HSBC Mutual Fund

Bountiful rains for India in this deluge of global uncertainty

June, 2025

Unlike the rain clouds, the global uncertainty cloud did not wither away in June which in fact even saw rainstorm in the form of Israel-Iran conflict mid-June adding to the woes of further escalation. This had consequently stormed-out investor sentiments across asset classes which are still reeling under the pressure as the deadline of reciprocal tariffs approaches on 9-Jul. During the 12-day conflict, oil prices spiked ~17% and gold prices rose 5% from their month ago levels; the EM and Asian currencies faced the headwinds from these geopolitical developments.

A few silver linings emerged, esp. the ceasefire agreement by Israel-Iran as concerns around supply disruptions and crude oil price shocks waned – and volatility eased with most EM assets and FX seeing gains coupled with dollar softening.

Another silver lining was the US and China finalizing trade terms they reached in the May-month in Geneva; these esp. included China's commitment to deliver rare earths used in various industries*. Furthermore, the expectation of the US reaching trade deals with ten other major trading partners remains to be seen. For us, a keen eye is on the US-India trade deal with Indian members end-June visit to the US to negotiate the terms of deal; this April, the US levied 26% of reciprocal tariffs on India.

One of the most tracked lead indicators has been PMI Manufacturing, which in the last 6M has displayed that the sentiments have weakened for several Asian peers, especially in the June-quarter. Meanwhile, PMI prints for India continued to stay well in the positive. While PMI is like soft data, the hard data shows that India's macros have held steady in CY25 YTD. The lead indicators paint a mixed story.

For now, there is optimism around improvement in rural demand following the healthy progress of South-west monsoon. All-India precipitation has been encouraging with rains 9% above normal as of end-June 2025. The crop sowing activity is also progressing well with Kharif sowing at +10% YoY as of 27-June. It is raining good news, on this front.

Onset of monsoon season was early, as was the RBI-MPC's policy action on 6-Jun wherein it pre-emptively, proactively front-loaded the rate cuts – reducing the Repo Rate by 50bps to 5.50% and Cash Reserve Ratio by 100bps to 3.0% (wef Sep-Dec 2025) paving the way for faster policy transmission as well as easy liquidity conditions. The aggressive liquidity measures have already pump-primed the system liquidity into surplus; on an average it is now tracking 1.2% of NDTL for Jun'25 vs a peak deficit of 1.5% of NDTL seen in Jan'25. Different asset classes reacted differently to the policy action as the MPC also changed the stance to 'neutral' by further citing that there is limited policy space to act to support growth.

The June RBI-MPC minutes did reveal that the MPC members focused on supporting growth and hence in a 5-1 vote decided to go for a front-loaded rate cut. The benign inflation trend and trajectory paved the way for aggressive easing. The minutes showed that members are now focused on policy transmission. With EBLR book at ~62% of the book, transmission is likely to be faster; while the cost of borrowing for Banks is falling only gradually. Latest data shows that credit off-take is losing momentum with across-the-board slower run-rate, YoY.

Our Take:

It was a jammed-up June - with RBI-MPC's front-loaded policy action causing a knee-jerk reaction in the fixed income markets which remained unresponsive even when the latest CPI inflation print came in lower at 2.8% YoY. With June inflation print expected to be even softer, it is seen pull the Q1FY26 average lower to ~2.7% vs MPC's estimates of 2.90%. We expect inflation to remain benign while signs on economic activity remain mixed especially with respect to credit off-take which has seen momentum fade. Governments' spending especially on capital account has been positive, YoY & MoM. On the external sector front, the recent data further affirms that the current account deficit (CAD) would stay benign, and it would be the capital flows that need to be tracked. For now, given the healthy FX Reserves at US$ 697bn, the RBI's forwards book maturing without significant implications on the FX reserves and the exchange rate reaffirm that India's external positioning remains resilient. While the USDINR reacted to the geopolitical developments and oil price spike, intermittently during June, but it stabilized as situation improved, moving in sync with EM peers. The RBI's forwards book maturity also has not impacted the system liquidity conditions over the last couple months and RBI's aggressive liquidity steps have pushed the durable liquidity well into the surplus. All-in-all, India's macros remain steady, and all eyes will be on how the policy moves through the system, with focus on transmission. Also, after reading the MPC minutes and in the current macroeconomic settings, we think that the RBI would ensure the system liquidity remains in abundance so as to quicken transmission and most likely to maintain a status-quo on the Repo rate (at 5.50%) at the Aug'25 policy. Currently, the surplus liquidity is hovering around 1.2% of NDTL levels. Recently, the RBI announced shorter dated Variable Rate Reverse Repo auctions which we believe is primarily to fine-tune the system liquidity surplus and also to anchor the overnight rates SDF-Repo Rate the corridor which is in the range of 5.25-5.50%. We continue to expect system liquidity to be in surplus zone through CY25.

