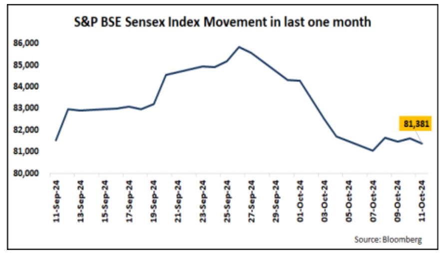
HDFC Bank Research

Weekly Equity Market Updates for week ended October 11, 2024

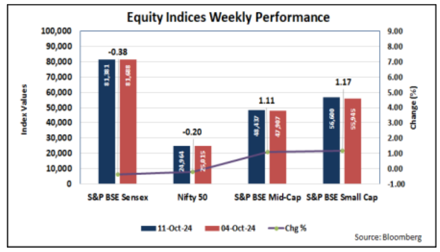
Domestic Equity Market Update

- Indian equities ended the week on a negative note, with the large cap-oriented BSE Sensex and Nifty 50 ending lower by 0.38% & 0.20% WoW respectively. The BSE Midcap index ended higher by 1.11% and the BSE Small cap index ended higher by 1.17%.
- On the BSE sectoral front, the top gainer was Health Care. In contrast Oil & Gas, FMCG and Metal underperformed the most.
- Domestic equity markets ended on a negative note during the week as China's aggressive fiscal measures raised concerns about foreign portfolio investments. Further fall was witnessed after the central bank revised its inflation projection higher for Q3 FY25, while maintaining the key rates in its policy meeting as well as due to disappointing quarterly earnings from a major tech firm.



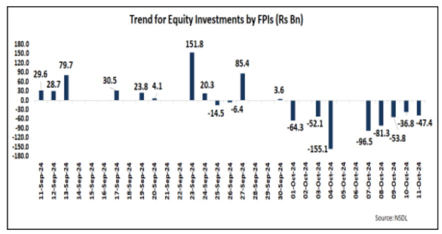
Global Market Updates

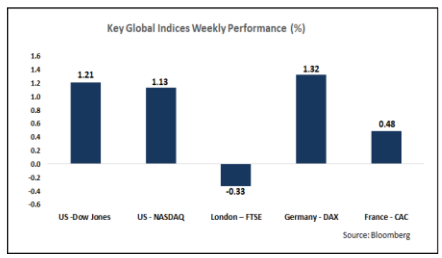
- US equity markets ended on a positive note during the week as a favorable response was observed regarding a Labor Department report indicated that producer prices in the US remained unexpectedly stable in Sep'24. The information bolstered confidence that the US Fed will persist in reducing interest rates in the upcoming months.
- European equity markets closed on a mixed note after data showed higher inflation in the US and as investors wait for France to unveil its 2025 budget.
- Brent crude price climbed from USD 77.52 per barrel to USD 77.66 on rising demand in the US and China amid fear of Hurricane Milton.



Key Macro Data & Domestic News Released During the Week

- The World Bank retained India's GDP growth forecast for FY25 at 7% YoY, citing higher agricultural production and robust employment growth from policy initiatives, spurring private consumption as tailwinds. India will be the second fastest growing South Asian nation after Bhutan in FY25 and the fastest growing economy in FY26 with 6.7% YoY growth.
- As per S&P Global, the HSBC services Purchasing Managers' Index fell to 57.7 in September 2024 from 60.9 in August 2024. The flash reading was 58.9. India service sector expanded at a solid pace in September 2024 but growth in total new business, exports and overall output grew at the slowest rates since late-2023.
- According to FADA, weak consumer sentiments and heavy rainfall led to a 9.26% YoY drop in retail sales of passenger vehicles, two-wheelers, and commercial vehicles in September 2024. This decline marks the first drop across all segments in FY25. Despite steep discounts, passenger vehicle sales fell nearly 19% YoY.
- Mutual funds managed a record Rs 66.2 trillion in assets during the Q2 FY25, rising a 12.3% QoQ, the highest quarterly jump in MF assets in at least five years. During Q1 FY25, the average AUM stood at Rs 59 trillion.
- According to NSDL, FPIs' assets under custody in India reached USD1.1 trillion in September 2024, with USD 930 bn invested in equities and the remainder allocated to debt and hybrid instruments. This figure represents a three-fold surge from a low of USD 329 bn in March 2020.
- As per AMFI data, equity mutual funds attracted Rs 344.19 bn in September 2024, marking a 10% MoM decline due to a sharp slump in inflow in thematic funds and large-cap funds. Equity-oriented schemes witnessed the lowest level of inflows since April 2024, when investments were Rs 189.17 bn.

