Theory-based sales aids to support investment conversations

Addressing typical client questions around why and how to invest

Power up your portfolio

February 2025

HSBC Asset Management

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1. Why should I invest?

Why should I invest?

Summary

Typical questions

The world is so uncertain. Why not hold cash instead?

If prices keep going up, how can we maintain our purchasing power?

Why invest now and not wait until interest rates on cash have fallen more?

Due to inflation, or the rising prices of goods and services, holding cash means your money is losing value

Everyone needs to hold some cash for ‘rainy days’ or to meet living expenses.

However, over the last 2 decades, inflation has almost halved the value of a US dollar

Investing is a way to grow your money

Investing is an effective way to grow the value of your savings above and beyond inflation over the long term

Starting sooner will allow you to benefit more from the compounding effect

Bonds can provide steady income

Central banks are expected to continue cutting interest rates, which means lower rates on cash deposits. Bonds can provide steady income while also benefiting from price appreciation as interest rates fall.

Benefits of investing across different assets holds true

Investing over the long-term has supported capital growth, well beyond inflation.

Despite the highest interest rates in nearly two decade in many markets, investing across most other asset classes delivered far better returns than interest generated from cash.

Investments do not include the security of capital typically provided by a bank/building society deposit

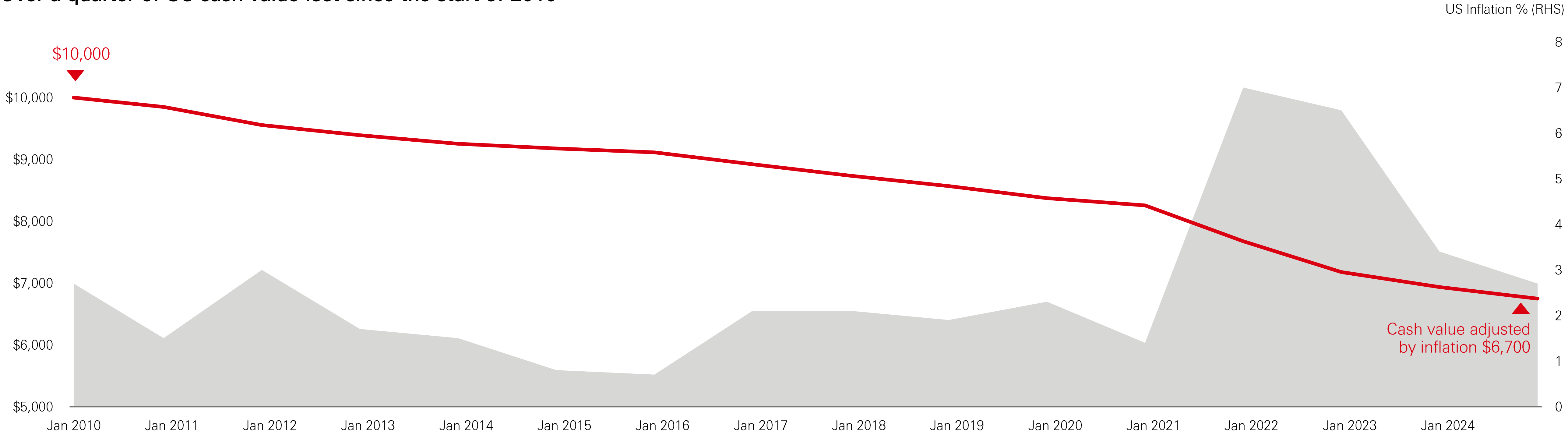
Holding cash means your money is losing value

Inflation, or rising prices for goods and services, means what you can buy with your cash is diminishing over time

The chart below demonstrates this decline in the value of money

High inflation across most markets in recent years has exacerbated the issue, accelerating the decline in the value of cash

Over a quarter of US cash value lost since the start of 2010



Source: Bloomberg, HSBC Asset Management, as at 31 December 2024. US inflation % = US CPI YOY change. Past performance does not predict future returns.

Why should I invest?

Inflation is slowing down, but won't disappear

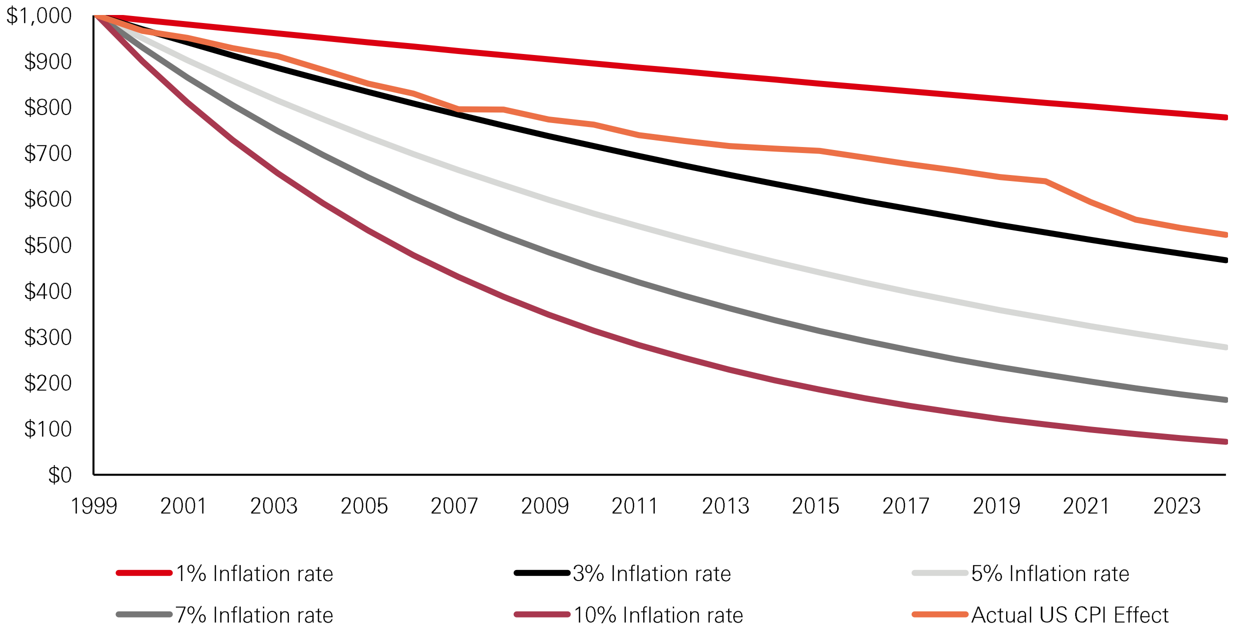
Higher interest rates were implemented across many economies since 2023 to slow demand and economic growth, and help curb inflation

While price pressures have eased significantly, inflation will not disappear, leaving the value of your money still deteriorating

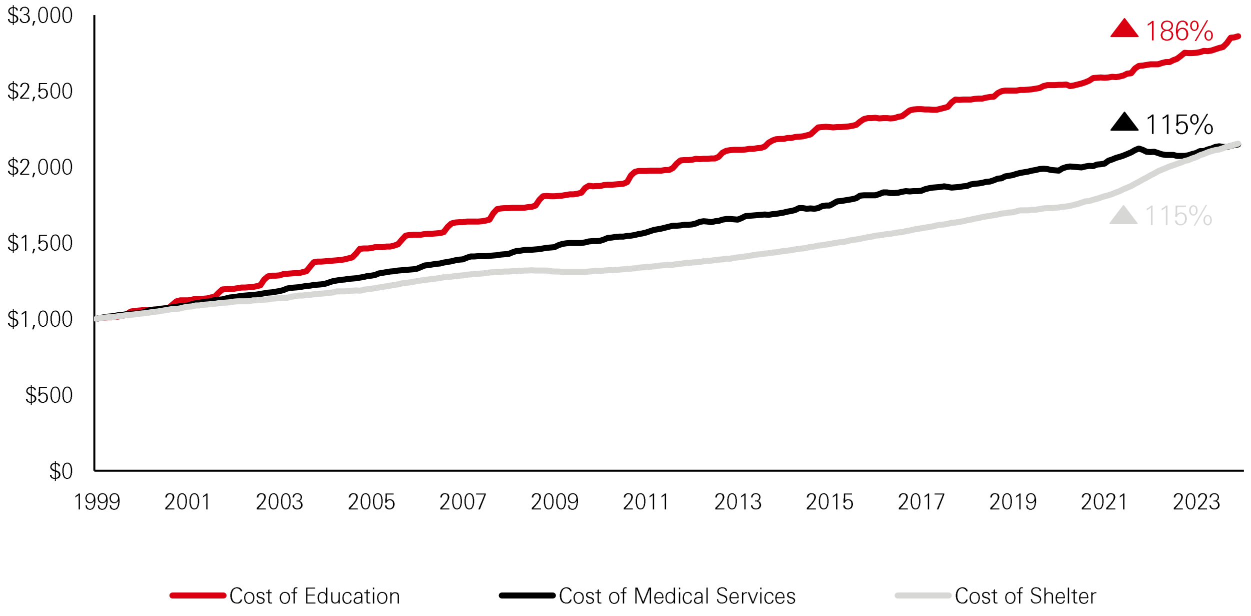
We can see below that over the last two decades, inflation has almost halved the value of $1,000, as costs for basic amenities such as education, medical services and shelter more than doubled in the US

Impact of Inflation

Value of $1,000



Cost of basic amenities in the US



Source: HSBC Asset Management, as at 31 December 2024. Past performance does not predict future returns.

