Market Review
August 2024

Macroeconomic Update

Global growth softened driven by some moderation witnessed in the US while economic activity in Europe and China remained subdued. US labour market eased with Non-Farm Payroll (NFP) below expectations and unemployment rate inching up to 4.3%, a near 3 years high. Further, the housing and manufacturing sectors activity remained muted. On the flip side, US growth surprised on the upside for Q2CY24 led by resilient consumption. Further, monthly retail sales and activity in the services sector continued to be buoyant. China's growth moderated to 4.7% in Q2CY24, below market expectations. China's industrial profit remained steady while its real estate activity continues to reel under pressure. There are growing concerns over China not being able to achieve the 5% GDP growth target in CY24.

Inflation moved within a narrow range and largely on expected lines across most major economies. While most central banks maintained status quo on monetary policy, Bank of Japan indicated that it will continue to raise rates to achieve its inflation goal. On the other hand, US FOMC Chairperson Jerome Powell in his Jackson Hole speech indicated that it's “time to adjust the policy” and Fed is likely to tilt towards relatively easier monetary policy as the growth, labour market and inflation moves into better balance. Further, ECB is also expected to cut repo rate again in September 2024 in view of muted inflation.
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India's GDP growth moderates, internals favourable: Q1FY25 GDP growth softened to 6.7% (4QFY24: 7.8%), lower than RBI estimate of 7.1%. However, internals were encouraging as reflected in healthy growth in both investments and consumption. Private consumption picked up possibly aided by revival in rural consumption. Further, investment (GFCF) growth remained robust supported by resilient private capex. Growth in exports outpaced the imports. Weak government consumption amid elections dragged down the growth to a certain extent.

On the production side, real GVA growth stood at 6.8% (4QFY24: 6.3%) supported by growth in industry led by electricity and construction while manufacturing growth remained healthy. Services sector growth was largely driven by public administration etc. (growing at 9.5%), despite weak government spending—reflecting robust spending by defense and other public sector entities. In line with firm private consumption, the trade, hotels, transport, etc. also grew at an improved pace. Agriculture sector growth remained sluggish at 2.0%, albeit better than last quarter, given the impact of the heatwave.

Quarter ended (YoY, %)	**Mar-24**	**Jun-24**		**Mar-24**	**Jun-24**
GDP	7.8	6.7	GVA	6.3	6.8
Private Consumption	4.0	7.4	Agriculture, Forestry and Fishing	0.6	2.0
Government Consumption	0.9	-0.2	Industry	8.4	8.3
Gross Capital Formation	8.0	7.1	Manufacturing	8.9	7.0
Gross Fixed Capital Formation	6.5	7.5	Construction	8.7	10.5
			Services	6.7	7.2
Exports	8.1	8.7	Trade, Hotels, Transport, etc.	5.1	5.7
Imports	8.3	4.4	PADO	7.8	9.5

While the headline GDP growth remains lower than expected, internals were favourable. Growth is expected to pick up in view of likely pick up in government spending along with steady improvement in rural consumption in view of favourable monsoon. Urban consumption is likely to moderate and can marginally offset the impact.

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Macroeconomic Update (contd...)

Indian economic activity softens in Q2FY25: Indian economic activity moderated in recent months reflected in weakness in retail PV registration, freight tonnage movement, and higher unemployment (as per CMIE survey). CV and tractor retail sales along with power demand also contracted on YOY basis. However, some economic activity indicators held up well with manufacturing and services PMI remaining buoyant and 2W retail registration growing at a steady pace along with GST collections.

Indicators	Units	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24
Retail registration - Auto@									
2W	YoY, %	15.4	13.6	5.8	33.7	2.8	5.0	17.3	6.3
PV		16.3	15.5	-3.2	19.9	2.9	-3.7	11.0	-3.8
MHCV		2.5	0.5	-14.4	-4.7	-3.1	-4.3	10.0	-8.2
LCV		-3.9	-0.3	-7.4	-1.5	1.8	-8.1	1.9	-6.7
Tractors		23.9	12.8	-1.8	2.5	-1.1	-27.5	-13.6	-12.4
Gross GST Collection		11.7	12.5	11.5	12.4	10.0	7.6	10.3	10.0
Average E-Way bill generated		16.4	14.8	13.9	14.5	17.0	16.3	19.2	
Power demand		6.1	4.7	9.1	10.5	15.3	8.9	8.5	-4.9
Digital Spending (UPI + IMPS)		35.5	40.6	33.5	32.6	31.6	32.1	29.9	26.2
Railway Freight Tonnage		6.4	10.1	9.5	1.4	3.7	10.1	4.6	
Manufacturing PMI^	Index	56.5	56.9	59.1	58.8	57.5	58.3	58.1	57.5
Services PMI^	Index	61.8	60.6	61.2	60.8	60.2	60.5	60.3	60.9
Unemployment*	%	7.4	8.1	7.4	8.1	7.3	9.0	7.7	8.5

