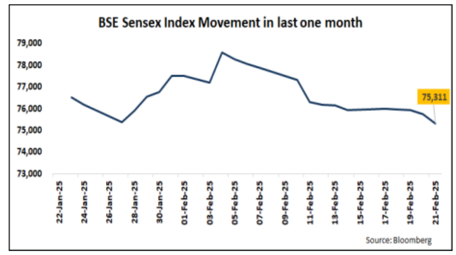
HDFC Bank Research

Weekly Equity Market Updates for week ended February 21, 2025

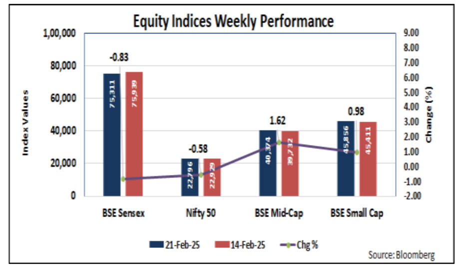
Domestic Equity Market Update

- Indian equities ended the week on a mixed note, with the large cap-oriented BSE Sensex ending lower by 0.83% & and Nifty 50 ending lower by 0.58% WoW respectively. The BSE Midcap index ended higher by 1.62% and the BSE Small cap index ended higher by 0.98%.
- On the BSE sectoral front, Metals outperformed other indices. Auto, Telecom and IT, underperformed the most.
- Domestic equity markets ended the week on a mixed note due to concerns over potential US tariffs, weak corporate earnings and global trade uncertainties. However, intermittent gains were seen from short covering.



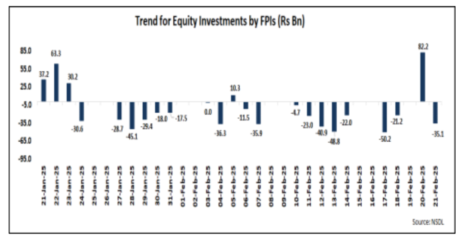
Global Market Updates

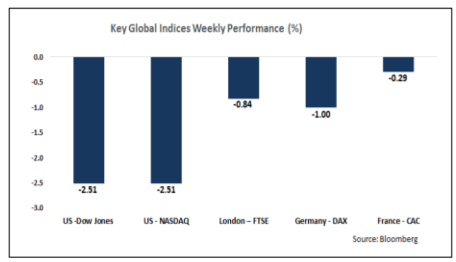
- US equity markets ended the week on a negative note followed by the release of a report by the University of Michigan, which indicated that consumer sentiment in the US had worsened significantly more than earlier projections for February 2025. Market sentiment was further hit by ongoing tariff concerns and indications that the US Federal Reserve is likely to keep interest rates on hold for some time.
- European markets ended on a negative note on concerns regarding a potential trade war due to the US President's ongoing threats to impose 25% tariffs on various imported goods. Additionally, persistent geopolitical tensions have contributed to a cautious atmosphere.
- Brent declined marginally from USD 74.74 per barrel to USD 74.05 on concerns about the outlook for demand and recent data showing a jump in crude inventories.



