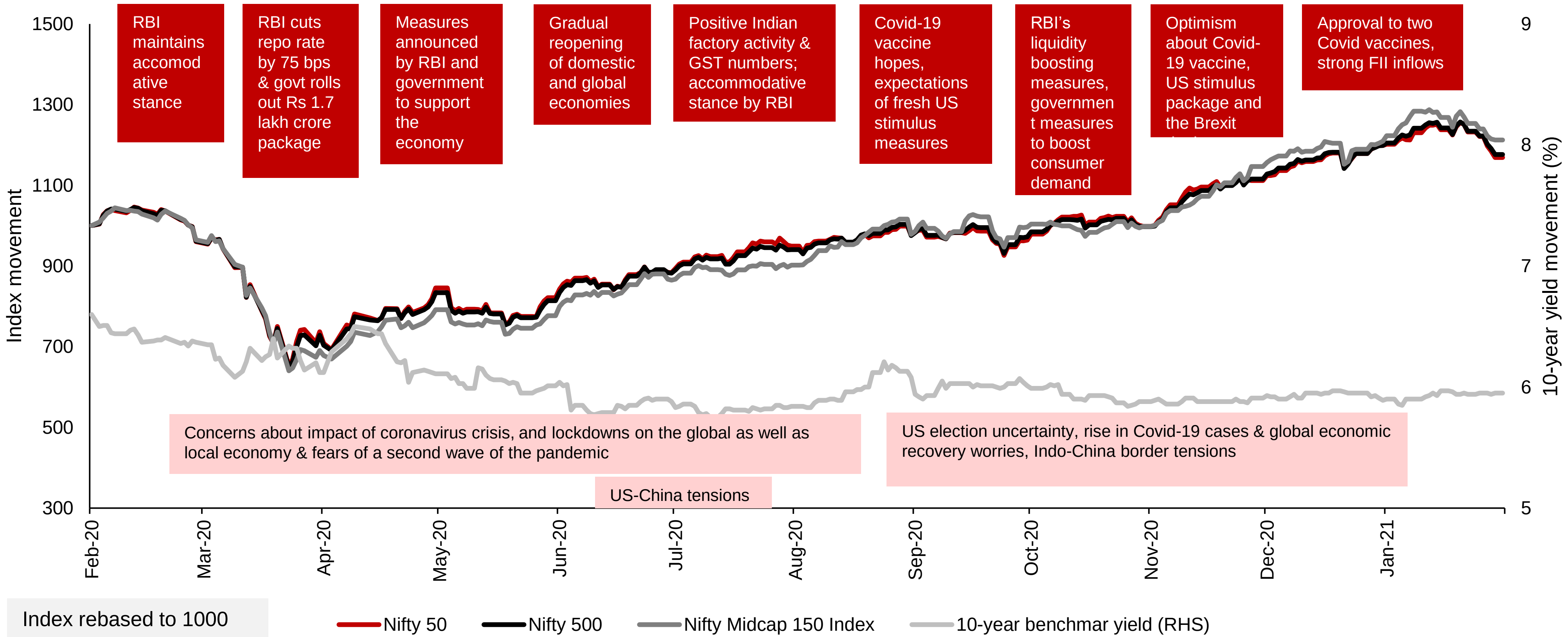
Global Navigator

HSBC
Global Asset
Management

February 2021

Looking back – Events and India Markets

Domestic equity benchmark Nifty 50 fell 3% in the first month of the year on the back of some weak domestic and global cues



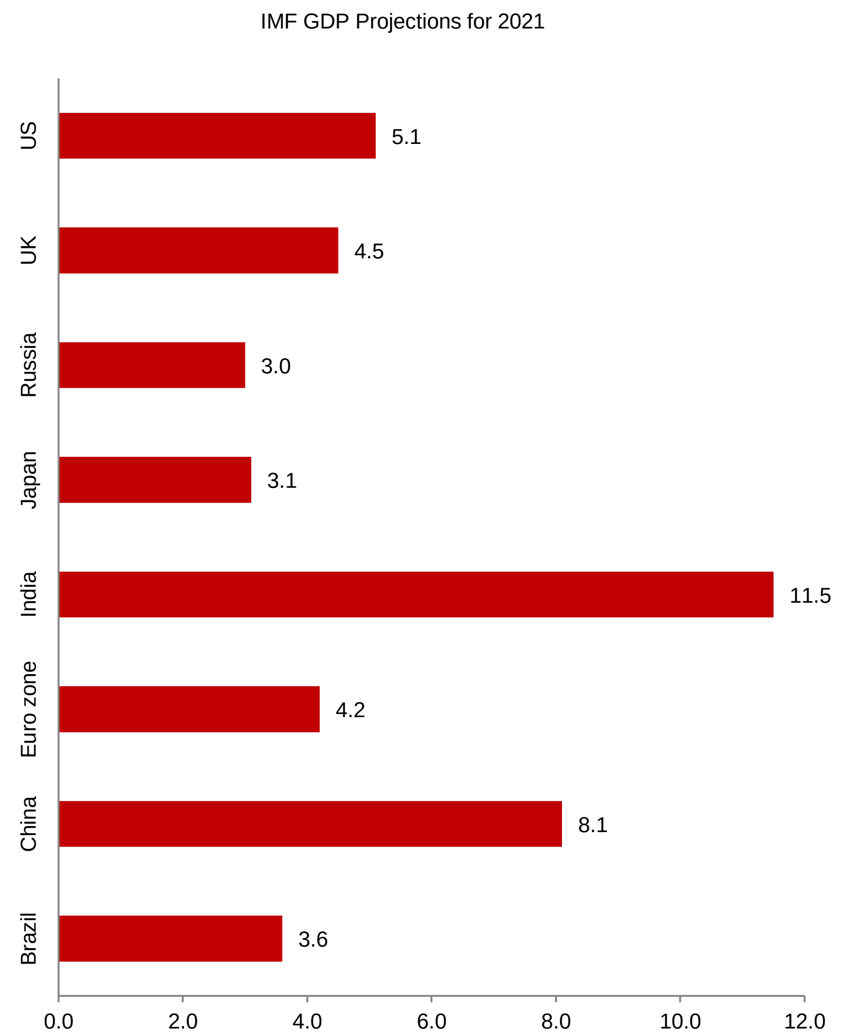
Source:

Key events and performance of the Indian market (Nifty 50 and Nifty 500 rebased to 1000) in February 2020 – 29 January 2021
This slide is for illustration purposes only and does not constitute investment research, investment advice or a recommendation to any reader of this content to buy or sell investment product. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies that may have been discussed in this report and should understand that the views regarding future prospects may or may not be realised.
Data ended January 2021 except otherwise mentioned. Past performance is not indicative of future performance.

Global Economic Update

	GDP		Inflation		Industrial Growth	
	Current	Previous	Current	Previous	Current	Previous
US	4.0% Q4 2020	33.4% Q3 2020	0.4% Dec'20	0.2% Nov'20	1.6% Dec'20	0.5% Nov'20
Eurozone	-4.3% Q3 2020	-14.7% Q2 2020	-0.3% Dec'20	-0.3% Nov'20	2.5% Nov'20	2.3% Oct'20
UK	16.0% Q3 2020	-18.8% Q2 2020	0.6% Dec'20	0.3% Nov'20	-4.7% Nov'20	-5.8% Oct'20
China	6.5% Q4 2020	4.9% Q3 2020	0.2% Dec'20	-0.5% Nov'20	7.3% Dec'20	7.0% Nov'20
Japan	22.9% Q3 2020	-29.2% Q2 2020	-1.0% Dec'20	-0.9% Nov'20	-1.6% Dec'20	-0.5% Nov'20
India	-7.5% Q3 2020	-23.9% Q2 2020	6.93% Nov'20	7.61% Oct'20	-1.9% Nov'20	4.2% Oct'20

Major Global Central Bank	Latest Key Interest rate
US Federal Reserve	0.00-0.25%
Bank of England	0.10%
European Central Bank	0.00%
Bank of Japan	-0.10%
India	4.00%



Upbeat growth likely in 2021 following last year's decline

Source: Bloomberg, Respective Central Banks, IMF. Data ended January 2021 except otherwise mentioned

Global Economic Update

IMF says vaccines will power 5.5% global economic growth in 2021

- In the January 2021 update of its World Economic Outlook, International Monetary Fund (IMF) said the global economy would grow 5.5% in 2021, powered by Covid-19 vaccines. This expansion would come on the back of the economy declining 3.5% in 2020, the worst year since World War II. The revised new figure is an upgrade from the 5.2% expansion the IMF forecast in October and would mark the fastest year of global growth since 2007.

Global economy to expand by 4% in 2021, says World Bank

- In its January 2021 Global Economic Prospects, the World Bank expects the global economy to expand 4% in 2021, assuming an initial vaccine rollout becomes widespread throughout the year.

US Fed pledges to keep interest rates, asset purchases steady

- The US Federal Reserve decided to keep the benchmark interest rate unchanged near zero and maintain its bond-buying programme at the current $120 billion in purchases per month until “substantial further progress” toward its employment and inflation goals is made.
- Among other key developments, US President-elect Joe Biden announced a $1.9 trillion plan to revive the country's economy and combat the pandemic.
- US real GDP grew 4% in the fourth quarter of 2020 after rising 33.4% in the third quarter. The GDP for 2020 contracted 3.5% following the 2.2% growth in 2019.

Key economic indicators

- Non-farm payroll employment fell by 140,000 jobs in December after rising 336,000 jobs in November; the unemployment rate came in at 6.7% in December, unchanged from the previous month
- Consumer price index-linked (CPI) inflation rose 0.4% in December after edging up 0.2% in November
- Automatic Data Processing said private sector employment fell by 123,000 jobs in December after jumping by a downwardly revised 304,000 jobs in November
- The Institute for Supply Management manufacturing index declined to 58.7 in January from a downwardly revised 60.5 in December
- Retail sales fell 0.7% in December after falling 1.4% in November
- Industrial production rose 1.6% in December compared with a 0.5% increase in the previous month
- The producer price index (PPI) for final demand rose 0.3% in December after inching up 0.1% in November
- The consumer confidence index increased to 89.3 in January from 87.1 in December
- Housing starts spiked by 5.8% to an annual rate of 1.67 million in December from the revised November estimate of 1.58 million; building permits also rose 4.5% to an annual rate of 1.71 million in December from the revised November rate of 1.64 million
- New home sales rose 1.6% to an annual rate of 842,000 in December after plunging by 12.6% to 829,000 in November

New US President announced $1.9 trillion plan to revive the economy

Source : CRISIL. Data ended January 2021 except otherwise mentioned

Global Economic Update

European Central Bank leaves key interest rates unchanged

- The European Central Bank (ECB) left its policy rates unchanged in January and affirmed the size and duration of its 1.85 trillion euros Pandemic Emergency Purchase Programme, or PEPP. The interest rate on the main refinancing operations remained at 0%, the ECB said, while the rates on the marginal lending and deposit facilities stayed at 0.25% and negative 0.50%, respectively.
- The ECB said it will continue to purchase assets under PEPP until at least the end of March 2022, or until the pandemic-induced crisis is over. The bank expanded the PEPP by 500 billion euros and extended its duration at its last meeting in December 2020.
- IMF expects euro zone economy to grow 4.2% this year after seeing economic output crater 7.2% in 2020.
- According to World Bank, output in the euro area is anticipated to grow 3.6% this year, following a 7.4% decline in 2020.

Key Eurozone economic indicators

- CPI fell 0.3% year-on-year in December, the same as in November
- Retail sales reading decreased 2.9% year-on-year in November; October's growth was revised downward to 4.2%
- Industrial output rose 2.5% month-on-month in November, faster than the 2.3% increase seen in October
- January Sentix investor confidence rose to 1.3 in January compared with a 2.7 fall in December
- Flash consumer confidence index fell to -15.5 in January from -13.9 in December
- Trade surplus totaled a seasonally adjusted 25.1 billion euros in November compared to a 25.2 billion euro surplus in October
- The ZEW economic sentiment index rose to 58.3 in January compared with 54.4 in December

IMF downgrades the United Kingdom's economic growth forecast for 2021

- The IMF has downgraded the United Kingdom's (UK's) growth forecast for this year as the new Covid-19 strain takes its toll. Britain's GDP is expected to grow 4.5% in 2021, down from a previously predicted 5.9%.
- The UK government offered a 4.6 billion pound support package to help businesses weather the new lockdown aimed at curbing the spread of the variant strain.
- Among other key developments, the GDP shrank 2.6% on-month in November, reversing a 0.6% rise posted in October.

Key UK economic indicators

- CPI rose 0.6% year-on-year in December compared with a 0.3% increase in November, while the producer price index rose 0.2% compared with a 0.5% fall
- Industrial output came in at -0.1% in November compared with 1.3% in October. On an annualised basis, the industrial output dropped by 4.7% in November as against a 5.8% fall in October
- The unemployment rate came in at 5% for the three months to the end of November compared with 4.9% in the quarter to October
- Retail sales volume gained 0.3% month-on-month, reversing a 4.1% decline seen in November

Source: CRISIL. Data ended January 2021 except otherwise mentioned

Global Economic Update

IMF projects China's economy to grow by 8.1% in 2021

- IMF said China is recovering fast, ahead of most large economies, but the recovery is still unbalanced and facing significant downside risks. It has projected an 8.1% growth rate in 2021 for the world's second largest economy.
- Meanwhile, China's economy clocked a growth of 2.3% in 2020 versus 6.1% growth in 2019. The growth in the quarter ended December stood at 6.5% over a year earlier, up from the September quarter's growth of 4.9%.

Key Chinese economic indicators

- The CPI rose 0.2% from a year earlier in December compared with a 0.5% fall in November, while the PPI fell 0.4% from a year earlier in December compared with a 1.5% drop in the previous month
- Trade surplus increased to $78.17 billion in December from $75.4 billion in November
- Industrial output rose 7.3% year-on-year in December compared with a 7% increase in November.
- Retail sales rose 4.6% in December from a year earlier, as against a 5% growth in November
- Industrial profits grew 20.1% year-on-year in December, bigger than the 15.5% increase registered in November
- The United Nations Conference on Trade and Development (UNCTAD) said China attracted $163 billion in foreign direct investment inflows in 2020, compared with $134 billion attracted by the United States (US)

Bank of Japan left its monetary policy unchanged

- The Bank of Japan (BoJ) board voted 7-1 to retain the interest rate at -0.1% but raised the growth projections, citing the impetus from the fiscal stimulus measures. The BoJ lifted the fiscal 2021 GDP growth outlook to 3.9% from 3.6% and that of fiscal 2022 to 1.8% from 1.6%.
- The IMF expects the Japanese economy to 3.1%, reversing a 5.1% decline in 2020. The World Bank forecast 2.5% growth in 2021 compared with a 5.3% contraction in 2020.

