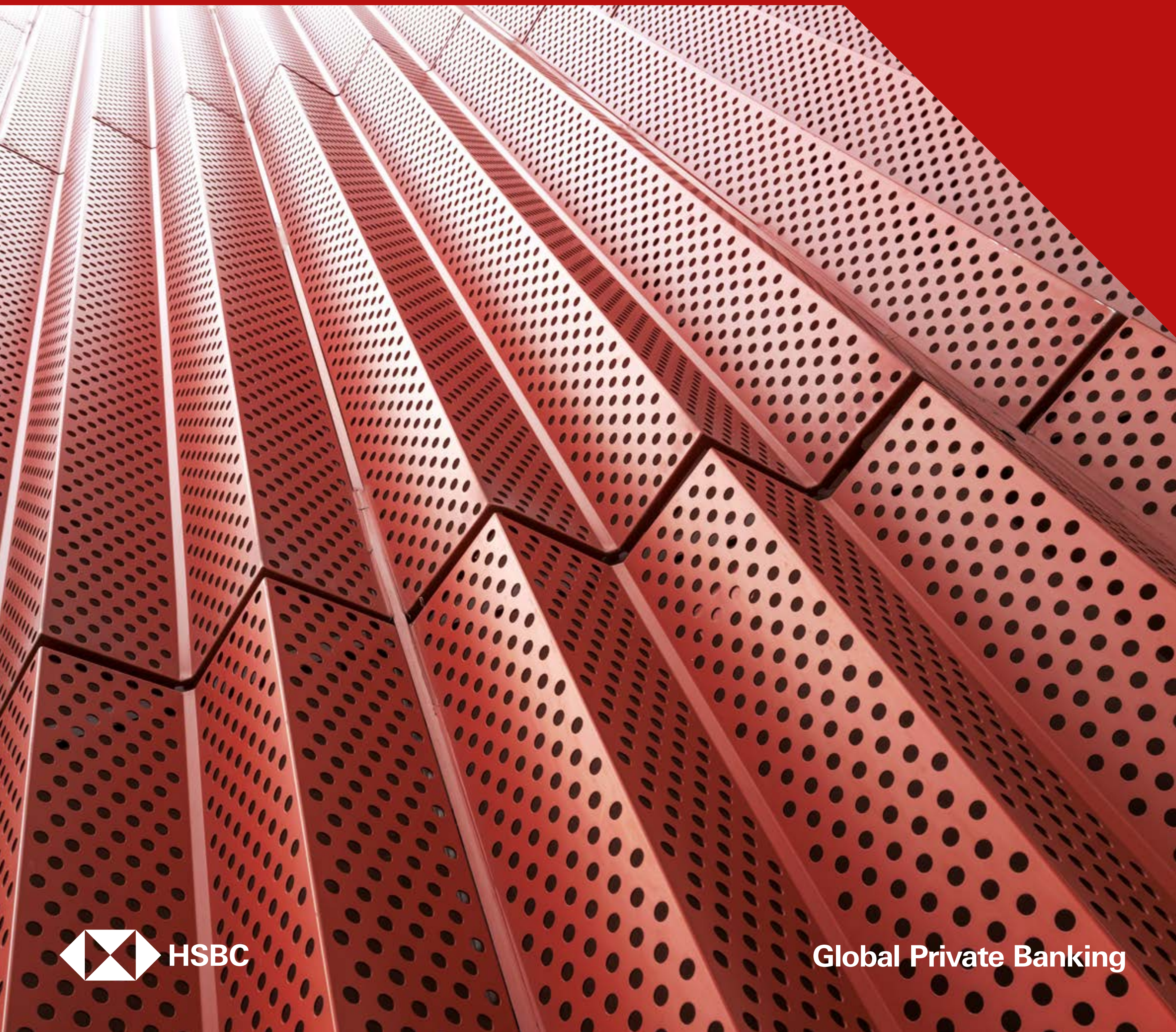
An Optimist's Guide to a Shifting Landscape

Investment Outlook

Q4 2024



HSBC

Global Private Banking

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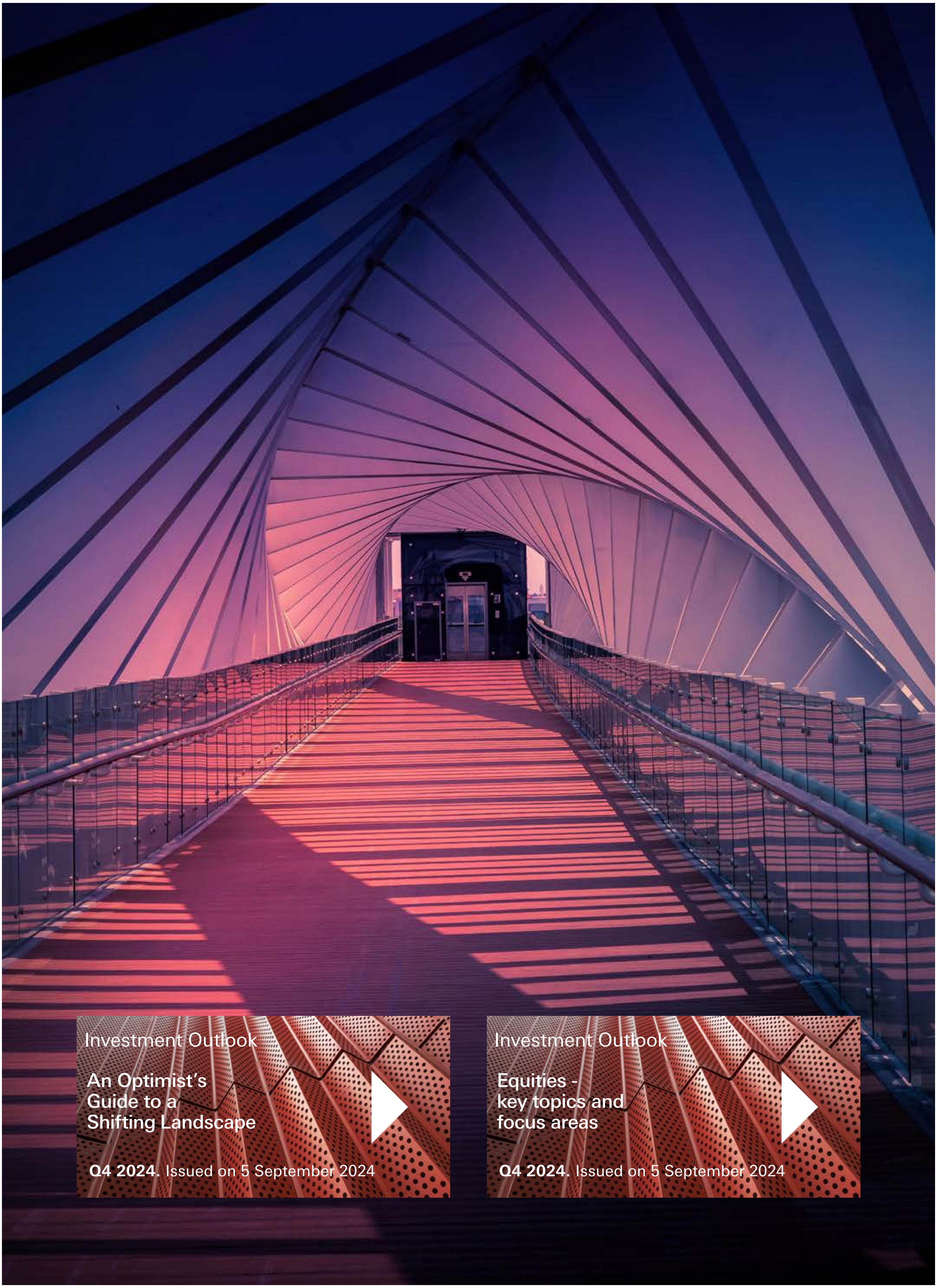
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Welcome

Dear client

It is easy to feel nervous about the markets as we approach the US elections and decision time for the Fed. Global conflicts create fears of escalation, while weakening US labour markets cause some investors to worry about recession risk.

Yet, we continue to take a more optimistic view on markets. So far this year, it has paid off to put cash to work, with equities up strongly and bonds benefiting from rate cut expectations. And the market correction in August proved to be a buying opportunity, as fundamentals had not materially changed.

Looking ahead, the fundamentals remain supportive. The US economic cycle is clearly slowing, but it is not stalling or going into reverse. Hiring is slowing but layoffs are still low, while households' spending power is boosted by falling inflation. Companies also benefit from falling costs as margins are near record levels. Moreover, many corporates have plenty of cash to invest in exciting new innovations (including AI) or to bring production back home. So, while we see more dispersion between companies, there are plenty of opportunities across sectors to find companies with enduring earnings growth – at more attractive valuations than before.

Indeed, the August correction reduced the froth in some of the tech stocks' valuations and it reduced concentrated positioning, which is healthy. In the coming months, we think investors will gradually rebuild positions, tapping into near-record money market holdings. But we think they will increasingly take a stock-pickers' approach, differentiating within sectors to find the best earnings potential, while avoiding big sector biases by spreading their exposure.

We do the same and continue to build exposure while managing risks because of course, there will be plenty of news headlines that can create volatility. But that volatility should be temporary and mild – both around the Fed and the US elections, as markets tend to rally once the election result is known. High quality bonds are another way to diversify, especially as bond / stock correlations have now become negative again, enhancing their diversification potential. And geographical diversification in equities is key too, as it widens the opportunity set. As such, we are positive on the UK, Spain, Japan, India and South Korea, in addition to the US.

So, what are our key actions in portfolios? As our first priority, we target earnings endurance amid moderate global growth. We do this by using a stock picker's approach while widening the sector and geographical net. Secondly, we put cash to work in quality credit and multi-asset portfolios. Thirdly, we bridge the period of uncertainty ahead of us with hedge funds and volatility strategies. And lastly, we diversify with Asia's resilient growth leaders and quality bonds, amid the new world order.

So yes, we are optimistic that diversified portfolios will continue to do well. While the landscape is shifting, the opportunity set remains rich and diverse. A global mindset and a multi-asset approach is the way to go.

Willem Sels,
Global Chief
Investment Officer

5th September 2024

Our Portfolio Strategy

Although the US economy has been slowing, leading to only moderate global growth, we do not foresee an imminent recession. Moreover, many companies are growing their earnings thanks to easing cost pressures, falling funding costs, rising productivity and innovation. We thus see many opportunities for investors and continue to put our cash to work, as central banks' rate cuts make holding cash less attractive. We recognise global uncertainties and headline risks in coming months, but manage this with volatility strategies, diversification and a rigorous focus on picking quality assets.

Cash: underweight

Fixed Income: neutral

A preference for high quality bonds in developed and emerging markets

Equities: overweight

Overweight US, UK, Spain, Japan, India and South Korea

Underweight Latin America and EM EMEA

Alternatives: overweight

Overweight hedge funds

Core allocations to Private Markets and Infrastructure

Slower GDP growth but solid earnings potential

The US economy is always a key focus of markets as the US accounts for almost two thirds of global equity market capitalisation and the US dollar plays such a big role. So, it is important to recognise that the US economy has been slowing, with most economists now expecting GDP growth to hover between 1.5% and 2% till mid-2025. That's a bit less than the 2.5% average over the past 30 years. But importantly, it remains in positive territory, and we are not expecting an imminent recession.

Consumption, which accounts for almost 70% of US GDP, is helped by falling inflation, which boosts disposable income. And while job creation has dropped, layoffs are still low, and the economy's potential is boosted by more people entering the labour market. As for corporates, many are cash rich and investing to bring production back to the US or to innovate. Most importantly for stock markets, earnings power is strong, thanks to easing cost pressures, falling interest rate costs and signs that automation is starting to raise productivity. In fact, while markets have been worried about mixed results of some of the big technology names, earnings growth outside of the 'Magnificent-7' is gradually accelerating.

So we think the US recession fears that gripped the market in August are overdone. We therefore maintain our mild overweight on US and global equities, and we balance cyclicals and defensives – avoiding both an overly aggressive or defensive approach. What a slower economy does achieve, however, is that it separates the wheat from the chaff. Hence, we focus on companies with the strong market position, innovation and healthy balance sheets required to support earnings. That generally points to large and mid-caps rather than small caps in equities, and investment grade rather than high yield in the bond market. It has also caused us to downgrade the consumer discretionary sector to neutral, as some companies are doing well but others are challenged by consumers opting for cheaper goods, and there are structural challenges to the automotive sub-sector. By comparison, we see more structural support in industrials, healthcare, communication services and IT.

The impact of interest rate normalisation

It is clear that the global rate cut cycle is now underway, but how markets react typically depends on the underlying reasons for the cuts. If rates are gradually cut to normalise policy thanks to falling inflation, this has historically been positively received by markets. However, if markets believe an imminent recession is forcing central banks to cut more forcefully, this tends to be bad for risk appetite. In August, we saw such an episode where exaggerated fears of recession caused markets to price in big rate cuts, and equity markets sold off. In our view, as a recession is not imminent and the 'last mile' towards a 2% inflation target is hard, central banks can take a more gradual approach. We therefore expect three Fed rate cuts of 0.25% in September, November and December, and three more cuts in 2025. The Fed's decisions will be based on economic fundamentals as history shows the Fed often cuts or hikes in election years regardless of politicians' wishes.

The rate normalisation process is positive for bonds, stocks and asset valuations in general. In fixed income, we continue to like investment grade and high-quality hard currency bonds. But when the exaggerated rate cut assumptions led to a sharp bond rally in August, we tactically cut Treasuries and gilts back to neutral, and also brought our duration back to medium. We now see more value in investment grade thanks to the credit spread pickup and note that investment grade bonds historically do well in a low but positive growth environment.

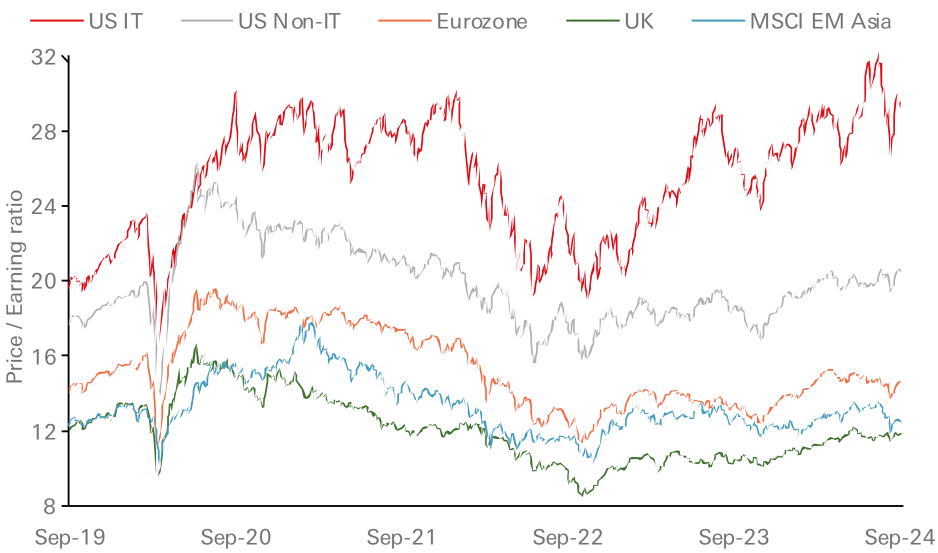
The rate outlook remains the principal driver of currency markets. The exaggerated Fed rate cut expectations thus caused the US dollar to fall in August. A return to more reasonable assumptions may lead USD to recover some of its recent losses. But the dollar's carry advantage has declined, so we no longer expect an upward drift and have moved to a neutral view on USD. In fact, we see less directionality for the majority of currencies in our coverage, as most central banks move in the same direction. The Bank of Japan is the outlier but should not accelerate its tightening process as inflation remains in check and the sharp recent moves of JPY will make it think twice before sounding too hawkish. JPY may therefore remain volatile for now but without a clear direction.

