

HDFC Bank – Research Presentation

January 2025

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	▲
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 – January 2025

- Calendar 2024 saw another year of strong performance in the global risk assets. Most equity markets witnessed positive returns on the back of stable growth conditions, falling inflationary environment and policy rate cuts by global central banks. US markets continued to deliver strong returns in 2024 on the back of declining interest rates, stable economic data points and positive sentiments in the run-up to the US presidential elections. While the US Fed cut policy rates during the year, it gave signals that for CY25 the pace of policy rate cuts may slow down as it expects growth to remain steady and employment rate to remain robust. Global growth expectations for CY24 was raised by the multilateral agencies during the year as the expectation of weakness in the US economy did not materialise. Europe continued to struggle for growth despite very favourable monetary support, though its growth rate saw gradual improvement through the year.
- Global commodity prices were volatile in a broad range, on the back of tightening supply in base metals, weak demand from China and rising geopolitical conflicts. Agri prices, too, remained weak globally, though they started to see steady rise by the end of the year on the back of low base and rising prices. Crude oil prices were volatile due to various geopolitical tensions and production cuts by the Key OPEC+ members. All this continued to weigh down on global inflation.
- While the Dollar Index was volatile with a declining bias till October, expectation of Donald trump winning, and his eventual victory, in the US Presidential elections pushed the Dollar index towards a year-high as we closed the year. This pushed the FPI flows out of the emerging markets. Performance of most of the EMs' equity indices were mixed, with the heavyweights like India and China registering positive returns while countries like Mexico and Brazil delivered negative returns.
- Movement in US bonds yields, US fiscal tightening and the US Dollar index remain key data points for assessing the risk on sentiments for EMs in CY25.
- Most of the Indian indices hit a new high during CY24 on the back of strong economic growth for the first 9 months of the year, stable earnings trajectory and strong retail participation in the equity markets. FPI flows were quite volatile during the year and ended the year with a marginal buying figure. The returns in small and midcap indices were far higher than the largecap indices, as earnings and domestic investor interest in those segments continued to remain strong. Q2 FY25 was the first quarter which saw earnings decelerating in that space.
- While India's overall GDP growth remained strong in CY24, gradual weakness was starting to build into urban consumption and Government capex towards the end of the year. Tight monetary policy by the RBI to control inflation and currency, and a slowdown in government spending during and immediately post the general elections seem to be the key reasons that could be ascribed to the gradual growth deceleration. While the general elections threw up a coalition government, the party at core won enough seats to provide stability.
- India remained one of the fastest growing large economies in the world. Strong improvement in Government spending, improved rural demand, steps taken by the RBI to add liquidity and possibly lower policy rates are likely to drive GDP growth going forward.
- As we gaze into CY25, the earnings trajectory in India could be decelerating in Q3FY25 and sustained pickup from there is likely to drive the equity markets. **The Indian equity markets could see rising volatility owing to weaker than expected earnings performance, although as corporate earnings see pickup due to policies adopted by the Government and the RBI, the equity markets could generate steady returns. Over CY24 we have seen overall returns from the equity markets decelerating, we expect the same trend to continue and expect CY25 returns from the equity markets to be lower at an aggregate level.** On the valuations front, Large caps look better than Small caps which look better than Mid caps. In the absence of any policy stimulus, CY25 could see fewer number of stocks getting re-rated and bottom-up stock selection would become an important parameter to generate portfolio alpha.
- CY25 could be marked by global economies and risk assets factoring in the policies unleashed by the incoming US president Donald Trump as he has strong views on trade, geo-political conflicts and immigration. The reaction function of adversaries of the US like China and allies in the EU would be a key monitorable in terms of the space that opens up for Indian corporates.
- **Investment deployment strategy could remain at 50% lumpsum and rest 50% to be staggered over the next 5-6 months. All allocations should be done in line with the risk profile and product suitability of the investor. Mutual Fund investors can look to focus on categories like Diversified equity, Equity, Hybrid and Multi-asset funds. Aggressive investors may also look at Business Cycle Funds for allocation. All allocations should be done in line with the risk profile and product suitability of the investor.**

Debt Mutual Fund Strategy

- With the fiscal deficit expected to remain firmly under control, the supply-demand dynamics are likely to support lower yields at the longer end.
- Additionally, improving liquidity conditions are likely to compress corporate bond yields at the shorter end in the medium term.
- With this backdrop, the inverted corporate bond yield curve may normalize, making the case for investment into corporate bonds at the 1-4-years segment of the curve. Hence, investors can look at Corporate Bond Funds for a horizon of 15 months and above.
- For a horizon of 24 months and above, investors can look at Dynamic Bond Funds.
- For a horizon of 3 months and above, investors can consider Arbitrage Funds or Money Market 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 – Contents

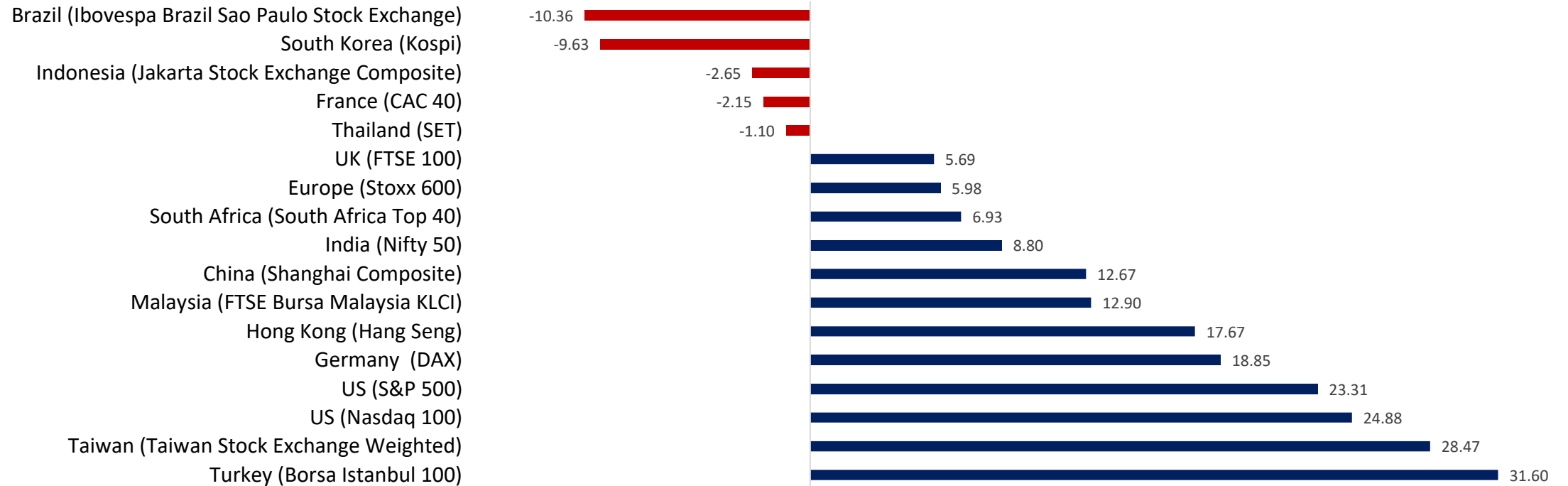
- Year 2024: Equity markets rally led by easing liquidity & stable growth
- Equity markets showed a mixed picture in CY24, majority of indices giving positive gains
- ...Rally led by stable growth & easing liquidity
- Declining inflation across economies drove the easing monetary cycle
- Multilateral agencies upgraded global growth for CY24, during the year
- US markets driven by rate cuts and High fiscal deficit, while Chinese economy supported by Government stimulus
- Gains in emerging market indices were capped due to recent rally in the dollar index, inflows in China was due to policy stimulus and attractive valuations
- Indian equity markets rose on back of strong domestic flows despite choppy FPI flows and weakening growth outlook..... Mid and Smallcaps outperformed the Largecap indices
- Economic momentum: CY24 a tale of 2 half's, H1: Strong Growth & H2: Decelerating Growth...
- Growth momentum faltering as govt. capex spending is decelerating while balance sheets of private sector in prime health...
- ...Leading to earnings downgrade for key indices in the second half of CY24
- General Election threw up a fractured mandate but current administration firmly in saddle
- Expectations from 2025...
- Global Growth likely to hold up... US, China and India to see incremental deceleration, EU expected to bounce back
- In US Donald Trump's policy on fiscal consolidation & Tariffs may lead to volatility for global markets
- Higher mutual tariffs, policy uncertainty and changes on immigration policies can weigh down on global growth incrementally... as per IMF
- China – Domestic consumption to counter any US tariffs would be key for China... further stimulus expected
- India: Growth likely to pick up on backdrop of robust government spend, private capex and strong rural economy
- India Valuations – While Large cap P/E is lower vs. Mid & Small Cap, growth expectations in Mid and Small Cap is higher than Large caps, actual delivery of this growth is key monitorable
- On absolute basis many stocks are trading at very high valuations
- Given very strong performance of the equity returns in the past 4 years vs past; Return expectations need to be moderated
- Market Roundup – December 2024
- Key concerns for Indian equities
- Annexure...
- Sectoral outlook by fund managers – Part 1
- Sectoral outlook by fund managers – Part 2
- Monthly Sectoral Movement
- AMC Sectoral Holdings
- Fixed Income Markets
- Year 2024... Marked by Easing Monetary Policies Globally...
- Fixed Income Outlook
- Declining inflation drove policy rate cuts across global economies
- Indian G-sec yields declined steadily during the year
- While RBI did not cut policy rates, it started to turn dovish towards the end of the year
- Liquidity remained volatile throughout the year
- With volatility in dollar index, the INR depreciated... while Current Account Deficit remained under check, led by better services exports
- Higher food prices kept the headline inflation sticky, while core weakened... path to 4% CPI to remain tricky
- G-Sec yields came off across the curve during the year... term structure remained largely flat
- Centre's Fiscal Prudence ensured the supply-demand dynamics remained favorable for G-Sec Market
- Tight liquidity ensured that corporate yield spreads remained elevated vs G-sec... corporate bond yield curve inverted
- Expectations from 2025
- Monetary policy actions to be driven by MPC's priority on growth vs currency as inflation is expected to remain under check (1/2)
- Monetary policy actions to be driven by MPC's priority on growth vs currency as inflation is expected to remain under check (2/2)
- Disclaimer

Year 2024

Equity markets rally led by easing liquidity & stable growth

Equity markets showed a mixed picture in CY24, majority of indices giving positive gains

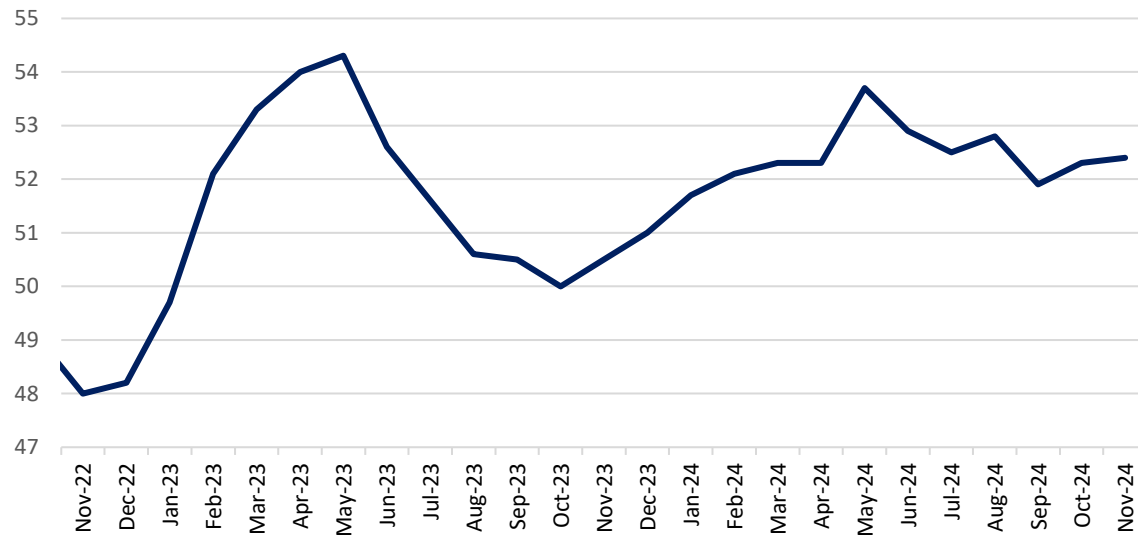
Absolute Returns (%) in CY 2024



Source : Bloomberg, Data as on 31th December 2024

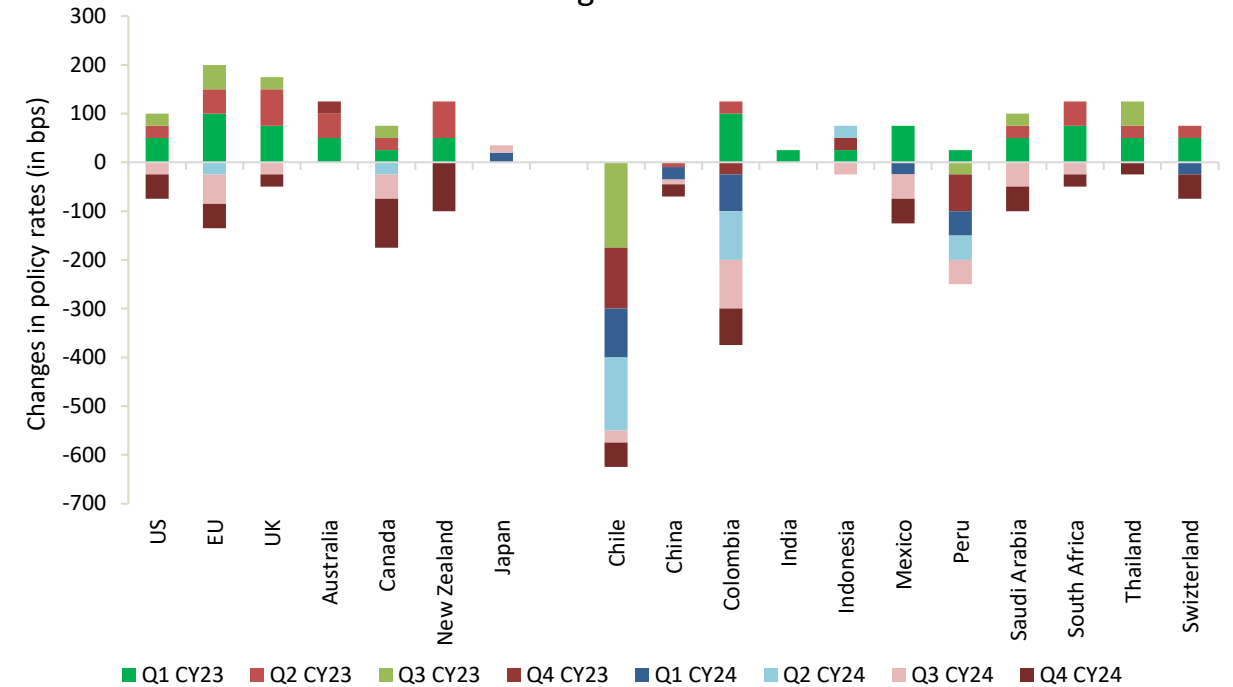
...Rally led by stable growth & easing liquidity

Global Composite PMI remained in the expansionary zone, suggestive to stable growth momentum



Source: Bloomberg

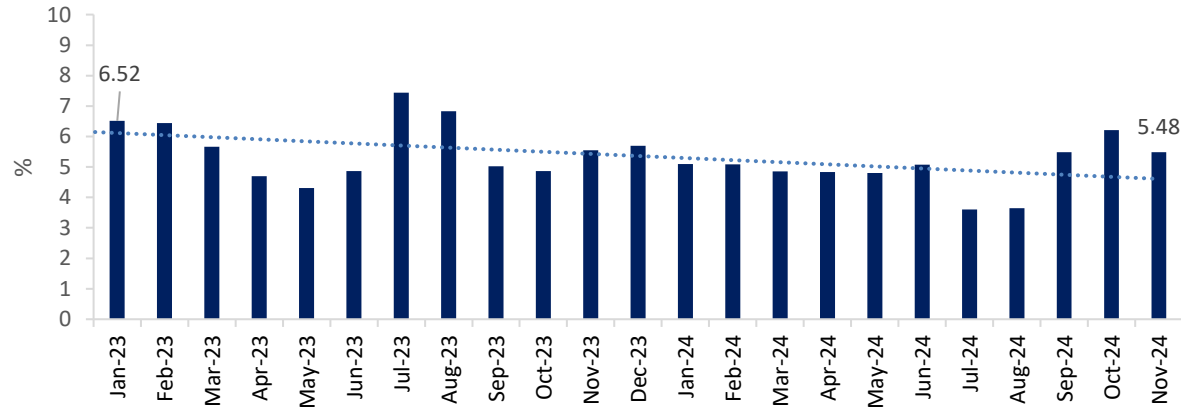
Most central banks have cut rates during the year on the back of global disinflation



Source: Bloomberg

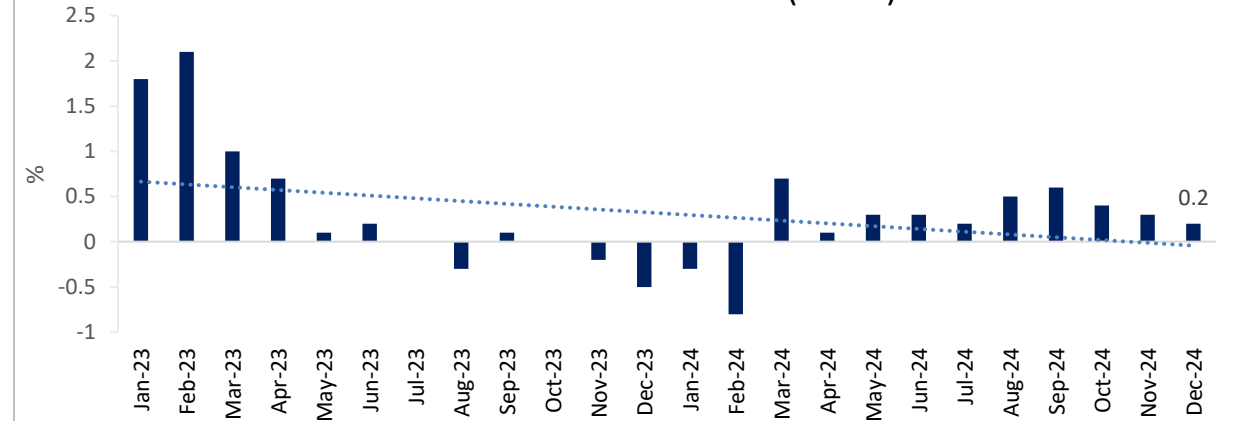
Declining inflation across economies drove the easing monetary cycle

India Consumer Price Index CPI (YoY%)



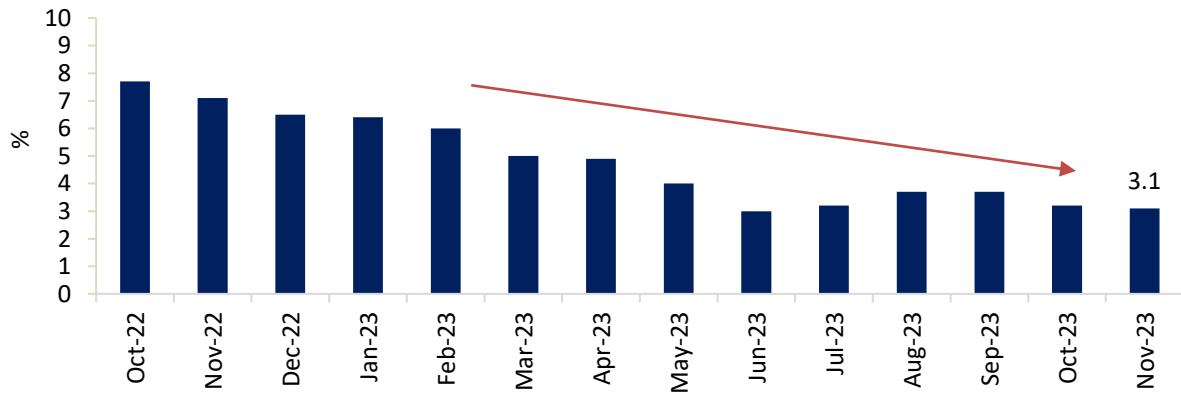
Source: Bloomberg

China Consumer Price Index (YoY %)



