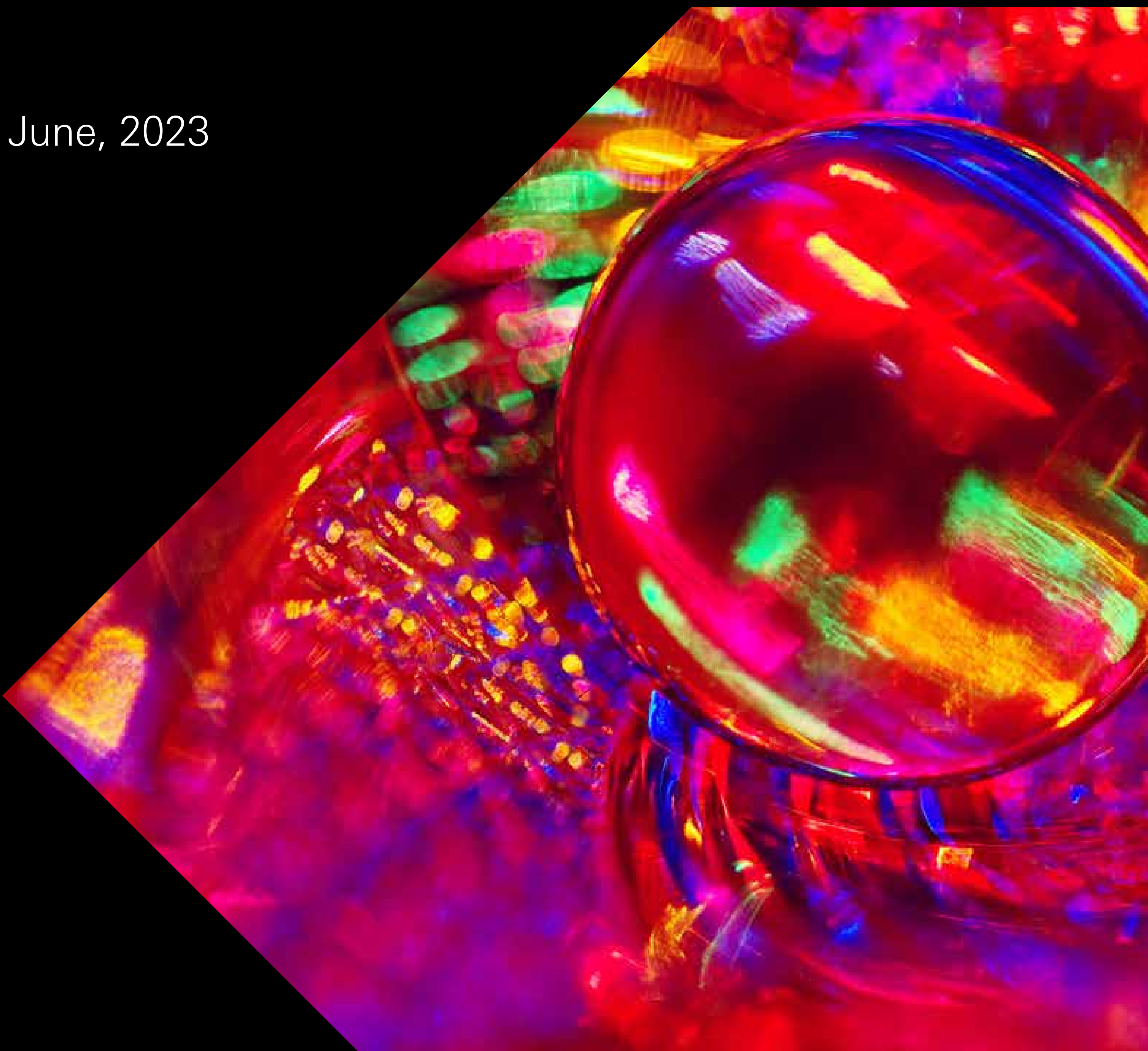
HSBC Mutual Fund

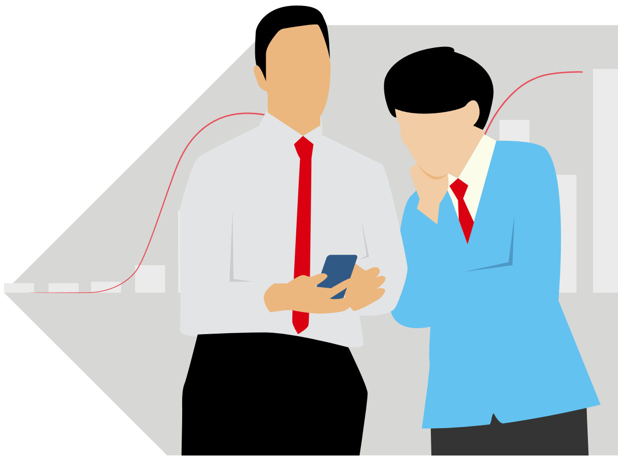
Equity Market Review

June, 2023



- Indian markets continued their strong run in June as robust FII inflows continued. However, other major global equity indices rose even faster in June.
- India saw a broad-based rally with S&P BSE Sensex & NSE Nifty indices gaining 3.6%/3.7%, respectively, during the month while BSE Mid Cap / BSE Small Cap indices surged by 6.4% / 6.9%, respectively.
- Domestic cyclical sectors with more Mid Cap exposure like Real Estate and Capital Goods were the best performing sector. Healthcare was also one of the best performers. Autos, Metals and Power sectors also outperformed the Nifty. However, FMCG, IT, Oil & Gas and Banks underperformed the market but still delivered positive results.

Domestic Indices	Last Close	1 Month (Change)	CYTD 23 (Change)
S&P BSE Sensex TR	98,624	3.6%	7.2%
Nifty 50 TR	28,060	3.7%	6.6%
S&P BSE 200 TR	10,384	4.0%	6.2%
S&P BSE 500 TR	32,642	4.3%	6.8%
S&P BSE Midcap TR	35,850	6.4%	14.3%
S&P BSE Smallcap TR	39,875	6.9%	13.1%
NSE Large & Midcap 250 TR	14,007	5.1%	9.1%
S&P BSE India Infrastructure Index TR	438	4.6%	6.1%
MSCI India USD	806	4.5%	4.5%
MSCI India INR	2,143	3.6%	3.6%
INR - USD	82.0	-0.8%	-0.8%
Crude Oil	75	3.1%	-12.8%t



Global Market Update

Major equity indices globally gained handsomely in June with the MSCI World index up by 5.9% as the US market (S&P 500) climbed 6.5% and MSCI Europe gained 4.6%. MSCI EM underperformed, gaining 3.3% with China up 3.2%. Crude oil prices moved up by 5% in June, following an 11% decline in May.

- FIIs were strong buyers of Indian equities in June to the tune of $6.7 bn taking CY23 YTD inflows to US$11 bn. DIIs were buyers only to the extent of $0.5 bn. Domestic mutual funds saw an equity outflow of $1.2 bn while insurance funds saw equity outflow of $0.7 bn during the month.

International Indices (in USD)	Last Close	1 Month (Change)	CYTD 23 (Change)
MSCI World	2,967	5.9%	14.0%
Dow Jones	34,408	4.6%	3.8%
S&P 500	4,450	6.5%	15.9%
MSCI EM	989	3.2%	3.5%
MSCI Europe	1,928	4.6%	11.4%
MSCI UK	1,140	3.6%	6.1%
MSCI Japan	3,506	4.0%	11.7%
