

Q & A for Moneycontrol

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Q1: Has the corporate earnings season met your expectations?

While there were initial worries given the delayed monsoon etc. the corporate earnings season so far has been quite good. There are some pockets of weakness like IT, Chemicals and Metals but these have been more than offset by strength in Financials, Autos and Pharma. Nifty consensus earnings estimates have actually moved up by around 1% for FY24 and FY25 in terms of our calculation. So, it has been relatively good till now.

Q2: Do you think the ratio of upgrades over downgrades to improve significantly in coming quarters?

We think FY24 will continue to be more of a mixed bag. We are seeing clear weakness in export driven or globally facing sectors like IT, Metals and Chemicals where global pressures are quite visible and earnings are being revised down. On the flip side, we are seeing upgrades in Financials and Autos. We are also seeing good traction in Capital goods, Cement and transportation & logistics services.

FY24Q1 GDP growth has surprised positively at 6.1%yoy indicating that the domestic economy remains more resilient despite global pressures. Monsoons have covered up their initial deficit for the country as a whole. The strong infrastructure thrust of the government as announced in the Union Budget is now visible in the order flow and demand for various industries and is supporting the domestic economy. So overall we believe domestically driven sectors will hold up better. We also believe that they might benefit from the decline in global commodity prices leading to better margins and stronger earnings growth.

Q3: Three sectors that one must keep in portfolio....

We remain positively biased towards domestic cyclicals driven by government focus on infrastructure and support to manufacturing. Indian manufacturing space will gain significantly from this thrust on infrastructure, more localization of Defense manufacturing and the boost from green energy revolution. Increasing size of the domestic market, low manufacturing cost and geo-political imperatives are also forcing global companies to consider India as a manufacturing base for their global supply chain. We are witnessing encouraging signs in this regard in sectors like Electronics, Chemicals and Auto components.

We remain quite positive on the Pharma and Healthcare theme over the medium term. We believe on growth in discretionary consumption related sectors over the medium to long term as India's per capita GDP has crossed an inflection point in our view.

Q4: Do you think broader markets to remain expensive compared to largecaps?

We think Mid/Small Caps offer a much larger universe of stocks for investors to capitalize on domestic growth like increase in Infrastructure spending, growth in manufacturing and revival in real estate cycle. Stocks capitalizing on these strong sectoral tailwinds are likely to trade at a higher valuation. Also, retail investor interest is much higher in the mid and small cap space as also reflected in the higher flows to

equity funds in the space as well. As long as the outlook for domestic growth remains strong, we believe the broader market may continue to trade at a premium to the large cap space.

Q5: Do you see any major risk factors for the equity markets momentum?

Clearly, there are several uncertainties at this point in time in the global macro environment. The Fed remains hawkish and has continued to tighten policy rates despite signs of moderation in inflation. Higher interest rates and balance sheet shrinking process could mean volatile equities. We believe the lagged impact of a sharp interest rate increase cycle could result in negative growth surprises for the global economy going forward. Geo-politics remains a wild card. For India, next 12 months are busy from a political perspective with several state elections in second half of the financial year and national elections in May next year.

Q6: Has the IT space bottomed out? What is your strategy with respect to the sector?

We like the fundamental dynamics of the IT sector. In our view it may gain prominence and market share in the long term. India has created tremendous capabilities in the sector. It's no longer just the top 5-6 players, wealth creation is happening across the board be it large cap, mid cap or small cap companies. Current weakness is driven by macro cyclicality, but it will come back as we have seen in the past as well. Trends like Cloud, Digital and Generative AI are disruptive and transformational for businesses across the board and technology spend is therefore only likely to increase in the long term. In the current weakness we have therefore been selective and have accumulated names where we see earnings growth potential.

Q7: What is your core strategy behind the launch of Consumption Fund? Are you bullish on the consumption space?

We believe India’s consumption is at an inflection point. India has reached a GDP per capita of \$2000, and when this happens then consumer’s income and spending pattern starts changing drastically. We have seen numerous examples like US in 1950/60s, Germany in 1960s, Japan in 1970s, South Korea in 1980s, and recently China did it in 2000s, where all the countries have seen that J-curve kind of growth once they cross this inflection point. With strong economic growth, the number of households having income of Rs 5 lakh and above is likely to double over the next 10 years. Finally, consumption patterns are changing with newer generation i.e., Millennials and GenZ tending to spend a lot more on consumption than previous generation. They will be around 3/4th of population by 2030 and this should lead to high consumption growth. This makes us believe that India should have accelerated growth in consumption particularly discretionary consumption in coming 10-15 years.

HSBC Consumption Fund aims to explore right opportunities arising out of broader trends/themes such as Unorganised to Organised shift, Penetration led growth, Emerging categories, Premiumisation and Digitisation. HSBC Consumption Fund will have a minimum 80% weight in consumption and related themes.

PRODUCT LABELLING

HSBC Consumption Fund (Thematic - An open ended equity

scheme following consumption theme)

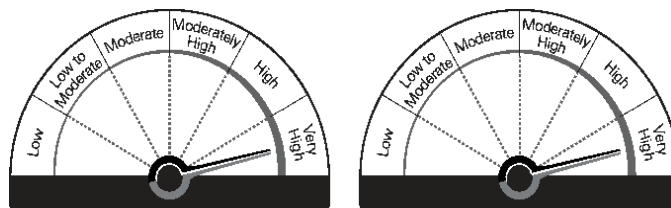
This product is suitable for investors who are seeking*:

- To create wealth over long-term
- Investment predominantly in equity and equity related

securities of companies engaged in or expected to benefit from consumption and consumption related activities

***Investors should consult their financial advisers if in doubt about whether the product is suitable for them.**

***Riskometer of the Scheme Riskometer of the Benchmark**



Investors understand that their principal will be at Very High risk

Product labelling assigned during the NFO is based on internal assessment of the scheme characteristics or model portfolio and the same may vary post NFO when the actual investments are made.

Source: Bloomberg, Data as on 31 July 2023 if not given otherwise

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