HDFC Bank Research

Weekly Equity Market Updates for week ended October 25, 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 2.24% & 2.71% WoW respectively. The BSE Midcap index ended lower by 5.20% and the BSE Small cap index ended lower by 7.37%.
- On the BSE sectoral front, most of the sectors ended on a negative note. Capital Goods, Oil & Gas and Realty underperformed the most.
- Domestic equity markets ended the week on a negative note due to a sell-off across the sectors as sentiment was dented following muted earnings reported by major domestic companies for the second quarter so far. Losses were extended due to persistent selling by foreign portfolio investors in domestic markets and subsequent transfer of funds to China. Additionally, a cautious undertone prevailed due to anxiety over the impending U.S. election and heightened tensions in the Middle East.

Global Market Updates

- US equity markets ended on a mixed note during the week. The market rose driven by persistent optimism regarding the economic outlook. Adding to the economic optimism, the University of Michigan released revised data showing consumer sentiment unexpectedly improved in the month of October 2024, which also helped to boost market sentiment. Uncertainty surrounding the results of the upcoming U.S. presidential election restricted further upside.
- European equity markets fell on concerns regarding ongoing tensions in the Middle East, coupled with uncertainty surrounding the results of the upcoming US presidential election, had a slight negative impact on stock performance.
- Brent crude price rose from USD 73.18 per barrel to USD 76.05 rose on concerns regarding potential interruptions in crude oil supplies, coupled with optimism surrounding an increase in demand from China following the central bank's decision to lower its benchmark lending rates. Furthermore, prices rose amid worries about geopolitical tensions in Middle East.

Key Macro Data & Domestic News Released During the Week

- The International Monetary Fund (IMF) kept its growth forecasts for India unchanged at 7% YoY and 6.5% YoY for FY25 and FY26, respectively. The global growth is expected to remain stable yet underwhelming at 3.2% YoY in CY24 and CY25.
- According to RBI data, India's total exports of software services, including services delivered by foreign affiliates of Indian companies, increased to USD 205.2 bn during FY24 from USD 200.6 bn in FY23.
- According to ICRA, Indian apparel exporters are expected to register a 9-11% YoY revenue expansion in FY25 aided primarily by gradual liquidation of retail inventory in key end markets and a shift in global sourcing to India.
- According to CRISIL, the revenue of domestic auto component manufacturers is projected to increase 8-10% YoY in FY25, driven by demand from OEMs and the replacement market.
- According to Colliers India, the average office rentals nationwide increased from Rs 99.5 per square foot in CY19 to Rs 101.3 per sq ft in CY24.
- According to data from S&P Global, HSBC's flash India Composite Purchasing Managers' Index (PMI) rose to 58.6 in October 2024 from September 2024's final reading of 58.3.
- According to ICRA, NBFCs will see asset growth in microfinance lending to moderate to 10-12% YoY in FY25 from 30% YoY growth in FY24, and growth in other unsecured loans will slow significantly to 19-21% YoY in FY25.
- **From Nifty 200 universe, 96 companies have announced their Q2FY25 earnings thus far. At an aggregate level, Sales, EBITDA and PAT have grown by 7.45%, -7.22% and -1.74% YoY, respectively. Excluding Financials, Sales, EBITDA and PAT have grown by 4.26%, -10.76% and -10.99% YoY respectively.**

Outlook

Going forward, Indian equity market is likely to be driven by incoming macro data points, earnings commentary, FPI/DII flows, and direction in which globally interest rate moves. In US, the Fed is still widely expected to lower rates by a quarter point next month, however concerns remain surrounding the pace of rate cuts.

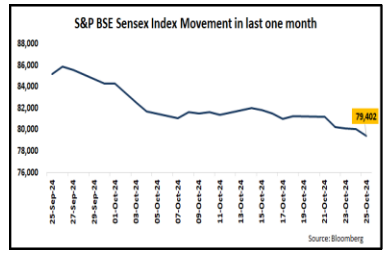
While, India continues to remain the fastest growing major economy, earnings momentum in the economy seems to be decelerating. In India, the macro-economic conditions continue to remains strong, with the high frequency data like the PMI, Tax collection and forex reserves remaining strong. However, the emerging issue in India seems to be the weakening urban demand. The performance of the companies in the ongoing festive season is likely to drive their stock price movement in the third quarter. The earnings season has begun on a weak note with companies delivering numbers below expectations and this has led to volatility in the markets.

