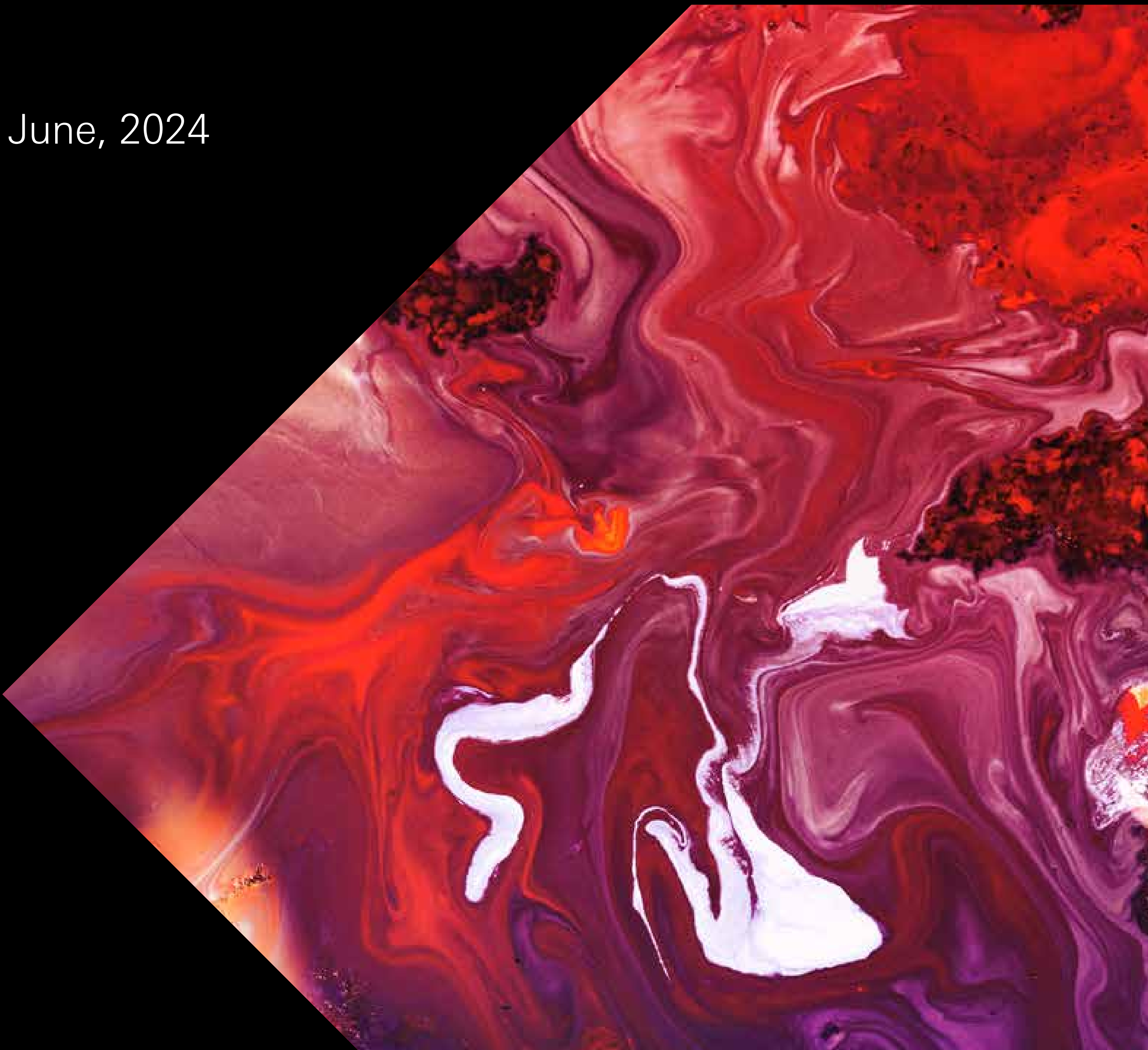
HSBC Mutual Fund

Debt Market Review

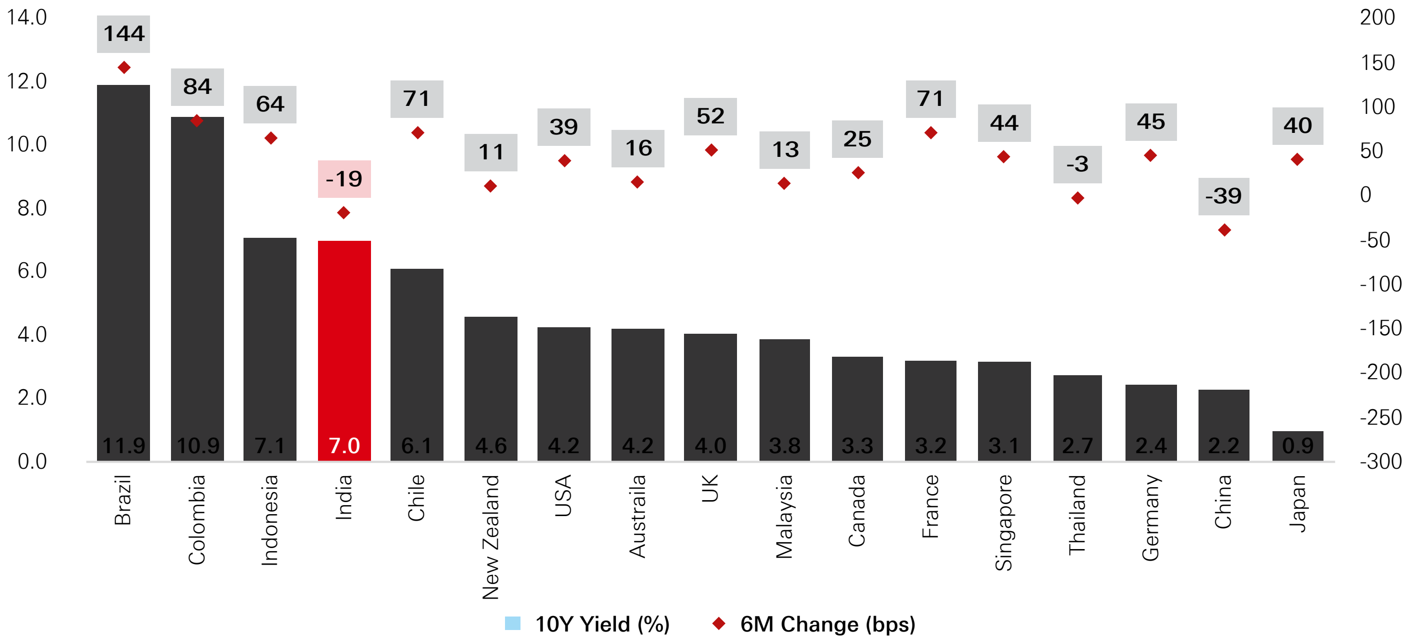
June, 2024



India shines…at Barbados and on the global bond index

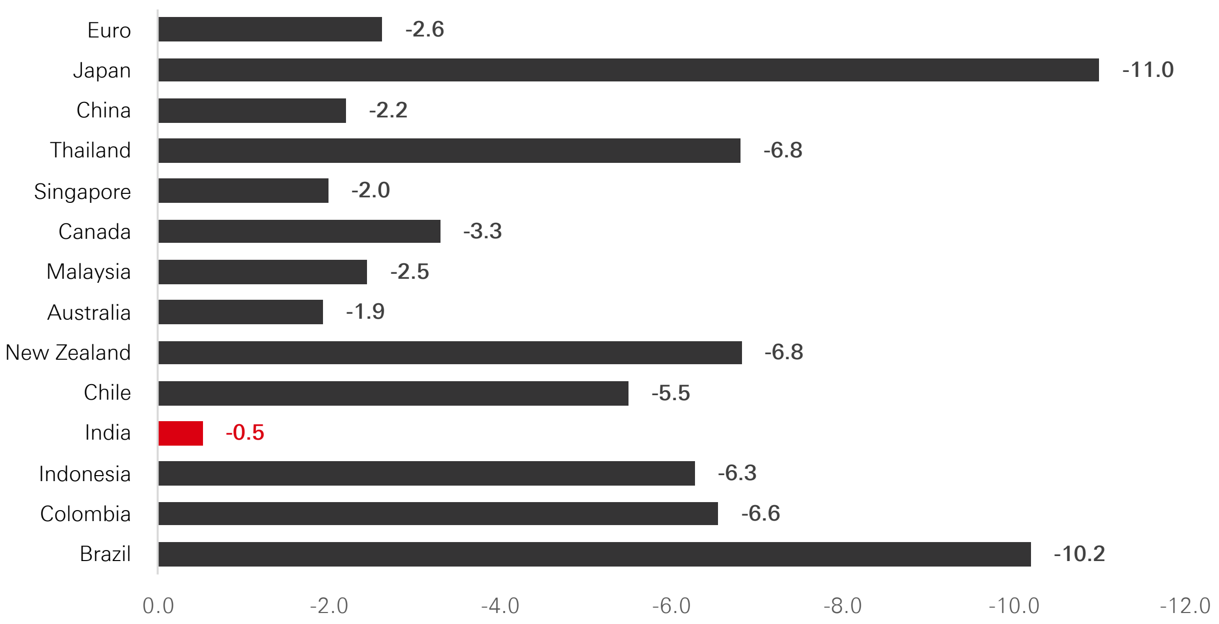
Amongst the many pivotal moments for the Indian economy and the Indian financial markets in history, the India bond index inclusion by JP Morgan could rival as one of the most awaited ones. Indian Government Bonds (IGBs) got added to the JP Morgan GBI-EM index on Jun 28, 2024 and is expected to reach a maximum weight of 10% by March 2025. IGB yields are among the highest compared to other emerging bond markets. Moreover, yield and currency movements over the last six months also show that India bonds have been amongst the best performers amongst its peers. Since the index inclusion announcement, IGBs have seen a net inflow of around USD 11 billion.