Source: www.gstn.org.in, www.icegate.gov.in, CMIE, PIB, RBI, www.vaahan.parivahan.gov.in, www.posoco.in
^Number >50 reflects expansions and number <50 reflects contraction compared to previous month. @ - figures are preliminary data and are subject to revision.
* based on CMIE survey

India's economic indicators have been mixed in recent months with some slowdown visible in select pockets. Overall, we expect growth to remain relatively better, albeit lower than last year.

Trade deficit widens, likely to remain range bound: Trade deficit rose in July 2024 primarily driven by rise in NONG imports. Higher electronics, vegetable oil and machinery imports resulted in NONG imports rising. Further, NONG exports declined slightly driven by engineering goods and chemicals. This was partly offset by lower oil imports.

The trade deficit is likely to remain within a similar range in view of resilient domestic demand, easing oil prices and expectations of pick up in exports on back of improvement in global trade. This along with potential healthy growth in services exports is likely to keep current account within manageable range in FY25.

Amount in USD billion	Jun-24	Jul-24	Change
Trade Deficit / (Surplus)	21.0	23.5	12.0%
Net Oil Imports	9.5	8.6	-9.3%
Net Gold Imports*	2.8	2.8	-1.8%
NONG^ net imports	8.6	12.1	40.1%

Source: CMIE, Ministry of Commerce; *Net Gold includes gold, silver and pearls precious & semiprecious stones adjusted for gems and jewellery exports. ^NONG refers to Non-Oil Non-Gold (as defined above) imports/exports

Central government finances in a comfortable position: Fiscal deficit declined in 4MFY25 on back of robust growth in direct tax collections primarily driven by personal income tax. Non-tax receipt also rose on back of large increase in dividends from RBI. On the spending side, while capex picked up in July 2024, on FYTD basis it was down 17.6% on account of delay in spending due to elections. Revenue spending also remained muted.

INR billion	4MFY24	4MFY25	Change (YoY)
Gross tax revenue	8,942	10,842	21.3%
Total Direct Tax	4,333	5,791	33.6%
Total Indirect Tax	4,609	5,052	9.6%
Less: Share of States & others	3,116	3,690	18.4%
Net Tax collection	5,826	7,152	22.8%
Non-Tax Revenue	1,788	3,018	68.8%
Total Revenue Receipts	7,614	10,170	33.6%
Total Capital Receipts	137	64	-53.4%
Total Receipts	**7,751**	**10,234**	**32.0%**
Total Revenue Expenditures	10,636	10,391	-2.3%
Total Capital Expenditures	3,171	2,613	-17.6%
Total Expenditures	**13,807**	**13,004**	**-5.8%**
Gross Fiscal Deficit	**-6,056**	**-2,769**	**-54.3%**
Fiscal Deficit as % of GDP	**-2.2%**	**-0.9%**	

Source: CMIE

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Macroeconomic Update (contd...)

While the fiscal deficit has been substantially low till July 2024, pick up in government spending is likely to normalise the same. Government announced the full budget for FY25 wherein it estimates the deficit to narrow to 4.9% (interim budget estimate: 5.1%) of GDP. The revenue and spending assumptions for FY25 appear realistic and achievable.

Retail inflation eased sharply, likely to remain range bound: India's July CPI eased to 3.5% YOY primarily driven by favourable base effect. Food and beverage inflation moderated in July 2024 driven by lower YoY vegetable inflation. On sequential basis, food prices, however, rose by 2.5% on back of 3.2% increase in June 2024. Transportation and communication rose on YoY basis due to increase in mobile tariffs by major telecom companies during the month. Core CPI remained benign.

YoY, %	Jun-24	Jul-24	Change in %
CPI	5.1	3.5	-1.6
Food & Beverages	8.4	5.1	-3.3
Fuel and Light	-3.6	-5.5	-1.9
Housing	2.7	2.7	-
Transportation & communication	1.0	2.5	1.5
Core CPI[@]	3.8	3.7	-0.1

Source: CMIE; @-CPI excluding food, fuel, transportation & housing

CPI is expected to remain range bound in near term aided by favourable base effects, benign input price pressure, arrival of new crops easing food inflation and sluggish core CPI momentum.

