HSBC Mutual Fund

An eventful August

August, 2025

A new tariff rate world was set-in motion in August 2025 with the US administration imposing tariffs on 90-odd countries – with a continued pause on China as trade talks continue. Meanwhile, for India after 25% levy, on 27-Aug, 2025 an additional 25% was imposed as a penalty (due to India's reliance on energy imports from Russia) – India facing one of the highest at 50%. However, with certain sectors remaining exempt, the effective tariff rate could be lower than the 50% rate levied. Having said that, the concerns remain that the impact could be felt more for labor-intensive sectors. Back home, the tariff news soured sentiments with equity markets falling, the currency weakening and higher bond yields. The FPI outflows weighed on equity and also dragged the currency. Even as the dollar index softened amid rising expectations of a US Fed rate cut in Sep'25, particularly after the weak jobs data, the EM currency basket has seen limited gains with INR being one of weakest following the 50% tariff fallout.

Mid-August, one of the major credit rating agencies, S&P Ratings upgraded India's Sovereign Rating one-notch higher to 'BBB' from 'BBB-' earlier while assigning a Stable outlook. The 'upgrade' came after nearly two-decades and boosted sentiments, easing yields, adding to the Rupee gains. While the Upgrade was a positive development, the proposal on GST rate rationalization reversed the gains in bonds as markets feared fiscal strain by way of revenue foregone as well as fiscal support to exporters, if any (to cushion from the tariff impact). Government finances for April-July of FY26 are looking somewhat stretched with Center's fiscal deficit at 30% of the budgeted levels is being driven by weak tax collections and a strong pace in expenditure. While the deficit target of 4.4% of GDP is expected to be met, the weak tax mobilization trends have got markets somewhat nervous in anticipation of potential revenue loss from the GST rate rationalization – both for Centre and State governments. These concerns weighed on investor sentiments; pushing yields higher. The commentary in the August MPC minutes too indicated that the panel still remains in a 'wait & watch' mode more so as it awaits transmission of past rate cuts of 100bps to seep into the system with the impact of the Cash Reserve Ratio (CRR) cuts of 100bps yet to fully kick-in by end of CY25.

In terms of growth-inflation dynamics, the RBI-MPC has already front-loaded the rate cuts in this easing cycle underpinned by soft inflation prints. While inflation appears to have ebbed at 1.5% YoY in July 2025, the Q1FY26 GDP growth of 7.8% YoY significantly higher than the MPC's and street expectations of 6.5% YoY. While due to technical reasons, the figure is closer to the 8% handle, the activity still was robust and across sectors. Some of the lead indicators do suggest that the growth momentum is resilient into July as well. With inflation ebbed, growth resilient and concerns around fiscal strain resurfacing for Centre & States has dampened sentiments. This coupled with markets now factoring in a pause at the 1st Oct'25 meet is continuing to keep yields elevated.

Yields remain elevated across tenors and the curve remains steep tracking the easy banking system liquidity conditions while the fiscal worries have pushed the longer dated securities higher. Globally too, the longer dated bond yields in particular whether it is in the US, the UK, Japan, France and Germany – all witnessed hardening of yields owing to their domestic fiscal, political and inflation jitters; raising the risk premium. Resultantly, the dollar index has firmed up amid risk aversion and gold prices too touched fresh highs, recently. In India, the unexpected policy decisions of front-loaded easing as well as the fiscal support via GST rate rationalization and possible fiscal support to exporters weighed on sentiments. The RBI is likely to meet bankers to assess the demand conditions for government bonds for 2H of FY26 and any likely rejig in tenor-issuances which could ease the levels.

Our Take:

The rate-cut expectations have trimmed down further and as for the Oct'25 policy meet, we expect the MPC to pause and retain its 'wait & watch' mode approach. Additionally, the first leg of CRR cut will come through this week with it freeing-up funds of approx. INR 600bn into the system. This should atleast keep system liquidity in surplus and keep rates on the shorter-end of curve fairly steady-to-soft. As for the government finances, given weaker tax collections and the GST rate rationalization in the offing, last month markets reeled under pressure of fiscal concerns arising from potentially weaker revenue mop-up. However, in our view, the non-tax revenues would provide cushion following the RBI surplus transfer. Overall, as far as the fiscal deficit targets and deficit financing is concerned, we continue to think that the targets would be met and remain in-line with the budgeted levels. The 2HFY26 borrowing calendar remains of interest especially, the tenor-wise issuances. In the near-term, fiscal policy would be closely watched more so to assess the supply of government bonds. Demand -supply worries for G-Sec and SDLs are likely to continue over the coming quarters, leading to tactical opportunities as and when yields spike and valuations become favorable. One such tactical opportunity has opened up. In August we saw spread between the Repo Rate and the 10Y G-Sec widened to nearly 100-110bps while the spreads had started to widen for State government bonds owing to concerns around States's fiscal health esp. post the GST rate revision announcement which was seen dampen States' ability to garner revenue to meet expenses.

Fund positioning (post policy)

Following the August RBI-MPC policy outcome and the release of the MPC minutes thereafter, we believe room for further policy easing only opens up if domestic growth or inflation sharply falls below estimates. However, RBI has reiterated that liquidity will remain in surplus for the foreseeable future, which implies that liquidity will remain the main driver of softer yields domestically, going forward. We expect gradual allocation towards corporate bonds to chase carry.

Corporate bonds in the 2-4 year segment continue to offer 60-80 bps over the corresponding, which makes it the sweet spot on the corporate yield curve. We expect spreads to compress going forward by 20-25 bps. This strategy is reflected across our bond funds, where we have reduced exposure to G-Sec and increase exposure to 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, with an aim to benefit from this positioning. Hence, these funds can be an investment opportunity for investors looking at a short-to-medium term investment horizon.

Additionally, the recent sell-off in August has presented an opportunity to generate potential alpha through taking tactical calls on duration products. **HSBC Gilt Fund** is currently positioned to aim to benefit from such moves in the G-Sec curve.

Abbreviations:

LAF: Liquidity Adjustment Facility
SDF: Standing Deposit Facility
OMO: Open Market Operations
GDP: Gross Domestic Product
CPI: Consumer Price Index
MPC: Monetary Policy Committee
RBI: Reserve Bank of India
OMO: Open Market Operations
FII: Foreign Institutional Investors
AEs: Advanced Economies
EM: Emerging Markets

HSBC Mutual Fund

Scheme name	Potential Risk Class
HSBC Corporate Bond Fund **HSBC Banking & PSU Debt Fund**	see table below

Potential Risk Class			
Credit Risk → / Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
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	see table below

Potential Risk Class			
Credit Risk → / Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
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 → / Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
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

HSBC Mutual Fund

Source: *Bloomberg & HSBC MF Research estimates as on Aug 2025 or as latest available

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. We do not intent to assure or guarantee any returns on investment with HSBC Funds.