

# Global Navigator

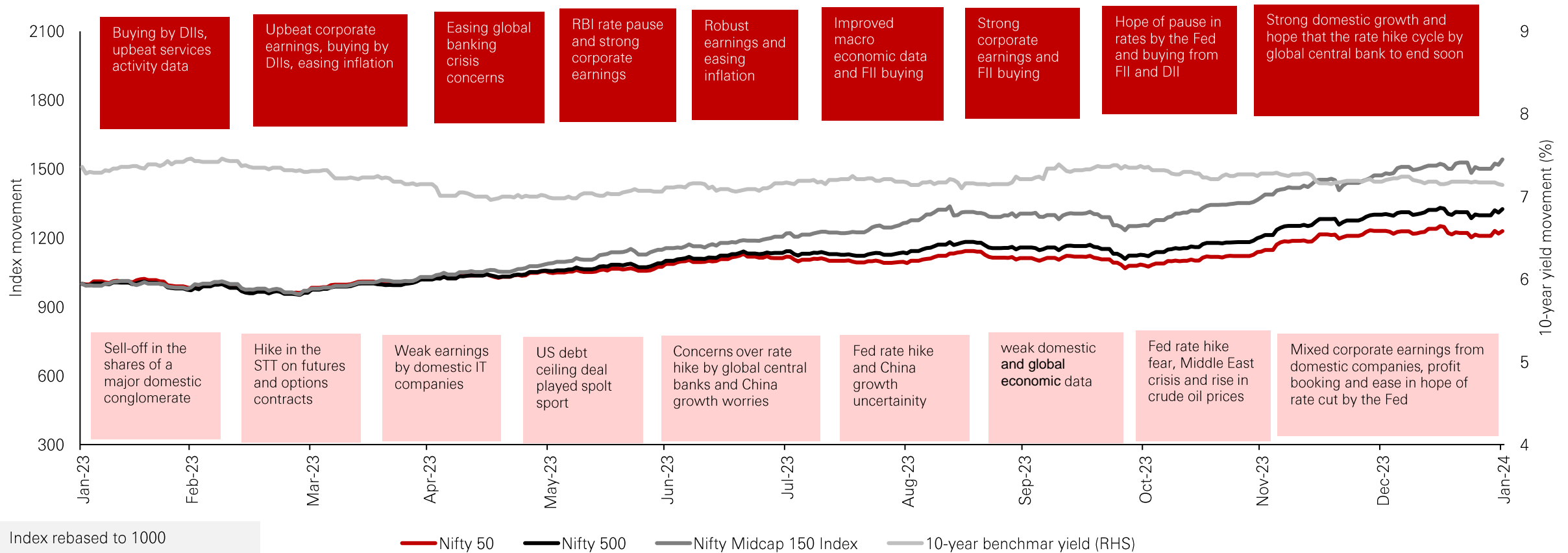
February 2024



**HSBC** Mutual Fund

# Looking back – Events and India Markets

Nifty 50 declined on profit taking, mixed corporate earnings from domestic companies and as optimism over rate cut by the Fed eased



Source: CRISIL, Data as on 31 January 2024

Key events and performance of the Indian market (Nifty 50 and Nifty 500 rebased to 1000) in January 2022 – 31 January 2024

This slide is for illustration purposes only and does not constitute investment research, investment advice or a recommendation to any reader of this content to buy or sell investment product.

Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies that may have been discussed in this report and should understand that the views regarding future prospects may or may not be realised.

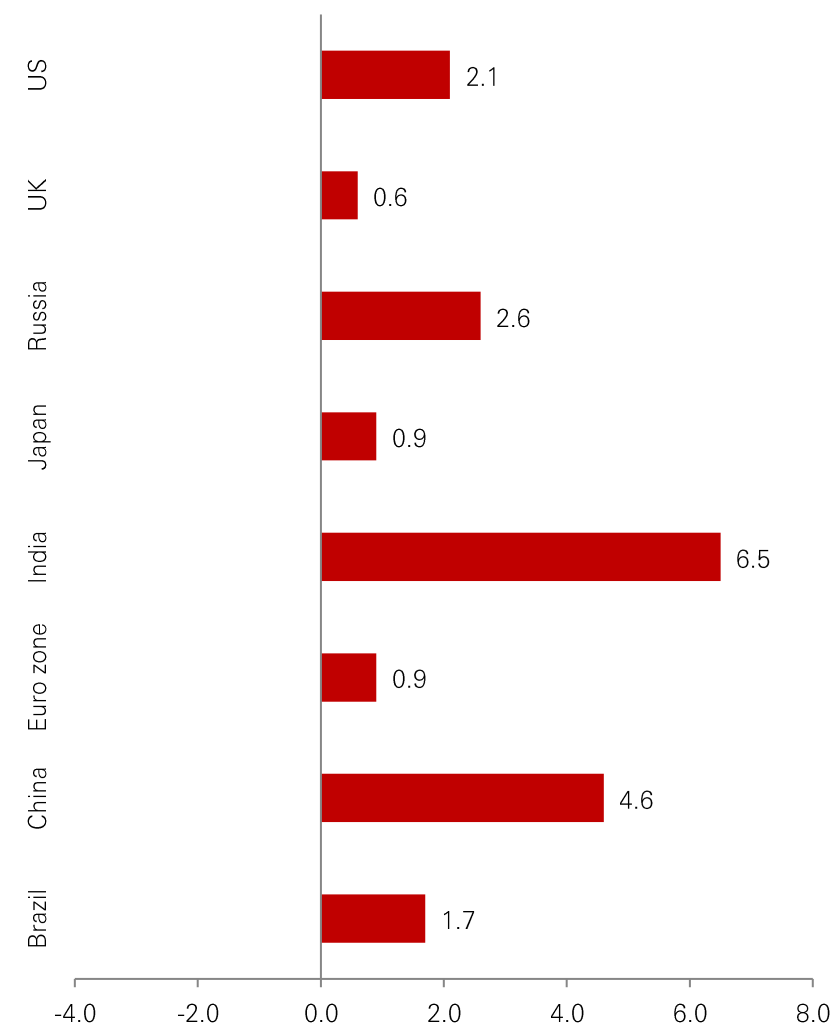
Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice. RBI – Reserve Bank of India, FII- Foreign Institutional Investors, DII- Domestic Institutional Investors, US- United States, Fed- Federal Reserve, STT- Security Transaction Tax



	GDP		Inflation		Industrial Growth	
	Current	Previous	Current	Previous	Current	Previous
US	3.3% Q4 2023	4.9% Q3 2023	3.4% Dec'23	3.1% Nov'23	1.0% Dec'23	-0.60% Nov'23
Eurozone	0.1% Q4 2023	0.0% Q3 2023	2.8% Dec'23	2.4% Nov'23	-6.8% Nov'23	-6.6% Oct'23
UK	0.3% Q3 2023	0.3% Q2 2023	4.0% Dec'23	3.9% Nov'23	-0.1% Oct'23	0.5% Oct'23
China	5.2% Q4 2023	4.9% Q3 2023	-0.3% Nov'23	-0.5% Oct'23	6.8% Dec'23	6.6% Nov'23
Japan	-2.9% Q3 2023	3.6% Q2 2023	2.6% Dec'23	2.8% Nov'23	-0.65% Dec'23	-1.4% Nov'23
India	7.6% Q3 2023	7.8% Q2 2023	4.91% Dec'23	5.55% Nov'23	2.40% Nov'23	11.7% Oct'23

Major Global Central Bank	Latest Key Interest rate
US Federal Reserve	5.25-5.5%
Bank of England	5.25%
European Central Bank	4.50%
Bank of Japan	-0.10%
India	6.50%

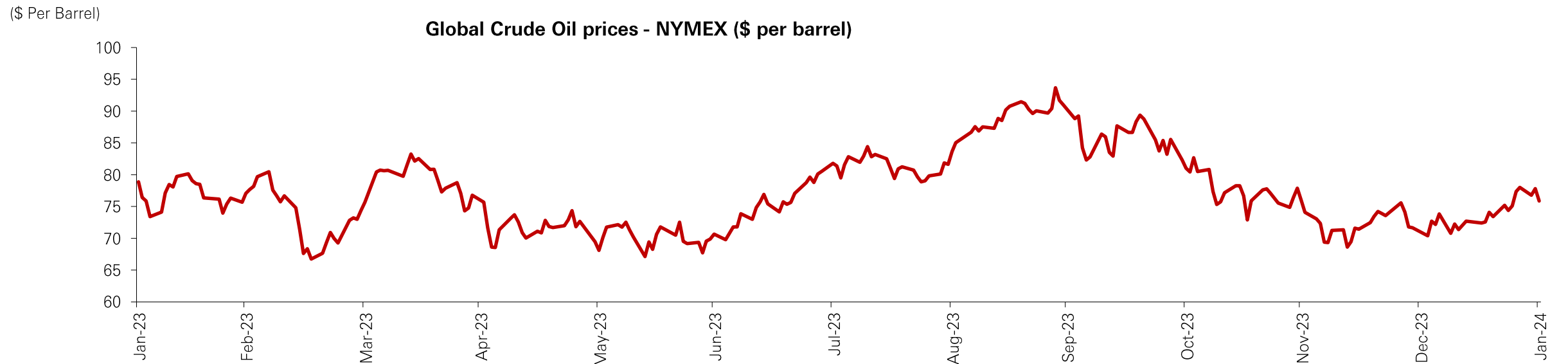
IMF GDP Projections for 2024



**Global economic outlook likely to improve slightly next year**

## International crude oil rose in January

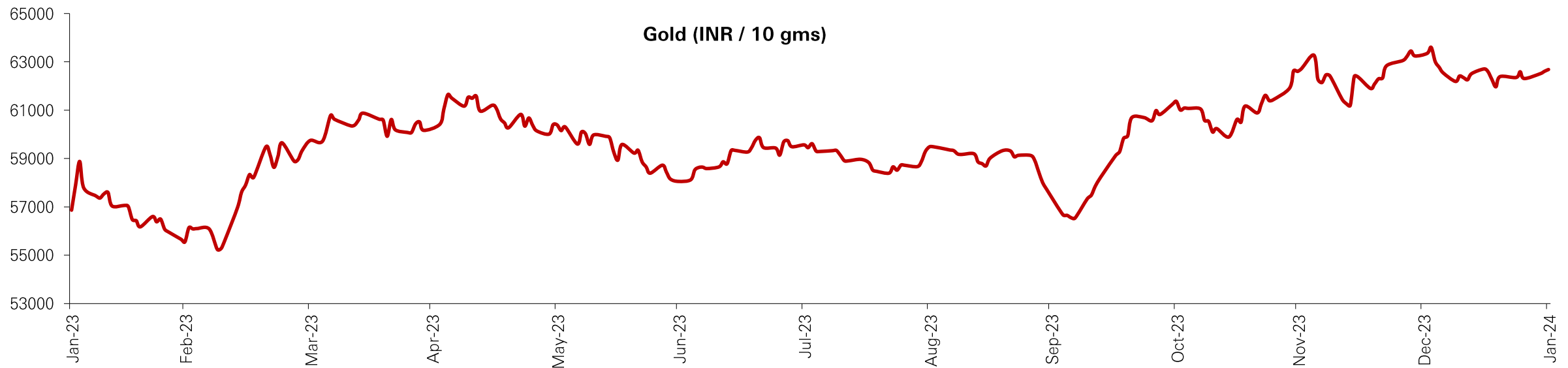
- Crude oil prices on the New York Mercantile Exchange (NYMEX) closed at \$75.85 per barrel on January 31, up 5.86% from \$71.65 per barrel on December 29.
- Oil prices stayed high during the month, mainly due to supply concerns following the closure of Libya's Sharara oilfield (300,000 barrels per day (bpd)) and the Middle East crisis. Escalating tensions in the Red Sea after strikes on Houthis aided supply woes.
- Crude oil rose further due to renewed geopolitical tensions between Ukraine and Russia and as extreme cold weather continued to disturb oil production in the United States (US).
- However, oil prices declined somewhat as the deepening real estate crisis in China led to demand worries