Commodity prices: Oil prices remained under pressure during the month, despite rise in geopolitical risks, driven by weak demand outlook for China and possibility of increase in oil production by OPEC+. Most industrial commodity prices increased during the month.

	Market price (USD)*	Aug-24 (%)^	FYTD25 (%)[&]
Brent Crude (per barrel)	78.8	(2.4)	(9.9)
Gold (per ounce)	2,503	2.3	12.3
Steel (per tonne)	470	(7.8)	(7.8)
Zinc (per tonne)	2,862	8.6	19.7
Copper (per tonne)	9,215	2.2	5.6
Aluminium (per tonne)	2,424	8.8	5.6
Lead (per tonne)	2,027	0.1	3.1

Source: Bloomberg; *Market prices as on August 31, 2024. ^M-o-M change. & - Change in FYTD25

Summary and Conclusion:

Global economic activity momentum continued to moderate after a subdued Q2CY24. The outlook on growth remains uncertain especially in view of ongoing weakness in the US labour market which has been the primary driver in sustaining global growth. Further, economic activity in China remains weak and impact of growth supportive measure has been relatively low till now.

India's growth, however, remains steady supported by buoyant manufacturing and service sectors. Above trend monsoon is supportive of agriculture activity and rural incomes. Investments remain supported by real estate activity, government capex spending and improvement in organised private corporate capex. Private corporate sector capital expenditure has potential to accelerate in view of low leverage, increasing capacity utilization, consistent corporate profitability, and a robust banking sector balance sheet. India's external sector also remains robust on the back of comfortable current account deficit and adequate forex reserves. Rise in geopolitical tension disrupting supply chains, sharp deceleration in global economic activity, etc. are key near-term risks.

Looking ahead, the medium-term outlook for India's economy appears optimistic. This optimism is fuelled by policy continuity, benefits from Production-Linked Incentive schemes, opportunities arising from shift in the global supply chain, enhanced infrastructure investments, the potential of resurgence in private sector capex, and the enduring robustness of consumption.

Equity Market Update

Nifty and BSE Sensex ended marginally higher in August 2024, compared to July 2024, after falling sharply during beginning of the month. The midcap and smallcap index returns were largely in line with the large-cap benchmarks. The sharp volatility experienced by global equity markets in the first week of the month was driven by risk of Bank of Japan raising rates aggressively which could result in unwinding of Yen carry trade. However, the market calmed down on comment by Bank of Japan that it will not raise rates if financial markets are volatile. The market recovered post the comment and was trading within a range for most part of the month. The market was driven by continued DII buying, steady growth in corporate profitability, healthy economic growth, favourable progress, softening in global growth, weakness in US labour market, etc. Sector indices witnessed mixed trend with Healthcare, IT and FMCG outperformed while capital goods, Power and Auto underperformed.

Equity markets in the US and Europe ended in positive while in Japan, Korea and China equities declined. Below are detailed tables outlining the performance of key domestic and global indices:

% Change in Indices	Aug-24	FYTD25^
BSE India Auto	(1.9)	20.1
BSE India Bankex	(0.9)	9.0
BSE India Capital Goods	(3.3)	20.1
BSE India FMCG	2.3	19.2
BSE India Healthcare	6.6	23.2
BSE India Metal	(1.0)	15.1
BSE India Power	(2.5)	22.8
BSE India Oil & Gas	1.3	19.3
BSE India IT	4.3	22.0
BSE SENSEX	0.8	**11.8**
NIFTY 50	1.1	**13.0**
NIFTY Midcap 100	0.5	**23.3**
NIFTY Smallcap	0.9	**26.4**

% Change	Aug-24	FYTD25^
S&P 500	2.3	7.5
Nasdaq	0.6	8.1
FTSE	0.1	5.3
DAX	2.2	2.2
CAC	1.3	(7.0)
Nikkei	(1.2)	(4.3)
Hang Seng	3.7	8.8
KOSPI	(3.5)	(2.6)
Shanghai	(3.3)	(6.5)
MSCI Emerging Market Index	1.4	5.4

Source: Bloomberg; ^Returns in FY25

FPIs bought equities worth USD 0.8 billion in August 2024 (July 2024: USD 3.9 billion) and have cumulatively bought equity worth USD 3.8 billion in 5MFY25 (5MFY24: USD 19.7 billion). DIIs bought net equity worth USD 5.8 billion in August 2024 (July 2024: USD 2.8 billion) and have cumulatively bought USD 24 billion in 5MFY25 (5MFY24: USD 3.1 billion).

