

Fixed Income:

Market Outlook & Positioning



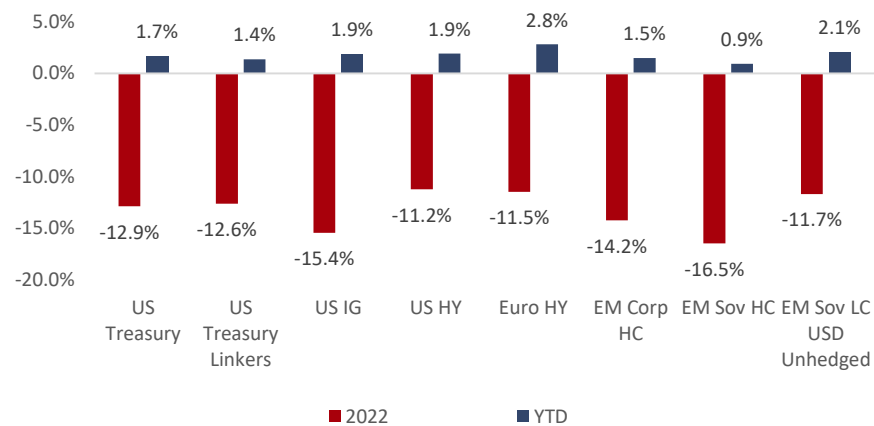
Fixed Income

Outlook and Positioning

2022 witnessed the worst bond returns in recent history

2022 was a very difficult year to navigate, even for well-diversified portfolios. Bond markets under our coverage posted negative returns in 2022, ranging from -11% to -17%. This situation was even more pronounced for UK Gilt markets which materially underperformed due to their longer-duration characteristic (conventional Gilts -25% and index-linked -34%). Not all is negative though. Thanks to the rapid repricing of monetary policies in rate markets across the world, numerous carry opportunities have surfaced. We feel more confident about bond returns in 2023, despite a hesitant start to the year and Fixed Income remains our asset class of predilection, on a risk-adjusted basis.

2022 was the year with the worst performance across bond markets in recent history

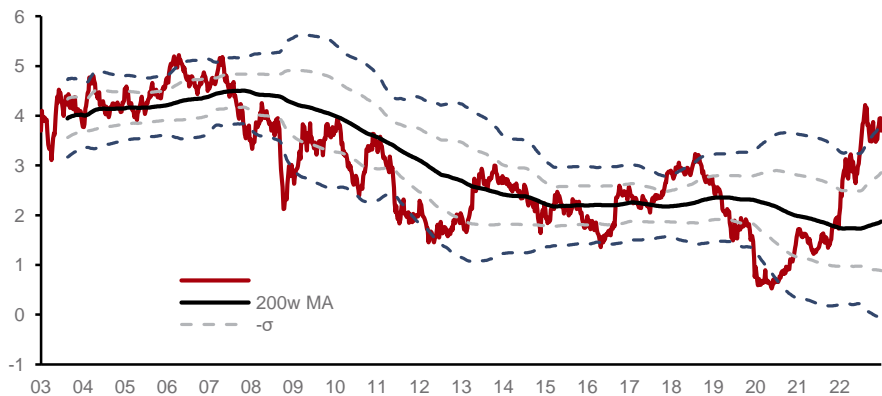


Source: HSBC Global Private Banking, Bloomberg as of 10 March 2023. Past performance is not a reliable indicator of the future performance

Where do we stand now?

There have been some interesting developments in bond markets over the past month, particularly across DM rates, where sovereign yields bounced back from the bottom of their recent trading ranges and broke the upper bound of their channels.

The 10-year US Treasury yield broke the upper bound of its channel... but for how long?



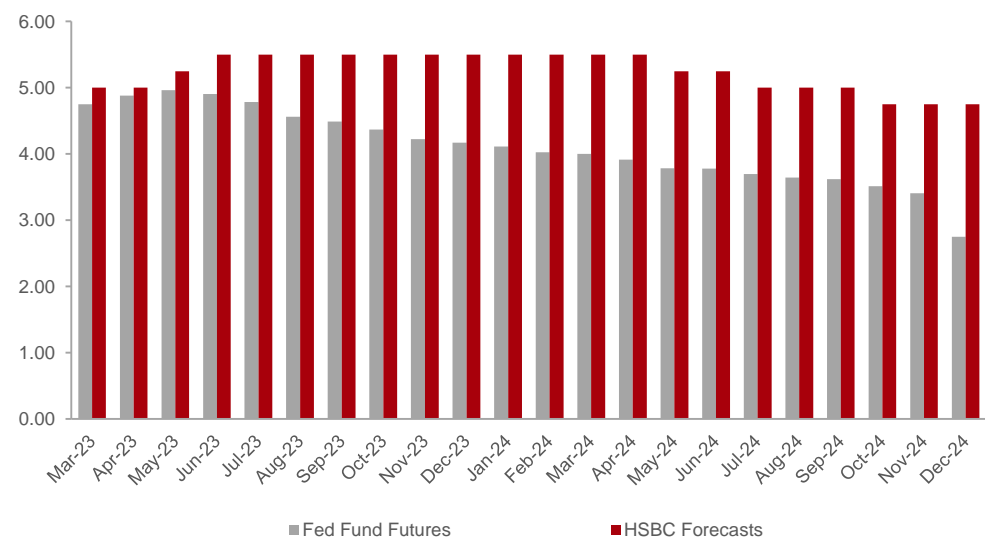
Source: HSBC Global Private Banking, Bloomberg as of 13 March 2023. Past performance is not a reliable indicator of the future performance



There are multiple explanations for this sell-off, ranging from hawkish statements from members of the Federal Reserve and the ECB, to resilient economic data (PMIs, employment) and sticky core inflation figures in the US and Eurozone. It is important to note that some of the better-than-expected economic data in January might have been driven by seasonal adjustments, which may reverse in the coming months. Consequently, the positive surprise factor may not continue as aggressively as it did in the first month of 2023.

