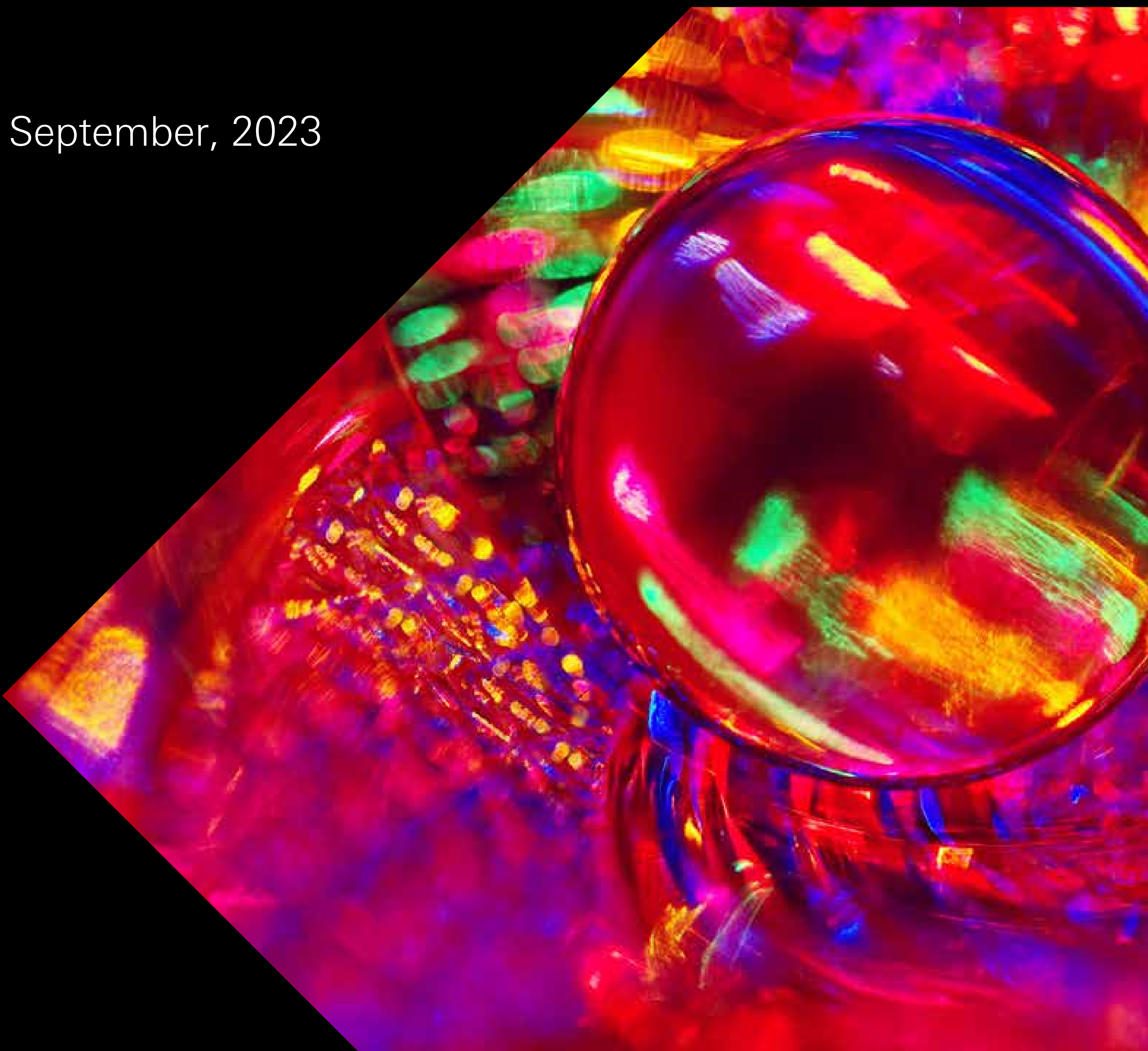
HSBC Mutual Fund

Equity Market Review

September, 2023



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- In September, Indian equity indices continued to rise despite sharp correction in other major global equity indices. S&P BSE Sensex and NSE Nifty indices rose 1.5% / 2%, respectively, during the month.
- Mid Caps and Small Caps continued their upward trend with BSE Mid Cap / BSE Small Cap indices up by 3.7% / 1.3%, respectively during the month.
- All major sectoral indices delivered positive returns with Metals and Capital Goods being the best performers. Auto, Realty and Oil & Gas also outperformed the Nifty while IT, Banks and FMCG slightly underperformed the Nifty for the month.

