Asset Management

Multi-Asset Insights

Q2 2023

For professional investors only

HSBC | Opening up a world of opportunity

Table of contents

Foreword	3
In a nutshell	4
Exploring the consequences of the economic regime shift	5
Opportunities and challenges around thematic investing	12
Important information	17

This commentary provides a high-level overview of the recent economic environment and is for information purposes only. It is a marketing communication and does not constitute investment advice or a recommendation to any reader of this content to buy or sell investments nor should it be regarded as investment research. 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. The views expressed above were held at the time of preparation and are subject to change without notice. Any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Asset Management accepts no liability for any failure to meet such forecast, projection or target.

Foreword

As we enter a new economic regime characterised by higher interest rates and higher, more unpredictable inflation, asset allocators have to update their strategy playbook to achieve true diversification, which is needed more than ever.

Jean Charles Bertrand
Global CIO, Multi-Asset
HSBC Asset Management

Welcome to our quarterly Multi-Asset Insights series, intended to provide asset allocators with our thinking around current market and macroeconomic developments. We offer our views on implications and corresponding asset allocation opportunities. Furthermore, we share key findings from our Multi-Asset Research team. This includes developments in our approach to managing portfolios, from enhancements in how we construct them to the pursuit of new alpha drivers.

In looking at the state of markets so far this year, investors have been given some respite. Positive performance has returned across most asset classes. Stock and bond correlations have also receded from last year's highly positive relationship, enabling investors to put some reliance on bonds to mitigate their equity risks.

However, our lead-off discussion outlines why we caution against expecting a return to the consistently negative stock-bond correlation we became accustomed to over the very low inflation regime of the past two decades.

In a new environment in which we believe near-zero or negative stock-bond correlations cannot be relied upon, different means of diversification are essential. Building from last quarter's discussion around the potential for strategies such as FX carry to bring value again (c.f. Multi-Asset House Views Q1 2023), we outline some granular approaches to delivering portfolio diversification in the macro environment ahead.

The second section of this publication explores the potential benefits and risks of thematic investing, and how we can incorporate these considerations into a broader portfolio. Given unique long-term return opportunities connected to transformational trends, a thematic approach can add value and a means of diversification within equity allocations, assuming inherent risks and pitfalls are identified, assessed and managed as appropriate (e.g. via a disciplined multi-thematic approach).

I trust you will find this publication an interesting and useful resource.

The views expressed above were held at the time of preparation and are subject to change without notice.
Any forecast, projection or target where provided is indicative only and not guaranteed in any way.
HSBC Asset Management accepts no liability for any failure to meet such forecast, projection or target.

In a nutshell

Exploring the consequences of the economic regime shift

- A key element that allowed a traditional equity / bond portfolio to thrive post 2000 was a reliably negative correlation between the two asset classes. But in 2022, correlations between equities and bonds reached much higher levels than in the recent past, close to pre-dot-com, bubble levels, leading the traditional 60/40 portfolio to suffer one of its worst years in history.
- Given existing pressures on both growth and inflation, investors should be prepared for a more volatile relationship and rethink portfolio diversifiers.
- Among possible options available to asset allocators, inflation-linked bonds could be of interest for those who anticipate that we could face another inflationary episode in the years to come - current implied inflation curves are close to flat.
- Similarly, gold remains a reserve asset of choice for those playing the long game and want to limit their exposure to duration, credit and liquidity risks.
- Within equity allocations, value stocks continue to suffer so far this year but might be set for a comeback, supported by additional capital expenditure in infrastructure and duplication of supply chains.

Opportunities and challenges around thematic investing

- As investors look for new approaches to portfolio construction, and tools to improve performance, thematic investing has attracted increasing attention.
- On the bright side, thematics are forward looking (versus market cap based allocations) and can provide excess return above traditional equity beta. But they can also exhibit strong factor biases – particularly small cap and growth – versus equity markets, and are prone to elevated volatility and drawdowns.
- Put simply, thematics have potential to add value in typical asset allocations, but they can also reveal disappointing results if not managed as part of a disciplined framework that captures key considerations – such as theme momentum, company fundamentals and diversification.

The views expressed above were held at the time of preparation and are subject to change without notice. Any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Asset Management accepts no liability for any failure to meet such forecast, projection or target.

Exploring the consequences of the economic regime shift

Investors need to be prepared for more economic uncertainty, as a higher inflation risk premium will affect bonds and equities across the board. This will impact the way we think about diversification and may bring some assets and strategies back into fashion.

Philippe Declerck
Multi-Asset Fund Manager and Head of multi-asset research (Paris)

Bruno Mozat
Multi-asset Investment Specialist

A key element that allowed a traditional equity / bond portfolio to thrive post 2000 was a reliably negative correlation between the two asset classes. For the first two decades of the 21st century, investors could depend on their bond allocation to provide protection during periods when equities declined. But this negative correlation was tested in 2022, with both global equities and investment grade bonds losing over 15 per cent over the year.

Was 2022 an epiphenomenon, or can we expect less diversification between equities and bonds going forward as was the case in the previous century? If the latter – or a period where the correlation between the two asset classes moves repetitively from negative to positive – what would it mean from an asset allocation standpoint?

The end of an era

Drifting risk premia

Equities and bonds may correlate positively because they are risky assets, and their underlying risk premia tend to move together. Two major drivers of their risk premia are growth and inflation. Broadly speaking, risk premia tend to be lower in economies with predictable growth and inflation.

Put simply, the theory is as follows:

- When growth is positive, equities tend to do well, while bonds do poorly (and conversely);
- When inflation is up (and/or volatile), nominal bonds obviously do poorly, and so do equities, but to a lesser extent – as the equity risk premium reacts more to the uncertainty around inflation than to the inflation level, and part of this inflation uncertainty premium may be captured in the risk free rate.

Over the past 40 years, we've grown accustomed to a single macro-economic backdrop, with inflation drifting from being a major factor of concern to being contained at low levels while periods of negative growth were rather limited. This combination was obviously positive for risk premia.

The views expressed above were held at the time of preparation and are subject to change without notice. Any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Asset Management accepts no liability for any failure to meet such forecast, projection or target.

Moreover, risk premia were also supported by a dovish monetary policy, and, especially post GFC, the confidence from markets that should growth become an issue, even more accommodative policy would follow (the 'Fed put'). Over the short term, growth was almost always the most volatile variable, as inflation was secularly trending lower. This explains why, despite very positive returns, equities and bonds were able to be negatively correlated.

