potential is underpinned by dispersion in equity and credit markets, policy divergence, cross-asset volatility and corporate activity. Finally, the low beta of the asset class is sought-after by investors who worry that equity and bond returns could slow, due to slowing earnings growth and sticky real yields. That said, manager selection, strategy diversification and avoiding overcrowded positions remain key.

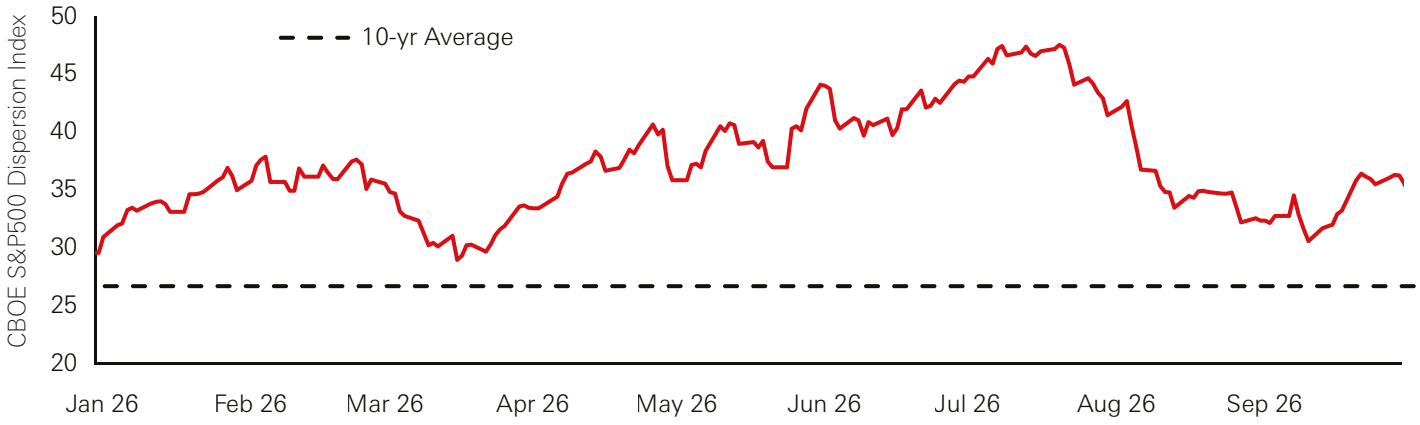
Navigating markets has been complicated due to persistent inflation, geopolitical uncertainty and shifting monetary policies. The conflict in Iran and volatile energy prices tested risk appetite in Q1, while renewed inflation and fiscal concerns pushed government bond yields higher in Q3. Although equities recovered strongly during the second quarter and proved more resilient than fixed income, October saw renewed volatility. The year also saw episodes where stocks and bonds weakened together, complicating traditional portfolio diversification.

Against this backdrop, hedge funds have demonstrated their value as diversifiers thanks to flexible investment mandates. Broadly contained first-quarter losses (due to crowded positions and erratic and fast changes in narratives) were followed by a strong April recovery, illustrating the potential to participate in improving markets while managing downside exposure. The subsequent repricing of interest rates presented a different test, emphasizing diversification across strategies and return sources. These episodes also underline that hedge funds are not a uniform defensive allocation: outcomes depend on positioning, liquidity, leverage and managers' risk controls.

Looking into 2027, we see four pillars supporting the opportunity set: dispersion within equity and credit markets; monetary policy and interest-rate uncertainty; geopolitical developments generating cross-asset volatility; and corporate activity creating security-specific catalysts. Rising financing costs connect these themes, sharpening differentiation based on companies' balance-sheet strength and earnings resilience. Government borrowing and the financing demands of the AI investment cycle have also focused attention on longer-term yields, creating opportunities for managers able to distinguish between growth, inflation and fiscal risk.

The case for a diversified allocation to high-quality hedge funds rests less on a single market forecast than on differentiated sources of return. Long and short positioning, adjustable exposures and relative-value trading can complement traditional portfolios when market leadership and cross-asset relationships are unstable. A broader opportunity set does not, however, guarantee stronger returns. Manager selection, portfolio construction and disciplined oversight remain central to translating these conditions into attractive risk-adjusted outcomes.

Dispersion in markets provides hedge funds with a fertile opportunity set



Source: Bloomberg, HSBC Alternatives, HSBC Private Bank as at 12 November 2026. Past performance is not a reliable indicator of future performance.

Strategy Views

Discretionary macro — mildly overweight. Policy and inflation divergence support rates, currency and commodity opportunities. Iran-war uncertainty favours adaptable positioning, emphasizing cross-market rates, sovereign spreads and country-specific EM catalysts.

Managed futures — neutral. Stronger Q3 returns do not change our diversification preference. We favour complementary signal speeds and market breadth, including alternative contracts where benefits justify implementation costs.

Systematic market-neutral and multi-strategy — mildly overweight. Dispersion offers opportunities, but poor performance in July highlighted crowding risks. We prioritize independent signals, liquidity and execution discipline, ensuring diversified underlying exposures.

Equity long/short — overweight. Conviction rests on company differentiation, earnings delivery, cash generation and resilience—not higher market exposure. Factor and crowding controls remain essential, alongside downside protection in Asia.

Event-driven — mildly overweight. Strategic demand and supportive regulation sustain M&A opportunities, while financing costs and tighter spreads increase selection risk. We favour flexibility across merger arbitrage, convertibles and activism, with crowding controls.

Credit long/short and structured credit —mildly overweight. Repricing and refinancing pressures create opportunities requiring rigorous capital-structure, documentation and collateral analysis. Selected CLO debt, ABS and non-agency RMBS remain attractive, with downside discipline essential.

Multi-strategy, multi-PM — overweight. Muted performance does not undermine diversification potential. We favour complementary alpha sources, effective exposure management and limited reliance on crowded positions.



Real Estate

Real estate returns in 2027 will hinge on income rather than valuation gains, as high bond yields leave little room for cap-rate compression and could even push valuations down. Retail stands out, with attractive yields, scarce new supply and resilient rents, particularly for grocery-anchored centres. Logistics should strengthen as completions fall. Residential benefits from frequent lease resets and persistent undersupply. Offices are polarised: prime space in London, New York and Tokyo may see rental growth, while older stock struggles. Selectivity, durable cash flows and constrained supply will drive performance.

Rising long-term bond yields and faltering consumer and business confidence have weighed on real estate investment activity. But still, debt remains available, with liquidity concentrated in prime assets with visible income growth.

Office demand is concentrating on modern buildings in a select group of gateway cities; retail vacancy rates are stable (at record lows in the US) after a decade of minimal construction and improving occupier demand; logistics vacancy rates are stabilising as completions slow and occupiers focus on supply chain efficiencies; and residential rental demand remains underpinned by poor home-ownership affordability, made worse by higher mortgage rates.

