

# HDFC Bank – Research Presentation

## October 2024

## Risk profile-based asset allocation

Asset Class	Overall View	Asset Allocation		
		Aggressive	Moderate	Conservative
<b>Equity Funds</b>	▼	75%	55%	25%
<b>Debt Funds</b>	▲	20%	40%	70%
<b>Gold</b>	▲	5%	5%	5%

Note:	Optimistic	▲
	Cautiously Optimistic	◆
	Cautious	▼

### Category-wise view

MF Categories	View
<b>Equity Oriented Funds</b>	
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
<b>Debt Oriented Funds</b>	
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 – October 2024

- Rising unemployment, consolidation in manufacturing PMI and deceleration in consumer sentiments suggest weakening growth impulses in the US. US Federal Reserve has cut the policy rates by an above consensus 50 bps in September, to support growth and employment. The Fed is expected to further cut by another 50 bps by end of the calendar year.
- Eurozone is seeing further deceleration with the services sectors starting to underperform and the manufacturing sector still struggling. The ECB has cut interest rates further to support growth, as the inflationary pressure in the EU seems to be abating.
- The Chinese central bank has announced a slew of liquidity easing measures to counter the increasing slowdown in their real estate and consumption sectors, which has impacted its overall GDP growth, while their exports growth remains stable. This has led to sharp surge in Chinese equity indices and seems to be attracting more global flows given the cheap valuations.
- The base commodity prices have bounced from their recent lows on the back of decline in the Dollar Index, policy rate cuts in the US and the Chinese monetary stimulus. While the food price inflation globally is still weakening, the base effect could ensure that this data starts turning positive in time to come. The crude oil prices have been range bound on the back of supply pressure from OPEC+ and weakening growth impulses in key economies. The rising escalation of tensions in the middle east remains a cause of concern for Oil and global geopolitics.
- With the US Fed signalling dovishness, the US Dollar index is likely to remain soft. That could potentially drive incremental FPI flows towards Emerging economies, where the growth differential higher vs the Developed nations.
- The Indian economy is 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, strong 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.
- Rural economy seems to be gathering momentum. Strong monsoons, higher crop acreage, strength in the real estate and construction activities bode well for rural economy. The Two-Wheeler sales and improving volume growth commentaries 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. Fund managers, too, are gradually building these pointers into their investment decisions.
- 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 have remained steady. Consolidation in urban demand is a cause for concern in the medium term and may push the Central and State Governments 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, leveraging 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 runup and the valuations in these segments seem to be pricing in most of the future positives. Any earnings disappointment may see these segments consolidation or correcting. Fund managers are gradually reducing their overweight stance in these sectors given the lofty valuations.
- Liquidity conditions have begun to ease marginally, and market participants expect RBI to gradually ease its policy stance.
- **While the equity market valuations have moved up substantially in the last two years across many sectors and marketcap segments (especially midcap and Smallcap), future earnings in key marketcap segments are witnessing downgrades, which is not good news. Many fund managers have raised cash in their funds on valuations concerns, while some have started taking defensive exposure into sectors like FMCG, Pharma, Pvt Sector Banks and IT. While the inflow into the equity markets have been substantial from the domestic investors, now also being supported by the FPIs; the supply of fresh equity in the form of FPO, IPO and dilution by the promoters have also been substantial.**
- **In such conditions, the tolerance for any bad news in form of Geo political flareups, US election outcome, Domestic election uncertainty (with 4 key states going for polls), large supply of equities and earnings downgrades, could be low, and seems to be emerging as a key risk for the investors. Thus, at this juncture, we would recommend that investors who have any kind of Equity skew in their asset allocation, should look to rebalance it by booking profits or by switching from Pure equity funds to hybrid equity funds.**
- In the long term, improving domestic macro conditions, favourable demographics, rising per capital income and Strong consumption demand could keep driving the Indian corporate earnings higher and support the equity markets, thus making Indian markets a good “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, Flexicap, 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

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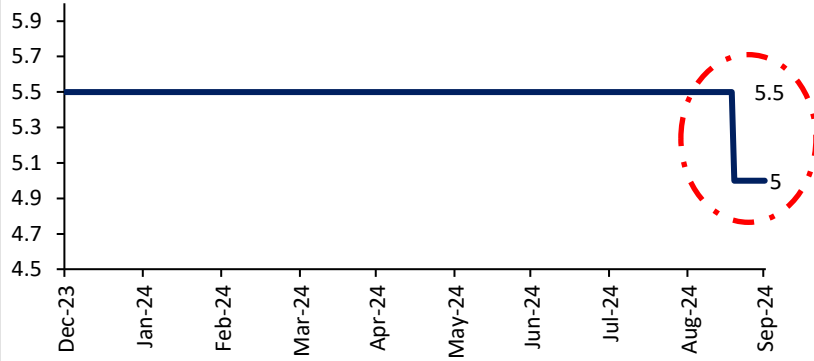
- Accrual opportunities at the 1-4-years segment of the corporate bond yield curve remains attractive for incremental investment, from risk-reward perspective.
- As corporate bonds are available at reasonable spreads of similar tenor G-Secs, Corporate Bond Funds continue to look like a safe bet at the 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 24 months and above, investors can look at Dynamic Bond Funds.
- Whereas for a horizon of 3 months and above, investors can consider Arbitrage Funds or Money Market funds.
- 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

- US: Fed starts the easing cycle as employment condition weakens and inflation dips
- Eurozone: Follows through with further rate cut as growth conditions remain weak
- China: Chinese Central Bank puts in large monetary stimulus to revive growth
- Commodities: Chinese stimulus driving the metal prices higher
- While global growth decelerates, EM market growth likely to outpace the developed market, possibly attracting incremental flows in the medium term.
- Indian markets remained on an uptrend in September on the back of continued flows from DII / FPI's and positive macro data
- Sectoral performance and FPI flows in September 2024
- India – Macro conditions continue to reflect strength with high frequency data points remaining robust.
- Urban India showing incremental signs of deceleration, which is emerging as a near term concern.
- Rural India: Continues to show traction, driven by strong monsoon and state government support.
- Capex: Economic environment & policy push ensuring suitable conditions for private capex
- India valuations: While trailing multiples at 2 year peak, future earning expectations across market cap have seen downward revision... equity issuances rise sharply
- Mutual funds raising cash levels as market valuations rise and earnings under pressure.
- Market Roundup – September 2024
- Key concerns for Indian equities
- Annexure...
- Sectoral outlook by fund managers – Part 1
- Sectoral outlook by fund managers – Part 2
- Monthly Sectoral Movement
- AMC Sectoral Holdings
- Fixed Income Outlook
- Global disinflationary trends are pushing major central banks across the world to take a dovish stance
- Fed cuts more than expected as growth weakens, while inflation decelerates further
- ECB cuts rates further to support weakening growth impulses
- Chinese Central Bank provides a large stimulus to the economy
- While commodities continue to show weakness, the recent spike was led by Chinese stimulus
- Majority of the global central banks have started their rate cut cycle
- Near term inflation in India could be impacted because of adverse base
- While monsoon has been on track, excess monsoon could be a worry going forward
- With inflation and fiscal deficit under control, and rising FPI flows, bond yields have declined further
- As yields have come off across the curve, dynamic bond funds and gilt funds have performed better
- Banking system liquidity continues to remain in surplus despite RBI's stance of 'withdrawal of accommodation'
- Corporate bond spreads have improved, making the case for high quality accrual products
- Disclaimer

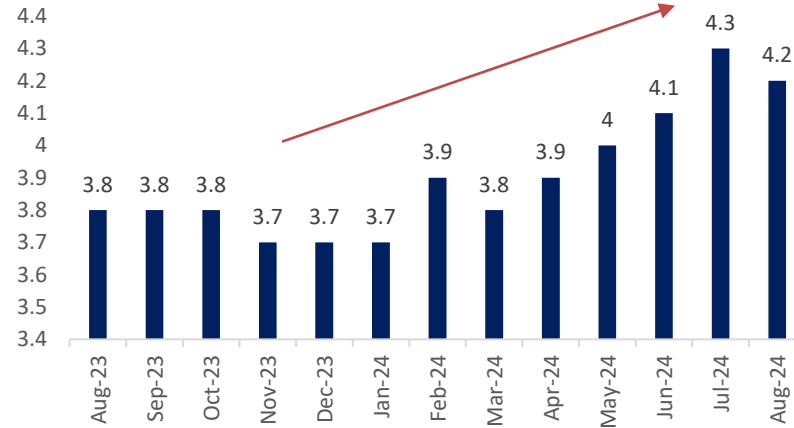
# US: Fed starts the easing cycle as employment condition weakens and inflation dips

### US Fed Funds Rate - Upper Band (%)



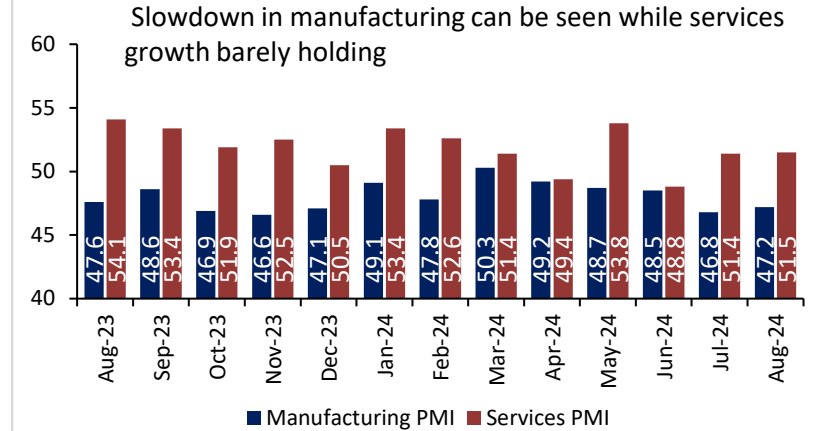
Source: Bloomberg

### US Unemployment Rate Rising (%)



Source: Bloomberg

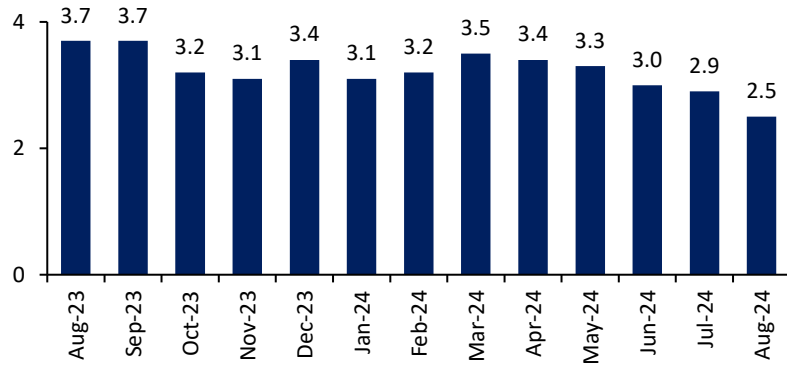
### US Manufacturing & Services PMI



Source: Bloomberg

### US CPI YoY (%)

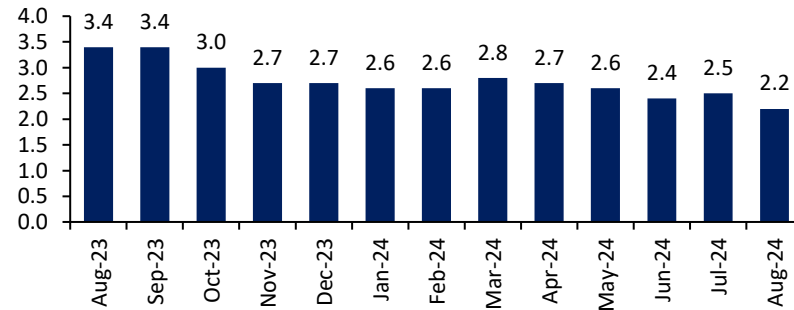
US inflation seems to be easing



Source: Bloomberg

### US Personal Consumption Expenditure - YoY (%)

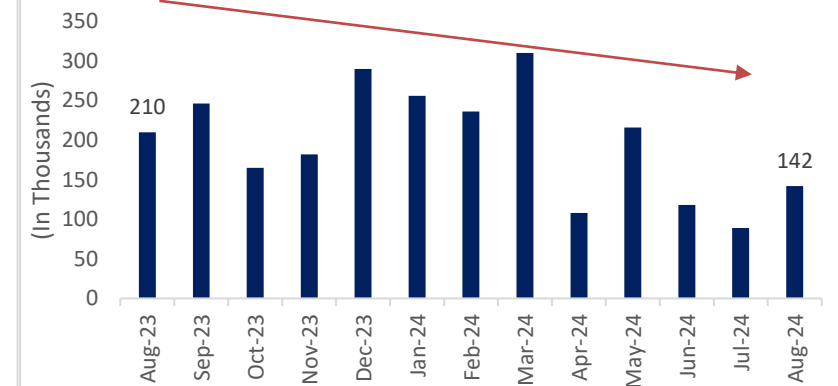
Personal consumption in US continues to deteriorate



Source: Bloomberg

### US Employees on Nonfarm Payrolls

Cooling of labor market visible

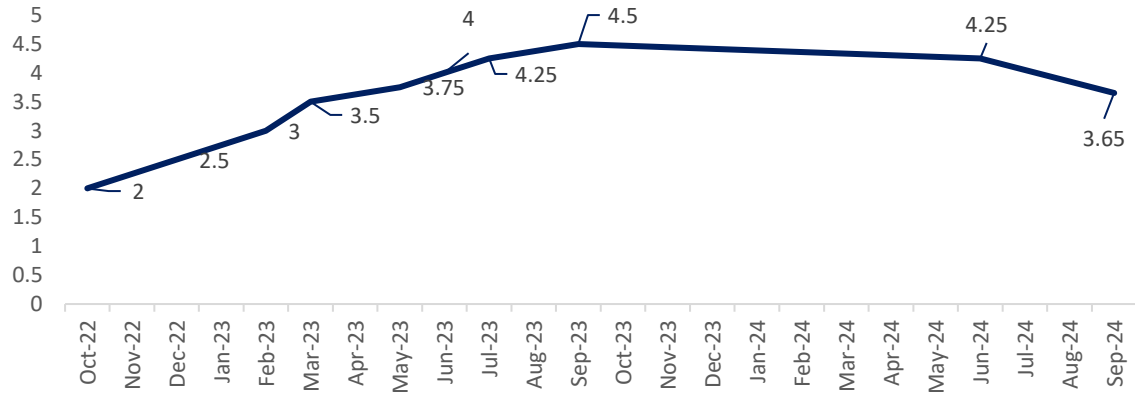


Source: Bloomberg

## Eurozone: Follows through with further rate cut as growth conditions remain weak

### ECB Main Refinancing Rate (%)

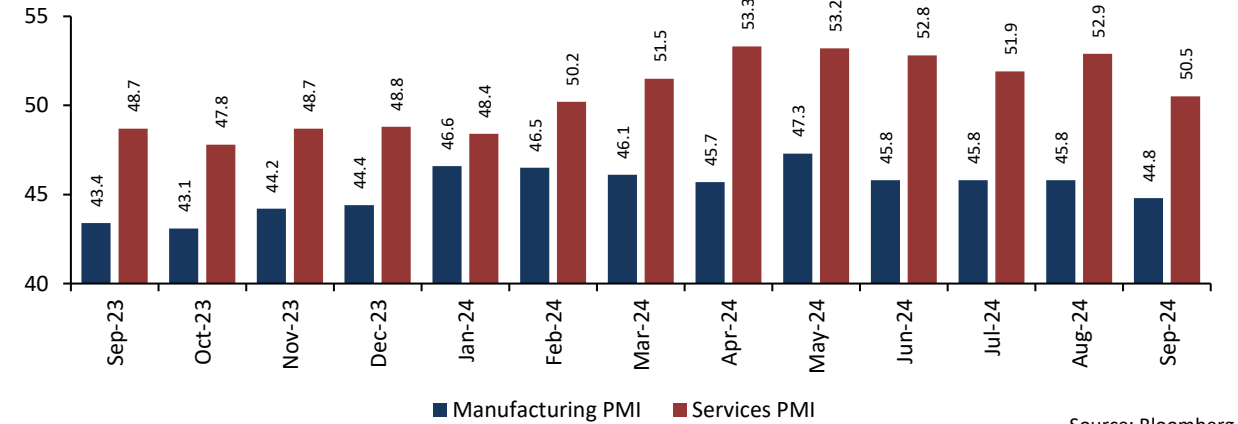
ECB cuts rate further to support growth



Source: Bloomberg

### S&P Global Eurozone PMI

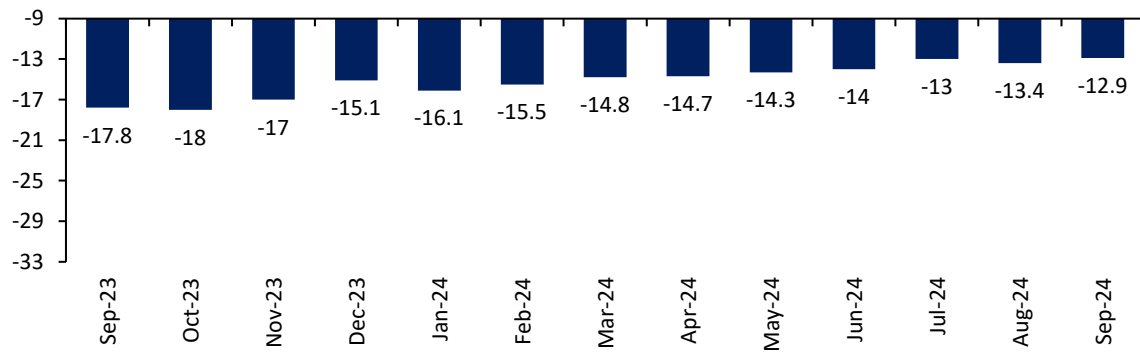
Manufacturing under pressure, Services weakening



Source: Bloomberg

### Eurozone Consumer Confidence Indicator

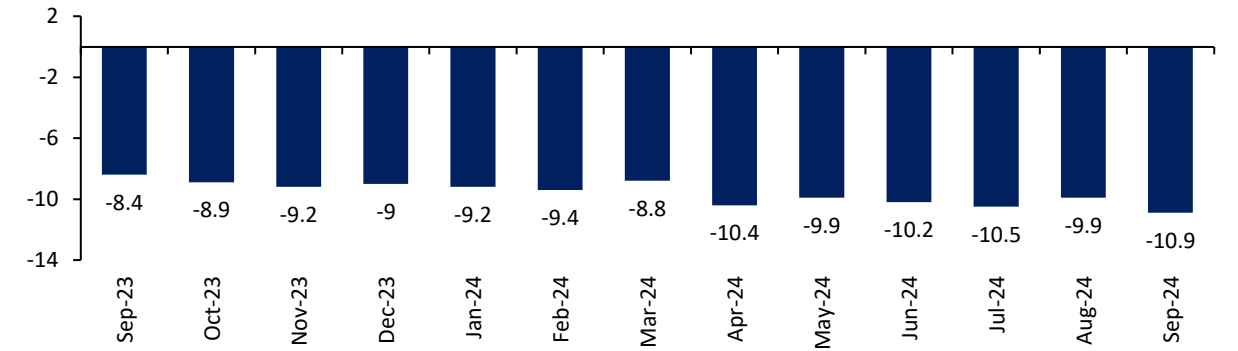
In the negative territory, but improving



Source: Bloomberg

### Eurozone Industrial Confidence Indicator

Weakness continues to persist



Source: Bloomberg

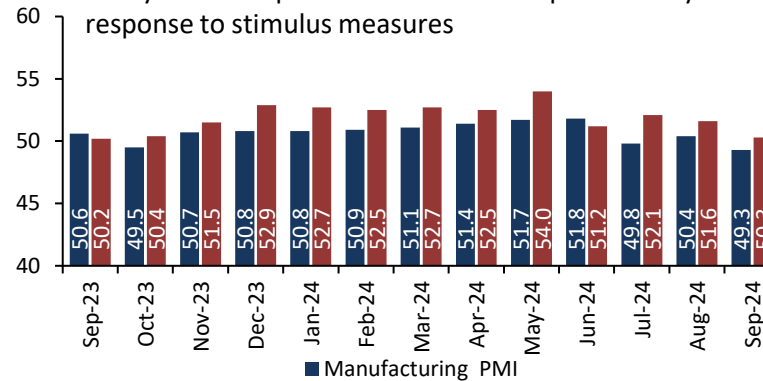
# China: Chinese Central Bank puts in large monetary stimulus to revive growth

## China unveils major stimulus package to revive slowing economy

- 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 Manufacturing & Services PMI

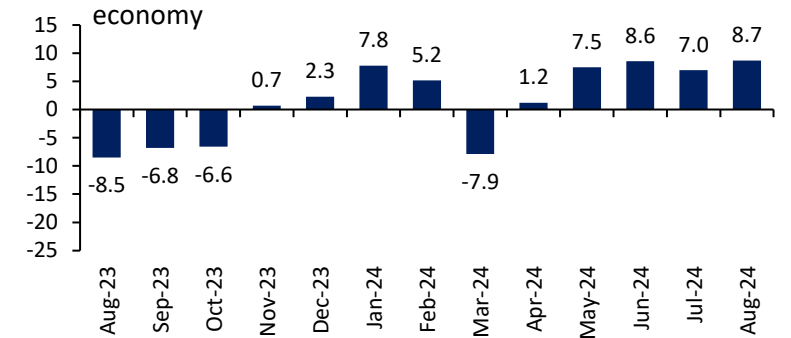
Policymakers expect numbers to inch up noticeably in response to stimulus measures



Source: Bloomberg

## China's Export Growth (In USD Terms) - YoY Change (%)

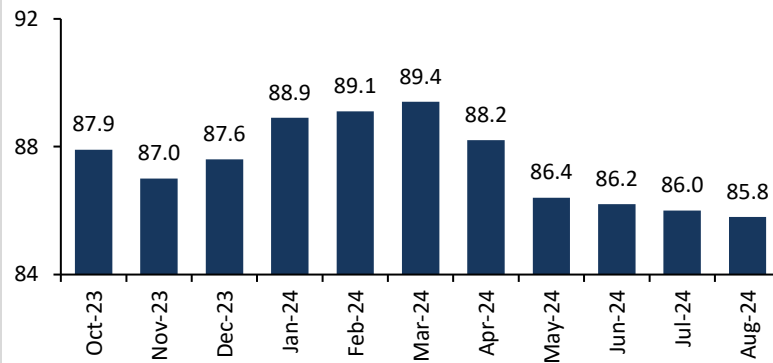
Exports growth continue to remain mainstay of Chinese economy



