

# In Focus with Tushar Pradhan

July 2022



## Market returns may lag earnings growth

### Equity Market update

- It was another weak month for equity markets both in India and globally. Recession fears in the US and rising interest rates contributed to the weak equity market sentiments. As a result, the FII outflows from Indian equities continued unabated during June as well.
- S&P BSE Sensex & NSE Nifty indices were down 4.5% / 4.7% respectively, while the broader markets continued to underperform as BSE Midcap / BSE Smallcap indices shed 6% / 5.9% respectively. In terms of sectoral performance, Auto was the only notable gainer while Metals followed by Consumer Durables were the worst performers during the month.
- Among the key events during the month, the 50 bps policy rate hike from RBI grabbed most attention, but it came on expected lines and cumulative increase in policy rate now stands at 90 bps. High frequency indicators held up well during the month. The GST collection for June has settled around the new run-rate of Rs. 1.44 tn, which is positive from a tax buoyancy point of view. Consumer inflation (CPI) moderated a bit sequentially while IIP print was strong for April. INR depreciated by 1.7% against USD during the month, broadly mirroring the weakness in the EM currencies as well as due to the FII outflows.
- FII saw their 9th consecutive month of net outflows with another USD 6.3 bn during June. FIIs have net sold Indian equities worth USD 33.3 bn since the selling began in Oct 2021 (USD 28.6 bn of net outflows in 2022 so far). The DIIs continued to counter balance the FII outflows, by remaining net buyers (+USD 6 bn in June). Both segments viz MFs (+USD 2.8 bn) and Insurers (+USD 3.1 bn) turned out to be net buyers. On a CYTD basis, the DIIs have net bought Indian equities worth ~USD 26.7 bn (~USD 18.5 bn by MF & ~USD 8.2 bn by Insurers).

Nifty index has corrected about 14.5% from its highs (seen in mid-Oct 2021). Post this correction phase, the valuations have turned more reasonable as earnings growth has remained largely intact. On a 10-year basis, Nifty is still slightly above historic average valuations, while on a 5-year basis it is now trading below averages.

### Equity and other indicators

Indices	Last Close	1 Month (Change)	CYTD 2021 (Change)
S&P BSE Sensex TR	79749	-4.5%	-8.3%
Nifty 50 TR	22829	-4.7%	-8.3%
S&P BSE 200 TR	8430	-4.9%	-8.9%
S&P BSE 500 TR	26329	-5.1%	-9.8%
S&P BSE Midcap TR	26722	-6.0%	-12.5%
S&P BSE Smallcap TR	30066	-5.9%	-15.6%
NSE Large & Midcap 250 TR	10967	-5.1%	-10.7%
S&P BSE India Infrastructure Index	345	-5.0%	-3.8%
MSCI India USD	712	-6.8%	-15.7%
MSCI India INR	1824	-5.2%	-10.4%
INR - USD	79.0	1.7%	6.2%
Crude Oil	115	-6.5%	47.6%

### Global Market Update

All the major equity indices globally fell during the month with MSCI World index losing 8.8%. MSCI EM was down 7.1%, while US markets (S&P 500) was down 8.4% and MSCI Europe shed over 10%. China was the notable outperformer as it gained 5.7% during June, on the back of withdrawal of COVID restrictions in its key cities. There was some respite in crude oil prices that after remaining volatile, it corrected by 6.5% 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 fearing a possibility of a US recession, if the current scenario was to persist for longer. 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.

## 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, growth moderation, volatile input prices and continuing supply bottleneck situation driven by the geopolitical conflict. 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). Given the geopolitical crisis, sticky inflation and a high base, global growth is expected to moderate in 2022.

As a result, the equity markets are likely to remain volatile in the short term and could possibly trade with a negative bias, reacting to the inflationary and increasing interest rate environment, globally and in India. Additionally, India is highly sensitive to global crude oil prices and that remaining elevated 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.

