HDFC Bank – Research Presentation

August 2024

Risk profile-based asset allocation

Asset Class	Overall View	Asset Allocation		
		Aggressive	Moderate	Conservative
Equity Funds	◆	75%	55%	25%
Debt Funds	◆	20%	40%	70%
Gold	▲	5%	5%	5%

Note:		
	Optimistic	▲
	Cautiously Optimistic	◆
	Cautious	▼

Category-wise view

MF Categories	View
Equity Oriented Funds	
Largecap Funds	▲
Large Cap Index Funds	▲
Multi/Flexicap Funds	◆
Large and Mid Cap Funds	◆
Mid cap	▼
Small cap	▼
ELSS	◆
Value / Contra / Dividend Yield Funds	▲
Focused Funds	◆
Aggressive Hybrid Funds / Dynamic Asset Allocation / Balanced Advantage Funds	▲
Equity Savings Funds	▲
Business Cycle Funds	▲
Sector/Thematic Funds	◆
Multi Asset Allocation Funds	▲

MF Categories	View
Debt Oriented Funds	
Short Duration Funds/Medium Duration Funds	▲
Banking & PSU Funds	◆
Corporate Bond Funds	▲
Target Maturity Index Funds	▲
Medium to Long / Long Duration Funds	◆
Dynamic Bond Funds	◆
Gilt Funds	◆
Ultra Short Duration/Low Duration/Money Market Funds	▲
Arbitrage Funds	▲
Liquid/Overnight Funds	▲
Conservative Hybrid Funds	◆
Credit Risk Funds	◆

Equity MF Strategy – August 2024

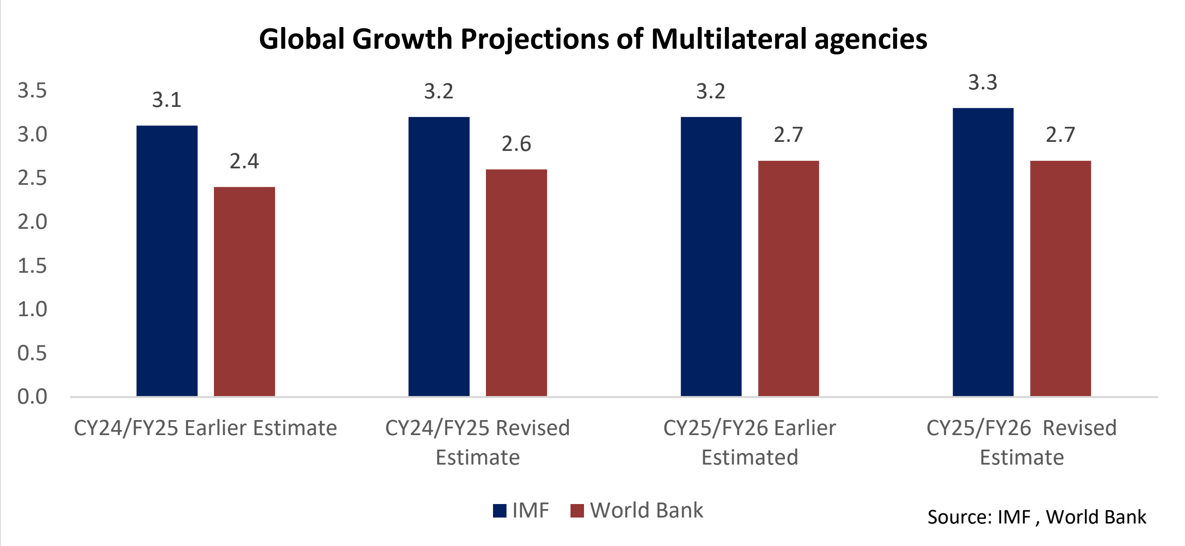
- The global economic growth remains stable and is likely to continue on the back of improving growth outlook in the Developing economies. Global trade and PMI data too have been resilient.
- Weaknesses have crept in the data points coming out of the US. Rising unemployment, troughing out of manufacturing PMI and deceleration in retail sales suggest weakening growth impulses. US Federal Reserve seems to be on the path of announcing a policy rate cut in next few months, to support growth.
- Eurozone is showing early signs of stability due to easing of financial conditions, more parameters need to improve for better recovery. The ECB has started to cut interest rates as the inflationary pressure in the EU seems to be abating.
- Data points from China continue to remain steady, except from its real estate sector, which has impacted its overall GDP growth. Stable PMI, stabilising GDP, improving trade data etc shows the gradual revival of the economy. Their Government and monetary authority also have been supportive of the growth effort. Multilateral agencies also expect better growth in the economy in the medium term.
- The base commodity prices have continued to cool off post the relatively weak data points in the US and continued weakness in the Chinese real estate market. While the food price inflation globally is still weakening, the base effect could ensure that this data starts turning positive in times to come. The crude oil prices have moved above USD 80/bbl on the back of supply pressure from OPEC+ and rising strife in Middle east. The trouble in the Red Sea and shortage of containers has led to the rise in shipping costs for businesses across the world.
- With the US Fed signalling dovishness, the US Dollar index is likely to remain soft. That could potentially drive incremental FPI flows towards emerging economies.
- The Indian economy is on a consistent uptrend post Covid period. Most multilateral agencies believe that this uptrend is likely to continue in the foreseeable future. Consistent upgrade in the GDP estimates, strong PMI data, rising tax collections, improved Government balance sheet all point towards very strong momentum going forward.
- The Union Budget focussed on key issues like employment generation, infrastructure creation while keeping the fiscal health strong. The rise in capital gains taxes and removal of indexation benefits were the only irritants.
- Rural economy seems to be gathering momentum. Strong monsoons, higher crop acreage, strength in the real estate and construction activities bode well for rural economy. The Two-Wheeler sales and improving volume growth for FMCG companies are suggestive of improving consumption impulse in this segment. Fund managers, too, are gradually building these pointers into their investment decisions.
- Urban demand trends continue to see mixed impulses where the premiumisation trend continues. Passenger vehicle sales data has continued to decelerate, possibly on high base. Other indicators like personal loan growth and White-collar job creation have remained steady.
- Corporate and Banking sector balance sheets in India have shown strong improvement. The Corporate debt to equity has come off consistently, especially for the manufacturing sector. As the current capacity utilisation peaks in various sectors, releveraging by corporates can easily fund incremental private capex demand. With power demand likely to rise substantially investment in renewable assets is likely to add to capex demand. Sunrise sectors like Semiconductors, defence and electronics too are likely to push new capacity creations. **The current cycle in the equity market seems to be largely driven by the capex upcycle and policy reforms by the Government and the fund managers playing this cycle have been able to create strong alpha. However, valuations in the capex related sectors/companies have become quite rich and further rerating looks a tough ask.**
- Liquidity conditions have begun to ease marginally, and market participants expect RBI to gradually ease its policy stance. As the liquidity conditions ease, the growth trajectory of the economy could see further bump up.
- The Equity markets have moved to near all-time highs on Key indices, led by stable earnings performance and strong Domestic investor participation. Small and Midcap indices have rallied sharply post the recent correction. At an aggregate level, the valuations of both Midcap and Smallcaps are markedly higher than Largecap indices.
- **The Q1FY25 results could determine the near-term winners and losers in the market. Weakness in the Margins and the Profit growth in key sectors may not be good news for investors. The differential of earnings performance between companies may see a gradual narrowing in the number of outperforming stocks in the equity market.**
- In the long term, improving domestic macro conditions, favourable demographics and higher capex investments could keep driving the Indian corporate earnings higher and support the equity markets.
- **With Valuations still quite high, investment deployment strategy could be at 40% lumpsum and rest 60% to be staggered over the next 5-6 months. Investors can look to focus on categories like Largecap, Flexicap, Multicap, Equity Hybrid and Multi-asset funds. In the Smallcap segment, investors need to be cautious and use only large dips to invest. All allocations should be done in line with the risk profile and product suitability of the investor.**

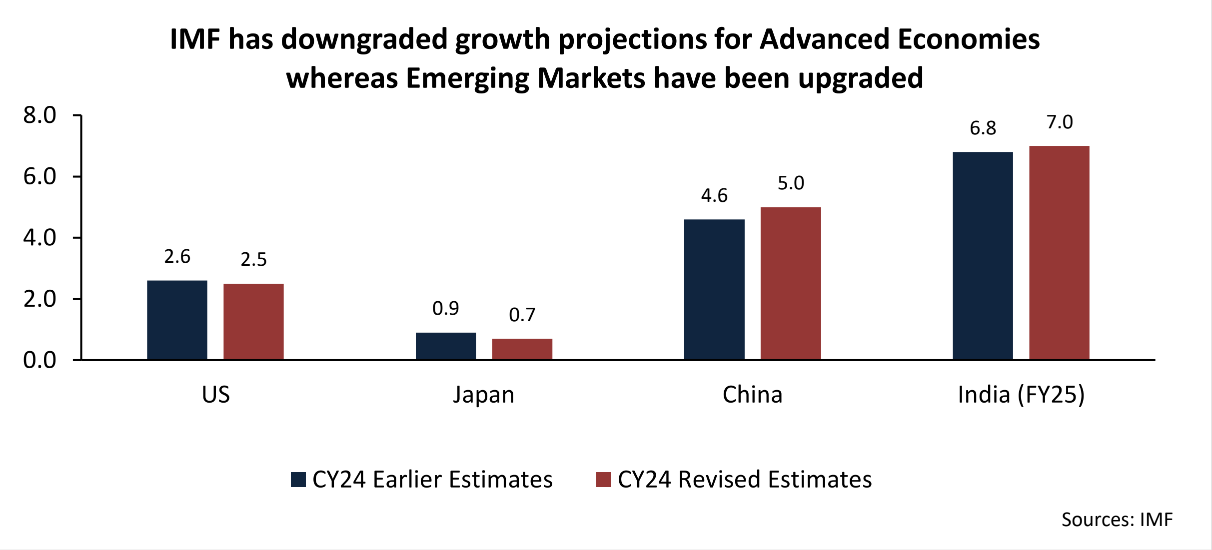
Debt Mutual Fund Strategy

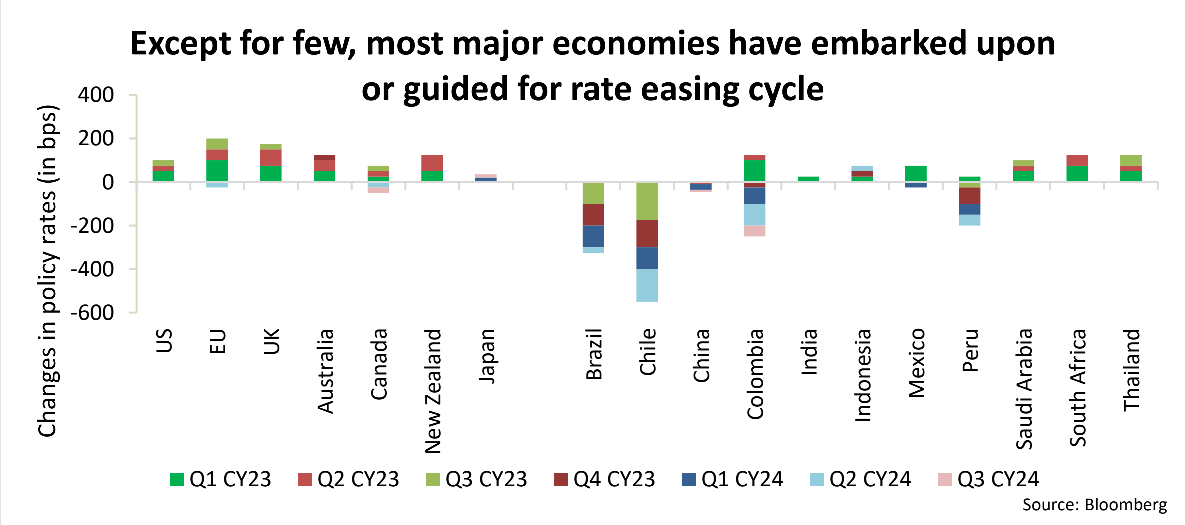
- Accrual opportunities at the 2-4-years segment of the corporate bond yield curve remains attractive for incremental investment, from risk-reward perspective until fresh triggers appear to suggest further decline in yields at the longer end.
- As corporate bonds are available at reasonable spreads of similar tenor G-Secs, Corporate Bond Funds continue to look like a safe bet at the current juncture for investors looking to invest in shorter-tenure funds.
- Hence, investors can look at Corporate Bond Funds and Short duration funds for a horizon of 15 months and above.
- For a horizon of 3 months and above, investors can consider Arbitrage Funds.
- Whereas for a horizon of up to 3 months, investors can consider Overnight Funds and Liquid Funds.
- Investors can also look at Multi-asset allocation funds for a horizon of 36 months and above.
- Investors should invest in line with their risk profile and product suitability.

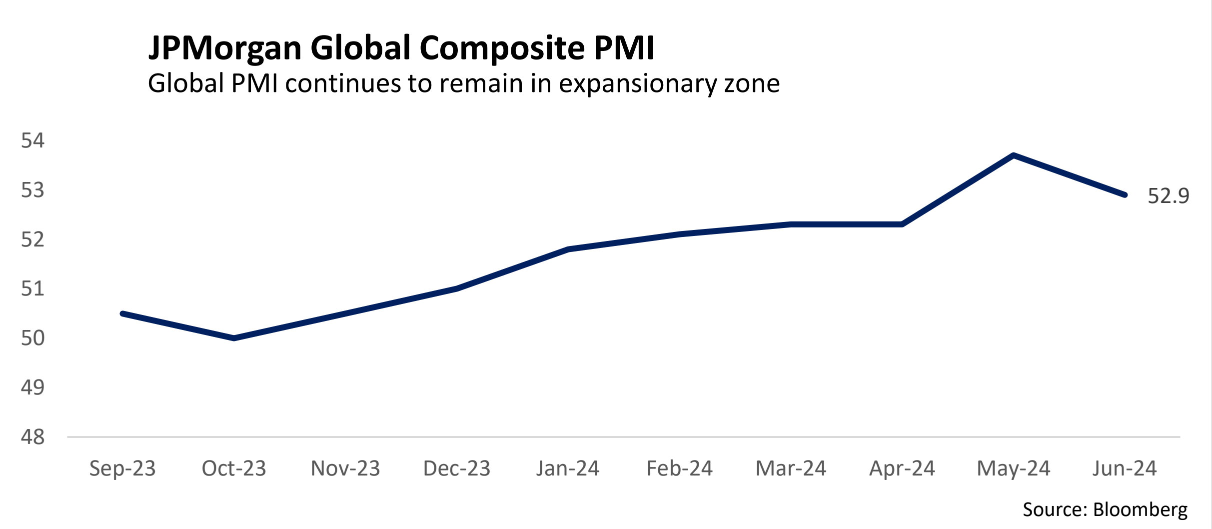
Research presentation – Content

Global growth maintained… US downgraded, EM upgraded





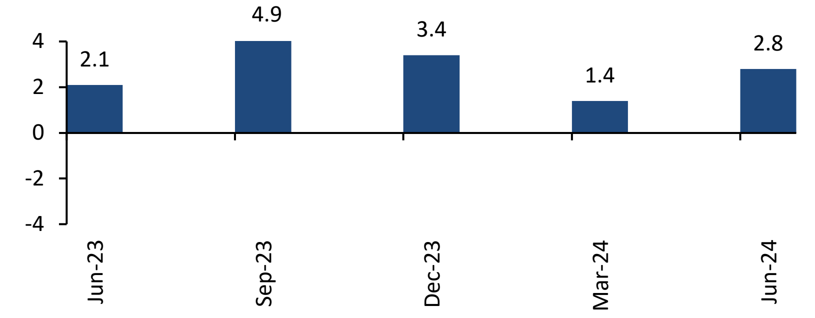




US economy: Lag indicators holding up while Leading indicators show weakness…may drive easing of monetary policy

US Quarterly GDP Growth - YoY % Change (Lag indicator)

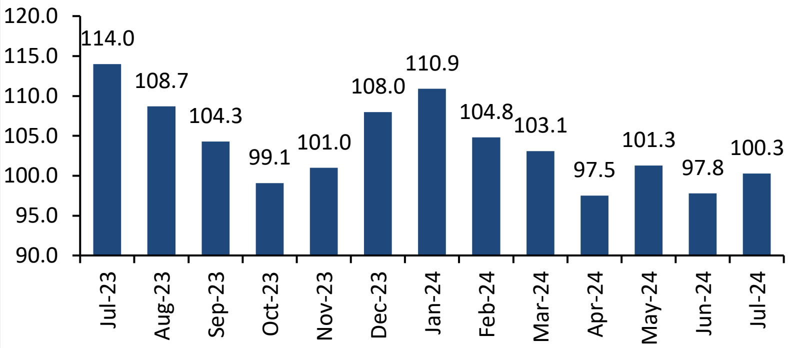
Economy has held up despite rate hikes thus far



Source: Bloomberg

US Consumer Confidence Index

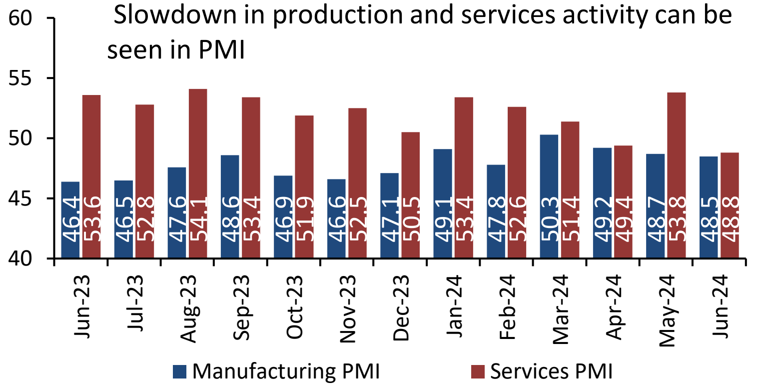
Strength in consumer confidence visible



Source: Bloomberg

US Manufacturing & Services PMI (Lead indicator)

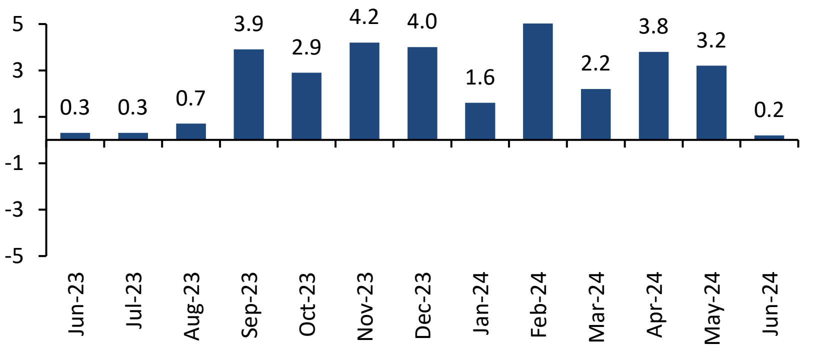
Slowdown in production and services activity can be seen in PMI



Source: Bloomberg

US Retail Sales - YoY Change (%)

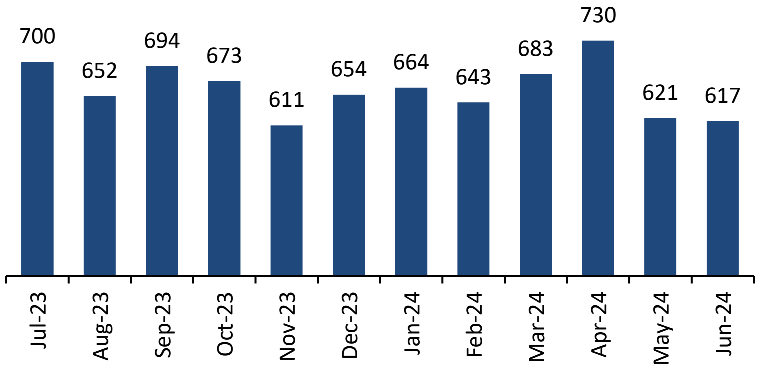
Trend remains weak



Source: Bloomberg

US New Home Sales (In Thousands)

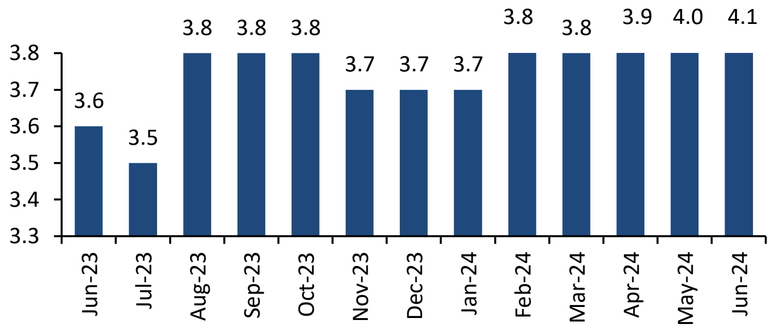
On a declining trajectory



Source: Bloomberg

US Unemployment Rate (%)

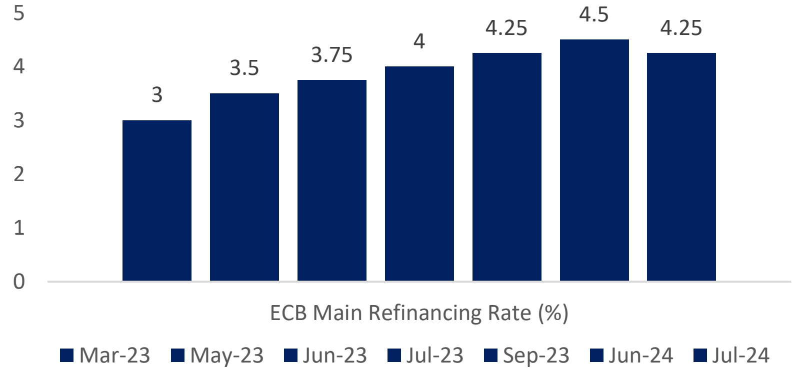
Rising unemployment rate may force Fed to cut rates



Source: Bloomberg

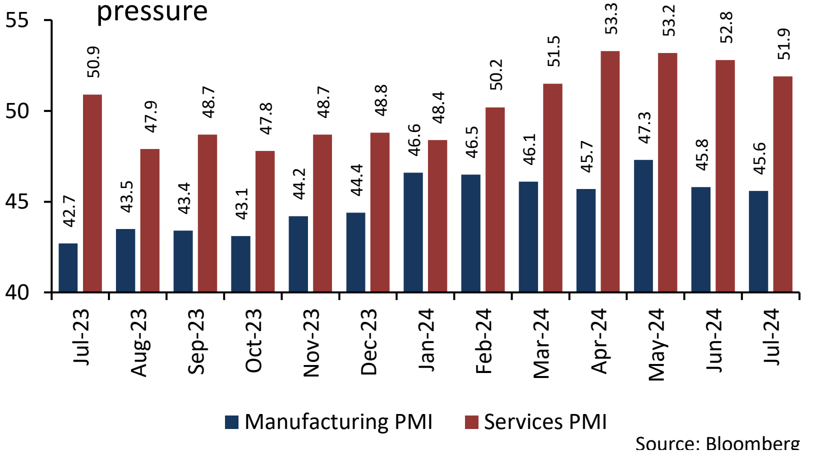
Eurozone: Green shoots of recovery visible

ECB Main Refinancing Rate (%)
ECB cuts rate, expectation continue for further easing