With bond yields at multi-decade highs and some central banks still raising rates, property yield spreads are thin. We do not expect yield compression in 2027, and there is even a risk that yields may rise. Returns will thus depend on income, with the best prospects in low-vacancy and low-supply sectors where steady occupier demand lets rents rise faster than inflation.

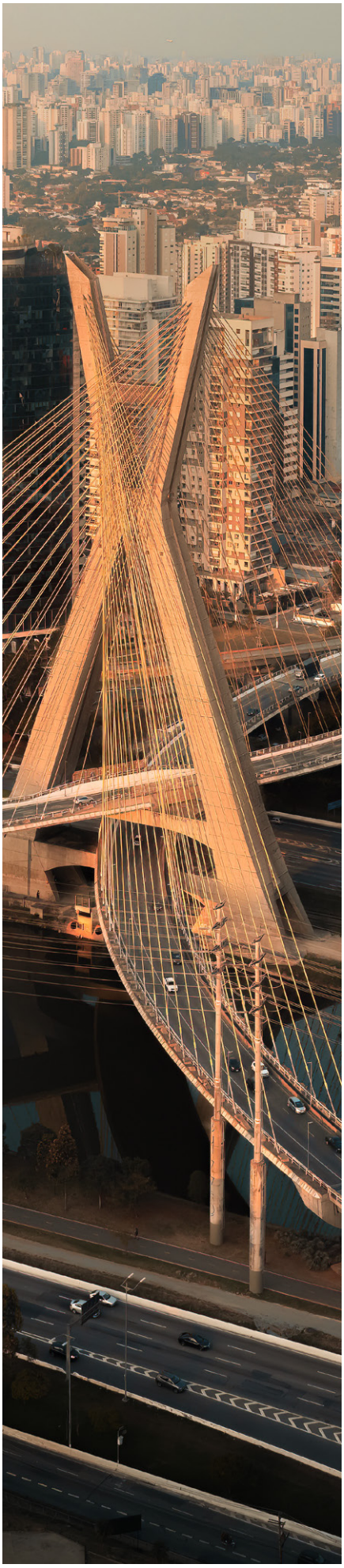
Retail is best placed to outperform in 2027. Income yields for retail generally offer an attractive spread over other property types, whilst minimal development for over a decade should keep vacancy low and sustain rental growth. We prefer defensive grocery-anchored neighbourhood retail focussed on non-discretionary spending.

Logistics fundamentals should improve further in 2027, with lower completions and steady take-up supporting lower vacancy and stronger rental growth. The US is furthest through the

Rent expectations for the next 12 months are picking up a bit



Source: RICS Global Commercial Property Monitor, HSBC Asset Management, HSBC Private Bank as at 12 November 2026.



adjustment, although urban and infill locations should recover faster than oversupplied Sunbelt markets. Europe may offer the strongest fundamentals, combining lower vacancy with e-commerce, nearshoring, defence and data centres' related demand. Supply in Australia and Singapore remains relatively tight, whilst China and parts of Japan face a longer supply adjustment.

Residential should remain resilient, with short-duration leases allowing landlords to capture rental inflation through regular rent resets. In the US, coastal multifamily should outperform as deliveries slow, whilst the Sunbelt recovers as excess supply is absorbed. European living benefits from structural undersupply and low vacancy, although tighter rent regulation and Berlin's renewed expropriation threat create political risk.

In Asia-Pacific, Tokyo's 23 wards combine high occupancy with rising rents, whilst Australian build-to-rent benefits from population growth, housing shortages and expanding institutional demand.

The office outlook is highly bifurcated. Although white-collar employment has slowed, leasing demand continues as financial services, technology and AI occupiers want modern, well-located buildings in supply-constrained gateway markets. Limited new construction and the conversion or withdrawal of obsolete stock should sustain healthy prime rental growth in London, New York and Tokyo. By contrast, secondary offices face weaker demand, rising vacancy, larger tenant incentives and significant capex costs as occupiers prioritise energy efficiency.

Alternative sectors should remain attractive. Senior housing offers the strongest growth, due to global ageing, rising care needs and limited new supply. Demand for data centres remains underpinned by AI adoption, though power availability constrains development. Self-storage demand may remain soft while housing transactions remain subdued.

By region, the strongest US occupier fundamentals are in grocery-anchored retail, senior housing, coastal multifamily and selected prime office markets such as New York, San Francisco and Sunbelt markets such as Atlanta. In Europe, non-discretionary retail, prime offices in London and selected logistics hubs offer the best rental outlook. In Asia, Tokyo offices and Japanese multifamily provide the clearest combination of low vacancy and rental growth; Singapore retail along with Australian logistics and residential are also well placed to deliver above inflation rental growth.

2027 should reward asset selection: durable income, limited competing supply and demonstrable rental growth will be the key drivers of performance.

Private Markets

Private markets offer an attractive complement to public markets, but results will vary widely between managers. In private equity, returns depend on how well owners run companies rather than on leverage or rising valuations. Cash returned to investors remains a key test for manager strength. AI is both an opportunity and a threat for portfolio companies. Private credit should deliver appealing floating-rate income, with lenders holding the upper hand on terms, but credit selection is key. Across both areas, we favour cash-generative businesses, broad diversification and rigorous manager selection.

Private Equity

The outlook is positive, supported by rapid innovation, strong EBITDA growth and investors' wish to diversify their concentrated public market exposure. But the recovery is uneven, so access and selection matter more than ever.

The key question for 2027 is whether better exits will turn into more consistent distributions. Global PE exit value rose 65% quarter-on-quarter in Q3 2026. That is encouraging, but a handful of large sales drove the rebound. With rates high for longer, M&A and distributions may stay subdued and 2027 is unlikely to beat 2026.

Cheap leverage no longer drives returns. While pre-2022 deals are working through their liquidity events, post-2022 deals are generally performing well. New deals rely on growing margins through platform building, vertical integration and geographical expansion. The opportunity lies in businesses where a manager has a clear ownership advantage, such as sector knowledge, access to customers, acquisition expertise or operating capability.

What sets managers apart is their ability to deliver - identifying which initiatives will improve revenue quality, margins or working capital; assigning clear ownership for implementation; and defining when those benefits will translate into cash. Each of these elements matters.

