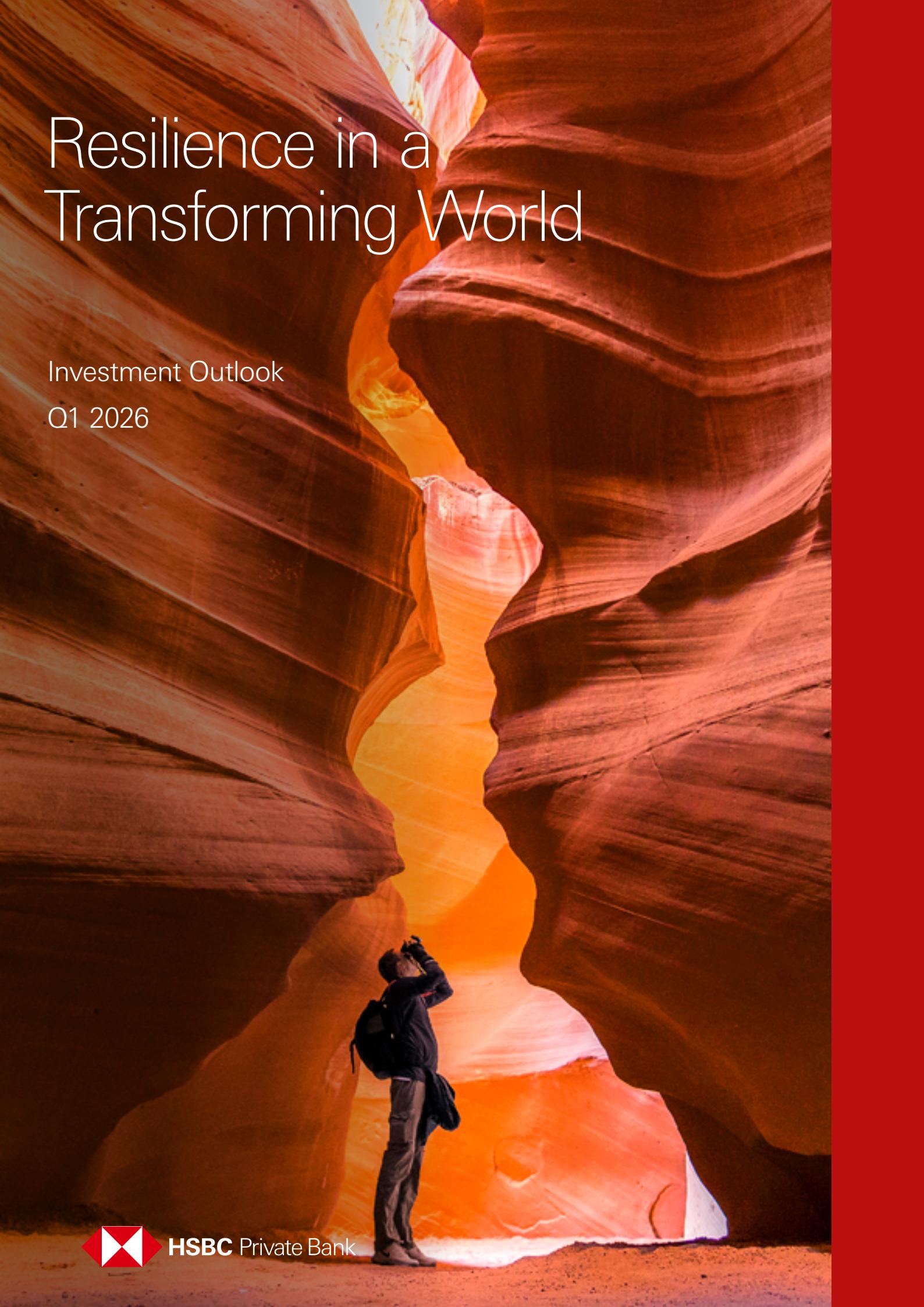


# Resilience in a Transforming World

A photograph of a person standing in a narrow slot canyon, silhouetted against the bright light coming from the opening at the top. The canyon walls are made of layered sandstone, with colors ranging from deep reds and browns to bright yellows and oranges where the light hits them. The perspective is looking down the length of the canyon.

Investment Outlook  
Q1 2026



HSBC Private Bank

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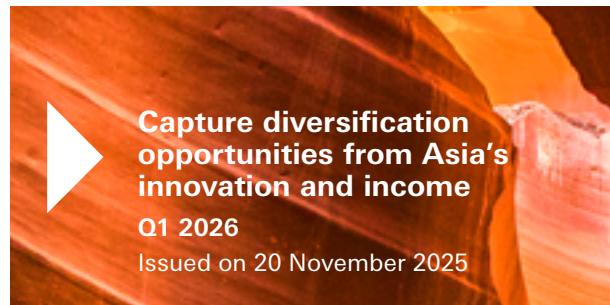
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# Welcome

Dear client,

What will 2026 look like? We think it will resemble a busy building site, especially in the US. Exponential adoption of AI and the cloud require a rapid buildout of data centres. At the same time, more and more companies are complying with the wish of the White House to invest in the US, to achieve its goal of more strategic autonomy in supply chains, advanced manufacturing, tech and defence. Couple this with favourable amortisation rules and we're likely to see a strong capex cycle, which markets under-appreciate.

All this activity could create two bottlenecks. Firstly, in electricity, where rapid investment is needed as demand picks up quickly. Utilities and power infrastructure developers should benefit. The second bottleneck could be in the labour markets, as US net immigration has plummeted, and new activities require re-skilling.

We disagree with some investors' concerns that the cycle is already in its late stage. Instead of worrying about growth, we are more worried that the Fed may delay or end its rate cut cycle in December, much earlier than the market currently expects. That's also based on our view that the Fed will not lose its independence and will realise that the economy does not need that many cuts. The environment we paint is a positive one for riskier assets, but that does not mean that volatility is behind us. The market narrative will probably see many swings, as investors speculate about Fed policy and the impact of inflation on low-income households. Trade tensions and the by now familiar (though still uncomfortable) picture of geopolitical uncertainty will also contribute to mild and temporary volatility, which we need to manage.

Tech innovation and its percolation through the global economy will probably remain the number one market obsession. So, it's no surprise that our preferred equity markets are among those having the most top scores in the Global Innovation Index. They include the US, Mainland China, Singapore, Japan, South Korea and Hong Kong.

Europe unfortunately lags behind, as illustrated by the recent revelation that one year after Mario Draghi's report on EU competitiveness, only 11% of his recommendations had been implemented. Europe also struggles with high debt loads and much less economic growth than the US to give it a chance to grow out of that debt. The comparison with emerging markets is even starker: many EM countries are seeing their credit ratings upgraded thanks to good growth prospects and responsible budget management. That helps explain why we recently upgraded EM bonds and EM equities to overweight.

Asia stands out, with Mainland China focusing on boosting innovation, technology self-sufficiency, corporate profitability with its anti-involution measures, while also supporting shareholder value creation through dividends and share buybacks. Singapore continues to be a relative safe-haven and provides compelling dividend yields. We also like Hong Kong stocks as residential and even office activities have bottomed, while retail spending is picking up. Investor inflows and IPO pipeline for 2026 are strong and policy support for AI should help attract business investment.

So, what are the four priorities for investors as we move into 2026?

**Firstly, we look across and beyond AI for equity returns** as opportunities widen even more than in 2025 and we

want to avoid excessive concentration in Mega Tech. AI not only benefits tech and utilities, but also all smart adopters across other sectors. We diversify into utilities to capture opportunities from strong power demand driven by data centres. We further diversify into financials and industrials to find better value and think M&A is another area to look for opportunities.

**Secondly, we manage market dips with alternatives and multi-asset strategies**, as market narratives will shift and create some volatility. We diversify our USD exposure and apply partial hedging of USD in EUR or GBP portfolios. We are overweight on gold and hedge funds, and like multi-asset approaches – including other alternative assets.

**Thirdly, we unleash the power of income for portfolio strength**, with a clear preference for investment grade and emerging markets (both overweight) compared to high yield (underweight). Infrastructure and volatility strategies can add to income too.

**Lastly, we capture diversification opportunities from Asia's innovation and income** through our overweight view on equity markets in Mainland China, Japan, Singapore, Hong Kong and South Korea. In fixed income, we are overweight on Chinese hard currency bonds and Indian local currency bonds. We maintain our barbell strategy for Asia to balance our strong exposure to AI and tech leaders with our focus on high dividend stocks and quality bonds.



**Willem Sels,**  
Global Chief  
Investment Officer  
20th November 2025

# Portfolio Strategy

We continue to adopt a mild risk-on stance as earnings delivery remains strong, helped by tech-led productivity gains. In addition, more companies create shareholder value. We maintain a positive view on US stocks despite high valuations but have trimmed the extent of our overweight as we see growing diversification opportunities across sectors, styles, geographies and asset classes. We fully expect some market dips, but they should be mild and temporary as the economic cycle and innovation continue. We complement our US stock overweight with positive views on Asia (Mainland China, Singapore, South Korea, Hong Kong and Japan) and diversify with quality bonds, EM bonds, gold and alternative assets.

The exaggerated pessimism of economists also translated into analysts underestimating earnings growth. For Q1 2026, earnings estimates again look particularly low. Again and again, analysts have worried that inflation pressures would translate in shrinking margins. Yet this is not happening, for several reasons. First, technological innovation should lead to productivity growth, with AI alone adding between 1% and 2.5% to labour productivity in the next 10 years, according to the OECD. Secondly, interest-related costs are now falling. And critically, thanks to healthy final demand, firms seem to be able to pass on tariff-related costs to their clients, thus protecting their margins (any refund of tariffs judged illegal by the Supreme Court could be good news for corporates too).

US firms have been particularly good at growing their earnings, compared to other countries. In fact, most of the US equity market's return has come from earnings growth rather than an expansion of P/E multiples. This is true for the Mag7, but also for the rest of the US market and the key reason why we don't think that AI is in bubble territory. This strong earnings growth stands in sharp contrast to most other geographies – especially Europe – where the returns have been led by multiple expansion.

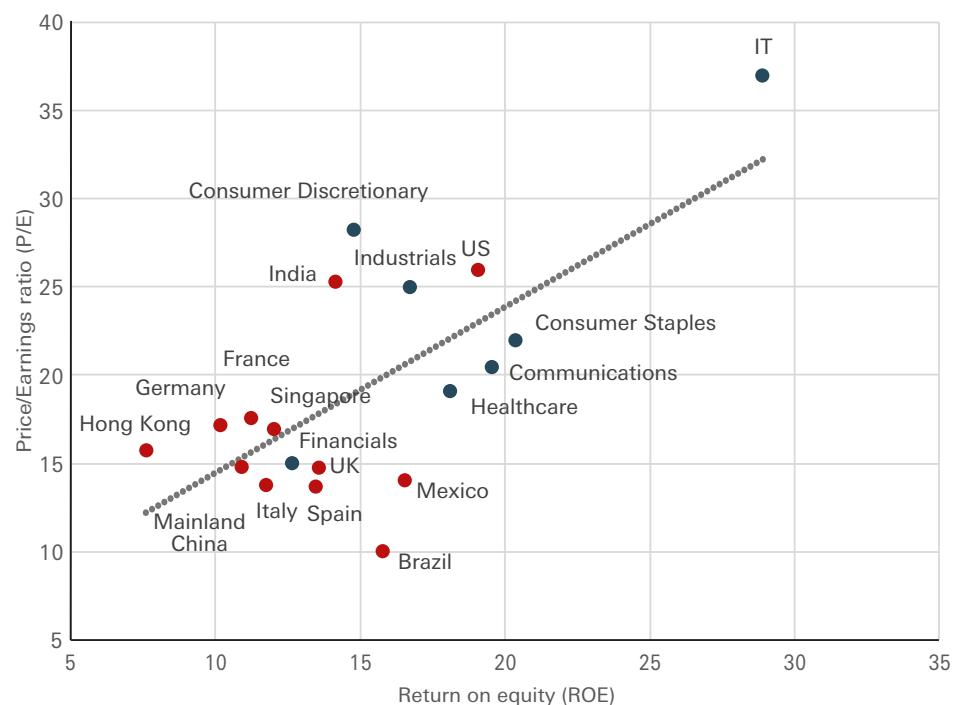
While some investors have a small underweight on US assets due to concerns over concentration risk, very few people risk taking a large underweight as earnings growth is solid. Fund flows into US assets only saw a small and brief dip in April (after Liberation Day) but never went negative. Rather than missing out on

## Don't count out the USA

We're sure you have heard of the adages "Don't fight the Fed!", and "Never bet against the US consumer." And maybe we should add a new one for economists: "Don't underestimate the resilience of the US economy".

Indeed, over the past two years, economists have underestimated economic growth every single quarter, with just one exception in Q1 2025, when companies rushed to import goods ahead of the 'Liberation Day' tariffs. Most of the time, economists underestimated the consumer, while more recently, they underestimated the importance of AI-related investment. Looking ahead, we expect some challenges for lower income households (due to sticky inflation) but strong spending by higher income households (helped by tax breaks and the wealth effect). AI-related investment should remain a key driver of growth.

## US and IT valuations appear less stretched when taking into account their high ROE



Source: Bloomberg, I/B/E/S consensus analyst numbers, HSBC Private Bank as at 19 November 2025.

healthy US equity returns, investors with concentration worries have been applying partial hedging of USD exposure through an FX overlay. We think this strategy makes much more sense than cutting exposure to US stocks, and we maintain our US equity overweight, with trimmed exposure.

### **Volatility around the positive trend**

Even as the bull market continues, we're bound to see a fair degree of volatility in 2026, for several reasons. The volatility in October illustrated that a sharp run-up in valuations can lead to profit taking. Concerns over debt piles, ROI on AI investments, elevated expectations of megacap earnings, European elections and the rise of populism - and (closer to November) the US mid-term elections - can all lead to volatility too. But we think none of these factors should end the bull market if earnings continue to roll in, as we expect.

A key trigger for volatility will be the regular re-assessment by the market of the Fed policy. Hawkish investors who worry about sticky inflation and a reduction of labour supply will go into a tug-of-war with the doves, who worry about consumer demand and potential layoffs as companies adopt AI and slow down their hiring plans. Our own view is that inflation is a bit too sticky, and economic activity too resilient, for the Fed to cut as much as the market currently expects. That could take some time to affect markets but will probably

limit the further downside for US Treasury yields. As a result, we have cut our duration exposure to medium. For similar reasons, we hold a neutral view on USD rather than a very bearish view and instead put the emphasis on FX diversification.

