Investment and Market Review & Market Outlook and Investment Strategy of the ILP sub-funds for HSBC Life Variable Annuity, Goal Protector and other investment-linked plans for the year ended 30 June 2023.

Table of Contents

ILP Sub-Funds available for Goal Protector Insurance Plan and other investment-linked plans

HSBC Insurance Asia Equity Fund (SGD)

Investment and Market Review

In SGD terms, the Fund rose 1.94% on a NAV-NAV basis for the month, while the benchmark returned 4.12%. Our stock selection in China was the principal detractor with some offset provided by stock selection in South Korea industrials.

Weak confidence and deteriorating economic activity weighed on the Fund's A-share holdings despite improved policy support rhetoric from China's recent Politburo meeting. In particular, profit taking in the relatively outperforming software sector impacted our holdings in Hundsun Technologies and Yonyou Network Technology, while negative regulatory developments in the pharmaceutical distribution sub-sector led to selling pressure across healthcare names, including Jiangsu Hengrui.

On the flip side, our holding in Samsung Engineering—one of Asia's leading engineering, procurement and construction companies— performed well on stronger order book outlook in the hydrocarbon space and from Samsung group projects. Retail activity has picked up in South Korea, where conditions have been extremely challenging for a disciplined fundamental investor over the last couple of months. At one stage, 40% of the daily volumes on the KOSPI index were from eight electric vehicle (EV) battery stocks, but such trend is unlikely to last.

Regional equities, as measured by the MSCI AC Asia ex Japan Index, surged 6.1% in USD terms in July as softer-than-expected US inflation data spurred risk appetite. Regional stocks were also supported by optimism over more stimulus measures in China. The US consumer price index (CPI) increased 3.0% year-on-year (YoY) in June, down from 4.0% in May. The Federal Reserve (Fed) raised interest rates by 25 basis points, as expected, at its July meeting, adding that further rate increases will depend on data. Markets, however, took the rate hike in stride on hopes that the Fed's aggressive tightening cycle is ending.

In China, stocks jumped 10.8% in USD terms in July after its top leaders, at a recent Politburo meeting, pledged to roll out more policy support to shore up the nation's flagging economy, with a focus to boost domestic demand and aid the ailing property market. China's GDP expanded 6.3% YoY in the second quarter of 2023 (2Q23) but fell short of market forecasts. In Hong Kong, stocks rose 2.8% in July after recovering from a steep decline earlier in the month.

South Korea (+6.5%) surged during the month, boosted by a rebound in EV battery related stocks and the country's faster pace of economic growth. The South Korean economy expanded 0.6% quarter-on-quarter (QoQ) in 2Q23, accelerating from 1Q23's growth of 0.3%. Taiwan (+0.8%), however, underperformed other regional markets, weighed down by a correction in index heavyweight Taiwan Semiconductor Manufacturing Company, which cut its 2023 sales outlook after reporting its first YoY drop in quarterly profit in four years.

In the ASEAN region, all equity markets turned in positive performance in July. Malaysia (+9.7%), Singapore (+9.3%) and Thailand (+8.1%) delivered strong gains, while the Philippines (3.1%) and Indonesia

(+1.4%) saw more muted returns. In Malaysia, Bank Negara Malaysia paused its rate tightening cycle, leaving overnight policy rate at 3% as inflation in the country cooled, while Malaysian Prime Minister Anwar Ibrahim unveiled a plan to boost the Malaysian economy. According to advance estimates, Singapore's economy unexpectedly expanded 0.7% YoY and 0.3% QoQ in 2Q23, avoiding a technical recession. In Thailand, political gridlock continued as the parliament blocked Move Forward Party leader Pita Limjaroenrat from running for prime minister. Elsewhere, the Philippine central bank warned that inflation could remain elevated due to the impact of El Nino and wage increases, while Indonesia's central bank left rates unchanged for a sixth time at its July meeting.

For the month, India advanced 3.0% as investors continued to re-rate the growth potential of its economy. The International Monetary Fund bumped up India's growth forecast for financial year 2024 to 6.1%, citing strong domestic investment. Meanwhile, India's CPI accelerated for the first time in five months, rising 4.81% YoY in June, from an increase of 4.31% in May.

Market Outlook and Investment Strategy

July saw a shift in narratives around the world that looks to be supportive of growth for the rest of 2023. The news that moved the markets the most was the announcement from the Chinese authorities that in the coming months, they would be issuing directives to support the property market through a combination of reductions in mortgage rates and transaction fees, attract private capital to generate investments, promote consumer spending and focus on profitability and returns for state-owned companies. With the Chinese economy on the brink of deflation, the timing of the pro-growth directives was a very welcome signal. If carried out, they can lead to structural changes that can potentially lead to an improvement in consumer confidence and growth in the Chinese economy, in our view. The proof is in the pudding, however, as we await the roll-out of actionable policies at the regional and city levels.

Foreigners remain underweight in Chinese equites, and the sharp rally in China stocks after the Chinese government's recent announcements suggests that there was an element of short-covering by foreign investors involved. We expect to see more foreign buying as confidence returns, depending on the strength of the policies enacted.

India remains attractive despite high valuations; ASEAN balance sheets healthiest in years

Flows into China may impact the Indian market, which had previously benefited from the portfolio outflows from China. The structural arguments for why the Indian market is attractive remain unchanged. India, where earnings growth is robust, inflation is under control and interest rates are steady, continues to attract investments. However, valuations are high with the market trading at 10% above its 10-year average, and that could prove to be a headwind.

The outlook for ASEAN is tied to the demand for energy transition materials and its impact on the domestic economies. Indonesia has been leading the transition and been the best performing ASEAN market, along with Singapore. Corporate balance sheets are also at the healthiest level in more than 15 years.

The aforementioned factors continue to drive our favourable view of high-quality banks and companies leveraged to domestic consumption and capex cycle in Indonesia and India.

Notwithstanding our constructive long-term view on innovation tech leaders in South Korea and Taiwan, we remain selective in this space due to uncertain Western demand in consumer tech as economic growth in the West slows. However, we could be reaching the trough of the cycle.

Outside of the region, inflation is either stable or trending lower. However, there is risk from the food and energy components of inflation which may be more persistent than expected due to the termination of the Russian-Ukraine grain agreement and lack of supply increase from the Organization of the Petroleum Exporting Countries even as demand expectations rise.

Source: iFAST Financial Pte Ltd

HSBC Insurance Asia Focused Income Fund (SGD)

Investment and Market Review

The fund delivered a positive return over the 1-year period, mainly contributed by our position in Asian equities. Asian equities in the portfolio posted gains driven by the strong performance of our holdings in semiconductor supply chain companies in Korea and Taiwan on the back of the heated AI theme. On the fixed income front, Asian investment grade bonds and Asian local currency bonds also have contributed positively to the performance. On the other hand, Asian high yield bonds detracted from performance largely due to intensified risk in the Chinese property market on the back of a few idiosyncratic headlines. We expect there will be greater credit differentiation in the property space. Hence, we position into better quality names with more land banks in tier 1/2 cities and stronger funding access.

Market Outlook and Investment Strategy

Western and Eastern economies are diverging; disinflation continues in the West, but core inflation remains sticky, raising the probability of small additional rate hikes. Conversely, Eastern economies face a much more benign growth and inflation mix. Upwardly revised growth figures are raising hopes of a soft landing in the US. However, a recession is still possible towards the end of 2023, as tight monetary policy slows growth. Sluggish eurozone economic data limits the risk of further ECB policy tightening, despite the stickiness of core inflation. Given our view that a Eurozone recession is still possible, we see rates falling faster than the market currently expects in 2024. In the East, inflation is much less of a concern, and areas of supportive policy can help maintain growth. There are risks that a global slowdown might dampen trade revenues, but this can be partially offset by a weaker dollar. Rollouts of targeted fiscal policy support in China looks likely after the July Politburo meeting. While in Japan we expect a gradual normalisation of the yield curve.

Source: HSBC Global Asset Management

HSBC Insurance Asian Bond Fund (SGD)

Investment and Market Review

Asian credit, represented by the JPM Asian Credit Index (JACI), returned -0.92% in August 2023. Of this, +0.51% was from carry, -0.53% was from duration and -0.90% was from credit.

UST yields rose driven by a series of robust economic data suggesting a stronger-than-anticipated US economy. Fed Chair Powell expressed that forthcoming Fed decisions will hinge on the evolving economic outlook, and the central bank is prepared to raise interest rates further if needed. Credit spreads widened on the back of China-related headlines, impacting China and Hong Kong credit particularly in the real estate and financial sectors.

In China, trade data in July surprised to the downside while CPI inflation turned negative largely due to a high base. Property sales remained weak, and sentiment was negatively impacted by a large Chinese property developer missing two USD bond coupon payments due early August. Chinese authorities implemented a slew of measures that underscored China's commitment to stabilizing its economy and markets – these included policy rate cuts, equity market selling restrictions and relaxation of new homebuyer definitions. We believe the key for China's long-term growth sustainability is the progress of structural reforms. We see more comprehensive measures to be rolled out as we approach the Third Plenum in Q4.

On the geopolitical front, US and China are opening new lines of communication to tackle contentious issues, in one of the first signs of progress towards stabilizing relations. Working groups will be created to focus on Asia-Pacific regional and maritime issues, and perhaps broader issues as well.

On the local market front, Bank of Thailand hiked 25 bps as expected, bringing policy rate to 2.25%. The central bank has toned down their hawkish view, and forward guidance seems to suggest that further hikes are not necessary for now. Over in India and Indonesia, the Reserve Bank of India and Bank Indonesia both did not change policy rates, as expected. Bank of Korea also held rates steady, while pledging to maintain policy restrictive for the foreseeable future.

Asia has seen YTD supply amount to around US$ 74 billion, about 37% lower than last year. With a holiday-driven August out of the way, we would expect marginal pickup in issuance activity.

In August, the BGF Asian Tiger Bond Fund (A2 shareclass) returned -1.03% while its benchmark, the JACI, returned -0.92%. Gross of fees, the fund performed flat to the benchmark.

Active credit returns were positive. Our underweight in a Hong Kong developer contributed, as the company was hit by market rumours that it may face tight liquidity in the near term. Our credit hedges also contributed to active credit returns against the widening of credit spreads this month. Other notable contributors include select positions in financial subdebt and an underweight in Hong Kong HY.

On the other hand, our off-benchmark convertible bonds underperformed, particularly in a Chinese name. Select positions in China TMT also detracted due to worries about the economic backdrop and geopolitical tensions, despite stable fundamentals and earnings. Another notable detractor is select positions in financial seniors.

Market Outlook and Investment Strategy

We reduced some risk in line with our overall cautious stance, reducing credit beta from 1.19 to 1.09. We have also cut down on our CDS hedges post the outperformance in the month, as we continue managing our CDS positions dynamically.

Sold down some positions in financials, particularly Korean bank seniors whose valuations have become more tight. Added to some financial subdebt that had sold off in the past month's volatility but were fundamentally stable.

Reduced off-benchmark convertible bonds and de-risked in China across TMT, sovereign/ SOEs and real estate.

Reduced IG credit allocation in Korea and Middle East as we expected new issuances in these regions.

Added to Sri Lanka where there was positive newsflow and added slightly to Pakistan tactically.

Within Indonesian sovereigns, removed local currency bond positions as they have outperformed and added to USD ones, where there is likely less issuance need than initially planned.

On the local markets front, we went short JPY duration and removed our long IDR and long KRW duration.

