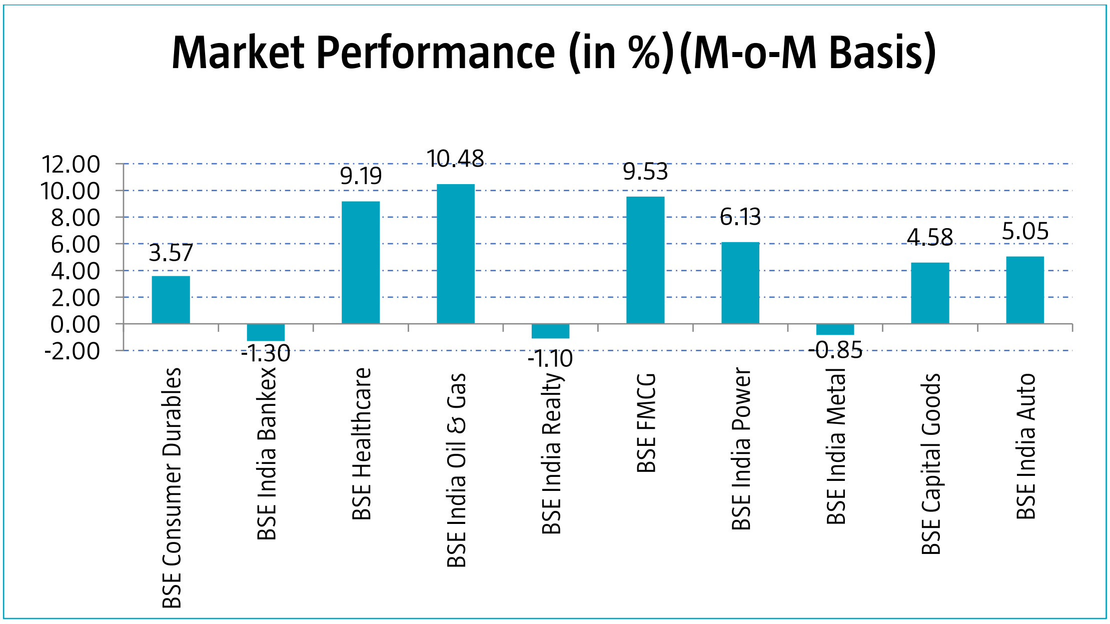
Equity Market Update

- In the month of Jul'24, equity markets reached a fresh high as Nifty 50 increased by 3.92% following the foreign fund inflows along with retreat in crude oil prices from the recent high of $90 per barrel mark. Markets rallying to fresh high were buoyed by the government's commitment to improving consumption and bridging the gap for energy transition in the Budget.
- Foreign Institutional Investors (FIIs) were net buyers in Indian equities to the tune of ₹32365.20 crore.
- Goods and Services Tax (GST) shows collection of ₹1.82 lakh crore for Jul'24, 10.3% more than the corresponding period of last year and this points towards the growing trajectory of the Indian economy.
- The combined Index of Eight Core Industries increased by 4.0% in Jun'24 as compared to 8.4% in Jun'23. The production of most of the Eight Core Industries recorded growth in Jun'24 over the corresponding month of last year except crude oil and refinery products. Coal witnessed the maximum growth at 14.8% in Jun'24 followed by electricity with 7.7% growth.
- Globally, US Equity Markets increased as the Institute for Supply Management's report, which revealed that U.S. manufacturing activity unexpectedly shrank at an accelerated rate in Jul'24 and raised questions about the country's economic outlook. Gains were further extended after softer-than-expected U.S. consumer inflation data in Jun'24. European markets fell as bank stocks experienced a decline following the Bank of England's decision to reduce its key interest rates and political instability in France. Asian equity markets mostly fell as China's industrial profits data disappointed in the first six months of 2024.



Note: The past performance may or may not be sustained in the future.