Valuations: Nifty index has corrected about 14.5% from its highs (seen in mid-Oct 2021). Post this correction phase, the valuations have turned more reasonable as earnings growth has remained largely intact. On a 10-year basis, Nifty is still slightly above historic average valuations, while on a 5-year basis it is now trading below averages. Nifty is trading at 17.9x / 15.5x 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. Inflation is expected to remain elevated in the near term due to the flow through of global supply side disruption and higher fuel prices. The external macro variables remain healthy (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, especially in the context of crude oil prices remaining elevated in the short 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.
- Valuations are as much a driver of stock selection as earnings growth.
- Our positioning in the portfolio remains overweight to
  - Rate sensitive plays: Our highest active sector weight remains financials which would see credit cost normalization and earnings expansion, followed by 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 at historic highs and would wait for better entry points for any 'buy on dips' opportunities; 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:

- US Fed policy: Accelerated rate hikes and balance sheet shrinking process could mean volatile equities
- RBI Monetary Policy: The pace and quantum of rate hikes through 2022, would be keenly monitored
- Geopolitical Crisis: Current impact (manifested through higher commodity / energy prices & supply side disruption) is already in the base case, coupled with no escalation assumed from the current conflict zone.
- Corporate earnings growth: 1QFY23 earnings season to begin from early July. Any demand impact due to high inflation and headwinds to growth will be keenly monitored. Also, margin headwinds are likely to remain in the interim due to higher input prices / supply side issues.
- Valuations: Moderation in equity valuations could be visible on the back of rising interest rates.
- 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.

## International market indicators

Indices	Last Close	1 Month (Change)	CYTD 2021 (Change)
MSCI World	2,546	-8.8%	-21.2%
Dow Jones	30,775	-6.7%	-15.3%
S&P 500	3,785	-8.4%	-20.6%
MSCI EM	1,001	-7.1%	-18.8%
MSCI Europe	1,626	-10.1%	-22.3%
MSCI UK	1,048	-8.8%	-10.8%
MSCI Japan	3,036	-8.0%	-21.2%
MSCI China	73	5.7%	-12.3%
MSCI Brazil	1,405	-19.3%	-2.1%

## Financials – Positive

- We continue to remain positive on financials (i.e. large banks / lenders), driven by the thesis of (1) cyclical recovery in the economy and (2) expectation of large lenders emerging stronger in the post pandemic period, with their ROAs/profitability to be near or above previous peaks.
- In addition, large lenders appear attractive on valuations and we expect them to re-rate with normalisation of credit cost followed by pick up in credit growth, which we are already starting to witness. They should continue to gain market share on account of the strength in capital adequacy, granular deposit franchise and investments in digital infrastructure.
- A rising interest rate environment is positive for bank margins due to swifter repricing of loans and an optimal liability mix. Larger private banks and select PSBs shall benefit more.
- Near term risk to this thesis is from the ongoing geopolitical crisis, as higher for longer energy prices and supply disruption, can potentially slow-down growth, which would then be negative for credit growth recovery.

## Real Estate - 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.
- Disruption has accelerated the consolidation among the residential developers in favour of the major players especially, the listed companies.
- Our portfolio exposure are to developers who have a mix of residential portfolio and commercial assets, along with relatively strong balance sheets.

## 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 filip 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.

## Information Technology – Positive

- 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 – Positive

- We have a positive stance on domestic cyclical and chemicals while we remain negative on global cyclical / 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.

## HSBC Mutual Fund - sector view

### 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.

## 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 rising GRMs despite the recent 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.

