

Why equity?

A far-off investment goal can ride out market lows



HSBC
Asset Management



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Why make equities a part of your investment portfolio?



Let's look at a conversation between Rahul and Nakul.



Rahul and Nakul are old friends meeting after a long time. They discuss the equity market movement in 2021 and their plans to invest for their kids' higher education.

Hi Nakul, did you observe the roller-coaster ride in equities in 2021, especially in the second half of the year?

Yeah, it was a pretty volatile. But, despite the resurgence of the Covid-19 pandemic and lockdown, the market remained positive overall.

Traditional fixed-income instruments offer the safety of capital and fixed returns.

Yes, I agree on the safety aspect. But fixed-income instruments may not be able to beat inflation in education costs.

I had thought of investing in equities for my kid's higher education, but this volatility has made me rethink. I would rather invest in traditional fixed-income instruments.

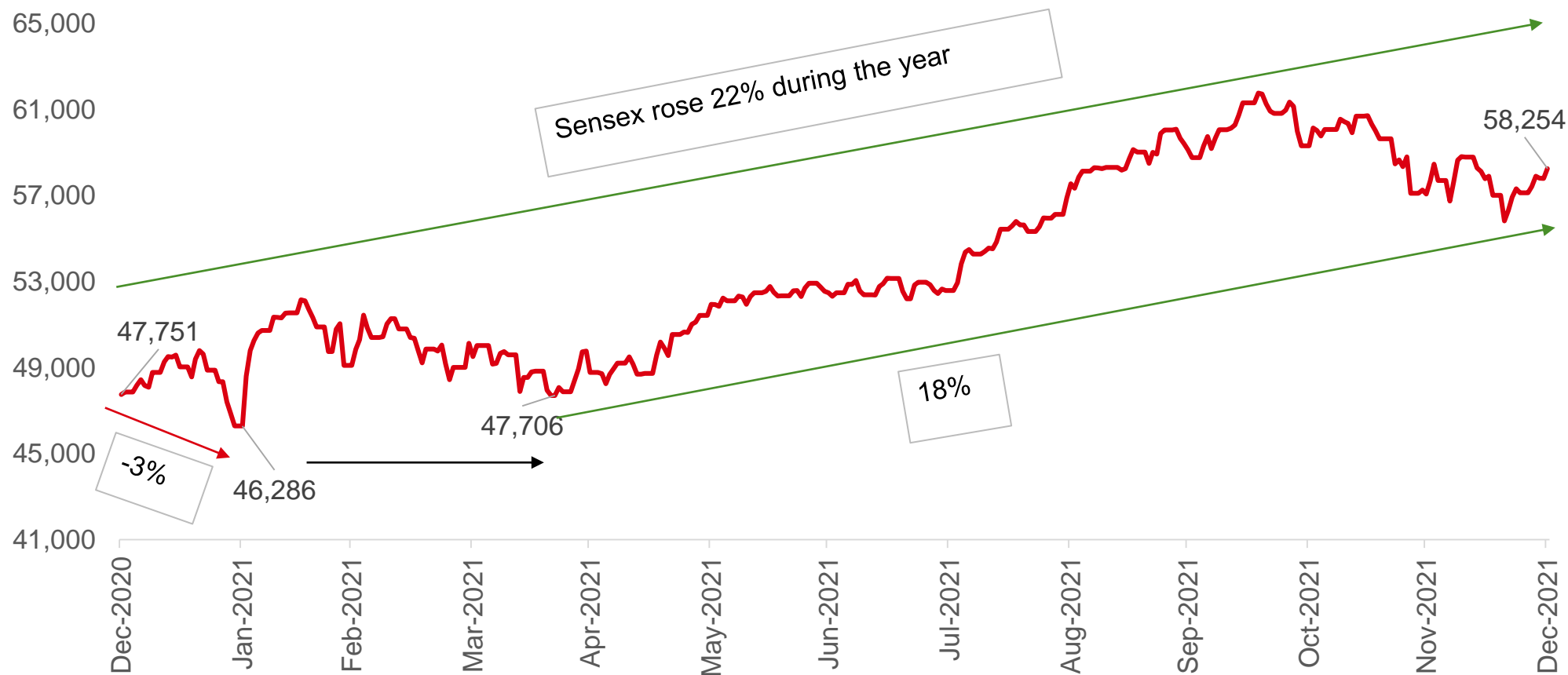
Volatility is a part of the equity market in the short term, but it pans out in the long term. Anyway, our kids' higher education is at least 15 years from now.

Hmm. But I don't have much expertise in equity investments.

Have you thought of investing in equities through mutual funds? You can not only reduce your investment amount, but also benefit from the asset class over a long-term investment horizon.

Systematic investments in equities provide optimum results for investors over the long term

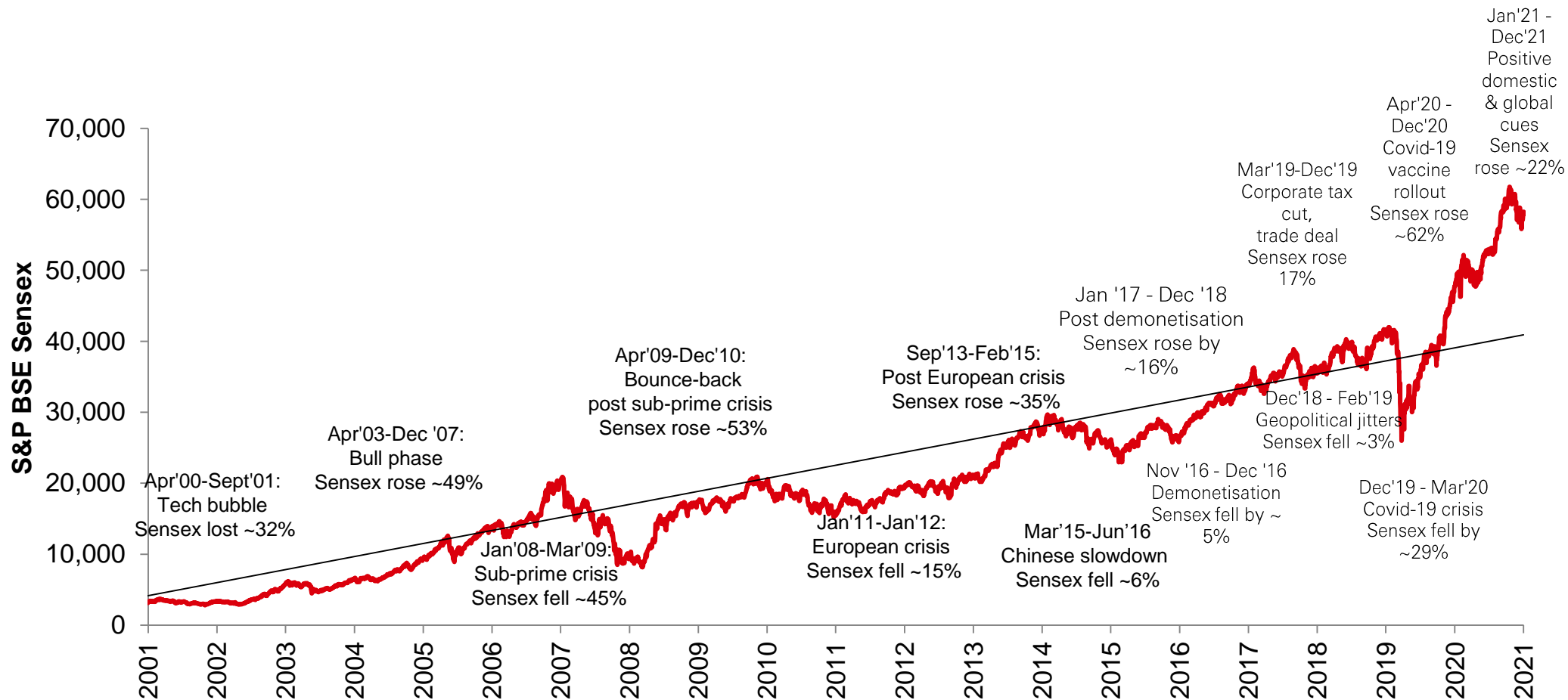
After volatility in the initial part of 2021, Sensex set record highs



The second wave of the pandemic dragged down equities in January 2021, moving them sideways till April 2021. The S&P BSE Sensex fell 3% from the end of December 2020 till January 2021; however, it recovered 18% April onwards to return 22% for the year.

