Changing Narratives, Continued Opportunity

Investment Outlook

Q2 2026

HSBC Private Bank

Contents

Changing Narratives, Continued Opportunity
Q2 2026
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Welcome

Dear client

We've been focusing on building resilient multi-asset portfolios, and we don't want to change this winning formula. This remains the best way to navigate fast-changing market narratives, to address uncertainties and to tap into the rich opportunity set.

The conflict in the Middle East is on everyone's mind, causing distress, uncertainty and worries about the impact on the region. From a market perspective, the oil price and the duration of the conflict are the key variables to watch. But historically, the impact is often short-lived, with initial market moves reversed in the following weeks.

Ahead of the conflict, investors were already dealing with rapid changes in narratives, which caused temporary volatility and market rotation, but were generally driven by exaggerated fears. For example, some investors worry that AI will create mass unemployment; yet private payroll employment is rebounding. Others worry about overinvestment in AI or that it can't be monetised but also fear that AI is so useful that it will challenge incumbents in software and other sectors (these worries are contradictory). The fear that trade tariffs would lead to sustained inflation also proved overstated. And the Fed's independence appears more secure following Mr. Warsh's nomination, thus reducing the risk of a disorderly fall of the US dollar.

In this publication, we try to take a 6-month view on markets and believe that none of the above fears seriously challenge our view that the world is full of opportunity. The US economy is resilient, supported by fiscal spending, AI and electricity related investment, re-onshoring and moderating inflation. Earnings momentum remains strong, and CEOs continue to announce exciting innovation, efficiency gains and cost cuts, thanks to AI. Earnings growth thus remains solid in the US, while it is accelerating most quickly in Asia, and even Europe is benefiting from AI adoption. This strong starting point can help the global economy absorb a shock coming from the Middle East conflict. We would need to see a sustained increase in the oil price and a prolonged conflict to change these positive macro-economic assumptions, especially for the resilient US.

So, while markets will naturally continue to ask questions, they will be driven higher by the rising earnings tide. AI will remain the number one topic of discussion where investors do their due diligence, trying to separate the winners from the losers. It is increasingly clear that the Mag-7 stocks are not the only beneficiaries, and investors are actively seeking to reduce concentration risk. We like an active and selective approach in public markets to identify the winners, use hedge funds to also short the losers, and private markets - where appropriate- to capture companies' growth phase.

Exposure to Asia's innovation provides stock-level and geographical diversification at compelling valuations. Most of Asia's attraction is based on its own merits, but we think investors' desire to gradually reduce excessive US concentration adds to it. Beyond geographical and FX diversification and adding alternatives, income strategies can benefit both returns and portfolio resilience. The recent volatility of gold has proven that no single diversifier is perfect, so we continue to diversify our diversifiers.

Our four priorities for investors are therefore as follows:

Firstly, we complement AI exposure with cyclical opportunities. Secondly, unleash the power of income, as a return source and a stabiliser. Thirdly, we manage volatility with alternatives and multi-asset strategies. Lastly, we continue to use a barbell approach to tap into Asia's innovation and income.

Amid the rapidly changing narratives, we think it's important not to be swayed by excessively pessimistic or exuberant narratives and instead focus on building resilience to accumulate steadier returns.

Willem Sels,
Global Chief Investment Officer

12th March 2026

Portfolio Strategy

A good portfolio strategy needs to tap into the current healthy cyclical growth and the structural innovation, while also managing headline-related volatility, including the risks around the Middle East conflict. We continue to see a rich opportunity set, which we exploit through our global equity overweight, with a preference for the US and Asia, and by adding hedge funds and private markets as alternative ways to capture those opportunities. But sector and geographical diversification is not enough to build resilient portfolios – they need income, FX and multi-asset diversification. Our four priorities thus exploit broad-based earnings sources, they search for income and for stability and avoid excessive concentration in the US through global diversification.

Let's start with our assumptions. While the conflict in the Middle East will create continued volatility, with higher oil prices creating higher inflation expectations and a rotation in 'safer' assets and into the US, we note that historically, the market impact is temporary and most often reversed. It is very unlikely that the Fed will restart rate-hikes to fight any inflation concerns resulting from the conflict. Only a long-lasting conflict with a sustained oil price spike would change this assumption, in our view. Paying extra attention to portfolio resilience is wise, but we do not favour exiting and re-entering markets as it is fraught with timing risks.

Setting our strategy for a 6-month horizon, we foresee continued global growth, led by the US and Asia, with Europe lagging but still helped by fiscal spending. Global inflation is less of an issue than it used to be, but the end of the rate cut cycle is getting closer (the Fed is done in our view). This cyclical outlook supports earnings growth, which is further boosted by innovation, keeping corporate margins near record highs – especially in the US. Corporates also have healthy balance sheets, allowing them to invest and take advantage of innovation. And while the huge investments by the hyperscalers force them to borrow (and reduce share buybacks), we do not think there is any risk of a major deterioration in companies' credit quality. Global governments' borrowing is a bigger concern and will keep yield curves steep in the US and Japan, though we think much is now already priced in. Elevated US borrowing and policy uncertainty will probably cause some continued diversification away from US assets and USD, but we think a credible new Fed chairman should ease anxiety and ensure that USD weakness remains orderly and gradual.

It's also important to note how markets have been behaving in recent months. Narratives have shifted very quickly, in part because of policy U-turns and the uncertain effects of AI on productivity, rates and relative stock performance. We should expect these rapid shifts to continue. Secondly, we've seen popular overweight assets sell off – most notably, gold and IT. The upshot is that positioning and valuations are now less stretched. Lastly, EM assets have outperformed, as investors look for diversification at attractive valuations, while EM growth and policies are also increasingly supportive.

Balancing these supportive fundamental views with current valuations, positioning and market momentum, we arrive at the four following priorities for investors:

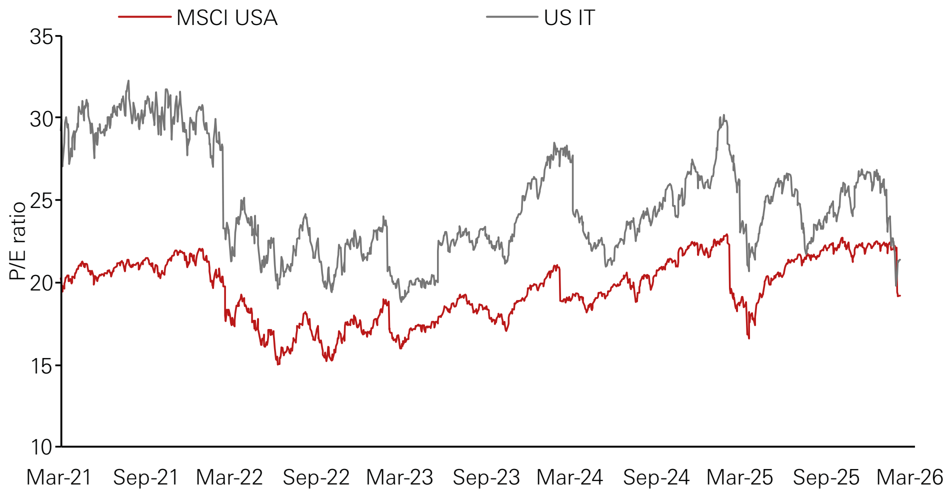
1. Firstly, we complement AI exposure with cyclical opportunities. As AI applications multiply, investment should continue, benefiting semiconductor, infrastructure and electricity plays. At the same time, we're not overly worried about AI startups ruining the business model of many incumbents in software or other sectors. Many tech companies are now trading at much cheaper levels than just a few months ago. But we continue to diversify and have added to our cyclical exposure amid the current healthy economy. So, beyond IT, we also overweight industrials, financials, communications services and materials.

2. Secondly, we unleash the power of income, as a source of returns and a way to help reduce portfolio volatility. Fewer central banks are cutting interest rates, and the Fed is probably already done with its cuts. That means that we focus on clipping coupons and finding the most attractive parts of the bond spectrum. We prefer investment grade and emerging market bonds over high yield and keep bond maturities close to benchmark. Active strategies can tap into other parts of the bond universe and profit from volatility.

3. Thirdly, we manage volatility with alternatives and multi-asset strategies. Many unlisted companies are seeing rapid innovation and exciting growth thanks to AI, while hedge funds separate the winners from the losers in AI. They also find opportunities stemming from the changing market narratives and divergent central bank policies driving currency volatility. As USD may remain volatile, global multi-asset strategies are a good way to diversify currency exposure and to tap into the broadest possible opportunity set. We are encouraged by increasing deal activity in private equity. And while we expect credit events to rise, defaults should still remain relatively contained; we think underwriting quality, robust covenants and diversification are key.

4. We tap into Asia's innovation and income as we see the region as the best way to diversify US-heavy portfolios. On the one hand, our barbell strategy invests in Asia's exciting growth companies, leaders in AI and advanced technologies. On the other hand, there is plenty of income from high quality dividend paying stocks and attractive yields in the bond market.

Valuations have dropped and US Tech now trades at the smallest premium in more than 5 years



Source: Bloomberg, HSBC Private Bank as at 12 March 2026. Past performance is not a reliable indicator of future performance.

Historical market impact of the biggest escalations since 1990, after one week and after one month

	S&P500 impact		Oil impact		Gold	
	+1W	+1M	+1W	+1M	+1W	+1M
1990 Gulf War	-3.3%	-8.2%	12.8%	21.9%	0.8%	1.9%
1991 Kuwait strikes	2.1%	12.5%	3.4%	-13.5%	-1.6%	-3.5%
1995 Yugoslavia	1.6%	4.4%	2.8%	0.8%	-0.3%	0.6%
1998 Operation Desert Fox	5.7%	4.3%	-7.5%	1.6%	-3%	-3.1%
1999 Kosovo war	1.4%	7.1%	11.4%	17.9%	-1.3%	-0.1%
2001 Afghanistan	1.9%	2.9%	0.5%	-10.1%	-2.3%	-4.1%
2003 Iraq	-0.5%	2.2%	-5.5%	-3.3%	-1.8%	-2.8%
2011 Libya	2.7%	2.0%	1.5%	6.7%	0.8%	5.4%
2014 ISIS	1.4%	2.1%	1.2%	-5.7%	3%	2.4%
2017 Syria missile strikes	-0.3%	1.9%	0.2%	-10.7%	2.4%	-2.3%
2022 Ukraine	1.7%	5.9%	11.5%	21.8%	1.7%	2.9%
Median	**1.6%**	**2.9%**	**1.5%**	**0.8%**	**-0.3%**	**-0.1%**

Source: HSBC Global Investment Research, HSBC Private Bank as at 12 March 2026. Past performance is not a reliable indicator of future performance.

Equities

The fundamental backdrop for global equities remains supportive. Earnings growth across major markets continues in the double-digit range, balance sheets are healthy, and policy settings are broadly stable. Inflation has moderated from prior peaks and, while still above long-term targets in some regions, remains contained. A resilient global economy, solid profit growth, and improving capital investment trends provide solid support for risk assets. We think this means that markets can absorb a shock like the Iran conflict without a large correction – though Europe and Asia are more vulnerable to an oil price spike than the US. We like both growth-style stocks and cyclical exposure, especially companies with pricing power and exposure to structural themes such as the AI ecosystem, re-industrialisation and energy infrastructure.

