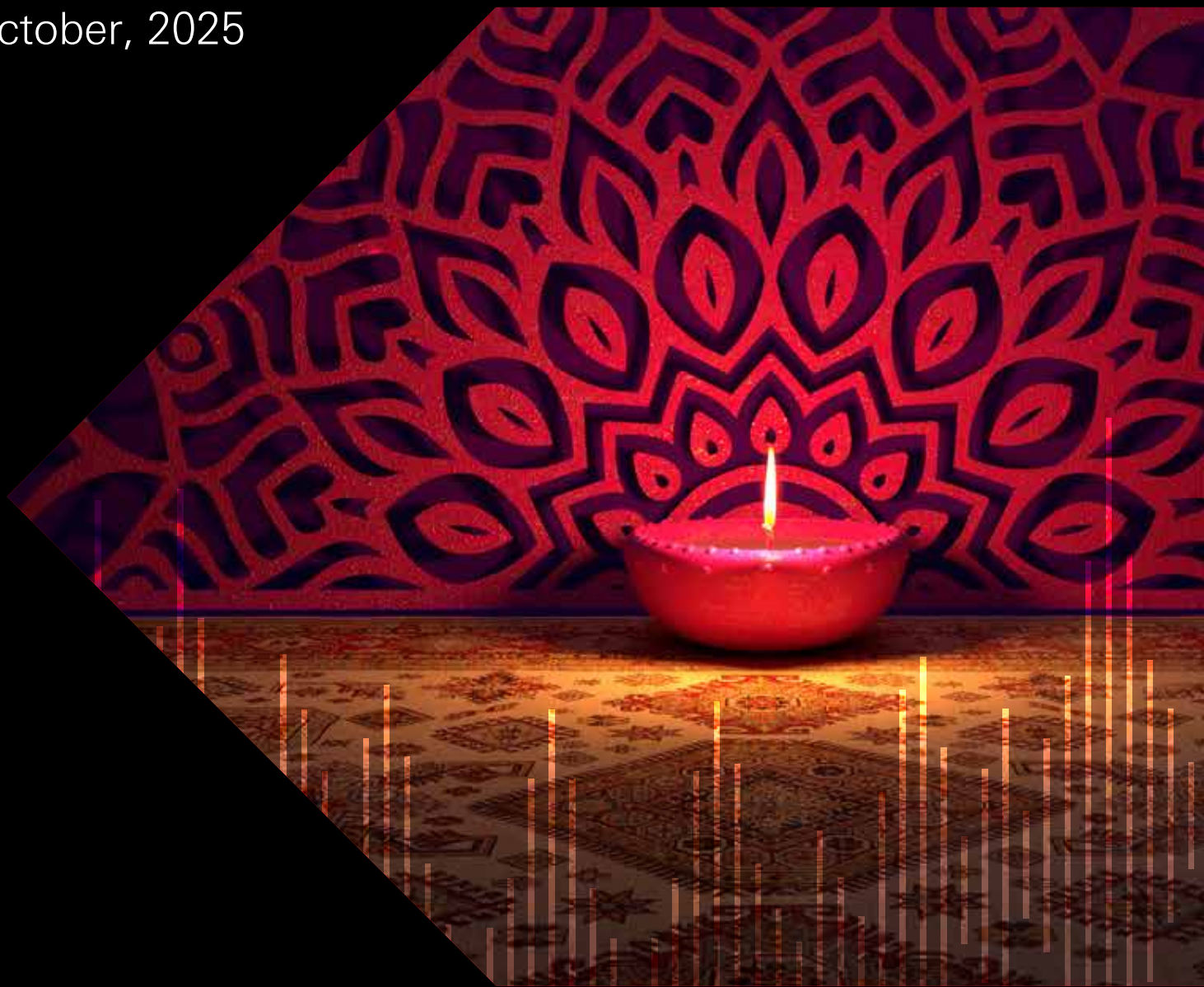


Diwali merriment buoyed markets sentiment

October, 2025



Amidst all the murkiness around trade tariffs and geopolitical developments, US-India trade deal optimism, the goods & services tax rate reductions in the run-up to the Diwali season & October month lit-up animal spirits.