MSCI China	60	3.3%	-6.4%
MSCI Brazil	1,636	14.6%	12.1%T

- CPI inflation softened to 4.3% (YoY) from 4.7% in April, helped by softer food prices. Core-core inflation (i.e. core inflation ex petrol and diesel) remained sticky but softened to 5.7% in May, from 5.8% in April.
- Index of Industrial production growth (IIP) in April improved to 4.2% (YoY) up from 1.7% (YoY) in March.
- INR appreciated over the month (up 0.8% MoM) and ended the month at 82.04/USD in June. India's FX reserves came in at $593 bn. FX reserves have risen by US$4.1 bn in the last four weeks.
- Other key developments during the month include – Gross GST revenue collection in June 2023 stood at Rs 1.61 tn, up 12% (YoY).

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Valuations

Nifty FY24/25 consensus earnings have seen a 1% upgrade over the last 1 month. As a result, Nifty continues to trade on 19.3x 1-year forward 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 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 highlighted the potential for further tightening despite some moderation in inflation. US bond yields reflect the 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 the likelihood of further interest rates increase has reduced. Monsoons after a late start have covered a part of the initial deficit and remain 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. However, at the margin things are turning more positive for India, with a low likelihood of further interest rate increases and a decline in crude and global fertilizer prices. FY23Q4 GDP growth has surprised positively indicating that the domestic economy remains more resilient despite global pressures. 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 with government focus on infrastructure and support to manufacturing.

Key Drivers For Future

On the headwinds, we have

- **US Fed Policy:** Fed remains hawkish as core inflation remains sticky. Higher interest rates and 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.

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 June 2023 end).

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