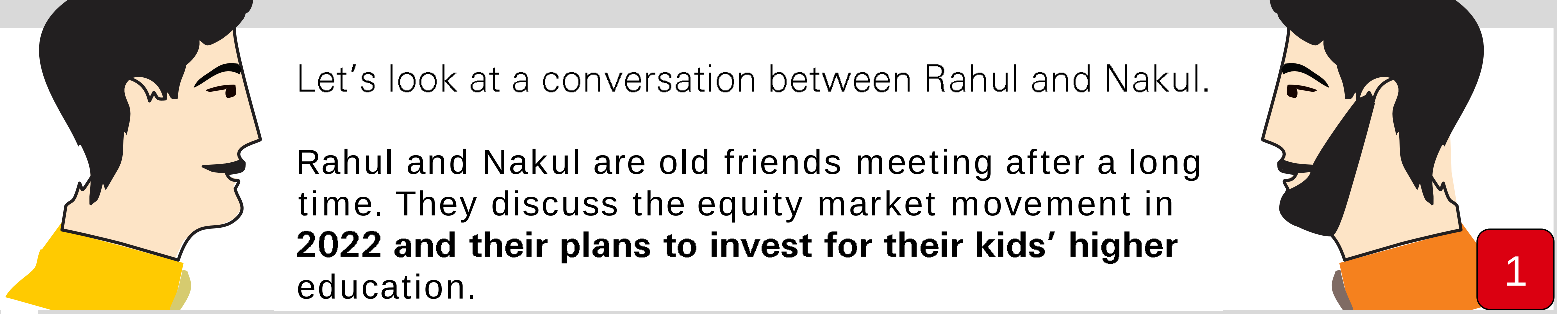
Why equity?

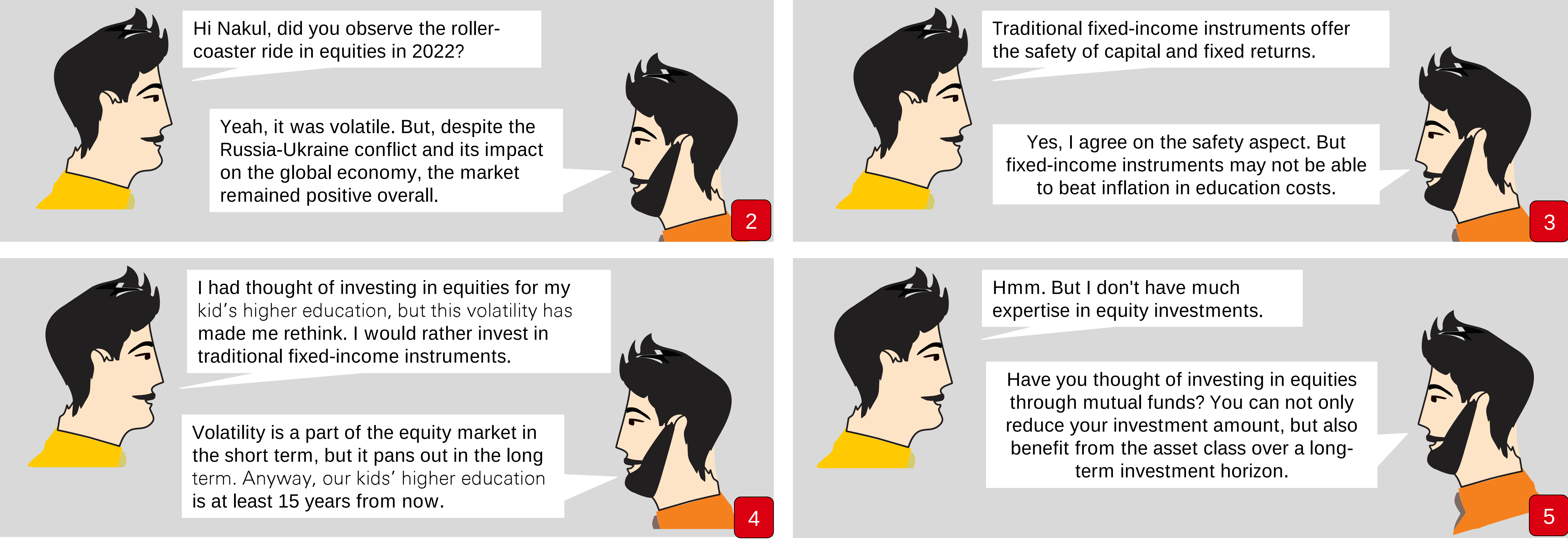
A far-off investment goal can ride out market lows

An Investor Awareness & Education Initiative
February 2024

HSBC Mutual Fund | Opening up a world of opportunity

Why make equities a part of your investment portfolio?

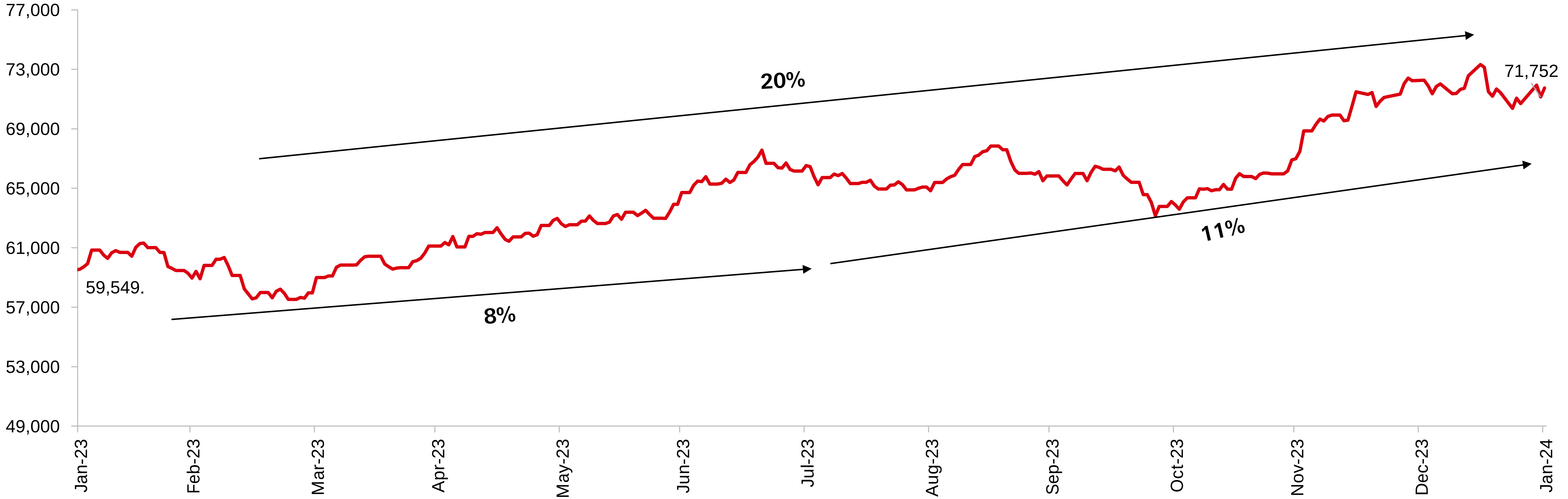




Systematic investments in equities provide optimum results for investors over the long term

Source – HSBC Mutual Fund, CRSIL, The above data / infographic is for illustration purposes only. Past performance may or may not be sustained in future and is not a guarantee of any future returns.

