HSBC Asset Management

Market Outlook

In Focus with Tushar Pradhan

Oct 2022

Equity markets are likely to remain volatile in near term

Equity Market update

- September was a weak month both in India and globally albeit India's outperformance continued. Rising interest rates in US and looming recession fears contributed to the weak sentiments. After two months of net positive FII flows, September saw FII outflow.
- S&P BSE Sensex & NSE Nifty indices were down 3.5% / 3.7% respectively. Broader markets outperformed as BSE Midcap / BSE Smallcap indices went down 2.1% / 0.6% respectively. All sectoral indices closed negative, except for Healthcare and FMCG which were up 1.4% each. Utilities, Energy and Real Estate saw notable declines of 9.4%/9.1%/8.5% respectively.
- Among the key developments in the month, India's Monetary Policy Committee (MPC) hiked policy rates by 50 bps for a third consecutive meeting, taking the Repo Rate to 5.9%. MPC announced a reduction in real GDP growth forecast for the current financial year to 7% from 7.2% earlier. Current Account Deficit in Q1FY23 widened to USD 23.9 bn from USD 13.4bn in Q4FY22.
- India's headline CPI surged to 7% in August due to higher food prices, compared to 6.71% in July. This is the 8th consecutive month that the CPI data has breached the RBIs upper margin of 6%. INR depreciated by 2% against USD during the month, performing better than other EM currencies. Rainfall this monsoon season in India was about 7% above normal; however, the distribution was uneven with several regions receiving deficient rainfall and others normal to surplus.
- Other key developments during the month include – Gross GST revenue collected in September 2022 grew 26% to Rs 1.47 tn. Domestic gas prices have been increased by 40% to USD 8.57 /mmbtu from USD 6.1 /mmbtu for the period 1st October 2022 to 31st March 2022.

Post the up move in August, Nifty index declined 3.7% in September resulting in moderation in valuations as earnings growth has remained largely intact. On a 10-year basis, Nifty is trading below +1 STD from its historic average valuations, while on a 5-year basis it is now trading marginally above averages.

Equity and other indicators

	Last Close	1 Month (Change)	CYTD 2021 (Change)
S&P BSE Sensex TR	89829	3.6%	3.3%
Nifty 50 TR	25787	3.7%	3.5%
S&P BSE 200 TR	9691	4.7%	4.7%
S&P BSE 500 TR	30287	4.8%	3.8%
S&P BSE Midcap TR	31371	5.8%	2.7%
S&P BSE Smallcap TR	34857	6.1%	-2.1%
NSE Large & Midcap 250 TR	12755	5.2%	3.8%
S&P BSE India Infrastructure Index	408	9.5%	13.8%
MSCI India USD	808	3.9%	-4.3%
MSCI India INR	2083	4.2%	2.3%
INR - USD	79.5	0.2%	6.9%
Crude Oil	96	-12.3%	24.1%

- Net institutional inflow was negligible in September after registering highest net inflows of USD 5.9bn in August. FIIs were net sellers with outflows of USD 1.6bn. FIIs' net sell of Indian equities stands at USD 27.3bn after peaking at USD 32.5 bn since the selling began in Oct 2021 (USD 22.5 bn of net outflows in 2022 so far). DIIs counter balanced FII outflows with net inflows of USD 1.72 bn largely led by MFs (+USD 1.93 bn) while Insurers were net sellers (-USD 0.21 bn). On a CYTD basis, the DIIs have net bought Indian equities worth ~USD 28.9 bn (~USD 20.9 bn by MF & ~USD 8 bn by Insurers).

