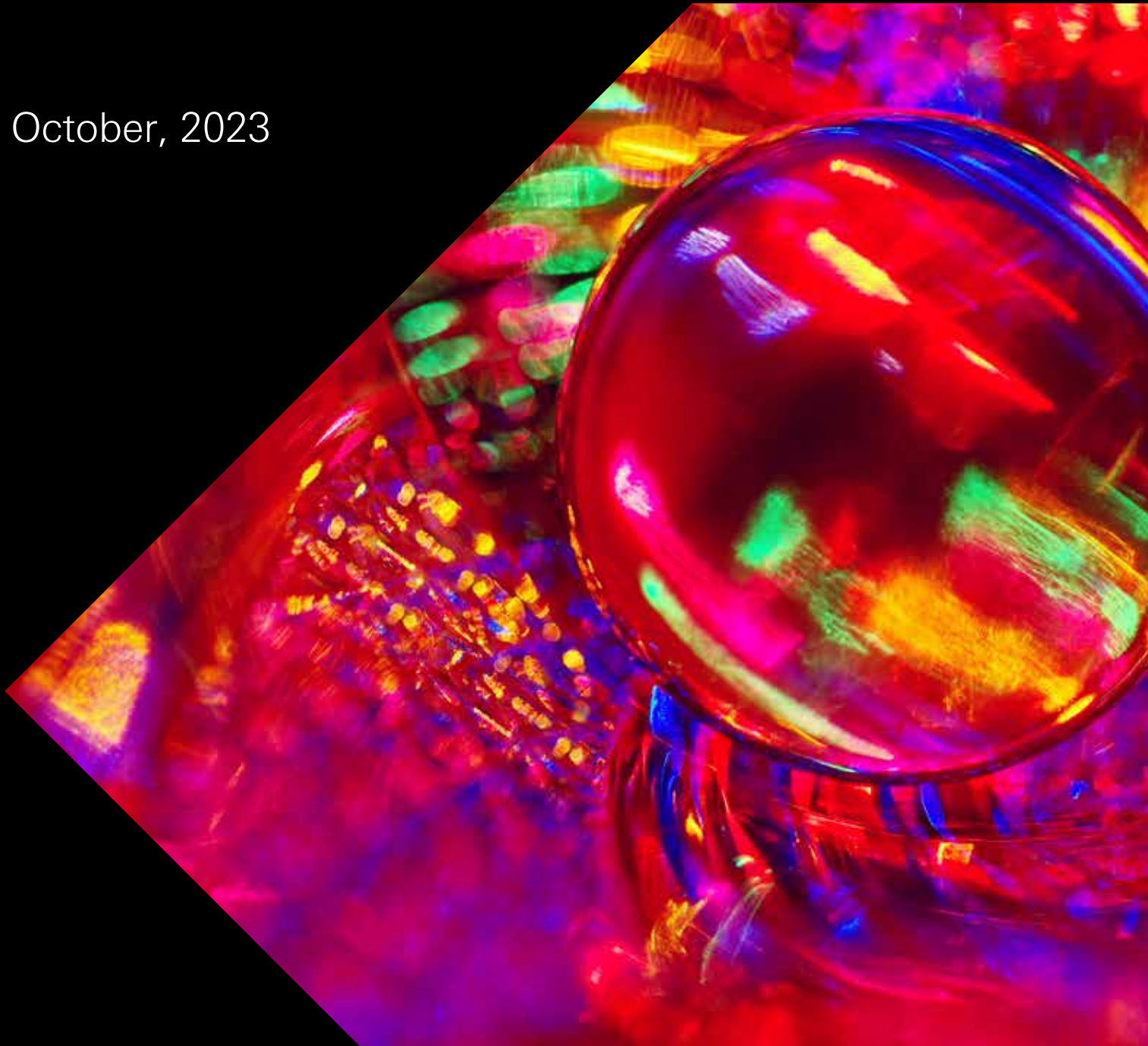


Equity Market Review

October, 2023



- ◆ In October, Indian equity indices joined the continuing correction in other major global equity indices. S&P BSE Sensex and NSE Nifty indices declined 2.9%/2.7%, respectively during the month.
- ◆ Mid Caps and Small Caps also corrected with BSE Mid Cap / BSE Small Cap indices down by 3.4% / 1.7%, respectively.

