Top Trends and
High Conviction Themes
Q3 2025

Investing in Tomorrow: Top Trends and Alpha Generators

HSBC

Global Private Banking

Contents

Welcome

Dear client,
In a world where the rules are constantly changing and policy U-turns occur on an almost daily basis, a thematic approach investing can help give portfolios some direction.

In fact, market movements typically are a function of three factors. First, there are long-term structural trends, which are often thematic in nature. For example, demographics and the power of technological innovation are two structural trends, which in turn allow emerging markets (Asia in particular) to catch-up with developed markets. Secondly, around these long-term trends, there are shorter cyclical ups and downs. And finally, there even shorter-term market oscillations around that, which are largely noise.

We believe investor should take structural exposure to the long-term trends through a strategic asset allocation that favours asset classes and geographies that are structurally more promising, and through thematic allocations to key trends. The cyclical trends are best captured by tactical deviations (overweights or underweights) and style biases. And as the short-term noise is almost impossible to predict, the best way to deal with it is through portfolio diversification.

Sometimes, the noise and cyclical concerns can overwhelm the structural trend. For example, the concern over tariffs has recently crowded out almost everything else, even the market's previous obsession with AI. Yet in reality, AI and disruptive technologies continue to change the world even if investors don't pay attention. We all know that markets are fickle and investors often get bored of prevailing narratives after a while. But structural trends remain, so attention is bound to come back to trends like AI, and investors are well advised to keep long term exposure.

The second characteristic of trends is that they adapt, while continuing to progress. For example, the focus of technological disruption has moved from the internet and the cloud to AI, from US Megacaps to a broader global universe, from AI enablers to adopters and agency, and from hardware to software and data security. Our Asia in the New World Order trend has changed shape too, from global integration to more regional integration and domestic stimulus, and from a focus on manufacturing to more innovation-led growth. As for our Climate Action theme, it is increasingly seen in conjunction with energy security. So while the trends clearly remain in place, investors need to evolve their exposure and areas of emphasis.

Lastly, structural and cyclical approaches are not contradictory, but complementary and both very crucial. Our cyclical themes in this publication aim to build some portfolio resilience amid growth challenges and market volatility, by focusing on quality and specific areas with cyclical support. And in an interesting twist, the inexorable rise of AI applications is helping us to get a better insight in where our economic cycle is going. The recent policy shocks could imply big changes in growth and inflation, yet economic data are backward looking and their publication is slow, so they are of little help. Analysts and hedge funds are now using AI to tap into alternative datasets (social media, company filings, CEO interviews) to get a much quicker idea of real economic activity.

In this publication, we provide an updated overview of key trends and themes, as we continue to tap into the same trends, but evolve our emphasis. In conjunction with a well-diversified core portfolio, the themes can help discover additional investment opportunities and help you shape your portfolio to your personal areas of interest.

Willem Sels,
Global Chief Investment Officer
May 2025

Investing with a Thematic Lens

As economic data will be quite erratic and unpredictable in the coming months, we think there is extra reason for investors to consider investment themes when constructing portfolios. Structural themes are much longer lasting than the short-term economic ups and downs and can help look through the noise in the data. And as trends often reach across geographical borders and the relatively arbitrary sector classifications, they help diversify country and sector risks.

We follow the adage that tomorrow's winners are built on today's megatrends, so we continue to take exposure to digital transformation, climate action, the evolving society and Asia's rise and transformation in the new world order. Of course, it is also good to try to capture shorter-term and more cyclical trends. But it is hard to find clear short-term direction amid all the noise and the U-turns; so we instead focus on building portfolio resilience under our cyclical trend.

The enthusiasm around AI took a step back recently as the market focus shifted to trade tariffs, and some investors worried about profitability in the sector, with AI models requiring less investment and broadening competition potentially affecting AI mega-caps' margins. That has been reflected in investment flows, with thematic funds signalling outflows from some broad-based AI-related investments focused on the mega-caps, but flows going into more targeted funds around AI adopters (robotics, cybersecurity) and emerging market technology (benefiting from China's advances in AI).

A somewhat similar development can be seen in investments around climate change, where flows have been quite mixed for clean energy and negative for electric vehicles (especially in the US). But there is strong investor interest in energy security and the build-out of a versatile electric grid, and there are plenty of areas where those topics intersect with clean energy.

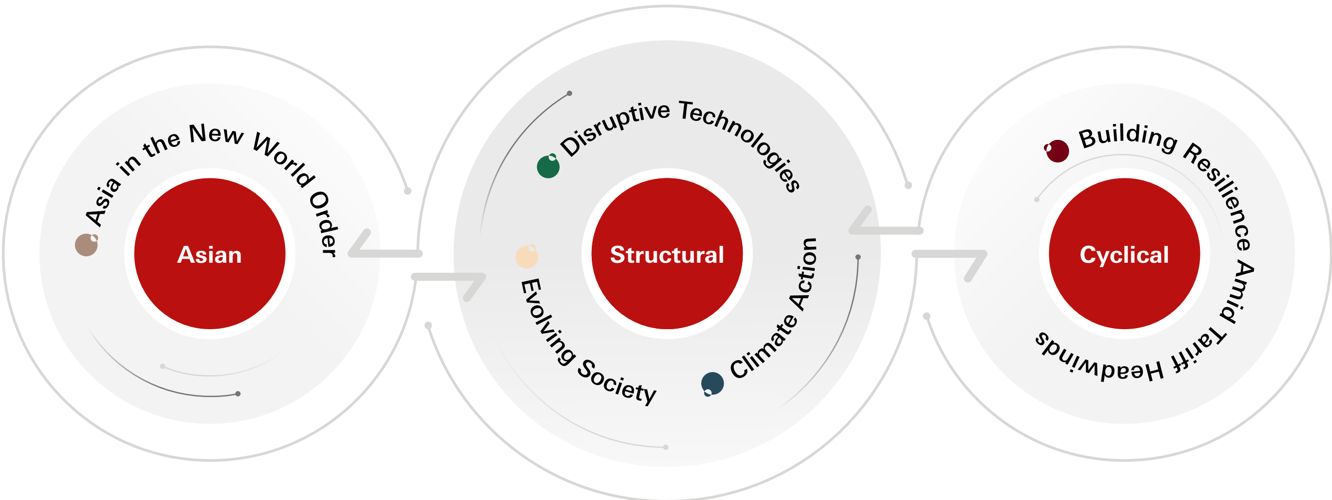
So while investors need to tweak the specific focus of the themes, the structural trends remain in place, which is very clear from the news flow. To take the example of the digital transformation, driven by AI, we have heard the following from companies in the past three months: AI helping scan resumes to select the best candidates faster than competitors do; AI helping detect and prevent fraud in real time by analysing transactional patterns; restaurants using AI to know when to unfreeze the chicken based on consumption patterns; AI helping learners practice languages; AI and satellites helping detect weather-related risks and protect crops etc. So while analysts will continue to debate how profitable chip makers and data centre investments will be, it is very clear that the adopters will benefit hugely from AI, thanks to more efficient processes, easier market research, increased productivity and creativity, customer personalisation etc. So you will see that as a result, we have shifted our focus towards AI adopters. We have made similar shifts for our other trends.

In our turbulent world, it will not surprise that you will also find a 'security' angle across our trends, in a broad sense. This is clearest, of course, in our Aerospace & Security theme. Cyber-and data security are also important in our digital world. Energy security is vital, not just because countries want energy independence, but because they need to avoid power cuts as almost everything is electrified these days.

The big power cuts in Spain and Portugal recently illustrated that grids need to be adapted as we move from gas-generated power to clean energy. As for our Asian and our cyclical theme, we focus on resilience, by looking at areas with policy support or by building portfolio resilience.

We hope the selection of trends and themes helps you discover attractive opportunities that resonate with the world you see around you. It's important to consider the themes in conjunction with the rest of your portfolio to ensure adequate diversification and, when you put everything together, you are happy with the overall exposure to geographies, sectors and risk factors.

Our Top Trends and High Conviction Themes



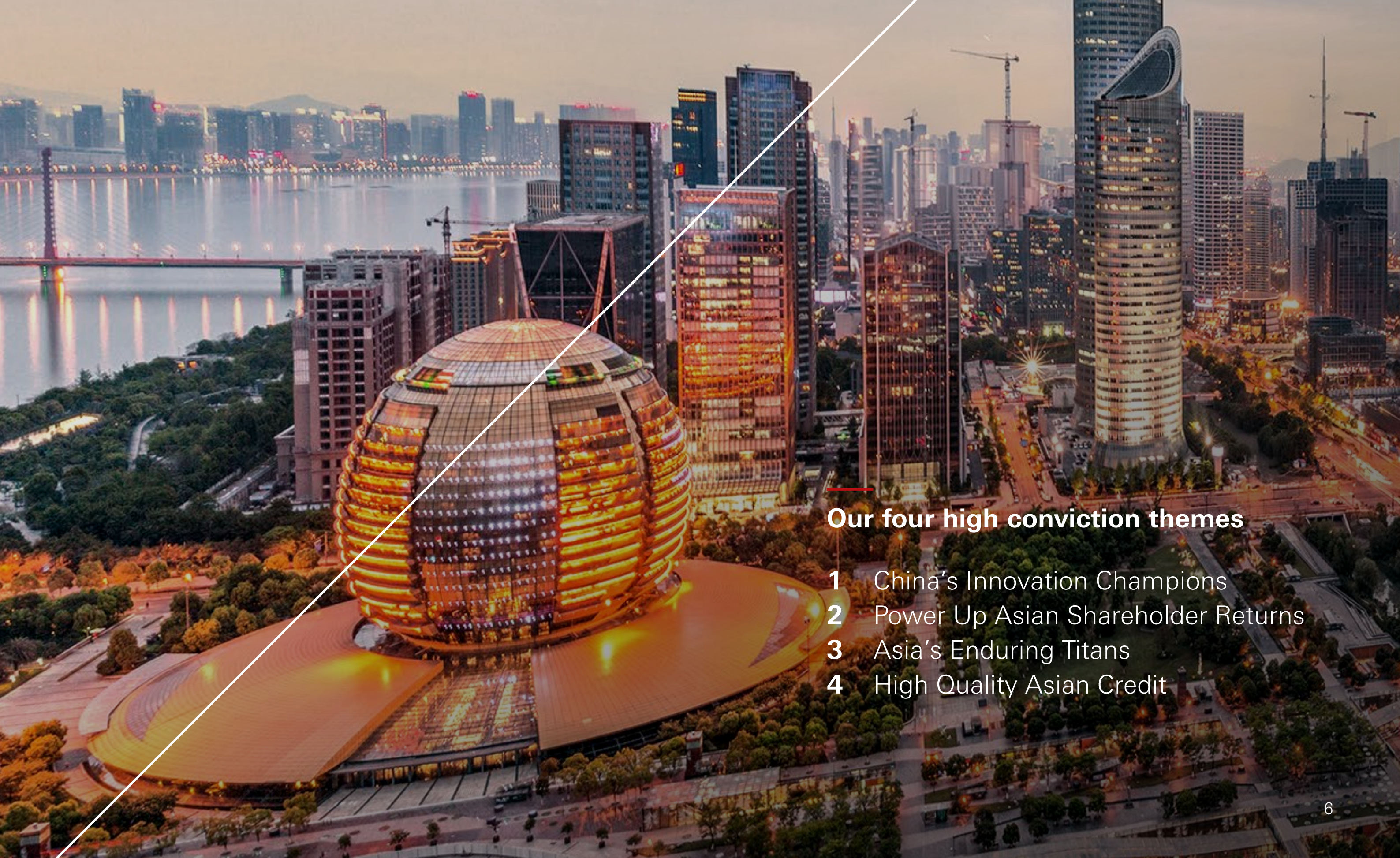
Global High Conviction Themes

Asian	Structural			Cyclical
Asia in the New World Order	**Disruptive Technologies**	**Climate Action**	**Evolving Society**	**Building Resilience Amid Tariff Headwinds**
– China's Innovation Champions – Power Up Asian Shareholder Returns – Asia's Enduring Titans – High Quality Asian Credit	– Evolving AI Ecosystem – Robots & Automation – Aerospace & Security	– Energy Security – Biodiversity and Circular Economy	– Social Empowerment and Well-being – Streaming and Subscriptions – Silver Economy & Demographics	– North American Re-industrialisation – Global Financials – Income Through Active Credit Selection

Top Trend

Asia in the New World Order

Asia stands out in the epicentre of the US tariff turmoil, given the North Asian and ASEAN exporters received the highest reciprocal tariff rates on the Liberation Day and some of them faced the headwinds from sectoral tariffs on steel, aluminium, and automobiles. The speedy US-China agreement on a 90-day tariff reprieve and ongoing trade talks between the US and its key Asian trading partners support some stabilisation of risk sentiment across the Asian markets. The temporary rollback of US tariffs on China and positive outlook for US trade deals with India, Japan, South Korea, and Singapore underpin a de-escalation of trade tensions, supporting our mild overweight position on Emerging Markets Asia equities.



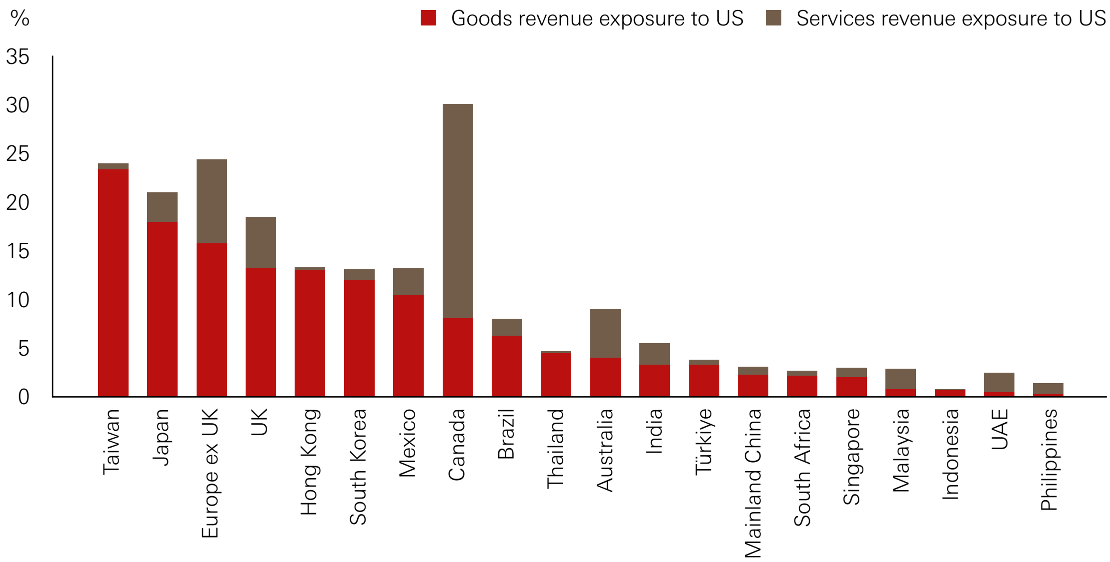
Our four high conviction themes

1. China's Innovation Champions
2. Power Up Asian Shareholder Returns
3. Asia's Enduring Titans
4. High Quality Asian Credit

Resumed US-China negotiations have averted the worst-case scenario of full-blown trade war and total economic decoupling between the US and China. This should help stabilise business sentiment and investor confidence in Asia, containing the scope of disruptions caused by elevated tariffs on the supply chain stability in the region. We are overweight Asian equity markets supported by strong domestic drivers and policy stimulus, namely China, India, and Singapore. Notably, the China, India and Singapore stock markets have very limited exports good revenue exposure to the US at 2.2%, 3.3% and 2.0%, respectively, reflective of their domestic resilience.