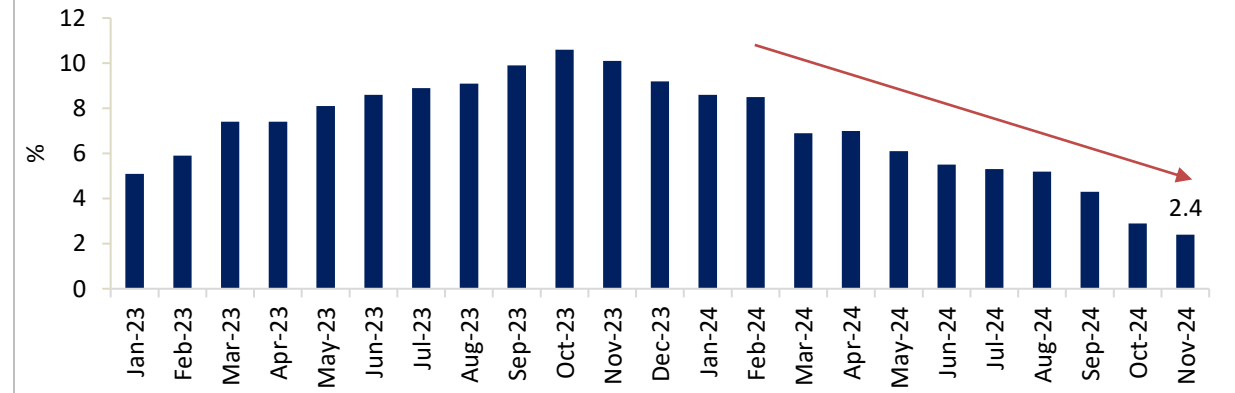
Source: Bloomberg

US Consumer Price Index (YoY %)



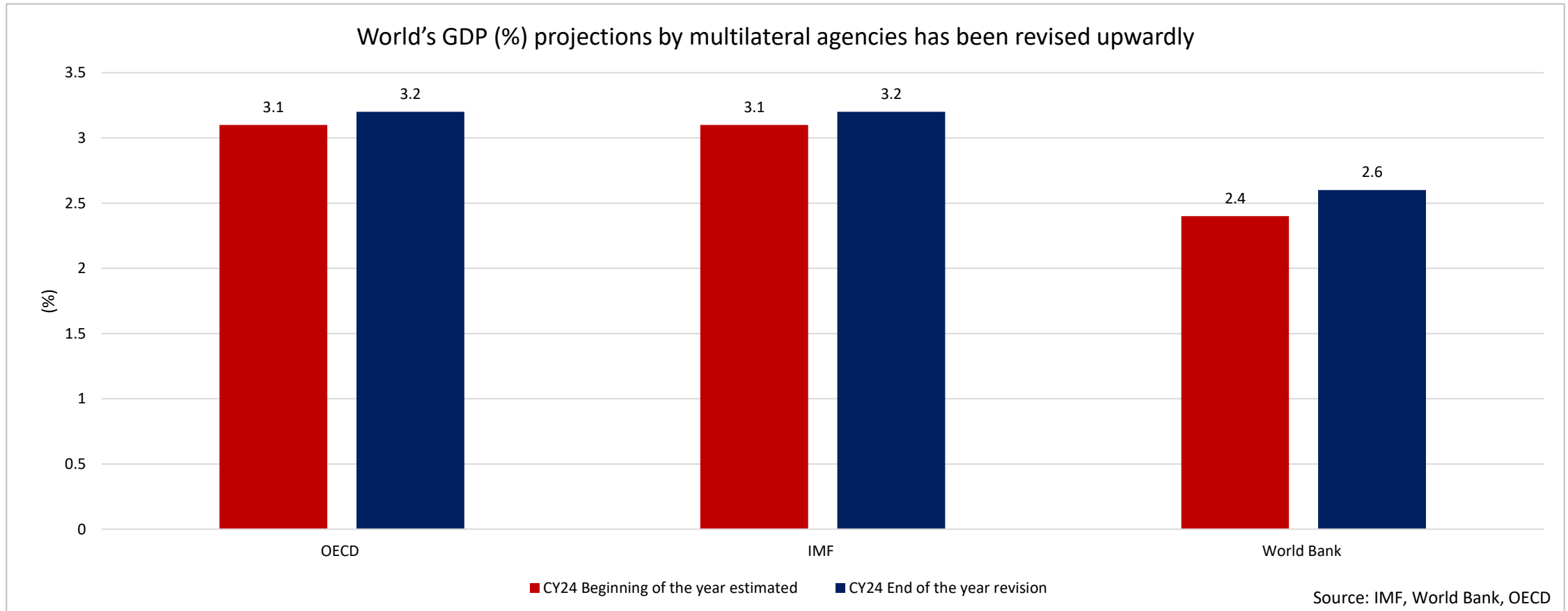
Source: Bloomberg

Euro Area Consumer Price Index (YoY %)



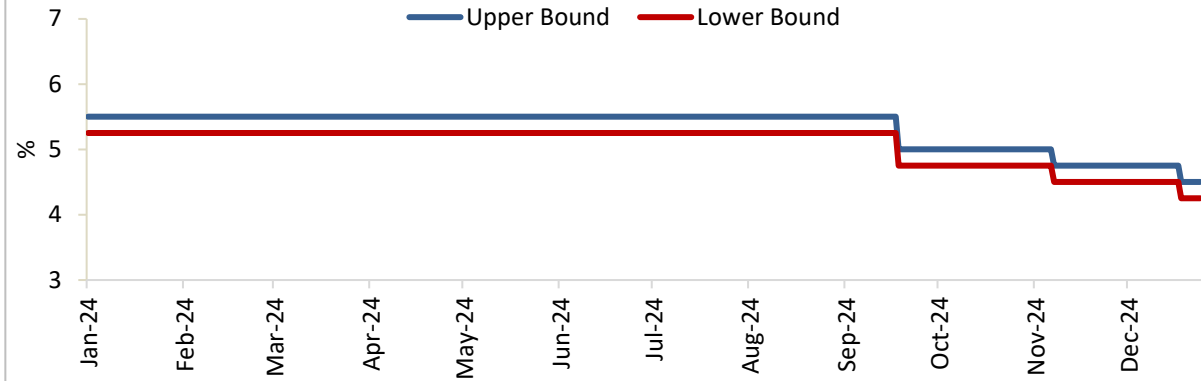
Source: Bloomberg

Multilateral agencies upgraded global growth for CY24, during the year



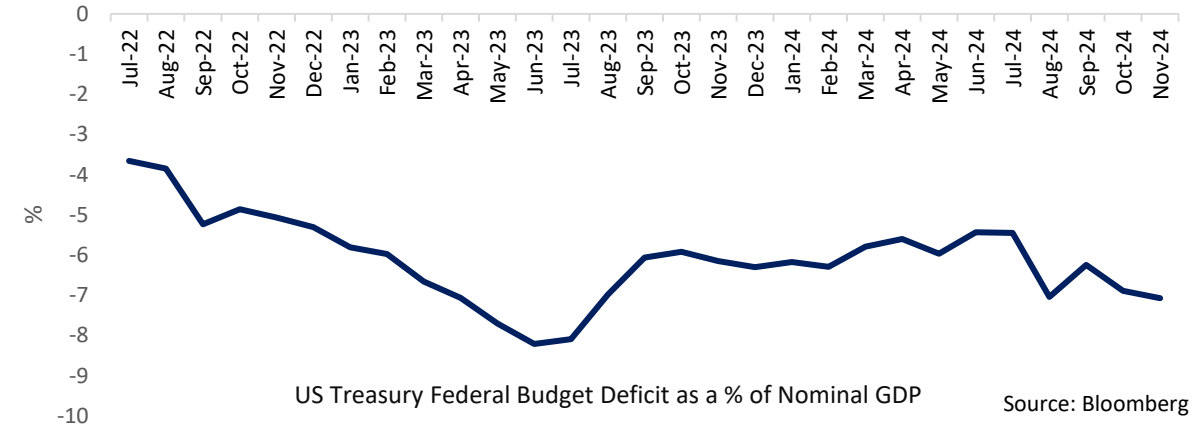
US markets driven by rate cuts and High fiscal deficit, while Chinese economy supported by Government stimulus

US Federal Funds Target Rate (%)



Source: Bloomberg

High fiscal deficit meant robust domestic liquidity for the US

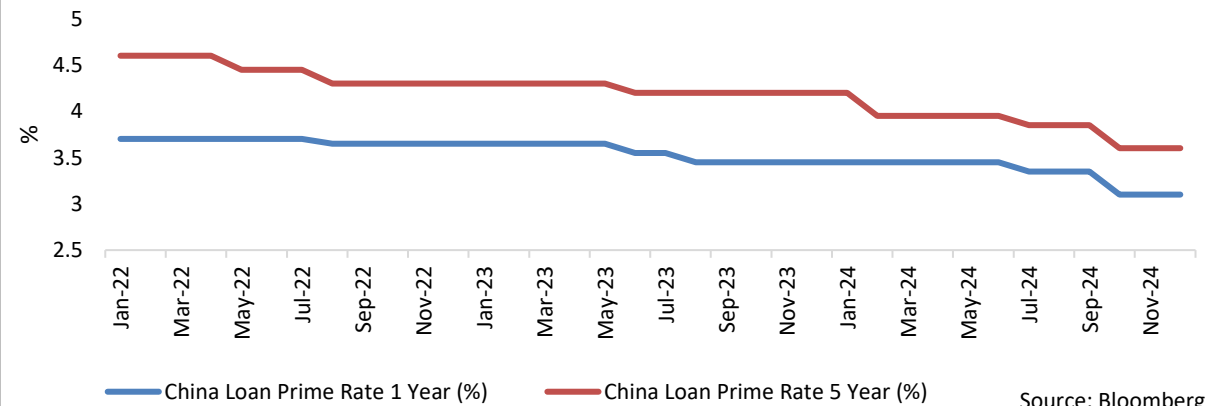


Source: Bloomberg

China unveiled major stimulus package to revive slowing economy... more expected

- **Monetary easing measures:** Cut reserve requirement ratios (RRR) - by 50 basis points (bps), freeing up about 1 trillion yuan (\$137 billion) for new lending. Medium term lending rate cut by 30 bps and LPR by 20-25 bps. The PBOC also cut the seven-day reverse repo rate, its new benchmark, by 0.2 percentage points to 1.5%
- **Property market support:** The property market support package included a 50 bps reduction on average interest rates for existing mortgages, and a cut in the minimum down payment requirement to 15% on all types of homes
- **Stock market:** For the nation's stocks, the central bank provided at least 800 billion yuan (\$113 billion) of liquidity support.
- **Fiscal expansion:** Council has urged the government to introduce a RMB 10 trillion (US\$1.37 trillion) stimulus package, which could involve issuing ultra-long-term government bonds.

China has cut loan prime rate to boost consumption



Source: Bloomberg

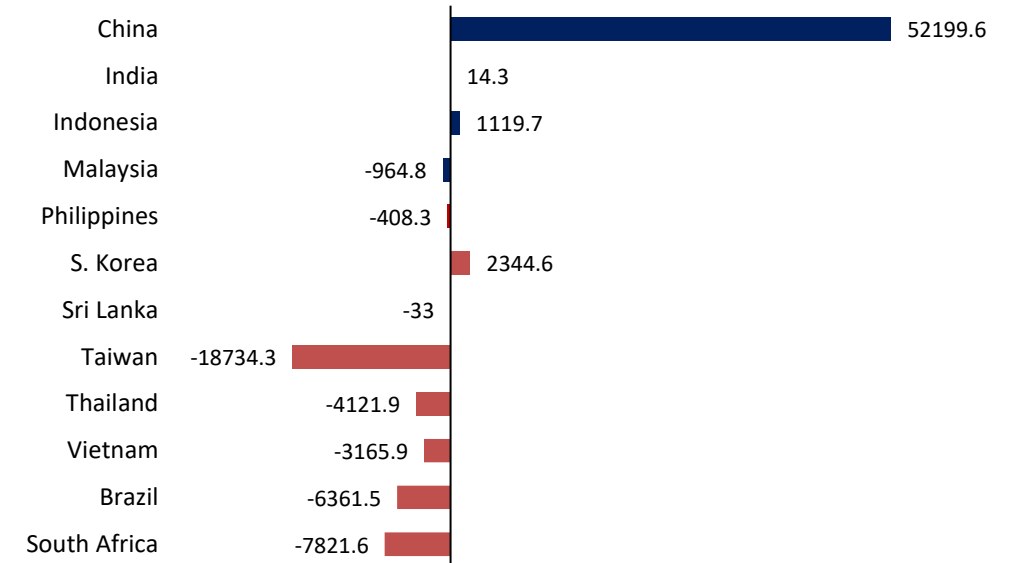
Gains in emerging market indices were capped due to recent rally in the dollar index, inflows in China was due to policy stimulus and attractive valuations

Dollar Index was range bound for the first 9 months of the year, post which there was a strong rally on the back of Expectation of Donald Trump winning the presidential race, which materialised.



Source: Bloomberg

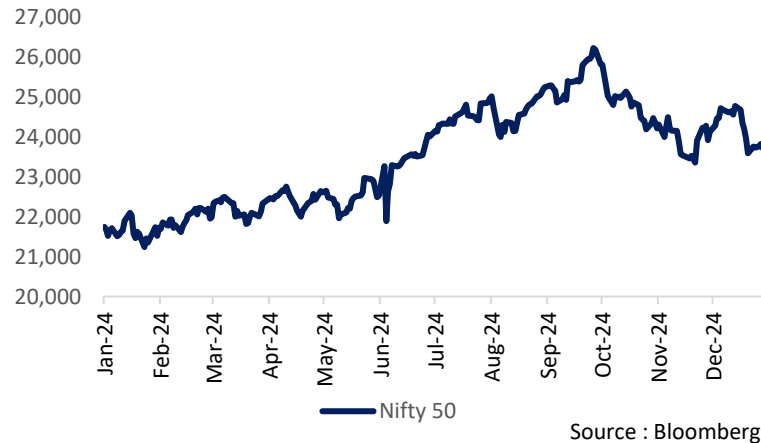
Emerging Markets – Mostly saw Outflows/marginal inflows in CY24 (in USD Mn)



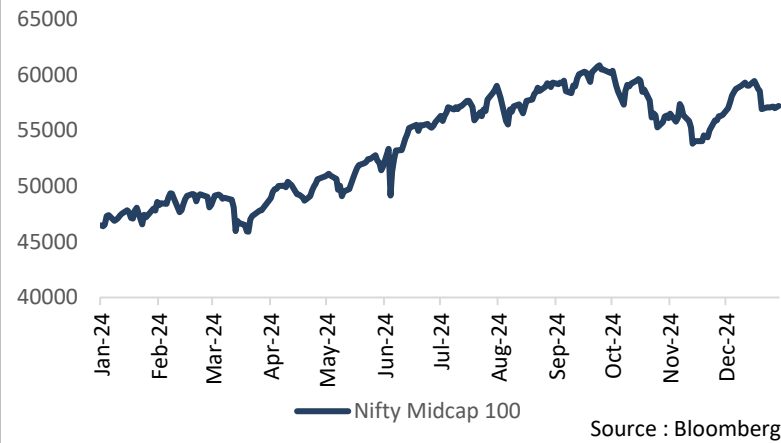
Source: Bloomberg

Indian equity markets rose on back of strong domestic flows despite choppy FPI flows and weakening growth outlook... Mid and Smallcaps outperformed the Largecap indices

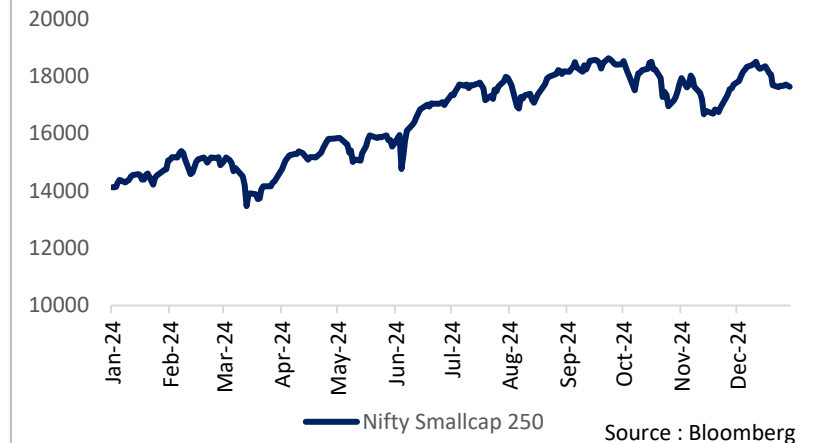
Trend in Nifty 50



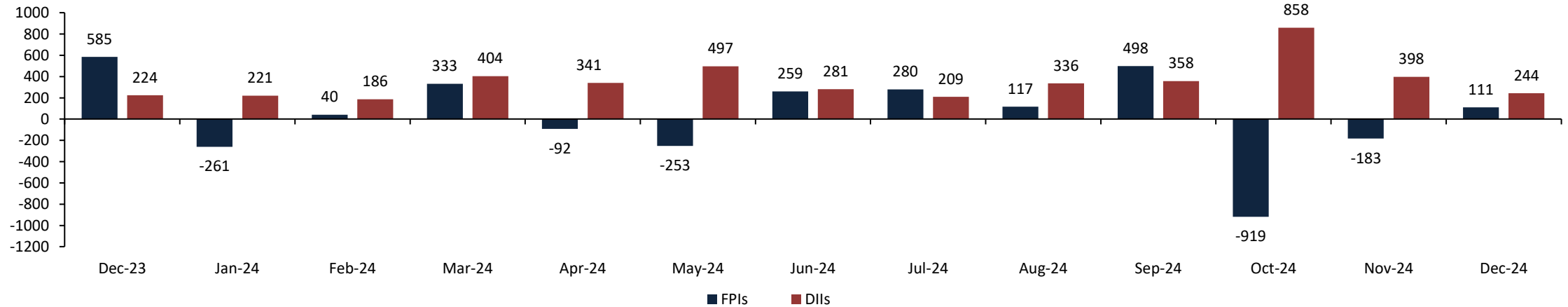
Trend in Nifty Midcap 100



Trend in Smallcap 250



Net Flows In Equities (Rs Bn)



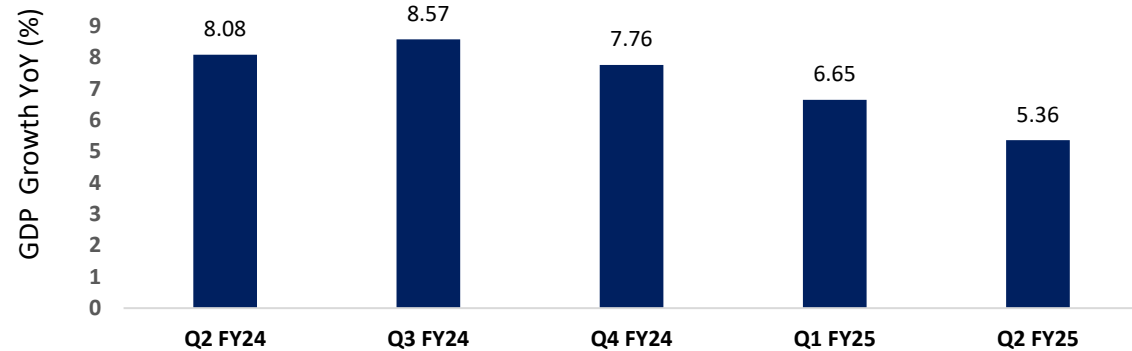
*For 2024, FPI and DII data is up to 31st and 30th December respectively.

Source: SEBI, CDSL

Economic momentum: CY24 a tale of 2 half's, H1: Strong Growth & H2: Decelerating Growth...