Macro Data & Domestic News Released During the Week

- According to the commerce ministry data, India's exports to the US rose by 39% YoY to USD 8.44 bn in January 2025, while imports grew by 33.46% YoY to USD 3.57 bn.
- According to ICRA, India's GDP is expected to grow 6.4% YoY in Q3 FY25, after slowing to a seven-quarter low of 5.4% YoY in Q2 FY25, on account of enhanced government spending amid uneven consumption.
- As per Moody's Ratings, India's power sector will need an annual investment between Rs 4.5 trillion to Rs 6.4 trillion (USD 53 bn to USD 76 bn) of investment until FY35, roughly USD 700 bn investment over the next 10 years, to achieve its 2070 net-zero pledge.
- According to ICRA, major auto component firms are likely to invest Rs 250-300 bn in FY26 for capacity expansion and localization, including for Electric Vehicle (EV) parts. The revenue growth for the industry is expected to ease to 7-9% YoY in FY25 and to 8-10% in FY26, down from 14% in FY24.
- As per a report by Bain & Company and Nasscom, India is set to become a high-income country by 2047 with a projected GDP of USD 23 trillion to USD 35 trillion. The services sector is projected to account for 60%, while manufacturing will account for 32% of India's GDP by 2047.
- According to a report by Anarock and ETRetail, the market size of India's e-commerce sector is estimated to jump more than four-fold to USD 550 bn by 2035, growing at a CAGR of 15% YoY from USD 125 bn in 2024. Meanwhile, the overall Indian retail industry's market size is expected to touch USD 2.5 trillion bn by 2035, witnessing a three-fold increase compared to 2019.
- According to Moody's Analytics, India's growth will slow to 6.4% YoY in CY25, from 6.6% YoY in CY24, as new US tariffs and softening global demand weigh on exports.

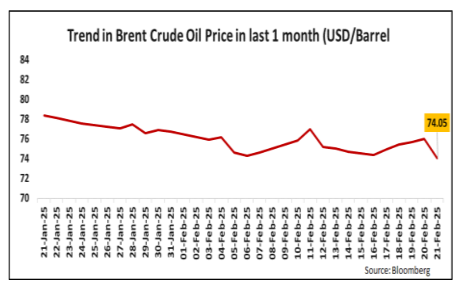




Outlook

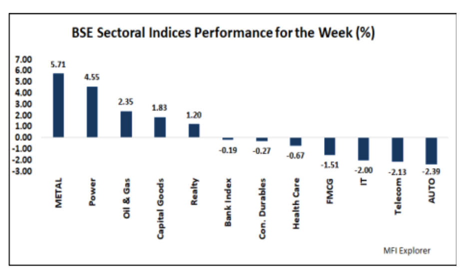
Going forward, the Indian equity market is likely to be driven by movement in the US Dollar index, improvement in consumption demand, FPI/DII flows, tariff announcement by Donald Trump, improvement in liquidity conditions supported by the RBI. With the budget announcing about Rs 1 trillion worth of consumption supportive tax cuts, the market participants expect consumption demand to improve steadily in FY26. The RBI has been coming out with measures to boost system liquidity to help aid growth. While the current liquidity deficit is large, as per market participants, continuous effort from the central bank on the liquidity support front is required.

In US, the Trump Administration has levied tariffs on Canada, Mexico and China and in return Canada and Mexico too have announced tariffs on US products. This can lead to worsening of global trade dynamics. Trump is expected to raise tariffs on more countries and thus have impact on both, the US and other economies. Reciprocal tariff announcements have also created uncertainty, although Trump has given time till April. Further negotiations can dictate the trajectory in which markets move.

