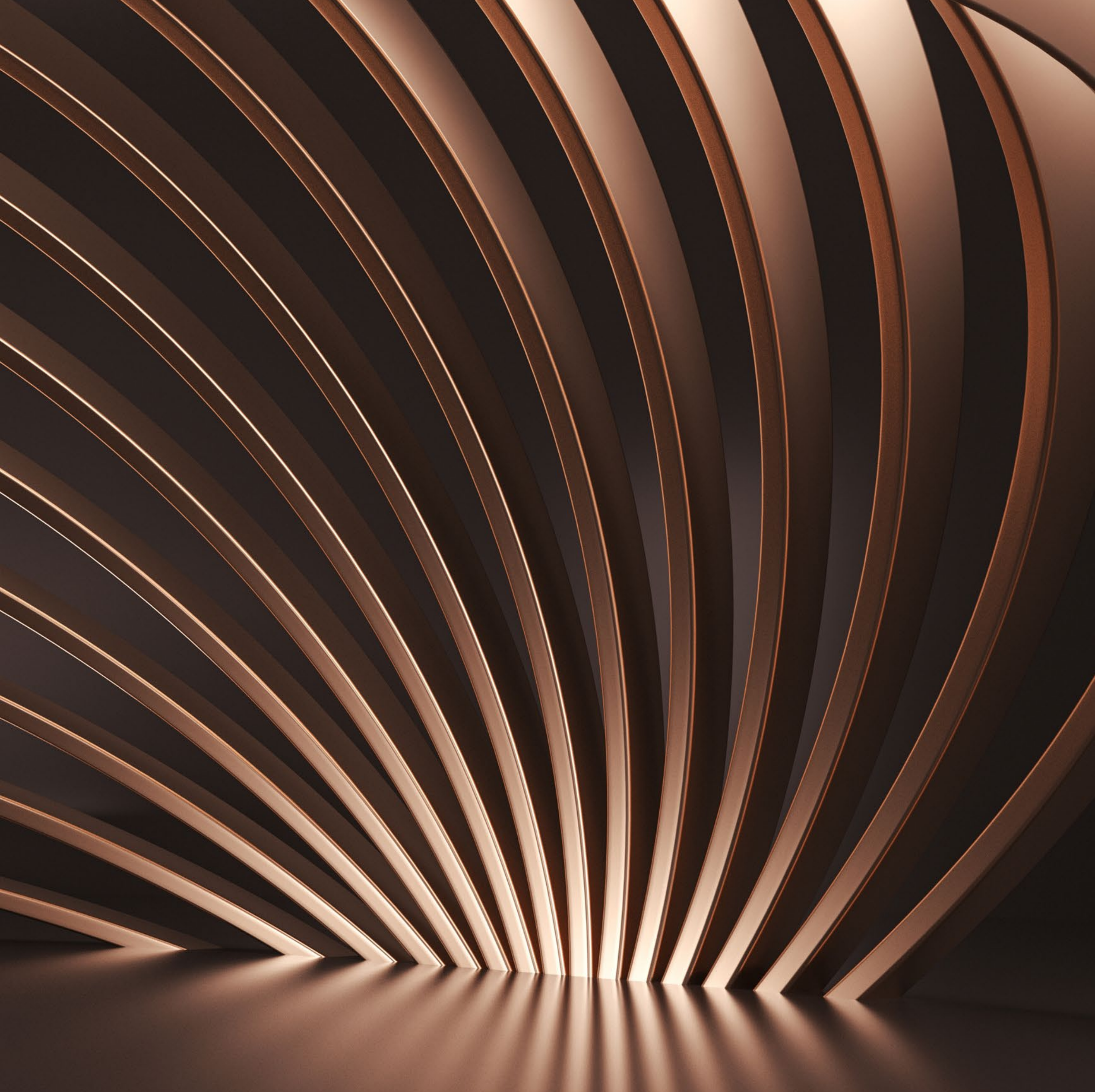

AI-celeration

Investment Outlook Q4 2026

HSBC Private Bank

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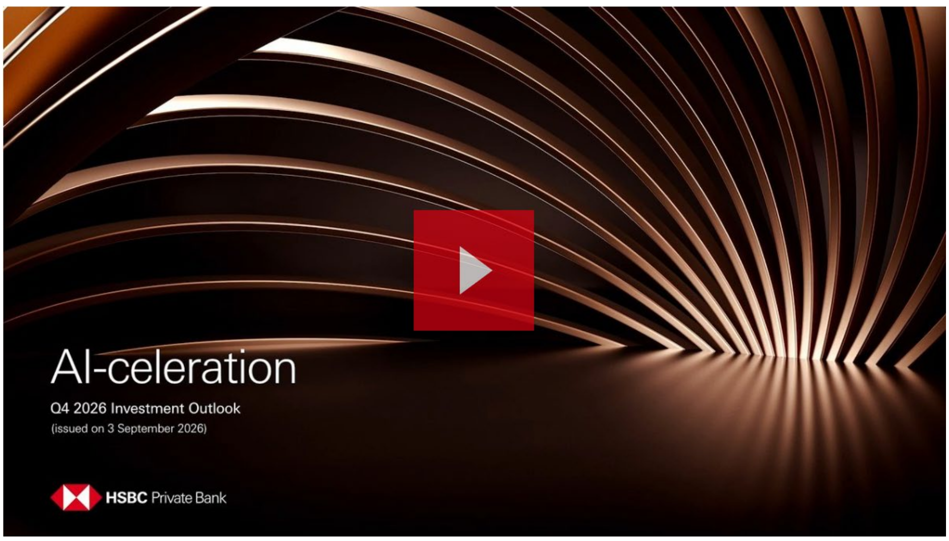


Client letter

Welcome

Dear Client,

The global economy and the corporate world are in better health than many expected. The market has repeatedly been stress-tested by global conflict, oil price spikes, inflation angst and worries about the impact of AI on labour market. But every time, the potential impact has been offset by stronger earnings and resilient activity.

That's because we're not passive bystanders to these shocks. Governments and companies have been building resilience, workers are adapting to AI and companies are using it to innovate. Human adaptability results in remarkable market 'bounceability'.

AI remains the number one engine of investor optimism and fuels much of the investment, economic growth and productivity growth. The good news is that adoption continues to accelerate. As models get very powerful, familiarity increases and applications multiply. Monetisation is improving markedly too.

But AI is not the only source of support. In fact, we think earnings growth will continue to broaden beyond IT and US into other sectors and regions. AI needs electricity, materials, consultants, and funding through financial services; and it fuels innovation in robotics, automation, healthcare, consumer services etc. Most megacaps are in the US, but Asia is a key beneficiary of global chip demand, and adopters benefit around the world – even in Europe.

So, we recently added to our global equity overweight and broadened our exposure, albeit with a preference for US, Japanese and North-Asian stocks. We also complement our IT overweight with financials, materials and energy to tap into wider opportunities and achieve sector and style diversification.

The opportunities do not stop there. Bond markets offer attractive income, which is a key source of return and a portfolio stabiliser. Real yields are attractive, the Fed may not hike, and worries about bond supply seem exaggerated to us. So while it could take time for yields to come down, we see limited risks of further yield spikes and lock in quality bond yields at current levels.

Infrastructure offers income too, and remains at the centre of the venn diagram, offering inflation protection and exposure to structural themes like AI, supply chain reorientation and electricity investment. Private assets should be included where appropriate, because they complement the megacaps in public markets, offering exposure to small caps and early growth. Furthermore, in US or tech-heavy portfolios, private assets offer exposure to other sectors and regions too.

