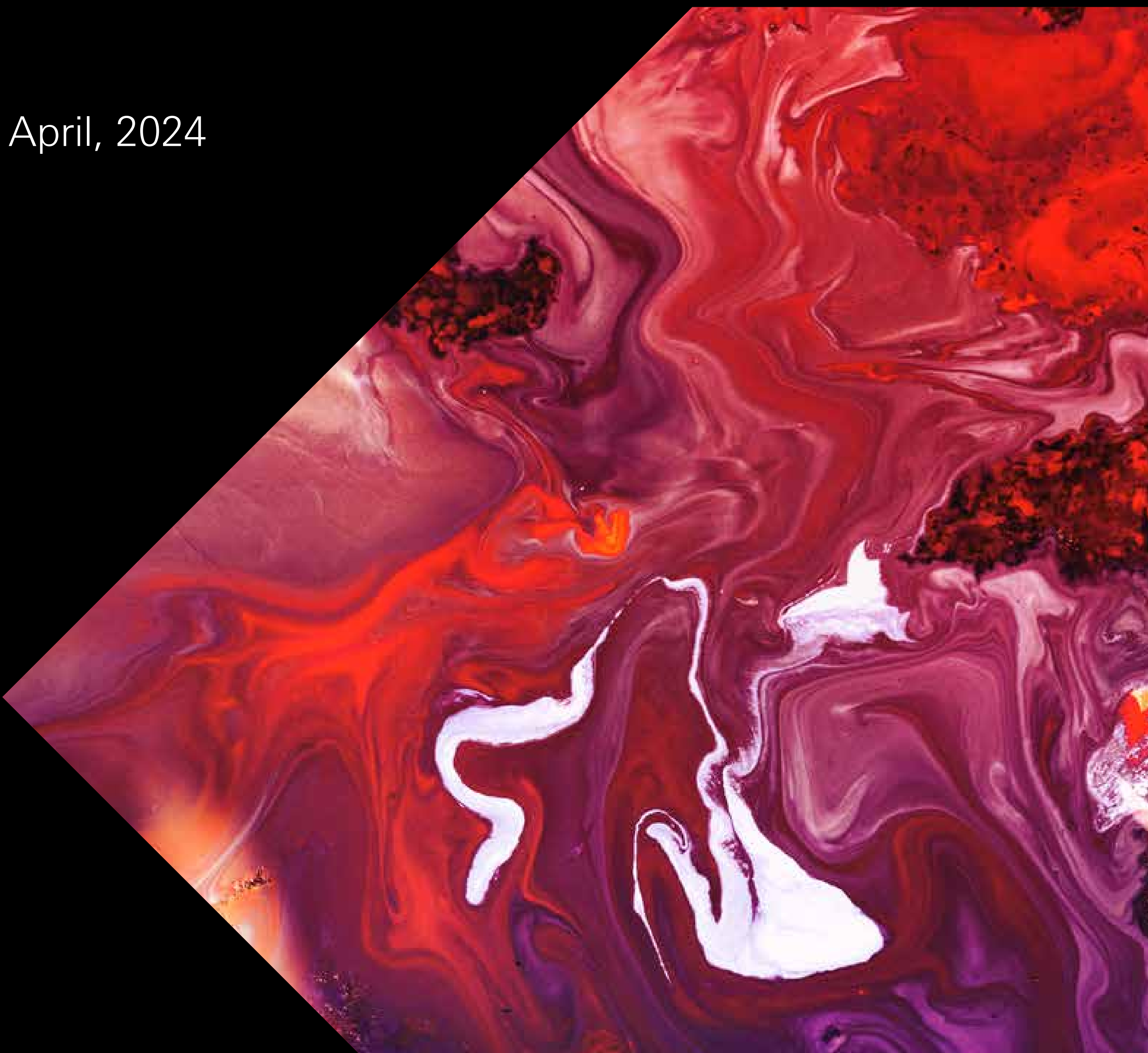
HSBC Mutual Fund

Debt Market Review

April, 2024

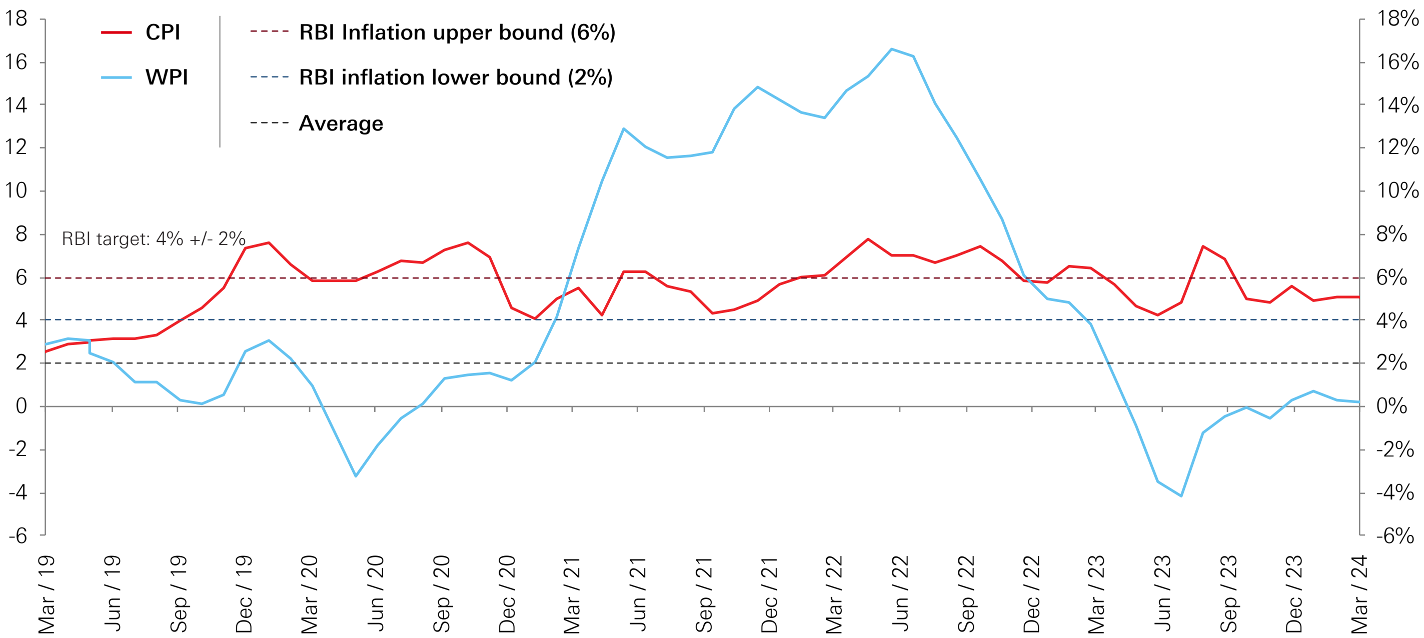


The Federal Open Market Committee (FOMC) maintained status quo on policy rates in its meeting on May 01, 2024. The Fed Chairman ruled out the possibility of any further tightening stating that policy rates were adequately restrictive. However, the Fed Chair hinted that policy rates might remain restrictive longer than earlier expected. The main concern was around the lack of progress in easing of inflation over the last few months. Although inflation has eased over the past year, the last few prints have remained sticky, keeping inflation elevated. Resilience in growth and labour market indicators also support policy rates remaining restrictive. The FOMC announced tapering in Quantitative Tightening (QT) for treasury securities from USD 60 bn to USD 25 bn effective from June 2024. The ECB also kept policy rates unchanged in its April meeting. They acknowledged that inflation had eased in line with expectations and further progress in disinflation would create space for policy easing. Markets are expecting the ECB to cut rates as early as June 2024. Recent CPI inflation prints in the US, Eurozone and UK came in at 3.5%, 2.4% and 3.2% respectively. US Personal Consumption Expenditures (PCE) inflation came in higher than expected at 2.7%, while Core PCE remained unchanged at 2.8%. US Treasury yields moved higher during the month trading in the 4.30%-4.70% band. The 10-year vs 2-year spread remained inverted at 36 bps. Crude prices also remained elevated trading around USD 90/bbl during the month.