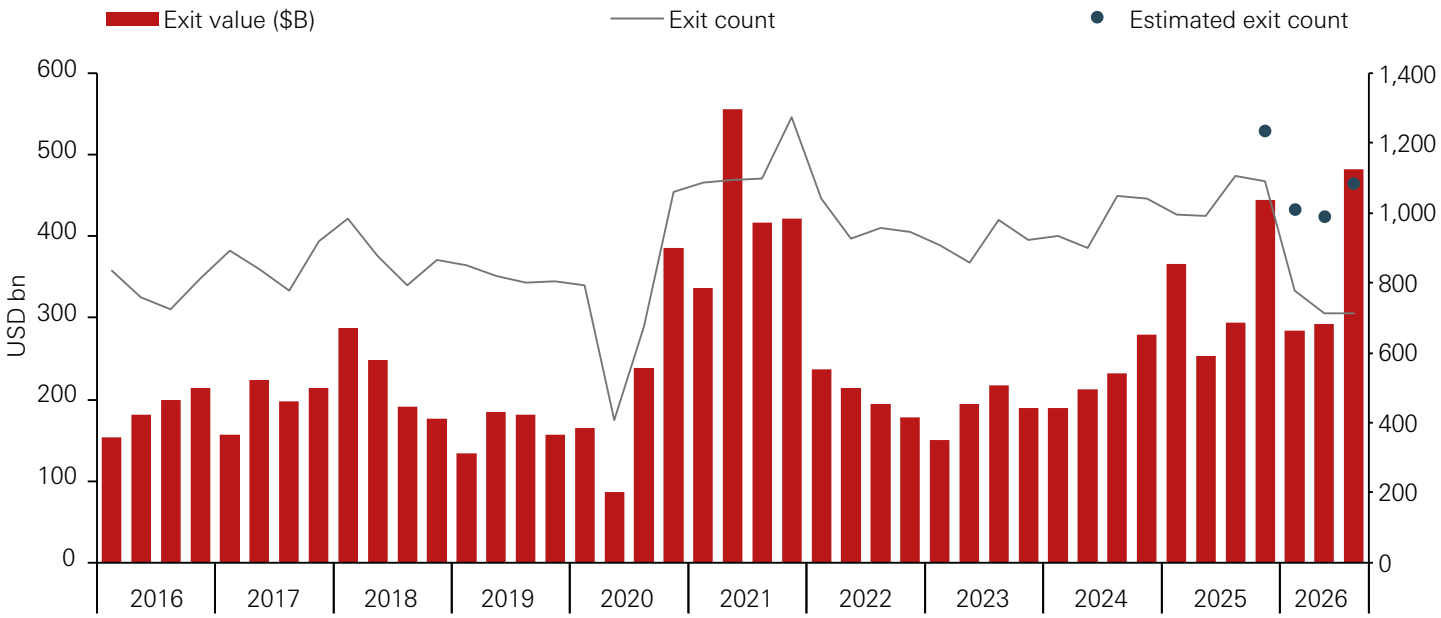
AI raises the bar. It has disrupted some legacy software businesses, but it is also a powerful efficiency tool. Owners can have every portfolio company test and learn, then share the productivity gains across holdings. The task is to find the managers that use AI best.

Secondaries have become a core portfolio management tool rather than an emergency exit. They let investors release capital without waiting for the underlying assets to be sold. Continuation funds let managers hold promising businesses for longer, but each transaction needs its own scrutiny. As demand from private wealth grows, the need for broad sourcing and large investor relations teams will favour bigger, scaled managers.

We favour businesses with clear cash flows, which matters more when rates stay high and disruption is widespread. It is important to spread commitments across vintages, sectors and regions.



Private equity exits are up, but concentrated in a few large deals



Source: Pitchbook, HSBC Asset Management, HSBC Private Bank as at 12 November 2026.

Private credit

Demand for private funding is enormous as businesses invest in innovation and security. Borrowers like the certainty of execution, speed and flexibility. If acquisitions recover and refinancing needs continue, the opportunity set should broaden. Managers with strong deal sourcing can focus where private financing adds value and turn down deals that do not pay enough. Selective lending, careful underwriting and active portfolio management can turn help generate sustainable income after losses and costs.

Closely monitoring borrowers' cash flow, leverage and liquidity helps managers spot problems early, so we expect more refinancing and balance-sheet repair than outright defaults. That said, defaults on older deals may rise but should stay below the historical average, as a resilient economy, especially in the US, supports earnings.

Recent wealth outflows, offset by institutional inflows, have improved discipline, widened spreads and led to a better balance of power between lenders and borrowers. Payment-in-kind (PIK) arrangements can sometimes help a viable borrower through temporary pressure, but they clearly need a credible path back to cash payment.

Sector expertise improves both selection and downside protection. In software, underwriting should assess how AI affects demand, pricing and renewals as well as productivity. The aim is durable businesses with mission-critical products, high switching costs and loyal customers.

Private credit's floating rates add to lenders' income but also put pressure on borrowers' cash flows. However, new loans have better interest coverage than when rates were low, as they reduce the incentive to reach for more spread.

Infrastructure

Infrastructure is particularly relevant in 2027 because the asset class has historically demonstrated resilience during periods of equity-market volatility and elevated inflation—two key concerns for investors today. Its appeal is further strengthened by the essential services it provides, high barriers to entry, inflation-linked cash flows and long-life real assets.We see infrastructure as a key beneficiary of structural tailwinds such as the AI build-out, electrification, urbanisation and re-industrialisation, where it helps address current bottlenecks. We favour a diversified approach that complements data centre expoure with power, fibre and traditional infrastructure, and we focus on quality assets with strong tenants.

Infrastructure's resilience is valuable in today's environment. It has historically held its value when equities fall or inflation rises, helping to protect the portfolio against risks investors may be worrying about.

That resilience reflects the assets themselves: essential services with long lives, high barriers to entry and often inflation-linked cash flows. The cash flows and margins are of course best supported in areas where there are bottle necks. The result is resilient, real income. The contractual cash flows tend to help keep default rates low, and recovery rates elevated compared to bonds.

Three long-term drivers add structural growth and strong tailwinds. The first is energy independence and security. Rising power demand from electrification and AI requires investment across all energy sources, and across generation, storage and transmission. This is not a bet on any single technology, but a broad opportunity set.

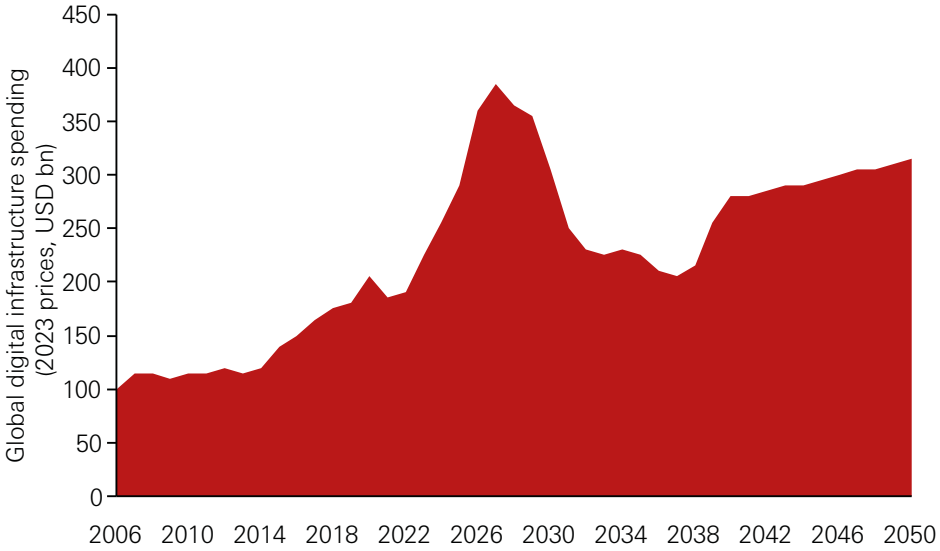
Secondly, re-industrialisation and the push for supply chain security is fueling investment in domestic energy and other networks.