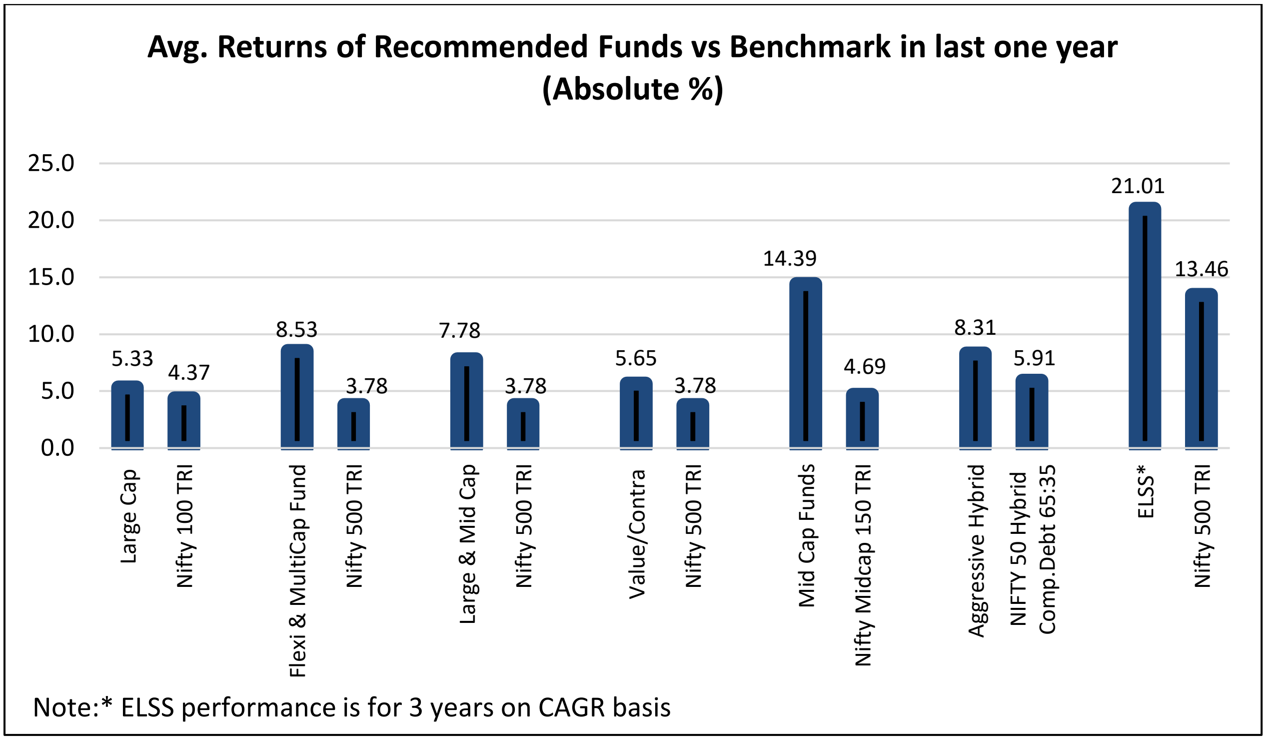


Overall, the fundamentals of the domestic economy remain robust, with a strong external account, calibrated fiscal consolidation and stable private consumption. With fiscal consolidation remaining on track, some heavy lifting is now expected from the RBI in terms of sharply improving the liquidity in the system and moving towards a longer policy rate cut cycle. That would add to the cheer in the equity markets.

The quarterly earnings for Q3 FY25 has ended on a mixed note, with some IT companies reporting steady numbers, but the banking sector is suggesting rising NPA impulses. Telecom, Power, Realty and Chemical/Fertilizer have also delivered stable earnings comparatively. Numbers in Auto Anc, Metal and Oil & Gas remains muted. Volatility in earnings has led to continuation of correction in the equity markets.



With the recent correction, valuations in most segments of the market have corrected, while earning growth remains stable. In terms of deployment strategy, we continue to maintain our investment deployment strategy of 50% Lumpsum and 50% staggered over the next 5-6 months. From an Equity Mutual Fund perspective, investors could look at investing in Diversified funds, Hybrid equity funds, Business cycle funds and doing SIPs in Smallcap/Midcap funds in line with their risk profile and product suitability from a 2-3 years' time horizon.



