HSBC Asset Management

Market Outlook

In Focus with Tushar Pradhan

Aug 2022

Focus on the earnings growth trajectory

Equity Market update

- Equity markets in India and globally rose sharply in July. Moderation in global commodity inflation during the month contributed to the positive equity market sentiments. FII flows turned positive for the first time since Sep-21.
- S&P BSE Sensex & NSE Nifty indices were up 8.7% / 8.9% respectively, while the broader markets continued to underperform as BSE Midcap / BSE Smallcap indices went up 11% / 9.3% respectively. In terms of sectoral performance, metals, realty, capital goods and consumer durables were notable gainers while IT and energy were the laggards.
- The quarterly results season has been a bit subdued as two heavyweights Reliance and Tata motors earnings were below consensus estimates. As of 31st July, 31 Nifty companies' saw the aggregate Sales / EBITDA / PBT / PAT rising 29% / 10% / 15% / 12% YoY in Q1FY23; earnings growth was largely driven by Financials. In Financials, growth momentum was strong while outlook commentary from technology companies was stable despite weakening macro environment. Volumes for staple companies continued to remain weak while auto companies were upbeat on volume growth outlook.
- On the economic front, India's headline CPI momentum softened in June at 7.01% in June 2022 from 7.04% in May. That said, this is the 6th consecutive month that the CPI data has breached the RBIs upper range of 6%. INR depreciated by 0.4% against USD during the month, performing better than other EM currencies as RBI took steps to boost foreign exchange inflows and eased rule for foreign investors to invest in government and corporate debt in India. After a soft start in June, rainfall momentum has picked up during July with cumulative rainfall exceeding long period average on pan-India basis.

Post the up move in July, Nifty index is now 7% off from its highs (seen in mid-Oct 2021). Post the strong rally in July, valuations have inched up as earnings growth has remained largely intact. In the rising interest rate scenario, market returns may lag earnings growth given the probable moderation in valuation multiples.

Equity and other indicators

	Last Close	1 Month (Change)	2021 (Change)
S&P BSE Sensex TR	86714	8.7%	-0.2%
Nifty 50 TR	24863	8.9%	-0.2%
S&P BSE 200 TR	9257	9.8%	0.0%
S&P BSE 500 TR	28898	9.8%	-1.0%
S&P BSE Midcap TR	29661	11.0%	-2.9%
S&P BSE Smallcap TR	32868	9.3%	-7.7%
NSE Large & Midcap 250 TR	12123	10.5%	-1.3%
S&P BSE India Infrastructure Index TR	373	8.1%	4.0%
MSCI India USD	778	9.2%	-7.9%
MSCI India INR	1999	9.6%	-1.8%
INR - USD	79.3	0.4%	6.6%
Crude Oil	110	-4.2%	41.4%

- Among the other key developments during the month were Govt's imposition of windfall taxes on exports of certain petroleum products and on domestic oil production which was later reduced post decline in international prices. IMF again cut its India FY2023 GDP growth expectation by 60bps to 7.4%.
- Net institutional flows of USD 2.2 bn in July was the highest in 2022. FIIs turned buyers for the first time since Sep-21 with net inflow of USD 0.8 bn in July. FIIs have net sold Indian equities worth USD 32.5 bn since the selling began in Oct 2021 (USD 27.7 bn of net outflows in 2022 so far). The DIIs continued to be net buyers with inflow of USD 1.3 bn, however, this was their lowest monthly inflow in 2022. Both segments viz MFs (+USD 0.9 bn) and Insurers (+USD 0.5 bn) turned out be net buyers. On a CYTD basis, the DIIs have net bought Indian equities worth ~USD 28.1 bn (~USD 19.4 bn by MF & ~USD 8.7 bn by Insurers).
- Major equity indices globally rose during the month with MSCI World index up 7.9%. US market (S&P 500) was up 9.1% and MSCI Europe was up 7.5% while MSCI EM was flattish in July. China was an exception as it declined 10% in July, on the back of renewed COVID restrictions in some of its cities. There was some respite in crude oil prices after remaining volatile, it corrected by 4.2% MoM. Prices of other commodities like natural gas, key agricultural commodities, base metals and precious metals, too have seen moderation from their recent highs. While this is good from containing inflation point of view, demand concerns have now come to fore, due to slowdown in growth. Market participants are now expecting a possibility of a US recession, if the current scenario was to persist for longer. At the same time, an accelerated rate hike by US Fed, ongoing liquidity withdrawal process and a constrained US fiscal policy could drag global growth in the short term. As a result, equities are expected to remain volatile in the short term.

Document Date: 16 Aug '22, Data as at July '22 unless otherwise given. Source: HSBC Asset Management, India (HSBC AMC), Bloomberg

Outlook:

The near term is marred by a period of heightened uncertainty; driven by factors such as inflation, central bank policy actions globally to tame inflation that include interest rate increases and liquidity withdrawal and growth moderation. This background casts a shadow on the equity asset class, as these variables are expected to adversely impact both drivers of the equity performance viz valuations (given rising interest rates) and earnings growth (slowing demand & inflation). However, Nifty earnings have largely been intact with a marginal correction in July and as a result markets will likely to be range bound in the near term.

