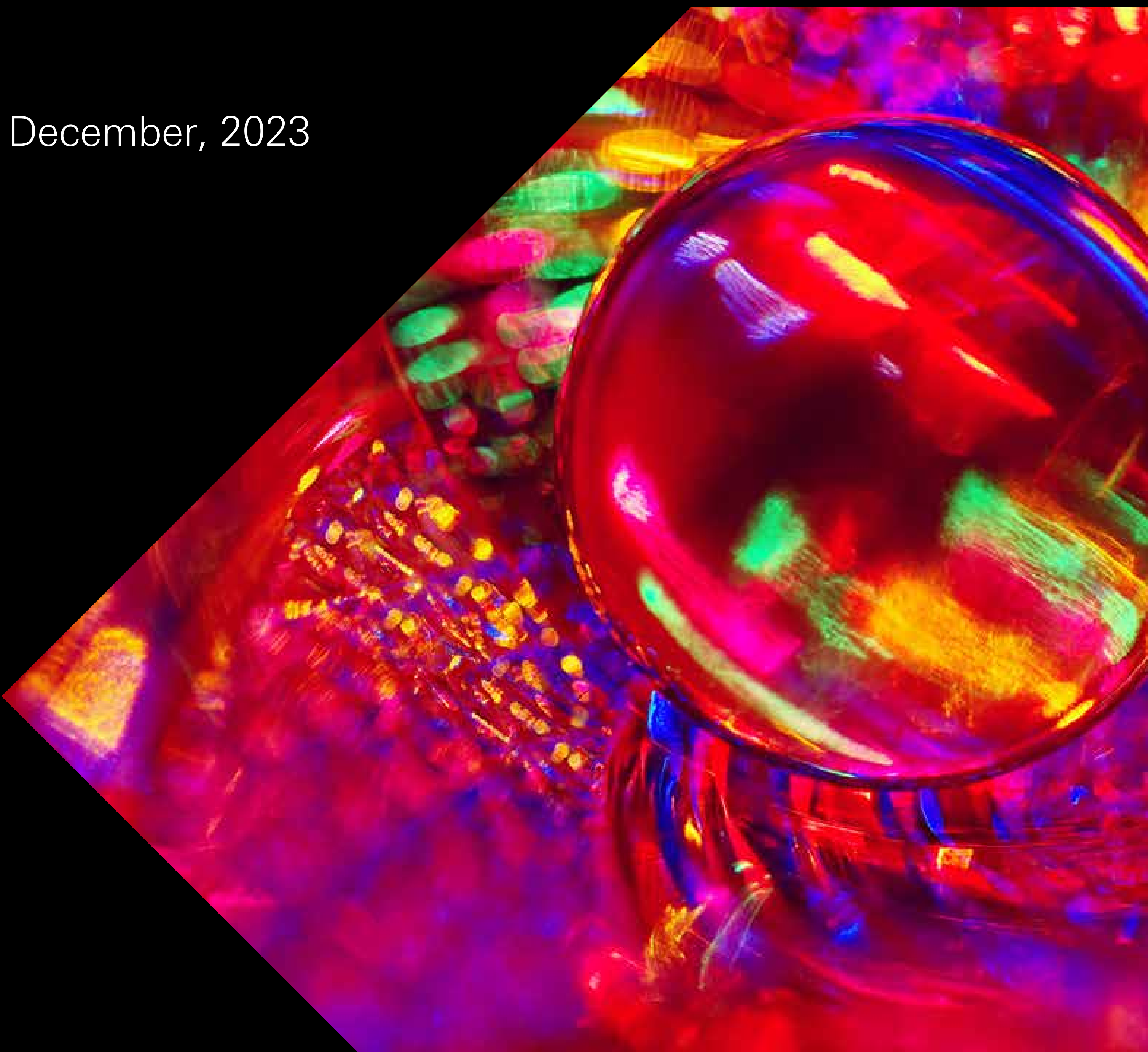
Equity Market Review

December, 2023



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- Indian equity indices ended the year with a bang aided by the strong global risk-on rally and heavy FII buying. S&P BSE Sensex and NSE Nifty indices gained 7.8% / 7.9%, respectively during December. For the year 2023, Sensex / Nifty gained 20% / 21% respectively.
- BSE Mid Cap / BSE Small Cap indices also gained 7.5% / 5.7%, respectively during the month. For the year, BSE Mid Cap / BSE Small Cap indices gained a whopping 47%/49%, respectively.
- Power was the best performing sector in December followed by Oil & Gas, Metals and Capital Goods. Real Estate, Banks and IT also outperformed the Nifty. FMCG, Autos and Healthcare underperformed the major indices although still delivering positive returns for the month.

