Event update

RBI Monetary Policy Decision

4 May 2022

Surprise rate hike in an unscheduled MPC meet

With inflation expected to overshoot the RBI's 6% upper threshold in upcoming prints, the focus of the RBI has firmly shifted towards controlling inflation.

Key Highlights

Repo rate hiked by 40 bps; CRR hiked by 50 bps

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

Summary of the policy measures

In a surprise rate action at an unscheduled MPC meeting, the MPC unanimously voted for a 40 bps hike in the repo rate. The MPC highlighted the heightened uncertainty surrounding inflation trajectory which is contingent upon the evolving geopolitical situation. As per the MPC, global commodity and food prices have driven a rise in Indian food and core inflation and impart significant upside risks to the inflation trajectory set by the MPC in its April statement. The MPC expects inflation to rule at elevated levels, warranting resolute and calibrated steps to anchor inflation expectations and contain second round effects and in this backdrop**, the MPC decided to increase the policy repo rate by 40 basis points to 4.40 per cent.**

The governor also highlighted that liquidity conditions need to be modulated in line with the policy action and stance to ensure full and efficient transmission to rest of the economy. **Therefore, RBI also decided to increase the cash reserve ratio (CRR) by 50 basis points to 4.5 per cent of net demand and time liabilities (NDTL), effective from the fortnight beginning May 21, 2022**

HSBC Asset Management

Growth outlook –Risks arising from global economic environment and geopolitical conditions

Since the MPC's meeting in April 2022, disruptions, RBI noted that shortages and escalating prices induced by the geopolitical tensions and sanctions have persisted and downside risks have increased. IMF has revised down its forecast of global output growth for 2022 by 0.8 percentage point to 3.6 per cent, in a span of less than three months. In this backdrop, the MPC noted that domestic economic activity stabilized in March-April with the ebbing of the third wave and easing of restrictions. Urban demand appears to have maintained expansion but some weakness persists in rural demand while investment activity seems to be gaining traction. RBI noted that the forecast of a normal southwest monsoon brightens the prospects for kharif production. The recovery in contact-intensive services is expected to be sustained, while investment activity should get an uplift from robust government capex, improving capacity utilization, stronger corporate balance sheets and congenial financial conditions. Risks however continue to emanate from the worsening external environment, elevated commodity prices and persistent supply bottlenecks, warranting monitoring the balance of risks

Inflation outlook: Risks firmly to the upside

Global commodity price dynamics are driving the path of food inflation in India, including prices of inflation sensitive items that are impacted by global shortages due to output losses and export restrictions by key producing countries. Global food price indices touched historical highs in March and remain elevated, with global spillovers impacting wheat, edible oil prices among others. International crude oil prices continue to hover above US$ 100 per barrel resulting in elevated input cost pressures. Overall, RBI noted that persistence of adverse global price shocks poses upward risks to the inflation trajectory

Further risks to the near-term inflation outlook are rapidly materializing, as reflected in the inflation print for March and the developments thereafter. Therefore, the MPC expects inflation to rule at elevated levels, warranting resolute and calibrated steps to anchor inflation expectations and contain second round effects

Growth versus inflation: "Inflation needs to be tamed for sustained and inclusive growth"

The RBI's assessment of the growth-inflation tradeoffs moved firmly towards the objective of controlling inflation. RBI noted that "Inflation must be tamed in order to keep the Indian economy resolute on its course to sustained and inclusive growth" and that the biggest contribution to overall macroeconomic and financial stability as well as sustainable growth would come from effort to maintain price stability.

Liquidity measures: Hike in CRR to 4.5% of NDTL

In keeping with the stance of withdrawal of accommodation and in line with the earlier announcement of gradual withdrawal of liquidity over a multi-year time frame, RBI decided to increase the cash reserve ratio (CRR) by 50 basis points to 4.5 per cent of net demand and time liabilities (NDTL), effective from the fortnight beginning May 21, 2022. The withdrawal of liquidity through this increase in the CRR would be of the order of INR 870 bn.

Outlook: Continued withdrawal of accommodation likely as inflation takes center-stage.

RBI noted that sustained high inflation hurts savings, investment, competitiveness and output growth and that price stability remains the key objective of the RBI. With near term inflation risks materializing and further upside to inflation arising from heightened commodity prices and geopolitical risks, RBI appears resolute on using monetary policy to combat these risks and anchor inflation expectations.

- The governor noted that in response to the pandemic, monetary policy had shifted gears to an ultra-accommodative mode, with a large reduction of 75 basis points in the policy repo rate on March 27, 2020 followed by another reduction of 40 basis points on May 22, 2020. Accordingly, the decision of the MPC today to raise the policy repo rate by 40 bps to 4.40 per cent may be seen as a reversal of the rate action in May 2020 in keeping with announced stance of withdrawal of accommodation set out in April 2022.