# Fixed Income update

## Market Summary for the month

- The key event at the beginning of the month was the RBI policy in June. RBI monetary policy committee (MPC) raised repo rate by 50 bps to 4.90% which was largely expected by the markets in the run up to the policy. (and alongside marginal standing facility (MSF) raised by 50 bps to 5.15 % and Standing Deposit Facility (SDF) by 50 bps to 4.65%). RBI did not hike CRR in the June policy, contrary to expectation of a section of the market. RBI raised inflation projection for FY 23 to 6.8% from 5.7% earlier while growth estimate was maintained at 7.2%. Wording of RBI stance, as mentioned in the policy statement was revised to “withdrawal of accommodation”, while dropping the words “stay accommodative”. RBI in its statement highlighted the need for resolute and calibrated steps in order to anchor inflation expectations and contain second order effects. MPC minutes released later in the month revealed divergent preferences among the various MPC members
- May CPI came in at 7.05%, marginally lower than expectations. Both core inflation and food inflation declined, albeit the base effect was favorable. IIP growth was robust, though aided by base effects. In terms of high frequency data, services PMI remained strong while manufacturing PMI marginally weakened.
- Later in the month, GOI announced levy of duties/cess on production of petroleum crude, and cess on exports of petrol, diesel, and aviation turbine fuel (ATF). On petroleum crude, a cess of INR 23,250/ton has been imposed on domestic production. On diesel and petrol exports, a special additional excise duty/cess has been imposed at the rate of INR 13/liter on diesel and INR 6/liter on petrol. These measures, while not impacting retail pump prices, if retained through the year may result in additional revenue of INR 1.0 trn as per news reports. However, this is based on current high level of crude prices and refining margins and further government has said it will review the cess on a fortnightly basis. Apart from this, GOI also hiked custom duty on import of gold from 10% to 15%, in an attempt to moderate the trade deficit by discouraging gold imports.
- Rupee traded weak during the month, impacted by a strengthening dollar and hawkish global central banks, leading to risk off sentiments and reached a fresh all time low, crossing the 78 mark.
- In terms of bond markets, markets traded mixed during the month. In the early part of the month, yields inched higher post RBI rate hike and higher than expected 75 bps hike by Federal Reserve. Subsequently, yields retraced a bit and 10 y close only 4 bps higher from the previous month at 7.45 in June v/s 7.41, 5 yr similarly also 4 bps higher at 7.18 v/s 7.14 in May, 3 yr by 3 bps at 6.96 v/s 6.93, 13-14 yr segment (2035) outperformed and closed 2 bps lower at 7.56. Corporate bonds were similarly range bound with 3 yr AAA PSU segment marginally outperforming while spreads in the 10 yr space marginally expanded. State development loans (SDL) spread also marginally expanded towards the end of quarter.
- Liquidity surplus moderated during the month, partly on account of the hike in CRR which took effect towards end May as well as on account of FX outflows. Average LAF O/s was at INR 2.91 trn in June 2022 v/s 4.38 trn in May 2022.

## Outlook

- Global cues continue to play a key role in determining direction of Indian bond yields. In early July, there has been some cooling off in commodity prices, especially crude oil, and also a decline in UST yields, which have impacted bond markets positively. Central banks, however, are likely to stay hawkish in the near term, which could continue to be a headwind for Indian bond market. On the domestic side, inflation trajectory will be the key to watch out for. Bond supply continues to remain heavy and weighs on markets. Given this backdrop, fixed income markets are likely to trade with a negative bias over the near term. The short to medium part of the curve has already reacted sharply with yields inching upwards significantly, given expectations of front loading of rate hikes by RBI and hence could over the medium term, present some opportunities given attractive carry and roll-down.

# Fixed Income update

Fiscal deficit and GST collections: Remain reasonable

Gross tax revenue in 2MFY23 was at 14.6% of FY2023 budgetary estimates (BE) -growth of 29% over the previous year while net tax revenues was at 15.9% of FY2023 (BE)-growth of 32% over the previous year. Direct tax collection was at 13.8% and indirect tax collection was at 15.5% of FY2023 (BE) driven by income tax and GST collections. Total expenditure in 2MFY23 was at 14.8% of FY2023 BE with revenue expenditure growth of 15% and capital expenditure growth of 70% (high growth partly on account of base effect, as Apr to June 2021 quarter capex was impacted by Covid second wave)