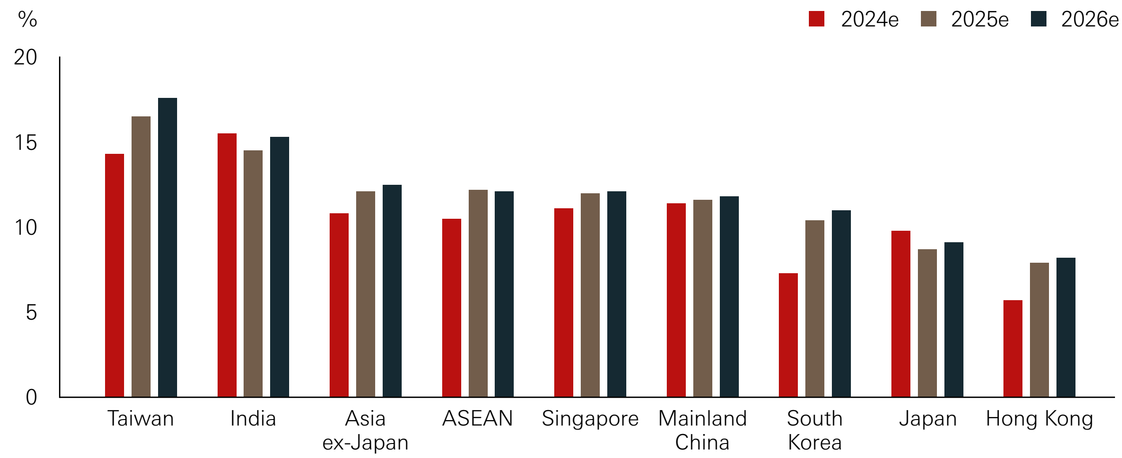
However, the 90-day tariff pause only provides temporary relief and the outcomes of trade talks remain uncertain. Past history of US-China trade talks reminds us it could take a long time to reach a full trade agreement and there will likely be many twists and bumps in the negotiation process, as we witnessed from the difficult trade talks during 2018 – 2020 under Trump's first presidency. We expect Asian policymakers will stick with an accommodative policy bias to provide further monetary and fiscal stimulus to boost domestic consumption to counter tariff headwinds. We tap into Asia's domestic resilience and structural growth opportunities by positioning in domestically oriented sectors and quality industry leaders. Hence, we retain our strong preference for domestically oriented industry leaders and large-cap quality stocks with high ROE and attractive valuations.

Stock markets in China, India and Singapore have very limited exports good revenue exposure to the US



Source: WITS, HSBC Global Private Banking as at 30 May 2025.

Corporate governance reforms and resilient earnings growth support broad-based uptrend in ROE across Asia (2024 – 2026)



Source: Bloomberg, HSBC Global Private Banking as at 30 May 2025.

In China, we do not expect the government will slow down policy support for domestic consumption and structural reforms to bolster home-grown demand amid elevated global trade uncertainty. The tariff reprieve does not change the overall strategic outlook of US-China economic competition and technology rivalry. Considering the US policy uncertainty, China is expected to stay focused on its own strategic priorities to strengthen technology self-sufficiency and accelerate economic rebalancing through bolstering domestic demand. We expect China to step up policy support to boost household consumption, improve social security reforms and enhance productivity gains.

Our High Conviction Theme on **China's Innovation Champions** focuses on structural growth opportunities from China's accelerating AI disruption and adoption driven by DeepSeek's open-source innovation. China's policy priority on technology self-sufficiency and the AI-driven technology investment boom is supercharging strong growth of AI enablers and adopters in the ecommerce, social media, online gaming, software, smartphones, semiconductor, autonomous driving, and robotics sectors. We favour national champions across the AI value chain, from semiconductors, software to infrastructure, AI cloud & agents and physical AI. Even after the DeepSeek-led re-rating of the Chinese AI plays since late January, the China tech sector is still trading at significant valuation discount to its US peers. China is currently the largest holder of AI patents globally, accounting for nearly 70% of world's total. China's continued AI breakthrough should pave the way for its valuation gap to narrow over time.

Our theme on **Power Up Asian Shareholder Returns** continues to position in quality companies that improve ROE by paying high dividends, increasing share buybacks, and taking value-adding corporate actions. Asia ex-Japan's ROE is forecast to rise from 10.8% in 2024 to 12.5% in 2026, driven by higher dividend payouts and more share buyback activities. Dividend yields across Asian equity markets remain attractive, with Singapore and Hong Kong offering average dividend yields at around 4.0%, well above 1.9% of MSCI World. Share buybacks are growing at a record pace in Asia, especially in Japan, mainland China and Hong Kong. In Japan, share buybacks in 2024 surged 89% y-o-y to around USD120bn. For HSCEI, the net cash yields generated from dividends and share buybacks are expected to surpass 5% for 2025.

We launch a new theme on **Asia's Enduring Titans**, which focuses on distinctive industry champions that are well positioned to weather the global headwinds with their proven business models, outstanding competitive position, strong balance sheets, powerful brands, and high-quality management. They offer attractive opportunities for long-term investors who are looking to build core Asian equity holdings with durable growth, earnings resilience, and financial stability.

Despite global trade uncertainty, we forecast Asia's real GDP growth to stay resilient at 4.0% in 2025 and 3.9% in 2026, well above the global average growth of 2.3%. We favour select Asian industry giants in the technology, financial, and consumer discretionary sectors which are priced at attractive valuations.

This new theme positions in large and mega-cap Asian industry leaders exposed to the structural growth trends in Asia, including AI disruption, digital transformation, private wealth accumulation, fintech innovation, and expansion of digital economy. The S&P Asia 50 Index, which covers the 50 largest blue-chip market leaders in Asia, is trading at only 11x forward P/E at a notable discount to the global peers.

In response to the tariff challenge, Asian central banks are expected to further loosen their monetary policies amid continued disinflation trend and growth uncertainty. We expect the Asian credit markets will benefit from global diversification flows and strong local investor demand for resilient income. Our theme on **High Quality Asian Credit** focuses on Asian IG credit, including Japanese and Australian IG bonds, Asian financials, including bank issuers in Australia, Singapore, and Thailand. The Asian IG credit sector is trading at an attractive average yield of around 5.0%, compared favourably to its 5-year average of 4.2%.

We are overweight Chinese hard currency corporate bonds and Indian local currency debt for their attractive carry. We like quality Chinese SOE issuers, Chinese TMT bonds which benefit from the AI investment boom and Macau gaming credit with strong fundamentals. We expect more foreign inflows into offshore Chinese bond market given improving sentiment towards Chinese assets, driven by Beijing's policy pivot towards AI innovation, domestic consumption, and private sector development.

1 China's Innovation Champions

Overview

- China is undergoing a rapid AI development, fuelled by DeepSeek's open-source innovation. This development is supercharging the growth of AI and other tech sectors. Major Chinese tech leaders have announced ambitious AI capex plans for the next few years which should boost the local AI development.
- We expect AI adoption in China to accelerate further given its unique advantage in bringing down costs as well as its ability to innovate despite export restrictions of advanced chips. We think we are just at the early innings of a supercharged AI fundamental model development in China.
- We favour national champions across the AI value chain in China, from semiconductors and infrastructure to AI cloud, agents and physical AI.

1 China's Innovation Champions

The Opportunity

- **AI cloud & agents:** Local cloud computing industry is expected to see rising demand. Chinese internet leaders either have their own Large Language Models (LLMs) or can integrate with other LLMs to launch AI-powered applications. Some investors may have underestimated the long-term monetisation potential.

- **AI-powered industry transformation:** Leading companies in China are investing heavily in the AI development in order to drive industry-specific innovations. AI can be applied in various industries such as industrial manufacturing (e.g. production optimisation), healthcare (e.g. assisted diagnosis, screening), finance (e.g. fraud detection, digital payment), etc.

- **Localisation of AI semis & infrastructure:** The emergence of DeepSeek is likely to spark a strong wave of AI capex in China as we expect a multi-fold increase in inferencing demand. Meanwhile, there is a strong push to achieve self-sufficiency amid US export restrictions of advanced chips, as evident by strong pickup of semi equipment imports into China.

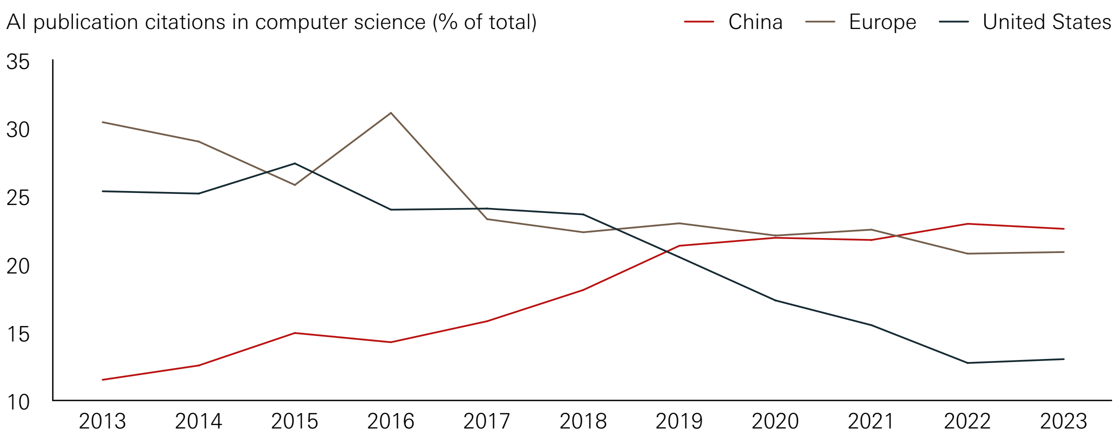
- **Physical AI:** AI phone replacement cycle in China may be triggered by having more on-device LLMs as smartphone applications are integrating with generative AI. Additionally, self-driving technology can become one of the essential elements of passenger vehicles, turbocharged by integrating China's cost-efficient LLMs.

Why now?

- Chinese tech companies are trading at meaningful valuation discounts to their US peers (P/S discount of ~67% and forward P/E discount of ~33%). The AI breakthrough should pave the way for the valuation gaps to narrow.

- Chinese government is playing a proactive role in supporting AI development which can help improve investor confidence and promote private investment in the tech sector.

China overtakes the US and Europe in AI research, as measured by the number of AI publications' citations



Source: Artificial Intelligence Index Report 2025, HSBC Global Private Banking as at 30 May 2025.

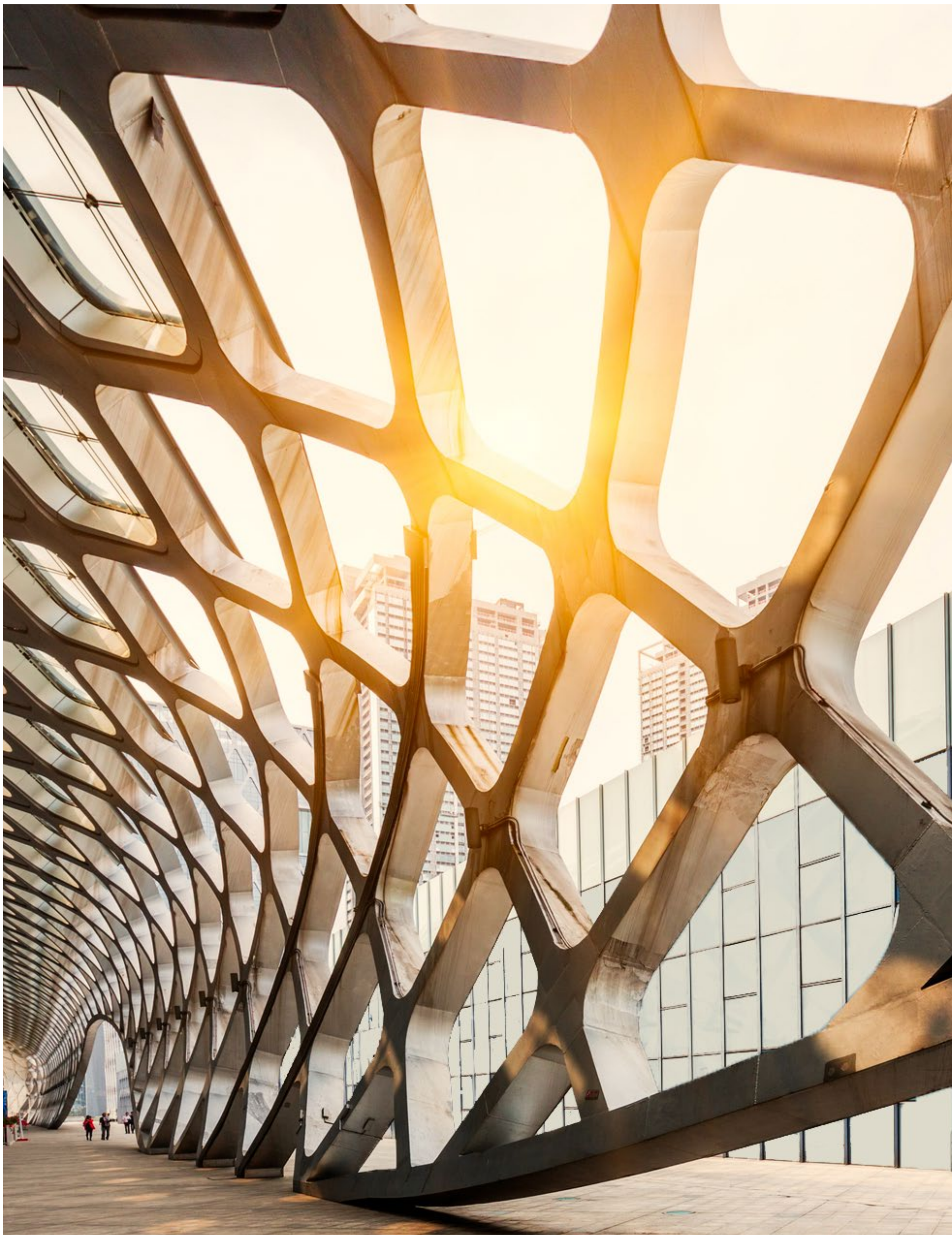
2 Power Up Asian Shareholder Returns

Overview

- The improvement of Asian shareholder returns is a long-term theme where there are several ongoing corporate reform programmes in Asia. Further stocks that have higher dividend payouts and more share buybacks tend to behave more defensively amid tariff uncertainty.
- Asia ex-Japan's ROE is forecasted to increase from c10.8% in 2024 to c12.5% in 2026e, partly driven by higher dividend payouts and more share buyback activities in the region.

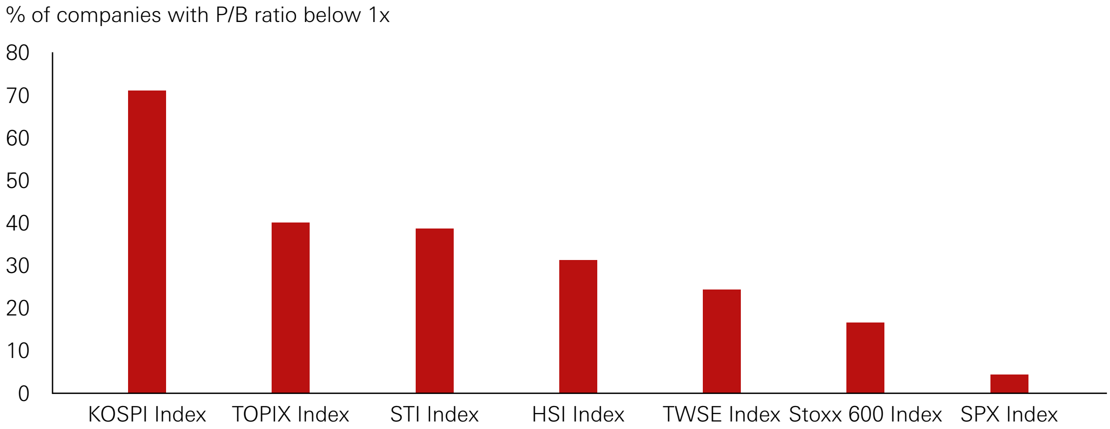
The Opportunity

- In Japan, M&A activities are rising (the bid proposal cannot be just ignored by the board), while the rise of activist investors creates the source of urgency for companies to unlock value. The cheaper valuations of Japanese companies can be attributed to the inefficiencies in their balance sheets by retaining assets that do not generate cash flows. Japan's ROE can see a meaningful improvement by eliminating cross-shareholdings and pure-investment shares.



