HSBC Liquidity Fund Euro
HSBC Global Liquidity Funds plc

March 2022

For professional and institutional clients only

During its March policy meeting, the ECB delivered a hawkish tone, indicating that the net purchases under the bank's Asset Purchase Programme (APP) could be wound down in Q3 this year if the inflation outlook at the time is consistent with its objective of achieving 2% inflation on a sustained basis. It also confirmed the end of the Pandemic Emergency Purchase Programme (PEPP) at the end of March, although reinvestments would continue until at least the end of 2024.

Striking a fairly hawkish tone, the policy statement dropped guidance that rates could be at "lower levels" if required. However, this was balanced by an indication that rate normalization could take place "some time" rather than "shortly" after the end of net APP purchases.

A record surge in energy boosted euro-area inflation more than initially reported, and headline euro area HICP growth hit an all-time high of 5.9% in February, with energy being the biggest contributor again. The report comes as ECB President Christine Lagarde reiterated her commitment to take a gradual and flexible approach to ending large-scale asset purchases and raising interest rates.

In this context, we have seen market expectations of rate hikes raising sharply. The market is now expecting multiple hikes in the next 12 months. The 1 year Ester swap curve increased from around -0.50% to -0.20% in March.

While February PMIs confirmed that business activity in the euro area was on the rise again (the composite index was at 55.5), with households and businesses exiting the latest Omicron wave and reaching a 5-month high, the recent geopolitical tensions between Russia and Ukraine started to impact the activity. The first estimation for March composite PMI declined from 55.5 to 54.5, although weakness in forward-looking indicators points to a deceleration in activity ahead.

Finally, the ECB will have to navigate in the coming months between higher inflation data and probably lower growth data. This situation will add some volatility in ECB's expectations, and we may have some surprises as all the next meetings could be harbingers of an interest rate hike.

As a consequence, we continue to adopt a prudent approach and both WAL and WAM have again decreased slightly on average this month. We continue to keep a huge portion of the fund into very short maturities.

HSBC
Asset Management

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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:
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- **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 on the potential risks can be found in the Key Investor Information Document (KIID), Supplementary Information Document (SID) and/or the Prospectus or Offering Memorandum.

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(b) the fund is different from an investment in deposits and there is a risk that the principal invested in an MMF may fluctuation;
(c) the fund does not rely on external support for guaranteeing the liquidity of the MMF or stabilising the NAV per unit or share;
(d) the risk of loss of the principal is borne by the investor.

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