HSBC Asset Management

Market Outlook

In Focus with Tushar Pradhan

Sep 2022

Focus on domestic cyclical plays

Equity Market update

- August saw a mixed performance with Indian equity market ending positive for the second consecutive month while global markets declined as US Fed signaled for further rate increases. FIIs remained net buyers in August.
- S&P BSE Sensex & NSE Nifty indices were up 3.6% / 3.7% respectively. Broader markets outperformed as BSE Midcap / BSE Smallcap indices went up 5.8% / 6.1% respectively. All sectoral indices closed positive, except for IT. BSE Utilities, Capital Goods and Consumer Durables were among the best performing sectors as they gained 13.7%/8.4%/8% respectively.
- Among the key developments in the month, India's Monetary Policy Committee unanimously hiked policy rates by 50 bps for a second consecutive meetings, taking the Repo Rate to 5.4%. June quarter real GDP growth came in at 13.5% on back of favorable base effect, however, it was lower than consensus estimates.
- On the economic front, India's headline CPI momentum further moderated to 6.71% in July from 7.01% in June. That said, this is the 7th consecutive month that the CPI data has breached the RBIs upper margin of 6%. INR depreciated by 0.2% against USD during the month, performing better than other EM currencies. After a soft start in June, rainfall has been 9% above normal for the county but states such as UP, Bihar have reported deficit rainfall of over 40% of the LPA.
- Other key developments during the month include – Gross GST revenue collected in August 2022 grew 28% to Rs 1.43 tn. India's 5G spectrum auctions concluded with a total spectrum of 51,236 MHz being auctioned for Rs 1.5 tn.

We are 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.

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 Infra Index TR	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 USD 5.9 bn in August, higher than inflow of USD 2.2 bn in July. FIIs net inflows of USD 6.79 bn was the highest seen since Jan-21. FIIs' net sell of Indian equities has come down to USD 25.7bn after peaking at USD 32.5 bn since the selling began in Oct 2021 (USD 20.9 bn of net outflows in 2022 so far). DIIs turned net sellers for the first time in 2022 with net outflow of USD 0.89 bn. Both segments viz MFs (-USD 0.21 bn) and Insurers (-USD 0.68 bn) turned out be net sellers. On a CYTD basis, the DIIs have net bought Indian equities worth ~USD 27.2 bn (~USD 18.9 bn by MF & ~USD 8.3 bn by Insurers).

Global market update

All the major equity indices globally declined during the month with MSCI World index down 4.3%. US market (S&P 500) was down 4.2% and MSCI Europe was down 6.5% while MSCI EM was flattish in August. There was respite in crude oil prices after remaining volatile, it corrected by 12.3% MoM. Prices of other commodities like natural gas, key agricultural commodities, base metals and precious metals, too have seen moderation from their recent highs. While this is good from containing inflation point of view, demand concerns have now come to fore, due to slowdown in growth. Market participants are now fearing a possibility of a US recession, if the current scenario was to persist for longer. An accelerated rate hike by US Fed, ongoing liquidity withdrawal process and a constrained US fiscal policy could drag global growth in the short term. As a result, equities are expected to remain volatile in the short term.

Outlook:

International market indicators

Indices	Last Close	1 Month (Change)	CYTD 2021 (Change)
MSCI World	2,627	-4.3%	-18.7%
Dow Jones	31,510	-4.1%	-13.3%
S&P 500	3,955	-4.2%	-17.0%
MSCI EM	994	0.0%	-19.3%
MSCI Europe	1,595	-6.5%	-23.8%
MSCI UK	1,016	-6.5%	-13.5%
MSCI Japan	3,126	-2.6%	-18.8%
MSCI China	66	0.1%	-21.0%
MSCI Brazil	1,515	2.2%	5.6%