After decline in the initial part of 2023, Sensex is above the 72,000 mark

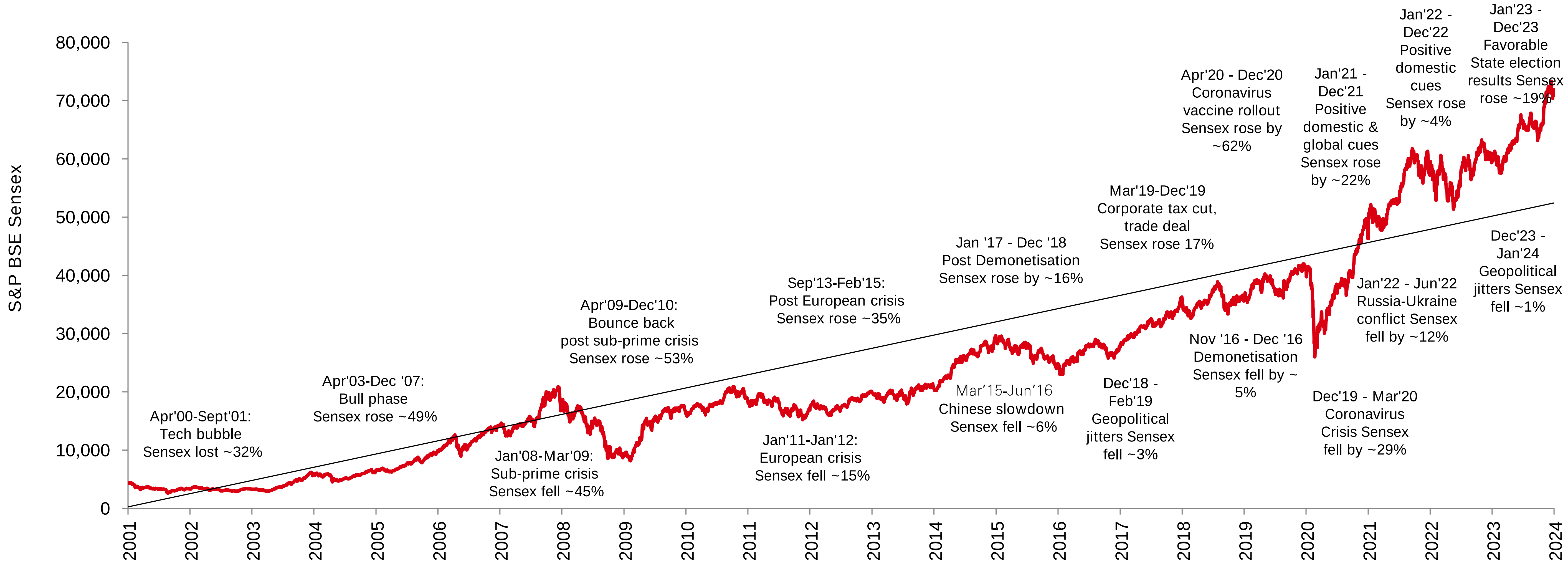


- Concerns over economic growth slowdown due to monetary policy tightening and banking crisis in the US, dragged down equities from January 2023 till February 2023.
- However, markets recovered with S&P BSE Sensex gaining 8% from the end of January 2023 till July 2023 and continued it uptrend after July 11% to return 20% for the year

Source: BSE, Note: Past performance may or may not be sustained in future and is not a guarantee of any future returns.

The ride may not be smooth, but Equities tend to head up

Highs interspersed with lows



Source: BSE, CRISIL Research Data as of January 2024,
Returns for period less than one year are absolute; otherwise, annualised , Past performance may or may not be sustained in future and is not a guarantee of any future returns.

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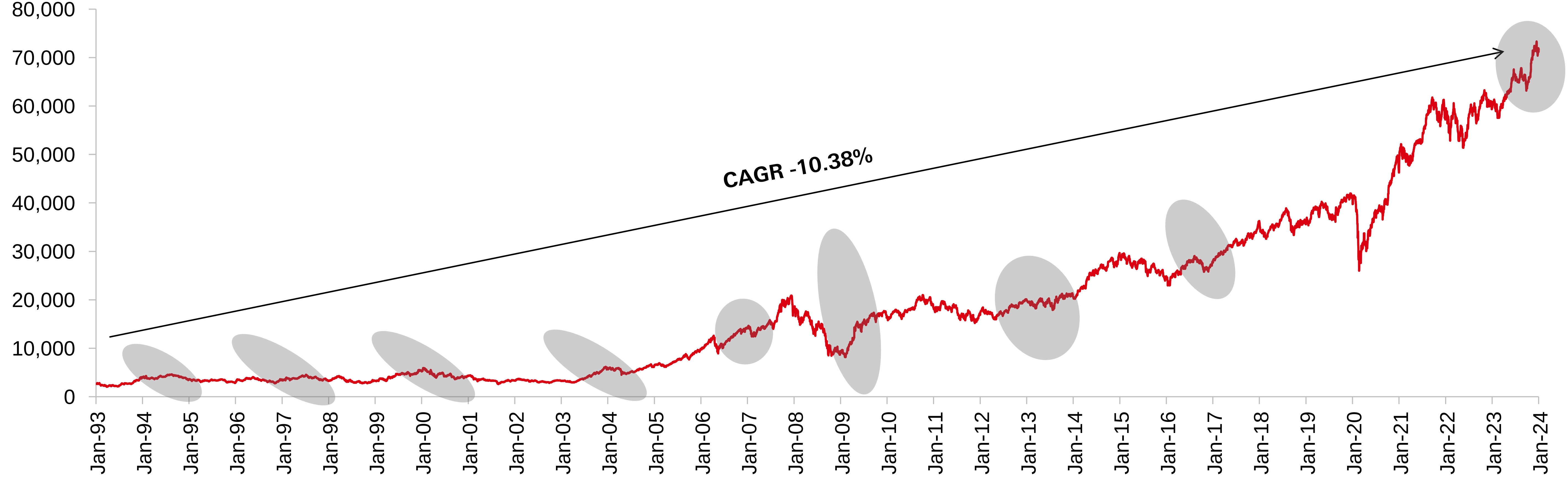
Sensex in past 30 years, grown at approx. 10% CAGR

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, Past performance may or may not be sustained in future and is not a guarantee of any future returns.

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	16.34%	15.78%	15.40%	15.27%	14.53%
Total time periods (monthly rolling)	500	476	452	416	356
Total number of positive returns*	449	443	426	413	356
Total number of negative returns^	51	33	25	3	0
Positive investment periods	90%	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 30 June 1979. For instance, in case of 15-year monthly rolling returns, there will be 356 return periods. The first return period will be 30 June 1979- 30 June 1994 and the last return period will be 31 Jan 2007- 31 Jan 2024.

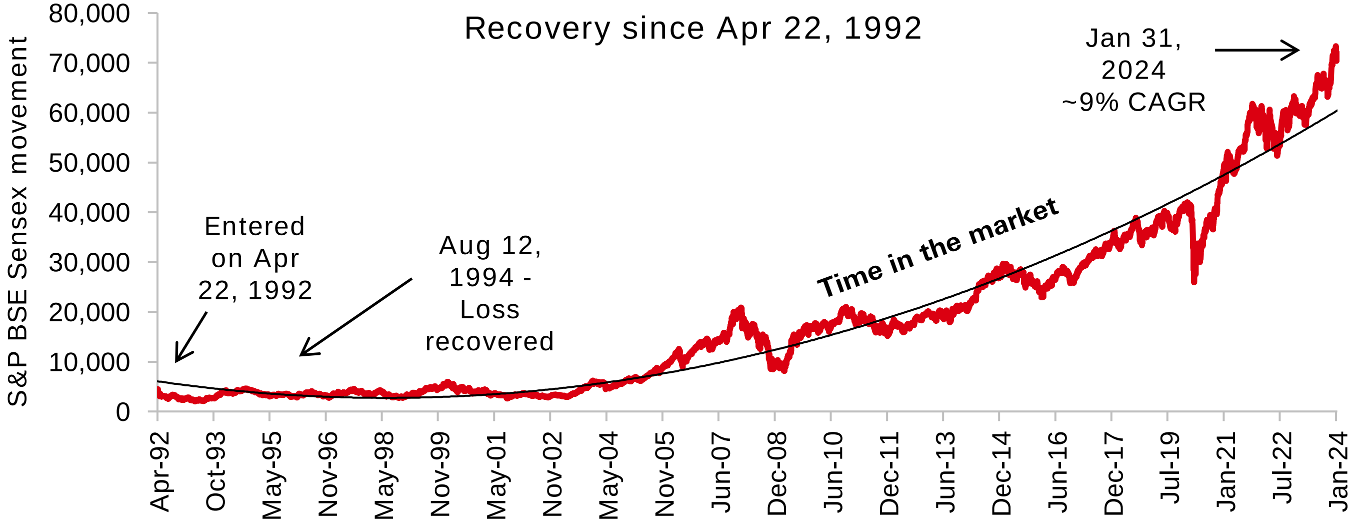
* Positive returns – The number of investment periods during which returns have been positive. For example, when investment returns have been computed for a 15-year rolling period, 356 months out of 356 instances offered positive returns (i.e. 100% positive investment periods).

^ 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 January 31, 2024, Past performance may or may not be sustained in future and is not a guarantee of any future returns.