Source: MFI Explorer, ICRA Analytics Ltd. Data as on: 31st July'24

Equity Market Outlook

Global macro environment just turned more complex in last few weeks with US employment data turning weak, Japan Increased interest rates (when US is expected to cut rates) reversing Yen trade and Israel killing Hamas leader in Iran. These are all significant events and pose a risk to a low volatility market that has existed for several months now. On the other hand, the US growth is stabilizing at lower levels as the fiscal and monetary impulse is receding, employment data moderating and inflation is moderating gradually – and seems like it is in last leg now. This is leading to a possible goldilocks scenario where you might get lower inflation without hurting growth too much. Given the way growth inflation dynamics is in US – we expect faster interest rate cuts than anticipated earlier. We expect 50-75bps cut before Dec 2024. Europe is gradually stabilizing at modest growth, but not deteriorating further, as inflation and interest rates peak in most economies there. China continues to have challenges on growth revival due to ageing population and leverage in households/Real estate, which are structural in our view. Thus, commodities in general will remain muted for extended period, given >30-40% of every commodity is consumed by China. Geopolitical tensions are taking time to abate and are only getting complex. Given these tensions, supply chains and global trade has become vulnerable to new dimension now, missing till pre-covid. India remains one of the differentiated markets in terms of growth and earnings. In our worldview, 1) the Liquidity, 2) Growth and 3) Inflation surfaced post monetary and fiscal expansion in CY20-21 in that order and they will reverse in the same order during CY23-24. We have seen an initial downtick in inflation, which will accelerate in our view over the next few quarters. We expect 100-150bps of interest rate cuts over the next 12 months now. Inflation is taking more time than usual to recede given healthy household savings in US, elevated energy prices, tight labor markets and challenged supply chains – but latest data points are final cracks in inflation and growth data in US.

Indian macro remains best among large markets. Political stability looks almost given. CAD has improved significantly and is expected to be ~1% for FY24. Most domestic macro and micro indicators remain steady. Given these aspects, the domestic equity market remains focused on earnings. Earnings growth (13-15% earnings CAGR FY24-26E) remains relatively far better than most EM/DM markets. While the earnings are not getting upgraded significantly yet; they are resilient and seems to be bottoming. Financials, Auto, industrials, Telecom, Hospital and Real Estate are witnessing a healthy earnings cycle whereas FMCG, chemicals and IT continue to face headwinds. Indian equity market trades at 21FY26 earnings – with earnings CAGR of ~15% over FY24-26E – in a fair valuation zone from medium term perspective – given longevity of earnings cycle in India. The broader market has moved up >50% in last 1 year -capturing near term earnings valuation positives for FY24/25. Expect a rollover return as the earnings rollover to FY26. Given the upfronting of returns in mid and small caps (aided by very strong flows also), valuations are at 20-30% premium to past; we are more constructive on large cap from FY25/26 perspective. Domestic cyclicals continue to have earnings edge over global cyclical and consumption. Financials, Auto, RE, Cement, Industrials, Power, Hotels/Hospitals/Aviation on domestic side continue to display healthy earnings.

Having said this on near term earnings /market context, we believe that Indian economy is in a structural upcycle which will come to fore as global macroeconomic challenges recede over next few quarters. Our belief on domestic economic up-cycle stems from the fact that the enabling factor are in place viz. 1) Corporate and bank balance sheets are in best possible shape to drive capex and credit respectively, 2) Consumer spending remains resilient through cycle given our demographics, 3) Govt is focused on growth through direct investments in budget as well as through reforms like GST(increasing tax to GDP), lower corporate tax and ease of doing business (attracting private capex), PLIs(private capital through incentives for import substitution or export ecosystem creation) and 4) Accentuated benefits to India due to global supply chain re-alignments due to geopolitics. This makes us very constructive on India equities with 3-years view. We believe that India is in a business cycle / credit growth / earnings cycle through FY24-27E – indicating a healthy earnings cycle from medium term perspective.

Source: ICRA MFI Explorer

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