2 Power Up Asian Shareholder Returns

There is a meaningful room for Asian companies to improve their price-to-book ratios



Source: Bloomberg, HSBC Global Private Banking as at 30 May 2025.

- In South Korea, we may soon see an acceleration in Value Up program after more certainty in the political landscape. A more efficient balance sheet, improvement in shareholder return, as well as greater vigilance on related party transactions and corporate action should drive the re-rating of South Korean equities.
- Dividend yields across various Asian equity markets remain attractive – Indonesia at c6.7%, Singapore at c4.0%, and Hong Kong at c3.9% – which remain well above the 1.9% of MSCI AC World index.
- Share buybacks are growing at a record pace, particularly in Japan, mainland China and Hong Kong. In Japan, buybacks in 2024 surged to around USD120bn, 89% y-o-y rise. For HSCEI, the net cash yields (including both dividends and buybacks) are expected to surpass 5% for 2025e.
- Investment opportunities exist in corporate governance reform names in Japan, quality Chinese SOEs, and South Korea, as well as undervalued high dividend stocks in Hong Kong market and high dividend plays in ASEAN.

Why now?

- Asian central banks are set to cut rates further in the coming months, including mainland China, India, Indonesia, and South Korea (the only definite exception is Japan), thus increasing the attractiveness of dividends as the gap between dividend yield and bond yield is expected to widen.
- In times of trade-related uncertainty, investors can enjoy stable returns through dividends by owning high dividend names with good earnings visibility.

3 Asia's Enduring Titans

Overview

- In Asian markets, there are distinctive industry champions which are well positioned to weather the global headwinds with their proven business models, outstanding competitive positioning, strong balance sheets, powerful brands, and high-quality management. They can offer attractive opportunities for long-term investors who are looking to build core Asian equity holdings with durable growth, earnings resilience, and financial stability.

- Through our new theme, we favour select Asian industry giants in technology, financials, and consumer discretionary across markets including Japan, mainland China/HK, India, South Korea, and Singapore.

The Opportunity

- For 'Enduring Titans', we identify companies that are large, well-established, and financially sound, with strong brand names and reputation, and can generate dependable earnings. We focus on large/mega-cap names with at least USD100bn market cap in North Asian markets (in Southeast Asia this cap may not be applied given the relative size of the economies and markets).

3 Asia's Enduring Titans

- **Tech and AI innovation:** Asia is home to many leading players of AI, cloud, fintech, and e-commerce ecosystems. Leading tech hardware manufacturers in Asia are powering global AI growth.

- **Financial services:** Financial institutions in Asia are embracing digital banking, wealth management, as well as insurance innovation. Stronger Asian currencies are set to boost demand for wealth and FX products as clients seek alternatives to USD-denominated assets.

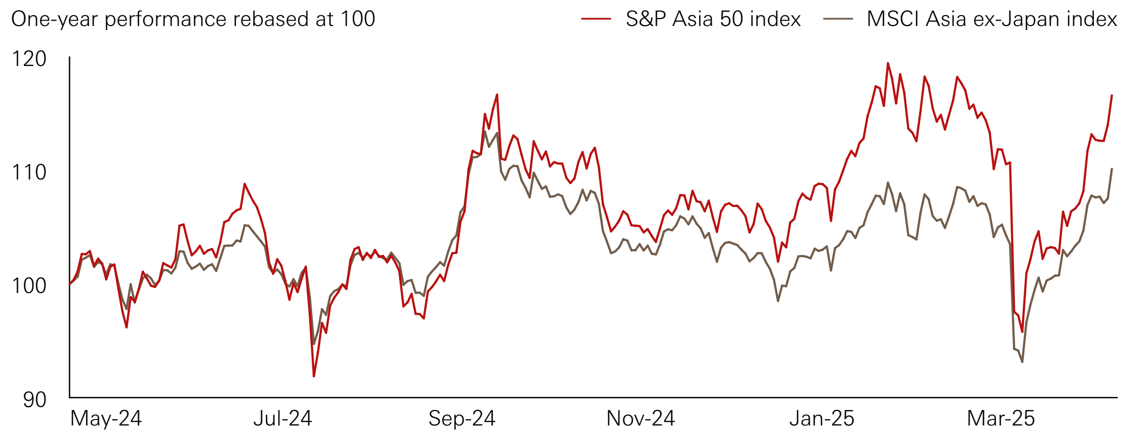
- **Digital economy and consumer:** This is supported by urbanisation, high smartphone penetration, and a tech-savvy middle-income class.

Why now?

- As uncertainty remains following the temporary tariff reprieve to the Asian markets, we favour Asia's enduring titans offering stability and earnings resilience.

- Many Asian blue-chip names are trading at reasonable valuation multiples, at 11.3x forward P/E (based on S&P Asia 50 index) vs 13.1x for MSCI Asia ex-Japan index. We consider it as a good entry point for long-term investors.

Asia's blue-chip industry leaders are trading at a valuation discount to MSCI Asia ex-Japan



Note: S&P Asia 50 index serves as a proxy for Asia's Blue Chips in the above chart. The index consists of 50 leading blue-chip companies that are listed in Hong Kong, Korea, Singapore and Taiwan. Source: Bloomberg, HSBC Global Private Banking as at 30 May 2025. Past performance is not a reliable indicator of future performance.

4 High Quality Asian Credit

Overview

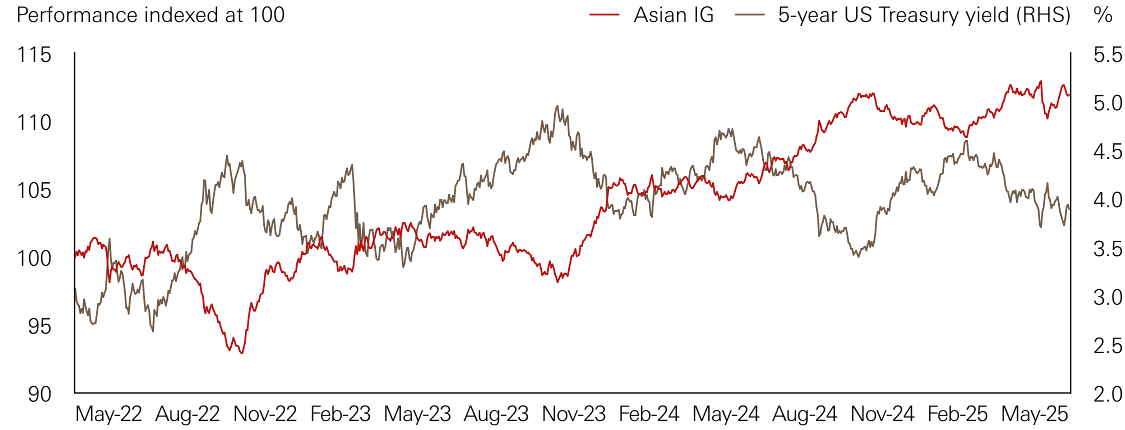
- We like Asian quality bonds for their attractive headline yields, supported by more interest rate cuts by Asian central banks amid tariff uncertainty and well-controlled inflation in the region.
- The expected decline in long-term UST yields this year should support bond returns.

The Opportunity

- We expect more foreign inflows into offshore Chinese bond markets given improving sentiment towards China, sparked by its AI-led innovation. We prefer Chinese TMT issuers which have strong balance sheets. Macau gaming is backed by strong fundamentals of casino operators. We stay cautious on Chinese property names as more supportive measures are needed to cushion the downside.

4 High Quality Asian Credit

Asian IG bonds remain resilient amid rates volatility



Source: Bloomberg, HSBC Global Private Banking as at 30 May 2025. Past performance is not a reliable indicator of future performance.

- Japan IG bonds can offer diversification benefit to Asian bond investors. The macro backdrop of Japan remains supportive, and the country might be able to secure a trade deal with the US relatively soon. We prefer select Japanese IG corporates, financial bonds as well as insurance hybrids.

- We like Asian financial credit. Apart from those in Japan, we like bank papers in Australia, Singapore and Thailand as the macro backdrop remains favourable with banks maintaining robust capital adequacy ratios across markets.

- We like Australian IG bonds issued by high quality companies with medium duration, denominated in both USD and AUD. The market is tilted towards high quality issuers with established commodity producers, services businesses and well-capitalised banks.

- We also seek opportunities in high quality Asian credits denominated in GBP.

Why now?

- Asian central banks are expected to loosen their monetary policies amid tariff and growth uncertainty. The backdrop of a weaker USD and a fall in commodity prices should allow central bankers to focus more on growth and less on exchange rates and inflation.

- Global funds have started to re-allocate investments towards China, given improving investor sentiment. We are positive on Chinese hard currency corporate debt.

Top Trend

Disruptive Technologies

Change for some denotes something new that brings potential opportunities, while for others it represents increased risk and a threat to the status quo. And so it is in business, where some companies embrace change while other take a more wait-and-see attitude. Whilst being a first mover in adopting a new technology is no guaraantee of gaining long term strategic advantage when adopting new disruptive technologies, late or non-adopters may represent a risk to the medium to long term viability of the business. Every decade or so a new technology arrives that offer the potential for companies to a step change in either the way they do business and/or the products or services they offer. Artificial intelligence (AI) software is on the cusp of offering such transformational changes to businesses and will touch our daily lives in many different ways by the end of the decade.

Our three high conviction themes

1. Evolving AI Ecosystem
2. Robots & Automation
3. Aerospace & Security

The most eagerly anticipated arrival in the technology space are humanoid robots. There are already some very capable humanoid robots already in existence, but these command very high prices so are some years from becoming an everyday reality. Their evolution continues at a fast pace with costs quicky declining due to new materials and technologies, however, mass production would offer the greatest potential for substantial cost reductions.

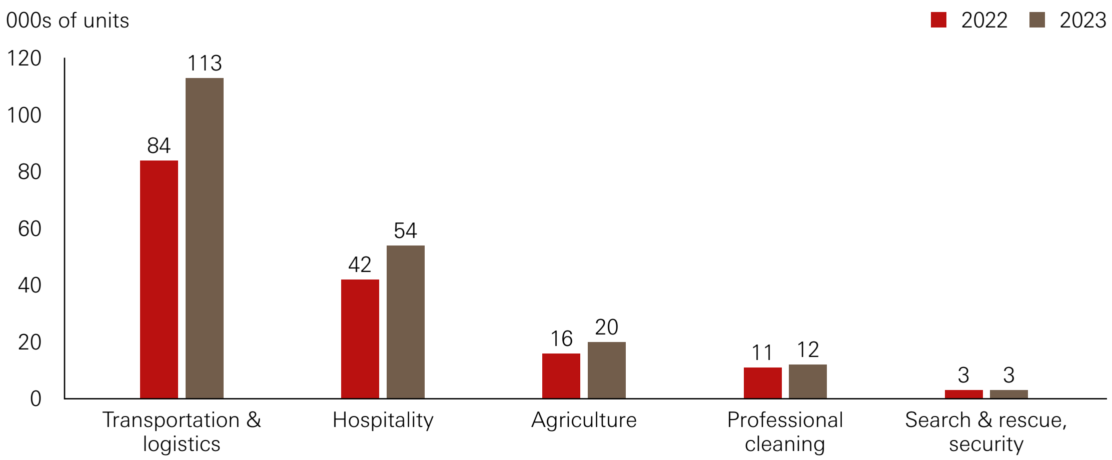
Less eye-catching forms of automation have gradually been introduced in most companies since the late 1960s, where they have boosted quality and productivity.

AI software incorporating advanced visual and sensory processing capabilities can use optical, haptic and other sensory data feeds to substantially enhance automation capabilities in order to perform far more complex tasks. Examples of enhanced automation include automated passport control; body scanners; automobile driver assistance features; facial recognition systems.

Very recent advancement in AI software and processing capacity have facilitated a degree of autonomous decision making by the machine. For example, air and sea drones may at times operate in communication 'dead zones' where there is no connection with the remote operator, so it is essential they have the capability to operate independently. This ensures these valuable drones and their data can return safely.

For more earth-bound automation applications, the availability of easily accessible digital ecosystems is often an essential requirement for the machine or service to operate. This fundamental ability to communicate has been essential for human advancement throughout history. The ability to communicate also underlies the advancement of the AI ecosystems as humans are increasing taken out of the loop and software, machines and networks

Service robots for professional use



Source: Statista as at 30 May 2025.

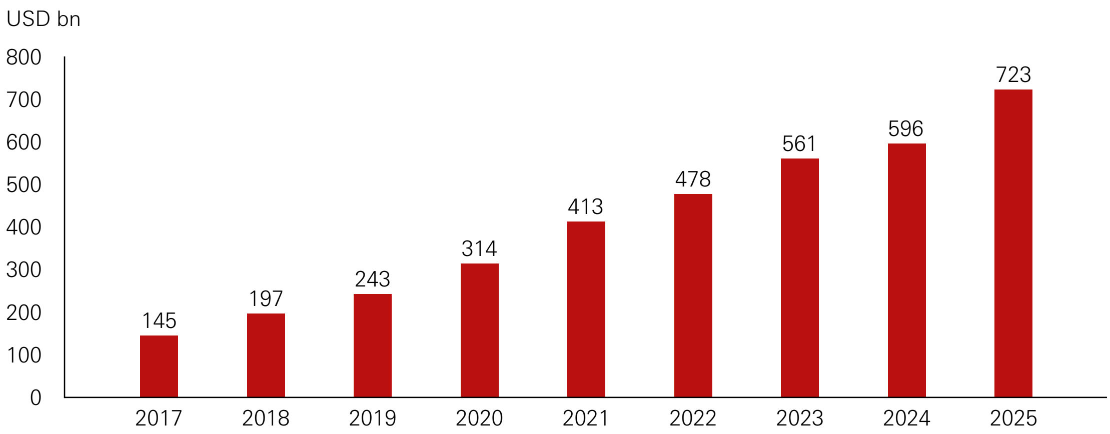
interact increasingly independently. Industry is investing in digital highways to handle these increasing demands of new innovative technologies including AI models, connected devices, neural networks, quantum computing, sensors. All these new technologies are highly dependent on the ability to collect data, analyse information and interact with each other.

The development of the AI ecosystem has been facilitated by recent technological developments. Key components include digital transmission (cable and 5G networks; low earth orbit satellites); processing and storing of information (cloud computing and data centres); grid/off-grid power (solar, wind and nuclear power generation); data collection integrated and remote sensors. The efficient linking of the estimated 12,000 data centres worldwide (Source: Statista as at March 2024) with sensors, manufacturing and service facilities, terminals, etc. requires substantial ongoing investments as demand and needs evolve.

The aerospace and security industries with its unique vantage points and capabilities illustrates how these systems and technologies have become integrated. Digitalisation has enabled interoperability of systems and the exchange of data. For example, unmanned aerial vehicle needs real time live video feeds to the remote pilot to operate the vehicle safely and effectively whether that is for crop monitoring or crowd monitoring or inspecting high voltage cables. Low earth orbiting satellites are enabling remotely operating vehicles such as sea drone to upload data gathered intermittently via satellite antenna. Face recognition software and hardware has multiple security uses including automated passport control checks; and opening banking apps on mobile phones.

AI is offering many exciting new business and investment opportunities as industries are quickly learning how to integrate the related technologies into their business to boost productivity and be a source of differentiation and competitive advantage.

Public cloud services end-user spending worldwide



Source: Statista as at 30 May 2025.

