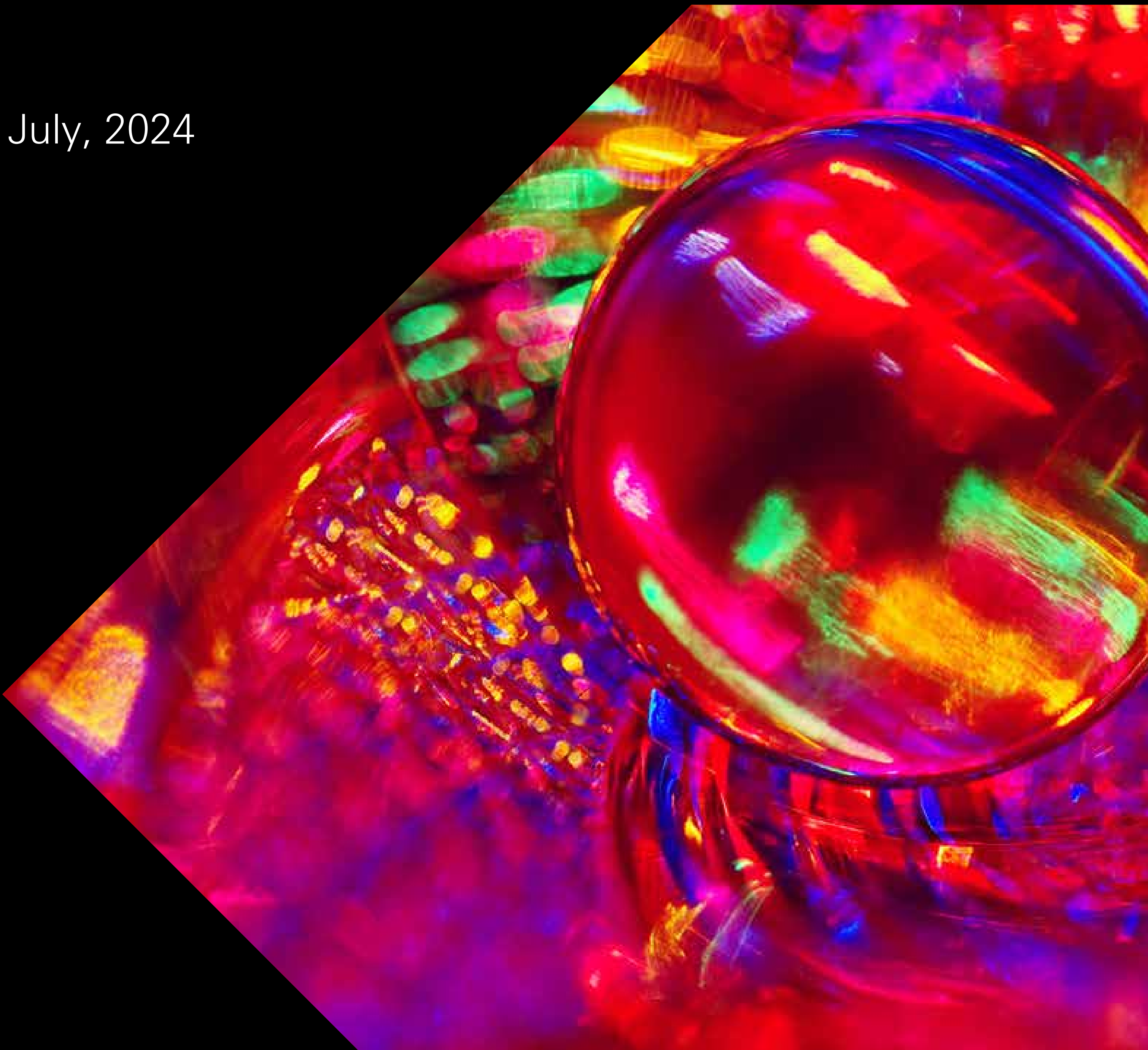
HSBC Mutual Fund

Equity Market Review

July, 2024



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- Indian equity indices continued their strong upward trajectory in July 2024. BSE Sensex and NSE Nifty moved up 3.5%/4.0%, respectively for the month.
- Broader market saw an even stronger up-move with the BSE Small Cap Index rising 6.3% and the NSE Mid Cap Index rising 5% during the month.
- IT remained the top performing sector in July as well. Oil & Gas, FMCG, Healthcare also delivered close to double digit returns. Power, Auto and Capital Goods also outperformed the Nifty while Metals, Real Estate and Banks delivered marginally negative returns for the month.