The third is digitisation, where demand has moved from towers and fibre to data centres and computing. Infrastructure is therefore a major beneficiary of the AI build-out which needs not only data centres but also energy, data, transmission and fibre optics. This offers exposure to AI through the physical assets that the technology cannot run without and is quite complementary to the typical AI exposure investors get in the equity markets.

In fact, while equity markets currently fret about a potential slowdown in AI-related capital spending, this could potentially benefit data centre owners and their tenants (cloud operators) as demand for their services would continue to grow.

The wave of infrastructure investment funding will not stop, though, and goes far beyond AI, and the huge flow of capital is accompanied by a rapid broadening of investor choices. Firstly, investors can pick between different themes such as decarbonisation, deglobalisation and digitalisation. Secondly, there is also a range of strategies, ranging from infrastructure debt to core infrastructure, value add and opportunistic, to fit the risk and return profile and income needs.

If investment in data centres slows, this could benefit owners



Source: PWC Global Infrastructure Outlook 2025-2050, HSBC Private Bank as at 12 November 2026. Forecasts are subject to change and are shown in real terms (net of inflation).

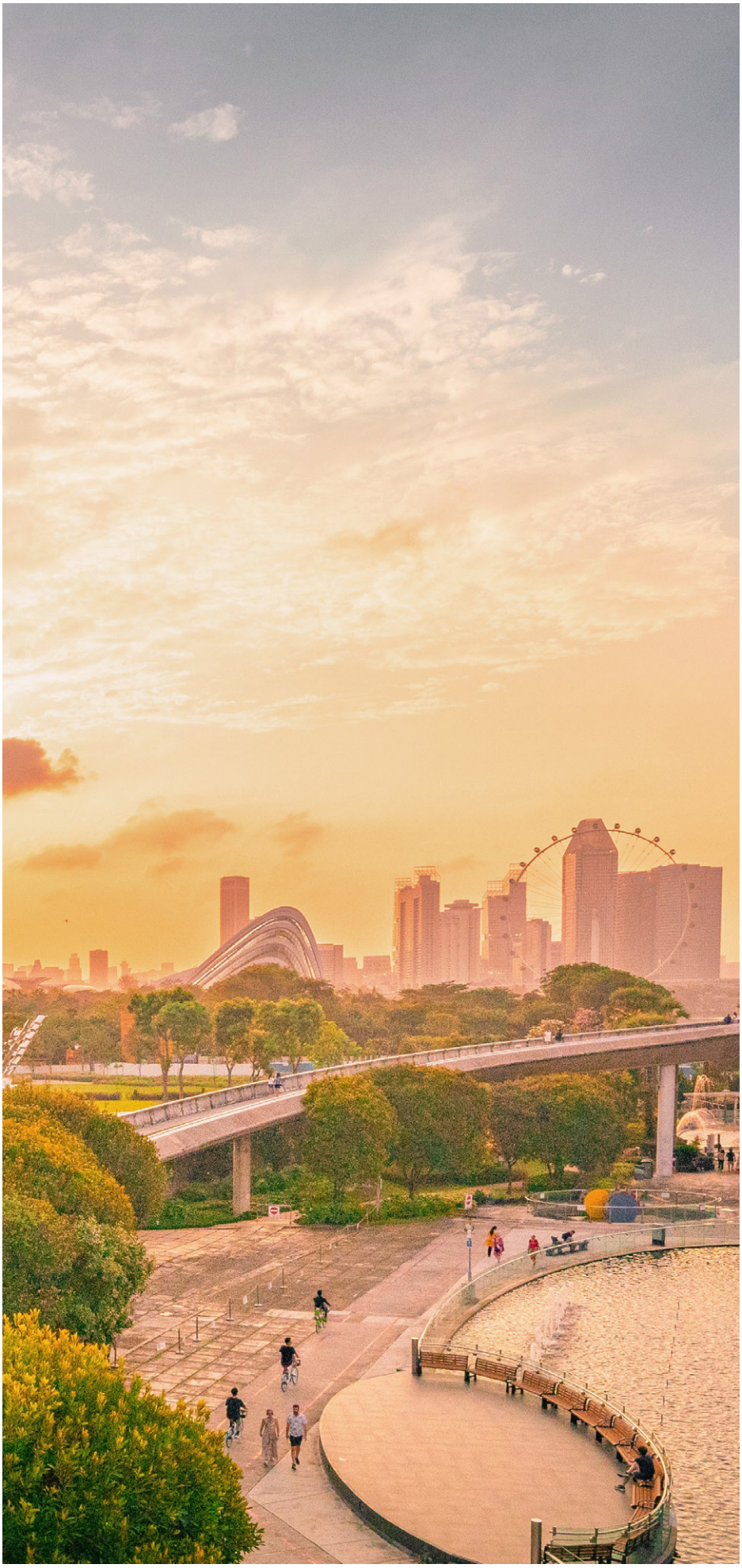
Lastly, they can invest through different vehicles, including direct investments, co-investments or open ended and closed-ended structures. We only note this because the broader options help channel more funds into the asset class. It is key that investors find the area within infrastructure that is right for them, including the level of income and risk.

The opportunities are most attractive where there are bottenecks and constraints. Compute demand far outstrips supply, which puts infrastructure owners in a strong position as tenants compete for limited capacity. That said, the scarcity cuts both ways: it is partly due to the difficulty of delivering new projects, including potential delays in power connections or permits, and local opposition, in the US and elsewhere. Data centres therefore require a selective approach, and investors should ensure the necessary building permits and electricity connections are in place.

Quality tenants also matter for data centres, especially after the recent equity volatility, which was triggered by a concern over poor balance sheet strength of neo cloud operators. We therefore favour hyperscalers over neo cloud operators.

And as markets may continue to worry about a potential slow down in model development, exposure to data centres that are used for inference may be safer than those used for training. That means latency needs to be lower and therefore leads us to preference data centres that are near major cities.

Most importantly, we favour diversified exposure that goes beyond data centres, into power, fibre and other more traditional infrastructure. Positioned this way, infrastructure becomes a primary underlying beneficiary of the AI revolution, while keeping the resilience that underpins its role in portfolios.