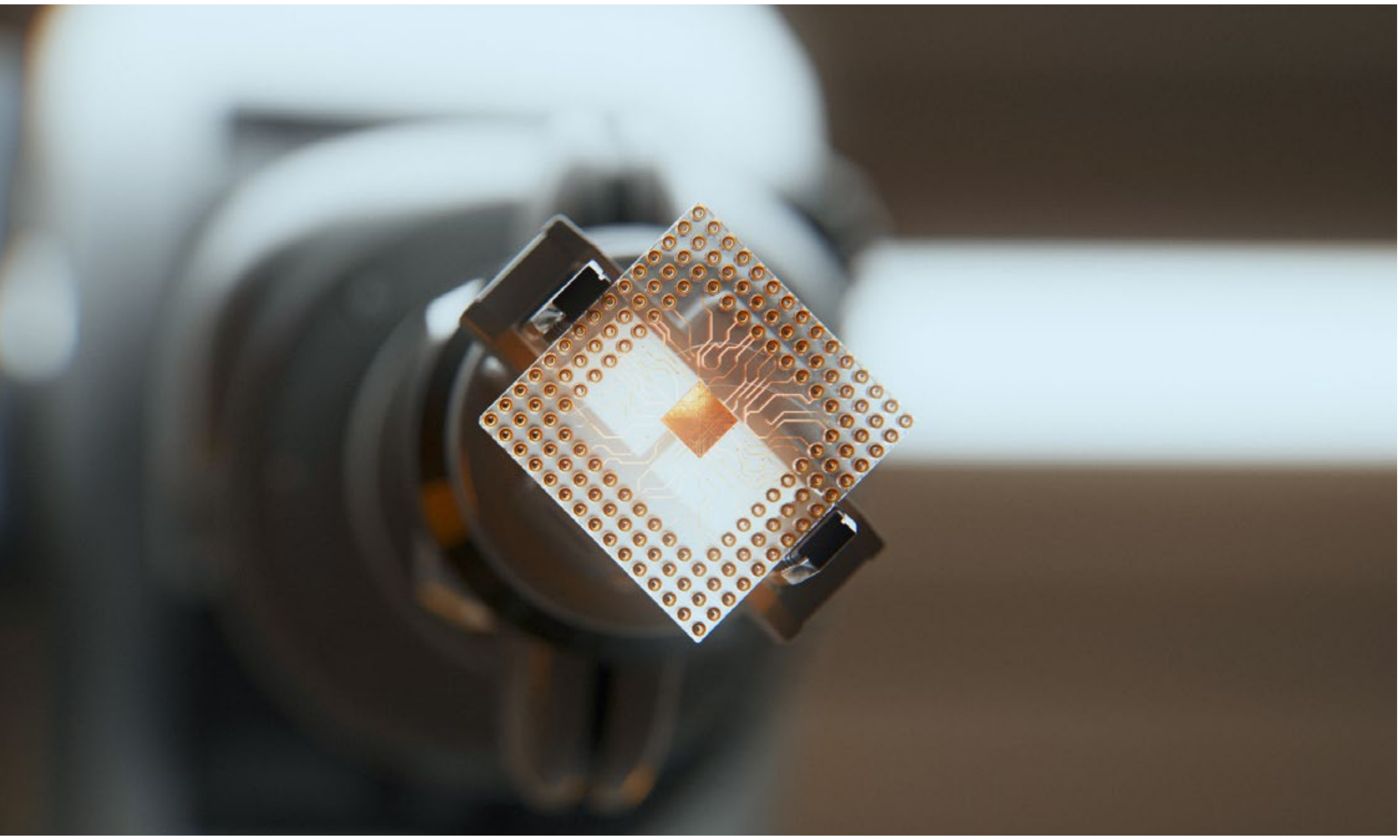
1 Evolving AI Ecosystem

Overview

- The AI ecosystem is evolving quickly as capacity and interconnectivity demands are driving investments.
- Digitalisation has facilitated the efficient collection and exchange of data between databases, systems, sensors, and devices etc.
- Cyber security concerns are driving investments in high quality, robust hardware, software and related infrastructure.
- Companies are racing to embed AI functionality in their processes, products and services to improve productivity and consumer experience.
- Supporting digital infrastructure investments are rising to expand capacity, speed and reliability of the AI ecosystem.

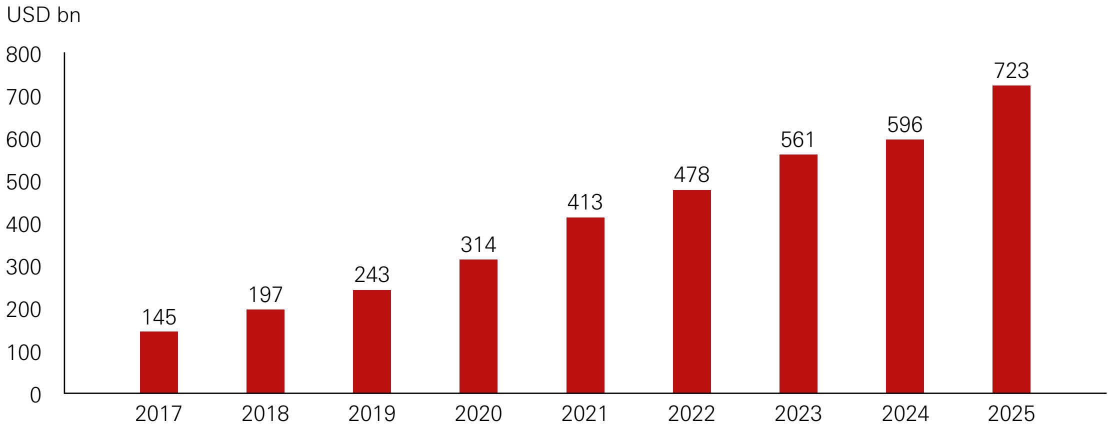
The Opportunity

- Traditional cloud services are showing strong growth across all market segments.
- Manufacturers of digital infrastructure hardware (servers, cooling, cables, energy equipment, sensors) are reporting sustained sales demand.



1 Evolving AI Ecosystem

Public cloud services end-user spending worldwide



Source: Statista, HSBC Global Private Banking as at 30 May 2025. 2025 figures are estimates.

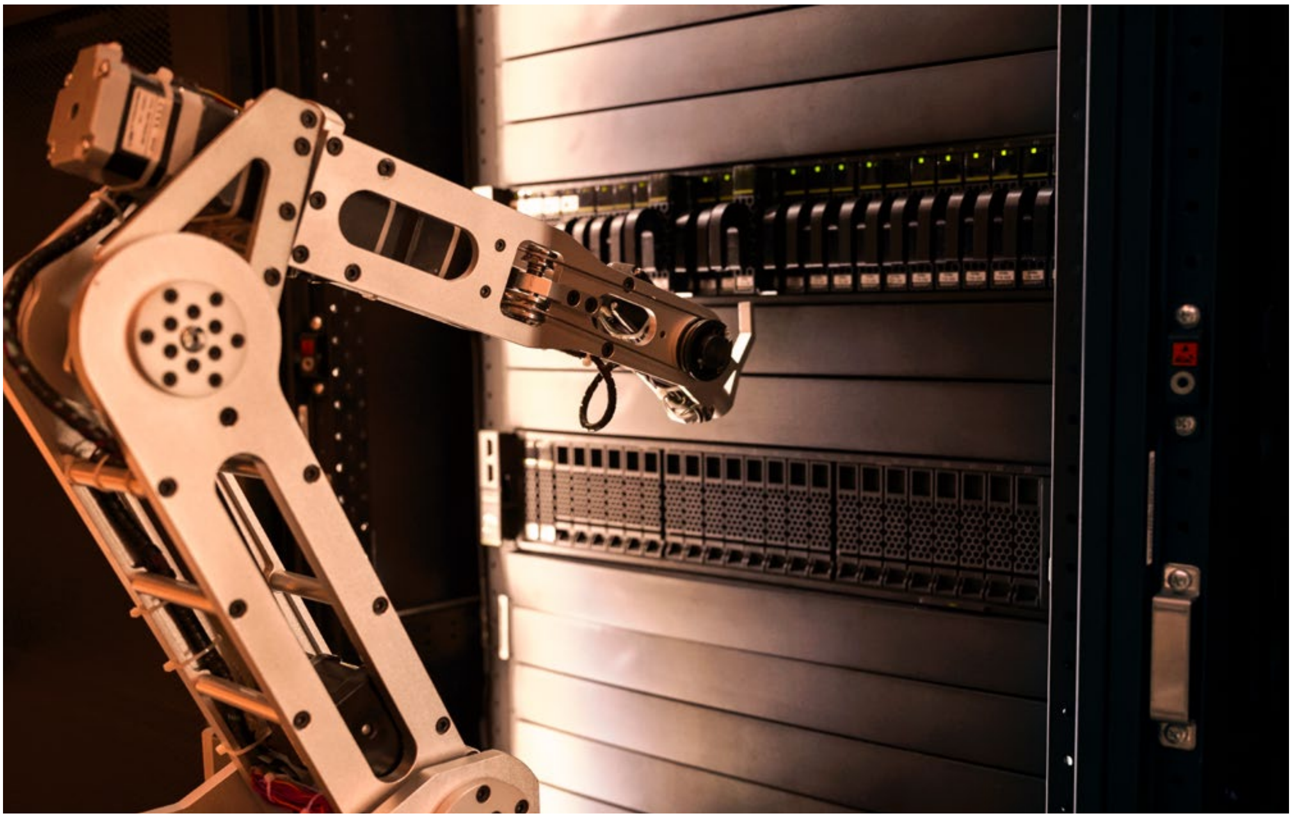
- According to a report from P&S Intelligence, the data centre market is expected to grow from c.$302bn in 2023 to c.$622bn in 2030, a CAGR of over 10.5%, providing attractive opportunities.
- As AI-enabled products and services are deployed, demand for processing and transmission capacity is set to rise further.

Why now?

- The sudden arrival of Large Language Models (LLMs) has created a sharp rise in demand for AI capabilities across sectors.
- The new, cost-effective and faster to train AI models should increase the competition while also increasing their applications and use-cases.
- AI enables processes to raise productivity while improving margins.

- Substantial investments are required to expand capacity to meet soaring demand for expanding digital ecosystems and increasing processing capacity, among other elements of the AI ecosystem.
- In a recent McKinsey study, the number of large organisations who felt they had the appropriate skills to manage their cyber security fell from 88% in 2022 to 82% in 2024. In small-to-medium sized organisations, the drop was even more drastic, down from 94% in 2022 to 49% in 2024.

2 Robots & Automation



Overview

- The rapid evolution of AI-enabled robots and automated services are transforming workplaces as adopters embrace AI as a potential source of differentiation and increase productivity.

- Sales of professional service robots increased globally by 30% to 205,000 in 2023. Fast growing applications include healthcare (+36% y-o-y), transport & logistics (+35%), hospitality (+31%) and agriculture (+21%) (Source: IFR, 2024).

- In 2023, 541,000 new industrial robots were installed, bringing the total operational industrial robot count to nearly 4.3mn units (Source: IFR, 2024).

- Robots and autonomous machines offer the greatest growth potential to boost productivity, while bringing down costs.

The Opportunity

- Recent advances in software and hardware are bringing a new generation of more capable, and autonomous machines that can perform more complex tasks.

- Automated products and services are driving gains in productivity and quality, while saving time.

- Digitalisation is facilitating greater and more efficient integration of products including customer and patient records to topographical surveys and data exchange.

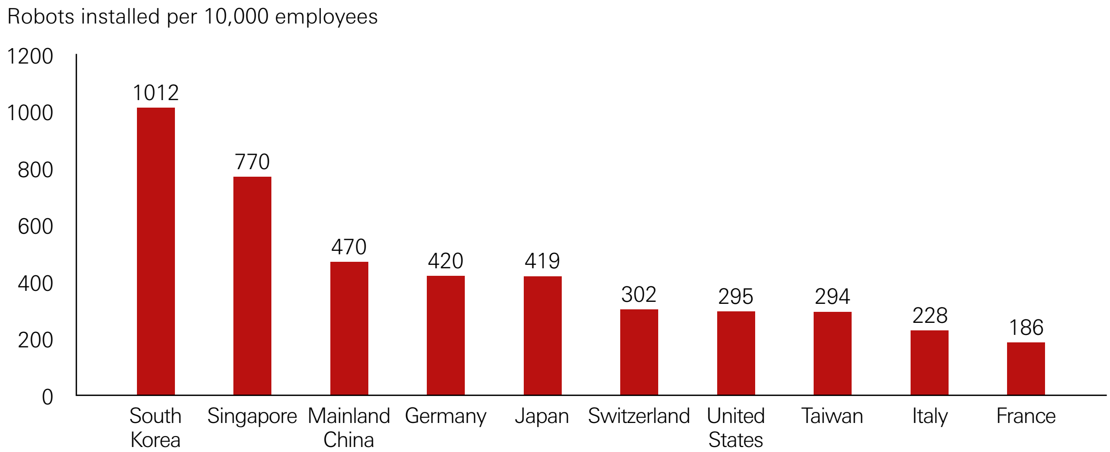
2 Robots & Automation

- Almost all sectors are using AI software to varying degrees to optimise production and maximise efficiency.
- New ventures and applications based on the technology are being made possible including GPS controlled tractors and harvesters; sea drone and ocean mapping; energy infrastructure monitoring; traffic control and enforcement.

Why now?

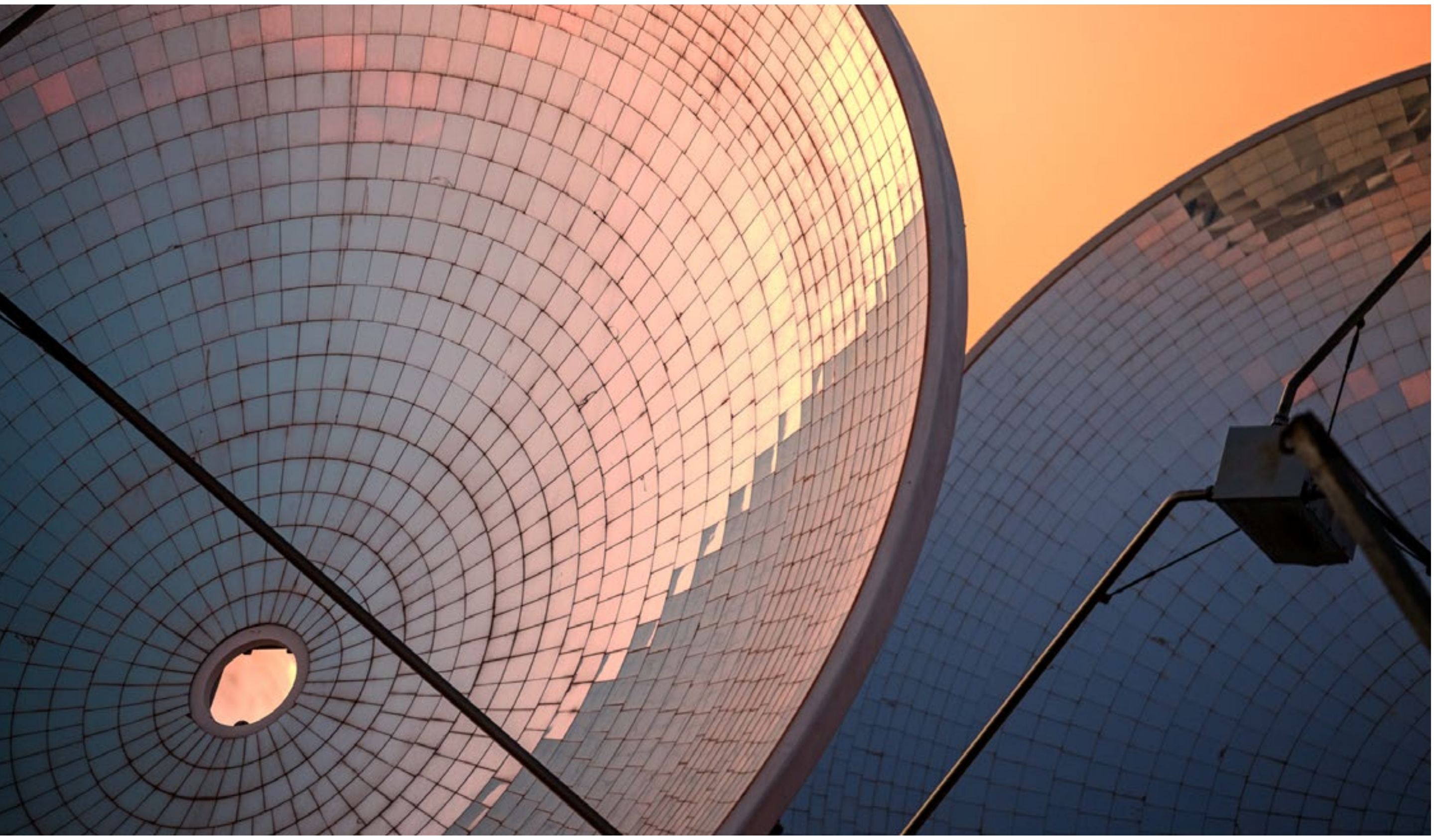
- Over the last 18 months, AI software development has accelerated with the release of new, cost-effective and improved AI models whose capabilities are now being used to enhance various products and services.
- Labour and skill shortages are inflating costs and driving a fresh wave of automation investment as potential returns become increasingly attractive.
- Investments in digital infrastructure capacity and coverage are further facilitating automation.