International market indicators

Indices	Last Close	1 Month (Change)	CYTD 2021 (Change)
MSCI World	2,746	7.9%	-15.0%
Dow Jones	32,845	6.7%	-9.6%
S&P 500	4,130	9.1%	-13.3%
MSCI EM	994	-0.7%	-19.3%
MSCI Europe	1,706	4.9%	-18.5%
MSCI UK	1,086	3.6%	-7.5%
MSCI Japan	3,208	5.7%	-16.7%
MSCI China	66	-10.0%	-21.1%
MSCI Brazil	1,482	5.5%	3.3%

India is highly sensitive to global crude oil prices; despite current softening of oil price recently, it still remains at elevated levels and has implications for the country both in terms of imported inflation and fiscal / external balances. So with the outlook for crude oil prices to remain higher in the near term, that concern may not ease in a hurry. At the same time, a fall in crude prices on back of slowing global demand could support markets.

Valuations: Post the up move in July, Nifty index is now 7% off from its highs (seen in mid-Oct 2021). Post the strong rally in July, valuations have inched up as earnings growth has remained largely intact. On a 10-year basis, Nifty is trading near +1 STD from its historic average valuations, while on a 5-year basis it is now trading above averages. Nifty is trading at 19.9x / 17.5x FY23 / FY24e. In the rising interest rate scenario, market returns may lag earnings growth given the probable moderation in valuation multiples.

Macro View: There are near term challenges, while at the same time, country exhibits macro stability to navigate those challenges. RBI's policy actions so far indicate the urgency in taming inflationary pressures in the economy and more rate hikes are in the anvil. Though global commodifies have seen moderation, Inflation is expected to remain elevated in the near term. The external macro variables remain stable (healthy forex reserves and manageable Current Account Deficit) and a decent fiscal position, despite the elevated crude oil prices. The strong tax buoyancy (visible in both GST and direct taxes), could create more fiscal room than anticipated, providing ammunition for policy maneuvers during times of volatility. However, the incoming high frequency data need to be monitored closely. Fall in crude prices on back of global demand slowdown could support markets in the near term.

Portfolio Strategy and Update:

- We continue to run high conviction strategies, with a cyclical tilt to be well positioned for the earnings growth and macro recovery cycle, holding a medium to long term view.
- We remain focused on the fundamentals of the companies and their earnings growth trajectory and prefer dominant businesses with scalability and available at reasonable valuations.
- Portfolio construction is through bottom-up stock selection and there is an emphasis on sustainable earnings growth, relative earnings and earnings surprises.
- Relative earnings growth is a key driver of stock selection as valuations are middling.
- Our positioning in the portfolio remains overweight to
    - Earnings recovery plays: Our highest active sector weight remains financials which would see credit cost normalization and earnings expansion, followed by Auto which is benefitting from cyclical recovery and real estate on improving residential affordability and industry consolidation,
    - Global growth plays: We see Technology and Chemicals as structural plays – but have smaller overweight given valuations are higher than historical averages; and
    - Capex oriented plays: Cement, industrials, and building materials – The capex push reiterated in the recent budget is a key positive for the sector.

    - We are underweight on consumption (especially rural consumption) and regulated businesses like utilities and energy.

Key drivers for future:

- On the headwinds, we have
- High and persistent inflation concerns (Global & Domestic)
- US Fed Policy: Accelerated rate hikes and balance sheet shrinking process could mean volatile equities
- RBI Policy: Accommodative stance shifting to 'taming inflation' and liquidity withdrawal process.
- Geopolitical: Current impact is already in the base case, coupled with no escalation assumed from the current conflict.
- Moderating growth globally due to geopolitical headwinds and demand impact from sticky inflation.
- However, what matters the most is the earnings growth and its sustainability
- Corporate earnings growth: While Nifty earnings have seen marginal correction of 2-3% in July a large part of the revision is contributed by Reliance and Tata Motors; broader Nifty earnings have largely been resilient.
- Domestic macro: At the same time, domestic macro has been stable and that will support future corporate earnings growth.
- Other factors / risks: Impact of elevated energy prices on inflation, current account balance and fiscal deficit. Faster than anticipated reversal in commodity prices (especially crude oil), would be positive from an inflation and corporate margins perspective.

Source: HSBC Asset Management, India (HSBC AMC), Bloomberg, MOSL, Data as at July '22 unless otherwise given.
Returns mentioned in the report are the Total Return or TR variants of the respective domestic indices. USD return for global indices.

HSBC Mutual Fund - sector view

Financials – Positive

- Real Estate continues to be an overweight sector for us, as the underlying demand is strong.
- The sector is on a revival path driven by improvement in the residential affordability and listed players being the beneficiaries of industry consolidation.
- Even with rising interest rates, the residential affordability is still at multi-year low (combination of low interest rates and stagnant prices). This would mean that adverse impact on demand is not likely to be large. Real estate companies also have largely been able to pass on cost inflation.
- Disruption has accelerated the consolidation among the residential developers in favour of the major players especially, the listed companies with strong balance sheet.
- Our portfolio exposure are to developers who have a mix of residential portfolio and commercial assets, along with relatively strong balance sheets.

