

Trade tariff matters: Deal or No deal?

July, 2025



The 90-day pause on reciprocal tariff by the US administration was pushed ahead to early August. Many countries continued with negotiations and while a few countries managed to conclude the deal, a few countries continue to negotiate the terms, yet there is a new wave of sweeping tariffs on trading partners without much retaliation. Nearly 70-countries have seen fresh tariff rate announcements which for most nations has been set at a lower rate compared to the levies announced in April 2025. The implementation date for the new tariffs is early August which consequently is seen raising the effective global tariff rate for US imports to 17.5% which is a substantial increase from the 2.3% levels seen last year. As per a note by the Budget Lab (Yale), it would be the highest level seen since 1935. The new duties would test the global trade and global growth resilience. This was also the topic illustrated by the IMF in its July WEO. The trade tariff talks have played a key role in shaping market sentiments through July with the quickest channels of impact visible in asset churn and FX swings across countries, EMs & AEs.



July is like a story of two halves where the first half of the month saw trade deals come through and keeping sentiments positive, however, the second half of July saw trade deals with little details, continued negotiations, increasing pressure on the Fed Chair Powell with concerns around the Fed's independence. By the end of July, outlook turned a little grim following the weak jobs data and resignation by a US Fed Governor – which sent stock markets lower, pushed the dollar higher and the US treasuries yields higher. The AEs saw weaker sentiment in general amid the tariff and policy uncertainty. The EMs too saw sentiments remaining fragile, reflecting in their currency movements. For July, the EM basket ended weaker against the dollar.

One of the most tracked lead indicators has been PMI Manufacturing which has displayed a weakening momentum. The global PMI fell by a full point to 48.2 in July, with the decline driven by the US and China with Europe in contraction zone. Among EMs it remains to be seen if the positive trend esp. in Vietnam, Thailand, Malaysia, Philippines sustains. For Asia ex Japan and China, activity was robust, mainly driven by India.

India's July PMI Manufacturing accelerated to 59.1 sustaining the rapid pace of expansion seen in recent years with positive trends in the new orders but it was driven by domestic orders as export orders rose at a slower rate. Having said that, 25% plus a potential penalty by the US on Indian imports are higher than the ones levied on most Asian exporting countries which is seen as a major risk to manufacturing.

For now, there is optimism around improvement in rural demand following the healthy progress of South-west monsoon. All-India precipitation has been encouraging with rains 6% above normal as of end-July 2025. The crop sowing activity is also progressing well with Kharif sowing at +4% YoY as of 25-July. Over 75% of normal area has been sown till end-July - higher than last two years. It is raining good news, on this front.

MPC takes a pause to assess: The RBI MPC unanimously decided to maintain a status-quo on policy rates with the Repo Rate held steady at 5.50% and retained the policy stance as neutral. We see today's policy decision as a neutral hold and the MPC would take a meeting-by-meeting approach. Today's hold is the first rate hold since Dec'24, as the RBI had undertaken 100bps of policy rate cuts in 1H CY25. At the Jun'25 policy, the RBI Governor had signaled data dependency after a frontloaded move of 50bps cut.

The policy decision is in sync with its earlier policy remark "... monetary policy is left with very limited space to support growth." While the MPC has retained its growth forecast at 6.5% for FY26 and 6.6% for Q1FY27, the downside risks to growth are somewhat higher amid the trade tariff related uncertainty. Meanwhile, the downward revision in its inflation forecast by 60bps to 3.1% for FY26 still gives the elbow room to act on policy rates. The space to cut, however, remains constrained as the four-quarter ahead inflation forecast is pegged at 4.9% YoY for the June-ending quarter of 2026.

Growth-inflation outlook: Growth has held up well with some pick-up expected in the coming festive season and is evolving in line with MPC's assessment of 6.5% for FY26 and is sticky at 6.6% for Q1FY27 - while stating that the uncertainties of tariffs are still evolving.

The FY26 inflation outlook has turned more benign than expected in June supported by large favourable base effects, steady progress of the monsoon, healthy kharif sowing, adequate reservoir levels and comfortable buffer stocks of foodgrains. MPC also noted that, core inflation is likely to remain moderately above 4% during the year. Overall, inflation forecast is above the 4% levels for 1H CY26.

