A problem of interest

How rates affect investment strategy in 2024

2024 Global Investment Outlook

HSBC Asset Management

Contents

Foreword

Foreword
Macro
Top of mind
Fixed income deep dive
Equity deep dive
Multi-asset deep dive

Foreword from our Chief Investment Officer

Welcome to our 2024 Outlook, reflecting the main findings of our quarterly Strategic Forum. I am pleased to share our view on the global economy and investment markets for the year ahead.

While uncertainty is a hallmark of any outlook, the path ahead for 2024 may be even more murky than usual. There is a range of economic and market outcomes that remain feasible, ranging from a 'higher-for-longer' rate environment – as currently priced by markets – to even a potential return to a 'lower-for-longer' scenario. The latter seems very unlikely to us given today's very different dynamic from the 2010s environment of rapid globalisation and tight fiscal policy.

Ultimately, we don't think the decade ahead will look anything like the previous one. The impact of higher interest rates on risk premiums will push investors to re-think their strategic asset allocation accordingly. Looking more tactically, our 'house view' is for defensive positioning in portfolios at present. That reflects what we see as an optimistic scenario priced into markets versus our concerns over elevated risk of recession and further disinflation.

Higher interest rates and a rising cost of capital pose some challenges for stock markets and the most risky parts of credits, which could be victims of rising defaults and steeper credit curves. Nonetheless, we think bonds are back. High yield credit is now paying as much as historical equity returns. We prefer to focus on the belly of the curve – 1-7 years – and quality credit. We are also interested in owning duration now – the term premium is positive. That also supports the investment case for investment grade.

In general, we see good opportunities in global fixed income, but are selective. These would include the US Treasury curve, parts of core European bond markets – such as the UK and Germany – investment grade credits, and securitized credits. In emerging markets, we would also single out the 'higher quality' markets, such as India.

The Federal Reserve cutting rates can be very positive for emerging markets performance, such as in the early 1990s. With Fed cuts likely in the second half of 2024, and possibly to a greater extent than markets expect, emerging markets (equity or local debt) should be a key part of the investor consideration set.

Given the risks we have cautioned about, we emphasise that investors should look to mitigate through intelligent diversification that doesn't place excessive dependence on rates and stock correlation.

"In the shorter term, the 'higher-for-longer' interest rate narrative is at risk of being challenged by a combination of ongoing disinflation and recession."

Xavier Baraton
Chief Investment Officer

Source: HSBC AM, November 2023. Any views expressed were held at the time of preparation and are subject to change without notice. While any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Global Asset Management accepts no liability for any failure to meet such forecast, projection or target.

Macro outlook and market implications

Macro outlook and market implications

The rapid tightening of monetary and credit conditions has created a problem of interest. This raises the risk of an adverse growth outcome in 2024 – which markets may not be fully prepared for.

Investment markets have behaved rather schizophrenically during the course of 2023, sometimes fearing a hard landing, and other times assuming a soft or no landing scenario would come about.

The surprising resilience in the US economy this year has come from the high level of excess savings – the piggy banks consumers built up during the pandemic years – which have continued to support spending.

Corporate profits have also been resilient, with firms able to benefit from mark-ups in a higher inflation environment, and from cash piles earning more interest. Those forces are becoming less important now so have delayed a recession, rather than averted one, in our view.

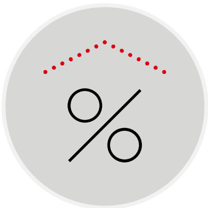
From an inflation standpoint, we see US disinflation proceeding in 2024, like in other western economies. Goods inflation has already fallen back quickly. Even though energy prices could be volatile, we expect that trend to continue. Meanwhile, central bankers are more focused on services inflation – and how 'sticky' that might be. However, after a rapid tightening of interest rates and financial conditions, we think the evidence is building that services inflation will continue to slow through 2024, as the housing and labour markets slow.

The inflation data will probably be bumpy, but the broad trend is for inflation to fall back towards central bank inflation targets over 2024.

Looking further ahead, we think there are a number of forces that will keep inflation higher over the medium term versus what we became used to in the 2010s.

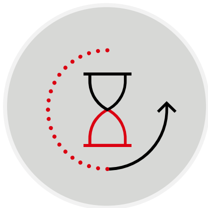
Overall, we think we are heading towards a new paradigm, with inflation and interest rates somewhat higher than we were used to during the 2010s. This environment leads us to take a defensive approach in our investment strategy for next year.

Figure 1: Key themes in 2024



A Problem of Interest

Monetary and credit conditions have tightened materially. That breaks inflation, but risks breaking other parts of the system too.



New Paradigm

We are in a new economic regime of tighter money and more active fiscal policy. That means different macro dynamics, higher inflation and interest rates.

Defensive Growth

Market expectations are for a soft landing. But as the cycle slows and inflation falls, bonds are back. We focus on defensive strategies in portfolios.

Source: HSBC AM, November 2023. Any views expressed were held at the time of preparation and are subject to change without notice. While any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Global Asset Management accepts no liability for any failure to meet such forecast, projection or target.

Heading to a new paradigm

In our view, the new paradigm is likely to be one of interest rates around 3% and bond yields around 4%.

As we navigate the economic landscape over the next 12 to 18 months, investors will continue to grapple with what the new normal for the macroeconomy and investment markets will look like.

This is likely to result in volatile market action as the data flow is likely to be bumpy and provide mixed signals around the potential for a soft or hard landing in the economy. There will be scrutiny around corporate profits – a key driver of wider macro trends – and ongoing debate over the neutral rate of interest. Labour market and productivity trends will be key swing factors.

It is not impossible that we return to a regime of lower-for-longer interest rates. But it is important to recognise the economic forces that took us to that point – rapid globalisation of the macro-economy, tight fiscal policy, and high levels of debt – have changed. For example: next year, in an important year of many general elections around the world, there are few politicians campaigning on a policy programme of 2010s-style fiscal austerity.

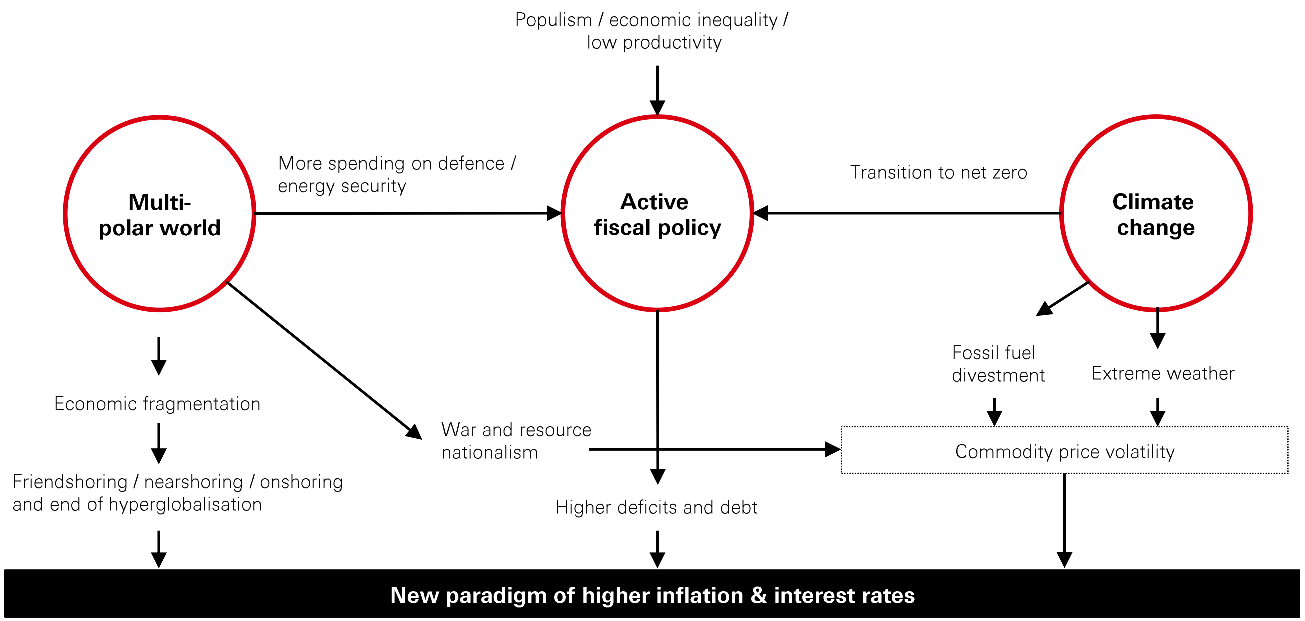
We think there are three key drivers of the new paradigm:

1. A new, multi-polar world (and a more fragmented global order) which results in the end of hyper-globalisation.
2. More active fiscal policy driven by political priorities in an age of populism, environmental concerns and high levels of inequality. This contrasts with the austerity measures and monetary policy dominance of the past decade.
3. Policies to address climate change and the transition to net zero.

In this backdrop, we would expect greater supply-side volatility and structurally higher inflation and interest rates – 2% as an inflation floor, policy rates around 3%, and bond yields at roughly 4%. Meanwhile, economic downturns are likely to be more frequent as higher inflation limits the ability of central banks to stimulate economies.

The assumptions considered in this new paradigm are crucial components in our long-term expected returns and capital market projections for next year.

Figure 2: New paradigm - Beyond the macro cycle, a different economic environment



Source: HSBC AM, November 2023. Any views expressed were held at the time of preparation and are subject to change without notice. While any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Global Asset Management accepts no liability for any failure to meet such forecast, projection or target.

