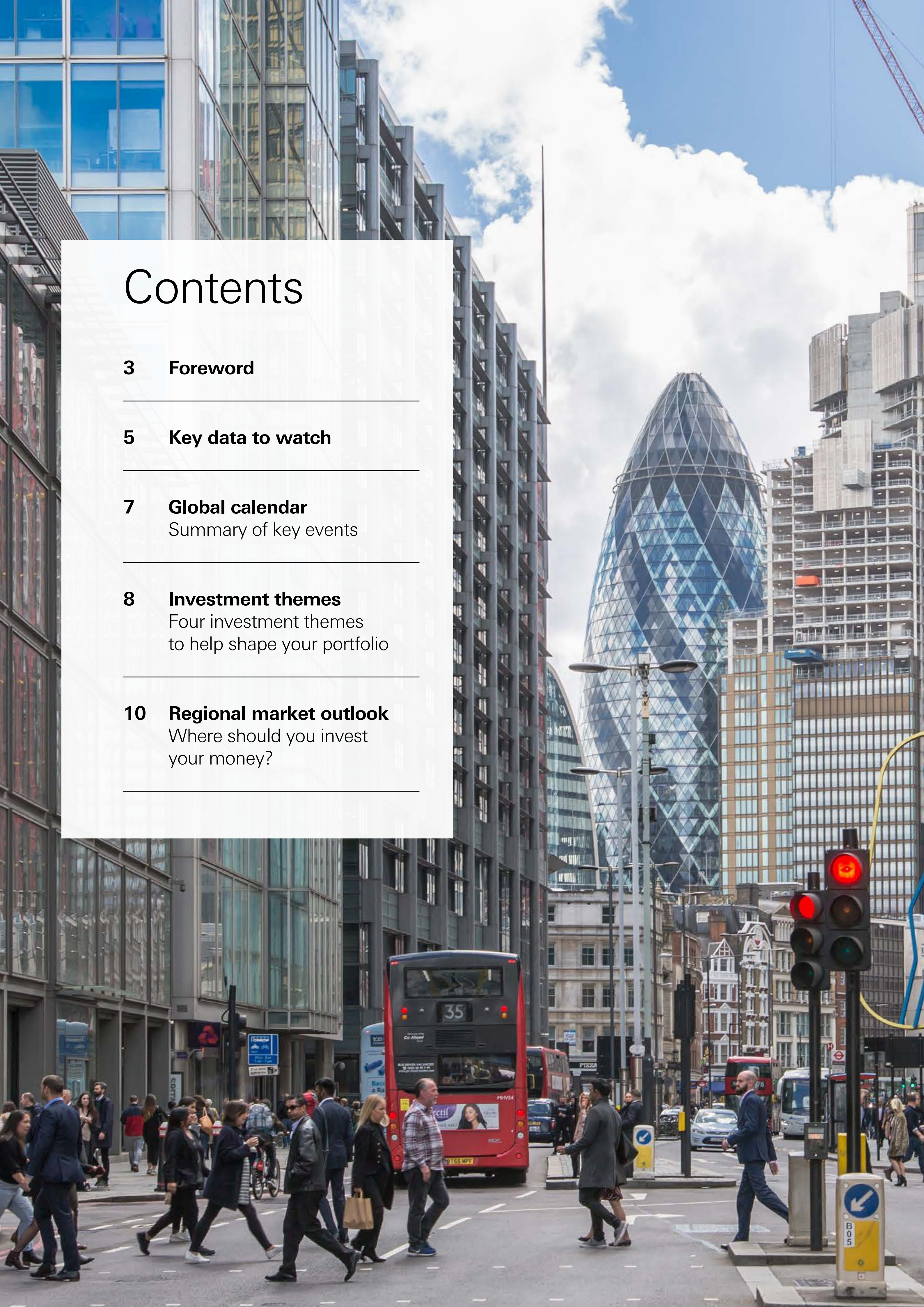
Think Future

2023 Mid-year edition

Your guide to the
global investment landscape

HSBC | Opening up a world of opportunity

Contents



Peak policy rates will brighten the outlook for risk assets in H2, with Asia leading global growth

While China's full reopening and easing global energy prices boosted sentiment at the beginning of 2023, the banking turmoil that followed the collapse of Silicon Valley Bank caught the global financial markets off guard. But in spite of this, equity markets and diversified portfolios have done well. So what is driving this and what lies ahead?

With a number of positive signs in sight, we remain optimistic for H2. First, we're close to the end of the tightening cycle in the West as inflation continues its downward trajectory. This is a strong catalyst for both equities and bonds. Secondly, we believe earnings downgrades are bottoming, so profits are likely to re-accelerate in H2 as fundamentals improve. In fact, much of the bad news has been priced into the markets, and we now expect more earnings upgrades to lift confidence. Finally, we believe Asia will drive global growth, supercharged by China's reopening which delivered stronger-than-expected 4.5% GDP growth in Q1.

What does this mean for investors?

Sitting on cash isn't our answer, as we believe bond markets and blue-chip dividend stocks will outperform cash in the next 6-12 months. To manage the downside risk to growth, our preference for quality bonds and companies is still the right call in our view, and it makes sense to lock in current attractive bond yields while they're still available.

