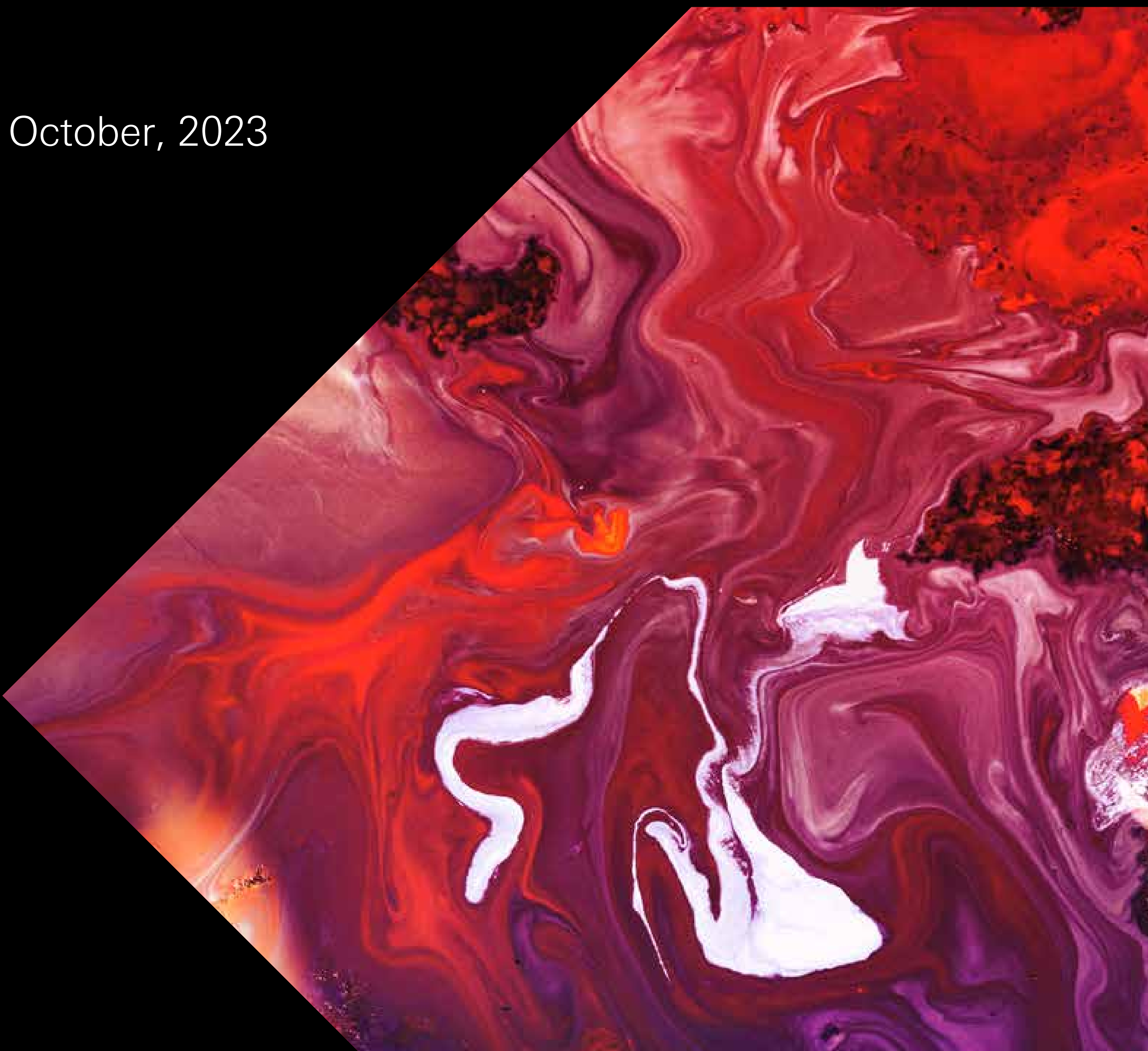
HSBC Mutual Fund

Debt Market Review

October, 2023



Global markets remained volatile during the month of October and the higher for longer theme continued to occupy centerstage. Fresh geopolitical tensions emerging in the Middle East also caused volatility in global markets.