Equities tend to head up, however the ride may not be smooth

Highs interspersed with lows



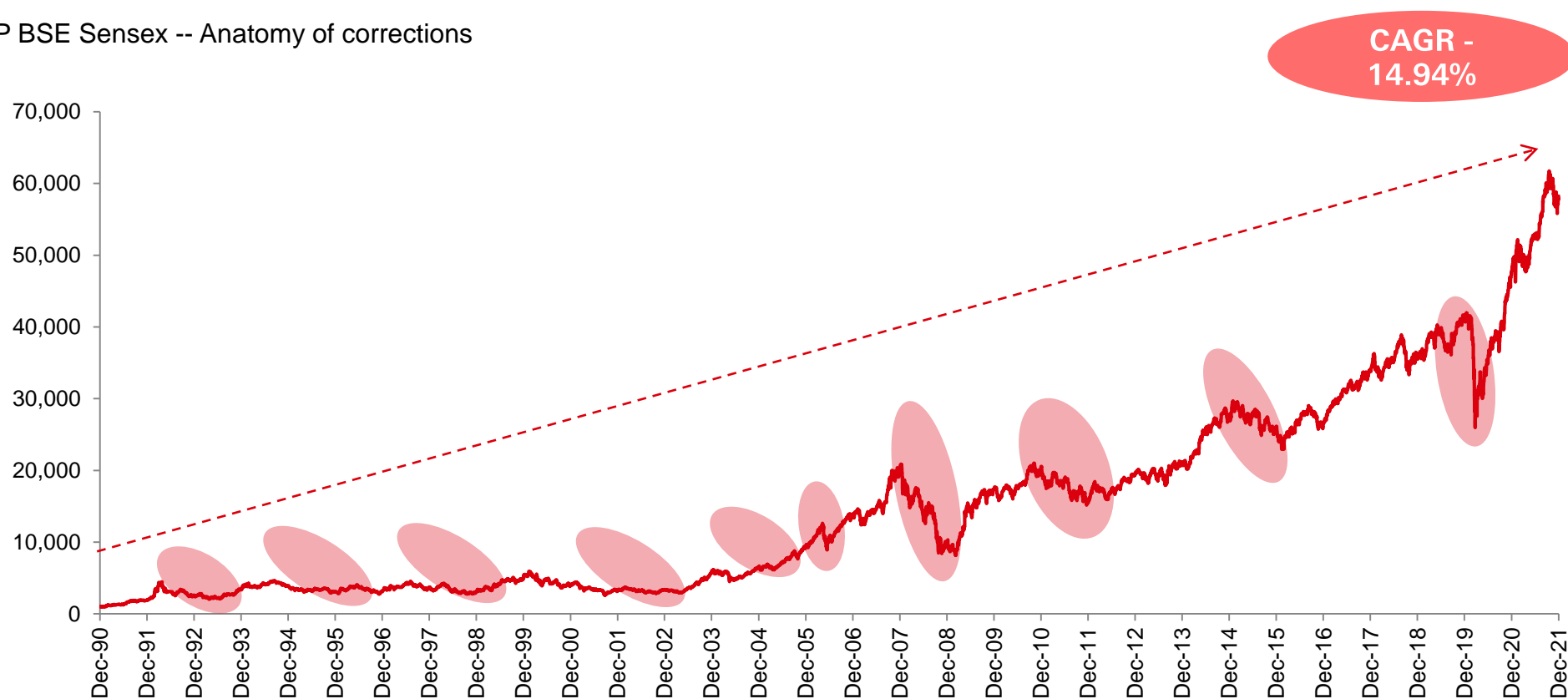
Source: BSE, CRISIL Research

Data as of December 2021

Returns for period less than one year are absolute; otherwise, annualised , Past performance may or may not sustain, past performance does not guarantee the future performance

Sensex in past 31 years, grown at 14.94% CAGR

S&P BSE Sensex -- Anatomy of corrections



Note: Highlighted circles represent correction in the market

Short-term volatility is an inherent part of equity investment

Source: BSE,

Note: Past performance may or may not sustain, past performance does not guarantee future performance

Short-term volatility is an intrinsic part of equity investments

Long-term investment pays off

BSE Sensex	3-year rolling returns	5-year rolling returns	7-year rolling returns	10-year rolling returns	15-year rolling returns
Average rolling period returns	16.31%	15.96%	15.57%	15.44%	14.86%
Total time periods (monthly rolling)	475	442	427	391	331
Total number of positive returns*	424	409	402	388	331
Total number of negative returns^	51	33	25	3	0
Positive investment periods	89%	93%	94%	99%	100%

The longer you stay invested, lower is the possibility of negative returns

In the long term, the probability of incurring losses is lower in equity investments

Notes:

Monthly rolling returns for respective holding periods since 1979. For instance, in case of 15-year monthly rolling returns, there will be 331 return periods. The first return period will be June 1979-1994 and the last return period will be December 2005-2021.

* Positive returns – The number of investment periods during which returns have been positive. For example, where investment returns have been computed for a 15-year rolling period, 331 months offered positive returns (profits), the number of positive returns period = 331

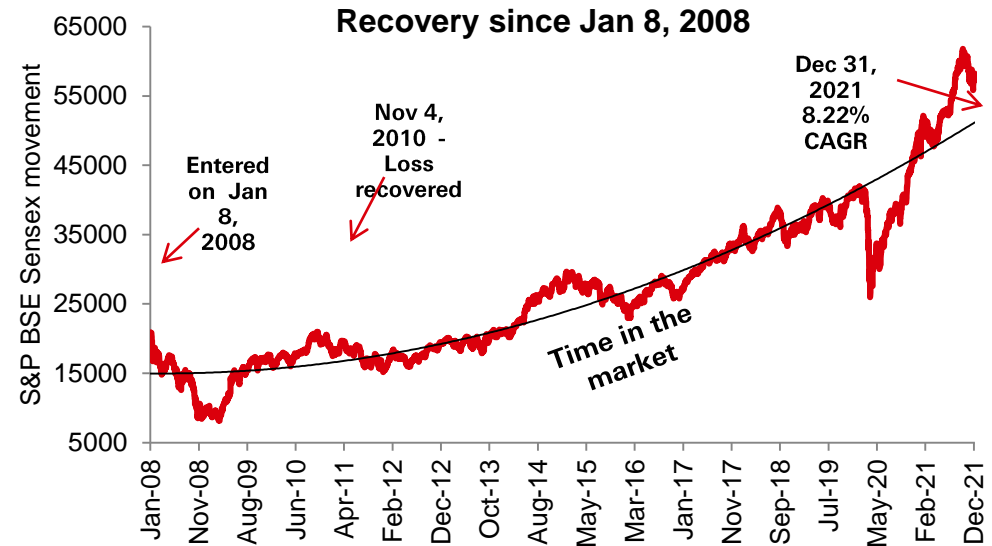
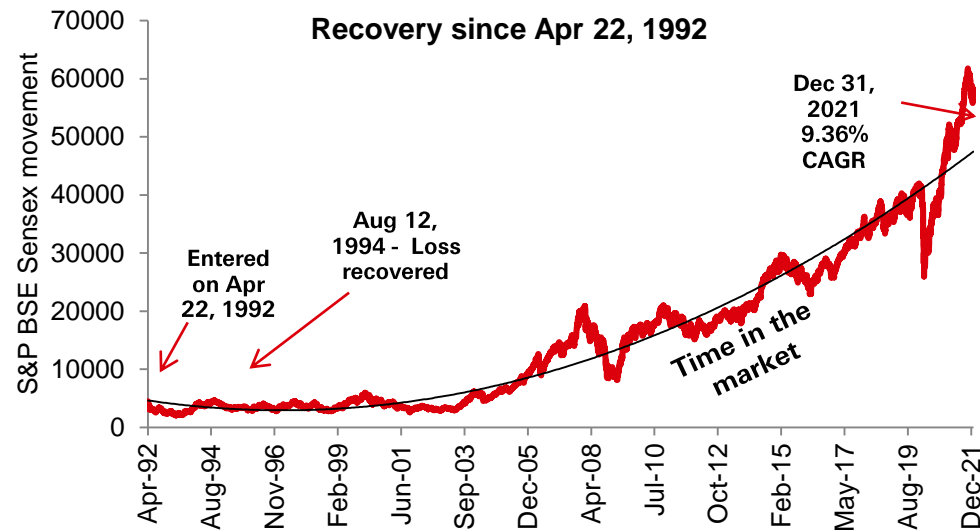
^ Negative returns – Number of investment periods during which returns have been negative. For example, where investment returns have been computed for a 5-year rolling period, 33 months offered negative returns (losses), the number of negative returns = 33

Source: BSE, CRISIL Research, Data as on December 31, 2021

Past performance may or may not sustain, past performance does not guarantee future performance

A far-off investment goal can ride out market lows

Historical trend shows that after falling, markets have recovered in the medium term

