Family Office Horizons
October 2023

Fixed Income:

What's causing the sell-off and how to position?

Executive summary

Bond markets have been in the eye of the storm in recent weeks, with US Treasury yields hitting levels not seen since before the Great Financial Crisis. When Treasuries move this sharply, everyone pays attention as it affects equities, currencies and global risk appetite as well. Family offices are also asking when it is safe to lock in bond yields, and where they should position in the credit spectrum and on the duration continuum.

We address all of this in our X-ray of the fixed income space and conclude that:

1. Treasury yields have overshot in our view. At the short end, yields should be anchored by the end of the Fed rate hikes. And for longer maturities, real yields at the current level are unsustainable, as they would progressively lead to tighter financing conditions, slower growth and ultimately shift yields down again. So we're happy to take interest rate risk as it is generously priced, and prefer 5-7 year maturities.

2. By comparison, credit risk is less generously priced, and we stick to a prudent position for our credit exposure, preferring investment grade borrowers. High yield has held up well so far, thanks to strong equity markets and low funding requirements (a distant 'maturity wall'). But in a high-for-longer policy rate environment, this is unlikely to last. Defaults should gradually see a mild increase and high yield spreads do not currently compensate enough for this.

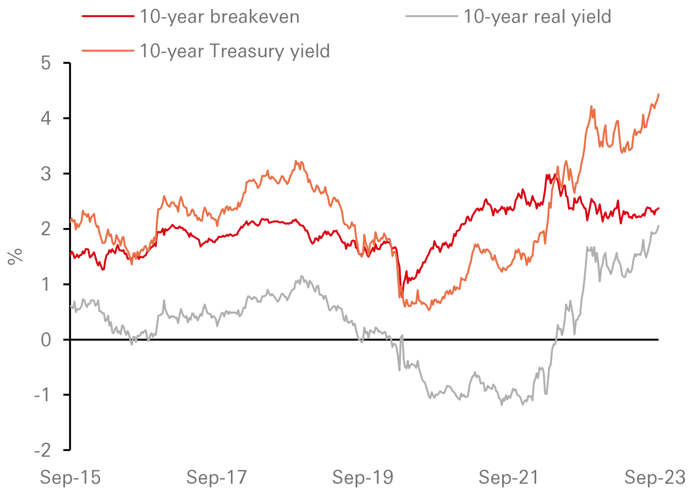
3. Financials are preferable over non-financials as investors get a nice spread pickup, in our view, both in the US and the Eurozone. Capital cushions are generally solid, but at this stage of the cycle, we think the best risk-adjusted value is in senior bonds (both bail-inable and non-bail-inable formats).

4. Like many family offices, we extend our search for opportunities to private credit as well. The floating rate nature of the asset class, as well as the attractive spread and call premiums that can be negotiated are key benefits. High interest rate costs can put pressure on the borrower, but strong covenants and the secured nature of private credit can provide good protection.

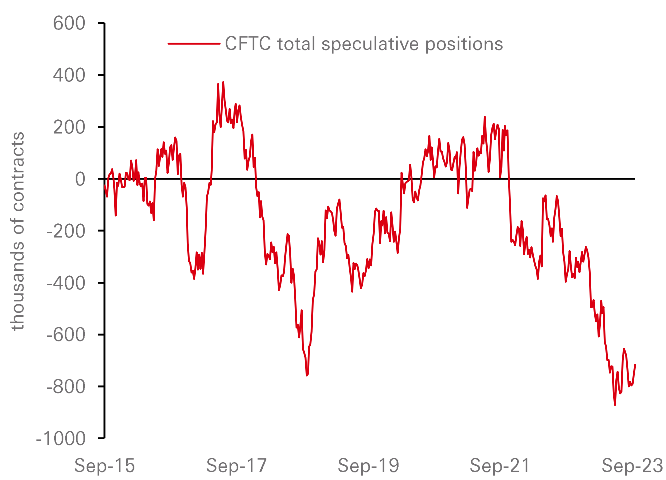
The fixed income space – both public and private – is generating great opportunities for family offices that can take a selective approach and look beyond the short term noise. Thanks to the diversity of its return profiles and current elevated yields, we think Sharpe ratios are generally better than in cash or equities, and adding fixed income should improve the medium-term outlook of multi-asset portfolios.