Figure 1: Despite very positive returns over the last two decades…

Cumulative returns (log-scale)

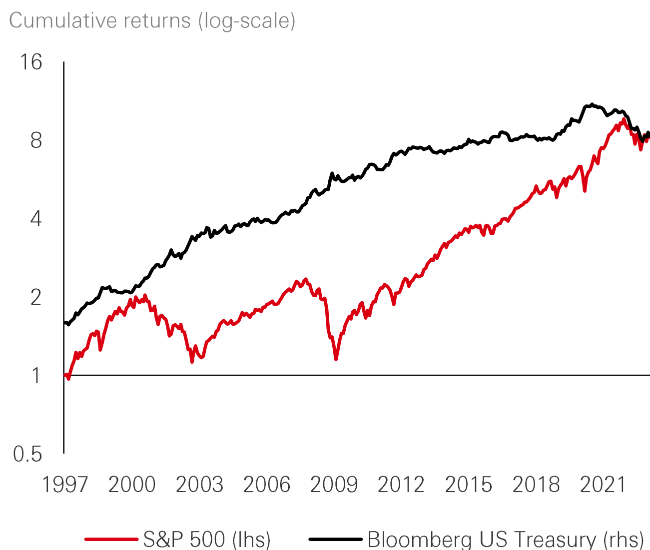
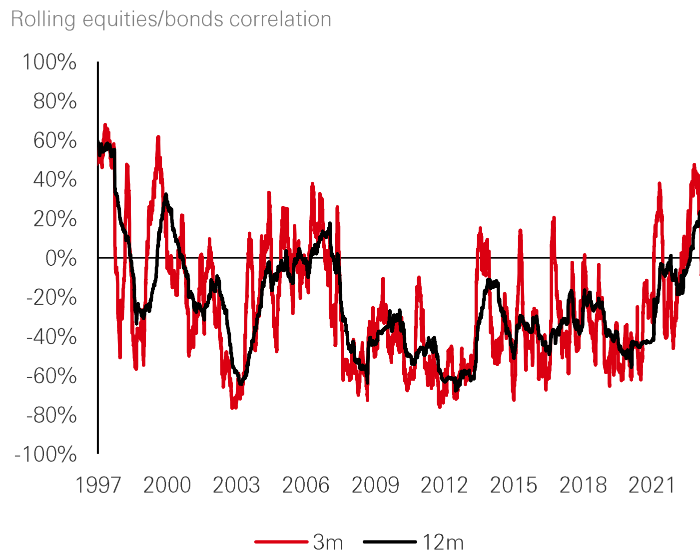


Figure 2: …The stock-bond correlation was consistently negative

Rolling equities/bonds correlation



Source: HSBC AM, Bloomberg, May 2023. **Past performance is no guarantee of future returns.**

What happened in 2022?

In 2022, inflation was revived and, after being dismissed as transitory, became a major factor of concern. Growth expectations also went up and down, adding to volatility. Correlations between equities and bonds reached much higher levels than in the recent past, close to pre-dot-com bubble levels.

Given correlations were high and did not help investors hedge, portfolios realised higher volatilities, which triggered a loop that fed on itself as de-levering occurred and higher risk (e.g. volatility, drawdown) materialized, leading to higher expected risk and additional de-levering. This doom scenario led the traditional 60/40 portfolio to suffer one of its worst years in history.

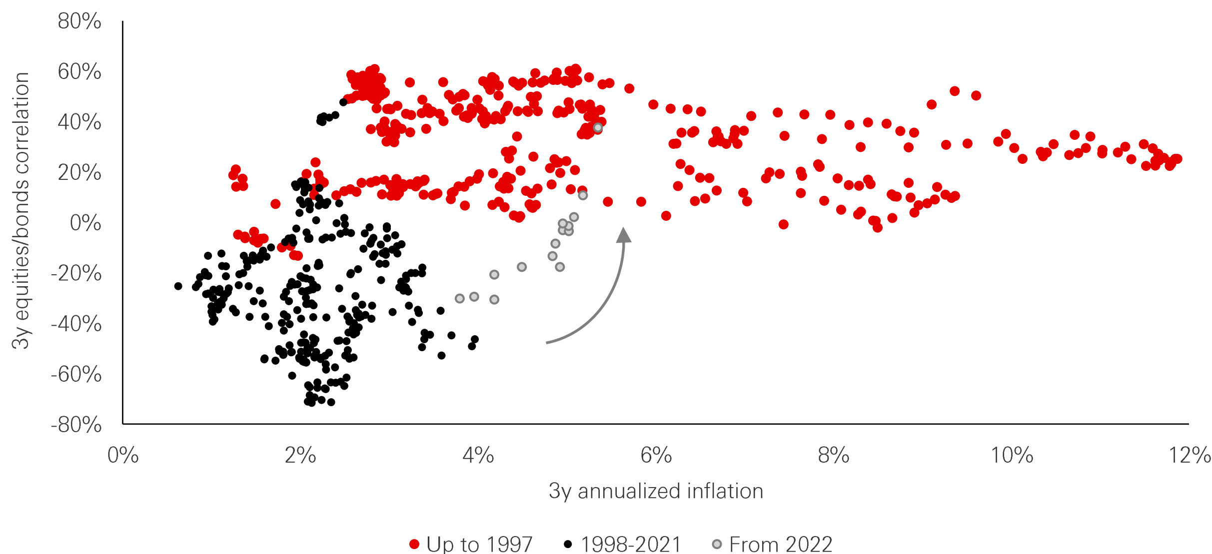
Looking forward: a new diversification handbook

The role of cash and bonds

Correlation levels can be expected to decrease with inflation concerns now receding. However, they could return. Core inflation remains elevated, even though policymakers are repeatedly advertising that they do not want a repeat of the 'cutting too soon' Volcker regret story. Slightly less anchored inflation expectations, more volatile realised inflation, less supportive monetary conditions, more fiscal support, or any combination of the above could all prevent us from seeing a reiteration of the post-GFC era. And getting at least one of these conditions does not seem too far-fetched.

The views expressed above were held at the time of preparation and are subject to change without notice. Any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Asset Management accepts no liability for any failure to meet such forecast, projection or target.

Figure 3: US Equities/Bonds Correlation vs CPI



Source: HSBC AM, Bloomberg, May 2023. **Past performance is no guarantee of future returns.**

Consequently, it makes sense to get ready for less ideal environments for traditional asset allocations and be prepared to see new episodes of positive stock/bond correlation as history suggests (fig. 3). This implies considering government bonds as risky assets, despite low historical volatility. This also means considering behaviors that did not really materialise in a post GFC world, where central banks repeatedly came to the rescue. Indeed, should they keep the current quantitative tightening programmes running, governments will find it less easy to sell their debt. An obvious implication would be higher nominal (and real) yields for government bonds, which should ultimately catch up with money market instrument rates.

In addition, it is worth emphasising that currently, money market instruments tend to deliver higher yields than government bonds. And yield curves are usually not inverted. For instance, since 1980, the 10-2 slope has only been negative 12.6% of the time. Incidentally, since 1980, the US has been in a recession about… 12.5% of the time.

