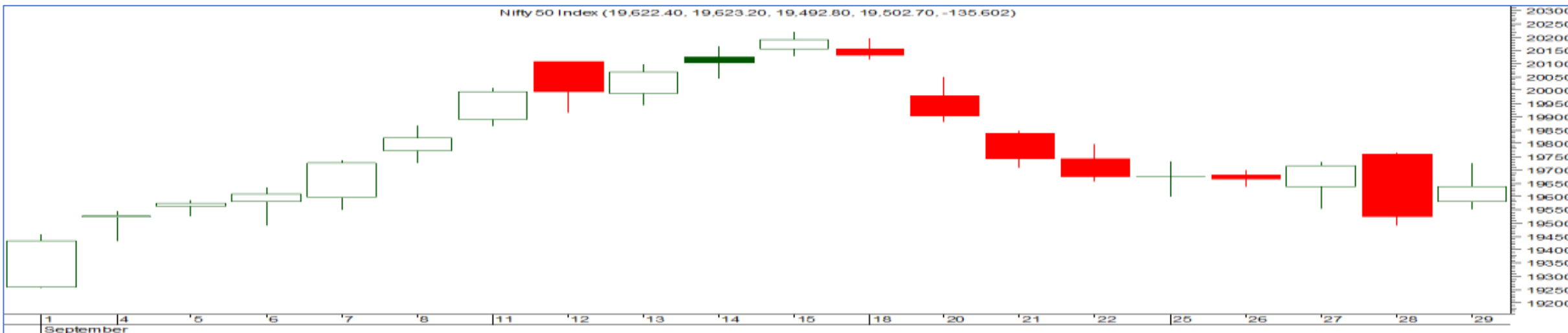


Monthly Strategy Report

October 04, 2023

Nifty Chart for September 2023



The Month Gone By

Indian stock market indices Sensex and the Nifty 50 ended with decent gains in September 2023, following positive global cues, as investors shifted focus to the Reserve Bank of India's (RBI) monetary policy meeting this week and the upcoming quarterly earnings. For the month of September, Nifty 50 ended the month with a gain of 2% while the Sensex rose 1.5% on strong macroeconomic indicators and resilience imparted by domestic investors. The BSE Smallcap index also rose about a percent, while the BSE Midcap index jumped 3.7% in September. Meanwhile, the foreign portfolio investors (FPIs) emerged as net sellers in September on D-Street amid record-high US bond yields and a strong US dollar. FPIs have sold Rs.14,768 crore worth of Indian equities in September 2023 as per SEBI Data. In September, the domestic market witnessed volatility as concerns over higher interest rates, foreign capital outflow and global economic slowdown weighed on sentiment. The benchmark Nifty 50 has retreated from its record-high level achieved earlier this month on unfavourable global triggers that manifested later in the month.

Key Positives during the Month

- Goods and Services Tax (GST) collections climbed 10.2% YoY and 2.3% MoM in September to Rs 1.63 lakh crore. This is the seventh month in a row that the monthly GST collection has come in above the Rs 1.5-lakh-crore mark.
- India's fuel consumption, a proxy for oil demand, rose by 6.5% year-on-year in August 2023 to about 18.57 million tons, data from Petroleum Planning and Analysis Cell (PPAC) showed. That compares with 18.11 million tons in July.

- India's unemployment rate dropped to a one-year low in September as joblessness in rural areas fell despite weak monsoon rains. The overall joblessness rate slid to 7.09% last month, from 8.10% in August
- Passenger vehicle wholesales in India rose 9 per cent year-on-year in August on the back of strong demand for utility models. Overall passenger vehicle dispatches to dealers rose to 3,59,228 units last month from 3,28,376 units in August 2022.
- India's headline retail inflation rate fell to 6.83 percent in August, as vegetable prices cooled somewhat compared to the previous month. Inflation print for August is 61 basis points lower than July's 15-month high of 7.44 percent.
- India's industrial output grew by five-month high of 5.7 percent in July, Industrial growth had come in at 3.7 percent in June - now revised to 3.8 percent - and was 2.2 percent in July 2022
- India's domestic air traffic in August rose 22.81 percent compared to the same month last year. Domestic airlines carried 1.24 crore passengers in August 2023.
- Indian Railways has achieved 634.66 MT from April 1, 2023, to August 31, 2023, compared to 620.88 MT over the corresponding period of last year.
- Infrastructure output in India jumped to 12.1% year-on-year in August 2023 from an upwardly revised 8.4% advance in the previous month. This marked the highest growth rate since June last year.
- India's current account deficit narrowed to \$9.2 billion in the second quarter of 2023, equivalent to 1.1% of the GDP, from \$17.9 billion in the same period of the last year.

Key Negatives during the Month

- The S&P Global India Manufacturing PMI slipped to 57.5 in September 2023 from 58.6. It was the 27th straight month of increase in manufacturing activity but the softest pace since April.
- The S&P Global India Services PMI dropped to 60.1 in August 2023 from an over 13-year high of 62.3 in the previous month.
- India's wholesale price index (WPI)-based inflation contracted for the fifth consecutive month in August, even as its pace slowed. It rose to a five-month high of -0.52 per cent in August from -1.36 per cent in July.
- India posted a merchandise trade deficit of USD 24.2 billion in August 2023, the largest gap in ten months. Imports fell by 5.2% year-on-year to USD 58.64 billion and exports declined by 6.9% to USD 34.48 billion.
- The Indian government's fiscal deficit during the first five months of the current financial year stood at ₹6.43 trillion, or 36% of the annual estimates of ₹17.87 trillion. In the year-ago period, fiscal deficit was at ₹5.42 trillion, or 32.6% of the FY23 target of Rs16.61 trillion.
- Banks' non-food credit growth declined to 15.0 per cent year-on-year (y-o-y) in August 2023 as compared with 16.0 per cent a year ago.
- The cumulative rainfall in the four months of monsoon – June to September – amounted to 820 mm, which is lower than the long-period average (LPA) of 868.6 mm.

Sector Moves/G-Sec Yield Moves Over the Month

BSE Indices	Sep-23	Aug-23	% chg	Jun-23	% chg
Sensex	65,828	64,831	1.5	64,719	1.7
Smallcap	37,562	37,144	1.1	32,602	15.2
Midcap	32,341	31,201	3.7	28,776	12.4
500	27,408	26,849	2.1	26,079	5.1
200	8,613	8,430	2.2	8,274	4.1
100	20,123	19,765	1.8	19,571	2.8
Auto	36,629	35,513	3.1	34,920	4.9
Bankex	50,175	49,372	1.6	50,501	-0.6
Capital Goods	47,729	45,216	5.6	40,726	17.2
Consumer Durables	45,360	44,565	1.8	42,861	5.8
FMCG	18,679	18,465	1.2	18,690	-0.1

BSE Indices	Sep-23	Aug-23	% chg	Jun-23	% chg
Healthcare	28,498	27,895	2.2	25,814	10.4
IT	32,065	31,528	1.7	29,877	7.3
Metal	23,206	21,818	6.4	20,561	12.9
Oil & Gas	19,026	18,446	3.1	18,210	4.5
Power	4,660	4,352	7.1	4,011	16.2
PSU	12,647	11,437	10.6	10,736	17.8
Realty	4,606	4,468	3.1	4,161	10.7
TECK	14,471	14,047	3.0	13,423	7.8
G Sec Bond Yields	7.2	7.2	4	7.1	1.3
Nifty	19,637	19,254	2.0	19,189	2.3