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Healthcare - Positive

- We remain constructive on the Healthcare space and within that we have a neutral view on Pharma and a positive view on health care services space.
- Overall, the sector continues to offer decent earnings growth visibility at reasonable valuations.
- Valuations can improve as the sector offers sustainable mid-teen earnings growth visibility and improving return ratios in Pharma names.
- Within Pharma, we continue to take a portfolio approach through a mix of players having leadership in domestic branded market and selective opportunities in the export driven exposure.
- We also like health care services space (hospitals) as we expect them to benefit from structural improvement in healthcare services penetration and improving affordability. The recent correction provided a good entry point, as valuations the came-off, but the underlying fundamentals remain intact.

Industrials - Positive

- Positive view is maintained as we see potential revival in the investment cycle over the medium term, driven by govt's increased focus and outlay towards the Infrastructure sector, which was reiterated in the budget document.
- Improving capacity utilisation, real estate capex, further fillip to manufacturing through PLI initiatives etc., are the key drivers for the pick-up in private capex. Well capitalised banking system and deleveraged corporate balance sheets to act as enablers in the process.
- Our preference is for companies with strong balance sheet, execution capabilities and scale advantages. We continue to remain positive on CV, cables and on select Infra & capital goods companies.

Source: HSBC Asset Management India, Data as at July '22 unless otherwise given

HSBC Mutual Fund - sector view

Information Technology – Neutral

- We maintain a constructive view as the sector continues to see strong demand outlook, which has been reconfirmed in the recent management comments. Tech spends are now considered core to enterprises and getting prioritised.
- While there are concerns on the margin outlook, we believe operating leverage from revenue growth coupled with moderation in attrition, should help companies to manage margins through the course of FY23.
- Sector has seen moderation in valuation multiples in the recent past due to rising bond yields. We believe that the current multiples are justified in the context of higher than historical growth, decent growth visibility and strong demand environment.
- Indian IT shall continue to gain market share owing to proven capabilities across horizontals, domain knowledge of verticals, scale and access to talent. In addition, large Indian IT companies have strong management, robust profitability ratios and prudent capital allocation.
- We prefer solution providers with strong digital capabilities, scale of operations and growth visibility.

Materials - Neutral

- We have a positive stance on domestic cyclicals and chemicals while we remain negative on global cyclicals / metals.
- The specialty chemicals space is a play on global growth and supply chain diversification benefitting Indian players. As a result, there is a robust demand (order book build up) and consequent strong earnings growth outlook for the sector. With bulk of the capex done, the sector leaders are expected to benefit from the demand environment and improving return ratios.
- In cement, valuations have corrected owing to margin pressures and on the announcements of industry capacity addition. However, post the correction, the valuations are more reasonable and a potential reversal in RM prices, could help margins in the short term. In the medium to long term, capacity addition could lead to profit pool consolidation, benefitting the leaders.
- The negative view on metals is based on the premise that current level of profitability at peak prices is not sustainable. In addition, we are already witnessing moderation in global commodity prices driven by slowdown in demand. For risk mitigation in the portfolio, we have a small exposure to ferrous segment (steel), which is also a play on balance sheet de-leveraging.

Consumer Discretionary - Neutral

- Within the sector we are positive on Auto OEMs, while we remain neutral on non-auto discretionary. Overall neutral view is on account of elevated valuations and possibility of near term demand weakness on a high base. Additionally, the margins have remained under pressure due to inability to pass on high RM costs. Valuations (especially in consumer goods) imply that a steady recovery is already priced in.
- Auto sector is likely to see recovery in volumes, after the down-cycle over the last three years. Recent correction in commodities and price hikes taken by the OEMs should result in margin expansion as operational leverage shall start to play-out at higher volumes. Within Auto we have a preference for PVs followed by CVs and then finally 2Ws.
- Within other sub-sectors we have exposure to beneficiaries of PLI scheme, where growth visibility remains high while valuations are more reasonable after the correction.

Source: HSBC Asset Management India, Data as at July '22 unless otherwise given

HSBC Mutual Fund - sector view

Consumer Staples - Negative

- Underweight stance is account of lack of positive earning surprises, moderation in volume growth and high valuations.
- Margin pressures are likely to continue in the near term and hence the earnings momentum is likely to remain weak for the sector. Additionally, sluggish rural demand would mean that the volume growth recovery could be delayed further.
- Within staples our preference is for category leaders with scale and product diversification along with superior execution capabilities.

Communication Services - Negative

- The negative stance is on account of high capex intensity in the business. While we have seen industry tariff hikes, this is already in estimates and unlikely to lead to meaningful upgrades from hereon.
- The budget has laid the roadmap for 5G roll-out in the coming year, which can deteriorate return ratios for the sector.
- Within the Communication Services segment we have exposure to the multiplex segment, which is a play on industry consolidation and demand recovery.

Energy - Negative

- Our negative stance on the sector is premised on adverse structural factors viz weak profitability ratios, high capital intensity and volatile prices (geopolitical crisis has further accentuated the volatility)
- Our exposure in the sector is to a private sector conglomerate, that has been able to deliver on balance sheet deleveraging, unlock value from investments and will benefit from higher GRMs despite the risk of export levy by the government

Utilities - Negative

- Our negative view is on account of regulated nature of the business and low return ratios seen over the medium to long term.
- Power utility companies' focus is moving towards renewable fuel sources, however these are competitively bid projects with lower return potential. Hence, we are staying away.