The Federal Reserve in its meeting on 1st November, maintained status quo on rates. It mentioned that holding rates unchanged would give the FOMC time to assess additional information on how the economy is performing. The Fed Chair mentioned in his remarks that the process of getting inflation sustainably down to 2% has a long way to go and the need for a restrictive stance remains in place. The Federal Open Market Committee (FOMC) statement however noted the tightening financial conditions, which it mentioned as a potential headwind to economic activity going forward.

The European Central Bank (ECB) in its meeting in October, held on its benchmark rates (after 10 consecutive rate hikes) noting underlying easing of inflationary momentum while mentioning that domestic price pressures remained strong. The Bank of England also maintained status quo on rates in its meeting on 2nd November.

Latest US CPI inflation and UK inflation came in at 3.7% and 6.7%, respectively, unchanged from the previous months while the inflation prints in the Eurozone dropped sharply to 2.9% vs 4.3% in the previous month.

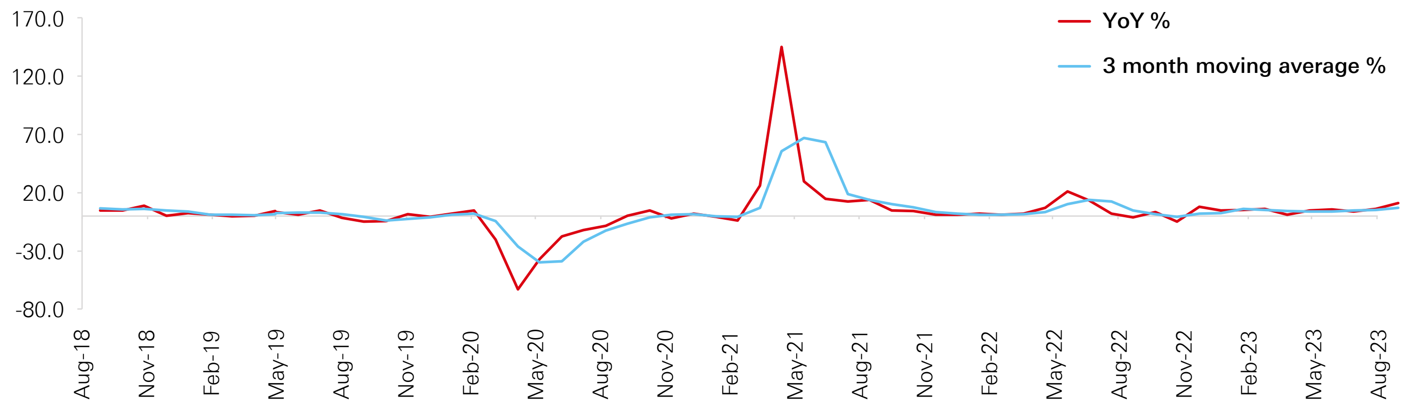
US Treasury yields continued to rise in the month of October with the 10-year benchmark moving from 4.57% in end September to 4.93% as of end October after briefly touching 5% in the interim. Post the Federal Reserve meeting, given a perception of relatively dovish commentary accompanying the FOMC decision, yields dropped lower to 4.66% as on 2nd November. The inversion in the UST yield curve has further narrowed in October, with the 2-year vs 10-year spread at ~16 bps (vs ~47 bps in end September). Crude prices stayed high during the month given geopolitical tensions eventually closing the month at USD 87/bbl.

Domestically, the key event during the month was the RBI policy. While the policy rate and stance were on expected lines, the key surprise was the reference to OMO sales in the governor's statement, which imparted a hawkish tinge to the policy. RBI's growth and inflation forecasts were largely unchanged. The RBI governor continued to reiterate that "the inflation target is 4% and not 2% to 6%" and the need to align inflation to this target of 4% on a durable basis. Liquidity, after turning positive earlier in the month, post the release of I-CRR, turned negative towards the end of the month.