What makes it tricky for investors is that assets have become more correlated in recent months, with equities, bonds and gold often moving together. Part of the explanation lies in the ample liquidity in the market. Another explanation may be a lack of pronounced growth or inflation views, with the focus instead being on Fed policy, which often affects different asset classes in the same direction. Amid this higher correlation, investors need to work harder to achieve well diversified portfolios, using our policy to 'diversify your diversifiers'. That means avoiding single-stock concentration, sector concentration or style concentration, and diversify across geographies and asset classes. Adding to some smaller markets with solid fundamentals can benefit from an interesting flow dynamic: in case investors start to diversify away from the large US market into much smaller markets, this can rapidly drive up those smaller markets. In fact, we already saw this phenomenon at work in 2025, as flows drove up valuations in mainland China and Hong Kong.

Another approach is to start by identifying the potential risks or investor concerns, including growth, inflation,

debt piles or high valuations and find assets that would do well in these risk scenarios. As our table shows, some of our preferred assets can help manage these risks, but there is no 'silver bullet' that does well under all these scenarios. Because we fully expect the market to worry about different risks at different times, it makes sense to take broad exposure to these assets to help steady the boat. We should highlight our underweights too in this respect - consumer staples (this should help if growth slows or inflation remains sticky), high yield (valuation concern, market volatility or credit default scenario), France (debt and election concerns), Japanese government bonds (debt sustainability concerns) – as well as our preference for large US banks over regional banks (credit default scenario).

### **Increased exposure to EM and Asia**

During 2025, the weak USD and the Fed rate cuts boosted EM equity and bond performance, and we have progressively been adding some exposure. But as the Fed may come to the end of its rate cuts and USD may trade in a range, the support for EM will need to come from other, more local factors.

The first positive is that the trend of EM sovereign rating upgrades contrasts with that of developed markets, where moderate growth and high debt piles result in rating downgrades. Increased credibility of EM central banks helps support sentiment too, for example in South Africa where the adoption of an inflation target has led us to upgrade local bonds and stocks. An attractive yield pickup in bonds and a valuation discount in equities is helping support flows too, especially as investors are looking for active geographical diversification.

The investment case is most positive for Asian EM, and the broader Asia Pacific markets region due to the region's geared exposure to the super AI investment cycle, pro-growth policy priorities, de-escalation of trade tensions following the latest round of US trade deals. This translates in our overweight positions on Mainland China, Singapore, South Korea, Hong Kong and Japan equities.

### **An overview of some assets we like and how they can help achieve portfolio resilience**

	Current common investor concerns				Investor objective
	DM Debt sustainability	US Tech valuations	Inflation risks	DM growth risks	
Quality bonds	Red	Green	Red	Green	Green
Gold	Green	Yellow	Green	Green	Red
Infrastructure and utilities	Green	Yellow	Green	Green	Yellow
Private credit	Green	Yellow	Yellow	Red	Green
Currency Diversification	Green	Yellow	Yellow	Yellow	Yellow
Financials	Yellow	Green	Yellow	Red	Green
Industrials	White	Green	Red	Red	White
Mainland China, Hong Kong and Singapore stocks	Yellow	Green	White	Yellow	Green

Source: HSBC Private Bank as at 19 November 2025.

China's 15th Five Year Plan sets policy priorities on technology self-sufficiency, innovation, and "high-quality development", reaffirming the demand-side-driven growth shift for the next five years. Amid heightened external uncertainty, China will roll out more policy stimulus. That will involve initiatives to boost consumption, improve people's livelihoods and stabilise the property market. It also means supply-side reform ('anti-involution', which should boost corporate margins) and increasing technological self-reliance. Our barbell investment strategy for Mainland China aligns with these policies and with the external challenges, as we keep exposure to both the tech sector and high dividend quality stocks. We think investors will continue to add more China exposure, especially as foreign investors are underweight but are enticed by the tech developments, while local investors are shifting more money into stocks and domestic bond markets as their risk appetite improves. We also overweight on Hong Kong stocks due to attractive valuations, strong mainland Chinese liquidity inflows and increased IPO activity. The stabilisation in residential housing and a positive wealth effect boost the

outlook for domestic consumption. As for Singapore, it is a relatively defensive market with a high dividend yield, which is a nice complement to other portfolio holdings. We recently added to our South Korean and Japanese equity exposures, further diversifying our global equity footprint and increasing our Asian exposure. Both markets are supported by the AI boom and corporate governance reforms, while the pro-stimulus policy agenda of Japan's new Prime Minister Sanae Takaichi should support a sustained reflation trend.

### **Our alternatives allocation**

Where appropriate for the portfolio, we continue with our policy to allocate to alternative assets across vintages. It is clear that we think infrastructure is well supported by strong demand for infrastructure funding and its stable, inflation-linked cash flows through the cycle. Hedge funds have a rich opportunity set due to the macro-economic shifts, dispersion in equity markets between winners and losers from AI, and rising M&A activity. While we currently have a mildly overweight allocation to hedge funds, we think we could add to it further in 2026 if a run-up in equity, bond or gold markets make

us want to take a less directional view. As for gold, recent profit taking was followed by a bounce, which illustrates investors continued strong interest in gold as a diversifier. As a result, we maintain our overweight view on gold.

Private equity should find plenty of opportunities with young companies in new industries and benefit from rising M&A leading to easier exits. While funding costs will come down, we prefer GPs who focus on operational improvements (e.g. with new technologies) rather than excessive leverage.

Private credit has been in the headlines, with First Brands' and Tricolor's bankruptcies leading some to worry about underwriting standards or the potential rise in delinquencies. As leverage ratios are stable and coverage ratios have improved while interest rates are falling, we do not expect a sharp rise in private credit defaults (Fitch is even expecting a mild drop in defaults). That said, due diligence, careful manager selection and portfolio diversification are key. Following above-average returns in recent years, we expect private credit returns to be more in line with the historical average.



## Our four investment priorities for Q1 2026

### 1. Look across and beyond AI for equity returns

**Why?** AI adoption and monetisation should continue to accelerate but as valuations have run up and there is a danger of excessive concentration of tech in portfolios, we broaden our search. We look for sector and style diversification and uncorrelated sources of equity returns.

**What?** While we maintain our overweight in technology and communication services, we look for winners of AI adoption and overweight utilities due to accelerating electricity demand. Industrials and financials offer good value and style diversification. And our new M&A and Shareholder Value Creation theme helps find uncorrelated returns.

### 2. Manage market dips with alternatives and multi-asset strategies

**Why?** While the bull market should continue, the busy news calendar and volatile economic data releases will probably lead to temporary dips. These need to be managed by diversifying the diversifiers to allow portfolios to continue to participate in the longer term upward trend.

**What?** Beyond our sector diversification, we look for geographical and multi-asset diversification, including gold, hedge funds, private credit, private equity and infrastructure. A multi-asset approach can achieve diversification in one step. Volatility strategies can protect against temporary drawdowns. We diversify our FX exposure as USD may fluctuate.

### 3. Unleash the power of income for portfolio strength

**Why?** Income is an essential part of portfolio returns and it can help create smoother portfolio returns. Following the fall of US rates and bond yields, we need to tweak our bond strategy and look for additional sources of income to build portfolio strength.

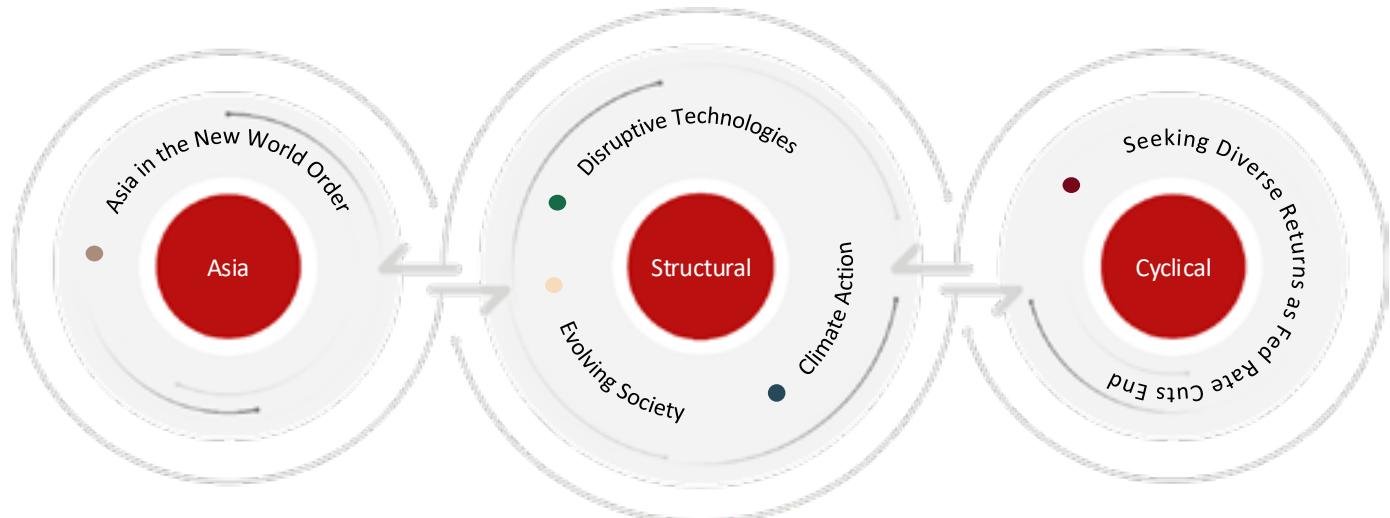
**What?** Within fixed income, we have moved away from high yield and prefer investment grade as spreads are tight. We also see value in EM hard currency corporate bonds and find the uncorrelated returns of EM local currency bonds attractive. Infrastructure can provide stable income and a partial inflation hedge, while volatility strategies can complete the search for income.

### 4. Capture diversification opportunities from Asia's innovation and income

**Why?** China's policy priorities of innovation and technology self-sufficiency for the new five-year plan, Asia's AI investment boom, corporate governance reforms, pro-growth policy initiatives and de-escalation of trade tensions offer multiple supportive tailwinds for the Asian equity and credit markets. We see compelling diversification opportunities in Asia's rapidly growing AI ecosystem and diverse sources of enduring income.

**What?** Our barbell strategy balances tech innovation champions with a strong focus on high dividend stocks and quality bonds. We are overweight on equity markets in Mainland China, Hong Kong, Japan, Singapore and South Korea. Our Asian High Conviction Themes – Asia's Data Centre Boom, China's Innovation Champions, Power Up Asian Shareholder Returns, and High Quality Asian Credit – all unlock a rich opportunity set of structural growth leaders and resilient income opportunities in Asia.

## Top Five Trends for 2026 and Q1 High Conviction Themes



Asia	Structural	Cyclical
<ul style="list-style-type: none"> <li>● Asia in the New World Order           <ul style="list-style-type: none"> <li>- Asia's Data Centre Boom</li> <li>- China's Innovation Champions</li> <li>- Power Up Asian Shareholder Returns</li> <li>- High Quality Asian Credit</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>● Disruptive Technologies           <ul style="list-style-type: none"> <li>- Aerospace and Security</li> <li>- Evolving AI Ecosystem</li> </ul> </li> <li>● Climate Action           <ul style="list-style-type: none"> <li>- Energy Security</li> <li>- Biodiversity and Circular Economy</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>● Evolving Society           <ul style="list-style-type: none"> <li>- Social Empowerment and Well-being</li> <li>- Streaming and Subscriptions</li> </ul> </li> <li>● Seeking Diverse Returns as Fed Rate Cuts End           <ul style="list-style-type: none"> <li>- North American Re-industrialisation</li> <li>- Global Financials</li> <li>- M&amp;A and Shareholder Value Creation</li> <li>- Income Through Active Credit Selection</li> </ul> </li> </ul>

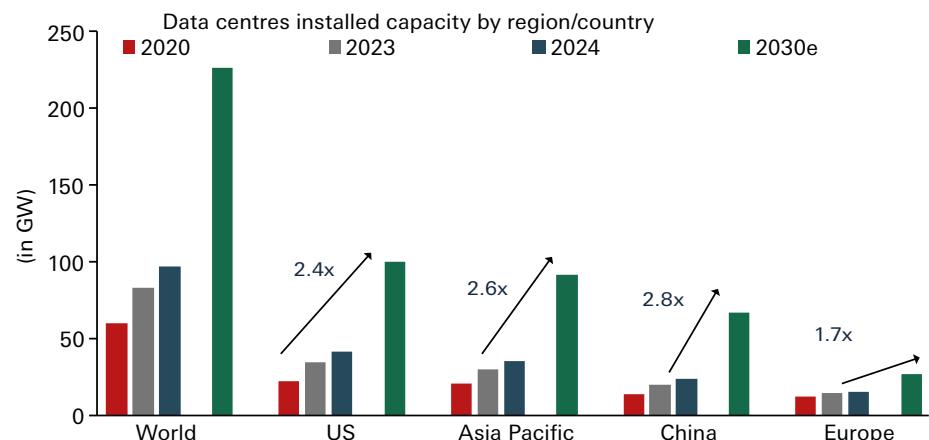
Source: HSBC Private Bank as at 19 November 2025.



# Asia in the New World Order

As the world's technology hardware powerhouse, largest consumer and manufacturer, Asia is all set to benefit from the AI investment cycle and innovation-driven productivity gains. We see compelling opportunities in a rapidly growing Asian AI ecosystem at attractive valuations. The region also offers diverse sources of enduring income.

**Data centre capacity in Asia Pacific is expected to see the fastest growth by 2030, led by China, outpacing the US and Europe**



Source: International Energy Agency (IEA), HSBC Private Bank as at 19 November 2025. Forecasts are subject to change.

## Our Four High Conviction Themes

<b>1. Asia's Data Centre Boom</b>	Asia commands competitive advantages over the US in the data centre buildout due to strong government policy support, competitive energy costs, and manufacturing proximity. We favour Asian chipmakers, semiconductor equipment manufacturers, power equipment and smart grid suppliers.
<b>2. China's Innovation Champions</b>	China's 15th Five-Year Plan has named tech self-sufficiency and innovation-driven growth as two policy priorities. The outlook for China's AI cloud is promising. We favour national champions across the AI value chain, from AI cloud and agents, software, to physical AI and AI-enabled biotech leaders.
<b>3. Power Up Asian Shareholder Returns</b>	This theme positions in quality companies which enhance ROE by paying high dividends, increasing share buybacks and driving value-adding M&A. Consensus estimates Asia ex-Japan's return on equity (ROE) to rise from 10.8% in 2024 to 13% in 2027, supported by corporate governance reforms.
<b>4. High Quality Asian Credit</b>	Recent Fed cuts, local disinflation, solid credit fundamentals, and monetary easing by Asian central banks support Asian IG bond performance. We are overweight Chinese hard currency bonds and Indian local currency debt and also favour Japanese and Australian corporate IG and financials.