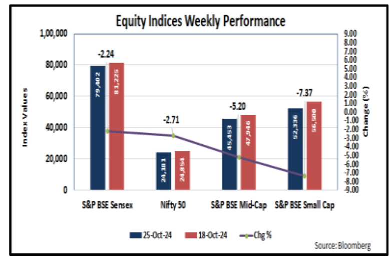
While the equity market valuations have moved up substantially in the last two years across many sectors and marketcap segments (especially midcap and Smallcap), future earnings in key marketcap segments are witnessing downgrades, which is not good news. FPI selling has also led to pressure on Indian equities leading to volatility and remains a key monitorable. While the inflow into the equity markets have been substantial from the domestic investors, the supply of fresh equity in the form of FPO, IPO and dilution by the promoters have also been substantial.

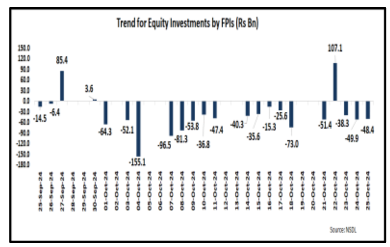
In such conditions, the tolerance for any bad news in form of Geo political flareups, US election outcome, Domestic election uncertainty (with 2 key states going for polls), large supply of equities and earnings downgrades, has been low and has led to signs of correction in the Indian equity markets. Thus, at this juncture, we would recommend that investors to focus more on hybrid equity funds or use further dips to add into their pure equity holdings, as the valuations still remain high.

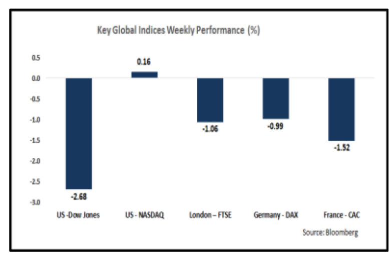
In the long term, improving domestic macro conditions, favourable demographics, rising per capital income and Strong consumption demand could keep driving the Indian corporate earnings higher and support the equity markets, thus making Indian markets a good “buy on dips” play currently.

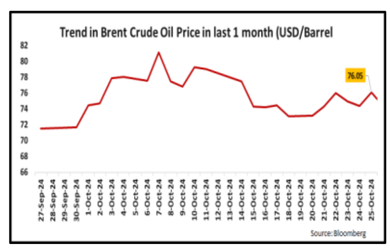
Fresh Investment deployment strategy could be 40% lumpsum and rest 60% to be staggered over the next 5-6 months. Mutual Fund investors can look to focus on categories like Largecap, Focussed, Equity Hybrid and Multi-asset funds. Aggressive investors may also look at Business Cycle Funds for allocation. All allocations should be done in line with the risk profile and product suitability of the investor.