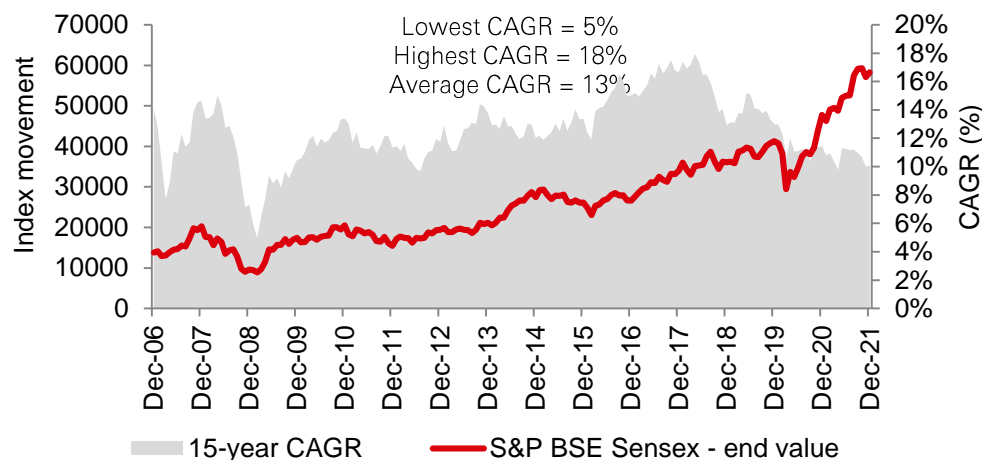


Equity losses are transitory – long-term outlook can earn better returns

How investors can make more by losing less

Consistent, predictable behaviour over longer period

S&P BSE Sensex 15-year monthly rolling returns

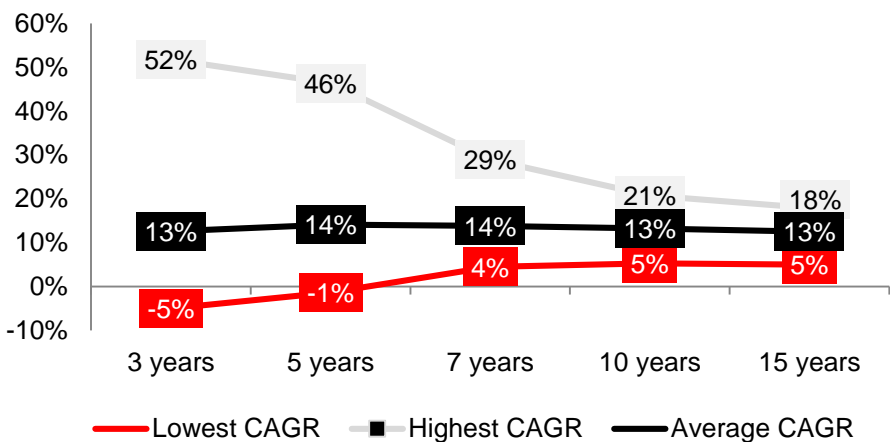


Period: Dec 2006–2021; Returns frequency: Monthly rolling

Difference between high and low returns reduces with increase in holding period

100% positive 15-year returns

S&P BSE Sensex monthly rolling returns by holding period



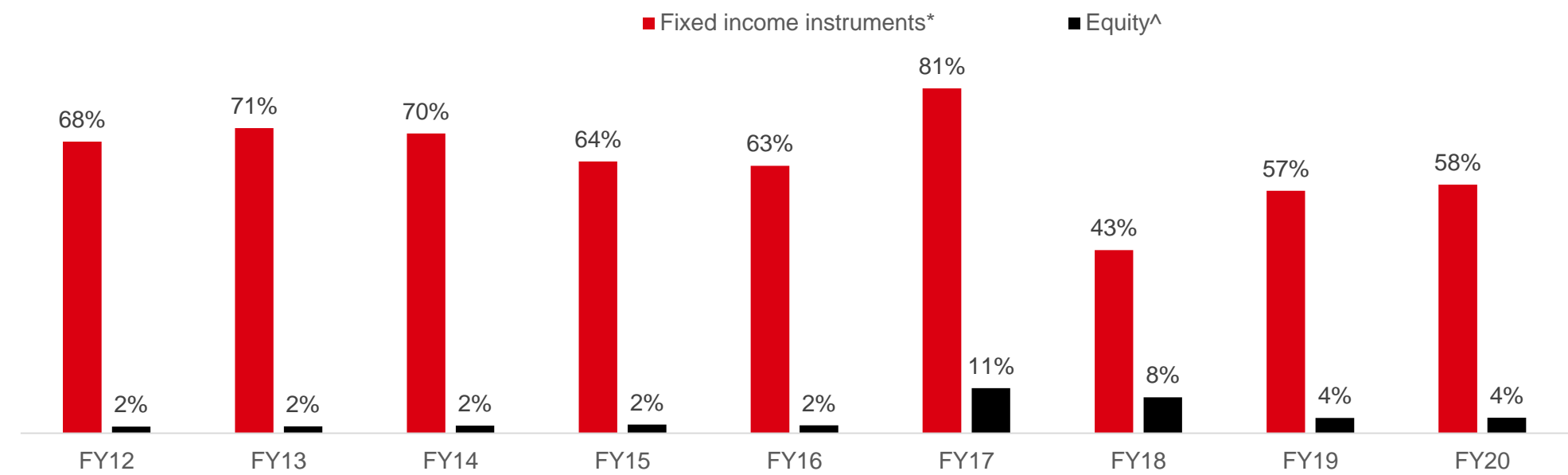
Period: Dec 2006–2021; Returns frequency: Monthly rolling

Source: BSE, CRISIL Research, Data as of December 2021
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Fixed-income instruments are the traditional investment choice

Equity plays a marginal role

Share of Indian household gross financial savings (%)



Indian investments remain skewed towards debt

Source: RBI

*Fixed-income instruments include deposits and investments in provident and pension funds

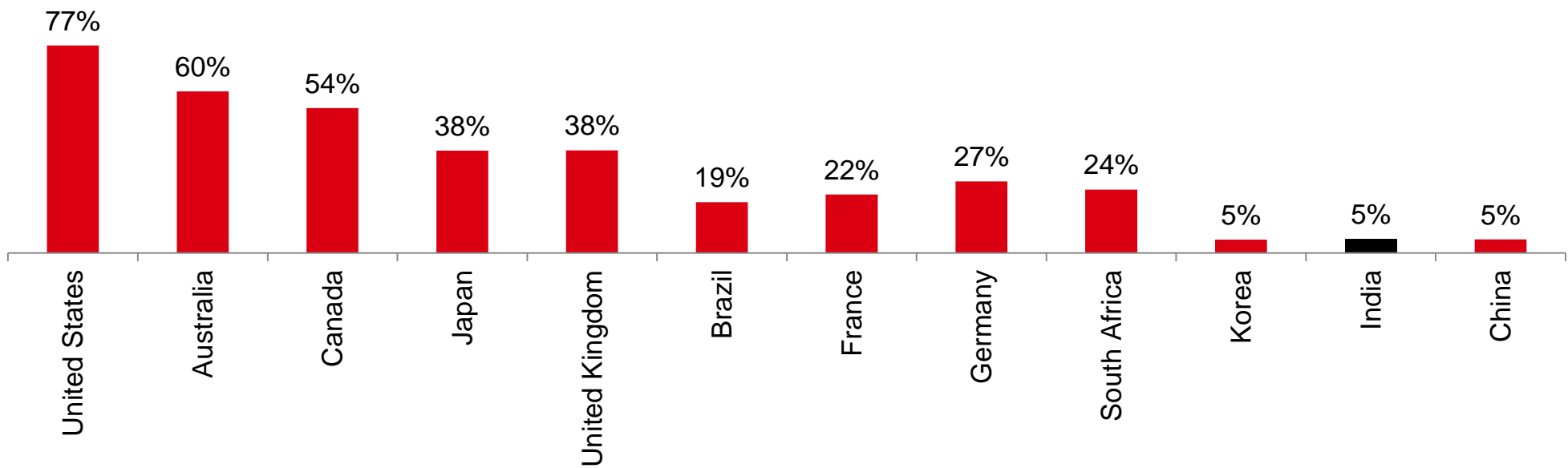
^Equity includes investments in shares and debentures

But equity is the most preferred investment avenue globally

Developed countries have higher affinity to equity

◆ Emerging economies are significantly under-exposed to the equity asset class compared with developed economies

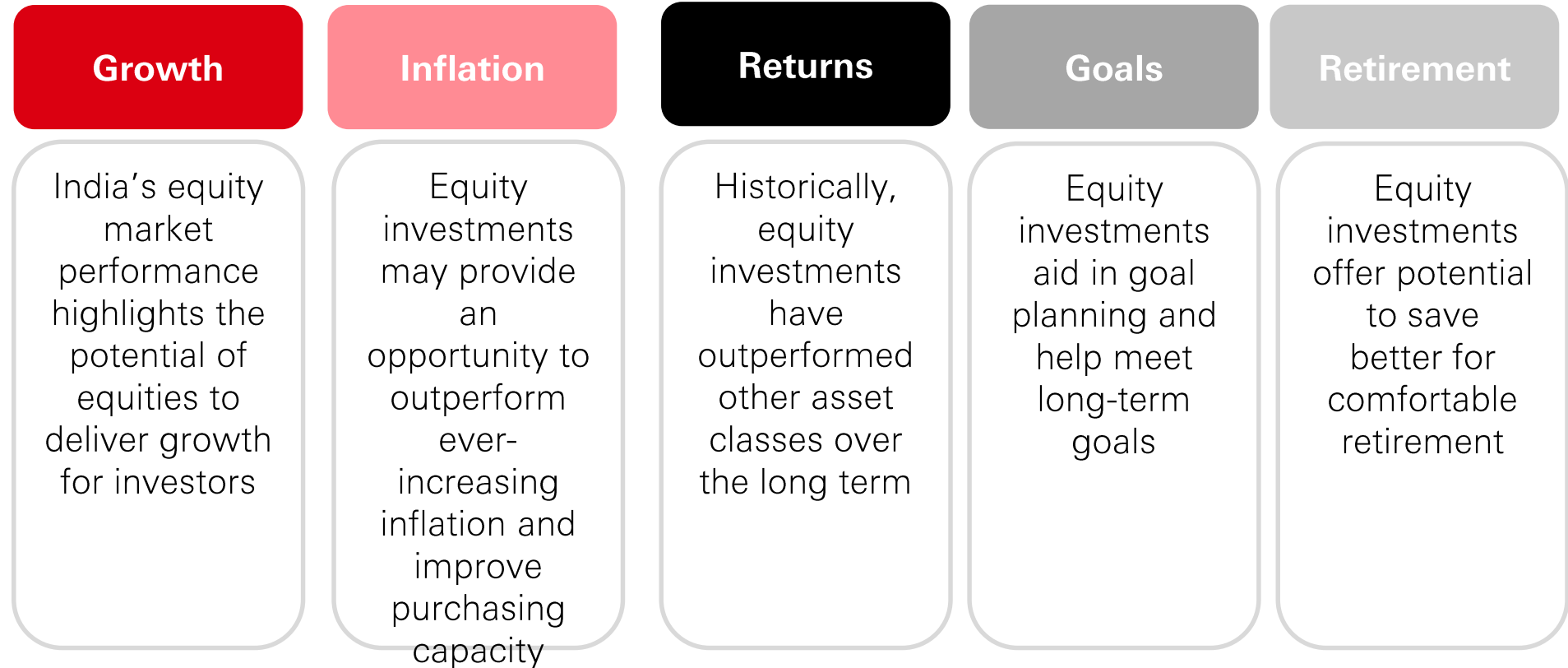
Equity Exposure as a % of GDP



India has one of the lowest equity exposures at only 5%

Source: CRISIL, IMF, IIFA, GDP data as of December 2021; assets data as of Q3, 2021 as per latest available
Past performance may or may not sustain, past performance does not guarantee the future performance.

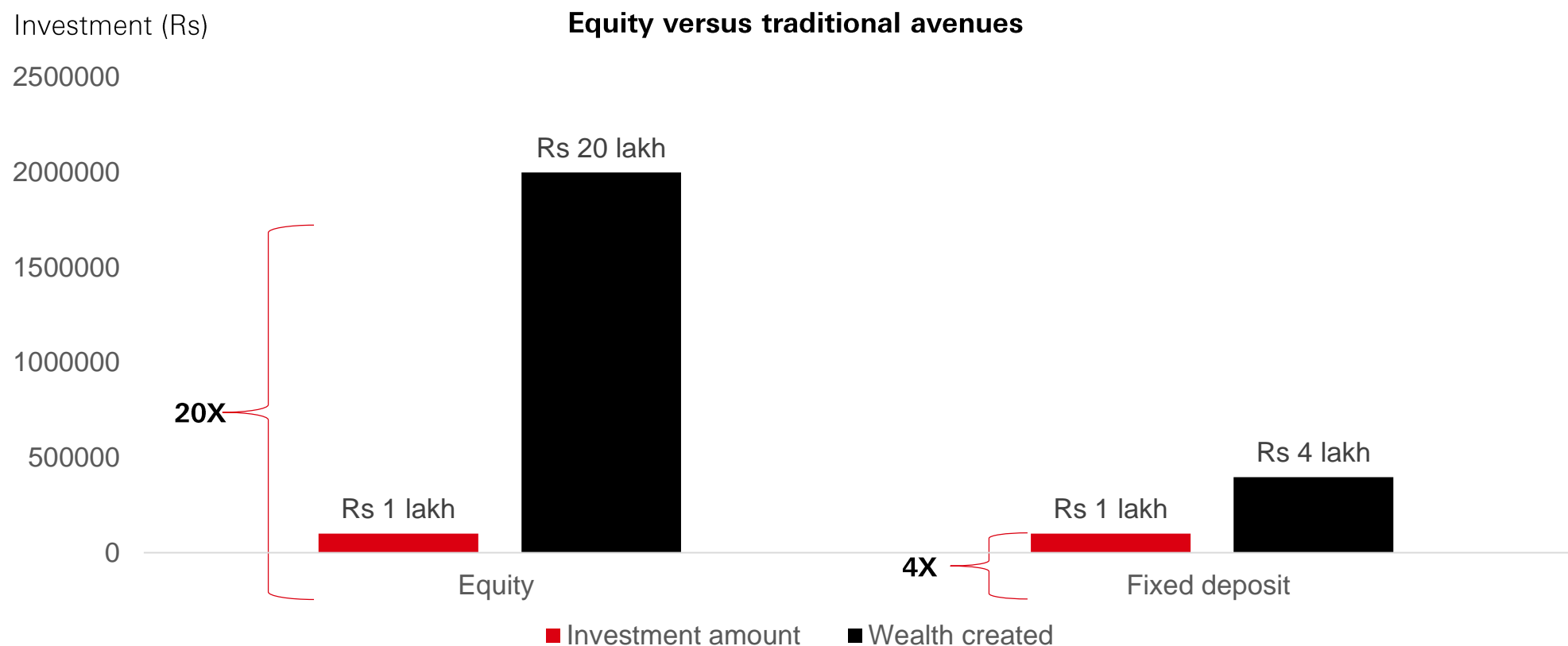
Five reasons why you should invest in equities



