HSBC Mutual Fund

Asset Allocation Strategies in 2024...

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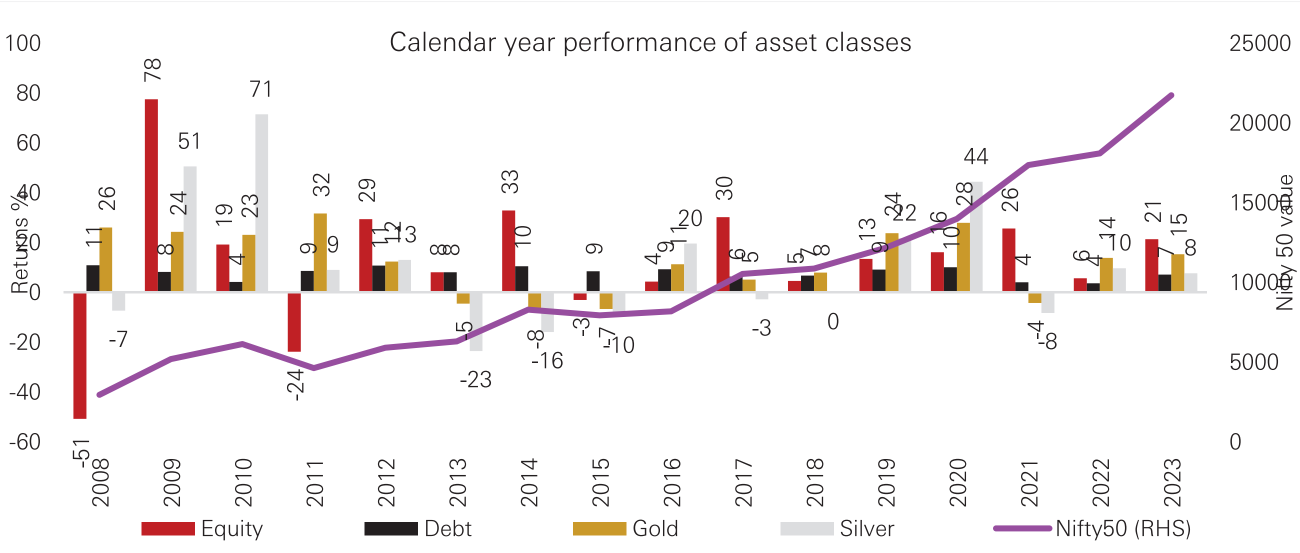
2023 – An eventful year

Much of the global headlines during the year were dominated by geo-political conflicts, high inflation, and rising interest rate concerns. However, India's growth has positively surprised led by strong government impetus to infrastructure as outlined in the Union budget. This translated into strong growth for several core sector.

Revenues for capital goods companies continued to grow at a robust pace indicating that investment cycle for India is picking up. Supported by range bound crude, declining international coal / gas and other commodity prices, cost pressures and inflation concerns have now abated with core inflation below 5%. Indian equity markets remained buoyant supported by strong inflows from both domestic and foreign institutional investors during the year as the faith in India's structural growth story remained intact.

Why Multi Asset Allocation

Equity markets have rallied during positive market situations in past but have also corrected sharply during major events such as GFC and Covid Pandemic. During such events, asset classes such as Gold or Debt have compensated to the extent possible for negative equity performance. Each asset class undergoes positive and negative cycles under different market conditions and hence investment diversification is a key to success.