13.1%

122%

220%

13.0%

Data centre capacity growth in Asia is projected at 13.1% CAGR over 2025-2030, ahead of 9.2% in North America and 5.3% in Europe

China's AI cloud market surged 122.4% y-o-y in H1 2025, driven by rapid AI adoption and training demand growth after the DeepSeek breakthrough

Japanese companies announced a surge of 220% y-o-y in share buybacks in April 2025

Asia ex-Japan's ROE is on a steady uptrend from 10.8% in 2024 to 13% in 2027e

Source: KPMG, IDC, Bloomberg, Nikkei Asia, HSBC Private Bank as at 19 November 2025. Forecasts are subject to change.

The global AI and innovation race is reshaping the world economic order and becoming a battleground of geopolitical competition to strengthen national power, security and influence. As the world's technology hardware powerhouse, largest consumer and manufacturer, Asia stands out as a geared beneficiary of the AI investment cycle and innovation-driven productivity gains. We see compelling and diverse opportunities from Asia's vast and rapidly growing AI ecosystem at attractive valuations. The region's resilient domestically oriented economies also offer diverse sources of enduring income. National AI strategies are firmly in place in China, Japan, South Korea, India, Singapore, Malaysia and Indonesia with direct state funding, tax breaks and industrial policy incentives to support AI infrastructure investments. Ageing demographics in North Asia drive rapid adoption of robotics and automation in the manufacturing sector while young populations in India and ASEAN create enormous digital consumption demand. Amid growing concerns about the risks of delayed AI earnings in the US, we launch the new theme on **Asia's Data Centre Boom** that captures structural growth opportunities from the rapid buildup of data centres and energy infrastructure across Asia. We believe Asia commands distinctive competitive advantages over the US in the data centre buildup due to strong government policy support, competitive energy costs, high renewables' potential, manufacturing proximity and massive digital consumption data and user scale. Asia's 2.9 billion internet users (over 50% of global online population) generate huge cloud and AI workloads.

Asia Pacific is projected to deliver the world's fastest buildup of data centres by 2030, driven by strong local AI demand with deep penetration of digital services. According to KPMG estimates, data centre capacity in Asia Pacific is projected to grow at CAGR of 13.1% over the 2025-2030 period, much faster than 9.2% in North America and 5.3% in Europe.

Asia's robust renewable energy infrastructure, land availability, lower

labour and electricity costs, power grid stability and more friendly regulatory environment have attracted many US hyperscalers to invest in data centres, especially in ASEAN and India. We favour Asian chipmakers and semiconductor equipment manufacturers which benefit from supercharged demand for data centres. Industry leaders in the data centre supply chains, power equipment and smart grid suppliers benefit from strong investments in AI infrastructure.

Since the DeepSeek breakthrough in January 2025, China's rising global leadership in AI innovation and advanced manufacturing has driven a strong re-rating of the Chinese equity market. Our theme on **China's Innovation**

**Champions** focuses on national champions across the AI value chains, spanning from AI cloud and agents, software, to physical AI and AI-enabled biotech leaders.

China's Fourth Plenum endorsed the 15th Five-Year Plan (2026-2030) that set technology self-reliance and innovation-driven growth as two top priorities. China's cost advantages, engineering capabilities and rapid commercialisation have accelerated the pace of AI adoption across many industries.

According to IDC data, China's AI cloud market surged 122.4% Y-o-Y in H1 2025, driven by rapid AI adoption and training demand growth after the DeepSeek success. AI-enabled drug discovery is supercharging Chinese biotech leaders which now command a stronger competitive position in the global biotech sector driven by globalisation of business development.

As areas such as Chinese property and consumption face continued headwinds, we maintain our barbell strategy which balances AI exposure with a strong focus on quality income. Our theme on

### **Power Up Asian Shareholder Returns**

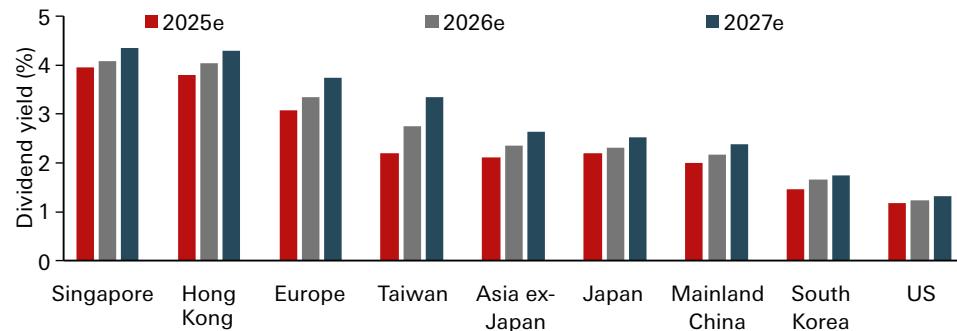
stays focused on quality companies that improve ROE by paying high dividends, increasing share buybacks, and taking value-adding corporate actions.

Corporate governance reforms in Japan, China, South Korea and Singapore support our overweight positions in these markets. The "value unlock" package launched by the Singapore government in September and the "Value-up Programme" in South Korea should increase corporate actions to lift ROE.

Higher dividend payouts and increasing share buybacks are expected to improve Asia ex-Japan's ROE to 13% in 2027e from 10.8% in 2024. Japanese companies announced share buybacks in April that surged 220% y-o-y. Despite the YTD market rally, 2025e dividend yields still look attractive in Singapore at 4.0% and Hong Kong at 3.8%, compared to the global 1.8% average.

Lower Fed rates create room for Asian central banks to cut rates further amid soft inflation and stable currencies. Our theme on **High Quality Asian Credit** focuses on Asian IG credit with medium duration (5-7 years). We are overweight on Chinese hard currency bonds and Indian local currency debt for their attractive carry. We seek opportunities in Asian IG bonds denominated in EUR, AUD and GBP to diversify FX exposure. Asian IG bonds offer attractive headline yields of around 4.4% and should benefit from global diversification flows and strong local investor demand.

### **Dividend yields of Asian equity markets are projected to increase in 2026 and 2027**

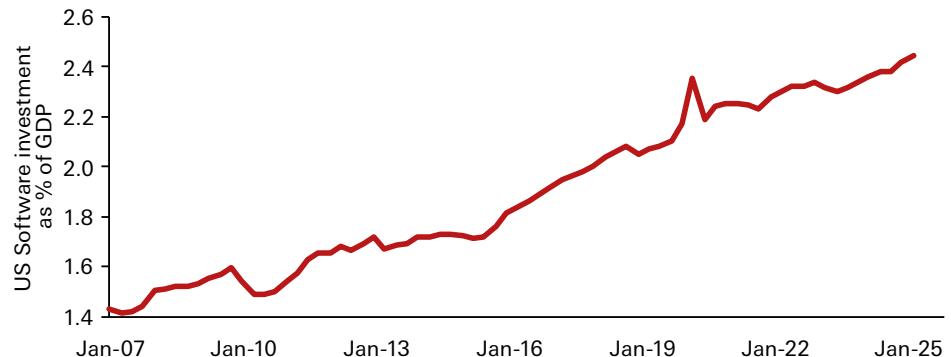


Source: Bloomberg, HSBC Private Bank as at 19 November 2025. Past performance is not a reliable indicator of future performance.

# Disruptive Technologies

Technologies are converging around four key developments, namely electrification, digitalisation, automation and artificial intelligence. Together, these trends will spur interoperability and drive a new cycle of productivity growth, leading to the formation of completely new businesses categories.

**The share of US software investments as a percentage of GDP has been on a steady rise**



Source: Macrobond, HSBC Private Bank as at 19 November 2025.

## Our Two High Conviction Themes

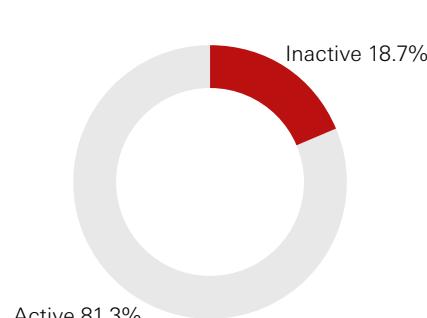
<b>1. Evolving AI Ecosystem</b>	The focus has shifted from AI LLMs to the deployment of AI at scale and the essential supporting infrastructure - including data centres, servers, semis and utilities - that is essential for AI's next development phase. Those companies directly benefitting in this phase include software-as-a service, cloud services, and intelligent automation.
<b>2. Aerospace and Security</b>	Aerospace, defence and security industries are all experiencing a renaissance, expanding due to a combination of innovative new technologies, commercial opportunities and perceived risks. AI software is contributing to evolving technological capabilities that are radically changing applications, products and redefining markets, including satellites, aircraft, drones etc.

**By offering different applications, satellites play a key role in the advancement of several nations' aerospace technology and security**

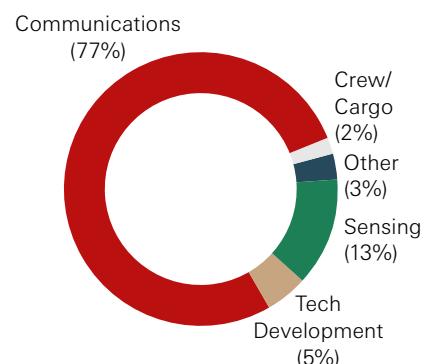
Satellites in the Orbit (2025)



**By country**



**By status**



**Small satellites by application**

Source: N2YO.com, European Space Agency, HSBC Private Bank as at 19 November 2025.

## Fast forward

The pace of technological disruption has suddenly started to accelerate. Why? China's rise as an R&D powerhouse is undoubtedly part of the answer. This has fueled competition across a large spectrum of industries and advanced technologies, from medicine development to outer space. An even more important factor has been the rapid evolution of AI LLM software models and associated technologies.

While the US remains the dominant IT superpower by some margin, Asia's technology titans are creating serious competition in the race to dominate key technology categories.

Our **Evolving AI Ecosystem** theme focuses on the infrastructure and interdependencies that are key to the development of AI's potential. These interdependencies were recently highlighted by a wave of substantial commercial collaboration agreements and announcements, including semiconductor, hardware, software, services and utilities. The demand for additional processing capacity has risen exponentially following the introduction of AI LLMs. This has triggered a wave of investments to rapidly expand data centres. McKinsey estimates that USD 5.2trn of investments are needed in data centres by 2030. The size of the investments has already led to emergence of specialisation within the supply chain. Many of the megacap IT companies that own the more advanced LLMs are opting to rent data centre capacity rather than owning the assets. The data centre market is expected to grow by 10.5% per annum until 2030, reaching USD 622bn.

Data centres are filled with a very large number of electricity-hungry semiconductors that require cooling. Utility companies should benefit from this rising demand for electricity and water in the medium to long term, but they too must invest to expand capacity and upgrade infrastructure as we highlight in our Energy Security theme. The same IT companies are also signing multi-year electricity supply guarantee agreements with electricity generators.

This gives utility companies the confidence to start adding capacity, including restarting nuclear power stations.

As businesses incorporate AI software in their processes, products and services, we expect demand for cloud computing and data centre capacity to increase rapidly. It is important to note that the infrastructure used by AI is also key for other technologies including streaming and subscription services, cloud-based services etc. The growth in electric vehicles (EVs) combined with rising usage of electrical appliances including air-conditioners is already stressing electricity capacity during peak demand periods.

A related area that has also seen substantial recent investment is the subject of our second theme, **Aerospace and Security**.

The civilian aerospace industry has struggled with quality and supply chain issues, but it appears to have turned the corner with full order books and rising passenger number across most regions (see chart below).

Defence aerospace and related military businesses have also seen a strong pick-up in business after decades of falling sales. Chronic under-investment by many governments in defence capabilities has resulted in a surge in demand triggered by recent geo-political developments. Western governments want to lift defence spending to a target of 5% of GDP in the medium term. This should

enable the much-diminished industry to invest in both new capacity and R&D.

Cybersecurity is also being prioritised due to the growth in cyber attacks forecast to have an economic cost USD 1.2-1.5trillion in 2025. Digital infrastructure is particularly vulnerable and is actively targeted by both criminal and state-sponsored groups.

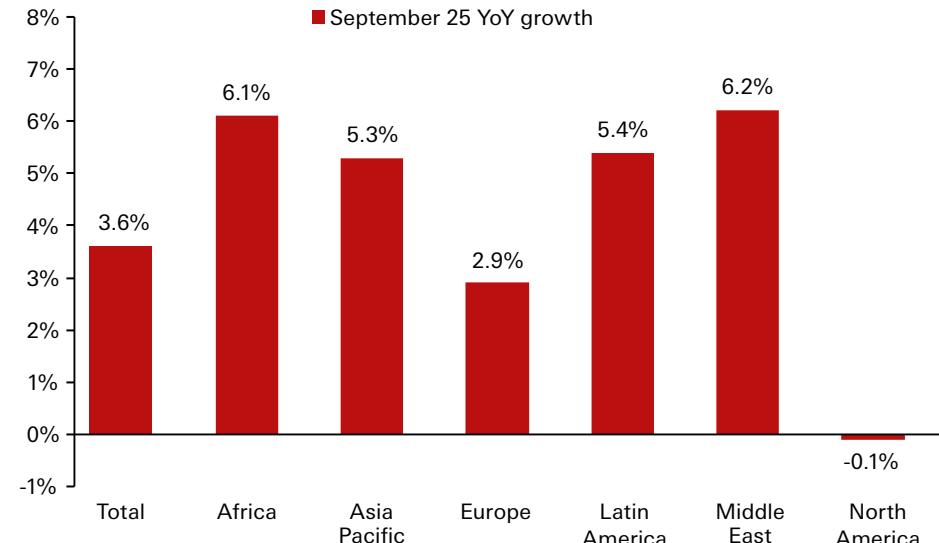
Cyber-security is of increasing importance given the advances in digitalization of most areas of business, government and private spheres.

Competent cybersecurity is critical to almost every business and their clients with breaches often causing substantial disruption over extended periods and incurring substantial costs to the business and customers. Governments are not immune from the same risks as hostile actors have sought to disrupt government functions.

AI offers great potential, but also a challenge. For example, autonomous drones powered by AI software are capable of operating independently over greater distances. Ensuring they are not jammed or hijacked is a challenge. Drones have become a completely new industry segment.