10Y Government Bond yield and changes over last 6 months



Source: Bloomberg, Data as on 20 June '24. **Past performance may or may not be sustained in the future.**

Currency movements vs. USD over the last 6 months (%)



Source: Bloomberg, Data as on 20 June '24, **Past performance may or may not be sustained in the future.**

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We believe all necessary conditions are in place for the Indian bond markets to benefit from a significant investment by foreign strategic investors. Sovereign wealth funds, central bank reserve managers and other large institutional investors are likely to closely track and get more familiar with the Indian bond markets, as part of their EM allocations. With operational issues getting sorted with smoother access and investors appreciating the various positive aspects that India bond markets have to offer, large global institutional investors may start considering strategic allocations to Indian bonds and not just as part of their EM index allocations.

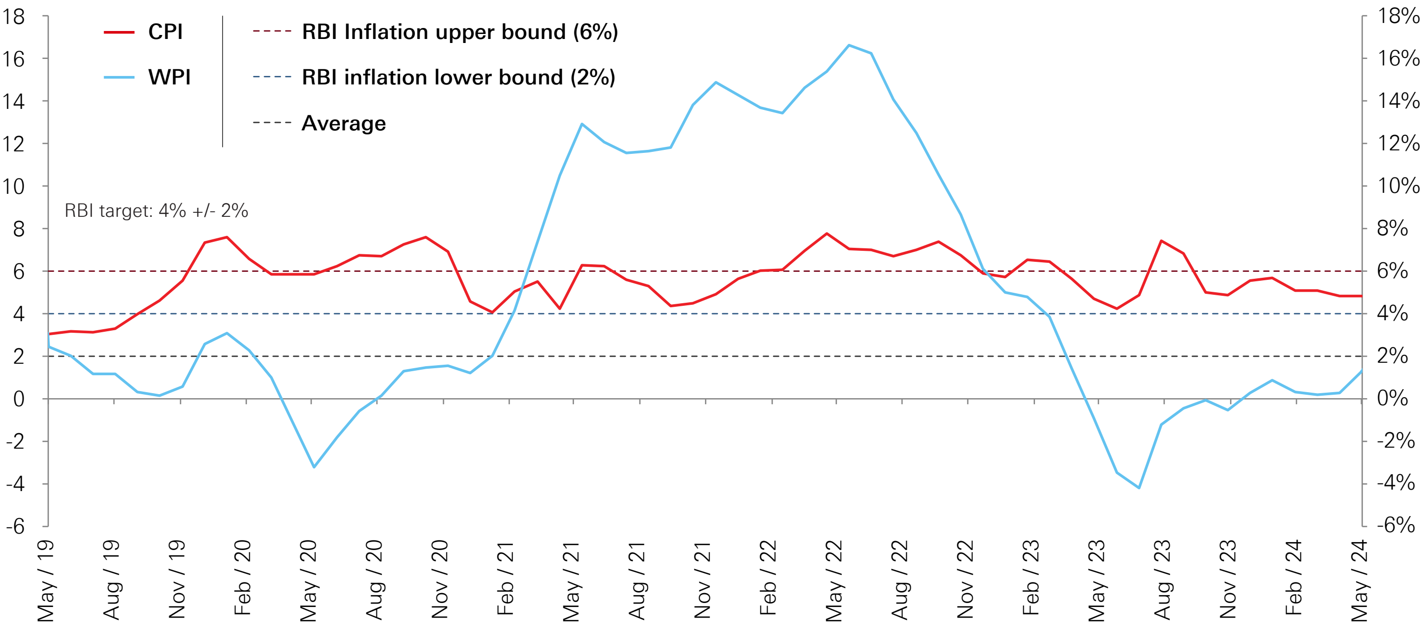
The other big domestic event was the formation of the new Central Government, albeit with a lesser majority than earlier expected, which led to a fair bit of volatility earlier in the month. However, as the dust settled on the election outcome, favorable macro-economic factors pushed yields lower even as global markets lent volatility to domestic rates. A key monitorable will be any additional spending to address concerns of rural sections of the country and the possibility of an additional budget to fund such policies. We believe the Government is likely to remain cognizant of the possible impact of such policies and take measured steps.

