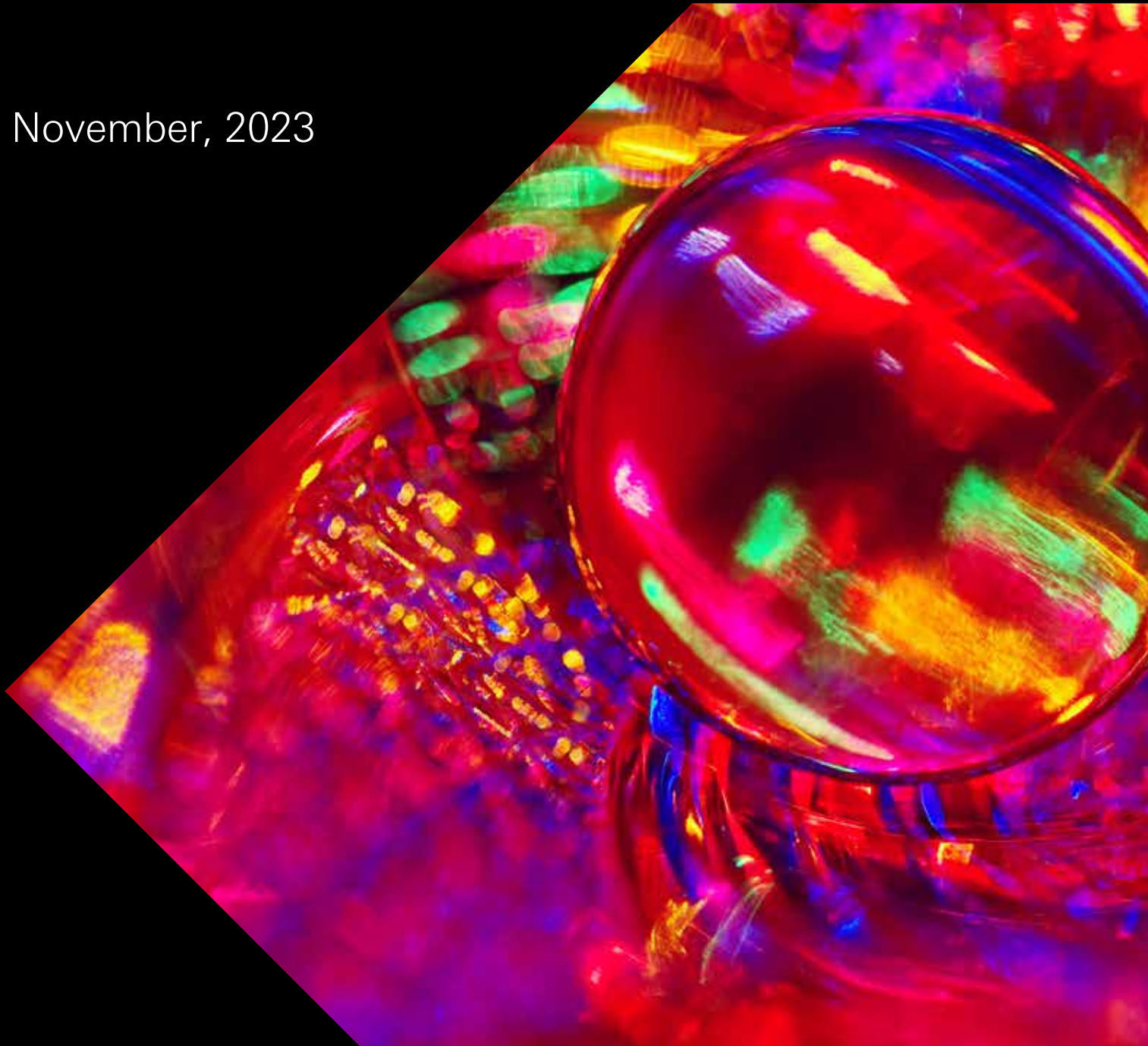


Equity Market Review

November, 2023





- ◆ In November, Indian equity indices bounced back strongly along with a sharp global risk-on rally. S&P BSE Sensex and NSE Nifty indices gained 5%/5.6%, respectively during the month.
- ◆ Mid Caps and Small Caps outperformed with BSE Mid Cap/BSE Small Cap indices gaining 9.8%/9.4%, respectively during the month.
- ◆ All sectoral indices outperformed the Nifty. Real Estate remained a strong outperformer, followed by Oil & Gas, Healthcare, Autos, Metals, Capital Goods and IT. FMCG and Banks underperformed the major indices although still giving positive returns for the month.