Going Forward

With inflation expected to overshoot the RBI's 6% upper threshold in upcoming prints, the focus of the RBI has firmly shifted towards controlling inflation. Considering that the repo rate, pre pandemic was at 5.15%, the RBI's stance appears to indicate that there could be further rate hikes in the offing in MPC meetings in the next 3 to 6 months as the RBI withdraws the accommodation provided in the pre-pandemic period

The governor however also mentioned that RBI remains mindful of the possible near-term impact of higher interest rates on output and hence noted that its actions will be calibrated. The governor stressed that the approach will be to focus on a careful and calibrated withdrawal of pandemic-related extraordinary accommodation, keeping in mind the inflation-growth dynamics

Thus overall, today's RBI action may be viewed as a front-loading of rate hikes. While RBI in the near term is expected to continue the process of rate normalization, it is expected to proceed in a calibrated manner, while remaining cognizant of the impact of rate hikes on growth

Further even as the RBI CRR hike will drain liquidity in near term, RBI noted that it will ensure adequate liquidity in the system to meet the productive requirements of the economy in support of credit offtake and growth.

Fund positioning

Overnight to Money Market rates (Under- weight positioning on Duration)

HSBC Overnight Fund, HSBC Cash Fund, HSBC Ultra Short Duration Fund and HSBC Low Duration Fund are focused on different segments of money market curve. The entire Money-market curve is centric to the overnight funding cost. The overnight funding cost should now move above the SDF rate of 4.15% given the increase in SDF and repo rates, while increase in CRR could also push it up further going forward.

The RBI's trajectory in terms of rate hikes will determine the evolution of the money market and the short end of the yield curve. The steepness in the 1 to 2 yr segment is attractive and with RBI likely to take a calibrated approach, there could be opportunities in terms of carry and roll-down going forward. However, in the very near term, we could see bouts of volatility given the surprise rate hike today and consequent repricing by markets.

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

Short duration to medium term duration (Underweight duration)

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

Over the medium term, the attractive carry and roll-down will present opportunities in the short to medium end of the curve. The extent of supply in G-Sec on account of increased borrowings in FY 23 is largely towards the duration segment. The steepness in the yield curve up to the 3 to 5 yr points already factor in further rate hikes by RBI to a large extent and could present opportunities as RBI front-loads the rate hikes.

Similarly, on the corporate side, we prefer the 18m to 2 yr part of the curve, which offers attractive risk-return trade-off as the steepness in the curve is attractive and hence compensates to some extent in case of any adverse movement in yields at the ultra-short end of the curve. As such, we continue to be positioned with an underweight in terms of duration in these funds (HSBC Short Duration Fund & HSBC Corporate Bond Fund & HSBC Equity Hybrid Fund (debt portion))

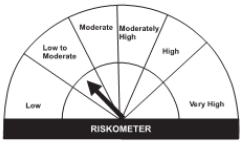
Long bonds (HSBC Flexi Debt Fund, HSBC Debt Fund, HSBC Regular Savings Fund)- Underweight duration

Yields at the longer end of the curve have inched upwards given the movement in global bond yields and rise in crude and commodity prices over the last 2 to 3 months and hawkish RBI. Nevertheless, there has been a bear flattening trend with the 10 yr and 14 yr segment yields increasing by a lower quantum than the 3-5 yr and 5-7 yr segment and hence spreads have contracted between the 10yr and 5 yr and 14 yr and 10 yr points on the yield curve

Going forward, absorption of heavy bond supply in H1 FY 23 will continue to exercise upward pressure on yields in the belly of the curve, especially in the absence of open market operation (OMO) purchases from RBI. On the whole we expect the longer end to trade with a negative bias given these circumstances. And hence as such, we continue to maintain an underweight stance in the long bond portfolios versus the index and intend to take advantage tactically of any opportunities that may arise on the longer end of the curve depending on market conditions.

Target maturity Index fund

The mandate of the target maturity fund is to invest in line with the index construction. While yields have inched up across the yield curve and hence also at the 6 yr point of the curve, 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.

<table>
<tr><th colspan="3">Riskometer</th></tr>
<tr><td rowspan="2">HSBC Cash Fund

Investors understand that their principal will be from Low to Moderate risk</td><td>Liquid Fund - An Open Ended Liquid Scheme. Relatively low interest rate risk and relatively low credit risk.
This product is suitable for investors who are seeking##:
• Overnight Liquidity over short term.
• Invests in Money Market Instruments.
##Investors should consult their financial advisers if in doubt about whether the product is suitable for them.</td><td rowspan="2">Benchmark: CRISIL Liquid Fund Index
</td></tr>
<tr><td>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.</td></tr>
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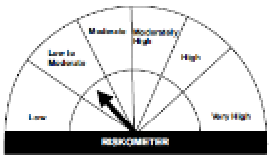
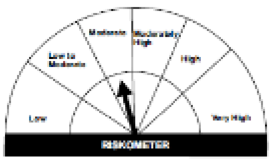
<tr><td rowspan="2">HSBC Ultra Short Duration Fund

