Event update

22 September 2022

US Fed rate hike impact

75 bps hike bringing the target rate to 3.0-3.25% from 2.25-2.5%

US Federal Reserve raised interest rates today by 75 bps in line with market expectations. Post announcement, Indian bond yields inched up. Overall, shorter to medium end of the G-Sec yield curve can provide investment opportunities.

Federal reserve rate decision and its impact

In line with market expectations, Federal Reserve raised interest rates at its September meeting by 75 bps bringing the target fed funds rate to 3.0%-3.25% from 2.25%-2.5% earlier, the third consecutive increase of 75 bps. The Federal Reserve Open Market Committee (FOMC) also noted that ongoing increases in the fed funds rate will be appropriate in order to bring inflation to the 2% objective.

The updated September FOMC projections contained significant changes relative to those published in June. Notably, the path for Fed funds rate has been pushed up significantly. The median expectation of the FOMC on the fed funds rate for end 2022 is now at 4.4%, 100 bps over the earlier projection at 3.4% and at 4.6% in end 2023 (versus 3.8% projected in June). Further despite lower projected growth and higher projected unemployment, the Fed revised up its 2022 and 2023 core PCE (Personal Consumption Expenditure) inflation forecasts. While the committee did not expect the rapid policy tightening to trigger a wider recession, Chairman Powell noted that the chances of a soft landing were diminishing and that there was not a painless way to bring inflation down.

Impact on global markets

After an initial spike up in US 10 yr treasury yields after the Fed rate decision, the 10y yields settled at ~3.55%. However, 2 yr bond yields, which are more sensitive to near term changes in the Fed funds rate inched higher and remained elevated at 4.11% (as of September ‘22). Global Equity markets were volatile and inched lower given risk off sentiments.

Impact on Indian bond market and our view

In line with global cues, Indian bond yields also inched higher with the 10 yr Government benchmark inching higher to 7.32 (as of 1.30 PM on 22nd September) v/s 7.23 on the previous day. The shorter end of the curve reacted more significantly with the 5 yr (2027) higher by ~13 bps at 7.32 and the G-Sec curve is now completely flat from the 5 yr point onwards. The flattening reflects expectations that the RBI will continue to front load rate hikes given the global backdrop. The corporate bond curve has seen a similar 10-15 bps move across various points at the short to medium (3 to 5 yr) and long end (10 yr) of the curve. Rupee crossed the 80 mark and USDINR trades at 80.73 currently, weaker by ~1%, given the global up-move in dollar and risk-off conditions.

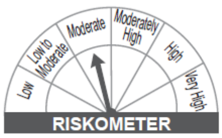
HSBC Asset Management

Over the past month, we have seen the 10 yr and beyond part of the curve outperform on the back drop of speculation about of inclusion of Indian government bonds in global bond indices and decline in crude prices, while the 5yr and below part of the curve has moved up by nearly 35 bps as markets repriced the extent of near term rate hikes by RBI. Terminal rate expectations have also moved marginally higher given global inflation remains persistent and global central banks have turned further hawkish in recent times.

Going forward, in terms of medium term impact on rates, we expect that at the margin, RBI might have to normalize rate conditions and liquidity in a relatively quicker manner assuming Federal Reserve hiking cycle proceeds faster and deeper than earlier expected. While RBI will be guided primarily by domestic macro-economic conditions, it is likely to remaining cognizant of external rate conditions and their impact on macro-economic stability and currency markets. Further, India CPI Inflation is expected to remain elevated at least till end of FY22.

Overall, there remain opportunities at the shorter to medium end of the G-Sec yield curve which has already repriced to a large extent, and hence may present opportunities in terms of carry and roll down going forward. The longer end of the curve will be more impacted by global cues and bond supply/demand considerations. The bond supply is also concentrated at the belly and long end of G-Sec curve. Overall we remain underweight on duration across funds except in funds up to 1 yr Macaulay duration where we are neutral. The money market and corporate bond curve up to 1 yr has largely priced in near term rate hikes by RBI and opportunities in terms of carry and roll-down are attractive.

The HSBC CRISIL IBX 50:50 Gilt Plus SDL Apr 2028 Index Fund invests in line with the index construction in securities at the 5y/6y point of the yield curve. While yields have inched up across the short to medium end of the yield curve and hence also at the 5/6 yr point of the curve in the last 2 months, the carry remains attractive and roll-down presents an opportunity for the same over a 3 yr + time-frame. Further, given the attractive carry, this fund remains an attractive proposition for investors who intend to hold till maturity, despite near term volatility.

Scheme Name	Scheme Risk-o-meter	Benchmark Risk-o-meter
HSBC CRISIL IBX 50:50 Gilt Plus SDL Apr 2028 Index Fund **(An open-ended Target Maturity Index Fund tracking CRISIL IBX 50:50 Gilt Plus SDL Index – April 2028. Relatively high interest rate risk and relatively low credit risk)** **This product is suitable for investors who are seeking*:** ▶ Income over target maturity period ▶ Investment in constituents similar to the composition of CRISIL IBX 50:50 Gilt Plus SDL Index – April 2028	 **Investors understand that their principal will be at Moderate risk**	**Scheme Benchmark:** **CRISIL IBX 50:50 Gilt Plus SDL Index – April 2028** 

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

Potential Risk Class			
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)	AIII		
A Scheme with Relatively High interest rate risk and Relatively Low credit risk			

Please note that the above risk-o-meter is as per the product labelling of the scheme available as on the date of this communication/ disclosure. As per SEBI circular dated October 5, 2020 on product labelling (as amended from time to time), risk-o-meter will be calculated on a monthly basis based on the risk value of the scheme portfolio based on the methodology specified by SEBI in the above stated circular. The AMC shall disclose the risk-o-meter along with portfolio disclosure for all their schemes on their respective website and on AMFI website within 10 days from the close of each month. 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.

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.

Source: HSBC Asset Management, Bloomberg, Data as at 22 Sep '22 unless otherwise given. Past performance may or may not sustained in the future.

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.

Email: hsbcmf@camsonline.com | Website: www.assetmanagement.hsbc.co.in

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