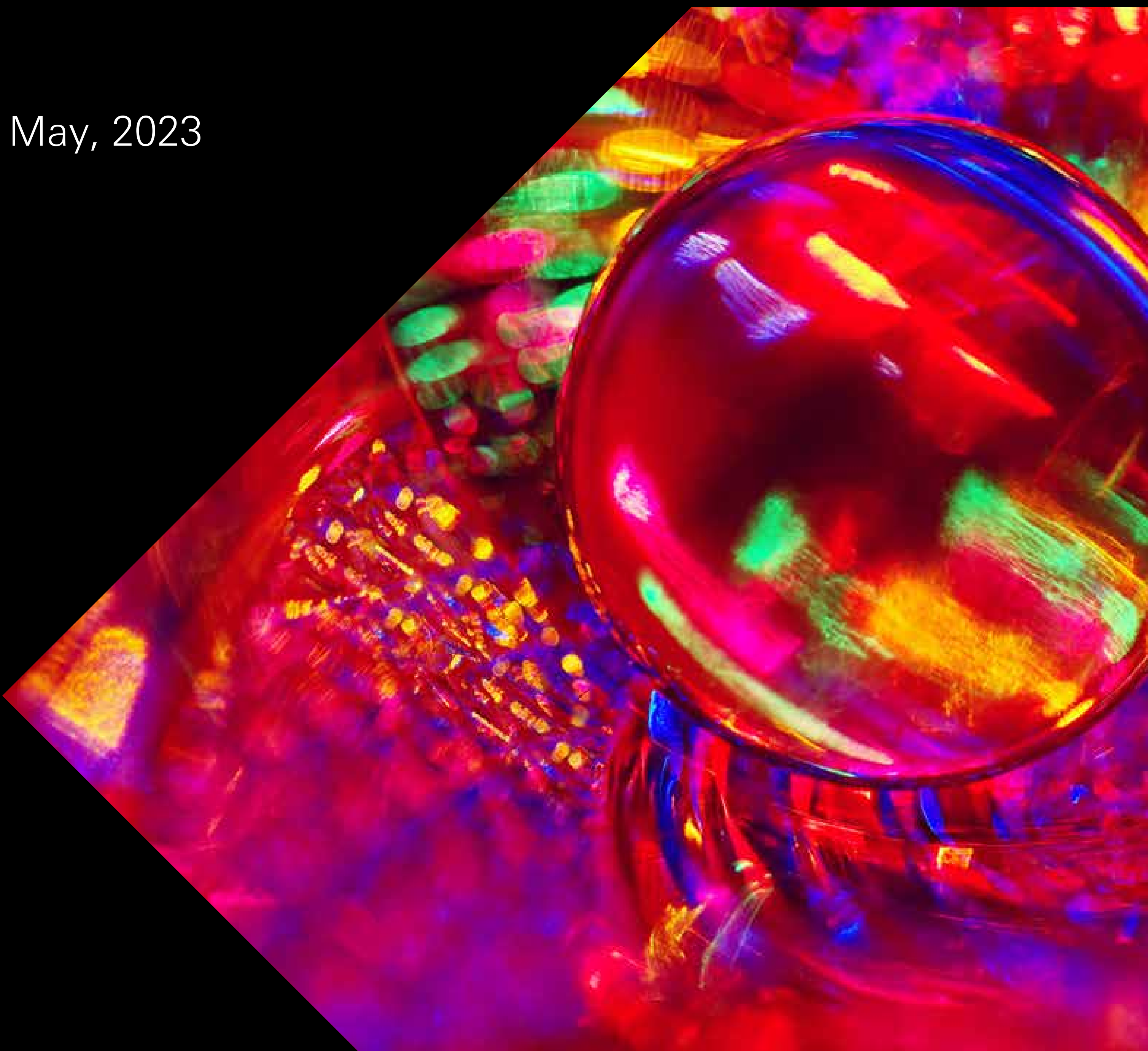
Equity Market Review

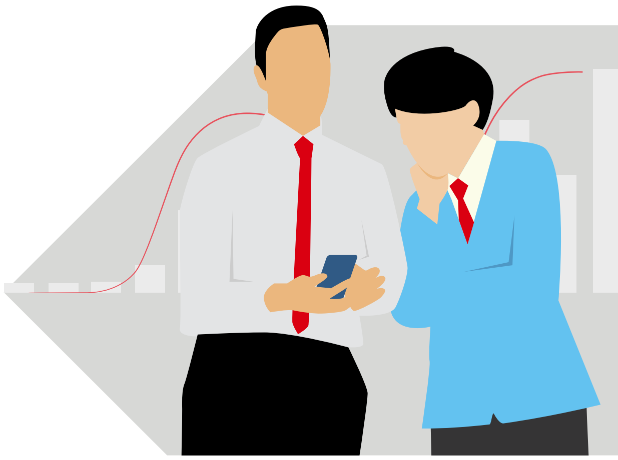
May, 2023



HSBC Mutual Fund

- India continued to be the best performing global market in May 2023 on the back of strong FII inflow in May and moderation in inflation led by softening in commodity prices.
- India saw a broad-based rally with S&P BSE Sensex & NSE Nifty indices gaining 2.9% each during the month while BSE Mid Cap/BSE Small Cap indices jumped up by 6.4%/5.6%, respectively.
- RBI's rate increase pause last month continued to drive a rally in interest rate sensitive sectors. Auto was the best performing sector followed closely by Real Estate. Consumer discretionary and IT sectors which were lagging through the year, performed well this month. FMCG and Healthcare outperformed Nifty while Metals and Oil & Gas sectors saw negative returns.

Domestic Indices	Last Close	1 Month (Change)	CYTD 23 (Change)
S&P BSE Sensex TR	95,211	2.9%	3.5%
Nifty 50 TR	27,057	2.9%	2.8%
S&P BSE 200 TR	9,983	3.7%	2.1%
S&P BSE 500 TR	31,302	3.8%	2.4%
S&P BSE Midcap TR	33,694	6.4%	7.5%
S&P BSE Smallcap TR	37,305	5.6%	5.8%
NSE Large & Midcap 250 TR	13,334	4.5%	3.9%
S&P BSE India Infrastructure Index TR	418	0.9%	1.4%
MSCI India USD	771	2.8%	0.0%
MSCI India INR	2,068	3.9%	0.0%
INR - USD	82.7	1.1%	0.0%
Crude Oil	73	-8.6%	-15.4%



Global Market Update

Major equity indices globally declined in May with the MSCI World index down 1.2% as the MSCI Europe declined 6.5%. The US market (S&P 500) was flattish at 0.2%. MSCI EM was down 1.9% driven by an 8.7% decline in China. Crude oil prices declined sharply by 8.6% this month.

International Indices (in USD)	Last Close	1 Month (Change)	CYTD 23 (Change)
MSCI World	2,801	-1.2%	7.6%
Dow Jones	32,908	-3.5%	-0.7%
S&P 500	4,180	0.2%	8.9%
MSCI EM	959	-1.9%	0.2%
MSCI Europe	1,843	-6.5%	6.4%
MSCI UK	1,101	-7.0%	2.4%
MSCI Japan	3,371	1.8%	7.4%
MSCI China	58	-8.7%	-9.4%
MSCI Brazil	1,427	0.4%	-2.1%

