VIDEO TRANSCRIPT

Interview Experts
"Investissements – Focus on our structured products offering »
HSBC Private Banking

Video Hook

"How can you navigate an uncertain market environment while seizing performance opportunities? Let's explore structured products, a key tool for our private banking clients."

Introduction (00:30)

Diane Alexane

In the coming months, as volatility may return following the U.S elections, we wanted to discuss a widely used asset class by our private banking clients: structured products.

Zineb Ahmed

Through this video, we will provide more details on how structured products are constructed, the factors that influence their structuring, and the variety of structures offered depending on market conditions.

Macro-economic environment and impact on investments (00:30)

Diane Alexane

Currently, several economic factors are influencing our investment strategies. With the change in administration in the United States, we may see a return of volatility. Potential future tariffs could impact trade relations with China and Europe, prompting investors to initiate new positions. However, many of our fundamental convictions remain valid, particularly regarding the United States which remains the most innovative and resilient economy among developed countries. Inflation is under control, which should allow the Fed to continue its policy of interest rate cuts. This combination of factor should continue to strongly support U.S equities.

However, we actively manage volatility within portfolios by diversifying into other asset classes such as structured products, hedge funds, private debt funds, and infrastructure funds, in addition to other traditional instruments.

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Structured Products (01:00)

Zineb Ahmed

A structured product is a complex debt instrument made up of at least two financial assets: a bond component, often a zero-coupon bond issued by the bank structuring the product, and an optional component that serves as the performance driver. In practice, it's a financial instrument issued by a bank, offering potential returns based on predefined market scenarios.

The various parameters of the product are established in advance during the structuring process to define a risk/return profile. This includes setting the product's maximum duration, repayment conditions, payment method, capital protection level and return objective.

The parameters of the product depend on market conditions and several factors. These include interest rates, dividend levels, volatility, liquidity of the underlying assets, the creditworthiness of the issuer, as well as macroeconomic and geopolitical trends.

For example, a decrease in interest rates reduces the return of the bond component, making the conditions less favorable for investors, particularly for capital-protected products. Conversely, products already in the portfolio could see their valuation increase in the secondary market.

Insert Graph

Another key parameter is volatility. When volatility increases, the value of the options in structured products can appreciate. High volatility increases, the value of the options in structured products can appreciate. High volatility increases the potential for returns. In most cases, the client is a seller of volatility. They often sell an option at a high price, which allows them to secure better terms at launch.

On the other hand, products already launched will be subject to a decrease in their valuation during volatile periods, due to the uncertainty of the realization of predefined market scenarios.

Placement of Structured Products in Portfolio Allocation (1:00)

Diane Alexane

Structured products play a strategic role as a diversification tool within portfolios, helping to enhance protection or capture specific opportunities.

When interest rates were negative, many investors substituted their bond allocation with structured products. Structures issued and redeemed at 100%, with coupon payments, have profiles very similar to those of a bond.

Nowadays, we recommend an allocation between 10% and 30%, depending on the risk profile. Although some investors prefer a higher allocation, with even fully invested portfolios in this asset class.

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At HSBC, we have a very dynamic and personalized approach since we only carry out bespoke issuances. We work with over ten counterparties, systematically conducting tender processes to optimize returns for our clients while meeting the performance and protection criteria set.

We are also very active in the secondary market, allowing our clients to take advantage of post-launch opportunities by subscribing below par if market conditions permit.

Types of Underlying Assets Used in Structured Products (1:00) ZINEB

Zineb Ahmed

The flexibility of structured products makes them an adaptable tool for any of investor. It allows us to adjust the target return level to the acceptable risk level.

Our cross-asset approach enables us to design tailor-made structures and personalized payment formulas.

The products can be geared toward return or follow a directional strategy with coupons conditioned on market conditions, whether bullish, bearish, or stable.

According to your objectives, we can choose from different types of underlying assets : equities from indices such as the CAC40, thematic or geographical indices, government or corporate bonds, commodities, or even funds.

This diversity of mechanisms and underlying allows us to provide an investment solution tailored to each market context.

Depending on the market scenario and investment objective, we offer structures ranging from highly protected ones with coupons and capital guaranteed at maturity, to slightly riskier structures, with capital and coupons conditioned on the realization of predefined market scenarios.

Finaly, it is essential to remember that all structured products carry the risk of capital loss during the life of the product and are all subject to the risk of issuer default, whether they are capital-protected or not.

Conclusion (0 :30)

Diane Alexane

In conclusion, structured products are a relevant diversification tool offering a variety of structures to achieve your objectives. Everyone can find a solution suited to their risk profile and performance expectations.

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