

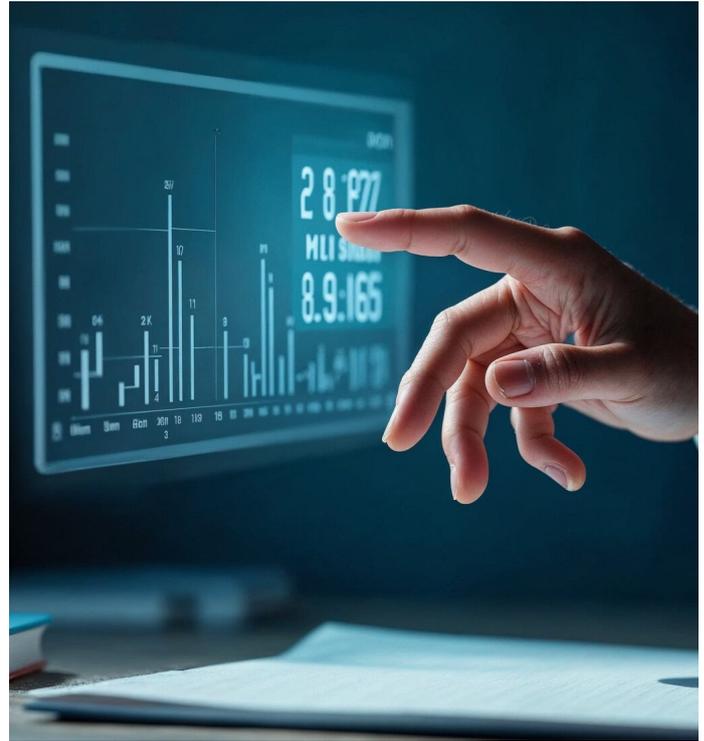
# Debt Market Review Here we go again...

January, 2026



Entering 2026, expectations for reduced uncertainty compared to 2025 were widespread. However, the year commenced with continued global instability, highlighted by intensified geopolitical tensions—including US intervention in Venezuela, ongoing concerns in the Middle East, ambiguity over the Russia-Ukraine peace deal, and disputes around Greenland.

Back home, the first advance estimates of GDP growth projections for FY26 position are pegged at 7.4% with Nominal GDP growth at 8% YoY for FY26. Despite the ongoing global uncertainties, the economic outlook remains positive. And with the most recent developments around bilateral free trade agreements (FTAs) with the European Union (EU) and the US (yet to inked with details still unknown) – have lifted animal spirits and receded downside risks to economic growth. The FY27 Union Budget released on 1-Feb too has also demonstrated policy continuity with focus on capital-infrastructure building expenditure and fiscal consolidation (although modest), remaining growth conducive.



The RBI MPC, of 6th Feb, has, in our view, delivered a neutral hold and is likely to take a ‘data-driven’ approach, more so because of the base revisions in India’s GDP and CPI. In a unanimous vote it held the Repo Rate at 5.25% while maintaining a neutral stance, with one member favouring a change in stance from neutral to accommodative. 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.

Even as the new base change release for CPI and GDP are due in Feb’26, the growth-inflation dynamics are suggesting a pause on policy rates, for now. Our top-down analysis indicates that the macroeconomic environment remains conducive for policy rates to remain steady and lower for longer, with risks mainly emanating from external sector & global developments. The India-US trade deal developments have added to optimism and the currency has gained considerably since the news broke out. The currency movement and receding pressures could also mean that the need for the RBI to conduct additional OMO purchases to infuse durable liquidity may also come down. Having said that, the situation remains fluid and a nimble footed approach to liquidity management remains critical for smoother transmission via the rates channel.

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 dampened debt market sentiment; pushing yields higher across the curve, notwithstanding RBI’s liquidity measures. The series of measures included RBI’s OMO Purchases of INR 2.0 lakh crore in Jan’26 along with the longer dated variable rate repo auctions of 1.4 lakh crore, FX swaps of INR 90K crore – together amounting to INR 4.3 lakh crore during Jan’26.

The demand-supply imbalance has weighed on debt markets for a while now. Moreover, around mid-Jan, sentiments remained frail due to weak inflows in debt market further fuelled by the news development that Indian government bonds will not be immediately added to Bloomberg’s Global Aggregate Index, according to the index provider and stated that it will give an update by mid-2026. The demand situation coupled with elevated Centres’ gross supply and the uncertainty around States issuances are likely to keep debt market sentiments frail.

Following the neutral policy outcome and absence of any fresh liquidity measures, yields have hardened, across the curve. All-in-all, the neutral hold and current dynamics still suggest there is room for one final cut, the final policy action remains data dependent. The markets are likely pricing in the end of the rate easing cycle; Hence, even if the final cut comes through it might bring little cheer to the bonds market and we are likely to see policy rates stay lower for longer and markets are likely to see consolidation.

