Investment Outlook

Q2 2022

Resilience Redefined

HSBC

Global Private Banking

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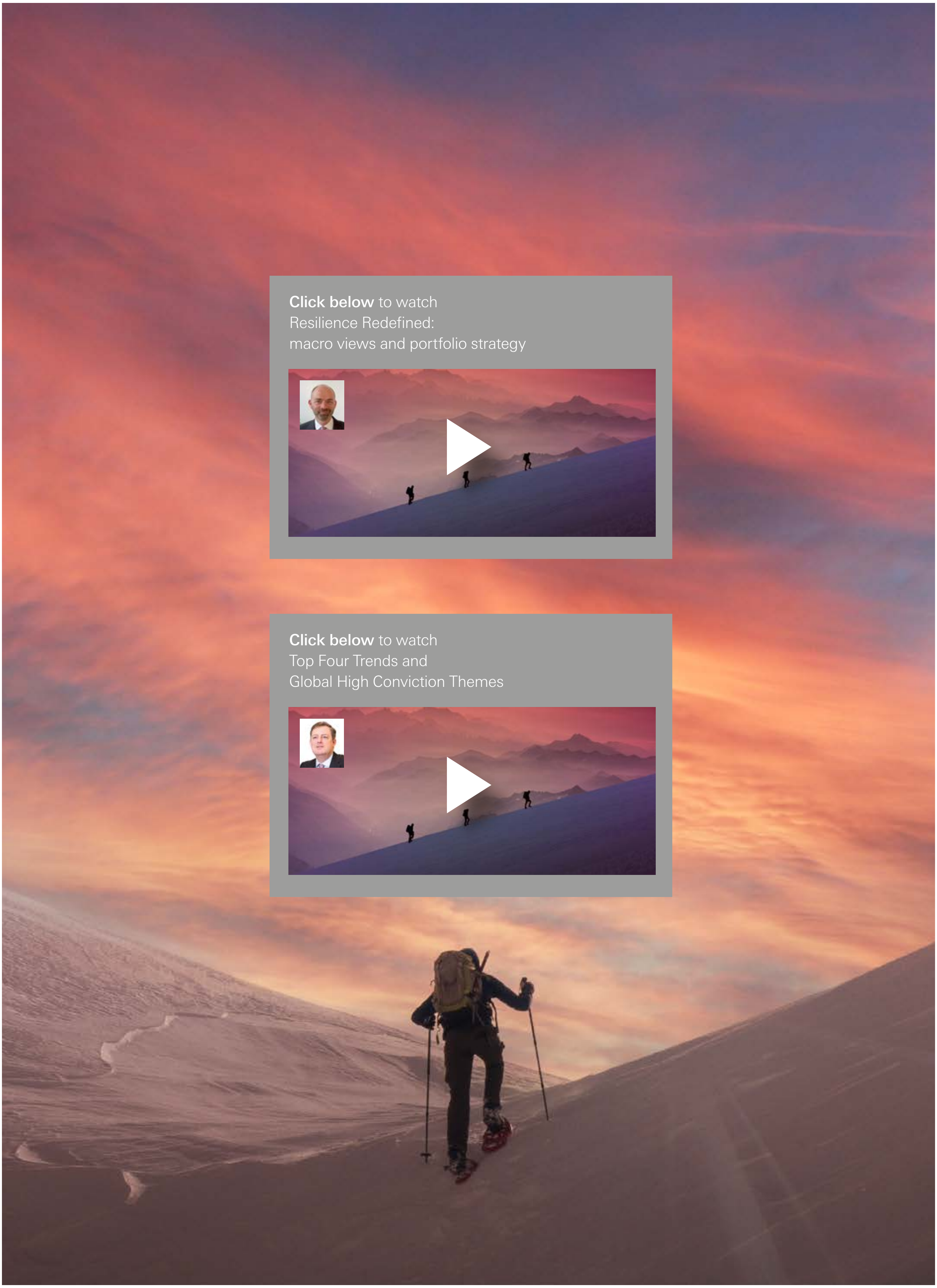


Click below to watch
Resilience Redefined:
macro views and portfolio strategy

Click below to watch
Top Four Trends and
Global High Conviction Themes

Welcome

Dear client

Amid increased uncertainty, investors have been looking for more resilience, and we have redefined the concept to fit the current circumstances. A typical first step is to go closer to benchmark as long as visibility is low. We have done the same, tactically reducing our equity allocation to neutral and moving our sector positioning from slightly cyclical to balanced, while also maintaining our balance between growth and value stocks.

But building resilience goes beyond this, and our 3x3 framework focuses on quality, income and diversification. Quality starts with picking companies that have a strong balance sheet and the margin power to generate strong earnings, even as input costs rise and growth slows somewhat. Earnings delivery will remain a crucial driver of equity markets in 2022, and so far, the earnings season has shown that there are plenty of companies that can match or beat expectations. Companies that are aligned with our High Conviction themes and that are paying close attention to ESG-related opportunities and risks should also be better positioned to deliver sustained earnings growth in the medium term.

The second ingredient in our 3x3 strategy is income, because it tends to be more stable than capital appreciation, and can help dampen portfolio volatility. Of course, we find it in fixed income, where we are overweight on short dated high yield and EM hard currency corporate bonds, and have tactically also added some better rated investment grade bonds. Dividend stocks can add to the search for income, and the spike in volatility provides an opportunity to generate income while offering some degree of protection.

The final element of the 3x3 strategy is diversification, which is a core component of our investment philosophy, but which we have further enhanced. It all starts with our strategic asset allocation across asset classes, including alternatives. Hedge funds are currently our largest overweight, due to their non-directional nature and ability to take advantage of volatility. We are also diversifying our sector and style exposure and avoid overly concentrated single-name risk.

Amid the tragic events in Ukraine, historically high inflation levels and headwinds to growth, it is natural that volatility has spiked and stock markets have corrected. But implied volatility does not tend to stay high for very long as buyers of puts incur a daily cost. Investor sentiment recently fell to the most pessimistic since the start of the COVID pandemic, with markets pricing in a good chance of a stagflation scenario, which we think is exaggerated.

We do not expect to see a recession scenario (two quarters of negative growth), as the reopening boosts consumption, inventories are being rebuilt and infrastructure spending (including for the energy transition) also helps extend the cycle. Clearly, the Eurozone is more exposed to the conflict and the risk around energy supply than other regions, and we are therefore underweight on Eurozone stocks while maintaining a mild overweight in the US and Asia.

Inflation however will remain an issue at least throughout 2022, in part because of the recent further increases in commodities. Even if commodities stop rising from here, or even drop a little, the past price increases will continue to feed through into CPI. Commodity-related currencies should be well supported, and we have upgraded Canadian and Brazilian stocks for the same reason. Central banks will continue with the rate hikes they have been signalling, which means that USD will maintain some strength vs EUR, and this calls for short duration positions. But we do not think that the tightening process will endanger the economic cycle or trigger a substantial further fall in equity markets.

Starting from the lower current valuations and pessimistic consensus views, our assumption that the economic cycle continues suggests upside for riskier assets for the remainder of 2022. That's why we remain neutral rather than underweight on equities. But of course, the timing of the bounce is hard to predict, so we invest in resilient portfolios to weather the short-term volatility we expect to see, while also capturing the longer term upside. Within such resilient portfolios, there are plenty of relative value opportunities and preferences we can express to try to outperform the benchmark. We believe that our 3x3 strategy, with a selective and active management is the best approach in the current environment.

Willem Sels,
Global Chief Investment Officer
23 March 2022

Our portfolio strategy

We remain invested while further enhancing resilience, through our 3x3 strategy which focuses on quality, income and diversification. The aim is, on the one hand, to weather short-term volatility and the unknown impact of Ukraine-based conflict. But at the same time, we do not exit the market because volatility spikes are typically temporary and the economic cycle is still healthy, which should allow markets to trough and rebound in coming months.

Fixed income
Overweight: Global Investment Grade and High Yield, EM Hard Currency corporate bonds
Underweight: Developed market sovereign bonds

Equities
Overweight: USA, Canada, EM Asia
Underweight: Eurozone, EM EMEA

Alternatives
Overweight: Hedge Funds

Macro view: a big external shock to a global economy in reopening mode

Since we wrote our 2022 Investment Outlook in late 2021, the world has further progressed on three key economic aspects that we had identified (see table). The global economy has continued to reopen in most countries, providing a tailwind for market sentiment. But as inflation has risen more quickly than expected, central banks have also sped up their policy transition plans: the Fed executed its first rate hike in mid-March, and the Bank of England hiked for the third time (Asia's central banks generally do not need to hike as much as the Fed as inflation is less of a problem there). Rising rate expectations in the west have been a clear headwind, and in the tug-of-war between healthy profits and rising rates, markets have mostly struggled because of the challenge posed by the rates side. Investors have been busy adjusting positions between sectors and different styles, with important economic data points and central bank meetings leading to a lot of flip-flopping of sentiment.

In our 2022 outlook, we did not account for a major conflict, which has come as a big external shock. The conflict in Ukraine has not only created human suffering, but also impacts macro-economic variables and investors' risk appetite. From an economic perspective, Russia is not a major export destination for most countries: exports to Russia account for less than 1% of most EU nations' GDP. What matters more are the energy imports. Markets cannot predict whether there will be any interruptions to the supply of oil or gas to the EU, but they have already priced in some of that risk, leading energy prices to spike sharply. The magnitude of the moves is due to the low crude oil inventories, the low spare capacity within OPEC and the dependence of Europe on Russia's natural gas – issues which cannot be resolved easily.

While many economists had hoped that headline inflation could start to fall in March or April, the jump in energy, metals and food prices, and potential new supply chain disruptions have now delayed that timing, with the likelihood that inflation rises even further than previously expected, peaks later, and falls less sharply after reaching its peak. Consumers will therefore see their real disposable incomes take a hit, and curtail spending. The conflict will also hit consumer and business sentiment, lowering consumption growth and investment spending.

How do we adapt to the new macro-economic outlook?

Economists will downgrade growth figures, especially for the Eurozone, and this slower economic momentum has led us to move our sector exposure from mildly cyclical to a neutral stance. The momentum of earnings growth was already slowing somewhat earlier this year, and we think analysts may adopt a wait-and-see attitude for now. We have therefore brought our equity allocation to neutral and focus on quality companies that can continue to generate steady earnings in a more uncertain environment. Because of the inflation and supply chain concerns, we are overweight on Materials and Energy (and renewable energy through our Energy Transition theme) but have downgraded Consumer Discretionary, and remain underweight on Industrials. Quality stocks can protect their margins by passing on increased costs to their customers, and their solid balance sheets make them less sensitive to the tightening of financial conditions we are witnessing.

From a regional perspective, it is clear that EM Europe will be hardest hit by the conflict and the refugee crisis, and we have a zero allocation to the region currently. The Eurozone's proximity and the impact of the energy spike mean that we hold an underweight allocation to Eurozone stocks, and an underweight to the bonds of the Eurozone periphery. Although a recession cannot be completely ruled out, we do not consider it our core scenario within the next 12 months, as current economic momentum is strong and fiscal support is available. We also don't expect a financial crisis as Eurozone banks' exposure to Russia and Ukraine is generally low. That means that even in Europe, we do not get outright defensive.

By comparison, the US economic outlook looks much healthier, with good momentum and less direct impact. As oil producers, both the US and Canada are more shielded from any energy price increase, and drilling activity is already picking up. We maintain a mild overweight to US and Canadian stocks, and also to EM Asia, where we see good economic momentum – especially in ASEAN. Taking all regions together, we continue to believe that globally, we're still in the mid-cycle stage, and not at the end of it.

The interest rate outlook will continue to be an important driver of markets. While 6 more Fed hikes of 0.25% are now priced in by markets, the uncertainty of the conflict also makes the inflation outlook and therefore the rate outlook uncertain. Hence, we do not want to take a very directional view on rates, and add value-style stocks to portfolios that are typically growth-oriented, to achieve a balanced exposure. Financials could benefit from higher rates, while energy stocks directly benefit from the high energy prices that caused the problem in the first place. The US dollar should continue to be well supported, especially vs EUR, due to its rate differential and safe haven appeal.

What we said in our 2022 outlook	Our Q2 QIO view	How we have adapted our strategy
We're in the mid-cycle stage; growth will slow down somewhat	We're in the mid-cycle stage; growth is slowing but earnings are still resilient	• We stay invested • We have brought cyclicality to neutral
Inflation to peak in Q2 and fall in H2	Inflation should still peak in Q2 but downward slope will be less steep.	• Focus on quality stocks • Energy stocks and our Energy Transition theme should benefit
We expected Fed funds rate to rise by 1% by late 2023. The market priced in a rise of 1.25%.	We now expect the rate to rise by another 1.5% in 2022 and then by 0.75% in 2023. The conflict in Ukraine does not seem to be delaying the rate hike process.	• Balance growth vs value to dampen portfolio sensitivity to rates • Overweight financials
Geopolitics mentioned as tail risk and managed through diversification	A serious conflict is now a reality, but precise outlook is unclear. Grave human consequences and significant impact on European growth and global confidence.	• Unpredictability brings us closer to benchmark • Underweight Eurozone and EM EMEA stocks, neutral global equities
Markets to flip-flop between different growth and inflation scenarios due to uncertain inflation and growth data, and policy transition	Markets will continue to shift between different regimes.	• Hedge funds and alternatives to manage volatility • Introducing our 3x3 strategy

What would happen under a stagflation scenario?

As we outlined above, stagflation is not the economic scenario we are looking for, but markets have in recent months flirted with the idea. High volatility, flat yield curves, outperformance of TIPS vs Treasuries, strength of defensive sectors and value-style equities, and support for commodities, the USD and commodity currencies are all part of what we would expect to see under a hypothetical stagflation scenario (see next chapter for more detail). But with much already priced in, and our expectation that growth will remain resilient, and inflation will plateau in coming quarters, we think only a number of the above market moves will continue. We see upside in commodity currencies for example, but think it is best to balance cyclicals with defensives, and value vs growth. We acknowledge that some of the data will probably continue to cause markets to worry about the scenario, and sentiment may flip-flop around it from time to time. This is another reason why we focus on building resilient portfolios to weather the volatility.