Scenarios

Our baseline scenario embeds an elevated risk of economic slowdown and mid-single digit corporate profits growth. This is somewhat less optimistic than the outlook consistent with current market pricing.

Our inflation scenario means that we expect interest rate cuts in the second half of 2024. And we think the Fed could surprise the market by cutting rates more than currently anticipated – depending on labour market trends.

In the eurozone, inflation has surprised to the downside in recent months. The ECB usually lags the Fed in terms of policy turning points, but relatively poor economic performance could mean the pivot comes earlier.

In China, despite economic challenges emanating from depressed consumer confidence, a multi-year drag from the housing sector, and longer-run demographic headwinds, we expect policy support to deliver growth of around 4.5% in 2024. Nevertheless, we think more policy support is likely needed to sustain the recovery next year. Meanwhile, we expect the Bank of Japan will fully abandon their yield curve control policy and exit from negative interest rates by around mid-2024, as the economy breaks free from deflation.

Our central market scenario is consistent with a preference of bonds over equities in multi-asset portfolios, and a 'defensive growth' stance with a bias on quality and selectivity in stocks and credits. We also suggest 'intelligent diversification' strategies. This can include a systematic approach to thematic allocations, or exposure to emerging markets.

Our alternative risk scenarios are centred on the risk of higher interest rates, either because of renewed supply-side constraints, or strong productivity growth and limited corporate sector retrenchment. In the former scenario, we see markets performing poorly, while the latter is consistent with gains across many risk asset classes.

Figure 3: Central and alternative scenarios

Central scenario

Problem of interest

	Central scenario
Macro	**West**: Tight financial conditions induce GDP and profits recession **East**: Lacklustre growth in China. Japan and India outperform
Policy	**West**: Mid 2024 Fed/ECB rates cuts. QT on pause? Fiscal policy as mild drag **East**: China policy easing piecemeal, BoJ scraps YCC, Asia CBs easing in H2 2024
Market	**Bonds are back**, but other liquid alternative diversifiers lose their shine in 2024 **Defensive Growth** favours selective approach in global and private credits, equity factors, developed country selection, and emerging markets

Alternative risk scenarios

	Alternative risk scenario 1	Alternative risk scenario 2
Macro	**Persistent inflation problems,** even under weak economic growth **Geopolitical shocks**	Economy establishes itself on **'the golden path'** aided by strong balance sheets **Productivity accelerates materially**
Policy	**Central bankers in a bind** **Policy 'tighter for longer'** Possible further hikes to anchor inflation expectations	**Minor rate cuts.** The neutral interest rate is 4-5% Growth enables 'mission-oriented' fiscal policy
Market	Stock markets retest lows Real yields above 2% Emerging market assets falter Few winners – USD, momentum, gold, macro hedge funds	Early stages of new stock market bubble Credit spreads tighten, few defaults, emerging market assets gain as global growth boosts Asia

Source: HSBC AM, November 2023. Any views expressed were held at the time of preparation and are subject to change without notice. While any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Global Asset Management accepts no liability for any failure to meet such forecast, projection or target.

Market implications

Current market pricing remains consistent with a soft-landing scenario, seemingly overlooking the elevated risk of recession. In this context, our 'house view' is for defensive positioning in investment portfolios at present and a view that 'bonds are back'.

A weaker economy and disinflation should be a supportive environment for government bonds and challenging for stocks. In general, we see good opportunities in parts of global fixed income – selectively. These would include the US Treasury curve, parts of core European bond markets such as the UK and Germany, investment grade credits, and securitised credits.

In our view, US equities are confronted with two major challenges necessitating a cautious view. First, earnings growth expectations for 2024 are over 3x nominal GDP – which is high for a late part of the cycle. Second, the market multiple now appears stretched relative to government bond markets.

In comparison, European stocks look cheaper on a global basis and hence downside could be limited – unless a bad recession materialises.

We expect that Japanese stocks could be an outperformer among developed markets given attractive valuations, the end of unconventional monetary policy and a high-pressure economy. There are also structural tailwinds of near-shoring, new investment in semiconductors, and corporate sector reforms.

For emerging markets, we think idiosyncratic trends warrant being selective based on corporate fundamentals, earnings visibility and risk-adjusted rewards. Although history might not repeat itself precisely, we know that a Fed rate cutting cycle can be very supportive for emerging markets' performance, just like it was in the early 1990s. Hence, the prospect of Fed cuts in the second half means that investors should keep emerging markets on their radar in 2024.

In such an environment, India bonds, Mexico bonds, and Chinese A-share stocks will be some of our top picks in emerging markets for 2024.

Figure 4: Views per asset class

Equities

Asset Class	House view
Global	▼
US	▼
UK	▼
Eurozone	▼
Japan	▲
Emerging markets (EM)	↔/▲
Latam	↔
Frontier	▲

Government bonds

Asset Class	House view
Global	↔/▲
US	▲
UK	▲
German 10yr	↔
Euro Periphery	▼
Japan	▼
Inflation-linked	▲
EM (local currency)	▲▲

Corporate bonds

Asset Class	House view
Global investment grade	↔/▲
USD IG	↔/▲
EUR & GBP IG	▲
Asia IG	↔/▲
Global high-yield	↔
US high-yield	↔/▼
Europe high-yield	↔/▼
Asia high-yield	↔/▲
Securitised credit	▲

Commodities, alternatives and FX

Asset Class	House view
Gold	▲
Copper	▼
Listed Real estate	▲
Infrastructure	▲▲
Hedge funds	↔/▲
Private equity	↔
US dollar	▼
Crypto	↔

Asian assets

Asset Class	House view
Pan-Asia government bonds	▲
Asia ex-Japan equities	▲
China	▲
India	↔/▲
ASEAN	▲
Hong Kong	↔/▲
Asia FX	▲

▲ Positive ↔ Neutral ▼ Negative

Source: HSBC AM, November 2023. House view represents a >12-month investment view across major asset classes in our portfolios. Views reflect our long-term expected return forecasts, our portfolio optimisation process and actual portfolio positions. These views are for general information purposes only and does not constitute advice or a recommendation to buy or sell investments. Any views expressed were held at the time of preparation and are subject to change without notice. While any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Global Asset Management accepts no liability for any failure to meet such forecast, projection or target.

Top of mind

Top of mind

Do hedge funds still have an (h)edge?

Historically, hedge funds – including equity long/short, event-driven, macro, credit, and commodity trading advisors (CTAs) among others – have demonstrated their diversification abilities within broader asset allocations during market downturns or periods of stress.

More recently, and despite the unprecedented interest rate hiking series, the correlation between hedge funds and typical multi-asset allocations remains negative (Figure 1). Furthermore, hedge fund performance has been resilient over the period, with some strategies even benefiting from this shift in the macro-economic environment (Figure 2). For instance, credit-focused funds, have delivered higher returns of around 5.4% over 12 months compared to their three-years annualised returns of around 4.6%. This is primarily caused by rising interest rates and significant movements in bond markets creating a favourable environment in which credit-focused funds can operate.

In addition, when interest rates are elevated, many hedge fund positions can result in cash holdings, which would earn a higher rate of interest, therefore driving returns. Nevertheless, we also observe a significant amount of dispersion across hedge fund strategies.

Event driven funds, for instance, which often seek to profit from corporate actions such as mergers and acquisitions, suffered from the decrease in activity over the last two years amidst an environment that was not conducive to borrowing and dealmaking.

Similarly, macro strategies have underperformed the broad hedge fund universe over both one and three years.

Across their broad history we can observe that there is a relatively wide dispersion of outcomes amongst each hedge fund style, in both bull and bear markets. This confirms that selectivity is a crucial component when implementing 'smart diversification' strategies in alternatives - and that a multi-style/multi-manager approach offers a reasonable option for investors.

Figure 1: Hedge fund correlation with 60/40 portfolio

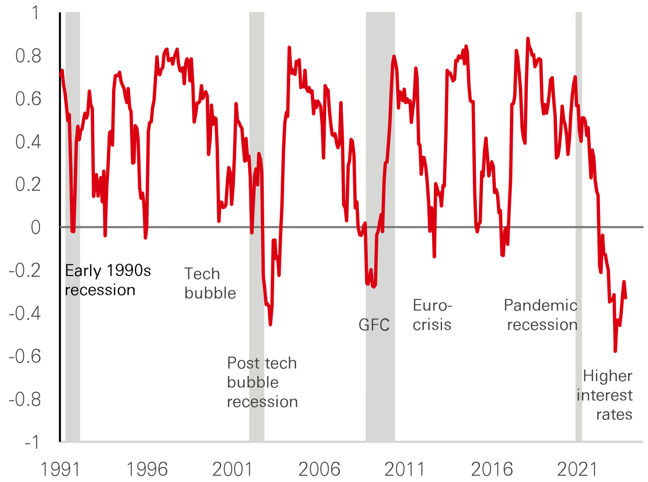
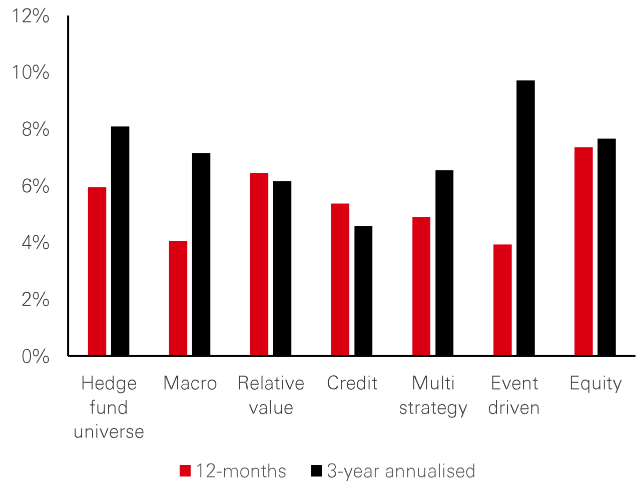


Figure 2: Single manager hedge fund performance[1] (%)



Source: HSBC AM, Macrobond and Preqin data, September 2023.
The performance figures displayed relate to the past and should not be seen as an indication of future returns.