Outlook and positioning in global bond markets

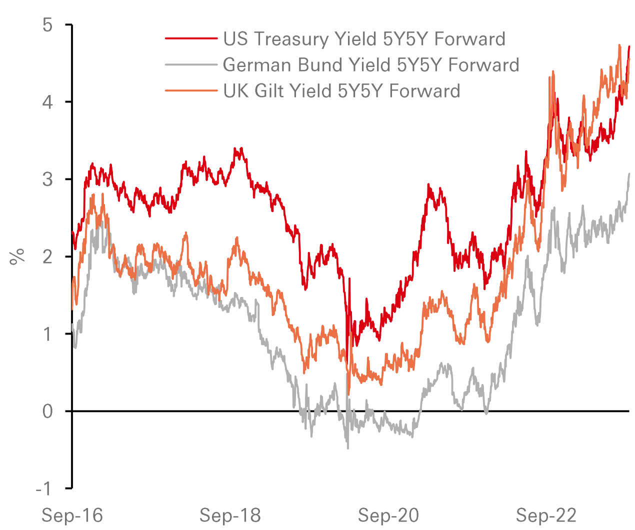
The move in Treasury yields has been primarily a real yield move, while breakevens are relatively well anchored



Speculative positions are extremely short already, which could provide technical support



Peak in rates likely as forwards have moved sharply



Sources: Bloomberg, HSBC Global Private Banking as at 3 October 2023.
Past performance is not a reliable indicator of future performance.

Overweight Treasuries as real yields are attractive

Any analysis of the bond market outlook and search for opportunities needs to start with what's happening in the US Treasury market. As inflation has fallen considerably from the 9% peak level, it is clear that the Fed is at, or close to its terminal policy rate. While the market still attributes roughly a 50% chance of one further rate hike before the end of this year, we think the Fed is done hiking as core inflation continues to decline and labour markets show early signs of softness.

Investors' focus is instead on the Fed signal that rates will stay higher for longer than the market hoped for. From our side, we no longer expect three rate cuts in 2024, but just two cuts of 0.25% each, in Q3 and Q4. That explains a mild pickup in the 2-year yield in recent weeks. As market expectations are now quite prudent, we think the risk of further upside on 2-year yields has become quite limited. In fact, while we can debate what is the risk of one more hike, markets could at any point start to consider the risk of rate cuts if data were to disappoint. In an economic downturn, the cuts would be much more considerable than a 0.25% move. So the outlook for 2-year yields is very asymmetric from here, in our view.

The recent move in the 10-year yield has been sharper than the move in the 2-year yield, leading to a steepening of the yield curve, and does not make that much sense to us. Some have suggested it is driven by higher oil prices, but breakeven inflation has hardly moved, for either short or longer dated maturities.

What's clear from our first graph is that the move continues to be driven by the real yield and reflects higher risk around the economic and fiscal outlook. There is valid concern over higher bond issuance as a result of the large US deficits, but we do not think that this should come as a surprise. That news should have been digested some time ago, or at the latest following the rating downgrade by Fitch in early August. The fiscal dynamics are well known in our view. In addition, empirical evidence continues to show little or no link between the change in government debt and government bond yields, in real or nominal terms.

So the move in the real yields seems exaggerated to us. They are now at the highest level in almost 20 years. If they were to move even higher, or stay at the current level for long, then financial conditions would tighten considerably, and this would lead to a deteriorating growth outlook, ultimately shifting yields lower. So excessively high real yields ultimately are self-defeating and unsustainable in the medium term. We therefore consider real yields as attractive, and overweight Treasuries, along with quality credit (see later).

