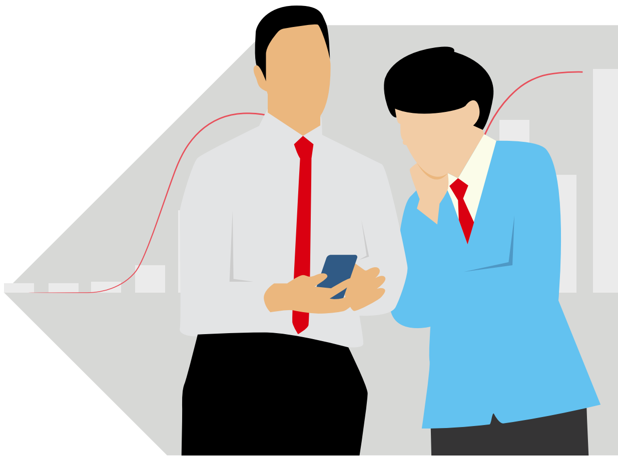
Equity Market Review

April, 2023

- India was the best performing global market in April 2023 after lagging in March as RBI skipped an expected rate hike and strong FII inflow continued in April offsetting the slowdown in domestic flows.
- India saw a broad based rally with S&P BSE Sensex & NSE Nifty indices gaining 3.6%/4.1%, respectively, during the month while BSE Mid Cap/BSE Small Cap indices jumped up by 6%/7.3%, respectively.
- RBI's rate increase pause drove a strong rally in interest rate sensitive sectors. Real Estate was the best performing sector followed by Auto, Capital Goods and Banks. Healthcare, Oil & Gas and Metals also outperformed the Nifty. Only IT sector saw negative returns driven by weak results and commentary from most large caps.

Domestic Indices	Last Close	1 Month (Change)	CYTD 23 (Change)
S&P BSE Sensex TR	92568	3.6%	0.7%
Nifty 50 TR	26303	4.1%	-0.1%
S&P BSE 200 TR	9629	4.4%	-1.5%
S&P BSE 500 TR	30163	4.6%	-1.3%
S&P BSE Midcap TR	31675	6.0%	1.0%
S&P BSE Smallcap TR	35327	7.3%	0.2%
NSE Large & Midcap 250 TR	12763	4.7%	-0.6%
S&P BSE India Infrastructure Index TR	414	6.1%	0.5%
MSCI India USD	750	4.1%	-2.7%
MSCI India INR	1991	3.7%	-3.8%
INR - USD	81.8	-0.4%	-1.1%
Crude Oil	80	-0.3%	-7.4%



Global Market Update

Major equity indices globally gained in April with MSCI World index up 1.6% as the US market (S&P 500) climbed 1.5% and MSCI Europe gained 3.6%. MSCI EM however declined 1.3% driven by a 5.2% decline in China. Crude oil prices remained largely flat during the month.

International Indices (in USD)	Last Close	1 Month (Change)	CYTD 23 (Change)
MSCI World	2,836	1.6%	9.0%
Dow Jones	34,098	2.5%	2.9%
S&P 500	4,169	1.5%	8.6%
MSCI EM	977	-1.3%	2.2%
MSCI Europe	1,972	3.6%	13.9%
MSCI UK	1,184	5.0%	10.2%
MSCI Japan	3,311	0.4%	5.5%
MSCI China	63	-5.2%	-0.8%
MSCI Brazil	1,422	1.8%	-2.5%

- FIIs were buyers of Indian equities in April to the tune of $1.9 bn while DIIs were buyers only to the extent of $0.3 bn. Domestic mutual funds saw an equity outflow of $0.6 bn while insurance funds invested $0.9 bn during the month.
- CPI inflation dropped from 6.4% (YoY) in February down to 5.7% (YoY) in March. Core-core inflation (i.e. core inflation ex petrol and diesel) remained sticky at 6% but softened from 6.4% (YoY) in February.
- Index of Industrial production growth (IIP) in February stood at 5.6% up from 5.5% (YoY) in January.
- INR appreciated over the month (up +0.4% MoM) and ended the month at 81.83/USD in April. India's FX reserves came in at $584 bn. FX reserves have risen by US$5.5 bn in the last four weeks.
- Other key developments during the month include – Gross GST revenue collection in the month of April 2023 stood at Rs 1.87 tn, up 12% (YoY).

Valuations

Nifty FY24/25 consensus earnings have seen a further 1% cut over the last 1 month. As a result, Nifty continues to trade on 19.2x FY24 PE. On a 10-year basis, Nifty is still trading 10% above its historic average valuation but is now trading slightly below its 5-year average. However, in a rising 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. Recent banking issues in US and EU highlight fragility in the system and therefore despite inflation remaining on the higher side, US bond yields reflect risk of a recession in the next 12 months. For India, strong infrastructure thrust of the government as announced in the Union Budget with more than 20% (YoY) growth in capital spending remains a key support for the domestic economy. Inflationary pressures seem to be moderating with correction in crude and global commodity prices and likelihood of further interest rates increases has reduced. Monsoon will be a key factor to watch for India in the near term.

Outlook

We believe lagged impact of sharp interest rate increase cycle could result in negative growth surprises for the global economy going forward. On the positive side, likelihood of further interest rate increases seems to have diminished. Decline in crude and other global commodity prices is another clear positive for India. We believe Indian government's thrust on infrastructure and support to manufacturing remains a strong medium-term driver of growth. While we expect India's economic growth to be slower in FY24 and expect 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.

Key Drivers For Future

On the headwinds, we have

- **High and persistent inflation concerns (Global & Domestic)**
- **US Fed Policy:** Accelerated rate hikes and balance sheet shrinking process could mean volatile equities.
- **Moderating global and domestic growth** due to demand impact from sticky inflation. Higher interest rates are likely to weigh on consumption going forward.

We see the following positives for the Indian market:

- **Robust domestic macro:** Strong government thrust on infrastructure and manufacturing. Urban demand should continue to improve with recovery in service economy.
- **Moderating commodity prices:** Reversal in commodity prices (especially crude oil and fertilizers) is a positive from inflation, fiscal deficit and corporate margins perspective.
- **Other factors / risks:** High current account and fiscal deficit.

Past performance is not an indicator of future returns. *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 April 2023 end).

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