Global Markets

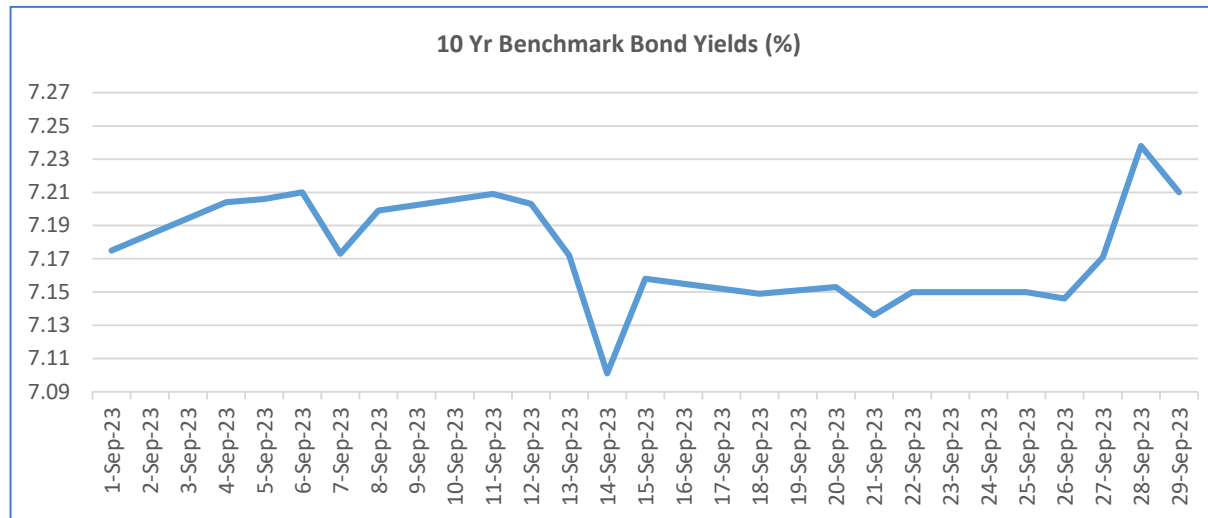
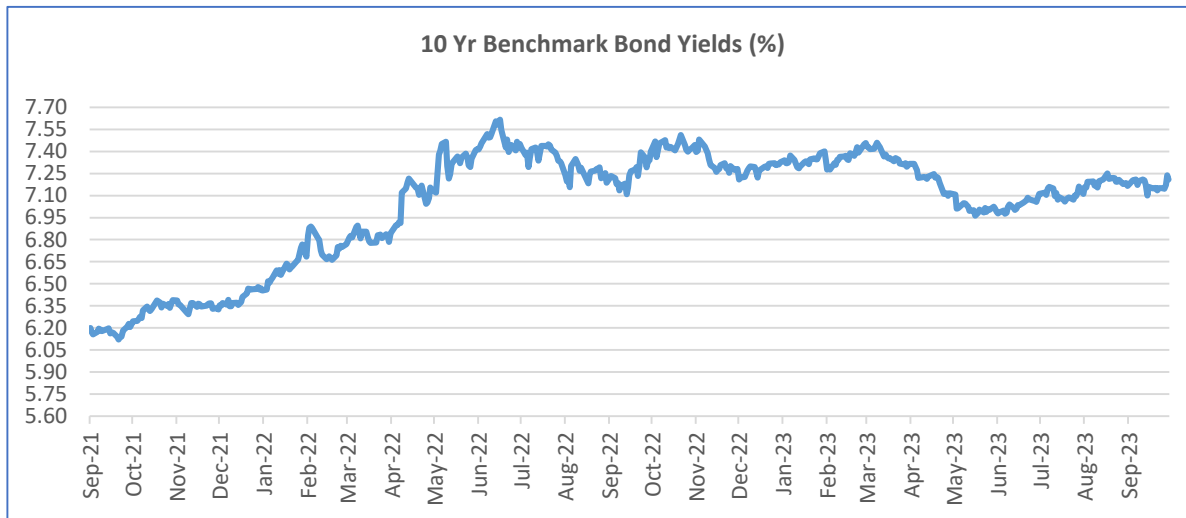
Indices	Sep-23	Aug-23	%Chg	Jun-23	%Chg
US - Dow Jones	33,508	34,721	-3.5	34,406	-2.6
US - Nasdaq	13,219	14,035	-5.8	13,788	-4.1
UK - FTSE	7,608	7,439	2.3	7,532	1.0
Singapore - Strait Times	3,217	3,233	-0.5	3,206	0.4
Japan - Nikkei	31,858	32,593	-2.3	33,189	-4.0
Indonesia - Jakarta Composite	6,940	6,953	-0.2	6,662	4.2
India - Sensex	65,828	64,831	1.5	64,719	1.7
India - Nifty	19,638	19,254	2.0	19,189	2.3
Hong Kong – Hang Seng	17,810	18,393	-3.2	18,916	-5.8
Germany - DAX	15,387	15,947	-3.5	16,148	-4.7
Chinese - Shanghai composite	3,110	3,120	-0.3	3,202	-2.9
Brazil - Bovespa	116,565	115,742	0.7	118,087	-1.3

- World markets ended the month of September on a mixed note. US - Nasdaq, Germany - DAX, US - Dow Jones, Hong Kong – Hang Seng, Japan - Nikkei, Singapore - Strait Times, Chinese - Shanghai composite and Indonesia - Jakarta Composite were down by 5.8%, 3.5%, 3.5%, 3.2%, 2.3%, 0.5%, 0.3% and 0.2% respectively while UK – FTSE, India - Nifty and Sensex and Brazil – Bovespa was up by 2.3%, 2.0%, 1.5% and 0.7% during the month.
- The S&P 500 and Nasdaq fell, with the biggest drag from Apple and a sell-off in chip stocks over concerns about China's iPhone curbs, while a fall in weekly U.S. jobless claims fed worries about interest rates and sticky inflation. The S&P 500 ended lower as investors digested implications of a U.S. inflation report for the Federal Reserve's interest rate policy and adjusted their portfolios on the last day of a weak third quarter for stocks. The S&P 500 and Nasdaq posted their biggest monthly percentage drops of the year, while all three major indexes had their first quarterly declines in 2023. The S&P 500 and the Nasdaq Composite COMP recorded their worst month since December and their worst performing quarter so far in 2023. All three major indexes suffered their second consecutive month of losses. The S&P 500 fell 5% and the Nasdaq dropped 5.8%. It's the second month in a row that each of the US's big three indices have posted losses – and even the "Magnificent Seven" weren't able to deliver returns for their shareholders. 2023 marked the fourth year in a row that the S&P 500 logged losses in September.