[1] Hedge funds performance update: August 2023 (preqin.com).

What is the impact of a strong dollar and higher US rates on emerging markets?

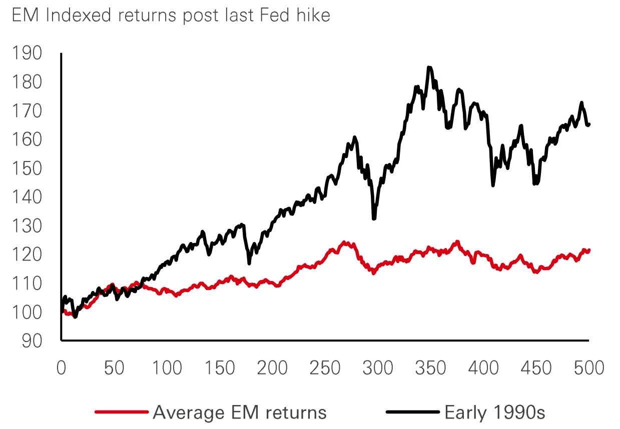
Historically, the backdrop of falling dollar liquidity and weaker Chinese economic growth hasn't boded well for emerging markets, contributing to their lagging performance since the Fed began raising interest rates in March 2022.

However, the noteworthy narrative in 2023 shifts from overall weakness to varied performance within the emerging markets spectrum. Certain segments, such as India and Mexico, continue to perform very strongly. This highlights the importance of capturing these idiosyncratic trends and adopting an active management approach.

It's also important to bear in mind that investment markets will trade on future trends. We know that a Fed rate cutting cycle can be very supportive for emerging markets performance, just like it was in the early 1990s when Fed cuts encouraged a flow of capital into emerging markets (Figure 3).

While history may not repeat itself precisely, the possibility of faster than expected Fed cuts in H2 2024 suggests that investors should closely monitor emerging markets in the coming year – notably India and Mexico bonds, as well as Chinese A share stocks.

Figure 3: EM can perform after the last Fed hike



Source: HSBC AM, Macrobond data, November 2023.
The performance figures displayed relate to the past and should not be seen as an indication of future returns.

How do US stocks compare against bonds in the next 12 months?

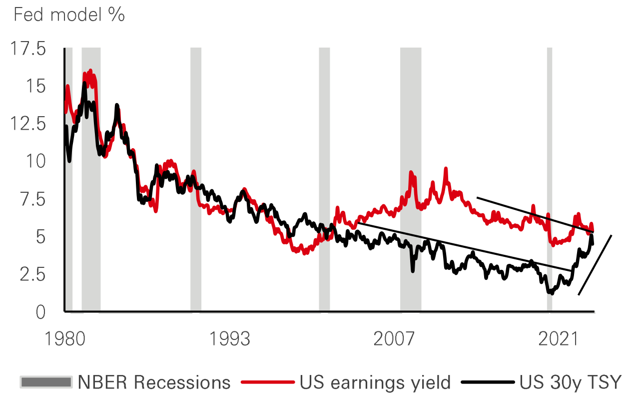
While comparing US stocks and bonds, there are two sets of challenging dynamics for stocks.

1. Regarding earnings, there is an expectation of approximately 12% growth in 2024, equivalent to over 3 times the nominal GDP – a considerable figure in the later stages of the economic cycle.
2. The market multiple now appears stretched in comparison to government bond markets, whether considering real yields, which indicates a thin equity risk premium, or in relation to 30-year yields using a Fed model approach (Figure 4).

This situation arises concurrently with a rising term premium in US bonds, leading to what we term 'the tale of two risk premiums' – an increasing risk premium in bonds and a declining risk premium in stocks.

Given this scenario, a cautious stance on US stocks is warranted and we favour bonds as part of tactical allocations.

Figure 4: 'Fed Model' points to a valuation problem for stocks



Source: HSBC AM, Macrobond data, November 2023.
The performance figures displayed relate to the past and should not be seen as an indication of future returns.

Any views expressed were held at the time of preparation and are subject to change without notice. While any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Global Asset Management accepts no liability for any failure to meet such forecast, projection or target.

What ESG issues are you watching?

We believe that next year we will see emphasis on implementation of industry frameworks with a focus on climate transition and sustainability disclosures, while exploring systemic risks such as preservation of natural capital, inclusive growth and responsible use of artificial intelligence.

For example, it is very likely that we will see the creation of local transition plan disclosure requirements across Asia and other jurisdictions, following issuance of new standards this year by the IFRS International Sustainability Standards Board, along with climate disclosure rules from the US SEC and the UK Transition Plan Taskforce. Greater consistency globally will be positive for holding companies accountable for their impacts wherever they operate.

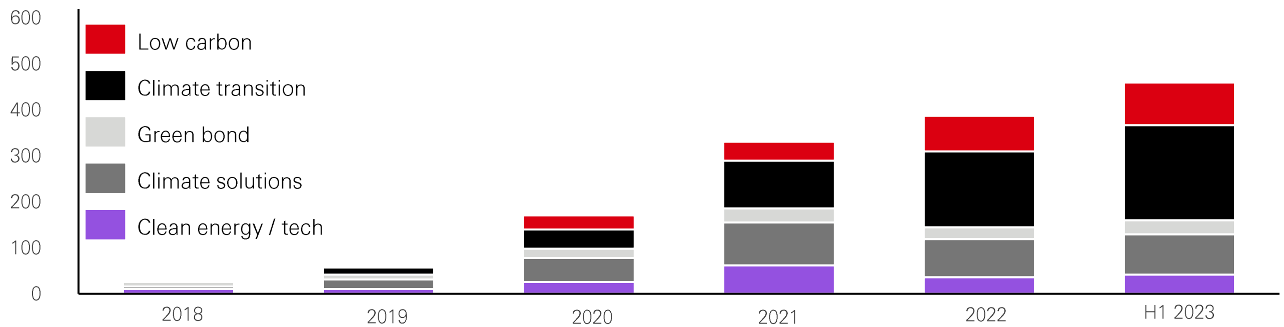
Another development this year was strikes at a global oil major which rattled gas prices. We are likely to see more of this with an ongoing push for greater labour power and a 'just transition' that doesn't disadvantage certain geographies or segments of the population. Greater emphasis on inclusive growth will likely form a key part of discussion between companies and investors as a result.

Likewise, we expect investment in the climate transition from both private and public markets to continue its growth, with asset managers in position to support it. Although renewable energy companies have particularly suffered from higher interest rates over the past year, given their generally early stage and capital-intensive business models, the demand and corresponding growth runway remains clear across a broad opportunity set.

While biodiversity and natural capital is interlinked with climate change, it is clear that the two are at distinctly different phases when it comes to implementation in the industry. Consensus however, continues to emerge and we expect to see companies with a material impact on nature having a greater uptake of the Taskforce for Nature-related Financial Disclosures framework, which launched in 2023.

Another developing issue is trusted technology and data with tools such as artificial intelligence coming under scrutiny. We have already seen prominent technology companies having proposed shareholder resolutions on their responsible governance of artificial intelligence. This topic is likely to take hold in the 2024 proxy season and is something that companies are grappling with – both as an opportunity and as a risk.

Figure 5: Growth in types of climate strategies (Assets, USD billion)



Source: Morningstar Direct, Morningstar Research, as of June 2023

What about adaptation efforts to address existing climate impacts?

Per this year's Adaptation Gap Report from the UN Environment Programme, progress on climate adaptation is slowing when it should be accelerating to catch up with rising climate change impacts. This slowdown translates to a constantly widening adaptation financing gap, which stands at an estimated $194-366 billion per year.

Lack of adaptation steps and funding is adding to risk from climate change impacts. Beyond risks to life and property, this includes basic food and materials supply. This could be a contributor to inflationary pressures and a drag on economic growth in the years ahead.

There is an acute need for infrastructure investment, with the biggest opportunity sitting in Asia – accounting for nearly one-third of the estimated $15 trillion global infrastructure gap. Investors and asset managers will have a role to play in achieving sustainable infrastructure development at scale.

Refinancing the 'COVID Maturity Wall'

Refinancing the 'COVID Maturity Wall'

"Opportunistic funding at low rates during and just after the pandemic has created a 'maturity wall' in 2024-2026, which could create refinancing difficulties or force deleveraging.

Greater utilisation of alternative sources of funding will be part of the solution to the maturity wall for some issuers. This could actually provide technical support for credit markets in 2024, with sparse supply meeting increasing demand for higher yields.

As we can see in Figure 1, although the maturity wall is set to grow everywhere in 2024-25, the situation is not particularly acute in western developed markets, although there may be particular sectors which will feel stress.

Among the companies most vulnerable to the higher refinancing cost of short-term debt are those in capital sensitive sectors, lower quality banks, REITS and those in the lower parts of the high yield ratings spectrum.

The Asia maturity wall is steeper, but here is where issuers can most lean on local markets, especially in China and India where financing costs are lower and the market is deep.

Meanwhile, the latest economic expansion has been driven by income, rather than balance sheets, and therefore it is the earning outlook which will be key to how companies address upcoming maturities, which should be manageable in the event of the reasonably benign economic outcome currently discounted.