Figure 4: Inflation and slope of the yield curve

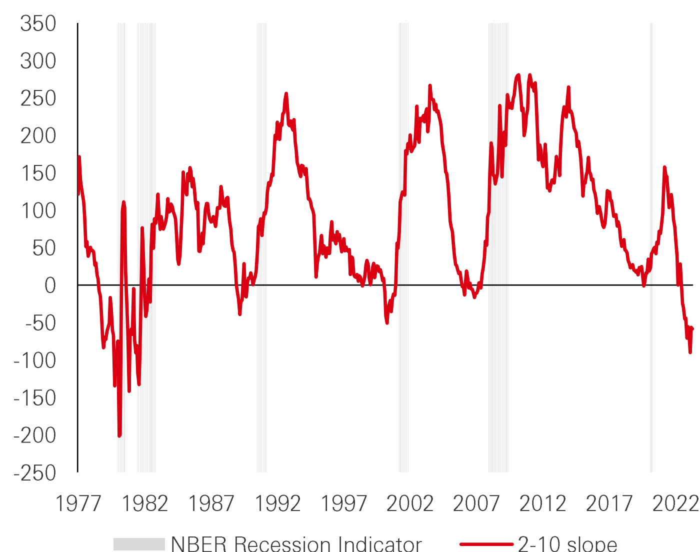
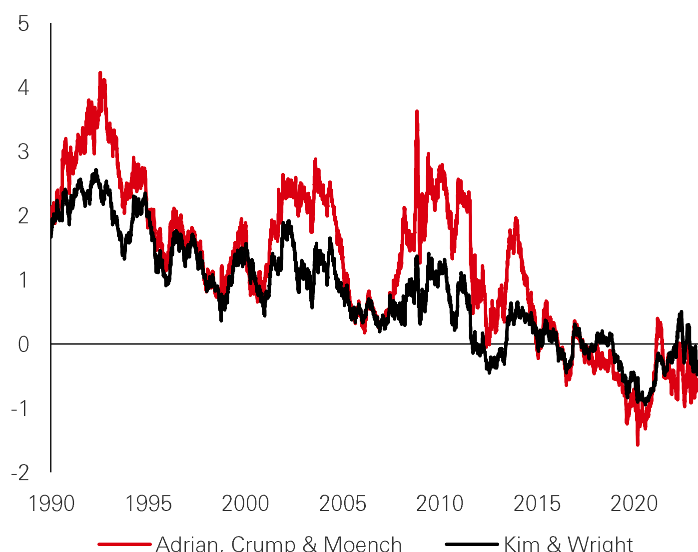


Figure 5: 10y US Term Premium Models (%)



Source: HSBC AM, Bloomberg, May 2023. **Past performance is no guarantee of future returns.**

The views expressed above were held at the time of preparation and are subject to change without notice. Any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Asset Management accepts no liability for any failure to meet such forecast, projection or target.

The current inversion of the yield curve means that investors favor longer-term bonds over shorter-term ones. As we've seen, in itself this is unusual, and it is all the more unusual as models show the 10y term premium is currently negative.

The collapse of the term premium of government bonds was supposed to be related to a savings glut. However, if these savings are able to migrate to riskless instruments that deliver decent yields, term premia should reprice and increase significantly to attract investors. The current environment, with many investors expecting a recession and hence future rate cuts, does not favor a repricing of the term premium, but this repricing should ultimately take place.

In the meantime, it makes the case for long-term bonds less attractive for asset allocators who have to find substitutes to increase the resilience of their allocations. As we detailed in our last House Views publication, we think short-duration fixed income is the natural asset class to own at this juncture. In the search for new diversifiers, Alternatives are also a clear choice and should play an important role in longer-term strategic allocations. Geographic diversification can be another part of the solution, with very different macro environments in the East and West. Here, an active approach will be key, given unique considerations across emerging markets. Beyond these more glaring options, we consider some more granular considerations below that can offer relative value and support portfolio resilience.

Inflation-linked bonds

Allocating to inflation-linked bonds (ILBs) makes sense when realised inflation is in line or higher than expectations, as inflation risk premium arises from the fact that investors holding nominal assets are exposed to unanticipated changes in inflation. It is hard to fathom how the inflation risk premium could not pick up as we enter a new economic regime. Geopolitical power struggles are leading to a retreat from globalisation, which is an inflationary development. Likewise, climate policy and the necessities of the energy transition will create supply stresses. And aging societies producing shrinking working age populations means a constrained labour supply. Accordingly, while we think inflation is going to fall back from current levels, these issues are likely to create a tendency for inflation to spike through supply-side shocks.

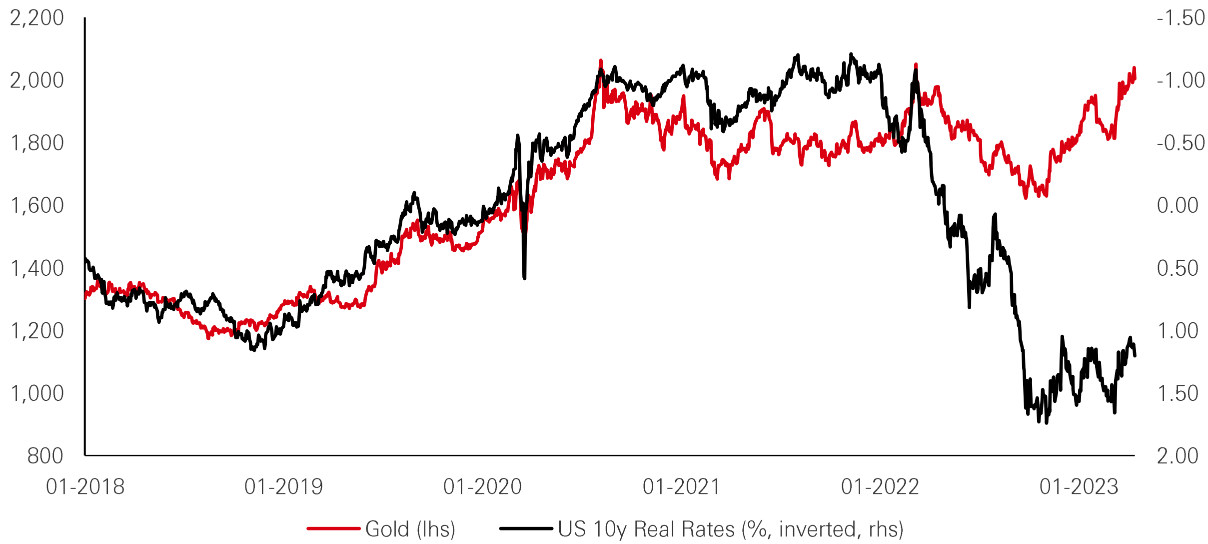
Nevertheless, current inflation expectations as priced using ILBs seem unfazed by this potential new environment. Current implied inflation curves are close to flat, which broadly means that markets are anticipating tamed inflation. Current pricing levels would also mean there will not be any inflationary period over the next 10 years, which could make the asset class attractive for asset allocators who think differently.