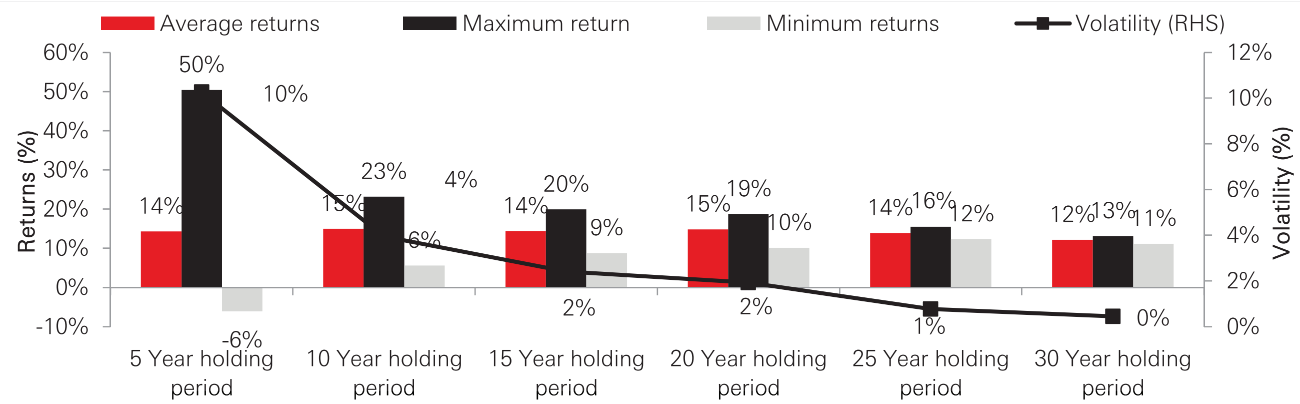
Equity represented by NIFTY 50 TRI, Debt by NIFTY Short Duration Debt Index, and Price of Gold (per 10 gram), Prices of Silver, Nifty50 value. Source: MFI Explorer, ICRA, Data as on 31 Dec 2023, Absolute Returns for the period of 1 Jan to 31 Dec for respective Calendar Years.

Past performance may or may not be sustained in the future and is not indicative of future results.

Let's look at the individual asset classes and understand their characteristics and past trends.

A. Equity

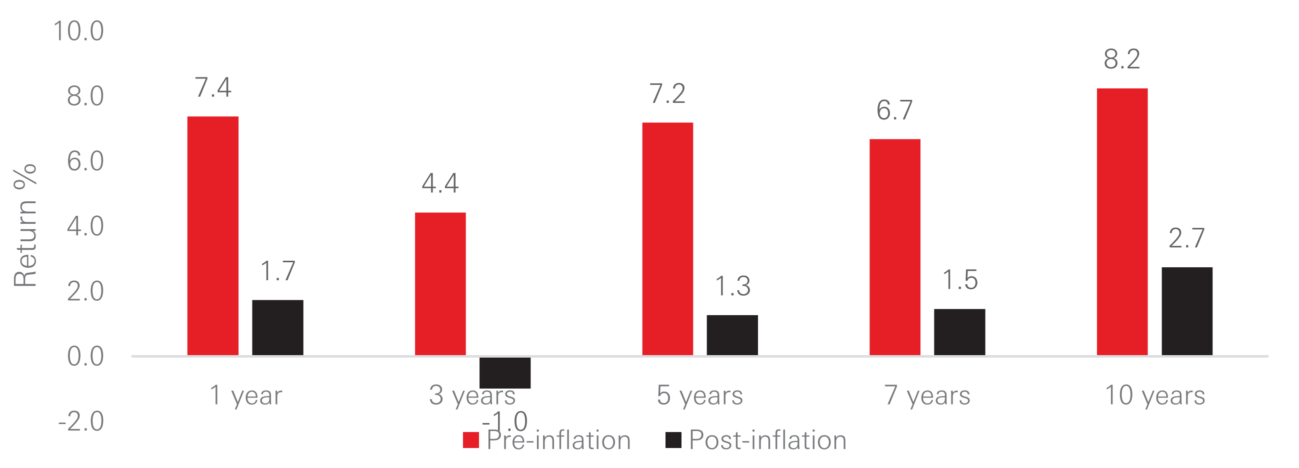
Equity can look appealing from a long-term perspective but is subject to volatility in the short-term. However, it may have the ability to beat inflation by a significant margin on an average, over the long term. As evident from the return chart, probability of achieving positive returns may increase as the investment horizon increases & volatility may decrease with an increase in the investment horizon. Equity asset class is driven by economic growth in a country and considering Indian governments incremental reforms India's economic growth may likely to be healthy over very long term.



Source: HSBC Mutual Fund, CRISL, Data as on 31 Dec 2023,
Average annualised returns on a daily rolling basis since inception (1979) of S&P BSE Sensex TRI considered across various holding periods. **Past performance may or may not be sustained in the future and is not indicative of future results.**

B. **Fixed Income**

During crisis, Debt may compensate for negative equity performance as some debt instruments exhibit lower volatility and consistency with closer to inflation performance. High quality debt assets including GOI securities, Corporate bonds, Money market instruments can help generate alpha with active duration management.