Asia in a New World Order

Amid higher-for-longer global rates, K-shaped economies and global geopolitical risks, we look for areas with structural support and quality assets. Asia has a unique competitive position in AI: its advanced manufacturing leaders and the supply chains for data centres should continue to ride on the global AI trends and deliver outstanding earnings growth. In equities, we look for corporates that can improve shareholder returns over time through more efficient capital allocation. In credit markets, we adopt a balanced approach between IG for stable and resilient income and HY with robust fundamentals.

Our four high conviction themes for Asia are based on the region's structural earnings growth, its competitive position in the global AI ecosystem and our focus on quality.

Asia's Tech and Advanced Manufacturing Leaders

Asia is a key market for AI monetisation. It is at the dawn of a massive adoption wave and it is also the home to numerous advanced manufacturing leaders. With these two competitive advantages, Asia is well positioned for an innovation-led growth story. The region's internet and software leaders are set to benefit from rising and broadening of AI adoption. At the same time, Asia's leading manufacturers retain their global competitiveness in many strategic clusters, including energy transition, automation and life sciences.

Asia's Data Centre Boom

Asia Pacific is central to the global data centre boom, supported by strong AI adoption, government backing, competitive energy costs, expanding renewable generation, land availability, and proximity to manufacturing hubs. Australia and Japan are expected to lead incremental demand for computational resources, while Southeast Asia attracts new investment as a regional growth market. Mainland China is likely to remain comparatively self-sufficient, with capacity expansion largely driven by domestic workloads, regulation and supply chains.

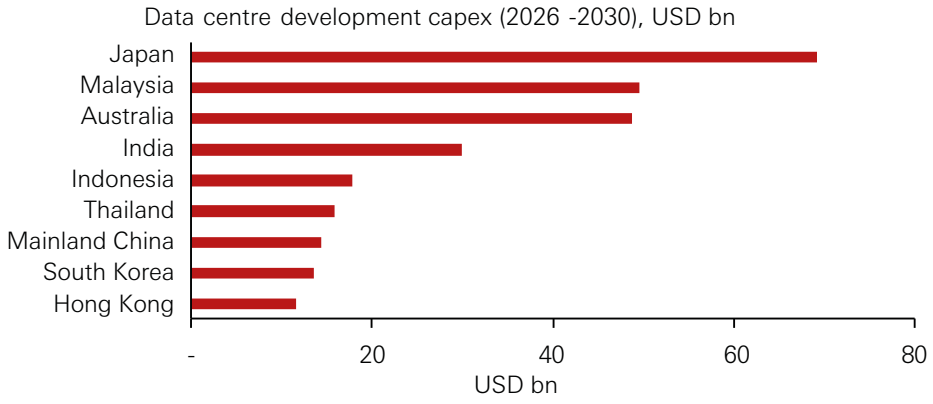
Power up Asian Shareholder Returns

We favour corporates that can improve shareholder returns over time through more efficient capital allocation. This theme is supported by corporate reform initiatives across Asia and by a growing focus on capital discipline, governance and shareholder engagement. Asian equity markets' return on equity (ROE) is projected to rise from around 11.3% in 2025 to approximately 17.3% in 2027e, well above the 5-year historical average of 10.3%. This improvement is expected to be driven by higher dividend distributions, more share buybacks and profit growth.

Balanced Asian Credit

Asian credit has a diversified issuer base, spanning across Mainland China, Japan, Hong Kong, Singapore, South Korea, Australia and Southeast Asia. Strong liquidity and generally sound balance sheets should continue to support Asian IG credits during periods of volatile global risk appetite. Limited Asian IG issuance relative to the US may also help. Select HY issuers with robust fundamentals can provide opportunities with lower interest rate sensitivity and enhanced carry over IG.

Japan leads the data centre expansion in Asia Pacific, followed by Malaysia and Australia



Source: Cushman & Wakefield, Bloomberg, HSBC Private Bank as at 12 November 2026. Forecasts are subject to change.



Disruptive Technologies

Disruptive technologies are changing how organisations operate, compete and manage risk. Artificial intelligence is developing rapidly through generative tools, connected devices and autonomous systems; boosting productivity and triggering scientific and commercial breakthroughs. Aerospace and security can benefit from improved efficiency, safety and situational awareness, but responsible governance remains essential to manage cyber threats, unreliable outputs, workforce disruption and misuse.

Booming AI Ecosystem

The AI ecosystem is the operational environment encapsulating an AI system. It includes data centres, hardware, cloud & edge computing, data, software models, developers, utilities, connected devices and services. This value chain is rapidly expanding to meet the booming end user demand. Our investment theme focuses on those companies providing the key components essential to expand and extend the AI ecosystem (semiconductors, servers, power generation equipment, electrical and specialist cooling equipment) rather than those companies developing the models (LLMs) and/or those owning the infrastructure.

Data centre capacity continues to constrain growth of AI and its deployment, a situation that is likely to remain unchanged for the next few years. Building and operating data centres at scale requires significant resources and commitment and the capacity to absorb the related risks.

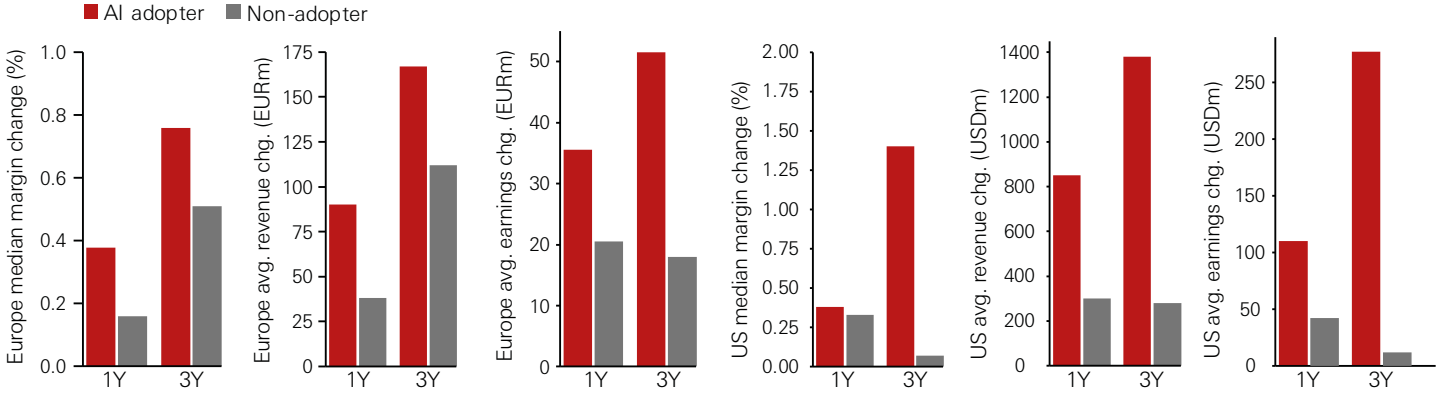
As the number of AI-enabled products and services grows, the supporting AI ecosystem will need to scale alongside it. Industry forecasts suggest that the number of connected IoT devices could exceed 29 billion by 2030, which seems a lot until you consider that it is estimated that more than 1 trillion digital photographs are taken each year (Source: Rise Above Research, 2023) and most are stored using cloud computing.

