HDFC Bank – Research Presentation

November 2024

Classification - Internal

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	◆

Classification - Internal

Equity MF Strategy – November 2024

- Rising unemployment, consolidation in manufacturing PMI and deceleration in consumer sentiments suggest weakening growth impulses in the US. US Federal Reserve cut the policy rates by an above consensus 50 bps in September, to support growth and employment. Outcome of the US Presidential elections could have a bearing on their economic policies and market sentiments.
- Eurozone is seeing continued weakness, despite easing monetary conditions. Declining consumer confidence, a struggling manufacturing sector (in the wake of rising Chinese competition) and weakening industrial confidence have pushed the ECB to continue on the path of Policy rate cuts to support growth.
- The Chinese central bank and their government have announced a slew of liquidity easing measures and fiscal stimulus to counter the increasing slowdown in their real estate and consumption sectors, which is likely to aid their overall GDP growth. This has led to a revival of global interest in the Chinese equity markets. The market participants are hopeful of further stimulus for the economy.
- The base commodity prices have seen weakness post the recent rally on the back of rise in the Dollar Index, weakness in global manufacturing PMIs and the fading off effect post the stimulus in China. Food Inflation globally has also started to turn positive after a long period of weakness, putting upward pressure on global inflation. The crude oil prices have been range bound on the back of supply pressure from OPEC+ and weakening growth impulses despite the rising tensions in the middle east. Tensions between Iran and Israel seem to be escalating and needs to be monitored for any spillover effect.
- Despite the dovishness by the US FED, the US Dollar Index has seen sharp reversal upwards on the back of weakness in competing economies like EU and Japan, along with demand for safe haven assets due to global geo political uncertainty.
- The Indian economic growth has been on a consistent uptrend post the Covid period. Most multilateral agencies believe that this uptrend is likely to continue in the foreseeable future. Best in class GDP growth, robust PMI data, rising tax collections, improved Government balance sheet and extremely favourable demographics all point towards a strong momentum in the medium to longer term at a macro level. However, in the near term there are some signs of deceleration showing up, especially in the urban consumption segment, which seems to be impacting the corporate earnings. While the GST data for October has been strong, suggesting robust demand during the festive season; the continuation of such demand will be important.
- Rural economy seems to be gathering momentum. Strong monsoons, higher crop acreage, strength in the real estate and construction activities bode well for rural economy. While the Two-Wheeler sales have been volatile, improving volume growth commentaries (which are divergent from their commentary on urban demand) from FMCG companies are suggestive of improving consumption impulse in this segment. Many state governments have announced policies and payouts for the lower income households and farming community which also seem to be supportive.
- Urban demand seems to be decelerating, despite the premiumisation trend continuing. Passenger vehicle sales data has continued to weaken. Other indicators like personal loan growth has also seen deceleration building in, while White collar job creation has remained steady. In the Q2FY25 result season, many FMCG and Auto companies have hinted at a weakening demand momentum in the urban segment, especially post the festive season. This is a cause for concern in the medium term and may push the Government to bring in consumption supportive policies.
- Corporate and Banking sector balance sheets in India have shown strong improvement. The Corporate debt to equity has come off consistently, especially for the manufacturing sector. As the current capacity utilisation peaks in various sectors, releveraging by corporates can easily fund incremental private capex demand. As per data from the RBI, the capex intentions of the Private sector seems to be on an upswing. Sunrise sectors like Semiconductors, New Energy, Defence and Electronics are likely to undertake new capacity creations. The Capex oriented sectors have seen a sharp run-up and the valuations in these segments seem to be pricing in most of the future positives.
- Liquidity conditions have begun to ease with the RBI moving to a neutral stance on liquidity, market participants now expect the RBI to gradually focus its policy attention to support economic growth.
- Despite the recent correction, equity market valuations across many sectors and marketcap segments (especially midcap and Smallcap, excepting the banking index) are trading at closer to two year highs. The quarterly earnings, thus far, have been relatively weaker than market expectations and have led to further earnings downgrades. While the inflow into the equity markets have been substantial from the domestic investors, FPI outflows have been a cause of concern. Also the supply of fresh equity in the form of FPO, IPO and dilution by the promoters have also been substantial liquidity guzzlers.
- In such conditions, the tolerance for any bad news in form of Geo political flareups, US election outcome, Domestic election uncertainty (with 2 key states going for polls), large supply of equities and earnings downgrades seems to be emerging as a key risk for the investors and can lead to further market correction as risks play out.
- In the long term, improving domestic macro conditions, favourable demographics, rising per capita income and strong consumption demand could keep driving the Indian corporate earnings higher and support the equity markets, thus making Indian markets a “buy on dips” play currently.
- **Fresh Investment deployment strategy could be 40% lumpsum and rest 60% to be staggered over the next 5-6 months. Mutual Fund investors can look to focus on categories like Largecap, Focussed, 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

- The Corporate Bond spreads at the shorter end may shrink, making the case for corporate bonds at the 2-4-years segment of the curve.
- Hence, investors can look at Corporate Bond Funds and Short duration funds for a horizon of 15 months and above.
- With the recent spike at the longer end, opportunities have opened up for duration play. Thus 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.

Classification - Internal

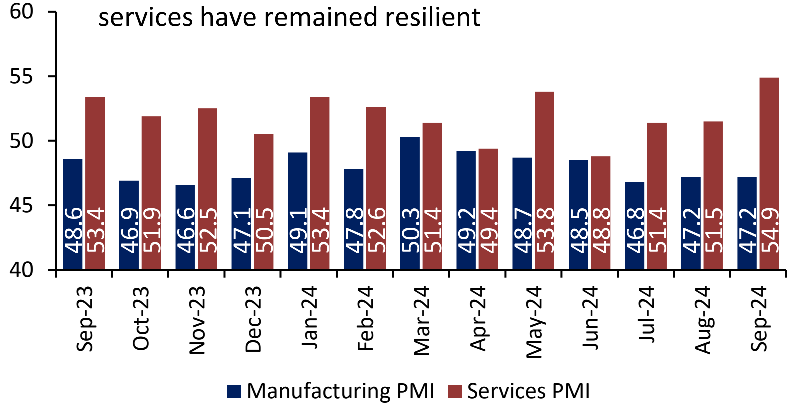
Research presentation – Content

Classification - Internal

US: Economy showing mixed trends…further monetary moves to depend on the policies driven by the new administration

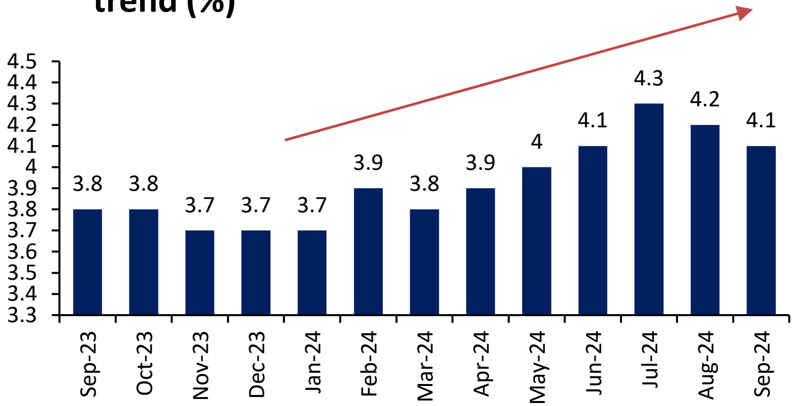
US Manufacturing & Services PMI

While manufacturing PMI continues to struggle, services have remained resilient



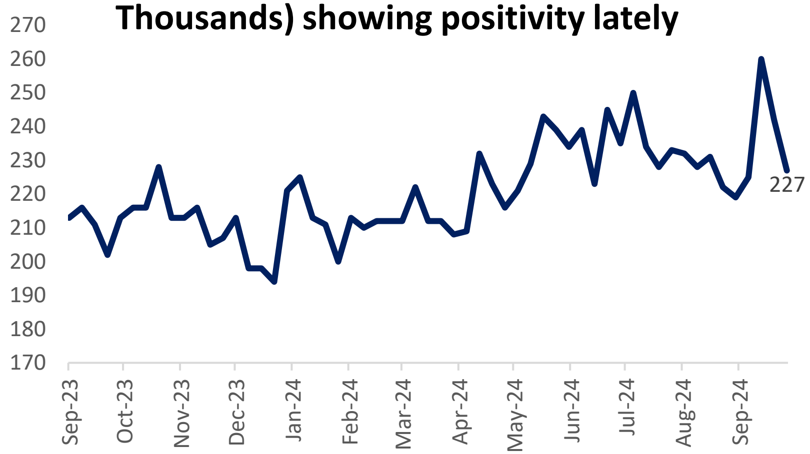
Source: Bloomberg

US Unemployment Rate higher than past trend (%)



Source: Bloomberg

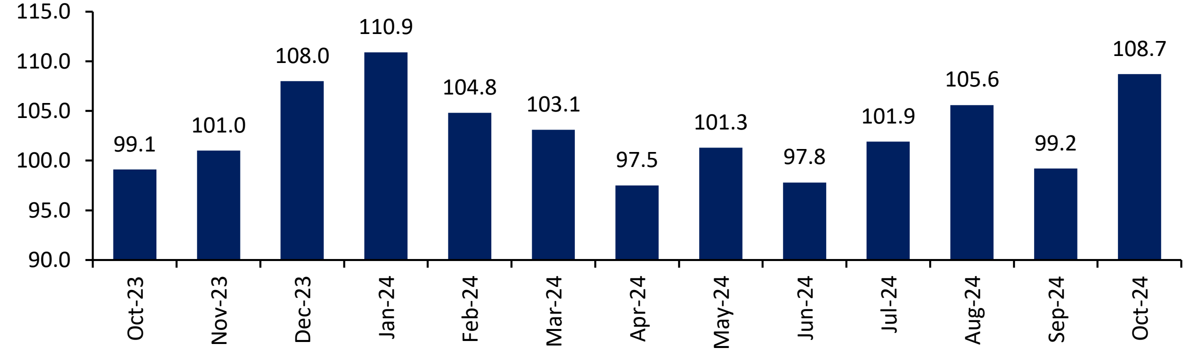
Though, US Initial Jobless Claims (In Thousands) showing positivity lately



Source: Bloomberg

US Consumer Confidence Index

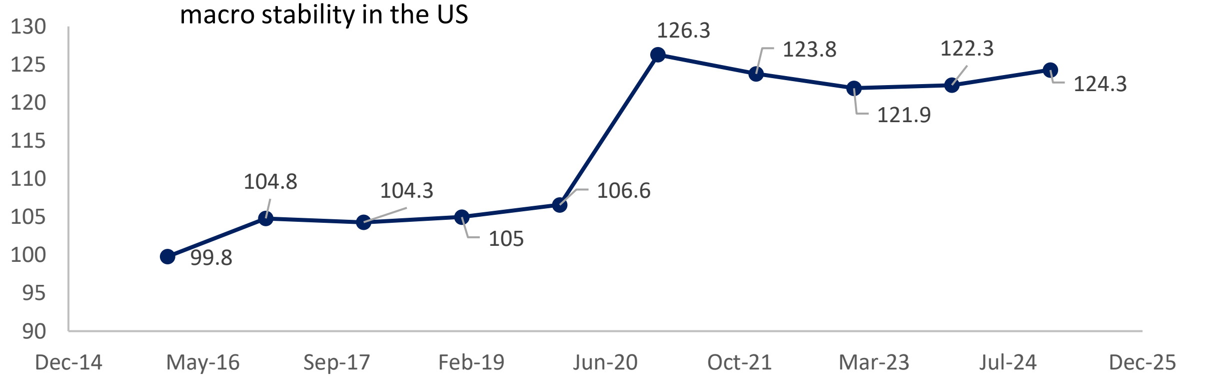
Consumer confidence data showing continuous volatility, no clear trend emerging



Source: Bloomberg

US Gross Federal Debt in Percent of GDP

Rising Debt to GDP continue to pose challenge to long term macro stability in the US

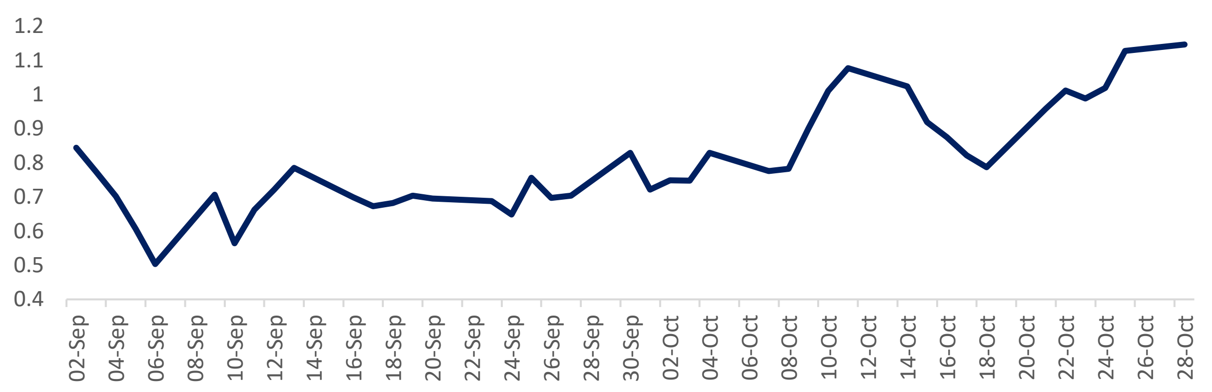


Source: Bloomberg

Classification - Internal

Eurozone: Economic conditions continue to remain weak, despite improving financial conditions

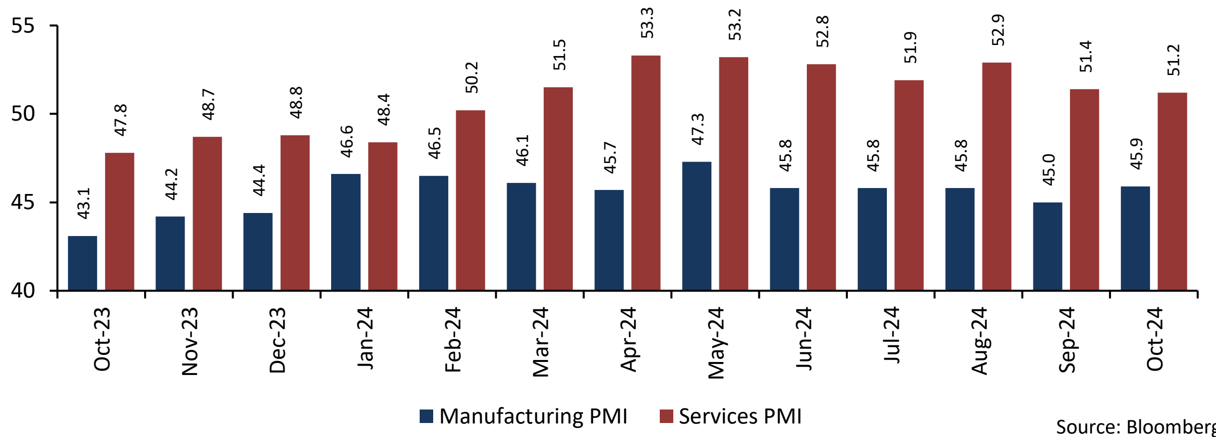
Bloomberg Euro area Financial Conditions Index has been strong



Source: Bloomberg

S&P Global Eurozone PMI

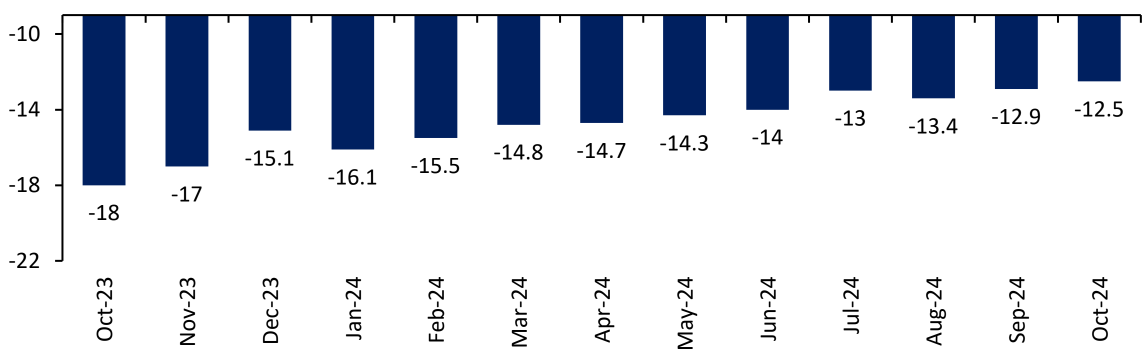
Manufacturing under pressure while Services holding up



Source: Bloomberg

Eurozone Consumer Confidence Indicator

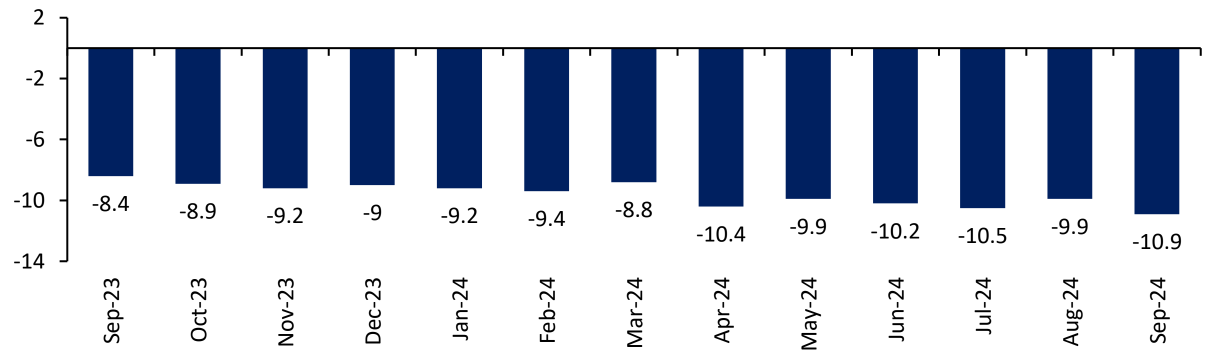
In the negative territory, but improving



Source: Bloomberg

Eurozone Industrial Confidence Indicator

Weakness continues to persist



Source: Bloomberg

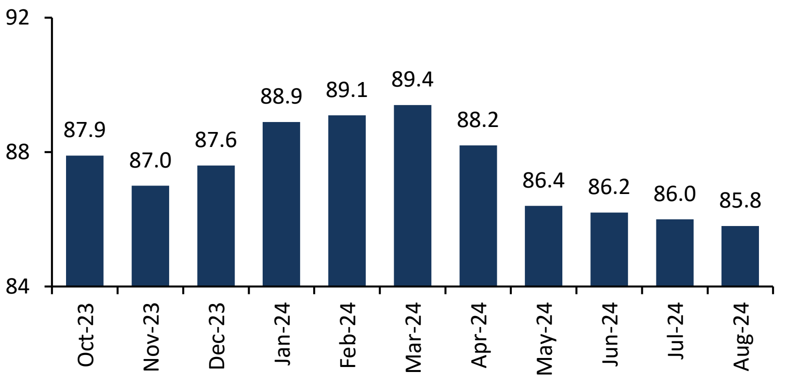
China: Large stimulus drive Chinese stock markets and flows…domestic macro yet to improve

China has unveiled major stimulus package to revive slowing economy… more expected

- Cut reserve requirement ratios (RRR) - by 50 basis points (bps), freeing up about 1 trillion yuan ($142 billion) for new lending.
- The PBOC will also cut the seven-day reverse repo rate, its new benchmark, by 0.2 percentage points to 1.5%
- 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
- For the nation’s stocks, the central bank will provide at least 800 billion yuan ($113 billion) of liquidity support
- Medium term lending rate cut by 30 bps and LPR by 20-25 bps

China Consumer Confidence Index

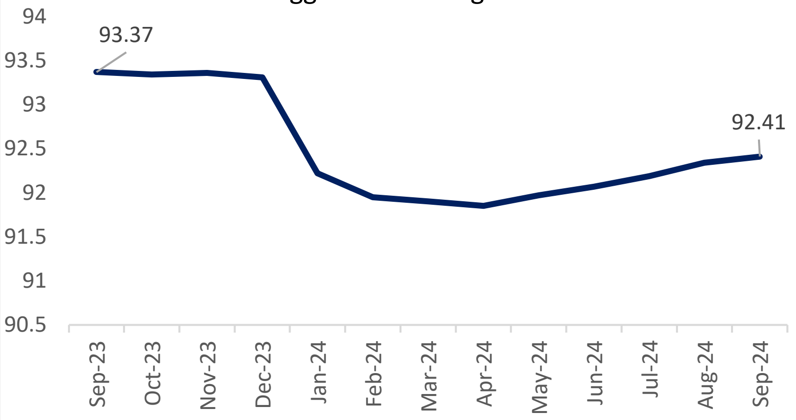
Consumption trends yet to improve



Source: Bloomberg

China Real Estate Climate Indicator

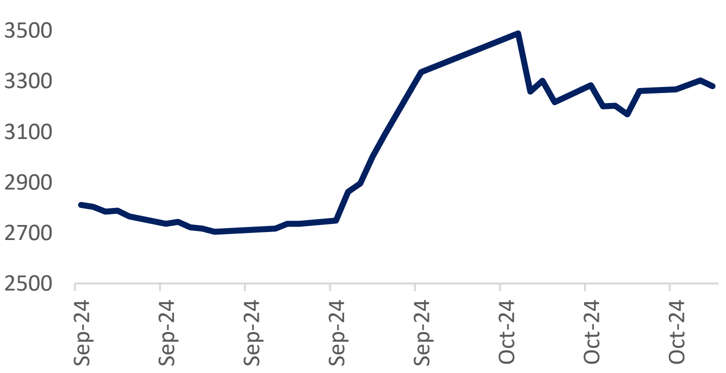
Seems to suggest bottoming



Source: Bloomberg

Shanghai Composite price movement

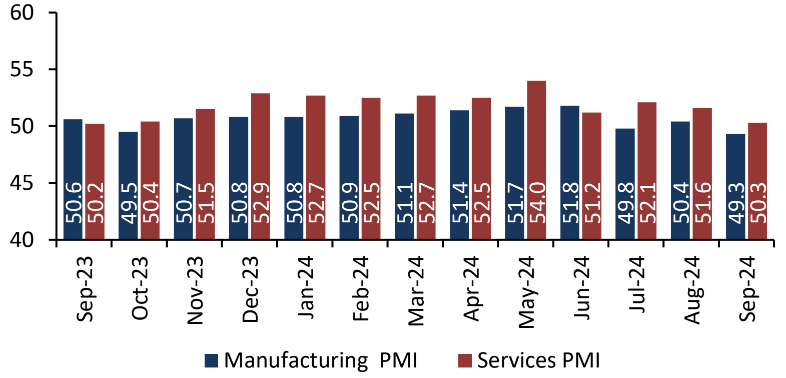
Recent stimulus has led to positive sentiments



