

## Market Outlook

# In Focus with Tushar Pradhan

May 2022



## Shift in policy stance indicate pandemic concerns waning

### Equity Market update

- Global equity markets saw significant correction during April driven by expectation of rising interest rates coupled with adverse macro and the ongoing geopolitical crisis. However, Indian equities outperformed global equities, despite showing a decline during the month.
- S&P BSE Sensex & NSE Nifty indices were down 2.5% / 2% respectively, while the broader markets gained, with BSE Midcap / BSE Smallcap indices returning +1.3% / +1.4% respectively. There was divergence in sector wise performance too, with Utilities being a major gainer followed by Auto, Energy and Consumer Staples. Technology was the top loser followed by Realty, Communication Services and Metals.
- The quarterly results season has been broadly in-line with expectations and devoid of any big surprises. So far, 17 Nifty companies' saw the aggregate Sales / EBITDA / PBT / PAT rising 15% / 13% / 22% / 24% YoY. Majority of the results declared so far are sectors like Services (Technology & Financials) or commodity users (Auto, Consumption, Industrials etc.). Financials saw the credit growth trends improving while for Technology, strong demand outlook was offset by softer margin commentary. Commodity users saw margin pressures but were broadly on expected lines.
- Some of the high frequency indicators continued to indicate economic recovery even as inflation concerns loom large. GST collections hit an all-time high of Rs. 1.68 tn during April, while the non-food credit growth picked up further, to register double digit growth (10.2% YoY for the fortnight ended 08 Apr).
- FII outflows continued and recorded the 7th consecutive month of net outflows during April (~USD 3.8 bn). On a CYTD basis, the net outflows from FIIs now stand at ~USD 17.3 bn. The DIIs on the other hand continued to act as a counter balancing force to the FII outflows and raked in 14th consecutive month of net inflows (~USD 3.1 bn, led by MFs at ~USD 2.9 bn) and this took their CYTD net inflows tally to ~USD 14.6 bn.

**Supply side disruption & higher commodity prices, due to the ongoing war has given rise to a 'sticky' inflation phase as opposed to it being 'transient'. This is leading to a shift in central bank policy stance globally with the earlier accommodative stance being withdrawn and the policy makers turning more hawkish in their approach.**

### Equity and other indicators

| Indices                            | Last Close | 1 Month | (CharCYTD 2021 (Ch |
|------------------------------------|------------|---------|--------------------|
| S&P BSE Sensex TR                  | 85331      | -2.5%   | -1.8%              |
| Nifty 50 TR                        | 24607      | -2.0%   | -1.2%              |
| S&P BSE 200 TR                     | 9216       | -0.7%   | -0.4%              |
| S&P BSE 500 TR                     | 28941      | -0.6%   | -0.8%              |
| S&P BSE Midcap TR                  | 29975      | 1.3%    | -1.9%              |
| S&P BSE Smallcap TR                | 34657      | 1.4%    | -2.7%              |
| NSE Large & Midcap 250 TR          | 12085      | -0.2%   | -1.7%              |
| S&P BSE India Infrastructure Index | 400        | 6.2%    | 11.6%              |
| MSCI India USD                     | 813        | -1.7%   | -3.7%              |
| MSCI India INR                     | 2017       | -0.8%   | -1.0%              |
| INR - USD                          | 76.4       | 0.9%    | 2.8%               |
| Crude Oil                          | 109        | 1.3%    | 40.6%              |

### Global Market Update

During April, the global equity markets fell considerably (MSCI World was down 8.4%). Hikes in policy rates aggravated the negative sentiments amongst the equity investors. The US 10-year bond yield rose for the fifth consecutive month to 2.9%, moving to its highest levels in three years. Global crude oil prices remained above the USD 100 per barrel mark during most of April. Looking ahead, the ongoing war and China COVID restrictions are prolonging the global supply side challenges. Amid central banks' policy normalization process, the 'stagflation phase' (combination of lower growth and higher inflation) is expected to persist for most part of 2022. Market participants are now fearing a possibility of US recession in late 2023 or early 2024, if the current scenario was to persist for longer. The current expectations are building in an accelerated rate hike process in the US (cumulative 225 bps of rate hikes in 2022) and a quantitative tightening starting May. This coupled with a constrained US fiscal policy, could drag global growth in the short term. Given this backdrop, global equities are expected to remain volatile with a downward bias in the near term.