Managing uncertainty: building resilient portfolios through our 3x3 strategy

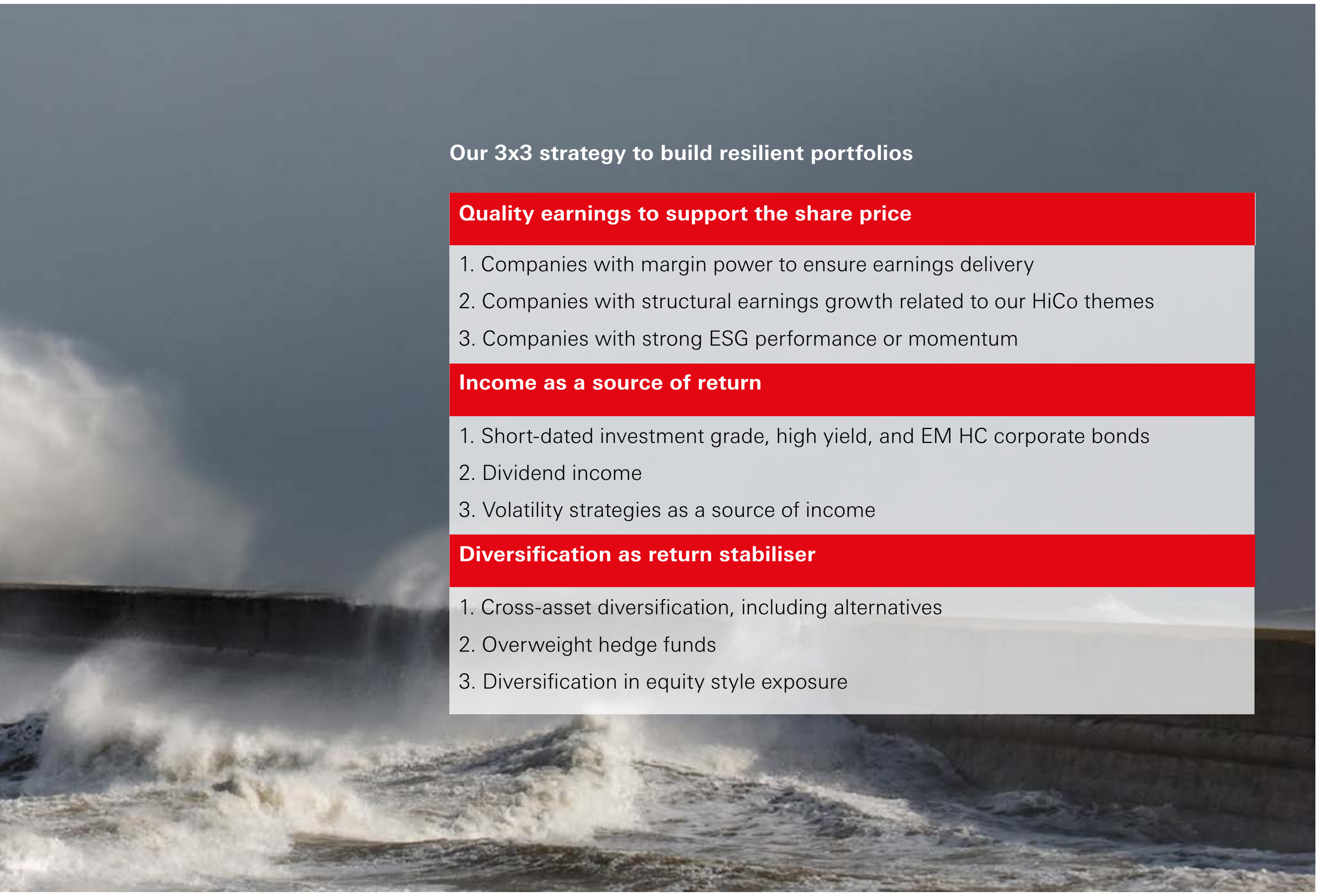
We continue to believe that companies' earnings outlook is benefiting from the economic reopening, and the headwind from higher rates should ease as much is already priced in. So the fundamental outlook for equity markets and credit is healthy, but it is clear that the conflict creates major uncertainty and scope for continued volatility. The result, in our view, is that we need to be invested, but in resilient portfolios that can weather volatility. We do this by introducing our 3x3 strategy.

First, we focus on 'quality', while taking some artistic freedom to redefine the concept. The typical definition of quality refers to companies that are in a strong position to deliver earnings, and the current environment, this means margin power and healthy balance sheets. We also think that companies that align closely to our structural High Conviction themes should continue to see strong structural demand for their products and services, even if the short-term economic outlook has become a bit more challenging. And lastly, it is clear that ESG aspects should be included to determine whether a company's business model is future-

proof, and therefore able to create a healthy earnings stream well into the future. Understandably, some ESG products that are underweight energy and overweight growth-style stocks vs benchmarks have recently underperformed, but from a medium term perspective we continue to think that ESG leaders are more future-proof, and the crisis has highlighted the need for strong governance, management of energy inputs in the supply chain etc.

The second aspect of our 3x3 strategy is the search for income. This is not just because most investors need income from their portfolios, but also because income is generally more stable than price appreciation, and can therefore lead to some stabilisation of returns. Of course, we can find income in the bond market, and we are currently overweight on investment grade, high yield and EM hard currency corporate bonds. Given the uncertain rate outlook, we keep duration short. We complement our search of income through dividend stocks, which are often less volatile than aggregate market indices and often are value-style stocks (helping to balance the value vs growth exposure). We have added a Dividend Income High Conviction theme to tap into this opportunity. Real estate can also be a valuable source of income especially when investors worry about slowing growth and high inflation. And lastly, we point out that the high implied volatility in the market can help investors generate more income too, while often also providing some level of protection.

Lastly, we continue to see diversification as key to portfolio resilience. Correlations between equities and bonds are higher than the historical average, but any asset class that is not perfectly correlated with stocks provides a degree of diversification. Therefore, we advocate broad-based exposure starting from our SAA, which also includes gold and other alternatives. Hedge funds currently form our biggest overweight, due to their non-directional nature, and because they can find opportunities in volatile times (including intra-day volatility). As you can see in our diagram with positioning preferences, the uncertainty and impossibility to time the market has brought us closer to neutral on many of the big risk axes. Instead, we think hedge funds and active managers will take relative exposure at the stock-specific, sector or regional level, on specific parts of the yield curve or between different currencies.



Our 3x3 strategy to build resilient portfolios

Quality earnings to support the share price
1. Companies with margin power to ensure earnings delivery
2. Companies with structural earnings growth related to our HiCo themes
3. Companies with strong ESG performance or momentum
Income as a source of return
1. Short-dated investment grade, high yield, and EM HC corporate bonds
2. Dividend income
3. Volatility strategies as a source of income
Diversification as return stabiliser
1. Cross-asset diversification, including alternatives
2. Overweight hedge funds
3. Diversification in equity style exposure

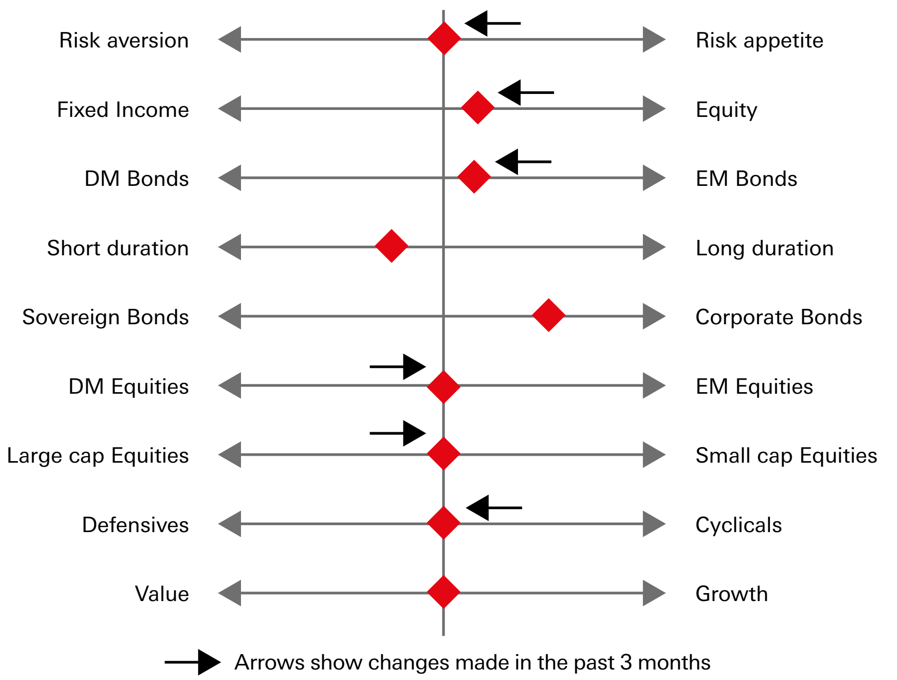
Where do we take the risk?

Our overall risk exposure is currently neutral, i.e. in line with the level of risk of our SAA. In an environment where the next step in the conflict and the direction of the next economic data point or central bank action are unpredictable, most portfolio managers would indeed go closer to benchmark, like us, as markets can flip flop in several directions and change their mind even intra-day. In fixed income, we are underweight but our stance is slightly risk-on, as we take measured credit risk through our overweight in IG, HY and EM hard currency corporate bonds. We have a clear preference for corporates over governments, and are underweight the European periphery bonds. We prefer to take some spread risk rather than excessive duration risk, as the yield curve is relatively flat and the interest rate outlook is still uncertain.

In equities, we have a neutral allocation but a slight risk-off stance. This is a result of our quality bias, our inclusion of volatility strategies that help provide some protection, and our underweight of the areas most affected by the conflict (underweight Eurozone, zero allocation to EM Europe). We continue to be overweight on the US, even if for now, we have reduced the size of the overweight position to bring global equities to neutral. In Asia, we currently prefer ASEAN countries due to their positive economic reopening outlook. We will be looking for an opportunity to add to Chinese equity exposure when there is more policy clarity and improvement in economic momentum.

For investors looking at opportunities following the fall in stock prices, we see the best opportunities in quality stocks or in our high conviction themes. The conflict has also highlighted the structural support behind our themes of the Energy Transition and Total Security.

Our 6 month positioning preferences and changes since our 2022 outlook



Our thoughts on the stagflation narrative

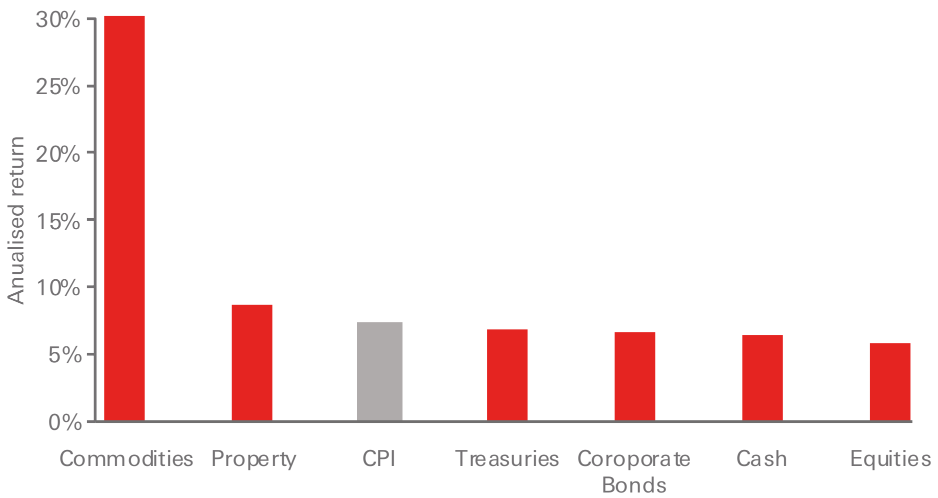
Market participants have been worried about the stagflation narrative, and some of the trading patterns in recent months reflect this concern. In this section, we analyse which asset classes, sectors, and strategies would perform well in a stagflationary environment. Our Strategic Asset Allocation (SAA) includes appropriate allocations to these assets, and this has helped reduce portfolio drawdowns thus far in 2022. We think the current concern with stagflation may not extend much further, and we note that monetary policy can trigger sharp reversals in market patterns.

Lessons from the original Stagflation in the 1970s

The word "stagflation" refers to a scenario of economic stagnation (reflected by high unemployment) coupled with high and accelerating inflation, and it was a hot topic during the 1970s. This decade was particularly challenging for central banks, because their macroeconomic framework at that time assumed that there was a manageable trade-off between inflation and unemployment. However, due to persistently loose monetary policy, inflation rates continued to escalate, which eventually led to an ugly combination of both high inflation and high unemployment.

The 1970s were also challenging for investors. During this decade, consumer prices rose at an annual rate of 7.4%. Treasuries, cash, and credit all underperformed CPI, in spite of the very high starting yields in excess of 7%. The S&P 500 price index rose by only 1.3% p.a, and although high dividends during this decade resulted in a total return of 5.6% per annum, this was still below the rate of inflation. In contrast, commodity prices surged, with oil prices climbing from 1.8$ to $34 per barrel, and gold prices rising from $38 to $476 per ounce during this decade. Residential real estate prices kept up well with broader inflation rates, returning 8.7% per annum. Long-term fixed rate mortgages at rates fixed in the 1960s allowed the baby boomers to acquire wealth, as rising inflation facilitated an effective transfer of wealth from creditors to debtors.

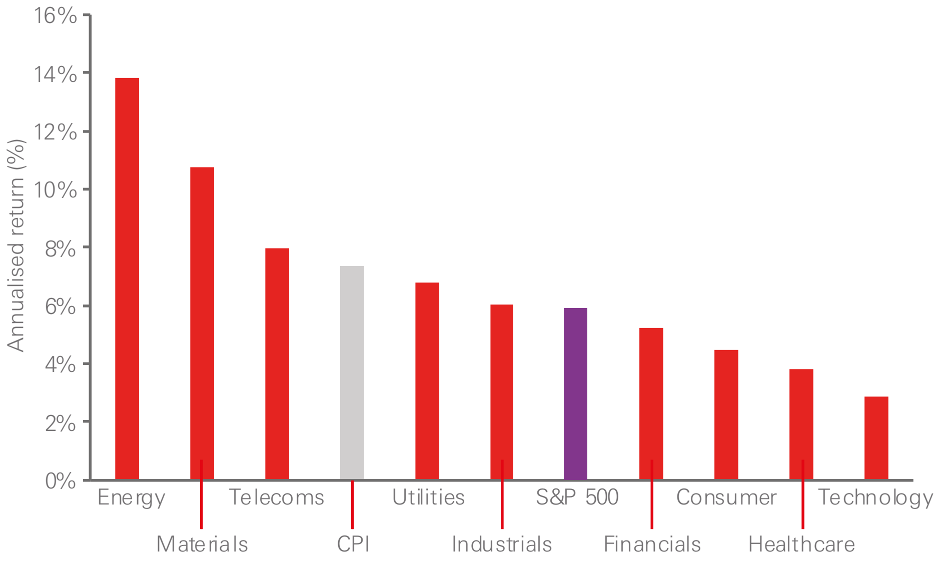
Most asset classes underperformed inflation in 1970s



Source: Bloomberg, University of Lausanne, Yale University, as at 22 March 2022.

While uncontrollable inflation was generally disruptive for most businesses, a handful of sectors thrived in this environment. Energy and Materials experienced substantial top-line growth from rising prices of energy and metals. Utilities and Telecoms also saw their revenues growing with inflation due to inelastic demand for these essential services. In contrast, due to households' eroding purchasing power, sectors related to discretionary spending such as Technology, Healthcare and Consumer stocks, were the laggards during this decade.

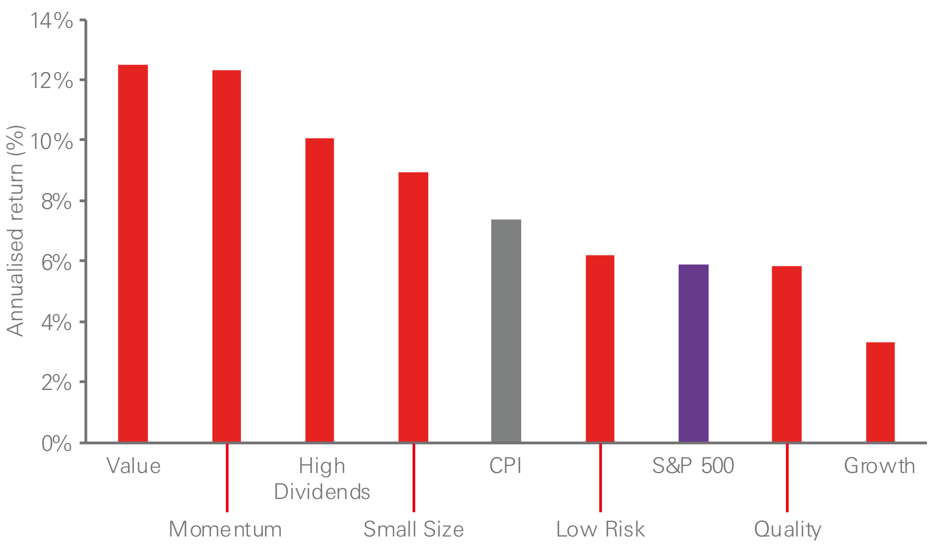
Only three sectors posted positive real returns during the 1970s



Source: HSBC Global Private Banking, Dartmouth University, as at 22 March 2022.