Source: Bloomberg

China Manufacturing & Services PMI

Weakness visible



Source: Bloomberg

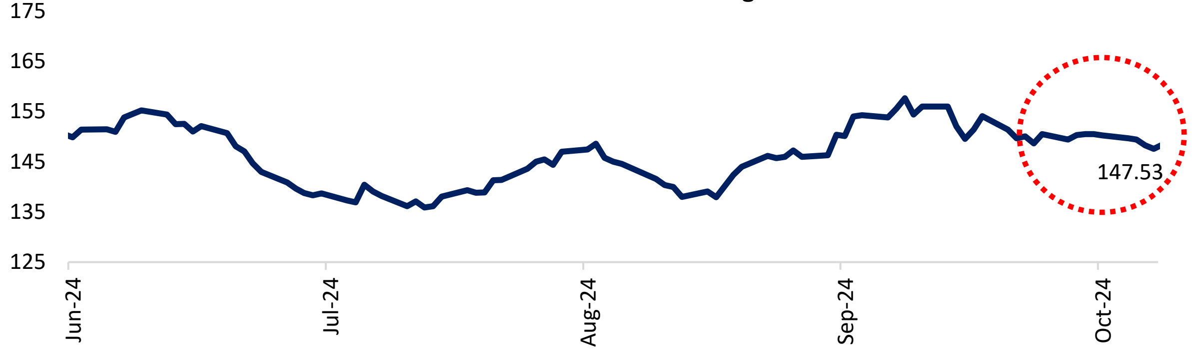
Stimulus has driven strong FPI inflows into China

Source: EPFR, Sundaram Asset Management

Commodities: Crude remains volatile amid negative bias

Bloomberg Industrial Metal Index

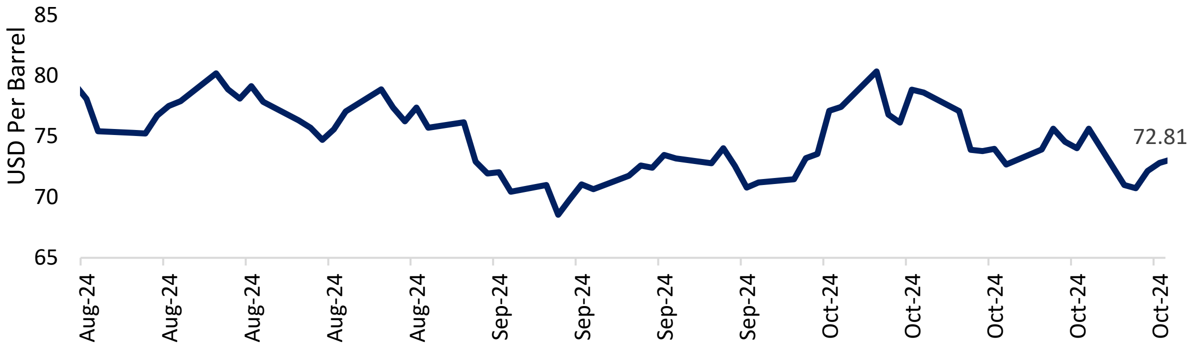
The base commodity prices have seen weakness post the recent rally on the back of rise in the Dollar Index and weakness in Global Manufacturing PMIs



Source: Bloomberg

Brent Crude Oil (USD Per Barrel)

Despite middle east conflicts, crude has remained subdued predominantly on higher supply from non OPEC countries & weakening global growth



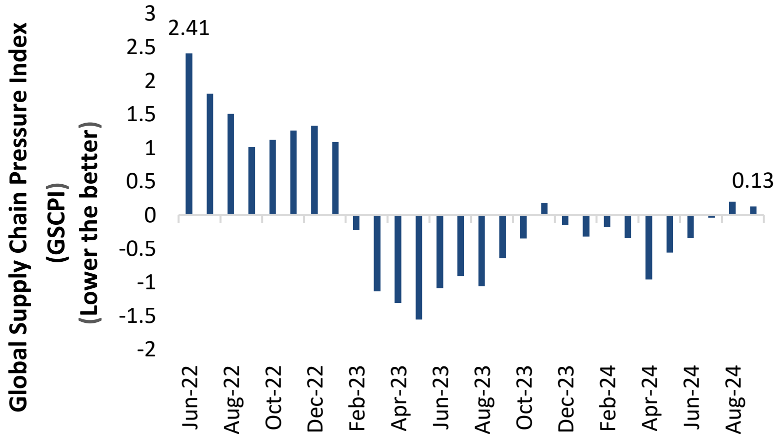
Source: Bloomberg

Gold (USD Per Troy Ounce)

Gold rallied on US interest rate cuts, accelerates further and makes new high on safe haven demand

Source: Bloomberg

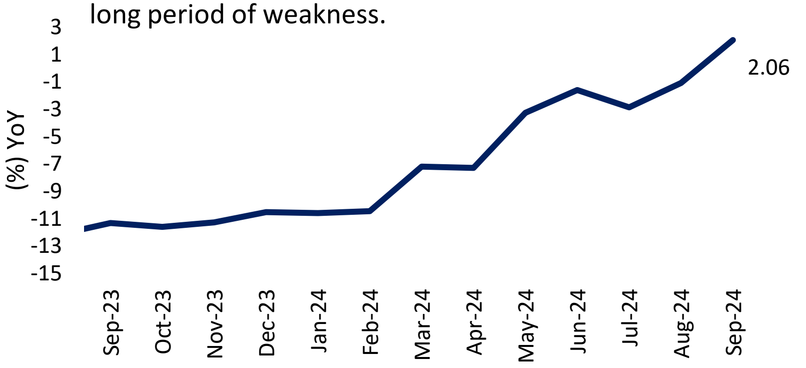
Supply Chain Pressures improving



Source: Bloomberg

UN Food & Agriculture World Food Price Index

Food Inflation globally has started to turn positive after a long period of weakness.

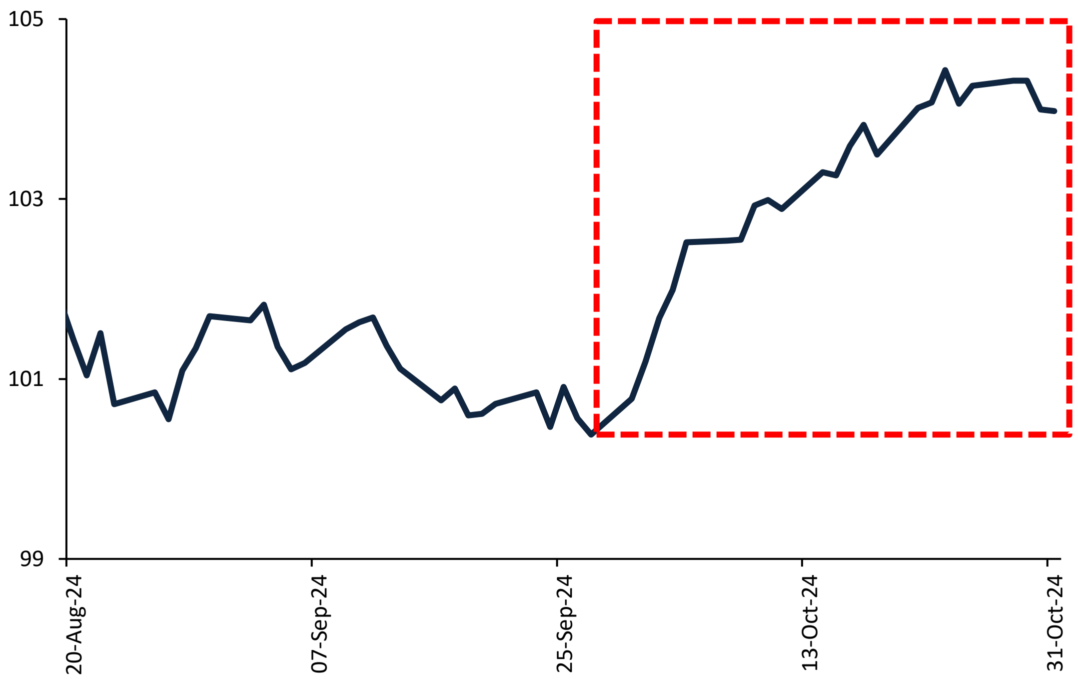


Source: Bloomberg

Classification - Internal

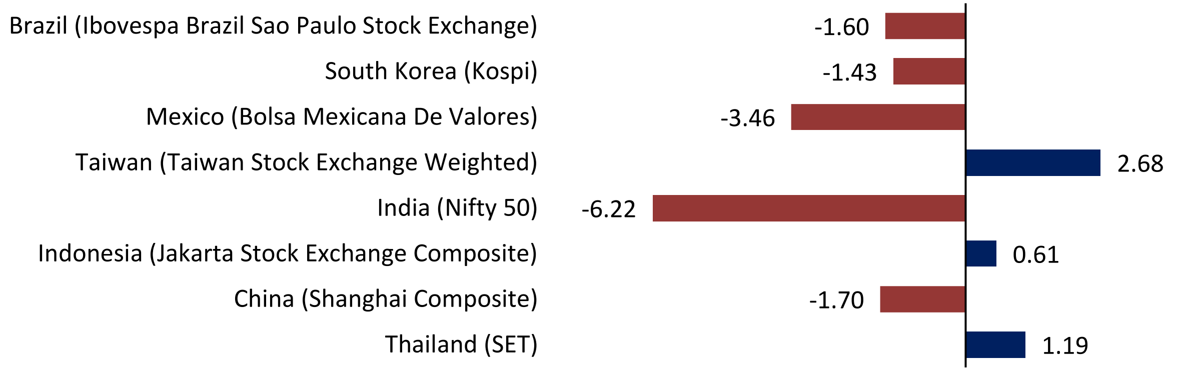
With rising Dollar Index, the EM flows and equity market performance have been under pressure

US Dollar Index movement… Rallies in October



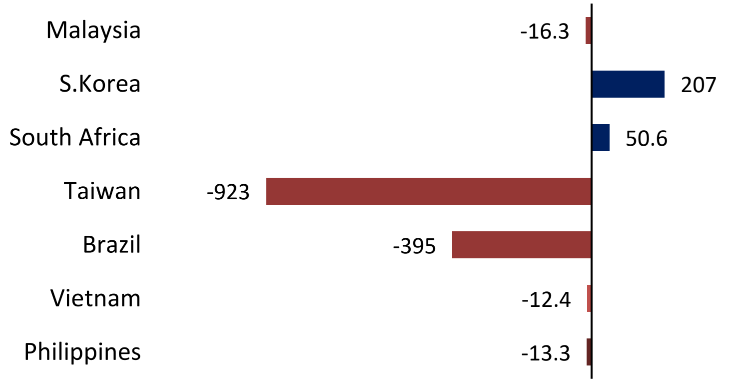
Source: Bloomberg

Emerging Markets - Absolute Returns of major equity indices in October 2024 (% MoM)



Source: Bloomberg

Emerging Markets - Net Flows In October 2024 (USD Million)



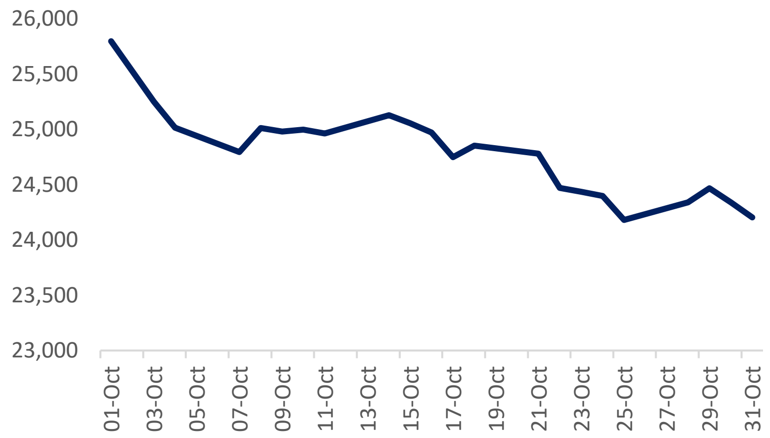
Source: Bloomberg

Classification - Internal

 Source: Bloomberg

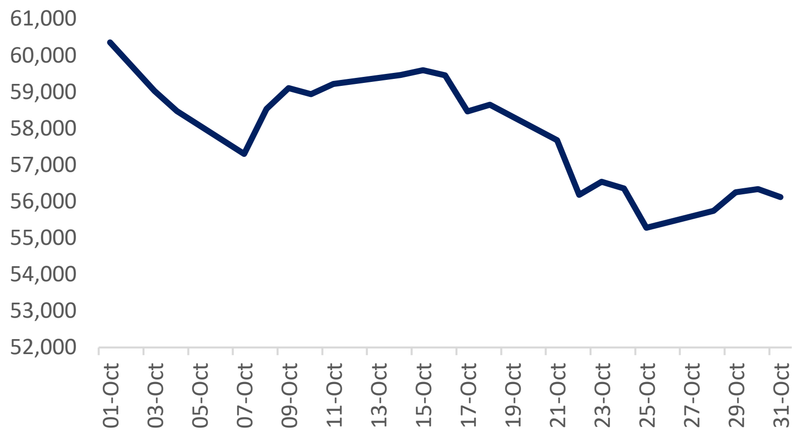
Indian markets remained on an downtrend in October on the back of continued outflows FPI's and weak earning performance… DII flows emerged as sole support

Nifty 50 price movement



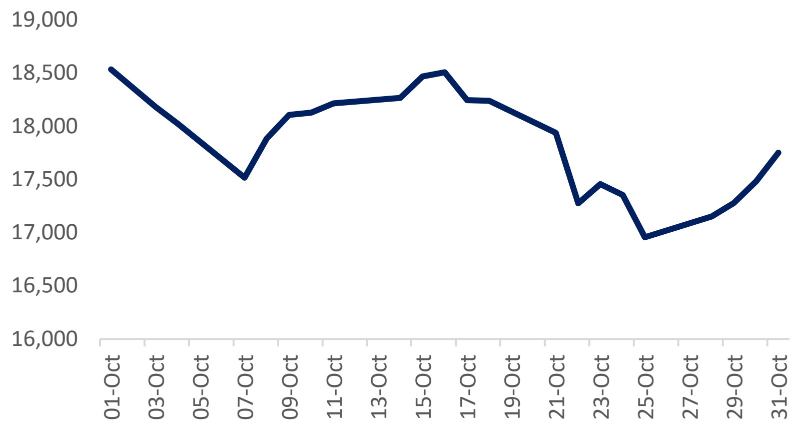
Source: Bloomberg

Nifty Midcap 100 price movement



Source: Bloomberg

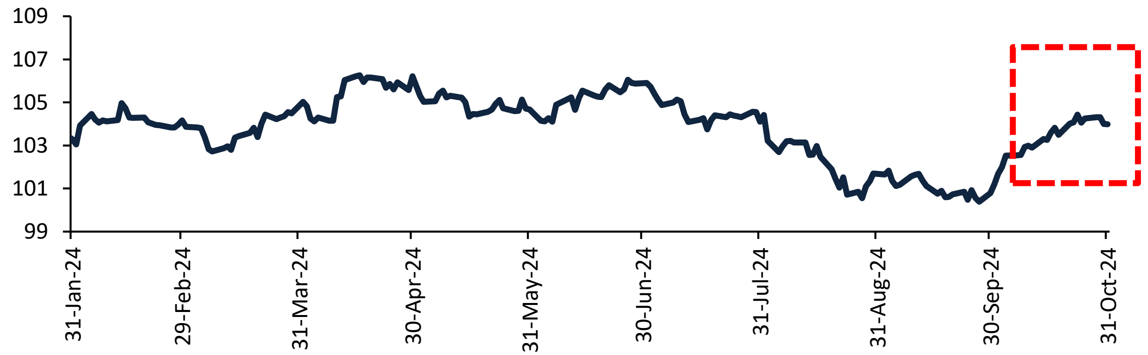
Nifty Smallcap 250 price movement



Source: Bloomberg

US Dollar Index

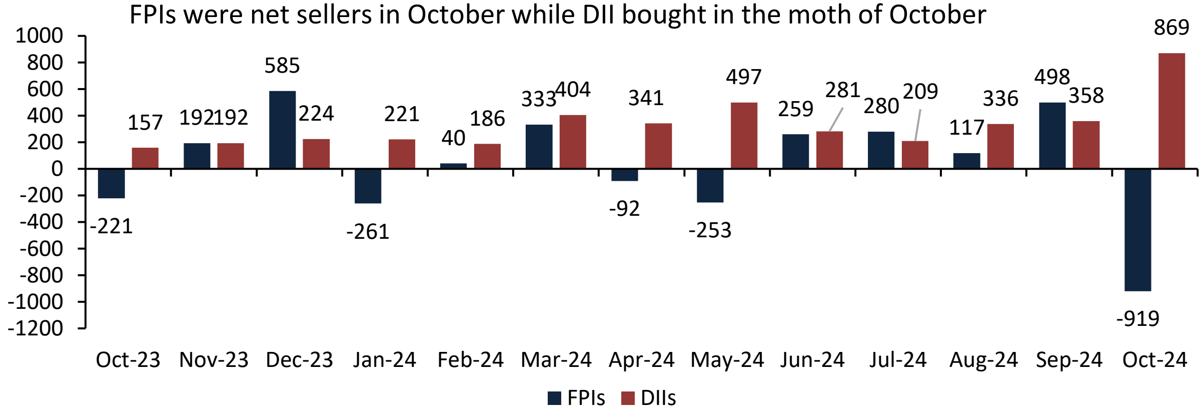
Rising Dollar index seems to have played a role in FPI outflows



Source: Bloomberg

Net Flows In Equities (Rs Bn)

FPIs were net sellers in October while DII bought in the moth of October



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

Source: SEBI, CDSL

Classification - Internal

Q2 FY25 earnings, thus far, has been weaker than market expectations…. Weighing down on market performance

Sector	Net Sales - YoY Growth (%)			EBITDA - YoY Growth (%)			PAT - YoY Growth (%)		
	Q2 FY25	Q1 FY25	Q2 FY24	Q2 FY25	Q1 FY25	Q2 FY24	Q2 FY25	Q1 FY25	Q2 FY24
Auto & Auto Anc	6.69	12.48	17.42	6.38	43.75	52.97	-16.84	34.41	43.02
BFSI	15.31	24.01	32.99	15.27	22.17	27.45	15.22	25.31	40.42
Capital Goods	28.39	21.03	17.55	23.57	19.70	16.71	21.46	22.34	35.88
Cement & Products	-0.56	-0.34	10.82	-38.61	-13.31	204.29	-44.35	-13.18	256.95
Chem & Fert	4.84	-9.11	-20.86	-21.54	-41.62	-12.00	-26.36	-47.24	-17.99
Ecomm	20.22	19.83	48.37	20.35	-48.46	48.67	766.18	-73.11	75.30
FMCG & Retail	9.92	7.86	3.05	6.19	10.65	11.32	6.54	10.18	5.86
Healthcare	7.41	5.16	13.83	17.80	8.06	13.79	15.74	48.64	13.52
Infrastructure	6.33	11.34	27.55	17.50	35.16	32.08	36.95	46.61	1.37
IT	6.24	3.91	5.92	10.15	8.92	3.12	10.87	9.66	2.58
Media & Ent	-17.93	7.39	20.45	-2.15	142.84	6.18	61.28	3,148.06	-5.28
Metal & Mine	-7.52	1.76	4.74	-20.99	-4.82	70.36	-28.24	-4.93	60.72
Oil & Gas	0.01	3.60	-8.08	-54.22	-46.82	237.54	-54.09	-49.02	278.92
Others	15.74	12.52	-48.64	61.66	51.80	24.61	317.90	119.90	-5.95
Power	4.28	14.69	7.34	-1.35	16.14	50.62	-10.86	-2.26	62.74
Realty	30.09	8.45	43.55	21.42	41.18	68.19	22.87	67.40	125.48
Telecom	11.58	4.59	4.52	20.58	0.79	12.60	90.11	126.17	-19.27
Transport	12.36	16.49	18.33	-103.90	-6.93	223.87	-211.55	-10.31	142.85
Grand Total	7.14	10.02	5.52	-12.39	-7.51	56.22	-4.35	2.54	53.69
Ex-Financials	4.35	5.89	-1.41	-15.85	-10.89	60.76	-16.01	-9.13	62.87

Data as on November 01, 2024 and pertains to 123 companies within the Nifty 200 universe

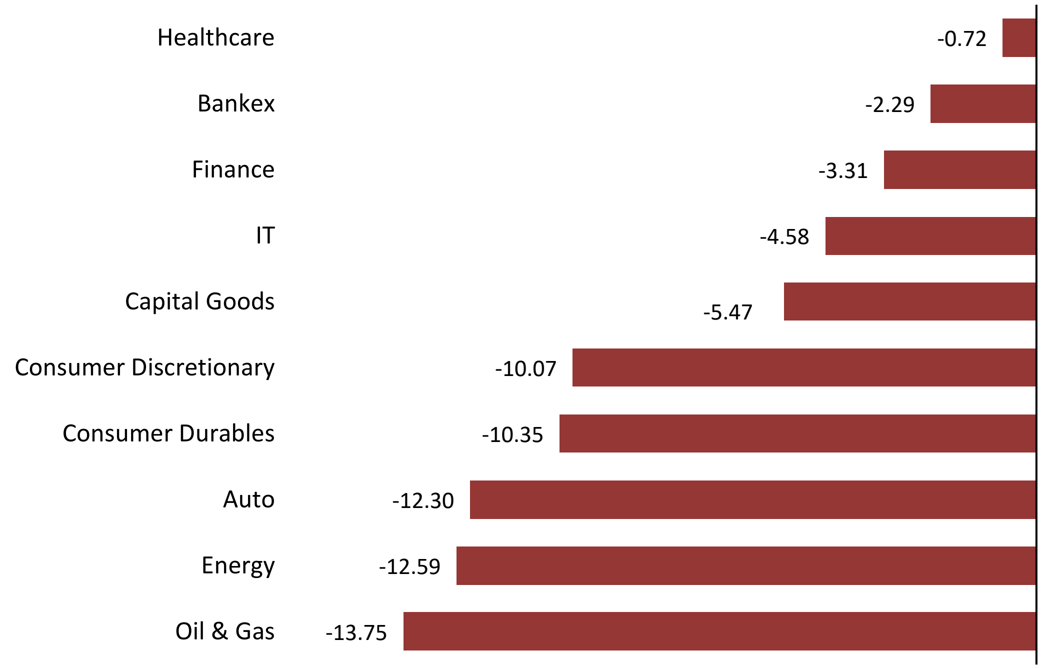
Source: Capitaline, HDFC Bank Research

- The corporate earnings scorecard for Q2 FY25 thus far has been weak.
- Consumption has emerged as a weak spot while select segments of BFSI are seeing asset-quality stress.
- Sector like IT, Healthcare, Telecom and Realty have delivered better returns comparatively.
- Many other sectors have also delivered strong performance, but were below market expectations.
- On aggregate Sectors like Auto, Select capital goods names, Cement, FMCG, Retail, Oil and Gas, Metals, Power have delivered weaker set of numbers.