## Outlook:

Supply side disruption & higher commodity prices, due to the ongoing war has given rise to a 'sticky' inflation phase as opposed to it being 'transient'. This is leading to a shift in central bank policy stance globally with the earlier accommodative stance being withdrawn and the policy makers turning more hawkish in their approach. The US Federal reserve has already embarked on an accelerated rate hike process to fight inflation along with withdrawal of liquidity. Domestic policy normalization has also been initiated, with the interest rates expected to rise sharply in the short term. The direct impact of the Ukraine crisis is already digested and the markets are assuming no escalation from the current conflict zone as the base case. Shift in policy stance worldwide also indicate that the pandemic concerns are now waning and the recovery has been satisfactory.

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.

**Valuations:** Markets are still expensive as compared to historical averages but valuation premium has moderated in the recent correction. Nifty is trading at 19.4x / 16.7x FY23 / FY24e. Hardening bond yields are negative for equity valuations. Market returns may lag earnings growth over the next few quarters, on account of moderation in valuation multiples.

**Macro View:** Domestic policy normalization has been initiated and the surprise off-cycle repo rate and CRR hikes, indicate RBI's urgency in taming inflationary pressures in the economy. Inflation is expected to remain elevated in the near term due to the flow through of global supply side disruption and higher fuel prices and hence no longer considered transient in nature. This would mean a phase of rising policy rates for the next few quarters. On the macro front, India is on a strong footing to navigate this phase of volatility. This is visible in both external macro variables (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.

## Portfolio Strategy and Update:

- Our portfolios are high conviction portfolios 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 companies delivering 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 prices & supply side disruption) is already in the base case, coupled with no escalation assumed from the current conflict zone.
- Corporate earnings growth: 4QFY22 results has panned out on expected lines and without big negative surprises. Earnings volatility expected in the short term due to weak margins but medium term earnings visibility remains strong driven by investment cycle.
- Valuations: Moderation in equity valuations could be visible on the back of rising interest rates.
- Other factors / risks: Impact of sustained higher commodity prices on inflation, current account balance and fiscal deficit.

## International market indicators

| Indices     | Last Close | 1 Month (Change) | CYTD 2021 (Change) |
|-------------|------------|------------------|--------------------|
| MSCI World  | 2,796      | -8.4%            | -13.5%             |
| Dow Jones   | 32,977     | -4.9%            | -9.2%              |
| S&P 500     | 4,132      | -8.8%            | -13.3%             |
| MSCI EM     | 1,076      | -5.7%            | -12.6%             |
| MSCI Europe | 1,808      | -6.2%            | -13.6%             |
| MSCI UK     | 1,134      | -4.0%            | -3.4%              |
| MSCI Japan  | 3,249      | -8.8%            | -15.6%             |
| MSCI China  | 69         | -4.1%            | -17.7%             |
| MSCI Brazil | 1,639      | -14.9%           | 14.2%              |

# HSBC Mutual Fund - sector view

## 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.
- We also have exposure to Insurers and AMCs, which would benefit from financialization of savings.

## 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.

## Information Technology - Positive

- Our continued positive stance on the sector is account of the strong demand outlook, which has been reconfirmed in the recent result season.
- The pandemic has accelerated the shift towards a more digitized world, resulting in continued technology investments from enterprises across industries globally. Tech spends are now considered core to enterprises and getting prioritised.
- 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.
- 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, strong visibility and robust demand environment.
- - We prefer solution providers with strong digital capabilities, scale of operations and growth visibility.