Source: Bloomberg

## China Consumer Confidence Index

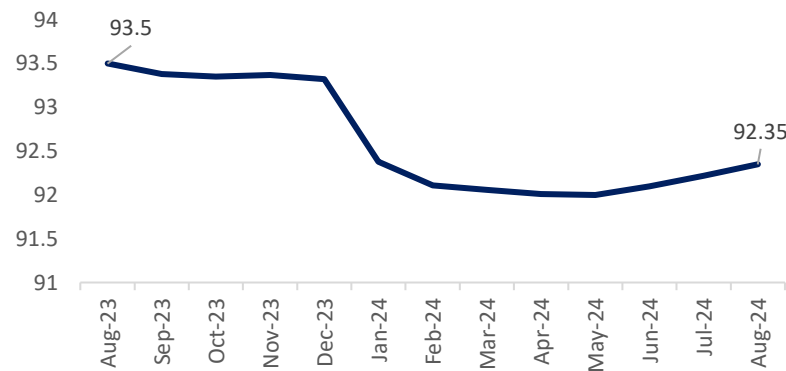
Consumption trends yet to improve



Source: Bloomberg

## China Real Estate Climate Indicator

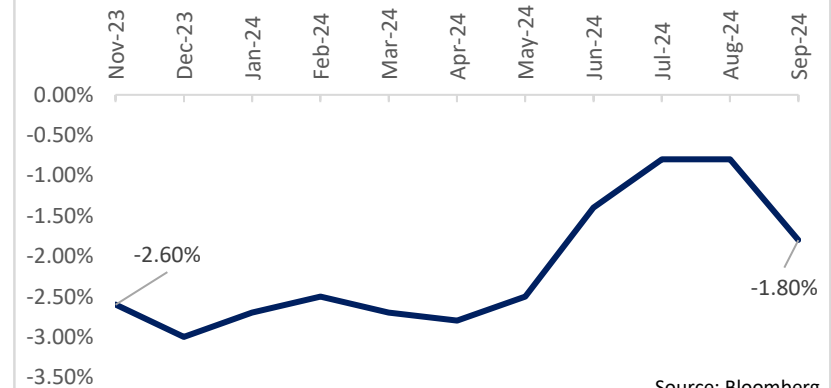
Seems to suggest bottoming



Source: Bloomberg

## China Producer Price Index (PPI) YoY

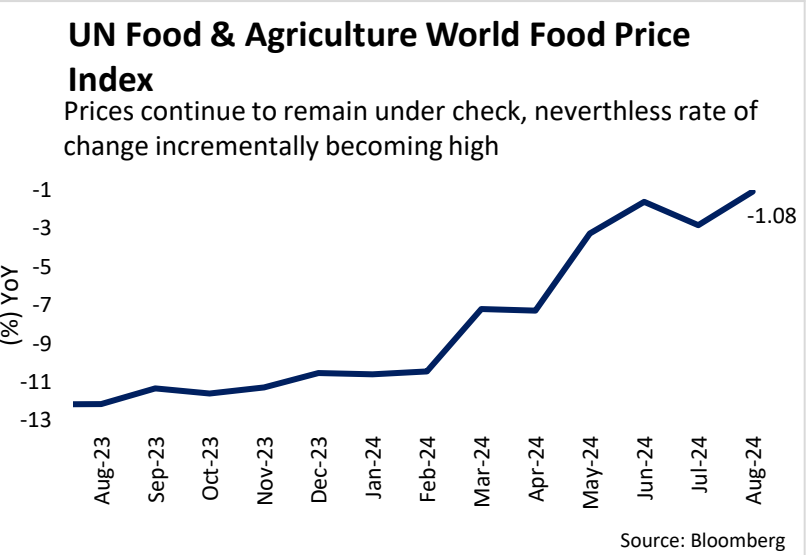
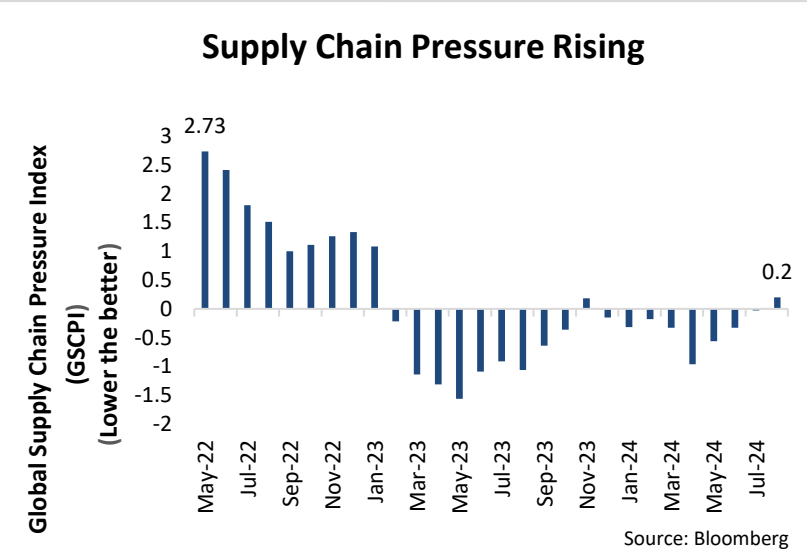
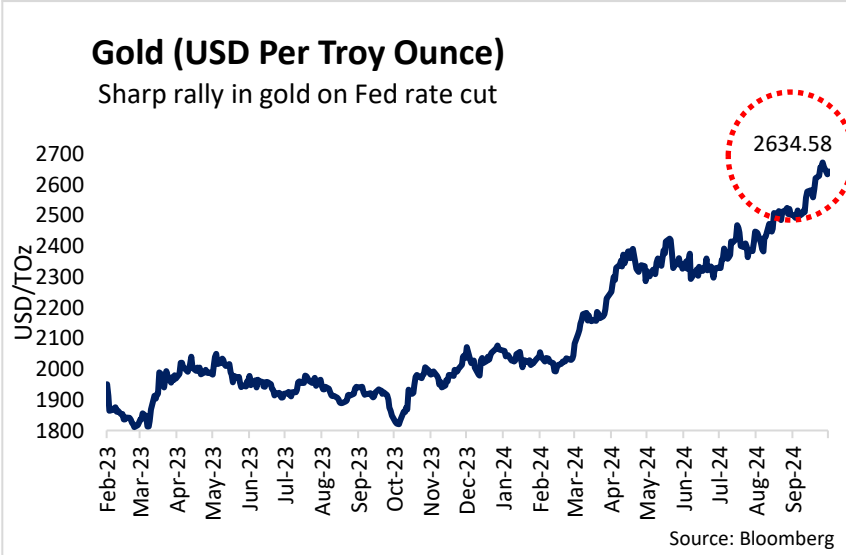
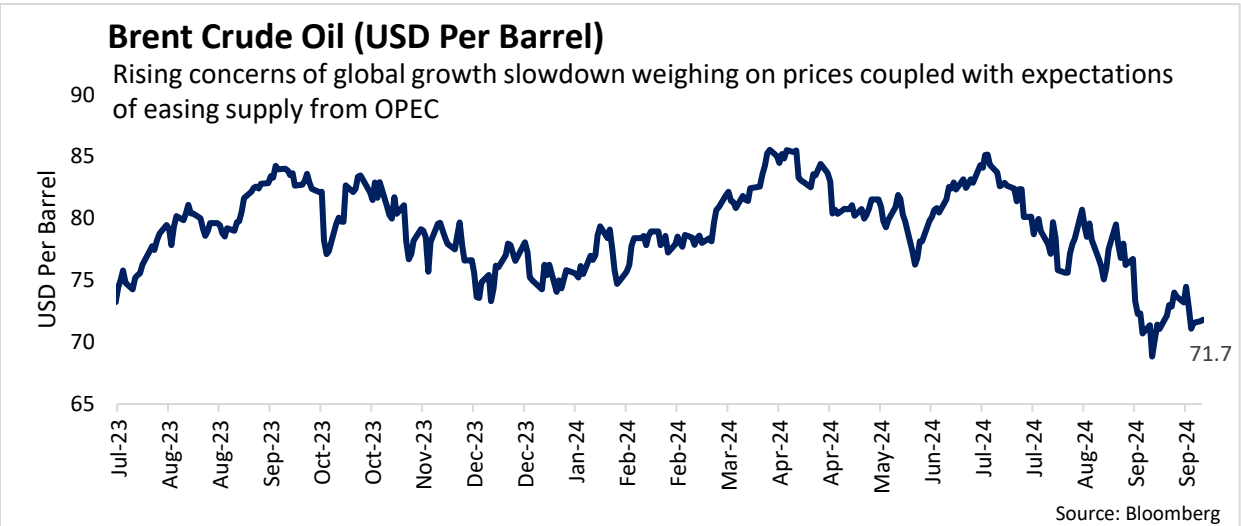
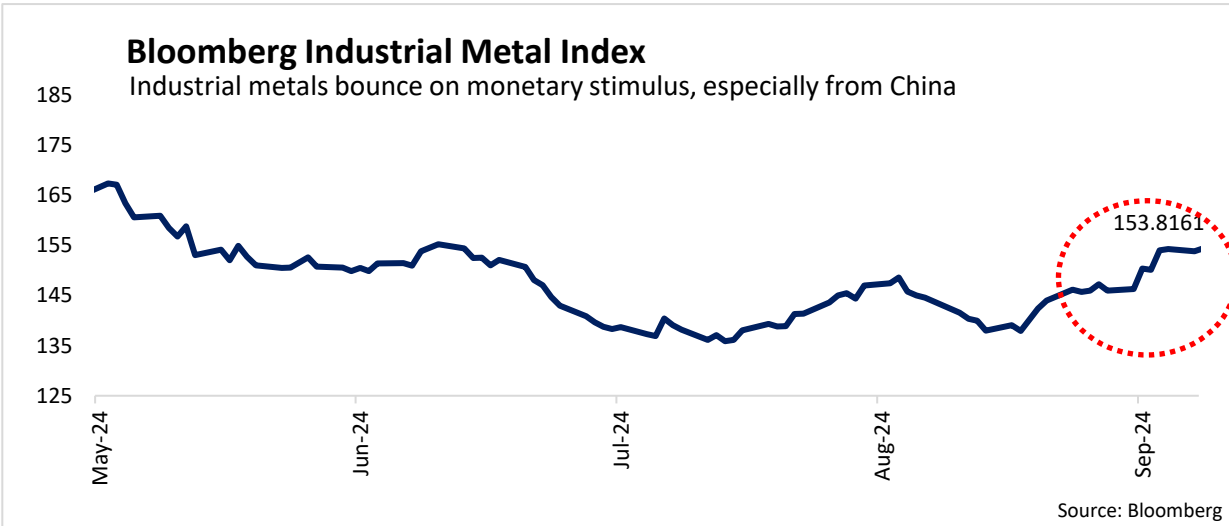
Remains weak, suggesting lack of pricing power



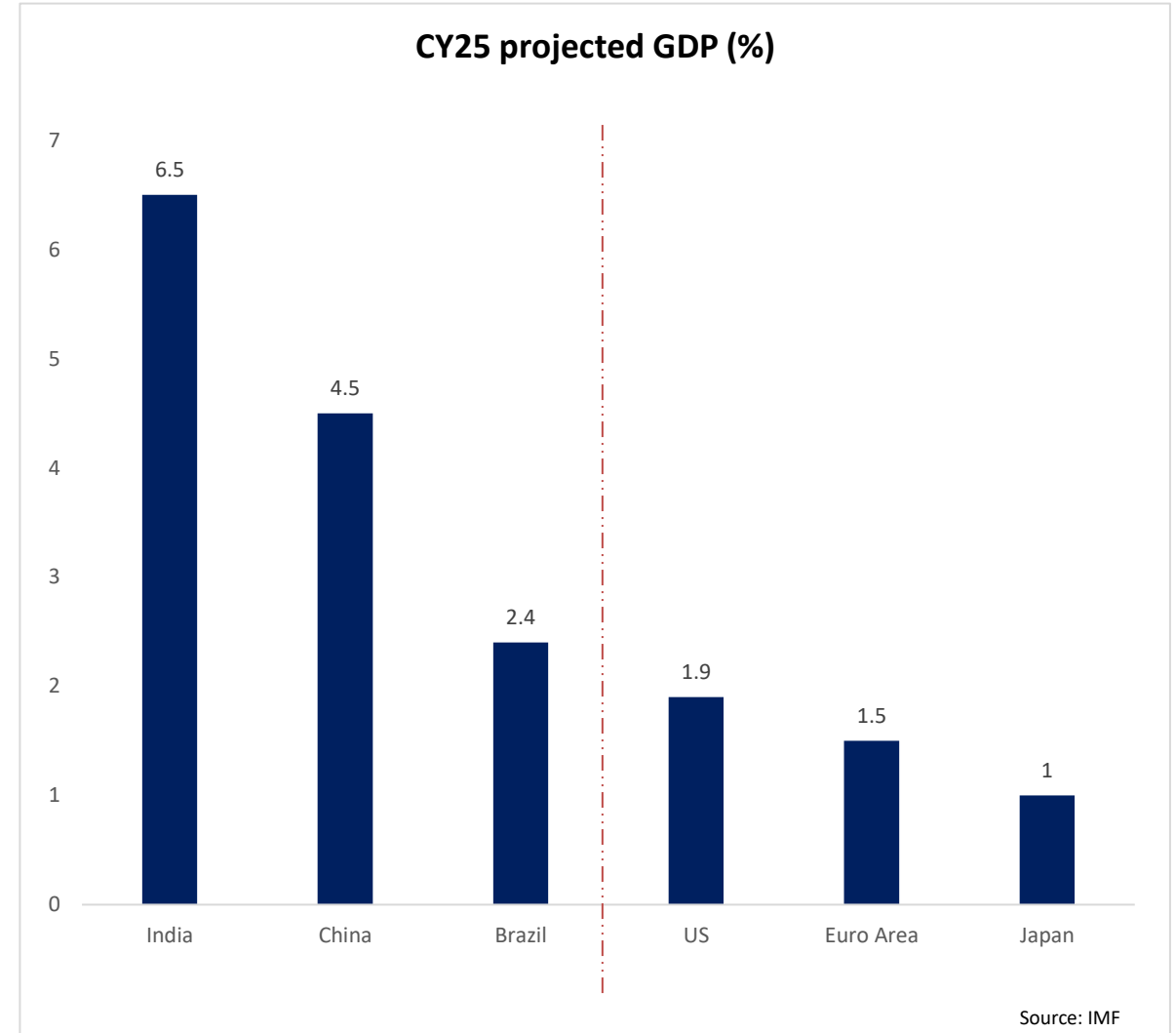
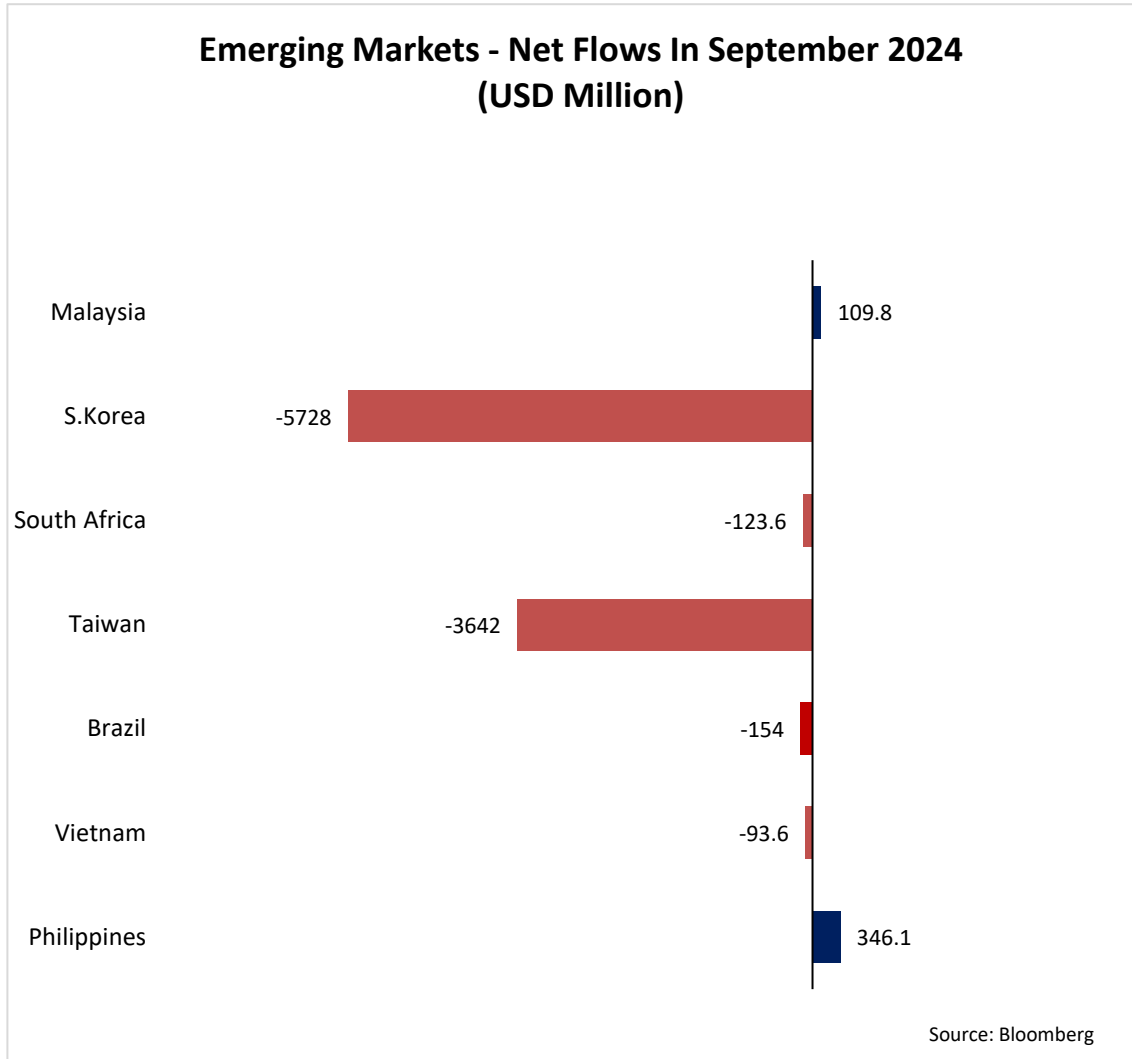
Source: Bloomberg



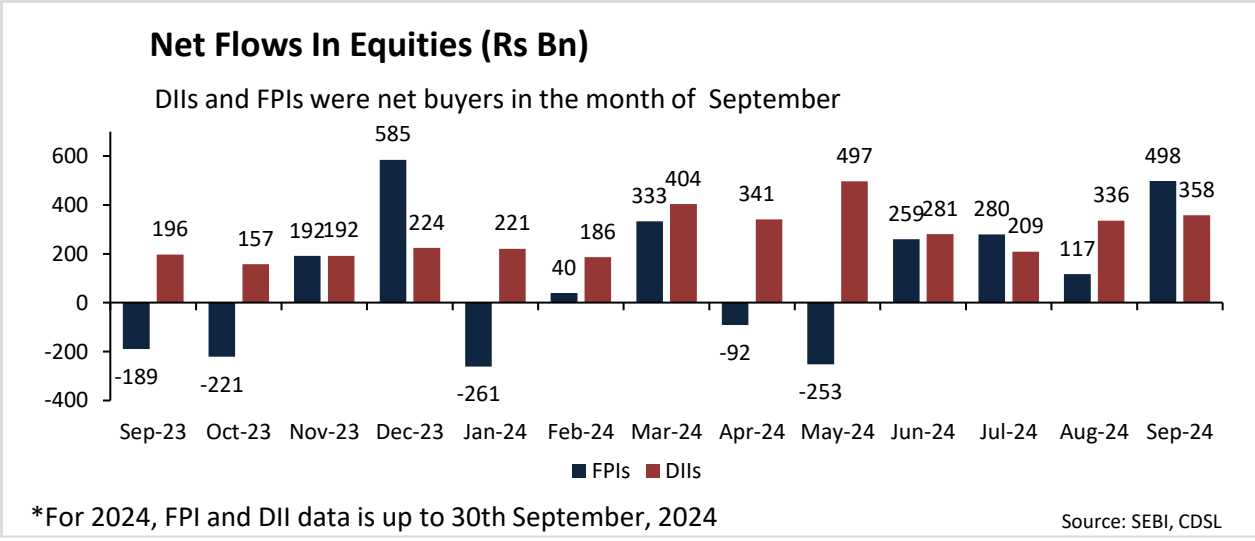
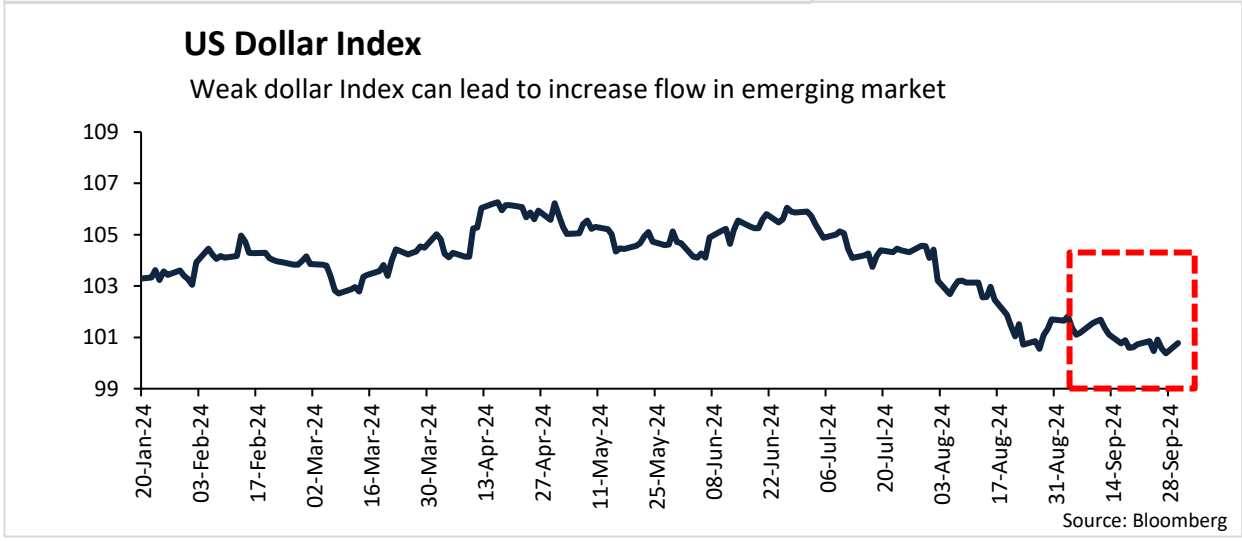
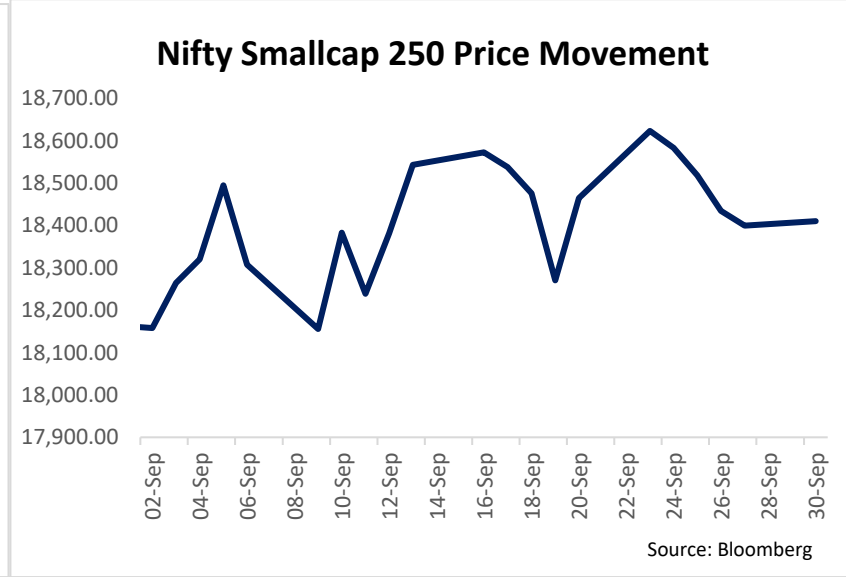
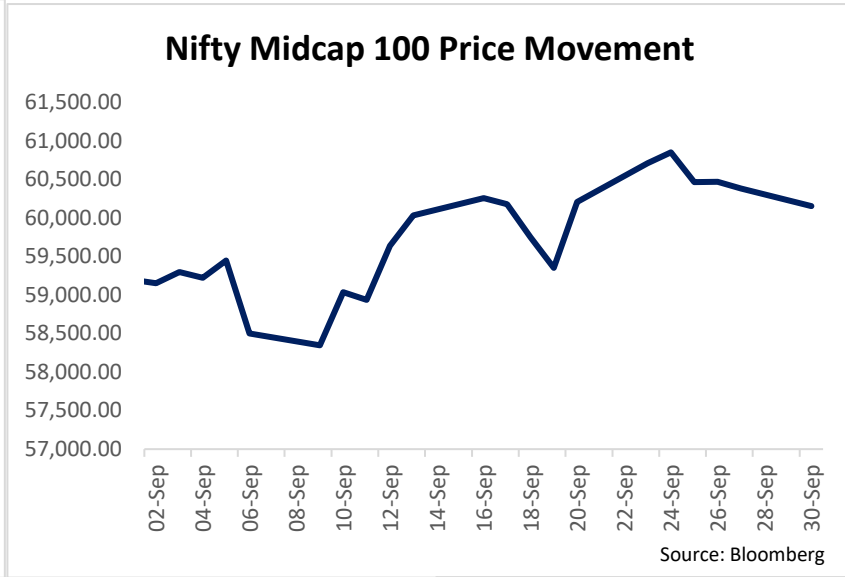
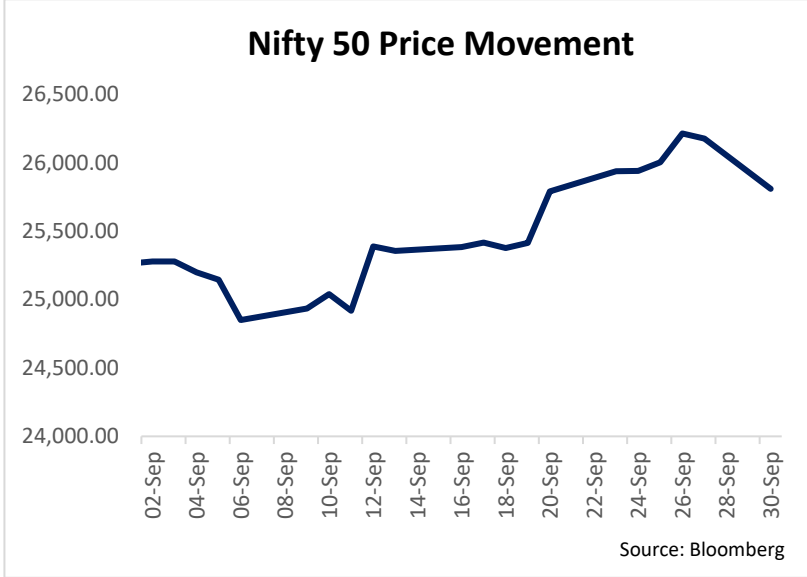
# Commodities: Chinese stimulus driving the metal prices higher