As regards equity styles, value and momentum strategies were dominant during this period. There was a marked rotation out of the "Nifty Fifty", a set of large growth stocks that had previously delivered an extended stretch of market-beating returns in spite of their high and rising valuations. During the painful re-adjustment in the 1970s, growth and quality were the worst performing stock selection strategies.

Style rotation from growth into value took place during the 1970s



Source: HSBC Global Private Banking, Dartmouth University, as at 22 March 2022.

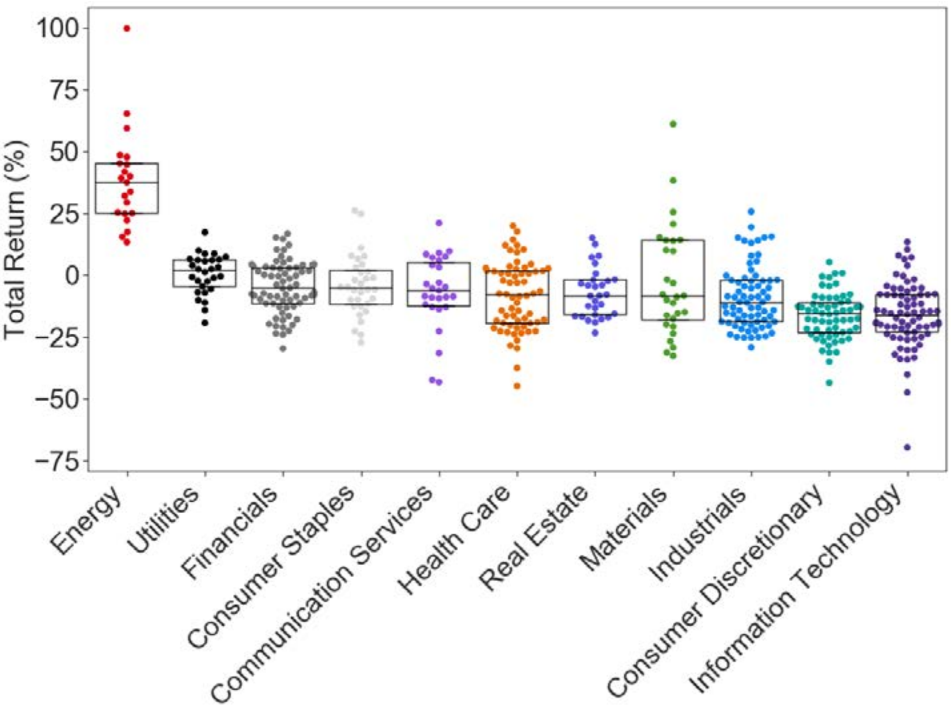
What would 21st century stagflation mean for financial markets?

Due to the high and rising inflation prints, as well as continued supply-chain disruptions across the globe, markets have been rapidly pricing an inflationary scenario thus far in 2022. And cross-asset performance has tracked a pecking order similar to that as in the 1970s, giving us a preview of what we could be expecting in an extended stagflationary scenario. At the time of writing, commodity prices are up more than +30% year-to-date, Treasuries are down -3.8%, credit is down -7.9%, and S&P 500 is down more than -10%.

Sector patterns seen this year are also mirroring the stagflationary decade, but it is important note that the sector composition of the S&P 500 has evolved since the 1970s. For example, the Telecom sector was similar to Utilities five decades ago, but Communications sector today is more similar to Technology following the addition of Facebook and Google in 2018.

Elsewhere, the Materials sector used to have a substantial exposure to Metals and Mining, but today only 3 out of 28 Materials names belong to this specific industry.

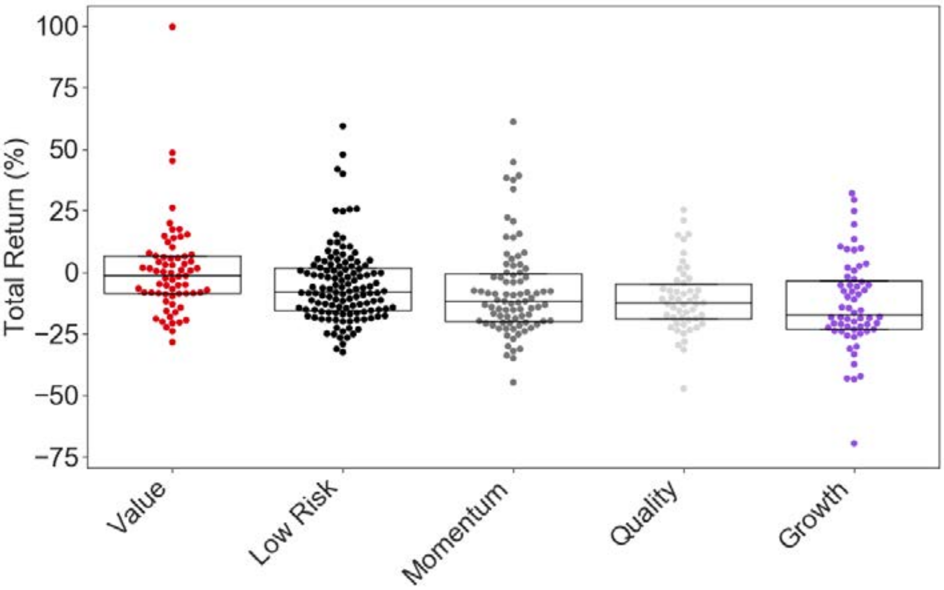
Sector rotation is humming an inflationary tune this year...



Source: Bloomberg, HSBC Global Private Banking, as at 22 March 2022. The chart shows year-to-date performance of stocks in the S&P 500 Index classified by sectors.

Style performance this year also broadly follows the pattern seen in the 1970, with growth and quality lagging behind other investment styles, and Value stocks dominating the scene.

... and so is style rotation



Source: Bloomberg, HSBC Global Private Banking, as at 22 March 2022. The chart shows year-to-date performance of stocks in the S&P 500 Index classified by style exposures.

And what can we expect from asset classes and styles that did not exist back in 1970s? First, inflation linked bonds such as TIPS were first introduced in the 1990s, but as they are priced on the basis of expected inflation rates, we know that they can benefit from a sequence of positive inflation surprises. Presently, 10 year TIPS are pricing a high but still anchored inflation rate of 2.94%, which would allow them to deliver decent returns in a high-inflation scenario. Second, commodity related currencies can perform very well during periods of rising inflation. Local Currency Emerging Market debt had positive year-to-date returns in February when inflation was still the dominating theme, up until the point when geopolitical conflicts became the more relevant near-term narrative. Third, high yield bonds could perform better than other parts of the fixed income market due to relatively high coupons, energy exposure and low duration.

Outlook

Crafting a "stagflation" portfolio is relatively easy to do, but successfully positioning for this scenario ahead of time is much more difficult. The rotation we've seen so far this year suggests much may already be in the price, and the recent commodity prices surge has overshot our medium term forecasts. Supply chain issues should ultimately be resolved, though it is possible that wage inflation remains structurally higher than before due to change of patterns in the labour market. Still, it is our preference to fade the stagflation concern at this point in time.

Stagflation is a rare phenomenon, and one that policymakers are able to prevent, with reference to lessons from the 1970s. Various central banks have already surprised the markets with their hawkish tone in recent months, and the Fed could, if needed, withdraw their accommodative measures more quickly than is currently anticipated. Given how quickly the markets are pricing in a stagflationary scenario, surprises on the monetary policy front could reverse some of these moves quite rapidly too.

While we generally consider the likelihood of a stagflation to be low, we recognise that it is certainly not zero. This is why our strategic asset allocation (SAA) includes a meaningful allocation to asset classes and strategies that should perform well in these scenarios. The key allocations in this context are commodities and direct real estate. Emerging market and commodity currencies also have a meaningful presence in our SAA, as well as hedge funds strategies (market neutral strategies such as value and momentum). Trend following strategies (CTA) are also well positioned to benefit from strong trends in commodity prices, and they have posted strong returns this year.

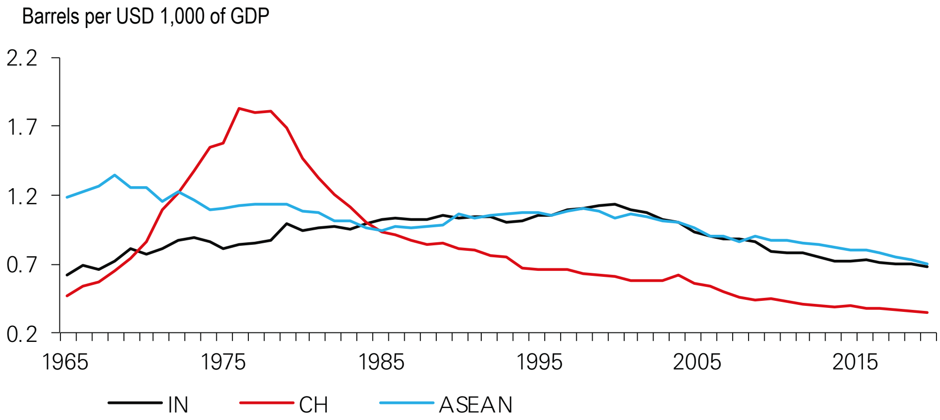
Remaking Asia's Future

Asia has been facing multiple headwinds of geopolitical conflict, energy supply shock, Omicron outbreaks and supply chain disruptions. But they are also triggering policy responses and accelerate structural transformation which are mitigating stagflation risk. While Asia is a net oil importing region, historically the Asian economies have proven resilient to energy supply shocks. Our economists estimate oil prices for the median Asian economy would have to average USD122 per barrel over the coming year to equal the historical peak 'oil cost burden'. Thanks to Asia's structural transition towards higher-end manufacturing and a more digitalised, consumption-led and low-carbon economy, the region's oil intensity of GDP has steadily declined over the past two decades. We discuss four investment themes which can help look through short term uncertainty and volatility, and benefit from structural growth.

Our four high conviction themes

1. Asia's Consumer Revival
2. Asian Credit Opportunities
3. China's Green Revolution
4. Next Generation Asian Tech Leaders

Declining oil intensity of GDP of major Asian economies



Note: Oil intensity of GDP is measured by the number of barrels needed to produce USD1,000 of GDP.
Source: BP, World Bank, IMF, HSBC Global Private Banking as at 22 March 2022.

The current oil supply shock will likely intensify Asian governments' strategic focus on energy security and energy transition. Being the world's largest carbon emitting region, accounting for 52% of global emissions in 2020, Asia stands out as a global leader in energy transition and clean energy investments. China and India have pledged to achieve net zero by 2060 and 2050, respectively, and they have committed to invest massively in green transformation plans to redirect their power mix and industrial processes away from coal towards renewable energy and electrification. According to the International Energy Agency, Asia alone will account for 64% of global renewable capacity additions between 2019 and 2040. Asia's technology upgrade, digitalisation and low-carbon transition have improved efficiency of energy consumption and reduced its vulnerability to global oil shock.

Looking ahead, Asian economies should stay resilient to stagflation risk as they are reopening, seeing solid domestic demand, have competitive supply chains and growth supportive policies. China's annual National People's Congress (NPC), which concluded on 11 March, set an ambitious 2022 GDP growth target of 5.5% and endorsed a multipronged policy easing package with combined fiscal stimulus of 4.6% of GDP to boost domestic growth. The PBoC is the only central bank among the major economies that has shifted to a monetary easing stance, as inflation is much less of an issue in China than in the west. To counter China's headwinds from new Omicron outbreaks and the property sector slowdown, we believe the PBoC will cut the key policy rates (one-year Medium-term Lending Facility Rate and Loan Prime Rate) by 10bps on top of two more broad-based 50bp Reserve Requirement Ratio (RRR) rate cuts in H1 2022.

The PBoC will also focus on green and SME relending facilities to guide bank credit towards strategically important sectors which are pivotal to technological self-sufficiency, manufacturing upgrading, green transformation and SME innovation. The PBoC is also expected to provide liquidity support through open market operations, enlarged MLF support and a low-interest green liquidity facility. We see a potential RMB2trn (around 2% of GDP) technology and green stimulus package to be rolled out by Beijing in 2022 to accelerate corporate investment in industrial upgrading and the net zero transition.

We think that more decisive fiscal and monetary easing will support growth stabilisation from Q2 2022 onwards, supporting China GDP to grow 5.6% in 2022.

On top of China's policy easing, the gradual border reopening in the ASEAN region will be key in supporting Asia's GDP growth towards our 5.3% estimate. A total of 11 Asia Pacific economies have hit the 70%-plus two-dose vaccination rate and 12 economies in the region have achieved a booster rate of 30% or more. This is allowing ASEAN countries to accelerate their economic reopening plan, with Singapore, Malaysia and Indonesia announcing more border relaxations. ASEAN economies are poised to deliver growth acceleration in 2022 on the back of consumption recovery, tourism rebound and infrastructure boom. On the trade front, the ASEAN economies benefit from deeper intra-regional trade relations and economic integration expected from the Regional Comprehensive Economic Partnership (RCEP).

Asia's Consumer Revival

With rising vaccination rates, new breakthroughs in COVID-19 treatment and deployment of new oral anti-virus drugs, more Asian countries are shifting to the "Living with COVID" strategy and accelerate border reopening. As the first in Asia to reopen its economy, Singapore leads regional peers with its 92% full vaccination rate and 70% of its total population have received booster shots, supporting further extension of its Vaccinated Travel Lanes to 27 countries. India has established bilateral travel bubbles with over 30 markets and is set to resume international flights from 27 March after infection cases have dropped to pre-Omicron lows. Since 1 February, Thailand has lifted mandatory hotel quarantine requirement for foreign visitors, switching to the "Test & Go" system. Following its ASEAN peers, the Philippines has already cut pandemic control restrictions to very low levels.

In our view, the accelerating border reopening and resumption of international travel should bode well for the recovery of consumer spending in Asia, especially in Southeast Asia. Under our theme of Asia's Consumer Revival, we see attractive opportunities in the domestic leaders in the travel, hospitality, consumption, healthcare and ecommerce sectors.

In the longer term, Asia should contribute 50% of global consumption growth between 2020-2030 given China's pursuit of "common prosperity" and more high-paid jobs being created in Southeast Asia. China's pursuit of "common prosperity" should lead to accelerated urbanisation, rising income levels and expansion of the middle class consumer. At the recent China NPC, policymakers said supply of affordable rental homes will continue to increase, supporting private consumption. The 2022 Government Work Report has proposed new initiatives to support personal income growth and improve income distribution. The government will also offer incentives for purchases of green and smart home appliances, which should bode well for demand of mass consumption, consumption upgrade, digital and green consumption. The rising trend towards a preference for local brands should provide tailwinds for strong domestic consumer brands.

