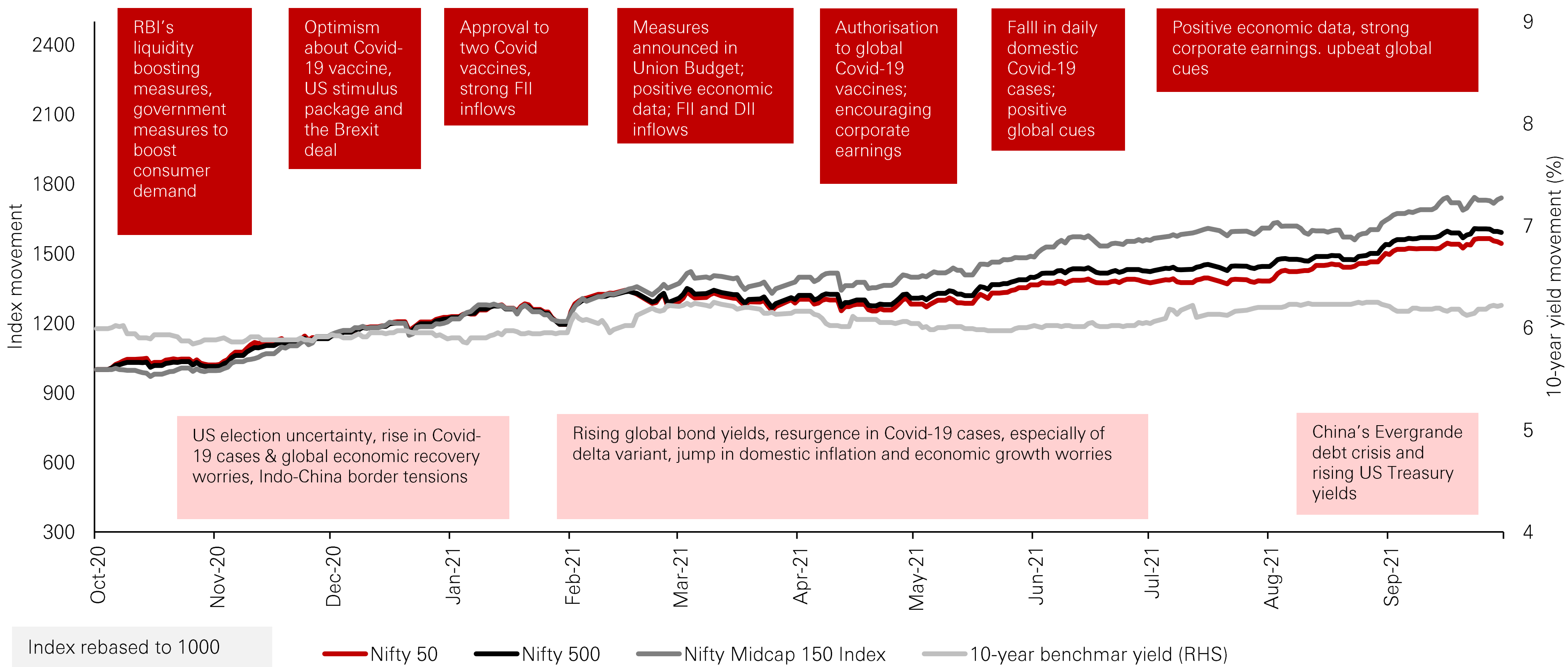
Market Explorer

Market overview and outlook

HSBC Asset Management

October 2021

Looking back – Events and India Markets



Nifty 50 gained around 3% over the previous month on hopes of quicker domestic economic recovery

Source: CRISIL
Key events and performance of the Indian market (Nifty 50 and Nifty 500 rebased to 1000) in October 2020 – 30 Sep 2021
Data ended September 2021 except otherwise mentioned. Past performance is not indicative of future performance.

Indian Economic Environment

- Indian economy is on a sustained path of revival visible with a rise in GST collections, direct taxes and other economic indicators.
- Chief Economic Adviser: India will register over 7% annual growth during this decade owing to strong economic fundamentals.
- Government announced the relief package for the telecom sector:
  - Rationalised the adjusted gross revenue (AGR) definition to exclude non-telecom revenue,
  - Approved a moratorium of four years for the payment of the AGR and spectrum dues.
  - Increased the foreign direct investment (FDI) under automatic route to 100% from 49%,
  - Allowed spectrum sharing; telecom operator can share where they deem beneficial
- Approved production-linked incentive (PLI) scheme worth INR 26,058 crore for auto and drone sectors.
- INR 10,683 crore PLI scheme for the textile sector.