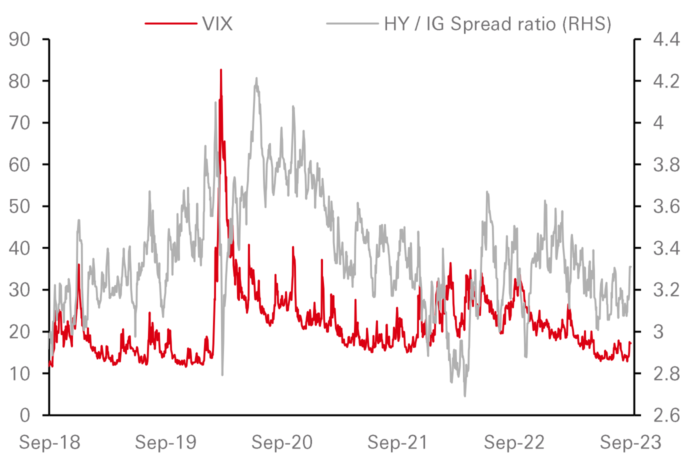
Medium duration is preferred

We maintain a medium duration positioning (i.e. 5-7 years). This is a trade-off between the inverted shape of the curve (which argues for shorter durations) versus the returns we expect to see when yields come back down (which argues for longer durations). Alternatively, a barbell approach can make sense because the shorter leg will focus on quality credit and capture the carry, while the longer leg will expose the portfolio to duration and any potential gains, if our view of lower yields materialises. In any case, the weighted-average duration should match the target duration of 5-7 years.

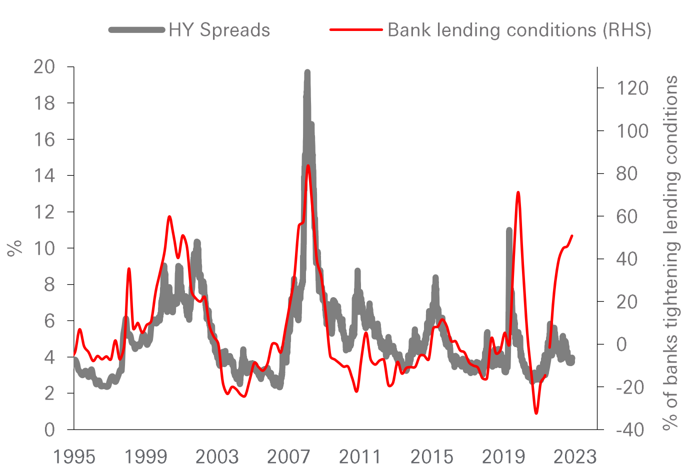
High Yield returns have benefited from its relatively short duration

	Current yield	Year to date return	Year to date change in yield	Duration (years)
US Treasury index	5.0%	-2.7%	0.84%	5.83
US IG	6.3%	-1.6%	0.85%	6.69
US HY	9.2%	4.4%	0.29%	3.57
EM USD Sovereign	9.0%	-2.2%	1.22%	7.16
EM USD Corporates	8.1%	2.7%	0.69%	4.14
EM Local Currency	5.0%	1.0%	-0.05%	5.42

High yield appears overvalued compared to investment grade, but this is consistent with low equity volatility



Typically, high yield spreads widen when bank lending conditions tighten, but not so far this time around



Sources: Bloomberg, HSBC Global Private Banking as at 3 October 2023. Past performance is not a reliable indicator of future performance.

We prefer investment grade over high yield

As global growth is well below trend and is still slowing, we naturally hold a preference for investment grade. Higher policy rates typically lead to some tightening of financial conditions, and the longer those rates stay high, the more the pain should be felt by leveraged companies.

That said, high yield has outperformed significantly in 2023, for several reasons. First and foremost, it is a matter of average duration, which at 3.6 years for US high yield is much shorter than the 6.7 years for investment grade. As a result, the upward move in US Treasury yields has hurt high yield less than investment grade.

In addition, high yield is sensitive to equity market performance, which has been strong, in particular in the US. That has contributed to low equity market volatility (a low VIX), and as the Merton valuation model of credit risk tells us, low equity volatility tends to go hand in hand with tight credit spreads.