In summary, the world is undergoing once-in-a-generation changes heralded by the arrival of AI models. Their rapid evolution is creating numerous investment opportunities for new and existing businesses, encompassing a wide range of industries.

## There has been a steady growth in passenger traffic as shown by the commercial aircraft revenue passenger- kilometers (RPK) gauge



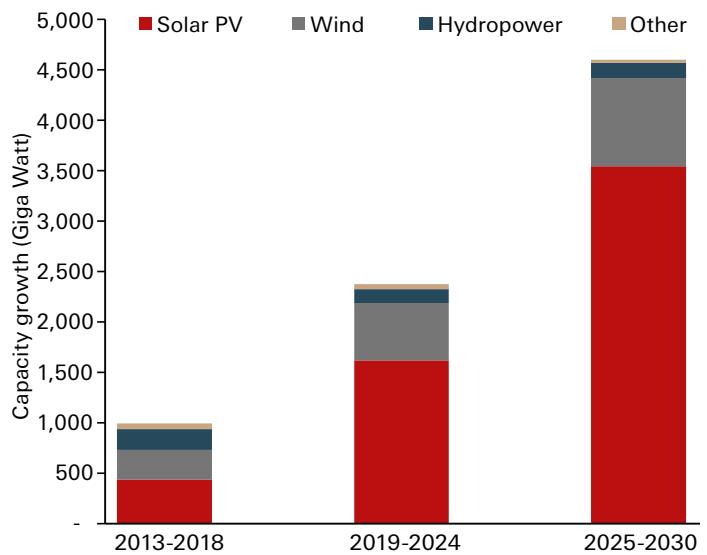
Source: IATA, HSBC Private Bank as at 19 November 2025.

# Climate Action



Share prices of renewable energy companies have surged given the optimism on AI-related demand. With AI's seemingly insatiable energy requirement and the advantages of co-location of power sources with AI data centers, the world needs even more renewable energy. Energy security has become even more apparent given the rare earth supply concerns. As climate risks intensify, the circular economy and biodiversity management present significant investment opportunities for sustainable growth and transformation.

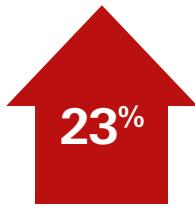
**Global renewable electricity capacity growth is forecast to double by 2030, led by solar PV**



Source: International Energy Agency (IEA) Renewables 2025, HSBC Private Bank as at 19 November 2025.

## Our Two High Conviction Themes

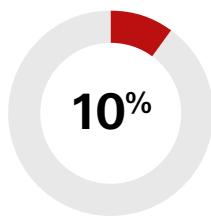
<b>1. Energy Security</b>	It is critical for a country to have the ability to deliver independent and reliable power amid rising geopolitical tensions. Clean energy technologies can improve energy security and deliver decarbonisation at the same time. The sharp fall in clean energy equipment costs represents a huge opportunity to drive major changes in the global energy mix.
<b>2. Biodiversity and Circular Economy</b>	As climate risk intensifies and ecosystems degrade, biodiversity is not just an environmental issue, but an opportunity for companies if it is carefully managed. The circular economy, estimated to be worth USD4.5trn, is a framework for changing the way we produce, use and consume our products and food, aiming to halt and reverse biodiversity loss.



Energy storage installations should see 23% CAGR in GW terms between now and 2035, driven by rising demand for renewable energy and energy security



The costs of clean energy tech are expected to fall 22%-50% by 2035, according to BNEF's projection, as there is still room for further technological and economic efficiencies



Clean energy technology contributed more than 10% of China's GDP in 2024, led by the "new three" of EVs, batteries and solar

Source: Centre for Research on Energy and Clean Air (CREA), BNEF Levelized Cost of Electricity report, BNEF 2H 2025 Energy Storage Market Outlook report, HSBC Private Bank as at 19 November 2025.

Share prices of renewable energy companies have surged with the optimism on AI-related demand. The International Energy Agency (IEA) has highlighted “the age of electricity” in which higher electricity demand does not come only from industrial sectors and electric mobility, but also, perhaps most importantly, the Cloud and AI use cases. With the AI’s seemingly insatiable energy needs, the advantages of co-location of power sources with AI data centers and the requirement in reducing carbon emission, the world needs even more renewable energy. Power requirements from AI computing are particularly relevant to nuclear power (more stable and efficient with innovation in small reactors) and energy storage systems (addressing interruption risks in the main utility power). In the US, a recent renewable energy company survey has revealed respondents seeking some onsite power generation by 2030 rose from 13% to 38% over the past year, while those seeking 100% onsite generation rose from 1% to 27%.

Despite the US policy shift to cost effective power and grid stability, we note that global renewable energy resources continue to grow strongly, led by solar PV which remains one of the cheapest options for new generation capacity in most economies. The IEA forecasts the amount of installed renewable power to increase by 4,600GW by 2030 – roughly equivalent to

the combined power generation capacity of China, the EU and Japan – and solar PV will account for around four-fifths of the increase.

In addition, we continue to see encouraging progress for renewables to replace fossil fuels amid a challenging global geopolitical landscape. The economic costs of climate change could be huge if the necessary investments to reduce global warming are not made. Climate-related natural disasters have become more frequent over the past two decades.

The restrictions on rare earth exports have recently been under spotlight as trade tensions are ongoing. Indeed, these critical materials are essential to the energy transition as rare earths are used in many energy technologies such as wind turbines, solar panels, energy storage, etc. The supply of critical minerals is concentrated as growth in recent years is largely in the hands of a few leading suppliers. All these factors underline the importance of diversification to ensure the long-term supply of these critical minerals.

### Energy Security

Elevated geopolitical tensions and rapidly rising energy demand from AI are prompting governments and businesses to achieve greater energy independence. The wider adoption of clean energy technologies can help deliver decarbonisation, while improving

energy security. Riding on a sharp fall in clean energy equipment costs, the global energy mix should continue to shift. We see a sustained reinvigoration of interest in alternative energy, where attractive investment opportunities arise.

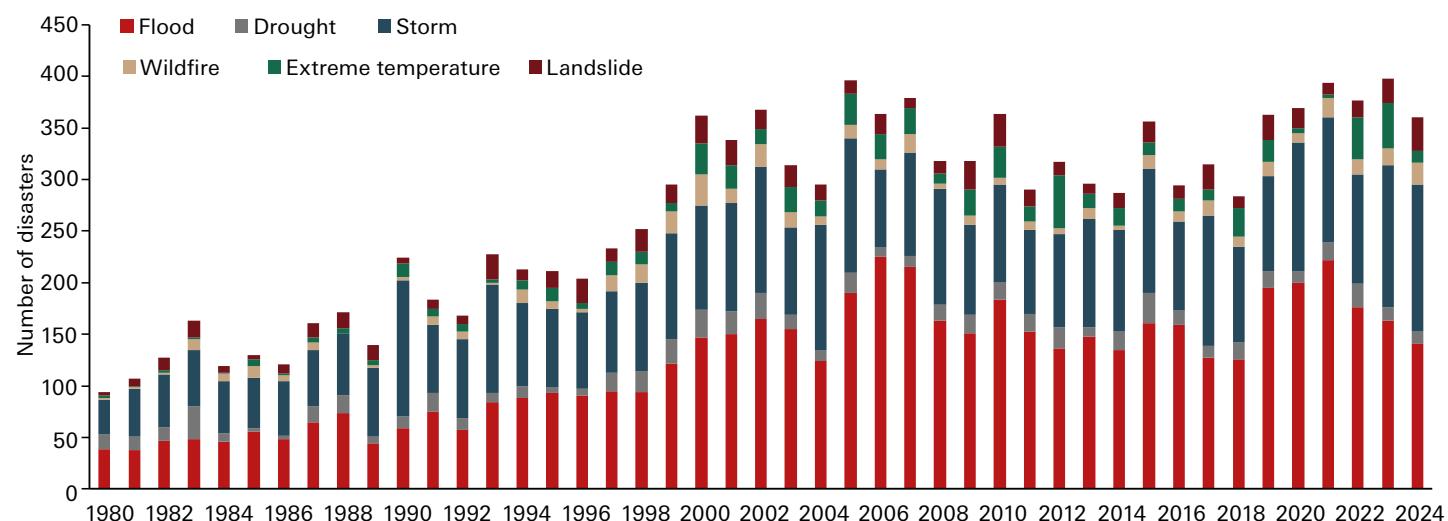
Even with the protectionist measures, we see more international cooperation between countries. For example, India and the US are having talks on energy security and oil trade as the two countries deepen the strategic partnership in the energy sector. For the nuclear industry, the UK and the US have signed major new deals to turbocharge the build of new nuclear power stations in both countries.

### Biodiversity and Circular Economy

As climate risk intensifies and ecosystems degrade, biodiversity is both an environmental issue and an opportunity for companies if it is properly and diligently managed. From agriculture to tech, finance to infrastructure, biodiversity is a central concern for investors, regulators, and consumers. The European Union's Nature Restoration Regulation, introduced in 2024, is a clear signal which sets binding targets to restore degraded ecosystems.

To halt and reverse biodiversity loss, we need to fundamentally change the way we produce, use, and consume our products and food. The circular economy, estimated to be worth USD4.5trn, is a framework for such a transformation.

### Climate-related natural disasters have become more frequent over the past two decades

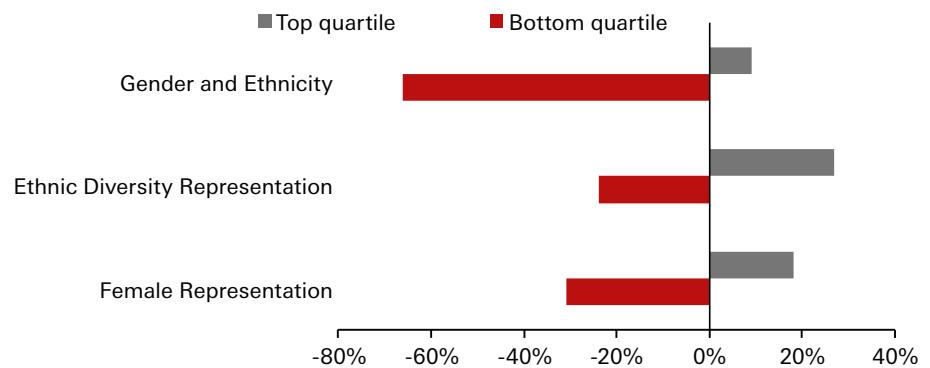


Source: International Monetary Fund (IMF)'s Climate Change Dashboard, HSBC Private Bank as at 19 November 2025.

# Evolving Society

Demographic and technological shifts have cast a spotlight on importance of diversity, inclusion, growing importance of wellness and changing consumer behaviour. Positioning portfolios to capture these themes can help investors tap into attractive opportunities benefitting from long-term societal shifts.

**The likelihood of financial outperformance of a team increases when it is diverse, both ethnically and gender wise**

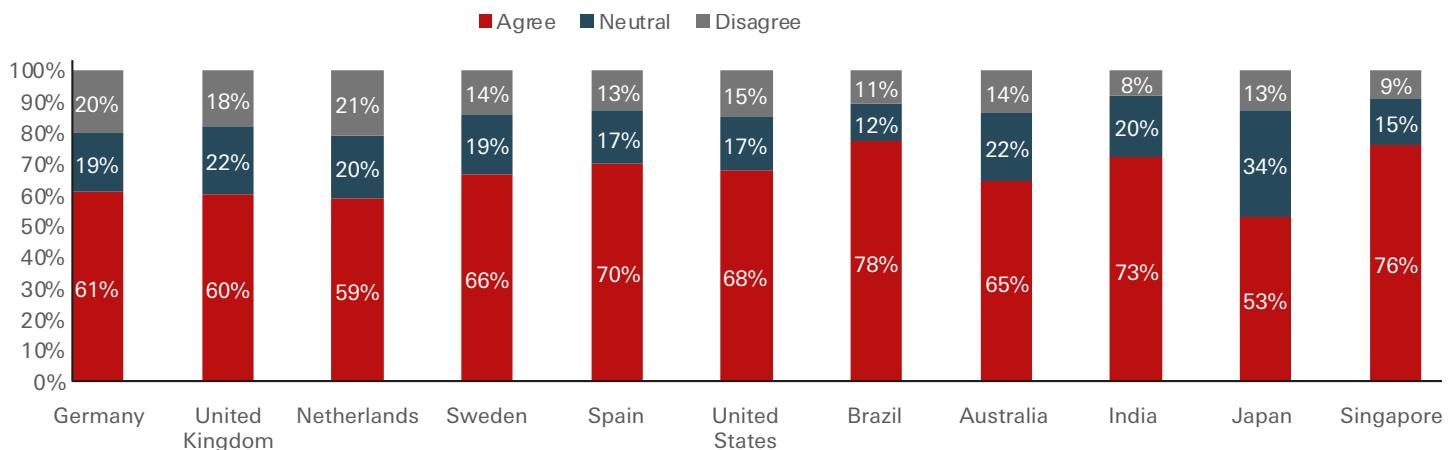


Source: McKinsey, HSBC Private Bank as at 19 November 2025.

## Our Two High Conviction Themes

<b>1. Social Empowerment and Well-being</b>	Our theme focuses on gender equality, diversity, access to quality education and healthcare, and younger populations putting increased emphasis on personal well-being.
<b>2. Streaming and Subscriptions</b>	The theme focuses on streaming and subscription businesses that have become the dominant way to consume entertainment. Such businesses continue to grow and develop new products, grow market share and leverage technology.

**Surveys indicate that streaming has replaced traditional Television for majority of respondents across major global economies**



Source: Simon-Kucher Global Streaming Study 2025, HSBC Private Bank as at 19 November 2025.

Societal transformation is reshaping consumption, labour markets and investment flows at a rapid pace. Ageing demographics, the increasing influence of Millennials and Gen-Z, rising expectations around fairness and access, and a shift from ownership to subscription-based lifestyles are creating new industry leaders while challenging old business models.

Within our Evolving Society trend, we highlight two areas of opportunity—Social Empowerment & Well-Being and Streaming & Subscription Services—which are designed to capture the best of the opportunities being presented in public equity markets.

### **Social Empowerment and Well-being**

Ageing populations, economic inequity, and heightened awareness of physical and mental wellness are influencing policy, corporate strategies and household spending patterns.

Individuals are demanding greater control over their financial futures and personal health, with a willingness to pay for transparency, protection and quality of life.

At the corporate governance level, multiple studies consistently demonstrate that leadership diversity correlates with stronger financial results. Firms with balanced boards and executive teams, particularly in consumer-facing sectors such as financial services and retail,

can benefit when representation aligns closely with customer demographics. Therefore, empowering diversity and inclusion in organisations remains an important consideration for investors looking for resilience in their portfolios.