**Oil prices higher on persistent supply worries**

## Gold fell in January

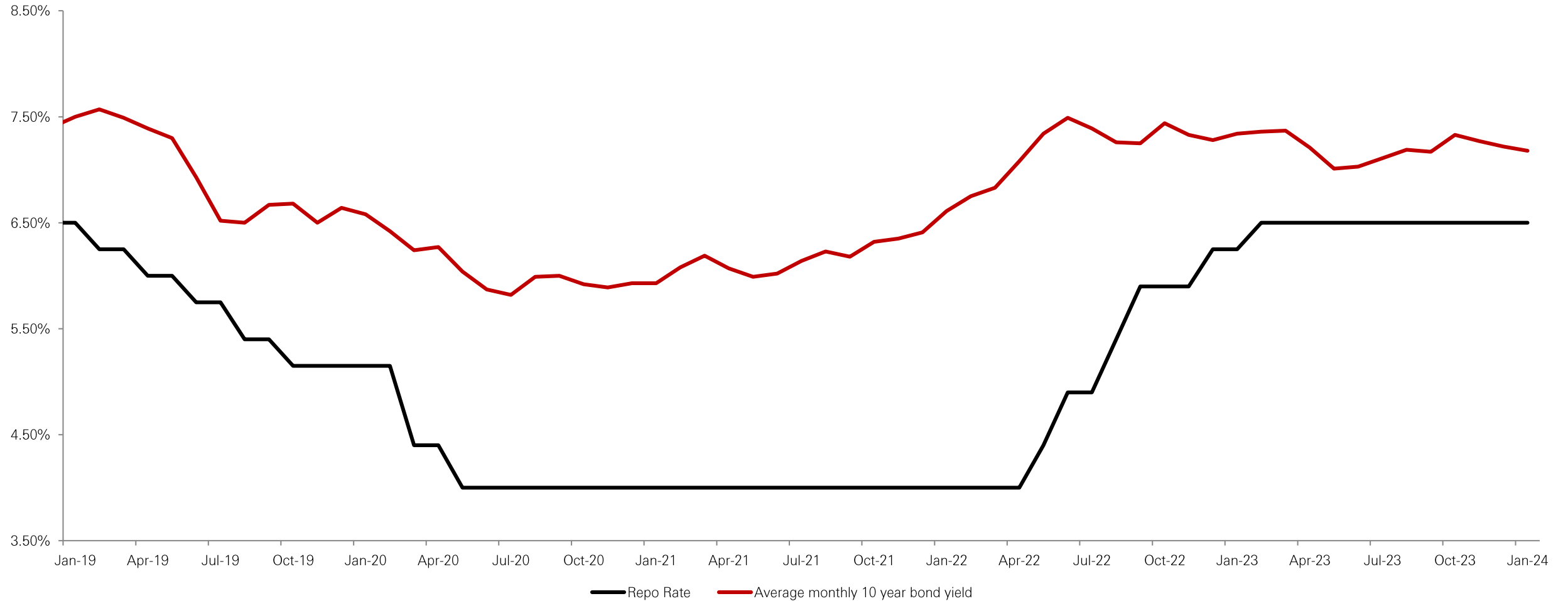
- Gold prices closed at Rs 62,685 per 10 gram on January 31, down 0.89% from Rs 63,246 per 10 gram on December 29, 2023, according to the India Bullion and Jewellers Association.
- The prices declined tracking a similar trend in the global bullion prices after the dollar index soared following trimmed expectations of a rate cut by the US Federal Reserve (Fed).
- These sentiments were strengthened following the hawkish stance of a few Fed officials.
- However, the Middle East conflict lifted bullion's safe-haven appeal and, thereby, gains



**Gold prices fell due to diminishing Fed rate cut hopes**

Source: CRISIL, IBJA. Data as on 31 January 2024, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.

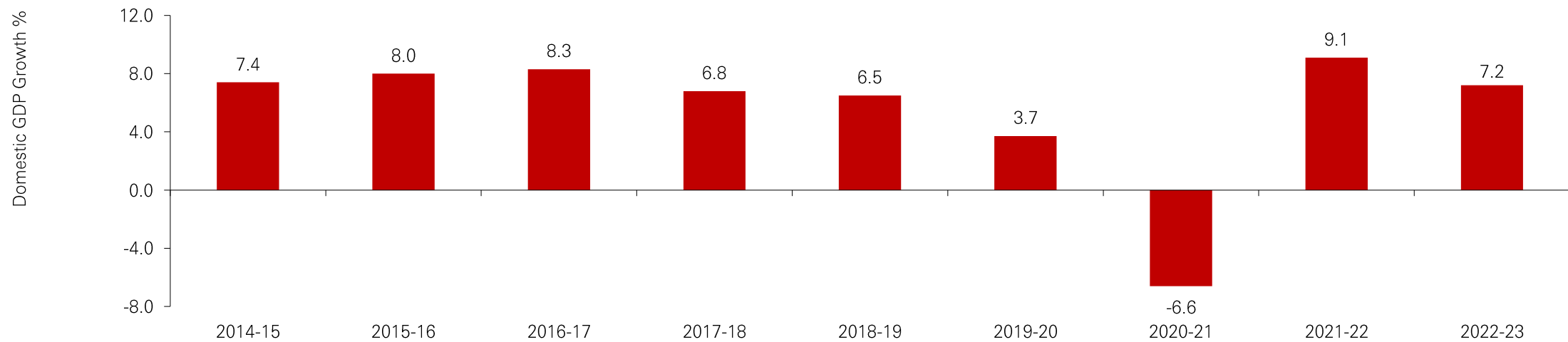
# RBI Repo Rate held at 6.50%



Source: RBI, CRISIL Research, Data as on 31 January 2024  
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## Outlook on Indian economy remains positive; finance ministry expects GDP growth to surpass RBI's projection

- A global landscape characterised by looming supply chain disruptions caused by geopolitical risks and rising inflation can do little to weaken the growing confidence in India's economic growth story.
- As was widely expected after the Reserve Bank of India (RBI) revised upward its gross domestic product (GDP) growth forecast in December, the initial advance estimate report released by the National Statistical Office (NSO) pegged India's real GDP growth for at 7.3% for this fiscal compared with 7.2% in the last
- Ahead of the interim budget, the International Monetary Fund (IMF) raised its projections for India's GDP growth for fiscals 2024 and 2025.



Source – CRISIL, Mospi, Data as on 31 January 2024

Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice. GDP – Gross Domestic Product

## Retail inflation hits four-month high

- India's Consumer Price Index (CPI)-based inflation inched up from 5.55% in November 2023 to a four-month high of 5.69% in December.
- Meanwhile, India's Wholesale Price Index (WPI)-based inflation increased from 0.26% in November to a nine-month high of 0.73% in December.

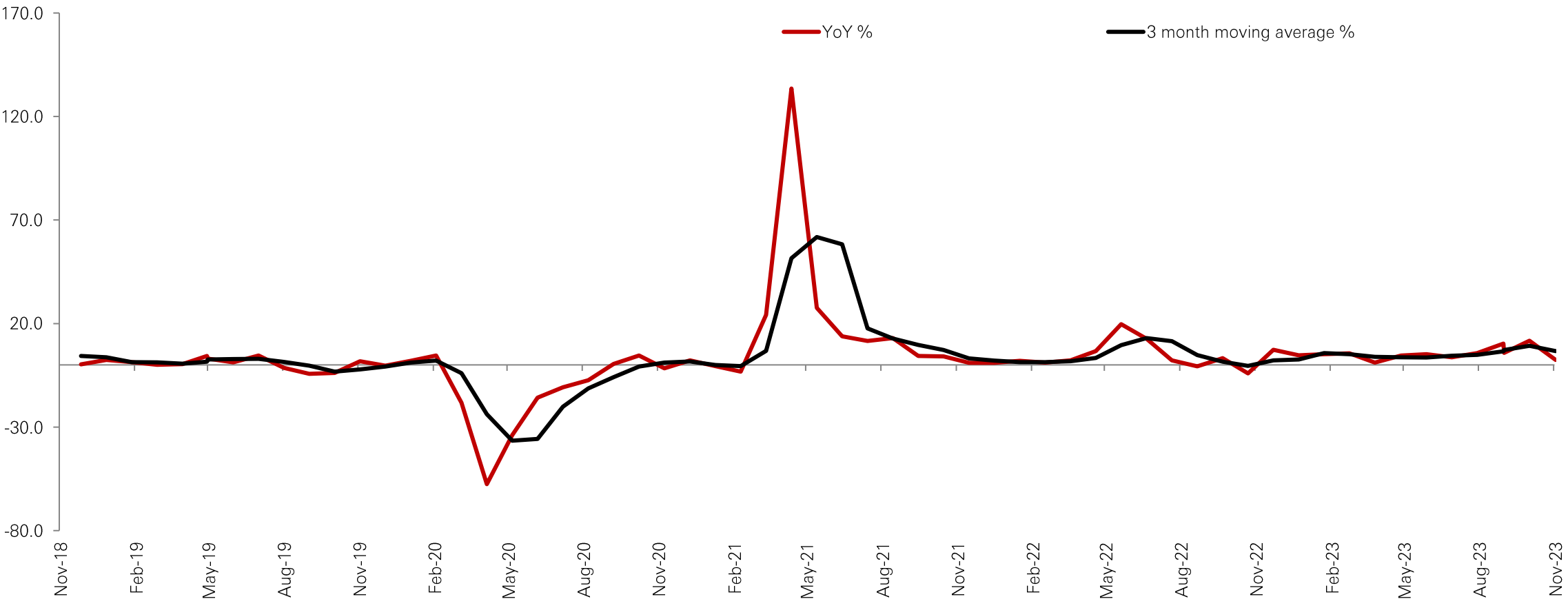
Indicators	Current	Previous
Monthly CPI Inflation	4.91% (December-23)	5.5% (November-23)
Industrial Growth	2.4% (November-23)	11.7% (October-23)
Exports	\$317.12 bn (Apr-Dec FY24)	\$336.30 bn (Apr-Dec FY23)
Imports	\$505.15 bn (Apr-Dec FY24)	\$548.64 bn (Apr-Dec FY23)
Trade Balance	-\$69.34 bn (Apr-Dec FY24)	-\$108.13 bn (Apr-Dec FY23)
Gross Tax Collections	INR 2042289 cr (Apr-Dec FY24)	INR 1769994 cr (Apr-Dec FY23)

Source – Ministry of Commerce, Comptroller General of Accounts, CRISIL, Data as on 31 January 2024  
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# Index of Industrial Production - IIP

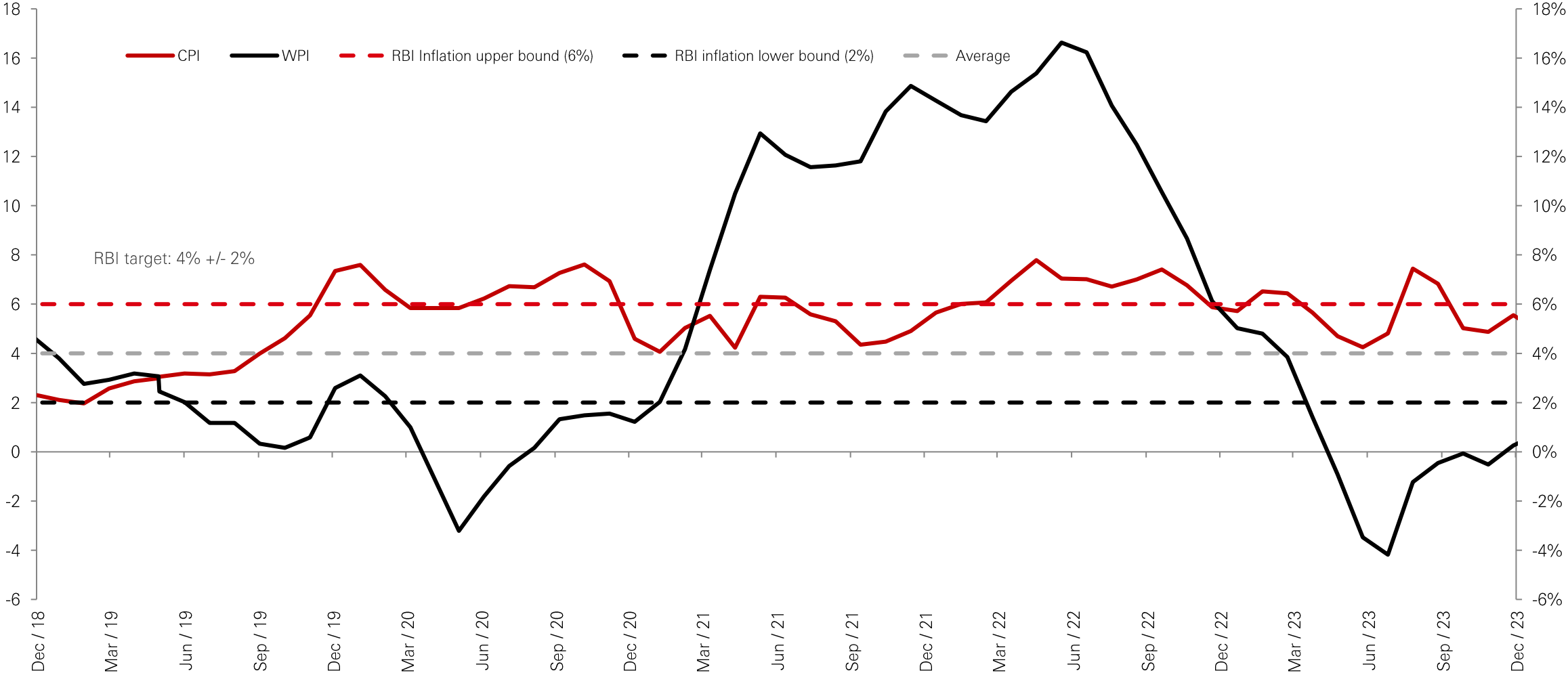
- India's industrial production growth rate measured by the Index of Industrial Production (IIP) slumped to 2.4% in November 2023 from 11.7% on-year growth in October 2023. This was the slowest growth witnessed in eight months



Source: CRISIL, MOSPI, Data as on 31 January 2024, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.

