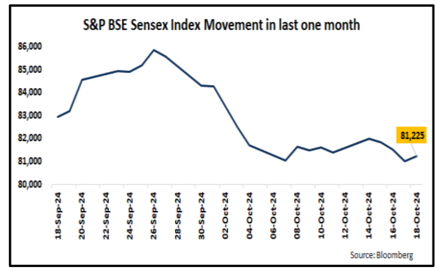
HDFC Bank Research

Weekly Equity Market Updates for week ended October 18, 2024

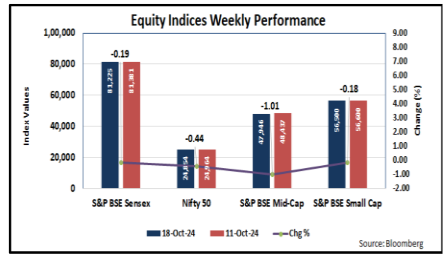
Domestic Equity Market Update

- Indian equities ended the week on a negative note, with the large cap-oriented BSE Sensex and Nifty 50 ending lower by 0.19% & 0.44% WoW respectively. The BSE Midcap index ended lower by 1.01% and the BSE Small cap index ended lower by 0.18%.
- On the BSE sectoral front, the top gainer was Bank Index. In contrast Auto, Oil & Gas and FMCG underperformed the most.
- Domestic equity markets ended on a negative note after government data showed that India's CPI inflation rose to a nine-month high of 5.49% in September 2024 on the back of rising food prices, which dampened hopes of a rate cut by the RBI. Foreign capital outflow remained another key factor weighing on market sentiment.



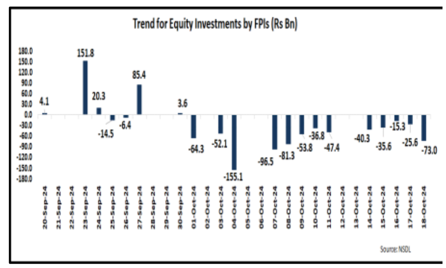
Global Market Updates

- US equity markets ended on a positive note during the week amid ongoing optimism about the outlook for the U.S. economy following a largely upbeat batch of data released recently including a report from the Commerce Department revealing that U.S. retail sales rose by a margin slightly exceeding expectations for the month of September 2024.
- European equity markets rose as investors were expressing enthusiasm over the European Central Bank's announcement regarding a reduction in interest rates.
- Brent crude price fell from USD 77.46 per barrel to USD 73.18 due to concerns about the outlook for demand from China after data revealed that in the third quarter of 2024, China's economy experienced its slowest growth rate since the beginning of 2023.



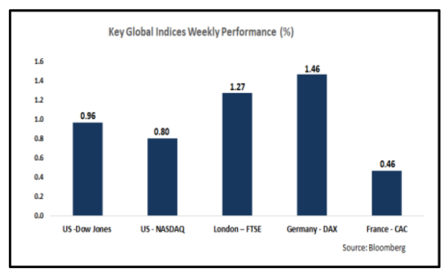
Key Macro Data & Domestic News Released During the Week

- As per MOSPI data, India's Industrial Production (IIP) contracted by 0.1% YoY in August 2024, against a 4.7% YoY growth in July 2024.
- According to CRISIL, the cement industry is expected to record slower growth of 7-8% YoY to 475 mn tonnes in FY25, impacted by lower growth in H1 FY25 after registering a double-digit growth from the last two financial years.
- According to ICRA, Indian room air-conditioner industry is expected to see 20-25% YoY growth in sales volumes to reach record highs of 12-12.5 mn units in FY25. The sales volumes are expected to grow by 10-12% in FY26.
- The Union Cabinet raised the MSP for key rabi crops for FY26 marketing season starting from April 2025 by 2.4-7% YoY. The estimated cost to the exchequer of this hike is about Rs 876.5 bn.
- As per RBI data, bank deposit growth slowed down to 11.79% YoY as of October 4, 2024, from 13.6% over the same period in CY23. Credit growth also slowed, with 12.77% YoY growth, down from 19.3% YoY a year ago.
- **From Nifty 200 universe, 30 companies have announced their Q2FY25 earnings thus far. At an aggregate level, Sales, EBITDA and PAT have grown by 6.00%, 4.61% and 6.56% YoY, respectively. Excluding Financials, Sales, EBITDA and PAT have grown by 3.85%, 3.42% and 3.74% YoY respectively.**