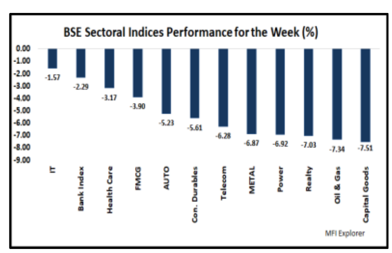


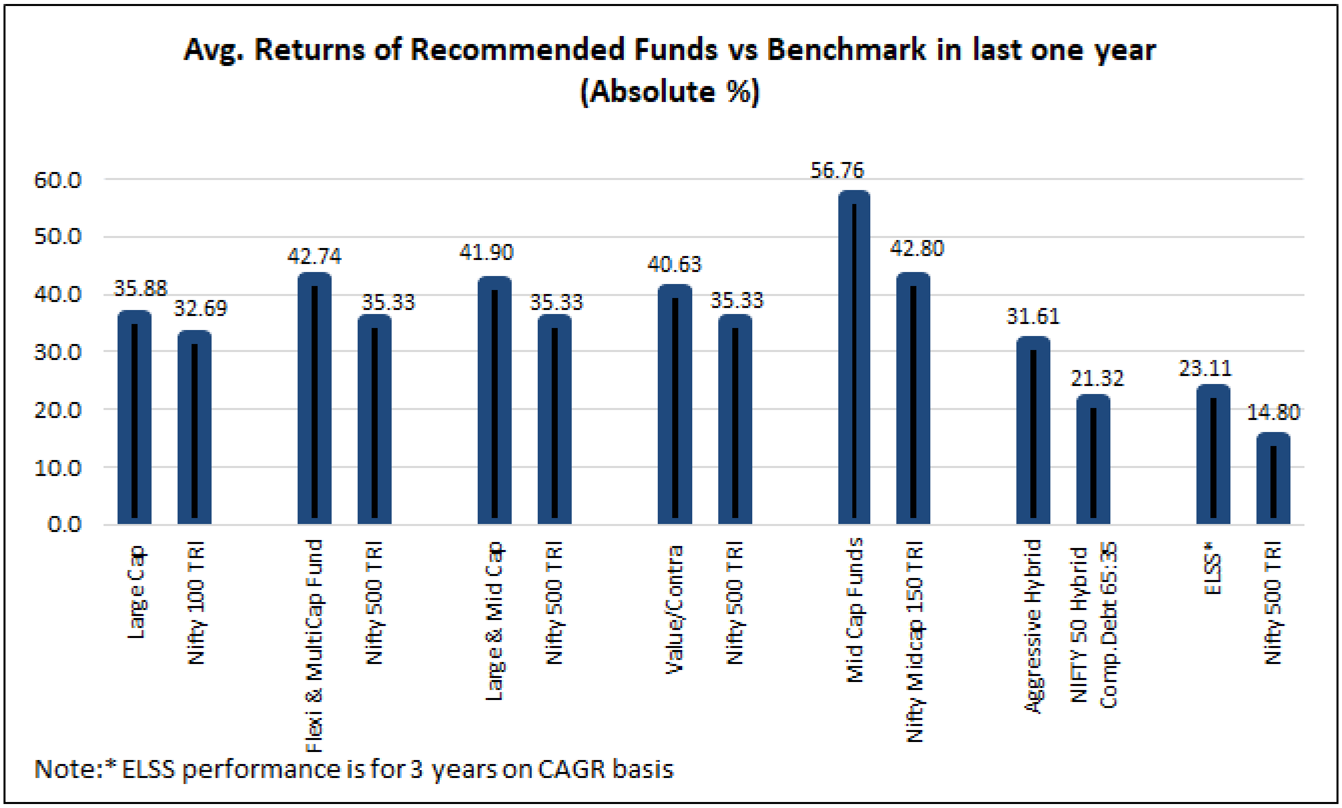












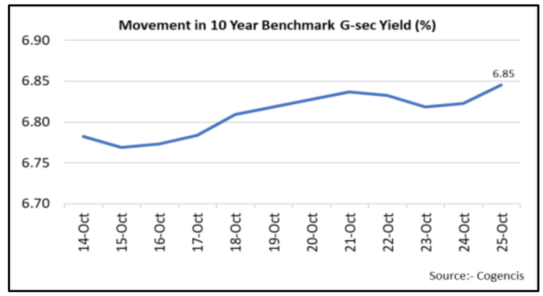
Returns Absolute %			Returns Compounded Annualised %			
Category Average of Recommended Funds	**1 Month**	**6 Months**	**1 Year**	**2 Years**	**3 Years**	**5 Years**
Large Cap Funds	-6.87	8.19	35.88	24.52	16.40	19.32
Flexi & MultiCap Fund	-6.47	11.32	42.74	29.90	21.86	24.12
Large & Mid Cap Funds	-7.33	10.17	41.90	29.18	20.09	23.68
Mid Cap Funds	-4.59	20.00	56.76	38.68	30.37	30.45
Small Cap Funds	-6.58	12.46	41.81	34.71	26.04	31.78
Value/Contra Funds	-6.31	9.66	40.63	29.99	21.71	26.82
Focused Funds	-6.82	10.89	41.88	27.15	19.10	23.29
Aggressive Hybrid Funds	-4.94	10.36	31.61	22.45	15.77	18.73
Dynamic Asset Allocation Funds	-3.02	6.69	25.63	19.26	14.37	16.82
Equity Linked Saving Schemes	-5.82	13.71	52.93	34.71	23.11	23.51
Infrastructure Oriented Funds	-6.97	9.06	50.67	35.53	25.67	28.50
Nifty 50 Index TRI	**-6.99**	**8.06**	**27.78**	**18.30**	**11.39**	**17.15**
Nifty 500 TRI	**-7.67**	**8.51**	**35.33**	**22.91**	**14.80**	**20.18**
Nifty Infrastructure TRI	**-9.47**	**2.40**	**44.89**	**32.10**	**20.80**	**23.29**

