2022 Investment Outlook

December 2021

The price of success

HSBC
Asset Management

Opening up a world of opportunity

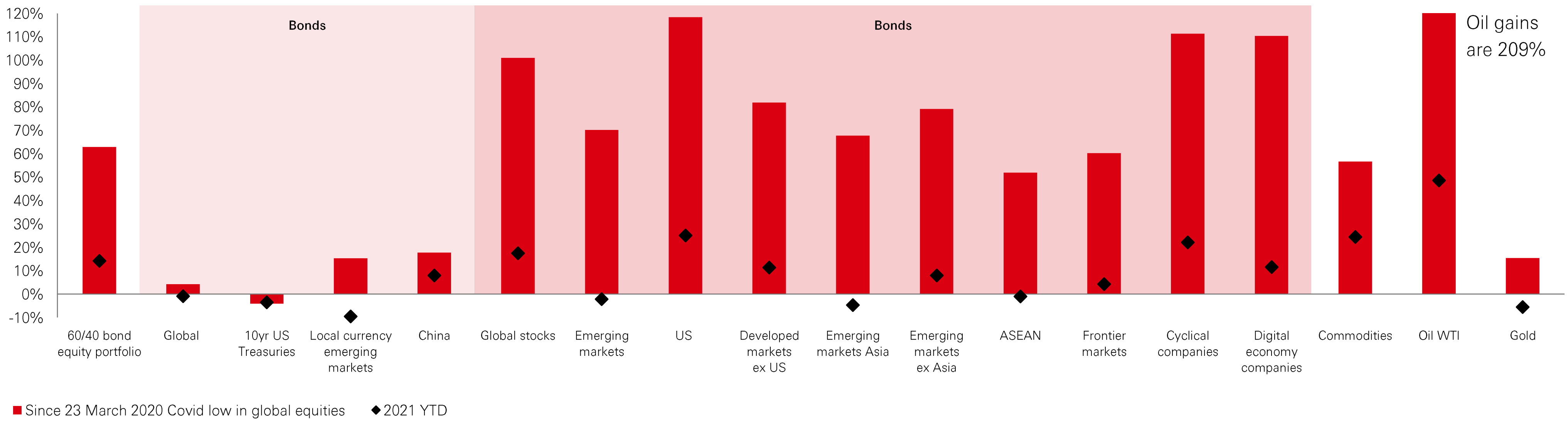
Three wins

Over the past 18 months the world has seen three important successes.

1. Government policy response has been effective in supporting economic growth, innovation of vaccines and new environmental initiatives
2. On the strength of this came the fastest economic recovery on record, with the world's largest economies on track to fully recover the pre-covid growth path by mid-2022
3. Investment markets recovered quickly to reach new highs

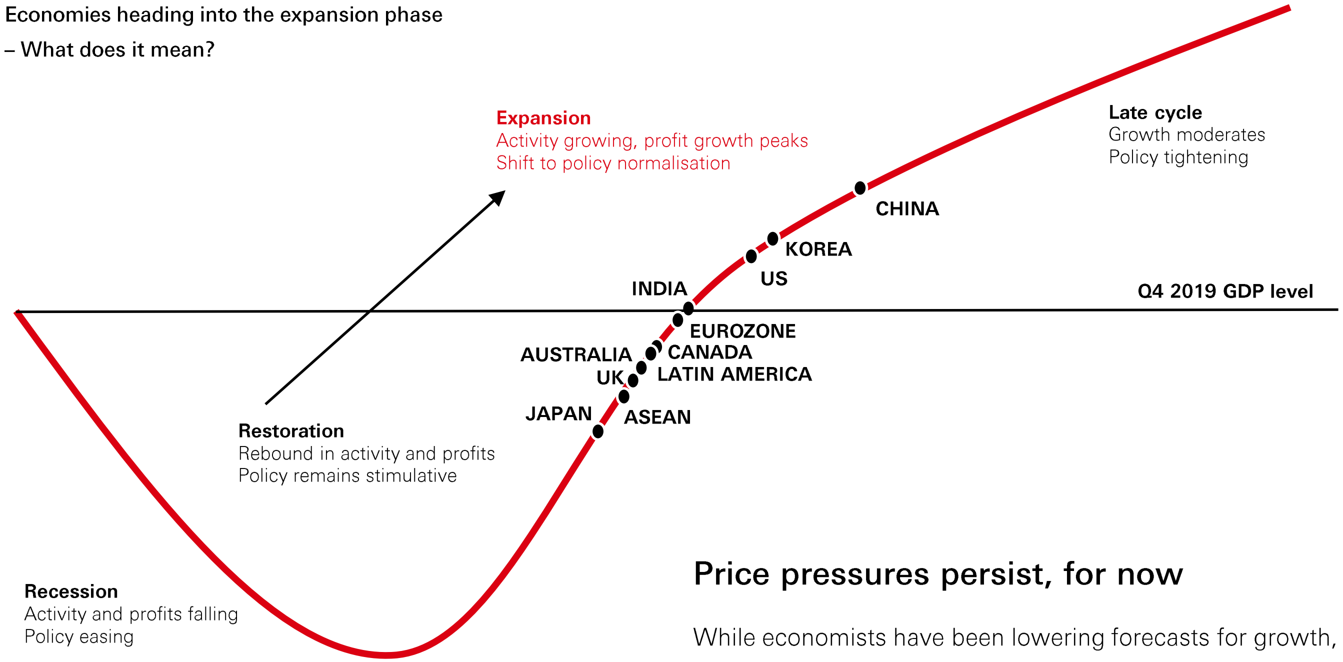
These wins are impressive, but come at a price. In 2022, investors face a pay-back period in terms of lower growth, higher inflation, greater uncertainties, more volatility, and reduced expected returns from here.