Key Japanese economic indicators

- Core machine orders rose a seasonally adjusted 1.5% on-month in November following a 17.1% spike in October
- Exports rose 2% on-year in December while imports fell 11.6%, resulting in a trade surplus of 751 billion yen
- Core CPI fell 1% in December from a year earlier, compared with a 0.9% decline in November
- Industrial output dropped 0.5% month-on-month, in contrast to October's 4% increase
- Jibun Bank final manufacturing PMI fell to 49.8 in January from 50.0 in December

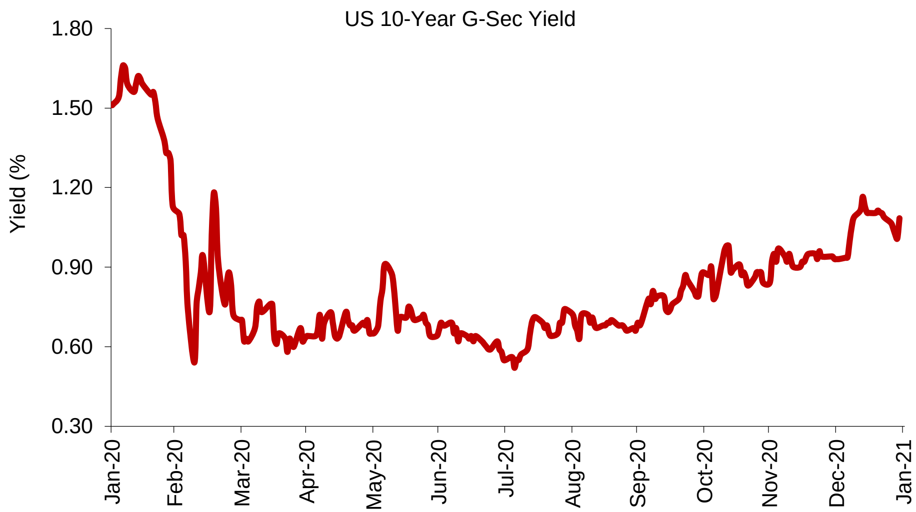
Chinese economy grew 2.3% in 2020; growth in Q4 stood at 6.5%

Source: CRISIL. Data ended January 2021 except otherwise mentioned

US Fixed Income Markets - Overview

US treasury prices fell in January

- The US treasury prices ended lower in January 2021, with the yield of the 10-year bond settling at 1.09% on January 29 compared with 0.91% on December 31
- Expectations of more Covid-19 relief aid under a Democrat-controlled US government pulled treasury prices down.
- Bond prices fell after the US President Joe Biden unveiled a stimulus proposal worth around $1.9 trillion
- The release of some discouraging domestic economic indicators provided bond prices with some support.
- Worries about rising Covid-19 cases worldwide and the US Fed's pledge to keep interest rate steady, also triggered bond buying
- Demand for bonds rose after the US Fed decided to keep the interest rate unchanged and maintain its bond-buying programme at the current pace of $120 billion of purchases per month until 'substantial further progress' is achieved toward its employment and inflation goals



Global bond yields			
	29-Jan	**31-Dec**	**Change**
US 10-Year (%)	1.09	0.91	0.18
UK 10-Year (%)	0.33	0.20	0.13
German 10-Year (%)	-0.52	-0.58	0.06
Japan10-Year (%)	0.05	0.02	0.03

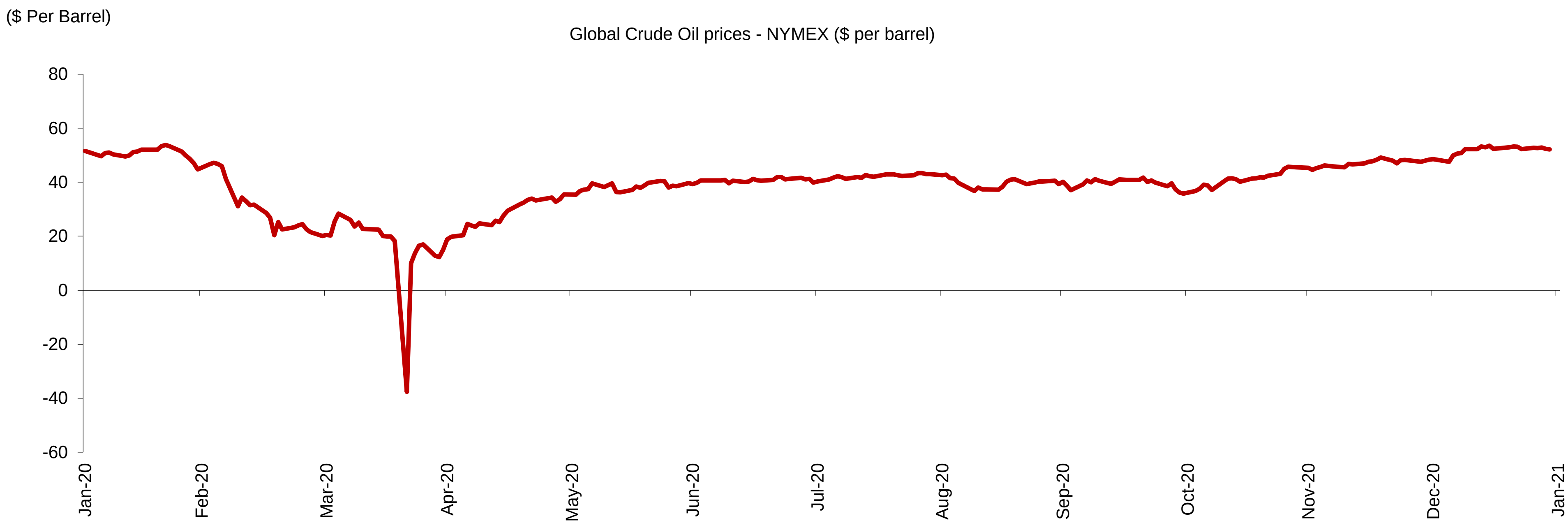
US treasury prices fell as demand for the asset waned following new US stimulus package

Source: Bloomberg. Data ended January 2021 except otherwise mentioned

Commodity Market Review

International crude oil prices surged in January

- Crude oil started the calendar year 2021 on a positive note with price on the New York Mercantile Exchange (NYMEX) on January 29 at $52.2 per barrel, up 7.6% from $48.52 per barrel a month ago.
- The prices began this month on a lighter note as the Organization of the Petroleum Exporting Countries (OPEC) and its allies delayed the decision regarding output cut.
- Demand worries, owing to surging coronavirus cases globally leading to stricter lockdown measures, also dented the sentiment.
- However, reports that Saudi Arabia has decided to cut output by an extra 1 million barrels per day (bpd) in February and March to keep inventories in check capped the fall.



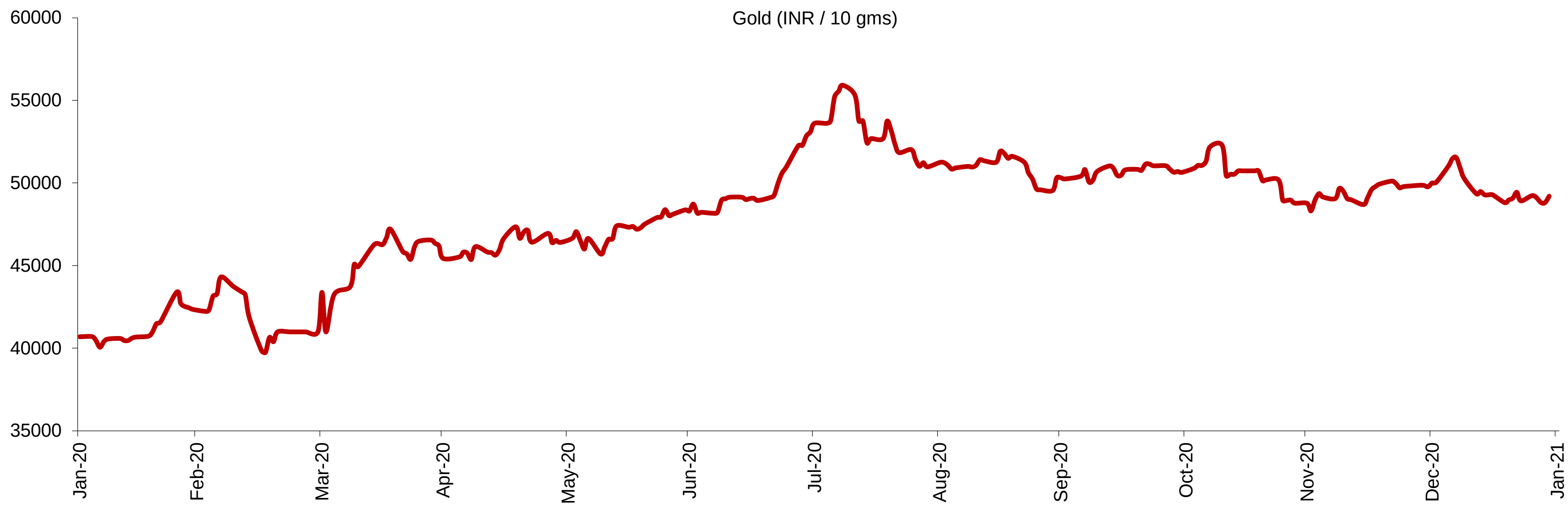
Saudi Arabia's decision to cut output in February and March buoyed oil prices

Source – NYMEX. Data ended January 2021 except otherwise mentioned

Commodity Market Review

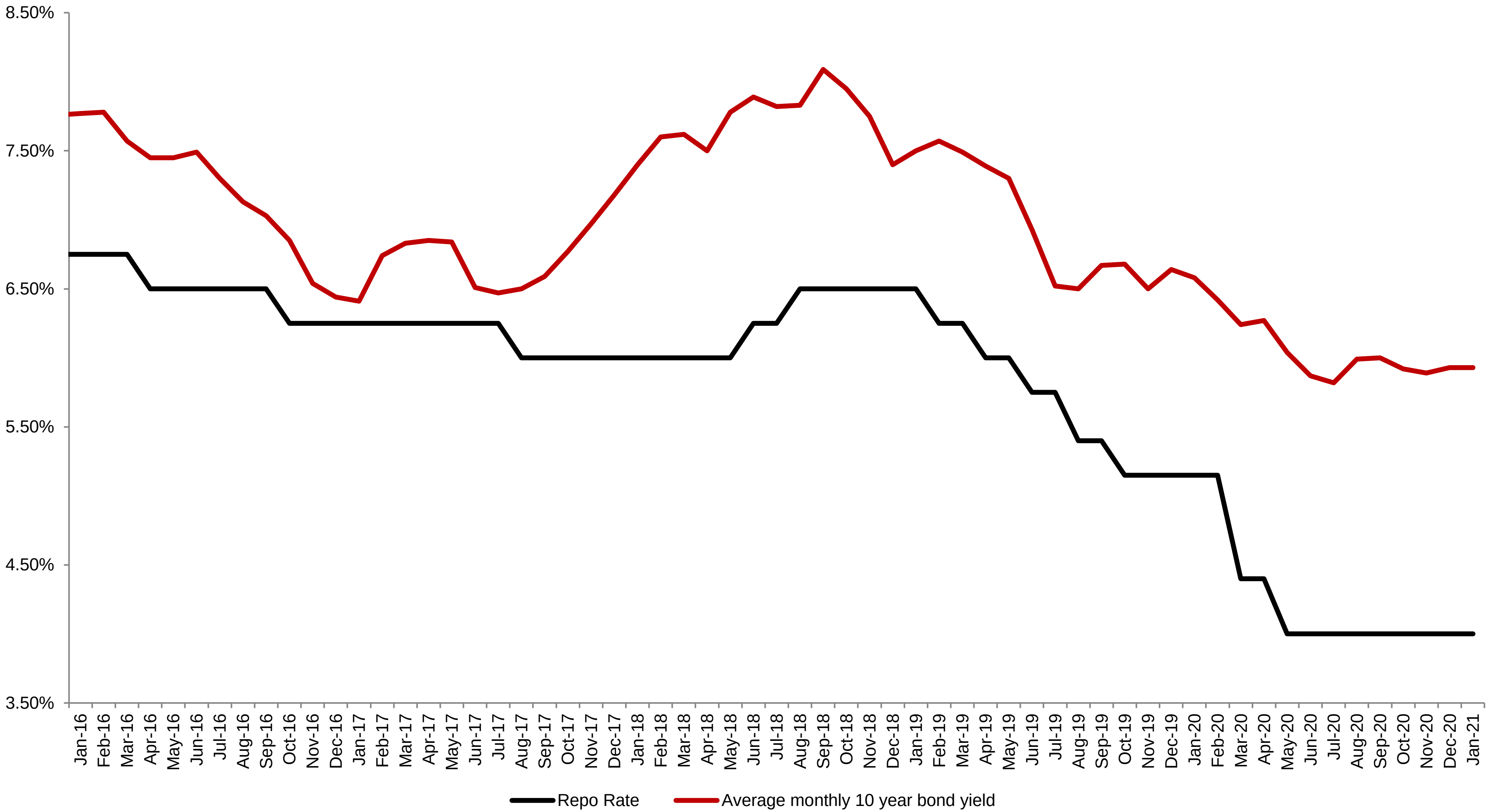
Gold prices fell in January

- Gold price on the Multi Commodity Exchange on January 31 was INR 49,205 per 10 gm, down 1.60% from INR 50,005 per 10 gm a month ago.
- Gold started December on a positive note due to concerns about a surge in Covid-19 cases, which forced many countries to impose tighter restrictions despite the Covid-19 vaccine rollout.
- Gains, however, were cushioned by a rise in US treasury yield; subdued buying activity by gold ETF investors also kept gold prices under pressure.
- The Finance Minister Nirmala Sitharaman in her budget speech said finance ministry will notify Securities and Exchange Board of India (Sebi) as regulator for gold exchanges. She also announced to cut base customs duty on gold and silver to 7.5%.



Source: MCX. Data ended January 2021 except otherwise mentioned

Repo rate remains unchanged at 4%



Source: RBI, CRISIL Research, Data as of January 2021 except otherwise mentioned. Past performance is not indicative of future performance

Key Union Budget 2021-22 highlights

- The government expects nominal GDP growth for fiscal 2022 at 14.4%
- The government pegged fiscal 2021 deficit at 9.5% of GDP; it will borrow INR 80,000 crore in the remaining two months to meet this fiscal's expenditure
- Fiscal 2022 deficit is estimated to be 6.8% of GDP. The government aims to bring fiscal deficit below 4.5% of GDP by fiscal 2026
- Fiscal 2022 gross market borrowing to be INR 12 lakh crore
- Total expenditure for this fiscal has been revised to INR 34.50 lakh crore. For fiscal 2022, total expenditure is pegged at INR 35 lakh crore, including INR 5.54 lakh crore of capital spending
- The government set the disinvestment target of INR 1.75 lakh crore for next fiscal compared with disinvestment receipts of INR 32,000 crore from the budgeted INR 2 lakh crore this fiscal
- INR 20,000 crore to set up and capitalise a Development Financial Institution (DFI) to act as a provider, enabler and catalyst for infrastructure financing
- Debt financing by Foreign Portfolio Investors (FPIs) to be enabled by amending Infrastructure Investment Trusts' (InvIT) and Real Estate Investment Trusts' (REIT) legislations
- INR 1.18 lakh crore - highest ever outlay for Ministry of Road Transport and Highways
- Allocation of INR 1.10 lakh crore for railways and National Rail Plan for India (2030) to create a future-ready railway system by 2030
- Announced voluntary vehicle scrapping policy to phase out old and polluting vehicles
- INR 18,000 crore for a new scheme to augment public bus transport and innovative PPP models to run more than 20,000 buses
- A revamped reforms-based result-linked power distribution sector scheme will be launched with an outlay of Rs 3.06 lakh crore over five years
- Allocation to rural infrastructure development fund increased to INR 40,000 crore from INR 30,000 crore. Micro-irrigation corpus will be doubled to INR 10,000 crore
- Enhanced agricultural credit target to INR 16.5 lakh crore in fiscal 2022
- Agriculture Infrastructure and Development Cess of INR 2.5 per litre on petrol and INR 4 per litre on diesel
- No changes in the personal income tax slabs
- No income tax filing required for seniors citizens above 75 years of age with income only from pension and interest
- For non-resident Indians, the government will soon notify rules to remove double taxation pertaining to accrued incomes in their foreign retirement accounts
- Dividend payment to REIT/ InvIT exempt from tax deducted at source
- Advance tax liability on dividend income only after declaration/payment of dividend
- Deduction of tax on dividend income at lower treaty rate for FPIs
- Capital gains from listing securities and interest income to come pre-filled in ITRs

