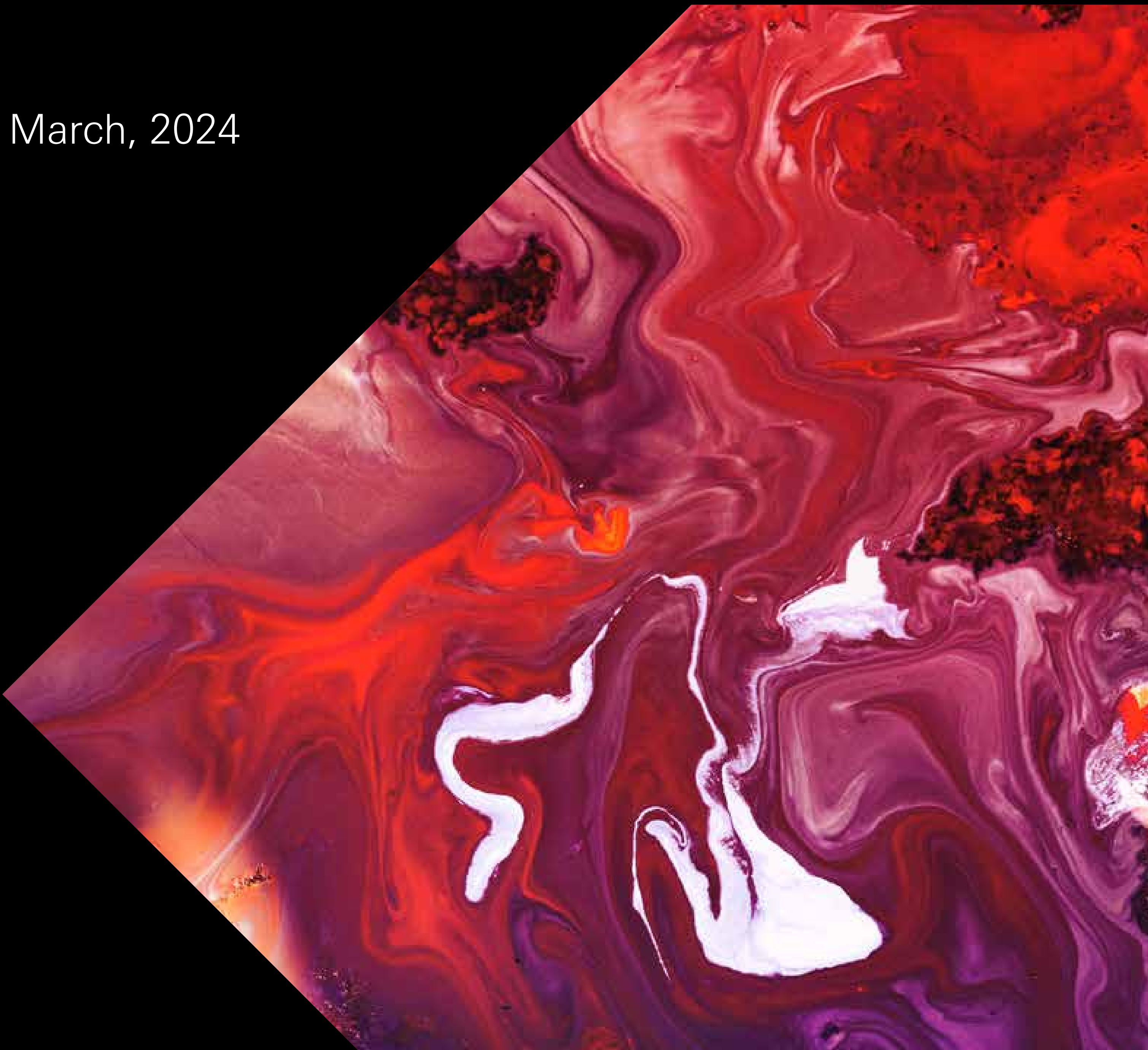
HSBC Mutual Fund

Debt Market Review

March, 2024

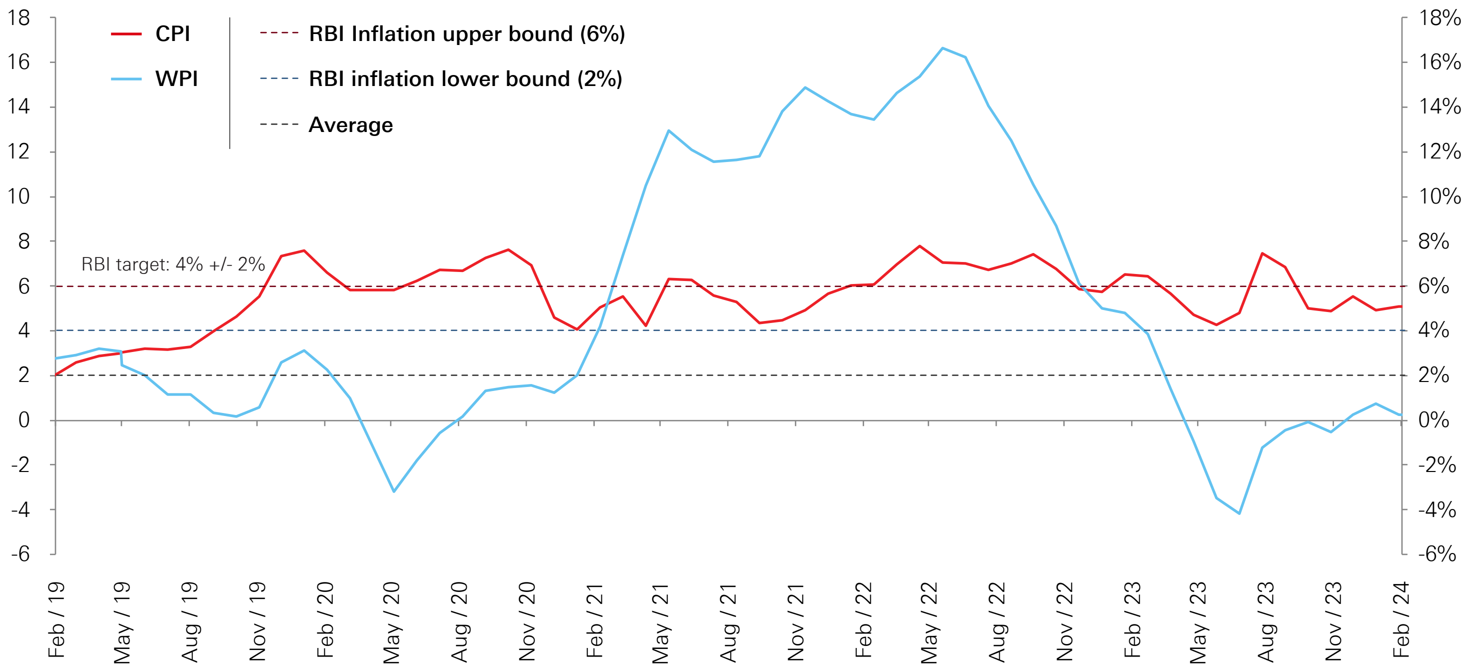


The Federal Open Market Committee (FOMC) maintained status quo on policy rates in its March policy, while ruling out the need for any immediate easing. The dot plot indicated 75 bps of policy easing each in 2024, 2025 (revised lower from 100 bps earlier) and 2026, and the long-term policy rate was increased from 2.5% to 2.6%. Inflation projections and growth estimates were revised higher while the unemployment rate was revised lower. The Fed remained wary of inflation risks and would continue to tread cautiously on a data dependent path. The European Central Bank (ECB) also left policy rates unchanged, however, growth and inflation forecasts were revised lower. The Bank of England (BOE) also maintained status quo while hinting at inflation pressures subsiding. The Bank of Japan (BoJ) hiked rates for the first time since 2007, ending their negative interest rate regime. They discontinued Yield Curve Control (YCC) but indicated that they would continue with bond purchases to smoothen the transition. Recent CPI inflation prints in the US, Eurozone and UK came in at 3.2%, 2.4% and 3.4% respectively. US PCE inflation came in higher at 2.5% resulting in some sell-off in rates. US Treasury yields remained volatile during the month trading in the 4.05%-4.35% band. The 10-year vs 2-year spread remained inverted at 42 bps. Crude prices moved higher during the month on increased geo-political risks, closing the month at USD 87/bbl.

MACRO-ECONOMIC DEVELOPMENTS (Domestic)

- CPI inflation for Feb 2024 came in line with market expectations at 5.09% (vs 5.1% in Jan 2024). Core inflation continued to fall further and printed at a low of 3.3% (vs 3.6% in Jan 2024). WPI inflation remained muted at 0.20%