Market performance



Source: Bloomberg, HSBC Asset Management, December 2021.
Investment involves risks. For Illustrative purpose only. Past performance does not guarantee future results.
Any views expressed are subject to change without notice and does not constitute any investment recommendation.

Economies heading into the expansion phase
– What does it mean?



"One relative bright spot could be ASEAN, which should see a catch-up phase."

Price pressures persist, for now

While economists have been lowering forecasts for growth, they've been raising them for inflation.

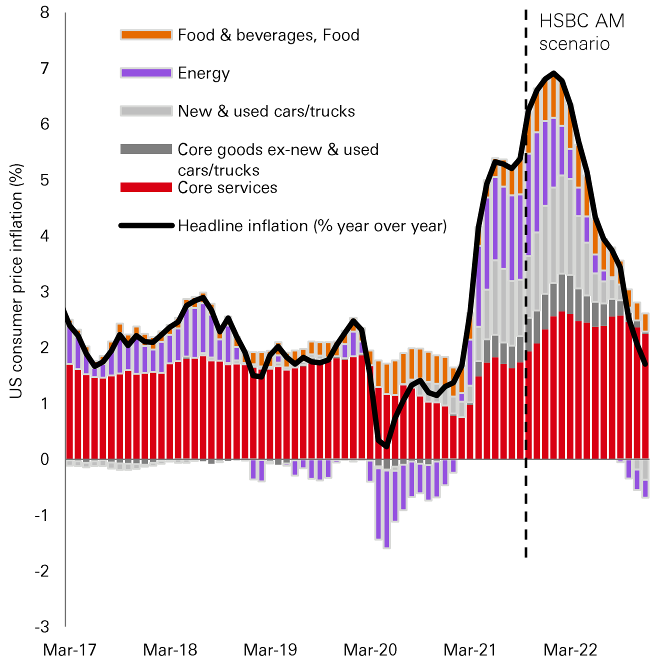
However, many of the temporary factors that are boosting inflation now (autos, energy, housing) should shortly peak, and be softening by the time we get to the middle of the year, with supply chains repaired.

Slower growth

The global economy is now in a phase we have labelled as 'the expansion economy'. Typically, that means we are past peak growth, inflation picks up, and policy support falls away.

One relative bright spot could be ASEAN, which has lagged badly but should see a catch-up phase as economic reopening progresses.

US price pressures have broadened, but are still narrow



Source: HSBC Asset Management, Bloomberg, Macrobond, November 2021.
Any views expressed are subject to change without notice and does not constitute any investment recommendation.

Central scenario and risks

	Stalling Growth	Expansion Economy CENTRAL SCENARIO	Sticky Inflation
Macro	**Demand** shocks (covid, policy, confidence) Economic growth trajectory stalls Eventual policy support, but limited in scope	Post-covid recovery continues Inflation shock transitory Gradual return to more normal policy / higher interest rates	**Supply-side** impairment Inflation is persistent and meaningful Faster policy normalisation
Market	Markets are broadly supported by government and central bank action Stock markets sensitive to the business cycle struggle US dollar rallies versus emerging market currencies	Stocks > bonds amid falling unemployment Catch-up potential for stock markets that have lagged Stronger emerging markets performance amid weaker US dollar	Inflation shock results in higher bond yields Equity valuations suffer Stocks with more durable earnings, or profitability resistant to inflation outperform

More uncertainty

The biggest challenge for investors will be navigating the many economic and market uncertainties. While our central scenario is reasonably positive, there are significant risks that something goes wrong on the demand or supply side.

