HSBC Mutual Fund

Equity Market Review

February, 2025

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- Major equity indices saw a sharp cut in February 2025 with BSE Sensex and NSE Nifty down 5.5%/5.8%, respectively for the month.
- Broader markets saw an even deeper correction with NSE Midcap index down 10.5% and the BSE Smallcap index declined 13.7% for the month.
- All sector indices ended negative in February. Metals and Banks were the best performing sectors outperforming the Nifty index. Healthcare underperformed the Nifty. FMCG, IT, Autos, O&G, Power and Realty - all saw double digit decline. Capital Goods was the worst performing sector.

Domestic Indices	Last Close	1 Month (Change)	CYTD 25 (Change)
BSE Sensex TR	1,13,663	-5.5%	-6.2%
Nifty 50 TR	32,973	-5.8%	-6.2%
BSE 200 TR	12,671	-7.0%	-9.3%
BSE 500 TR	39,915	-7.7%	-10.9%
NSE Midcap TR	22,468	-10.5%	-16.0%
BSE Smallcap TR	53,370	-13.7%	-21.8%
NSE Large & Midcap 250 TR	17,785	-8.4%	-12.0%
BSE India Infrastructure Index TR	720	-13.3%	-16.6%
MSCI India USD	907	-8.1%	-11.4%
MSCI India INR	2,574	-7.2%	-9.5%
INR - USD	87.5	1.0%	2.2%
Crude Oil	73	-4.7%	-2.0%

Sectoral Indices	CY15	CY16	CY17	CY18	CY19	CY20	CY21	CY22	CY23	CY24*	10-year CAGR*
Nifty 50 TRI	-3.01	4.39	30.27	4.64	13.48	16.14	25.59	5.69	21.30	10.09	1.89
BSE SENSEX TRI	-3.68	3.47	29.56	7.23	15.66	17.16	23.23	5.80	20.33	9.49	2.19
BSE Auto TRI	0.08	10.38	33.31	-21.33	-9.94	14.27	20.59	17.83	47.71	23.40	-1.22
BSE BANKEX TRI	-9.03	8.39	39.98	5.65	21.12	-2.12	12.97	21.91	12.12	7.15	5.52
BSE CG TRI	-7.77	-2.38	41.42	-0.49	-8.79	12.52	54.75	17.17	68.15	22.53	-3.22
BSE CD TRI	24.79	-5.83	102.87	-8.32	21.53	22.19	47.73	-10.93	26.40	29.31	3.75
BSE FMCG TRI	2.80	4.77	33.26	12.11	-2.14	13.19	11.70	19.08	29.65	3.25	-3.75
BSE Healthcare TRI	15.62	-12.43	1.10	-5.38	-2.80	62.61	21.54	-11.50	37.97	44.30	9.53
BSE IT TRI	6.65	-6.14	13.29	27.26	11.84	60.05	58.45	-22.70	28.28	22.21	-2.61
BSE Metal TRI	-28.85	43.19	52.82	-16.20	-10.16	18.43	72.68	15.70	35.50	10.24	7.24
BSE Oil & Gas TRI	-1.22	30.38	37.81	-12.40	10.59	-0.55	31.72	20.45	17.30	16.50	-15.77
BSE Power TRI	-5.26	2.99	22.03	-14.30	-0.64	11.38	73.68	28.51	36.45	21.28	-11.41
BSE PSU TRI	-14.87	16.89	22.69	-18.69	-1.12	-12.80	47.95	28.30	61.48	24.34	-10.99
BSE Realty TRI	-12.82	-5.27	107.24	-30.69	27.58	9.20	55.40	-9.97	80.16	33.45	-13.73

Source: CRISIL, BSE, Figures in red indicate negative returns in that period. *10-year CAGR, Data as on 28, February 2025,
Past performance may or may not be sustained in future and is not a guarantee of any future returns.
Note - The details provided above is as per the information available in public domain at this moment and subject to change. Please consult your financial advisor for any investment decisions

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Global Market Update

- MSCI World index saw a modest correction in February, down 0.8% led by US (S&P 500) declining 1.4%. MSCI Europe, however, rose 3.5% while MSCI Japan was down 1.4%. MSCI EM was up 0.4% supported by a strong 11.8% rally in MSCI China. Crude oil price declined 4.7% in February.