Much of our optimism about the financial landscape centres on Asia, where growth is accelerating at a respectable pace while its equity and credit valuations remain cheap. China's reopening is benefitting the wider region, including Hong Kong and ASEAN markets, and India is a rising star in its own right. We anticipate earnings growth of 5% in Asia for 2023, but mainland China, India and Indonesia are likely to deliver even double-digit growth. The region's longer-term structural opportunities are equally attractive in areas such as domestic consumption, green transformation and digital technology. In addition to gaining direct exposure to Asia, investors can also tap into Asian growth through DM exporters.

The combination of peak policy rates and Asia's growth momentum is also supportive for some cyclical sectors. Companies involved in artificial intelligence, automation and advanced manufacturing, and those addressing the pent-up demand for products and services in consumer discretionary, communication services and industrials are particularly attractive.

Last but not least, we continue to see sustainability as a core component of portfolio construction, not only for risk mitigation but also to generate better returns. The energy transition remains a long-term structural trend, and a growing focus on biodiversity presents new opportunities for thematic investments.

Stay diversified to mitigate risks and remain open to opportunities

These trends form the basis of our investment themes for Q3. Of course, the risks we saw in H1 haven't gone away, but a preoccupation with negatives could result in missed opportunities. Diversification is the golden rule and this can be achieved through careful portfolio management – either by investment experts or by individual investors – with risk appetite and other personal circumstances taken into consideration. We're more than happy to discuss how these themes can fit into your portfolio and help you meet your personal and environmental goals.

Best wishes for a successful investment journey.

Willem Sels
Global Chief Investment Officer,
HSBC Global Private Banking
and Wealth