**While global growth decelerates, EM market growth likely to outpace the developed market, possibly attracting incremental flows in the medium term.**

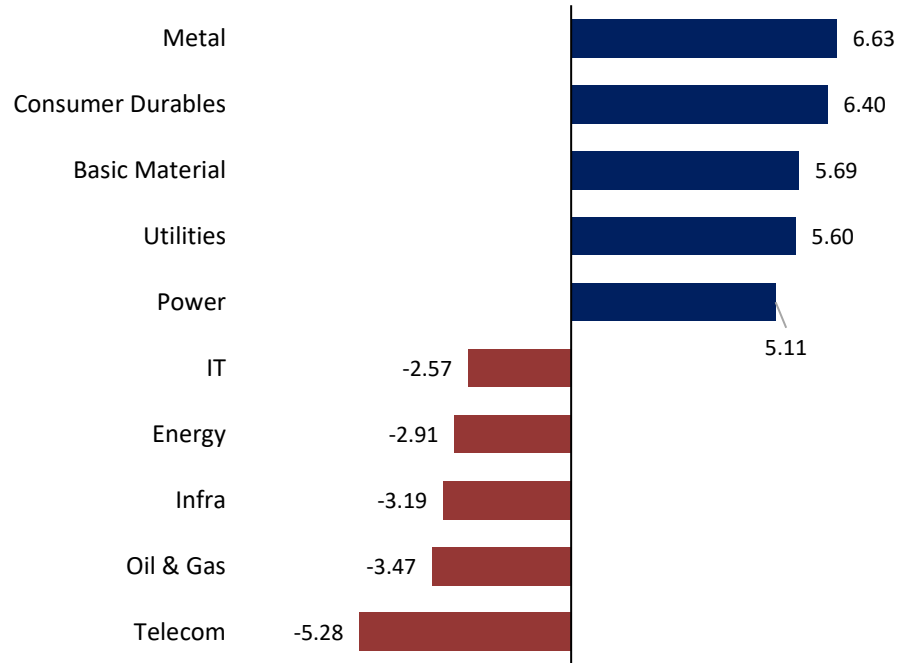


## Indian markets remained on an uptrend in September on the back of continued flows from DII / FPI's and positive macro data



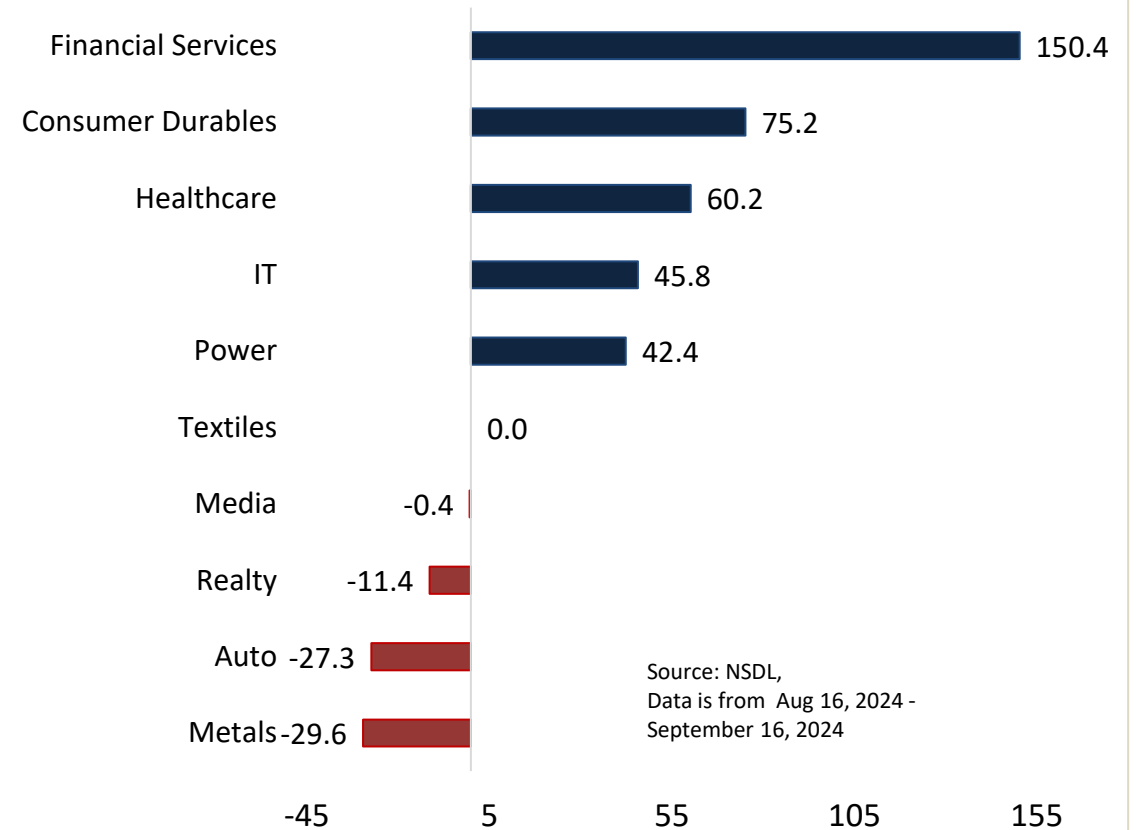
## Sectoral performance and FPI flows in September 2024

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



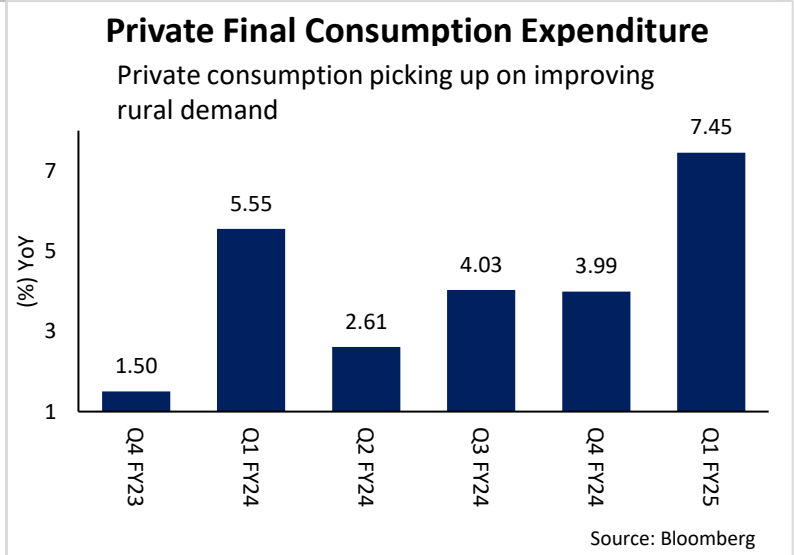
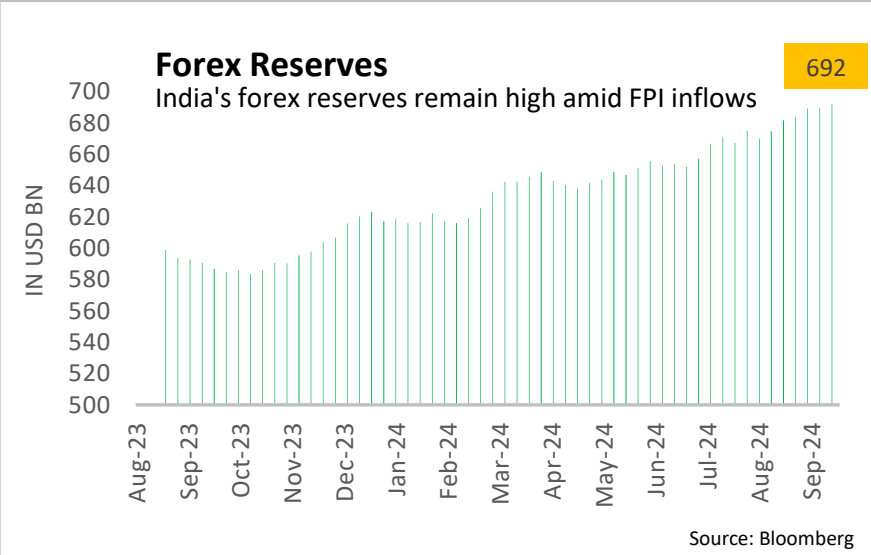
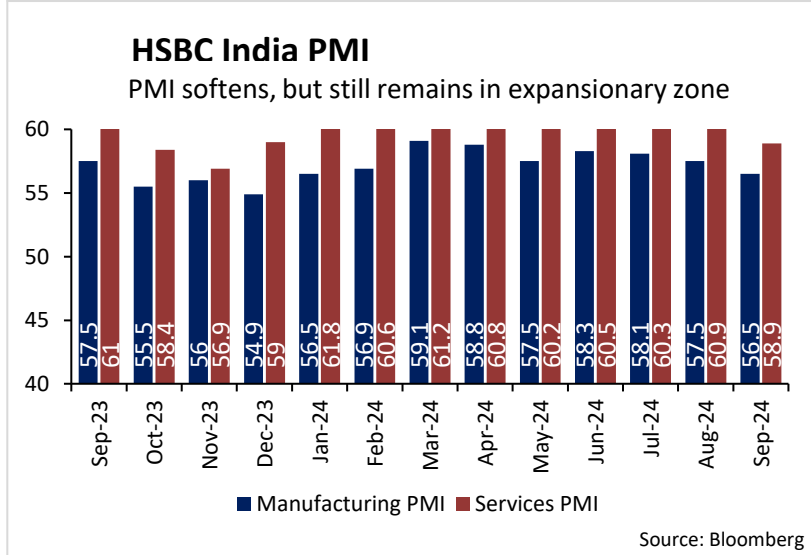
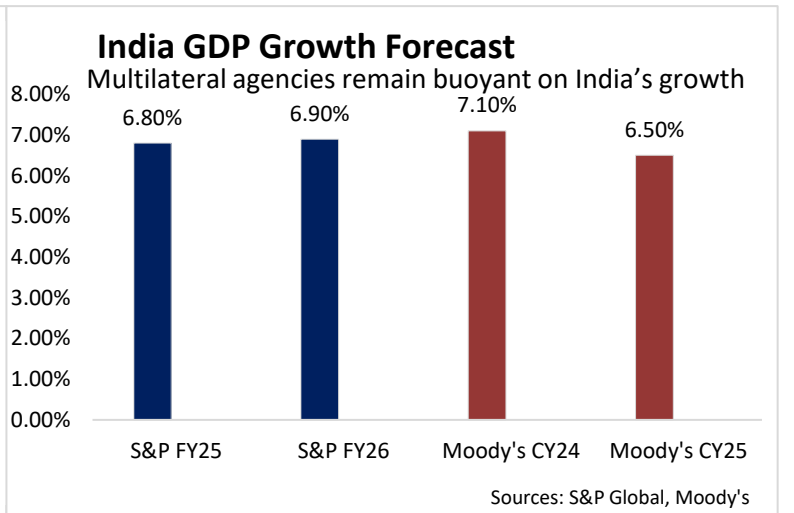
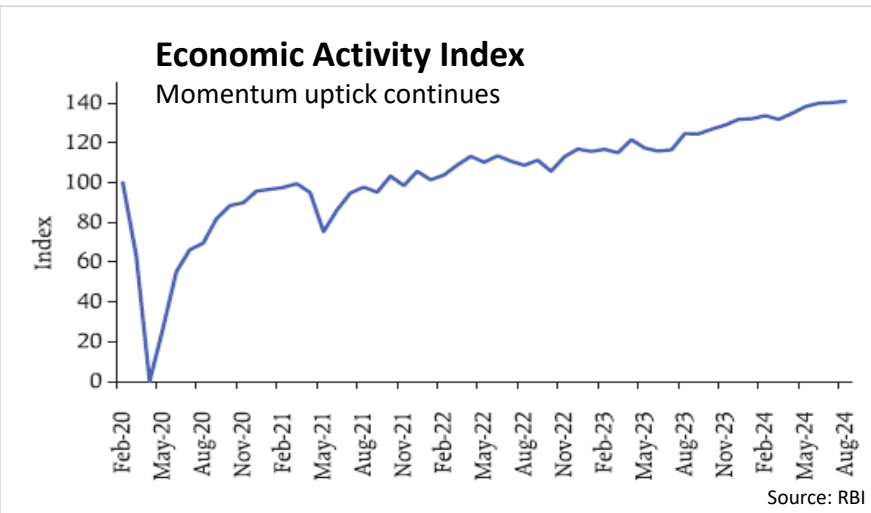
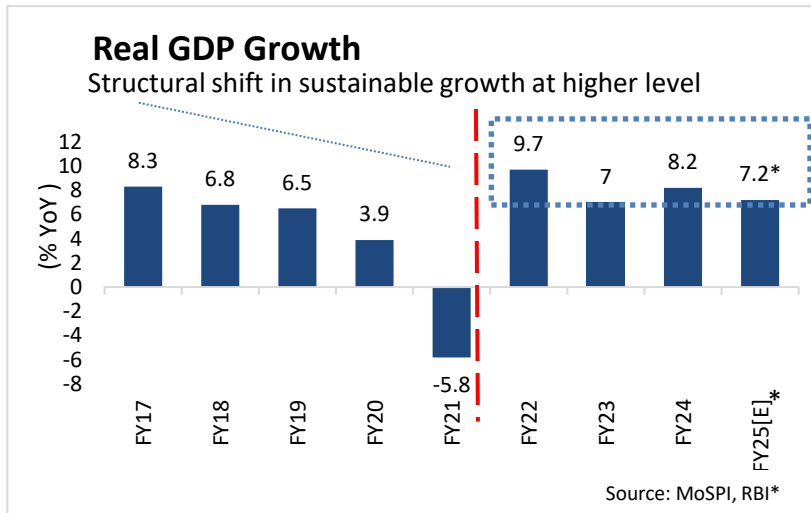
Source: Ace MF

**Sectoral FPI flows - Top 5 and Bottom 5 (Rs bn)**

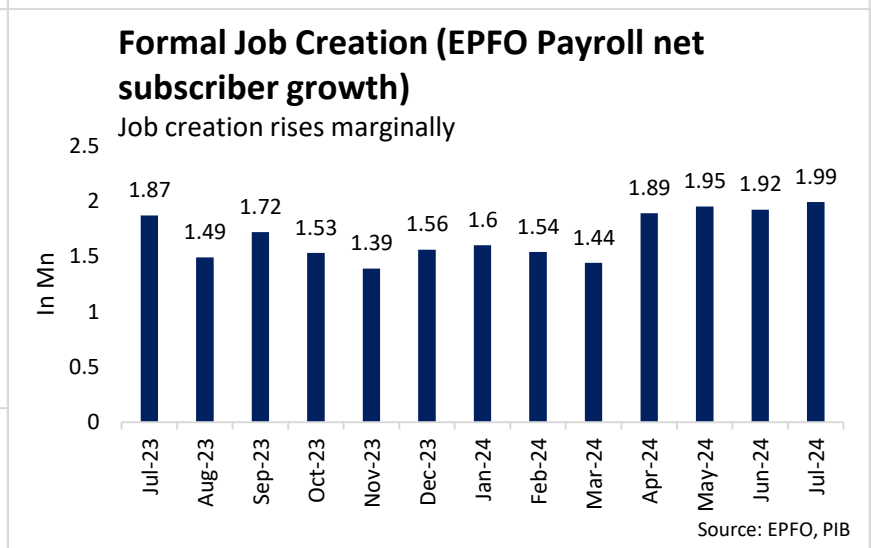
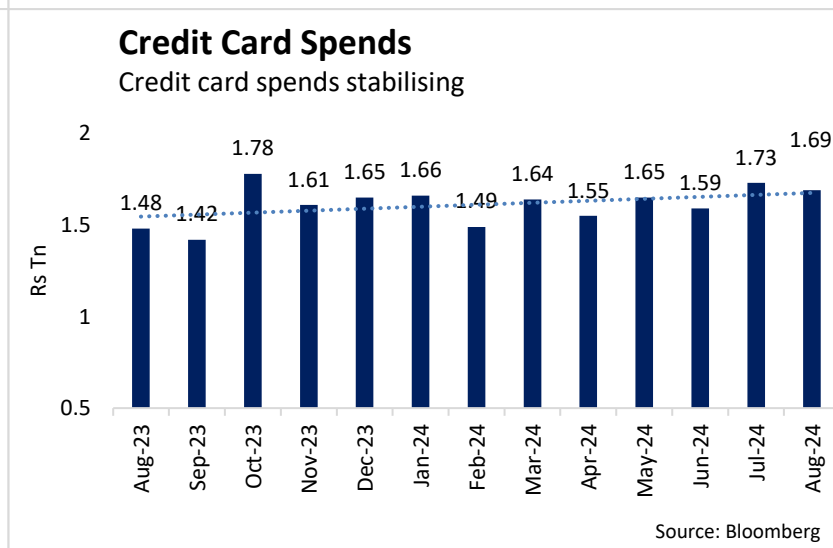
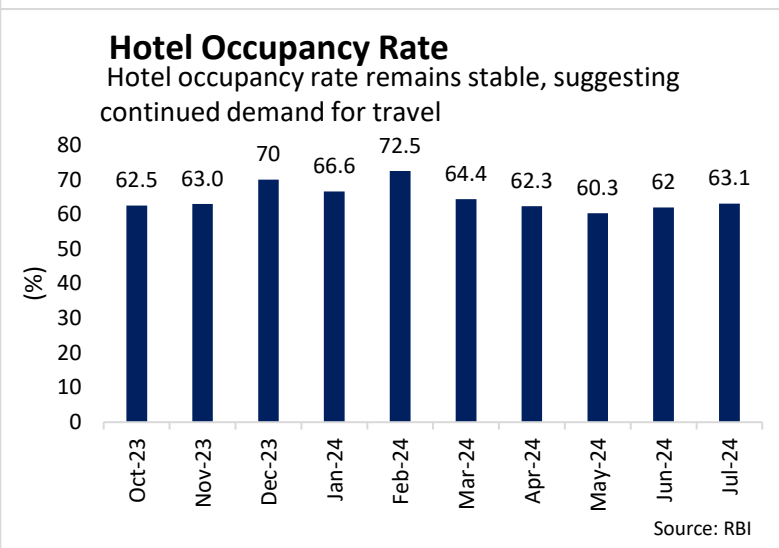
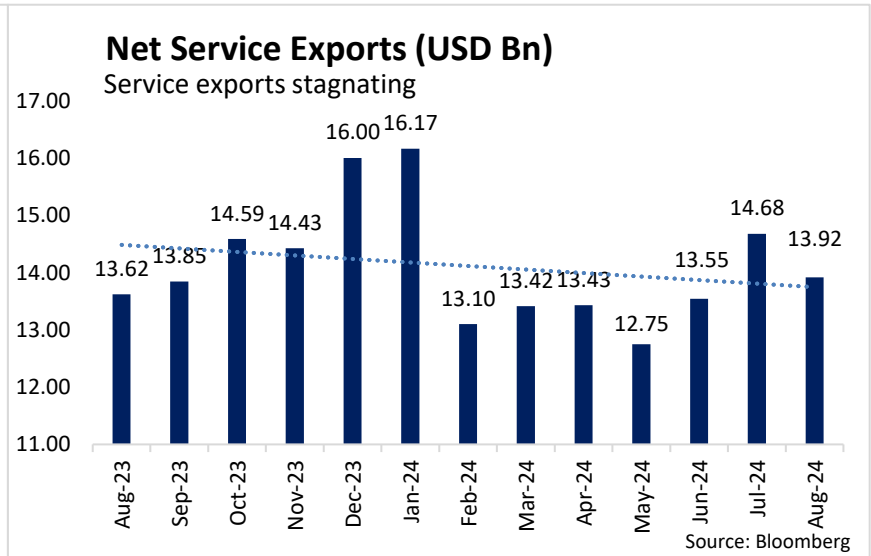
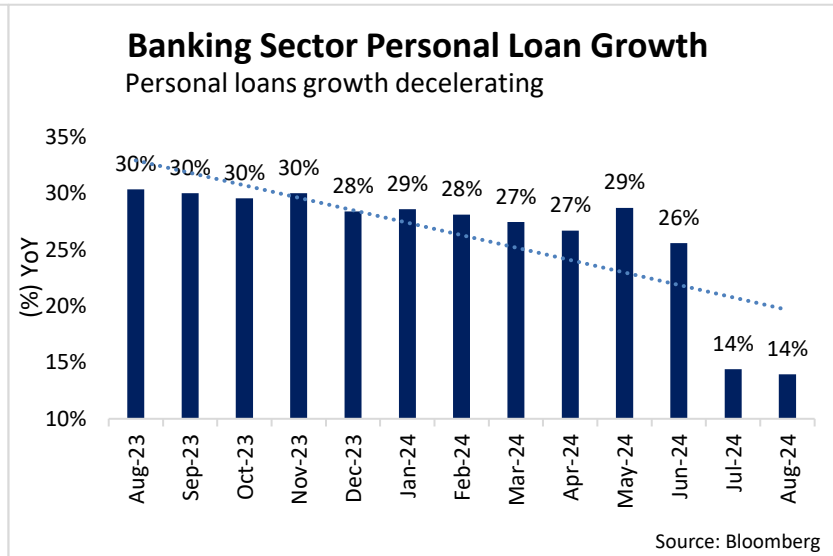
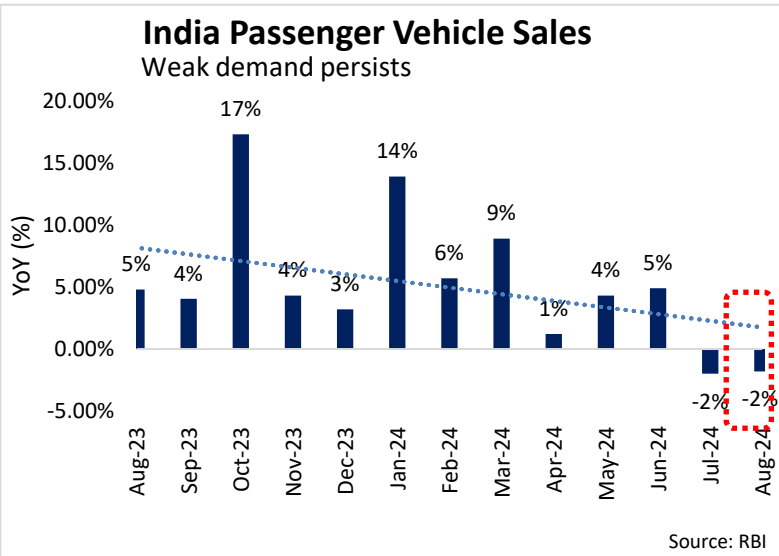


Source: NSDL,  
Data is from Aug 16, 2024 -  
September 16, 2024

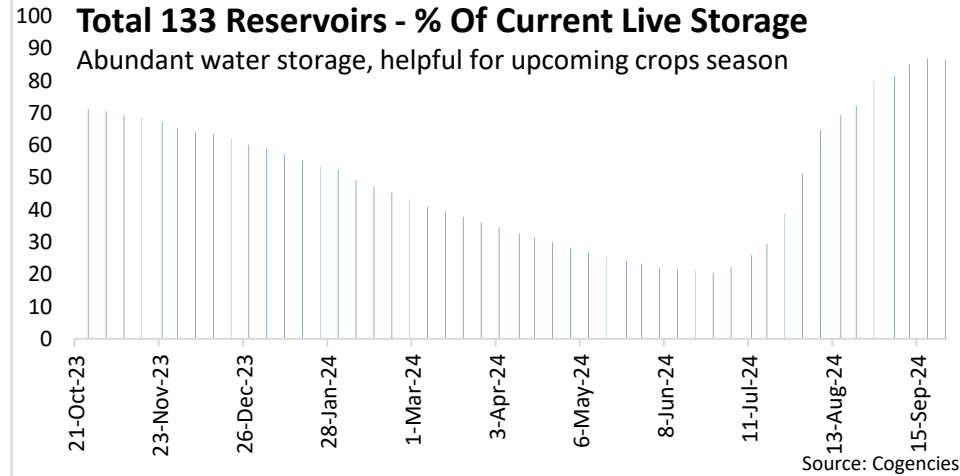
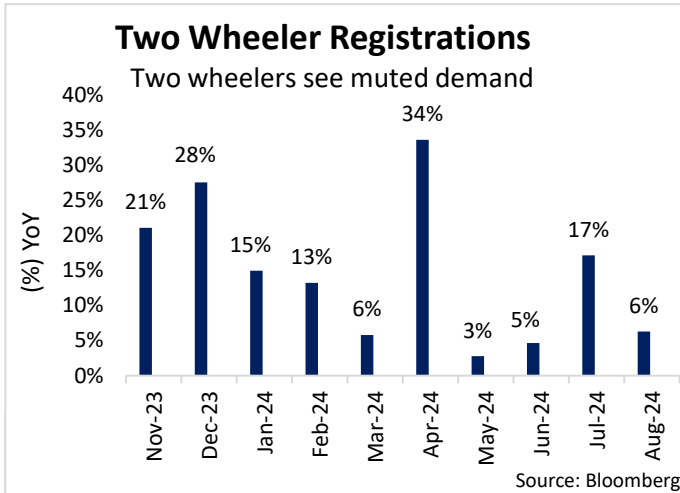
# India – Macro conditions continue to reflect strength with high frequency data points remaining robust.