Among this rich opportunity set, what are our four priorities for investors?

Firstly, we focus on AI monetisation. AI adoption and investment continue to accelerate, but we prefer companies that are profitable here and now, across the cloud, chips and AI-enabled applications.

Secondly, we aim to benefit from governments' focus on security and energy independence, across cybersecurity, electricity infrastructure, critical materials and climate change mitigation.

Thirdly, we build portfolio resilience with income and multi-asset strategies because we see attractive income in bonds, infrastructure and dividend stocks, while private assets and hedge funds provide complementary sources of return. The combination of higher bond yields and higher volatility also creates interesting opportunities for volatility strategies.

Lastly, we tap into Asia's innovation and income to balance portfolios. The region has once again proved that it is central in the global AI and broader manufacturing supply chain, further strengthening its position. But just like in the West, our exposure to the exciting AI-celeration needs to be diversified to smoothen the ride.

Willem Sels
Global Chief Investment Officer
03 September 2026

Portfolio strategy

Portfolio strategy

Investors face multiple sources of uncertainty but have more things to be positive about. Earnings growth is broadening and income opportunities are attractive, while private markets complement public market stocks well. So, we take broad multi-asset exposure to tap into the multiple sources of return. Rapid growth in AI is a key reason for our optimism on IT, the US and Asia; but a focus on AI monetisation is key. We also believe that the huge investment in electricity and security will boost growth and benefit industrials, financials and commodity sectors.

More positives than negatives

We're not ignoring the many uncertainties around us. The situation in the Strait of Hormuz remains unsettled and most investors assume that oil prices will remain volatile. Upcoming elections in the US and Israel may create more headline risks. The impact of supply chain problems on inflation and activity remains uncertain. And AI innovation naturally leads to many market gyrations as investors constantly assess and reassess. Volatility will therefore remain a market feature.

But global growth has remained positive, as energy cost pressures on consumers and businesses are offset by other factors. Most economies are profoundly K-shaped but keep going. In Europe, it is thanks to defence spending and fiscal support. Some EM countries are helped by commodity exports, and others by strong AI-related chips and electronics demand. And the US remains one of the most resilient economies by combining strong tech and energy activity with industrial re-onshoring and high-end consumption.

Meanwhile, in China, continued softness in property-related activity and consumption is offset by its impressive manufacturing exports. China's AI innovation not only generates many new startups in robotics and new industries, its open-weight models are also a new source of competitive strength for manufacturing, in addition to cheap electricity and deep manufacturing skills.

What has surprised markets is that AI has not hurt US labour markets much, and that high energy prices have not led to more core inflation. As workers and businesses adapt to AI, the US labour market is in a 'no hire, no fire' situation. Businesses' more diversified supply chains allow them to keep costs in check and help keep PCE inflation roughly stable. That in turn may allow the Fed to keep rates unchanged. The Fed will not want to put more pressure on low-income households by hiking rates, especially as it would not much influence oil-driven inflation nor slow the AI investment wave. Clearly, stable unemployment, inflation and rates should help support markets.

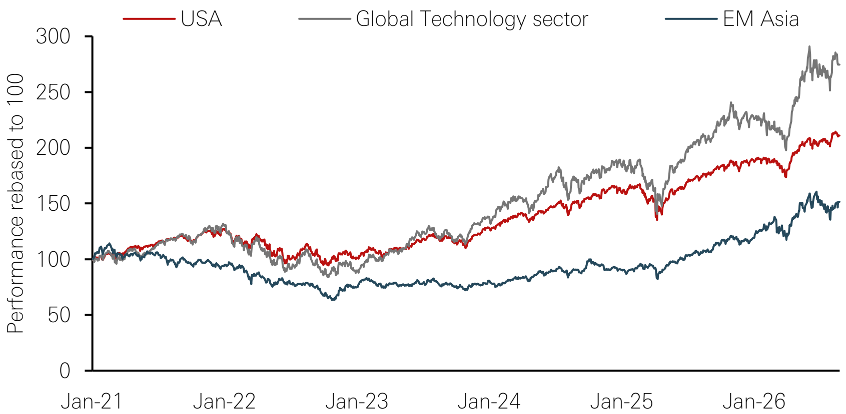
But bond analysts are paid to look at downside risks, and they have been active lately. Uncertainty about Fed policy under Mr. Warsh and worries about government and hyperscalers' bond supply have pushed up yields. But markets got more clarity from the Fed at the latest Jackson Hole meeting, and it is important to note that the policy is not set by the Chair but a committee – so there is more continuity than people think. If the Fed were to hike, it would probably be less than markets already price in, and credit spreads have been well behaved. Investor interest is coming back, which should also limit the risk of lasting damage to stocks.

AI has been a source of volatility as much as a source of market momentum. Market worries have been shifting back and forth from the fear of excessive investment by hyperscalers, to fears of a delay in the roll-out of data centres, model competition by Chinese open-source models, and the question of monetisation. We think the open-source models will accelerate the adoption and roll-out of new AI-enabled applications. The good news is that this will continue to boost investment – though we think a focus on companies that can monetise AI will remain key.

Technicals matter too. In South Korea, leverage exacerbated volatility – but that leverage has now come down significantly. In fact, global equity sentiment and leverage do not appear stretched. And neither do valuations. That's because the US equity market rally, in particular, is being driven by earnings delivery, not by Price / Earnings expansion. In fact, the US tech sector now trades at lower P/E multiples than last year, and the gap between US and European stock valuations has tightened. So, valuations are not an obstacle for stocks if companies deliver on earnings.

The US midterms are a hot topic but should not be a major risk event. Ahead of the midterms, debate over key subjects like the US budget and AI's impact on electricity costs may lead to mild volatility. But the third year of a US presidency is historically a good year for stocks, especially in case of Congressional gridlock. So, we don't think it would be wise to disinvest ahead of the midterms.

Global equities have been volatile but on an upward trend. The boost from AI is broadening



Source: Bloomberg, HSBC Private Bank, 2 September 2026. Past performance is not a reliable indicator of future performance.

So, what does it mean for our investment strategy?

The investment environment is constructive, with a rich opportunity set across equities, bonds and alternative assets. So, we like to keep broad-based exposure across asset classes, geographies and sectors, to tap into multiple sources of return.

Still, it's important to differentiate within our K-shaped economy. The lower income consumer is still facing many challenges (as shown in weak US retail sales), so we are underweight consumer staples.

Our overweight sectors reflect structural trends. Tech is powered by AI-led innovation. Industrials benefit from huge AI-related investment, the build-out of electricity generation, grid expansion and US re-onshoring. Financials benefit from healthy loan growth, limited DM rate-cut risk and strong capital markets activity. And we maintain energy and materials exposure to manage volatility amid solid underlying demand.

As tech has grown so much, we now indicate a strategy for its subsectors, and prefer the cloud, semiconductors and AI-enabled applications over software and AI models.

Our geographical views align with our sector views and our growth-style angle. This explains our US, China, Japan and North Asia equity market overweights.

We see plenty of opportunities in bonds, preferring an active, medium-duration approach as volatility may remain more elevated. In FX, attractive US yields should help support USD. So we are not overly worried about taking USD exposure. Gold appears to have bottomed and we are bullish, as it is now mostly driven by the rate outlook.

Opportunities in alternative assets are plentiful, though our allocations are of course strategic rather than tactical.

Our four priorities this quarter are as follows

01

Focus on AI monetisation

AI use will continue to accelerate as models get very powerful, familiarity increases and applications multiply. But because the technology is so new and needs so much investment, markets will naturally continue to ask many questions, creating bouts of volatility and strong differentiation. We believe the focus will be on the monetisation question, preferring areas where the returns are clear and sustainable.