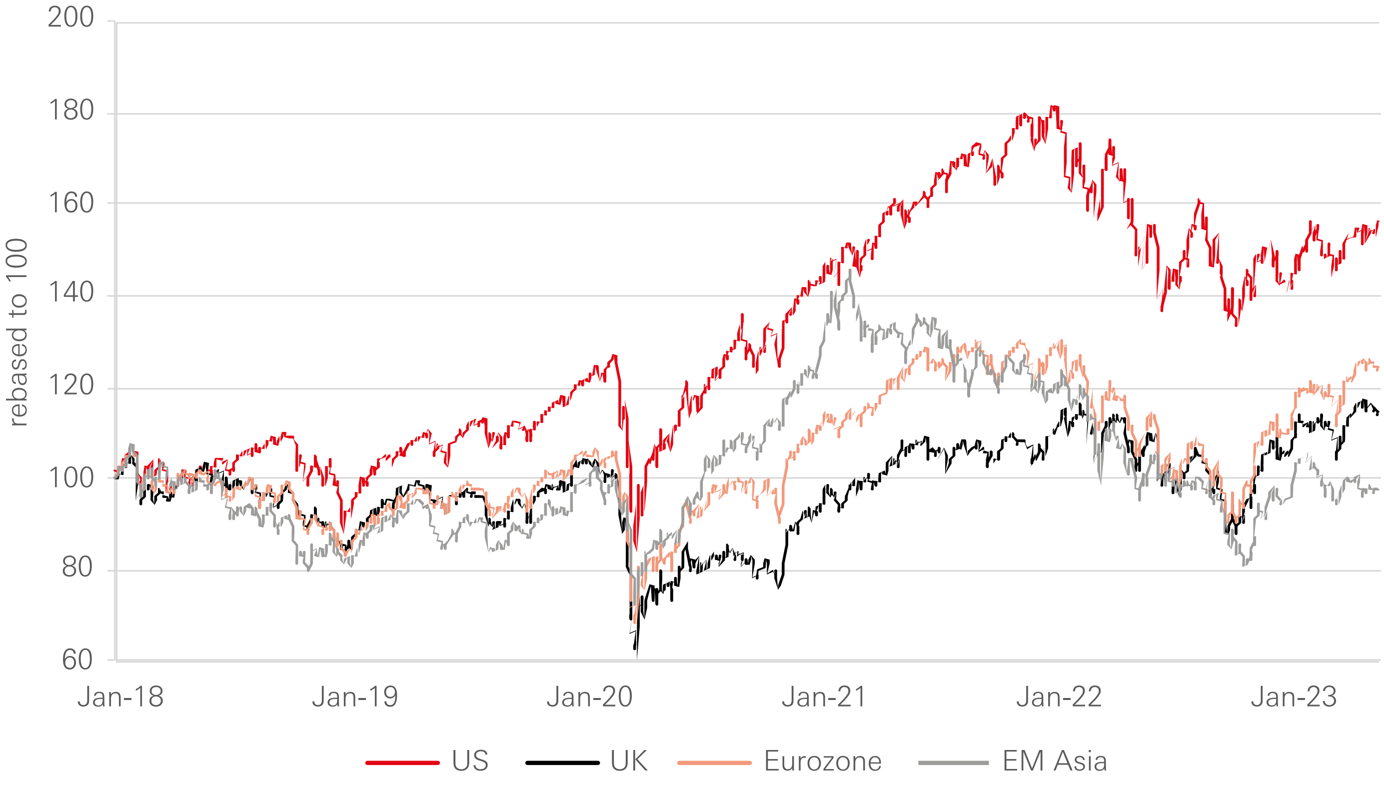
Key data to watch

We expect a downward trend of inflation and Asia will drive global growth in H2

	GDP		Inflation	
	2023f	2024f	2023f	2024f
World	2.4	2.2	6.8	4.8
US	1.5	0.5	4.3	3.3
Eurozone	0.6	0.7	5.7	2.8
UK	0.4	1.4	7.0	3.2
Japan	0.9	0.6	2.3	0.6
Mainland China	6.3	5.0	2.5	2.8
India	5.1	6.0	5.4	5.0

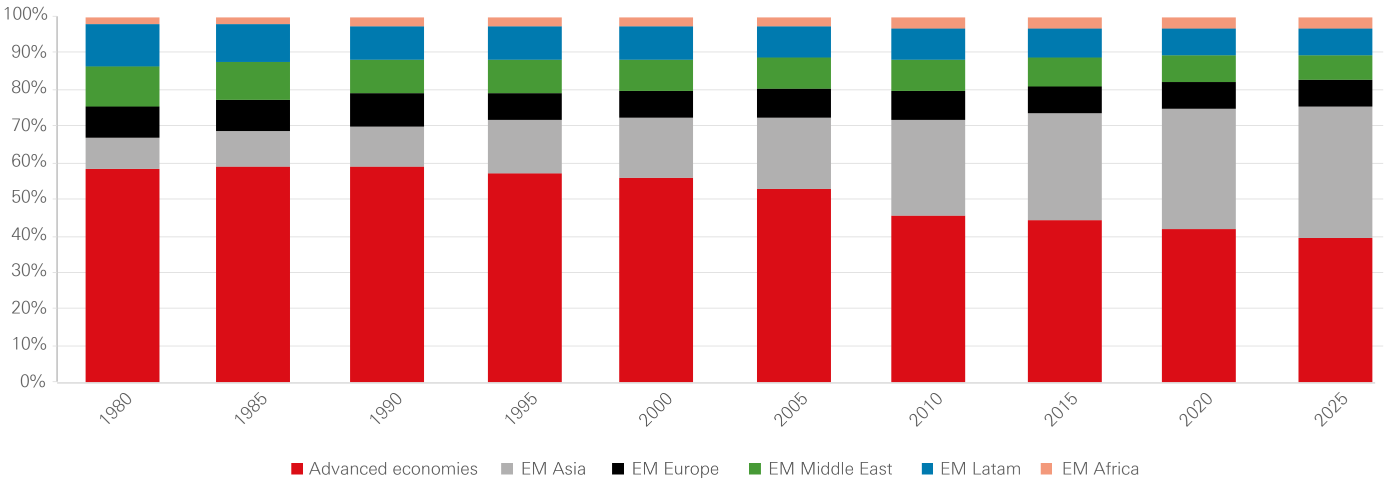
Source: HSBC Global Research as at 19 May 2023. Estimates and forecasts are subject to change. India inflation forecasts are fiscal year.

In spite of the uncertainties, equity markets should continue to do well thanks to peak rates and Asia's recovery



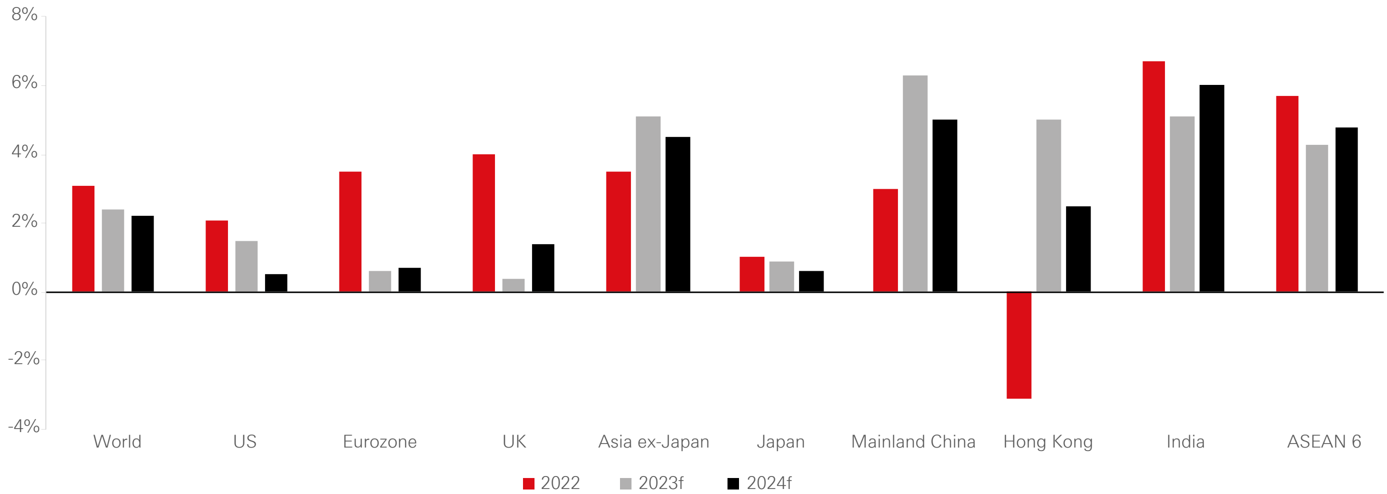
Source: Bloomberg, HSBC Global Private Banking as at 22 May 2023. Past performance is not a reliable indicator of future performance.