Source: HSBC Asset Management India, Data as at July '22 unless otherwise given

Fixed Income update

Market Summary for the month

- Indian bond markets were largely driven by global cues during the month of July and traded range-bound for most of the month and drifted lower towards the end of the month tracking a drop in US treasury yields. Earlier in the month, global inflation numbers in developed economies came in at multi-decadal highs and raised the prospect of further tightening by developed market (DM) central banks including the Federal Reserve. Federal Reserved hiked the fed funds rate by 75 bps in end July. Rupee also traded weak during the month, briefly touching 80 on USD/INR before recovering, in line with strength in dollar globally against most DM and emerging market (EM) currencies.
- In early August, RBI monetary policy committee unanimously raised policy rates (repo rate, MSF and SDF rates) by 50 bps while voting with 5:1 majority to maintain stance at "withdrawal of accommodation". MPC maintained inflation projections for FY23 at average of 6.7% and retained GDP growth projection at 7.2%. For Q1 FY 24 (Apr – Jun 23), inflation is estimated at 5.0%. Overall the governor statement mentioned that while confluence of data indicated that inflation trajectory was at a decisive inflection point, resolute calibrated steps were needed to contain inflation expectations. The statement also noted the threat of imported inflation arising from volatility in currency markets as a result of global developments. Overall, RBI in the August policy has persisted with front-loading of rate hikes while going forward, RBI might take a more calibrated approach towards rate hikes, attempting to bring inflation within the target band of 4% +/- 2% while also supporting growth.
- Domestic macro data during July was largely on expected lines. There was a small moderation in consumer price inflation (CPI) while IIP growth and PMI data reflected the continued growth recovery.
- With weakening of the rupee, RBI announced a series of steps to attract FX inflows to stabilize rupee in early July. These included: Exemption from CRR and SLR on incremental FCR and NRE term deposits raised between July and Nov 4, 2022, increasing ceiling on interest rates offered on FCNR (B) deposits, relaxations on restrictions (including on tenor of corporate debt securities) on incremental investment by foreign portfolio investors (FPIs) in debt securities until Oct 31, 2022, enhancing limits and interest rate ceiling on funds raised through External Commercial Borrowings (ECBs) etc.
- In terms of bond markets, markets traded range bound for most of the month, with a positive bias in the latter half of the month. Overall 10 y closed 14 bps lower at 7.31 in July v/s 7.45 in June, 5 yr (2027) outperformed closing 21 bps at 7.03 in July v/s 7.24 at end June , 3 yr also lower by 21 bps at 6.75 v/s 6.96 and 14 yr segment closed lower by 10 bps at 7.53. Corporate bonds largely tracked G-Sec, though underperforming at the shorter end up to 3 yrs relative to G-Sec, with a mild expansion seen in terms of spreads.
- Liquidity surplus moderated during the month on account of increase in government cash balances with RBI and FX outflows. Average LAF O/s was at INR 1.89 trn in July v/s INR 2.91 trn in June 2022 and INR 4.38 trn in May 2022. Towards the end of July, liquidity tightened even further with average LAF O/s dropping to nearly ~ INR 1.0 trn.

Outlook

- Global cues continue to play a key role in determining direction of Indian bond yields. While 50 bps rate hike by RBI was largely on expected lines, the policy was viewed as mildly on the hawkish side and hence fixed income markets, which had rallied in the run up to the policy on expectation of a relatively dovish policy, sold off post policy, with yields higher by 15-20 bps across the curve form pre-policy levels. Overall global cues will remain a key driving factor for Indian bond markets in the near term. On the domestic side, inflation trajectory will be the key to watch out for. RBI has front loaded rate hikes and further rate hikes may be more calibrate, balancing inflation and growth considerations. Bond supply continues to remain heavy and weighs on markets especially at the longer end of the curve. The short to medium part of the curve which has moved up sharply higher in yield terms since March, may present opportunities for carry and roll-down going forward.

Source: HSBC Asset Management, India (HSBC AMC), Bloomberg,
Data as at July'22 unless otherwise given

Fixed Income update

Fiscal deficit and GST collections: 1Q FY 23 fiscal deficit on expected lines

Center's gross tax revenue in 1QFY23 was at 23.6% of FY2023 budget estimates (BE) (growth of 22% on a y-o-y basis). As proportion of FY2023BE, direct tax collection was at 23.9% (growth of 35% y-o-y) and indirect tax collection was at 23.2% (growth of 11% y-o-y). Total expenditure in 1QFY23 was at 24% of FY2023BE (growth of 15%) with revenue expenditure growth of 9% and capital expenditure growth of 57% (high capex growth partly on account of base effects). Gross fiscal deficit in 1QFY23 was at 21.2% of FY2023BE.

July GST collections (for sales in the month of June) increased marginally to INR 1.49 trn v/s INR 1.44 trn in June and INR 1.41 trn in May. The same was higher by 29% y-o-y v/s last year's July collections.

PMIs: Services PMI moderates; manufacturing PMI improves to eight-month high

Services PMI moderated in July to 55.5 from a 11 year high of 59.2 in June. Manufacturing PMI improved to an eight month high of 56.4 from 53.9. Overall composite PMI moderated slightly to 56.6 form 58.2 in June.