Domestic Indices	Last Close	1 Month (Change)	CYTD 23 (Change)
S&P BSE Sensex TR	1,00,642	1.5%	9.4%
Nifty 50 TR	28,808	2.0%	9.4%
S&P BSE 200 TR	10,849	2.2%	11.0%
S&P BSE 500 TR	34,433	2.1%	12.6%
S&P BSE Midcap TR	40,445	3.7%	29.0%
S&P BSE Smallcap TR	46,160	1.3%	30.9%
NSE Large & Midcap 250 TR	15,135	2.5%	17.9%
S&P BSE India Infrastructure Index TR	539	8.6%	30.6%
MSCI India USD	826	1.7%	7.1%
MSCI India INR	2,224	2.0%	7.5%
INR - USD	83.0	0.3%	0.4%
Crude Oil	95	9.7%	10.9%

Global Market Update

Rising US bond yields continued to weigh heavily on global equity markets. MSCI World index declined 4.4% as the US market (S&P 500) corrected 4.9% and MSCI Europe lost 4.0% and MSCI Japan corrected by 2.8%. MSCI EM declined 2.8% dragged by the 2.9% decline in China. Crude oil price moved up another 10% in September, after a 2% increase in August and a 14% jump in July.

International Indices (in USD)	Last Close	1 Month (Change)	CYTD 23 (Change)
MSCI World	2,853	-4.4%	9.6%
Dow Jones	33,508	-3.5%	1.1%
S&P 500	4,288	-4.9%	11.7%
MSCI EM	953	-2.8%	-0.4%
MSCI Europe	1,825	-4.0%	5.4%
MSCI UK	1,109	-1.0%	3.2%
MSCI Japan	3,423	-2.8%	9.1%
MSCI China	58	-2.9%	-9.2%
MSCI Brazil	1,555	0.0%	6.6%

- Foreign Institutional Investors (FIIs) turned sellers in Indian equities after 6 months with an outflow of US$2.3 bn in September. Domestic Institutional Investors (DIIs) inflow of US$2.5 bn slightly more than offset the FII outflow largely driven by equity mutual funds.
- August Consumer Price Index (CPI) softened to 6.8% (YoY) from 7.4% (YoY) in July, as volatile vegetable prices that had pressured the July data declined.
- July’23 Index of Industrial production growth (IIP) growth rebounded to 5.7% (YoY) vs 3.7% in June.
- INR depreciated over the month (down 0.3% MoM) and ended the month at 83.04/USD in September. India’s FX reserves came in at $591 bn. FX reserves have declined by US$4.2 bn in the past four weeks.
- Gross GST revenue collection in September 2023 stood at Rs 1.63 tn, up 10% (YoY).
- Other key developments during the month include – India will be included in the GBI-EM Global index suite starting June 28, 2024. India is expected to reach the maximum weight of 10% in the GBI-EM Global Diversified Index (GBI-EM GD) by March 31, 2025. This could potentially lead to a US$20-25 bn of inflow into the Indian bond market.

Valuations

Nifty FY24/25 consensus earnings have seen a 3% / 1% downgrade over the last 1 month. As a result, Nifty continues to trade on 19.5x 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, the 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. Strong infrastructure thrust of the government as announced in the Union Budget is visible in order flow and demand for various industries and should support the domestic economy. However, inflationary pressures remain a key factor to watch given the sharp jump in crude prices and an uptick in food inflation in July/August. Monsoon recovered in September to end slightly below average for the season, however, the final impact on crop production and food prices remains unclear.

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 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 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 a 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 three months. Any further increase is likely to be a headwind for the Indian markets, in our view.

We can 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 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.
- **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 Sep 2023 end or as latest available.

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