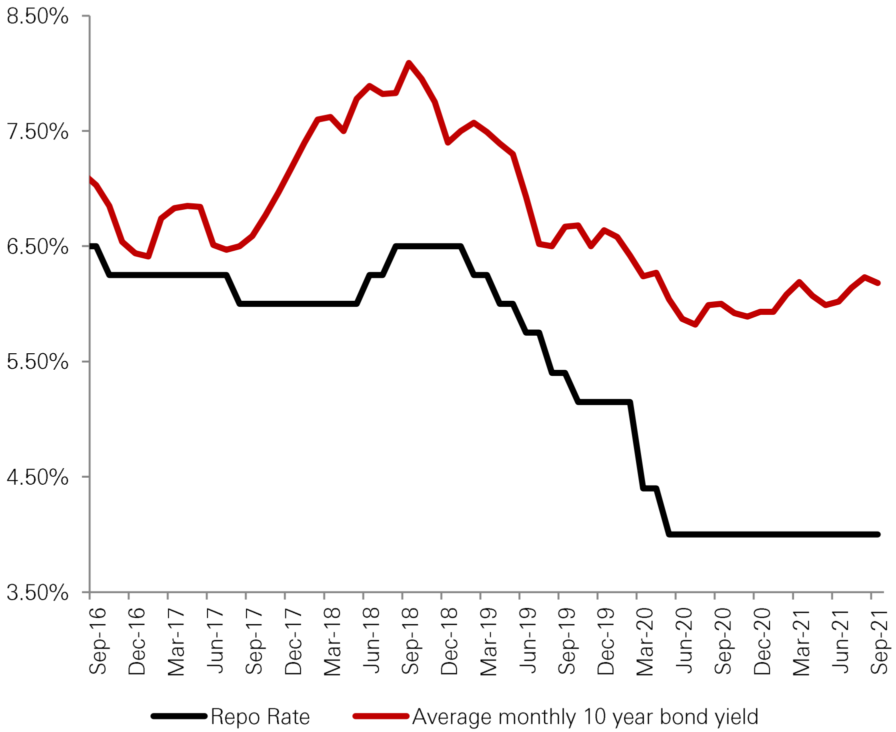
Indicators	Current	Previous
Monthly CPI Inflation	5.30% (August 2021)	5.59% (July 2021)
Industrial Growth	11.5% (Jul 2021)	13.6% (Jun 2021)
Exports	$164.10 bn (April-August FY22)	$98.06 bn (April-August FY21)
Imports	$219.63 bn (April-August FY22)	$121.42 bn (April-August FY21)
Trade Balance	- $55.53 bn (April-August FY22)	-$23.36 bn (April-August FY21)
Gross Tax Collections	INR 8,59,580 cr (April-August FY22)	INR 5,04,200 cr (April-August FY21)

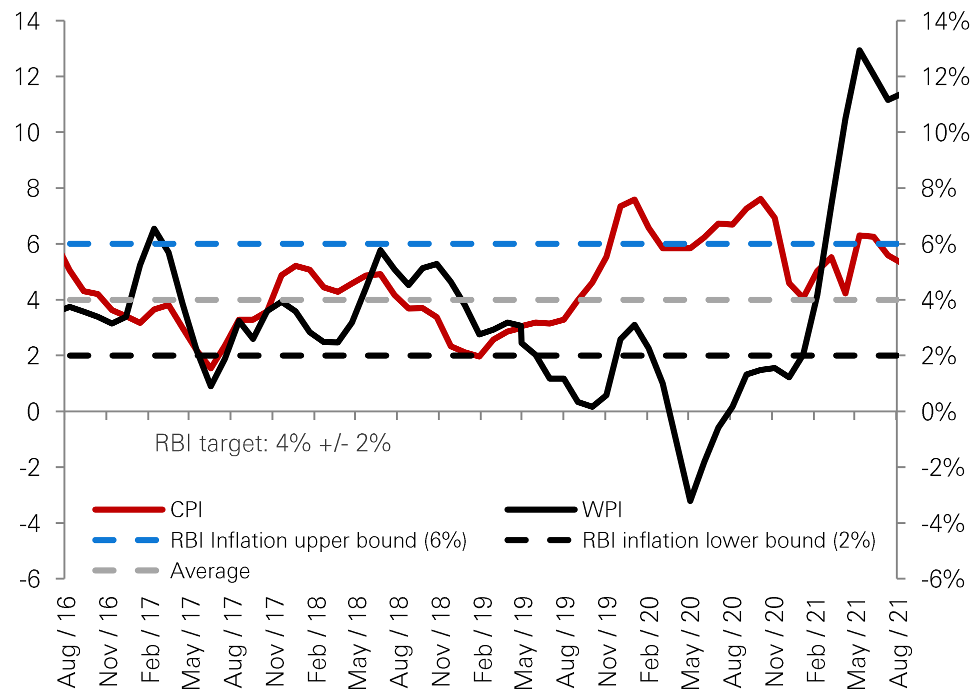
Optimism prevails over a rebound in the domestic economy

Source – Central Statistical Organisation (CSO), CRISIL Data ended September 2021 except otherwise mentioned.