Figure 1: A growing maturity wall

Sector	Market size (USD billion)	2024 Maturities	2025 Maturities	2024-2025	Notes
US Investment Grade	8062	745	888	20%	Driven by Autos, Banks and post-Covid issuance from select sectors
Europe Investment Grade	3361	319	380	21%	Autos, Retail and Capital Goods
Asia Investment Grade	836	144	147	**35%**	China Financials and State Owned companies, Korean Financials and Coporates
US High Yield	1350	34	99	10%	BB-tilted but overall amount is elevated (2016-2022 average is around 5%)
US Leverage Loans	1340	22	107	10%	B3 and lower accounts for a high portion of refinancing needs
Asia High Yield	120	28	24	**43%**	China Property, Indian Corporates
Europe High Yield	403	48	61	**26%**	BB tilted

Source: HSBC AM, Bloomberg data, November 2023.

The US maturity wall is set to increase over the next 2 years and we believe that the vast majority of investment grade issuers are prepared to absorb higher financing costs. While refinancing is a growing risk in high yield, many issuers took advantage of improved financial conditions during 2023 to address near-term maturities.

The US Investment Grade maturity wall is set to increase by 21% year-on-year in 2024 ($136 billion). Approximately half of that increase is being driven by the banking sector due to increased regulations and Basel III. Within the non-financial sector, increased maturities are being driven by the outsized Covid-related issuance the market saw in 2020 and the following year.

The macro backdrop and market volatility will play a significant role in ultimate issuance in 2024, but refinancing risk should be manageable for most investment grade issuers. Pockets of vulnerability include regional banks, REITs, and select industrial issuers. In high yield, we expect default rates to continue to increase but feel the risks are fairly concentrated in select industries such as Media and Healthcare. In addition, the maturity wall is skewed towards higher quality BB issuers who should be more resilient to higher borrowing costs.

The pace and scope of market stress in 2024 and beyond will be driven more by the earnings backdrop versus changes in funding costs. Our base view is that US credit markets will likely benefit from a relatively strong technical picture next year, especially if a deep recession is avoided.

Figure 2: US investment grade maturities (USD billion)

Sector	2024	2025	% of '24-25 Maturity Wall	Variation 24/25
Banking	317	354	**41%**	12%
Consumer Non-Cyclical	74	93	10%	26%
Consumer Cyclical	70	94	10%	34%
Technology	52	64	7%	23%
Electric	35	39	5%	11%
Insurance	35	35	4%	0%
Capital Goods	34	42	5%	24%
Energy	30	45	5%	**50%**
Communications	24	37	4%	**54%**
Finance Companies	19	16	2%	-16%
Basic Industry	14	19	2%	36%
REITs	13	15	2%	**15%**
Transportation	12	15	2%	25%
Brokerage AM Exchanges	9	14	1%	56%
Financials	395	434	51%	10%
Non-financials	350	454	49%	30%
Total	**745**	**888**	**-**	**19%**

Source: HSBC AM, Bloomberg data, November 2023.

Figure 3: EUR investment grade maturities (USD billion)

Sector	2024	2025	% of total bonds	Variation 23/25
Autos	26	24	**37%**	**-29%**
Basic industry	15	19	26%	**45%**
Capital Goods	16	20	**29%**	25%
Consumer goods	21	23	24%	**55%**
Energy	13	13	25%	17%
Healthcare	15	18	20%	15%
Media	3	4	20%	**-5%**
Real Estate	12	20	19%	**76%**
Retail	9	8	28%	**37%**
Services	6	3	31%	-4%
Technology	5	10	25%	31%
Telecoms	14	15	21%	4%
Transportation	12	13	17%	10%
Utilities	23	33	20%	**70%**
Non-financial senior	200	228	23%	20%
Non-financial hybrid	10	12	14%	34%
Total non-financial	**210**	**241**	**37%**	**54%**

Source: HSBC AM, Bloomberg data, November 2023.

"We do not believe that there will be a widespread problem, but there are likely to be pockets of pressure which may pose risks to certain markets."

Maturity walls in European investment grade and high yield markets look manageable, but certain sectors in high yield such as automotive, chemicals, retail and real estate might experience more stress.

After record issuance in 2020 and 2021 driven by the low-rate environment and the ECB Corporate Sector Purchase Programme, supply was soft in 2022, recovered somewhat this year and we expect that to continue in 2024. Both investment grade and high yield companies have sound liquidity positions and committed credit lines, although some deterioration in credit metrics is expected from a position of strength – notably on coverage ratios. Besides, it would be important to watch the identified sectors such as Auto or Healthcare with maturities over 2024 and 2025 more than doubling.

European investment grade credit metrics are at peak quality with low leverage, elevated cash balances and margins at record levels – a strong starting point that should limit the volume of fallen angels next year.

High Yield credits have recovered post-Covid thanks to deleveraging and earnings growth, but weaker economies might weigh again on company fundamentals. While weakest credits remain in a fragile position in a rising rate environment, high-cash balances should sustain an increasing but moderate default rate. Particular stress is ongoing in REITs, where asset sales and search for alternative refinancing remain at the top of the agenda for most players.

Access to lower cost onshore debt is a key theme for USD Asian credits facing the most challenging maturity wall, which in an elevated US dollar rate environment is likely to lead to a further contraction in the size of the market in 2024.

High US interest rates and investor risk aversion to China high yield has made alternative sources of funding more attractive options for many issuers in the Asia USD bond market. In 2023 we have seen bonds in several sectors refinanced through bank loans, asset sales, internal cash as well as local bond issuance. Geographically, Korea has been an outlier with higher levels of issuance, driven by higher domestic funding costs than in USD when swapped back into KRW.

We see overall manageable refinancing risk for Asian investment grade sectors, where we would expect the China investment grade corporate complex to shrink further with the availability of relatively cheap onshore financing in a deep and liquid domestic bond market. Meanwhile, we expect financials activity to remain brisk, with Chinese and Korean banks and bank lessors likely to remain more active.

In Asia High Yield, we also expect China issuance to be tepid and for challenges to be confined mainly to individual companies where refinancing difficulties are well known.

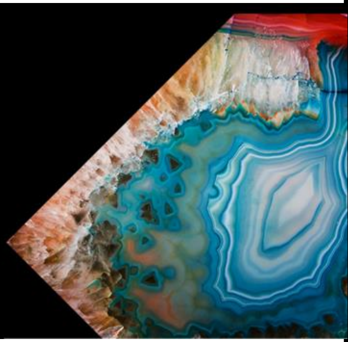
Figure 4: USD Asia investment grade maturities (USD billion)

Sector	2024	2025	% of 2025 maturity wall	Variation 24/25
China - Banking senior	24	27	18%	10%
China - SOE	17	18	**12%**	3%
China - Local gvt fin. vehicle	11	12	8%	11%
China - Bank leasing	8	5	3%	-45%
China - Property	5	2	1%	-59%
China - Asset management cies	5	6	4%	**20%**
China Industrials	2	2	1%	-10%
HK - Corporate and property	6	4	3%	-36%
Korea - Banks and financials	10	15	11%	**51%**
Korea - Private corporate	3	3	2%	-8%
Korea - Quasi	3	6	4%	97%
India - Banks & Financials	4	0	0%	0%
India - Corporates	2	1	1%	-53%
SEA - Banks	5	2	1%	-60%
Macau	0	2	1%	0%
AT1	0	1	1%	-
T2	10	6	4%	-37%
TMT	6	10	7%	59
Oil & gas	8	11	7%	30%
Sovereigns	11	10	7%	-13%
Other	3	6	4%	135%
Total	**144**	**147**		
Financials and sovereigns	**78**	**71**	48%	-8%
Non-financials	**67**	**76**	52%	14%

Source: HSBC AM, Bloomberg data, November 2023.

Find out more

In our latest
Fixed Income Insights



HSBC Asset Management

The rest of the emerging market debt market is showing a similar pattern. Albeit the issuance over 2023 is up by 55% compared to 2022 when the primary market was quite subdued, and net supply stayed negative.

All regions saw higher issuance, but ME&A was the most active region and we expect this scenario to repeat over 2024 with dominance of IG issuers. On the other hand, CEE will stay negative for the third year. LatAm issuance remains quite low reflecting the still challenging conditions in international markets (similar to Asia) as well as the significant liability management many issuers took in previous years. Although we expected it to pick up next year, the region should remain in net negative territory, which would be the seventh year in a row of negative net issuance.

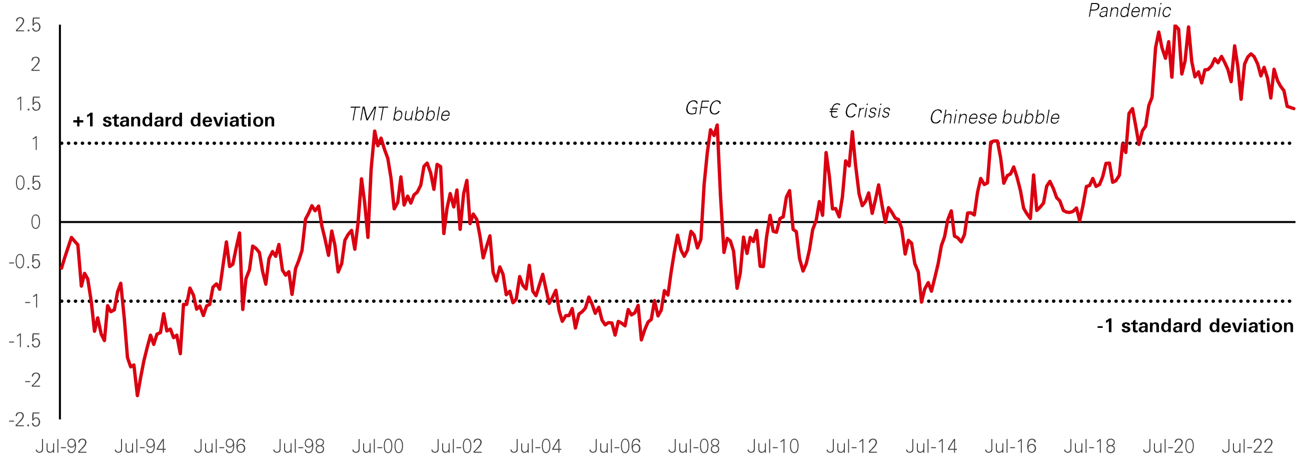
Overall, with the net negative issuance for emerging markets, technical factors should be positive for the asset class in 2024, notwithstanding important idiosyncratic risks.