Source –CRISIL Data ended January 2021 except otherwise mentioned

Key Union Budget 2021-22 highlights

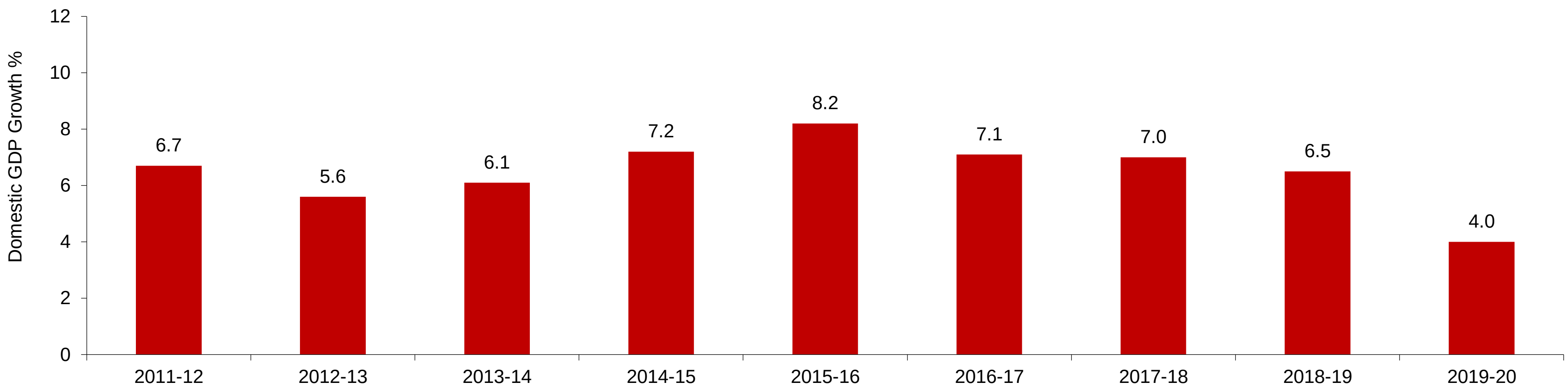
- Limit of turnover for tax audit increased to INR 10 crore from INR 5 crore for entities carrying out 95% transactions digitally
- INR 20,000 crore recapitilisation for public sector banks (PSBs) in fiscal 22
- Privatise two public sector undertaking banks and one general insurance company, as well as LIC IPO, in fiscal 2022
- A Securities Markets Code will be launched and include the Sebi Act, Government Securities Act and Depositories Act.
- Contribution beyond INR 2.5 lakh rupees per annum in unit linked insurance plans (ULIPs) and provident fund (PF) to be taxed in line with equity mutual funds
- Permissible limit for foreign direct investment in insurance increased to 74% from 49%
- Asset Reconstruction Company Limited and Asset Management Company to be set up
- Allocation of INR 2.24 lakh crore in fiscal 2022, up 137% on-year for health and wellbeing
- INR 35,000 crore allocated for Covid-19 vaccine
- AtmaNirbhar Swasth Bharat Yojana will be launched with an outlay of about INR 64,180 crore over six years in addition to National Health Mission (NHM)
- Additional deduction of INR 1.5 lakh on home loan interest to buy an affordable house extended till March 2022
- Budgetary allocation to MSMEs doubled to INR 15,700 crore
- Remove threshold limits of paid-up share capital of INR 50 lakh and average annual turnover of INR 2 crore over the past three financial years
- Jal Jeevan mission has an outlay of INR 2.87 lakh crore
- Reduce margin money requirement from 25% to 15% for startups. Further, tax holiday for startups has been extended to March 31, 2022. Capital gains exemption on investment in startups has also been extended
- Custom duty reduced on select iron and steel items. Duty on some parts of mobiles revised to 2.5% from 'nil' rate.

Source –CRISIL Data ended January 2021 except otherwise mentioned

Indian Economic Environment

Sharp rebound in Indian economy likely in next fiscal

- The International Monetary Fund (IMF) has pegged contraction in India's economy at 8% for the current fiscal, but expects 11.5% growth next fiscal, before slowing to 6.8% in fiscal 2023.
- The World Bank has estimated that India's economy will contract 9.6% in the current fiscal, reflecting a sharp drop in household spending and private investment, and the growth is expected to recover to 5.4% in 2021.
- According to a United Nations (UN) report, India's economy is estimated to contract 9.6% in 2020 and grow 7.3% in 2021.
- On the domestic front, the Economic Survey showed that India's real gross domestic product (GDP) is expected to grow 11% in 2021-22 on the back of the nationwide vaccine drive to contain the COVID-19 pandemic.
- In the Union Budget, the government pegged the nominal GDP growth for fiscal 2022 at 14.4%.
- Meanwhile, the government has reduced its economic growth numbers for 2019-20 to 4% from 4.2% previously; the GDP for 2018-19 stood at 6.5%.



Source – Central Statistical Organisation (CSO), CRISIL Data ended January 2021 except otherwise mentioned.

Indian Economic Environment

Inflation declines in December

- India's retail inflation eased to 4.59% in December from 6.93% in November, while wholesale price inflation eased to a four-month low of 1.22% in December from 1.55% in November, as food prices softened.

Key decisions taken by the Union Cabinet

- Cleared the privatisation policy for public sector undertakings (PSUs).
- Approved a series of mineral sector reforms, including doing away with the distinction between captive and non-captive mines, reallocation of state-owned firms' non-producing blocks, and amending some sections of the Mines and Minerals (Development and Regulation) (MMDR) Act to help make more mines available for auction.
- Approved a memorandum of cooperation with Japan, following which India will send skilled manpower from 14 specialised sectors, including industrial machinery manufacturing, automobile maintenance and shipping, to the east Asian country.

Indicators	Current	Previous
Monthly CPI Inflation	4.59% (December 2020)	6.93% (November 2020)
Industrial Growth	-1.9% (Nov 2020)	4.2% (Oct 2020)
Exports	$200.80 bn (April-December FY21)	$238.27 bn (April-December FY20)
Imports	$258.27 bn (April-December FY21)	$364.18 bn (April-December FY20)
Trade Balance	- $57.47 bn (April-December FY21)	-$125.91 bn (April-December FY20)
Gross Tax Collections	INR 13,38,126 cr (April-December FY21)	INR 13,83,035 cr (April-December FY20)

Inflation eased in December following a pullback in food prices

Source – Ministry of Commerce, Comptroller General of Accounts, CRISIL Data ended January 2021 except otherwise mentioned

Indian Economic Environment

Other major developments

- Prime Minister Narendra Modi launched a INR 1,000 crore start-up seed fund.
- India and Japan signed a pact to cooperate on 5G, telecom security, submarine optical fibre cable and smart cities, spectrum management, high-altitude platform for broadband in unconnected areas, disaster management and public safety.
- The two countries also signed a new pact for employment of 'Indian Skilled Workers' in Japan.
- Japan International Cooperation Agency (JICA) signed a pact with India to provide an Official Development Assistance (ODA) loan of about INR 2,129 crore for 'The COVID-19 Crisis Response Support Loan for Social Protection'.
- The government said that India's new Foreign Trade Policy, under formulation, will come into effect on April 1, 2021 and be in effect for five years.
- The government launched a Regulatory Compliance Portal—a central online repository of all central and state-level compliances, to reduce the regulatory compliance burden of citizens and businesses.
- It introduced the Faceless Penalty Scheme 2021, which will digitise issuing of penalties on income-tax assessees under the faceless taxation regime.
- It also formed a special unit in the investigation wing of the Income Tax department for focused probes in cases of undisclosed assets held by Indians abroad and possession of black money in foreign shores.
- The Central Board of Direct Taxes (CBDT) came out with protocols to be followed by the income tax department in cases of breach of data exchanged under tax treaties.
- It also relaxed compliance rules for financial years 2019-20 and 2020-21, allowing funds to pay lower-than-prescribed remuneration to fund managers as long as it is done at arm's length.
- CBDT launched a dedicated e-portal to receive and process complaints on tax evasion, foreign undisclosed assets and benami properties.
- The government launched the third phase of its flagship skilling scheme Pradhan Mantri Kaushal Vikas Yojana (PMKVY 3.0), setting aside INR 950 crore for the phase.
- It also approved the Start-up India Seed Fund Scheme (SISFS) with a corpus of INR 945 crore to provide financial assistance to start-ups.
- The department of telecommunications (DoT) said that from March 1, the government will conduct auction of radio waves worth INR 3.92 lakh crore.
- It eased the path for 5G rollout in the country by reducing to six months the notice period for offering any new technology using the spectrum being put up for auction in March.
- The Department of Space and Defence Ministry agreed to vacate spectrum valued at around INR 61,000 crore for 5G services.
- The government extended the ban on international commercial flights till February 28.

Source –CRISI Data ended January 2021 except otherwise mentioned.

Indian Economic Environment

- The government notified sections of the Companies Act prescribing a monetary penalty for violation of corporate social responsibility (CSR) obligations of businesses and made many changes to the rules to make companies more accountable and to offer some flexibility in CSR spending.
- The Ministry of corporate affairs (MCA) allowed the funds spent on awareness programmes and public outreach campaigns regarding the Covid-19 vaccination drive to be classified as CSR activity.
- The government proposed a pre-packaged insolvency process under the Insolvency and Bankruptcy Code (IBC) to resolve the Covid-19-related stress resulting from the suspension of certain sections of the code.
- It allowed the Employees Provident Fund Organisation (EPFO) and exempted provident fund trusts to invest in Bharat Bond Exchange Traded Funds (ETFs).
- It also increased the authorised capital of Punjab & Sind Bank to INR 10,000 crore from INR 3,000 crore.
- The government approved a proposal to levy a ‘green tax’ on old polluting vehicles.
- It allowed solar- and wind-based generation projects to avail transmission charge waivers even if they fail to set up their plants before June 30, 2023.
- It invoked special powers to direct the electricity regulator to make changes in regulations freeing power plants delayed due to justifiable reasons from paying penalties to associated transmission projects.
- The Ministry of Electronics and Information Technology (MeitY) announced a collaboration with Amazon Web Services (AWS) to develop a Quantum Computing Applications Lab in the country.
- It approved the construction of over 1.68 lakh houses in urban areas under the Pradhan Mantri Awas Yojana, taking the total number of houses sanctioned so far to 1.1 crore.
- The Ministry of Railways approved a new iron-ore policy governing the allocation of rakes and transportation of iron-ore.

Regulatory developments in the month

- The RBI said legal entity identifier (LEI) will be mandatory for all fund transfers worth INR 50 crore and above, with effect from April 1, 2021.
- It introduced the LEI in a phased manner in the over-the-counter derivative and non-derivative markets as well as for large corporate borrowers.
- The central bank announced operationalisation of the Payments Infrastructure Development Fund (PIDF) Scheme with an initial corpus of INR 345 crore, aimed at encouraging deployment of more digital payment infrastructure in tier-3 to tier-6 centres.
- It formed a working group on digital lending, including lending through online platforms and mobile apps.
- The RBI withdrew three circulars on recovery of excess payments made to pensioners, saying the documents did not follow guidelines and court orders.
- The Securities and Exchange Board of India (SEBI) approved Future Group's scheme of arrangement and sale of assets to Reliance Retail, based on which the BSE also granted its no-adverse-observation report to the INR 24,713 crore deal.

Source –CRISIL Data ended January 2021 except otherwise mentioned

Indian Economic Environment

Key economic indicators released in the month

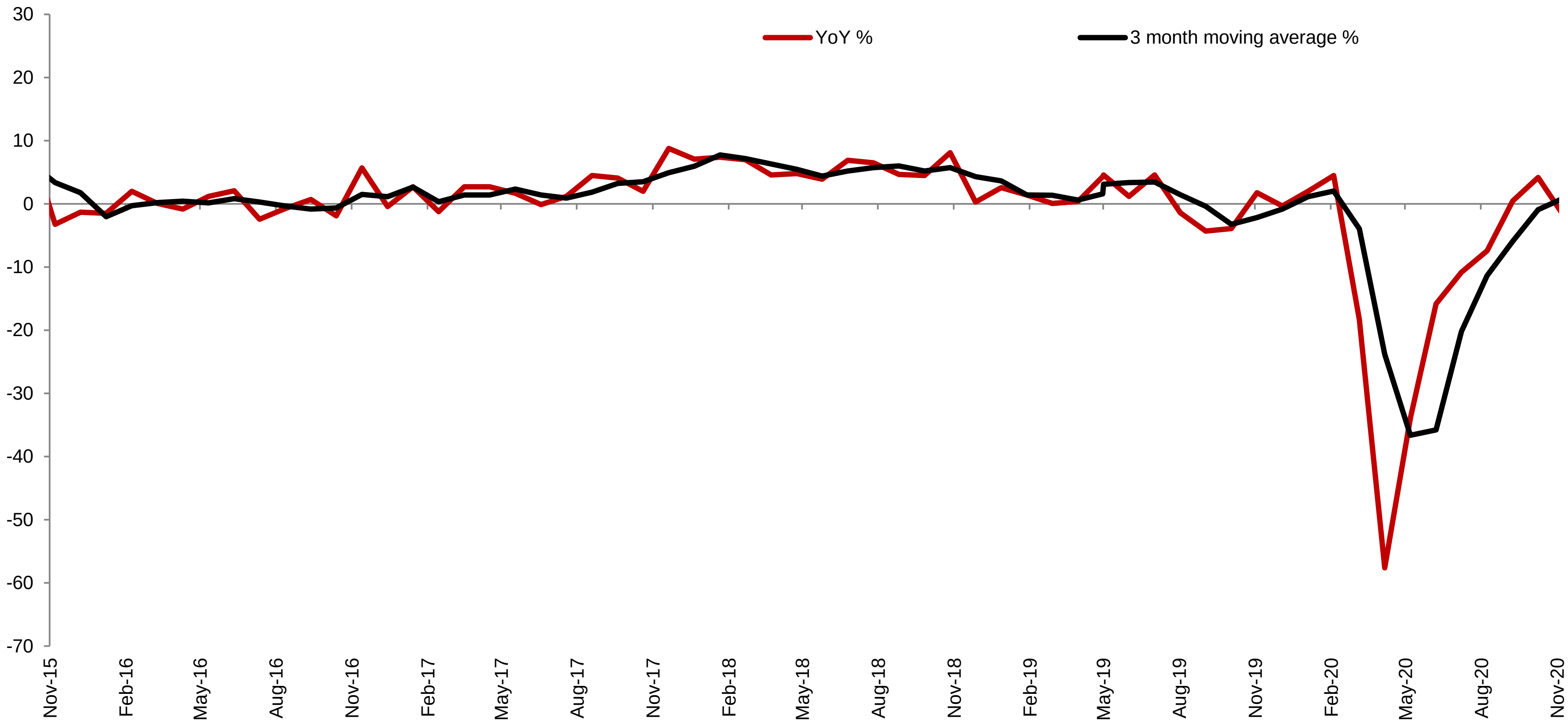
- Output of eight core infrastructure sectors contracted 1.3% in December 2020.
- The country's fiscal deficit soared to INR 11.58 lakh crore or 145.5% of the budget estimate at the end of December 2020; the fiscal deficit at the end of December in the previous financial year was 132.4% of the Budget Estimate (BE) of 2019-20.
- Trade deficit for December 2020 came in at $15.44 billion, compared with $9.87 billion in the previous month. Exports rose 0.14% to $27.15 billion in December, while imports surged 7.56% to $42.59 billion.
- An 'investment trends monitor' issued by the United Nations Conference on Trade and Development (UNCTAD) showed Foreign Direct Investment (FDI) into India rose 13% to $57 billion in 2020.
- According to data by the commerce and industry ministry, FDI equity inflows into India increased 37% to $43.85 billion during April-November 2020.
- India IHS Markit manufacturing purchasing managers' index (PMI) was at 56.4 in December, a tick higher than November's reading of 56.3, while services PMI fell to 52.3 in December from 53.7 in November.