Domestic Indices	Last Close	1 Month (Change)	CYTD 24 (Change)
BSE Sensex TR	1,26,296	3.5%	14.1%
Nifty 50 TR	36,959	4.0%	15.7%
BSE 200 TR	14,733	4.4%	21.0%
BSE 500 TR	47,143	4.4%	21.9%
NSE Midcap TR	27,591	5.0%	28.5%
BSE Smallcap TR	68,279	6.3%	30.1%
NSE Large & Midcap 250 TR	21,122	4.6%	24.0%
BSE India Infrastructure Index TR	1,054	13.2%	58.6%
MSCI India USD	1,115	3.9%	20.9%
MSCI India INR	3,027	4.3%	21.7%
INR - USD	83.7	0.4%	0.6%
Crude Oil	81	-6.6%	4.8%

Indices	31-July 2024	28-June 2023	% Change 1 Month	% Change 1 Year	% Change YTD
BSE Auto	60,185	57,293	5.05	67.10	42.52
BSE BANKEX	58,866	59,641	-1.30	14.45	8.25
BSE Capital Goods	75,640	72,324	4.58	71.73	35.94
BSE Consumer Durables	60,929	58,827	3.57	42.52	21.86
BSE FMCG	22,507	20,550	9.53	18.54	9.96
BSE Healthcare	40,519	37,110	9.19	46.09	28.43
BSE IT	41,707	36,951	12.87	37.75	15.82
BSE Metal	32,771	33,051	-0.85	47.75	21.42
BSE Oil & Gas	32,563	29,473	10.48	67.64	41.45
BSE Power	8,442	7,955	6.13	92.75	45.09
BSE PSU	22,814	21,204	7.59	94.49	46.64
BSE Realty Index	8,540	8,635	-1.10	88.27	38.04

Source: NSE, BSE, Data as on 31 July 2024, Past performance may or may not be sustained in future and is not a guarantee of any future returns.

Note - The details provided above is as per the information available in public domain at this moment and subject to change. Please consult your financial advisor for any investment decisions.

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Global Market Update

MSCI World index also moved up by 1.7% in July. It was driven by a 1.1% gain in the US (S&P 500) while MSCI Europe gained 2.1% and MSCI Japan gained 5.8%. MSCI EM was flat due to a 2.3% decline in MSCI China. Crude oil price declined 6.6% (MoM) in July.

International Indices (in USD)	Last Close	1 Month (Change)	CYTD 24 (Change)
MSCI World	3,572	1.7%	12.7%
Dow Jones	40,843	4.4%	8.4%
S&P 500	5,522	1.1%	15.8%
MSCI EM	1,085	-0.1%	6.0%
MSCI Europe	2,139	2.1%	5.9%
MSCI UK	1,280	4.2%	8.8%
MSCI Japan	4,119	5.8%	11.4%
MSCI China	56	-2.3%	1.1%
MSCI Brazil	1,425	1.2%	-20.8%

Macro Economic Data

- FIIs remained net buyers of Indian equities in July with an inflow of US$3.3 bn. DII's invested US$2.8 bn with MFs investing US$2.2 bn while Insurance invested US$0.6 bn during the month.
- CPI rose to 5.1% in June from 4.8% (YoY) in May on the back of higher vegetable prices. Core-core inflation (i.e. core inflation ex petrol and diesel) was at 3.3% (YoY) in June similar to May.
- Industrial production growth (IIP) rose to 5.9% in May from 5.0% (YoY) in April.
- Gross GST revenue collection for the month of July stood at Rs 1.82 tn, up 10% (YoY).
- Other key developments during the month include – Government presented the Union Budget 2024 on July 23 sticking with the capex targets outlined in the Interim Budget in February 2024. Fiscal deficit target for FY25 was lowered further to 4.9% of GDP from 5.1% in the Interim Budget.

Valuations

While consensus earnings estimate for FY25/26 saw modest upgrades in July, sharp up move in equity indices has driven index valuations higher. Nifty now trades on 21.8x 1 year forward PE 20% above its 10-year average and 12% 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. US bond yields are now softening driven by concerns of a US slowdown. For India, growth has continued to remain strong with GDP growth of 7.8% in Q4FY24 driven by strong government spending on infrastructure and pickup in manufacturing and construction. The government has maintained policy continuity in the Union Budget. Infra thrust of the government along with a reduction in fiscal deficit should be supportive for domestic growth and capex cycle. The outlook for monsoons' is also positive and therefore supportive for rural demand and overall consumption growth in the economy in FY25.

Present Outlook

India's growth momentum and outlook remain strong. Increased government focus on employment generation and skill development is likely to lead to further policy support for manufacturing.

Present Outlook (contd)

We expect India's investment cycle to be on a medium-term uptrend supported by rising government investment in infrastructure and recovery in the real estate cycle. We also expect higher private investments in renewable energy and related supply chain, localization of higher-end technology components, and India becoming a more meaningful part of global supply chains to support faster growth. 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 forward.

Global commodity prices: Decline in crude oil and fertilizers has been a positive for India from inflation, fiscal deficit and corporate margins perspective in FY24. However, any significant increase would be a headwind.

Other factors/risks: High fiscal deficit and weak monsoon.

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 FY24 GDP growth.

Recovery in real estate cycle: Real Estate remains another strong medium term growth driver having weathered the impact of higher interest rates. Demand trends in top metro cities remain strong and inventory levels have declined.

Recovery in private capex: 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. We also expect higher private capex in renewable energy.

Note: *Returns mentioned in the report are the Total Return or TR variants of the respective domestic indices. USD return for global indices. Views provided above are based on information in public domain and subject to change. Investors are requested to consult their financial advisor for any investment decisions.
Source: Bloomberg, MOSL & HSBC MF estimates as on July 2024 end or as latest available

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