

Time to act is now - Wider clarity on the drivers impacting bond markets.

September 4, 2025



RBI's MPC decision on August 6th was a neutral hold with RBI choosing to be on a wait and watch mode after frontloading ~100 bps of rate cuts since Feb-2025. Post this we have seen the curve move higher by 20-25 bps making for a case for us to consider value buying in the Gilt segment.

Security	Pre Aug-25 MPC 05-Aug-2025	Current 03-Sep-25	Change (in bps)
2 year G-Sec	5.68%	5.92%	24
3 year G-Sec	5.86%	6.11%	25
5 year G-Sec	6.01%	6.29%	28
10 year G-Sec	6.33%	6.54%	21
15 year G-sec	6.69%	6.92%	22
30 Year G-Sec	7.02%	7.27%	25

This recent move in yields has presented a window of opportunity to enter at attractive valuations as wider clarity emerges on the below drivers impacting bond markets:

- Signs point to a softer growth:** Real GDP growth for Q1FY26 print at 7.80% beat market expectations by a wide margin, but on eliminating the noise we see a softer nominal GDP at 8.80% due to a lower deflator and high frequency indicators continuing to suggest a softer growth dynamic. Thus, despite the higher print, we see scope for RBI to focus on growth and allows for one more cut in its pocket.
- Inflation to remain benign:** Inflation dynamics are expected to turn favorable with RBI's 1-Year forward inflation estimate at 4.90% likely to trend lower due to upcoming GST rationalization bringing down prices of items of mass consumption to lower rates of 5% and 18%.
- Fiscal largely contained:** Revenue slippage on account of GST rationalization is likely to be contained and not as large as earlier expected. The government has largely frontloaded Capex in H1 so far, allowing for Centre to have sufficient leeway to meet its fiscal deficit target through expenditure rationalization and we don't foresee additional borrowing.

- **Fed to start cutting:** US Fed is now largely expected to start cutting rates again as softer growth and employment data is now fueling market expectations of at least 2 cuts in CY2025 and another 3 cuts in CY2026. Easing cycle in US along with lower inflation and softer growth may give RBI a larger wiggle room than earlier expected.
- **Compression in 10Y G-Sec-Repo Spread:** RBI has been on a pause since Jun-2025 MPC meeting and the 10Y G-Sec-Repo spread has since widened from ~25 bps on Jun 05, 2025 to ~103 bps on Sep 03, 2025 (2.5 years' high). Going ahead RBI is likely to be data dependent and as reasoned above, it is likely to have some space for another cut by CY2025 Post that we expect RBI to remain at a long pause allowing for likely compression in the 10Y G-Sec-Repo spread.

Spread (10yr G-Sec vs Repo) vs Repo Rate



- **FPI turn buyers:** In Aug-2025, FPIs have become net buyers of ~INR 13,900 cr in G-Sec after remaining net sellers in Q1FY2026 to the tune of ~INR 31,000 cr.
- **Liquidity to remain comfortable:** System liquidity has improved given month end spending by the government and is likely to remain supported given CRR rate cuts are to come into effect starting Sep 6th and be fully in place by end Nov-2025. The infusion of liquidity due to CRR cuts is likely to offset the impact of leakages due to the upcoming festive season.
- **Expectations of rejig in H2 borrowing calendar:** RBI has met with market participants for consultations ahead of H2 borrowing plan decisions. News is abuzz with various recommendations given to RBI with respect to reduction in long end supply which can aid in spread compression.

Our Take

G-Sec demand supply worries may surface from time to time, however such instances of markets in oversold territories can provide entry points to take strategic calls when yields spike and valuations become favorable. One such opportunity has opened-up, with the risk-reward looking favorable. HSBC Gilt Fund's current strategy provides an opportunity to capture these market movements.



Fund Positioning: HSBC Gilt Fund positioning as of Aug-2025 end is positioned in the liquid 10Y segment for 58% and in the long end G-Sec for 28%. Cash has allowed us to capitalize on spike in long end yields in early September. We remain watchful for incoming data and other such opportunities as and when it presents itself.

Tenor	% Allocation (31-Aug-2025)
10 Years	58%
15 Years	4%
30 Years	10%
40 Years	14%
Cash	15%

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Note: Views provided above are based on information in public domain and subject to change. Investors are requested to consult their financial advisor for any investment decisions.

Scheme name and Type of scheme	Scheme Risk-o-meter	Benchmark Risk-o-meter (as applicable)
HSBC Gilt Fund (An open ended debt scheme investing in government securities across maturity. A relatively high interest rate risk and relatively low credit risk.) This product is suitable for investors who are seeking*: <ul style="list-style-type: none"> • Generation of returns over medium to long term • Investment in Government Securities. 	 <p>The risk of the scheme is Moderately High Risk</p>	As per AMFI Tier I Benchmark Index: NIFTY All Duration G-Sec Index  <p>The risk of the benchmark is Moderate Risk</p>

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

Note on Risk-o-meters: Riskometer is as on 29 August 2025, 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

Potential Risk Class (HSBC Gilt Fund)

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)	A-III		
A Scheme with Relatively High interest rate risk and Low credit risk.			

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.

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