Classification - Internal

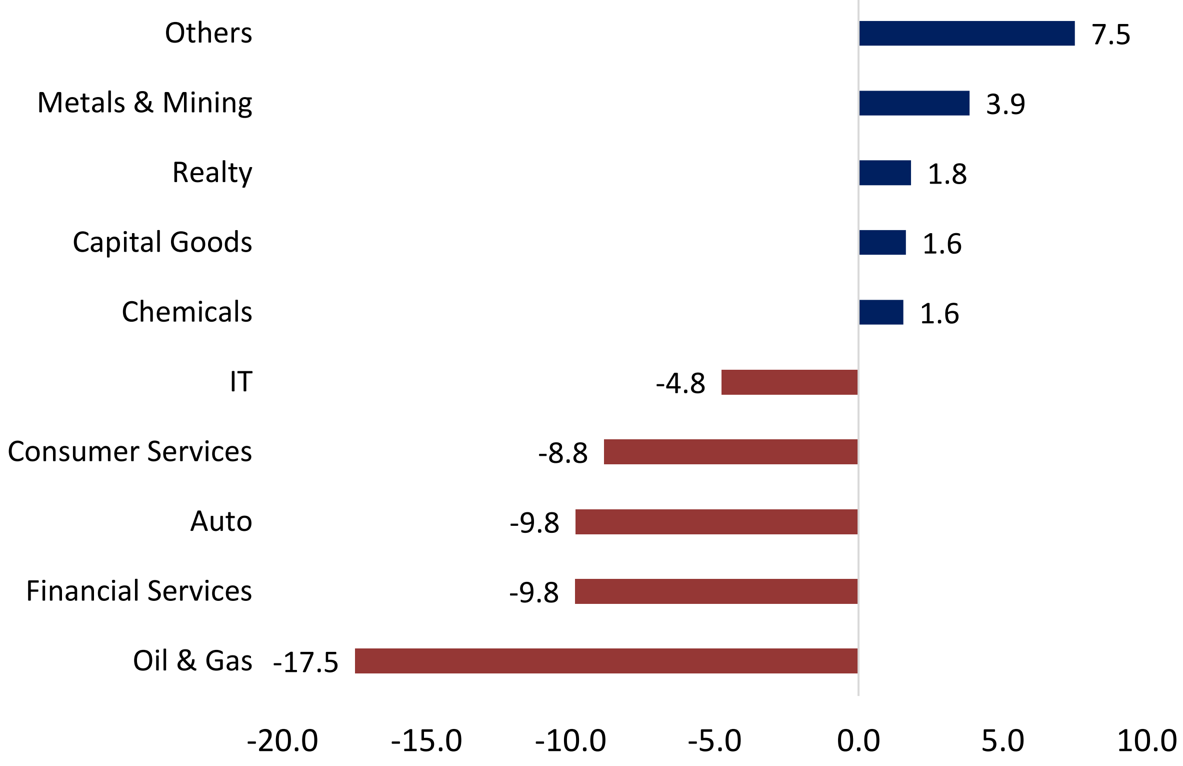
Sectoral performance and FPI flows in October 2024

S&P BSE Sectors - Absolute Return In October 2024 (%)
(Only the top and bottom 5 names shown)



Source: Ace MF

Sectoral FPI flows - Top 5 and Bottom 5 (Rs in Bn)



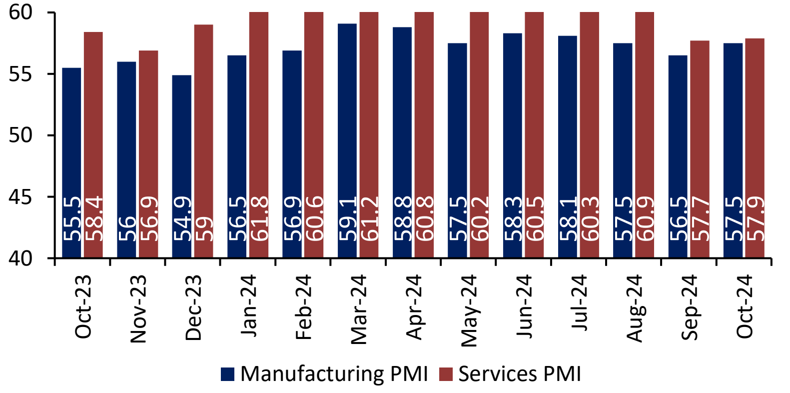
Source: NSDL, Data is from Sep 16, 2024 - Oct 15, 2024

Classification - Internal

India – Macro data showing early signs of deceleration in some areas…. Needs to be monitored

HSBC India PMI

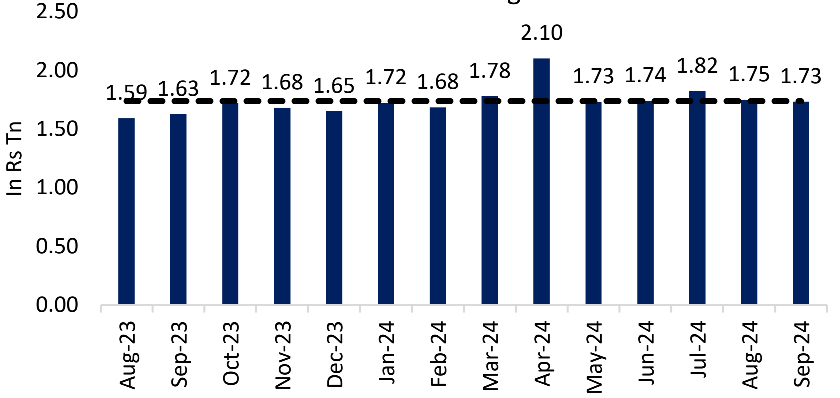
While decelerating….PMI data still in expansion zone



Source: Bloomberg

GST Collection (Rs Tn)

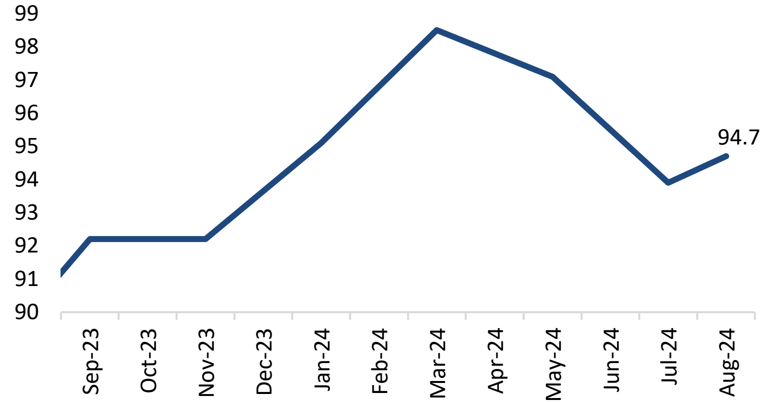
Indirect tax collections moderating



Source: Bloomberg

Consumer Confidence Index

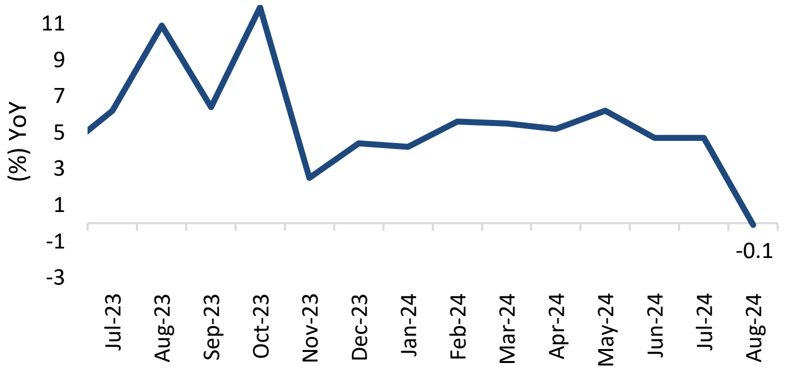
Consumer confidence remains weak



Source: Bloomberg

Index of Industrial Production (% YoY)

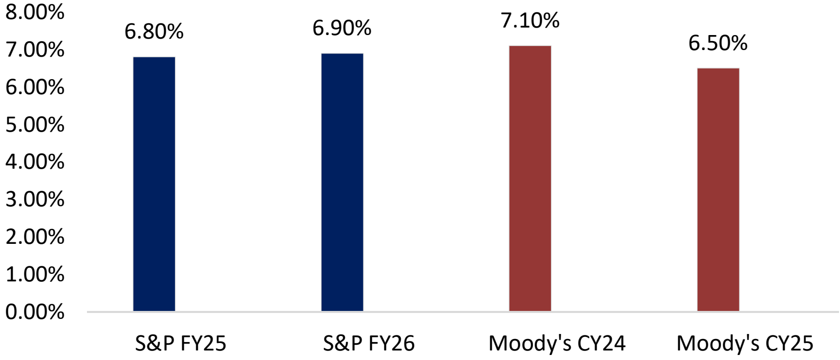
IIP weakening



Source: Bloomberg

India GDP Growth Forecast

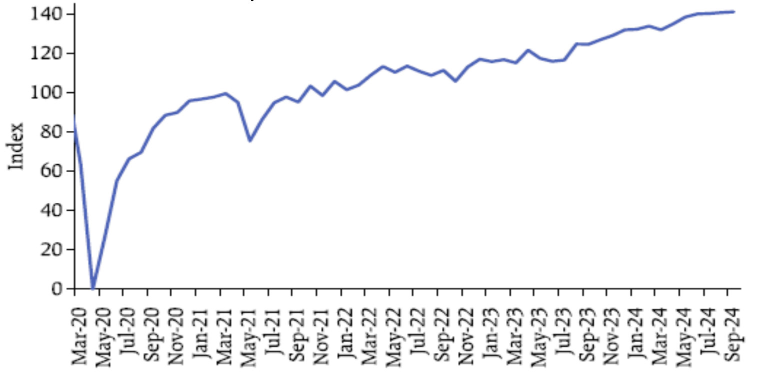
Multilateral agencies remain buoyant on India's growth



Sources: S&P Global, Moody's

Economic Activity Index

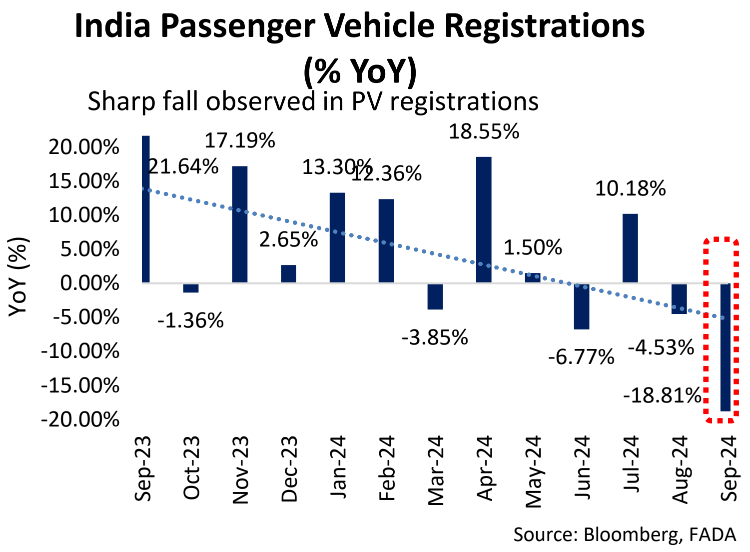
Data shows optimism, trend needs to continue



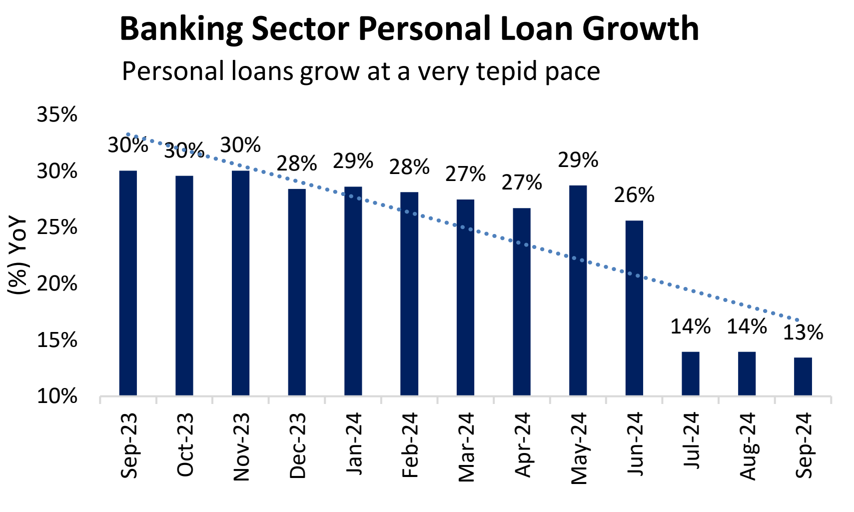
Source: RBI

Classification - Internal

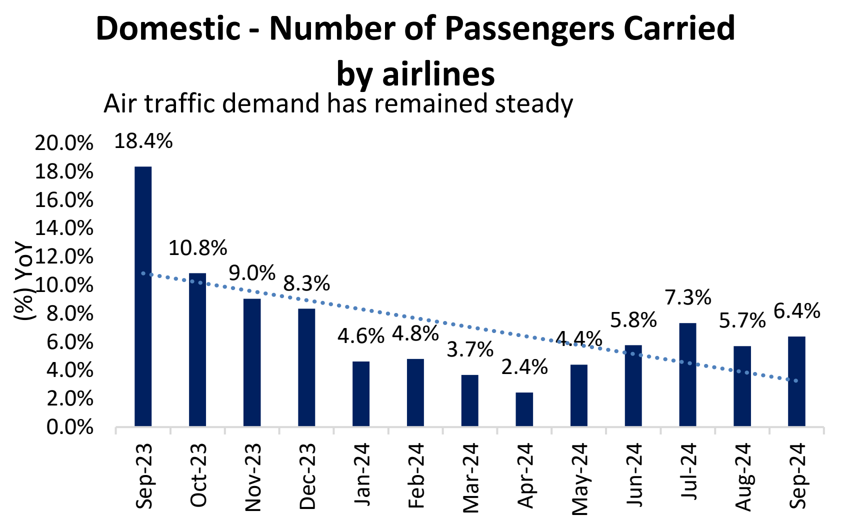
Urban India continues to show signs of deceleration…emerging as key concern being flagged even by the key policy makers



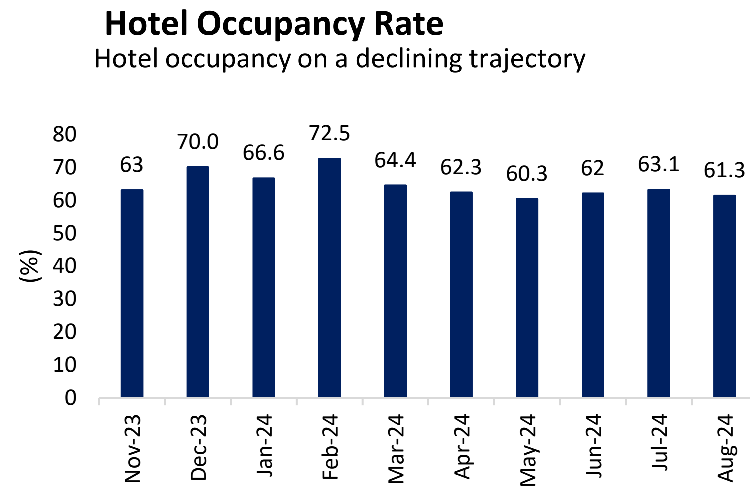
Source: Bloomberg, FADA



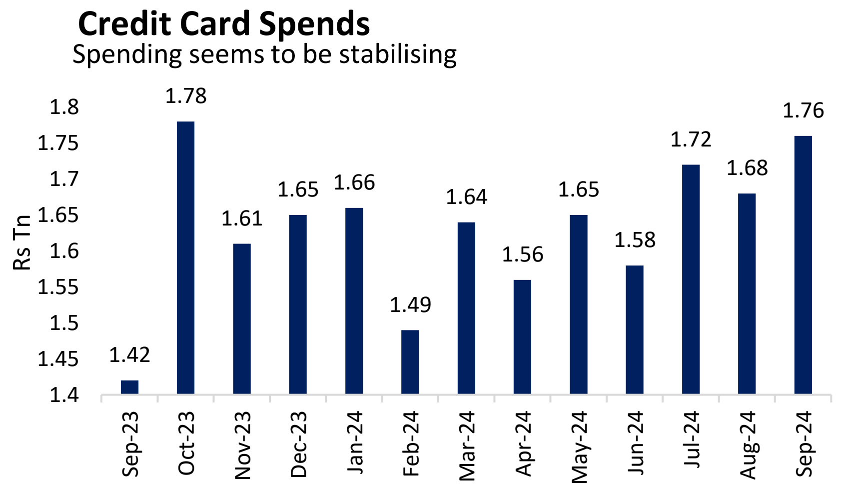
Source: Bloomberg



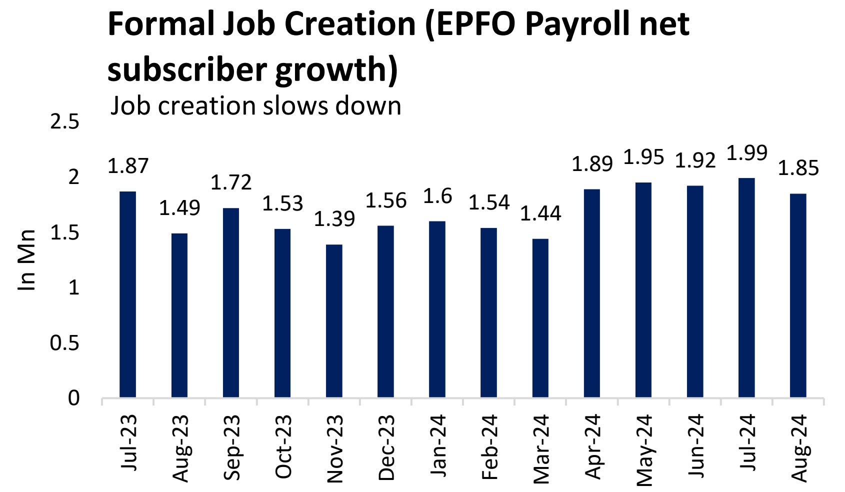
Source: Bloomberg



Source: RBI



Source: Bloomberg

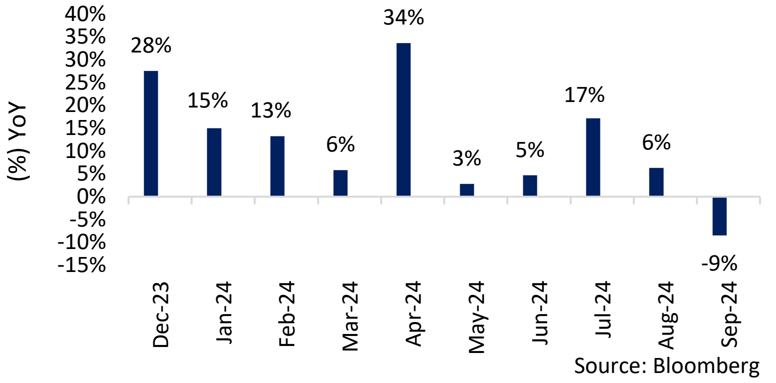


Source: EPFO, PIB

Rural India: Strong monsoon, government support and higher MSP to aid in traction

