HDFC Bank – Research Presentation

July 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 – July 2024

- The global economic growth projections have remained strong on the back of improved fundamentals, ample liquidity due to fiscal support by the governments, focus on improving manufacturing and infrastructure in key economies to improve their self-reliance in key sectors, away from China. Though, the growth is likely to be lower than CY23/FY24 in many cases.
- Some creeping weakness is now being witnessed in the data points coming out of the US. Rising vacancies, troughing out of manufacturing PMI and deceleration in private consumption expenditure suggest weakening growth impulses. Market participants expect the US Fed to cut policy rates more than once in CY24. The US Fed has also cut down on its quantitative tightening program from USD 95 bn a month to USD 60 bn a month. The weakness in high frequency data from the US remains a monitorable. Going forward, **a very important element that all risk assets will have to pay attention to is how the focus of the US Government moves towards managing is fiscal dynamics.**
- Eurozone is showing early signs of stability due to easing of financial conditions, the continuation of which would be important. The ECB has started to cut interest rates as the inflationary pressure in the EU abates. Bank of England too is hinting at policy rate cuts to drive economic activity higher.
- Data points from China continue to remain steady, except from its real estate sector. 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. However, the consumer confidence data still remains a sore point there.
- The base commodity prices have seen some cooling off post the recent rally. No incremental positive surprise in demand conditions suggest that a large part of the existing positivity is priced in. 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 remained above USD 80/bbl on the back of supply pressure from OPEC+ and stable demand. The trouble in the Red Sea has led to the rise in logistics costs for businesses across the world and can have a negative impact on margins of the consuming companies and exporters.
- Expectation of delay in policy rate cuts by the US Fed has led to uptick in the US dollar index, impacting foreign flows into the equity markets of 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, an improved Government balance sheet all point towards a very strong momentum going forward.
- Many of the key indicators like the strength in the real estate and construction activities bode well for rural economy, which has yet to fire completely. While the Monsoon has been below normal in June, its likely to be normal for the remainder of FY25 as per the Indian Met Dept. This can lead the rural consumption to further spring a positive surprise.
- Urban demand trends have recently seen some mixed impulses where the premiumisation trend continues. Auto sales data has started to decelerate, possibly on high base. Other indicators like personal loan growth, high hotel occupancy rates 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 corporate balance sheet 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 creation. **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.**
- While the liquidity conditions in India have been tight, due to the focus of the RBI on withdrawal of accommodation, 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, post the elections; led by stable earnings performance, expectations of policy continuity, growth opportunities in many sectors and strong Domestic investor sentiments. 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 Valuations from Marketcap to GDP perspective has reached an all time high.
- **The Q1FY25 results could determine the near-term winners and losers in the market. Weakness in the Revenue growth 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.**
- The Union Budget, that is likely to be delivered in the last week of July is likely to showcase the Government's policy direction and could also drive the market performance. While, 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 remaining 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

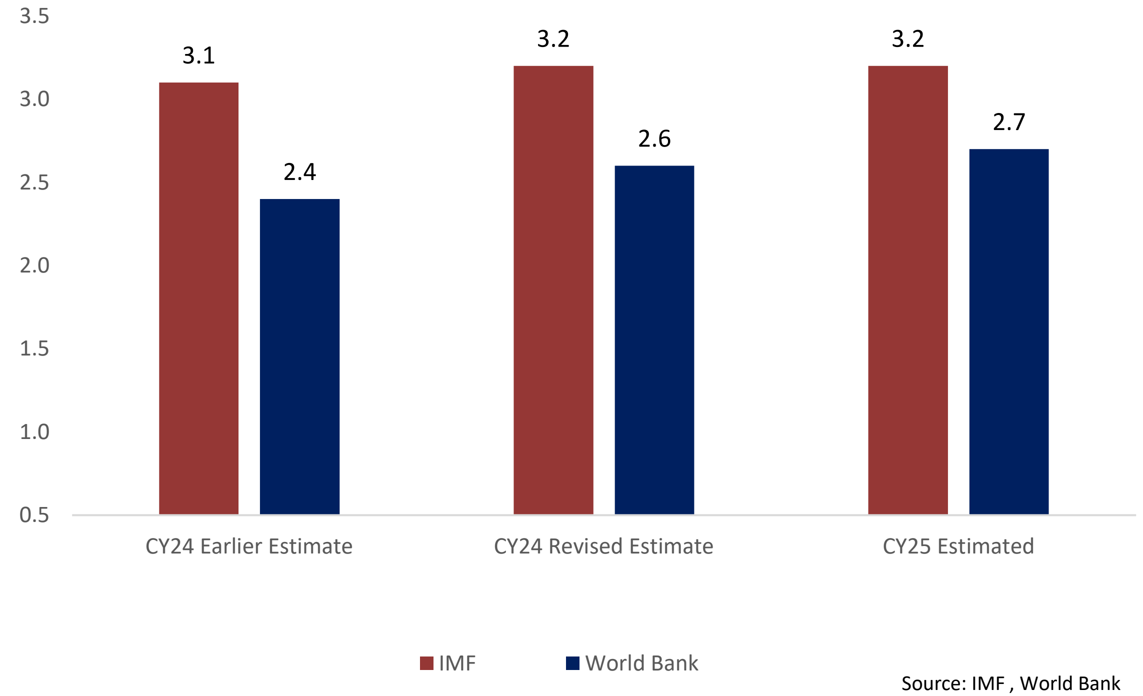
- Accrual opportunities at the 2-4-years segment of the curve remains attractive for incremental investment, from risk-reward perspective until fresh triggers appear to suggest further decline in yields at the longer end.
- As corporate bonds are available at reasonable spreads of similar tenor G-Secs, 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 upgraded for CY24… though, moderating vs CY23

Global Growth Projections of Multilateral agencies

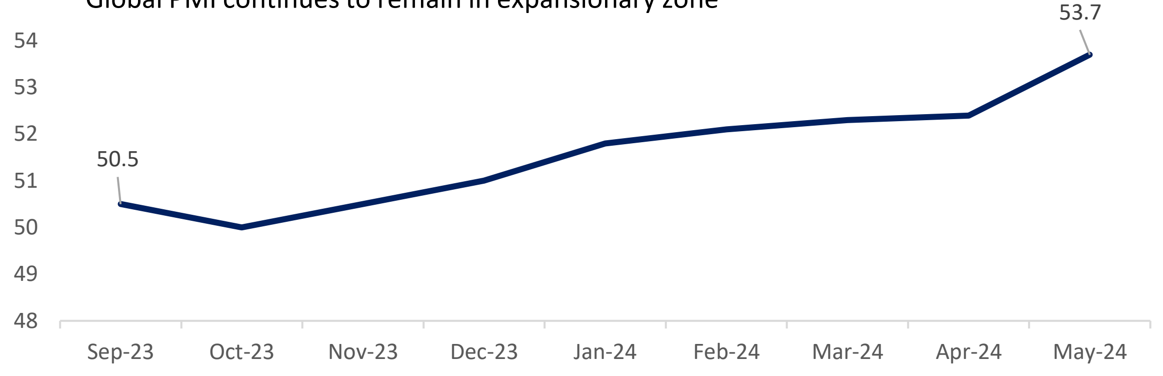
The IMF and World Bank's outlook highlights the robustness of the global economic landscape



Source: IMF , World Bank

JPMorgan Global Composite PMI

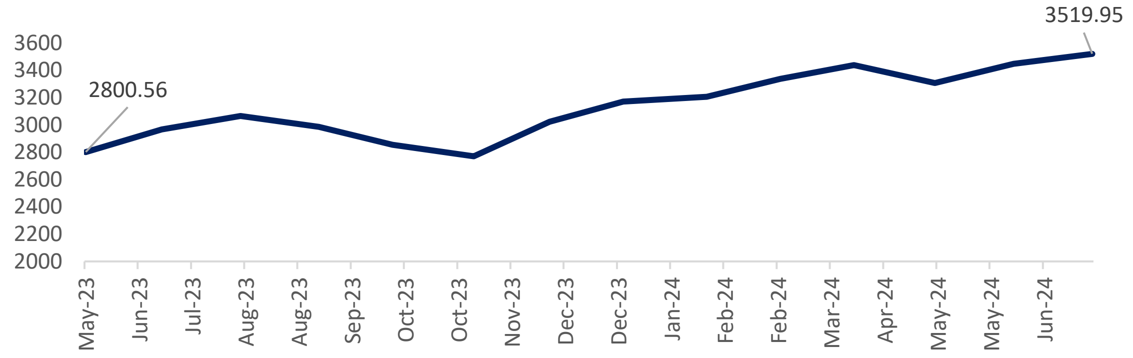
Global PMI continues to remain in expansionary zone



Source: Bloomberg

MSCI World Index

Strong growth impulses have driven global equity market higher

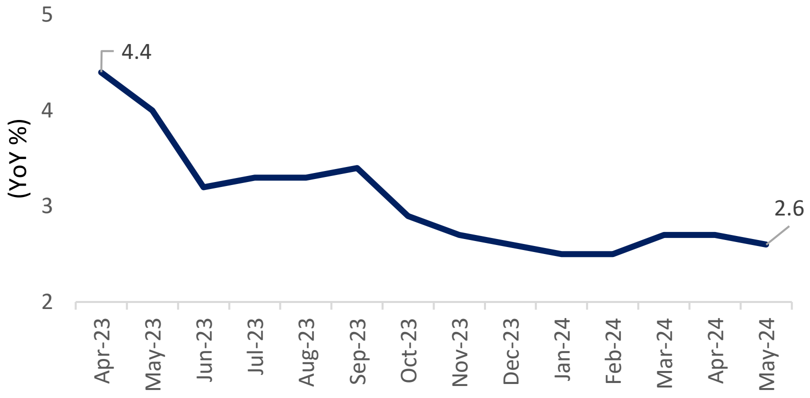


Source: Bloomberg

US economy – Early weakness in data seen… can lead to policy rate cuts in CY24

US Personal Consumption Expenditure

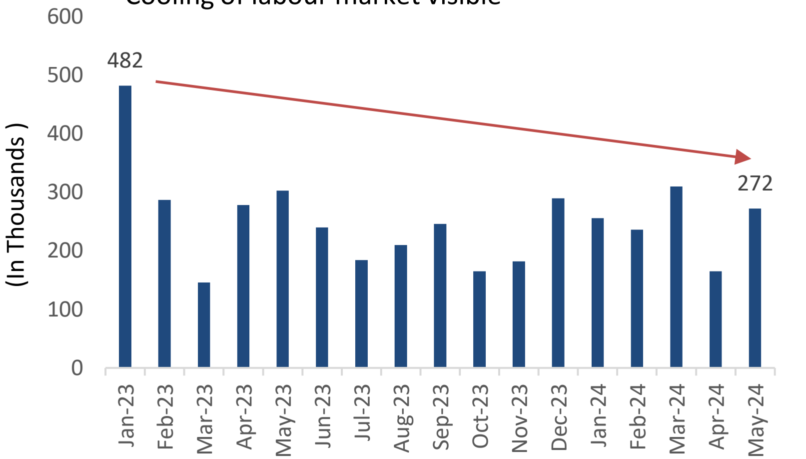
Personal consumption in US continues to decelerate



Source: Bloomberg

US Employees on Nonfarm Payrolls

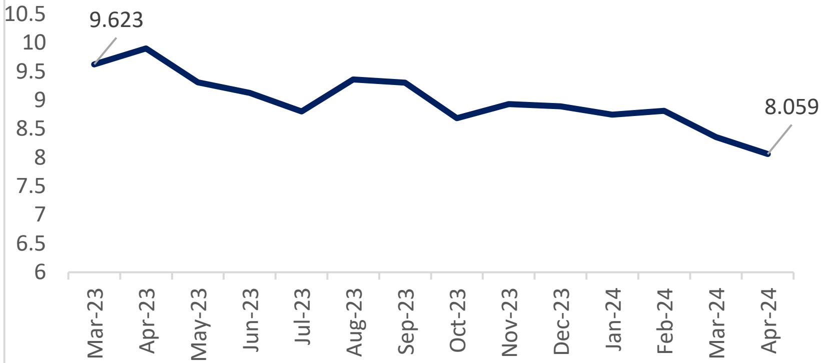
Cooling of labour market visible



Source: Bloomberg

US Job openings and Labor Turnover survey (In mns)

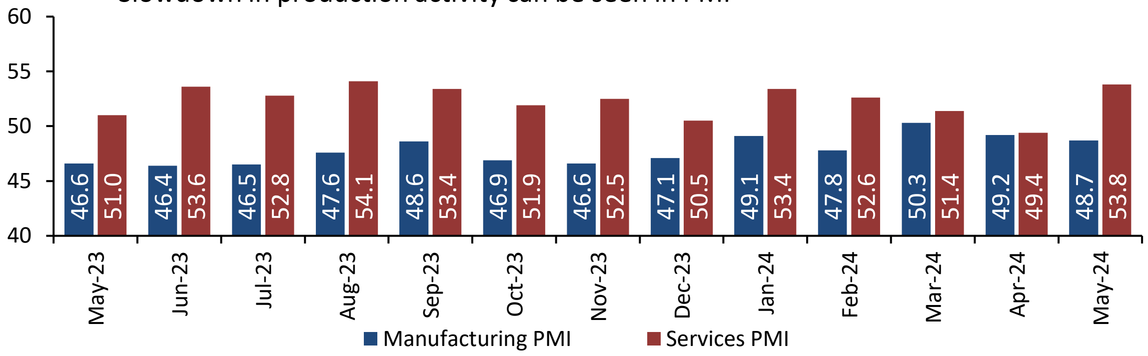
Weakness rises



Source: Bloomberg

US Manufacturing & Services PMI

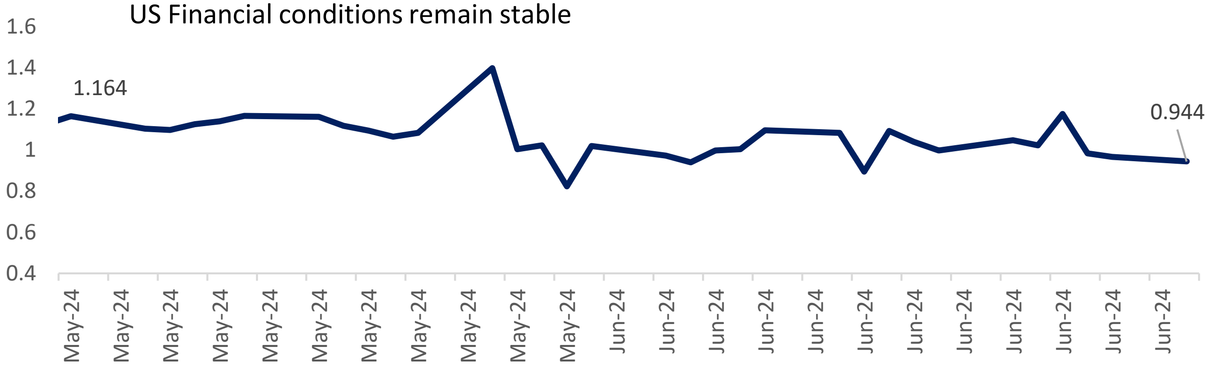
Slowdown in production activity can be seen in PMI



Source: Bloomberg

Bloomberg US Financial Conditions Index

US Financial conditions remain stable

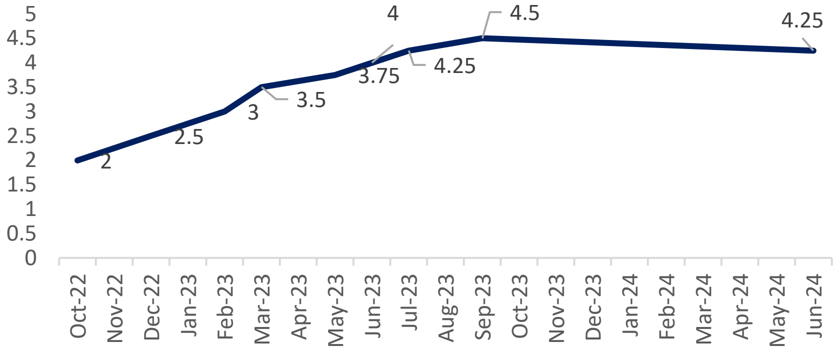


Source: Bloomberg

Eurozone – ECB cut rates to pull up growth… as inflation dips

ECB Main Refinancing Rate (%)

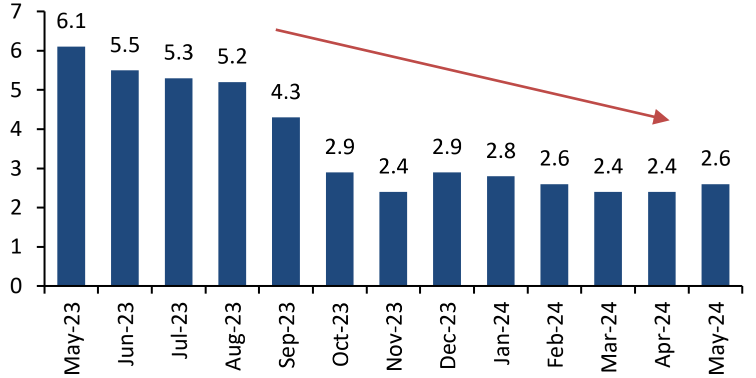
Post a spate of rate hikes, the ECB has finally started with rate cuts



Source: Bloomberg

Eurozone CPI YoY (%)

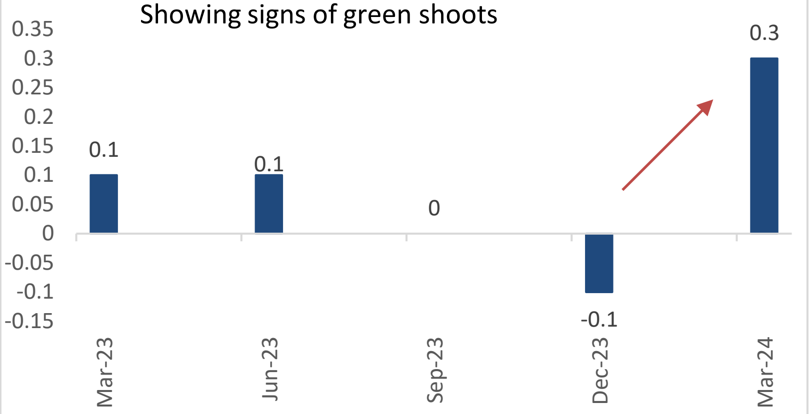
Eurozone CPI (YoY %) continues to dip



Source: Bloomberg

Eurozone Quarterly GDP (% YoY)

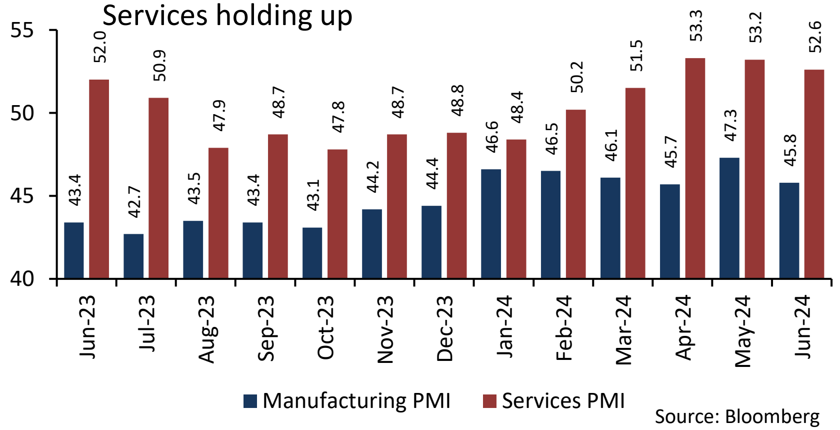
Showing signs of green shoots



Source: Bloomberg

S&P Global Eurozone PMI

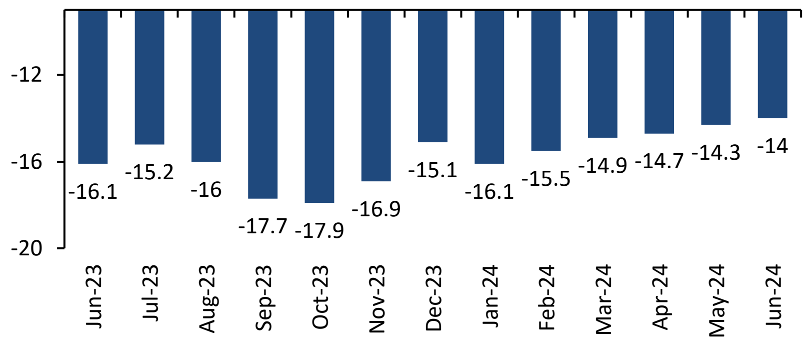
Manufacturing on a declining trajectory, however Services holding up



Source: Bloomberg

Eurozone Consumer Confidence Indicator

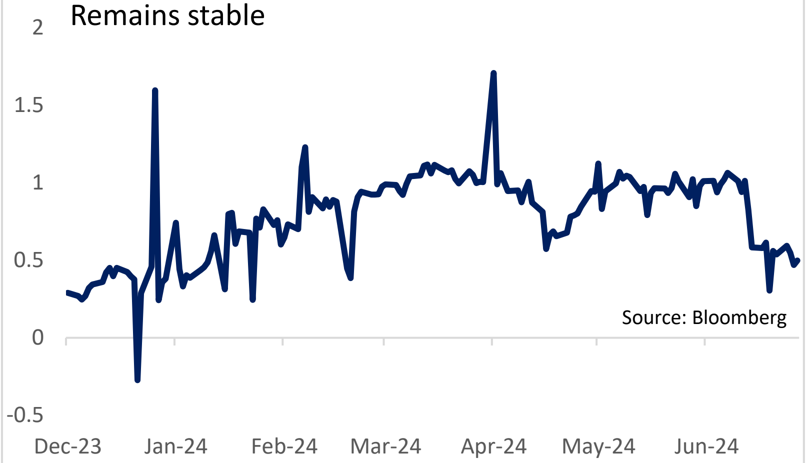
In the negative territory, but improving



Source: Bloomberg

Euro area Financial Conditions Index

Remains stable

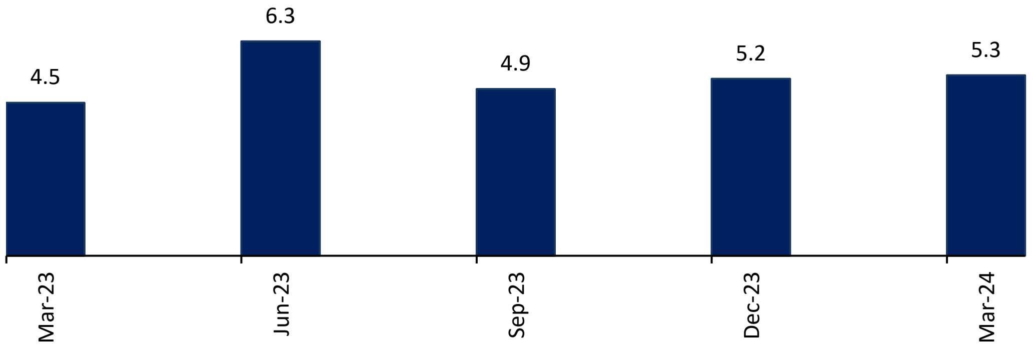


Source: Bloomberg

China: Improvement continues..