Positioning:

USD Duration: Long

Hard Currency Credit:

- The fund is positioned in an up-in-quality manner, with 79.4% in IG (including cash) as of end August and a BBB average rating.
- APAC IG: This segment remains a resilient source of short-dated carry, has a strong presence of sovereign/quasi sovereign issuers, shorter duration than global IG counterparts and absorbable issuance pipeline. We are comfortable with Indonesia sovereigns and some renewable operators in the private utility space. Thai corporates and financials remain another source of active risk in the fund, although we avoid exposure to the credits linked to ongoing involvement in Myanmar. In Malaysia, we like select exposures in the quasi-sovereign space. In India IG, we like names with dominant market positions and strong balance sheets that we expect should weather through near-term inflation and macro headwinds.
- China: As of end August, ATBF has a 26.4% allocation to China - a 11.6% underweight compared to its benchmark. We continue to find opportunities in China while being intentional in positioning to mitigate pitfalls. In China offshore state-owned enterprises (SOEs), fundamentals are stable overall, and technicals are strong due to limited supply and supportive onshore banks. While we are selectively positioned in some strategic SOEs, we have an underweight overall in the sector on the back of tight valuations. Within private-owned enterprises (POEs), we like the technology, media, and telecom sector due to improving credit trends and reduced regulatory risks. In the property sector, there has been a lack of meaningful easing measures alongside continued weakness in results. As such, we have reduced risk in the sector and any remaining allocations are to stronger names that we believe would be survivors. On the LGFV front, while our short-term view is that there will not be a wave of defaults, we remain cautious and prefer staying mostly in IG quality credits.
- Non-China HY: In India HY, we like renewables, steel companies, infrastructure credits and select non-bank financing companies. There has been pickup in growth, improved access to domestic liquidity and stable credit profiles. In Indonesia HY, we like names in energy, renewables and real estate. We like select opportunities in Philippines, Hong Kong and smaller issuing countries on a name-by-name basis and have underweight exposure to Frontier sovereigns such as Pakistan, Sri Lanka and Mongolia.
- APAC Financials: Asian financials' profitability has been improving due to the higher rates environment. Asset quality has also improved. The buffers built up during the Covid period will

help to cushion the expected deterioration in asset quality as economic growth slows and funding cost rises. Chinese asset management companies' systemic importance has been illustrated through Huarong's bailout led by Citic Group. Other Chinese financials such as leasing companies have been seeing improving business as China recovers from the pandemic. Korean financials still offer value vs Chinese and some SEA ones even after decent spread tightening. They have been more regular issuers in the market, giving us opportunities to take exposure. We are comfortable with the fundamentals of the Korean banking system and do not expect the stress in the housing market to exert too much negative impact. Other financial holdings in countries such as Hong Kong, Malaysia and Thailand are mostly in top banks with good fundamentals and/or parental/ government support that would help them weather through macro uncertainty.

- Middle East: Our allocations in Middle East credit are on the back of 1) attractive carry and 2) their diversifying feature to a core Asian allocation given Middle Eastern countries are typically oil exporters and Asian ones are mostly oil importers. We have cut down our positions there recently given oil prices have come off their highs and technicals have become weaker.

Source: BlackRock (Luxembourg) S.A.

HSBC Insurance China Equity Fund (SGD)

<u>Investment and Market Review</u>

In 2023 the China markets were heavily depressed by the twin overhangs of the 'dynamic zero' COVID policy and the ongoing contraction in property activity, both of which are depressing economic activity and seriously impacting earnings in many sectors of the market. Outside of China, the macro setup also looks increasingly challenging with global growth momentum seemed to be softening, inflation proxies remain elevated on high commodity prices and lingering supply-chain issues, and central banks and governments globally are normalizing policy and withdrawing stimulus on a record-matching pace. The divergence in the monetary-policy trajectories between China and the US during the period has also caused the RMB to decline against the dollar, which was not favourable to the China market.

Thankfully, however, we have seen a very sharp rebound in markets near the end of 2022 from those very 'oversold' levels. The recovery was driven by the long-awaited relaxation of Covid measure. The Chinese authorities have also taken more decisive steps to support activity in the domestic property market in the last 2 months through the provision of increased liquidity support to many of the distressed private sector developers. Nonetheless, the positive sentiments were short-lived and have weakened towards the end of the first quarter due to the re-escalation of geopolitical tension between US and China. The disappointing post reopening recovery and a lacklustre policy response are also undermining confidence in the near-term cyclical outlook as well as longer term growth forecasts for China.

<u>Market Outlook and Investment Strategy</u>

In terms of investment strategy, we maintain our focus on sectors that we see structural growth over the medium term. We like the technology sector as select software and technology hardware names will benefit from the "Digital China" development and localisation trend. The internet sector is also back to our radar, as the peak of the regulatory cycle is now behind us. We believe some online media companies will benefit from the industry. For industrial sector, its long-term growth outlook is underpinned by China's industrial upgrade, increasing automation on the back of escalating labour costs; and a greener China. On the other hand, we remain underweight in Chinese banks due to concerns on their asset quality and net interest margin outlook given the weak macro backdrop.

Source: Schroder Investment Management Limited

HSBC Insurance Chinese Equity Fund (SGD)

Investment and Market Review

The Chinese Equity Fund was down by -19.70% over the past year as of 30 June 2023 (SGD terms), while its benchmark, MSCI China 10/14 Net Total Return Index dropped -19.49% (SGD terms) over the same period.

In the second half of year 2022, Chinese Equity market sentiment was affected by the pandemic situation in mainland China, US-China geopolitical tension and policies on property market. However, light at the end of the tunnel was seen near the end of the year with reopening hope in 2023 and turning point for regulatory policies.

In 2023, Chinese Equity market rose on reopening recovery trade in January and February and then corrected on moderating economic recovery and re-escalating US-China tensions. Economic activities came in weaker than expected since April. Fixed Asset Investment missed expectations, dragged down by a deeper contraction in property investment while manufacturing investment also showed some slowdown in momentum. Property sales weaken again sequentially in April and May, with subdued home purchase intention.

Sector allocation effect was positive while security selection effect was negative during the period. The fund performance was mainly driven by favourable stock selection in Communication Services and Consumer Discretionary. However, our underweight positions and negative stock selection in Financials dragged the performance.

Market Outlook and Investment Strategy

The low valuation of Chinese stock market, especially compared with other developed markets and other countries in Asia, has priced in a relatively pessimistic outlook following a slower recovery. The Politburo meeting in July addressed market concerns in multiple areas, particularly with respect to the property sector and local government financing vehicle (LGFVs). We believe the tail risk of significant macro slowdown and financial system risk have been lowered.

We think more detailed and all-rounded policy easing measures across cities are needed to fully stabilise the property sector and prevent the risk of a "double-dip," particularly in light of a lack of meaningful improvement in the private developers' liquidity situation and more defaults from a number of issuers recently. We believe improving homebuyers' sentiment (which likely require better income, jobs and economic outlooks) is critical to a sustained recovery in property sales. We may still see some short-term volatilities as we expect the economic activities data in the next two months would still be weak given concerns around the increasing youth unemployment rate, weakening property market momentum and

US China geopolitical tension. Policy follow-through and implementation and how much and how sustainable they would retrieve consumers' and homebuyers' sentiment are needed to be observed.

Investment team would continue to focus on bottom-up selected quality growth stocks in AI related industries, electric vehicles supply chain and internet sector, which provide long term structural growth opportunities.

Source: HSBC Global Asset Management

HSBC Insurance Emerging Markets Equity Fund (SGD)

Investment and Market Review

Emerging markets (EM) gained over the 12-month period ending June 2023. Emerging European markets were the strongest performers, despite rising fears about a potential recession in Europe as they began to anticipate rate cuts as inflation eased. Greece also benefited as the ruling New Democracy party won a second term in office in May, signalling a continuation of market friendly policies.

Turkey performed well, largely driven by performance in the second half of 2022 as the central bank cut interest rates to 9%. However, during the first half of 2023 investors took profits following this very strong previous performance and as political uncertainty rose ahead of May's presidential election. In the event, President Erdogan was elected, thus extending his two-decade rule, which prompted some further market falls. Poland and Hungary rallied following months of underperformance as a result of the war being waged in neighbouring Ukraine.

Latin American markets, including Mexico, Brazil and Peru were also top performers. Brazil's performance was driven to a large extent by easing fiscal policy concerns and optimism about potentially imminent rate cuts, which materialised in in August 2023. Despite allegations of fraud and share price manipulation at a major conglomerate early in 2023, India outperformed. Improved macroeconomic data and signs that accommodative monetary policy will be ongoing were supportive.

Korea and Taiwan also posted double-digit against a backdrop of optimism about the growth of artificial intelligence. Thailand was just ahead of the index, but South Africa underperformed. Allegations that the country sold arms to Russia, the worsening electricity situation, and the rand's depreciation against the US dollar weighed heavily on the market. Some of the energy-related markets also lagged the index, namely Saudi Arabia, Kuwait, Colombia, UAE and Qatar.

China was the worst performing index market given the authorities' zero-Covid policy (ZCP), which restricted economic activity, a crisis in the property sector and continuing US-China tensions. Towards the end of 2022, the authorities pivoted away from ZCP, re-opening the economy, and implemented policy support measures for the housing sector, the combination of which was helpful for the equity markets. China struggled to make headway in the first half of 2023 amid concerns about its anaemic recovery and the prospects for global growth.

The fund outperformed its benchmark over the 12-month period ending June 2023, driven by strong country allocation. Specifically, the overweights to Brazil, Greece, Hungary and Poland added the most value, while the underweight to India detracted.

Stock selection was slightly negative, particularly in China and Saudi Arabia. It added to returns in South Africa and Korea.

During Q2 2023 we disposed of some Russian offshore holdings that had previously been valued at zero.

Market Outlook and Investment Strategy

There has been some improvement in the global growth outlook in recent months, and optimism towards a soft landing has picked up. Schroders' economics team has lifted its forecasts slightly, but 2024 is still on track to be the weakest in over a decade if you exclude the pandemic year of 2020. In addition, the headline growth forecasts hide a mixed picture, with the US more resilient, and economies such as China and Germany losing momentum. With growth slowing, disinflation looks set to continue but the pace of falling inflation may ease, and further falls may come at a higher cost in terms of rising unemployment. There are also upside inflation risks stemming from energy prices, and from the impact of El Nino on the food side. Monetary policy tightening cycles from major central banks look to be peaking, but against this backdrop, rates may be held high for longer.

Concerns over the outlook for China's economy have continued to mount. After the initial burst of recovery in Q1, led by the services sector, activity has not broadened out. Economic scarring from the impact of the pandemic and associated restrictions persists, and private sector and household confidence remains low. There continues to be an ongoing loss of confidence in the real estate sector with negative circularity; a sector which is estimated to account for 25% of GDP. Weak global trade remains a drag on the export side of the economy, though there is potential for a cyclical turnaround in the next 12-months. Deflationary concerns have created headlines recently, raising some concerns given debt levels. However, these are more related to an unwinding of previous commodity price rises, as opposed solely to a demand issue, and should ease.

The authorities have delivered policy support but this has so far been incremental and targeted in nature, with limited impact. There are various policy tools on the table though, suggesting fears of a financial crisis are overblown. The closed capital account means that the economy is internally funded and the government controls the financial system. There is scope for further monetary easing, which could alleviate the interest burden and support real estate. Further fiscal support measures could be delivered for local governments or to support consumption. Meanwhile managed currency depreciation could be another mechanism to ease pressure, though the People's Bank of China recently reaffirmed its commitment to a reasonably stable USD/RMB rate.

Slower global trade has pressured export-oriented EM economies. Signs of ongoing progression in the inventory cycle is encouraging though, and the outlook is for a recovery in the trade and technology cycle in 2024. The main risk to this is a DM recession, though this is not our base case and the outlook has improved somewhat recently. EM disinflation is projected to continue, creating room for monetary policy easing. The risks to inflation relate to El Nino and energy prices. Aggregate EM Valuations present a somewhat nuanced picture. EM equities are close to the historical median on a 12-month forward price-earnings (since 1995) and a price-book basis. EM is cheap versus history on a dividend yield basis. At the market level, EM valuations remain reasonable, with the exception of India, and on certain measures South Korea. EM yields and currencies in general are broadly at attractive levels.