Domestic Indices	Last Close	1 Month (Change)	CYTD 23 (Change)
S&P BSE Sensex TR	1,10,664	7.8%	20.3%
Nifty 50 TR	31,934	7.9%	21.3%
S&P BSE 200 TR	12,172	8.3%	24.5%
S&P BSE 500 TR	38,685	8.0%	26.5%
S&P BSE Midcap TR	46,158	7.5%	47.2%
S&P BSE Smallcap TR	52,483	5.7%	48.8%
NSE Large & Midcap 250 TR	17,031	7.7%	32.7%
S&P BSE India Infrastructure Index TR	664	14.9%	61.1%
MSCI India USD	922	8.1%	19.6%
MSCI India INR	2,487	7.8%	20.3%
INR - USD	83.2	-0.2%	0.6%
Crude Oil	77	-7.0%	-10.3%

Indices	29-Dec 2023	30-Nov 2023	% Change 1 Month	% Change 1 Year	% Change YTD
S&P BSE Auto	42,229	40,053	5.43	46.00	46.00
S&P BSE BANKEX	54,378	50,293	8.12	11.19	11.19
S&P BSE Capital Goods	55,644	49,990	11.31	66.89	66.89
S&P BSE Consumer durables	50,000	47,120	6.11	25.87	25.87
S&P BSE FMCG	20,468	19,157	6.84	27.33	27.33
S&P BSE Healthcare	31,549	30,375	3.87	36.97	36.97
S&P BSE IT	36,011	33,227	8.38	25.60	25.60
S&P BSE Metal	26,991	24,240	11.35	29.42	29.42
S&P BSE Oil & Gas	23,021	20,551	12.02	12.80	12.80
S&P BSE Power	5,819	4,921	18.24	32.81	32.81
S&P BSE PSU	15,558	13,489	15.34	55.30	55.30
S&P BSE Realty Index	6,187	5,657	9.37	79.50	79.50

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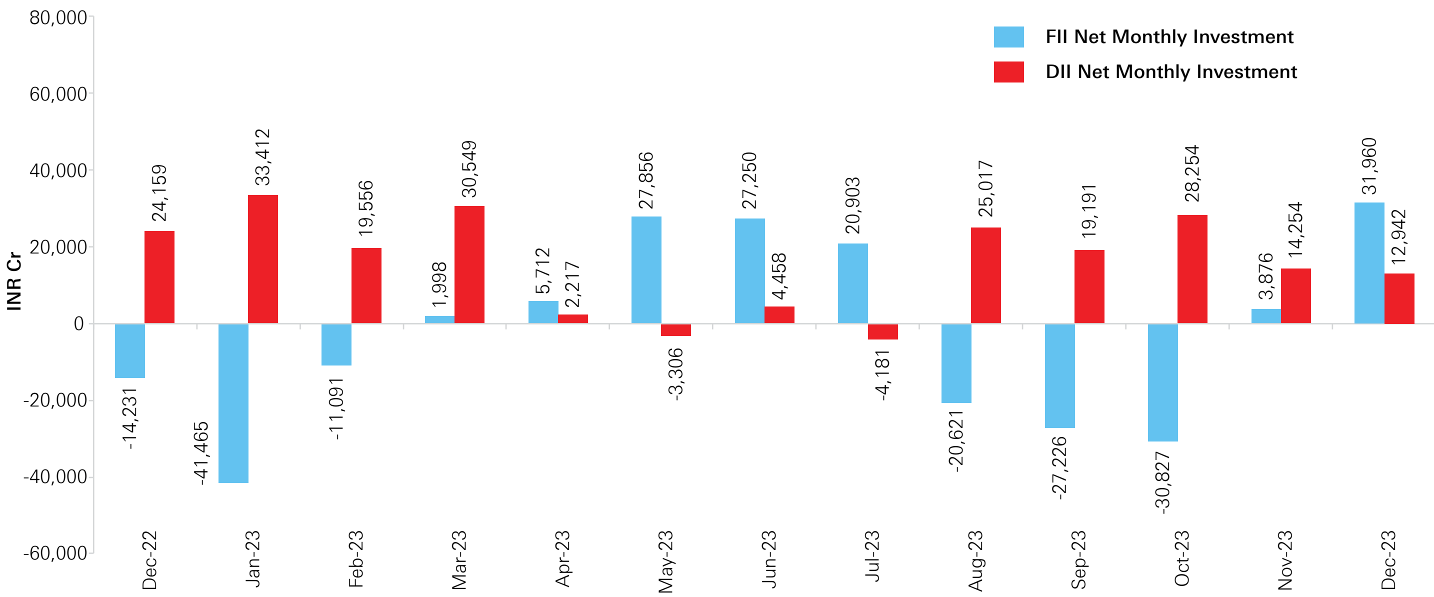
Global Market Update