Inflation target and trend



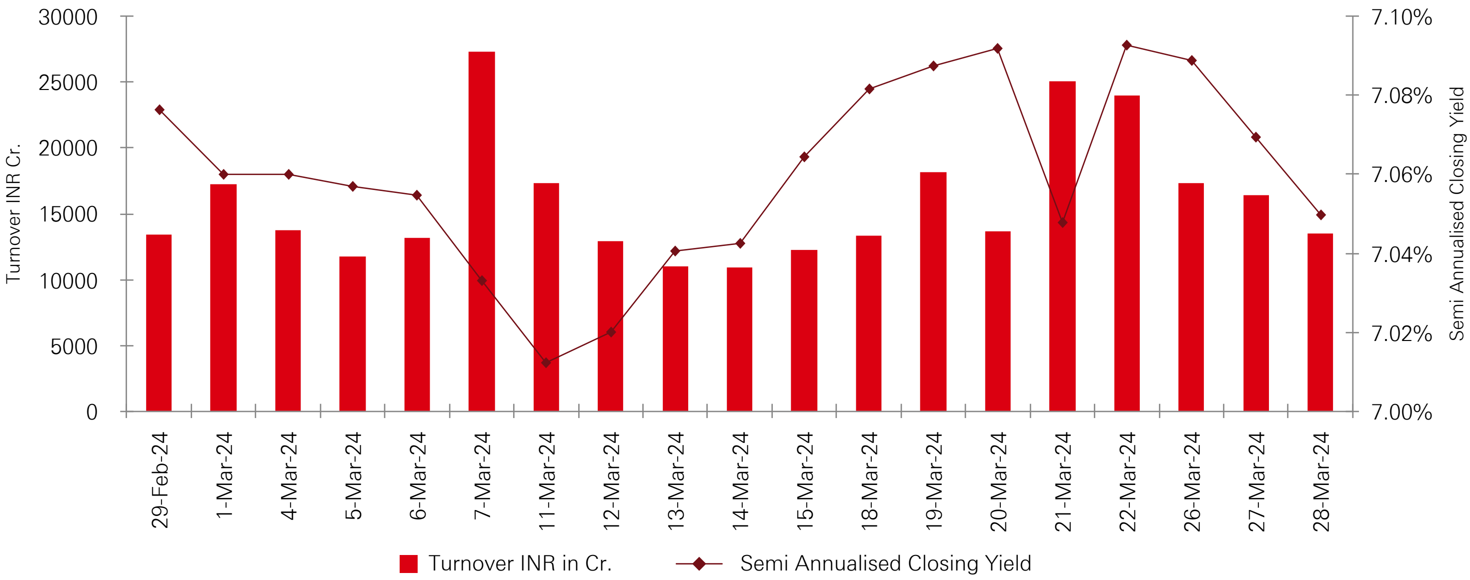
Source: CRISIL, MOSPI, RBI, Data as on 28 March 2024, **Past Performance may or may not be sustained in future and is not a guarantee of any future returns.**
Note-The details provided above is as per the information available in public domain at this moment and subject to change.
Please consult your financial advisor for any investment decisions.

- Trade deficit for Feb 2024 increased marginally to USD 18.71 bn on the back of higher gold imports. The Trade deficit number for FY2024 YTD now stands at USD 225.2 bn
- Current Account Deficit (CAD) for Q3 FY2024 came in at 1.2% of GDP with expectations building of FY2024 CAD to be around 1%

- PMI numbers remained strong and GST collections continued its impressive streak clocking INR 1.78 trn (YoY growth of 11.5%) in March 2024
- With Government expenditure picking up, Fiscal Deficit for the period Apr-Feb 2024 stands at INR 15 trn (86.5% of FY2024 target)

The G-Sec borrowing calendar was announced, with gross borrowing in H1 FY2025 seen at INR 7.5 trn (53% of full year target, lower than market expectations). The tenor mix, however, remained skewed towards the longer end, with more than half of the borrowing in 15-year and above segment. Additionally, for Q1 FY2025, SDL and T-Bill gross borrowing were announced at INR 2.54 trn and INR 3.21 trn.

Movement of 10-Year Gilt Benchmark



Source: CRISIL Fixed Income database Data as on 28 March 2024, **Past Performance may or may not be sustained in future.**
Investors should not consider the same as investment advice. Note-The details provided above is as per the information available in public domain at this moment and subject to change. Please consult your financial advisor for any investment decisions.

Another key announcement during the month was the inclusion of Indian Government Bonds (IGBs) in the Bloomberg EM Local Currency Index. India is expected to reach 10% weightage in the index, with the inclusion staggered over a 10-month period starting Jan 2025. The AUM tracking this index is relatively smaller (compared to J. P. Morgan GBI-EM index announced in September 2023), with markets expecting index related flows to the tune of USD 2-4 bn. Although India continues to remain excluded from the Bloomberg Global Aggregate Index (which tracks a much larger AUM), this can be seen as a precursor to the eventual inclusion of IGBs in Bloomberg Global Aggregate Index.

Liquidity remained in deficit through the month, with RBI continuing to use Variable Rate Repo (VRR) and Variable Rate Reverse Repo (VRRR) auctions to manage short term liquidity. FX reserves accretion continued with the reserves at USD 645.6 bn as of March 29, 2024. FPIs continued to add IGBs during the month, with net investments in IGBs since the J.P. Morgan index inclusion announcement at ~ USD 10 bn.