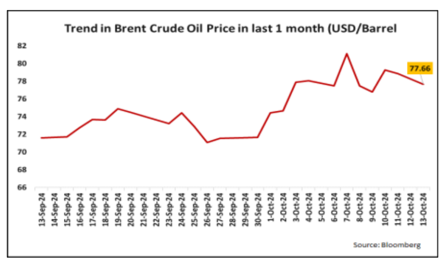




Outlook

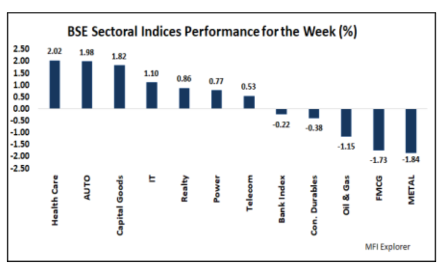
Going forward, Indian equity market is likely to be driven by incoming macro data points, FPI/DII flows, and direction in which globally interest rate moves. Rising unemployment, consolidation in manufacturing PMI and deceleration in consumer sentiments suggest weakening growth impulses in the US. With this backdrop, the Fed is expected to further cut rate by another 50 bps by end of CY24.

While, India continues to remain the fastest growing major economy, earnings momentum in the economy seems to be decelerating. In India, the macro-economic conditions continue to remains strong, with the high frequency data like the PMI, Tax collection and forex reserves remaining strong. However, the emerging issue in India seems to be the weakening urban demand. With many state governments continuing to support consumption though various supportive measures, resumption of the central government spending and ordering activity, hopes of consumption and investment recovery is rising. The performance of the companies in the ongoing festive season is likely to drive their stock price movement in the third quarter.



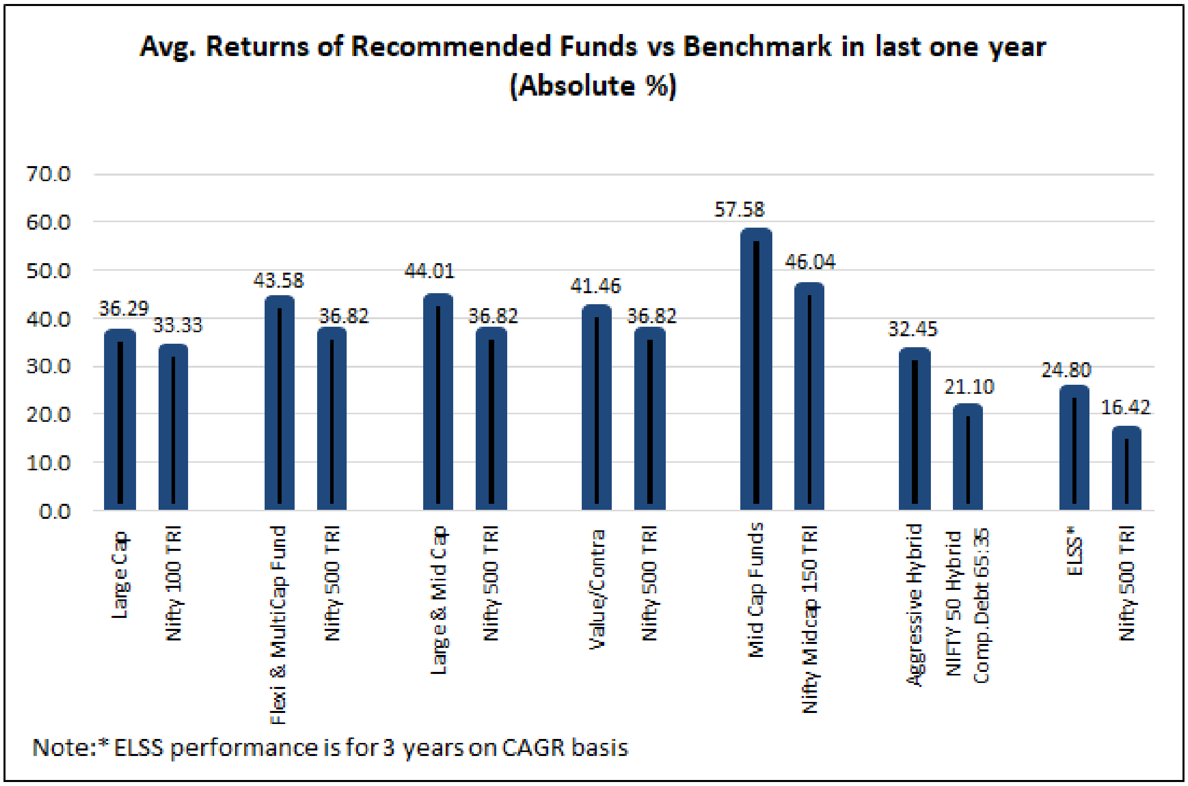
While the equity market valuations have moved up substantially in the last two years across many sectors and marketcap segments (especially midcap and Smallcap), future earnings in key marketcap segments are witnessing downgrades, which is not good news. Many fund managers have raised cash in their funds 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.



