HSBC Liquidity Fund Sterling
HSBC Global Liquidity Funds plc

July 2021

The next policy setting meeting from the Bank of England (BoE) is due to be held on 5th August. The market is expecting the Monetary Policy Committee (MPC) to vote unanimously for the base rate to remain unchanged at 0.10%. We are expecting a change in rhetoric from the BoE, judging from hawkish comments made publicly recently by MPC members. It is thought that Mr Saunders and Mr Ramsden will dissent and cast their votes for an immediate reduction to the program of asset purchases. Overall, the message from the BoE most likely be one of cautious optimism.

The upcoming meeting will also be of interest to markets as they seek to ascertain the Bank's stance on inflation and the pressures that are apparent in labour markets in the UK. It is thought that the MPC will also express a certain degree of concern regarding the Delta variant and the threat that the latest phase in the pandemic poses to the recovery.

Data published in July saw the CPI figure for June rise from 2.1% to 2.5%. This was higher than consensus. Also core CPI rose from 2.0% to 2.3% and RPI rose from 3.3% to 3.9%, both of which were higher that had been anticipated.

It would appear that the strength seen in CPI is primarily due to demand shifts taking place while Covid-19 restrictions ease. Supply chain constraints are also an important factor whether they be Brexit or Covid-19 related. It is very difficult to contextualise the latest inflation data and determine whether this is just a temporary or a more persistent phenomenon.

Sterling markets are now partially pricing the possibility of a rate hike before year end 2022. There has been no change to our investment strategy as we have sought to extend maturities when possible. Short term liquidity, both daily and weekly liquidity, has been maintained at a very high level throughout the past month.

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Please refer to the key risks and important information section

For more information on our capabilities go to:
https://www.assetmanagement.hsbc.co.uk/en/institutional-investor/investment-expertise/liquidity

Key risks

The value of investments and any income from them can go down as well as up and investors may not get back the amount originally invested.

- Asset backed securities (ABS) and mortgage backed securities (MBS) risk. ABS and MBS typically carry prepayment risk, as well as having potential for default. The securities can carry an above-average risk of being hard to value or to sell at a desired time and price
- Counterparty risk. The possibility that the counterparty to a transaction may be unwilling or unable to meet its obligations
- Credit risk. A bond or money market security could lose value if the issuer's financial health deteriorates
- Derivatives risk. Derivatives can behave unexpectedly. The pricing and volatility of many derivatives may diverge from strictly reflecting the pricing or volatility of their underlying reference(s), instrument or asset
- Exchange rate risk. Changes in currency exchange rates could reduce or increase investment gains or investment losses, in some cases significantly
- Investment leverage risk. Investment leverage occurs when the economic exposure is greater than the amount invested, such as when derivatives are used. A Fund that employs leverage may experience greater gains and/or losses due to the amplification effect from a movement in the price of the reference source
- Liquidity risk. Liquidity risk is the risk that a Fund may encounter difficulties meeting its obligations in respect of financial liabilities that are settled by delivering cash or other financial assets, thereby compromising existing or remaining investors
- Money Market Fund risk. The fund's objective may not be achieved in adverse market conditions. During times of very low interest rates, the interest received by the Fund could be less than the costs of operating the Fund
- Operational risk. Operational risks may subject the Fund to errors affecting transactions, valuation, accounting, and financial reporting, among other things

Further information can be found in the prospectus and Key Investor Information Document (KIID).

Important information

The MMF have availed of the derogation provided for under Article 17(7) of the Money Market Fund Regulation and accordingly a Fund may, in accordance with the principle of risk-spreading, invest up to 100% of its assets in different money market instruments issued or guaranteed separately or jointly by the European Union, the national, regional and local administrations or their central banks, the European Central Bank, the European Investment Bank, the European Investment Fund, the European Stability Mechanism, the European Financial Stability Facility, a central authority or central bank of a third country, the International Monetary Fund, the International Bank for Reconstruction and Development, the Council of Europe Development Bank, the European Bank for Reconstruction and Development, the Bank for International Settlements, or any other relevant international financial institution or organisation to which one or more member states of the European Union belong.

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