Why should I invest?

A way to grow your money

Investing is an effective way to grow the value of your savings above and beyond inflation over the long term

Starting sooner will allow you to benefit more from the compounding effect

This means as you reinvest the returns from your investment, the original investment can continue to grow along with the money the investment has generated

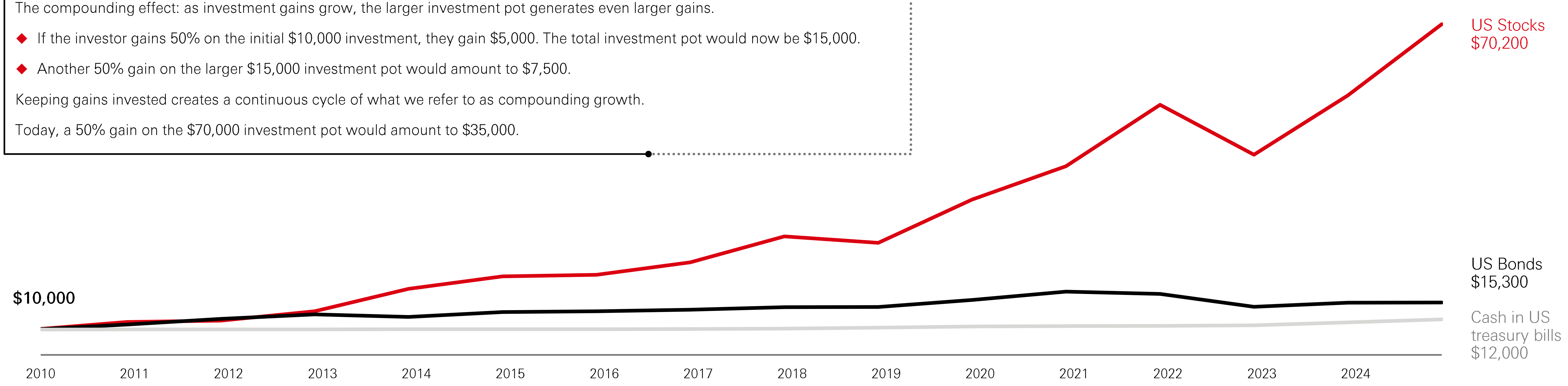
Growth of $10,000 since start of 2010

The compounding effect: as investment gains grow, the larger investment pot generates even larger gains.

- If the investor gains 50% on the initial $10,000 investment, they gain $5,000. The total investment pot would now be $15,000.
- Another 50% gain on the larger $15,000 investment pot would amount to $7,500.

Keeping gains invested creates a continuous cycle of what we refer to as compounding growth.

Today, a 50% gain on the $70,000 investment pot would amount to $35,000.



Past performance does not predict future returns.

Source: Bloomberg, HSBC Asset Management, as at 31 December 2024. Indices used: Equities - S&P 500 Total Return Index. Bonds - US 7-10year Aggregate Bond Total Return Index. Savings - USA Total Return T-Bill Index.

Why should I invest?

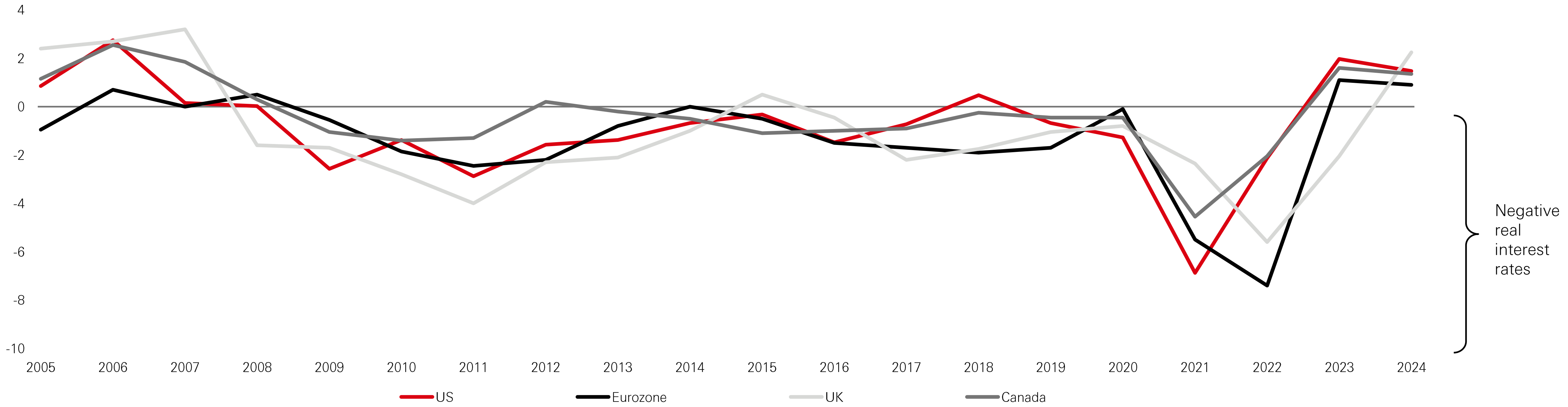
Interest has been losing to inflation for most of the last two decades

The 'real interest rate' considers the effect of inflation

Negative real interest rates mean that inflation is higher than interest rates

Despite recently turning positive, negative real interest rates in past years means that even with interest payments factored in, the value of your cash would have eroded significantly

Real interest rates since 2005 (%)



Source: Bloomberg, HSBC Asset Management, data as of 31 December 2024. Calculated using average CPI for the year and year-end central bank/base rate. Past performance does not predict future returns.

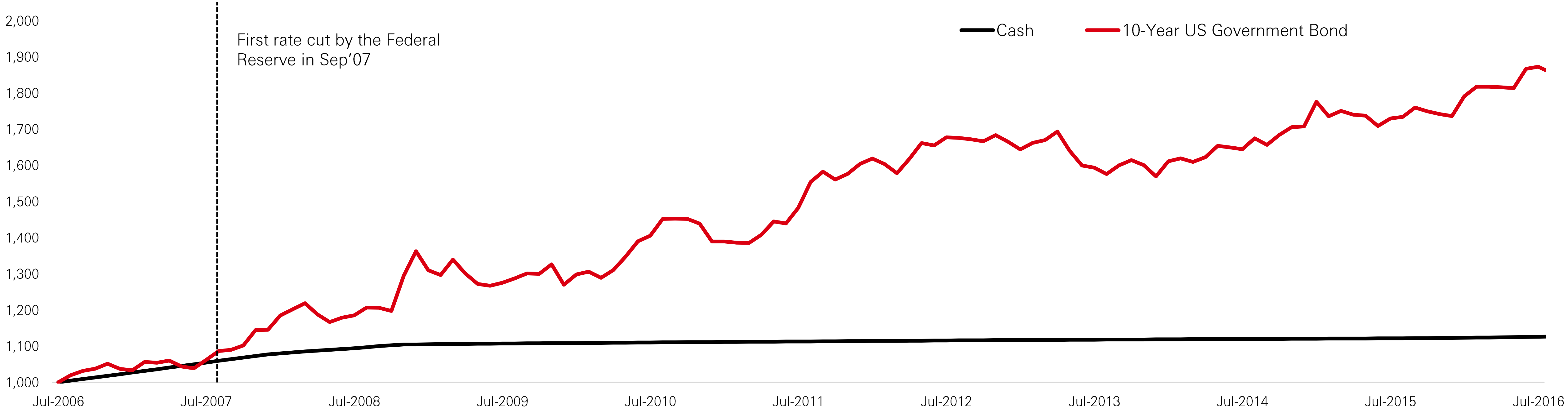
Bonds can provide steady income and unlike cash, can also benefit from price appreciation

The below chart shows the total return from holding 10-year US government bonds following the last interest rate cutting cycle by the US Federal Reserve, compared to holding cash

The enormous difference is due to falling interest returns on cash, contrasted by better yields and price appreciation from longer-term bonds as rates fell and remained low

While rates are not expected to return to the very low levels of a decade ago, the current rate cutting cycle should be beneficial for bond investors

Total return for US 10-year government bonds around the last Fed rate cutting cycle



Past performance does not predict future returns.
Source: Bloomberg; MSCI, HSBC Asset Management, 31 December 2024.