The near term, which was marred on account of uncertainty due to liquidity tightening, heightened inflation and geopolitical concerns, has seen some respite. Geopolitical situation is a stalemate and both core & headline US CPI inflation moderation has come as a positive surprise. Nifty earnings have seen a marginal correction post Q1 results largely due to volatile energy prices. Yet, consensus is expecting FY22-24 Nifty earnings growth to be 15% CAGR. This has improved near term outlook for risk assets. Earlier this year, the rise in oil and other commodity prices were the key concern factors to threaten India's macro stability risks. However, these risks seem to be receding while domestic demand so far has seen recovery to/higher than pre-covid levels. This should aid corporate earnings growth. Further fall in crude prices, sharper decline in inflation and normalization of geopolitical situation would further support the markets.

Valuations: Post the up move in August, Nifty index is now 4% off from its highs (seen in mid-Oct 2021). Post the strong rally in August, valuations have further inched up as earnings growth has remained largely intact. On a 10-year basis, Nifty is trading at +1 STD from its historic average valuations, while on a 5-year basis it is now trading above averages. Nifty is trading at 20.7x / 17.8x FY23 / FY24e. In the rising interest rate scenario, market returns may lag earnings growth given the probable moderation in valuation multiples.

Macro View: There are near term challenges, while at the same time, country exhibits macro stability to navigate those challenges. RBI's policy actions so far indicate the urgency in taming inflationary pressures in the economy and more rate hikes are in the anvil. Though global commodifies have seen moderation, Inflation is expected to remain elevated in the near term. Despite widening Current Account Deficit and Balance of Payments deficit, overall external situation is still on a stronger footing compared to 2013. 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. A steep fall in crude prices on back of global demand slowdown could support markets in the near term.

Portfolio Strategy and Update:

- We continue to run high conviction strategies, with a cyclical tilt to be well positioned for the earnings growth and macro recovery cycle, holding a medium to long term view.
- We remain focused on the fundamentals of the companies and their earnings growth trajectory and prefer dominant businesses with scalability and available at reasonable valuations.
- Portfolio construction is through bottom-up stock selection and there is an emphasis on sustainable earnings growth, relative earnings and earnings surprises.
- Since valuations are about +1 STD from its historical averages, it is as much a driver of stock selection as earnings growth.

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.

However, what matters the most is the earnings growth and its sustainability

- Corporate earnings growth: While Nifty earnings have seen marginal correction of 2-3% in July a large part of the revision is contributed by Reliance, ONGC, SBI and Tata Motors; broader Nifty earnings have largely been resilient.
- Domestic macro: At the same time, domestic macro has been stable and that will support future corporate earnings growth.
- Other factors / risks: Impact of elevated energy prices on inflation, current account balance and fiscal deficit. Faster than anticipated reversal in commodity prices (especially crude oil), would be positive from an inflation and corporate margins perspective.

Source: HSBC Asset Management, India (HSBC AMC), Bloomberg, MOSL, Data as at Aug '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 a re-rating potential. In addition, large private banks strong liability franchise will be a key differentiator which will enable them to lead the current credit growth phase. They should continue to gain market share on account of the strength in capital adequacy and granular deposit franchise.
- 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 drive inflation potentially slowing down growth, which would then be negative for credit growth recovery.
- 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.
- 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. 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 also like health care services space (hospitals) as we expect them to benefit from structural improvement in healthcare services penetration and improving affordability. The recent correction provided a good entry point, as valuations the came-off, but the underlying fundamentals remain intact.

