

Equity Market Review

December, 2022

- ◆ India and most global equity markets corrected sharply in December except for China which was buoyed by re-opening news flow. This again led to a reversal in FII flows with net outflows in December after inflows in November.
- ◆ S&P BSE Sensex & NSE Nifty indices were down 3.6%/3.5%, respectively, while the broader markets BSE Midcap/BSE Small cap indices were down 2.5%/2.0%, respectively. All sectors except Metals declined in December. Banks and Oil & Gas registered modest declines and outperformed the Nifty.
- ◆ For CY22, Sensex and Nifty still registered a gain of 4.4%/4.3%, while the BSE Midcap index was up 1.4% and the BSE Small cap index was down 1.8%, implying an essentially flat year for the equity markets.

Domestic Indices	Last Close	1 Month (Change)	CY 2022 (Change)
S&P BSE Sensex TR	91,969	-3.6%	5.8%
Nifty 50 TR	26,326	-3.5%	5.7%
S&P BSE 200 TR	9,778	-3.3%	5.7%
S&P BSE 500 TR	30,570	-3.2%	4.8%
S&P BSE Midcap TR	31,354	-2.5%	2.7%
S&P BSE Smallcap TR	35,267	-2.0%	-1.0%
NSE Large & Midcap 250 TR	12,839	-2.6%	4.5%
S&P BSE India Infrastructure Index TR	412	-2.1%	15.1%
MSCI India USD	771	-5.5%	-8.7%
MSCI India INR	2,069	-4.0%	1.6%
INR - USD	83	1.6%	11.3%
Crude Oil	86	0.6%	10.5%



Global Market Update

Major equity indices globally turned negative during the month with MSCI World index down 4.3% led by US market (S&P 500) declining 5.9%. MSCI Europe was flat while MSCI EM was down 1.6% despite a 5.2% jump in China. Overall for CY22, MSCI World declined 19.5% led by a similar level decline in the US and other developed markets as well as EM. Crude oil prices remained largely flat during the month.

- ◆ FIIs were sellers of Indian equities in December (-\$0.17 bn, following +\$4.7 bn in November). In CY22, India saw FII outflows of \$17 bn. DIIs were buyers to the quantum of \$2.9 bn in December. Mutual funds were buyers in December with purchases of \$1.8 bn and Insurance funds invested \$1.1 bn during the month.
- ◆ The RBI hiked the repo rate by 35 bps and kept the stance of “withdrawal of accommodation” unchanged.

International Indices (in USD)	Last Close	1 Month (Change)	CY 2022 (Change)
MSCI World	2,603	-4.3%	-19.5%
Dow Jones	33,147	-4.2%	-8.8%
S&P 500	3,840	-5.9%	-19.4%
MSCI EM	956	-1.6%	-22.4%
MSCI Europe	1,732	-0.1%	-17.3%
MSCI UK	1,075	-0.5%	-8.5%
MSCI Japan	3,139	0.1%	-18.5%
MSCI China	64	5.2%	-23.6%
MSCI Brazil	1,459	-3.6%	1.7%

- ◆ While CPI inflation moderated to 5.9% (YoY) in November from 6.8% in October, core inflation remained at 6.0% (YoY) in November from a downwardly revised 6.0% in October.
- ◆ Index of Industrial Production (IIP) contracted by 4% (YoY) in Oct'22. This was partly due to the Diwali holidays in October this year vs November last year.
- ◆ INR depreciated over the month (down 1.6% MoM) and ended the month at 82.74/USD in December. India's FX reserves came in at \$563 bn. FX reserves have improved by US\$12.7 bn in the last four weeks.
- ◆ Other key developments during the month include – Gross GST revenue collected in Dec 2022 grew 15% YoY to Rs 1.5 tn.

Valuations

Nifty declined 3.5% in December while it saw a minor upgrade to earnings leading to slightly lower valuations. On a 10-year basis, Nifty is trading at +1 STD from its historic average valuations, while on a 5-year basis, it is now trading in-line averages. Nifty is trading at 21.5x / 18.1x FY23 / FY24e. In the rising interest rate scenario, market returns may lag earnings growth, given the probable moderation in valuation multiples.

