Event update

30 September 2022

RBI's 4th Monetary Policy - 2022-23

RBI policy focusses on macro stability with a 50 bps rate hike

RBI's focus remains on bringing inflation within the target band. The rate hike cycle is expected to continue at-least in the immediate term. However, given that RBI has already front loaded rate hikes over the past few months and some moderation in inflation expected in the medium term, further rate hikes may happen in a much more calibrated manner.

Key Highlights

Repo rate hiked by 50 bps; CRR unchanged; inflation projections retained; FY 23 GDP estimate reduced

- Repo rate hiked by 50 bps to 5.90%; Standing Deposit Facility Rate by 50 bps to 5.65% and Marginal Standing Facility by 50 bps to 6.15%;
- MPC continues with focus on "withdrawal of accommodation" stance
- One member dissented with the 50 bps rate hike stance (with 5 members voting for it) and voted for a 35 bps hike instead while another member dissented with the policy stance (5 members voting for it)
- Inflation projection for FY 23 unchanged at 6.7%, GDP estimate reduced marginally to 7.0% v/s 7.2%
- No change in CRR – remains at 4.5% of net demand and time liabilities (NDTL)

Summary of the policy measures

In a monetary policy which was largely in line with expectations of most economists, the MPC voted with a 5:1 majority for a 50 bps hike in repo rate to 5.90%. The governor in his opening remarks noted that the global economy is in the midst of a third major shock (after the conflict in Ukraine and Covid-19 pandemic) arising from aggressive monetary policy actions and commentary from global central banks and noted the sharp depreciating pressures in several advanced and emerging market economy currencies. Given the backdrop, the MPC was of the view that persistence of high inflation necessitates further calibrated withdrawal of monetary accommodation to restrain broadening of price pressures, anchor inflation expectations and contain the second-round effects. Accordingly, the MPC decided to increase the policy repo rate by 50 basis points to 5.9 per cent and to remain focused on withdrawal of accommodation, while supporting growth. In terms of the policy stance, the governor noted that even as the nominal policy repo rate has been raised by 190 basis points so far (including today's increase), the policy rate adjusted for inflation trails the 2019 levels. The MPC noted that the overall monetary and liquidity conditions, therefore, remain accommodative and hence, the MPC decided to remain focused on withdrawal of accommodation.

The RBI reduced FY 23 growth projection to 7.0%, while increasing Q1FY24 GDP projection to 7.2% from 6.7% while inflation projections for both FY23 and Q1FY24 were retained at 6.7% and 5.0% respectively.

HSBC Asset Management

Growth outlook – Headwinds mainly from the external sector

The governor noted that the global economic outlook continues to be bleak with tightening financial conditions and recession fears in advanced economies, even as inflation persists at alarming levels. Domestic activity, however has remained resilient thus far with pick up in private consumption and investment demand. Urban consumption remains strong and is expected to strengthen further while rural demand is catching up. Late recovery in kharif sowing, the comfortable reservoir levels, improvement in capacity utilization, buoyant bank credit expansion and government's continued thrust on capital expenditure are expected to support aggregate demand going forward. The headwinds arise from extended geopolitical tensions, tightening global financial conditions. Possible decline in the external component of aggregate demand can pose downside risks to growth.

The real GDP growth projection for 2022-23 was reduced to 7.0% from 7.2%, which was mainly a consequence of Q1 FY 22 actual growth rate being lower than expected. Growth rates for Q3 and Q4 have, on the other hand, been revised upwards. Q1 FY 24 projection was increased to 7.2% from 6.7%

Period	Current estimates	Previous estimates
Q1 FY 23	13.5 % (actual)	16.2%
Q2 FY23	6.3%	6.2%
Q3 FY 23	4.6%	4.1%
Q4 FY 23	4.6%	4.0%
FY 23 (full year)	**7.0%**	**7.2%**
Q1 FY 24	**7.2%**	**6.7%**

Inflation outlook: Remains unchanged

The governor noted that the acute imported inflation pressures across food and energy items felt at the beginning of the financial year have marginally eased, but nevertheless remain elevated. Going forward, the MPC noted that there could be some tapering of selling price increases on account of easing supply conditions and softening of industrial metal and crude oil prices. With services activity showing strong rebound and some improvement in pricing power, risks of higher pass-through of input costs, however remain. With regard to food prices, there remain upside risks with rising cereal and pulses prices while vegetable prices have also started to increase after unseasonal rains. Overall inflation projection for FY 23 was retained at 6.7% with marginal revision made in Q2 and Q3 estimates.

Period	Current estimates	Previous estimates
Q2 FY23	7.1%	7.4%
Q3 FY 23	6.5%	6.4%
Q4 FY 23	5.8%	5.8%
FY 23 (full year)	**6.7%**	**6.7%**
Q1 FY 24	**5.0%**	**5.0%**

Liquidity guidance

RBI kept status quo on CRR, maintaining the same at 4.5% of NDTL. Surplus liquidity in the banking system, as reflected in average daily absorptions under the liquidity adjustment facility (LAF) [both SDF and variable rate reverse repo (VRRR) auctions], moderated to INR 2.3 trillion during August - September 2022 (up to September 28) from INR 3.8 trillion during June-July. In view of the moderation in surplus liquidity, it has now been decided by RBI to merge the 28-day VRRR with the fortnightly 14-day main auction. Consequently, from now on, only 14-day VRRR auctions will be conducted as the main liquidity absorption tool. Apart from this, fine-tuning operations of various maturities for absorption as well as injection of liquidity will continue as may be necessary from time to time.

Outlook: RBI's actions to be data dependent, macro stability remains a key focus

In the MPC's view, inflation is likely to be above the upper tolerance level of 6 per cent through the first three quarters of 2022-23, with core inflation remaining high. While the trajectory of inflation remains uncertain given the global backdrop, MPC opined that further calibrated monetary policy action is warranted to keep inflation expectations anchored, restrain the broadening of price pressures and pre-empt second round effects.