Two Wheeler Registrations

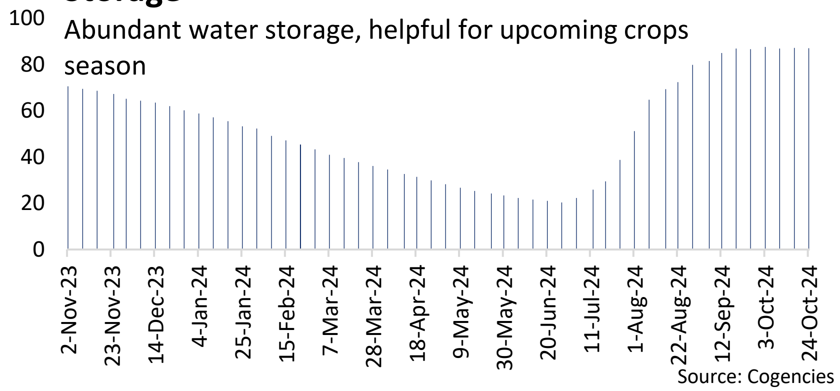
Vehicles sales see further deceleration



Source: Bloomberg

Total 133 Reservoirs - % Of Current Live Storage

Abundant water storage, helpful for upcoming crops season



Source: Cogencies

State Wise Roll-Out Of Schemes

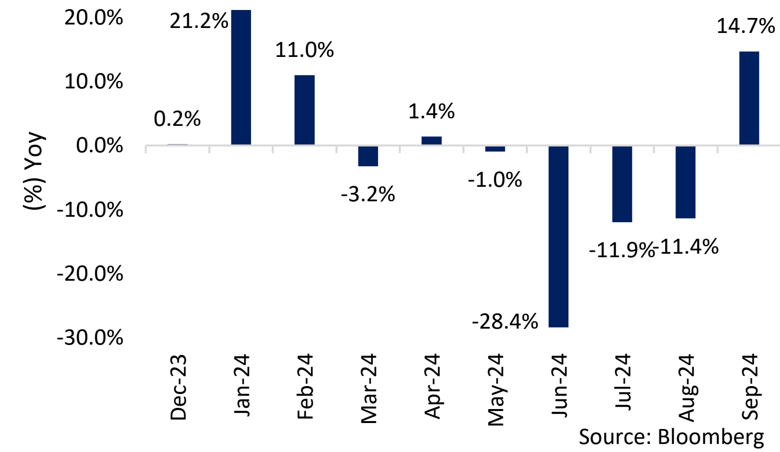
Strong subsidy outflow to boost rural spending

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 Tractors Registrations

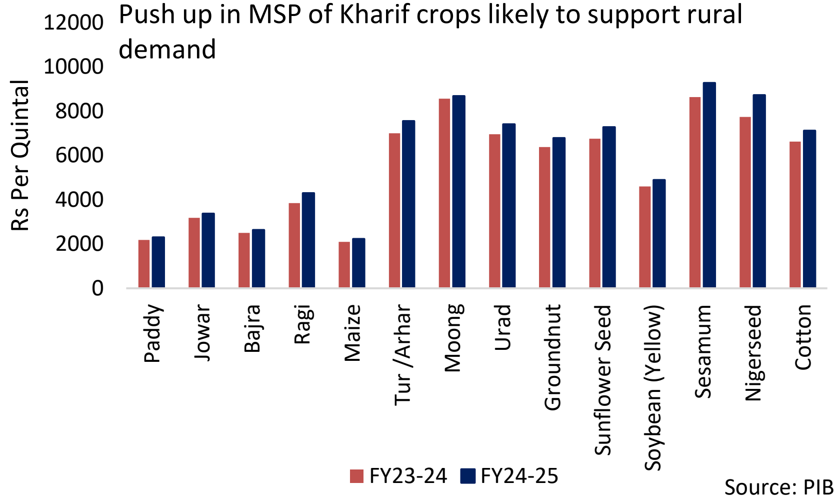
Tractor sales surprises on upside



Source: Bloomberg

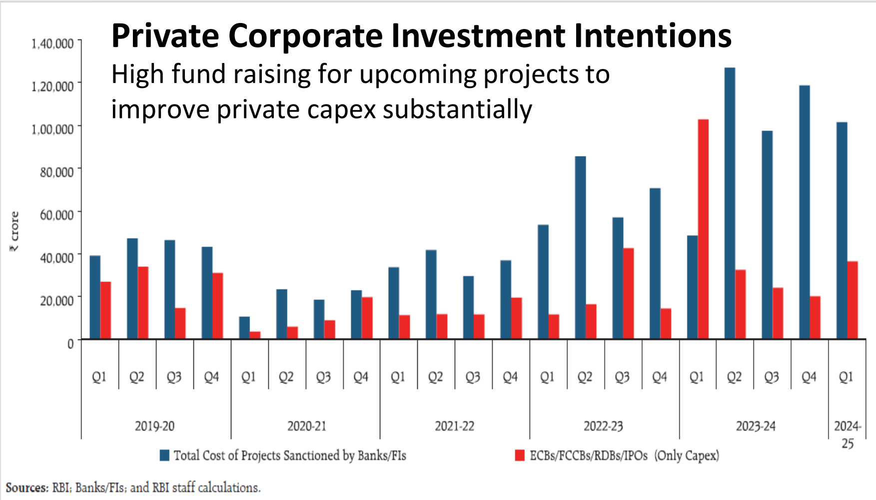
MSP For Kharif Crops (FY24 and FY25)

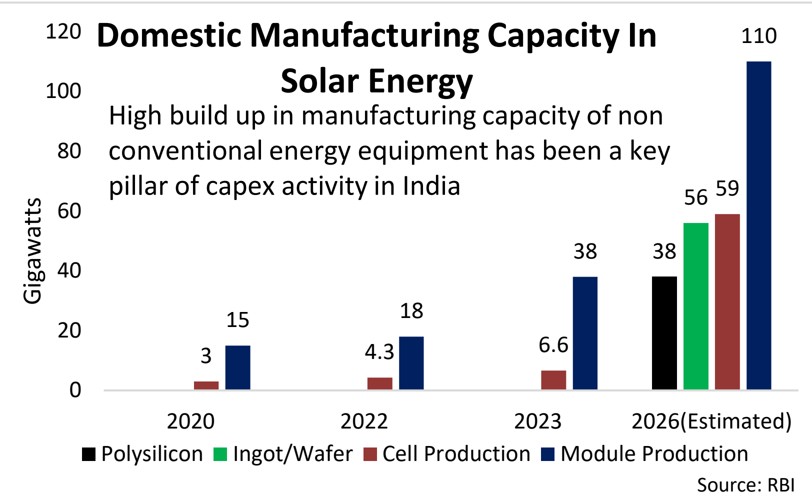
Push up in MSP of Kharif crops likely to support rural demand

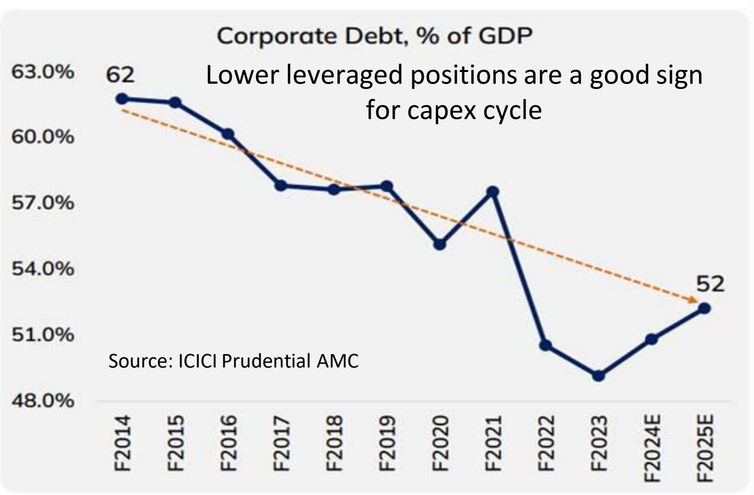


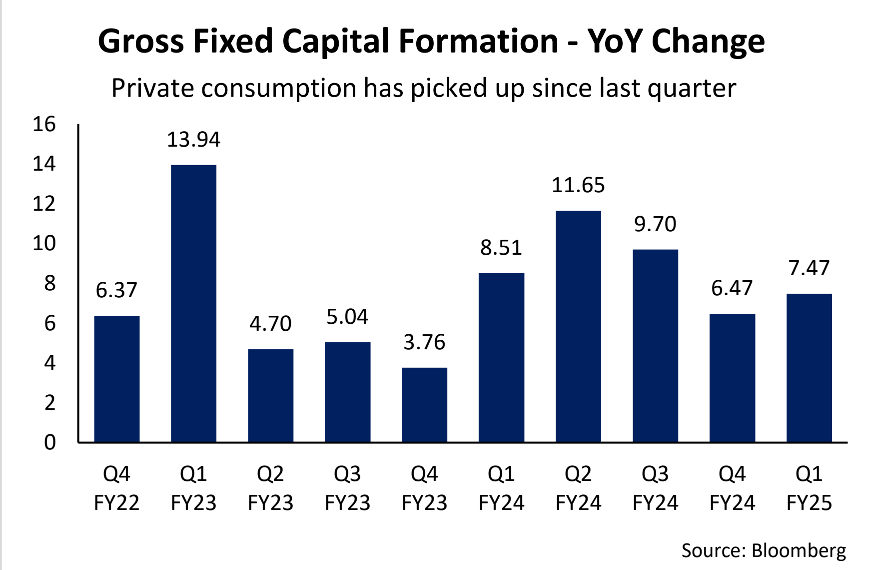
Source: PIB

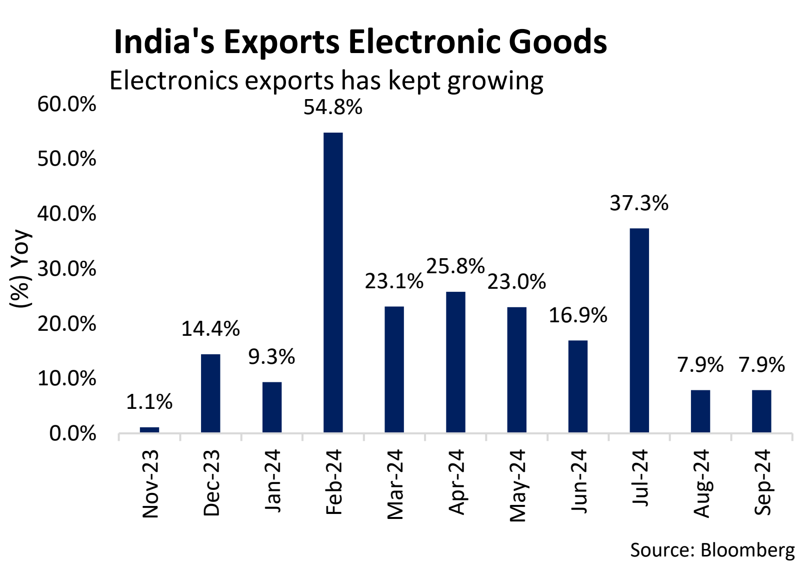
Capex: Private capex is expected to shore up on the back of supportive government policy

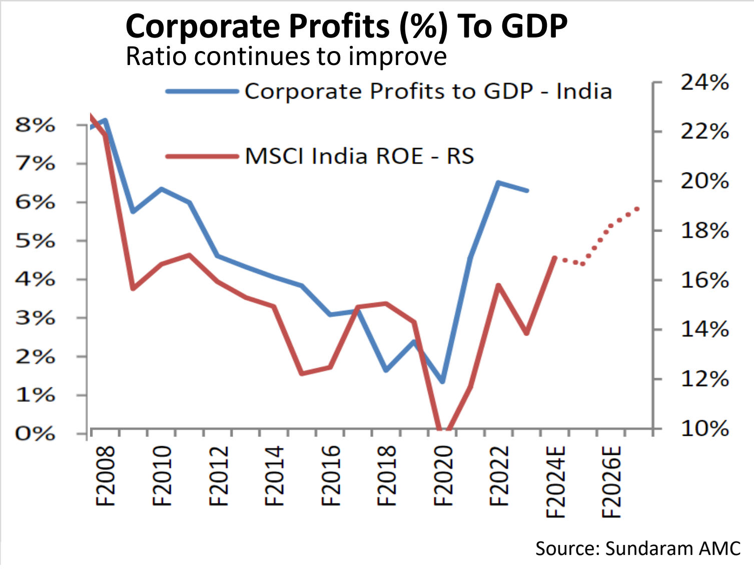






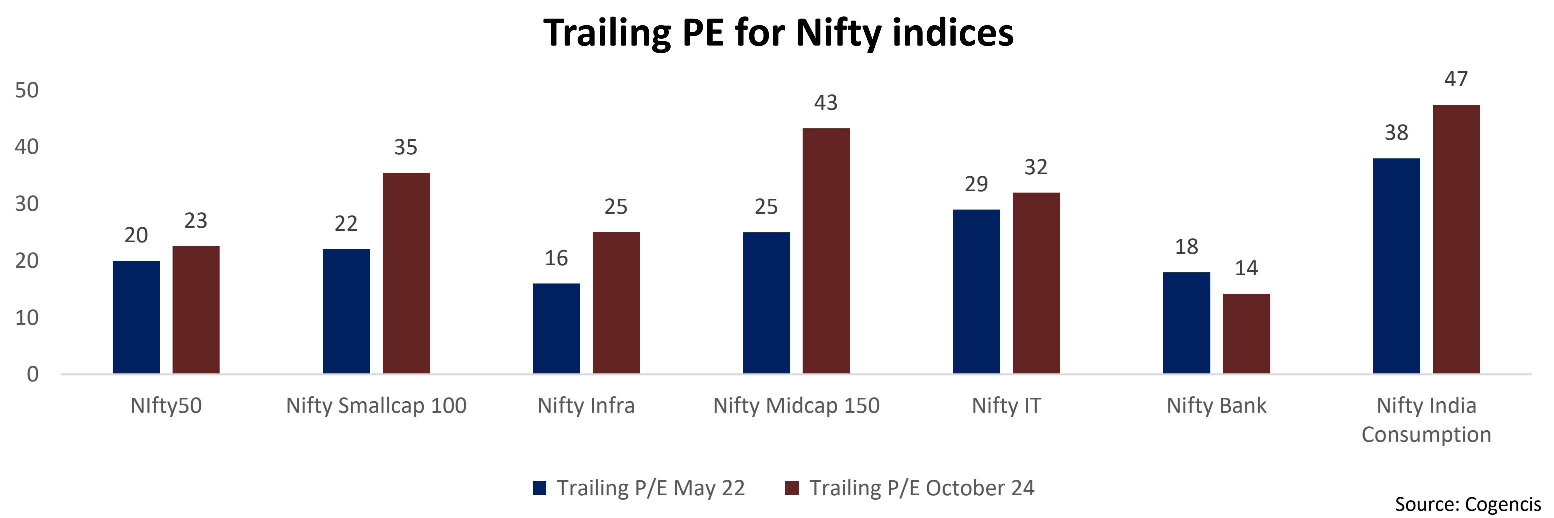




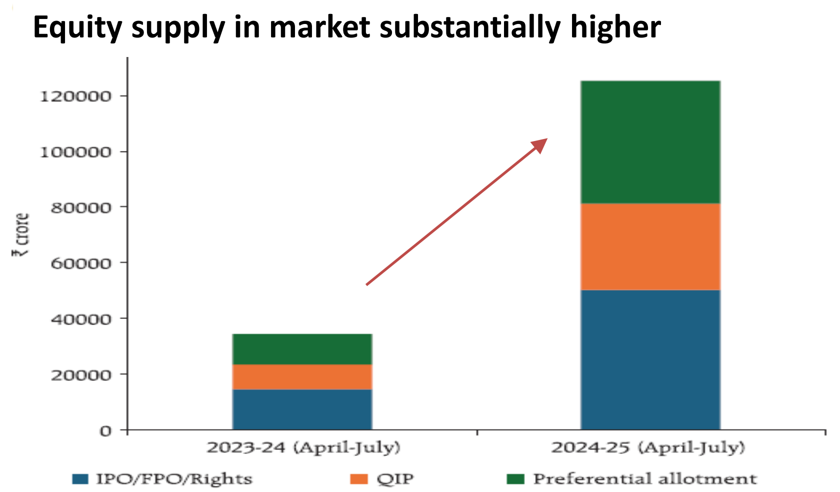


Classification - Internal

India valuations: Despite recent correction trailing multiples at close to 2 year peak, future earning expectations across market cap have seen further downgrades in the Q2FY25 result season… Rising equity issuances to put pressure on stock prices

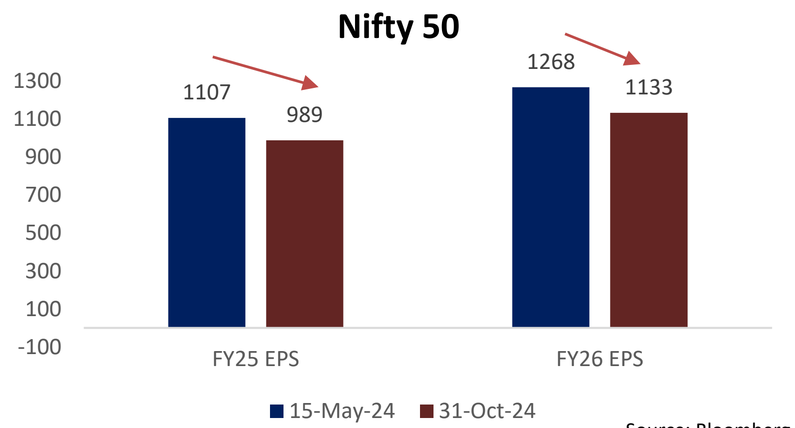


Source: Cogencis

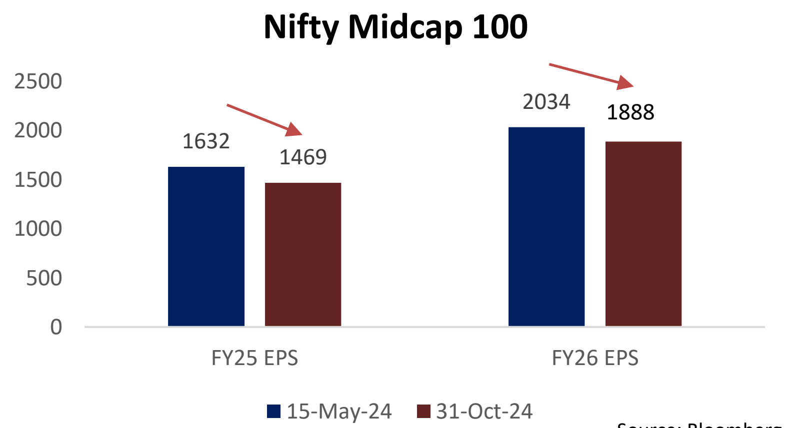


Source: SEBI.

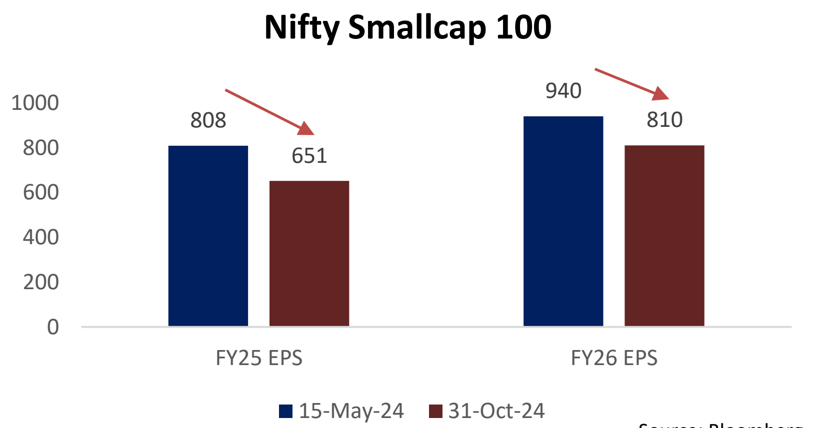
Forward earnings estimates for key marketcap indices have been revised downwards, suggesting gradual growth deceleration



Source: Bloomberg



Source: Bloomberg



Source: Bloomberg

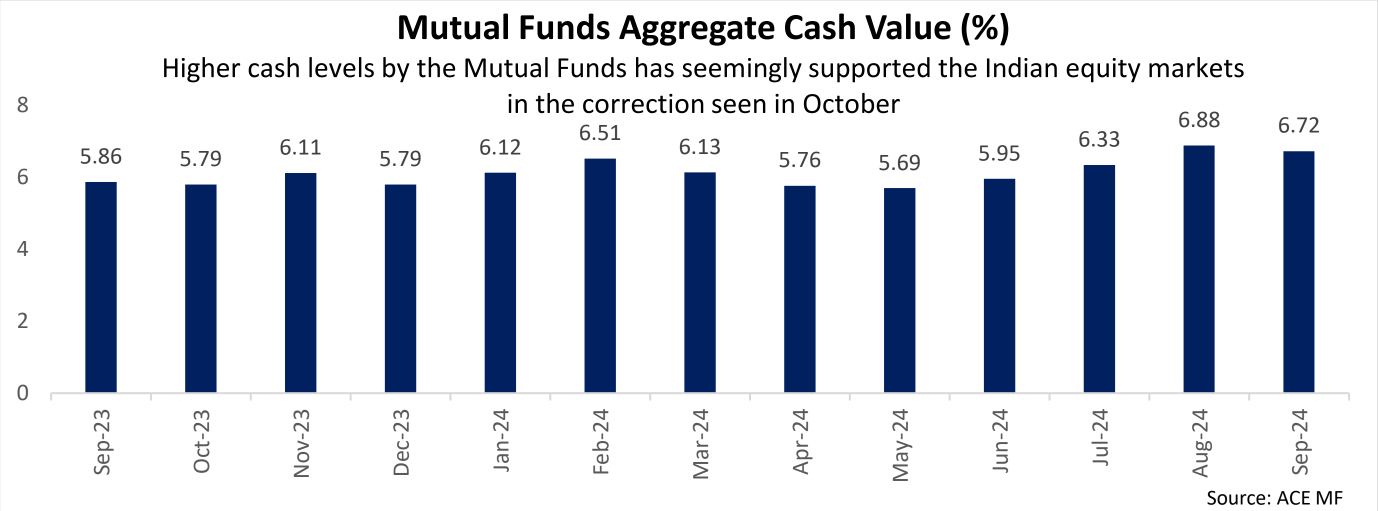
Mutual funds have deployed cash in October to ensure orderly correction in the markets in the wake of FPI outflows, weakness in earnings places Indian market valuations at risk to its global peers