# Inflation target and trend

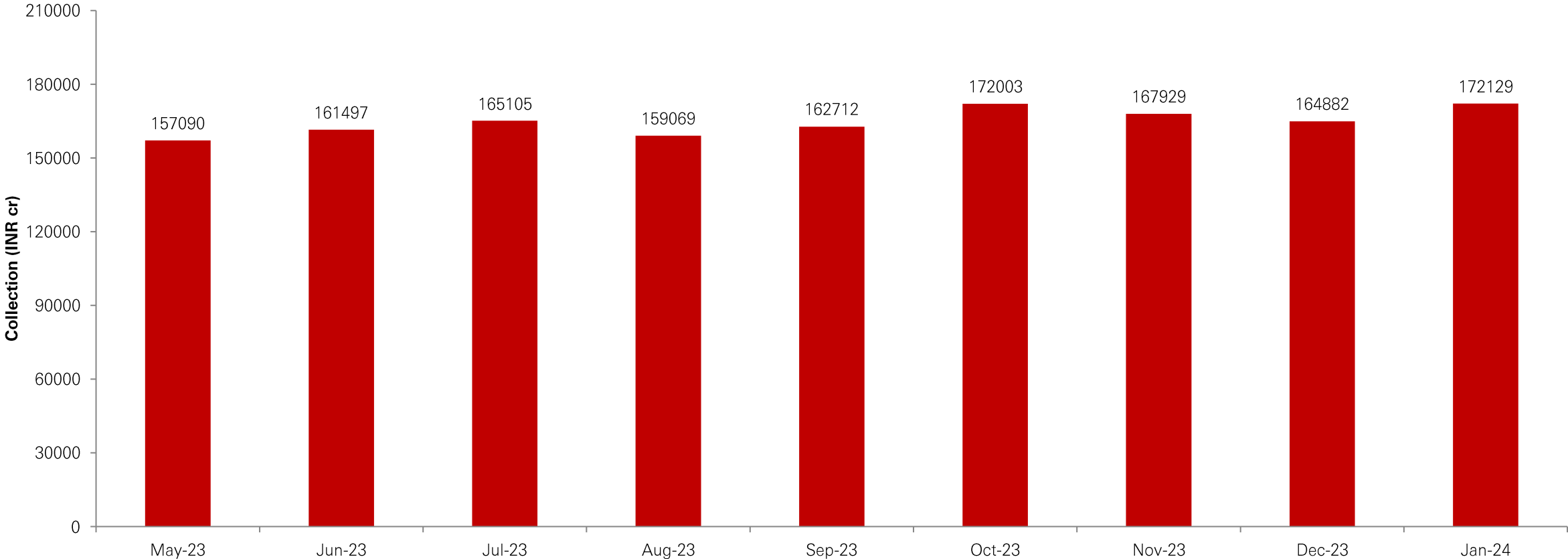
CPI inflation near the RBI's max target range



Source: CRISIL, MOSPI, RBI, Data as on 31 January 2024, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.

# GST collection rose to INR 1.72 lakh crore in January

The government collected INR 1.72 lakh crore goods and services tax (GST) for the month of January, registering growth of 10.4% from a year earlier.



Source: CRISIL, Ministry of Finance, Data as on 31 January 2024, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice. GST – Goods and Services Tax

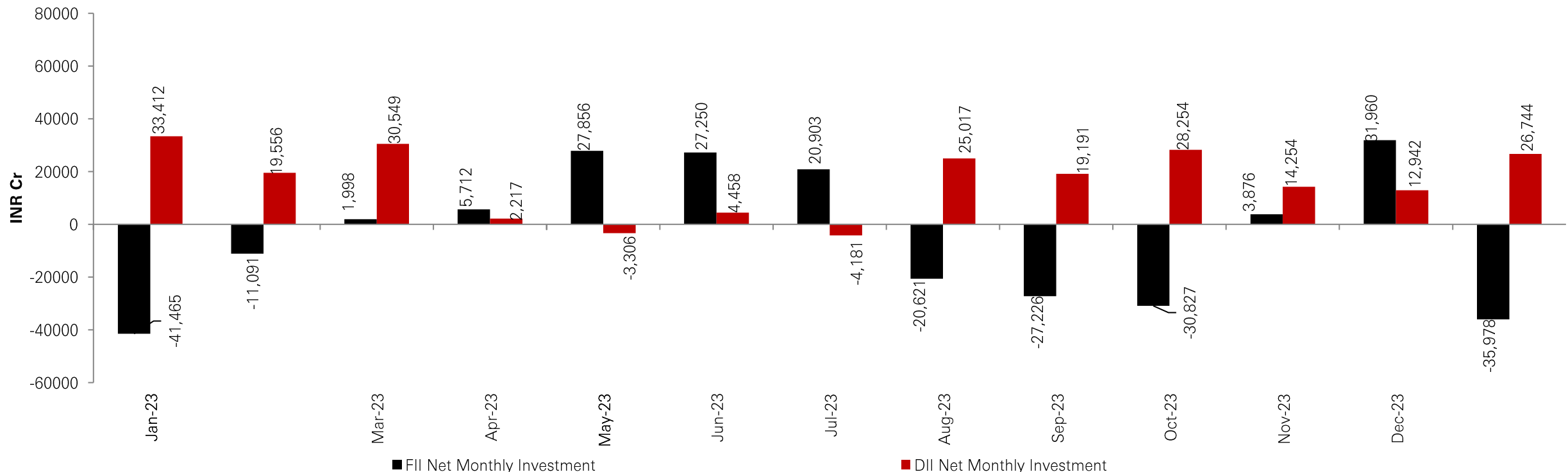
## Indian equity indices declined in January '24

- Indian benchmark equity indices ended lower in January on back of mixed corporate earnings results, profit booking and easing expectations of rate cuts by the US Fed. S&P BSE Sensex declined 0.68% and Nifty 50 fell 0.03% on-month.
- Waning optimism about early US interest rate cuts, ahead of the release of the US Fed minutes, also kept the markets under pressure. While the markets continue to expect aggressive easing of rates in 2024, most of the public statements delivered by US Fed officials have hinted at a willingness to approve additional policy firming
- Indian bourses witnessed a sharp decline due to a sharp selloff in banking stocks in response to the disappointing results of a major private banking and financial services company. This was further exacerbated by Chinese GDP growth data for the December quarter that hinted at a patchy economic recovery ahead and geopolitical tensions
- Reports of the collapse of the merger of a major Indian entertainment conglomerate with the Indian arm of an American diversified multinational mass media and entertainment studio conglomerate also dampened market sentiment
- More losses were seen after foreign institutional investors (FII) snapped their two-month buying spree. In January, FII sold Indian equity worth Rs 26,111 crore compared with buying of Rs 58,498.27 crore in December
- Towards the month end, the markets were pegged back due to profit booking ahead of the Vote on Account and the outcome of the US Fed's policy meeting. Some gains were witnessed during the first half of the month due to strong quarterly business updates by real estate stocks and two major domestic software service providers
- Broad-based buying across sectors amid expectations of a populist budget also led to some gains during the last trading session
- Continued buying by domestic institutional investors (DIIs) also added to positive sentiment. In January, DIIs bought Rs 26,743.59 crore compared with Rs 12,942.25 crore in December.

## Markets fell on ease in rate cut hopes

## S&P BSE sectoral indices ended mixed in Jan '24

- Almost all sectoral indices, barring the S&P BSE Bankex, S&P BSE FMCG, S&P BSE Financial Services, and S&P BSE Metal indices, gained during the month.
- The biggest loser during the month was the S&P BSE Bankex (4.4% decline), which bore the brunt of negative investor sentiment due to underwhelming quarterly earnings, followed by the S&P BSE FMCG (2.8%), which encountered substantial profit booking.
- In contrast, S&P BSE Oil & Gas (12.6% gain) and S&P BSE Energy (12.2% gain) stocks were the top gainers in January, benefitting from a rise in oil prices.



Source: CRISIL, NSDL, NSE, Data as on 29 December 2023, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.



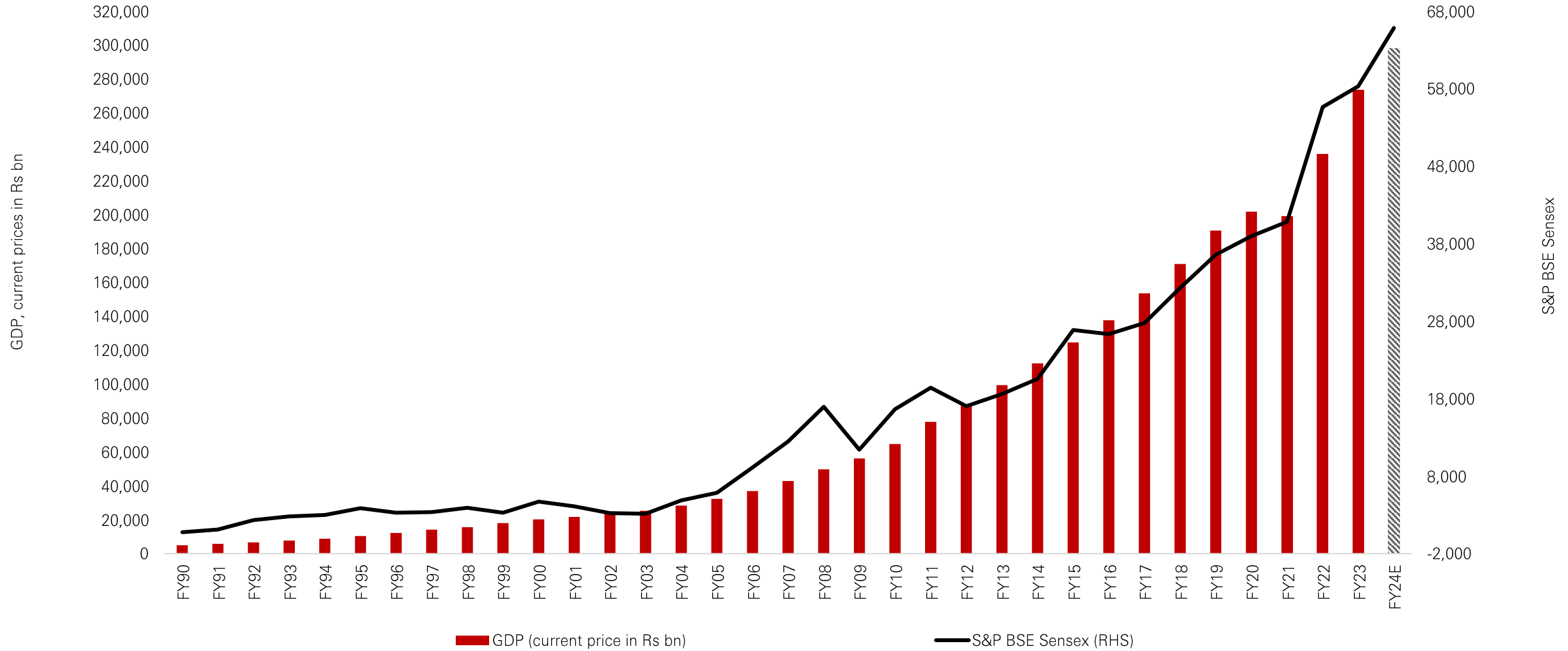
# Equity Market Review

Indices	31-Jan-2024	29-Dec-2023	% Change 1 Month	% Change 1 Year	% Change YTD
<b>Nifty 50</b>	21726	21731	-0.03	23.01	-0.03
<b>S&amp;P BSE Sensex</b>	71752	72240	-0.68	20.49	-0.68
<b>S&amp;P BSE Auto</b>	43995	42229	4.18	44.47	4.18
<b>S&amp;P BSE BANKEX</b>	51999	54378	-4.38	12.85	-4.38
<b>S&amp;P BSE Capital Goods</b>	56690	55644	1.88	67.69	1.88
<b>S&amp;P BSE Consumer durables</b>	50350	50000	0.70	33.44	0.70
<b>S&amp;P BSE FMCG</b>	19893	20468	-2.81	23.49	-2.81
<b>S&amp;P BSE Healthcare</b>	33816	31549	7.18	50.35	7.18
<b>S&amp;P BSE IT</b>	37359	36011	3.74	25.98	3.74
<b>S&amp;P BSE Metal</b>	26761	26991	-0.85	26.51	-0.85
<b>S&amp;P BSE MidCap</b>	38775	36839	5.25	57.35	5.25
<b>S&amp;P BSE Oil &amp; Gas</b>	25916	23021	12.57	39.92	12.57
<b>S&amp;P BSE Power</b>	6317	5819	8.57	61.71	8.57
<b>S&amp;P BSE PSU</b>	17296	15558	11.17	77.39	11.17
<b>S&amp;P BSE Realty Index</b>	6766	6187	9.37	106.32	9.37
<b>S&amp;P BSE SmallCap</b>	45723	42674	7.14	62.10	7.14

Source: NSE, BSE, Data as on 31 January 2024, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.