The conflict in Iran creates volatility, but the 6-month outlook for stocks is well supported by profit growth.

US

In the largest equity market, corporate earnings have proven more resilient than expected, with growth accelerating into 2026 and projections approaching mid-double digits for this year. Investment in AI, digital infrastructure, and domestic manufacturing remain key drivers. The recent rotation within technology, particularly away from software, appears exaggerated in our view. Incumbent platforms retain structural advantages including customer data, switching costs, and ecosystem integration, positioning them to incorporate AI rather than be displaced by it. Fiscal policy also provides support. The One Big Beautiful Bill Act strengthens incentives for capital expenditure and reinforces domestic production in semiconductors through accelerated depreciation schedules, deeper and broader investment and production, tax credits, and matching trade agreements designed to force domestic investment. We remain overweight on US equities due to resilient growth, solid corporate earnings and continued innovation. We continue to favour cyclical and growth companies with pricing power and global diversification, while remaining selective in sectors more directly exposed to potential tariff restructuring. We are aware that investors actively look to diversify but also note that the US market proved its resilience when the Iran conflict started, thanks to its energy sector and the dominant tech sector, which is largely insensitive to oil prices.

Asia

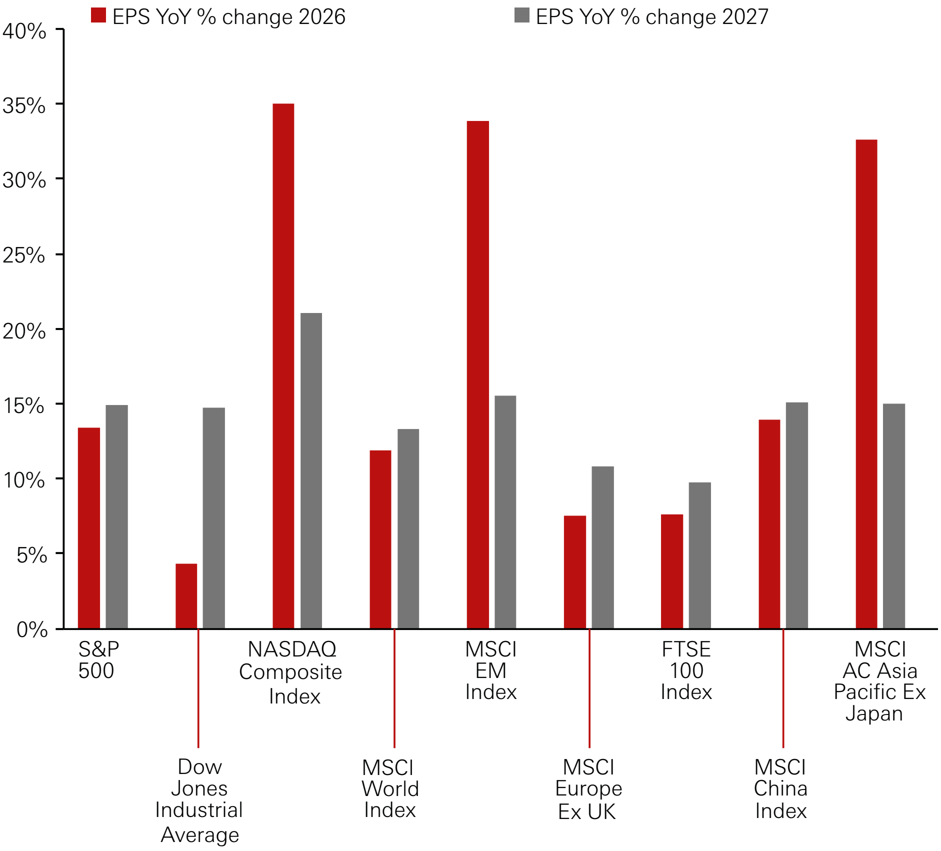
Asia offers compelling diversification and innovation opportunities. The region combines strong policy support, expanding AI ecosystems, and structural reform across several markets. Asian equities outperformed at the start of 2026, reflecting improving sentiment and capital flows, though its reliance on oil imports and profit taking led to some volatility when the Iranian conflict started – we think this is temporary.

China's equity market composition remains significantly more technology- and innovation-heavy than its GDP profile would suggest. Policy efforts to stabilise property and support strategic sectors have improved investor confidence. Across the region, Japan continues to benefit from corporate governance reform and shareholder return initiatives, while South Korea's semiconductor exposure positions it well within the global AI supply chain. We adopt a barbell approach in Asia: exposure to innovation leaders alongside high-dividend and quality income names. We remain overweight select markets including Mainland China, Hong Kong, Japan, Singapore, and South Korea, while maintaining a cautious stance in areas facing structural governance concerns.

Europe

Within Europe we see more selective opportunities. Growth has stabilised, inflation has moved closer to target, and policy easing is further advanced than in the US. However, the region faces greater sensitivity to global trade developments, the conflict in the Middle East and currency dynamics. The UK's defensive tilt and commodity exposure provide a potential hedge in volatile periods, though it is not a domestic growth story. Overall, Europe offers valuation support but lacks the earnings acceleration seen in the US and parts of Asia.

Projected EPS growth remains solid across the globe this year and next, with the US and Asia leading

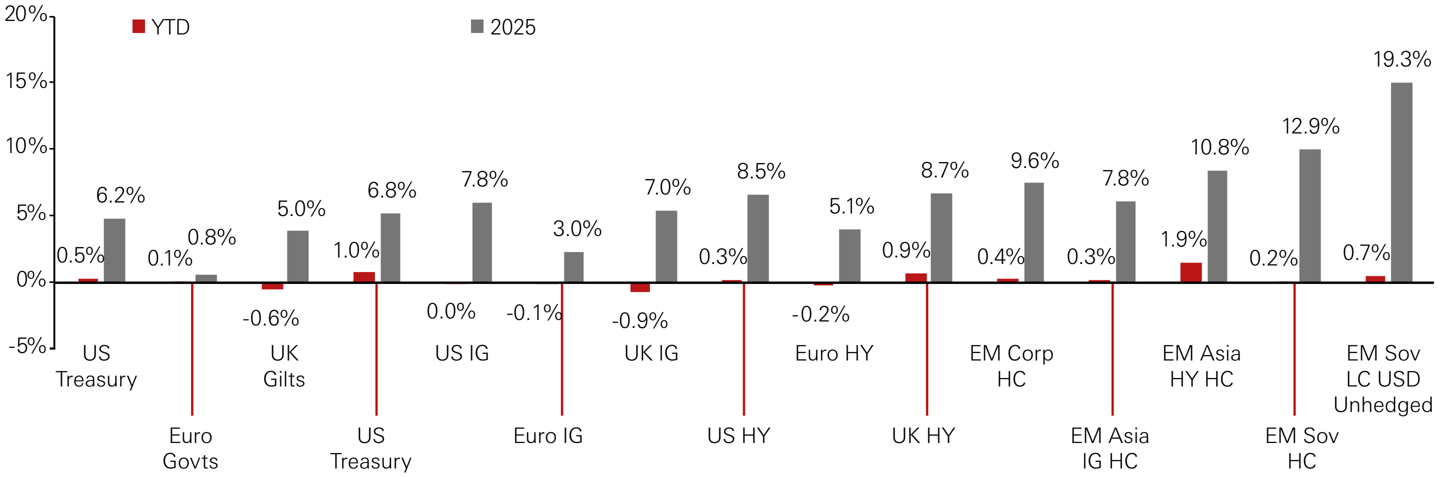


Source: Bloomberg, HSBC Private Bank as at 12 March 2026. Forecasts are subject to change.

Fixed Income

We maintain our current bond investment strategy, despite ongoing geopolitical risks in the Middle East. We expect DM government bond yields to remain range-bound, even as higher oil and gas prices temporarily drive-up inflation expectations. We also note that credit spread widening in periods of geopolitical uncertainty tends to be short-lived. Our strategy prioritises capturing quality bond yields by focusing on corporate Investment Grade (IG) bonds for their carry and Emerging Markets Local Currency Debt (EM LCD) for diversification. We retain a slight underweight in Global HY due to stretched valuations and a mild overweight in EM External Debt, with a particular focus on quality credit in Asia.

Bond markets have had a positive start to the year despite ongoing geopolitical events, emphasising their diversification benefits



Source: Bloomberg, HSBC Private Bank as at 12 March 2026. Past performance is not a reliable indicator of the future performance.

The conflict in the Middle East has added additional uncertainty to financial markets, as investors evaluate the impact of rising oil and gas prices on inflation and the potential responses from DM central banks. The conflict caused the yield curve to move up and flatten, while spreads widened. But much depends on the duration of the conflict. A short-lived oil spike, our base-case scenario, creates market volatility but allows us to continue to capture quality bond yields in corporate IG bonds and EM LCD. In this environment, we focus on quality assets, active management and effective diversification. Assuming the market will recover swiftly after a temporary conflict, we expect DM government bond yields to remain range-bound, and expect volatility in credit spreads to be driven by idiosyncratic credit risks.

Developed Markets Rate Outlook

US Treasury yields recently rebounded from the lower end of their short-term range, driven by investor concerns over rising oil and gas prices and their inflationary impact, especially for shorter maturities. European bond markets are also affected as they tend to be large oil importers. Despite this, we maintain a modest overweight position in UK Gilts, as think ongoing labour market weakness and a slowing economy will lead the BoE to cut rates further from the current 3.25% to 3% by April 2027.

In the US, attention is shifting to the forthcoming change in Federal Reserve chairmanship as Jerome Powell's term ends in May. President Trump's nomination of Kevin Warsh, known for his hawkish views and criticism of the Fed's balance sheet expansion was well received and limits the risk to the Fed's independence.

Developed Markets Credit Outlook

Credit spreads in IG and HY have only seen limited widening in spite of the conflict, speculation about AI disruption and headlines in private credit. However, emerging signs of stress in credit markets, mainly due to idiosyncratic issues such as governance lapses and, at times, fraud, could result in some pressure in markets with stretched valuations, such as Global HY, where we maintain a mildly underweight position. Our focus on IG exposure has proven effective, as it continues to provide attractive carry even with tight spreads, thanks to elevated term premiums in the underlying government bond markets.