Policy rate hike expectations have also already increased relative to January. For example, Fed Fund futures were pricing in a peak policy rate of 4.8% just two months ago, that recently spiked to 5.3% by the summer, before returning to 4.9% amid rate volatility and risk-averse sentiment.

US policy rate expectations recently spiked to 5.3% by July, but retraced lately



Source: HSBC Global Private Banking, Bloomberg as of 17 March 2023. Past performance is not a reliable indicator of the future performance

This is below our own projection of 25bp rate hikes at each of the March, May and June meetings, to a terminal rate of 5.5% (Upper Bound) and then a pause for the rest of the year, before a policy reversal from the second quarter of 2024.

Another noticeable feature of this extraordinary period of time has been market forces moving towards opposite directions: (1) rates investors expecting DM central banks to pivot later this year; (2) risk investors (i.e. equity, credit) believing in a soft or “no-landing” scenario and, (3) policy makers fighting inflation “at all costs”. It is difficult to say which party will ultimately be proven correct, but until then, these strains will continue to create bouts of volatility across both risk assets and rates markets in our view. In addition, the most rapid and steepest tightening of the Fed’s monetary policy since the early 80s, which is now well into restrictive territory, has started to filter into the real economy. It is true that the economic fabric is more dominated by services than it was forty years ago, and their interest rate sensitivity might be lower relative to the manufacturing sector which dominated the 80s. However, financial leverage is far more elevated nowadays. After more than a decade of ultra-low rates, cracks within the economy will certainly appear, especially among those with highly leveraged balance sheets, ranging from individuals and corporates to sovereigns. The rising cost of servicing debt will mobilise more financial resources and is likely to compromise both consumption and CapEx spending, while the returns and viability of new projects will certainly come under greater scrutiny versus a previous era of near-zero interest rates. Some cracks have already appeared across the most sensitive sectors to interest rate movements, such as the property market.

We also have to be mindful of the signal sent by the US Treasury yield curve over the past few months. Its inversion since July 2022 may predict an upcoming recession, with an average lag of around 14 months according to historical figures. More recently, the further inversion of the yield curve has not been directional

We feel more confident about bond returns in 2023, despite a hesitant start to the year. Fixed Income remains our asset class of predilection, on a risk-adjusted basis.

as was the case earlier on (i.e. bear steepening), but rather driven by the short-end, while the long-end appears to have consolidated. This is perhaps an indication that market participants believe the long-end has surpassed the rate of equilibrium dictated by the (real) risk premium and long-term expectations for inflation.

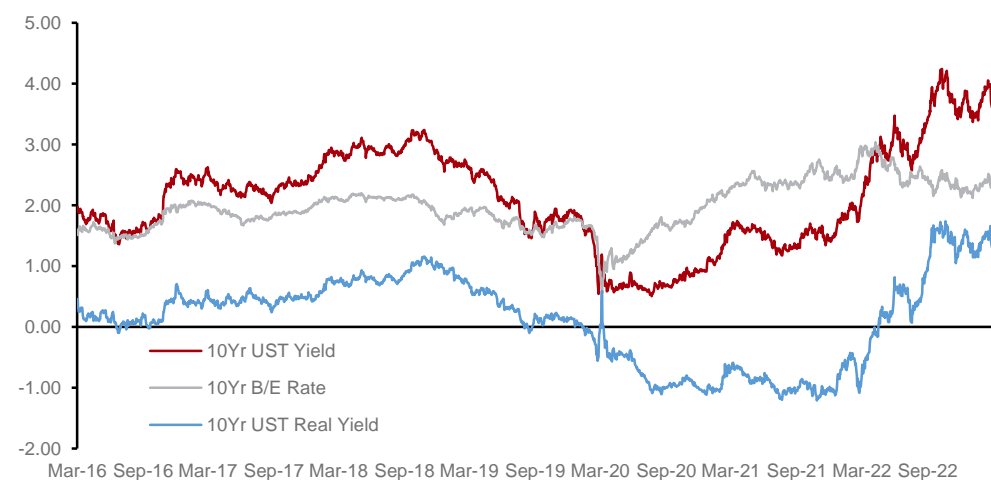
While a US recession is not our core scenario, as we expect real GDP to modestly grow in 2023, risks seem skewed to the downside. Some segments of the US economy already appear to be in a recessionary state, such as residential construction and most likely the industrial sector too. In the end, the direction of travel will very much depend on the duration of this new high-interest-rate environment. Will it prove to be transitory or not?

We are leaning towards the former.