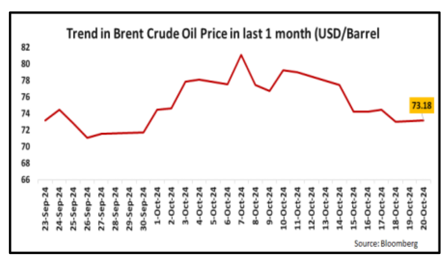
Outlook

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. US markets are at a near all-time high and whether stocks can sustain those gains may depend on whether companies can beat expectations this earnings season, which is set to ramp up in the coming week.



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.

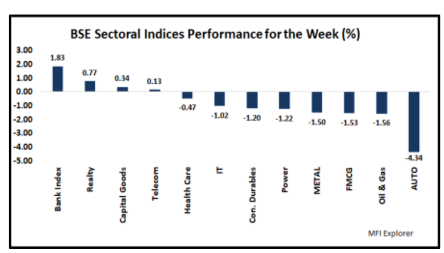
While the equity market valuations have moved up substantially in the last two years across many sectors and marketcap segments (especially midcap and Smallcap), future earnings in key marketcap segments are witnessing downgrades, which is not good news. Many fund managers have raised cash in their funds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

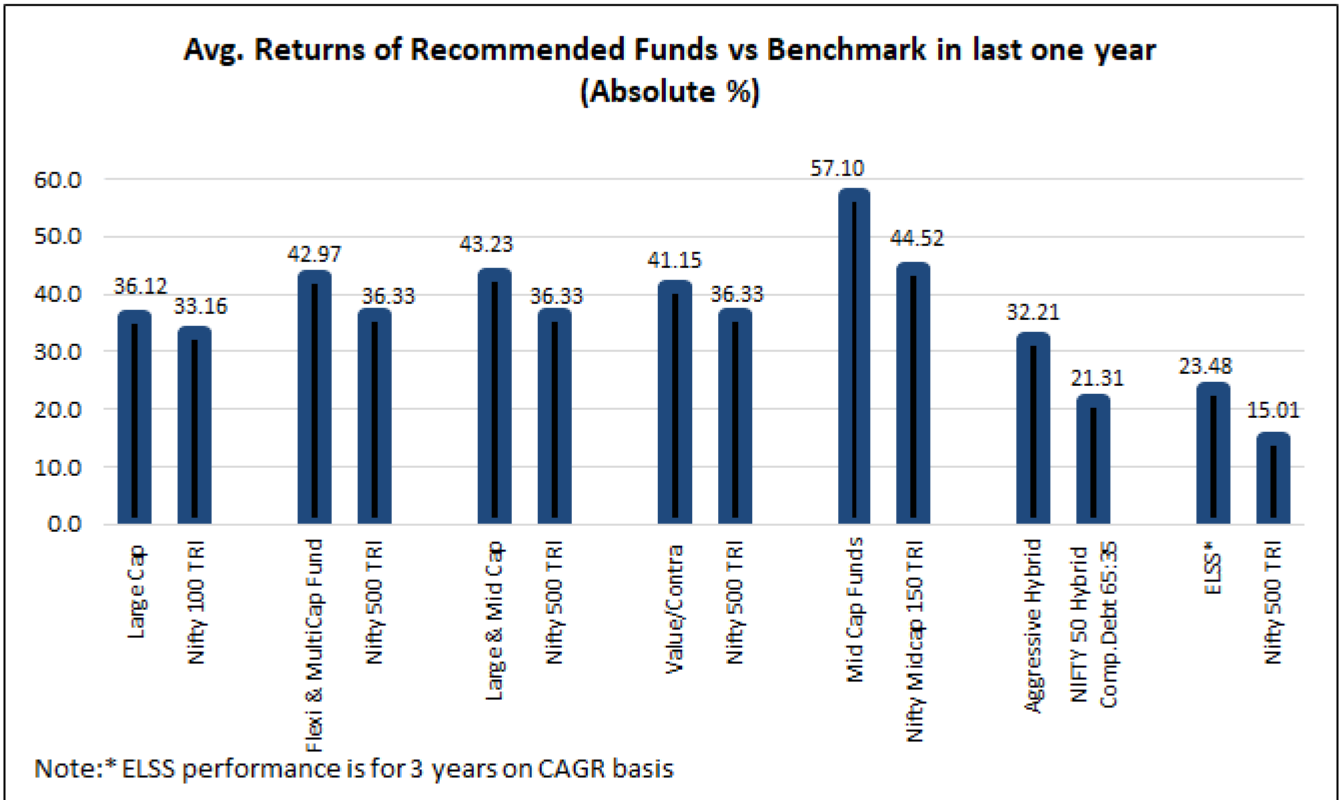


In such conditions, the tolerance for any bad news in form of Geo political flareups, US election outcome, Domestic election uncertainty (with 2 key states going for polls), large supply of equities and earnings downgrades, could be low, and seems to be emerging as a key risk for the investors. Thus, 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.