FDI inflows in India surged in 2020

Source –CRISIL Data ended January 2021 except otherwise mentioned

Index of Industrial Production - IIP

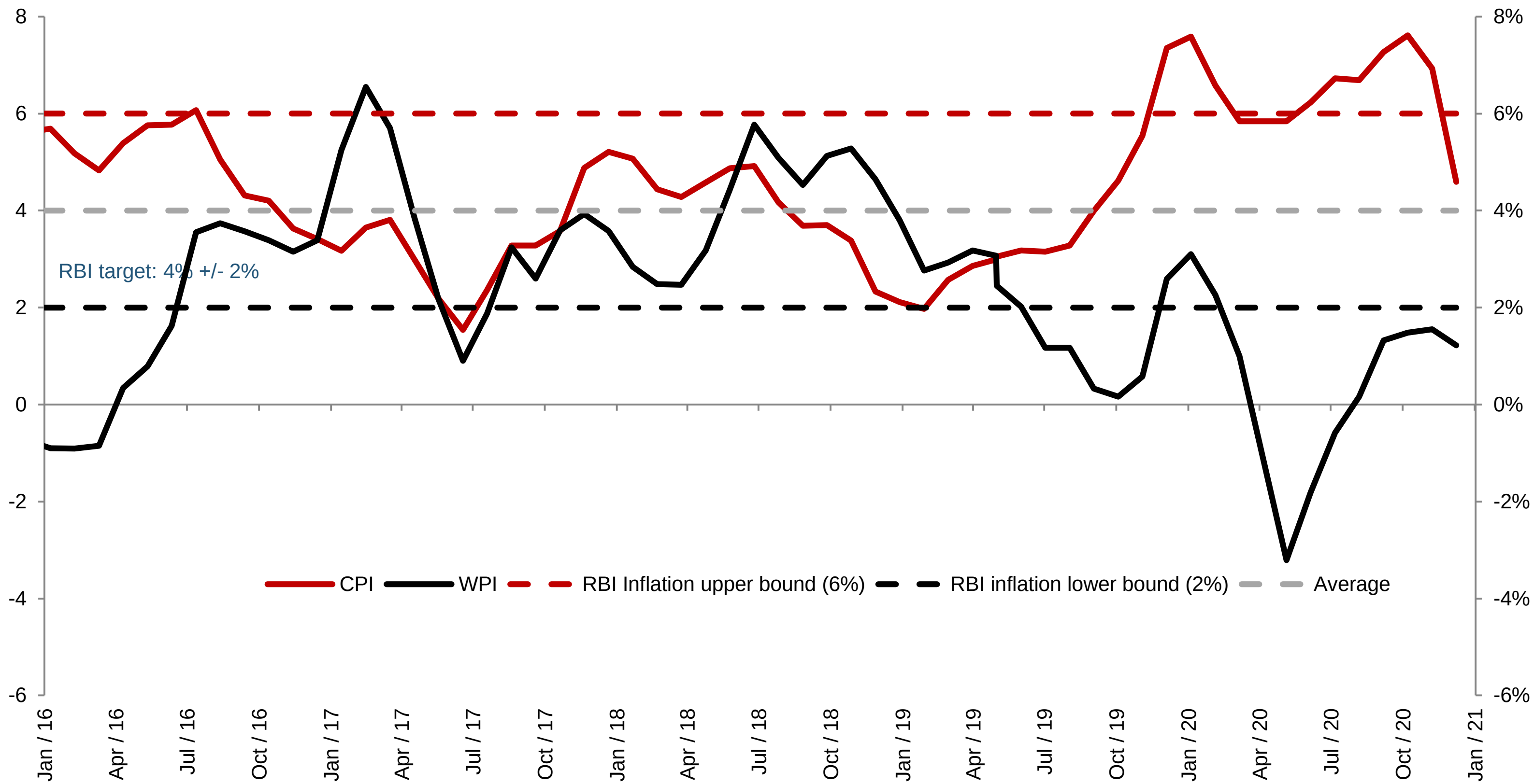
India’s index of industrial production (IIP) shrank 1.9% in November, as manufacturing (-1.7%) and mining (-7.3%) contracted, while electricity output grew 3.5%. The industrial output growth was raised to 4.19% in October.



Source: MOSPI, Data ended January 2021 except otherwise mentioned
Past performance is not indicative of future performance

Inflation target and trend

Inflation fall below the RBI's max target range



Source: MOSPI, RBI, Data ended January 2021 except otherwise mentioned
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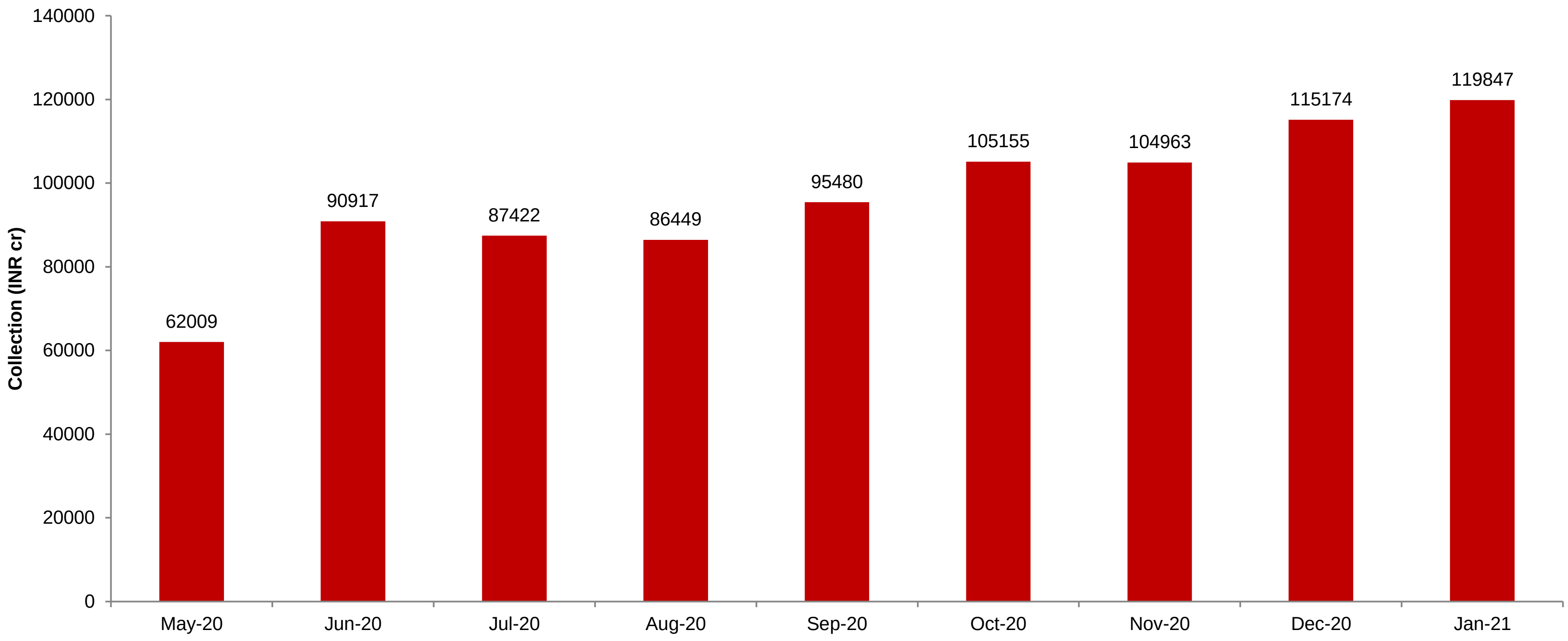
GST collection hit an all-time high in January

Goods and service tax (GST) collections in January 2021 touched an all-time high of INR 1.19 lakh crore, compared with INR 1.15 lakh crore in the previous month.



Source: Ministry of Finance, Data ended January 2021 except otherwise mentioned
Past performance is not indicative of future performance

Equity Market Review

Indian equity indices fell in January

- Indian equity indices started calendar year 2021 on a choppy note amid weak domestic and global cues. Benchmarks S&P BSE Sensex and Nifty 50 fell 3.1% and 2.5%, respectively, in January 2021
- The market fell sharply in the last week of the month as investors booked profits and remained cautious ahead of the Union Budget 2021-22.
- Indo-China border tensions, weaker-than-expected earnings from a market heavyweight and selling by domestic institutional investors (DIIs) for the fourth consecutive month weighed on sentiment. DIIs sold equities worth INR 11,971 crore in January 2021 compared with INR 37,294 crore in December 2020.
- Sell-off in US equities amid disappointing earnings and the US Federal Reserve's (US Fed) gloomy growth forecast also dented sentiment.
- US Fed Chairman Jerome Powell, at a virtual press conference after the policy meeting, said that the path of the economy continues to depend significantly on the course of the virus.
- The recent resurgence in Covid-19 cases affected economic activity and job creation in the US and around the world.
- New Covid-19 strains, rising Covid-19 cases leading to fresh lockdown restrictions in several countries, and delays in the distribution of Covid-19 vaccines also weighed on sentiment.
- Further declines in Indian equity indices were stemmed after the Indian government gave emergency-use approvals to two Covid-19 vaccines.
- Persistent inflows by foreign institutional investors (FIIs) also buoyed the indices. FIIs were net buyers of equities worth INR 14,512 crore in January 2021 compared with net buying of INR 53,500 crore in December 2020.
- Positive global cues, including hopes of an additional US Covid-19 relief plan and the UK government's roll-out of a new $6.2 billion support package also contributed to market gains.

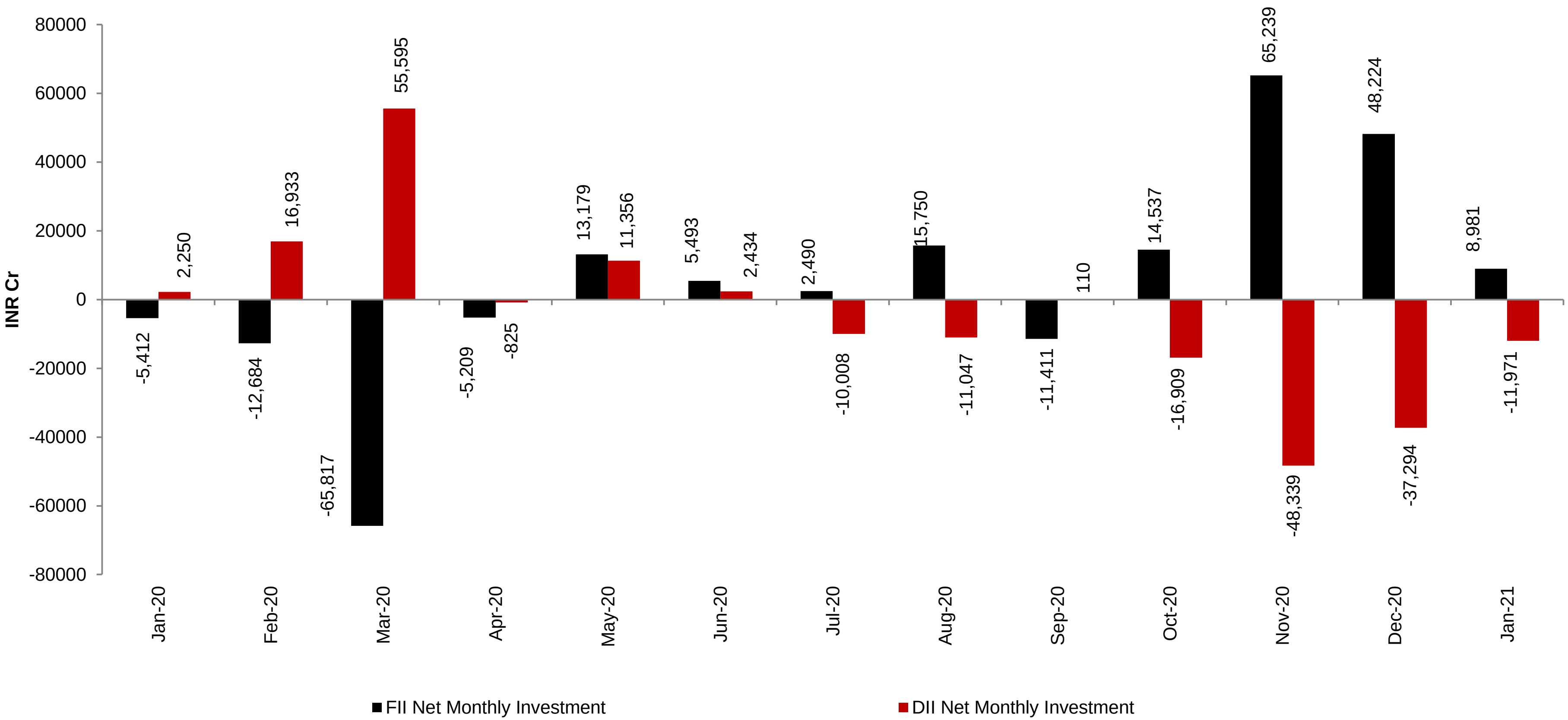
Weak domestic and global cues weighed on Indian equities

Source –CRISIL Data ended January 2021 except otherwise mentioned

Equity Market Review

S&P BSE sectoral indices ended mixed in January

- Buying interest was seen in the auto, capital goods and information technology (IT) counters. S&P BSE Auto, S&P BSE Capital Goods and S&P BSE IT rallied 6.3%, 3.9% and 2.4%, respectively.
- Metal, healthcare, banking and fast-moving consumer goods (FMCG) counters witnessed sell-offs. S&P BSE Metal, S&P BSE Healthcare, S&P BSE Bankex and S&P BSE FMCG fell 4.9% , 4.9%, 3.4% and 3.1%, respectively.



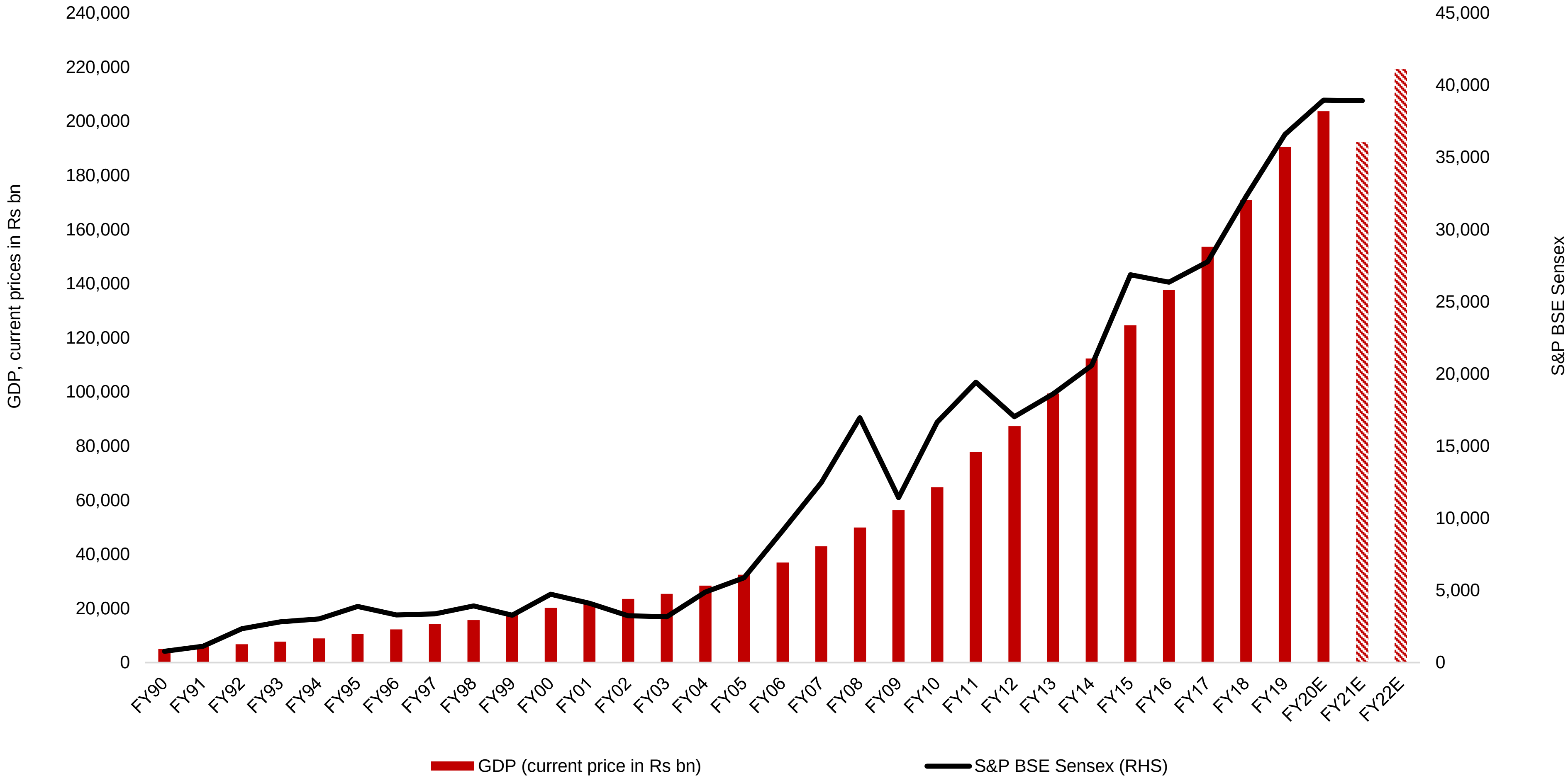
Equity Market Review

Indices	29-Jan-21	31-Dec-20	% Change 1 Month	% Change 1 Year	% Change YTD
Nifty 50	13635	13982	-2.48	13.98	-2.48
S&P BSE Sensex	46286	47751	-3.07	13.66	-3.07
S&P BSE Auto	22128	20811	6.32	21.84	6.32
S&P BSE BANKEX	34663	35888	-3.42	-1.78	-3.42
S&P BSE Capital Goods	19482	18745	3.93	11.56	3.93
S&P BSE Consumer durables	30099	30394	-0.97	15.11	-0.97
S&P BSE FMCG	12218	12609	-3.10	4.95	-3.10
S&P BSE Healthcare	20629	21681	-4.85	47.80	-4.85
S&P BSE Information Technology	24821	24248	2.36	56.39	2.36
S&P BSE Metal	11031	11599	-4.90	16.19	-4.90
S&P BSE MidCap	18082	17941	0.78	16.95	0.78
S&P BSE Oil & Gas	13812	14090	-1.97	-0.80	-1.97
S&P BSE Power	2005	2062	-2.79	5.55	-2.79
S&P BSE PSU	5726	5781	-0.96	-12.81	-0.96
S&P BSE Realty Index	2419	2478	-2.41	-4.26	-2.41
S&P BSE SmallCap	17988	18098	-0.61	22.64	-0.61