We therefore prefer the cloud, semiconductor and AI-enabled applications over the software and AI models' space.

02

Benefit from governments' focus on security and energy independence

Global conflict, choke points and volatile commodity prices are leading governments to develop strategies to address systemic and national vulnerabilities. These strategies focus on national defence and cybersecurity, energy supply, access to critical material and technology, and climate change mitigation. Due to a surge in AI-related electricity needs, and with electricity prices already weighing on consumers' spending power, investment in electricity generation and the grid are seeing particularly strong growth ahead.

03

Build portfolio resilience with income and multi-asset strategies

Markets may remain volatile in our complex world, but they are full of opportunity, offering attractive income and earnings growth, across geographies and sectors. This argues for a broad-based multi-asset approach, tapping into multiple sources of return. Income from bonds, infrastructure and dividends can both enhance and stabilise portfolio returns. Where appropriate, we like to include alternative assets, including hedge funds for their uncorrelated returns, private markets for their complementary corporate profiles, infrastructure for stable inflation-protected cash flows, and gold.

04

Tap into Asia's innovation and income

Asia has a central place in the global AI supply chain, as it benefits from surging global semiconductor demand and it rapidly builds out its own datacentre capacity. China's manufacturing strength is re-enforced by its rapid tech innovation and open-source models.

We balance tech and advanced manufacturing exposure with stocks that benefit from the region's focus on boosting shareholder returns. And we add high quality credit exposure to further help balance portfolios.

Asset class views

Equities

We maintain a positive view on global equities, due to resilient economic growth, broadening earnings momentum and rapid investment in AI, infrastructure and re-industrialisation. While the US leads in many of these areas, opportunities extend across the world. We favour markets and sectors where earnings momentum and structural trends are most supportive, including the US and Asia, and continue to find opportunities in financials, industrials and commodity sectors in addition to IT. Despite macro and global headline risks, earnings growth should continue to drive equities higher.

US AI leadership, innovation and re-onshoring are creating plenty of activity and investment. Together with strong demand for US energy exports, these areas offset any weakness in lower-end consumption, resulting in resilient economic growth and strong earnings. While AI is leading the investment in infrastructure, adoption across businesses, greater computing capacity and productivity-enhancing tools mean that the benefits are diffusing well beyond the largest technology companies. We saw these effects in the strong earnings beats in Q2 and believe this diffusion will support earnings over a multi-year horizon while broadening the US equity opportunity set. Strong earnings also mean that the US is not an expensive market as they have kept P/E valuation multiples in check. In fact, the US is now trading at the smallest P/E premium vs the UK and the Eurozone since 2020.

In Asia, opportunities remain diverse, which is a key attraction. South Korea continues to benefit from the global memory and AI investment cycle, where strong demand and constrained supply provide support to the earnings outlook. China offers selective opportunities across domestic semiconductors, cloud computing and AI applications, which are in turn cementing the country's strong advanced manufacturing position. We have also become more constructive on Japan, where earnings strength has broadened across industries. Corporate-governance reform, wage growth, reflation and gradual monetary policy normalisation provide additional longer-term support and underpin broadening earnings growth.

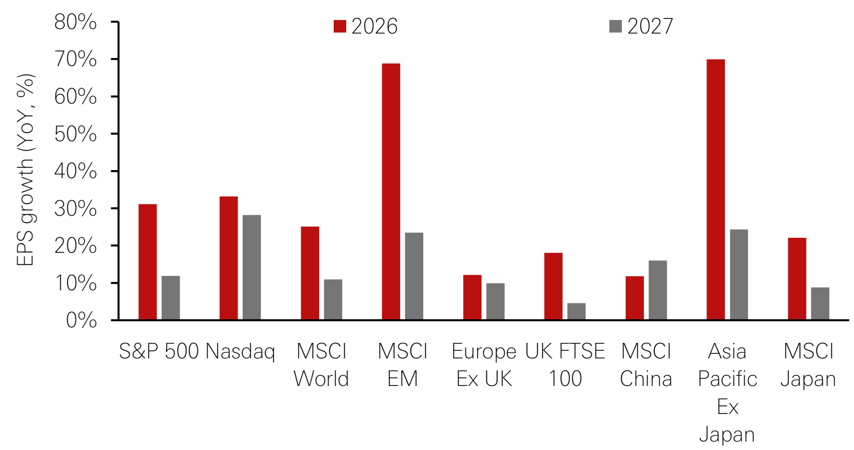
In Europe, economic activity and corporate earnings have proven more resilient than expected, thanks to increased defence spending and infrastructure investment. Some investors have come back to the European markets due to these positive cyclical surprises, strong performance of financial stocks and the attraction of Europe's dividends. But while the region provides sector and style diversification, we think it will continue to lag the US and Asia due to slower innovation and smaller IT sector.

A prolonged or broader geopolitical conflict remains an important downside risk if it produces a sustained energy and inflation shock and weighs on growth. But absent a material deterioration in the earnings outlook, we believe the fundamental backdrop remains supportive.

Global headline risks and bond volatility should not stall equity markets, as strong earnings growth underpins the upward trend.

In fact, the global challenges also translate into some clear trends that we tap into via our high conviction investment themes. They include the rapid AI innovation trend of course, but also Energy and Resource Security, US Re-industrialisation and Asia's manufacturing strength. These trends provide long term direction as well as shorter-term earnings support, which explains our overweight in IT, industrials, financials and commodity sectors.

Strong earnings provide a broad foundation for global equities



Source: Consensus earnings forecasts from Bloomberg, HSBC Private Bank, 2 September 2026. Forecasts are subject to change.

Fixed income

Bond returns have been subdued so far this year, due to government bond volatility and yield curve steepening. The increased uncertainty under new Fed Chair Warsh has not helped, but the Jackson Hole meeting provided more visibility and helped boost Fed credibility as it reiterated its strong commitment to fighting inflation. Supply fears have driven up yields to attractive levels where buyers now start to step back in. So, while volatility may remain more elevated for now, we maintain our strategy of locking in quality bond yields. We see opportunities for active bond pickers across the market.

Bond volatility remains elevated, though it is more contained than in February, at the start of the US-Iran conflict. Global bond performance has been subdued so far this year. However, summer risk sentiment has been more resilient than in recent years, when August has often coincided with recession concerns and risk-off moves. We continue to favour quality credit (primarily IG across both DM and EM) over global HY and sovereigns. We remain broadly neutral on duration, awaiting clearer catalysts to extend it.