Considering risks and unknowns

The November elections are of course the other big discussion topic in the US. Typically, volatility picks up ahead of the elections, but markets get more confident again when the result is known and they can go back to focusing on fundamentals. Our take is that financials and energy could benefit from a Republican win thanks to deregulation, while a Democratic win could help healthcare and utilities, due to their commitment to Medicare and alternative energy. That said, it is probably not a good idea to make big bets on the outcome given that the election result may depend on a few swing states. Other geopolitical uncertainties include the US policy with regard to the Israel-Gaza conflict, wider issues in the Middle East and the Russia-Ukraine war. While investors clearly fear further escalation, oil markets have mostly been driven by existing global demand and supply trends. Any hit to asset prices tends to be short-lived and very hard to predict.

Taken together, we try to bridge the uncertainty around the US elections, the speed and the extent of the Fed rate cuts and broader geopolitical risks through diversification and some partial downside protection, as per our third priority, 'Bridging uncertainty with hedge funds and volatility strategies' shown in the table on the next page.

Much of the concern over US valuations is related to US tech, where valuations are off their recent highs. But other markets still look cheaper.



Source: Bloomberg, LSEG, HSBC Global Private Banking as at 4th September 2024. Past performance is not a reliable indicator of future performance.

There's a whole world out there!

Markets sometimes put too much emphasis on the US. Even worse – the biggest US companies, the 'Magnificent 7' often capture most of the headlines. But there are many interesting developments and opportunities elsewhere. Our strategy has been to broaden our sector and geographical exposure, and this worked well when volatility spiked this summer. Since part of the sell-off was related to concern over big tech's results and its high valuations, our focus continues to be on broadening exposure, with an increased focus on earnings delivery. This is translated in our first investment priority – 'Targeting earnings endurance amid moderate global growth'.

Geographically speaking, UK stocks were relatively resilient in recent weeks thanks to their attractive valuations and improving UK consumer confidence, so we maintain our overweight there. We prefer the UK over the Eurozone, as there is relatively less political risk post the UK elections, while US trade tariffs – in case of a Trump victory – would probably hit the Eurozone harder (autos, luxury goods etc.).

Meanwhile, in Asia, India stands out with its strong growth engine, which should be powered up by the new government's focus on job creation, upskilling and rural and agricultural reforms. While China continues to roll out policy stimulus to fight against debt deflationary headwinds, Japan's reflationary trend is becoming more sustainable. The North Asian region is seeing an increased focus on shareholder value (including in Japan, China and South Korea). We think the great diversity of the Asian markets provides a wide range of opportunities, to which we gain exposure via our fourth priority: Diversifying with Asia's resilient growth leaders and quality credit.

Our four investment priorities

1. Targeting earnings endurance amid moderate global growth

Why? In spite of the US economic slowdown and global growth operating at just a moderate pace, plenty of companies have shown that they can deliver strong earnings. But as the market volatility in August has shown, investors are increasingly attentive to cyclical risks and valuations. As a result, we focus on companies and areas of the market that can deliver the earnings endurance to warrant those valuations.

What? Within developed markets, we are overweight on US, UK, Spanish and Japanese stocks and take a balanced sector and style approach. While we maintain an overweight in technology, we continue to broaden our exposure both within tech and in other sectors, including our overweight positions in healthcare, industrials and financials. A bottom-up and selective approach is needed in this stock-pickers' market as earnings power is different from one company to the next.

2. Putting cash to work in quality credit and multi-asset portfolios

Why? The global rate-cutting cycle is now well under way and holding cash is getting less attractive. Around the world, some of the very large money market fund holdings will be put to work. As rates fall and credit spreads look fair for high-rated bonds, we lock in bond yields on quality credit before they fall further. And as our overweight positions in quality credit, global equities and hedge funds show, multi-asset strategies can tap into a broad opportunity set.

What? We see attractive opportunities in developed market investment grade bonds and focus on medium maturities (5-7 years) as rate volatility could remain with us for now. In the emerging markets, we focus on high-quality hard currency bonds. Multi-asset strategies provide geographical and multi-asset diversification and the opportunity for managers to be tactical.

3. Bridging uncertainty with hedge funds and volatility strategies

Why? Until the US election result is known, volatility could be more elevated. Central bank meetings and geopolitical risks around the world can also add to the uncertainty in the coming months. While we believe more clarity will help markets later in the year, and underlying fundamentals are supportive for investments, we need to bridge this period of uncertainty while remaining invested.

What? By taking market beta exposure with a backstop, we continue to participate in the many investment opportunities we see, but with some downside protection. In addition, we recently added to our hedge fund exposure to recognise the breadth of opportunities for managers in global rates, equity and currency markets, and because hedge funds can help manage portfolio volatility through diversification.

4. Diversifying with Asia's resilient growth leaders and quality credit

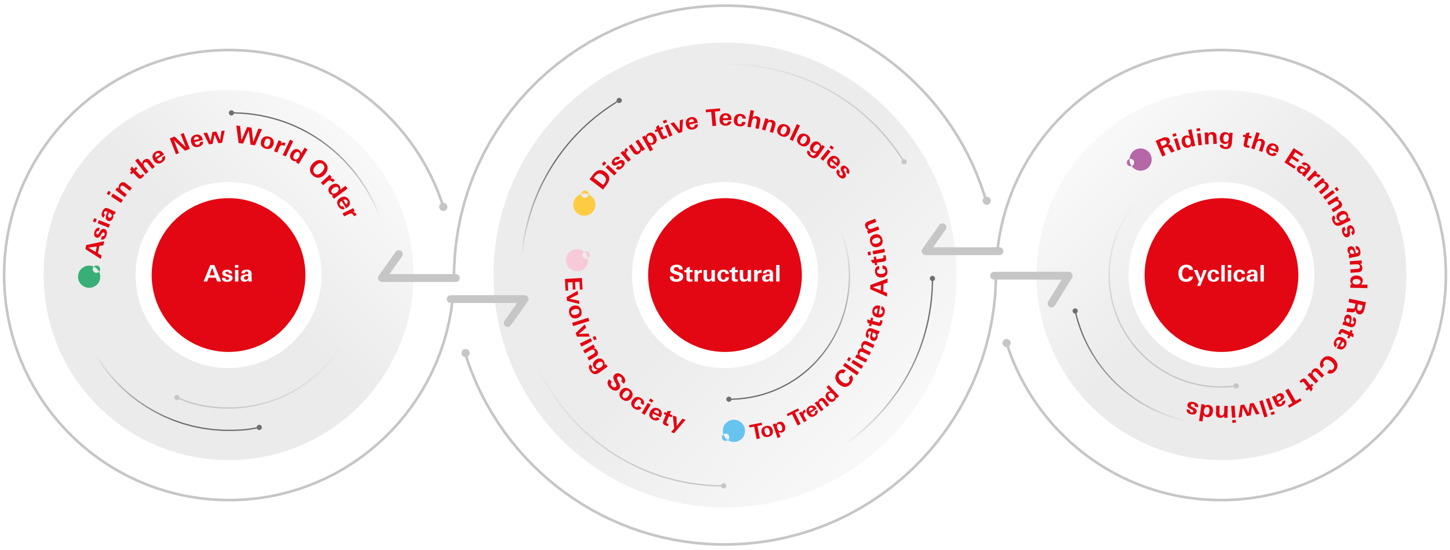
Why? While growth in the West is modest, Asia's economic engine benefits from structural trends, AI-driven innovation, and an investment boom fuelled by the supply chain revamp and green transformation. Asia's diverse and expanding capital markets offer an attractive opportunity set for diversification at attractive valuations. Japan's reflation trend, India's superior growth momentum, the tech-led exports boom in South Korea and Taiwan, and Beijing's continued policy stimulus provide support for Asian markets. Upcoming Fed rate cuts create more room for Asian central banks to lower rates, helping credit fundamentals and the return outlook of Asian quality bonds.

What? We identify plenty of investment opportunities from Asia's resilient growth leaders and quality credit. We are overweight on equities in Japan, India and South Korea, tapping into their structural growth trends. We favour corporate governance reform winners in Japan, China and South Korea, which are companies with strong cash flow that enhance shareholders' returns by increasing dividend payments and share buybacks. We expect to see further policy support to boost growth in mainland China and Hong Kong, which will bring tactical opportunities among undervalued industry leaders and quality SOEs paying high dividends. For carry opportunities, we stay focused on Asian IG corporate bonds in hard currency and Indian local currency government bonds as Asian central banks embark on their rate-cutting cycle.

Top Trends and High Conviction Themes

Our Top Trends are well established, with three structural trends complemented by a number of themes focused on Asia, and a shorter-term set of opportunities exploring thematic ways to benefit from earnings potential and rate cuts. The following pages discuss our High Conviction Themes in more detail.

Top Trends for 2024

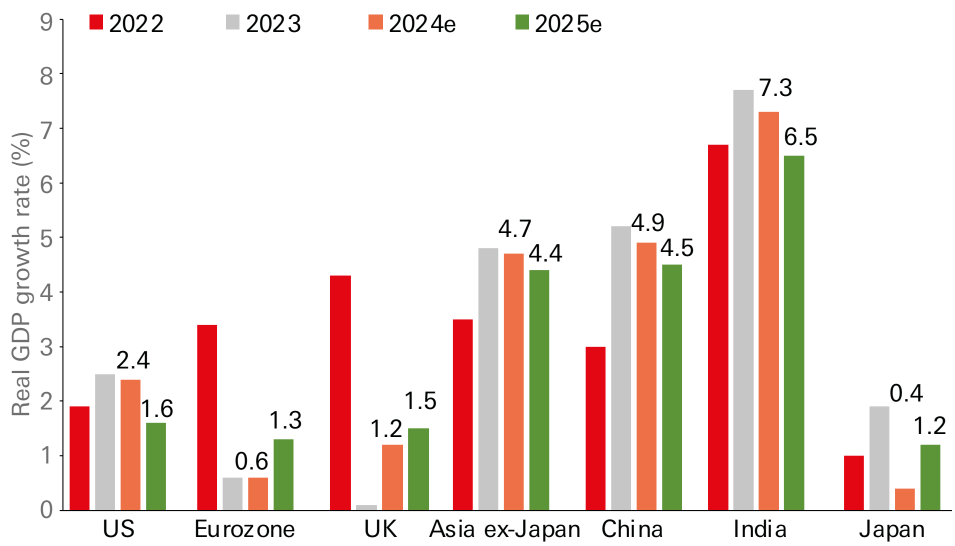


Source: HSBC Global Private Banking as at 4th September 2024.

Asia in the New World Order

Navigating the volatile geopolitical dynamics under the new world order, Asia offers promising diversification opportunities through its resilient growth leaders and quality bonds. We position in long-term winners that benefit from the structural upswing of India and ASEAN, corporate governance reforms, supply chain revamp, AI-driven technology investment boom and the upgradation in manufacturing.

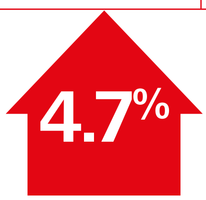
Asia stands out as the most important global growth engine



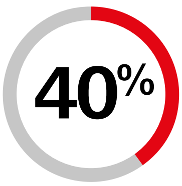
Source: Bloomberg, HSBC Global Research forecasts, HSBC Global Private Banking as at 4th September 2024. Forecasts are subject to change.

Our Four High Conviction Themes

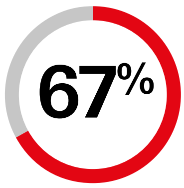
1. Asia's Corporate Governance Reform Winners	We favour corporate governance reform winners in Japan, China and South Korea, which are cash-rich companies with low leverage and the financial power to deploy cash to boost shareholders' returns by increasing dividend payments, share buybacks and value-adding corporate actions.
2. Reshaping Asia's Supply Chain	This theme focuses on Asian industry leaders that benefit from the integration and reconfiguration of the manufacturing supply chains. We favour companies in India and ASEAN that gain from supply chain reorientation under the "China+1" strategy of multinational and Asian corporations.
3. Rise of India and ASEAN	We find promising secular growth opportunities in India and ASEAN, riding on the secular tailwinds from young demographics, rising middle-class consumers, robust FDI and domestic investment spending, technological innovation and green transformation.
4. Diversifying with Asian Quality Bonds	Upcoming Fed rate cuts will create room for Asian central banks to lower rates in coming months. We favour Japanese and Korean financials, Asian IG corporate bonds, Indian local currency bonds, Indonesian quasi-sovereign IGs, Macau gaming and Chinese TMT credits.



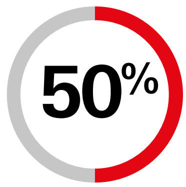
Asia ex-Japan's 2024 GDP growth should be well above the global average



40% of Japanese companies plan to increase their dividends for FY2025



IIndia and ASEAN are expected to have a larger share of working age populations at 67% in 2050 versus global average of 63%



India currently hosts over 50% of Global Capability Centres in the world

Source: UNCTAD, United Nations World Urbanization Prospects, ANSR, Bloomberg, HSBC Global Research forecasts, HSBC Global Private Banking as at 4th September 2024.

In contrast with modest DM growth, Asia stands out as the most important global growth engine with expected GDP growth of 4.7% in 2024. Asia's growth appeal is underpinned by the structural upswing of India and ASEAN, the AI-led technology investment boom and robust manufacturing investment driven by accelerating supply chain revamp. Japan's sustained reflation trend, India's superior growth momentum, and the technology-led exports boom in South Korea offer a broad and promising opportunity set for diversification at attractive valuations. Upcoming Fed rate cuts will create more room for Asian central banks to lower rates, which bodes well for Asian credit fundamentals.

Our theme on **Asia's Corporate Governance Reform Winners** stays focused on quality companies with high potential to lift shareholders' returns by increasing dividends and share buybacks. Regulators in Japan, South Korea and China are stepping up corporate governance reforms that require companies to prioritise capital efficiency and ROE improvement in a move to narrow their valuation discounts relative to the global peers.