Foreign investors returned with total inflows of US\$ 4bn in October. Some of the lead indicators too suggest that the economic momentum gained traction around the festival season. While the currency saw sharp volatility forcing aggressive Reserve Bank of India (RBI) FX interventions, the depreciation bias is persisting following the dollar strength and likely increased importer demand. The US-India trade deal is closely watched with the optimism of reaching a deal by end-CY25. RBI's aggressive FX intervention along with increased currency demand & monthly GST collections further tightened domestic system liquidity. Following the tight liquidity conditions, money market rates hardened during Oct, however, overnight rates remained well within the policy corridor. The tight liquidity conditions have increased market expectations of liquidity infusion by way of OMO Purchases as the benefits of CRR cuts have been offset by the recent liquidity leakage.

Globally, the US govt. remained in the shutdown phase and the US Fed delivered a hawkish cut at the October policy; lowering the Federal Funds Rate (FDTR) by 25bps to 3.75-4.00%. The US Fed also ended with its quantitative tightening (QT). While the policy decision was on expected lines, the US Fed Chair at the press conference indicated that the December rate cut is far from a done deal which led to repricing of rate cut expectations – pushing yields and dollar index higher. In other parts of the world, the ECB & BoJ held rates steady and took a data dependent approach to policy action.

Our Take:

The US-India trade deal talks have built up expectations of lower tariff rates which could limit the downside to India's economic growth. The upside to growth has led to a scale back in expectations of a December rate cut by the RBI MPC. However, given the inflation outlook and the uncertainty around growth, we see increased likelihood of a 25bps rate cut on 5th December. Before the MPC meet, we will have some key macro data releases viz. November CPI inflation, trade deficit, GDP growth and GST collections and the likes. These numbers will be closely watched, esp. the GDP figures. Having said that, the markets have been focused on FX intervention and subsequently the liquidity conditions – so far liquidity as per cent of NDTL is just about 0% vs the indicated/expected levels of 1% anticipated to sustain a few months ago. Despite the CRR cuts, the system liquidity is tight and following November's two-remaining tranches of the CRR cuts of 25bps each on 3rd Nov and 29th Nov are expected to ease liquidity tightness. The expectations of OMO Purchases have gone up, however, for the next few weeks monetary data holds key to assess if the RBI would deploy that policy tool.

Fund positioning

While we believe that the easing cycle is not over yet and that the room to cut may open depending on the upcoming macro data, one theme that is key to look out for is the possibility of OMO purchases by RBI, depending on how liquidity pans out over the next couple of months. In case RBI does OMO purchases, the 5-10 year segment of the IGB curve may stand to benefit. Additionally, we continue to remain positive on 2-4 year corporate bonds as this segment may continue to offer favourable spreads. This we believe is the sweet spot on the corporate yield curve and spreads might compress going forward as liquidity eases. Our core positioning across our bond funds is in the 2-4 year corporate bond space along with tactical allocation to 5-10 yr IGBs. This we believe is a compelling investment opportunity in the current market backdrop.

Abbreviations:

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

Source: Bloomberg & HSBC MF Research estimates as on October 31, 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.

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.

Investors are requested to note that as per SEBI (Mutual Funds) Regulations, 1996 and guidelines issued thereunder, HSBC AMC, its employees and/or empaneled distributors/agents are forbidden from guaranteeing/promising/assuring/predicting any returns or future performances of the schemes of HSBC Mutual Fund. Hence please do not rely upon any such statements/commitments. If you come across any such practices, please register a complaint via email at investor.line@mutualfunds.hsbc.co.in.

Document intended for distribution in Indian jurisdiction only and not for outside India or to NRIs. HSBC MF will not be liable for any breach if accessed by anyone outside India. For more details, [click here](#) / refer website.

The above information is for illustrative purposes only. The sector(s)/stock(s)/issuer(s) mentioned in this document do not constitute any research report nor it should be considered as an investment research, investment recommendation or advice to any reader of this content to buy or sell any stocks / investments.

© Copyright. HSBC Asset Management (India) Private Limited 2025, ALL RIGHTS RESERVED. HSBC Mutual Fund, 9-11th Floor, NESCO - IT Park Bldg. 3, Nesco Complex, Western Express Highway, Goregaon East, Mumbai 400063. Maharashtra. GST - 27AABCH0007N1ZS | Website: www.assetmanagement.hsbc.co.in

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