India GDP Growth

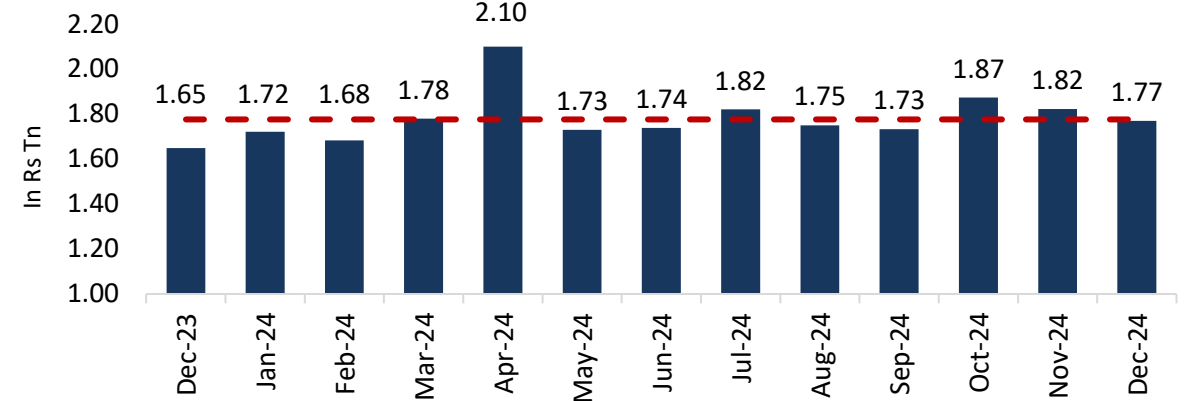
The GDP growth saw deceleration towards the end of the year on the back of tight liquidity conditions and slowdown in Govt capex due to general elections



Source: Bloomberg

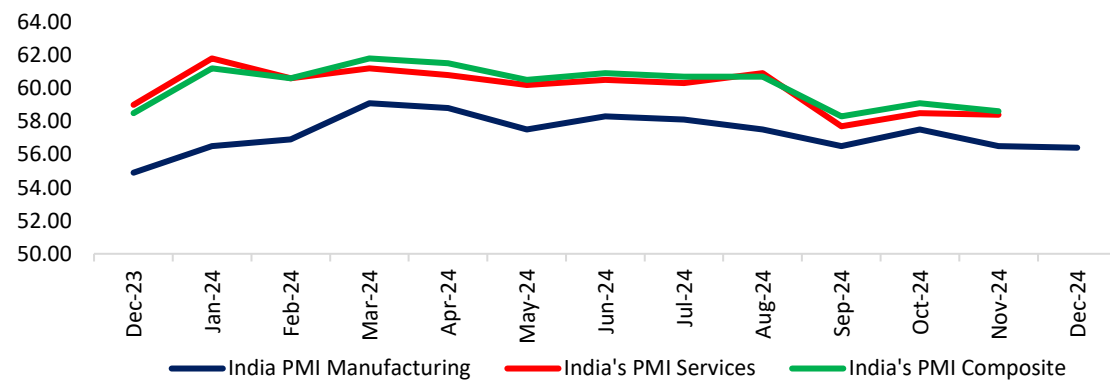
GST Collection (Rs Trillion)

GST collections seems to be moderating due to possible slowdown in urban consumption



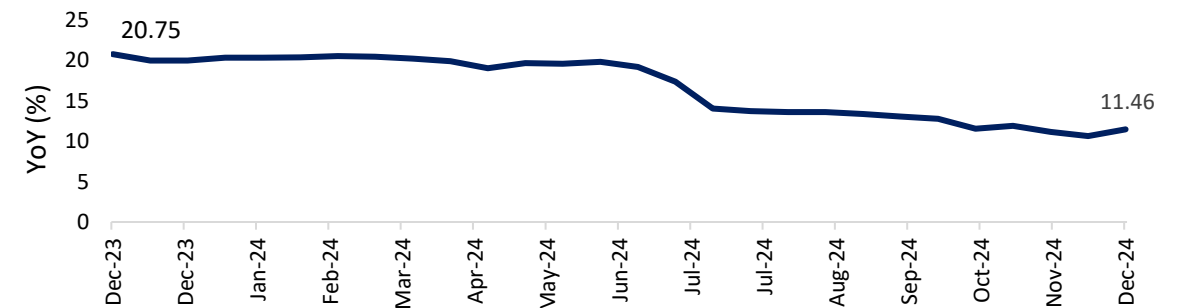
Source: Bloomberg

The PMI data remained strong, led by services



Source: Bloomberg

Moderating trajectory of Bank credit growth also suggestive of weakening growth impulses



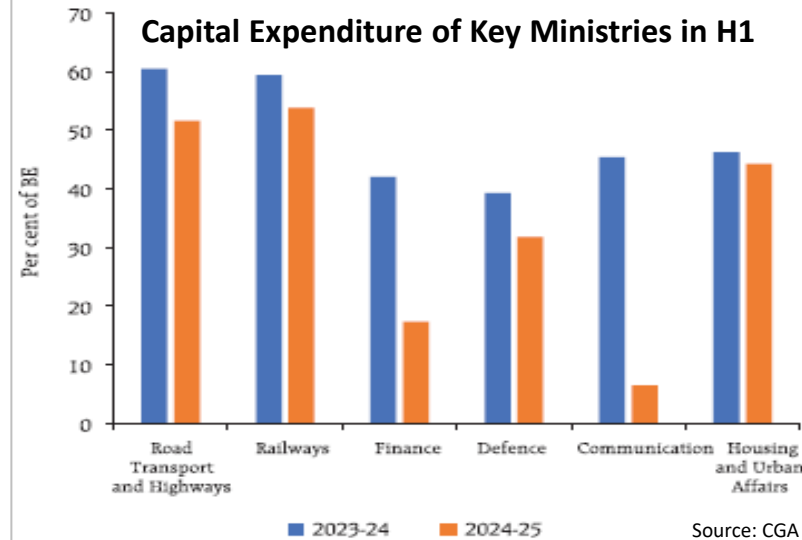
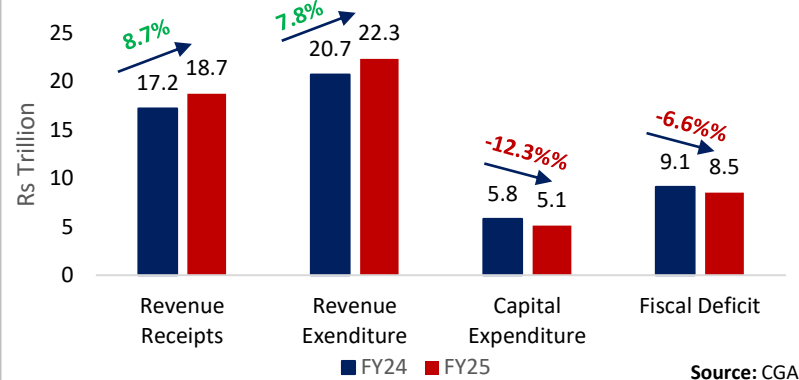
Bank Credit Growth data

Source: RBI, Bloomberg

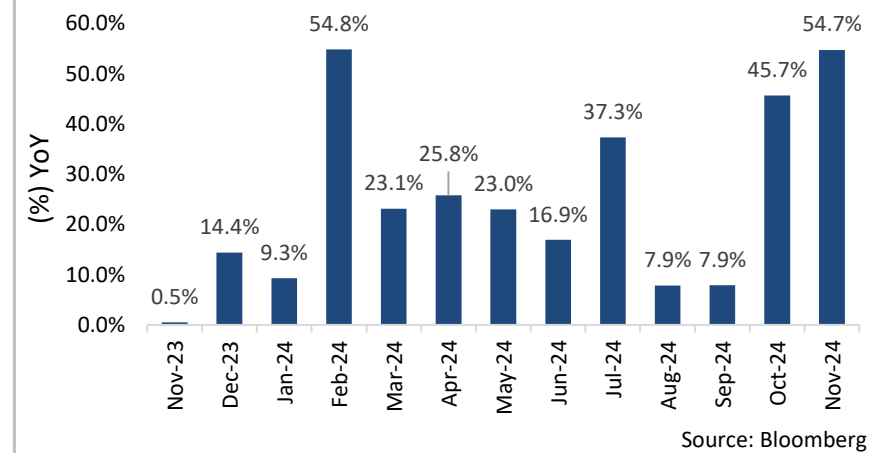
Growth momentum faltering as govt. capex spending is decelerating while balance sheets of private sector in prime health...

The government's capital expenditure in the April-November period of FY25

Capital expenditure registered moderation...

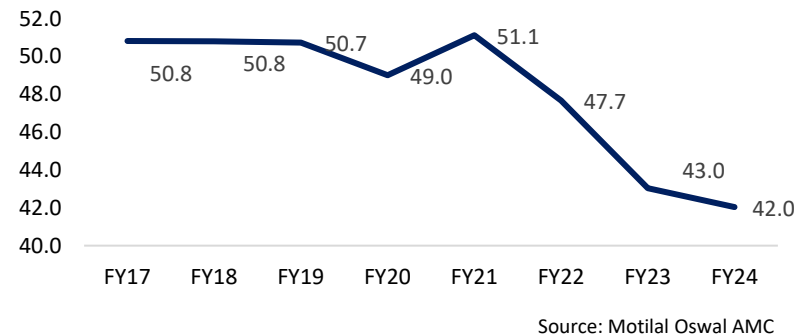


Renewable and Electronic Exports were key growth sectors



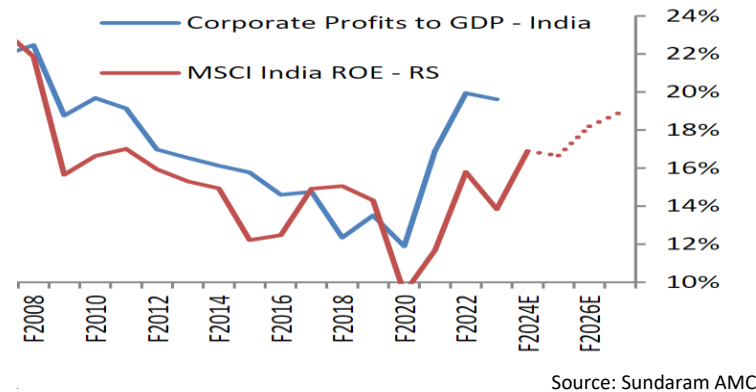
Corporate Debt as % of GDP

Lower Leverage position gives Corporates cushion for further expansion



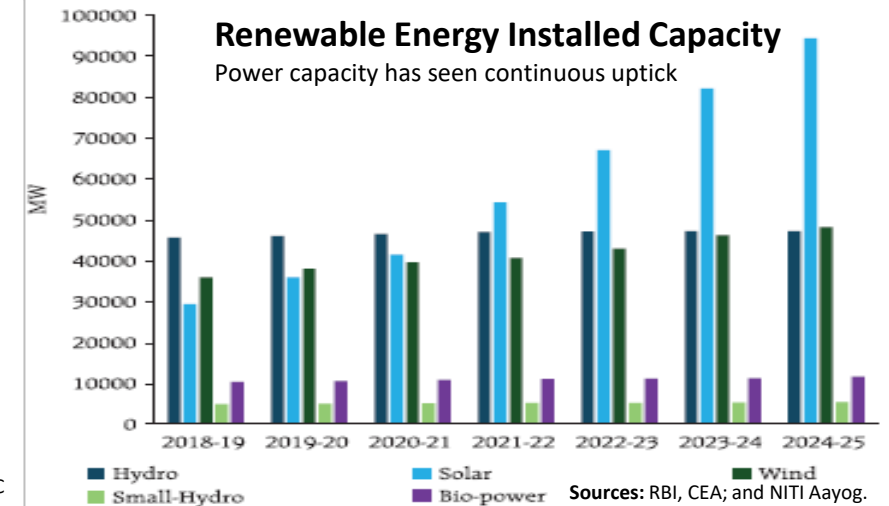
Corporate Profits (%) To GDP

..continues to remain strong, can push private sector capex

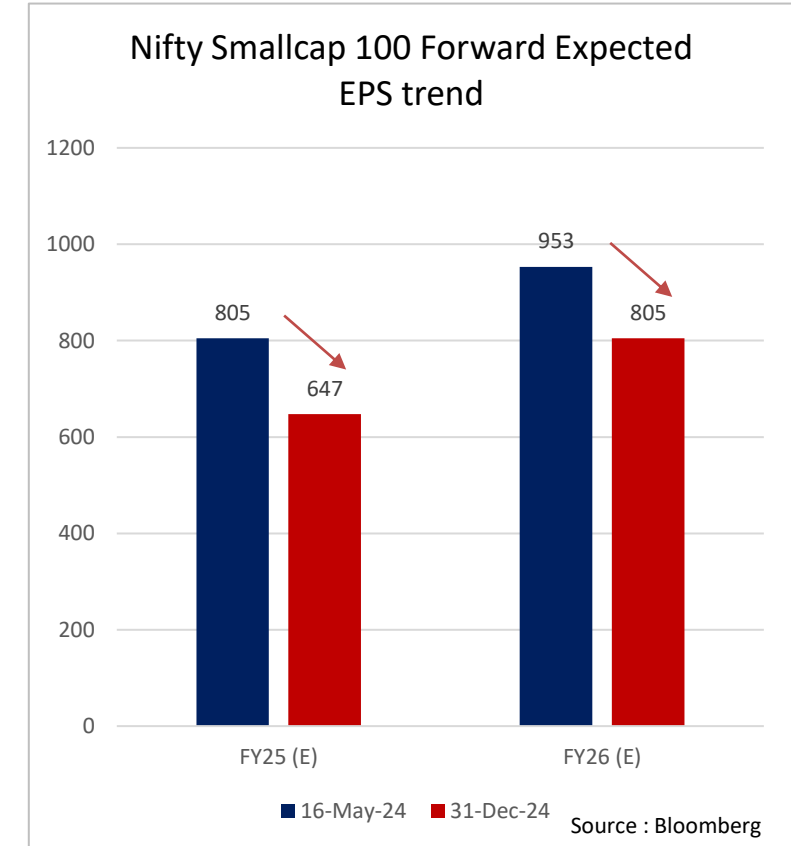
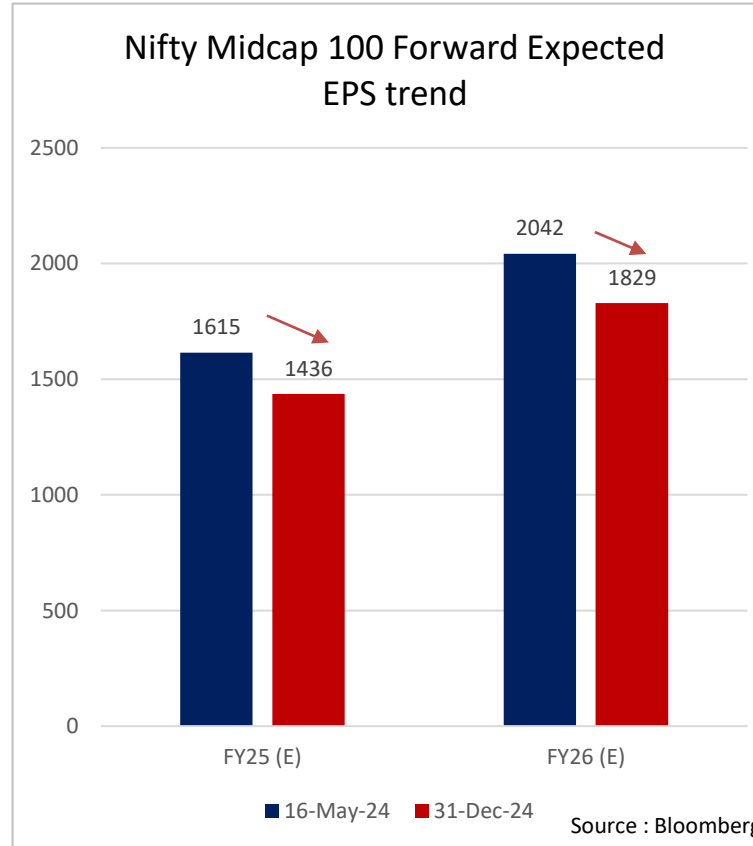
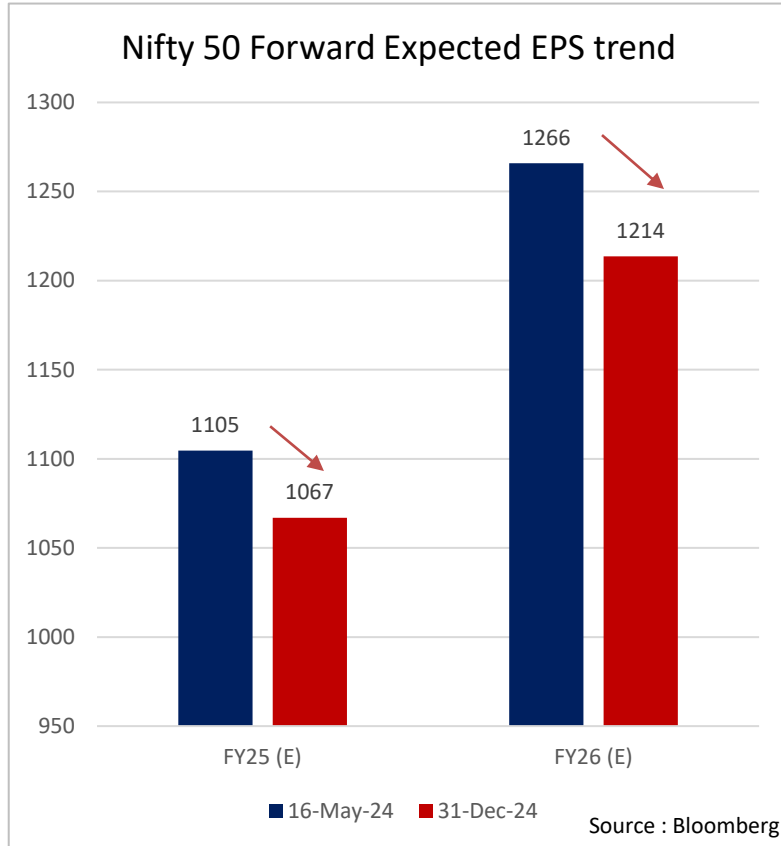


Renewable Energy Installed Capacity

Power capacity has seen continuous uptick

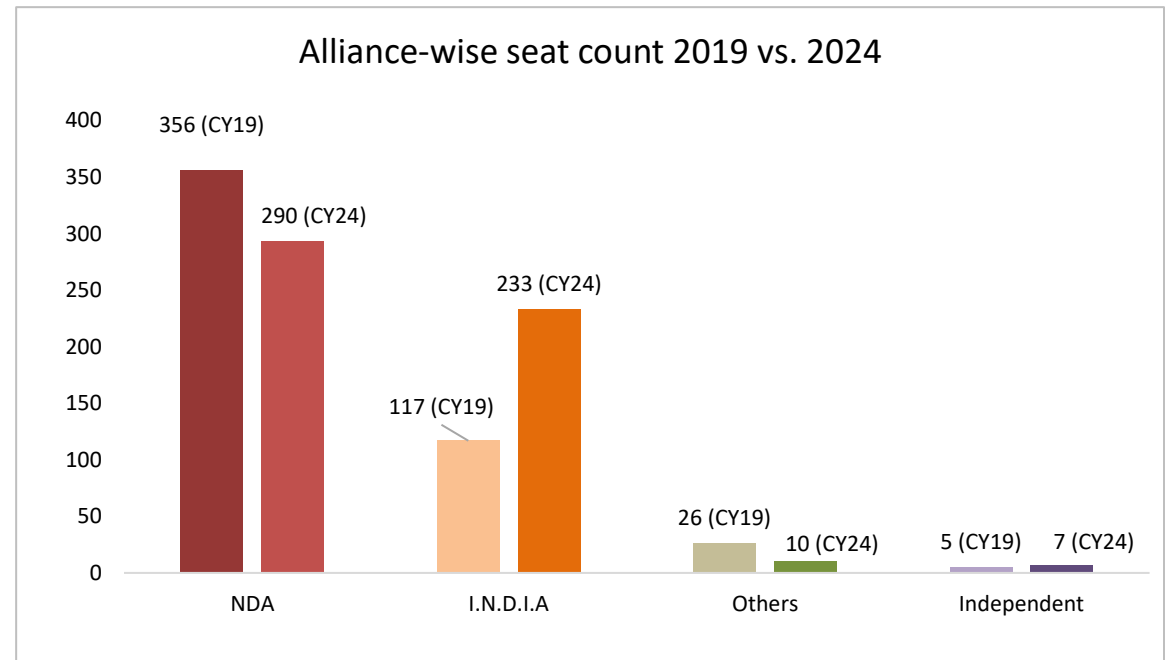
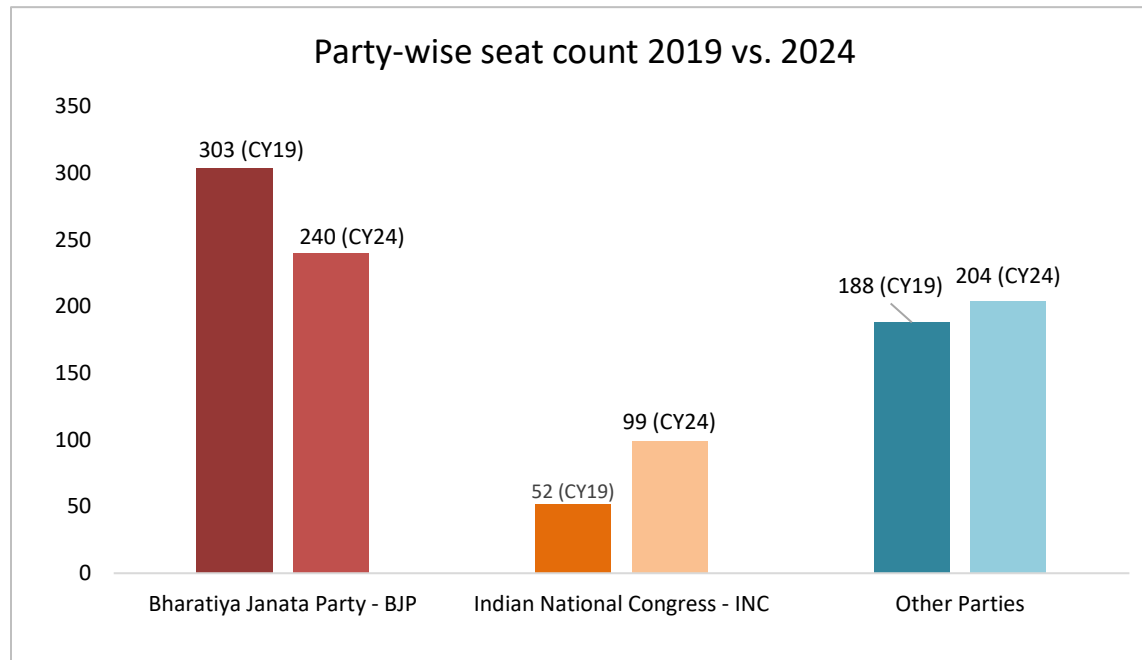


...Leading to earnings downgrade for key indices in the second half of CY24

Data as on 31st December 2024

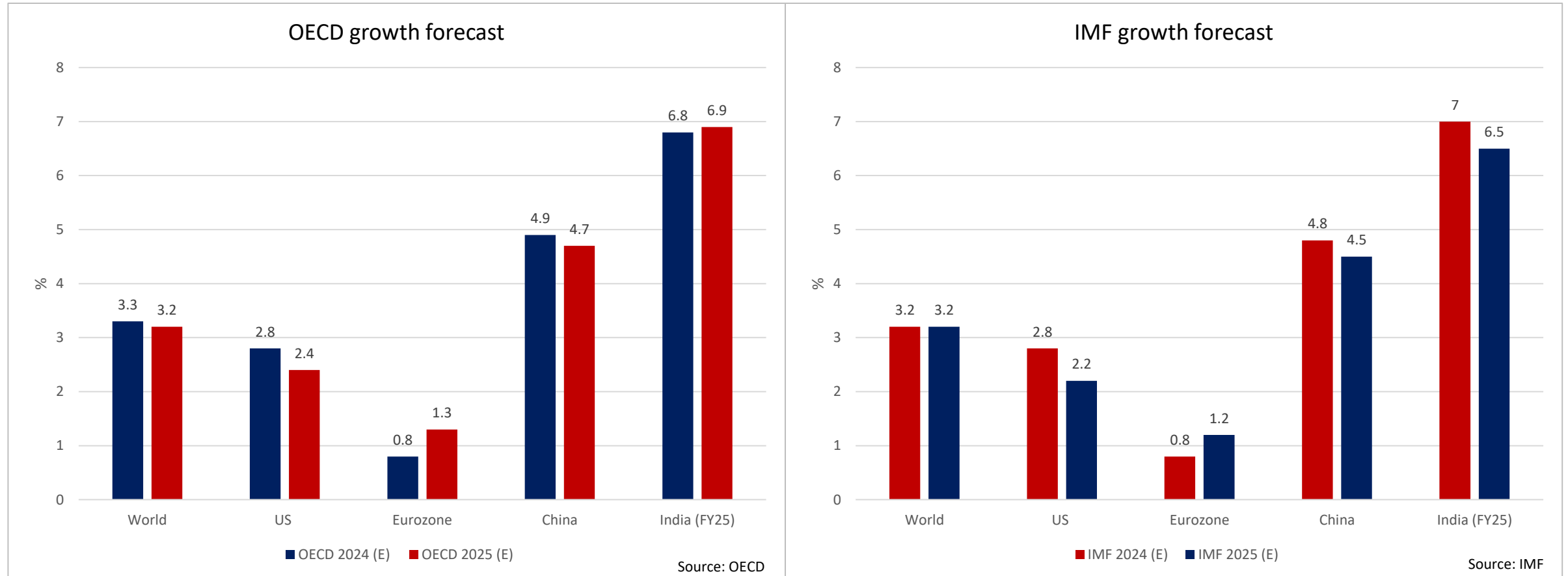
General Election threw up a fractured mandate but current administration firmly in saddle

The high octane Lok Sabha elections saw the incumbent NDA alliance retain power at the center, albeit with a reduced seat strength. On the results date, i.e., June 4, 2024, the markets saw volatility as the set expectations were of a larger majority for the incumbent. Policy continuity is expected as the coalition is stable, and the coalition partners' mindset aligned.