Companies with high workforce experiences (as laid out by Deloitte as the sum of a person's lived experiences at work and how they feel about their organisation) are 1.6x more likely to achieve good customer outcomes, enjoy 25% greater profitability, double the customer satisfaction, have lower absenteeism, and more than 2.5x the market performance of their competitors.

With rising spending power and affluence, Millennials and Gen-Z are increasingly shaping the consumption landscape with their focus on wellness, transparency and ethical consumption. A 2025 McKinsey study showed that 84% of consumers in the US and 94% in China view wellness as a "top" or "important" priority.

Unsurprisingly, the global wellness economy was pegged at nearly USD 6.3trn in 2023 as per data by Global Wellness Institute and is poised to grow at a faster rate than global GDP growth. Brands that offer products with embedded purpose, transparency and ethical sourcing could enjoy greater customer loyalty and pricing power in the coming years.

### **Streaming and Subscriptions**

The rapid evolution of how people consume entertainment is one of the most visible markers of how technology is changing our society. Consumer preferences have shifted from desire for ownership to subscription-based, on-demand access. This is true across a broad spectrum of services ranging from entertainment to gaming and even software.

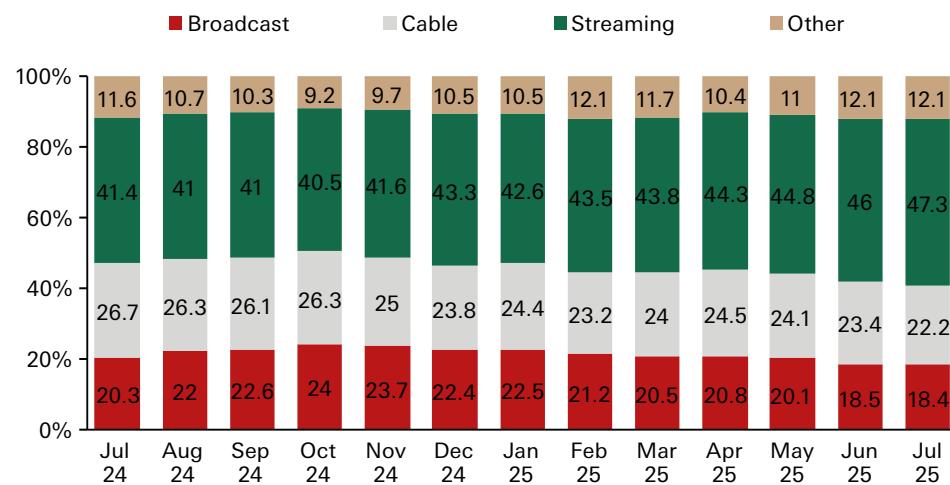
Streaming has overtaken traditional television as the dominant mode of entertainment. It now accounts for nearly 47% of all TV usage, compared with 22.2% for cable and 18.4% for broadcast (Nielsen, 2025). A survey by Simon-Kucher indicates that 70% of respondents in Spain, Singapore and India see streaming as a replacement for traditional TV. This reflects not just a shift in preference, but a structural change in how people consume media—on-demand, personalised, and subscription-based.

The market potential for growth in streaming is substantial. Paid subscriptions usage continues to grow while usage of free streaming services continues its multi-year decline. At the same time, the number of paid subscriptions per household has steadily risen over the past few years.

While the first wave of streaming adoption was driven by video platforms, the subscription economy has since expanded across music, gaming, fitness, education, and even software. Dimension Market Research estimates the current subscription market to be USD 565bn in 2025 and projects it to grow to USD 2.1trn by 2034, implying a CAGR of 15.7%.

For investors, the implications extend beyond content platforms. The broader ecosystem—from production studios and data infrastructure to device makers and telecom providers—stands to benefit from the continued migration to digital subscriptions. The recurring revenue model of subscriptions also provides visibility and resilience, even in uncertain macroeconomic conditions.

### **Streaming now accounts for nearly half of all TV viewing**

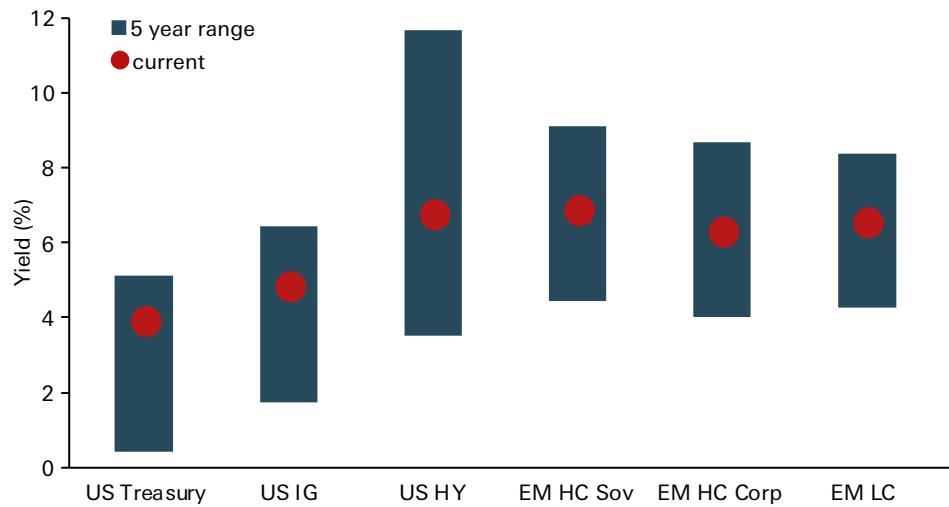


Source: Nielsen, HSBC Private Bank as at 19 November 2025.

# Seeking Diverse Returns as Fed Rate Cuts End

As the Fed rate cut cycle comes to an end, returns from equities and bonds need to come from other sources. We focus on earnings growth and shareholder value creation for equities, and bond returns that are somewhat less correlated to Fed decisions.

**Compared to history, investment grade bonds are more attractively priced than high yield.**



Source: Bloomberg, HSBC Private Bank as at 19 November 2025. Past performance is not a reliable indicator of future performance.

## Our Four High Conviction Themes

<b>1. North American Re-industrialisation</b>	The re-onshoring of production to the US is a strategic goal for the US administration that is more structural than cyclical. Companies invest in the US for tax and tariff related reasons and to make supply chains more resilient. Strong innovation in AI and beyond make the US an attractive destination.
<b>2. Global Financials</b>	US financials are well supported by the resilient economy, which is causing a pickup in loan demand and keeps delinquencies low. Around the world, rising IPOs, M&A and bond issuance are generating fee income, while relatively steep yield curves support net interest income. We add financials to tech heavy portfolios because of their low valuations and style diversification potential.
<b>3. M&amp;A and Shareholder Value Creation</b>	Our new theme exploits the portfolio returns that can be created in public or private markets thanks to M&A, changes to dividend policies and share buybacks. The fall in funding costs, renewed confidence in US and global growth, and the need to adapt are key incentives for companies to consider M&A.
<b>4. Income Through Active Credit Selection</b>	Our DM bond strategy focuses on investment grade as Treasury yields may not come down much and high yield spreads are too tight. We are overweight on EM hard currency corporate bonds for their attractive income, and EM local currency bonds for their low correlation with risk assets like stocks and for FX diversification.

x 13

Global investment in advanced manufacturing facilities jumped from USD2.5bn to USD32.5bn YoY

↑ 11.3%

Global utilities investment jumped in 2025 to power manufacturing and datacentres

19.5%

Almost a fifth of global equity returns in the past 5 years have come from dividends and share buybacks

Source: Apollo, HSBC Global Investment Research, HSBC Private Bank as at 19 November 2025.

With our final set of themes we always adapt to the shorter-term changes in the investment environment. The three-year long rally of global equities markets started after investors were confident that the rate hikes were behind us. Rate cuts from the Fed and other central banks led to 'easy' returns from Price / Earnings multiple expansion. And of course, the bond market saw direct price gains thanks to those cuts.

As investors may now start to worry that the Fed rate cut cycle is near or at end, they may need to look for other sources of returns. Ideally, these returns should come from more structural sources, idiosyncratic events or different geographies.

We have selected four themes which we think tap into such sources for returns.

### **North American Re-industrialisation**

We have been exploiting this theme well before the current President moved into the White House, which illustrates its structural nature. In our complex world, many countries try to achieve as much strategic independence as possible, for key industries. The US government is encouraging inward investment through tax incentives and trade tariffs (or exemptions for those who invest), and even directly supporting some companies to anchoring critical industries.

Both local US companies and foreign ones are now positively responding to this, making large investments in new manufacturing construction. Tax-wise, the One Big Beautiful Bill Act will extend the 100% bonus depreciation that was otherwise going to expire.

The incentive for companies to invest is not just related to tax, though. Many companies have been worried about the vulnerability of their supply chains if they depend too much on foreign companies. Others have obtained reprieves from sectoral trade tariffs through a promise to invest in the US.

A final key reason to invest is to tap in the strong US innovation and relatively cheap energy. A lot of the investment has gone directly into technology and data centres, but this has positive spill-overs into other sectors too – particularly industrials, which have seen strong stock performance as a result.

### **Global Financials**

When looking for areas that should do well after the final Fed rate cut, the 'interest-rate sensitive' financials sector may not be the first one coming to mind. But financials' performance is much more correlated to the shape of the yield curve rather than the level of interest rates. The curve remains relatively steep in the US, and even in Europe, allowing banks to earn solid interest rate income.

Banks' earnings are also supported by good capital market revenues. The high level of corporate investments we forecast in the US, and the fiscal spending in the US and Europe, should lead to high bond issuance and solid capital market revenues. Around the world, increased M&A and IPOs are also good revenue generators for banks. A pickup in lending activity and lower-than-expected provisioning for loan losses are other key positives.

We add financials in tech-heavy portfolios because of their low valuations and to diversify style exposure.

### **M&A and Shareholder Value Creation**

Our new theme around M&A fits well with our topics around re-industrialisation and increased capital markets activity supporting financials.

For investors, M&A can be a source of returns that is uncorrelated to the economic cycle. Under this theme, we look for companies with a strong balance sheet, a board with strategic thinking and the foresight to invest in critical innovation.

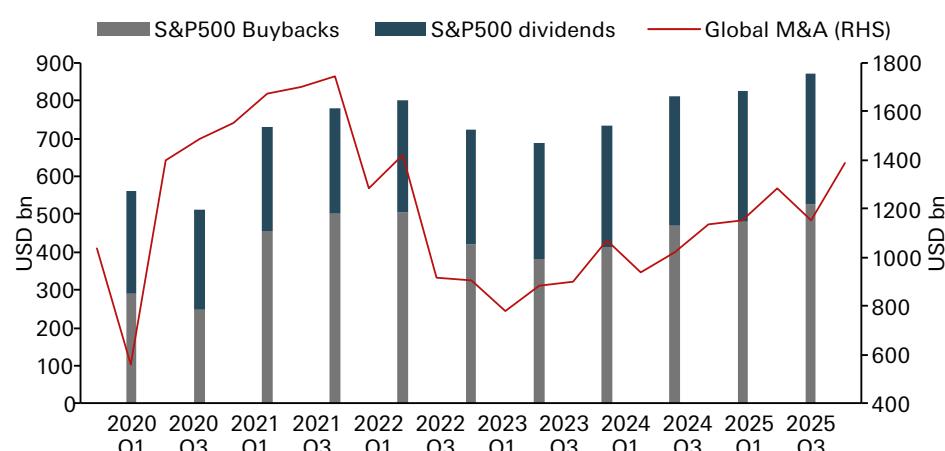
Around the world, investor returns are benefiting from increased attention to shareholder returns, which often come in the form of higher dividend payouts and share buybacks (see graph).

### **Income Through Active Credit Selection**

In developed markets, we focus on clipping coupons. We prefer investment grade over high yield, where spreads are tight and vulnerable to volatility. We maintain a medium duration in US IG.

We are including more EM bonds than before, as spreads are still attractive for EM hard currency corporate bonds. EM local currency bonds show relatively low correlation with risk assets like stocks and should benefit from local rate cuts. In an environment where USD could remain volatile, we like to add EM LC bonds to diversify our FX exposure.

### **M&A, share buybacks and dividends all show a positive trend**



Source: Bloomberg, LSEG, HSBC Private Bank as at 19 November 2025.

# Equities

We maintain a mild risk-on stance with an overweight to global equities. As valuations and tech earnings expectations have increased, and the Fed may end its rate cut cycle soon, profit taking remains a risk. But while we trimmed the extent of our US overweight recently, we still remain bullish and are also overweight on Asian stocks (mainland China, Hong Kong, Singapore, South Korea and Japan). Around the world, we look for areas with solid earnings growth, of which there are many. We see upside related to AI-driven productivity, re-industrialisation and infrastructure investment. Asia remains a key engine of growth, with China stabilising and India maintaining strong medium-term promise. By comparison, the outlook for European markets is less exciting.

## United States

US equities should continue to benefit from fiscal easing and a supportive regulatory environment. Although rate cuts may come to an end, the fall in borrowing costs to date is helping boost investment. Higher income households keep spending, and others may benefit from the no-tax policy on tips. Profit margins are near historic highs thanks to those rate cuts, productivity gains and the ability of companies to pass on higher input costs to their clients.

Valuations have risen, but not as much as many commentators would want you to believe. In fact, most of the returns in 2025 came from earnings growth rather than Price-to-Earnings (P/E) expansion. P/E ratios are around their long-term average and below prior-cycle peaks. Lower borrowing costs and strong balance sheets are also encouraging renewed M&A, IPOs, and share-buybacks.

Analysts expect to see 13% earnings growth for the S&P500 in 2026 – or 16% for the Magnificent 7 and 12% for

the ‘Forgotten 493’ stocks. Technology remains the key driver of productivity and capital spending, while industrials benefit from automation and onshoring, and utilities will gain from the build-out of much needed additional electricity supply. Financials should gain from increased capital market activity, accelerating loan growth and a benign credit cycle.

While all of this argues for a bullish stance, we have trimmed the extent of our US overweight slightly, following the 2025 rally. There is a risk of a delay in the construction of data centres, electricity networks or re-onshoring of manufacturing facilities compared to the elevated market expectations. Immigration policies and the need to train people for new jobs could be obstacles too. We don’t think that this would change the positive trend, though, but only delay earnings growth. Hence, the potential market dip would probably be in single-digit territory, which needs to be managed, but does not warrant an exit from the US market.