Market is now more aligned with the Fed’s guidance

Trading at 4.5% recently, the 2-year US Treasury yield is not only near its highest level in 16 years but is also more consistently priced to the Fed’s guidance on the policy rate, as per the December’s Dot Plot. Hawkish rhetoric from FOMC members, following stronger economic data in January, have pushed the front-end upwards. It may be the case that policy makers use forward guidance as a tool to force market participants to reprice their expectations and push yields higher. Ultimately, this may provide the Fed with more flexibility with their future rate decisions, as market rates are already in deeply restrictive territory. In addition, higher yields and higher rate volatility are also associated with an increased (real) risk premium.

The risk premium in real rates has built up following the Fed’s hawkish stance



Source: HSBC Global Private Banking, Bloomberg as of 13 March 2023. Past performance is not a reliable indicator of the future performance

This premium can be the result of a hawkish outcome from central bank policy, but can also be related to geopolitical uncertainty or other developments within financial markets. When rates adjust sufficiently, the risk premium may start to dissolve, consistent with yields moving down. Ultimately, bond investors have to be comfortable that the majority of the tightening is in the past, and that market expectations of higher equilibrium policy rates are due to a higher term (real + inflation) premium that will dissolve over time.

China reopening – Disinflationary Forces?

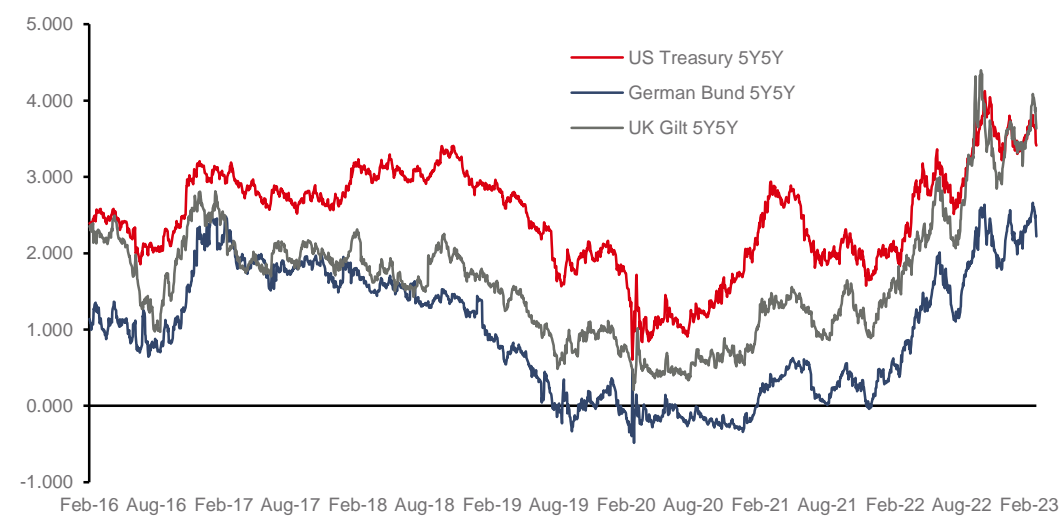
The growth differential between China and Western developed economies may also spur market volatility, as fund flows adapt to this new cyclical stance. We believe that China will aim for more qualitative than quantitative economic growth, which seems to be aligned with their prudent growth outlook communicated during the latest National People’s Congress (i.e. around 5% GDP growth targeted for 2023). This may result in a less bullish stance on commodity prices relative to China’s previous economic rebounds. In addition, the increase of its exports amid the improving global supply chain, lower shipping costs and delivery times, may prove to be disinflationary over the medium-to-long run, as was the case before the pandemic. If China manages to achieve the modernisation of its digital infrastructure, it may well improve its productivity too; a phenomenon which has anchored inflation in developed economies over the past decades. In the end, there is a chance that the surge in global inflation witnessed over the past two years was not structural in essence, but frictional in a post-pandemic environment, where the reopening of economies was not synchronized across the world. This had the effect of uneven demand trends and hampered the global supply chain.

Overall, the big question might not be around the direction of inflation but rather about the speed at which it will fall back towards pre-pandemic levels. Meanwhile, inflation has acted as a stealth tax on consumption and the elevated amount of savings accumulated during the pandemic may soon run thin. Individuals may also be less inclined to spend if economic conditions become uncertain.

Our current investment strategy

Despite better than expected economic data in the US and Europe and hawkish rhetoric from DM central banks, we continue to believe that the cyclical peak in rates has passed, probably in October 2022.

We believe that the peak in bond yields happened in October 2022, at least for the US and the UK