In terms of demand, a negative shock could come from a resurgence of covid impacting consumer confidence and requiring new restrictions. Or, from the possibility of a harsher slowdown in China.

The second risk scenario is that something goes wrong on the supply side. Most saliently, supply chains could take a lot longer to rebuild than we currently assume. Another problem could be a bigger and more protracted impact from distortions in global labour markets.

Lower asset returns

Investors have enjoyed bumper returns over the last 18 months. But it's important to recognise that these returns are, in large part, borrowed from the future. Our measures of asset class expected returns are lower than they were.

That means uncertainty is exacerbated by higher valuations and lower margins-of-safety. We should expect more day-to-day fluctuations in markets. Stock market volatility remains low today, helped by recent good news on the strength of corporate profits. But volatility around assets most sensitive to interest rates is already heading higher and, in emerging markets, we see the highest dispersion of stock returns over the last decade.

What it means for portfolios

Continue to hold stocks

We see a solid investment case for global equities. Stocks typically beat bonds while labour markets are improving. And a mid-cycle market wobble requires a decisive softening of corporate profits, which hasn’t happened yet as profit growth continues. Stock pickers can benefit from higher dispersion.

Look at emerging markets, especially for bonds

Parts of emerging markets appeal, especially bonds. The case for owning renminbi bonds over global bonds seems strong – both for superior yield and portfolio diversification. While there are prevalent risks today, the future return profile of Asian corporate bonds looks very attractive versus what we see in the US and Europe, which are more exposed to rising interest rates.

Protect against inflation

Real assets such as property make sense to offer some protection against inflation, as do commodities such as copper which will continue to see growing demand due to its use in clean energy infrastructure.

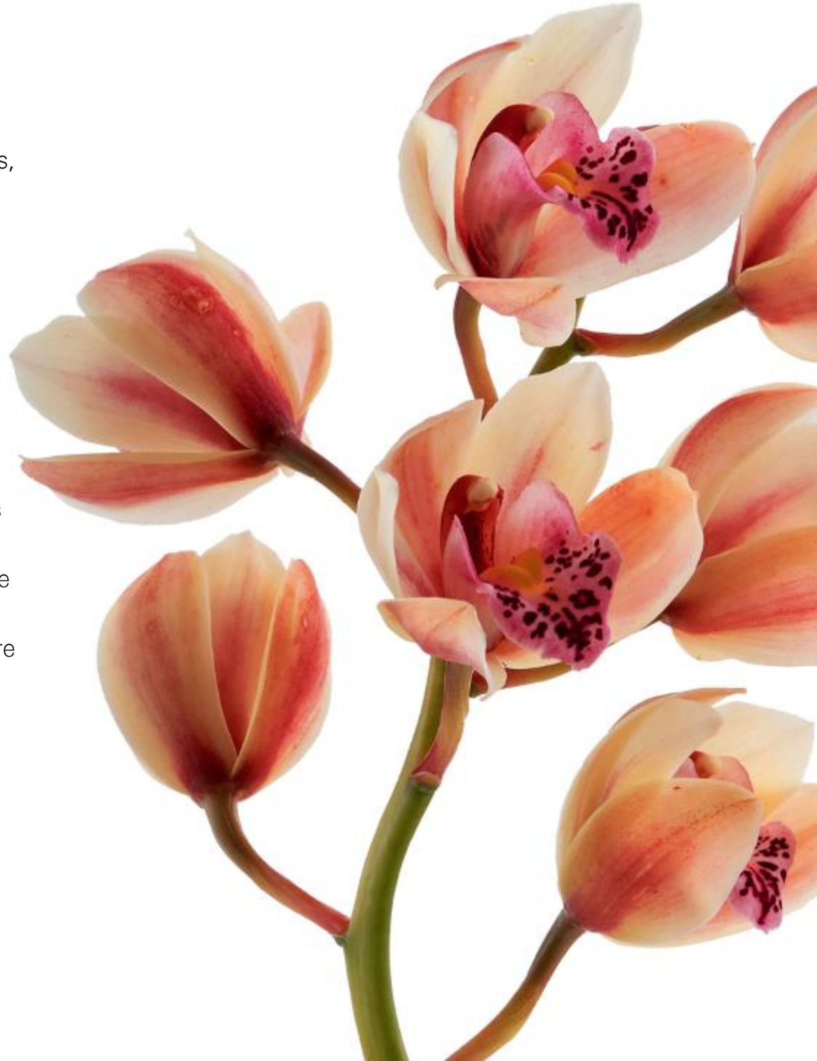
Explore alternative diversifiers

Investors have gotten used to a negative correlation between stocks and bonds – that is, the price of stocks and bonds have tended to move in opposite directions. However, higher inflation has historically caused stocks and bonds to be more correlated. Alternative diversifiers should be explored today.