Source: NSE, BSE. Data ended January 2021 except otherwise mentioned

Equity mirrors economic growth in the long term

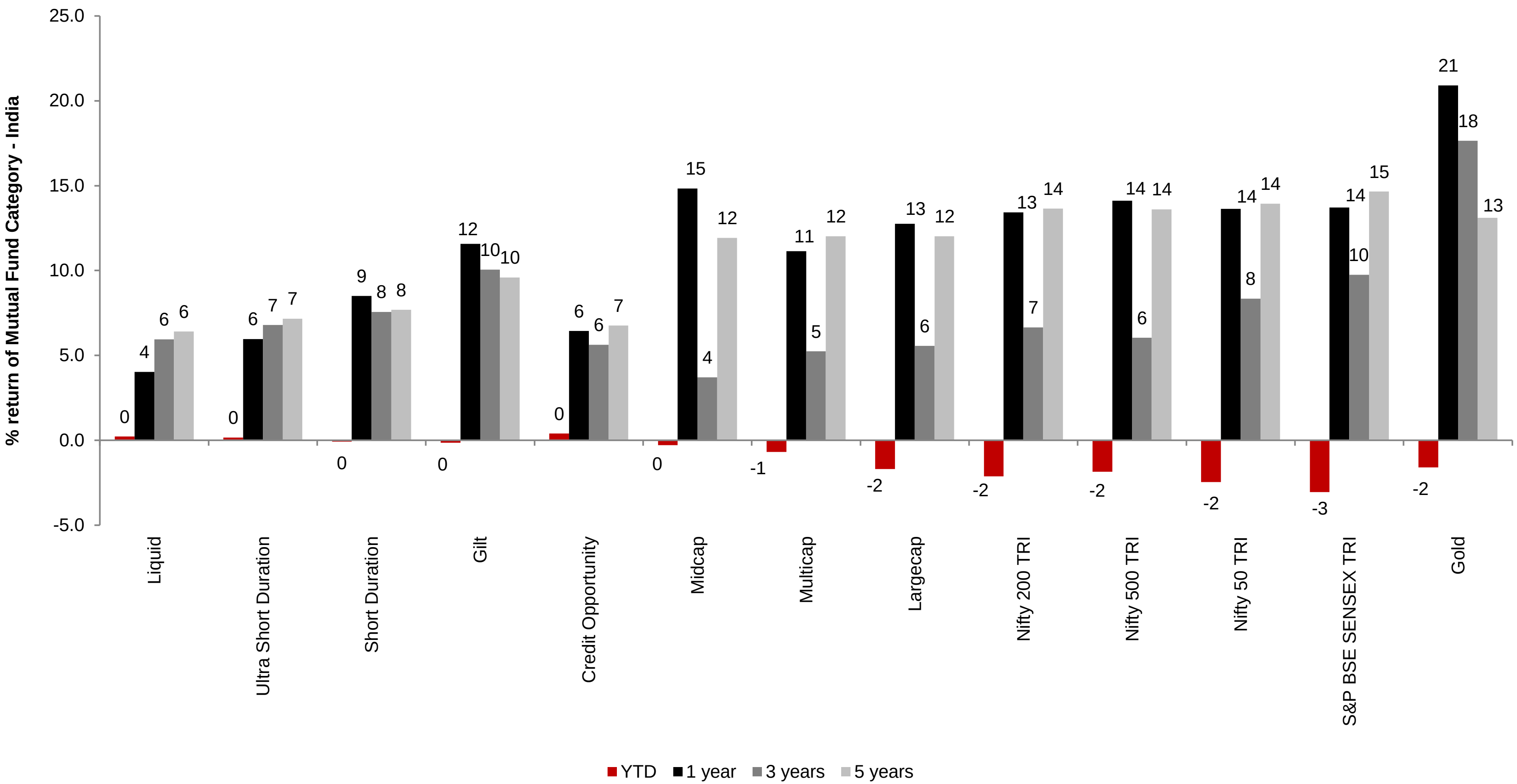
GDP - India looks on a long-term growth trajectory despite intermittent hiccups



Source: BSE, IMF The GDP projection start after fiscal year 2020 and are shown shaded in this graph is for illustration purposes only and is not guaranteed
Data ended January 31, 2021 except otherwise mentioned. Past performance may or may not sustain and does not guarantee future performance.

Gold emerges strong in recent the economic scenario

Fund Category returns – Safe-haven buying has resulted in Gold emerging as the best performing asset class



Source: Bloomberg, Data ended January 2021 except otherwise mentioned,
YTD, 1 year returns are absolute, 5 years annualised CAGR returns,
Past performance is not indicative of future performance. Mutual Fund investments are subject to market risk. Read all scheme related documents carefully

Sectoral performance long term trends

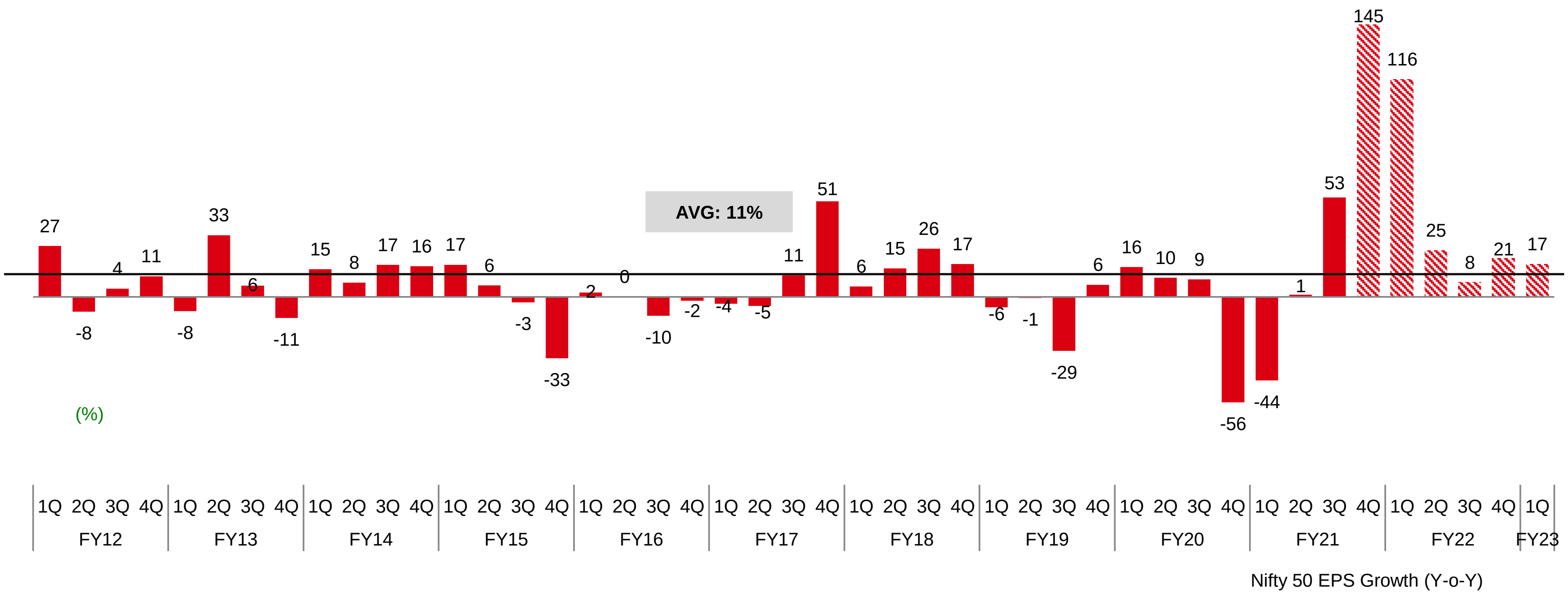
Sectoral returns – Most sectoral indices post positive performance over the 10-year period

Sectoral indices	% Change										
	CY12	CY13	CY14	CY15	CY16	CY17	CY18	CY19	CY20	CY21*	10-year CAGR*
S&P BSE Auto	40.31	7.29	51.98	-0.60	9.39	32.06	-22.12	-11.27	12.59	6.32	9.60
S&P BSE BANKEX	56.72	-9.36	65.04	-9.92	7.35	39.08	5.27	20.72	-2.14	-3.42	11.19
S&P BSE Capitalgoods	34.71	-5.56	50.45	-8.51	-3.28	40.03	-1.63	-9.97	10.63	3.93	4.04
S&P BSE Consumerdurables	46.08	-24.59	66.18	24.02	-6.34	101.92	-8.79	20.86	21.52	-0.97	17.63
S&P BSE Fast Moving Consumer Goods	46.61	11.00	18.27	1.36	3.29	31.54	10.60	-3.58	10.55	-3.10	13.51
S&P BSE Healthcare	38.53	22.55	47.43	15.06	-12.88	0.49	-5.92	-3.55	61.45	-4.85	12.77
S&P BSE Information Technology	-1.18	59.78	16.54	4.51	-8.00	10.83	24.93	9.84	56.68	2.36	14.38
S&P BSE Metal	19.13	-9.99	7.91	-31.20	36.65	47.78	-20.75	-11.92	11.23	-4.90	-3.69
S&P BSE MidCap	38.52	-5.73	54.69	7.43	7.97	48.13	-13.38	-3.05	19.87	0.78	10.10
S&P BSE Oil & Gas	13.14	3.71	12.01	-3.43	27.17	34.00	-15.57	7.25	-4.44	-1.97	3.95
S&P BSE Power	10.86	-14.57	23.03	-6.44	1.53	19.83	-16.06	-3.65	7.05	-2.79	-2.96
S&P BSE PSU	15.24	-19.43	39.21	-17.18	12.88	19.27	-21.11	-3.88	-16.88	-0.96	-4.02
S&P BSE Realty	53.44	-32.09	8.49	-13.55	-5.98	106.36	-31.07	26.85	8.66	-2.41	0.59
S&P BSE SmallCap	32.97	-11.23	69.24	6.76	1.77	59.64	-23.53	-6.85	32.11	-0.61	7.72

Source: BSE, Data ended January 2021 except otherwise mentioned
Figures in red indicate negative returns in that period. *CY21 and 10-year CAGR are as of January 2021
Past performance is not indicative of future performance. Mutual Fund investments are subject to market risk. Read all scheme related documents carefully

Earnings growth – quarterly trend

Nifty 50 earnings rebounded in Q3 FY21



Earnings growth mostly rebound in FY'21 after de-growth in Q4 FY'20

Estimates – shaded portion of FY21, FY22 & FY23

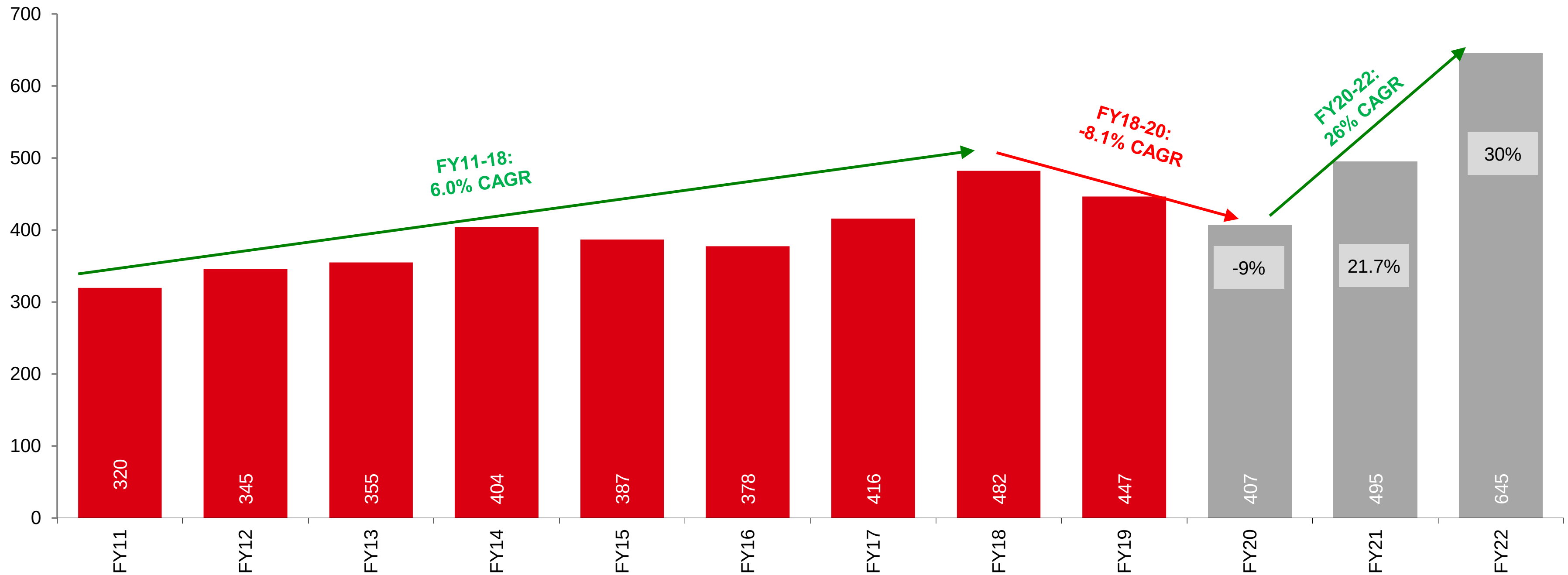
^Average figure mentioned is from FY12 to FY23

Source: Bloomberg, data as of January 31, 2021

Past performance is no guarantee of future returns

Earnings history

India - Equity earnings (Nifty 50 EPS)



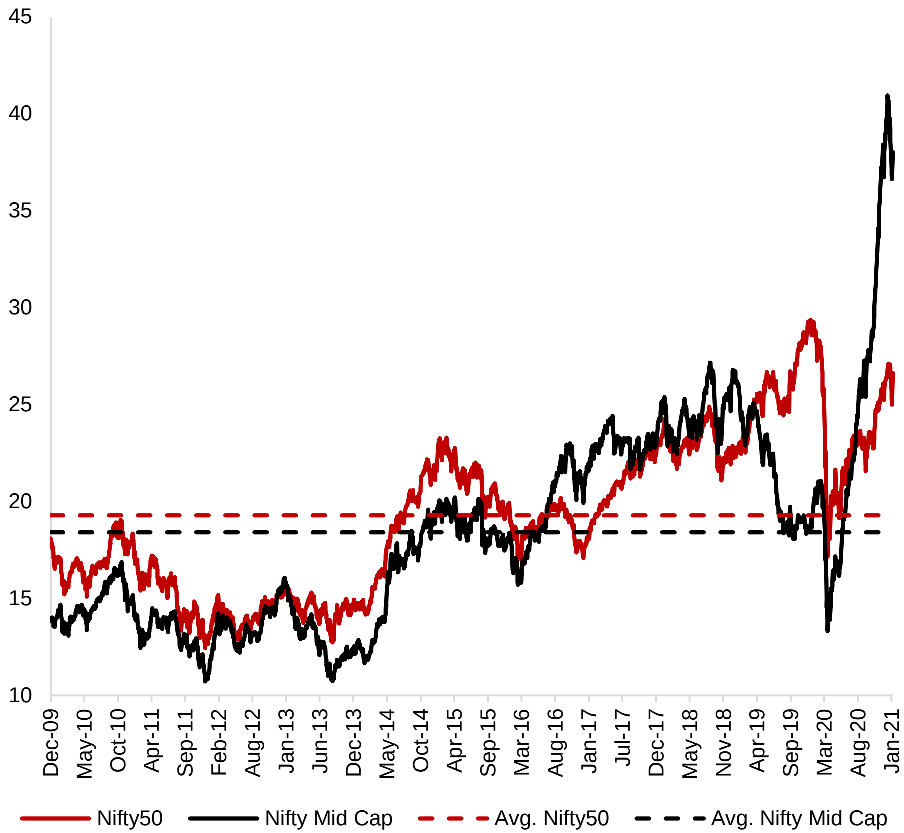
Nifty 50 EPS may grow at 26% CAGR over FY20-22E, vs ~8% de-growth in FY18-20