According to data of Nikkei Asia, 40% of Japanese companies plan to increase their dividends for the fiscal year ending March 2025. Share buybacks already reached JPY6trn in the two months since the start of FY2025 (April and May), up 50% over the same period last year. The Corporate Value-Up Programme in South Korea stresses the importance of high dividends and share buybacks in enhancing shareholder returns, bringing attractive re-rating opportunities.

Our theme on **Reshaping Asia's Supply Chain** captures opportunities from the accelerating global supply chain reconfiguration and friend-shoring trend. This has resulted in rapid trade integration within Asia, with the share of intra-regional trade surging to almost 60% of Asia's total trade flow from 53% in 2000. We expect intra-Asian exports to surge from USD4.3trn in 2023 to USD7.1trn in 2030.

We favour high-end manufacturing leaders in Japan, Taiwan and South Korea given their dominant roles in the global semiconductor supply chains. IT hardware, semiconductors, advanced manufacturing, and chip packaging companies emerge as key beneficiaries of supply chain reorientation under the "China+1" strategy. We estimate USD 800bn of investment will be required to build new foundries, mostly in Asia, to meet the massive demand for GenAI chips. The ASEAN region is well positioned to benefit from strong AI demand through advanced chip packaging, as it attracts strong investments from China and the US.

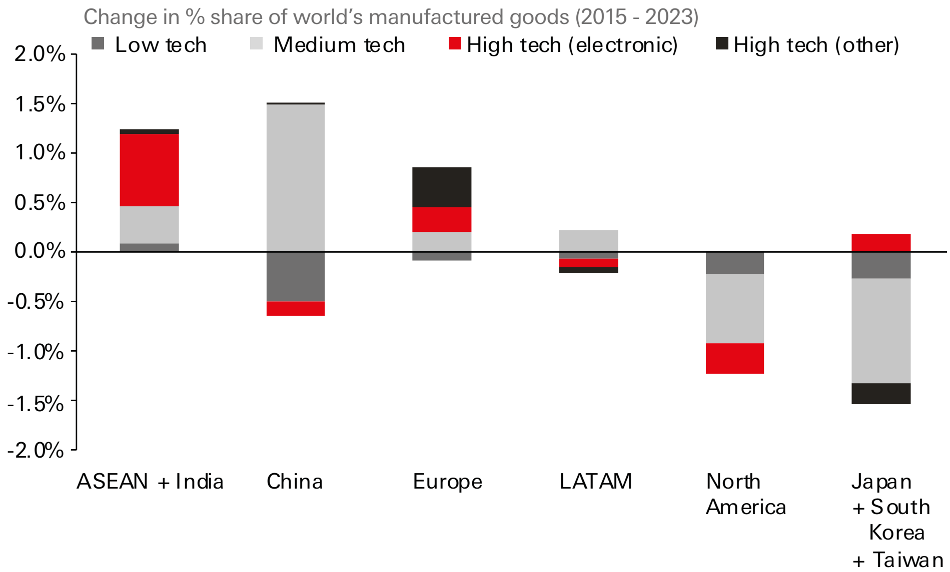
Indonesia is playing a critical role in Asia's EV supply chains, as it holds the world's largest nickel reserves of 21m tonnes or 22% of global reserves.

Our theme on the **Rise of India and ASEAN** captures promising secular growth opportunities from the young demographics, rising middle-class consumers, robust FDI and domestic investment spending, technological innovation and green transformation. India and ASEAN are projected to have a larger share of working age populations (aged 15-64) at 67% in 2050, than Asia (64%) and the global average (63%). We favour resilient growth leaders in the financials, property, infrastructure, retail REITs, and telecom sectors in India and Southeast Asia.

With Indian elections behind us, the investor focus has shifted back to the outlook for structural reforms. The recently announced Union Budget maintained a good balance between fiscal discipline and growth initiatives, which bodes well for Indian stocks and bonds. Indian banks and infrastructure companies will benefit from strong capex spending and FDI inflows. India's services export growth has stayed strong with the rapid growth of the Global Capability Centres (GCCs). According to the latest ANSR statistics, India currently hosts over 50% of GCC in the world.

For carry opportunities, we reposition our fixed income theme to **Diversifying with Asian Quality Bonds**, which focuses on our overweight in Indian local currency bonds and Asian IG corporate bonds in hard currency with 5-7 years duration. The expected Fed pivot in September will set the stage for Asian central banks' easing in coming months. We favour Asian financial credit because of their relatively attractive valuations. Apart from those in Japan and South Korea, we like banks in Australia, Singapore, and Thailand due to their strong capital ratios. In India, we like local currency bonds on the back of the global index inclusion and our bullish view on INR.

Trade gains in global manufacturing are mostly in EM Asia

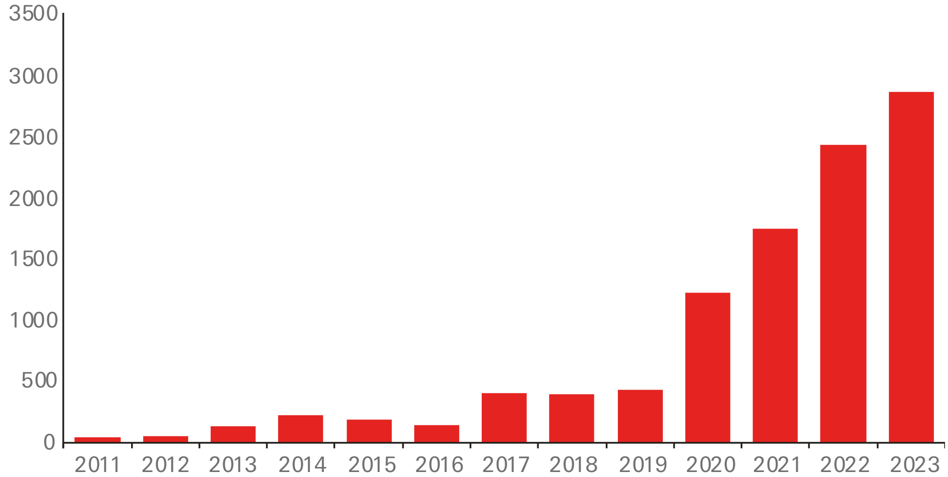


Source: UNCTAD, HSBC Global Private Banking as at 4th September 2024.

Disruptive Technologies

A wave of innovation is lifting the aerospace and healthcare sectors just as the next phase of the digital revolution gets underway with the launch of advanced AI-enabled products and services and the expansion of digital infrastructure

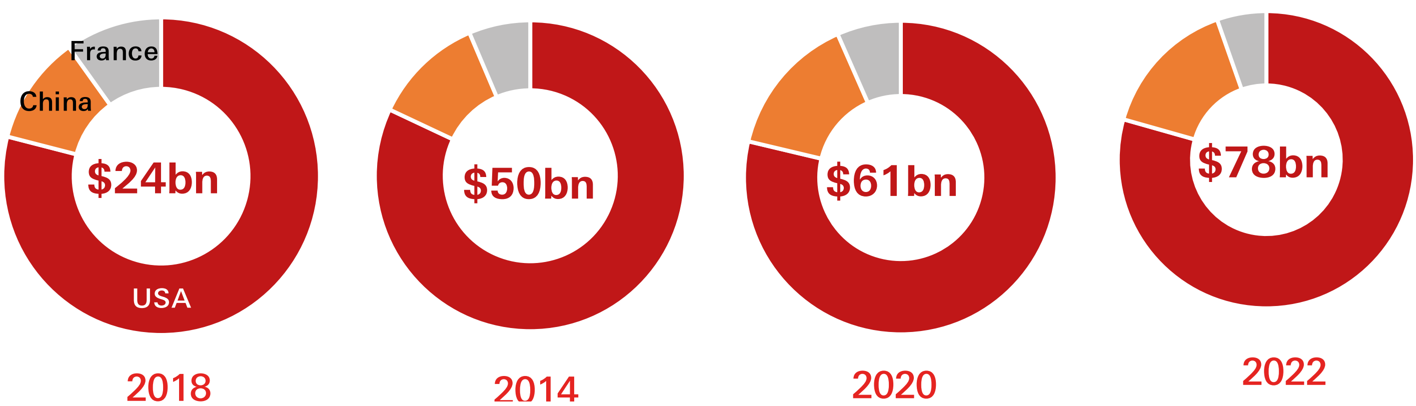
Small satellite launches 2011 - 2023



Source: International Energy Agency, HSBC Global Private Banking as at 4th September 2024.

Our Four High Conviction Themes	
1. NextGen Medicines	Highly targeted new therapies offer the potential to transform treatment regimens and patient outcomes, while generating substantial commercial opportunities for the companies.
2. Upgrading Digital Architecture	Digital infrastructure capacity is seeing strong demand-driven growth with cloud, data centres, network providers, semiconductor suppliers and equipment manufacturers set to benefit.
3. Generative AI & Robots	The rapidly evolving generative AI landscape is already causing companies to accelerate the roll-out of products and services that embed AI capabilities which enable robots to become more autonomous.
4. Aerospace	Billionaires have re-awakened this dormant sector with commercial development in low earth orbit (LEO) satellites, space vehicles, flying taxis, hypersonic rockets and much more.

Government expenditure on space programmes



Source: Statista, HSBC Global Private Banking as at 4th September 2024.

As companies struggle with slowing economic growth, flat margins and relentlessly competitive markets, they are desperately searching for ever more creative ways to differentiate their product / service to boost sales and find ways to be more productive to lift margins. Innovation is often the solution to solve their 'gordian knot'. A wave of innovations is being unleashed that should provide multiple opportunities for enterprise management to address these challenges and be a major source of competitive advantage. These innovations include scientific developments that facilitate the rapid analysis of biological samples or the detection of trends in large populations and vast data sets from genetics to astronomy. Satellite-derived data on weather and crops is being used to manage agricultural businesses. Recently launched advanced AI software is a game changer in both the analysis and, increasingly, the ongoing monitoring and management of processes. We have selected four thematic areas where recently introduced innovations are having a significant impact.

NextGen Medicines

The global biopharma market is estimated to be worth $1.2trn in 2024, a staggering number that should grow 5%-6% per annum over the next 3 years (Visible Alpha). For most common conditions such as hypertension or high cholesterol, there are a multitude of branded and generic products available. However, there are many hard to treat or complex diseases with unmet clinical needs. Biotechnology companies are often the primary innovators of new medicines. A new generation of innovative biopharmaceuticals are being launched (or are in late-stages development) for some of these conditions such as obesity, hepatitis, haemophilia, cancer and other rare diseases, with some of these treatments even curing the patient's condition. These treatments for rare disease and any 'break-through' therapies are often granted periods of sales exclusivity in certain markets and/or government funding, boosting the profitability for the company.

Unsurprisingly, licensing and M&A activity is picking up as large pharmaceutical companies restructure and look to bolster their product pipelines.

Upgrading Digital Architecture

The latest AI software models may show great potential but there is a catch that presents an opportunity. These models and the applications consume not only vast quantities of electricity, but also require substantial capital expenditures and support services to expand capacity as demand soars. Second quarter results revealed the substantial planned investments being made in datacentres, cloud services, cyber security and cooling systems. According to a report from P&S Intelligence, the datacentre market is expected to grow from c.$302bn in 2023 to c.$622bn in 2030, a CAGR of over 10.5%. The opportunity seems to be with the providers of the elements of the digital infrastructure rather than the owners.

Generative AI & Robots

Generative AI represents a step change to existing AI capabilities. Advanced AI software, including large language models (LLMs) are undergoing rapid development encompassing autonomous self and co-model learning, which is further accelerating developments. Advanced AI software integration into robots and automation systems promises to revolutionise their capabilities, increase their ability to work autonomously and expand their applications. Already, the number of operational industrial robots reached 3.9 million units in 2023 (IFR, February 2024). In healthcare, surgical robots are widely used by surgeons for complex operations and for difficult to access areas of the body. We believe that intelligent automation will expand across most sectors of the economy.

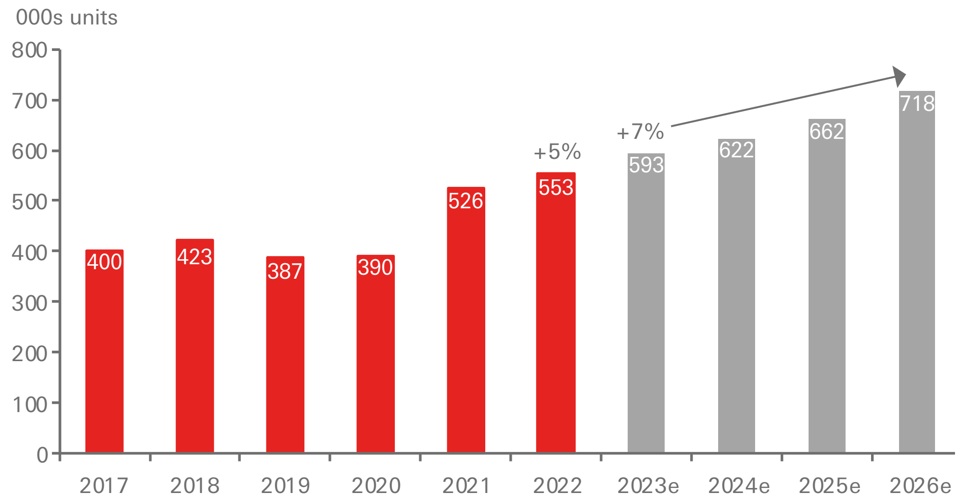
Aerospace

Over the last decade, the aerospace industry has seen a significant step-up in activity on both sides of the invisible frontier between earth's atmosphere and space, with technological advances combined with improved accessibility to private enterprise and increasing affordability.

The demand for airplanes has been growing too, as the number of flights continues to grow. Global Revenue Passenger-Kilometers (RPK) rose 10.7% YoY in May 2024, which is now ahead of pre-pandemic levels, according to the IATA data. Aircraft manufacturers are also benefitting from a rise in military orders and with increasingly advanced technological capabilities.

In 2023, small satellites represented 97% of all spacecrafts launched. Small satellite launches are up 7x in the last 6 years (Bryce Tech small satellites report, 2024). Related supply chains are seeing an uptick in order too. In fact, the demand is so strong that aerospace industry companies are often struggling to meet demand.

