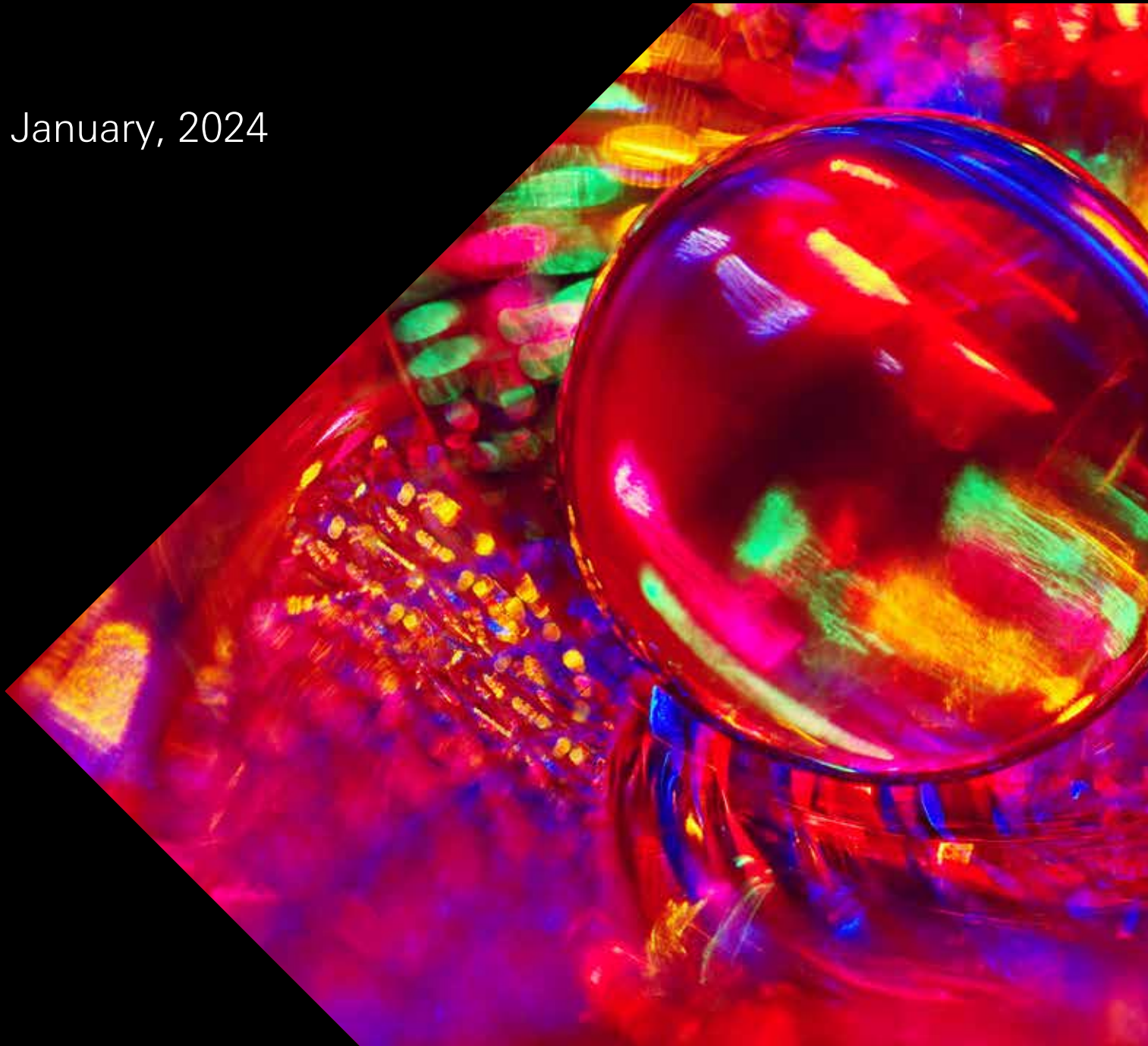


Equity Market Review

January, 2024



- ◆ Indian equity indices were subdued in January driven by heavy FII selling. S&P BSE Sensex declined 0.6% while NSE Nifty was flat for the month.
- ◆ However, the broader market remained buoyant and continued its upward trend. BSE Mid Cap / BSE Small Cap indices gained 5.3% / 7.2%, respectively during the month.
- ◆ Oil & Gas was the best performing sector in January followed by Realty, Power and Healthcare. Auto, IT and Capital Goods also outperformed the Nifty. Metals, FMCG and Banks were negative for the month. Banks underperformed driven by weak earnings performance of some large private banks.