June GST collections increased marginally to 1.44 trn v/s 1.41 trn in May

PMIs: Services PMI at a fresh 11 year high; manufacturing PMI moderates

Services PMI came in at a 11 year high of 59.2 in June v/s 58.9 in May. Manufacturing PMI moderated somewhat to 53.9 in June v/s 54.6 in May. Overall composite PMI moderated slightly to 58.2 in June v/s 58.3 in previous month

IIP: April IIP at 7.1% v/s 1.8% in March

April IIP registered a growth of 7.1% yoy led primarily by a favorable base. On a sectoral basis, all components exhibited positive growth led by electricity production growing by 11.8% (March: 6.1%), mining activity by 7.8% (4% in March 2022), and manufacturing by 6.3% (0.9% in March 2022). As per the use-based classification, capital goods production grew the most by 14.7% y-o-y followed by primary goods by 10.1%, consumer durables by 8.5%, intermediate goods by 7.6%, consumer non-durables growth at 0.3%.

Inflation: CPI inflation moderates to 7.05%; WPI remains elevated

May Consumer price inflation (CPI) came in at 7.05%, slightly lower than consensus expectation of 7.1%, and below April CPI inflation number at 7.80%. Both food inflation and core inflation moderated to 7.8% and 6.1% respectively. the impact of fuel excise duty cut in end of May is yet to fully reflect in the inflation numbers and is likely to have a salutary impact in June numbers.

WPI remains elevated at 15.9% in May (15.1% in April)

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

Oil: Crude prices stayed volatile during the month closing at 114.81 in end June v/s 122.84 at the end of previous month

US Treasury yields: After inching up to as high as 3.47 in the month, there was some amount of cooling off on US bond yields and UST 10 yr closed at 2.98 as of end June v/s 2.85 in end May

Currency: Rupee traded with a negative bias given foreign portfolio outflows and generalized dollar strength, crossing the 78 mark during the month and inching closer to 79. Rupee closed at 78.95 at the end of June v/s 77.57 in the previous month

Indicators	Current month ( June)	Previous month (May)
Repo rate	4.90	4.40
1Y OIS	6.32	6.17
5Y OIS	6.87	6.98
3M T-Bill	4.85	4.85
1Y G-Sec	6.21	6.01
3Y G-Sec	6.96	6.94
5Y G-Sec ( end 2026)	7.18	7.14
10Y G-sec	7.45	7.41
AAA 5Yr Corp Bond (2026)	7.35-7.50	7.30-7.40
AAA 10yr Corp Bond	7.70-7.85	7.65-7.80
USDINR	78.95	77.57
Brent Oil (USD Per Barrel)	114.81	122.84

## HSBC Overnight Fund

The overnight funding cost is now above the SDF rate of 4.65% given the increase in SDF and repo rates in the June policy. The overnight fund invests only in overnight asset.

## HSBC Cash Fund

The entire Money-market curve is centric to the overnight funding cost. The overnight funding cost should now move above the SDF rate of 4.65% given the increase in SDF and repo rates in June policy. 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. 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. Average liquidity surplus has come down in the past month given forex outflows and hike in CRR at end of May. Overall, we remain neutral on duration in HSBC Cash Fund

## HSBC Ultra Short Duration Fund

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## HSBC Low Duration Fund

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## Short duration to medium term duration

## HSBC Short Duration Fund

From medium term perspective, HSBC Short Duration Fund offers value for investors at current short-term yields over funding cost in terms of spread. However, 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 steepness in the yield curve up to the 3 to 5 yr points already 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, which offers attractive risk-return trade-off as the steepness in the curve is attractive and hence compensates to some extent in case of any adverse movement in yields at the ultra-short end of the curve. As such, we continue to be positioned with an underweight in terms of duration in HSBC Short Duration Fund.

