HDFC Bank Research

Weekly Equity Market Updates for week ended October 04, 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 4.54% & 4.45% WoW respectively. The BSE Midcap index ended lower by 3.20% and the BSE Small cap index ended lower by 2.01%.
- On the BSE sectoral front, the top gainer was Metal. In contrast Realty, Auto and Telecom underperformed the most.
- Domestic equity markets ended on a negative note during the week amid geopolitical tensions and tightening of F&O rules by SEBI. Additional losses were seen on account of domestic economic indicators.

Global Market Updates

- US equity markets ended on a flattish note during the week due to escalating geopolitical tensions in the Middle East. Losses were cut short after Fed Reserve Chair Jerome Powell indicated no rush for more rate cuts.
- European equity markets declined due to worsening of geopolitical tensions in the Middle east.
- Brent crude price climbed from USD 71.54 per barrel to USD 77.52 amid supply concerns following escalating geopolitical tensions in the Middle East.

Key Macro Data & Domestic News Released During the Week

- According to the latest data from the Department of Commerce, in Q1 FY25, smartphone exports hit USD 2 bn, well ahead of non-industrial diamond (cut or otherwise but not mounted) exports, which stood at USD 1.44 bn.
- According to the NSDL data, FPIs made a net investment of Rs 573.59 bn in equities until September 27, 2024 with one trading session still left this month. This was the highest net inflow since December 2023, when FPIs had invested Rs 661.35 bn in equities.
- As per DPIIT data, India's core sector output growth declined to 1.8% YoY in August 2024 from 13.4% YoY in August 2023, with significant declines in natural gas and coal production.
- As per CMIE data, private sector companies announced the setting up of factories and other new projects worth Rs 4.1 trillion in Q2 FY25, a 42% YoY rise. Coupled with government announcements of roads, railways, and similar new projects worth Rs 1.4 trillion, the total value of project announcements for the Q2FY25 reached Rs 5.49 trillion.
- According to the Ministry of Road Transport and Highways, EV sales saw a robust growth of 19% in H1 FY25, rising to 836,621 units from 702,013 units in H1 FY24.
- According to latest balance of payments data, RBI recorded a 52% YoY jump in income from its overseas reserve deployments during Q1 FY25, largely driven by higher returns on US treasury bonds and interest on deposits parked with other central banks.
- According to PLFS, the share of workers in manufacturing remains below the pre-pandemic levels while there is an increase in the proportion of people in agriculture (46.1% vs. 42.5%). The share of workers in manufacturing is 11.4% while the pre-pandemic level was 12.1%.

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 by another 50 bps by end of CY24.

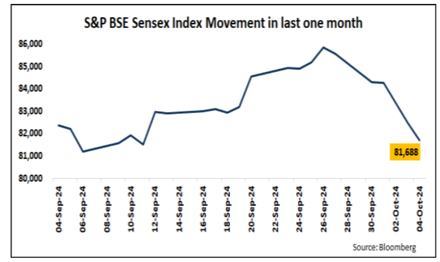
While, India continues to remain the fastest growing major economy, earnings momentum in the economy seems to be decelerating. In India, the macro-economic conditions continue to remains strong, with the high frequency data like the PMI, Tax collection and forex reserves remaining strong. However, the 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.

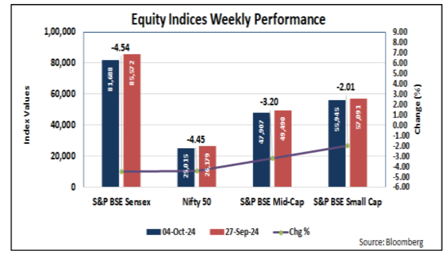
While the equity market valuations have moved up substantially in the last two years across many sectors and marketcap segments (especially midcap and Smallcap), future earnings in key marketcap segments are witnessing downgrades, which is not good news. Many fund managers have raised cash in their funds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