China Quarterly GDP (% YoY)

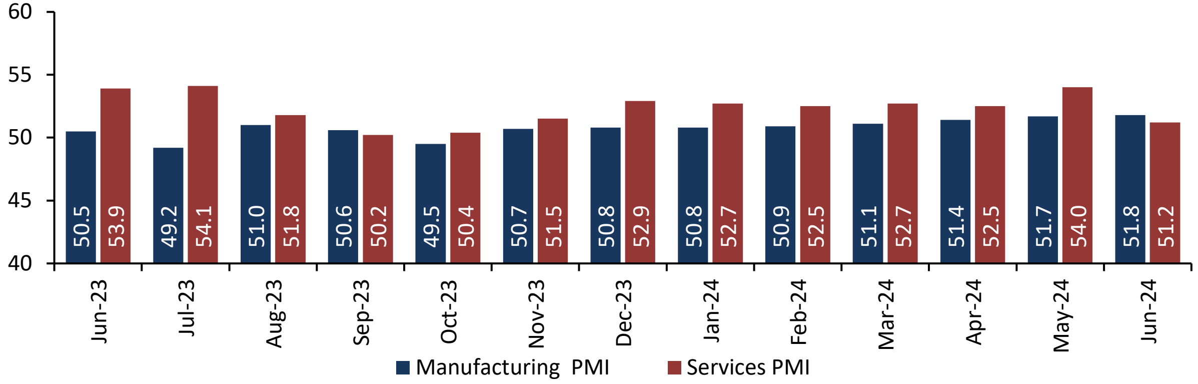
Remains steady…expected to improve



Source: Bloomberg

China Manufacturing & Services PMI

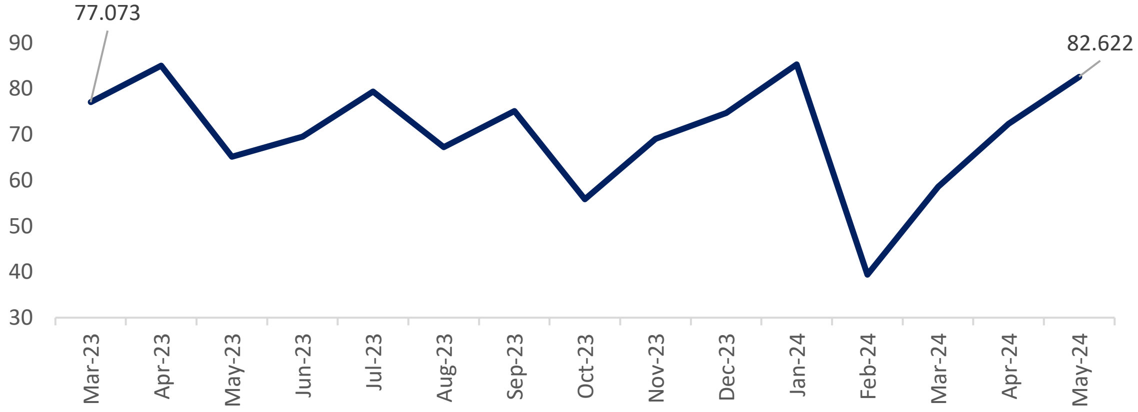
Numbers inching up noticeably in response to stimulus measures



Source: Bloomberg

China Trade balance (USD Bn)

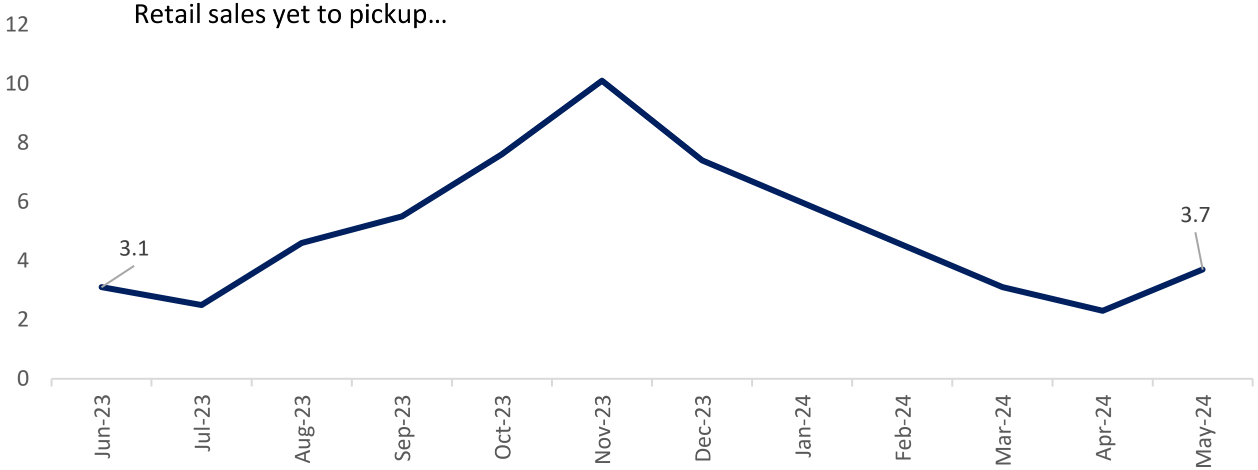
Trade balance improving



Source: Bloomberg

China Retail Sales Growth (% YoY)

Retail sales yet to pickup…

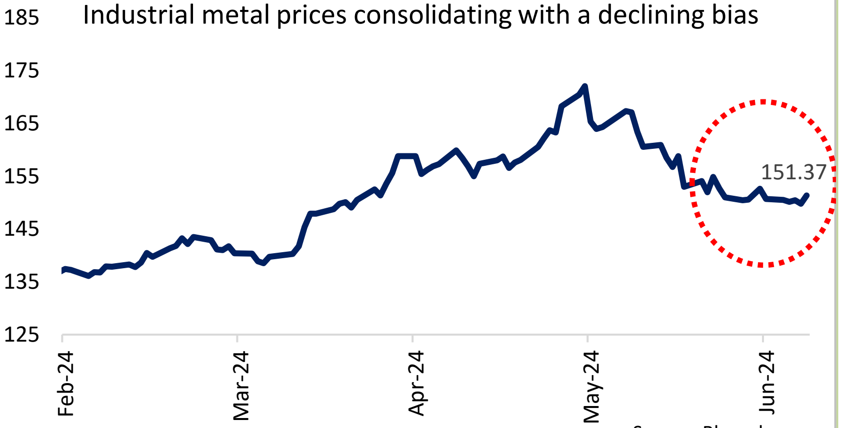


Source: Bloomberg

Commodities: Base metals consolidating after recent rally… food prices low… logistics cost still high..

Bloomberg Industrial Metal Index

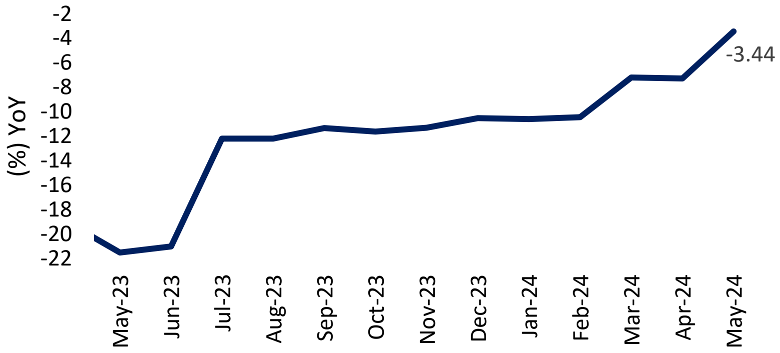
Industrial metal prices consolidating with a declining bias



Source: Bloomberg

UN Food & Agriculture World Food Price Index

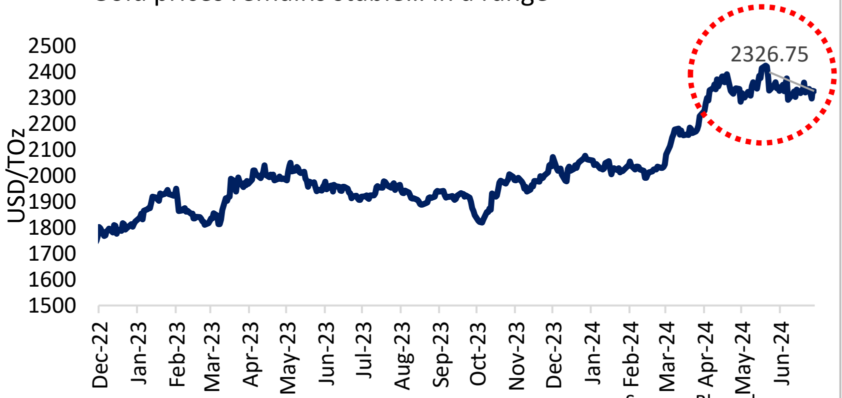
Uptick due to unfavourable weather conditions in few parts of the world and lower base



Source: Bloomberg

Gold (USD Per Troy Ounce)

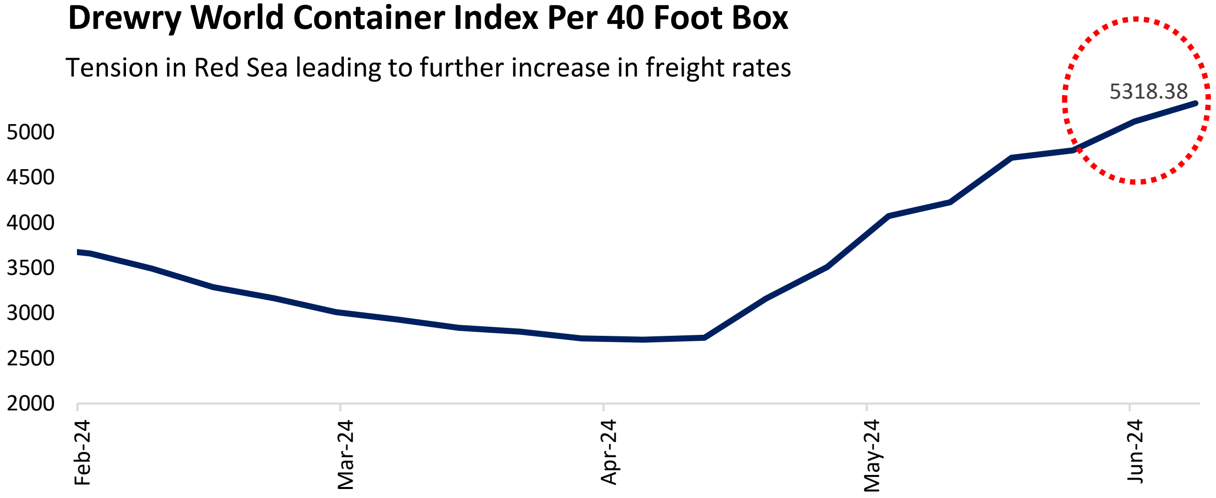
Gold prices remains stable… in a range



Source: Bloomberg

Drewry World Container Index Per 40 Foot Box

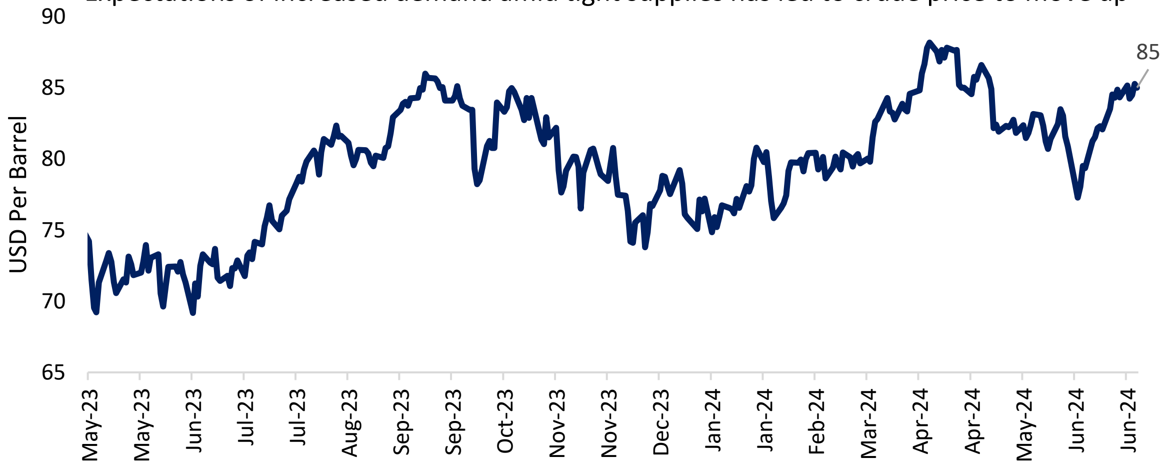
Tension in Red Sea leading to further increase in freight rates



Source: Bloomberg

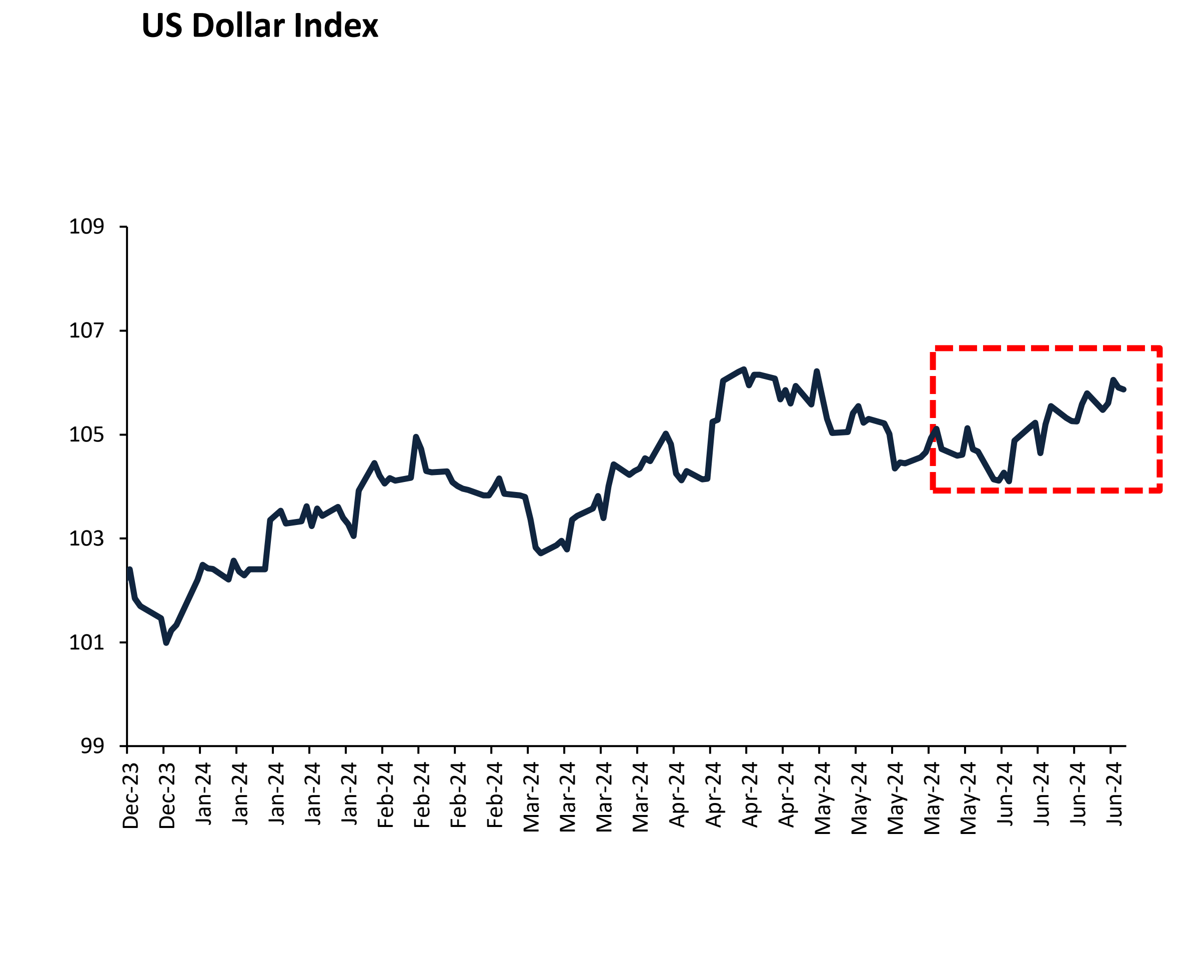
Brent Crude Oil (USD Per Barrel)

Expectations of increased demand amid tight supplies has led to crude price to move up

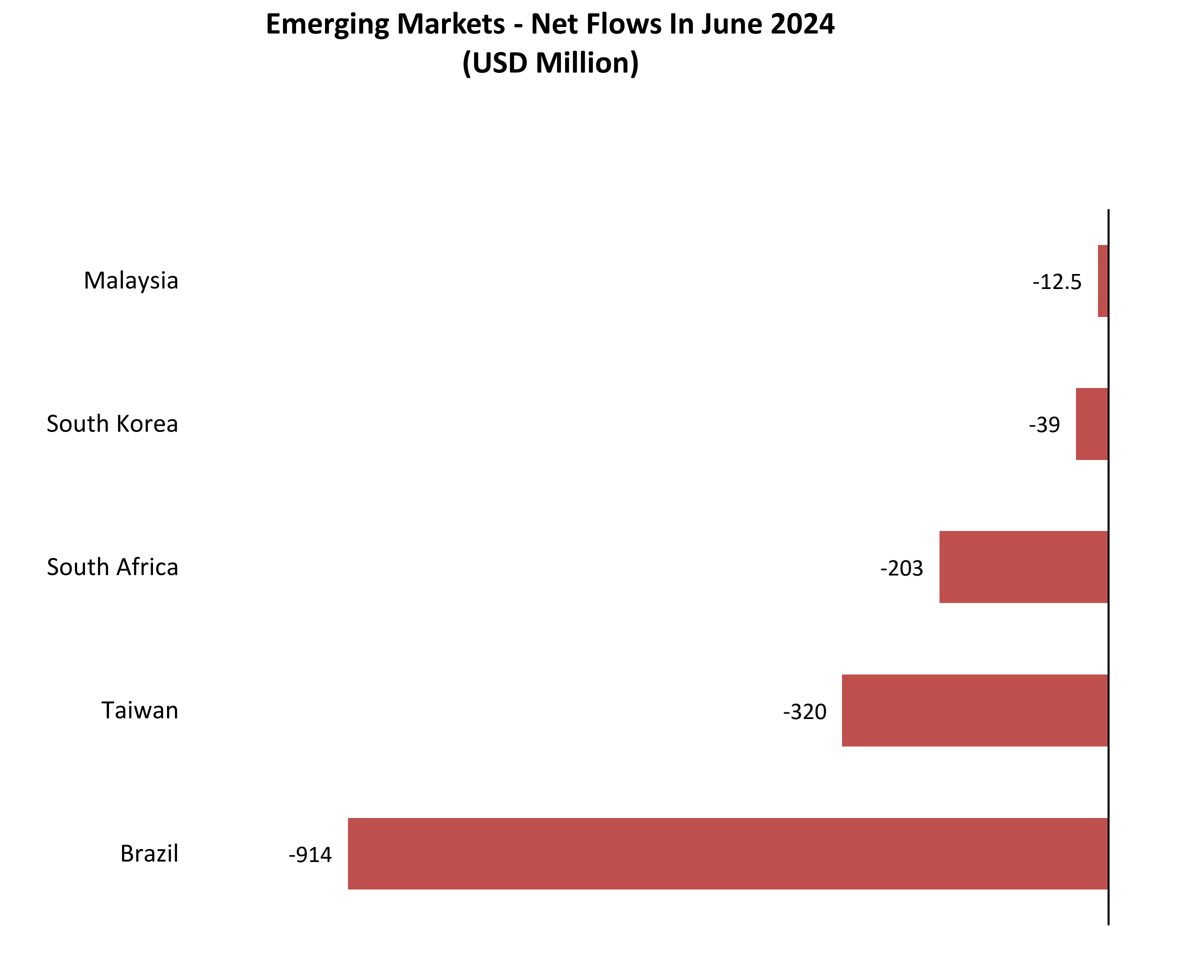


Source: Bloomberg

Uptick in the US dollar index impacting foreign flows into the emerging economies



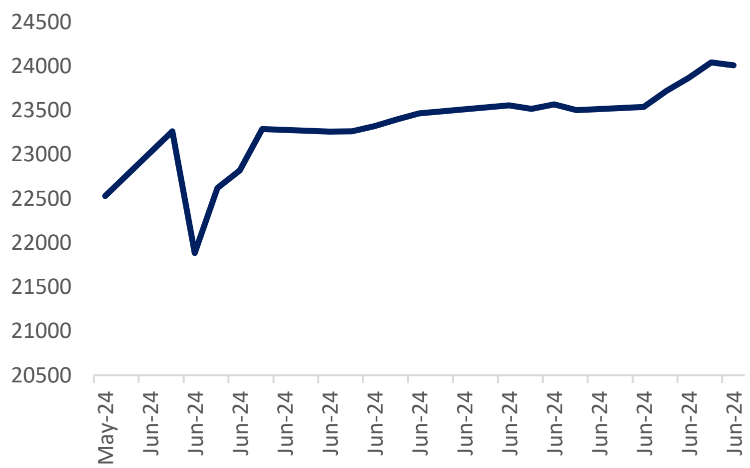
Source: Bloomberg



Source: Bloomberg

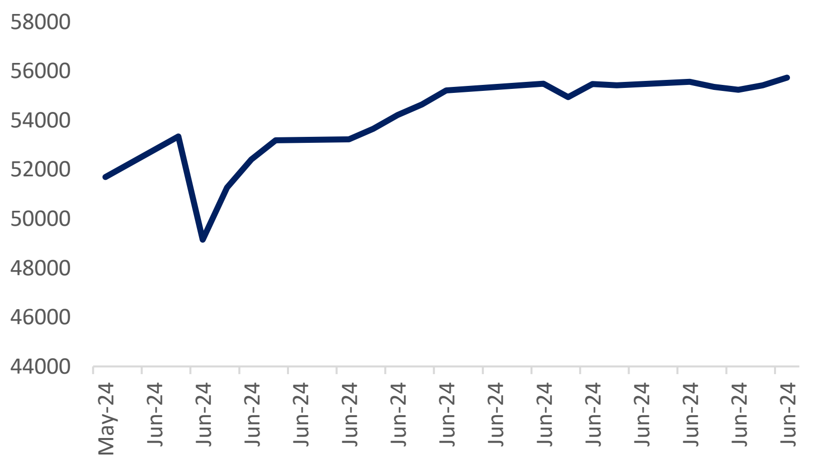
Indian market turned volatile ahead of general election results, post results the markets rose sharply