Sentiment towards EM has dimmed in the past month, but there are various positive drivers as we move into 2024. Firstly, there is a question as to whether pessimism towards China is overdone. We expect growth to remain muted but the authorities have policy flexibility to provide necessary support. Sentiment is broadly negative and valuations are cheap on a range of metrics. An inflection in global trade would be supportive for China and other EM exporters. Furthermore, early stage monetary policy easing is underway in Brazil and Chile, with other EM central banks expected to follow as disinflation comes through. From a risk perspective, we are cognisant of the fact that a US soft landing is increasingly consensus, raising downside risks in markets. Chinese policy remains uncertain, while geopolitical tensions with the US continue to be elevated. Inflation risks are another area to monitor.

Source: Schroder Investment Management Limited

HSBC Insurance Ethical Global Equity Fund (SGD)

<u>Investment and Market Review</u>

Global equities declined in September and over the third quarter of 2022 as recessionary fears intensified due to aggressive rate hikes and hawkish central bank rhetoric, particularly in the United States. Stock selection in the materials sector contributed to relative performance and a lack of exposure to the real estate sector also helped. As the last quarter wound down, concerns of economic slowdown following the aggressive central bank hikes through the year returned to pressure sentiment. As a result, global equities closed 2022 with their worst annual loss since the 2008 global financial crisis. The fund significantly outperformed its benchmark index in the 4Q22, when stock selection in the consumer discretionary, energy and information technology sectors contributed to relative performance.

Global equities advanced for a second consecutive quarter, as market concerns surrounding the distress in the global banking industry were somewhat offset by expectations for a potential moderation in monetary policy tightening. The fund recorded a positive return in the 1Q23 but slightly lagged its benchmark due mainly to allocation effects. Global equities advanced during the second quarter of 2023, as concerns about banking sector woes and the US debt ceiling crisis subsided, whilst better-than-expected corporate earnings and hopes for dovish central bank policies also supported sentiment. Market excitement over the growth prospects driven by artificial intelligence (AI) further boosted investor appetite, pushing the US big-cap technology stocks to the forefront of the rally. Stock selection in the health care, industrials and consumer staples sectors added to relative return.

<u>Market Outlook and Investment Strategy</u>

Our macro outlook has not changed materially: inflation may be moderating but it remains at an elevated level, and the lagged impact of aggressive central bank tightening will likely take a toll on company performance. We enter the second half of 2023 with a slightly defensive stance. This is a continuation of our approach in recent months whereby we have been gradually reducing the cyclical risk exposure of the portfolio. We have exited industrials stock Westinghouse Air Brake Technologies and rotated some of the capital into defensive positions in the health care sector, adding Takeda Pharmaceutical to the portfolio whilst deepening our existing positions in Fresenius Medical Care and ICON. We have trimmed our position in Wheaton Precious Metals and added to Albemarle. These decisions have allowed us to realise profit whilst optimising our risk-reward profile.

We expect to achieve this with a disciplined and diversified approach to identify sectors and companies that are favourably priced relative to their long-term fundamentals, earnings potential and shareholder value creation. We are exploring the Japanese market for more high-quality but undervalued stocks. Our discussions with company managements echo what has attracted foreign capital to the market this year—many companies have been sitting on net-cash balance sheets and they are willing to deploy capital to enhance shareholder returns through dividends, buybacks and accretive acquisitions. In general, this movement should provide more downside support to the Japanese market even as risks of a global recession continue to loom.

Source: Franklin Templeton

HSBC Insurance Ethical Global Sukuk Fund (SGD)

Investment and Market Review

In 3Q22, the Sukuk market declined, but outperformed most other global bond markets, as major central banks continued to increase policy rates sharply. The US Federal Reserve (Fed) seems intent on continuing to tighten financial conditions, against what we see as an ongoing slowdown. Policymakers remain convinced of a soft landing for the economy, but inflation may realistically only normalise in a downturn, with higher unemployment. In 4Q22 , the Sukuk market registered positive returns, amid signs that the cycle of monetary tightening by central banks was nearing an end. security selection in sovereigns, notably Pakistan, boosted returns. Security selection in corporate financials also enhanced returns.

In 1Q23, amid high levels of volatility in financial markets and banking sector turmoil in March, the Sukuk market registered positive returns, helped by signs of easing inflation and hopes that the cycle of monetary tightening by central banks was drawing to a close. Security selection in sovereigns, notably the Maldives, boosted returns. Global aggregate bonds posted negative returns in 2Q23, with fixed income markets remaining volatile. After addressing a bout of financial sector turmoil early in the quarter, central banks returned their focus to inflation, with both the US Federal Reserve (Fed) and European Central Bank raising rates further to help combat persistent levels of core inflation. Although the Fed paused in June, it intimated that two more 25-basis-point (bp) rate increases were likely by the end of this year. Currency effects weighed on returns, owing to an allocation to the Malaysian ringgit.

Market Outlook and Investment Strategy

After every sharp drawdown in fixed income, there have been strong recoveries. Faced with continued uncertainty and an abundance of risk, one may be tempted to time the market or wait for attractive entry levels. We believe this may be a mistake. In our view, it would be more prudent to focus on asset allocation and consider an increase in higher-quality fixed income sectors, including GCC bonds or global Sukuk, that look poised to better defend portfolios and provide attractive levels of income.

Despite the recent normalisation in markets, we believe stress in financial sectors across the world, and specifically in the United States, suggests that we are exiting a rising rate environment and entering a peak rate environment, with important implications for our asset allocation and risk positioning. Our positioning, as a result, shows a preference for higher-quality credits that have financial buffers to manage slowing economic activity. This is not to say we are not taking any risk, as there are opportunities in Emerging Markets that reflect dire outcomes that we think may not materialise, or at least compensate us for the risks involved. On average, however, our portfolios do have higher credit quality than their historical average. Oil may be vulnerable to slowing demand, but we think OPEC+ (Organization of the Petroleum Exporting Countries and its allies, mainly Russia), through production cuts, should manage to keep oil prices around US$70 a barrel, a supportive level for Gulf Cooperation Council (GCC) sovereign credit profiles.

Source: Franklin Templeton

HSBC Insurance Europe Dynamic Equity Fund (SGD and USD)

Investment and Market Review

An overweight in UniCredit, an Italian banking group, contributed. The company announced first-quarter results with double-digit net revenue growth, supported by strong net interest income and cost reduction. UniCredit and Mastercard have entered into an agreement to expand their payment partnership, focusing on supporting the delivery of UniCredit's strategic priorities.

An overweight in 3i Group, a UK multinational private equity and venture capital company, contributed. The company's investment in the supermarket discount chain Action has been a success. Shares performed well after 3i Group reported a 32% increase in its annual net asset value, primarily driven by Action, and lifted its annual dividend.

An overweight in Hexatronic, a Swedish fibre-optic infrastructure provider, detracted. The stock fell after an investment firm gave a negative report on the stock.

An overweight in Andritz, a multinational supplier of plant, equipment and services for hydropower and the pulp & paper industry, detracted. The stock had previously performed well but reversed these gains on speculation of slowing demand for the company's goods due to weakness in the pulp & paper market.

Market Outlook and Investment Strategy

We are most overweight in consumer discretionary distribution & retail and capital goods. The largest underweight positions are in pharmaceuticals, biotechnology & life sciences and food, beverage & tobacco.

We added MTU Aero Engines, a German listed aircraft engine manufacturer. The last three sets of quarterly results have been accompanied by earnings upgrades, and management raised guidance at the recent Paris Air Show. We believe the company should be agnostic to the business cycle given that traffic levels have yet to rebound back to pre-Covid levels, thus providing a further runway for growth.

We reduced our position in Nestle, a global food and beverage company. In the absence of earnings upgrades and with the stock trading on an inexpensive valuation multiple, we felt there were other more exciting investment opportunities elsewhere.

Consumers are feeling the lagged effects of less fiscal stimulus and higher inflation. Increased caution among lenders and slowing corporate profits could constrain capital expenditure. Corporate profits held up well in 2022 after a surge in 2021, but margins are starting to decline for companies, and we expect weaker profits in 2023.

Recent data points suggest that inflation has likely peaked and is gradually falling to more manageable levels. As inflation pressures subside and fading business and consumer spending poses risks to the global outlook, central banks may have to reverse course and set the stage for a new multi-year period of lower long-term interest rates.

Against this backdrop, our highest-conviction view is that markets will reward companies with stronger-quality credentials, such as robust balance sheets and management teams with deep experience through multiple cycles.

Source: J.P. Morgan Asset Management

HSBC Insurance Global Bond Fund (SGD)

Investment and Market Review

Volatility swept across fixed-income markets in September and global bond yields continued to rise. Flatter US yield curve and overweight to the Mexican peso added.Government bond yields ended the December higher, as a result of an unexpectedly hawkish European Central Bank (ECB) policy meeting, action by the Bank of Japan (BoJ) towards the end of the month and developments in China's management of Covid. An underweight to Japanese duration and allocation to hard currency emerging market sovereigns contributed positively.

Developments in the banking sector came to the forefront during the 1Q23. Medium-sized regional banks—Silicon Valley Bank and Signature Bank—were shut down and taken over by the Federal Deposit Insurance Corporation (FDIC) after the banks failed to stem deposit outflows. These events triggered bank runs and financial stability concerns. Lower short dated US Treasury yields and an overweight to local Mexican government bonds added. In mid-2023, risk assets gained as concerns over a near-term economic hard landing eased. Government bond yield curves flattened significantly as front-end bond yields rose with global central banks reiterating their resolve to bring inflation back to target. President Biden signed an agreement to raise the US debt ceiling, averting a potential major risk event for markets. Softer inflation readings set the stage for the Fed to leave the fed funds target rate unchanged at 5.00%-5.25% in its first rate pause since beginning its hiking cycle in March 2022. Overweight on Mexican local currency Government bonds and hard currency Emerging Market government bonds added.

Market Outlook and Investment Strategy

The key to an improved tone and more stability in fixed-income markets is a moderation in inflation. Our base case is that the supply chains will slowly begin to normalise. Within corporate bonds we maintain a bias to banks, select industrial sectors such as energy and rising-star candidates, where allowed. The one bright spot in the global picture is China, where we see broad policy accommodation (to support the reopening of its economy following the end of its zero-COVID strategy) acting as a positive growth catalyst for Asia and Emerging Markets as a whole.

In line with our expectations, global growth is downshifting and the disinflation process is clearly underway, albeit unevenly. Lessening bottleneck pressures, financial stability concerns contributing to tighter credit conditions in the US and Europe, and softer manufacturing and services demand worldwide are helping to alleviate price pressures globally. These trends should further temper growth and inflation.

In such a scenario, we expect Developed Markets government bond yields to trend lower and that the US dollar will weaken modestly. These factors should act as a tailwind for Emerging Markets where central banks are closer to the end of the tightening cycle relative to the developed world, and valuations are compelling. Spread sectors such as high-yield, bank loans and select areas of the mortgage-backed securities (MBS) space also offer compelling yield but we acknowledge that credit markets remain vulnerable to unanticipated shifts in macro-related sentiment, geopolitical developments and the risk of central bank overtightening.

Source: Franklin Templeton

HSBC Insurance Global Emerging Markets Bond Fund (SGD and USD)

Investment and Market Review

The primary contributors to performance over the month included the underweight to EM spreads, legacy exposure to Venezuelan debt, and security selection within Angolan sovereign debt. The underweight to EM spreads contributed to performance, as spreads widened due to spillover effects from the weaker economic outlook for China. Legacy exposure to Venezuelan debt contributed to performance as bond prices rose amidst talks of lifting of US sanctions, and progress in payout settlements for defaulted bonds of the state oil company. Security selection within Angolan sovereign debt contributed to performance as prices for select securities not held in the fund fell, amidst the devaluation of the Kwanza.

Detractors from performance included security selection within Chinese corporate debt, the overweight to Egyptian sovereign debt and the legacy exposure to Ukrainian corporate debt. Security selection within Chinese

corporate debt detracted from performance, as a select issuer missed scheduled debt payments, which worsened risk sentiment. The overweight to Egyptian sovereign debt detracted from performance, as spreads

widened amidst the issuer’s slow progress in selling state-owned assets, which is a requirement for continued funding from the IMF. The legacy exposure to Ukrainian corporate debt detracted from performance as spreads for a select security widened, retracing some of its price rally in July.