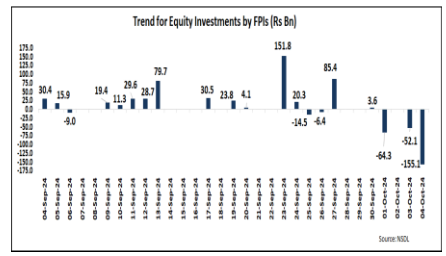
In such conditions, the tolerance for any bad news in form of Geo political flareups, US election outcome, Domestic election uncertainty (with 4 key states going for polls), large supply of equities and earnings downgrades, could be low, and seems to be emerging as a key risk for the investors. Thus, 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.

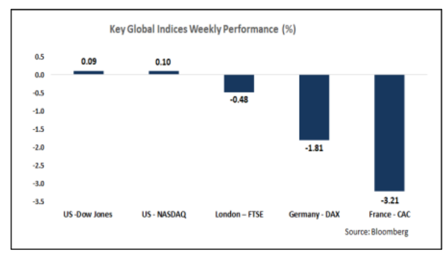
In the long term, improving domestic macro conditions, favourable demographics, rising per capital income and Strong consumption demand could keep driving the Indian corporate earnings higher and support the equity markets, thus making Indian markets a good "buy on dips" play currently.

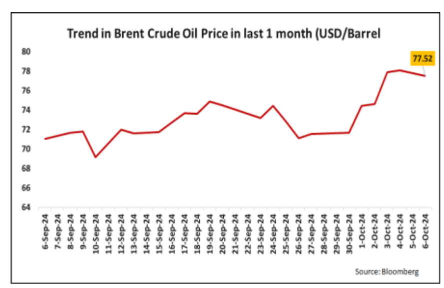
Fresh Investment deployment strategy could be 40% lumpsum and rest 60% to be staggered over the next 5-6 months. Mutual Fund investors can look to focus on categories like Largecap, Flexicap, Focussed, Equity Hybrid and Multi-asset funds. Aggressive investors may also look at Business Cycle Funds for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