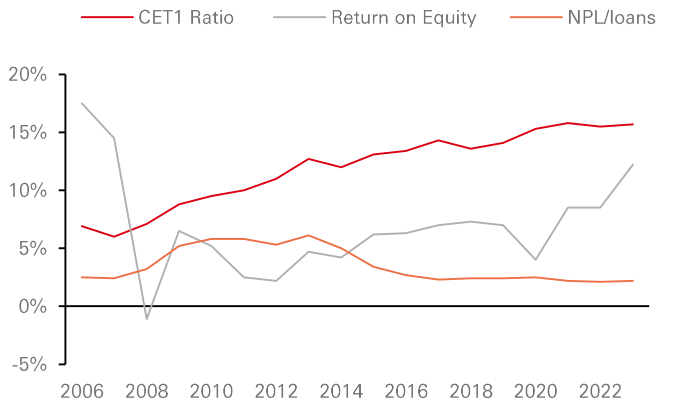
It remains to be seen if this constructive outlook will remain in place. As we show on the bottom left, tightening bank lending conditions can be a challenge for high yield companies. When US regional banks saw their stock prices plummet in March, high yield spreads widened by almost 150bp as there was an expectation that tighter lending standards would cause funding problems for small leveraged companies without access to the public funding markets. But as no full-blown banking crisis materialised, both equity and high yield markets shrugged off the risk of tightening lending conditions to some extent. Of course, many large US banks remain in very solid condition and where others may have reduced lending, they have stepped in, especially as high net interest rate margins encourage them to keep lending and delinquency rates remain low. Private credit markets may have played a role as well, with private lenders stepping in and providing funding where some companies might have found it harder to secure a bank loan.

Other factors are at play as well. Slow economic growth limits investment spending plans and related funding needs. That limits bond issuance and creates a favourable technical situation for high yield. The maturity wall is also very manageable in high yield, as many companies had used the low-rate environment of preceding years to lock in cheap funding.

That has helped keep default rates low, because it is typically when a company needs to find funding or refinance that there can be a cash flow issue leading to a default (due to higher costs or inability to refund).

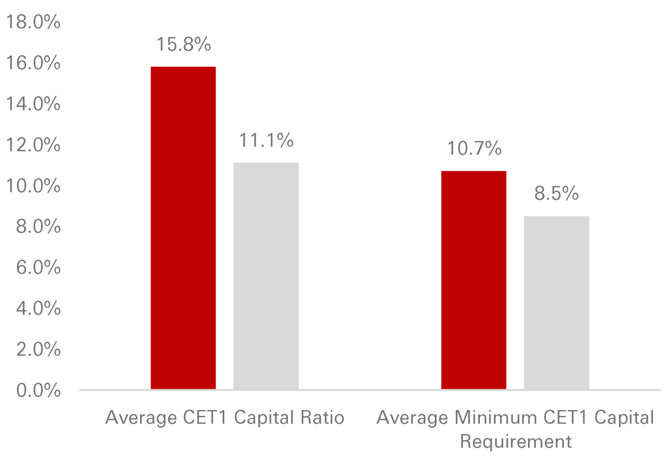
Still, it strikes us that all of the above arguments are just giving high yield more time, but that risks steadily increase the longer policy rates remain elevated, the maturity wall gets closer, and growth remains below trend. The widening of HY spreads that we've seen since the second half of September, triggered by fears that the Fed will keep rates at high levels for much longer, goes some way in supporting this argument. While we don't think default rates will spike dramatically (Moody's expects the global speculative-grade corporate default rate to end this year at 4.6%), we don't think the spread pickup between investment grade and high yield adequately compensates investors for the additional risk. Hence we continue to stick to our preference for investment grade, with medium duration.

European bank fundamentals are in good shape



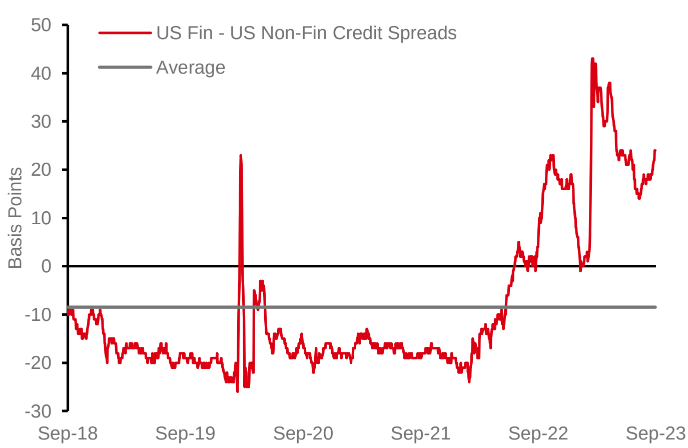
NPL = Non-Performing Loans >90 days passed without the scheduled payments being made. Source: Company Reports, HSBC Global Private Banking, September 2023

Capitalisation remains healthy across Europe & the US



Source: HSBC Private Banking, CreditSights Estimates as at September 2023
*Common Equity Tier 1 Ratio = CET1 Capital / Risk-weighted assets

US Financials credit spreads remain wide to US Non-Financials in a historical context



Source: Bloomberg, HSBC Global Private Banking as at 3 October 2023. Past performance is not a reliable indicator of future performance.