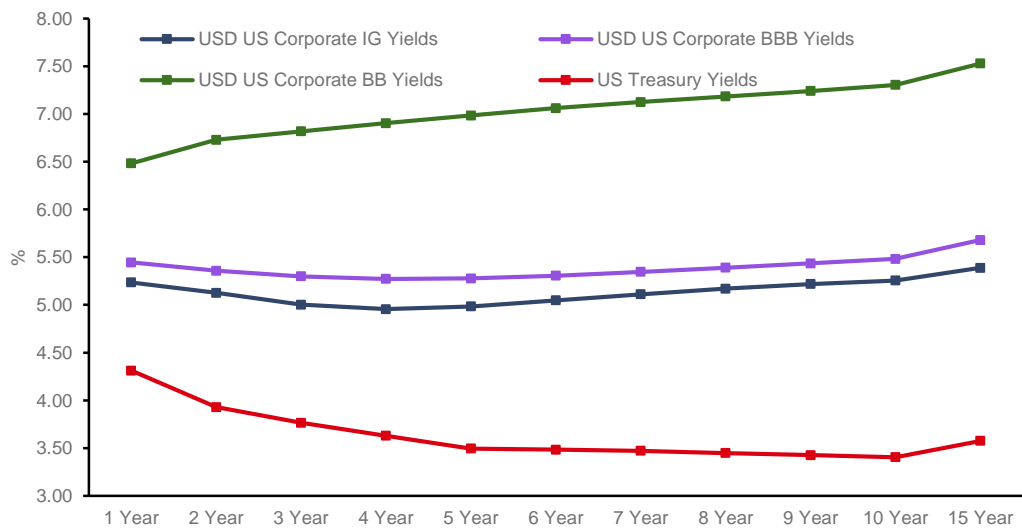


Source: HSBC Global Private Banking, Bloomberg as of 13 March 2023. Past performance is not a reliable indicator of the future performance



We increased the duration target on our Global Investment Grade (DM IG) allocation to 5-7 years, from 3-5 years in late February. This change allows us to anchor attractive yields for a longer period of time, despite inverted sovereign yield curves and will benefit from steeper price appreciation if our view of lower rates materialises. This view is mainly dictated by structural forces which weakened considerably during the pandemic but are now slowly coming back to the fore. These forces are diverse and range from technological progress to ageing populations, elevated debt levels on the balance sheets of DM sovereigns and a normalization of globalisation despite efforts for reshoring the supply chain. While we believe in the latter, its implementation will take years and its realisation might be partial.

By increasing duration on Global IG, we anchor attractive yields for a longer period of time, despite inverted sovereign yield curves

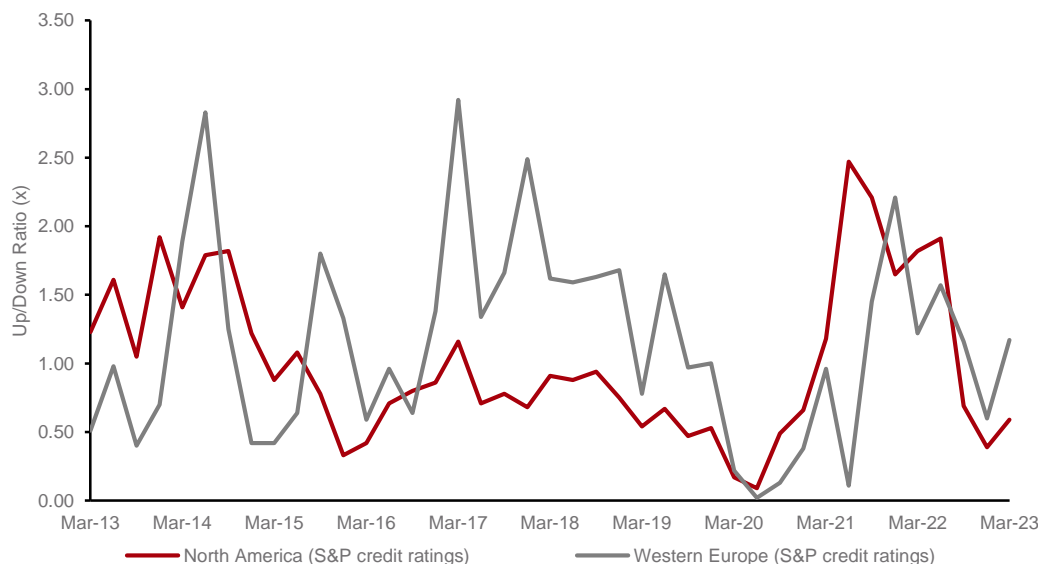


Source: HSBC Global Private Banking, Bloomberg as of 17 March 2023.

For sophisticated investors, a barbell strategy might be warranted: the bulk of credit exposure would be at the short-end of the curve (i.e. 3-5 years), in either global HY, lower-rated global IG, or EM corporate debt, while the duration exposure sits within the second leg (7-10 years), either on DM sovereign bonds or liquid global IG credit. The weighted average duration of this strategy would match the 5-7-year target we favour.

At the corporate level, we continue to focus on quality companies which prioritise bondholder-friendly policies, have sound leverage ratios and lower short-term refinancing needs. Our largest overweight within the bond Tactical Asset Allocation (TAA) is still on Global IG. However, we are mindful of Fallen Angel risk (i.e. companies losing their IG credit ratings and migrating to the High Yield indices), but the deterioration in DM corporate credit ratings (not only Fallen Angels) already started in late 2021 and we expect it to stabilise at these low levels for now.

We expect the Up/Down rating ratio to stabilise at these low levels for now



Source: HSBC Global Private Banking, Bloomberg as of 28 February 2023.

We are cognisant, however, that the economic outlook is uncertain and the share of BBB-ratings in the US corporate bond market has doubled in value relative to the size of the US IG market since the Global Financial Crisis. Consequently, the risk of Fallen Angels has increased drastically over time. However, corporates are still motivated to maintain an IG rating in order to keep funding costs low, and to help the diversification of their investor base. In general, we expect companies to take the necessary steps to do so (through deleveraging, less friendly shareholder policies, etc.). But we prefer to err on the side of caution when selecting lower-rated IG companies and opt for those with stronger balance sheets, improving credit fundamentals and healthy cash flow generation.

We remain neutral on Global High Yield markets amid tight spread valuations, which we believe do not compensate for the risk of recession in DM economies.

