HSBC Mutual Fund

India at an Inflection Point: Navigating volatility with structural resilience

The Indian equity markets corrected nearly 14% between October 2024 and February 2025, impacted by a domestic economic slowdown and global macro uncertainties, leading to lower earnings growth for FY25. Since March 2025, however, markets have rebounded with an approximate 10% gain, supported by improving domestic conditions, including easing liquidity, falling inflation, a strong Rabi harvest, RBI rate cuts, and the resumption of central government capex.

Key Drivers of Market Performance

Global Uncertainty and Tariff Pressures

US fiscal, trade, and monetary policies have weighed on global sentiment. Ongoing geopolitical tensions have added to the uncertainty, influencing treasury yields, currency volatility, and overall business confidence. While volatility may persist through 2025, India remains relatively well-positioned due to:

Ongoing US-India bilateral trade discussions

- Lower reciprocal tariffs compared to Asian peers
- Robust forex reserves ($675+ billion)
- Decadal-high underweight position of India in EM allocations

Earnings downgrade cycle nearing bottom

Earnings growth in India has slowed since 2QFY25, entering a downgrade cycle. Encouragingly, the pace of downgrades is decelerating, and we anticipate a bottom by 4QFY25. A favourable base from 2QFY26 onward should support a low to mid-teens earnings growth outlook for Fy26.

Easing liquidity conditions

Tight liquidity in 2024—driven by regulatory actions—had constrained credit growth. However, recent measures such as OMOs, FX swaps, revisions in risk weights, and LCR norms have improved liquidity significantly, supporting credit and economic activity.

Lower inflation and deeper rate cuts

India's inflation outlook has turned favourable. March 2025 CPI fell to a 67-month low of 3.3%, driven by:

- Strong Rabi harvest
- Forecast of a normal monsoon
- Lower global commodity prices

With inflation likely to remain benign, the RBI has already cut rates by 50 bps and may continue with a deeper rate cut cycle in Fy26.

Resumption in government capex in select areas

Government capex grew at 20% CAGR over FY22-24 driving the overall GDP growth. With the national and key state elections in 2H24 and social welfare schemes floated by state government prior to state elections, we saw muted growth in government capex in FY25. We expect resumption of government capex growth in FY26 in some segments like Power, Defence and PLI.

Outlook

We believe India's long-term growth fundamentals remain strong. Despite short-term global headwinds, India stands out due to its robust domestic demand, favourable demographics, government manufacturing push, and controlled inflation. While market volatility may persist. currently Indian equities seem to be well-placed to deliver reasonable long-term returns.

Happy Investing and Stay Invested.

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Source: Bloomberg & HSBC MF estimates as on April 30, 2025 or as latest available.

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