- Despite a challenging macro backdrop, the 4QFY23 earnings season signed-off a decent quarter, with Nifty companies delivering an in-line performance compared to the expectation. Aggregate Nifty Sales / EBITDA / PAT were up 13%/12%/13% YoY, broadly in-line with expectation; however, the performance was lopsided with major contribution coming from Bank, Autos and Oil & Gas. Metals, Cement, Healthcare and Retail dragged earnings. As a result, earnings expectations for FY24 / 25 remained broadly unchanged post results.
- GDP growth at 6.1% in Q4FY23 surprised on the positive side. Overall, GDP growth in FY23 came in better than expected at 7.2%.
- FIIs turned net buyers ($4.4 bn) in CY23 as they net bought $5 bn in May while DIIs were net sellers to the extent of $0.4 bn. Domestic mutual funds saw an equity inflow of $0.3 bn while insurance funds net sold $0.7 bn during the month.

- CPI inflation eased sharply to 4.7% (YoY) in April down from 5.7% (YoY) in March. Core CPI inflation eased to 5.15% YoY in April, a 3-year low. The Index of Industrial production growth (IIP) moderated to 1.2% in March vs. 5.6% in February.
- INR depreciated over the month (down 1.1% MoM) and ended the month at 82.73/USD in May. India's FX reserves came in at $593 bn (as of May-19), increasing by $2.5 bn in the last two weeks.
- Other key developments include – Gross GST revenue collection in the month of May 2023 stood at Rs 1.57 tn, up 12% (YoY). On the political front, the Congress party clinched the Karnataka state in a resounding victory over the incumbent BJP-led government.

Valuations

Nifty FY24/25 consensus earnings have seen a modest upgrade of 1% over the last 1 month. As a result, Nifty continues to trade on 19.6x FY24 PE. On a 10-year basis, Nifty is still trading 5% 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, the 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 the risk of a recession in the next 12 months. For India, the 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 the likelihood of further interest rate 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.

HSBC Mutual Fund

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 May 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