Next Generation Asian Tech Leaders

With elevated inflation pressures from rising raw material and energy costs, the benefits from migrating upward in the technology and innovation space should become even more apparent for Asia. Technology leaders in Asia, especially in mainland China, Japan, South Korea, Taiwan and Singapore, have long been among the world leaders in semiconductor, 5G technology and application, artificial intelligence, big data, fintech, automation and electronic manufacturing services (EMS). Asian economies, as a pack, should continue to broaden and deepen their competitive edge in these areas.

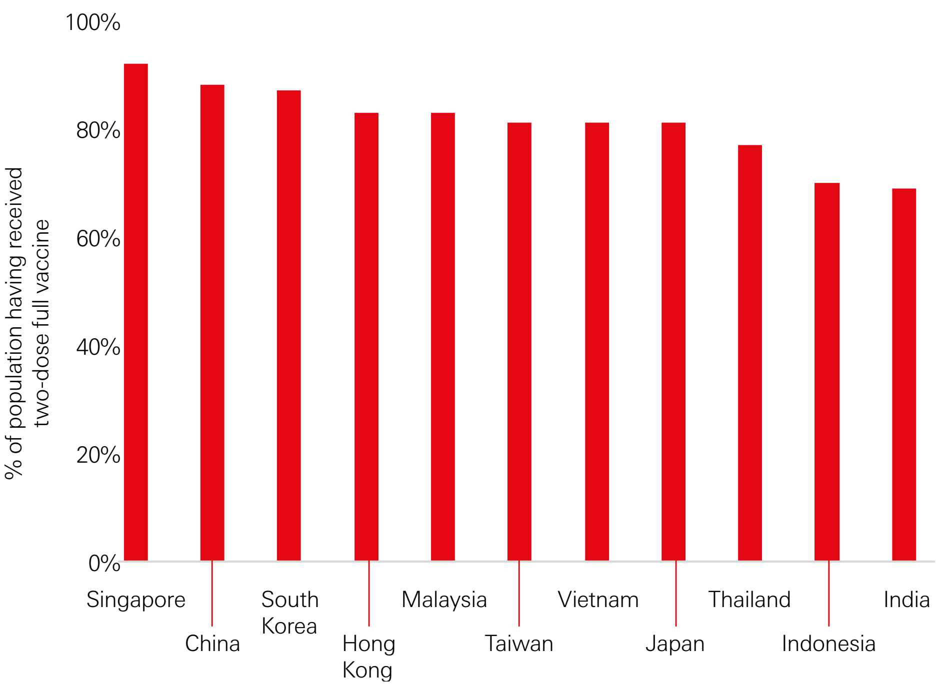
At the China NPC, the government highlighted the strategic importance of enterprise innovation especially related to advanced and core technology R&D and intellectual property rights. On the back of intensifying strategic competition between the US and China in the technology space, we expect Beijing to ramp up investments in advanced technology, smart manufacturing and digital infrastructure to strengthen its technology self-sufficiency and security. China's massive investment in technology upgrade and the new wave of digital transformation will drive strong demand growth of semiconductor, electronics products, advanced machinery and automation equipment manufactured by the domestic and regional technology leaders. We see attractive opportunities in the Asian technology leaders in the Metaverse supply chain, innovative industries, high-tech hardware industries, and providers of critical technologies.

Under the common trade rules of the RCEP, signed by 10 Asian countries and effective on 1 January 2022, the optimisation of Asian supply chains will be further enhanced. In Southeast Asia, the digital economy should continue to expand. Malaysia is already a key advanced packaging hub for semiconductors and should see more investments for advanced packing and backend equipment manufacturing as a result of supply chain diversification. Thailand is a hub for printed circuit boards and integrated circuit exports while Singapore is a leader among global EMS providers.

China's Green Revolution

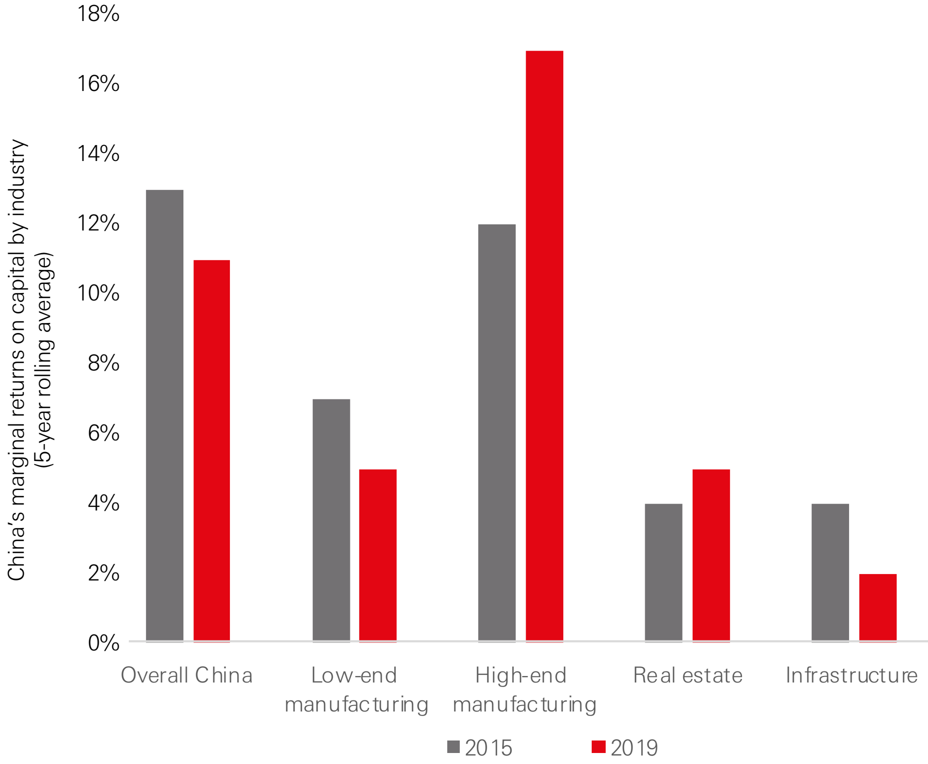
In China's 2022 Government Work Report, the government attached a strong focus on climate solutions and green initiatives, providing positive policy tailwinds for the renewable energy, EV supply chains and green technology sectors. The IEA estimates China will

Most Asian economies have achieved 70%+ vaccination rate



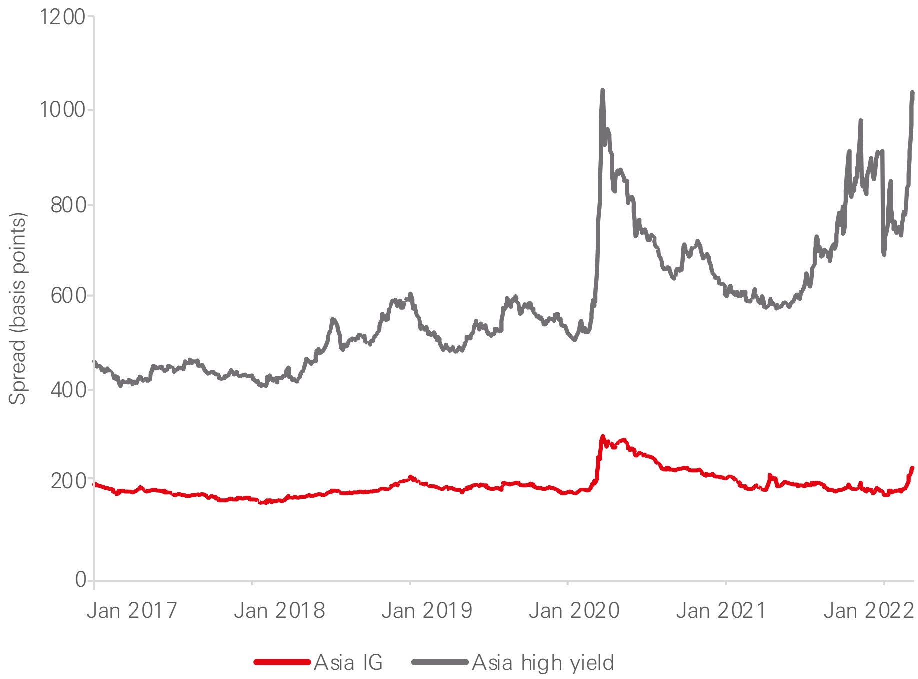
Source: Our World in Data, HSBC Global Private Banking as at 22 March 2022.

China's transition towards high-end manufacturing



Source: CEIC, HSBC Global Private Banking as at 22 March 2022.

Asian IG credit has stayed relatively resilient amid market volatility



Source: Bloomberg, HSBC Global Private Banking as at 22 March 2022. Past performance is not a reliable indicator of the future performance.

need to invest an average RMB5trn per annum from now until 2060 in clean energy and industrial upgrading to achieve carbon neutrality.

Notably, the ongoing global oil shock further reinforces China's strategic focus on energy security and the energy transition. The strategy of capping the growth in carbon emissions and hitting the peak of emissions by 2030 has been reiterated during the NPC. The new green initiatives include additional support for consumers in the purchases of new energy vehicles and green and smart home appliances in rural areas.

To promote energy transition away from coal and fossil fuel towards renewable energy, we expect China's solar energy installations will speed up further in the remaining years of the 14th Five-Year Plan (2021-2025). Solar installed capacity increased 14% y-o-y in 2021 to 307GW. We now expect the installed capacity to reach 400GW by end-2022 and 666GW by end-2025. For wind energy, we continue to expect the cumulative installations to rise to 557GW in 2025 from 282GW in 2020. The expansion in the industries that are in scope for carbon credits trading is another milestone in accelerating the usage of green electricity in 2022.

In view of the energy crunch last winter, we think China will strive to lower emissions from coal-fired power plants through new investment in technology upgrade rather than putting hard caps on coal usage in order to avoid disruptions to industrial production and economic growth. There will be more government incentives for investing in renewable energy. The PBoC has rolled out a new liquidity tool to offer low-cost re-lending to encourage bank lending to green projects with preferential rates. Thanks to strong government policy support and changing consumer preferences, the adoption of NEV (New Energy Vehicles) is picking up rapidly across the country under Beijing's appeal to step up electrification of the transportation sector. We project China's EV penetration rate to climb up rapidly to 31% in 2025e and 59% in 2030e, from 17% in 2021, driving strong growth for companies in the EV and NEV supply chains sectors.

Asian Credit Opportunities

Asian IG has so far remained a reasonable safe haven amid elevated geopolitical tension, with the year-to-date total returns of -4.7%, far better than the -13.8% of Asian high yield.

Pockets of strength were seen in banks, financial institutions (including local government financing vehicles in China) as well as shorter dated IG bonds. Looking ahead, China's ambitious GDP growth target of 5.5% for 2022 will underpin more accommodative monetary policies. The tax cuts and rebates for SMEs are also above our prior expectations, supporting their companies' flows and hence credit worthiness. Oil and gas issuers are expected to get tailwinds from elevated energy prices. We also like Asian financials as the financial institutions in the region are well capitalised.

We continue to favour Asian credit opportunities which offer an important source of yield pickup over DM bonds. Asian IG, which accounts for 80% of the overall Asian credit market, has credit spreads that are above those of DM IG issuers with same credit ratings. We manage China property contagion risks by increasing our focus on quality issuers in Asian IG and Chinese SOEs. We also search for carry opportunities from Indonesian hard currency bonds and Chinese local currency bonds.

Digital transformation

Twenty years does not seem a long time in the grand scheme of things, but our lives have been transformed in many small ways by digitalisation over this time. For example, when was the last time you visited a bank or a travel agent or paid using a cheque or bought a music CD? The transformation of consumer services and products is well underway with mobile devices and smartphones at their core. The corporate world however in many ways still appears to be at an early stage of its transformational journey, although this varies by sector. We will explore the opportunities this affords the investor, through our five high conviction themes.

Our five high conviction themes

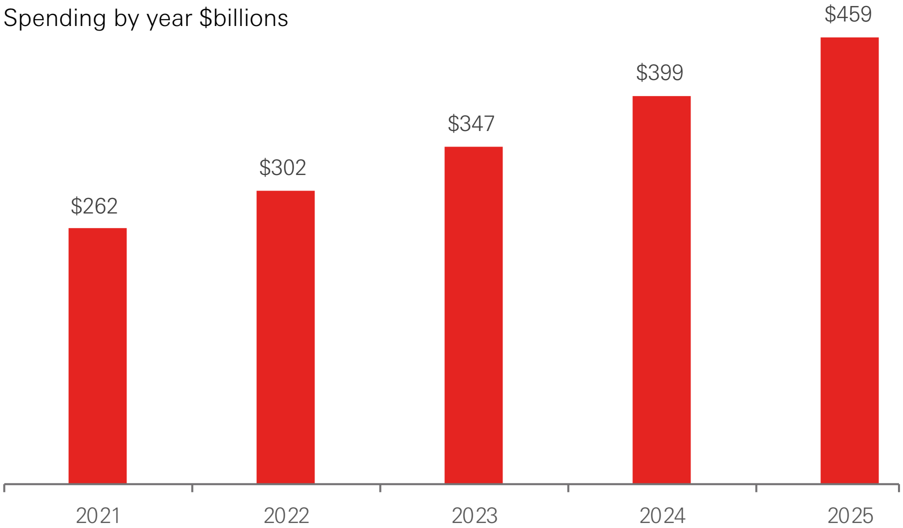
1. The Metaverse
2. Total Security
3. Smart Mobility
4. Automation and AI
5. Biotech, Genomics and Devices

The Metaverse

The metaverse (metaphysical universe) is a parallel virtual digital world that is connected to the real world economically. People access the metaverse using various devices including desktop computers, mobiles and gaming consoles. The experience is enhanced and more immersive using wearables such a VR (virtual reality) headsets. The technology and the medium is still in its infancy, but it is evolving quickly. A sign that the metaverse is gaining traction is that companies have started to invest in this digital medium to establish a presence. The economic opportunity for corporate and individuals may not be immediately obvious until you consider other businesses that went digital, for example the media industry. Companies offering streaming services potentially have a worldwide audience and do not need a physical presence in any of their markets, no video store or record emporium are required. A similar model can be applied to the metaverse for example where live theatre performances or concerts can be attended virtually at venues in the metaverse. Fans can purchase electronic tickets for their favourite performers at virtual ticket booth using cryptocurrency from their digital wallets. The performers can reach far wider audiences and benefit from a larger share of earnings. The benefits are real. Estimates vary widely on the amount spent on virtual goods from $30bn-$60bn last year, but even at the lower end of estimates the market is already sizeable.