- European shares fell with real estate stocks hammered by bearish brokerage comments on UK landlords, while negative corporate updates dented shares of Dutch insurers and Swiss bank UBS. Stocks also fell on persistent fears over higher interest rates and a warning from Moody's that a looming US government shutdown would threaten America's triple-A credit rating.
- Hong Kong's Hang Seng Index dropped 3.2% in the month of September leading wider losses in Asia, dragged by the real estate and energy sectors. Hong Kong stocks tumbled as foreign investors continued to stay away amid concerns the yuan will weaken on widening interest-rate differentials. China Evergrande Group slid after authorities detained some executives from its wealth management unit. The Hang Seng Index has retreated 3.2 per cent this month as investors ignored recovery signs and rued Beijing's go-slow approach to revitalise the economy. Foreign funds sold Chinese stocks, taking the six-week outflows to a record US\$15 billion. Foreign-exchange outflows from China amounted to US\$42 billion in August versus US\$26 billion in July, the highest since 2016.
- Japan's Nikkei slumped to a four-month low as sentiment soured amid higher U.S. yields and the Federal Reserve's pledge of an extended period of tight financial conditions. The Index also fell as technology heavyweights tracked their U.S. peers' declines after the Federal Reserve stiffened its hawkish stance with a further interest rate hike projected by the year-end. Nikkei closed lower, with chip-related stocks leading the decline, amid caution ahead of central bank meetings in the United states and Japan.
- The UK's FTSE 100 hit its highest after the European Central Bank signalled an end to its monetary tightening cycle, while industrial metal miners led the gains after a surge in iron ore prices. The FTSE 100 has enjoyed its strongest week (11th Sep -15th Sep) in nine months, as a flagging pound and surging commodities boosted share prices among Britain's blue chips. The FTSE has also been boosted by a weakening pound, which has fallen against the dollar to below \$1.24, its lowest level since May.

G-Sec Market:

- Indian G-Sec yields rose by 4 bps during September 2023, to end the month at 7.21%. Bond yields rose on elevated U.S. Treasury yields and global crude oil prices, Losses in bond prices increased as weekly government bond auction added to supply. However, losses were restricted as RBI is looking for opinions from market players on settling bond trades on the Euroclear platform. Losses extended further after government maintained its borrowing goal for the second half of FY24, defying market expectations that supply would decrease. However, losses eased as market responded favorably to the little easing of U.S. yields from its highs and a correction in crude oil prices.



Fund Activities

	Net Buy / Sell September-23	Net Buy / Sell August-23	Open Interest September-23	Open Interest August-23	Remarks
FII Activity (Rs in Cr)					
Equities (Cash)	-18893.8	14295.0	-	-	FII's were large net sellers in September-23
Index Futures	-6608.3	-5443.3	12109.9	14213.3	FII's were net sellers with a fall in open interest
Index Options	-273419.4	55581.4	248552.5	198648.3	FII's were net sellers with a rise in open interest
Stock Futures	4095.6	-17752.1	188299.4	178904.0	FII's were net buyers with a rise in open interest
Stock Options	-1235.1	-1088.7	8553.6	4100.12	FII's were net sellers with a rise in open interest
MF Activity (Rs in Cr)					
Equities (Cash)	19747.1	25500.9	-	-	MFs were net buyers in September-23

- FIs were net buyers in the debt market, buying a net amount of Rs 1627.5 in September 2023 as compared to net buying of debt worth of Rs 7645.3 cr in August 2023. Mutual funds were net sellers of debt papers, selling Rs -5137.3 cr in September-23 (till 27th September 2023) as against Rs -34482.0 cr of net selling in August 23.
- The average daily volume on the BSE in September 2023 fell by 9.8% MoM. NSE's daily average volume rose by 9.5% MoM. The average daily derivatives' volume on the NSE rose by 9.2% MoM to Rs 33,132,486 cr in September 2023.

Commodities

- In September 2023, the Reuters/Jefferies CRB Index of 19 raw materials rose by 0.9% to close at 285. The rise was due to increase in Orange Juice (up 12.4%), Crude Oil (up 8.6%), Aluminum (up 3.6%), Sugar (up 3.2%), Live Cattle (up 2.8%) and Natural Gas (up 2.7%). However, Silver, Nickel, Soybeans, Gold, Copper, Wheat, Coffee, Cocoa, Lean Hogs, Cotton and Corn were down by 13.1%, 8.8%, 8.6%, 6.1%, 3.8%, 3.8%, 2.9%, 2.9%, 2.9%, 2.5%, 1.9% and 0.2% respectively.
- Gold prices extended declines and were on track for monthly and quarterly declines on expectations that the U.S. central bank may keep interest rates higher for longer. Gold extended its decline to hit a near seven-month trough, as a robust dollar and prospects of higher U.S. interest rates took the shine off bullion. Bullion prices initially found some relief as the dollar retreated from a near six-month peak on some profit taking. But the greenback rebounded, remaining within sight of recent highs.
- Oil prices gained to a nine-month high on rising U.S. diesel futures and worries about tight oil supplies after Saudi Arabia and Russia extended supply cuts. Oil prices climbed after suffering losses as investors' focus returned to a tight global supply outlook while a last-minute deal that avoided a US government shutdown restored some risk appetite. Oil rose firming its ground near a 10-month peak as the market balanced supply concerns over Libya output (shutting four of its eastern oil export terminals due to a deadly storm) and OPEC+ cuts with global macroeconomic headwinds.
- Nickel prices fell as the dollar gained ground against most major rivals amid uncertainty about Chinese demand as Beijing is the world's top metals consumer. Metals were recently boosted by dollar's decline in recent weeks, however as US data proves strong especially export data, the dollar resumed its gains, in turn heaping pressure on metal prices.

Commodity	Sep-23	Aug-23	% Chg	Jun-23	% Chg
Gold	1866.1	1965.9	-5.08	1929.4	-3.28
Crude Oil	90.8	83.6	8.56	70.6	28.60
Aluminium	2286.5	2208.0	3.56	2151.5	6.27
Copper	8100.5	8422.5	-3.82	8315.5	-2.59
Zinc	2602.0	2430.5	7.06	2388.0	8.96
Nickel	18510.0	20289.0	-8.77	20516.0	-9.78
Tin	23900.0	25396.0	-5.89	26787.0	-10.78
Lead	2197.0	2218.0	-0.95	2099.5	4.64

- Copper prices fell to their lowest level in more than two weeks after a sharp rise in inventories and weak imports by top metals consumer China highlighted concerns about lacklustre demand. Prices extended losses after LME data showed copper inventories jumped by 21% to 133,850 tonnes, the highest since October last year, highlighting worries about a surplus of material. Also weighing on the market was a strong dollar index, making commodities priced in the U.S. currency more expensive for buyers using other currencies, including in China.

- Prices for aluminium rose as traders squared positions ahead of the end of the third quarter. Aluminium stocks in LME-registered warehouses hit their lowest point since August 2022, dropping to 173,875 metric tons due to fresh cancellations of 51,000 metric tons in South Korea's Gwangyang. Furthermore, Japanese aluminium buyers negotiated a reduced premium of \$97 per metric ton over the benchmark price for shipments in October-December, marking a 24% decrease from the previous quarter.
- Zinc prices climbed driven by China's measures to support its economic recovery. Notably, LME inventories continued to drop significantly, and news of production cuts at overseas mines created a global supply shortage, providing strong support for zinc prices.

