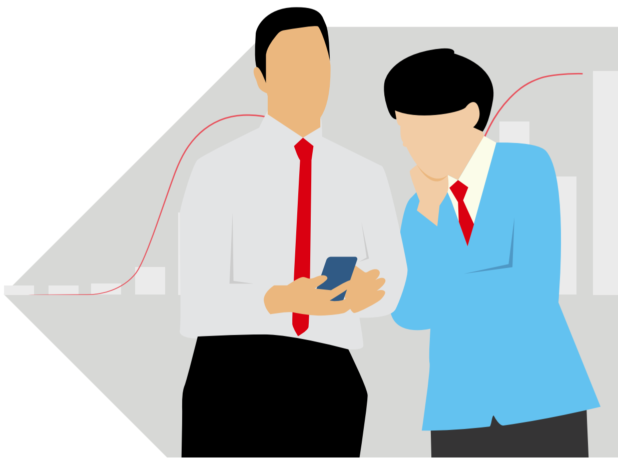
HSBC Mutual Fund

Equity Market Review

February, 2023

- Indian markets continued to correct in February while global markets also saw a correction after a sharp jump in January as strong economic and inflation data raised prospects of further rate increases by the US Fed.
- S&P BSE Sensex & NSE Nifty indices were down 1% / 2%, respectively while broader markets BSE Midcap / BSE Smallcap indices were also down 2% / 3%, respectively.
- Power, Metals and Oil & Gas were the worst performing sectors while Auto, Real Estate and Healthcare also corrected significantly. Banks and Tech were down in-line with the market. FMCG and Capital Goods ended with a minor positive for the month.

Domestic Indices	Last Close	1 Month (Change)	CYTD 23 (Change)
S&P BSE Sensex TR	90,044	-2.1%	-2.1%
Nifty 50 TR	25,686	-2.4%	-2.4%
S&P BSE 200 TR	9,436	-3.5%	-3.5%
S&P BSE 500 TR	29,550	-3.3%	-3.3%
S&P BSE Midcap TR	30,530	-2.6%	-2.6%
S&P BSE Smallcap TR	34,393	-2.5%	-2.5%
NSE Large & Midcap 250 TR	12,454	-3.0%	-3.0%
S&P BSE India Infrastructure Index TR	393	-4.8%	-4.8%
MSCI India USD	747	-3.1%	-3.1%
MSCI India INR	1,985	-4.0%	-4.0%
INR - USD	81.9	-1.0%	-1.0%
Crude Oil	84	-1.7%	-1.7%



Global Market Update

Major equity indices globally corrected in February with MSCI World index down 2.5% as the US market (S&P 500) declined 2.6%. MSCI Europe declined only 0.8% but MSCI EM declined 6.5% driven by a 10.4% fall in China. Crude oil prices declined close to 1% during the month.

- FIIs were sellers of Indian equities in February to the tune of $0.6 bn while DIIs were buyers to the quantum of $2.3 bn. Domestic mutual funds purchased equity worth $1.5 bn while insurance funds invested $0.8 bn during the month.
- India's GDP growth slowed from 6.3% YoY in Sep'22 quarter to 4.4% YoY in Dec'22 quarter.

International Indices (in USD)	Last Close	1 Month (Change)	CYTD 23 (Change)
MSCI World	2,785	7.0%	7.0%
Dow Jones	34,086	2.8%	2.8%
S&P 500	4,077	6.2%	6.2%
MSCI EM	1,032	7.9%	7.9%
MSCI Europe	1,881	8.6%	8.6%
MSCI UK	1,144	6.5%	6.5%
MSCI Japan	3,334	6.2%	6.2%
MSCI China	71	11.8%	11.8%
MSCI Brazil	1,556	6.6%	6.6%

- RBI raised repo rates by a further 25 bps to 6.5% as it continued to try and rein in inflation.
- CPI inflation accelerated from 5.7% YoY in December to 6.5% YoY in January. Core-core inflation (i.e. core inflation ex petrol and diesel) remains sticky and also increased from 6.3% YoY in Dec to 6.5% in January.

- Industrial production growth (IIP) in Dec stood at 4.3% YoY down from 7% YoY in November which had benefited from Diwali holidays in base year.
- INR depreciated over the month (down -0.9% MoM) and ended the month at 82.67/USD in February. India's FX reserves came in at $561 bn. FX reserves have fallen by US$12.5 bn in the last four weeks.
- Other key developments during the month include – Gross GST revenue collected in Feb 2023 grew 12% YoY to Rs 1.49 tn.

Valuations

Nifty declined 2% in February, leading to slightly lower valuations. Nifty is now trading on 17.3x FY24 PE. On a 10-year basis, Nifty is still trading above its historic average valuation but is now trading below its 5-year average. However, in a rising interest rate environment, market returns may lag earnings growth due to moderation in valuation multiples.

Macro View

In our view, the macro environment remains challenging with heightened global geo-political and economic uncertainties. Inflation remains sticky in India and developed markets raising the likelihood of a further increase in interest rates. However, on the positive side, global demand growth is showing more resilience despite sharp increase in interest rates and will also be supported by China re-opening. Strong infrastructure thrust of the government as announced in the recent Union Budget with more than 20% YoY growth in capital spending should support to the domestic economy. Government has also reaffirmed its commitment to reducing fiscal deficit which should limit the risk of further sharp increase in interest rates. Monsoon will be a key factor to watch for India going forward.

Outlook

We believe slower global economic growth along with the impact of the sharp interest rate increase cycle that we have witnessed, could result in negative growth surprises going forward. On the positive side, moderation in global commodity prices from peak and stalemate in geopolitical situation provide some relief. India seems to be more stable supported by improvement in domestic demand, government thrust on infrastructure and support to manufacturing. However, on the whole we expect economic growth to be slower in FY24 and believe consensus earnings growth forecast has some downside. Overall, valuations remain on the higher side, especially in light of the higher interest rate now prevailing globally. However, we remain positively biased towards domestic cyclicals and constructive on India equities longer term is supported by the more robust medium term growth outlook on the back of drivers outlined above.

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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.
- **Moderating global and domestic growth** due to demand impact from sticky inflation. Higher interest rates are likely to weigh on consumption going forward.

We see the following positives for the Indian market:

- **Robust domestic macro:** Strong government thrust on infrastructure and manufacturing. Good monsoons and higher agri commodity prices should support rural demand. Urban demand should continue to improve with the recovery in the service economy.
- **Moderating commodity prices:** Reversal in commodity prices (especially crude oil and fertilizers) is a positive from the perspective of inflation, fiscal deficit and corporate margins
- **Other factors / risks:** High current account and fiscal deficit.

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 February 2023 end).

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