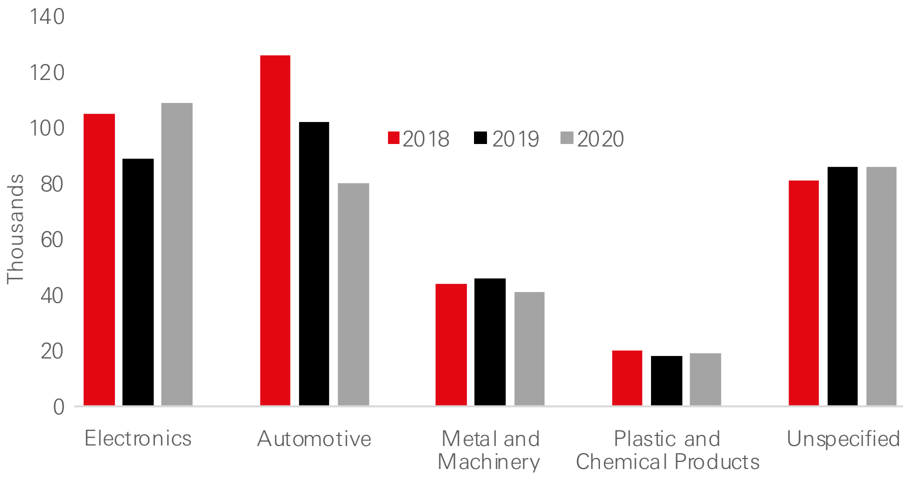
For the investor, there are multiple opportunities including the physical (semiconductors, VR/AR headsets, console and wearable manufacturers); related software companies (3D, digital infrastructure, gaming and blockchain developers); and related service companies.

Global cyber security spending.



Source: HSBC Global Private Banking as at 22 March 2022.

Global annual Installations of Industrial Robots by industry



Source: HSBC Global Private Banking as at 22 March 2022.
https://ifr.org/img/worldrobotics/Executive_Summary_WR_Industrial_Robots_2021.pdf.

Total Security

Making someone or something secure is a relative concept rather than an absolute reality as nothing is ever 100% safe. Often security focuses on objects and items, but it also relates to many aspects of our lives. We have seen over the last 24 months how fragile global supply chains are to changes in external factors including weather, pandemics and geopolitical crises.

Our Total Security theme focuses on a few strategic growth areas, including cybersecurity, defence, supply chains' integrity, soft and hard commodities. Cybersecurity very much features in many aspects of our lives, but we often just don't realise its presence or importance. Last year cybercrime cost the world economy over $6 trillion (source: Cybersecurity Ventures). This is a staggering amount of money and is expected to grow 10%-20% per annum. As the word digitalises, the potential targets for crime will only expand, and a large industry has evolved to protect assets and thwart hackers and malware.

Another important security-related topic is access to hard and soft commodities which cannot always be guaranteed. Soft commodities include wheat, rice, corn, soya beans, barley, coffee and sugar provide a high percentage of human daily calorific intake. Governments have long been aware of how quickly food shortages can risk widespread social unrest and many countries and regions therefore establish strategic food stocks. Countries including the USA and China also have strategic oil and gas and stock piles for security and economic reasons. Recently, the rapid electrification of many elements of the economy in response to climate change concerns is squeezing supplies of key metals such as lithium, copper, cobalt and nickel and may impede the attainment of carbon neutrality. In such circumstances, producers (miners, energy companies), equipment manufacturers (mining, exploration, production, agriculture) and suppliers (traders) are in a strong position to benefit from the tight commodity markets where prices are likely to remain elevated.

Our other three themes focus on other elements of digital transformation.

Firstly, **Smart Mobility**, which explores the transport revolution that is underway across the globe, albeit at varying rates. The most visible is the ongoing electrification of our transportation systems from scooters and automobiles to trains and planes. Whilst using electricity rather than fossil fuels is clearly smarter from an environmental perspective, electricity is key for all the new technologies and therefore also allows our transport system to be ever more connected, integrated and intelligent. AI, 5G and a host of other technologies are being embedded in our transport infrastructure, especially in urban areas that continue to swell in most countries. Providers of electricity and 5G infrastructure; select AI software; and electric vehicle batteries and motors could benefit from future investments.

A related area to also benefit is covered by our theme **Automation and AI,** which explores the rapid expansion of automation in areas such as manufacturing, warehouses, healthcare, agriculture and increasingly the service industries. The increasing integration of AI capabilities into automated machines, systems and networks is significantly expanding their capabilities and their potential applications. Shortages of labour and rising wages are helping accelerate their adoption. Automation and related software companies are seeing strong order books and this is likely to continue as many companies rich on cash and want to invest some of it to make their businesses future-proof.

Our final theme of **Biotech, Genomics and Devices** identifies those areas of medicine and related fields benefiting from rapid scientific advances in areas such as gene editing and sequencing; gene therapy; high throughput screening; MRI and CAT scanning; 3D printing of tissue; and vaccines. Digitalisation has significantly helped to accelerate or enable the R&D in these areas, including the sharing of images and data between laboratories around the world. Companies focused on these areas are able to successfully commercialise these often breakthrough therapies, providing potentially interesting investment opportunities.

Opportunities in Policy Normalisation

While our Digital Transformation trend focuses on growth stocks and longer term opportunities, the High Conviction themes under 'Opportunities in Policy Normalisation' are focused on the shorter term, and on value stocks and income. As such, the two trends are complementary and combining them can help reduce style biases and create more balanced portfolios. Although monetary policy is on a tightening path, we believe multiple opportunities remain, as the economic cycle is still ongoing.

Our four high conviction themes

1. American Renewal
2. Durable Dividends
3. DM Financials – focus on subordination
4. Resilient carry in high yield and EM

Positioning for a mid-cycle slowdown and policy normalisation

In our portfolio strategy section, we discussed how we adapt our strategy to the environment of slower, but still positive growth, and policy normalisation. In summary, we got closer to benchmark because of the uncertainty, moved to neutral on cyclicality as growth slows, build even more resilient portfolios to weather volatility, and focus on those areas where we continue to see the best opportunities. Those specific opportunities are what our High Conviction themes are looking at, across equity and bond markets.

Durable Dividends

We have introduced a new theme around dividend paying stocks, which is always a popular strategy with private investors, but is particularly relevant in the current environment, in our view.

Although bond yields have been rising, they are still low, and companies are seeing the demand for yield and are adjusting accordingly. While 10-year US Treasury yields are currently around 2%, high dividend yield strategies in the US usually generate at least 3% in income. Rising rates will also put pressure on corporates to ensure yield levels remain competitive, and the relatively high levels of cash held by corporate America allow them to raise payouts to shareholders (see graph). Regular dividends are sometimes complemented by special dividends or share buybacks. Although we are less positive on European stocks, Eurozone and UK stock markets are known for their high dividend yields, and they compare very favourably to the low government bond yields in Europe.

In the rising rate environment, investors have been rotating away from long duration strategies and growth stocks towards exposures with clearer sight on nearer term profits. Dividend payers are typically more value oriented companies in financials, energy, autos and real estate which should be more insulated to rate rises. Many clients we speak to are overweight on growth stocks, and adding dividend strategies could help balance style exposure. That in itself should reduce portfolio volatility, but there is another reason that dividend strategies can help limit volatility: income tends to be more predictable and less volatile than price appreciation, so the more the return comes from income, the lower the expected volatility tends to be. Finally, amid the market concern over stagflation, dividend strategies can help, and they have outperformed market benchmarks in the year to date.
As we note in our chapter discussing stagflation risks and strategies, high dividend stocks were also among the better performing areas in the stagflationary period of the 1970s.

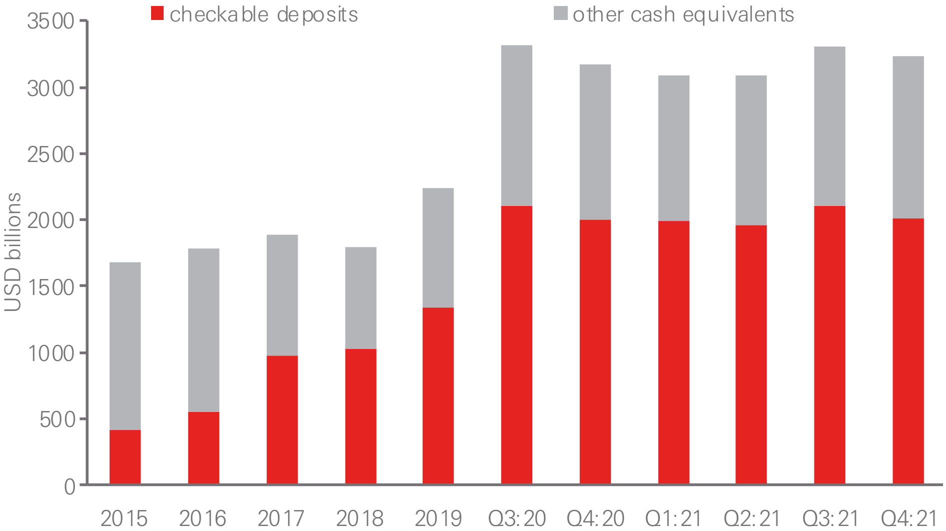
Beyond Durable Dividends, we also maintain the following three themes:

American renewal: We remain constructive on US equities as we believe the economy continues to reopen. We maintain broad exposure to areas such as financials, housing and consumer technology. As a major energy producer, the US is less sensitive to the spike in oil and gas prices, and drilling activity has already picked up, which should benefit the energy and banking sectors.

Resilient carry in high yield and EM: In this mid-economic cycle, we are overweight on Global High Yield and EM corporate bonds in Hard Currencies (HC). The former benefits from positive rating migration on the back of falling leverage and supportive economic prospects. The latter enjoys a good spread pickup compared to the low levels of interest rates in DM countries, and in some cases, EM issuers can benefit from high commodity prices. Risk premia may remain more elevated until uncertainty subsides, and hence we focus mainly on resilient carry opportunities rather than spread compression, and keep duration in check.

DM Financials – Focus on Subordination: Banks have strengthened their capital and liquidity ratios in response to stringent regulatory requirements under the Basel III accord. We view subordinated debt instruments as a valuable source of carry in the structurally low yield environment but look for issuers with large buffers above minimum regulatory capital requirements.

US companies are sitting on a lot of cash, some of which will be paid out in dividends



Source: Federal Reserve Flow of Funds for non-financial corporates, HSBC Global Private Banking as at 22 March 2022.

Investing for a sustainable future

Saving the planet requires huge investment and is full of long term opportunity. The urgency is clear, and If we look far enough into the future, we believe that sustainability won't even be a question that investors will need to ask themselves. The economy will have shaped itself into a sustainable ecosystem and all investment decisions will have sustainability as a normal part of business; a given, like annual leave or pension liabilities – once themselves considered to be do-gooder notions but rightfully, over time, incorporated into standard business practices.

Our four high conviction themes

1. Energy Transition
2. Financing Biodiversity Action
3. Sourcing Income in a Sustainable Way
4. The Rise of 'S' in ESG

The reasons why we believe sustainable transition will happen are threefold: 1) Affordability: consumers can afford to demand change 2) Urgency: society and governments cannot afford NOT to demand change and 3) Capability: technology and understanding to deliver change is being quickly realised.

1. Affordability

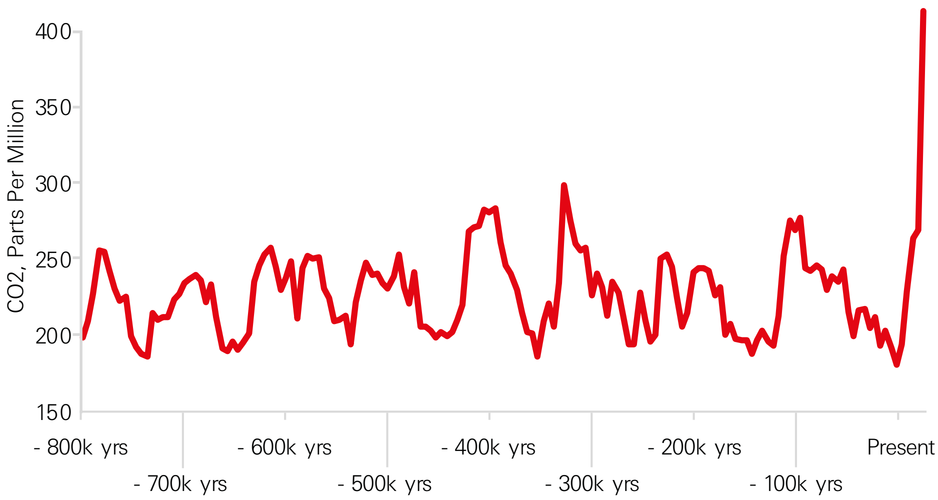
Humanity is objectively richer than it was 40 years ago. According to The World Bank, global poverty, defined as living on $1.90 a day, PPP adjusted, has declined from 41% of the global population in 1981 to c.10.1% as of 2015 and it is likely lower still today. While this figure is still higher than the 0% goal, it is still a remarkable amount of progress. One of the additional upsides of this situation is that wealthier consumers want healthier and more sustainable products and services. This process has already started - it is not happening everywhere but it is happening.

2. Urgency

Secondly, we now understand the damage fossil fuels have wreaked on our planet and we know we cannot afford to ignore it or procrastinate on its reversal. The scary chart below tells the story of how modern carbon production has impacted our atmosphere. Taken from ice core samples it measures the amount of CO2 in our atmosphere over the last 800,000 years.

The picture is clear and it is stark. It has resulted in political acceptance of the problem in many regions and the creation of regulations, rules, fines and markets designed to steer the economy towards a sustainable future. There is a

800 Thousand Years of Atmospheric CO2

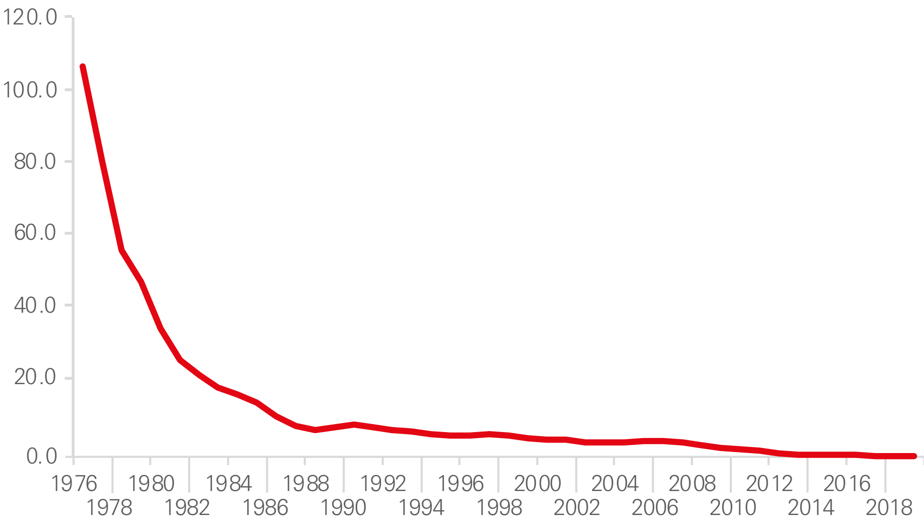


Source: Revision of the EPICA Dome C CO2 record. Geophysical Research Letters 14 Dec 2014. HSBC Global Private Banking as at 22 March 2022.

new rigour about this effort and not just on the production side. Biodiversity is a key component to meeting these goals and investors are seeing opportunities here too which we outline in our Financing Biodiversity Action theme.

The urgency of the energy transition has further been highlighted by the conflict in Ukraine and the sharp spike in energy prices. Most countries have clearly outlined their desire to be less reliant on others for important economic inputs such as energy, and sustainability is increasingly linked to economic security. Investment in renewables will likely be accelerated as a result.

Solar PV Module Cost (2019 US$ per W)



Source: HSBC Global Private Banking as at 22 March 2022.