At the sector level, we continue to favour Energy, Technology and Financial companies, with a preference for the top-end of the capital structure for the latter. DM Banks are well positioned to navigate a period of slower economic growth, owing to a strong starting point on capital but also non-performing loans, which remain below historic norms. We now have a preference further up the capital structure for USD and EUR currency Basel III Tier 2 bonds and senior unsecured debt issued by European and US Banks. Specifically, we look for capital buffers comfortably above minimum regulatory requirements in order to manage the risks of a recession (for more information, refer to our High Conviction Theme on DM Financials: Moving Up the Capital Structure). Given recent market events, we will review this outlook in the coming weeks.

Our other overweight stance is on EM corporate bonds in Hard Currencies (i.e. external debt). We refrain, however, from changing the duration target on this allocation (currently at 3-5 years), as it would neglect to consider other sources of volatility such as geopolitical risks and will diverge too much from the current benchmark duration of 4.3 years, in our opinion. Overall, we continue to feel comfortable on EM credit fundamentals, which remain strong and better on average compared to both DM IG and DM HY. For example, average net leverage ratios for EM HY are estimated at 1.8x and for EM IG at 0.9x, which are lower than their respective DM counterparts. In addition, the EM HY corporate default rates, excluding China property developers and Russia/Ukraine companies, remain comparable to US HY at 1.8%. We continue to be wary of the uncertain global economic outlook and rising default rates and therefore focus on quality credits. We are overweight Asia IG, mostly on Chinese State-Owned Enterprises (SOEs), TMT and Financials. The overall Asia credit market should benefit from the peak in the USD and US Treasury yields, light investor positioning and appealing valuations. Additionally, we like higher-rated companies from the Middle East, Brazil and Mexico.

Contributors

**Global Head of Fixed Income
Capital Markets Services**



Laurent Lacroix
+44 (0) 7717653155
laurent.lacroix@hsbcpb.com



Glossary of terms

Absolute return – The nominal return on an investment irrespective of any given specific benchmark.

Alternative investments – Non-traditional investments with low correlations to traditional assets which are typically used to improve portfolio diversification.

Annualised return – The yearly increase (or decrease) in the value of an investment, including the effects of compounding.

Annualised volatility – The estimated spread of returns of an asset on an annual basis. Volatility is usually used as a measure of risk, as a highly volatile asset may offer large negative as well as large positive returns.

Asset allocation – The apportioning of investment assets between different asset classes such as equities, fixed income, liquid assets (cash), real estate, etc

Asset class – Assets are aggregated into groups that share similar characteristics. Asset classes include 'Equity,' 'Fixed income,' 'Liquid assets,' 'Real Estate' and 'Commodities'.

Benchmark – A single or a weighted collection of indices used as a reference or comparison of investment performance.

Credit risk – The risk of loss to your investment arising from a counterparty (eg a bond issuer or a bank) which does not, or cannot, make the required payments as promised or agreed on in a contract.

Cumulative return – Actual (non-annualised) performance over a given period of time.

Derivatives – Instruments such as futures, options and swaps that derive their value from the movement in the price of an underlying asset.

Diversification – The process of spreading a portfolio's holdings over a range of securities and asset classes with the aim of reducing volatility.

Duration – The weighted average maturity of a bond's cash flows or of any series of linked cash flows.

Expected return – The weighted average of a probability distribution of possible rates of return.

Fund of funds – A fund whose purpose is to invest in other funds. Applicable to all asset classes.

Hedge – A transaction made with the intent of reducing investment risk, for example using options or forwards.

Hedge fund – An unregulated fund which is allowed to use strategies that are unavailable to the majority of unit and investment trusts. Hedge funds can be exempt from many of the rules and regulations governing traditional funds. Usually considered as an 'Alternative' asset class.

High yield – Corporate bonds that are rated below investment grade (defined as BB and below).

Hold – Maintain a current level of investment in a particular asset class, market, sector, security, or investment vehicle.

Illiquid asset – An investment that cannot be realised at short notice.

Inflation – Rising prices of individual or a basket of goods and services.

Long duration – A fixed income security that has a modified duration that is longer than 7 years.

Long term – An investment time horizon of five years or greater.

Market capitalisation – Refers to the total value of a company or stock exchange. Usually calculated by multiplying the number of shares outstanding for a company or a stock exchange by the value of a single share.

Market risk – The risk that the value of your investment can fall as well as rise by taking exposure to a particular market. Market risk cannot be diversified away from by increasing holdings of similar securities.

Medium duration – A fixed income security that has a modified duration between 3 and 7 years.

Medium term – An investment time horizon of between three and five years.

Neutral – A portfolio position that is the same as the benchmark would suggest, or: a seven to ten year time horizon.

Overweight – A portfolio position that is higher than the benchmark would suggest.

Private equity – Securities of unlisted companies which are generally illiquid and are therefore held for longer periods of time than more traditional securities.

Relative return – The return that an asset achieves over a period of time compared to a benchmark.

Short duration – A fixed income security that has a modified duration between one and three years.

Short term – An investment time horizon of between one and three years, or a tactical view of less than six months.

Strategic asset allocation – The proportional mix of asset classes which should meet an investor's risk and return objectives over a seven to ten year time horizon.

Tactical asset allocation – An active management strategy that deviates from the long-term strategic asset allocation in order to take advantage of current market views.