Returns Absolute %			Returns Compounded Annualised %			
Category Average of Recommended Funds	**1 Month**	**6 Months**	**1 Year**	**2 Years**	**3 Years**	**5 Years**
Large Cap Funds	-1.98	-9.22	5.33	19.44	15.38	16.72
Flexi & MultiCap Fund	-4.08	-9.77	8.53	25.25	19.91	19.15
Large & Mid Cap Funds	-3.37	-10.58	7.78	23.83	18.73	19.98
Mid Cap Funds	-5.34	-8.99	14.39	32.33	26.01	24.98
Small Cap Funds	-10.42	-17.15	2.06	24.07	20.05	25.93
Value/Contra Funds	-3.58	-10.02	5.65	24.10	19.86	24.17
Focused Funds	-0.82	-8.18	9.27	22.91	18.22	21.00
Aggressive Hybrid Funds	-2.23	-6.39	8.31	18.38	14.42	16.43
Dynamic Asset Allocation Funds	-1.54	-4.19	6.40	16.11	13.67	15.03
Equity Linked Saving Schemes	-4.89	-10.08	9.22	27.37	21.01	19.92
Infrastructure Oriented Funds	-4.81	-13.20	6.23	26.81	21.91	24.32
Nifty 50 Index TRI	**-0.85**	**-7.60**	**4.63**	**14.41**	**11.13**	**14.88**
Nifty 500 TRI	**-3.35**	**-11.16**	**3.78**	**18.90**	**13.46**	**16.94**
Nifty Infrastructure TRI	**-3.43**	**-12.96**	**-0.08**	**25.59**	**18.86**	**21.24**

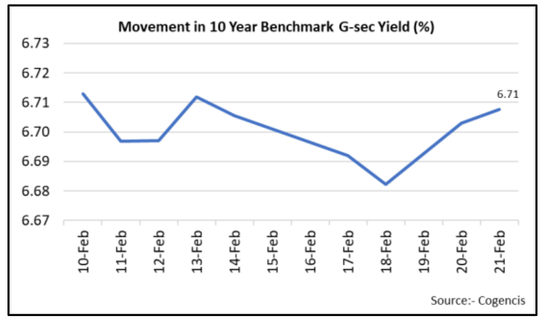
Note: Data as on February 21, 2025. Returns less than 1 year are in absolute % terms, whereas returns above 1 year are in CAGR terms.
Data has been sourced from ICRA Analytics Ltd. (For Disclaimer of ICRA Analytics Ltd, refer to https://icraanalytics.com/home/disclaimer)

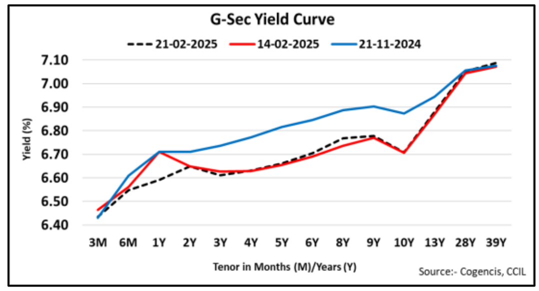
Overview - Fixed Income Markets & Mutual Funds as on 21 February 2025