3. Capability

Finally, we have technology as an enabler of progress and the move to a sustainable future. Sustainable technologies are driving a proliferation of sustainable offerings with the flagbearers being solar and wind energy. Per the below, the cost of generating a unit of solar energy has fallen substantially. And wind is similar. This move to electrify our energy use is reflected in our theme Energy Transition. With more than 50% of global carbon emissions happening in Asia, the decarbonisation of Asian economies will be key. Our theme of China's Green Revolution is based on China's strong existing position in green technology, and its focus on further growing that industry while it strives towards its net zero goal.

Sustainable methods are now competing on a cost basis with fossil fuels while also bringing their sustainable benefits. But that is not the only story in sustainability; more and more products and services are becoming available every day that meet much higher standards than previous options. Cars, buses, bicycles, shorts, shoes, cleaning products, bags, make up, burgers, milk etc. are all undergoing a sustainable rebirth. And sustainable companies are getting rewarded by consumers and investors with sustainable product announcements, often lifting the medium-to-long term share price potential. Increasingly too, companies that demonstrate good performance on Social issues are being rewarded and we cover this in our theme, **The Rise of S in ESG.**

From an investor's point of view, while sustainability has come a long way, we believe it is getting richer in opportunities every day because the transition is occurring across the entire economy. All in all, macro and micro tailwinds for investing in a sustainable future are many and whether sustainable concerns are part of your investing approach or not, sustainability is a great investment opportunity; saving the planet just happens to come with it.

Equities

Global equity markets have struggled due to geopolitical conflict, high inflation, the prospect of rising interest rates and COVID. But global growth remains above average, and while inflation is a headwind, many companies can pass through higher costs and maintain their margins. Given the increased headwinds, we have reduced our equity allocation to neutral in Q1, while we balance cyclicals against defensives. We remain invested in quality companies with cash generating capabilities and low net debt, and also like income generating companies to boost or stabilise returns.

Overweight

Countries: US, Canada, Singapore, Taiwan, Thailand and Indonesia

Sectors: Technology, Communications Services, Financials, Materials and Energy

Underweight

Countries: Germany, Spain, South Africa and Turkey

Sectors: Industrials and Utilities

Global style bias

Quality and Income

We believe that the recent equity market contraction provides an opportunity for long-term investors as fundamentals remain supportive. Valuations, which had gotten a bit extended, have clearly

US and Asian EPS growth looks healthy, while Europe is more challenged

Index	Forward P/E Ratio	EPS 2022% Growth	EPS 2023% Growth
S&P 500	19.8	8.3%	10.0%
Dow Jones	18.0	8.9%	9.5%
Nasdaq	28.2	16.5%	16.3%
MSCI Europe	13.8	2.6%	6.6%
MSCI EM Asia	12.7	12.0%	8.8%
MSCI EM Asia ex China	14.3	9.2%	7.5%

Source: Bloomberg consensus estimates and multiples as at 22 March 2022.

come in. Corporate financial strategies should also provide support for equities, with M&A becoming a more viable option due to lower stock prices, as companies can use current cash holdings to acquire income producing assets. Many corporate boards seek to increase total returns to shareholders by increasing dividends, issuing special dividends or increasing stock buyback programs.

EM Asia well positioned

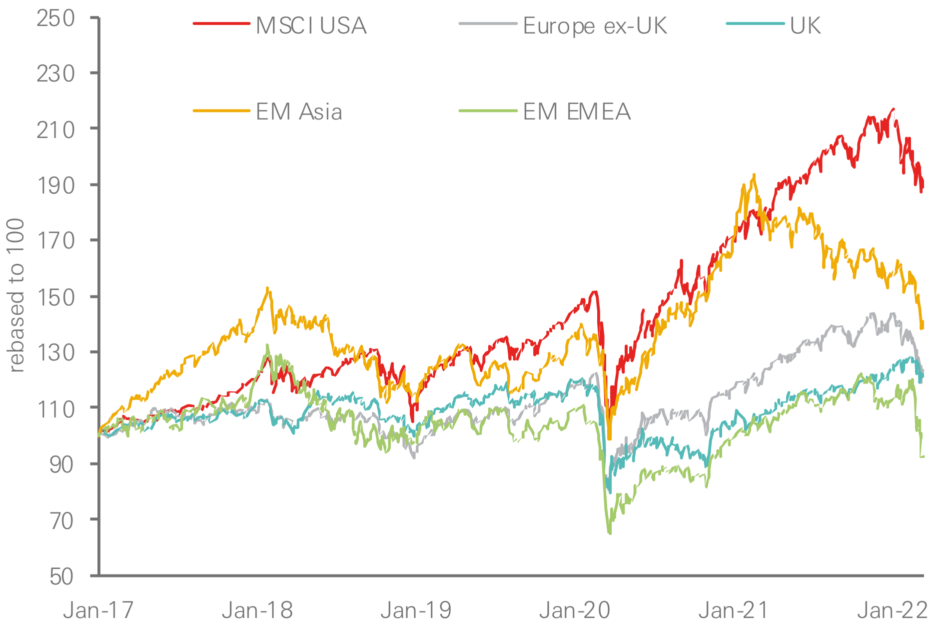
EM Asian markets are well positioned to benefit, especially commodity producers, supply chain companies, and global trading companies. Southeast Asian markets valuations remain quite competitive, and global supply chain issues and inventory rebuilding continue to provide opportunities for companies in the region. Consensus earnings expectations for the next two years remain quite strong throughout the EM Southeast Asian markets.

In China, equity markets have struggled due to more COVID outbreaks, regulatory issues (locally, and in the US for ADRs), and continued concerns surrounding the health of the real estate and developer companies. However, with inflation remaining low compared to western countries, the central bank is expected to remain accommodative, while new fiscal policies should help support technology, advanced manufacturing and SME. This should help produce a rebound in domestic growth, which could be a trigger for us to upgrade Chinese stocks from neutral to overweight later in the year. Valuations are quite compelling and we note that longer-term themes surrounding technology and the ongoing development of the consumer sector remain attractive.

The Resilient US

The dual threat of higher interest rates and inflation have hit valuations the hardest for growth companies, which are well represented in the US. For inflation to slow, it seems clear that the Fed must raise rates and reduce the

Equity markets have been volatile around the world and a focus on resilience is appropriate



Source: Bloomberg, HSBC Global Private Banking as at 22 March 2022. Past performance is not a reliable indicator of future performance.

size of its balance sheet, and we may thus see continued volatility around Fed meetings. But from a growth perspective, vaccination rates continue to climb and the COVID caseloads continue to decline. We also think that the increase in dividend policies, special dividends and M&A should be supportive, and therefore it is prudent for investors to look more closely at income and total return strategies.

Energy and materials' companies should benefit from the spike in commodity prices. And in US healthcare, our outlook has improved due to as attractive valuations and M&A. Also, this more defensive sector continues to adjust to a post-COVID economy, the introduction of new technologies, more preventative healthcare, and further consolidation. Finally, value investors may take solace in the reopening of the service sector while the recalibration in technology shares is still underway.

European headwinds

Growth prospects in Europe are being pared back, and although we do not expect to see a recession (two quarters of negative growth), high energy and food products will weigh on consumption and confidence. As a result, despite the attractive valuations, European equities remain under pressure until cost pressures can be alleviated. Dividend yield and income strategies continue to make sense along with a focus on quality, and a more defensive sector allocation seems in order.

Investment Summary

We believe that global uncertainty, slowing growth and tighter monetary policy will continue to drive markets and investor sentiment. But while we look for slowing growth, we do not expect a recession (even in Europe) and consider stagflation a risk scenario rather than our core case. Still, all the uncertainty should keep volatility levels elevated and investors should continue to look for quality companies and focus on income and total return strategies.

In the technology sector, "long duration" equities (i.e. those with low current profits but future potential) have been punished as future earnings streams have been discounted by a higher cost of capital. Nevertheless, technology growth companies should still benefit from the secular trends we have identified around the Digital Transformation and Investing in a Sustainable Future. By combining those long-term themes with the more tactical themes under our trend of 'Opportunities in Policy Normalisation', we find the right balance between short term and long term opportunities and reduce style biases.

Sector-wise, we also remain constructive on the financials, as they should benefit from higher rates, continued economic growth, housing demand, and continued M&A. The re-opening of many economies also provides relative value opportunities as demand shifts from goods to services. Finally, despite higher rates, the food, energy and housing sectors should benefit from improving demand and perhaps higher prices. The energy sector (especially in the US) and energy transition, should also benefit from the continued geopolitical instability.

Fixed Income

The conflict in Ukraine blurs macro-economic analysis and makes short-term views on bond markets challenging. This tragic event has caused volatility to spike, while its impact on energy prices, supply chain and inflation makes the job of Developed Market (DM) central banks even more difficult and increases risk of policy errors. Meanwhile, EM debt has been impacted significantly, but in an uneven way, with Latin America and GCC proving resilient. While it is impossible to foresee all ramifications, we remain invested because volatility spikes are typically temporary and the economic cycle is still healthy, which should allow markets to trough and rebound in coming months.

We have been tempering our risk stance over the past few months, by downgrading EM Local-Currency debt, Brazilian Corporate bonds and Russian bonds across the board, and by adding to our Investment Grade exposure. But our bonds' Tactical Asset Allocation still remains sensitive to market sell-offs and risk sentiment. We stay overweight on shorter-dated Global High Yield (HY) and EM Corporate external debt. Our underweight position in safe haven markets, such as DM sovereign bonds is principally motivated by the low yields, and designed to fund our overweight in other asset classes, with the non-directional hedge funds being our current biggest overweight.

Overweight

Government bonds: no overweights

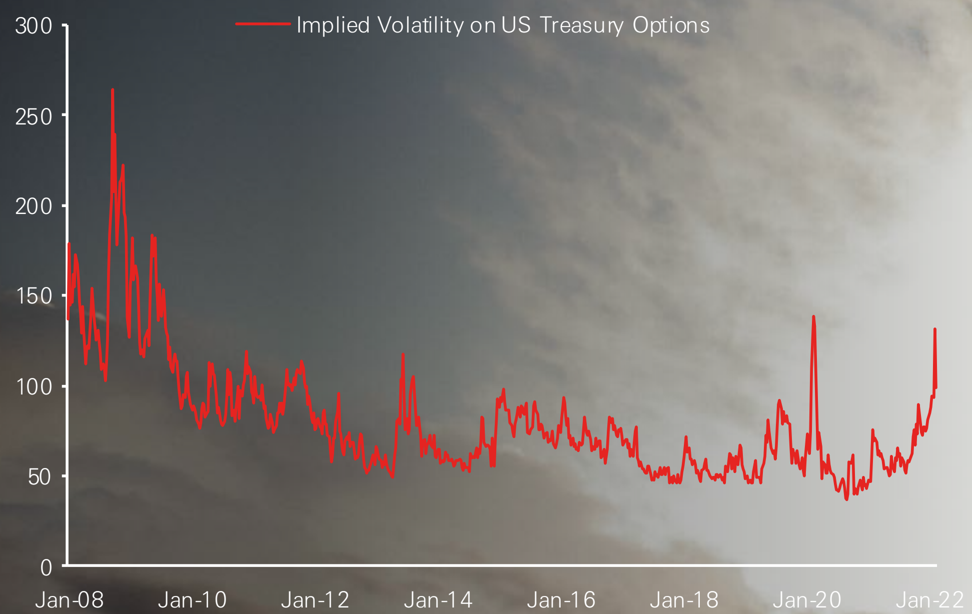
Credit and EM: US, European and UK IG and HY; Indonesian, GCC and Mexican Hard Currency bonds; Chinese and Mexican Local Currency bonds

Underweight

Government bonds: German and Japanese government bonds, European Periphery debt

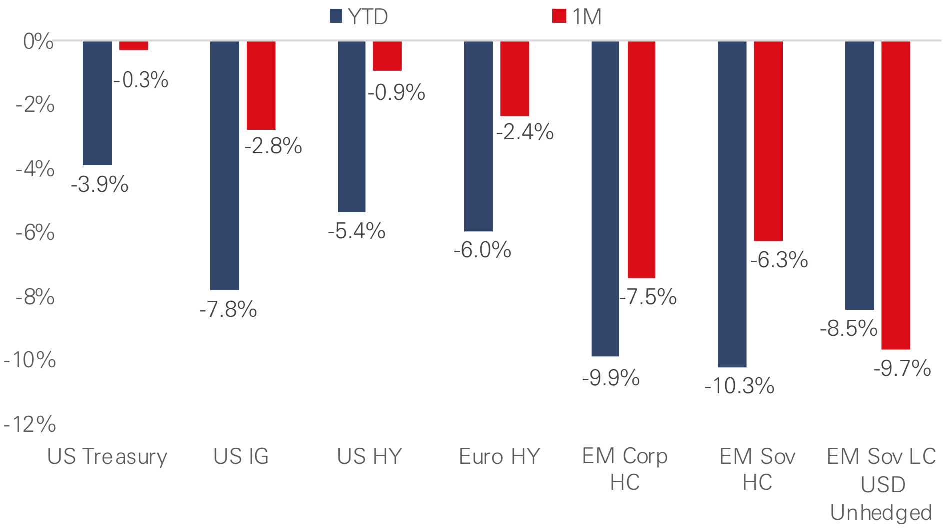
Credit and EM: Argentinian, Turkish and Ukrainian Hard Currency bonds; Turkish and Indian Local Currency bonds, Russian debt in Hard and Local currency

Bond market volatility reached the highest level since the pandemic



Source: Bloomberg, HSBC Global Private Banking as at 22 March 2022. Past performance is not a reliable indicator of future performance

Geopolitics have had a material negative impact on EM returns over the past month



Source: HSBC Global Private Banking, JP Morgan, BOFAML indices as at 22 March 2022. Past performance is not a reliable indicator of the future performance.

Developed Markets - Focus on Carry, while we have added to Global IG

Despite rising market concerns about stagflation and resulting negative market sentiment, we remain underweight DM sovereign debt, as hawkish central banks (most recently from the ECB) have increased risks of excessive tightening of monetary policies. We continue to focus on carry opportunities with an overweight on Global HY and more recently on Global Investment Grade (IG). The former benefits from positive ratings' migration on the back of falling leverage and remains to a certain extent immune to geopolitical tensions, thanks to high energy sector exposure, especially in the US. Default rates for this year should remain benign compared to their peak in 2020. At the sector level, we mostly concentrate on Energy and Financial companies. Banks' subordinated debt offers attractive valuations and strong capital ratios. As for the other sectors, we focus on companies with stronger balance sheets, declining leverage and increasing cash flow generation.

Our recent decision to upgrade Global IG to a mild overweight tactically added duration as markets traded with a risk-off mode, while achieving some carry (+150bps relative to US Treasury yields). This segment should be resilient when risk appetite is challenged and is aligned with our structural view of lower-for-longer Treasury yields.

Still, in terms of curve positioning, we believe that investment opportunities lie in shorter-dated maturities. Because investors have priced in a solid number of rate hike expectations, the yield curve is very flat (2-10Yr UST spread at +29bps only) and duration risk does not appear to be fully compensated. Hence, we think that the risk-reward ratio is best with corporate bonds having 2-4-years of maturities.

Additionally, we decided to close our modest underweight position in US index-linked bonds (i.e. TIPS), as inflation will take time to peak.