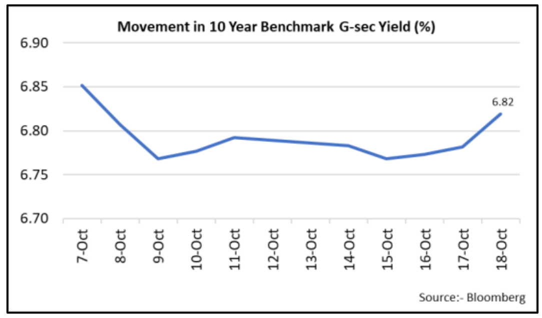
Returns Absolute %			Returns Compounded Annualised %			
Category Average of Recommended Funds	**1 Month**	**6 Months**	**1 Year**	**2 Years**	**3 Years**	**5 Years**
Large Cap Funds	-1.58	14.74	36.12	27.37	17.06	19.95
Flexi & MultiCap Fund	-1.10	19.32	42.97	33.29	22.53	24.76
Large & Mid Cap Funds	-1.75	18.32	43.23	32.77	20.49	24.71
Mid Cap Funds	0.77	26.17	57.10	41.08	29.31	31.46
Small Cap Funds	-0.02	23.76	43.72	39.17	25.85	33.37
Value/Contra Funds	-1.23	16.84	41.15	33.63	22.04	27.60
Focused Funds	-1.93	17.87	42.13	30.23	20.05	23.65
Aggressive Hybrid Funds	-0.62	15.80	32.21	24.91	16.19	19.30
Dynamic Asset Allocation Funds	-0.40	10.24	25.48	20.78	14.54	17.31
Equity Linked Saving Schemes	-0.75	22.09	53.38	38.30	23.48	24.43
Infrastructure Oriented Funds	-0.42	18.71	52.03	40.10	26.43	30.26
Nifty 50 Index TRI	**-2.05**	**13.95**	**27.79**	**20.51**	**11.70**	**17.66**
Nifty 500 TRI	**-1.90**	**16.07**	**36.33**	**25.88**	**15.01**	**21.06**
Nifty Infrastructure TRI	**-1.68**	**10.82**	**47.36**	**36.34**	**21.38**	**24.23**