Note: Trailing 12M EPS (Earnings Per Share)

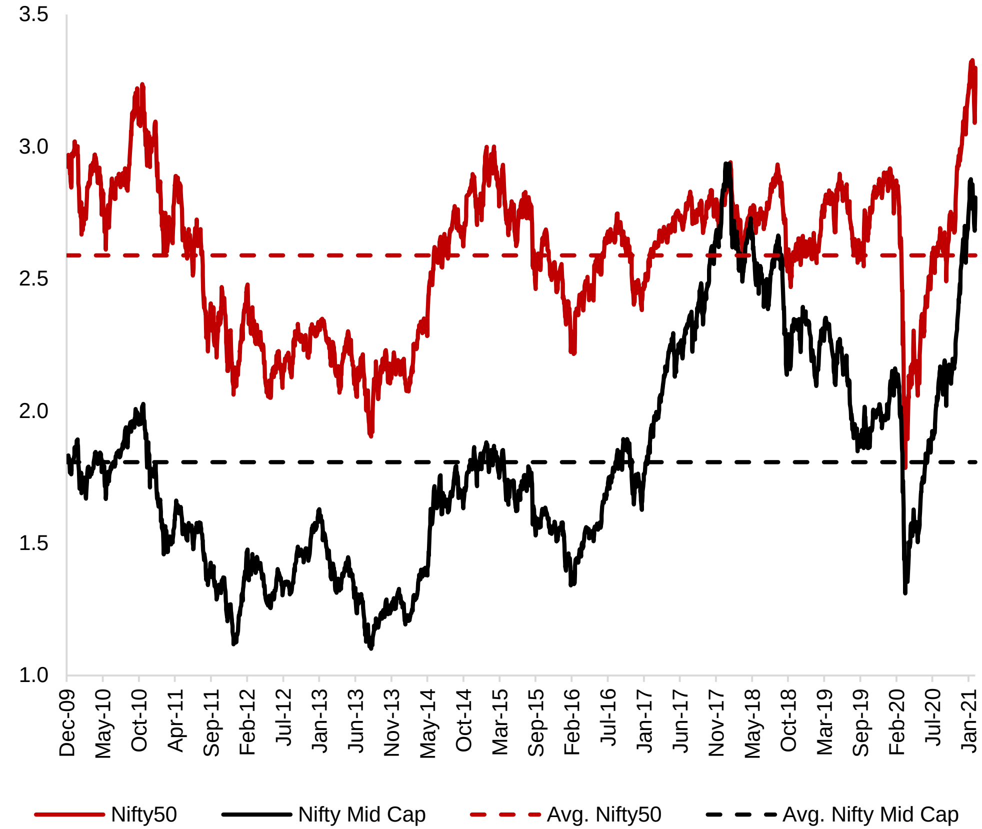
Grey shaded columns are estimates of FY20 - FY22
Source: Bloomberg, Data as of January 31, 2021. Past performance is no guarantee of future returns

Market valuations – Nifty 50 and Nifty Midcap 100

Large and Mid Cap - Price to Earnings (PE)



Large and Mid Cap - Price to Book (PB)



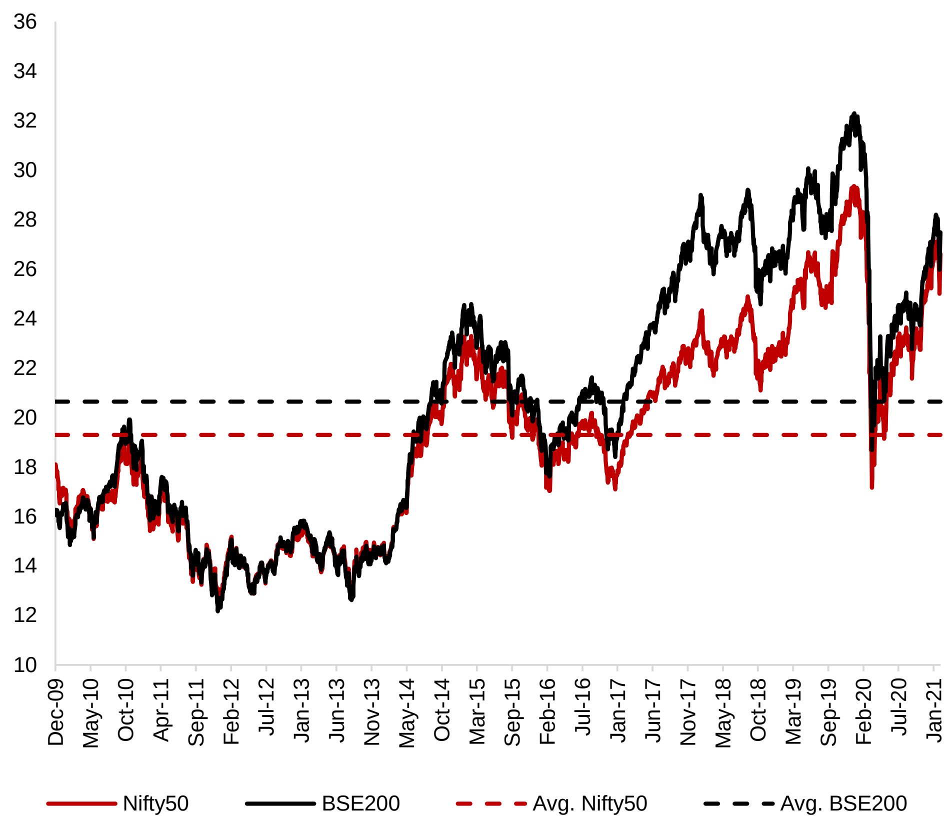
Valuations climb up the long term averages

Source: Bloomberg, data as on January 31, 2021

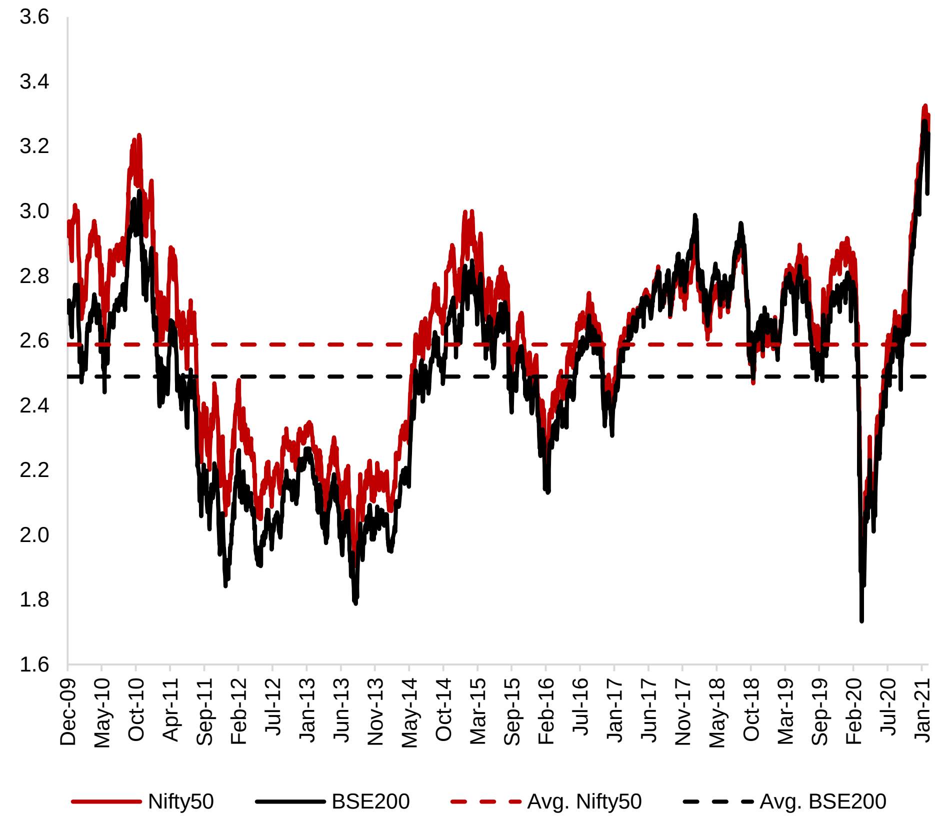
Investment involves risks. Past performance is not indicative of future performance,

Market valuations – Nifty 50 and S&P BSE 200

Large and S&P BSE 200 - Price to Earnings (PE)



Large and S&P BSE 200 - Price to Book (PB)

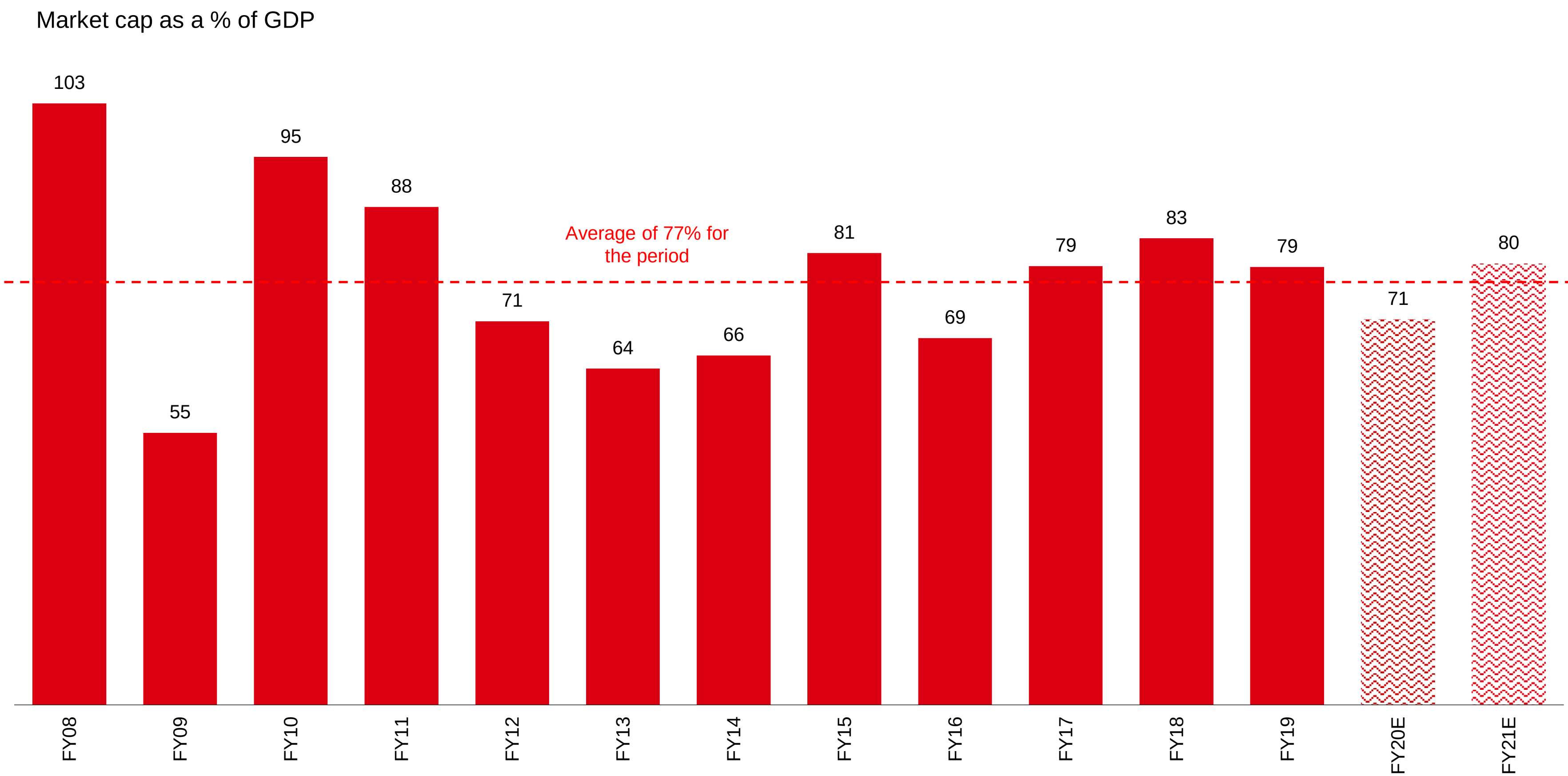


Valuations reach above the long term averages

Source: Bloomberg, data as on January 31, 2021

Investment involves risks. Past performance is not indicative of future performance,

India Market cap to GDP (%)



Market cap to GDP (%) is mostly hovering around long term average of 77%

Shaded area are Estimates (E) – FY20, FY21

Source: MOSL, Bloomberg, CRISIL estimates; data as at January 31, 2021

Past performance is not indicative of future performance

Sectorial Outlook

Sector*	View	Commentary
Financials	Positive	We maintain a positive view on lending financial institutions and expect them to outperform in the medium term versus non-lenders. Moving on normalisation of asset quality and collection efficiency, the focus has now shifted to growth and market share gains on assets. We continue to prefer large private banks and NBFCs (with good parentage), on account of their strength in capital adequacy, granular deposit franchise and investment in digital infrastructure. We believe these large lenders have emerged stronger post crisis – balance sheets are strongest ever driven by conservative provisioning and high NPA coverage, over the last 2/3 quarters and also, growth/market share is accelerating. Now we expect RoAs to be near or cross previous peaks, which will drive multiples above long-term averages. The recently announced budget has addressed concerns on medium term GDP growth, consequently credit growth and asset quality will surprise analyst estimates. Hence, we remain overweight in this space. Our smaller exposure to the life insurers driven by the financialisation of savings theme.
Real Estate	Positive	We continue to remain positive on the sector and is a differentiated call compared to peers. We see the sector on a revival path driven by improvement in the residential affordability and listed players being the beneficiaries of industry consolidation. With low interest rates (coupled with negative real rates), the home purchase affordability is best since 2003. In addition, the current crisis shall accelerate the consolidation amongst the residential developers in favour of the major players especially, the listed companies. Commercial assets such as Grade A office spaces and malls will also see consolidation as new supply will be restricted due to current cash flow issues faced by developers coupled high gestation business models. The current recovery in sales looks promising and is much better than anticipated. Our current exposure are to developers who have a mix of residential portfolio and commercial assets, along with relatively strong balance sheet. Our preference is for residential over retail over commercial.
Healthcare	Positive	Our positive stance is on account of the earnings resilience coupled with revenue visibility. Over the medium term, we believe that the profit pool of pharma companies will improve owing to reduction in fixed costs, secular domestic market growth and US business showing signs of improvement. Most of the companies have significantly deleveraged their balance sheets which will aid earnings and returns profile going ahead. Valuations can improve further as the sector offers mid-teen earnings growth visibility and improving return ratios. Our exposure to the sector, is primarily through companies having diversified regional exposure in US generic business and domestic branded market with a higher degree of vertical integration. Our small exposure to hospitals/diagnostics space is under anticipation that demand in the post pandemic phase shall sustain. Also, due to the non-discretionary nature of the demand, we are seeing signs of recovery coming in from elective procedures which were postponed earlier.

