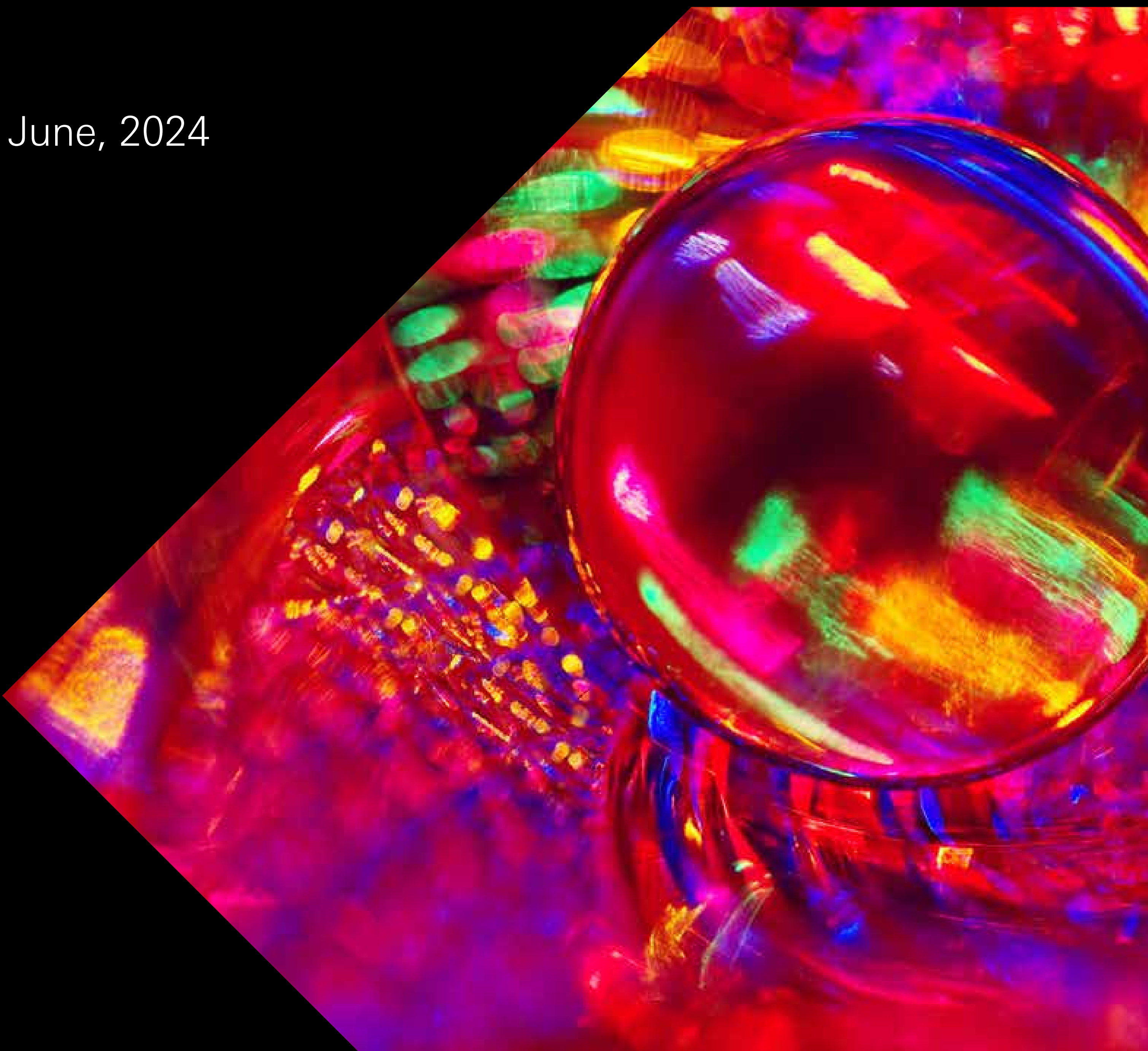
HSBC Mutual Fund

Equity Market Review

June, 2024



HSBC Mutual Fund

- Indian equity indices rose sharply in June 2024 post the election results as the National Democratic Alliance (NDA) won a majority for the third consecutive time. BSE Sensex and NSE Nifty moved up 7.1%/6.8%, respectively for the month.
- The broader market saw an even stronger up-move with the BSE Smallcap index rising 10.4% and the NSE Midcap Index rising 8% during the month.
- IT was the top performing sector in June, after consistently declining for the last few months. Realty and Autos also outperformed the benchmark while Banks and Healthcare were in-line with the Nifty. FMCG, Power, Capital Goods, O&G and Metals underperformed the Nifty but delivered positive returns.