The value anomaly in European equity markets

The value anomaly in European equity markets

"Comparing the relative valuation of value and growth stocks over the last two decades reveals that value is now 30% cheaper than it was, while growth is 56% more expensive."

Figure 1: Europe value spread (Price-to-book: expensive vs. cheapest)



Source: HSBC AM, Eurostat, Refinitiv, September 2023.

In equities, the long-standing debate between value and growth investing hinges on two key factors: a stock's current valuation and its future economic performance. Historically, value investing has proven highly effective over the long term, outperforming growth by 5.5 times since 1963 in the US market and having similar significant margins in Europe.

However, over shorter time frames, growth can emerge as the winner, often coinciding with the build-up of market bubbles. Interestingly, the current landscape reveals that growth stocks in Europe have never been this expensive compared to their value counterparts, even during the dot-com bubble.

Today, it seems that investors might be overestimating the future growth of growth stocks while underestimating that of value stocks. The recent underperformance of value stocks can be attributed to a variety of factors, but largely appears to be an unprecedented valuation anomaly. This divergence in valuation is known as the 'valuation spread', which can expand due to cheaper stocks becoming even cheaper, expensive stocks becoming pricier, or a combination of both.

This spread had widened due to successive market crises in Europe, reaching new highs during the pandemic.

Various theories have attempted to explain this anomaly. Indeed, the sequence of crises in Europe and the herd behaviour around mega-cap growth stocks has played a significant role. From a more fundamental perspective, earnings, valuation and interest rates are the factors to look at.

The impact of earnings and valuations

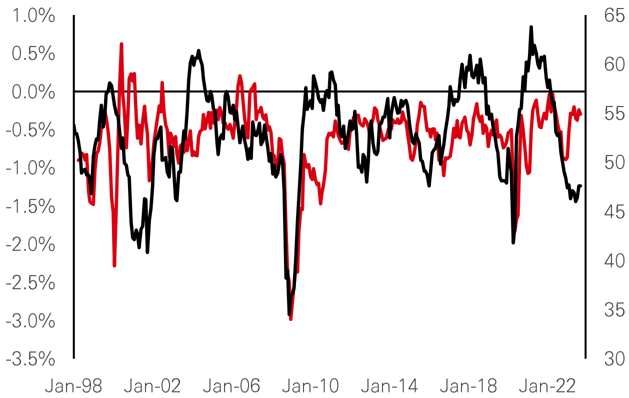
Over the last two decades, the relative change in earnings almost always contributes negatively to value stocks' performance. This doesn't come as a surprise since value stocks tend to have less healthy fundamentals and tend to underperform economically. On the other hand, changes in valuation are almost always positive – since value stocks tend to overreact with regards to poor fundamentals, creating a valuation anomaly and a subsequent rerating.

The first chart below shows the significant correlation between relative earnings and the ISM index. This suggests that value earnings are more cyclical than earnings in general. For example, a strong negative earnings effect always coincides with recessions.

Periods of strong economic growth (2004-2007, 2011-2015, 2021-2022) were periods where the earnings effect is less negative. Currently, the earnings effect is holding surprisingly well given the level of the ISM index. Much of this comes from strong earnings momentum in the banking sector, which is growing its earnings by 30% on a year-on-year basis. Yet the market is expecting bank earnings to fall by 30% in the next 12 months (assuming valuations are a good indication of future growth).

Regarding the valuation effect, the second chart below shows the strong correlation with the value spread, measured by the difference in earnings yield between the value portfolio and the whole universe. In fact, the value spread tends to lead the valuation effect by around three months.

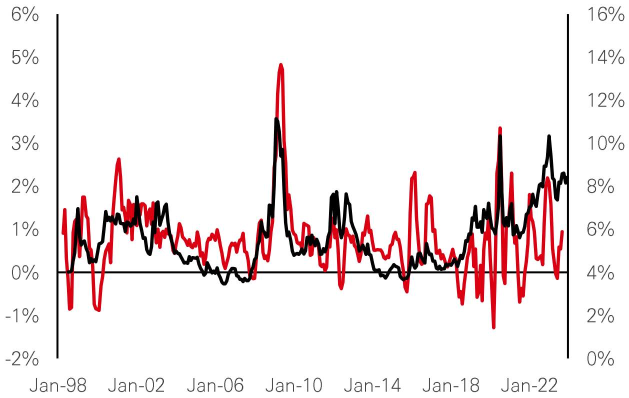
Figure 2: Relative change in earnings for value (red, lhs) vs. ISM index (black, rhs)



Source: HSBC AM, Factset and Bloomberg data, October 2023.

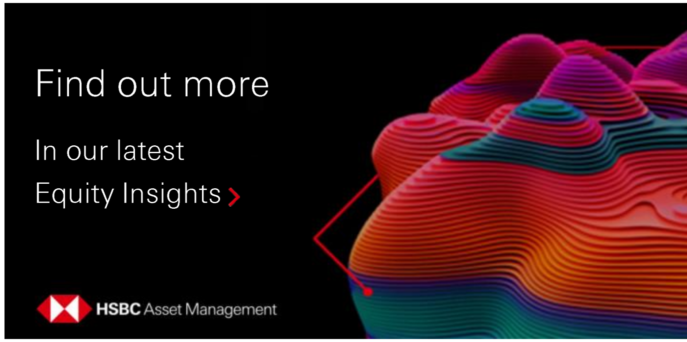
Past performance is no guarantee of future returns.

Figure 3: Relative change in valuation for value (red, lhs) vs. value spread (black, rhs)



Source: HSBC AM, Factset and Bloomberg data, October 2023.

Past performance is no guarantee of future returns.



In summary, the performance of value stocks over the past two decades seems quite straightforward. Value earnings tend to underperform and have a cyclical bias. Value benefits from a positive valuation effect which is determined by the value spread. The more value stock are attractive, the more the valuation effect will be strong.

This has worked quite well up until 2018. We notice a disconnect in 2018, where despite a large value spread, the valuation effect is on average flat and even negative. This in turn has increased the value spread even more as there is no mean reversion effect through arbitrage.

Although fundamentals have not deteriorated and earnings were at least average, it is exclusively valuation that has driven the underperformance. The fall of long-term interest rates to – and even below – zero has been seen by a significant amount of market observers as the main reason for this unusual phenomenon. But what does this theory rely on?

Any views expressed were held at the time of preparation and are subject to change without notice. While any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Global Asset Management accepts no liability for any failure to meet such forecast, projection or target.

The interest rate factor

The argument supporting the theory that interest rates have been the main argument to explain the value/growth spread goes as follows. Within a discounted valuation model, growth stocks have a longer duration than their value peers as most of their value is embedded in the long term – future income streams, terminal value, etc. The sensitivity of growth stock valuations to interest rates is thus greater than for value stocks – where value is embedded in the short term.

Consequently, the theory is that relative performance of value stock tends to be correlated to interest rates. Value underperforms when interest rates fall and outperforms when interest rates rise.

Historically, the correlation between value and interest rates has never been significant and there are periods when correlation was even negative – interestingly during the inflationary environment of the 70s. Over the recent period, sensitivity of value to interest rates has increased dramatically and even reached almost 0.8 after falling back to 0.3. Overall, and despite the theory making sense intuitively, it is not empirically robust.

Looking forward

The past decades have been challenging for value investors. Although the underperformance can be explained over much of this period, our view is that an anomaly has appeared over the last 3-5 years, with investors capitulating on value.

> "We see a series of coinciding signals suggesting that the current value/growth spread, particularly in Europe, is due for reversion over the coming years."

Moreover, investors seem to have capitulated on the concept of valuation, taking decisions solely based on profit growth.

As of now, and despite a recent small rebound, European value equity markets have a long way to go to fully recover. Although the gap with growth equities has somewhat retreated from recent peaks, it remains at record highs. We see this as an anomaly, especially since the earnings of value stocks have outpaced those of growth stocks over the last two years.