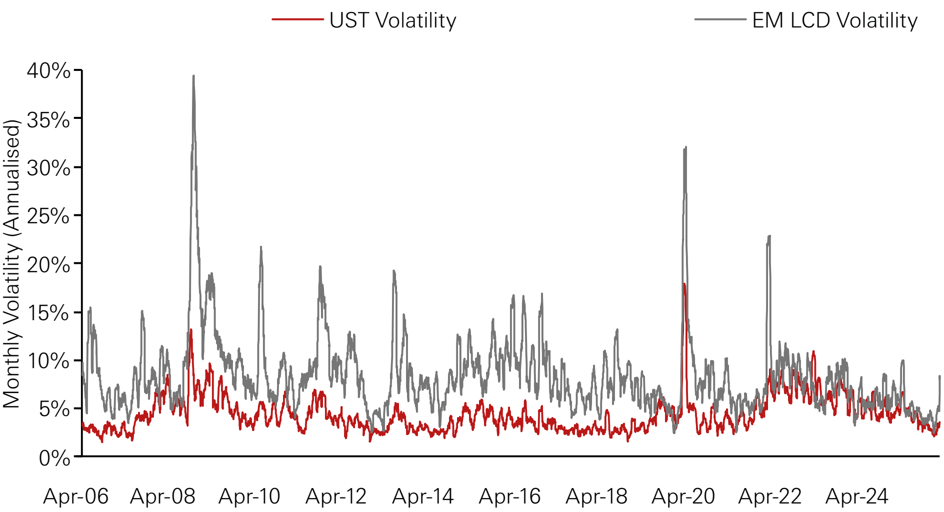
Emerging Markets Outlook

The Middle East conflict complicates the otherwise constructive outlook for EM. A sustained increase in oil prices could drive inflation higher, disrupt supply chains and soften global economic activity. Despite these risks, we maintain a modest overweight position in EM LCD, with a focus on Latin America and high-quality Asian corporate bonds in Hard Currencies.

EM economies remain fundamentally resilient, even amid ongoing trade disputes and tariff uncertainties. Prudent monetary policies and historically elevated real interest rates continue to underpin favourable growth and inflation trends, as well as attractive income for investors. The US Fed's rate cuts in 2025 have eased pressure on EM central banks, supporting further local rate cuts, for example by the Brazilian Central Bank.

While much of the recent outperformance is attributable to a weaker US dollar, currency volatility may persist, and the USD could act as a safe haven during the ongoing Middle East conflict. EM LCD also offers diversification benefits, given its declining correlation with risk assets like equities. Although this relationship has been tested since the beginning of the conflict in Iran, we expect it to normalise as markets stabilise.

EM "riskiness" has improved as evidenced in a narrowing differential between EM LCD and US Treasury volatilities overtime



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Currencies and Commodities

Diversifying our Foreign Exchange (FX) exposure remains essential and one of the key aspects of our strategy to 'diversify the diversifiers'. That includes safe-haven currencies but also selected G10 and emerging market currencies where opportunities arise. Within the G10, AUD stands out, supported by robust economic fundamentals and limited exposure to global trade and political risks. In contrast, EUR, CHF, and JPY currently lack strong catalysts for outperformance. Asian currencies, particularly CNY, KRW, and SGD, present further diversification opportunities. Within EM FX, our outlook on ZAR remains bullish, while LatAm currencies, despite offering attractive carry, also present higher risk and volatility. Gold remains central to our diversification strategy, adding to portfolio resilience despite recent fluctuations.

Our outlook on USD is largely unchanged, with downside potential now appearing more limited. Strong US economic data and reduced expectations for significant policy easing may temper further declines, while geopolitical tensions could renew safe-haven demand. This has been illustrated during the recent conflict in Iran, where US assets and USD outperformed other markets and currencies. So, although de-dollarisation flows should continue, maintaining a measured USD allocation remains sensible. That said, we expect a fair bit of two-way volatility due to ongoing uncertainties around the US elections, trade, and monetary policy.

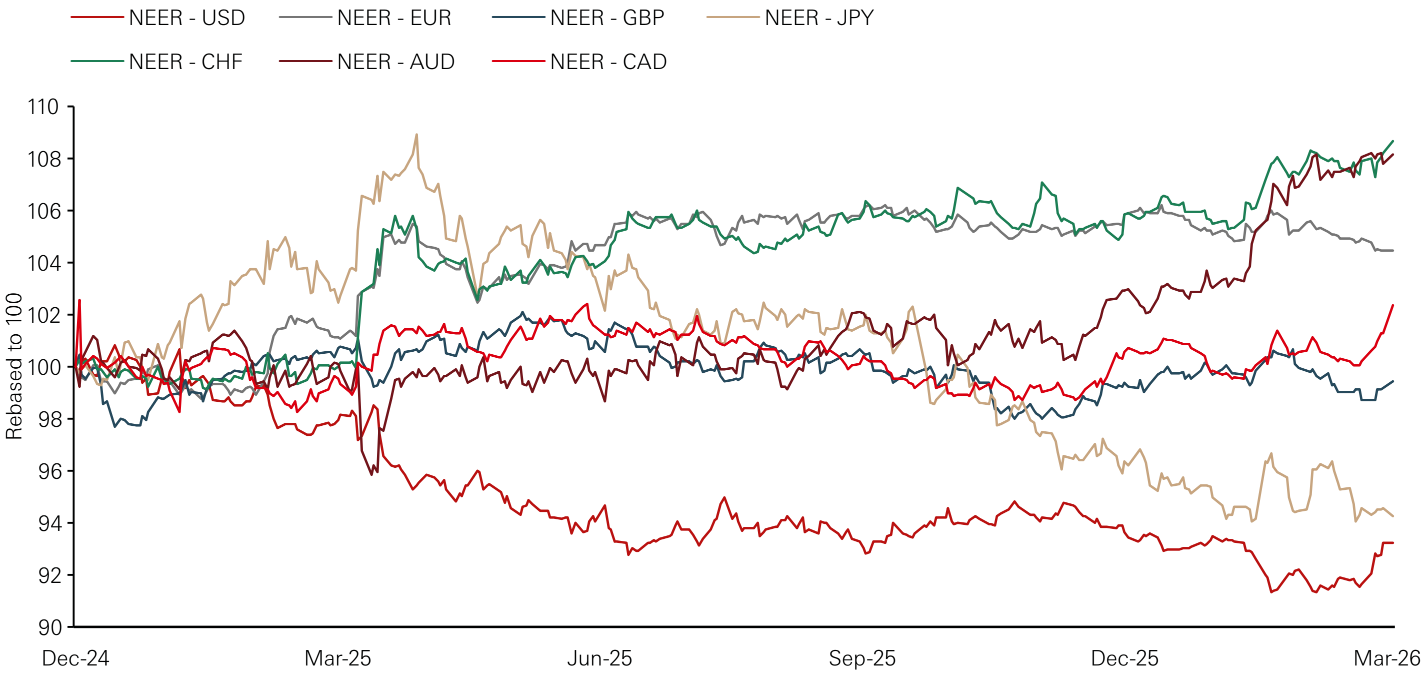
Exposure to Australian assets presents potential upside, supported by a positive outlook on AUD and favourable fiscal and monetary conditions. While EUR, CHF, GBP, and JPY are unlikely to outperform USD, their inclusion in a diversified portfolio can help mitigate volatility. EUR closely tracks USD and serves as a preferred alternative, while CHF retains its safe-haven appeal. Market confidence in GBP remains subdued due to fiscal challenges, and Japan's stimulus measures, combined with a high debt-to-GDP ratio, may limit JPY's ability to benefit from its current valuation or achieve sustained long-term growth. JPY also did not catch a 'safe haven' bid during the Iran conflict, as Japan is a major oil importer, creating an issue for JPY when oil prices spike.

We see notable opportunities in Asia, expecting appreciation in CNY, SGD, and KRW, underpinned by favourable monetary policy, manufacturing growth, and investment inflows. The Monetary Authority of Singapore's current stance and South Korea's technology-driven equity inflows further support this view in the medium term, even if short term volatility continues in the wake of the Iran conflict. For those seeking higher carry, ZAR offers potential, reflecting improvements in South Africa's economic and political landscape.

In commodities, oil prices are expected to remain volatile, with supply constraints potentially driving prices higher, especially if oil production is under threat or traffic in the Strait of Hormuz is blocked. To ease these short-term supply constraints in oil, the International Energy Agency (IEA) has announced the release of 400 million barrels of oil from its strategic reserves – a historically unprecedented move. For the medium term, though, we think there is enough global supply, while muted demand should also help limit the risk of sustained high oil prices. Gold continues to be a vital component of a diversified portfolio, serving as an effective hedge against global uncertainty and offering upside potential amid a softer US dollar and global monetary easing. Profit taking hurt gold in February, and gold saw a small dip when oil-related inflationary fears pushed up Treasury yields. But strong structural demand linked to de-dollarisation should help sustain gold at high prices and create further medium-term upside.

USD rebounded during the conflict, but gradual diversification flows should restart later.

USD has weakened, both in nominal and real terms, though the conflict in Iran has given USD a small boost



Source: Bloomberg, HSBC Private Bank as at 12 March 2026. Past performance is not a reliable indicator of future performance. NEER: Nominal Effective Exchange Rate.

Hedge Funds

One of the key questions investors are asking is what can we expect to see looking through the remainder of 2026 for hedge funds? In an environment of heightened geopolitics and therefore higher market volatility, we see Hedge Funds as well-positioned to provide portfolio diversification, as well as benefit from the wider opportunity set created by higher dispersion across conventional asset classes.

We have already witnessed events both in Latin America and Iran that would suggest that geopolitical developments could be important. The broadening out of regional market leadership has elevated dispersion which will drive idiosyncratic alpha on both the long and short side within markets. This can be of particular benefit for equity long/short and market neutral managers. Monetary policy path differentiation and further commodity market disruption support the returns of macro managers. The rebound in corporate activity during 2025 driven by a more business friendly US market supports the case for healthy return opportunities for event driven managers.

We maintain our constructive outlook for discretionary macro. Managers trading developed markets continue to find opportunities from perceived miss pricing in medium and long term US and European interest rates as well as from long biased exposure in precious metals, particularly gold. The Japan reflation theme offers further opportunities. Opportunities in both credit and FX markets appear to be more the preserve of Emerging Markets focused managers. We expect selective carry focused positioning in sovereign credits, as well as idiosyncratic long positioning in certain currencies to continue, and drive returns.

Our outlook for managed futures as a strategy remains unchanged at neutral. Recent positive performance built on the turnaround we witnessed previously and longer-term strategies in particular generated strong performance wiping out losses.

For systematic equity market neutral strategies, an interesting recent development was the stronger performance from Asian and European focused strategies versus the US which highlights the importance of geographical diversification. We continue to maintain a mildly positive view on the strategy due to the constructive market environment.

We have maintained our neutral outlook for variable net equity long/short strategies. Stock selection has been supportive though and it is probable in our view that this will continue. In addition, earnings growth is forecast to be strong. In the light of this we maintain an outright positive outlook for low net strategies. We have upgraded our mildly positive outlook for Asia long/short to outright positive due to a stable earnings outlook, strong sentiment and ample liquidity.