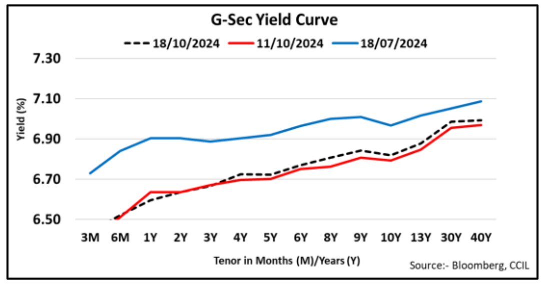
Note: Data as on October 18, 2024. Returns less than 1 year are in absolute % terms, whereas returns above 1 year are in CAGR terms.
Data has been sourced from ICRA Analytics Ltd. (For Disclaimer of ICRA Analytics Ltd, refer to https://icraanalytics.com/home/disclaimer)

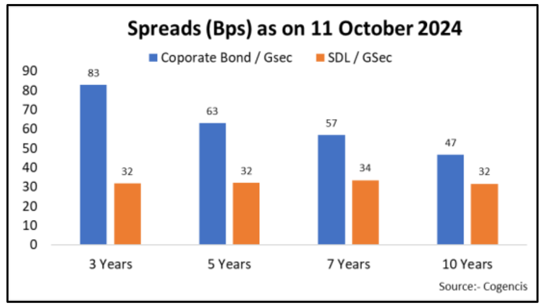
Overview - Fixed Income Markets & Mutual Funds as on 18 October 2024

- Domestic G-Sec prices closed the week ended 18th October 2024 on a negative note wherein the yield on the 10-year benchmark, the 7.10% G-Sec 2034 bond, closed higher by 3 bps at 6.82% as against 6.79% on 11th October 2024.
- In case of AAA rated corporate bonds, yields in the less than one-year segment were mixed in the range of (-)11 bps to 9 bps on a WoW basis. In case of greater than one-year segment, yields fell up to 7 bps on a WoW basis.
- **Movement in G-sec yields: -**
  - Indian G-sec yields increased tracking a rise in US Treasury yields after US retail sales rose sequentially in Sep 2024, dampening expectations of an aggressive interest rate cut by the US Federal Reserve. Comments by the RBI governor that a rate cut at this point would be "very premature" further weighed on sentiment.
  - The total G-sec supply for the week stood at Rs 460.5 bn (SDLs + G-secs). In this, the G-secs' auction was to the tune of Rs 330 bn and the maturities were in the range of 7-30 years. The SDLs' auction was to the tune of Rs 130.5 bn and the maturities were in the range of 3-21 years. For the 10-year SDL, the average cut off yield came in at 7.08%, as against 7.13% in the previous week. The G-secs' auction was for the following: 7.02% GS 2031, 7.23% GS 2039, and 7.09% GS 2054.
  - 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 surplus of ~Rs 1.77 trillion during the week as against a daily average surplus of ~Rs 1.53 trillion during the previous week.
- **Macro Data released during the week:-**
  - As per NSO data, India's CPI climbed to a nine-month high of 5.49% YoY in September 2024 from 3.65% YoY in August 2024.
  - Net Direct Tax collections touched Rs 11.25 trillion, rising 18.35% YoY. The collection included corporate tax of Rs 4.94 trillion and personal income tax of Rs 5.98 trillion. Refunds came in at Rs 2.31 trillion.
  - India's merchandise trade deficit narrowed to a five-month low of USD 20.78 bn in September 2024, against USD 29.65 bn in August 2024. On an annual basis, imports grew 1.62% YoY to USD 55.36 bn and exports rose by 0.5% YoY to USD 34.58 bn.
  - As per the RBI, India's foreign exchange reserves dropped by USD 10.7 bn to USD 690 bn as of October 11, 2024. Foreign currency assets (FCAs) dipped by USD 10.5 bn to USD 602 bn.
- **Other macro-economic news: -**
  - As per RBI, total FDI in India surged by 23.3% YoY at market value in rupee terms during FY24. On the other hand, Overseas Direct Investment (ODI) growth was much lower at 3.4% YoY.
  - India's WPI inflation saw a slight increase in September 2024 to 1.84% YoY from 1.31% YoY in August 2024, driven by food prices inflation which increased by 11.53% YoY in September as compared to 3.11% YoY in August 2024.
  - SEBI has introduced a liquidity window facility for investors in the debt securities through a stock exchange mechanism, available from November 1, 2024. The facility allows investors holding listed debt securities to sell them back to the issuer using a put option on specific dates in order to improve liquidity.
- **Global Updates: -**
  - According to the US Labor Department, the US Producer Price Index (PPI) for final demand came in flat in September 2024 after rising by 0.2% MoM in August 2024. Economists had expected it to inch up by 0.1% MoM. Annualy, PPI growth slowed to 1.8% YoY in September 2024 from 1.9% YoY in August 2024.
  - Initial jobless claims for unemployment benefits in the US fell to 241,000 in the week ended October 12, 2024, a decrease of 19,000 from the revised level of 260,000 for the week ended October 05, 2024.
  - The European Central Bank cut key interest rates (deposit facility rate) by 25 bps to 3.25%, as policymakers assessed that the disinflation process is on track.
  - UK CPI weakened to 1.7% YoY in September 2024 from 2.2% YoY in August 2024 against forecasts of a 1.9% YoY rise. Core inflation softened to 3.2% YoY in September 2024 from 3.6% YoY in August 2024.
- **Outlook: -**