A far-off investment goal can ride out market lows

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

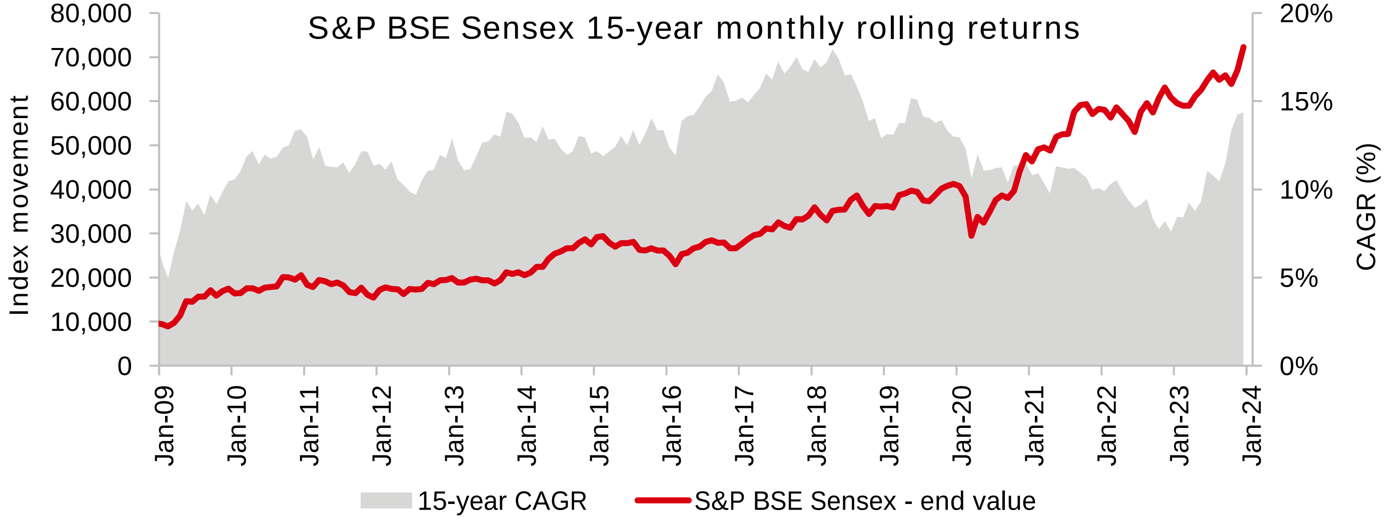


Equity losses are transitory – long-term outlook can earn better returns

Source: BSE, CRISIL Research, Data as on January 31, 2024, Past performance may or may not be sustained in future and is not a guarantee of any future returns.

How investors can make more by losing less

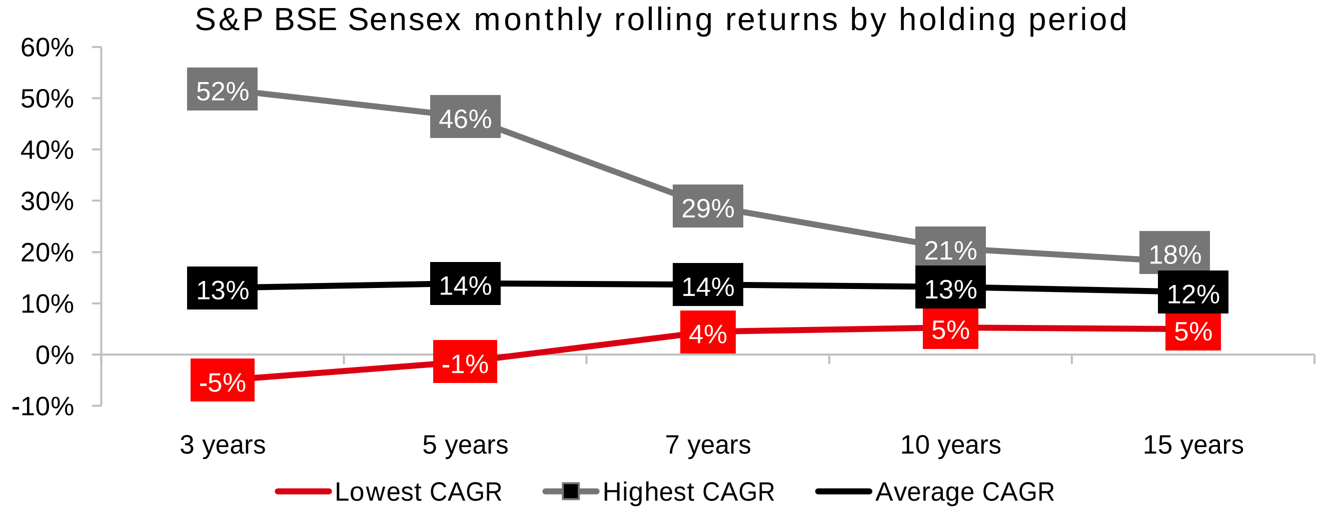
Consistent, predictable behaviour over longer period



Period: Dec 2009–2024; Returns frequency: Monthly rolling

Positive 15-year returns

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



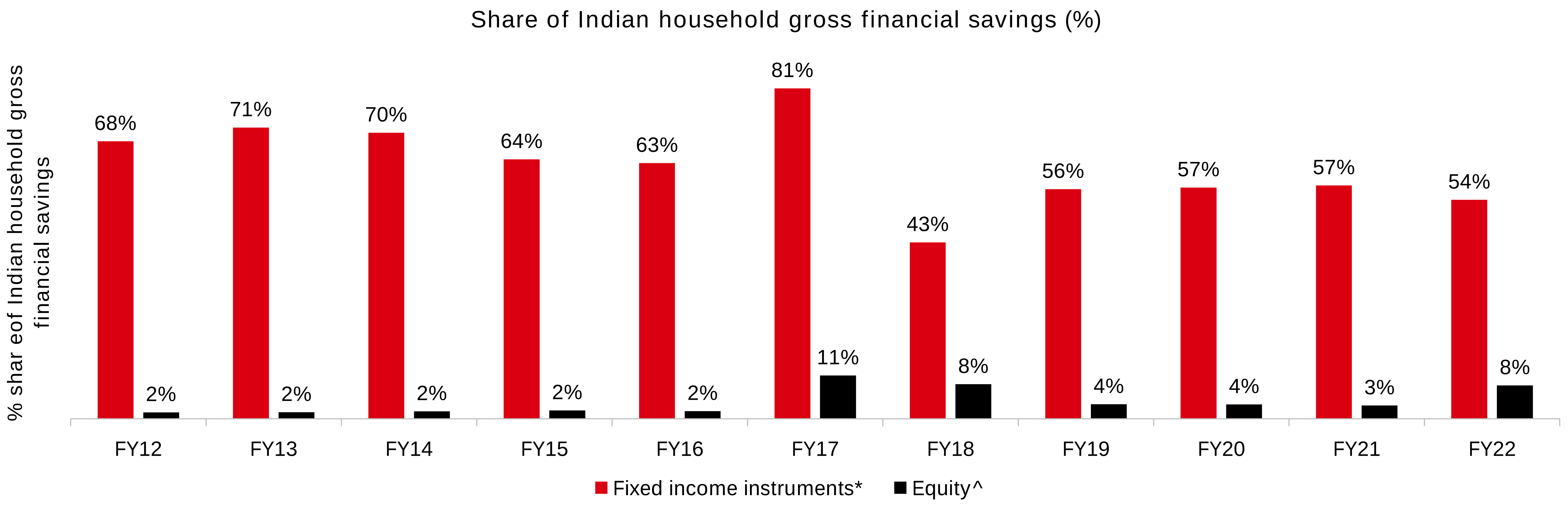
Period: Dec 2009–2024; Returns frequency: Monthly rolling

Source: BSE, CRISIL Research, Data as of January 2024

Past performance may or may not be sustained in future and is not a guarantee of any future returns.