Aerospace and Security

The aerospace and security industries are becoming increasingly interconnected—from satellites tracking potential hostile activity and weather patterns to cybersecurity, passenger aircraft and autonomous drones monitoring facilities. The dramatic decline in satellite launch costs and accelerated development of drone technologies have made them both far more useful and accessible. As a result, their use is rapidly expanding.

AI is already playing an important role in the aircraft industry, being used to enhance autopilot and monitoring functions by analysing the vast amount of data being generated by aircraft sensors in real time. Digital twins allow central control centres to monitor and track aircraft 24/7 to anticipate or identify potential problems and efficiently schedule maintenance to minimise disruption. This is important given the scale of the airline sector. The International Air Transport Association forecast approximately 4.7 billion air passengers in 2024, while Boeing estimated demand for more than 43,000 new commercial aircraft over the following 20 years. AI-enabled maintenance and operational planning could help manage this growth more efficiently.

AI adoption should continue to accelerate as adopters already perform significantly better than non-adopters



Source: HSBC Global Investment Research, FactSet, LSEG-TKRD, HSBC Private Bank, as at 12 November 2026. Note: excludes Financials. Past performance is not a reliable indicator of future performance.

Climate Action



The environmental agenda is shifting from commitments to implementation, with biodiversity and climate goals requiring stronger policy alignment, measurement and funding. COP17 and the ongoing strong El Niño highlight the need to tackle nature and climate risks together, while it also becomes increasingly clear that energy security and energy transition go hand in hand. Technology, including AI-enabled monitoring and traceability, can accelerate the transition with robust governance.

Major international environmental summits in 2026 have underscored the urgent need to address biodiversity loss, land degradation and climate change. With fewer than half of national biodiversity targets on track for 2030, the UN Biodiversity Conference, COP17, held in October under the theme "Taking Action for Nature", marked the first global stocktake of progress against the Kunming-Montreal Global Biodiversity Framework and highlighted the need to turn commitments into action through stronger policy alignment, ecosystem restoration, international cooperation, increased financing and the redirection of capital towards nature-positive activities.

Climate volatility is adding to the pressure on ecosystems, agriculture and water systems. A developing El Niño could intensify heat, drought and other climate extremes in some regions, increasing the vulnerability of already stressed habitats and wildlife. This reinforces the importance of considering climate and nature risks together rather than treating them as separate challenges.

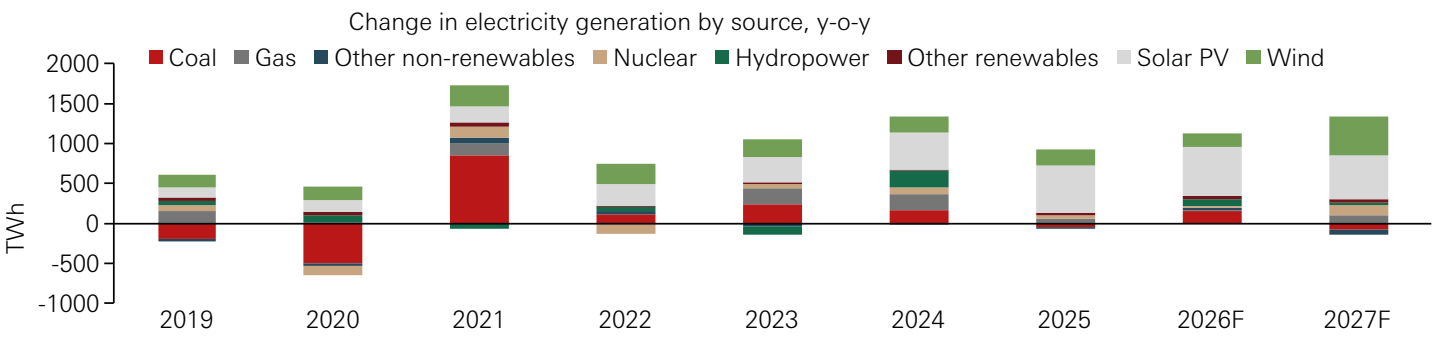
Resource extraction and processing remain important drivers of biodiversity loss. Circular business models reduce waste, extend product life and keep materials in use. Beyond the environmental case, circularity can support more resilient supply chains and improve resource efficiency. We engage with this opportunity through our high conviction theme, **Biodiversity and Circular Economy.**

Demand for clean energy and energy-saving technologies, including in cooling, buildings, industry and transport, remains structurally strong. This supports the case for our high conviction theme, **Climate Investing**. AI's rising energy demand, the need to improve energy security and the growing economic cost of climate disruption, should structurally support this theme.

Technology can help accelerate this transition. Nature-focused AI applications, including supply-chain traceability, satellite and sensor-based monitoring, and data-led risk assessment, can improve visibility across value chains and help organisations identify opportunities to reduce their environmental footprint. These tools should complement, rather than replace, human judgement, accountability and robust governance.

Other sustainability trends are also gathering pace. Continued disruption risks in fossil-fuel markets are reinforcing the case for energy diversification, efficiency and security. Renewable power remains central to the growth of electricity generation (see below chart), while rapid deployment of solar, grid infrastructure, storage and other enabling technologies is reshaping energy systems. The transition must, however, be managed responsibly to avoid creating new pressures on land, water and biodiversity.

Solar PV and wind are projected to be the main contributors to the surging global electricity growth



Source: International Energy Agency (IEA), HSBC Private Bank as at 12 November 2026.

Evolving Society



Societal transformation is increasingly shaped by two imperatives: unlocking the potential of human capital and securing the resources essential for economic growth. Growing electricity demand, geopolitical fragmentation and concentrated supply chains are making energy resilience an economic necessity, rather than solely a policy objective. At the same time, ageing populations and rapid advances in artificial intelligence are reshaping healthcare, productivity and workforce participation.