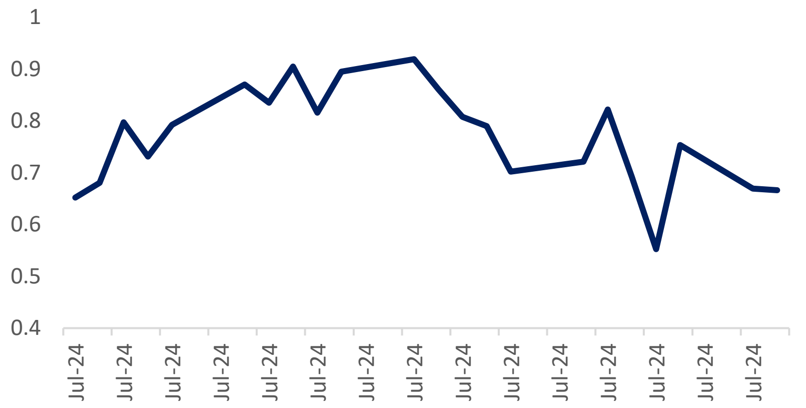
Source: Bloomberg

S&P Global Eurozone PMI
While Services holding up, Manufacturing in pressure



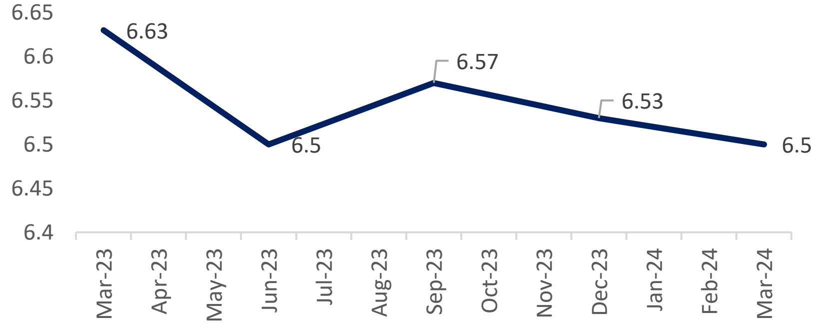
Source: Bloomberg

Bloomberg Euro area Financial Conditions Index



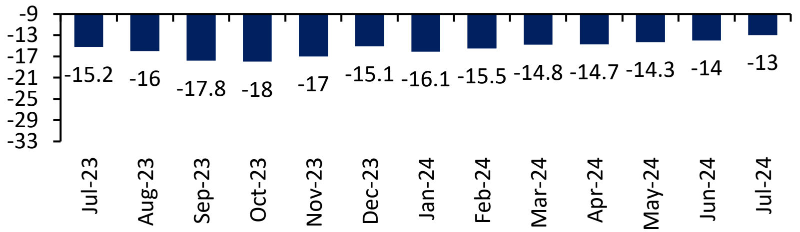
Source: Bloomberg

Eurozone Unemployment Rate (%)
Unemployment rate improving



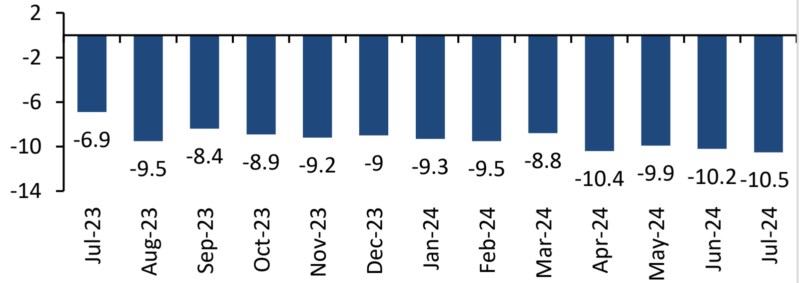
Source: Bloomberg

Eurozone Consumer Confidence Indicator
In the negative territory, but improving



Source: Bloomberg

Eurozone Industrial Confidence Indicator
Weakness continues to persist

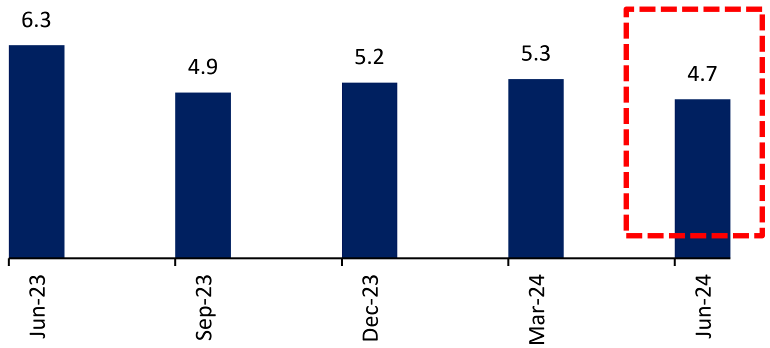


Source: Bloomberg

China: Improvement continues at margin, supported by Govt. Policy and Rate Cuts

China Quarterly GDP - YoY Change (%)

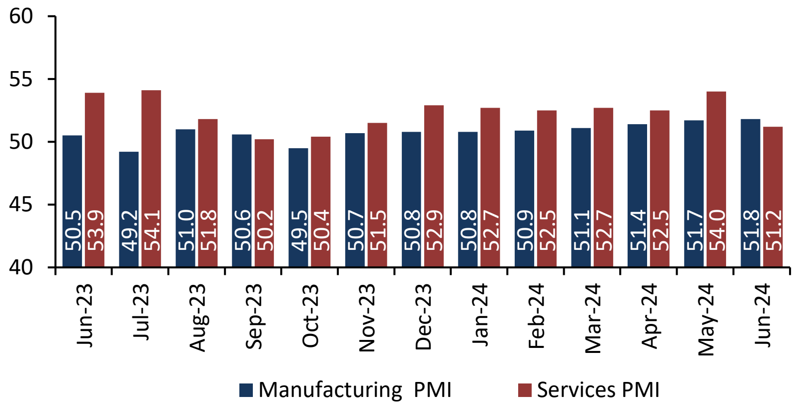
Holding up… though below expectations



Source: Bloomberg

China Manufacturing & Services PMI

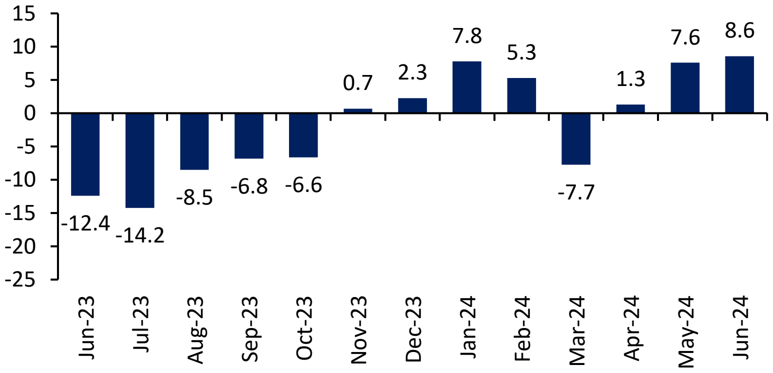
Manufacturing stable, services weakens at margin



Source: Bloomberg

China's Export Growth YoY Change (%)

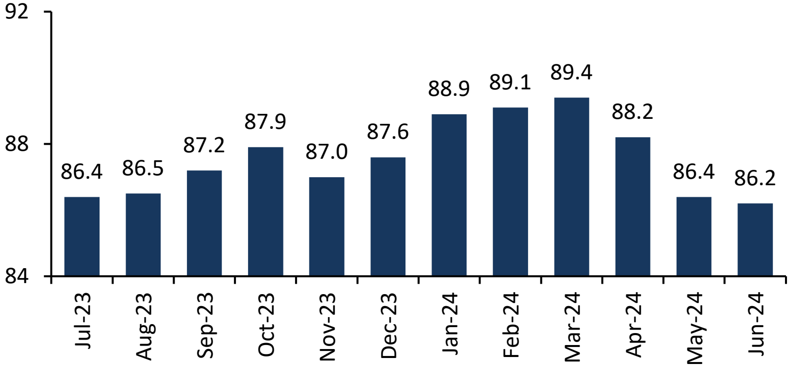
Green-shoots visible



Source: Bloomberg

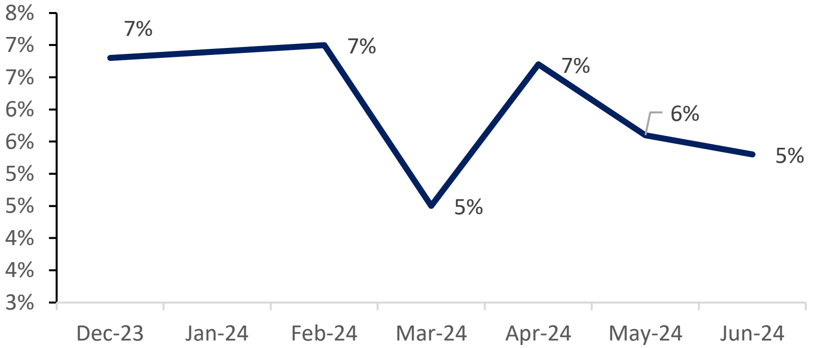
China Consumer Confidence Index

Declining of late…yet steady



Source: Bloomberg

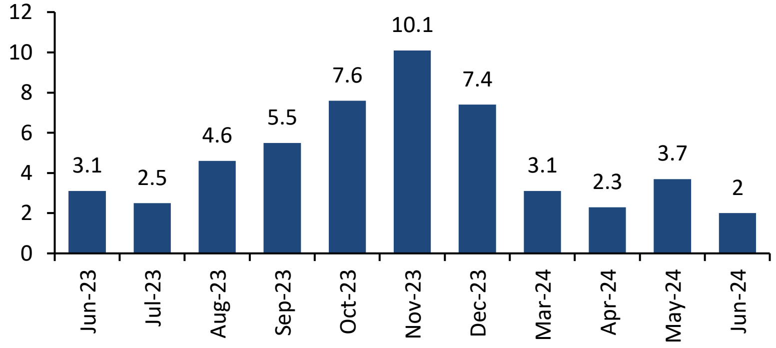
China Industrial Production - YoY change(%)



Source: Bloomberg

China Retail Sales - YoY Change (%)

Consumption continues to remain challenging

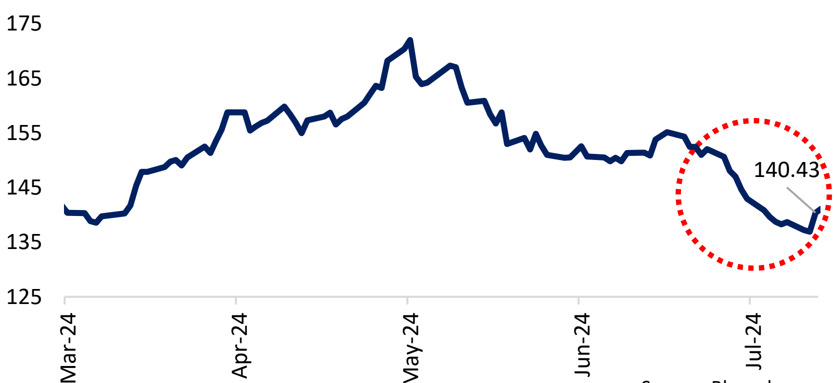


Source: Bloomberg

Commodities: Metal prices correct on the back of weak Chinese real estate demand & signs of slowdown in US

Bloomberg Industrial Metal Index

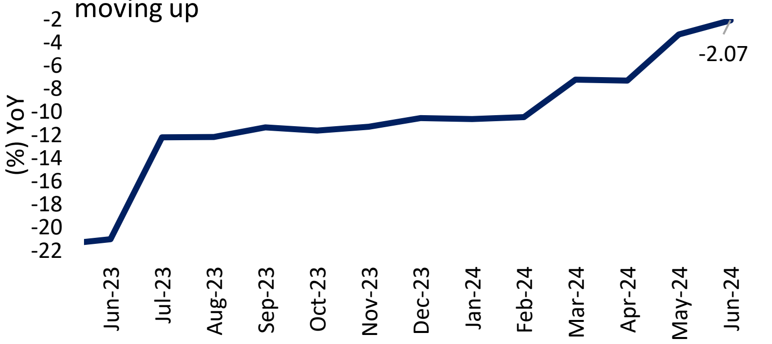
Weakness in US economy pulls down metal prices



Source: Bloomberg

UN Food & Agriculture World Food Price Index

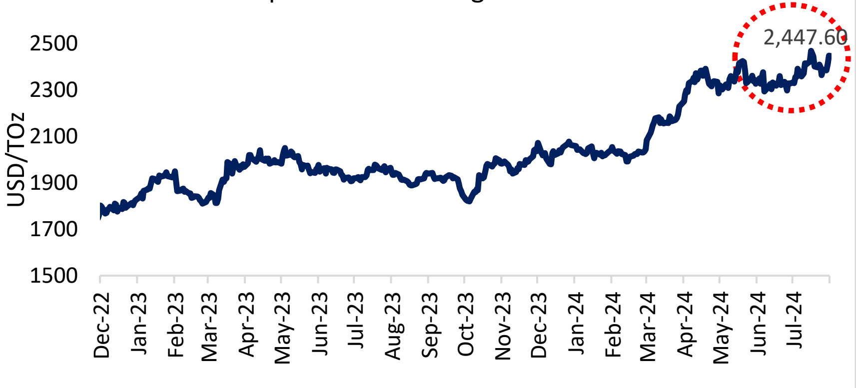
Food prices growth still in negative territory…gradually moving up



Source: Bloomberg

Gold (USD Per Troy Ounce)

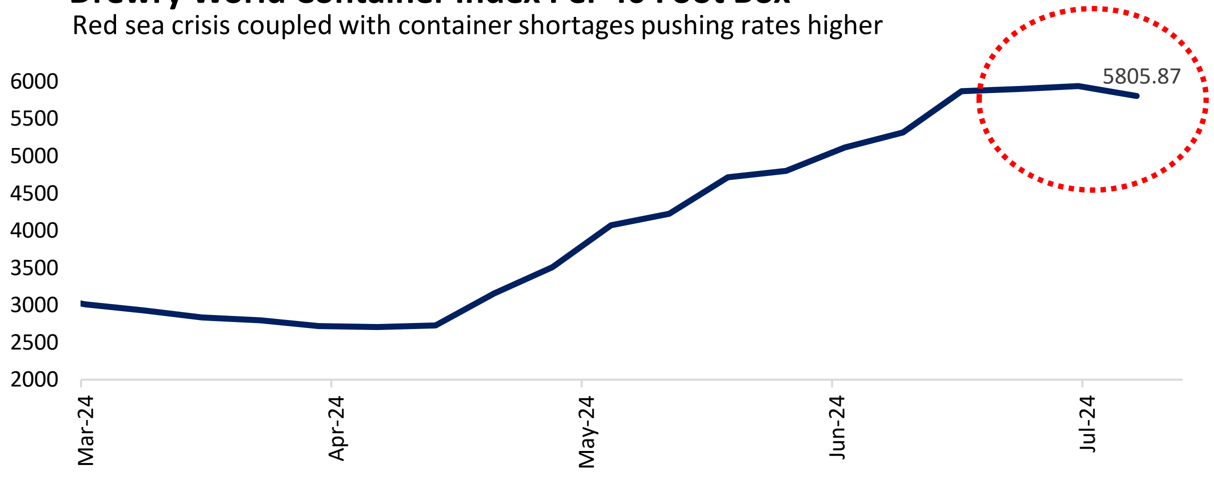
Fed rate cut expectations make gold attractive



Source: Bloomberg

Drewry World Container Index Per 40 Foot Box

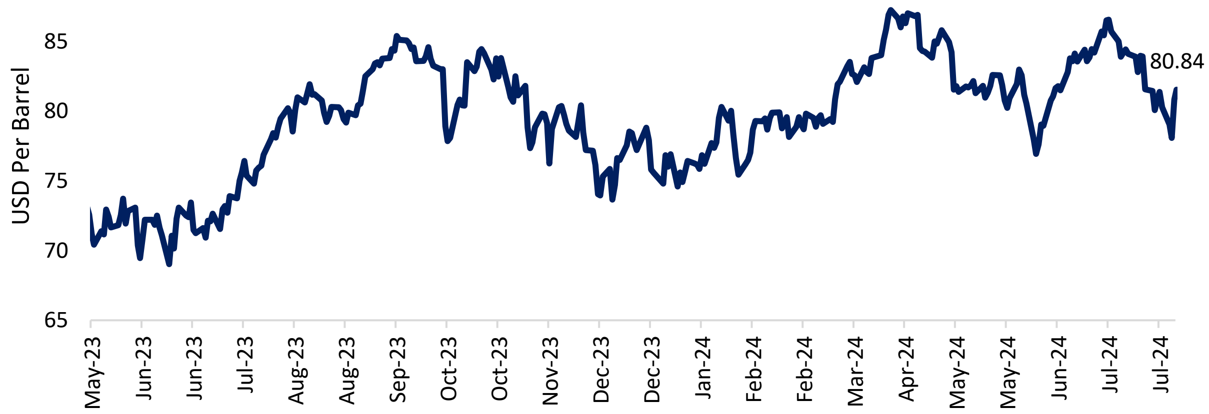
Red sea crisis coupled with container shortages pushing rates higher



Source: Bloomberg

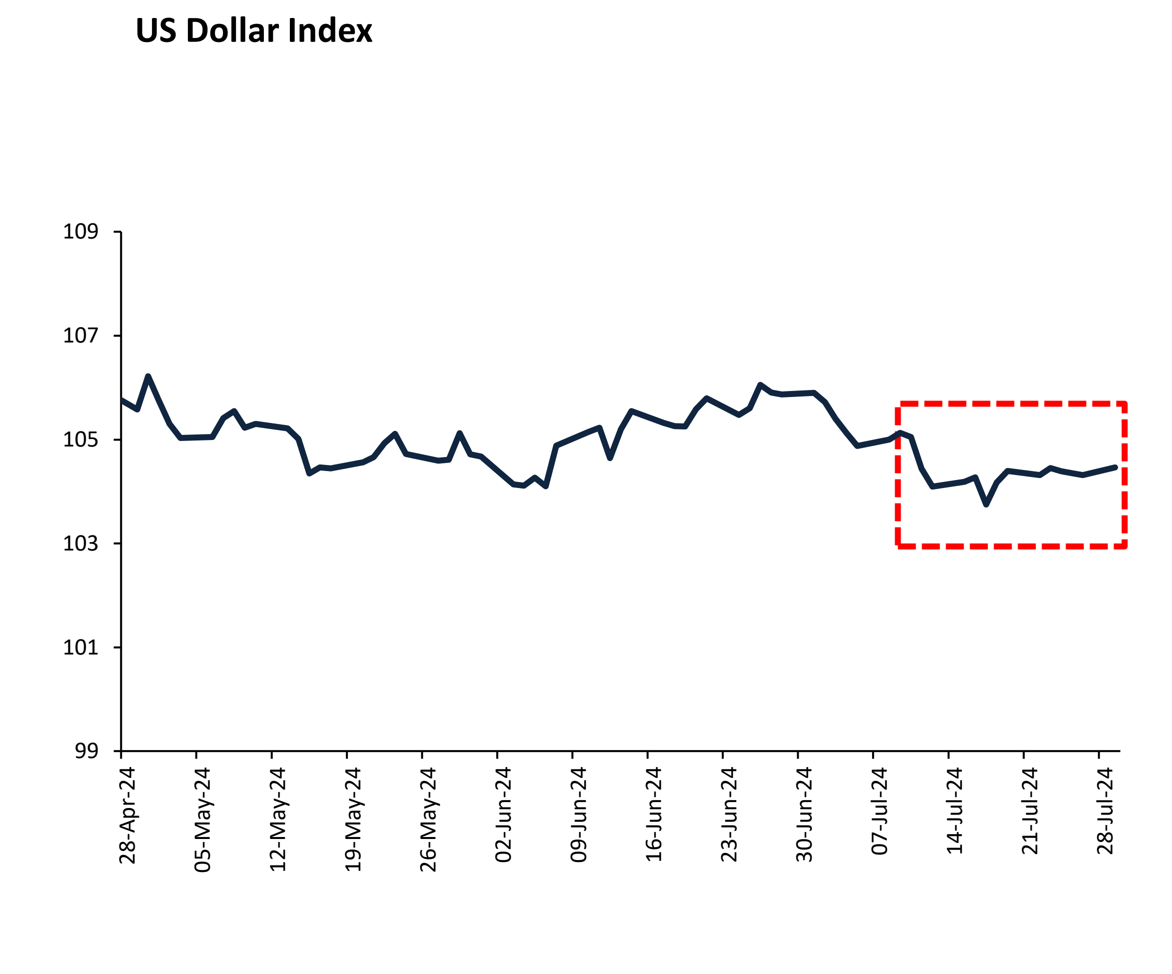
Brent Crude Oil (USD Per Barrel)

Brent crude oil remains elevated as lesser demand is offset by tight supply and Middle-East crisis

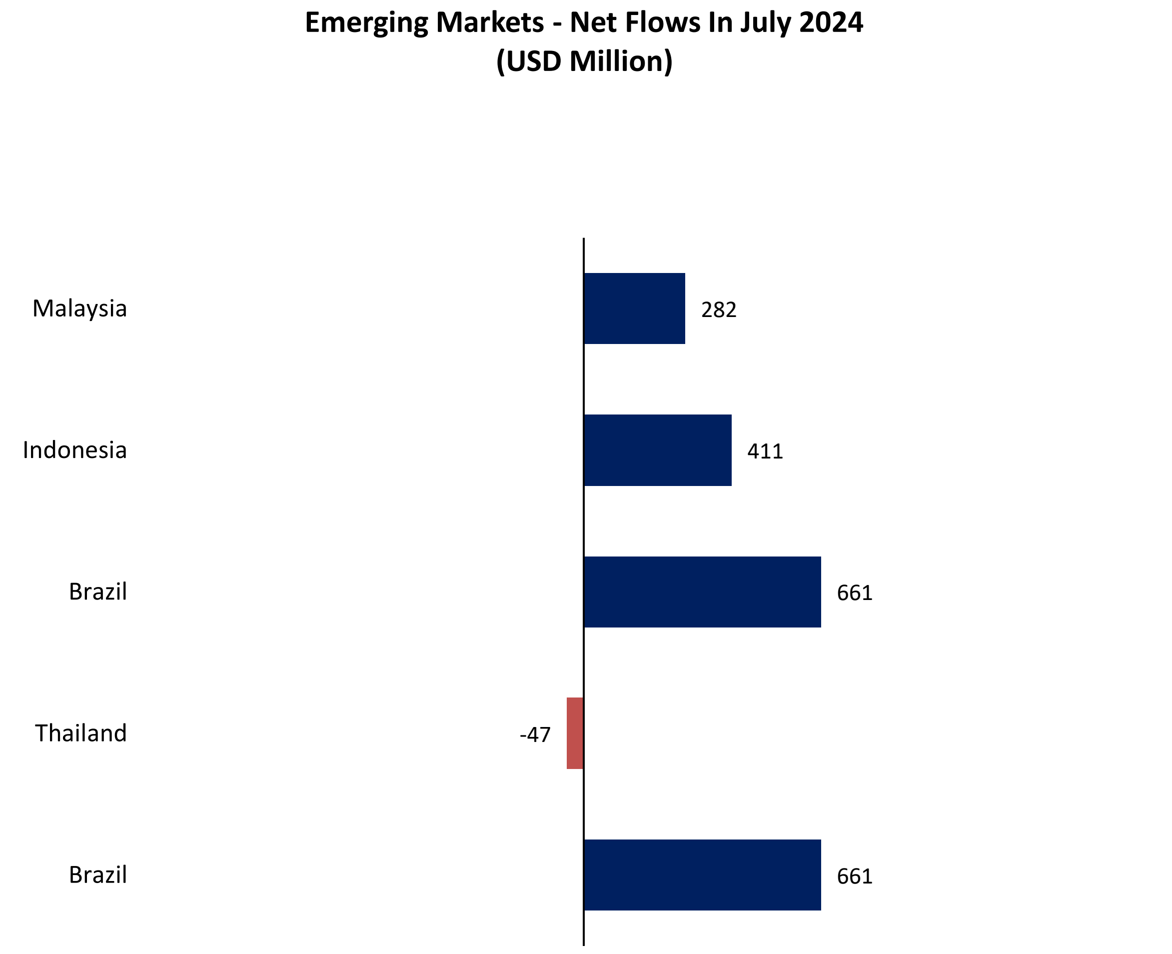


Source: Bloomberg

Weakening US dollar index has led to foreign flows into the emerging economies



Source: Bloomberg



Source: Bloomberg

Quarterly Results: incremental weakness being witnessed

Sector	Net Sales - YoY Growth (%)			EBITDA - YoY Growth (%)			PAT - YoY Growth (%)		
	Q1 FY25	Q4FY24	Q1FY24	Q1 FY25	Q4FY24	Q1FY24	Q1 FY25	Q4FY24	Q1FY24
Auto & Auto Anc	-40.05	13.52	31.18	-10.87	43.62	427.40	3.98	99.28	6,440.97
BFSI	24.34	27.95	32.27	23.88	51.65	30.73	25.78	50.55	43.38
Capital Goods	19.59	16.99	25.15	17.80	4.07	24.86	19.17	12.95	36.49
Cement & Products	-0.73	10.02	14.59	-13.41	30.87	16.48	-13.90	51.09	17.42
Chem & Fert	4.58	-6.43	-11.50	-18.64	-36.59	-32.50	-23.01	-27.78	-35.63
Ecomm	19.83	31.86	51.88	-48.46	32.80	45.23	-73.11	7.94	65.17
FMCG & Retail	5.96	4.67	3.15	4.91	6.56	12.51	3.80	4.91	15.66
Healthcare	8.33	9.48	14.58	9.01	14.94	32.65	20.69	35.88	6.40
Infrastructure	11.34	18.97	23.52	35.16	25.82	125.39	46.61	76.88	80.00
IT	3.92	2.10	10.31	8.85	1.80	9.73	9.58	8.55	9.82
Media & Ent	7.40	2.74	7.63	142.90	94.56	-59.27	3,147.03	116.71	-97.03
Metal & Mine	-1.99	-3.55	0.19	0.03	-4.08	-25.10	-7.11	-9.43	-21.85
Oil & Gas	3.71	3.28	-7.38	-43.23	-7.45	368.94	-44.79	-14.37	426.41
Others	12.37	1.98	-41.42	42.90	-8.29	25.14	87.46	-35.30	41.49
Power	13.43	6.92	2.82	12.13	5.86	27.25	0.91	17.48	16.65
Realty	8.45	5.14	9.09	41.18	41.60	-10.98	67.40	23.64	9.37
Telecom	9.95	13.85	5.74	33.21	14.13	71.30	36.09	29.18	97.95
Transport	17.31	25.88	29.78	-7.94	56.61	724.45	-11.71	106.14	390.40
Grand Total	4.65	9.75	6.57	-7.61	8.81	60.71	0.50	23.41	62.84
Ex-Financials	-0.25	5.34	1.66	-10.73	5.00	64.45	-11.22	12.22	73.77

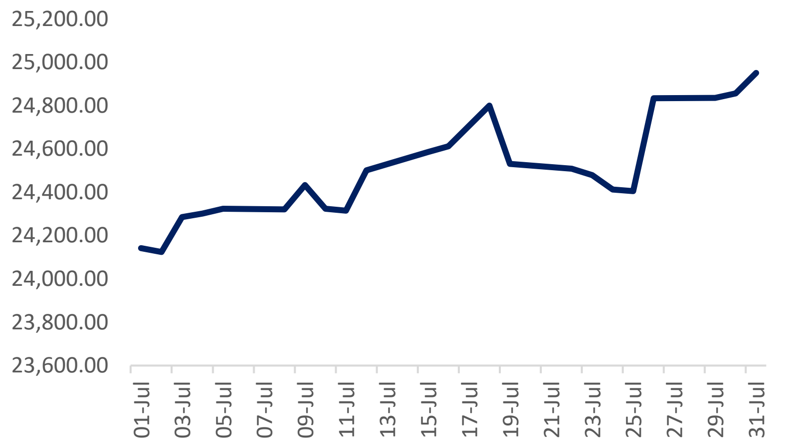
Data as on August 02, 2024 and pertains to 125 companies within the Nifty 200 universe

Source: Capitaline, HDFC Bank Research

- The Q1 FY25 earnings have begun on a mildly weak note, where the weakness in margins seem to be impacting the overall profitability and would be a concern for the market, going forward.
- Sectors which have seen weak performance are Auto, Cement, Metals, Oil & Gas and Transport.
- Sectors which have seen steady earnings are BFSI, Capital Goods, FMCG, Retail, Health, Infrastructure, Real Estate, Telecom.