Global market update

All the major equity indices globally continued with the declining trend during the month with MSCI World index down 9.5%. US market (S&P 500), MSCI Europe and MSCI EM were down 9.3%/8.8%/11.9% respectively. Crude oil prices also continued to decline as it corrected by 8.8% MoM. US Fed's hawkish tone on interest rates and the fear of global recession fueled pessimism among investors. 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:

Globally, policy actions by central banks to tame inflation has weighed on equity asset class as they adversely impact both drivers of the equity performance viz valuations (given rising interest rates) and earnings growth (slowing demand & inflation). Moderation in global commodity prices from peak and stalemate in geopolitical situation has given some respite. Domestically, India seems to be more stable. Domestic demand so far has seen recovery to/higher than pre-covid levels. The rise in oil and other commodity prices which was the concerning factor earlier this year, seems to be receding.

International market indicators

Indices	Last Close	1 Month (Change)	CYTD 2021 (Change)
MSCI World	2,379	-9.5%	-26.4%
Dow Jones	28,726	-8.8%	-20.9%
S&P 500	3,586	-9.3%	-24.8%
MSCI EM	876	-11.9%	-28.9%
MSCI Europe	1,455	-8.8%	-30.5%
MSCI UK	924	-9.1%	-21.3%
MSCI Japan	2,777	-11.2%	-27.9%
MSCI China	56	-14.7%	-32.6%
MSCI Brazil	1,462	-3.5%	1.9%

This should aid corporate earnings growth. Nifty earnings have seen a marginal correction post Q1 results largely due to volatile energy prices and are expected to grow at 15% CAGR (consensus estimates) over FY22-24E. However, with valuations on a higher side, equity markets are likely to remain volatile in near term with a negative bias. Fall in crude prices, sharper decline in inflation and normalization of geopolitical situation would support the markets.

Valuations: Post the up move in August, Nifty index declined 3.7% in September resulting in moderation in valuations as earnings growth has remained largely intact. On a 10-year basis, Nifty is trading below +1 STD from its historic average valuations, while on a 5-year basis it is now trading marginally above averages. Nifty is trading at 20.2x / 17.4x FY23 / FY24e. In the rising interest rate scenario, market returns may lag earnings growth given the probable moderation in valuation multiples.

Macro View: Our macro environment had deteriorated but still hasn't gone to worrisome levels. With RBI now having drawn down US$97bn of FX reserves from the peak, India's ability to absorb further external shocks has reduced. Despite widening Current Account Deficit and Balance of Payments deficit, overall external situation is still on a stronger footing compared to 2013. RBI's policy actions so far indicate the urgency in taming inflationary pressures in the economy and more rate hikes are in the anvil. Though global commodities have seen moderation, Inflation is expected to remain elevated in the near term. The strong tax buoyancy (visible in both GST and direct taxes), could create more fiscal room than anticipated, providing ammunition for policy maneuvers during times of volatility. However, the incoming high frequency data need to be monitored closely. Fall in crude prices on back of global demand slowdown could support markets in the near term.

Portfolio Strategy and Update

- Our portfolio construction is through bottom-up stock selection with focus on fundamentals of the companies and their earnings growth trajectory. We prefer dominant businesses with scalable and sustainable earnings growth and available at reasonable valuations.
- 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.
- However, in the macro set up of rising rates, depreciating currency and slowing growth, corporate earnings would likely see a downward revision after second quarter results. On the other hand, valuation is elevated both in absolute and relative basis. In light of the above we have tamed our pro-cyclical bias slightly and increased our exposure in the defensive sectors to de-risk our portfolio.

Our positioning in the portfolio is

- Overweight to Domestic cyclical plays: Our highest active sector weight remains financials which would see credit cost normalization and earnings expansion, followed by Auto which is benefitting from cyclical recovery and real estate on improving residential affordability and industry consolidation;
- Small overweight to Capex oriented plays: Cement, industrials, and building materials – The capex push reiterated in the recent budget is a key positive for the sector.
- Equalweight to Global growth plays: We see Technology and Chemicals as structural plays – but have equal-weight position given near term growth concerns and valuations higher than historical averages; and
- We are underweight on consumption (especially rural consumption) and regulated businesses like utilities and energy.