Market Outlook and Investment Strategy

PIMCO continues to remain constructive on emerging markets fixed income, with the late stage economic cycle opening up pockets of opportunities across the asset class. The near-term improvement in inflation has proven beneficial for growth-sensitive assets such as local duration and EM FX, while balance sheet sensitive assets such as hard currency debt have had mixed performance. The Fed is nearing the end of its tightening cycle, which remains a positive catalyst for the asset class; however, the high expectations for the re-opening in China have not materialized, muting positive spillovers into EM. For the second half of 2023, we expect the deflationary trend to continue in EMs and for local duration to be well positioned to benefit from this environment.

Of the 20 countries in the GBI-EM Global Diversified index, 18 countries have seen headline inflation fall YTD, with the most pronounced falls observed in Brazil, Chile and Romania, where central banks have been more aggressive in hiking. As inflation moderates, we expect EM central banks to take a cautious approach to easing policy, focusing more on inflation expectations than on near-term growth.

In the hard currency space, there were concerns about select frontier countries with limited market access defaulting. However, over the first half of 2023, many of these sovereigns have been successful in securing multilateral funding. Pakistan and Ghana are the latest sovereigns to reach staff level agreements with the IMF. Further, distressed names like Sri Lanka, which secured funding early last year, have shown signs of economic stabilization.

Among core EM economies, the news flow has been positive. The proposed fiscal reform bill in Brazil has clipped the tail risk for the public debt/GDP trajectory. In Colombia, President Petro’s cabinet reshuffles led to some political noise, but has been moderated by the composition of the Congress, which keeps in check on the President’s ability to push through unpopular reforms. Despite promising news, capital flows to EM have been muted this year, but this is nevertheless an improvement from the large outflows seen in 2022.

Source: PIMCO

HSBC Insurance Global Emerging Markets Equity Fund (SGD and USD)

Investment and Market Review

Stock selection in China and Financials were the leading contributors to performance this month.

In China, stock selection was a tailwind to performance in June after detracting in recent months. JS Global Lifestyle was a top contributor as the company finalized plans to spinoff SharkNinja, a move that was well received by the market. In industrials, Techtronic Industries and Jiangsu Hengli Hydraulic were top contributors as export demand appears strong for both businesses, with signs of acceleration in the transition to cordless and electrified power tools in the U.S. a key development for the former. Additionally, an overweight in Netease contributed on the back of solid game performance, which is less exposed to the overall weak economy.

Stock selection in Financials contributed, with FirstRand and Capitec among the key drivers. Inflation readings have started to trend lower in South Africa, leading to hopes that the worst of the rising interest rate cycle is over. With economic growth stabilizing, albeit on a relatively weak base, this should benefit the banks from a NPL perspective.

Overweight exposure to the Consumer Discretionary sector hurt performance. The portfolio’s off-benchmark holding in Mercadolibre, an e-commerce platform, underperformed. The shares gave back some of their recent strong performance following results, as investors re-evaluated how much the improvement in the company’s competitive position had been priced in, given the threat from Amazon and Shopee remains.

In the Information Technology sector, stock selection and overweight exposure hindered performance. EPAM, the IT services company, detracted from returns in the month after the company cut revenue guidance soon after reporting results.

We have maintained exposure to companies with sustainable competitive advantages, consistent cash flow generation, and strong management teams. This has worked well for the portfolio over the long-term and we remain confident that it is the right strategy to pursue in current market conditions.

Market Outlook and Investment Strategy

The Fed paused its rate hiking cycle in June, but in a hawkish fashion, leading to expectations of two further hikes. EM central banks though currently have relatively high policy rates, especially compared with domestic inflation. Consequently, EM central banks have ample capacity to cut rates this year if inflation remains on its current trajectory.

China's economic recovery, which initially looked very strong, has disappointed investors on the back of limited follow through from pent-up demand, a slow recovery in the job market and weakness in the all-important property sector. This has seen policy rates cut alongside with targeted consumer stimulus.

In contrast to China, Latin America, Eastern Europe and tech heavy North Asia have delivered strong returns. Although the risk of US recession and weaker global demand still looms large, emerging market and Asian corporates look increasingly well positioned for the next decade's big trends: investment in materials and manufactured goods to support carbon transition and high-powered computing spurred on by AI adoption

EM earnings expectations were downgraded throughout much of 2022. Given China's weaker than expected reopening, estimates for 2023 are now for a near double digit decline followed by low teens growth in 2024/5.

Source: J.P. Morgan Asset Management

HSBC Insurance Global Equity Fund (SGD)

Investment and Market Review

Global equities rose during the second quarter despite a continuation of the higher-for-longer narrative from the US Federal Reserve and key central banks. Although disinflation gained some traction, renewed signs of labor market strength, generally strong economic data and a broadening stock market rally indicated that the rate hike cycle would likely continue, albeit at a less aggressive pace. During the quarter, fallout from the banking crisis, the threat of a US government default, China's slower-than-expected economic recovery and speculation that the US was considering new restrictions on artificial intelligence (AI) chip exports to China caused periods of volatility. Global stocks, as measured by the MSCI[Error! Bookmark not defined.] World Index[Error! Bookmark not defined.], rose 6.8% during the second quarter of 2023 and 15.1% for the year to date (all returns in US-dollar terms).

Early in the quarter, equity markets rallied as easing inflationary pressures led the Fed to downshift to a 0.25% rate increase, raising expectations that peak rates could be in sight. However, sentiment shifted as the quarter progressed. The Fed's preferred inflation gauge, the Personal Consumption Expenditures (PCE) Price Index, matched expectations, but core PCE increased sharply as a resilient labor market and rising wages continued to support robust consumer spending, giving the Fed reason to continue to raise rates. Fed Chair Powell reaffirmed the Fed's determination to reach its inflation target and indicated that rates would likely remain at peak levels long enough to ensure that longer-term inflation expectations are well anchored.

With expectations set at a low bar, first-quarter earnings results proved better than expected in the US and Europe; 75% and 66% of companies, respectively, reported earnings surprises, with some pockets of encouraging guidance. Better-than-feared results from large US and eurozone banks helped ease concerns around widespread deposit outflows, declining loan demand and tighter credit conditions. US mega-cap technology companies fared particularly well and triggered a rally during the last half of the quarter that broadened as optimism around disinflation and generally strong economic data outweighed recessionary concerns and renewed hopes for a soft landing.

During the quarter and for the year to date, both growth- and value-oriented stocks rose, but growth significantly outperformed value (as measured by the MSCI ACWI Growth and Value indices). Growth stocks—led by US technology companies that had been pressured by rising interest rates throughout most of 2022—continued to rebound on speculation that the Fed might soon end its rate hike cycle and optimism over revenue growth linked to the development of AI technologies. During the quarter, sector performance was mostly positive. The technology and consumer-discretionary sectors led performance, while energy and utilities declined.

Class A shares of the Global Equity Blend Portfolio increased in absolute terms and outperformed the Benchmark, the MSCI World, in June, though it underperformed during the quarter and for the quarter and the year to date, net of fees.

During the month, stock selection contributed to relative performance, while sector selection detracted. Stock selection within healthcare contributed, while selection in materials detracted. An overweight to industrials contributed, and an underweight to consumer discretionary detracted.

During the quarter, stock and sector selection detracted from relative performance. Stock selection within technology detracted, while selection in healthcare contributed. An underweight to consumer discretionary detracted, while an underweight to consumer staples contributed.

MSCI improves the regulation and monitoring of global financial markets and institutions and strengthens the implementation of such regulations. Shares of the company detracted amid macro weakness weighing on new subscription sales, lowering the near-term sales outlook, with lengthening cycles and budget tightening among clients.

An underweight to software giant Microsoft detracted during the quarter. While growth has slowed in its cloud business, the company has positioned itself to benefit from the rise in AI with investments in ChatGPT and related product launches.

Bio-Rad Laboratories, a developer and manufacturer of specialized technological products for the life science research and clinical diagnostics markets, detracted during the quarter. The stock declined as it was pressured by end-market softness; this included biotech funding pressures in emerging biotech customers and inventory destocking in process chromatography (to develop and manufacture biopharmaceuticals), along with temporary business challenges like supply chain issues impacting margins.

Abcam, a leading provider of antibodies used in life-science research and the development of new medicines and diagnostic tests, contributed. Abcam disclosed that sales and profit growth were off to a good start in the first quarter of 2023. Abcam reiterated its guidance for 15%–20% sales growth in 2023. Furthermore, as the company is exiting a multi-year period of investment in internal infrastructure, capacity and new products, additional sales should likely convert into strong profit growth in the years ahead.

XPO Inc. contributed following 1Q:23 results that were ahead of expectations driven by higher shipments. XPO also hired a new Chief Operating Officer who was previously employed at a highly regarded competitor. Lastly, a weaker competitor, Yellow Corporation, is embroiled in a labor dispute with the International Brotherhood of Teamsters, leading to disruption and potential market share gains by XPO.

US homebuilder PulteGroup contributed to performance. A focus on entry-level customers has helped the company during a period of rising interest rates and higher cancellation rates, while low inventory of existing homes has supported demand. Shares of the company also benefited from the founding family of PulteGroup announcing they have taken a large position in the company during the month, by purchasing the same amount of shares sold or liquidated by PulteGroup CEO Ryan Marshall this year.

Market Outlook and Investment Strategy

Market concentration has reached extreme levels, and macroeconomic data confused as much as it revealed during the quarter. But the outperformance of a relatively small group of stocks obscures the fact that much of the market trades at much more reasonable valuations. This suggests that, despite a macro environment that remains uncertain and headline valuations that appear expensive, there are ample opportunities for active managers to find idiosyncratic opportunities in stocks with valuations that don’t adequately reflect the fundamentals of their business.

We continue to believe that our blend of durable, undervalued and less macro-dependent companies, which offer unique, idiosyncratic return drivers, provides a compelling path forward. Our focus remains on identifying and capitalizing on these opportunities using company-specific insights, differentiated research and high conviction across our equity services to achieve superior results in the long term.

Source: AllianceBernstein (Luxembourg) S.à.r.l.

HSBC Insurance Global Equity Volatility Focused Fund (SGD and USD)

Investment and Market Review

Global equities rose in the review period, driven by the first half of 2023 where AI-related investor enthusiasm caused large technology stocks to surge. Global equities also advanced in the second half of 2022, though to a lesser extent than in 2023, as major central banks indicated a slowing of rate hikes. Nevertheless, the review period was not plain sailing as turmoil in the banking sector and geopolitical tensions added to uncertainty.

The fund underperformed its market cap weighted index over the review period. While Styles contributed to performance, our exposure to Industries detracted from performance. In terms of Styles, within alpha factors, our exposure to Value contributed to performance the most amidst the high interest rate and inflationary environment. Quality also demonstrated resilience amidst the uncertainty while Industry Momentum ranked in the middle amongst factors, finishing above the line. Meanwhile, our exposures to Low Risk and Size detracted from performance.

At Industry level, our overweight allocation to Technology Hardware & Equipment and our underweight exposures to Media & Entertainment and Banks contributed to performance. Meanwhile, our overweight allocation to Telecommunication Services and our underweight exposures to Software & Services and Semiconductors & Semiconductor Equipment detracted from performance.

Market Outlook and Investment Strategy

The HSBC GIF Global Equity Volatility Focused Fund's investment strategy follows a proprietary systematic investment process which focuses on risk premia offered by exposure to factors like Value, Quality, Momentum, Low Risk, and Size. The portfolio construction process seeks to maximize the Fund's risk-adjusted return while reducing volatility and drawdowns during periods of market turbulence.