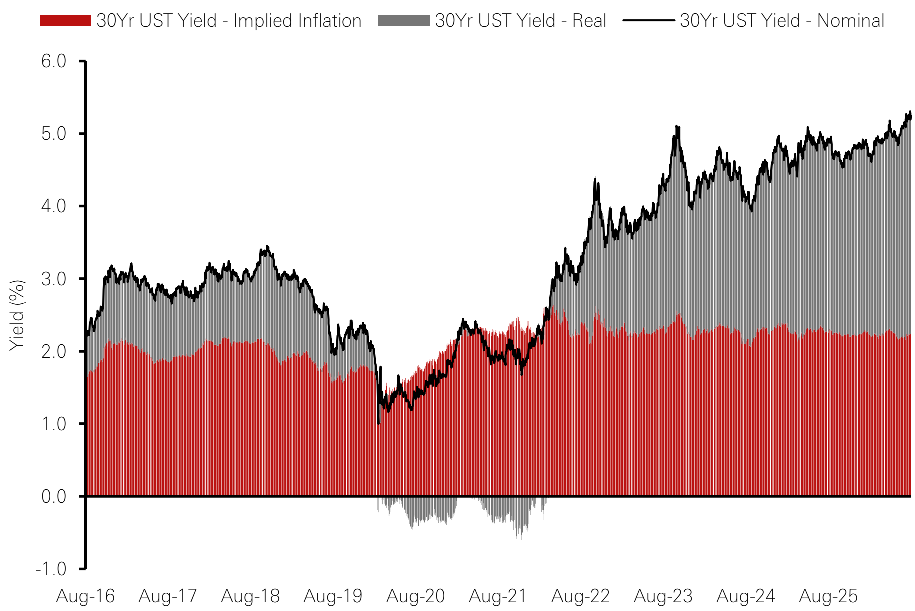
Investors' attention has lately been at the long end of the yield curve, particularly US Treasuries (USTs). Fed Chair Kevin Warsh's first press conference offered limited guidance on the conditions that could warrant further policy rate changes. This contributed to a sell-off in USTs, led by longer maturities. Jackson Hole (27-29 August) provided some clarity, as Chair Warsh maintained his hawkish stance and re-committed to the inflation fight. But the lack of forward guidance increases data dependency and can therefore lead to some continued short-term volatility.

Longer-term inflation expectations have remained broadly stable since 2021 (see chart), reinforcing confidence in the Fed's inflation-fighting credentials and suggesting limited evidence that inflation is driving the rise in long-dated yields. Despite the lack of any strong historical link between fiscal deficits and long-dated real rates, the supply concern can remain a popular narrative for markets for some time. US midterm elections will be closely watched for any new clue to the fiscal outlook.

There is little evidence that longer-dated corporate supply, such as AI-related capex funding, which doubled in a year, is pushing Treasury yields higher, but it is consistent with investors requiring greater compensation to absorb supply. Long-end UST coupon supply has remained stable across 2025–26 and is expected to stay steady in the coming quarters. However, increased buybacks and moving more funding to shorter-dated maturities could support long-dated bond valuations. Demand from price-sensitive buyers for USTs has increased over the past few years. Systematic/algo strategies and hedge fund positioning may have exacerbated the recent long-end sell-off beyond what fundamentals justify.

It would require clear catalysts for long-dated yields to fall and to make us increase our duration target. Potential triggers include a run of softer US economic data, a positive fiscal surprise, a shift in Treasury funding strategy, or lower corporate funding needs. If markets start to price in fewer rate hikes (this could happen if investors anticipate lower US growth or a fall in inflation) real rates may fall, reflecting their historical relationship.

Longer-term inflation expectations have remained stable since 2021



Source: Bloomberg, HSBC Private Bank, 2 September 2026. Past performance is not a reliable indicator of future performance

Currencies and commodities

FX markets are driven by geopolitics and interest rates, which are both closely linked to inflation. Geopolitics is shaping risk sentiment and feeding inflation via higher and more volatile oil prices. Persistent inflation risk, in turn, keeps yields more elevated across major economies. We expect the US dollar to stay broadly supported, especially versus EUR and GBP, though with a fair amount of volatility linked to Fed's policy uncertainty. In EM, IDR and TRY appear most exposed, while we are constructive on KRW. We keep a bullish strategic view on gold, despite choppy performance since late January.

The global investment environment is supportive for USD. Geopolitics is USD-positive, as uncertainty lifts safe-haven demand, and higher oil prices boost US exports. The US also offers a favourable yield differential versus most G10 currencies. With the Fed reaffirming its hawkish tilt at Jackson Hole, markets continue to price a higher-for-longer US rate scenario. Resilient US growth also reinforces the dollar's appeal. Our view isn't blind to vulnerabilities though, particularly around US fiscal dynamics and the 2026 midterm elections. But overall, we retain a constructive USD view, expecting a slow grind higher, while favouring diversification across FX markets to manage drawdowns and concentration risk in a higher-volatility environment.

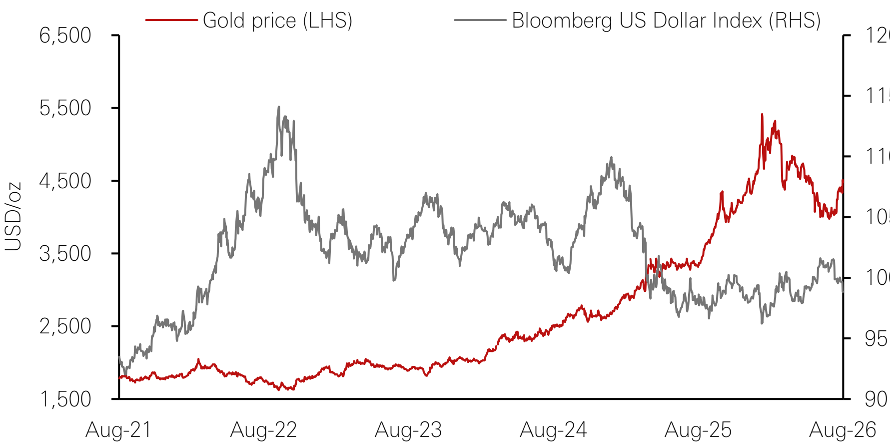
We see EUR and GBP as relatively more vulnerable G10 currencies given the negative growth differential with the US, the lingering negative yield differential for EUR, and UK vulnerabilities, especially on the fiscal side. JPY has been quite topical lately following the joint intervention from Japan and the US. Although we see USD/JPY moving broadly sideways, volatility may persist amid risks of BoJ hikes, further intervention, fiscal dynamics and shifts in global trade - so there is ample scope for moves in either direction. AUD could be one candidate for diversification as it still offers a relatively high yield among G10 and resilient domestic drivers, with global developments including commodity prices being fairly supportive. NZD lags AUD from yield perspective but hawkish expectations could offset some of that drag.

USD is supported by resilient growth, US investment flows and global uncertainties. This should offset concerns over Fed credibility and the deficit.

For EM currencies, a strong USD and higher energy prices can be a headwind. But those economies with positive energy exposure may remain resilient, thanks to stronger terms of trade. This includes BRL or MXN, though gains could be capped by domestic risks including Brazil's elections and Mexico's sensitivity to changes in its trade relationship with the US. By contrast, energy importers such as India, Indonesia and South Korea may continue to see volatility as higher import bills pressure external balances and inflation. That said, the AI-driven semiconductor upcycle will continue to matter for EM, particularly in Asia. Economies with strong tech and semiconductor export exposure, including South Korea and China, can offset energy-related drags through resilient tech-sector earnings. Looking further out this cycle, EM currencies that combine high carry with stable fundamentals may prove more defensive once sentiment steadies and geopolitical risks ease.

In the commodity space, we remain constructive on gold over the long term, as the recent recovery reflects stronger underlying drivers and healthier positioning rather than momentum alone. Central bank buying remains the backbone, with reserve management helping to provide a firmer floor. Gold's relevance is also reinforced by the recent US Treasury volatility, which supports reserve managers' drive to diversify reserves away from USD. Ongoing geopolitical uncertainty further supports the outlook, though renewed Fed hawkishness or sustained de-escalation in key conflicts could be a downside tail risk for gold. Silver can be supported by an uptrend in gold and demand from the tech industry, but its volatility remains a key portfolio risk.

Gold vs USD: inverse link driven by inflation and rate expectations



Source: Bloomberg, HSBC Private Bank, 2 September 2026. Past performance is not a reliable indicator of future performance.