# Urban India showing incremental signs of deceleration, which is emerging as a near term concern.



# Rural India: Continues to show traction, driven by strong monsoon and state governments' support.



### State Wise Roll-Out Of Schemes

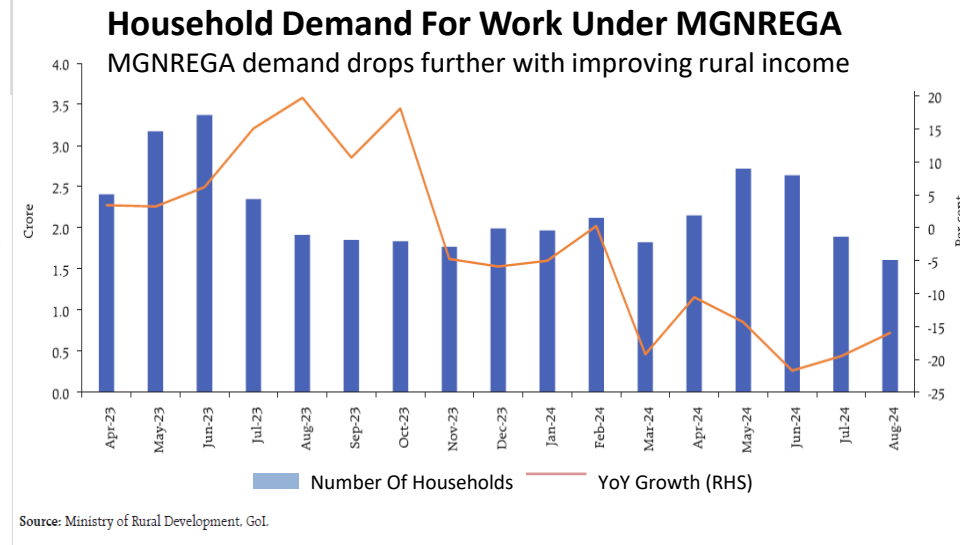
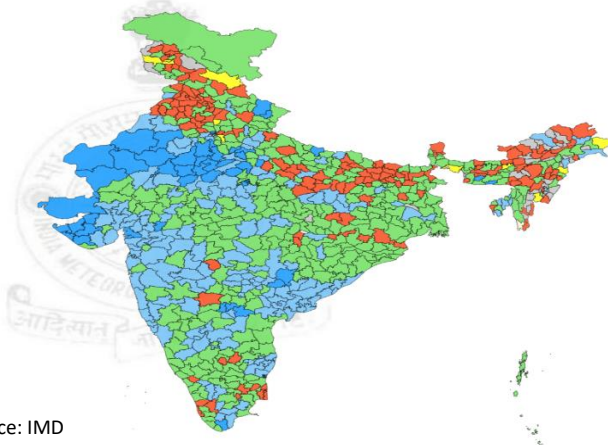
Strong subsidy outflow to boost rural spending

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 Pratsahan 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

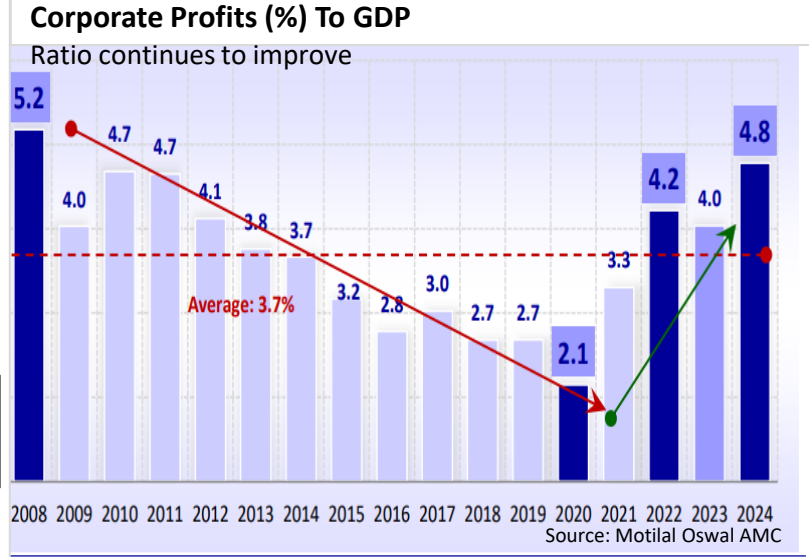
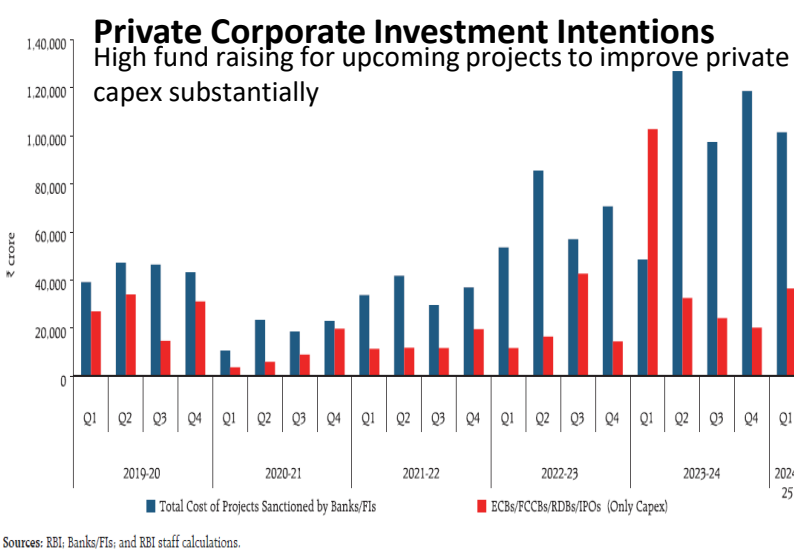
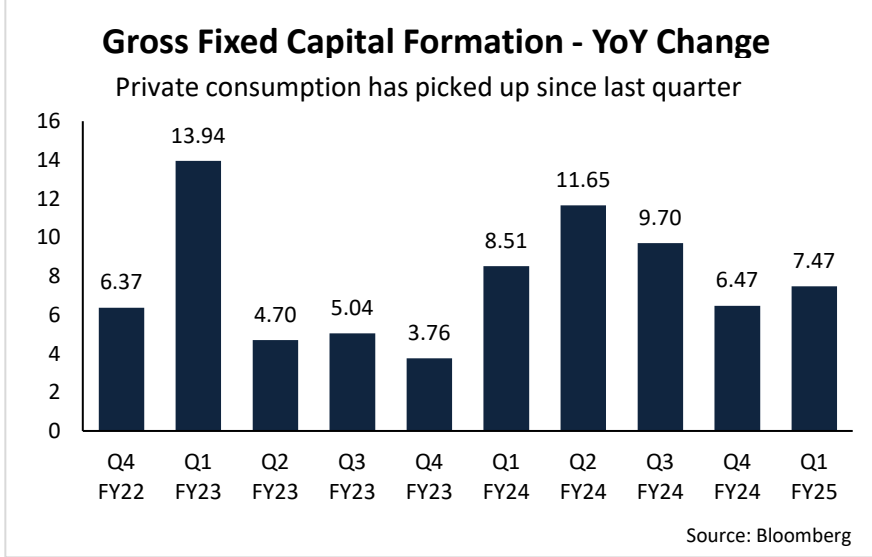
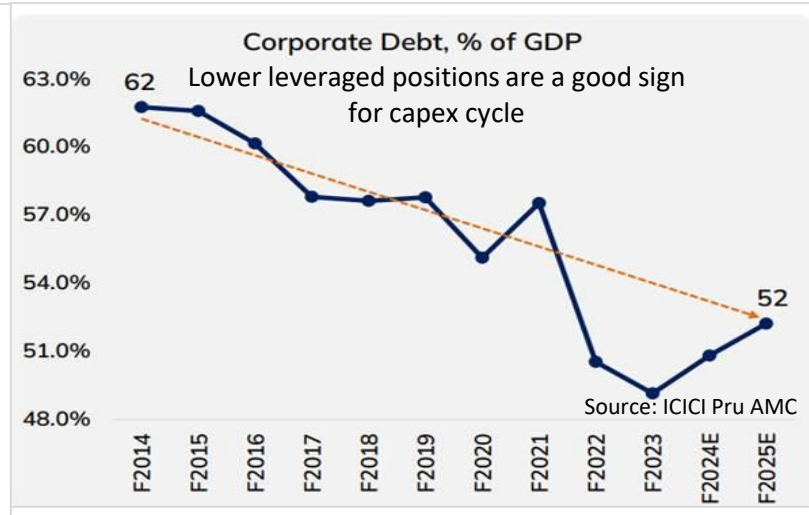
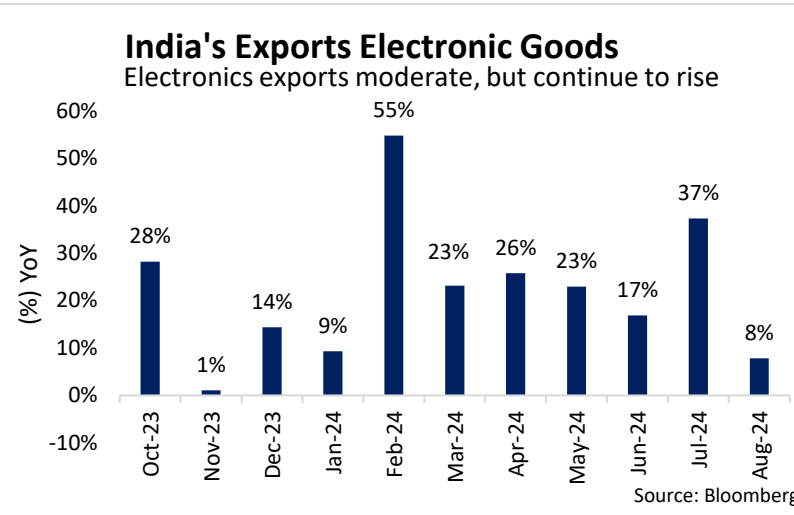
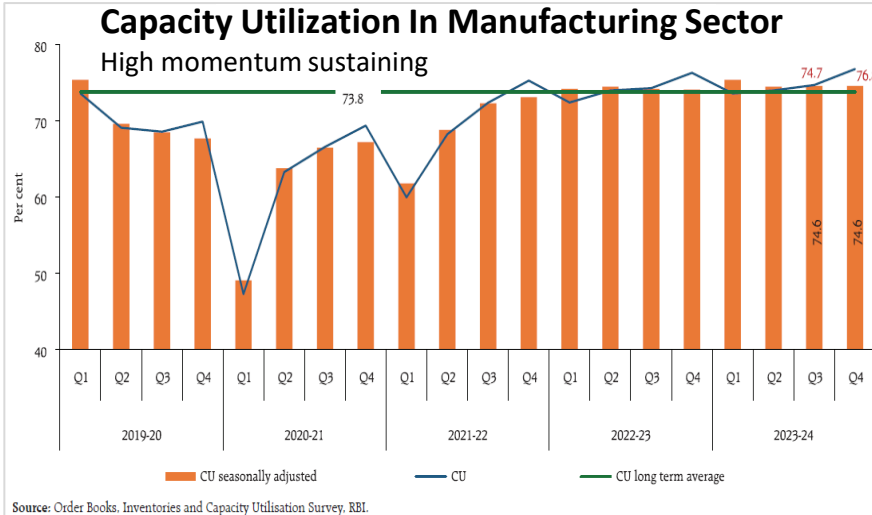
### Strong monsoon helpful to rural income

Above average rainfall observed in almost all parts



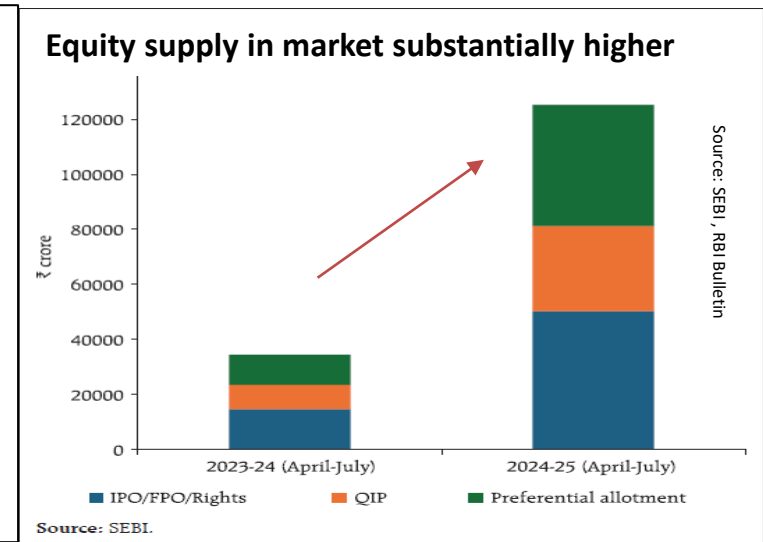
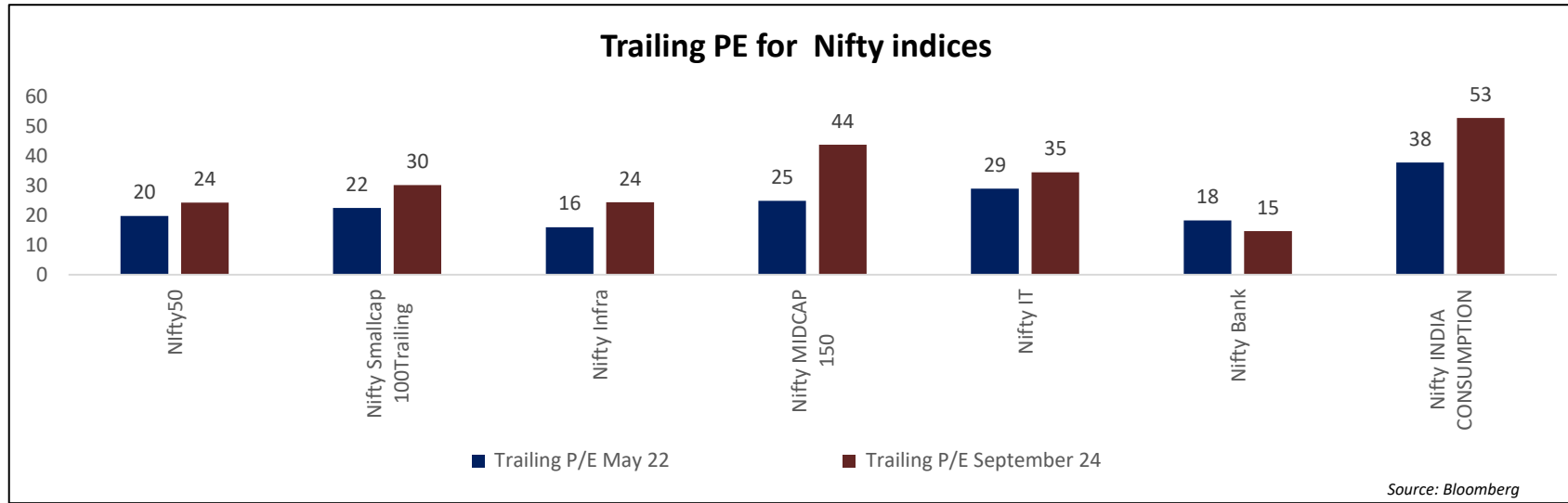


# Capex: Economic environment & policy push ensuring suitable conditions for private capex

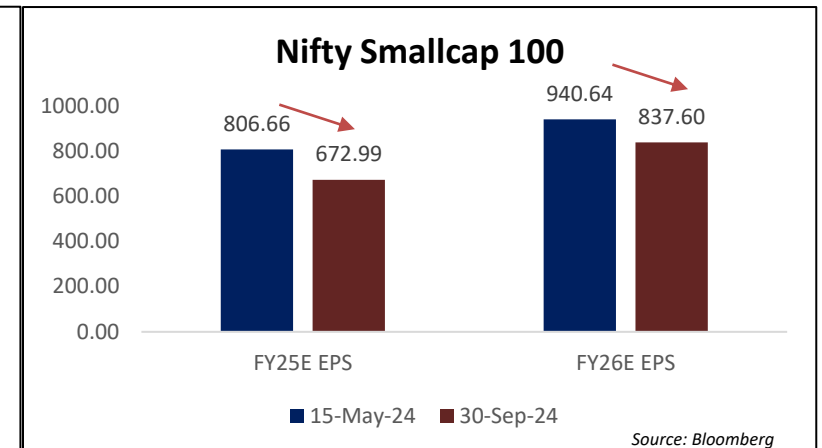
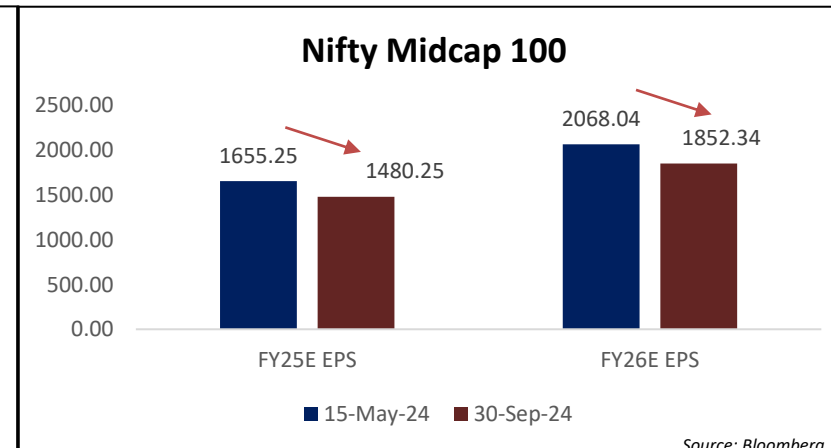
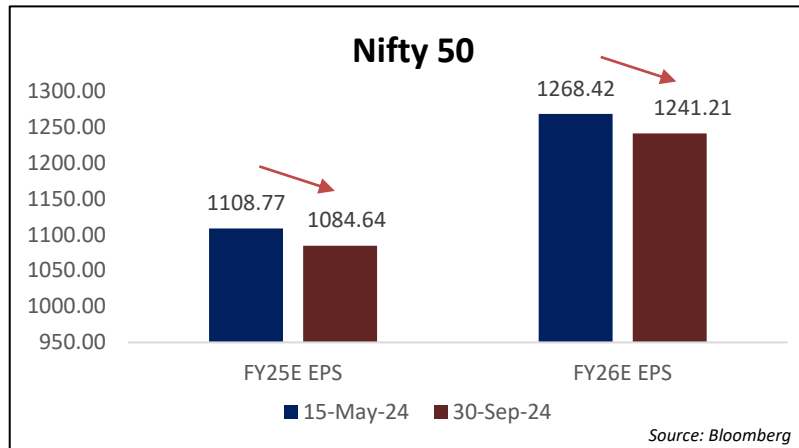




# India valuations: While trailing multiples at 2 year peak, future earning expectations across market cap have seen downward revision... equity issuances rise sharply.



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



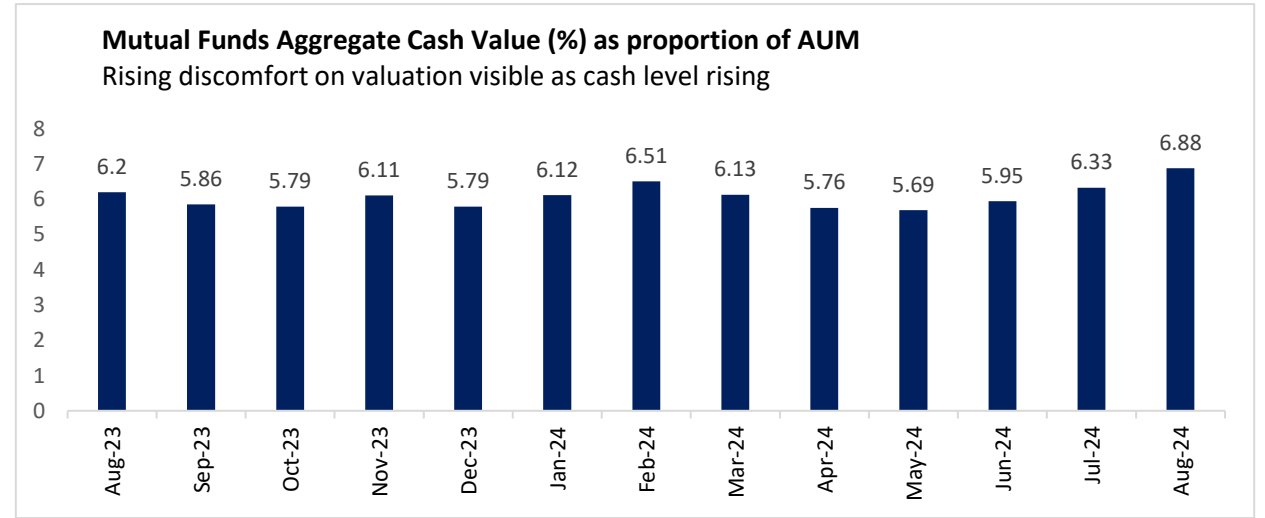
## Mutual funds raising cash levels as market valuations rise and earnings under pressure.