Fixed-income instruments are the traditional investment choice

Equity plays a marginal role



Indian investments remain skewed towards debt

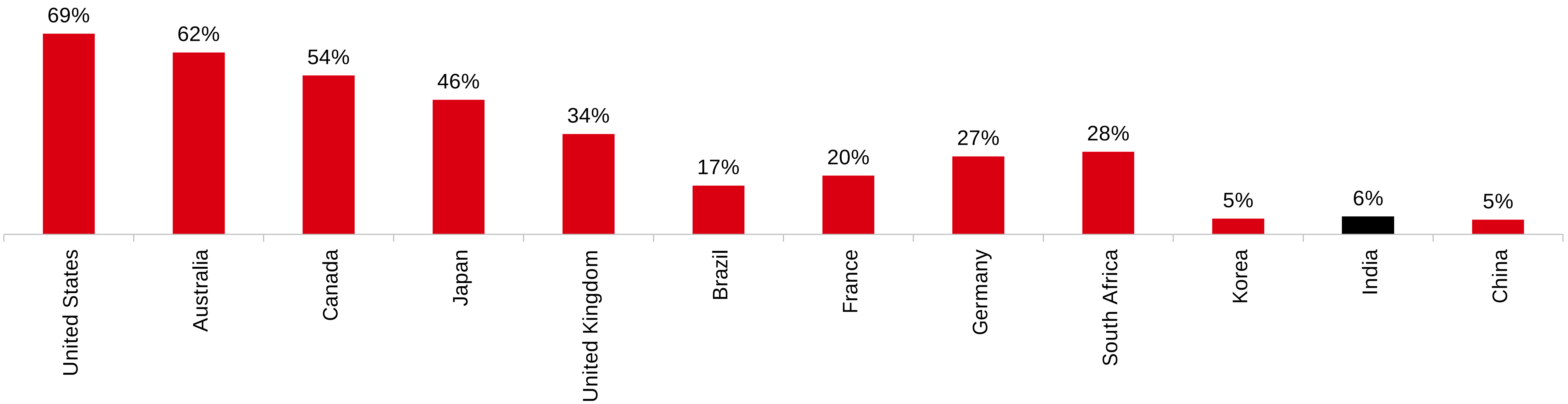
Source: RBI, *Fixed-income instruments include deposits and investments in provident and pension funds, ^Equity includes investments in shares and debentures

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 6%

Source: CRISIL, IMF, IIFA, GDP Data as of October 2023; Assets data as of Q1, 2023
Past performance may or may not be sustained in future and is not a guarantee of any future returns.

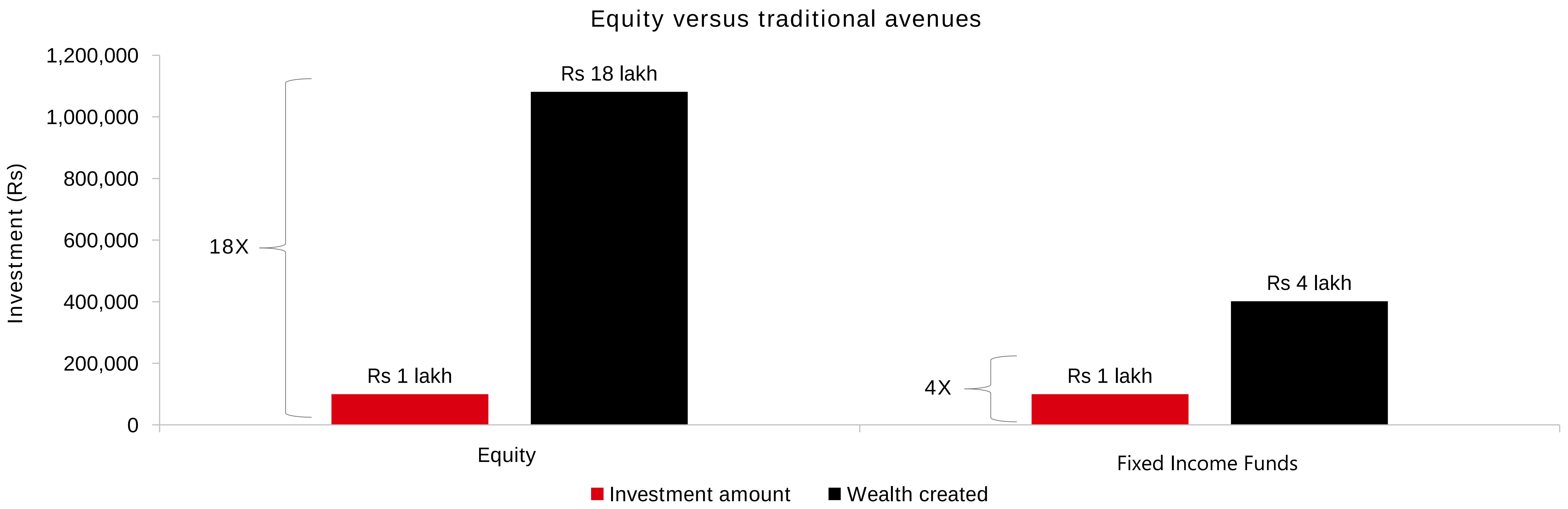
Five reasons why you should invest in equities

Growth	Inflation	Returns	Goals	Retirement
India's equity market performance highlights the potential of equities to deliver growth for investors	Equity investments may provide an opportunity to outperform ever-increasing inflation and improve purchasing capacity	Historically, equity investments have outperformed other asset classes over the long term	Equity investments aid in goal planning and help meet long-term goals	Equity investments offer potential to save better for comfortable retirement

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

Past performance may or may not be sustained in future and is not a guarantee of any future returns.

Invest in equity to create wealth in the long run



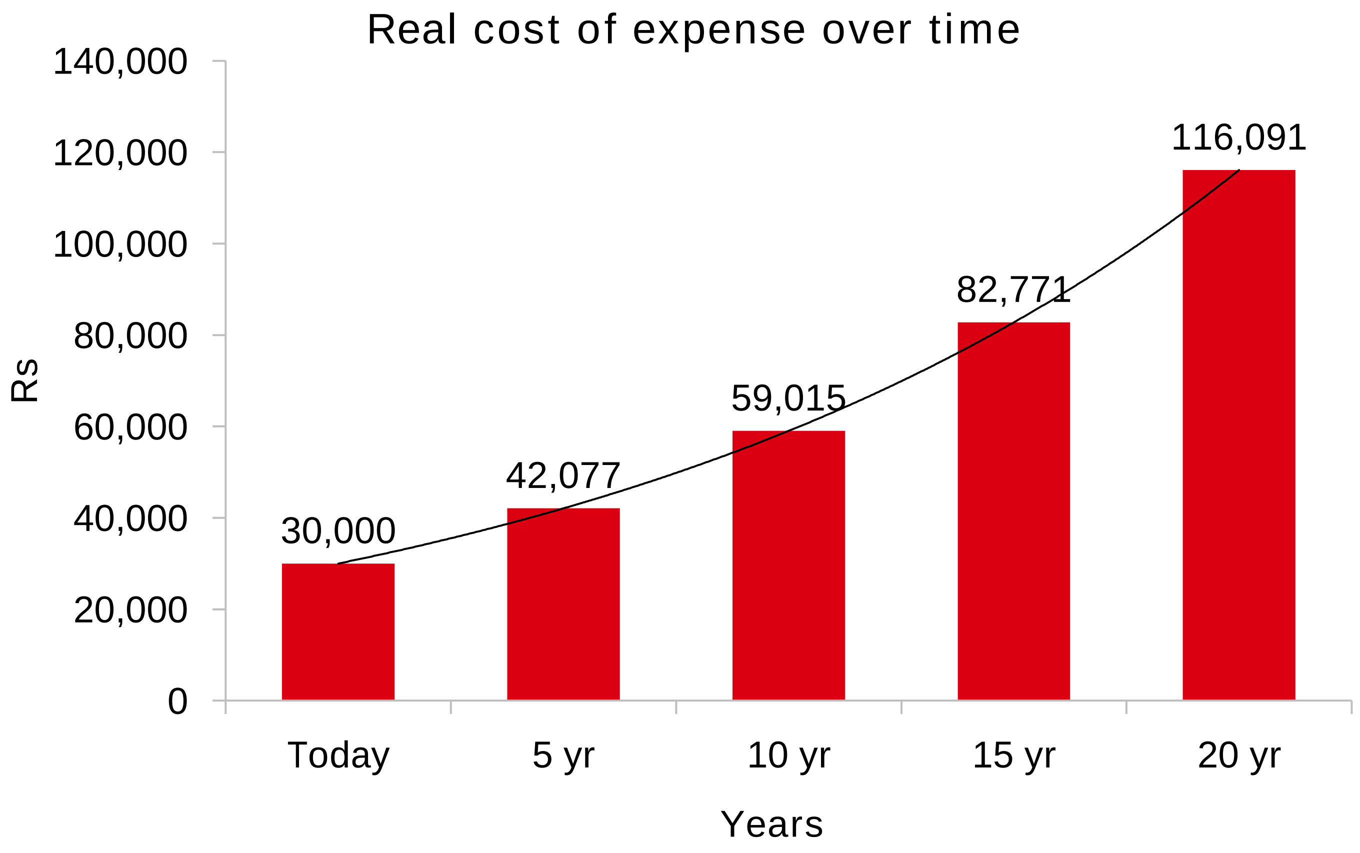
Rs 1 lakh invested in the S&P BSE Sensex grew to ~Rs 18 lakh versus a mere ~Rs 4 lakh in a fixed income funds^ in 20 years

