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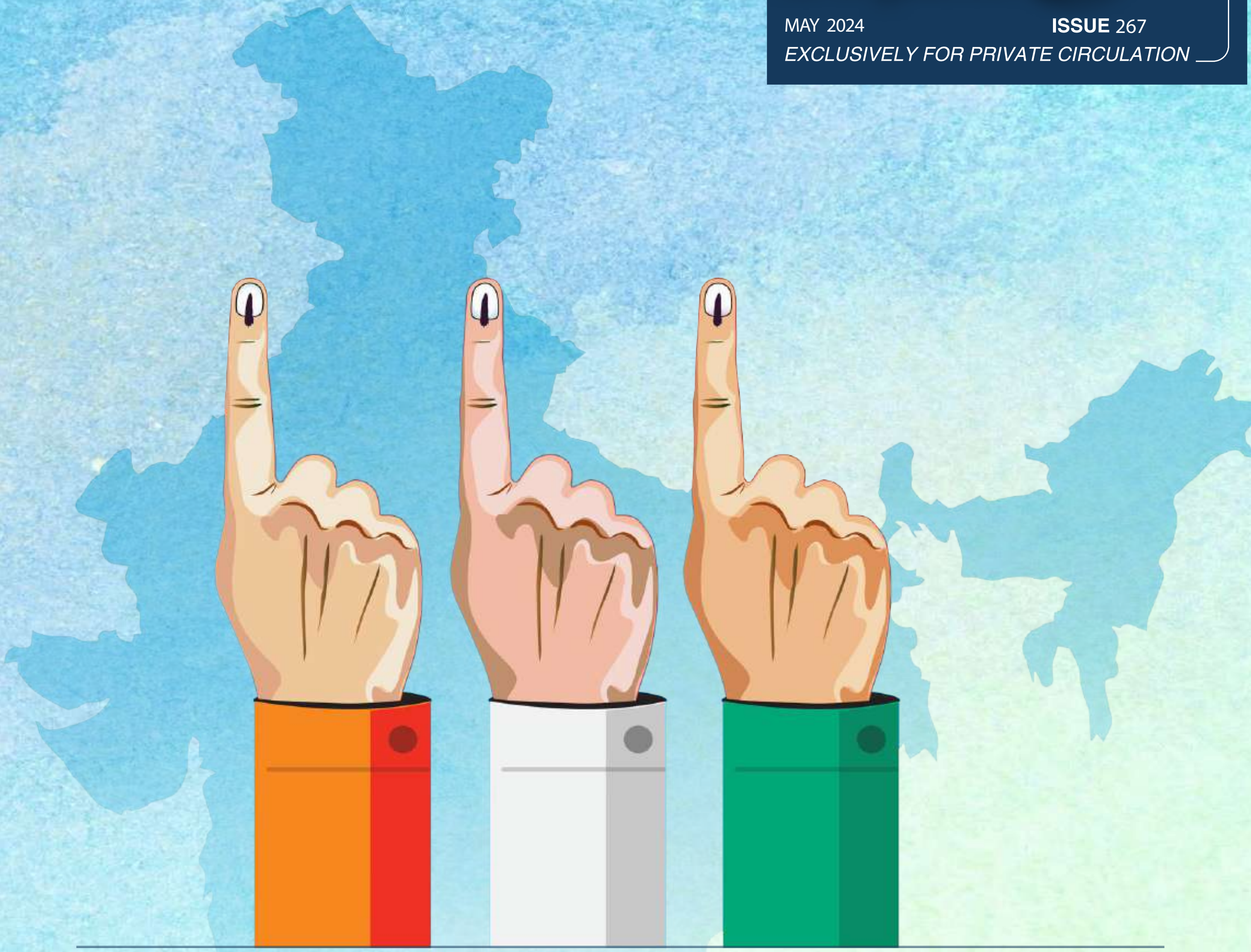

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CONTENTS

# EQUITY MARKET OVERVIEW

*APRIL 12, 2024 TO MAY 13, 2024*

## Domestic Equity Market Update

Indian equity indices, i.e., S&P BSE Sensex & Nifty 50, ended the period on a negative note to the tune of 2% and 1.8%, respectively. Broader market indices such as S&P BSE Midcap delivered a positive return of 0.7% while S&P BSE Smallcap delivered a negative return of 1.3%.

On the S&P BSE sectoral front, Auto, FMCG and Power were the top performers. In contrast, IT, Oil & Gas and Consumer Durables were the biggest laggards. In April 2024, Foreign Portfolio Investors (FPIs) were net sellers in equities to the tune of ₹92 bn.

Indian equity indices declined, driven by geopolitical conflicts, worries about delayed US rate cuts, and on uncertainty surrounding the general state elections.