Source: HSBC Asset Management, India, Data as of January 2021 except otherwise mentioned.
* GICS

Sectorial Outlook

Sector	View	Commentary
Industrials	Positive	In the recent budget, we have seen increased focus and outlay towards the Infrastructure sector. Furthermore, we believe that government's renewed focus would continue for the next few years as per the gradual fiscal consolidation path envisaged. Government has already specified a 5-year National Infrastructure Plan and the current budget gives us confidence on government's commitment towards the same. We expect the government capex to pick up in near to medium term. Private capex may still take some more time for full revival, but as the overall economic growth picks up, the private capex should also see an improvement in the medium term. Hence, the outlook for the sector has improved considerably and we have become positive on the sector and infrastructure companies. However, focus will remain on companies with strong balance sheet, execution capabilities and scale advantages. We continue to remain positive on allied sectors (CV, cables), in order to play the economic recovery theme. We are also positive on select companies in the capital goods space.
Consumer Discretionary	Positive	We continue to remain positive on the discretionary space. While a direct consumption stimulus is missing in the recent budget; a stable tax regime coupled with improving economic growth outlook augurs well for higher incomes and sustenance of demand. In the 3QFY21 results, the revenue growth has been robust across the non-auto discretionary space and in some cases the growth is expected to continue for the foreseeable future. The valuations have expanded for those names where market ascribe higher probability of being beneficiaries of formalisation and / or continue / sustain the market share gains. We reckon that the high valuations for these names would sustain owing to their leadership position in their respective sub-segments along with industry leading growth. In the past few months, we have reoriented our exposure within the sector and added to names where the price correction has been steeper than the value destruction in the business. There has also been shift from consumer goods to auto. Our exposure is through companies that are dominant players in their respective businesses coupled with their ability to gain from the disruption (digital strategy, investing for sustained market share gains etc.)

Source: HSBC Asset Management, India, Data as of January 2021 except otherwise mentioned.
* GICS

Sectorial Outlook

Sector	View	Commentary
Materials	Neutral	We continue to have a neutral position in materials, within which there is a positive tilt towards cement and specialty chemicals. With recent growth vaccine provided by the budget 2021, we expect GDP growth to accelerate and also, sustain more driven by government intent to revive the economy. At the same tine, cement and other building materials (pipes, tiles, paints) also continue to have the tailwind of resilient rural activity and normalization in the urban India. From a cement perspective, we also expect prices will remain firm in the “busy” season (or 4Q) as utilization improves across markets. This will be reflected in the specific margins (i.e. EBITDA per ton) of cement companies in the past two quarters and though there can be some moderation in the same in the near term (or 3QFY21) driven by rise in input costs, the earnings growth outlook for these companies remain healthy. With recovery in real estate cycle and improving construction, we expect volumes growth to pick up in other associated building materials. Within specialty chemicals we expect larger niche players to continue to deliver faster revenue traction as India continues to benefit from the global supply chain diversification theme. These companies have continued to surprise in terms of order book build up, revenue expectations and also margins, as share of exports continues to see pick-up. In global cyclicals (metals), we think that current “high” commodity prices and “near peak” margins are unsustainable. Since, these seem to driven by certain artificial supply and trade issues. This could eventually lead to swift supply response from producers, which can reverse the current profitability and hence valuations.
Information Technology	Neutral	We continue with our neutral stance and remain positive on the sector potential from a medium to long term perspective. This is driven by the view that the pandemic has accelerated the shift towards a more digitised world, resulting in continued technology investments from enterprises across industries globally. This should not only improve demand for services vendors but also provide more avenues for growth. Indian IT shall continue to gain market share owing to proven capabilities across horizontals, domain knowledge of verticals, scale and access to talent. In addition, large Indian IT companies have strong management, robust profitability ratios and prudent capital allocation. Our preference is for players with strong digital capabilities, scale, beneficiaries of vendor consolidation and relative valuations. Our current neutral stance is dictated by the recent outperformance of the sector with the valuations now trending above historical averages and we reckon that the near term revenue acceleration is adequately reflected in the current prices. However, but if the current trend of digital adoption and “migration to cloud” were to gain momentum (and we think that it will), then growth over medium term will accelerate further. Thus Technology is a “buy on dips” sector for us.
Communication Services	Neutral	We have moved to a neutral weight from the earlier positive stance. This is owing to lack of positive surprises (delay in tariff hike) and the advent of the next big capex cycle (5G) in the next one year or so. Telecom sector will remain beneficiary of industry consolidation and a 'gradual' return of pricing power. However, the inordinate delay in the much anticipated tariff hike cycle has brought down the probability of earnings upgrade surprises in the near to medium term. Along with this, new technology adoption by next year or so, would lead to higher capital outlay. Within the segment we have exposure to the multiplex name, which is a play on industry consolidation and normalisation in economy. Our preference is for sector leaders with stronger balance sheet and that have shown better execution on the ground.

Source: HSBC Asset Management, India, Data as of January 2021 except otherwise mentioned.
* GICS

Sectorial Outlook

Sector	View	Commentary
Consumer Staples	Negative	We have maintained our underweight stance in staples. This is on account of two reasons 1) lack of positive earning surprises from hereon and 2) high valuations. In 3QFY21, most of the staple names have reported decent revenue growth (mid to high teens) however, it was bereft of positive surprises and the growth is expected to moderate going forward. Although the earnings visibility for staples remain high, this is priced in at the current valuations. In the recent Union Budget, there were no direct policies which provide money in the hands of the consumer with immediate effect. We have used the weight reduction to add to segments that can offer more earnings surprises going forward. Within staples our preference is for category leaders with scale and product diversification along with superior execution capabilities. We are also positive on companies where there has been renewed growth momentum due to revival of their respective categories e.g.: home insecticides etc.
Energy	Negative	We continue to hold a negative view of the energy companies. This is due to weak demand, weak profitability ratios, and volatile prices (which are not in control of the companies). Our only exposure in the energy sector is through a private sector conglomerate, that has been able to deliver on balance sheet deleveraging and unlock value of investments made over the last decade.
Utilities	Negative	We continue with our negative stance on the sector. There is a government commitment to improve the health of the electricity distribution segment, which should be positive from medium to long term perspective. However, since we have surplus power capacity currently, any pick-up in demand over in near term will be absorbed by surplus capacity available. Hence, though the sector outlook has improved, the growth outlook of power utilities still remains low in the near to medium term. Power utilities with regulated business model are relatively better placed. Within the sector our slight preference is for Gas utilities as opposed to Power utilities as the former depends more on consumer activity rather than industrial activity.

Source: HSBC Asset Management, India, Data as of January 2021 except otherwise mentioned.
* GICS

Equity Market Outlook

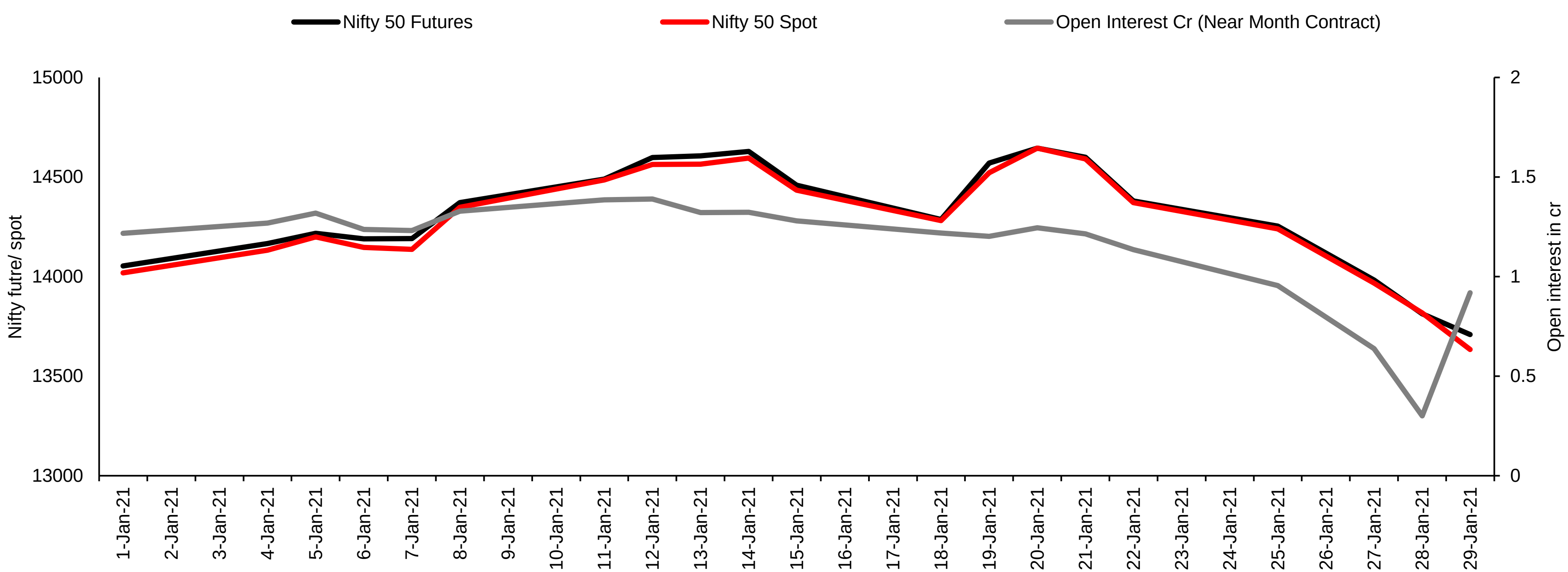
- Equity markets saw some profit booking during January even as the broader market indices ended up with flat to marginal gains for the month.
- India mirrored the trends seen in the global equity markets, which also witnessed some profit booking after the strong rally.
- The quarterly results season surprised positive with earnings upgrades far outpacing downgrades.
- More than half of the Nifty companies have reported earnings in January and out of which more than 2/3rd of the companies came out with better than earnings compared to consensus expectations.
- Technology, Private Banks, Materials (notably cement and paints) and Industrials produced strong beats on expectations while Health care and Auto sectors saw a mixed performance.
- Against this backdrop, the budget surprised positively as the government unveiled a long road for an expansionary fiscal policy and prioritized it over fiscal consolidation.
- The key themes of the budget focused around accelerated capex / infrastructure investment, cleaning up of the financial systems and higher healthcare outlay.
- Globally, as we look ahead and form an outlook for 2021, the restoration phase for the global economy should continue to play out while the pace of recovery shall vary across individual markets.
- India and world entered 2021, with renewed vigor and hope, on the back of the accelerated vaccine development and embarkation on the immunization programme.
- Commentary about the festive demand has been positive and the GST data for the past two months suggest a very strong momentum.
- At an overall level, the recovery process especially with respect to the rebound in economic activity levels, has been much faster compared to initial expectations.
- As we look ahead and visualize the outlook for rest of 2021, two key variables that shaped up the equity rally during 2020 viz global liquidity and lower interest rates are here to stay.
- In addition, the restoration / recovery process from the COVID-19 disruption will continue, leading to significant economic GDP rebound (double digit GDP growth in FY22) and corporate earnings growth (~38%) in FY22.
- Looking at valuations, on P/E and P/B basis, markets are now trending above historical averages. However, at the same time, the current lower cost of capital continue make equities relatively more attractive, even after the significant outperformance. On P/E basis, Nifty is currently trading at 26x / 19.5x FY21/22 earnings estimates, with significant earnings rebound assumed over the next 5-6 quarters.

Source: HSBC Global Asset Management, India, Data as of January 2021 except otherwise mentioned.

Futures & Options (F&O) Review

Nifty futures

- The Nifty 50 near-month future contract of January ended lower on the rollover day (January 28) versus spot.
- The new near-month contract (February 25) ended 27 points higher on January 28.
- The rollover of the new near-month contract (February) was 73% on the expiry day compared with 70% in the previous expiry.
- Indian equity indices started 2021 on a choppy note amid weak domestic and global cues. Benchmarks S&P BSE Sensex and Nifty 50 fell 3.1% and 2.5%, respectively, in January.
- Volatility of the Nifty 50 index, as measured by India VIX, rose 24.3 on January 28, as against 21.1 on December 31, 2020, and ended the month at 25.3.
- Nifty futures saw trading volume of INR 3.81 lakh crore, arising out of 35.57 lakh contracts, with an open interest of around 27.76 crore during the month.



Source – NSE, CRISIL. Data ended January 2021 except otherwise mentioned.

Futures & Options (F&O) Review

Nifty options

- On January 28, Nifty 15,000 call option witnessed the highest open interest of around 51.43 lakh, and the same contract garnered the maximum number of contracts of 4.89 lakh.
- Nifty 13,000 put option witnessed the highest open interest of 51.68 lakh on January 29 and the Nifty 13,500 put option garnered the maximum number of contracts of 4.88 lakh.

NSE F&O turnover

- Turnover on the NSE's derivative segment rose 7% in the month, led by gains in index and stock options and futures. The average put-call ratio was 0.96 in January, marginally higher than 0.95 in the previous month.

Instrument	Monthly turnover summary (Figures in INR crore)		
	Jan-21	**Dec-20**	**Change %**
Index futures	732707	691463	6%
Stock futures	1765967	1587988	11%
Index options	66128345	62349153	6%
Stock options	3286121	2633644	25%
Total	**71913140**	**67262248**	**7%**

Source-NSE. Data as on January 2021 except otherwise mentioned.

Futures & Options (F&O) Review

FII segment

- On January 29, FIIs' open interest was INR 1.76 lakh crore (21 lakh contracts). The details of FII derivatives trades for January 1 to 29 are as follows:-

	BUY		SELL		BUY %		SELL %	
	No. of contracts	**Amount in INR Cr**	**No. of contracts**	**Amount in INR Cr**	**No. of contracts**	**Amount in INR Cr**	**No. of contracts**	**Amount in INR Cr**
Index Futures	869563	80756	913920	85625	1.08	1.14	1.14	1.21
Index Options	73862487	6503428	73626283	6479958	91.61	91.86	91.57	91.81
Stock Futures	3839239	320905	3802037	317740	4.76	4.53	4.73	4.50
Stock Options	2060134	174536	2066314	174997	2.56	2.47	2.57	2.48
Total	**80631423**	**7079625**	**80408554**	**7058320**	**100.00**	**100.00**	**100.00**	**100.00**

Source-SEBI. Data as on January 2021 except otherwise mentioned.

Debt Market Review

Inter-bank call money rates were below the repo rate in January

- Interbank call money rates remained below the Reserve Bank of India's (RBI) repo rate of 4% in January owing to surplus liquidity in the system.

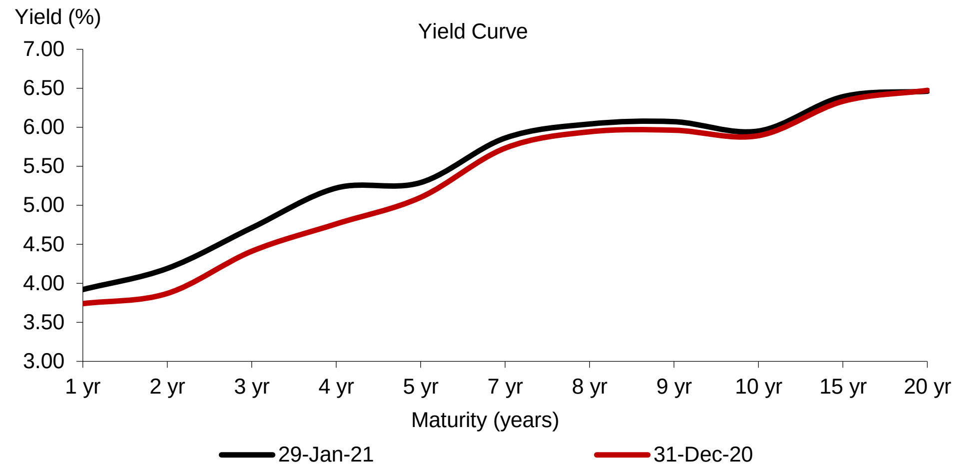
Bond prices fell in January

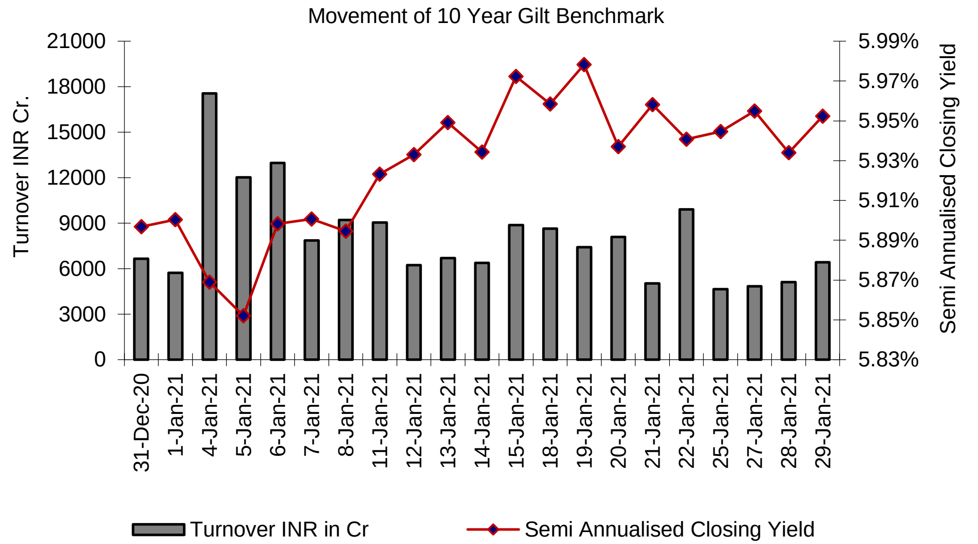
- Gilts ended slightly lower in January with the yield on the 10-year benchmark 5.77% 2030 paper settling at 5.95% on January 29, 2021, compared with 5.90% on December 31.
- Prices were mainly weighed down by rising crude oil prices and US benchmark treasury yields.
- Muted demand for debt in some weekly auctions also affected the gilts.
- Sentiments turned dim following the RBI's plan to normalise liquidity in a phased manner.
- Profit selling ahead of the union budget announcement pulled down the gilts further.
- However, most losses were recovered following the RBI's open market bond purchase announcements and hopes of more of these in the future.
- Gilts rose further after domestic consumer inflation eased in December.
- Intermittent pullback in the US benchmark treasury yields provided local bond prices some support.

