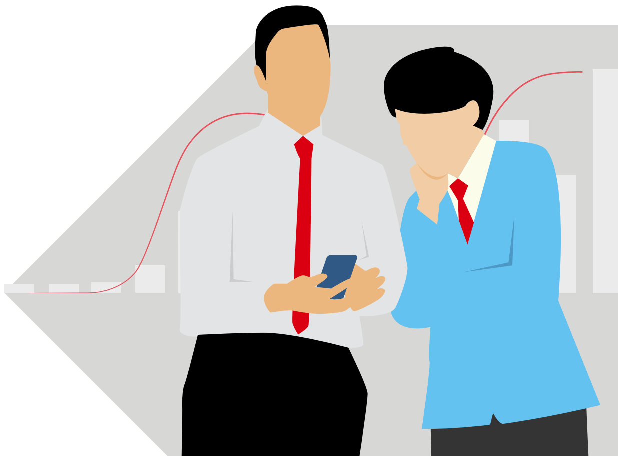
# Equity Market Review

March, 2023

- Indian market performance remained subdued in March while global markets saw continued recovery despite banking industry related issues in US and EU and Fed repo rate hike of 25 bps.
- S&P BSE Sensex & NSE Nifty indices were flat for the month while broader markets BSE Midcap / BSE Small cap indices were down 0.4% / 1.4%, respectively.
- In a reversal of last month's performance Power was the best performing sector. Oil & Gas and Metals also recovered some lost ground. Defensives like FMCG and Healthcare were outperformers while Auto, Real Estate and IT corrected. Banks ended with minor gain for the month.

| Domestic Indices | Last Close | 1 Month (Change) | CYTD 23 (Change) |
|---|---|---|---|
| S&P BSE Sensex TR | 89,326 | 0.0% | -2.9% |
| Nifty 50 TR | 25,266 | 0.3% | -4.0% |
| S&P BSE 200 TR | 9,223 | 0.5% | -5.7% |
| S&P BSE 500 TR | 28,841 | 0.4% | -5.7% |
| S&P BSE Midcap TR | 29,895 | -0.3% | -4.7% |
| S&P BSE Smallcap TR | 32,925 | -1.4% | -6.6% |
| NSE Large & Midcap 250 TR | 12,188 | 0.0% | -5.1% |
| S&P BSE India Infrastructure Index TR | 391 | 4.4% | -5.3% |
| MSCI India USD | 720 | 1.1% | -6.6% |
| MSCI India INR | 1,920 | 0.5% | -7.2% |
| INR - USD | 82.2 | -0.6% | -0.7% |
| Crude Oil | 80 | -4.9% | -7.1% |



## Global Market Update

Major equity indices globally gained in March with MSCI World index up 2.8% as the US market (S&P 500) climbed 3.5%. MSCI Europe gained 2% and MSCI EM gained 2.7% driven by a 4.5% gain in China. Crude oil prices declined close to 5% during the month.

| International Indices (in USD) | Last Close | 1 Month (Change) | CYTD 23 (Change) |
|---|---|---|---|
| MSCI World | 2,791 | 2.8% | 7.3% |
| Dow Jones | 33,274 | 1.9% | 0.4% |
| S&P 500 | 4,109 | 3.5% | 7.0% |
| MSCI EM | 990 | 2.7% | 3.5% |
| MSCI Europe | 1,903 | 2.0% | 9.9% |
| MSCI UK | 1,127 | -1.3% | 4.9% |
| MSCI Japan | 3,299 | 2.9% | 5.1% |
| MSCI China | 67 | 4.5% | 4.7% |
| MSCI Brazil | 1,397 | -0.9% | -4.2% |

- FIIs were buyers of Indian equities in March to the tune of $1.8 bn while DIIs were buyers to the quantum of $3.7 bn. Domestic mutual funds purchased equity worth $2.1 bn while insurance funds invested $1.6 bn during the month.
- CPI inflation remained elevated at 6.4% (YoY) in February down from 6.5% (YoY) in January. Core-core inflation (i.e. core inflation ex petrol and diesel) remains sticky and stood at 6.4% (YoY) in Feb from 6.5% in January.
- Industrial production growth (IIP) in Jan stood at 5.2% up from 4.3% (YoY) in December.
- INR appreciated over the month (up +0.6% MoM) and ended the month at 82.18/USD in March. India's FX reserves came in at $579 bn. FX reserves have risen by US$17.8 bn in the last four weeks.

- Other key developments during the month include – Gross GST revenue collection in the month of March 2023 stood at Rs 1.60 tn, up 13% (YoY).

## Valuations

Nifty correction of 4% YTD has been offset by cut to Nifty earnings. As a result, Nifty continues to trade on 18.3x FY24 PE. On a 10-year basis, Nifty is still trading slightly 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, macro environment remains challenging with heightened global geo-political and economic uncertainties. Recent banking issues in US and EU highlight fragility in the system and therefore despite inflation remaining sticky in developed markets, US bond yields reflect risk of a recession in the next 12 months and rate cuts in the latter half of the year. India also remains exposed to slow down with December quarter GDP growth at only 4.4%. Strong infrastructure thrust of the government as announced in the Union Budget with more than 20% (YoY) growth in capital spending remains a key support for the domestic economy. Government has also reaffirmed its commitment to reducing fiscal deficit which should limit 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, overall we expect economic growth to be slower in FY24 and believe consensus earnings growth forecast have some downside. Valuations overall remain on the higher side especially in light to the higher interest rate now prevailing globally. However, we remain positively biased towards domestic cyclicals and constructive on India equities longer term supported by the more robust medium term growth outlook on back of drivers outlined above.

## 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 monsoon and higher agri commodity prices should support rural demand. Urban demand should continue to improve with recovery in service economy.
- **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.

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**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 March 2023 end).



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