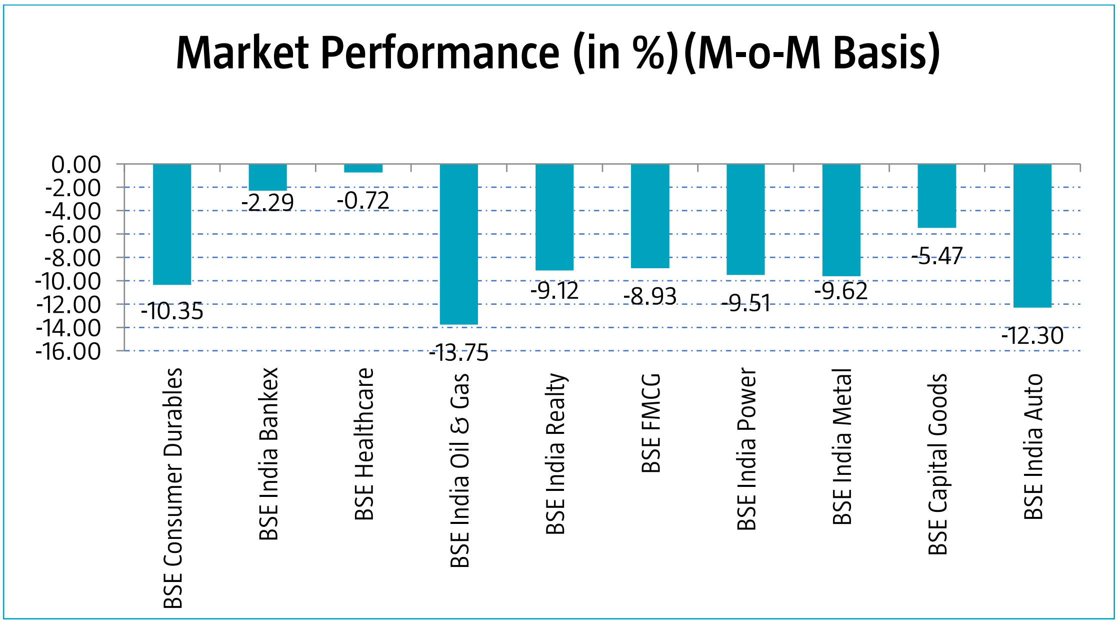
Equity Market Update

- In the month of Oct'24, Nifty 50 went south by -6.22% following a result of a widespread sell-off in all sectors as investors' desire for riskier assets was tempered by worries of a war between Iran and Israel. Continuous foreign fund outflows and rise in global crude oil prices on supply uncertainty amid escalating tensions in the Middle East due to the conflict also added to fall. Anxiety over the next U.S. election also contributed to the cautious undertone that predominated.
- Foreign Institutional Investors (FIIs) were net sellers in Indian equities to the tune of ₹ 94,016.92 crore.
- Gross Goods and Services Tax (GST) collections in Oct'24 stood at Rs. 1.87 trillion, the second highest collection so far since the time it was introduced, representing a 8.9% rise on a yearly basis and this points towards the growing trajectory of the Indian economy.
- The combined Index of Eight Core Industries increased by 2.0% YoY in Sep'24 as compared to 9.5% growth in Sep'23. Cement witnessed the highest rate of growth with 7.1% followed by Refinery products with 5.8% growth, while Crude oil fell the most by 3.9%.
- However, during the month, sentiment was boosted after the RBI in its latest monetary policy meeting shifted its stance from 'withdrawal of accommodation' to 'neutral'. Equity market sustained a bit due to the infusion of retail investors and the strength of India's economic growth.
- Globally, U.S. equities markets decreased due to weak earning numbers from major tech companies and on expectations that the U.S. Federal Reserve will reduce interest rates at a slower pace than desired. European equities markets experienced a decline as investors responded to a range of regional economic indicators, the U.K. budget, and company earnings updates, as well as closely observing U.S. economic data and keeping an eye on geopolitical developments. Asian markets too declined due to ongoing tensions in the Middle East. In Japan, policy uncertainties loomed over the market after the ruling Liberal Democratic Party lost its parliamentary majority in the recent election.



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

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

Equity Market Outlook

The global macro environment just turned even more complex with latest US unemployment and growth data being resilient than estimated. Inflation and other data points indicating that inflation while cooling on headline, the core Personal Consumption Expenditures (PCE) is not receding incrementally – pushing back aggressive rate cut hopes. This led to US 10-year rallying from 3.7% to 4.3% as we write this outlook. The dollar index continued to strengthen because of Republican Party's victory in the upcoming election, a negative for all Emerging Market (EM) capital flows in the near term. All EM's, except China witnessed capital outflow during October. Geopolitics in the middle east, Ukraine-Russia (and now even N-S Korea) is clearly on an escalator path, adverse for growth and energy prices both. These are all significant events and pose a risk to a low volatility market that has existed for a few years now, both globally and locally. The US growth is stabilizing at lower levels (but resilient) as the fiscal and monetary impulse is receding, employment data moderating and inflation is moderating gradually – although not as much as was expected lately. The latest PCE in the US is running at 2.1% now. This is leading to a possible goldilocks scenario where you might get lower inflation without hurting growth too much. We expect another 25bps cut before Dec 2024 and another 100-125bps in CY25. Europe is gradually stabilizing at lower levels (but manufacturing continues to suffer), as inflation and interest rates peak in most economies in the Euro area. China continues to have challenges on growth revival due to ageing population and leverage in households/Real estate, which are structural in our view. China reacted to this vicious cycle by giving sizable stimulus, leading to market moving up significantly (>15% over last 3 months). While this creates possibilities of commodities going up in near term, commodities in general may remain muted for extended period, given >30-40% of every commodity is consumed by China and this stimulus doesn't change structural challenges of China in our assessment.

Geopolitical tensions are taking time to abate and are only getting complex. Given these tensions, supply chains and global trade have 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.

Indian macro remains best among large markets. Political stability looks almost given. Current Account Deficit has improved significantly and is expected to be ~1% for FY25. 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 Emerging Markets/ Developed 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 20FY26 earnings – in a fair valuation zone from medium term perspective – given longevity of earnings cycle in India. The broader market has moved up >35% in last 1 year -capturing near term earnings valuation positives for FY25/26E. Expect a rollover return as the earnings rollover to FY27. 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. Select financials, select auto, Real Estate, 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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