Annual installations of industrial robots 2017-2022 actual and 2023-2026 forecast

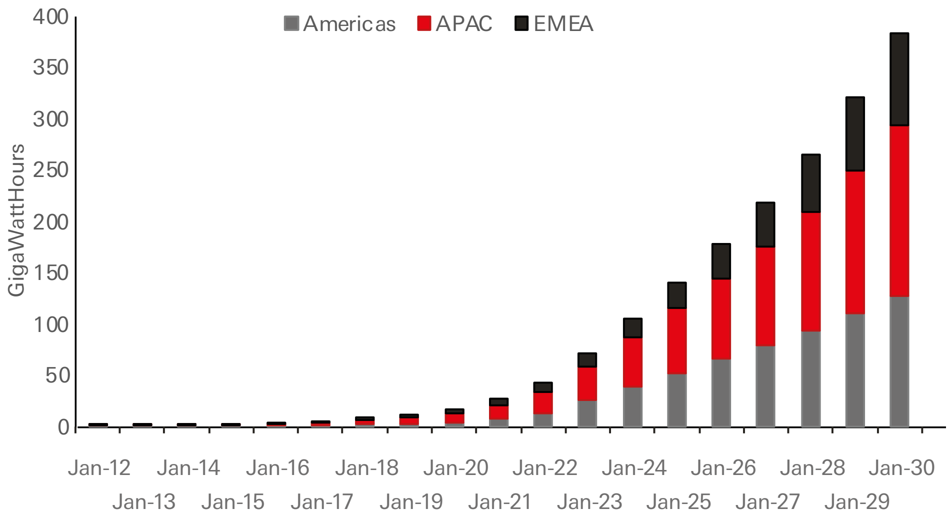


Source: IFR report 2023, HSBC Global Private Barking as at 4th September 2024.

Climate Action

Sustainability is an industry that has long had momentum, but it is also now getting material scale. This bodes well for investors looking for opportunities for their portfolios that can also contribute to long term positive change.

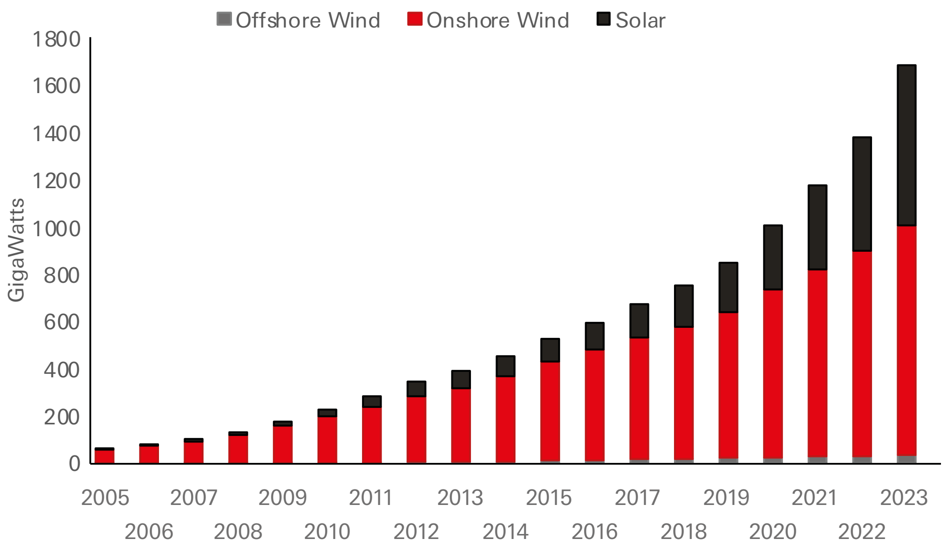
Energy Storage Growth to 2030



Source: Bloomberg Finance L.P., HSBC Global Private Banking as at 4th September 2024. Figures estimated from 2024 to 2030.

Our Two High Conviction Themes	
1. Opportunities in Sustainable Energy	There has been a marked rise in the desire of global economies to move to lower carbon energy production while also increasing the independence of their domestic energy production. Sustainable energy offers a key part of the solution.
2. Biodiversity and Circular Economy	Biodiversity across the globe has been materially impacted by human activity in the last 50 years. Investment initiatives to finance action to conserve and reverse the damage are now gathering pace.

Solar and Wind Capacity Growth since 2005



Source: Bloomberg New Energy Finance, HSBC Global Private Banking as at 4th September 2024.

Sustainability's momentum around the world, across regions and across sectors continues at pace. New technologies, new understandings and growing urgency is raising the level of activity in the sector every year.

Across the value chain, producers are developing new products and processes to accommodate the rising support and demand for sustainable alternatives. According to BNEF's Solar Manufacturer Production 2023 Report, it is estimated that in 2023 solar manufacturers produced 50% to 67% more products YoY across the value chain, with 623 GW being produced in the same period. Energy storage is also a key element, and its buildout is set to increase markedly in the coming years.

We believe that the positive momentum and rising participation in making our world sustainable is creating many opportunities for investors.

Opportunities in Sustainable Energy

Clean energy technologies and renewable energy sources are the key components needed for meeting the Paris Agreement goals and getting countries globally to net zero. While the transition has been underway for decades, it is now at substantial scale and momentum. Global investments in the low-carbon energy transformation have been rising and topped $1.8trn in 2023, but much more investment is needed. To keep the world on a net-zero trajectory by 2050, an average investment of $4.8 trillion per year in renewable energy will be needed between 2024 and 2030 according to Bloomberg New Energy Finance. Of course, this doesn't account for technological gains which have also been moving at a high pace.

Renewable energy adoption has seen a steep rise over the past couple of decades, thanks to rising awareness and policy push. Rising demand has made clean energy more competitive from a cost perspective too. The average cost of renewable energy sources has been declining,

Both wind and solar markets are expected to grow at material rates for the coming decade given the demand for sustainable energy. Likewise, global policy momentum remains strong as does accompanying financing, supporting large scale deployment of clean power initiatives for the foreseeable future. The global renewable energy capacity expanded by 50% in 2023, reaching almost 510 gigawatts (GW) (Source: Electricity Renewables 2023 Analysis – IEA) and the global Photovoltaic market is expected to rise by 33% in 2024, on a bumper year.

Similarly, despite higher costs and interest rates in 2023, global investments in offshore wind surged 79%, reaching $76.7bn, and investments in global power grids reached $310bn highlighting the structural opportunities in place. (Source: Bloomberg NEF, 2023).

Biodiversity and Circular Economy

Earth's biodiversity is imperative for human existence. Our societies, livelihoods and economies depend on nature for the natural regulation of weather patterns and provision of basic materials like food and wood.

The linear 'Make – Take – Use – Waste' economic model is damaging biodiversity and natural habitats.

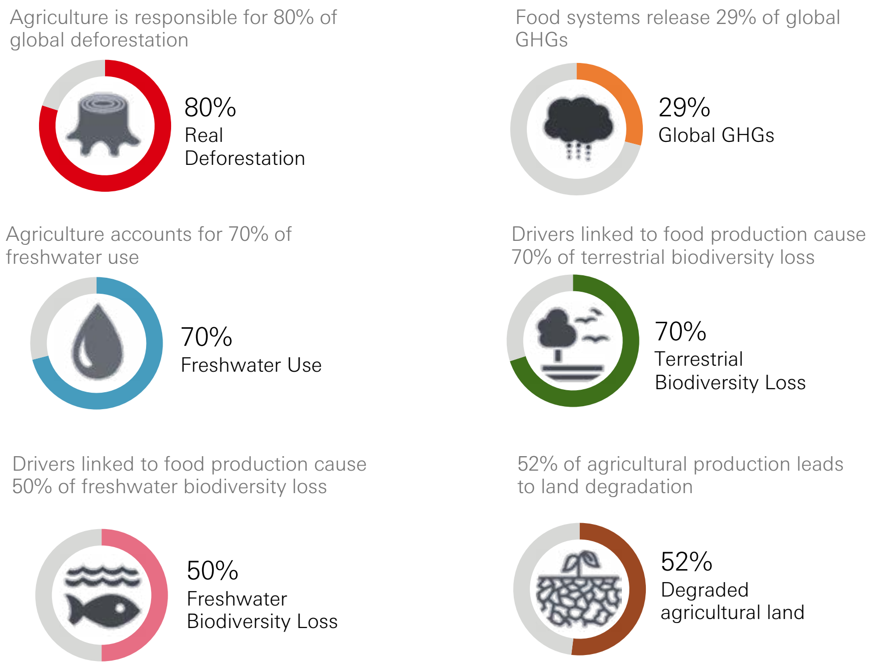
Conservation efforts alone are insufficient to halt biodiversity loss. Adoption of a circular economic model should help minimise waste of essential resources and help in stemming biodiversity loss.

As per the World Economic Forum, half of global GDP – $44 trillion – is dependent on nature to some extent. Biodiversity loss and ecosystem collapse are cited by the WEF Global Risks Report 2024 as one of the top three risks over the next decade. This therefore creates an opportunity to act. New business models and solutions that transition business from a Linear to a Circular economic model of 'Reduce – Repair – Reuse – Recycle and Re-design' are attracting attention and provide new investment opportunities.

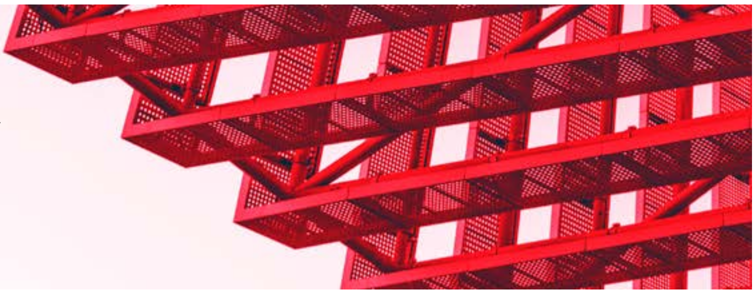
While the business world has paid great attention to climate change, the issue of biodiversity has largely been ignored until recently. But the good news is that the transition to a circular economy is already in motion due to increased regulation, market, consumer and investor forces. Companies that harness and preserve biodiversity could offer investors the potential to access growth and support long-term change.

Note: Please see our full ESG disclosures at the end.

The environmental impacts of food production



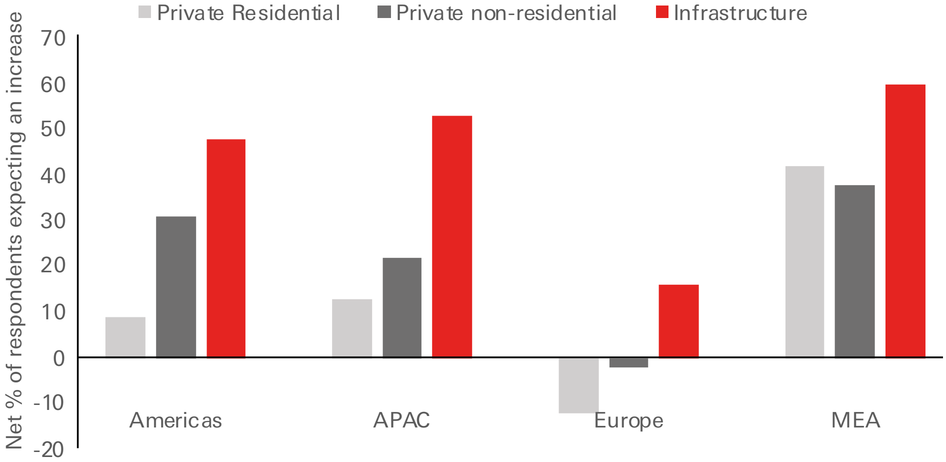
Source: WWF Living Planet Report 2020, CBD, GSDR, ELD initiative, HSBC Global Private Banking as at 4th September 2024.



Evolving Society

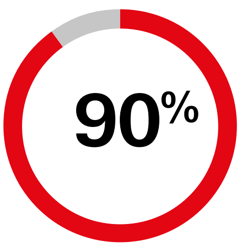
Demographic shifts, technological innovation and changes in the way people want to live power the evolution of our societies. Our themes reflect three aspects which we think are both durable and have strong investment potential.

Global infrastructure build is expected to outpace other construction across the world

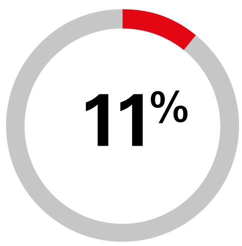


Source: RICS Survey, HSBC Global Private Banking, data up to Q4 2023 as at 4th September 2024.

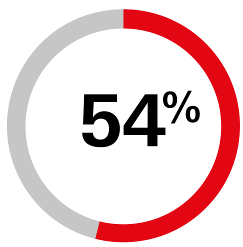
Our Three High Conviction Themes	
1. Infrastructure and Future Cities	The four global macro trends of decarbonisation, digitalisation, re-onshoring and urbanisation all coincide in one big topic: the huge need for infrastructure investment. Private capital – often in partnership with governments – will play a key role. As infrastructure returns are often linked to inflation, infrastructure can help protect real returns and can help lower overall portfolio volatility.
2. Social Empowerment and Well-being	Our theme focuses on gender equality, female workforce participation, access to quality education and healthcare. This is not just because investors and consumers care about these topics, but also because studies have shown that more diverse organisations tend to perform better. There is some progress on this front but more needs to be done and it is a topic in the US elections.
3. Sports and Entertainment	Big sporting events and concerts have been catching the attention. It is big business and benefits from solid consumer spending power and a shift in spending patterns towards services and experiences rather than goods. Its profitability and attraction is sharply boosted by technology, including virtual reality and AI. We see opportunities across events, advertising, content generators, clothing, equipment and immersive technology.



The large bulk of the benefit of infrastructure construction tends to stay within the local economy



Share of women in senior investment roles in venture capital firms



Global new investment in electricity generation is now 54% solar (rest: coal, oil, gas, hydro, wind, nuclear)

Source: British Venture Capital Association, Institute of Directors, IEA, HSBC Global Private Banking as at 4th September 2024.

Societal changes mostly stem from big underlying trends like demographic change but are often accelerated by technology, causing companies to rush and adapt to stay relevant. This is also the case for the investment themes that we have selected.

Infrastructure is a case in point as population growth leads to urbanisation and cities around the world compete with each other. To attract the best talent, infrastructure plays a key role – both to make the cities livable and enjoyable, but also to ensure productivity. Increasingly, that infrastructure is digital, including data centres and communication networks. But cities also need entertainment, which is a key growth area.

Cities benefit from being diverse, and the same can be said of companies. It is obvious that companies are better placed to serve their customers if their workforce composition reflects the diversity of their clients.

Our high conviction themes under the Evolving Society trend will shift over time, but we present three of them here.

Infrastructure and Future Cities

Our societies require a huge amount of infrastructure due to the urbanisation trend and the digitalisation of our global economy, which requires data centres and better communications. The transition to net zero requires the build-out of clean energy generation and more versatile electric grids. And finally, companies' desire to re-onshore production requires new ports and roads. In fact, the McKinsey Global Institute has calculated that $3.3 trillion must be spent annually on infrastructure to facilitate these important transitions.

Private capital will play a key role, because many governments have severely underinvested in the past. The US, EU and UK now realise that it is a great way to stimulate the local economy and have helpfully created funding vehicles or infrastructure banks, which will kick-start a public-private partnerships. Given the strong need for private capital, large investors can generally negotiate good conditions.