Energy and Resource Security

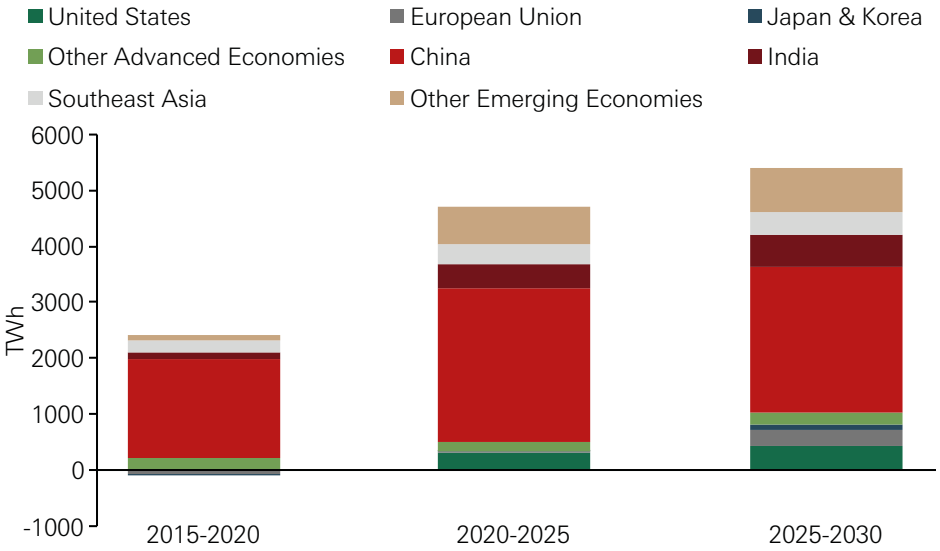
Energy security is becoming inseparable from economic competitiveness. Businesses need reliable, affordable power while reducing exposure to geopolitical shocks and concentrated supply chains.

The World Economic Forum's Energy Transition Index says that global energy investment reached USD 3.3 trillion in 2025, including USD 2.3 trillion in clean energy. Recent geopolitical risks are set to accelerate investment in coming years. The International Energy Agency forecasts electricity demand growth of 3.8% in 2027, due to electrification, cooling, industrial activity and data centres.

Opportunities therefore extend to transmission, grids, storage, flexible generation and energy management.

Resource security is equally important. WEF estimates the top three producers supply c.86% of key transition minerals, with many subject to export controls, creating dependencies and investment opportunities in nuclear, storage and infrastructure. In 2025, 35 new policies addressing critical minerals were introduced across 19 countries, reflecting growing efforts to diversify production, refining and recycling. This creates investment opportunities in materials, recycling and strategic infrastructure, although returns will depend on capital discipline, cost competitiveness and the evolution of trade policy.

Emerging markets will account for more than 80% growth in electricity demand, lead by China and India



Source: IEA, HSBC Private Bank as at 12 November 2026. Forecasts are subject to change

Social Empowerment and Well-being

Diversity and inclusion are increasingly viewed as material drivers of innovation and improved financial outcomes. Evidence from multiple studies links diverse leadership teams with stronger performance, underpinned by more robust governance, wider perspectives in decision-making, and closer alignment to the needs of diverse customer bases.

Healthcare Innovation

Demographic change is elevating the importance of health and human-capital productivity for long-term growth. WHO projects that the population aged 60 and above will reach 1.4 billion by 2030 and 2.1 billion by 2050, with 80% living in low- and middle-income countries. This will increase healthcare and care demand, strain finances and working-age populations, and expand opportunities in diagnostics, medical technology, prevention and ageing.

We see structural opportunities in healthcare innovation, medical technology and AI-enabled productivity. Companies that improve health outcomes, augment workers' capabilities or widen workforce participation may benefit from durable demographic needs. The differentiator will be demonstrable outcomes, effective execution and sustainable economics.



Seeking Diverse Returns amid Volatile Data

Global growth is uneven and K-shaped in many countries. In addition, the rate of growth is heavily dependent on AI as its main engine. Lastly, the data are prone to volatility due to potential rate, commodity and geopolitical shocks. In this environment, we don't want to be overly dependent on AI, nor take broad-based cyclical exposure. Instead, we look for those areas of the economy with the best support and combine them to achieve good diversification. Our themes range across equities, fixed income and real assets as we seek diverse returns.

Global growth has been resilient but largely dependent on the AI build-out and fiscal spending. While we remain constructive on AI, it is prudent to actively look for other themes to avoid excessive concentration to this single factor. Meanwhile, the fiscal impulse should slow because the big boost from the One Big Beautiful Bill is over, and governments need to tighten purse strings in the high-for-longer rate environment. It's therefore unsurprising that global economic-surprise indicators began to turn negative in the third quarter.

High energy prices are good for the oil sector and oil exporting countries, but bad for importers, also hurting consumption. A resurgence of military action in the Middle East could lead to an oil price spike; and although we expect oil to trend down in 2027, we also expect a lot of volatility around that trend. Amid this uncertain and K-shaped economic outlook, we expect frequent changes in the narrative.

Our positioning, therefore, is not cyclical but needs to be selective, focusing on those areas with good support. We also look for investments that complement investors' often significant exposure to AI, helping to provide greater diversification. It is by looking across equities, fixed income and hard assets that we find these different return drivers and can avoid single-factor concentration.

North American Re-industrialisation

Supply chains remain vulnerable, so companies continue to diversify and relocate their supply chains through re-onshoring or near-shoring. This vertical integration benefits building, engineering, materials, logistics and industrial companies.

Income through Active Credit Selection

Bond yields have increased, but too many rate hikes are now priced in, capping short-dated yields. Investment grade spreads are well supported, and the search for yield leads to increased interest in Asian high yield. Bonds' diversification potential has improved recently, increasing their attractiveness, but an active and selective approach is needed.

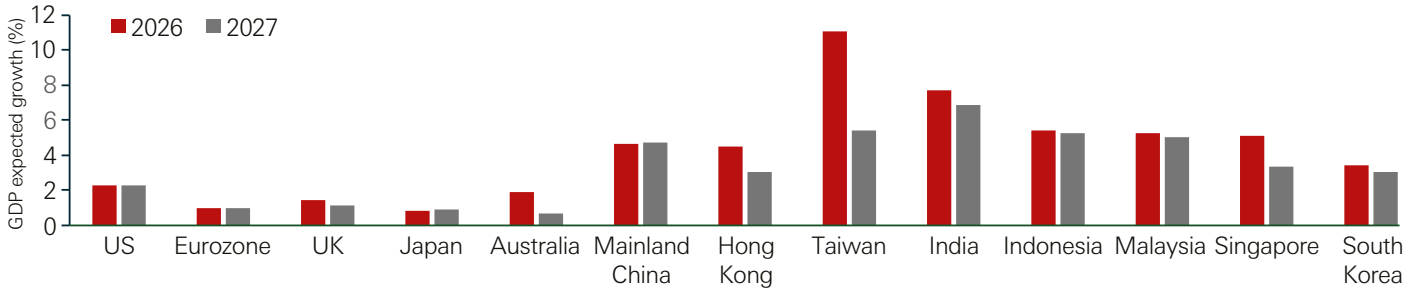
Real Assets as Diversifiers

As inflation remains elevated, growth is uneven and currencies remain volatile, real assets can be attractive. Infrastructure has predictable and inflation-linked cash flow. Gold is a good long-term diversifier. And while high rates can be an obstacle for real estate, there are pockets in student housing, elderly homes, data centres and prime offices with strong support.