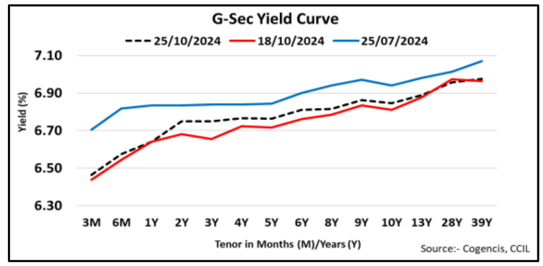
Note: Data as on October 25, 2024. Returns less than 1 year are in absolute % terms, whereas returns above 1 year are in CAGR terms.
Data has been sourced from ICRA Analytics Ltd. (For Disclaimer of ICRA Analytics Ltd, refer to https://icraanalytics.com/home/disclaimer)

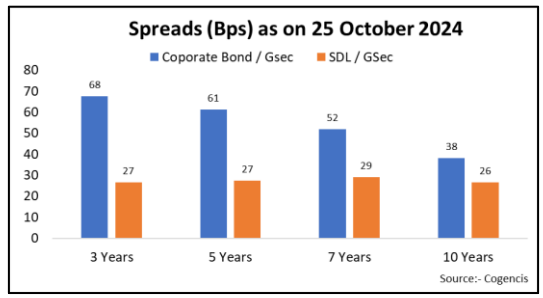
Overview - Fixed Income Markets & Mutual Funds as on 25 October 2024