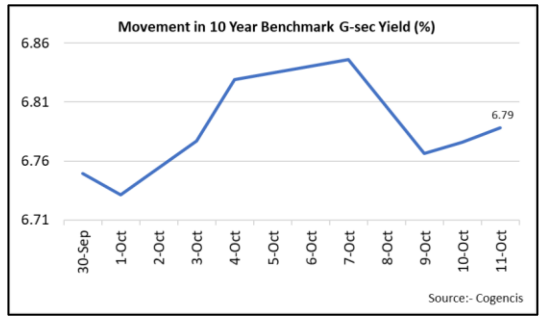
Returns Absolute %			Returns Compounded Annualised %			
Category Average of Recommended Funds	**1 Month**	**6 Months**	**1 Year**	**2 Years**	**3 Years**	**5 Years**
Large Cap Funds	0.43	11.86	36.29	29.33	18.22	20.78
Flexi & MultiCap Fund	0.53	16.43	43.58	34.96	23.54	25.50
Large & Mid Cap Funds	-0.13	16.33	44.01	34.52	21.89	25.59
Mid Cap Funds	2.09	25.16	57.58	42.67	30.95	32.36
Small Cap Funds	0.82	22.80	45.03	39.65	26.56	33.91
Value/Contra Funds	0.09	14.15	41.46	35.18	23.28	28.37
Focused Funds	0.11	15.18	42.42	32.19	21.18	24.41
Aggressive Hybrid Funds	0.72	13.69	32.45	26.08	17.22	19.88
Dynamic Asset Allocation Funds	0.35	8.83	25.62	21.74	15.13	17.86
Equity Linked Saving Schemes	1.82	20.09	53.95	40.19	24.80	25.38
Infrastructure Oriented Funds	1.70	17.49	52.45	41.64	27.44	31.23
Nifty 50 Index TRI	**0.18**	**10.64**	**27.43**	**22.55**	**12.96**	**18.51**
Nifty 500 TRI	**0.35**	**13.61**	**36.82**	**27.76**	**16.42**	**22.08**
Nifty Infrastructure TRI	**0.21**	**8.39**	**46.79**	**37.50**	**22.47**	**25.14**