Banks remain well positioned to navigate an uncertain environment

In spite of the US regional banking turmoil earlier this year, we have retained a constructive view on developed market banks throughout. This is partly driven by structural reasons: larger banks strengthened their balance sheets significantly under the Basel III accord since the Global Financial Crisis of 2008. Meanwhile, a recent tailwind for operating earnings has come from the impact of rate hikes. Bank assets (e.g. loans) have repriced far more quickly than their liabilities (e.g. deposits), leading to wider net interest margins and we have seen the highest levels of profitability in over a decade. However, there are some good reasons to be more cautious on fundamentals looking ahead. Loan growth has stalled as corporates scale back on CapEx and loan loss provisions are normalising off a low-base as delinquencies tick-up in unsecured lending. That said, Non-Performing Loan (NPL) ratios are still benign given limited signs of tangible credit stress until now.

Liquidity concerns abated after recent earnings confirmed funding stress at a few US regional lenders was idiosyncratic and not systemic. The largest US banks have in fact benefited from a "flight to quality" of deposit flows and liquidity coverage ratios remain ample across the sector, in spite of clients starting to switch from deposits to other investment products. In Europe, lenders are tackling ECB TLTRO III repayments in smooth fashion through their liquidity buffers and increased public bond issuance, especially via the covered bond market.

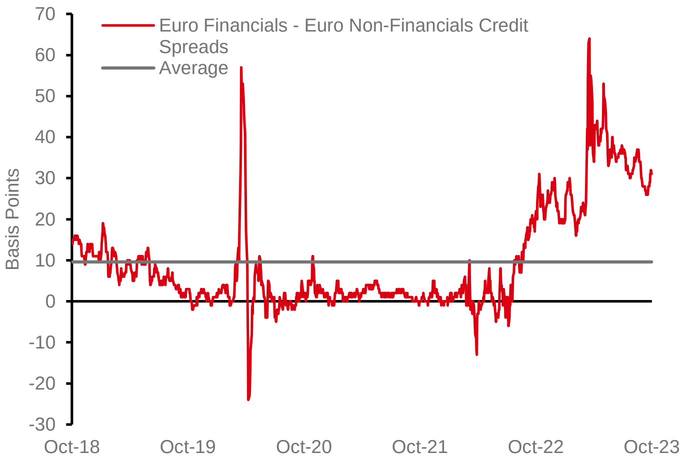
Commercial Real Estate (CRE) exposures are in focus with Offices being the area of specific concern, where structural trends are hurting occupancy rates at a time of tightening financing conditions. That said, banks' exposures to overall CRE look manageable (~7% of total loans in Europe) and Loan-to-Value (LTV) ratios are conservative at a portfolio level in both Europe and the US (typically at 40-60%).

Capital ratios are being managed conservatively, with smaller lenders now prioritising capital build as opposed to share buybacks. Strong profits saw European banks reported an average CET1 ratio of 15.8% at 2Q23 (YE22: 15.5%), while in the US the equivalent figure was 11.1% (YE22: 11.0%). At an industry level, buffers remain ample for both jurisdictions. It is worth noting CET1 capital requirements in Europe are generally more stringent, but also our sample of US banks includes a large number of Regional players, which have significantly lower CET1 capital requirements (typically between 7-8%). However, US legislation has been proposed to raise CET1 requirements for such banks.

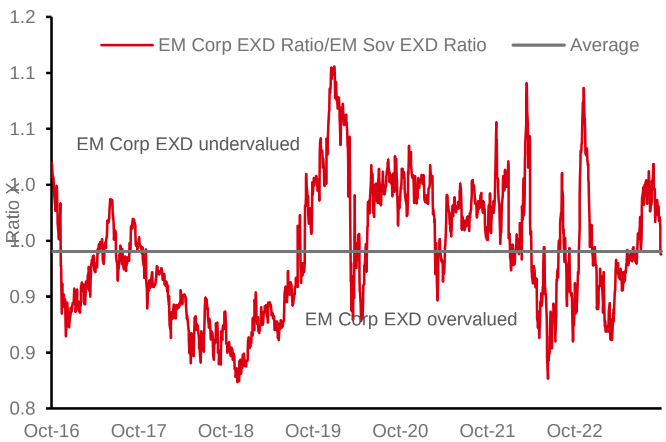
In the UK, aggressive rate hikes from the Bank of England to contain inflation are taking time to pass through the UK housing market. A few reasons include high levels of outright property ownership at ~55%, but also over 80% of mortgage holders currently being on fixed rates. Only 13% of fixed rate deals require refinancing in 2023, avoiding a sharp 'cliff edge' impact for banks' mortgage books. Also, the average weighted LTV ratio is around 50% for UK mortgages, which provides protection against price declines.