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

- ◆ All sectoral indices except Real Estate delivered negative returns with Power, Healthcare, Metals, Oil & Gas and Capital Goods sectors correcting more than the Nifty. IT and Banks also underperformed the major indices while Auto and FMCG outperformed although still returning negative for the month.

Domestic Indices	Last Close	1 Month (Change)	CYTD 23 (Change)
S&P BSE Sensex TR	97,770	-2.9%	6.3%
Nifty 50 TR	28,017	-2.7%	6.4%
S&P BSE 200 TR	10,533	-2.9%	7.7%
S&P BSE 500 TR	33,448	-2.9%	9.4%
S&P BSE Midcap TR	39,079	-3.4%	24.6%
S&P BSE Smallcap TR	45,374	-1.7%	28.7%
NSE Large & Midcap 250 TR	14,645	-3.2%	14.1%
S&P BSE India Infrastructure Index TR	520	-3.4%	26.2%
MSCI India USD	800	-3.0%	3.8%
MSCI India INR	2,161	-2.8%	4.5%
INR - USD	83.3	0.3%	0.6%
Crude Oil	87	-8.3%	1.7%

Global Market Update

Rising US bond yields and new geopolitical conflicts weighed on global equity markets. MSCI World index declined by 3% as the US market (S&P 500) corrected 2.2% and MSCI Europe lost 3.8% and MSCI Japan corrected by 2.8%. MSCI EM declined 3.9% dragged by the 4.3% decline in China. Crude oil price however softened 8% in Oct after a 10% up move in September.

- ◆ FIIs remain net sellers in Indian equities for the second consecutive month with an outflow of US\$2.7 bn in October. However, DIIs more than offset the FII outflow with an inflow of US\$3.4 bn equally split between equity mutual funds and Insurance.

International Indices (in USD)	Last Close	1 Month (Change)	CYTD 23 (Change)
MSCI World	2,769	-3.0%	6.4%
Dow Jones	33,053	-1.4%	-0.3%
S&P 500	4,194	-2.2%	9.2%
MSCI EM	915	-3.9%	-4.3%
MSCI Europe	1,756	-3.8%	1.4%
MSCI UK	1,062	-4.2%	-1.2%
MSCI Japan	3,269	-4.5%	4.1%
MSCI China	56	-4.3%	-13.1%
MSCI Brazil	1,496	-3.8%	2.5%

- ◆ CPI softened sharply from 6.8% (YoY) in August to 5% (YoY) in September driven by the sharp correction in vegetable prices. Further, the core-core inflation (i.e., core inflation ex petrol and diesel) eased to 4.7% (YoY) – the first sub-5% reading in 29 months.
- ◆ Aug'23 Industrial production growth (IIP) growth surged to 10.1 % (YoY) from 6% (YoY) in July.
- ◆ Other key developments during the month include – Gross GST revenue collection in October 2023 stood at Rs 1.72 tn, up 13% (YoY).

Valuations

Nifty FY24/25 consensus earnings have seen a +1%/-1% change over the last 1 month. As a result, Nifty continues to trade on 19.0x 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, macro environment remains challenging with heightened global geo-political and economic uncertainties. The Fed remains hawkish and has continued to tighten policy rates despite moderation in inflation. For India, growth has been strong in Q1FY24 at 7.8% (YoY) driven by strong government spending and resilient private consumption. The strong infrastructure thrust of the government is visible in order flow and demand for various industries and should support the domestic economy. Monsoon ended slightly below average for the season, but rural demand is expected to remain resilient supported by firmer crop prices.

Outlook

We believe the lagged impact of the 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 a low likelihood of further interest rate increases. FY24Q1 GDP growth has surprised positively indicating that the domestic economy remains more resilient despite global pressures. While we expect a downside to the 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.
- ◆ **Global commodity prices:** Decline in crude oil and fertilizers is a positive for India from inflation, fiscal deficit and corporate margins perspective. However, crude has bounced back over the last four months. Any further increase is likely to be a headwind for the Indian markets, in our view.

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 Q1FY24 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, continued expansion of the Production Linked Incentive (PLI) scheme is likely to further increase private investments in targeted sectors.
- ◆ **Other factors / risks:** High current account and fiscal deficit.

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 Oct 2023 end

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