Domestic Indices	Last Close	1 Month (Change)	CYTD 23 (Change)
S&P BSE Sensex TR	1,02,619	5.0%	11.6%
Nifty 50 TR	29,585	5.6%	12.4%
S&P BSE 200 TR	11,242	6.7%	15.0%
S&P BSE 500 TR	35,808	7.1%	17.1%
S&P BSE Midcap TR	42,922	9.8%	36.9%
S&P BSE Smallcap TR	49,650	9.4%	40.8%
NSE Large & Midcap 250 TR	15,809	7.9%	23.1%
S&P BSE India Infrastructure Index TR	578	11.1%	40.2%
MSCI India USD	853	6.5%	10.6%
MSCI India INR	2,307	6.7%	11.5%
INR - USD	83.4	0.2%	0.8%
Crude Oil	83	-5.2%	-3.6%

Indices	31-Oct 2023	29-Sep 2023	% Change 1 Month	% Change 1 Year	% Change YTD
S&P BSE Auto	36,172	36,629	-1.25	17.75	25.06
S&P BSE BANKEX	48,448	50,175	-3.44	2.21	-0.94
S&P BSE Capital Goods	45,784	47,729	-4.07	37.63	37.32
S&P BSE Consumer durables	44,308	45,360	-2.32	3.84	11.54
S&P BSE FMCG	18,518	18,679	-0.86	14.80	15.20
S&P BSE Healthcare	27,272	28,498	-4.30	13.99	18.40
S&P BSE IT	31,060	32,065	-3.13	7.36	8.33
S&P BSE Metal	22,239	23,206	-4.17	16.89	6.63
S&P BSE Oil & Gas	18,233	19,026	-4.17	-6.44	-10.66
S&P BSE Power	4,431	4,660	-4.90	-8.95	1.14
S&P BSE PSU	12,234	12,647	-3.26	28.65	22.12
S&P BSE Realty Index	4,777	4,606	3.70	36.76	38.58