IIP: May IIP at 19.6 % v/s 6.7% in April

May IIP growth rose sharply to 19.6% (April: 6.7%) due to a low base. It may be noted that last year May was impacted by the second wave of Covid, thereby contributing to the favorable base. On a sectoral basis, electricity production grew by 23.5% (April: 11.8%), manufacturing by 20.6% v/s 5.8% in April, and mining by 10.9%. As per the use-based classification, all categories grew led by consumer durable goods increasing by 58.5% (April: 7.4%), and capital goods by 54% (April :13.3%).

Inflation: CPI inflation moderates to 7.01%; WPI remains elevated

June Consumer price inflation (CPI) came in at 7.01%, in line with consensus and slightly lower than May inflation of 7.05%. The impact of the fuel excise duty cuts in end May was fully incorporated in June CPI. Core inflation was lower marginally at 6% vs 6.1% in May, however ex of transport segment (which had an impact of fuel excise cut), core inflation increased and it remains elevated. Increase in food prices on a month on month basis was lower than expected owing to lower than usual seasonal increase in vegetable prices.

WPI remains elevated at 15.2% in June (15.9% in May)

External Factors – Oil prices and UST yields volatile; rupee at all-time lows

Oil: Crude prices stayed volatile during the month and Brent Crude closed July at USD 110/bl v/s 114.81 at end June, briefly having touched USD 100/bl during the month.

US Treasury yields: UST yields were volatile, moving based on trends in global macro-economic data. Post the Federal Reserve meeting in end July, UST yields rallied and closed at 2.64 v/s 3.10 in the previous month.

Currency: Rupee traded with a negative bias for most of the month given portfolio outflows and generalized USD strength. It briefly crossed the 80 mark on an intra-day basis, during the month. RBI dollar sales helped stabilize the volatility in the rupee. Towards the end of the month, the rupee recovered in line with broad EM currency strength post the Federal Reserve meeting and closed at 79.34 v/s 78.95 at end June.

Indicators	Current month (July)	Previous month (June)
Repo rate	4.90	4.90
1Y OIS	6.20	6.32
5Y OIS	6.33	6.87
3M T-Bill	5.51	4.85
1Y G-Sec	6.35	6.21
3Y G-Sec	6.75	6.96
5Y G-Sec (2027)	7.02	7.23
10Y G-sec	7.31	7.45
AAA 5Yr Corp Bond (2027)	7.30-7.50	7.50-7.70
AAA 10yr Corp Bond PSU	7.55-7.80	7.70-7.85
USDINR	79.34	78.95
Brent Oil (USD Per Barrel)	110.01	114.81

Source: HSBC Asset Management, India (HSBC AMC), Bloomberg, Refinitiv
Data as at July '22 unless otherwise given.

HSBC CRISIL IBX 50:50 Gilt Plus SDL Apr 2028 Index Fund

The mandate of the target maturity fund is to invest in line with the index construction. Yields in the past month have remained volatile across the yield curve and moved in line with global cues viz commodity prices, movement in US Treasury (UST) yields, etc. The 2028 segment of the yield curve has largely moved in line with other segments of the curve.

The 6-yr (2028) point in the yield curve remains attractive from a carry stand point and should benefit from a roll-down over a 2 to 3-year timeframe. Currently YTM for 2028 segment is only ~15bps lower vs 2032 segment making it attractive in terms of risk to reward. Further, the fund remains an attractive proposition from Post-tax return perspective for investors who intend to hold beyond 3-years+ and till maturity (April 2028), despite near term volatility.

Overnight to Money Market rates (Neutral Duration)

HSBC Overnight Fund, HSBC Cash Fund, HSBC Ultra Short Duration Fund and HSBC Low Duration Fund are focused on different segments of money market curve. The overnight funding cost should now move between 5.15% and 5.40% given the increase in SDF and repo rates. Excess system liquidity has also now moderated significantly post CRR hike, increase in government cash balances with RBI and forex outflows. The RBI's trajectory in terms of rate hikes will determine the evolution of the money market and the short end of the yield curve. In the current fiscal year, we have seen a sharp move in yields in the up to 2-year segment of the yield curve and the steepness in the curve up to 1-yr and from 1-yr to 2yr is relatively attractive, factoring in the near term hikes.

The overnight fund predominantly invests in overnight asset. Overall, we remain neutral on duration across HSBC Cash, HSBC Ultra-Short and Low Duration funds as markets re-price yield curve given RBI's rate hiking cycle. The focus continues to be on the accrual returns in the portfolio.

Short duration to medium term duration (Underweight duration)

From medium term perspective, HSBC Short Duration Fund & HSBC Corporate Bond Fund & HSBC Equity Hybrid Fund (debt portion) offer value for investors at current short-term yields over funding cost in terms of spread. Near term volatility will remain as markets reprice the timing and extent of rate hikes by RBI.