Asia accounts for more than one third of global GDP and its share is still rising



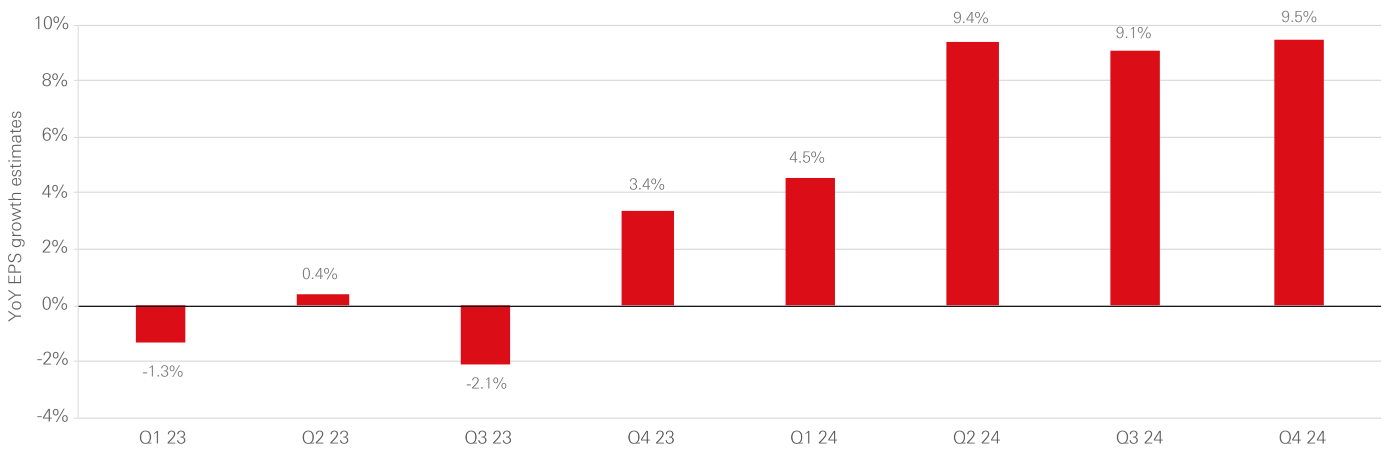
Source: IMF, HSBC Global Private Banking as at 22 May 2023.

Asia's growth acceleration versus DM slowdown



Source: CEIC, HSBC Global Research forecasts, HSBC Global Private Banking as at 22 May 2023. Forecasts are subject to change.

US company earnings are set to rebound in H2 2023 and 2024



Source: Bloomberg consensus estimates, HSBC Global Private Banking as at 22 May 2023.

Global calendar

Key events – second half of 2023

Jul 26	Federal Open Market Committee (FOMC) policy decision
Jul 27	European Central Bank (ECB) policy decision
Aug 3	Bank of England (BoE) policy decision
Sep 14	ECB policy decision
Sep 18-19	UN Sustainable Development Goals Summit 2023 (SDG)
Sep 20	FOMC policy decision
Sep 21	BoE policy decision
Oct 26	ECB policy decision
Nov 1	FOMC policy decision
Nov 2	BoE policy decision
Nov 30-Dec 12	UN Climate Change Conference (COP28)
Dec 13	FOMC policy decision
Dec 14	ECB and BoE policy decisions

Four investment themes to help shape your portfolio

1. Position for the peak in policy rates

As inflation continues to ease in the US and energy costs moderate in the UK and Eurozone, we believe central banks are on track to end the tightening cycle very soon and then leave rates unchanged until inflation has fallen closer to their targets. This provides a favourable environment for risk assets.

While the US banking turmoil isn't a systemic risk in our view, it's important not to overlook the risks of credit tightening, which may weigh on economic growth and profit margins and have given rise to recession fears. But a strong labour market and low loan delinquencies support our view that even if a contraction occurred, it should be very mild.

Investment grade bonds can provide a buffer against slowing growth as well as better returns than cash in the next 6-12 months. As bond yields have probably peaked, and markets are starting to price in some rate cuts, it makes sense to lock in attractive yields for longer through medium-term maturities. Reduced rate uncertainty is also positive for equities and EM assets.

- **We continue to favour investment grade bonds across developed and emerging markets with maturities up to 5-7 years**
- **For equities, we focus on quality companies with robust market positions and manageable leverage**

2. Seize opportunities in Asia's accelerating growth

Asia provides the upside risk to global growth with China in the driving seat. China's post-pandemic reopening has revived the economy at full speed with GDP growth recorded at 4.5% in Q1, and we expect the momentum to accelerate in H2. Savings accumulated over the past three years provide abundant fuel for retail spending, and the government's pro-growth policy direction will stabilise the property sector. We've raised our full-year China's GDP growth forecast from 5.6% to 6.3% and expect strong corporate earnings growth of around 17% this year.