NIFTY 50 price movement



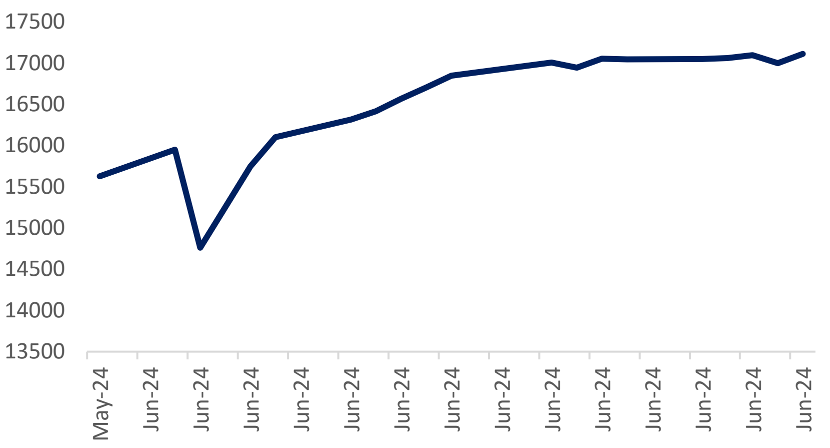
Source: Bloomberg

Nifty Midcap 100 price movement



Source: Bloomberg

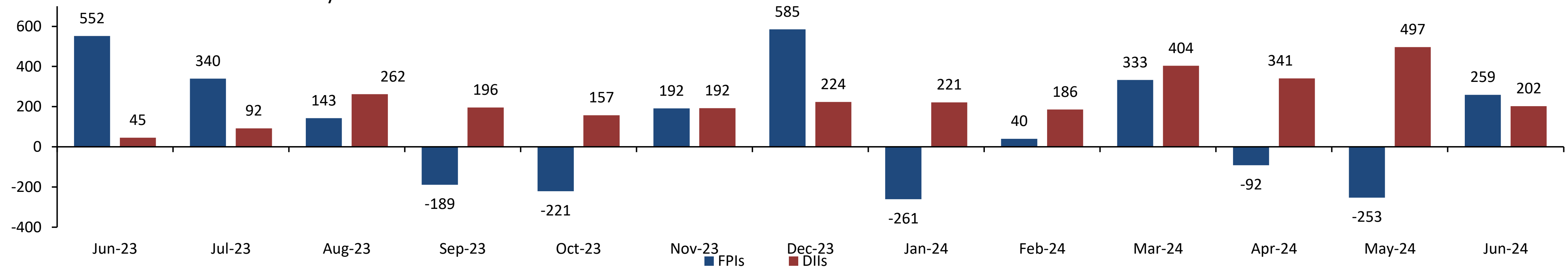
Nifty Smallcap 250 price movement



Source: Bloomberg

Net Flows In Equities (Rs Bn)

DIIs and FPIs were net buyers in the month of June

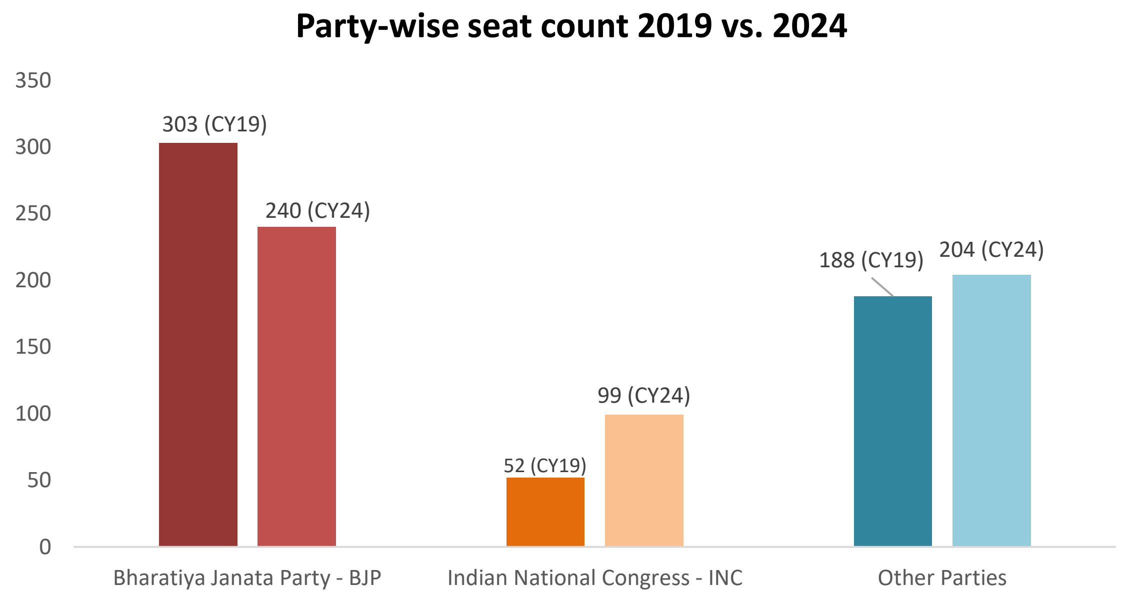


*For 2024, FPI and DII data is up to 28th June, 2024

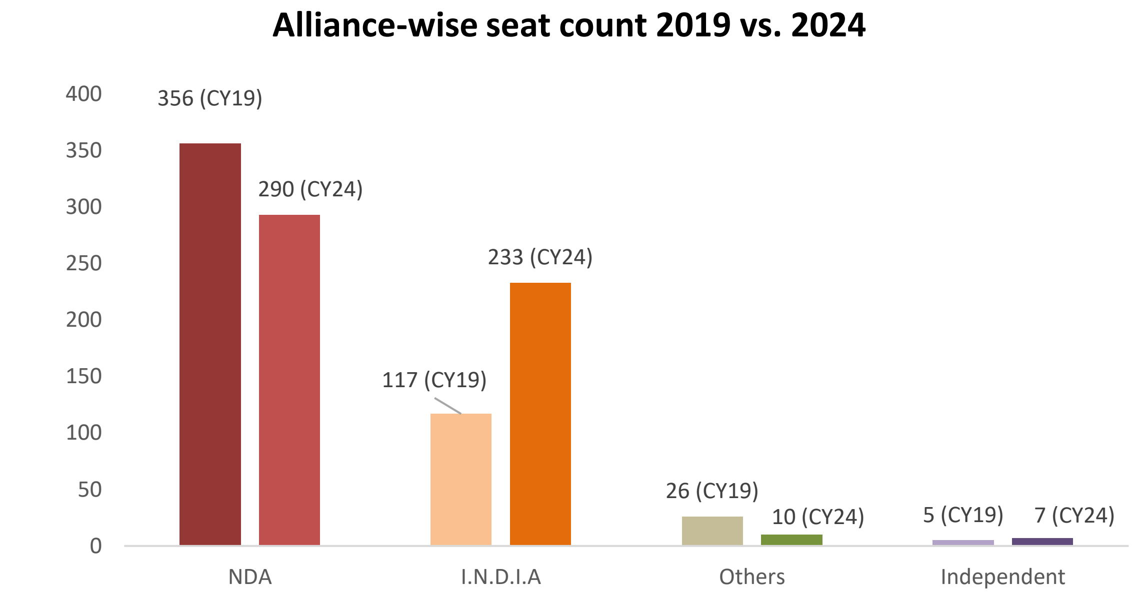
Source: SEBI, CDSL

Election Results 2024

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. The markets have settled now and policy continuity is expected as the coalition is stable, and the coalition partners' mindset aligned.

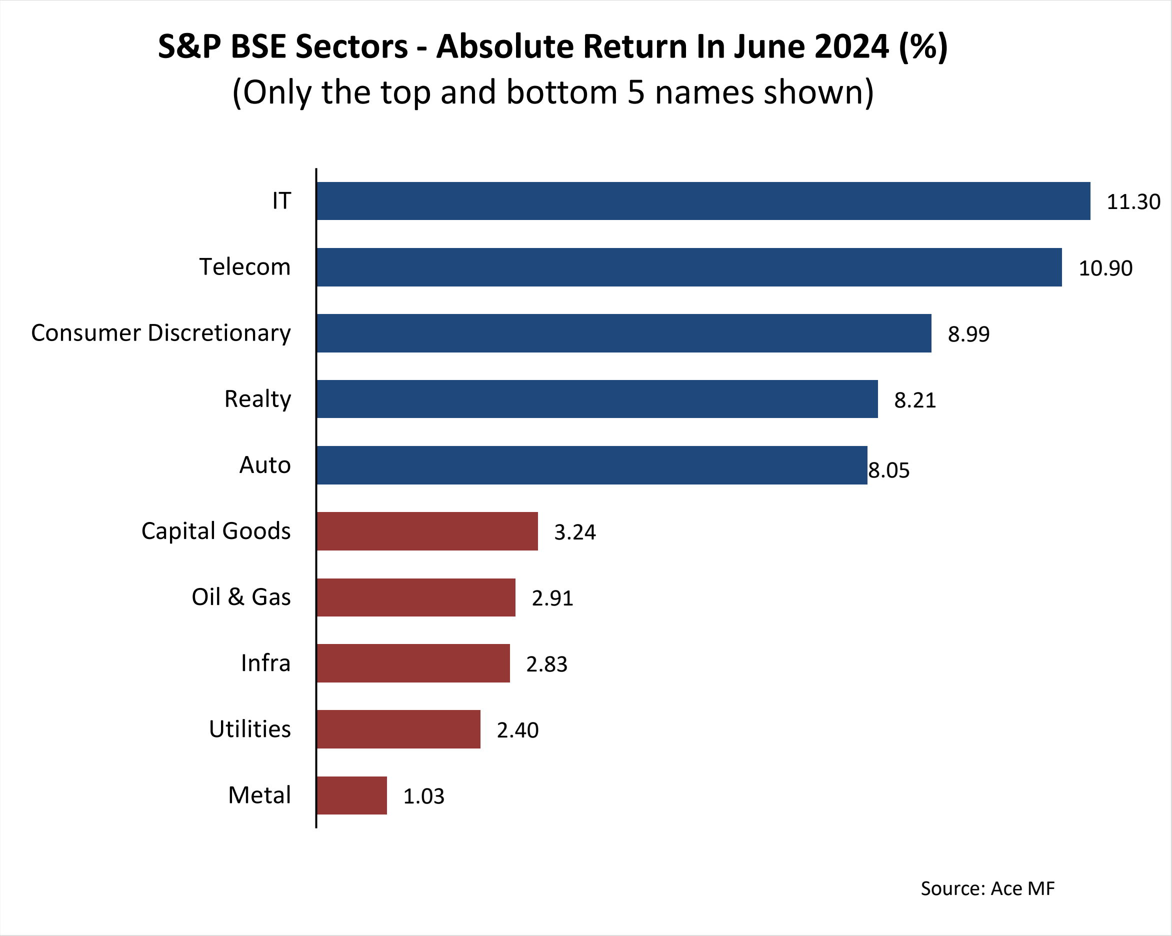


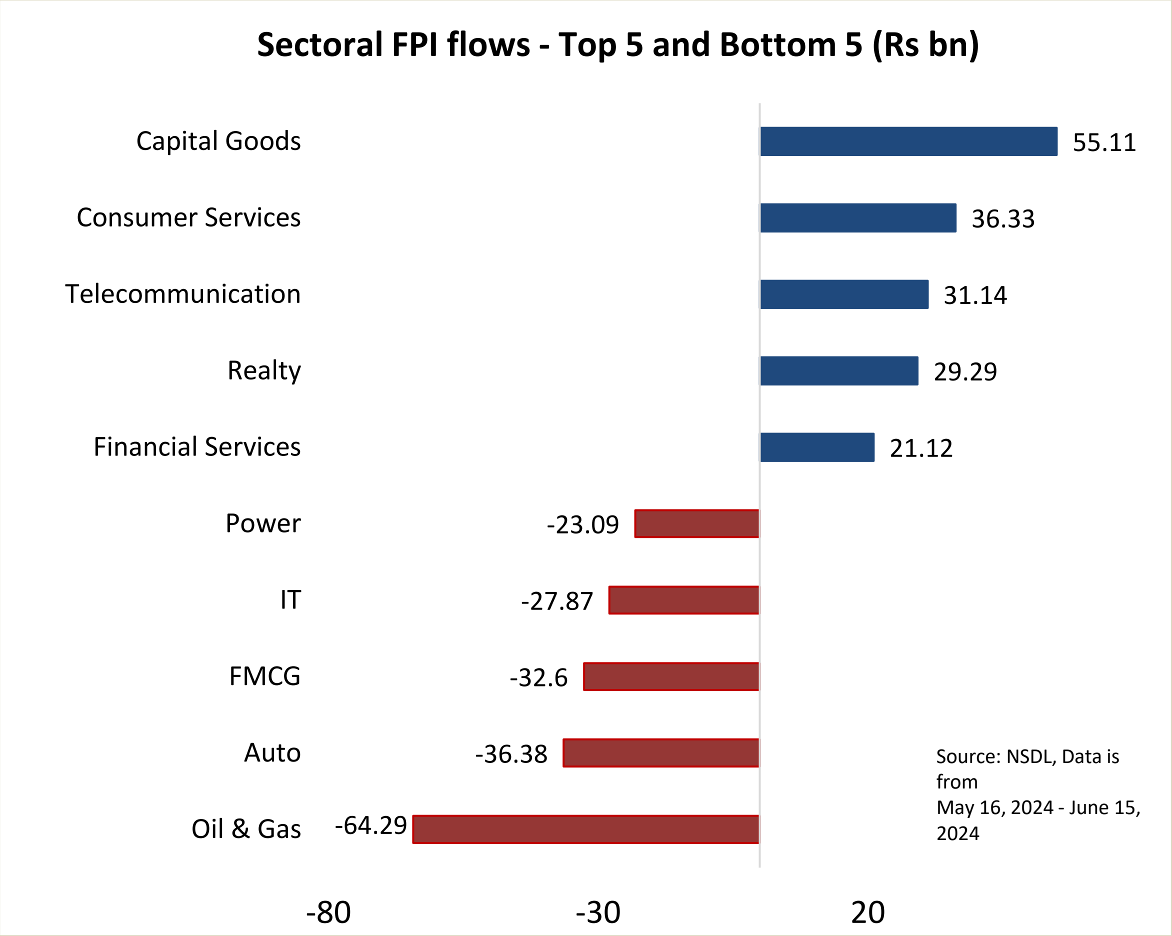
Source: Election commission of India



Source: Election commission of India, Media Reports

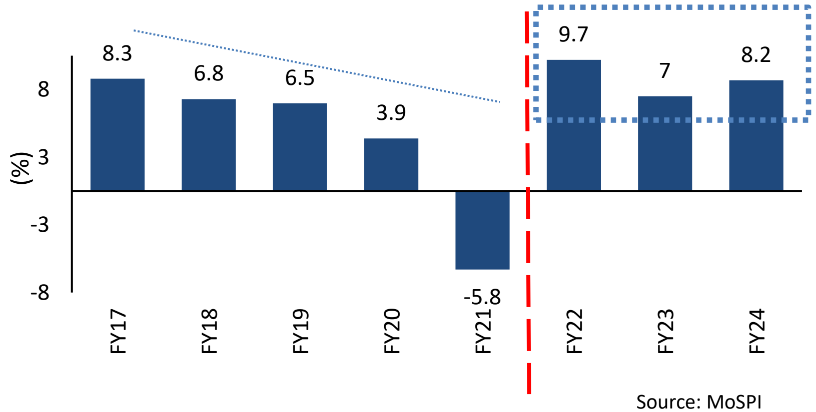
Sectoral performance and FPI flows in June 2024





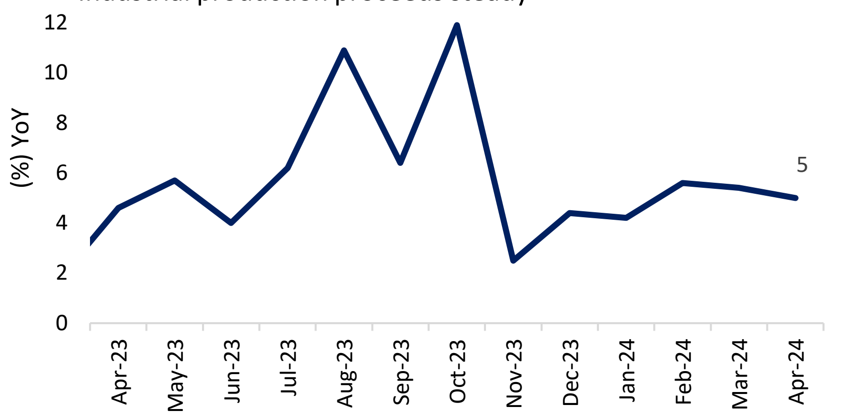
India – Economic growth has shifted markedly post Covid… high frequency data remains robust

Real GDP Growth
Structural shift in growth visible



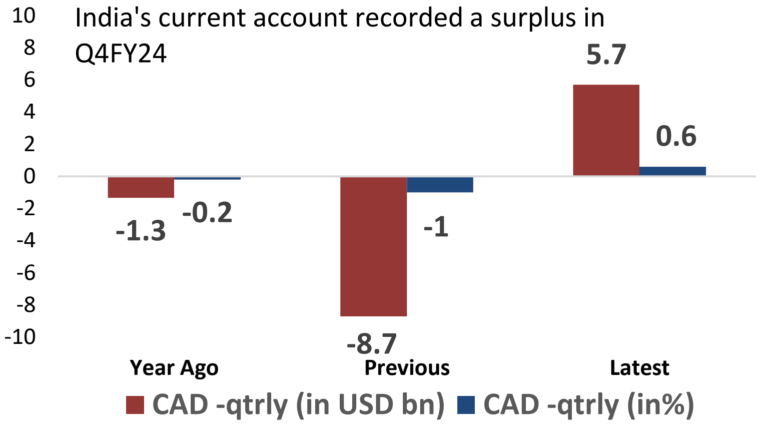
Source: MoSPI

Index of Industrial Production (% YoY)
Industrial production proceeds steady



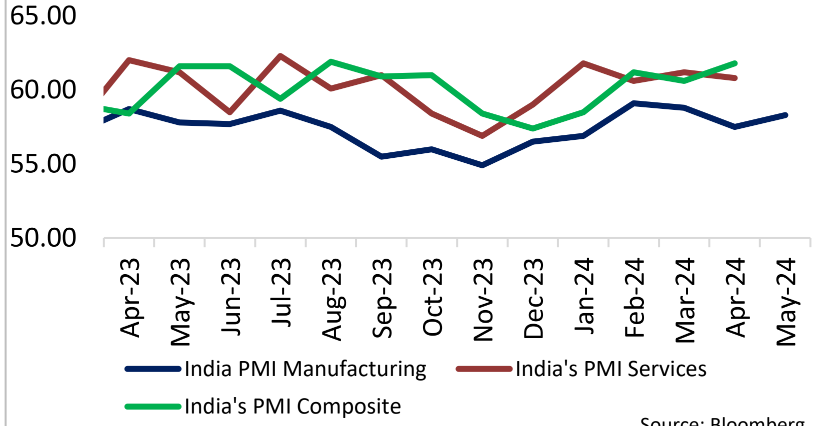
Source: Bloomberg

Current Account balance
India's current account recorded a surplus in Q4FY24



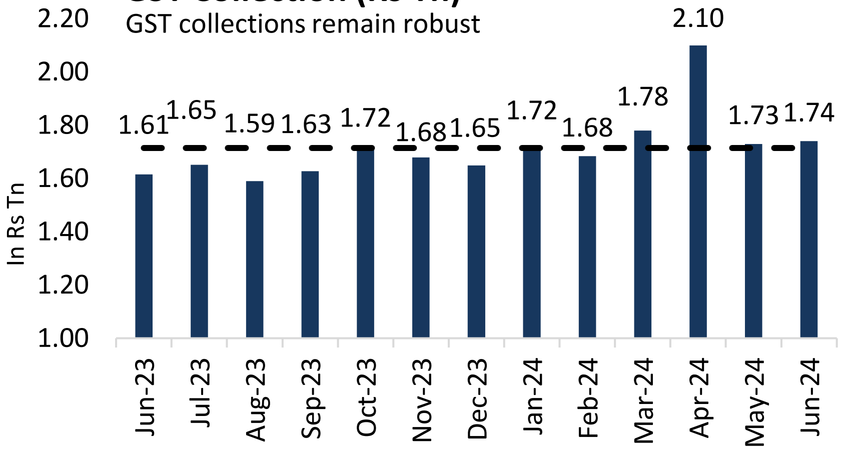
Source: Cogencis; RBI

HSBC India PMI
PMI activity continues to remain in expansionary zone



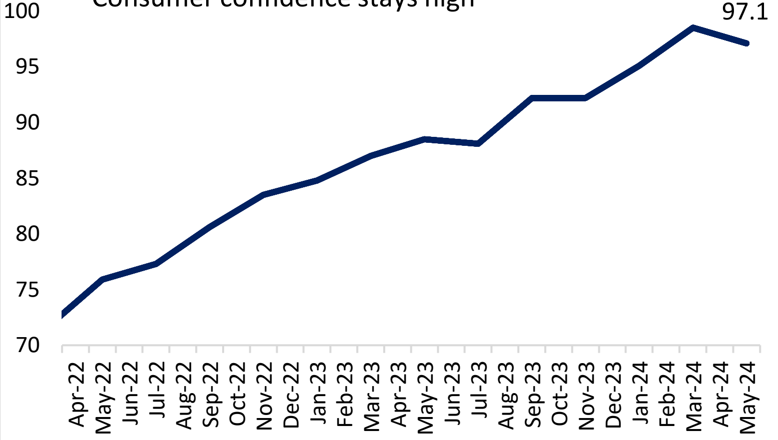
Source: Bloomberg

GST Collection (Rs Tn)
GST collections remain robust



Source: Bloomberg

Consumer Confidence Index
Consumer confidence stays high

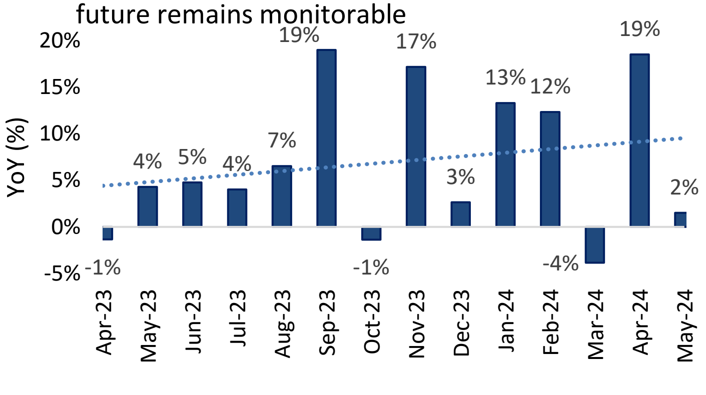


Source: Bloomberg

Urban India shows initial signs of weakness in some discretionary products…

India Passenger Vehicle Registrations (% YoY)

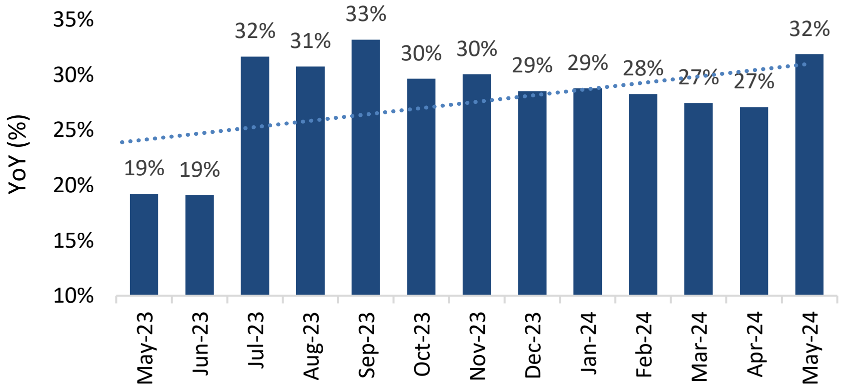
Slowdown in sales due to heat wave conditions… future remains monitorable



Source: Bloomberg, FADA

Banking Sector Personal loan growth

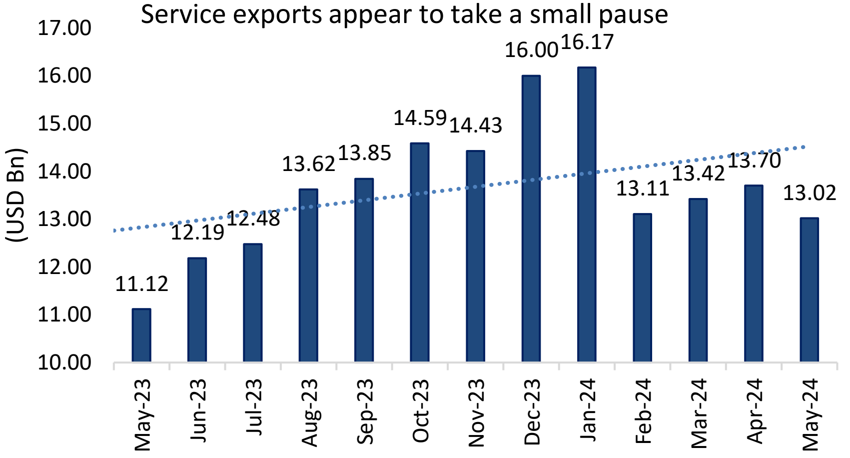
Personal loan growth picks up....