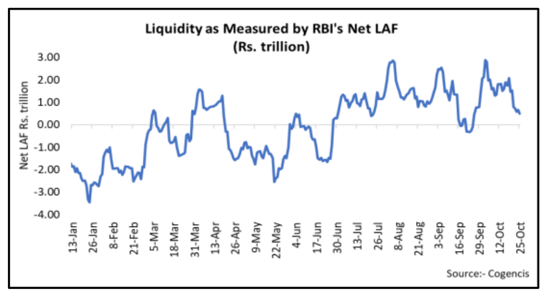
- Domestic G-Sec prices closed the week ended 25th October 2024 on a negative note wherein the yield on the 10-year benchmark, the 7.10% G-Sec 2034 bond, closed higher by 3 bps at 6.85% as against 6.82% on 18th October 2024.
- In case of AAA rated corporate bonds, yields in the less than one-year segment were mixed in the range of (-)6 bps to 10 bps on a WoW basis. In case of greater than one-year segment, yields rose up to 8 bps on a WoW basis.
- **Movement in G-sec yields :-**
  - Indian G-sec yields rose as the possibility of a rate cut in Dec 2024 reduced following the comments by the RBI governor that a rate cut at this point would be “very premature”. Yields rose further on the last trading session of the week as domestic debt auctions added to supply. However, losses were restricted following the media reports that the central government may reduce borrowing via debt sale.
  - The total G-sec supply for the week stood at Rs 401 bn (SDLs + G-secs). In this, the G-secs’ auction was to the tune of Rs 320 bn and the maturities were in the range of 10-50 years. For the 10-year G-sec, the average cut off yield came in at 6.79%, The SDLs’ auction was to the tune of Rs 81 bn and the maturities were in the range of 5-11 years. For the 10-year SDL, the average cut off yield came in at 7.12%, as against 7.08% in the previous week. The G-secs’ auction was for the following: 6.79% GS 2034, 7.46% GS 2073.
  - 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 654 bn during the week as against a daily average surplus of ~Rs 1.77 trillion during the previous week.
- **Macro Data released during the week :-**
  - As per RBI data, net FDI in India more than doubled during Apr-Aug 2024 to USD 6.62 bn from USD 3.26 bn during Apr-Aug 2023, showing signs of revival.
  - According to the RBI Governor, despite the near-term uptick in inflation, the outlook for headline inflation towards the later part of CY24 and early part of CY25 points to further alignment with the 4% target.
  - According to the labour ministry data, retail inflation for farm workers and rural laborers increased to 6.36% YoY and 6.39% YoY, respectively, in September 2024 from 5.96% YoY and 6.08% YoY in August 2024.
  - As per the RBI, India’s foreign exchange reserves dropped by USD 2.16 bn to USD 688.26 bn as of October 18, 2024. Foreign currency assets (FCAs) dipped by USD 3.75 bn to USD 598.26 bn.
- **Other macro-economic news :-**
  - According per the payroll data from EPFO, the number of new monthly subscribers under the Employees’ Provident Fund (EPF) decreased by nearly 11% MoM in August 2024 to 930,000. This is a four-month low from 1.05 mn in July 2024.
  - The International Monetary Fund (IMF) kept its growth forecasts for India unchanged at 7% YoY and 6.5% YoY for FY25 and FY26, respectively.
  - As per RBI data, outward remittances under RBI’s Liberalised Remittance Scheme (LRS) fell 4.97% YoY to USD 3.2 bn in August 2024 as compared to USD 3.37 bn in August 2023.
- **Global Updates :-**
  - According to the US Treasury Department, the US budget deficit grew to USD 1.83 trillion for the fiscal year ended September 30, 2024 (FY24), up by USD 138 bn or 8% YoY from USD 1.70 trillion recorded in FY23.
  - Initial jobless claims in the US fell to 227,000 in the week ended October 19, 2024, a decrease of 15,000 from the revised level of 242,000 in the week ended October 12, 2024.
  - China's central bank cut two key benchmark interest rates, the one-year Loan Prime Rate (LPR), from 3.35% to 3.10%, and the five-year LPR, the benchmark for mortgage loans, from 3.85% to 3.60%.
  - As per data from China’s National Bureau of Statistics, China's GDP expanded 4.6% YoY in Q3 CY24 vs 4.7% YoY growth posted in Q2 CY24. This was the weakest growth since Q1 CY23.
- **Outlook :-**

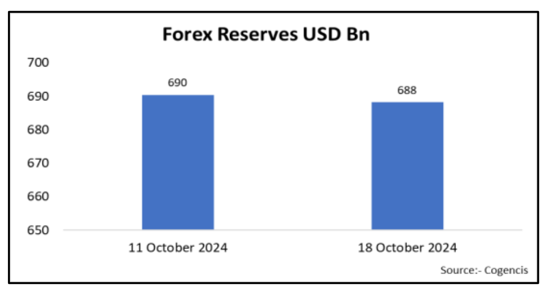
The liquidity conditions are likely to remain in surplus in the future as the RBI changed its stance. Going forward, the RBI is likely to remain nimble in liquidity management operations to ensure that overnight rates evolve in an orderly manner. The CPI inflation for September 2024 jumped to a 9-month 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 evolving geopolitical tensions in the Middle East may weigh on global crude oil prices. 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. 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, with the change in the RBI’s stance to neutral, liquidity conditions may ease further. Thus, the shorter end of the yield curve may fall more than the longer end, likely leading to a steepening of the curve. **With this backdrop, the 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.**