Total return – A measure of the return over a stated period that incorporates both the return from price appreciation and investment income, such as coupons and dividends.

Traditional investments – Equities, bonds, and cash.

Underweight – A portfolio position that is lower than the benchmark would suggest.

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 (ie in advance of the point of non-viability). "Bail-in" generally refers to (a) contractual mechanisms (ie 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 (ie 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

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 nationalization.

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 significantly affect the prices and mark-to-market valuation.

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.

Default risk

Worst Case Scenario: The issuer of the bond may be unable to meet the required payments on its debt obligations. Investors may lose their entire invested principal in the event of default, insolvency and/or bankruptcy of the relevant issuer (as the case may be).

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.

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 nationalization or expropriation of assets; (b) economic and political uncertainty; (c) less liquidity in so far of securities markets; (d) fluctuations in currency exchange rate; (e) higher rates of inflation; (f) less oversight by a regulator of local securities market; (g) longer settlement periods in so far as securities transactions and (h) less stringent laws in so far the duties of company officers and protection of Investors.

Risk disclosure on FX Margin

The price fluctuation of FX could be substantial under certain market conditions and/or occurrence of certain events, news or developments and this could pose significant risk to the Customer. Leveraged FX trading carry a high degree of risk and the Customer may suffer losses exceeding their initial margin funds. Market conditions may make it impossible to square/close-out FX contracts/options. Customers could face substantial margin calls and therefore liquidity problems if the relevant price of the currency goes against them.

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.

Alternative Investments

Investors in Hedge Funds and Private Equity should bear in mind that these products can be highly speculative and may not be suitable for all clients. Investors should ensure they understand the features of the products and fund strategies and the risks involved before deciding whether or not to invest in such products. Such investments are generally intended for experienced and financially sophisticated investors who are willing to bear the risks associated with such investments, which can include: loss of all or a substantial portion of the investment, increased risk of loss due to leveraging, short-selling, or other speculative investment practices; lack of liquidity in that there may be no secondary market for the fund and none expected to develop; volatility of returns; prohibitions and/or material restrictions on transferring interests in the fund; absence of information regarding valuations and pricing; delays in tax reporting; - key man and adviser risk; limited or no transparency to underlying investments; limited or no regulatory oversight and less regulation and higher fees than mutual funds.

Investments in Commodities

Investments in commodities may involve substantial risk, as the price of the commodity may fluctuate significantly.

Important notice

The following may be subject to local requirements.

This is a marketing communication issued by HSBC Private Banking. This document does not constitute independent investment research under the European Markets in Financial Instruments Directive ('MiFID'), or other relevant law or regulation, and is not subject to any prohibition on dealing ahead of its distribution. HSBC Private Banking is the principal private banking business of the HSBC Group. Private Banking may be carried out internationally by different HSBC legal entities according to local regulatory requirements. Different companies within HSBC Private Banking or the HSBC Group may provide the services listed in this document. Some services are not available in certain locations. Members of the HSBC Group may trade in products mentioned in this publication.

This document is provided to you for your information purposes only and should not be relied upon as investment advice. The information contained within this document is intended for general circulation to HSBC Private Banking clients and it has not been prepared in light of your personal circumstances (including your specific investment objectives, financial situation or particular needs) and does not constitute a personal recommendation, nor should it be relied upon as a substitute for the exercise of independent judgement. This document does not constitute and should not be construed as legal, tax or investment advice or a solicitation and/or recommendation of any kind from the Bank to you, nor as an offer or invitation from the Bank

to you to subscribe to, purchase, redeem or sell any financial instruments, or to enter into any transaction with respect to such instruments. The content of this document may not be suitable for your financial situation, investment experience and investment objectives, and the Bank does not make any representation with respect to the suitability or appropriateness to you of any financial instrument or investment strategy presented in this document.

If you have concerns about any investment or are uncertain about the suitability of an investment decision, you should contact your Relationship Manager or seek such financial, legal or tax advice from your professional advisers as appropriate.

Market data in this document is sourced from Bloomberg unless otherwise stated. While this information has been prepared in good faith including information from sources believed to be reliable, no representation or warranty, expressed or implied, is or will be made by HSBC Private Banking or any part of the HSBC Group or by any of their respective officers, employees or agents as to or in relation to the accuracy or completeness of this document.

It is important to note that the capital value of, and income from, any investment may go down as well as up and you may not get back the original amount invested. Past performance is not a guide to future performance. Forward-looking statements, views and opinions expressed and estimates given constitute HSBC Private Banking's best judgement at the time of publication, are solely expressed as general commentary and do not constitute investment advice or a guarantee of returns and do not necessarily reflect the views and opinions of other market participants and are subject to change without notice. Actual results may differ materially from the forecasts/estimates. When an investment is denominated in a currency other than your local or reporting currency, changes in exchange rates may have an adverse effect on the value of that investment. There is no guarantee of positive trading performance.

Foreign securities carry particular risks, such as exposure to currency fluctuations, less developed or less efficient trading markets, political instability, a lack of company information, differing auditing and legal standards, volatility and, potentially, less liquidity.

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 nationalization 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.

You should contact your Relationship Manager if you wish to enter into a transaction for an investment product. You should not make any investment decision based solely on the content of any document.

Some HSBC Offices listed may act only as representatives of HSBC Private Banking, and are therefore not permitted to sell products and services, or offer advice to customers. They serve as points of contact only. Further details are available on request.