We can expect bank profitability to come under pressure as loan demand slows amid tighter lending standards, while funding costs will undoubtedly rise due to greater competition for client deposits. During the final stage of a rate hike cycle,

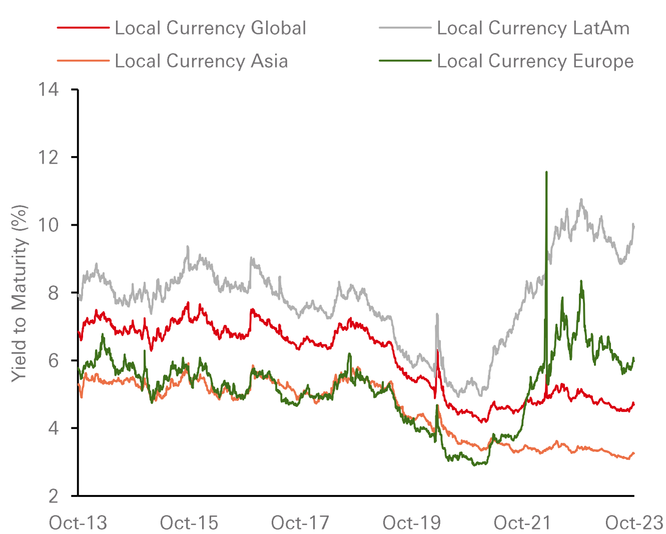
European Financials credit spreads also remain wide to European Non-Financials versus history



EM Corporate External Debt may continue to outperform EM Sovereigns



EM Local Currency Debt trajectory is less clear



Sources: Bloomberg, HSBC Global Private Banking as at 28 September 2023. Past performance is not a reliable indicator of future performance.

bank net interest margins have therefore typically peaked and the attention also turns to asset quality as the lagged impact of hikes works its way through the real economy. We believe loan loss provisions will increase (a view also shared by bank management teams themselves), but in a contained fashion towards the long-term average of 30-40bp of total loans (from around 15-20bp in FY22). This view is based on the premise that labour markets remain tight in both the US and Europe. A key trigger for credit losses in previous recessions was a sharp rise in unemployment rates and if this remains in check, asset quality pressures should not have a material impact on banks' credit profiles.

As bond investors, perhaps the biggest source of comfort comes from a strong starting level of CET1 capital and liquidity buffers across DM banks. This is complemented by low existing NPL exposures heading into a slower economic growth environment. We retain a preference for Banks' senior unsecured debt (both in bail-inable and non-bail-inable formats) relative to the more deeply subordinated Additional Tier 1 (AT1) and Tier 2 instruments. At this stage of the economic cycle, we believe a focus on quality assets is warranted (this applies across our multi-asset portfolio stratetgy) and therefore look to the safest portion of banks' capital structure.

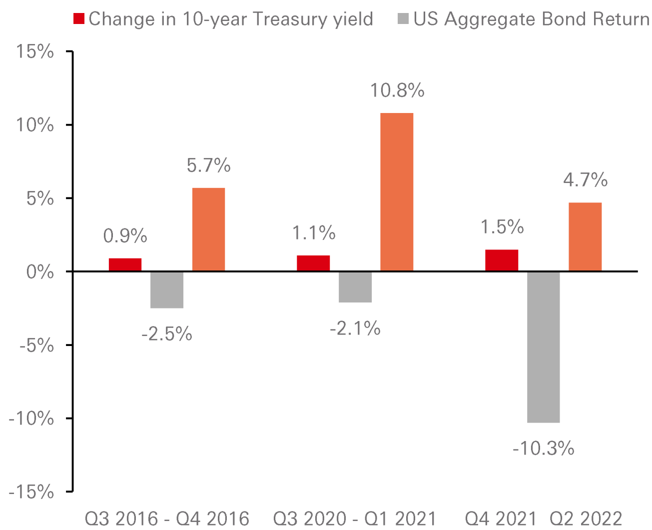
Our strategy to focus on Banks Senior bonds relative to Non-Financials since March has been successful to date. IG Bank Senior bonds still screen as attractive versus Non-Financials in spread terms.