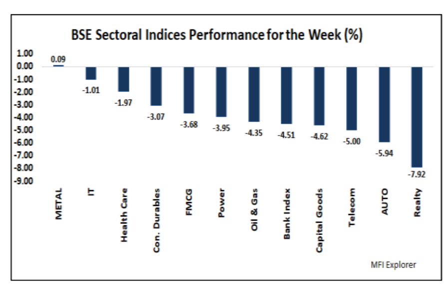


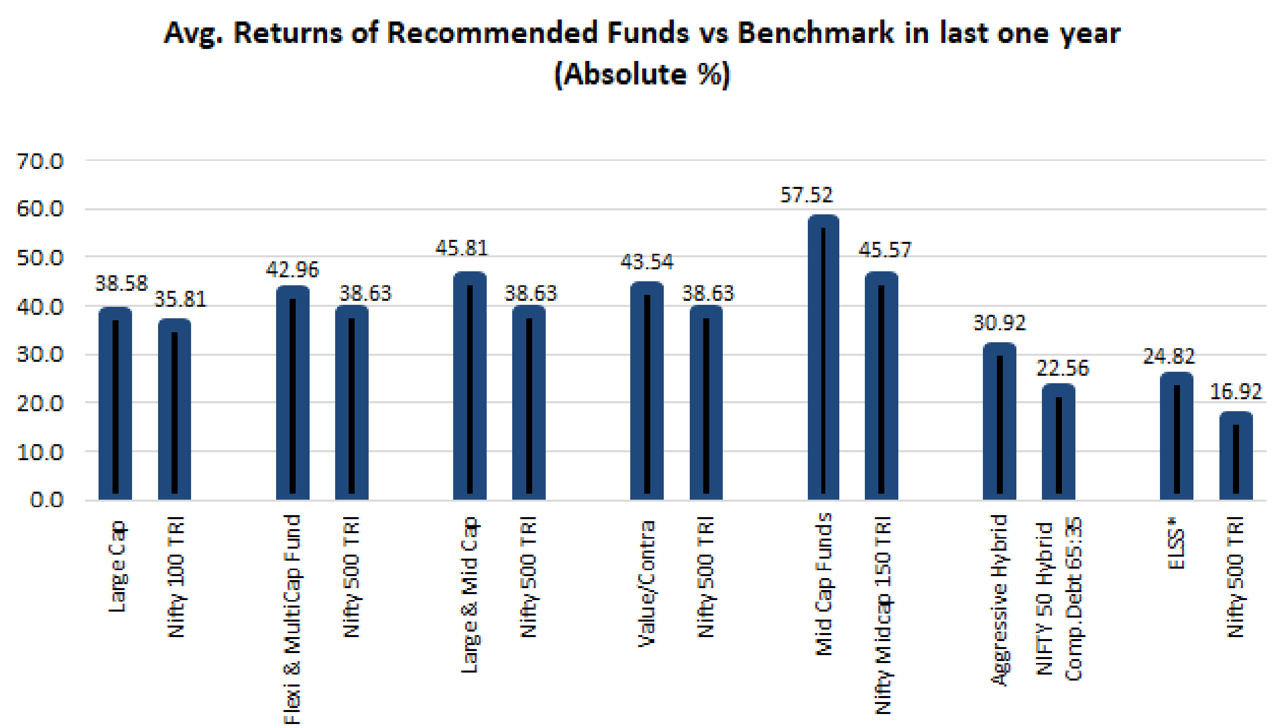












Note:* ELSS performance is for 3 years on CAGR basis

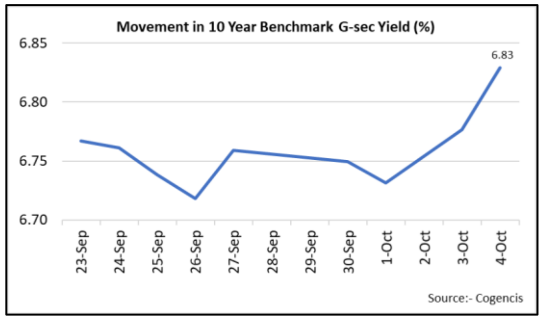
Returns Absolute %			Returns Compounded Annualised %			
Category Average of Recommended Funds	**1 Month**	**6 Months**	**1 Year**	**2 Years**	**3 Years**	**5 Years**
Large Cap Funds	-0.66	13.03	38.58	28.37	18.85	20.94
Flexi & MultiCap Fund	-0.72	16.96	42.96	32.31	22.71	25.90
Large & Mid Cap Funds	-0.98	17.90	45.81	33.43	22.62	25.68
Mid Cap Funds	0.95	23.81	57.52	40.72	31.26	31.96
Small Cap Funds	-0.11	23.49	45.29	37.89	27.41	34.40
Value/Contra Funds	-1.07	15.57	43.54	34.44	24.19	28.48
Focused Funds	-0.48	16.68	45.02	31.28	21.83	24.46
Aggressive Hybrid Funds	-0.25	12.63	30.92	24.16	16.93	19.25
Dynamic Asset Allocation Funds	-0.32	9.26	25.87	20.44	15.00	17.00
Equity Linked Saving Schemes	0.16	19.74	53.90	38.13	24.82	25.18
Infrastructure Oriented Funds	-0.46	19.83	60.13	48.40	32.68	31.41
Nifty 50 Index TRI	**-0.73**	**12.04**	**30.15**	**21.64**	**13.57**	**18.84**
Nifty 500 TRI	**-0.89**	**14.61**	**38.63**	**26.51**	**16.92**	**22.18**
Nifty Infrastructure TRI	**-2.32**	**9.54**	**49.35**	**36.09**	**23.04**	**25.47**