Macro-Economic Developments

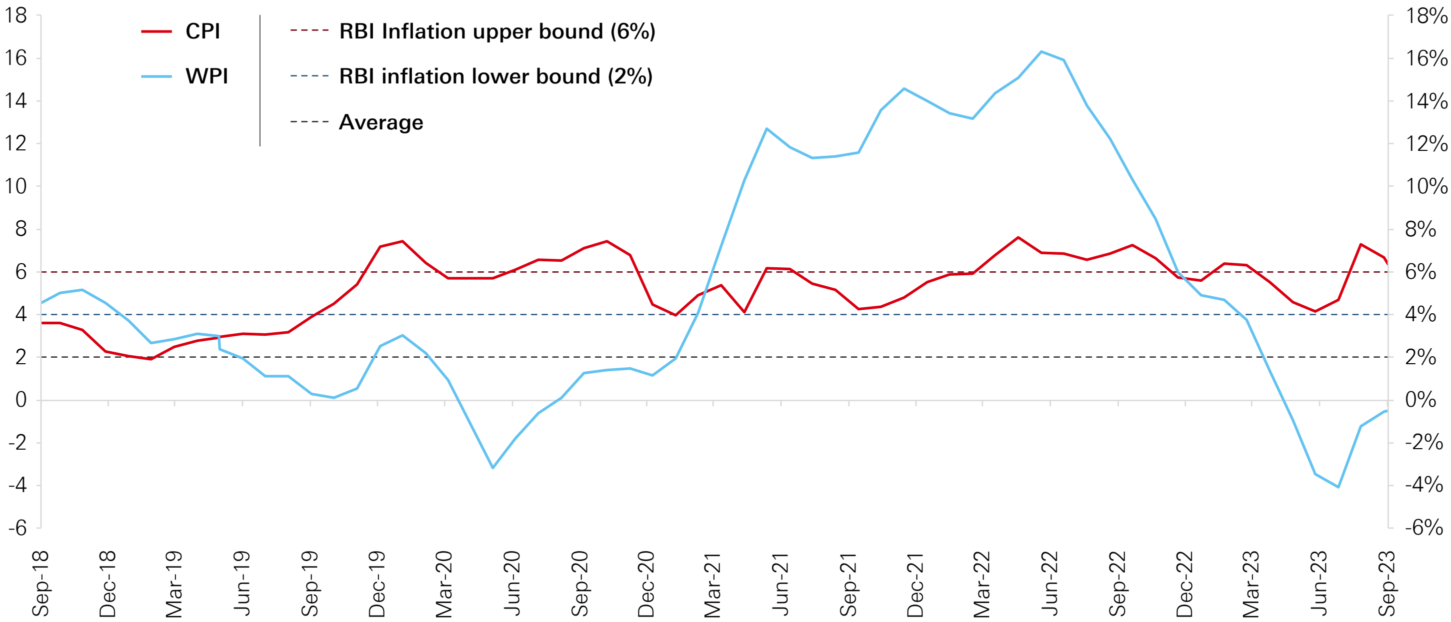
- On the domestic macro front, the CPI inflation for the month of September came in lower than expected at 5.02% with core inflation moving further lower to 4.5% vs 4.8% in the previous month. GST collections for the month of October continued to stay robust at INR 1.72 Lakh Crs. Manufacturing PMI, while staying healthy, dropped marginally to 55.5 vs 57.5 in the previous month. IIP growth for the month of August was strong at 10.3%, partly aided by base effects.

Index of Industrial Production - IIP



Source: CRISIL, MOSPI, Data as on 31 October, 2023, Past Performance may or may not be sustained in future.
Investors should not consider the same as investment advice.