Key drivers for future:

On the headwinds, we have

- High and persistent inflation concerns (Global & Domestic)
- US Fed Policy: Accelerated rate hikes and balance sheet shrinking process could mean volatile equities.
- RBI Policy: RBI's hawkish stance of 'taming inflation' and liquidity withdrawal process.
- Geopolitical: Current impact is already in the base case, coupled with no escalation assumed from the current conflict.
- Moderating growth globally due to geopolitical headwinds and demand impact from sticky inflation.

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

HSBC Mutual Fund - sector view

Financials – Positive

- - We continue to remain positive on financials (lenders), driven by the thesis of (1) cyclical recovery in the economy and (2) expectation of lenders emerging stronger in the post pandemic period having gone through the asset quality pain through covid, with their ROAs/profitability to be near or above previous peaks.
- - In addition, lenders continue to appear reasonable on valuations and with normalisation of credit costs coupled with pick up in credit growth, there is still some re-rating potential. In addition, with broad based credit growth, banks with strong liability franchise will be leaders of the current credit growth phase. They should continue to gain market share, with accretion to margins on account of the strength in capital adequacy and granular deposit franchise.
- - Risk to this thesis is from tighter liquidity situation may push cost of deposit mobilisation to be more than that of yield on advances.
- - We also have exposure to insurers, 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.
- - 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. On the supply side, inventory in major cities has have come down. Real estate companies also have largely been able to pass on cost inflation.
- - Disruption has accelerated the consolidation among the residential developers in favour of the major players especially, the listed companies with strong balance sheet.
- - Our portfolio exposure are to developers who have a mix of residential portfolio and commercial assets, along with relatively strong balance sheets.

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 like health care services space (hospitals) more as we expect them to benefit from structural improvement in healthcare services penetration and improving affordability.

Industrials - Positive

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

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

HSBC Mutual Fund - sector view

Information Technology – Neutral

- - We have reduced our position in IT sector as concerns emerge on growth moderation in the near term on back of looming recession fear globally.
- - Sector has seen moderation in valuations in the recent past but are still higher as compared to its long term averages.
- - While there are concerns on the margin outlook, we believe operating leverage from revenue growth, moderation in attrition and FX tailwinds should help companies to manage margins through the course of FY23.
- - Despite the near term growth concerns, we see IT as a structural play on global IT services outsourcing as tech spends become 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.
- - We prefer solution providers with strong digital capabilities, scale of operations and growth visibility.

Materials - Neutral

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

Consumer Discretionary - Neutral

- - Within the sector we are positive on Auto OEMs, while we remain neutral on non-auto discretionary.
- - Auto sector is witnessing recovery in volumes after the down-cycle over the last three years. 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. Auto ancillaries with strong OEM relationship, scale and EV specific and/or agnostic product portfolio will benefit from higher order wins.
- - Overall neutral view on non-auto discretionary 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.
- - 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. We also like Hotel sector as it benefits from pent up travel demand, lack of supply addition resulting in higher ARRs and occupancy.

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

HSBC Mutual Fund - sector view

Consumer Staples - Negative

- - Underweight stance is account of lack of positive earning surprises, moderation in volume growth and high valuations.
- - Margin pressures may continue for Q2 as companies may be carrying high cost inventory. Additionally, sluggish rural demand would mean that the volume growth recovery could be delayed further.
- - However, we have reduced our extent of under-weight by adding companies with resilient earnings growth and reasonable valuation.

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 and global macro have 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 improving profit mix coming from non-oil & gas verticals

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 bided projects with lower return potential. Hence, we are staying away.
- - We have increased exposure to city gas utilities as they have been able to pass on large part of cost increase and volumes have held well especially in CNG segment.