Equity investment is relatively less explored in India compared with other options

Past performance may or may not sustain, past performance does not guarantee the future performance

Invest in equity to create wealth in the long run



Rs 1 lakh invested in the S&P BSE Sensex grew to ~Rs 20 lakh versus a mere ~Rs 4 lakh in a fixed deposit[^] in 20 years

Source: BSE, CRISIL, [^]Fixed deposit is represented by 1-year FD index

*CAGR returns for S&P BSE Sensex and 1-year FD index for the period between December 31, 2002 and December 31, 2021 considered for analysis

Past performance may or may not sustain, past performance does not guarantee future performance

Equity well suited for India's young demography

Scope to increase equity allocation

- ◆ Young investors can have a higher equity exposure owing to higher risk appetite

India is likely to remain a young country in the future

Share of 15-49-year-olds in the country's population			
Country/ region	2020	2035	2050
Australia	47%	44%	43%
Brazil	54%	48%	41%
China	49%	44%	38%
India	54%	52%	47%
Japan	40%	35%	33%
Russian Federation	46%	44%	43%
South Africa	54%	52%	49%
UK	44%	43%	41%
US	46%	45%	42%

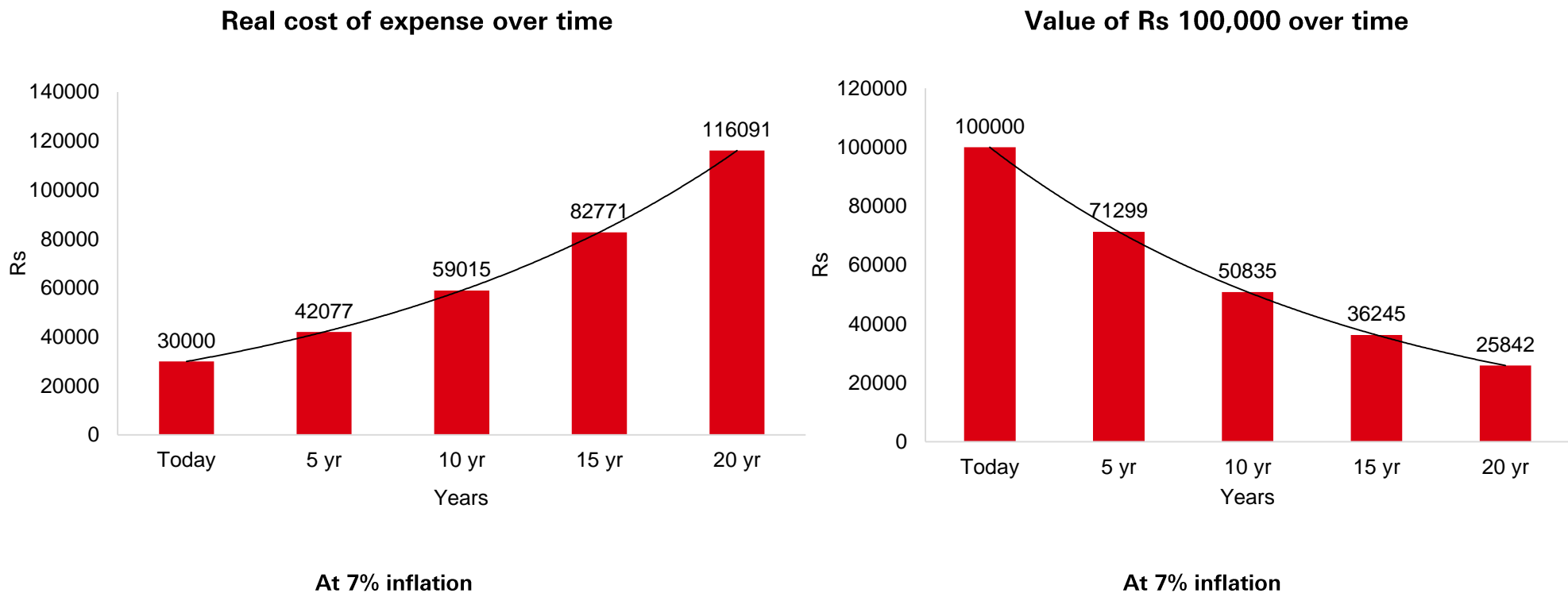
Young investors can invest more in equity to benefit from long-term compounding

Source: CRISIL, UNCTAD

Note: Past performance may or may not sustain, past performance does not guarantee future performance

Savings are not enough since inflation erodes the value of money

If our expenses are real, returns should also be real

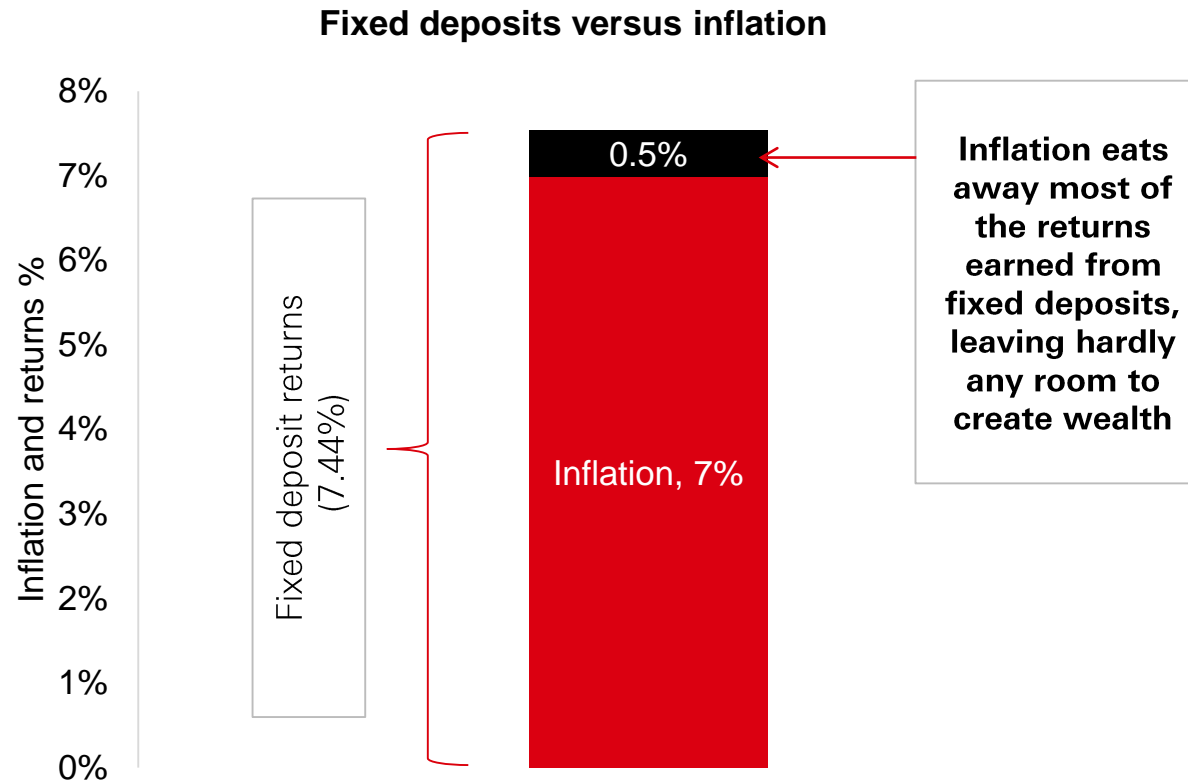


Inflation not only increases the cost of products, but also reduces the value of money

Source: Labour bureau.nic.in
Inflation represented by the average of monthly inflation of industrial workers declared from January 1993 to December 2021
Past performance may or may not sustain, past performance does not guarantee future performance

Traditional saving avenues do not offer enough cushion...