Inflation target and trend



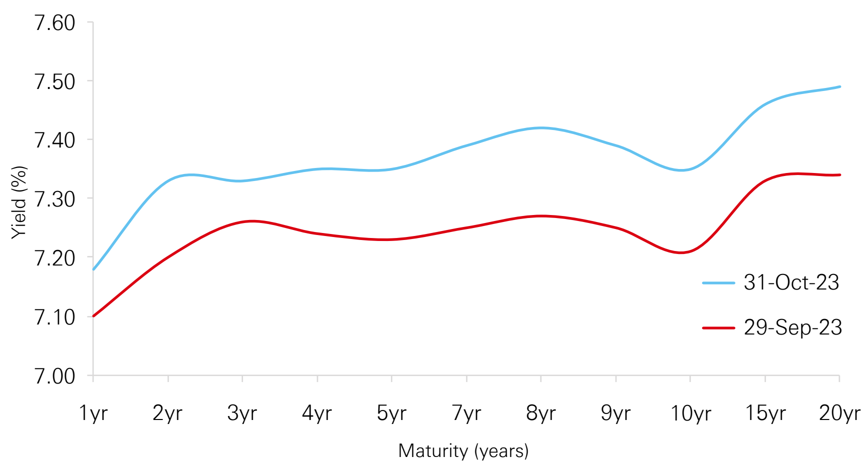
Source: CRISIL, MOSPI, RBI, Data as on 31 October, 2023, Past Performance may or may not be sustained in future.
Investors should not consider the same as investment advice.

Market Movements

After an up-move in yields in the immediate aftermath of the RBI policy, Indian bond markets traded in a range and eventually 10-year closed the month 14 bps higher at 7.36% vs 7.22% in the previous month. Elsewhere on the yield curve, 2-5 year G-Sec rose by 7-11 bps during the month. Corporate bonds were higher by 10-15 bps across the yield curve, while OIS levels were also higher by 13-19 bps across the curve.

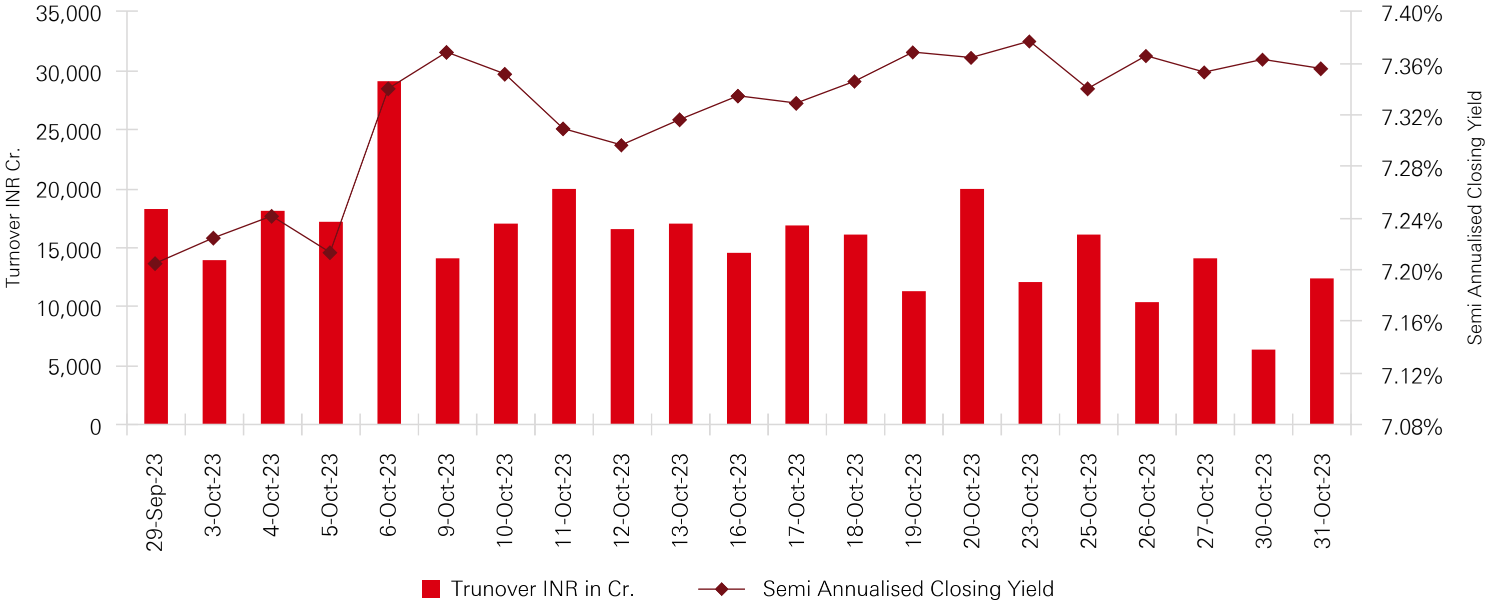
Debt Market Indicators	31-Oct-23	29-Sep-23
Call Rate	6.60%	6.50%
3-mth CP Rate	7.70%	7.41%
5-yr Corp Bond	7.72%	7.63%
10-yr Gilt	7.35%	7.21%
Repo	6.50%	6.50%
SDF	6.25%	6.25%
CRR	4.50%	4.50%
1-mth CDs	7.06%	7.05%
3-mth CDs	7.33%	7.04%
6-mth CDs	7.50%	7.25%