We continue to have a mild overweight on EM corporate external debt

Higher US Treasury yields, a narrative around higher-for-longer policy rates and a fading recovery momentum in China have weakened investors' sentiment towards EM debt. In turn, this has translated into negative fund flow dynamics over the past few months. Nevertheless, the performance of EM corporate debt in Hard Currencies (HC) has been quite stable year-to-date (+2.7%) and above EM sovereign bonds in HC (-2.2%), Global IG (-1.6%), yet has underperformed Global HY markets (+4.4%), as of October 2. On average, EM corporate bonds have a 8.1% yield, a 4.1-year duration and a composite rating of BBB (IG). Their high carry, generally short duration, diversification across sectors & countries and stable credit fundamentals mean we are comfortable retaining a modest overweight stance, with a focus on quality corporate issuers within Asia, LatAm and GCC. The latter has benefited from inflows by Asian investors, looking to diversify away from China, but also from strong fundamentals following rising oil prices. We recognise the valuation of this region is stretched relative to EM corporate bonds, but also relative to the US IG market. However, its favourable risk-adjusted yield-to-worst (YTW) continues to make GCC bonds attractive in our opinion.

While EM local debt has been quite resilient year-to-date, its diminishing carry appeal versus US Treasuries makes us comfortable to keep a neutral stance, with a selective bias for India, Brazil and Mexico. While monetary policy easing has started in LatAm, with two 50bp cuts by Brazil in August & September and a cumulative 175bp rate cuts by Chile over the past three months, much deeper cuts are now already priced into their forward yield curves. However, sizeable real yield cushions still warrant a mild overweight stance in our opinion.

What happens when Treasury yields rise? Comparing Bond returns to Private Credit returns



Sources: Blackstone, HSBC Global Private Banking as at 28 September 2023. Past performance is not a reliable indicator of future performance.

For other local markets, there is also uncertainty around the direction of EM FX, considering that we hold a bullish stance on the US dollar (due to its economic resilience and the hawkish Fed tone).

Overall, we keep a neutral stance on EM Local Debt and External Debt from sovereign issuers, while we have a modest overweight exposure to EM Corporate External Debt, with a focus on quality credit.

Private Credit

We like to think of the fixed income spectrum beyond the traditional asset allocation categories and extend our search for opportunities to private credit. This is also the approach of the majority of family offices that we talk to, and private credit has been a popular destination in recent quarters.

In part, of course, this is because of its floating rate nature, which protects against downside in the rising rate environment, and increases the income as rates rise. Moreover, it reduces the correlation with other assets and reduces the volatility, leading to an improved Sharpe ratio for the portfolio.

The other advantages come from the privately negotiated terms between the borrower and the lender. As some banks are retreating from some deals, private lenders filling the gap can often negotiate attractive spreads and call premiums. The ability to negotiate strong covenants can add protection and helps address the concern that low growth and can impact cash-flow related ratios or that rapidly rising interest rate costs (due to the floating rate nature) will heighten the risk of defaults. In addition, while most of the bonds investors typically held in portfolios are unsecured, most of the private credit market is secured. As a result, the current risk/return profile of private credit is attractive compared to traditional sections of the bond market. When compared to equities, its high yield level is a good starting point, and it should be less exposed to the cyclical slowdown than stocks are.