Inflation generally consumes investment capital



The difference between saving and investing is the ability to provide an affordability cushion by beating inflation consistently

Source: CRISIL Research, Labour bureau

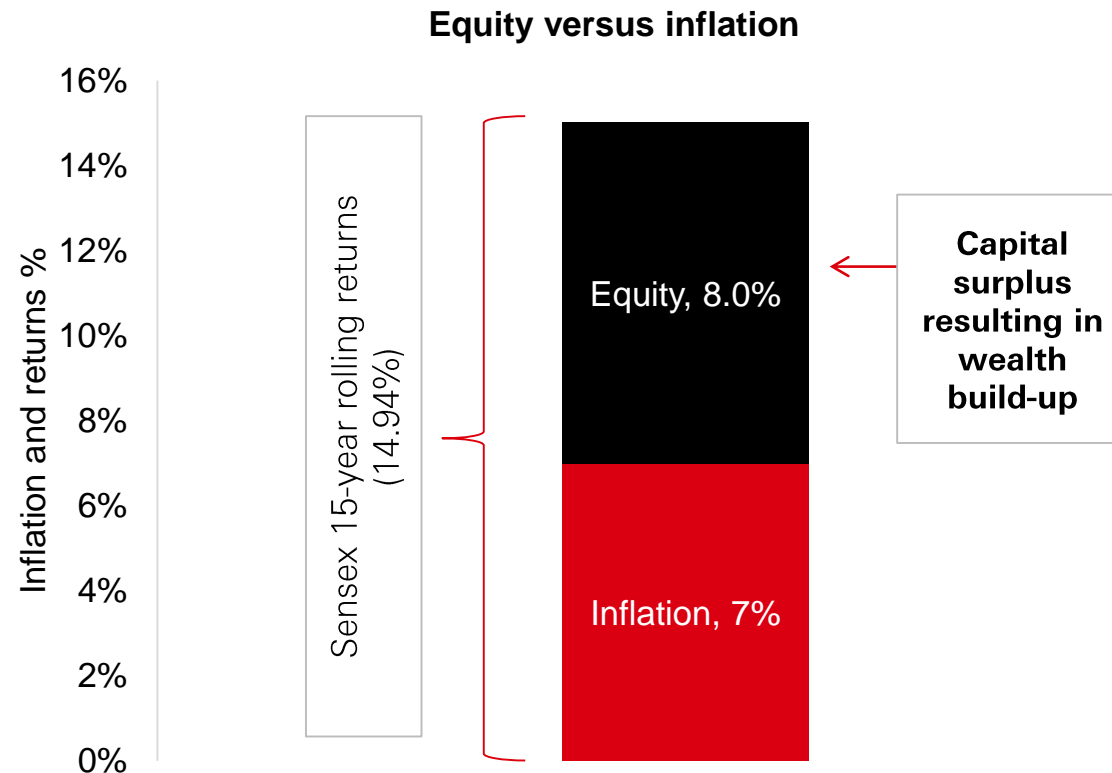
Fixed deposit rate represented by 1-year FD index's annualised returns since October 1999 till December 2021

Inflation represented by average of monthly inflation of industrial workers declared from January 1993 to December 2021

Past performance may or may not sustain, past performance does not guarantee future performance

... But equity does to combat the ever-increasing cost of living

The smartest way to create wealth



Regular equity investment helps tackle the rise in cost of living and plan for future goals

Source: BSE, Labour bureau

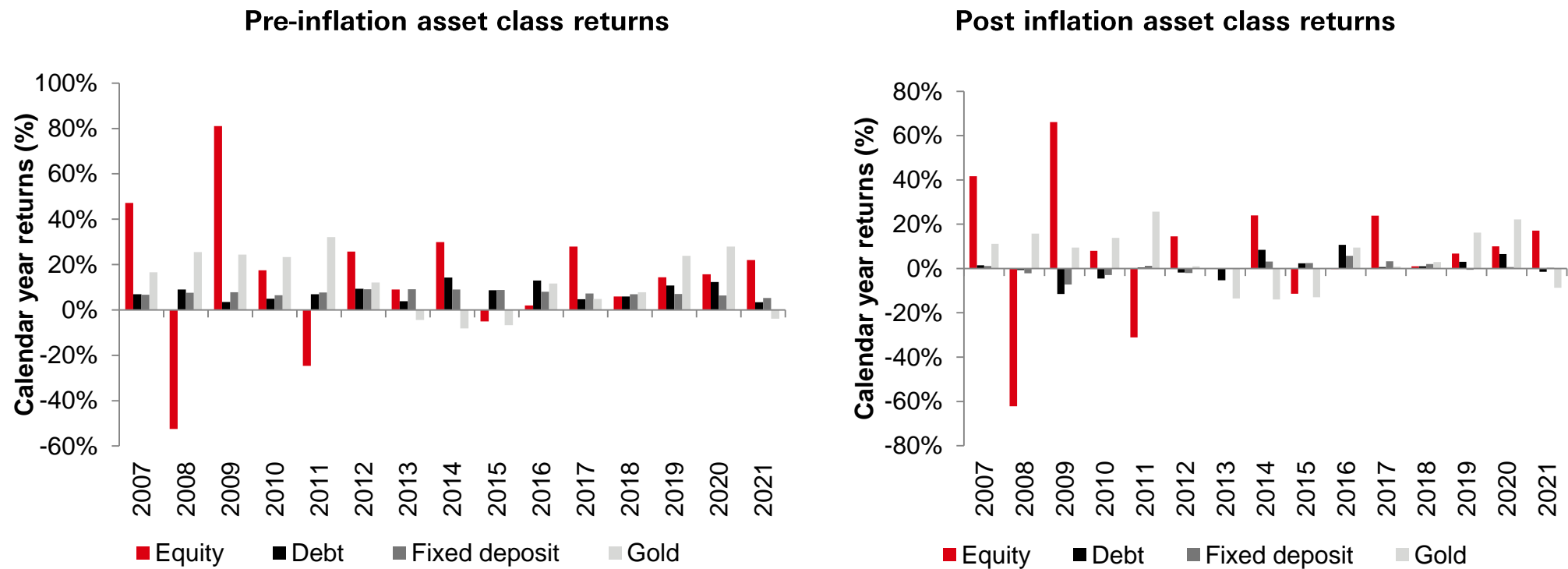
Equity returns represented by S&P BSE Sensex's average CAGR for 15-year holding period calculated on a daily rolling basis since 1979; data till December 2021

Inflation represented by average of monthly inflation of industrial workers declared from January 1993 to December 2021

Past performance may or may not sustain, past performance does not guarantee future performance

Calendar year returns show better performance by equity

Pre- and post-inflation returns

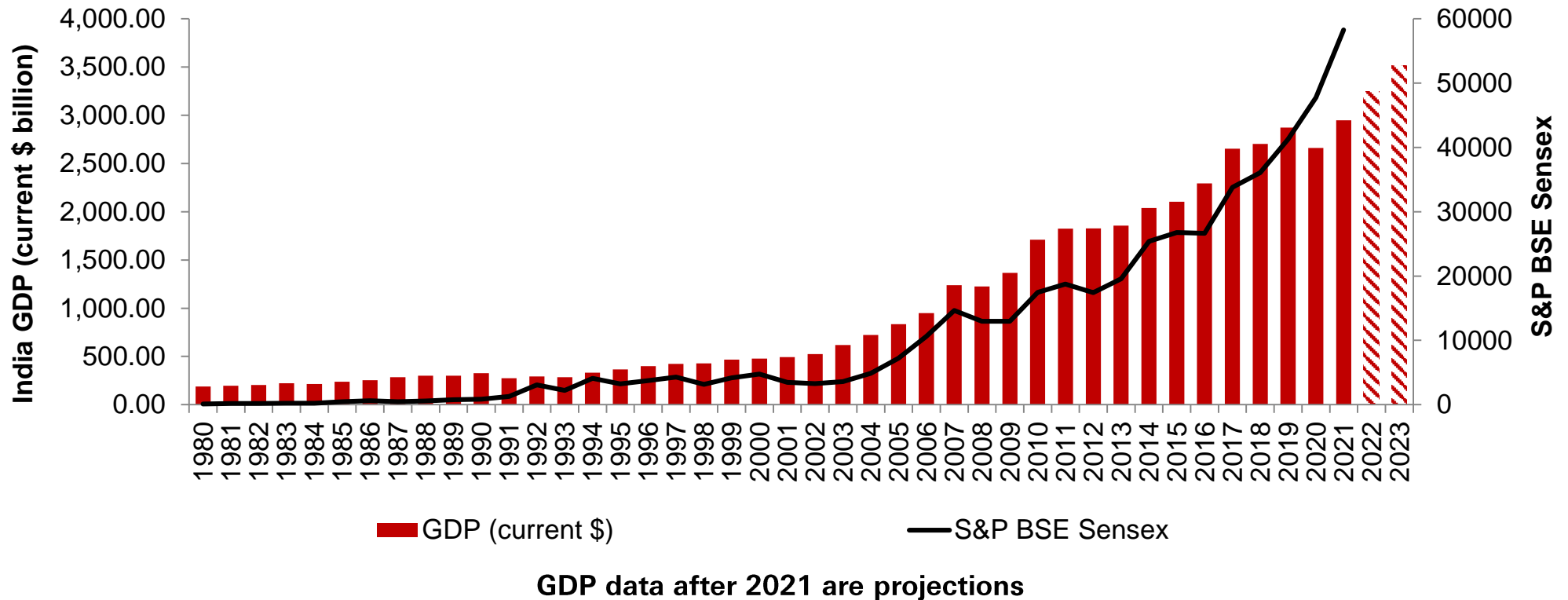


Equity outperformed other asset classes in most calendar years

Source: BSE, CRISIL, Labour bureau, Data as of December 2021
Year-on-year returns for all asset classes
Equity represented by S&P BSE Sensex, debt by CRISIL Composite Bond Index, fixed deposit rate represented by 1-year FD index, gold by Indian gold prices, and inflation by the annual CPI-Industrial worker. Past performance may or may not sustain, past performance does not guarantee future performance