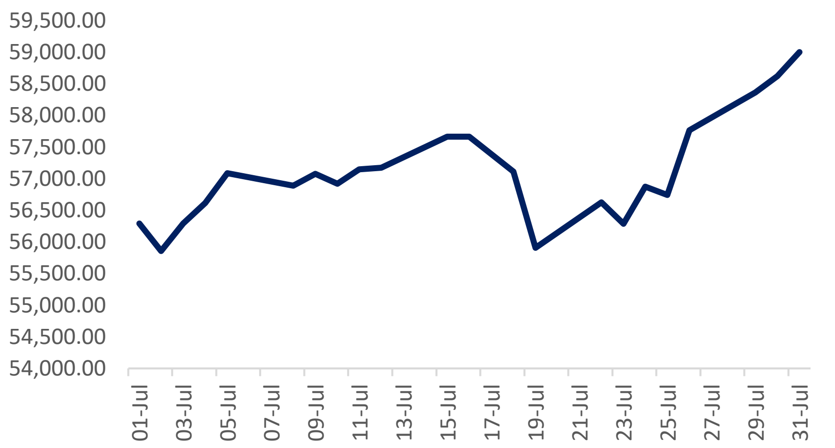
Indian markets remained volatile with a positive bias driven by strong inflows and reasonably no major negative surprises in the budget

Nifty 50 price movement



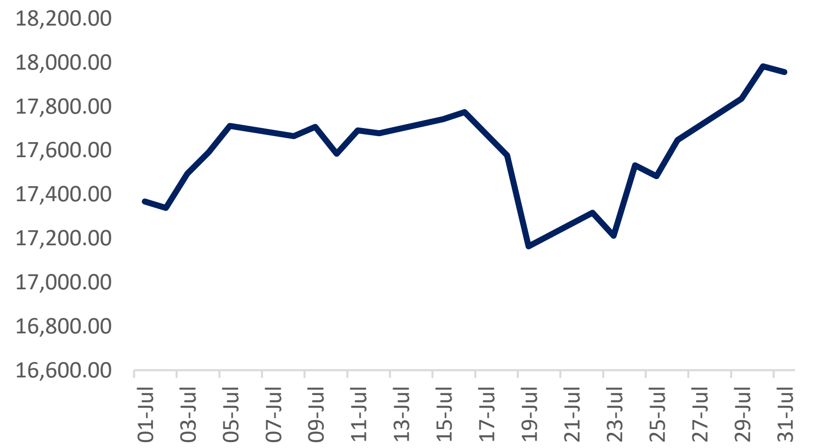
Source: Bloomberg

Nifty Midcap 100 price movement



Source: Bloomberg

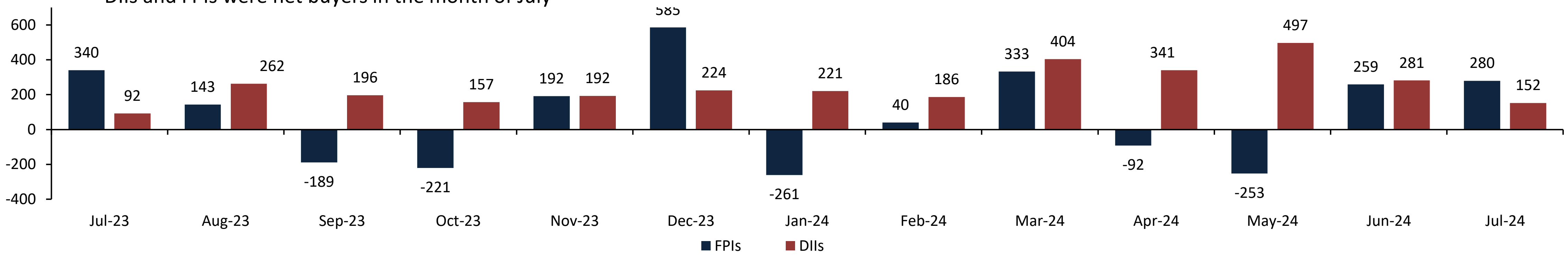
Nifty Smallcap 250 price movement



Source: Bloomberg

Net Flows In Equities (Rs Bn)

DIIs and FPIs were net buyers in the month of July



*For 2024, FPI and DII data is up to 31st and 29th July, 2024, respectively

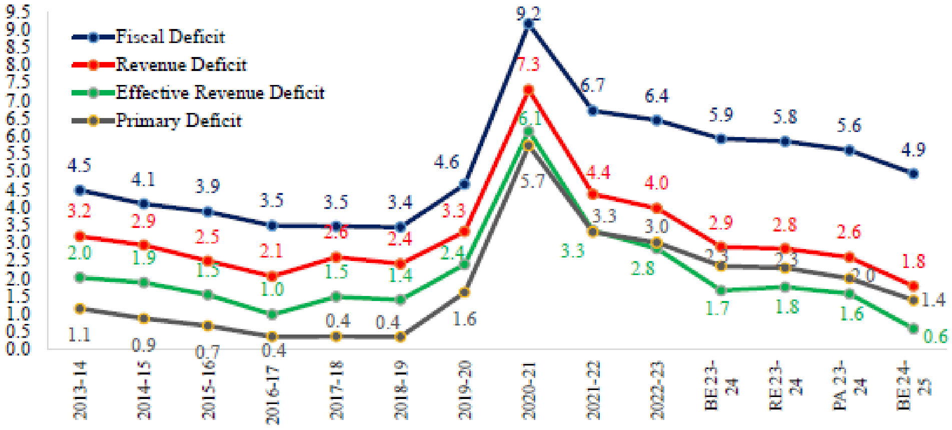
Source: SEBI, CDSL

Union Budget focus is on fiscal consolidation & job creation

Roadmap to pursue nine priorities for the budget:

- Productivity and resilience in Agriculture
- Employment & Skilling
- Inclusive Human Resource Development and Social Justice
- Manufacturing and Services
- Urban Development
- Energy Security
- Infrastructure
- Innovation, Research & Development
- Next Generation Reforms

Deficit Trends (% of GDP)



Provisional Actuals for FY 2023-24 are unaudited and subject to change.
Note : GDP is as per the latest estimates published by CSO.

Key Receipts Areas:

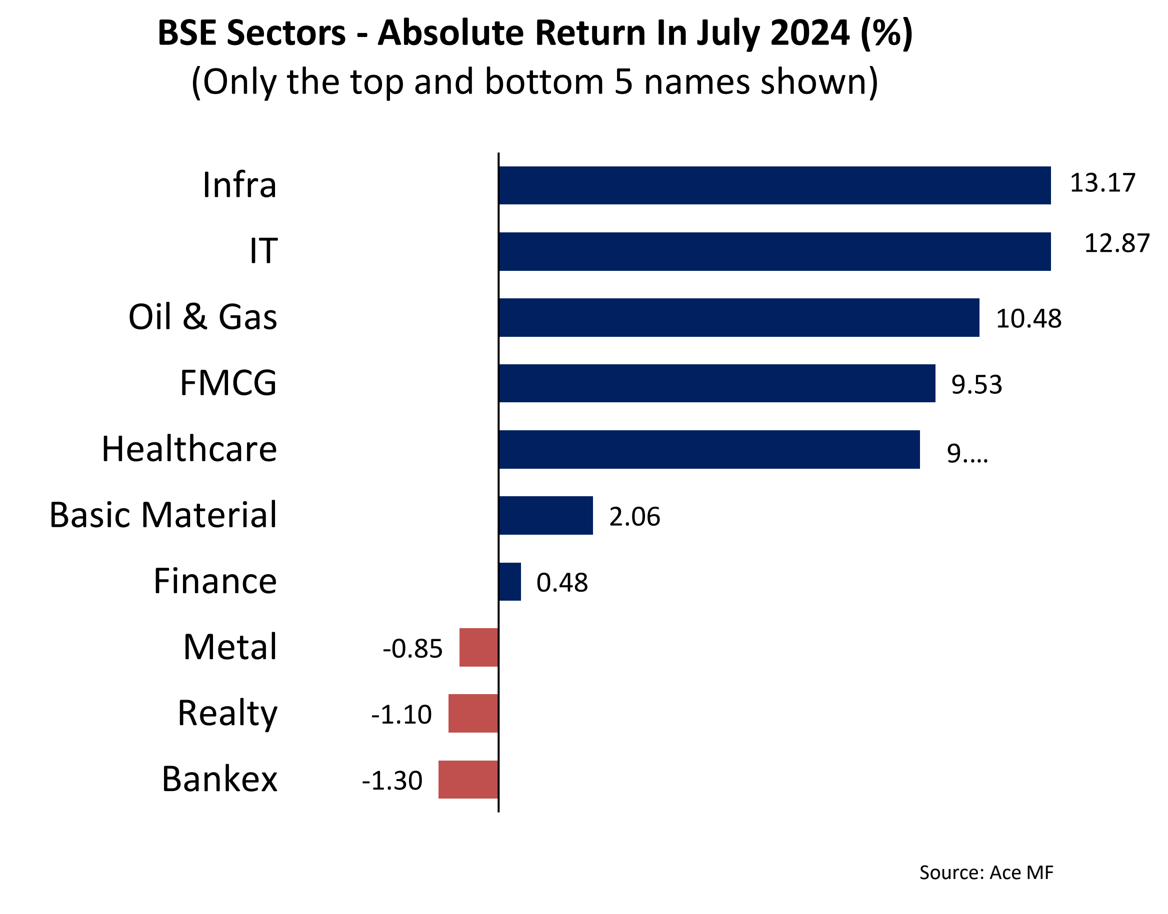
Sr. No.	Particulars	FY24BE (Rs. Bn)	FY24RE (Rs. Bn)	FY25BE (Rs. Bn.)	FY25BE vs FY24RE
1	*Direct Tax Revenue from:*				
	~ Corporation Tax	9226.75	9226.75	10200	10.55%
	~ Income Tax	9005.75	10223.25	11870	16.11%
		18232.5	**19450**	**22070**	**13.47%**
2	*Overall GST*	9566	9566	10618.99	11.01%
3	Dividends from PSEs and other Investments	430	500	562.6	12.52%
	Dividend/Surplus from RBI, Nationalised Banks and financial Institutions	480	1044.07	2328.74	123.04%
	Total Dividends and Profits	**910**	**1544.07**	**2891.34**	**87.25%**
4	Disinvestments	510	300	500	66.67%

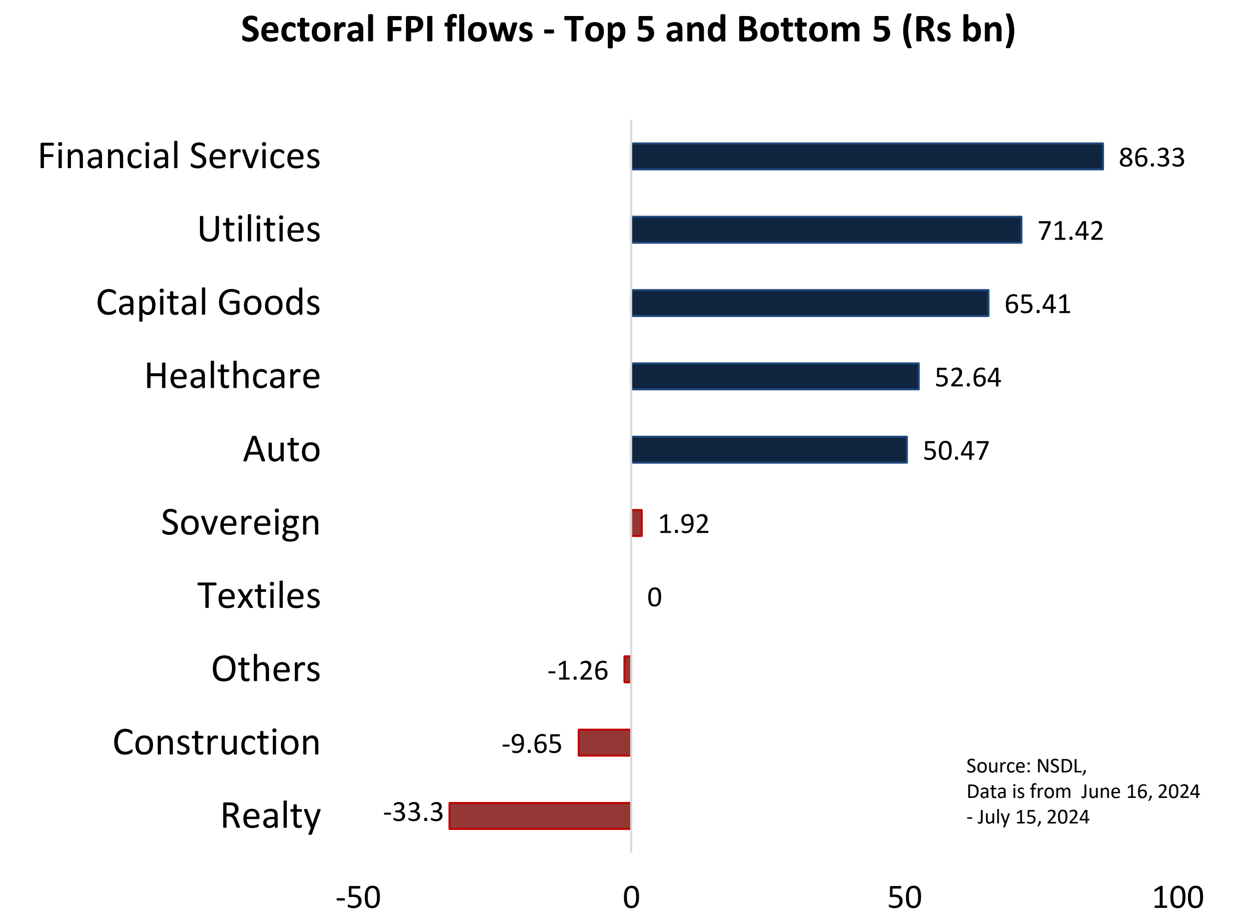
Key Expenditure Areas:

Sr. No.	Particulars	FY24BE (Rs. Bn)	FY24RE (Rs. Bn)	FY25BE (Rs. Bn.)	FY25BE vs FY24RE
1	Central Sector schemes/projects	14678.8	14461.52	15161.76	4.84%
2	Pension	2343.59	2380.49	2432.96	2.20%
3	Defence	4327.2	4558.97	4547.73	-0.25%
4	*Subsidy:*				
	~ Fertiliser	1751	1888.94	1640	-13.18%
	~ Food	1973.5	2123.32	2052.5	-3.34%
	~ Petroleum	22.57	122.4	119.25	-2.57%
5	Agriculture and Allied Activities	1442.14	1405.33	1518.51	8.05%
6	Education	1164.17	1088.78	1256.38	15.39%
7	Energy	949.15	549.89	687.69	25.06%
8	Health	889.56	792.21	892.87	12.71%
9	Rural Development	2382.04	2389.84	2658.08	11.22%
10	Urban Development	764.32	692.71	825.77	19.21%
11	*Centrally Sponsored Schemes:*				
	~ National AYUSH Mission	12	8.15	12	47.24%
	~ PM POSHAN	116	100	124.67	24.67%
	~PMAY (Rural)	544.87	320	545	70.31%
	~PMAY (Urban)	251.03	221.03	301.71	36.50%
	~ AMRUT	80	52	80	53.85%
	~ Jal Jeevan Mission	700	700	701.63	0.23%
	~ MGNREGP	600	860	860	0.00%
	~ PM Gram Sadak Yojna	190	170	190	11.76%
	~ PM Garib Kalyan Anna Yojana	1973.5	2123.32	2052.5	-3.34%
	~ Solar Power (Grid)	49.7	47.57	100	110.22%
	~ PLI (Auto and Auto components)	6.04	4.84	35	623.14%
	~ PLI (MEITY)	46.45	45.6	62	35.96%
12	Ministry of Road Transport and Highways	2704.3471	2763.5145	2780	0.60%
13	Ministry of Railways	2412.6751	2432.7184	2553.93	4.98%

Source: www.indiabudget.gov.in

Sectoral performance and FPI flows in July 2024

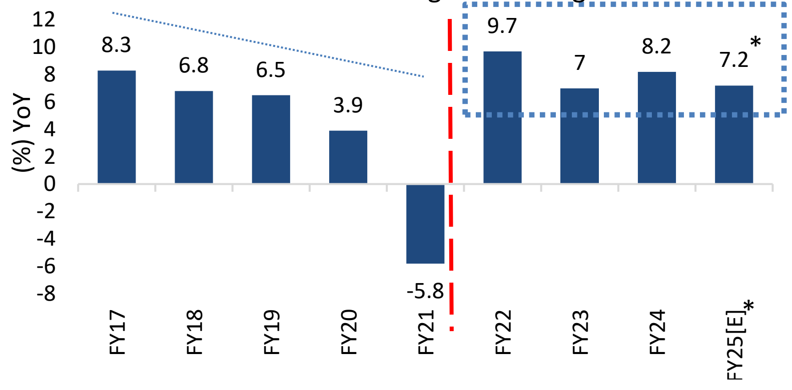




India – Macroeconomic conditions remain strong

Real GDP Growth

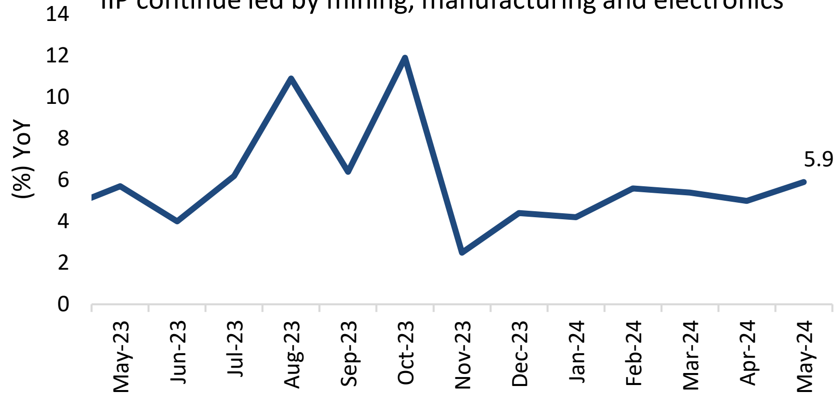
Structural shift in sustainable growth at higher level



Source: MoSPI, RBI*

Index of Industrial Production (% YoY)

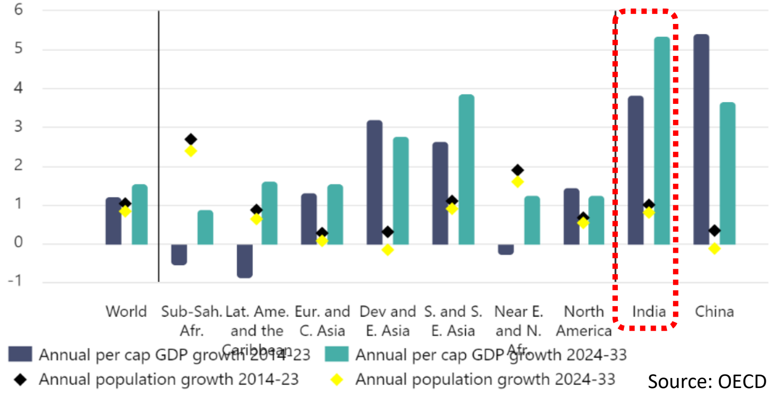
IIP continue led by mining, manufacturing and electronics



Source: Bloomberg

Annual GDP per capita and population growth

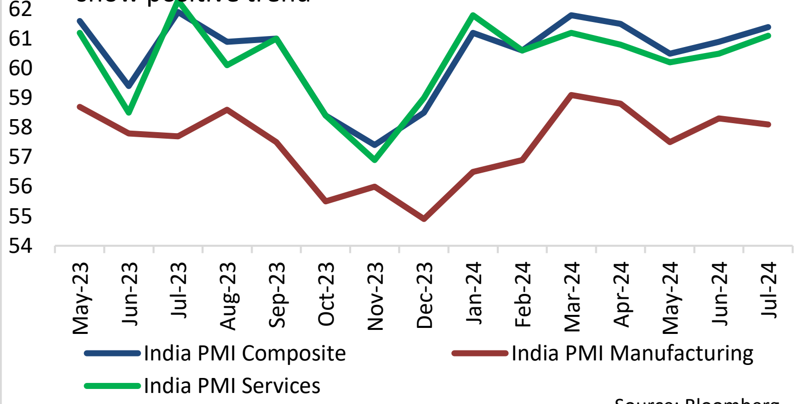
OECD projects higher GDP growth per capita for India, which could drive demand



Source: OECD

HSBC India PMI

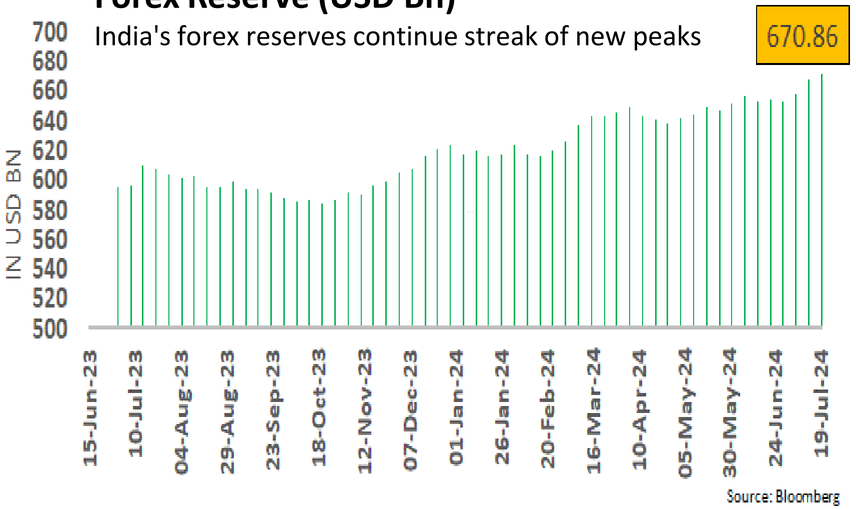
Lead indicator on manufacturing and services continue to show positive trend