Alternative investments

As investors worry about high stock market concentration and bonds' waning diversification power, alternatives play a key role in portfolios. They help broaden the opportunity set, add geographic, sector and style diversification, while providing other sources of income and return. We are overweight on hedge funds for their uncorrelated returns, add private equity to complement public equity exposure, and infrastructure to invest in major trends like artificial intelligence, energy security and re-industrialisation. Together, this can help reduce excessive reliance on a narrow set of public market winners.

Interest in alternatives remains strong, but with some rotational flows under the bonnet. Private credit has seen redemptions, which have largely gone into hedge funds and infrastructure. We like a blended approach: private credit and infrastructure can lead on income generation, hedge funds on capital preservation, and private equity to drive returns - though all contribute across these three roles.

Private equity

While a few big AI names in public markets are catching the limelight, a lot of the AI value creation happens privately. This includes Anthropic and OpenAI, but also private firms in areas like novel drug discovery. Investors who wait for the public market stage to invest will have missed a big part of the steep growth curve.

PE also offers geographical and sector diversification outside of the dominant AI narrative: European wellness, health and defence names; Japanese firms trading at a steep discount to book value; or Asian buybacks and dividends opportunities.

PE sentiment, investment and exits have all started to recover from the 2022 lull.

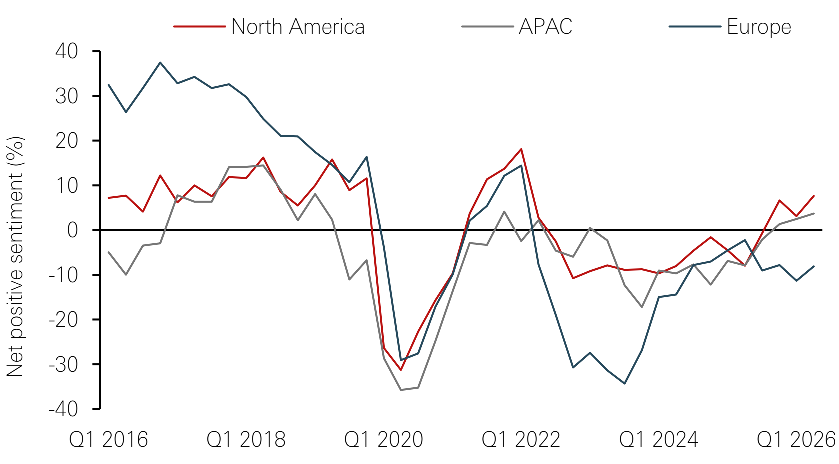
Fundraising and IPO activity are picking up, led by AI, consumer tech and fintech exits, though volumes remain concentrated among few sponsors.

Deals are using lower leverage (entry debt down from 44% to 37% since 2016, per McKinsey), which means that returns now depend more on operational improvement than financial engineering. Good PE firms can offer this thanks to network effects; for example, by copying AI-led productivity gains in one company to the rest of their portfolio.

Private credit

We favour higher-quality direct lending borrowers with solid structures, alongside growing opportunities in asset-backed lending. Insurers are investing as they like the current environment (yield levels and resilient growth) even as private wealth stays cautious – though redemptions are now easing. Credit stress is not broad-based: it principally sits in 2021-vintage, in software and smaller-company loans, and some pockets of the economy that are in recession. Many funds remain gated, but this should probably ease later this year. A selective approach remains key, focusing on strong borrower due diligence and structuring.

Real estate investor sentiment is improving in the US and Asia



Source: Bloomberg, HSBC Private Bank, 2 September 2026.

Infrastructure

KKR estimates that US $3.7tn a year of global infrastructure investment is needed through 2035, concentrated in power, roads and telecom, to keep pace with GDP growth. For investors, this offers stable, inflation-linked, contractual income directly tied to our AI, energy security and re-industrialisation themes. Moreover, infrastructure has historically provided valuable downside protection when equity markets fall or inflation rises.

Hedge funds

July was a difficult month, particularly for CTAs and tech-focused funds, as the AI trade saw multiple erratic momentum changes. Even so, most funds remain up for the year, and the structural AI story remains intact. In fact, this already helped August performance. Hedge fund leverage, which had crept above normal levels, has eased.

One profitable niche is the trading of additions and removals in equity benchmarks. Some index providers changed inclusion rules to accommodate SpaceX's entry, a precedent that should ease the path for this year's other blockbuster listings, including Anthropic and OpenAI.

Hedge funds' interesting opportunity set, and the recent reduction of leverage to healthy levels, underpin our continued overweight to help generate uncorrelated, capital-preserving returns.

Real estate

In the absence of rate cuts, we don't anticipate yield compression, and we need to pick our spots. Data centres offer the strongest rental growth as grid connections and equipment lead times keep supply/demand balances tight. Prime office space is also tight even though the long-run labour market outlook is more uncertain due to AI. US retail should see solid rental growth and European logistics benefit from a low vacancy rate.

Top five trends and high conviction themes

Asia in the new world order

We remain constructive on Asian markets despite recent volatility, as fundamentals are resilient and earnings momentum is accelerating. AI-related investment and the region's data centre buildout should lift activity across industrials, infrastructure, commodities and supply chains. China's innovation and advanced-manufacturing strength add to the opportunity set. Beyond these growth themes, we look for returns from stronger governance, higher buybacks and dividends. High-quality Asian credit also remains attractive.

The biggest tailwind for Asia's tech industry is the vibrant global AI capex, which also underpins our positive view on the sector. South Korea and Taiwan's tech-driven markets have rallied strongly year-to-date, even after recent volatility. H1 earnings growth of semiconductor and cloud services providers exceeded market expectations and analysts are boosting estimates. All of this has helped our AI-related themes' performance.

We think Chinese equities will ride on innovation and the country's advanced manufacturing strength, as shown in recent export success. Its semiconductor supply chains and cloud service providers also benefit from the strong domestic demand for compute capacity and policy support for localisation. Innovation in robotics and biotech is also flourishing.

As EM Asia stocks trade near the lowest forward P/E multiples in seven years, many of these opportunities can be implemented at attractive valuations.

Asia's Data Centre Boom

Asia's demand for compute capacity has taken off on the back of falling token costs, cheaper and open-source AI models and the jump in inferencing. Cloud service providers in Asia should see better margins due to this strong demand. The improving economics will likely result in accelerated capex in data centres, benefiting the supply chain including chips, hardware, semiconductor equipment, cooling systems, servers, and key commodities (e.g., copper, aluminium).

China's Tech and Manufacturing Leaders

China's token economy is scaling quickly, and the Total Addressable Market for China's AI models could exceed US $150bn by 2030. Domestic players prioritise cost-efficient and industry-specific AI agents, which support rapid commercialisation and practical use.

China's scale advantage in advanced manufacturing, particularly in robotics, electric vehicles (including autonomous driving), energy storage and biotech creates a wide opportunity set.