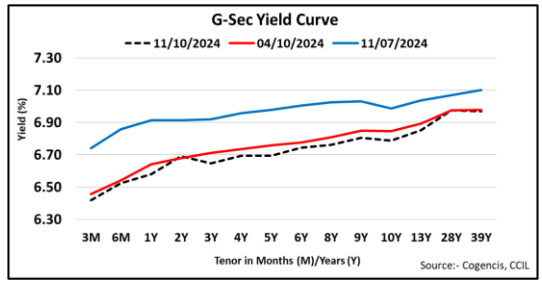
Note: Data as on October 11, 2024. Returns less than 1 year are in absolute % terms, whereas returns above 1 year are in CAGR terms. Data has been sourced from ICRA Analytics Ltd. (For Disclaimer of ICRA Analytics Ltd, refer to https://icraanalytics.com/home/disclaimer)

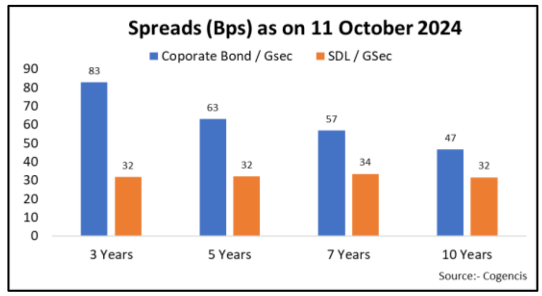
Overview - Fixed Income Markets & Mutual Funds as on 11 October 2024

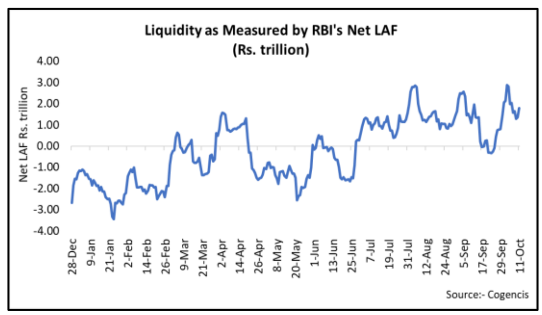
- Domestic G-Sec prices closed the week ended 11th October 2024 on a positive note wherein the yield on the 10-year benchmark, the 7.10% G-Sec 2034 bond, closed lower by 4 bps at 6.79% as against 6.83% on 04th October 2024.
- In case of AAA rated corporate bonds, yields in the less than one-year segment fell up to 23 bps on a WoW basis. In case of greater than one-year segment, yields fell up to 2 bps on a WoW basis.
- **Movement in G-sec yields: -**
  - Indian G-sec yields fell following the RBI's decision to shift its stance from 'withdrawal of accommodation' to 'neutral' in its monetary policy committee meeting concluded on October 9, 2024. The fall in yields was further extended following the announcement of inclusion of India's sovereign bonds in the FTSE Russell Emerging Market Government Bond Index from September 2025 onwards by FTSE Russell.
  - The total G-sec supply for the week stood at Rs 477 bn (SDLs + G-secs). In this, the G-secs' auction was to the tune of Rs 290 bn and the maturities were in the range of 5-40 years. The SDLs' auction was to the tune of Rs 187 bn and the maturities were in the range of 5-25 years. For the 10-year SDL, the average cut off yield came in at 7.13%, as against 7.11% in the previous week. The G-secs' auction was for the following: 7.04% GS 2029 and 7.34% GS 2064.
  - Banking system liquidity fell during the week, wherein liquidity, as measured by the RBI's net Liquidity Adjustment Facility (LAF), stood at a daily average surplus of ~Rs 1.53 trillion during the week as against a daily average surplus of ~Rs 2.27 trillion during the previous week.
- **Macro Data released during the week:-**
  - The RBI's MPC kept the benchmark repo rate unchanged at 6.5%, but shifted policy stance to 'neutral'. For FY25, the GDP growth estimate was retained at 7.2% YoY and CPI inflation forecast remained unchanged at 4.5% YoY.
  - As per FTSE Russell, India's sovereign bonds will be included in FTSE Russell's Emerging Markets Government Bond Index starting September 2025, following index inclusion by JP Morgan and Bloomberg Index Services, potentially drawing billions of dollars into local bonds.
  - The Union Government released tax devolution of Rs 1.78 trillion in October 2024 to State Governments, as against the normal monthly devolution of Rs 890.86 bn.
  - As per the RBI, India's foreign exchange reserves contracted by USD 3.7 bn to USD 701.18 bn as of October 4, 2024. Foreign currency assets (FCAs) dipped by USD 3.51 bn to USD 612.6 bn.
- **Other macro-economic news: -**
  - As per a Reuters poll, India's retail inflation in September 2024 is likely to overshoot RBI's 4% medium-term target for the first time since July 2024 due to a persistent rise in vegetable prices and a lower base.
  - As per Crisil, the cost of a home-cooked vegetarian thali surged 11% YoY in September 2024, driven by rising vegetable prices. However, at Rs 31.30, a vegetarian meal costs the same as in August 2024.
  - According to NSDL, FPIs' assets under custody in India reached USD 1.1 trillion in September 2024, with USD 930 bn invested in equities and the remainder allocated to debt and hybrid instruments.
  - As per ICRA, loan securitization in India surged to Rs 600 bn in the Q2 FY24. Private sector banks were key contributors. The market is likely to reach Rs 2.1 trillion in FY25 as compared to Rs 1.9 trillion in FY24.
- **Global Updates: -**
  - As per the minutes of the US Fed's September FOMC meeting, a "substantial majority" of Fed policymakers supported an interest rate cut in September 2024. FOMC members observed that it would be appropriate to move toward a more neutral stance of policy if the economic data is in line with expectations.
  - According to the US Labor Department, Consumer Price Index (CPI) in the US rose by 0.2% MoM in September 2024. Economists had expected consumer prices to inch up by 0.1% MoM.
  - As per the US Labor Department, non-farm payroll employment in US jumped by 254,000 jobs in September 2024 after climbing by an upwardly revised 159,000 jobs in August 2024.
  - The WTO revised downwards its projection of world merchandise trade growth to 3% YoY in CY25, down from its earlier estimate of 3.3% YoY.
- **Outlook: -**