Asia is also attractive for its long-term structural opportunities. The net-zero transition, digitalisation and a rising middle class are all powerful drivers. India, now home to the world's largest population, is a rising star with compelling opportunities in digital technology, green energy and smart manufacturing as it has strong investor interest and benefits from the tech upswing. ASEAN markets will also benefit from the return of Chinese tourists and increasing demand for commodities.

While Western economies are slowing, Asia is set to take centre stage for growth and will continue to attract inflows. Both equity and credit markets are relatively cheap. A well-diversified portfolio will benefit greatly from adding to Asian assets.

- **Our optimism lies with Asian ex-Japan, mainland Chinese, Hong Kong and Indian equities. Indonesia remains our top pick within ASEAN**
- **We favour quality leaders in travel, airlines, mass consumption, hospitality, food and beverages and Macau gaming**

3. Increase exposure to profitable cyclical sectors

A peak in policy rates will be a powerful tailwind for growth stocks and we see attractive opportunities in technology, fuelled by the rapid development of artificial intelligence (AI) and automation. While valuations aren't that cheap, the sector is likely to see earnings growth well above GDP rates. China's internet sector also offers ample opportunities and we see strong prospects for international online gaming, cloud computing, autonomous applications and fintech across Asia.

The combination of peak rates and Asia's post-pandemic recovery is also supportive for other cyclicals such as consumer discretionary, communications and industrials. Chinese consumers made a new record of 274 million domestic trips during the Golden Week holiday in early May and we expect the momentum to continue. That said, we're looking for more spending on high-end goods and services.

Our overall sector allocation is mildly pro-cyclical but we remain selective and favour profitable companies with a strong competitive position and the pricing power to defend their margins against rising input costs.

- **We're overweight on technology, communications services, industrials and consumer discretionary in most regions**
- **Rising risks in financials and limited upside for energy warrant our neutral stance on these sectors**

4. Achieve sustainable returns via energy transition and biodiversity

Sustainability remains key to our investment process and we see ESG as a core component of portfolio construction. The energy transition and biodiversity remain our top ESG themes. Global action to address energy security is driving more investment into clean energy and transition fuels including natural gas, wind, solar and more.[1] Companies that are leading the way in transitioning to renewable energy sources, generating their own energy and reducing their carbon footprint are blazing a trail for sustainability and are likely to outperform their peers in the medium to long term.

Biodiversity is essential for the future of the planet and underpins the global economy. Natural ecosystems provide services worth a staggering USD125-140 trillion annually, roughly 1.5 times global economic output each year[2]. We believe companies that prioritise biodiversity conservation can generate positive environmental and financial outcomes, improve brand reputation, gain market share and increase customer loyalty. Investments in nature also offer diversification benefits as their value isn't directly related to the economic cycle.

Improved access to sustainability data allows investors to make more informed decisions and we're seeing industry participants increasingly adopt ESG rankings to evaluate a company's commitment to sustainable practices. Disclosure requirements are also encouraging companies to allocate more resources to sustainability initiatives. This is a trend not to be missed.

- **We favour the long-term structural trend of energy transition, particularly in renewable energy, green infrastructure and energy efficiency**
- **Biodiversity opportunities in sustainable agriculture, responsible forest management and the circular economy offer diversification benefits and potential returns in the long run**

1. S&P Global, G7 ministers agreed on "various pathways" for net zero, energy security, 16 April 2023
2. OECD – Biodiversity: Finance and the Economic and Business Case for Action

Regional market outlook

Where should you invest your money?

United States

The continued fall in inflation should allow the Federal Reserve to stop its rate hikes soon and this is boosting market sentiment and valuations. Although the economy is slowing, we don't think a recession is likely even though this can't be ruled out. Moreover, in the latest earnings season, many companies protected their margins and beat earnings expectations thanks to cost-cutting measures and investments that lift productivity. The imminent end of the rate hike cycle has helped rate-sensitive technology stocks and this is an additional reason why we remain overweight on US equities given the large weight of tech stocks in the US market.

Over the next 6 months, we're overweight on:

- US equities in general, particularly the communications services, technology, consumer discretionary and industrials sectors
- US investment grade bonds (medium maturities)

Eurozone and UK

The Eurozone and the UK went through an energy crisis last year but since oil prices have fallen back and the winter was milder than expected, risk appetite has improved. The economy seems to have escaped a recession and business and consumer confidence has passed the weakest point. We maintain a neutral view as inflation remains more elevated than in the US and markets therefore fear more rate hikes than in the US. We focus on companies with strong earnings power or on those that can benefit from improving exports to Asia.