## Domestic Macroeconomic Updates

The International Monetary Fund (IMF) upwardly revised its growth forecast for India to 6.8% YoY for FY25 from 6.5% YoY projected in its January 2024 forecast. It also revised India's FY24 growth outlook upward to 7.8% YoY, higher than the government's projection of 7.6% YoY.

According to the Ministry of Commerce and Industry, the growth in output of eight key infrastructure industries slowed to 5.2% YoY in March 2024 from 7.1% YoY in February 2024.

According to the United Nations Conference on Trade and Development (UNCTAD), India's economy is projected to grow by 6.5% YoY in CY24, continuing to be the fastest-growing major economy in the world.

Global rating agency, Moody's reaffirmed India's credit rating at Baa3 with a stable outlook, expecting over 6% growth in the next two fiscal years.

According to CRISIL, India Inc. is likely to log 4-6% QoQ revenue growth in Q4 FY24, marking the slowest quarterly growth since recovery from the COVID-19 pandemic which began in September 2021.

As per S&P Global, the seasonally adjusted HSBC Manufacturing PMI dropped to 58.8 in April 2024 from 59.1 in March 2024.

As per Ministry of Statistics and Programme Implementation (MoSPI), net household savings declined sharply by ₹9 trillion to ₹14.16 trillion in three years to FY23.

As per MoSPI, Gross Capital Formation (GCF) or investment in manufacturing, construction, and mining sectors contracted in FY23 primarily due to a fall in export demand and low private consumption during the year. The fall in GCF in the three sectors comes at a time when overall GCF in the economy grew by 6.9% to ₹55.3 trillion at constant prices in FY23.

As per data from industry body Federation of Automobile Dealers' Associations of India (FADA), vehicle registrations in the country – a proxy for retail sales – went up by a robust 27% YoY to 2.2 mn units in April 2024.

As per data from Anarock, there has been average jump of 4-9% QoQ in residential rents for Q1 CY24 in the prominent localities of the top 7 cities.

As per the Commerce Ministry, India's drugs and pharmaceuticals exports increased 9.67% YoY to USD 27.9 bn in FY24 compared to USD 25.4 bn in FY23.

From Nifty 200 universe, 115 companies have announced their Q4 FY24 earnings thus far. At an aggregate level, Sales, EBITDA and PAT have grown by 11.32% YoY, 7.29% YoY and 21.77% YoY, respectively. Excluding Financials, Sales, EBITDA and PAT have grown by 8.30% YoY, 4.14% YoY and 21.24% YoY, respectively.

## Global Market Updates

US equities (S&P 500, Dow Jones Industrial Average) ended the period on a positive note as investors cheered a wave of excellent earnings releases from big companies in the US. Weak jobs data and unexpected spike in jobless claims data has raised optimism for a Federal Reserve (Fed) interest rate cut this year.

European equities ended the period on a positive note on expectations of rate cut by the European Central Bank (ECB) and improved UK growth data. Eurozone business activity data coupled with hope for a rate cut by US helped to boost the market's sentiments further.

Brent crude price declined from USD 90.45 per barrel to USD 83.36 per barrel following information revealing an unanticipatedly large increase in US oil stocks. Further, prices fell due to easing Middle East tensions and signs of weak US demand.

## Fund Managers' Corner

As per the fund managers, interest rate movements, global slowdown concerns, mixed management commentary, elevated crude prices, volatility in US bond yields, general elections in India, and major earnings downgrades could pose risks to Indian equities in the medium term. Nevertheless, strong domestic macros and high-frequency indicators, government-led capex traction, improvement in private capex, and positive Domestic Institutional Investors (DII) flows may provide some respite. Fund managers are generally of the view that FPI outflows could be navigated through DII inflows.

From a medium to long term perspective, India stands to gain by virtue of quite a few positives. Healthy bank and corporate balance sheets, thrust on investment cycle revival, emphasis on Make in India, import substitution, Production-Linked Incentive (PLI) scheme, diversification of global supply chains away from China and Europe, and rising per capita discretionary consumption spends, among other factors, are likely to be the levers to drive equity market performance.

Domestic cyclical sectors -- such as Banks, Auto and Auto Ancillaries, Capital Goods, Infrastructure, Power, and proxy plays to Real Estate/Construction activity -- seem to be the most preferred investment avenues at this juncture. However incremental exposure to defensive sector like Pharma is also being seen. FMCG and other consumer durables segment growth still remain below expectations.

With the valuations rising across the board, the fund managers' ability to identify relevant themes and adjust their portfolios periodically could be drivers of relative outperformers vs. their peers, irrespective of their investing style. Given that return volatility due to sectoral rotation continues in the market, actively managed equity funds assume importance in an investor's portfolio.