Yield Curve



Source: CRISIL Fixed Income database. Data as on 31 October, 2023, Past Performance may or may not be sustained in future.
Investors should not consider the same as investment advice.

Movement of 10-Year Gilt Benchmark



Source: CRISIL Fixed Income database. Data as on 31 October, 2023, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.

Outlook

Yields in the US have seen some relief post the FOMC, while trading in the 4.80%-5.00% band over the last two weeks. Although, the FOMC downplayed any guidance pertaining to further hikes, they clearly indicated no rate cuts in pipeline, which keeps the "higher for longer rates" theme intact.

Indian bond markets have so far been less volatile relative to global bond markets. The inclusion of IGBs in the global bond index has cushioned the impact of the volatility in global markets to some extent. Additionally, with the Government sticking to their borrowing program in conjunction with a low net supply (given substantial G-Sec maturities over the next few months) for second half of this financial year, the demand supply equation for G-Sec remains favorable in the near term. On the other hand, with oil prices remaining volatile due to geopolitical tensions, incremental pressure on inflation can't be ruled out. The biggest overhang in the domestic markets continues to be the OMO sales remark by the RBI Governor, which has kept the markets guessing about the quantum and timing of the OMO sales to be conducted.

Globally, rates could remain volatile going forward. Against this backdrop and given the overhang of potential OMO sales, our bond markets could see some correction with yields moving higher in the immediate term. However, we have seen in the past that reversal from such points can be sharper than the move up. Hence, we believe that any further correction can provide an opportunity to add duration and provide a good entry point into longer duration bond funds. In our view, the risk–reward has turned in favor of careful deployment into certain areas which may offer risk adjusted returns.

Outlook (contd.)

Based on the above outlook above, we believe the below mentioned strategies make investment sense:

- If yields do move higher over the coming few months, investors can look at bond funds in the 2- 5-year maturity segment. **Corporate Bond Funds** and **Banking and PSU Debt Funds** are positioned in these segments.
- For investors willing to take some risk – with volatility being high and markets likely to swing from one narrative to the other during the course of the next few months, we believe **Dynamic Bond Fund** and **Gilt Funds** may provide more opportunities through duration changes to take advantage of these movements.
- And for the next level of potential alpha seeking investors, adding an element of measured credit risk to these strategies through **Medium Duration Funds** can become a proposition.

Source: Bloomberg & HSBC MF estimates as on Oct 2023 end 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.

© Copyright. HSBC Asset Management (India) Private Limited 2023, 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 | Email: investor.line@mutualfunds.hsbc.co.in | Website: www.assetmanagement.hsbc.co.in

Mutual Fund investments are subject to market risks, read all scheme related documents carefully. CL799