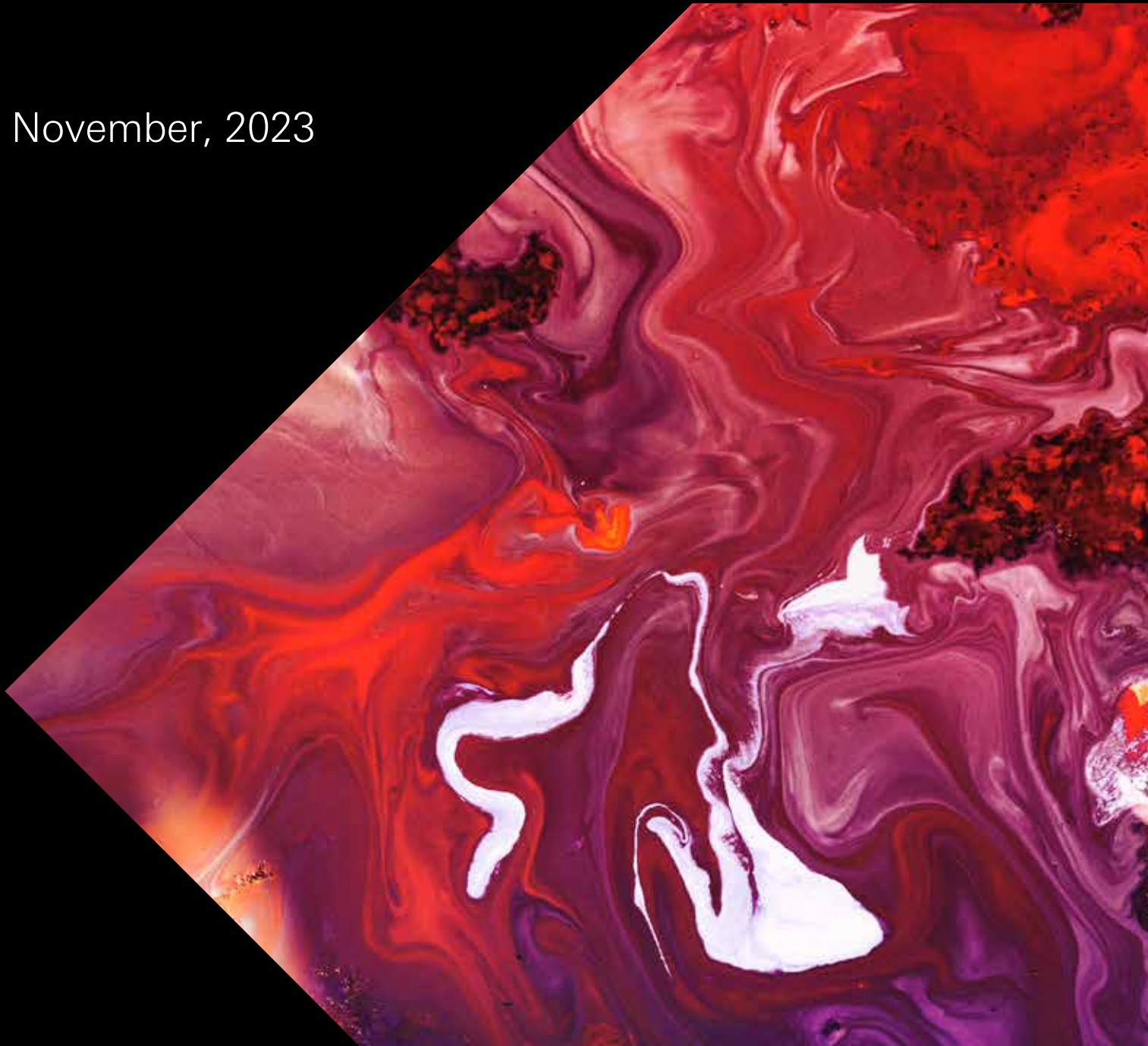


Debt Market Review

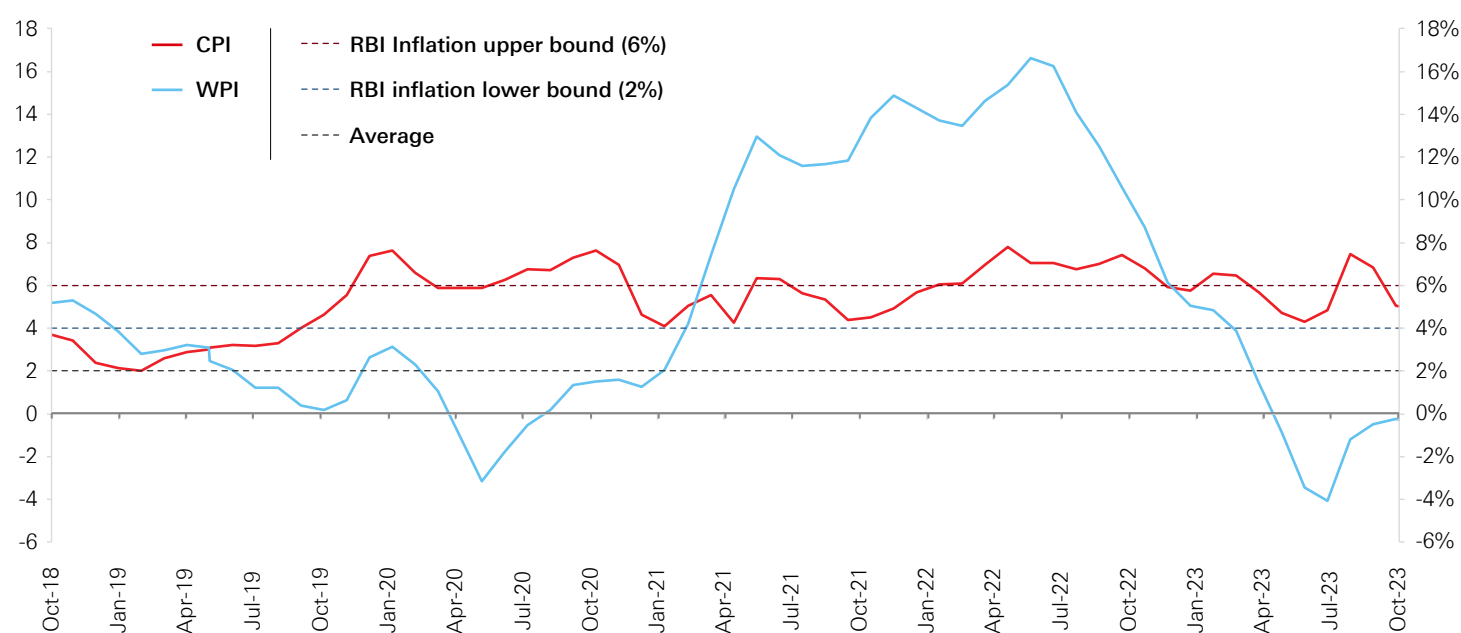
November, 2023



With the Federal Open Market Committee (FOMC) maintaining status quo on rates in its meeting in early November and relatively dovish commentary accompanying the FOMC meeting, the US Treasury yields were on a downward trend in the month of November. With October US CPI inflation coming in lower than expected at 3.2% (vs 3.7% in September) and core inflation also lower than expected at 4.0%, the rally in US bonds continued further and 10-year UST yields closed November at 4.33% vs 4.93% in end October. The UST yield curve inversion deepened in October, with the 2-year vs 10-year spread at ~36 bps (vs ~16 bps in end October). Crude prices also declined in the month eventually closing the month at USD 83/bbl vs USD 87/bbl after dropping below USD 80/bbl intra-month. Elsewhere, the trend of moderating inflation was seen in Eurozone and UK as well, with inflation in Eurozone dropping to 2.4% in November (vs 2.9% in October) and CPI in UK coming in at 4.6% in October (vs 6.7% in September).