## Industrials - Positive

- Positive view is maintained as we see potential revival in the investment cycle over the medium term, driven by govts increased focus and outlay towards the Infrastructure sector, which was reiterated in the budget document.
- Public capex is expected to act as catalyst for private investment to pick-up. So the Industrial capex is likely to follow the Infra capex push by the government.
- However, if the current geopolitical crisis lead to sustained high commodity prices, then that could impact margins adversely
- 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.

## 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 also having presence in the export driven generics segment.
- We also like health care services space (hospitals & diagnostics) as we expect them to benefit from structural improvement in healthcare services penetration and the market shifting towards organized players. The recent correction provided a good entry point, as valuations came-off, even as the underlying fundamentals remain intact.

## Materials – Positive

- We have a positive stance on domestic cyclical and chemicals while we remain negative on global cyclical / metals from a medium term perspective.
- 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, while we have tweaked our exposure to account for the near term demand sluggishness and margin pressures (combination of lower pricing power and higher commodity prices), we remain positive on the medium term story of domestic growth recovery and improvement in capacity utilization.
- The recent geopolitical development has brought the focus back on commodities and the situation remains fluid. It is difficult to take a call on the trajectory of commodity prices and most companies have seen improved profitability on higher prices, hence not sustainable. For risk mitigation in the portfolio, we have a small exposure to ferrous segment (steel).

## HSBC Mutual Fund - sector view

### Consumer Discretionary - Neutral

- Within the sector we are positive on Auto, 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 current geopolitical crisis may put further pressure on margins and demand. Valuations (especially in consumer goods) imply that a steady recovery is already priced in.
- Auto OEMS had faced demand weakness, supply issues due to chip shortages as well as margin pressure on account of high commodity prices. While we believe these headwinds will impact near term earnings, we think that the auto volumes are at a cyclical low and will see recovery over the medium term. Within Auto we have a preference for slight preference for PVs but we are also constructive on CVs and 2Ws.
- Within other sub-sectors we have exposure to beneficiaries of PLI scheme.

## 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

- We have reduced the extent of underweight in the sector on the back of tailwinds from rising refining margins which will benefit pure refiners.
- Overall 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 largest 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 is positioned well to benefit from the rising GRMs.

### Utilities - Negative

- Our negative view is on account of regulated nature of the business and low return ratios in 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 markets traded with a negative bias during the month as geopolitical tensions and the resultant rise in commodity prices along with a sharp increase in global bond yields, given hawkishness of Federal Reserve and inflation concerns in developed economies, weighed on markets. However, there was some buying coming in at higher levels and markets partly recovered in the second half of the month.
- In terms of macros, February CPI inflation numbers came in higher than expected. Overall with the fuel price pass-through starting in the month of March and continuing in April, it is expected that inflation will remain elevated and could go further higher in March and April before easing from May as base effects turn favorable from there on. Fiscal trends continued to stay positive; GST collections clocked an all-time high in the month of March; however, with the IPO of the government owned LIC being deferred on account of volatile market conditions, divestments were lower than anticipated in FY 22.
- H1 FY 23 borrowing calendar was released in early April which was on expected lines. H1 FY 23 borrowing of INR 8.45 trn of total expected borrowings of INR 14.31 trn constituted ~59% of the full year expected borrowings, in line with historical trends. In terms of issuance buckets, the 7-year issuance bucket was reintroduced, and bulk of the borrowings remains in the belly of the curve.
- Overall, 10y closed February 7 bps higher at 6.84 at the end of March v/s 6.77 at the end of February. 5 yr segment outperformed and was lower by 3 bps closing at 6.02 at end of March v/s 6.05 at end of February, 14 yr segment closed 1 bps higher at 7.13 v/s 7.12 at the end of the previous month
- With limited supply in corporate bonds and statutory demand remaining strong, spreads in corporate bonds remained tight across segments, with spreads in the 10 yr space compressing even further during the month to very tight levels of less than 15 bps.
- In terms of liquidity management, RBI continued to conduct VRRRs of 3 day, 7 day, 14 day and 28 day maturities. RBI also conducted USD sell buy swap of USD 5 bn in early March and announced another sell-buy swap of USD 5 bn to be conducted in the month of April, with a view to extend the maturity of its dollar forward book.