Currencies

- Given below is a table that shows the depreciation (-)/appreciation (+) of the US Dollar against various currencies in September 2023. The dollar posted its biggest quarterly gain in a year and gains for the 11th consecutive week as investors priced in the likelihood of a still solid economy and higher rates for longer. The dollar gained on expectations that the US economy would remain more resilient to higher interest rates than other economies, after the Federal Reserve warned that it may raise rates further and is likely to hold them high for longer.
- Pakistan's rupee was the top performer globally this month as a government crackdown on the illegal dollar trade helped reverse its fortunes. The rupee surged almost 6% in September, a remarkable feat as most currencies including the Thai baht and South Korean won tumbled against the dollar on speculation US interest-rates will stay elevated for longer.
- The baht fell to an 11-month low under foreign selling pressure, with investors worried that high oil prices and government spending plans would widen the country's current account deficit. Thailand's baht and Indonesian rupiah led falls among Asian emerging market currencies, as the dollar held firm on prospects of US interest rates staying higher-for-longer, and surging crude prices counted against oil importing economies.
- South Korean won slumped to their lowest levels against the dollar this year. Their weakness comes as the U.S. central bank maintained hawkish rhetoric, raising the prospects of further rate hikes and widening the rate differentials between U.S. and Asian economies.

USD to:	Sep-23	Aug-23	% chg	Jun-23	% chg
Pakistani rupee	288.30	306.00	-5.8	286.00	0.8
Hong Kong dollar	7.83	7.84	-0.1	7.84	-0.1
Chinese yuan	7.30	7.26	0.6	7.25	0.7
Indian rupee	83.03	82.70	0.4	82.09	1.1
Taiwan dollar	32.23	31.84	1.2	31.13	3.5
Singapore dollar	1.37	1.35	1.0	1.35	1.1
Argentine peso	350.00	349.95	0.0	256.70	36.3
Euro	0.95	0.92	2.6	0.92	2.8
Thai baht	36.51	34.98	4.4	35.27	3.5
Malaysian ringgit	4.69	4.64	1.2	4.67	0.5
Indonesian rupiah	15450.00	15225.00	1.5	15040.40	2.7
Japanese yen	149.35	145.53	2.6	144.32	3.5
Brazilian real	5.01	4.92	1.7	4.82	3.9
South Korean won	1352.31	1325.14	2.1	1315.11	2.8
Russian Rouble	97.97	96.03	2.0	89.55	9.4
Turkish Lira	27.41	26.69	2.7	26.05	5.2
South African Rand	18.92	18.87	0.2	18.83	0.5

- The Russian rouble weakened beyond a symbolic threshold of 100 to the U.S. dollar as foreign currency outflows and a shrinking balance of trade continue to weigh on the currency.

- The dollar rose against the yen to an almost 11-month high keeping traders focused on Japan intervention risks. The yen fell touching its lowest since late October after the BOJ maintained ultra-low interest rates, while Governor Kazuo Ueda stressed the need to spend more time assessing data before raising interest rates. The Japanese currency remained within striking distance of 150, a level which some market watchers saw as a line in the sand that would spur forex intervention from Japanese authorities similar to that of last year.
- The euro fell to its weakest level this year as the dollar gained against all of its 10 major peers at the start of a new quarter of trading. The currency dropped against the dollar the lowest since December extending a slide from a 16-month high reached in July, when the European Central Bank's tightening cycle was in full swing. The euro has struggled to find its footing in recent weeks amid mounting speculation that the region's slowing economy can't withstand further interest-rate hikes. That's fueled chatter that the currency could once again fall to parity with the dollar.
- The Brazilian real fell as traders held on to bets of another rate cut from the country after a smaller-than-expected rise in consumer prices. The real was down against the dollar after data showed consumer prices as measured by the benchmark IPCA index rose 0.23% on a monthly basis in August, below forecasts of 0.28%, on lower food prices.
- China's yuan slipped to its weakest since December 2007, hit by capital outflow pressures and a yield gap with major economies, particularly the United States. The yuan, one of region's worst performing currencies, is on track to log its biggest loss since February and has shed roughly 6.1% against the dollar so far this year.
- The Indian rupee closed lower against the US dollar weighed down by a stronger greenback and spike in US treasury yields that rose to fresh multi-year highs after the US averted a partial government shutdown. The Indian rupee depreciated to hit a 10-month low level against the US dollar tracking losses in Asian peers and a sharp surge in crude oil prices. The Indian rupee is facing increased weakness due to a combination of factors. Firstly, historical data indicates a drop in the USD/INR exchange rate during pre-election periods, suggesting potential near-term depreciation. Additionally, rising crude oil prices, nearing \$90 per barrel, are negatively impacting the rupee. Furthermore, the recent surge in the US Dollar, driven by weak risk sentiment and rising US Treasury yields, is putting additional pressure on the rupee.

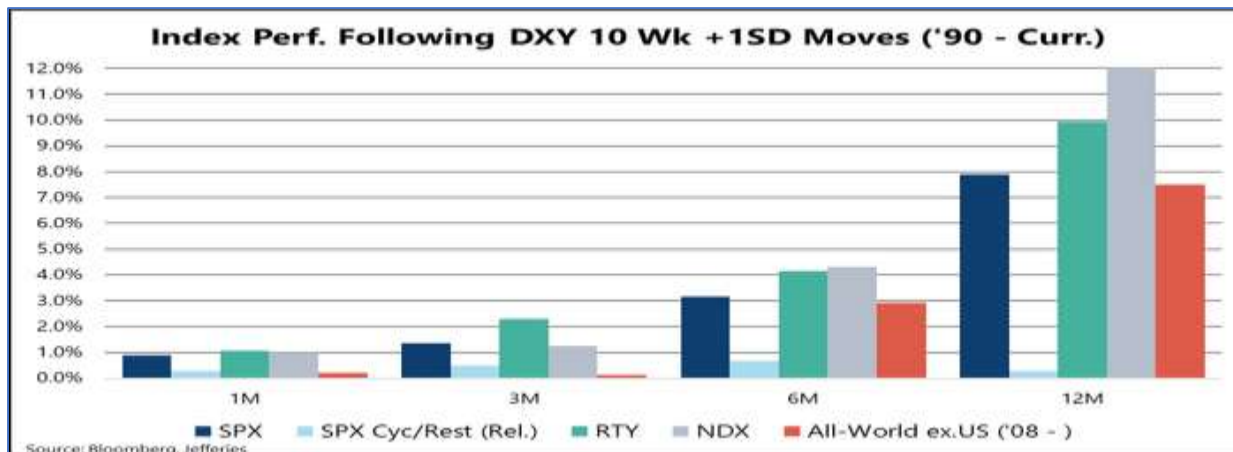
Outlook Going Forward

Monetary policy implication for developed and emerging economies

- With major central banks expected to maintain restrictive policy through 2024, room for manoeuvre for many developing economies might be limited.
- Major central banks will maintain a restrictive policy stance through 2024. Significant easing by emerging market central banks is unlikely with advanced economy central banks still battling elevated inflation, and uncertainty around the U.S. interest rate outlook.
- US analysts over the past two months have actually nudged their profit forecasts higher for the first time in two years and executives are talking less frequently about a recession, based on an analysis of earnings call transcripts.
- While it is typical for investors to “swing back and forth” between soft and hard landing outcomes when the Federal Reserve is nearing the end of its interest-rate hiking cycle, there is some skepticism about a soft landing, meaning the economy can avoid a recession, while this scenario is becoming a widely assumed outcome for the economy.
- U.S. stocks are facing a triple threat from a stronger U.S. dollar, rising Treasury yields and higher oil prices that could further erode gains accrued by the main indexes since the start of 2023. At the root of the problem is the notion that the Federal Reserve may need to keep interest rates higher for longer, even if the central bank ultimately decides not to raise rates at its upcoming meetings in September and November. This has helped push Treasury yields and the U.S. dollar higher.
- Rising crude oil prices, along with demands for higher wages from auto workers and fast-food workers, have helped to stoke fears that inflation could reaccelerate, essentially forcing the Fed’s hand.