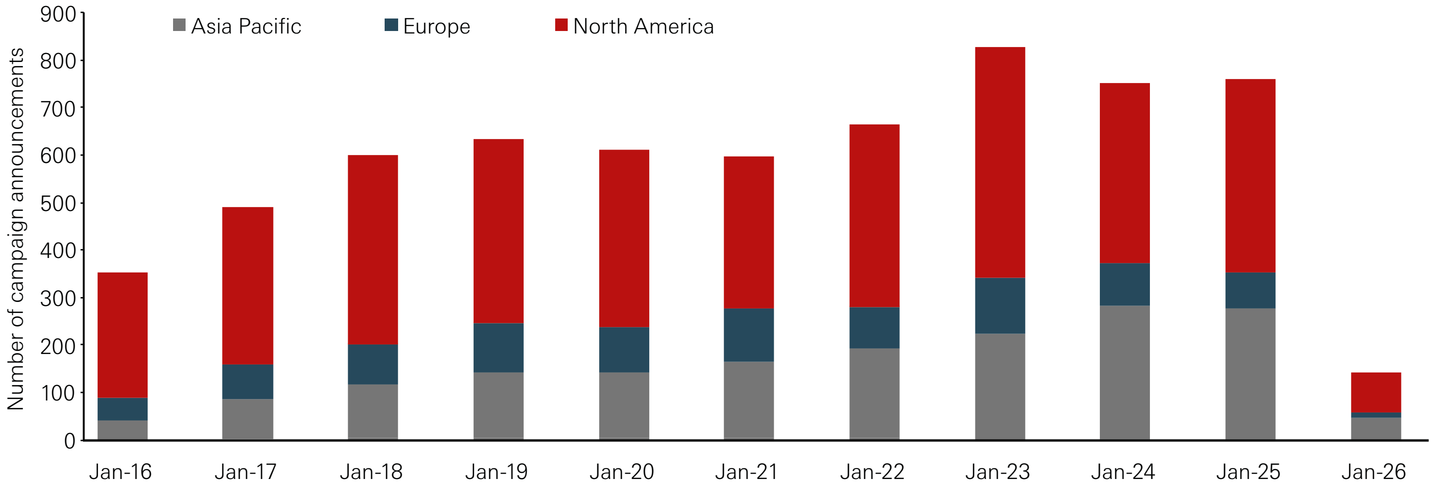
We maintain our constructive outlook for event driven strategies. This is driven by our observation of Global M&A announced deal value rising up by 40% in 2025, the highest since 2021. Within this number, US deal value rose 80% and deal count was up 34%. US M&A deal activity was the highest since 2007 by count and 2015 by deal value. Concurrently, there were a record 255 global activist campaigns launched in 2025. Within this Japan witnessed a record 56 deals, representing 22% of global campaigns.

Within credit markets from a pricing perspective, valuations still look a little expensive again with spreads remaining tight. Thus, our outlook for credit long/short remains at neutral. For distressed strategies, which we are also keeping neutral, the distressed ratios for US high yield and loans sit at uninspiring levels. Finally, we continue to favour structured credit where there continues to exist some additional value which we maintain at mildly positive.

We maintain our positive view for the performance potential of Multi-Strat and Multi-PM managers. The headline double digit 2025 returns profiled in the financial press, delivered by many of the best known and hardest to access names reinforce our conviction that this opportunity set remains very fertile for this strategy. Our staple funds in these strategies witnessed returns led by their fundamental equity pods.

Hedge funds are good portfolio diversifiers, especially in an environment of heightened market volatility.

Shareholder Activism has generally risen across North America and Asia over the last few years, although it appears to have fallen in early 2026



Source: Pitchbook, HSBC Private Bank, as at 12 March 2026.

Private Markets

Public markets volatility – particularly the sell-off in software stocks amid renewed AI enthusiasm – and headlines have raised questions about the outlook for private equity and private credit. Sentiment has turned more cautious, but we believe fundamentals across both asset classes remain broadly resilient. While private credit events are likely to rise, defaults should still remain relatively contained; underwriting quality, robust covenants and leverage levels will be the key differentiator. Diversification is important too.

Private Equity: Exits Improving, Selectivity Rising

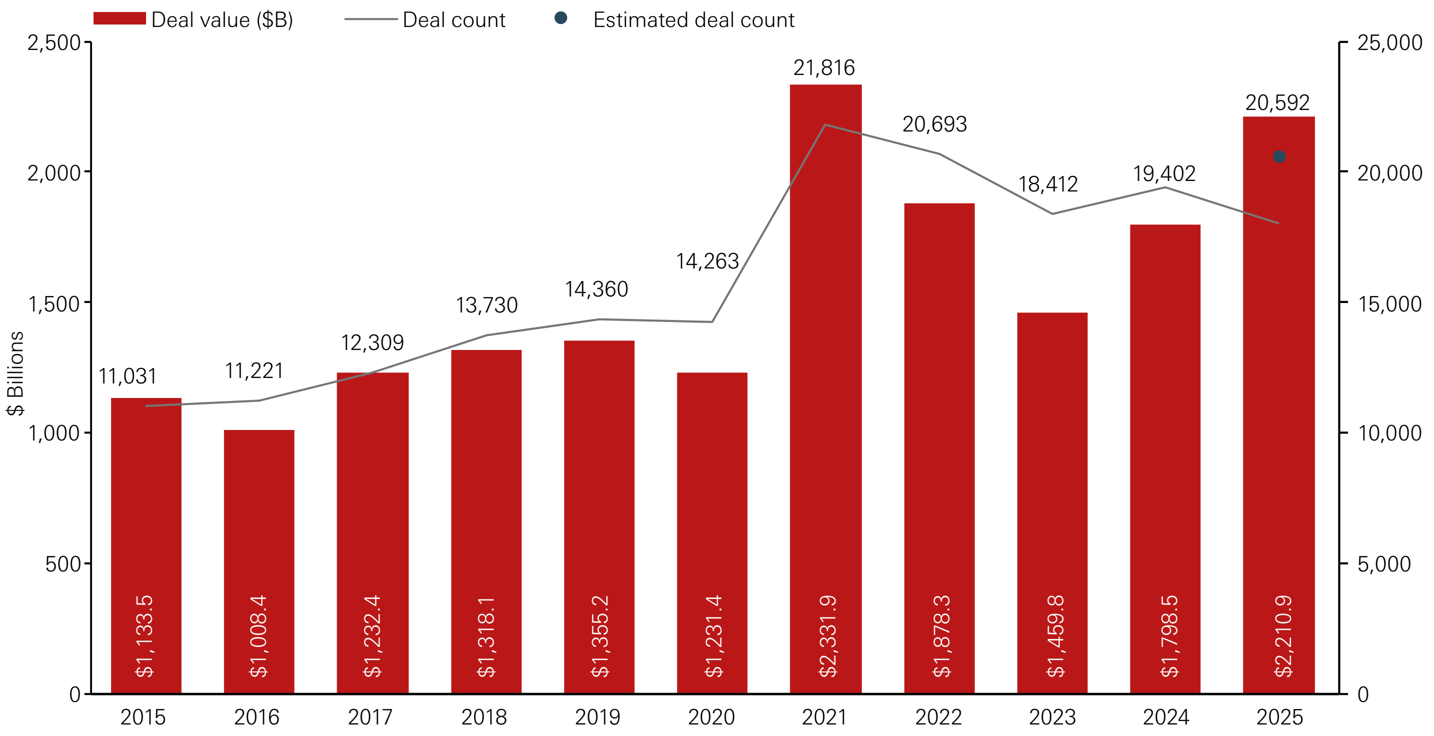
After a prolonged slowdown, private equity has been moving from recovery toward early normalisation. Deal activity has stabilised and is gradually improving as rate pressures ease and bid-ask spreads narrow. Volumes remain below peak levels, but momentum is constructive.

More importantly, exit markets have turned a corner. The second half of 2025 marked a meaningful inflection point, with Q4 the strongest quarter for exits since mid-2021. Activity has broadened beyond secondaries to include trade sales, sponsor-to-sponsor transactions and IPOs. While a backlog of unrealised assets persists, it is no longer expanding unchecked, and capital is beginning to return to investors more consistently.

Public market repricing – particularly in software – has reset valuation expectations. Enterprise value multiples have compressed even as revenue growth has remained relatively resilient. Markets are increasingly pricing in AI disruption risk, lower durability assumptions and structurally higher discount rates.

For private equity, this creates both opportunity and dispersion. Entry multiples are becoming more attractive, but manager selection is increasingly important. Blanket repricing is overly simplistic: businesses with strong data moats, high retention, embedded workflows and mission-critical positioning remain differentiated. More horizontal software models with limited customer integration may face greater pricing pressure.

Deal activity continues to recover, which should gradually help valuations, exits and distributions



Source: Pitchbook, HSBC Private Bank, as at 12 March 2026.

We view AI as more evolutionary than existential for most software companies. While margin pressure is possible in commoditised areas, AI is also likely to expand addressable markets and reinforce leading platforms. In this environment, operational value creation and disciplined underwriting should matter more than financial engineering alone.

Private Credit: Structural Protection, Growing Dispersion

Private credit remains closely linked to private equity outcomes, particularly through refinancing and sponsor-backed exits. A continued recovery in M&A would support refinancing pathways; a renewed slowdown would increase restructuring activity.

We expect defaults to remain relatively contained, but credit events – such as amend-and-extend transactions – are likely to rise. Underwriting quality will be the key differentiator.

Encouragingly, private credit portfolios benefit from structural protections. Direct lending typically involves robust documentation, covenant packages and conservative leverage compared with broadly syndicated markets. Enterprise values would need to decline materially before creditor principal is impaired.

Software and commercial services exposures – significant components of many direct lending portfolios – continue to demonstrate resilient revenue and earnings trends. While public equity valuations have been volatile, there is limited evidence so far that this is translating into widespread stress in private credit fundamentals. Nonetheless, dispersion across borrowers is increasing, reinforcing the importance of selectivity.

In some segments, past inflows have compressed spreads and weakened terms, underscoring the need for disciplined deployment.

Positioning for 2026

Overall, markets are transitioning from recovery to early normalisation. Fear – particularly around AI disruption – is currently dominating sentiment, but underlying fundamentals in high-quality private equity and private credit assets remain intact.

We expect 2026 to reward disciplined managers: those focused on resilient, mission-critical businesses, conservative capital structures and credible exit pathways. For long-term investors, improving liquidity, moderating valuations and rising dispersion may provide a more balanced entry environment than in recent years. We recognise the value of accessing these asset classes via established intermediaries with extensive networks and expertise. A diverse high-conviction approach can deliver more consistent, risk-adjusted outperformance for stakeholders.

A continued recovery in M&A would support refinancing pathways; a renewed slowdown would increase restructuring activity.

Real Estate

Global commercial real estate investment activity stabilised in 2025, with investors increasingly recognising its fair value and defensive qualities. Prime office vacancy rates in gateway cities are tightening, boosting rents, while secondary assets lag. Retail is outperforming, with stable demand supporting record-low vacancy rates, especially for grocery-anchored formats. Logistics market fundamentals have been soft but are showing signs of improvement as the recent wave of new supply declines. Residential markets are characterised by low vacancy rates.

Last quarter

Investors increasingly consider real estate as offering fair value, which is reflected by the stabilisation in capital values in 2025 and a growing appreciation of its defensive qualities. As sentiment improved, investment volumes increased in 2025, with a notably strong end to the year. Still, volumes remained below the five-year average.

A sharp reduction in new office development has supported a stabilisation in vacancy rates. Prime CBD space in gateway cities is increasingly scarce – London new-build vacancy is just 1.3% (JLL), Tokyo Grade A is 1.4% (CBRE) and Manhattan leasing was well above the long-term average – driving healthy prime rental growth. US office vacancy rose to approximately 20% (C&W), underscoring the bifurcation between prime and secondary.