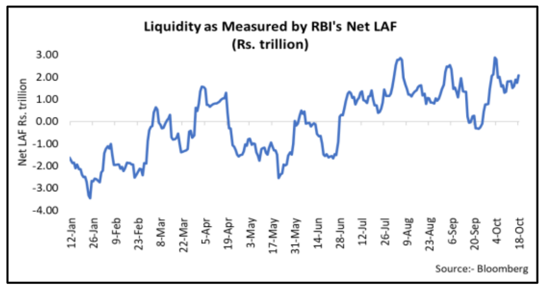
The liquidity conditions are likely to remain in surplus in the future as the RBI changed its stance. Going forward, the RBI is likely to remain nimble in liquidity management operations to ensure that overnight rates evolve in an orderly manner. The CPI inflation for September 2024 jumped to a 9-month high of 5.49% YoY, higher than market expectations of 5.1% YoY. With base effect wearing off, and food prices remaining elevated, the CPI inflation is likely to remain above the RBI's target of 4% YoY in the near term. Additionally, the escalating geopolitical tension in the Middle East may disrupt global crude oil supply chain, leading to higher inflation. Going forward, the RBI's decision will be influenced by the GDP growth data for Q2 FY25 along with the inflation trajectory as it tries to balance growth-inflation dynamics. The RBI's monetary policy may also be guided by the monetary policies of developed countries such as US and EU. In the US, market will be looking forward to the commentary by Fed members for cues regarding Fed rate cuts. Similarly, in the EU, comments from ECB President Lagarde will be closely watched. In China, the central bank cut its benchmark loan prime rate as part of its stimulus efforts to boost the economy. With this backdrop, if demand in China picks up, it can adversely affect commodity prices. 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 as longer end yields gradually trend 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.**