## Fund positioning

With markets at the fag end of the rate easing cycle and RBI already conducted a large amount of OMOs this year, most of the positives are already accounted for. The borrowing calendar, as per the Union Budget, was higher than market expectations. That clubbed with sizeable SDL supply remains a concern from a demand supply perspective. While RBI might need to conduct OMOs next financial year as well, the demand supply dynamics remains slightly unfavourable. Hence, keeping these factors in mind, we have reduced our duration positioning on IGBs to underweight on our duration funds. Liquidity on the other hand remains positive and with RBI's comments today that liquidity management will be pre-emptive, markets will believe that liquidity measures will continue. While, increased CD supply this quarter will keep pressure on short end rates, we believe that spreads overnight rates offer favourable pick up, therefore, we continue to remain positive on 1–3-year corporate bonds. Additionally, SDLs offer good value over IGBs and once we move into next quarter there is possibility of spread compression. We have started allocating SDLs across our funds and will continue to tactically add position as spreads increase further.

Investors with short-term investment horizon can look at the liquid plus category i.e. Ultra Short Duration, Money Market Fund and Low Duration Fund as they may offer attractive pick-up over Liquid Funds.

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

For investors with 2-year horizon, Income Plus Arbitrage FOF 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 to generate alpha depending on market opportunities.

### Abbreviations:

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

Scheme name	Potential Risk Class			
<b>HSBC Corporate Bond Fund</b>  <b>HSBC Banking &amp; PSU Debt Fund</b>	<b>Potential Risk Class</b>			
	Credit Risk →	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
	Interest Rate Risk ↓			
	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			
<b>HSBC Short Duration Fund</b>	<b>Potential Risk Class</b>			
	Credit Risk →	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
	Interest Rate Risk ↓			
	Relatively Low (Class I)			
	Moderate (Class II)	A-II		
Relatively High (Class III)				

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

Scheme name	Potential Risk Class			
<b>HSBC Ultra Short Duration Fund</b>  <b>HSBC Low Duration Fund</b>  <b>HSBC Money Market Fund</b>	<b>Potential Risk Class</b>			
	Credit Risk →	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
	Interest Rate Risk ↓			
	Relatively Low (Class I)		B-I	
	Moderate (Class II)			
Relatively High (Class III)				

A Scheme with relatively Low interest rate risk and relatively Moderate Credit Risk

Potential Risk Class ('PRC') matrix indicates the maximum interest rate risk (measured by Macaulay Duration of the scheme) and maximum credit risk (measured by Credit Risk Value of the scheme) the fund manager can take in the scheme. PRC matrix classification is done in accordance with and subject to the methodology/guidelines prescribed by SEBI to help investors take informed decision based on the maximum interest rate risk and maximum credit risk the fund manager can take in the scheme, as depicted in the PRC matrix.

## 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

**Benchmark Index:** NIFTY Corporate Bond Index A-II

Scheme Risk-o-meter



Benchmark Index



**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.

**Benchmark Index:** NIFTY Banking & PSU Debt Index A-II



**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-term maturity.

**Benchmark Index:** NIFTY Short Duration Debt Index A-II



**HSBC Ultra Short Duration Fund** (An open ended ultra-short term debt scheme investing in instruments such that the Macaulay Duration of the portfolio is between 3 months to 6 months. (Please refer Page No. 11 for explanation on Macaulay's duration). Relatively Low interest rate risk and moderate credit risk.)

- Income over short term with low volatility.
- Investment in debt & money market instruments such that the Macaulay Duration of the portfolio is between 3 months- 6 months. ^

**Benchmark Index:** NIFTY Ultra Short Duration Debt Index A-I

**HSBC Money Market Fund** (An open ended debt scheme investing in money market instruments. Relatively low interest rate risk and moderate credit risk.)

- Generation of regular income over short to medium term
- Investment in money market instruments

**Benchmark Index:** NIFTY Money Market Index A-I

^The Macaulay duration is the weighted average term to maturity of the cash flows from a bond. The weight of each cash flow is determined by dividing the present value of the cash flow by the price.

**HSBC Low Duration Fund** (An open ended low duration debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 6 months to 12 months. (Please refer page 11 of the SID for explanation on Macaulay Duration). A relatively low interest rate risk and moderate credit risk)

- Liquidity over short term
- Investment in Debt / Money Market Instruments such that the Macaulay^ duration of the portfolio is between 6 months to 12 months.

**Benchmark Index:** NIFTY Low Duration Debt Index A-I



NIFTY Short Duration Debt Index



**HSBC Income Plus Arbitrage Active FOF** (Erstwhile HSBC Managed Solutions India - Conservative) (An open-ended Income plus Arbitrage Active Fund of Fund scheme)

- To provide income over the long-term.
- Investing predominantly in schemes of debt mutual funds, Arbitrage Funds and money market instruments.

**Benchmark Index:** 65% NIFTY Short Duration Debt Index + 35% NIFTY 50 Arbitrage Index

NIFTY 50 Arbitrage Index



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

**Note on Risk-o-meters:** Riskometer is as on 31 January 2026, Any change in risk-o-meter shall be communicated by way of Notice cum Addendum and by way of an e-mail or SMS to unitholders of that particular scheme.

**Note:** Riskometer is as on 31 January 2026, Any change in risk-o-meter shall be communicated by way of Notice cum Addendum and by way of an e-mail or SMS to unitholders of that particular scheme.

**Source:** Bloomberg, RBI, HSBC Mutual Fund, Data as on 6 Feb 2026

**Note:** Views provided above are based on information in public domain at this moment and subject to change. Investors are requested to consult their financial advisor for any investment decisions.

**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 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](http://www.assetmanagement.hsbc.co.in)

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

CL 3669