MACRO-ECONOMIC DEVELOPMENTS & MARKET MOVEMENT (Domestic)

- Consumer Price Index (CPI) inflation for Mar 2024 came in 4.85% (vs 5.09% in Feb 2024). Core inflation remained benign and printed at a low of 3.2%. Although, food inflation softened marginally, it continues to remain elevated, with the outlook going forward contingent on monsoon.

Inflation target and trend

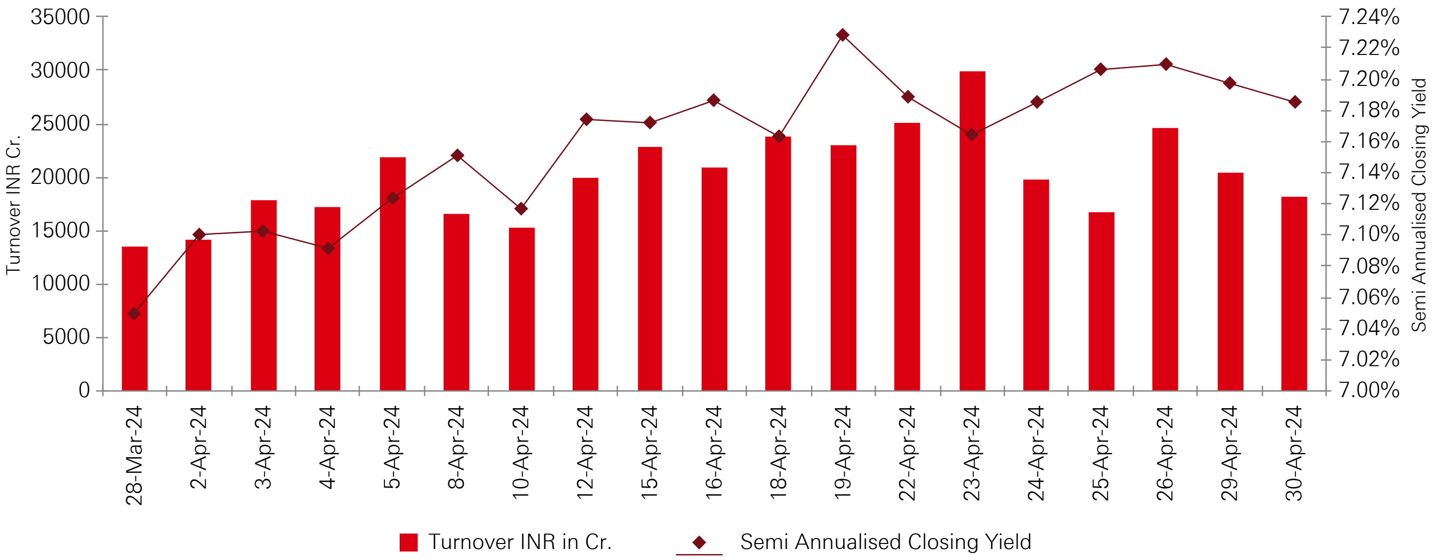


Source: CRISIL, MOSPI, RBI, Data as on 30 April 2024, **Past performance may or may not be sustained in future and is not a guarantee of any future returns.**
Note - The details provided above is as per the information available in public domain at this moment and subject to change. Please consult your financial advisor for any investment decisions

- Wholesale Price Index (WPI) inflation rose to 0.53% due to higher food prices and is expected to rise going forward due to the base effect. IIP for Feb 2024 rose to 5.7% (vs 4.1% in Jan 2024), taking the industrial growth for FY2024 YTD to 5.9%.
- Trade deficit for Mar 2024 narrowed to an 11-month low of USD 15.6 bn on the back of lower gold imports. The Trade deficit number for FY2024 now stands at USD 240.2 bn. Current Account Deficit for the year is expected to be close to 1%.