Robot density in the manufacturing industry



Source: IRF World Robotics Report, 2025, HSBC Global Private Banking, data to end 2024.

3 Aerospace & Security



Overview

- Rising geopolitical events have been adding to concerns for many countries on their sovereign security, particularly in Europe, which in turn has materially raised the demand for security products and services.
- Aerospace, as an industry, is long term in nature but it is going through material boost in demand with back orders at historical highs and demand for deliveries and services too boosted by older fleets.
- Aerospace companies play a central role in securing sovereign interests from the rising concerns around geopolitical cyber attacks.
- Space has been advancing rapidly too, and small satellite launches are rising rapidly as the race for low earth orbit data networks heats up. Advances in reusable rocket technology is supporting the economics of this model too.

The Opportunity

- We see opportunities in companies that manufacture aircraft, spacecraft, satellites, provide aerospace services and security products and services, as there has been a growing demand across the industry with back orders expanding.

3 Aerospace & Security

- The demand for airplanes has been growing, as the number of flights continue to grow with global Revenue Passenger-Kilometers (RPK) rising 3.3% y-o-y in March 2025 (Source: IATA as at May 2025). Small satellite launches are up 7x in the last 6 years (Source: Bryce Tech small satellites report, 2024) as companies race to provide wider and faster data coverage to their customers.

- Aerospace companies also benefit from a stable, secure and growing income stream of governments and their agencies.

- European region is expecting a major spend on defence in the coming years.

- Companies which are heavily reliant on larger, faster and lower latency data are also expected to benefit from this trend.

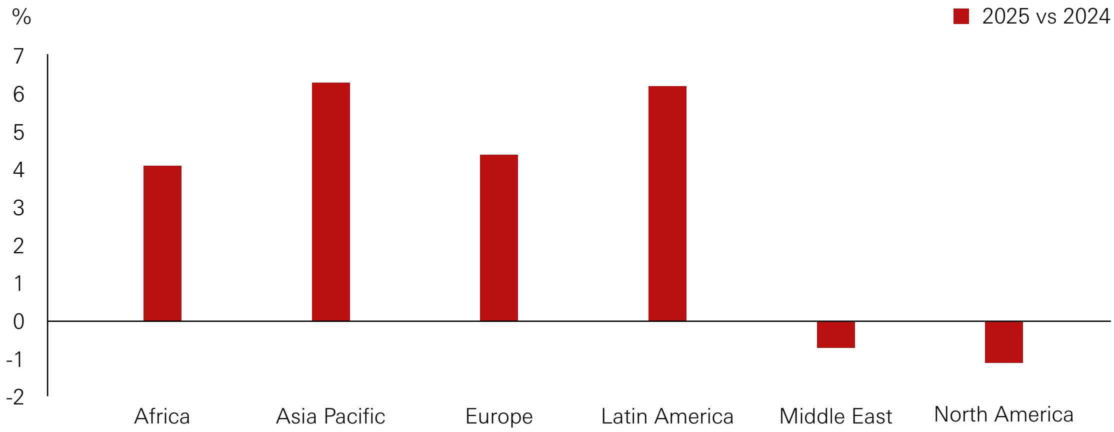
Why now?

- Recent progress in aerospace technology has driven a resurgence of interest in the space economy, with private company space flights growing rapidly.

- Rising demand for flights and air travel has seen delivery numbers and order books at aerospace manufacturers swell, and the resulting backlog can take many years to reduce.

- Geopolitical developments are pointing to increased defence spending in the coming years, particularly in Europe which has outlined hundreds of billions of potential spending.

Global revenue passenger-kilometers is on the rise



Source: IATA, HSBC Global Private Banking as at 30 May 2025. Data to end March 2025.

Top Trend

Climate Action

In recent years, climate action has emerged as a pivotal trend, reshaping investment landscapes globally. As governments and corporations strive to secure energy to meet future demand, the focus on sustainable and independent energy systems has intensified. This shift is driven by the urgent need to address climate change, geopolitical uncertainties, and the growing reliance on renewable energy sources.

Our two high conviction themes

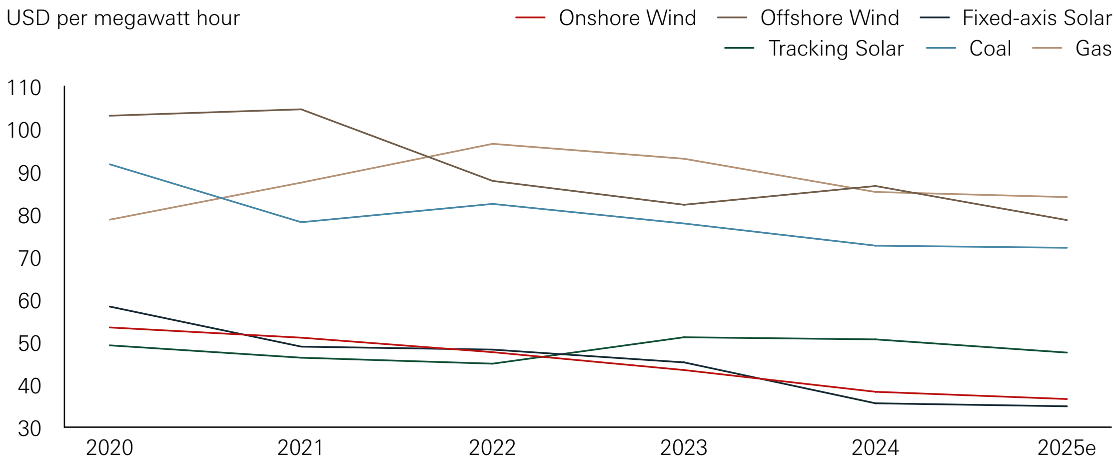
1 Energy Security
2 Biodiversity and Circular Economy

Renewable energy has become the cornerstone of climate action, offering a viable solution for securing domestic energy supply while reducing carbon emissions. The levelised cost of electricity – a measure of the average cost of generating electricity from a specific energy source over its lifecycle – positions renewables ahead of coal and gas. This cost competitiveness is driving significant growth in solar and wind energy deployment, with projections indicating that solar energy will be deployed at levels four times greater than current levels by 2035, and wind projects will see a threefold increase. The global energy transition has reached another important milestone, with investment surpassing the $2trn mark in 2024. This surge in investment reflects the growing recognition of the importance of transitioning to sustainable energy sources. The recent power outages in Spain, Portugal, and parts of France underscore the critical need for investment in infrastructure to facilitate the energy transition. These events highlight the vulnerabilities of existing energy systems and the importance of developing resilient infrastructure that can support the integration of renewable energy sources. As a result, governments and corporations are prioritising investments in larger, domestic, and sustainable energy systems to ensure energy security and independence. As the demand for independent and renewable energy sources rises, opportunities for growth and innovation in the energy sector continue to expand.

At the corporate level, the deployment of artificial intelligence (AI) is being optimised to ensure energy efficiency, with the goal of aligning AI demand with renewable energy sources. As a major driver of future energy demand, the AI industry is actively seeking to address its energy requirements through sustainable solutions. This alignment not only enhances energy efficiency but also supports the broader climate action goals by reducing the carbon footprint associated with AI technologies.

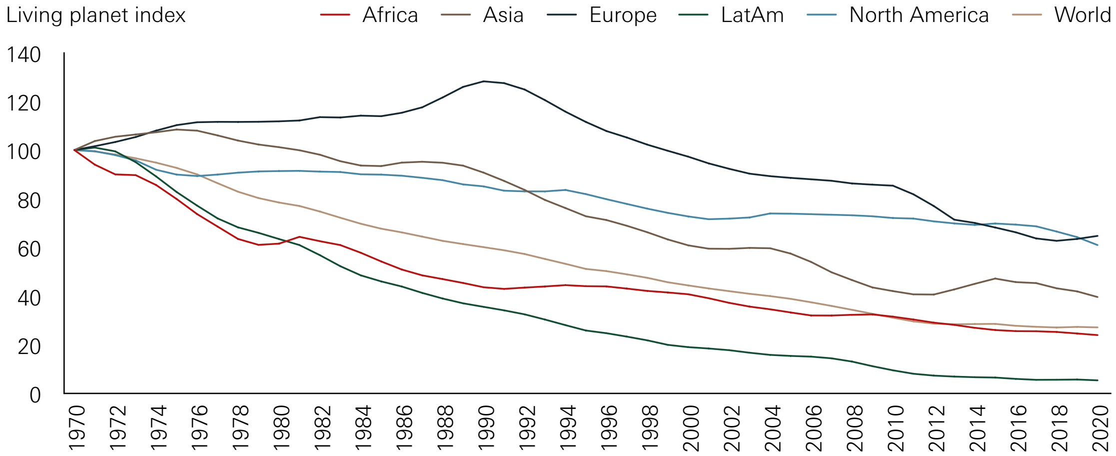
Beyond energy, climate action is increasingly intertwined with biodiversity conservation. Rising awareness of the damage inflicted on the planet's biodiversity has prompted policymakers globally to develop frameworks for

Levelised cost of electricity



Source: Bloomberg Finance L. P., HSBC Global Private Banking as at 30 May 2025.

Planetary biodiversity loss by region since 1970



Source: World Wildlife Fund Living Planet Report 2024, HSBC Global Private Banking as at 30 May 2025.

measuring and comparing natural resource use through a financial lens. The Kunming-Montreal framework, for instance, enables the assignment of monetary values to natural resources, unlocking new opportunities for investment in biodiversity conservation.

Humanity's reliance on nature's services is profound, with 99% of our food supply and 60% of our medicines dependent on natural ecosystems. The financial valuation of these services underscores the critical need to preserve biodiversity. For example, 75% of global food crops rely on animal pollination, while 50% are at risk due to soil erosion. Addressing these challenges is essential for ensuring food security and maintaining ecosystem health.

Financing and investment in biodiversity conservation face challenges but repurposing harmful subsidies towards environmentally positive enterprises offers a promising solution. Globally, government subsidies for environmentally harmful activities within agriculture, water use, and fossil fuels could amount to as much as $1.8trn. Redirecting these funds towards sustainable practices could materially change financing for biodiversity, supporting and expanding the opportunity set for investors in the space.

The developments in biodiversity conservation have driven a surge in investment, with assets under management increasing by 50% as of September 2024. This growth is supported by frameworks like the Kunming agreement mentioned above. By incorporating metrics such as ESG scores, climate indicators, and dedicated biodiversity measures, investors can identify opportunities that align with climate action goals.

Climate action represents a transformative trend that is reshaping investment strategies across sectors. The convergence of energy security, renewable energy deployment, AI optimisation, and biodiversity conservation offers a multifaceted approach to generating returns while addressing climate change. As governments, corporations, and investors prioritise sustainable practices, the opportunities for growth and innovation in climate action investing continue to expand, paving the way for a more resilient and sustainable future.

1 Energy Security

Overview

- Geopolitical uncertainty and volatile energy prices are pushing governments and businesses to find ways to achieve greater energy independence.
- Renewable sources of energy such as solar, wind, and biofuels are becoming increasingly cost-competitive, offering viable alternatives to traditional fossil fuels. Nuclear energy is also benefiting from renewed interest as a long-term, low-emission power source. The global shift towards electrification is also accelerating, driven by economic imperatives, climate goals, and the pursuit for energy security.

The Opportunity

- Government policies and incentives are playing a pivotal role to attract private investments in clean electricity capacity, infrastructure and research.
- The global race to lead in artificial intelligence underscores the necessity for abundant and reliable energy, prompting significant investments in energy security.
- Key factors leading to rapid electrification are: social (rising population and affluence; online activities); climate (cooling and desalination); and technical (digitalisation, AI, electric vehicles, trains, expansion of data centers).

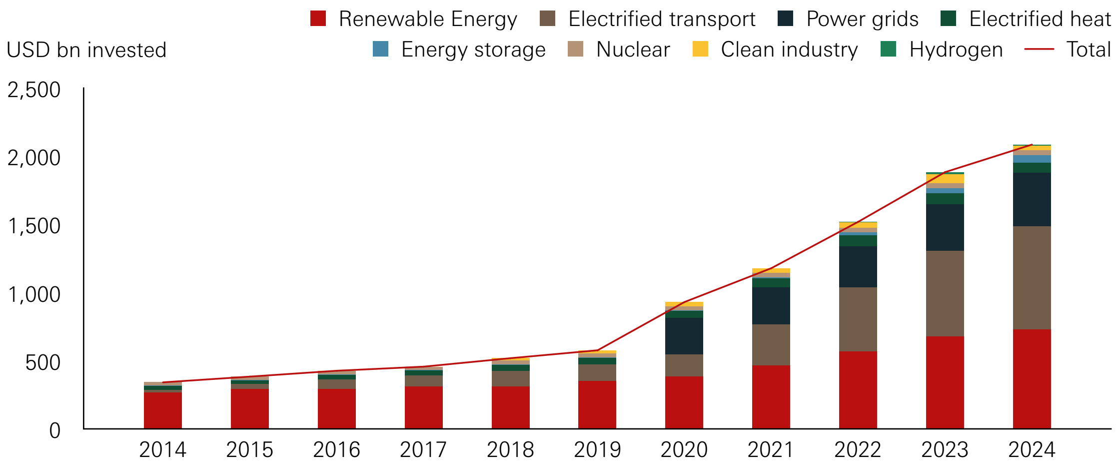
1 Energy Security

- In 2023, global investments in low-carbon technologies and supply chains reached $1.8trn, marking a 17% increase from the previous year. However, to align with 2050 climate targets, annual investments nearly need to triple, averaging around $4.8trn over the next six years. (Source: BloombergNEF, Energy Transition Investment Trends 2025 as at May 2025)

Why now?