## Asia

Asia remains a global growth engine, supported by accommodative monetary policy, fiscal stimulus, and improving trade dynamics. We stay overweight on Mainland China, Singapore and Hong Kong. China’s focus is increasingly on supply side reforms (anti-involution, which should benefit corporate margins) and the promotion of domestic demand. The success of these policies will be key in determining how much earnings can accelerate. Policy remains supportive of private-sector technology champions as Beijing pivots from regulation to growth facilitation in AI and advanced manufacturing. Singapore is strengthening its role as a regional hub for trade, finance, and technology investment, benefiting from supply-chain diversification and capital inflows across ASEAN. We like Singapore stocks for their elevated dividends and defensive character which can help dampen portfolio volatility. We also maintain a positive view on Hong Kong stocks, as both retail spending and residential real



estate seem to have bottomed, while increased tourism and an equities-related wealth effect are helping support consumption. We also overweight on South Korean stocks thanks to their high weighting of tech stocks and recent improvement in trade relations with the US. We have added Japan to our overweights to help diversify portfolios and to benefit from local corporate governance reform measures and fiscal easing. We maintain our neutral view on India, where we wait for evidence that the government reform measures will materially change the growth and earnings outlook.

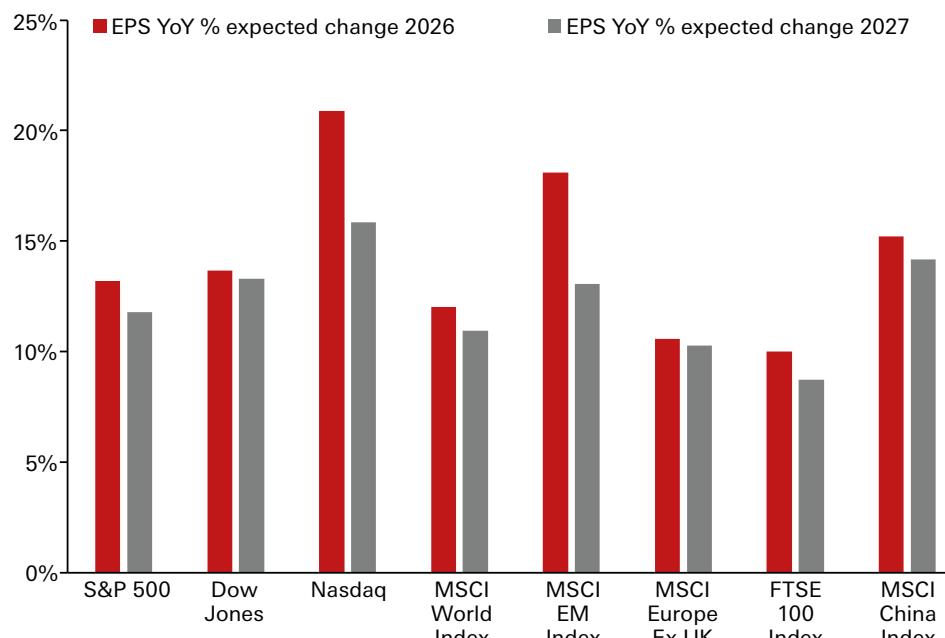
#### Europe

Europe has a chance to use its fiscal room (in Germany and at an EU level) to invest in critical infrastructure, but investment has been slow, and progress towards building a more innovative economy using Mr. Draghi's blueprint has been even slower. We have a bearish view on French stocks due to political uncertainty and budget issues, while Germany's autos and manufacturing face high electricity costs and strong Chinese competition.

By comparison, Italy and Spain have a healthier fiscal outlook and stronger growth. As for the UK, much depends on the government budget, which will be published shortly after we release this Investment Outlook. Too much fiscal

tightening could hurt growth, while too little could raise borrowing costs, putting the UK equity market between a rock and a hard place. Its global character and diversification however lead us to adopt a neutral stance.

#### The expected earnings growth is in double digits in 2026 and 2027 for most regions



Source: Bloomberg, HSBC Private Bank as at 19 November 2025. Forecasts are subject to change.



# Fixed Income

Over the past three months, the most notable trend in bond markets has been the decline in government bond yields across DM. This shift is largely attributed to the Fed's transition from prioritising inflation risks to addressing growth concerns, resulting in two 25bp rate cuts since September. The yield decline was particularly pronounced at the long end, where a significant risk premium had built up earlier this year. We believe the narrative surrounding the negative fiscal trajectory in the US reached its peak with the approval of the OBBB Act in July and is now behind us. Instead, investors are now expected to focus on the upcoming change in the Fed's chairmanship in May.

Our investment strategy focuses on locking in quality bond yields by prioritising IG corporate bond markets for their all-in carry and EM LCD for their diversification benefits. We maintain a slight underweight position in Global HY and a mild overweight stance on EM External Debt, with a particular emphasis on quality credit in Asia.

The Fed's two 25bp rate cuts since September have triggered a rally in US Treasuries (UST) and other DM government bond markets. This environment has supported our strategy of longer-duration positioning in DM Sovereign debt and Global Corporate IG bond markets. Consequently, we took this opportunity to adjust our duration on UST and USD Corporate IG bonds, reducing it to 5-7 years from 7-10 years previously.

In the absence of high-frequency economic data releases in the US, due to the longest federal government shutdown on record, we are maintaining our preference for quality credit. This is reflected in our overweight allocation to Global Corporate IG bond markets. These markets continue to offer an elevated carry, supported by higher underlying

rates and present an opportunity to lock in yields amid falling policy rates.

Although the US government shutdown finally ended on the 12 November 2025, after 43 days since it began, we believe the economic uncertainties stemming from it are difficult to quantify, and may result in downside risks to economic growth, especially as thousands of federal employees were either furloughed, laid off or worked without pay. Historically, government shutdowns have been supportive of bond markets.

As we soon enter 2026, we are comfortable with our current positioning and the recent changes to our bond allocation, which were:

- A downgrade of Global HY to a mild underweight position. This decision follows increased signs of strain in credit markets, primarily driven

by idiosyncratic factors such as governance issues and, occasionally, fraud. We anticipate the possibility of further negative headline news in 2026. Additionally, valuations on Global HY appear very stretched, even when accounting for the risk premium embedded in the underlying government bond yields.

- An upgrade of EM Local Currency Debt (LCD) to a mild overweight stance due to the elevated carry it offers. While this market has performed exceptionally well in USD terms this year, driven by a combination of elevated carry, a weak USD and declining domestic rates, we expect this trend to persist. Furthermore, EM LCD provides additional diversification benefits due to its decreasing correlation with risk assets such as equities.



## What to expect in 2026?

We anticipate periods of credit spread volatility. This is likely to occur as lenders, including banks and fund managers, scrutinise their books further, seeking irregularities such as over-collateralisation or governance gaps from borrowers. While this may lead to a resurgence of negative credit news, we do not expect any systemic issues at this juncture, considering the below-average default rate in the US and the overall healthy state of both the US and global economies. The potential negative news flow may affect higher-beta issuers, particularly those in the lowest segment of credit ratings.

DM government bond yields are expected to remain range-bound, having recently reached the lower end of their trading ranges. However, there might be an exception with UK Gilts; any tax rise announcement at the Autumn budget on 26 November could have a detrimental impact on growth expectations and prompting a dovish response from the Bank of England. Nevertheless, given the uncertainty surrounding the Budget outcome, we are maintaining a neutral stance on Gilts but keeping a slightly longer duration (7-10Yr). We prefer GBP corporate IG bonds with a similar duration target, which offer an attractive carry relative to Gilts.

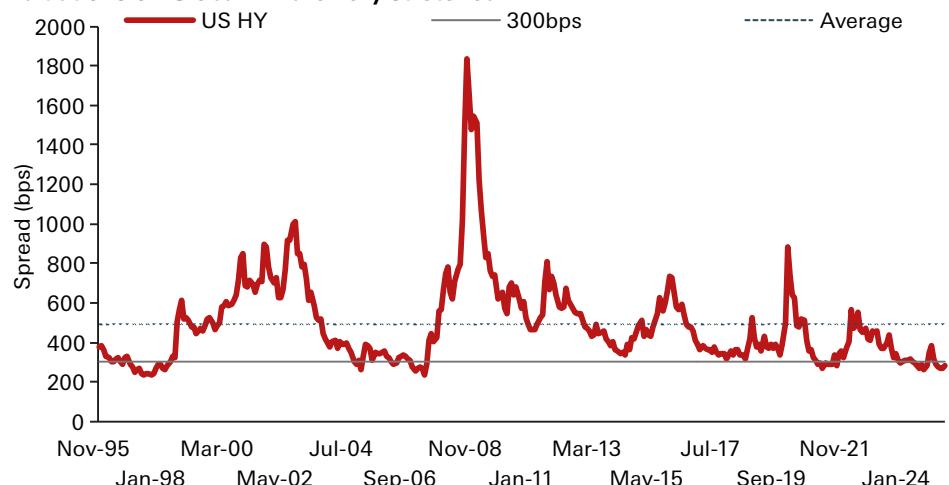
Regarding US Treasury yields, we anticipate that the negative fiscal announcements from earlier this year may become less significant in 2026. The One Big Beautiful Bill Act outlines a fiscal path for the next eight years, suggesting that deficits are likely

already priced in the term premium of longer UST yields. Additionally, a stable coupon supply from the US Treasury Department, along with the end of the Fed's Quantitative Tightening (QT) planned for December, are expected to support longer maturities.

Investor attention will gradually shift towards the upcoming change in the Fed's chairmanship, as Jerome Powell's term concludes in May. Although President Trump has indicated a preference for a candidate with more dovish views, there are legal challenges to the Fed's independence. Congress must approve the nominee, the Fed Chair can be stripped from the FOMC leadership and the other 11 voting members can diverge from the Chair's views, if they find them economically unjustified and potentially harmful to the central bank's independence. Consequently, we assess the risk to the Fed's independence as relatively low. Nevertheless, yields may remain volatile until the final nomination is confirmed.

In EM, resilience continues to be a key characteristic. Despite ongoing challenges such as trade tensions, tariff threats and geopolitical worries, many EM economies are maintaining stability. EM assets have achieved another quarter of strong performance, particularly in LCD, reinforced by still-firm global economic activity, favourable financial conditions and improving market sentiment. The Fed's return to monetary policy easing has further supported risk appetite, positioning EM favourably in the current investor preferences.

## Valuations on Global HY are very stretched



Source: Bloomberg, HSBC Private Bank as at 19 November 2025. Past performance is not a reliable indicator of the future performance.



We have recently upgraded EM LCD to a mild overweight position as part of our strategy to further diversify our bond allocation. This decision is driven by its low correlation to risk assets and its attractive carry. Although EM inflation has decreased to near-record

lows, policy rates have yet to adjust accordingly, resulting in significantly high real rates compared to historical standards. This favourable condition, coupled with a volatile yet stable USD against EM FX in the near term, suggests that EM LCD will continue to

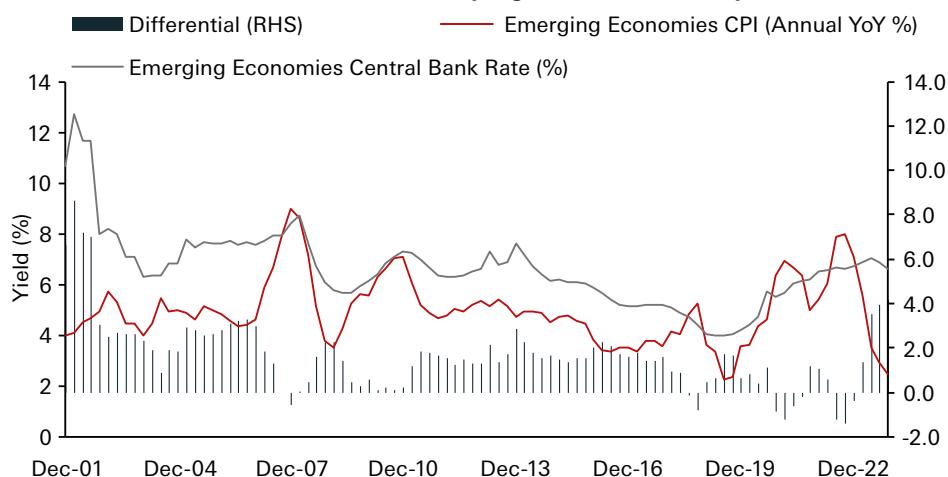
attract foreign investors, despite already substantial inflows this year, totalling USD 50.1bn by the end of October.

Within the EM LCD space, we prefer:

- Mexico for its constructive bilateral discussions with the US, anticipated further rate cuts from Banxico in response to ongoing signs of economic deceleration and its focus on fiscal consolidation in 2026.
- South Africa because of the SARB's lower inflation target, which is expected to structurally reduce bond yields, alongside the elevated real rates its local rate market offers.

Additionally, we have just upgraded China LCD to a neutral stance, following the PBoC's resumption of its bond purchase programme and the absence of significant onshore allocation to this domestic bond market.

#### **EM real rates continue to be substantially high relative to history**



Source: Bloomberg, HSBC Private Bank as at 19 November 2025 Past performance is not a reliable indicator of the future performance.

# Currencies and Commodities

Cyclical factors, yield differentials, and fiscal developments are all in play as drivers of FX. With so many moving and offsetting forces, we expect USD to be volatile but trade sideways for a while. Rate cuts and concerns about the labour market have led to USD weakness recently, but those cuts should soon end. There is potential for USD to regain momentum if the Fed halts its rate cycle soon and sticks to that policy under its new Chairperson, or if the fiscal support leads to more economic optimism. For now, though, we continue to advocate for a diversified FX exposure to navigate the initial months of the coming year, with a focus on cyclical forces and domestic fiscal capacity in our currency selection. We foresee upside for EUR, AUD, SGD, KRW and ZAR against USD, but downside for CAD and TRY, illustrating our mixed views. We maintain our overweight view on gold for portfolio diversification.

In the US, there is currently still a lack of immediate catalysts for a sustainable dollar rebound. The government shutdown has obscured the economic outlook by withholding key data needed to assess the impact of tariffs and tight financial conditions on domestic growth. The Fed appears committed to its path, but low visibility could eventually undermine market confidence. Additional uncertainties, such as fiscal challenges due to high deficits, the upcoming renewal of the Federal Reserve Chairperson in 2026, and the outcome of the Supreme Court hearing around US tariffs, add complexity. USD could potentially rebound later in the year if US cyclicals outperform, and the Fed

ends its rate cuts, as we expect. In such a scenario, USD could maintain a yield and growth advantage over other G10 currencies. Conversely, the US could also potentially face cyclical challenges if inflation remains high or tight financial conditions hinder growth. We have to acknowledge that economic data will remain volatile and therefore maintain a neutral stance on USD. We believe investors can benefit from diversifying their FX exposure rather than over-relying on the US dollar. For diversification, we favour EUR and AUD within the G10 space.