Our view that inflation may stay somewhat higher than in the past provides another reason to look at infrastructure, which typically offers inflation adjusted returns. The link to inflation can be regulatory in case of utilities, or contractual. It can also result from the importance of the service provided, which allows the operator to pass on any increase in costs. It is no surprise therefore infrastructure stocks so far this year have been less volatile than benchmark indices, with a lower beta, helping investors with their portfolio volatility management.

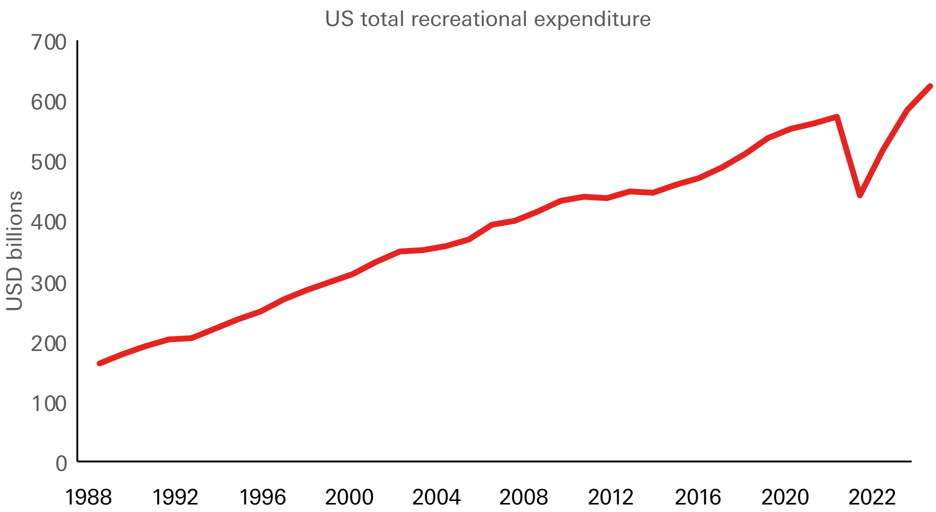
Our theme of **Social Empowerment and Well-being** is key for investors. The universities of Leicester and Glasgow showed companies with more than 30% female executives tend to outperform, while McKinsey calculates that companies in the top quartile for gender diversity on executive teams are 25% more likely to be more profitable than the bottom quartile set of companies. And although there is some progress on female representation on boards, more needs to be done, especially in areas such as technology and venture capital firms. The theme is topical as the US Democrats are drawing attention to it in the election campaign.

Sports and Entertainment have been front and centre in recent months with massive concerts and sporting events. The two even mixed at the opening ceremony of the Paris Olympics, with record viewership. The opening ceremony showed Paris at its best, but technological innovation had a big role to play, including the use of drones, on-board footage and real time captions hugely enriching viewers' experience. The organisation of the entire games was optimised thanks to the use of digital twins. Intelligent stroboscopic analysis allowed viewers to better understand the movements of the athletes and highlights were automatically generated based on media rights holders' preferences.

It is a great example of how technology is helping raise demand and interest in sports and entertainment. The trend is also supported by consumers having decent purchasing power. Those consumers have been increasingly spending their income on experiences rather than goods.

Companies in the sector are innovating to create more value, through streaming of events and data analysis to allow more targeted ticket sales, for example. We see opportunities across events, advertising and content generators, as well as clothing and equipment. As immersive technology gets even better, the lines between the physical and virtual worlds will blur further.

US households' spending on recreation is growing quickly, including sports and entertainment

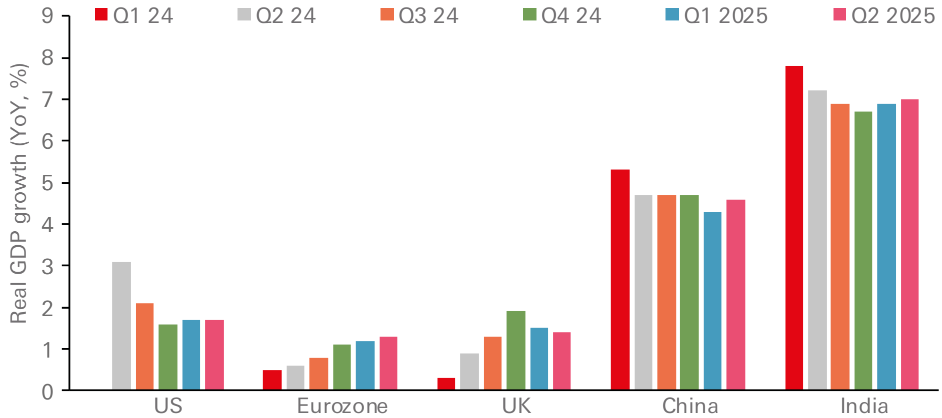


Source: IBIS World, HSBC Global Private Banking as at 4th September 2024.

Riding the Earnings and Rate Cut Tailwinds

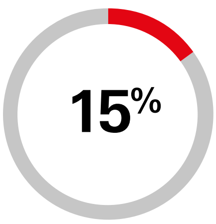
Earnings growth and rate cuts create many opportunities in markets. But given the run-up in valuations and somewhat slower growth, we need to pick our spots. In equities, our focus is on earnings delivery, while in bonds, we favour quality credit.

Developed market growth is slow vs EM but remains positive, with a mild uptick in Europe

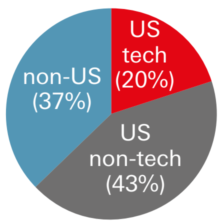


Source: Bloomberg consensus forecasts, HSBC Global Private Banking as at 4th September 2024. Forecasts are subject to change.

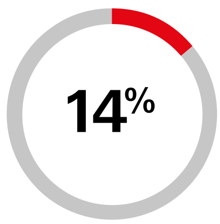
Our Four High Conviction Themes	
1. American Resilience	US economic growth remains resilient, and on the earnings front US provides both resilience and a wide opportunity set. Thanks to innovation and falling input costs, we expect further margin expansion. We take a broad-based approach across several sectors but work bottom-up to find stocks with earnings power.
2. North American Re-industrialisation	The US government has supported companies' desire to move much of their supply chains back to the US or North America and both US Presidential candidates are eager to further develop the manufacturing industry. AI-led innovations, robotics and automation are helping raise the productivity and competitiveness of the US manufacturing industry.
3. The Magnificent Europeans	European markets are cheap compared to the US and economic growth and earnings are gradually ticking up. The region is diverse, with the UK and Spanish markets being better placed than core Europe. We like companies that are reasonably priced, innovative and global leaders in their field.
4. Opportunities in Quality Credit	We maintain our overweight on developed market investment grade bonds, which tend to do well in a moderate growth environment and, of course, as rates get cut. We prefer medium duration to manage both spread and interest rate risks.



US investors hold 15% cash currently, much of which could be put to work



US tech's large weight means we also look for opportunities in other sectors and regions



Corporate investment accounts for a substantial share of US GDP

Source: AAII, Bureau of Economic Analysis, Bloomberg, HSBC Global Private Banking as at 4th September 2024.

The themes under our cyclical trend position for a global growth environment that is slowing, but not stalling. Such an environment allows companies to continue to grow their earnings, thanks to slowing cost pressures (wages and input costs), falling interest rate costs and – importantly – productivity growth thanks to innovation. Of course, the second key macro characteristic of the current environment is that the global rate cut cycle is now well underway, with the Fed likely to join the momentum in September 2024.

The other point we want to recognise through our themes is that investors need to be increasingly selective. This does not mean concentrating on a particular sector or region – quite the opposite in fact. Rather, we believe they should use a stock picking approach by being selective from a bottom-up perspective. The reason for this is that there are many opportunities across different regions and sectors, but companies' relative fortunes are seeing more dispersion. To push earnings ever higher amid a mild growth slowdown, innovation is important, and that requires investment – so a strong balance sheet and forward-thinking management are important. Within each sector, some companies have pricing power, while others don't. The winners are those that manage to best capture the rapid changes in what their customers want. Finally, it is also key to consider whether current valuations are warranted, given the run-up of the past two years.

American Resilience

Our American Resilience theme perfectly captures the above principles, using a broad sector perspective within the biggest global equity market, but being selective from a bottom-up perspective. Our positive US sector views currently span technology, communication services, industrials, financials and healthcare, illustrating the broad positive earnings momentum and the wide opportunity set. Within all of those sectors (and, selectively, even beyond), we look for companies that can deliver on analysts' earnings expectations even as growth moderates somewhat.

Another approach is to take exposure to an equally-weighed US stock index, which reduces the weight of mega-caps and technology compared to conventional indices. This of course can help address some investors' valuations concerns and provide better diversification due to lower single-name concentration.

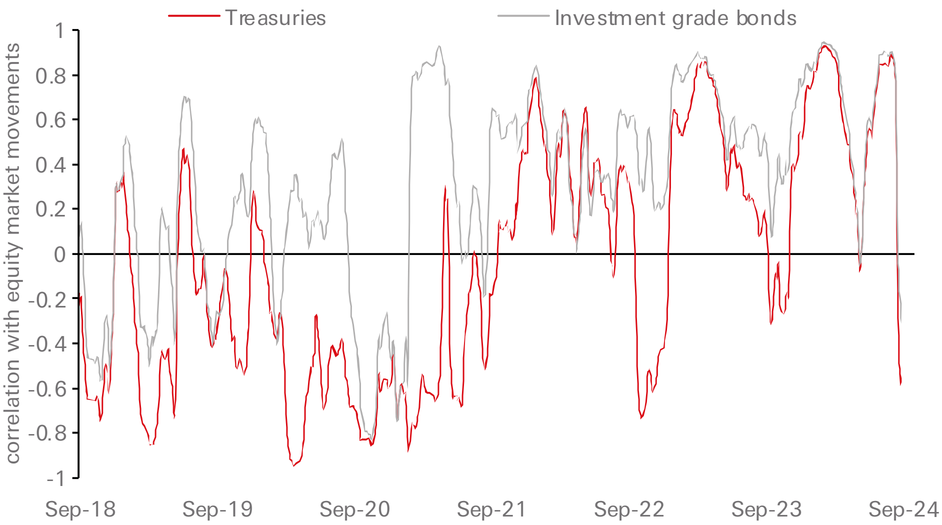
Our **North American Re-industrialisation** theme taps into the very well documented re-onshoring trend, which itself results from the supply chain issues during the pandemic, and companies' desire to be less exposed to geopolitics in our multi-polar world. Mexico has surpassed China as the US' biggest trading partner, illustrating the regional integration. Programmes like the CHIPS & Science Act and the Inflation Reduction Act have led to a boom in manufacturing investment. And as new clusters of industrial activity form in the US, further boosted by tech-led innovation and the infrastructure build-out, we think the US will attract even more companies and investment. In turn, this should help the sector's competitiveness and profitability.

Our Magnificent Europeans theme looks for global leaders across sectors that are incorporated in Europe. Quite often, such companies are trading at a discount to US companies, just because of their location; and as investors actively look for diversification at a reasonable price, the Magnificent Europeans are starting to see good investor demand. While they are global, we think the gradual pickup in local economic and earnings growth should help performance.

Opportunities in Quality Credit

In early August, we cut our view on US Treasuries to neutral but we maintain our overweight on investment grade bonds. This is because credit spreads are at healthy levels, IG bonds benefit from a good carry over US Treasuries, with relatively similar duration risk. History shows that IG is well placed to generate attractive returns in an environment where economic growth is moderate but positive, as we expect to see. As we may see some volatility in equity markets due to the elections, central bank meetings and geopolitics, it is important to diversify with bonds. Portfolio return volatility can be tempered by including a solid income component.

With slowing growth, equity / bond correlations have turned negative, boosting the diversification potential of bonds and their importance in portfolios



Source: Bloomberg, HSBC Global Private Banking as at 4th September 2024. Past performance is not a reliable indicator of future performance.

Solid fundamentals continue to support our global equity overweight view and our preferred markets are the US, UK, Spain, India, Japan and South Korea. The onset of the Fed easing cycle in the US should facilitate further easing from other central banks globally. The lower cost of capital should lower companies' interest expense, help increase consumer spending and boost corporate investments. Some of that investment is structural in nature thanks to technological innovation, which should help increase productivity, maintain margins near record levels, and expand profitability.

Slower US growth but better profitability

Economic growth in the US is slowing but not stalling. The flip side of this is that the disinflationary trend should continue, even though inflation readings can see some volatility. That has set the groundwork for the Fed to begin its easing cycle, joining other central banks such as the ECB and the Bank of England. We foresee three Fed rate cuts of 0.25% each in 2024 and in 2025, pushing the Fed funds target range to 3.75-4.00% by year-end 2025. As the Fed increasingly takes slowing growth into account, any sharper deterioration would probably result in bigger rate cuts, effectively bringing back the 'Fed put', which provides comfort to markets.

Corporate earnings meanwhile remain strong and are forecast to rise 10% in 2024 and 15% in 2025. Moreover, the earnings momentum is broadening, with non-tech earnings expected to gradually pick up. In fact, large capitalisation companies, like the Magnificent Seven, are facing tough comparisons and while their earnings growth is expected to remain quite strong, it should decelerate. The non-Magnificent Seven (the other 493) earnings meanwhile are improving and comparisons look more favourable. That should allow investors to broaden exposure, allowing better diversification. Less concentrated returns in the S&P 500 and other major US indices, also suggest better chances for the US to continue to outperform other markets.

History shows that as Fed begins monetary easing cycle, US equities typically outperform global equities, and market breadth often improves. In mid-cycle slowdowns, in the twelve months after the first Fed cut, the S&P 500 rises almost 17%, compared to only 4.6% for the MSCI World ex US. The Dow rises almost 12% and the Nasdaq advances almost 28%. The best performing sectors have typically been healthcare, information technology, consumer discretionary, consumer staples, and communication services.

Asia's market diversity

Asia remains the fastest growing region economically, but the region's economies and markets are very diverse. Fundamental areas of support include solid wage growth and corporate governance reforms. As inflation is generally in check, the start of the Fed's rate cuts should also help trigger rate cuts by Asian central banks. More structural forces add further support, such as investment in the sustainability revolution, technological upgrading and changes. As a result, we maintain our overweight to EM Asia and to Japan, albeit with a selective approach.

Japanese companies should continue to see their earnings supported by the pickup in inflation and wages, which causes consumers to spend more and allows companies to hike prices. Corporate governance has improved significantly, raising RoE and investor returns, allowing P/E multiples to re-rate. Although JPY is volatile, the past depreciation puts companies in quite a good competitive position.

Indian equities continue to benefit from above-trend economic growth. Although P/E multiples are high, they are in line with history and warranted by high ROEs. The PEG ratio of India (which also takes into account growth on top of P/Es) is more in line with other countries. Post-election performance suggests investors remain optimistic on Indian equities.

In China, we believe more stimulus may be needed for GDP growth to reach the 5% target. As a result, we continue to diversify in the region, with India, Japan

and South Korea being our current overweight positions. Valuations in both mainland China and Hong Kong markets remain low but we continue to search for a catalyst to drive flows and markets higher.