Why should I invest?

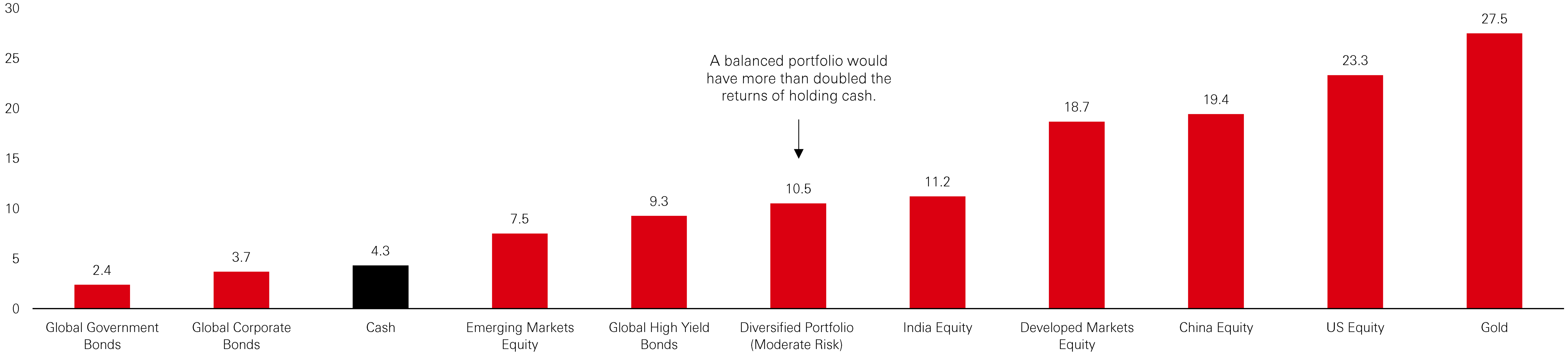
Benefits of diversified investing endure, even with higher interest rates

Central banks raise interest rates to reduce borrowing and investment, slowing the economy and inflation, while making cash deposits more appealing due to higher rates

As inflation has fallen in many markets, the resulting positive real interest rates today can be appealing

Yet, despite interest rates in 2023 and 2024 at their highest levels in nearly two decades in markets such as the US, we can see that investing across most other asset classes has continued to deliver better returns than holding cash

2024 Asset class return (%)



Past performance does not predict future returns.

Source: Morningstar, HSBC Asset Management, data to December 2024. All returns in USD, total return. Indices used: China Equities: MSCI China Index; Cash: CME SOFR 3 Month; Global Government Bond: FTSE World Government Bond Index; Global Corporate Bond: Bloomberg Barclays Global Aggregate Corporate Bond Index; EM Equities: MSCI Emerging Market Equity; Global High Yield Bond: ICE Bank of America Merrill Lynch Global High Yield; Gold: S&P GSCI Gold Spot Index; India Equities: MSCI India NR Index; DM Equities: MSCI World Index; US Equity: S&P 500 Index. 'Diversified Portfolio' is a representative, balanced asset allocation across global equities, bonds and alternatives. Bond indices are hedged. Equities are unhedged.

2. Should I wait for the right time to invest?

Should I wait for the right time to invest?

Summary

Typical questions

If I can avoid the worst days, will my investment return increase?

What can I do during times of market turmoil?

Perhaps I can time the market to buy low and sell high? Why don't I just invest when prices are low?

I only have a small amount to invest each month, does it make sense?

Time in, not timing: the power of compounding

Due to the compounding effect, starting to invest sooner, rather than later, is typically what is more important to growing your savings

Missed opportunities can be costly

Missing just a few of those best performing days can result in a huge difference in your return.

Long-term gains overcome short-term declines

It is the ability to 'ride out' short-term fluctuations that tend to bring positive returns over a longer time frame

Staying invested is the key

Patience and a commitment to a long-term approach is key to growing your savings

Selling during volatile periods, such as 2020 or 2023, would have meant missing out on a very strong market rebound

Regular investing helps smooth out the effects and fear of market movements

Investing a set amount at regular intervals enables you to buy more shares when prices are low and less when prices are high

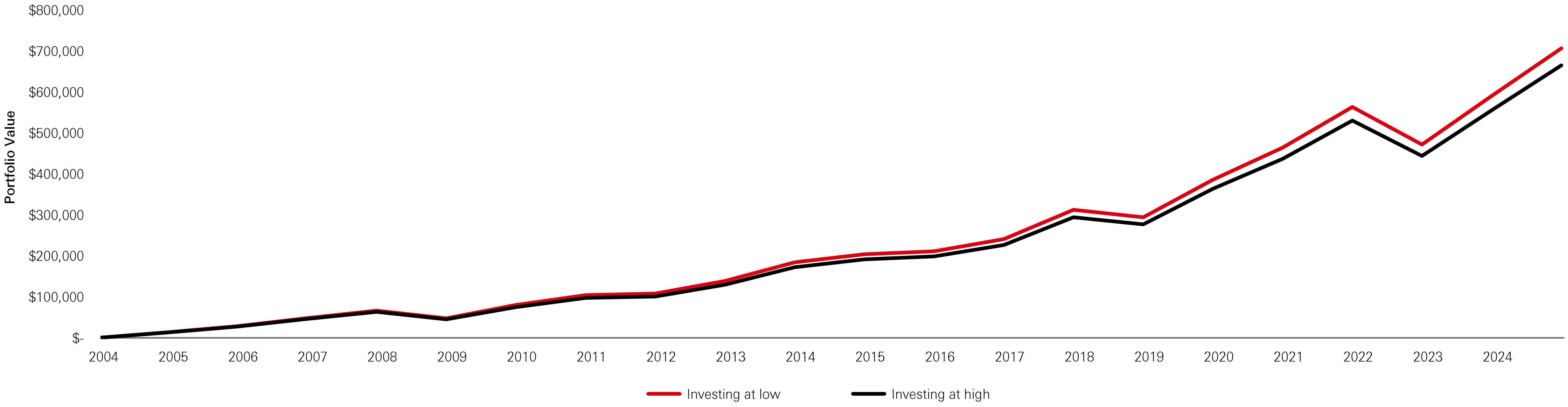
Should I wait for the right time to invest?

Time in, not timing: the power of compounding

The chart shows what happened to $1,000 invested in global stocks at the monthly low or high, every month since January 2004

Whether investing at the monthly low or high, it does not create a significant difference in the end value

Growth from investing $1,000 per month in global equities



Past performance does not predict future returns.

Source: Bloomberg, HSBC Asset Management. Investing = MSCI AWCI Net Return Index, 1 January 2004 to 31 December 2024.

Should I wait for the right time to invest?

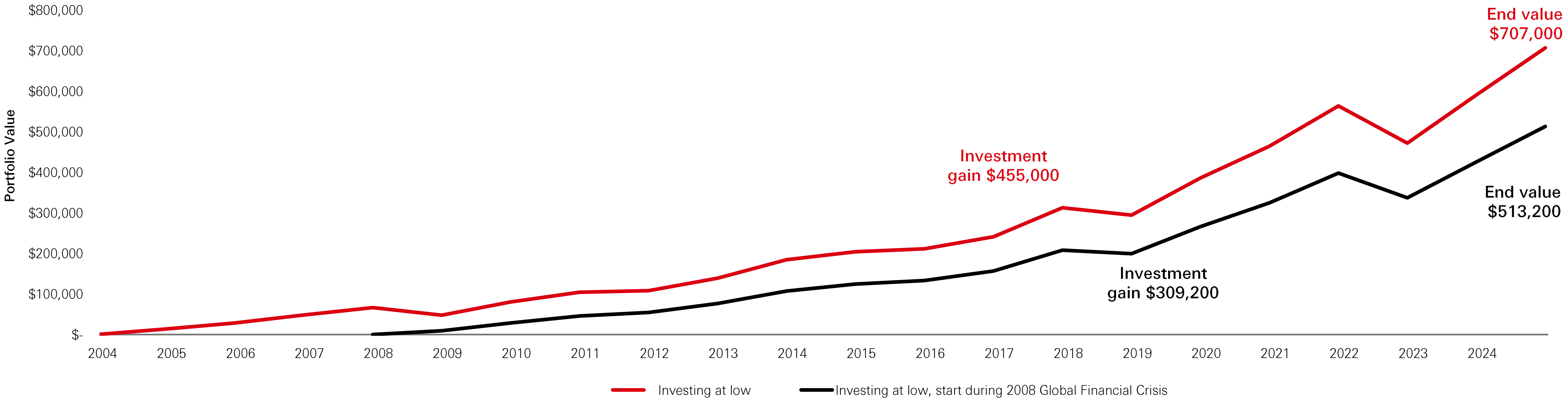
Time in, not timing: the power of compounding