# Equity mirrors economic growth in the long term

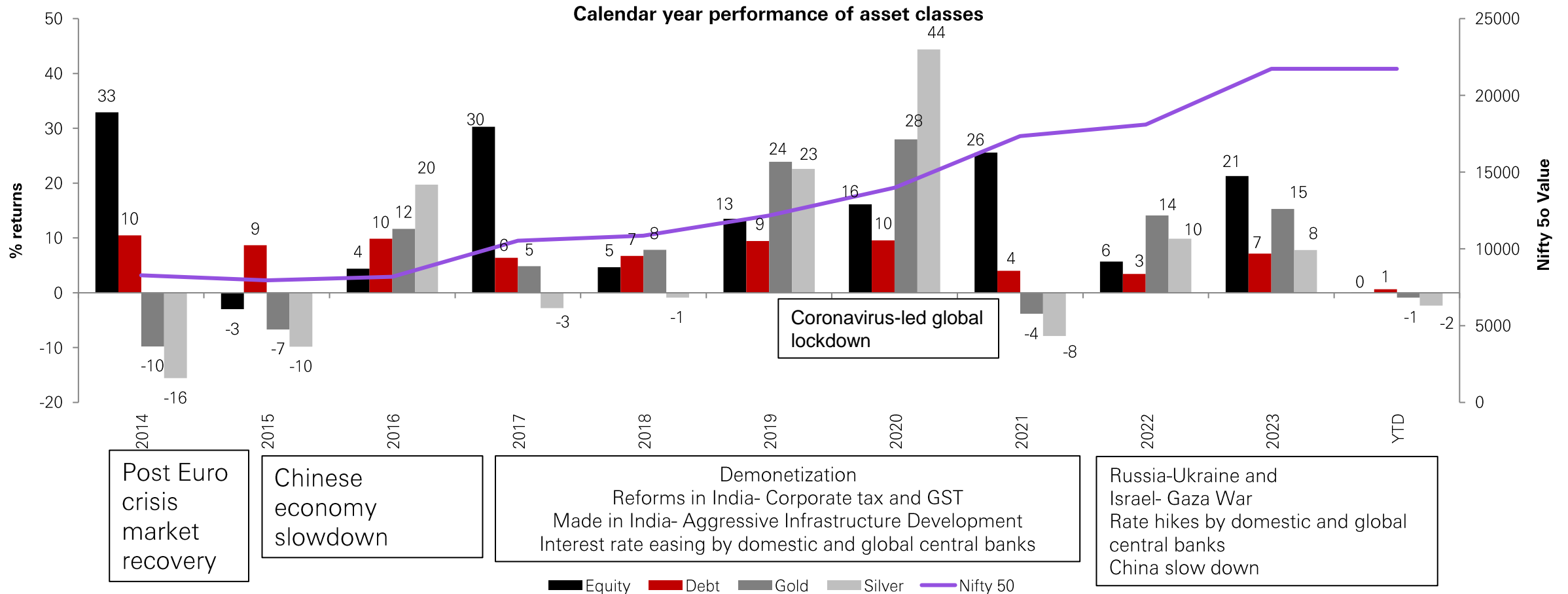
GDP - The Indian economy is expected to carry the momentum of last year's GDP growth into the current fiscal year as well



Source: CRISIL, Bloomberg, BSE, IMF, The GDP projection for fiscal year 2024 is shown shaded in this graph is for illustration purposes only and is not guaranteed, Data as on 31 January 2024, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice GDP – Gross Domestic Product.

# History of asset class through major events

Equity has performed strongly during positive market situation, but corrected sharply during major slow down events



# Sectoral performance long term trends

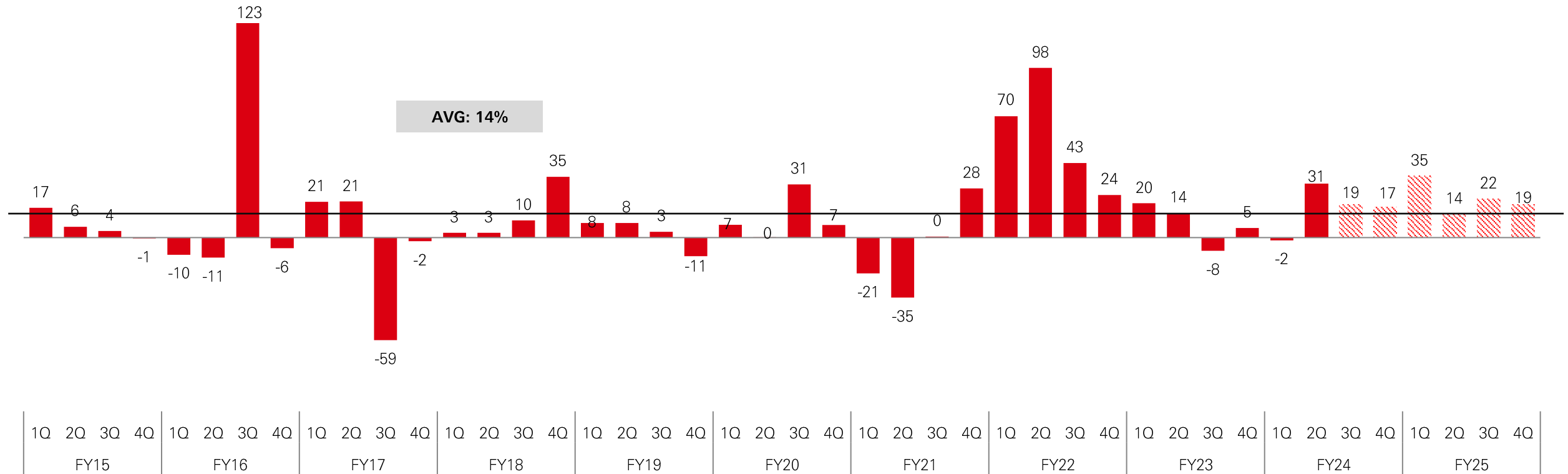
Sectoral returns – Sectoral indices post positive performance over the 10-year period

Sectoral indices	% Change										10-year CAGR*
	CY15	CY16	CY17	CY18	CY19	CY20	CY21	CY22	CY23	CY24*	
<b>Nifty 50</b>	-4.06	3.01	28.65	3.15	12.02	14.90	24.12	4.33	11.20	-0.03	13.56
<b>S&amp;P BSE Sensex</b>	-5.03	1.95	27.91	5.91	14.38	15.75	21.99	4.44	10.10	-0.68	13.33
S&P BSE Auto	-0.60	9.39	32.06	-22.12	-11.27	12.59	15.27	16.54	38.48	4.18	14.28
S&P BSE BANKEX	-9.92	7.35	39.08	5.27	20.72	-2.14	13.63	21.03	2.83	-4.38	16.06
S&P BSE CG	-8.51	-3.28	40.03	-1.63	-9.97	10.63	43.47	15.97	49.93	1.88	19.56
S&P BSE CD	24.02	-6.34	101.92	-8.79	20.86	21.52	41.81	-11.27	18.62	0.70	24.66
S&P BSE FMCG	1.36	3.29	31.54	10.60	-3.58	10.55	8.57	-10.93	19.17	-2.81	11.80
S&P BSE Healthcare	15.06	-12.88	0.49	-5.92	-3.55	61.45	17.62	16.62	31.87	7.18	12.83
S&P BSE IT	4.51	-8.00	10.83	24.93	9.84	56.68	41.79	-12.10	15.89	3.74	14.69
S&P BSE Metal	-31.20	36.65	47.78	-20.75	-11.92	11.23	57.06	-24.24	16.23	-0.85	11.32
S&P BSE Oil & Gas	-3.43	27.17	34.00	-15.57	7.25	-4.44	24.22	8.36	0.70	12.57	11.85
S&P BSE Power	-6.44	1.53	19.83	-16.06	-3.65	7.05	67.62	16.57	12.32	8.57	15.26
S&P BSE PSU	-17.18	12.88	19.27	-21.11	-3.88	-16.88	41.01	25.84	34.65	11.17	12.02
S&P BSE Realty	-13.55	-5.98	106.36	-31.07	26.85	8.66	53.34	-10.26	64.11	9.37	18.76

Source: CRISIL, BSE, Figures in red indicate negative returns in that period. \*10-year CAGR, Data as on 31 January 2024, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.

# Earnings growth – quarterly trend

Nifty 50 earnings retreated Q2 FY22 onwards



Nifty 50 EPS Growth (Y-o-Y)

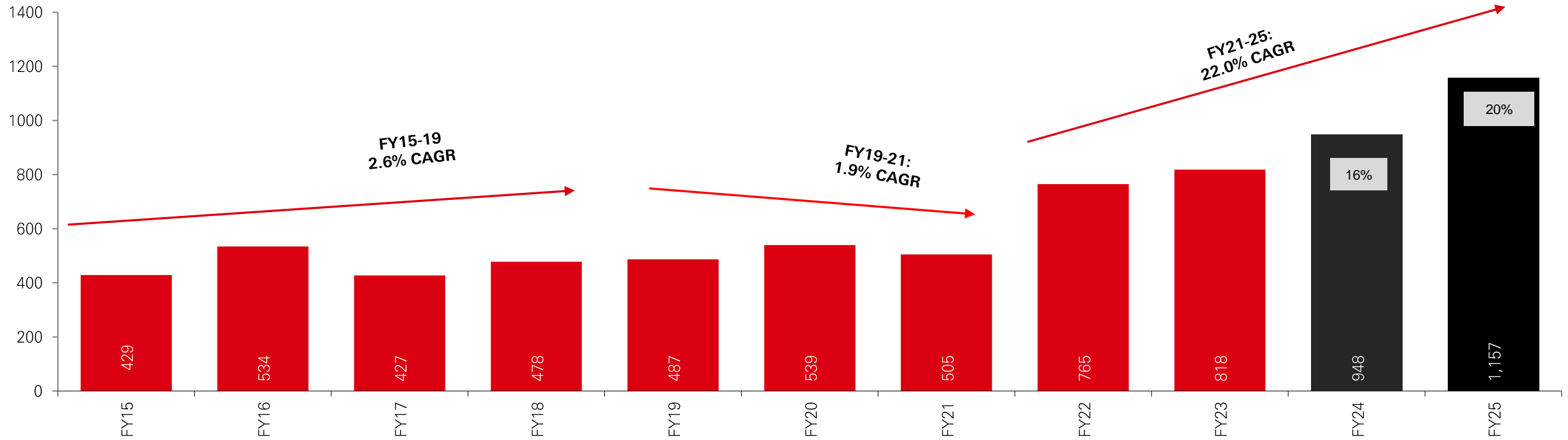
Estimates – shaded portion of FY25  
 ^Average figure mentioned is from FY15 to FY21

Source: CRISIL, Bloomberg, Data as on 31 January 2024, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.



# Earnings trend

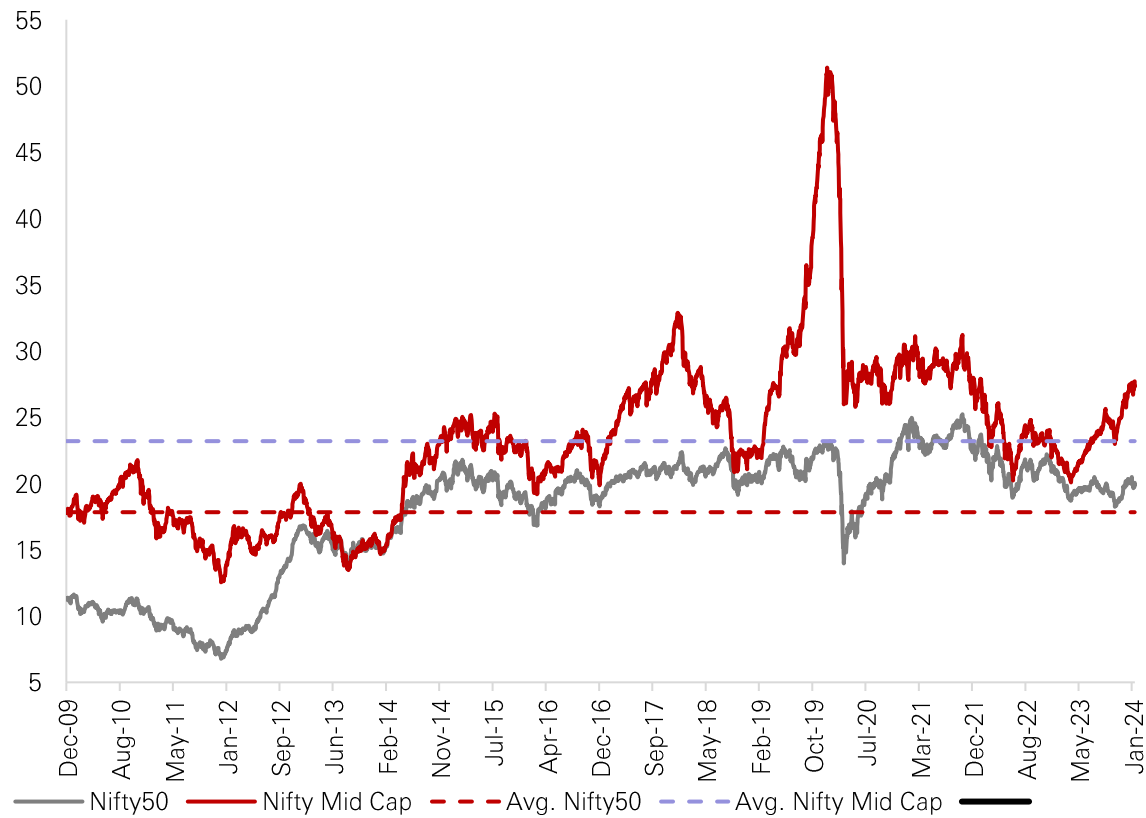
## India - Equity earnings (Nifty 50 EPS)