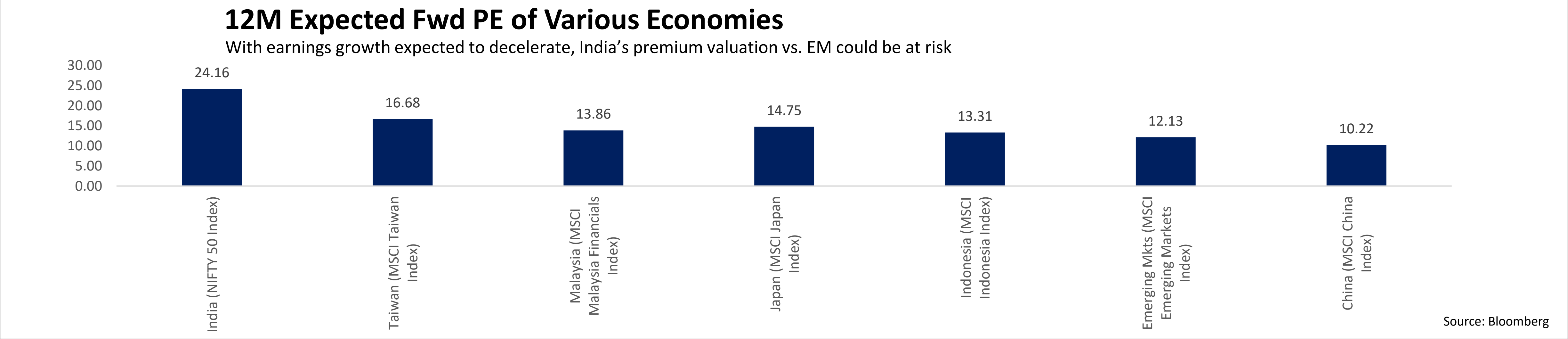
Valuations getting expensive

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

Index	FY25 (Est)	FY26 (Est)
Nifty 50	24.16	21.17
Nifty Midcap 100	37.94	29.56
Nifty Smallcap 250	26.75	21.32

Source: Bloomberg, data on 01 November 2024

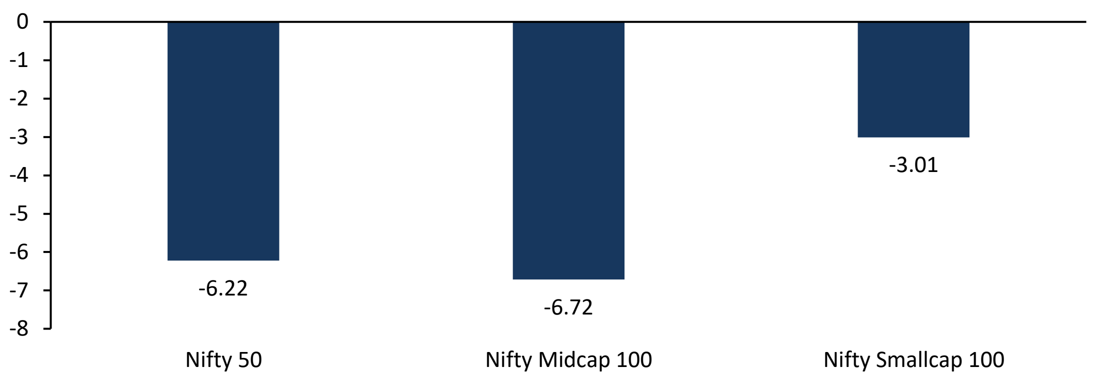




Market Roundup – October 2024

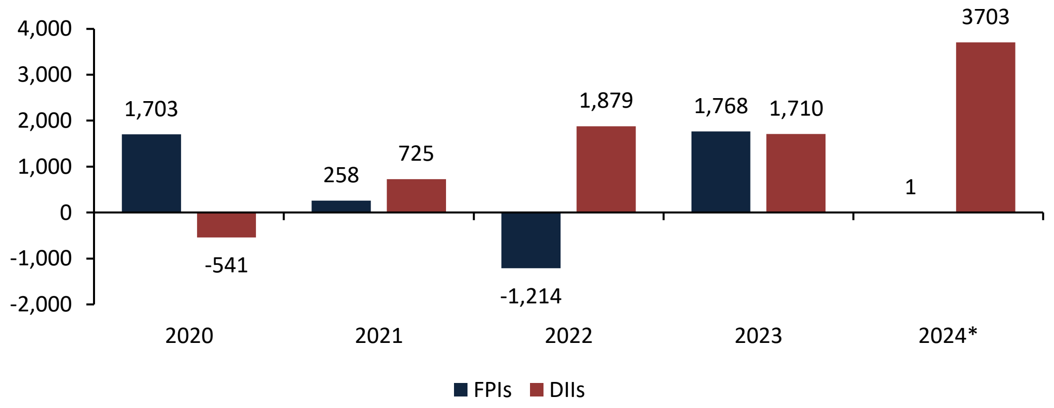
- Indian equities ended the month on a negative note. Large cap-oriented BSE Sensex and Nifty 50 ended lower to the tune of 5.8% and 6.2% (MoM) respectively.
- While the BSE Midcap index ended lower by 6.9% (MoM), BSE Small cap ended lower by 3.8% (MoM).
- In terms of BSE sectoral indices, most of the sectors ended on a negative note. Oil & Gas, Auto and Consumer Durables underperformed the most.
- Domestic equity markets ended on a negative note amid geopolitical tensions, tightening of F&O rules by SEBI, China's aggressive fiscal measures which raised concerns about foreign portfolio investments. Additional losses were seen after data showed that India's CPI inflation rose to a nine-month high of 5.49% in September 2024 on the back of rising food prices, which dampened hopes of a rate cut by the RBI. Sell-off across the sectors was seen as sentiment was dented following muted earnings reported by major domestic companies for the second quarter so far.

Absolute Return In October 2024 (%)



Source: Bloomberg

Net Flows In Equities (Rs Bn)



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

Source: SEBI, CDSL

Key concerns for Indian equities

- Low growth in consumer demand
- Expectation of weakening margin profile for corporates
- Large IPO/FPO/promoter stock sale
- Adverse outcome of upcoming state government elections in 2 states
- Impact of the US elections
- 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

Classification - Internal

Annexure…

Classification - Internal

Sectoral outlook by fund managers – Part 1

Sector	Particulars
BFSI	**View –Neutral to Positive** • 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 and with policy rates likely to be cut, further pressure to NIMs possible. • Credit costs (provisioning) have started to show initial signs of weakness in Smaller banks. 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	**View –Neutral to Positive** • Order book growth of Indian companies holding up, execution cycle seeing pickup. • Results have mostly been better than expectations, especially in many midcap stocks. • Funds have been adding exposure, while some funds have also gone overweight. • Sector can act as defensive in case of broad market correction. • US elections is being monitored by the fund managers to track any change in policy by the new dispensation.
Pharma	**View – Neutral** • 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. • US elections is being monitored by the fund managers to track any change in policy by the new dispensation. • Hospitals as a segment seems stretched on valuations and are not looking attractive to fund managers currently.
Auto	**View – Neutral to Negative** • 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. • 2-Wheeler stocks have seen strong outperformance and the volume growth continues to remain steady there. • Auto ancillaries may do well due to China+1, Europe+1, PLI, export opportunities and EV initiatives. Fund managers are finding pockets of opportunity in the ancillary space. • IN aggregate, the Auto and Auto Ancillary sectors are expected to see weight reduction in many mutual fund portfolios going forward.

Sectoral outlook by fund managers – Part 2

Sector	Particulars
Construction & real estate	**View – Neutral** • Favourable demand scenario for housing in terms of volume growth. Results for Q2Fy25 has also been strong • Government's focus on infrastructure and investment cycle, though the Govt. spending seems to be sluggish, and is emerging as key risk. • Real estate stocks' valuations have moved up substantially, and fund managers expect consolidation in the stocks. • **Approach followed by most AMCs for Real estate sector -** Prefer investing in this space through proxy sectors such as housing finance companies, cement, steel and pipes among others.
Consumption	**View – consumer services -Neutral, consumer durables and FMCG- Neutral** • Staples – Q2Fy25 suggesting weakening of growth, Valuations consolidated. AMC are expected to reduce exposure at margin • Hotels/Travel – Valuations rich, Weights being reduced • Consumer Durables – Funds are looking players who are gaining market share and adding exposure. • Retail and Quick Service Restaurant: Retail valuations high, Select Urban plays still getting attention from the fund managers, while QSRs have seen weak results and fund managers may wait for earnings improvement before adding further weight. • **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 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.

Classification - Internal

Monthly Sectoral Movement

Absolute Monthly Return By Sector (%)

Index	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24
S&P BSE 500	**-2.93**	**6.75**	**8.01**	**1.90**	**1.93**	**0.84**	**3.43**	**0.61**	**6.87**	**4.32**	**0.77**	**2.05**	**-6.51**
Auto	-1.25	10.08	5.43	4.18	8.12	4.96	3.92	3.84	8.05	5.05	-1.90	3.40	-12.30
Bankex	-3.44	3.47	8.12	-4.38	1.92	2.02	4.64	-0.40	6.94	-1.30	-0.94	2.96	-2.29
Basic Material	-3.70	7.25	11.39	0.33	-0.42	1.06	7.86	0.73	6.63	2.06	-2.27	5.69	-6.66
Capital Goods	-4.07	8.88	11.31	1.88	-1.21	6.15	3.42	11.16	3.24	4.58	-3.27	-0.09	-5.47
Consumer Discretionary	-1.38	9.36	5.91	2.35	4.89	1.69	5.05	0.77	8.99	4.93	0.99	4.01	-10.07
Consumer Durables	-2.32	7.42	6.11	0.70	0.00	2.05	5.59	-0.51	7.12	3.57	4.37	6.40	-10.35
Energy	-2.17	9.17	11.06	12.18	6.18	-0.19	3.33	-0.78	4.42	7.34	0.88	-2.91	-12.59
FMCG	-0.86	3.58	6.84	-2.81	-2.33	-0.67	1.52	-0.42	5.23	9.53	2.29	3.32	-8.93
Finance	-3.09	4.82	6.92	-2.40	0.47	1.35	4.93	-1.49	7.10	0.48	0.75	3.03	-3.31
Healthcare	-4.30	10.92	3.87	7.18	5.94	-0.08	1.01	-1.46	6.37	9.19	6.56	2.45	-0.72
IT	-3.13	6.77	8.38	3.74	3.38	-7.20	-4.35	-2.63	11.30	12.87	4.27	-2.57	-4.58
Infra	-3.38	10.40	14.88	18.15	1.23	0.48	7.03	5.62	2.83	13.17	-2.07	-3.19	-8.72
Metal	-4.17	8.74	11.35	-0.85	1.15	4.95	10.83	4.68	1.03	-0.85	-0.96	6.63	-9.62
Oil & Gas	-4.17	12.51	12.02	12.57	6.86	-0.07	4.83	-1.18	2.91	10.48	1.27	-3.47	-13.75
Power	-4.90	11.16	18.24	8.57	4.33	1.70	7.73	6.64	3.31	6.13	-2.49	5.11	-9.51
Realty	3.70	19.99	9.37	9.37	9.16	-1.21	7.52	4.40	8.21	-1.10	-3.59	4.36	-9.12
Telecom	-5.69	7.21	6.15	6.94	1.44	1.81	8.36	3.29	10.90	4.69	2.36	-5.28	-8.48
Utilities	-3.98	11.85	20.00	9.71	3.61	0.25	8.84	2.80	2.40	6.87	-3.79	5.60	-8.54

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

Colour scales assigned vertically

Source: Ace MF, HDFC Bank Research

Classification - Internal

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	7.44%	27.94%	5.69%	7.65%	7.30%	6.75%	4.27%	9.49%	0.21%	12.07%	0.21%	5.97%	3.02%	0.26%	1.72%
360 ONE	12.30%	29.24%	6.04%	2.72%	5.06%	0.30%	4.20%	8.24%	0.20%	8.33%	0.00%	4.94%	9.77%	0.15%	5.05%
Aditya Birla SL MF	8.80%	25.88%	6.75%	5.90%	8.00%	6.17%	5.06%	9.54%	0.27%	8.74%	0.42%	7.45%	3.16%	0.49%	1.72%
Axis MF	11.05%	21.65%	8.69%	7.29%	10.82%	4.01%	4.56%	7.18%	0.06%	5.62%	0.33%	8.53%	3.19%	0.18%	1.86%
Bajaj Finserv MF	7.20%	21.23%	5.72%	5.10%	11.73%	12.52%	2.83%	5.34%	0.44%	6.10%	0.81%	11.85%	3.63%	0.44%	0.58%
Bandhan MF	7.08%	24.31%	7.42%	6.68%	7.97%	5.88%	5.66%	6.51%	0.08%	7.10%	0.94%	7.91%	2.08%	0.74%	2.71%
Bank of India MF	4.98%	20.59%	11.75%	10.74%	4.08%	4.68%	5.41%	6.80%	0.25%	8.09%	0.62%	7.12%	1.93%	1.40%	0.98%
Baroda BNP Paribas	8.69%	20.04%	9.97%	5.18%	9.96%	7.46%	2.86%	7.24%	0.14%	10.21%	1.78%	7.85%	2.32%	0.27%	0.69%
Canara Robeco MF	10.04%	23.87%	10.67%	5.85%	11.46%	5.45%	3.08%	6.87%	0.25%	5.39%	1.14%	7.61%	2.44%	0.39%	1.61%
DSP MF	8.13%	23.03%	11.99%	8.90%	7.29%	4.76%	3.78%	6.45%	0.00%	6.43%	0.36%	10.24%	1.62%	1.21%	1.00%
Edelweiss MF	7.29%	20.93%	13.34%	5.28%	13.96%	4.69%	5.33%	9.59%	0.00%	5.07%	0.08%	9.10%	2.01%	0.29%	0.66%
Franklin Templeton MF	6.45%	23.80%	7.13%	6.61%	10.37%	4.96%	6.23%	9.18%	0.05%	7.25%	0.05%	7.67%	3.64%	1.08%	1.65%
Groww MF	10.20%	41.39%	7.13%	3.10%	3.15%	3.27%	6.39%	8.97%	0.00%	3.86%	0.00%	3.01%	2.31%	0.28%	4.50%
HDFC MF	8.83%	28.03%	7.18%	4.91%	5.92%	3.27%	3.91%	7.65%	0.58%	4.86%	0.01%	11.26%	3.38%	0.60%	2.70%
Helios MF	0.00%	40.55%	5.06%	0.00%	9.97%	4.88%	2.41%	9.95%	1.02%	8.54%	0.00%	9.04%	2.64%	1.36%	3.01%
HSBC MF	4.25%	18.98%	20.71%	5.27%	11.24%	4.17%	9.77%	6.27%	0.02%	5.84%	1.69%	4.93%	1.33%	1.82%	0.37%
ICICI Pru MF	8.58%	24.10%	4.27%	7.35%	4.35%	4.31%	4.79%	8.08%	0.54%	9.33%	0.48%	8.01%	3.31%	0.51%	1.65%
Invesco MF	5.49%	25.80%	12.50%	3.86%	16.07%	3.02%	4.51%	7.76%	0.00%	4.78%	1.25%	10.08%	1.62%	0.01%	1.60%
ITI MF	5.30%	20.65%	16.56%	8.38%	6.26%	4.36%	6.28%	7.21%	0.00%	6.33%	2.45%	9.12%	1.85%	1.02%	1.88%
JM MF	6.24%	21.03%	8.14%	9.59%	13.67%	4.63%	5.95%	7.28%	0.10%	7.61%	0.00%	11.47%	1.14%	1.63%	0.35%
Kotak MF	9.14%	17.75%	11.43%	11.96%	8.88%	3.58%	4.86%	9.86%	0.77%	7.52%	0.02%	7.25%	2.49%	0.36%	1.67%
LIC MF	7.54%	22.95%	17.85%	5.89%	9.03%	7.31%	4.25%	6.32%	0.51%	6.44%	0.82%	4.80%	1.49%	1.15%	2.06%
Mahindra Manulife MF	7.05%	18.63%	9.86%	9.79%	7.34%	8.34%	2.90%	7.36%	0.23%	10.70%	2.93%	6.03%	1.72%	1.25%	1.95%
Mirae MF	6.97%	30.67%	4.50%	7.81%	9.76%	2.68%	3.96%	9.07%	0.00%	6.86%	0.00%	8.92%	3.92%	0.86%	2.94%
Motilal Oswal MF	6.93%	13.60%	17.20%	3.27%	20.00%	0.48%	3.61%	13.37%	0.00%	0.28%	0.21%	3.47%	3.20%	0.00%	0.54%
Navi MF	6.41%	29.23%	7.39%	3.54%	10.10%	7.83%	0.49%	8.95%	0.92%	3.92%	0.87%	6.32%	2.75%	1.46%	3.78%
Nippon India MF	6.36%	24.76%	12.32%	5.08%	11.01%	5.56%	3.66%	5.55%	0.73%	7.40%	0.73%	9.56%	1.70%	1.09%	1.57%
NJ MF	6.37%	20.20%	7.68%	1.17%	5.80%	6.22%	0.00%	29.46%	0.00%	15.10%	0.00%	6.16%	0.00%	0.35%	0.00%
Old Bridge MF	0.00%	10.02%	2.52%	9.16%	5.39%	7.29%	9.82%	7.05%	0.00%	3.00%	2.86%	18.92%	4.44%	0.00%	9.14%
PGIM India MF	9.51%	21.03%	8.98%	7.96%	15.21%	4.94%	3.39%	7.87%	0.00%	4.09%	0.00%	9.78%	1.40%	0.31%	3.03%
PPFAS MF	6.44%	32.80%	0.03%	0.77%	2.46%	5.58%	0.00%	12.76%	0.00%	13.97%	0.02%	3.45%	0.00%	0.00%	3.06%
Quant MF	4.74%	16.40%	2.01%	8.24%	4.17%	12.78%	6.58%	0.87%	1.68%	18.28%	0.04%	10.25%	2.72%	0.99%	1.76%
Quantum MF	9.97%	37.59%	0.51%	4.49%	4.33%	0.74%	0.00%	14.55%	0.08%	3.57%	0.13%	4.42%	3.86%	0.00%	0.44%
Samco MF	10.85%	15.71%	11.69%	7.33%	10.14%	9.89%	7.11%	2.96%	0.92%	3.24%	0.86%	16.66%	1.44%	0.21%	0.39%
SBI MF	9.01%	21.85%	6.42%	7.12%	9.01%	6.34%	3.44%	6.19%	0.39%	8.64%	1.28%	7.21%	3.04%	2.01%	2.38%
Shriram MF	13.40%	12.41%	7.76%	4.42%	11.60%	5.16%	0.92%	6.94%	0.00%	6.32%	0.00%	22.10%	2.99%	0.00%	3.62%
Sundaram MF	7.72%	25.81%	8.29%	4.86%	12.01%	5.05%	4.22%	6.50%	0.26%	6.64%	0.00%	8.14%	3.63%	0.27%	1.88%
Tata MF	4.42%	20.36%	8.70%	6.68%	7.61%	5.25%	4.18%	15.75%	0.50%	7.42%	1.01%	6.88%	2.22%	1.01%	3.16%
Taurus MF	7.54%	21.40%	5.03%	8.79%	3.76%	6.54%	4.59%	13.96%	0.00%	11.20%	0.43%	7.96%	2.65%	1.86%	0.76%
Trust MF	6.17%	24.21%	6.37%	3.59%	11.40%	6.76%	1.28%	9.33%	0.00%	5.36%	0.00%	13.56%	2.86%	0.00%	1.08%
Union MF	6.31%	18.58%	10.33%	6.54%	16.54%	4.12%	3.84%	10.71%	0.11%	5.13%	0.21%	7.84%	2.67%	0.88%	2.28%
UTI MF	9.47%	23.53%	5.70%	5.56%	14.64%	4.55%	2.26%	10.07%	0.24%	4.51%	0.45%	9.75%	3.03%	0.89%	1.84%
WhiteOak Capital MF	4.41%	31.29%	8.92%	4.72%	9.64%	5.07%	2.68%	7.61%	0.28%	3.86%	2.03%	10.82%	2.56%	0.55%	1.59%