Gold: following central banks

It seems the Fed has now hit the point where fighting inflation has to be traded off against financial stability, and in this environment, gold appears as a winner: the period when the Fed could tighten conditions and hurt gold as real yields would slowly pick up has passed. Now that investors are more worried about financial stability, they are less concerned that gold doesn't provide them with yield. This explains why the relationship between gold and US real rates, which seemed strong when real rates were low or decreasing, has recently come to a halt.

The views expressed above were held at the time of preparation and are subject to change without notice. Any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Asset Management accepts no liability for any failure to meet such forecast, projection or target.

Figure 6: Gold and US 10y real rates

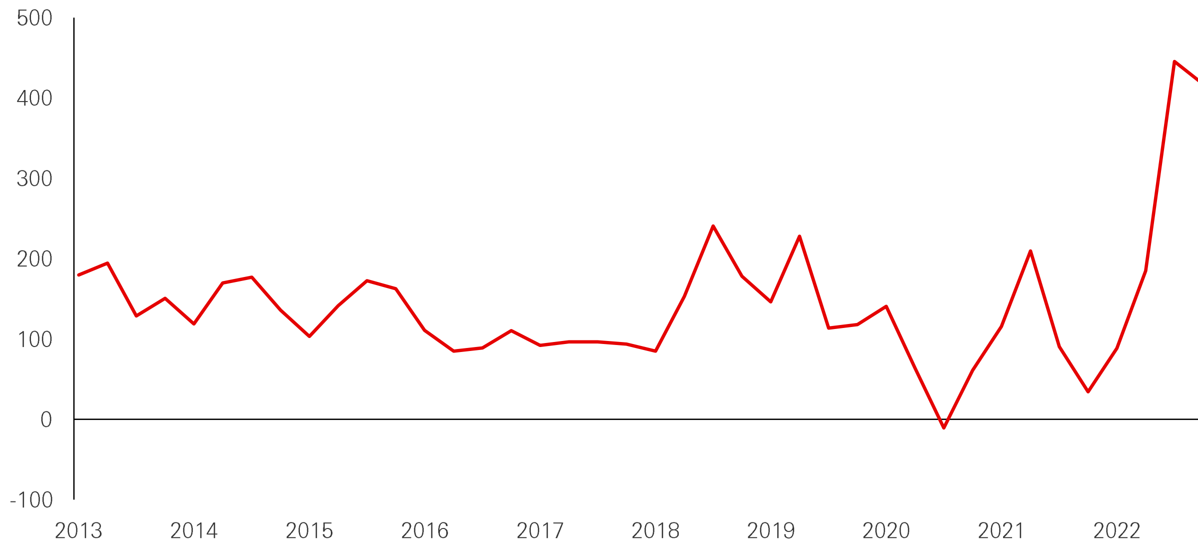


Source: HSBC AM, Bloomberg, May 2023. **Past performance is no guarantee of future returns.**

Long term: follow central banks

With the 'weaponisation' of the US dollar seen with Russia, most central banks and governments are probably rethinking their critical dependencies. Gold offers a neutral reserve asset, limited in supply, at the mercy of no central bank or government, and a natural conduit of all kinds of trade settlement.

Figure 7: Quarterly Net Gold Purchases by Central Banks (metric tonnes)



Source: HSBC AM, Bloomberg, May 2023. **Past performance is no guarantee of future returns.**

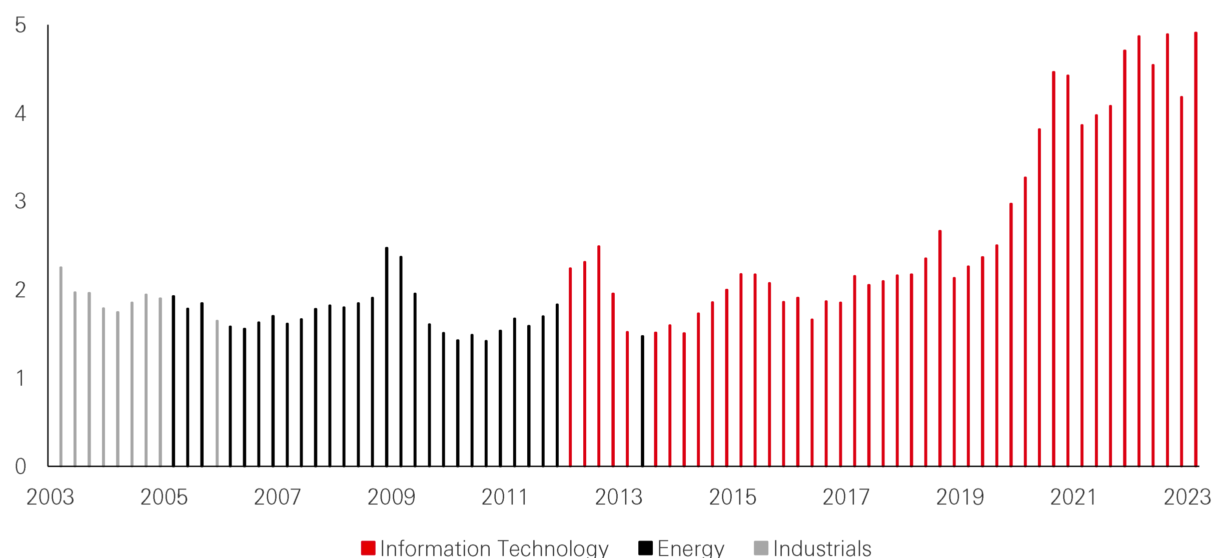
Central bank actions in the gold market over the past year suggest some policymakers are not only thinking, but also acting. Amidst current and expected turmoil, gold remains a reserve asset of choice for those playing the long game, as owning gold avoids unwanted risks - no duration risk, credit risk, liquidity risk, etc.

The views expressed above were held at the time of preparation and are subject to change without notice. Any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Asset Management accepts no liability for any failure to meet such forecast, projection or target.

After a false start, a real rotation into value

Both the short and long legs of the value factor are interesting at this point. On one side, the 'expensive' (short) leg currently includes high duration, non-profitable stocks (especially within the technology sector) - i.e. stocks that are levered on the future and hope to improve their profitability (or to become profitable) at some distant point. If real rates are to stop decreasing, high valuations might be re-rated to the downside, even if remaining elevated. Consequently, the tech dominance in equities indices should decrease.