Expectations from 2025...

Global Growth likely to hold up... US, China and India to see incremental deceleration, EU expected to bounce back

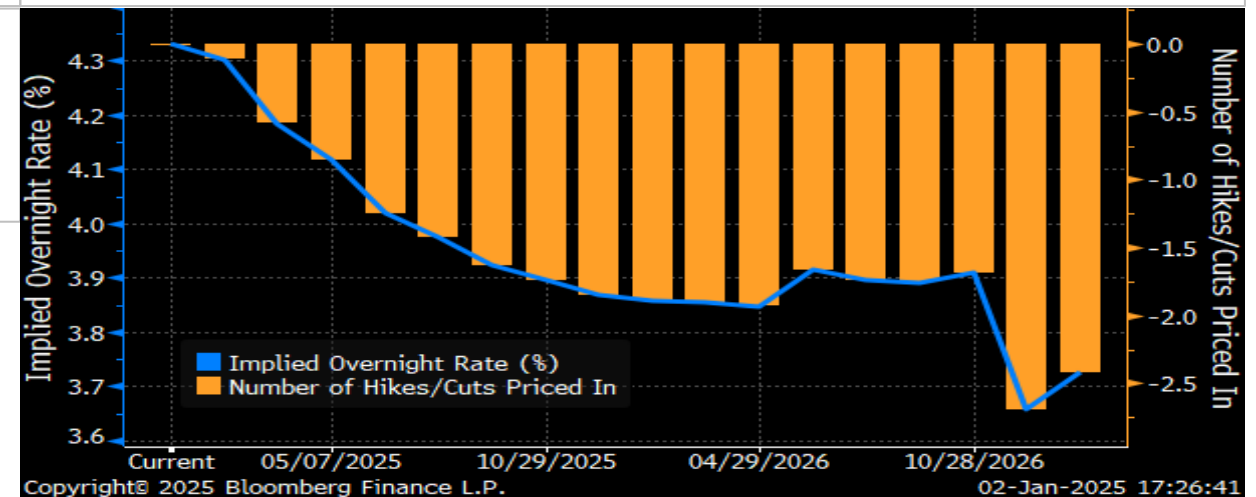
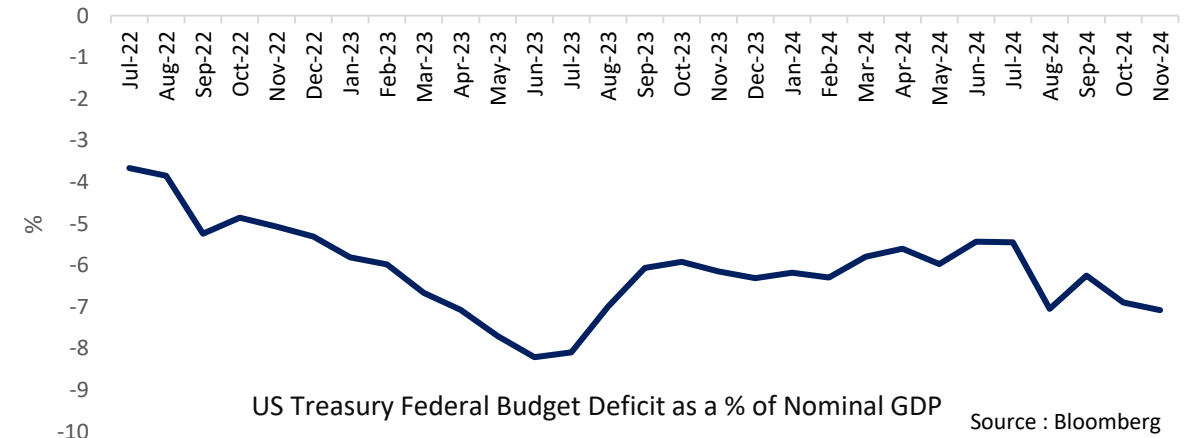


In US Donald Trump's policy on fiscal consolidation & Tariffs may lead to volatility for global markets

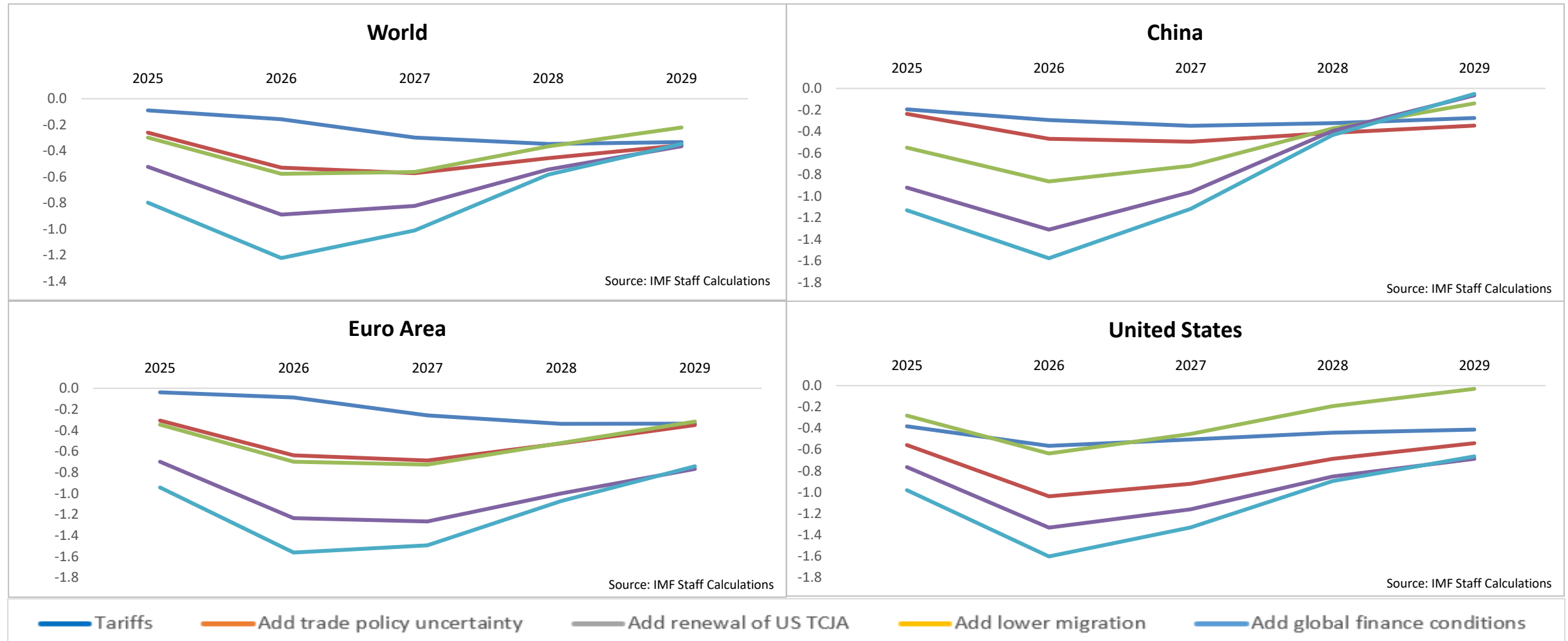
Donald Trump wins US elections: His key poll promises are as follows:

- **Trade** : New tariffs of 10 to 20% on most foreign goods, with higher tariff on China.
- **Immigration**: To cut and reverse illegal immigration
- **Tax cut**: Extending Tax Cuts and Jobs Act (TCJA) and further reduction of Corporate tax by up to another 500 bps
- **US Fed believes that the economy seems to be holding up well, lowering the expectations on the pace of policy rate cuts**

High US debt, remains a key concern of the US economy, and moves to reduce it could have implications on US and Global risk assets



Higher mutual tariffs, policy uncertainty and changes on immigration policies can weigh down on global growth incrementally... as per IMF

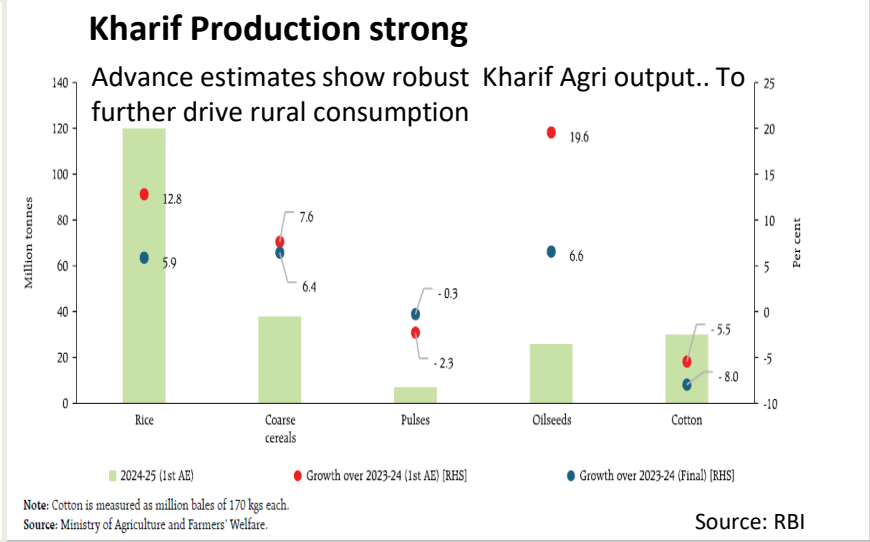
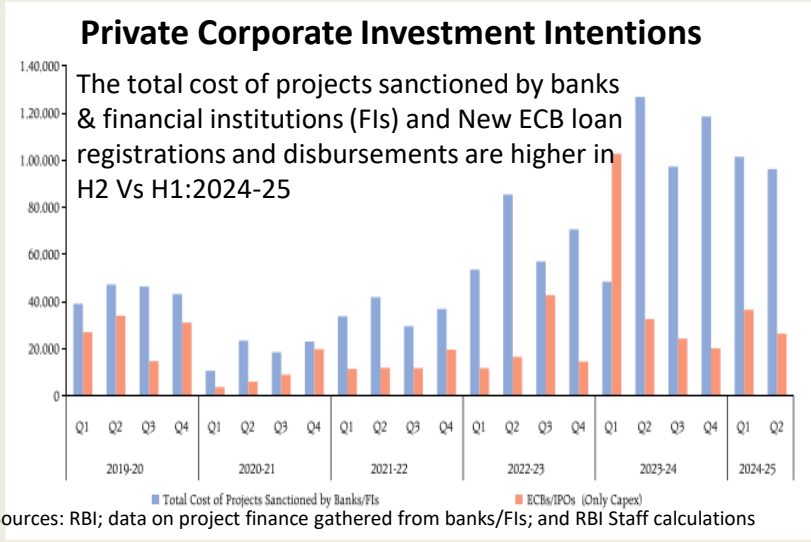
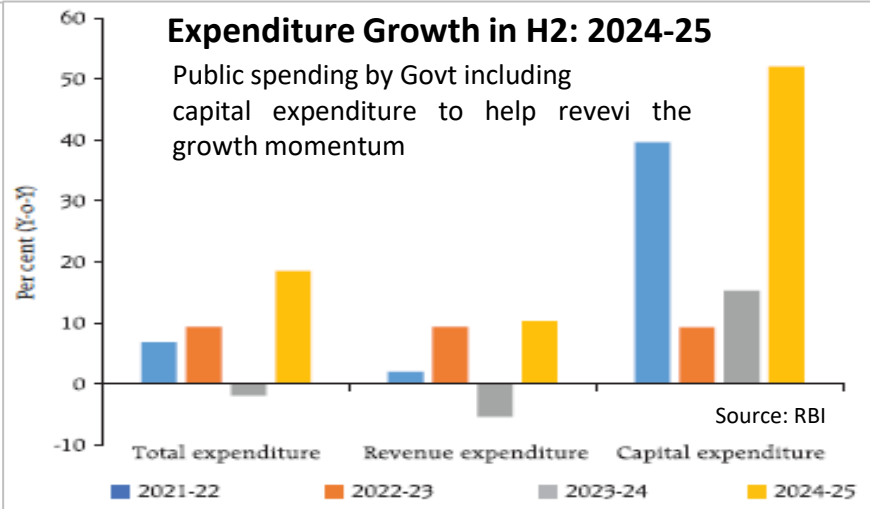
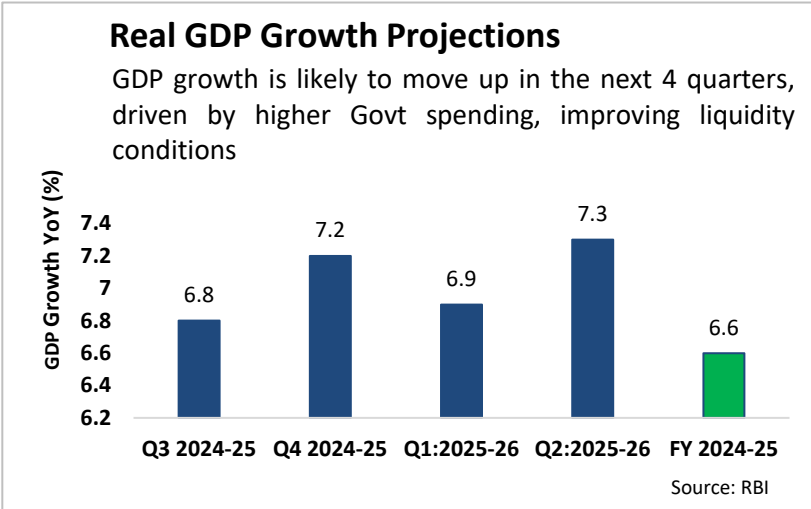


Assumptions taken by IMF: The United States, the euro area, and China impose a 10% tariff on trade flows among the three regions; a 10% tariff is also levied on trade flows (in both directions) between the United States and the rest of the world. The increase in tariffs directly affects about one-quarter of all goods trade, representing close to 6% of global GDP. The revenue generated by the tariffs is transferred back to households.

China – Domestic consumption to counter any US tariffs would be key for China... further stimulus expected

- China's finance ministry has reaffirmed that the government will provide more fiscal support for the economy in 2025, delivering another promise of stimulus as this year draws to a close.
- The ministry reiterated plans to increase government spending to boost consumption and demand the world's second-largest economy, according to a statement released Tuesday after an annual meeting to map out priorities for the year ahead.
- The plans include more government bond issuance, bigger pensions for both urban and rural retirees, and increased subsidies for healthcare. The ministry said it will step up consumer goods trade-in programs and aim to stimulate more investment. It also repeated Beijing's pledge to raise the fiscal deficit in 2025.
- Policymakers have promised to focus more on consumption and demand next year, but details on how exactly they plan to do that will likely only be made clear in March when legislators are set to unveil China's economic targets for 2025.

India: Growth likely to pick up on backdrop of robust government spend, private capex and strong rural economy.



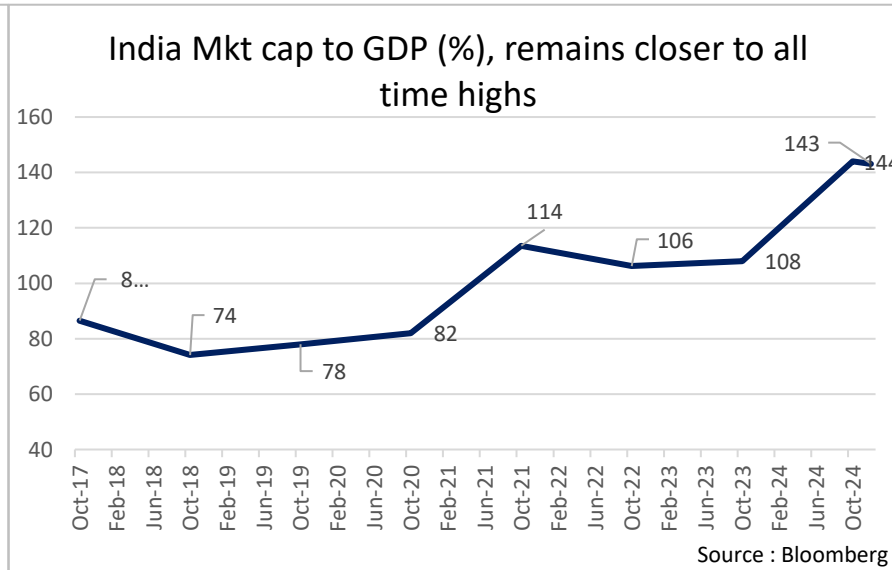
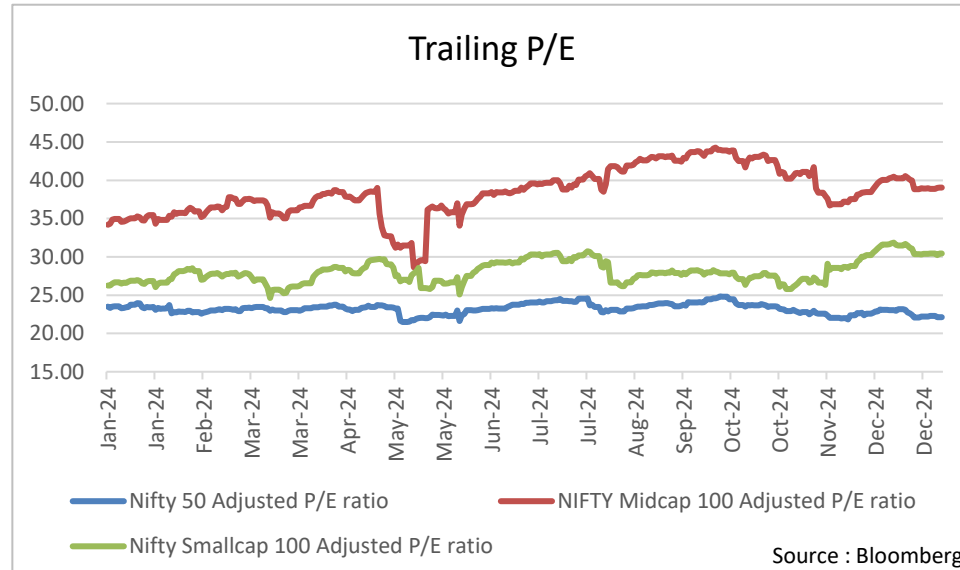
State Wise Roll-Out Of Schemes

