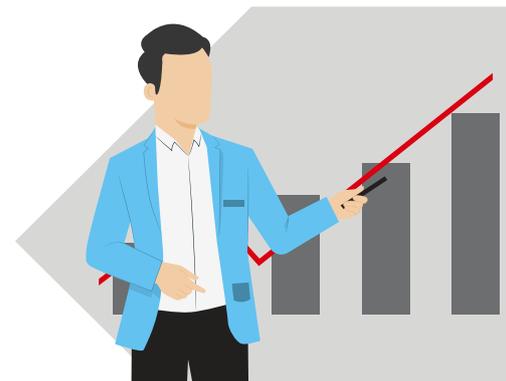


Equity Market Review

December, 2022

- ◆ Equity markets in India and developed countries rose in November while Emerging Markets (MSCI EM) gained significantly, largely on the back of a sharp jump in China. FII flows net inflows gained further momentum in November after turning positive in October.
- ◆ S&P BSE Sensex & NSE Nifty indices were up 3.9% / 4.1% respectively, while broader markets underperformed as BSE Midcap / BSE Small cap indices were up 2.3% / 2.4% respectively. Global sectors like Metals, Oil & Gas and IT outperformed the Nifty in November, while Banks were in line. Sectors like Auto, Healthcare and Power delivered flat to negative returns.
- ◆ For 2QFY23 Sales and EBITDA of the Nifty-50 Index increased 9.5% YoY and 5.5% YoY respectively, while Net Profits grew 2% YoY. Global cyclicals saw a sharp decline in profit while Financials, Autos and Telecom reported a strong increase. IT earnings growth dipped into single digit with weakening demand environment.
- ◆ India's GDP for Q2FY23 grew 6.3% YoY driven by improvement in services. However, manufacturing growth actually declined 4.3% YoY in the quarter.
- ◆ India's headline CPI moderated to +6.8% YoY in October, against +7.4% in September CPI. This is the 10th consecutive month that the CPI data has breached the RBI's upper margin of 6%. Core-core inflation (ex fuel) increased from 6.3% YoY in Sep to 6.5% YoY in Oct highlighting the challenge for RBI.
- ◆ Industrial production made some recovery in September, growing +3.1% YoY after having declined 0.7% YoY in August.
- ◆ Other key developments during the month include – Gross GST revenue collected in November 2022, grew 11% YoY to Rs.1.45 tn.
- ◆ FIIs were buyers of Indian equities in November (+\$4.7 bn, following +\$1.0 bn in October). So far, India has seen YTD FII outflows of \$16.8 bn. DIIs saw selling to the quantum of \$0.8 bn in November, reversing the buying of the previous two months. Mutual funds were buyers in November with inflows of \$540 mn and Insurance funds were net sellers in the month with outflows of \$1.3 bn.

Domestic Indices	Last Close	1 Month (Change)	CY 2022 (Change)
S&P BSE Sensex TR	95,384	3.9%	9.7%
Nifty 50 TR	27,276	4.2%	9.5%
S&P BSE 200 TR	10,109	3.5%	9.2%
S&P BSE 500 TR	31,565	3.5%	8.2%
S&P BSE Midcap TR	32,142	2.5%	5.2%
S&P BSE Smallcap TR	35,988	2.5%	1.1%
NSE Large & Midcap 250 TR	13,183	2.8%	7.3%
S&P BSE India Infrastructure Index TR	421	6.3%	17.5%
MSCI India USD	816	5.1%	-3.4%
MSCI India INR	2,154	3.4%	5.8%
INR - USD	81.4	-1.6%	9.5%
Crude Oil	85	-9.9%	9.8%



Outlook:

Globally, policy actions by central banks to tame inflation cast a shadow on equity asset class as they adversely impact both drivers of the equity performance viz. valuations (given rising interest rates) and earnings growth (slowing demand & inflation). Moderation in global commodity prices from peak and stalemate in geopolitical situation has given some respite. Domestically, India seems to be more stable. Domestic demand so far has seen recovery to higher than pre-covid levels. The rise in oil and other commodity prices which was the concerning factor earlier this year, seems to be receding. This should aid corporate earnings growth. 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 a higher side, equity markets are likely to remain volatile in near term with a negative bias. Fall in crude prices, sharper decline in inflation and normalization of geopolitical situation would support the markets.

Valuations

Nifty continued with its up move in November increasing 4.1% resulting in higher valuations as earnings growth has remained largely intact. 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 above averages. Nifty is trading at 22.3x/18.8x FY23/FY24e. In the rising interest rate scenario, market returns may lag earnings growth given the probable moderation in valuation multiples.

Global market update

Major equity indices globally turned positive during the month with MSCI World index up 6.8%. US market (S&P 500) & MSCI Europe were up 5.3%/6.8% respectively while MSCI EM was up 14.6% largely on back of 26.6% jump in China. Crude oil prices saw a sharp decline of 9.8% MoM. US Fed's hawkish tone on interest rates and the fear of global recession are the key concerns among investors. An accelerated rate hike by US Fed, ongoing liquidity withdrawal process and a constrained US fiscal policy could drag global growth in the short term. As a result, equities are expected to remain volatile in the short term.

International Indices	Last Close	1 Month (Change)	CY 2022 (Change)
MSCI World	2,721	6.8%	-15.8%
Dow Jones	34,590	5.7%	-4.8%
S&P 500	4,080	5.4%	-14.4%
MSCI EM	972	14.6%	-21.1%
MSCI Europe	1,733	11.2%	-17.2%
MSCI UK	1,080	10.4%	-8.0%
MSCI Japan	3,135	9.6%	-18.6%
MSCI China	61	29.6%	-27.3%
MSCI Brazil	1,513	-4.7%	5.5%

Macro view

Our macro environment remains challenging but hasn't worsened further. The INR appreciated in 1.7% MoM although RBI FX reserves declined \$23 bn in last 4 weeks. FX reserves at \$547 bn remain comfortable. However, widening Current Account Deficit due to 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. Though global commodities have seen moderation, Inflation is expected to remain elevated in the near term. The strong tax buoyancy (visible in both GST and direct taxes) has been a positive but is being largely offset by higher subsidy burden due to higher fertilizer prices and food support programs leaving limited room for further step up in government infra spending. Therefore, the incoming high frequency data need to be monitored closely. Fall in crude prices on back of global demand slowdown could support markets in the near 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 macro remains stable. Good monsoon, higher agri commodity prices should support rural demand. Urban demand remains strong driven by bounce back in 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 November 2022 end). Data as on November 30, 2022, unless otherwise mentioned.

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