European growth issues remain

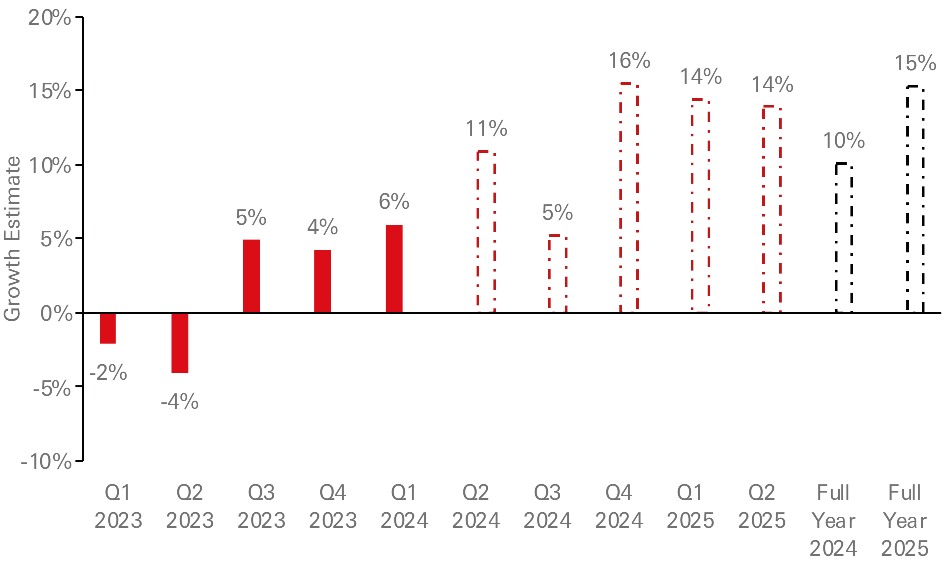
European growth is picking up, even though it will likely remain below US GDP growth. The same is true for earnings, but as P/E ratios are much lower than in the US, investors are starting to look for opportunities in European markets.

We selectively do the same, preferring the UK over the Eurozone, and Spain over the European core. UK's political stability has improved. While the new government's fiscal room is limited, confidence has picked up. UK economic growth forecasts continue to gradually be revised upward, and the UK market was less volatile than many others in August, illustrating its defensive status. Spain meanwhile is seeing encouraging economic and earnings growth, boosted in part by immigration and tourism. Its valuations are still near multi-year lows, providing an opportunity for investors who are looking for opportunities to diversify.

Although Europe would be vulnerable to higher trade tariffs depending on the outcome of the US elections, we see opportunities in companies under our Magnificent European theme. We look for innovative companies with a strong market position, large cap exporters and global companies that provide geographic diversification. Europe's global brands and quality companies remain attractive.

Earnings growth in the US remains strong this year and next

S&P 500 EPS YoY % change



Source: LSEG, I/B/E/S, HSBC Global Private Banking as at 4th September 2024. Forecasts are subject to change.

Investment Summary

We maintain our overweight to global equities as returns are forecast to exceed those of the other asset classes, thanks to resilient earnings growth and the broadening opportunity set. This year's global economic slowdown does not appear to be as severe as feared and as a result, we do not believe our sector composition needs to be overly defensive – in fact, we try to balance defensives and cyclicals. Indeed, in the year to date, the performance of cyclicals is almost identical to that of defensives.

As dispersion between companies' earnings and stock performance increases, this is a stock-pickers market. Close attention should be paid to the resilience of underlying business models and the ability to navigate growing pressures ranging from high interest rates to slow disinflation.

Fixed Income

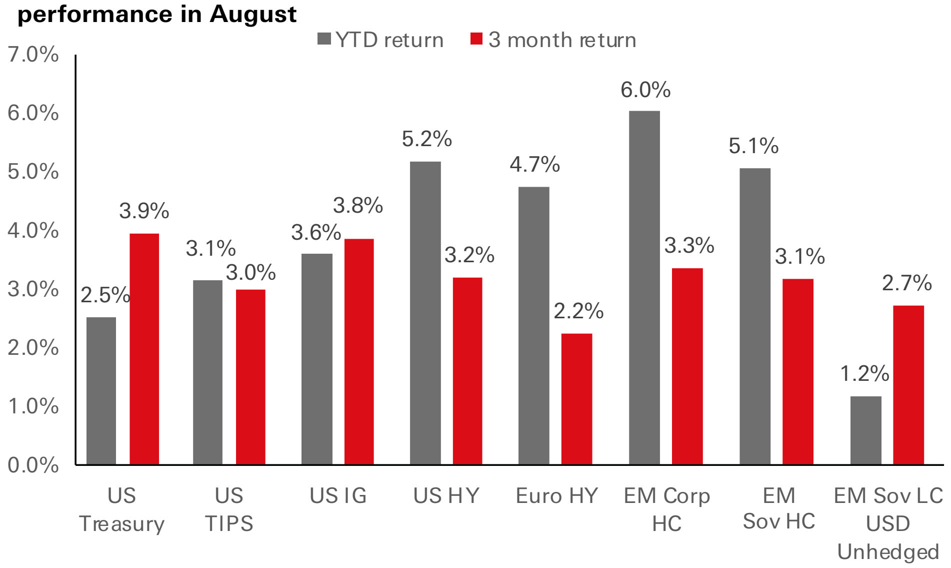
2024 has seen big swings in investors' expectations around the Fed's monetary policy path. This caused a volatile August for bond and stock markets. While concerns about a slower economy helped DM sovereigns, but they are less of a tailwind for High Yield bonds (HY). We took the fall in rates as a tactical opportunity to take profit by cutting US Treasuries back to neutral and trimming the duration exposure back to 5-7Yr, from 7-10Yr.

We remain comfortable with our positive stance on quality credit across Developed and Emerging Investment Grade (IG) and continue to lock in attractive absolute yields. Our performance analysis supports this view, given that US IG has historically outperformed other markets when the Fed cuts and growth is moderate. We believe the global disinflation trend is set to continue and believe that over time, government bond yields can still move somewhat lower.

2024 has been a year of extremes. The gyration in investors' expectations of how much the Fed will cut rates in 2024, with the market pricing in anywhere between 1.50% and 0.3% worth of cuts in recent months, has resulted in elevated bond volatility. From late July, the growing worries about the US slowdown led to hopes of rapid rate cuts, causing big moves in both bond and equity markets. At the same time, shifts in relative pricing between the Fed and the BoJ's expected monetary policy moves, triggered an unprecedent unwinding of the JPY carry trade. Political uncertainties over the US elections and earnings in the Tech sector also hit confidence. That said, the bulk of US economic releases still look reasonably healthy, so in line with our expectations, risk appetite rebounded later in the month.

This "risk-on risk-off" stance has been generally supportive for bond markets, especially DM sovereigns, but less so to HY corporate credit, which witnessed some spread widening.

Worries about the state of the US economy supported DM government bond performance in August



Source: Bloomberg, HSBC Global Private Banking as at 4th September 2024. Past performance is not a reliable indicator of the future performance

In light of the elevated volatility and the sharp fall in government bond yields in early August, we decided to take profit on our overweight and long-duration positioning on US Treasuries and UK Gilts by tactically moving to neutral and to a 5-7Yr duration target. This active duration bet has been in place since October 2023 and allowed us to generate alpha relative to our reference indices. While the trend in yields is downwards, we believe the movement in early August was too rapid and too pronounced (-60bps over two weeks). We re-allocated the proceeds to hedge funds, to remain diversified and tap into hedge funds' rich opportunity set.

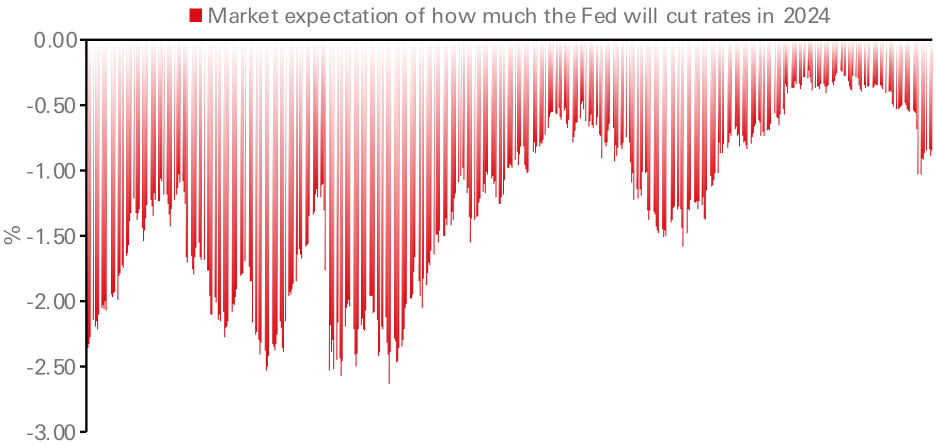
We continue to favour quality corporate credit through an overweight position on Global IG, as its absolute yields remain attractive, despite the recent fall in rates (i.e. 4.92% for US Corporate bonds as of September 3). The level of risk-free rates within US IG represents 80% of its nominal yield and therefore would benefit from a steeper price appreciation if our view of lower US Treasury yields continues to materialise. Our performance analysis also supports this view as, US IG has historically outperformed other markets after the first Fed rate cut. This outperformance has typically lasted six months after the initial cut.

Additionally, we believe that long-term factors justifying lower rates remain intact. These forces are mostly structural and range from demographics to the impact of government indebtedness on growth potential. Other short-term factors are also supportive and may play a more immediate role, such as geopolitical risks and large cash balances accumulated by investors, waiting to be re-invested elsewhere.

We continue to have a neutral stance on Global HY due to tight valuations and high sensitivity to market uncertainties, as evidenced in early August. However, we refrain from being underweight this sub-asset class, considering the high opportunity cost (i.e. elevated carry).

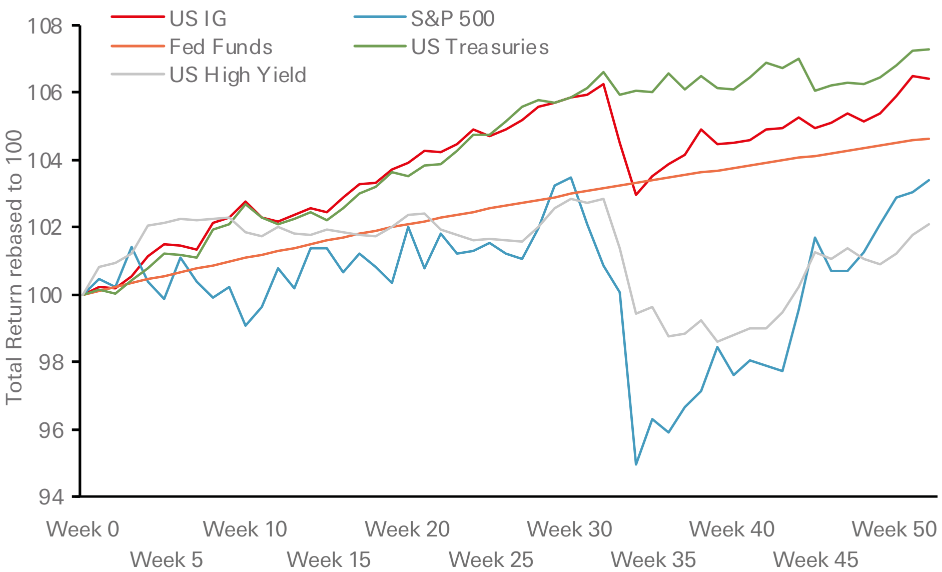
In terms of sectors, we continue to favour Technology, Financials and EM state-owned enterprises (SOEs). We focus on quality companies which prioritise bondholder-friendly policies, have sound leverage ratios and lower short-term refinancing needs. This is valid for DM but also for EM companies, which continue to offer carry opportunities and bring diversification across ratings, sectors and countries.

Markets have seen large gyrations in investors' expectations around Fed policy



Source: Bloomberg, HSBC Global Private Banking as at 4th September 2024. Past performance is not a reliable indicator of the future performance

Quality bonds tend to outperform for at least six months after the first Fed rate cut



Source: Bloomberg, HSBC Global Private Banking as at 4th September 2024. Based on the average of weekly performance data from 1989-2023 covering the past five easing cycles. Past performance is not a reliable indicator of the future performance.

We therefore remain comfortable in retaining a modest overweight stance on EM corporate credit in hard currencies but are selective.

Some investors worry about the level of public debt across DM countries, mainly the US, where the national debt to GDP ratio is at the highest level since WWII (122%). With higher rates, the cost of servicing debt is also increasing, albeit at a measured pace. We believe, however, there is no reason for sounding too alarmed. Firstly, leverage across households and corporates has decreased since the GFC in 2009, which means the overall indebtedness of the US has remained quite stable over the last 14 years at 250-260% of GDP. Secondly, when assets held by public institutions, such as the Social Security Trust Fund, are considered, net liabilities of the US government fall to 85-90% of nominal GDP. Thirdly, almost all DM countries have witnessed an increase in public debt, not just the US. Consequently, on a relative basis, the US' creditworthiness has remained stable. This is without considering the USD currency pegs, the high percentage of domestic bond holders and the status of reserve and payment currency, which give US Treasuries the position of a natural investment. Lastly, our historical analysis reveals that auction results (while having the potential to create some mild and short-term volatility) do not seem to have a clear association with yield direction. The Treasury has already indicated its intention to maintain coupon issuance in the near term, limiting any surprise factor. For us, the directionality of yields is led by the prospect of inflation and rate cuts, and not bond supply or debt levels.

Currencies and Commodities

Our out of consensus bullish call worked well till the start of the summer, and in August, we moved to a neutral stance. The US yield and economic growth advantage and global uncertainties were all supportive for USD. But as US growth slows and the Fed seems to be on a rate path similar to many other central banks, the support for USD has faded. Indeed, the demand for USD carry trades is now more limited than earlier this year. In G10, we remain cautious on EUR and CHF, but GBP should be more resilient. In the EM space, the mixed risk appetite remains a key headwind for currencies, but we remain constructive on INR amid strong economic drivers, KRW on solid tech prospects and ZAR due to reduced political and domestic uncertainties. In the commodity space, Gold breached USD 2,500/oz in August, but although our year-end forecast is well below current spot, we maintain a neutral stance, in line with our view on USD. Oil prices may also trade sideways, despite potential for volatility related to geopolitics.