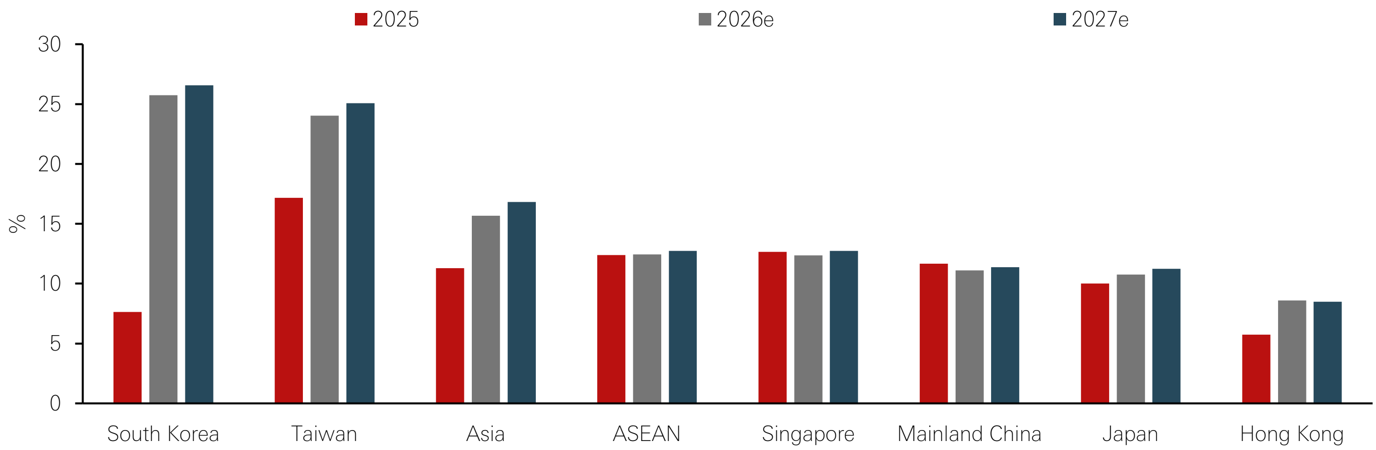
Power Up Asian Shareholder Returns

While AI-related companies look for growth, companies in the traditional industries focus on improving returns to shareholders. Corporate governance enhancements, rising returns to shareholders through buybacks and dividend payouts, and higher hurdles for returns on newly invested capital should provide attractive opportunities for equity investors in Asia.

High Quality Asian Credit

Asian high-quality credit combines strong liquidity with manageable refinancing needs, while bond yields remain at relatively high levels compared to the past few years.

Asia's ROE should rise to 16.8% next year, led by tech-heavy markets and improving corporate governance



Source: Bloomberg, HSBC Private Bank, 2 September 2026. Forecasts are subject to change.

Disruptive technologies

Agentic AI is fast gaining momentum with users developing their own practical applications. Rapid adoption growth and fierce competition between the global players is spurring huge investment and innovation. We pick two themes where we think demand and earnings growth are most promising. Our Booming AI ecosystem taps into the infrastructure, including the data centres, cloud and electricity. Aerospace & Security is another key beneficiary, with the former being a key enabler and security as an important requirement.

We are in a period of exceptionally rapid technological development fuelled by AI and other scientific advancements that are often triggering positive disruption. We focus on two easily investable areas that are potentially the primary beneficiaries of these developments.

Booming AI Ecosystem

The AI-cycle is hard to predict, but the potential scale of the disruption it may bring is wide ranging and profound.

Demand for compute capacity continues to accelerate, with the largest providers racing to invest in data centres to boost cloud computing capacity. We therefore estimate that capital investment by the six largest cloud companies will reach US $822bn this year, rising to US $1.3trn by 2030. The AI-cycle still remains in its infancy, and substantial additional capacity will be required as AI-enabled services and devices are launched.

This sizable expansion of data centre capacity requires large amounts of hardware and upgrades to infrastructure, including electricity, water and waste management utilities. To give a sense of scale, a large data centre (~1 million square feet) often contains 500,000 to 2.6 million AI servers with each server containing up to 20,000 semiconductors. Presently there are an estimated 11,744 data centres worldwide (Source: Statista, June 2026) with 4,500 new data centres planned by 2030. The majority will be substantially larger than those already built. Access to power and skilled labour may constrain the timelines to achieving these plans, but the growth trend is clear and steep.

Aerospace & Security

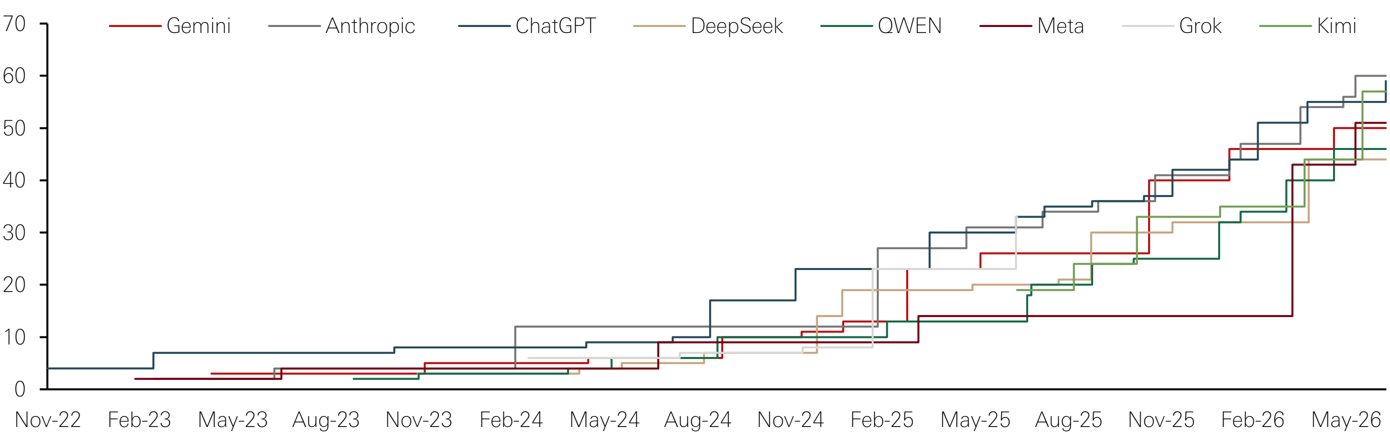
The space economy has been long on promise but has often fallen short in reality. But private investors have transformed both the dynamics and economics of space-based activity. The falling costs accelerate the number of satellites in space and the availability of broadband anywhere in the world.

Nearer to earth, the aerospace industry is benefitting from several positive trends, including the rising demand for commercial travel; higher fuel prices increasing demand for newer more fuel-efficient aircraft; rising defence spending; and new technologies. A shortage of manufacturing capacity has provided a positive pricing environment for companies.

New growth areas include autonomous machines; high-speed weaponry; drones; satellites; and AI agents. They create opportunities in both civilian and military applications, with drones widely used in agriculture, policing, monitoring oilfields, animal migrations, parcel delivery etc.

Security of people, goods and property is an increasing priority. Cybercrime is an ever-present threat with new AI tools both increasing the dangers and offering potential solutions. Recent specialised AI models have focused on identifying software vulnerabilities allowing companies to fix problems before they are exploited, potentially saving billions.

"Intelligence" score of various LLM models



Source: Data from companies quoted in this chart, HSBC estimates, 2 September 2026.

Climate action

A UN report warns the world is off track on almost all biodiversity targets, so halting and reversing nature loss by 2030 is unlikely without much faster action. This puts the spotlight on the upcoming UN Conference on Biodiversity (COP17) in October, while a strengthening El Niño could intensify climate extremes, adding fresh pressure to already stressed ecosystems and putting climate action firmly on investors' radar. Circular business models offer a practical way to tackle root causes, while clean power and energy-saving technologies can help address climate concerns.

The global goal of halting and reversing nature loss by 2030 is unlikely to be achieved unless countries rapidly accelerate action, according to a draft UN report. The report finds that countries are off track on 22 of the 23 targets set for 2030 under the Kunming-Montreal Global Biodiversity Framework (GBF).

The upcoming UN Biodiversity Conference (COP17) will take stock of global progress and shape the next steps when it convenes in Yerevan, Armenia, this October. The conference will be important in turning commitments into concrete implementation and mobilising resources.