Retail vacancy rates are near record lows following a decade of minimal new supply across the US, Europe and much of Asia, including Hong Kong, where Grade A retail rents rose in Q4 2025 for the first time since 2019. Consumer resilience is supporting robust retailer leasing activity, rising occupancy and increasingly widespread rental growth, particularly for grocery-anchored and other non-discretionary focused retail.

Logistics sector conditions have been soft as new supply continued to enter the market, though there are indications of the market stabilising. The US logistics vacancy rate was flat at 7.1% (C&W) in Q4 2025, European vacancy rates appear to have peaked and are slowly declining in the UK, Eastern Europe and Spain, while Asia-Pacific fundamentals are mixed, though rental growth for the region is trending lower.

Elsewhere, the residential sector has the lowest vacancy rates, supported by ongoing urbanisation trends, a lack of new supply and widespread affordability constraints. In the US, Sunbelt softness has begun to narrow versus coastal markets in H2 2025 as the pipeline of new supply contracted.

Global data centre fundamentals remain particularly strong, with vacancy rates near historic lows and pre-commitments on new supply approaching 90%, reflecting strong demand from AI and hyperscalers. The availability of power is the key factor constraining new supply.

Hong Kong, Grade A retail rents rose in Q4 2025 for the first time since 2019.

Outlook

With limited scope for yield compression while bond yields remain rangebound, total returns will be driven by income, rather than yield compression. Meanwhile, the widespread improvement in the occupier sentiment index points to an improving leasing backdrop in 2026, which should help to sustain income growth.

The office sector is becoming increasingly bifurcated by quality. Whilst the impact of AI on white collar work is unknown, it may reduce overall demand but concentrate occupiers on higher quality space. Meanwhile, the modest development pipeline, combined with the repurposing of obsolete stock for other uses, should sustain upward rental pressure for the best quality space.

The retail sector is well set to perform well. Retail yields offer a particularly attractive spread over other property types, development pipelines are minimal, and leasing demand is resilient. Grocery-anchored neighbourhood retail is the favoured sub-sector given its high occupancy and a growing list of non-discretionary tenants looking to lease space.

We remain cautious about logistics in the near-term. Yields remain compressed and income growth, whilst still positive, will probably remain modest in 2026. However, 2026 may be a year of transition as completions moderate further, whilst demand is supported by long-term e-commerce growth and tenants looking to future proof supply chains. Increased defence spending might provide additional leasing demand in some European markets.

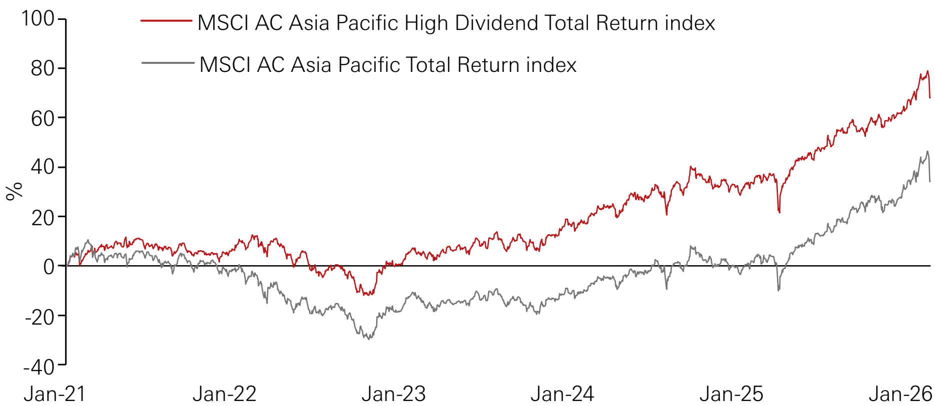
The residential sector should remain resilient, underpinned by stable demand, low vacancy rates and short leases that allow rents to regularly mark-to-market. US coastal multifamily should outperform the Sunbelt, though the gap should narrow. Senior housing in the US offers the most compelling growth outlook given accelerating demographic demand. Asian markets – particularly Japan and Singapore – offer strong income fundamentals.

The retail sector is on track to perform well. Retail yields offer a particularly attractive spread over other property types.

Tap into Asia's Innovation and Income

Asia's innovation and income stand out. Our barbell strategy investing into these factors has worked well in recent months. Investors get the exposure in Asia's exciting growth companies, and leaders in AI and other advanced technologies. There is also plenty of income from high quality dividend paying stocks on the back of corporate governance reforms, and opportunities to pick up attractive yields in the bond market.

Dividend strategies in Asia help achieve higher total returns with resilience



Source: Bloomberg, HSBC Private Bank as at 12 March 2026. Past performance is not a reliable indicator of future performance.

Our Four High Conviction Themes

1. Asia's Data Centre Boom	Asia Pacific is a key part of the global data centre boom, with capacity projected to more than double by 2030, accounting for 40% of global capacity. The rapid expansion is supported by the rapid adoption of AI and cloud technologies. We favour semiconductors, power infrastructure and related hardware.
2. China's Innovation Champions	AI development in China should see supercharged growth, given the capex plans from major Chinese tech leaders, supportive government policies and the step changes in software and semiconductors. We favour national champions across the AI value chain, from large language models to physical AI.
3. Power Up Asian Shareholder Returns	Asia equity investors should continue to benefit from the ongoing corporate reform programmes in the region. Improving total shareholder returns can translate into better share price performance.
4. High Quality Asian Credit	Asia credits can serve as a portfolio diversifier as they are not very sensitive to DM rates volatility, better protected from fiscal concerns and less exposed to the volatility in the AI cycle.

21%

Asia Pacific's data centre market is forecasted to grow at 21% CAGR over the next 5 years

200%

The largest AI agent app in China witnessed explosive growth in user base last year, with monthly average users growing by ~200% y-o-y

13.0%

Asia's ROE is on steady uptrend from 11% in 2025 to 13% in 2027e, supported by higher dividend payouts and more share buybacks in the region

Source: Mordor Intelligence, Quest Mobile, Bloomberg, HSBC Private Bank as at 12 March 2026. Forecasts are subject to change.

The rally in the Asia ex Japan stock markets has principally been driven by the cyclical earnings growth (see chart below) and investors chasing quality dividends (see chart on the previous page).

Asia's Data Centre Boom

Earnings in North Asian markets have benefited from the strong growth in global AI-related capex and Asia's data centres investments. This is particularly the case in South Korea and Taiwan, given their market leader positioning in the semiconductor supply chain.

China's Innovation Champions

Mainland China should also ride on the new Five-Year Plan which highlights digitization and innovation. Meanwhile, the Hong Kong market should see better earnings on a sustainable recovery in housing prices and robust IPO activities on the back of the China AI and innovation boom.

Power Up Asian Shareholder Returns

Another growth driver for North Asian markets are the corporate value-up programmes. The latest development in South Korea signals its commitment to implementing more shareholder-friendly policies as well as improving transparency. We expect more reforms in the pipeline over the coming months.

On 25 February, South Korea's National Assembly approved a third amendment to the Commercial Act, introducing stricter requirements for the treatment of treasury shares. Companies are now obliged to permanently cancel their repurchased shares within one year via board resolution, with a six-month grace period for existing holdings. Previously, repurchased shares were often retained as treasury stock, allowing for potential reissuance later. South Korea's controlling shareholders have historically used treasury shares to consolidate control, especially during spin-offs and M&A.

We expect Japan's corporate governance reform momentum to accelerate again ahead of April- May result announcements and June annual general meetings. This trend will get support from the recent Lower House election from which the administration has secured a strong mandate in reform policy direction.

The ASEAN markets, which now offer 3-5% dividend yields, should attract income seeking investors. Singapore stands out as it has been pressing ahead with its own version of a "Corporate Value-Up" programme. Singaporean banks add buybacks to their generous dividend programmes. Also, Singapore's administration is eager to make the small and mid-cap companies an increasingly attractive theme.

High Quality Asian Credit

We favour Financial Tier 2 bonds, supported by strong bank fundamentals. We also like Australian IG bonds issued by high quality banks and companies with medium-to-long duration. We seek opportunities in high quality Asian credits denominated in EUR, AUD and GBP to diversify FX exposure. In China, we focus on attractive carry opportunities on a bottom-up basis.

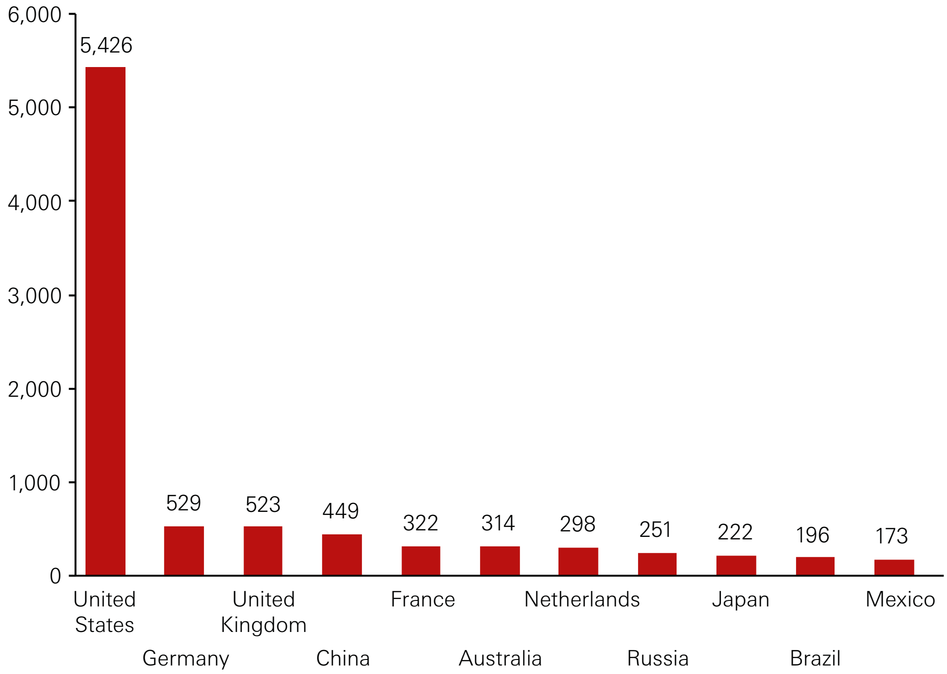
The rally in Asia ex Japan is principally driven by cyclical earnings growth

Source: Bloomberg, HSBC Private Bank as at 12 March 2026. Past performance is not a reliable indicator of future performance.

Disruptive Technologies

New innovative technologies are transforming most sectors of the economy including healthcare, defence and utilities. They transform processes, products and services through digitalisation, automation, electrification and the deployment of powerful AI software.