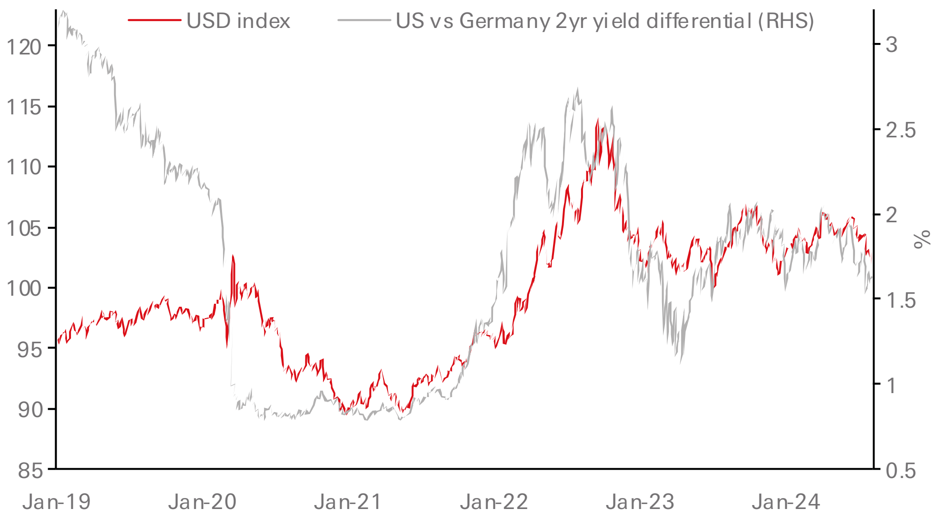
With the Fed likely to cut rates from September onwards, carry trades involving buying USD have been losing steam although other central banks may also cut rates along with the Fed. As USD momentum fades and US yields drop, there is room for other currencies to perform better than previously. For instance, JPY benefited from an unwinding of carry trade over the summer, and this may continue given that the BoJ's mildly hawkish stance contrasts with the Fed's expected policy easing. GBP may also show some resilience amid reduced political noise compared to the Eurozone, and a decent economic outlook.

While carry trades may have a less positive impact on high yield currencies than before, cyclical differentials may still have a strong impact on currencies, which is perhaps even more pronounced in EM. We think market participants may increasingly look at the strength of domestic factors and any change in the global risk appetite. Therefore, we still identify room for strong performance in INR, KRW and ZAR for now, as national drivers appear appealing, despite a mixed global risk environment.

When looking into the commodity space, it appears that a dovish cycle from the Fed usually comes with an overall negative performance in most commodities, including oil. With oil

Bullish
In EM: INR, KRW and ZAR
Neutral
In G-10: USD, GBP, JPY, CAD, AUD, and NZD In DM and EM: SGD, RMB, IDR, PHP, THB, BRL and MXN Commodities: Gold, Silver, and Oil
Bearish
In G10: EUR and CHF

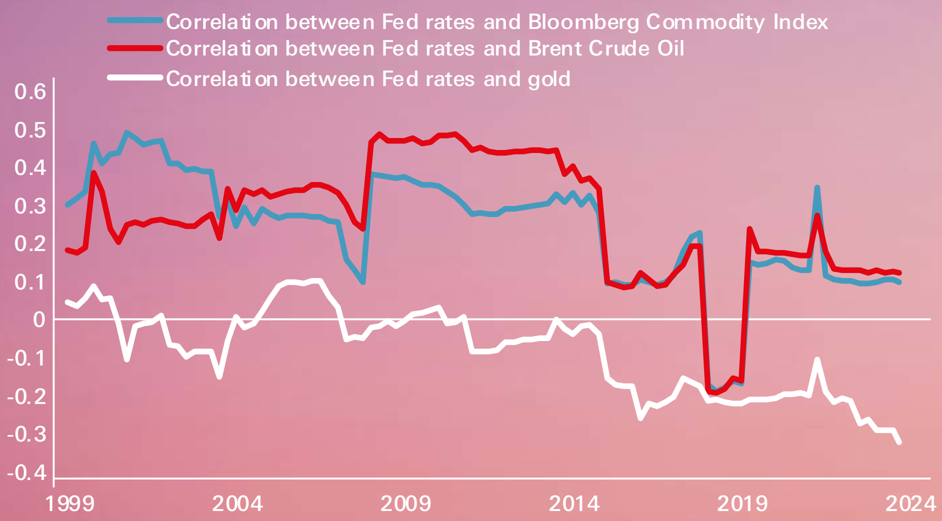
As the Fed is on a similar rate path as many other central banks, there is less support for USD



Source: Bloomberg, HSBC Global Private Banking as at 4th September 2024. Past performance is not a reliable indicator of future performance.

prices already on a downtrend since 2Q22, we could potentially see this move extending further in the coming months. In contrast, the gold price historically has a negative correlation to the Fed rate range: meaning that in a dovish cycle, the gold price performs well on average. This is mainly because the opportunity cost of holding gold reduces significantly and the demand for the yellow metal increases. On that basis, a dovish cycle should support the gold price. However, much of this may already be priced in. Oil prices are currently quite low compared to the previous months, whereas the gold price is particularly high compared to previous months. Hence, these valuations may limit the downward potential on oil prices, and conversely the upward pressure on gold, partly explaining our neutral stance on those commodities.

Rate cuts often help gold, but other commodities often struggle when a weak economy triggers the rate cuts



Source: Bloomberg, HSBC Global Private Banking as at 4th September 2024. Past performance is not a reliable indicator of future performance.

Hedge Funds

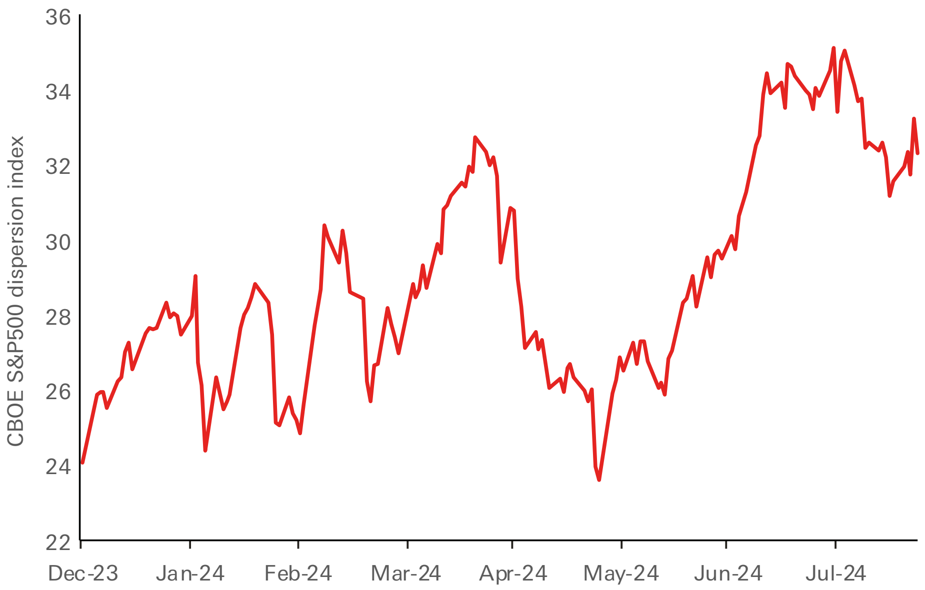
So far in 2024, we have witnessed considerable oscillation for both equity and fixed income indices. And as the year progresses, we expect to see continued high dispersion and continued volatility, which expands the opportunity set for hedge fund managers. Strategies that are able to dynamically deploy capital in anticipation or in response to market uncertainty emanating from events such as the US election, monetary policy decision making, as well as continued geopolitical unrest are particularly likely to benefit. As the opportunities on the short side become increasingly fruitful, an allocation to hedge funds can help capture alpha and diversify portfolios.

We remain positive on the opportunity set for discretionary macro managers. The continued evolution of US interest rate forecasts this year highlights the conundrum facing allocators. On the shorter end of the curve, investors are focusing on the timing and extent of the rate cuts, while on the longer end, some focus on the ever-increasing debt burden, global risk appetite and economic growth. Electoral uncertainty, with the possibility of escalating trade tariffs also has the potential to move markets. In summary, the major asset classes should throw up trading opportunities for this category of hedge funds.

Within CTAs, managers have recently given back performance driven due to unexpected and sharp market moves in August. Overall, long positioning in equities was accretive while fixed income returns were mixed as yields fluctuated. Within agriculture and energy, slower moving strategies have handled price fluctuations better than their faster system peers, whilst FX losses were particularly felt in emerging markets. Mindful of the difficulty of accurately predicting a prevalence of trend across asset classes, we retain a neutral outlook on CTAs' performance credentials going forward. For systematic equity market neutral strategies, we have a mildly overweight view due to the constructive market environment supporting the strategy.

We have adjusted our forecasts for one of the three equity long/short sub strategies. Whilst our outlook for low-net

Rising dispersion creates many relative value opportunities for hedge funds



Source: Bloomberg, HSBC Global Private Banking as at 4th September 2024. Past performance is not a reliable indicator of future performance.

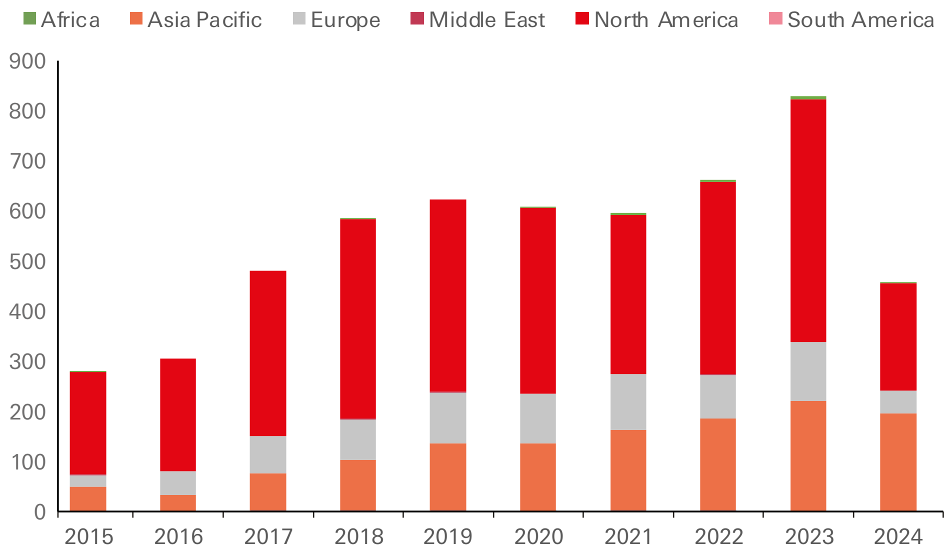
and Asia-focused strategies have remained the same (outright overweight and mildly overweight respectively), our view on variable net strategies has been upgraded to mildly overweight. Markets have edged forward but the earnings picture is supportive and there are potential positive catalysts. Growing gross exposures reflect manager confidence on the opportunity set with pair-wise correlations between stocks at or near historic lows (i.e. rising dispersion).

We maintain our outlook at neutral for event-driven strategies, where fundamental equity strategies have driven returns year to date. Managers tend to differentiate themselves from each other with either a focus on hard catalyst strategies or soft catalyst approaches. In the former bucket, merger arbitrage allocations have grown (albeit from historically low levels), while in the latter bucket activism continues to be an interesting sub-theme for certain managers. The number of activist campaigns has risen to record levels across the globe in H1 2024 on an annualised basis (see graph), with campaigns in Asia growing year on year.

Our neutral outlook for credit long/short strategies is maintained. From a pricing perspective, valuations still look rather unattractive although we witnessed some weakness in CCC-rated issues more recently. In contrast, carry continues to be attractive while credit quality remains mixed. The relative bright spot is dispersion which looks good both across and within sectors and is supportive for credit long/short managers. Within distressed, there has not been a meaningful increase in filings; more a continuation of elevated incidence debt exchanges which led us to maintain our neutral outlook. Finally, we continue to favour structured credit within the wider opportunity set of alternative credit strategies.

We maintain our positive view on the operating environment for Multi-Strat and Multi-PM managers. They continued to deliver positive performance as a group during the quarter led by equity-focused strategies.

Activist campaigns have continued to rise recently



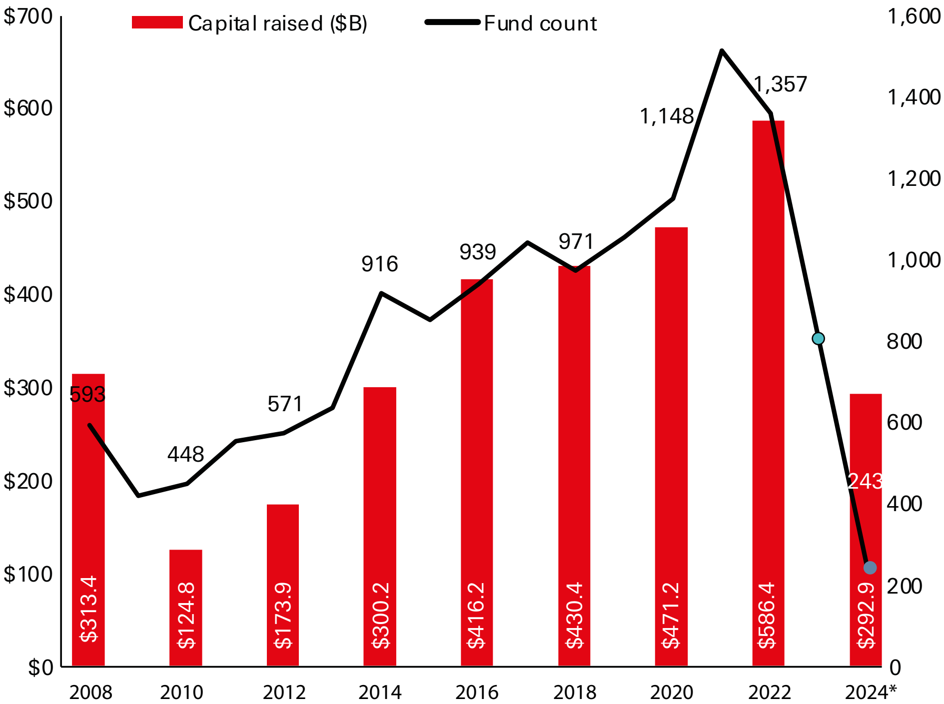
Source: Bloomberg, HSBC Global Private Banking as at 4th September 2024.

Private Markets

Resilience amid uncertainty

Despite recent episodes of public market volatility, the immediate impact on private markets has been limited. Should the US economy weaken further, lower interest rates could make leveraged buyouts more affordable, presenting opportunities to deploy capital at attractive valuations. The broader impact of any slowdown depends on its severity and duration, but as such a scenario would probably only develop gradually, it would allow private market investors to navigate the challenges with careful planning and strategic deployment. In private credit, we see attractive yields, especially compared to public markets; if a weakening economy were to cause financial stress, history has shown that private credit typically sees a much lower rate of defaults and higher recovery rates than in public markets.

Private equity fundraising



Source: Preqin, HSBC Global Private Banking as at 4th September 2024 (includes venture capital).

Private equity firms continue to pursue significant deals. Four of the largest private equity firms deployed $160bn in Q2 2024 alone, according to the regulatory filings (source: Financial Times). This robust activity suggests that the private equity market remains resilient and poised for a strong year-end, despite broader economic concerns.