Domestic Indices	Last Close	1 Month (Change)	CYTD 23 (Change)
S&P BSE Sensex TR	1,09,948	-0.6%	-0.6%
Nifty 50 TR	31,940	0.0%	0.0%
S&P BSE 200 TR	12,338	1.4%	1.4%
S&P BSE 500 TR	39,427	1.9%	1.9%
S&P BSE Midcap TR	48,586	5.3%	5.3%
S&P BSE Smallcap TR	56,242	7.2%	7.2%
NSE Large & Midcap 250 TR	17,490	2.7%	2.7%
S&P BSE India Infrastructure Index TR	785	18.2%	18.2%
MSCI India USD	944	2.4%	2.4%
MSCI India INR	2,541	2.2%	2.2%
INR - USD	83	-0.2%	-0.2%
Crude Oil	82	6.1%	6.1%

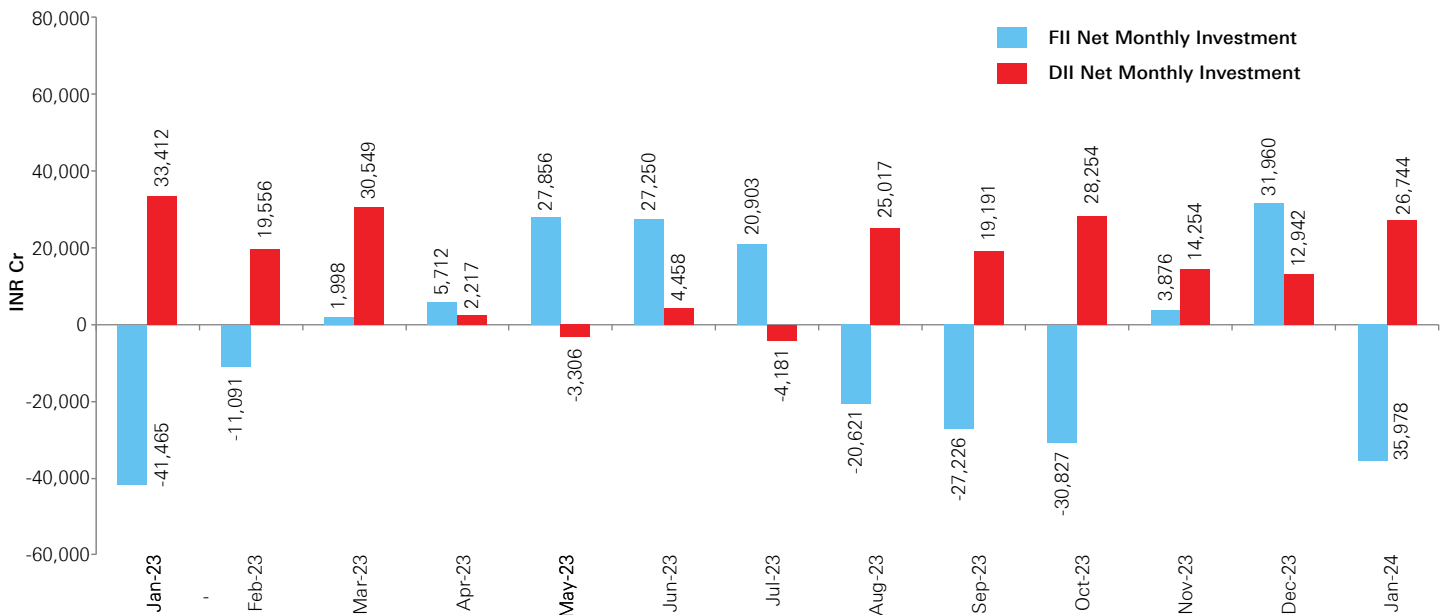
Indices	31-Jan 2024	29-Dec 2023	% Change 1 Month	% Change 1 Year	% Change YTD
S&P BSE Auto	43,995	42,229	4.18	44.47	4.18
S&P BSE BANKEX	51,999	54,378	-4.38	12.85	-4.38
S&P BSE Capital Goods	56,690	55,644	1.88	67.69	1.88
S&P BSE Consumer durables	50,350	50,000	0.70	33.44	0.70
S&P BSE FMCG	19,893	20,468	-2.81	23.49	-2.81
S&P BSE Healthcare	33,816	31,549	7.18	50.35	7.18
S&P BSE IT	37,359	36,011	3.74	25.98	3.74
S&P BSE Metal	26,761	26,991	-0.85	26.51	-0.85
S&P BSE Oil & Gas	25,916	23,021	12.57	39.92	12.57
S&P BSE Power	6,317	5,819	8.57	61.71	8.57
S&P BSE PSU	17,296	15,558	11.17	77.39	11.17
S&P BSE Realty Index	6,766	6,187	9.37	106.32	9.37