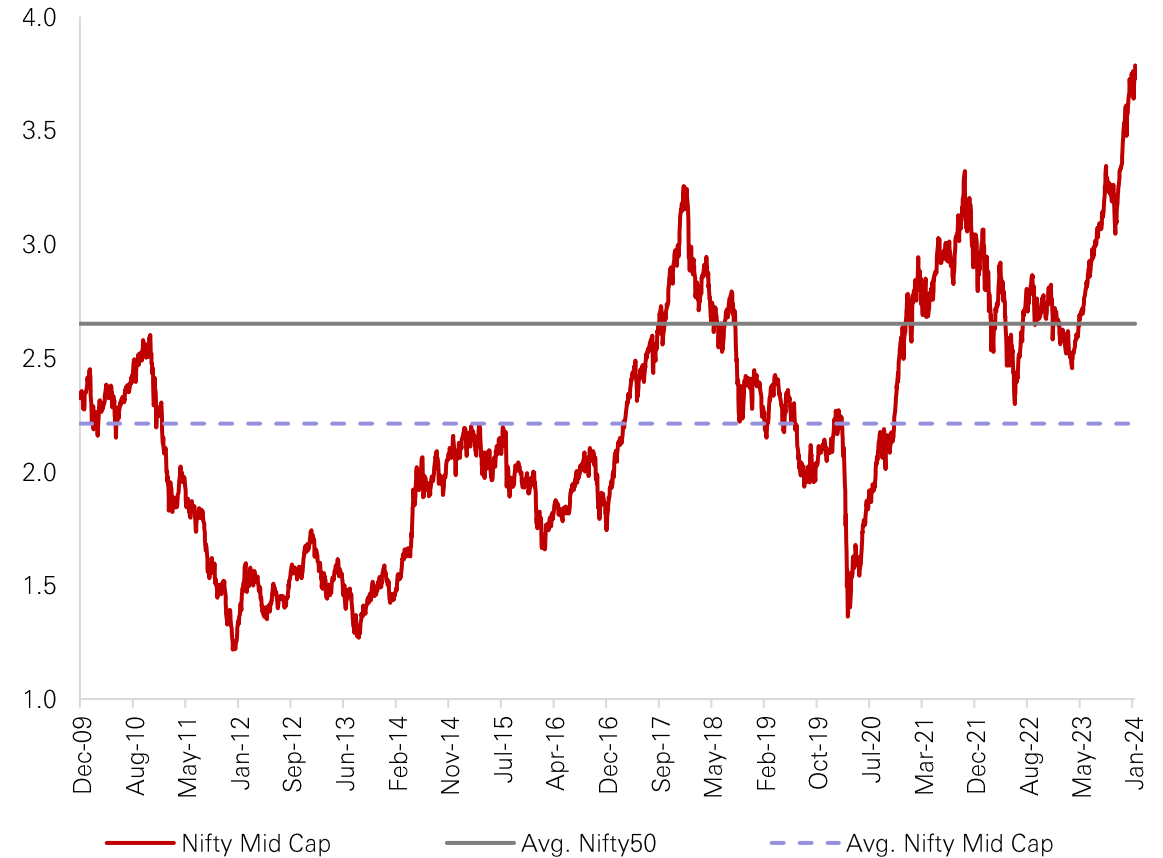
Note: Trailing 12M EPS (Earnings Per Share)  
Black shaded columns are estimates of FY24 and FY25  
Source: CRISIL, Bloomberg, Data as on 31 January 2024, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.

# Market valuations – Nifty 50 and Nifty Midcap 100

## Large and Mid Cap - Price to Earnings (PE)

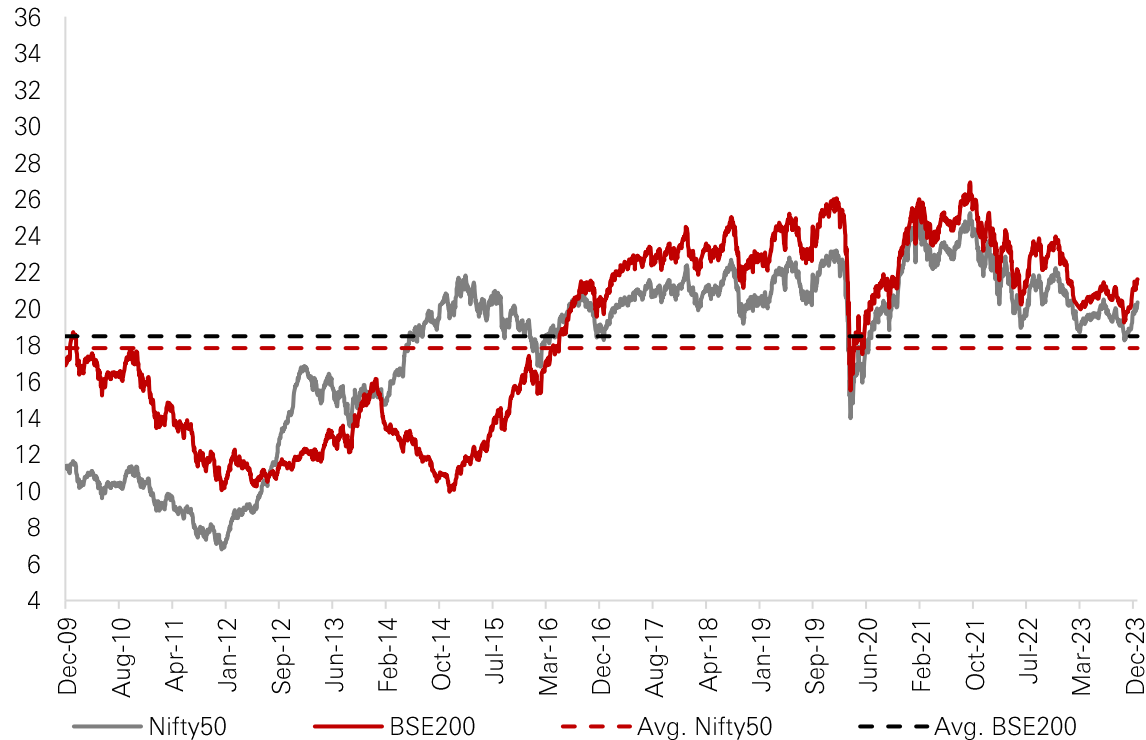


## Large and Mid Cap - Price to Book (PB)

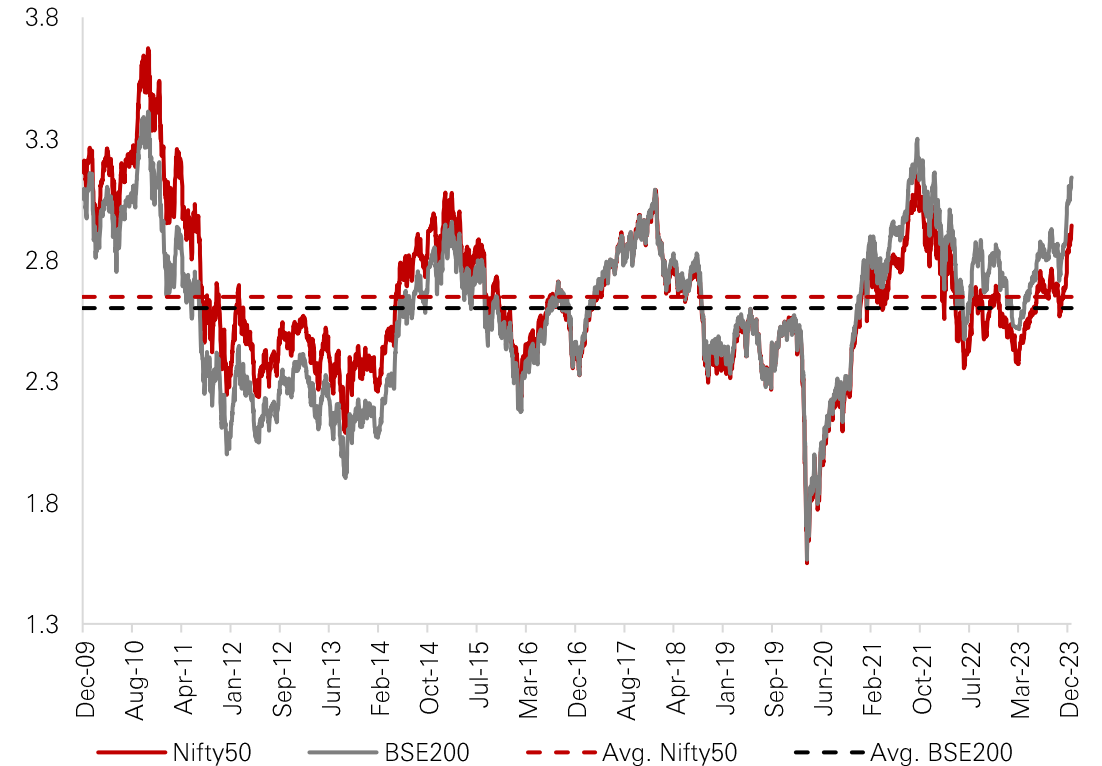


Source: CRISIL, Bloomberg  
 Data as on 31 January 2024, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.

## Large and S&P BSE 200 - Price to Earnings (PE)



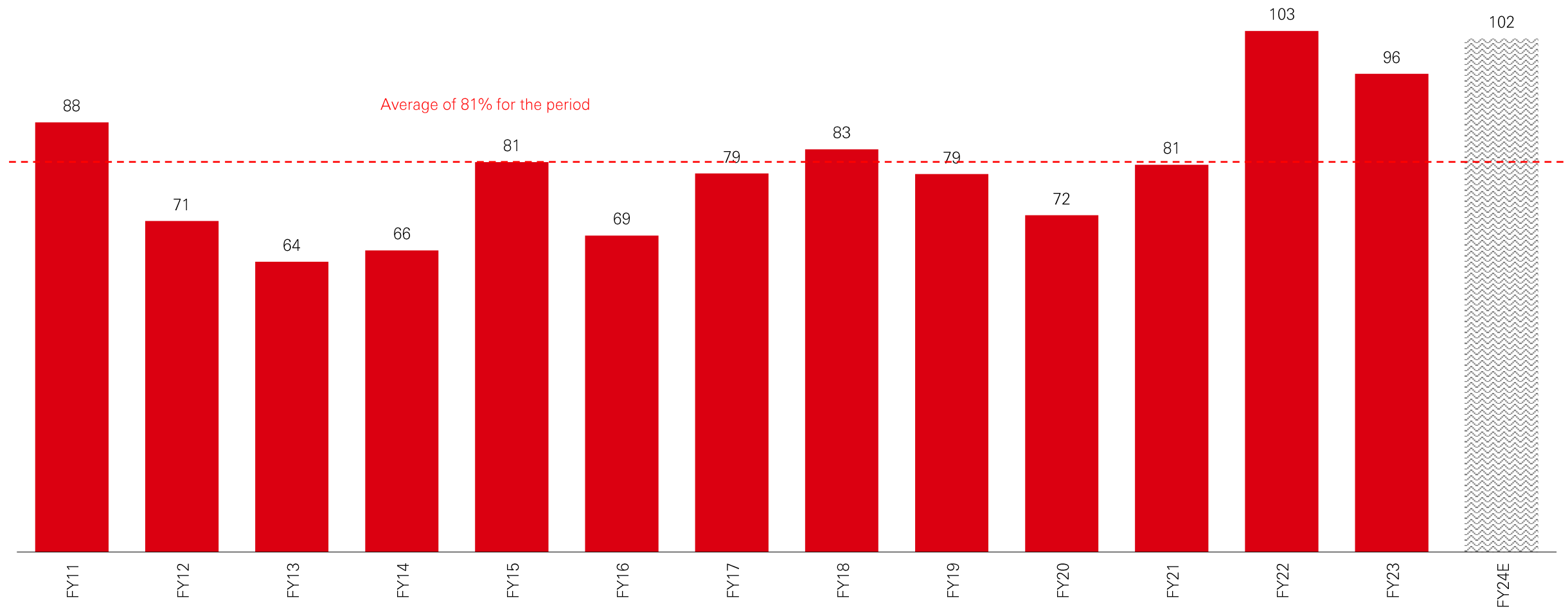
## Large and S&P BSE 200 - Price to Book (PB)



Source: CRISIL, Bloomberg, BSE, Data as on 31 January 2024, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.