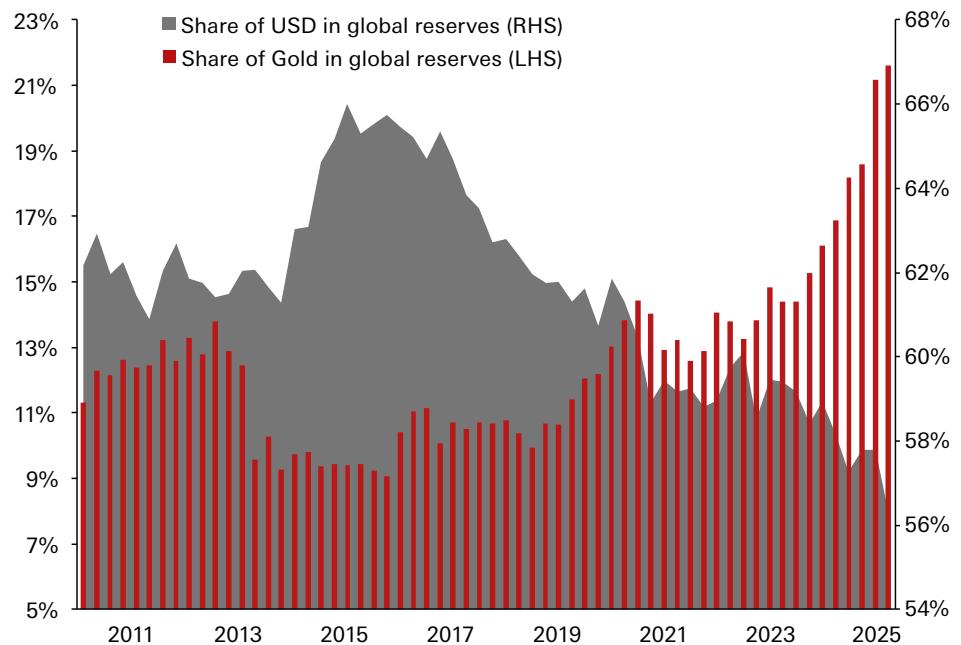
EUR remains attractive due to a favourable cyclical and fiscal outlook, bolstered by early easing by the ECB and

significant fiscal measures announced earlier this year. Such dynamics would particularly favour EUR against USD, given the low US visibility and diverging central bank policies. We also prefer AUD over USD, as Australia benefits from strong cyclical data and the relatively hawkish stance of the Reserve Bank.

Emerging Market currencies performed well in 2025 despite mixed risk sentiment. We underestimated the trend, expecting trade uncertainties and dovish central banks to weigh on risk-on currencies, despite support from a softer USD. Additional gains may occur in 2026 with reduced trade uncertainties and further Fed rate cuts although not all currencies have room to appreciate.



## The share of gold in global reserves increased substantially since 2022 as the USD share kept decreasing



Source: Bloomberg, HSBC Private Bank as at 19 November 2025. Past performance is not a reliable indicator of future performance.

High-yielding currencies will benefit if they maintain stable political and fiscal conditions. However, an imminent end to the Fed easing cycle might reduce the attractiveness of EM FX due to less favourable yield differentials, so we need to examine each currency on

its own merits. CNY could gain from the US trade truce, boosting domestic activity and reducing trade uncertainties. A more supportive PBoC may also aid the currency, though it may not offer a significant yield advantage over other EM currencies. Despite the recent

decline in KRW, both domestic and international developments in South Korea suggest reduced volatility ahead. After significant outflows, we expect renewed investments in Korean equities, especially in the tech sector, and are confident that KRW will be bolstered in the forthcoming months. We recently adopted a bullish outlook on ZAR, driven by favourable real and nominal yields and a new monetary framework aimed at reducing inflation. We expect this approach to enhance the country's credibility, thereby increasing demand for South African assets and the currency.

In commodities, precious metals experienced a strong rally in 2025, despite some consolidation in October and November. We remain positive on gold, viewing it as a key diversifier against a weaker USD scenario. Central Banks and retail investors continue to be net buyers, and further broad monetary policy easing, will support investment. Meanwhile, Platinum Group Metals (PGMs) may see increased demand for industrial purposes, although their volatility may not provide the same diversification benefits as gold.



# Hedge Funds

The regime of sticky inflation has challenged the potential for bonds to effectively diversify stock portfolios. Therefore, until inflation is properly vanquished, hedge funds play a key role in portfolio construction. Investors will also look at hedge funds if they worry about high equity valuations or fading momentum in FX and gold, given their non-directional exposure. And clearly, hedge fund strategies can exploit increased M&A activity, separate AI winners from losers or tactically exploit volatility. We maintain our positive view on discretionary macro, systematic equity market neutral, low net US equity and Asia long/short, event-driven strategies and Multi-Strat and Multi-PM managers.

As our recent Entrepreneurial Wealth Report illustrated, many ultra-high net worth investors are very well represented in equities and relatively light on bonds, with material allocations to alternatives. In such portfolios, the role of hedge funds is key to help address adverse market scenarios, given the lower liquidity in private markets and the losses presumably incurred in public equities. Strategies particularly well placed for this possibility would include equity market neutral funds, trend-followers and discretionary macro. We maintain our constructive outlook for discretionary macro. Implied volatility levels have fallen to interesting levels for managers to enter positions. The US and European inflation trends are diverging, while the US and Japan diverge on rate policies. Despite the apparent abundance of opportunities, we are mindful of the

unpredictability of US policies and so we are not outright positive on the strategy. As some managers worry that the Fed is in danger of becoming politicised, they avoid the front end and focus on taking a view on longer-dated bonds, where the Fed can't directly influence pricing. Meanwhile the environment for EM strategies looks healthier again as US rates and USD have been drifting down, and investors are actively looking for geographical diversification.

Our outlook for managed futures as a strategy remains unchanged at neutral. The third quarter represented somewhat of a positive turnaround for medium and longer-term strategies with gold up 18%, copper up 30% over the period and equities up nearly 10% all examples of supportive trends. In contrast short term models were up very slightly for the quarter.



For systematic equity market neutral strategies, the period witnessed further consolidation stories reflecting the high costs required to stay ahead within the sector. After the short-lived excitement at the top of last quarter, which witnessed a technical unwind, performance rebounded quickly for the strategy and we maintain a mildly overweight view due to the constructive market environment.

We have maintained our neutral outlook for variable net equity long/short strategies. Many managers consider EMEA as fairly priced, but the US as expensive. However, monetary and fiscal support, together with a relatively healthy US macroeconomic environment support our neutral outlook thesis. In addition, dispersion witnessed within markets remains supportive for astute stock-pickers. In light of this, we maintain an outright positive outlook for low net strategies. We also maintain our mildly overweight outlook for Asia long/short due to a stable earnings outlook

and ample liquidity. This is despite valuations moving from cheap towards neutral over the last quarter.

We have upgraded our outlook from neutral to mildly overweight for event driven. This is premised on our observation that our managers are seeing a widening opportunity set in the form of a record number of activist campaign announcements during the quarter. These were led by the US and Asia with more muted activity witnessed in Europe. Within mergers, M&A spreads narrowed over the last quarter, helped by further distance away from Liberation Day, safer deals, regulatory obeisance. Concurrently, US deal activity increased markedly during the quarter. In summary, we expect the opportunity set for event driven managers to be reasonably supportive for returns over the coming quarters.

We maintain our neutral outlook for credit long/short strategies. Valuations look more expensive again after arguably ending the previous quarter fully priced.

Carry characteristics appear more neutral with spreads tight and rates falling. Dispersion within credit sub sectors has also diminished. Credit quality looks fine with coverage metrics improving a little and with prevailing liquidity being supportive. Within distressed, opportunities continue to be few and far between at present with the incidence of defaults ticking down so we maintain the outlook for the strategy at neutral. We favour structured credit where there continues to exist some additional value as was the view previously.

We maintain our positive view for the performance potential of Multi-Strat and Multi-PM managers. Fundamental equity sub sectors led performance for our most widely held managers during the quarter. We are not seeing the typical year end capital returns from incumbents that we are used to this year perhaps reflecting a softer year to date performance from the leading lights in the sector.



# Real Estate

Underpinned by income returns and a stable outlook for income growth, direct real estate is anticipated to deliver attractive returns in the coming 12-months. However, the outlook varies by sector and market with stronger performance anticipated to come from retail property, particularly with a non-discretionary tenant focus. Meanwhile, logistics fundamentals are stabilising, but rental growth is likely to remain soft. As for offices, the overall outlook remains challenging, but prime offices in key submarkets should perform well.

## Recent trends

Following a 16% decline between 2022 and 2024, global capital values modestly increased for three consecutive quarters to Q2 2025, according to data from MSCI.

Investment liquidity is returning as the outlook for rental growth improves, as development pipelines moderate, and the cost of capital is declining. Interest rates have fallen, and lending spreads are tightening, especially for high quality assets.

Global office vacancy rates remain particularly high, but even here, there are signs of stabilisation as tenants look to secure Grade A space in an environment where new development is falling sharply. For example, year-to-date (to Q3) leasing in Manhattan has been significantly above the long-term average, contributing to a decline in the vacancy rate and healthy prime rental growth. Similar trends are being seen in other global cities such as London, Paris and Tokyo, where demand for modern, sustainable buildings is strong.

Retail fundamentals continue to improve despite subdued consumer confidence. After a decade of minimal development in Europe, the US, and parts of Asia (notably Australia and Japan), vacancy rates in some markets are near record lows, supporting rental growth. This is particularly evident in grocery-anchored retail parks and open-air shopping centres with tenants focused on services (health and fitness, casual dining) and discount stores. Prime high streets in cities with strong tourism flows, such as Tokyo's Ginza or Madrid's Gran Vía, are also benefiting from a rebound in footfall.

Logistics vacancy rates remain in a soft patch in most markets as a wave of new supply continues to enter the market, though there are signs of improved leasing and slowing completions. The US vacancy rate appears to have stabilised at 7.1% (C&W) in Q3, slightly above pre-pandemic levels. In Europe, rates are declining in the UK and Eastern Europe but rising in France and Germany. Asia-Pacific remains more varied, with tight conditions in Sydney and Melbourne but weaker fundamentals in Singapore (trade uncertainty) and Tokyo (significant new supply).

The residential sector continues to record the lowest vacancy rates globally, according to MSCI, although the US multifamily vacancy rate rose to 4.4% in Q3 (CBRE), predominantly due to supply in the Sun Belt, whereas coastal metros have been relatively healthier. In Europe and Asia, a widespread lack of development and ongoing structural demand continue to support firm fundamentals for living sectors: for example, in Tokyo's Central 23 Wards, the vacancy rate fell to 3.9% (Savills), with strengthening rental growth.





## Outlook

The rebasing of property yields since 2022 has created a more favourable outlook for total returns. Global income has increased by 70bps to 4.35%, according to MSCI. Capital value growth will be driven by rental income rather than yield compression while interest rates remain elevated, and yield spreads remain tight. Rapidly declining new supply and tenant preference for new space should support steady rental growth for prime assets across all property types.

Retail yields continue to offer a positive spread over logistics and residential yields, whilst minimal new supply for over a decade and resilient leasing demand point to stable retail rental growth. Given the fragile economic outlook, non-discretionary retail should outperform, though “A grade” malls in affluent neighbourhoods and prime high street retail in strong tourist cities should perform well. Secondary retail will remain challenging, in our view.

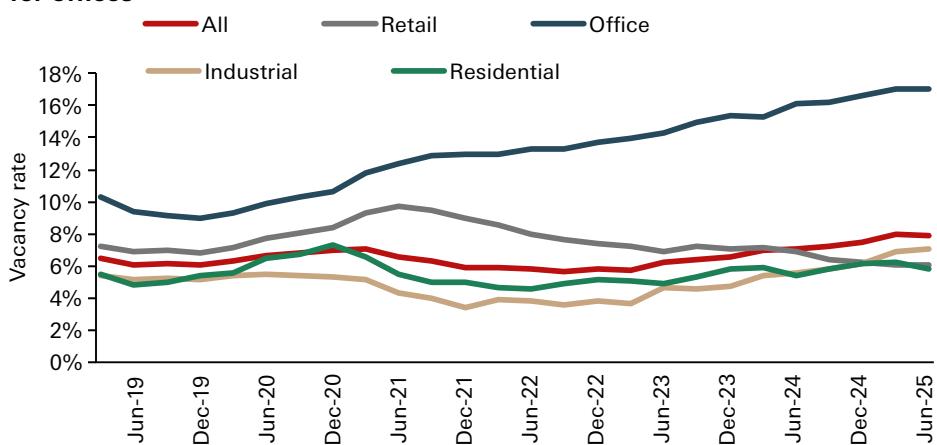
While the structural tailwinds for logistics property remain intact – e-commerce, reshoring, supply-chain resilience – 2026 rental growth is expected to moderate as recent new

supply weighs on fundamentals. As the supply pipeline fades, fundamentals should gradually improve, particularly in high density urban markets.

The office sector is expected to remain particularly bifurcated, with subdued overall demand but prime assets in global cities benefitting from strong demand and limited new supply. Gateway markets such as New York, London, Paris and Tokyo should outperform, while weaker markets such as Hong Kong and San Francisco are expected to recover after several years of rising vacancy rates and falling rents.

The living sector’s outlook remains resilient, supported by stable cash flows, low vacancy rates, regular marking to market of rents resulting from short leases, and structural demand drivers such as urbanisation. For US multifamily real estate, coastal markets should continue to outperform the Sunbelt, although we expect the latter to stabilise in the coming 12-months. Stronger performance may be found in Asia, for example Singapore where household incomes are rising strongly or Tokyo where strong demand is supporting rising rents.

### Vacancy rates are diverging, with improvement in retail but further increases for offices



Source: MSCI, CBRE, HSBC Private Bank as at 19 November 2025.

# Private Markets

The traditional low-to-inverse correlation between stocks and bonds has been disrupted since the COVID pandemic, with both frequently moving together. Amid tariff-related uncertainty, the US dollar and US Treasuries have not fulfilled their usual safe-haven roles, prompting investors to seek diversification elsewhere. Alternative assets like private equity and private credit have emerged as key players, offering valuable risk exposures and diversification benefits.