Now the black line represents an investor that waited for a big market drop to start investing

Even though this investor has impeccable timing to not only invest at the monthly low, but start during a market crash when asset values were particularly low, the end outcome is much worse

Starting earlier (red line) meant investing $48,000 more over this time, but created an extra $193,800 in the end value – this is the power of compounding

Growth from investing $1,000 per month in global equities



Past performance does not predict future returns

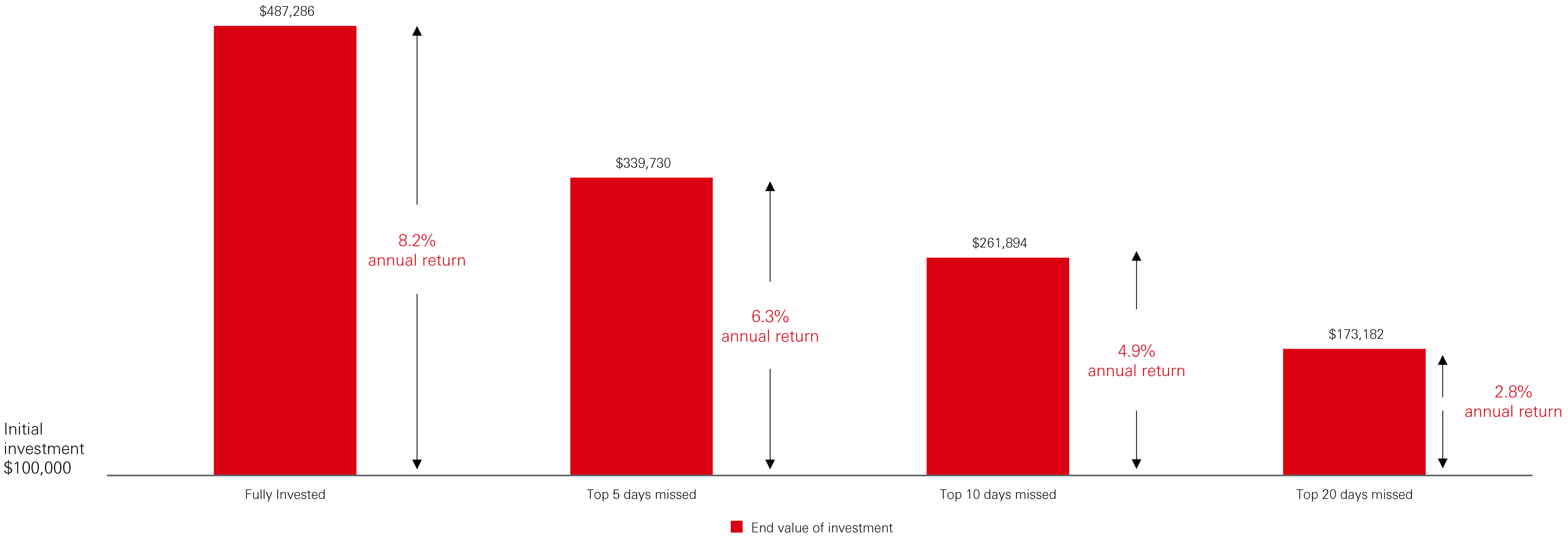
Source: Bloomberg, HSBC Asset Management. Investing = MSCI AWCI Net Return Index, 1 January 2004 to 31 December 2024.

Should I wait for the right time to invest?

Missed opportunities can be costly

For $100,000 invested in stocks since 2005

- Missing the top 20 days reduced the end investment value from around $487,000 to $173,000



Past performance does not predict future returns

Source: Bloomberg, HSBC Asset Management. Returns are for developed market stocks - MSCI World Daily Total Return Gross World Index, as at 31 December 2024.

Should I wait for the right time to invest?

Long-term gains overcome short-term declines

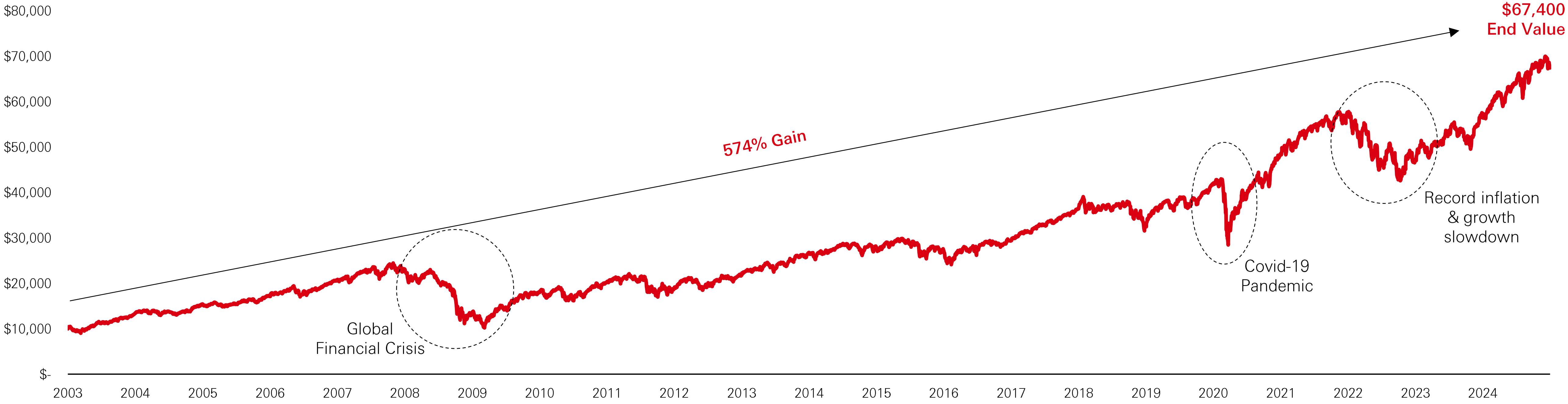
Nobody can predict when is the right time, so it is important to determine an appropriate long-term investment strategy and understand that the market will be volatile

History has shown that financial markets eventually recover from even the biggest turmoil

It is the ability to 'ride out' these short-term fluctuations that tend to bring positive returns over a longer time frame

Staying on the sidelines or selling during volatile periods can result in missing the recovery and losing out on long term gains

Returns from $10,000 invested in global equities over the last 2 decades



Past performance does not predict future returns

Source: Bloomberg, HSBC Asset Management as at 31 December 2024. MSCI ACWI Net Return index.

Should I wait for the right time to invest?

Staying invested is the key

Below we zoom in on bouts of short-term volatility from recent years

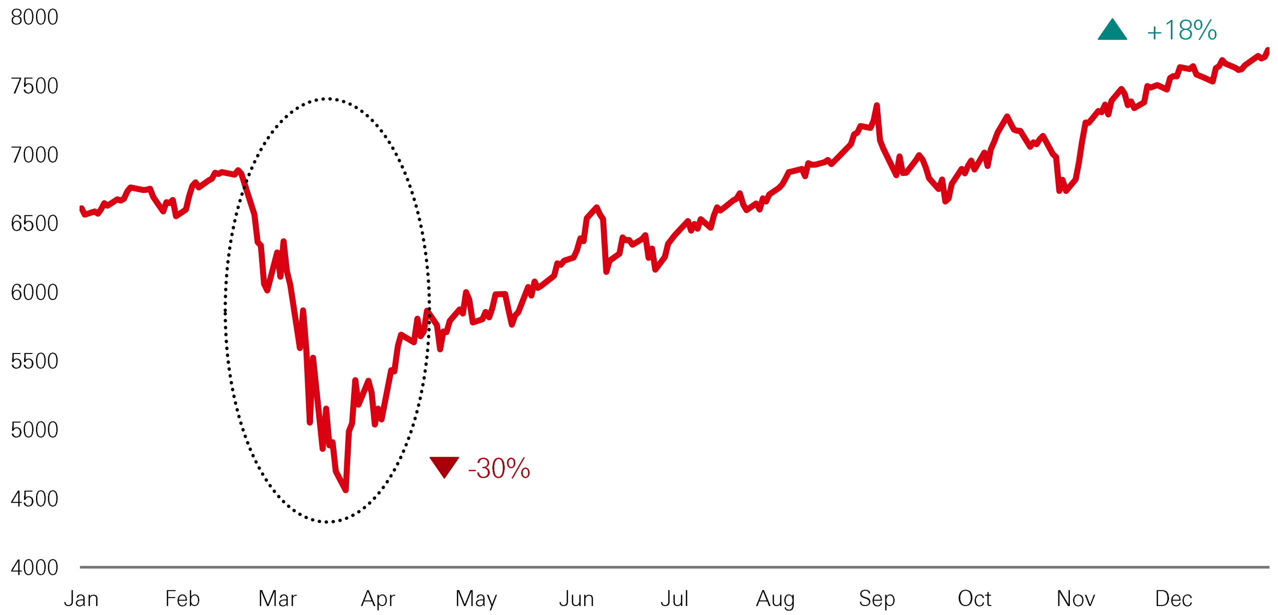
Most would remember March 2020 as a frightening time – not just for their investments! But investors who sold at that time would have sold assets at a significant discount, and missed the subsequent stock rally that generated close to a 20% return for the year