Source: Bloomberg

Net Services Exports (USD Bn)

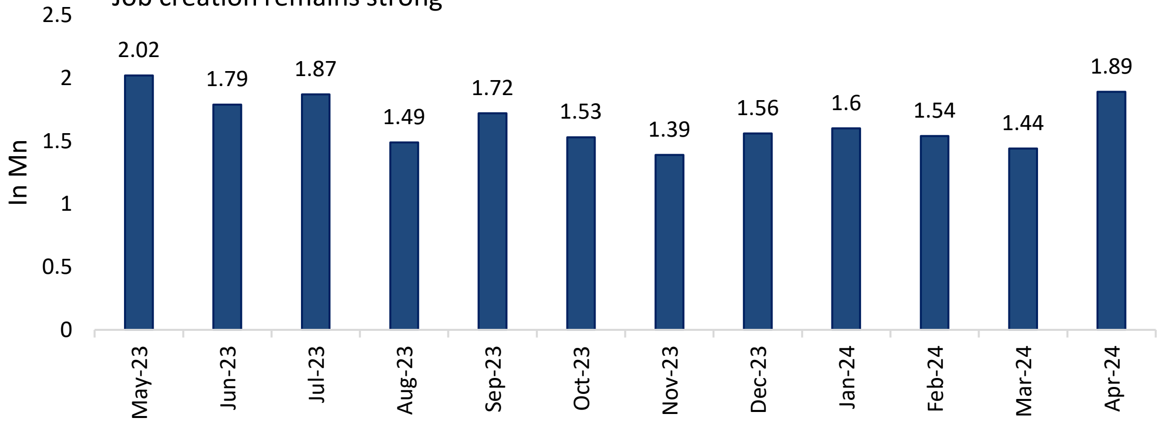
Service exports appear to take a small pause



Source: Bloomberg

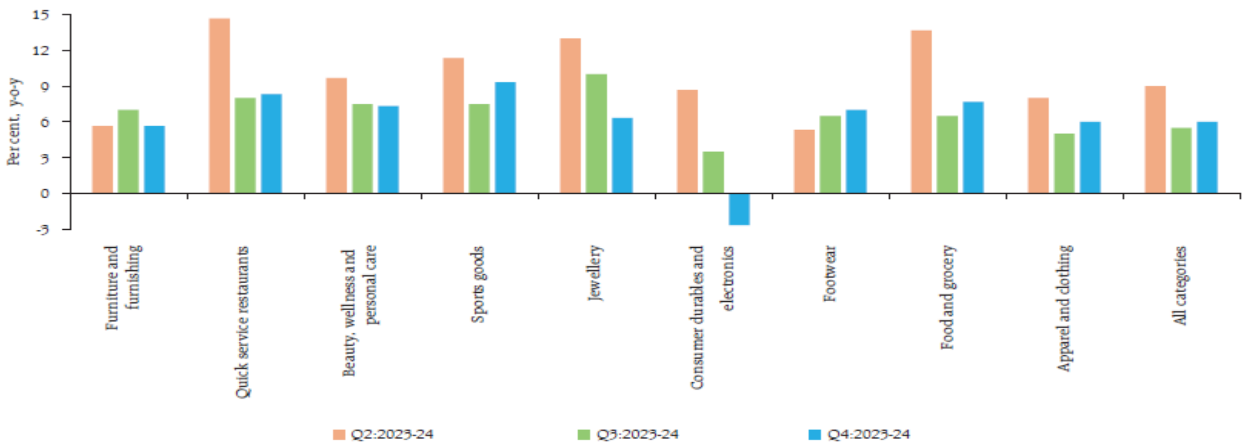
Formal Job Creation (EPFO Payroll net subscriber growth)

Job creation remains strong



Source: EPFO, PIB

Retail sales growth gains momentum (%YoY)

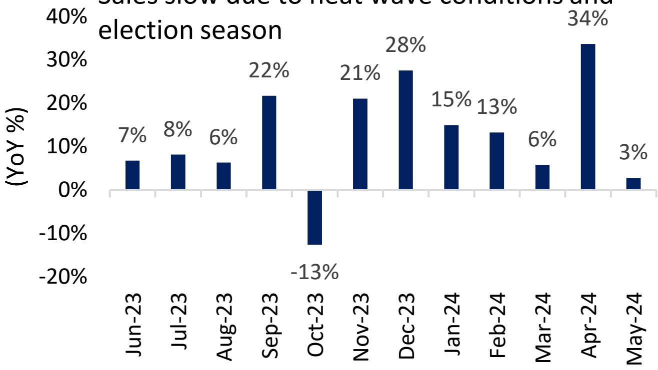


Source: Retailers Association of India; RBI Bulletin

Rural India: Expected to improve further

Two Wheeler Registrations

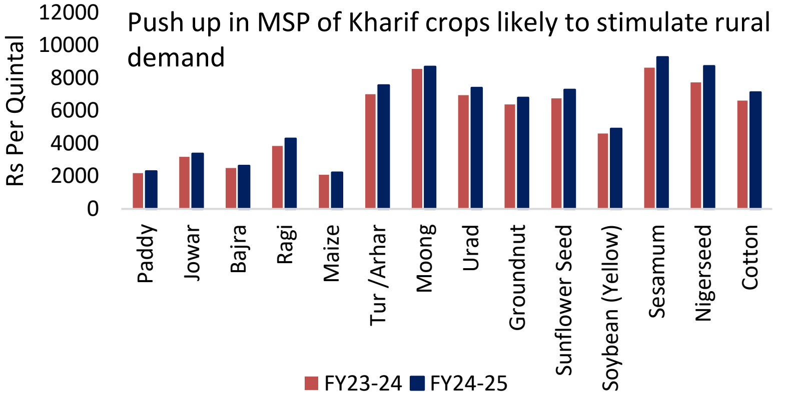
Sales slow due to heat wave conditions and election season



Source: Bloomberg, FADA

MSP For Kharif Crops (FY24 and FY25)

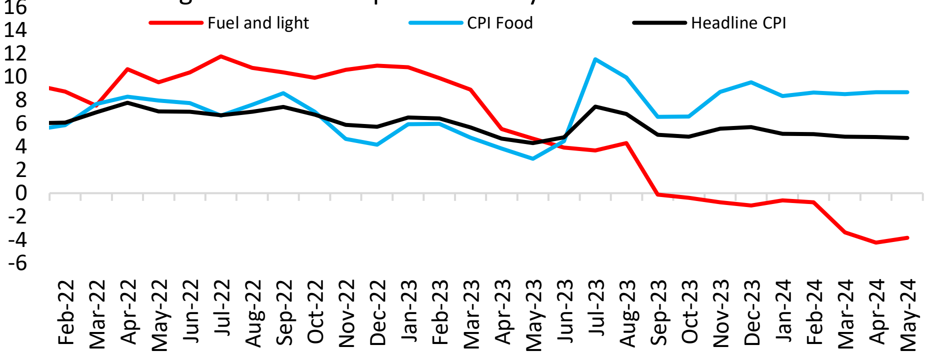
Push up in MSP of Kharif crops likely to stimulate rural demand



Source: PIB

CPI Inflation (% YoY)

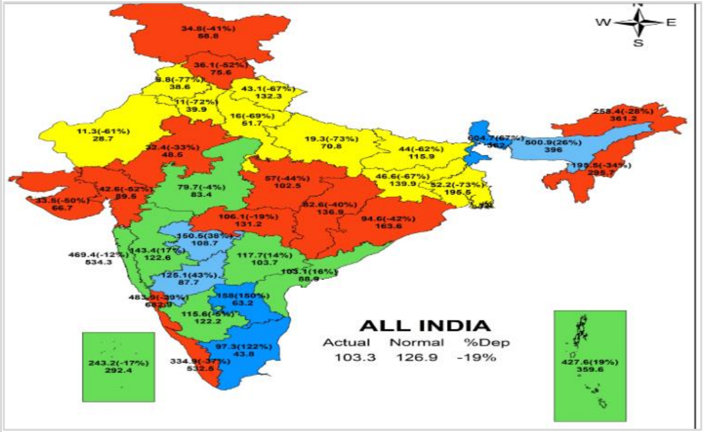
Declining inflation to help affordability



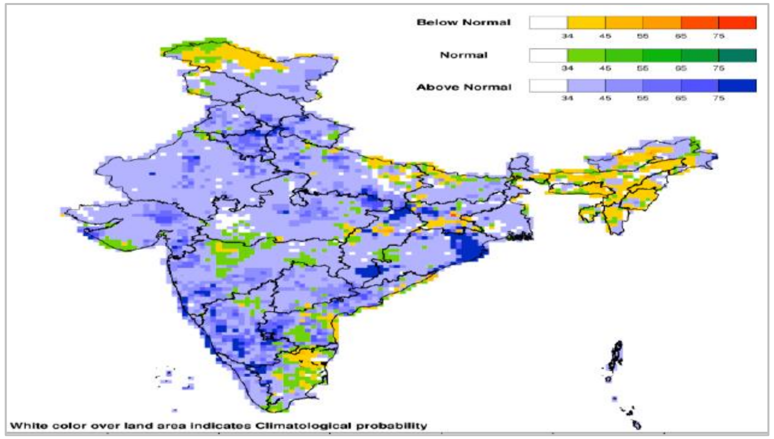
Source:-Ministry of Statistics and Program Implementation

Monsoon expected to remain normal, initial part deficient. Progress of rainfall is important for further rural pick up.

Monsoon has been deficient so far in June 2024



Probabilistic rainfall forecast for July 2024



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

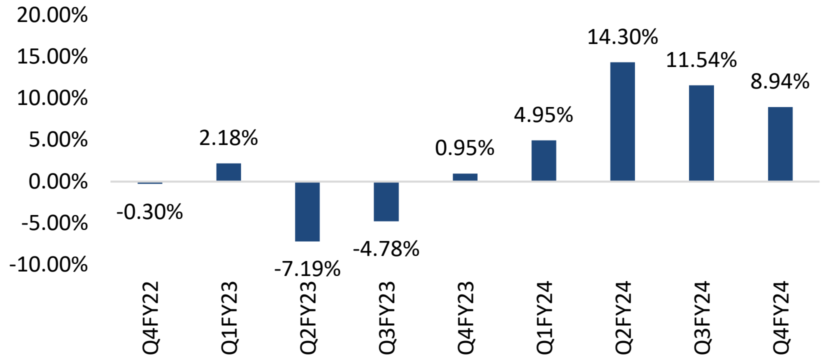
Category	Rainfall Range (% of LPA)	Forecast Probability (%)	Climatological Probability (%)
Deficient	< 90	**2**	16
Below Normal	> 90 - 95	**8**	17
Normal	96 -104	**31**	33
Above Normal	> 105 -110	**32**	16
Excess	> 110	**29**	17

Source: IMD

Capex could continue to drive India's growth

Manufacturing Growth as % of GDP

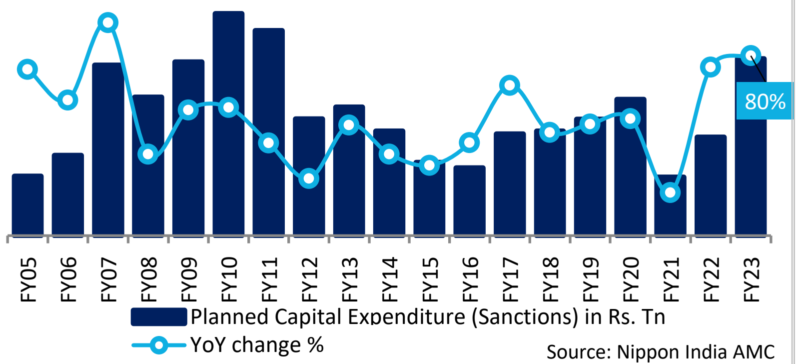
Vibrant manufacturing activity... key driver of economic growth



Source: Bloomberg

Private sector sanctions by banks improved by 80% YoY in FY23 to Rs. 3.5 trillion

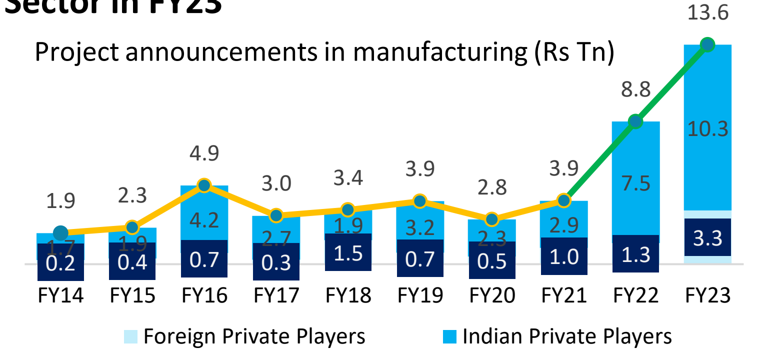
Banks aggressively lending for capex



Source: Nippon India AMC

Foreign private players have seen ~3x jump in Project Announcements in Manufacturing Sector in FY23

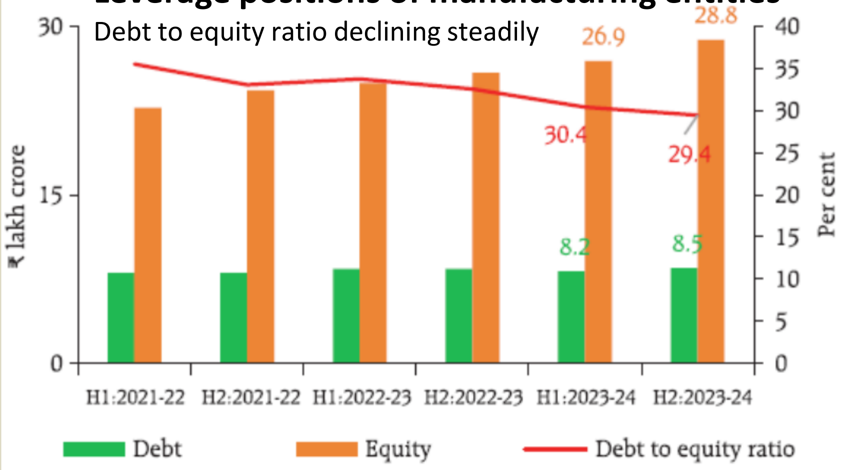
Project announcements in manufacturing (Rs Tn)



Source: Nippon India AMC

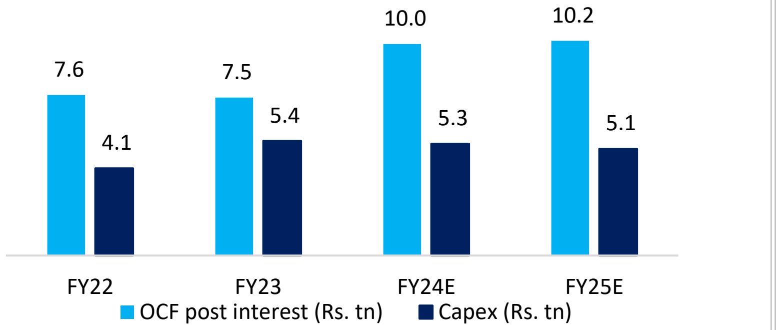
Leverage positions of manufacturing entities

Debt to equity ratio declining steadily



Source: RBI

Rising cash flows to help in corporate capex



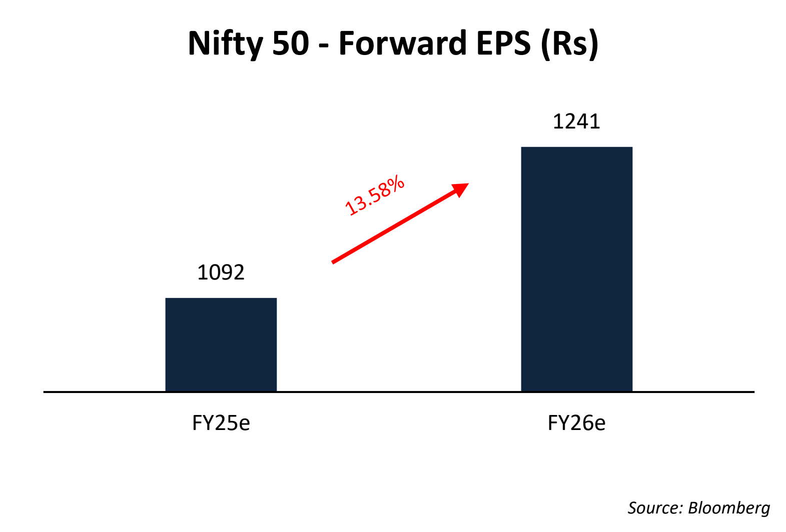
Source: Nippon India AMC

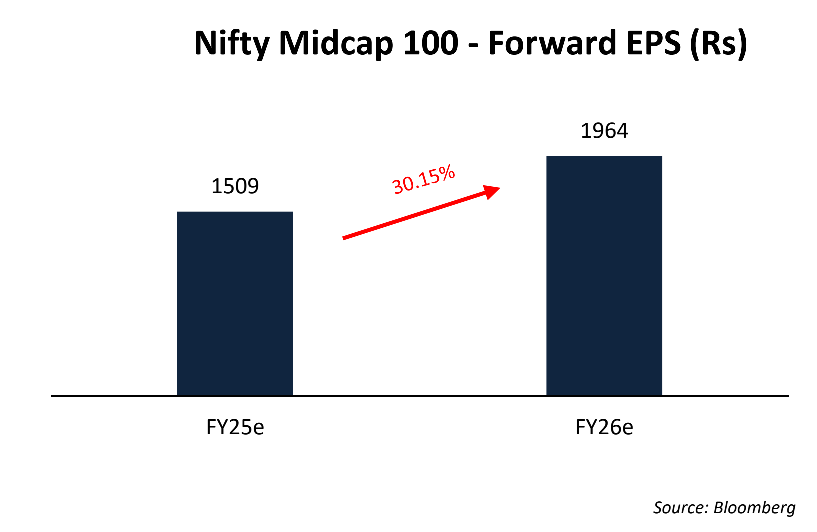
India announced 1,008 (USD 78bn) greenfield projects in 2022 – the highest in the EM pack

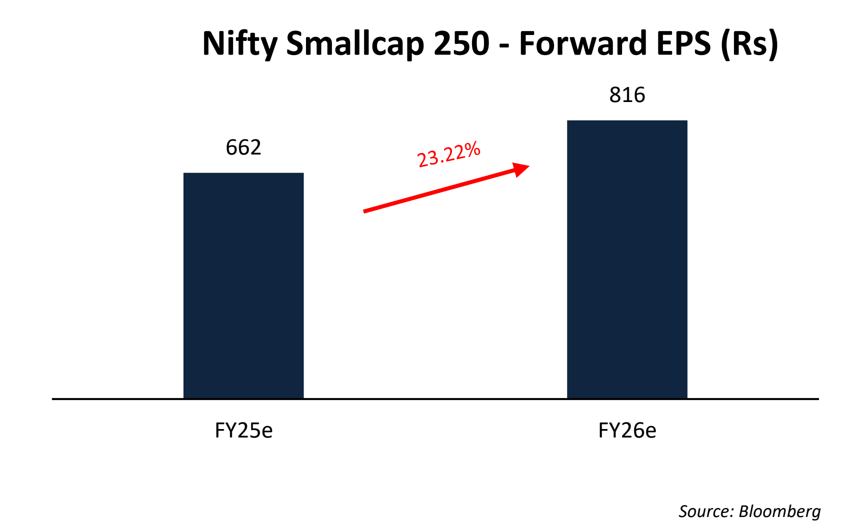
Greenfield Projects (Value, $, bn)	2014	2018	2021	2022
India	27	55	16	78
Vietnam	21	31	12	26
China	83	123	32	18
Thailand	8	7	4	8
Malaysia	20	15	25	17
No. of Greenfield Projects (volume)	**2014**	**2018**	**2021**	**2022**
India	718	833	459	1008
Vietnam	261	310	128	181
China	1090	914	482	357
Thailand	177	200	79	91
Malaysia	214	205	123	153
Indonesia	178	140	73	96