## Outlook

- The RBI monetary policy committee unanimously decided to keep repo rate unchanged while calibrating the policy stance to “remaining accommodative while at the same time focusing on withdrawal of accommodation”. Although RBI has kept rates unchanged, the introduction of SDF rates and re-wording of the policy stance indicate a move towards withdrawing the accommodation provided during the pandemic in a calibrated manner. The focus has now moved towards inflation. Geopolitical developments and rate increases by global central banks will also weigh on markets in the coming months. With bond supply starting in the month of April, and H1 borrowings remaining heavy, the ability of markets to absorb the same remains to be seen and markets will watch for any supportive actions by RBI. Fiscal trends in the new fiscal and any progress on the LIC IPO, which would help divestment revenues are some of the other factors to watch out for. Overall yields are expected to trade with a negative bias, inching towards the 7% mark.

## RBI unscheduled Policy meet of May '22 - key highlights

- Repo rate hiked by 40 bps; CRR hiked by 50 bps
- Repo rate hiked by 40 bps at 4.4%; Standing Deposit Facility Rate by 40 bps to 4.15% and Marginal Standing Facility by 40 bps to 4.65%;
- CRR hiked from 4% of net demand and time liabilities (NDTL) to 4.5% of NDTL
- Stance remains “accommodative” while at same time focusing on “withdrawal of accommodation” to ensure that inflation remains within the target going forward, while supporting growth.
- Significant upside risks envisaged to the inflation trajectory set out in April statement of MPC

# Fixed Income update

## GST numbers: Robust March collections at INR 1.42 trillion

GST collection in the month of March 2022 (for sales in the month of February 2022) was reported at an all-time high of INR 1.42 trillion. Earlier in the month of February (for sales in month of January), collections were relatively lower at INR 1.33 trn as the sales in January were impacted by restrictions on account of the third Covid wave. The higher collection in March suggest recovery from the impact of third wave on economic activity.

## Fiscal trends: April to February fiscal deficit ~ 83% of FY 2022 revised estimates

Fiscal deficit for April to February of FY 22 was at 82.7% of the revised FY 22 estimates in the budget. In 11MFY22 center's net tax revenue was at 84% of FY2022RE while expenditure was at 83%. Overall, receipts were higher by 29% while expenditure was up 11.5%, with a ~10% increase in revenue expenditure and 20% increase in capital expenditure during this period

## PMIs: Mixed trends across manufacturing and services

Manufacturing PMI was lower in March at 54.0 v/s 54.9 in February as lower new export orders and rise in prices weighed on sentiments, while Services PMI was higher at 53.6 v/s 51.8 in February given the end of the third wave and removal of most restrictions in the month of March. Overall, composite PMI rose to 54.3 v/s 53.5 in February

## IIP: January IIP at 1.3%

January IIP grew at 1.3% (December: 0.7%) with the aid of marginal positive base effects. As per the use-based classification, construction/infrastructure goods grew 5.4%, consumer non-durables grew by 2.1%, primary goods grew by 1.6%, and intermediate goods grew by 0.9%. On the other hand, capital goods and consumer durable goods declined by 1.4% and 3.3%, respectively.