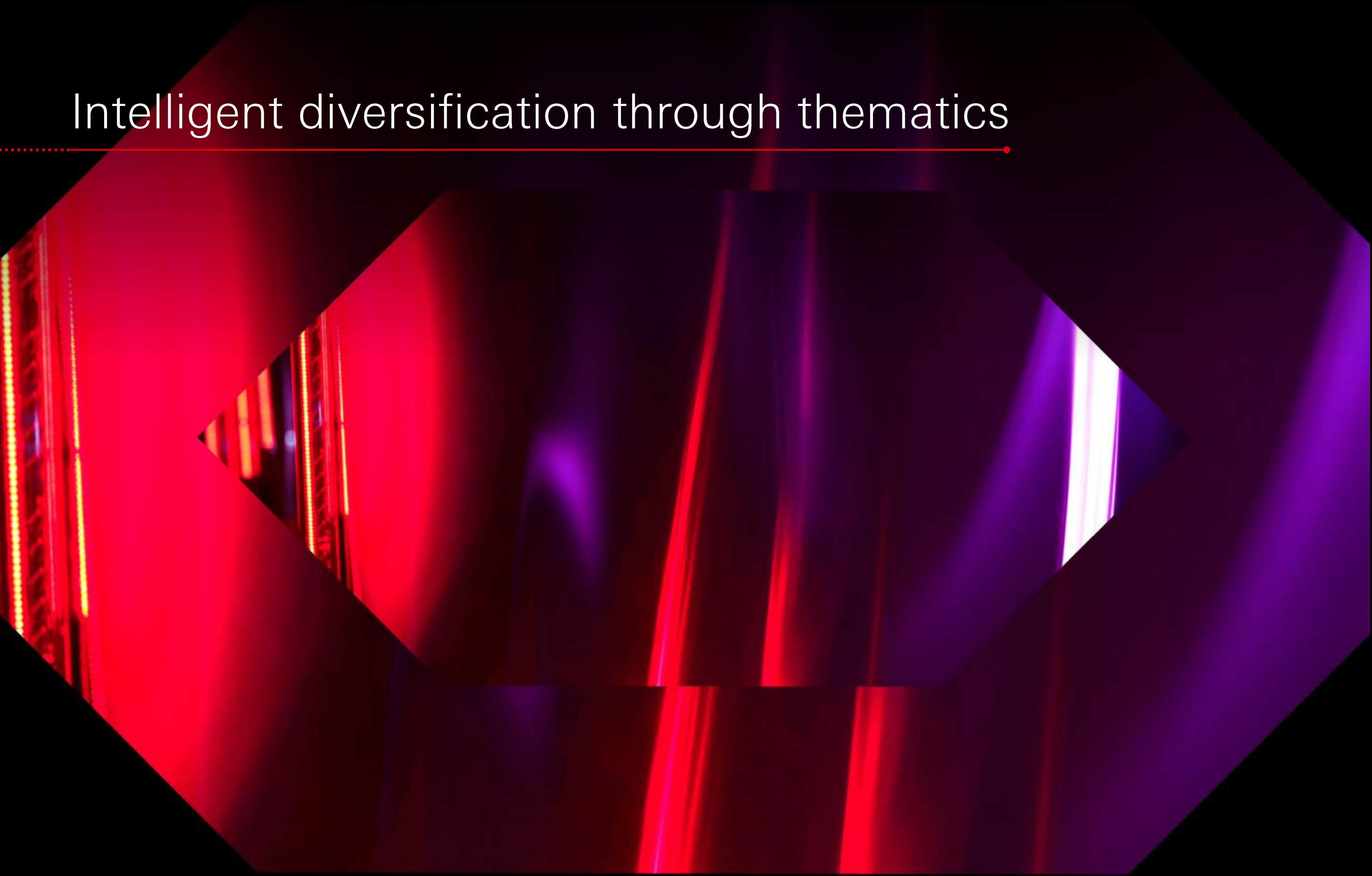
This leaves us in a situation where this valuation anomaly could continue to fade, revealing a significant outperformance potential for value stocks. Indeed, timing this recovery is almost impossible, but maintaining an underweight stance on value seems to be a risky strategy, in our view.

Figure 4: Rolling 2-year correlation between US Value / Growth and US 10-year rates

Source: Kenneth French Data Library (mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html), Bloomberg, October 2023.

Past performance is no guarantee of future returns.

Intelligent diversification through thematics



Intelligent diversification through thematics

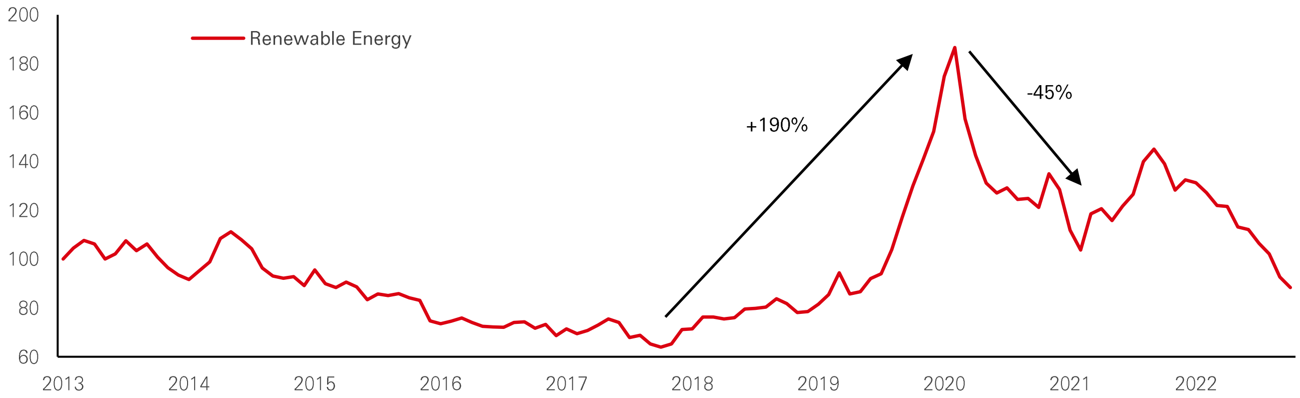
> "We think new sources of diversification will be needed as part of a new investment paradigm"

We expect a new paradigm that looks very different to the secular stagnation of the 2010s, with the introduction of higher interest rates, higher average inflation and looser fiscal policy. This poses challenges to both equity returns and the role of traditional diversifiers, with a negative stock/bond correlation no longer as reliable. Finding pockets of opportunity and diversification will be ever more important. Allocating to thematic investments may support this goal, if approached in a structured manner that reduces downside risks.

Importantly, thematic allocations are distinct from traditional equity allocations and cut across typical dimensions such as geographies, sectors and style factors. In this regard, we are not referring to classic, cyclical investment themes such as 'higher for longer' interest rates, which can be expressed within portfolios using traditional allocation levers. The differing drivers of returns from individual themes is what makes them a consideration for delivering returns and diversification in an uncertain environment ahead.

In our Mid-Year Outlook we discussed the Gartner Hype Cycle and its role in thematic equity returns – with the typical experience having been inflated expectations after an innovation trigger for a given theme, which subsequently leads to deflated prices and negative returns before the longer-term benefits to productivity and earnings are realised. To illustrate this point, we can look at the performance of renewable energy over the last few years. Being a necessity to longer-term economic and societal development globally, clean energy is clearly not a fad or short-term technology which will not endure over the longer term. Nonetheless, returns from the sector have followed this cycle.

Figure 1: Time series of excess returns versus global equities



Source: HSBC AM, Bloomberg data, October 2023.

Given the notorious volatility of thematic investments, we posit that diversification should be of primary importance in shaping a thematic allocation. Some investors have questioned whether effective diversification is in fact possible in thematics, suggesting that all themes share a narrow set of return drivers, and as such, meaningful diversification becomes impossible.

As illustrated in figure 2 on the following page, we have divided the thematic universe into three categories or 'transformational trends'. Within each category theme correlation is high, as expected, but between categories correlations are low – demonstrating a surprisingly heterogenous broad thematic universe.

Figure 2: Correlation of excess returns (versus global equities) between select themes and Transformational Trends

	Green Transformation	Technology & Innovation	Evolving Society
Climate & Energy Transition	0.25	0.22	0.15
Circular Economy & Green Infrastructure	0.26	-0.17	0.13
Natural Resources & Water	0.34	-0.16	0.00
Automation & Robotics	-0.04	0.46	0.00
Disruptive Technologies	-0.11	0.57	0.29
Digitalisation	0.05	0.59	0.26
Future Consumer	-0.04	0.56	0.00
Diversity, Equity and Inclusion	0.22	-0.23	0.21
Healthcare Innovation	0.10	0.22	0.43

Source: HSBC AM, Bloomberg data, April 2013 to September 2023.

Shaping a thematic allocation

Historical correlations indicate that over the long term, an allocation across all three transformational trends will benefit from meaningful diversity and volatility reduction versus single theme investing.

Of course, given the disruptive nature of most transformational trends or their underlying themes, and the opportunity for the underlying companies driving them to challenge incumbents, thematic exposures create inherent style factor biases such as growth over value, and emphasis on smaller companies with less profitability. Nonetheless, our analysis shows alpha delivered in the past performance of themes that cannot be fully explained by inherent style factor, sector or country biases.

In figures 3 and 4 we show the factor biases for two very relevant but different themes in today's environment.

Inherent differences between the exposures captured within each theme reiterate the diversification benefit of a multi-theme approach.

Today, the artificial intelligence theme has qualities that position it favourably in the short-term environment given exposure to positive momentum, along with size and growth, which continue to outperform. However, longer-term headwinds, such as higher rates that would remove the tailwinds growth benefited from under secular stagnation in the 2010s, leave question marks over the ability to extend outperformance further out.

To the contrary, agribusiness should be well placed under a new paradigm that benefits value and cyclicals over growth, particularly given its positive exposure to commodities, energy and other factors connected to the higher average inflation regime we expect to see in the years ahead.

The advantage of spreading a portfolio's allocation across the transformational trends is clear, leaving only the question of how to determine the most appropriate long-term split across themes, for those desiring exposure.