Western and emerging economies look out of sync. The West is pressured by sticky core inflation, higher interest rates and tighter lending conditions, while emerging economies face a much more benign outlook. In the West, leading indicators are pointing towards recession. We anticipate this happening towards the end of the year, as corporate pricing power diminishes and labour markets soften. While a softening in external demand may hamper trade flows, emerging economies continue to benefit from lower inflation and tailwinds from China's reopening. This encourages an approach that is well diversified across stocks, sectors and regions. Overall, we continue to argue for a defensive portfolio positioning as our central scenario is consistent with "choppy waters" for risk assets over the next 12 months.

Source: HSBC Global Asset Management

HSBC Insurance Global High Income Bond Fund (SGD and USD)

Investment and Market Review

The strategy delivered positive absolute performance over the period gross of fees. Overall the fund saw positive contribution to return across all asset classes with Euro Credit the best performing segment followed by US and Securitized Credit while EMD lagged somewhat.

The second half of 2022 saw a mixed market, defined on the one hand by continued high inflation, central bank hawkishness and concerns over the slowdown in growth. This gave way to a more positive sentiment towards year end driven by better than expected earnings and surprise lower CPI for both October and November giving hope that the Fed will continue to slow the pace of rates hikes.

Corporate credit markets started 2023 with a continuation of their year-end rally before turning more volatile mid quarter over renewed inflationary concerns. This was compounded in mid-March as a potential Banking crisis drove sharp moves in both rates and spreads. Q2 saw the return of some stability following the bank driven volatility of March. This was helped by data points for payrolls, CPI and ISM manufacturing coming in at somewhat benign levels while earnings were relatively strong. This ultimately drove credit spreads tighter over the first half of the year.

The US treasury yields rose with the fed raising rates, inverting the curve over the period. The 2, 5, 10 and 30 year saw yields move higher by 1.94%, 1.12%, 0.82% and 0.68% respectively to finish June at 4.90%, 4.16%, 3.84% and 3.86%.

Market Outlook and Investment Strategy

With strong economic data from durable goods orders, US housing starts as well as personal income and spending together with continued strength in employment figures and wages, the US economy appears resilient as the Fed plans for 2 more rate hikes before year end, outpacing market expectations that are pricing in less than one. At the half year mark credit spreads are tighter in an indication that markets have yet to price in the threat of an economic slowdown and potential recession. Although valuations are less compelling we don't see any specific catalysts to spreads meaningfully wider in the short term while longer term we still expect that spreads are more likely to move wider as we move towards a slowdown. We continue be tactical with our positioning, taking advantage of short term opportunities when they arise.

We continue to see credit spread risk and maintain our lower HY exposure. Although we are slightly short on spread duration we are maintaining a bit of positive carry by taking advantage of the inverted yield curve. Regionally allocations have remained largely unchanged since last month. Cash and cash equivalent exposure remains elevated while developed market sovereign exposure is also on the higher side, reflecting our defensive credit positioning. Some shorter duration cash bonds continue to look attractive and we have been buying some 5yr and in bonds with good carry on a case-by-case basis across different regional exposures as we still expect carry to be a major component of returns this year.

Source: HSBC Global Asset Management

HSBC Insurance Global Multi-Asset Fund (SGD)

Investment and Market Review

The period was a mixed one for markets, starting off under challenging conditions but with equities and high yield, in particular, generating strong returns.

It opened with the spectre of inflation looming over markets. Increased concerns over the economic implications of the Russia-Ukraine war, higher global inflation prints and increasing central bank hawkishness all weighed heavy on both equity and credit markets. October brought welcome relief across most equity markets–the US consumer continued to hold up relatively well, while European governments stepped up efforts to avoid an energy crisis over the winter. By November, the picture had improved markedly with US inflation coming in far lower than expected giving investors hope that an end to interest rate rises may be in sight. Then, Chinese authorities announced they were relaxing their strict zero-covid rules to begin an economic reopening. Both equity and credit markets enjoyed an immediate bounce, before running out of steam by the end of the year as global growth concerns replaced global inflation concerns.

After a challenging 2022, the first half of 2023 was far more enjoyable for investors with both equity and bond markets surging. Large cap technology stocks were the stars, with the NASDAQ rallying over 30%, while the broader MSCI All Country World Index enjoyed a 14% gain. Emerging equity markets finished positively, albeit lagging their developed peers as reservations around China's reopening weighed. Credit markets shrugged off a slew of interest rate rises and finished firmly positive, led by the higher-yielding markets in the US and Europe. EM Local denominated debt also finished sharply higher.

All areas of the portfolio contributed positively to returns, with US high yield bonds the standout performer. European high yield and US investment grade also made material contributions, with positive security selection in both providing a further boost to returns. Yields are at some of their highest levels in over a decade helping to underpin portfolio returns and deliver on our income objective. In a positive environment for risk assets, equities also made a material contribution with those in the US standing out, driven by returns in the technology sector. Our position in Japanese equities, initiated in the middle of the period, provided a further boost as one of the best performing developed markets. Emerging Market Debt was also additive, led by allocations to local denominated debt paper in Latin America and Eastern Europe.

Market Outlook and Investment Strategy

Whilst our overall equity exposure remained stable, we shifted its composition from a broad global allocation, to an income focussed strategy in the US, and high-quality and very attractively valued companies in Japan and Europe. Within credit, after capitalising on the very appealing level of yields on offer in 2022, the team made material cuts to our high yield exposure early in 2023, mitigating the impact of the volatility in these markets, before adding back once yields became more attractive.

Later in the period, we began to add to alternative sources of income including insurance linked securities and securitised debt, where the high level of yield and diversification characteristics are well suited in the portfolio context. We also increased our exposure to local denominated EMD, through a very selective lens, favouring commodity-focused countries such as Brazil and South Africa, and Eastern Europe. Many emerging economies are further along in the rate hiking cycle, increasing the scope for rate cuts, with early singes of stabilising inflation further boosting the appeal of the asset class. Lastly, we have increased the portfolio’s duration, from 2.2 years to 3.4 years.

Over the summer we have continued to see encouraging developments on US inflation. With no sign of an imminent recession, this has supported our expectations of a soft landing and increased the probability that rates in the US have reached a plateau.

Inflation should continue to fall gradually, which combined with the ongoing robustness of the US labour market, means real wages should start to rise, supporting consumption. We believe this relatively benign environment remains supportive of US high yield. Despite valuations, it is hard to ignore the 8% yield on offer, and we retain our positioning here.

While the growth picture in Europe looks more challenging, it should start to turn more positive early next year, supporting our European credit exposure.

On the equity side we remain balanced, blending selective growth names in the US which come with full valuations, with some of the interesting cyclical areas offering attractive yields and pricing very little in terms of growth, including financials, energy, Japan and Europe.

We retain a cautious view on China. We believe, cumulatively, enough is being done to turn the corner although the nature of the announcements means the market take some time to register the impact. As a result we employ a more selective approach towards broader emerging markets, favouring exposure via local currency bond markets.

Source: Schroder Investment Management Limited

HSBC Insurance Global Sustainable Equity Portfolio Fund (SGD and USD)

Investment and Market Review

Global markets, as measured by MSCI**Error! Bookmark not defined.** All Country World Index**Error! Bookmark not defined.** (ACWI), increased by 6.2% for the second quarter of 2023, bringing year-to-date gains to 13.9%, in US-dollar terms. The quarter continued to see narrow leadership from US technology companies and FANGs, albeit with some tentative broadening towards the end of the period. The excitement about artificial intelligence (AI), disinflation traction and anticipation of a pause from the Fed propelled growth stocks, which outperformed their value counterparts, and erased all of the underperformance that occurred in 2021 and 2022.

The rebound in investor sentiment on the back of NVIDIA's strong results and the potential for AI brought back "fear of missing out," while masking brewing challenges for economic growth and corporate fundamentals in the second half of the year. Indeed, growth concerns are not completely gone in our view, evidenced by cyclical factor underperformance and weakness in commodities such as oil.

The strong rally in equity markets year to date has masked muted returns for many stocks. The top 10 largest benchmark weights (mostly Big Tech) represented 79% and 56% of US and global market returns, respectively. This exceptionally narrow leadership has been justified by their winning position in the AI race, as providers of the critical infrastructure and cost-cutting/efficiency initiatives narrative that arrived after a period of weak investor sentiment and amplified returns.

Historically, episodes of sharply narrowing breadth since 1980 saw markets typically trade sideways during subsequent months as rotations continued within the market. According to Goldman Sachs, in addition to below-average returns, drawdowns have also been larger than average in these situations. Eventually, however, a "catch-up" has been most common, and is something we expect in 2024 rather than the second half of 2023, for reasons discussed below.

Macroeconomic data confused as much as it revealed this quarter. With so much tightening occurring in the past 15 months, our base case remains a further weakening of the US job market over the course of the next 12 months. In our view, the Fed is keen to lower inflation and slow down hiring, which ultimately will pressure earnings growth. It appears unlikely to us that it would therefore revert to cutting rates again too quickly. Meanwhile, the disinflationary pressures should continue, which, although welcome in some ways, may provide a new headwind for companies that enjoyed strong pricing power during the past 18 to 24 months.

In sum, economic and earnings recession risks haven't gone away, but they may take longer to materialize. The rate hike process has felt relatively smooth so far. And although it may feel long past, we experienced a banking crisis during the first quarter and as a result are seeing tighter credit conditions and less demand for loans. As such, we expect a bumpy road from here.

This assessment conflicts with market expectations for a soft landing with little impact on the earnings front, as the market is now anticipating a recovery in corporate profits in the second half of the year. Valuations have meanwhile repriced higher even as earnings expectations rose, with both US and global markets trading well above their historical averages. This is largely the result of more optimistic soft landing expectations that followed better-than-expected first-quarter earnings metrics, more resilient macro data and excitement around AI and what it could mean for growth and productivity.

AI certainly has potential for good and it is already having a profoundly positive impact on a number of industries. In healthcare, AI is being used to detect certain forms of cancer in CT scans and to identify new molecular structures to enable drugs and vaccines to come to market much faster. In automobiles, AI is being used in active safety systems to identify objects in the road and to help plan the path of the vehicle so that it can avoid an accident. That said, there are risks as well. Computer-generated content on the web has the ability to shape opinions and marginalize certain viewpoints. Many AI models reflect the data they were trained on, which can have unintended consequences if left unchecked.

These developments preceded the onset of generative AI, a new type of model that has the potential to transform many aspects of society and could offer substantial productivity gains. As we move through the initial part of the “innovation curve,” our Portfolio’s exposure to date has largely been via AI “enablers” such as semiconductor firms, as well as cloud players that provide critical infrastructure. While many of the companies in this ecosystem will see a growth benefit from spending on AI this year, multiples in the exposed names have expanded dramatically, causing us to take profits in some cases.

The fact that AI adoption will increase from here is without debate. But how it develops, gets utilized in society and ultimately impacts the world from a social and environmental perspective is yet to be fully determined. As investors, we view our role as being able to influence its development through thoughtful investment and engagement.

For the second quarter and the year to date, Class A shares of the AB Sustainable Global Thematic Portfolio rose in absolute terms but underperformed their Benchmark, the MSCI ACWI, net of fees. Although participating in the AI rally, the outperformance of Big Tech remained a headwind for the Strategy this quarter. As a result, our security selection within the technology sector detracted, along with an underweight to communication services. This was compensated by contributions from selection within healthcare, although the sector continued to be neglected during the quarter, and an underweight to energy.

MSCI, from our Empowerment theme, detracted amid macro weakness that weighed on new subscription sales and lowered the near-term revenue outlook—with lengthening cycles and budget tightening among clients. We view the recent weakness in new sales as temporary and believe its asset-based fees should continue to rebound in 2H:23 on improving AUM fund flows. Furthermore, the company has a growing recurring revenue base and client retention has stayed at 95%.

Bio-Rad Laboratories, from our Health theme, is a developer and manufacturer of specialized technological products for the life-science research and clinical diagnostics markets. The stock detracted as it was pressured by end-market softness; this included biotech funding pressures in emerging biotech customers and inventory destocking in process chromatography (to develop and manufacture biopharmaceuticals), along with temporary business challenges like supply chain issues impacting margins.