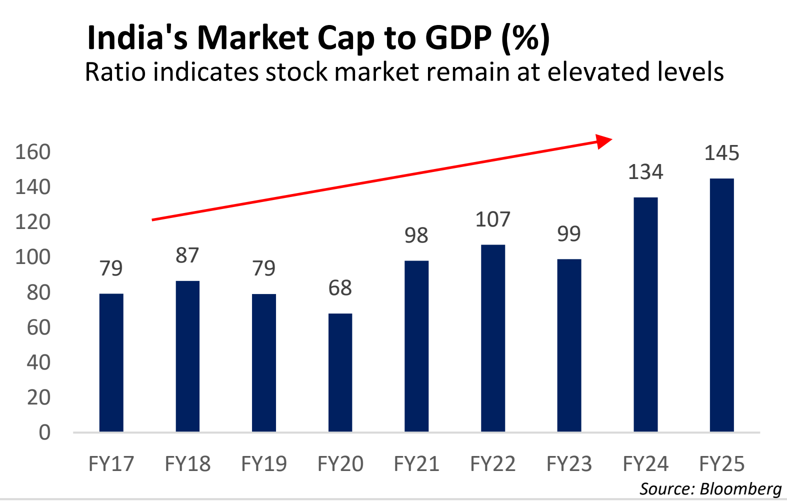
Source: Nippon India AMC

India valuations – Remain high…leaving limited upside potential in the near term





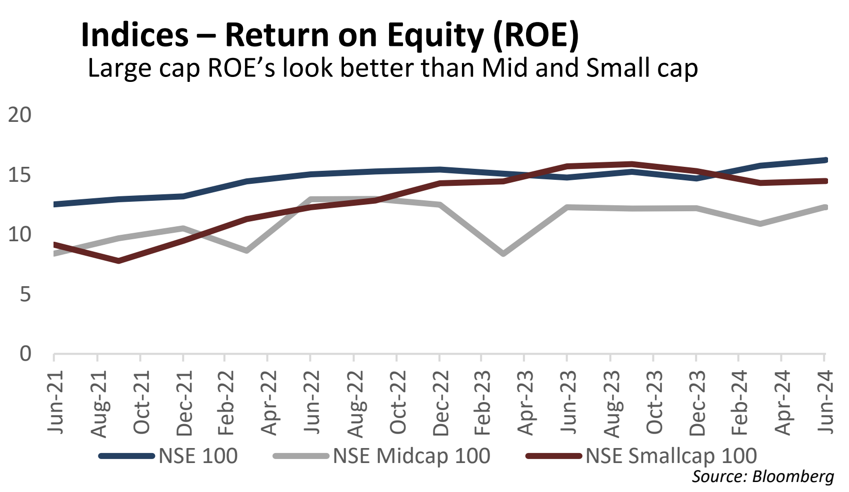




12M expected Fwd P/E (x) Comparison By Market Cap

Index	FY25 (Est)	FY26 (Est)
Nifty 50	22.08	19.44
Nifty Midcap 100	37.22	28.59
Nifty Smallcap 250	26.26	21.31

Source: Bloomberg

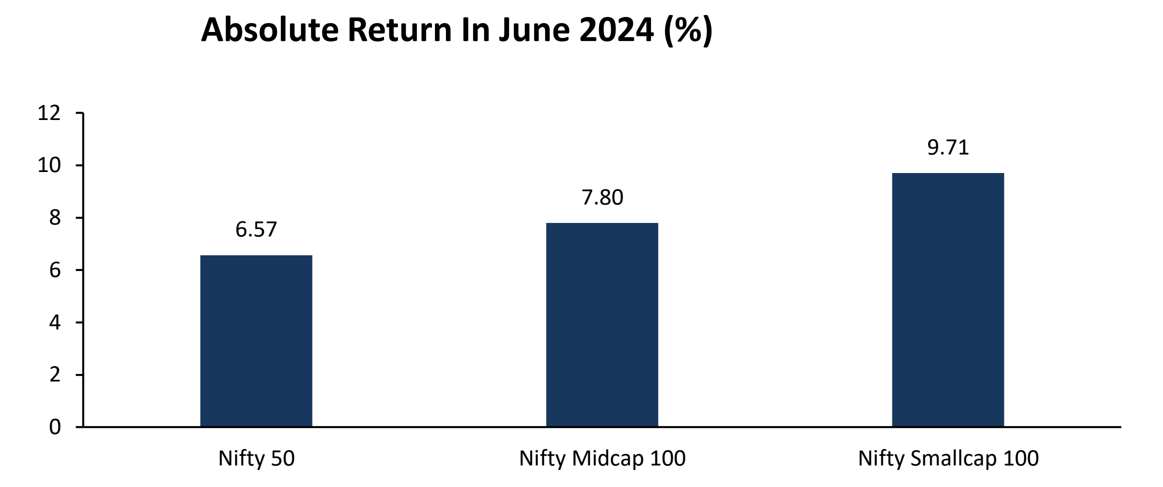


Data as on 28th June,2024 for FY25

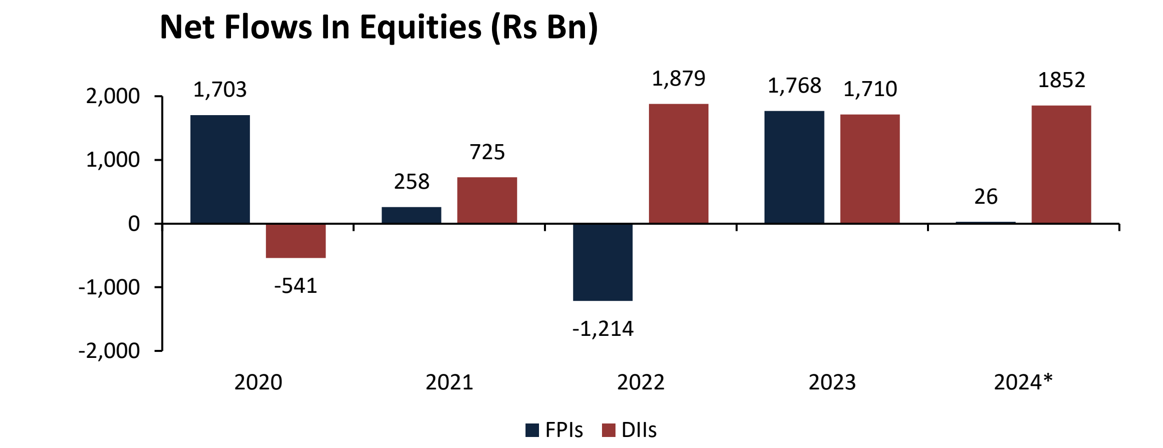
Data as on 28th June ,2024

Market Roundup – June 2024

- Indian equities ended the month on a positive note. Large cap-oriented S&P BSE Sensex and Nifty 50 ended higher to the tune of 6.86% & 6.57% (MoM) respectively.
- While the S&P BSE Midcap index ended higher by 7.80% (MoM), S&P BSE Small cap index ended higher by 9.71% (MoM).
- In terms of BSE sectoral indices, IT was the top performer. In contrast, Metal, Utilities and Infra underperformed the most.
- Indian equities ended the month on a positive note owing to expectations of policy continuity by the newly formed government. Improved FPI flows, along with the hope for a strong monsoon further aided the sentiments.



Source: Bloomberg



*For 2024, FPI and DII data is up to 28th June, 2024

Source: SEBI, CDSL

Sectoral outlook by fund managers – Part 1

Sector	Particulars
Financials	**View –Neutral to Positive** • Valuations in most of the 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 NIM possible. • Credit cost (provisioning) are holding up, Unsecured loans are under scrutiny by the RBI. • Most fund managers are continuing to add weight in the sector. Pvt sector banks gradually being given higher preference due to lower valuations. • Other spaces like Capital market, NBFC are not seeing incremental additions.
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. • With stock prices consolidating/correcting, belief is that worst is in the price. • Funds are taking tactical incremental positions, but mostly running underweight.
Pharma	**View – Neutral to Positive** • Reasonable valuations, domestic demand holding up well. • US is seeing abatement of price erosion in the generic space and some shortage of drugs has built up, 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** • The base for Passenger vehicle volume seem to be loaded against its favour, and volume growth going forward seem to be a concern. • 2-Wheeler stocks have seen strong outperformance and the volume growth continues to remain steady there. Their outperformance not likely to continue. • 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 getting sluggish, fund managers underweight. • Auto ancillaries finding incremental favour with the fund managers due to China+1, Europe+1, PLI, export opportunities and EV initiatives.

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 has 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- negative** • Staples – Low volume growth, pricing power weak, Valuations consolidated. Few AMCs are taking incremental exposure, though remaining underweight. • Hotels/Travel – Valuations rich, funds holding on to their overweight. Earnings visibility is strong. • Consumer Durables – Funds are looking to bottom fish, as they expect turnaround of demand. • 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** • Post recent upmove, managers seem to be wanting to sell on rise. Demand conditions globally consolidating, prices of base metals, too, consolidating. 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	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24
S&P BSE 500	**0.33**	**7.08**	**3.51**	**3.86**	**3.80**	**-0.81**	**2.04**	**-2.93**	**6.75**	**8.01**	**1.90**	**1.93**	**0.84**	**3.43**	**0.61**	**6.87**
Auto	-3.35	10.29	7.94	6.76	3.14	-1.40	3.65	-1.25	10.08	5.43	4.18	8.12	4.96	3.92	3.84	8.05
Bankex	0.93	9.18	2.11	0.12	1.85	-4.01	0.35	-3.44	3.47	8.12	-4.38	1.92	2.02	4.64	-0.40	6.94
Basic Material	2.54	7.83	1.70	2.39	3.19	1.06	1.70	-3.70	7.25	11.39	0.33	-0.42	1.06	7.86	0.73	6.63
Capital Goods	1.50	9.71	1.31	9.79	8.15	2.66	6.20	-4.07	8.88	11.31	1.88	-1.21	6.15	3.42	11.16	3.24
Consumer Discretionary	-1.74	9.25	7.18	5.94	4.46	2.10	2.40	-1.38	9.36	5.91	2.35	4.89	1.69	5.05	0.77	8.99
Consumer Durables	0.45	2.91	6.47	5.67	-0.25	4.24	3.18	-2.32	7.42	6.11	0.70	0.00	2.05	5.59	-0.51	7.12
Energy	1.95	7.19	-0.07	-0.24	6.89	-4.38	3.20	-2.17	9.17	11.06	12.18	6.18	-0.19	3.33	-0.78	4.42
FMCG	2.01	6.81	5.89	2.47	1.58	-2.75	0.97	-0.86	3.58	6.84	-2.81	-2.33	-0.67	1.52	-0.42	5.23
Finance	-0.08	9.05	2.13	1.97	3.16	-2.64	1.08	-3.09	4.82	6.92	-2.40	0.47	1.35	4.93	-1.49	7.10
Healthcare	1.31	6.33	2.81	9.71	7.45	0.57	2.45	-4.30	10.92	3.87	7.18	5.94	-0.08	1.01	-1.46	6.37
IT	-3.15	-0.13	6.70	2.16	1.34	4.13	2.62	-3.13	6.77	8.38	3.74	3.38	-7.20	-4.35	-2.63	11.30
Infra	4.24	6.06	0.89	4.51	10.73	1.64	8.45	-3.38	10.40	14.88	18.15	1.23	0.48	7.03	5.62	2.83
Metal	1.04	7.21	-2.94	3.99	7.88	-1.64	7.45	-4.17	8.74	11.35	-0.85	1.15	4.95	10.83	4.68	1.03
Oil & Gas	2.77	6.39	-1.64	0.27	6.67	-5.03	1.23	-4.17	12.51	12.02	12.57	6.86	-0.07	4.83	-1.18	2.91
Power	9.39	5.37	2.01	4.33	9.20	-0.63	5.96	-4.90	11.16	18.24	8.57	4.33	1.70	7.73	6.64	3.31
Realty	-1.60	19.64	7.67	9.35	9.01	-1.50	5.21	3.70	19.99	9.37	9.37	9.16	-1.21	7.52	4.40	8.21
Telecom	-3.65	8.44	4.12	9.08	5.61	3.20	10.55	-5.69	7.21	6.15	6.94	1.44	1.81	8.36	3.29	10.90
Utilities	10.02	6.22	-0.59	5.02	10.36	-0.64	7.20	-3.98	11.85	20.00	9.71	3.61	0.25	8.84	2.80	2.40

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

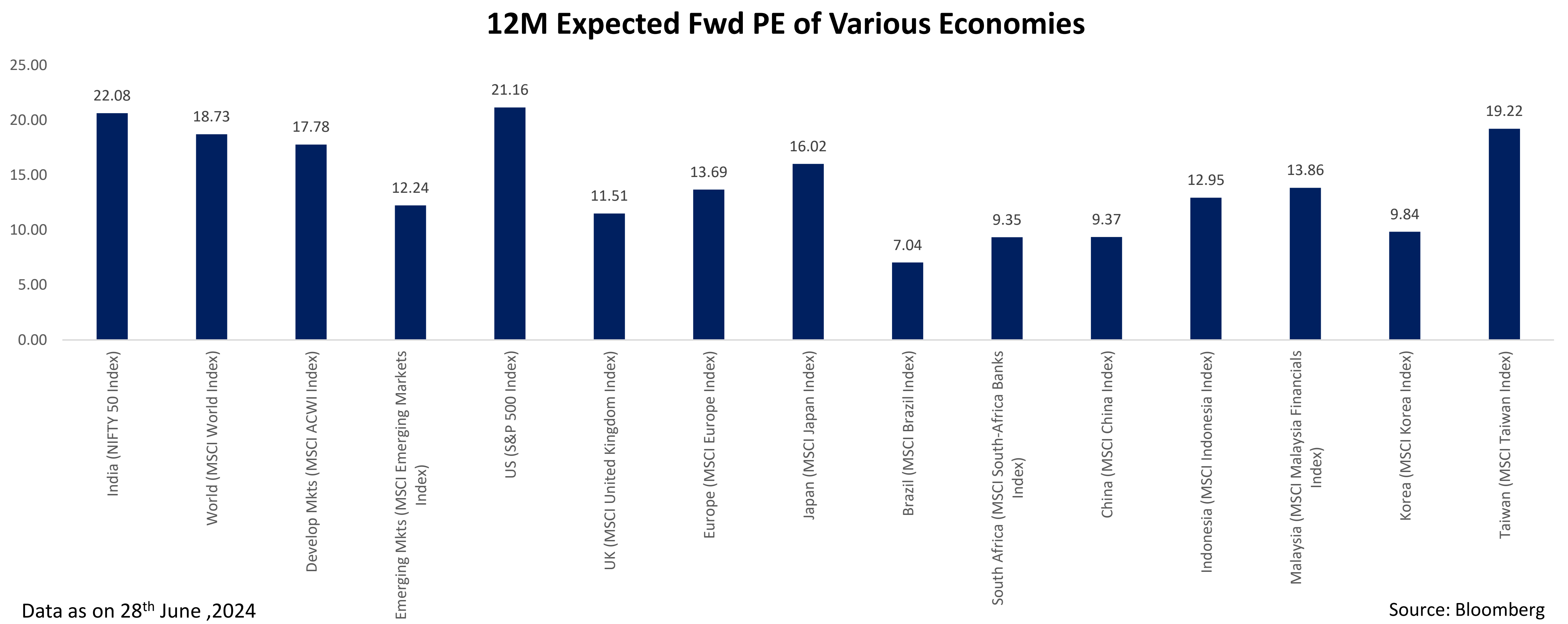
Colour scales assigned vertically

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 28th June ,2024

Source: Bloomberg

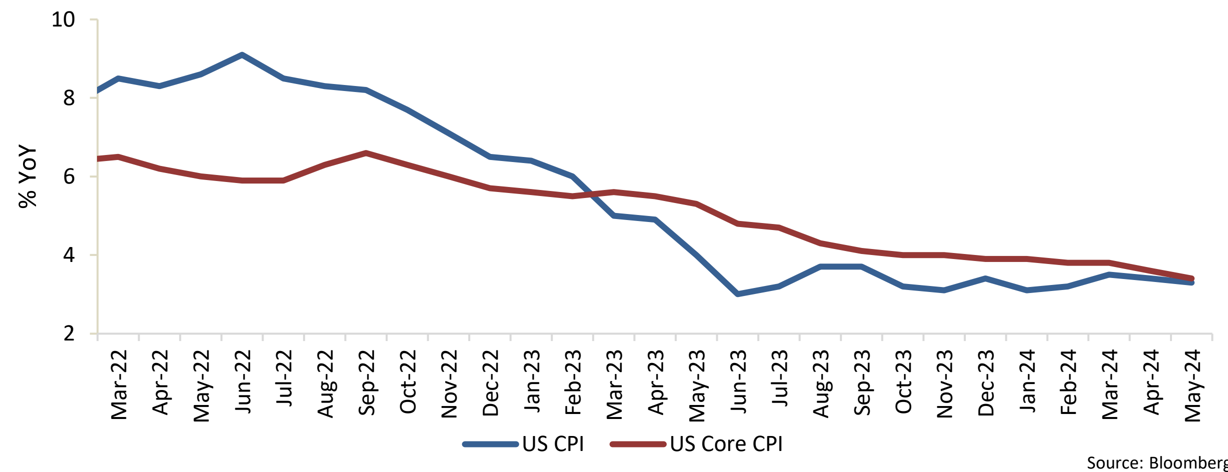
Fixed Income Market

Fixed Income Outlook

- The RBI is keeping the banking system liquidity tight to keep the overnight rate around the repo rate. Going forward, the liquidity is likely to be supported by government spending moving into the system, flows regarding index inclusion and redemption of government securities.
- Headline inflation eased to a 12-months low of 4.75% YoY in May 2024 due to further fall in core inflation and contraction in fuel inflation. However, elevated food inflation, esp. vegetable prices, limited the fall in retail inflation. With food price shocks exhibiting significant volatility on inflation and with the reservoir storage at low levels, the advance of monsoon remains paramount for kharif crop output. While food inflation is likely to accelerate in the near term due to seasonal trend, the inflation is expected to fall below 4% in Q2 FY25 on the back of base-effect and expectation of normal monsoon.
- India’s Current Account Deficit (CAD) narrowed to 0.7% of GDP in FY24 on the back of lower merchandise trade deficit and higher net services exports. Going forward, market participants expect CAD to rise slightly in FY25 due to expectations of higher imports, but it would likely remain manageable.
- The RBI is maintaining restrictive policy as economic growth remained robust even with higher rates. The RBI is likely to track the advance of monsoon along with the monetary policies of the major global central banks, as early cutting of rates may have repercussions on currency.
- The government is likely to remain on its fiscal consolidation path and achieve the target of 5.1% in FY25 on account of tax buoyancy and increase in tax compliance. However, after the election mandate, the pace of fiscal consolidation remains important, which would become clearer in the upcoming budget. The narrowing of fiscal deficit remains positive for the bond market as this would lead to lower market borrowing by the government, thus limiting the supply of bonds and pulling the yields down.
- In the US, while the recent Federal Reserve (Fed) dot plot revised the rate cut guidance in CY24 to 25 bps from 75 bps, the market participants believe the Fed may have to rethink on its rate cut projections if data worsens.
- While the European Central Bank (ECB) cut rates before the Fed in June 2024, the commentary remained hawkish due to uptick in inflation. Hence, future rate decisions of ECB would be data-dependent. In Japan, the falling Yen and elevated inflation may warrant a rate hike by the Bank of Japan (BoJ). The revival of the Chinese economy needs to be monitored for the resurgence in commodity demand, as it may bring back global inflationary impulses. 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 uncertainty regarding the pace of FPI inflows may lead to volatility of yields at the long end as FPI inflows remained lower-than-expected on the first day of index inclusion. More members of the RBI's MPC are now inclined towards easing monetary conditions, so the RBI may start initially by easing liquidity into the system. 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.
- Accrual opportunities at the 2-4-years segment of the 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.

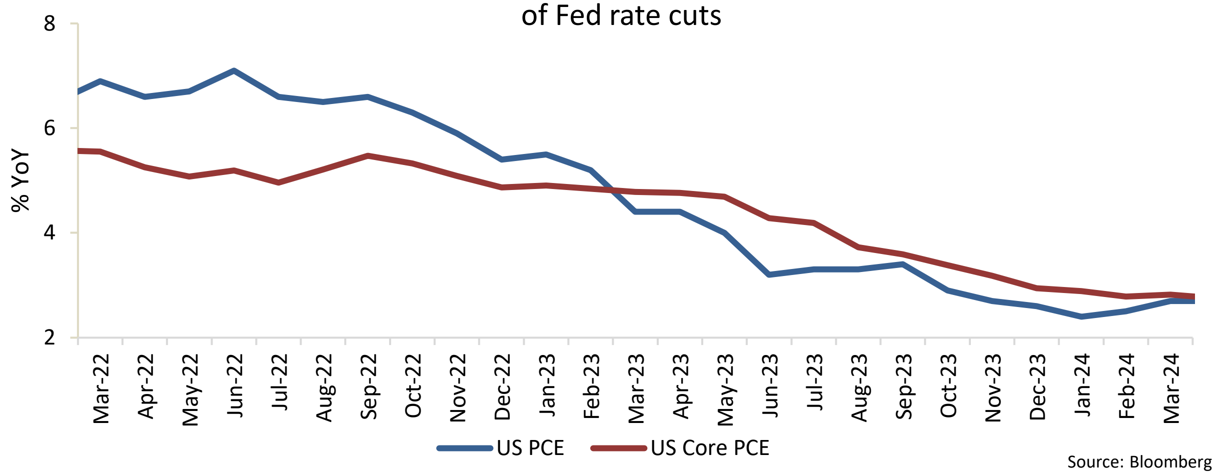
US Yields fell as macro data started weakening

US inflation continues to trend downwards



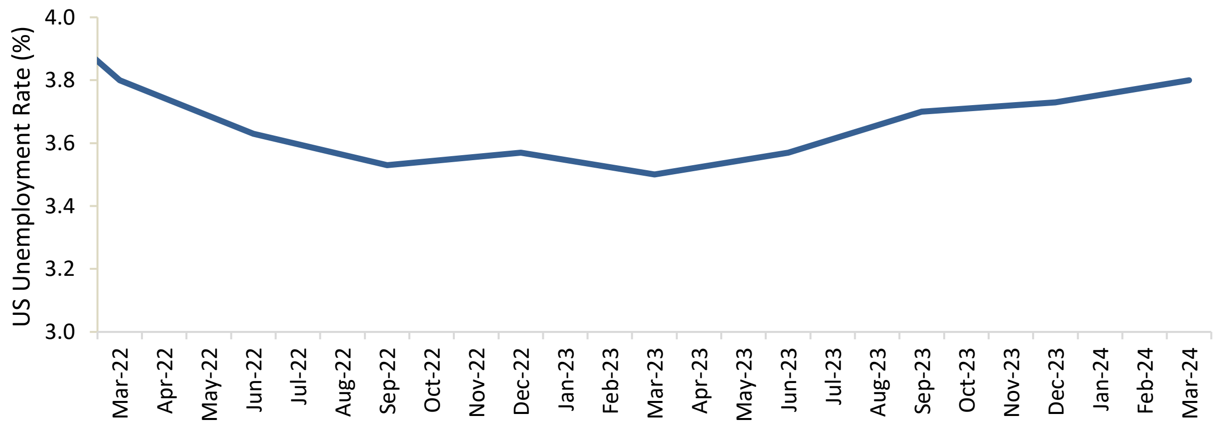
Source: Bloomberg

Lower Personal Consumption Expenditure (PCE) inflation boosts expectation of Fed rate cuts