Equity mirrors economic growth in the long term

India expected to remain on a long-term growth trajectory



Equity offers the opportunity for long-term wealth creation

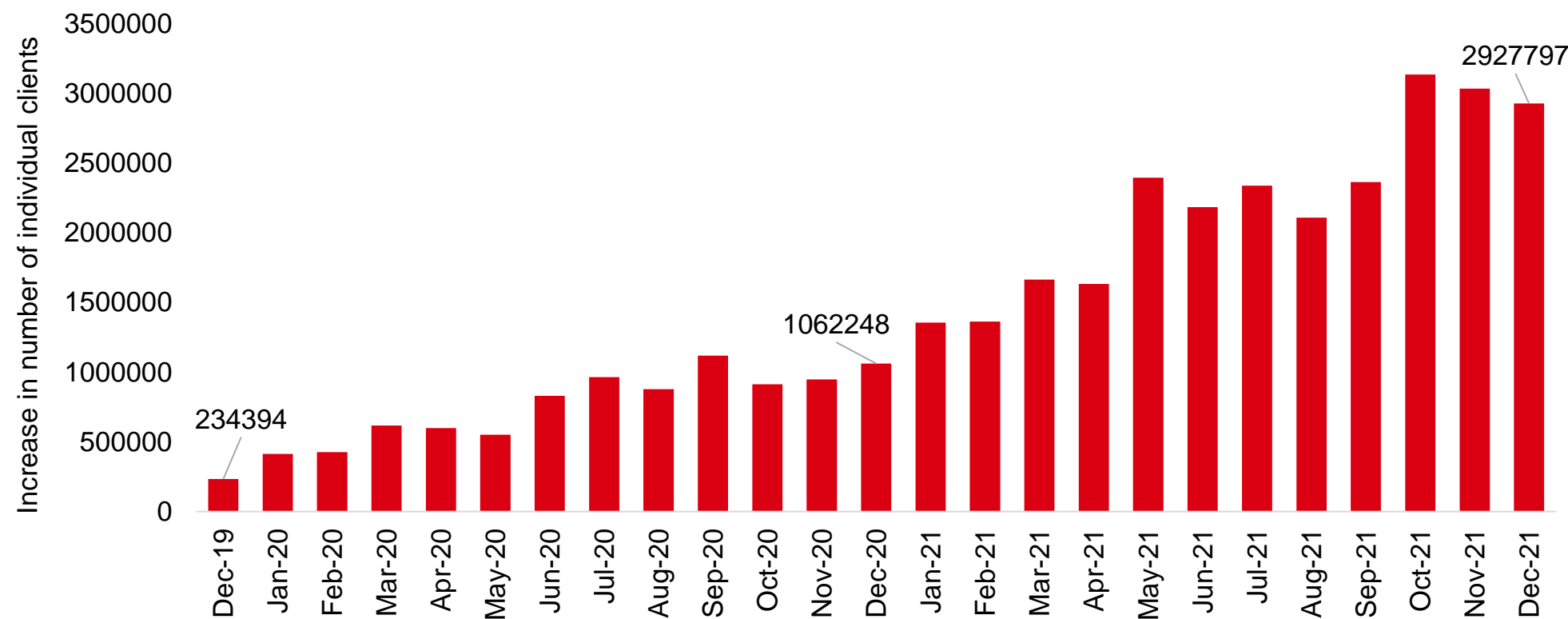
Source: BSE, IMF, GDP projection starts after year 2021 and is shown shaded in this graph; it is for illustration purposes only and is not guaranteed

The projection contained in this graph is for illustration purposes only and is not guaranteed

Past performance may or may not sustain, past performance does not guarantee future performance

Direct equity participation jumped in 2021

Surge in demat accounts as the equity market rallied to a record high

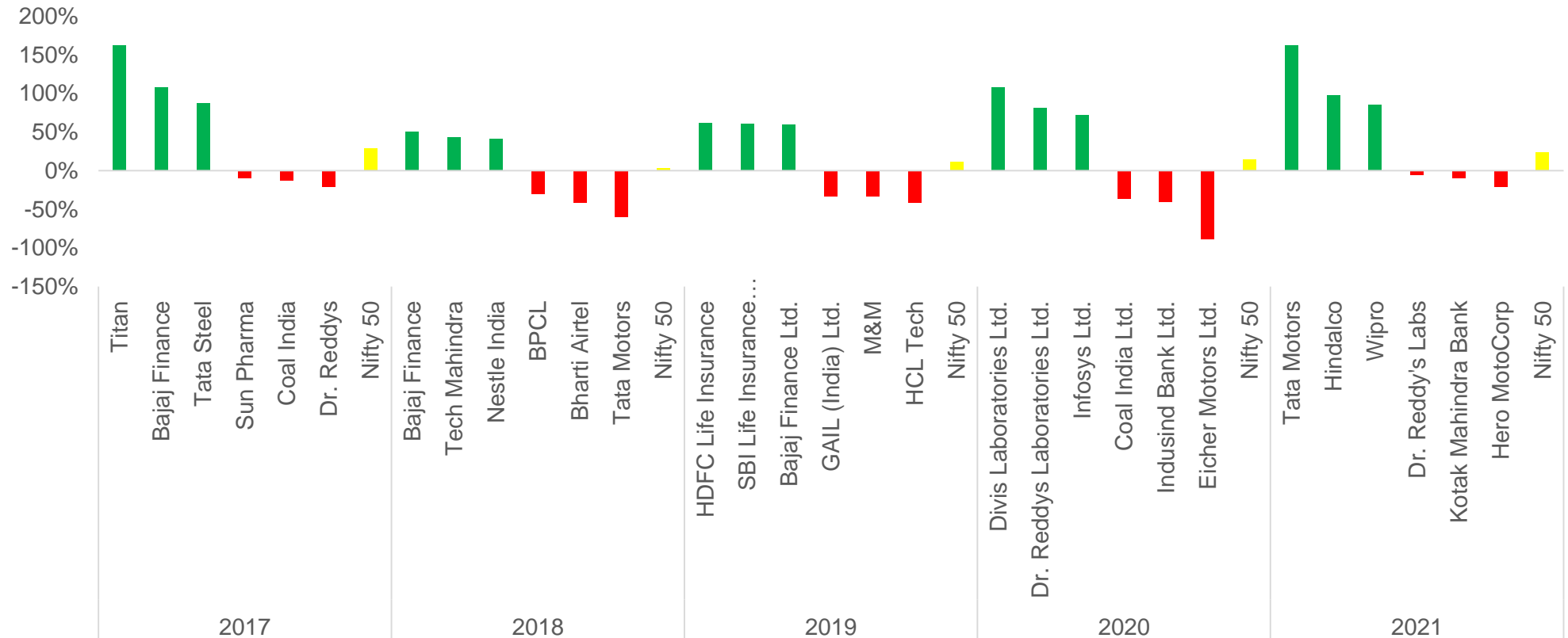


Despite the pandemic-triggered market volatility, the number of individual investors opening accounts for direct investments surged

Source: CDSL, Data as at December 2021

Direct equity investment calls for proficiency in selecting stocks

Variance in the returns of the top three and bottom three Nifty stocks versus the index



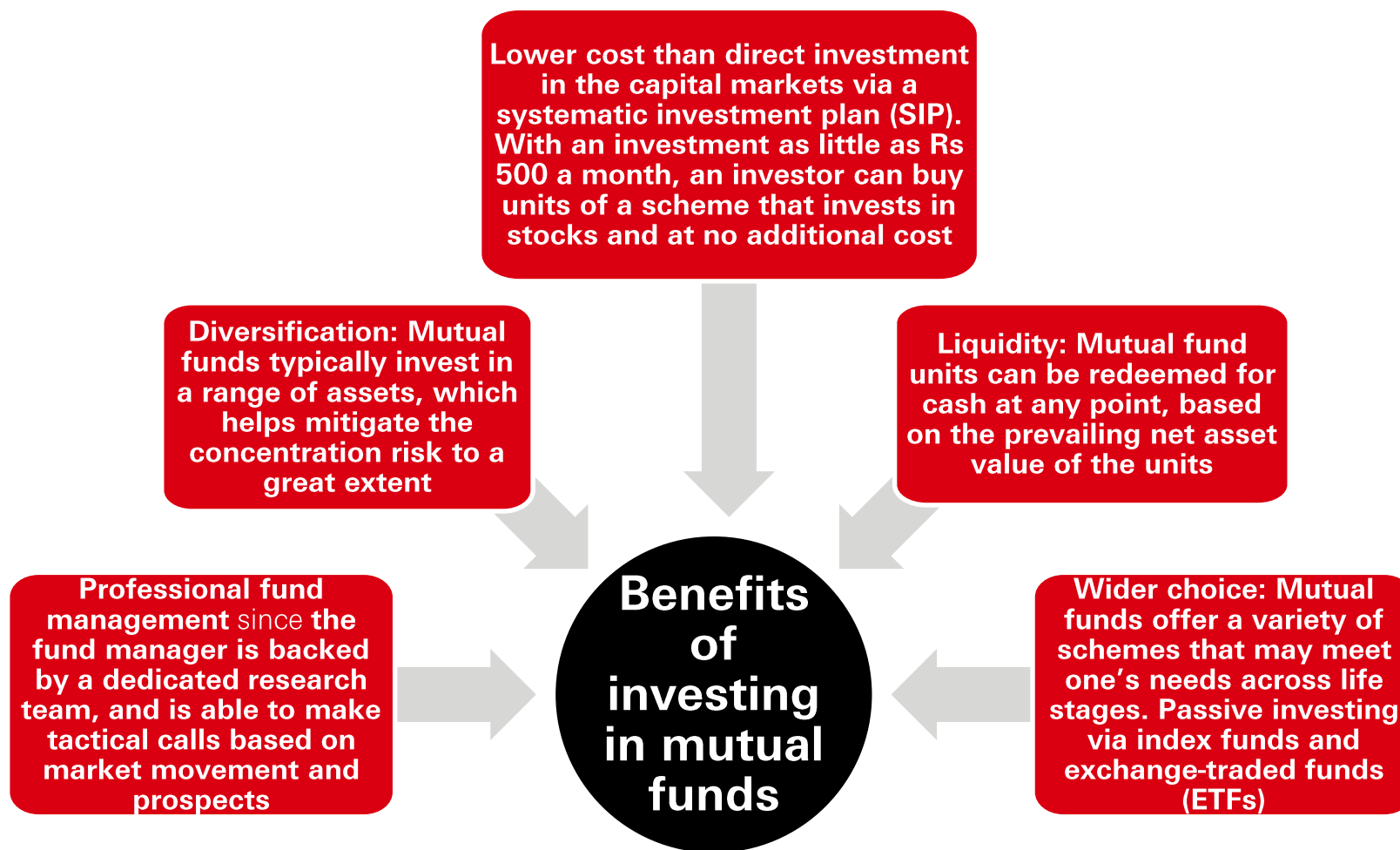
The domestic stock market has over 5,000 listed stocks, which makes selecting the right stock a herculean task

Source: NSE, data till 31 December 2021

Nifty 50 stock composition as of December 2021 used for performance analysis

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Equity mutual funds are an optimal way to invest in the asset class



Individual investors would be better off diversifying their investment through equity mutual funds to benefit from the capital markets in the long term