India Repo rate remains unchanged at 4%

- RBI's calibrated normalisation continues while accommodation remains.
- RBI remains supportive of growth as recovery is still in nascent stage and uneven across sectors reiterating their "whatever it takes" mode, with a readiness to deploy all its policy levers - monetary, prudential or regulatory.



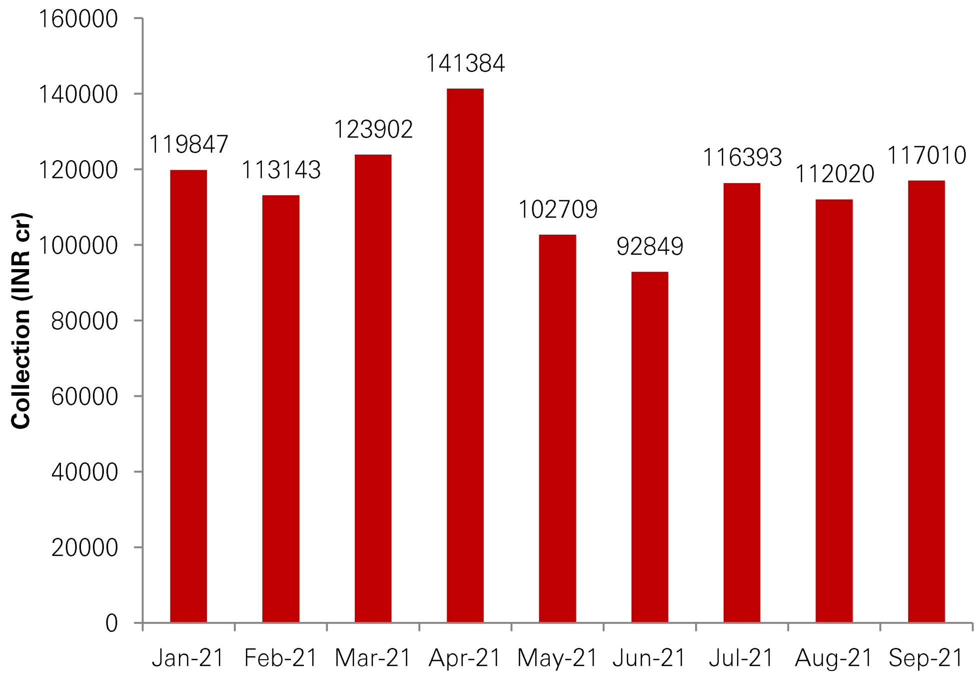


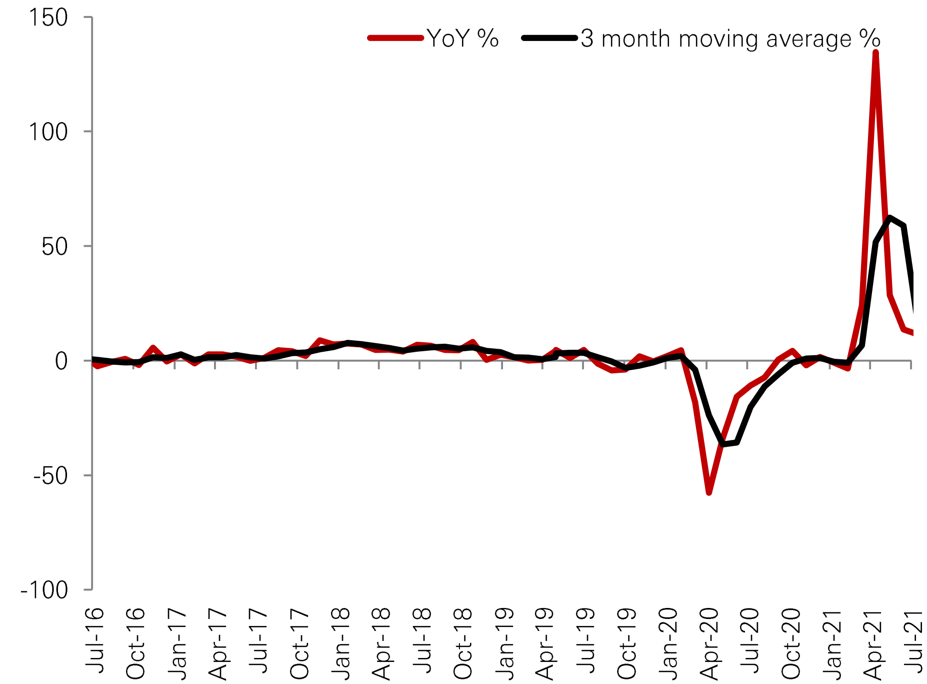
CPI inflation comes back below the RBI's max target range

Source: RBI, CRISIL Research, MOSPI Data as of September 2021 except otherwise mentioned. except otherwise mentioned Past performance is not indicative of future performance

GST collection well above Rs.1 lakh crore for last 3 months

GST collection for September came in at INR 1.17 lakh crore compared with August's INR 1.12 lakh crore.