Figure 8: Largest Weight in MSCI World (%)



Source: HSBC AM, Bloomberg, May 2023. **Past performance is no guarantee of future returns.**

On the other side of the spectrum, cheaper stocks (i.e. the long leg) – that tend to be found in energy or materials sectors – have long been neglected by investors. In a world where energy security has moved upwards in the priority list, where capital expenditure in hard assets has been low for years, where the next move is towards de-globalisation, value stocks seem set for a come-back, supported by additional capital expenditure in infrastructure and duplication of supply chains.

More than just Value

Investing in value is just the first part of the story. Value is also a typical building block of many systematic strategies, such as alternative risk premia (ARP). While ARP have disappointed over the past few years, one obvious explanation was their reliance on the value factor at the stock level, at a time when markets believed US technology stocks would outperform forever. And while the pre-covid highs may have not been overtaken, many ARP strategies have performed well recently. The performance of these strategies being largely unrelated to the macro environment makes them effective strategic diversifiers by nature.

Similarly, performance of trend-followers has been very volatile since 2020, but there is no denying that most of them delivered in 2022 both in performance and diversification terms. It is worth remembering what trend-following essentially is: a global tactical asset allocation framework, allowing to be long or short any asset at any time. While the possibility of being short bonds or equities did not help during the golden decade of traditional equity / bond allocations, 2022 showed it could be a very helpful strategy in times of uncertainty.

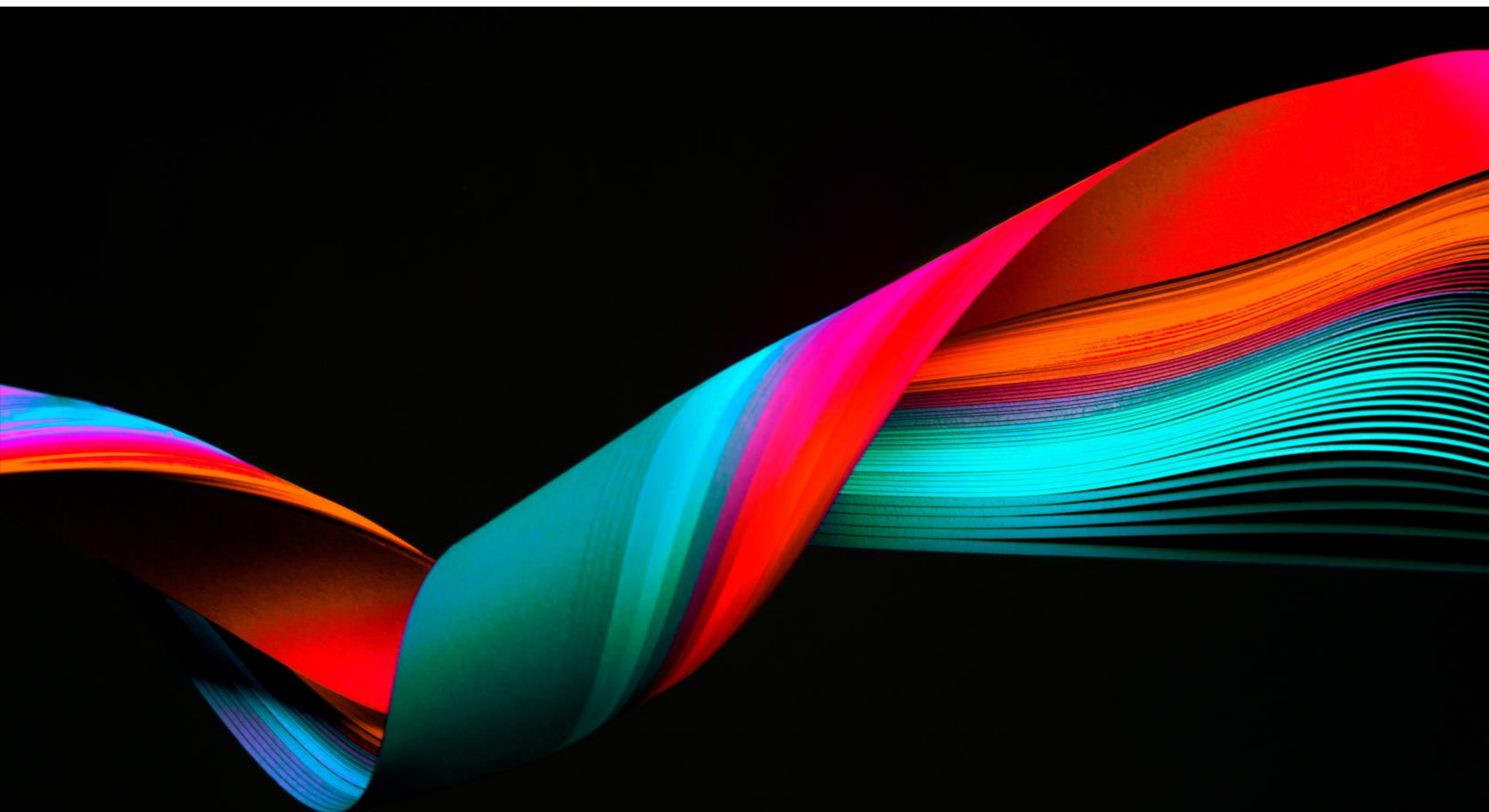
The views expressed above were held at the time of preparation and are subject to change without notice. Any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Asset Management accepts no liability for any failure to meet such forecast, projection or target.

Conclusion

In recent decades, asset allocators have become accustomed to a negative correlation between stocks and bonds, but this was not the historical norm prior to the 2000s. Stocks and bonds have been stronger diversifiers when growth news dominates and weaker diversifiers when inflation news dominates. Given the wide range of potential outcomes and existing pressures on both growth and inflation, investors should be prepared for a more volatile relationship and rethink portfolio diversifiers.

To maintain current level of risks within their allocations over the months to come, investors may also have to decrease their equity allocation. This will translate into lower expected returns in the near term. Investors can look to be more creative, particularly within alternatives to enhance returns going forward. The bottom line is that asset class diversification is not just about managing risk – it's about returns, too. A new regime requires new methods to maximise risk-adjusted returns.

The views expressed above were held at the time of preparation and are subject to change without notice. Any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Asset Management accepts no liability for any failure to meet such forecast, projection or target.



Opportunities and challenges around thematic investing

Thematics have potential to add value in typical asset allocations, even offering opportunity to diversify equity risks given unique return drivers of individual themes. However, results can be disappointing if not managed as part of a disciplined framework.

Arthur Swain
Head of UK Discretionary Portfolio Management

Hugo Thompson
Multi-asset Investment Specialist

As investors look for new approaches to portfolio construction, and tools to improve performance, thematic investing has attracted increasing attention. While the potential benefit of thematic investment is clear, how, when and where to use it remains a subject of debate for asset allocators. We explore the creation of disciplined frameworks that can be used to build robust thematic allocations considering diversification, fundamentals and momentum.