## HSBC Corporate Bond Fund

From medium term perspective, HSBC Short Duration Fund offers value for investors at current short-term yields over funding cost in terms of spread. However, near term volatility will remain as markets reprice the timing and extent of rate hikes by RBI.

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As such, we continue to be positioned with an underweight in terms of duration in HSBC Short Duration Fund.

## HSBC Equity Hybrid Fund (debt portion)

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

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## Long bonds

### HSBC Flexi Debt Fund

Yields at the longer end of the curve remain influenced by global cues including global bond yields, crude and commodity prices. Nevertheless, there has been a bear flattening trend in the past few months 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, given expectation of front loaded rate hikes by RBI.

Going forward, absorption of heavy bond supply will continue to exercise upward pressure on yields in the belly of the curve, especially in the absence of open market operation (OMO) purchases from RBI. 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

### HSBC Debt Fund

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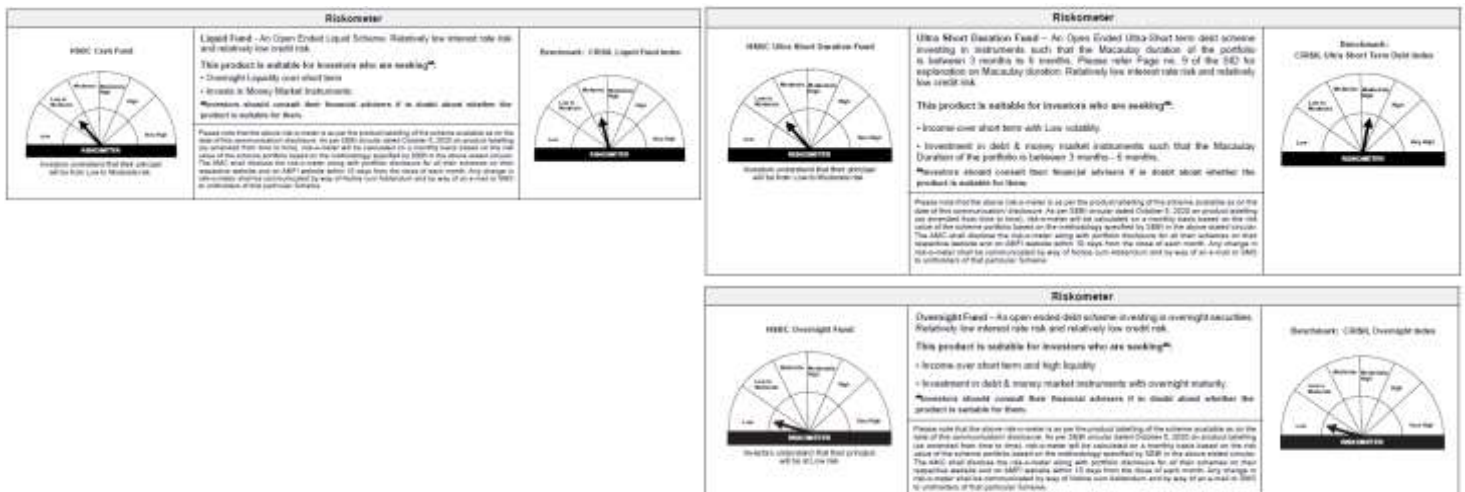
### HSBC Regular Savings Fund

Yields at the longer end of the curve remain influenced by global cues including global bond yields, crude and commodity prices. Nevertheless, there has been a bear flattening trend in the past few months 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, given expectation of front loaded rate hikes by RBI.

Going forward, absorption of heavy bond supply will continue to exercise upward pressure on yields in the belly of the curve, especially in the absence of open market operation (OMO) purchases from RBI. 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 HSBC Regular Savings Fund ( debt portion) 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

### HSBC CRISIL IBX 5050 Gilt Plus SDL Apr 2028 Index Fund


The mandate of the target maturity fund is to invest in line with the index construction. While yields have inched up across the yield curve and hence also at the 6 yr point of the curve in the last 2 months, the carry remains attractive and roll-down presents an opportunity for the same over a 3 yr + time-frame. Further, the fund remains an attractive proposition for investors who intend to hold till maturity (April 2028), despite near term volatility.