Source: CRISIL Data as of January 2021 except otherwise mentioned.

Debt Market Review

Debt Market Indicators	29-Jan-21	31-Dec-20
Call Rate	3.55%	2.10%
3-mth CP rate	3.95%	3.70%
5 yr Corp Bond	5.70%	5.55%
10 Yr Gilt	5.95%	5.90%
Repo	4.00%	4.00%
Reverse Repo	3.35%	3.35%
CRR	3.00%	3.00%
1-mth CDs	3.30%	3.01%
3-mth CDs	3.45%	3.36%
6-mth CDs	3.70%	3.44%





Source: CRISIL Fixed Income database. Data as on January 2021 except mentioned otherwise

Debt Market Outlook

- After a steady start in the first week when yields rallied a bit, spreads widened materially and mainly at the shorter end.
- This market reaction came as RBI announced normalisation of liquidity where they announced intent of resumption of normal liquidity operations in a phased manner and along-side announced variable rate reverse repo for INR2tn for 14 days.
- More than the actual measure, market got spooked by the title of the press release and yields sold off by ~20-25 bps in short end and 4-5 bps on the belly of the curve.
- Budget turned out to be a big surprise shocker to the debt market, with significantly higher fiscal deficit vs expectation at 9.5% for FY21 and 6.8% for FY22, translating into higher than expected borrowing for both the years.
- From survival to revival, FY22 budget aims for structural growth leaving fiscal concerns sideways in the interim.
- Yield reacted and moved up 10 – 15 bps across the curve on the budget day.
- With the onus for reviving the economy now shifted to fiscal from monetary, all eyes will be on upcoming policy. Expectation is that RBI will take cognizance of the need for fiscal expansion and will support via direct and indirect measures.
- There is a scope for positive surprise on the fiscal front, that will fructify in 2nd half of FY22. Therefore, borrowing calendar for next 6 – 8 months for both center and state will be heavy.
- The scope for direct rate cuts being limited, we would expect RBI to use unconventional measures to remain accommodative for rates for the remainder of the year. Overall, the rates are likely to remain volatile with an upward bias.
- Medium and longer end of the curve, will see much of the volatility and pressure as the additional borrowing for the next two months is positioned in the space.
- In the corporate space, spreads witnessed similar movement across the curve in tandem with the G-sec curve. Heading into the last quarter, there could be some supply pressures and therefore do not expect any meaningful compression in spreads.

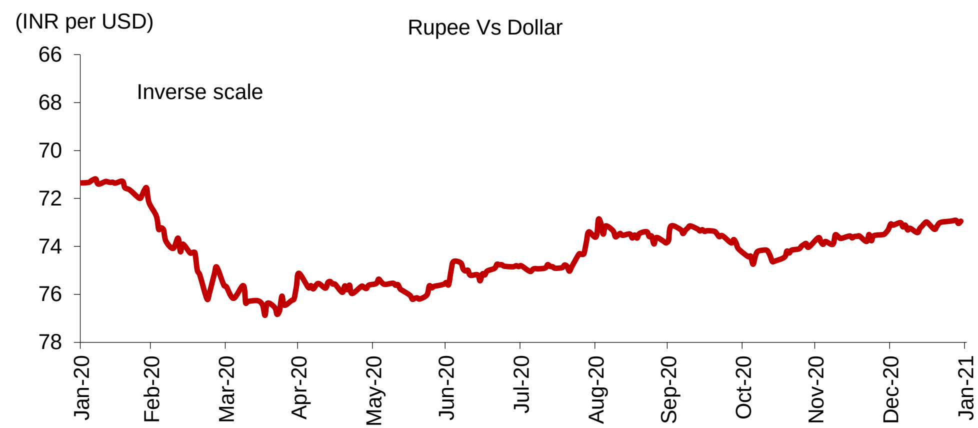
Source: HSBC Global Asset Management, India, Data as of January 2021 except otherwise mentioned

Forex Market Review

Indian rupee rose in January

- The rupee ended the month stronger after recouping earlier losses. The exchange rate settled at INR 72.95 per dollar on January 29 compared to INR 73.06 per dollar on December 31.
- Declines in other Asian currencies amid concerns about more potential Covid-19 induced lockdowns worldwide, put the rupee under pressure early in the month.
- State-owned banks' dollar demand added to the pressure on the rupee.
- Weakness in the US dollar ahead of the outcome of the election in the US state of Georgia, and expectation that the US would announce more fiscal stimulus measures, helped the rupee recoup some losses.
- Dollar sales by exporters, foreign fund inflows into the local financial market, and gains registered by Indian equity indices supported the local unit.
- An uptick in investor risk appetite on hopes that US President Joe Biden's policies would help accelerate global economic recovery, also provided positive cues.

Rupee Movement V/s Global Currencies				
	29-Jan-21	**31-Dec-20**	**Change**	**% Change**
USD	72.95	73.06	0.12	0.16
GBP	100.04	99.78	-0.26	-0.26
EURO	88.33	89.71	1.38	1.54
100 YEN	69.84	70.80	0.96	1.36

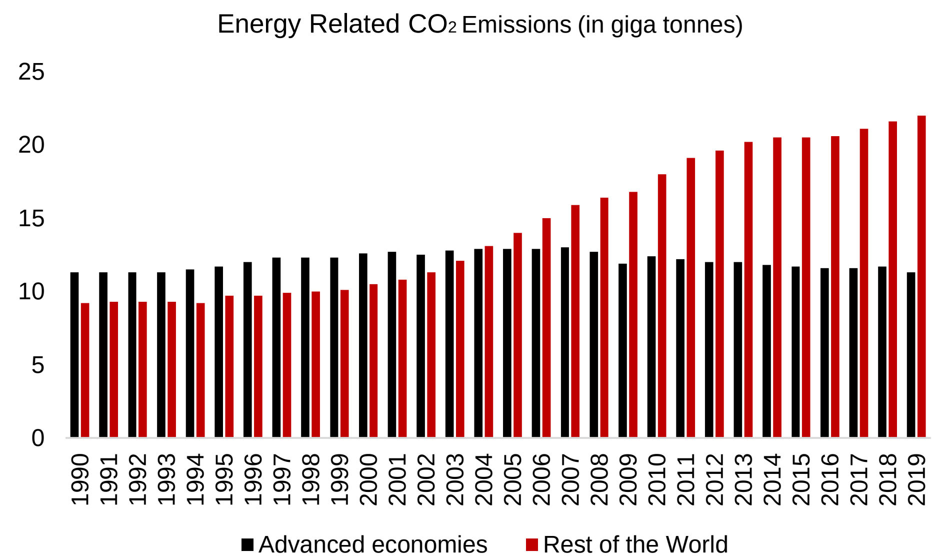


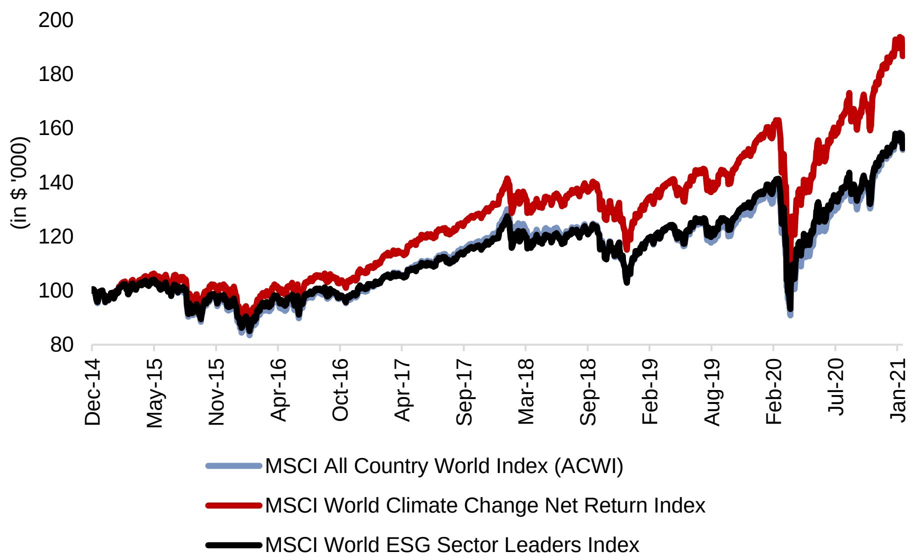
Foreign fund inflows into the financial market supported the local currency

Source: RBI, CRISIL. Data as on January 2021 except otherwise mentioned

Climate Change and ESG

- The issue of climate change (generally measured in terms of carbon dioxide or CO_2 emissions) has been in the limelight amid the rising number of climate disasters such as wildfires, floods, droughts, diseases, etc in recent times. The steadily rising emissions are especially evident from countries other than advanced economies over the years.
- This has resulted in shifting of focus towards businesses which are sensitive towards tackling these issues or in other words take into consideration the environmental, social and governance (ESG) factors while conducting their business.
- According to a Morningstar report, demand to invest in funds which focus on ESG issues jumped in 2020, driving assets under management up 29% in the fourth quarter to nearly $1.7 trillion.
- According to Climate Bonds Initiative report, global green bond issuance reached a record high of $269.5 billion in 2020, a 1.12% increase compared to $266.5 billion in 2019.
- Meanwhile, on the domestic front, India and Denmark began a new era in the form of a "far reaching Green Strategic Partnership" that will enable Denmark in delivering sustainable solutions to India.
- If we consider climate change and ESG themes in terms of performance vis-à-vis general equity for illustrative purposes, a sum of $100,000 invested in MSCI World Climate Change index and MSCI World ESG Sector Leaders index in December 2014 would have grown to $190,000 and $155,000, respectively as on January 29, 2021 as against growth of $154,000 in MSCI All Country World Index (ACWI) during the same period.



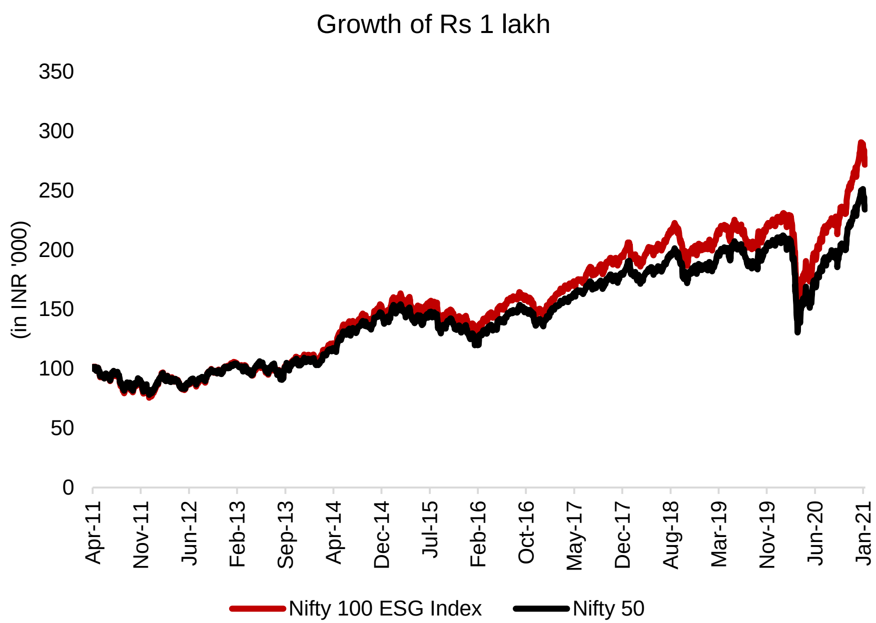


Source: Bloomberg, International Energy Agency (IEA), data as of January 2021

Investment involves risks. Past performance is no guarantee of future returns

ESG Performance

- In the Indian context, the ESG theme has shown encouraging performance.
- In terms of returns, ESG (represented by Nifty 100 ESG) has outperformed general equity (represented by Nifty 50) across various time periods.
- If long-term growth in ESG scheme is analyzed, if an investor put in INR 100,000 in Nifty 100 ESG and Nifty 50 in April 2011, it would have grown to INR 282,000 and INR 245,000, respectively, for the period ended January 29, 2021.



Period	Performance (%)	
	Nifty 100 ESG	Nifty 50
1 year	19.19	12.41
2 years	16.39	13.12
3 years	9.64	6.99
5 years	14.48	12.49
7 years	14.14	12.11

Source: NSE, Bloomberg. Data as of January 2021. Returns above 1 year are compounded annualized.

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Economic Events Calendar

Date	Indicators	Previous
3-February-21	US ADP Employment Report, January	-123,000
	Eurozone Consumer Price Index, January	-0.3%
	India Markit Services PMI, January	52.3
4-February-21	US Nonfarm Productivity, Q4 2020	4.6%
	Bank of England (BoE) Monetary Policy report	0.5%
	UK Construction PMI, January	54.6
5-February-21	US Non-farm Payrolls, January	-140,000
	RBI Interest Rate Decision	4%
8-February-21	Eurozone Sentix Index, February	1.3
10-February-21	US Consumer Prices, January	0.4%
	China Consumer Prices, January	0.2%
12-February-21	Eurozone Industrial Production, December	2.5%
	India Consumer Inflation, January	4.59%
	India Industrial Production, December	-1.9%
15-February-21	Japan GDP, Q4 2020	22.9%
	India Wholesale Inflation, January	1.22%

Source: Crisil

Economic Events Calendar (cont'd)

Date	Indicators	Previous
16-February-21	Eurozone GDP, Q4 2020	-4.3%
17-February-21	US Industrial Production, January	1.6%
	US Retail Sales, January	-0.7%
	UK Consumer Prices, January	0.6%
18-February-21	US Housing Starts, January	1.67 million
	US Import Prices, January	0.9%
19-February-21	US Existing Home Sales, January	6.76 million
	US Manufacturing PMI, February	59.1
	UK Retail Sales, January	0.3%
22-February-21	China Loan Prime Rate, 5Y	4.65%
23-February-21	US Consumer Confidence, February	79
24-February-21	US New Home Sales, January	842,000
25-February-21	US Pending Home Sales, January	125.5
	US GDP, Q4 2020	33.4%
	US Durable Goods Orders, January	0.2%
26-February-21	India Core Sector Growth, January	-1.3%
	India GDP, Q3 FY21	-7.5%

Source: Crisil

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HSBC Asset Management (India) Private Limited, 16, V.N. Road, Fort, Mumbai-400001
Email: hsbcmf@camsonline.com | Website: www.assetmanagement.hsbc.com/in

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