US Dollar strength .implications

- A rising U.S. dollar is raising hackles overseas and getting the attention of investors at home and abroad. But it isn’t clear that authorities can do much about the rise — or that it’s yet likely to undercut U.S. equities. The dollar’s rise is starting to unnerve everyone. Excessive moves in foreign-exchange rates have negative effects on the economy by bringing uncertainties to companies and households.
- The dollar’s gains have been credited to resilient U.S. economic data, which has left the U.S. looking better than its developed market peers. And even if the Federal Reserve is finished, or nearly finished, raising interest rates to combat inflation, strong data means they’re expected to stay elevated.
- For stock-market investors, a strong dollar can, but isn’t necessarily, a problem. In particular, it can be a hurdle for companies who derive a big share of their income from sales overseas, with a stronger dollar making their exports more expensive to foreign buyers.
- Emerging market equities underperform in such a time as funds flow back to the US to avoid currency losses.
- The DXY has ripped higher by around 4% in that short time frame, a move more than one standard deviation outside the norm. And that sort of move has tended have implications for both company fundamentals and asset allocation.



- The chart above breaks out the average performance of key indexes, including the S&P 500, S&P 500 cyclicals, small-caps (RTY), the Nasdaq-100 NDX and the MSCI All-World excluding U.S.
- Small-caps are typically expected to outperform during periods of dollar strength, since most of their revenues come from within the U.S. Cyclical stocks are expected to suffer.
- A rising dollar also tightens financial conditions, adding to other headwinds for stocks heading into the fourth quarter, as per Morgan Stanley. With the 10-year real rate at a 16-year high above 2.0%, the U.S. dollar is surging, producing meaningful headwinds for U.S. multinationals.

Why are the treasury yields rising

- The longest-dated yield in the roughly \$25 trillion Treasury market hurtled toward 5%, joining its 10-year counterpart at the highest levels since the period before the 2007-2009 recession. The 30-year Treasury rate ended above 4.9% in New York trading, while the benchmark 10-year yield jumped to 4.8% — leaving both at levels last seen in the second half of 2007 as the result of an aggressive selloff in long-dated government debt.
- Rising long-term Treasury yields are generally the bond market’s way of signaling a brighter economic outlook ahead. However, this time around, there’s a bit more going on, strategists said. The climb in yields also reflects investors’ demand for more compensation to hold Treasuries to maturity, given all the uncertainties that could emerge over the life of those securities, strategists said.
- The continued bond-market selloff burned existing holders of government debt and deepened the stock-market selloff.
- Here are some of the biggest reasons behind the current run-up in long-term market-implied rates:

Higher term premium

- It refers to the compensation that investors require for the risk of holding a Treasury to maturity. It’s been negative for years and just recently turned positive. For the time being, there is no compelling incentive to assume rates don’t have further capacity to rise in the current environment.

Economic strength

- Another big reason for the recent run-up in yields is the surprising strength of the U.S. economy. Job openings jumped to 9.6 million in August — defying expectations for the labor market to buckle under the pressure of more than five full percentage points of Fed rate hikes since March 2022. That hasn’t happened yet.

Tighter Fed

- Continued economic resilience likely means that the Fed needs to keep tightening, which is also adding to upward pressure on yields. Despite the highest interest rates in 22 years, the bond market is in the process of unwinding its earlier call for an economic downturn through an un-inverting yield curve. That simply means that long-term yields are finally catching up to where shorter-term rates are trading, and producing either a less negative or positive spread between the two.
- The spread between 2- and 10-year yields, for example, shrunk to as little as minus 34.7 basis points— steepening from the triple-digit negative levels seen in March and June-July.

US treasury market ..tell tale signs

- The roughly \$25 trillion Treasury market first began flashing this telltale sign that a U.S. recession likely lurks on the horizon almost a year ago, according to Bespoke Investment Group.
- It was late October of 2022 when the 3-month Treasury yield first eclipsed the 10-year Treasury yield, resulting in an “inversion” of a key part of the yield curve that’s been a reliable predictor of past recessions. Where is this long-anticipated recession?
- Analysts at Bespoke think the next economic pullback still could be about 275 days away, or starting roughly in early June 2024. That’s because past recessions took an average 589 days to materialize after the 10-year and 3-month yield curve first inverted, based on data since the early 1960s. Their data also shows June 1973 was the only time in the past six decades when a recession arrived within 300 days of the 10-year and 3-month yield curve first inverting.

Supply chain diversification..India and Southeast Asian countries to benefit

- Geopolitical strains between the US and China, the rapid adoption of e-commerce, the Covid-19 pandemic and the Russia-Ukraine war have led to a rethinking of strategies for reshoring sourcing, the diversification of supply routes and the localization of manufacturing.
- Southeast Asian economies such as Vietnam have so far been the principal beneficiaries of supply chain diversification. However, India is increasingly well placed to capitalize on these trends, as, in the long term, India is the only single market that offers a potential scale comparable to that of China. India’s large and growing domestic market, limited political instability and long-term policy continuity bolsters India’s appeal to investors. India’s youthful demographic profile promises good availability of labor, which, in conjunction with less onerous labor regulation, will help to keep a lid on manufacturing labor costs, in contrast to China.
- Despite other risks such as its declining labor force participation, Goldman Sachs expects India to become the world’s second-largest economy by 2075 — behind China and ahead of the U.S. The International Monetary Fund predicted that India will be the fastest growing major economy this year.
- A massive expansion on the way in the Indian economy, and also a very favorable outlook in Southeast Asia — where pretty strong growth could continue in some of the economies, notably Indonesia, Philippines, Vietnam, will be among the world’s fastest growing emerging markets over the decade ahead. Over the next decade, about 55% of the total increase in world’s GDP will come from the Asia-Pacific region.
- U.S. and European firms are shifting investment away from China to other developing markets, a report from Rhodium Group showed, with India receiving the vast majority of this redirected foreign capital, followed by Mexico, Vietnam and Malaysia.
- These companies are turning their backs on the world's second-largest economy even as its share of global growth continues to increase, highlighting how concerns over China's business environment, economic recovery and politics weigh heavy on the minds of foreign investors.

- The value of announced U.S. and European greenfield investment into India shot up by some \$65 billion or 400% between 2021 and 2022, while investment into China dropped to less than \$20 billion last year, from a peak of \$120 billion in 2018.
- India's electronics exports have surged over the past three years, jumping from about \$7 billion in 2019 to \$22 billion in 2023, CEIC global data shows.
- Compared to its regional neighbors, India, however, lags its peers in the manufacturing sector. While nearly 25% of Vietnam's and 21% of Bangladesh's gross domestic product comes from manufacturing, India's manufacturing comprises less than 15% of its GDP.
- Diversification is well underway, but it will take years for advanced economies to achieve the objectives behind their de-risking policies as China is so central to global supply chains.
- Western companies are stepping up greenfield investment in these markets to give them options when sourcing assembled goods and geopolitically sensitive commodities, such as semiconductors, as well as to reduce their dependence on China in their supply chains.
- Diversification is unlikely to result in a rapid decline in exposure to China because the markets foreign firms are investing in are heavily reliant on trade and investment with the Asian giant themselves. As a result it would not be surprising to see China's overall share of global exports, manufacturing and supply chains continue to rise, even as diversification away from China accelerates.

