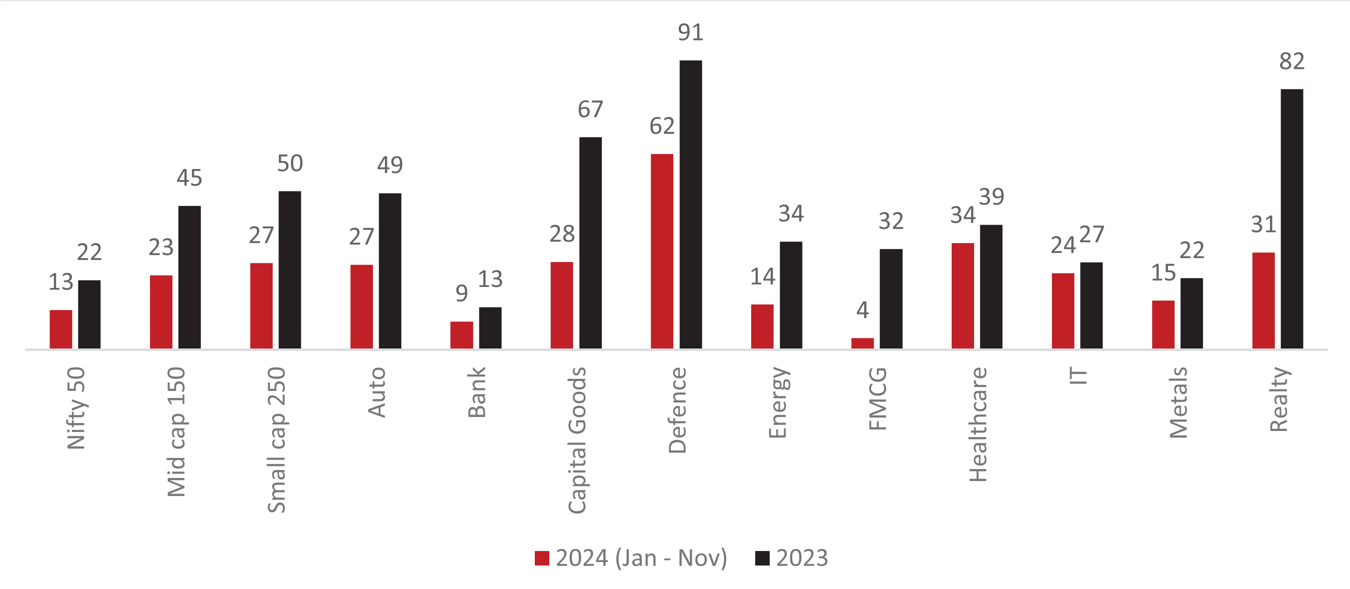
HSBC Mutual Fund

Infrastructure and Manufacturing

To Drive Growth In 2025

The year 2024 was an intriguing and volatile year with Nifty delivering 12.5% returns during January – November 2024. The rally was broad-based across sectors with Defence (62%), Healthcare (34%), Realty (31%), Capital Goods (28%), Auto (27%) and IT (24%) being the best performing sectors. While FMCG did well at the beginning of the year, it lost steam over the end of the year posting meagre 3.6% returns reflecting weak consumption data especially on the rural side. Banks underperformed the broader market delivering modest 8.9% returns. Thus, the year saw participation from multiple sectors which is a healthy sign that fundamentals are indeed strong. Large caps underperformed mid and small caps, with investors chasing high growth companies and newer niche business opportunities. Mid caps and Small caps have outperformed Nifty in 4 out of last 5 years.