Source – CRISIL Research, HSBC MF, AMFI, BSE,

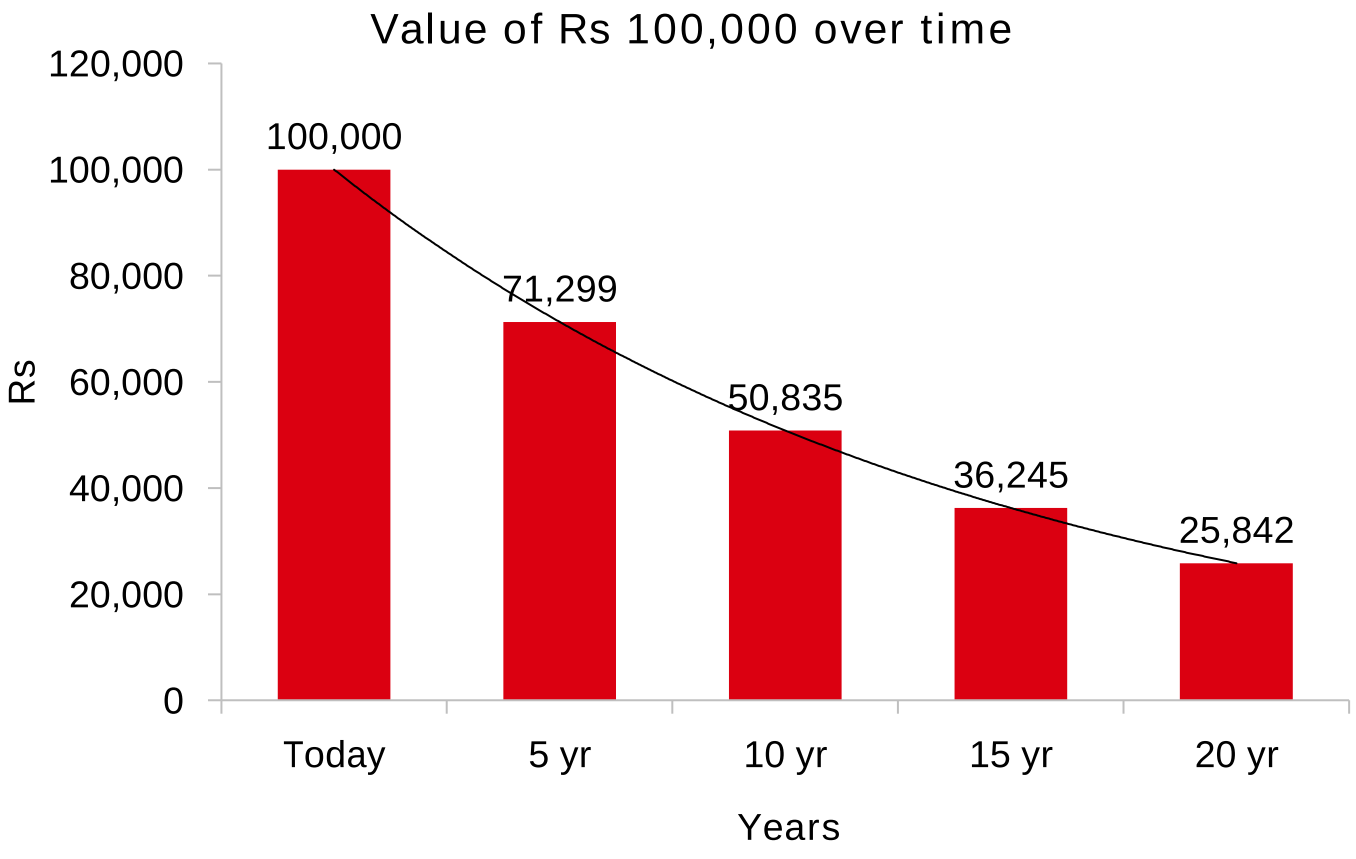
The above illustration is provided as per AMFI Best Practice Guidelines Circular No. 109 dated November 1, 2023 and as amended from time to time to define the concept of power of compounding. Mean CAGR returns considered for illustration is 12.64% by taking mean of 10-year rolling returns between 1 June 2013 and 30 May 2023 of S&P BSE Sensex. if invested in Equity Funds. Fixed income CAGR returns considered for illustration is 7.20% by taking mean of 10-year rolling return between 1 June 2013 and 30 May 2023 of benchmark 10 year Gsec if invested in Fixed income Funds. Past performance may or may not be sustained in future and is not a guarantee of any future returns.

Savings are not enough since inflation erodes the value of money

If our expenses are real, returns should also be real



At ~7% inflation



At ~7% inflation

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

Source: Labour bureau.nic.in

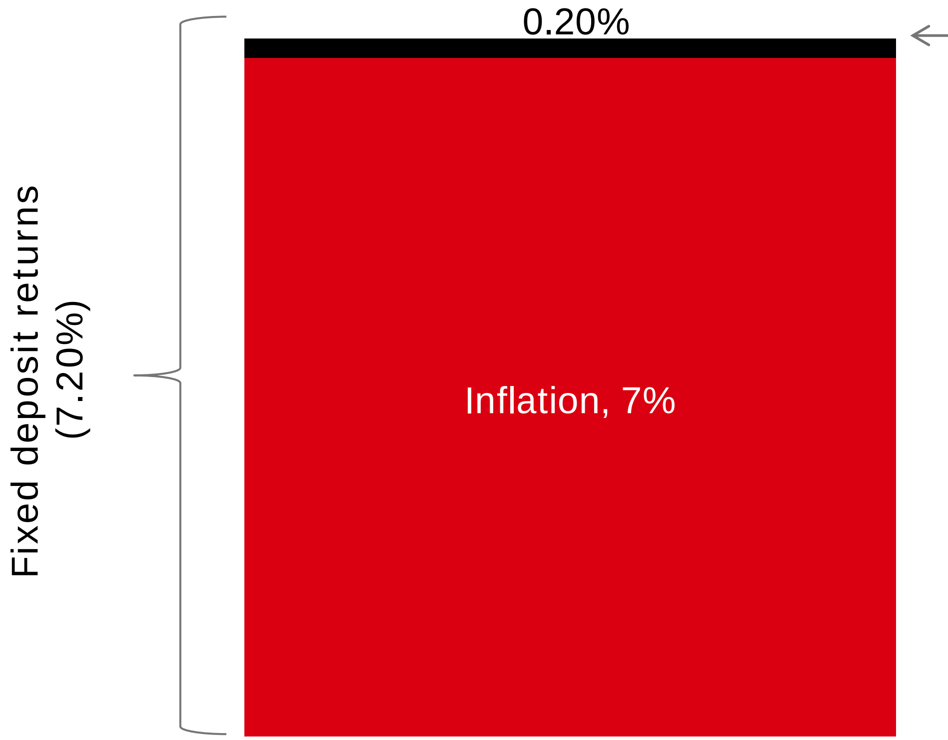
Inflation represented by the average of monthly inflation of industrial workers declared from January 1993 to January 2024

Past performance may or may not be sustained in future and is not a guarantee of any future returns.

Traditional saving avenues do not offer enough cushion…

Inflation generally consumes investment capital

Fixed deposits versus inflation



Inflation eats away most of the returns earned from fixed income funds, leaving hardly any room to create wealth