Currently, from a risk-reward trade-off, Large Cap or Large Cap oriented funds seem better poised vs. Mid and Small Caps. While balance sheets have improved significantly in the small cap space, investors may consider exercising caution owing to a sharp jump in stock valuations, particularly in case of fundamentally weak companies.

| Domestic Indices | Close | Absolute Change | % Change |
|---|---|---|---|
| S&P BSE Sensex | 72776 | (1,469) | -2.0% |
| Nifty 50 | 22104 | (415) | -1.8% |
| Nifty Next 50 | 64354 | 1,287 | 2.0% |
| Nifty 500 | 20511 | (235) | -1.1% |
| S&P BSE 200 | 10167 | (109) | -1.1% |
| S&P BSE 100 | 23309 | (302) | -1.3% |
| Nifty Midcap 100 | 49735 | (332) | -0.7% |
| Nifty Smallcap 100 | 16038 | (459) | -2.8% |
| S&P BSE Bankex | 54508 | (377) | -0.7% |
| S&P BSE IT | 33788 | (1,994) | -5.6% |
| S&P BSE Auto | 51224 | 1,491 | 3.0% |
| S&P BSE FMCG Sector | 19871 | 537 | 2.8% |
| S&P BSE Oil&Gas | 27634 | (611) | -2.2% |
| S&P BSE Healthcare | 35094 | (168) | -0.5% |
| S&P BSE Cap Goods | 61805 | (447) | -0.7% |
| S&P BSE Metal | 30923 | 574 | 1.9% |
| S&P BSE Power | 7165 | 138 | 2.0% |
| S&P BSE Cons Durable | 51905 | (1,124) | -2.1% |
| S&P BSE Infra. | 578 | (10) | -1.8% |
| S&P BSE Realty | 7416 | (80) | -1.1% |

| Overseas Indices | Close | Absolute Change | % Change |
|---|---|---|---|
| S&P 500 | 5221 | 98 | 1.9% |
| Dow Jones Ind Avg | 39432 | 1,448 | 3.8% |
| Dax (Germany) | 18742 | 812 | 4.5% |
| FTSE (UK) | 8415 | 419 | 5.2% |
| Hang Seng | 19115 | 2,393 | 14.3% |
| Nikkei | 38179 | (1,344) | -3.4% |
| Shanghai Composite | 3148 | 129 | 4.3% |

*Source: Bloomberg*
*Note: Closing prices of all the above indices are as on May 13, 2024*

## Outlook & Investment Strategy

Going forward, Indian equity markets are likely to be driven by incoming macro data points, Q4 FY24 earnings data, development related to general elections, and FPI flows. Indian equities could see volatility if Iran-Israel conflict escalates as it threatens to engulf both emerging-market risk assets and commodity supply chains.

US economy is seeing resilience with the PMI data stabilising while the employment data remains strong. With April's jobs report showing weaker-than-expected payrolls growth and an unexpected tick higher in the unemployment rate, expectations of 2-3 rate cuts by the US Fed in CY24 are again rising.

In India, the market continues to expect domestic driven sectors across the board to outperform in the medium term, led by an improving capex cycle and steady demand conditions. Most of the macro data in India remains quite strong, suggestive of continued traction for corporate earnings. In the interim budget, the government has pushed its Capex spending estimates for FY25 by 16% YoY to ₹11.1 trillion (FY25 Budget Estimates vs. FY24 Revised Estimates). This is likely to support the ongoing investment activities in the economy. Equity valuations in many cyclical sectors have gradually moved into the higher end of the fair value zone, yet they continue to move higher on expectation of longevity of their growth trajectory. The run up to the elections and its result seems to have become the biggest near-term event to impact the market sentiments. Q4 FY24 results have started in a muted note and the performance of the companies would determine the market upsides in the near term. The differential between earnings performance may see a gradual narrowing in the number of outperforming stocks in the equity market. Capital Goods, Auto, and Power sector have outperformed most in terms of PAT growth, suggesting continued cyclical upturn.

In terms of valuations, the Largecap indices seem to be relatively reasonably valued than the Smallcap and Midcap indices, despite the recent correction. Overall, the valuations across the board are relatively high. Asset allocation rules should be adhered to strictly at this time in the market and the investors should lower their return expectations from the equity markets as the returns witnessed in the past couple of years may not be repeated in the medium term.

**Investment deployment strategy could continue to be at 40% lumpsum and rest 60% to be staggered over the next 5-6 months. Investors can look to focus on categories like Largecap, Flexicap, Multicap, Equity Hybrid and Multi-asset funds. In the Smallcap/ Midcap segment, investors could use large dips to invest, given the rich valuations. All allocations should be done in line with the risk profile and product suitability of the investor.**

# DEBT MARKET OVERVIEW