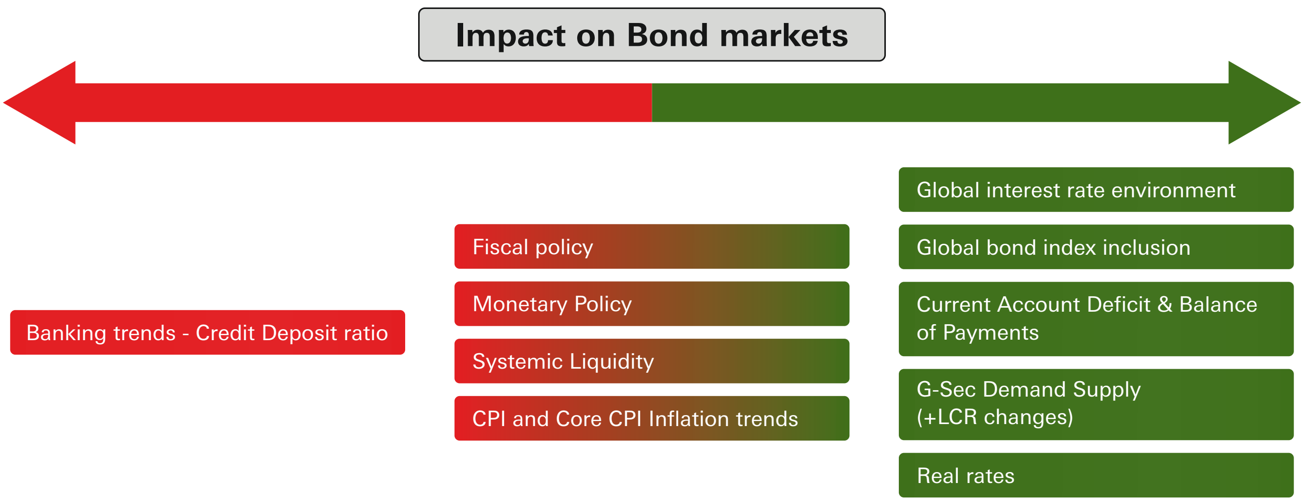
Take advantage as RBI pads up for Power Play

The US FOMC commenced its rate easing cycle by reducing policy rates by 50 bps in September 2024. The ECB also eased policy rates by cutting their deposit rates by 25 bps. With the Fed commencing its rate easing cycle by 50 bps, the RBI is unlikely to remain immune from rate actions by global Central Banks, thereby implying that the possibility of rate easing by 75-100 bps in India has meaningfully increased.

Macro economic factors aligning into place...For a fall in interest rates

- The MPC changed the policy stance from "withdrawal of accommodation" to "neutral" in the October policy, paving the way for easing of policy rates
- Government has continued on its path of fiscal consolidation with Fiscal deficit for FY2025 estimated at 4.9% (which looks imminently achievable)
- Systemic liquidity has moved to positive since end of June due to accelerated Government spending, and continues to remain positive
- Since, the J. P. Morgan index inclusion announcement, FPIs have bought ~ USD 18 bn of Indian Government Bonds (IGBs)
- Top-down assessment suggests a positive bias for interest rates

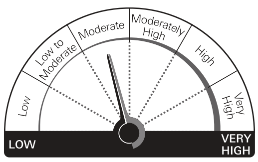


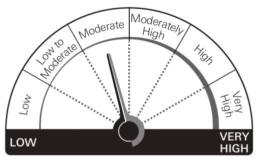
Present Market Outlook

The RBI MPC meeting set the stage for commencement of a rate easing cycle in India. We assign a higher probability to a first rate cut in December, rather than in February. The December rate cut would be subject to easing in food inflation over the coming months as well as recent uptick in global commodity prices remaining under check. Over the course of the next year, we may expect the MPC to be able to cut rates by 75-100 bps. While Government bond yields have rallied by about 25-30 bps over past few months, we believe there is further space for yields to still move lower and resultantly, we maintain our positive outlook on interest rates and a long duration bias across our portfolios. We believe there is value in adding Duration to portfolios, with an investment horizon of 1 to 2 years. Additionally, 3-5 year corporate bonds have relatively underperformed through this recent move and with AAA spreads over Government securities looking favourable, we believe this segment could perform well especially in a scenario of positive banking system liquidity.