Deutsche Börse, from our Empowerment theme, is a German multinational offering international exchange organization and innovative market infrastructure that covers the entire financial market transaction process. The company detracted amid news flow around the CEO’s decision to step down and the takeover of Danish investment-management software company SimCorp, which gives Deutsche Börse an avenue into software services for the asset-management industry.

Abcam, from our Health theme, is a leading provider of research-grade antibodies, enabling scientists and researchers to make discoveries in the area of human health that will lead to new drugs and diagnostic tests. The company contributed after Abcam disclosed its takeover interest and announced that the board would be pursuing a strategic review, including a sale of the business.

Flex, from our Climate theme, is a manufacturer of products that enable connectivity, safety and innovation for societies around the world through programs that involve waste reduction, product reuse and overall environmental sustainability. Shares of the company contributed on strong results that highlighted new business in areas of secular growth and regionalization/nearshoring efforts by its customers, which allowed it to overcome pressures from a slower macroeconomic environment.

TopBuild, from our Empowerment theme, is a leading installer of insulation for residential, commercial and industrial buildings. Shares of the company contributed as new housing starts, commercial activity and industrial insulation demand outperformed expectations. Secular demand for housing continues to be strong as inventory levels remain at historical lows.

Market Outlook and Investment Strategy

The macro backdrop has become more favorable to thematic investing. When economic growth becomes scarce, investors tend to rotate towards companies that have the ability to sustain sales and profit growth. Given this, our sustainable themes have a lot to offer. Within our Climate theme, the shift toward safer and more electric vehicles (EV) continues apace, driven by increasing model choice and auto original equipment manufacturer preference. Spending on EVs is being increased and adoption accelerated because of government incentives globally. We’re also seeing a standardization of charging guidelines here in the US, which should encourage further adoption. Every EV rolling off the line contains significantly more electronic content, benefiting suppliers in this ecosystem.

Within our Empowerment theme, the phenomenon that is ChatGPT has highlighted the capabilities of AI to create better customer experiences and increase productivity by facilitating software development and cocreation with engineers and other content creators. Generative AI models are often massive in size (up to 500 million parameters) and require a significant amount of computation to train and run, which in turn creates a robust tailwind for computing firms. Per NVIDIA, these new transformer AI models require 273 times more power every two years, placing an even greater focus on energy efficiency strategies—an area in which we have several investments.

Within the Health theme, one persistent challenge is the labor shortage facing the healthcare industry (i.e., nurses and doctors), which pressures the capacity for hospitals to treat patients. We own several medical device companies in our portfolios that provide solutions to improve nurse and doctor productivity, and enable patients to be treated in less acute care settings such as the home, all while improving patient care and outcomes. Furthermore, new diagnostic tests and instruments help automate manual work in laboratories and speed up medical decisions. Challenges like these are long-term in nature, and demand for solutions to these challenges should be less dependent on the macroeconomic environment for growth.

We believe a portfolio with companies on the right side of change, trading at reasonable valuations, provides a strong combination for the current market environment. Resilient fundamentals and attractive valuations for growth stocks beyond the mega-caps has created a powerful setup for us to develop the Portfolio with a collective group of companies that embody these views.

Source: AllianceBernstein (Luxembourg) S.à.r.l.

HSBC Insurance India Equity Fund (SGD and USD)

Investment and Market Review

The S&P IFCI/India Gross Index gained 17.46% over the 1y horizon. In terms of sectors, industrials (+35.42%) is the top performing one while utilities underperformed (-15.01%).

India saw a sharp rotation in the second quarter of 2023 and recovered from poor returns in first quarter to post region-leading performance driven by valuation expansion. Performance has been broad-based across sectors with real estate being the best performing sector up 34%. Notably foreign institutional investors have been actively participating in the market since March supporting the rally.

The fund outperformed the benchmark on a 1-year basis. Positive stock selection effect in materials and positive allocation effect in utilities (we are underweight) were the largest contributors to performance. On the other hand unfavourable allocation effect in consumer discretionary (we were overweight) was the largest detractor to strategy performance.

The largest stock contributor over the year was Larsen & Toubro while the largest stock detractor was Infosys Ltd.

In terms of sector positioning, we are most overweight to healthcare and real estate and most underweight to Utilities and Communication Services as of June 2023.

Market Outlook and Investment Strategy

We remain positive in the medium to long term structural growth story in India driven by themes such as favourable demographics and supply chain diversification. Despite valuation remains at relatively expensive levels (albeit came down from Oct 22 highs), earnings sentiment in India has inflected, while rural demand recovery, strong exports and manufacturing growth could continue to drive recovery.

Over the past 1 year, we have been increasing our weight in Consumer Staples and Financials.

Source: HSBC Global Asset Management

HSBC Insurance Pacific Equity Fund (SGD and USD)

Investment and Market Review

It was risk off across Asia in August, as stock markets took a breather from their recent rally. Concerns refocused on inflation, tightening US monetary policy and soft economic data from China. In the US, the Federal Reserve’s latest meeting minutes suggested a more cautious stance. Our macro view has evolved through the year to one where we now believe that the US will have a soft landing rather than a recession. Our Research Institute believes that a further loosening of US labour market conditions is likely to prove necessary to restore price stability, and that a pause by the Fed looks likely in September, but November is shaping up to be a much closer call.

Chinese equity markets were bogged down by heightened concerns over the real estate sector, owing to a triple whammy of negative news. Country Garden, among the top three domestic property developers, came close to its day of reckoning over liquidity albeit scraping through with a last-minute payment extension deal. Zhongzhi, one of the leading trust funds in China, failed to meet fund redemptions, and lastly, property sales fell further in August. After a positive policy tone set in the July politburo meeting, the market was also disappointed at the slow rollout of follow-up actions, although efforts accelerated in the final week of August with supportive measures like an easing of mortgage policies and a cut in stamp duty.

Given the size of the China market, weakness in mainland stocks in August following a clawback of some underperformance in July, was a key driver of underperformance across the rest of Asia Pacific. Notably, all markets across the Asia Pacific ex Japan region posted negative returns. An exception was Indonesia, where the market posted a slight gain as the strong post-Covid recovery and ability to attract foreign direct investment were reflected in the 5.2% growth in second-quarter GDP.

Our Fund posted negative returns over the month, but it proved more resilient than the benchmark with a relative outperformance of 33bps. This has helped claw back some relative underperformance year to date, to -577bps for the year to date ended August from -608bps as of end-July.

While China has remained the biggest detractor year to date, the impact on performance in August was only marginally negative, given that the Fund is underweight to China in a weak month for mainland markets compared to the benchmark, although China is still our biggest country position. Sentiment and consumer demand remained weak across a broad swathe of the mainland economy. We expect volatility to remain high in China because of government policy uncertainty over the past few years, alongside generally low valuations. Glodon, China Tourism Group and Aier Eye Hospital were key detractors from performance. Hong Kong-based stocks AIA Group and Budweiser APAC also felt the impact of weak consumer demand. AIA, though, posted robust results, although investors focused on its lower-than-sector activity in the low-margin whole life segment in China while ignoring other data that were better than the sector average and its strong franchise in Southeast Asia, given that China is only a third of its overall business.

Through the year, our macro view on China has also shifted to one of slowing growth. Our Research Institute deems the latest batch of policy announcements as more significant than previous ones, but they remain fairly incremental and it is unclear whether they will be enough to unlock household confidence, particularly with respect to property.

This has had implications for us even as stock selectors. Slower Chinese growth and the lack of a comprehensive stimulus package mean a greater focus on earnings visibility and a deeper conversation around valuations. The result is that we have exited China Merchants Bank, given that years down the road, issues around liquidity in the real estate sector and local government financing vehicles still persist with little appetite for a resolution. A recent call by the People’s Bank of China for banks to manage their profits in the interests of the broader society has not added to our confidence as well.

We also sold out of Yonyou Network Technology. Although the long-term sector outlook remains positive given China's self-sufficiency drive and support of domestic champions in software services, Yonyou has struggled to deliver consistently on its strategy and our deeper dive into the company offered scant comfort that measures by management would improve execution significantly. Following our exit, Yonyou released disappointing results that affirmed our views.

More broadly, the rollout of more supportive policies, in a coordinated manner which was unseen so far this year, sends a strong signal to the market that the government is intensifying its effort to prop up the economy. This bodes well for the economy and stock market for the rest of the year. The upcoming long holidays (the Mid-Autumn festival and National Day) will be keenly watched as a gauge of consumer confidence. We remain positive about the market recovery and continue to believe in the long-term growth potential of the 5 themes (aspiration, digital, health, wealth, green), and believe that the current low-valuation environment is ripe for picking high-quality assets at an attractive price.

Turning to the rest of the region, our holdings in Australia did well, especially Cochlear, CSL and Goodman. Cochlear and CSL did relatively well given their resilient healthcare business models in a period of uncertainty. Cochlear is a leading manufacturer and distributor of medical hearing devices while CSL is a manufacturer, processor and distributor of human plasma products.

In Korea, our core holding in Samsung Electronics took a breather after doing very well for us in the earlier months of the year while LG Chemicals was weak as investors turned more cautious owing to concerns around the weakness in chemical demand from a delayed China recovery so far, and worries about the slowdown in electric vehicle demand in Europe.

Market Outlook and Investment Strategy

Looking ahead, we see market sentiment remaining volatile over the short term, given prevailing concerns over global growth, US monetary policy and China. Mainland valuations are very undemanding and look attractive in both absolute and relative terms. The rest of Asia is also benefiting from global supply chain diversification, as companies increasingly adopt China plus 1 or plus 2 strategies. India is in the early stages of a cyclical upswing and enjoying a demographic dividend that places the country well for sustainable long-term growth. More broadly, the region will gain from growing demand for AI-related apps and chips, especially the semiconductor and consumer electronics sectors.

Asian valuations continue to be attractive when compared to markets like the US, along with expectations of better earnings performance in the fourth quarter and early 2024. We continue to favour quality companies with solid balance sheets and sustainable earnings prospects that can emerge stronger and position the portfolio well in tough times. We are finding the most attractive opportunities around the following structural themes: Aspiration, Building Asia, Digital Future, Going Green, Health & Wellness and Tech Enablers.

Source: abrdn Asia Limited.

HSBC Insurance Premium Balanced Fund (SGD)

Investment and Market Review

iFAST-DWS Premier Select Trust's current investment strategy is to invest into 2 ETFs i.e more than 70% of its net asset value into the Xtrackers II Singapore Government Bond UCITS ETF ("SGB-ETF") and less than 30% into the Xtrackers MSCI World UCITS ETF ("MSCI ETF").

By investing into SGB-ETF, the Trust aims track the performance (before fees and expenses) of the underlying reference index (i.e. the FTSE Singapore Government Bond Index) which represents the performance of fixed-rate, local currency sovereign debt issued by the Singapore government.

Similarly, by investing into MSCI-ETF, the Trust aims to track the performance (before fees and expenses) of the underlying reference index (i.e. the MSCI Total Return Net World Index) which was designed to reflect the performance of the shares of certain companies in various developed countries. The companies making up the MSCI Total Return Net World Index are large and medium sized companies based on the combined value of a company's readily available shares as compared to other companies.

Market Outlook and Investment Strategy

Although the intention is to maintain the above asset allocations, we intend to adopt a static allocation of the Trust's investments in each of the underlying ETFs and will re-adjust the investments at least on a semi-annual basis.

As of 30 June 2023, the Trust as is 70.12% invested into SGB-ETF and 29.54% invested into MSCI ETF.