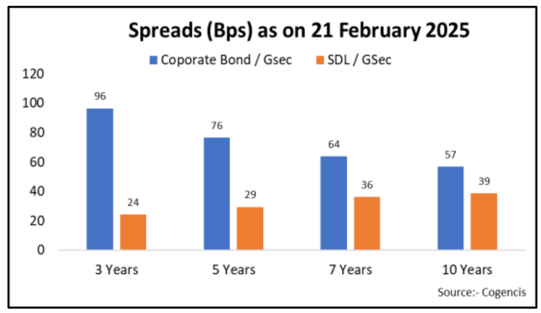
- Domestic G-Sec prices closed the week ended 21st February 2025 on a neutral note wherein the yield on the 10-year benchmark, the 6.79% G-Sec 2034 bond, closed flat at 6.71% as against 6.71% on 14th February 2025.
- In case of AAA rated corporate bonds, yields in the less than one-year segment were mixed in the range of (-) 23 bp to 4 bps on a WoW basis. In case of the greater than one-year segment, yields were mixed in the range of (-) 14 bp to 1 bps on a WoW basis.
- **Movement in G-sec yields :-**
  - Indian G-sec yields initially fell as market participants reacted positively to the Reserve Bank of India's (RBI) decision to double its purchase of government securities through open market operations to Rs. 400 bn on Feb 20, 2025. Gains were extended following a decline in US Treasury yields after data showed that US retail sales tumbled in Jan 2025. However, these gains were offset after the RBI's weekly debt auction witnessed weaker-than expected demand from market participants across all tenors.
  - The total G-sec supply for the week stood at Rs 638.00 bn (SDLs + G-secs). In this, the G-secs' auction was to the tune of Rs 340 bn and the maturities were in the range of 4-39 years. The SDLs' auction was to the tune of Rs 298 bn, and the maturities were in the range of 3-23 years. For the 10-year SDL, the average cut off yield came in higher at 7.15%, as against 7.13% in the previous week. The G-secs' auction was for the following: 6.75% GS 2029, 6.98% GOI SGrB 2054 and 7.34% GS 2064.
  - Banking system liquidity improved during the week, wherein liquidity, as measured by the RBI's net Liquidity Adjustment Facility (LAF), stood at a daily average deficit of ~Rs 1.81 trillion during the week as against a daily average deficit of ~Rs 2.1 trillion during the previous week.
- **Macro Data released during the week :-**
  - The RBI has announced a USD 10 bn USD/INR buy/sell swap to be conducted on February 28, 2025 for a tenure of three years, "in order to meet the durable liquidity needs of the system".
  - According to ICRA, India's GDP is expected to grow 6.4% YoY in Q3 FY25, after slowing to a seven-quarter low of 5.4% YoY in Q2 FY25, on account of enhanced government spending amid uneven consumption.
  - According to RBI data, bank credit growth decelerated to 11.8% YoY in Q3 FY25 from 12.6% YoY in Q2 FY25, while aggregate deposits increased at a marginally lower pace at 11% YoY in Q3 FY25 as compared to 11.7% YoY growth in Q2 FY25.
  - As per the RBI, India's foreign exchange reserves decreased by USD 2.54 bn to USD 635.72 bn as of February 14, 2025. Foreign currency assets (FCAs) decreased by USD 4.5 bn to USD 539.59 bn.
- **Other macro-economic news :-**
  - As per the Commerce Ministry, India's merchandise trade deficit widened to nearly USD 23 bn in January 2025, compared with USD 16.5 bn in January 2024.
  - According to RBI data, Net Foreign Direct Investment (FDI) in India declined to USD 1.18 bn during April-December 2024 from USD 7.84 bn during April-December 2023.
  - According to the quarterly Periodic Labour Force Survey, unemployment rate in urban areas during Q3 FY25 remained unchanged QoQ at 6.4%. While the unemployment rate for men worsened marginally to 5.8% in Q3 FY25 from 5.7% in Q2 FY25, for women, it improved to 8.1% from 8.4% during the period.
- **Global Updates :-**
  - As per minutes of the US Fed's latest policy meeting, officials want to see further progress on inflation before they consider resuming lowering interest rates. The minutes also reiterated Fed's "careful approach" in considering additional adjustments to the stance of monetary policy, given the high degree of uncertainty.
  - US President Donald Trump announced a new trade policy under which the US will charge a reciprocal tariff based on what other nations charge them, no more, no less.
  - As per data from Eurostat, the Euro area trade surplus decreased to EUR 15.5 bn in December 2024 from EUR 16.0 bn in November 2024. Exports logged an increase of 3.1% YoY, in contrast to the 1.4% YoY fall in November 2024. At the same time, imports climbed 3.8% YoY, reversing a 0.7% YoY drop.
  - The People's Bank of China left its one-year loan prime rate unchanged at 3.10%. Likewise, the five-year LPR, the benchmark for mortgage rates, was retained at 3.60%. The decision was in line with expectations.
- **Outlook :-**