While not as extreme, 2023 was another year in which investors experienced significant ups and downs, but a very positive end outcome

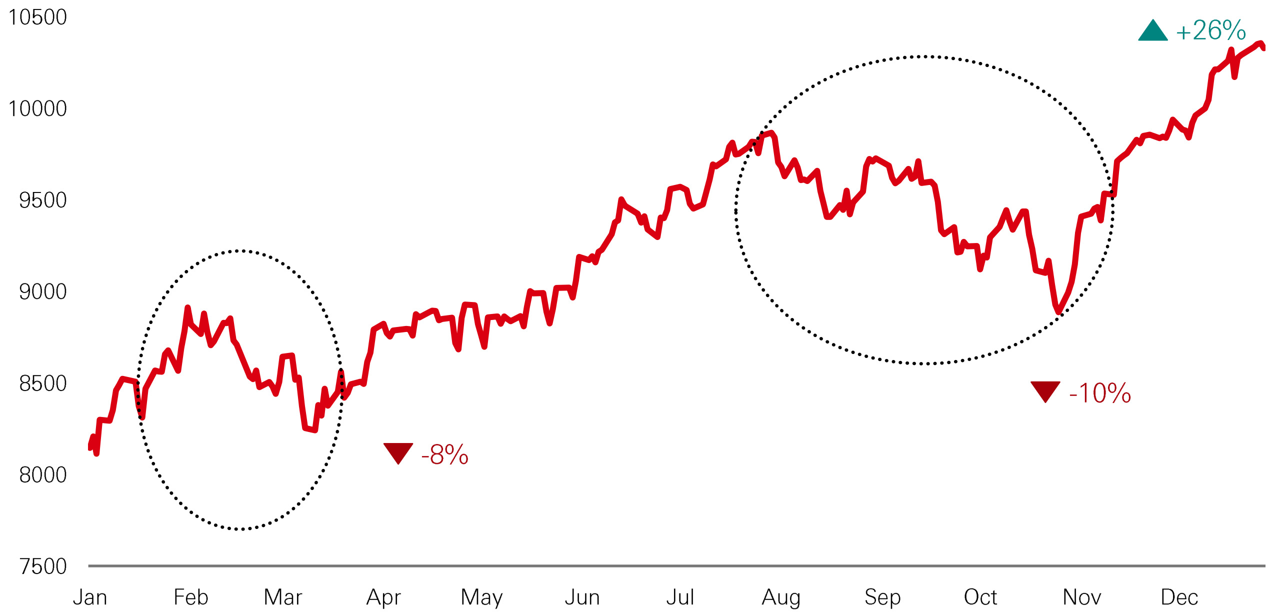
The only investment strategy required for these positive outcomes was patience and commitment to a long-term approach

US stock performance (S&P 500 total returns) during 2020 and 2023

2020



2023



Source: Bloomberg, HSBC Asset Management, as at 31 December 2024. Index used: S&P 500 Total Return Index.

Should I wait for the right time to invest?

Regular investing helps smooth out the effects and fear of market movements

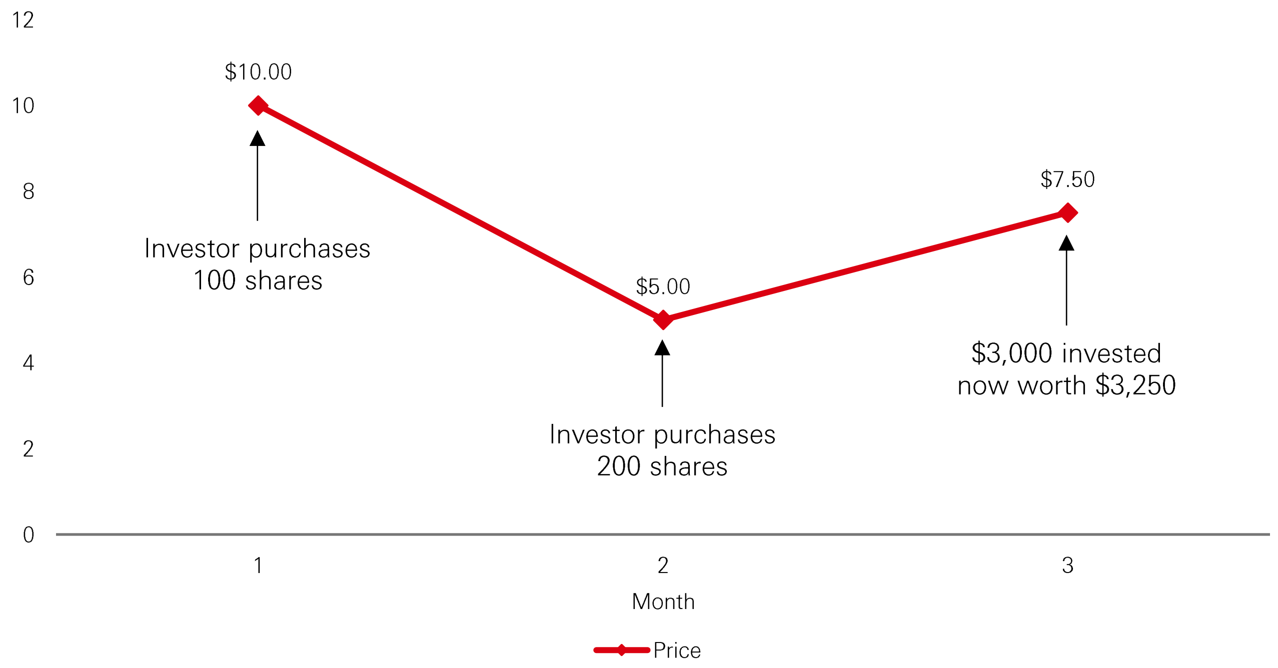
The below is an example outcome from investing $1,000 monthly amidst fluctuating share prices

More shares are purchased when prices are lower, and less shares are purchased when prices are higher

Even though the investor buys $1,000 worth of shares at both a price of $10 and $5 per share, the outcome is a gain

This is because investing a fixed dollar amount means buying double the number of shares at the lower $5 price versus the original amount purchased at $10

Price per share ($)



Monthly purchase	Amount invested	Price gain/loss from first purchase	Total value	Investor gain/loss
100 shares bought at $10	$1,000	-	$1,000	-
200 shares bought at $5	$1,000	-$5 *(-50%)*	300 shares x $5 = $1,500	$1,500 value / $2,000 invested = -25%
133.33 shares bought at $7.50	$1,000	-$2.5 *(-25%)*	433.33 shares x $7.50 = $3,250	$3,250 value / $3,000 invested = +8%

Past performance does not predict future returns

Source: HSBC Asset Management. For illustrative purposes only and does not relate to any investments. The figures are purely hypothetical.

3. How can I start investing?

How can I start investing?

Summary

Typical questions

How can I pursue opportunities while reducing the risk of negative returns?

I read about an investment that doubled last year. How much of my portfolio should I invest in it?

How can I stay on top of investment opportunities with everything else I have to do?

Take advantage of bond yields at 15-year highs

Currently, coupons on global bonds provide nearly double the income of equity dividends - a sharp reversal from the last two decades. This presents opportunity for bond investors, who can benefit from steady income in higher quality bonds and selective exposure to high yield bonds offering 'equity-like' returns.

Pursue multi-asset diversification

Diversification means investing in various assets at the same time, which offers exposure to a broader mix of return opportunities while smoothing overall portfolio returns by reducing exposure to individual asset fluctuations.

Avoid home bias

Focusing your investment portfolio on your home market limits exposure to opportunities while concentrating risks, and often means missing out on better returns elsewhere.

Focus on a long-term approach

Today's winners can be tomorrow's losers. It's important to stick to a long-term strategy that captures a diverse set of opportunities, which can ultimately help you reach long-term savings goals faster.

Professional attention to detail can help improve outcomes

Professionals can help ease the burden on yourself and also maximise returns for a given risk level by optimising the asset mix to balance risk and reward.