India's IIP grew 11.5% vs a contraction of 10.5% in July 2020.

Source: Ministry of Finance, MOSPI, Data ended September 2021 except otherwise mentioned . Past performance is not indicative of future performance

Sectoral performance long term trends

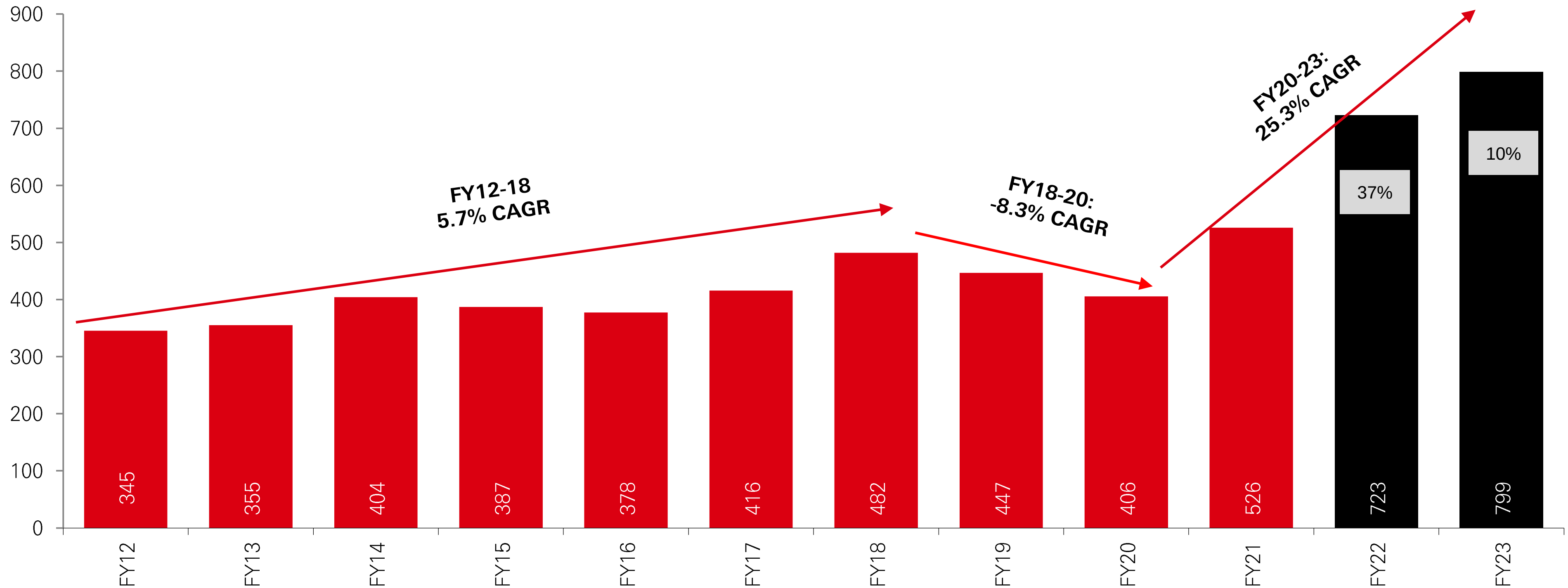
Sectoral returns – Sectoral indices post positive performance over the 10-year period

Sectoral indices	% Change										
	CY12	CY13	CY14	CY15	CY16	CY17	CY18	CY19	CY20	CY21*	10-year CAGR*
S&P BSE IT	-1.18	59.78	16.54	4.51	-8	10.83	24.93	9.84	56.68	41.94	20.61
S&P BSE CD	46.08	-24.59	66.18	24.02	-6.34	101.92	-8.79	20.86	21.52	36.02	20.56
S&P BSE Healthcare	38.53	22.55	47.43	15.06	-12.88	0.49	-5.92	-3.55	61.45	20.35	16.08
S&P BSE BANKEX	56.72	-9.36	65.04	-9.92	7.35	39.08	5.27	20.72	-2.14	19.06	14.68
S&P BSE FMCG	46.61	11	18.27	1.36	3.29	31.54	10.6	-3.58	10.55	17.87	14.27
S&P BSE Auto	40.31	7.29	51.98	-0.6	9.39	32.06	-22.12	-11.27	12.59	14.68	10.87
S&P BSE Capital goods	34.71	-5.56	50.45	-8.51	-3.28	40.03	-1.63	-9.97	10.63	38.53	9.22
S&P BSE Realty	53.44	-32.09	8.49	-13.55	-5.98	106.36	-31.07	26.85	8.66	65.6	8.81
S&P BSE Oil & Gas	13.14	3.71	12.01	-3.43	27.17	34	-15.57	7.25	-4.44	29.89	7.97
S&P BSE Metal	19.13	-9.99	7.91	-31.2	36.65	47.78	-20.75	-11.92	11.23	73.99	6.26
S&P BSE Power	10.86	-14.57	23.03	-6.44	1.53	19.83	-16.06	-3.65	7.05	55.12	4.17
S&P BSE PSU	15.24	-19.43	39.21	-17.18	12.88	19.27	-21.11	-3.88	-16.88	46.54	1.36