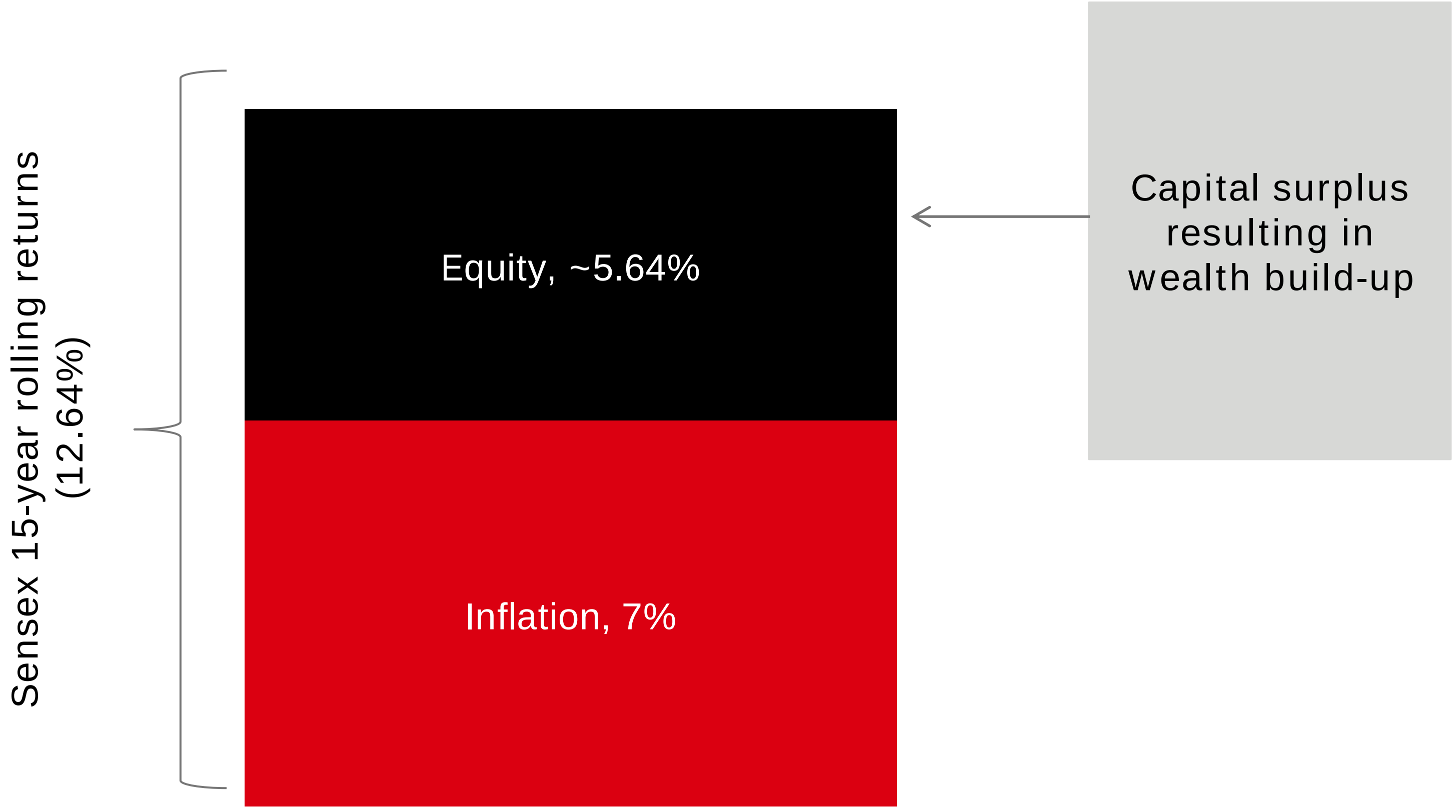
The difference between saving and investing is the ability to provide an affordability cushion by beating inflation consistently

Source – CRISIL Research, Labour bureau, RBI, HSBC MF, AMFI, Inflation represented by average of monthly inflation of industrial workers declared from January 1993 to January 2024, Fixed income CAGR returns considered for illustration is 7.20% by taking mean of 10-year rolling return between 1 June 2013 and 30 May 2023 of benchmark 10 year Gsec if invested in Fixed income Funds. Past performance may or may not be sustained in future and is not a guarantee of any future returns.

… but equity may help to combat the ever-increasing cost of living

The smartest way to create wealth

Equity versus inflation



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

Source – CRISIL Research, HSBC MF, AMFI, BSE, Labour bureau, RBI

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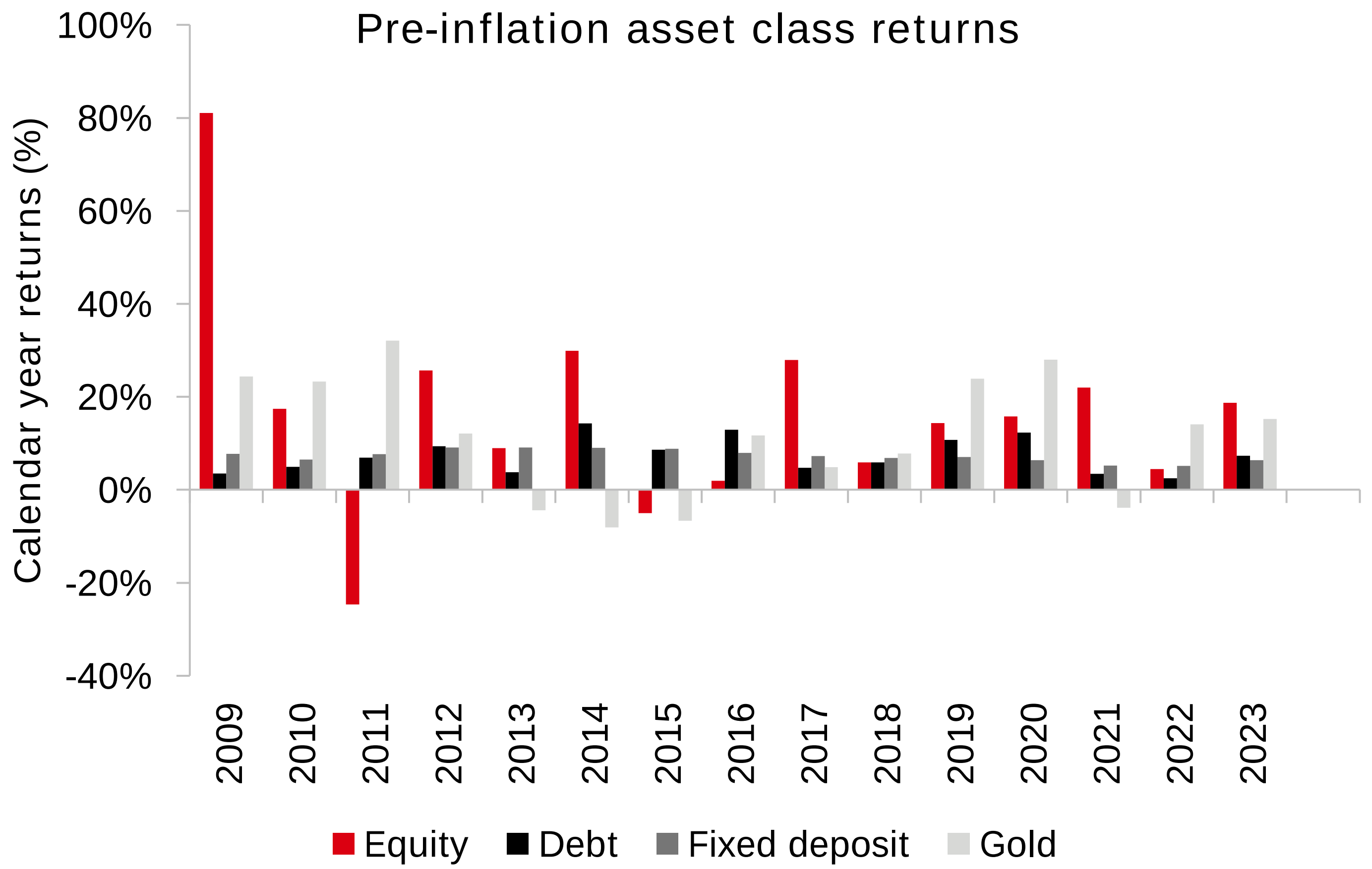
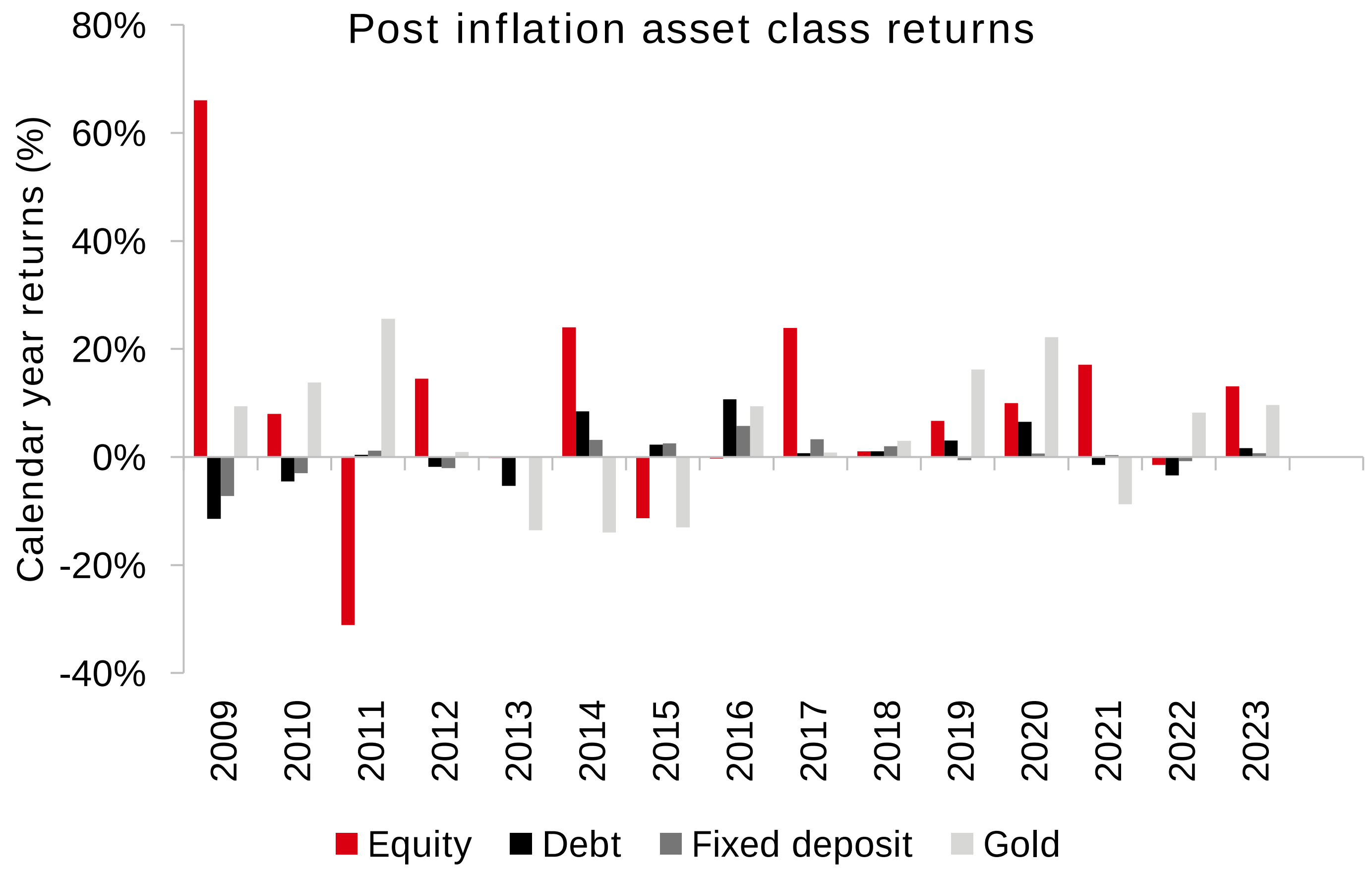
Calendar year returns show better performance by equity