Over the medium term, the attractive carry and roll-down will present opportunities in the short to medium end of the curve. The extent of supply in G-Sec on account of increased borrowings in FY 23 is largely towards the duration segment. The current steepness in the yield curve up to the 3 to 5-yr points factor in further rate hikes by RBI to a large extent and could present opportunities as RBI front-loads the rate hikes. Similarly, on the corporate side, we prefer the 18m to 2-yr part of the curve. Having front loaded the rate hikes, RBI is likely to take a calibrated approach from here on in and as a result, there could be opportunities appearing in the later part of the year in terms of carry and roll-down gains in these segments of the curve.

As such, tactically for now we continue to be positioned with an underweight in terms of duration in these funds (HSBC Short Duration Fund & HSBC Corporate Bond Fund & HSBC Equity Hybrid Fund (debt portion)) and would await opportunities to take advantage of the steepness at the short to medium end of the yield curve.

Long bonds (HSBC Flexi Debt Fund, HSBC Debt Fund, HSBC Regular Savings Fund) - Underweight duration

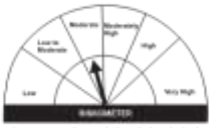
Yields at the longer end of the curve have remained volatile and have reacted to global cues, including commodity prices, global inflationary trends, movement in US treasury yields etc. Since the end of FY 22 (March 2022), there has been a bear flattening trend with the 10-yr and 14-yr segment yields increasing by a lower quantum than the 3-5-yr and 5-7-yr segment and hence spreads have contracted between the 10yr and 5-yr and 14-yr and 10-yr points on the yield curve. Going forward, absorption of heavy bond supply in remainder of FY 23 will continue to exercise upward pressure on yields at the longer end of the curve and the segment will continue to stay volatile based on global cues. On the whole we expect the longer end to trade with a negative bias given these circumstances. And hence as such, we intend to position with an underweight stance in the long bond portfolios versus the index and intend to take advantage tactically of any opportunities that may arise on the longer end of the curve depending on market conditions.

Source: HSBC Asset Management, India (HSBC AMC), Bloomberg,
Data as at July '22 unless otherwise given. Please refer to the page number 9 of the scheme Offer Document on which the concept of Macaulay's Duration has been explained

Scheme Name	PRC Matrix			
HSBC Overnight Fund HSBC Cash Fund HSBC Ultra Short Duration Fund	**Potential Risk Class**			
	Credit Risk → / Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
	Relatively Low (Class I)	**AI**		
	Moderate (Class II)			
	Relatively High (Class III)			

Riskometer

HSBC Debt Fund



Investors understand that their principal will be at Moderate risk

Medium to Long Duration Fund - An open ended Medium to Long Term Debt Scheme investing in instruments such that the Macaulay ^ duration of the portfolio is between 4 years to 7 years. Relatively high interest rate risk and moderate credit risk.

This product is suitable for investors who are seeking##:

- Regular Income over long term
- Investment in diversified portfolio of fixed income securities such that the Macaulay^ duration of the portfolio is between 4 years to 7 years.

##Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

Please note that the above risk-o-meter is as per the product labelling of the Scheme available as on the date of this communication/ disclosure. As per SEBI circular dated October 5, 2020 on product labelling (as amended from time to time), risk-o-meter will be calculated on a monthly basis based on the risk value of the scheme portfolio based on the methodology specified by SEBI in the above stated circular. The AMC shall disclose the risk-o-meter along with portfolio disclosure for all their schemes on their respective website and on AMFI website within 10 days from the close of each month. Any change in risk-o-meter shall be communicated by way of Notice cum Addendum and by way of an e-mail or SMS to unitholders of that particular Scheme.

Benchmark:
CRISIL Composite Bond Fund Index

Scheme Name	PRC Matrix			
HSBC Debt Fund	**Potential Risk Class**			
	Credit Risk → / Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
	Relatively Low (Class I)			
	Moderate (Class II)			
	Relatively High (Class III)		**BIII**	

Riskometer

HSBC Low Duration Fund

Investors understand that their principal will be from Low to Moderate risk

Low Duration Fund - An open ended low duration debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 6 months to 12 months. Please refer Page no. 9 of the SID for explanation on Macaulay duration. Relatively low interest rate risk and moderate credit risk.

This product is suitable for investors who are seeking##:

- Liquidity over short term.
- Investment in debt and money market instruments such that the Macaulay^ duration of the portfolio is between 6 months to 12 months.

##Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

Please note that the above risk-o-meter is as per the product labelling of the scheme available as on the date of this communication/ disclosure. As per SEBI circular dated October 5, 2020 on product labelling (as amended from time to time), risk-o-meter will be calculated on a monthly basis based on the risk value of the scheme portfolio based on the methodology specified by SEBI in the above stated circular. The AMC shall disclose the risk-o-meter along with portfolio disclosure for all their schemes on their respective website and on AMFI website within 10 days from the close of each month. Any change in risk-o-meter shall be communicated by way of Notice cum Addendum and by way of an e-mail or SMS to unitholders of that particular Scheme.