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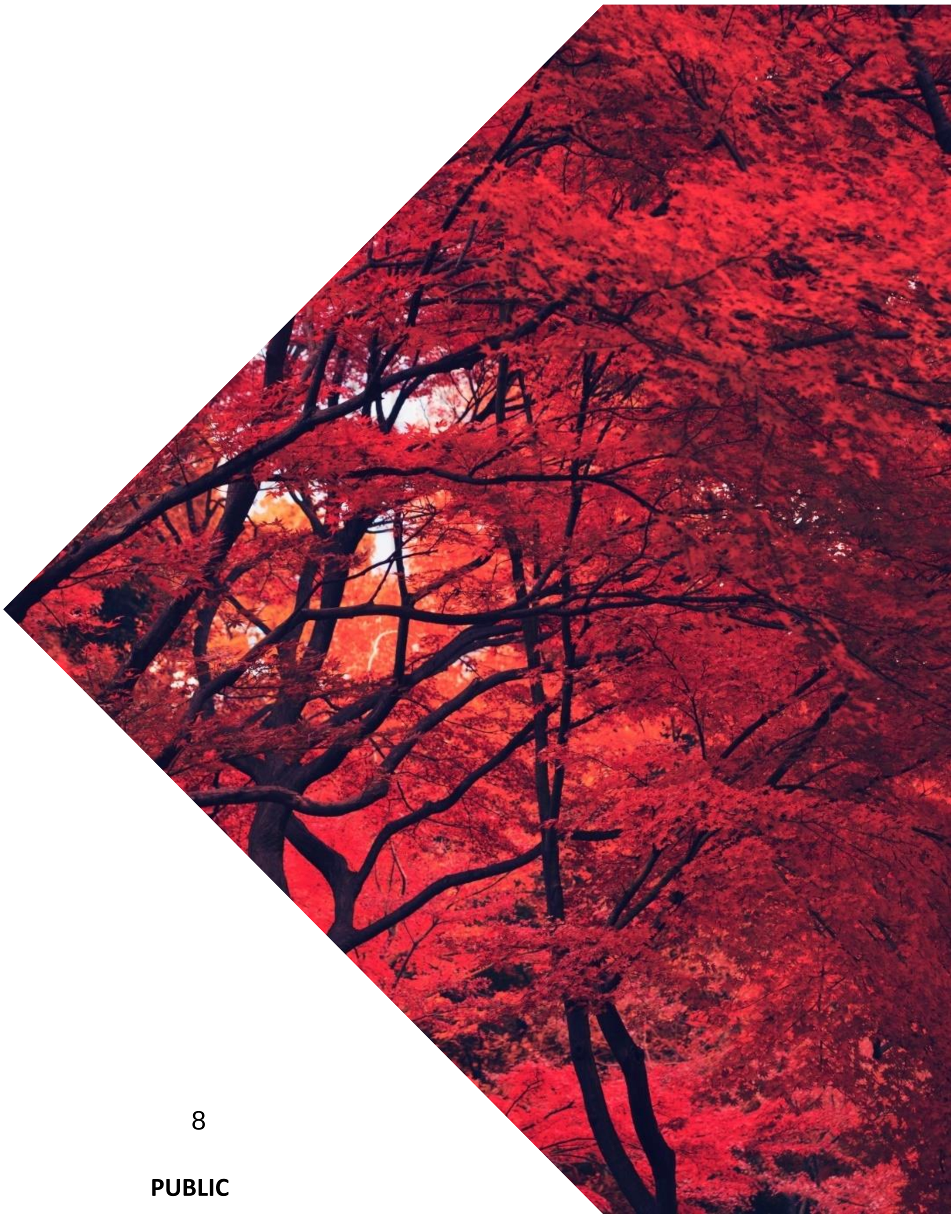

Glossary of terms

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.

Risks of investment in fixed income

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

Credit risk

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

Risks associated with high yield fixed income instruments

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

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

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

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

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

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

Changes in legislation and/or regulation

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

Nationalisation risk

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

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.

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 recognized 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 "sustainable investments" include investment approaches or instruments which consider environmental, social, governance and/or other sustainability factors to varying degrees. Certain instruments we classify as sustainable may be in the process of changing to deliver improved sustainability outcomes.

There is no guarantee that sustainable investments will produce returns similar to those which don't consider these factors. Sustainable investments may diverge from traditional market benchmarks.

In addition, there is no standard definition of, or measurement criteria for, sustainable investments or the impact of sustainable investments. Sustainable investment and sustainability impact measurement criteria are (a) highly subjective and (b) may vary significantly across and within sectors.

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Sustainable investing is an evolving area and new regulatory frameworks are being developed which will affect how sustainable investments can be categorised or labelled. An investment which is considered to fulfil sustainable criteria today may not meet those criteria at some point in the future.

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