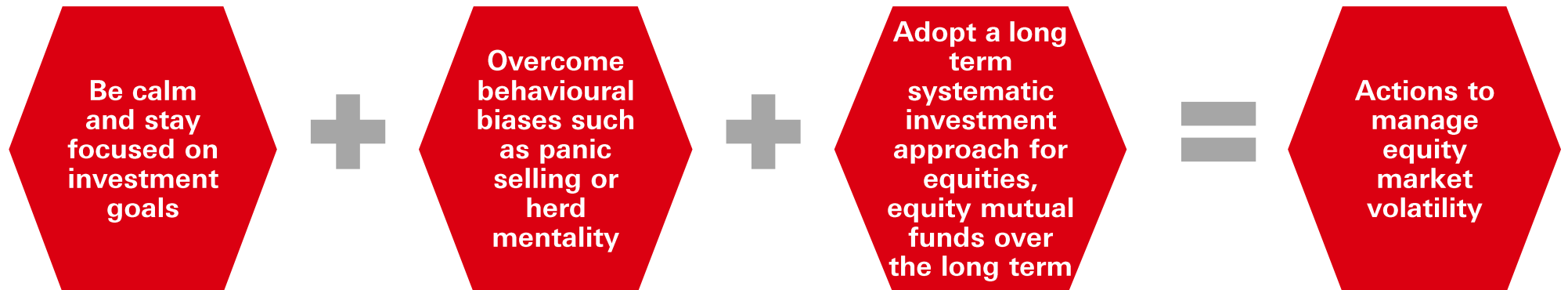
Equity funds provide an array of investment strategies and options

Raft of options available for both active and passive funds

Actively managed		Passively managed	
Market cap-based	Flexi-cap	Index funds/ ETFs	Broad market tracking funds
	Multi-cap		
	Large-cap		
	Large & mid-cap		Sectoral index tracking funds
	Mid-cap		
	Small-cap		
Strategy-based	Dividend yield fund		Global index tracking funds
	Value fund		
	Contra fund		
	Focussed fund		Smart beta index tracking funds
Thematic and tax saving	Sectoral/thematic fund		
	Equity linked saving scheme (ELSS)		

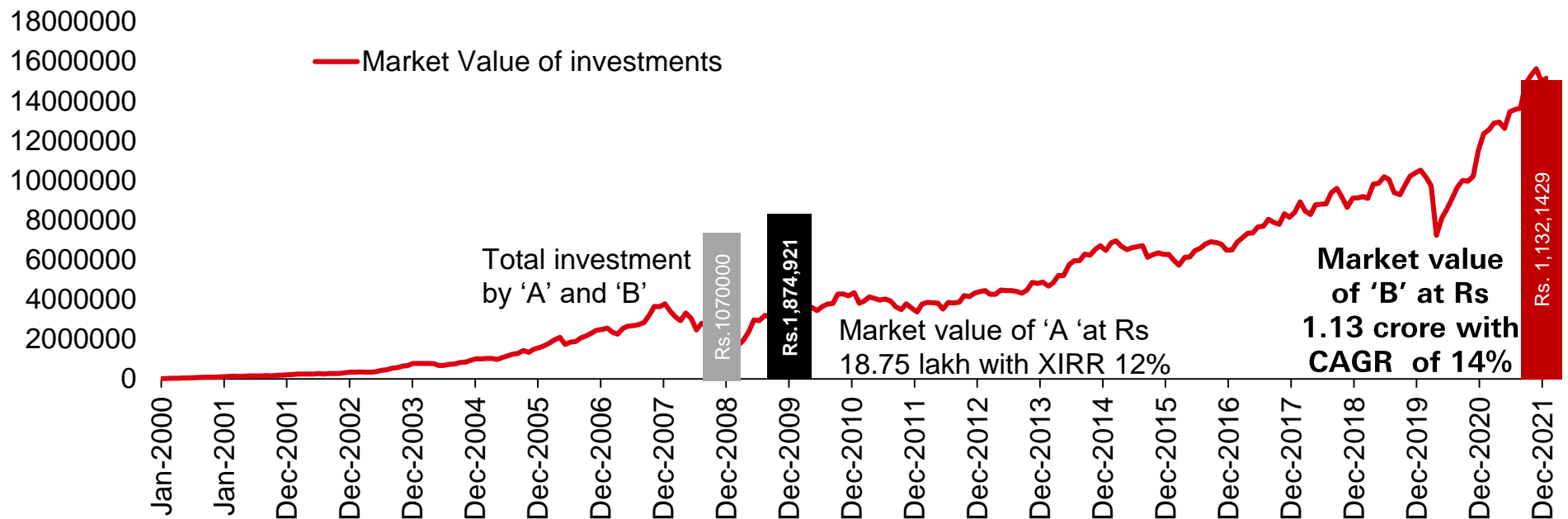
Equity MF investments offer a variety of options – active and passive – across market capitalisation, themes and strategies

Adopt systematic investment approach to tide over market volatility



Investors who redeem/stop investments lose out long-term opportunities

- ◆ A and B started their SIPs in January 2000, with both investing Rs 10,000 per month
- ◆ Everything was fine with their investments until the Global Financial Crisis (GFC) in 2008
- ◆ While A redeemed his investments, B stopped his investments, but did not withdraw his money
- ◆ A received ~Rs 18.75 lakh from his cumulative investment at an XIRR of 12.06% at the end of 2008. B, who had not withdrawn his investments, and did not invest any more after the GFC, had a corpus of ~Rs 1.13 crore as of December 2021 and an XIRR of 14%



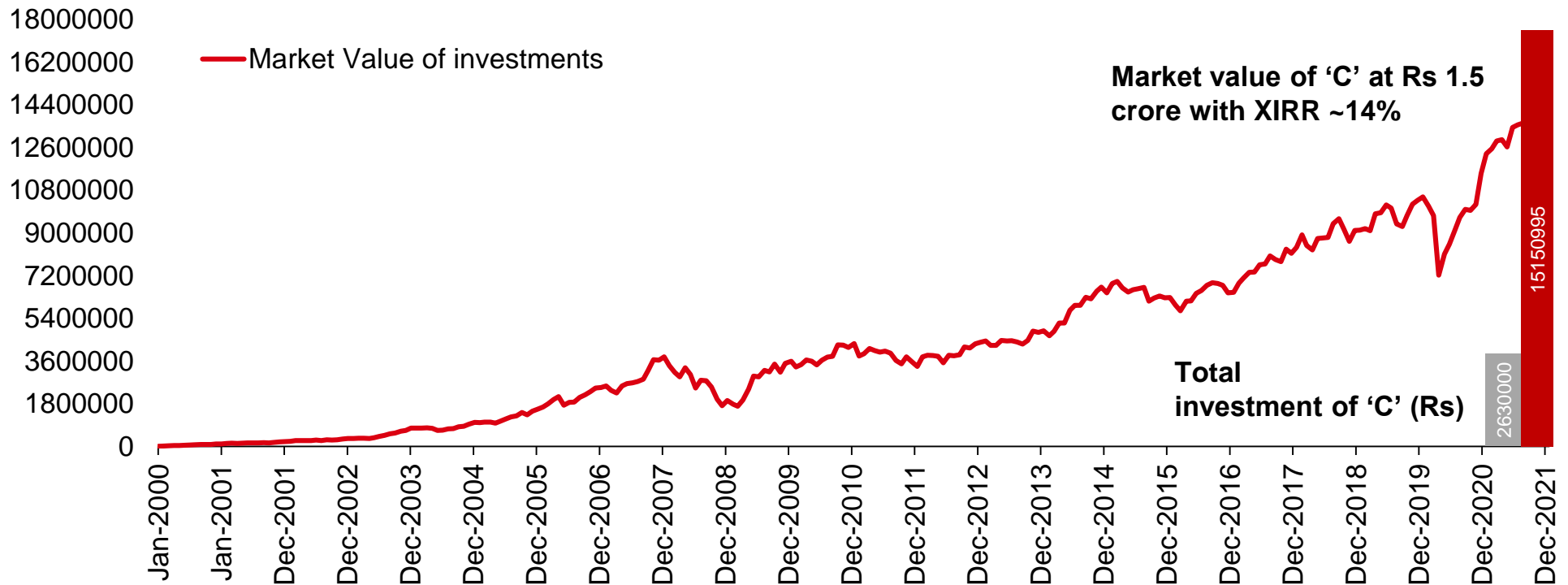
Source: BSE, CRISIL Research, Data as on December 31, 2021

Monthly SIP of Rs10,000 in S&P BSE Sensex from January 2000 on the first day of the month

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Investors who continue their SIPs gain from long-term opportunities

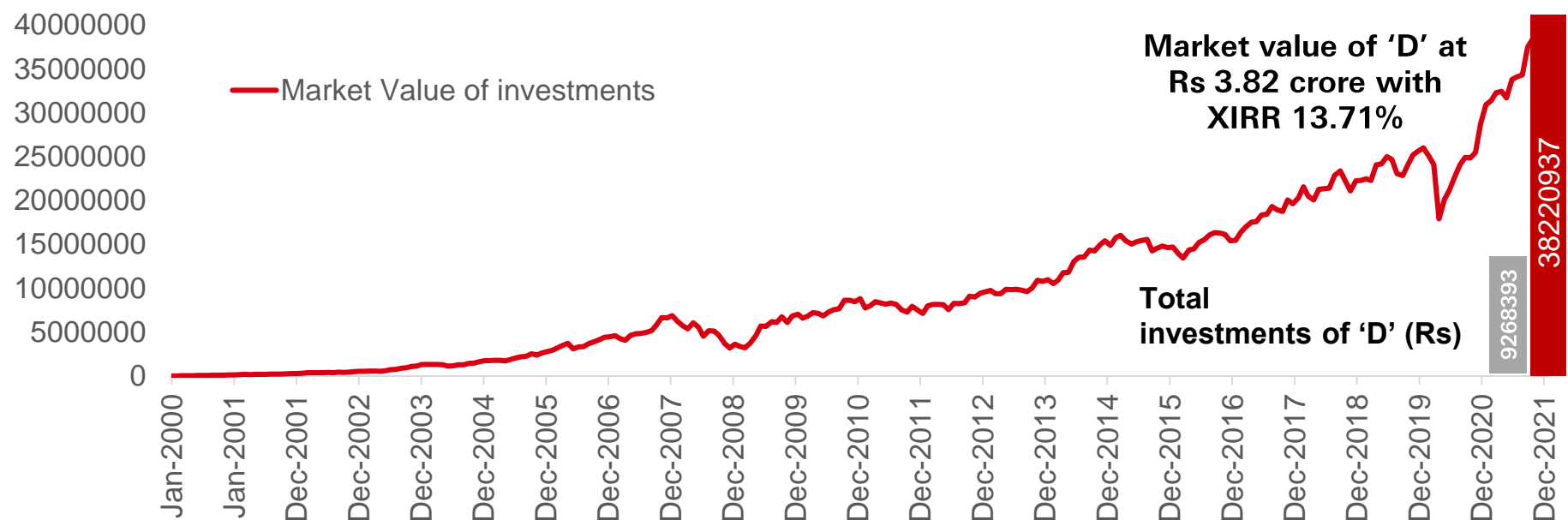
- ◆ C started investing Rs 10,000 per month in January 2000 and persisted with his investment over the years. His total investment of Rs 26.3 lakh had a market value of Rs 1.5 crore in December 2021 with an XIRR of over 14%