### Valuations getting expensive

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

Cap Index	FY25 (Est)	FY26 (Est)
Nifty 50	23.32	20.38
Nifty Midcap 100	40.78	32.58
Nifty Smallcap 250	29.31	23.63

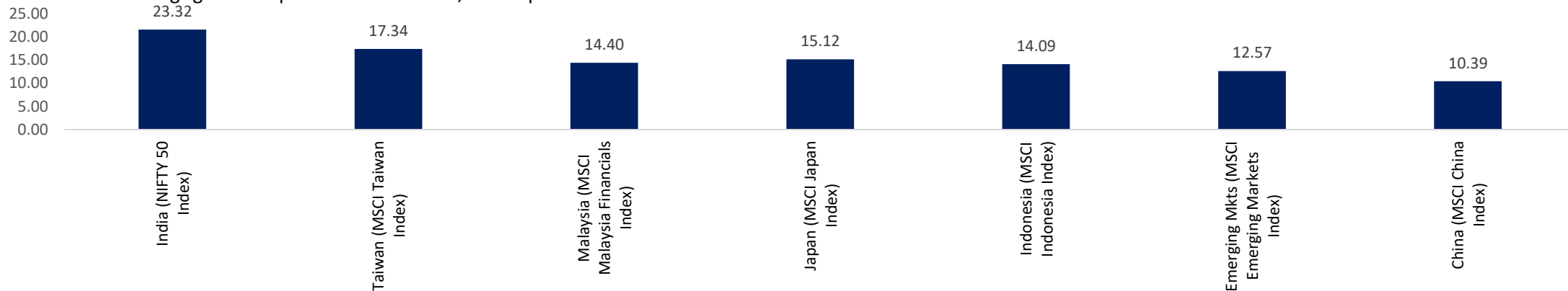
Source: Bloomberg, data on 30 Sept 2024



Cash Definition = (Equity Funds + Hybrid Funds) – Arbitrage Funds

### 12M Expected Fwd PE of Various Economies

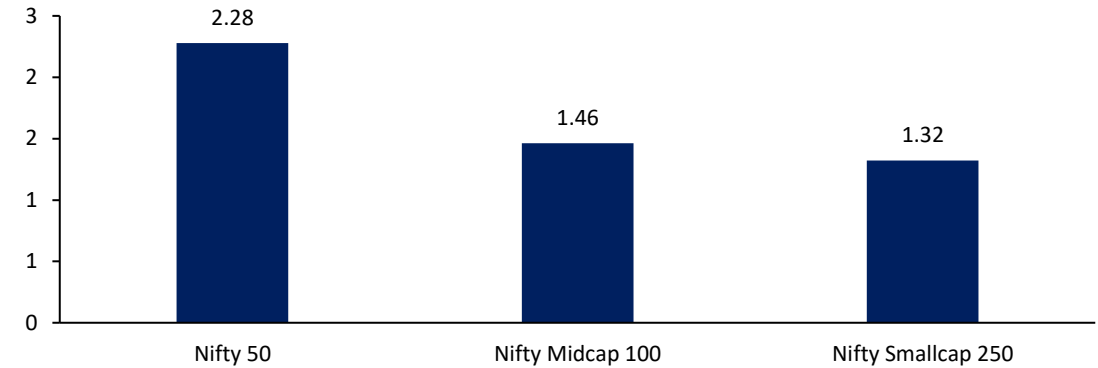
With earnings growth expected to decelerate, India's premium valuation vs. EM could be at risk



## Market Roundup – September 2024

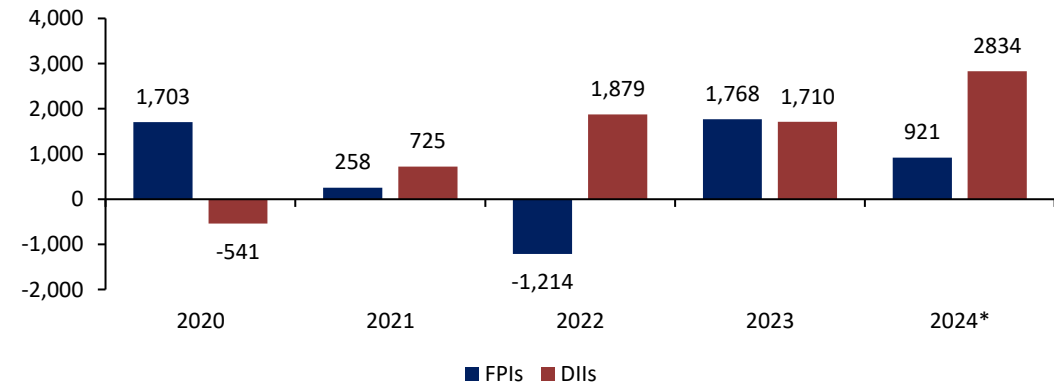
- Indian equities ended the month on a positive note. Large cap-oriented BSE Sensex and Nifty 50 ended higher to the tune of 2.3% (MoM) respectively.
- While the BSE Midcap indices ended higher by 0.6% (MoM), BSE Small cap ended higher by 2% (MoM).
- In terms of BSE sectoral indices, Metal was the top performer. In contrast, Telecom, IT, and Infrastructure underperformed the most.
- Indian equities ended the month on a positive note as investors reacted positively to the U.S. Federal Reserve’s decision to cut interest rate by 50 bps, signalling further easing in coming months to keep the labor market from slowing too much. Continued support from the Domestic investors and Strong FPI inflows further added to the market upmove.

**Absolute Return In September 2024 (%)**



Source: Bloomberg

**Net Flows In Equities (Rs Bn)**



For 2024, FPI and DII data is up to 30th September, 2024

Source: SEBI, CDSL

## Key concerns for Indian equities

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- 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 4 states
- 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
- Impact of the US elections

# Annexure...

## Sectoral outlook by fund managers – Part 1

Sector	Particulars
BFSI	<p><b>View –Neutral to Positive</b></p> <ul style="list-style-type: none"> <li>• Valuations in most of the Banks are reasonable, especially the Largecap Private sector banks.</li> <li>• 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.</li> <li>• Credit costs (provisioning) have started to show initial signs of weakness in Smaller banks. Larger Private banks expected to see better asset quality</li> <li>• Most fund managers are continuing to add weight in the Pvt sector banks and Insurance Companies, while PSU banks are not finding much favour at this time.</li> </ul>
IT	<p><b>View –Neutral to Positive</b></p> <ul style="list-style-type: none"> <li>• Large global bellwethers have shown improved order booking.</li> <li>• Order book growth of Indian companies holding up, execution cycle expected to pickup.</li> <li>• Results are likely to be better than expectations.</li> <li>• Funds are cutting underweight positions, while some funds have also gone overweight.</li> </ul>
Pharma	<p><b>View – Neutral</b></p> <ul style="list-style-type: none"> <li>• Domestic demand holding up well, stocks have rallied, valuations have risen considerably</li> <li>• US is seeing abatement of price erosion in the generic space, which should be positive for Indian pharma stocks.</li> <li>• Fund Managers expect the sector to now be market performers and are looking at very stock specific opportunities.</li> <li>• Contract development and manufacturing organization (CDMO) companies' stocks are seeing tractions due tailwinds expected from the US.</li> <li>• Hospitals as a segment seems stretched on valuations and fund managers are cutting exposure at margin.</li> </ul>
Auto	<p><b>View – Neutral to Negative</b></p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 2-Wheeler stocks have seen strong outperformance and the volume growth continues to remain steady there.</li> <li>• Initial signs of weakness seen globally in the EV theme. Indian policymakers still supportive of this segment.</li> <li>• Auto ancillaries may do well due to China+1, Europe+1, PLI, export opportunities and EV initiatives. Valuations here have seen sharp runup, incremental upside could be very stock specific, some fund manager cutting exposures.</li> <li>• IN aggregate, the Auto and Auto Ancillary sectors are expected to see weight reduction in many mutual fund portfolios going forward.</li> </ul>

## Sectoral outlook by fund managers – Part 2

Sector	Particulars
Construction & real estate	<p><b>View – Neutral</b></p> <ul style="list-style-type: none"> <li>Favourable demand scenario for housing in terms of volume growth.</li> <li>Government’s focus on infrastructure and investment cycle.</li> <li>Real estate stocks’ valuations have moved up substantially, and fund managers expect consolidation in the stocks.</li> <li>Fund Managers are cutting exposures at margin.</li> <li><b>Approach followed by most AMCs</b> - Prefer investing in this space through proxy sectors such as housing finance companies, cement, steel and pipes among others.</li> </ul>
Consumption	<p><b>View – consumer services -Positive, consumer durables and FMCG- positive</b></p> <ul style="list-style-type: none"> <li>Staples – improving volume growth, Valuations consolidated. Few AMCs are going overweight while rest are cutting underweights</li> <li>Hotels/Travel – Valuations rich, Weights being reduced</li> <li>Consumer Durables – Funds are looking players who are gaining market share and adding exposure. Results have been strong.</li> <li>Retail and Quick Service Restaurant: Retail valuations high, rural plays looked at, while QSRs expected to see better performance due to low base.</li> <li><b>Long-term positives</b></li> <li>Rising per capita income.</li> <li>Premiumization across categories.</li> </ul>
Capital goods, industrials, utilities	<p><b>View – Neutral</b></p> <ul style="list-style-type: none"> <li>Capex cycle uptick implies that domestic capital goods are gaining traction.</li> <li>Export prospects appear promising, albeit on a bottom-up basis.</li> <li>Order books are robust, and earnings remain stable.</li> <li>New ideas also emerging and some old themes getting churned.</li> <li>Power, Automation, Electronics continues to be the dominant theme for capex.</li> <li><b>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</b></li> </ul>
Metals	<p><b>View – Neutral</b></p> <ul style="list-style-type: none"> <li>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.</li> </ul>

## Monthly Sectoral Movement

Absolute Monthly Return By Sector (%)

Index	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24
S&P BSE 500	2.04	-2.93	6.75	8.01	1.90	1.93	0.84	3.43	0.61	6.87	4.32	0.77	2.05
Auto	3.65	-1.25	10.08	5.43	4.18	8.12	4.96	3.92	3.84	8.05	5.05	-1.90	3.40
Bankex	0.35	-3.44	3.47	8.12	-4.38	1.92	2.02	4.64	-0.40	6.94	-1.30	-0.94	2.96
Basic Material	1.70	-3.70	7.25	11.39	0.33	-0.42	1.06	7.86	0.73	6.63	2.06	-2.27	5.69
Capital Goods	6.20	-4.07	8.88	11.31	1.88	-1.21	6.15	3.42	11.16	3.24	4.58	-3.27	-0.09
Consumer Discretionary	2.40	-1.38	9.36	5.91	2.35	4.89	1.69	5.05	0.77	8.99	4.93	0.99	4.01
Consumer Durables	3.18	-2.32	7.42	6.11	0.70	0.00	2.05	5.59	-0.51	7.12	3.57	4.37	6.40
Energy	3.20	-2.17	9.17	11.06	12.18	6.18	-0.19	3.33	-0.78	4.42	7.34	0.88	-2.91
FMCG	0.97	-0.86	3.58	6.84	-2.81	-2.33	-0.67	1.52	-0.42	5.23	9.53	2.29	3.32
Finance	1.08	-3.09	4.82	6.92	-2.40	0.47	1.35	4.93	-1.49	7.10	0.48	0.75	3.03
Healthcare	2.45	-4.30	10.92	3.87	7.18	5.94	-0.08	1.01	-1.46	6.37	9.19	6.56	2.45
IT	2.62	-3.13	6.77	8.38	3.74	3.38	-7.20	-4.35	-2.63	11.30	12.87	4.27	-2.57
Infra	8.45	-3.38	10.40	14.88	18.15	1.23	0.48	7.03	5.62	2.83	13.17	-2.07	-3.19
Metal	7.45	-4.17	8.74	11.35	-0.85	1.15	4.95	10.83	4.68	1.03	-0.85	-0.96	6.63
Oil & Gas	1.23	-4.17	12.51	12.02	12.57	6.86	-0.07	4.83	-1.18	2.91	10.48	1.27	-3.47
Power	5.96	-4.90	11.16	18.24	8.57	4.33	1.70	7.73	6.64	3.31	6.13	-2.49	5.11
Realty	5.21	3.70	19.99	9.37	9.37	9.16	-1.21	7.52	4.40	8.21	-1.10	-3.59	4.36
Telecom	10.55	-5.69	7.21	6.15	6.94	1.44	1.81	8.36	3.29	10.90	4.69	2.36	-5.28
Utilities	7.20	-3.98	11.85	20.00	9.71	3.61	0.25	8.84	2.80	2.40	6.87	-3.79	5.60

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

Colour scales assigned vertically

Source: Ace MF, HDFC Bank Research



# AMC Sectoral Holdings

Industry(%)	Auto & Auto Ancillaries	Banks & Finance	Capital Goods	Commodities	FMCG	Consumer Durables and Consumer Services	Housing & Construction	IT	Media	Oil & Gas, Energy	Other Equities	Pharma	Telecom	Textiles	Transport & Shipping, Logistics & Services
Nifty 500	7.46%	27.60%	5.63%	7.45%	7.24%	6.65%	4.21%	9.90%	0.21%	12.46%	0.24%	5.96%	2.92%	0.29%	1.76%
360 ONE	12.78%	28.09%	5.65%	2.52%	0.26%	5.33%	4.21%	8.30%	0.17%	8.18%	0.00%	4.71%	10.85%	0.09%	4.90%
Aditya Birla SL MF	8.34%	25.56%	6.27%	5.56%	6.08%	7.86%	4.94%	10.18%	0.28%	9.04%	0.44%	7.59%	3.10%	0.50%	1.80%
Axis MF	11.06%	22.00%	9.05%	7.32%	3.58%	10.05%	4.50%	8.08%	0.07%	6.77%	0.37%	8.50%	2.98%	0.20%	1.82%
Bajaj Finserv MF	8.86%	17.56%	7.17%	5.52%	10.77%	12.42%	2.71%	5.85%	0.47%	6.29%	0.85%	13.03%	4.42%	0.33%	0.27%
Bandhan MF	7.57%	24.49%	7.36%	6.36%	5.62%	8.00%	5.52%	7.27%	0.09%	7.99%	1.01%	8.29%	2.53%	0.77%	2.63%
Bank of India MF	5.00%	18.18%	12.88%	10.87%	4.49%	3.25%	6.89%	5.23%	0.20%	9.29%	0.59%	6.86%	1.86%	1.46%	0.96%
Baroda BNP Paribas	9.11%	19.59%	10.04%	5.67%	7.76%	10.08%	3.41%	7.53%	0.14%	9.55%	0.46%	8.06%	2.79%	0.24%	0.70%
Canara Robeco MF	10.60%	23.39%	10.51%	5.87%	5.18%	11.36%	3.09%	7.55%	0.23%	5.43%	0.98%	7.94%	2.49%	0.36%	1.77%
DSP MF	7.94%	22.48%	12.52%	8.78%	4.88%	6.92%	3.91%	6.76%	0.00%	6.96%	0.29%	10.13%	1.85%	1.20%	1.04%
Edelweiss MF	7.46%	20.49%	13.64%	5.74%	4.48%	13.63%	5.30%	9.79%	0.00%	5.35%	0.10%	8.68%	2.07%	0.29%	0.62%
Franklin Templeton MF	6.38%	23.13%	7.67%	6.41%	4.97%	10.15%	6.20%	9.74%	0.07%	7.00%	0.05%	7.55%	3.74%	1.06%	1.81%
Groww MF	9.81%	37.41%	5.26%	3.54%	5.19%	4.16%	6.71%	7.50%	0.00%	4.53%	2.43%	1.88%	2.24%	0.32%	3.06%
HDFC MF	8.30%	27.74%	7.22%	4.50%	3.01%	6.01%	4.07%	8.01%	0.67%	4.90%	0.01%	11.45%	3.22%	0.63%	2.74%
Helios MF	0.00%	39.89%	5.64%	0.00%	4.04%	9.67%	2.67%	8.90%	0.89%	10.58%	0.00%	9.07%	2.64%	1.35%	3.30%
HSBC MF	4.72%	19.63%	21.09%	5.46%	3.64%	10.75%	9.98%	7.32%	0.02%	6.23%	1.40%	4.79%	1.24%	1.75%	0.37%
ICICI Pru MF	8.31%	23.02%	4.00%	7.06%	4.43%	4.54%	4.65%	8.62%	0.50%	9.89%	0.88%	8.47%	3.32%	0.52%	1.74%
Invesco MF	5.60%	25.11%	13.10%	4.18%	2.75%	15.26%	3.85%	7.65%	0.00%	5.34%	1.24%	9.92%	1.38%	0.01%	1.83%
ITI MF	5.46%	21.11%	16.24%	7.99%	4.02%	5.61%	6.95%	7.53%	0.00%	6.39%	0.92%	9.39%	2.36%	1.37%	1.51%
JM MF	6.90%	16.20%	11.21%	12.28%	4.07%	12.17%	6.76%	6.16%	0.11%	8.48%	0.00%	10.58%	1.22%	1.84%	0.37%
Kotak MF	9.59%	17.44%	11.93%	11.91%	3.50%	8.47%	4.77%	9.07%	0.78%	8.06%	0.02%	7.17%	2.25%	0.35%	1.77%
LIC MF	7.74%	22.78%	18.55%	5.70%	7.12%	8.54%	3.63%	6.27%	0.43%	6.20%	1.01%	4.97%	1.37%	1.00%	2.05%
Mahindra Manulife MF	6.46%	16.99%	10.24%	9.55%	7.89%	6.42%	2.88%	7.90%	0.24%	11.54%	2.64%	7.08%	3.27%	1.21%	1.90%
Mirae MF	7.20%	29.64%	4.15%	7.56%	3.10%	9.68%	4.03%	9.30%	0.00%	6.69%	0.00%	9.39%	3.97%	0.87%	3.04%
Motilal Oswal MF	7.61%	13.14%	15.55%	3.31%	0.57%	21.40%	3.41%	13.32%	0.00%	0.26%	0.19%	3.59%	3.22%	0.00%	0.66%
Navi MF	6.55%	30.13%	7.20%	3.61%	7.67%	8.34%	0.52%	9.85%	1.28%	4.20%	0.93%	6.79%	2.58%	1.52%	3.22%
Nippon India MF	6.17%	24.61%	12.57%	4.87%	5.57%	10.79%	3.70%	6.00%	0.70%	7.34%	0.71%	9.64%	1.83%	1.09%	1.62%
NJ MF	5.91%	20.48%	7.95%	1.17%	5.89%	5.56%	0.00%	29.49%	0.00%	15.65%	0.00%	6.25%	0.00%	0.34%	0.00%
Old Bridge MF	0.00%	10.73%	2.91%	8.03%	8.45%	6.15%	10.77%	7.59%	0.00%	0.00%	3.26%	21.46%	4.41%	0.00%	10.65%
PGIM India MF	9.74%	20.85%	9.09%	7.49%	4.92%	14.73%	3.12%	8.65%	0.00%	4.12%	0.00%	9.66%	1.28%	0.32%	3.19%
PPFAS MF	6.32%	33.41%	0.03%	1.41%	5.71%	2.47%	0.00%	12.99%	0.00%	13.27%	0.02%	3.65%	0.00%	0.00%	3.16%
Quant MF	4.07%	15.10%	2.12%	7.47%	11.99%	3.87%	5.63%	2.39%	1.72%	16.55%	0.09%	11.24%	2.52%	1.11%	1.85%
Quantum MF	10.32%	37.25%	0.49%	3.95%	0.76%	5.05%	0.00%	15.26%	0.06%	3.77%	0.11%	4.71%	4.03%	0.00%	0.43%
Samco MF	9.53%	18.48%	20.49%	6.46%	7.87%	6.57%	8.09%	2.50%	0.99%	5.71%	0.83%	9.05%	1.66%	0.36%	0.14%
SBI MF	8.69%	21.70%	6.57%	6.88%	6.32%	8.81%	3.42%	6.35%	0.41%	8.97%	0.88%	7.19%	2.68%	1.78%	2.50%
Shriram MF	10.81%	15.95%	9.60%	4.51%	5.58%	8.07%	6.36%	13.73%	0.00%	12.20%	0.00%	4.77%	4.60%	0.00%	1.81%
Sundaram MF	7.98%	26.14%	7.76%	4.99%	5.10%	11.71%	3.94%	6.86%	0.25%	6.80%	0.00%	8.21%	3.55%	0.27%	2.12%
Tata MF	4.79%	19.95%	8.84%	6.29%	5.30%	7.25%	4.01%	17.15%	0.49%	7.66%	0.88%	6.76%	2.29%	0.95%	3.24%
Taurus MF	7.06%	21.41%	4.16%	9.23%	7.12%	4.06%	4.44%	14.66%	0.61%	10.48%	0.39%	8.42%	2.72%	1.66%	0.98%
Trust MF	5.92%	26.94%	9.02%	1.96%	6.70%	10.67%	2.49%	9.14%	0.00%	6.21%	0.00%	9.38%	3.96%	0.00%	1.17%
Union MF	7.23%	18.28%	10.68%	5.00%	3.98%	15.37%	4.48%	11.31%	0.08%	5.69%	0.48%	6.87%	3.34%	0.79%	1.89%
UTI MF	9.03%	23.12%	5.54%	5.32%	4.59%	14.59%	2.27%	10.44%	0.24%	4.82%	0.49%	10.00%	2.88%	0.87%	1.90%
WhiteOak Capital MF	3.75%	30.80%	9.02%	4.72%	5.30%	10.10%	2.51%	7.88%	0.24%	4.51%	2.08%	10.24%	2.02%	0.59%	2.06%

Source: ACE MF

Data as on 30<sup>th</sup> August

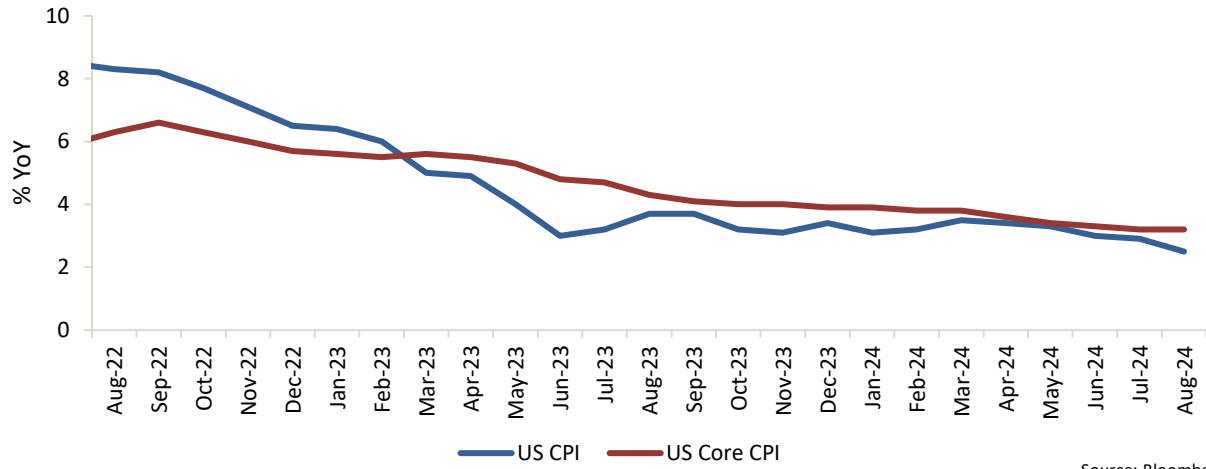
# Fixed Income Market

## Fixed Income Outlook

- The RBI has allowed banking system liquidity to remain in surplus, which has relieved some pressure on yields.
- While the CPI-based inflation inched up to 3.65% YoY for August, it remained below the RBI's target of 4% YoY due to favourable base effect. As the base effect wears off, uptick is expected in the headline inflation. The core inflation also increased marginally due to rise in prices of broad-based categories as demand picks-up. The improvement in monsoon and increase in reservoir levels bode well for food inflation. The government is actively taking supply side measures to keep food prices in check, which would likely help to bring overall inflation down.
- India's CAD marginally widened to 1.1% of GDP in Q1 FY25 due to the widening of merchandise trade deficit but remains manageable. Going forward, the CAD is likely to be supported by decline in crude oil prices and strong services exports. The strong Rupee currency and higher foreign exchange reserves to further keep CAD under check.
- While inflationary trend in India is coming off, it still remains above RBI's comfort zone. Indian Macro economic growth conditions also remain steady. Both these factors would weigh on the RBI's decision on the policy rate decision in the upcoming Monetary Policy Committee (MPC) meeting.
- The government remains steadfast on its fiscal consolidation path, with the fiscal deficit (as a % of budget estimates) till August 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, esp. revenue expenditure, is likely to pick up pace to alleviate possible slowdown in consumption demand. Even with market borrowing for H2 FY25 remaining higher than market expectations, demand-supply dynamics of G-secs remain favourable.
- In the US, the Federal Reserve (Fed) cut the policy rate aggressively by 50 bps, bringing it down to 4.75-5.00%, to support its dual mandate. With inflation moving towards the target, the Fed frontloaded rate cut to ensure soft landing of the economy, by supporting the labour market. The European Central Bank (ECB) further cut policy rate as inflation slowed and economic growth weakened.
- China announced large stimulus package to boost liquidity in order to stimulate growth. If demand picks up in China, it may have implications on commodity prices, which have been benign till now due to weak global outlook.
- 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.
- Indian yields declined due to benign inflation and policy rate cuts in advanced economies, especially US, along with improved liquidity. With the higher-than-expected G-sec supply in the borrowing calendar, the yields may consolidate in the current range in the near term; hence investors looking to take tactical duration call may wait for fresh triggers to track any further decline in yields. In the medium term, the market is likely to take cues from the FPI flows, demand-supply dynamics, and government's fiscal consolidation.
- Accrual opportunities at the 1-4-years segment of the corporate bond yield curve continue to remain attractive for incremental investment, from risk-reward perspective. 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 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.