Over the next 6 months, we're overweight on:

- Energy, healthcare, utilities, industrials, technology and consumer discretionary sectors in Europe
- European and UK investment grade bonds (medium maturities)

EM Latin America and EM EMEA

We've a positive view on Latin American equities for several reasons. Valuations in the region are relatively cheap and they're supported by monetary policy: Brazil's central bank has been cutting rates for some time and Mexico's may start cutting rates in Q3 2023. The recovery we're seeing in Asia typically helps Latin America. As for EM EMEA, we're significantly underweight on Central and Eastern Europe given geopolitical risks but are constructive on the Middle East given the rapid diversification of the region's economies and still solid energy revenues.

Over the next 6 months, we're overweight on:

- EM Latin American equities, particularly Mexican and Brazilian equities

Asia (ex Japan)

We're bullish on Asian equity markets as China's reopening fuels economic momentum in the region. This should particularly benefit the consumer and services sectors. China's commitment to at least 5% GDP growth is another positive and we think GDP growth will actually exceed that and reach 6.3% in 2023. As for India, it's benefitting from strong investor interest, cheap oil, growing wealth and the tech upswing. All of these should start to boost earnings growth in the region, in sharp contrast with the West, where earnings are slowing. In addition, Asian equities are comparatively cheap, adding to the attraction for investors.

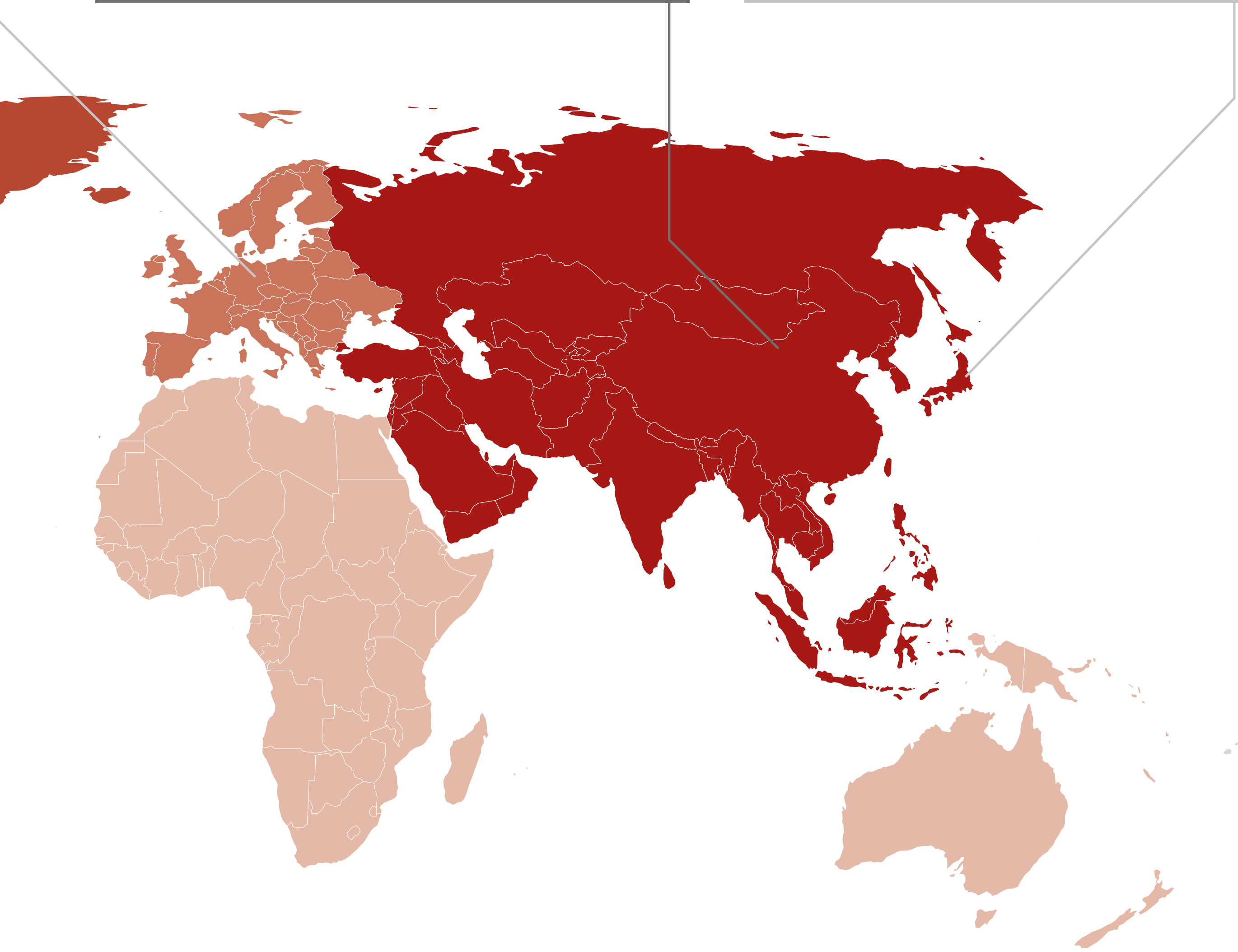
Over the next 6 months, we're overweight on:

- Consumer discretionary and staple, and communications services
- Asian investment grade bonds (medium maturities)

Japan

Japan's stock market performance depends heavily on the outlook for the Japanese Yen (JPY) and therefore on the Bank of Japan's (BoJ) monetary policy. Markets had assumed that the BoJ would want to tackle inflation by targeting higher bond yields but the new governor has not yet given any signs in this direction and inflation has now started to come down. If higher rates are targeted, this could lead JPY to strengthen and stocks to fall. If not, other factors should dominate, but the benefit coming from improved momentum in Asia should be offset by the challenges posed by weak global trade.