# India Market cap to GDP (%)

Market cap as a % of GDP



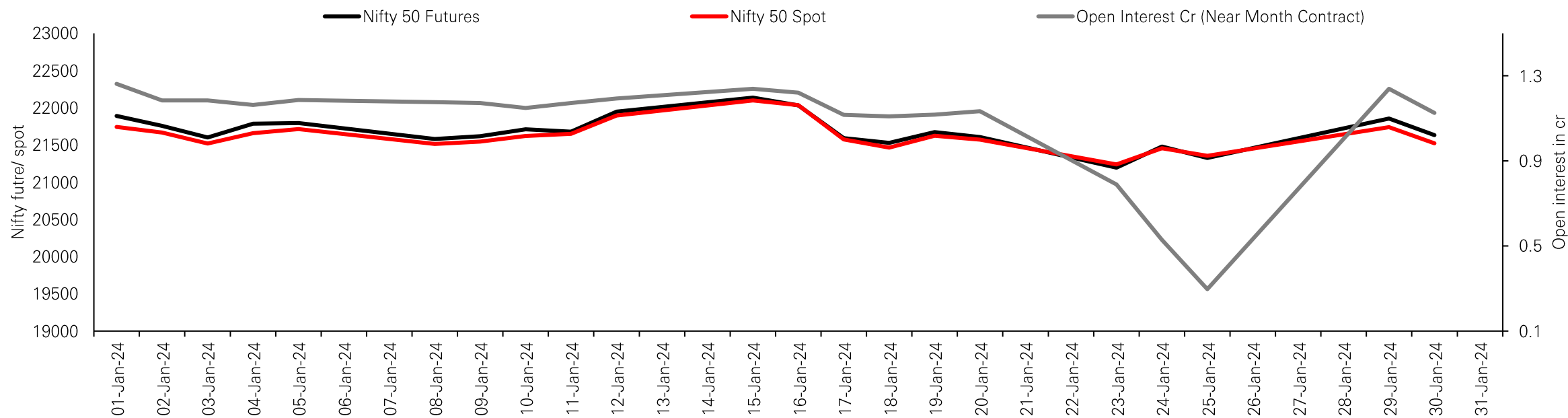
Shaded area are Estimates (E) – FY24  
Source: CRISIL, MOSPI, Bloomberg, CRISIL estimates;  
Data as on 31 January 2024, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice. GDP- Gross Domestic Product

- Indian equity indices were subdued in January driven by heavy FII selling. S&P BSE Sensex declined 0.6% while NSE Nifty was flat for the month.
- Industrial production growth (IIP) dropped to 2.4% (YoY) in November versus 11.7% (YoY) in October as a result of shift in the festive season.
- Nifty FY25 consensus earning saw a 1% decline during last 1 month. Nifty now trades on 21x 1-year forward PE more than 15% above its 10-year average and 8% above its 5-year average. Valuations in Mid Cap and Small Cap space are much more elevated.
- The global macro environment remains challenging with heightened geo-political and economic uncertainties. However, with inflation now under control, the US Fed has indicated the potential for interest rate cuts going forward.
- For India, growth has continued to remain strong with GDP growth of 7.6% in Q2FY24 driven by strong government spending and pickup in investments, manufacturing and construction.
- The 2024 interim budget has re-affirmed government focus on infrastructure. At the same time reduction in fiscal deficit should also help in easing of domestic rates.
- India starts 2024 on a strong footing with positive growth momentum. We see India's manufacturing sector on a strong medium term growth trajectory supported by rising demand, investment in infrastructure, localization of high-end industries and India becoming a more meaningful part of global supply chains.
- Real Estate remains another strong medium term growth driver having weathered the impact of higher interest rates. Finally, we also expect improvement in consumption as the impact of high inflation fades and real incomes start to grow again.
- However, in our view several of these positives are getting discounted by the high valuations currently prevailing in the equity market.
- While we remain constructive on Indian equities supported by the more robust medium-term growth outlook we would caution against high return expectations.



## Nifty futures

- The Nifty 50 near-month future contract of January rose on the rollover day (January 25) versus spot.
- The new near-month contract (February 29) ended ~134 points higher on January 25.
- The rollover of the new near-month contract (February) was 77% on the expiry day compared to 74% in the previous expiry.
- Volatility of the Nifty 50 index, as measured by India VIX moved in a narrow range during the month, falling to 13.86 on January 25 from 15.14 on December 28 (rollover date), and ended the month at 16.05.
- Nifty futures saw trading volume of around Rs 4.62 lakh crore, arising out of 42.62 lakh contracts, with an open interest of around 30.37 crore during the month



Source – NSE, CRISIL, Data as on 31 January 2024, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.

## Nifty options

- On January 31, Nifty 22,500 call option witnessed the highest open interest of around 132 lakh, while Nifty 21,700 call contract garnered the maximum number of contracts of 34.80 lakh.
- Nifty 21,000 put option witnessed the highest open interest of 155 lakh on January 31 and the Nifty 21,500 put contract garnered the maximum number of contracts of 28.19 lakh.

## NSE F&O turnover

- Turnover on the NSE's derivative segment rose 17% in the month led by gains in index options and stock futures and stocks. The average put-call ratio was 0.95 in January higher than from 0.90 in December.

Instrument	Monthly turnover summary (Figures in INR crore)		
	31-Jan	29-Dec	Change %
Index futures	848,628.82	664,523.87	28%
Stock futures	800,533.18	2,524,106.95	-68%
Index options	871,959,571.99	744,429,909.93	17%
Stock options	9,847,721.96	10,175,954.14	-3%
<b>Total</b>	<b>883,456,455.95</b>	<b>757,794,494.89</b>	<b>17%</b>

Source – CRISIL, NSE. Data as on 31 January 2024, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.

## FII segment

On January 31, FIIs' open interest was Rs 5.52 lakh crore (~62 lakh contracts). The details of FII derivatives trades for January 1 to 31 are as follows:

	BUY		SELL		BUY %		SELL %	
	No. of contracts	Amount in INR Cr	No. of contracts	Amount in INR Cr	No. of contracts	Amount in INR Cr	No. of contracts	Amount in INR Cr
Index Futures	1294055	112508	1449383	125430	0.17	0.18	0.19	0.20
Index Options	731460560	60424662	740493253	61187662	97.58	97.60	97.58	97.60
Stock Futures	8398209	671914	8454340	675178	1.12	1.09	1.11	1.08
Stock Options	8411758	701562	8468270	706539	1.12	1.13	1.12	1.13
<b>Total</b>	749564582	61910646	758865246	62694809	100.00	100.00	100.00	100.00

Source – CRISIL, NSDL. Data as on 31 January 24 , Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.

## Average inter-bank call money rates were slightly above RBI repo rate in January

- In January 2024, interbank call money rates averaged 6.52%, marginally higher than the RBI's repo rate of 6.50%.
- This was due to the liquidity levels hitting record highs during the month due to advance tax outflows and a slowdown in government spending. To address the escalating liquidity deficit within the banking system, the RBI conducted several variable-rate repo (VRR) auctions during the course of the month.

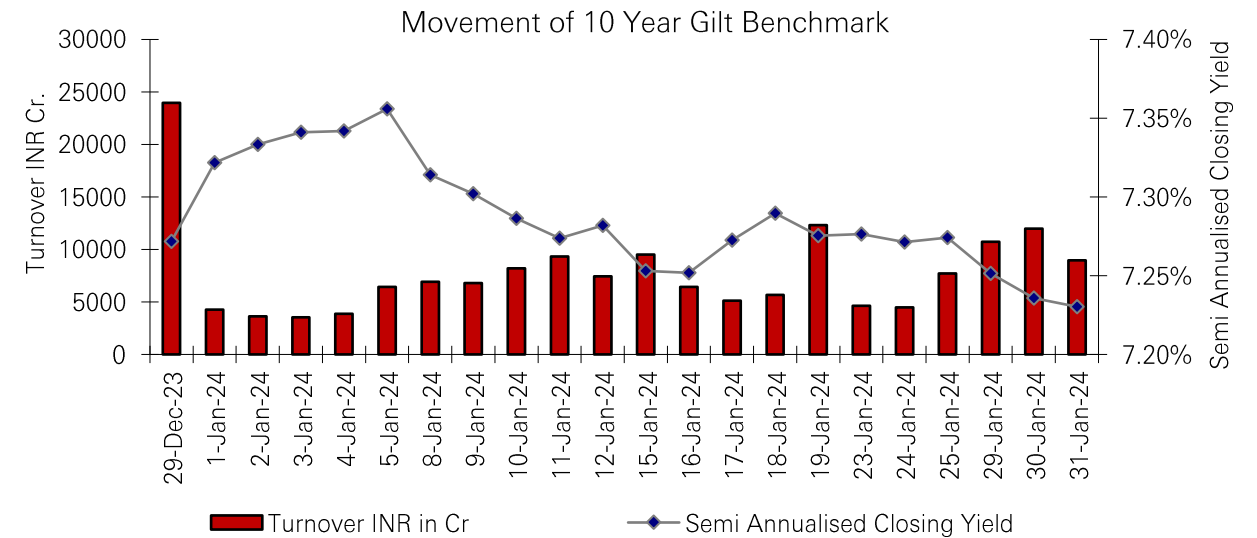
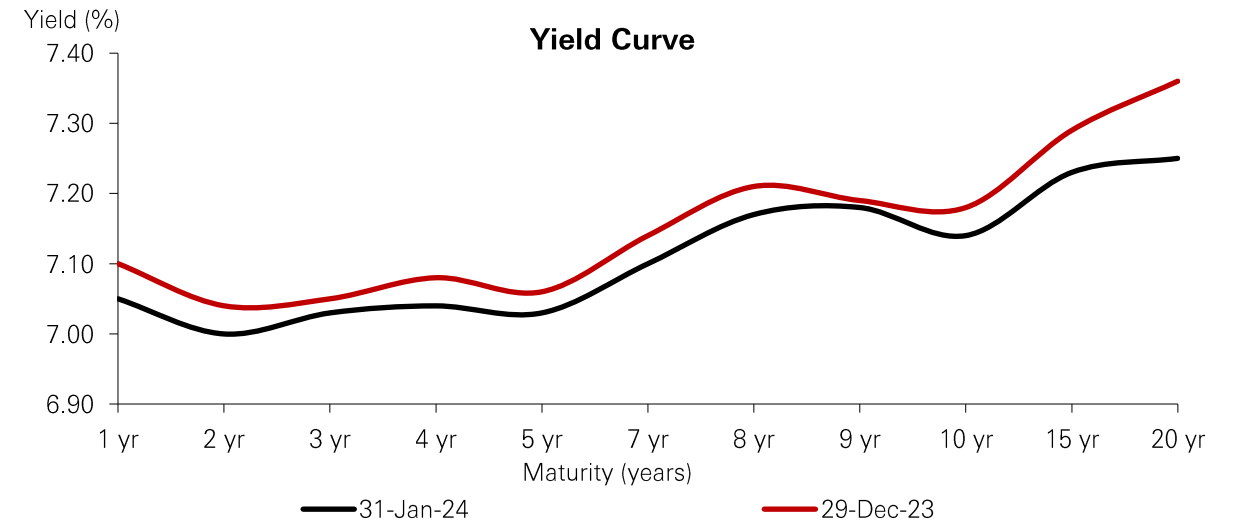
## Bond prices ended higher in January

- Government securities ended January 2024 marginally higher compared with December-end, with the yield on the 10-year benchmark 7.18% 2033 bond coming in at 7.14% on January 31, 2024 compared with 7.18% on December 29, 2023
- Yields declined during the first half of the month on optimism over a proposal to include eligible domestic bonds on the Bloomberg Emerging Market Local Currency Index. The decline was due to expectations that this would lead to sticky inflows into Indian markets over and above the inflows expected from JPMorgan's inclusion of India in its widely tracked emerging market debt index from June onwards
- Indications of stronger-than-expected demand during certain rounds of the RBI's weekly debt auction data also kept yields under pressure
- Further, a fall in the US treasury yield after higher-than-expected US inflation data helped keep bond prices high
- Furthermore, a softer core inflation reading fuelled hopes of RBI policymakers voting to ease the policy stance to neutral, thereby keeping yields low
- Further gains were cut short due to intermittent spikes in US Treasury yields amid hawkish comments from US Fed officials, which dimmed hopes of aggressive rate cuts. Strong US jobs data and higher inflation data from the UK also led to concerns that the US Fed might not immediately start easing policy rates
- Comments of the RBI Governor on inflation also kept yields briefly elevated. Shaktikanta Das stated that India's monetary policy must remain actively disinflationary despite the fall in core inflation and that it would be too premature to talk about a policy pivot at the current juncture

Source: CRISIL, Data as on 31 January 2024, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice. US- United States RBI- Reserve Bank of India

# Debt Market Review

Debt Market Indicators	31-January-24	29-December-23
<b>Call Rate</b>	6.75%	6.25%
<b>3-mth CP rate</b>	8.50%	7.88%
<b>5 yr Corp Bond</b>	7.70%	7.67%
<b>10 Yr Gilt</b>	7.14%	7.18%
<b>Repo</b>	6.50%	6.50%
<b>SDF</b>	6.25%	6.25%
<b>CRR</b>	4.50%	4.50%
<b>1-mth CDs</b>	7.35%	7.33%
<b>3-mth CDs</b>	7.80%	7.30%
<b>6-mth CDs</b>	7.80%	7.62%



Data as on 31 January 2024, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice