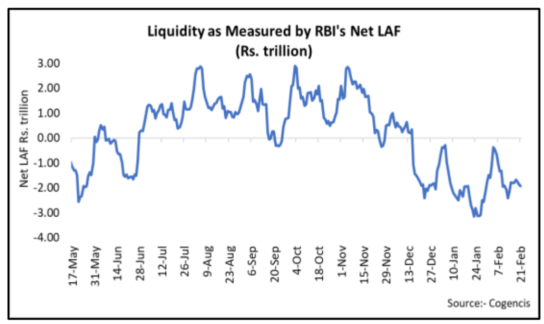
While the liquidity remained in deficit during the week, the RBI has continued taking measures to tackle the ongoing liquidity condition, like the recently announced USD/INR buy/sell swap worth Rs 10 bn. Retail inflation in India eased as the Consumer Price Index (CPI) fell to a five-month low of 4.31% YoY in January 2025 from 5.22% YoY in December 2024. The easing came on the back of lower food prices, supported by healthy kharif crop yields. Despite the fall the CPI inflation remained above the RBI's target of 4% YoY. **Issues on the external front, in terms of rising trade deficit, geopolitics and risk emanating from US tariff wars remain a key challenge for the RBI to negotiate with in the medium term and can have implication on the depth of the ongoing policy rate cut cycle.** In the US, the Fed in its latest policy kept the rates unchanged. Also, in the minutes of the US Federal Reserve's latest monetary policy meeting, officials said they want to see further progress on inflation before they consider resuming lowering interest rates. It also reiterated Fed's "careful approach" in considering additional adjustments to the stance of monetary policy. Going forward, policy measures announced by the Trump Administration would be a key factor that would drive the policy rates there.

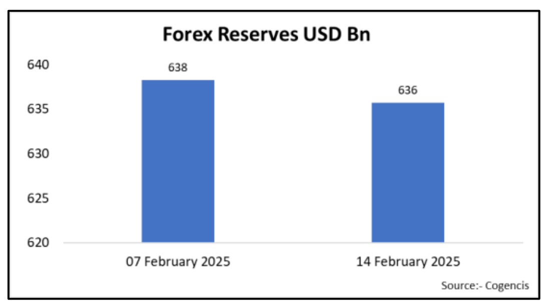
The policy rate cut in India added with favorable demand-supply dynamics of Indian G-Secs, and strong FPI flows into the bond market we may see structurally lower interest rates over the long term, starting with the cut in policy rate regime started on 7th February. At current levels, there is a case for tactical duration play. Additionally, improvement in liquidity conditions basis RBI measures could compress corporate bond yields at the shorter end in the medium term. With this backdrop, the inverted corporate bond yield curve may normalize, making the case for investment into corporate bonds at the 1-4-years segment of the curve. Hence, investors can look at Corporate Bond Funds for a horizon of 15 months and above. For a horizon of 24 months and above, investors can look at Dynamic Bond Funds. For a horizon of 3 months and above, investors can consider Arbitrage Funds or Money Market Funds. Whereas for a horizon of up to 3 months, investors can consider Overnight Funds and Liquid Funds. Investors can also look at Multi-asset allocation funds for a horizon of 36 months and above. Investors should invest in line with their risk profile and product suitability.