MPC's growth and inflation forecasts laid out below:

	Growth			Inflation			
Period	Jun-25	Aug-25	Revision	Apr-25	Jun-25	Aug-25	Revision
Q1 FY2026	6.50%	6.50%	0.00%	3.60%	2.90%	2.70%	-0.20%
Q2 FY2026	6.70%	6.70%	0.00%	3.90%	3.40%	2.10%	-1.30%
Q3 FY2026	6.60%	6.60%	0.00%	3.80%	3.90%	3.10%	-0.80%
Q4 FY2026	6.30%	6.30%	0.00%	4.40%	4.40%	4.40%	0.00%
FY2026	6.50%	6.50%	0.00%	4.00%	3.70%	3.10%	-0.60%
Q1FY27	-	6.60%	-	-	-	4.90%	-

Source: RBI MPC Policy Resolutions

Liquidity: The RBI did not announce any fresh measures, but did indicate that it will continue to be nimble and flexible in its liquidity management. The remark was to "maintain sufficient liquidity in the banking system" as compared to any indication on the level of liquidity per se. The Governors' statement did reveal that the weighted average call rate (WACR) will continue to be the operating target of monetary policy, and it would continue with the two-sided operations across tenors to modulate system liquidity with the objective of maintaining the operating target rate at the policy rate. This is expected to keep the shorter dated rates aligned to the WACR rate. The easy liquidity conditions would enhance policy transmission.

Our Take:

The policy outcome was largely a non-event policy and in-line with our expectations. However, the markets were disappointed following the unanimous decision of a status-quo policy, no downward revision in growth and higher inflation prints for 1HCY26. Going forward, as the dust settles on tariff related uncertainties and its impact on India's growth becoming more visible the RBI-MPC would take a calibrated approach by end-CY25, more so with inflation outlook remaining benign till Q4FY26. The liquidity conditions would stay easy with the CRR cuts kicking-in in one-months' time furthering the past policy easing to permeate into lower borrowing rates. Lastly, the US Fed moving lower on its rates from September may further provide the wiggle room to act on the policy rates. Currently, with a benign inflation outlook, India's growth story will take center stage at the next few policy meetings. We continue to believe that the easing cycle is not over yet and that the room to cut opens-up in the backdrop of the abovementioned scenarios playing out. The Governor at the presser stated that it remains data dependent and that it will take a meeting-by-meeting approach.

Market outlook and Fund positioning

RBI MPC decided to leave repo rate at 5.50% and maintained the neutral stance, emphasizing a pause in backdrop of frontloaded 100 bps of cuts in the preceding policies. However, MPC recognized the global uncertainties & tariffs pose a risk to growth while downplaying its impact on inflation. In this scenario, MPC is likely to remain data dependent. Any possible room for further easing may open up if GDP prints come lower than expectations and Fed starts aggressively easing due to weaker labour market conditions. G-Sec rates might remain range bound till any of these triggers come into effect. However, we continue to believe liquidity will be the main driver of yields going forward, and RBI will continue to provide the system with ample liquidity to ensure transmission of earlier rate cuts happen in the system. Currently, corporate bonds in the 2-4 year segment offer favorable spreads of 65-75 bps over IGBs and is likely to benefit from spread compression. As we approach the fag end of this easing cycle, focus is likely to remain on corporate bonds to chase the carry, and we continue to remain overweight on 2-4 year corporate bonds.

HSBC Corporate Bond Fund, HSBC Short Duration Fund, HSBC Banking and PSU Debt Fund and HSBC Medium Duration Fund are positioned in the 2-4 year corporate bond segment, to benefit from this positioning. Hence, we recommend these funds as an investment opportunity for investors looking at a short-to-medium term investment horizon.

Abbreviations:

LAF: Liquidity Adjustment Facility	MPC: Monetary Policy Committee
SDF: Standing Deposit Facility	RBI: Reserve Bank of India
OMO: Open Market Operations	OMO: Open Market Operations
GDP: Gross Domestic Product	FII: Foreign Institutional Investors
CPI: Consumer Price Index	AEs: Advanced Economies
Core CPI: CPI excluding food and fuel components	EM: Emerging Markets
	WEO: World Economic Outlook

Scheme name

Potential Risk Class

HSBC Corporate Bond Fund
HSBC Banking & PSU Debt Fund

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)	A-III		

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

Scheme name

Potential Risk Class

HSBC Short Duration Fund

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)	A-II		
Relatively High (Class III)			

A Moderate interest rate risk and relatively Low Credit Risk

HSBC Medium Duration Fund

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)		B-III	

A 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

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

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.

HSBC Medium Duration Fund (An open ended medium term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 3 years to 4 years (please refer to page no. 12 in the SID for details on Macaulay's Duration). Relatively high interest rate risk and moderate credit risk.)

- Generation of income over medium term
- Investment primarily in debt and money market securities



*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 July 2025. 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: RBI, HSBC MF Research, Data as on 6 Aug 2025.

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.

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