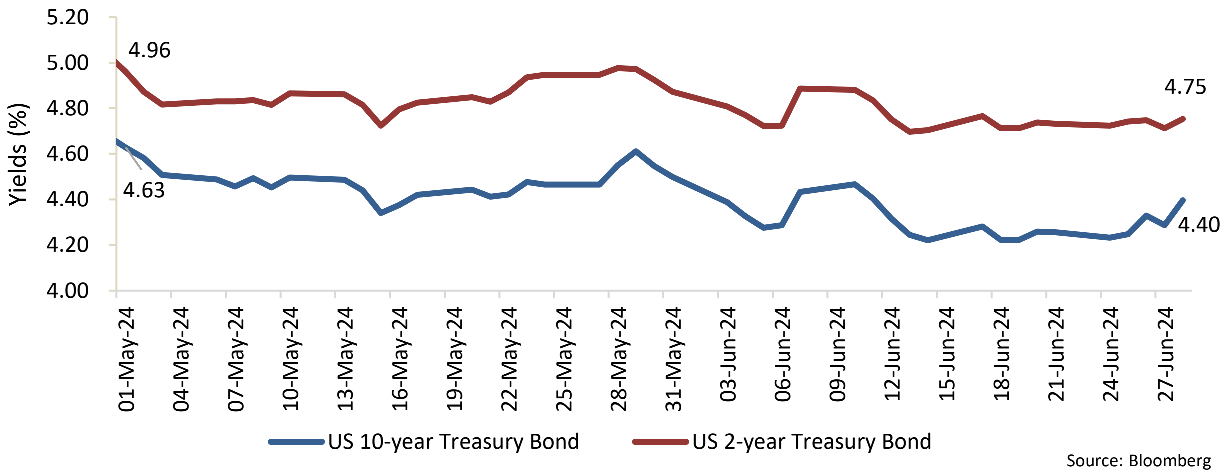
Source: Bloomberg

Increasing unemployment suggests cooling of labour market



Source: Bloomberg

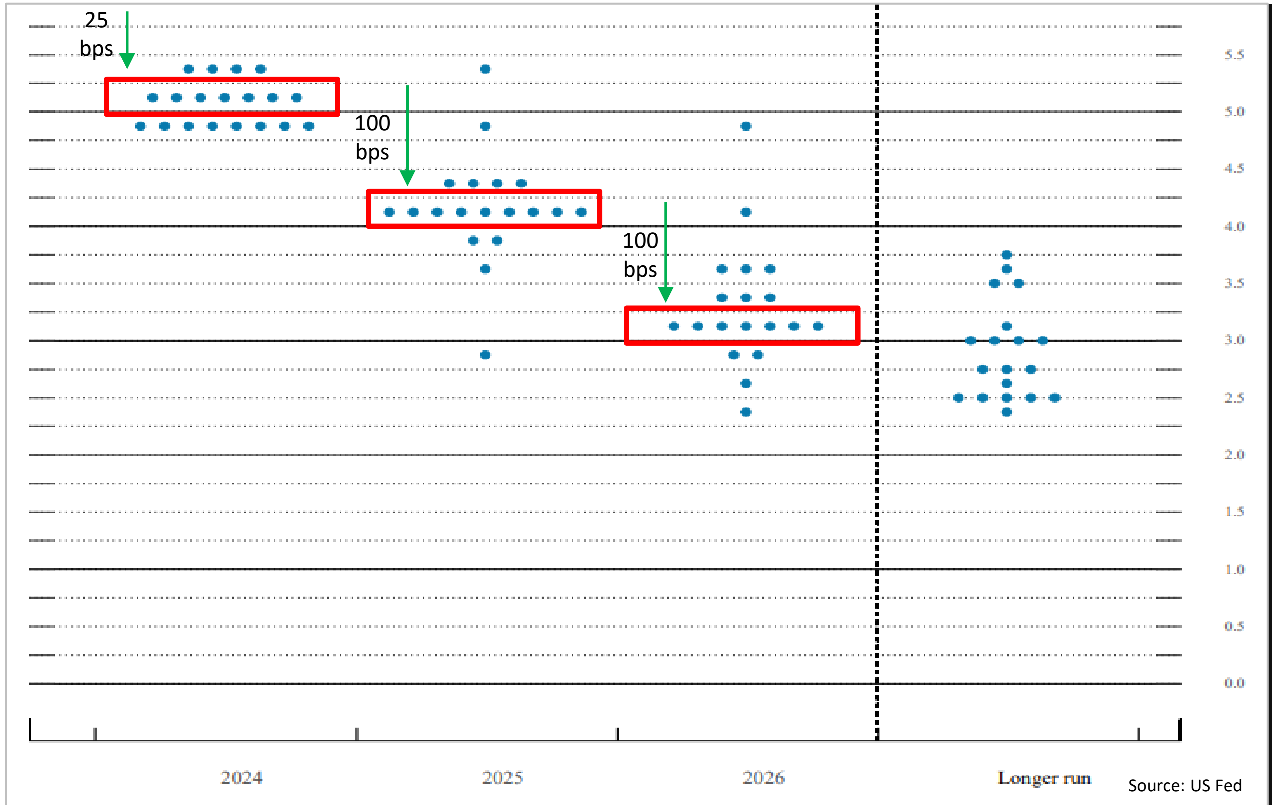
Favourable macros led to fall in US Treasury yields



Source: Bloomberg

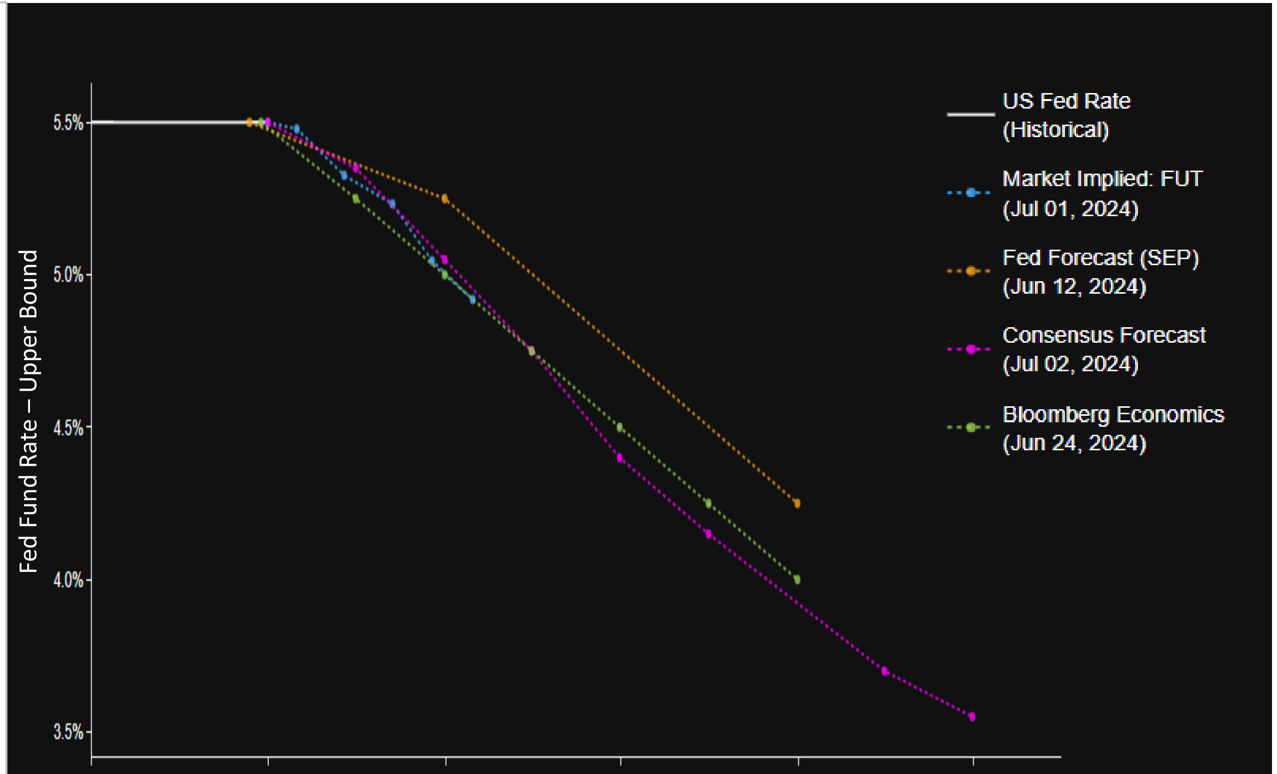
While Fed dot plot suggests one rate cut, Fed may rethink on rate cut if data worsens

Fed's dot plot shows revised rate cut expectations of 25 bps till Dec'24



Source: US Fed

Market expects Fed to cut more than once in CY24



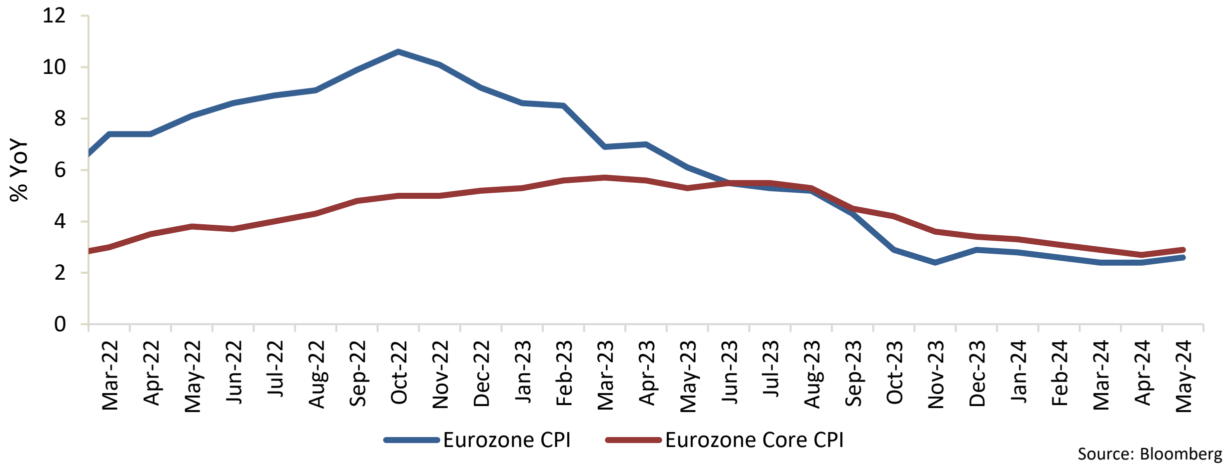
Source: Bloomberg

"In discussing the outlook for monetary policy, participants noted that progress in reducing inflation had been slower this year than they had expected last December. They emphasized that they did not expect that it would be appropriate to lower the target range for the federal funds rate until additional information had emerged to give them greater confidence that inflation was moving sustainably toward the Committee's 2 percent objective"

– Minutes of FOMC meeting (June 11-12, 2024)

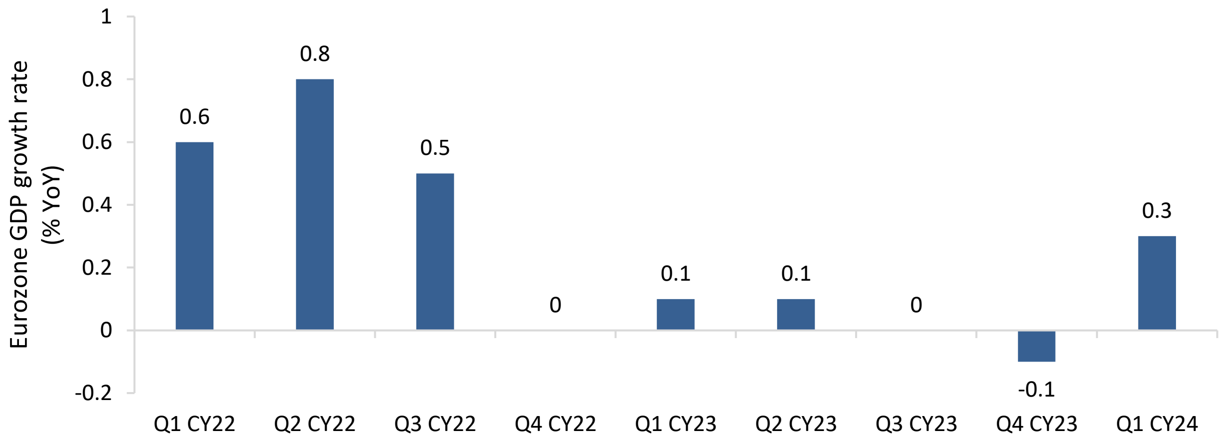
In contrast to the Fed, the ECB goes ahead with the rate cut

Uptick in inflation in Eurozone may delay further rate cuts



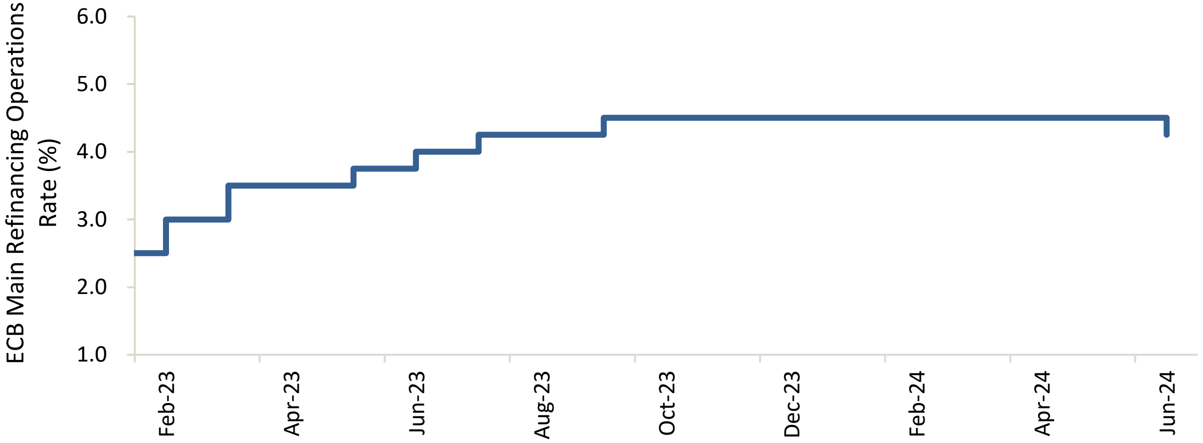
Source: Bloomberg

Eurozone economy returned on its growth path in Q1 CY24



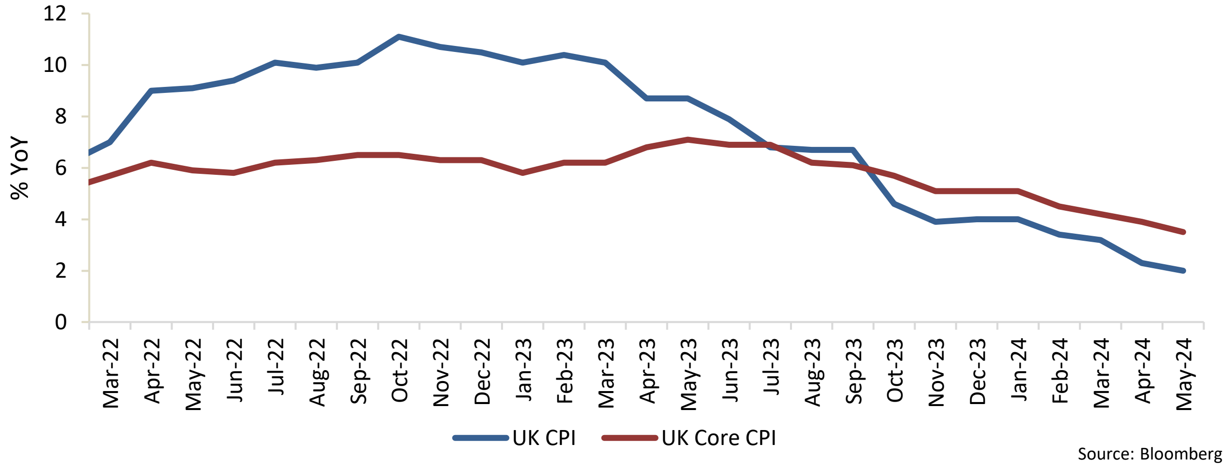
Source: Bloomberg

ECB cut rates before Fed but commentary remained hawkish



Source: Bloomberg

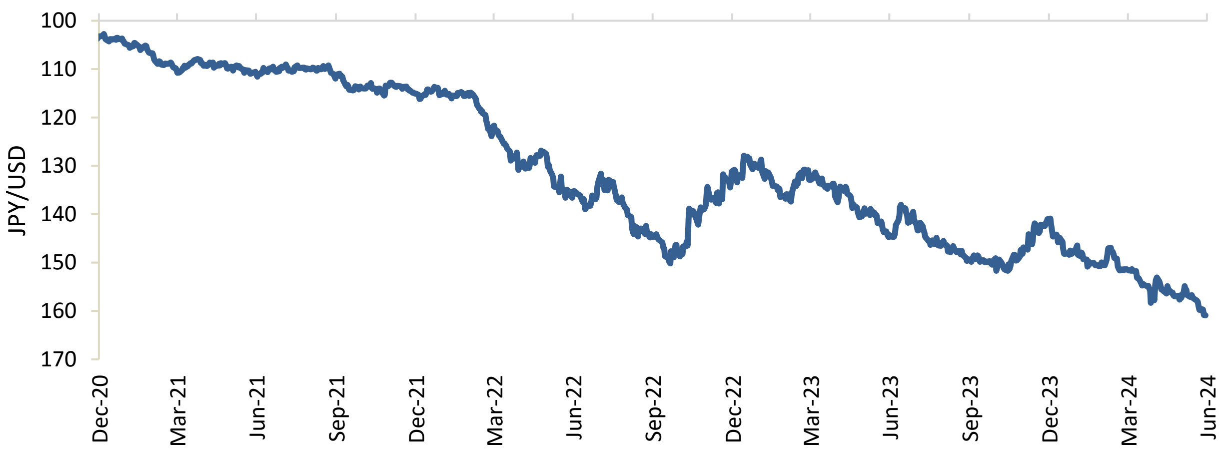
With falling inflation in the UK, BoE signals rate cut



Source: Bloomberg

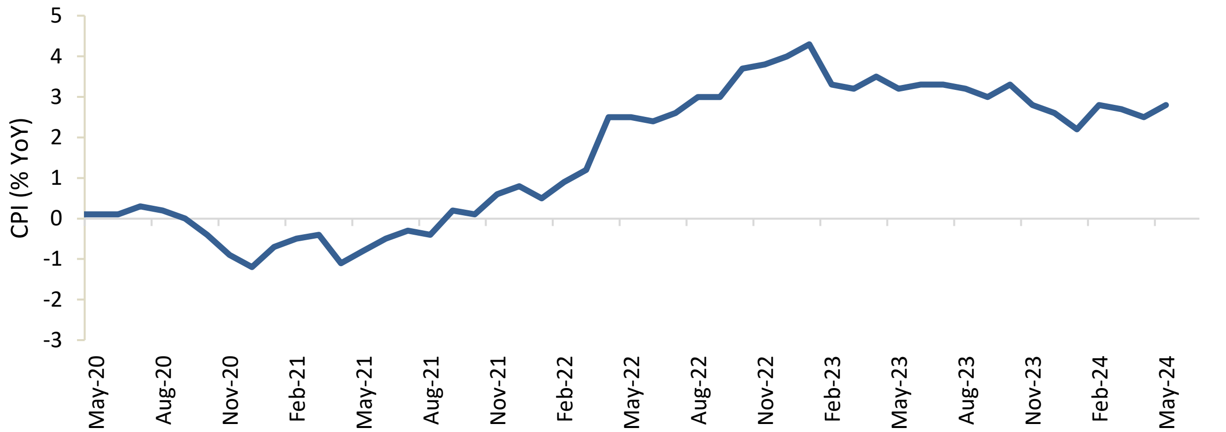
Depreciating Yen may push BoJ to tighten monetary conditions

Falling Yen may lead to imported inflation



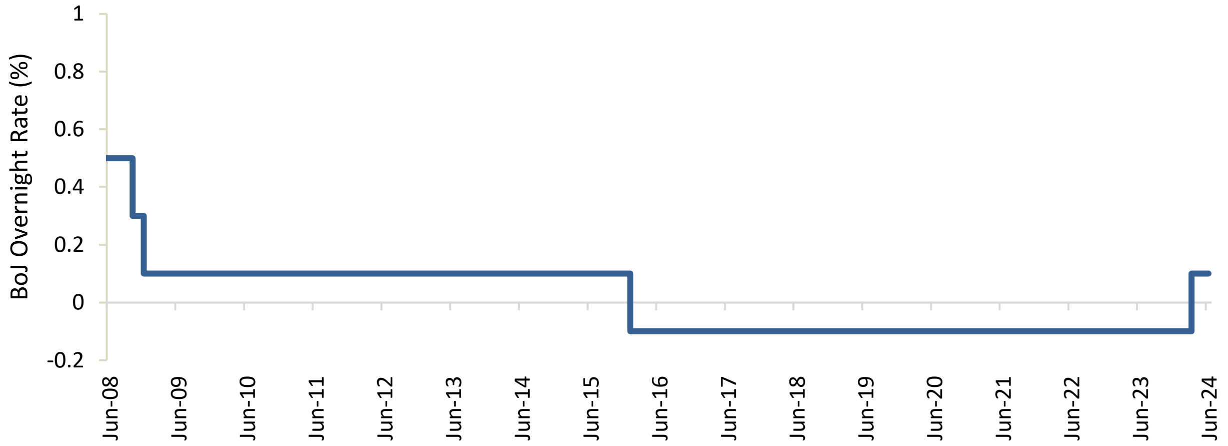
Source: Bloomberg

Accelerating inflation may warrant BoJ's intervention



Source: Bloomberg

Inflation and currency may push BoJ to hike rates further



Source: Bloomberg

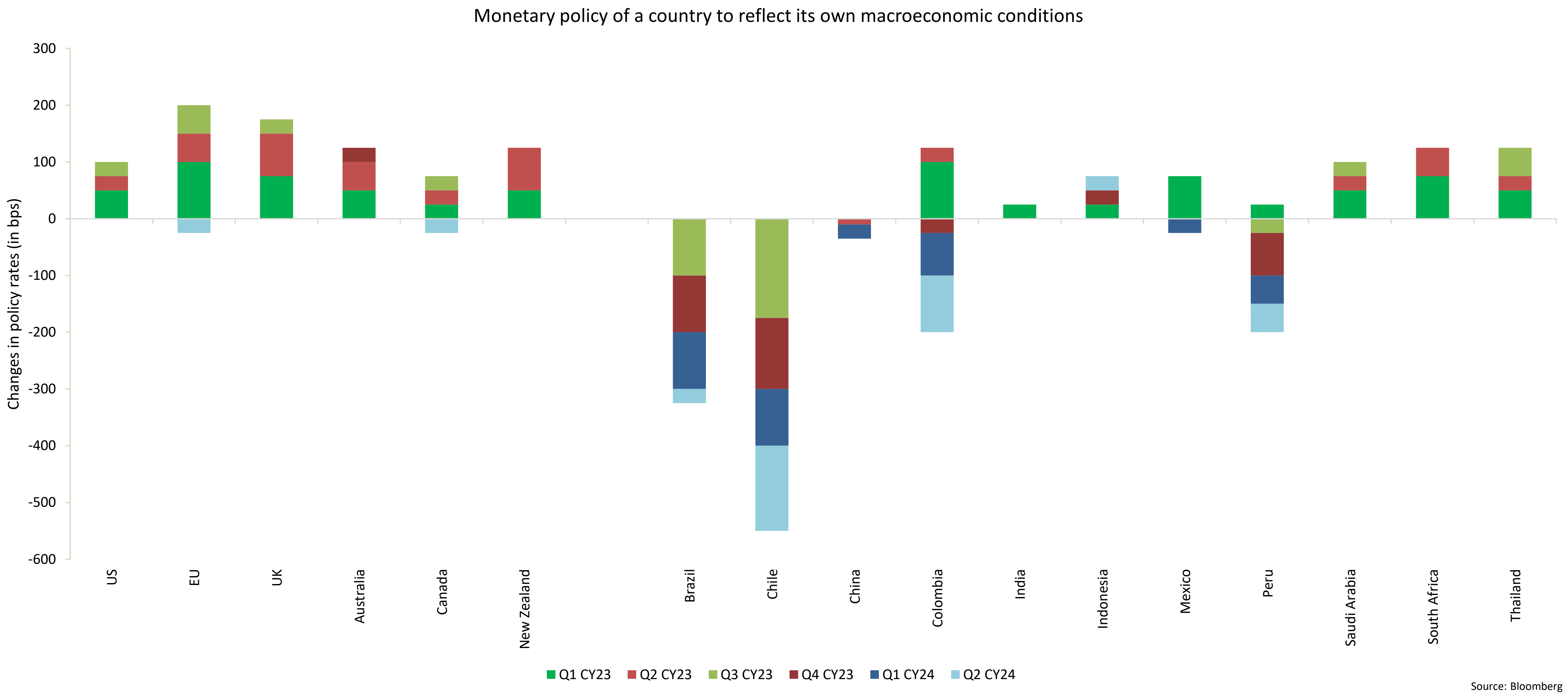
"There is a possibility that prices will deviate upward from the baseline scenario…. It is therefore necessary for the bank to consider whether further adjustments to monetary accommodation are needed from the perspective of risk management."