On the domestic front, Q2 FY 2024 GDP growth came in higher than expectations at 7.6%, led by strong growth in investments at 11.0% while consumption growth remained weak. GVA growth was at 7.4% with strong growth in the industrial sector at 13.2%. Nominal GDP growth was at 9.1% in Q2 FY2024. CPI inflation for the month came in along expected lines at 4.87%, with a rise in prices of pulses and vegetable keeping food inflation elevated. Core inflation inched further lower to 4.2%. GST collections for the month of November continued to stay robust at INR 1.68 Lakh Crs (up 15% YoY). November Manufacturing PMI inched up slightly to 56.0 vs 55.5 in October. September IIP growth moderated to 5.8% vs 10.3% in the month of August.

Inflation target and trend

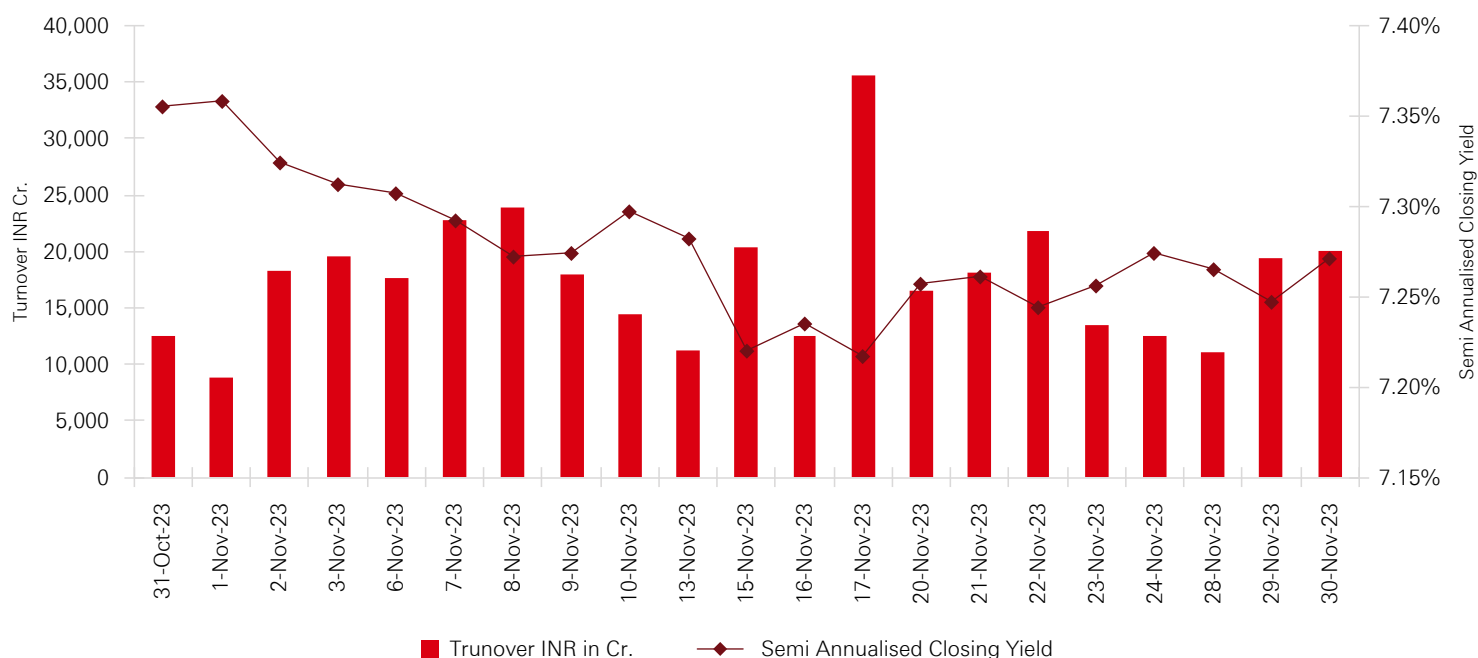


Source: CRISIL, MOSPI, RBI, Data as on 30 November 2023, Past Performance may or may not be sustained in future.
Investors should not consider the same as investment advice.

Liquidity remained in deficit through the month of November (despite G-Sec maturities) due to increase in currency in circulation and indirect tax outflows. Towards the end of month, systemic liquidity turned marginally positive due to GOI spending.

