HSBC Mutual Fund

Shockwaves and Stabilisers

July, 2026

SEBI Registered Name/Number-HSBC Mutual Fund/MF/046/02/5

The resurgence in geopolitical tensions and key Central Bank meetings, especially the US Fed meet, were the dominant forces that influenced market sentiments in July 2026.

The dominant macro theme of the month was the intensifying US-Iran conflict, which reverberated across energy, rates, and equity markets throughout July. The fluctuations in oil prices had ripple effects across asset classes; the sharp gyrations kept investors on edge. Oil prices swung higher in response to renewed geopolitical tensions, then drifting lower as leaders signal towards peace talks rekindling. For rates and FX markets, esp. across net energy importing EMs, remained challenging.

The oil price shock reignited concerns around higher inflation and thereby, policy tightening by key Central Banks, esp. by the US Fed. End-July, the US Fed held the policy rates steady at 3.50-3.75%; while policy was in-line with expectations, 3 members dissented in favor of an immediate hike while the remaining 9 voted to stay on hold. A split vote signaled a more fractured committee than markets had expected; blurring the outlook for the US Fed rate hike trajectory. Amid these expectations and inflation concerns, the US treasury curve steepened in July with the US 30-year yield trading above 5% for its longest stretch since 2007.

Over the last few days, the US treasuries have started to cool off on signs of progress in reopening the Strait of Hormuz. The retreat in energy prices has subsequently pared expectations of policy tightening by the US Fed.

For India, oil price surge was a major headwind that dampened sentiments, in July. However, some tailwinds in the form tech-sector led equity movements, recovery in monsoon, favourable inflows under RBI's FX measures (announced in June) lent support to the markets.

While most AE central banks have already tightened policy and/or shifted into a watch-and-wait mode with a hawkish tilt, India's RBI-MPC has kept a calm demeanour as it in a unanimous vote kept policy rates unchanged at 5.25% and it retained its neutral policy stance. The policy is in line with our expectations, with unexpected shades of dovishness in RBI Governors' speech and the policy statement which suggested the MPC's wait & watch approach to policy action.

In terms of RBI MPC forecasts, there was a 10bps revision in growth-inflation. With GDP growth revised a shade higher to 6.7% and inflation a shade lower at 5.0%. For GDP, the bulk of the revision is largely due to the 40bps uptick estimated for Q1FY27. For the remaining quarters, forecasts remain largely unchanged and MPC stated that the outlook remains 'hazy'.

The Committee remains watchful of the evolving geopolitical risks and El Niño conditions, which could affect the remainder of the monsoon season. For inflation, estimate was tad lower and, in our view, the MPC's neutral hold with dovish undertones was largely reflected in its policy remarks such as supply-side led price pressures, inflation is not getting broad-based yet, underlying core inflation is running benign at 2.3-2.5% levels and lastly, the 10bps downward revision in inflation (largely due to softer inflation prints in 1H FY27) is expected to keep inflation at 5.0% YoY in FY27. The Q1FY28 forecast is forecasted at 5.3% YoY which also indicates that the RBI MPC is expecting inflation to glide lower after peaking at 5.9% in Q3FY27. The MPC did emphasize the need for greater clarity on inflation, not only the path but also its composition.

Fund positioning

The RBI MPC chose to remain vigilant, not wanting to rock the boat as it waited for further cues on evolving growth-inflation dynamic. MPC continues to see inflation pressures as mainly supply-demand driven and not turning broad based yet; on growth it believes domestic demand to be resilient but can get clouded due to El Nino conditions, geopolitical uncertainties. Market has largely read the policy as a neutral hold with dovish undertones with rates rallying 4-8 bps across assets. Capital flow measures announced in June continue to support markets with FCNR B flows likely to benefit the shorter end of the curve, as well as 3 to 5 year corporate bonds. RBI's stand at proactively ensuring sufficient liquidity guided by aligning WACR to repo rate also hints towards rates remaining supportive but trade in a range bound fashion.

Investors with short-term investment horizon can look at the less than 1 year bucket, i.e. **Ultra Short Duration, Money Market Fund and Low Duration Fund as they offer pick-up over Liquid Fund** category.

For investors with a medium-term investment horizon, **Short Duration Fund, Banking & PSU Debt Fund and Corporate Bond Funds** can be a good investment opportunity as they provide accrual plus opportunities **with an aim** 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.

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, tax and other advisors before taking any investment decision(s).

Source: Bloomberg & HSBC MF Research estimates as on August 5, 2026 or as latest available.

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