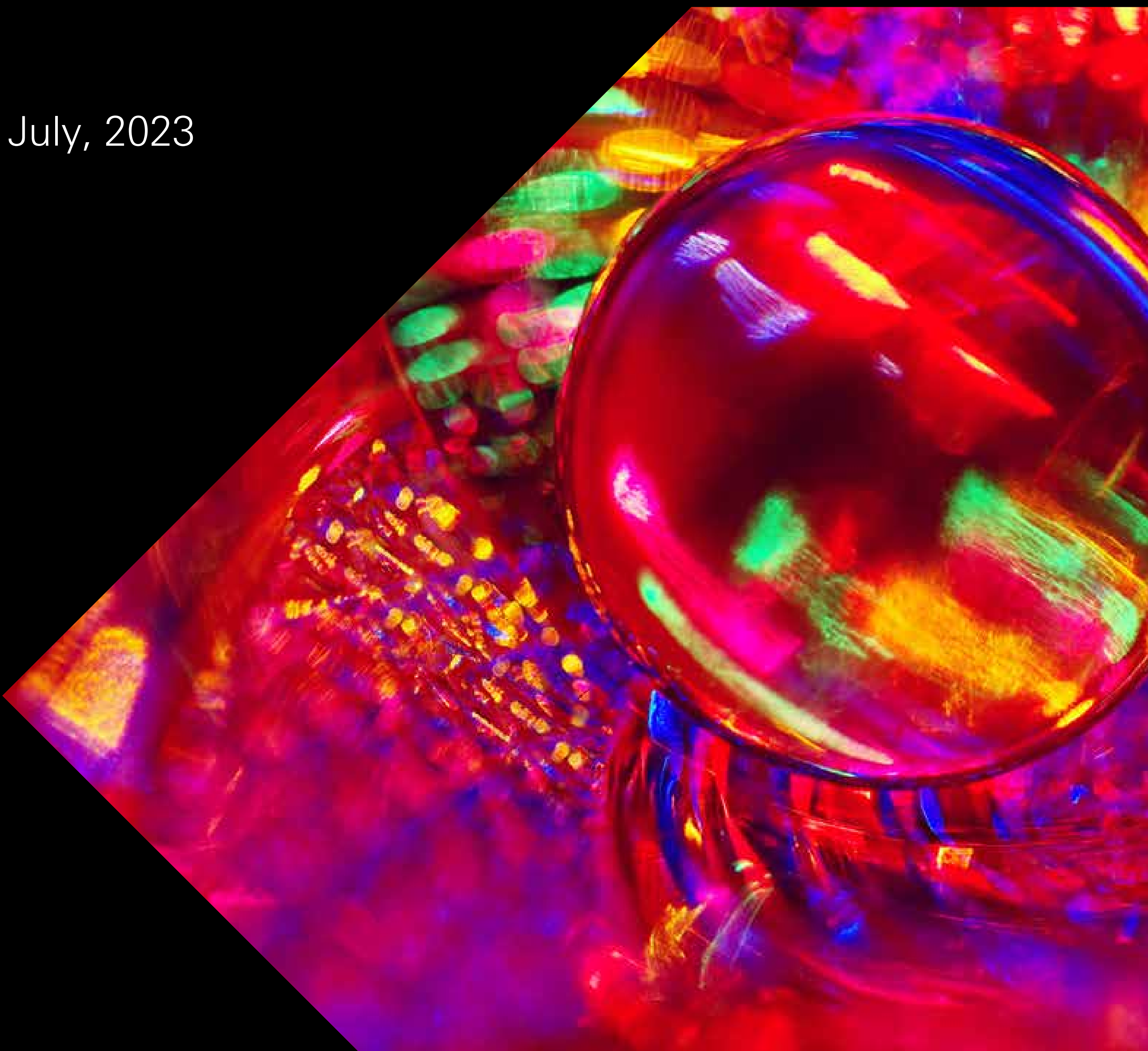
HSBC Mutual Fund

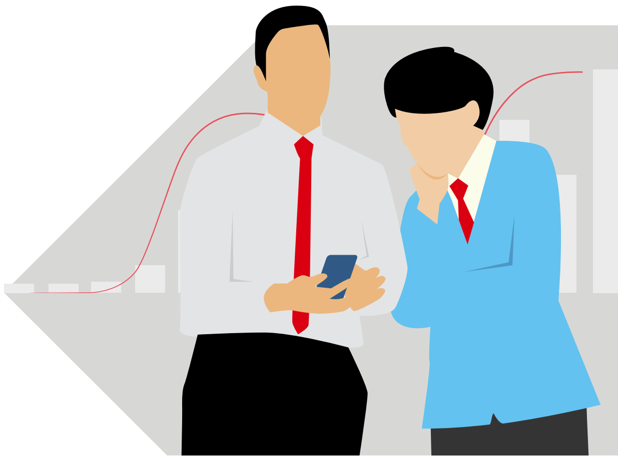
Equity Market Review

July, 2023



- Indian markets continued their upward climb run in July as FII inflows remain strong. This was supported by a global equity market rally as other major global equity indices rose at a similar pace in July.
- The broad-based rally continued with S&P BSE Sensex & NSE Nifty indices gaining 2.9% / 3.0%, respectively during the month while BSE Mid Cap / BSE Small Cap indices jumped up by 5.9% / 7.5%, respectively.
- Domestic cyclical sectors with more Mid Cap exposure like Real Estate and Capital Goods were the best performing sectors. Power, Metals, Oil & Gas and Healthcare also notched up with significant gains. The performance of Auto sector was in-line with Nifty. FMCG, IT and Banks continued to underperform the market but still delivered positive results.