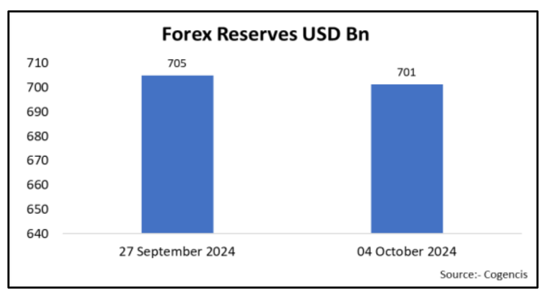
The liquidity conditions are likely to remain in surplus in the future as the RBI changed its stance. Going forward, the RBI is likely to remain nimble in liquidity management operations to ensure that overnight rates evolve in an orderly manner. The CPI inflation for September 2024 is likely to move above the RBI's target of 4% YoY as the base effect wears off and food prices gain momentum. Additionally, the escalating geopolitical tension in the Middle East may disrupt global crude oil supply chain, leading to higher inflation. However, the inflation is projected to sequentially moderate in the medium term due to good kharif harvest, ample buffer stocks of cereals, and a likely good crop in the ensuing rabi season. The RBI's MPC kept the policy rates unchanged and unanimously decided to change the stance to 'neutral'. Even though a rate cut in December policy meeting cannot be ruled out, the RBI's decision will be influenced by the GDP growth data for Q2 FY25 along with the inflation trajectory. The RBI may also take cues from the monetary policies of developed countries. In the US, the markets will be keenly looking forward to the upcoming Fed's meeting as the recently reported strong labour market data and higher than expected inflation print might affect the quantum of rate cut. In China, the measures taken to stimulate growth may have implications on commodity prices if demand picks up. Domestically, with expected policy rate cut in India and developed countries, favourable demand-supply dynamics of Indian G-Secs, and strong FPI flows into the bond market, tactical opportunities for duration strategy may emerge, with yields at the longer end gradually trending lower. Additionally, as liquidity conditions ease further due to the change in stance, the shorter end may fall more than the longer end, likely leading to a steepening of the yield curve. **With this backdrop, the inverted corporate bond yield curve may normalize, making the case for corporate bonds at the 1-4-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.**