Benchmark:
CRISIL Low Duration Debt Index

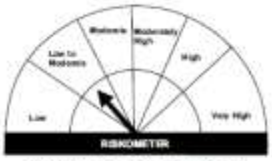
Scheme Name	Potential Risk Class			
HSBC Low Duration Fund	Credit Risk → / Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
	Relatively Low (Class I)		**BI**	
	Moderate (Class II)			
	Relatively High (Class III)			

Potential Risk Class ('PRC') matrix indicates the maximum interest rate risk (measured by Macaulay Duration of the scheme) and maximum credit risk (measured by Credit Risk Value of the scheme) the fund manager can take in the scheme. PRC matrix classification is done in accordance with and subject to the methodology/guidelines prescribed by SEBI to help investors take informed decision based on the maximum interest rate risk and maximum credit risk the fund manager can take in the scheme, as depicted in the PRC matrix. Please refer to the page number 9 of the scheme Offer Document on which the concept of Macaulay's Duration has been explained

^The Macaulay duration is the weighted average term to maturity of the cash flows from a bond. The weight of each cash flow is determined by dividing the present value of the cash flow by the price. Please refer to the page number 9 of the scheme Offer Document on which the concept of Macaulay's Duration has been explained

Riskometer

HSBC Short Duration Fund



Investors understand that their principal will be from Low to Moderate risk

Short Duration Fund - An open-ended short term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 1 year to 3 years. Please refer Page no. 9 of the SID for explanation on Macaulay duration. Moderate interest rate risk and moderate credit risk.

This product is suitable for investors who are seeking:**

- Regular Income over Medium term
- Investment in diversified portfolio of fixed income securities such that the Macaulay^ duration of the portfolio is between 1 year to 3 years.

****Investors should consult their financial advisers if in doubt about whether the product is suitable for them.**

Please note that the above risk-o-meter is as per the product labelling of the scheme available as on the date of this communication/ disclosure. As per SEBI circular dated October 5, 2020 on product labelling (as amended from time to time), risk-o-meter will be calculated on a monthly basis based on the risk value of the scheme portfolio based on the methodology specified by SEBI in the above stated circular. The AMC shall disclose the risk-o-meter along with portfolio disclosure for all their schemes on their respective website and on AMFI website within 10 days from the close of each month. Any change in risk-o-meter shall be communicated by way of Notice cum Addendum and by way of an e-mail or SMS to unitholders of that particular Scheme.

Benchmark: CRISIL Short Term Bond Index

Scheme Name	PRC Matrix			
HSBC Short Duration Fund	**Potential Risk Class**			
	Credit Risk → / Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
	Relatively Low (Class I)			
	Moderate (Class II)		BII	
	Relatively High (Class III)			

Riskometer

HSBC Flexi Debt Fund

Investors understand that their principal will be at Moderate risk

Dynamic Bond Fund - An open ended dynamic debt scheme investing across duration. Please refer Page no. 10 of the SID for explanation on Macaulay duration. Relatively high interest rate risk and relatively low credit risk.

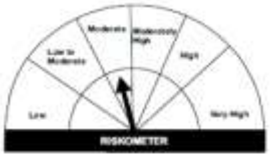
This product is suitable for investors who are seeking:**

- Regular Income over long term
- Investment in Debt / Money Market Instruments

****Investors should consult their financial advisers if in doubt about whether the product is suitable for them.**

Please note that the above risk-o-meter is as per the product labelling of the scheme available as on the date of this communication/ disclosure. As per SEBI circular dated October 5, 2020 on product labelling (as amended from time to time), risk-o-meter will be calculated on a monthly basis based on the risk value of the scheme portfolio based on the methodology specified by SEBI in the above stated circular. The AMC shall disclose the risk-o-meter along with portfolio disclosure for all their schemes on their respective website and on AMFI website within 10 days from the close of each month. Any change in risk-o-meter shall be communicated by way of Notice cum Addendum and by way of an e-mail or SMS to unitholders of that particular Scheme.

Benchmark: CRISIL Composite Bond Fund Index



HSBC Flexi Debt Fund	**Potential Risk Class**			
	Credit Risk → / Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
	Relatively Low (Class I)			
	Moderate (Class II)			
	Relatively High (Class III)	AIII		

Riskometer

HSBC Corporate Bond Fund

Investors understand that their principal will be from Low to Moderate risk

Corporate Bond Fund - An open ended debt scheme predominantly investing in AA+ and above rated corporate bonds. Moderate interest rate risk and relatively low credit risk.

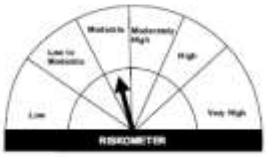
This product is suitable for investors who are seeking:**

- Income over medium term.
- Investment predominantly in corporate bond securities rated AA+ and above.

****Investors should consult their financial advisers if in doubt about whether the product is suitable for them.**

Please note that the above risk-o-meter is as per the product labelling of the scheme available as on the date of this communication/ disclosure. As per SEBI circular dated October 5, 2020 on product labelling (as amended from time to time), risk-o-meter will be calculated on a monthly basis based on the risk value of the scheme portfolio based on the methodology specified by SEBI in the above stated circular. The AMC shall disclose the risk-o-meter along with portfolio disclosure for all their schemes on their respective website and on AMFI website within 10 days from the close of each month. Any change in risk-o-meter shall be communicated by way of Notice cum Addendum and by way of an e-mail or SMS to unitholders of that particular Scheme.