Source: BSE, Data ended September 2021 except otherwise mentioned
Figures in red indicate negative returns in that period. *CY21 and 10-year CAGR are as of September 2021
Past performance is not indicative of future performance.

Earnings trend

India - Equity earnings (Nifty 50 EPS)

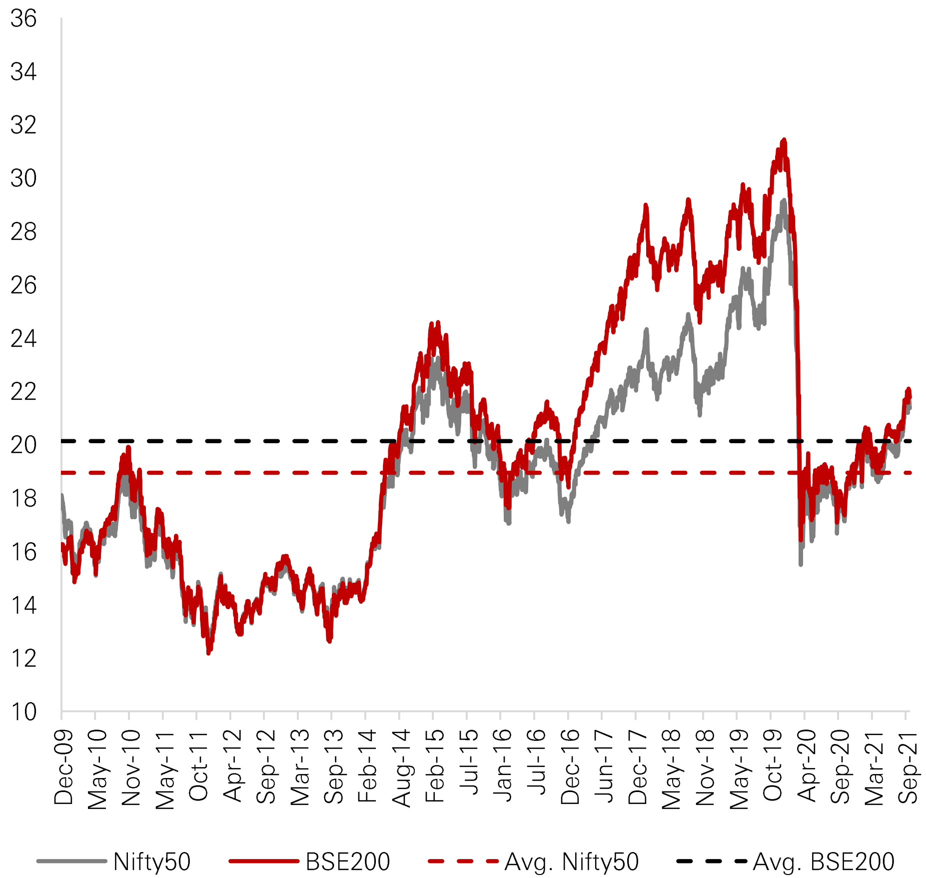


Nifty 50 EPS may grow at ~25% CAGR over FY20-23, vs ~8% de-growth in FY18-20

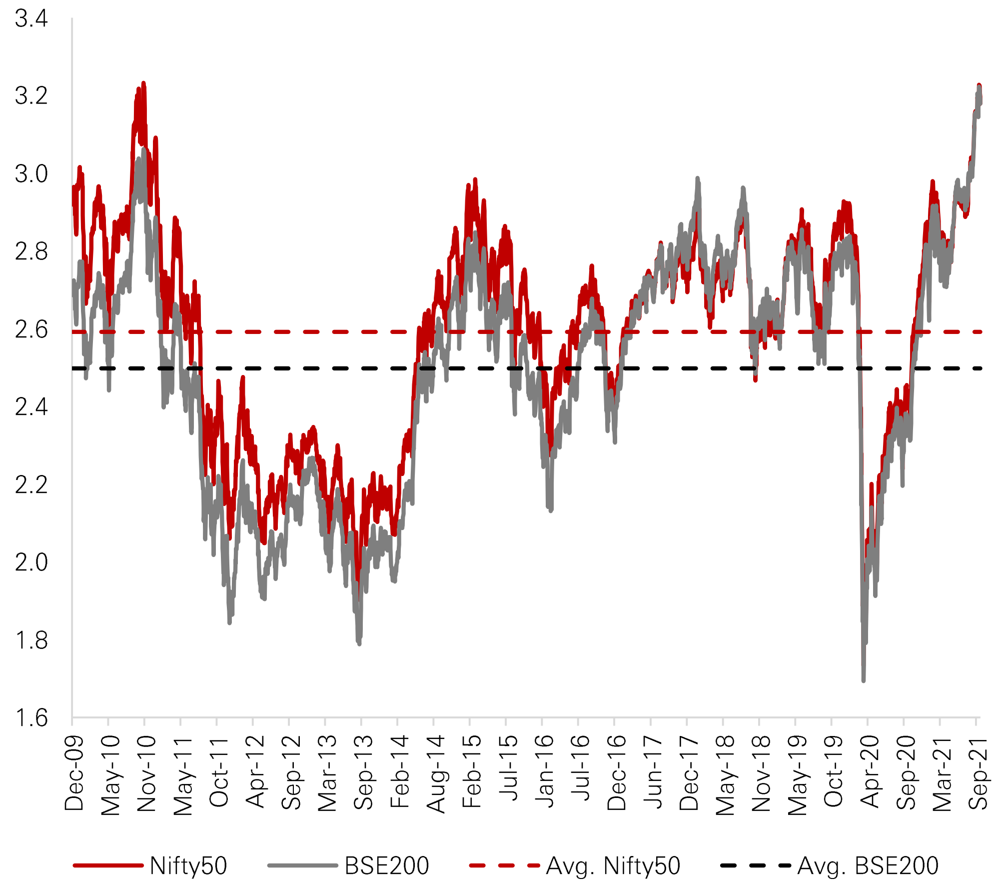
Note: Trailing 12M EPS (Earnings Per Share)
Black shaded columns are estimates of FY22 - FY23
Source: Bloomberg, Data as of September 30, 2021. Past performance is no guarantee of future returns

Market valuations – Nifty 50 and S&P BSE 200

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



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



Valuations remain above the long term averages

Source: Bloomberg, data as on September 30, 2021

Investment involves risks. Past performance is not indicative of future performance,

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Equity Market Outlook

- Equities continued to exude optimism during the month, despite some headwinds in the form of weak global cues
- A major credit default event in China, rising global bond yields, spike in crude oil prices and rich valuations.
- Domestic news flows however, were supportive with steady recovery ahead of the festive season, stable macro data releases, moderation in inflation and improvement in vaccination coverage.
- Going into the earnings season, the short term outlook is unpredictable in the context of the historically high valuations.
- Negative surprises from earnings could lead to disproportionate market reactions, Stable to positive trends should help to sustain market valuations.
- On P/E basis, Nifty is currently trading at 24.2x / 20.6x FY22/23 earnings estimates.
- Nifty has moved in tandem with the earnings growth expectations (12M forward) on a CYTD basis.
- We expect this trend to continue going forward and expect equity performance to be driven by change in earnings growth estimates, even as the valuations should largely hold up.
- Corporate commentary has so far remained constructive.
- The upcoming festival season is crucial in providing an impetus to the domestic demand improvement.
- Higher inflation currently is assessed to be transient in nature but there could be a risk of sustained hardening of inflation expectations.
- We see cyclical revival to provide multi-year earnings visibility and this coupled with a benign cost of capital environment, should support equity performance.
- We remain positive on equity markets from a medium to long term perspective.

Source: HSBC Asset Management, India, Data as of September 2021 except otherwise mentioned.