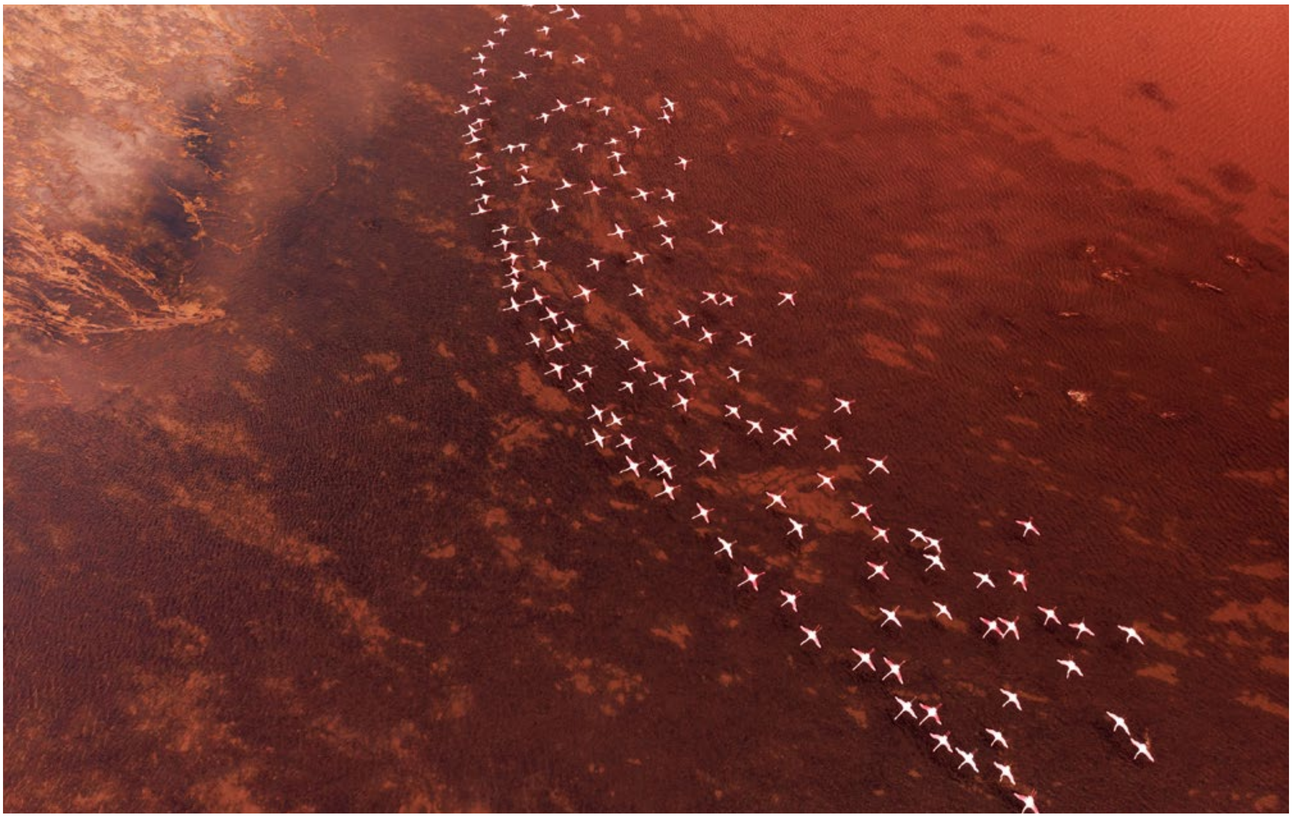
- Utilities worldwide are grappling with surging energy demand and consequences of years of underinvestment. Robust energy and digital infrastructure are essential for sustainable economic growth and maintaining global competitiveness.
- Technological advancements have rendered solar and wind power the most cost-effective sources of electricity in many regions. Simultaneously, nuclear energy is regaining prominence as a clean and dependable power option.
- The electrification of transportation is gaining momentum, with electric vehicle sales surpassing those of internal combustion engine (ICE) vehicles in several markets, including China, the world's largest automotive market.
- Despite a record USD623bn invested in renewable energy projects in 2023, significantly higher investments are imperative to reduce reliance on fossil fuels. Achieving climate objectives necessitates nearly tripling renewable power capacity and doubling energy efficiency by 2030.

Accelerating global energy infrastructure is generating investment opportunities



Source: BloombergNEF, Energy Transition Investment Trends 2025, HSBC Global Private Banking as at 30 May 2025.

2 Biodiversity and Circular Economy



Overview

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

- The linear 'Make – Take – Use – Waste' economic model is damaging biodiversity and natural habitats. Conservation efforts alone are insufficient to halt the biodiversity loss. Adoption of a circular economic model should help minimise waste of essential resources and help in stemming biodiversity loss.

The Opportunity

- A recent Assessment Report on the interlinkages among Biodiversity, Water, Food and Health from the Intergovernmental Platform on Biodiversity and Ecosystem Services (IPBES) highlighted that more than half of global GDP, c.USD58trn is moderately to highly dependent on nature. It outlines a figure of c.USD1trn annual financing gap to support biodiversity which may seem like a lot, but it also notes that c.USD1.7trn of public subsidies incentivise diversity loss, trade distortion and increasing pressure on resources. This, therefore, creates an opportunity to act. New business models and solutions that transition business from a Linear to a Circular economic model of 'Reduce – Repair – Reuse – Recycle and Re-design' provide new investment opportunities.

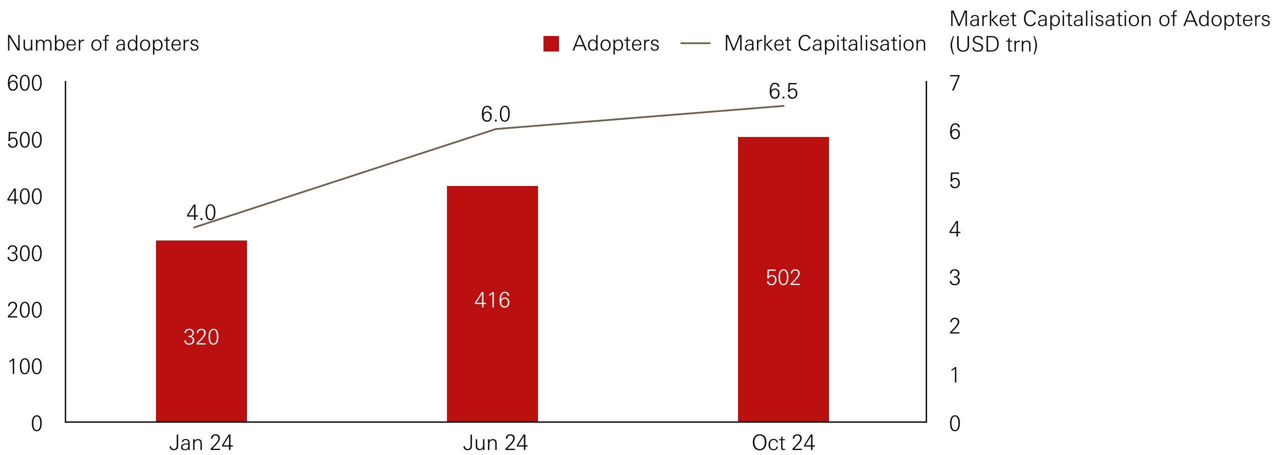
2 Biodiversity and Circular Economy

– The good news is that the transition to a circular economy is already in motion due to increased regulation, market, consumer and investor forces. In a strong signal that commitment to biodiversity and global cooperation remains a priority for many, more than 140 countries agreed on a set of measures aimed at getting USD200bn annually for biodiversity. This occurred at the continued COP 16 on Biodiversity in the last week of February 2025. Companies that harness and preserve biodiversity could offer investors the potential to access growth and provide relative outperformance.

Why now?

– The COP 16 agreement highlighted the need to outline relevant subsidies and reform where necessary. It also recognised the need for "innovative schemes" such as debt-for-nature swaps and biodiversity offsets. The Taskforce for Nature-Related Disclosures (TNFD) is also an important recent framework for businesses to assess, report and act on nature-related dependencies, impacts, risks and opportunities. According to the World Economic Forum, failure to address nature risks could result in an estimated loss in global GDP of USD2.7trn by 2030. As such, the number of companies adopting the framework is rising steadily.

Growth in adopters of task force for nature disclosures



Source: Taskforce on Nature Related Financial Disclosures, HSBC Global Private Banking as at 30 May 2025.

Top Trend

Evolving Society

In today's rapidly changing world, societal shifts are occurring at an unprecedented pace, driven by factors such as ageing populations, declining birth rates, technological advancements, shifting role expectations, and growing wealth. These dynamics are reshaping the demand for goods and services, presenting a myriad of opportunities for investors seeking to capitalise on the evolving landscape.

Our three high conviction themes

1 Social Empowerment and Well-being
2 Streaming and Subscriptions
3 Silver Economy & Demographics

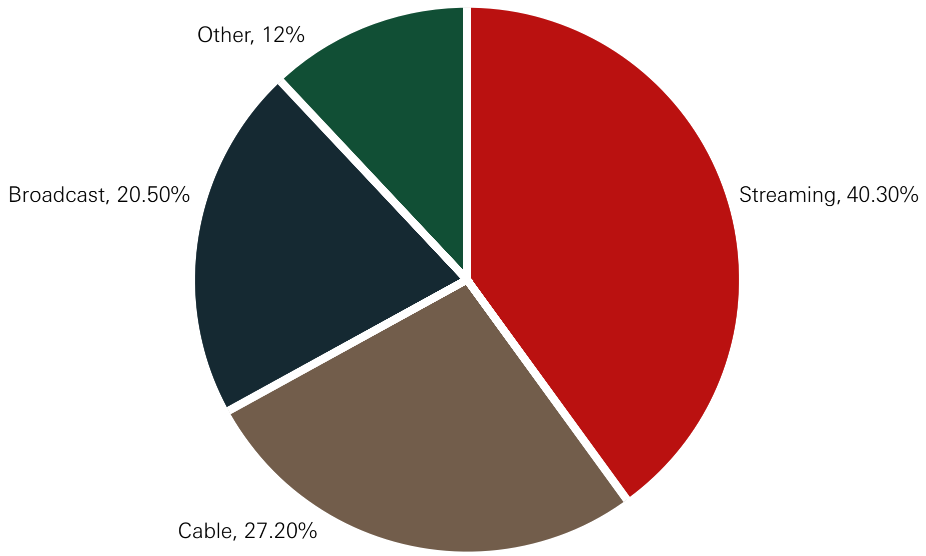
At the heart of societal change is technology, which continues to advance at a breakneck speed. One area where this is particularly evident is entertainment, where consumption has shifted dramatically towards digital streaming under subscription-based models. This new reality is reshaping the future of entertainment, with streaming now accounting for a significant portion of TV usage in the US, surpassing traditional broadcast and cable television. As inflation and interest rates decline, and as high-value content and innovative consumption formats emerge, new revenue channels are opening up for companies in this sector, embedding consumers deeper into their ecosystems.

The ageing population, often referred to as the "Silver Economy", presents another compelling opportunity for investors. As individuals over the age of 65 become fitter, healthier, and wealthier, their spending patterns diverge from those of younger generations. Beyond traditional products and services, there is growing demand for experiences and lifestyle enhancements, including travel, technology, and entertainment. The net worth of this demographic is among the highest in society, with accumulated wealth from pensions and home equity providing the means to pursue new experiences.

In addition, advancements in artificial intelligence (AI) and humanoid robotics are poised to play a transformative role in the lives of the elderly. These technologies offer solutions that enhance quality of life and independence, performing a wide range of tasks that are invaluable to older consumers. While this is a long-term trend, there are immediate opportunities for investors to explore, as the integration of AI and robotics into everyday life continues to gain traction.

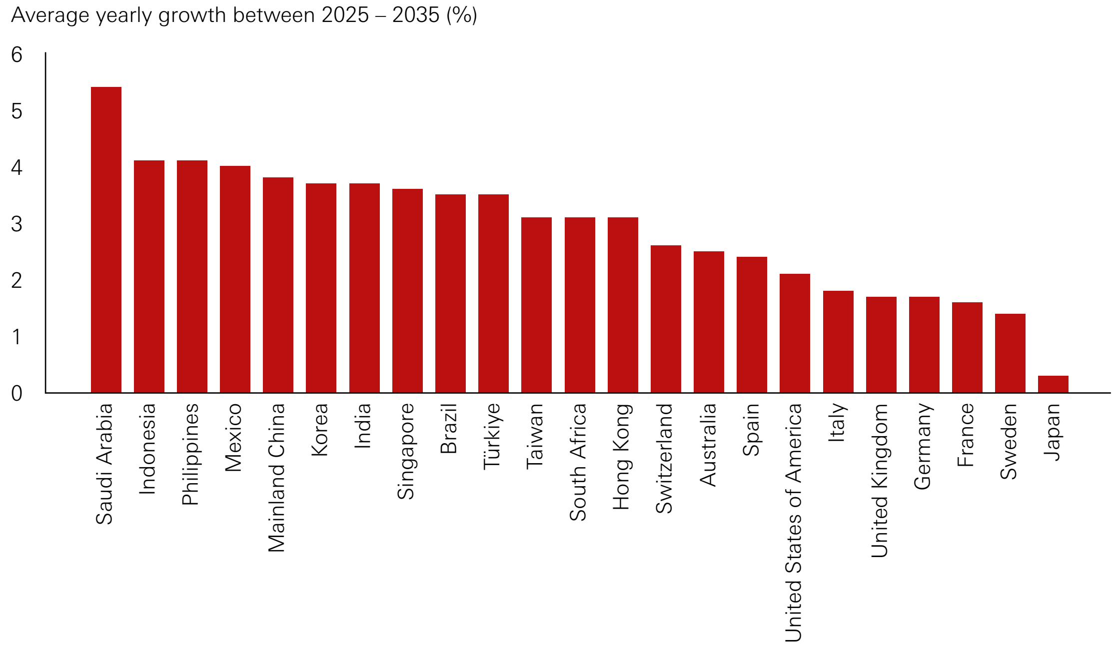
One of the most significant aspects of societal transformation is the increasing emphasis on diversity and inclusion within organisations. As

Time Spent Streaming Surges to Over 40%



Source: Nielsen's June 2024 report of The Gauge™ as at June 2024.

Growth in Population of over 65s



Sources: United Nation as at end 2024.

corporations strive to achieve better gender and ethnic representation, they are not only fostering a more equitable workplace but also unlocking new avenues for growth and profitability. Research indicates that companies with diverse executive teams are more likely to outperform their peers financially. This correlation underscores the importance of diversity as a strategic advantage, enhancing resilience and adaptability in the face of market fluctuations.

Moreover, the concept of belonging has emerged as a critical factor in employee engagement and retention. Studies show that a strong sense of belonging can significantly boost employee morale and productivity, while reducing turnover risk. Organisations that prioritise diversity, equity, and inclusion (DEI) practices are better positioned to attract and retain top talent, ultimately driving superior business outcomes. This focus on workforce experience, defined as the sum of an individual's lived experiences at work, is increasingly recognized as a key driver of customer satisfaction, profitability, and market performance.

Overall, the evolving society trend is characterised by key transitions that are reshaping the investment landscape. By understanding and embracing these changes, investors can identify and seize opportunities that align with the shifting dynamics of demographics, technology, and organisational culture. As society continues to evolve, those who are attuned to these trends will be well-positioned to navigate the complexities of the modern market and achieve sustainable growth.

The evolving society trend offers a wealth of opportunities for investors willing to adapt and innovate. By focusing on diversity and inclusion, leveraging technological advancements, and catering to the unique needs of an ageing population, investors can unlock new pathways to success. As we move forward, it is essential to remain vigilant and responsive to the ongoing changes, ensuring that investment strategies are aligned with the transformative forces shaping our world.

1 Social Empowerment and Well-being

Overview

- Rising living costs, climate disruptions, and continuous geopolitical shifts are intensifying dispersions both across and within countries. Inequality and social fragmentation are among the most critical threats for the global economy as per the WEF Global Risks Report for 2025.

- As the investment community is giving greater attention to the social pillar of Environment, Social and Governance (ESG), new opportunities are surfacing to align portfolio objectives with long-term, structural trends. Regulatory momentum, particularly through frameworks like the EU's Corporate Sustainability Reporting Directive (CSRD), is also accelerating the shift towards greater corporate accountability to integrate social factors within the business plans. Firms that act early by embedding social priorities into strategy stand to boost their resilience and generate sustainable long-term value for shareholders.

The Opportunity

- Major forces such as ageing population, ecological strain, and shifting societal values are reshaping the global economy and with it, the rules of doing business. Companies that champion employee welfare, promote inclusive labour practices, and invest in people-centric supply chains are increasingly proving that profitability and purpose can go hand in hand.