Strong subsidy outflow to boost rural spending

States	Name of the schemes	Annual Estimated Outlay (Rs. Crore)
Maharashtra	Mukhya Mantri Yuva Karyaprashikshan Yojana	5,500
	Mukhyamantri Majhi Ladki Bahin Yojana	46,000
	Majha Ladka Bhau Yojana	Stipend of Rs 6,000 – Rs 10,000 per month
West Bengal	Educational Support	970
	'Jai Johar' Old Age Pension Scheme	366
Uttar Pradesh	Mukhya mantri samuhik vivah yojana	600
	Mukhyamantri Shikshuta Protsahan Yojana	100
Tamil Nadu	Chief Minister's Thayumanavar Thittam	27,922
	Loan-Waiver Schemes	3,100
Odisha	Subhadra Yojana	55,825
	DBT to wage earners	3,651
Madhya Pradesh	Mukhyamantri Ladli Behna Yojana	18,984
Karnataka	Gruha Lakshmi	28,608
	Yuvanidhi	2,500
Gujarat	Namo Laxmi Yojana	1,250
	Namo Shree Yojana	750
Andhra Pradesh	YSR RythuBharosa	6,534
	Sunna Vaddi Panta Runalu	Interest free crop loans to all the farmers who availed crop loans up to Rs 1 lakh

Source: Media Documents

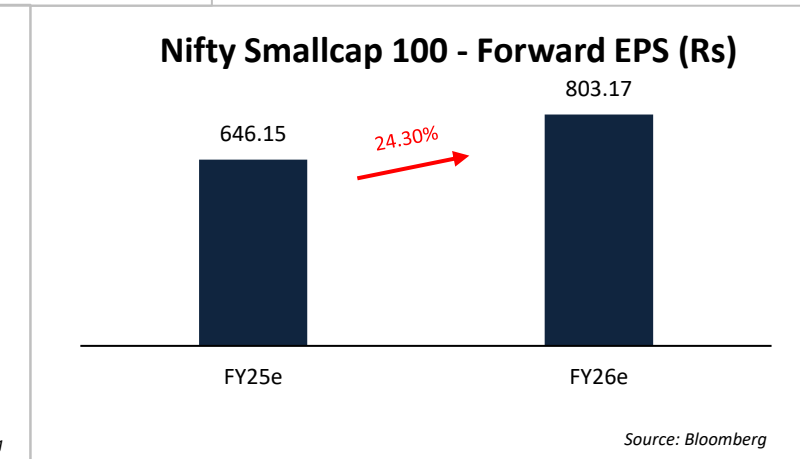
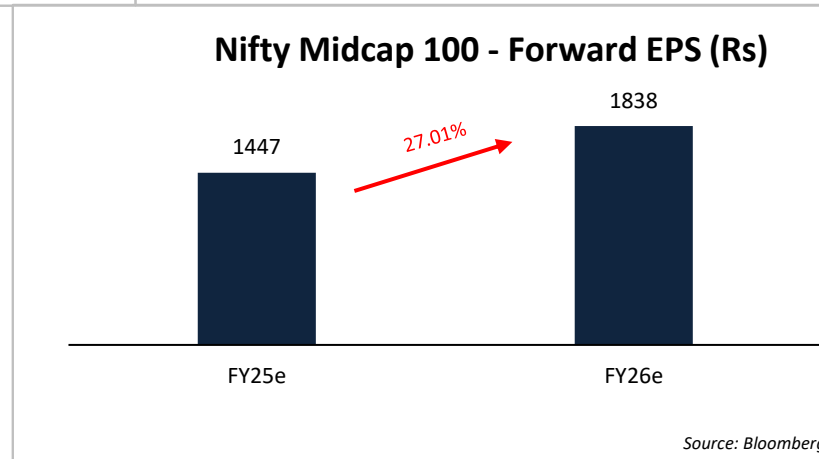
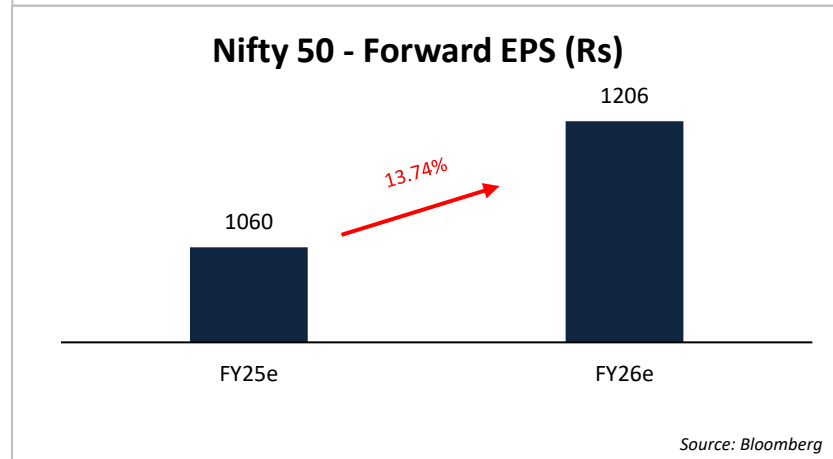
India Valuations – While Large cap P/E is lower vs. Mid & Small Cap, growth expectations in Mid and Small Cap is higher than Large caps, actual delivery of this growth is key monitorable



12M expected Fwd P/E

Index	FY25 P/E (Est)	FY26 P/E (Est)
Nifty 50	22.31	19.61
Nifty Midcap 100	39.52	31.12
Nifty Smallcap 100	29.05	23.37

Source: Bloomberg and data as on 30 December



Source: Data as on 30 December

On absolute basis many stocks are trading at very high valuations

12 M Trailing PE Ratio	BSE 500 Index No of Stocks Dec 31,2024	BSE 500 Index No of Stocks Jan 1,2020
1000 +	4	1
500-1000	2	1
100-500	54	10
75-100	41	17
50-75	87	50
Total	188	79

Source : Kotak AMC, HDFC Bank Research, Bloomberg

Given very strong performance of the equity returns in the past 4 years vs past; Return expectations need to be moderated

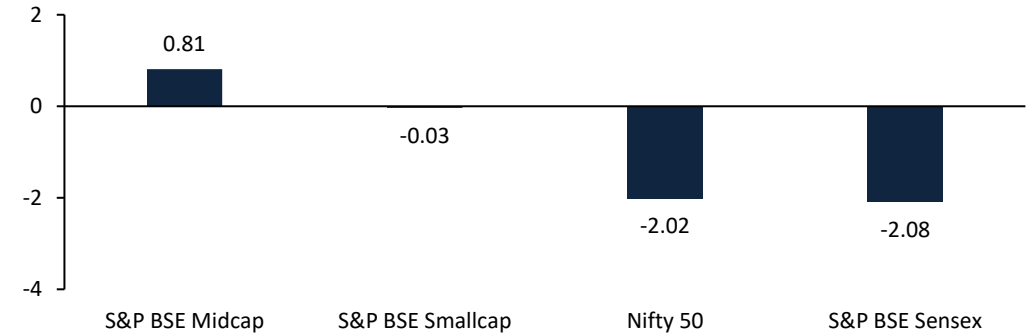
Annualized Returns	4 Dec 05 To 5 Jan 20	5 Jan 20 To 31 Dec 24
NSE 100 Index	12%	15%
NSE Mid Cap 100 Index	11%	27%
NSE Small Cap 100 Index	8%	26%
BSE 500 Index	11%	17%

Source : Kotak AMC, HDFC Bank Research, ACE MF

Market Roundup – December 2024

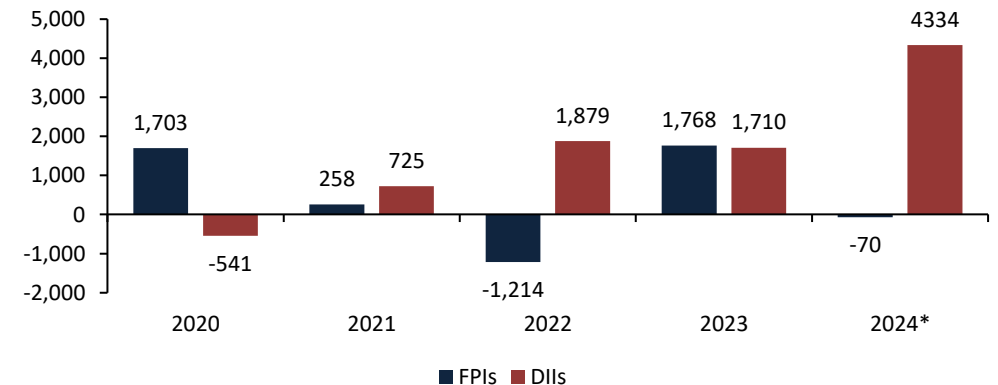
- Indian equities ended the month on a mixed note. Large cap-oriented BSE Sensex ended lower by 2.08% (MoM) and Nifty 50 ended lower by 2.02% (MoM).
- While the BSE Midcap index ended higher by 0.81%(MoM), BSE Small cap index ended lower by 0.03% (MoM).
- In terms of BSE sectoral indices, most of the sectors ended on a mixed note. Healthcare, Realty and Consumer Durables outperformed the most whereas Power and Metal were the laggards during the month.
- Domestic equity markets ended the week on a mixed note on back of positive global cues and subdued US inflation data. However, gains were restricted on concerns over persistent selling by the foreign institutional investors in domestic equity markets along with rupee's fall to record levels against the US dollar. US Federal Reserve's hawkish tone on interest rate cuts in 2025 also dampened the market sentiment.

Absolute Return In December 2024 (%)



Source: Bloomberg

Net Flows In Equities (Rs Bn)



*For 2024, FPI and DII data is up to 31st and 30th December

Source: SEBI, CDSL

Key concerns for Indian equities

- Low growth in Domestic consumer demand
- Any domestic political upheaval can be negative
- Tightening Monetary conditions
- Sharp movement in Currency
- Large IPO/FPO/promoter stock sale
- Impact of the policies of new administration in US
- Upward pressure on food inflation (El Nino, export restrictions by some nations)
- Rising tensions in Middle East along with crude price movement
- The impact of Dollar Index and US Bond Yields on FPI flows in emerging markets

Annexure...

Sectoral outlook by fund managers – Part 1

Sector	Particulars
BFSI	<p>View –Neutral to Positive</p> <ul style="list-style-type: none"> Valuations in most of the Banks are reasonable, especially the Largecap Private sector banks. Earnings for Q2FY25 has been mixed across banking sector. NIM concerns have resurfaced as the cost of funds have risen due to tight liquidity scenario. Credit costs (provisioning) have started to show initial signs of weakness in Smaller banks, NBFC and MFI. Larger Private banks expected to see better asset quality Most fund managers are continuing to add weight in the Pvt sector banks and Capital market companies.
IT	<p>View –Neutral</p> <ul style="list-style-type: none"> Order book growth of Indian companies holding up, execution cycle seeing pickup. Q3FY25 results could be muted, but guidance can be better due to improved execution of earlier orders. Market expects that potential corporate tax cuts in the US could be a big booster for Indian IT services companies in the medium term. Funds are now running mostly underweight to neutral exposure, midcap IT still in favour with many fund managers Sector can act as defensive in case of broad market correction.
Pharma	<p>View – Neutral to positive</p> <ul style="list-style-type: none"> Domestic demand holding up well, stocks have rallied, valuations have risen considerably US is seeing abatement of price erosion in the generic space, which should be positive for Indian pharma stocks. Fund Managers expect the sector to now be market performers and are looking at very stock specific opportunities. Contract development and manufacturing organization (CDMO) companies' stocks are seeing traction due tailwinds expected from the US. Funds running overweight as they expect this sector to be a defensive bet.
Auto	<p>View – Neutral to Negative</p> <ul style="list-style-type: none"> The base for Passenger vehicle volume seems to be loaded against its favour, and volume growth is gradually becoming concern. Fund managers are looking to reduce allocation in the PV segment, key overweight seem to be SUV players within the PV space. 2-Wheeler stocks have seen strong outperformance and the volume growth continues to remain steady there. Valuations concerns rising Auto ancillaries may do well due to China+1, Europe+1, PLI, export opportunities and EV initiatives. Valuations remain a key challenge in this segment. In aggregate, the Auto and Auto Ancillary sectors are gradually seeing funds turning underweights.

Sectoral outlook by fund managers – Part 2

Sector	Particulars
Construction & real estate	<p>View – Neutral</p> <ul style="list-style-type: none"> Housing segment is seeing initial signs of plateauing, Fund managers not looking to add exposure in the sector. Government's focus on infrastructure and investment cycle, though the Govt. spending seems to be sluggish, and is emerging as key risk. Approach followed by most AMC's for Real estate sector - Prefer investing in this space through proxy sectors such as housing finance companies and housing consumption stocks among others.
Consumption	<p>View – consumer services -Neutral, consumer durables and FMCG- Neutral</p> <ul style="list-style-type: none"> Staples – Recent corporate commentaries suggest continued weakness in urban demand. AMC continue to maintain underweights. Alcohol companies have seen strong buying by the AMC's Hotels/Travel – Valuations rich, No incremental weights being added. Fund managers not looking to cut current exposure Consumer Durables – Funds are looking players who are gaining market share and adding exposure. Retail and Quick Service Restaurant: Retail valuations high, focus on Value apparel retailers and Jewellery companies, Earnings have disappointed in the QSR space and fund managers are not too keen to add exposure, they prefer Consumer Tech plays. Long-term positives Rising per capita income. Premiumization across categories.
Capital goods, industrials, utilities	<p>View – Neutral</p> <ul style="list-style-type: none"> 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, sustainability of margin remain a key question. Power, Automation, Electronics continues to be the dominant theme for capex. Valuations are steep, Margins expected to top out in CY25. Funds are trimming/churning at margin. Power value chain still finding favour
Metals	<p>View – Neutral</p> <ul style="list-style-type: none"> Post recent consolidation, managers yet remain mostly underweight. Demand conditions globally consolidating, prices of base metals volatile. With Chinese Central Bank announcing big monetary stimulus, metals prices are expected to rise. Nevertheless, the strength of demand conditions would drive the stock price movement in the longer run, else this move could be more tactical.

Monthly Sectoral Movement

Absolute Monthly Return By Sector (%)

Index	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24
BSE 500	8.01	1.90	1.93	0.84	3.43	0.61	6.87	4.32	0.77	2.05	-6.51	-0.03	-1.50
Auto	5.43	4.18	8.12	4.96	3.92	3.84	8.05	5.05	-1.90	3.40	-12.30	-1.20	-2.33
Bankex	8.12	-4.38	1.92	2.02	4.64	-0.40	6.94	-1.30	-0.94	2.96	-2.29	1.08	-2.62
Basic Material	11.39	0.33	-0.42	1.06	7.86	0.73	6.63	2.06	-2.27	5.69	-6.66	-1.90	-3.13
Capital Goods	11.31	1.88	-1.21	6.15	3.42	11.16	3.24	4.58	-3.27	-0.09	-5.47	2.31	-4.13
Consumer Discretionary	5.91	2.35	4.89	1.69	5.05	0.77	8.99	4.93	0.99	4.01	-10.07	0.23	0.00
Consumer Durables	6.11	0.70	0.00	2.05	5.59	-0.51	7.12	3.57	4.37	6.40	-10.35	2.99	3.15
Energy	11.06	12.18	6.18	-0.19	3.33	-0.78	4.42	7.34	0.88	-2.91	-12.59	-3.31	-3.96
FMCG	6.84	-2.81	-2.33	-0.67	1.52	-0.42	5.23	9.53	2.29	3.32	-8.93	-2.08	-2.08
Finance	6.92	-2.40	0.47	1.35	4.93	-1.49	7.10	0.48	0.75	3.03	-3.31	0.53	-1.67
Healthcare	3.87	7.18	5.94	-0.08	1.01	-1.46	6.37	9.19	6.56	2.45	-0.72	-0.57	3.69
IT	8.38	3.74	3.38	-7.20	-4.35	-2.63	11.30	12.87	4.27	-2.57	-4.58	5.83	0.95
Infra	14.88	18.15	1.23	0.48	7.03	5.62	2.83	13.17	-2.07	-3.19	-8.72	-2.57	-3.54
Metal	11.35	-0.85	1.15	4.95	10.83	4.68	1.03	-0.85	-0.96	6.63	-9.62	-2.38	-5.39
Oil & Gas	12.02	12.57	6.86	-0.07	4.83	-1.18	2.91	10.48	1.27	-3.47	-13.75	-2.35	-2.79
Power	18.24	8.57	4.33	1.70	7.73	6.64	3.31	6.13	-2.49	5.11	-9.51	-4.34	-7.00
Realty	9.37	9.37	9.16	-1.21	7.52	4.40	8.21	-1.10	-3.59	4.36	-9.12	1.93	3.45
Telecom	6.15	6.94	1.44	1.81	8.36	3.29	10.90	4.69	2.36	-5.28	-8.48	1.55	-2.53
Utilities	20.00	9.71	3.61	0.25	8.84	2.80	2.40	6.87	-3.79	5.60	-8.54	-6.50	-6.57