The case for a thematic allocation in investor portfolios

In our view, three core arguments support an allocation to thematic investments:

- Thematics focus on upcoming structural changes and invest in groups of companies that will benefit from them. This makes them a useful compliment to traditional market capitalisation weighted equity benchmarks, which often fail to anticipate and price disruption, and instead overweight past winning companies and sectors.
- Our research has demonstrated that Thematics can deliver excess returns even after accounting for their country, sector, and factors biases. Thematic allocations often benefit from superior earnings growth, as instigating structural disruption generates tailwinds for profitability. For instance, smartphones have underpinned major societal changes and driven much of the technology sector over the last decade-plus, driving outsized returns for select companies now dominating equity market cap indices. However, the rapid proliferation of this change means smartphone shipments are now in decline globally as we run out of new hands to put them in. Emerging opportunities such as AI innovation, which may currently be entering a state of inflated expectations on the part of investors, nonetheless grew at a rate of more than 75 per cent a year between 2015 and 2022 - as measured by AI-based patent applications.[1]
- Thematic investment drivers transcend traditional classifications. Attractive structural growth opportunities are often multifaceted, having wide-reaching impacts across regions and sectors. Thematic portfolios are unconstrained by geography or sector, making them an ideal allocation with which to access these opportunities.

1 Daniel Zhang et al., "The AI Index 2022 annual report", AI Index Steering Committee, Stanford Institute for Human-Centered AI, Stanford University, March 2022.

The views expressed above were held at the time of preparation and are subject to change without notice. Any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Asset Management accepts no liability for any failure to meet such forecast, projection or target.

Challenges for thematic investing

While the long-term upside potential of Thematics makes them a compelling investment, they exhibit strong factor biases, particularly Small Cap and Growth, versus equity markets (Figure 1), and are prone to elevated volatility and drawdowns (Figure 2). The potential for losses has historically kept some investors away, particularly given the possibility of losses in years of positive returns from broad equity markets.

Figure 1: Correlation between thematic excess returns (versus global equity) and MSCI factor indices

	Value	Growth	Quality	Small	Large	Momentum	Low Risk
Healthcare Innovation	-0.4	0.4	0.2	0.3	-0.2	0.5	0.1
Clean Water	0.0	0.0	0.0	0.5	-0.4	0.0	0.0
Agribusiness	0.4	-0.4	-0.3	0.1	0.0	0.0	0.0
Renewable Energy	-0.2	0.2	0.0	0.1	-0.1	0.3	0.1
Digital Security	-0.3	0.3	0.1	0.3	-0.2	0.3	0.0
Robotics	-0.5	0.5	0.2	0.4	-0.4	0.1	-0.4
Semiconductors	-0.4	0.4	0.3	0.2	-0.1	0.0	-0.4
Gender Equality	0.5	-0.4	-0.3	0.3	-0.2	-0.2	0.1
Ageing Population	0.2	-0.2	-0.3	0.5	-0.5	0.0	0.1
E-Commerce	-0.3	0.3	0.2	0.2	-0.2	0.0	-0.2

Source: Bloomberg April 2013 to January 2023. **Past performance is no guarantee of future returns.**

Figure 2: Calendar year returns of thematic investments

2014	2015	2016	2017	2018	2019	2020	2021	2022
30%	12%	36%	47%	25%	64%	133%	42%	5%
22%	5%	22%	39%	8%	37%	67%	26%	3%
15%	5%	18%	38%	-6%	36%	55%	23%	-13%
12%	5%	12%	31%	-7%	35%	43%	21%	-14%
9%	2%	11%	29%	-9%	35%	42%	18%	-17%
9%	0%	10%	24%	-9%	31%	40%	16%	-17%
7%	-2%	7%	22%	-13%	30%	19%	8%	-22%
3%	-3%	2%	20%	-13%	27%	13%	7%	-33%
1%	-9%	-2%	20%	-19%	20%	11%	5%	-34%
-1%	-11%	-2%	6%	-19%	18%	10%	-24%	-35%

Legend (colour key): Healthcare Innovation; Clean Water; Agribusiness; Renewable Energy; Digital Security; Robotics; Semiconductors; Gender Equality; Ageing Population; E-Commerce

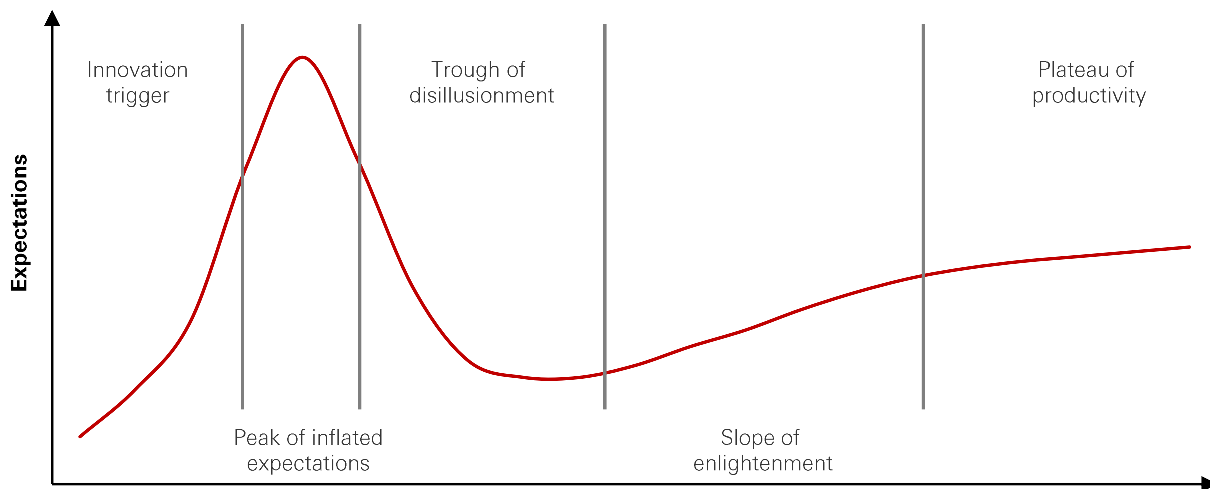
Source: HSBC AM, Bloomberg, April 2023. Healthcare Innovation = ROBO Global Healthcare Technology and Innovation, Clean Water = Solactive Clean Water Index, Agribusiness = S&P Commodity Producers Agribusiness, Renewable Energy = S&P Global Clean Energy, Digital Security = ISE Cyber Security, Robotics = STOXX Global Automation & Robotics, Semiconductors = MVIS US Listed Semiconductor, Gender Equality = SSGA Gender Diversity, Ageing Population = STOXX Global Ageing Population, E-Commerce = Solactive eCommerce Logistics. All returns in USD. 31/12/2013 – 31/12/2022. Diversification does not ensure a profit or protect against loss. Allocations are subject to change without notice. **Past performance is no guarantee of future returns.**

The views expressed above were held at the time of preparation and are subject to change without notice. Any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Asset Management accepts no liability for any failure to meet such forecast, projection or target.