Industrials - Positive

- Positive view is maintained as we see potential revival in the investment cycle over the medium term, driven by govts 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 Aug '22 unless otherwise given

HSBC Mutual Fund - sector view

Information Technology – Neutral

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

Materials - Neutral

- We have a positive stance on domestic cyclicals and chemicals while we remain negative on global cyclicals / metals.
- The specialty chemicals space is a play on global growth and supply chain diversification benefitting Indian players. As a result, there is a robust demand (order book build up) and consequent strong earnings growth outlook for the sector. With bulk of the capex done, the sector leaders are expected to benefit from the demand environment and improving return ratios.
- In cement, valuations had corrected owing to margin pressures driven by input coast 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. Overall neutral view is on account of elevated valuations and possibility of near term demand weakness on a high base. Additionally, the margins have remained under pressure due to inability to pass on high RM costs. Valuations (especially in consumer goods) imply that a steady recovery is already priced in.
- Auto sector is witnessing 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.
- Within other sub-sectors we have exposure to beneficiaries of PLI scheme, where growth visibility remains high while valuations are more reasonable after the correction.

HSBC Mutual Fund - sector view

Consumer Staples - Negative

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

Communication Services - Negative

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

Energy - Negative

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

Utilities - Negative

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

Source: HSBC Asset Management India, Data as at Aug ’22 unless otherwise given

Fixed Income update

Market Summary for the month

- The key event at the beginning of the month was the RBI monetary policy committee (MPC) meeting on 5th August. MPC unanimously voted for hiking policy rates by 50 bps (repo rate to 5.4% from 4.9%, SDF increased to 5.15% and MSF rate increased to 5.65%). MPC also voted with a 5:1 majority for maintaining the stance at "withdrawal of accommodation". The CPI inflation and GDP growth estimates for FY 23 were retained at 6.8% and 7.2% respectively while Q1 FY 23 inflation was estimated at 5.0% by RBI.
- Macro data during the month was largely on expected lines. July CPI inflation came in at 6.7%, in line with consensus. Industrial production and PMI data continued to affirm the ongoing growth recovery
- In end August, GDP data for Q1 FY 23 was released and was at 13.5%, which was however lower than consensus expectations. While agriculture continued to grow well and services exhibited a smart recovery on a y-o-y basis, industrial growth remained tepid.
- Trade deficit in July shot up to an all-time high of USD 31 bn from USD 26 bn in June and remained elevated at USD 28.6 bn in August as per preliminary data released in early September. Exports were tepid while imports continued to see large growth, Rupee continued to remain under pressure, albeit performing better than in the previous month and managed to stay below 80 to USD. RBI FX reserves however continued to moderate at USD 560 bn at end August v/s USD 573 bn at the end of July.
- The global backdrop remained mixed with volatile crude prices while UST yields rose, especially in the latter half of the month. Indian bond markets traded with a positive bias, with news flow around inclusion in global bond indices driving the positivity, even as reasonably stable global backdrop and lower consumer price inflation (CPI) number acted further as tailwinds.
- The curve bull flattened with the longer end performing better. New 10 yr was issued at 7.26 levels during the month and closed at 7.18. Old 10 y security closed 13 bps lower at 7.19 in August v/s 7.32 in July. 14 yr (2036) security closed 17 bps lower at 7.36 v/s 7.53 in end July.5 yr (2027) closed 4 bps lower at 6.99 in August v/s 7.03 at the end of the previous month. Shorter end of the curve up to 3 yr segment underperformed. 3 yr closed 3 bps higher at 6.78 v/s 6.75. Corporate bond curve showed flattening trend, similar to G-Sec curve, even as spreads between corporate bonds and G-sec compressed across most of the curve and remain at very low levels relative to historical averages.
- Liquidity surplus continued to moderate on account of increase in government cash balances with RBI and FX outflows. Average LAF O/s was at INR 1.17 trn in August showing continuous decline from INR 1.89 trn in July, INR 2.91 trn in June 2022 and INR 4.38 trn in May 2022.

Outlook

Global cues remain mixed with global inflation showing signs of moderating but central banks remain hawkish and global bond markets have been volatile in recent months. Crude and commodity prices have also remained volatile, albeit exhibiting a downward bias. On the domestic side, supply continues to be heavy but has been reasonably well absorbed thus far; H2 borrowing programme to be released later this month will be watched for further cues. Any positive movement on global bond index inclusion can be a fillip for bond markets and help balance the demand supply equation. RBI appears to have front loaded rate hikes and further rate hikes may be more calibrated, balancing inflation and growth considerations. RBI policy in end September will be watched for any cues on further trajectory of rates.