Source: Bloomberg

Forex Reserve (USD Bn)

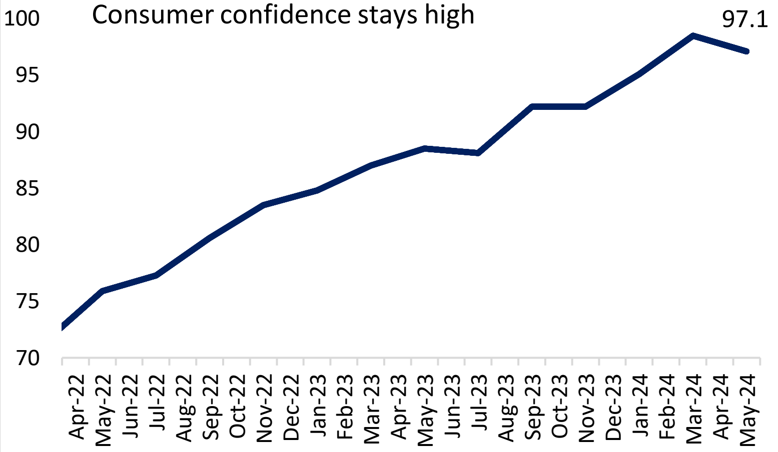
India's forex reserves continue streak of new peaks



Source: Bloomberg

Consumer Confidence Index

Consumer confidence stays high

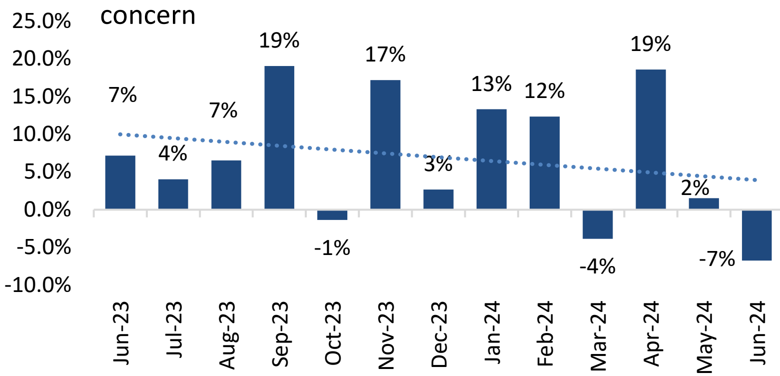


Source: Bloomberg

Urban India shows initial signs of slowdown…

India Passenger Vehicle Registrations (% YoY)

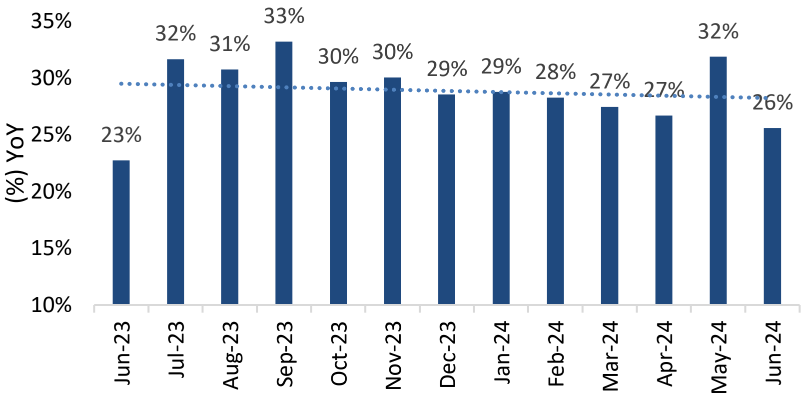
Deceleration in passenger vehicle demand is a rising concern



Source: Bloomberg, FADA

Banking Sector Personal Loan Growth

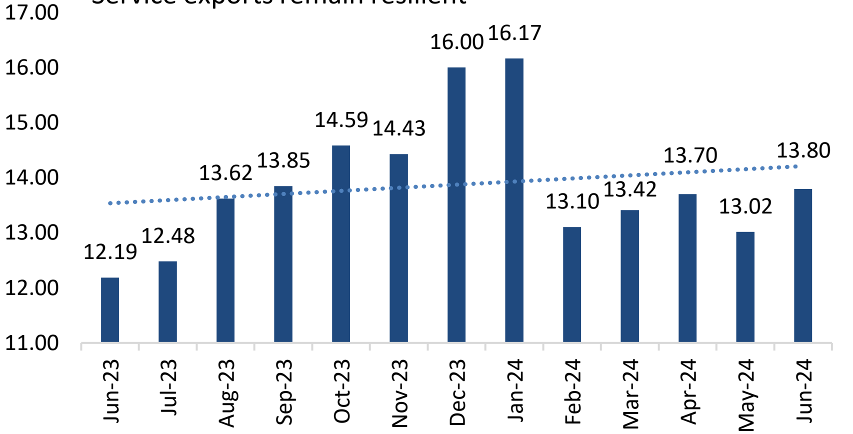
Personal loan growth decelerates marginally



Source: Bloomberg

Net Service Exports (USD Bn)

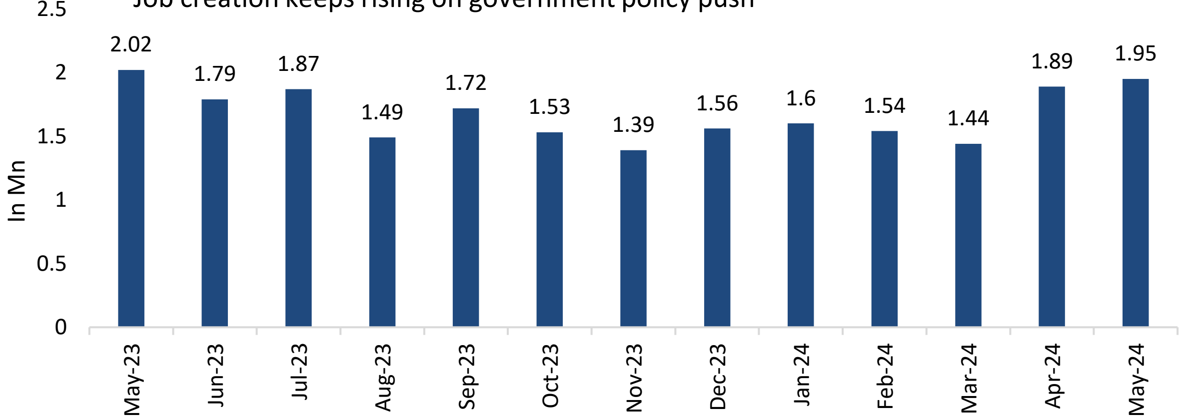
Service exports remain resilient



Source: Bloomberg

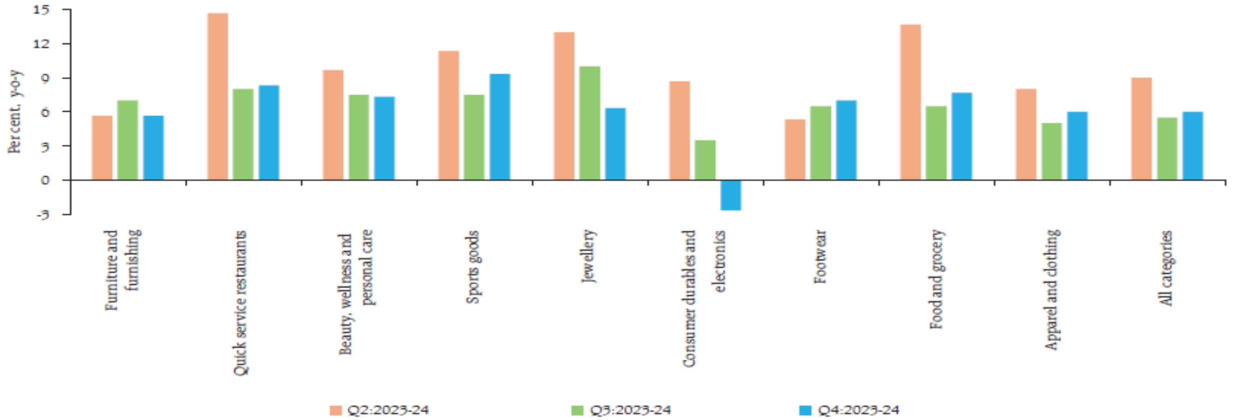
Formal Job Creation (EPFO Payroll net subscriber growth)

Job creation keeps rising on government policy push



Source: EPFO, PIB

Retail sales growth remains stable (% YoY)

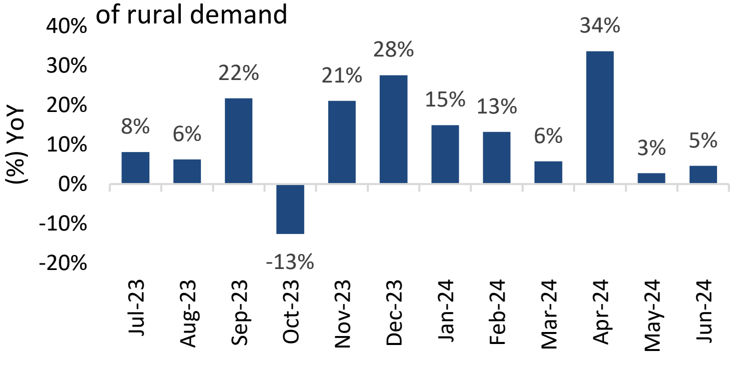


Source: Retailers Association of India; RBI Bulletin

Rural India: improvement continues

Two Wheeler Registrations

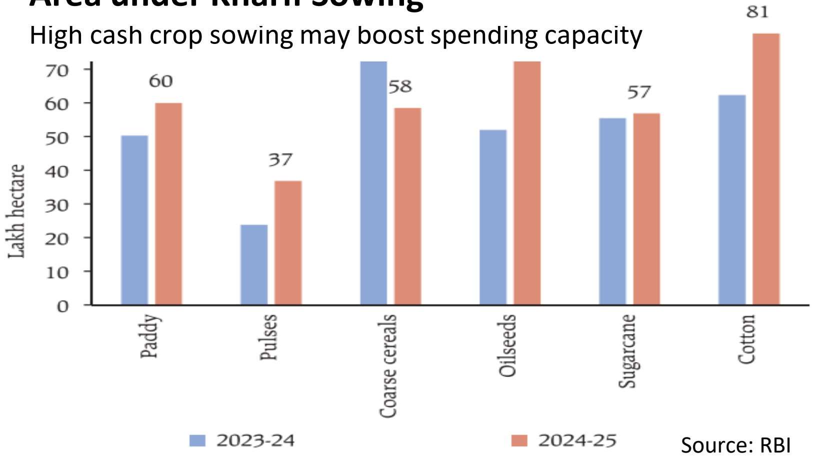
Two-wheeler registrations yet to pick up in the wait of rural demand



Source: Bloomberg, FADA

Area under Kharif Sowing

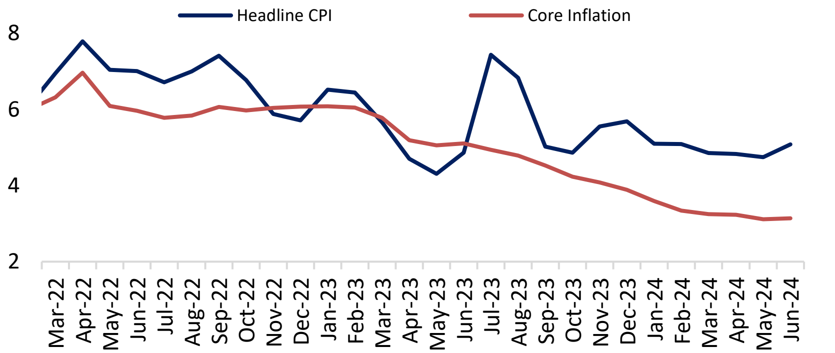
High cash crop sowing may boost spending capacity



Source: RBI

CPI Inflation (% YoY)

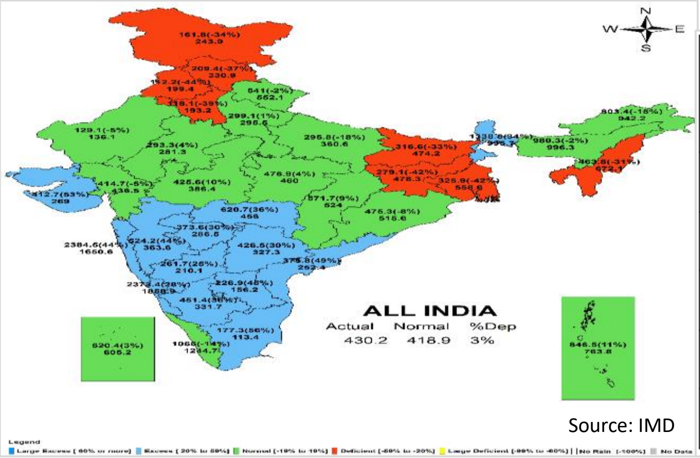
Declining inflation suggestive of better affordability



Source:-Ministry of Statistics and Program

Monsoon expected to be above normal, as of yet recovered well after deficit in the month of June 2024.

Monsoon has recovered well till July 2024



Source: IMD

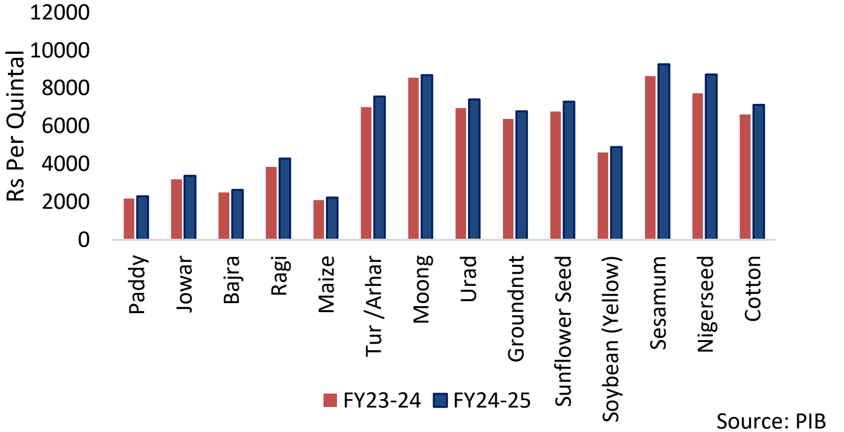
Probabilistic rainfall forecast for monsoon season (June - September), 2024

Source: IMD

Category	Rainfall Range (% of LPA)	Forecast Probability (%)	Climatological Probability (%)
Deficient	< 90	2	16
Below Normal	> 90 - 95	8	17
Normal	96 -104	31	33
Above Normal	> 105 -110	32	16
Excess	> 110	29	17

MSP For Kharif Crops (FY24 and FY25)

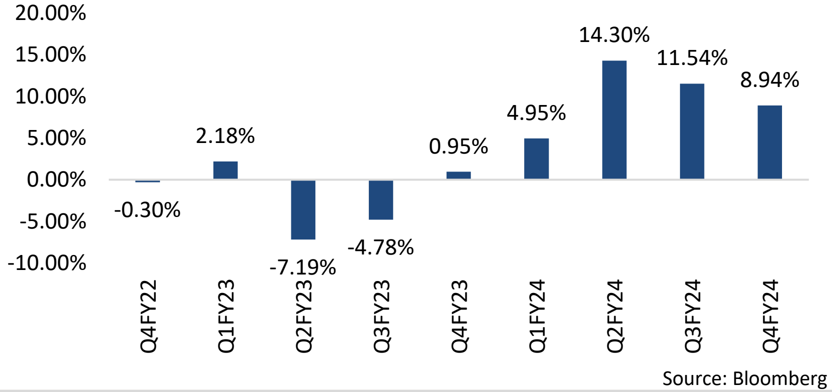
Push up in MSP of cash crops likely to stimulate rural incomes



Source: PIB

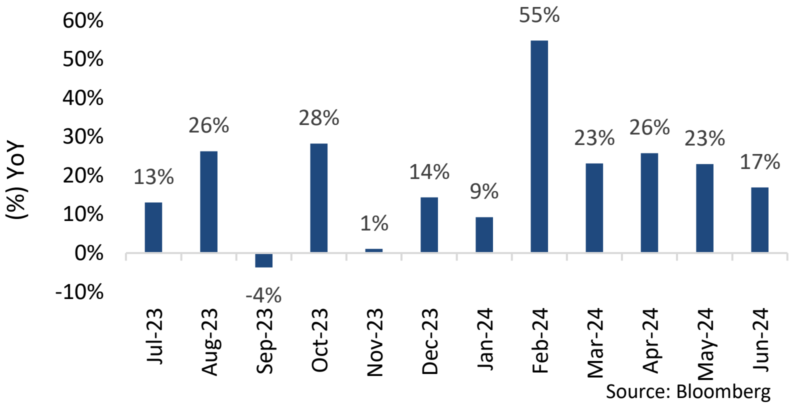
Capex in midst of private participation upcycle, boosted by public investment

Manufacturing Growth as % of GDP (YoY)
Government push reflecting in manufacturing growth

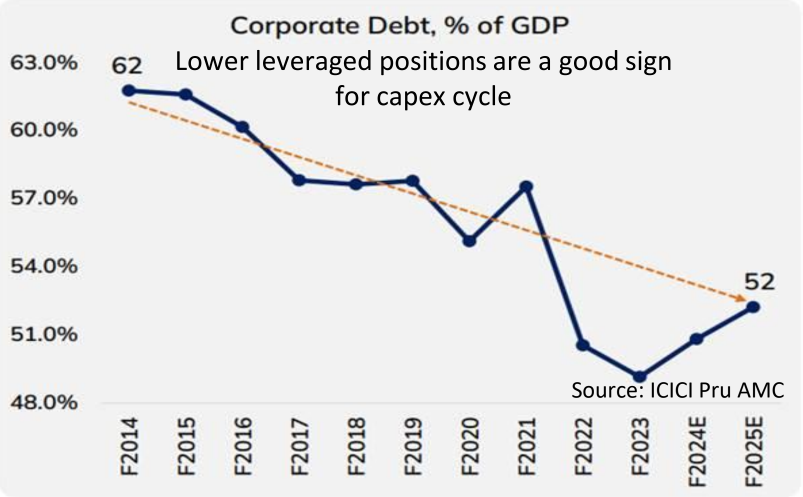


Source: Bloomberg

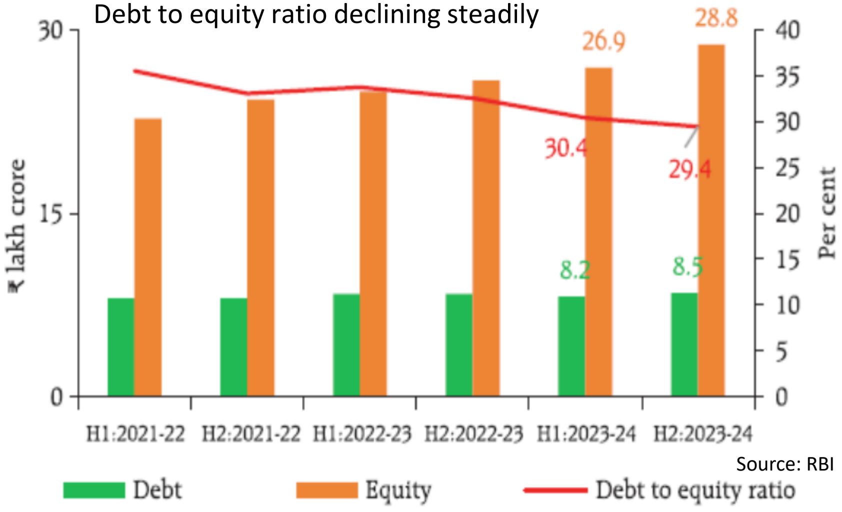
India's Exports Electronic Goods
Exports continue to remain in expansion territory



Source: Bloomberg

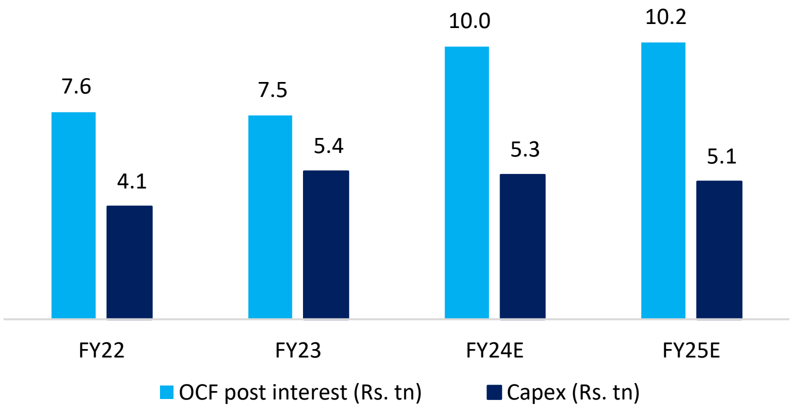


Leverage positions of manufacturing entities
Debt to equity ratio declining steadily

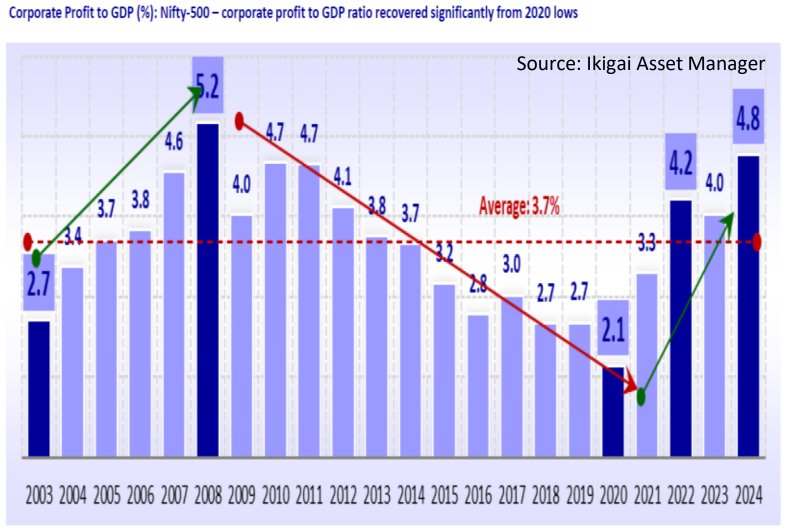


Source: RBI

Rising cash flows to help in corporate capex

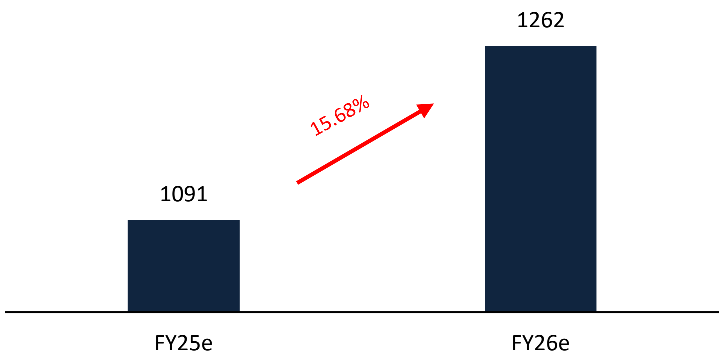


Source: Nippon India AMC



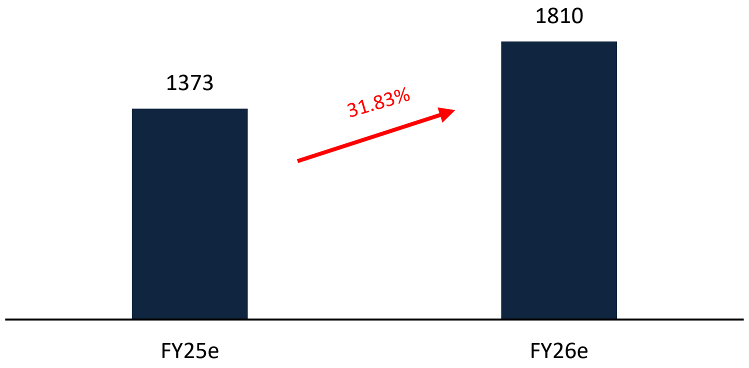
India valuations – With weak results, high valuations largely becoming a cause of concern… markets to reward companies with strong result and punish companies with weak result

Nifty 50 - Forward EPS (Rs)



