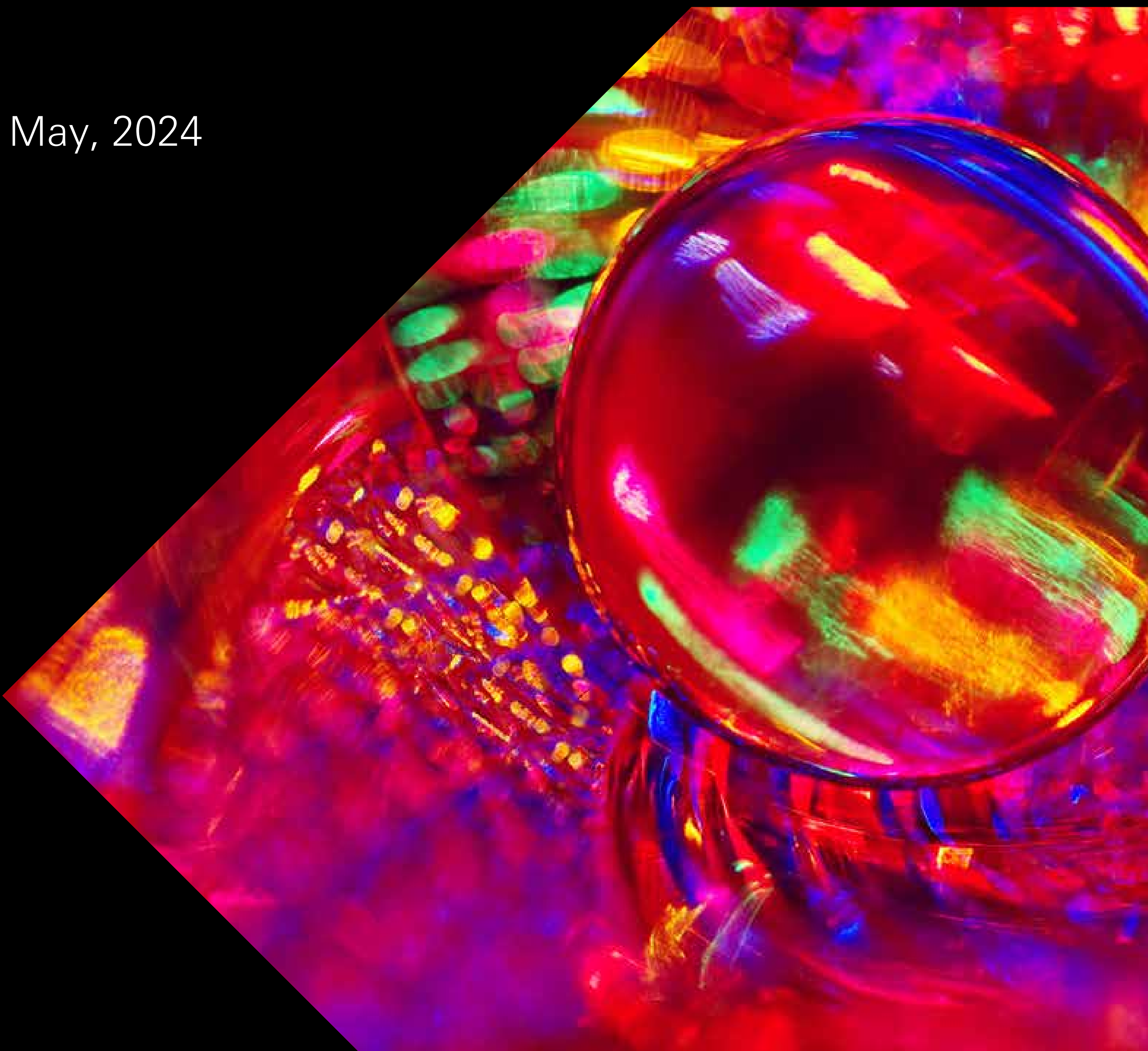
HSBC Mutual Fund

Equity Market Review

May, 2024



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- Indian equity indices were flat in May'24 despite strong DII inflow as FII outflow and election uncertainty kept the market contained. BSE Sensex and NSE Nifty moved -0.3%/0% respectively for the month.
- Broader market was also flattish with BSE Smallcap Index ending flat although NSE Midcap Index rose 2.2% during the month.
- Capital Goods was the best performing sector in May by a huge margin followed by Power, Metals, Realty and Autos. Banks, FMCG, Oil & Gas, Healthcare and IT delivered minor negative returns for the month.