Overall, 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 while the longer end of the curve is expected to be more volatile.

GST: 1Q FY23 Growth at 13.5% reflective of base effects, lower than expected

Real GDP grew by 13.5% YoY in 1QFY23, lower than consensus (15.3%). Real GVA growth stood at 12.7%YY in 1QFY23. Nominal GDP growth was 26.7%YY as GDP deflator rose to 11.6%YoY. Compared to last year, agriculture grew 4.5%, higher than expected, manufacturing grew 4.8%, services by 17.6%. In terms of the composition of GDP, private final consumption expenditure grew by 25.9% y-o-y and was 10% higher than pre-Covid levels (3.2% cagr over 3 years), gross fixed capital formation grew 20.1% and was higher by 6% over pre-Covid levels

Overall on a 3 year CAGR basis, real GVA grew by 1.5% and on a sectoral basis, this was led by 3.2% in agriculture, manufacturing by 2.3% and mining by 1.1%. Services grew at a CAGR of only 0.8%. Within services, the key sector which remains a drag and remains below pre-covid levels is the trade, hotels and transportation sub-segment which has grown at a negative CAGR of -5.5% over 3 years (-15% v/s pre –Covid levels).

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

Fixed Income update

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

Center's gross tax revenue in 4MFY23 was at 31.5% of FY2023 budgetary estimate (BE) (growth of 24.9%) while net tax revenues was at 34.4% of FY2023BE (growth of 25.9%). Direct tax collection was at 31.4% and indirect tax collection was at 31.6% of FY2023BE, respectively, driven by income tax and GST collections. Total expenditure in 4MFY23 was at 28.6% of FY2023BE (growth of 12%) with revenue expenditure growth of 5% and capital expenditure growth of 62%. Gross fiscal deficit in 4MFY23 was at 20.5% of FY2023BE.

August GST collections at INR 1.44 trn was marginally lower than July at INR 1.49 trn; however this is in line with seasonal trends and the same was higher y-o-y by 28%.

PMIs: Indicates continued growth recovery both in manufacturing and services

India August services PMI came in at 57.2 v/s 55.5 in July with sub-indices such as business confidence, new orders showing improvement even as input inflation softened. Similar trends seen in manufacturing PMI which improved to 56.4 in August v/s 56.2 in July. Composite PMI thereby moved to 58.2 in August from 56.6 in July

Trade deficit: Remains elevated both in July and August

Trade deficit came in at a record USD 30 bn in the month of July, around USD 4 bn higher than an already elevated USD 26 bn in June. Exports were up barely 2% y-o-y in July; Imports were higher by 44%. Oil imports were higher by 70% but even non-oil non gold imports were higher by 45%. Gold imports were lower by 44%. Preliminary trade deficit data for August released in early September indicated elevated trade deficit of USD 28.7 bn even in the month of August

IIP: June IIP lower on base effects

June IIP growth was at 12.3% y-o-y v/s 19.6% in May, above expectations, with higher sequential momentum, led by an uptick in consumer goods and capital goods output growth, while less favourable base effects tempered the growth on a year on year basis. All categories reported reasonable growth figures y-o-y with capital goods highest at 26% and consumer non- durables lowest at 2.9%

Inflation: CPI inflation moderates to 6.71%; WPI remains elevated

July CPI came in at 6.71%, marginally below consensus and below 7.0% in June. Food inflation declined to 6.7% v/s 7.6%, which was largely driven by a unseasonal decline in vegetable prices (base month July 2021 saw a ~6% y-o-y increase in vegetable prices). However cereal prices saw a sharp uptick and inflation in other food items also remains elevated. Core inflation declined marginally to ~ 5.8%, which was largely on expected lines.