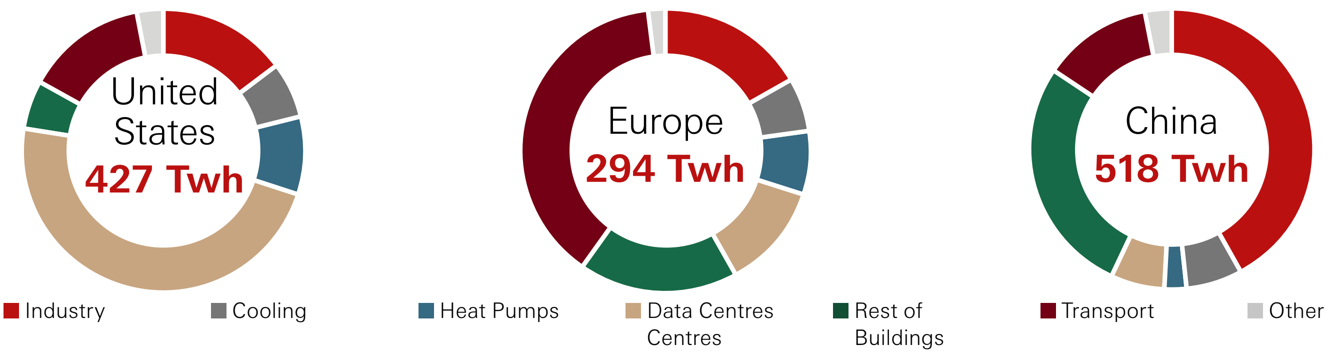
Number of data centres by country



Source: Brightlio, Brookings (November 2025). HSBC Private Bank as at 12 March 2026.

Our Two High Conviction Themes	
1. Evolving AI Ecosystem	AI software is rapidly evolving and is being deployed in processes, products and services, often to great effect. Digital and supporting utility infrastructure including data centres, servers, semis and water & electricity utilities are benefiting from substantial but not exceptional capital expenditures. Software-as-a-service, cloud services and intelligent automation also stand to benefit.
2. Aerospace and Security	Shifting geopolitical tensions and alliances combined with a wave of innovative new technologies are igniting renewed interest in the sector. Commercial opportunities are expanding including affordable microsatellites, low-cost drones, flying taxis (VTOLs) etc. Start-ups are flourishing and companies are embracing the new commercial opportunities

Estimated electricity demand growth by sector and end-use (2025-2030)



Source: IEA (International Energy Authority), February 2026. HSBC Private Bank as at 12 March 2026.

Protect yourself

Adapting to the realities of a shifting geo-political landscape means the old dependencies are being replaced by self-reliance to protect businesses, governments or individuals. While globalisation is very much alive, local is increasingly seen as a safer option, but this pivot brings challenges. Supply chains have become dominated by a few brutally efficient global companies, whether that is manufacturing semi-conductors, telephones, televisions, EV batteries or solar panels. Innovative new technologies offer potential solutions.

Evolving AI Ecosystem

The division of tasks performed by machines and those by humans has generally been limited by two key factors: 1) cost; and 2) the capabilities of the technology. Recent breakthrough technologies are facilitating greater automation of tasks and a reduction in associated costs. ChatGPT marked a pivotal moment when artificial intelligence became a reality. In the last two years the pace of developments has been unprecedented. AI software has become a key enabler of automation and is already bringing productivity gains. The digital, electrical and water infrastructure supporting this technological revolution is critical. Substantial investments are being made to expand infrastructure capacity to meet soaring demand.

McKinsey estimates $5.2trn of investments are needed in data centres by 2030. The size of the investments has already led to emergence of specialisation within the supply chain. Many of the megacap IT companies that own the more advanced LLMs are opting to rent data centre capacity rather than owning the assets. The data centre market is expected to grow by 10.5% per annum until 2030, reaching $622bn.

Like the internet, the AI ecosystem is not just about large language models (LLMs) and infrastructure - it is also about the web of products and services that are developed to utilise this new capability. Companies are using bespoke AI agents, software that works autonomously to achieve specific tasks. such as searching databases, using applications, or collaborating with other agents—to complete complex, multi-step workflows.

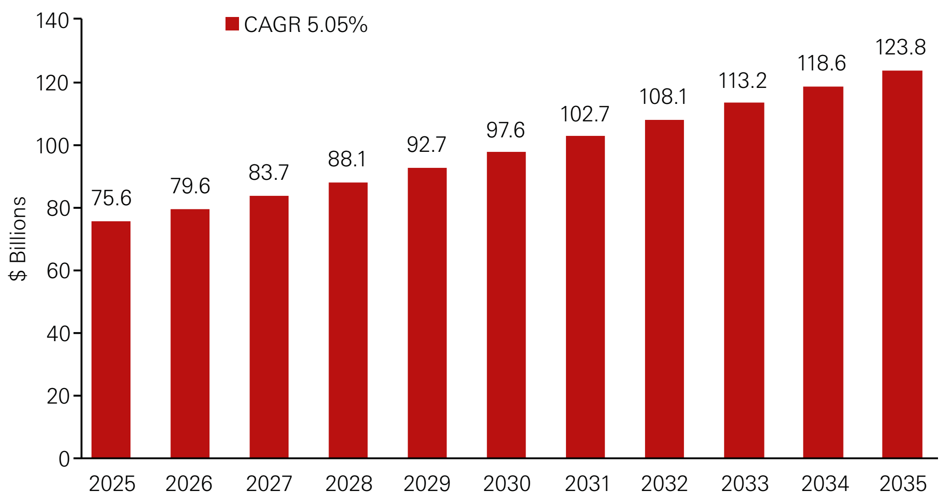
Our **Aerospace and Security** investment theme also focuses on areas where disruptive technologies are a catalyst for potentially transformational change and provide investment opportunities.

Drone technologies are very much in focus having already proven themselves in numerous situations including monitoring the oceans, inspecting difficult-to-access infrastructure, transporting goods efficiently, evaluating crops, search and rescue. The drones can be used to perform tasks more frequently, often at lower cost and sometimes at lower risk to human life. The integration of AI software should expand their capabilities further as it will enable them to operate with a high degree of autonomy. This would further expand their capabilities and range.

Rockets and missiles are also seeing a sharp increase in demand as technologies increase capabilities and expand uses, including as launch vehicles for the fast-growing satellite market, space exploration, and for use in low risk, high impact military strategies. The industry is benefitting from large increase in both R&D spending and investment in capacity expansion as demand far outstrips supply for many missile types. It is estimated (Precedence Research, January 2026) that the global rocket and missile market was worth USD75.6bn last year and forecast to expand by a CAGR 5.05% to reach USD123.8bn by 2035.

Cybersecurity is another growth segment. Last year, the economic cost of cyberattacks are thought to be in the region of $1.2 trillion - $1.5trillion although estimates vary widely as many entities prefer not to disclose details. A downside of the increasingly connected digital world is that vulnerabilities are amplified thus enabling criminals and state-malefactors to exploit them with ever greater ease. Recent well-publicised attacks on blue-chip companies which inflicted hundreds of millions of US dollar of costs, emphasise the importance of strong cyber defences. A strong robust defence reduces the risk of an offence.

Rockets and missiles market size 2025-2035 (USD billions)

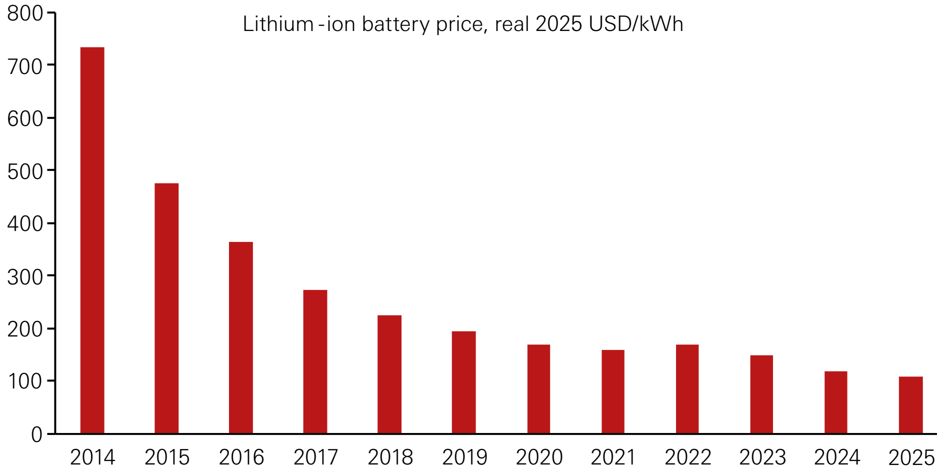


Source: Precedence Research, HSBC Private Bank as at 12 March 2026. Past performance is not a reliable indicator of future performance.

Climate Action

Electricity demand is set to grow rapidly, driven by AI, digitalisation, and electrification. Renewables, especially solar, stay on the uptrend, with mainland China dominating both deployment and manufacturing. Battery storage should quadruple by 2030, and nuclear power is also seeing strong growth. Geopolitical tensions are prompting countries to pursue energy independence and affordability.

Battery pack costs have declined by more than 90% over the past decade, making it a cost-efficient enabler for energy transition



Source: BloombergNEF 2025 lithium-ion battery price survey, HSBC Private Bank as at 12 March 2026.

Our Two High Conviction Themes	
1. Energy Security	Energy is now a key topic in geopolitics, with AI-driven demand pushing governments and businesses to seek greater energy independence. The oil supply risk related to the Iran conflict highlights the importance of energy security. Countries are taking different paths – some prioritising renewables and efficiency, others doubling down on traditional fuels.
2. Biodiversity and Circular Economy	The circular economy could unlock USD4.5 trillion in economic benefits by 2030 while helping countries address biodiversity loss. Biodiversity is now a top priority for many investors, regulators, and consumers, with the EU making notable progress toward global targets. Embracing nature-focused AI can accelerate the shift to sustainable production and consumption, addressing both climate and biodiversity crises.

4X

We forecast global battery electric storage system capacity to increase by 4x by 2030 vs 2025, with mainland China remaining the largest market

~2bn tonnes
now

3.4bn tonnes
By 2050

Waste generation will increase from 2bn tonnes/year to 3.4bn by 2050. We need to transition from a linear model (extract, consume, discard) to a circular economy (re-using, re-generating, and minimising waste)

Source: World Bank, HSBC Private Bank as at 12 March 2026.

Electricity underpins many crucial aspects of modern economies and societies, and its role is only set to expand. Between now and 2035, electricity demand is set to grow four times as fast as overall energy demand, according to International Energy Agency (IEA), as a result of factors like the adoption of electric vehicles, air conditioning use, digitalisation, the uptake of AI and the progress in expanding electricity access.

Meanwhile, renewables continue to see higher adoption, led by solar photovoltaics. Mainland China remains the largest market for renewables, accounting for 45-60% of global deployment over the next ten years and continues to be the largest manufacturer of most renewable technologies. The scale of production capacity helps keep prices competitive. This gives some countries, notably developing economies, a major opportunity to access cost-competitive technologies. But at the same time, it raises concerns about mainland China's dominance of these new value chains.

Nuclear power sees new growth drivers after decades of stagnation, with investments in both traditional large-scale plants and new designs, including small modular reactors (SMRs). More than 40 countries now include nuclear energy in their strategies and are taking steps to develop new projects. In addition to reactors that are restarting operation, notably in Japan, there are more than 70GW of new capacity under construction, among the highest levels in 30 years. Technology companies are supporting the emergence of new business models, with agreements and expressions of interest for SMRs, mainly to power data centres.