The governor’s statement had a significant focus on the external sector and macroeconomic stability. The governor noted that a stable exchange rate is important overall macroeconomic stability and market confidence and noted the adequacy of forex reserves and comfortable balance of payments (BOP) situation.

The governor noted that over the medium term, the primacy of price stability embedded in the inflation targeting framework provides the anchor for exchange rate stability. Given the external situation, RBI noted that providing forward guidance would be difficult in a tightening cycle and that RBI’s actions will be carefully calibrated to the incoming data and evolving scenario without being constrained by conventional or any textbook approach to policy making.

Going Forward

RBI’s focus remains on bringing inflation within the target band of 4% +/- 2%. It also remains cognizant of the global economic backdrop and the need to ensure macro stability. RBI has indicated that it will be data dependent in its approach. With inflation likely to stay above the target band over the next few months and global central banks continuing to stay hawkish, the rate hike cycle is expected to continue at-least in the immediate term. However, given that RBI has already front loaded rate hikes over the past few months and some moderation in inflation 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.

Fund positioning

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

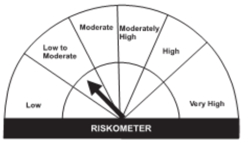
Yields at the longer end of the curve continue to remain volatile. The segment has outperformed in recent weeks as the yield curve has flattened, in line with trend seen globally and based on expectations of inclusion of Indian government bonds in global bond indices.

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.

Riskometer

HSBC Cash Fund



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

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.

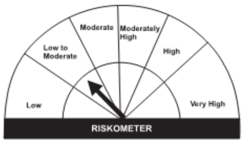
##Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

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 Liquid Fund Index

HSBC Ultra Short Duration Fund Riskometer

HSBC Ultra Short Duration Fund



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

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.

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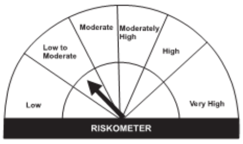
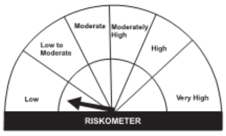
Benchmark: CRISIL Ultra Short Duration Fund A-I Index



Riskometer

HSBC Overnight Fund



Investors understand that their principal will be at Low risk

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.

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Benchmark: CRISIL Overnight Index

Potential Risk Class (HSBC Ultra Short Duration Fund)

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

HSBC Debt Fund 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. Please refer Page no. 9 of the SID for explanation on Macaulay duration. Relatively high interest rate risk and moderate credit risk.

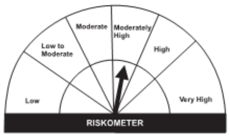
This product is suitable for investors who are seeking##:

- Regular Income over long term
- Investment in 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 Medium to Long Duration Fund B-III



Potential Risk Class (HSBC Debt Fund)			
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)		B-III	

HSBC Low Duration Fund 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.

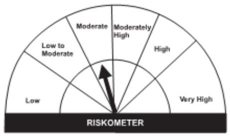
This product is suitable for investors who are seeking##:

- 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.

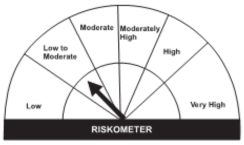
Benchmark: CRISIL Low Duration Fund B-I Index



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)		B-I	
Moderate (Class II)			
Relatively High (Class III)			

HSBC Short Duration Fund 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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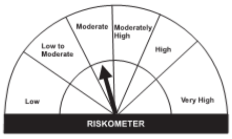
Benchmark: CRISIL Short Term Bond Index

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

HSBC Flexi Debt Fund 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. 9 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.

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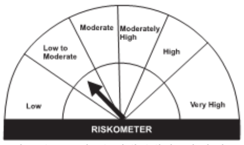
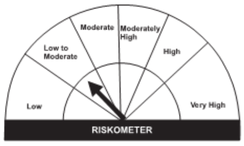
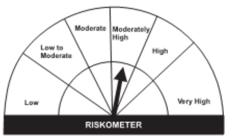
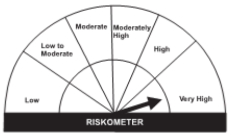
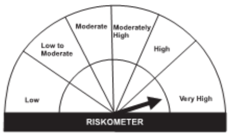
Benchmark: CRISIL Dynamic Bond Fund A-III Index

Potential Risk Class (HSBC Flexi Debt Fund)			
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)	A-III		

HSBC Corporate Bond Fund Riskometer		
HSBC Corporate Bond Fund  Investors understand that their principal will be at Low to Moderate risk	**Corporate Bond Fund** - An open ended debt scheme predominantly investing in AA+ and above rated corporate bonds. Please refer Page no. 9 of the SID for explanation on Macaulay duration. 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 Short Duration Debt A-II Index** 

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

HSBC Regular Savings Fund 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 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 85+15 - Conservative Index)** 

HSBC Equity Hybrid Fund 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##:** • Long term wealth creation and income. • Invests in equity and equity related securities and fixed Income 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 Hybrid 35+65 - Aggressive Fund Index** 

<table>
<tr><th>Scheme Name</th><th>Scheme Risk-o-meter</th><th>Benchmark Risk-o-meter</th></tr>
<tr>
<td>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</td>
<td>

Investors understand that their principal will be at Moderate risk</td>
<td>Scheme Benchmark:
CRISIL IBX 50:50 Gilt Plus SDL Index – April 2028

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* 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 30 Sep '22 unless otherwise given. Please refer to the page number 9 of the Scheme Information Document on which the concept of Macaulay's Duration has been explained. To know more about any fund, refer to the Scheme Information Document.

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