– BoJ Monetary Policy Meeting (June 13-14, 2024)

"It is appropriate to reduce the bond purchases in a predictable manner while also ensuring flexibility for market stability. If we are to start reducing [the purchases], we believe the size will be significant"

– BoJ Governor post Monetary Policy Meeting

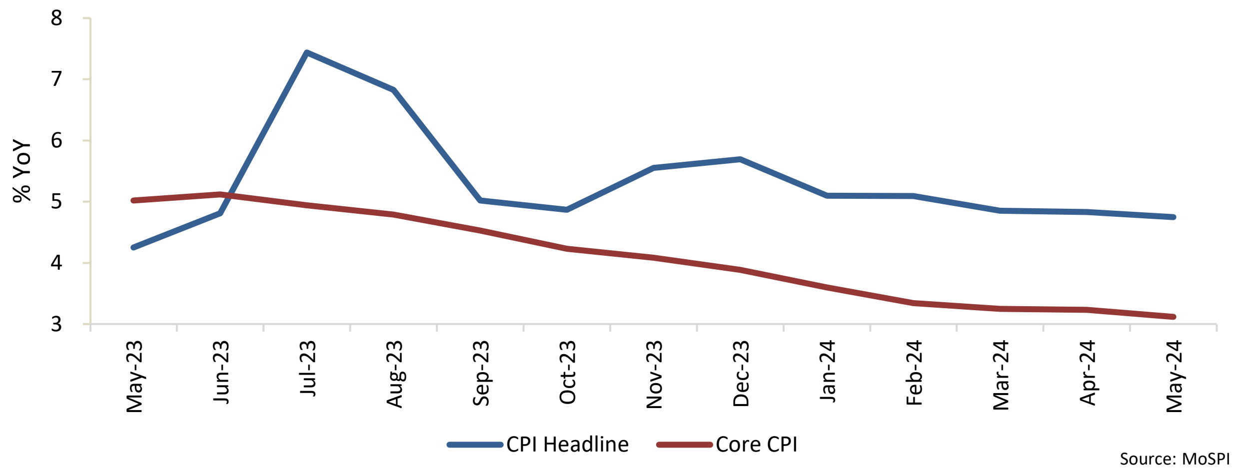
Except for few, most major economies have embarked upon or guided for rate easing cycle



Source: Bloomberg

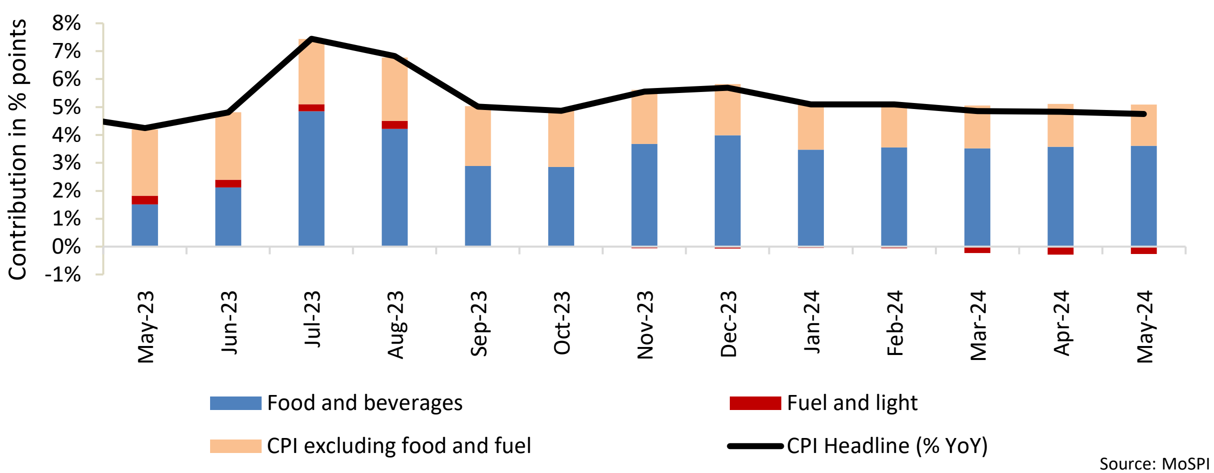
Domestically, elevated food inflation limited the fall in headline inflation

Market expects inflation to fall below 4% by Sep’24 due to base effect



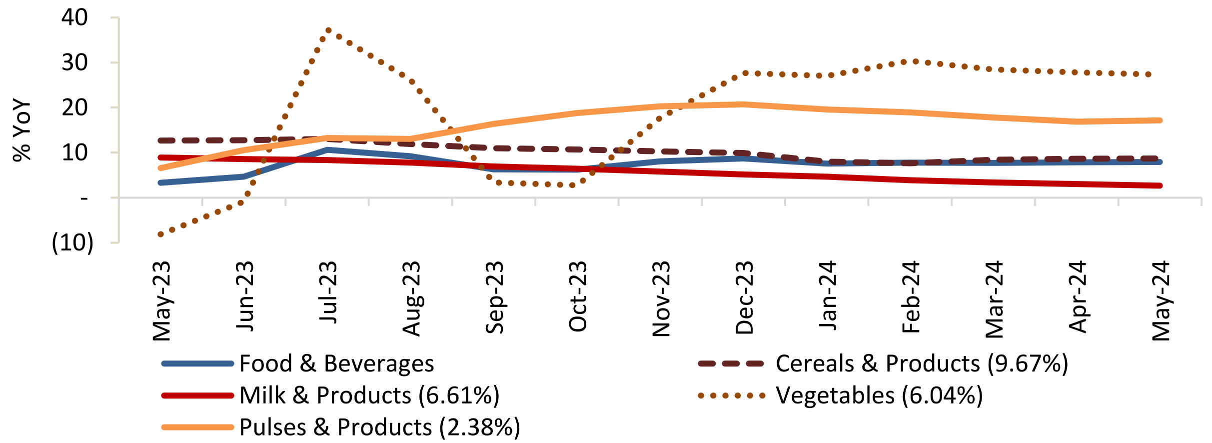
Source: MoSPI

Food continues to impact inflation significantly



Source: MoSPI

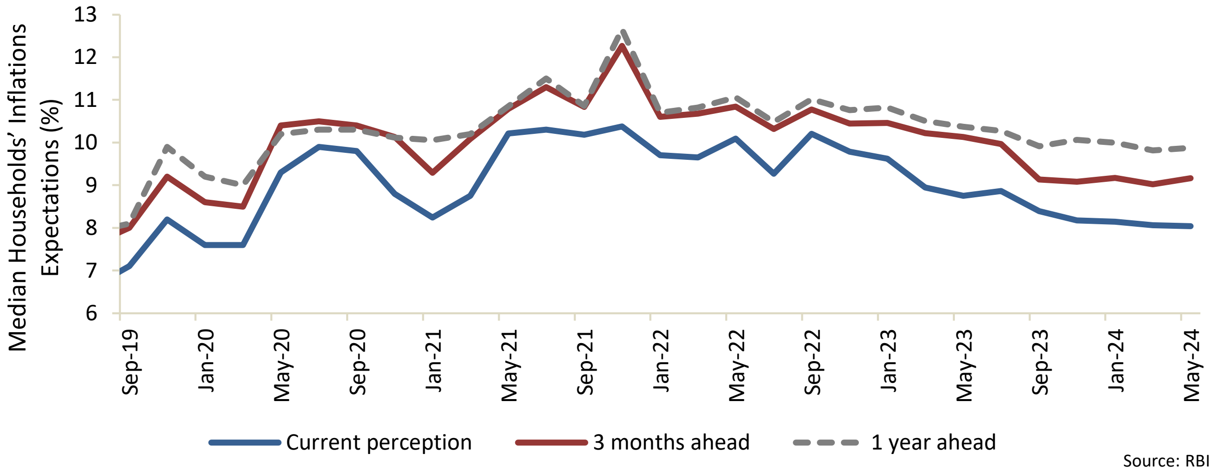
Food inflation remains high due to elevated vegetables prices



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

Source: MoSPI

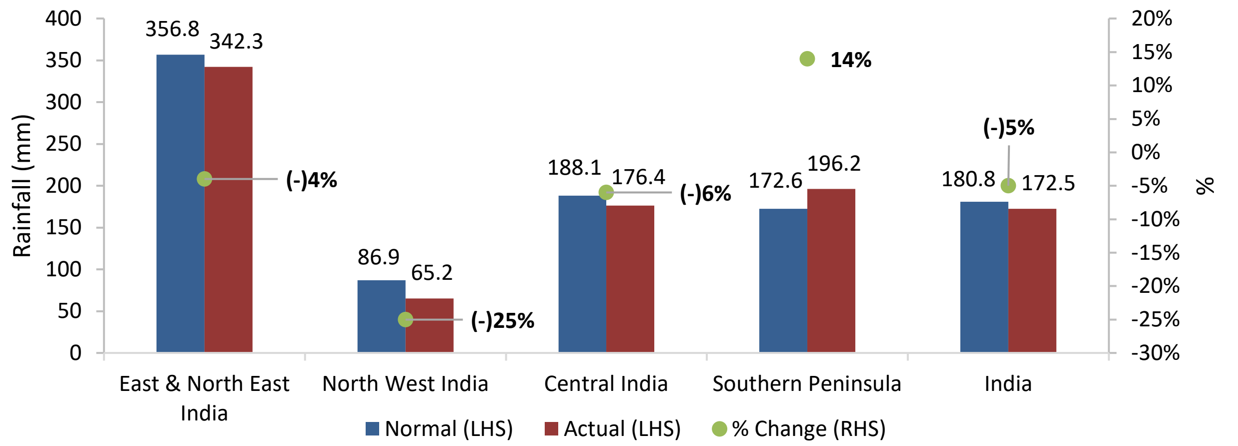
Household Inflation expectations continue to cool-off



Source: RBI

With RBI focusing on food inflation, strength of Monsoon remains important for food prices

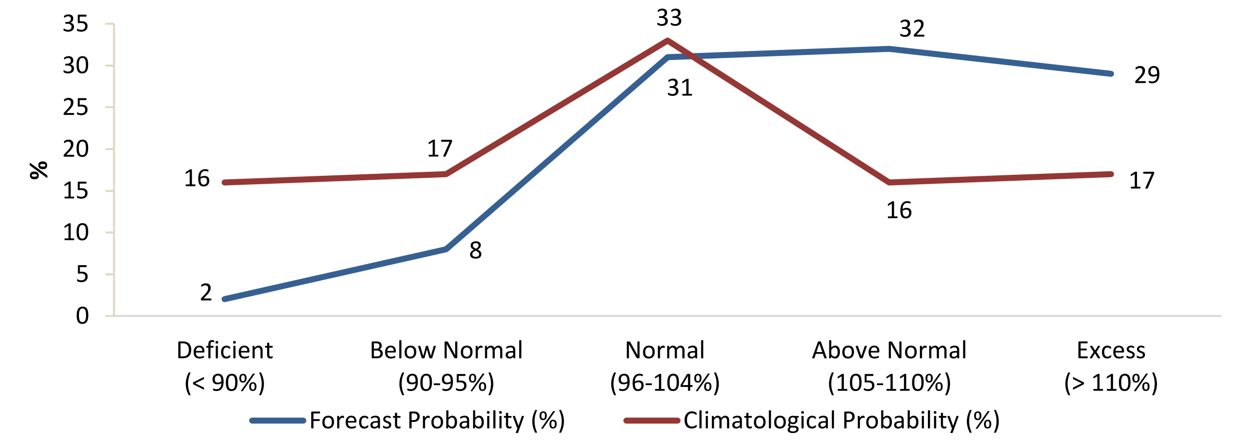
June rainfall falls short of the normal mark



Note: Rainfall data between 1-Jun-2024 to 2-Jul-24

Source: IMD

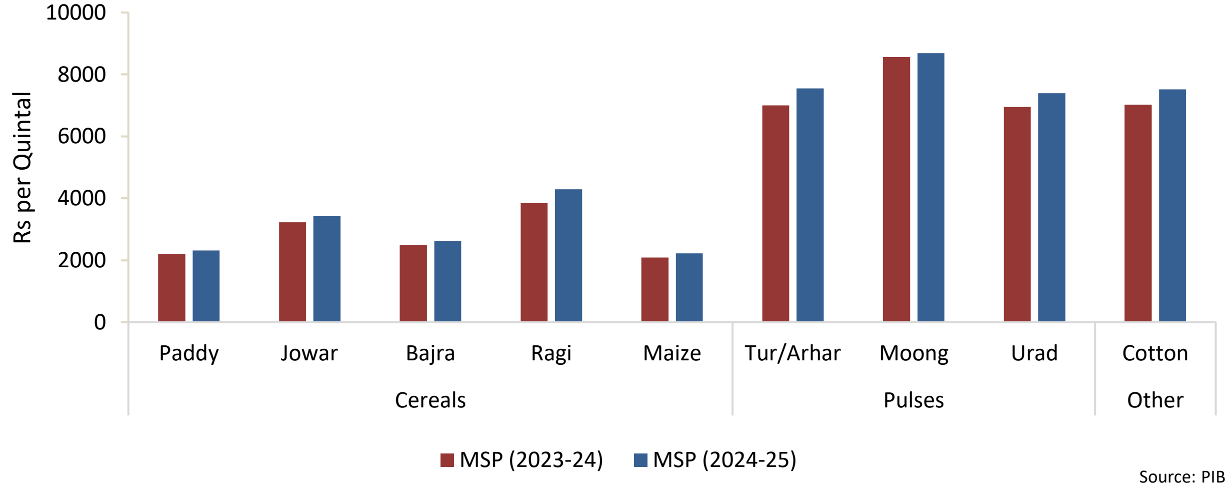
Higher probability of normal monsoon may ease food inflation



Note: Data as per the 2nd advance estimate of IMD

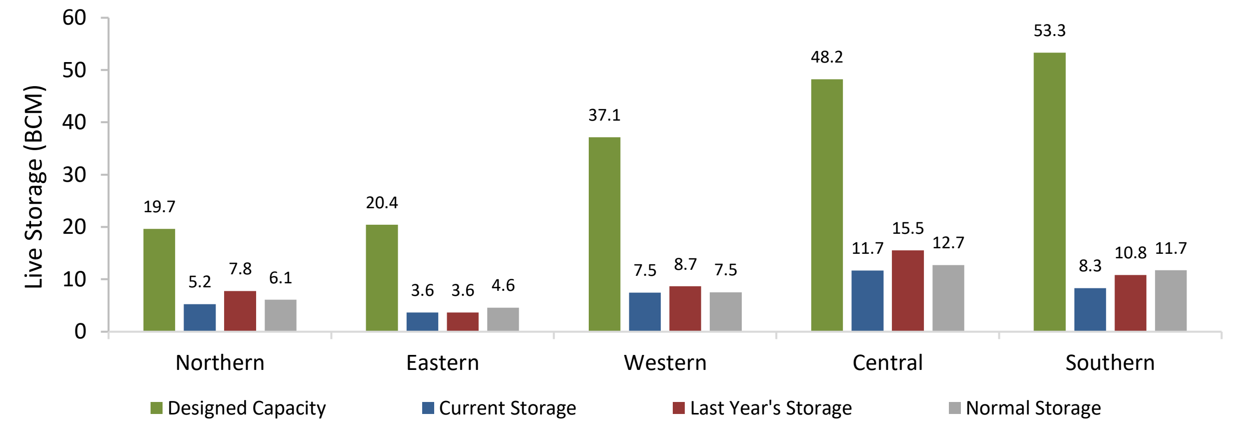
Source: IMD

Reasonable MSP hike to result in Rs ~350 bn gain for farmers



Source: PIB

With low reservoir level, kharif season depends heavily on monsoon

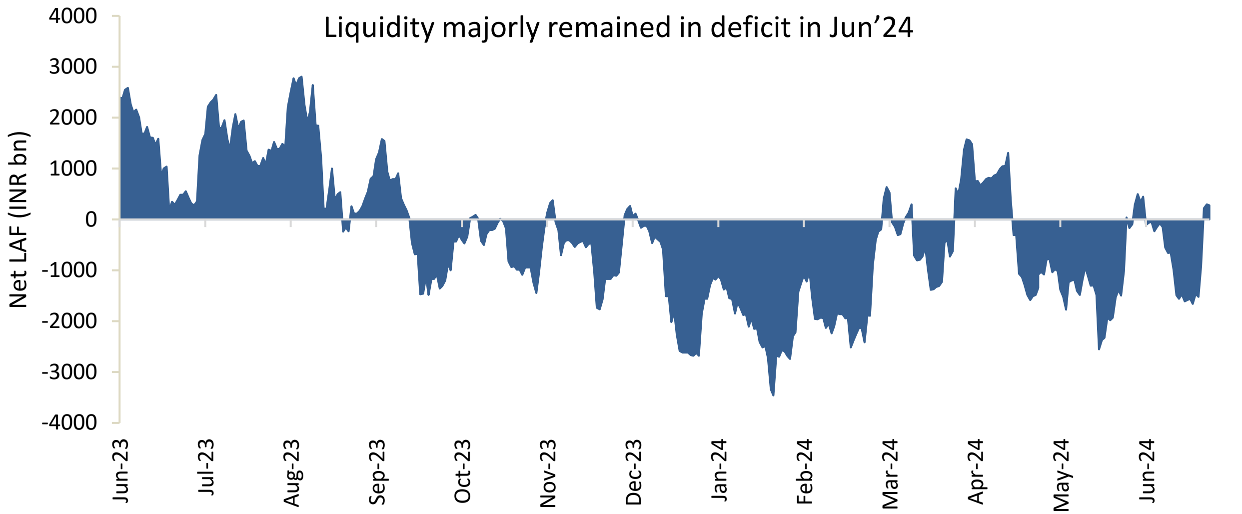


Note: Data as on 27-June-2024

Source: Central Water Commission

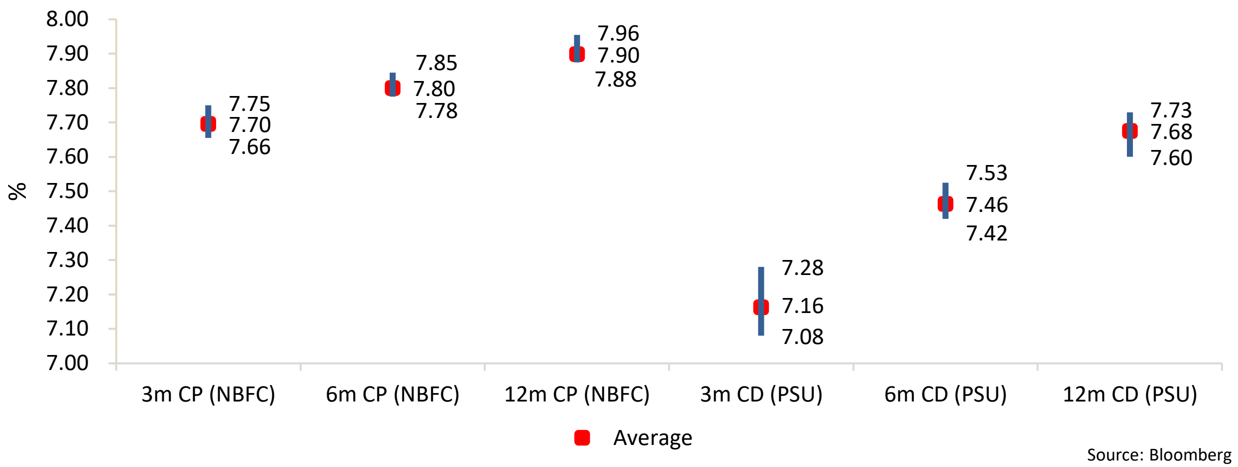
Liquidity remained volatile with the RBI conducting both VRR/VRRR to manage system liquidity