Pre- and post-inflation returns





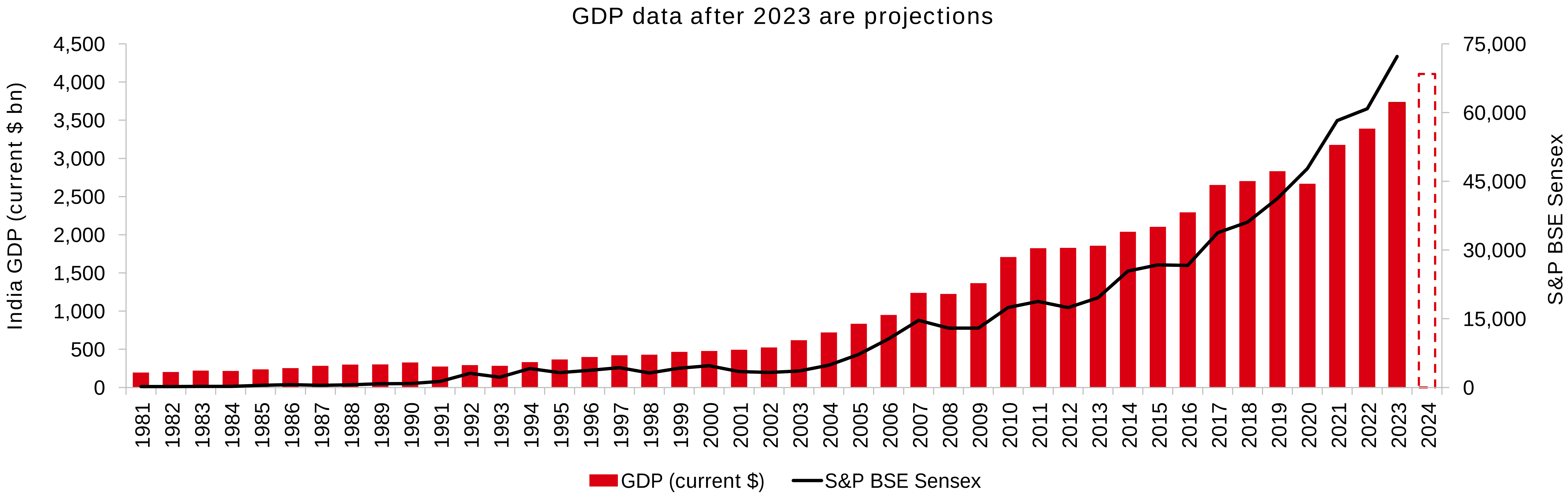
Equity outperformed other asset classes in most calendar years

Source: BSE, CRISIL, Labour bureau, RBI, Data as of January 2024, 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 IBJA gold prices, and inflation by the annual CPI-Industrial worker. Past performance may or may not be sustained in future and is not a guarantee of any future returns.

Equity mirrors economic growth in the long term

India expected to remain on a long-term growth trajectory



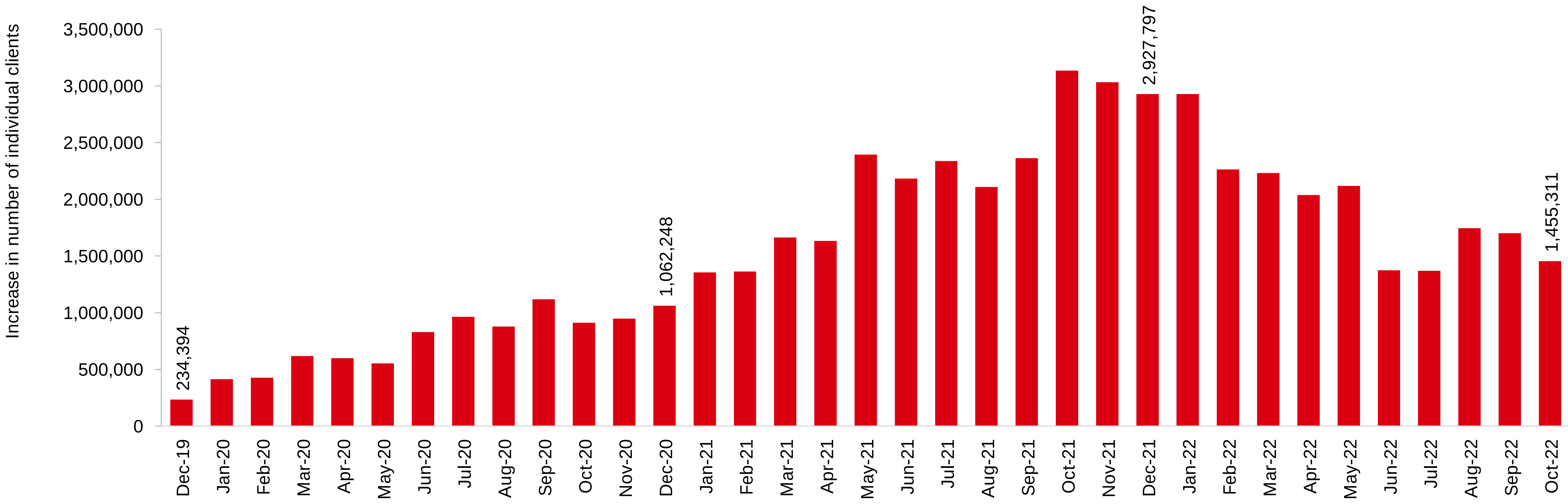
Equity offers the opportunity for long-term wealth creation

Source: BSE, IMF, GDP projection starts after year 2023 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 be sustained in future and is not a guarantee of any future returns.

Direct equity participation moved to higher range

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 available till October 2022

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

Benefits of investing in mutual funds

- Lower cost than direct investment in the capital markets via a systematic investment plan (SIP). With an investment as little as Rs 500 a month, an investor can buy units of a scheme that invests in stocks and at no additional cost
- Diversification: Mutual funds typically invest in a range of assets, which helps mitigate the concentration risk to a great extent
- Liquidity: Mutual fund units can be redeemed for cash at any point, based on the prevailing net asset value of the units
- Professional fund management since the fund manager is backed by a dedicated research team, and is able to make tactical calls based on market movement and prospects
- Wider choice: Mutual funds offer a variety of schemes that may meet one's needs across life stages. Passive investing via index funds and exchange-traded funds (ETFs)

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

Past performance may or may not be sustained in future and is not a guarantee of any future returns.