On global markets, the Federal Open Market Committee (FOMC) kept policy rates unchanged in its June meeting, in line with market expectations. While the Fed Chair acknowledged the recent softening in inflation, future actions would continue to remain data dependent with focus on keeping monetary policy restrictive to facilitate inflation moving towards the target. The dot plots were revised, with the median expectations of a 25 bps rate cut in 2024 (vs 75 bps earlier) and a 100 bps cut each in 2025 and 2026 respectively (vs 75 bps for each year earlier). The BOE also maintained status quo on policy rates, with markets pricing in a first rate cut in September 2024. The ECB delivered its first rate cut of 25 bps in its June meeting, in line with market expectations. US PCE and Core PCE data for May 2024 printed at 2.6%. US Treasury yields remained volatile, trading in the 4.20%-4.50% band during the month. Crude prices inched up during the month, closing at USD 86/bbl on month end.

MACRO-ECONOMIC DEVELOPMENTS & MARKET MOVEMENT (Domestic)

- CPI inflation for May 2024 came in marginally lower at 4.83%, with Core inflation remaining benign at 3.1%.

Inflation target and trend



Source: CRISIL, MOSPI, RBI, Data as on 28 June 2024, **Past performance may or may not be sustained in future and is not a guarantee of any future returns.**
Note - The details provided above is as per the information available in public domain at this moment and subject to change. Please consult your financial advisor for any investment decisions

- WPI printed at a 15-month high of 2.61%, on the back of higher food inflation. Food inflation has remained elevated, with the outlook going forward contingent on monsoon.
- Trade deficit for May 2024 widened to a 7-month high of USD 23.8 bn driven by higher oil imports. The Current Account Deficit (CAD) for FY2024 came in comfortably lower than last year at 0.7% of GDP (USD 23.2 bn), with FX reserves seeing an accretion of USD 63.7 bn during the year.
- The State Development Loans (SDL) and T-Bill calendar was announced for Q2 FY2025 with gross SDL borrowing at INR 2.64 bn and T-Bill borrowing at INR 2.6 trn during the quarter.
- Longer end G-Sec (30 year and above) outperformed with yields falling by ~ 8 bps, while 10-year G-Sec underperformed moving higher by 2-3 bps. The longer end of the yield curve flattened substantially. Shorter end G-Sec also moved lower 3-7 bps.