Domestic Indices	Last Close	1 Month (Change)	CYTD 23 (Change)
S&P BSE Sensex TR	1,01,480	2.9%	10.3%
Nifty 50 TR	28,910	3.0%	9.8%
S&P BSE 200 TR	10,755	3.6%	10.0%
S&P BSE 500 TR	33,930	3.9%	11.0%
S&P BSE Midcap TR	37,965	5.9%	21.1%
S&P BSE Smallcap TR	42,883	7.5%	21.6%
NSE Large & Midcap 250 TR	14,622	4.4%	13.9%
S&P BSE India Infrastructure Index TR	485	10.9%	17.6%
MSCI India USD	829	2.9%	7.5%
MSCI India INR	2,211	3.1%	6.9%
INR - USD	82.3	0.3%	-0.6%
Crude Oil	86	14.2%	-0.4%



Global Market Update

Major equity indices globally also continued to clock strong gains in July with MSCI World index up 3.3% as the US market (S&P 500) climbed 3.1% and MSCI Europe gained 3.0%. MSCI EM outperformed gaining 5.8% with China up 9.8%. Crude oil prices moved up sharply (+12.4%) in July, following a rise of 5% in June.

- FIIs were strong buyers of Indian equities in Jun to the tune of $4.1 bn taking CY23 YTD inflows to US$15 bn. DIIs were small net sellers to the extent of $0.3 bn. While domestic mutual funds invested $0.9 bn, insurance funds withdrew $1.3 bn during the month from the equity market.

International Indices (in USD)	Last Close	1 Month (Change)	CYTD 23 (Change)
MSCI World	3,064	3.3%	17.7%
Dow Jones	35,560	3.3%	7.3%
S&P 500	4,589	3.1%	19.5%
MSCI EM	1,047	5.8%	9.5%
MSCI Europe	1,986	3.0%	14.7%
MSCI UK	1,178	3.3%	9.6%
MSCI Japan	3,611	3.0%	15.1%
MSCI China	66	9.8%	2.8%
MSCI Brazil	1,714	4.8%	17.5%

- India's GDP growth surprised positively for Q1FY24 up 6.1% (YoY) versus 4.5% (YoY) growth in Q4FY23. RBI expects 6.5% (YoY) GDP growth for FY24.
- India's June CPI inflation came in at 4.8% (YoY) rising from 4.3% in May on the back of an increase in food prices. Core-core inflation (i.e., core inflation ex petrol and diesel) eased to 5.4% (YoY) in June from 5.8% in May.
- May'23 Industrial production growth (IIP) growth accelerated to 5.2% (YoY) vs 4.5% (YoY) in April.

- INR depreciated over the month (down 0.3% MoM) and ended the month at 82.25 / USD in July. India's FX reserves came in at $607 bn. FX reserves have risen by $13.8 bn in the past four weeks.
- Other key developments during the month include – Gross GST revenue collection in the month of July 2023 stood at Rs 1.65 tn, up 11% (YoY).

Valuations

Nifty FY24/25 consensus earnings have seen a 2% / 0% downgrade over the last 1 month. As a result, Nifty continues to trade on 19.9x 1-year forward PE. On a 10-year basis, Nifty is still trading 10% above its historic average valuation but is now trading slightly below its 5-year average. However, in a higher 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. The Fed remains hawkish and has continued to tighten policy rates despite signs of moderation in inflation. For India, growth has been robust in Q1FY24 at 6.1% (YoY). Monsoons have covered up their initial deficit for the country as a whole. Strong infrastructure thrust of the government as announced in the Union Budget is visible in order flow and demand for various industries and should support the domestic economy. However, inflationary pressures remain a key factor to be watched given the sharp jump in crude price and uptick in food inflation in July.

Outlook

We believe the lagged impact of a sharp interest rate increase cycle could result in negative growth surprises for the global economy going forward. However, at the margin things are turning more positive for India, with low likelihood of further interest rate increases. Q1FY24 GDP growth has surprised positively indicating that the domestic economy remains more resilient despite global pressures. While we expect India's economic growth to be slower in FY24 and expect downside to consensus earnings growth forecast, we remain positively biased towards domestic cyclicals and constructive on Indian equities longer term supported by the more robust medium term growth outlook with government focus on infrastructure and support to manufacturing.

Key Drivers For Future

On the headwinds, we have

- **US Fed Policy:** Fed remains hawkish even as core inflation is starting to soften. Higher interest rates and balance sheet shrinking process could mean volatile equities.
- **Moderating global and domestic growth** due to higher interest rates is likely to weigh on demand going forward.

HSBC Mutual Fund

We see the following positives for the Indian market:

- **Robust domestic macro:** Strong government thrust on infrastructure and manufacturing. Urban demand should continue to improve with recovery in service economy. Normal monsoon should bode well for rural demand and food price inflation.
- **Moderating commodity prices:** Reversal in commodity prices (especially crude oil and fertilizers) is a positive from inflation, fiscal deficit and corporate margins perspective.
- **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 July 2023 end).

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