Fund positioning

Following the RBI-MPC policy action, we believe room for further policy easing will only open up if the Fed cuts earlier than anticipated, or if domestic growth or inflation sharply falls below estimates. In this backdrop, we expect G-Sec rates to consolidate and broadly remain range bound. However, RBI has reiterated that liquidity will remain in surplus for the foreseeable future, which implies that liquidity will remain the main driver of softer yields domestically, going forward. Lower absolute levels in G-Sec along with lower differential with US treasuries point towards a gradual reallocation towards corporate bonds to chase carry.

Corporate bonds in the 2-4 year segment continue to offer 60-80 bps over the corresponding, which makes it the sweet spot on the corporate yield curve. We expect spreads to compress going forward by 20-25 bps. This strategy is reflected across our bond funds, where we have reduced exposure to G-Sec and increase exposure to 2-4 year corporate bonds. **HSBC Corporate Bond Fund, HSBC Short Duration Fund, HSBC Banking and PSU Debt Fund and HSBC Medium Duration Fund** are positioned in the 2-4 year corporate bond segment, to benefit from this positioning. Hence, we recommend these funds as an investment opportunity for investors looking at a short-to-medium term investment horizon.

Abbreviations:

OMO: Open Market Operations
GDP: Gross Domestic Product
CPI: Consumer Price Index
MPC: Monetary Policy Committee
RBI: Reserve Bank of India

OMO: Open Market Operations
FII: Foreign Institutional Investors
AEs: Advanced Economies
EM: Emerging Markets

Scheme name	Potential Risk Class
HSBC Corporate Bond Fund **HSBC Banking & PSU Debt Fund**	see table below

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		

A relatively high interest rate risk and relatively low credit risk.

Scheme name	Potential Risk Class
HSBC Short Duration Fund	see table below

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)			

A Moderate interest rate risk and relatively Low Credit Risk

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	

A relatively low interest rate risk and relatively moderate credit risk.

Product Labels

Scheme name and Type of scheme

This product is suitable for investors who are seeking*

HSBC 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

HSBC 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 to page no.11 of SID for details on Macaulay's Duration). A Moderate interest rate risk and Relatively Low credit risk.)

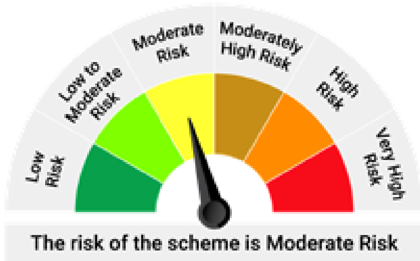
- Generation of regular returns over short term
- Investment in fixed income securities of shorter

HSBC Banking and PSU Debt Fund (An open ended debt scheme primarily 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.

HSBC 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 to page no. 12 in the SID for details on Macaulay's Duration). Relatively high interest rate risk and moderate credit risk.)

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



***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 June 30, 2025.

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 & HSBC MF Research estimates as on June 30, 2025 or as latest available.

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

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Mutual Fund investments are subject to market risks, read all scheme related documents carefully. CL2964