Liquidity majorly remained in deficit in Jun'24



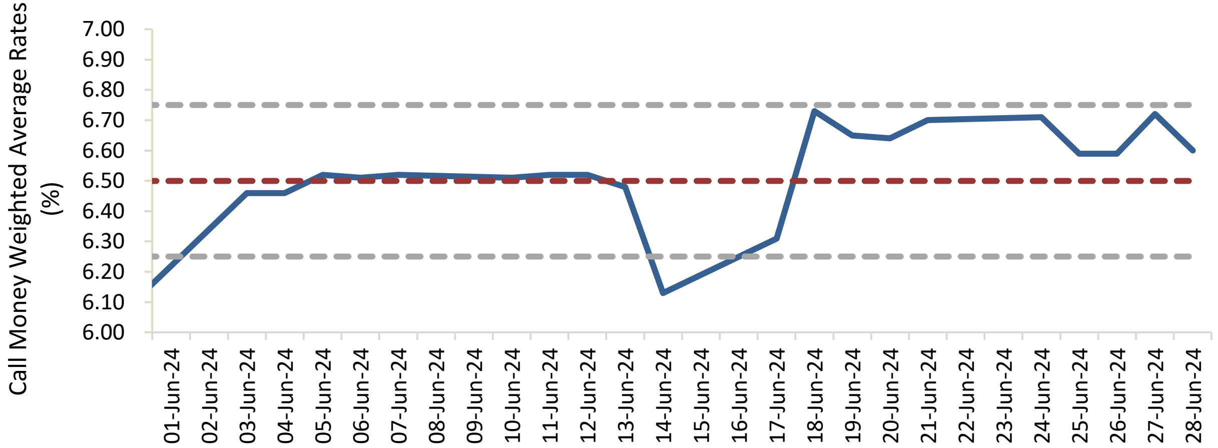
Source: Bloomberg

Money market rates reacted to liquidity conditions



Source: Bloomberg

RBI continues to align overnight rate to repo rate



Source: Bloomberg

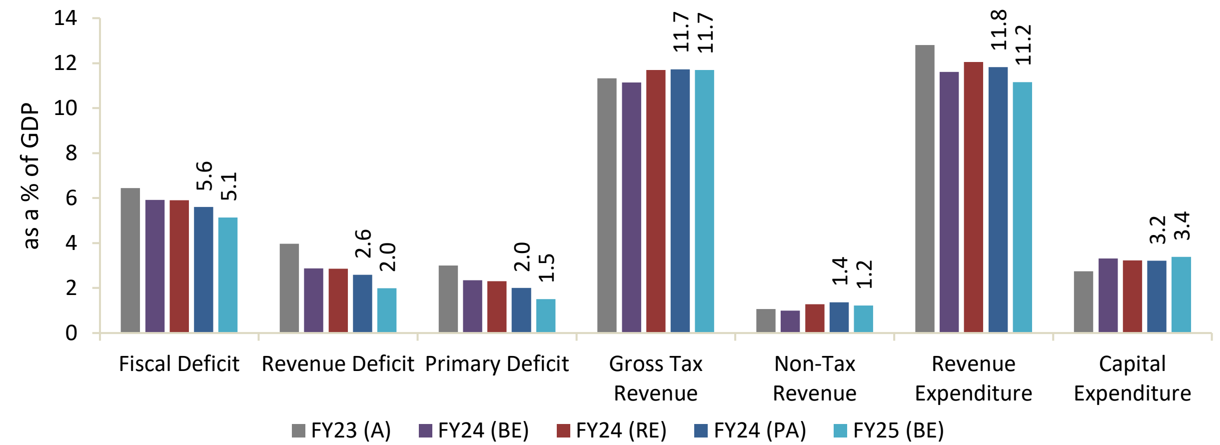
RBI remains nimble in liquidity management

Note: VRR is denoted by positive value and VRRR is denoted by negative value

Source: RBI

Stable fiscal conditions and improving current account makes India an attractive FPI destination

Fiscal consolidation to accentuate foreign investors' affinity for G-sec



Note: A - Actuals; BE - Budget Estimates; RE - Revised Estimates; PA - Provisional Accounts

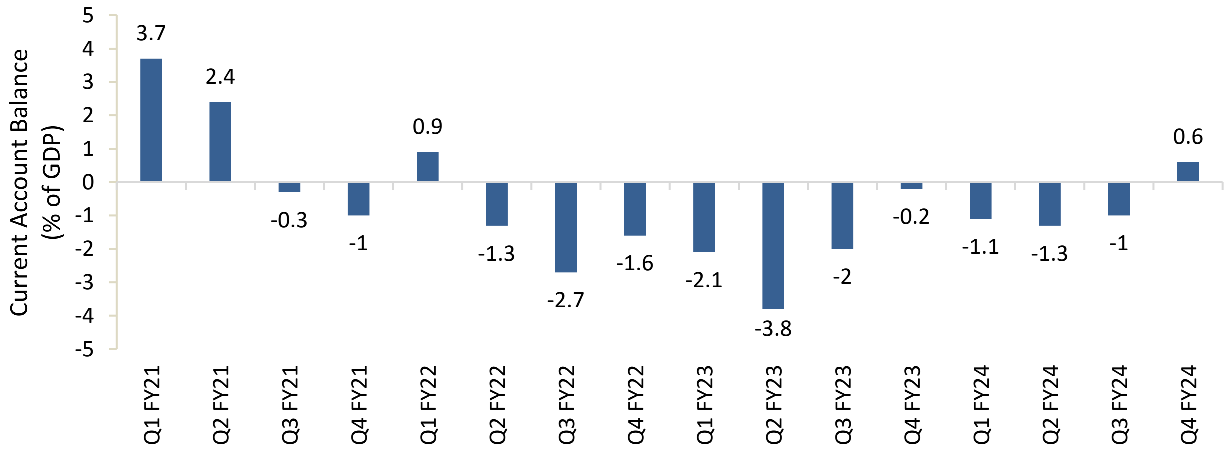
Source: RBI; Budget Documents; CGA

10% weight in JP Morgan Global Bond Indices may attract inflows of USD 25-30 bn till March 2025

Around USD 10-11 bn has been front-ended before the inclusion

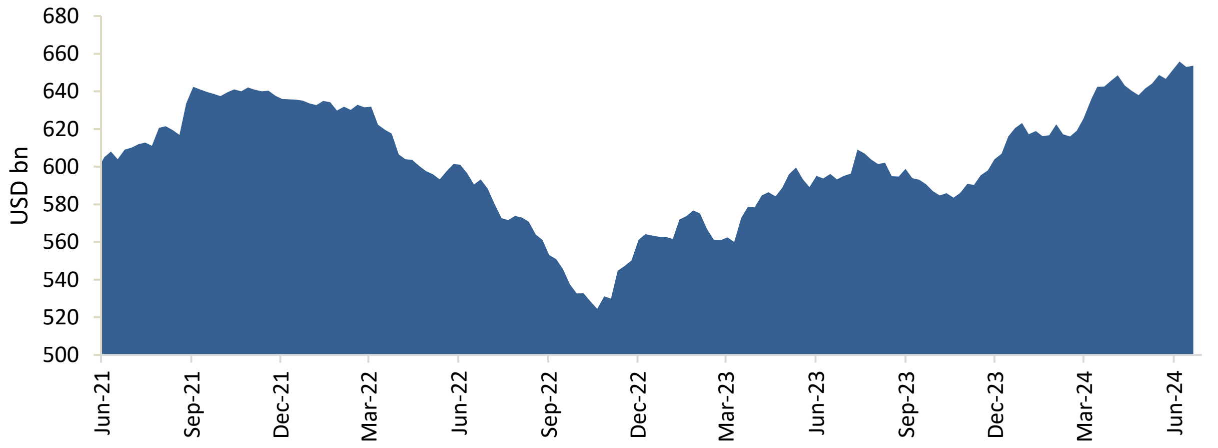
Going forward, market expects monthly flows to be around USD 1.5-2 bn till March 2025

Improving current account balance to strengthen the external sector



Source: Cogencis; RBI

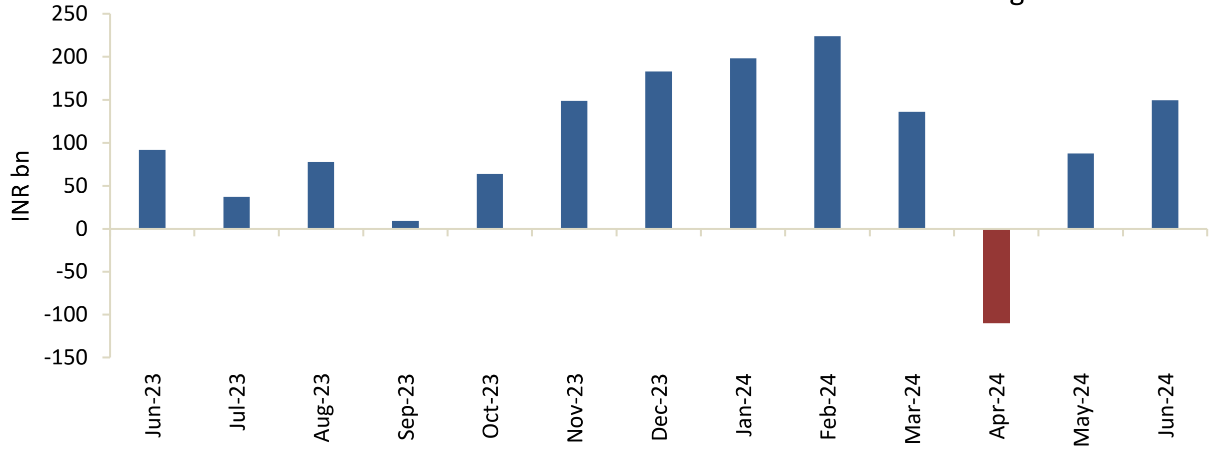
Record forex reserves safeguard INR amidst global challenges



Source: Cogencis

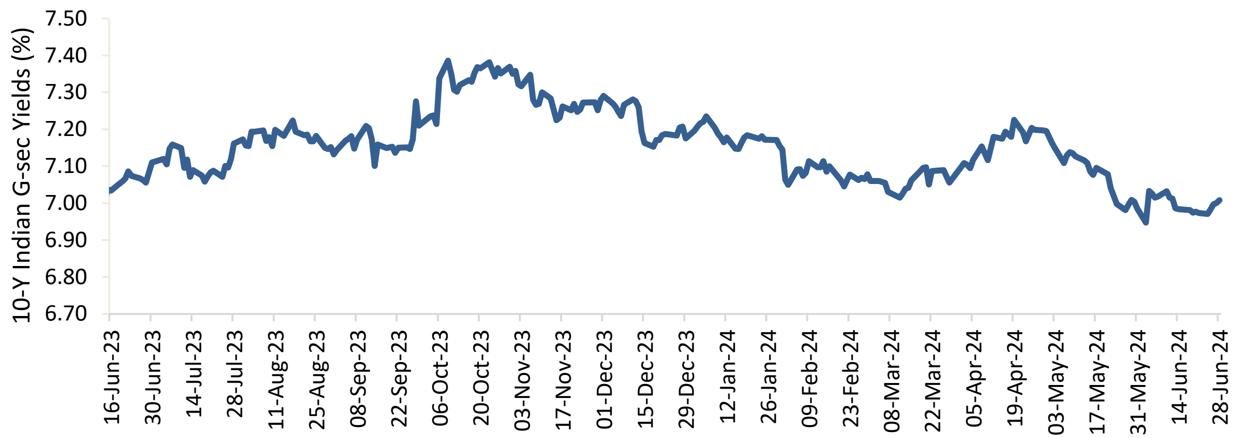
Fiscal consolidation and rising demand have led to a flat yield curve

FPI flows remains robust on the back of index inclusion and strong macros



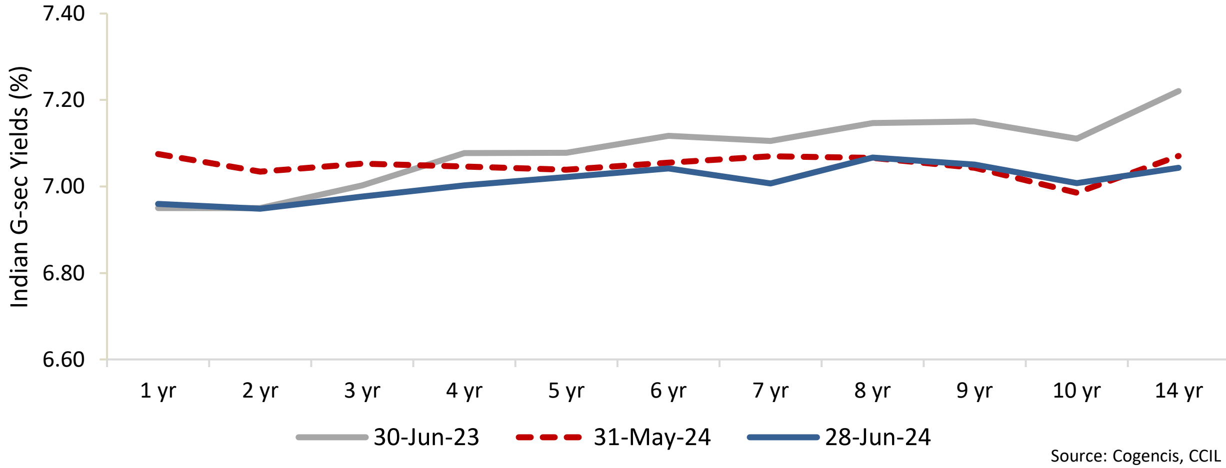
Source: NSDL

Yields traded lower due to favourable demand-supply dynamics



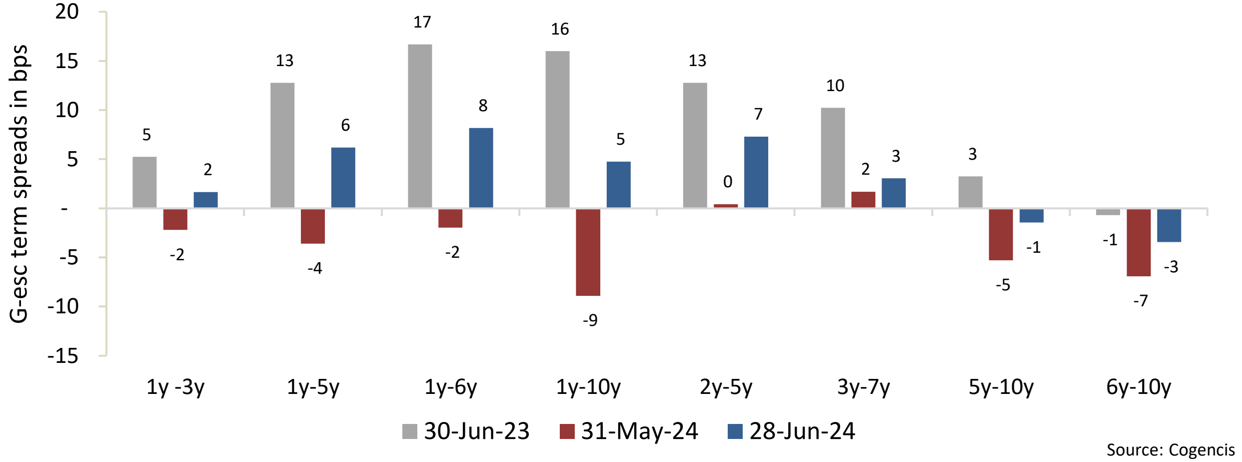
Source: Cogencis

Tight liquidity and demand for long bonds keeping the curve relatively flat



Source: Cogencis, CCIL

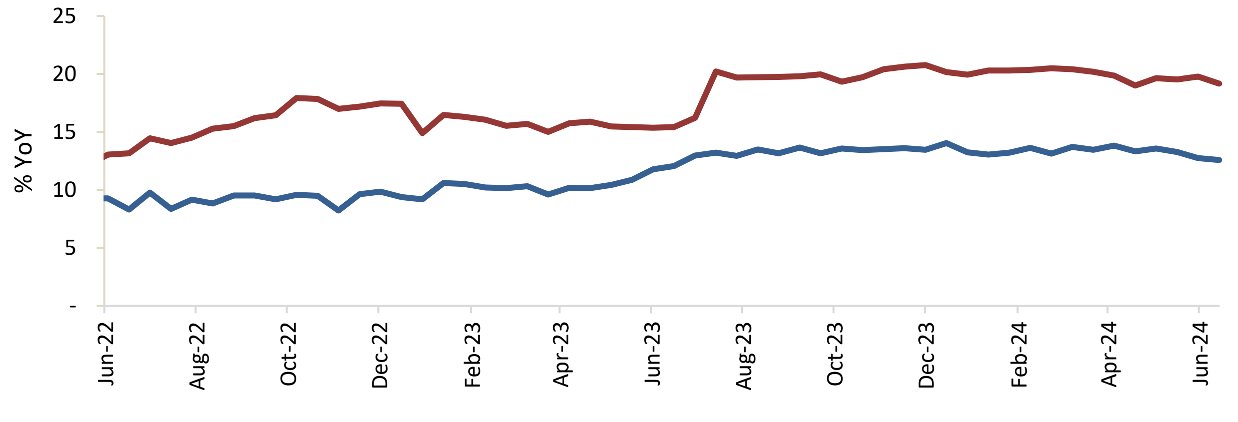
Term spreads continue to remain narrow



Source: Cogencis

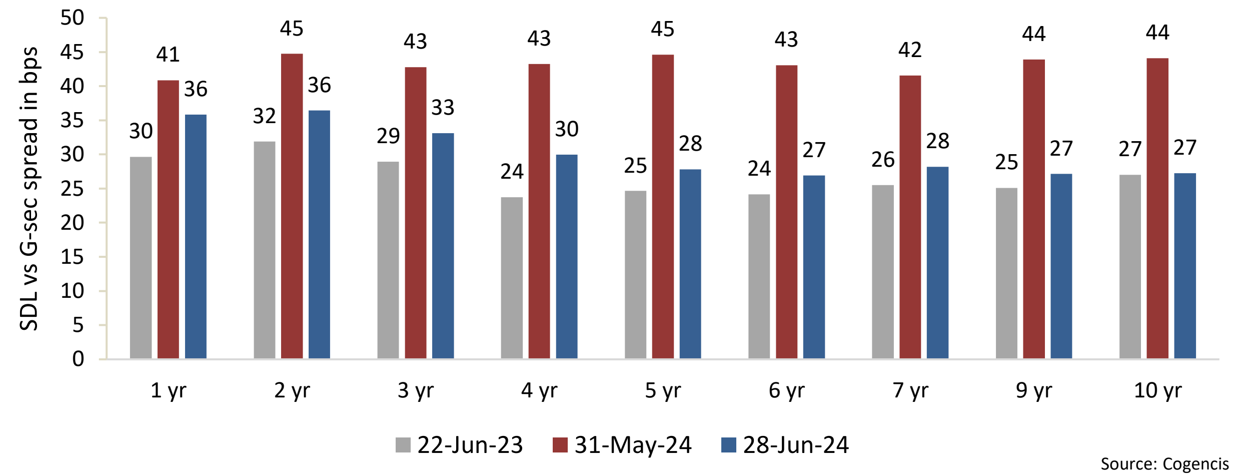
With higher carry, accrual remains attractive from risk-reward perspective

Banks' credit continues to grow above 18% YoY



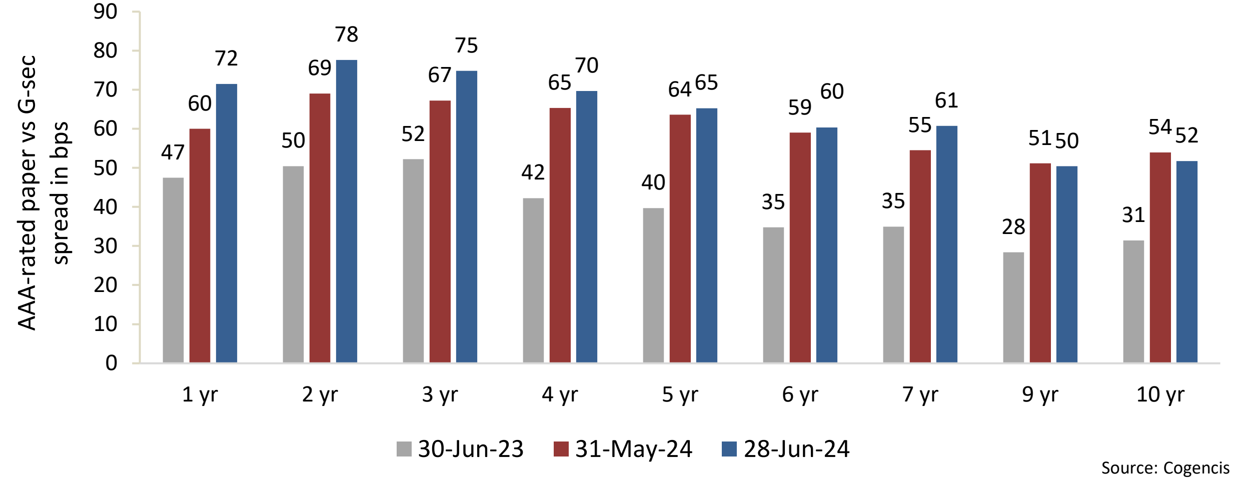
Source: Bloomberg

SDL spreads remain narrow due to lesser SDL supply



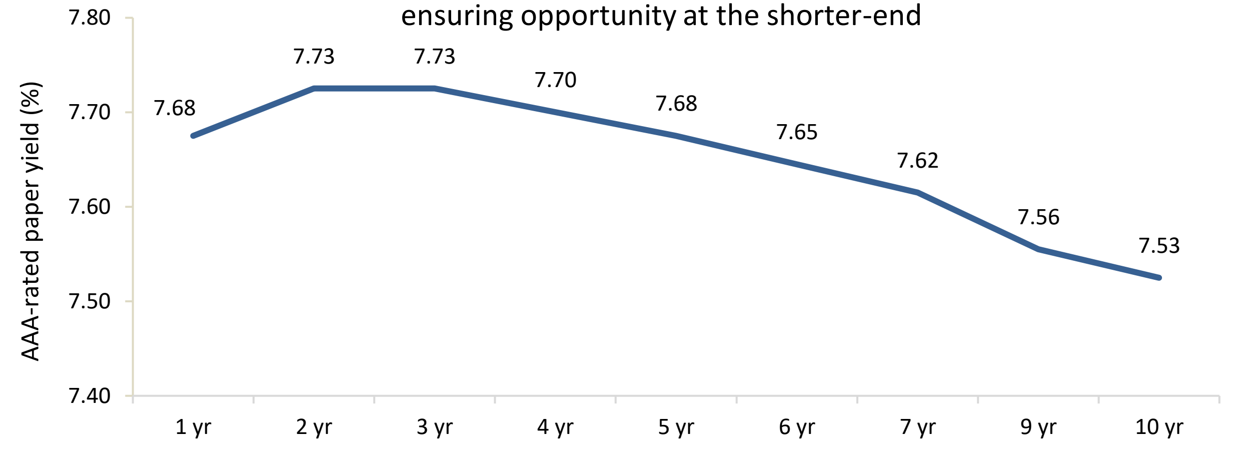
Source: Cogencis

Corporate bond spreads in 1-4-y space improved, driving the carry higher



Source: Cogencis

Tight liquidity conditions keeping corporate bond yield curve inverted, ensuring opportunity at the shorter-end



Source: Cogencis

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