Fundraising Challenges and Outlook

Over the past two years, the number of funds closed and the volume of capital raised have both declined. However, the headline figures can be misleading, as they often obscure key trends. One notable trend is the increasing concentration of capital within larger funds, especially in private equity, where this pattern is intensifying.

Private equity fundraising has produced mixed results in 2024. Stronger public equity markets may have alleviated some pressure on limited partners (LPs), enabling them to continue allocating to new funds. However, the number of funds closing has continued to fall. According to Preqin, 1,047 funds raised $466.7bn by early August, while 2,637 funds closed in all of 2023, raising £899.2bn. Despite this, large managers continue attracting capital, and total capital raised in 2024 may surpass 2023 levels, driven by a year-end surge.

Private Equity: Early Signs of Stabilisation and Recovery

Despite these challenges, there are early signs that private market activity may be stabilising. Anecdotal evidence suggests that general partners (GPs) are actively building sales pipelines to address investor concerns stemming from weaker distributions in recent years. Should we see a recovery in the exit market, fundraising conditions could improve, particularly benefiting new or emerging managers who have faced difficulties attracting capital in a tough market environment.

Earlier in 2024, we hinted at a potential recovery in private equity activity, and recent data support this view. Although deal activity remains below its 2021 peak, there are early indications that the decline may be ending. For example, US private equity deal activity in the first half of 2024 is tracking 12% ahead of 2023, making a meaningful improvement.

Pitchbook data suggests that as more information becomes available, deal counts and values could rise. If this trend persists, US deal activity might surpass pre-pandemic levels, indicating a robust recovery in the private equity space.

Exit Markets: Mixed but Improving

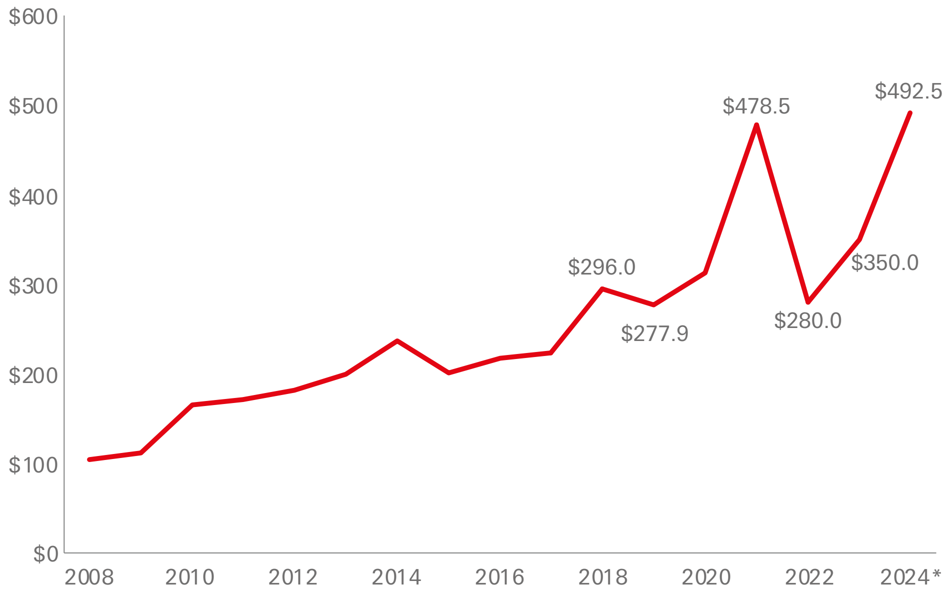
The private equity exit market presents mixed signals but is showing a positive trend overall. In the first half of 2024, the number of exits remained stable compared to the previous year, while the exit values increased by 15% year-on-year to $141.4bn Although this growth is not dramatic, it reflects a gradual improvement in the exit environment.

The median value of exits reached a record high of $492.5m, suggesting that GPs may be selectively selling their highest-quality assets while holding onto others to enhance their operating performance and valuations.

Optimism in the Face of Challenges

Private equity markets may not be as active as during their 2021 peak, but signs of recovery are encouraging. Increased deal activity is a positive indicator for the broader asset class, as it enables capital to be returned to investors and recycled into new commitments. While potential risks persist, we remain optimistic about the outlook for private equity. We believe a high-conviction approach – investing with GPs with proven value creation skills – combined with vintage diversification, positions investors to capitalise on emerging opportunities and manage risks effectively in this uncertain environment.

Median US private equity exit value ($m)



Source: Pitchbook, HSBC Global Private Banking as at 4th September 2024.

Real Estate

While the global commercial real estate market continues to face headwinds because of still-high interest rates, there are clear signs of stabilisation in some regions and sectors. Rate cuts will only be gradual, so property yield compression is expected to be limited; as a result, investors' emphasis is shifting to strategies that ensure stable and growing incomes. However, given the significant value correction, ongoing lack of liquidity and overall resilience of occupier fundamentals, there are selective opportunities for investors across the spectrum of risk.

Commercial real estate markets globally continue to experience downward pressure on values as yields rise to reflect still-elevated interest rates. Since early 2022, global capital values have declined by approximately 15% to June 2024. The most significant declines have been observed in Europe (-19%) and the United States (-18%), while Asia-Pacific has seen a modest overall decrease of just 2%. The smaller decline recorded in Asia-Pacific is primarily due to the differing monetary policy path in Japan.

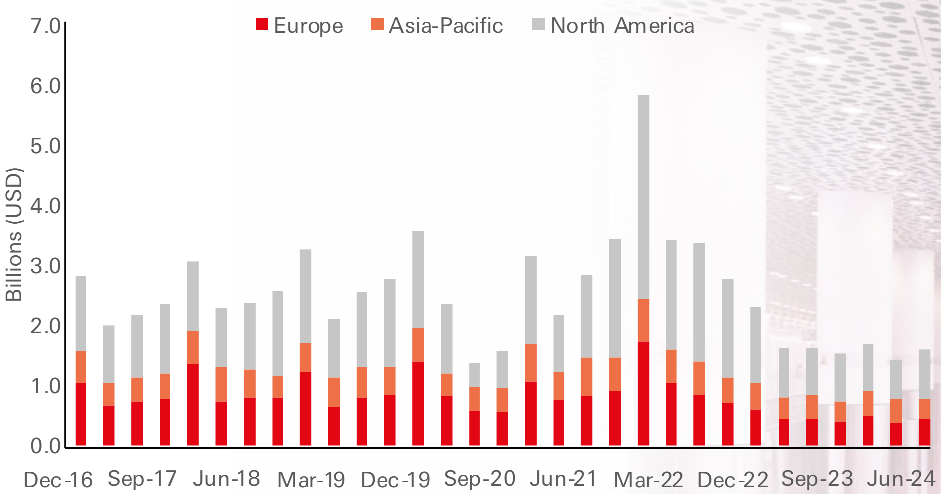
Where capital values have fallen furthest, transactional activity has started to recover. For instance, in the UK, where appraisers were quick to mark down building values, transaction volumes have risen by 8% year-on-year during the first half of 2024 according to Real Capital Analytics. Investor demand has been focussed on the living sectors, which includes multifamily and student housing, along with logistics and hotels.

Where value adjustments have been slower, the disparity between buyer and seller price expectations remains wide, leading to subdued investment volumes. For example, transactional activity in Asia-Pacific has lagged that of other regions so far in 2024, with the exception of. Australia, where values have fallen meaningfully.

Overall, domestic factors such as interest rates and the willingness of local appraisers to reduce values in the absence of transactional evidence have determined the scale of value declines. Meanwhile, for occupational fundamentals, the sector has been more important than geography, along with long-term demand drivers. Meanwhile, higher interest rates are contributing to a reduction in the amount of future supply, which should support occupier fundamentals in the coming years.

The office sector continues to face significant challenges from the ongoing shift toward remote work as well as subdued economic confidence. Whilst office vacancy rates have risen across all regions, gateway markets in Europe and Asia have been relatively more resilient compared with the US, particularly West Coast markets. A widespread trend across office markets is the growing competition for best-in-class space, with very low prime office vacancy rates

Global investment volumes are down as buyer and seller price expectations are often still different



Source: Real Capital Analysis, HSBC Global Private Banking as at 4th September 2024.

supporting prime office rents reaching record levels, even as the broader market stagnates.

As with offices, the retail sector is experiencing a bifurcation in tenant demand between the best quality assets and the wider market. Catchment dominant schemes across all formats including retail parks, shopping centres, and high streets are attracting strong tenant interest as retailers concentrate on the most profitable locations. With rents having rebased over recent years (starting before the pandemic), occupancy costs are at sustainable levels, which is allowing rental growth to resume, which should in turn drive returns in the sector.

The logistics sector, which saw some softening in fundamentals in late 2023 and early 2024 due to a shifting focus to operationalising leased assets, has shown signs of recovery in Q2 2024 as a number of major occupiers, including Amazon, have resumed leasing new space. Long-term demand drivers including e-commerce and nearshoring remain robust. Whilst market rents have stabilised, or even declined in some regions, such as Southern California, they remain significantly higher than in-place rents, which should continue to support income growth.

The living sector, encompassing multifamily apartments, student housing, and single-family rentals, remains broadly attractive. A widespread lack of new development, combined with recovering urbanisation trends post-pandemic, has bolstered demand. Additionally, high interest rates have made renting relatively more affordable than buying in most major global cities, further supporting the sector.

Several non-traditional sectors also have long-term leasing tailwinds and healthy rental and return prospects. For example, the ageing of populations across developed economies is underpinning strong long-term demand for senior housing assets. Meanwhile, the ongoing digitisation of many facets of everyday life as well as the emergence of AI is driving enormous leasing demand for data centres.

The next real estate cycle is likely to be less influenced by the impact of falling property yields on values and more driven by the ability to grow income. For core strategies this means focussing on stable, income-generating assets in resilient sectors like multifamily housing and logistics. Moreover, given the sharp value declines and pockets of distress, particularly for office assets, value-added and opportunistic approaches are increasingly attractive (albeit coupled with higher risk as well). By acquiring assets at steep discounts, and repositioning them with targeted asset management strategies, investors can potentially capture higher rents and returns.

HSBC and Sustainability

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

Risk Disclosures

Risks of investment in fixed income

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

Credit risk
Investor is subject to the credit risk of the issuer. Investor is also sub-ject 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 invest-ment 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 spe-cial 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) de-fault 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 in-cur reinvestment and subordination risks. Investors may lose all their invested principal in certain circumstances. Interest pay-ments 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 con-vertible and bail-in debentures are hybrid debt-equity instruments that may be written off or converted to common stock on the oc-currence of a trigger event. Contingent convertible debentures re-fer to debentures that contain a clause requiring them to be writ-ten 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 mecha-nisms (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 mech-anisms (i.e. statutory bail-in) whereby a national resolution au-thority writes down or converts debentures under specified con-ditions 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 princi-pal.

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 sched-ule 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, liquidi-ty 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 invest-ments 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 estab-lished 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 set-tlement periods in so far as securities transactions and (h) less strin-gent 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 appli-cable 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 de-grees. 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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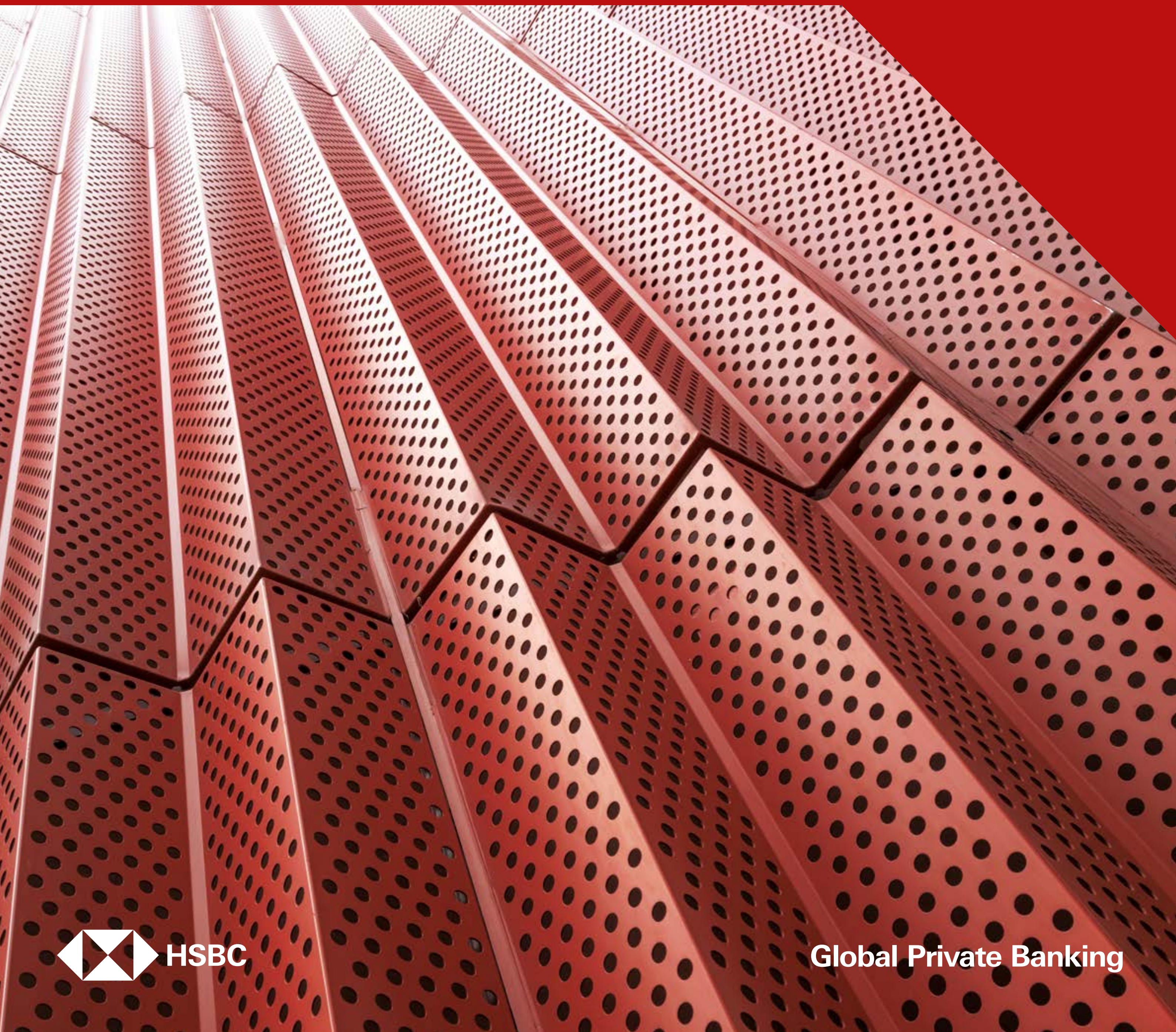

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