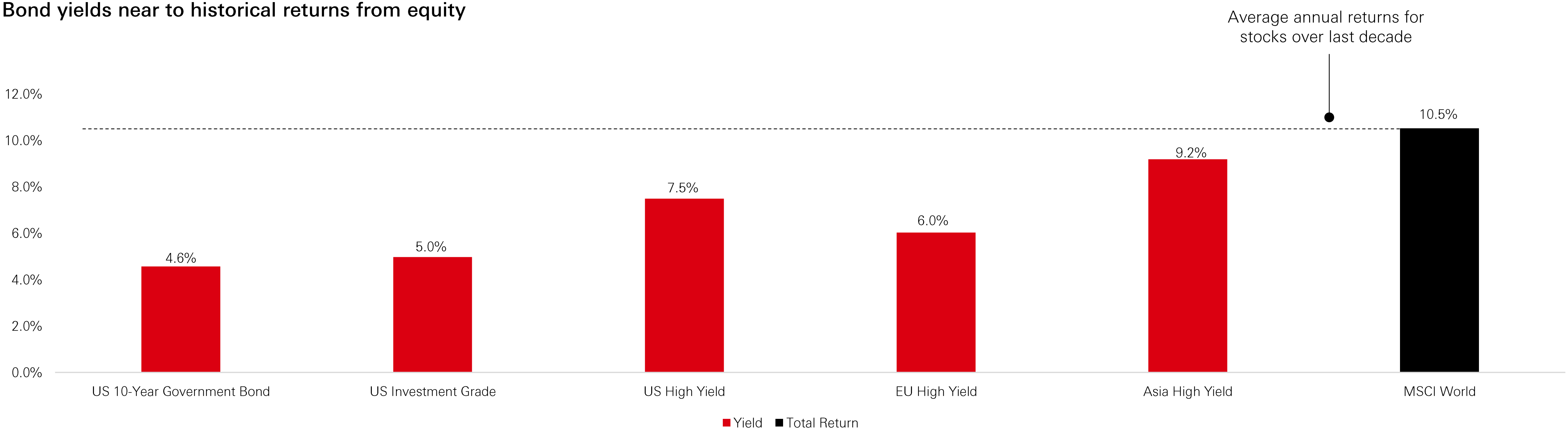
Lock in bond yields today that can provide 'equity-like' returns

Bonds continue to offer yields close to 15-year highs, presenting an opportunity to lock in steady income within portfolios through high quality bonds

Per the below, high yield bonds are providing yields that are competitive with total returns from stocks historically

High yield bonds include higher default risks, which can increase during economic slowdowns. An active, professionally-managed approach can help maximise income while mitigating risks.

Bond yields near to historical returns from equity



Past performance does not predict future returns
Source: HSBC AM, Bloomberg, December 2024.

Achieve a smoother ride

Single asset class performance can vary significantly from year to year

Diversification means investing in various asset classes at the same time – allowing your investment to be less exposed to large fluctuations

The best-performing asset class in one year...

...can be the worst-performing the following year

The diversified approach delivered one of the best long-term returns, while limiting short-term fluctuations.

Best performing asset class in year

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	10-Year Annualised return	10-Year Annualised volatility
1.30	16.21	37.28	2.60	27.67	18.31	26.09	2.46	23.79	18.67	9.95	17.13
0.63	11.19	22.40	2.37	21.91	15.90	21.82	-11.39	14.62	10.51	5.38	14.70
0.32	9.48	14.44	-1.00	18.44	10.38	10.63	-12.73	12.97	9.26	5.20	14.20
-0.24	7.93	14.07	-1.90	18.13	8.26	3.04	-12.86	12.58	7.50	3.64	10.09
-0.79	7.51	10.36	-4.63	14.54	6.61	0.16	-14.11	10.14	7.47	2.91	9.63
-0.87	6.22	10.01	-5.63	14.31	6.11	-0.79	-16.20	9.83	4.31	2.68	9.40
-2.03	5.63	8.02	-5.69	12.51	5.13	-2.29	-18.14	9.67	3.69	2.23	8.22
-2.48	4.06	5.70	-6.16	11.07	4.79	-2.54	-18.33	9.10	2.38	2.02	7.12
-11.14	3.75	2.14	-8.71	7.59	0.67	-2.62	-20.09	6.42	0.94	1.55	5.57
-14.92	0.76	1.29	-14.58	2.39	-9.04	-9.32	-25.09	5.62	-2.01	0.32	1.70

Worst performing asset class in year

- Emerging Markets Equity
- EM Debt (Local Currency)
- Diversified
- Developed Markets Equity
- EM Debt (Hard Currency)
- Global Government Bonds
- Cash
- Global Corporate Bonds
- Global High Yield Bonds
- Property

Past performance does not predict future returns

Source: Morningstar, HSBC Asset Management, data to December 2024. All returns in USD, total return. Indices used: DM Equities: MSCI World Index; EM Equities: MSCI Emerging Market Equity; EMD Local currency: Bloomberg EM Local Currency Government Diversified; EMD Hard currency: ICE Bank of America Merrill Lynch Emerging Market Bond Index; Global Corporate Bond: Bloomberg Barclays Global Aggregate Corporate Bond Index; Global High Yield Bond: ICE Bank of America Merrill Lynch Global High Yield; Global Government Bond: FTSE World Government Bond Index; Property: FTSE EPPRA/NAREIT Developed Property Index; Cash: ICE LIBOR 3 Month; Diversified: 'Diversified' performance was calculated using a representative, moderate-risk asset allocation to all of the stated indices. Bond indices are hedged. Equities are unhedged.

How can I start investing?

Focus on diversification and a long-term approach

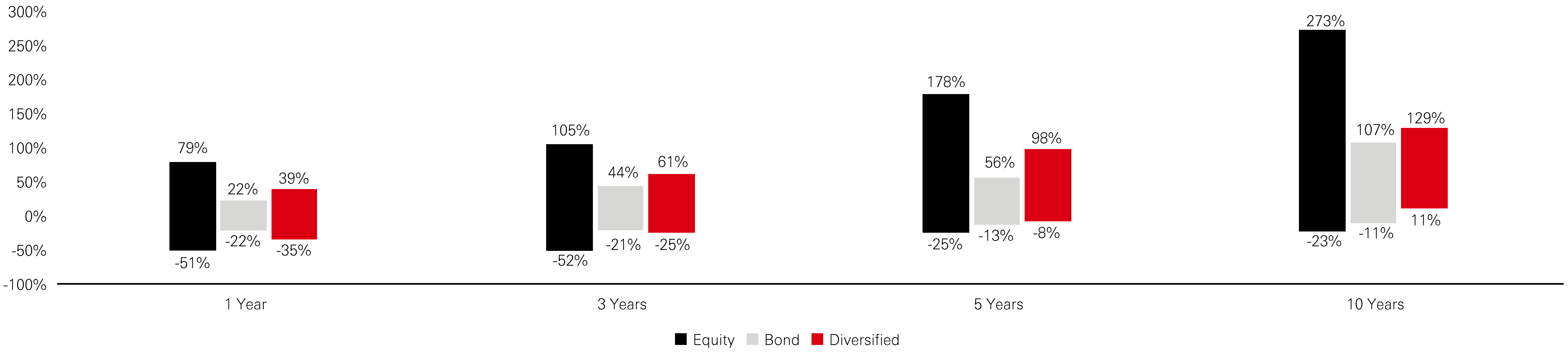
The below chart shows the range of returns for global stocks, bonds, and a diversified portfolio over different periods

You can see that the longer the investment time frame, the less likely a negative return.

For example, if you look at the 1-year bar chart (far left), this shows that performance of global equities over any 1-year period between 1999 and 2024 ranged between -51% and 79%. For any 10-year period, returns ranged between -23% and 273%.

The diversified approach is the only one that generated positive returns over any 10-year period!

Range of returns over different time frames since 1999



Past performance does not predict future returns

Currency: USD. Source: Bloomberg, HSBC Asset Management, as at 31 December 2024. Indices used: Equities – MSCI AC World Total Return Index. Bonds – Bloomberg Global-Aggregate Total Return Index Value Unhedged USD. 'Diversified' is a representative, balanced asset allocation across global equities, bonds and alternatives. Bond indices are hedged. Equities are unhedged.