Present Outlook

Markets, which were earlier expecting US policy rates to fall by 150-175 bps this year have realigned to Federal Open Market Committee (FOMC) guidance and have cut down expectations to around 75 bps of easing. Indian bond markets have so far been less volatile relative to global bond markets. Demand from local investors and FPIs has kept rates supported even though US rates have moved up. While we do expect an easing cycle in India as well, the rate cutting cycle will probably be a shallow one. With growth remaining buoyant, expectations of rate cuts have got pushed back.

Our expectation is that prior to the first rate cut, RBI is likely to gradually shift the liquidity deficit into a surplus, consistent with an easing cycle. Hence, despite a potential rate cut of only 50 bps, the overnight rates are likely to move down by 75-100 bps on account of the reversal of liquidity conditions, and overnight rates flipping from the top to the bottom of the rate corridor. Additionally, lower gross borrowing announced in the Budget as well as FPI buying on the back of index inclusion as well as strategic allocations will keep demand for IGBs buoyant.

Hence, we believe there can be a favourable case to add duration to investor portfolios with a 1.5-2 year investment horizon.

We believe the below mentioned strategies can make investment sense:

- With AAA PSU corporate bond yields trading at a favourable level, investors may look at bond funds in the 2-5 year maturity segment. **HSBC Corporate Bond Fund** and **HSBC Banking and PSU Debt Fund** are currently positioned in these segments
- With markets expecting rate cuts in the US as well as in India through 2024 and 2025, investors may consider allocation to longer duration products such as **HSBC Dynamic Bond Fund** and **HSBC Gilt Fund** to take advantage of such a market movement
- And for the next level of alpha seeking investors, adding an element of measured credit risk to these strategies (through products such as **HSBC Medium Duration Fund**), may become a rewarding proposition

Scheme name: HSBC Corporate Bond Fund, HSBC Banking and PSU Debt Fund, HSBC Dynamic Bond Fund, HSBC Gilt Fund

Potential Risk Class

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		

Scheme name: HSBC Medium Duration Fund

Potential Risk Class

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	

HSBC Mutual Fund

Product Labels

Scheme name and Type of scheme	*Riskometer of the Scheme

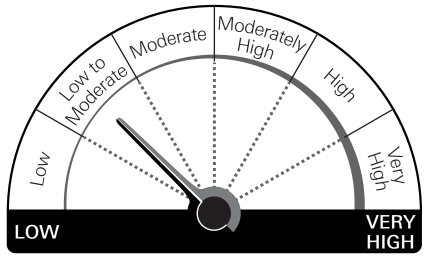
This product is suitable for investors who are seeking#

HSBC Banking and PSU Debt Fund (Banking and PSU Debt Fund) **-** An open ended debt scheme predominantly 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.

(Benchmark: Nifty Banking & PSU Debt Index)

Riskometer



Investors understand that their principal will be at Low to Moderate risk

HSBC Dynamic Bond Fund (Dynamic Bond Fund) **-** An open ended dynamic debt scheme investing across duration. Please refer to the SID for explanation on Macaulay duration. Relatively high interest rate risk and relatively low credit risk.

- Generation of reasonable returns over medium to long term
- Investment in fixed income securities.

(Benchmark: NIFTY Composite Debt Index A-III)

HSBC Gilt Fund (Medium to Long Duration Fund) **-** An open ended debt scheme investing in government securities across maturity. A relatively high interest rate risk and relatively low credit risk.

- Generation of returns over medium to long term
- Investment in Government Securities.

(Benchmark: Nifty All Duration G-Sec Index)

HSBC Medium Duration Fund (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 Page no. 9 of the SID for explanation on Macaulay duration. A relatively high interest rate risk and moderate credit risk.

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

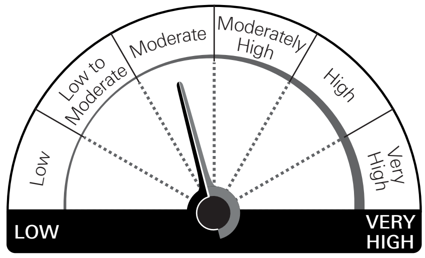
(Benchmark: NIFTY Medium Duration Debt Index Fund B-III)

HSBC Corporate Bond Fund (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.

(Benchmark: Nifty Corporate Bond Index)

Riskometer



Investors understand that their principal will be at Moderate risk

***Investors should consult their financial advisers if in doubt about whether the product is suitable for them.**

Please refer notice cum addendum available on website of HSBC Mutual Fund for updates on riskometer/product labeling of the scheme. Riskometer is as on 29 February 2024.

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.

Source: Bloomberg, MOSL & HSBC MF estimates as on March 31, 2024 or as latest available.

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HSBC Mutual Fund, 9-11th Floor, NESCO - IT Park Bldg. 3, Nesco Complex, Western Express Highway, Goregaon East, Mumbai 400063. Maharashtra.

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Mutual Fund investments are subject to market risks, read all scheme related documents carefully. CL1305