- PMI numbers remained strong and GST collections continued its impressive streak clocking an all-time high of INR 2.1 trn (y-o-y growth of 12.4%) in Apr 2024.
- Liquidity remained in deficit for most of the month, with RBI continuing to use Variable Rate Repo (VRR) and Variable Rate Reverse Repo (VRRR) auctions to manage short term liquidity.
- FX reserves fell from USD 645.6 bn as of Mar 29, 2024 to USD 637.9 bn as of Apr 26, 2024.
- FPIs sold both equity and debt during the month, possibly being the key reason for the reduction in FX reserves. GOI announced buyback of less than 1-year Government Securities (G-Sec) worth INR 40,000 Crs through an auction scheduled on May 09, 2024. This will infuse durable liquidity into the system and possibly result in the easing of the money market segment.

Movement of 10-Year Gilt Benchmark



Source: CRISIL Fixed Income database

Data as on 30 April 2024, **Past Performance may or may not be sustained in future.** Investors should not consider the same as investment advice 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.

- G-Sec and Corporate Bonds moved higher during the month, with the 3-5 year segment seeing a correction of 10-15 bps.
- OIS levels also moved sharply higher intra-month, with the 2-5 year segment higher by 20-25 bps.

Present Outlook

Markets, which were earlier expecting sharp rate cuts in 2024 have aligned to the FOMC guidance, with markets now pricing in only 2-3 rate cuts in 2024, and expectations of policy easing being pushed back to later in the year. US Treasury yields have been fairly volatile and reaction to any deviations in data prints from consensus has been sharp.

Indian bond markets have so far been less volatile compared to global bond markets. However, in the absence of any major domestic triggers in the last month, Indian bond markets have also been directionally tracking global rates and Crude prices. However, volatility in IGBs has been low compared to other economies, as any correction in yields has been bought into. The impact of selling by FPIs has also been cushioned by domestic buying.

HSBC Mutual Fund

Present Outlook (Contd.)

While US markets have braced for “higher for longer” rates, we have seen in the past, that reactions to favorable data in such an environment can be sharp. Any softness in growth, employment or inflation data over the next few months will allow the markets to quickly start pricing in aggressive future policy easing. This may also trigger a rally in domestic rates. In our view, the RBI is also likely to gradually shift the liquidity deficit into surplus over the course of the next 6-9 months, flipping overnight rates from the top to the bottom of the rate corridor. This along with broad market expectations of a 50 bps of policy easing, may push overnight rates lower by 75-100 bps. Additionally, lower gross borrowing announced in the Union Budget as well as FPI buying from Jun 2024 on the back of index inclusion as well as strategic allocations will keep demand for IGBs buoyant.

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

We believe the below mentioned strategies make investment sense:

- With AAA PSU corporate bond yields trading at a favourable level, investors can look at bond funds in the 2-5 year maturity segment. **HSBC Corporate Bond Fund** and **HSBC Banking and PSU Debt Fund** are positioned in these segments
- With markets expecting rate cuts in the US as well as in India through 2024 and 2025, 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, adding an element of measured credit risk to active duration strategy (through products such as **HSBC Medium Duration Fund**), may become a rewarding proposition

Scheme name: **HSBC Corporate Bond Fund**, **HSBC Banking and PSU Debt Fund**, **HSBC Dynamic Bond Fund**, **HSBC Gilt Fund**

Potential Risk Class

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: **HSBC Medium Duration Fund**

Potential Risk Class

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	

HSBC Mutual Fund

Product Labels

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

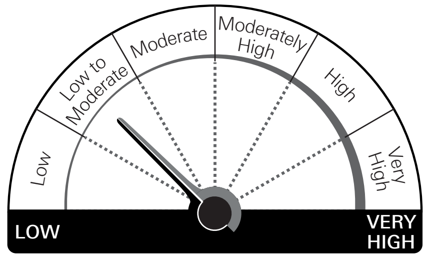
This product is suitable for investors who are seeking#

HSBC Banking and PSU Debt Fund (Banking and PSU Debt Fund) **-** An open ended debt scheme predominantly investing in debt instruments of banks, public sector undertakings, public financial institutions and municipal bonds. A relatively high interest rate risk and relatively low credit risk.