Investors understand that their principal will be from Low to Moderate risk</td><td>Ultra Short Duration Fund – An Open Ended Ultra-Short term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 3 months to 6 months. Please refer Page no. 9 of the SID for explanation on Macaulay duration. Relatively low interest rate risk and relatively low credit risk.
This product is suitable for investors who are seeking##:
- Income over short term with Low volatility.
- Investment in debt & money market instruments such that the Macaulay Duration of the portfolio is between 3 months - 6 months.
##Investors should consult their financial advisers if in doubt about whether the product is suitable for them.</td><td rowspan="2">Benchmark:
CRISIL Ultra Short Term Debt Index
</td></tr>
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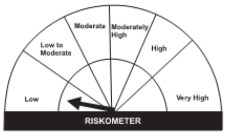
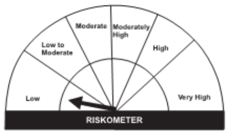

Investors understand that their principal will be at Low risk</td><td>Overnight Fund- An open ended debt scheme investing in overnight securities. Relatively low interest rate risk and relatively low credit risk.
This product is suitable for investors who are seeking##:
• Income over short term and high liquidity
• Investment in debt & money market instruments with overnight maturity.
##Investors should consult their financial advisers if in doubt about whether the product is suitable for them.</td><td rowspan="2">Benchmark: CRISIL Overnight Index
</td></tr>
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Scheme Name	PRC Matrix			
HSBC Overnight Fund HSBC Cash Fund HSBC Ultra Short Duration Fund	**Potential Risk Class**			
	Credit Risk → Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
	Relatively Low (Class I)	**AI**		
	Moderate (Class II)			
	Relatively High (Class III)			

Riskometer

HSBC Debt Fund

Investors understand that their principal will be at Moderate risk

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

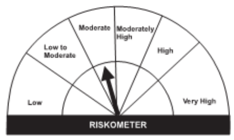
This product is suitable for investors who are seeking##:

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

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

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

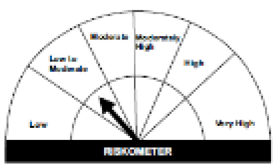
Benchmark:
CRISIL Composite Bond Fund Index



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

Riskometer

HSBC Low Duration Fund



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

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

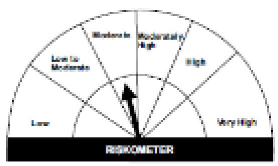
This product is suitable for investors who are seeking##:

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

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

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

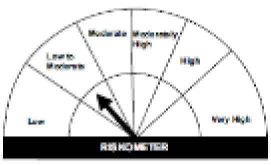
Benchmark:
CRISIL Low Duration Debt Index



HSBC Low 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)		BI	
Moderate (Class II)			
Relatively High (Class III)			

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.

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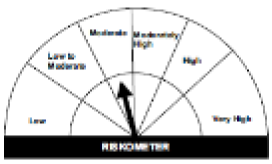
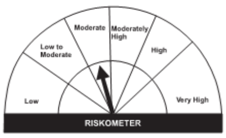
Benchmark:
CRISIL Short Term Bond Index



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)			

HSBC Flexi Debt Fund Riskometer

HSBC Flexi Debt Fund



Dynamic Bond Fund - An open ended dynamic debt scheme investing across duration. Please refer Page no. 9 of the SID for explanation on Macaulay duration. 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 Debt / Money Market Instruments.

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

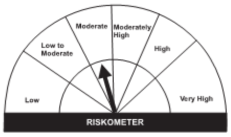
Please note that the above risk-o-meter is as per the product labelling of the Scheme available as on the date of this communication/ disclosure. As per SEBI circular dated October 5, 2020 on product labelling (as amended from time to time), risk-o-meter will be calculated on a monthly basis based on 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)		BIII	

Riskometer

HSBC Corporate Bond Fund



Investors understand that their principal will be at 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.

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Benchmark: NIFTY Corporate Bond Index

HSBC Corporate Bond Fund

Potential Risk Class

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

Riskometer

HSBC Regular Savings Fund

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.

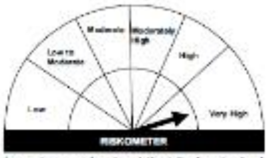
##Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

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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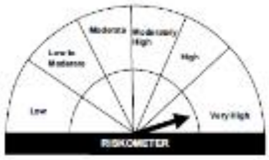
Benchmark: CRISIL Hybrid 35+65 - Aggressive Fund Index



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			

Note: 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.

Source: RBI policy announcement, HSBC Asset Management, India (HSBC AMC) Data as at 4 May '21 unless otherwise given. ^ Please refer to the page number 9 of the Offer Document on which the concept of Macaulay's Duration has been explained

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