US wealth statistics..interesting data

- A surging stock market powered U.S. household wealth to a record high of more than \$154 trillion in the second quarter, aided by a rebound in property values, Federal Reserve data showed. Household net worth rose 3.7% to \$154.28 trillion in the period from April through June from \$148.79 trillion at the end of the first quarter, the Fed said in its quarterly snapshot of the balance sheets of households, businesses and federal, state and local governments. The data showed households have fully recouped the wealth losses generated by a crushing bear market for stocks and weaker real estate values through much of last year as the Fed kicked off an aggressive campaign to rein in inflation through large, rapid-fire interest rate increases.
- The Standard & Poor's 500 total return index including reinvested dividends, delivered an 8.7% return in the second quarter, its largest gain since the final three months of 2021. The equity market's rally added \$2.6 trillion to household net worth, accounting for nearly half of the overall wealth gain in the quarter. Real estate was the other large driver, with property values rising for first time since the second quarter of 2022, contributing \$2.5 trillion to the increase in net worth.
- Household wealth at the end of June exceeded the previous record high of \$152.49 trillion set in the first quarter of 2022 by about \$1.8 trillion, or 1.2%.
- Total nonfinancial debt increased at an annualized rate of 6.3% - the fastest since the first quarter of 2021 - to \$71.2 trillion, with households and businesses each accounting for roughly \$20 trillion and government \$31.3 trillion. The main driver of the increase was the 12.7% annualized increase in federal government debt, the largest since the record increase in the second quarter of 2020 that had fueled the first round of pandemic relief spending. Business debt growth, meanwhile, moderated substantially, climbing at just a 1.9% annualized rate in the second quarter, its slowest growth since the final three months of 2020.

Dynamics affecting multi asset allocation globally

- Three powerful dynamics in the global economy are expected to play a significant role in investors' multi-asset allocations over the next five years, according to a 132-page report from Rotterdam-based asset manager Robeco.

- The first is labor’s likely increased bargaining power, with the outcome of any tussle between businesses and their workers probably being determined by wages in a sticky inflation environment. The second is the end of monetary-policy leniency and the potential for central banks to lock “horns” with governments over the appropriate level of borrowing costs. The third is the dawn of “multipolarity” as the U.S. and China struggle for power.
- Taken together, this “triple power play” is already starting to unfold, shifting investors into a world of higher risk-free rates and lower expected equity risk premiums. Risk premium is a gauge of relative value for stocks, helping investors understand what their short-term gain might be when taking on the additional risk of buying equities or investing in stock funds.
- The firm’s base-case scenario, which Robeco’s team refers to as a “stalemate,” calls for a mild recession in 2024, consumer-price inflation in developed economies to remain around 2.5% on average heading toward 2029, and real GDP in the U.S. to average 2.3% or below what the S&P 500 index currently implies.
- That benign growth outlook is expected to be accompanied by macroeconomic volatility, plus a “tug of war” between central bankers reluctant to lower interest rates and governments in need of low borrowing costs — which “means there is not enough monetary policy tightening to remove demand-pull inflation.” Under such a scenario, developed-market equities are likely to underperform their emerging market counterparts and domestic bonds should offer a higher return than cash for dollar-based investors, according to Robeco.

Five-year return forecast for three macroeconomic scenarios

	Expected Returns 2024-2028 (EUR)			Expected Returns 2024-2028 (USD)		
	Bull	Base	Bear	Bull	Base	Bear
Bonds						
Domestic cash	2.75%	2.50%	2.25%	3.50%	3.25%	2.50%
Domestic bonds	1.25%	2.50%	4.25%	4.00%	5.25%	4.75%
Developed	3.25%	3.50%	4.25%	4.00%	4.25%	4.50%
Emerging debt	5.50%	4.75%	2.50%	7.25%	5.75%	2.00%
Corporate inv grade	4.25%	4.50%	6.00%	5.00%	5.25%	6.25%
Corporate high yield	5.25%	5.50%	2.00%	6.00%	6.25%	2.25%
Equity						
Developed	11.00%	5.75%	2.75%	12.75%	6.75%	2.25%
Emerging	15.25%	7.25%	5.00%	17.00%	8.25%	4.50%
Real estate	6.00%	5.50%	3.00%	7.75%	6.50%	2.50%
Commodities	5.50%	4.75%	2.50%	7.25%	5.75%	2.00%
CPI						
Inflation	2.00%	2.50%	3.75%	2.00%	2.75%	3.25%

Source: Robeco. September 2023. Returns are geometric and annualized.

SOURCE: ROBECO. RETURNS SHOWN ARE ANNUALIZED.

- Under Robeco’s bull-case scenario, early and rapid adoption of artificial intelligence across sectors and industries would likely spawn above-trend growth and push inflation back to central banks’ targets. The result is “an almost Goldilocks scenario in which things are running neither too hot nor too cold,” central banks could take a break from tightening policy, and developed- and emerging-market equities may both be able to come out with double-digit annualized returns from 2024 to 2028.
- The firm’s bear-case scenario envisions a world in which mutual trust between the world’s superpowers hits rock bottom, governments are “in the crosshairs” of central banks, and labor loses bargaining power in the services sector. A “stagflationary environment emerges, intensifying the policy dilemma for central bankers” as inflation stays stubbornly high at 3.5% on average and growth comes in at just 0.5% annually for developed economies. In that situation, developed-market equities would eke out an annualized return of 2.25% for dollar-based investors over the four-year period, which would be below the expected return on cash.

- Every few decades, a set of technologies converge to reconfigure the global economy and the order of human affairs. We saw this with the internet, a convergence of content, computing, and telecommunications networks that took us everywhere, all at once. Before that, it was power generators, electrical grids and the lightbulb that brought us 24/7 production.
- Today, several revolutionary technologies are emerging all at once:
 - ✓ Generative AI and large language models like ChatGPT make people and companies more creative and industrious and unleash new capabilities in the economy.
 - ✓ Blockchains help individuals and businesses to move and store value, automate complex business processes, and secure peer-to-peer transactions online without intermediaries.
 - ✓ The Internet of Things connects everyday objects — from door bells and thermostats to autonomous vehicles and roadway sensors—to data centers, forming an intelligent network for our connected world.
 - ✓ Augmented and virtual realities take today’s two-dimensional Web and turn it into a spatial web integrated with our natural environment.
 - ✓ Biotechnologies leverage living cells and biomolecular processes to augment human health through more targeted treatments and more nutritious foods.
 - ✓ Advances in energy harvesting, batteries and other storage technologies will revolutionize transport, energy grids and public infrastructure with greener and cleaner options.