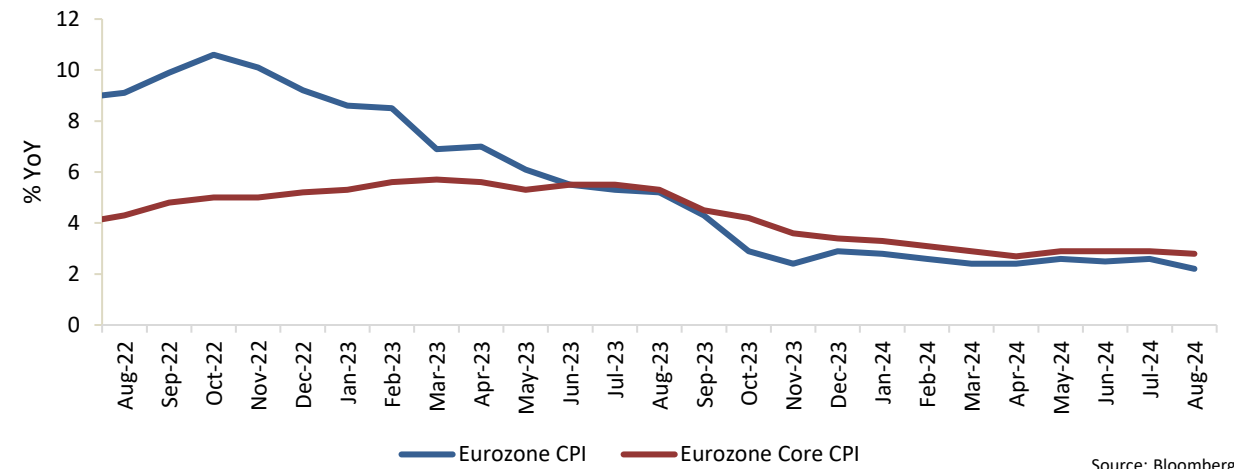
## Global disinflationary trends are pushing major central banks across the world to take a dovish stance

US inflation trending lower towards the Fed's target



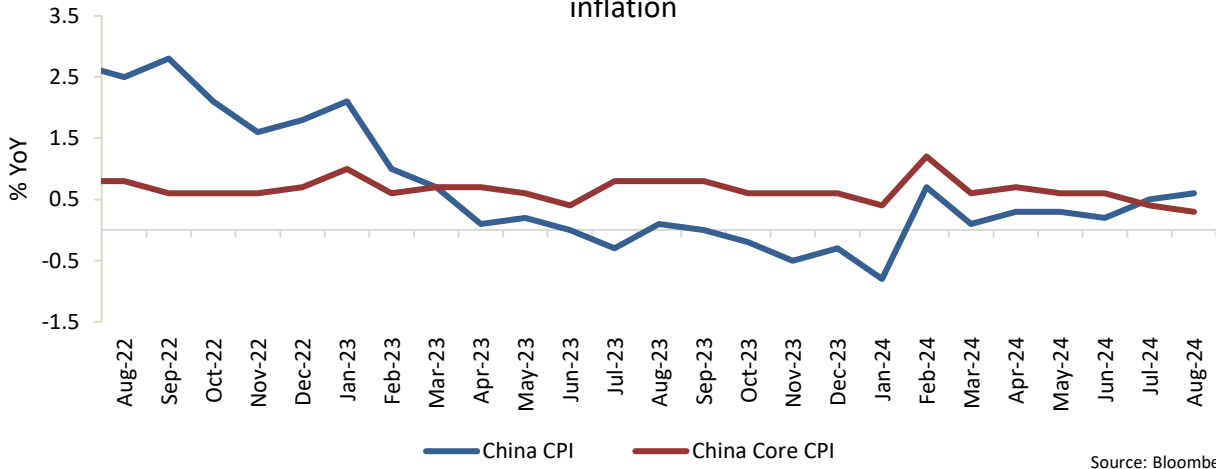
Source: Bloomberg

While the last leg of Euro inflation remains sticky, it is closer to the target



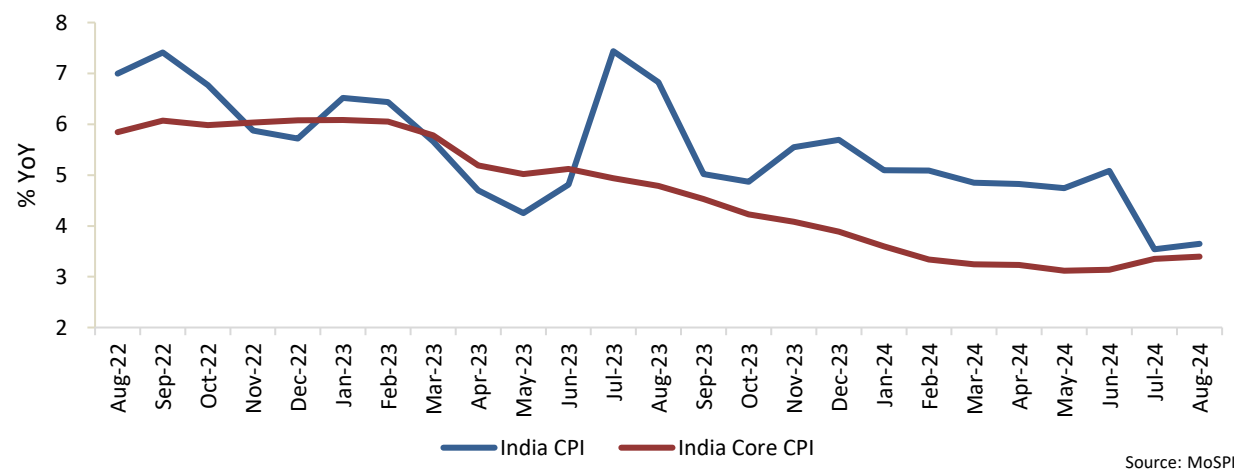
Source: Bloomberg

With lesser demand, the core inflation in China fell below the headline inflation



Source: Bloomberg

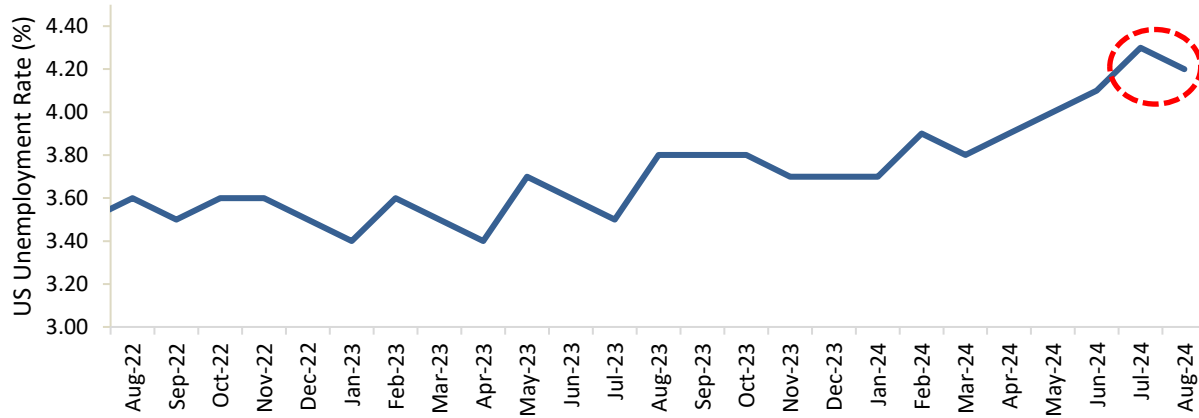
In India, inflation continues to ease



Source: MoSPI

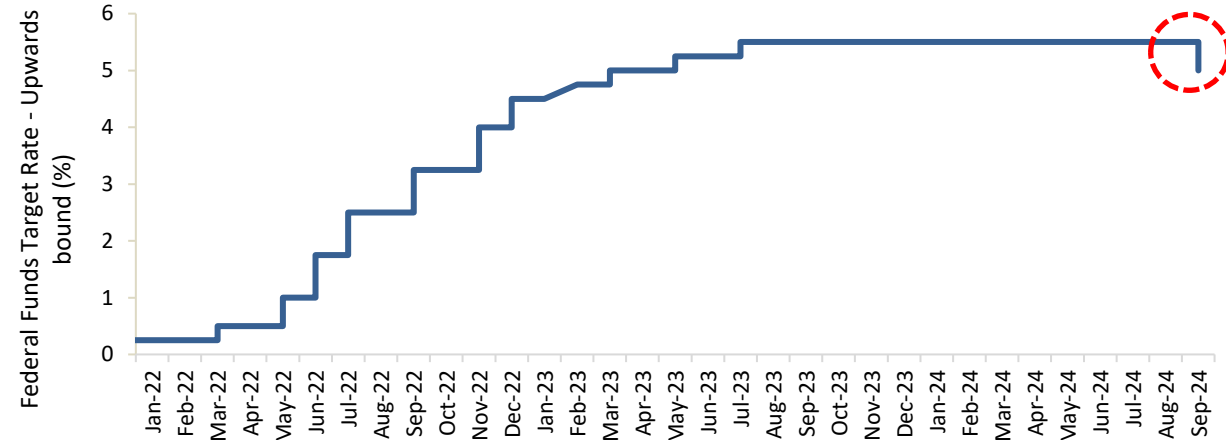
## Fed cuts more than expected as growth weakens, while inflation decelerates further

US unemployment rate showing signs of improvement



Source: Bloomberg

Fed cut rates by 50 bps in September, higher than market expectations



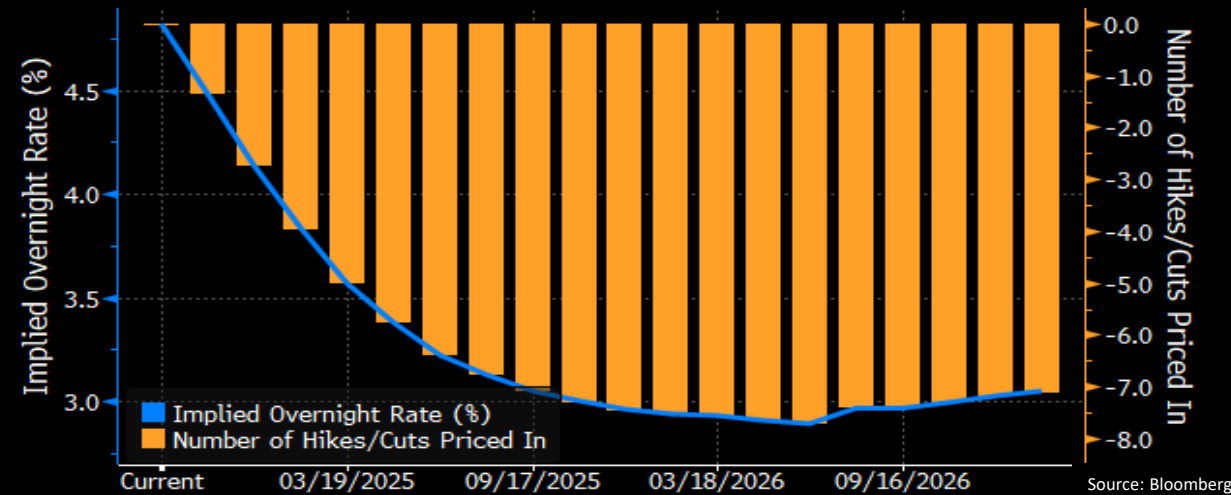
Source: Bloomberg

“The Committee has gained greater confidence that inflation is moving sustainably toward 2 percent, and judges that the risks to achieving its employment and inflation goals are roughly in balance...

...In light of the progress on inflation and the balance of risks, the Committee decided to lower the target range for the federal funds rate by 1/2 percentage point to 4-3/4 to 5 percent.”

– FOMC Meeting Outcome, September 17-18, 2024

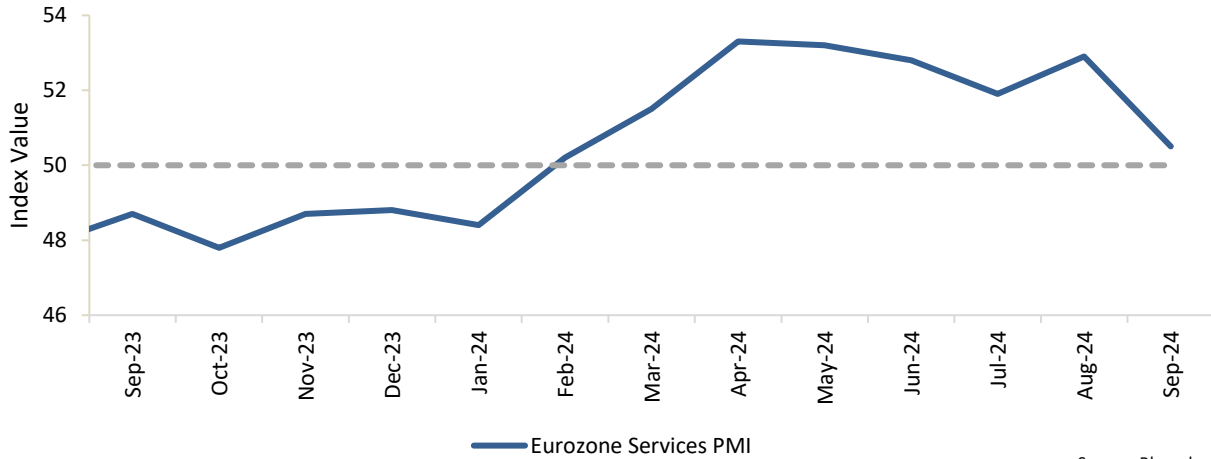
After the first Fed rate cut, market is expecting more cuts in CY24



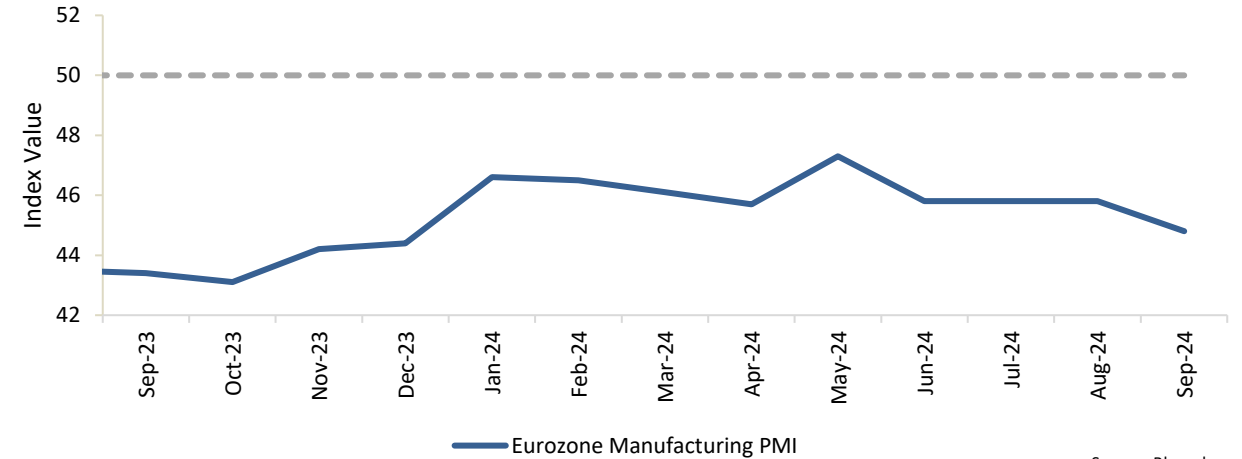
Source: Bloomberg

## ECB cuts rates further to support weakening growth impulses

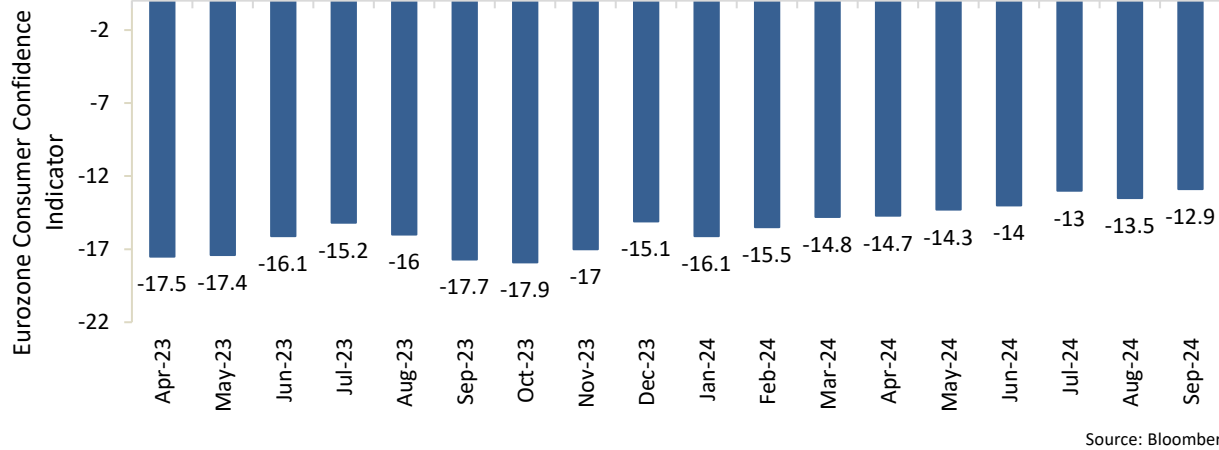
Services sector in Europe has started to weaken



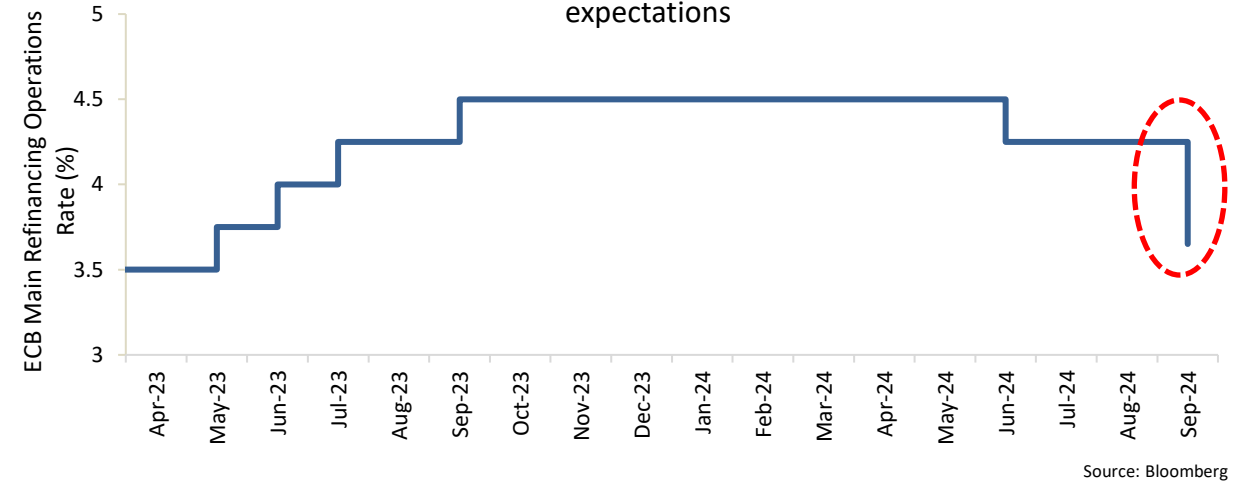
Manufacturing sector continues to contract



Eurozone Consumer Confidence remains in the negative zone

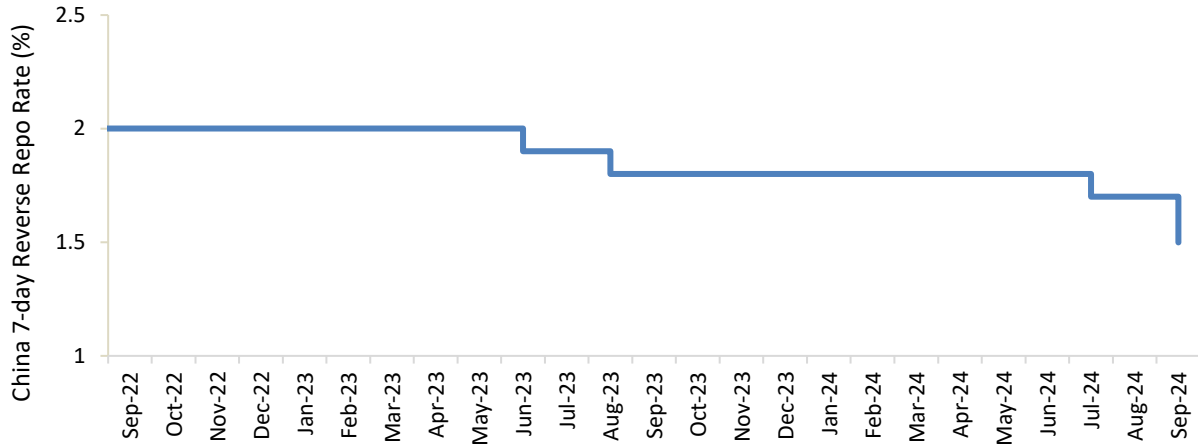


ECB cut rates further by 60 bps in the September policy, in line with market expectations



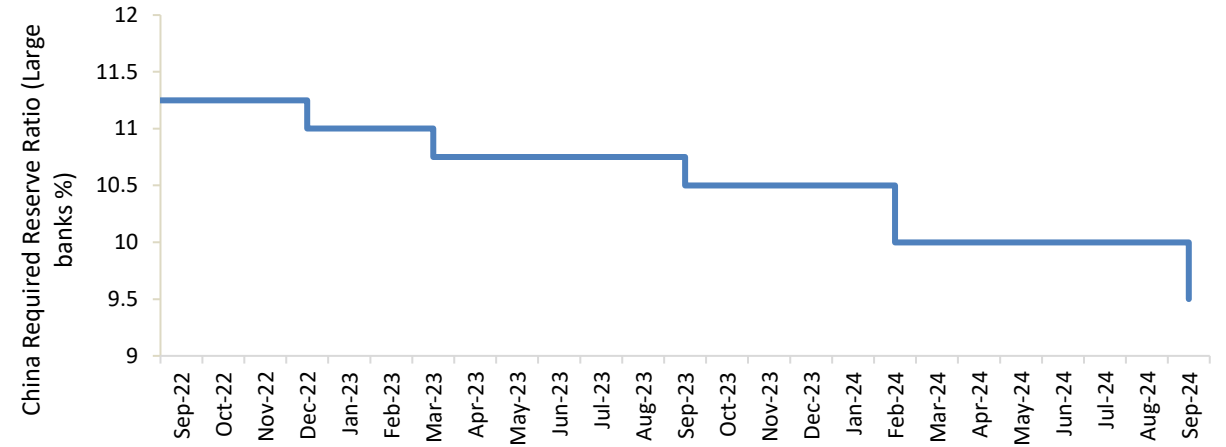
# Chinese Central Bank provides a large stimulus to the economy

China reduces reverse repo to push liquidity into the system



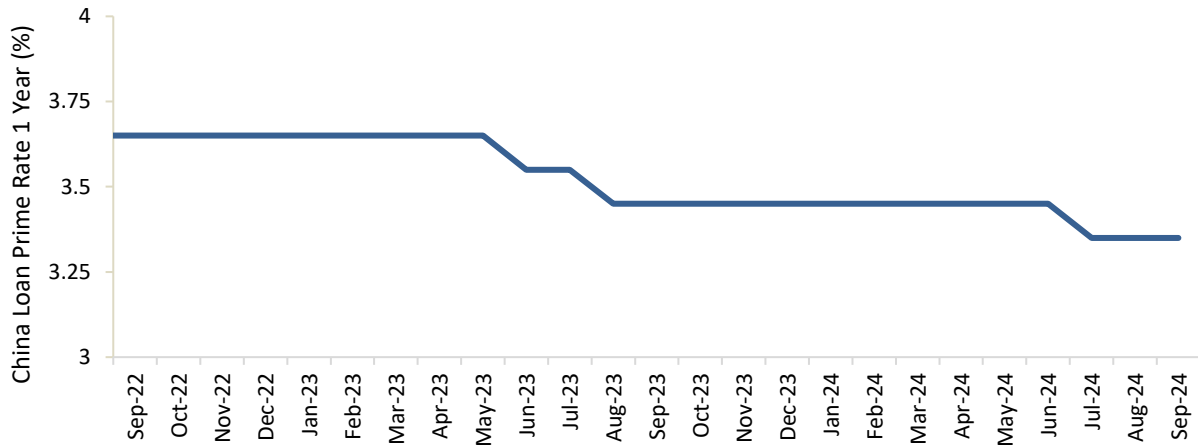
Source: Bloomberg

China cut the reserve ratio to bolster faltering economy



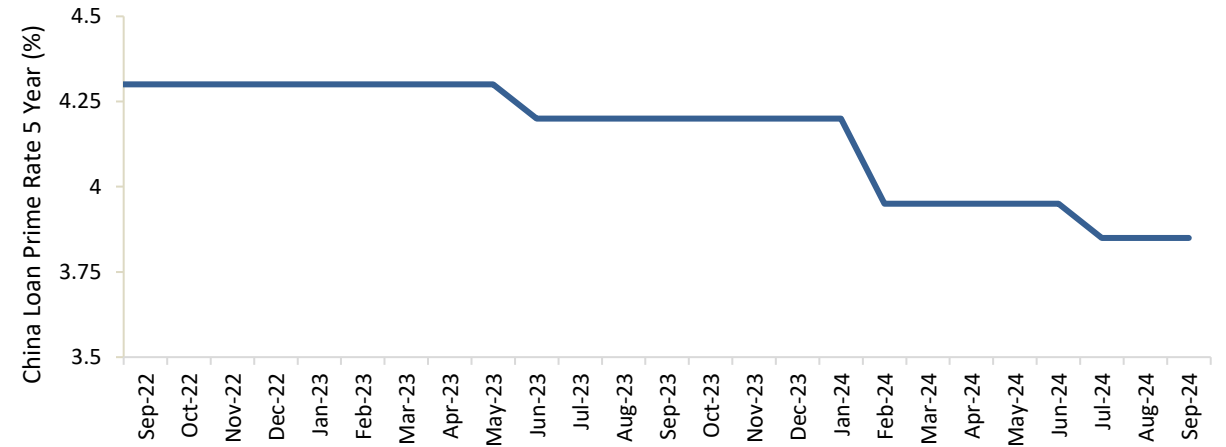
Source: Bloomberg

While keeping the 1 year LPR steady, it highlighted cuts to follow...