## Inflation: CPI inflation stays over 6%; Wholesale inflation continues to stay elevated

Consumer price inflation (CPI) came in at 6.07% v/s 6.0% in the previous month, and higher than consensus. Food inflation rose as favorable base effects waned, while core inflation dropped marginally. Wholesale price inflation (WPI) also stayed elevated at 13.1% in March v/s 13.0% in February

## External Factors – Oil prices volatile, US treasury yields inch sharply higher

**Oil:** Crude prices stayed volatile during the month given geopolitical developments and closed at 107.91 v/s 100.99 at the end of the previous month

**US Treasury yields:** Global bond yields rose sharply during the month given inflation concerns in developed economies and hawkish central banks. US 10 yr treasury yields, after briefly touching 2.5 during the month, closed at 2.36 v/s 1.81 in the previous month

**Currency:** Rupee traded with a negative bias, as risk off sentiments and geopolitical tensions weighed on the rupee and it closed March at 75.90 v/s 75.34 at the end of February after briefly touching 77 earlier in the month.

| Indicators                 | Current month ( April 30) | Previous month |
|----------------------------|---------------------------|----------------|
| Repo rate                  | 4.00                      | 4.00           |
| 1Y OIS                     | 5.05                      | 4.49           |
| 5Y OIS                     | 6.62                      | 5.98           |
|                            |                           |                |
| 3M T-Bill                  | 4.00                      | 3.70           |
| 1Y G-Sec                   | 5.13                      | 4.67           |
| 3Y G-Sec                   | 6.38                      | 5.84           |
| 5Y G-Sec                   | 6.62                      | 6.10           |
| 10Y G-sec                  | 7.14                      | 6.84           |
|                            |                           |                |
| AAA 5Yr Corp Bond          | 6.30-6.40                 | 6.20-6.30      |
| AAA 10yr Corp Bond         | 7.05-7.15                 | 7.05-7.20      |
|                            |                           |                |
| USDINR                     | 75.90                     | 75.34          |
| Brent Oil (USD Per Barrel) | 107.91                    | 100.99         |



## Fixed Income portfolio strategy and update

### Overnight to Money Market rates (up to 1 year) - Neutral positioning on 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 entire Money-market curve is centric to the overnight funding cost. The overnight funding cost should now move above the SDF rate of 4.15% given the increase in SDF and repo rates, while increase in CRR could also push it up further going forward.

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 steepness in the 1 to 2 yr segment is attractive and with RBI likely to take a calibrated approach, there could be opportunities in terms of carry and roll-down going forward. However, in the very near term, we could see bouts of volatility given the surprise rate hike today and consequent repricing by markets.

The overnight fund predominantly invests in overnight asset. Overall, we remain underweight on duration across HSBC Cash, HSBC Ultra-Short and Low Duration funds as we take a cautious approach while markets re-price rates given hawkish RBI and await better opportunities for deployment to take advantage of steepness in the curve.

### 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. 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 these funds (HSBC Short Duration Fund & HSBC Corporate Bond Fund & HSBC Equity Hybrid Fund (debt portion))