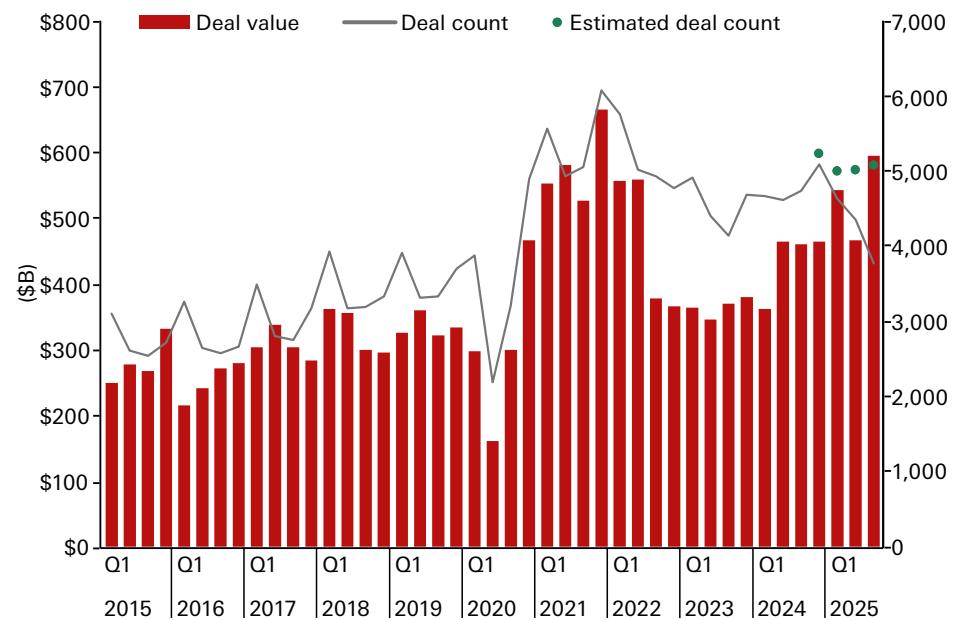
## Private markets opportunity

Investing in private markets grants access to revolutionary companies transforming the world, such as OpenAI, Waymo, SpaceX, and Stripe. OpenAI, for instance, has been at the forefront of the AI revolution with its large language model, ChatGPT, significantly impacting various sectors.

Over the past 25 years, the number of private market companies has surged. Since 2000, US-listed companies have halved to over 4,000, while private VC-backed companies have increased 25-fold. Total private capital assets reached \$22 trillion in 2024, more than doubling since 2012. Startups now remain private for an average of 16 years, extending their timeline to go public by four years compared to a decade ago.

Many private companies favour strategic partnerships over mere financing sources. These partnerships often provide strategic guidance, industry connections, and operational support. Additionally, some companies avoid public listings due to increased investor scrutiny and regulatory burdens. This creates attractive opportunities for private market investors to access fast-

**Q3 2025 global private equity deal activity reached its highest level since Q4 2021**



Source: Pitchbook, HSBC Private Bank as at 19 November 2025.

growing companies, including sector specialists and emerging technology platforms often absent from public market indices.

## Informational inefficiency and long-term transformation

The informational inefficiency within private markets provides opportunities for skilled managers to identify undervalued companies and transform them over the long term. The vast private market opportunity and private equity managers' active role in creating operational and strategic value explain why private equity has consistently outperformed public markets. By leveraging their expertise, private equity managers can drive significant improvements in portfolio companies, enhancing their value and positioning them for future growth.

Private equity has demonstrated a clear capacity to thrive during challenging market periods. Funds with sufficient dry

powder can capitalise on disruptions to acquire distressed assets at attractive valuations and invest for the long term. Private equity's moderate correlation to equities offers diversification benefits, especially when market volatility stabilises. This resilience makes private equity an appealing option for investors seeking to navigate uncertain economic conditions.

## Recent market activity and future expectations

Despite a challenging first half of the year due to US tariff policy and geopolitical tensions, Q3 data shows increased deal activity, particularly in technology, indicating renewed market confidence. We anticipate continued growth in deal and exit activity, supported by a favourable macroeconomic environment with falling interest rates and reopening traditional exit routes. The growth of the secondaries market is also enabling private equity investors to achieve

partial or full liquidity, alleviating the exit backlog. Notably, Q3 2025 global private equity deal activity reached its highest level since Q4 2021.

These dynamics underscore the importance for investors remain disciplined and consistent in their capital deployment, focusing on building diversified but high-conviction portfolios that can capture long term opportunities across market cycles.

### **Private Credit: An attractive asset class**

Private credit offers equity-like contractual yields with low correlation to equities, making it increasingly attractive to investors. Typically, these are floating rate loans, benefiting from sustained higher interest rates. Deals often focus on service-oriented and asset-light businesses, less affected by macro and geopolitical factors. Strong investor appetite for yield and stable income persists, particularly from the wealth

channel for open-ended products, and we expect robust demand for private credit to continue.

### **Spotlight on private credit amid recent events**

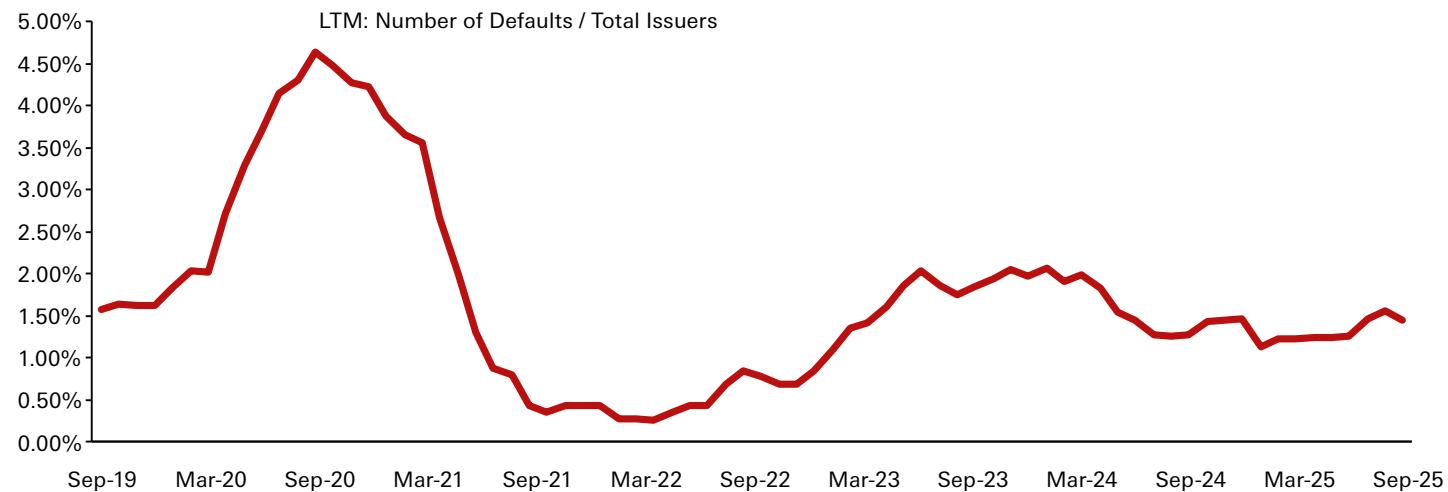
Recent collapses of two US auto companies and regional banking challenges have highlighted private credit. However, these are considered idiosyncratic events, not indicative of systemic credit issues. The reported cases involved allegations of large-scale fraud, with private credit having limited exposure, as both companies were primarily financed through investment banking-led syndication processes. Private credit deals are characterised by bilateral relationships, with instruments held-to-maturity and not traded. Investors benefit from senior secured structures, with lenders having first lien on high-quality collateral. Loans are covenant-protected, with moderate leverage, providing essential protections

for investors. These features ensure that private credit remains a resilient and secure investment option, even amid market fluctuations.

### **Monitoring underwriting standards and market growth**

As the private credit market rapidly grows, concerns have arisen about potentially lowered underwriting standards, particularly among the wealth channel and semi-liquid vehicles. While some deals show signs of credit deterioration, proactive equity sponsor support and lender flexibility should mitigate broader fallout. Notably, default rates for US leveraged loans, a proxy for private credit, have slightly increased but remain low by historical standards. We continue to closely monitor the market and adhere to robust risk management processes, ensuring that our clients' investments are well-protected and positioned for the future.

### **Despite a recent uptick, default rates for US leveraged loans remain low by historical standards**



Source: Leveraged Loans Index Default Rates, LCD Pitchbook, data as of September 2025; HSBC Private Bank as at 19 November 2025.

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# Disclaimers

## HSBC and Sustainability

**Today we finance a number of industries that significantly contribute to greenhouse gas emissions. We have a strategy to help our customers to reduce their emissions and to reduce our own. For more information, visit [www.hsbc.com/sustainability](http://www.hsbc.com/sustainability).**

## Risk disclosures

### Risks of investment in fixed income

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

#### Credit risk

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

#### Risks associated with high yield fixed income instruments

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

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

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

- Subordinated debentures - subordinated debentures will bear higher risks than holders of senior debentures of the issuer due to a lower priority of claim in the event of the issuer's liquidation.
- Perpetual debentures - perpetual debentures often are callable, do not have maturity dates and are subordinated. Investors may incur reinvestment and subordination risks. Investors may lose all their invested principal in certain circumstances. Interest payments may be variable, deferred or cancelled. Investors may face uncertainties over when and how much they can receive such payments.

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

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

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

#### Changes in legislation and/or regulation

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

#### Nationalisation risk

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

#### Reinvestment risk

A decline in interest rate would affect investors as coupons received and any return of principal may be reinvested at a lower rate. Changes in interest rate, volatility, credit spread, rating agencies actions, liquidity and market conditions may have a negative effect on the prices, mark-to-market valuations and your overall investment.

#### Risk disclosure on Dim Sum Bonds

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

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

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

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

## Alternative Investments

**Hedge Fund** - Please note Hedge Funds often engage in leveraging and other speculative investment practices that may increase the risk of investment loss. They can also be highly illiquid, are not required to provide periodic pricing or valuation information to investors, and may involve complex tax structures and delays in distributing important information. Alternative investments are often not subject to the same regulatory requirements as, say, mutual funds, and often charge high fees that may potentially offset trading profits when they occur.

**Private Equity** - Please note Private Equity is generally illiquid, involving long term investments that do not display the liquid or transparency characteristics often found in other investments (e.g. Listed securities). It can take time for money to be invested (cash drag) and for investments to produce returns after initial losses.

#### Risks of investing in private markets

The value of investments and any income from them can go down as well as up and investors may not get back the amount originally invested. Past performance information presented is not indicative of future performance. The return and costs may increase or decrease as a result of currency fluctuations.

**Liquidity Risk** - Investors may be unable to dispose of an investment quickly and at a price that's closely related to recent similar transactions. There is no guarantee of distributions and no established secondary market.

**Event Risk** - A significant event may cause a substantial decline in the market value of all securities.

**Long-term Horizon** - Investors should expect to be locked-in for the full term of the investment, which is subject to extensions.

**No Capital Protection** - Investors may lose the entirety of invested capital.

**Unpredictable Cashflows** - Capital may be called and distributed at short notice.

**Economic Conditions** - Ability to realise/divest from existing investments depends on market conditions and the regulatory environment.

**Risk of Forfeiture** - Failure to make call payments could result in forfeiture of commitment, including invested capital, without compensation.

**Default Risk** - in the event of default investors risk losing their entire remaining interest in the vehicle and may be subject to legal proceedings to recover unfunded commitments.

**Reliance on Third-party Management Teams** - Underlying investments will be managed by various third-party management teams that will in aggregate determine the eventual returns for the investor.

The risk factors listed above are not exhaustive, always refer to product specific documentation for full details and risk disclosures.

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

#### Risk disclosure on FX Margin

The price fluctuation of FX could be substantial under certain market conditions and/or occurrence of certain events, news or developments and this could pose significant risk to the Customer.

Leveraged FX trading carry a high degree of risk and the Customer may suffer losses exceeding their initial margin funds. Market conditions may make it impossible to square/close-out FX contracts/options. Customers could face substantial margin calls and therefore liquidity problems if the relevant price of the currency goes against them.

The leverage of a product can work against you and losses can exceed those of a direct investment. If the market value of a portfolio falls by a certain amount, this could result in a situation where the value of collateral no longer covers all outstanding loan amounts. This means that investors might have to respond promptly to margin calls. If a portfolio's return is lower than its financing cost then leverage would reduce a portfolio's overall performance and even generate a negative return.

#### Currency risk – where product relates to other currencies

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

#### Chinese Yuan ("CNY") risks

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

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

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

#### Illiquid markets/products

In the case of investments for which there is no recognised market,

it may be difficult for investors to sell their investments or to obtain reliable information about their value or the extent of the risk to which they are exposed.

#### Environmental, Social and Governance ("ESG") Customer Disclosure

In broad terms "ESG and sustainable investing" products include investment approaches or instruments which consider environmental, social, governance and/or other sustainability factors to varying degrees. Certain instruments we classify as ESG or sustainable investing products may be in the process of changing to deliver sustainability outcomes. There is no guarantee that ESG and Sustainable investing products will produce returns similar to those which don't have any ESG or sustainable characteristics. ESG and Sustainable investing products may diverge from traditional market benchmarks. In addition, there is no standard definition of, or measurement criteria for, ESG and Sustainable investing or the effect of ESG and Sustainable investing products. ESG and Sustainable investing and related measurement criteria are (a) highly subjective and (b) may vary significantly across and within sectors.

HSBC may rely on measurement criteria devised and reported by third party providers or issuers. HSBC does not always conduct its own specific due diligence in relation to measurement criteria. There is no guarantee: (a) that the nature of the ESG / sustainability effect of, or measurement criteria for, an investment will be aligned with any particular investor's sustainability goals; or (b) that the stated level or target level of ESG / sustainability effect will be achieved. ESG and Sustainable investing is an evolving area and new regulations and coverage are being developed which will affect how investments can be categorised or labelled in the future.

An investment which is considered to fulfil sustainable criteria today may not meet those criteria at some point in the future. When we allocate an HSBC ESG and Sustainable Investing (SI) classification: HSBC ESG Enhanced, HSBC Thematic or HSBC Impact (this is known as HSBC Purpose in the UK) to an investment product, this does not mean that all individual underlying holdings in the investment product or portfolio individually qualify for the classification. Similarly, when we classify an equity or fixed income under an HSBC ESG Enhanced, HSBC Thematic or HSBC Impact (this is known as HSBC Purpose in the UK) category, this does not mean that the underlying issuer's activities are fully aligned with the relevant ESG or sustainable characteristics attributable to the classification. Not all investments, portfolios or services are eligible to be classified under our ESG and SI classifications. This may be because there is insufficient information available or because a particular investment product does not meet HSBC's SI classifications criteria.

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