Source: ACE MF

Data as on 30th September

Fixed Income Market

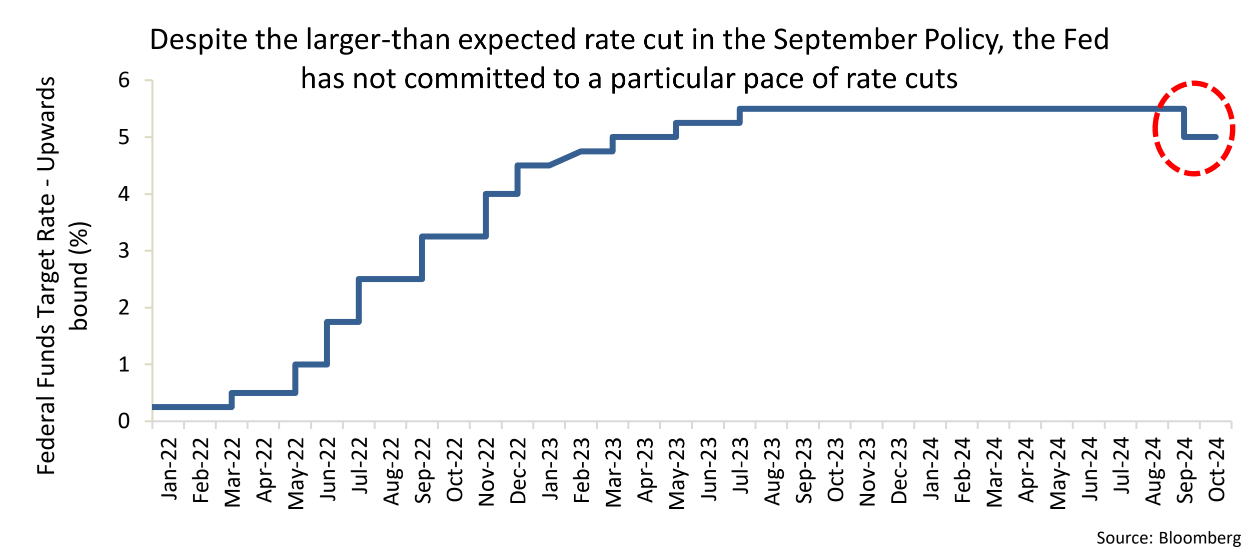
Classification - Internal

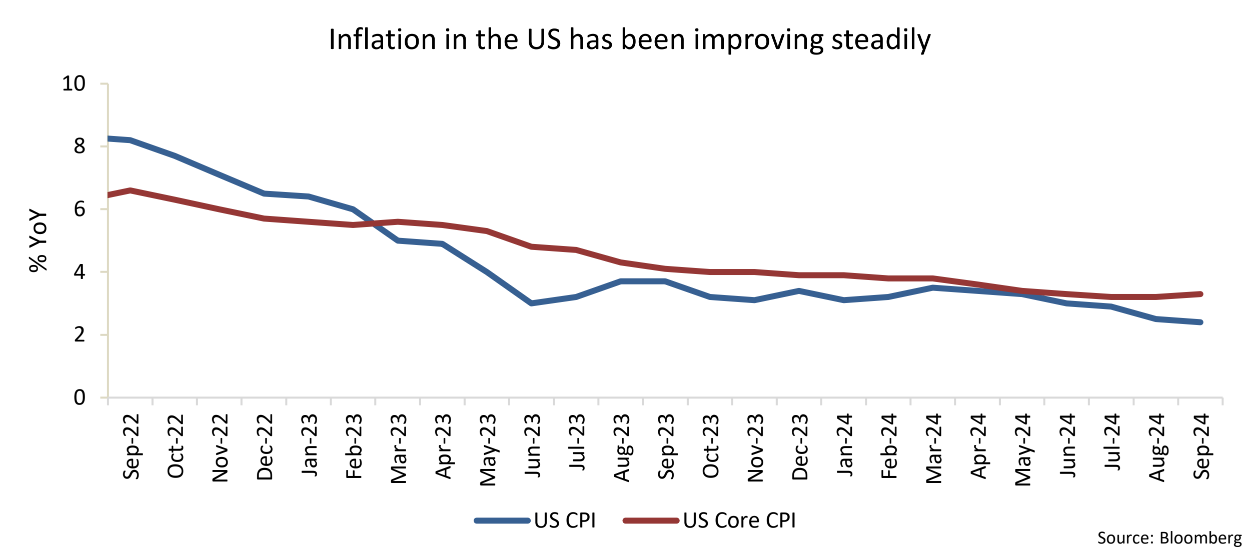
Fixed Income Outlook

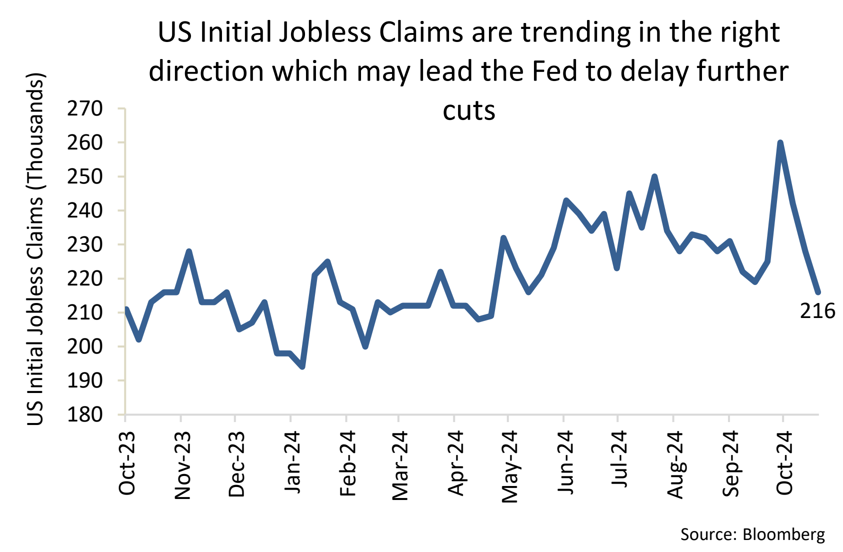
- The liquidity conditions are likely to remain in surplus as the RBI changed its stance. Going forward, the RBI is likely to ensure that the overnight rates trend below the repo rate, given the change in policy stance.
- The CPI inflation for September 2024 jumped to a 9-month high of 5.49% YoY, higher than market expectations of 5.1% YoY. With base effect wearing off, and food prices remaining elevated, the CPI inflation is likely to remain above the RBI's target of 4% YoY in the near term. However as we move into the winter months, the vegetable prices are expected to come off, ensuring lower headline inflation trajectory, given the weakening core inflation.
- India's CAD marginally widened to 1.1% of GDP in Q1 FY25 due to the widening of merchandise trade deficit but has remained manageable. With the trade deficit showing signs of improving, the CAD is likely to remain under control.
- The government has remained steadfast on its fiscal consolidation path, with the fiscal deficit (as a % of budget estimates) till September of FY25 remaining lower than the comparable period of FY24. With the government sticking to its budget estimates for market borrowing in H2 FY25, the market participants believe that the expenditure by the government is likely to pick up pace to alleviate possible slowdown in the economy. However, market seems to be expecting possibilities of lower than budgeted Government spending in the second half of FY25, keeping the demand supply dynamics favourable.
- Going forward, the RBI's decision on interest rate cuts will be influenced by the GDP growth data for Q2 FY25 along with the inflation trajectory as it tries to balance growth-inflation dynamics. The RBI's monetary policy may also be guided by the monetary policies of developed countries such as US and EU. The RBI would also be monitoring the interest rate developments in the other emerging economies and assessing the impact of interest rate differentials on the currency and the cost competitiveness of Indian exporters.
- In the US, market will be looking forward to the commentary by Fed members for cues regarding Fed rate cuts along with the outcome of the US Presidential elections. While inflation in the US remains on a downward path and Manufacturing continues to remain weak, the initial jobless claims have reduced, driving the US bond yields higher; which has left the market participants unsure about the timing of future cuts. The European Central Bank (ECB) has continued to pursue the path of policy rate cuts.
- In China, the central bank cut its benchmark loan prime rate as part of its stimulus efforts to boost the economy. The commodity prices rose sharply post the stimulus announcement in China, and have been cooling off post that in the second half of October. Any follow-on stimulus announcements can see the commodity prices responding further.
- 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, and policies pursued by the US post elections.
- Indian bond yields rose despite the dovish change in stance by the RBI, in line with the rise in the US bond yields, supported by FPI selling in the Indian bond market. Domestically, with expected policy rate cut in India and developed countries, favourable demand-supply dynamics of Indian G-Secs, and recent rise in the bond yields, tactical opportunities for duration strategy have emerged.
- Additionally, with the change in the RBI's stance to neutral, liquidity conditions have eased which is aiding deposit growth with banks. Thus, the shorter end of the yield curve may fall more than the longer end, likely leading to a steepening of the curve.
- With this backdrop, the Corporate Bond spreads at the shorter end may shrink, making the case for corporate bonds at the 2-4-years segment of the curve. Hence, investors can look at Corporate Bond Funds and Short duration 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.

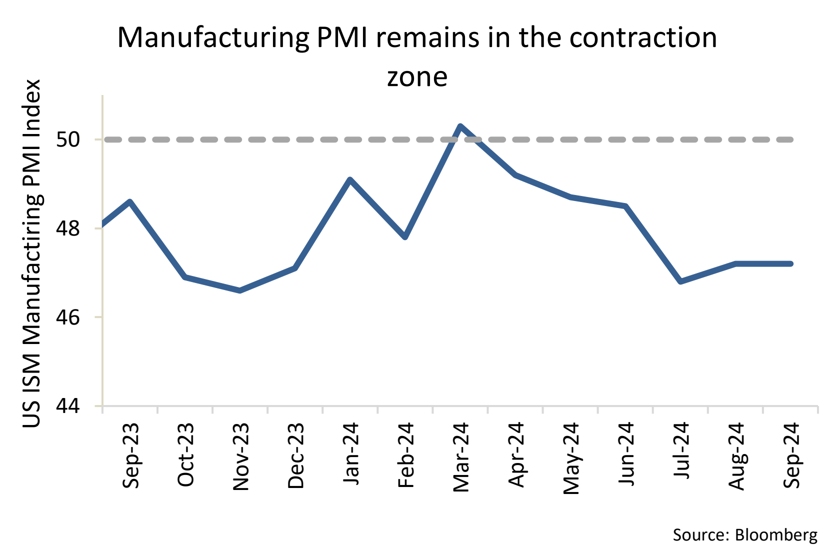
Classification - Internal

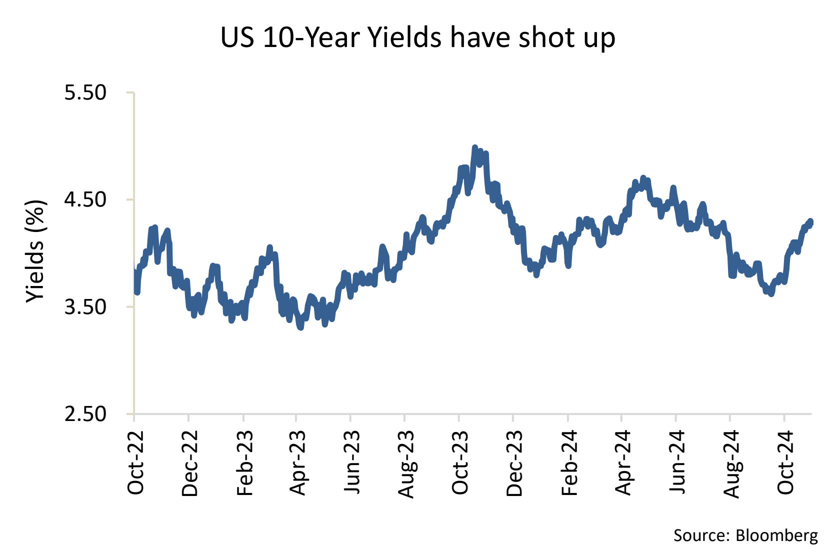
While the US Fed has cut rates, further rate cuts are likely to be data dependent, as current incoming data points are showing a mixed picture



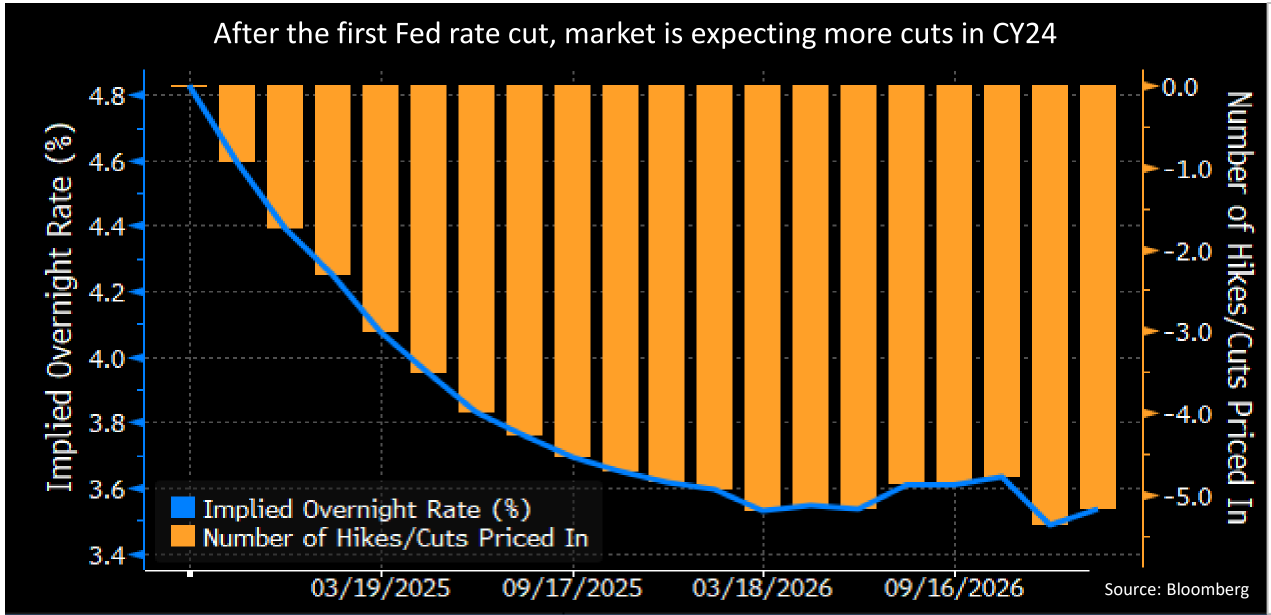


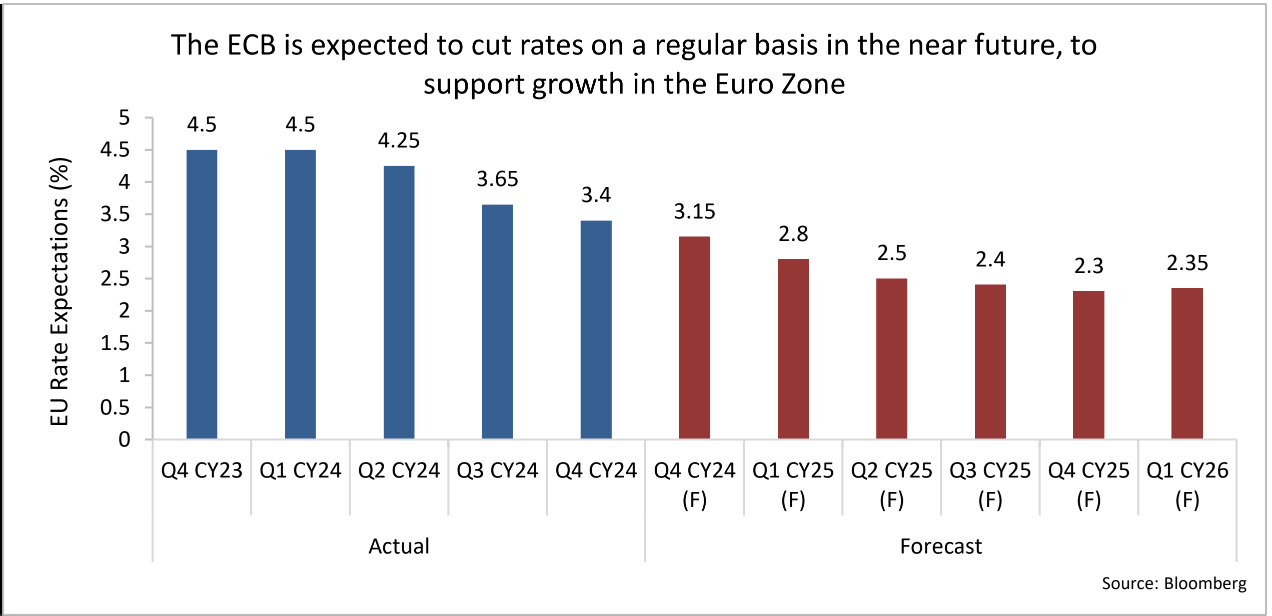






Policy rate cut expectations for the Developed Markets implies continuous cuts into CY25





"Some participants observed that they would have preferred a 25 basis point reduction of the target range at this meeting, and a few others indicated that they could have supported such a decision….

…Participants emphasized that it was important to communicate that the recalibration of the stance of policy at this meeting should not be interpreted as evidence of a less favorable economic outlook or as a signal that the pace of policy easing would be more rapid than participants' assessments of the appropriate path."

– Minutes of the FOMC Meeting, September 17-18, 2024

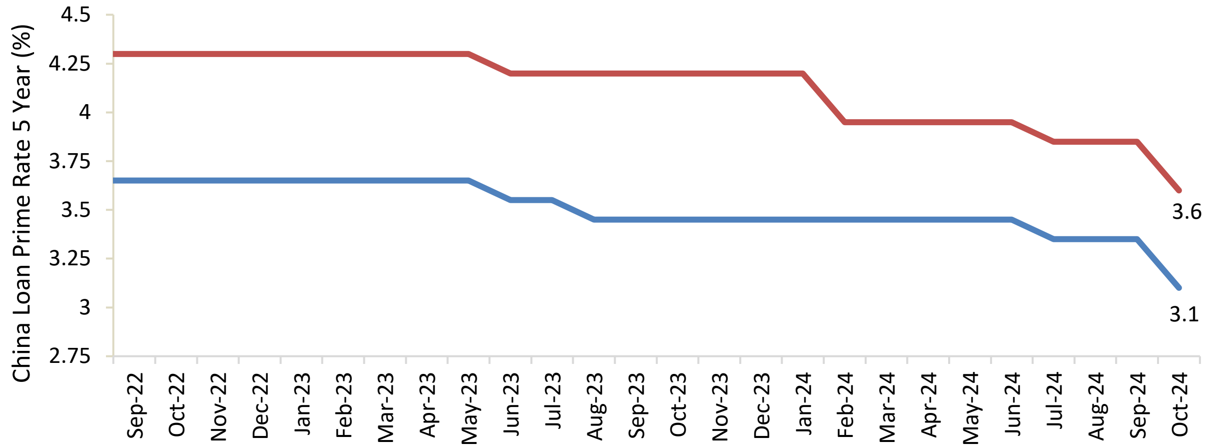
"We believe the disinflationary process is well on track and all the information we received in the last five weeks were heading in the same direction - lower…

…Any restriction, any uncertainty, any obstacles to trade matter for an economy like the European economy, which is very open."

– ECB President Christine Lagarde

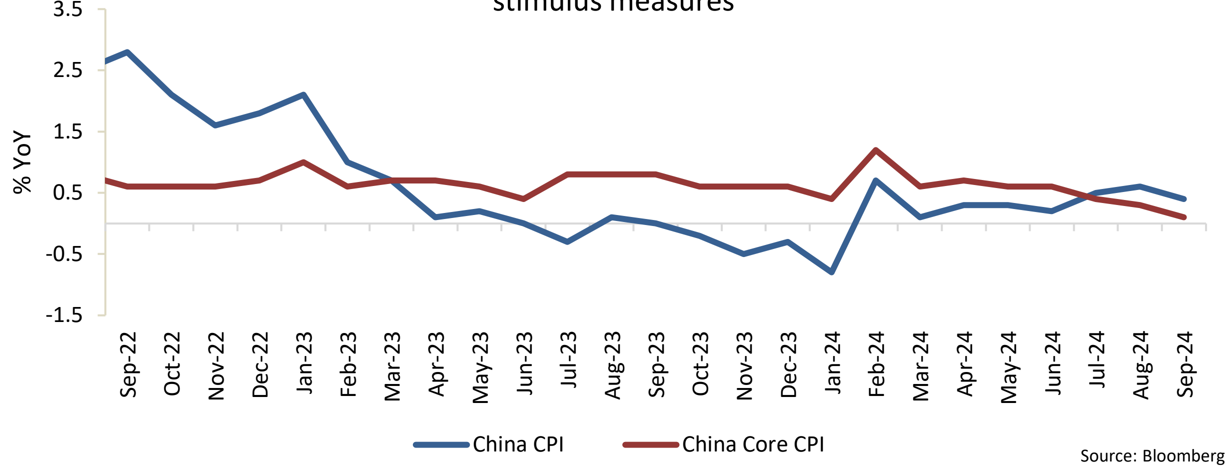
Chinese stimulus, predominantly aimed at improving domestic consumption… might have an inflationary effect

The central bank cut the 1-year and 5-year Loan Prime Rates as signaled



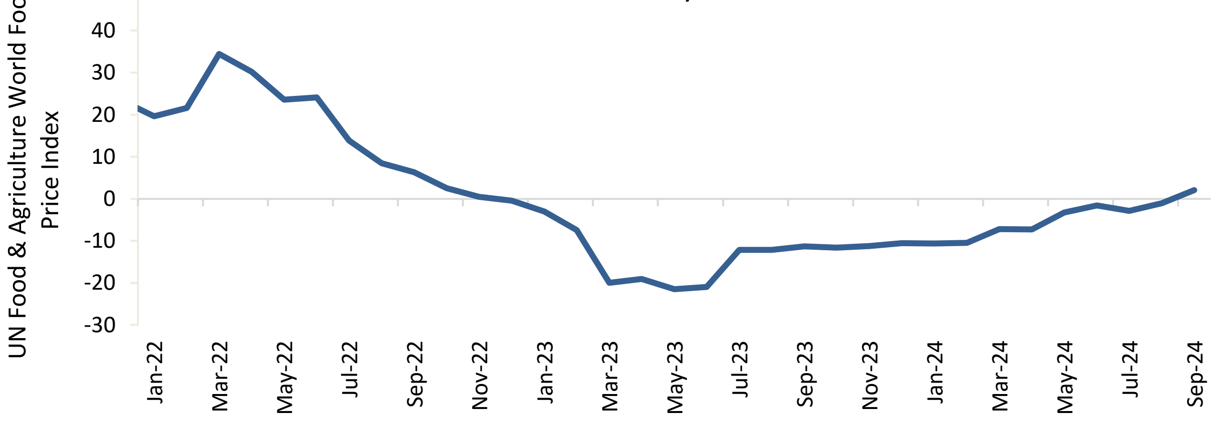
Source: Bloomberg

Deflationary pressures are building in China despite the governments recent stimulus measures