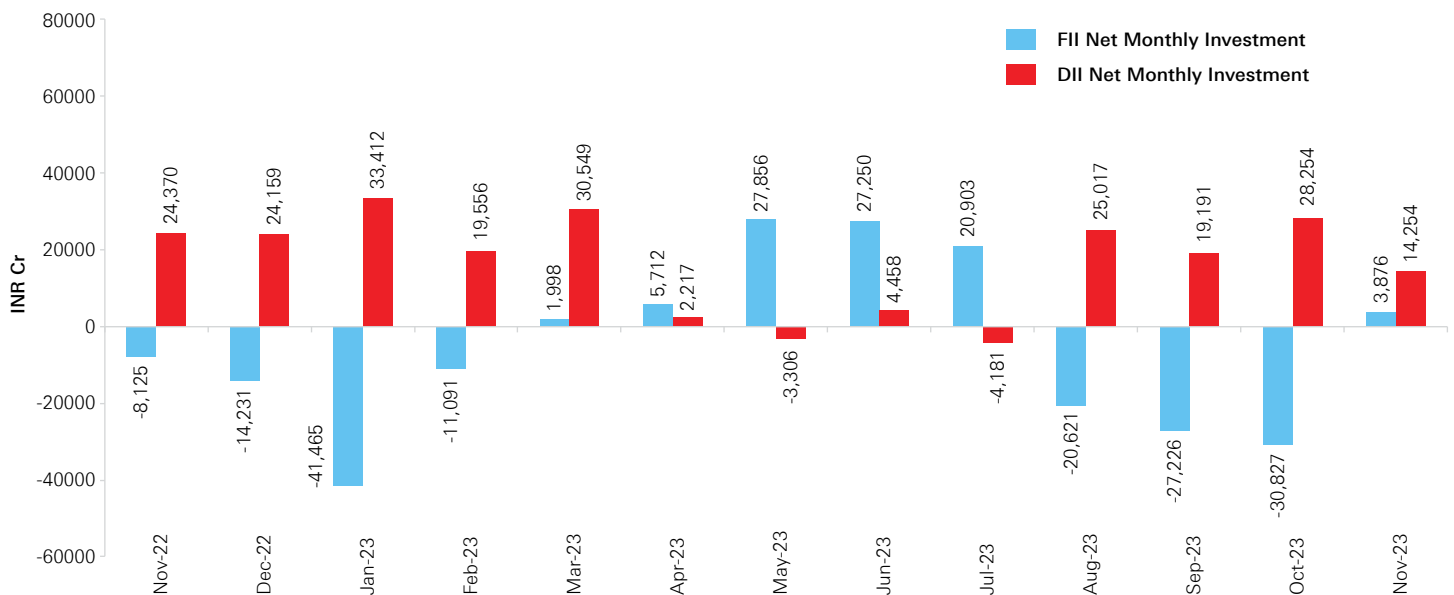
Global Market Update

Correction in US bond yields and containment of the Middle East conflict boosted global equity markets in November. MSCI World index gained 9.2% as the US market (S&P 500) gained 8.9%, MSCI Europe gained 9.7% and MSCI Japan gained 8.5%. MSCI EM gained 7.9% dragged by only a 2.5% gain in MSCI China. Crude oil price softened 5% in Nov after an 8% decline in October.

International Indices (in USD)	Last Close	1 Month (Change)	CYTD 23 (Change)
MSCI World	3,024	9.2%	16.2%
Dow Jones	35,951	8.8%	8.5%
S&P 500	4,568	8.9%	19.0%
MSCI EM	987	7.9%	3.2%
MSCI Europe	1,925	9.7%	11.2%
MSCI UK	1,127	6.2%	4.9%
MSCI Japan	3,547	8.5%	13.0%
MSCI China	57	2.5%	-11.0%
MSCI Brazil	1,690	13.0%	15.9%

Macroeconomic Developments

- Foreign Institutional Investors (FII) turned net buyers of \$2.3 bn in Indian equities for November after cumulative selling of \$5 bn over September & October. Domestic Institutional Investors (DIIs) were also buyers of \$1.7 bn where strong equity mutual fund flows of \$2.1 bn was partially reduced by \$0.41 bn of insurance outflows. CYTD'23 inflows stand at \$20.8 bn for DIIs and \$14.4 bn for FIIs.



- Q2FY24 GDP growth surprised positively at 7.6% (YoY) (vs. 7.8% in Q1), led by a stronger pickup in fixed investment and government consumption and stronger manufacturing and construction output growth.
- Consumer Price Index (CPI) softened to 4.9% (YoY) in October from 5% (YoY) in September supported by lower vegetable prices. Further, the core-core inflation (i.e. core inflation ex petrol and diesel) eased to 4.5% (YoY) from 4.7% in September.
- September'23 Index of Industrial Production (IIP) growth dropped to 5.8 % (YoY) from 10.3% (YoY) in August.
- Other key developments during the month include – Gross GST revenue collection in November 2023 stood at Rs 1.68 tn, up 15% (YoY).

Valuations

Nifty FY24/25 consensus earnings have seen a 0%/-2% change over the last 1 month. As a result, Nifty continues to trade on 19.8x 1-year forward PE. On a 10-year basis, Nifty is still trading ~10% above its historic average valuation but in-line with 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. However, market expectation is now that the Federal Reserve is unlikely to raise rates further as US inflation has now softened meaningfully, which partly drove a sharp global equity rally in Nov. For India, growth has continued to remain strong with GDP growth of 7.6% in Q2FY24 following 7.8% in Q1FY24 driven by strong government spending and pickup in investments, manufacturing and construction. Strong infrastructure thrust of the government is visible in order flow and demand for various industries and has boosted domestic growth. Rural demand has shown signs of recovery in the just concluded festive season. Easing of global crude and fertilizer prices is also positive for India.

Outlook

We believe lagged impact of sharp interest rate increase cycle could result in negative growth surprises for the global economy going forward. However, India's GDP growth has continued to surprise positively indicating that the domestic economy remains more resilient despite global pressures. While we expect a 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

- ◆ **Moderating global and domestic growth** due to higher interest rates is likely to weigh on demand going forward.
- ◆ **Other factors/risks:** High current account and fiscal deficit.

We can see the following positives for the Indian market:

- ◆ **Government infrastructure spending:** Strong government thrust on infrastructure spending is clearly supporting the economy and has been one of the big positive contributors to H1FY24 GDP growth.
- ◆ **Recovery in private capex and real estate cycle:** Industry capacity utilization based on RBI survey data is at a reasonably high level and indicates potential for an increase in private capex going forward. Also, the continued expansion of the Production Linked Incentive (PLI) scheme is likely to further increase private investments in targeted sectors.
- ◆ **Global commodity prices:** Decline in crude oil and fertilizers is a positive for India from inflation, fiscal deficit and corporate margins perspective.

Note: *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 Nov 2023 end or as latest available).

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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

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