Energy storage is often viewed as a key energy transition enabler, as it provides flexibility to drive renewables and electrification growth. We forecast explosive growth in global Battery Electric Storage Systems capacity additions to rise 4x by 2030, with mainland China expected to be the largest market by 2050.

The high level of market concentration in many critical materials is a major concern and raises supply chain risks. Critical minerals such as copper, lithium, nickel, cobalt and rare earth elements are essential raw materials for many clean energy technologies, from wind turbines to electric vehicles and storage technologies. Demand for these minerals is growing quickly as clean energy transitions gather pace, requiring greater action to ensure the building out of secure, sustainable and responsible supply chains. Critical minerals are also vital for the development of AI and build-out of data centres. Accelerated efforts are needed to develop more resilient and diversified supply chains.

Energy Security

Energy is a key topic among today's geopolitical tensions. The rapid adoption of AI leds to rising energy demand, prompting governments and businesses to achieve better energy independence for their AI strategies.

At the same time, ongoing conflicts and instability are unfolding against the backdrop of an oil market currently characterised by a supply surplus. However, recent escalation of US-Iran conflicts has added to uncertainty, with Iran being a major oil producer, and the strategic importance of the Strait of Hormuz, a critical chokepoint for global energy shipments.

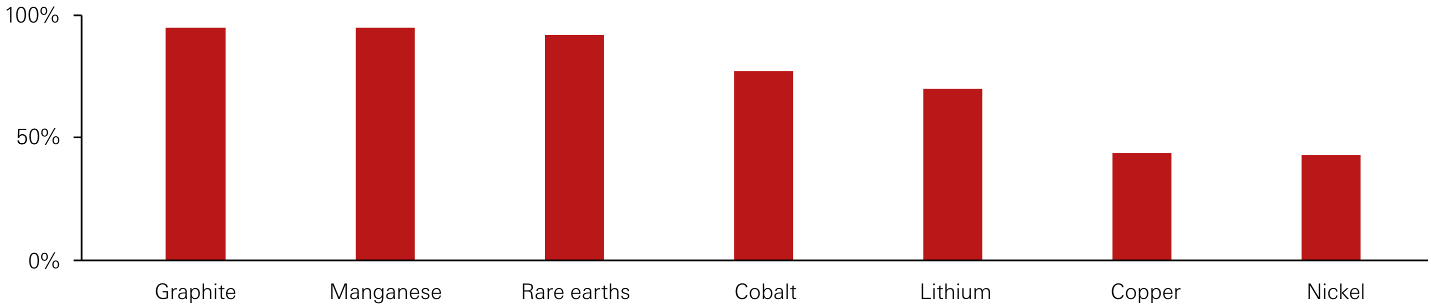
Countries are prioritising energy security and affordability but are reaching for different levers to achieve them. Some, including many fuel-importing countries, lean towards renewables and efficiency as solutions. Others focus more on ensuring ample supplies of traditional fuels.

Biodiversity and Circular Economy

The circular economy, estimated to bring economic benefits worth USD4.5trn by 2030, according to the UNDP, offers countries a practical framework to tackle biodiversity loss, which is both an environmental issue and an opportunity for companies if it is properly and diligently managed. From agriculture to tech, finance to infrastructure, biodiversity is a central concern for investors, regulators, and consumers. The European Union continues to make positive progress where the latest review finds that the bloc is on track to achieve 16 of its 45 targets under the Kunming-Montreal Global Biodiversity Framework.

To halt and reverse biodiversity loss, we need to fundamentally change the way we produce, use, and consume our products and food. The adoption of nature-focused AI should help tackle climate and biodiversity crises by improving operational efficiency and streamlining workflows.

High level of market concentration of critical minerals raises supply risks

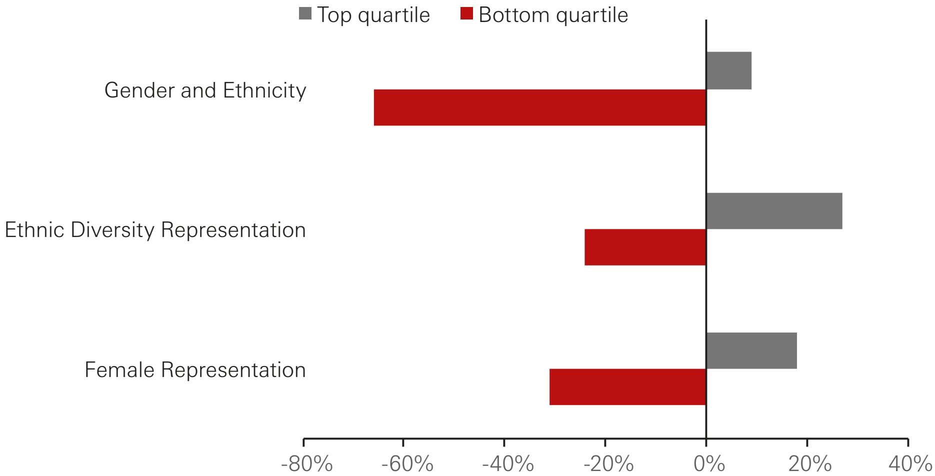


Source: IEA World Energy Outlook 2025, HSBC Private Bank as at 12 March 2026.

Evolving Society

In the ever-evolving society, inclusion and diversity are increasingly recognised as drivers of innovation and financial performance. Capturing these themes can help investors tap into attractive opportunities benefitting from long-term societal shifts.

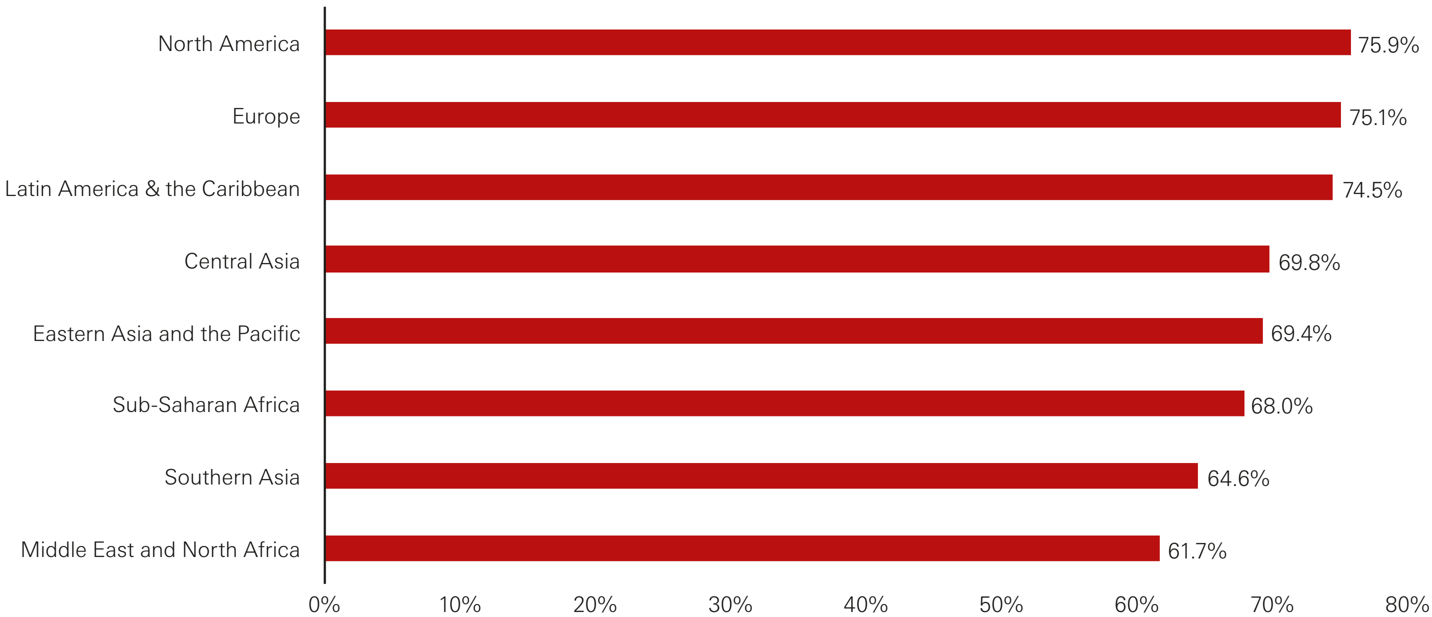
Likelihood of financial outperformance based on diversity



Source: McKinsey, HSBC Private Bank as at 12 March 2026.

Our High Conviction Theme	
1. Social Empowerment and Well-being	Our theme focuses on gender equality, diversity, female workforce participation, access to quality education and healthcare. This is because studies have shown that more diverse organisations tend to perform better.

Gender gap closed to date by region



Source: World Economic Forum, HSBC Private Bank as at 12 March 2026.

Rising expectations around quality of life, inclusive workplaces and equal opportunity are reshaping societies and economic outcomes worldwide. Demographic shifts, greater digital connectivity and changing workforce preferences are prompting organisations and governments to prioritise social empowerment, diversity and employee wellbeing—creating long-term opportunities for businesses that invest in people and foster healthier, more productive ways of working

Within our Evolving Society framework, we highlight Social Empowerment & Well-Being theme as a potential avenue to capture this opportunity. At the same time, we close our Streaming and Subscriptions investment theme, as we believe the opportunity set has diminished.

Social Empowerment and Well-being

Diversity and inclusion are increasingly viewed as drivers of innovation and financial performance. Evidence indicates that organisations with more diverse leadership teams tend to deliver stronger results: companies in the top quartile for gender diversity on executive teams are around 25% more likely to achieve above-average profitability, while those with high ethnic and cultural diversity can outperform peers by up to 36%. These outcomes reflect broader perspectives in decision-making, stronger governance and closer alignment with diverse customer bases. A World Economic Forum report indicates that most regions have made progress in reducing gender gaps over the past two decades (See bottom chart on previous page). However, the existing gap also suggests that companies that have greater diversity and gender parity could potentially have an edge over their competitors.

Employee wellbeing and workplace culture are also becoming strategic priorities. Flexible working, skills development and wellness programmes are key tools for attracting and retaining talent.