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

Colour scales assigned vertically

Source: Ace MF, HDFC Bank Research

AMC Sectoral Holdings

Industry(%)	Auto & Auto Ancillaries	Banks & Finance	Capital Goods	Commodities	FMCG	Consumer Durables and Consumer Services	Housing & Construction	IT	Media	Oil & Gas, Energy	Other Equities	Pharma	Telecom	Textiles	Transport & Shipping, Logistics & Services
Nifty 500	6.88%	29.15%	5.80%	7.45%	6.92%	6.59%	4.40%	10.21%	0.21%	11.03%	0.21%	6.23%	3.02%	0.28%	1.63%
360 ONE	11.88%	29.53%	8.24%	3.32%	0.74%	6.39%	4.43%	8.54%	0.22%	3.61%	0.00%	6.53%	8.47%	0.21%	4.10%
Aditya Birla SL MF	8.75%	25.42%	6.83%	5.86%	6.17%	8.12%	5.09%	10.15%	0.20%	8.00%	0.37%	7.42%	2.93%	0.55%	1.67%
Axis MF	8.90%	22.22%	9.14%	6.85%	3.37%	10.88%	4.37%	7.76%	0.08%	4.03%	0.50%	9.31%	3.27%	0.22%	1.82%
Bajaj Finserv MF	6.53%	22.90%	6.37%	4.49%	11.15%	11.91%	2.86%	7.89%	0.10%	3.90%	0.77%	11.88%	2.98%	0.84%	0.95%
Bandhan MF	6.11%	24.31%	7.76%	6.68%	6.03%	7.66%	5.63%	7.60%	0.11%	6.68%	1.43%	8.21%	1.98%	0.86%	2.89%
Bank of India MF	4.14%	21.90%	12.03%	9.90%	4.38%	4.90%	5.63%	7.51%	0.32%	7.74%	0.31%	8.02%	1.98%	1.59%	0.82%
Baroda BNP Paribas	8.23%	22.27%	10.71%	4.57%	7.21%	9.55%	2.24%	7.98%	0.17%	10.66%	0.55%	8.48%	1.98%	0.37%	0.59%
Canara Robeco MF	9.07%	24.39%	11.07%	5.40%	5.66%	12.51%	3.29%	7.10%	0.24%	5.48%	1.14%	7.30%	2.31%	0.39%	1.52%
DSP MF	7.97%	23.13%	11.57%	9.16%	4.50%	6.77%	3.71%	6.58%	0.00%	5.93%	0.39%	11.16%	1.54%	1.27%	1.07%
Edelweiss MF	6.65%	22.16%	14.08%	5.43%	4.63%	12.75%	4.69%	10.04%	0.00%	4.23%	0.07%	10.05%	1.86%	0.71%	0.68%
Franklin Templeton MF	6.60%	24.49%	7.38%	6.55%	4.47%	10.21%	5.74%	9.31%	0.05%	6.45%	0.05%	8.02%	3.54%	1.03%	1.64%
Groww MF	10.42%	42.13%	4.70%	6.64%	0.22%	3.40%	6.50%	7.34%	0.00%	4.81%	0.00%	1.33%	2.21%	0.29%	3.91%
HDFC MF	9.08%	28.24%	7.19%	5.48%	3.13%	5.82%	3.71%	7.74%	0.54%	4.27%	0.02%	11.17%	3.09%	0.63%	2.87%
Helios MF	0.00%	42.59%	5.08%	0.00%	4.33%	12.56%	2.41%	10.75%	0.75%	4.42%	0.00%	8.89%	2.19%	1.51%	2.37%
HSBC MF	3.93%	20.63%	20.49%	4.98%	4.18%	11.50%	8.44%	7.17%	0.02%	5.22%	1.71%	5.51%	1.32%	2.02%	0.88%
ICICI Pru MF	8.99%	24.94%	4.38%	7.91%	4.46%	4.65%	4.88%	7.74%	0.58%	9.43%	0.46%	7.81%	3.43%	0.59%	1.83%
Invesco MF	4.87%	26.05%	12.28%	3.38%	2.72%	16.35%	4.36%	8.31%	0.00%	4.01%	1.16%	10.92%	1.53%	0.01%	1.77%
ITI MF	4.36%	22.11%	16.48%	8.53%	4.15%	6.23%	5.50%	7.27%	0.33%	6.13%	1.94%	10.32%	1.37%	0.97%	1.85%
JM MF	6.76%	22.68%	8.52%	7.68%	3.99%	11.67%	4.68%	8.59%	0.06%	5.55%	0.00%	13.81%	2.67%	1.70%	0.28%
Kotak MF	8.41%	17.43%	12.28%	11.49%	3.55%	9.13%	4.79%	10.75%	0.66%	6.68%	0.02%	7.38%	2.49%	0.40%	1.52%
LIC MF	8.02%	21.56%	21.15%	5.48%	6.45%	7.26%	4.02%	5.96%	0.47%	5.44%	1.09%	5.19%	1.27%	1.34%	1.95%
Mahindra Manulife MF	6.42%	21.93%	9.80%	9.94%	7.48%	6.51%	3.00%	7.09%	0.22%	9.26%	2.26%	5.83%	2.26%	1.76%	2.04%
Mirae MF	6.39%	31.59%	4.34%	7.85%	2.61%	9.94%	4.39%	9.50%	0.00%	6.68%	0.00%	8.67%	3.68%	0.70%	2.76%
Motilal Oswal MF	10.72%	13.11%	18.22%	2.85%	0.41%	27.10%	3.07%	14.52%	0.00%	0.20%	0.28%	3.42%	3.76%	0.00%	0.40%
Navi MF	5.02%	25.83%	9.37%	3.35%	7.08%	10.24%	0.45%	8.81%	1.35%	3.09%	0.48%	7.58%	2.60%	1.62%	3.39%
Nippon India MF	6.13%	25.61%	12.64%	4.71%	5.27%	11.16%	3.52%	5.75%	0.68%	7.02%	0.71%	9.58%	1.75%	1.09%	1.65%
NJ MF	15.65%	10.70%	0.33%	3.75%	11.48%	4.06%	0.00%	17.11%	0.00%	9.45%	0.00%	25.95%	0.00%	0.40%	0.00%
Old Bridge MF	0.00%	9.68%	0.00%	7.09%	6.81%	2.78%	7.96%	8.13%	0.00%	4.05%	2.70%	20.16%	5.86%	0.00%	15.31%
PGIM India MF	8.15%	21.09%	9.34%	7.41%	5.22%	14.72%	2.98%	8.94%	0.00%	2.81%	0.00%	10.17%	1.85%	0.84%	2.84%
PPFAS MF	5.37%	31.67%	0.03%	0.23%	5.60%	2.70%	0.00%	12.72%	0.00%	13.70%	0.00%	3.40%	0.00%	0.00%	3.05%
Quant MF	3.97%	18.80%	2.88%	10.88%	11.00%	3.98%	7.30%	0.35%	1.59%	18.31%	0.04%	10.69%	2.61%	1.04%	2.07%
Quantum MF	9.04%	38.42%	0.63%	4.45%	0.69%	4.49%	0.00%	15.34%	0.10%	3.06%	0.12%	4.40%	3.73%	0.00%	0.45%
Samco MF	6.43%	14.77%	8.92%	5.81%	6.39%	12.34%	5.64%	10.52%	1.52%	2.37%	0.97%	15.96%	1.06%	0.17%	0.42%
SBI MF	8.17%	22.08%	6.09%	7.04%	6.03%	8.49%	3.39%	6.76%	0.41%	8.14%	1.79%	7.58%	2.96%	2.18%	2.25%
Shriram MF	6.96%	13.65%	7.21%	6.66%	1.51%	17.48%	1.85%	6.67%	0.00%	0.00%	0.00%	30.24%	2.87%	0.00%	0.00%
Sundaram MF	7.13%	26.58%	8.16%	4.83%	4.94%	12.07%	4.33%	6.80%	0.26%	5.61%	0.00%	7.97%	3.62%	0.19%	2.13%
Tata MF	4.11%	21.27%	8.39%	6.05%	5.00%	7.35%	3.92%	16.49%	0.43%	6.05%	0.93%	7.16%	2.03%	1.01%	3.13%
Taurus MF	6.57%	23.37%	5.76%	6.37%	5.00%	4.57%	4.75%	16.97%	0.00%	11.10%	0.28%	7.27%	2.53%	1.62%	1.33%
Trust MF	4.57%	23.77%	13.09%	0.26%	5.93%	10.33%	3.05%	10.33%	0.00%	1.28%	1.62%	16.80%	1.48%	0.00%	0.62%
Union MF	5.50%	19.78%	11.51%	4.88%	3.78%	16.82%	4.16%	11.63%	0.07%	4.87%	0.00%	8.17%	1.97%	0.93%	2.60%
UTI MF	9.30%	23.79%	5.90%	5.79%	4.29%	14.05%	2.26%	10.84%	0.27%	3.92%	0.45%	10.13%	2.99%	0.88%	1.80%
WhiteOak Capital MF	4.17%	31.58%	8.72%	3.89%	3.92%	11.29%	2.31%	10.00%	0.03%	4.19%	1.55%	10.58%	3.00%	0.55%	1.23%

Source: ACE MF

Data as on 30th November

Fixed Income Markets

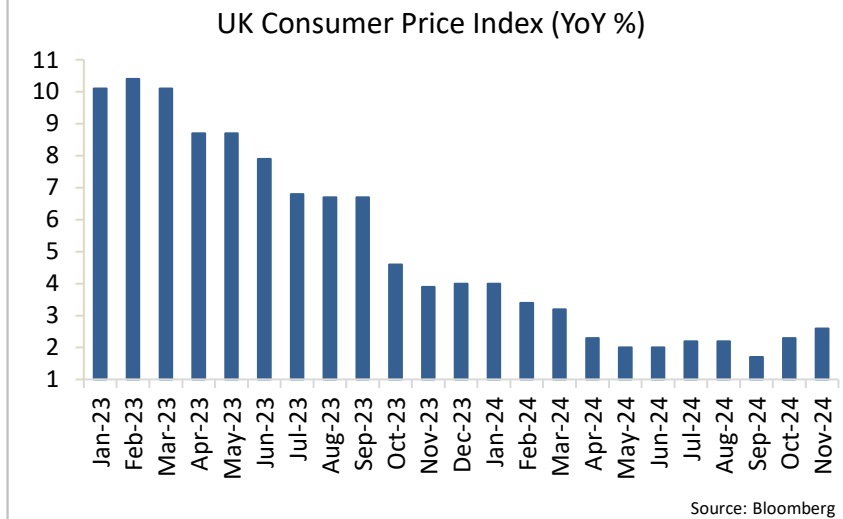
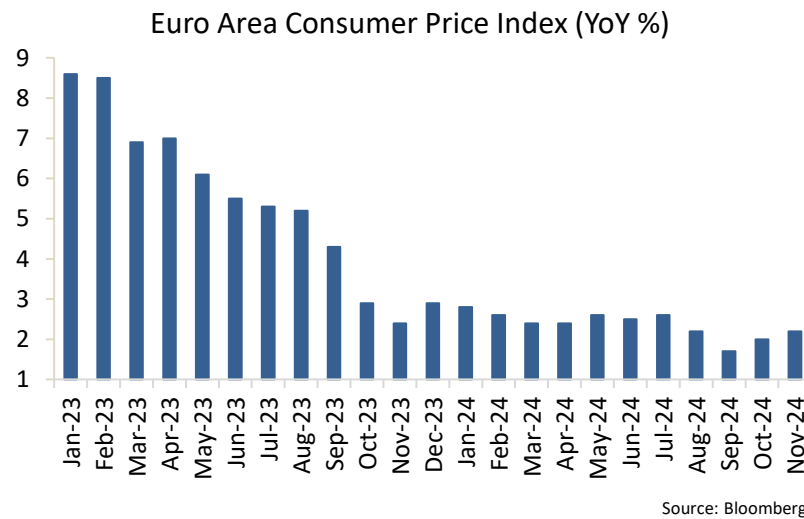
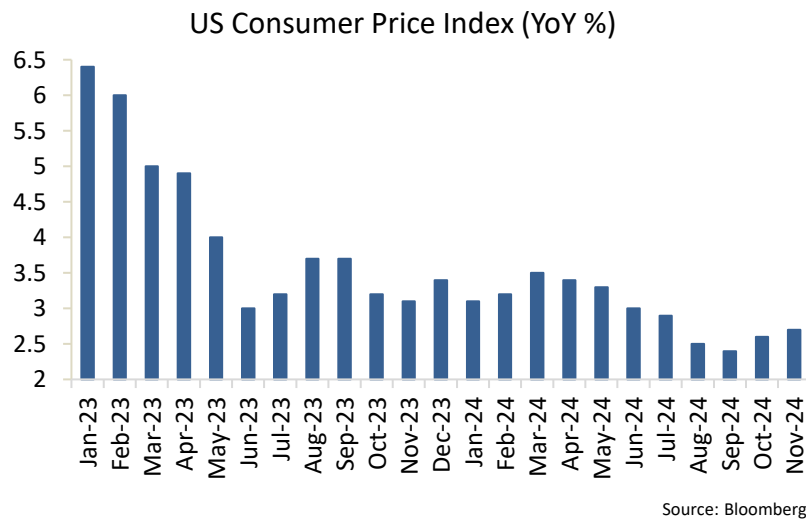
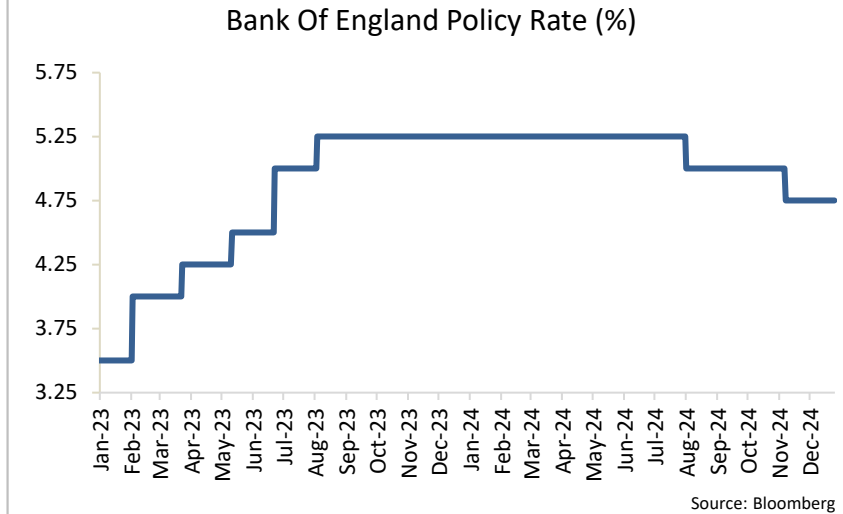
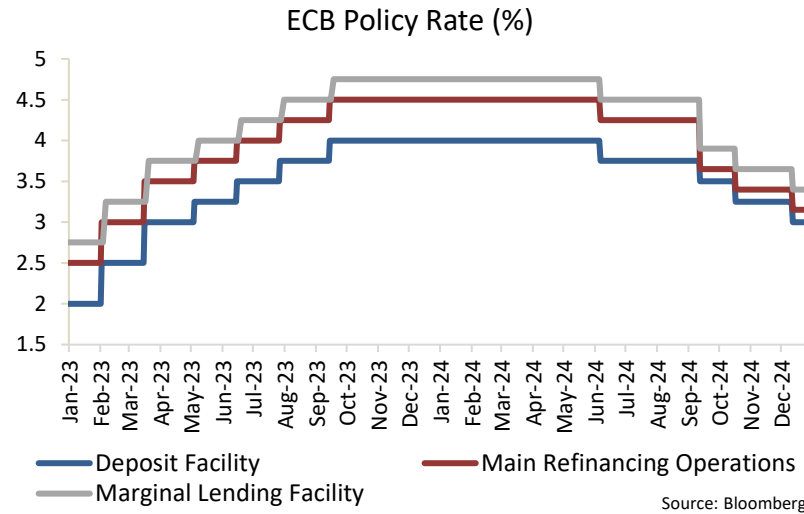
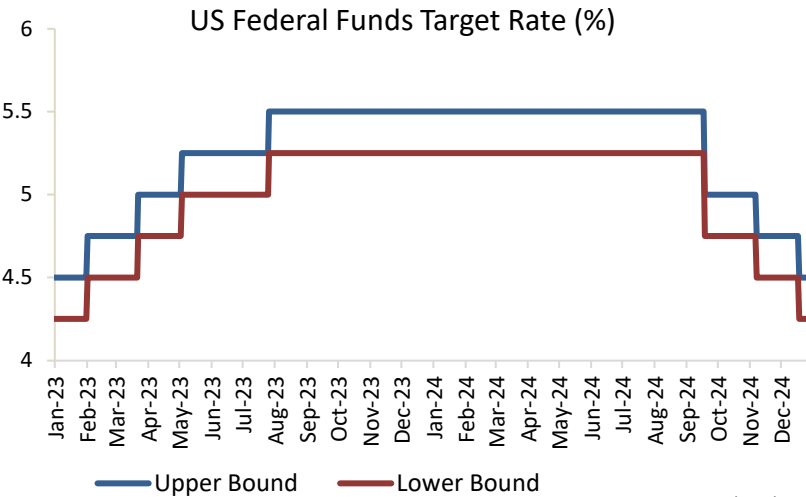
Year 2024

Marked by Easing Monetary Policies Globally...

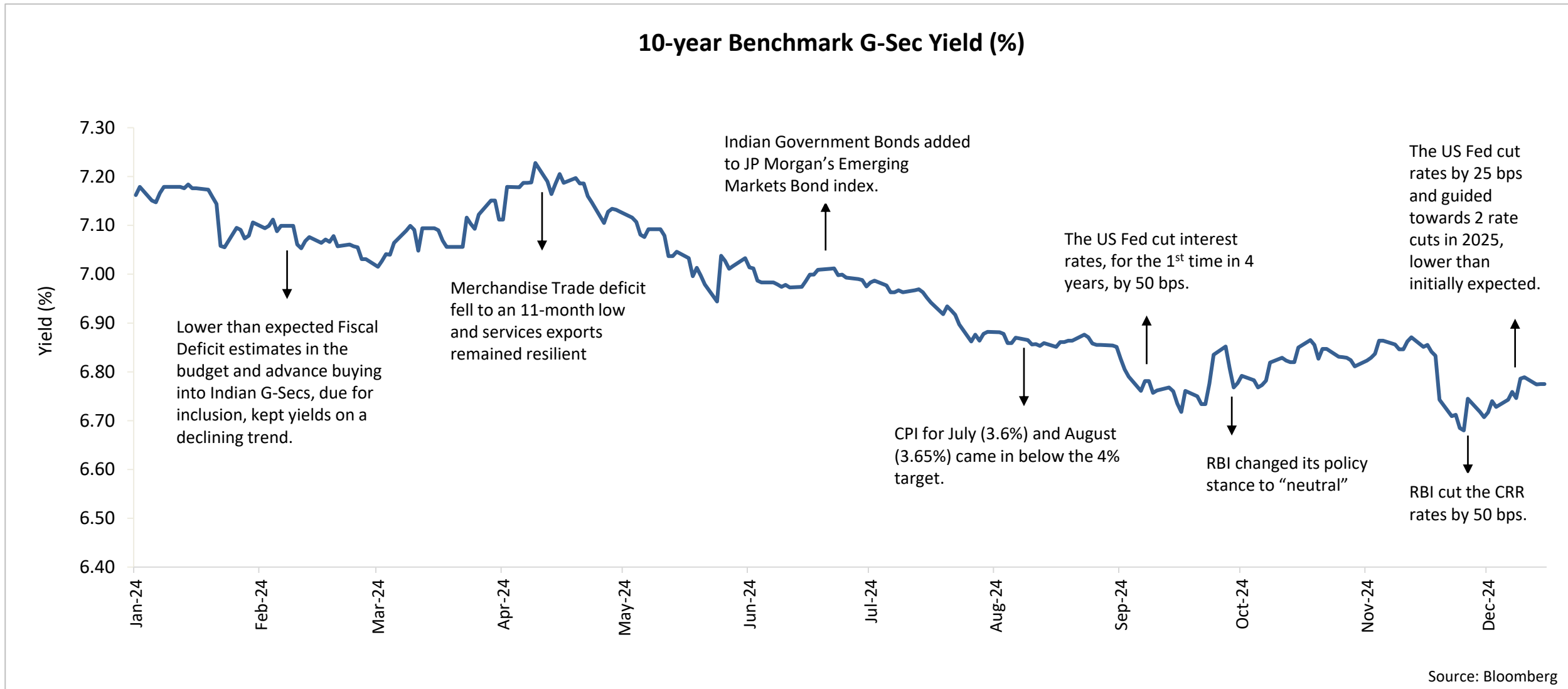
Fixed Income Outlook

- The liquidity fell to deficit at the end of the year owing to advance tax and GST payouts and RBI's possible forex intervention to manage the depreciating INR. However, going forward, it is expected to improve as the effect of the CRR cuts fully flows into the system, and government spending rises in January 2025. Also, market participants expect the RBI to inject further durable liquidity in the system in due course in consonance with its stance on Neutral liquidity.
- While the CPI inflation mostly remained above the RBI's target of 4% YoY, the food inflation is expected to cool down further as weather related disruptions may subside during the winter months, causing headline inflation to gradually trend downwards. Crude oil prices remaining range bound and deceleration in consumption demand, could further weigh down upon inflation in the near to medium term. A new CPI Basket is expected in CY2025, which may have implications on inflation calculations going forward.
- With India's Q2 FY25 GDP coming in at below expectations with a growth rate of 5.4% YoY, policy rate cut and further liquidity easing expectations in the market are rising in the near term. **But downside risks due to issues on the external front, in terms of rising trade deficit and weakening currency, remain a key challenge for the RBI to negotiate with in the medium term and can have implication on the timing of the policy rate cuts.**
- Going forward, the RBI's decision on interest rate cuts will be influenced by incoming high frequency data, income data on the external front, along with the inflation trajectory, as it tries to balance growth-inflation dynamics. If the growth data remains weak and inflation trajectory moderates, the RBI MPC may start to cut policy rates from February 2025 onwards. Market participants are expecting the incoming policy rate cut cycle to be shallow, with a 50-75 bps cut seen in CY25. However, if growth concerns persist, rate cuts may be to the tune of 100 bps.
- In the US, the Federal Reserve (Fed) is guiding to slowing the pace of policy rate cuts in the light of improving growth and employment data. While inflation trajectory in the US remains on a downward path and manufacturing continues to remain weak, the policy measures announced by the incoming Trump administration would be a key factor that would drive the policy rates there. The European Central Bank (ECB) continued to pursue the path of policy rate cuts and is likely to remain dovish to lift growth conditions in the EU.
- Globally, while the disinflationary trends are pushing major central banks across the world to take a dovish stance, the central banks' monetary policy actions may depend on each country's macroeconomic factors and response to any major Geo-Political event, as well as policies pursued by the US.
- Domestically, tactical opportunity has again emerged for duration strategy due to the recent uptick in yields. With growth decelerating, inflation moderating, and expectations of policy rate cuts on the rise, only the timing of the same seems to have been pushed forward.
- Government is likely to meet or improve on its fiscal deficit target on the back of stable tax collection and lower expenditure. With the fiscal deficit expected to remain firmly under control, the supply-demand dynamics are likely to support lower yields at the longer end.
- Additionally, improving liquidity conditions are likely to compress corporate bond yields at the shorter end in the medium term.
- With this backdrop, the inverted corporate bond yield curve may normalize, making the case for investment into corporate bonds at the 1-4-years segment of the curve.
- Hence, investors can look at Corporate Bond Funds for a horizon of 15 months and above.
- For a horizon of 24 months and above, investors can look at Dynamic Bond Funds.
- For a horizon of 3 months and above, investors can consider Arbitrage Funds or Money Market 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.