Present Outlook

Liquidity, which remained negative for most of the month has turned positive on the back of Government spending and G-Sec maturities. Both RBI and Government have given soft signals on improving liquidity conditions and we continue to believe that it will remain a key theme going forward. Accelerated spending by the Government, FPI inflows on account of index related buying and G-Sec maturities will keep liquidity in positive territory. This also aligns with our expectation that markets will first see easing of liquidity, prior to any policy rate easing, thereby resulting in steepening of the yield curve. Easing in liquidity will also likely result in compression of corporate bond spreads in the up to 5-year segment, benefitting funds which are predominantly invested in corporate bonds.

We continue to have a positive outlook on interest rates, based on various favorable factors:

(a) Record RBI dividend to the Government

(b) Reduced Fiscal deficit number of 5.6%

(c) Favorable G-Sec supply demand dynamics

(d) FPI index related inflows

(e) Revised outlook in India by S&P

(f) Soft core inflation along with expectations of a better than normal monsoon, and finally

(g) Soft signals by Government and RBI on liquidity

Accordingly, we believe there can be a favourable case to add duration to investor portfolios with a 1.5-2 year investment horizon.

We believe the below mentioned strategies can make investment sense:

- With AAA PSU corporate bond yields trading at a favorable level, investors can look at bond funds in the 2-5 year maturity segment. **HSBC Short Duration Fund** and **HSBC Corporate Bond** Fund are positioned in these segments
- To play the duration theme going forward, investors may consider allocation to longer duration products such as **HSBC Dynamic Bond Fund** and **HSBC Gilt Fund** to take advantage of such a market movement
- And for the next level of alpha seeking investors over long term, adding an element of measured credit risk to active duration strategy (through products such as **HSBC Medium Duration Fund**), may become a rewarding proposition

HSBC Mutual Fund

Scheme name	Potential Risk Class
HSBC Dynamic Bond Fund HSBC Corporate Bond Fund HSBC Gilt 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)	A-III		

Scheme name	Potential Risk Class
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)	A-II		
Relatively High (Class III)			

Scheme name	Potential Risk Class
HSBC Medium 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)			
Relatively High (Class III)		B-III	

Product Labels

Scheme name and Type of scheme | ***Riskometer of the Scheme**

This product is suitable for investors who are seeking#

HSBC Dynamic Bond Fund (Dynamic Bond Fund) - An open ended dynamic debt scheme investing across duration. Please refer to the SID for explanation on Macaulay duration. Relatively high interest rate risk and relatively low credit risk.

- Generation of reasonable returns over medium to long term
- Investment in fixed income securities.

(Benchmark: NIFTY Composite Debt Index A-III)

HSBC Short Duration Fund (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. A moderate interest rate risk and moderate credit risk.

- Generation of regular returns over short term.
- Investment in fixed income securities of shorter term maturity.

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

- Generation of regular and stable income over medium to long term
- Investment predominantly in AA+ and above rated corporate bonds and money market instruments.

(Benchmark: Nifty Corporate Bond Index **A-II**)

HSBC Gilt Fund (Medium to Long Duration Fund) - An open ended debt scheme investing in government securities across maturity. A relatively high interest rate risk and relatively low credit risk.

- Generation of returns over medium to long term
- Investment in Government Securities.

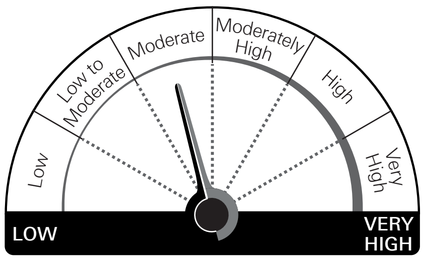
(Benchmark: Nifty All Duration G-Sec Index)

HSBC Medium Duration Fund (Medium Duration Fund) - An open ended medium term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 3 years to 4 years. Please refer Page no. 9 of the SID for explanation on Macaulay duration. A relatively high interest rate risk and moderate credit risk.

- Generation of income over medium term
- Investment primarily in debt and money market securities.

(Benchmark: NIFTY Medium Duration Debt Index Fund **A**-III)

Riskometer



Investors understand that their principal will be at Moderate risk

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

Please refer notice cum addendum available on website of HSBC Mutual Fund for updates on riskometer/product labeling of the scheme. Riskometer is as on 30 June 2024.

Source: Bloomberg, MOSL & HSBC MF estimates as on June 30, 2024 or as latest available

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.

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