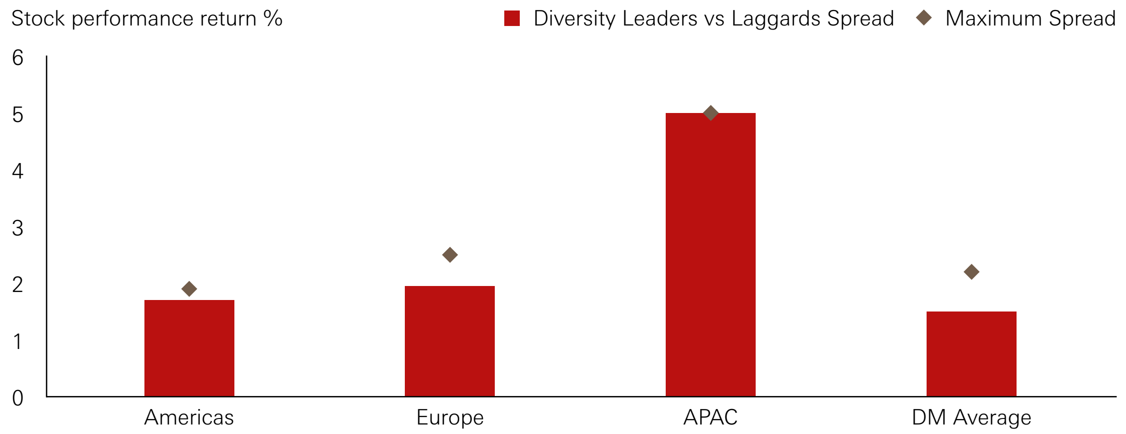
1 Social Empowerment and Well-being

- Brand reputation and customer loyalty are earned through authenticity and values. Businesses that lead on ethical sourcing, pay equity, and provide safe working conditions are building trust with stakeholders and minimising reputational risk. Most governments are also stepping in with supportive legislation, encouraging investment in socially impactful areas, from education and clean water access to nutrition and affordable housing. For investors, this presents a dual benefit: backing enterprises that are future-ready and standing to benefit from public policy tailwinds.

Why now?

- With over 70 nations, and more than half of the world's population participating in elections in 2024, the geopolitical map has been redrawn in 2025. From trade frictions to migration debates, the policy environment is in flux. In this evolving environment, private capital can play a critical role in advancing social priorities where public resources may fall short.
- Companies that confront these issues are often better prepared for tomorrow's challenges. Whether adapting to shifting consumer preferences, complying with emerging regulations, or managing supply chain risks, they are likely to outperform peers. We see this as a pivotal moment as allocating capital towards businesses that are proactively shaping a more inclusive, resilient, and equitable future can generate above-average long-term value.

Studies show that companies that progressed toward diversity inclusion goals improved decision making and increased profits



Sources: Bloomberg Intelligence, HSBC Global Private Banking as at 30 May 2025.

2 Streaming and Subscriptions

Overview

- Streaming and subscriptions business models are relatively new as a combination, but they have firmly taken hold of the internet entertainment which is a huge industry, and the model shows no sign of abating.
- The advances and cross-integration in technology in recent years have allowed users to stream content and interact in real time more and more. What began with TV and film has now developed into high-speed live gaming experiences or huge virtual concerts. AI is now also being used to reduce costs and improve experiences across the space.
- Many streaming services showed their economic resilience throughout the recent period of high inflation. Their introduction of new tiers of pricing with different service offerings has largely been successful, widening their reach to more customers and creating new opportunities.

2 Streaming and Subscriptions

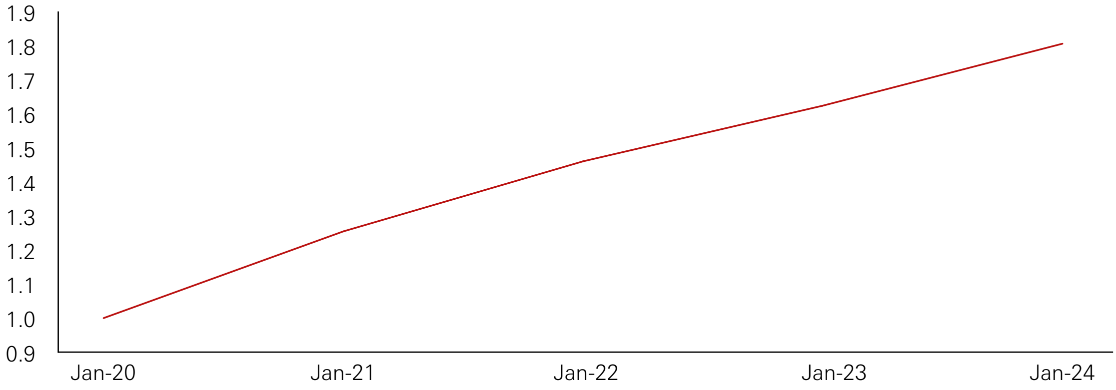
The Opportunity

- Amid a period of high uncertainty in the global economy, streaming and subscription businesses have demonstrated their ability to remain sticky in customers' spending habits and in some cases even grow.
- Rapid improvements in technology and data speeds have allowed streaming and digital technologies to expand beyond lower TV into downloadable games, cloud, real-time gaming, live concerts and VR and AR solutions.
- As smart phone demand growth slows, smart glasses should take up the slack with early sales numbers, alongside a rapidly evolving technology pointing to a potential opportunity.
- Content remains key and companies with the right and latest content are finding that they can reach a much wider audience.

Why now?

- Companies with top class content IP have navigated the recent cost of living crisis and discovered that their businesses are stickier than expected.
- These companies are also increasingly finding new ways to monetise their content and to broaden the reach of their products, thereby improving on their economies of scale.
- It is still relatively early in the development of streaming and subscriptions as a technology and as a business model but the companies that win do so on a global basis which can drive significant economies of scale and flywheel cross revenues.

Aggregate growth of major streaming businesses since 2020



Source: Bloomberg Finance L. P., HSBC Global Private Banking as at 30 May 2025. Data from company accounts base end-December 2020 to end-December 2024.

3 Silver Economy & Demographics

Overview

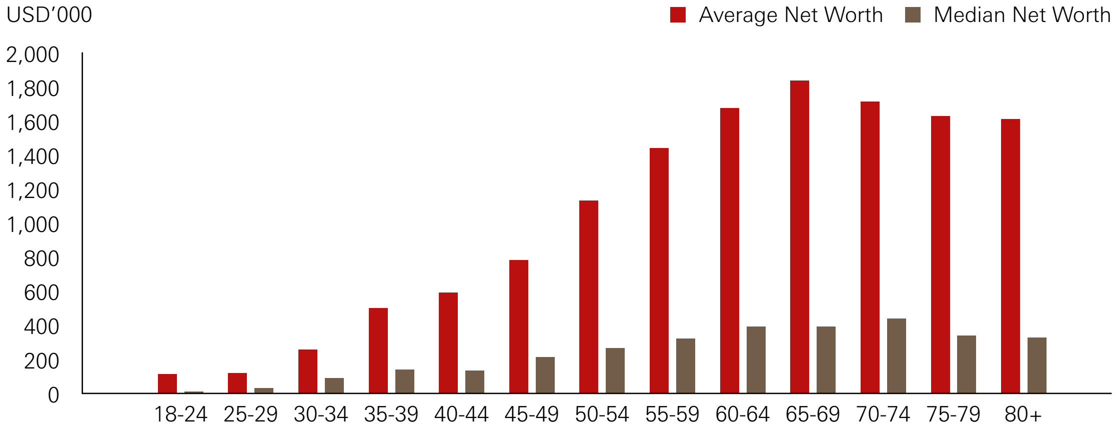
- People are living longer due to advancements in healthcare, medical treatments, knowledge of lifestyles, technology and historically high levels of wealth in society.
- In most large economies, the cohort of the population that makes up the over 60s is the wealthiest, having built up a lifetime of savings and wealth gained in property.
- The over 60s are much fitter, healthier and mobile than previous generations and their spending habits are much different than their younger counterparts.

The Opportunity

- Opportunities in this space are likely to present themselves in a variety of places. New retirement lifestyles of fitter, more able and keen to travel retirees, supported by a high purchasing power, are fueling the Silver Economy.

3 Silver Economy & Demographics

Average and median wealth levels in the US by age groups



Source: Federal Reserve Survey of consumer Finances 2022, HSBC Global Private Banking as at 30 May 2025.

– The typical industries we think of, such as pharmaceuticals; healthcare, assisted living and mobility equipment will be core holdings in a portfolio of exposures to the Silver Economy, but there are other industries that are becoming more prevalent with the current generation.

– With higher levels of mobility and healthiness, the over 60s are travelling more and engaging in more experiences. Outside of the typical areas, hotels, cruise liners, airlines, consumer goods such as golf or exercise providers and specialist financials should be considered as well.

Why now?

– Ageing demographics is not a new trend, but it has now reached a point where wealth is being used by the over 60s in a much broader way, across the typical industries for this generation but also in experiences, sports and travel and even in tech.

– The number of companies that are now focusing on the Silver Economy opportunity is rising and with technology, the products and services available to the over 60s are expanding.

– Falling birth rates which has been a trend running in parallel and contributing to the rise in older populations means there is less support within societies to care for the older generation, and they are turning more and more to dedicated companies with products and services to accommodate their needs.

Top Trend

Building Resilience Amid Tariff Headwinds

The global economic outlook is changeable and relatively uncertain, largely due to the big potential impact of the trade tariffs, and the frequent changes in key US policies. However, we also see reasons for some optimism and are not looking for either a US recession or a stagflation scenario. Hence, we think the best approach is to maintain both equity and bond exposure but to ensure we build resilience in portfolios to weather the tariff headwinds.

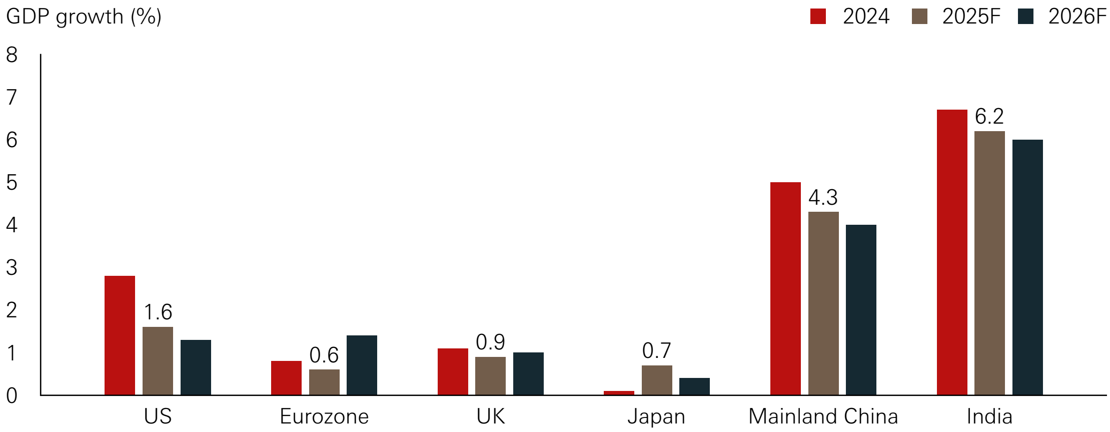
Our three high conviction themes

1. North American Re-industrialisation
2. Global Financials
3. Income Through Active Credit Selection

We see Liberation Day on 2 April – which was followed by the eyewatering 145% tariffs on US imports from China – as a low point for market sentiment. Since then, we have seen several U-turns that signal a willingness of the US administration to incorporate market or business feedback, when proposed policy measures go too far. When Treasury market volatility spiked, which could have led to a financial meltdown, reciprocal tariffs on imports from the EU and some other nations were postponed by 90 days. And due to business feedback, tariffs on imports from China first saw a number of exemptions (e.g. electronics and phones), and later also saw a 90-day reprieve.

Headline risk around tariff announcements may for now be reduced, though we do not yet know where those tariffs will eventually land. Our assumption is for tariffs to remain above the 10% minimum but end up well below the reciprocal level. Thanks to trade deals, the US will probably get some mildly better access to some foreign markets and some promises from other countries to buy more US goods.

While global growth is relatively slow, we do not forecast a US or global recession



Source: HSBC Global Private Banking as at 30 May 2025. Forecasts are subject to change.

GDP growth numbers may remain messy. In Q1, US imports surged as companies front-ran the tariffs, which depressed GDP growth (as net imports are subtracted from domestic growth to calculate GDP). In Q2, this effect should ease. Consumption will be in a tug-of-war between those consumers who fear higher inflation and reduce spending, and others who front-load some consumption if they think prices will rise in the future. Government spending meanwhile is being rationalised and may weigh on growth. And finally, investment spending should increase due to re-onshoring, but this may take time if CEOs still feel uncertain. AI-related investments will probably continue at a strong pace though as they can increase productivity and are necessary for companies to stay ahead of their competition.

This summary of mixed growth drivers suggests that there are tailwinds offsetting the headwinds, but also that data will be volatile. So we position for mildly positive growth as well as volatility. In such an environment, building resilient portfolios is key.

How do we do this? From an asset allocation perspective, our Investment Outlook publication details our strategy, with overweights in gold and hedge funds, and a role for private market investments to look through some of the short-term volatility. From a thematic perspective, we focus on areas where we see specific strength or resilience.

We have picked three themes to help portfolio resilience. The North American Re-industrialisation is a well-established US policy that was already present under President Biden and now continues under the current administration. It is closely coupled to the tariffs themselves: under a scenario of tariffs being higher than expected, more companies would be incentivised to re-orient production to the USA, supporting our theme. Secondly, we think Global Financials are one of the only sectors that will do well under a scenario of rates staying higher for longer, so it can be a good hedge against that risk. And lastly, we use high quality bonds as a way to generate income in portfolios and to diversify. Our active approach in fixed income also recognises our view that market volatility will continue to create tactical trading opportunities, which we want to take advantage of.

1 North American Re-industrialisation

Overview

- The Trump administration is using tariffs and other tools to secure resilient supply chains and increase inbound corporate investments in the US.
- Federal, state, and local governments are leveraging advanced technologies, strategic spending, and tax incentives to reduce manufacturing costs and boost employment. This can make US domestic production more competitive in global manufacturing.
- This administration wants to lower the corporate tax rate further to one of the lowest in the world. Combined with deregulation, these policies should make the US an attractive manufacturing hub.

The Opportunity

- The US is actively rebuilding US manufacturing. Tariffs, taxes, and deregulation can attract foreign capital to increase domestic production.
- Re-industrialisation is driving domestic job growth, as new manufacturing facilities are built, particularly in sectors like semiconductors, automotive, and energy. These new facilities will boost employment and wealth creation, while also increasing demand for industrial materials and energy.

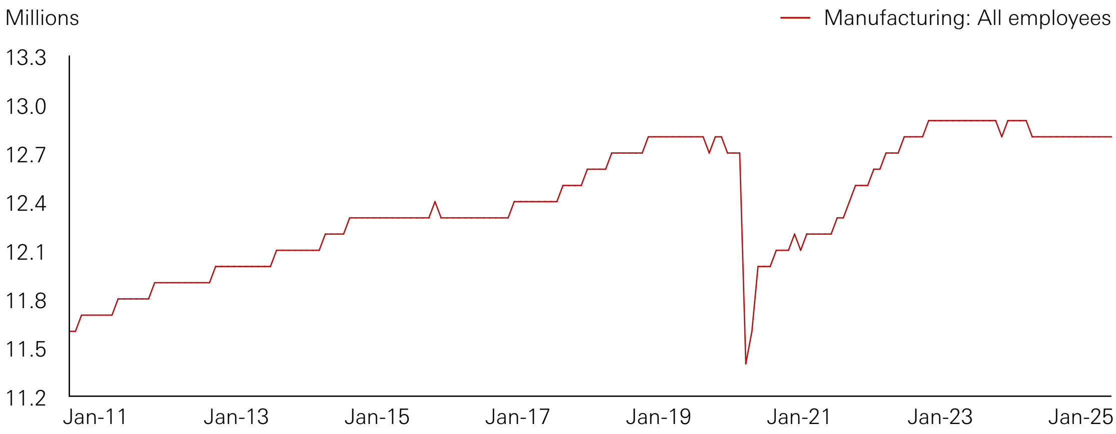
1 North American Re-industrialisation

- Manufacturing employment has grown by 12.2% since April 2020 – the fastest growth since the 1970s. Supporting infrastructure, like energy, logistics and local services, must also evolve to meet increased demand. In the past four years, construction spending on new manufacturing facilities has risen at a 31% CAGR (Source: BLS as at March 2025).
- Re-onshoring and the technological revolution around robotics, automation, AI, and 3D printing are enhancing productivity. While tariff risks remain, negotiations continue, and signs suggest recession should be avoided. This presents an opportunity to invest in the US and global companies which could benefit from the renaissance of US manufacturing.