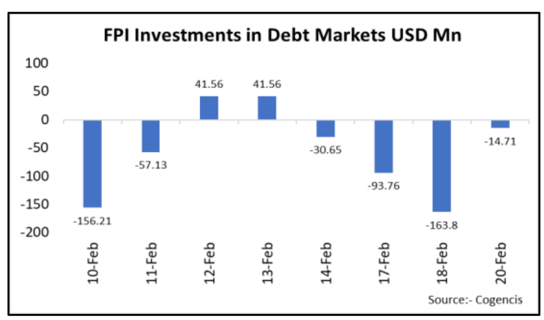












Category Average Returns as on 21 February 2025

Annualised Returns *	1 Day	1 Week	1 Month	2 Month	3 Months	6 Months	9 Months	1 Year	2 Year	3 Year
Overnight Funds	5.99	6.10	6.26	6.38	6.43	6.42	6.48	6.56	6.61	6.08
Liquid Funds	7.14	6.63	7.00	7.02	6.92	6.98	7.04	7.22	7.13	6.48
Floater Funds	3.37	5.36	6.83	6.87	6.68	7.16	7.91	8.03	7.81	6.70
Low Duration Funds	7.51	6.76	6.94	6.80	6.57	6.96	7.12	7.33	7.17	6.24
Money Market Funds	7.19	6.68	7.08	6.94	6.81	7.01	7.11	7.34	7.26	6.48
Ultra Short Duration Funds	6.88	6.49	6.81	6.67	6.55	6.76	6.84	7.05	6.92	6.15
Banking And PSU Funds	2.30	4.91	6.57	6.74	6.56	7.02	7.54	7.49	7.37	6.06
Corporate Bond Funds	4.29	5.62	6.92	6.84	6.74	7.23	7.80	7.74	7.51	6.07
Medium Duration Funds	6.58	5.67	8.84	8.06	7.82	7.73	8.30	7.95	7.72	6.44
Short Duration Funds	6.63	5.53	7.01	6.98	6.85	7.19	7.65	7.52	7.30	6.32
Medium To Long Duration Funds	-13.30	1.50	4.74	5.86	6.42	5.93	7.58	7.14	7.49	5.96
Long Duration Funds	-60.03	-9.56	0.39	3.50	5.08	4.51	7.90	7.38	8.62	6.56
Dynamic Bond Funds	-24.77	-1.29	3.56	5.25	6.08	5.67	7.60	7.17	7.63	6.18
Credit Risk Funds	16.15	10.60	10.57	8.83	8.10	7.99	8.30	8.15	8.20	9.16
Gilt Funds / Gilt Funds with 10 year constant duration	-34.94	-3.58	2.89	5.19	6.33	5.51	7.75	7.28	7.98	6.21
Conservative Hybrid Funds	-54.67	0.67	-5.00	-5.28	-0.23	0.30	5.97	7.02	9.87	8.03
Index Funds	-1.16	6.47	7.21	7.26	7.38	7.18	8.16	7.96	7.94	5.83
Arbitrage Funds	15.55	6.97	7.11	6.65	6.37	6.71	6.98	7.04	7.17	6.22

* Return figures for all schemes are Annualised for < 1 year and Compounded Annualised for >= 1 year

Recommended Funds' Average Returns (% Annualised Returns)	1 Months	3 Months	6 Months	1 Year	2 Year	3 Year
Medium to Long Duration Funds & Long Duration Funds	5.55	7.05	6.87	7.94	8.18	6.23
Dynamic Bond Fund	2.35	5.34	5.04	7.26	8.16	6.33
Gilt Funds & Gilt Funds with 10 year constant duration	0.65	5.20	4.52	7.20	8.42	6.54
Short Duration / Medium Duration	7.33	7.30	7.40	7.83	7.65	6.27
Banking and PSU Funds	6.27	6.39	7.04	7.64	7.55	6.22
Corporate Bond Funds	7.32	7.01	7.57	8.12	7.95	6.60
Ultra Short Duration Funds /Low Duration / Floater Funds	7.25	6.86	7.22	7.57	7.44	6.57
Money Market Funds	7.32	7.05	7.26	7.66	7.60	6.81
Liquid Funds & Overnight Funds	7.09	6.99	7.06	7.32	7.23	6.57
Arbitrage Funds	7.24	6.68	7.03	7.35	7.49	6.59

Please Note that all the Dividend options factor in the taxation applicable for corporates
Return figures for all schemes are Annualised for < 1 year and Compounded Annualised for >= 1 year
Returns shown in the chart above are for growth options.
Source for entire data stated above is Accord Fintech Pvt Ltd

(Please refer to the disclaimer on the next page)

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