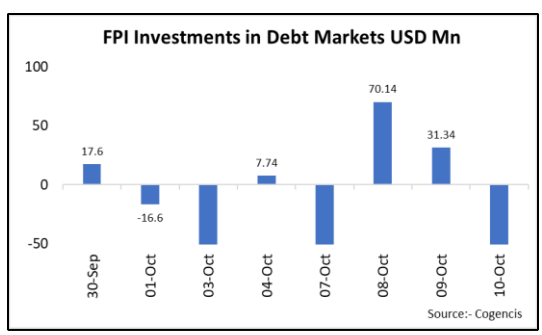












Category Average Returns as on 11 October 2024

Annualised Returns *	1 Day	1 Week	1 Month	2 Month	3 Months	6 Months	9 Months	1 Year	2 Year	3 Year
Overnight Funds	6.09	6.09	6.31	6.30	6.30	6.42	6.53	6.65	6.54	5.69
Liquid Funds	7.06	6.95	7.28	7.01	6.96	6.99	7.23	7.27	7.03	6.04
Floater Funds	19.69	14.40	9.93	8.97	9.28	8.70	8.62	8.42	7.79	6.16
Low Duration Funds	17.12	10.36	8.72	7.69	7.58	7.32	7.52	7.39	7.10	5.82
Money Market Funds	9.14	7.81	7.96	7.28	7.15	7.06	7.42	7.35	7.17	6.04
Ultra Short Duration Funds	10.28	7.90	7.74	7.06	6.91	6.84	7.13	7.05	6.83	5.73
Banking And PSU Funds	10.73	14.16	10.52	9.06	9.37	8.32	8.41	8.16	7.41	5.70
Corporate Bond Funds	9.75	14.31	10.89	9.39	9.74	8.64	8.56	8.33	7.56	5.70
Medium Duration Funds	-1.75	13.38	9.58	9.06	9.66	8.70	8.50	8.54	7.60	5.99
Short Duration Funds	11.26	12.94	9.56	8.56	9.05	8.18	8.01	8.03	7.39	5.86
Medium To Long Duration Funds	-12.95	16.26	9.16	9.62	10.45	9.61	9.30	9.39	7.82	5.55
Long Duration Funds	-29.68	15.13	10.63	12.54	12.26	12.31	13.00	12.73	9.54	6.51
Dynamic Bond Funds	-18.19	16.51	9.63	10.44	11.01	10.09	9.89	9.75	8.00	5.93
Credit Risk Funds	3.11	10.27	7.50	8.12	8.57	8.07	8.04	8.71	7.92	8.85
Gilt Funds / Gilt Funds with 10 year constant duration	-22.99	18.25	9.41	10.72	11.40	10.67	10.34	10.44	8.45	5.84
Conservative Hybrid Funds	-2.86	10.77	8.03	11.26	10.32	13.10	12.95	14.05	11.58	8.35
Index Funds	0.05	12.33	9.80	8.93	9.74	9.16	8.93	9.09	8.11	5.41
Arbitrage Funds	17.69	8.26	5.46	6.33	6.54	6.77	7.22	7.27	6.99	5.85

* 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	9.97	10.95	9.93	9.99	8.25	5.78
Dynamic Bond Fund	10.17	12.01	11.04	10.63	8.60	6.14
Gilt Funds & Gilt Funds with 10 year constant duration	9.23	11.79	11.71	11.61	9.08	6.43
Short Duration / Medium Duration	10.09	9.39	8.54	8.42	7.56	5.79
Banking and PSU Funds	11.42	9.96	8.78	8.58	7.61	5.90
Corporate Bond Funds	11.54	10.29	9.13	8.83	8.00	6.23
Ultra Short Duration Funds /Low Duration / Floater Funds	8.45	7.59	7.40	7.53	7.27	6.14
Money Market Funds	8.24	7.41	7.36	7.69	7.54	6.39
Liquid Funds & Overnight Funds	7.39	7.04	7.06	7.36	7.11	6.10
Arbitrage Funds	5.72	6.83	7.08	7.60	7.35	6.23

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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