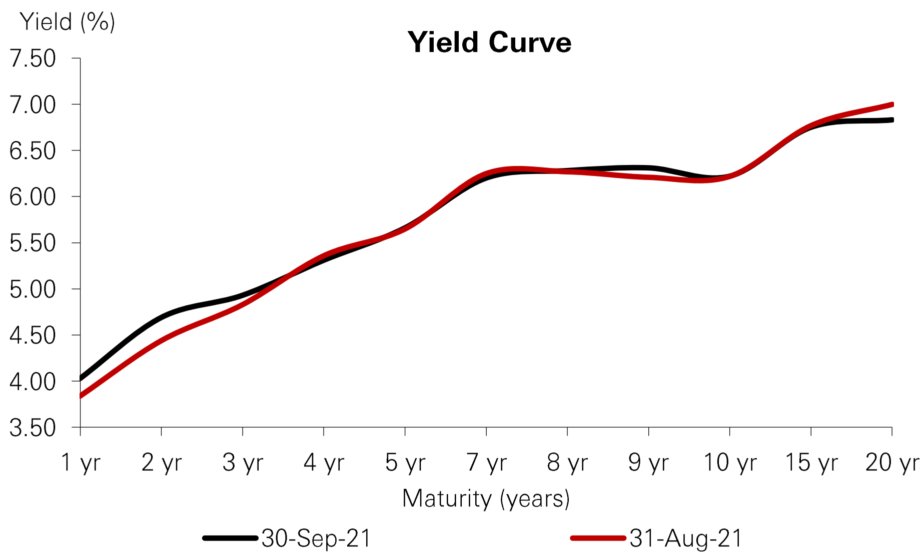
Equity Investment Strategy Update

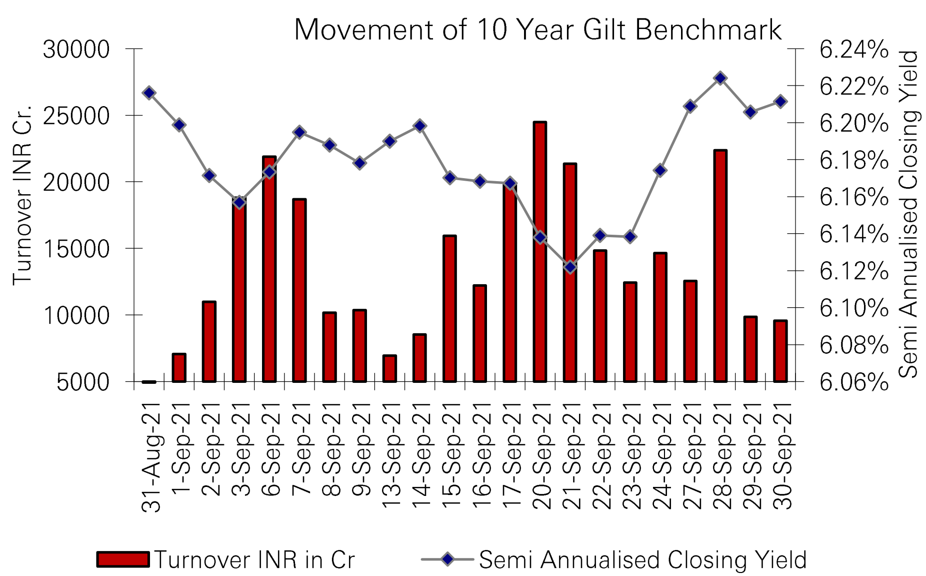
- We prefer dominant businesses having scalable businesses and available at reasonable valuations.
- Our portfolio construction is driven by a bottom up approach to stock selection with a focus on names that can deliver positive earnings surprises.
- We continue to focus on this theme to identify likely outperformers.
- From a portfolio perspective, we are maintaining a pro-cyclical bias. This is driven by strong medium term earnings outlook.
- The multi-year earnings visibility is on the back of the economy witnessing a cyclical recovery due to revival in capex cycle over the next 2-3 years.
- From a sectoral perspective our order of preference is rate sensitives followed by domestic cyclicals, exporters and domestic consumption. Predominantly regulated businesses come last in our pecking order.
- This preference is dictated by our assessment of sectors / segments leading contribution to the market earnings growth over the next 2-3 years.
- In line with the above thought process, we hold a positive view on Financials (private banks), Healthcare, Real Estate, Materials (Cement and Chemicals) and Industrials sectors. Consumer Discretionary and Technology are neutral sectors.

Source: HSBC Asset Management, India, Data as of September 2021 except otherwise mentioned.

Debt Market

Debt Market Review





Debt Market Indicators	30-Sep-21	31-Aug-21
Call Rate	2.85%	3.10%
3-mth CP rate	3.85%	3.55%
5 yr Corp Bond	6.05%	6.10%
10 Yr Gilt	6.22%	6.22%
Repo	4.00%	4.00%
Reverse Repo	3.35%	3.35%
CRR	4.00%	4.00%
1-mth CDs	3.39%	3.15%
3-mth CDs	3.54%	3.30%
6-mth CDs	3.72%	3.55%

Source: CRISIL Data as of September 2021 except otherwise mentioned.,

Debt Market Outlook

- In Sep '21, the debt markets started off on a robust note, with ample liquidity and encouraging fiscal trends driving a rally across the G-Sec curve and corporate bonds.
- Towards the end of the month we saw the gains being given away on the back of weak global cues.
- H2 Borrowing calendar was a positive surprise, 2-5yr bucket has a lower proportion in H2 compared to the previous 6 months.
- Market reaction was quite muted to the positive surprise, outweighed by the negative global cues.
- Inflation numbers are likely to stay contained in the next couple of months, also aided by favorable base effects.
- On the flip side, crude prices have reached a 3 year high, and global bond yields once again seem to be inching upwards.
- We expect that RBI support will continue to remain and will help balance the H2 borrowing supply to a good extent.
- While RBI might be more pro-active in managing and slowly normalizing the significant quantum of liquidity surplus from here on, we believe that RBI will do so without spooking markets in any way,
- The current steepness in the curve may remain.
- With the attractive carry in the short to medium part of the curve, we would favor this segment to other parts of the curve, both on the G-Sec and corporate bond side.
- We expect the longer end to remain in the range with RBI supporting the curve in case of undue stress.
- In this segment we intend to position with a neutral stance versus the index and intend to take advantage tactically of any opportunities that may arise on the longer end of the curve depending on market conditions.