Emerging Markets – We remain Overweight on Hard Currency bonds and Focus on Quality

EM bonds have had a difficult start to the year, suffering from increased inflation expectations, tightening of monetary conditions, a sell-off in China property developers and an escalation of the Russia-Ukraine conflict. As a result, EM hard currency corporate credit spreads widened by 130bps, with a total return of -9.7% (as of 11 March 2022).

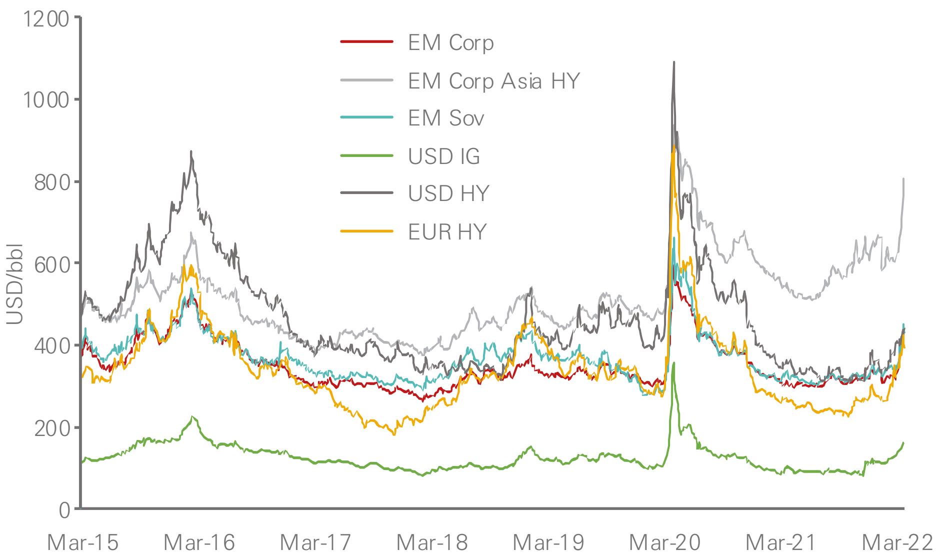
However, contagion was relatively limited outside of Russia-Ukraine and China real estate, with higher-rated bonds from Middle East, Asia and Latin American regions generally demonstrating much more resilience.

Despite elevated macroeconomic and geopolitical risks, credit fundamentals from many companies remain solid.

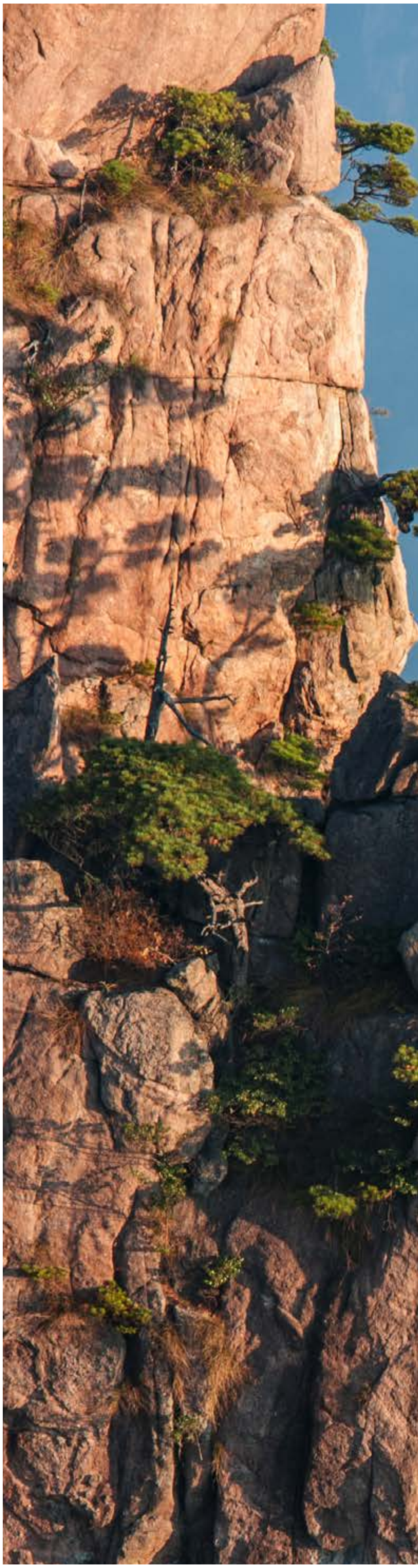
Thanks to a continued focus on cash preservation, cost cutting and de-leveraging coupled with revenue growth last year, EM credit metrics remain stronger compared to both DM HY and IG companies. At the end of 2021, the average net leverage of EM HY companies was 2.3x and EM IG companies 1.2x. This is still 1-2 points lower than comparable DM companies.

Although EM bonds should remain volatile in the near term, we believe resilient EM credits still provide value for diversified portfolios given robust standalone fundamentals and improved valuations. Within EM credit, we focus on GCC and Asia, as the former should benefit from elevated energy prices, while the latter should be more resilient thanks to more diversified economies, manageable inflation and supportive domestic policies.

EM bonds have been impacted by the Ukraine conflict escalation, but in an uneven way



Source: HSBC Global Private Banking, Bloomberg, JPM, iBoxx, ICE BOFAML indices as at 22 March 2022. Past performance is not a reliable indicator of the future performance



Currencies and Commodities

At the time of writing, the military conflict in Ukraine is dominating market sentiment, while the start of the Fed's rate hiking cycle is the second key driver. The uncertainty has raised FX volatility and supported recognised safe havens like USD, CHF and Gold, while EM currencies have been penalised. The events have exacerbated pre-existing concerns: high commodity prices and consequent higher inflation, and central banks' policy normalisation despite a weaker growth outlook. These factors will probably persist for now, but the momentum of recent moves may slow. Besides risk sentiment, markets are also looking at countries' fundamentals and are differentiating on the basis of relative uncertainties, valuations and, most importantly fundamental strength.

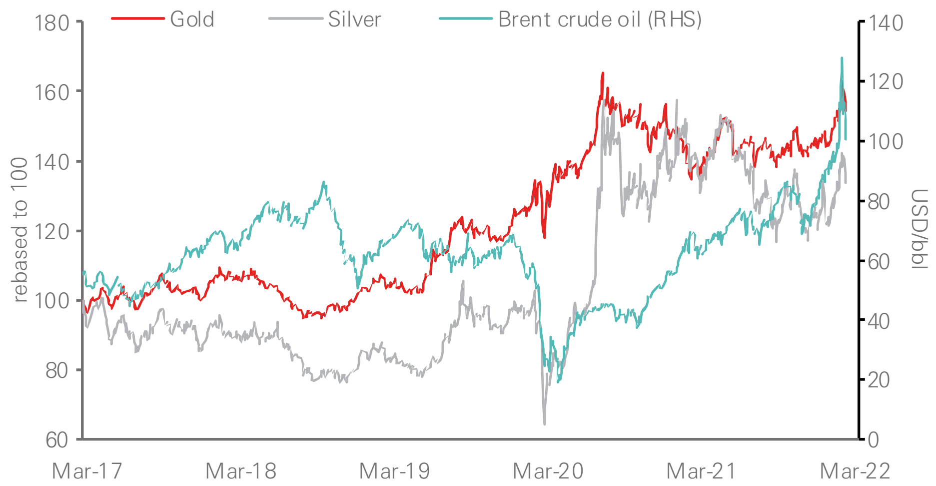
In a risk-off environment, oil and other commodities are usually penalised. But of course, in the current situation, Russia's prime role as an oil and gas producer caused a sharp price spike due to increased worries over the demand-supply imbalance. We expect this situation to persist at least in the short term, with high volatility due to the uncertainty around supply, low inventories and the likelihood of increased demand as economies continue to reopen. But, while we see somewhat less scope for further upside from here and hold a neutral view on commodities, we are bullish on the major G10 commodity currencies, like AUD, NZD and CAD. As long as commodity prices remain high, these countries should continue to benefit and their fundamentals have been improving consistently. We believe the strong fundamentals in the current situation will trump any concern that low risk appetite has historically been bad for commodity currencies. Another reason why we prefer commodity currencies over direct commodity exposure is that rising policy rates should provide further support.

AUD is benefitting from the rise in commodity prices as it exports metals and coal among other commodities. The strong trade and current account balances are also supportive. New Zealand may potentially sustain slightly less positive traction from commodity prices as it mainly exports dairy products and food of animal origin, but we believe the yield advantage may lead to preference for the antipodean currency.

USD's risks are still tilted to the upside, and we think it will benefit from its safe-haven characteristic and the Fed's hawkishness as it is still among the first-movers in the G10 space. Even if a few currencies, as discussed,

Bullish
USD, AUD, NZD, CAD, SGD, IDR, MXN and Silver
Neutral
EM FX (including RMB) and Gold and Oil
Bearish
EUR, GBP, JPY, INR

Oil has spiked on supply concerns, while safe havens have benefited from the risk-off sentiment



Source: Bloomberg, HSBC Global Private Banking as at 22 March 2022. Past performance is not a reliable indicator of future performance.

outperform USD, we maintain our preference for USD over EUR, GBP and JPY. The divergence in monetary policy will remain key for the market, which will pay close attention to central banks' actions and statements regarding rates and inflation. We think EUR and GBP will continue to be penalised due to their geographic proximity to the conflict, and by uncertainty over the long-term impact. Clearly, the uncertainty around the ECB's actions for the rest of the year has increased, and we are also keeping our bearish stance on GBP given the risk of economic deterioration.

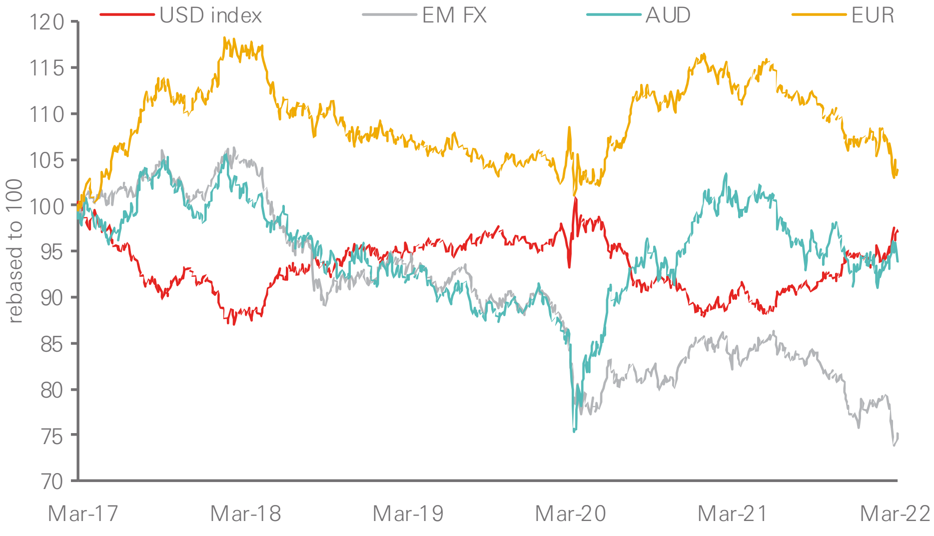
There have been many discussions about JPY losing its safe-haven allure as it underperformed the US dollar in this risk-off setting. Still, without assessing any changes in the nature of the currency, we think that its role as a major oil importer weighed on performance (as it did for INR). Secondly, when given the choice between two safe haven currencies, markets prefer the higher yield of the US dollar when compared to the Japanese yen.

Emerging Market currencies are typically hit hard by negative market sentiments and the consequent selling for risk reduction. However, we noticed a few exceptions in the current risk-off scenario, as EM currencies displayed a more resilient behaviour due to relatively stronger fundamentals. We keep our neutral stance in the EM currencies space, but still prefer high yielders and commodity exporters like MXN. RMB has been resilient too due to relatively low inflation compared to western countries, an attractive yield and the market's perception that China may be less at risk of energy supply interruptions than Europe is.

While we think Oil will stay high and OPEC countries will probably increase output somewhat, the Oil outlook could be choppy as the supply could be impacted in the short term, as markets worry about sanctions or import restrictions.

Gold has reaffirmed it safe haven status and remains key in portfolios, although we think upside is getting more limited. We highlight that Silver also has safe haven characteristics, and we currently prefer it over Gold. Silver is also used as an industrial metal, in sectors like green-energy or electronics and will probably benefit from increasing demand.

USD and commodity currencies should remain well supported, but EUR should trade with a weak tone



Source: Bloomberg, HSBC Global Private Banking as at 22 March 2022. Past performance is not a reliable indicator of future performance.

Hedge funds

We see a strong opportunity set across a number of hedge fund strategies and they remain important portfolio diversifiers. We remain overweight on multi-strategy and macro strategies and have milder overweight positions in event-driven, equity long short (L/S) Asia and structured credit strategies. Diversified portfolios of hedge funds have been relatively resilient during Q1 in what has been a very volatile market environment. Multi-strategy, macro and market neutral have been the strongest contributors, whilst equity and event driven strategies broadly detracted.

Multi Strategy

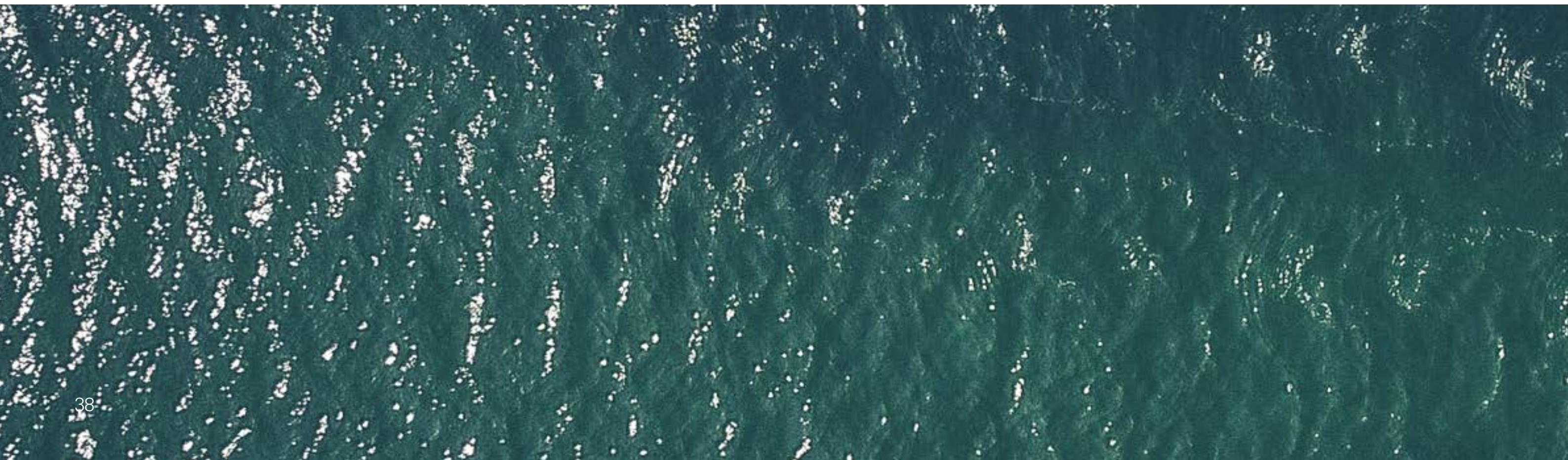
We maintain an outright positive outlook on Multi-strategy managers and a neutral-positive outlook on equity market neutral strategies. The risk-controlled business model that underpins Multi-strategy funds should continue to protect capital during more challenging periods, and for equity market neutral strategies, opportunities to take short positions should be attractive in 2022. We believe that decreased competition from single strategy funds and general outflows in prior years have put multi-strategy funds in a strong position to capitalise on the strategy's alpha potential. These platforms will also be able to on-board PMs across the fixed income space, with their sizeable balance sheets, availability of low-cost financing and the abovementioned well-established risk management frameworks attracting portfolio managers.