The second challenge for thematic investing is that, in aggregate, the post-launch performance of thematic investment vehicles often undershoots pre-launch expectations (David et al, 2021).

This pattern can be explained using the Gartner Hype Cycle. Early in their evolution, new themes typically experience a surge in demand (often from retail buyers), driving their valuations to untenable levels. When sentiment cools, and valuations correct, investors can be left nursing heavy loses.

Figure 3: Gartner Hype Cycle



Source: Gatner.

Successfully allocating to thematics

While these drawbacks are important to recognise, they are not insurmountable. By employing portfolio construction techniques that have been honed in traditional asset allocation models, it is possible to build robust thematic allocations that can overcome the challenges described above.

A multi-thematic approach

Multi-thematic investing – combining several themes in a single portfolio – can help overcome the volatility inherent in single themes. However, for this approach to be successful, the portfolio must be truly diversified; accessing themes with differentiated performance drivers.

Research from our Thematic Forum, which brings together expertise from across our investment platform, suggests that there are currently three independent transformational trends driving the sorts of structural change that thematic investments benefit from.

We have validated this research quantitatively; subjecting the universe of thematic investment vehicles to a cluster analysis. This analysis both confirms the existence of a trifecta of transformational trends, and helps to map individual themes to trends, as summarised in Figure 4.

The views expressed above were held at the time of preparation and are subject to change without notice. Any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Asset Management accepts no liability for any failure to meet such forecast, projection or target.

Figure 4: A trifecta of transformational trends

Green transformation			Technology			Evolving society		
Climate change	Natural capital	Infrastructure	Digitalisation	Cloud and big data	Semi-conductors	SRI	Ageing population	Smart city
Renewable energy	Circular economy	Agribusiness	FinTech	Internet of things	Robotics and automation	Social equality	Millennials	Social media
Future of transport	Hydrogen	Clean water	Cybersecurity	Smart factory	Space	Diversity	E-Commerce	Gaming
Blue economy	Biodiversity	Green real estate	Artificial intelligence	Healthcare innovation	Telemedicine			
				Genomics				

Source: HSBC AM, May 2023. For illustrative purposes only.

Clearly identifying distinct transformational trends, and mapping themes within each, enables the construction of a thematic portfolio with a balanced allocation across return drivers. This in turn helps dampen the drawdowns inherent in single theme investing.

An active investment approach

The solution to the second challenge for thematic investing, is to employ a dynamic approach to allocating across themes. Dynamism will be of most use in avoiding falling foul of the Hype Cycle, i.e. sustaining large losses as groups of companies with inflated valuations suffer multiple compression. However, active asset allocation can also be employed to tilt portfolios into areas of outperformance.

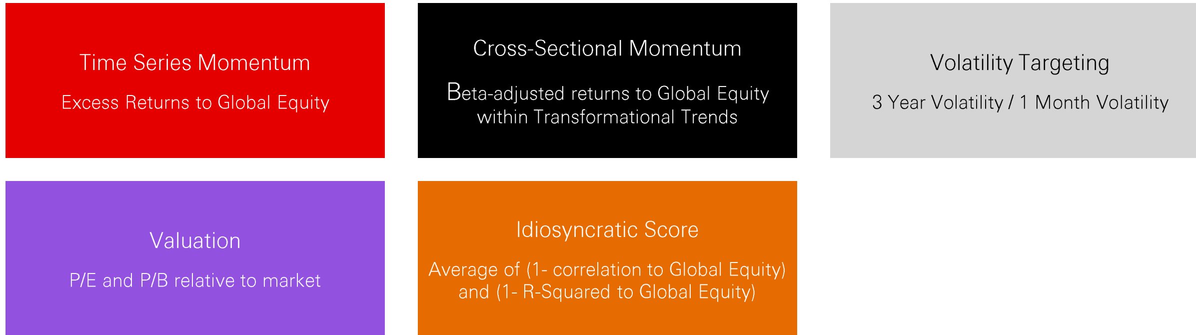
The prominence of each transformational trend, as well as the importance of each theme to its transformational trend, are likely to be time varying. As such, dynamism should apply both to the weight of each transformational trend within a portfolio, as well as to which specific themes are used to express each transformational trend.

When deciding on active positioning, compelling narratives can obfuscate the underlying investment opportunity, a problem that appears particularly acute in thematic portfolios - perhaps due to their forward-looking nature. The recent run up in AI-themed stocks is a good example of this. While there is no question that these themes offer compelling narratives, their ability to deliver attractive financial returns remains unclear.

This is why we think that using a quantitative framework can be a useful addition to qualitative analysis, assuming it relies on robust, well established, and thoroughly tested investment signals (Figure 5). Equally weighting these signals can create an aggregate score to direct active positioning. Fundamental analysis, as well as market sentiment (flow momentum), also have to be considered.

The views expressed above were held at the time of preparation and are subject to change without notice. Any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Asset Management accepts no liability for any failure to meet such forecast, projection or target.

Figure 5: Quantitative investment signals



Source: HSBC AM, May 2023. For illustrative purposes only.

Conclusion

Thematics have the potential to add value within investor portfolios, however they should be used thoughtfully. Single theme investments can markedly increase portfolio volatility, while skewing factor exposure. There is a body of evidence suggesting that poorly timed investment in themes can result in disappointing returns for investors. Nevertheless, asset allocators can rely on a disciplined framework that employs a quantitative approach, is considerate of company fundamentals, and maintains a strong focus on building highly diversified portfolios to avoid falling into this trap.

The views expressed above were held at the time of preparation and are subject to change without notice. Any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Asset Management accepts no liability for any failure to meet such forecast, projection or target.

Important information

Follow us on:

LinkedIn:
HSBC Asset Management

Website:
assetmanagement.hsbc.com

For Professional Clients and intermediaries within countries and territories set out below; and for Institutional Investors and Financial Advisors in Canada and the US. This document should not be distributed to or relied upon by Retail clients/investors.

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. The capital invested in the fund can increase or decrease and is not guaranteed. The performance figures contained in this document relate to past performance, which should not be seen as an indication of future returns. Future returns will depend, inter alia, on market conditions, fund manager's skill, fund risk level and fees. 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 and territories with which they trade. These economies also have been and may continue to be affected adversely by economic conditions in the countries and territories in which they trade. Mutual fund investments are subject to market risks, read all scheme related documents carefully.