Why now?

- The Trump administration has aggressively prioritised job creation and foreign investment in the US, in an effort to expand US manufacturing.
- Tariff negotiations are developing, and trade deals should result in increased investments in US manufacturing.
- With the Fed on its path of monetary easing, and disinflation continuing, the financing of new facilities is becoming increasingly affordable.
- These new highly automated factories are laying the groundwork for long-term economic resilience and enhanced North American competitiveness in global markets.

The labour market for the manufacturing sector remains resilient



Source: Federal Reserve Bank of St. Louis, HSBC Global Private Banking as at 30 May 2025.

2 Global Financials

Overview

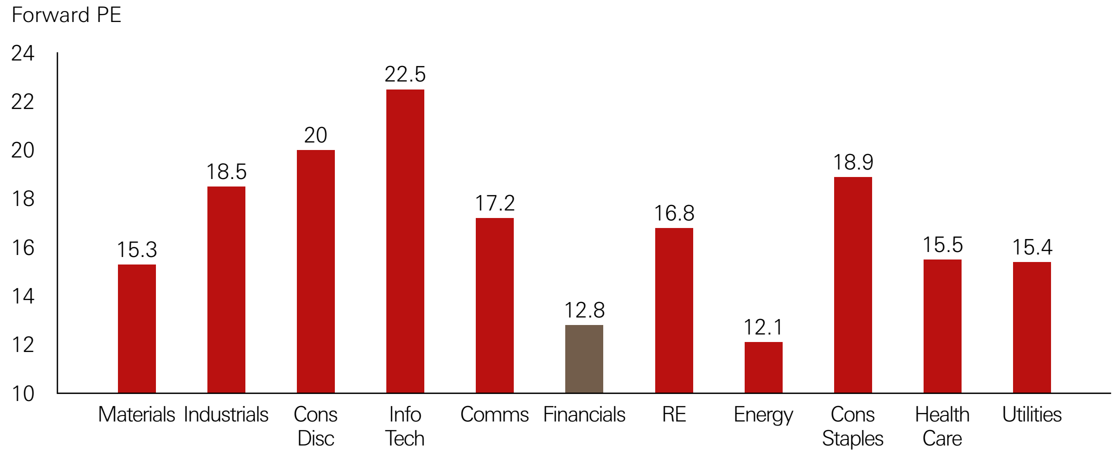
- Global financial institutions are poised to benefit from several favourable economic conditions, including rates remaining higher for longer, positively sloping yield curves, enhanced credit conditions, and sector consolidation.
- Valuations of financials are second lowest only to Energy sector. But financials continue to deliver consistently and in the prevailing environment should be expected to deliver better than their valuations suggest.
- Insurers, despite challenges from natural disasters, are expected to benefit from elevated premium pricing and consistent investment income. Concurrently, asset managers are likely to experience increased inflows as risk appetite strengthens.
- Deregulation in the United States and Europe, coupled with heightened market volatility should benefit revenues from asset management and trading businesses.

The Opportunity

- Elevated market volatility should be beneficial for financials with trading and investment operations.

2 Global Financials

Global financials has the second lowest forward PE multiple



Source: Bloomberg, MSCI, HSBC Global Private Banking as at 30 May 2025. Past performance is not a reliable indicator of future performance.

- Insurers, have been able to reprice premiums in the wake of the natural disasters of 2024 and underwriting remains resilient, while higher-for-longer bond yields support investment income. Asset managers, often linked to insurance businesses should see inflows rise as markets adjust to the prospect of looser monetary policy.
- European governments have been calling for greater corporate activity within the sector in Europe while in the US, regional consolidation of small banks is expected.
- Regulation has the potential to shift in favour of Financials, in the US from the new administration who favour less regulation and in Europe as the region looks to raise the sector's competitiveness on the global stage.

Why now?

- Financials are expecting earnings expansion, greater loan book activity and lower regulation from here and with rates falling slower than was previously anticipated, Net Interest Margins (NIMs) continue to provide margin to banks while also generating income for insurers and asset managers.
- The sector is trading at a valuation that does not reflect the positive outlook for the sector, especially when considered the relative valuation of other sectors.

3 Income Through Active Credit Selection

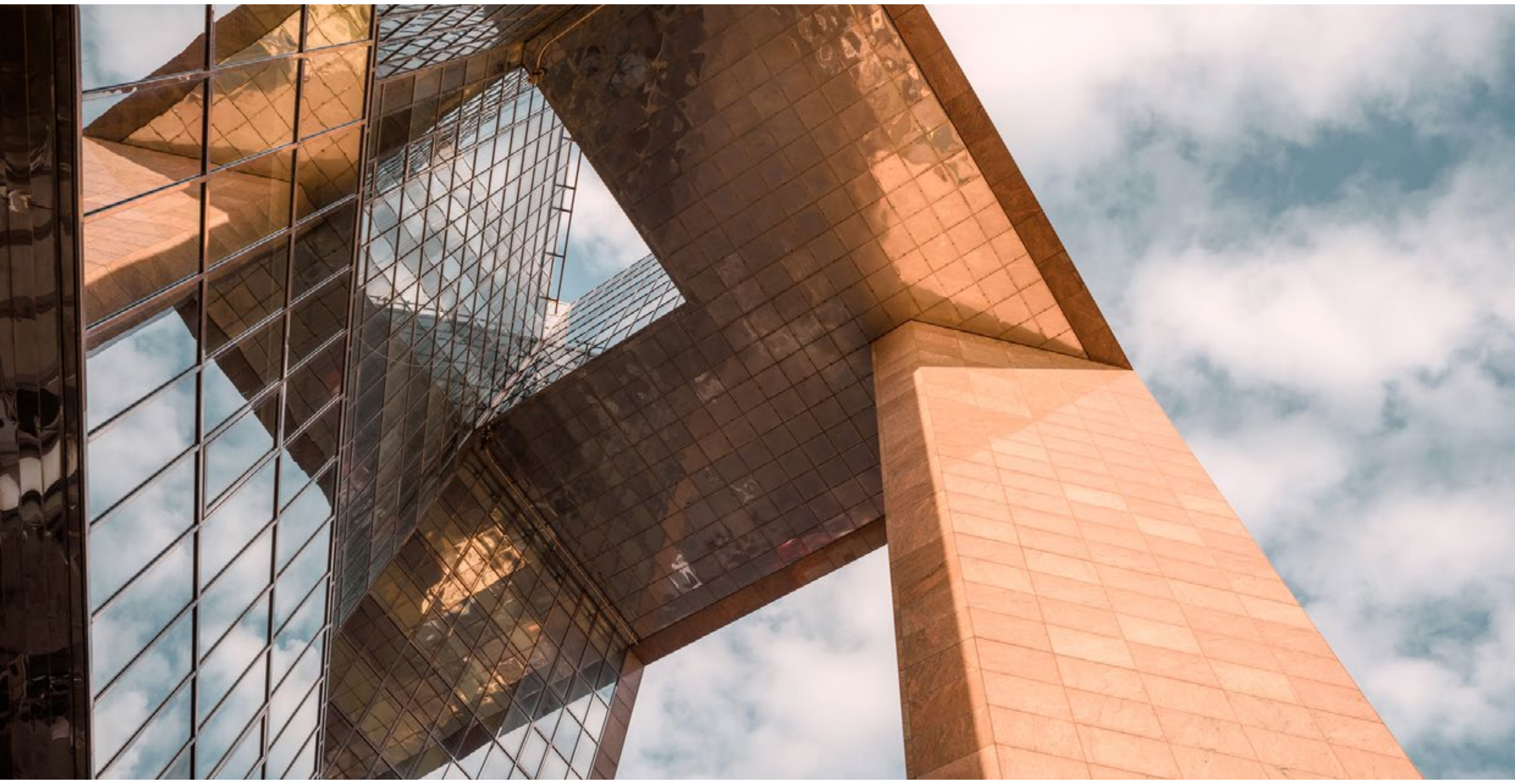
Overview

- The investment opportunity set has broadened, and we hold a preference for Global IG relative to Global HY across both DM and EM, given the uncertainty around the US administration's policy agenda and end-game in tariff negotiations. In an environment of high policy uncertainty and bond market volatility, we keep our preference for IG, particularly in Europe and the UK, where domestic economies should be less impacted by tariffs. Active credit selection becomes more relevant in this environment.

- DM central banks, including the Fed, should carry on with their monetary policy easing as global growth slows, which should be supportive for bonds. We continue to see corporate credit as a good diversifier in multi-asset portfolios and to generate income by locking in still elevated yields.

The Opportunity

- Active credit selection is the call of the hour as some companies may be better positioned to navigate tariffs and their resulting impact on the economy, while others may not. We believe DM financials, especially banks, could fare well due to their strong capitalisation, benign Non-Performing Loan (NPL) ratios and resilience towards tariffs. There is also value in European IG single-As, especially in sectors such as



3 Income Through Active Credit Selection

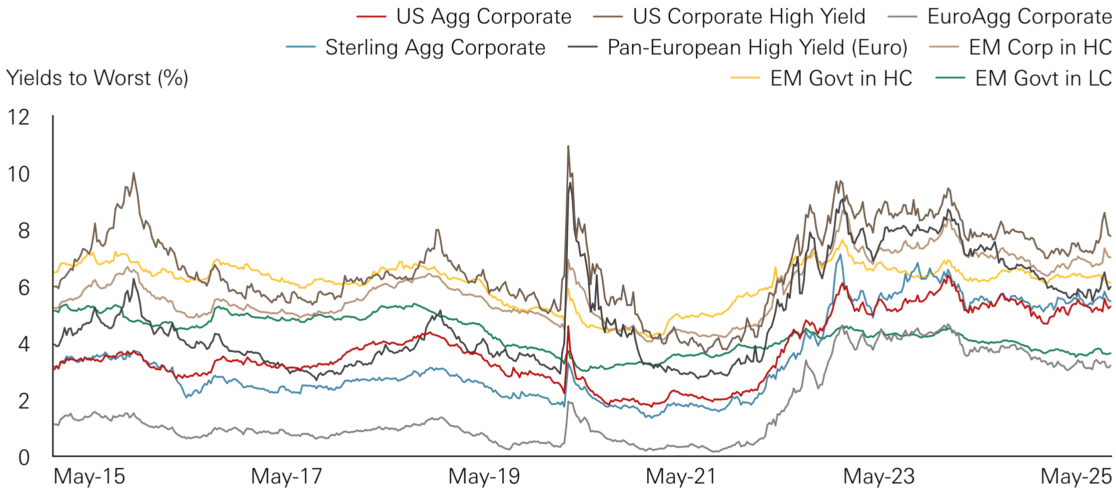
Chemicals and Energy, where much of the downside risk is already reflected in the price.

- We are conscious however that current credit spreads more broadly do not fully compensate for default risks. Hence, we focus on companies prioritising bondholder-friendly policies, with sound leverage ratios and low short-term refinancing needs, but also with robust supply chains and limited geographic mismatches, thereby less vulnerable to tariffs.
- Considering the high level of 'term premium' embedded across DM Sovereign curves, we like a longer duration on Global IG (7 – 10 years on average) relative to Global HY and EM Hard Currency debt (3 – 5 years), where we limit spread duration amid risks of slowing global growth.

Why now?

- The European Central Bank (ECB) and Bank of England (BoE) acknowledged that US tariffs may have disinflationary effects on their economies in a non-retaliatory scenario, and we favour GBP and EUR corporate credit over USD. That said, US Treasuries are still pricing in a generous risk premium for investor concerns around fiscal deficits and tariff retaliation risks. We look for opportunities in selective credits which can be a source of additional carry above sovereign rates.
- Fundamentals remain robust across DM IG credits and companies have made good progress on refinancing the maturity wall in 2025/26. In addition, quality corporate EM bonds provide a strong carry opportunity, while giving diversification across ratings, sectors and nations.

Investing in credit markets can generate income by locking in elevated yields



Source: Bloomberg, HSBC Global Private Banking as at 30 May 2025. Past performance is not a reliable indicator of future performance.

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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. cotractual bail-in) under which debentures contain a clause requiring them to be written off or converted to common stock on the occurrence of a trigger event, or (b) statutory 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

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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.

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.

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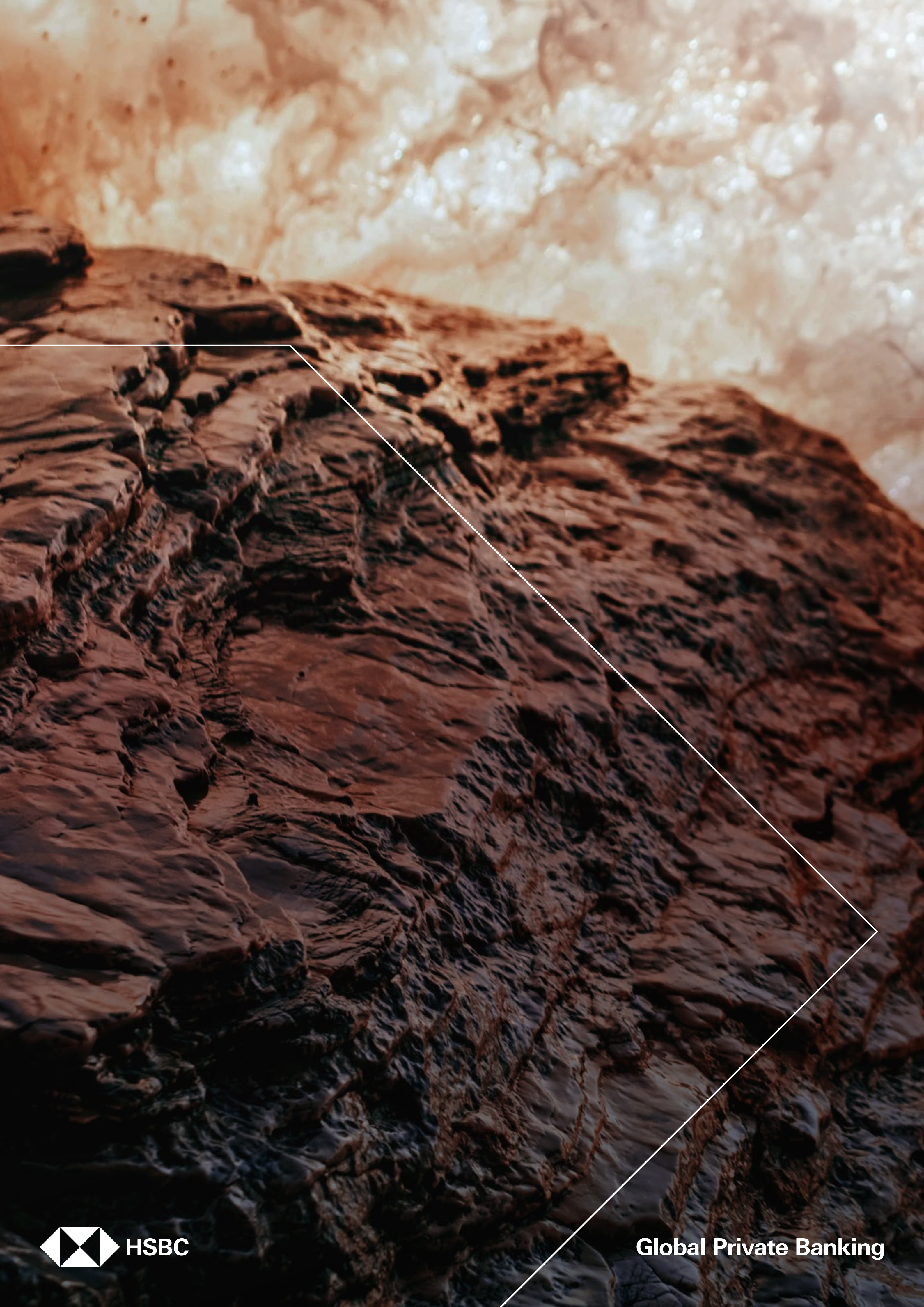

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