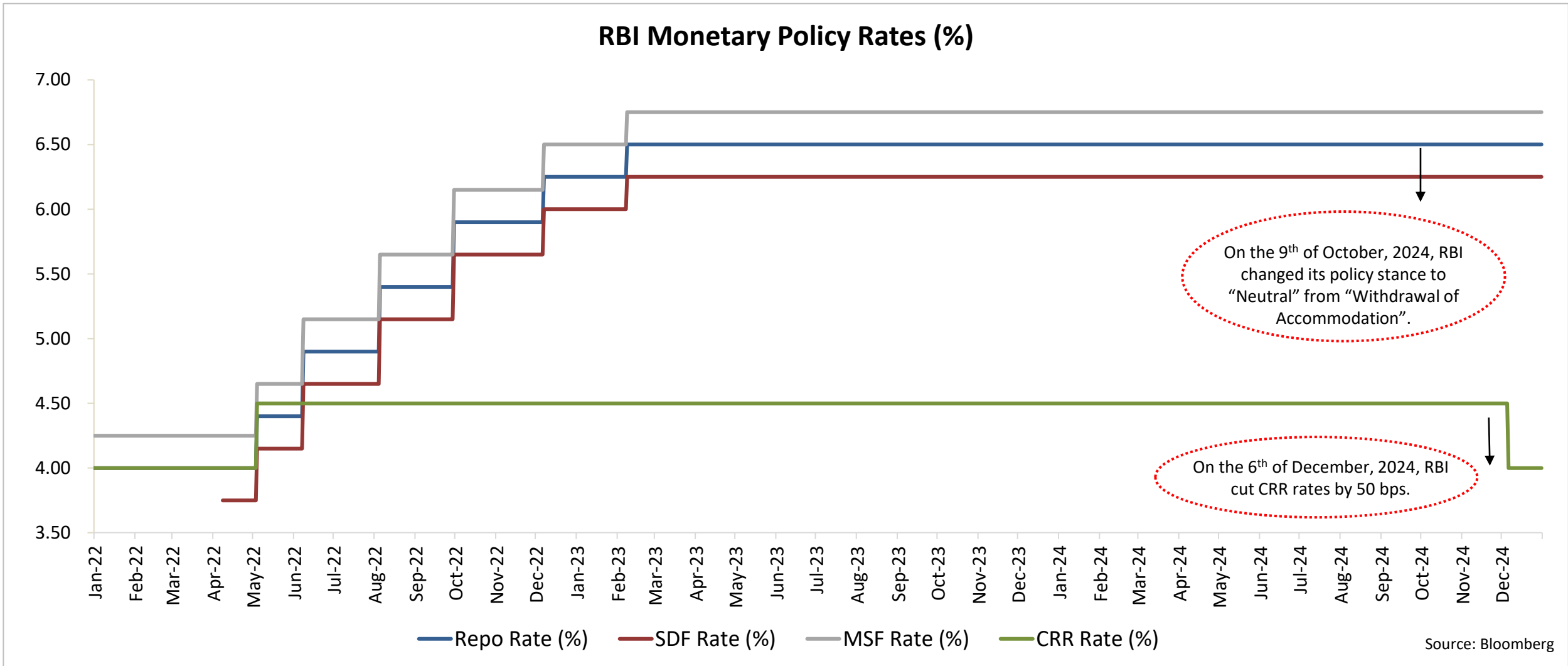
Declining inflation drove policy rate cuts across global economies



Indian G-sec yields declined steadily during the year

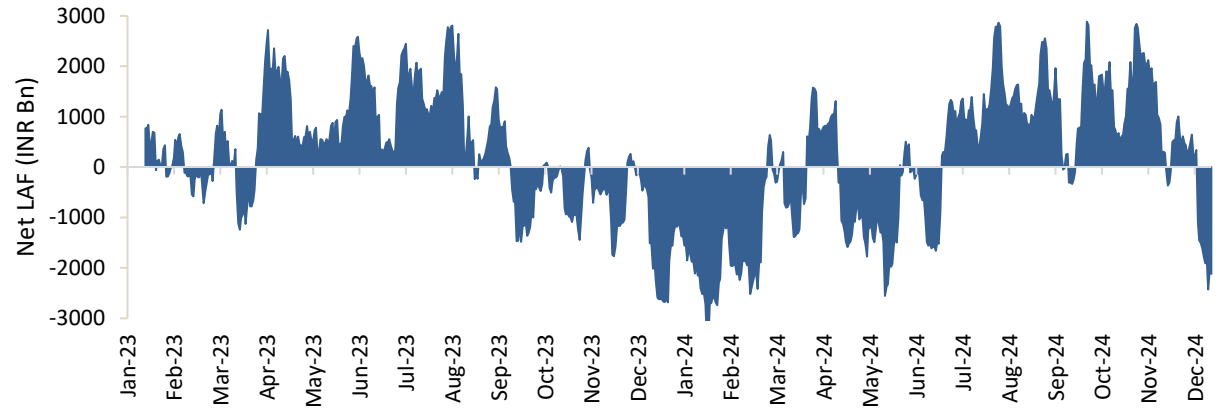


While RBI did not cut policy rates, it started to turn dovish towards the end of the year

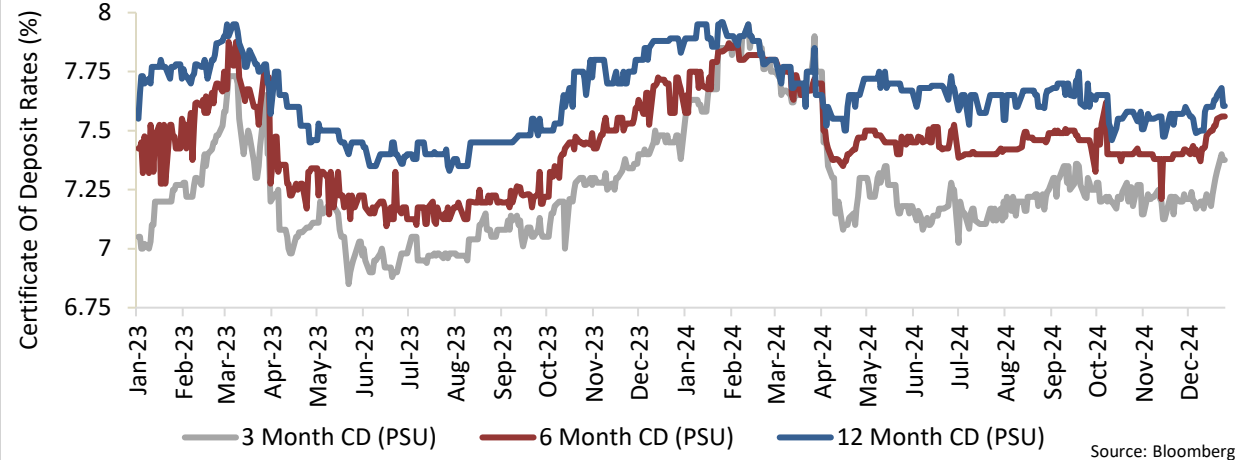


Liquidity remained volatile throughout the year

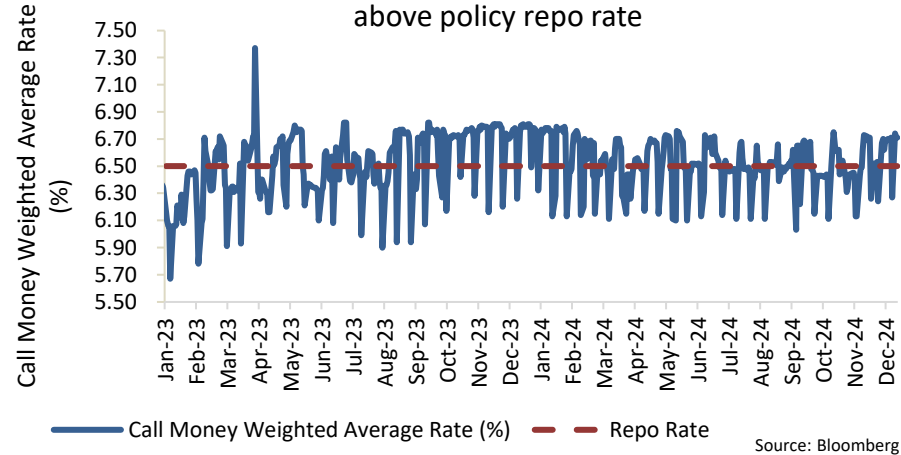
Liquidity remained volatile during the year, but it tightened by the end of the year on possible forex intervention by RBI



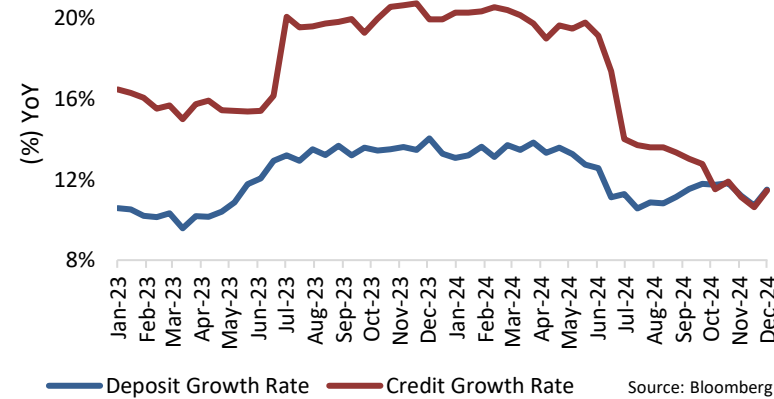
Volatile liquidity conditions kept the CD rates fluctuating



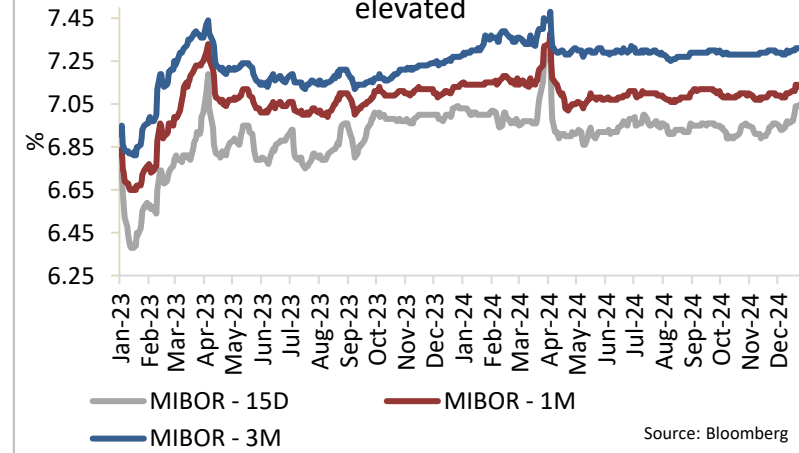
RBI consistently managed to keep call money rates above policy repo rate



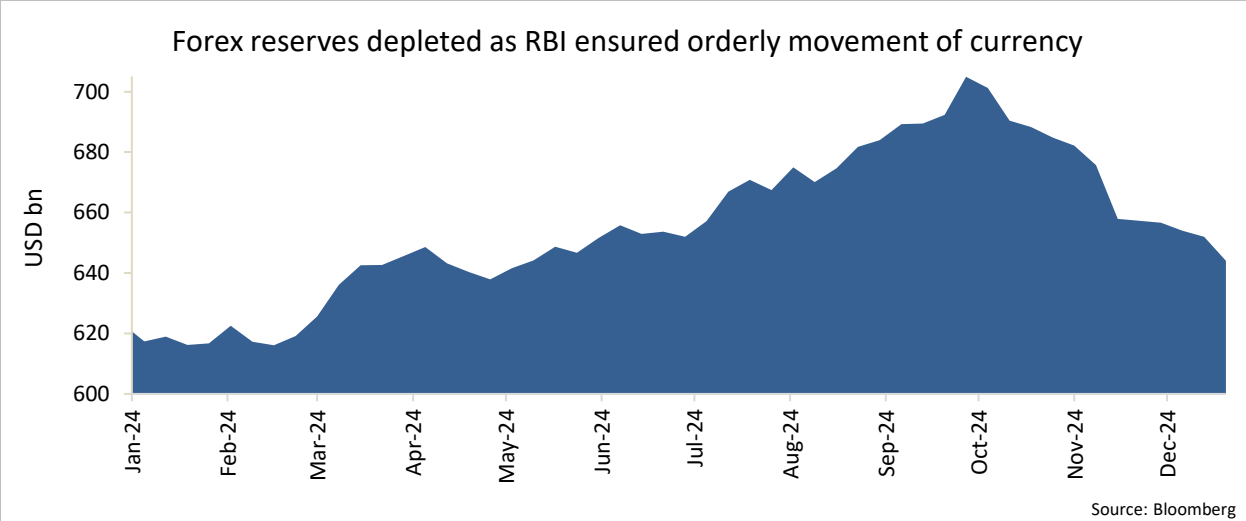
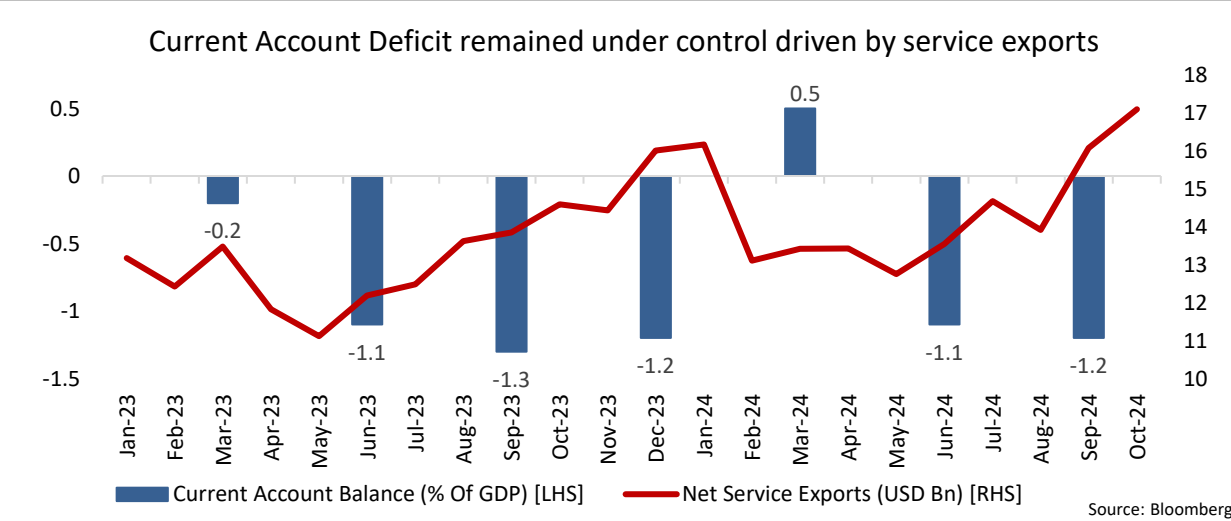
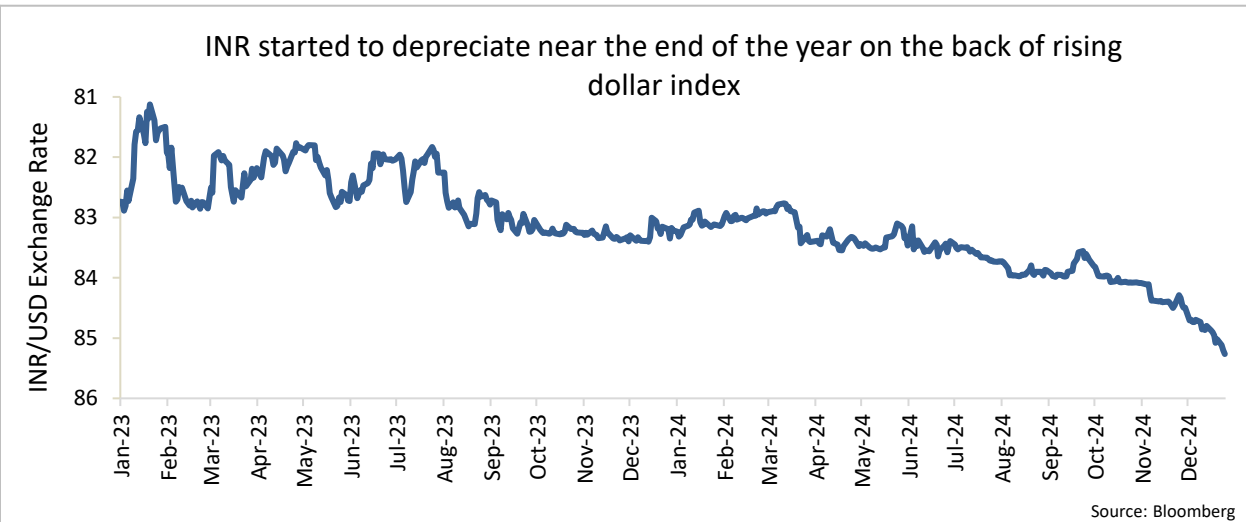
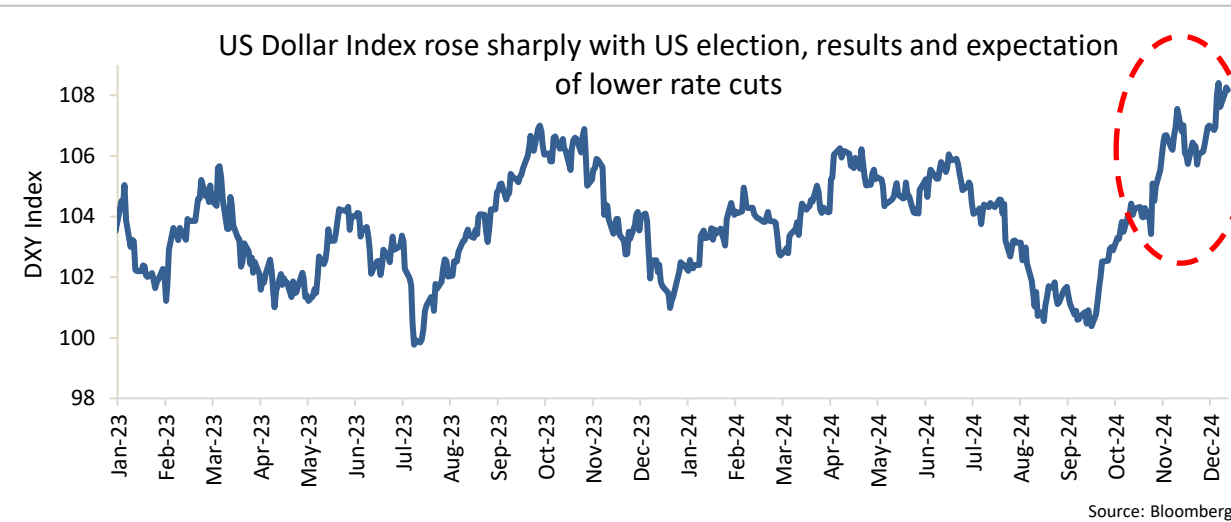
Bank deposit growth rate consistently remained lower than the credit growth rate