Our neutral stance on Japanese equities remains unchanged as we expect lacklustre economic growth in the near term



Notes:

The above reflects a 6-month view (relatively short-term) on asset classes for a tactical asset allocation. For a full listing of HSBC's house view on asset classes and sectors, please refer to our Investment Monthly issued at the beginning of each month.

Disclaimer

This document or video is prepared by The Hongkong and Shanghai Banking Corporation Limited ('HBAP'), 1 Queen's Road Central, Hong Kong. HBAP is incorporated in Hong Kong and is part of the HSBC Group. This document or video is distributed and/or made available by HSBC Bank Canada (including one or more of its subsidiaries HSBC Investment Funds (Canada) Inc. ("HIFC"), HSBC Private Investment Counsel (Canada) Inc. ("HPIC") and HSBC InvestDirect division of HSBC Securities (Canada) Inc. ("HIDC")), HSBC Bank (China) Company Limited, HSBC Continental Europe, HBAP, HSBC Bank (Singapore) Limited, HSBC Bank Middle East Limited (UAE), HSBC UK Bank Plc, HSBC Bank Malaysia Berhad (198401015221 (127776-V))/HSBC Amanah Malaysia Berhad (20080100642 1 (807705-X)), HSBC Bank (Taiwan) Limited, HSBC Bank plc, Jersey Branch, HSBC Bank plc, Guernsey Branch, HSBC Bank plc in the Isle of Man, HSBC Continental Europe, Greece, The Hongkong and Shanghai Banking Corporation Limited, India (HSBC India), HSBC Bank (Vietnam) Limited, PT Bank HSBC Indonesia (HBID), HSBC Bank (Uruguay) S.A. (HSBC Uruguay is authorised and oversought by Banco Central del Uruguay), HBAP Sri Lanka Branch, The Hongkong and Shanghai Banking Corporation Limited – Philippine Branch, and HSBC FinTech Services (Shanghai) Company Limited (collectively, the "Distributors") to their respective clients. This document or video is for general circulation and information purposes only.

The contents of this document or video may not be reproduced or further distributed to any person or entity, whether in whole or in part, for any purpose. This document or video must not be distributed in any jurisdiction where its distribution is unlawful. All non-authorised reproduction or use of this document or video will be the responsibility of the user and may lead to legal proceedings. The material contained in this document or video is for general information purposes only and does not constitute investment research or advice or a recommendation to buy or sell investments. Some of the statements contained in this document or video may be considered forward looking statements which provide current expectations or forecasts of future events. Such forward looking statements are not guarantees of future performance or events and involve risks and uncertainties. Actual results may differ materially from those described in such forward-looking statements as a result of various factors. HBAP and the Distributors do not undertake any obligation to update the forward-looking statements contained herein, or to update the reasons why actual results could differ from those projected in the forward-looking statements. This document or video has no contractual value and is not by any means intended as a solicitation, nor a recommendation for the purchase or sale of any financial instrument in any jurisdiction in which such an offer is not lawful. The views and opinions expressed are based on the HSBC Global Investment Committee at the time of preparation, and are subject to change at any time. **These views may not necessarily indicate HSBC Asset Management's current portfolios' composition. Individual portfolios managed by HSBC Asset Management primarily reflect individual clients' objectives, risk preferences, time horizon, and market liquidity.**

The value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested. Past performance contained in this document or video is not a reliable indicator of future performance whilst any forecasts, projections and simulations contained herein should not be relied upon as an indication of future results. Where overseas investments are held the rate of currency exchange may cause the value of such investments to go down as well as up. Investments in emerging markets are by their nature higher risk and potentially more volatile than those inherent in some established markets. Economies in emerging markets generally are heavily dependent upon international trade and, accordingly, have been and may continue to be affected adversely by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. These economies also have been and may continue to be affected adversely by economic conditions in the countries in which they trade. Investments are subject to market risks, read all investment related documents carefully.

This document or video provides a high level overview of the recent economic environment and has been prepared for information purposes only. The views presented are those of HBAP and are based on HBAP's global views and may not necessarily align with the Distributors' local views. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of its dissemination. It is not intended to provide and should not be relied on for accounting, legal or tax advice. Before you make any investment decision, you may wish to consult an independent financial adviser. In the event that you choose not to seek advice from a financial adviser, you should carefully consider whether the investment product is suitable for you. You are advised to obtain appropriate professional advice where necessary.

The accuracy and/or completeness of any third party information obtained from sources which we believe to be reliable might have not been independently verified, hence Customer must seek from several sources prior to making investment decision.

