HSBC Mutual Fund

Equity Market Review

January, 2025

- Major equity indices saw a modest correction in Jan'25 with the BSE Sensex and NSE Nifty down 0.8% / 0.4% for the month.
- However, the broader markets outside of large caps saw a deep correction with NSE Midcap Index down 6.1%, while the BSE Smallcap Index declined 9.4% for the month.
- All sector indices ended negative. Auto was the best performing sector marginally negative followed by FMCG and Metals. Banks and IT underperformed the Nifty 50 by a couple of percentage points. The worst performing sector was Realty and followed by surprised addition of healthcare. Power and Capital goods also saw sharp cuts.

Domestic Indices	Last Close	1 Month (Change)	CYTD 25 (Change)
BSE Sensex TR	1,20,221	-0.8%	-0.8%
Nifty 50 TR	34,998	-0.4%	-0.4%
BSE 200 TR	13,632	-2.4%	-2.4%
BSE 500 TR	43,264	-3.4%	-3.4%
NSE Midcap TR	25,105	-6.1%	-6.1%
BSE Smallcap TR	61,839	-9.4%	-9.4%
NSE Large & Midcap 250 TR	19,424	-3.9%	-3.9%
BSE India Infrastructure Index TR	831	-3.8%	-3.8%
MSCI India USD	987	-3.6%	-3.6%
MSCI India INR	2,772	-2.5%	-2.5%
INR - USD	86.6	1.2%	1.2%
Crude Oil	77	2.8%	2.8%

Sectoral Indices	CY15	CY16	CY17	CY18	CY19	CY20	CY21	CY22	CY23	CY24*	10-year CAGR*
BSE Auto TRI	0.08	10.38	33.31	-21.33	-9.94	14.27	20.59	17.83	47.71	23.40	11.11
BSE BANKEX TRI	-9.03	8.39	39.98	5.65	21.12	-2.12	12.97	21.91	12.12	7.15	10.15
BSE CG TRI	-7.77	-2.38	41.42	-0.49	-8.79	12.52	54.75	17.17	68.15	22.53	15.35
BSE CD TRI	24.79	-5.83	102.87	-8.32	21.53	22.19	47.73	-10.93	26.40	29.31	18.97
BSE FMCG TRI	2.80	4.77	33.26	12.11	-2.14	13.19	11.70	19.08	29.65	3.25	11.40
BSE Healthcare TRI	15.62	-12.43	1.10	-5.38	-2.80	62.61	21.54	-11.50	37.97	44.30	10.99
BSE IT TRI	6.65	-6.14	13.29	27.26	11.84	60.05	58.45	-22.70	28.28	22.21	16.38
BSE Metal TRI	-28.85	43.19	52.82	-16.20	-10.16	18.43	72.68	15.70	35.50	10.24	15.77
BSE Oil & Gas TRI	-1.22	30.38	37.81	-12.40	10.59	-0.55	31.72	20.45	17.30	16.50	13.45
BSE Power TRI	-5.26	2.99	22.03	-14.30	-0.64	11.38	73.68	28.51	36.45	21.28	13.95
BSE PSU TRI	-14.87	16.89	22.69	-18.69	-1.12	-12.80	47.95	28.30	61.48	24.34	12.30
BSE Realty TRI	-12.82	-5.27	107.24	-30.69	27.58	9.20	55.40	-9.97	80.16	33.45	15.26

Source: CRISIL, BSE, Figures in red indicate negative returns in that period. *10-year CAGR, Data as on 31 December 2024,

Past performance may or may not be sustained in future and is not a guarantee of any future returns.

Note-The details provided above is as per the information available in public domain at this moment and subject to change. Please consult your financial advisor for any investment decisions.

Global Market Update

MSCI World index saw a sharp bounce back, up 3.5%, after a correction in Dec '24. US (S&P 500) rose 2.7% while MSCI Europe rose 6.8%. MSCI Japan was also up 1.6% while MSCI EM was up 1.7% despite only a 0.6% rise in MSCI China. Crude oil price was up 2.8% in Jan '25.

International Indices (in USD)	Last Close	1 Month (Change)	CYTD 25 (Change)
MSCI World	3,837	3.5%	3.5%
Dow Jones	44,545	4.7%	4.7%
S&P 500	6,041	2.7%	2.7%
MSCI EM	1,093	1.7%	1.7%
MSCI Europe	2,140	6.8%	6.8%
MSCI UK	1,280	5.1%	5.1%
MSCI Japan	3,992	1.6%	1.6%
MSCI China	65	0.6%	0.6%
MSCI Brazil	1,321	12.3%	12.3%

Macro Economic Data

- FIIs aggressively sold the Indian equities in Jan with an outflow of US$8.4 bn. However, this was offset by strong DII inflows of US$10 bn with MFs investing US$5.3 bn, while insurance invested US$4.7 bn.
- Finance Minister presented the FY26 Union Budget which maintained its focus on fiscal deficit reduction. Fiscal deficit is expected to decline to 4.4% in FY26 vs 4.8% in FY25. The government also announced reduction in personal income tax rates which are expected to yield a benefit in the range of Rs 30,000 to Rs 1,10,000 for those earning Rs 8 Lakhs p.a. or more.
- CPI softened to 5.2% (YoY) in Dec '24 from 5.5% (YoY) in Nov '25 due to moderation in food price inflation. Core-core inflation (i.e. core inflation ex petrol and diesel) remained unchanged at 3.9% (YoY) in Dec '24.
- Industrial production growth (IIP) grew 5.2% (YoY) in Nov '24 vs 3.7% in Oct '24. This was partly supported by shift in Diwali dates on (YoY) basis.
- Gross GST revenue collection was Rs 1.95 tn in Jan '25, up 12%yoy.
- Other key developments during the month – US Fed left the rates unchanged in Jan meeting.

Valuations

Nifty consensus EPS estimates for CY24/25 have largely been maintained in Jan '25 while the Index has corrected by 1%. Nifty therefore now trades on 19.2x 1 year forward PE in-line with its 5-year average and only 5% above its 10-year average. Despite the correction, valuations in Midcap and Smallcap space, however, remain more elevated.

Macro View

In our view, global macro environment remains challenging with heightened geo-political and economic uncertainties. Policies of the incoming US administration are still awaited. For India, GDP growth has moderated to 5.4% (YoY) in Q2FY25. We believe government has tried to partly address the slowdown in private consumption through the income tax rate cuts. Strong monsoon and higher food prices should be supportive for rural consumption in FY25. Government capex spending has been slow in H1FY25 impacted by the general election and prolonged monsoons. It is showing signs of pickup in Q3, however, government capex spend is now expected to grow only at 7% (YoY) in FY25 vs previous budgeted estimate of 17% (YoY). In FY26, government expects this to grow at 10% (YoY).

Outlook

In the near term, there is a certain level of slowdown in India's growth momentum, however we believe longer term outlook remains strong. 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 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.

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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: Weak monsoon.

We see the following positives for the Indian market:

Recovery in private capex: Industry capacity utilisation 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.

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.

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. However, any significant increase would be a headwind.

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 January 2025 end or as latest available.

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