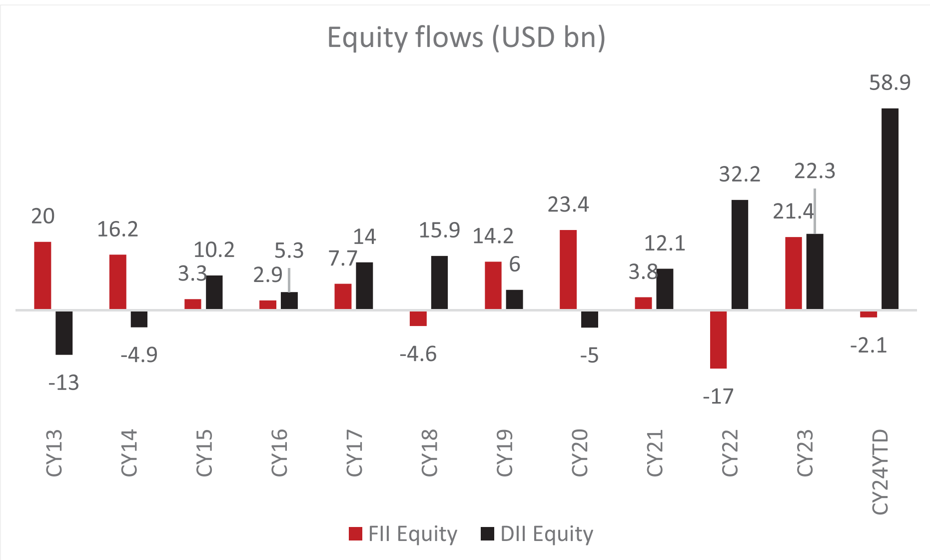
Source: Bloomberg. Note: Above are total returns in percentages for respective periods. All sector returns are based on respective Nifty sector Index, barring Capital Goods which is based on BSE Index.

	CY20	CY21	CY22	CY23	CY24YTD
Nifty 50 Index	17%	26%	6%	22%	13%
Nifty Midcap 150 Index	26%	48%	4%	45%	23%
Nifty Smallcap 250 Index	27%	63%	-3%	50%	27%

Source: Bloomberg; 2024YTD returns indicate Jan 1 to Nov 30, 2024 total returns

Indian equity markets outperformed the broader Emerging markets on YTD basis, while US markets (S&P 500 Index) delivered strong 28% returns during similar period. In 2024, the global backdrop continued to be marred by geo-politics and conflicts, however, it wasn't a key influencer in Indian or global equity markets returns or volatility. Over 65 countries held national elections in 2024, including large economies like the US, the UK, India and Japan. In India, markets were disappointed with the initial election results, however, commitment from coalition parties have allayed investor concerns on this front. Globally, an interest rate cutting cycle has started from June 2024 with Europe, UK and later US cutting interest rates on back of lower inflation expectations. However, we have not yet seen interest rate cuts in India, inspite of core inflation remaining low. High food inflation and uncertainty around the US elections influencing the currency and bonds yield probably have played a role in this delay. Indian currency was one of the best performing currencies depreciating 2% YTD, way lower compared to other emerging and developed market economies.

The Central Government remains committed on its path of fiscal consolidation which could mean some pressure on incremental growth in capex spends. With elections in the June quarter and excess rains disrupting activity in the September quarter the economic growth moderated. In line with this moderation, we saw corporate earnings growth slowing towards the end of 2024 with analysts cutting earnings estimates for 2025. Domestic flows remained strong with record inflows in 2024. FII flows were healthy until September 2024, however, the past couple of months saw $13.1bn FII outflows, which **could be due to the earnings growth moderation and higher valuations.**