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

Riskometer		
<b>HSBC Debt Fund</b>  <p>Investors understand that their principal will be at Moderate risk.</p>	<p><b>Medium to Long Duration Fund</b> - An open ended Medium to Long Term Debt Scheme investing in instruments such that the Macaulay<sup>^</sup> duration of the portfolio is between 4 years to 7 years. Relatively high interest rate risk and moderate credit risk.</p> <p><b>This product is suitable for investors who are seeking<sup>^</sup>:</b></p> <ul style="list-style-type: none"> <li>Regular income over long term</li> <li>Investment in diversified portfolio of fixed income securities such that the Macaulay<sup>^</sup> duration of the portfolio is between 4 years to 7 years.</li> </ul> <p><b><sup>^</sup>Investors should consult their financial advisers if in doubt about whether the product is suitable for them.</b></p> <p><small>Please note that the above riskometer 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), riskometer 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 riskometer 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 riskometer shall be communicated by way of Notice cum Addendum and by way of an e-mail or SMS to unitholders of that particular Scheme.</small></p>	<p><b>Benchmark:</b> CRISIL Composite Bond Fund Index</p> 

Scheme Name	PRC Matrix			
HSBC Debt Fund	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)		BIII	

Riskometer		
<b>HSBC Low Duration Fund</b>  <p>Investors understand that their principal will be from Low to Moderate risk.</p>	<p><b>Low Duration Fund</b> - 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.</p> <p><b>This product is suitable for investors who are seeking<sup>^</sup>:</b></p> <ul style="list-style-type: none"> <li>Liquidity over short term.</li> <li>Investment in debt and money market instruments such that the Macaulay<sup>^</sup> duration of the portfolio is between 6 months to 12 months.</li> </ul> <p><b><sup>^</sup>Investors should consult their financial advisers if in doubt about whether the product is suitable for them.</b></p> <p><small>Please note that the above riskometer 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), riskometer 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 riskometer 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 riskometer shall be communicated by way of Notice cum Addendum and by way of an e-mail or SMS to unitholders of that particular Scheme.</small></p>	<p><b>Benchmark:</b> CRISIL Low Duration Debt Index</p> 



HSBC Low Duration Fund	Potential Risk Class			
	Credit Risk →	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
	Interest Rate Risk ↓			
	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



<sup>^</sup>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		
<p><b>HSBC Short Duration Fund</b></p>  <p>Investors understand that their principal will be from Low to Moderate risk</p>	<p><b>Short Duration Fund</b> - 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.</p> <p>This product is suitable for investors who are seeking<sup>^</sup>:</p> <ul style="list-style-type: none"> <li>• Regular Income over Medium term</li> <li>• Investment in diversified portfolio of fixed income securities such that the Macaulay<sup>^</sup> duration of the portfolio is between 1 year to 3 years.</li> </ul> <p><sup>^</sup>Investors should consult their financial advisers if in doubt about whether the product is suitable for them.</p> <p><small>Please note that the above risk-o-meter is as per the product labeling of the scheme available as on the date of this communication/ disclosure. As per SEBI circular dated October 5, 2020 on product labeling (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.</small></p>	<p><b>Benchmark:</b> CRISIL Short Term Bond Index</p> 

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

Riskometer		
<p><b>HSBC Flexi Debt Fund</b></p>  <p>Investors understand that their principal will be at Moderate risk</p>	<p><b>Dynamic Bond Fund</b> - 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.</p> <p>This product is suitable for investors who are seeking<sup>^</sup>:</p> <ul style="list-style-type: none"> <li>• Regular Income over long term</li> <li>• Investment in Debt / Money Market Instruments</li> </ul> <p><sup>^</sup>Investors should consult their financial advisers if in doubt about whether the product is suitable for them.</p> <p><small>Please note that the above risk-o-meter is as per the product labeling of the scheme available as on the date of this communication/ disclosure. As per SEBI circular dated October 5, 2020 on product labeling (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.</small></p>	<p><b>Benchmark:</b> CRISIL Composite Bond Fund Index</p> 