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

Fixed Income update

Market Summary for the month

- The month of September was a mixed bag for Indian fixed income markets. News flow around inclusion in global bond indices kept bonds well bid in the first half of the month, especially at the longer end of the curve with a clear flattening trend seen in the yield curve. The decline in crude prices also augured well for Indian bonds. However, the month was dominated by sharp movements in global markets across rates and currency markets in the second half of the month. Further, the inclusion of Indian government bonds in global bond indices failed to materialize, belying the earlier optimism
- The global bond markets traded with a negative bias for most of the month and US treasury yields reached 4.0% on September 2022. Global inflation numbers continued to remain sticky which led to global central banks continuing to maintain a hawkish posture. Federal Reserve raised interest rates by a third consecutive 75 bps bringing the Fed Funds rate to 3.0%-3.25%. The European central bank also raised rates by 75 bps (v/s 50 bps in its previous meeting).The dollar was strong against all its major peers and the dollar index (DXY) crossed the 110 mark. In line with the same, the rupee also exhibited a sharp weakening bias and breached the 80 mark even as RBI interventions helped arrest volatility in the rupee to some extent
- The month concluded with the RBI policy on the last day of September. The MPC voted with a 5:1 majority for a 50 bps rate hike, which was largely in line with market expectations. RBI also revised FY 23 growth expectations lower to 7.0% v/s 7.2% earlier (largely on the back drop of the actual Q1 FY 23 GDP number being lower than expected) while inflation projections were retained at 6.7%. Overall the policy noted the difficult external environment including the "third shock" (apart from Covid-19 and conflict in Ukraine) arising from aggressive tightening by global central banks. The focus of the policy appeared to be on macro-economic stability as RBI persisted with frontloading of rate hikes. With inflation staying above 6%, RBI also reiterated the need to rein in inflation expectations and second order effects, even as it noted the that imported inflation in terms of commodity and fuel prices appear to have peaked for the time being.
- Macro data during the month was broadly on expected lines. While 1Q FY 23 GDP data came in lower than expected, other data such as PMI and GST collections continued to reflect the recovery in the economy. Inflation came in at 7% in August, marginally higher than consensus. While core inflation was stable, the rise in food inflation was despite lower than seasonal rise in vegetable prices as prices of cereals and pulses surged and further upside risks to the same exist given an uneven monsoon (although overall rains were higher than normal) in terms of spatial and temporal distribution.
- The external sector continued to see pressure from elevated trade deficits at ~USD 28 bn as exports remained flattish for a second month in a row while imports remained robust. FX reserves declined sharply to USD 538 bn (as of September 23rd)) given intervention from RBI, as well as due to valuation changes on movement in non- dollar currencies and move in treasury yields .1Q FY 23 Current account deficit (CAD)also printed at an elevated 2.8% of GDP, which however was lower than expected as strong services growth and remittances offset elevated trade deficit seen in Apr- June 2022
- 2H borrowing calendar was largely on expected lines at INR 5.92 trillion. The borrowing, similar to 1H FY 23, is concentrated at the belly and the longer end the curve. Around INR 160 bn is proposed to be raised through "green bonds"
- Overall given these developments globally and on the domestic side, markets were volatile and earlier gains seen in the 10yr were given away in the second half of the month and yields closed higher by 15-35 bps across various points on the curve. Overall the bear flattening trend in the yield curve that we have seen since March 2022 persisted with the shorter end selling off to a higher extent .10 yr closed the month 22 bps higher at 7.40 v/s 7.18 in the previous month. 14 yr (2036) security closed 14 bps higher at 7.50 in end September v/s 7.36 in end August.5 yr (2027) closed 33 bps higher at 7.32 in September v/s 6.30 at the end of the previous month and a similar 32 bps move was seen in the 3 yr segment which closed at 7.10 in September v/s 6.78 in end August. Corporate bond curve showed a similar trend to G-sec overall with an inch up of 15-40 bps across various points on the curve
- Liquidity surplus continued to moderate on account of increase in government cash balances with RBI and FX outflows, and was further impacted by advanced tax outflows in September as liquidity briefly moved into deficit for a few days. Average LAF O/s declined to ~INR 1.0 trn in September from INR 1.2 trn in August and INR 1.9 trn in the month of July.

