HSBC Liquidity Fund US Dollar
HSBC Global Liquidity Funds plc

July 2021

At July's meeting the Federal Open Market Committee (the Fed) maintained its federal funds target range at 0.00-0.25% and the current pace of the asset purchases at USD 120bn per month. The FED reiterated their commitment to keeping policy unchanged until labour market conditions have reached perceived levels of maximum employment and inflation is on track to moderately exceed 2% for "some time". The Fed noted that while the economy had shown signs of strengthening, sectors most affected by the pandemic had not fully recovered. The Fed also continued to look through recent elevated inflation readings saying they "largely reflected transitory factors". Fed chair Jerome Powell said officials had discussed the mechanics of scaling back bond buying when the time came, including the pace and composition of any changes and promised plenty of advance warning before any decision, though he downplayed the prospects of reducing mortgage-backed security purchases earlier than treasuries. Meanwhile, the Fed announced the creation of two standing repo facilities to serve as backstops in the money market.

In the US, GDP growth sped up modestly to 6.5% qoq annualised in the second quarter compared to the expected 8.4% qoqa. However, a drawdown inventory contributed the most to the disappointment, responsible for an almost 1.1ppt drag to the headline growth estimate. This reduction in stock is likely to need replenishing as the economy continues to recover in coming quarters. Underlying fixed capital investments still grew by 3% qoqa. Though slowing amid a contraction in residential investments. Importantly, personal consumption rose 11.8% qoqa, beating the anticipated 10.5% qoqa, even with a re-opening demand rotation towards services from goods. Meanwhile, government expenditures declined 1.5% qoqa after Q1s fiscal spending surge. Net exports also declined as imports rose with improving activity.

The core PCE Deflator (the Feds preferred measure of inflation pressures) for June is likely to attract interest following the stronger than expected core CPI reading, which was released earlier in July. While the core CPI jumped by 0.9% mom, core PCE is expected to see a smaller increase of 0.6% mom, in part reflecting the lower weight of used auto prices in the PCE.

US LIBOR rates have decline marginally over the last few weeks taking them back close to record lows. The levels are up to 10bps lower then at the beginning of the year. There remains some steepness of the curve, so Investors are still getting paid to extend maturities and buy credit, although margins are very thin. We continue to seek opportunities in floating rate notes, although there is little issuance.

Contact details

For a copy of the prospectus, key investor information document, supplementary information document, annual and semi-annual reports, information on portfolio holdings or other matters, please contact your local HSBC Group office, contact our team of liquidity specialists in your region:

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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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