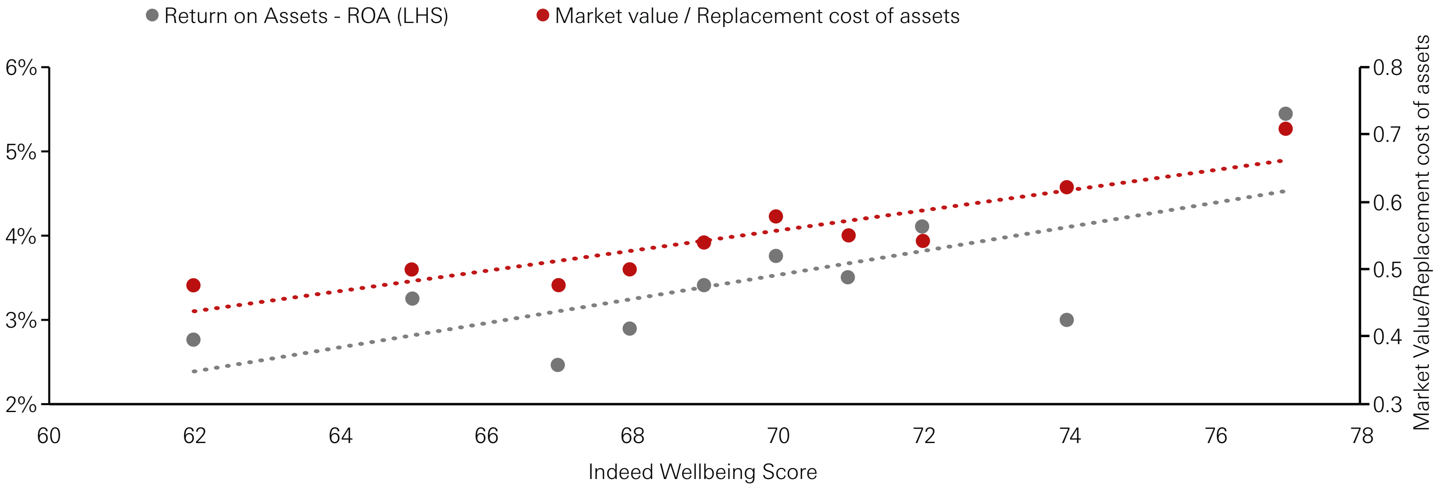
Surveys suggest that over 80% of employees globally consider wellbeing initiatives important when evaluating employers, and organisations that invest in engagement and wellbeing often see improvements in productivity, innovation and retention. Demographic and social trends reinforce the focus on empowerment and lifelong opportunity. Younger workers increasingly value purpose, sustainability and inclusive corporate values. Rising female labour force participation is expanding economic potential; closing gender employment gaps could add an estimated US$12 trillion to global GDP.

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

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

Over the long term, the emphasis on inclusive growth, wellbeing and equal opportunity is likely to influence corporate strategy and public policy. For investors, this supports opportunities in sectors such as education technology, human capital management platforms, workplace collaboration tools, and healthcare and wellness services, driven by growing demand for better living and working environments

Recent studies by Indeed and the University of Oxford showed how corporate well-being practices contribute to financial value

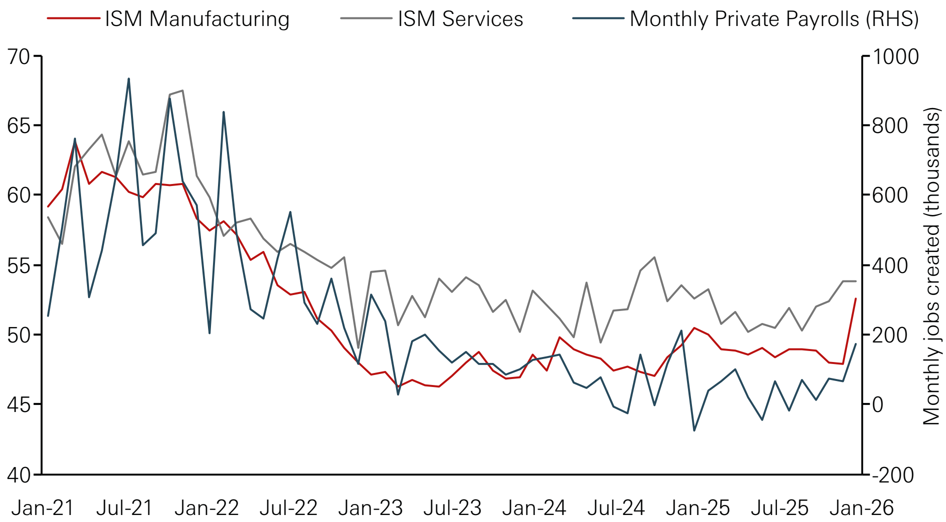


Source: Workplace Wellbeing and Firm Performance, De Neve, J-E., Kaats, M., Ward, G. (2024), HSBC Private Bank as at 12 March 2026.

Seeking Diverse Returns as Fed Rate Cuts End

Our cyclical trend exploits two portfolio tailwinds. Resilient growth benefits financials and investment activity due to re-industrialisation. And as the Fed has halted its rate cuts, we look for income and shareholder value creation as additional sources of return.

The US cycle is healthy, as business sentiment and job creation are improving.



Source: Bloomberg, HSBC Private Bank as at 12 March 2026. Past performance is not a reliable indicator of future performance.

Our Four High Conviction Themes

1. North American Re-industrialisation	The US government aims to bring more manufacturing activity back home, and many companies invest in the US to reduce risks to their supply chains. Investment is further boosted by strong US innovation, a resilient US economic cycle and lower funding costs - with related opportunities across many sectors.
2. Global Financials	US financials are well supported by the resilient economy, which is causing a pickup in loan demand. Around the world, rising IPOs, M&A and bond issuance are generating fee income, while relatively steep yield curves support net interest income. We add financials to tech heavy portfolios because of their low valuations and style diversification potential.
3. M&A and Shareholder Value Creation	Both public and private markets can benefit from M&A activity as companies use take-overs to position themselves for structural changes around us. Others pay higher dividends or do share buybacks to optimise their capital structure and enhance shareholder returns.
4. Income Through Active Credit Selection	As the rate cut cycle is ending in most countries, investors will generate returns by clipping coupons, finding the best position on the different yield curves, through credit selection and seizing tactical opportunities. We prefer maturities close to benchmark and prefer investment grade and EM over DM high yield.

12.7%

US earnings growth outside of the Mag 7 should be 12.7% this year

61%

Global M&A volumes were up 61% in 2025 vs the 2023 low

X 2.5

Investment in equipment contributed 2.5x as much to GDP growth in 2025 as in previous years

Source: Bloomberg, HSBC Global Investment Research, US Bureau of Economic Analysis, HSBC Private Bank as at 12 March 2026.

As rate cuts come to an end in most countries, the 'easy' returns from Price / Earnings multiple expansion and bond yield compression are behind us. Hence, we look for other sources of returns. We select two themes that benefit from the cyclical strength, and two themes that tap into income related opportunities.

North American Re-industrialisation

Investment in software, R&D and equipment continues to drive a larger share of US GDP growth than in the past. That's in part because of favourable tax treatment and innovation, but also because of the government's drive to re-onshore more manufacturing. Companies have a similar incentive as they want to make their supply chains less vulnerable to disruptions and tariff uncertainty, by moving production back onshore.

This phenomenon has a lot of beneficiaries, and it has supported the performance of industrials, materials and utilities – three sectors which we are overweight on. That's because re-industrialisation involves investment in equipment, construction of factories, it requires more electricity – all of it requiring a lot of components and metals inputs.

Global Financials

Financials are a cyclical sector and should be supported by the cyclical momentum and positive surprises in the economic data. That's because banks benefit from good loan growth, while strong corporate cash flows and healthy balance sheets keep loan losses (though they are rising somewhat) from spiking sharply.

Yield curves have been steepening in many countries, and we think some further mild steepening is on the cards, which typically benefits banks' margins. Hopes of deregulation in the US and merger activity in Europe, are positives too. And around the world, the elevated dividends and active share buybacks in the sector are attractive for investors too.

Many financials are classified as 'value stocks' and can therefore be an attractive diversifier for tech-heavy portfolios. In fact, a big part of the recent flows into European and Asian stocks have been seeking out value stocks.

M&A and Shareholder Value Creation

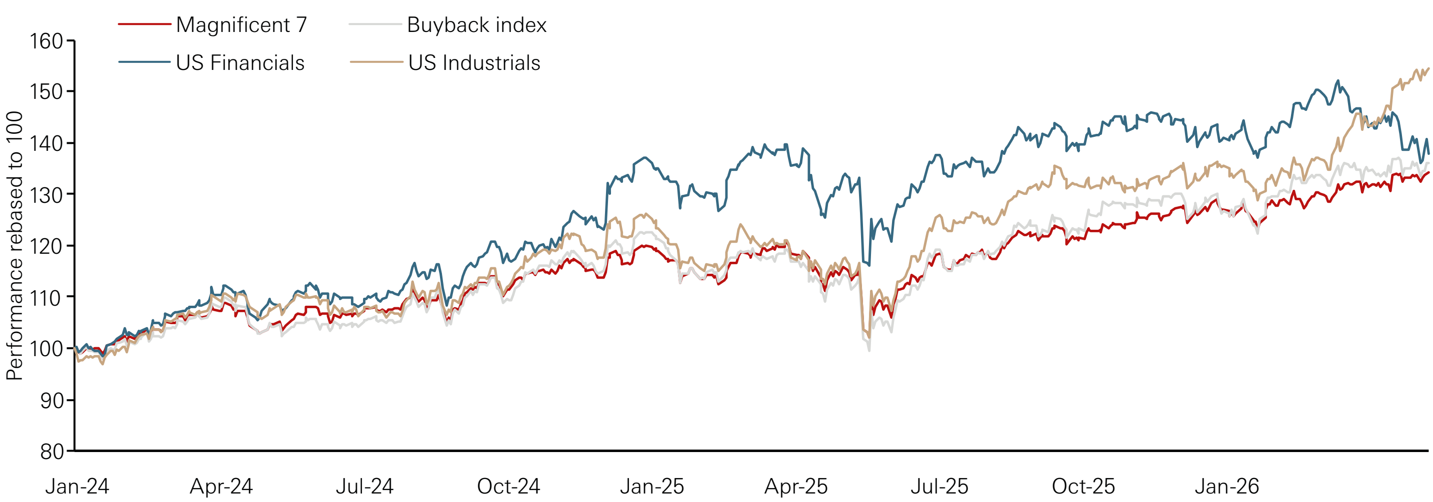
Around the world, companies are using M&A to strategically position themselves for new trends, while they are using dividends and share buybacks to increase value for shareholders. Strong business optimism and lower interest rates are helping M&A volumes, and incumbents often use take-overs if they want to quickly acquire technology or access to new markets. The focus on shareholder value is particularly relevant in Asia, where such measures may help increase ROE and valuation multiples.

With this theme, we target the companies involved, but also the financial firms that generate fees from the activity.

Income Through Active Credit Selection

As rate cuts come to an end in the US and most other developed markets, our bond market strategy is focused on clipping coupons, finding the best relative value, and using active management to benefit from volatility. We generally keep duration close to benchmark as we balance the fact that the rate cut cycle is ending with the observation that most yield curves are steep. We focus on quality because high yield spread are tight compared to investment grade, and we also find value in emerging markets with solid fundamentals.

Industrials, Financials and Buyback indices show low correlation with the Mag 7 and can thus help diversify.



Source: Bloomberg, LSEG, HSBC Private Bank as at 12 March 2026.

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Disclaimers

HSBC and Sustainability

Today we finance a number of industries that significantly contribute to greenhouse gas emissions. We have a strategy to help our customers to reduce their emissions and to reduce our own. For more information, visit

www.hsbc.com/sustainability.

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 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.

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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