- Generation of reasonable returns and liquidity over short term
- Investment predominantly in securities issued by Banks, Public Sector Undertakings and Public Financial Institutions and municipal corporations in India.

(Benchmark: Nifty Banking & PSU Debt Index)

Riskometer



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

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 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.

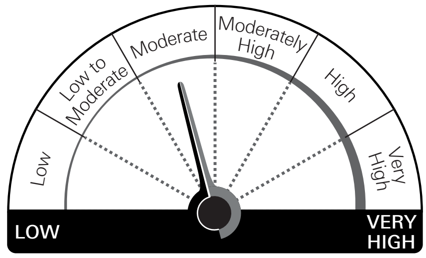
(Benchmark: NIFTY Medium Duration Debt Index Fund B-III)

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)

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 April 2024.

Investors are requested to note that as per SEBI (Mutual Funds) Regulations, 1996 and guidelines issued thereunder, HSBC AMC, its employees and/or empaneled distributors/agents are forbidden from guaranteeing/promising/assuring/predicting any returns or future performances of the schemes of HSBC Mutual Fund. Hence please do not rely upon any such statements/commitments. If you come across any such practices, please register a complaint via email at investor.line@mutualfunds.hsbc.co.in

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.

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

Disclaimer: This document has been prepared by HSBC Asset Management (India) Private Limited (HSBC) for information purposes only and should not be construed as i) an offer or recommendation to buy or sell securities, commodities, currencies or other investments referred to herein; or ii) an offer to sell or a solicitation or an offer for purchase of any of the funds of HSBC Mutual Fund; or iii) an investment research or investment advice. It does not have regard to specific investment objectives, financial situation and the particular needs of any specific person who may receive this document. Investors should seek personal and independent advice regarding the appropriateness of investing in any of the funds, securities, other investment or investment strategies that may have been discussed or referred herein and should understand that the views regarding future prospects may or may not be realized. In no event shall HSBC Mutual Fund/HSBC Asset management (India) Private Limited and / or its affiliates or any of their directors, trustees, officers and employees be liable for any direct, indirect, special, incidental or consequential damages arising out of the use of information / opinion herein. This document is intended only for those who access it from within India and approved for distribution in Indian jurisdiction only. Distribution of this document to anyone (including investors, prospective investors or distributors) who are located outside India or foreign nationals residing in India, is strictly prohibited. Neither this document nor the units of HSBC Mutual Fund have been registered under Securities law/Regulations in any foreign jurisdiction. The distribution of this document in certain jurisdictions may be unlawful or restricted or totally prohibited and accordingly, persons who come into possession of this document are required to inform themselves about, and to observe, any such restrictions. If any person chooses to access this document from a jurisdiction other than India, then such person do so at his/her own risk and HSBC and its group companies will not be liable for any breach of local law or regulation that such person commits as a result of doing so.

Document intended for distribution in Indian jurisdiction only and not for outside India or to NRIs. HSBC MF will not be liable for any breach if accessed by anyone outside India. For more details, click here / refer website.

HSBC Mutual Fund, 9-11th Floor, NESCO - IT Park Bldg. 3, Nesco Complex, Western Express Highway, Goregaon East, Mumbai 400063. Maharashtra.

GST - 27AABCH0007N1ZS | Website: www.assetmanagement.hsbc.co.in

Mutual Fund investments are subject to market risks, read all scheme related documents carefully. CL1395