Avoid home bias, which can have a huge impact on the growth of your funds

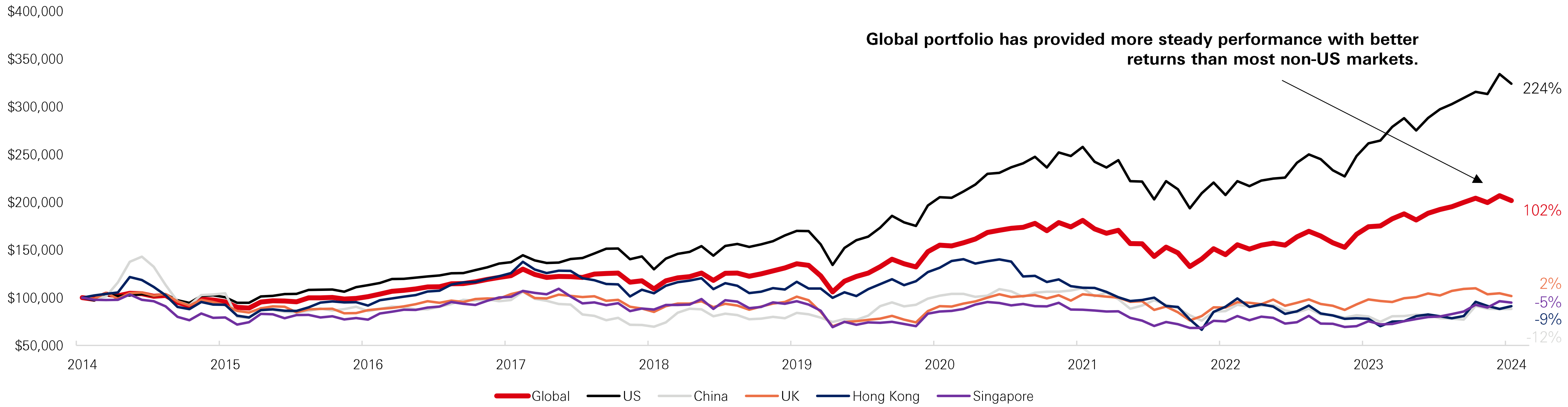
Home bias refers to the tendency of investors to focus their investment holdings on their home market.

This concentrates risk and reduces exposure to opportunities.

For non-US investors, a portfolio owning their home country assets has meant missing out on both the returns and more steady performance of a global portfolio.

Per the below, a domestically-focused approach for most investors outside of the US has meant reduced returns over the last decade.

Growth of $100,000 invested in global and individual stock markets



Past performance does not predict future returns

Source: HSBC Asset Management, Bloomberg data, 31 December 2024.

Stick to long-term objectives

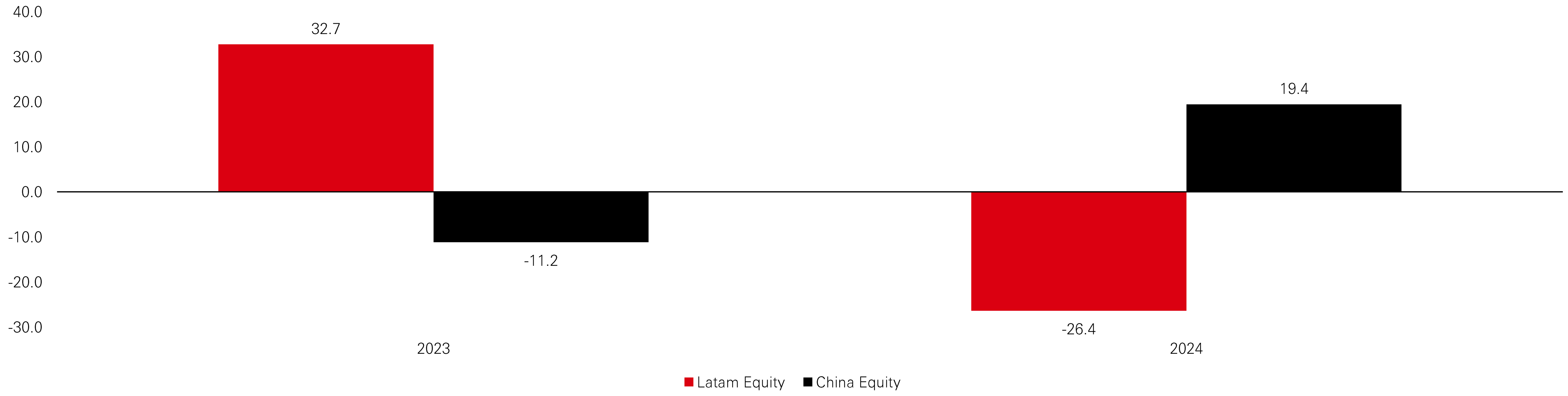
Focusing on short-term winners can be counterproductive.

Consider the performance of different markets in recent years. While Latin American equities generated stellar returns in 2023, these gains broadly reversed last year. To the contrary, China lagged other markets in 2023 but rebounded to be one of the global leaders in equity markets last year.

Focusing solely on past winners can distract from potential opportunities elsewhere, jeopardising portfolio returns.

A diversified approach ensures you capture opportunities across markets.

Annual returns for Latin America versus China stocks (%)



Past performance does not predict future returns

Currency: USD. Source: Bloomberg, HSBC Asset Management, as at 31 December 2024. Indices used: MSCI Emerging Latin America Net Total Return USD Index, MSCI China NR Index.

How can I start investing?

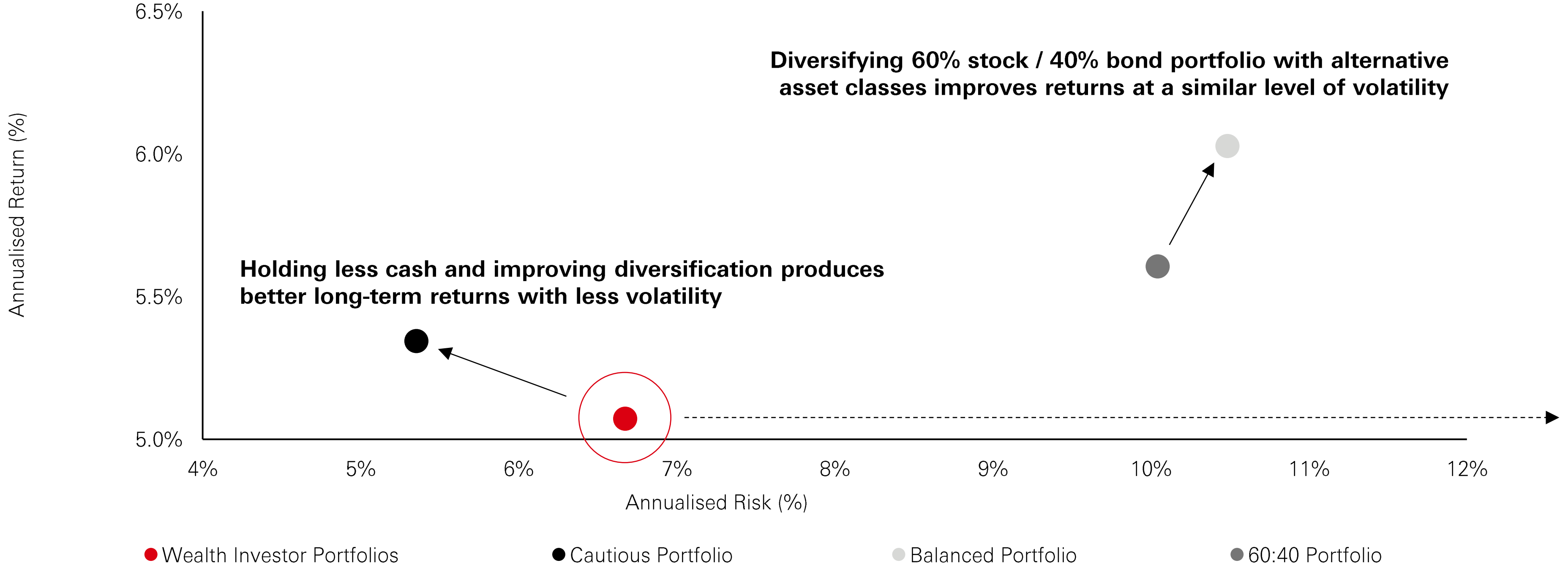
Benefit from professional management to help improve outcomes by optimising portfolio allocations

Below we contrast the average portfolio allocation of clients surveyed across HSBC markets* against a more broadly diversified portfolio aligned to a cautious risk profile.

Even with a third of holdings in cash, the average 'wealth investor portfolio' still produces more risk for lower returns based on returns over the last 3 decades

We also contrast a portfolio with a simple 60% stock / 40% bond mix against a more diversified portfolio to again show the improvement in return vs risk.

Return vs Risk Profile



Volatility shows how much the portfolio value fluctuates over time and is used as a measure of risk. Here, we see that diversification can improve returns for less or similar risk levels.

Data from 1991-2024	Worst rolling 12 months	Calendar years with negative returns
Wealth Investor Portfolios	**-25%**	**7**
Cautious Portfolio	**-17%**	**5**

Past performance does not predict future returns Source: HSBC Asset Management, Bloomberg data, December 2024. *2024 Quality of Life survey conducted across HSBC Markets.

How can I start investing?