Source: CRISIL Fixed Income database

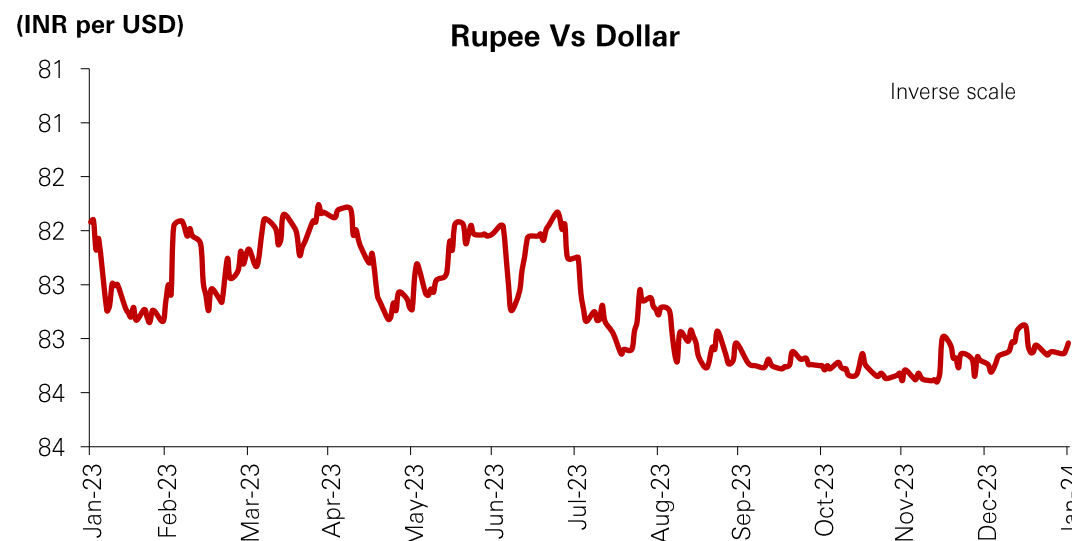


- The Federal Open Market Committee (FOMC) maintained status quo on rates in its January policy meeting while removing “additional policy firming” from the statement, hinting that policy rates have peaked.
- However, they ruled out any easing in March (which markets have been pricing).
- FPI investments in Indian Government Bonds (IGBs) for the month stood at ~ USD 2.4 bn, taking the total investments since the J.P. Morgan index inclusion announcement to ~ USD 6.8 billion.
- The Fiscal Deficit for FY2024 has been revised to 5.8%, against a Budget Estimate of 5.9%, while the Fiscal Deficit for FY2025 is projected at 5.1% (lower than market expectations of ~ 5.3%). This puts the Government in a good position to achieve the 4.5% target by FY2026.
- Gross market borrowing for FY2025 was announced at INR 14.1 trillion, with Net market borrowing at INR 11.8 trillion (including utilisation from GST compensation fund).
- Post the FOMC meeting, Fed fund futures are now pricing in 5-6 rate cuts over the next one year (against 6-7 rate cuts prior to the FOMC). While the volatility in global bond yields may continue and market expectations of the timing and quantum of rate cuts may keep shifting, 2024 is likely to witness an easing cycle across most developed and emerging economies.
- Indian bond markets have so far been less volatile relative to global bond markets. While we do expect an easing cycle in India as well, the rate cutting cycle will probably be a shallow one.
- Given that growth is holding up much better and with the Government’s continued focus on capital spending, the need for RBI to support the economy through any dramatic monetary easing measures is much less.
- Additionally, lower gross borrowing announced in the Budget as well as FPI buying on the back of index inclusion as well as strategic allocations will keep demand for IGBs buoyant.

## Indian rupee advanced in January

- The Indian rupee started 2024 on a positive note, up 0.2% at 83.04 to the US dollar compared with December-end.
- The domestic currency made some early gains in January and also closed with a late rally due to dollar sales by local and foreign banks.
- During the first half of the month, some gains were also seen due to an intermittent fall in crude prices.
- In the second half, the dollar index firmed up, piling up pressure on the local currency amid a weak trend in the domestic equity market.
- Towards the month-end, however, the rupee benefitted from a weakening of the dollar index.

Rupee Movement V/s Global Currencies				
	31-Jan-24	29-Dec-23	Change	% Change
<b>USD</b>	83.04	83.20	0.16	0.2
<b>GBP</b>	105.23	105.73	0.49	0.5
<b>EURO</b>	89.80	91.94	2.14	2.3
<b>100 YEN</b>	56.24	58.73	2.49	4.2



**Strong domestic equities and weak dollar index supported the rupee**

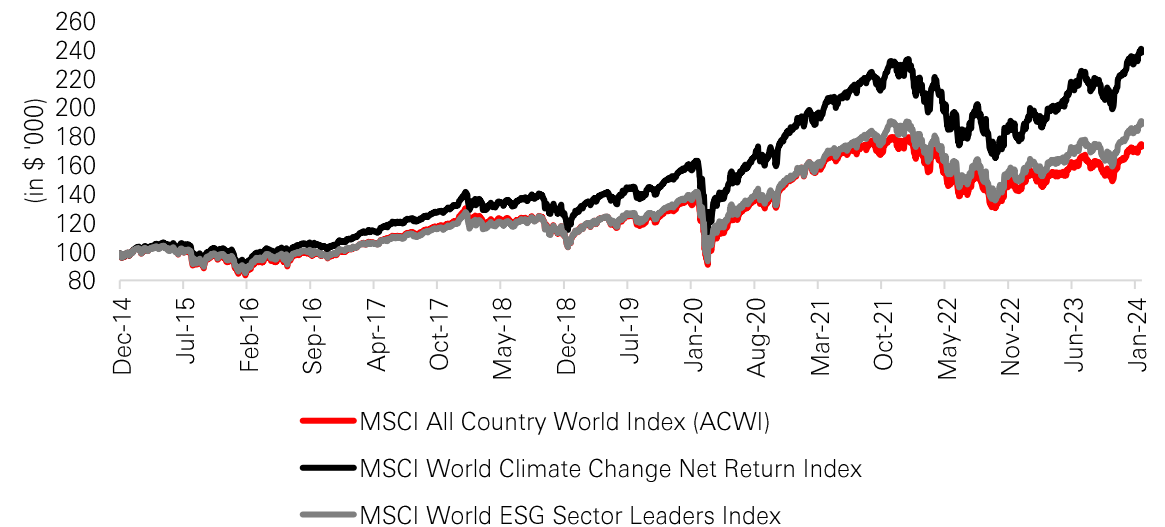
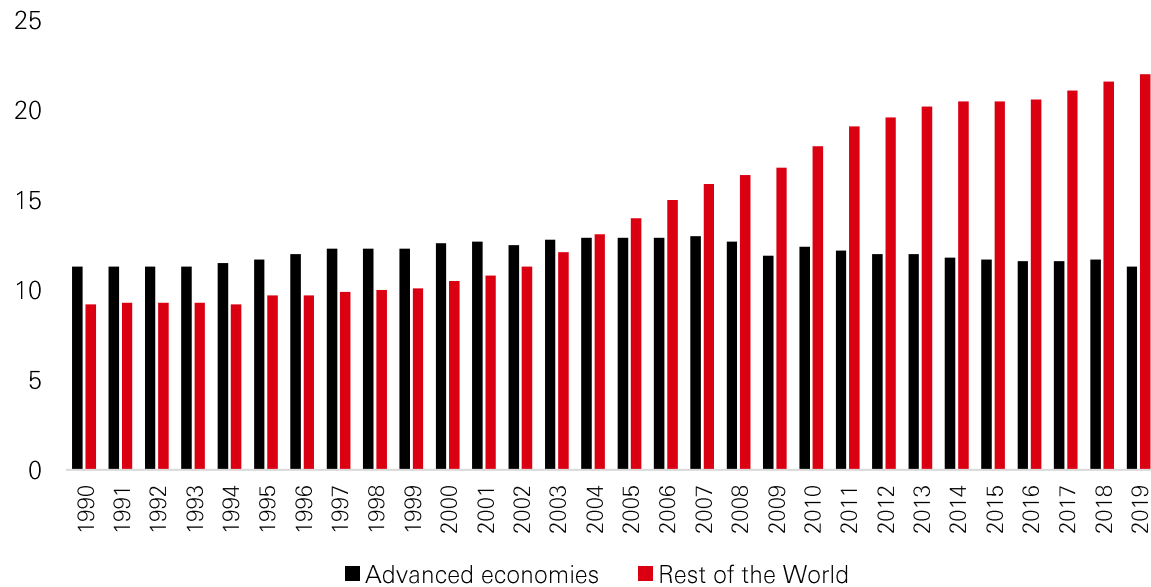
Source: RBI, CRISIL. Data as on 31 January 2024, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice. US- United States

# Climate Change and ESG

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- The issue of climate change (generally measured in terms of carbon dioxide or CO2 emissions) has been in the limelight amid the rising number of climate disasters such as wildfires, floods, droughts, diseases, etc in recent times.
- This has resulted in shifting of focus towards businesses which are sensitive towards tackling these issues or in other words take into consideration the environmental, social and governance (ESG) factors while conducting their business.
- If we consider climate change and ESG themes in terms of performance vis-à-vis general equity for illustrative purposes, a sum of \$100000 invested in MSCI World Climate Change index and MSCI World ESG Sector Leaders index in December 2014 would have grown to \$237906 and \$172841, respectively as on January 31, 2024, as against growth of \$188295 in MSCI All Country World Index (ACWI) during the same period.

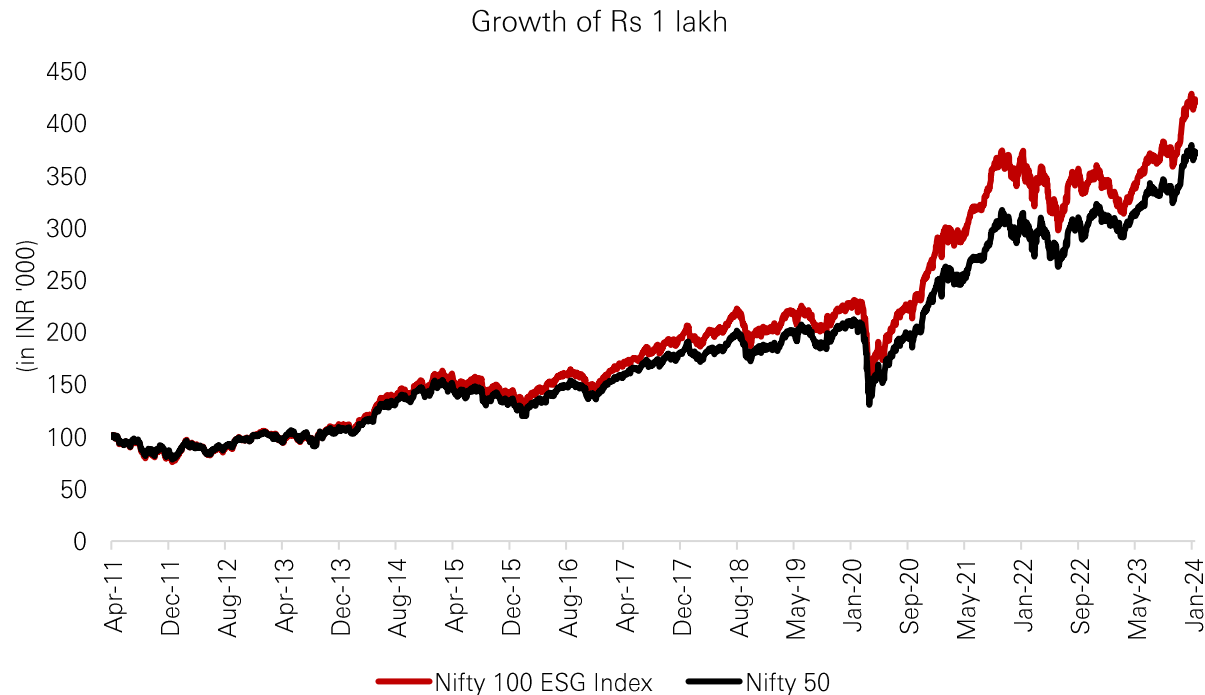
Energy Related CO2 Emissions (in giga tonnes)



Source: CRISIL, Bloomberg, International Energy Agency (IEA)

Data as on 31 January 2024, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.

- In the Indian context, the ESG theme has shown encouraging performance.
- In terms of returns, ESG (represented by Nifty 100 ESG) has outperformed general equity (represented by Nifty 50) across some time periods.
- If long-term growth in ESG scheme is analyzed, if an investor put in INR 100,000 in Nifty 100 ESG and Nifty 50 in April 2011, it would have grown to INR 423,000 and INR 372,000, respectively, for the period ended January 31, 2024.



Period	Performance (%)	
	Nifty 100 ESG	Nifty 50
1 year	27.30	23.01
2 years	9.92	11.93
3 years	15.85	16.77
5 years	15.69	14.93
7 years	15.36	14.22

Source: NSE, Bloomberg. Returns above 1 year are compounded annualized. Data as on 31 January 2024, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.

# Global Economic Update

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## IMF raises its 2024 global growth forecast to 3.1% from 2.9%

- In its World Economic Outlook (WEO), the International Monetary Fund (IMF) projected global growth at 3.1% in 2024 and 3.2% in 2025.
- The 2024 forecast is 0.2 percentage point higher than in October 2023 on account of greater-than-expected resilience in the United States (US) and several large emerging market and developing economies, as well as fiscal support in China.