Macro View

Our macro environment remains challenging given heightened global geo-political and economic uncertainties. Widening Current Account Deficit due to a weak global demand environment leading to lower exports is likely to keep the Rupee under pressure. RBI's policy actions have been walking the tight rope between supporting growth and reigning in inflation. The recent moderation in inflation should help moderate the need for significant further tightening, which is a positive. The strong tax buoyancy (visible in both GST and direct taxes) has been a positive but is being largely offset by a higher subsidy burden due to higher fertilizer prices and food support programs, leaving limited room for a further step up in government infra spending. A fall in crude prices on the back of a global demand slowdown could support markets in the near term. The upcoming budget will be important as government needs to reduce the overall fiscal deficit while at the same time increasing spending on infrastructure and other capex-related areas.

Outlook

On the positive side, inflation in India and some of the other major economies seems to have peaked in the near term thus interest rate increase cycle is also expected to come to an end in the next few months. However, economic growth is also moderating in major economies and in India and the impact of the sharp interest rate increases could result in unfavorable growth surprises going forward. Moderation in global commodity prices from peak and stalemate in the geopolitical situation has given some respite. Domestically, India seems to be more stable. Domestic demand so far has seen a recovery to/higher than pre-covid levels. Nifty earnings have seen a marginal upgrade in Q2 results and are expected to grow at 15% CAGR (consensus estimates) over FY22-24E. However, with valuations on the higher side, equity markets are likely to remain volatile in the near term with a negative bias. Fall in crude prices, sharper decline in inflation and normalization of geopolitical situation would support the markets. US Fed's hawkish tone on interest rates and the fear of global recession remain key concerns for investors. Indian equities are expected to remain volatile in the short term.

Key Drivers For Future

On the headwinds, we have

- ◆ **High and persistent inflation concerns (Global & Domestic)**
- ◆ **US Fed Policy:** Accelerated rate hikes and balance sheet shrinking process could mean volatile equities.
- ◆ **Geopolitical:** Current impact is already in the base case, coupled with no escalation assumed from the current conflict.
- ◆ **Moderating growth** globally due to geopolitical headwinds and demand impact from sticky inflation.

However, what matters the most is the earnings growth and its sustainability

- ◆ **Corporate earnings growth:** Nifty earnings have seen a marginal upgrade post Q2.
- ◆ **Domestic macro:** Overall, India's macro remains stable. Good monsoon and higher agri commodity prices should support rural demand. Urban demand remains strong driven by a bounce back in the service economy post-Covid. However, higher interest rates are likely to weigh on consumption going forward.
- ◆ **Other factors/risks:** Impact of elevated energy prices on inflation, current account balance and fiscal deficit. Faster than anticipated reversal in commodity prices (especially crude oil), would be positive from an inflation and corporate margins perspective.

Past performance is not an indicator of future returns. *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 December 2022 end).

Disclaimer: This document has been prepared by HSBC Asset Management (India) Private Limited (HSBC) for information purposes only and should not be construed as i) an offer or recommendation to buy or sell securities, commodities, currencies or other investments referred to herein; or ii) an offer to sell or a solicitation or an offer for purchase of any of the funds of HSBC Mutual Fund; or iii) an investment research or investment advice. It does not have regard to specific investment objectives, financial situation and the particular needs of any specific person who may receive this document. Investors should seek personal and independent advice regarding the appropriateness of investing in any of the funds, securities, other investment or investment strategies that may have been discussed or referred herein and should understand that the views regarding future prospects may or may not be realized. In no event shall HSBC Mutual Fund/HSBC Asset management (India) Private Limited and / or its affiliates or any of their directors, trustees, officers and employees be liable for any direct, indirect, special, incidental or consequential damages arising out of the use of information / opinion herein. This document is intended only for those who access it from within India and approved for distribution in Indian jurisdiction only. Distribution of this document to anyone (including investors, prospective investors or distributors) who are located outside India or foreign nationals residing in India, is strictly prohibited. Neither this document nor the units of HSBC Mutual Fund have been registered under Securities law/Regulations in any foreign jurisdiction. The distribution of this document in certain jurisdictions may be unlawful or restricted or totally prohibited and accordingly, persons who come into possession of this document are required to inform themselves about, and to observe, any such restrictions. If any person chooses to access this document from a jurisdiction other than India, then such person do so at his/her own risk and HSBC and its group companies will not be liable for any breach of local law or regulation that such person commits as a result of doing so.

© Copyright. HSBC Asset Management (India) Private Limited 2022, ALL RIGHTS RESERVED.

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

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

CL055