Source: Bloomberg

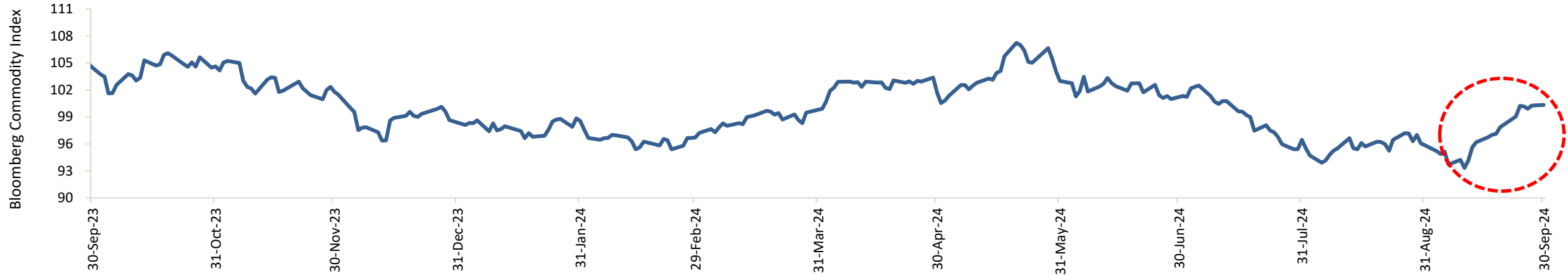
... similarly, the 5-year LPR remains unchanged



Source: Bloomberg

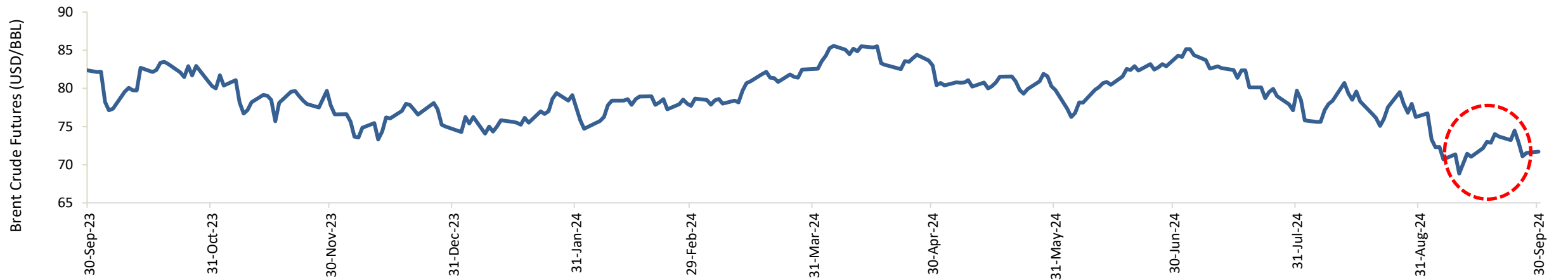
## While commodities continue to show weakness, the recent spike was led by Chinese stimulus

Commodities showed a sharp uptick in prices as China's central bank announced measures to stimulate growth



Source: Bloomberg

Crude prices also surged, anticipating pickup in global growth post policy measures in China



Source: Bloomberg



## Majority of the global central banks have started their rate cut cycle

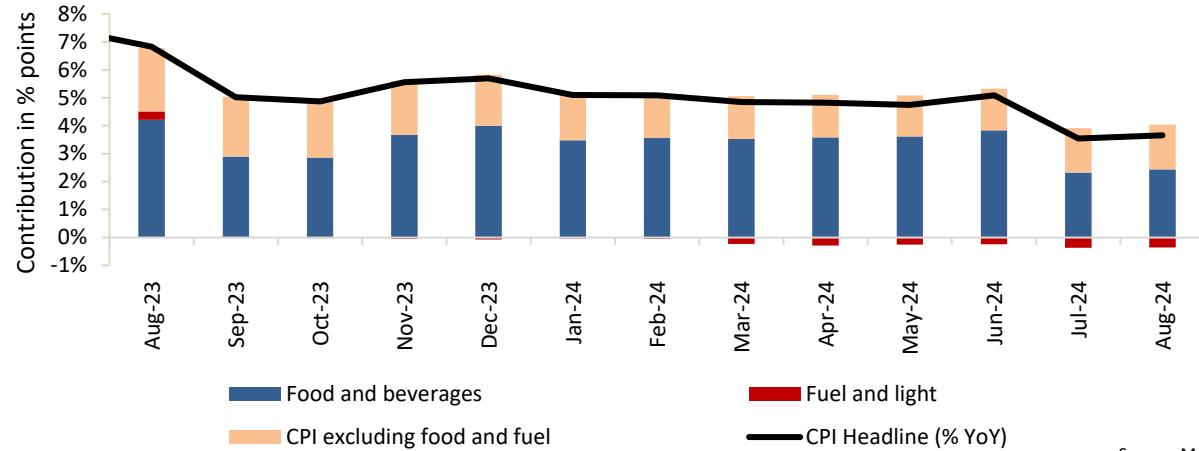
Barring a few countries, most central banks have cut rates as global disinflation takes roots



Source: Bloomberg

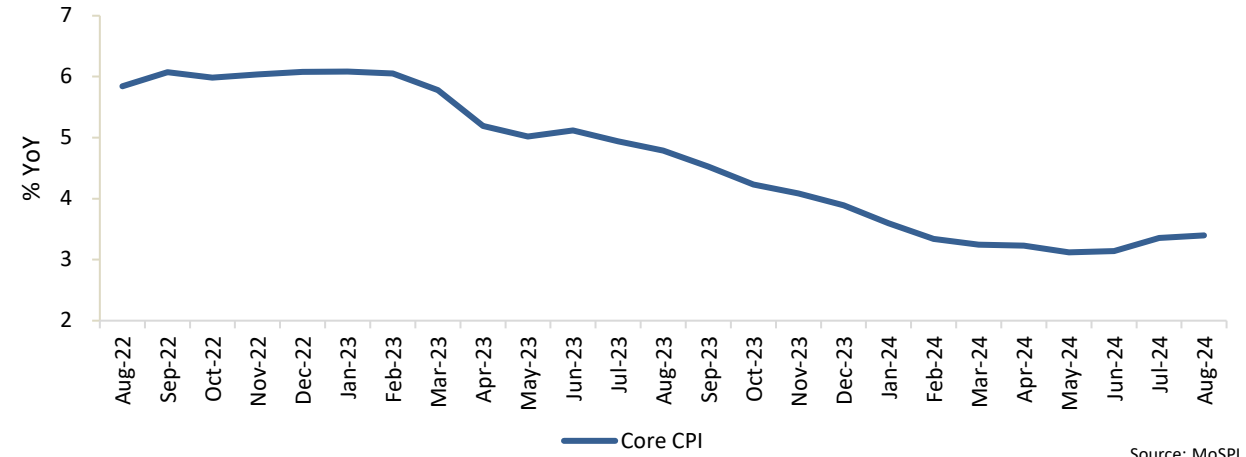
## Near term inflation in India could be impacted because of adverse base

Food inflation remains the biggest contributor to headline inflation



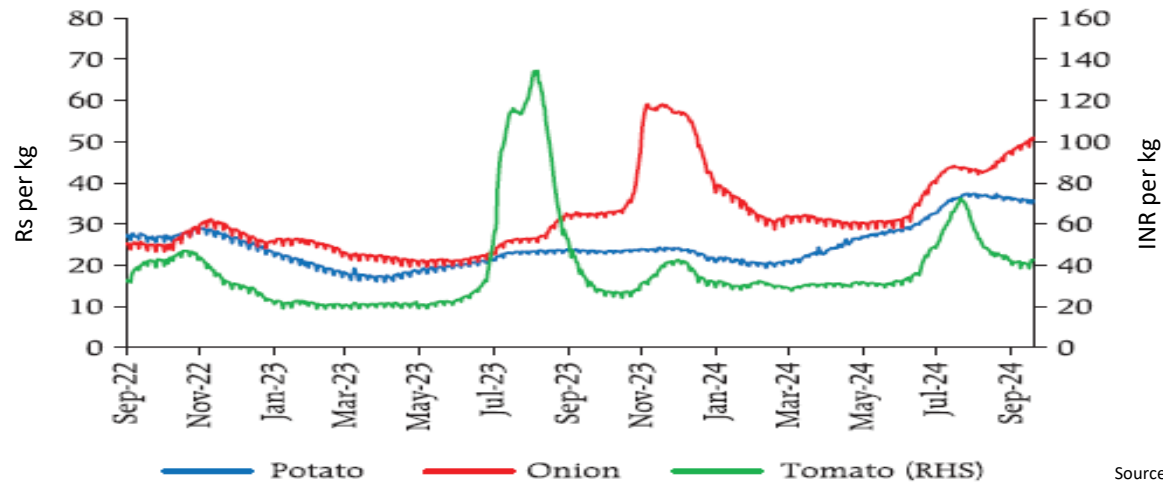
Source: MoSPI

While core inflation is coming down ...



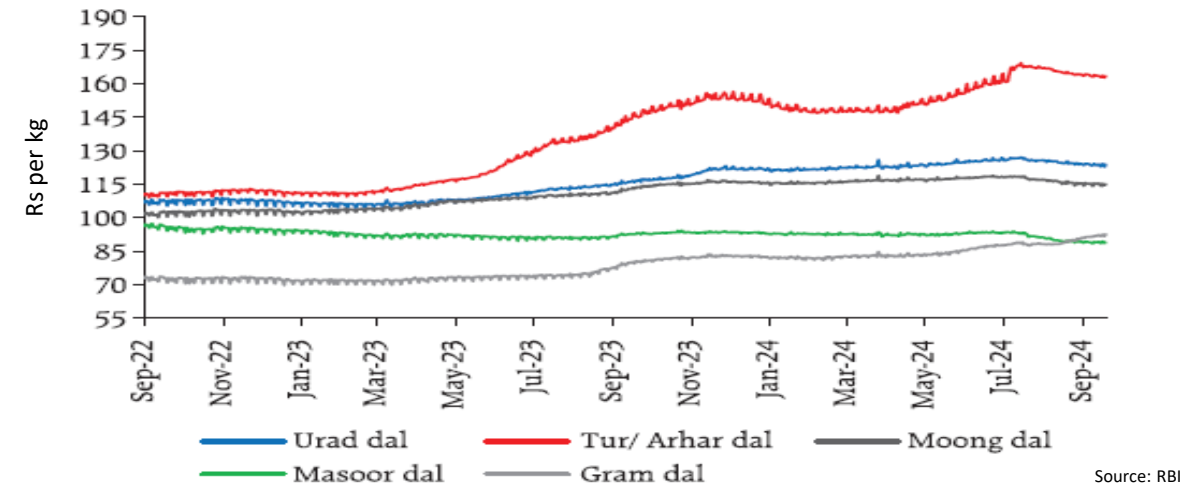
Source: MoSPI

... Food inflation remains elevated due to higher vegetable prices ...



Source: RBI

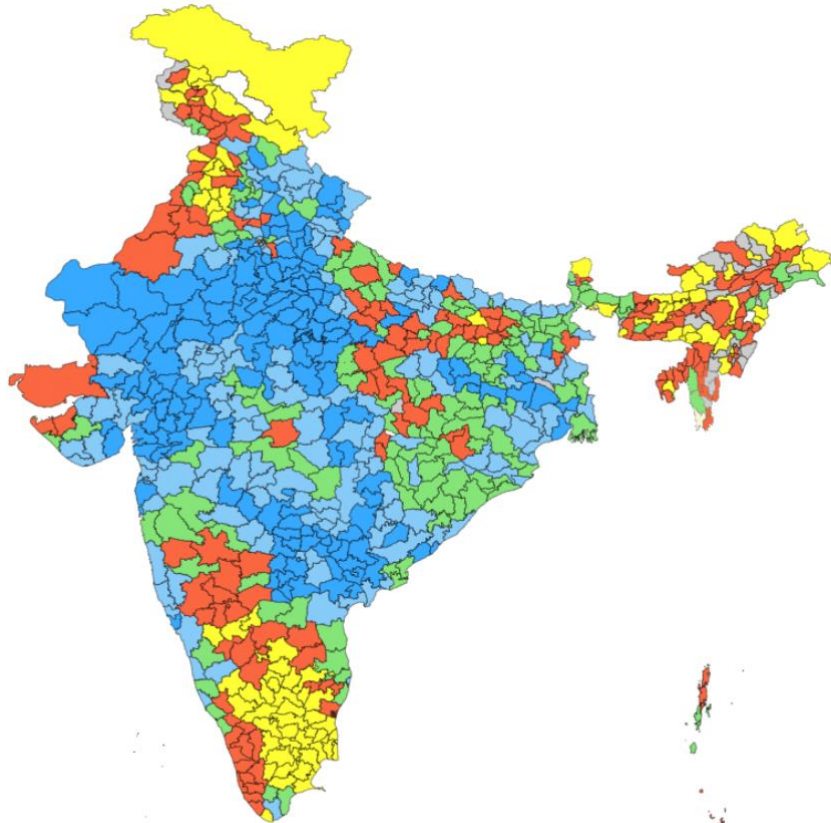
... and higher pulses prices



Source: RBI

## While monsoon has been on track, excess monsoon could be a worry going forward

Excess rainfall in September has started to adversely affect standing crops

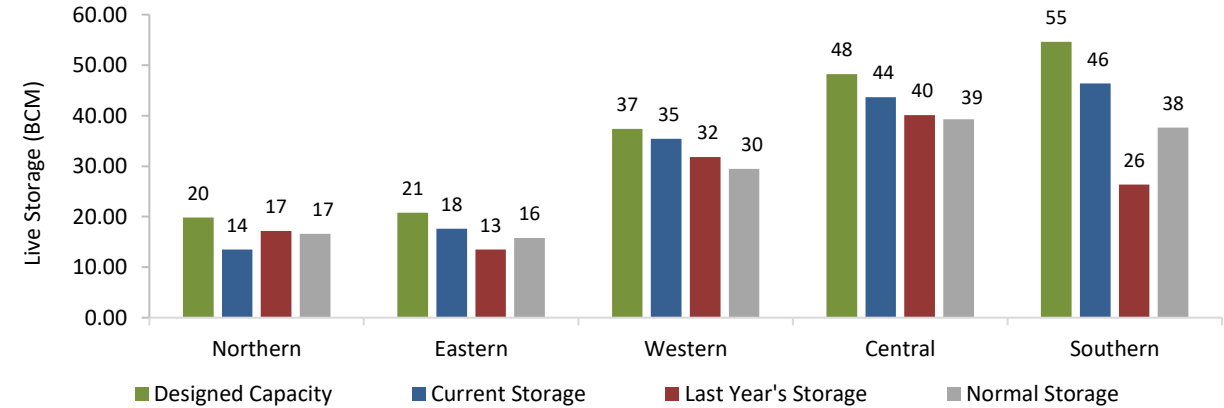


■ No Data ■ No Rain ■ Unlisted ■ Large Deficient [-99% to -60%] ■ Deficient [-59% to -20%]  
■ Normal [-19% to 19%] ■ Excess [20% to 59%] ■ Large Excess [60% or more]

Note: Cumulative Rainfall from 01 Sep 2024 to 30 Sep 2024

Source: IMD

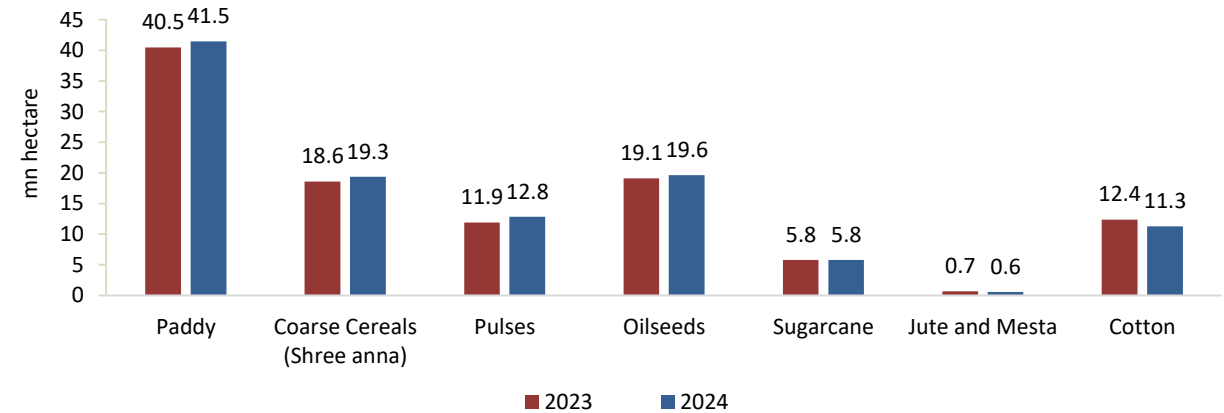
Healthy reservoir levels bode well for winter crops



Note: Data as on 26 September 2024

Source: Central Water Commission

Plentiful rains have aided the Kharif crop acreage in surpassing the five-year average

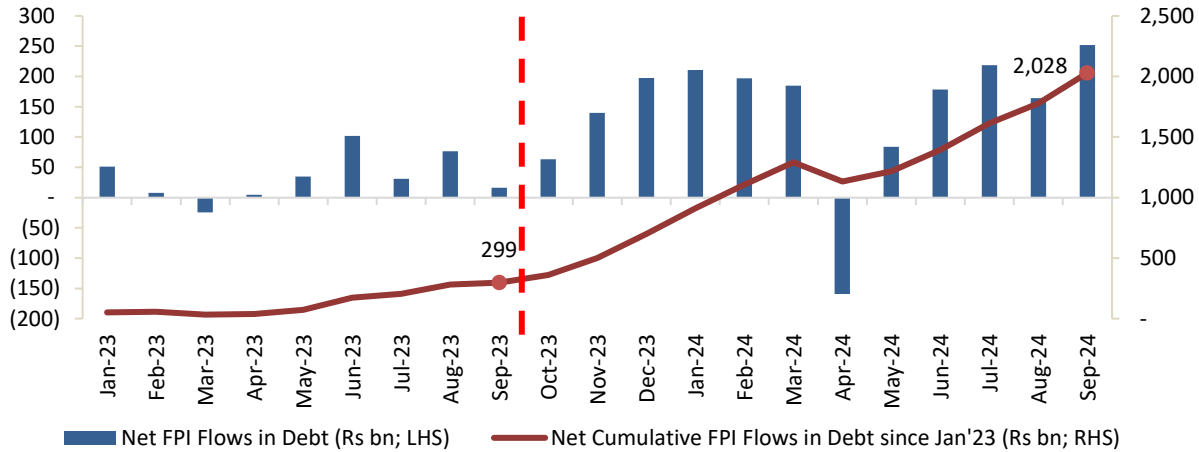


Note: Progress of Kharif Sowing (as on 27 September 2024)

Source: Media Reports

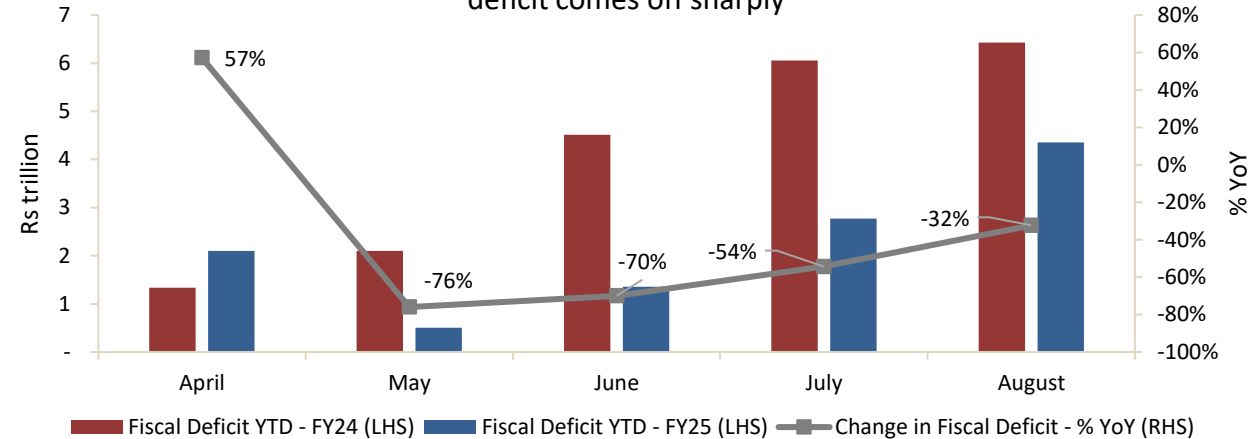
## With inflation and fiscal deficit under control, and rising FPI flows, bond yields have declined further

FPI Investments in debt market keep gaining traction post index inclusion



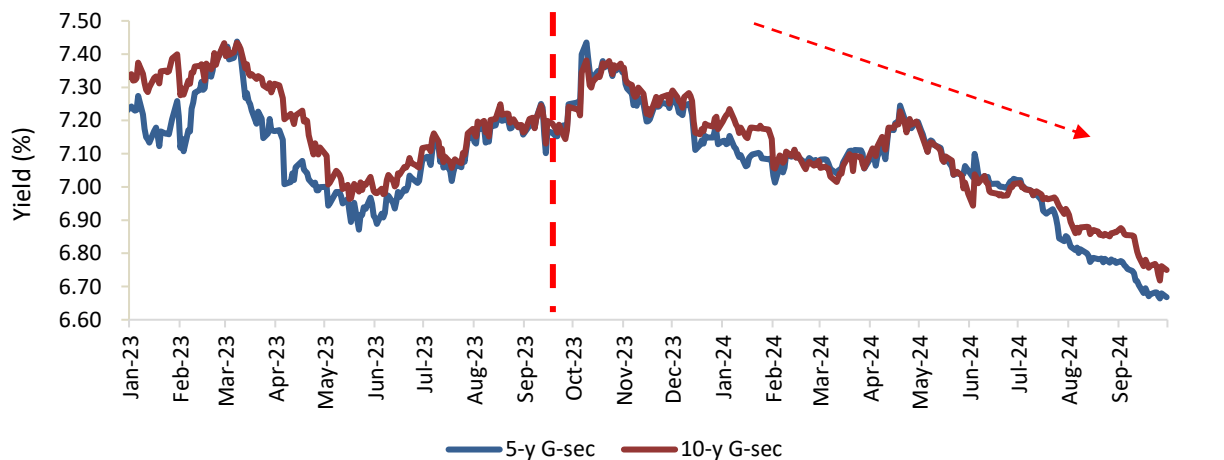
Source: Bloomberg

Government remains steadfast on its fiscal consolidation path, as fiscal deficit comes off sharply