Outlook

As can be inferred from the recent RBI policy in end September, RBI remains cognizant of the global economic backdrop and the need to ensure macro stability. RBI's also focus remains on bringing inflation within the target band of 4% +/- 2%. RBI has indicated that it will be data dependent in its approach. Global cues remain mixed with crude prices volatile, and global bond yields remain at elevated levels given hawkish central banks. While the 2H borrowing calendar is on expected lines, bond supply remains heavy and in the absence of any progress seen in inclusion of Indian bonds in global bond indices, the demand supply balance continues to remain skewed.

Given that RBI has already front loaded rate hikes over the past few months and some moderation in inflation is expected in the medium term, further rate hikes may happen in a much more calibrated manner. While the RBI is expected to factor in the actions taken by other global central banks in its policy approach, its primary focus would be dictated by domestic inflation and growth considerations while at the same time ensuring macro-economic stability.

Overall yields are expected to trade with a slight negative bias, given the above backdrop. With RBI having done bulk of the front loading of rate hikes in the last few months, the short to medium part of the curve which has moved up sharply higher in yield terms since March, may present opportunities for carry and roll-down going forward. Bulk of the bond supply is also towards the duration segment, and hence the longer end of the curve may remain more volatile.

Fiscal deficit and GST collections:

GST collections for the month of September (for sales in the month of August) remained at INR 1.48 trn, almost flat m-o-m, and higher by 26% y-o-y. Fiscal deficit in 5MFY23 remained under check at 32.6% of FY2023 BE (budgeted estimate), primarily as expenditure remains controlled to keep in line with revenues. Revenue expenditure and capital expenditure now stand at 35.6% and 33.6% of FY2023BE in 5MFY23, respectively while gross tax revenue in 5MFY23 stood at 37% of FY2023 BE and net tax revenue was at 36.2% of FY2023BE. Income tax (at 39.3% of FY2023BE) and GST (45.4% of FY2023BE) collections led gross tax revenue growth.

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

Fixed Income update

PMIs: Moderation seen in September

India September services PMI at 54.3 came in at a six-month low, dropping from 57.2 seen in the month of August. Manufacturing PMI also saw a drop to 55.1 in September v/s 56.4 in August. As a result, composite PMI moderated to 55.1 in September from 58.2 in August.

Trade deficit: Remains elevated through the quarter

Trade deficit came in at USD 28 bn in August, slightly lower than ~USD 30 bn in July, but continues to stay at elevated levels as exports barely grew ~2% while imports growth remained robust at 37%. Provisional data for September indicated a further moderation in trade deficit to USD ~26.7 bn in September. However, exports continued to stay muted with a decline of ~3.5% y-o-y. Imports growth however moderated to ~5.4%, partly on base effects.

IIP: July IIP lower on base effects

July IIP growth fell to 2.4% (June: 12.7%) mainly due to an unfavorable base effect. On a sectoral basis, manufacturing activity increased by 3.2% (June: 13%), and electricity production by 2.3% (16.4% in June), while mining activity fell by 3.3% (+7.8% in June). As per the use-based classification, most categories registered positive growth led by capital goods increasing by 5.8% in July (July: 29.1%), infrastructure goods by 3.9% in July (9.3% in June), and intermediate goods by 3.6% in July (10.5% in June). Only consumer non-durables segment declined by 2% in July (this segment had seen growth by +3% yoy in June).

Inflation: CPI inflation increases to 7.0% on increase in food prices; WPI remains elevated

India Consumer price inflation (CPI) inched higher to 7% v/s 6.7% in the previous month mainly on a rise in food prices. The rise in food prices was despite a subdued pick up in vegetable prices, which was fairly muted as compared to the usual rise from a seasonal perspective. The elevated food prices were caused by sharp rise in cereals, especially prices of rice and that of pulses. With monsoon being uneven, there exist upside risks to food inflation. Core inflation remained stable at 5.8%. Overall, inflation is expected to continue to stay above 6% over the next few months.