Source: HSBC Mutual Fund, CRISL, RBI, Labourbureau.nic.in, Data as on 31 Dec 2023, Debt represented by CRISIL Composite Bond Fund Index, Inflation by average of annual CPI-IW inflation. **Past performance may or may not be sustained in the future and is not indicative of future results**

C. **Gold**

Gold can help compensate short to medium term volatility of equities. Extreme events such as geo political risk, Sub-prime crisis calls for stronger defense, and allocation to Gold may help in providing downside protection in such events. Gold has negative correlation with equities and may also exhibit upside potential in extreme events.

As illustrated for different asset classes exhibit varying advantages.

Different asset classes outperform each other across different timeframes. Asset classes show strength and potential weakness & behave differently depending on economic situations.

While equity investments can be risky in the short term, they can drive long-term wealth creation. Active asset allocation within Equity, Gold, Silver and Debt can reduce volatility and aim to optimise returns. **Multi Asset Allocation can be one of the prudent solutions to counter volatility and achieve return optimisation in the long run.**

Asset Class / Returns %	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Equity	-50.8	77.6	19.2	-23.8	29.4	8.1	32.9	-3.0	4.4	30.3	4.6	13.5	16.1	25.6	5.7	21.3
Debt	10.9	8.2	4.2	8.7	10.7	8.0	10.5	8.5	9.3	6.3	6.7	9.1	10.2	4.1	3.7	7.2
Gold	26.9	24.2	23.2	31.7	12.3	-4.5	-7.9	-6.6	11.3	5.1	7.9	23.8	28.0	-4.2	13.9	15.4
Silver	-7	51	71	9	13	-23	-16	-10	20	-3	0	22	44	-8	10	8
Average	-5.1	40.1	29.5	6.4	16.4	-3.0	4.9	-2.7	11.1	9.7	4.8	17.0	24.7	4.3	8.3	12.9

Equity represented by NIFTY 50 TRI, Debt by NIFTY Short Duration Debt Index,, Price of Gold (per 10 gram), Source: MFI Explorer, ICRA, Absolute returns for the period of 1 Jan to 31 Dec for respective Calendar Years, Data as on 31 Dec 2023, **Past performance may or may not be sustained in the future and is not indicative of future results**

Asset classes correlation

Equity and Gold/Silver have very low correlation. Typically, investors take shelter of Gold when volatility increases. Debt and Equity also have low correlation which makes it important to have reasonable allocation across different asset classes.

Correlation	Equity	Debt	Gold	Silver
Equity	1.00	0.18	-0.04	0.16
Debt	0.18	1.00	0.33	0.27
Gold	-0.04	0.33	1.00	0.83
Silver	0.16	0.27	0.83	1.00

Source: Bloomberg, MFI Explorer and AMFI portal, Monthly Returns considered for period 1 Jan 2018 – 31 Dec 2023 for calculating correlation, Equity, Debt, Gold and Silver represented by NIFTY 50 TRI, NIFTY Short Duration Debt Index, MCX Gold prices and MCX Silver prices, respectively. Past performance may or may not be sustained in the future and is not indicative of future results.

Debt market outlook for 2024

Global Central banks are at the end of interest rate hiking cycle. RBI kept the Repo Rate unchanged at 6.50%, with current pause to assess the impact on system of earlier hikes. The recent inflation came at 5.69% and is likely to remain higher in the next few months due to higher food inflation. Our top-down assessment of various factors indicates a positive duration bias for fixed income portfolios.

Equity outlook for 2024

2024 - Starting on a strong footing

India starts 2024 on a strong footing with positive growth momentum. As we have been highlighting during the year, we see India's manufacturing sector on a strong medium term growth trajectory as the underlying drivers continue to strengthen. We expect government infra thrust to continue. Rising power demand, buoyant capital markets and need to reduce carbon footprint is likely to drive growth in private investments into renewable energy. Government's Production Linked Incentive (PLI) scheme is helping manufacturing capacity in areas like Power, Renewable energy, Electronics and other new technology areas. Localization thrust and global supply chain re-adjustments are driving capacity addition in manufacturing across verticals. In our view, Real Estate remains another strong medium term growth driver having weathered the impact of higher interest rates. We expect pickup in investment cycle to help support credit growth in 2024. We believe banking system is now well prepared to support this as Asset quality is now strong and has continued to improve. Finally, we also expect improvement in consumption as the impact of high inflation fades, and real incomes start to grow again.

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