Source: iFAST Financial Pte Ltd

HSBC Insurance Singapore Bond Fund (SGD)

Investment and Market Review

The Singapore dollar bond market returned positively over the past year. Singapore sovereign yield curve tracked the US treasury curve closely by turning inverted in light of the policy normalization by the MAS before pausing the rate hike in the later part of the period. With core inflation continued falling towards the MAS forecasts, the central bank has paused its monetary tightening cycle for some time. Despite still-high accommodation costs amid the buoyant property market, Singapore continued to see downside surprises in inflation, with core inflation momentum easing driven by energy disinflation. Furthermore, industrial production weakened, increasingly pointing to intensifying external woes, especially in tech. Non-oil domestic exports weakened over the period. The weakness was broad-based, with electronics shipments extending the weakness, and pharmaceuticals and petrochemicals sectors falling, reflecting the intensifying trade headwinds that Singapore continues to face. Meanwhile, Asian credit market also returned positively during the period despite higher US Treasury yields as both investment grade and high yield credit spreads tightened, with high yield bonds outperforming investment grade bonds.

Market Outlook and Investment Strategy

The Monetary Authority of Singapore (MAS) expects core inflation to moderate further in the coming months amid the easing inflation in Singapore's major trading partners. We should see better growth momentum in the latter half of this year amid the ongoing recovery in the travel-related sectors and trade stabilization. The MAS is likely to keep its current policy parameters at the next policy meeting and be on hold for an extended period. Therefore, our view that the MAS should have completed this current tightening cycle remains unchanged. If core inflation continues to fall for the rest of the year as per MAS's forecasts, the MAS could begin to ease its monetary policy early next year. The maturing global monetary tightening cycle and the limited bond supply are supportive for SGD bonds. At the same time, we expect the SGD to be fundamentally stable for the rest of 2023, given Singapore's ample current account surplus and FX reserves. In terms of valuation, SGD bond yields are still looking attractive.

The fund's duration was being managed at around four years. The fund continues to hold a meaningful size of SGD denominated investment grade bonds. At the same time, it also diversifies into the USD Asian credit market which offers a wider selection of bonds across the credit rating spectrum than the SGD bond market. From a sectoral standpoint, the fund prefers corporates over sovereigns and agency bonds. The fund has a major allocation to Singapore REITs for their stable income. We also favour bank subordinated debt such as those from Singapore and broader Asia Pacific region given their relatively defensive nature and attractive yields. Meanwhile, the fund is also exposed to China and Hong Kong financials as well as Macau gaming. At the same time, the fund has some exposure to the China property sector, focusing on the better-quality companies which will be more likely to benefit from the funding loosening policies in the sector, reflecting mostly our conviction on the individual credit rather than our view on the sector. It also holds a certain exposure to high quality quasi-sovereign names in Singapore for yield carry.

Source: HSBC Global Asset Management

HSBC Insurance Singapore Equity Fund (SGD)

Investment and Market Review

Reinforcing their prior messaging that June 2023 was just a 'skip' to assess the situation, the US Federal Reserve (Fed) stayed the course and hiked the reference rate by another 25bps to 5.50% at its July 2023 meeting. This was widely expected by the market, and expectations are now for a maximum of one more hike for the rest of the year, or just holding stable for longer.

Given the current high level of borrowing costs and gradually declining inflation rates, the view is that even if there are a few more policy rate hikes in upcoming FOMC meetings, the overall rate hike cycle may be nearer to a pause phase. However, a number of other key global central banks continue to raise policy rates and these latter actions could continue to pressure overall financing costs for many companies.

Thus, bond yields are supportive of equity valuations, with market expectations of imminent "peaking policy rates" manifested in deeply inverted yield curves. Weighed against these are potential negative earnings surprises as lagged effects of the last 12-15 months' short-term interest rate hikes will begin to impact the general economy. Data points on exports and consumer tech hardware inventory corrections are some early indicators of this impact.

For Singapore equities, the impact of higher financing costs may be more significant for more highly-leveraged companies and selected REITs which are nearing regulatory limits on gearing levels, while companies in the tech supply chain may also be affected by the inventory correction cycle in the near term. The effects on other sectors such as banks and consumer discretionary may be less clear cut, as economic re-opening in North Asia may help support macro activity.

Market Outlook and Investment Strategy

For REITs, 2023 could see increased impact of rate hikes on distributable income (DPU) as prior interest rate hedges roll off. The magnitude will depend on whether net property income can rise faster than costs. REITs that have triple net leases or scope for repricing of lease payments may be more cushioned against potential DPU pressure i.e. REIT-specific factors like decisions on short-term versus longer-term debt mix, lease structures, and lease expiration.

In addition to higher interest costs, there is a potential risk of asset valuation declines as cap rates increase. Compounding these could be rising vacancy levels as tenants give up leases. There has been downward pressure on capital values of commercial real estate in micro-markets within the US and elsewhere. In Singapore, commercial real estate has held up well so far, but the combination of rising financing costs, slowing rental growth, a potential increase in vacancies, and rising cap rates may be a more significant headwind in the medium term. Nonetheless, being closer to the end of this rate hike cycle could be positive for selected REITs at the margin.

Apart from interest rate trends, other structural factors to monitor for the medium term include the widening geopolitical rifts and the implications of these for capex in "friend shoring" countries. We continue to look for stocks that provide a good balance of asset quality and valuations, and will look to add to our holdings when opportunities present themselves.

Source: Schroder Investment Management Limited

HSBC Insurance US Equity Portfolio Fund (SGD and USD)

Investment and Market Review

US equities rose in the review period, mainly driven by the first half of 2023 where AI-related investor enthusiasm caused large technology stocks to surge. US equities also advanced in the second half of 2022, though to a lesser extent than in 2023, as the Fed expressed its commitment to tame inflation during the Jackson Hole summit in August. However, US equities notched up a strong advance at the end of 2022 as investors reacted positively to signs of inflation easing and strong corporate earnings reports.

Over the 12-months rolling to June 2023, the HGIF Economic Scale US Equity fund rose significantly. Although the fund does not have an official reference benchmark, when comparing to the S&P 500 Index, the fund underperformed the index with both our asset allocation and stock selection weighing on performance. On a sector basis, our overweight allocations to Industrials and Communication services coupled with our underweight exposures to Health Care, Utilities and Real Estate contributed to performance. Conversely, an underweight allocation to Information Technology along with our overweight exposures to Consumer Staples and Financials weighed on performance. On a stock level basis, overweighting General Electric Co (Industrials), Jabil Inc (Information Technology) and Walmart Inc (Consumer Staples) contributed to performance. Conversely, underweighting Nvidia Corp (Information Technology), Apple Inc (Information Technology) and Microsoft Corp (Information Technology) weighed on performance.

Market Outlook and Investment Strategy

HSBC Economic Scale strategy aims to outperform the market cap index in the long run by using an alternatively weighting scheme which uses the contribution to Gross National Product (GNP). The strategy has implicit biases towards small cap and value stocks, which detracted the performance of the fund in the period as rising inflation has a bigger impact on smaller cap companies. Similarly, the enthusiasm surrounding AI in the first half of 2023 also helped mega cap technology companies while value stocks suffered.

Looking at the outlook, US equity performance has held up for a number of reasons including AI-related tailwinds. Our central view is a recession towards the end of the year, which does not appear to be priced in. As a result, we remain cautious. A US recession is likely be accompanied by Fed rate cuts. This can lead to failing US Treasury yields, particularly at the shorter-end of the yield curve.

Source: HSBC Global Asset Management

HSBC Insurance US Opportunities Equity Fund (SGD)

Investment and Market Review

Following US and global equity market rallies in the 2022's third quarter, US equities collectively fell for a third consecutive quarter and to 22-month lows, capped by the worst September in two decades. Stock selection in consumer staples, communcation services and industrials helped performance. Following a solid rebound in October and November as inflation data improved, the US equity market pulled back broadly in December, leaving major indices with their strongest quarter of 2022 but their worst calendar-year performance since 2008. , Amidst a wide dispersion of returns across the major US equity indices, nine out of 11 sectors appreciated, with investors favoring cyclicals such as energy, industrials, materials and financials foremost, while the consumer discretionary and communication services sectors retreated. An underweight in Apple proved positive for relative performance in the IT sector

Key US equity indices ended the first quarter of 2023 with gains despite a bout of heightened financial market volatility in March due to turmoil in the banking industry. Stock selection in consumer staples and communcation serviceshelped performance. Key measures of US stocks rose during the second quarter of 2023, driven by better-than-expected first-quarter corporate earnings reports, the suspension of the debt ceiling, subsiding concerns about US regional banks, resilient economic growth, and hopes for an end to the US Federal Reserve's campaign of interest-rate hikes.

Market Outlook and Investment Strategy

We believe that in the second half of 2023, US equities can benefit from cooling inflation and earnings optimism. Following two consecutive quarters of falling US corporate profits, the outlook for earnings is beginning to brighten. In our assessment, many companies have performed well because of their strong balance sheets, attractive profitability, platform-like dynamics and an increased focus on efficiency in an uncertain macroeconomic environment.

The strength of the stock market rebound has been bolstered by optimism about the transformative opportunities that AI applications might present. We believe AI is a key pillar of the digital transformation that is driving significant disruption in multiple industries while spurring new growth. In our view, there are opportunities for companies to increase productivity, lower costs and ultimately drive competitiveness in this era of generative AI. Other areas of investment we are focused on are in health care, which is backed by multidecade demand trends from an ageing population worldwide, and in energy, as we move towards more renewable, sustainable energy platforms.

The fund invests in quality growth businesses that, in our analysis, have robust competitive positions, strong pricing power and healthy financials. Our focus on major secular themes, like digital transformation and health care innovation, leads us to both established and emerging growth players in various sectors. Currently, our largest sector exposure is in IT, where we prefer software companies, followed by health care, consumer discretionary and financials, where we prefer fintech companies.

Source: Franklin Templeton

HSBC Insurance World Selection 1 Fund (SGD and USD)

Investment and Market Review

The MSCI All Country World Index in USD delivered a return of +16.7% over the period, by contrast the FTSE World Government Bond Index (USD Hedged) delivered a return of -1.9%. Equity markets were supported by better than expected developed market GDP growth, robust earnings, the lifting of COVID-19 lockdowns in China, and latterly a rally in Artificial Intelligence related stocks as investors became increasingly optimistic about the beneficial impact of Large Language Models.

Global central banks continued to hike rates over the period, with the US Federal Reserve raising rates by 400bps over the period. The continued monetary tightening acted as a headwind to Global Fixed Income markets.

The World Selection Portfolios have participated enthusiastically in the market rally, with all five funds delivering positive returns over the period. The portfolios maintained a modestly cautious posture; underweight global equity, spread duration, and rate duration. Given the depth of the US Yield Curve inversion we introduced a US Steepening trade. Additionally, the portfolios maintained a preference towards higher quality and more defensive areas of the developed equity market. During the period we introduced an allocation to Listed Infrastructure. Finally, the portfolios held a preference for ‘Eastern’ over ‘Western’ markets, and as a result were overweight emerging market equity, local currency emerging market debt, Japan equity, China equity and Brazil equity.

Market Outlook and Investment Strategy

Western and Eastern economies are diverging; disinflation continues in the West, but core inflation remains sticky, raising the probability of small additional rate hikes. Conversely, Eastern economies face a much more benign growth and inflation mix.

Upwardly revised growth figures are raising hopes of a soft landing in the US. However, a recession is still possible towards the end of 2023, as tight monetary policy slows growth. The Fed is now likely at peak hawkishness, we expect a policy pause in September and potential cuts at the end of 2023.

Sluggish eurozone economic data limits the risk of further ECB policy tightening, despite the stickiness of core inflation. Given our view that a Eurozone recession is still possible, we see rates falling faster than the market currently expects in 2024.

In the East, inflation is much less of a concern, and areas of supportive policy can help maintain growth. There are risks that a global slowdown might dampen trade revenues, but this can be partially offset by a weaker dollar. Rollouts of targeted fiscal policy support in China looks likely after the July Politburo meeting. While in Japan we expect a gradual normalisation of the yield curve.