In the United Kingdom, this document has been approved for distribution by HSBC UK Bank plc whose Private Banking office is located at 8 Cork Street, London W1S 3LJ and whose registered office is at 1 Centenary Square, Birmingham, B1 1HQ. HSBC UK Bank plc is registered in England under number 09928412. Clients should be aware that the rules and regulations made under the Financial Services and Markets Act 2000 for the protection of investors, including the protection of the Financial Services Compensation Scheme, do not apply to investment business undertaken with the non-UK offices of the HSBC Group. This publication is a Financial Promotion for the purposes of Section 21 of the Financial Services & Markets Act 2000 and has been approved for distribution in the United Kingdom in accordance with the Financial Promotion Rules by HSBC UK Bank plc, which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

In Guernsey, this material is distributed by HSBC Private Banking (C.I.) a division of HSBC Bank plc, Guernsey Branch which is licensed by the Guernsey Financial Services Commission for Banking, Insurance and Investment Business. HSBC Bank plc is registered in England and Wales, number 14259. Registered office 8 Canada Square, London, E14 5HQ. HSBC Bank plc is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (UK FCA reference number: 114216).

In Jersey Issued by HSBC Private Banking (Jersey) which is a division of HSBC Bank plc, Jersey Branch: HSBC House, Esplanade, St. Helier, Jersey, JE1 1HS. HSBC Bank plc, Jersey Branch is regulated by the Jersey Financial Services Commission for Banking, General Insurance Mediation, Fund Services and Investment Business.

In France, this material is distributed by HSBC France. HSBC Private Banking is the private banking department of the HSBC Group in France. HSBC France is subject to approval and control by the Autorité de Contrôle Prudentiel et de Résolution [Prudential Control and Resolution Authority] as a credit entity. HSBC Private Banking, HSBC France - Public Limited Company with share capital of 474.964.025 €- SIREN 775 670 284 Trade and Companies Register of Paris Bank and Insurance Intermediary registered with the Organisme pour le Registre des Intermédiaires en Assurances [Organisation

for the Register of Insurance Intermediaries] under no. 07 005 894 (www.orias.fr) - Intra-community VAT number: FR 707 756 702 84. HSBC Private Banking, HSBC France – Registered office: 103 avenue des Champs-Élysées, 75008 Paris - Postal address: 109 avenue des Champs-Élysées, 75419 Paris Cedex 08, Tel. +33 (0) 1 49 52 20 00.

In Switzerland, this material is distributed by HSBC Private Bank (Suisse) SA, a bank regulated by the Swiss Financial Market Supervisory Authority FINMA, whose office is located at Quai des Bergues 9-17, 1201 Genève, Switzerland. This document does not constitute independent financial research, and has not been prepared in accordance with the Swiss Bankers Association's "Directive on the Independence of Financial Research", or any other relevant body of law.

In Abu Dhabi Global Markets (ADGM) by HSBC Bank Middle East Limited, ADGM Branch, 3526, Al Maqam Tower, ADGM, Abu Dhabi, is regulated by the ADGM Financial Services Regulatory Authority (FSRA). Content in this material is directed at Professional Clients only as defined by the FSRA and should not be acted upon by any other person.

In Dubai International Financial Center (DIFC) by HSBC Private Bank (Suisse) S.A., DIFC Branch, P.O. Box 506553 Dubai, United Arab Emirates, which is regulated by the Dubai Financial Services Authority (DFSA) and is permitted to only deal with Professional Clients as defined by the DFSA.

In South Africa, this material is distributed by HSBC Private Bank (Suisse) SA's Representative Office approved by the South African Reserve Board (SARB) under registration no. 00252 and authorized as a financial services provider (FSP) for the provision of Advice and Intermediary Services by the Financial Sector Conduct Authority of South Africa (FSCA) under registration no. 49434. The Representative Office has its registered address at 2 Exchange Square, 85 Maude Street, Sandown, Sandton.

In Bahrain and Qatar, this material is distributed by the respective branches of HSBC Bank Middle East Limited, which is locally regulated by the respective local country Central Banks and lead regulated by the Dubai Financial Services Authority.

In Lebanon, this material is distributed by HSBC Financial Services (Lebanon) S.A.L., licensed by the Capital Markets Authority as a financial intermediation company Sub N°12/8/18 to carry out Advising and Arranging activities, having its registered address at Centre Ville 1341 Building, 4th floor, Patriarche Howayek Street, Beirut, Lebanon, P.O.Box Riad El Solh 9597.

In Hong Kong and Singapore, THE CONTENTS OF THIS DOCUMENT HAVE NOT BEEN REVIEWED OR ENDORSED BY ANY REGULATORY AUTHORITY IN HONG KONG OR SINGAPORE. HSBC Private Banking is a division of Hongkong and Shanghai Banking Corporation Limited.

In Hong Kong, this document has been distributed by The Hongkong and Shanghai Banking Corporation Limited in the conduct of its Hong Kong regulated business. In Singapore, the document is distributed by the Singapore Branch of The Hongkong and Shanghai Banking Corporation Limited. Both Hongkong and Shanghai Banking Corporation Limited and Singapore Branch of Hongkong and Shanghai Banking Corporation Limited are part of the HSBC Group. This document is not intended for and must not be distributed to retail investors in Hong Kong and Singapore. The recipient(s) should qualify as professional investor(s) as defined under the Securities and Futures Ordinance in Hong Kong or accredited investor(s) or institutional

investor(s) or other relevant person(s) as defined under the Securities and Futures Act in Singapore. Please contact a representative of The Hong Kong and Shanghai Banking Corporation Limited or the Singapore Branch of The Hong Kong and Shanghai Banking Corporation Limited respectively in respect of any matters arising from, or in connection with this report.