Themes we have retired

Note that we have retired our M&A and Shareholder Value Creation theme as M&A activity may decelerate in a high-for-longer rate environment. This has also contributed to our decision to retire our Global Financials theme, together with some widening of sovereign spreads and a mild increase in credit losses.

Many areas may see a slight loss of economic momentum, especially if the rate of growth of AI slows



Source: HSBC Global Investment Research, HSBC Private Bank as at 12 November 2026. Forecasts are subject to change.

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Disclaimers

Risk disclosures

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

Credit risk

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

Risks associated with high yield fixed income instruments

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

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

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

- Subordinated debentures - subordinated debentures will bear higher risks than holders of senior debentures of the issuer due to a lower priority of claim in the event of the issuer's liquidation.
- Perpetual debentures - perpetual debentures often are callable, do not have maturity dates and are subordinated. Investors may incur reinvestment and subordination risks. Investors may lose all their invested principal in certain circumstances. Interest payments may be variable, deferred or cancelled. Investors may face uncertainties over when and how much they can receive such payments.
- Contingent convertible or bail-in debentures - Contingent convertible and bail-in debentures are hybrid debt-equity instruments that may be written off or converted to common stock on the occurrence of a trigger event. Contingent convertible debentures refer to debentures that contain a clause requiring them to be written off or converted to common stock on the occurrence of a trigger event. These debentures generally absorb losses while the issuer remains a going concern (i.e. in advance of the point of non-viability). "Bail-in" generally refers to (a) contractual mechanisms (i.e. cotractual bail-in) under which debentures contain a clause requiring them to be written off or converted to common stock on the occurrence of a trigger event, or (b) statutory mechanisms (i.e. statutory bail-in) whereby a national resolution authority writes down or converts debentures under specified conditions to common stock. Bail-in debentures generally absorb losses at the point of non viability. These features can introduce notable risks to investors who may lose all their invested principal.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risk disclosure on Emerging Markets
Investment in emerging markets may involve certain, additional risks which may not be typically associated with investing in more established economies and/ or securities markets. Such risks include (a) the risk of nationalisation or expropriation of assets; (b) economic and political uncertainty; (c) less liquidity in so far of securities markets; (d) fluctuations in currency exchange rate; (c) higher rates of inflation; (f) less oversight by a regulator of local securities market; (g) longer settlement periods in so far as securities transactions and (h) less stringent laws in so far the duties of company officers and protection of Investors.

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

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

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

Currency risk – where product relates to other currencies
When an investment is denominated in a currency other than your local or reporting currency, changes in exchange rates may have a negative effect on your investment.

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

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

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

Illiquid markets/products
In the case of investments for which there is no recognised market,

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

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

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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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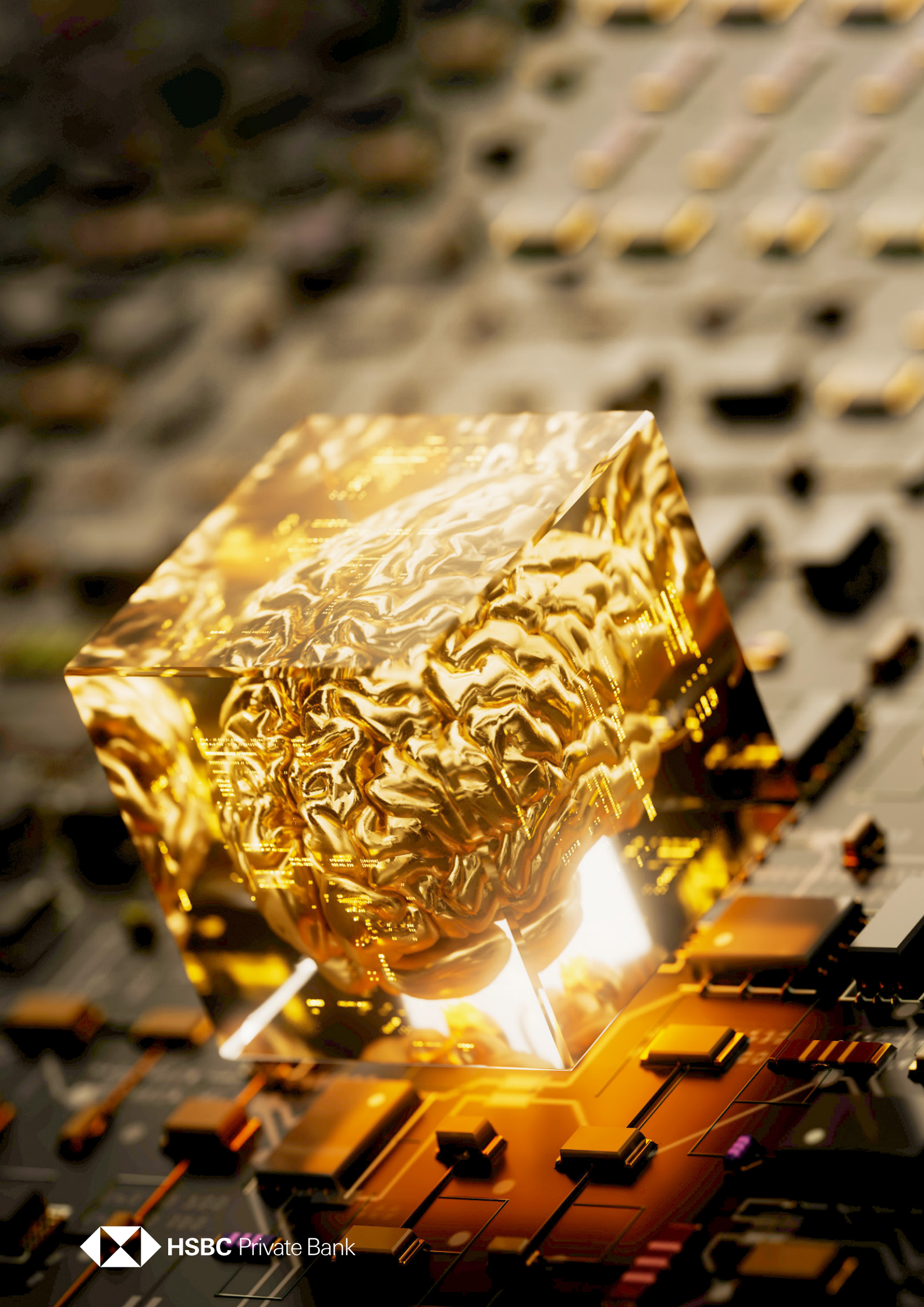
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