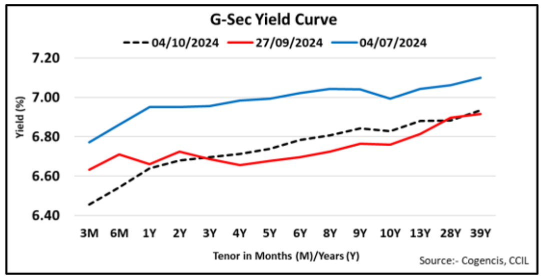
Note: Data as on October 04, 2024. Returns less than 1 year are in absolute % terms, whereas returns above 1 year are in CAGR terms.
Data has been sourced from ICRA Analytics Ltd. (For Disclaimer of ICRA Analytics Ltd, refer to https://icraanalytics.com/home/disclaimer)

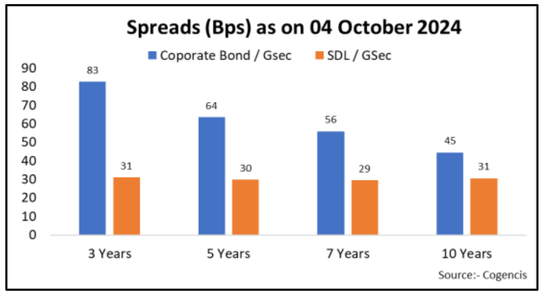
Overview - Fixed Income Markets & Mutual Funds as on 04 October 2024

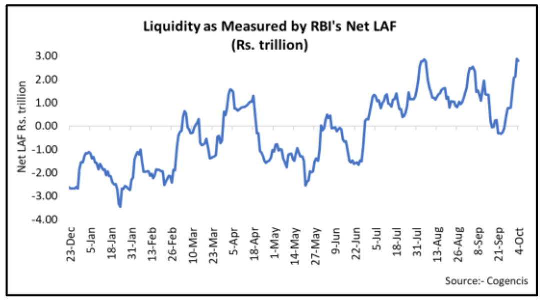
- Domestic G-Sec prices closed the week ended 04th October 2024 on a negative note wherein the yield on the 10-year benchmark, the 7.10% G-Sec 2034 bond, closed higher by 7 bps at 6.83% as against 6.76% on 27th September 2024.
- In case of AAA rated corporate bonds, yields in the less than one-year segment were mixed in the range of (-)5 bps to 18 bps on a WoW basis. In case of greater than one-year segment, yields were mixed in the range of (-)3 bps to 5 bps on a WoW basis.
- **Movement in G-sec yields: -**
  - Indian G-sec yields surged tracking the rise in US Treasury yields and crude oil prices over an escalating conflict in the Middle East following Iran's missile strikes on Israel. However, losses were limited on expectation of a policy easing in the upcoming RBI monetary policy, scheduled between Oct 7 to 9, 2024.
  - The total G-sec supply for the week stood at Rs 589.42 bn (SDLs + G-secs). In this, the G-secs' auction was to the tune of Rs 390 bn and the maturities were in the range of 3-50 years. For the new 10-year G-sec, the average cut off yield came in at 6.79%. The SDLs' auction was to the tune of Rs 199.42 bn and the maturities were in the range of 3-25 years. For the 10-year SDL, the average cut off yield came in at 7.11%, as against 7.10% in the previous week. The G-secs' auction was for the following: 7.02% GS 2027, New GS 2034, and 7.46% GS 2073.
  - 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 2.27 trillion during the week as against a daily average surplus of ~Rs 101 billion during the previous week.
- **Macro Data released during the week:-**
  - As per CGA data, India's Fiscal Deficit during Apr-Aug of FY25 stood at Rs. 4.35 trillion, or 27% of BE, narrowing from 36% reported in Apr-Aug of FY24. Total receipts stood at Rs.12.17 trillion, while overall expenditure stood at Rs.16.52 trillion. They were 38% and 34.3% of FY25 budgeted target.
  - As per RBI, India's CAD widened marginally to USD 9.7 bn (1.1% of GDP) in Q1 FY25 from USD 8.9 bn (1% of GDP) in Q1 FY24 and against a surplus of USD 4.6 bn (0.5% of GDP) in Q4FY24.
  - India's GST collections in September 2024 hit Rs 1.73 trillion, a growth of 6.5% YoY from the Rs 1.63 trillion in September 2023. The government's net GST mop-up in September 2024 rose 4% YoY to Rs 1.53 trillion.
  - As per the RBI, India's foreign exchange reserves increased by USD 12.5 bn to a fresh high of USD 704.89 bn as of September 27, 2024. Foreign currency assets (FCAs) rose by USD 10.4 bn to USD 616 bn.
- **Other macro-economic news: -**
  - As per the labour ministry, retail inflation for industrial workers, All-India CPI-IW, inched up marginally to 2.44% in August 2024 against 2.15% in July 2024. The All-India CPI-IW for August 2024 decreased by 0.1 points and stood at 142.6 points.
  - As per NSO data, employment generation in India's manufacturing sector saw 1.3 mn new jobs created in FY23, compared to 1.1 mn in FY22. The total number of people employed in the manufacturing sector rose by 7.4% YoY in FY23, at 18.5 mn, compared to a 7% increase in FY22.
  - As per IMD, Southwest monsoon rains in India hit a 4-year high in the 2024 season, experiencing about 108% of the long period average at 934.8 mm. A rainfall of 868.6 mm is the long period average in India.
- **Global Updates: -**
  - As per the US Commerce Department, the US core PCE price index accelerated to 2.7% YoY in August 2024 from 2.6% YoY in July 2024, in line with estimates.
  - According to US Fed Chair Jerome Powell, Fed will continue to lower interest rates but it is not on a "preset course."
  - As per the US Labor Department, first-time claims for US unemployment benefits rose to 225,000 in the week ended September 28th, 2024, an increase of 6,000 from the previous week's revised level of 219,000.
  - As per Eurostat, the Euro area unemployment rate was in line with expectations and remained stable in August 2024 at 6.4% the same as in July 2024. The unemployment rate in August 2023 was 6.6%.
  - The latest survey from Caixin revealed that China's manufacturing PMI scored 49.3 in September 2024. That's down from 50.4 in August 2024.
- **Outlook: -**