Embrace sustainability

Companies with better sustainability practices tend to outperform the market over time. Particularly amidst the elevated uncertainty we face, investing in companies that have more sustainable business models and less exposure to risks should serve portfolios well.

> "It's important to have realistic expectations, but there are still a number of interesting opportunities."



Important information

This commentary can be distributed to retail and non-professional investors within countries set out below, and as defined by MiFID, the Markets in Financial Instruments Directive, where this applies.

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 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. Mutual fund investments are subject to market risks, read all scheme related documents carefully.

The contents may not be reproduced or further distributed to any person or entity, whether in whole or in part, for any purpose. All non-authorised reproduction or use will be the responsibility of the user and may lead to legal proceedings. The material contained is for general information purposes only and does not constitute advice or a recommendation to buy or sell investments. Some of the statements contained may be considered forward looking statements which provide current expectations or forecasts of future events. Such forward looking statements are not guarantees of future performance or events and involve risks and uncertainties. Actual results may differ materially from those described in such forward-looking statements as a result of various factors. We do not undertake any obligation to update the forward-looking statements contained herein, or to update the reasons why actual results could differ from those projected in the forward-looking statements. This material has no contractual value and is not by any means intended as a solicitation, nor a recommendation for the purchase or sale of any financial instrument in any jurisdiction in which such an offer is not lawful. The views and opinions expressed herein are those of HSBC Asset Management at the time of preparation, and are subject to change at any time.

All data from HSBC Group unless otherwise specified. We accept no responsibility for the accuracy and/or completeness of any third party information obtained from sources we believe to be reliable but which have not been independently verified.

HSBC Asset Management is a group of companies in many countries and territories throughout the world that are engaged in investment advisory and fund management activities, which are ultimately owned by HSBC Holdings Plc. HSBC Asset Management is the brand name for the asset management business of HSBC Group.

The above communication is distributed by the following entities:

- In **Argentina**, by HSBC Global Asset Management Argentina S.A., Sociedad Gerente de Fondos Comunes de Inversión, Agente de administración de productos de inversión colectiva de FCI N° 1, inscripto ante la Comisión Nacional de Valores; Bouchard 557, 18° Piso, Ciudad de Buenos Aires;
- in **Bermuda** by HSBC Global Asset Management (Bermuda) Limited, of 37 Front Street, Hamilton, Bermuda which is licensed to conduct investment business by the Bermuda Monetary Authority;
- in **Canada**, by HSBC Global Asset Management (Canada) Limited, which is a wholly owned subsidiary of, but separate entity from, HSBC Bank Canada;

- in **France** by HSBC Global Asset Management (France), a Portfolio Management Company authorised by the French regulatory authority AMF (no. GP99026);
- in **Hong Kong** by HSBC Global Asset Management (Hong Kong) Limited, which is regulated by the Securities and Futures Commission. This document has not been reviewed by the Securities and Futures Commission;
- In **India** by HSBC Asset Management (India) Pvt. Ltd, 16 V. N. Road, 3rd Floor, Fort, Mumbai 400001, which is registered to conduct investment management business with SEBI;
- in **Switzerland** by HSBC Global Asset Management (Switzerland) Ltd whose activities are regulated in Switzerland and which activities are, where applicable, duly authorised by the Swiss Financial Market Supervisory Authority. Intended exclusively towards qualified investors in the meaning of Art. 10 para 3, 3bis and 3ter of the Federal Collective Investment Schemes Act (CISA);
- in **Malta** by HSBC Global Asset Management (Malta) Limited, Business Banking Centre, Mill Street, Qormi QRM 3101 Company Reg No C20653, which is licensed to provide investment services in Malta by the Malta Financial Services Authority;
- in **Mexico** by HSBC Global Asset Management (Mexico), SA de CV, Sociedad Operadora de Fondos de Inversión, Grupo Financiero HSBC which is regulated by Comisión Nacional Bancaria y de Valores;
- in **Singapore** by HSBC Global Asset Management (Singapore) Limited, which is regulated by the Monetary Authority of Singapore. The content in the video has not been reviewed by the Monetary Authority of Singapore.
- in the **UK** by HSBC Global Asset Management (UK) Limited, who are authorised and regulated by the Financial Conduct Authority;
- and in the **US** by HSBC Global Asset Management (USA) Inc. which is an investment adviser registered with the US Securities and Exchange Commission.

NOT FDIC INSURED • NO BANK GUARANTEE • MAY LOSE VALUE

HSBC
Asset Management

Opening up a world of opportunity