July wholesale price inflation (WPI) remained elevated at 13.9% v/s 15.2% in June with manufactured products WPI at 8.2%.

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

Oil: Crude prices stayed volatile during the month and Brent Crude closed August at USD 96/bl v/s 110/bl at end July, after having briefly gone below USD 95/bl earlier in the month

US Treasury yields: UST yields inched higher, closing August at 3.13 v/s 2.64 at the end of July

Currency: After starting the month on a positive note, rupee traded weak for most of the month and with generalized dollar strength globally, the depreciating bias on rupee continued and USD INR ended at 79.67 at end August vs 79.33 at end July

Indicators	Current month (August)	Previous month (July)
Repo rate	5.40	4.90
1Y OIS	6.30	6.16
5Y OIS	6.43	6.30
3M T-Bill	5.60	5.50
1Y G-Sec	6.50	6.35
3Y G-Sec	6.78	6.75
5Y G-Sec (2027)	6.99	7.03
10Y G-sec (6.54 GS 2032)	7.19	7.32
AAA 5Yr Corp Bond (2027)	7.20-7.40	7.30-7.50
AAA 10yr Corp Bond PSU	7.40-7.60	7.55-7.70
USDINR	79.67	79.34
Brent Oil (USD Per Barrel)	96	110

Source: HSBC Asset Management, India (HSBC AMC), Bloomberg, Refinitiv
Data as at Aug '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. While yields have inched up across the short to medium end of the yield curve and hence also at the 6 yr point of the curve in the last 2 months, the carry remains attractive and roll-down presents an opportunity for the same over a 3 yr + time-frame. Further, the fund remains an attractive proposition for investors who intend to hold till maturity (April 2028), despite near term volatility.

Overnight to Money Market rates (HSBC Overnight Fund, HSBC Cash Fund, HSBC Low Duration Fund)

The overnight funding cost is now above the SDF rate of 5.15% given the increase in SDF and repo rates in the August policy and liquidity tightening. The overnight fund invests only in overnight asset.

The entire Money-market curve is centric to the overnight funding cost. The overnight funding cost is now above the SDF rate of 5.15% given the increase in SDF and repo rates in August policy and tightening in liquidity conditions. The RBI's trajectory in terms of rate hikes will determine the evolution of the money market and the short end of the yield curve. Average liquidity surplus has come down in the past few months given FX outflows and increase in government cash balances with RBI and increase in currency in circulation. Overall, we remain neutral on duration in HSBC Cash Fund.

HSBC Ultra Short Duration Fund & HSBC Low Duration Fund

The entire Money-market curve is centric to the overnight funding cost. The overnight funding cost is now above the SDF rate of 5.15% given the increase in SDF and repo rates in August policy and tightening in liquidity conditions. The RBI's trajectory in terms of rate hikes will determine the evolution of the money market and the short end of the yield curve. Average liquidity surplus has come down in the past few months given FX outflows and increase in government cash balances with RBI and increase in currency in circulation. Steepness in the curve up to 1 yr remains high given expectations of further rate hikes. With RBI having front loaded rate hikes, and likely to take a calibrated approach going forward, there could be opportunities in terms of carry and roll-down. Overall, we remain neutral on duration in HSBC Ultra-Short Fund as we take a cautious approach while markets re-price rates given RBI's rate hiking cycle, while at the same time, utilizing opportunities to take advantage of steepness at the shorter end of the yield curve up to 1 year. Overall, we remain neutral on duration in HSBC Low Duration Fundd as we take a cautious approach while markets re-price rates given RBI's rate hiking cycle, while at the same time, utilizing opportunities to take advantage of steepness at the shorter end of the yield curve up to 1 year.

