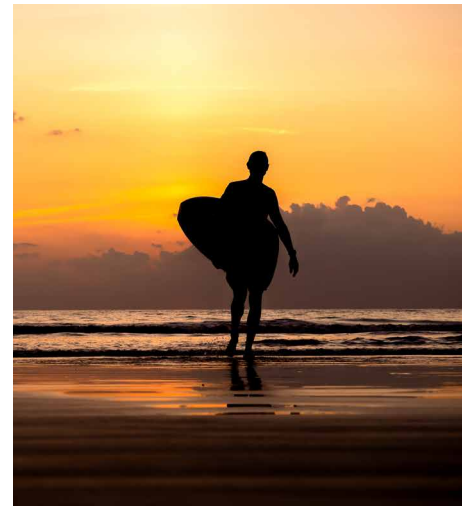


# Surfing the shockwaves

April, 2026



April marked two-months into the West Asia conflict, and for much of April all asset classes were highly sensitive to geopolitical developments, whether stocks or bond yields, each whipsawing between relief rallies and risk-off retreats as successive developments in the US–Iran conflict altered market expectations for energy supply and pricing, inflation trajectories, and the growth outlook. The US blockade of the Strait of Hormuz (SoH), effective from April 13, 2026, pushed crude, shipping, freight costs higher. As per media reports, the conflict adds concerns to Asia's food security, with fertilizer costs rising sharply across Southeast Asia. Brent crude briefly surged to US\$126/barrel on April 30 after US President Trump suggested the naval blockade could last for months, however, prices soon retreated following the news on truce talks, to eventually end near US\$114/barrel. To assuage these price pressures, many countries have relied on fiscal support to cushion the price impact.



In the milieu of the conflict, several Central Banks had their policy decisions lined up; most Central banks opted to observe the economic consequences and took a wait & watch approach. The US Fed, the BoE, the ECB all had a hawkish tilt in their policy remarks.

India's monetary policy outcome too adopted a wait & watch approach; however, we still believe that the RBI MPC maintained a neutral hold. In April, the IMD's first forecast of Southwest Monsoon forecast is expected to be 92% below long period average (LPA). Given that the incoming information remains crucial to assess policy leaning. Overall, the US-Iran conflict and weather risks (with forecasts suggesting heightened possibility of El Nino) have exacerbated concerns on inflation.

The International Monetary Fund, in its April 2026 World Economic Outlook, projected global growth to slow to 3.1% in 2026 from 3.4% in 2025, with projections revised 2% lower due to the impact of the Iran war, and noted that India's growth would moderate to 6.5% from 7.6%.

The Indian rupee breached 95 on April 30, hitting a record intraday low of 95.33 amid a sharp surge in crude oil prices, before recovering to close at a fresh low of 94.92 due to Reserve Bank of India intervention through dollar sales. RBI maintained the repo rate at 5.25% and kept a neutral stance in its April 2026 monetary policy. The oil price shock is felt the most via the currency channel as concerns around trade imbalances and overall weaker foreign inflows (something observed in other countries as well) continue to weigh on the FX market. This time around, RBI's FX intervention has not been as aggressive, in the spot market, with FX Reserves sticky near the US\$ 700bn handle; but RBI's net short forwards position is at an all-time high of US\$ 103bn for March 2026. The RBI's regulatory measures to arrest the Rupee slide supported the currency, intermittently, but it had to partially reverse those measures in April. The partial reversal and the US-Iran stand-off added to FX pressures all over again. Although most EM/Asian currencies have reeled under pressure, INR for CY26 YTD was the worst performer. Early May, there is news that the RBI may be looking at State banks raising dollar bonds and remains to be seen if the RBI would tap into such measures to bring in dollar flows. The duration of the conflict and the extent of de-escalation to determine the policy choices.

In the meantime, the govt. remains agile in policy response as well. On 5th May, the central govt. announced an Emergency Credit Line Guarantee Scheme (ECLGS) 5.0. This measure will provide credit guarantee coverage of 100% for the micro, small and medium enterprises (MSME) sector and 90% for the non-MSME sector and the airline sector loans. This is aimed at mitigating stress arising from the West Asia conflict, mainly due to higher input costs and trade disruptions. As per the press release, this measure is likely to facilitate INR 2.55tn (including INR 50bn for the airline sector) - this translates to 0.7% of GDP - of credit flow over the next 12 months, primarily supporting working capital requirements of MSMEs and other exposed sectors.

In our view, the oil price shock may continue to be a drag on sentiments; equities, rates and FX all taking a beating as concerns around growth-inflation intensified. As far as inflation impact is concerned, some of it already is visible in input cost prices, even as retail inflation is holding steady ~3.4% YoY. For economic growth, some of the lead indicators suggest that up until March, activity held steady but given that the conflict is in its 3rd month and oil prices have stayed above US\$100/bbl almost 50% of the days since the start of the conflict, continue to cloud the outlook. The RBI-MPC maintained a calm demeanor amid a chaotic environment. The policy statement reinforces that India is at a good starting point and thus, better

equipped to navigate the current external headwinds/shock. Based on our analysis and assumptions, we believe that the RBI MPC is likely to maintain a long pause in policy rates while keeping the liquidity conditions in sufficient surplus. The external environment would continue to shape and influence the policy dynamics. At this juncture, we believe that the Repo Rate stays at 5.25% throughout CY26 and the risks of rate hikes in CY27 would start building up if oil prices/energy shock persist, and if weather-related risks seep into prices. At this juncture, to us, it looks like a long pause on policy rates.

### Fund positioning

Given the continued uncertainty in markets, we remain neutral to underweight in our duration positioning across funds. However, there are certain segments of market where we see value:

We expect liquidity conditions may remain positive going forward, especially with RBI dividend expected to be paid in May, which may increase both the system as well as durable liquidity. With March 2027 CD levels currently close to 200 bps over Repo, we believe there is value in this segment, and levels can come off going forward. Also, corporate bonds in the 2-3 year segment continue to trade at above 100-125 bps spread over G-Sec. This offers good carry over overnight rates, and we believe there is room for these spreads to compress. Hence, we continue to remain positive on this segment across our bond funds.

Longer end IGBs (30-40 year segment) at current levels are already pricing in rate hikes, and we believe that going forward yield curve will flatten, benefiting this segment

**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 offer pick-up over Liquid Funds.

For investors with a **medium-term investment 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.

#### Abbreviations:

RBI: Reserve Bank of India	OMO: Open Market Operations	EMs: Emerging Markets
MPC: Monetary Policy Committee	GDP: Gross Domestic Product	FX: Foreign Exchange
SDF: Standing Deposit Facility	CPI: Consumer Price Index	AEs: Advanced Economies
MSF: Marginal Standing Facility	SDL: State Development Loans	EM: Emerging Markets
CRR: Cash Reserve Ratio	G-Sec/IGBs: Government Securities	Reference: White House press release, 20-Feb

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

**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. 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 May 5, 2026 or as latest available.

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