Meanwhile, scientists suggest that a strong El Niño is developing and will strengthen this autumn. This could intensify climate extremes, placing already stressed wildlife and biodiverse ecosystems under even greater pressure.

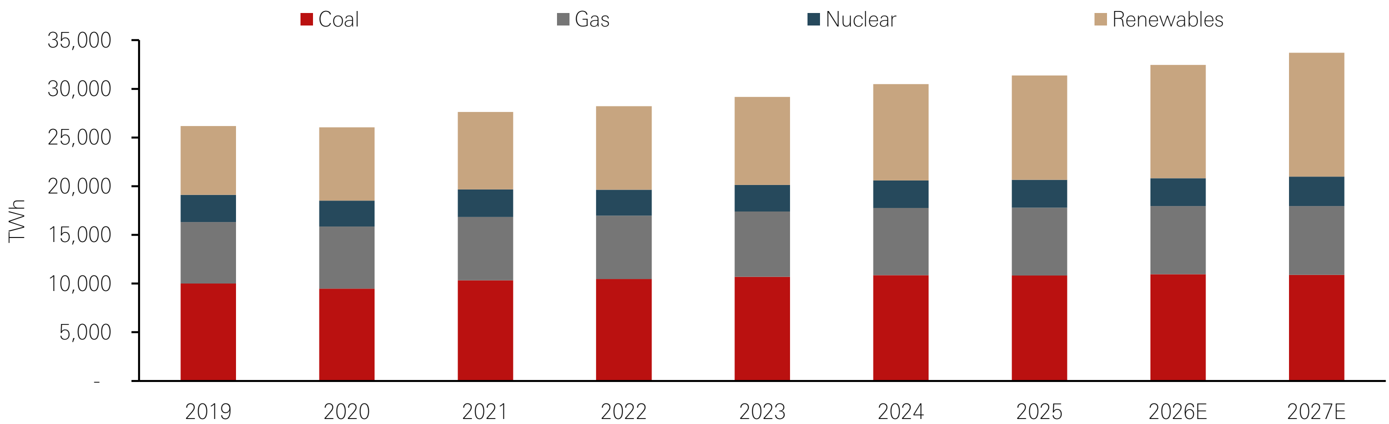
A key driver of biodiversity loss is how resources are extracted and processed, according to the Ellen MacArthur Foundation. That makes circular business models – designed to cut waste, extend product life and keep materials in use – a practical route to tackling root causes. Beyond the environmental case, circularity is also a commercial opportunity, strengthening risk management, improving cost efficiency, and supporting long-term resilience. We tap into this through our high conviction theme, **Biodiversity and Circular Economy.**

Nature-focused AI (e.g., supply-chain traceability) can help accelerate this shift by improving operational efficiency, strengthening monitoring, and streamlining workflows – enabling organisations to address nature and climate challenges in a more integrated way.

In parallel, other sustainability trends are gathering pace. Clean power may emerge stronger amid heightened disruption risks in fossil-fuel supply, reinforcing the case for diversification and energy security. Renewables continue to lead growth in electricity generation. After reaching parity with coal last year, the International Energy Agency (IEA) forecasts that renewables will surpass coal in 2026 as deployment increases. Solar PV is scaling rapidly, with mainland China expected to remain the largest deployment market over the next decade. AI is also boosting clean power procurement, with major technology firms accounting for more than half of last year's clean power purchase agreements.

Given the strong need for clean energy and other energy saving technologies (such as in cooling and buildings), we are launching a new high conviction theme, **Climate Investing**. We expect this favourable backdrop to persist despite shifting political momentum, supported by the increased likelihood of extreme heat linked to El Niño and continued energy supply uncertainty amid conflict in the Middle East.

Renewables are taking the lead in global electricity generation, forecasted to overtake coal in 2026



Source: International Energy Agency (IEA), HSBC Private Bank, 2 September 2026. Note: Renewables include solar PV, wind, hydropower and other renewables. Forecasts are subject to change.

Evolving society

Geopolitical shocks have exposed vulnerabilities in energy and supply chains. To build resilience, governments need to invest in energy and resource security and build strategic buffers. In parallel, diversity and inclusion are increasingly recognised as key drivers of innovation and financial performance. Our theme focuses on gender equality, diversity, female workforce participation and increased awareness and spending on mental and physical well-being.

Societies are being reshaped by two forces that are increasingly difficult to separate: the need to build greater resilience in the physical economy and the need to enhance resilience in human capital.

Geopolitical fragmentation and conflict, rising electricity demand and concentrated supply chains are making energy and resource security strategic priorities, while ageing populations, technological disruption and changing expectations around work and inclusion are transforming the way economies deploy human capital.

Social Empowerment and Well-being

Diversity and inclusion (D&I) are increasingly viewed as material drivers of innovation and improved financial outcomes. Multiple studies link diverse leadership teams with stronger performance, underpinned by more robust governance, wider perspectives in decision-making, and closer alignment to the needs of diverse customer bases.

The World Economic Forum's Future of Jobs report 2025 highlights the scale of workforce transition: employers expect 39% of core skills to change by 2030. Advances in AI are likely to accelerate this shift.

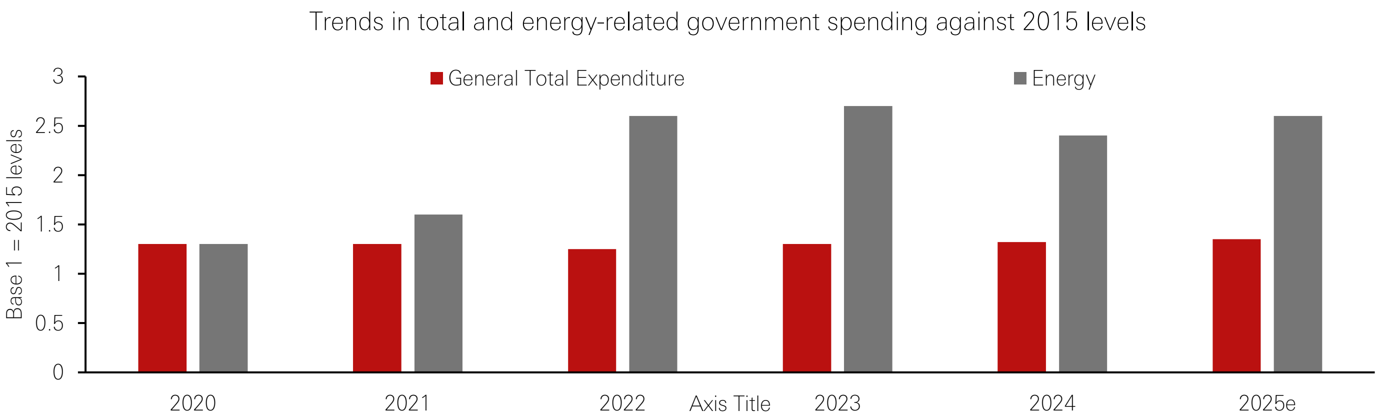
Demographic and consumer dynamics are also increasing demand for wellness. The UN projects the global population aged 65+ will reach approximately 1.6 billion by 2050, supporting greater spending on well-being and a move from episodic treatment to lifetime health management. The wellness economy is therefore projected to approach USD 10 trillion by 2029, creating opportunities across edtech, human capital management, workplace collaboration, and healthcare and wellness services.