HSBC Flexi Debt Fund	<b>Potential Risk Class</b>			
	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)	<b>AIII</b>		

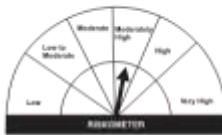

Riskometer		
<p><b>HSBC Corporate Bond Fund</b></p>  <p>Investors understand that their principal will be from Low to Moderate risk</p>	<p><b>Corporate Bond Fund</b> - An open ended debt scheme predominantly investing in AA+ and above rated corporate bonds. Moderate interest rate risk and relatively low credit risk.</p> <p>This product is suitable for investors who are seeking<sup>^</sup>:</p> <ul style="list-style-type: none"> <li>• Income over medium term.</li> <li>• Investment predominantly in corporate bond securities rated AA+ and above.</li> </ul> <p><sup>^</sup>Investors should consult their financial advisers if in doubt about whether the product is suitable for them.</p> <p><small>Please note that the above risk-o-meter is as per the product labeling of the scheme available as on the date of this communication/ disclosure. As per SEBI circular dated October 5, 2020 on product labeling (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.</small></p>	<p><b>Benchmark:</b> NIFTY Corporate Bond Index</p> 

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


<sup>^</sup>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 →	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
	Interest Rate Risk ↓			
	Relatively Low (Class I)			
	Moderate (Class II)	All		
	Relatively High (Class III)			

Riskometer		
<b>HSBC Regular Savings Fund</b>  Investors understand that their principal will be at Moderately High risk	<b>Conservative Hybrid Fund</b> - An open ended Hybrid Scheme investing predominantly in debt instruments. <b>This product is suitable for investors who are seeking**:</b> <ul style="list-style-type: none"> <li>Capital appreciation over medium to long term.</li> <li>Investment in fixed income (debt and money market instruments) as well as equity and equity related securities.</li> </ul> <b>**Investors should consult their financial advisers if in doubt about whether the product is suitable for them.</b> <small>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.</small>	<b>Benchmark:</b> <b>CRISIL Hybrid 85+15 - Conservative Index</b>  RISKOMETER

Riskometer		
<b>HSBC Equity Hybrid Fund</b>  Investors understand that their principal will be at Very High risk	<b>Aggressive Hybrid Fund</b> - An open ended hybrid scheme investing predominantly in equity and equity related instruments. <b>This product is suitable for investors who are seeking**:</b> <ul style="list-style-type: none"> <li>To create wealth over long term</li> <li>Investment in predominantly small cap equity and equity related securities</li> </ul> <b>**Investors should consult their financial advisers if in doubt about whether the product is suitable for them.</b> <small>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.</small>	<b>Benchmark: CRISIL Hybrid 35+65 - Aggressive Fund Index</b>  RISKOMETER

Scheme Name	Scheme Risk-o-meter	Benchmark Risk-o-meter
<b>HSBC CRISIL IBX 50:50 Gilt Plus SDL Apr 2028 Index Fund</b> <b>(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)</b> <b>This product is suitable for investors who are seeking*:</b> <ul style="list-style-type: none"> <li>Income over target maturity period</li> <li>Investment in constituents similar to the composition of CRISIL IBX 50:50 Gilt Plus SDL Index - April 2028</li> </ul>	 Investors understand that their principal will be at Moderate risk	<b>Scheme Benchmark:</b> <b>CRISIL IBX 50:50 Gilt Plus SDL Index - April 2028</b>  RISKOMETER

\* 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)	All		
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 June '22 unless otherwise given.

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