Gold inflation relationship..no longer working as in the past

- What determines the price of gold? For much of the past decade the answer was easy: the price of money. The lower rates fell, the higher gold climbed, and vice versa.
- Gold is the quintessential “anti-dollar” — a place to turn for those who distrust fiat currency — so it seemed natural that prices would rise in a world of low real interest rates and cheap dollars. Or when rates went up, gold, which pays no yield, naturally became less attractive, sending prices tumbling. Well, not anymore.
- As inflation-adjusted rates soared this year to the highest since the financial crisis, bullion has barely blinked. Real yields — measured by the 10-year Treasury inflation-protected securities, or TIPS, — jumped to the highest since 2009, while spot gold nudged down a mere 0.5%. The last time real rates were this high, gold was about half the price.
- The unraveling of the relationship between gold and real interest rates could be a paradigm shift for the precious metal, leaving investors struggling to calculate its “fair value” in a world where the old equations don’t seem to apply. It’s also raising questions about if and when the old dynamic might reassert itself — or whether it already has, just from a new base.
- So what’s holding prices up?
- Analysts point to a combination of voracious central bank buying — led by China — and investors that are still betting a US economic slowdown will be good for gold, even when the regular playbook says it’s time to sell.
- There are various different models or calculations to assess the fair value of gold — many analysts create their own — but at their essence most reflect the basic principles of where bullion is trading compared with real US bond yields and the dollar. Normally money managers would sell the haven metal as the dollar strengthens and the interest paid by other safe assets like bonds and cash rises.

- There are some initial signs that sovereign demand is starting to slow, making gold more vulnerable to downturns. Crucial to the outlook will be if institutional investors decide to sell up if prices test new lows.
- However, some analysts argue that rather than breaking down entirely, gold's relationship with its key drivers has simply been reset at a higher base.
- That could allow it to set a record if yields or the dollar drop again, according to Macquarie's Marcus Garvey, who sees prices rising to \$2,100 an ounce next year as the US economy slows.
- A litmus test may have been the turmoil that engulfed the US financial sector in March. Real yields and the dollar fell as Silicon Valley Bank teetered on the brink, triggering fresh inflows into gold-backed exchange traded funds.
- Despite already trading at a lofty premium, the metal rallied to within touching distance of the record it set during the pandemic, but eventually slumped as the crisis eased and investors sold into the higher prices.

Why is crude oil price on the up?

- Oil futures are within spitting distance of the \$100-a-barrel threshold as September comes to an end, extending a breakneck rally that's sent shock waves through global financial markets.
- Here's a quick reminder of the main drivers of the surge, courtesy of Robert Yawger, executive director for energy futures at Mizuho Securities:

Saudi production cut

- At the top of the list is the June announcement by Saudi Arabia that it would unilaterally cut oil production by 1 million barrels a day. The cut, which was subsequently extended through August and September and then "expertly rolled" through the remainder of 2023 has been the main catalyst for the rally, Yawger said.

No cushion in Cushing

- Tight domestic supplies in the U.S. are ringing alarm bells. Crude inventories last week fell to 413.3 million barrels, the lowest since Dec. 2, the Energy Information Administration reported.
- US currently has 17 days of supply left in strategic Petroleum Reserves vs an average 33 days.

Profitable products

- Big profits on refined products have led the way higher for much of the rally. Traders focus on the "crack spread," which measures the difference between the purchase price of a barrel of crude and the products, such as gasoline and diesel fuel, that can be refined from it. The wider the crack spread, the more demand from refiners for crude to turn into products.
- The heating-oil crack spread traded to a nine-month high of \$58.17 a barrel on Aug. 25 and remained "supersized" above \$50 a barrel through mid-September before falling to a two-month low of \$40.595.

What happens to corporate profitability if Crude prices keep rising

- Companies that benefited significantly from the inflationary spike in the past two years may lose the power to charge higher prices for their goods and services, a headwind for their stocks and the equity markets in the remainder of 2023, according to strategists at JPMorgan Chase & Co.
- Companies in the retail, automotive, airline and hotel industries are expected to be most impacted by cooling inflation as they may lose their pricing power.
- The general sentiment was that the 40-year-high inflation rate would hurt corporate profitability as a range of input costs spiked. However, that didn't materialize in the past two years because corporations managed to use elevated input costs as a source of pricing power, and consumers were willing to accept it.
- As a result, nearly all sectors in the U.S. and European stock markets saw double-digit sales growth in 2021 and 2022, and companies' operating margins were well above pre-pandemic levels (see chart below).

Table 2: MSCI US sectors sales growth

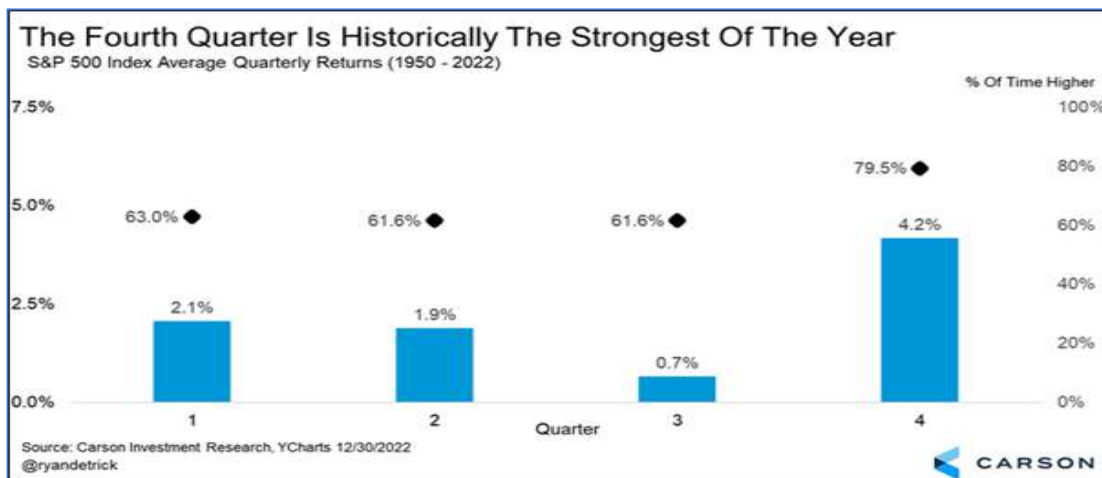
	Sales growth (%/y)				LT Median
	19	20	21	22	
US (Ex-Financials)	5.4%	-0.7%	19.2%	12.2%	7.2%
ENERGY	-3.4%	-34.3%	64.3%	50.0%	6.4%
MATERIALS	-3.2%	-4.9%	28.8%	10.7%	10.4%
INDUSTRIALS	-3.0%	-9.1%	5.7%	18.2%	2.5%
DISCRETIONARY	5.4%	0.7%	17.5%	15.1%	7.7%
STAPLES	2.7%	3.0%	23.7%	-1.8%	3.6%
HEALTH CARE	15.8%	10.4%	12.0%	6.6%	10.3%
IT	3.1%	3.7%	16.1%	10.8%	8.1%
COMM SERVICES	15.5%	6.4%	22.4%	2.1%	13.4%
UTILITIES	1.8%	-5.6%	18.9%	10.6%	2.5%
Cyclicals	1.6%	-1.4%	15.3%	13.9%	5.3%
Defensives	11.8%	6.8%	17.1%	4.0%	8.7%

Source: Datastream

- Meanwhile, rising oil prices could lead to demand destruction, which is another headwind for corporates' pricing power.
- JPMorgan economists said only a quarter of the jump in oil is demand driven, owing to strong jet fuel demand and better-than-expected economic growth. However, they attribute the bulk of the spike to the sharp supply cutbacks by OPEC+, and estimate a resulting 0.5% drag to GDP.
- If oil sustains this time, companies might not be able to pass on rising input costs as easily as they did in the past two years.
- Rising rates aren't the only problem facing stocks and bonds. An expected slowdown in fiscal spending could add to the U.S. economy's woes, while tensions involving China, Russia and other nations create new geopolitical risks that could potentially trigger bursts of volatility.
- Rising rates threaten to punish overextended consumers and businesses.