External Factors – UST yields sharply higher, currency continues to face pressure

• Oil: Crude prices stayed volatile during the month, albeit with a declining bias and Brent Crude closed September at ~USD 88/bl v/s August at USD 96.4/bl

• US Treasury yields: UST yields inched sharply higher during the month, closing September at 3.80 v/s August at 3.13 and 2.64 in July, after briefly touching 4% levels during the month

• Currency: Rupee traded with a depreciating bias through the month, in line with the generalized strength seen in dollar versus all major global currencies. Rupee breached the 80 mark and USDINR closed the month at 81.5 v/s 79.5 at the end of the previous month

Indicators	Current month (September)	Previous month (August)
Repo rate	5.40	5.40
1Y OIS	6.90	6.30
5Y OIS	6.91	6.43
3M T-Bill	6.00	5.60
1Y G-Sec	6.70	6.50
3Y G-Sec	7.10	6.78
5Y G-Sec (2027)	7.32	6.99
10Y G-sec (6.54 GS 2032)	7.40	7.19
AAA 5Yr Corp Bond (2027)	7.50-65	7.20-7.40
AAA 10yr Corp Bond PSU	7.65-7.7.75	7.40-7.60
USDINR	81.5	79.5
Brent Oil (USD Per Barrel)	88	96

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

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

The mandate of the target maturity fund is to invest in line with the index construction.

Yields in the past month have remained volatile across the yield curve. Expectations around inclusion of Indian government bonds in global bond indices have supported the fixed income markets, along with a decline in crude and commodity prices while other global cues were negative with a sharp rise in US treasury and other developed market bond yields.

The 2028 segment of the yield curve has largely moved in line with other segments of the curve. The 5 to 6-yr (2028) point in the yield curve remains attractive from a carry stand point and should benefit from a roll-down over a 2 to 3-year timeframe. Currently YTM for 2028 segment is only 5 to 10 bps lower vs 2032 segment making it attractive in terms of risk to reward. Further, the fund remains an attractive proposition from Post-tax return perspective for investors who intend to hold beyond 3-years+ and till maturity (April 2028), despite near term volatility.

Overnight to Money Market rates (Neutral Duration)

HSBC Overnight Fund, HSBC Cash Fund, HSBC Ultra Short Duration Fund and HSBC Low Duration Fund are focused on different segments of money market curve. The overnight funding cost should now move closer to 5.90% given the increase in SDF and repo rates. Excess system liquidity has also now moderated significantly post CRR hike, increase in government cash balances with RBI and forex outflows.

The RBI's trajectory in terms of rate hikes will determine the evolution of the money market and the short end of the yield curve. In the current fiscal year, we have seen a sharp move in yields in the up to 2-year segment of the yield curve and the steepness in the curve up to 1-yr and from 1-yr to 2yr is relatively attractive, factoring in further rate hikes in the near term.

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

Short duration to medium term duration (Underweight duration)

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

Over the medium term, the attractive carry and roll-down will present opportunities in the short to medium end of the curve. The extent of supply in G-Sec on account of increased borrowings in FY 23 is largely towards the duration segment. The current steepness in the yield curve up to the 5 yr point 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 30m part of the curve given attractive carry. Having front loaded the rate hikes, RBI is likely to take a calibrated and data dependent approach from here on in and as a result, there could be opportunities appearing in the later part of the year in terms of carry and roll-down gains in these segments of the curve.

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

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

Yields at the longer end of the curve continue to remain volatile. The segment has outperformed in recent weeks as the yield curve has flattened, in line with trend seen globally and based on expectations of inclusion of Indian government bonds in global bond indices.