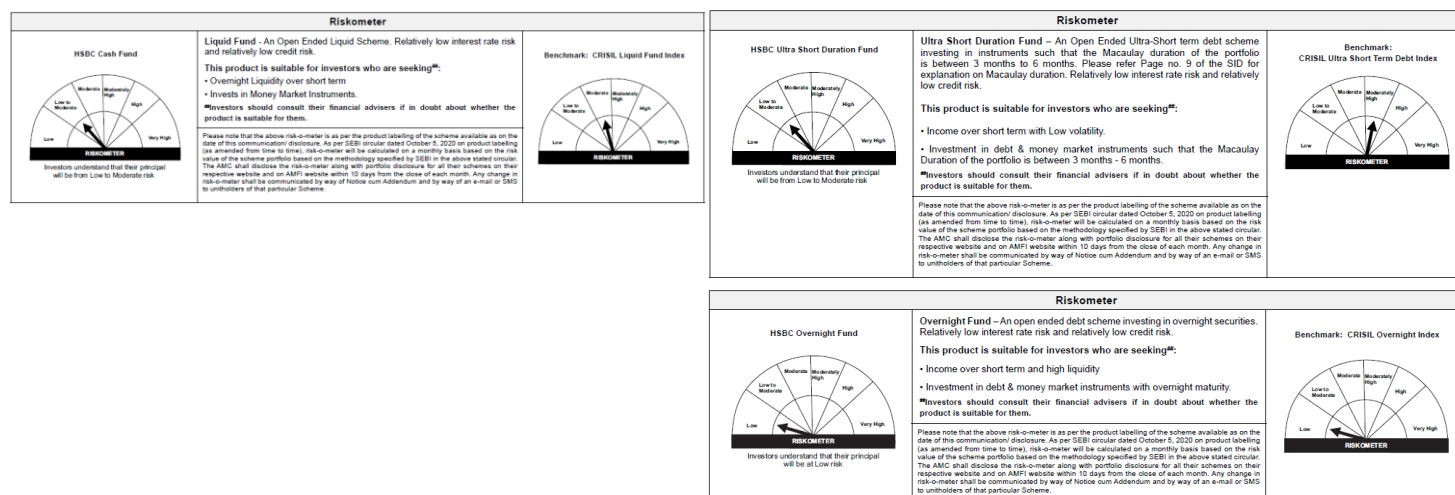
### Long bonds (HSBC Flexi Debt Fund, HSBC Debt Fund, HSBC Regular Savings Fund)- Underweight duration)

Yields at the longer end of the curve have inched upwards given the movement in global bond yields and rise in crude and commodity prices over the last 2 to 3 months and hawkish RBI. Nevertheless, 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 H1 FY 23 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 continue to maintain 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.



### Target maturity 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 year point of the curve, the carry remains attractive and roll-down presents an opportunity for the same over a 3 year + time-frame. Further, the fund remains an attractive proposition for investors who intend to hold till maturity (April 2028), despite near term volatility.

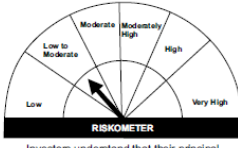
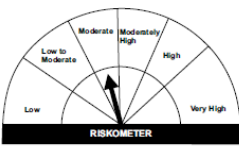




| Scheme Name   | PRC Matrix                  |                             |                       |                              |
|---|-----------------------------|-----------------------------|-----------------------|------------------------------|
| HSBC Overnight Fund<br>HSBC Cash Fund<br>HSBC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

| Riskometer  |  |  |
|---|--|--|
| <b>HSBC Debt Fund</b><br><br>Investors understand that their principal will be at Moderate risk. | <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.<br><br><b>This product is suitable for investors who are seeking<sup>##</sup>:</b> <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> <b><sup>##</sup>Investors should consult their financial advisers if in doubt about whether the product is suitable for them.</b><br><br><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:</b><br>CRISIL Composite Bond Fund Index<br> |

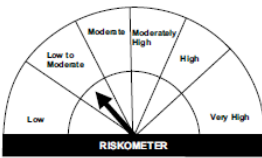

| Scheme Name    | PRC Matrix                  |                             |                       |                              |
|----------------|-----------------------------|-----------------------------|-----------------------|------------------------------|
| HSBC Debt Fund | Potential Risk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

| Riskometer   |   |   |
|--|---|---|
| <b>HSBC Low Duration Fund</b><br><br>Investors understand that their principal will be from Low to Moderate risk. | <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.<br><br><b>This product is suitable for investors who are seeking<sup>##</sup>:</b> <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> <b><sup>##</sup>Investors should consult their financial advisers if in doubt about whether the product is suitable for them.</b><br><br><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:</b><br>CRISIL Low Duration Debt Index<br> |