- The sharp correction in US bond yields during December continued to lift global equity markets. During the month, the MSCI World index gained 4.8% as the US market (S&P 500) gained 4.4%, MSCI Europe gained 4.9% and MSCI Japan gained 4.3%. MSCI EM gained 3.7% dragged by a 2.6% decline in MSCI China. Crude oil price softened 7% in December extending the correction since October.

International Indices (in USD)	Last Close	1 Month (Change)	CYTD 23 (Change)
MSCI World	3,169	4.8%	21.8%
Dow Jones	37,690	4.8%	13.7%
S&P 500	4,770	4.4%	24.2%
MSCI EM	1,024	3.7%	7.0%
MSCI Europe	2,020	4.9%	16.7%
MSCI UK	1,177	4.4%	9.5%
MSCI Japan	3,698	4.3%	17.8%
MSCI China	55	-2.6%	-13.3%
MSCI Brazil	1,800	6.5%	23.4%

- FIIs turned big buyers in Indian equities in December with an inflow of US$7 bn in December. DIIs also invested US$1.6 bn during the month driven by domestic mutual funds. For 2023, FII's invested US$21 bn in India following a US$17 bn outflow in 2022. Domestic MFs invested US$21 bn, while domestic insurance invested only US$1.4 bn during the year.



- Consumer Price Index (CPI) rose to 5.6% (YoY) in November from 4.9% in October on higher vegetable prices. However, the core-core inflation (i.e. core inflation ex petrol and diesel) eased to 4.2% (YoY) from 4.5% in October.
- Oct'23 Industrial production growth (IIP) surged 11.7% (YoY) from 5.8% (YoY) in September as a result of favorable base effects due to a shift in the festive season.
- Other key developments during the month include – Gross GST revenue collection in the month of December 2023 stood at Rs 1.64 tn, up 10% (YoY)

Valuations

Nifty FY24/25 consensus earnings have seen a 1%/1% upgrade over the last 1 month. Following the strong up move, 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 which are trading more than 33% above their 10-year mean valuation.

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Macro View

In our view, the macro environment remains challenging with heightened global geo-political and economic uncertainties. However, with inflation now under control, the US Fed has indicated the potential for interest rate cuts going forward which have buoyed the global markets over the last 2 months. For India, growth has continued to remain strong with GDP growth of 7.6% in Q2FY24 following 7.8% in Q1FY24 driven by strong government spending and pickup in investments, manufacturing and construction. Strong infrastructure thrust of the government is visible in order flow and demand for various industries and has boosted domestic growth. Rural demand has shown signs of recovery in the just concluded festive season. Easing of global crude and fertilizer prices is also positive for India.

Outlook

India starts 2024 on a strong footing with positive growth momentum. We see India's manufacturing sector on a strong medium term growth trajectory as the underlying drivers continue to strengthen. Rising power demand, buoyant capital markets and need to reduce carbon footprint is likely to drive growth in private investments into renewable energy. Government's Production Linked Incentive (PLI) scheme is helping manufacturing capacity in areas like renewable energy, electronics and other new technology areas. Localization thrust and global supply chain re-adjustments are driving capacity addition in manufacturing across verticals. In our view, Real Estate remains another strong medium term growth driver having weathered the impact of higher interest rates. We expect pickup in investment cycle to help support credit growth in 2024. Banking sector asset quality is now strong and has continued to improve. 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.

Key Drivers For Future

On the headwinds, we have

- **Moderating global growth** due to higher interest rates is likely to weigh on demand going forward.
- **Other factors/risks:** High current account and fiscal deficit.

We see the following positives for the Indian market:

- **Government infrastructure spending:** Strong government thrust on infrastructure spending is clearly supporting the economy and has been one of the big positive contributors to H1FY24 GDP growth.
- **Recovery in private capex and real estate cycle:** Industry capacity utilization based on RBI survey data is at a reasonably high level and indicates potential for increase in private capex going forward. Also, continued expansion of the Production Linked Incentive (PLI) scheme is likely to further increase private investments in targeted sectors.
- **Global commodity prices:** Decline in crude oil and fertilizers is a positive for India from inflation, fiscal deficit and corporate margins perspective.

Note: *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 Dec 2023 end).

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