Domestic Indices	Last Close	1 Month (Change)	CYTD 24 (Change)
BSE Sensex TR	1,21,992	7.1%	10.2%
Nifty 50 TR	35,539	6.8%	11.3%
BSE 200 TR	14,115	6.7%	16.0%
BSE 500 TR	45,137	7.1%	16.7%
NSE Midcap TR	26,268	8.0%	22.3%
BSE Smallcap TR	64,243	10.4%	22.4%
NSE Large & Midcap 250 TR	20,195	7.3%	18.6%
BSE India Infrastructure Index TR	931	3.0%	40.1%
MSCI India USD	1,073	6.9%	16.4%
MSCI India INR	2,t902	6.8%	16.7%
INR - USD	83.4	-0.1%	0.2%
Crude Oil	86	5.9%	12.2%

Indices	28-Jun 2024	31-May 2023	% Change 1 Month	% Change 1 Year	% Change YTD
BSE Auto	57,293	53,026	8.05	64.07	35.67
BSE BANKEX	59,641	55,772	6.94	18.1	9.68
BSE Capital Goods	72,324	70,056	3.24	77.59	29.98
BSE Consumer durables	58,827	54,915	7.12	37.25	17.65
BSE FMCG	20,550	19,529	5.23	9.95	0.4
BSE Healthcare	37,110	34,890	6.37	43.76	17.63
BSE IT	36,951	33,199	11.3	23.68	2.61
BSE Metal	33,051	32,713	1.03	60.74	22.45
BSE Oil & Gas	29,473	28,640	2.91	61.85	28.03
BSE Power	7,955	7,699	3.31	98.32	36.71
BSE PSU	21,204	20,888	1.51	97.5	36.29
BSE Realty Index	8,635	7,980	8.21	107.51	39.56

Source: NSE, BSE, Data as on 28 June 2024, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.
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.

Global Market Update

- MSCI World index also moved up by 1.9% in June. It was driven by a 3.5% gain in the US (S&P 500) while MSCI Europe declined 2.4% and MSCI Japan declined 0.8%. MSCI EM was up 3.6% despite a 2.6% decline in MSCI China and 4.5% in Brazil. Crude oil price bounced back 6% MoM in June.

International Indices (in USD)	Last Close	1 Month (Change)	CYTD 24 (Change)
MSCI World	3,512	1.9%	10.8%
Dow Jones	39,119	1.1%	3.8%
S&P 500	5,460	3.5%	14.5%
MSCI EM	1,086	3.6%	6.1%
MSCI Europe	2,095	-2.4%	3.7%
MSCI UK	1,229	-2.1%	4.4%
MSCI Japan	3,893	-0.8%	5.3%
MSCI China	57	-2.6%	3.5%
MSCI Brazil	1,408	-4.5%	-21.8%

- FIIs were net buyers of Indian equities in June with an inflow of US$3.1 bn vs a US$3 bn outflow in May. DII's remained buyers with MFs investing US$2.4 bn while Insurance invested US$1 bn during the month.
- CPI was at 4.8% (YoY) in May similar to April while core-core inflation (i.e. core inflation ex petrol and diesel) trended even lower to 3.2% (YoY) from 3.4% (YoY) in April.
- Index of Industrial Production growth (IIP) stood at 5.0% (YoY) in April slightly down from 5.4% (YoY) in March.
- Gross GST revenue collection for the month of June stood at Rs 1.74 tn, up 8% (YoY).

Valuations

While equity indices registered a sharp upmove in June, consensus earnings estimate for FY25/26 saw modest downgrades taking index valuations even higher. NSE Nifty now trades on 21.4x 1-year forward PE 18% above its 10-year average while it is now 10% above its 5-year average. Valuations in Midcap and Smallcap space are much more elevated.

Macro View

In our view, the global macro environment remains challenging with heightened geo-political and economic uncertainties. US bond yields remain high putting pressure on interest rates and currencies globally. For India, growth has continued to remain strong with GDP growth of 7.8% in Q4FY24 driven by strong government spending on infrastructure and pickup in manufacturing and construction. The new government will present the Union Budget in July. We expect a continuity of policies. Infra thrust of the government along with a reduction in fiscal deficit should be supportive of domestic growth and capex cycle. The outlook for monsoons is also positive and therefore supportive of rural demand and overall consumption growth in the economy in FY25.

Outlook

India's growth momentum and outlook remain strong. Despite the need to accommodate multiple coalition partners, we expect to focus on infrastructure development while maintaining fiscal discipline. An increased focus on employment generation could lead to an even greater thrust on manufacturing. We expect India's investment cycle to be on a medium-term uptrend supported by rising government investment in infrastructure and recovery in the real estate cycle. We also expect higher private investments in renewable energy and related supply chains, localization of higher-end

Outlook (contd)

technology components, and India becoming a more meaningful part of global supply chains to support faster growth. However, in our view, several of these positives are getting discounted by the high valuations currently prevailing in the equity market. While we remain constructive on Indian equities supported by the more robust medium-term growth outlook we would caution against high return expectations.

Key Drivers For Future

On the headwinds, we have

- **Moderating global growth** due to higher interest rates is likely to weigh on demand going forward.
- **Global commodity prices:** Decline in crude oil and fertilizers has been a positive for India from inflation, fiscal deficit and corporate margins perspective in FY24. However, any significant increase would be a headwind.
- **Other factors/risks:** High fiscal deficit and weak monsoon.

We see the following positives for the Indian market:

- **Government infrastructure spending:** Strong government thrust on infrastructure spending is clearly supporting the economy and has been one of the big positive contributors to H1FY24 GDP growth.
- **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.
- **Recovery in private capex:** Industry capacity utilization based on RBI survey data is at a reasonably high level and indicates potential for an increase in private capex going forward. Also, the 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.

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 June 2024 end or as latest available

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