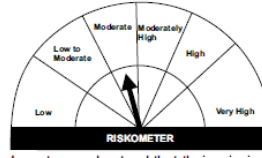
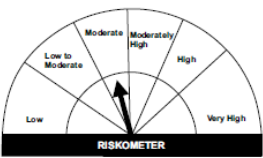
|                        |                             |                             |                       |                              |
|------------------------|-----------------------------|-----------------------------|-----------------------|------------------------------|
| HSBC Low Duration Fund | Potential Risk Class        |                             |                       |                              |
|                        | Credit Risk →               | Relatively Low<br>(Class A) | Moderate<br>(Class B) | Relatively High<br>(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

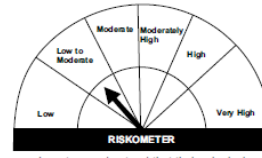
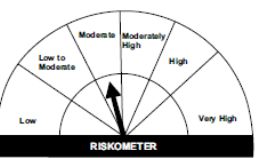
<sup>^</sup>The Macaulay duration is the weighted average term to maturity of the cash flows from a bond. The weight of each cash flow is determined by dividing the present value of the cash flow by the price. Please refer to the page number 9 of the scheme Offer Document on which the concept of Macaulay's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

| Riskometer   |   |  |
|--|---|--|
| <p>HSBC Short Duration Fund</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 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></p> | <p>Benchmark:<br/>CRISIL Short Term Bond Index</p>  |

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

| Riskometer  |   |  |
|---|---|--|
| <p>HSBC Flexi Debt Fund</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 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></p> | <p>Benchmark:<br/>CRISIL Composite Bond Fund Index</p>  |


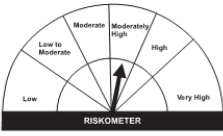
|                      |                             |                             |                       |                              |
|----------------------|-----------------------------|-----------------------------|-----------------------|------------------------------|
| HSBC Flexi Debt Fund | Potential Risk Class        |                             |                       |                              |
|                      | Credit Risk →               | Relatively Low<br>(Class A) | Moderate<br>(Class B) | Relatively High<br>(Class C) |
|                      | Interest Rate Risk ↓        |                             |                       |                              |
|                      | Relatively Low (Class I)    |                             |                       |                              |
|                      | Moderate (Class II)         |                             |                       |                              |
|                      | Relatively High (Class III) | <b>AIII</b>                 |                       |                              |


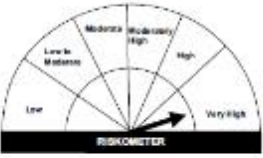
| Riskometer   |   |  |
|--|---|--|
| <p>HSBC Corporate Bond Fund</p>  <p>Investors understand that their principal will be from Low to Moderate risk</p> | <p><b>Corporate Bond Fund</b> - An open ended debt scheme predominantly investing in AA+ and above rated corporate bonds. Moderate interest rate 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 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></p> | <p>Benchmark:<br/>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<br>(Class A) | Moderate<br>(Class B) | Relatively High<br>(Class C) |
|                          | Interest Rate Risk ↓        |                             |                       |                              |
|                          | Relatively Low (Class I)    |                             |                       |                              |
|                          | Moderate (Class II)         | All                         |                       |                              |
|                          | Relatively High (Class III) |                             |                       |                              |

| Riskometer   |   |  |
|--|---|--|
| <b>HSBC Regular Savings Fund</b><br><br>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.<br><br><b>This product is suitable for investors who are seeking<sup>¶</sup>:</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><sup>¶¶</sup>Investors should consult their financial advisers if in doubt about whether the product is suitable for them.</b><br><br><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><br>CRISIL Hybrid 85+15 - Conservative Index<br><br>RISKOMETER |

| Riskometer  |  |   |
|---|--|---|
| <b>HSBC Equity Hybrid Fund</b><br><br>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.<br><br><b>This product is suitable for investors who are seeking<sup>¶</sup>:</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><sup>¶¶</sup>Investors should consult their financial advisers if in doubt about whether the product is suitable for them.</b><br><br><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:</b> CRISIL Hybrid 35+65 - Aggressive Fund Index<br><br>RISKOMETER |

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.

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

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