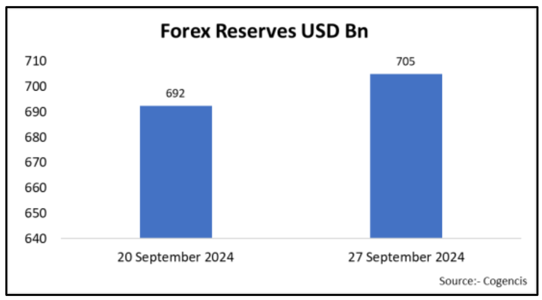
The RBI has allowed banking system liquidity to remain in surplus, which has relieved some pressure on yields. While inflation for August 2024 remained below the RBI's target of 4% YoY due to favourable base effect, uptick in inflation is expected by the market as the base effect wears off. The improvement in monsoon, and decline in crude oil prices and industrial commodity prices is likely to weigh down on inflation. However, the excess rainfall needs to be monitored as it can disrupt the food supply. Additionally, the escalating geopolitical tension in the Middle East may disrupt global crude oil supply chain, leading to higher inflation. 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 in the upcoming meeting. In the US, after the strong jobs report, the market will be looking forward to the upcoming inflation data due this week for further cues regarding the Fed's monetary policy. China announced various measures to increase liquidity in order to stimulate growth, which may have implications on commodity prices if demand picks up. 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.**

