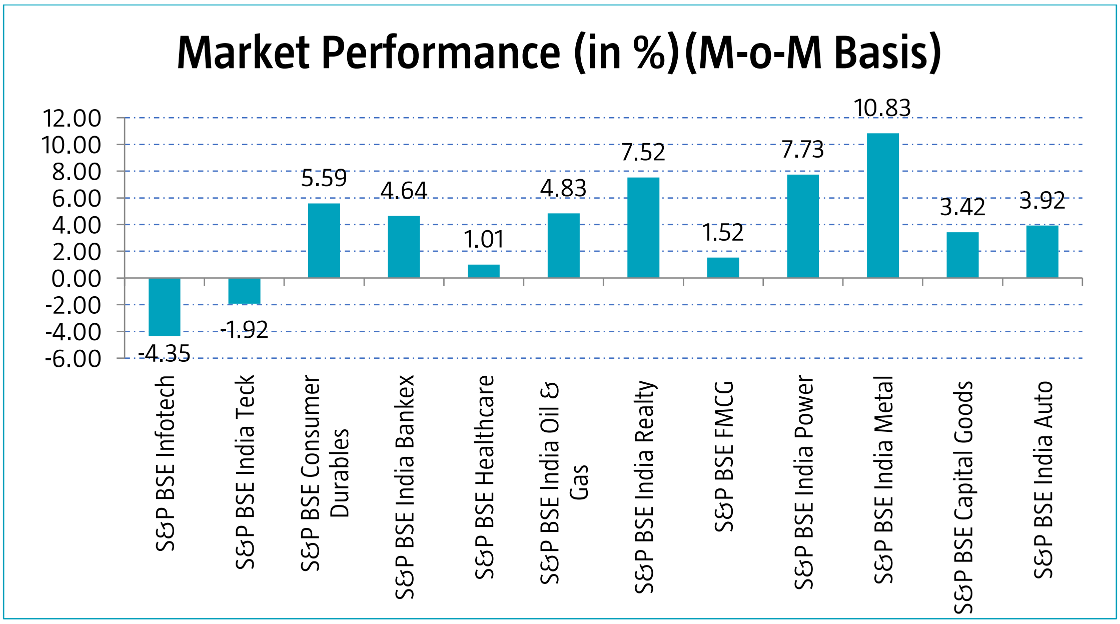
# Equity Market Update

- In the month of Apr'24, equity markets rose with increment in Nifty 50 of 1.24% on m-o-m basis as retail inflation eased. Upbeat corporate earnings in the final quarter of FY'24 and India's strong growth prospects and expectation of political stability in the upcoming general election kept the investors optimistic. A major global credit rating agency increased India's GDP growth forecast for the 2024 calendar year to 6.8% from 6.1% on the back of improving global economic conditions and India's strong economic performance in CY'23.
- Foreign Institutional Investors (FIIs) were net sellers in Indian equities to the tune of ₹ 8670.90 crore.
- Goods and Services Tax (GST) shows collection of ₹2.10 lakh crore for Apr'24, highest ever since the regime came into force in Jul'17, 12.4% 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 5.2% in Mar'24 as compared to 4.2% in Mar'23. The production of all Eight Core Industries recorded growth in Mar'24 over the corresponding month of last year except refinery products & fertilizers. Cement witnessed the maximum growth at 10.6% in Mar 2024 followed by coal with 8.7% growth.
- Globally, US Equity Markets declined after the Labor Department showed that the U.S. consumer price index climbed by 0.4% in Mar'24 and growing concerns that the U.S. Federal Reserve would postpone cutting interest rates. Additionally, persistent tensions in the Middle East weighed on the market sentiments. European equity markets fell with continuing uncertainty over the U.S. Federal Reserve interest rate decisions. on hopes that several central banks will likely decrease interest rates sooner than later. Asian equity markets fell too as there were doubts about the path of rate decreases by the U.S. Federal Reserve. Due to worries that the Bank of Japan will raise interest rates further due to persistent inflation, the Japanese market plummeted. The Chinese market fell when the country's export and import data for Mar'24 fell well short of forecasts.




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

*Source: MFI Explorer, ICRA Analytics Ltd. Data as on: 30th Apr'24*

# Equity Market Outlook

Global macro environment while remains complex on geopolitical front, it seems to be stabilizing on the economic front. US growth is stabilizing, employment data remains healthy, and inflation is moderating gradually. This is leading to a possible goldilocks scenario where you might get lower inflation without hurting growth too much. Having said this, inflation remains higher at around 3-3.5% and growth and employment data too strong – a recipe for delayed timelines for interest rate cuts. We are now expecting interest rates cuts only post August'24. Europe is gradually stabilizing at lower growth /degrowth state, 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 and 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 next few quarters. 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.

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 (>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, Cement, Telecom, Hospital and Hotels 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 – 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), valuation premium of mid/small caps over past; we are more constructive on large caps from FY25/26 perspective.

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 3years view. We believe that India is in a business cycle / credit growth cycle through FY24-27E – indicating starting of healthy earnings cycle from medium term perspective.

*Source: ICRA MFI Explorer*

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