## US grows 3.3% in fourth quarter of 2023; IMF raises 2024 growth estimates; Fed holds rates

- The US economy grew at an annualised rate of 3.3% in the fourth quarter of 2023 against 4.9% growth in the third.
- Meanwhile, IMF forecast US growth to fall from 2.5% in 2023 to 2.1% in 2024 and 1.7% in 2025, with the lagged effects of monetary policy tightening, gradual fiscal tightening and softening labour markets slowing aggregate demand.
- The US Federal Reserve, at its last policy meet of the year, kept the fed funds rate steady at 5.25%-5.5% for a fourth consecutive meeting and hinted 75 basis points rate cut in 2024.

## Key economic indicators

- The annual inflation rate rose to 3.4% in December from a five-month low of 3.1% in November. The core consumer price inflation rate eased to 3.9% from 4%.
- Non-farm payrolls added 216,000 jobs in December, more than a downwardly revised 173,000 in November. The unemployment rate was unchanged at 3.7%

**US economy grew 3.3% in Q4**



## **Eurozone grows 0.1% in the fourth quarter of 2023; IMF trims 2024 growth projections; ECB keeps rates unchanged**

- The eurozone economy expanded 0.1% annually in the fourth quarter of 2023, following a flat reading in the third. However, growth stagnated on quarterly basis, after shrinking 0.1% in the third quarter.
- Meanwhile, the IMF projected eurozone growth would recover from its estimated 0.5% in 2023 to 0.9% in 2024 and 1.7% in 2025. Stronger household consumption, as effects of the shock to energy prices subside and inflation falls, would support real income growth and drive the recovery
- The European Central Bank (ECB) left its primary refinancing operations rate unchanged at 4.50% in January 2024.

### **Key Eurozone economic indicators**

- The inflation rate eased to 2.8% on-year in January from 2.9% in December while annual core inflation rate eased to 3.3% from 3.4%
- Industrial production declined 6.8% on-year in November against a 6.6% decrease in October.

## **IMF hikes 2024 growth rate; Bank of England holds rates**

- The IMF forecast UK growth to rise modestly, from an estimated 0.5% in 2023 to 0.6% in 2024, as the lagged negative effects of high energy prices wane.
- The Bank of England kept the key bank rate unchanged at a 16-year high of 5.25% for the fourth consecutive time during its first meeting of 2024.

### **Key UK economic indicators**

- The annual inflation rate rose to 4% in December from 3.9% in November, while the core inflation rate came unchanged at 5.1%
- Industrial production fell 0.1% on-year in November, easing from a 0.5% drop in October

**Eurozone economy grew 0.1% in Q4**

## **China grows 5.2% in Q4 2023; ; IMF hikes growth estimates; PBoC signals rate cut**

- The Chinese economy expanded 5.2% annually in the fourth quarter of 2023, accelerating from 4.9% growth in the third.
- Meanwhile, the IMF expects growth in China at 4.6% in 2024 and 4.1% in 2025, with an upward revision of 0.4 percentage point for 2024 since the October 2023 WEO. The upgrade reflects carryover from stronger-than expected growth in 2023 and increased government spending on capacity building against natural disasters.
- The People's Bank of China (PBoC) said it was making a 50 basis points cut, the biggest in two years, in the amount of cash banks must hold as reserves, effective February 5.

## **Key Chinese economic indicators**

- The country's trade surplus increased to \$75.34 billion in December, compared with \$68.39 billion in November
- Industrial production grew 6.8% on year in December, after a 6.6% gain in November

## **IMF sees 2024 growth at 0.9%, lower from 1.9% in 2023; Bank of Japan holds rates**

- The IMF projected Japan's growth to decelerate from an estimated 1.9% in 2023 to 0.9% in 2024 and 0.8% in 2025. It is expected to reflect the fading of one-off factors that supported activity in 2023, including a depreciated yen, pent-up demand and a recovery in business investment following earlier delays in implementing projects.
- Meanwhile, the Bank of Japan kept its key short-term interest rate unchanged by unanimous vote at -0.1% and that of 10-year bond yields at ~0% in its first meeting of 2024

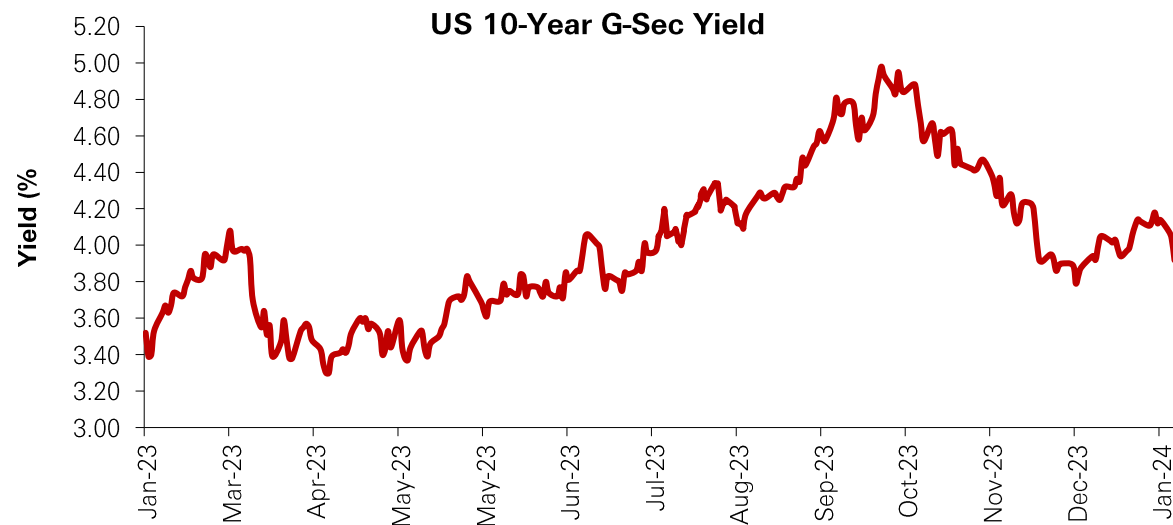
## **Key Japanese economic indicators**

- Its trade balance shifted to a surplus of 62.10 billion yen in December compared with a deficit of 780.4 billion yen
- Annual inflation rate fell to 2.6% in December 2023 from 2.8% in November while core consumer price index rose 2.3%, slowing from 2.5%

Source: CRISIL, Data as on 31 January 2024, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.

## US treasury prices fell in January

- US Treasury prices declined in January. Yield on the 10-year Treasury settled at 3.92% on January 31, 2024, compared with 3.89% on December 29, 2023.
- Bond prices declined mainly due to diminishing hopes of rate cut by the Federal Reserve (Fed).
- However, further gains in yield halted due to higher-than-expected rise in consumer inflation for December.



Global bond yields			
	31-Jan	29-Dec	Change
<b>US 10-Year (%)</b>	3.92	3.87	0.05
<b>UK 10-Year (%)</b>	3.80	3.54	0.26
<b>German 10-Year (%)</b>	2.16	2.03	0.13
<b>Japan 10-Year (%)</b>	0.74	0.62	0.12

**US treasury yield rose on prospects of higher rates for longer**

Source: CRISIL, Bloomberg, Data as on 31 January 2024, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.

# Economic Events Calendar

Date	Indicators	Previous
08-February-24	China Inflation Rate, January	-0.3%
	India RBI Interest Rate Decision	6.5%
12-February-24	US Consumer Inflation Expectations, January	3%
	India Inflation Rate, January	5.69%
	India Industrial Production, December	2.4%
13-February-24	US Inflation Rate, January	3.4%
14-February-24	Eurozone GDP Growth Rate QoQ 2nd Est Q4	-0.1%
	UK Inflation rate, January	4%
	India WPI Inflation, January	0.73%

Source: CRISIL, Data as on 31 January 2024, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.  
 US- United States, UK- United Kingdom, GDP- Gross Domestic Product, WPI- Wholesale Price Index

# Economic Events Calendar (cont'd)

Date	Indicators	Previous
15-February-24	UK GDP Growth Rate QoQ Prel Q4	-0.1%
	Japan GDP Growth Rate QoQ Prel Q4	-0.7%
	India Balance of Trade, January	-\$-19.8 billion
20-February-24	China Loan Prime Rate 1Y/5Y, February	3.45% & 4.2%
28-February-24	US GDP Growth Rate QoQ 2nd Est	NA
29-February-24	US PCE Price Index, January	2.6%
	India GDP Growth Rate YoY Q4	7.6%
	India Fiscal Deficit, January	Rs 9822.78 crore
	India Infrastructure Output, January	3.8%

Source: CRISIL, Data as on 31 January 2024, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.  
 US- United States, UK- United Kingdom, GDP- Gross Domestic Product, PCE – Personal Consumption Expenditure

# Annexure Indian Economic Environment

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## Other major developments

- Finance minister during interim budget 2024-25 said that the government has pegged fiscal deficit for the next fiscal at 5.1% of GDP compared with the revised estimate of 5.8% for this fiscal. It aims to narrow the deficit to below 4.5% by fiscal 2026.
- The budget estimates the effective capital expenditure (capex) of the central government at Rs 11.11 lakh crore for fiscal 2025, which is 3.4% of the GDP. The revised budget estimate for capex for this fiscal is Rs 9.4 lakh crore.
- Allocation for blue revolution has been increased to Rs 2,352 crore for fiscal 2025 from Rs 2,025 crore
- Prime Minister Modi announced the Pradhan Mantri Suryodaya Yojana, under which rooftop solar systems will be installed in 1 crore households.
- The Union Cabinet approved the overarching scheme PRITHvi Vlgyan (PRITHVI) of the Ministry of Earth Sciences, which encompasses five ongoing sub-schemes: Atmosphere & Climate Research-Modelling Observing Systems & Services (ACROSS); Ocean Services, Modelling Application, Resources and Technology (O-SMART); Polar Science and Cryosphere Research (PACER); Seismology and Geosciences (SAGE); and Research, Education, Training and Outreach (REACHOUT). The scheme will be implemented during 2021-26 at an overall cost of Rs 4,797 crore.
- The Union Cabinet approved a viability gap funding (VGF) scheme of Rs 8,500 crore for coal gasification projects for public and private sector companies.
- The Cabinet approved a memorandum of understanding (MoU) between India and the European Commission on Working Arrangements on Semiconductors Ecosystems under the framework of EU-India Trade and Technology Council (TTC). The MoU seeks to strengthen cooperation between India and the EU to boost cooperation for semiconductor research, innovation and the advancement of technologies.
- The Cabinet approved an MoU between India and the United States for International Development/India (USAID/India) for supporting Indian Railways to achieve Mission Net Zero Carbon Emission by 2030.
- The RBI reviewed the norms pertaining to the eligibility criteria and board oversight for the declaration of dividends by banks.

Source –CRISIL, Data as on 31 January 2024, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.  
RBI- Reserve Bank of India GDP- Gross Domestic Product

## Regulatory developments in the month

- The RBI reviewed the norms pertaining to the eligibility criteria and board oversight for the declaration of dividends by banks.
- Acting on recommendations of the inter-governmental organisation Financial Action Task Force (FATF), the RBI updated know your customer (KYC) norms for politically exposed persons (PEPs) who transact with regulated entities (REs). It also changed the definition of PEPs under its norms with the objective of making it easier for such individuals to carry out various banking transactions.
- The RBI limited retail investors' investments in primary issuances of non-convertible debentures and commercial papers to a quarter of the total issuance to minimize investors' losses in case of default on short-term financial instruments.
- The RBI issued a draft circular that seeks to harmonise regulations of housing finance companies (HFCs) with those of NBFCs in several aspects, including minimum capital requirement and deposit taking, among others.
- The RBI came out with a draft framework that lays down broad functions, governance standards and eligibility criteria for setting up a self-regulatory organisation for fintech companies (SRO-FT). It also invited applications for SROs for fintech firms, either for the entire sector or for specific sub-sectors. The number of SROs to be recognised would eventually be based on the number and nature of applications received.
- SEBI cautioned against a round-the-clock trading window from an infrastructure resilience perspective and highlighted that it has neither heard officially from anyone nor formed any opinion on the issue so far.
- SEBI issued a circular instructing institutional investors to disclose short-sell trades upfront while placing orders. Retail investors have been permitted till the end of the trading day to make the same declaration.

## Key economic indicators released in the month

- As per latest data released by the Ministry of Statistics & Programme Implementation (MoSPI), India's industrial production growth rate measured by the Index of Industrial Production (IIP) slumped to 2.4% in November 2023 from 11.7% on-year growth in October 2023. This was the slowest growth witnessed in eight months.
- Meanwhile, India's eight core sectors registered a modest 3.8% on-year growth in December, down from 7.9% in the preceding month. This was the slowest growth recorded in 14 months.
- In December 2023, India's merchandise trade deficit narrowed to \$19.8 billion in December 2023 from \$23.14 billion in the corresponding month a year ago

Source –CRISIL, Data as on 31 January 2024, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.

RBI- Reserve Bank of India GDP- Gross Domestic Product



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