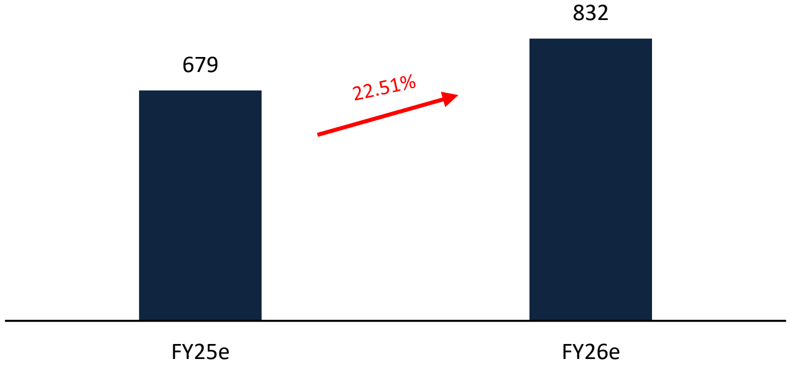
Source: Bloomberg

Nifty Midcap 100 - Forward EPS (Rs)



Source: Bloomberg

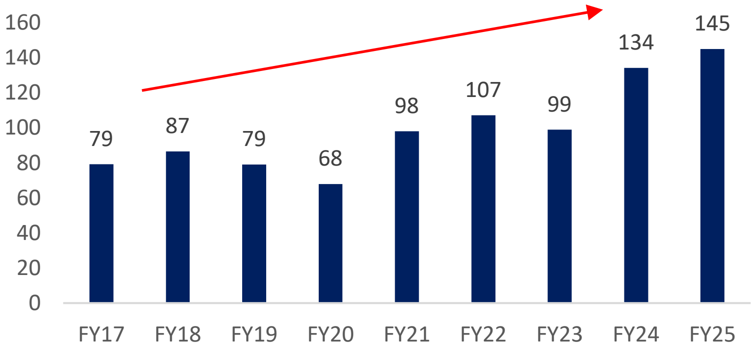
Nifty Smallcap 250 - Forward EPS (Rs)



Source: Bloomberg

India's Market Cap to GDP (%)

Ratio indicates stock market remain at elevated levels



Source: Bloomberg

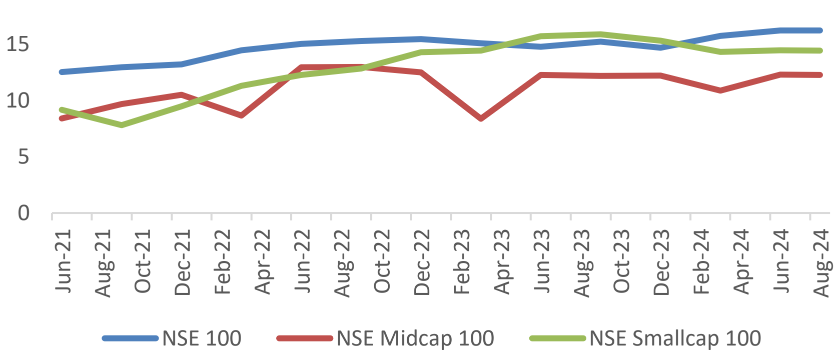
12M expected Fwd P/E (x) Comparison By Market Cap

Index	FY25 (Est)	FY26 (Est)
Nifty 50	22.95	19.84
Nifty Midcap 100	43.00	32.62
Nifty Smallcap 250	26.47	21.61

Source: Bloomberg

Indices - Return on Equity (ROE)

Large cap ROE's look better than Mid and Small cap



Source: Bloomberg

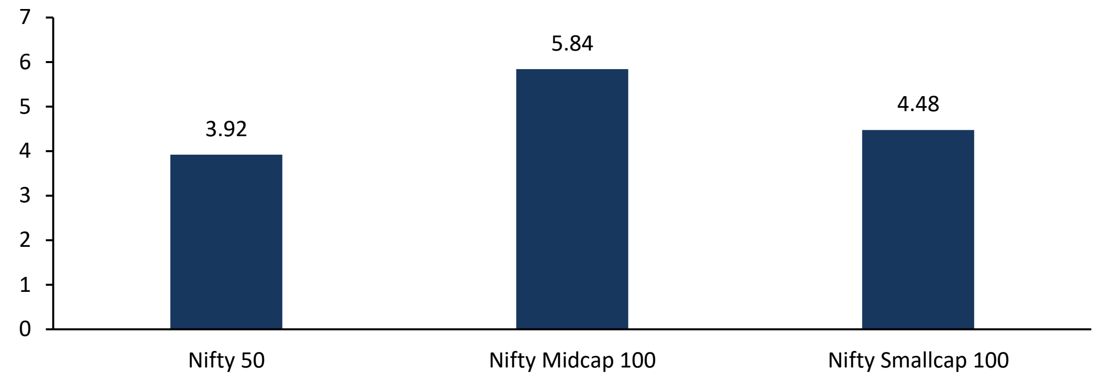
Data as on 31st July 2024 for FY25

Data as on 31st July 2024

Market Roundup – July 2024

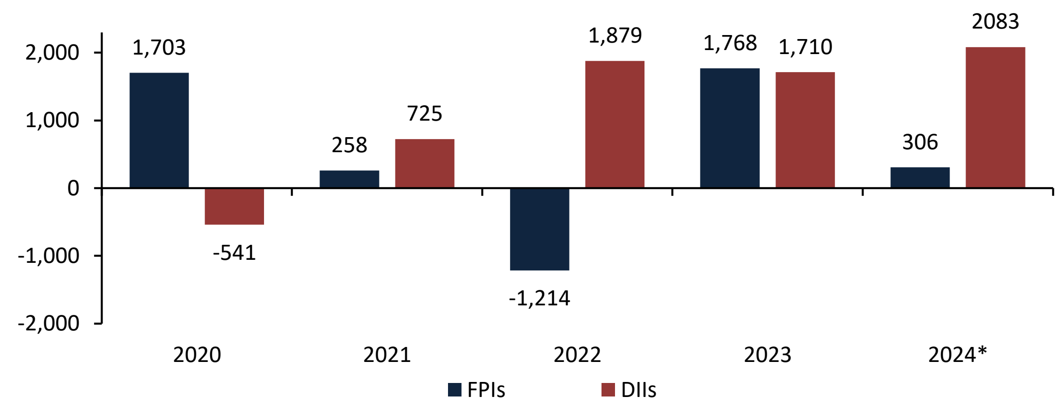
- Indian equities ended the month on a positive note. Large cap-oriented BSE Sensex and Nifty 50 ended higher to the tune of 3.43% & 3.92% (MoM) respectively.
- The BSE Midcap and BSE Small cap indices ended higher by 5.36% & 6.14% (MoM), respectively.
- In terms of BSE sectoral indices, Infrastructure was the top performer. In contrast, Bank Index, Realty Metal underperformed the most.
- Indian equities ended the month on a positive note buoyed by the government's commitment to improving consumption and bridging the gap for energy transition in the Budget. Improved FPI flows, along with the hope for a strong monsoon further aided the sentiments. Hike in capital gains tax was the key dampener in the Union Budget FY25.

Absolute Return In July 2024 (%)



Source: Bloomberg

Net Flows In Equities (Rs Bn)



*For 2024, FPI and DII data is up to 31st and 29th July, 2024, respectively

Source: SEBI, CDSL

Sectoral outlook by fund managers – Part 1

Sector	Particulars
BFSI	**View –Neutral to Positive** • Valuations of most Banks are reasonable, especially the Largecap Private sector banks. • NIM concerns have resurfaced as the cost of funds have risen due to tight liquidity scenario and with policy rates likely to be cut, further pressure to NIMs possible. • Credit cost (provisioning) have started to show initial signs of weakness. • Most fund managers are continuing to add weight in the Pvt sector banks and Insurance Companies
IT	**View –Neutral to Positive** • Large global bellwethers have shown improved order booking. • Order book growth of Indian companies holding up, margins need to sustain, execution cycle seem to be pushed back by customers. • Results have been better than expectations. • Funds are cutting underweights.
Pharma	**View – Neutral** • Reasonable valuations, domestic demand holding up well. • US is seeing abatement of price erosion in the generic space, which should be positive for Indian pharma stocks. • Decline in the raw material prices to drive margins and earnings. Stock prices have seen strong performance and seem to be pricing many positives • Fund Managers expect the sector to now be market performers and are looking at very stock specific opportunities. • Hospitals as a segment seems stretched on valuations and is not finding further favour from the fund managers.
Auto	**View – Neutral to Negative** • The base for Passenger vehicle volume seems to be loaded against its favour, and volume growth going forward seem to be a concern. Fund managers are looking to reduce allocation • 2-Wheeler stocks have seen strong outperformance and the volume growth continues to remain steady there. • SUV oriented companies expected to still hold on to earnings growth, as improved product mix in the sales would help drive earnings. • Initial signs of weakness seen globally in the EV theme. Indian policymakers still supportive of this segment. • Commercial vehicle sales starting to see stability, incremental allocation from the funds may happen. • Auto ancillaries may do well due to China+1, Europe+1, PLI, export opportunities and EV initiatives. Valuations here have seen sharp runup, incremental upside could be very stock specific.

Sectoral outlook by fund managers – Part 2

Sector	Particulars
Construction & real estate	**View – Neutral to Positive** • Favourable demand scenario for housing in terms of volume growth. • Government's focus on infrastructure and investment cycle. • Real estate stocks have found space in the Fund Portfolios, as growth in the sector quite strong. However, some managers are also cutting exposure as they believe that valuations look quite rich. **Approach followed by most AMCs -** Prefer investing in this space through proxy sectors such as housing finance companies, cement, steel, pipes, and building materials, among others.
Consumption	**View – consumer services -Positive, consumer durables and FMCG- positive** • Staples – improving volume growth, Valuations consolidated. Few AMCs are going overweight while rest are cutting underweights • Hotels/Travel – Valuations rich, funds trimming at margin. Earnings visibility is strong. • Consumer Durables – Funds are looking to bottom fish, as they expect turnaround of demand. Results have been strong • Retail and Quick Service Restaurant: Retail valuations high, rural plays looked at, while QSR's expected to see better performance due to low base, finding favour in portfolios due to expectations of change in consumer behaviour in long term. **Long-term positives** • Rising per capita income. • Premiumization across categories.
Capital goods, industrials, utilities	**View – Neutral** • Capex cycle uptick implies that domestic capital goods are gaining traction. • Export prospects appear promising, albeit on a bottom-up basis. • Order books are robust, and earnings remain stable. • New ideas also emerging and some old themes getting churned. • Power, Automation, Electronics continues to be the dominant theme for capex. • **Valuations are steep, while earnings momentum holding up. Funds with high exposure not keen on raising further weights, trimming/churning at margin. Power value chain still finding favour**
Metals	**View – Neutral to negative** • Post recent upmove, managers seem to be wanting to sell on rise. Demand conditions globally consolidating, prices of base metals weak. If Chinese real estate market sees delay in pickup, some managers believe that stocks could underperform.

Monthly Sectoral Movement

Absolute Monthly Return By Sector (%)

Index	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24
S&P BSE 500	**3.80**	**-0.81**	**2.04**	**-2.93**	**6.75**	**8.01**	**1.90**	**1.93**	**0.84**	**3.43**	**0.61**	**6.87**	**4.32**
Auto	3.14	-1.40	3.65	-1.25	10.08	5.43	4.18	8.12	4.96	3.92	3.84	8.05	5.05
Bankex	1.85	-4.01	0.35	-3.44	3.47	8.12	-4.38	1.92	2.02	4.64	-0.40	6.94	-1.30
Basic Material	3.19	1.06	1.70	-3.70	7.25	11.39	0.33	-0.42	1.06	7.86	0.73	6.63	2.06
Capital Goods	8.15	2.66	6.20	-4.07	8.88	11.31	1.88	-1.21	6.15	3.42	11.16	3.24	4.58
Consumer Discretionary	4.46	2.10	2.40	-1.38	9.36	5.91	2.35	4.89	1.69	5.05	0.77	8.99	4.93
Consumer Durables	-0.25	4.24	3.18	-2.32	7.42	6.11	0.70	0.00	2.05	5.59	-0.51	7.12	3.57
Energy	6.89	-4.38	3.20	-2.17	9.17	11.06	12.18	6.18	-0.19	3.33	-0.78	4.42	7.34
FMCG	1.58	-2.75	0.97	-0.86	3.58	6.84	-2.81	-2.33	-0.67	1.52	-0.42	5.23	9.53
Finance	3.16	-2.64	1.08	-3.09	4.82	6.92	-2.40	0.47	1.35	4.93	-1.49	7.10	0.48
Healthcare	7.45	0.57	2.45	-4.30	10.92	3.87	7.18	5.94	-0.08	1.01	-1.46	6.37	9.19
IT	1.34	4.13	2.62	-3.13	6.77	8.38	3.74	3.38	-7.20	-4.35	-2.63	11.30	12.87
Infra	10.73	1.64	8.45	-3.38	10.40	14.88	18.15	1.23	0.48	7.03	5.62	2.83	13.17
Metal	7.88	-1.64	7.45	-4.17	8.74	11.35	-0.85	1.15	4.95	10.83	4.68	1.03	-0.85
Oil & Gas	6.67	-5.03	1.23	-4.17	12.51	12.02	12.57	6.86	-0.07	4.83	-1.18	2.91	10.48
Power	9.20	-0.63	5.96	-4.90	11.16	18.24	8.57	4.33	1.70	7.73	6.64	3.31	6.13
Realty	9.01	-1.50	5.21	3.70	19.99	9.37	9.37	9.16	-1.21	7.52	4.40	8.21	-1.10
Telecom	5.61	3.20	10.55	-5.69	7.21	6.15	6.94	1.44	1.81	8.36	3.29	10.90	4.69
Utilities	10.36	-0.64	7.20	-3.98	11.85	20.00	9.71	3.61	0.25	8.84	2.80	2.40	6.87

The abovementioned sectoral indices pertain to the S&P BSE universe

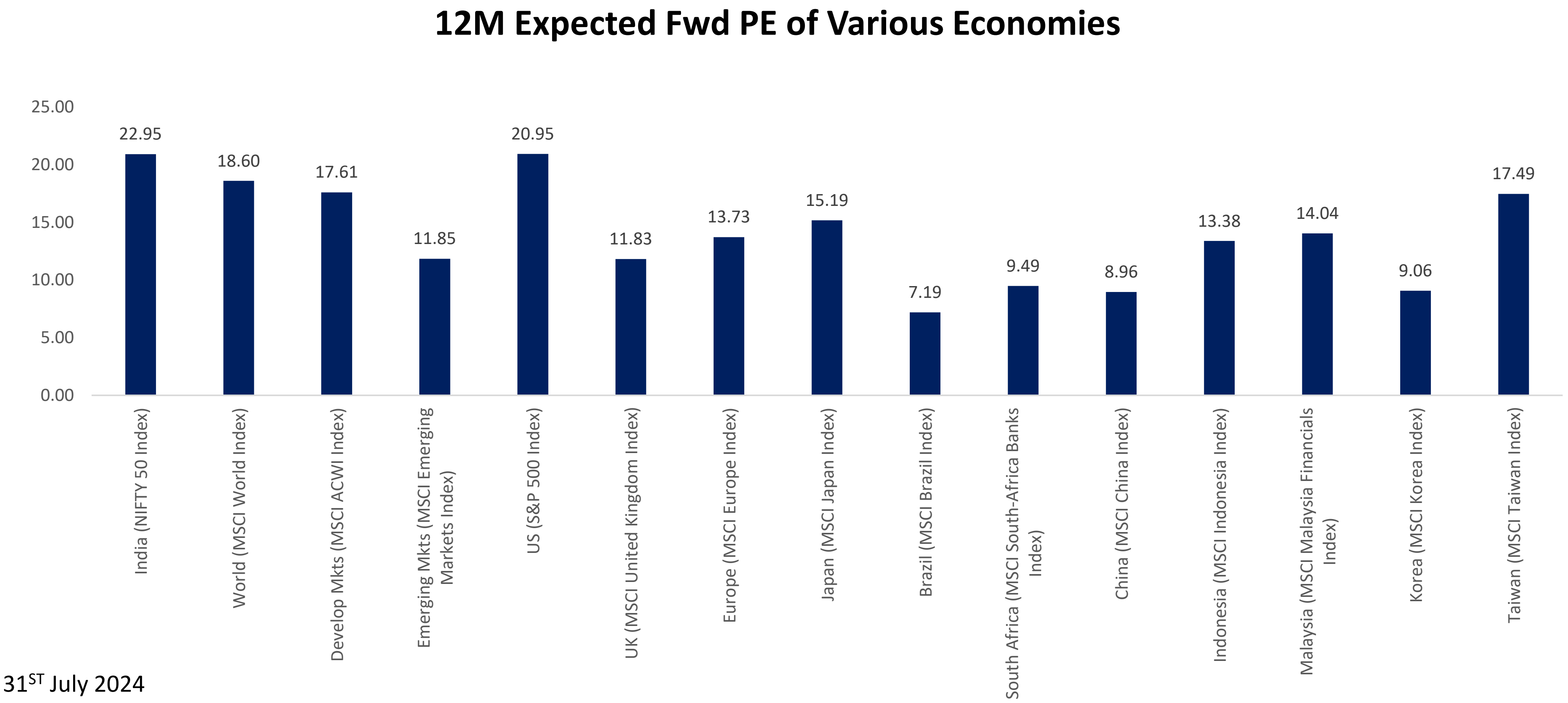
Colour scales assigned vertically

Source: Ace MF, HDFC Bank Research

Key concerns for Indian equities

- Low growth in consumer demand
- Expectation of weakening margin profile for corporates
- Delay in rate cuts by Global Central Banks
- Upward pressure on food inflation (El Nino, export restrictions by some nations)
- Rising tensions in Middle East
- Movement of global liquidity
- The impact of Dollar Index and US Bond Yields on FPI flows in emerging markets