Global Market Update

- While the MSCI World index gained 1.1% for the month performance was driven by the US market (S&P 500) which gained 1.6%. However, MSCI Europe was flat and MSCI Japan gained 4.6%. MSCI EM corrected sharply by 4.7% dragged by a 10.6% decline in MSCI China and 5.9% drop in Brazil. Crude oil price gained 6% in Jan breaking the correction trend since October.

International Indices (in USD)	Last Close	1 Month (Change)	CYTD 23 (Change)
MSCI World	3,205	1.1%	1.1%
Dow Jones	38,150	1.2%	1.2%
S&P 500	4,846	1.6%	1.6%
MSCI EM	976	-4.7%	-4.7%
MSCI Europe	2,017	-0.2%	-0.2%
MSCI UK	1,160	-1.4%	-1.4%
MSCI Japan	3,869	4.6%	4.6%
MSCI China	50	-10.6%	-10.6%
MSCI Brazil	1,693	-5.9%	-5.9%

- FII turned net sellers of Indian equities in January with an outflow of US\$3.1 bn in Jan. This was offset by US\$3.4 bn of DII investment with domestic MFs investing US\$2.4 bn during the month.



- The Finance Minister presented the Interim Union Budget 2024 which emphasised fiscal consolidation while at the same time increasing investment in infrastructure.
- CPI rose to 5.7% in December from 5.6% (YoY) in November on higher food prices. However, the core-core inflation (i.e. core inflation ex petrol and diesel) eased to 3.9% from 4.2% (YoY) in November.
- Industrial production growth (IIP) dropped to 2.4% (YoY) in November versus 11.7% (YoY) in October as a result of shift in the festive season.
- Other key developments during the month include – Gross GST revenue collection in the month of January stood at Rs 1.72 trillion, up 10% (YoY).

Valuations

Nifty FY25 consensus earning saw a 1% decline during last 1 month. Nifty now trades on 21x 1-year forward PE more than 15% above its 10-year average and 8% above its 5-year average. Valuations in Mid Cap and Small Cap space are much more elevated.

Macro View

In our view, the global macro environment remains challenging with heightened geo-political and economic uncertainties. However, with inflation now under control, the US Fed has indicated the potential for interest rate cuts going forward. For India, growth has continued to remain strong with GDP growth of 7.6% in Q2FY24 driven by strong government spending and pickup in investments, manufacturing and construction. The 2024 interim budget has re-affirmed government focus on infrastructure. At the same time reduction in fiscal deficit should also help in easing of domestic rates.

Outlook

India starts 2024 on a strong footing with positive growth momentum. We see India's manufacturing sector on a strong medium term growth trajectory supported by rising demand, investment in infrastructure, localization of high-end industries and India becoming a more meaningful part of global supply chains. Real Estate remains another strong medium term growth driver having weathered the impact of higher interest rates. Finally, we also expect improvement in consumption as the impact of high inflation fades and real incomes start to grow again. However, in our view several of these positives are getting discounted by the high valuations currently prevailing in the equity market. While we remain constructive on Indian equities supported by the more robust medium-term growth outlook we would caution against high return expectations.

Key Drivers For Future

On the headwinds, we have

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

We 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 increase in private capex going forward. Also, 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 Jan 2024 end).

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