The contents of this document 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 of this document will be the responsibility of the user and may lead to legal proceedings. The material contained in this document is for general information purposes only and does not constitute advice or a recommendation to buy or sell investments. Some of the statements contained in this document 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 document 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. These views may not necessarily indicate current portfolios' composition. Individual portfolios managed by HSBC Asset Management primarily reflect individual clients' objectives, risk preferences, time horizon, and market liquidity. Foreign and emerging markets. Investments in foreign markets involve risks such as currency rate fluctuations, potential differences in accounting and taxation policies, as well as possible political, economic, and market risks. These risks are heightened for investments in emerging markets which are also subject to greater illiquidity and volatility than developed foreign markets. This commentary is for information purposes only. It is a marketing communication and does not constitute investment advice or a recommendation to any reader of this content to buy or sell investments nor should it be regarded as investment research. 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. This document is not contractually binding nor are we required to provide this to you by any legislative provision.

All data from HSBC Asset Management unless otherwise specified. Any third party information has been obtained from sources we believe to be reliable, but which we have not independently verified.

HSBC Asset Management is the brand name for the asset management business of HSBC Group, which includes the investment activities provided through our local regulated entities. 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 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;

- 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;

- In Australia, this document is issued by HSBC Bank Australia Limited ABN 48 006 434 162, AFSL 232595, for HSBC Global Asset Management (Hong Kong) Limited ARBN 132 834 149 and HSBC Global Asset Management (UK) Limited ARBN 633 929 718. This document is for institutional investors only, and is not available for distribution to retail clients (as defined under the Corporations Act). HSBC Global Asset Management (Hong Kong) Limited and HSBC Global Asset Management (UK) Limited are exempt from the requirement to hold an Australian financial services license under the Corporations Act in respect of the financial services they provide. HSBC Global Asset Management (Hong Kong) Limited is regulated by the Securities and Futures Commission of Hong Kong under the Hong Kong laws, which differ from Australian laws. HSBC Global Asset Management (UK) Limited is regulated by the Financial Conduct Authority of the United Kingdom and, for the avoidance of doubt, includes the Financial Services Authority of the United Kingdom as it was previously known before 1 April 2013, under the laws of the United Kingdom, which differ from Australian laws;
- 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 provides its services as a dealer in all provinces of Canada except Prince Edward Island and also provides services in Northwest Territories. HSBC Global Asset Management (Canada) Limited provides its services as an advisor in all provinces of Canada except Prince Edward Island;

Important information

- in Chile: Operations by HSBC's headquarters or other offices of this bank located abroad are not subject to Chilean inspections or regulations and are not covered by warranty of the Chilean state. Further information may be obtained about the state guarantee to deposits at your bank or on www.sbif.cl;
- in Colombia: HSBC Bank USA NA has an authorized representative by the Superintendencia Financiera de Colombia (SFC) whereby its activities conform to the General Legal Financial System. SFC has not reviewed the information provided to the investor. This document is for the exclusive use of institutional investors in Colombia and is not for public distribution;
- in Finland, Norway, Denmark and Sweden by HSBC Global Asset Management (France), a Portfolio Management Company authorised by the French regulatory authority AMF (no. GP99026) and through the Stockholm branch of HSBC Global Asset Management (France), regulated by the Swedish Financial Supervisory Authority (Finansinspektionen);
- in France, Belgium, Netherlands, Luxembourg, Portugal, Greece by HSBC Global Asset Management (France), a Portfolio Management Company authorised by the French regulatory authority AMF (no. GP99026);
- in Germany by HSBC Global Asset Management (Deutschland) GmbH which is regulated by BaFin (German clients) respective by the Austrian Financial Market Supervision FMA (Austrian clients);
- in Hong Kong by HSBC Global Asset Management (Hong Kong) Limited, which is regulated by the Securities and Futures Commission;
- in India by HSBC Asset Management (India) Pvt Ltd. which is regulated by the Securities and Exchange Board of India;
- in Israel, HSBC Bank plc (Israel Branch) is regulated by the Bank of Israel. This document is only directed in Israel to qualified investors (under the Investment advice, Investment marketing and Investment portfolio management law-1995) of the Israeli Branch of HBEU for their own use only and is not intended for distribution;
- in Italy and Spain by HSBC Global Asset Management (France), a Portfolio Management Company authorised by the French regulatory authority AMF (no. GP99026) and through the Italian and Spanish branches of HSBC Global Asset Management (France), regulated respectively by Banca d'Italia and Commissione Nazionale per le Società e la Borsa (Consob) in Italy, and the Comisión Nacional del Mercado de Valores (CNMV) in Spain;
- 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 the United Arab Emirates, Qatar, Bahrain & Kuwait by HSBC Bank Middle East Limited which are regulated by relevant local Central Banks for the purpose of this promotion and lead regulated by the Dubai Financial Services Authority.
- in Oman by HSBC Bank Oman S.A.O.G regulated by Central Bank of Oman and Capital Market Authority of Oman;
- in Peru: HSBC Bank USA NA has an authorized representative by the Superintendencia de Banca y Seguros in Perú whereby its activities conform to the General Legal Financial System - Law No. 26702. Funds have not been registered before the Superintendencia del Mercado de Valores (SMV) and are being placed by means of a private offer. SMV has not reviewed the information provided to the investor. This document is for the exclusive use of institutional investors in Perú and is not for public distribution;
- in Singapore by HSBC Global Asset Management (Singapore) Limited, which is regulated by the Monetary Authority of Singapore;
- in Switzerland by HSBC Global Asset Management (Switzerland) AG. This document is intended for professional investor use only. For opting in and opting out according to FinSA, please refer to our website at https://www.assetmanagement.hsbc.ch/ if you wish to change your client categorization, please inform us. HSBC Global Asset Management (Switzerland) AG having its registered office at Gartenstrasse 26, PO Box, CH-8002 Zurich has a licence as an asset manager of collective investment schemes and as a representative of foreign collective investment schemes. Disputes regarding legal claims between the Client and HSBC Global Asset Management (Switzerland) AG can be settled by an ombudsman in mediation proceedings. HSBC Global Asset Management (Switzerland) AG is affiliated to the ombudsman FINOS having its registered address at Talstrasse 20, 8001 Zurich. There are general risks associated with financial instruments, please refer to the Swiss Banking Association ("SBA") Brochure "Risks Involved in Trading in Financial Instruments";
- in Taiwan by HSBC Global Asset Management (Taiwan) Limited which is regulated by the Financial Supervisory Commission R.O.C. (Taiwan);
- in the UK by HSBC Global Asset Management (UK) Limited, which is 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

Copyright © HSBC Global Asset Management Limited 2022. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of HSBC Global Asset Management Limited. XB 2773 – EXP03/2024

Follow us on:

LinkedIn:
HSBC Asset Management

Website:
assetmanagement.hsbc.com