Annexure



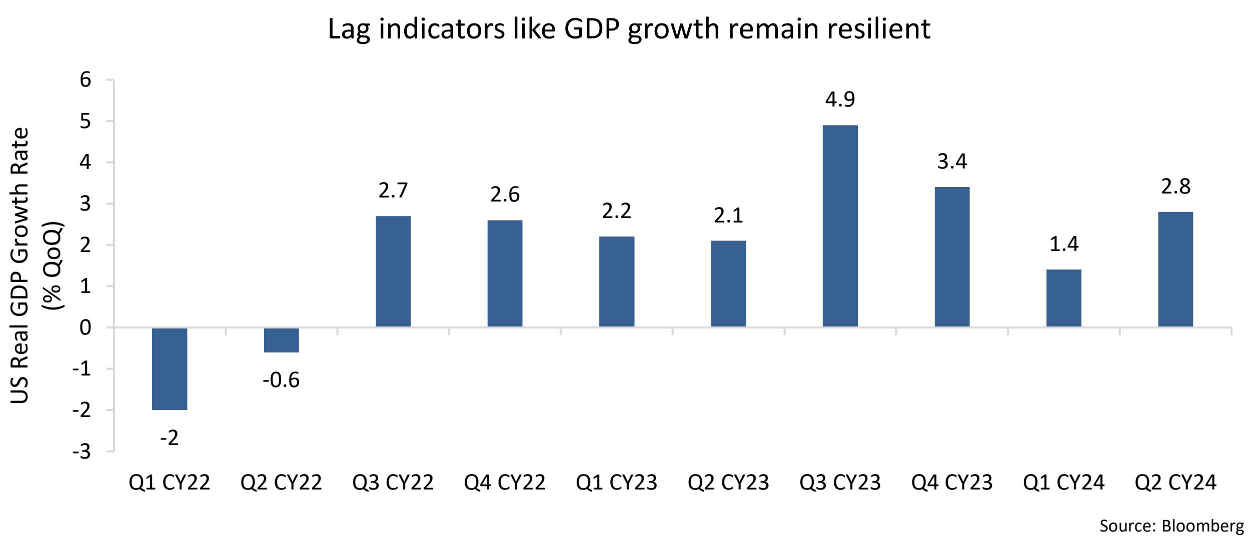
Data as on 31ST July 2024

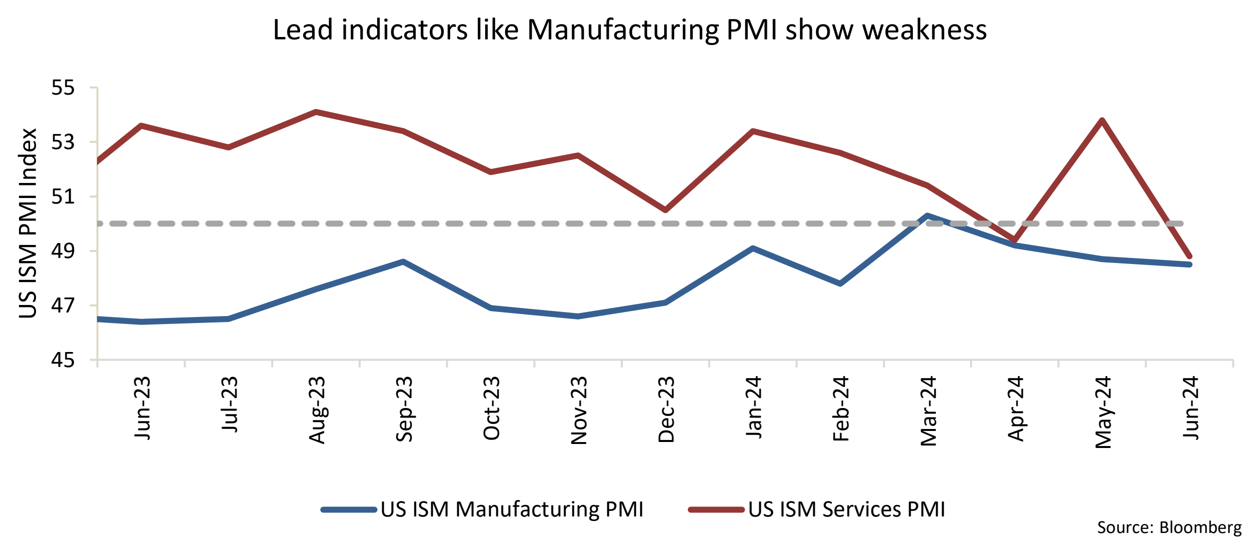
Fixed Income Market

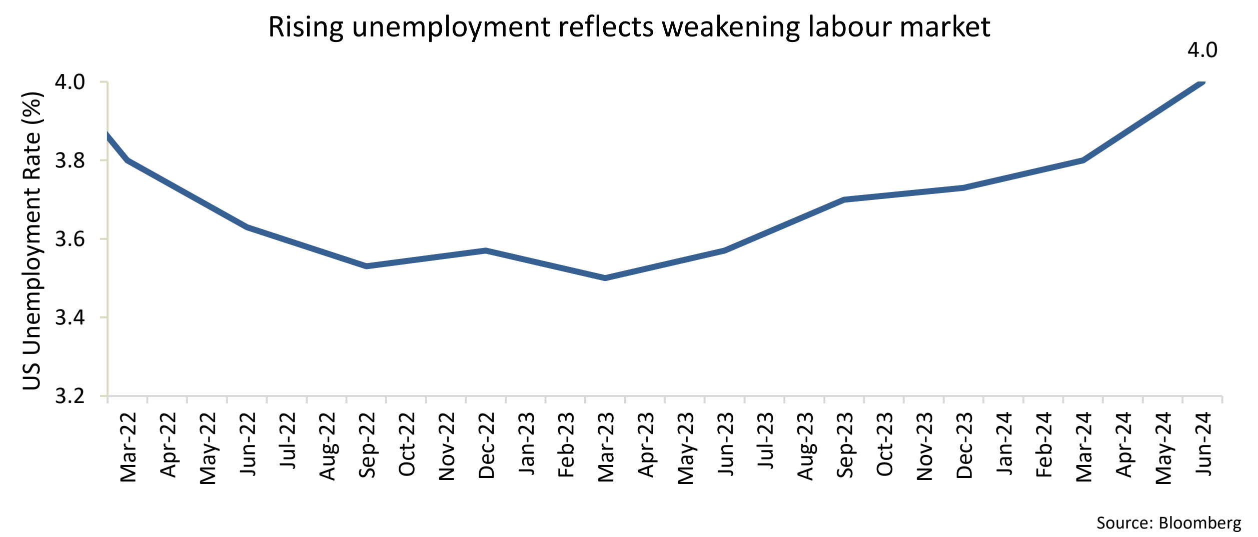
Fixed Income Outlook

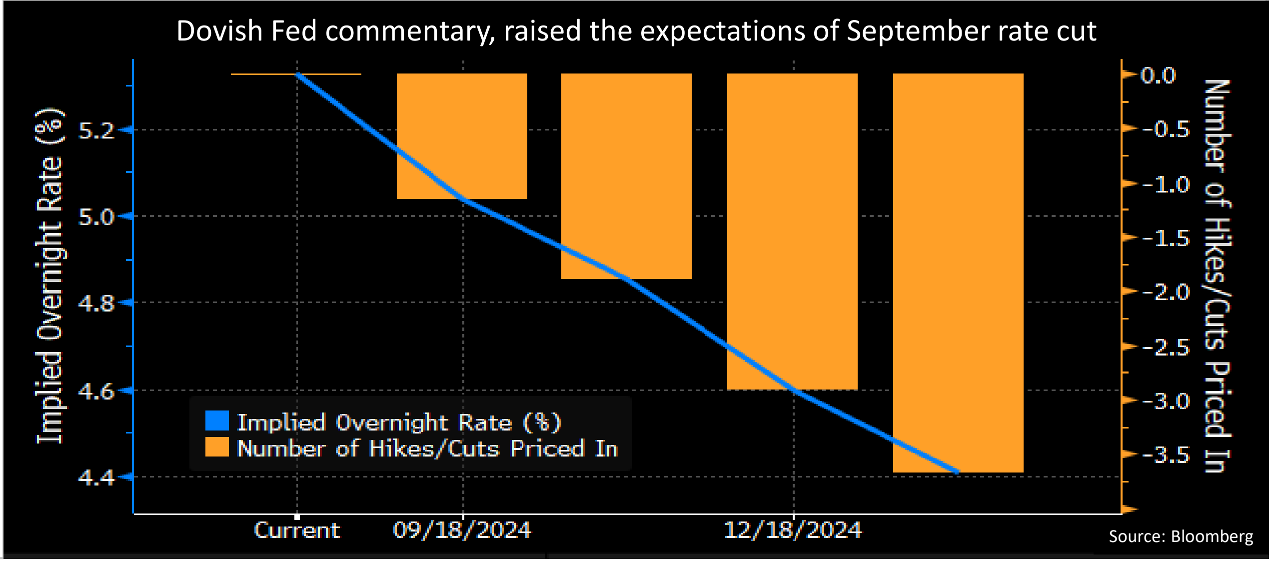
- While the banking system liquidity has improved recently on the back of government spending and FPI flows led by JP Morgan Bond Index inclusion, the RBI remained nimble in liquidity management to remove the excess liquidity. The call money rates are moving between the Repo and Standing Deposit Facility (SDF) corridor.
- CPI inflation for June 2024 came in higher at 5.08% YoY due to increase in food inflation mainly on account of rise in prices of vegetables, pulses, and cereals. While the headline inflation reversed its downward trend, it is likely to fall below 4% YoY in Q2 FY25 on the back of base-effect and improvement in monsoon conditions. Furthermore, the government is also actively taking supply side measures, which would likely help to bring overall inflation down.
- India’s external sector remains strong on the back of narrowed CAD and comfortable foreign exchange reserves. However, going forward, market participants expect CAD to rise slightly in FY25 due to expectations of higher imports, but it would likely remain manageable.
- With the elevated food inflation, the RBI governor has suggested that the Central Bank may remain actively disinflationary and may not change its stance until the it gains confidence that the inflation is trending downward on a durable basis. The improvement in monsoon and monetary policies of major global central banks will also likely weigh on the RBI’s monetary policy decision.
- The government, in the Union Budget, has remained on its fiscal consolidation path with a fiscal deficit target of 4.9% of GDP for FY25. Furthermore, the government is aiming to reach a fiscal deficit of below 4.5% of GDP for FY26. From FY27 onwards, the government highlighted its plan to keep fiscal deficit in such a manner that the debt to GDP ratio remains on a declining path. This statement suggests that the government may shift its fiscal strategy from fiscal deficit target as a % of GDP to debt to GDP ratio. With the government remaining fiscally prudent, the global rating agencies may look to upgrade India’s sovereign rating, which remains a positive for the bond market.
- In the US, while the Federal Reserve (Fed) kept the policy rates unchanged, it has opened the door to reducing borrowing costs in its next meeting in September 2024 as the inflation is trending downward and employment dynamics are weakening. While the European Central Bank (ECB) kept the policy rates unchanged in July, the Bank of England (BoE) cut the rates by 25 bps based on inflation-growth dynamics. However, both the central banks highlighted that future decision will be data-dependent due to stalled disinflationary process.
- In contrast to the developed economies central banks, the Bank of Japan (BoJ) tightened monetary policy by raising the benchmark interest rate to 0.25% and halving the monthly bond buying plan to support the falling Yen and rein in elevated inflation. The BoJ in its hawkish commentary also didn’t rule out another rate hike in this year. With divergence in growth and inflation dynamics across economies, the central banks' monetary policy actions may depend on each country's macroeconomic factors.
- Domestically, the flows regarding the index inclusion and expectation of inflation to ebb lower in the current quarter due to base effect may support the yields in the medium term. The lower supply of the government papers would also continue to act as a support for bond prices, ensuring that both demand and supply variables remain favourable for the bond market. Furthermore, in the medium term, the market is likely to take cues from the US bond market, movement of the USD/INR pair and the liquidity measures of the RBI. In India, as the deceleration in the inflationary trend starts, the RBI may become accommodative on the system liquidity. Hence, the shorter end of the yield curve may react more than the longer end, which has already reacted due to favourable supply-demand dynamics.
- With the long end of the curve remaining lower, gains from duration play could be limited in the near term. Hence, accrual opportunities at the 2-4-years segment of the corporate bond yield curve remains attractive for incremental investment, from risk-reward perspective until fresh triggers appear to suggest further decline in yields at the longer end.
- Hence, investors can look at Corporate Bond Funds and Short duration funds for a horizon of 15 months and above.
- For a horizon of 3 months and above, investors can consider Arbitrage Funds. Whereas for a horizon of up to 3 months, investors can consider Overnight Funds and Liquid Funds.
- Investors can also look at Multi-asset allocation funds for a horizon of 36 months and above.
- Investors should invest in line with their risk profile and product suitability.

US lag data remains strong, leading indicators weakening, creating space for policy move by the Fed



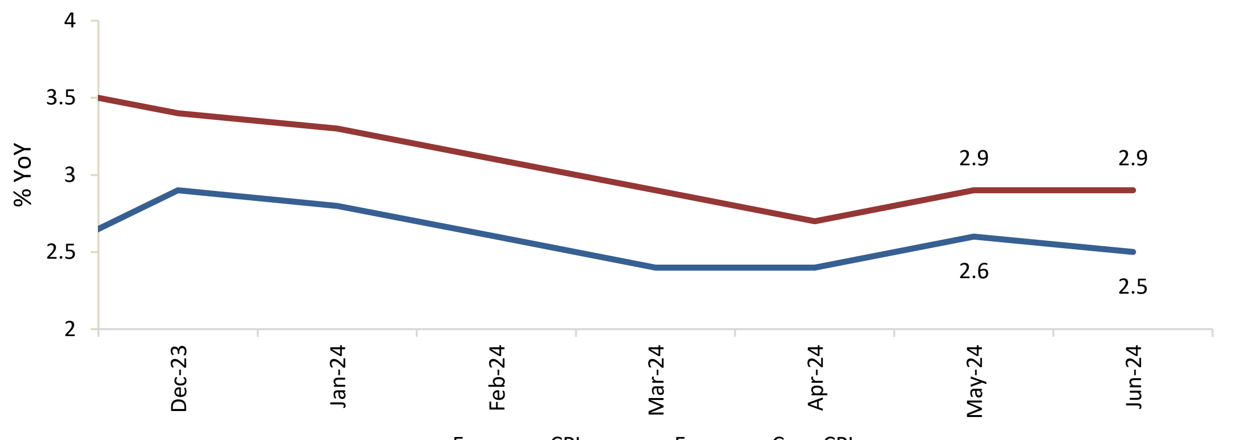






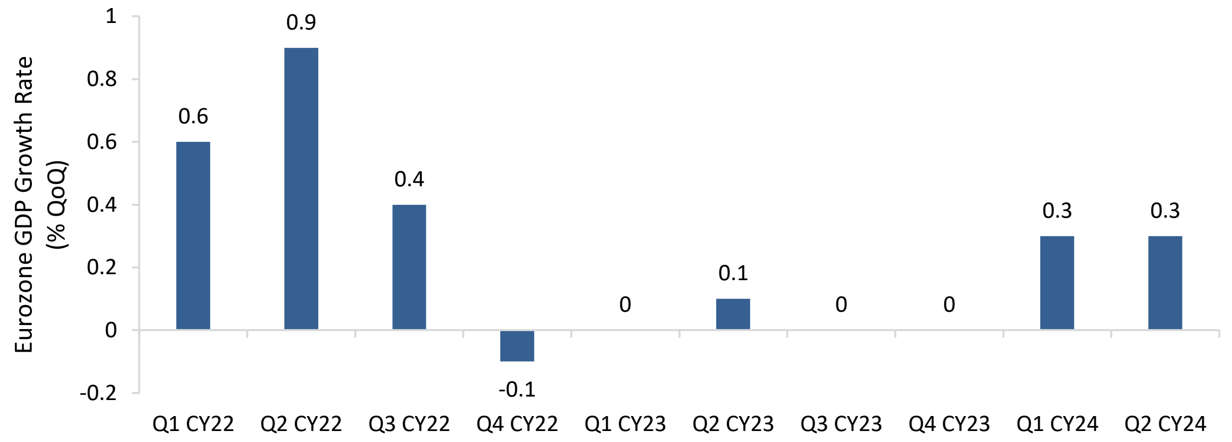
Though inflation trending lower in EU, ECB likely to act after pause

Disinflationary process stalled in the Eurozone



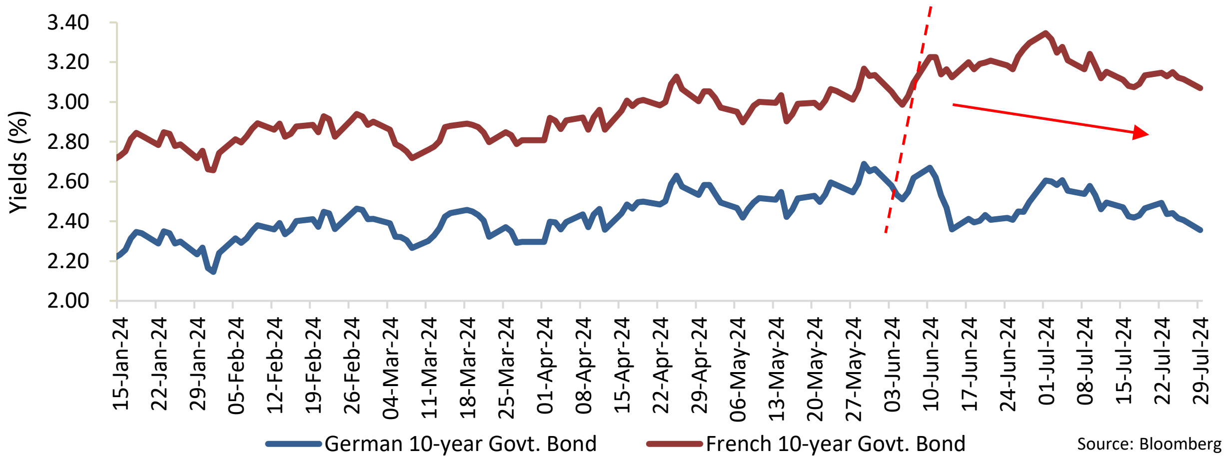
Source: Bloomberg

Eurozone economy grows at a modest pace



Source: Bloomberg

While German yield fell after ECB rate cut, the political turmoil in France kept French yield relatively elevated



Source: Bloomberg

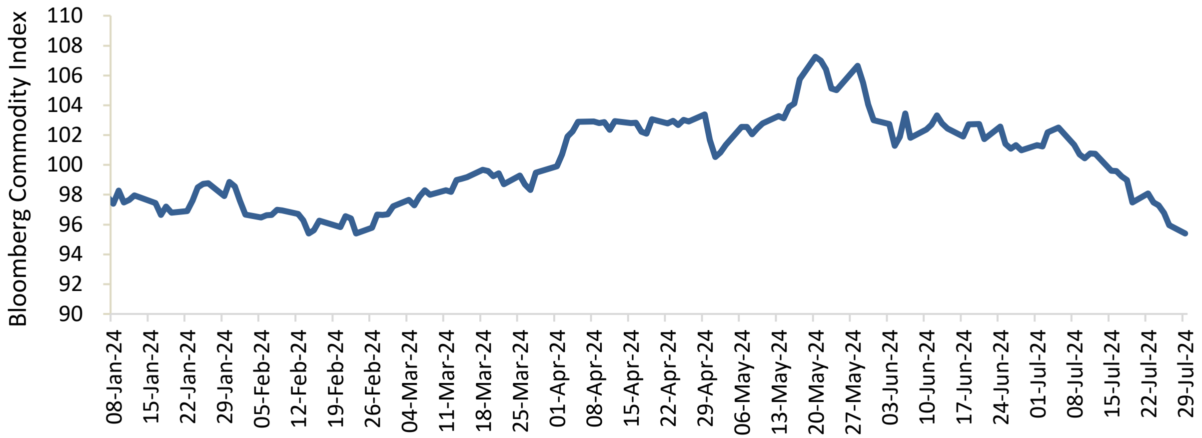
"We are determined to ensure that inflation returns to our two per cent medium-term target in a timely manner. We will keep policy rates sufficiently restrictive for as long as necessary to achieve this aim.

In particular, our interest rate decisions will be based on our assessment of the inflation outlook in light of the incoming economic and financial data, the dynamics of underlying inflation and the strength of monetary policy transmission. We are not pre-committing to a particular rate path."

– ECB President, Press Conference of MPC

Commodity prices continue to trend lower and will likely weigh down on inflation, potentially positive for bonds

Commodity prices cooled-off due to weak demand outlook

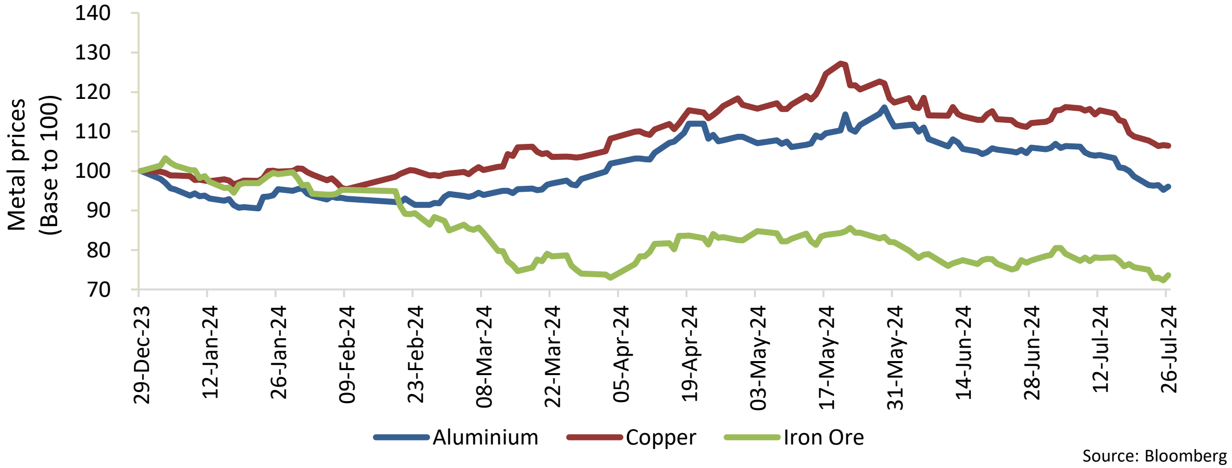


Source: Bloomberg

While weakness in global growth pulled crude oil prices down, geopolitical tensions may keep prices elevated

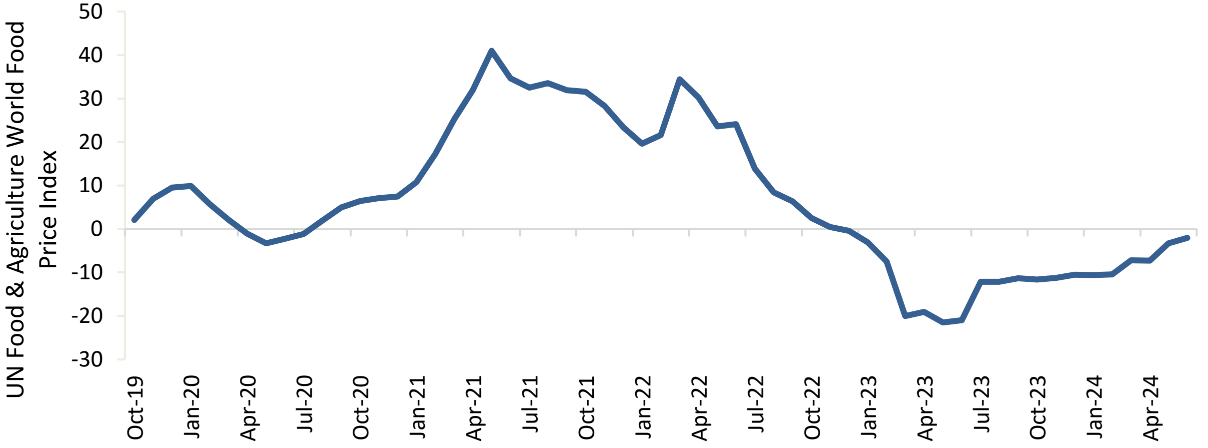
Source: Bloomberg

Faltering global economy pulled down metal prices



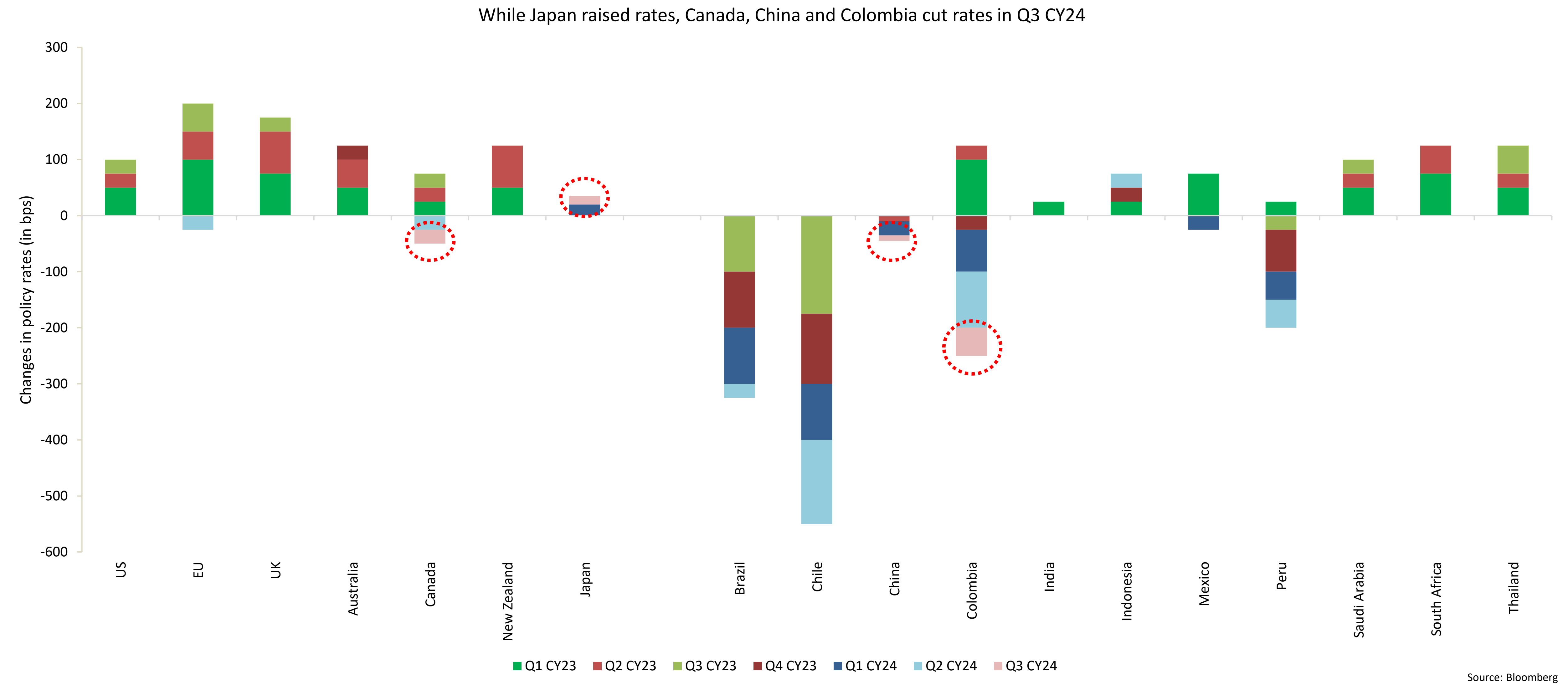
Source: Bloomberg

Globally, food prices are inching up due to supply side pressures



Source: Bloomberg

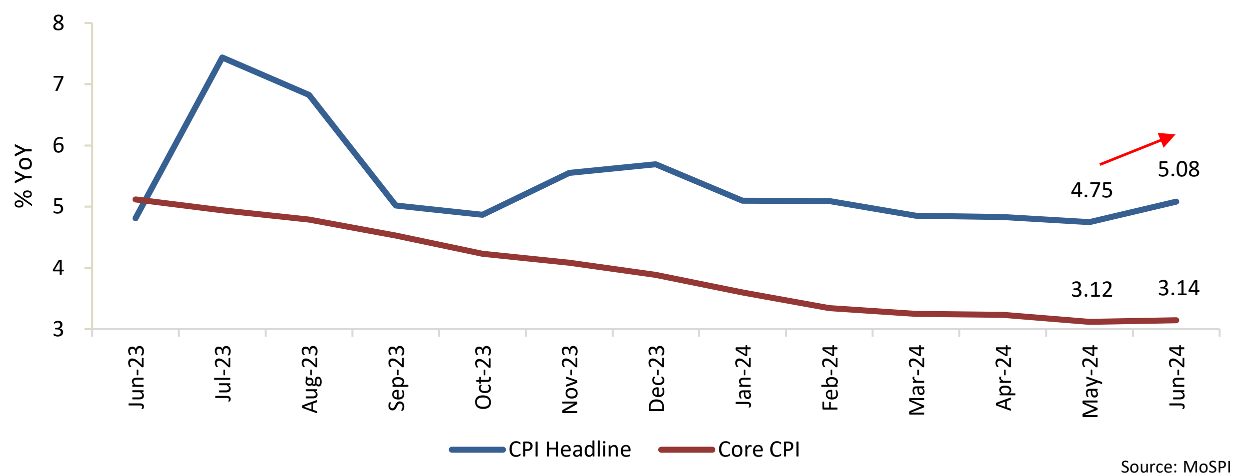
Ex. of Japan, most advanced economies seem to be on a path of rate cut



Source: Bloomberg

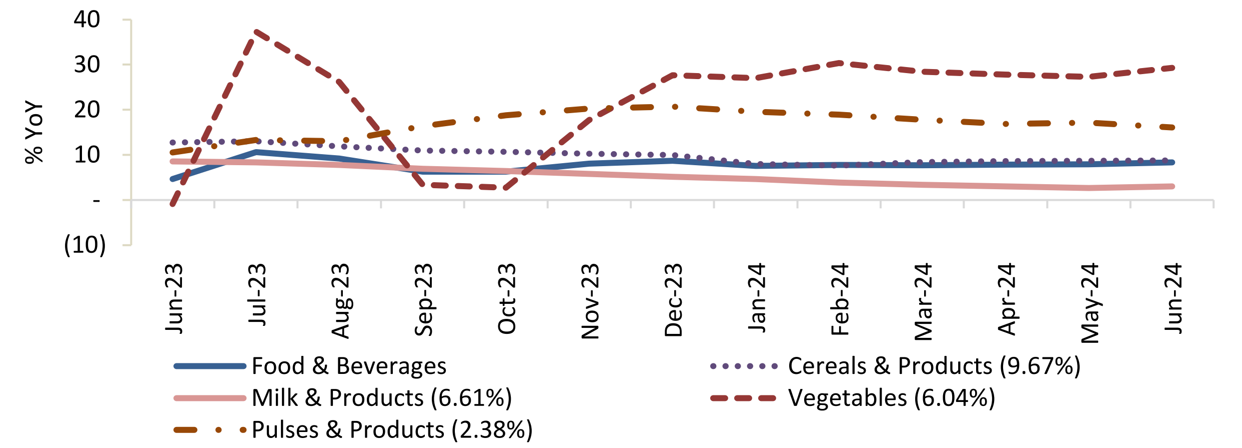
While India's core inflation under control, the RBI is worried about food inflation…