Short duration to medium term duration (HSBC Short Duration Fund and HSBC Corporate Bond Fund)

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

The 3 to 5 yr segment on the G-Sec curve has already inched up over the past few months and spread between 10 yr and 5 yr is currently less than 10 bps. Thus the curve remains steep till the 3-5 yr segment and flat thereafter. The extent of supply in G-Sec on account of increased borrowings in FY 23 is largely towards the duration segment. With RBI having front loaded rate hikes and further rate hikes likely to be more calibrated, the steepness in the curve up to the 3-5 yr segment will present opportunities in terms of carry and roll-down going forward.

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 up to 2 years 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 are positioned with an underweight in terms of duration in HSBC Short Duration Fund for now as we navigate the near term volatility in yields.

As such, we are positioned with an underweight in terms of duration in HSBC Corporate Bond Fund for now as we navigate the near term volatility in yields.

Long bonds (HSBC Flexi Debt Fund, HSBC Debt Fund, HSBC Regular Savings Fund)

Yields at the longer end of the curve remain influenced by global cues including global bond yields, crude and commodity prices. With speculation and news flow around probable inclusion of Indian government bonds in global bond indices, the longer end of the yield curve has outperformed over the past month as the yield curve has flattened.

Going forward, we expect that absorption of heavy bond supply will exercise upward pressure on yields in the belly and longer end of the curve, especially in the absence of open market operation (OMO) purchases from RBI. Inclusion in global bond index remains a key monitorable as of now. Global cues remain mixed and we have seen a sharp rise in international bond yields as markets reprice extent of rate hikes from Federal Reserve and other central banks given persistence in global inflation. Under these circumstances, 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.

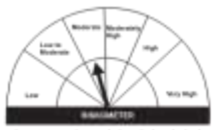
Source: HSBC Asset Management, India (HSBC AMC), Bloomberg,
Data as at Aug '22 unless otherwise given. Please refer to the page number 9 of the scheme Offer Document on which the concept of Macaulay's Duration has been explained

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 risk-o-meter shall be communicated by way of Notice cum Addendum and by way of an e-mail or SMS to unitholders of that particular Scheme.

Benchmark:
CRISIL Composite Bond Fund Index

Scheme Name	PRC Matrix
HSBC Debt Fund	

Potential Risk Class			
Credit Risk → / Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
Relatively Low (Class I)			
Moderate (Class II)			
Relatively High (Class III)		BIII	

Riskometer

HSBC Low Duration Fund

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

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

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

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

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

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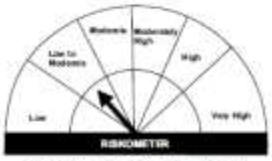
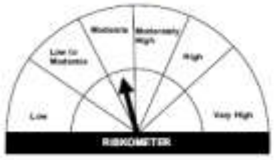
Benchmark:
CRISIL Low Duration Debt Index

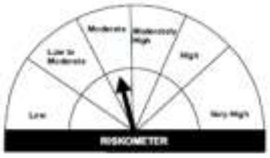
Scheme Name	Potential Risk Class			
HSBC Low Duration Fund	Credit Risk → / Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
	Relatively Low (Class I)		BI	
	Moderate (Class II)			
	Relatively High (Class III)			

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

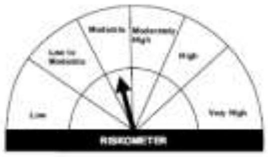
^The Macaulay duration is the weighted average term to maturity of the cash flows from a bond. The weight of each cash flow is determined by dividing the present value of the cash flow by the price. Please refer to the page number 9 of the scheme Offer Document on which the concept of Macaulay's Duration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