What does history tell us about Q4 performance in the US

- Historically, the fourth quarter has been the best quarter for the U.S. stock market, with the large-cap S&P 500 index SPX up nearly 80% dating back to 1950 and gaining more than 4% on average, twice as much as the next best quarter, said Ryan Detrick, chief market strategist at Carson Group (see chart below).



- Investors were hoping October and the last quarter of 2023 could bring some relief to the scorching summer selloff they had to endure in markets. Historically, the fourth quarter has been the best quarter for the U.S. stock market, with the S&P 500 index up nearly 80% dating back to 1950 and gaining more than 4% on average, according to data compiled by Carson Group.
- October is known as a month for extreme volatility, with some of the legendary U.S. stock-market crashes — the Panic of 1907, the Wall Street Crash of 1929 and the Black Monday in 1987 — all occurring in October. However, it is still in general a “pretty decent month,” especially when stocks fall more than 1% in the previous two months, Detrick wrote in a note.
- For the last three times when stocks were off 1% in the previous two months, October bounced back with an impressive gain of 10.8%, 8.3%, and 8.0%, respectively, said Detrick.
- Turning to the fourth quarter, it has been up 12 out of 13 times and up more than 7.0% on average since 1950. In other words, when we see the seasonal August and September weakness, it is also normal to see a strong end-of-year rally. (See chart below)

Down Big In August and September Isn't a Bad Thing
S&P 500 Performance When Down 1% Or More In Both August and September

Year	August	September	October	Q4
1952	-1.5%	-2.0%	-0.1%	8.3%
1956	-3.8%	-4.5%	0.5%	2.9%
1957	-5.6%	-6.2%	-3.2%	-5.7%
1959	-1.5%	-4.6%	1.1%	5.3%
1974	-9.0%	-11.9%	16.3%	7.9%
1975	-2.1%	-3.5%	6.2%	7.5%
1981	-6.2%	-5.4%	4.9%	5.5%
1985	-1.2%	-3.5%	4.3%	16.0%
1990	-9.4%	-5.1%	-0.7%	7.9%
2001	-6.4%	-8.2%	1.8%	10.3%
2011	-5.7%	-7.2%	10.8%	11.2%
2015	-6.3%	-2.6%	8.3%	6.5%
2022	-4.2%	-9.3%	8.0%	7.1%
2023	-1.8%	-4.2%	?	?
Average			4.5%	7.0%
Median			4.3%	7.5%
% Higher			76.9%	92.3%

Source: Carson Investment Research, FactSet 09/24/2023 @ryandetrick

- Moreover, when the S&P 500 is up between 10-20% for the year heading into the normally strong fourth quarter, one can expect “an even better fourth quarter,” up more than 5% on average. The S&P 500 has advanced over 12% so far in 2023, according to FactSet data.

Dichotomy within US stocks

- U.S. stocks have risen sharply in 2023, with a small number of technology companies driving an ever-increasing share of the stock-market gains.
- While the 11.7% year-to-date gains for the large-cap benchmark S&P 500 index SPX show 2023 has been a “good year” for stocks, that hardly tells the whole story, said Jonathan Krinsky, the technical strategist at BTIG.
- The U.S. stock market has seen the median return for shares in the S&P 500 index rise merely 1.1% in 2023, which is “a different planet” compared with their median gain of 16.2% in 2014, when the benchmark index recorded a yearly advance of 11.4%, Krinsky said (see chart below).

Index	2023* YTD Return	2014 Return
Average Magnificent 7**	87%	N/A
Median Magnificent 7**	50%	N/A
Nasdaq 100	34.40%	17.94%
Median NDX 100	18.30%	20.79%
S&P 100	17.77%	10.27%
S&P 500	11.99%	11.39%
Russell 3k	11.34%	10.45%
S&P 1500	11.18%	10.88%
S&P 400	3.55%	8.19%
Median S&P 500 Stock	1.07%	16.24%
Equal-Weight S&P 500	0.58%	12.35%
Median S&P 1500 Stock	0.14%	8.79%
S&P 600	0.14%	4.44%
Median S&P 600 Stock	-1.67%	4.23%
Median R3k Stock	-2.24%	6.85%
Micro-Cap	-6.89%	2.48%

*As of 9/28/23

**AAPL, MSFT, GOOGL, AMZN, NVDA, META, TSLA

- The Russell 3000 — a barometer that represents approximately 98% of the American equities — had a median return of negative 2.2% this year, but the index has gained 11.3% year to date, wrote Krinsky, citing BTIG and Bloomberg data. In 2014, the median return for the Russell 3000 was 6.9%, and it recorded a yearly gain of 10.4%.
- Meanwhile, the median year-to-date return for stocks in the S&P 1500, which includes all shares in the S&P 500, S&P 400 and S&P 600 and covers approximately 90% of U.S. stocks, rose a merely 0.1% versus the index’s 11.2% advance this year, said Krinsky. The S&P 1500 recorded a median return of 8.8% in 2014 and was up 10.9%.

Indian scenario:

- High frequency macro indicators (like credit growth, E-way bill, kharif sowing) continue to comfort on economic activity. Forthcoming election season (5-states by Dec 2023) and rising oil prices are a cause of concern.
- The recent correction in index in both large and small cap, makes valuation attractive for large cap, while premium valuation of mid-cap index concern. India valuation premium to MSCI remaining near 7-year mean extend comfort.
- Kharif sowing (excluding cotton) is 0.8% higher than the corresponding period last year, despite a 10% deficient monsoon this year (June-Sep). Further, around 83% of the country’s area has received normal or excess rains.
- Excluding the HDFC merger impact, the yoy growth in outstanding non-food credit of SCBs in July 2023 works out to 14.8%, which implies a small deceleration from the average growth of 16.1% recorded in the last 10 months. Yet, the growth is impressive considering that lending rates on fresh loans disbursed by SCBs have increased by nearly 200bp since April 2022.
- The GDP growth momentum seems to be driven by service sector and private consumption in June quarter inspite of elevated interest rates. Improving consumer sentiment and festival promotion offers, should be able to drive momentum in coming months.

SOURCE: BTIG ANALYSIS, BLOOMBERG



Monthly Strategy Report

- The Nifty-50 has touched the milestone of 20,000 in Sep'23. Post a volatile long journey from 18000 to 19000, the Nifty-50 added the next 1,000 points (19000 to 20000) relatively faster — only 52 trading days (from Jul'23-Sep'23) vs. 425 trading sessions (from Oct'21-Jun'23) during its journey from 18000 to 19000.
- The Nifty-50's journey to the new high was led by a favorable combination of healthy macro and micro, moderating inflation, cooling commodity prices, global interest rates near its peak, and six consecutive months of FII inflows with strong retail participation led by positive sentiment. Manufacturing PMI, Services PMI, GST collections, Strong Forex reserves are some other positive macro developments.
- Continuation of FPI outflows that started in September, further rate hikes in the developed economies, large scale China stimulus, negative outcome of state elections, elevated local inflation and interest rates are some negatives that have to be watched closely.
- Indian markets could remain weak in the first half of October and later bounce up based on the Q2 results announcement.



Monthly Strategy Report

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

For grievance redressal contact Customer Care Team Email: customer-care@hdfcsec.com Phone: (022) 3901 9400

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