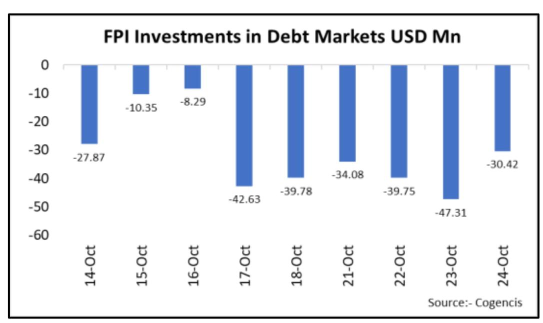












Category Average Returns as on 25 October 2024

Annualised Returns *	1 Day	1 Week	1 Month	2 Month	3 Months	6 Months	9 Months	1 Year	2 Year	3 Year
Overnight Funds	6.36	6.35	6.23	6.29	6.30	6.41	6.51	6.63	6.53	5.73
Liquid Funds	6.74	6.52	7.01	6.94	6.90	6.99	7.23	7.27	7.05	6.09
Floater Funds	-2.44	5.02	7.06	7.85	8.68	8.74	8.57	8.30	7.74	6.18
Low Duration Funds	9.42	6.23	7.98	7.47	7.37	7.35	7.52	7.38	7.11	5.86
Money Market Funds	6.79	6.26	7.56	7.12	7.03	7.10	7.43	7.35	7.20	6.09
Ultra Short Duration Funds	7.76	6.23	7.36	6.93	6.82	6.85	7.14	7.05	6.85	5.78
Banking And PSU Funds	5.63	4.15	6.32	8.20	8.41	8.60	8.22	8.09	7.32	5.71
Corporate Bond Funds	1.19	4.08	6.24	8.42	8.77	8.88	8.41	8.24	7.47	5.70
Medium Duration Funds	-9.84	1.95	5.69	8.48	8.88	9.18	8.47	8.58	7.51	6.01
Short Duration Funds	0.01	3.29	5.82	7.71	8.07	8.37	7.88	7.93	7.31	5.87
Medium To Long Duration Funds	-29.17	-1.18	-0.38	6.86	8.47	10.10	8.88	9.26	7.61	5.49
Long Duration Funds	-54.13	-1.36	-3.48	7.34	9.72	13.10	11.82	12.50	9.39	6.44
Dynamic Bond Funds	-35.71	-1.15	-1.30	7.28	8.83	10.56	9.35	9.57	7.80	5.85
Credit Risk Funds	4.47	4.71	7.41	8.73	8.71	8.59	8.30	8.20	7.96	8.92
Gilt Funds / Gilt Funds with 10 year constant duration	-51.59	-3.70	-3.22	6.70	8.91	11.09	9.66	10.17	8.20	5.75
Conservative Hybrid Funds	-88.69	-39.14	-15.27	2.17	5.85	11.48	11.67	13.85	10.56	8.02
Index Funds	-1.19	1.47	5.75	7.67	8.61	9.52	8.70	9.06	7.95	5.43
Arbitrage Funds	32.78	13.51	6.99	6.31	6.56	7.14	7.17	7.31	7.09	5.89

* 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	0.20	8.97	10.47	9.82	8.04	5.73
Dynamic Bond Fund	-2.90	9.61	11.63	10.36	8.40	6.06
Gilt Funds & Gilt Funds with 10 year constant duration	-5.86	8.90	12.35	11.26	8.79	6.32
Short Duration / Medium Duration	5.99	8.43	8.72	8.32	7.46	5.78
Banking and PSU Funds	5.62	8.96	9.14	8.49	7.51	5.87
Corporate Bond Funds	6.24	9.28	9.33	8.74	7.88	6.21
Ultra Short Duration Funds /Low Duration / Floater Funds	7.94	7.46	7.45	7.53	7.29	6.16
Money Market Funds	7.85	7.29	7.39	7.69	7.56	6.44
Liquid Funds & Overnight Funds	7.11	6.98	7.06	7.36	7.13	6.15
Arbitrage Funds	7.37	6.81	7.44	7.64	7.45	6.27

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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