Macro

Within the macro space, we maintain a positive rating for developed markets (DM). There are differing views about the speed of interest rate increases across the space, namely the US, UK and China (which is easing). This should create a multitude of relative value opportunities across both the foreign exchange and rate markets. Heightened commodity market volatility should also present trading opportunities and we expect DM macro managers to increase their risk exposure and tactical trading in the coming months. In emerging markets (EM), we maintain our neutral view, as they are currently dealing with a number of crosscurrents, including COVID-related issues, high inflation, DM central bank tightening and geopolitical headwinds. There will be idiosyncratic opportunities within the space, with divergent monetary policies and political dynamics such as Turkey and Brazil. High energy prices are providing a tailwind for energy producers but a headwind for energy importers.

Managed Futures

Our overall rating remains neutral. Over the past eighteen months, managers with a meaningful allocation to commodity markets have performed very well, while those with limited or no commodity exposure have underperformed. Looking forward, we expect continued volatility, and large price swings usually create an improved opportunity set, particularly for more reactive managers with shorter lookback windows. This should allow short-term CTAs and systematic macro funds to capitalise on market moves. Our view on traditional medium/long-term trend followers remains less constructive given volatility in fixed income, which presents a more difficult market environment. The inclusion of alternative data sources and machine learning in the investment process remains an important topic in 2022. Also, as barriers to entry slowly fade in cryptocurrency markets, traditional hedge funds will likely enter the space more aggressively, potentially providing new trading opportunities. More broadly, the continued opening of the Chinese stock markets to foreign investors and the application of quant models in credit markets remain top areas of interest for managers in this strategy.



Event Driven and Credit

Our rating remains neutral/positive and we favour Event Driven managers who have broad expertise across event driven sub-strategies and who have the ability to opportunistically allocate across the various strategies and asset classes as the cycle evolves. Despite the withdrawal of liquidity and challenge of multiple interest rate increases in 2022, we believe that the current environment remains broadly supportive of event driven strategies. The number of US activist campaigns remains elevated and the outlook for activity looks robust elsewhere too.

Long/Short Equity

We maintain a neutral outlook across the US, Europe and Technology and a mildly overweight view in Asia. In the US, valuations remain elevated, and whilst they are currently supported by robust earnings growth, sentiment is challenged by high inflation and rising interest rates. Meanwhile, valuations in Europe and Asia look less elevated. Stock selection was challenging last year as the market traded on macro movements rather than fundamentals, and managers failed to fully capture equity market beta in energy and other cyclical sectors. We expect returns from beta to take a back seat, but continue to be very optimistic about alpha generation in 2022. Prices are now being driven more by earnings and fundamental data, and therefore we are seeing an improved shorting environment and return of alpha in this space.

Strategy	Components	View	Comment
Macro	Developed Markets	+	Policy divergence should create relative value opportunities in FX and rates markets. Heightened commodity price volatility presents trading opportunities.
	Emerging Markets	=	EM markets are dealing with cross-currents of COVID-related issues, high inflation, geopolitical headwinds and DM central bank tightening.
Managed Futures	CTAs and Systematic Macro Funds	=	Commodity and fixed income volatility create an improved opportunity set. The continued opening of Chinese stock markets and the lowered barriers-to-entry in crypto markets provide new trading opportunities.
Event Driven & Credit	Event-driven	=/+	The current environment remains broadly supportive, with an elevated level of US activist campaigns.
	Distressed Credit	=	The near-term outlook for credit quality remains favourable but inflation could pressure margins and affect consumer behaviour.
Multi-PM	Multi-Strategy	+	Diversity of strategies and risk-controlled business models continue to generate returns and protect capital in volatile environments.
	Market Neutral	=/+	The short environment in 2022 should continue to be interesting.
Equity Long/ Short	US	=	Despite robust earnings growth, potential risks arise from higher volatility and elevated valuations, inflation and interest rates.
	Europe	=	Valuations are less stretched vs. the US, although many fundamental risks remain. We remain optimistic about alpha generation in 2022 as prices are increasingly driven by fundamental data and differentiation. Seeing an improved shorting environment and return of alpha in the space.
	Asia	=/+	
	Tech	=	Against a backdrop of rising rates, higher near-term volatility for growth stocks expected while markets adjust to a new environment.

Real estate

The shifting landscape of the economic reopening, changing shopping and working habits and sticky inflation pressures is having a profound effect on real estate. We examine the geographical factors and the heightened uncertainty, and how they affect the retail, logistics and office space.

The ebbing Omicron wave of COVID19, high vaccination levels in most developed countries, and growing acceptance of having to live with Covid-19 have led to a gradual lifting of restrictions and re-opening of many borders; Hong Kong is a current notable exception. The impact on real estate occupier demand will be wide-ranging but is unlikely to fully reverse the changes of the past two years.

For example, though still below pre-COVID levels in most cases, retail footfall has been improving as households return to shopping in physical stores, and online spending is being pared back. For example, in the UK, e-commerce sales (as a percentage of total retail sales) has fallen back from 37% (in February 2021) to 25% (January 2022), though this is still above the 20% before the pandemic.

The pandemic accelerated the rebasing of retail rents, which was already underway as outdated physical retail formats, such as department stores, went into administration whilst others, such as mid-market fashion, drastically reduced store numbers. The remaining retailers have more robust business models (supported by lower rents), more sustainable debt levels, and make better use of online channels to reach customers. While the outlook for retail remains challenging, the stabilisation of rents combined with recent upward yield movements underpins an improved returns outlook compared with recent years.

Logistics landlords have been one of the big winners during the pandemic with rents rising by more than 10% in many markets in 2021. The return to shopping in physical stores is unlikely to dim leasing momentum for two reasons. Firstly, e-commerce's share still remains elevated, and the trajectory remains set to continue to grow.

Secondly, many occupiers (e-commerce businesses, third-party logistics companies) are focused on shortening delivery times as customers become more demanding. This means, other things being equal, more demand for logistics buildings in urban locations where there is an inherent lack of suitable sites due to competing land uses such as residential. The lack of supply and strong demand has driven vacancy rates down to near 0% in many gateway cities, underpinning record rental levels.

Despite the easing of lockdowns, recovering footfall, and repopulating of cities, office utilisation remains significantly below pre-pandemic levels in most major cities. In the US, for example, data from Kastle systems put office utilisation for March 2022 at just 38% of the pre-pandemic level. The US gateway cities, London and Paris are expected to be more impacted than smaller continental European cities or those in Asia where tight living conditions and greater prevalence of multigenerational homes don't allow for a comfortable home office.

However, not all offices are considered equal by tenants who are targeting modern, well-located, energy-efficient buildings. In part, this is done to attract and retain staff in a competitive labour market, but it also reflects their own in-house sustainability targets. Typically, this type of space can command higher rents, but with businesses shifting to hybrid working patterns, many are starting to lease less than before. Looking ahead, we expect remote working to reduce aggregate demand for office space though the extent of this will vary by geography.

Economic uncertainty has undoubtedly risen with the rapid escalation of the conflict in Ukraine. There are numerous transmission mechanisms by which this impacts real estate returns. Rising commodity prices point to inflation trending yet higher, undermining household incomes and consumption. Unlike household incomes, however, real estate income in some markets is indexed to inflation, thus providing some inflation protection; this is most common in continental Europe.

Still, any dip in economic growth will filter through to lower demand for space and a weaker outlook for market rents, though this may be somewhat offset by a drop in new supply as rising costs deter some developments. Although the outlook for rental growth has soured, the conflict has led investors to target lower risk assets such as government bond yields. In turn, this can be expected to support property yields for prime property at the current low levels, particularly where the tenants are on long leases with inflation linkages. Secondary property, without long inflation indexed leases, has become more vulnerable to the economic fallout of higher inflation and lower economic sentiment.

Private markets

Following a challenging year in 2020, Private Equity (PE) performed well in 2021. The PE industry showed its ability to adapt and prosper in a fast-changing environment. Many metrics such as Assets Under Management (AUM), value of deals done, exits accomplished, fundraising levels and returns improved compared to 2020. Many primary funds, secondary transactions and co-investments delivered attractive return for investors. PE outperformed most other private markets and most measures of comparable public market performance (source: Preqin) and we expect this to continue throughout 2022. However, the spread between the top and bottom quartile PE managers remains important, hence manager selection will continue to be key.

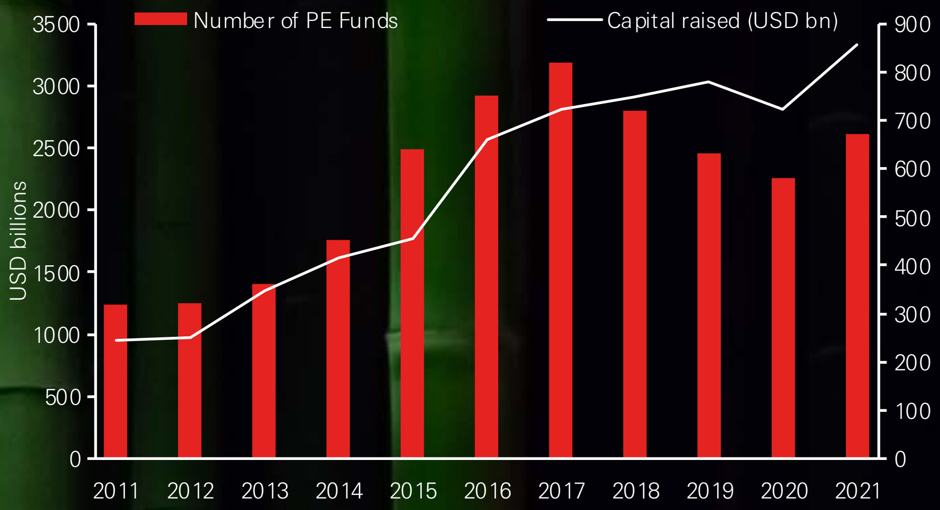
PE backed buyouts set new annual records in 2021 in both global deal volume and transaction value. According to Refinitiv, private equity backed deals increased 56% to over 14,500 deals and reached US$1.2 trillion, more than doubling the 2020 levels. PE backed deals accounted for 20% of global M&A activity. Furthermore, special purpose acquisition companies (SPACs) provided an additional source of liquidity for PE, representing 10% of all exits in 2021 (source: Refinitiv). Private Equity fundraising has also had strong levels of success, largely driven by positive investor sentiment. In 2022, we expect activity to remain elevated due to strong fundraising momentum and high levels of dry powder.

We remain selective and maintain our focus on high conviction themes, which currently include technology, secondary opportunities, Asia, data infrastructure and healthcare. The focus on technology as one of our high conviction themes is supported by positive market sentiment and illustrated by the fact that 30% of the total capital deployed in 2021 was allocated to technology companies (Source: EY). We believe the long term approach of PE fits well with our structural trend around the Digital Transformation.

Throughout 2021 and looking at 2022, secondaries are a key theme that has continued to grow and develop. Specifically, secondaries' deal volumes for 2021 were estimated to have more than doubled since 2020 to $126bn (Source: Lazard). Aside from being a growing sector, there is also increased sophistication taking place as seen with the rise of manager-led, or GP-led, transactions which are seeking to extend the holding period of specific assets. The secondary market saw single-asset deals account for 52% of GP-led volumes in 2021, up from 38% in 2020 and we expect this type of deal to drive activity during 2022. This is in line with our own experience, as GP-led transactions are an area of focus for us and we believe that a well-rounded portfolio should have a significant allocation to secondaries. Of course, investors thinking about alternatives need to consider the higher fees and important suitability considerations, including the ability to tolerate illiquidity.

Overall, we continue to believe in the benefits of disciplined deployment into the private equity asset class, through a high-conviction approach and consistent vintage diversification. We expect 2022 to be another strong year for fundraising but we believe it is important to select private equity sponsors with the skills to actively engage with underlying companies to implement operational improvements and strategic initiatives. We believe manager selection will continue to be key to ensure strong PE returns and we maintain a selective approach focusing on best in class opportunities through conducting extensive operational and investment due diligence.

High levels of capital raised should support PE activity



Source: Preqin, as at 22 March 2022.

Disclaimer

Risks to our View

The key risk factors include adverse regulatory changes, health concerns, spectrum cost and allocation issues excess capital expenditure by telecom operators, trade tensions, evolvement of 5G standards, uncertainties in pricing and demand for new products and services in 5G and related offerings.

Risk Disclosures

Risks of investment in fixed income

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

Credit risk

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

Risks associated with high yield fixed income instruments

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

• Capital growth risk - some high-yield bond funds may have fees and/ or dividends paid out of capital. As a result, the capital that the fund has available for investment in the future and capital growth may be reduced; and

• Dividend distributions - some high-yield bond funds may not distribute dividends, but instead reinvest the dividends into the fund or alternatively, the investment manager may have discretion on whether or not to make any distribution out of income and/ or capital of the fund. Also, a high distribution yield does not imply a positive or high return on the total investment.

• Vulnerability to economic cycles - during economic downturns such instruments may typically fall more in value than investment grade bonds as (i) investors become more risk averse and (ii) default risk rises.

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

• Subordinated debentures - subordinated debentures will bear higher risks than holders of senior debentures of the issuer due to a lower priority of claim in the event of the issuer's liquidation.

• Perpetual debentures - perpetual debentures often are callable, do not have maturity dates and are subordinated. Investors may incur reinvestment and subordination risks. Investors may lose all their invested principal in certain circumstances. Interest payments may be variable, deferred or canceled. Investors may face uncertainties over when and how much they can receive such payments.

• Contingent convertible or bail-in debentures - Contingent convertible and bail-in debentures are hybrid debt-equity instruments that may be written off or converted to common stock on the occurrence of a trigger event. Contingent convertible debentures refer to debentures that contain a clause requiring them to be written off or converted to common stock on the occurrence of a trigger event. These debentures generally absorb losses while the issuer remains a going concern (i.e. in advance of the point of non-viability). "Bail-in" generally refers to (a) contractual mechanisms (i.e. contractual bail-in) under which debentures contain a clause requiring them to be written off or converted to common stock on the occurrence of a trigger event, or (b) statutory mechanisms (i.e. statutory bail-in) whereby a national resolution authority writes down or converts debentures under specified conditions to common stock. Bail-in debentures generally absorb losses at the point of non-viability. These features can introduce notable risks to investors who may lose all their invested principal.

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.

Nationalization risk

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

Reinvestment risk

A decline in interest rate would affect investors as coupons received and any return of principal may be reinvested at a lower rate.

Changes in interest rate, volatility, credit spread, rating agencies actions, liquidity and market conditions may significantly affect the prices and mark-to-market valuation.

Risk disclosure on Dim Sum Bonds

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

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

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

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

Risk disclosure on Emerging Markets

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

Risk disclosure on FX Margin

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

Currency risk – where product relates to other currencies

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

Chinese Yuan ("CNY") risks

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

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

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

Illiquid markets/products

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

Alternative Investments

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

Important notice

The following may be subject to local requirements.

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