Source: NSE

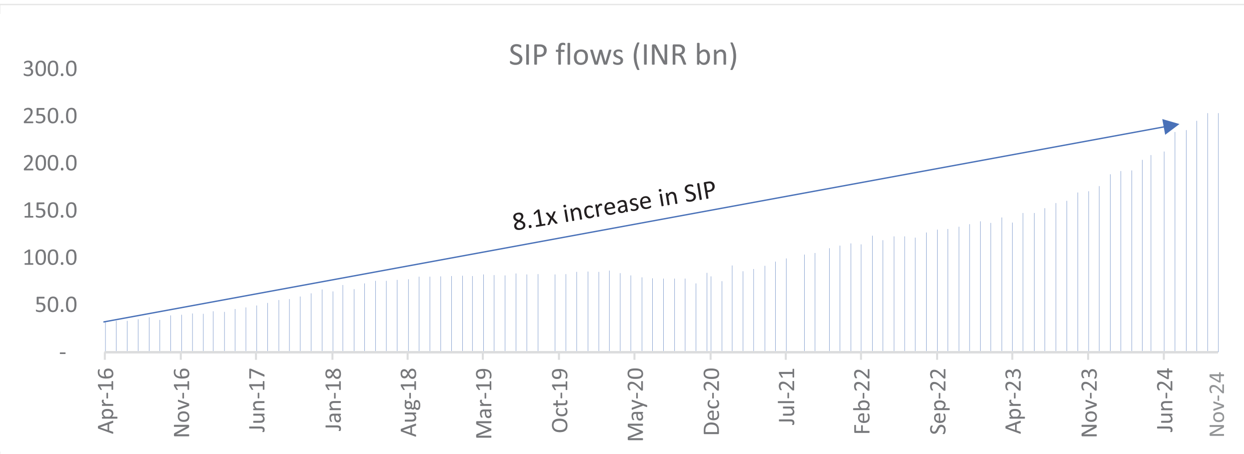
2025 – Policy actions key to watch amidst strong macro backdrop

On the back of slowing domestic earnings growth and lower government capex over 2H24, we believe policy actions will be the key to watch going forward. Indian markets expect the interest rate easing cycle to commence in 1Q25. This should further aid growth for many sectors. On the global front as well, US policies with respect to tariffs will have implications for all economies, especially emerging market economies.

We expect resumption of new order announcements in 1H25 and can see early signs of this, with recent order announcements in the defence and road sectors. Capex in power and related sectors is expected to increase with high power demand and rising peak power deficit. With strong corporate balance sheets, healthy cash flows (both private and public), better asset quality with banks and higher capacity utilization, private sector capex has started picking up as well and should drive growth. Better affordability, low residential inventory, and interest cuts in 2025 could continue to drive outperformance for the real estate sector. Regulatory tailwinds coupled with global supply chain diversification, favorable demographics, cost advantage in terms of labour etc could continue to drive the domestic manufacturing theme.

We expect a recovery in the rural economy on the back of high crop prices, better output, lower input costs and state welfare schemes thus driving domestic consumption in 2025.

Financialization of savings could continue with domestic flows expected to remain strong. We have seen record SIP flows in November 2024 and the Indian mutual fund industry has garnered AUM of INR68.1tn as of November 2024, growing at an impressive CAGR of 20% over the last 10 years. We expect FII flows to come back as well in 2025 with an underweight position against the EM Index and correction in valuations.



Source: AMFI, Data as on 30 Nov 2024

While earnings forecasts have seen cuts for FY25 on the back of a weak first half, a recovery is likely in 2HCY25. Thus, we believe FY25 to be a consolidation year before growth picks up again. With the correction, Nifty is close to the long-term average valuation.

Venugopal Manghat is CIO-Equities at HSBC Mutual Fund

Source: HSBC Mutual Fund, Bloomberg, Data as at Dec 2024. The sector(s)/stock(s)/issuer(s) mentioned in this document do not constitute any research report nor it should be considered as an investment research, investment recommendation or advice to any reader of this content to buy or sell any stocks / investments. The Fund/portfolio may or may not have any existing / future position in these sector(s)/stock(s)/issuer(s). Past performance may or may not be sustained in future and is not a guarantee of any future returns.

Note: Views provided above are based on information available in public domain at this moment and subject to change. Please consult your financial advisor for any investment decisions applicable to your investment appetite.(add sector disclaimer from checklist)

HSBC Mutual Fund, 9-11th Floor, NESCO - IT Park Bldg. 3, Nesco Complex, Western Express Highway, Goregaon East, Mumbai 400063. Maharashtra. GST - 27AABCH0007N1ZS, Email: investor.line@mutualfunds.hsbc.co.in | Website: www.assetmanagement.hsbc.co/in

CL 2217