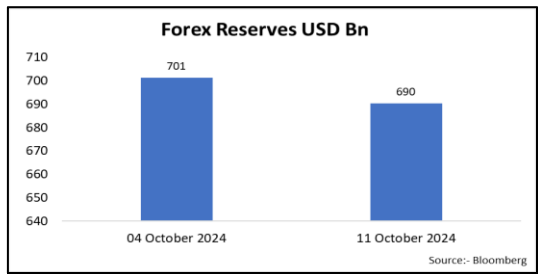


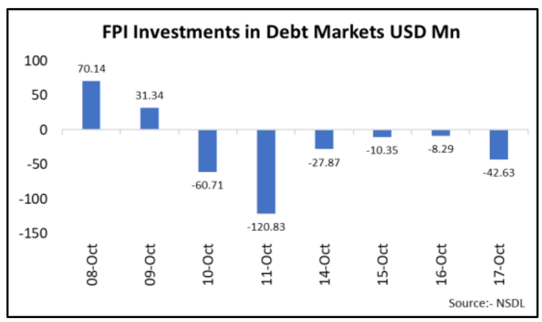




Note: Data as on 18 October not available







Category Average Returns as on 18 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	6.10	6.11	6.25	6.28	6.30	6.41	6.52	6.64	6.53	5.71
Liquid Funds	6.44	6.37	7.16	6.97	6.92	6.97	7.23	7.26	7.04	6.06
Floater Funds	-6.86	5.06	8.69	8.65	8.99	8.80	8.59	8.35	7.75	6.17
Low Duration Funds	3.62	5.68	8.35	7.64	7.45	7.31	7.50	7.37	7.10	5.83
Money Market Funds	6.81	6.18	7.73	7.29	7.10	7.05	7.42	7.35	7.18	6.06
Ultra Short Duration Funds	5.27	5.92	7.48	7.04	6.85	6.81	7.12	7.05	6.83	5.75
Banking And PSU Funds	-9.27	3.93	8.70	8.87	8.80	8.59	8.25	8.12	7.33	5.71
Corporate Bond Funds	-14.12	3.82	8.77	9.10	9.21	8.89	8.44	8.27	7.49	5.70
Medium Duration Funds	-18.32	9.24	8.41	9.21	9.57	9.25	8.57	8.66	7.54	6.02
Short Duration Funds	-10.74	3.97	7.86	8.28	8.56	8.41	7.94	7.99	7.33	5.86
Medium To Long Duration Funds	-39.26	-0.74	4.94	8.45	9.54	10.14	9.17	9.43	7.65	5.54
Long Duration Funds	-77.08	-4.73	4.78	10.26	11.01	13.03	12.63	12.68	9.37	6.56
Dynamic Bond Funds	-49.80	-1.61	5.06	8.94	9.91	10.63	9.68	9.71	7.84	5.90
Credit Risk Funds	-3.50	15.68	8.72	8.84	9.08	8.66	8.28	8.90	7.96	8.89
Gilt Funds / Gilt Funds with 10 year constant duration	-59.73	-2.89	3.89	8.94	10.22	11.24	10.16	10.44	8.27	5.84
Conservative Hybrid Funds	-8.65	-1.03	1.04	9.11	8.66	14.46	12.95	14.03	11.18	8.11
Index Funds	-12.96	4.92	7.79	8.62	9.36	9.47	8.83	9.15	7.94	5.43
Arbitrage Funds	-19.06	1.51	4.89	5.73	6.13	6.55	7.15	7.18	7.00	5.84

* 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	5.51	10.06	10.49	10.03	8.09	5.79
Dynamic Bond Fund	5.17	10.86	11.75	10.53	8.44	6.13
Gilt Funds & Gilt Funds with 10 year constant duration	3.37	10.44	12.61	11.57	8.88	6.39
Short Duration / Medium Duration	8.23	8.90	8.77	8.38	7.49	5.79
Banking and PSU Funds	9.08	9.33	9.08	8.52	7.54	5.88
Corporate Bond Funds	9.39	9.80	9.42	8.78	7.92	6.23
Ultra Short Duration Funds /Low Duration / Floater Funds	8.11	7.49	7.39	7.52	7.28	6.13
Money Market Funds	7.99	7.35	7.34	7.69	7.55	6.41
Liquid Funds & Overnight Funds	7.26	6.99	7.04	7.35	7.12	6.12
Arbitrage Funds	5.25	6.35	6.84	7.51	7.36	6.22

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)

HDFC Bank House, 1 st Floor, C.S. No. 6 \ 242, Senapati Bapat Marg, Lower Parel, Mumbai 400 013. Phone: (91)-22-66527100, ext 7111, Fax: (91)-22-24900983 \ 24900858

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