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		
	Mid-cap		Sectoral index tracking funds
	Small-cap		
Strategy-based	Dividend yield fund		
	Value fund		Global index tracking funds
	Contra fund		
	Focussed fund		
Thematic and tax saving	Sectoral/thematic fund		Smart beta index tracking funds
	Equity linked saving scheme (ELSS)		

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

Past performance may or may not be sustained in future and is not a guarantee of any future returns.

Adopt systematic investment approach to tide over market volatility

Be calm and stay focused on investment goals

+

Overcome behavioural biases such as panic selling or herd mentality

+

Adopt a long term systematic investment approach for equities, equity mutual funds over the long term

=

Actions to manage equity market volatility

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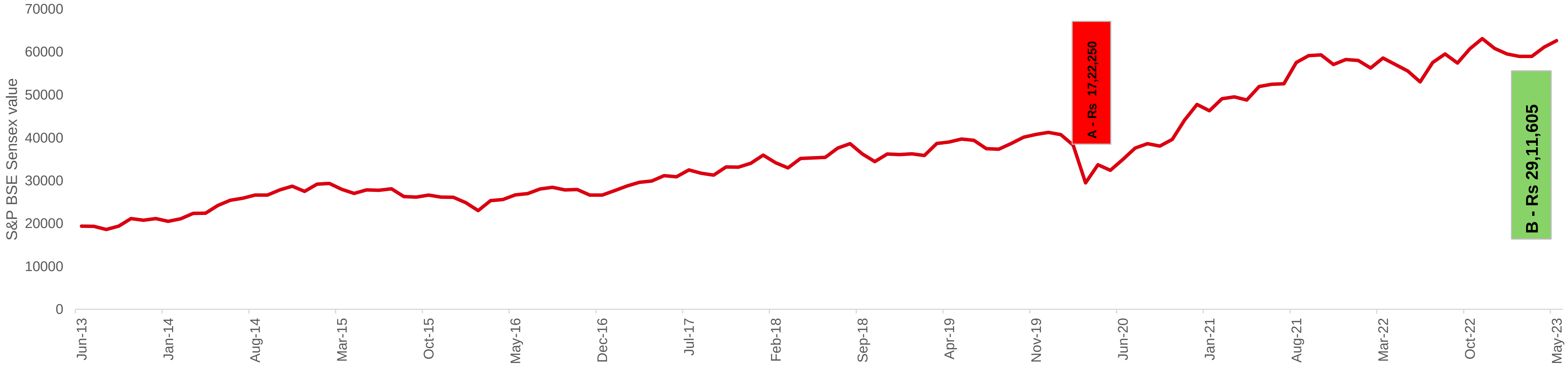
Investors who redeem/stop investments lose out long-term opportunities

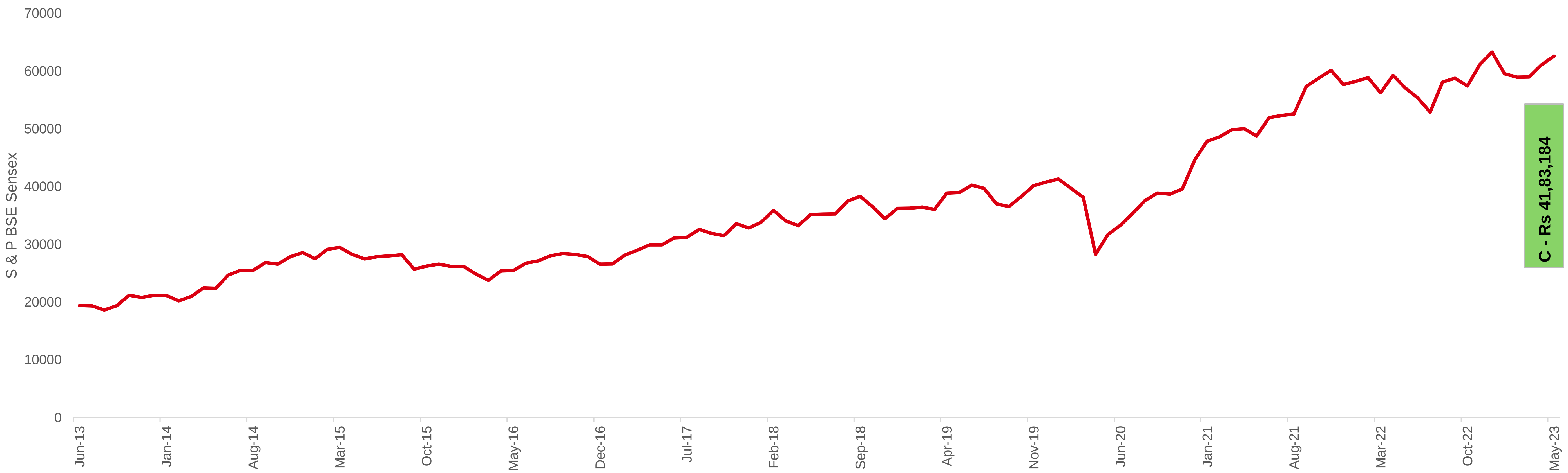
- A and B started their SIPs in June 2013, with both investing Rs 10,000 per month
- Everything was fine with their investments until the Coronavirus (covid) pandemic affected markets in March 2020
- While A redeemed his investments, B stopped his investments, but did not withdraw his money
- A received ~Rs 17.22 lakh from his cumulative investment at an 12.64% at the end of March 2020. B, who had not withdrawn his investments, and did not invest any more after the covid pandemic, saw returns of ~Rs 29.11 crore as of May 2023 at similar rate of return.



Source: BSE, CRISIL Research, HSBC MF, AMFI, BSE,
The above illustration is provided as per AMFI Best Practice Guidelines Circular No. 109 dated November 1, 2023 and as amended from time to time to define the concept of power of compounding *Mean CAGR returns considered for illustration is 12.64% by taking mean of 10-year rolling returns between 1 June 2013 and 30 May 2023 of S&P BSE Sensex. if invested in Equity Fund category. Monthly SIP of Rs10,000 in S&P BSE Sensex from June 2013 on the first day of the month, Past performance may or may not be sustained in future and is not a guarantee of any future returns.

Investors who continue their SIPs gain from long-term opportunities

C started investing Rs 10,000 per month in June 2013 and persisted with his investment over the years. His total investment of Rs 12.20 lakh had a market value of Rs 41.83 lakhs in May 2023 at 12.64%* rate of return.



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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 and C began investing Rs 10,000 in an equity SIP in S&P BSE Sensex from Jun 2013. However, their approach to market volatility differed:
  - A redeemed his investment after the covid pandemic
  - B stopped SIPs due to the volatility seen during the covid pandemic, but retained his investments
  - C continued his SIP at the same pace

	A	B	C
Total amount invested (Rs lakh)	7.5	7.5	12.2
Total value at the end of May 2023 (~Rs lakh)	17.22	29.11	41.83

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.

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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

- Negates the need for market timing
- Mitigates the risk associated with market volatility
- Reduces the overall cost of holding and builds long-term gains
- Instills investment discipline and minimises emotional investing

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Achieve your long-term goals with systematic investments

Rahul and Nakul can achieve their goals of funding their kids' higher 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 30 lakh^	
Monthly investment amount needed to achieve goal#	~Rs 16,865	~Rs 4,359

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

Source – CRISIL Research, HSBC MF, AMFI, BSE, *approx. IIT Bombay fees, Assuming inflation of 7%, which was the average inflation rate of industrial workers since January 1993 till January 24. The above illustration is provided as per AMFI Best Practice Guidelines Circular No. 109 dated November 1, 2023 and as amended from time to time to define the concept of power of compounding. #Mean CAGR returns considered for illustration is 12.64% (equity) by taking mean of 10-year rolling returns between 1 June 2013 and 30 May 2023 of S&P BSE Sensex if invested in Equity Fund category. Fixed income CAGR returns considered for illustration is 7.20% by taking mean of 10-year rolling return between 1 June 2013 and 30 May 2023 of benchmark 10 year Gsec if invested in Fixed income Funds ^Based on inflation represented by average of monthly inflation of industrial workers declared since January 1993 till May 2023

The projections in this graph are for illustration purposes only and not guaranteed, Past performance may or may not be sustained in future and is not a guarantee of any future returns.

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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