Emergence of divergence

June, 2026

SEBI Registered Name/Number-HSBC Mutual Fund/MF/046/02/5

June 2026 narrative was majorly dominated by two major themes – the Iran conflict and its resolution with an interim deal in place, and global Central Bank monetary policy decisions.

The month opened with the Strait of Hormuz (SoH) blockade still in force with the Brent crude hovering near US$118/bbl, global inflation pressures simmering, keeping central banks under pressure. The pivotal turn came on June 18, when the US President signed a 14-point interim Memorandum of Understanding (MoU) and launched a 60-day negotiating clock on Iran's nuclear program and reopening the Strait (SoH). Following these developments, brent crude collapsed to below US$75/bbl by month-end, one of the sharpest monthly declines on record - reshaping the inflation, rates, and currency outlook, globally. While technical talks continue, the last leg of the journey from this interim to final breakthrough is awaited.

The global Central Bank meetings witnessed a globally synchronized tightening impulse driven by Iran war-related inflation concerns. By the time a breakthrough in the US–Iran talks came through, a few global Central Banks had already acted and hiked to tackle the inflationary pressures, whereas others paused and took a data-dependent approach. Overall, the divergence is beginning to emerge between Central Banks, with the overarching inference being that oil price collapse has now materially changed the calculus for most central banks — the ECB, BOE, RBA, and the RBI are all now leaning toward pause and data-dependent approach. On the other hand, the US Fed remains the outlier hawkish force, a divergence that is likely to shape FX and rates markets, until more clarity emerges. Meanwhile, the BoJ policy conduct statement affirmed it will continue to raise the policy rate and adjust the degree of monetary accommodation, while monitoring prices levels.

On 5th June, India’s monetary policy outcome was of a delicate balancing. Unlike some of the EM Central Banks such as Indonesia, South Africa, Philippines, India’s RBI MPC maintained a calm demeanor amid a chaotic environment, signalling patience rather than complacency. It unanimously voted to pause on the Repo Rate at 5.25% while maintaining a neutral stance. RBI-MPC minutes revealed that the MPC panel was in sync to remain data-dependent and take a wait & watch approach. While the members remain vigilant on inflation trajectory with risks from weaker monsoon (& the war that was ongoing when it met), the panel did not seem to be in a hurry to hike policy rates, esp. to defend the currency. The RBI instead announced a slew of targeted rates/FX measures – which is expected to bring in the capital inflows (and aid in narrowing India’s balance of payments gap), and consequently, ease the pressure on INR – and all through June, we did see the positive effects. Following the tax exemptions for FPI debt, and RBI removing restrictions on short-term investments, broadening the scope of investible Gsecs securities (under the FAR route) has bumped up FPI debt flows. Post policy day, FPI debt inflows stood at US$ 5.6bn vs ~US$ 0.5bn in May ; and the Rupee appreciated ~ 1.2% since 4th June (pre-policy day). The policy choices reflected the RBI’s priorities and also its effectiveness.

A de-escalation in the Middle East conflict is further manifesting into improved market sentiments and softer oil prices are supporting overall India’s external sector position.

Fund positioning

The RBI and the Government coordinated move reignited foreign investor interests in Indian markets. The ease of doing business measures (for debt investments), would act as an enabler for a possible addition to Bloomberg Global Agg. Index in the upcoming mid-July review, which should help both in bringing in capital flows as well as incremental demand for IGBs.

- Tax exemption for FPIs on investments in IGBs
- Expanding the universe of FAR securities
- Providing concessional forex swap to incentivize ECBs by PSUs
- Bearing hedging cost for FCNR (B) deposits raised by banks

These measures would help in stabilizing currency and bringing in capital flows (which were two key issues that the RBI would have wanted to address when they convened for this policy).

With the situation in the middle east easing and traffic movement through the Strait of Hormuz slowly normalizing, crude prices have softened a fair bit, which has eased bond yields across all economies.

Back home, the material downward shift in the yield curve came following the dovish undertones in RBI Governor’s media interaction. In his media interview, the Governor pushed back against rate hike expectations, by stating that it was premature to discuss hikes and in case MPC wanted to indicate a rate hike, they would have changed the policy stance first. While inflation pressures will be keenly watched, inflation does not seem to be broad based, he cited.

This has resulted in a rally across asset classes as markets have pushed back rate hike expectations, and some segments are back to pre-war levels. However, we believe there is still room for yields to soften. The dollar inflows into the system due to the recent FX measures announced will push system liquidity into a large surplus. While RBI will look to roll down the large short dollar position on their books, beyond that any inflow will add to system liquidity. Banks can use the deposits for either further credit growth, reduce CD borrowing or deploy in assets (G-Sec, SDL and corporate bonds). We believe this can result in further softening of rates and spreads of corporate bonds and SDLs can compress as banks will look to deploy the surplus cash.

Investors with short-term investment horizon can look at Ultra Short Duration, Money Market Fund and Low Duration Fund as they offer pick-up over Liquid Funds.

For investors with a medium-term investment horizon, Short Duration Fund, Banking & PSU Debt Fund and Corporate Bond Fund can be an investment opportunity as they aim to provide accrual plus opportunities to create alpha.

For investors with 2-year horizon, hybrid FOF category i.e. Income Plus Arbitrage FOF provides a tax efficient solution in a debt product.

Abbreviations:

RBI: Reserve Bank of India	OMO: Open Market Operations	EMs: Emerging Markets
MPC: Monetary Policy Committee	GDP: Gross Domestic Product	FX: Foreign Exchange
SDF: Standing Deposit Facility	CPI: Consumer Price Index	AEs: Advanced Economies
MSF: Marginal Standing Facility	SDL: State Development Loans	EM: Emerging Markets
CRR: Cash Reserve Ratio	G-Sec/IGBs: Government Securities	Reference: White House press release, 20-Feb

Note: Views provided above are based on information in public domain and subject to change. Investors are requested to consult their financial, tax and other advisors before taking any investment decision(s).

Source: Bloomberg & HSBC MF Research estimates as on July 2, 2026 or as latest available.

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

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