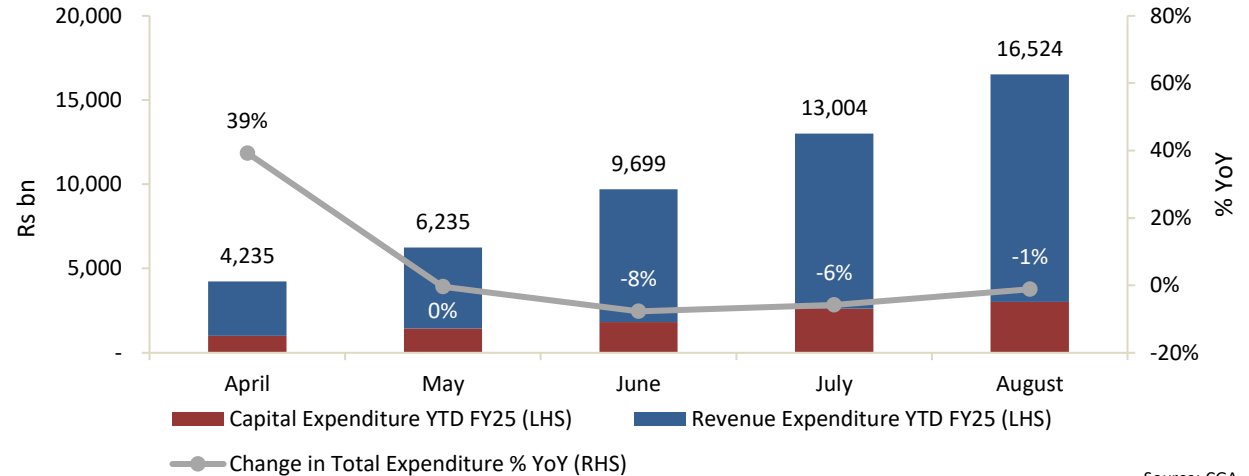
Source: CGA

Higher demand and limited supply brought G-secs yields lower



Source: Bloomberg

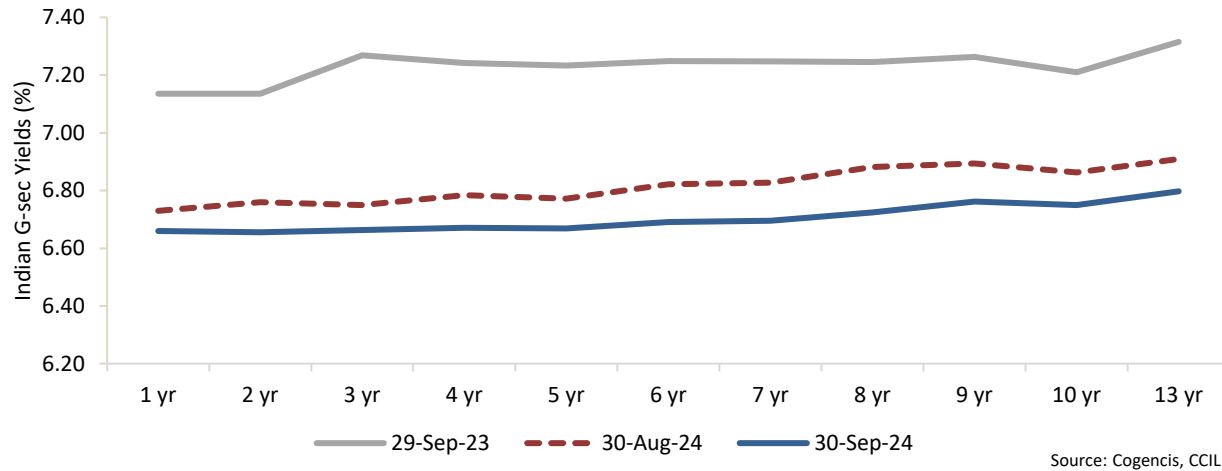
Government expenditure picked up pace post elections



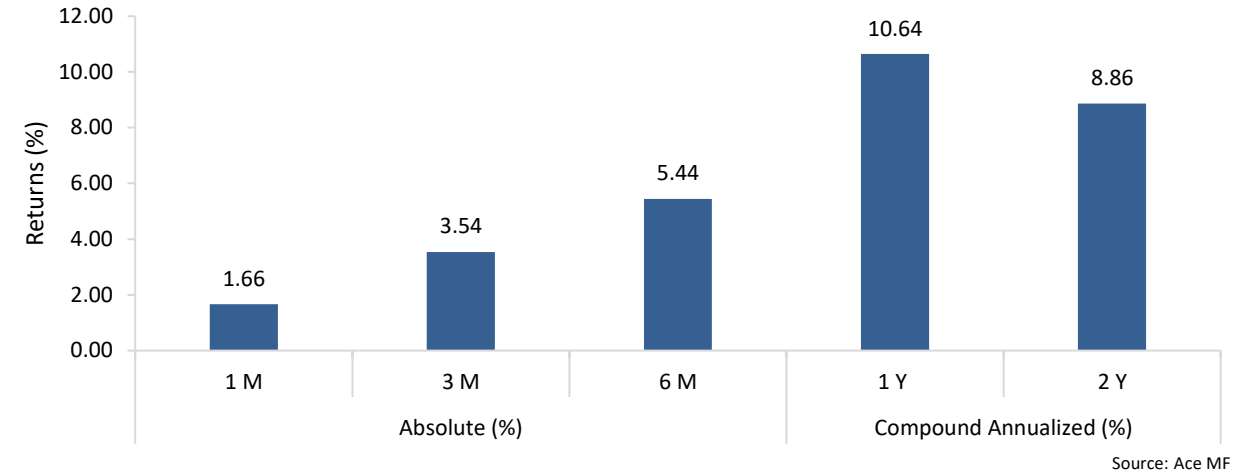
Source: CGA

## As yields have come off across the curve, dynamic bond funds and gilt funds have performed better

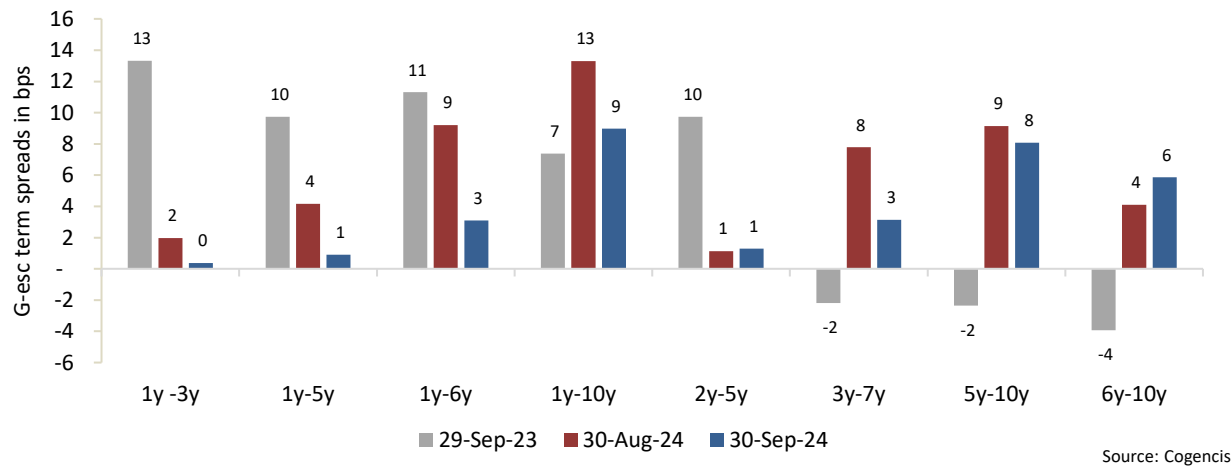
G-sec yield curve shifted parallelly downwards as yields fell across the curve



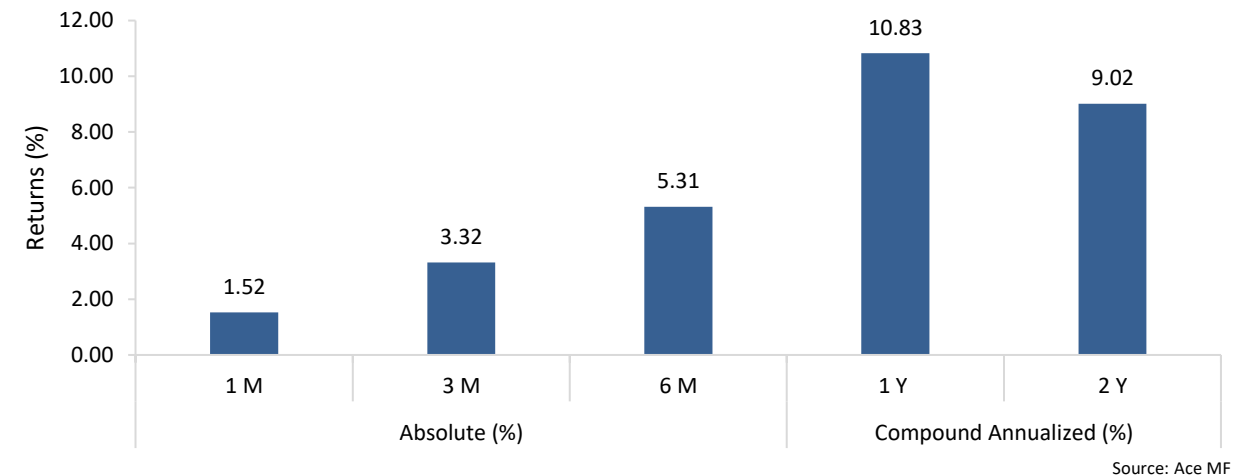
Recommended Dynamic Bond Funds have delivered strong returns



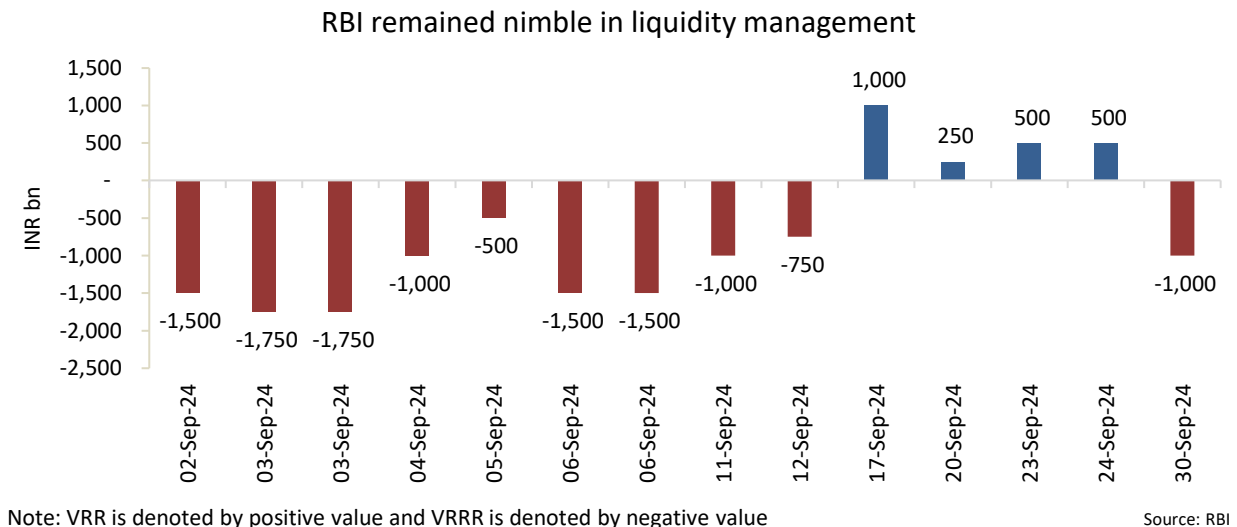
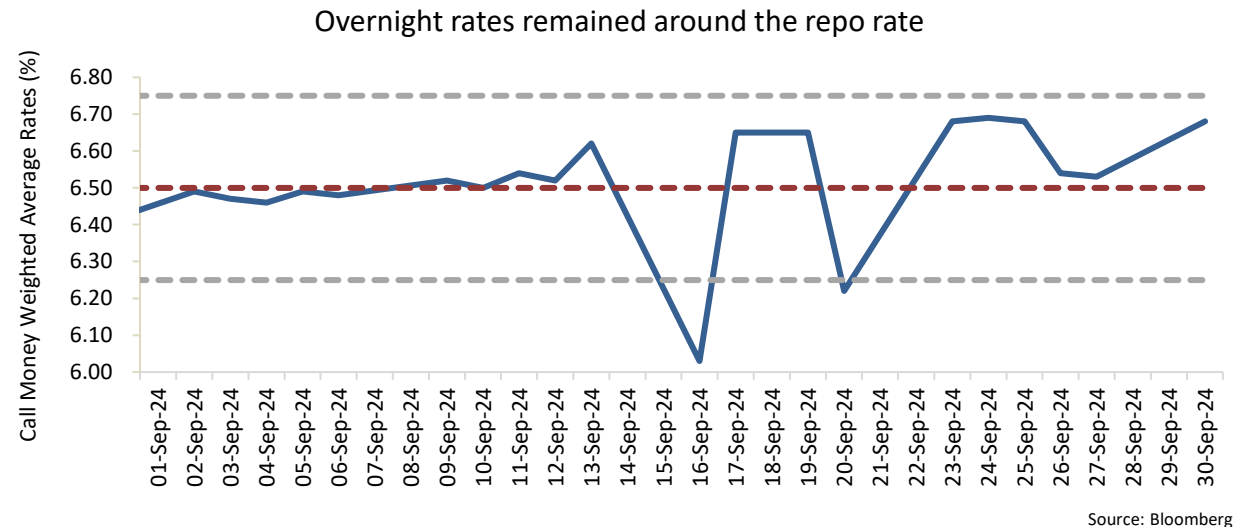
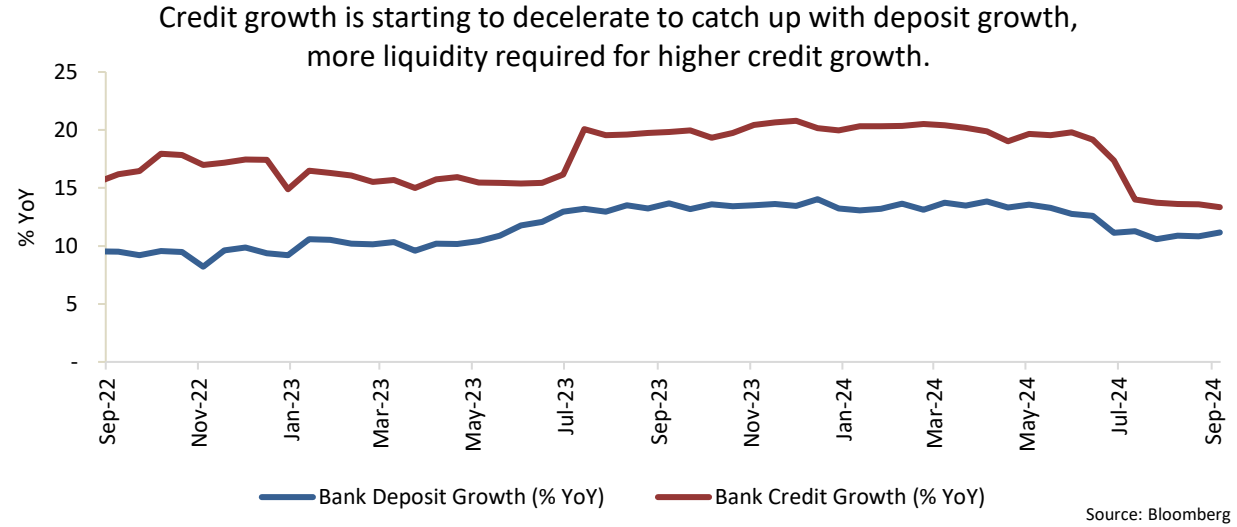
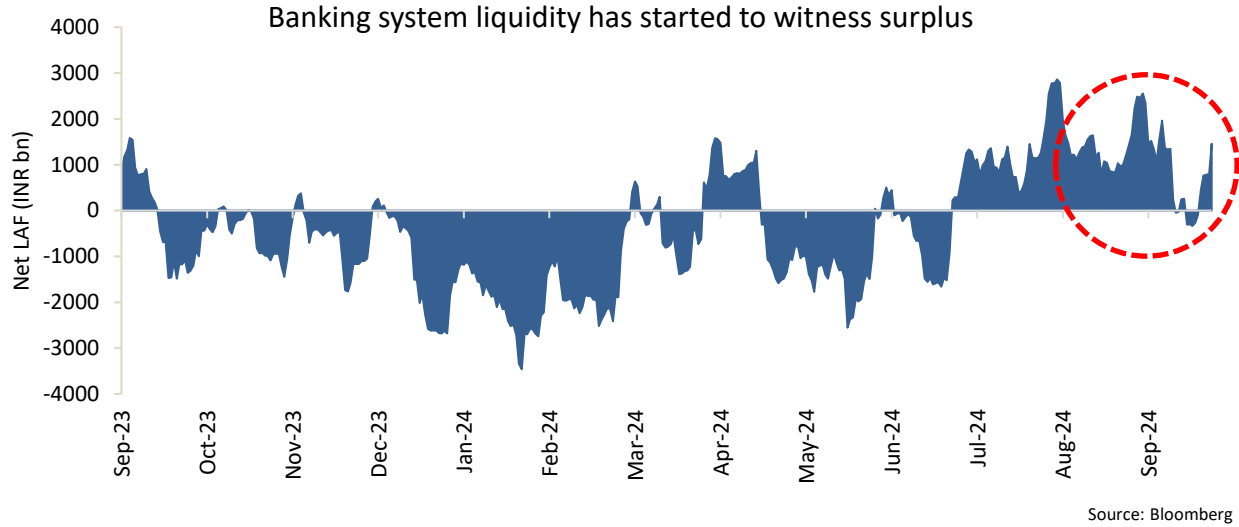
G-sec term spreads narrowed further



Recommended Gilt Funds too have delivered strong returns



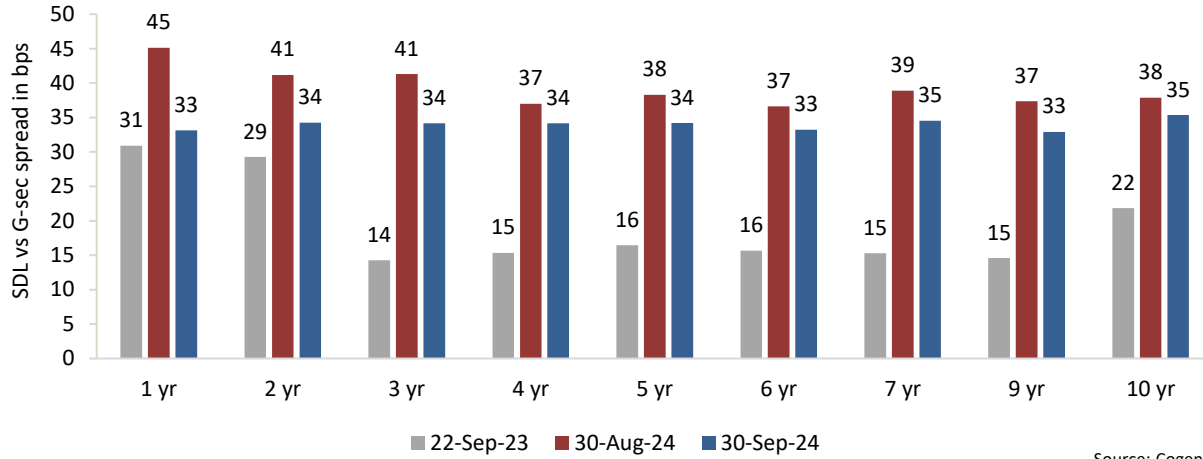
# Banking system liquidity continues to remain in surplus despite RBI's stance of 'withdrawal of accommodation'



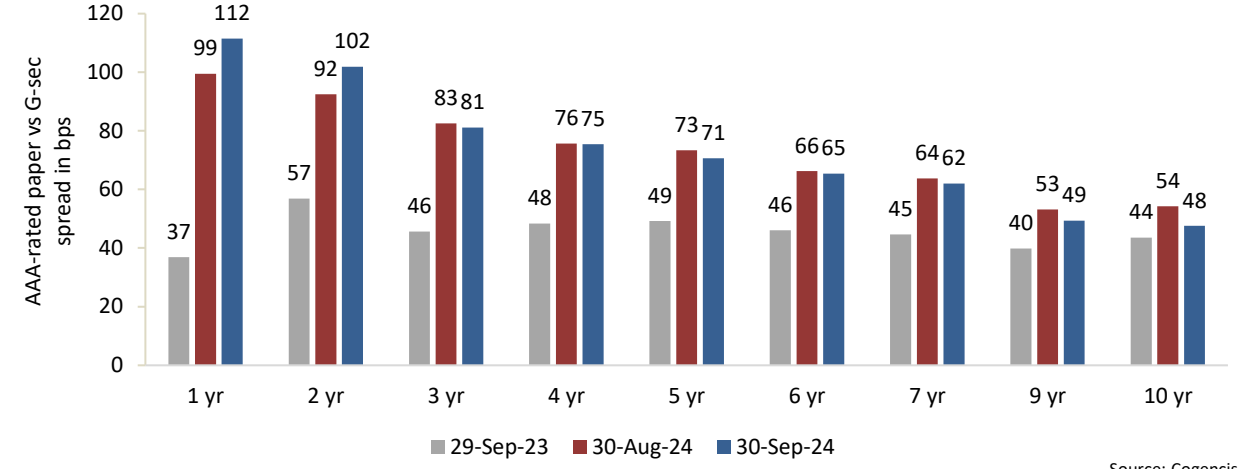
Note: VRR is denoted by positive value and VRRR is denoted by negative value

## Corporate bond spreads have improved, making the case for high quality accrual products

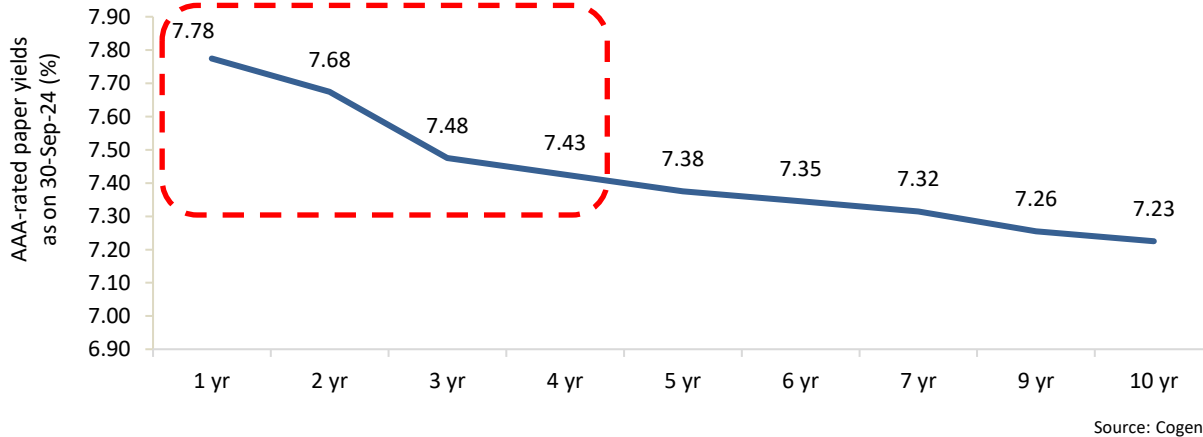
SDL spreads narrowed due to higher demand



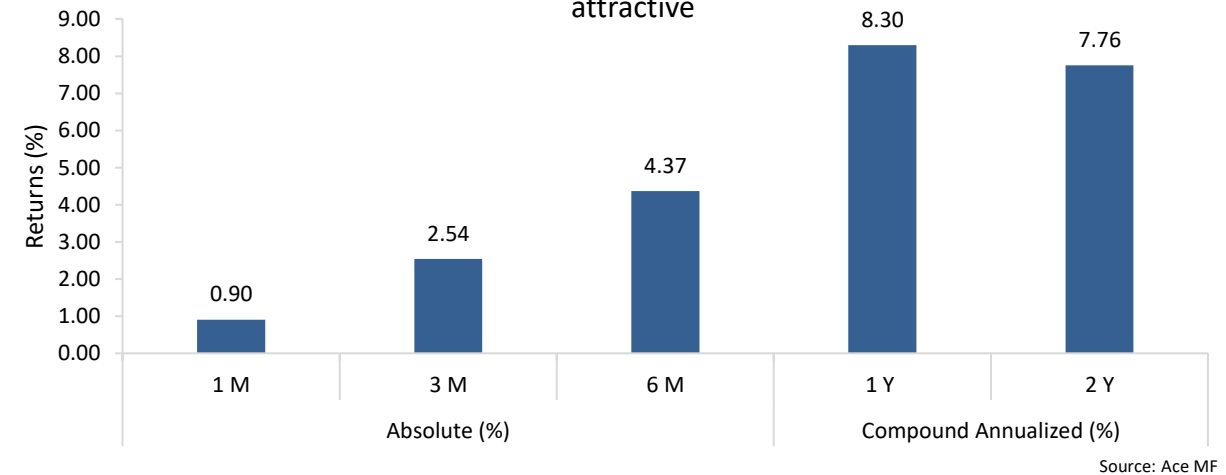
Corporate Bond spreads widened at the shorter end due to higher supply



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



With higher potential returns, recommended Corporate Bond Funds remain attractive





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