Domestic Indices	Last Close	1 Month (Change)	CYTD 24 (Change)
BSE Sensex TR	1,13,902	-0.3%	2.9%
Nifty 50 TR	33,286	0.0%	4.2%
BSE 200 TR	13,233	0.9%	8.7%
BSE 500 TR	42,163	0.8%	9.0%
NSE Midcap TR	24,327	2.2%	13.3%
BSE Smallcap TR	58,216	-0.1%	10.9%
NSE Large & Midcap 250 TR	18,829	1.5%	10.6%
BSE India Infrastructure Index TR	904	5.6%	36.0%
MSCI India USD	1,004	0.5%	8.9%
MSCI India INR	2,718	0.6%	9.3%
INR - USD	83.5	0.0%	0.3%
Crude Oil	82	-7.1%	5.9%

Global Market Update

- MSCI World index bounced back in May after a sharp correction in April up 4.2%. It was driven by a 4.8% gain in the US (S&P 500) while MSCI Europe rose 4.1% and MSCI Japan rose 1.3%. MSCI EM was up 0.3% supported by 2.1% gain in MSCI China. Crude oil price dropped 7% MoM in May.
- FIIs were net sellers of Indian equities in May with an outflow of US$3billion. This was more than offset by DII's with domestic MFs investing US$5.4bn while Insurance invested US$1.33billion during the month.

International Indices (in USD)	Last Close	1 Month (Change)	CYTD 24 (Change)
MSCI World	3,445	4.2%	8.7%
Dow Jones	38,686	2.3%	2.6%
S&P 500	5,278	4.8%	10.6%
MSCI EM	1,049	0.3%	2.5%
MSCI Europe	2,147	4.1%	6.2%
MSCI UK	1,255	2.9%	6.6%
MSCI Japan	3,925	1.3%	6.1%
MSCI China	59	2.1%	6.3%
MSCI Brazil	1,475	-5.9%	-18.0%

- India's GDP growth for Q4FY24 remained strong at 7.8%yoy but was slower than 8.6%yoy for Q3FY24. The growth has been supported by higher investment spending while consumption growth has been slower.
- CPI was at 4.8%yoy in April down from 4.9%yoy in March while core-core inflation (i.e. core inflation ex petrol and diesel) remain at 3.4%yoy same level as in March.
- Industrial production growth (IIP) stood at 4.9% in March slightly down from 5.6%yoy in February.
- Gross GST revenue collection for the month of May stood at Rs 1.73 trillion, up 10%yoy.
- Other key developments during the month include – RBI passed on a record high dividend of Rs 2.1tn (0.6% of GDP) to the government for FY24, this will give more fiscal spending space to the government for FY25.

Valuations

Nifty FY25 consensus earnings estimate rose by 1% while FY26 remained flat. Nifty now trades on 20.2x 1 year forward PE more than 10% above its 10-year average and similar to its 5-year average. Valuations in midcap and small cap space are much more elevated.

Macro View

In our view, 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. NDA coalition has won a majority of the seats in the General Elections for the third consecutive time and is likely to form the next government. The new government will be present the Union Budget in July. We expect a continuity of policies. Infra thrust of the government along with reduction in fiscal deficit should be supportive for domestic growth and capex cycle. Outlook for monsoon's is also positive and therefore supportive for rural demand and overall consumption growth in the economy in FY25.

Outlook

India's growth momentum and outlook remains strong. Despite the need to accommodate multiple coalition partners, we expect focus on infrastructure development while maintaining fiscal discipline to stay. 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 real estate cycle. We also 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. 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 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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*Returns mentioned in the report are the Total Return or TR variants of the respective domestic indices. USD return for global indices. (Source: Bloomberg, MOSL & HSBC MF estimates as on May 2024 end).

Source: Bloomberg, MOSL & HSBC MF estimates as on 31 May 2024 or as latest available

Note: Views provided above are based on information in public domain at this moment and subject to change. Investors are requested to consult their financial advisor for any investment decisions. The sector(s) details 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.

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