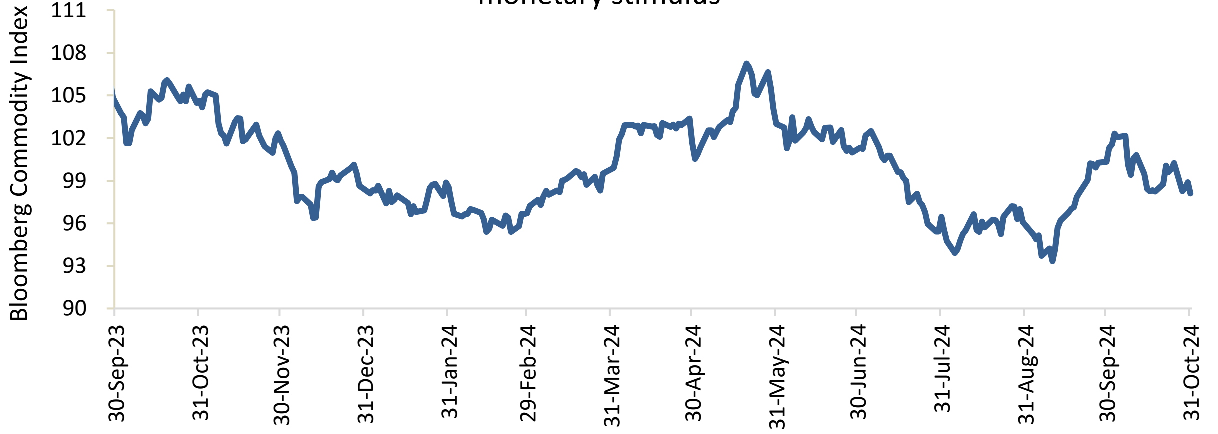
Source: Bloomberg

Global food Inflation has started to turn positive after a long period in the deflationary zone



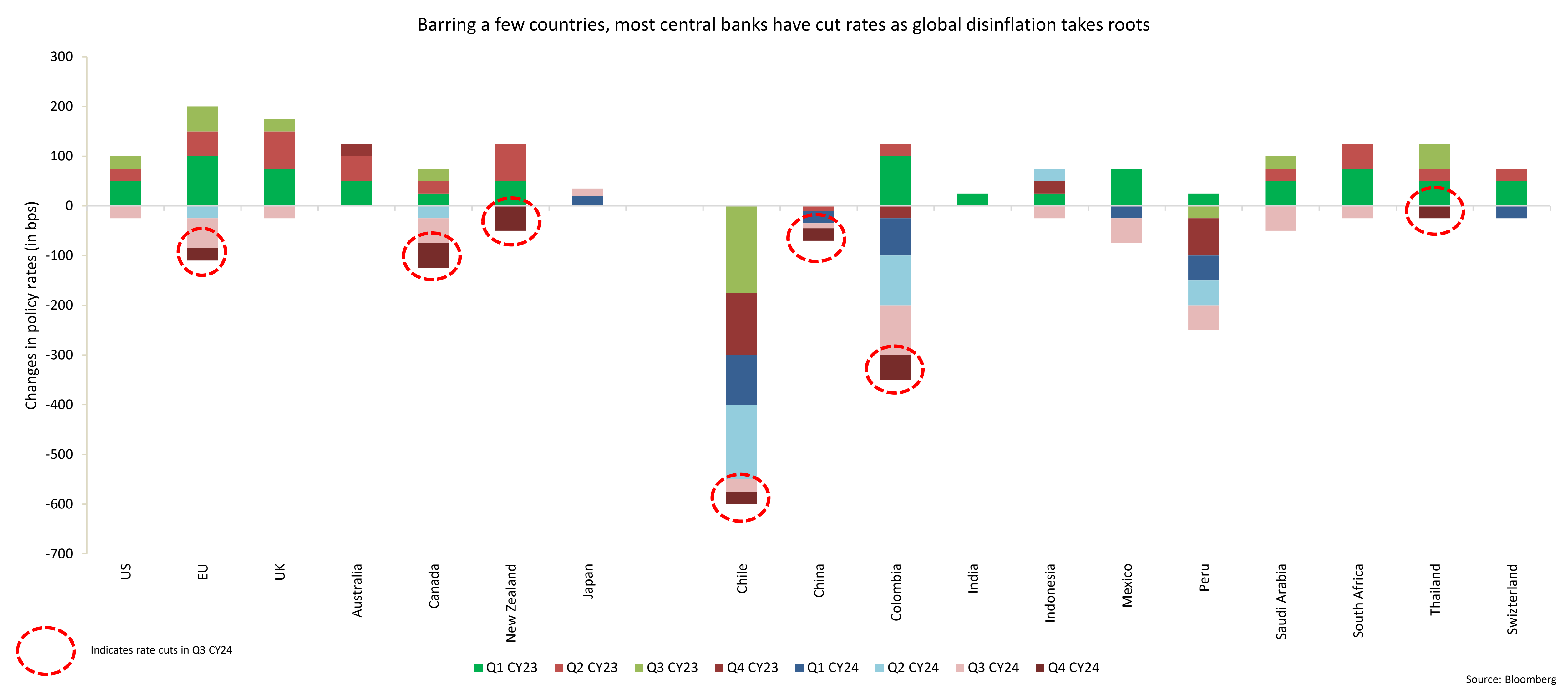
Source: Bloomberg

Commodity prices have moderated after the sharp jump due to China's monetary stimulus



Source: Bloomberg

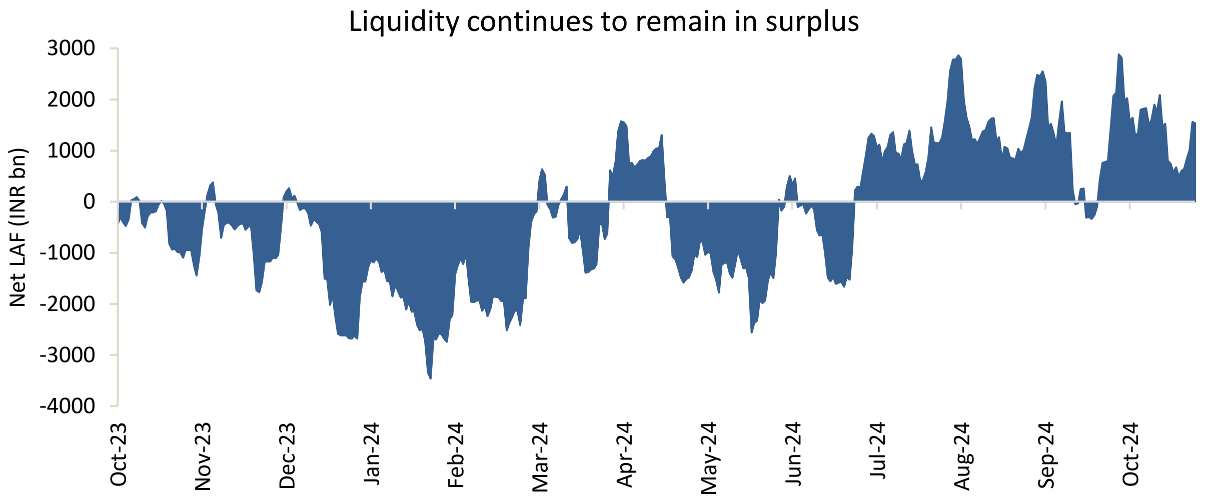
Majority of the global central banks are continuing with policy easing stance



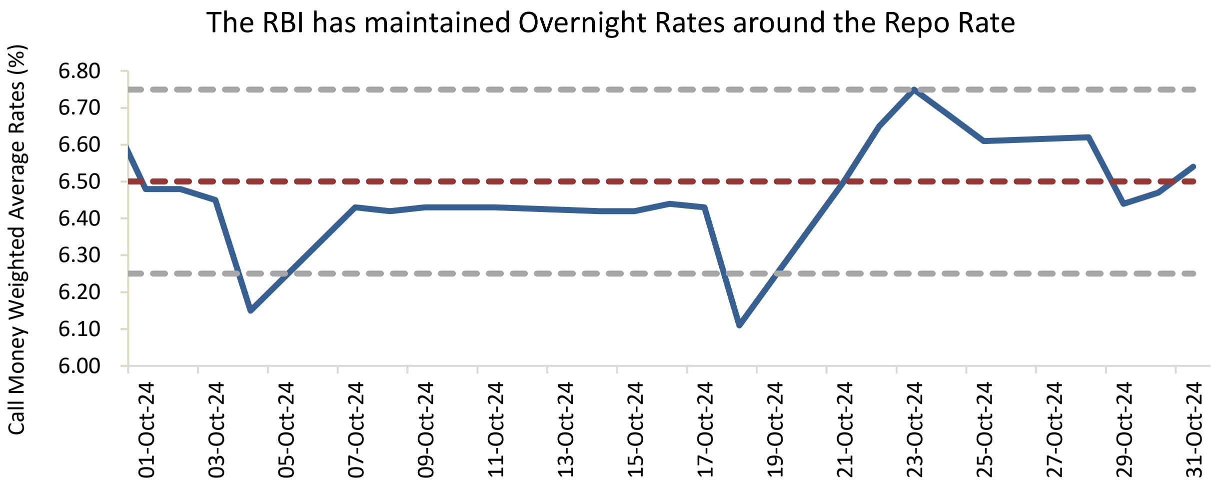
Source: Bloomberg

Classification - Internal

With RBI policy stance turning neutral, liquidity has remained in surplus



Source: Bloomberg



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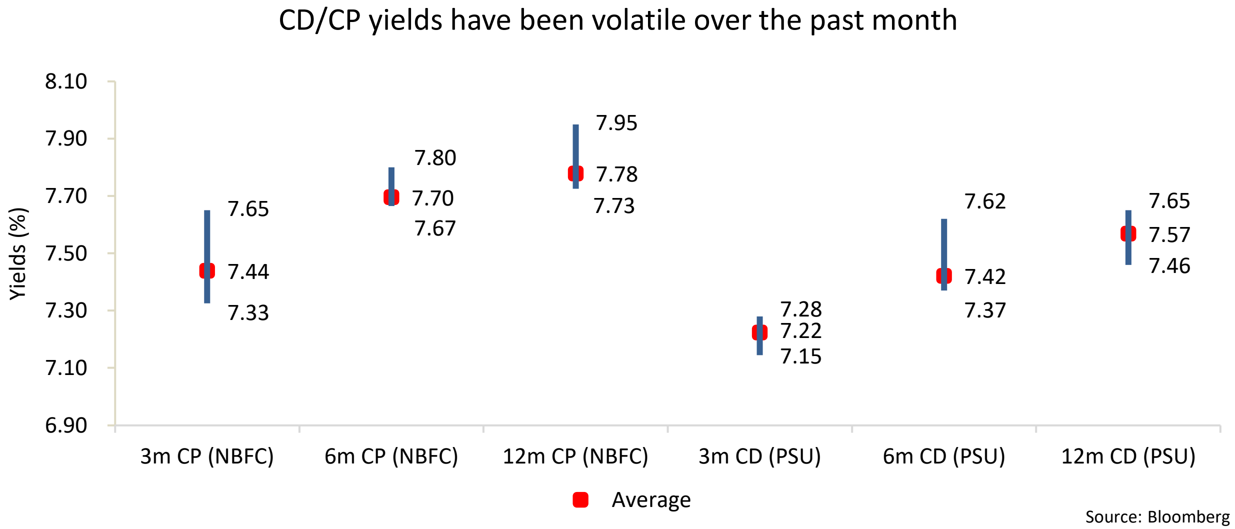
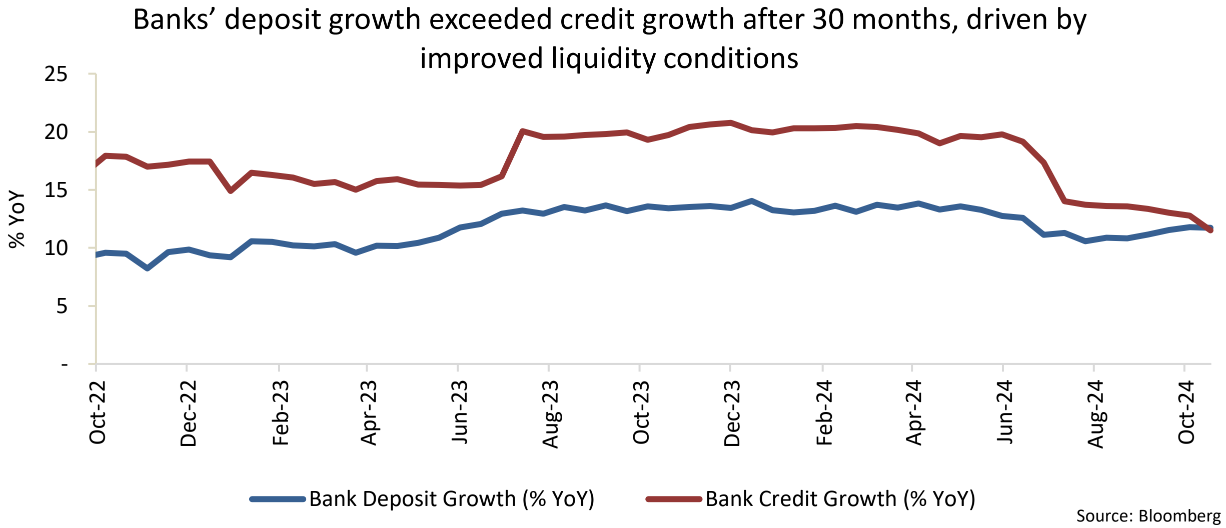


Source: Bloomberg

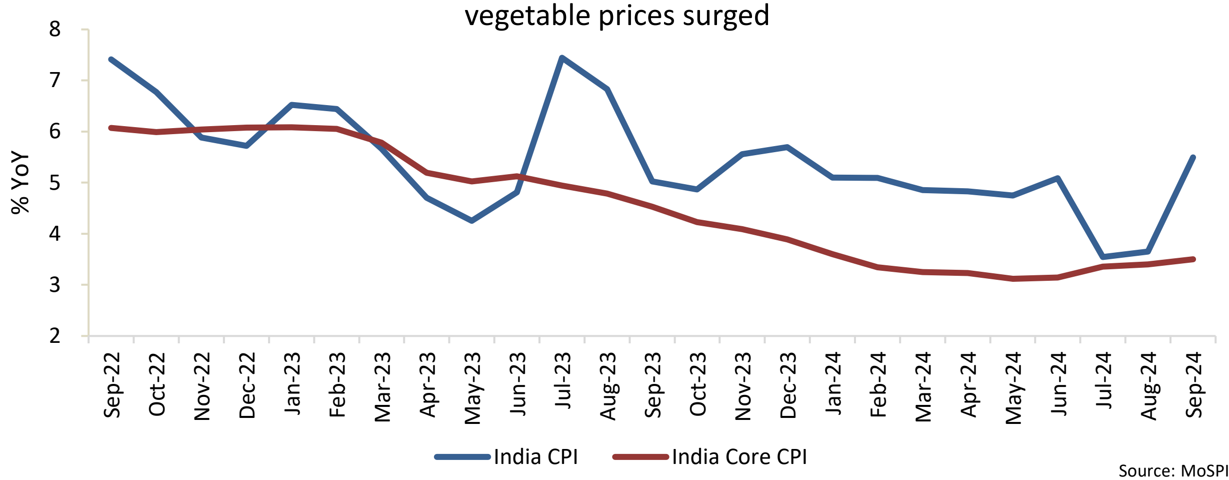


Source: Bloomberg

Classification - Internal

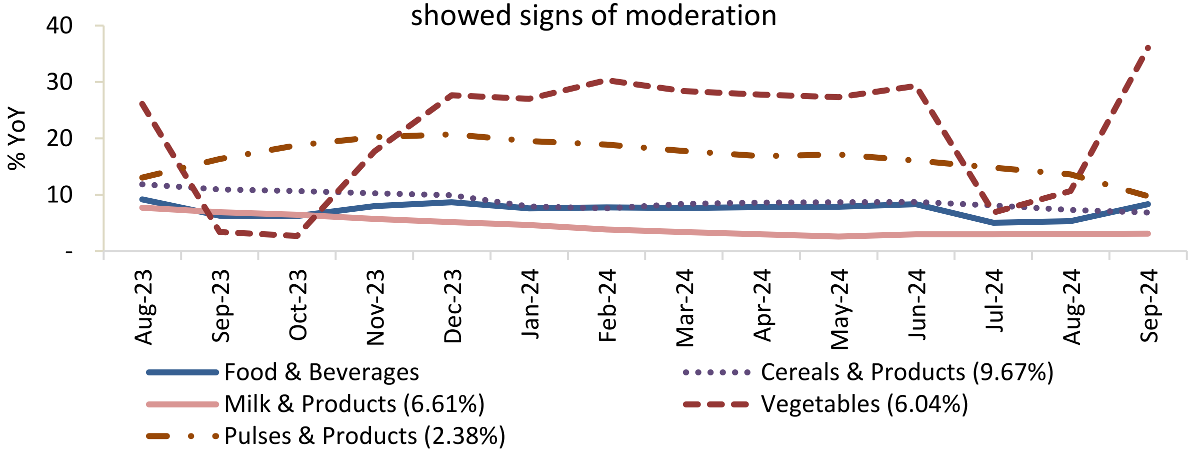
Low base and incremental momentum from vegetable prices pushed inflation higher… likely to come off in winter months

CPI inflation came in higher as the favourable base effect wore-off and vegetable prices surged



Source: MoSPI

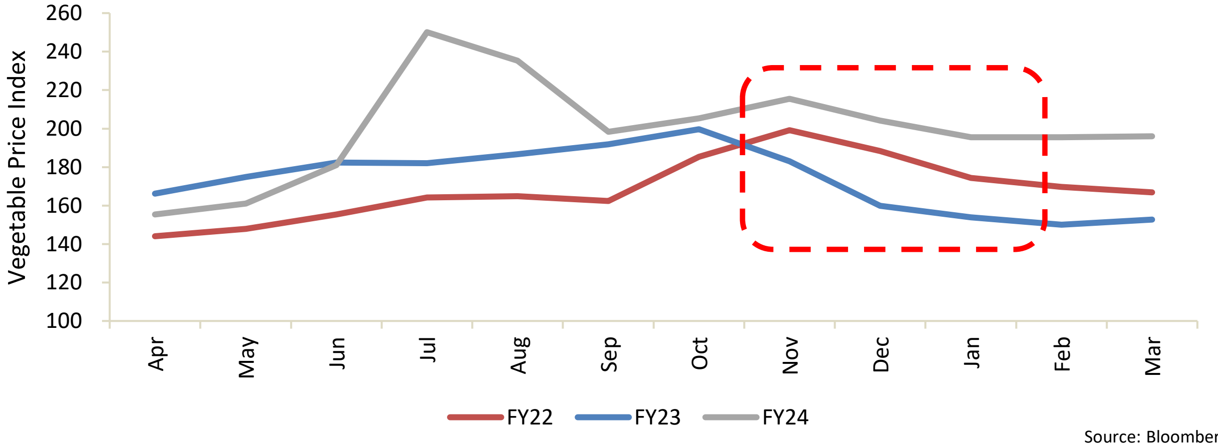
Prices of vegetables accelerated significantly while other food categories showed signs of moderation



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

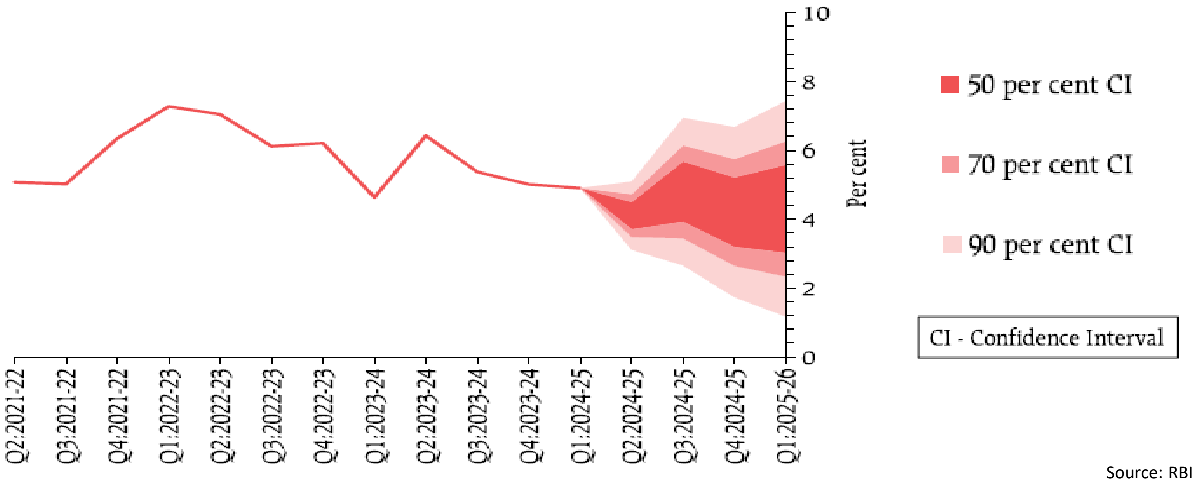
Source: MoSPI

Vegetable prices typically come off in the winter months, as seen in the trend of the Vegetable Price Index