Some of the products are only available to professional investors as defined under the Securities and Futures Ordinance in Hong Kong / accredited investor(s), institutional investor(s) or other relevant person(s) as defined under the Securities and Futures Act in Singapore. Please contact your Relationship Manager for more details.

Where we make any solicitation and/or recommendation in Hong Kong to you for a Financial Product (as defined in HSBC's Standard Terms and Conditions) where this is permitted by cross border rules depending on your place of domicile or incorporation, we will take reasonable steps to ensure the suitability of the solicitation and/or recommendation. In all other cases, you are responsible for assessing and satisfying yourself that any investment or other dealing to be entered into is in your best interest and is suitable for you.

In all cases, we recommend that you make investment decisions only after having carefully reviewed the relevant investment product and offering documentation, HSBC's Standard Terms and Conditions, the "Risk Disclosure Statement" detailed in the Account Opening Booklet, and all notices, risk warnings and disclaimers contained in or accompanying such documents and having understood and accepted the nature, risks of and the terms and conditions governing the relevant transaction and any associated margin requirements. In addition to any suitability assessment made in Hong Kong by HSBC (if any), you should

exercise your own judgment in deciding whether or not a particular product is appropriate for you, taking into account your own circumstances (including, without limitation, the possible tax consequences, legal requirements and any foreign exchange restrictions or exchange control requirements which you may encounter under the laws of the countries of your citizenship, residence or domicile and which may be relevant

to the subscription, holding or disposal of any investment) and, where appropriate, you should consider taking professional advice including as to your legal, tax or accounting position. Please note that this information is neither intended to aid in decision making for legal or other consulting questions, nor should it be the basis of any such decision. If you require further information on any product or product class or the definition of Financial Products, please contact your Relationship Manager.

In Luxembourg, this material is distributed by HSBC Private Banking (Luxembourg) SA, which is located at 16, boulevard d'Avranches, L-1160 Luxembourg and is regulated by the Commission de Surveillance du Secteur Financier ("CSSF").

In the United States, HSBC Private Banking offers banking services through HSBC Bank USA, N.A., Member FDIC. Investments and certain insurance products, including annuities are offered by HSBC Securities (USA) Inc. ("HSI"), Member NYSE/FINRA/SIPC. HSI is an affiliate of HSBC Bank USA, N.A. In California, HSI conducts insurance business as HSBC Securities Insurance Services. License #: OE67746. Whole life, universal life, term life, and other types of insurance are offered by HSBC Insurance Agency (USA) Inc., a wholly owned subsidiary of HSBC Bank USA, N. A. Products and services may vary by state and are not available in all states. California license #: OD36843.

Investment products are: Not a deposit or other obligation of the bank or any affiliates; Not FDIC insured or insured by any federal government agency of the United States; Not guaranteed by the bank or any of its affiliates; and are subject to investment risk, including possible loss of principal invested.

In Germany, this material is distributed by HSBC Trinkaus & Burkhardt AG, a bank regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht, whose office is located at Hansaallee 3, 40549 Düsseldorf, Germany. The General Data Protection Regulation (GDPR) has been in force in all EU Member States since May 25, 2018. Our updated privacy policy can be found on the HSBC Germany website. If not explicitly stated, transaction costs and if applicable custody fees are not taken into account in the calculation of performance statistics, however, they have a negative impact on it. If, for example, the initial investment is 1.000 EUR, and the transactions costs for buying and selling are 1,00 % each time, and the custody fee is 0,50 % per year (for our actual fee structure please see our schedule of prices & services), the performance over a 5-year-investment-horizon would be reduced 45 EUR

Where your location of residence differs from that of the HSBC entity where your account is held, please go to HSBC Global Private Banking website > Disclaimer > Cross Border Disclaimer for disclosure of cross-border considerations regarding your location of residence.

No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior written permission of HSBC UK Bank plc.

Australia: If you are receiving this document in Australia, the products and services are provided by The Hongkong and Shanghai Banking Corporation Limited (ABN 65 117 925 970, AFSL 301737) for “wholesale” customers (as defined in the Corporations Act 2001). Any information provided is general in nature only and does not take into account your personal needs and objectives nor whether any investment is appropriate. The Hongkong and Shanghai Banking Corporation Limited is not a registered tax agent. It does not purport to, nor does it, give or provide any taxation advice or services whatsoever. You should not rely on the information provided in the documents for ascertaining your tax liabilities, obligations or entitlements and should consult with a registered tax agent to determine your personal tax obligations.

Where your location of residence differs from that of the HSBC entity where your account is held, please refer to the Disclaimer at <http://www.hsbcprivatebank.com/en/utilities/cross-border-disclosure> for disclosure of cross-border considerations regarding your location of residence.

No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior written permission of HSBC UK Bank plc.

A complete list of private banking entities is available on our website, www.hsbcprivatebank.com.

A complete list of private banking entities is available on our website, www.hsbcprivatebank.com.

©Copyright HSBC 2023

ALL RIGHTS RESERVED