Source: BSE, CRISIL Research, Data as of December 2021
Monthly SIP of Rs 10,000 in S&P BSE Sensex from January 2000 on the first day of the month
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Investors derive higher benefits with incremental SIPs in market downturns

- ◆ D had a similar starting point in his investment journey by investing Rs 10,000 per month since January 2000
- ◆ However, he increased his monthly investment value by 10% every time the market fell 10% in a single month
- ◆ This increased SIP investment is retained till the next similar fall and the process continues
- ◆ The resultant impact on his investment of ~Rs 93 lakh is visible – his investment compounded to Rs 3.82 crore as of December 2021 at an XIRR of ~13.71%



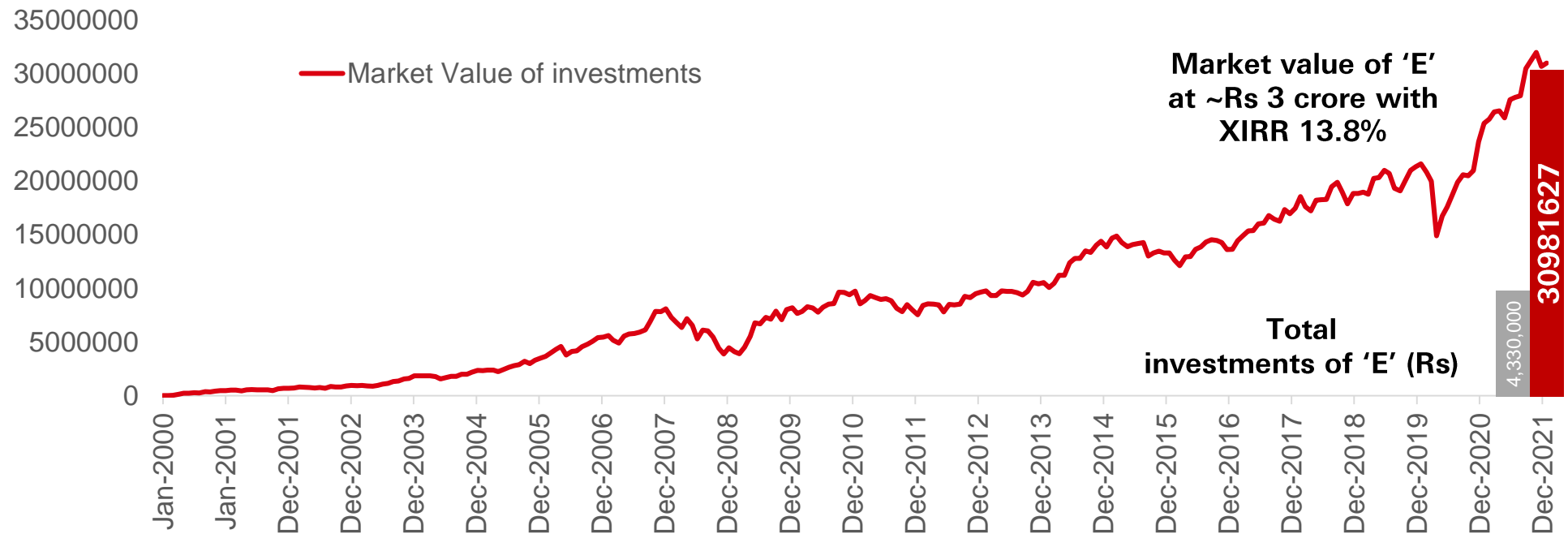
Source: BSE, CRISIL Research, Data as on December 31, 2021

Monthly SIP of Rs 10,000 in S&P BSE Sensex from January 2000 on the first day of the month

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Investors gain from lump sum investment additions in market downturns

- ◆ E made lump sum investments during market downturns to derive higher benefits
- ◆ He invested Rs 1 lakh each month after markets fell 10% in a single month, in addition to his regular SIP amount of Rs 10,000 (total of Rs 1.1 lakh)
- ◆ As a result, his investment of Rs 43 lakh grew to ~Rs 3 crore in December 2021 at an XIRR of 13.8%



Source: BSE, CRISIL Research, Data as on December 31, 2021

Monthly SIP of Rs 10,000 in S&P BSE Sensex from January 2000 on the first day of the month

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Look beyond market downturns, stay invested in SIPs for long-term gains

- ◆ Even if SIPs remain in the red, staying invested for the long term as the market recovers gradually will increase the corpus value and overall SIP returns
- ◆ We undertook a scenario analysis to understand the implications of various types of mutual fund investor behaviour during market volatility, and the associated benefits
- ◆ Investors A, B C, D and E began investing Rs 10,000 in an equity SIP in S&P BSE Sensex from January 2000. However, their approach to market volatility differed:
 - A redeemed his investment after the GFC
 - B stopped SIPs due to the volatility seen during the GFC, but retained his investments
 - C continued his SIP at the same pace
 - D increased his monthly SIP investment by 10% after every monthly fall of more than 10%
 - E added a lump sum investment of Rs 1 lakh after every monthly fall of more than 10%

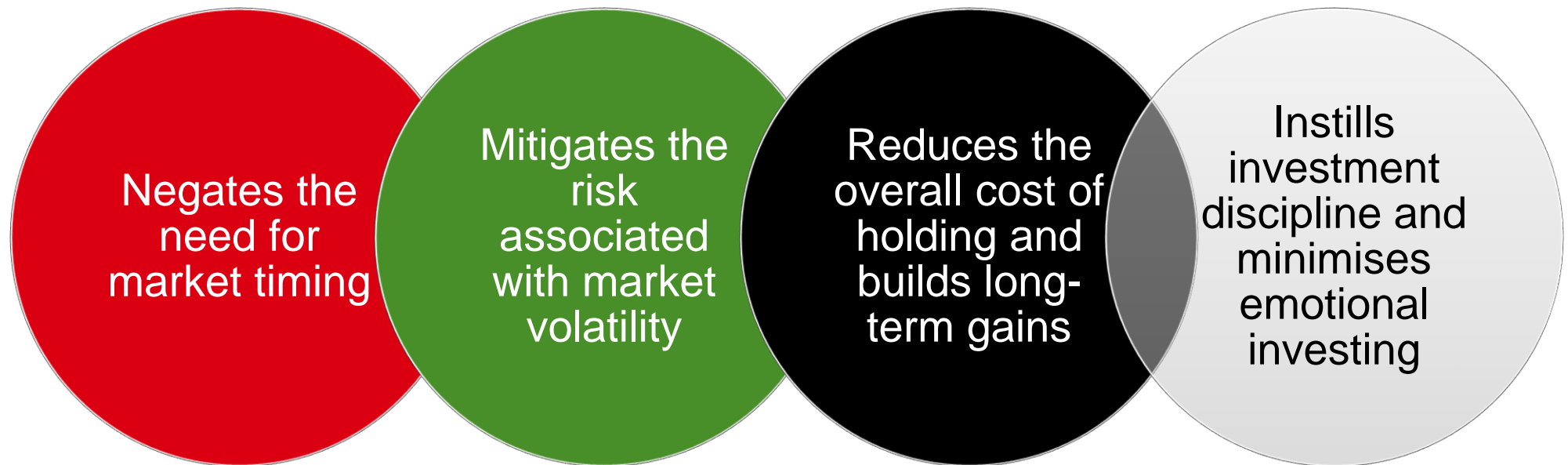
	A	B	C	D	E
Total amount invested (Rs lakh)	10.7	10.7	26.3	92.7	43.3
Total value at the end of Dec 2021 (~Rs lakh)	18.8	113.2	151.5	382.2	309.8

How they fared

- ◆ A missed out on accumulating more units and increasing his corpus, while B benefitted from retaining investments, but could not leverage gains in rupee terms
- ◆ C persevered and benefitted from his disciplined investments. D and E leveraged market downturns to invest more and boost their end-investment corpus

Rupee cost averaging beneficial for investors

- ◆ SIP ensures a regular fixed investment at different points of time, which ultimately results in investors buying more units when the falls and fewer units when the market rises. This averages the cost per unit of investment (rupee cost averaging)
- ◆ Rupee cost averaging is beneficial for investors in many ways as shown below



Achieve your long-term goals with systematic investments

Rahul and Nakul can achieve their goals of funding their kids' education with a lower investment by investing systematically in equity mutual funds. The surplus can be used to target other life goals

	Fixed income instruments	Equity
Goal	Create corpus for child's higher education expenses	
Current cost of goal	Rs 10 lakh*	
Goal period	15 years	
Future cost	Rs 27.59 lakh^	
Monthly investment amount needed to achieve goal	~Rs 8,705#	~Rs 4,127@

Systematic investments in equity provides optimum results for investors over the long term

Notes:

*approx. IIT Bombay fees

Assuming inflation of 7%, which was the average inflation rate of industrial workers since January 1993 till December 2021

@Grown at 15% represented by S&P BSE Sensex's average CAGR for 15-year holding period calculated on a daily rolling basis since 1979; data till December 2021

#Grown at 7.44% represented by 1-year FD index returns between October 1999 and December 2021

^Based on inflation represented by average of monthly inflation of industrial workers declared since January 1993 till December 2021

The projections in this graph are for illustration purposes only and not guaranteed

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In a nutshell

Equity is a long-term capital growth solution

- ◆ The future is uncertain; prediction is risky
- ◆ Preserve and, if possible, grow capital on a real-term basis over the long term
- ◆ Avoid permanent capital impairment through risk-averse capital allocation
- ◆ Target outperformance only over a full cycle
- ◆ Invest systematically in equity over the long term to derive optimum investment results

***“Someone is sitting in the shade today
because someone planted a tree a long time
ago.”***

– Warren Buffett

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