Inflation came in higher on account of elevated food prices



Source: MoSPI

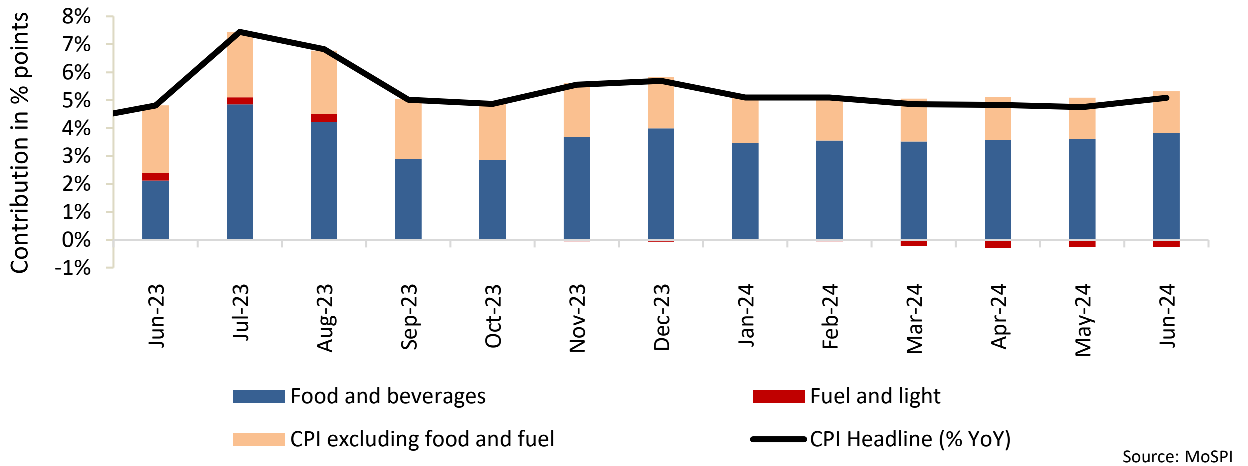
Prices of vegetable and pulses remain elevate



Note: Data in parenthesis denotes weight of category in CPI basket

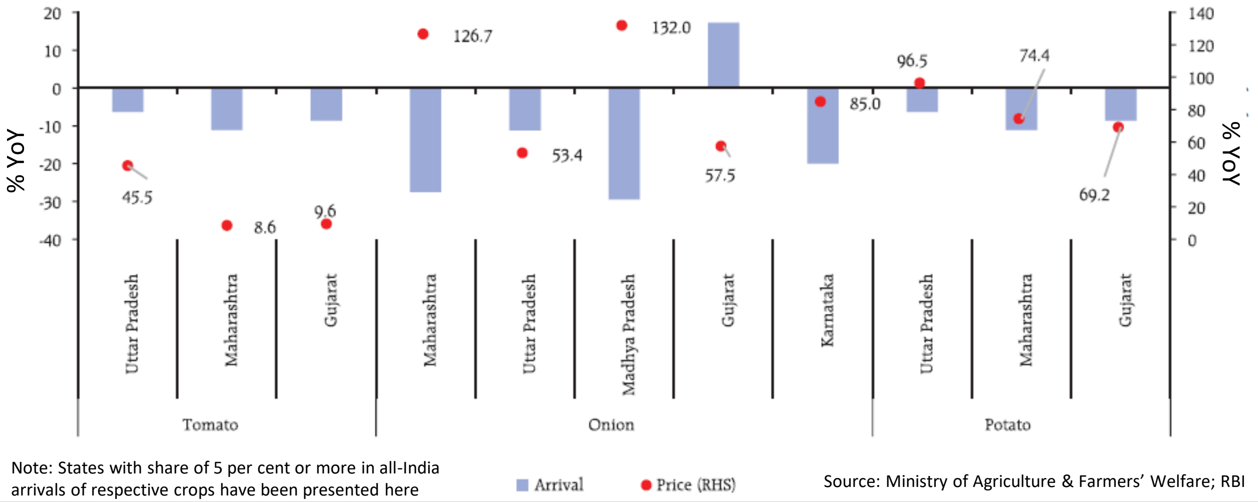
Source: MoSPI

Food & beverages contributes to higher headline inflation



Source: MoSPI

Lesser supply pulled prices of key vegetables higher

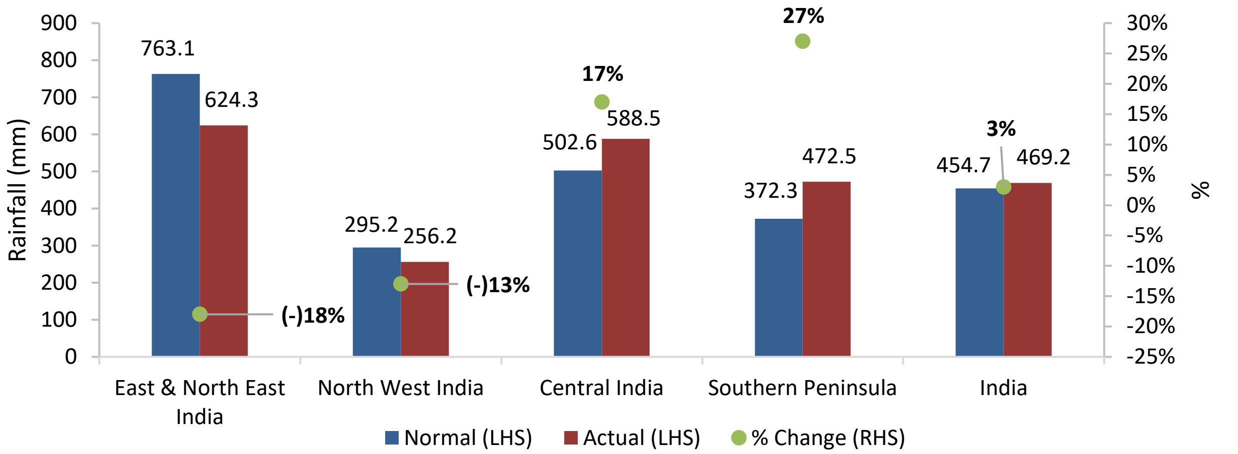


Note: States with share of 5 per cent or more in all-India arrivals of respective crops have been presented here

Source: Ministry of Agriculture & Farmers' Welfare; RBI

…Strong monsoon and supply side support by the government to help bring food inflation lower

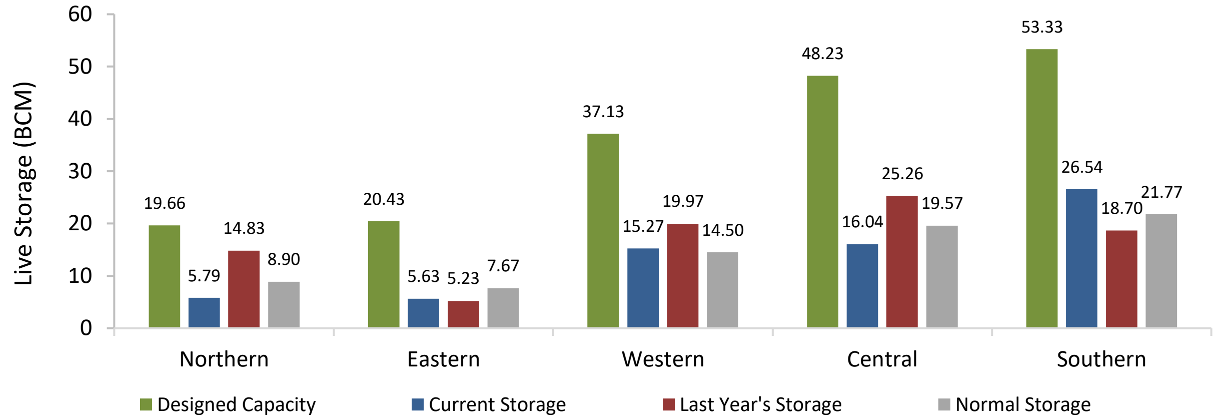
Monsoon rainfall gained momentum in July and covered its June deficit



Note: Period - 1 June 2024 to 1 August 2024

Source: IMD

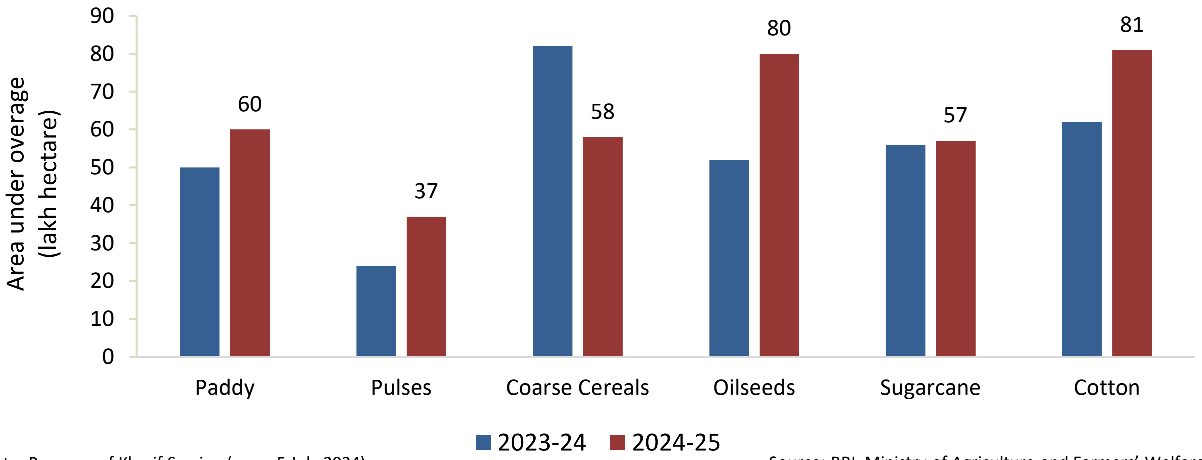
While rainfall picked up, reservoir levels still remain low



Note: Data as on 25-July-2024

Source: Central Water Commission

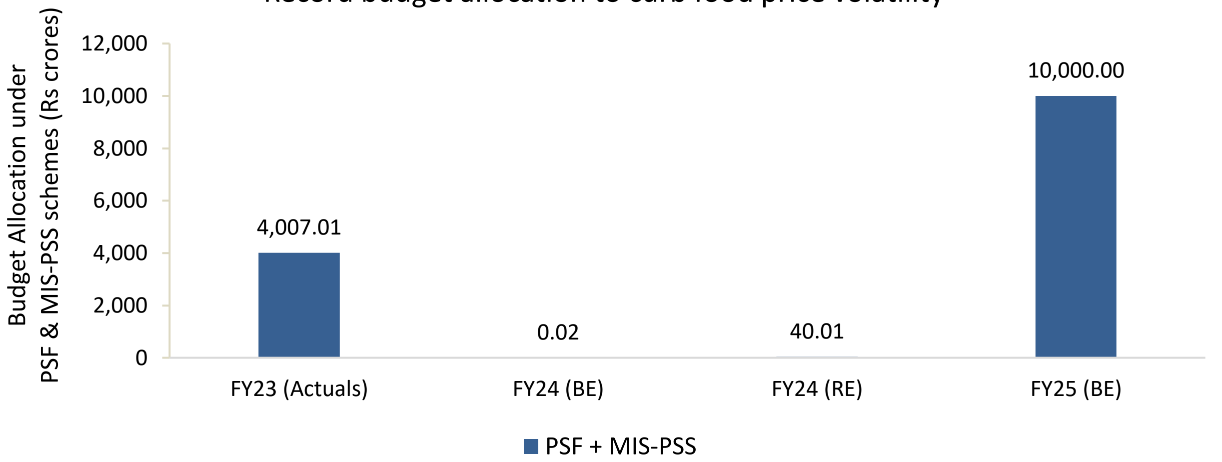
With improvement in monsoon, kharif sowing gathered pace



Note: Progress of Kharif Sowing (as on 5 July 2024)

Source: RBI; Ministry of Agriculture and Farmers' Welfare

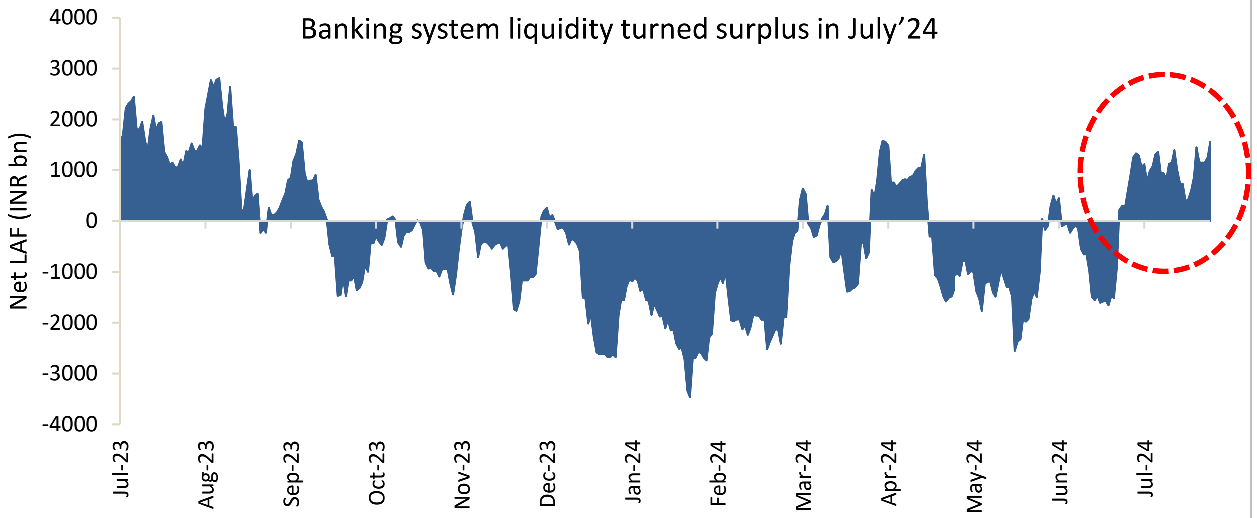
Record budget allocation to curb food price volatility



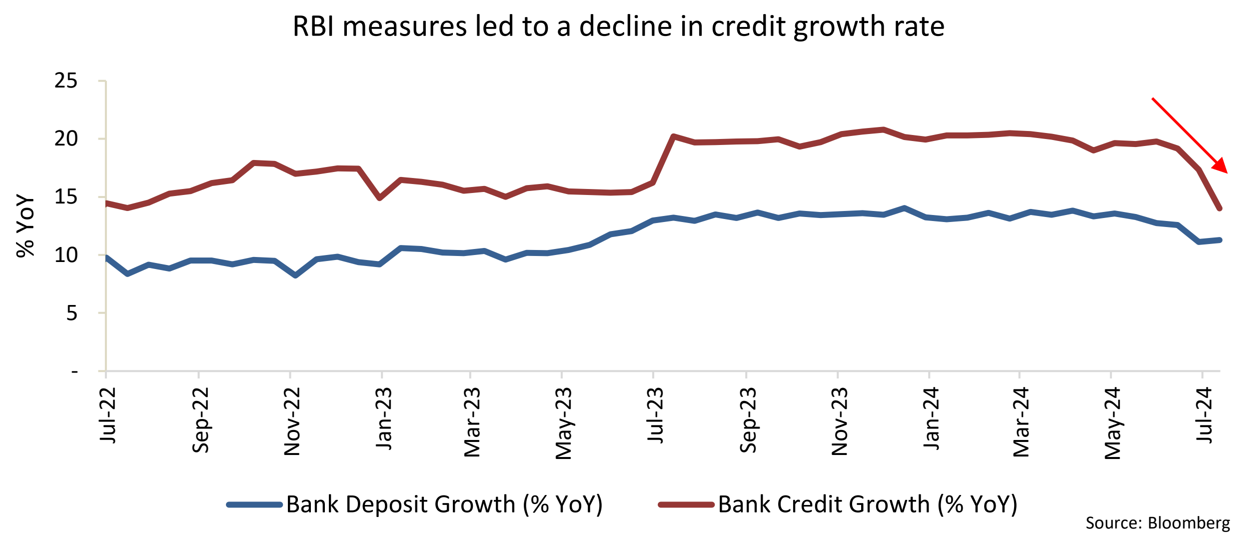
Note: PIS - Price Stabilization Fund;
MIS-PSS - Market Intervention Scheme and Price Support Scheme

Source: Union Budget Documents

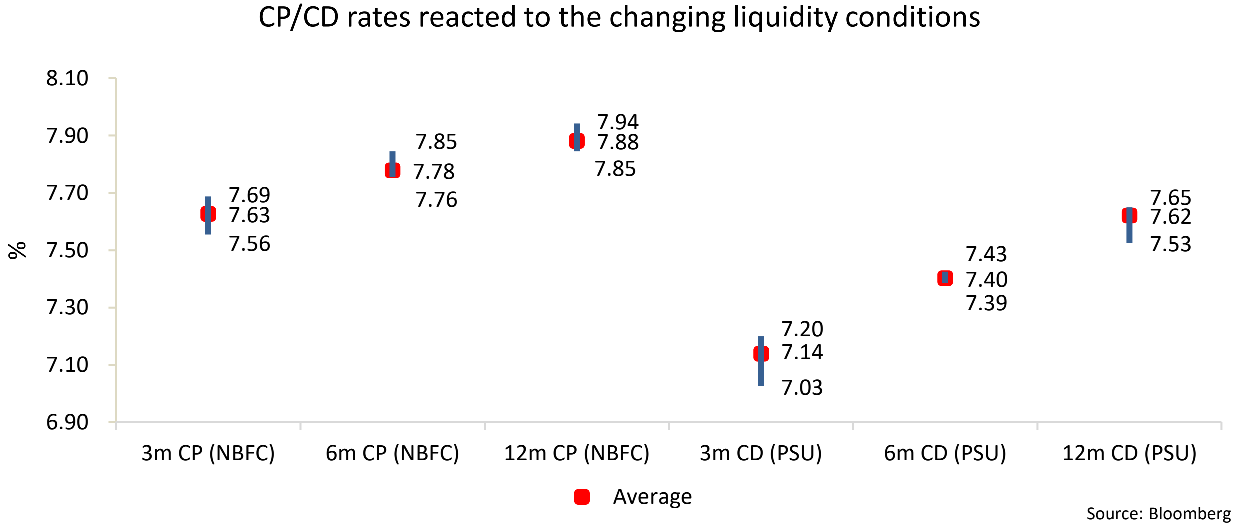
While the RBI continues its stance of 'withdrawal of accommodation', banking system liquidity seen in surplus by month-end



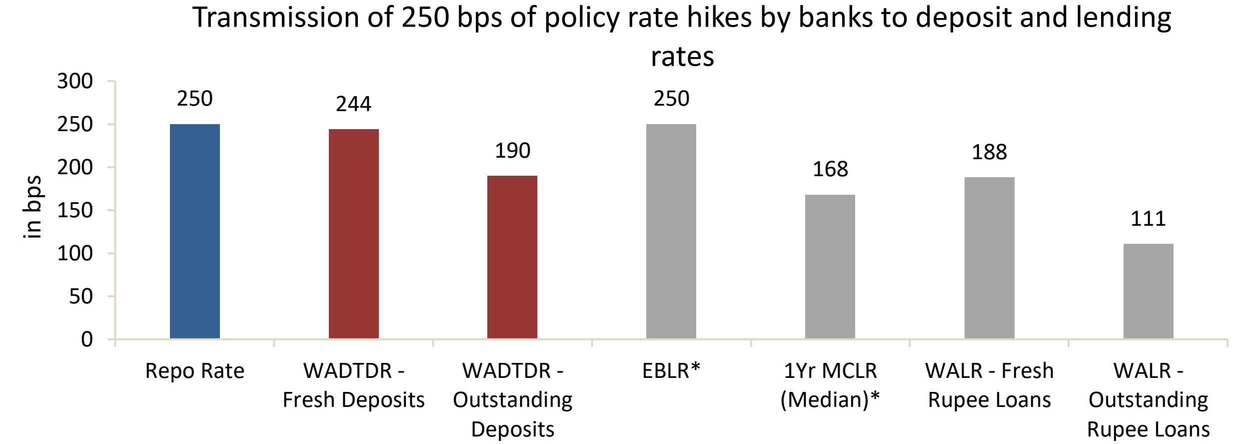
Source: Bloomberg



Source: Bloomberg



Source: Bloomberg

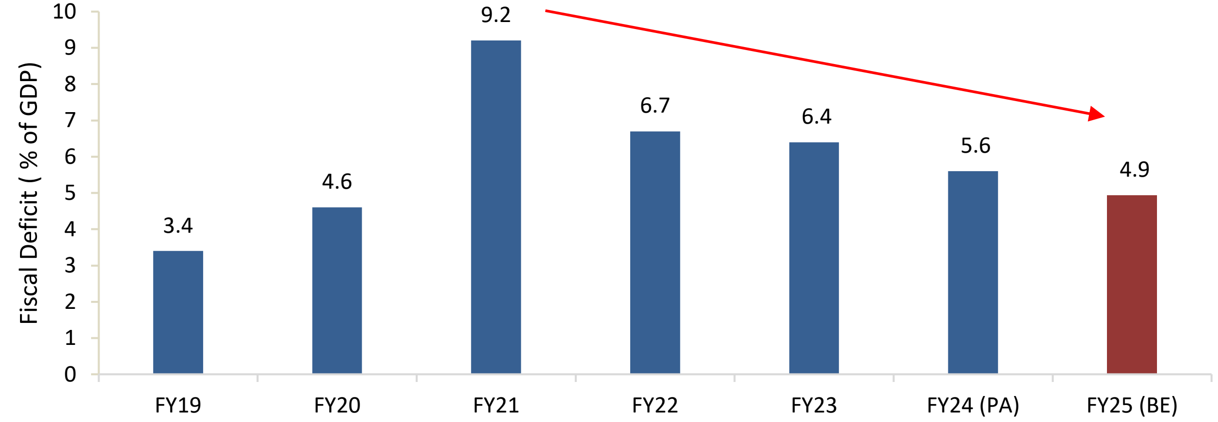


Note: Data from May 2022 to May 2024; *Data on and 1-year median MCLR pertain to May 2022 to June 2024;
EBLR - External Benchmark-based Lending Rate; MCLR - Marginal Cost of funds-based Lending Rate;
WALR - Weighted Average Lending Rate; WADTDR - Weighted Average Domestic Term Deposit Rate

Source: RBI

Union Budget: Government continues to focus on fiscal consolidation, will weigh down on bond yields (1/2)

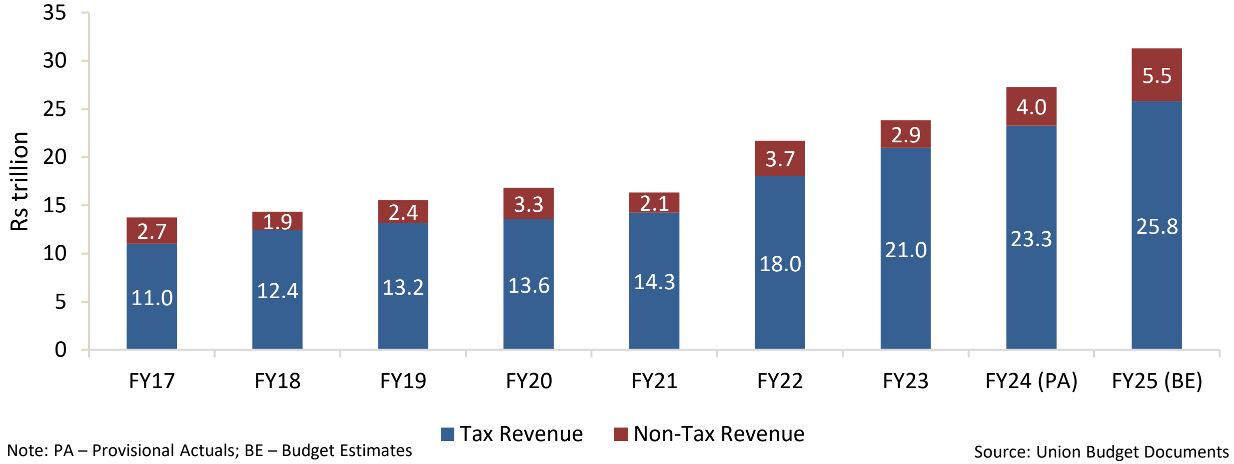
With fiscal deficit target of 4.9% of GPD for FY25, government remains fiscally prudent