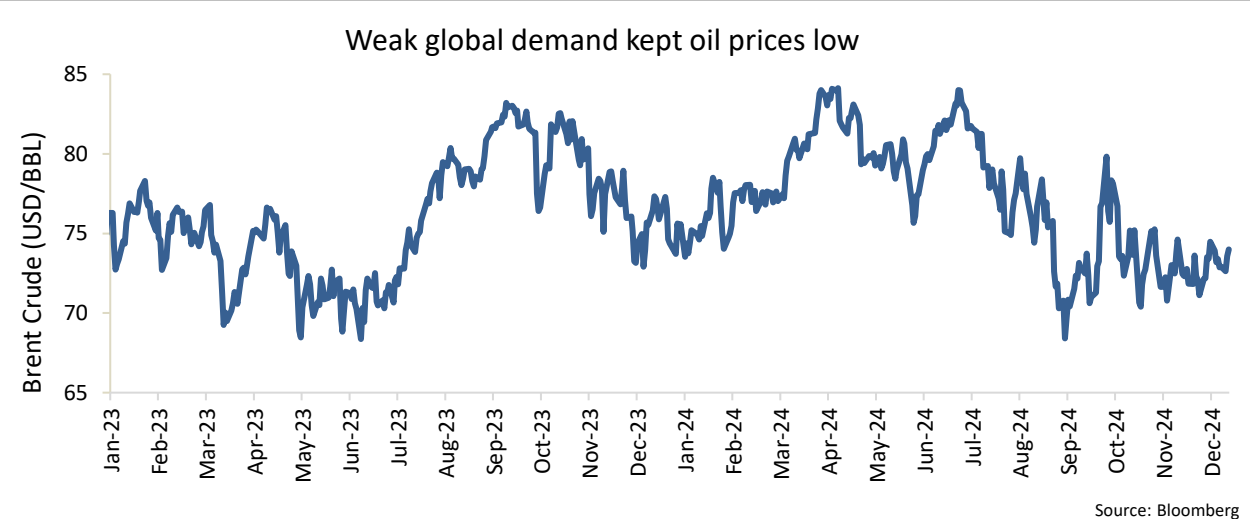
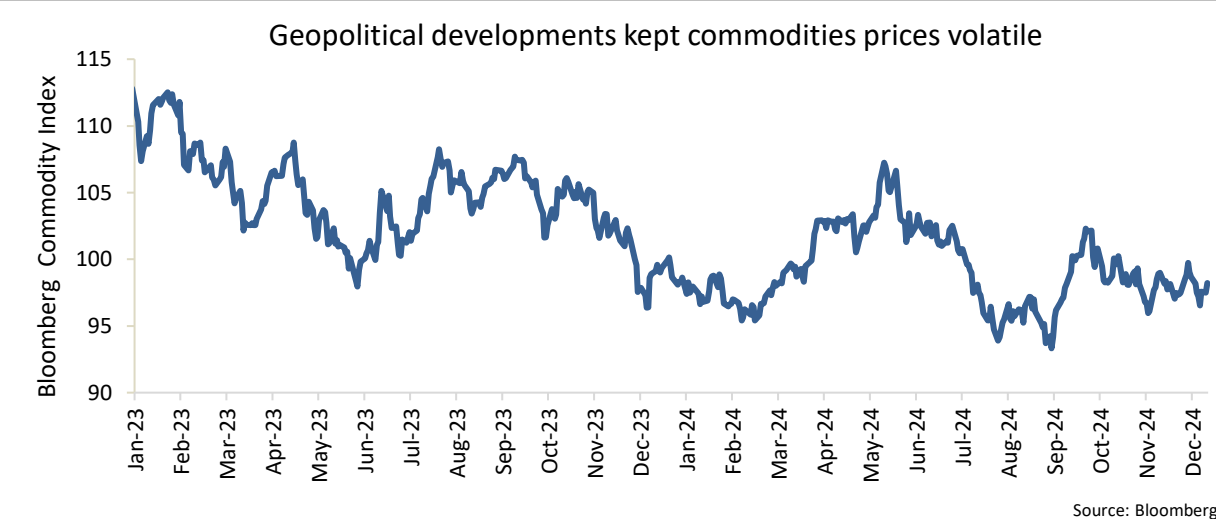
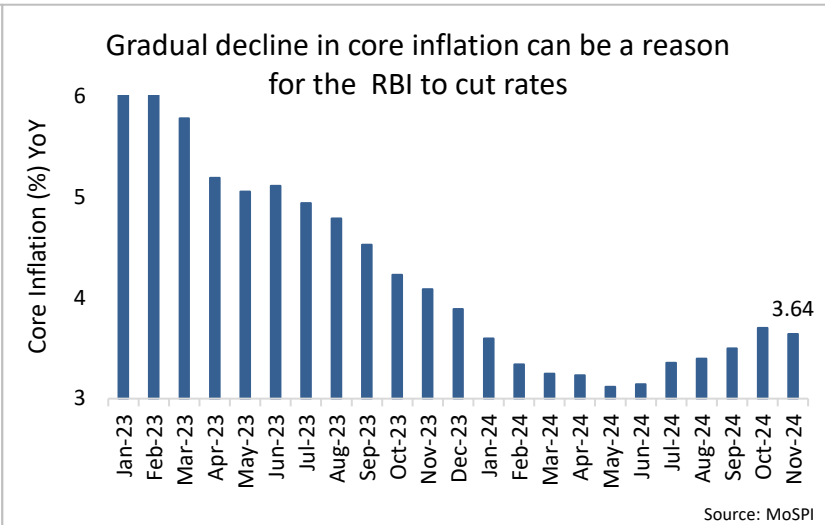
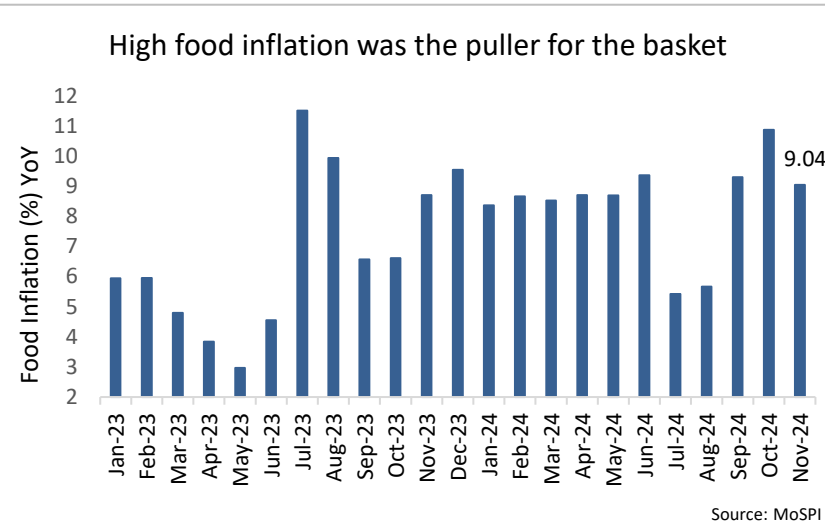
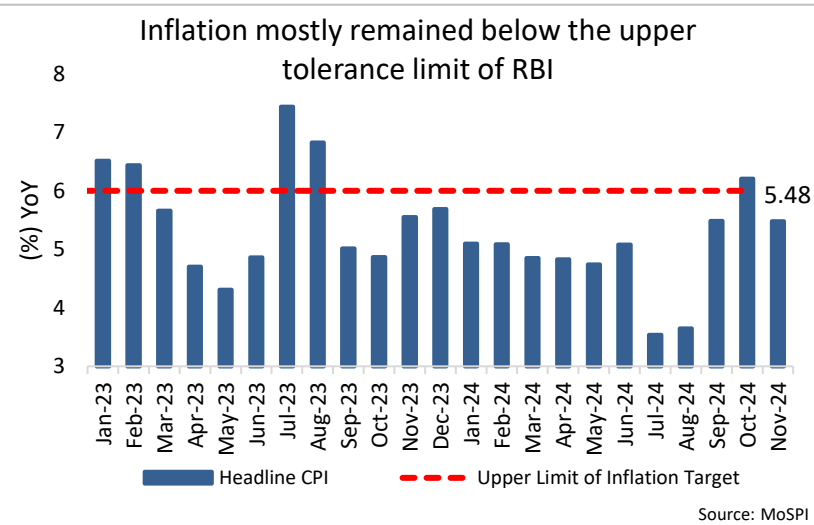
High demand for money kept the rates elevated



With volatility in dollar index, the INR depreciated... while Current Account Deficit remained under check, led by better services exports

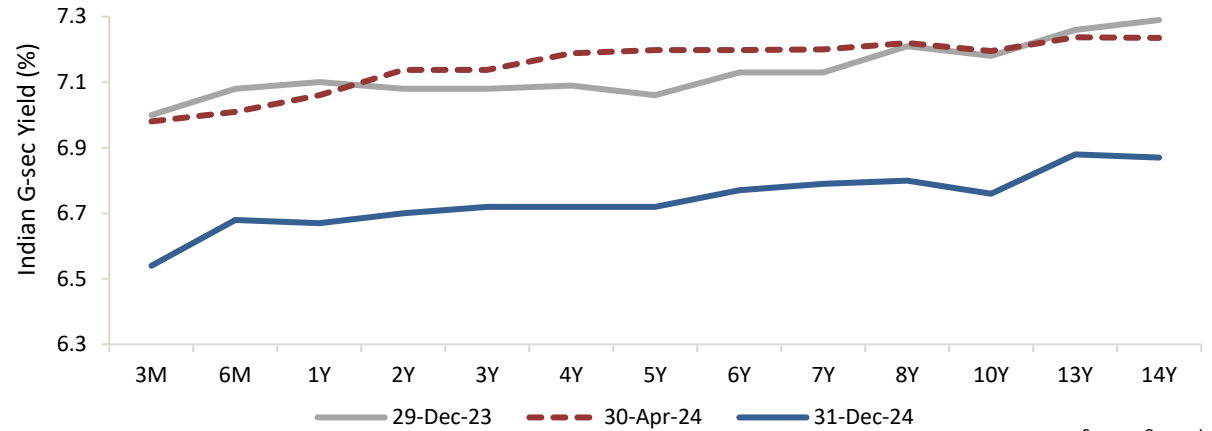


Higher food prices kept the headline inflation sticky, while core weakened... path to 4% CPI to remain tricky

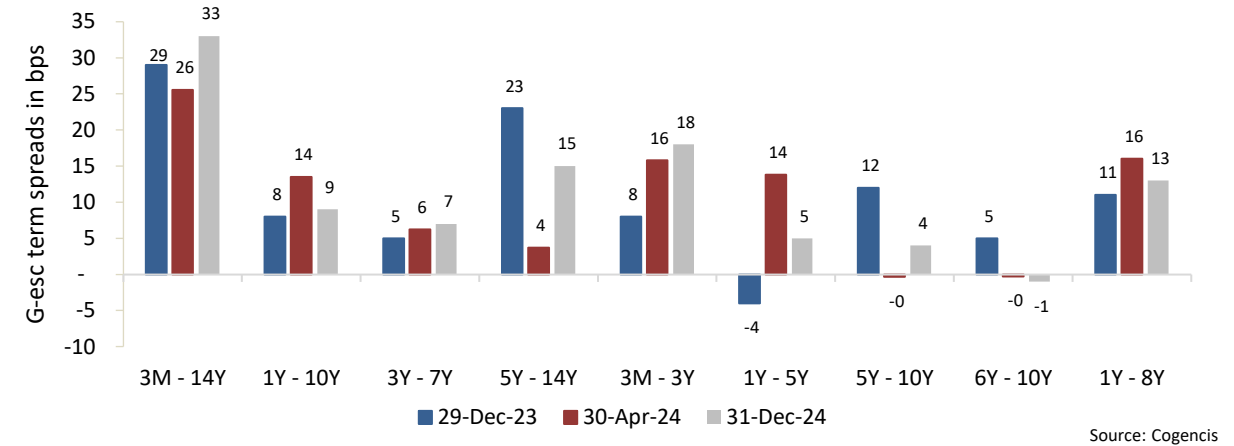


G-Sec yields came off across the curve during the year... term structure remained largely flat

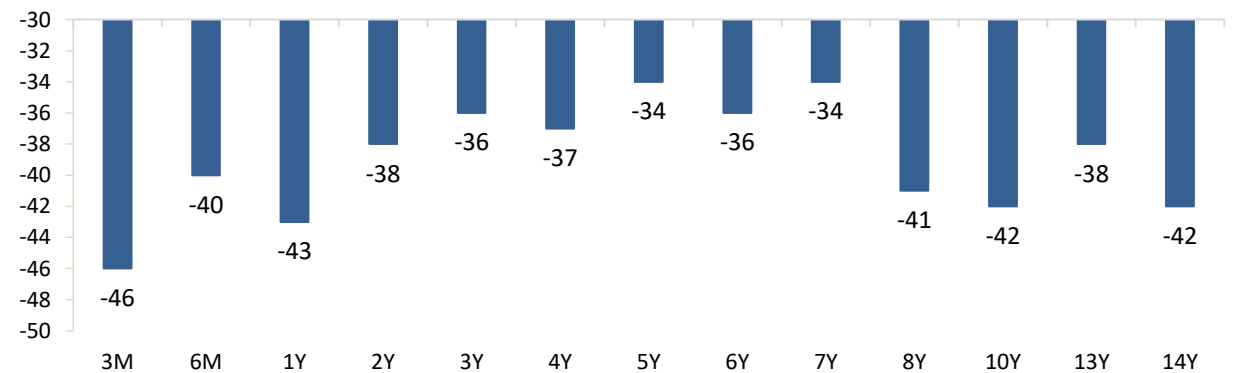
The G-Sec yield curve shifted parallelly downwards



G-sec term spreads were mixed, but mostly widened compared to last year

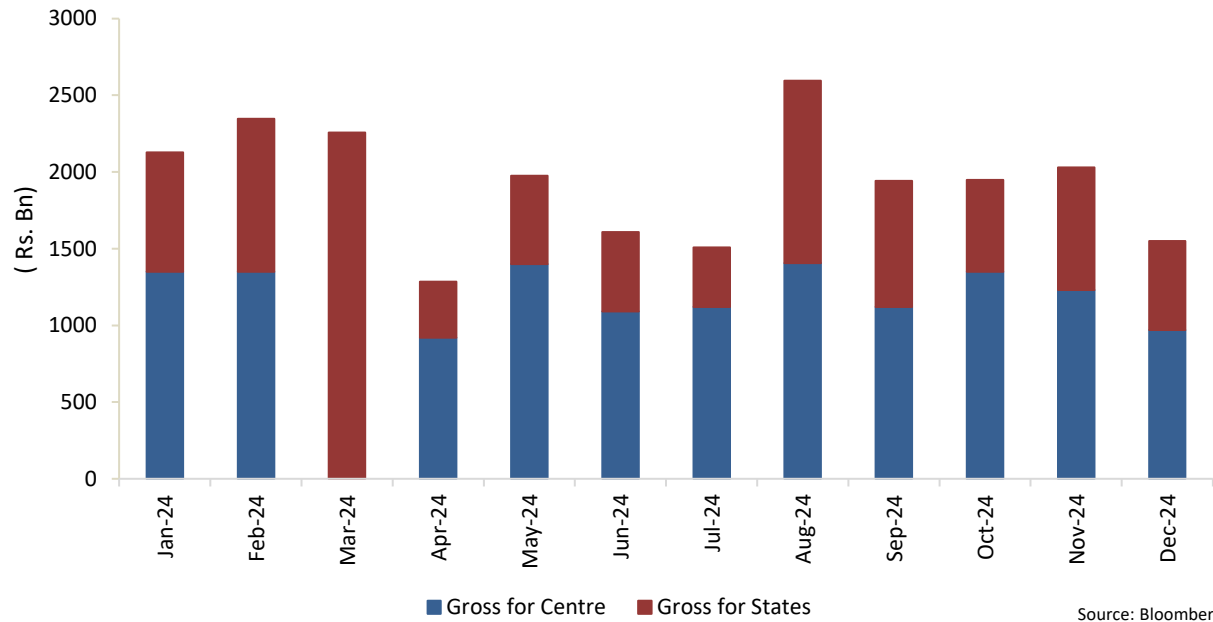


G-sec yields fell across tenors, with larger falls seen at the short and long end

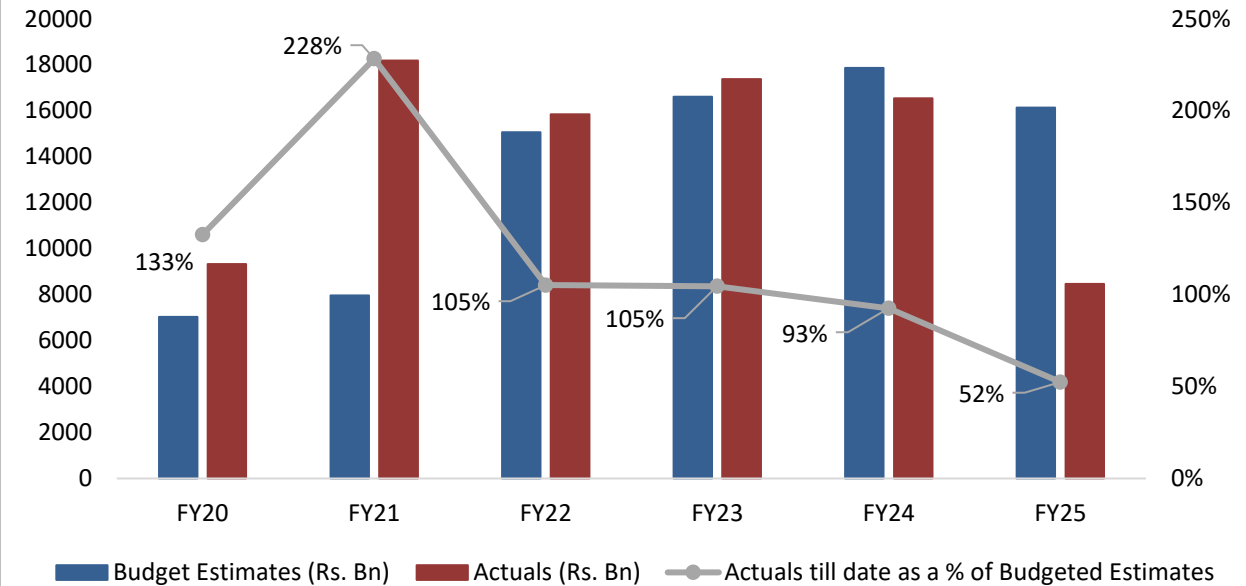


Centre's Fiscal Prudence ensured the supply-demand dynamics remained favorable for G-Sec Market

Gross Borrowing for the Centre and States stood above Rs 23 trillion

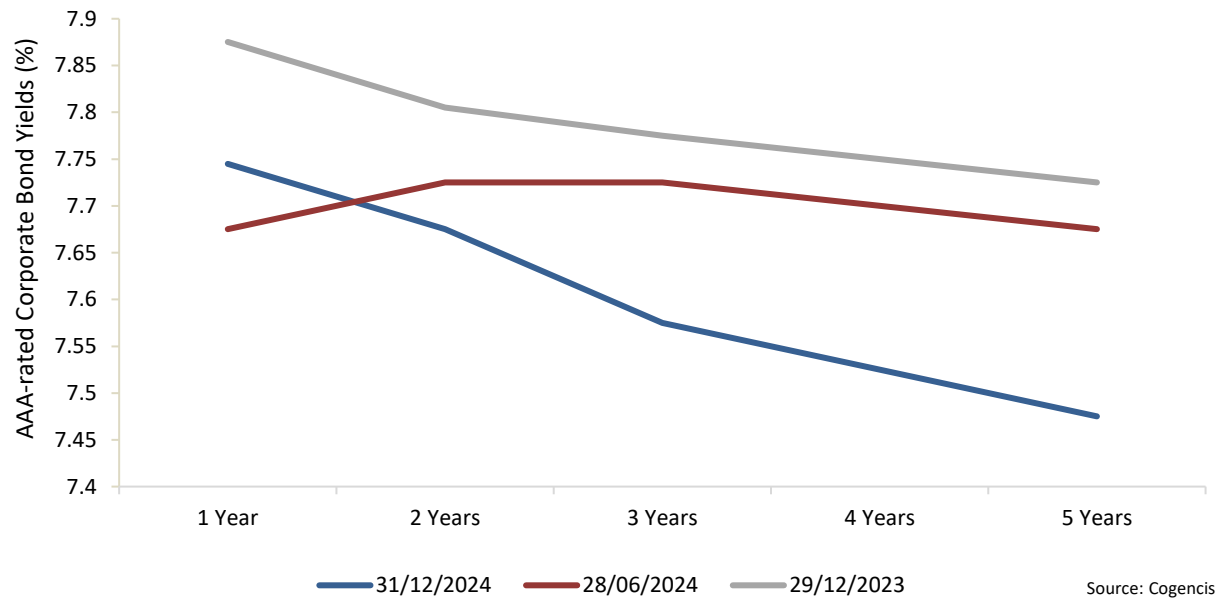


Actual Fiscal Deficit as a % of Budgeted

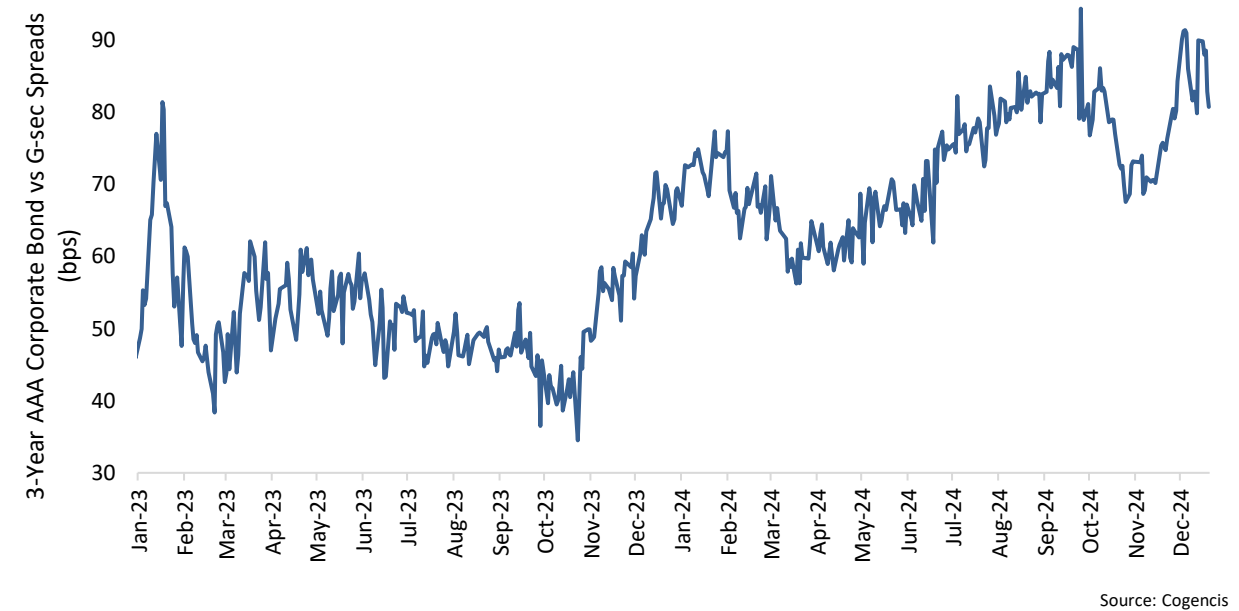


Tight liquidity ensured that corporate yield spreads remained elevated vs G-sec... corporate bond yield curve inverted

Corporate Bond Yields curve remained inverted due to intermittent tightness of system liquidity



For most of the year the spreads of corporate yields for short tenure remained attractively high



Expectations from 2025

Monetary policy actions to be driven by MPC's priority on growth vs currency as inflation is expected to remain under check (1/2)

Monetary Policy

- Policy rates are expected to see cuts in H1 CY25.
- If growth concerns rise, rate cuts may be to the tune of 100 bps vs earlier expectations of 50 bps in current cycle.

Inflation

- Inflation is likely to trend lower.
- Weather related disruptions could be important to track the food inflation.
- New CPI Basket is expected which may have implications on inflation calculations going forward.

Liquidity

- RBI's forex management is likely to determine the quantum of system liquidity deficit.
- RBI is expected to infuse further liquidity in the system through OMOs.

Yields

- G-sec yields at the shorter end are likely to come off on the back of expected policy rate cuts, longer end yields may see lower dips i.e. yield curve could steepen further.

Monetary policy actions to be driven by MPC's priority on growth vs currency as inflation is expected to remain under check (2/2)

Corporate Bond Spreads:-

- Corporate bond spreads could remain wild vs G-secs due to tighter system liquidity.
- As system liquidity improves there could be opportunities to make capital gains in short term corporate bond.

Fiscal Deficit

- Government is likely to meet or improve on its target on the back of stable tax collection and lower expenditure. Fiscal Deficit for FY26 might not be lower vs FY25 levels due to growth concerns.

Market borrowings

- Market borrowings can be higher than the last year as fiscal sops by the government can lead to further jumps.

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