Figure 3: Artificial intelligence factor relatives (vs global equities)

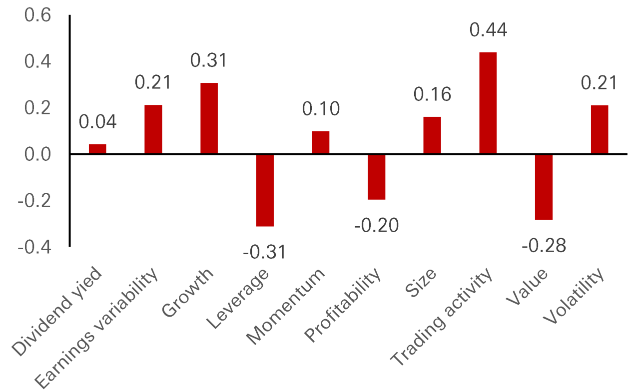
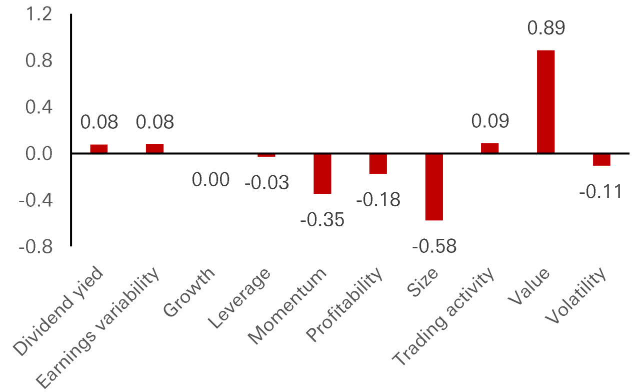


Figure 4: Agribusiness factor relatives (vs global equities)



Source: HSBC AM, Bloomberg data, November 2023.

The performance figures displayed relate to the past and should not be seen as an indication of future returns. Any views expressed were held at the time of preparation and are subject to change without notice. While any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Global Asset Management accepts no liability for any failure to meet such forecast, projection or target.

Our analysis of returns over the last decade suggests that an equal weighting methodology across the underlying themes is the most appealing, generating the strongest excess returns and diversification benefits.

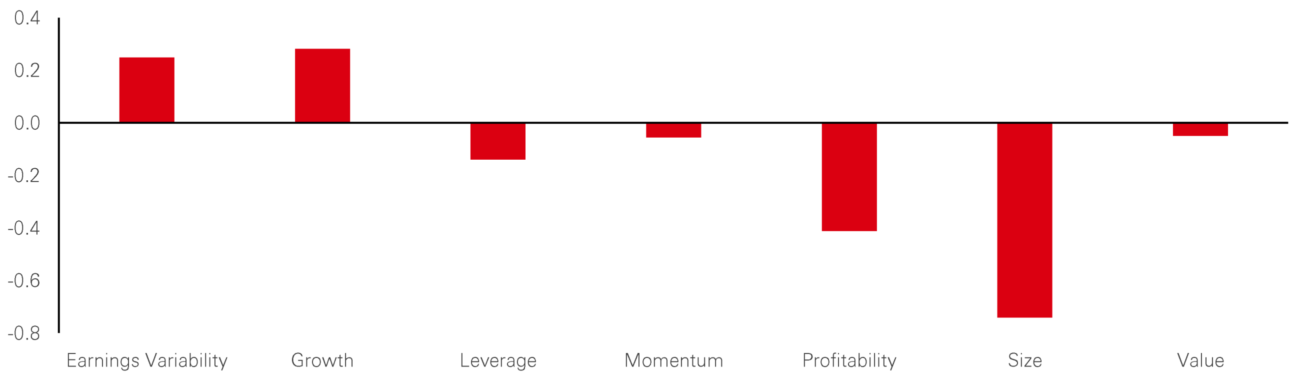
While our research provides useful historical context, we must be mindful not to build allocations based on historic performance data alone. An equally weighted allocation holds several additional advantages outside of the stronger returns it has delivered historically:

- Portfolio simplicity: equal weighting is an objective, rules-based, high diversification approach to long term allocations
- Theoretical robustness: over the long term, there is no theoretical justification for the persistent outperformance of one transformational trend versus another. As such, an agnostic view on trends is intuitively appealing
- Allocation neutrality: an equally weighted starting point provides a neutral platform from which active asset allocation can be conducted.

Evaluating the investment case

With bond yields sitting close to 25-year highs, fixed income investors are all but guaranteed a strong decade ahead. Yet, looking at current price-to-earnings ratios, the reverse might be true for equity markets. Moreover, a combination of secular headwinds approach, including the reversal or slowdown in globalisation, and climate change policies being potential contributors to continued inflation. Separately, demographic and other constraints are set to be a drag on growth. These issues also point to a likely lower profit share of GDP after peaking in recent years. In short, the golden age of equity market returns might be drawing to a close.

Figure 5: Equally weighted thematic portfolio factor biases versus global equities



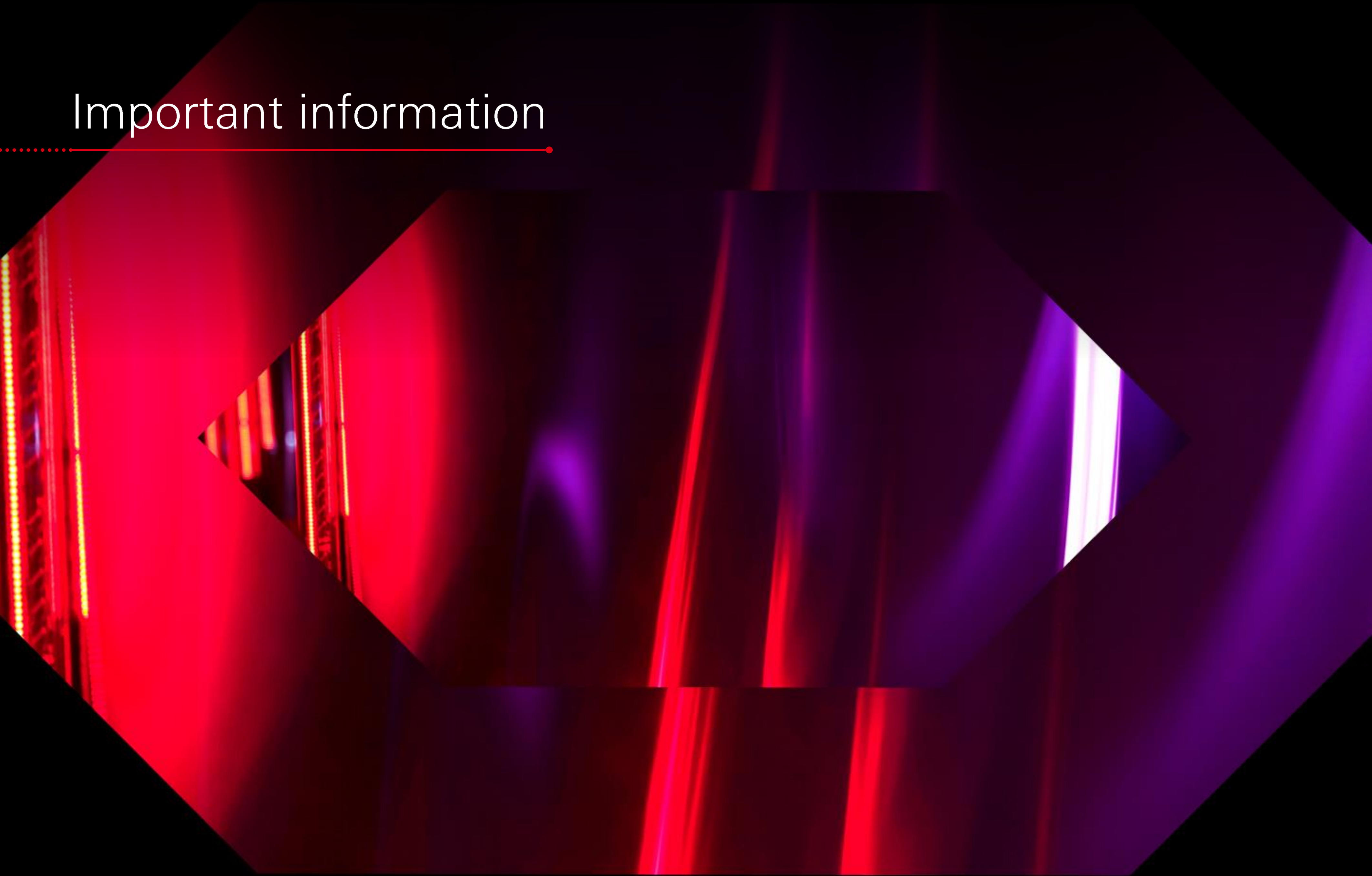
Source: HSBC AM, Bloomberg data, April 2013 to September 2023. **Past performance is no guarantee of future returns.**

Are thematics a solution? They offer promise given thematic allocations look to invest in, and profit from, the very disruptive forces that spell trouble for the equity market. From spending on climate change, to solutions for an aging population, the broad equity market's loss should be a thematic investment's gain.

However, as always, the investment case is not perfectly clear cut. Considering the factor and macroeconomic sensitivities of a thematic portfolio, we can see that it is highly sensitive to GDP growth, demonstrates limited profitability, and tends to be concentrated in smaller companies. These attributions will not be supportive during a higher interest rate, low-growth environment.

Thus, while there is potential for superior returns, as demonstrated by the performance of the artificial intelligence theme this year, a balanced scorecard approach to thematic investing is needed to build a holistic investment case. This includes establishing fundamental views along with systematic inputs and robust portfolio construction. Implemented in a thoughtful way, thematics can provide intelligent diversification both for the cyclical investment horizon and medium-term regime change underway.