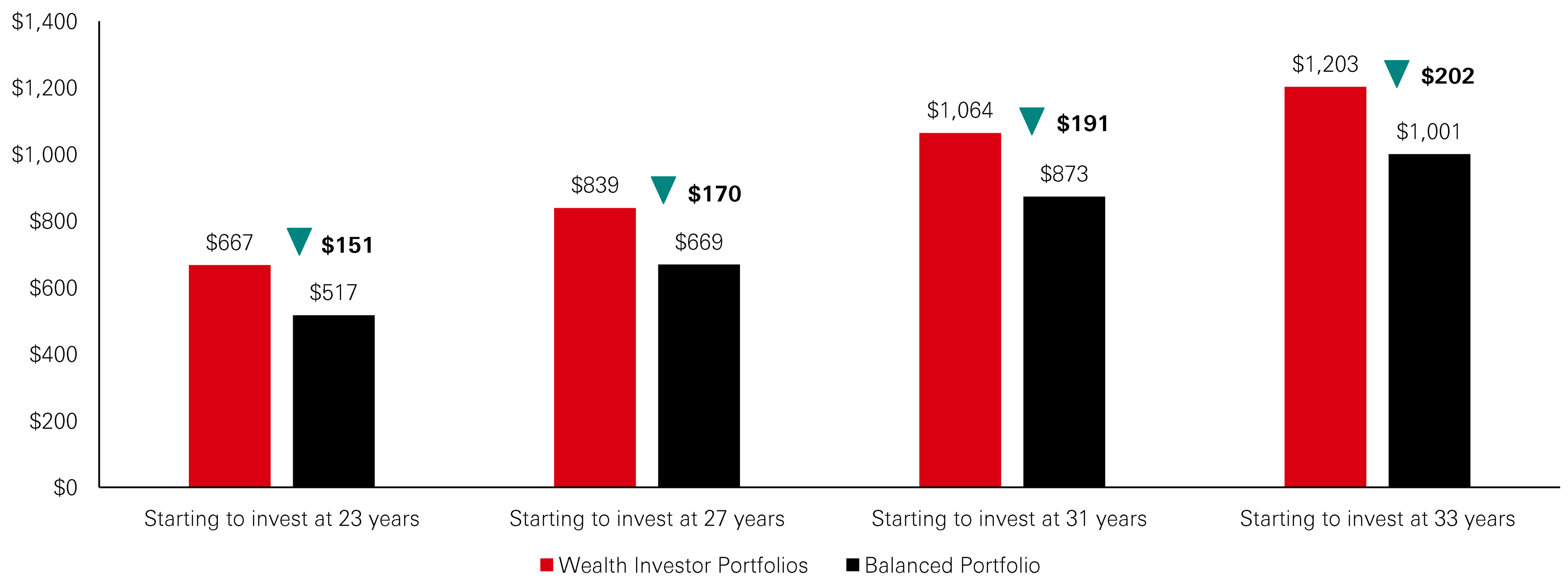
Prioritise progress towards your long-term goals

Below we show how different investment approaches can impact the ability to reach retirement goals.

The 'wealth investor portfolios' below approximate returns over the last 30 years for the mean asset allocation indicated by survey respondents.*

The "balanced portfolio" reflects the average return of a portfolio optimised between stocks, bonds and alternatives, for a balanced risk profile.

Monthly contribution to reach $1.1mn by retirement age (65 years)



Optimising the portfolio brings down the lifetime contribution requirement by roughly $75,000.

Past performance does not predict future returns Source: HSBC Asset Management, Bloomberg data, December 2024. *2024 Quality of Life survey conducted across HSBC Markets.

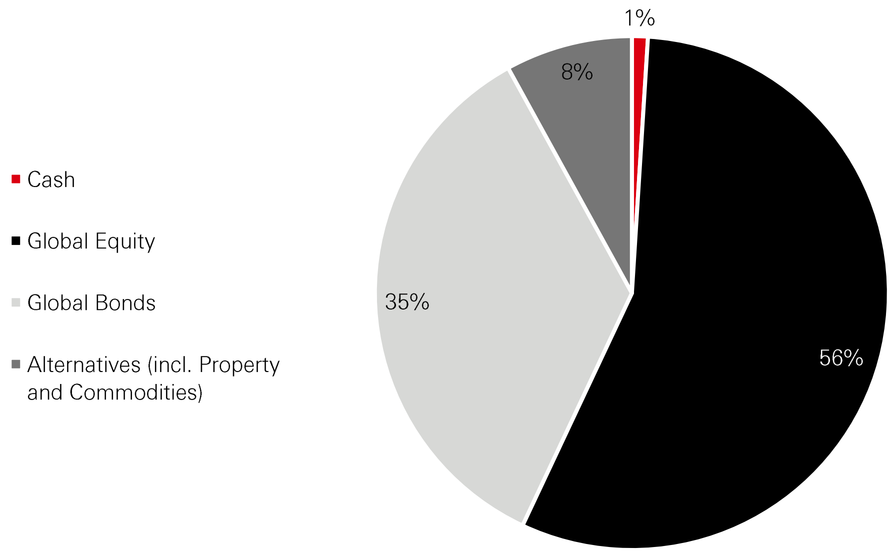
Keep it simple

A multi-asset portfolio brings together the benefits of each asset class, supporting the ability to generate income and capital growth over the long-term.

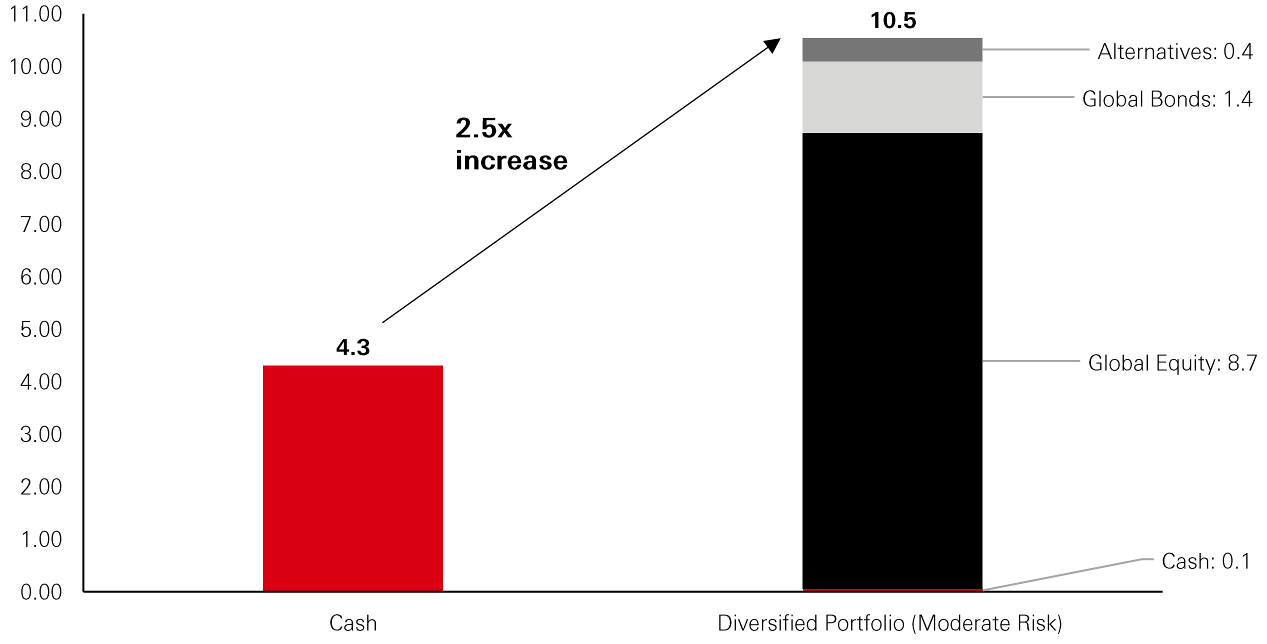
As we've illustrated, different years will see different assets perform better or worse.

Below we show how each asset class contributed to the total return of a diversified, moderate-risk portfolio last year which more than doubled the return of a high-yielding US dollar cash account (amidst the highest US interest rates in two decades).

Moderate-risk portfolio asset allocation breakdown (%)



How a diversified portfolio captured returns across assets in 2024 (%)



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Source: Bloomberg, HSBC Asset Management, data to 31 December 2024. All returns in USD, total return. Indices used: Cash: CME SOFR 3 Month; Global Bond: Bloomberg Global Aggregate Bond Index; Global High Yield: Bloomberg Global High Yield Index; Property: FTSE EPRA/NAREIT Index; DM Equities: MSCI World Index; EM Equities: MSCI Emerging Market Equity Index; Gold: S&P GSCI Gold Spot Index; Commodities: Bloomberg Commodity Index. Bond indices are hedged. Equities are unhedged.

Important Information

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Content ID: D040617 Expiry date: 31.01.2026