Source: HSBC Global Asset Management, India, Data as of September 2021 except otherwise mentioned

Global Economic Update

Global Economic Update

Global GDP

- OECD expects **global growth** to expand 5.7% in 2021
- **US GDP** rose 6.7% in Q2 2021; Fed signals tapering of stimulus
- **Eurozone GDP** rebounded to 14.6% in Q2 2021; ECB decides to slow bond buying
- **UK GDP** grew 5.5% in Q2 2021; Bank of England holds rates
- World Bank raises China's GDP forecast while ADB and OECD maintain status quo; China's PBOC maintains rates amid Evergrande debt default shadow

Key US economic indicators

- The US economy added 235,000 jobs in August 2021, compared with a revised 1.05 mn jobs in July 2021
- Consumer price index (CPI) rose by 5.3% on-year in August from 5.4% in July, while producer price index rose by 8.3% on-year in August following a 7.8% rise in July.
- ISM manufacturing PMI crept up to 61.1 in September from 59.9 in August.
- ISM non-manufacturing index fell to 61.7 in August after reaching an all-time high of 64.1 in July.
- Retail sales rose by 0.7% in August after plunging by a revised 1.8% in July.
- Industrial production rose by 0.4% in August after rising by a downwardly revised 0.8% in July.

Key Chinese economic indicators

- The country posted a trade surplus of $58.34 bn in August compared to a $56.6 bn surplus in July.
- Industrial production grew moderately by 5.3% on-year in August, slower than the 6.4% increase seen in July.
- Japan's economy grew 1.9% in Q2 2021; Bank of Japan holds rate unchanged

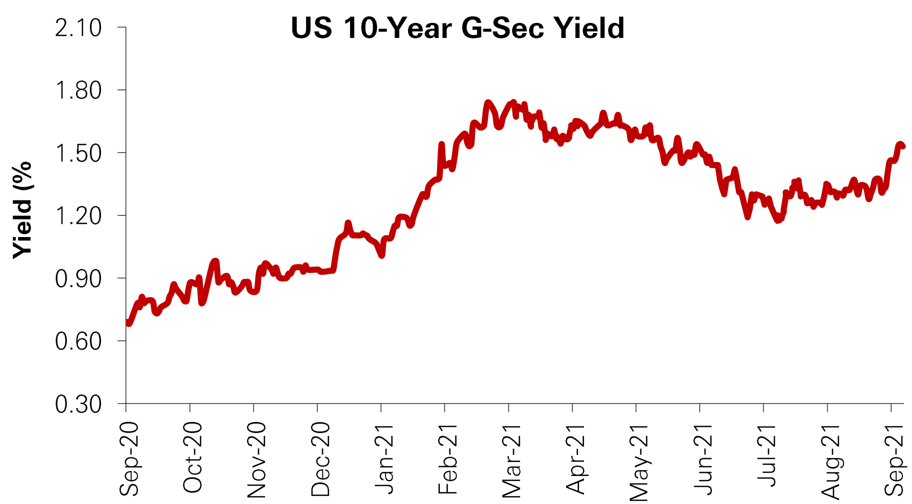
US economy grew 6.7% in Q2

Source : CRISIL. Data ended September 2021 except otherwise mentioned

US Fixed Income Markets - Overview

US treasury prices fell in September

- The US 10-year benchmark Treasury yield settled at 1.49% on September 30 compared with 1.31% on August 31.
- The release of some US economic indicators triggered bond selling.
- Indications from global central banks that interest rates would be hiked soon, added to the pressure on bond prices.
- However, a smaller-than-expected rise in consumer prices aided US Treasury prices.
- A global sell-off in financial markets on worries that Chinese property developer Evergrande Group might default, further enhanced the safe-haven appeal of US bonds.



Global bond yields			
	30-Sep	31-Aug	Change
US 10-Year (%)	1.49	1.31	0.18
UK 10-Year (%)	1.02	0.62	0.40
German 10-Year (%)	-0.21	-0.39	0.18
Japan10-Year (%)	0.06	0.03	0.03

Source: Bloomberg. Data ended September 2021 except otherwise mentioned

Climate Change and ESG

Global Climate Change and India ESG Performance

- 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 various time periods.

Period	**Performance (%)**	
	Nifty 100 ESG	Nifty 50
1 year	61.32	56.64
3 years	20.41	17.20
5 years	17.73	15.38

Source: CRISIL, NSE, Bloomberg. Data as of September 2021. Returns above 1 year are compounded annualized.

Investment involves risks. Past performance is no guarantee of future returns

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