Benchmark: NIFTY Corporate Bond Index

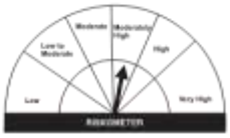


Potential Risk Class ('PRC') matrix indicates the maximum interest rate risk (measured by Macaulay Duration of the scheme) and maximum credit risk (measured by Credit Risk Value of the scheme) the fund manager can take in the scheme. PRC matrix classification is done in accordance with and subject to the methodology/guidelines prescribed by SEBI to help investors take informed decision based on the maximum interest rate risk and maximum credit risk the fund manager can take in the scheme, as depicted in the PRC matrix. Please refer to the page number 9 of the scheme Offer Document on which the concept of Macaulay's Duration has been explained

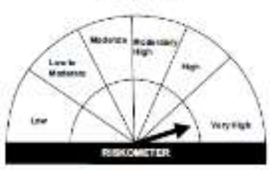
^The Macaulay duration is the weighted average term to maturity of the cash flows from a bond. The weight of each cash flow is determined by dividing the present value of the cash flow by the price. Please refer to the page number 9 of the scheme Offer Document on which the concept of Macaulay's Duration has been explained

HSBC Corporate Bond Fund	Potential Risk Class			
	Credit Risk → / Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
	Relatively Low (Class I)			
	Moderate (Class II)	All		
	Relatively High (Class III)			

Riskometer

HSBC Regular Savings Fund		Benchmark: CRISIL Hybrid 85+15 - Conservative Index
 Investors understand that their principal will be at Moderately High risk	**Conservative Hybrid Fund**- An open ended Hybrid Scheme investing predominantly in debt instruments. **This product is suitable for investors who are seeking**:** • Capital appreciation over medium to long term. • Investment in fixed income (debt and money market instruments) as well as equity and equity related securities. ****Investors should consult their financial advisers if in doubt about whether the product is suitable for them.** Please note that the above risk-o-meter is as per the product labelling of the Scheme available as on the date of this Scheme Information Document. As per SEBI circular dated October 5, 2020 on product labelling (as amended from time to time), risk-o-meter will be calculated on a monthly basis based on the risk value of the scheme portfolio based on the methodology specified by SEBI in the above stated circular. The AMC shall disclose the risk-o-meter along with portfolio disclosure for all their schemes on their respective website and on AMFI website within 10 days from the close of each month. Any change in risk-o-meter shall be communicated by way of Notice cum Addendum and by way of an e-mail or SMS to unitholders of that particular Scheme.	

Riskometer

HSBC Equity Hybrid Fund		Benchmark: CRISIL Hybrid 35+65 - Aggressive Fund Index
 Investors understand that their principal will be at Very High risk	**Aggressive Hybrid Fund** – An open ended hybrid scheme investing predominantly in equity and equity related instruments. **This product is suitable for investors who are seeking**:** • To create wealth over long term • Investment in predominantly small cap equity and equity related securities ****Investors should consult their financial advisers if in doubt about whether the product is suitable for them.** Please note that the above risk-o-meter is as per the product labelling of the scheme available as on the date of this communication/ disclosure. As per SEBI circular dated October 5, 2020 on product labelling (as amended from time to time), risk-o-meter will be calculated on a monthly basis based on the risk value of the scheme portfolio based on the methodology specified by SEBI in the above stated circular. The AMC shall disclose the risk-o-meter along with portfolio disclosure for all their schemes on their respective website and on AMFI website within 10 days from the close of each month. Any change in risk-o-meter shall be communicated by way of Notice cum Addendum and by way of an e-mail or SMS to unitholders of that particular Scheme.	

Scheme Name	Scheme Risk-o-meter	Benchmark Risk-o-meter
HSBC CRISIL IBX 50:50 Gilt Plus SDL Apr 2028 Index Fund **(An open-ended Target Maturity Index Fund tracking CRISIL IBX 50:50 Gilt Plus SDL Index – April 2028. Relatively high interest rate risk and relatively low credit risk)** **This product is suitable for investors who are seeking*:** ▶ Income over target maturity period ▶ Investment in constituents similar to the composition of CRISIL IBX 50:50 Gilt Plus SDL Index – April 2028	 **Investors understand that their principal will be at Moderate risk**	**Scheme Benchmark:** **CRISIL IBX 50:50 Gilt Plus SDL Index – April 2028** 

* Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

Potential Risk Class			
Credit Risk →	**Relatively Low (Class A)**	**Moderate (Class B)**	**Relatively High (Class C)**
Interest Rate Risk ↓			
Relatively Low (Class I)			
Moderate (Class II)			
Relatively High (Class III)	AIII		
A Scheme with Relatively High interest rate risk and Relatively Low credit risk			

Please refer to the page number 9 of the scheme Offer Document on which the concept of Macaulay's Duration has been explained

^The Macaulay duration is the weighted average term to maturity of the cash flows from a bond. The weight of each cash flow is determined by dividing the present value of the cash flow by the price.

Source: HSBC Asset Management, India (HSBC AMC), Bloomberg, Data as at July '22 unless otherwise given.

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

HSBC Asset Management (India) Private Limited, 9-11 Floors, NESCO IT Park, Building no. 3, Western Express Highway, Goregaon (East), Mumbai – 400 063, India.
Email: hsbcmf@camsonline.com | Website: www.assetmanagement.hsbc.co.in