Note: PA – Provisional Actuals; BE – Budget Estimates

Source: Union Budget Documents

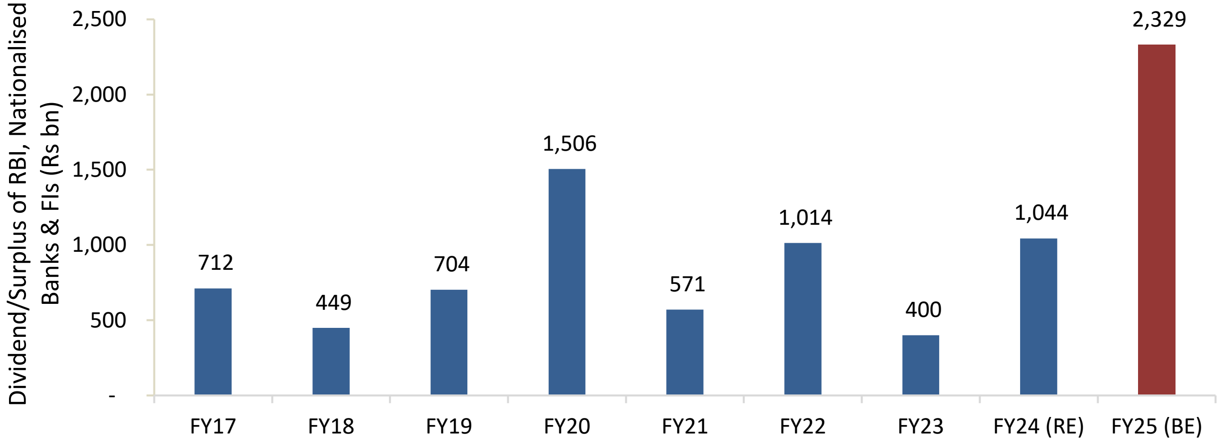
Tax revenue is projected to grow at ~11% YoY in FY25



Note: PA – Provisional Actuals; BE – Budget Estimates

Source: Union Budget Documents

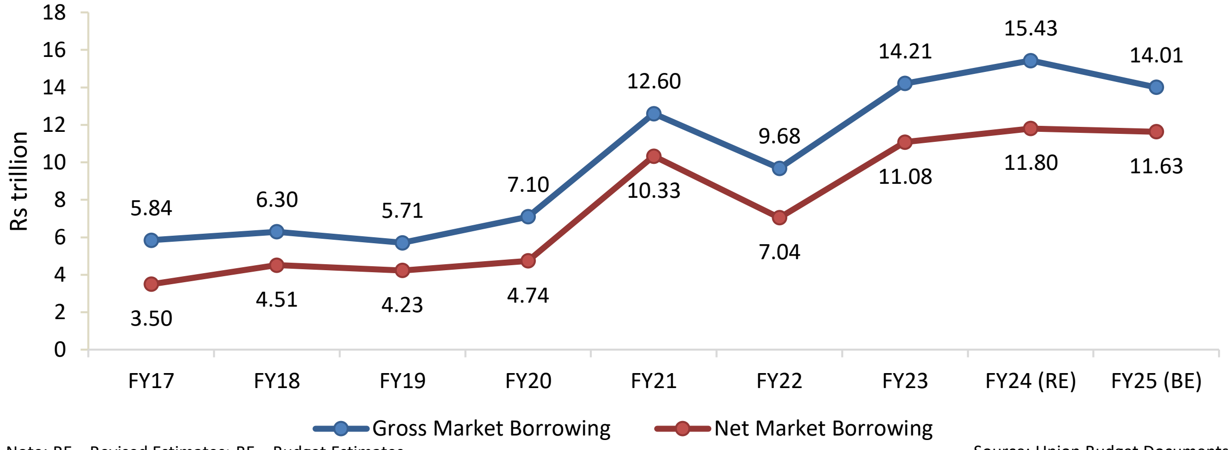
Record dividend transfer by the RBI provides support to fiscal deficit



Note: RE – Revised Estimates; BE – Budget Estimates

Source: Union Budget Documents

Gross and net market borrowing remains lower in FY25 vs. FY24



Note: RE – Revised Estimates; BE – Budget Estimates

Source: Union Budget Documents

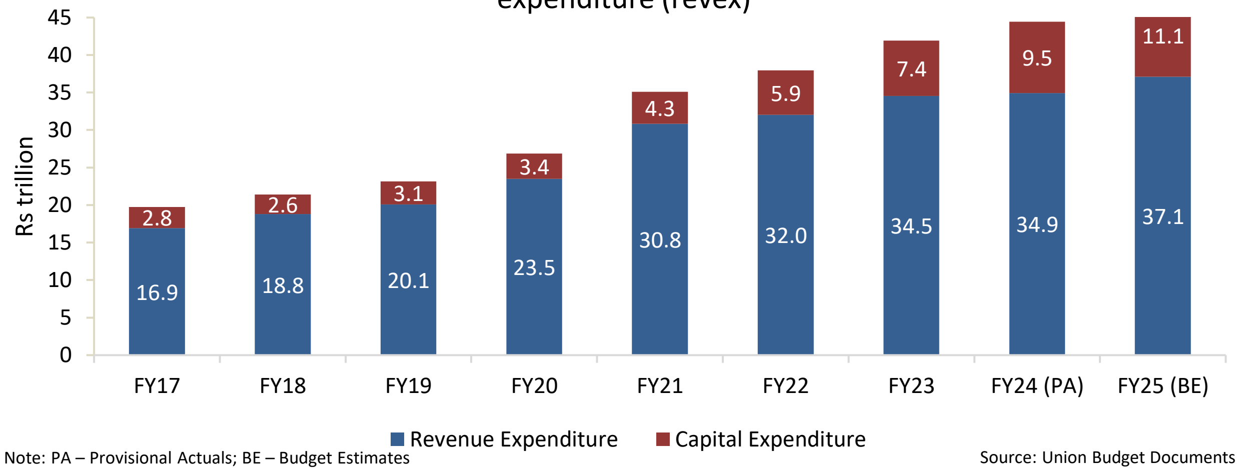
Union Budget: Government continues to focus on fiscal consolidation, will weigh down on bond yields (2/2)

Particulars (Rs. trillion)	FY23 Actual	FY24 BE	FY24 RE	FY24 PA[1]	FY25 BE	% Change^
A. Revenue Receipts	23.83	26.32	27.00	27.28	31.29	15.91%
Tax Revenue (net to centre)	20.98	23.31	23.24	23.27	25.83	11.17%
Non-tax Revenue	2.85	3.02	3.76	4.02	5.46	45.21%
B. Capital Receipts	18.10	18.71	17.91	17.14	16.91	-5.55%
Total Receipts (A+B)	**41.93**	**45.03**	**44.90**	**44.43**	**48.21**	**7.35%**
Total Expenditure (C+D)	**41.93**	**45.03**	**44.90**	**44.43**	**48.21**	**7.35%**
C. Revenue Expenditure	34.53	35.02	35.40	34.94	37.09	4.78%
D. Capital Expenditure	7.40	10.01	9.50	9.49	11.11	16.93%
Revenue Deficit	**10.70**	**8.70**	**8.41**	**7.66**	**5.80**	
as a % of GDP	**4.0%**	**2.9%**	**2.8%**	**2.6%**	**1.8%**	
Fiscal Deficit	**17.38**	**17.87**	**17.35**	**16.54**	**16.13**	
as a % of GDP	**6.4%**	**5.9%**	**5.8%**	**5.6%**	**4.9%**	
GDP	**271.52#**	**301.75**	**299.10#**	**295.36**	**326.37**	

Note: Note: All figures in Rs. trillion, except the YoY % figures.
^ % Change is FY25BE over FY24RE.
1 Provisional Actuals (PA) for FY24 are unaudited and subject to change
Calculated basis fiscal deficit numbers

Source: Union Budget Documents

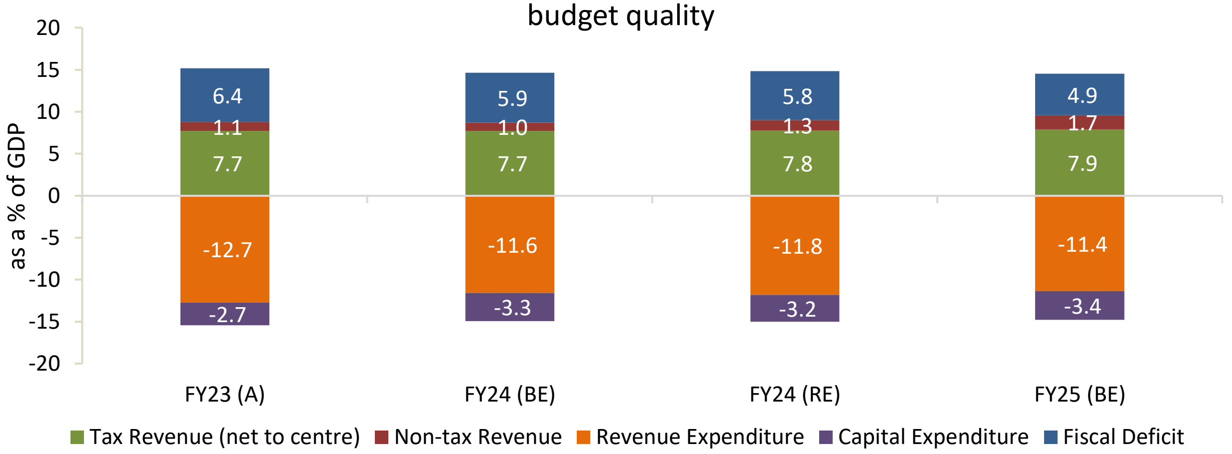
More focus on capital expenditure (capex) as compared to revenue expenditure (revex)



Note: PA – Provisional Actuals; BE – Budget Estimates

Source: Union Budget Documents

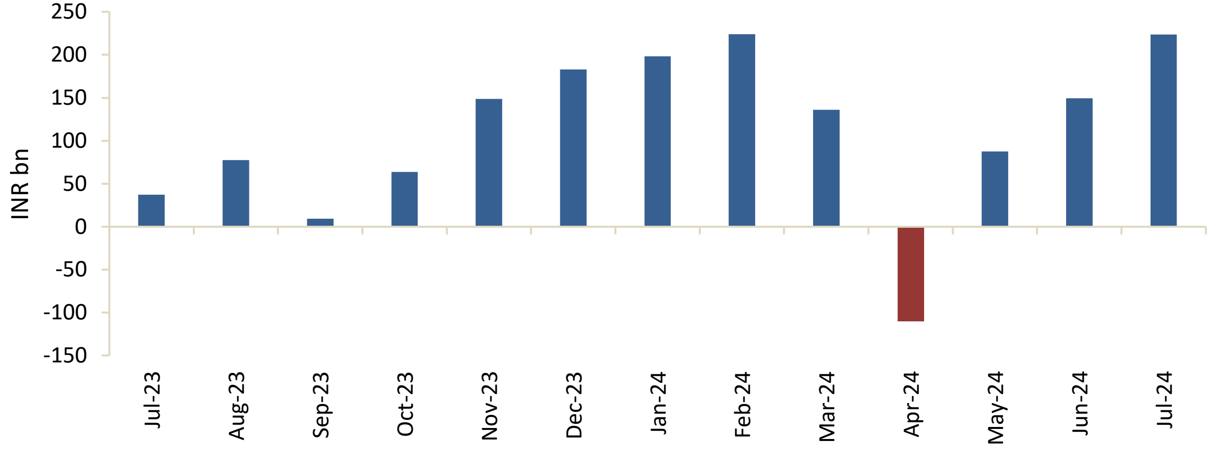
Increasing tax revenue and capex, and declining revex depict improving budget quality



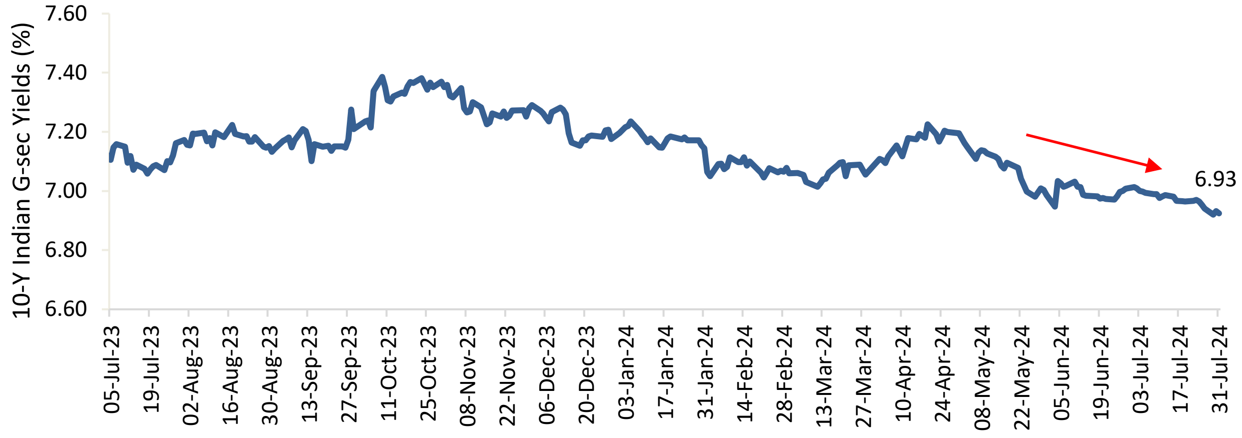
Note: A – Actuals; RE – Revised Estimates; BE – Budget Estimates

Source: Union Budget Documents

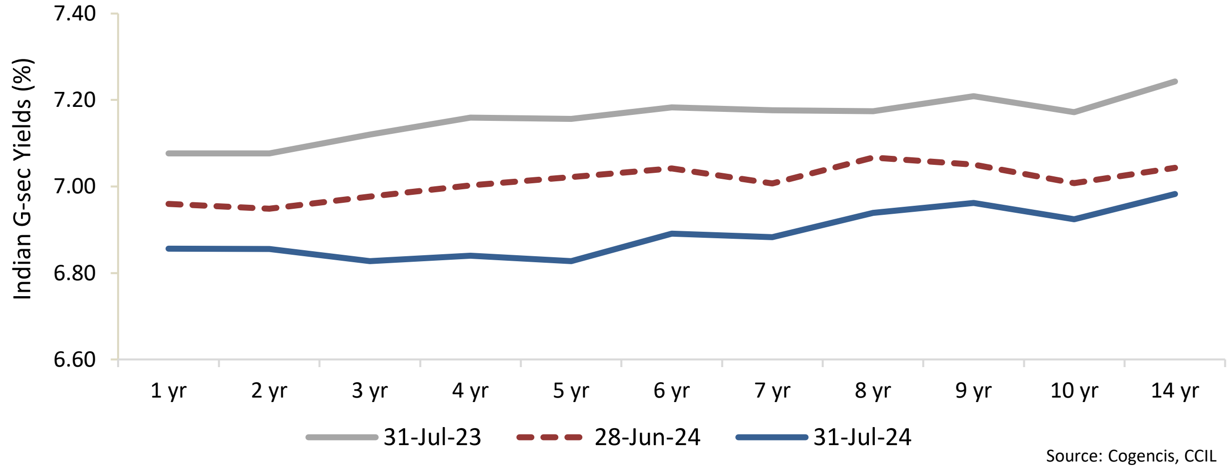
Fiscal consolidation and JP Morgan global index inclusion have ensured that G-sec yields continue to remain under pressure



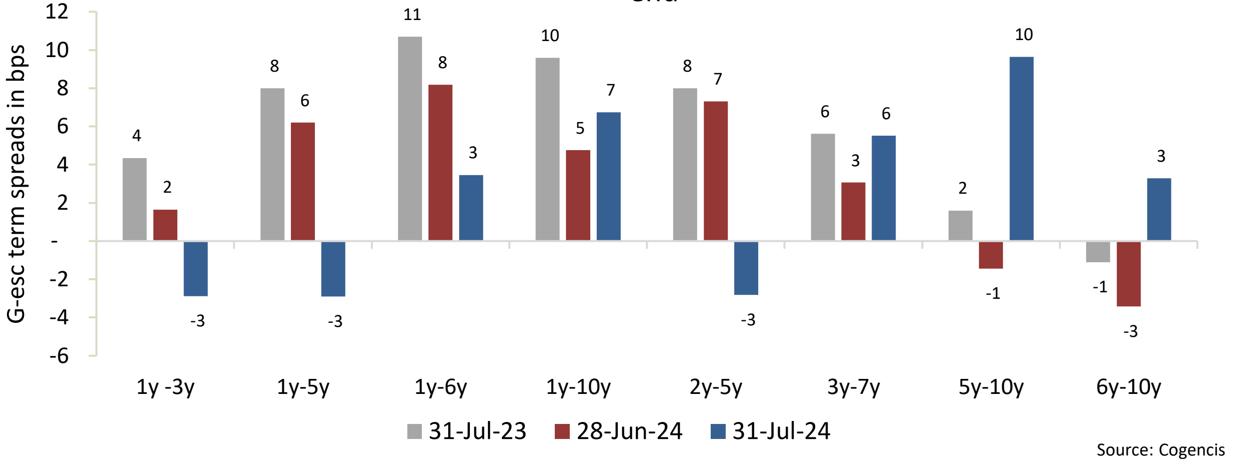
Source: NSDL



Source: Cogencis



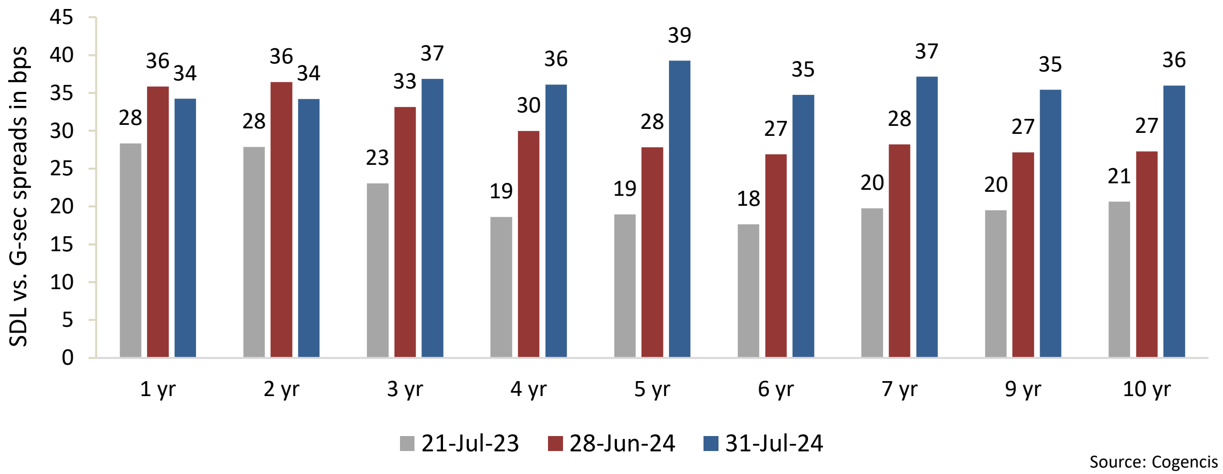
Source: Cogencis, CCIL



Source: Cogencis

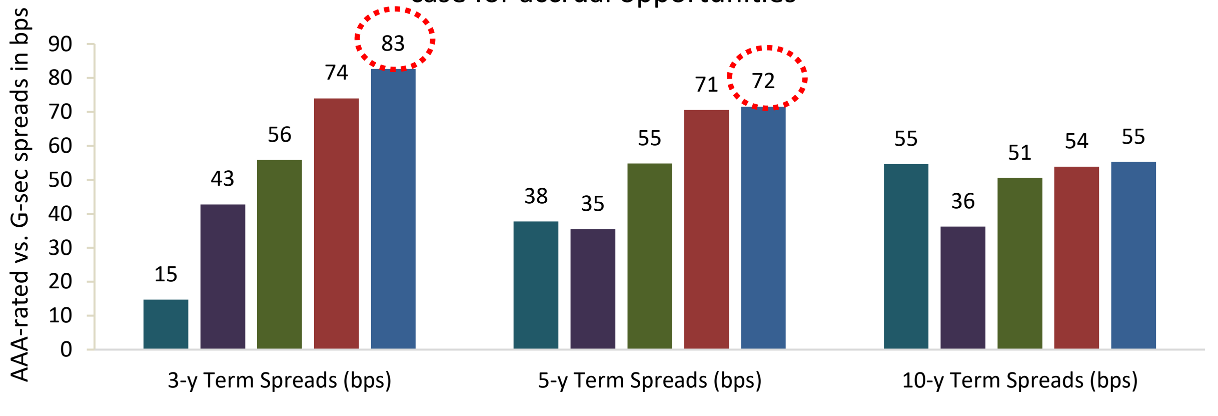
Corporate bond spreads have consistently improved, making the case for accrual products due to significant exposure to corporate bonds

SDL spreads in the 5-10-year space starting to look attractive



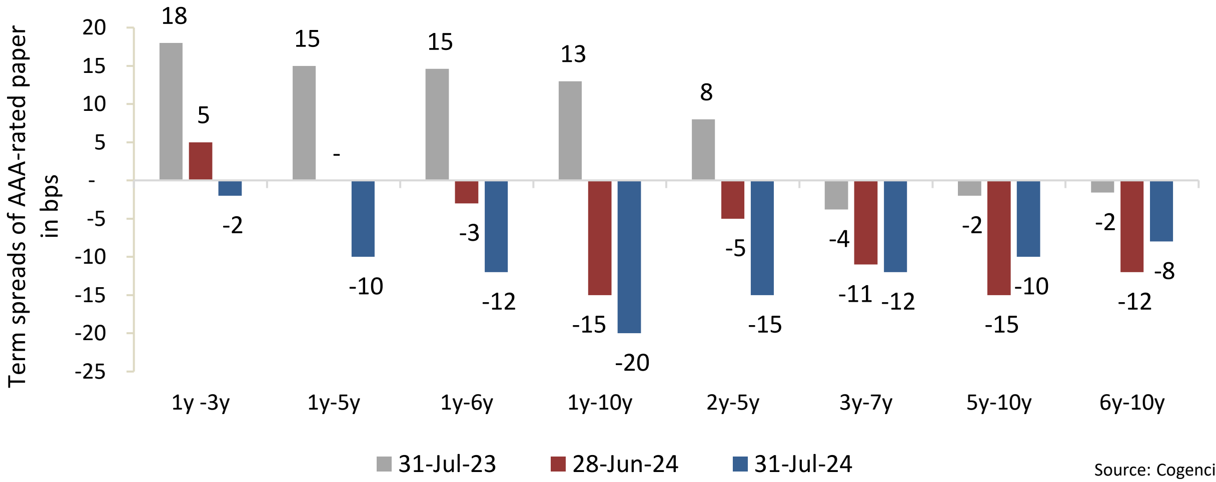
Source: Cogencis

Corporate bond spreads remain widened at the shorter-end, making the case for accrual opportunities



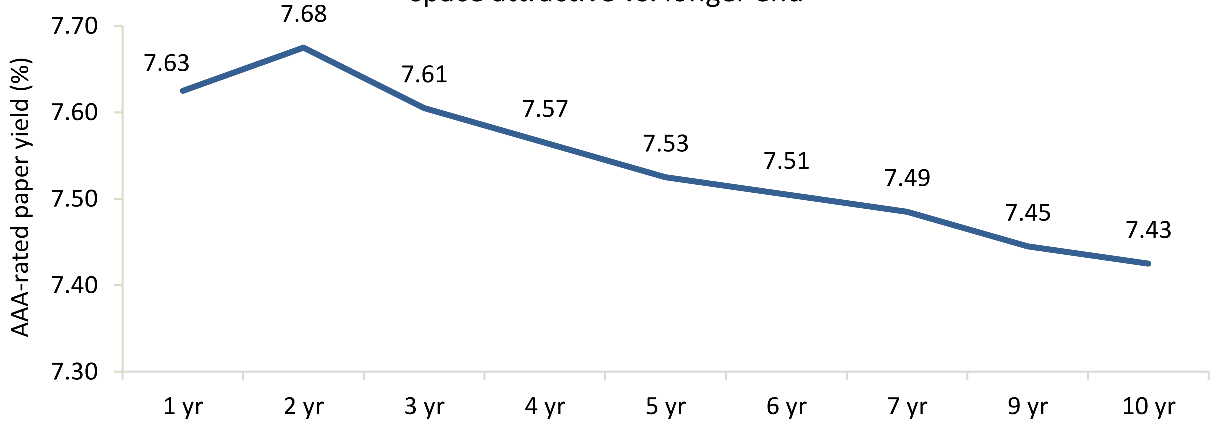
Source: Bloomberg

Corporate bond term spreads remain negative...



Source: Cogencis

... ensuring a steep inversion in corporate bond yield curve, making 2-4-year space attractive vs. longer end



Note: Data as on 31-July-2024

Source: Cogencis

HDFC Bank House, 1 st Floor, C.S. No. 6 \ 242, SenapatiBapatMarg, Lower Parel, Mumbai 400 013. Phone: (91)-22-66527100, ext 7111, Fax: (91)-22-24900983 \ 24900858

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