The curve remains very flat from the 5 yr to 10 yr and 10 yr to 14 yr points with the spread between these segments remaining lower than 10 bps each. While 2H borrowing calendar was on expected lines, the bond supply as such remains heavy and absorption of this bond supply in remainder of FY 23 may exercise upward pressure on yields at the belly and longer end of the curve. The segment may stay volatile based on global cues. News flow on inclusion in global bond indices remains a monitorable and could influence yields in either direction depending upon the outcome.

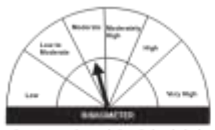
And hence as such, we intend to position with an underweight stance in the long bond portfolios versus the index and intend to take advantage tactically of any opportunities that may arise on the longer end of the curve depending on market conditions.

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

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

Riskometer

HSBC Debt Fund



Investors understand that their principal will be at Moderate risk

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

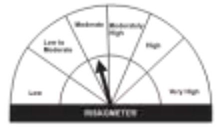
This product is suitable for investors who are seeking##:

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

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

Please note that the above risko-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), risko-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 risko-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 risko-meter shall be communicated by way of Notice cum Addendum and by way of an e-mail or SMS to unitholders of that particular Scheme.

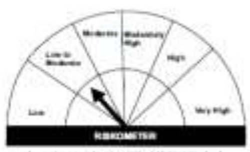
Benchmark: CRISIL Composite Bond Fund Index



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

Riskometer

HSBC Low Duration Fund



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

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

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

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

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

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

Benchmark: CRISIL Low Duration Debt Index

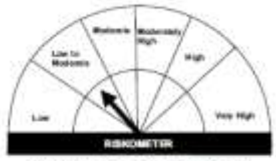
Scheme Name	Potential Risk Class			
HSBC Low Duration Fund	Credit Risk → Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
	Relatively Low (Class I)		BI	
	Moderate (Class II)			
	Relatively High (Class III)			

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

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

Riskometer

HSBC Short Duration Fund



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

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

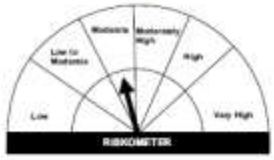
This product is suitable for investors who are seeking:**

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

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

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

Benchmark:
CRISIL Short Term Bond Index



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

Riskometer

HSBC Flexi Debt Fund

Investors understand that their principal will be at Moderate risk

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

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

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

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

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

Benchmark:
CRISIL Composite Bond Fund Index

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

Riskometer

HSBC Corporate Bond Fund

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

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

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

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

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

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

Benchmark:
NIFTY Corporate Bond Index

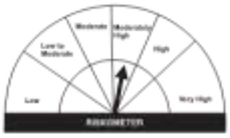
Potential Risk Class ('PRC') matrix indicates the maximum interest rate risk (measured by Macaulay Duration of the scheme) and maximum credit risk (measured by Credit Risk Value of the scheme) the fund manager can take in the scheme. PRC matrix classification is done in accordance with and subject to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

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

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

Riskometer

HSBC Regular Savings Fund



Investors understand that their principal will be at Moderately High risk

Conservative Hybrid Fund- An open ended Hybrid Scheme investing predominantly in debt instruments.

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

- Capital appreciation over medium to long term.
- Investment in fixed income (debt and money market instruments) as well as equity and equity related securities.

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

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

Benchmark: CRISIL Hybrid 85+15 - Conservative Index

Riskometer

HSBC Equity Hybrid Fund

Investors understand that their principal will be at Very High risk

Aggressive Hybrid Fund – An open ended hybrid scheme investing predominantly in equity and equity related instruments.

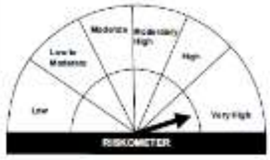
This product is suitable for investors who are seeking:**

- To create wealth over long term
- Investment in predominantly small cap equity and equity related securities

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

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

Benchmark: CRISIL Hybrid 35+65 - Aggressive Fund Index



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

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

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

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

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

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

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