

Risk-off sentiment

February, 2026



It's only the second month of CY26 and the year of the Horse, as per Chinese calendar, continues to ride through a period of uncertainty. Last month, the US Supreme Court (SCOTUS) ruled against tariffs imposed by the US administration using emergency powers (IEEPA). This ruling invalidated 'reciprocal' tariffs, fentanyl-linked tariffs on China, Canada and Mexico, and punitive tariffs on Brazil which were also done away on India following the interim trade deal. In response, Trump announced a blanket 15% tariff under Section 122, which allows for temporary import restrictions for up to 150 days to address large and serious balance of payment deficits of the US1. Amidst the trade policy uncertainty and geopolitical developments, esp. during the last two weeks of Feb'26 stirred another round of uncertainty. During Feb'26, market returns were subdued, while global bond yields esp. in AE's were down by ~20-30bps. Indian markets were weaker, mainly towards the end of Feb, following the Artificial Intelligence (AI) scare trade and an extension of the US-Iran



Nuclear talks in Feb'26. The beginning of March 2026 has been as tumultuous further intensifying risk aversion as also reflected in financial markets volatility and a rally in safe haven assets.

In the wake of these global headwinds, India's economic activity has evinced resilience and is chugging along. February 2026 was an eagerly awaited period as the country released its revamped series for CPI inflation and GDP growth – which was closely watched to assess the next set of moves by the policy makers, esp. the RBI-MPC. The revised series indicated that the inflation levels trended & stayed lower, esp. Core inflation, and growth remained steady despite the global uncertainties.

On 6th Feb, RBI MPC, in our view, delivered a neutral hold with a 'data-driven' approach. Later, the MPC Minutes reinforced that view as panel members indicated that it is confident in the current macroeconomic trajectory. However, it continues to remain vigilant; prioritising data-driven decisions – with focus on the release of the revamped GDP and CPI series. The panel emphasized the need for effective transmission of past policy actions. All members supported a pause in rates with Prof. Ram Singh (one of the three external members) continuing to favour a change in stance from Neutral to accommodative.

At the April policy we would look for cues on RBI MPC's CPI inflation and GDP forecasts – while also watch for any soft changes in commentary such as Core CPI or Nominal growth, etc. The MPC members might take a calibrated approach without risking a complete change in policy expectations, esp. for market participants.

On liquidity, the RBI stated that it would remain pre-emptive with sufficient allowance for unanticipated fluctuations in government balances, changes in currency in circulation, FX intervention, etc. However, it fell short of providing any details or fresh steps to manage liquidity. During Feb'26, the banking liquidity surplus averaged ~1% of NDTL, keeping rates soft all through. The softness in global yields, OMO Purchases (incl. on-screen) as well as RBI's switches/buybacks/conversions eased the gross borrowing burden, easing pressure on govt. bond yields.

To recall, following the budget announcement of a gross borrowing figure of INR 17.2 lakh crore and the net borrowing figure of INR 11.7 lakh crore which had dampened debt market sentiments; pushing yields higher across the curve, notwithstanding RBI's liquidity measures. RBI's heavy lifting in FY26 via OMO purchases of ~INR 6.9 lakh crore helped address the demand concerns.

The demand & supply dynamics continue to remain the biggest challenge going forward as well, but a few positives are at play -

- GOI conducted a switch auction with RBI worth ~ INR 75k Crs by buying FY2027 maturing securities and issuing longer end securities, thereby reducing gross borrowing for FY2027 by that amount. GOI is also conducting similar switches in the market, to ensure effective gross borrowing number reduces
- Pension Funds, who had majorly allocated to equity this financial year, are pretty much done with their incremental equity allocation. Hence, from next year onwards, we expect better interest from Pensions for G-Sec and SDLs
- Additionally, demand from Banks is also expected to pick up as their SLR holdings have reduced this year due to large amount of OMO auctions. However, we need to see evidence of demand picking up to corroborate this.

Despite some of these positive factors, we still believe RBI might have to step in with further OMO purchases of possibly INR 3-4 trn to ensure Govt. borrowing goes through. Geo-political risks continue to dictate terms currently and markets will be closely watching how things unfold.

Fund positioning

Against this backdrop, we continue to remain underweight on our G-Sec exposure in the 10-15 year segment and neutral on our exposure to 30-40 year G-Sec as levels in this segment remain favourable with 10 year to 30 year spreads still fairly wide at around 75 bps. We will keep evaluating upcoming data to make any changes to our duration positioning.

SDLs aim to offer good value over IGBs and once we move into next quarter there is possibility of spread compression. We have increased our allocation to SDLs across our funds in the 5-11 year segment and will continue to tactically add position if spreads increase further.

Durable liquidity is currently around INR 5.5 trn and we might end the year at close to INR 4.5 trn. Systemic liquidity might see some pressure during advance tax, but liquidity should ease with month end spending. Once RBI pays dividend to the Government durable liquidity is expected to increase further. Corporate bonds in the 2-3 year segment are currently trading at above 110-125 bps spread over G-Sec. We believe going into April, these spreads will compress and hence we continue to remain positive on this segment across our bond funds.

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

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

For investors with 2-year horizon, Income Plus Arbitrage FOF category provides a tax efficient solution in a debt product. The underlying vis-à-vis Short Duration Fund, Banking & PSU Debt Fund, Corporate Bond Fund and Ultra Short Duration focus on accrual. The FOF also takes tactical calls in duration products as they provide accrual plus opportunities to create alpha through capital gains.

Abbreviations:

RBI: Reserve Bank of India
MPC: Monetary Policy Committee
SDF: Standing Deposit Facility
MSF: Marginal Standing Facility
CRR: Cash Reserve Ratio
OMO: Open Market Operations
GDP: Gross Domestic Product

CPI: Consumer Price Index
SDL: State Development Loans
G-Sec/IGBs: Government Securities
EMs: Emerging Markets
FX: Foreign Exchange
AEs: Advanced Economies
EM: Emerging Markets

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 advisor for any investment decisions.

Source: Bloomberg & HSBC MF Research estimates as on February 28, 2026 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.

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.

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.

The above information is for illustrative purposes only. The sector(s)/stock(s)/issuer(s) mentioned in this document do not constitute any research report nor it should be considered as an investment research, investment recommendation or advice to any reader of this content to buy or sell any stocks / investments.

© Copyright. HSBC Asset Management (India) Private Limited 2026, ALL RIGHTS RESERVED.

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