Energy and Resource Security

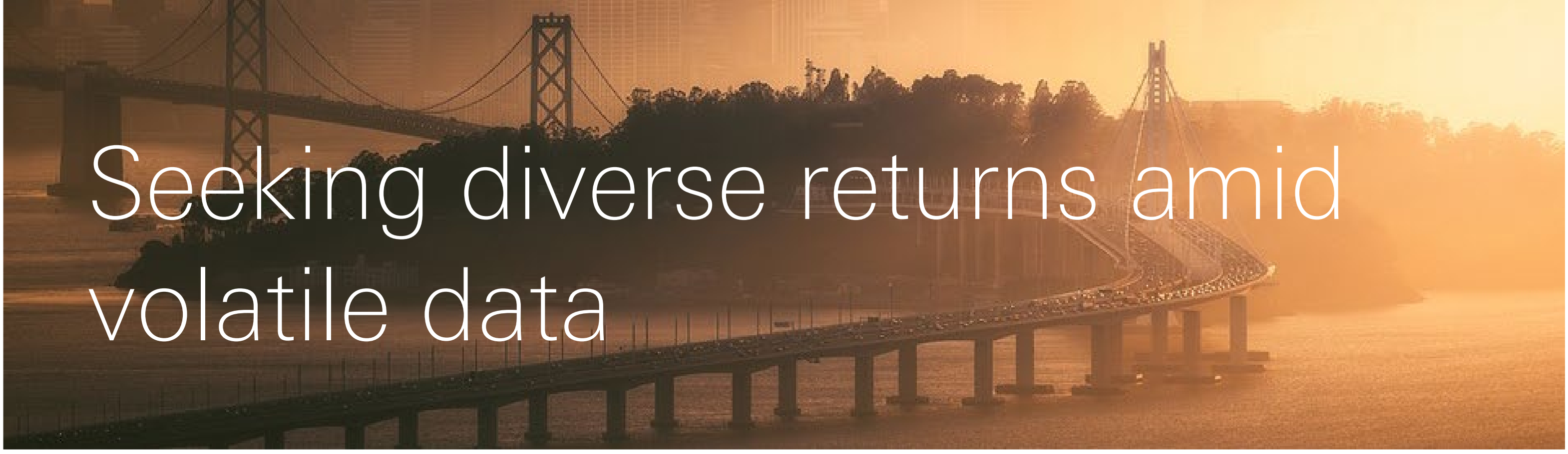
Recent geopolitical developments show how rapidly energy markets and global logistics can be disrupted, driving sharp rises in oil prices and exposing the fragility of just-in-time supply chains. Strengthening energy security requires diversifying supply sources and transport routes, investing in more resilient grids and storage, and accelerating domestic generation through a balanced mix of renewable and non-renewable options (oil, nuclear, wind and solar) to reduce external exposure.

In parallel, supply chain security depends on greater transparency, strategic buffers for critical inputs, and stronger regional resilience. WEF estimates the top three producers supply c.86% of key transition minerals, with many subject to export controls—creating new dependencies and investment opportunities in nuclear, storage and infrastructure.

Government spending on energy security had been trending higher even before the recent Middle East disruption



Source: IEA, HSBC Private Bank, 2 September 2026. Forecasts are subject to change.



Seeking diverse returns amid volatile data

The world is in flux, as the AI revolution, geopolitical conflicts and global competition create multiple sources of uncertainty. In spite of this, there are a lot of opportunities. The global economy has proven to be more resilient than people expected, and earnings growth is broadening. Bond yields have risen to attractive levels, creating attractive income potential. We think the best strategy for investors is to look for diverse sources of returns, which can help reduce portfolio tail risks, temper volatility and broaden the opportunity set.

Pessimists' fears of a slowdown due to global uncertainties have not materialised. Growth is supported by the AI investment boom in the US, fiscal spending in Europe, and strong manufacturing growth in Asia. These forces should continue to support GDP and earnings momentum.

But there are weaker spots too, including bifurcated US consumption, challenges to Europe's manufacturing, and China's weak property sector. So, we pick our spots, looking for areas with strong support but with different return drivers, to avoid concentration.

North American Re-industrialisation

The US is undergoing strategic and capital-intensive re-industrialisation. The administration's goal to reduce supply chain vulnerabilities and foreign dependence started a construction boom in 2021 of factories, which are now operational. Trade tariffs and global choke points motivate CEOs to continue the search for local producers and re-onshore.

The strong oil & gas sector, electricity build-out and huge AI investment create construction and engineering activity across their local supply chain. US leadership in AI should also support US competitiveness in manufacturing.

M&A and Shareholder Value Creation

M&A activity remains strong as financial conditions are accommodative, and credit availability is ample. Companies are taking advantage of this to acquire suppliers or technological know how and to respond to our changing world.

Investors are also eager to generate dividend income in portfolios as a source of return and stability. The good news is that across the world (ex-US), more companies are raising dividends.

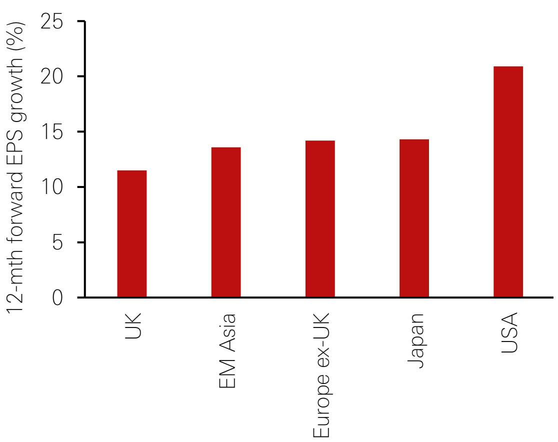
Global Financials

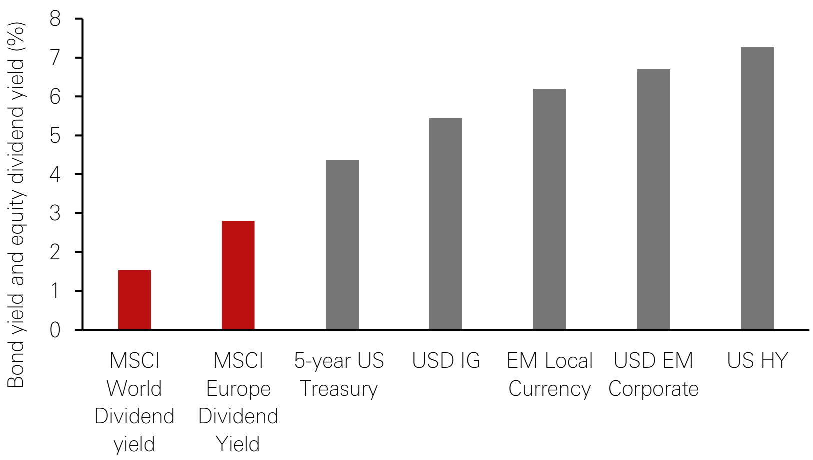
Bank stocks have performed well recently. They should remain supported as major central banks cannot cut rates and healthy growth limits loan losses. Strong corporate investment activity boosts lending growth and bond issuance, while IPOs and strong capital markets create more fee revenue. We particularly like to add financials in IT-heavy portfolios as for valuable style and sector diversification.

Income Through Active Credit Selection

Stable Fed rates won't allow bond yields to fall much, but real rates are elevated. The yield curve steepness already compensates for the perceived increased uncertainty under the new Fed chair and bond supply. We see plenty of opportunities for investors to clip coupons. Rate and spread volatility due to macro events and new issuance provide tactical opportunities for active selection.

Earnings momentum is broadening and there is plenty of opportunity to generate income





Source: Bloomberg, LSEG, I/B/E/S Consensus earnings forecasts. HSBC Private Bank, 2 September 2026. Forecasts are subject to change.

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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 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.

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

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