Riskometer		
HSBC Short Duration Fund  Investors understand that their principal will be from Low to Moderate risk	**Short Duration Fund** - An open-ended short term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 1 year to 3 years. Please refer Page no. 9 of the SID for explanation on Macaulay duration. Moderate interest rate risk and moderate credit risk. **This product is suitable for investors who are seeking**:** • Regular Income over Medium term • Investment in diversified portfolio of fixed income securities such that the Macaulay^ duration of the portfolio is between 1 year to 3 years. ****Investors should consult their financial advisers if in doubt about whether the product is suitable for them.** Please note that the above risk-o-meter is as per the product labelling of the scheme available as on the date of this communication/ disclosure. As per SEBI circular dated October 5, 2020 on product labelling (as amended from time to time), risk-o-meter will be calculated on a monthly basis based on the risk value of the scheme portfolio based on the methodology specified by SEBI in the above stated circular. The AMC shall disclose the risk-o-meter along with portfolio disclosure for all their schemes on their respective website and on AMFI website within 10 days from the close of each month. Any change in risk-o-meter shall be communicated by way of Notice cum Addendum and by way of an e-mail or SMS to unitholders of that particular Scheme.	**Benchmark:** **CRISIL Short Term Bond Index** 

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

Riskometer		
HSBC Flexi Debt Fund  Investors understand that their principal will be at Moderate risk	**Dynamic Bond Fund** - An open ended dynamic debt scheme investing across duration. Please refer Page no. 10 of the SID for explanation on Macaulay duration. Relatively high interest rate risk and relatively low credit risk. **This product is suitable for investors who are seeking**:** • Regular Income over long term • Investment in Debt / Money Market Instruments ****Investors should consult their financial advisers if in doubt about whether the product is suitable for them.** Please note that the above risk-o-meter is as per the product labelling of the scheme available as on the date of this communication/ disclosure. As per SEBI circular dated October 5, 2020 on product labelling (as amended from time to time), risk-o-meter will be calculated on a monthly basis based on the risk value of the scheme portfolio based on the methodology specified by SEBI in the above stated circular. The AMC shall disclose the risk-o-meter along with portfolio disclosure for all their schemes on their respective website and on AMFI website within 10 days from the close of each month. Any change in risk-o-meter shall be communicated by way of Notice cum Addendum and by way of an e-mail or SMS to unitholders of that particular Scheme.	**Benchmark:** **CRISIL Composite Bond Fund Index** 

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

Riskometer		
HSBC Corporate Bond Fund  Investors understand that their principal will be from Low to Moderate risk	**Corporate Bond Fund** - An open ended debt scheme predominantly investing in AA+ and above rated corporate bonds. Moderate interest rate risk and relatively low credit risk. **This product is suitable for investors who are seeking**:** • Income over medium term. • Investment predominantly in corporate bond securities rated AA+ and above. ****Investors should consult their financial advisers if in doubt about whether the product is suitable for them.** Please note that the above risk-o-meter is as per the product labelling of the scheme available as on the date of this communication/ disclosure. As per SEBI circular dated October 5, 2020 on product labelling (as amended from time to time), risk-o-meter will be calculated on a monthly basis based on the risk value of the scheme portfolio based on the methodology specified by SEBI in the above stated circular. The AMC shall disclose the risk-o-meter along with portfolio disclosure for all their schemes on their respective website and on AMFI website within 10 days from the close of each month. Any change in risk-o-meter shall be communicated by way of Notice cum Addendum and by way of an e-mail or SMS to unitholders of that particular Scheme.	**Benchmark:** **NIFTY Corporate Bond Index** 

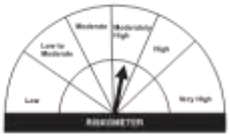
Potential Risk Class ('PRC') matrix indicates the maximum interest rate risk (measured by Macaulay Duration of the scheme) and maximum credit risk (measured by Credit Risk Value of the scheme) the fund manager can take in the scheme. PRC matrix classification is done in accordance with and subject to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

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

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

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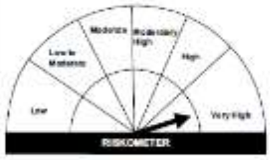
Benchmark: CRISIL Hybrid 35+65 - Aggressive Fund Index



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 Aug '22 unless otherwise given.

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

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