Important Information about HSBC Global Asset Management (Canada) Limited ("AMCA")
HSBC Asset Management is a group of companies, including AMCA, that are engaged in investment advisory and fund management activities, which are ultimately owned by HSBC Holdings plc. AMCA is a wholly owned subsidiary of, but separate entity from, HSBC Bank Canada.

Important Information about HSBC Investment Funds (Canada) Inc. ("HIFC")
HIFC is the principal distributor of the HSBC Mutual Funds and offers the HSBC Mutual Funds and/or the HSBC Pooled Funds through the HSBC World Selection® Portfolio service. HIFC is a subsidiary of AMCA, and indirect subsidiary of HSBC Bank Canada, and provides its products and services in all provinces of Canada except Prince Edward Island. Mutual fund investments are subject to risks. Please read the Fund Facts before investing.

®World Selection is a registered trademark of HSBC Group Management Services Limited.

Important Information about HSBC Private Investment Counsel (Canada) Inc. ("HPIC")
HPIC is a direct subsidiary of HSBC Bank Canada and provides services in all provinces of Canada except Prince Edward Island. The Private Investment Counsel service is a discretionary portfolio management service offered by HPIC. Under this discretionary service, assets of participating clients will be invested by HPIC or its delegated portfolio manager, AMCA, in securities, including but not limited to, stocks, bonds, mutual funds, pooled funds and derivatives. The value of an investment in or purchased as part of the Private Investment Counsel service may change frequently and past performance may not be repeated.

Important Information about HSBC InvestDirect ("HIDC")
HIDC is a division of HSBC Securities (Canada) Inc., a direct subsidiary of, but separate entity from, HSBC Bank Canada. HIDC is an order execution only service. HIDC will not conduct suitability assessments of client account holdings or of the orders submitted by clients or from anyone authorized to trade on the client's behalf. Clients have the sole responsibility for their investment decisions and securities transactions.

Important Information about the Hongkong and Shanghai Banking Corporation Limited, India ("HSBC India")
HSBC India is a branch of The Hongkong and Shanghai Banking Corporation Limited. HSBC India is a distributor of mutual funds and referrer of investment products from third party entities registered and regulated in India. HSBC India does not distribute investment products to those persons who are either the citizens or residents of United States of America (USA), Canada, Australia or New Zealand or any other jurisdiction where such distribution would be contrary to law or regulation.

The following statement is only applicable to HSBC Bank (Taiwan) Limited with regard to how the publication is distributed to its customers: HSBC Bank (Taiwan) Limited ("the Bank") shall fulfill the fiduciary duty act as a reasonable person once in exercising offering/conducting ordinary care in offering trust services/ business. However, the Bank disclaims any guarantee on the management or operation performance of the trust business.

The following statement is only applicable to PT Bank HSBC Indonesia ("HBID"): PT Bank HSBC Indonesia ("HBID") is licensed and supervised by Indonesia Financial Services Authority ("OJK"). Customer must understand that historical performance does not guarantee future performance. Investment product that are offered in HBID is third party products, HBID is a selling agent for third party product such as Mutual Fund and Bonds. HBID and HSBC Group (HSBC Holdings Plc and its subsidiaries and associates company or any of its branches) does not guarantee the underlying investment, principal or return on customer investment. Investment in Mutual Funds and Bonds is not covered by the deposit insurance program of the Indonesian Deposit Insurance Corporation (LPS).

THE CONTENTS OF THIS DOCUMENT OR VIDEO HAVE NOT BEEN REVIEWED BY ANY REGULATORY AUTHORITY IN HONG KONG OR ANY OTHER JURISDICTION.

YOU ARE ADVISED TO EXERCISE CAUTION IN RELATION TO THE INVESTMENT AND THIS DOCUMENT OR VIDEO. IF YOU ARE IN DOUBT ABOUT ANY OF THE CONTENTS OF THIS DOCUMENT OR VIDEO, YOU SHOULD OBTAIN INDEPENDENT PROFESSIONAL ADVICE.

Important information on sustainable investing
"Sustainable investments" include investment approaches or instruments which consider environmental, social, governance and/or other sustainability factors (collectively, "sustainability") to varying degrees. Certain instruments we include within this category may be in the process of changing to deliver sustainability outcomes.

There is no guarantee that sustainable investments will produce returns similar to those which don't consider these factors. Sustainable investments may diverge from traditional market benchmarks.

In addition, there is no standard definition of, or measurement criteria for sustainable investments, or the impact of sustainable investments ("sustainability impact"). Sustainable investment and sustainability impact measurement criteria are (a) highly subjective and (b) may vary significantly across and within sectors.

HSBC may rely on measurement criteria devised and/or reported by third party providers or issuers. HSBC does not always conduct its own specific due diligence in relation to measurement criteria. There is no guarantee: (a) that the nature of the sustainability impact or measurement criteria of an investment will be aligned with any particular investor's sustainability goals; or (b) that the stated level or target level of sustainability impact will be achieved.

Sustainable investing is an evolving area and new regulations may come into effect which may affect how an investment is categorised or labelled. An investment which is considered to fulfil sustainable criteria today may not meet those criteria at some point in the future.

HSBC | Opening up a world of opportunity