Source: HSBC Global Asset Management

HSBC Insurance World Selection 2 Fund (SGD and USD)

Investment and Market Review

The MSCI All Country World Index in USD delivered a return of +16.7% over the period, by contrast the FTSE World Government Bond Index (USD Hedged) delivered a return of -1.9%. Equity markets were supported by better than expected developed market GDP growth, robust earnings, the lifting of COVID-19 lockdowns in China, and latterly a rally in Artificial Intelligence related stocks as investors became increasingly optimistic about the beneficial impact of Large Language Models.

Global central banks continued to hike rates over the period, with the US Federal Reserve raising rates by 400bps over the period. The continued monetary tightening acted as a headwind to Global Fixed Income markets.

The World Selection Portfolios have participated enthusiastically in the market rally, with all five funds delivering positive returns over the period. The portfolios maintained a modestly cautious posture; underweight global equity, spread duration, and rate duration. Given the depth of the US Yield Curve inversion we introduced a US Steepening trade. Additionally, the portfolios maintained a preference towards higher quality and more defensive areas of the developed equity market. During the period we introduced an allocation to Listed Infrastructure. Finally, the portfolios held a preference for 'Eastern' over 'Western' markets, and as a result were overweight emerging market equity, local currency emerging market debt, Japan equity, China equity and Brazil equity.

Market Outlook and Investment Strategy

Western and Eastern economies are diverging; disinflation continues in the West, but core inflation remains sticky, raising the probability of small additional rate hikes. Conversely, Eastern economies face a much more benign growth and inflation mix.

Upwardly revised growth figures are raising hopes of a soft landing in the US. However, a recession is still possible towards the end of 2023, as tight monetary policy slows growth. The Fed is now likely at peak hawkishness, we expect a policy pause in September and potential cuts at the end of 2023.

Sluggish eurozone economic data limits the risk of further ECB policy tightening, despite the stickiness of core inflation. Given our view that a Eurozone recession is still possible, we see rates falling faster than the market currently expects in 2024.

In the East, inflation is much less of a concern, and areas of supportive policy can help maintain growth. There are risks that a global slowdown might dampen trade revenues, but this can be partially offset by a weaker dollar. Rollouts of targeted fiscal policy support in China looks likely after the July Politburo meeting. While in Japan we expect a gradual normalisation of the yield curve.

Source: HSBC Global Asset Management

HSBC Insurance World Selection 3 Fund (SGD and USD)

Investment and Market Review

The MSCI All Country World Index in USD delivered a return of +16.7% over the period, by contrast the FTSE World Government Bond Index (USD Hedged) delivered a return of -1.9%. Equity markets were supported by better than expected developed market GDP growth, robust earnings, the lifting of COVID-19 lockdowns in China, and latterly a rally in Artificial Intelligence related stocks as investors became increasingly optimistic about the beneficial impact of Large Language Models.

Global central banks continued to hike rates over the period, with the US Federal Reserve raising rates by 400bps over the period. The continued monetary tightening acted as a headwind to Global Fixed Income markets.

The World Selection Portfolios have participated enthusiastically in the market rally, with all five funds delivering positive returns over the period. The portfolios maintained a modestly cautious posture; underweight global equity, spread duration, and rate duration. Given the depth of the US Yield Curve inversion we introduced a US Steepening trade. Additionally, the portfolios maintained a preference towards higher quality and more defensive areas of the developed equity market. During the period we introduced an allocation to Listed Infrastructure. Finally, the portfolios held a preference for 'Eastern' over 'Western' markets, and as a result were overweight emerging market equity, local currency emerging market debt, Japan equity, China equity and Brazil equity.

Market Outlook and Investment Strategy

Western and Eastern economies are diverging; disinflation continues in the West, but core inflation remains sticky, raising the probability of small additional rate hikes. Conversely, Eastern economies face a much more benign growth and inflation mix.

Upwardly revised growth figures are raising hopes of a soft landing in the US. However, a recession is still possible towards the end of 2023, as tight monetary policy slows growth. The Fed is now likely at peak hawkishness, we expect a policy pause in September and potential cuts at the end of 2023.

Sluggish eurozone economic data limits the risk of further ECB policy tightening, despite the stickiness of core inflation. Given our view that a Eurozone recession is still possible, we see rates falling faster than the market currently expects in 2024.

In the East, inflation is much less of a concern, and areas of supportive policy can help maintain growth. There are risks that a global slowdown might dampen trade revenues, but this can be partially offset by a weaker dollar. Rollouts of targeted fiscal policy support in China looks likely after the July Politburo meeting. While in Japan we expect a gradual normalisation of the yield curve.

Source: HSBC Global Asset Management

HSBC Insurance World Selection 4 Fund (SGD and USD)

Investment and Market Review

The MSCI All Country World Index in USD delivered a return of +16.7% over the period, by contrast the FTSE World Government Bond Index (USD Hedged) delivered a return of -1.9%. Equity markets were supported by better than expected developed market GDP growth, robust earnings, the lifting of COVID-19 lockdowns in China, and latterly a rally in Artificial Intelligence related stocks as investors became increasingly optimistic about the beneficial impact of Large Language Models.

Global central banks continued to hike rates over the period, with the US Federal Reserve raising rates by 400bps over the period. The continued monetary tightening acted as a headwind to Global Fixed Income markets.

The World Selection Portfolios have participated enthusiastically in the market rally, with all five funds delivering positive returns over the period. The portfolios maintained a modestly cautious posture; underweight global equity, spread duration, and rate duration. Given the depth of the US Yield Curve inversion we introduced a US Steepening trade. Additionally, the portfolios maintained a preference towards higher quality and more defensive areas of the developed equity market. During the period we introduced an allocation to Listed Infrastructure. Finally, the portfolios held a preference for ‘Eastern’ over ‘Western’ markets, and as a result were overweight emerging market equity, local currency emerging market debt, Japan equity, China equity and Brazil equity.

Market Outlook and Investment Strategy

Western and Eastern economies are diverging; disinflation continues in the West, but core inflation remains sticky, raising the probability of small additional rate hikes. Conversely, Eastern economies face a much more benign growth and inflation mix.

Upwardly revised growth figures are raising hopes of a soft landing in the US. However, a recession is still possible towards the end of 2023, as tight monetary policy slows growth. The Fed is now likely at peak hawkishness, we expect a policy pause in September and potential cuts at the end of 2023.

Sluggish eurozone economic data limits the risk of further ECB policy tightening, despite the stickiness of core inflation. Given our view that a Eurozone recession is still possible, we see rates falling faster than the market currently expects in 2024.

In the East, inflation is much less of a concern, and areas of supportive policy can help maintain growth. There are risks that a global slowdown might dampen trade revenues, but this can be partially offset by a weaker dollar. Rollouts of targeted fiscal policy support in China looks likely after the July Politburo meeting. While in Japan we expect a gradual normalisation of the yield curve.

Source: HSBC Global Asset Management

HSBC Insurance World Selection 5 Fund (SGD and USD)

Investment and Market Review

The MSCI All Country World Index in USD delivered a return of +16.7% over the period, by contrast the FTSE World Government Bond Index (USD Hedged) delivered a return of -1.9%. Equity markets were supported by better than expected developed market GDP growth, robust earnings, the lifting of COVID-19 lockdowns in China, and latterly a rally in Artificial Intelligence related stocks as investors became increasingly optimistic about the beneficial impact of Large Language Models.

Global central banks continued to hike rates over the period, with the US Federal Reserve raising rates by 400bps over the period. The continued monetary tightening acted as a headwind to Global Fixed Income markets.

The World Selection Portfolios have participated enthusiastically in the market rally, with all five funds delivering positive returns over the period. The portfolios maintained a modestly cautious posture; underweight global equity, spread duration, and rate duration. Given the depth of the US Yield Curve inversion we introduced a US Steepening trade. Additionally, the portfolios maintained a preference towards higher quality and more defensive areas of the developed equity market. During the period we introduced an allocation to Listed Infrastructure. Finally, the portfolios held a preference for 'Eastern' over 'Western' markets, and as a result were overweight emerging market equity, local currency emerging market debt, Japan equity, China equity and Brazil equity.

Market Outlook and Investment Strategy

Western and Eastern economies are diverging; disinflation continues in the West, but core inflation remains sticky, raising the probability of small additional rate hikes. Conversely, Eastern economies face a much more benign growth and inflation mix.

Upwardly revised growth figures are raising hopes of a soft landing in the US. However, a recession is still possible towards the end of 2023, as tight monetary policy slows growth. The Fed is now likely at peak hawkishness, we expect a policy pause in September and potential cuts at the end of 2023.

Sluggish eurozone economic data limits the risk of further ECB policy tightening, despite the stickiness of core inflation. Given our view that a Eurozone recession is still possible, we see rates falling faster than the market currently expects in 2024.

In the East, inflation is much less of a concern, and areas of supportive policy can help maintain growth. There are risks that a global slowdown might dampen trade revenues, but this can be partially offset by a weaker dollar. Rollouts of targeted fiscal policy support in China looks likely after the July Politburo meeting. While in Japan we expect a gradual normalisation of the yield curve.

Source: HSBC Global Asset Management

HSBC Life FlexConcept Fund (USD)

Investment and Market Review

In H2 2022 and H1 2023 two dominant themes drove capital markets: On the one hand, interest rate markets experienced historic hiking efforts of central bank rates in Europe, UK and the US. The ECB raised its main interest rate from -0.5% to 3.5%, BoE from 1.0% to 5.0% and the Fed from 1.5% to 5.0%, respectively. On the other hand, international conflicts like the war in Ukraine and trade disputes between

China and the US have added volatility in the market. Negative sentiment in the Chinese real estate sector, struggling with a pricing bubble and a series of failures, added to this, as the debt crisis in the US did, with the defaults of major regional banks Silicon Valley Bank and First Republic Bank early 2023. On the positive side, so far, the economy in the US otherwise seems to have digested the interest rate cycle with only minor dents. The economy has remained strong and the labour market has continuously exceeded expectations up to this point.

Under these circumstances the performance of the Index developed mostly sideways closing at -1.0% YoY. The fund was tracking the index closely with a tracking error of 0.56% over the reporting period. After costs the fund ends the reporting period at -3.2%. Figure 1 compares the development of Fund and Index over the reporting period. After losing value in H1 2022, the investment recovered slightly during the second half of the reporting period.

The Index performance in the second half of 2022 was mainly driven by its fixed income components as (almost) none of the equity markets could show positive momentum and were thus not allocated by the Index. By default, the Index' fixed income basket has an average duration of approx. 9 years. Rising interest rates, especially in Europe, the US, Canada and the UK, put significant pressure on the portfolio, as a result. During the same time the index did not take any leverage, reflecting the elevated volatility in bond markets. At around the end of the year 2022 bond and equity markets then started to slowly trend upwards. From end of January 2023 onwards 40% and more of the Index allocation was again contributed to its equities basket. Although bond prices have continued to decline and weigh heavy on the index performance since then, the decline was far more moderate as still in 2022 as rate hike cycles around the globe have started to slowly coming to an end. The looming end of rate hike cycles paired with indications of a soft landing in the US has provided strong support for equities year-to-date. The decline in market volatility compared to the first half of the reporting period has caused the index leverage to gradually increase and end at 182% as per end of June 2023.

Market Outlook and Investment Strategy

Equity market performance year-to-date has likely based on the expectation that inflation will fall back to target without the economy having to go through a recession. In a positive scenario, the rate hike cycle would be over soon which would allow central banks to return their focus to supporting growth. How easily inflation will drop and if a recession can ultimately be avoided remains to be seen, however.

While headline inflation is likely to continue retreating in the coming months, core inflation remains stubbornly high. Besides inflation there are still a number of other issues unresolved. The first quarter of 2023 has seen many banks in the US and the eurozone tightening corporate lending standards which might indicate that stress in the banking sector can emerge again anytime soon. Other questions are if labour markets continue to be stable albeit profits being under pressure, or if Europe will run into energy problems next winter. Moreover, the Chinese economy is a constant factor of risk. Given the continued uncertainty in global markets we conclude that a recession is not yet off the table and that choppy market conditions may likely remain until well into the next calendar year.

Source: Munich Re Investment Partners GmbH