International Indices (in USD)	Last Close	1 Month (Change)	CYTD 25 (Change)
MSCI World	3,805	-0.8%	2.6%
Dow Jones	43,841	-1.6%	3.0%
S&P 500	5,955	-1.4%	1.2%
MSCI EM	1,097	0.4%	2.0%
MSCI Europe	2,215	3.5%	10.6%
MSCI UK	1,319	3.1%	8.4%
MSCI Japan	3,937	-1.4%	0.2%
MSCI China	73	11.8%	12.5%
MSCI Brazil	1,250	-5.4%	6.2%

- FIIs aggressively sold Indian equities in February with an outflow of US$5.4 bn. However, this was offset by strong DII inflows of US$7.4 bn with MFs investing US$4.2 bn while insurance invested US$3.3 bn.
- With government expected to maintain its fiscal deficit reduction trajectory in FY26 and rising concerns on domestic growth as reflected in the slower Q2FY25 GDP growth, RBI cut the repo rate by 25 bps to 6.25%.
- CPI softened to 4.3% (YoY) in January from 5.2% (YoY) in December due to moderation in food price inflation. Core-core inflation (i.e. core inflation ex petrol and diesel) remained steady at 4% in January vs 3.9% (YoY) in December.
- Industrial production growth (IIP) slowed to 3.2% (YoY) in December from 5.0% (YoY) in November.
- Gross GST revenue collection was Rs 1.84 tn in February 2025, up 9% (YoY).
- Other key developments during the month – Q3FY25 GDP growth was 6.2% (YoY) up from 5.6% (YoY) in Q2FY25. This was supported by strong growth in agriculture but improvement in industrial growth has been weaker. Govt. expects growth to improve further in Q4FY25 and expects FY25 GDP growth to be 6.5% (YoY).

Valuations

Nifty consensus EPS estimate for CY25 have been cut by about 2% (YoY) in February with the conclusion of the earnings season. However, due to the sharp market correction valuations have moderated further. Nifty now trades on 18.1x 1-year forward PE. This is now a 7% discount to its 5-year average and in-line with its 10-year average. Valuations in Midcap and Smallcap space have also moderated following the sharp correction over January and February.

Macro View

In our view, global macro environment remains challenging with heightened geo-political and economic uncertainties. New US administration policies with regards to tariffs on various countries etc. are likely to increase near term volatility. For India, GDP growth has improved to 6.2% (YoY) in Q3FY25. We believe government has tried to partly address the slowdown in private consumption through the income tax rate cuts in the Union Budget. However, a pickup in private capex will be critical as government capex is moderating. Central Government capex spend is now expected to grow only at 7% (YoY) in FY25 and at 10% (YoY) in FY26. RBI is also now trying to ease policy rates.

Outlook

In the near term, there is a certain level of slowdown in India's growth momentum, however we believe longer term outlook remains strong. We expect India's investment cycle to be on a medium-term uptrend supported by government investment in infrastructure and manufacturing, pickup in private investments and a recovery in real estate cycle. We expect higher private investments in renewable energy and related supply chain, localization of higher-end technology components, and India becoming a more meaningful part of global supply chains to support faster growth. Post the recent correction, Nifty valuations are now in-line with its 5/10-year average. We remain constructive on Indian equities supported by the more robust medium term growth outlook.

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Key Drivers For Future

On the headwinds, we have

Weak global growth is likely to remain a headwind on demand going forward.

Global policy uncertainty: Risk of tariffs and general policy uncertainty, mercantilist policies of certain countries and geo-political conflicts are likely to be a headwind to private investments.

Other factors / risks: Weak monsoon.

We see the following positives for the Indian market:

Recovery in private capex: Industry capacity utilization based on RBI survey data is at a reasonably high level and indicates potential for increase in private capex going forward. Also, continued expansion of the Production Linked Incentive (PLI) scheme is likely to further increase private investments in targeted sectors. We also expect higher private capex in renewable energy.

Recovery in real estate cycle: Real Estate remains another strong medium term growth driver having weathered the impact of higher interest rates. Demand trends in top metro cities remain strong and inventory levels have declined.

Global commodity prices: Benign global prices of crude oil and fertilizers has been a positive for India from inflation, fiscal deficit and corporate margins perspective in FY24-25. However, any significant increase would be a headwind.

Note: Returns mentioned in the report are the Total Return or TR variants of the respective domestic indices. USD return for global indices. Views provided above are based on information in public domain and subject to change. Investors are requested to consult their financial advisor for any investment decisions.

Source: Bloomberg, MOSL & HSBC MF estimates as on February 2025 end or as latest available.

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