Source: Bloomberg

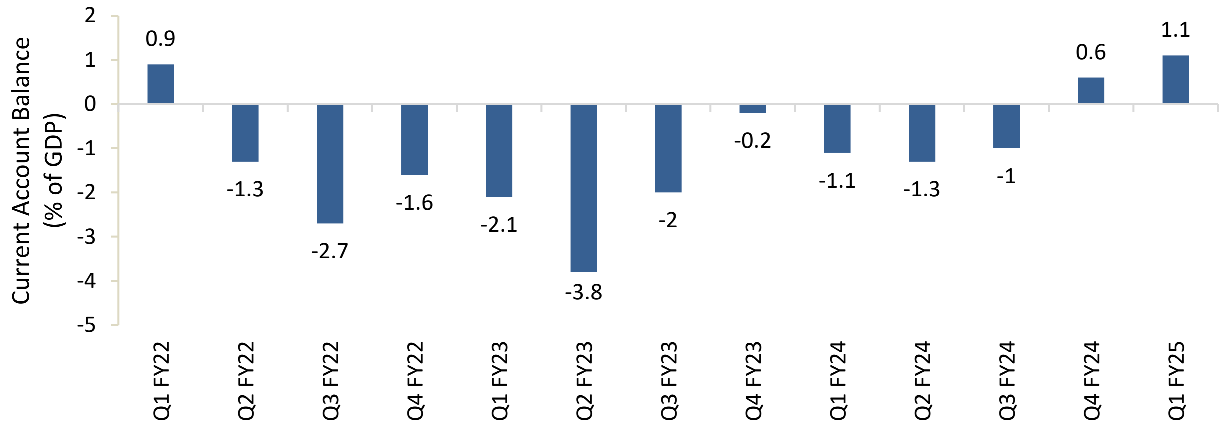
The RBI projects inflation to be in the 4-5% YoY range, subject to risks



Source: RBI

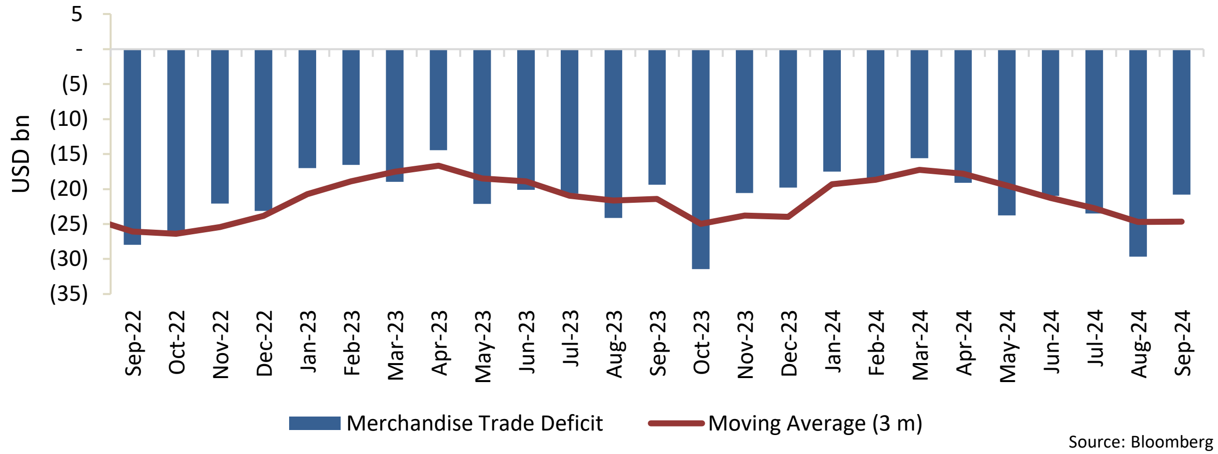
External sector continues to remain under control

India’s current account balance continues to improve



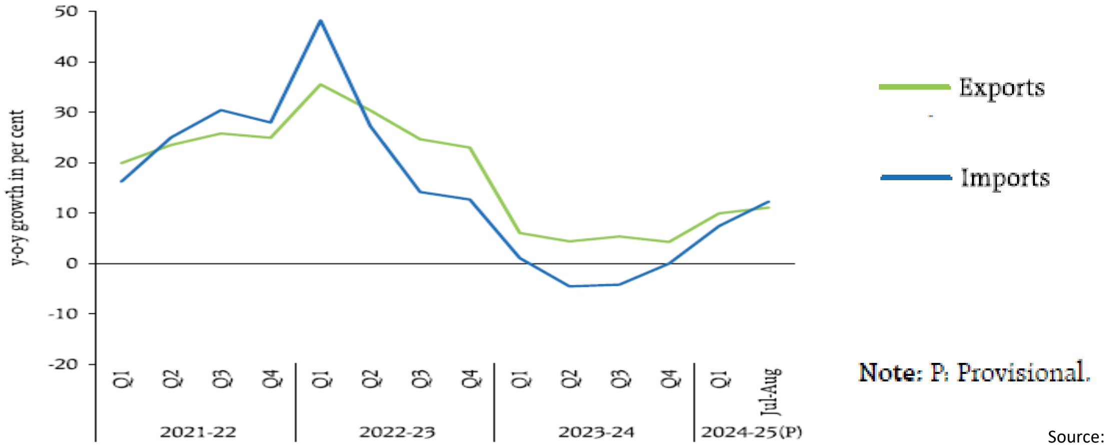
Source: Cogencis; RBI

Trade deficit came in lower than expected, helped by a drop in Gold imports



Source: Bloomberg

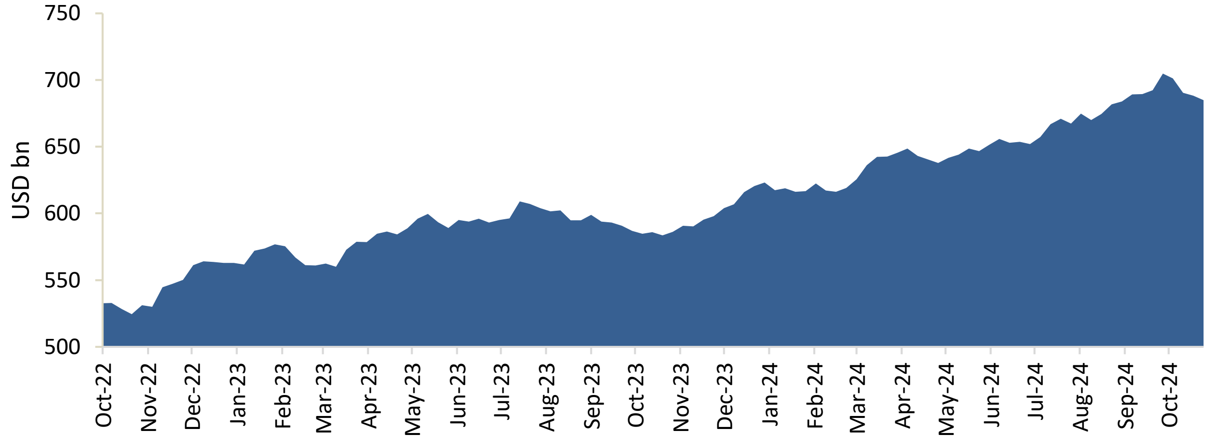
Improving global demand for Indian services reflected in the rising services exports



Note: P: Provisional.

Source: RBI

Forex Reserves are coming off the recent all-time highs

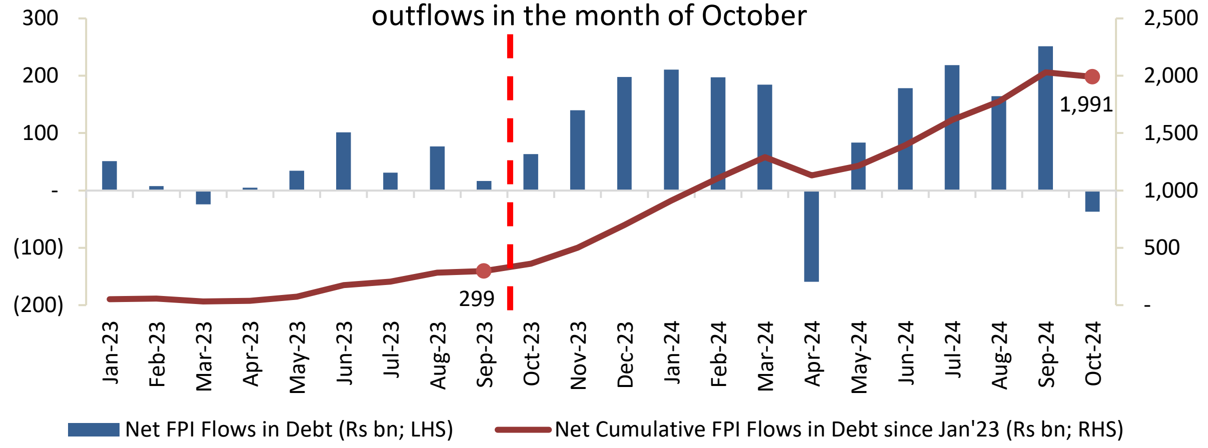


Source: Bloomberg

Classification - Internal

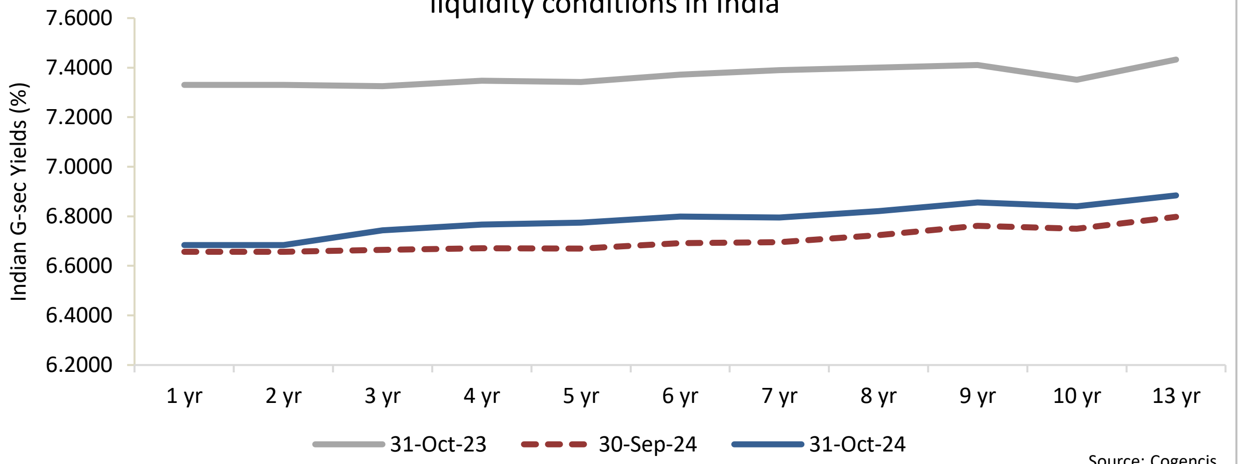
Improving liquidity conditions and rising US bond yields have driven the longer end higher, steepening the G-sec yield curve… building a tactical play for duration

Rising bond yields in the US and global geo-political uncertainty led to FPI outflows in the month of October



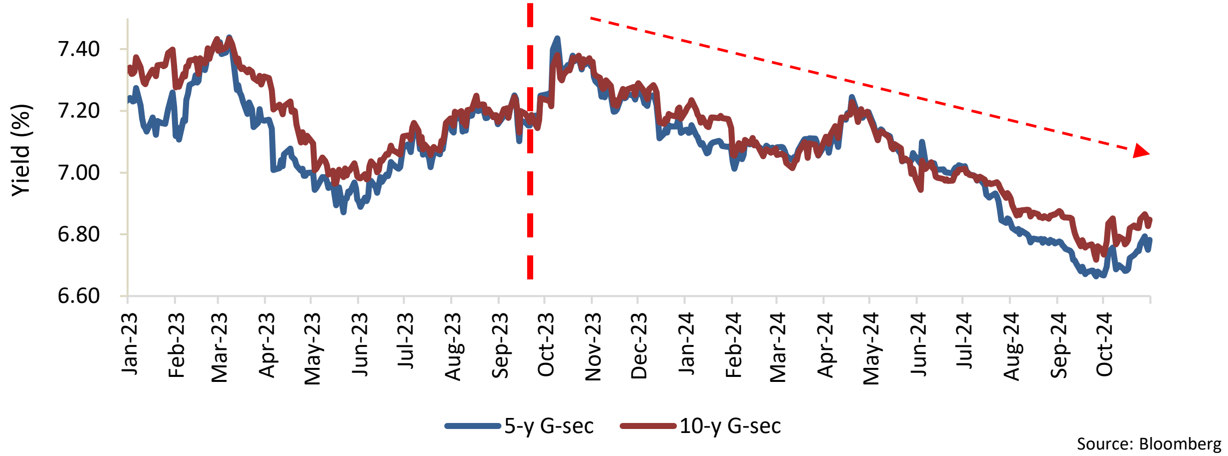
Source: Bloomberg

G-sec Yield Curve steepens following the jump in US Bond yields and easing liquidity conditions in India



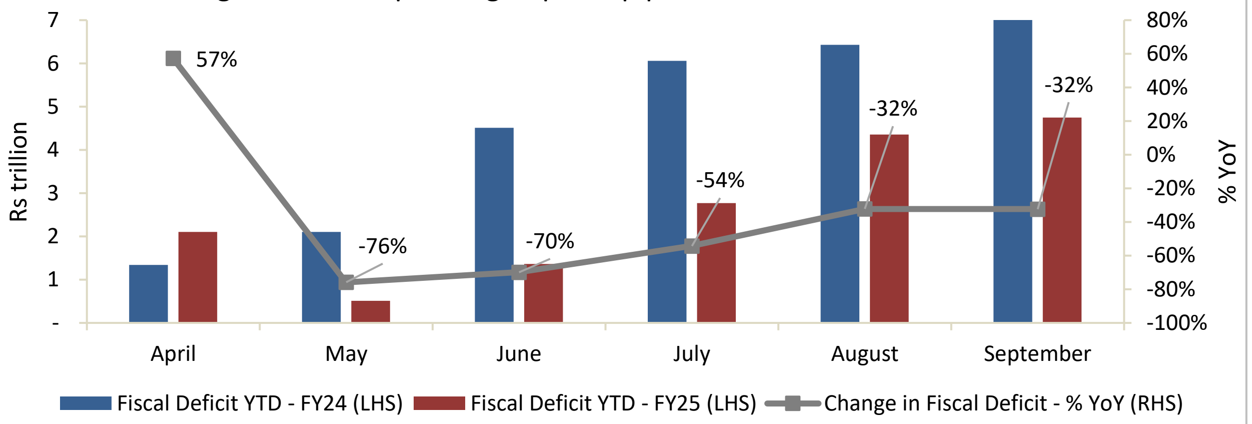
Source: Cogencis

Over the last 18 months, higher demand and limited supply brought G-sec yields lower



Source: Bloomberg

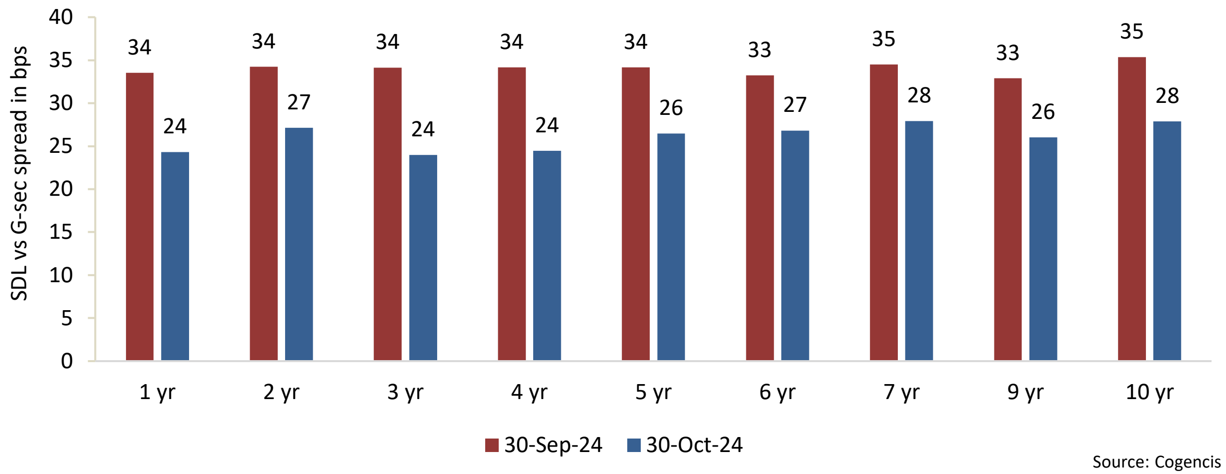
While the Fiscal Deficit has been under control, market participants expect government spending to pick-up post the two state elections.



Source: CGA

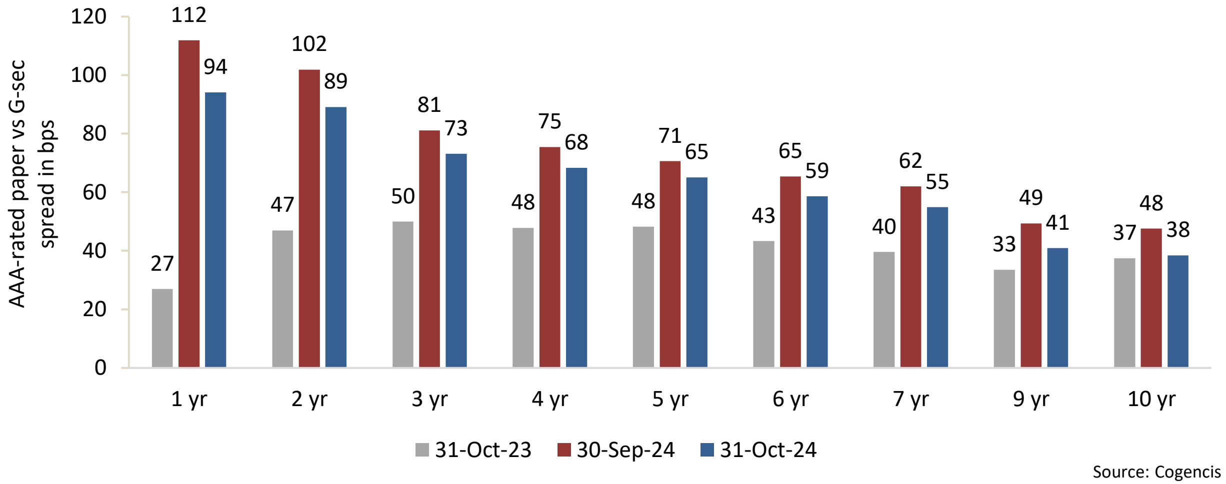
With rise in liquidity, the corporate bond spreads have come off marginally… still attractive to add into corporate bond funds

SDL spreads narrowed due to higher demand



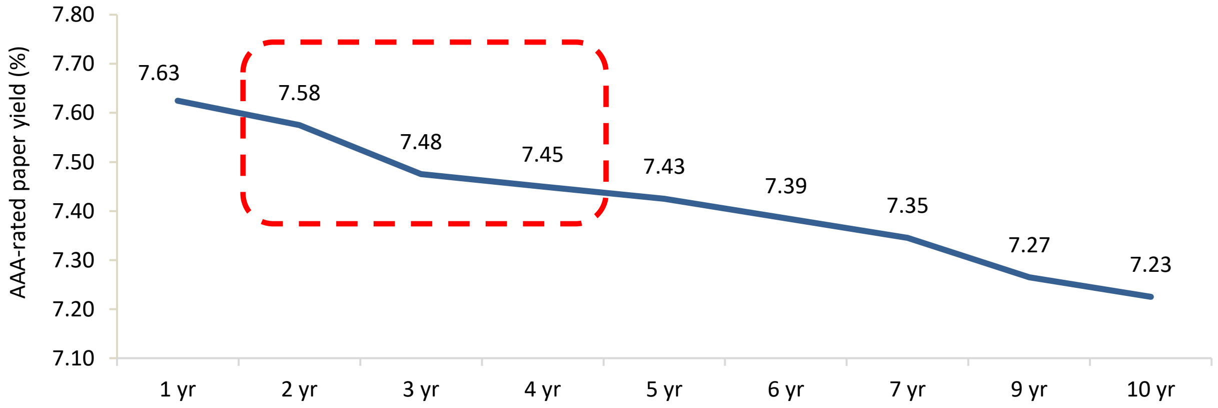
Source: Cogencis

Corporate Bond spreads also narrowed



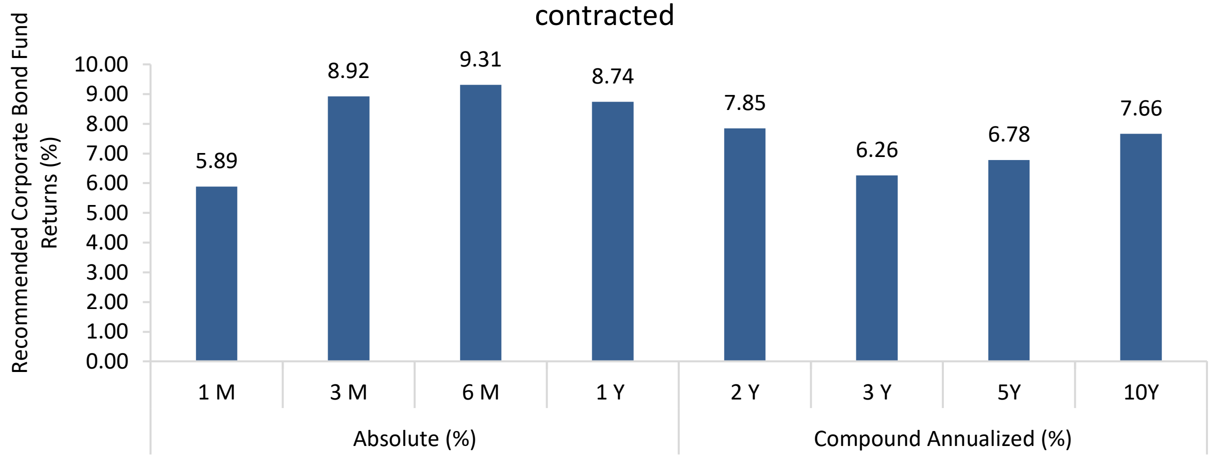
Source: Cogencis

Shorter end of the Corporate bond curve remains attractive from an accrual standpoint, where most of the Corporate bond funds seem to be positioned



Source: Cogencis

Recommended Corporate Bond Funds continue to do well as spreads contracted



Source: Ace MF

Classification - Internal

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