G-Sec yields inched lower given the decline in crude prices and UST yields. However, after reaching ~ 7.20% on the 10-year, some of the gains were given away as market participants stayed cautious on potential OMO sales news. 10-year G-Sec yields were lower by 8 bps for the month. Similar trend was seen in the 2-5 year G-Sec as well which was lower by 7-8 bps. Corporate bonds underperformed during the month especially at the shorter end of the curve, given a pick-up in primary issuances. 2-3 year corporate bond yields were higher by ~3 bps while 5-10 year corporate bond yields were marginally lower (~1-2 bps). The OIS curve was lower by 6-16 bps across the 1-5 year segment.

Movement of 10-Year Gilt Benchmark



Source: CRISIL Fixed Income database. Data as on 30 November 2023, Past Performance may or may not be sustained in future.
Investors should not consider the same as investment advice

Outlook

Yields in the US have seen a sharp move downwards in the last month. With moderating inflation in the US, and payroll data also exhibiting some weakness, the market is currently not anticipating any further rate hikes in the near term. With the higher for longer theme fading a bit, the scope of rate cuts by the Federal Reserve in 2024 now appears to have increased.

Indian bond markets have so far been less volatile relative to global bond markets. While Indian government bond yields did not move up sharply during September and October when the UST 10-year yields touched 5%, they have reacted to a much lesser extent during the downward move in UST yields as well.

With the Government sticking to their borrowing program in conjunction with a low net supply for second half of this financial year, the demand supply equation for G-Sec remains favorable in the near term. While markets still await any announcement of possible index inclusion in the Bloomberg bond index, FPI inflows have started coming in post the JP Morgan GBI-EM index inclusion announcement, with almost INR 20,000 Crs of net inflows since the announcement in September.

Outlook (contd.)

RBI has kept markets guessing about the quantum and timing of the Open Market Operation (OMO) sales (announced in the previous MPC policy). However, liquidity has remained in deficit reducing the possibility of an OMO sale announcement.

Globally, rates could remain volatile going forward. Domestically, the RBI policy on 8th December remains the key event in the near term which could provide further cues in terms of the tone of the policy and any announcements pertaining to liquidity and OMOs. Any correction can provide an opportunity to add duration and provide a good entry point. Corporate bond and SDL spreads have also widened due to the increase in supply and might provide an opportunity to lock in attractive spreads going forward. In our view, the risk-reward has turned in favor of careful deployment into certain areas which offer the best risk adjusted returns.

Based on the above outlook above, we believe the below mentioned strategies make investment sense:

- ◆ With AAA PSU corporate bond yields looking attractive, 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 positioned in these segments.
- ◆ With markets now expecting multiple 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 favourable proposition

Scheme name	Potential Risk Class			
HSBC Corporate Bond Fund	Potential Risk Class			
HSBC Banking and PSU Debt Fund	Credit Risk →	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
	Interest Rate Risk ↓			
HSBC Dynamic Bond Fund	Relatively Low (Class I)			
HSBC Gilt Fund	Moderate (Class II)			
	Relatively High (Class III)	A-III		

Scheme name	Potential Risk Class			
HSBC Medium Duration Fund	Potential Risk Class			
	Credit Risk →	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
	Interest Rate Risk ↓			
	Relatively Low (Class I)			
	Moderate (Class II)			
	Relatively High (Class III)		B-III	

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)

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.

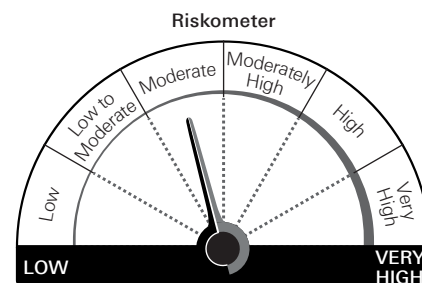
- Generation of income over medium term
- Investment primarily in debt and money market securities.

(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)



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 30 November 2023.

Source: Bloomberg & HSBC MF estimates as on Oct 2023 end 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.

GST - 27AABCH0007N1ZS | Email: investor.line@mutualfunds.hsbc.co.in | Website: www.assetmanagement.hsbc.co.in

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

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