Present Fund Positioning

- **HSBC Short Duration Fund and HSBC Corporate Bond Fund** may be considered for investment with a medium-term horizon and slightly higher appetite for interest rate risk. These funds are primarily invested in the 2-6 year part of the curve. Liquidity easing and pricing of rate cuts along with implementation of revised LCR norms could result in (a) softening of yields in this segment, (b) steepening of the yield curve and (c) compression in spreads of Corporate bonds. Both these funds are appropriately positioned and may potentially benefit from these developments.
- **HSBC Banking and PSU Debt Fund** is predominantly invested in assets maturing in the 1.5-2 year segment. With liquidity easing through this quarter and expectations of rate cuts getting priced in, the fund may benefit from market expectations of softening in short end yields along with compression in spreads of Corporate bonds.
- **HSBC Gilt Fund** is primarily invested in the 10 years and 10+ years part of the curve. The duration of the fund is actively managed. With index inflows continuing in IGBs and steady growth of long only investor segment, the demand supply dynamics can remain favorable. Hence, HSBC Gilt Fund is positioned with an aim to provide an opportunity to generate alpha over medium to long term for investors looking to play the duration theme.

<table>
<tr><th>Scheme name and Type of scheme</th><th>Scheme Risk-o-meter</th><th>Benchmark Risk-o-meter</th></tr>
<tr><td>HSBC Gilt Fund
(An open ended debt scheme investing in government securities across maturity. A relatively high interest rate risk and relatively low credit risk.)
This product is suitable for investors who are seeking*:
• Generation of returns over medium to long term
• Investment in Government Securities.</td><td>*Riskometer of the Scheme


Investors understand that their principal will be at Moderate risk</td><td>Riskometer of the Benchmark

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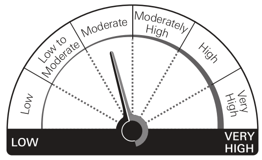
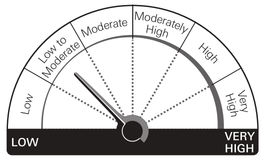
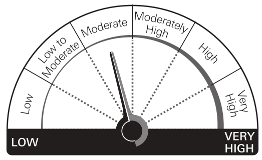
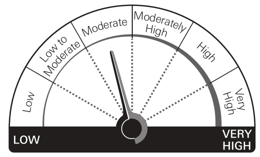
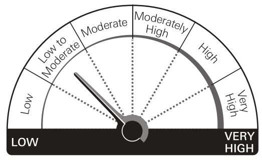
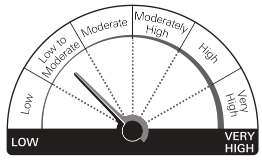
Potential Risk Class (HSBC Gilt Fund)			
Credit Risk → / Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
Relatively Low (Class I)			
Moderate (Class II)			
Relatively High (Class III)	A-III		
A Scheme with Relatively High interest rate risk and Low credit risk.			

Scheme name and Type of scheme	Scheme Risk-o-meter	Benchmark Risk-o-meter
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. 16 of SID for details on Macaulay's Duration). A Moderate interest rate risk and Relatively Low credit risk.) **This product is suitable for investors who are seeking*:** • Generation of regular returns over short term • Investment in fixed income securities of shorter term maturity.	*Riskometer of the Scheme  Investors understand that their principal will be at Moderate risk	Riskometer of the Benchmark 

Potential Risk Class (HSBC Short Duration Fund)			
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 Scheme with Relatively Moderate interest rate risk and Moderate credit risk.			

Scheme name and Type of scheme	Scheme Risk-o-meter	Benchmark Risk-o-meter
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) **This product is suitable for investors who are seeking*:** • Generation of regular and stable income over medium to long term • Investment predominantly in AA+ and above rated corporate bonds and money market instruments	*Riskometer of the Scheme  Investors understand that their principal will be at Moderate risk	Riskometer of the Benchmark 

Potential Risk Class (HSBC Corporate Bond Fund)			
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 Scheme with Relatively High interest rate risk and Low credit risk.			

Scheme name and Type of scheme	Scheme Risk-o-meter	Benchmark Risk-o-meter
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.) **This product is suitable for investors who are seeking*:** • Generation of reasonable retums and liquidity over short term • Investment predominantly in securities issued by Banks, Public Sector Undertakings and Public Financial Institutions and municipal corporations in India	*Riskometer of the Scheme  Investors understand that their principal will be at Low to Moderate risk	Riskometer of the Benchmark 

Potential Risk Class (HSBC Corporate Bond Fund)			
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 Scheme with Relatively High interest rate risk and Low credit risk.			

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

Note on Risk-o-meters: Riskometer are as on 30 September 2024, 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

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.

Abbreviations: FOMC: Federal Open Market Committee, ECB: European Central Bank, LCR: Liquidity Coverage Ratio, IGB: Indian Government Bond

Source: Bloomberg & HSBC Mutual Fund, RBI, CCIL, Data as at October 2024

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