HSBC Mutual Fund

Growth cycle may be improving despite tariff uncertainty

April, 2025

- Despite US tariff related turmoil, equity indices continued to rise strongly in April 2025 with BSE Sensex and NSE Nifty gaining 3.7% / 3.5%, respectively for the month.
- Broader markets were also positive with NSE Midcap Index gaining 4.0%, however, BSE Smallcap Index lagged gaining only 1.6% for the month.
- Oil & Gas, FMCG and Banks were the best performing sectors. Autos and Realty also outperformed the Nifty. Healthcare and Power were also positive but underperformed the Nifty. Capital Goods were flat. Metals was the worst performing sector followed by IT. Both delivered negative returns in April.

Domestic Indices	Last Close	1 Month (Change)	CYTD 25 (Change)
BSE Sensex TR	1,24,627	3.7%	2.9%
Nifty 50 TR	36,275	3.5%	3.2%
BSE 200 TR	14,029	3.4%	0.5%
BSE 500 TR	44,196	3.2%	-1.4%
NSE Midcap TR	25,161	4.0%	-5.9%
BSE Smallcap TR	58,734	1.6%	-14.0%
NSE Large & Midcap 250 TR	19,788	3.6%	-2.1%
BSE India Infrastructure Index TR	816	0.7%	-5.6%
MSCI India USD	1,040	4.8%	1.5%
MSCI India INR	2,849	3.6%	0.2%
INR - USD	84.5	-1.1%	-1.3%
Crude Oil	63	-15.5%	-15.4%

Global Market Update

MSCI World index actually rose 0.7% in April despite US tariff announcements as markets ex US saw a strong rally with a weakening dollar. US (S&P 500) declined 0.8% while MSCI Europe rose 3.8% and MSCI Japan rose 5.2%. MSCI EM also rose 1.0% despite a 4.6% drop in MSCI China. Crude oil saw a sharp decline of 15.5% during the month.

International Indices (in USD)	Last Close	1 Month (Change)	CYTD 25 (Change)
MSCI World	3,656	0.7%	-1.4%
Dow Jones	40,669	-3.2%	-4.4%
S&P 500	5,569	-0.8%	-5.3%
MSCI EM	1,113	1.0%	3.5%
MSCI Europe	2,284	3.8%	14.0%
MSCI UK	1,351	2.3%	11.0%
MSCI Japan	4,112	5.2%	4.6%
MSCI China	71	-4.6%	9.4%
MSCI Brazil	1,380	4.3%	17.3%

- Both domestic and FII flows supported the market in April. FIIs invested of US$1.3 bn into Indian equities while DIIs invested US$3.3 bn. Domestic MFs invested US$1.7 bn while insurance inflow was US$1.5 bn.
- RBI cut the repo rate by 25 bps in April to 6% and moved its stance to 'accommodative' from 'neutral' indicating a more benign liquidity environment going forward.
- Mar CPI softened further to 3.3% (YoY) from 3.6% (YoY) in February due to continued softness in food price inflation. Core-core inflation (i.e. core inflation ex petrol and diesel) at 4.3% (YoY) in March remained unchanged relative to February.
- Industrial production growth (IIP) stood at 3% (YoY) in March similar to 2.7% (YoY) in February.
- Gross GST revenue collection was Rs 2.37 tn in April 2025, up 12.6% (YoY).

Valuations

Nifty consensus EPS estimate for CY25/26 got revised down by 2% / 3%, respectively during April. This along with the market recovery, Nifty now trades on 20.1x 1-year forward PE. This is now in-line with its 5-year average and a 10% premium to 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. Announcement of reciprocal tariffs by the US administration could significantly impact US and global growth outlook, if the tariffs stay in place. 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. RBI is also now trying to ease policy rates and liquidity conditions rapidly. With USD weakening and decline in crude prices the room for easing has increased further. Most economists now expect another 50 bps of rate cut from the RBI during the calendar year. Forecast of an above normal monsoon is also a positive for rural demand.

Outlook

We believe growth cycle in India may be bottoming out. Interest rate and liquidity cycle, decline in crude prices and normal monsoon are all supportive of a pick-up in growth going forward. Although, global trade related uncertainty remains a headwind to private capex in the near term, 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.

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: Sharp slowdown in government capex.

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.

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Supportive 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.

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 April 2025 end or as latest available.

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