Important information



Important information

For Professional Clients and intermediaries within countries and territories set out below; and for Institutional Investors and Financial Advisors in Canada and the US. This document should not be distributed to or relied upon by Retail clients/investors.

The value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested. The capital invested in the fund can increase or decrease and is not guaranteed. The performance figures contained in this document relate to past performance, which should not be seen as an indication of future returns. Future returns will depend, inter alia, on market conditions, fund manager's skill, fund risk level and fees. Where overseas investments are held the rate of currency exchange may cause the value of such investments to go down as well as up. Investments in emerging markets are by their nature higher risk and potentially more volatile than those inherent in some established markets. Economies in Emerging Markets generally are heavily dependent upon international trade and, accordingly, have been and may continue to be affected adversely by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries and territories with which they trade. These economies also have been and may continue to be affected adversely by economic conditions in the countries and territories in which they trade. Mutual fund investments are subject to market risks, read all scheme related documents carefully.

The contents of this document may not be reproduced or further distributed to any person or entity, whether in whole or in part, for any purpose. All non-authorised reproduction or use of this document will be the responsibility of the user and may lead to legal proceedings. The material contained in this document is for general information purposes only and does not constitute advice or a recommendation to buy or sell investments. Some of the statements contained in this document may be considered forward looking statements which provide current expectations or forecasts of future events. Such forward looking statements are not guarantees of future performance or events and involve risks and uncertainties. Actual results may differ materially from those described in such forward-looking statements as a result of various factors. We do not undertake any obligation to update the forward-looking statements contained herein, or to update the reasons why actual results could differ from those projected in the forward-looking statements. This document has no contractual value and is not by any means intended as a solicitation, nor a recommendation for the purchase or sale of any financial instrument in any jurisdiction in which such an offer is not lawful. The views and opinions expressed herein are those of HSBC Asset Management at the time of preparation, and are subject to change at any time. These views may not necessarily indicate current portfolios' composition. Individual portfolios managed by HSBC Asset Management primarily reflect individual clients' objectives, risk preferences, time horizon, and market liquidity. Foreign and emerging markets. Investments in foreign markets involve risks such as currency rate fluctuations, potential differences in accounting and taxation policies, as well as possible political, economic, and market risks. These risks are heightened for investments in emerging markets which are also subject to greater illiquidity and volatility than developed foreign markets. This commentary is for information purposes only. It is a marketing communication and does not constitute investment advice or a recommendation to any reader of this content to buy or sell investments nor should it be regarded as investment research. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of its dissemination. This document is not contractually binding nor are we required to provide this to you by any legislative provision.

All data from HSBC Asset Management unless otherwise specified. Any third party information has been obtained from sources we believe to be reliable, but which we have not independently verified.

HSBC Asset Management is the brand name for the asset management business of HSBC Group, which includes the investment activities that may be provided through our local regulated entities. HSBC Asset Management is a group of companies in many countries and territories throughout the world that are engaged in investment advisory and fund management activities, which are ultimately owned by HSBC Holdings Plc. (HSBC Group). The above communication is distributed by the following entities:

- in Argentina by HSBC Global Asset Management Argentina S.A., Sociedad Gerente de Fondos Comunes de Inversión, Agente de administración de productos de inversión colectiva de FCI N° 1;
- in Australia, this document is issued by HSBC Bank Australia Limited ABN 48 006 434 162, AFSL 232595, for HSBC Global Asset Management (Hong Kong) Limited ARBN 132 834 149 and HSBC Global Asset Management (UK) Limited ARBN 633 929 718. This document is for institutional investors only, and is not available for distribution to retail clients (as defined under the Corporations Act). HSBC Global Asset Management (Hong Kong) Limited and HSBC Global Asset Management (UK) Limited are exempt from the requirement to hold an Australian financial services license under the Corporations Act in respect of the financial services they provide. HSBC Global Asset Management (Hong Kong) Limited is regulated by the Securities and Futures Commission of Hong Kong under the Hong Kong laws, which differ from Australian laws. HSBC Global Asset Management (UK) Limited is regulated by the Financial Conduct Authority of the United Kingdom and, for the avoidance of doubt, includes the Financial Services Authority of the United Kingdom as it was previously known before 1 April 2013, under the laws of the United Kingdom, which differ from Australian laws;
- in Bermuda by HSBC Global Asset Management (Bermuda) Limited, of 37 Front Street, Hamilton, Bermuda which is licensed to conduct investment business by the Bermuda Monetary Authority;
- in Canada by HSBC Global Asset Management (Canada) Limited which provides its services as a dealer in all provinces of Canada except Prince Edward Island and also provides services in Northwest Territories. HSBC Global Asset Management (Canada) Limited provides its services as an advisor in all provinces of Canada except Prince Edward Island;

- in Chile: Operations by HSBC's headquarters or other offices of this bank located abroad are not subject to Chilean inspections or regulations and are not covered by warranty of the Chilean state. Further information may be obtained about the state guarantee to deposits at your bank or on www.sbif.cl;
- in Colombia: HSBC Bank USA NA has an authorized representative by the Superintendencia Financiera de Colombia (SFC) whereby its activities conform to the General Legal Financial System. SFC has not reviewed the information provided to the investor. This document is for the exclusive use of institutional investors in Colombia and is not for public distribution;
- in Finland, Norway, Denmark and Sweden by HSBC Global Asset Management (France), a Portfolio Management Company authorised by the French regulatory authority AMF (no. GP99026) and through the Stockholm branch of HSBC Global Asset Management (France), regulated by the Swedish Financial Supervisory Authority (Finansinspektionen);
- in France, Belgium, Netherlands, Luxembourg, Portugal, Greece by HSBC Global Asset Management (France), a Portfolio Management Company authorised by the French regulatory authority AMF (no. GP99026);
- in Germany by HSBC Global Asset Management (Deutschland) GmbH which is regulated by BaFin (German clients) respective by the Austrian Financial Market Supervision FMA (Austrian clients);
- in Hong Kong by HSBC Global Asset Management (Hong Kong) Limited, which is regulated by the Securities and Futures Commission. This video/content has not be reviewed by the Securities and Futures Commission;
- in India by HSBC Asset Management (India) Pvt Ltd. which is regulated by the Securities and Exchange Board of India;
- in Italy and Spain by HSBC Global Asset Management (France), a Portfolio Management Company authorised by the French regulatory authority AMF (no. GP99026) and through the Italian and Spanish branches of HSBC Global Asset Management (France), regulated respectively by Banca d'Italia and Commissione Nazionale per le Società e la Borsa (Consob) in Italy, and the Comisión Nacional del Mercado de Valores (CNMV) in Spain;
- in Mexico by HSBC Global Asset Management (Mexico), SA de CV, Sociedad Operadora de Fondos de Inversión, Grupo Financiero HSBC which is regulated by Comisión Nacional Bancaria y de Valores;
- in the United Arab Emirates, Qatar, Bahrain & Kuwait by HSBC Global Asset Management MENA, a unit within HSBC Bank Middle East Limited, U.A.E Branch, PO Box 66 Dubai, UAE, regulated by the Central Bank of the U.A.E. and the Securities and Commodities Authority in the UAE under SCA license number 602004 for the purpose of this promotion and lead regulated by the Dubai Financial Services Authority. HSBC Bank Middle East Limited is a member of the HSBC Group and HSBC Global Asset Management MENA are marketing the relevant product only in a sub-distributing capacity on a principal-to-principal basis. HSBC Global Asset Management MENA may not be licensed under the laws of the recipient's country of residence and therefore may not be subject to supervision of the local regulator in the recipient's country of residence. None or some of the products and services of the manufacturer may not have been approved by or registered with the local regulator and the assets may be booked outside of the recipient's country of residence.
- in Peru: HSBC Bank USA NA has an authorized representative by the Superintendencia de Banca y Seguros in Perú whereby its activities conform to the General Legal Financial System - Law No. 26702. Funds have not been registered before the Superintendencia del Mercado de Valores (SMV) and are being placed by means of a private offer. SMV has not reviewed the information provided to the investor. This document is for the exclusive use of institutional investors in Perú and is not for public distribution;
- in Singapore by HSBC Global Asset Management (Singapore) Limited, which is regulated by the Monetary Authority of Singapore. The content in the document/video has not been reviewed by the Monetary Authority of Singapore;
- in Switzerland by HSBC Global Asset Management (Switzerland) AG. This document is intended for professional investor use only. For opting in and opting out according to FinSA, please refer to our website; if you wish to change your client categorization, please inform us. HSBC Global Asset Management (Switzerland) AG having its registered office at Gartenstrasse 26, PO Box, CH-8002 Zurich has a licence as an asset manager of collective investment schemes and as a representative of foreign collective investment schemes. Disputes regarding legal claims between the Client and HSBC Global Asset Management (Switzerland) AG can be settled by an ombudsman in mediation proceedings. HSBC Global Asset Management (Switzerland) AG is affiliated to the ombudsman FINOS having its registered address at Talstrasse 20, 8001 Zurich. There are general risks associated with financial instruments, please refer to the Swiss Banking Association ("SBA") Brochure "Risks Involved in Trading in Financial Instruments";
- in Taiwan by HSBC Global Asset Management (Taiwan) Limited which is regulated by the Financial Supervisory Commission R.O.C. (Taiwan);
- in the UK by HSBC Global Asset Management (UK) Limited, which is authorised and regulated by the Financial Conduct Authority;
- and in the US by HSBC Global Asset Management (USA) Inc. which is an investment adviser registered with the US Securities and Exchange Commission.

NOT FDIC INSURED ◆ NO BANK GUARANTEE ◆ MAY LOSE VALUE