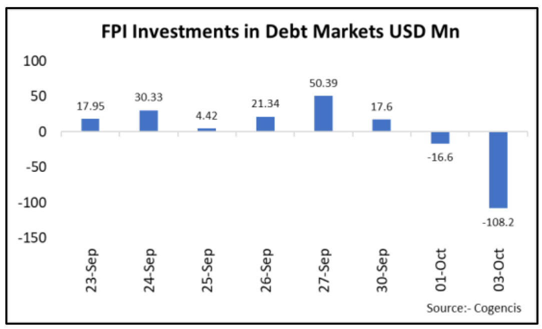












Category Average Returns as on 04 October 2024

Annualised Returns *	1 Day	1 Week	1 Month	2 Month	3 Months	6 Months	9 Months	1 Year	2 Year	3 Year
Overnight Funds	6.15	6.30	6.33	6.31	6.32	6.43	6.54	6.66	6.53	5.66
Liquid Funds	7.66	8.11	7.18	6.99	6.93	7.03	7.24	7.26	7.00	6.01
Floater Funds	-21.13	3.84	8.03	8.30	8.97	8.47	8.53	8.06	7.61	6.09
Low Duration Funds	7.47	9.39	7.87	7.22	7.35	7.22	7.43	7.24	6.98	5.77
Money Market Funds	9.18	9.74	7.68	7.14	7.07	7.09	7.40	7.31	7.11	6.01
Ultra Short Duration Funds	8.99	9.19	7.33	6.85	6.81	6.85	7.10	7.00	6.76	5.70
Banking And PSU Funds	-26.44	2.10	8.93	8.36	8.84	7.87	8.16	7.73	7.14	5.56
Corporate Bond Funds	-28.08	2.00	9.50	8.78	9.37	8.21	8.39	7.94	7.33	5.59
Medium Duration Funds	-48.37	-1.91	8.99	8.63	9.30	8.22	8.44	8.09	7.34	5.83
Short Duration Funds	-23.52	2.33	8.71	8.02	8.76	7.83	7.92	7.71	7.19	5.77
Medium To Long Duration Funds	-117.76	-13.17	8.51	9.17	9.90	8.91	9.46	8.73	7.52	5.37
Long Duration Funds	-175.66	-19.34	10.96	12.57	11.58	11.37	13.65	11.79	9.09	6.06
Dynamic Bond Funds	-138.75	-14.79	9.35	10.08	10.40	9.35	10.00	9.14	7.74	5.76
Credit Risk Funds	-17.03	-0.88	7.40	7.95	8.44	7.80	8.06	8.51	7.74	8.78
Gilt Funds / Gilt Funds with 10 year constant duration	-159.36	-19.38	8.99	10.23	10.66	9.84	10.57	9.71	8.14	5.63
Conservative Hybrid Funds	-114.63	-40.60	5.36	9.33	10.25	13.36	12.94	14.12	11.22	8.39
Index Funds	-27.17	2.21	9.21	8.85	9.62	8.83	8.96	8.65	7.71	5.26
Arbitrage Funds	60.70	11.19	5.58	5.58	6.27	6.79	7.34	7.22	6.99	5.82

* 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	9.51	10.47	9.31	9.34	7.95	5.55
Dynamic Bond Fund	10.47	11.36	10.38	10.18	8.54	6.18
Gilt Funds & Gilt Funds with 10 year constant duration	9.17	10.56	10.34	10.37	8.68	6.35
Short Duration / Medium Duration	8.89	9.01	8.02	8.07	7.47	5.93
Banking and PSU Funds	9.36	9.14	8.21	8.10	7.42	5.88
Corporate Bond Funds	9.57	9.47	8.55	8.26	7.71	6.10
Ultra Short Duration Funds /Low Duration / Floater Funds	7.89	7.42	7.30	7.39	7.16	6.06
Money Market Funds	8.00	7.34	7.40	7.65	7.48	6.36
Liquid Funds & Overnight Funds	7.28	7.01	7.11	7.34	7.08	6.08
Arbitrage Funds	5.86	6.54	7.11	7.56	7.35	6.19

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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