Mutual funds flows were steady at ~INR 52,000 crore in July 2024 (June 2024: ~INR 51,500 crores) and cumulatively amounted to ~INR 180,000 crore in 4MFY25 (4MFY24: ~INR 31,000 crore).

In Q1FY25 results, earnings of PSU Banks, IT, Pharma, Chemicals and Capital goods sector were better than expected while that of Private banks, NBFCs, Auto, Metals, Oil & Gas, Consumer staples and durables were in line with expectations. Results of Infrastructure, Chemicals and Real Estate sectors were lower than expected.

Outlook

As on August 31, 2024, NIFTY 50 was trading at ~20x FY26E price to earnings multiple. Further, Market cap-to-GDP stood ~133% (based on CY24 GDP estimates) and the gap between 10Y G-sec yield and 1Y-Forward NIFTY 50 earnings yield* remains at elevated level [*Earnings yield = 1/ (one year forward P/E)*]. Thus, current valuation indicators are at a premium to their historical averages. However, this is partially due to structurally attractive nominal GDP growth, a healthy corporate earnings outlook and robust de-levered corporate and banking balance sheets.

Chart 1

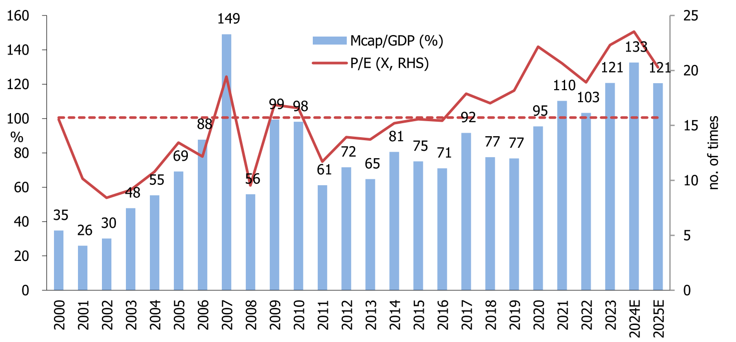
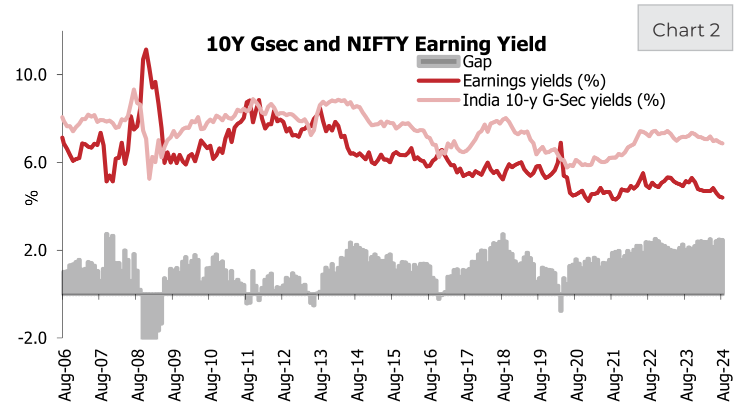


Chart 2



Source: Kotak Institutional Equities; For 2024 and 2025, the market cap as on August 31,2024 is taken and divided by GDP estimates for CY24 and CY25

Equity Market Update (contd...)

Except for private banks, valuations for major sectors are higher than long-term averages as shown in the table below:

	12 months forward Price to Earnings		
	31-Aug-24	LTA	Discount / Premium^
IT Services	28.9	20.6	40.3
PSU Banks@	1.4	1.1	26.7
Pharma	31.5	24.0	31.7
Metals	12.2	10.0	21.2
Oil and gas	15.8	12.3	29.0
Consumer staples	43.7	35.4	23.6
Consumer Discretionary	66.2	53.4	24.0
Auto	22.8	19.7	15.8
Private Banks@	2.4	2.6	-7.4

Source: Kotak Institutional Equities. Stocks are part of Kotak Institutional Equities universe.
LTA – 10 Years average. Cells in green are sectors which are trading at premium. All figures are calculated based on 12 months forward estimates.
^to Long term (LT) average, @-Price to Book value

The rally over the past year and half has been broad and small cap and mid cap indices have significantly outperformed. These trade at a noteworthy premium to their long-term average valuation as well as large caps valuation. Given the aggregate valuation being higher than historical average, the importance of stock selection increases even more.

Our medium to long term positive outlook on Indian equities remains unchanged driven by the structurally robust domestic growth outlook, healthy corporate profitability, and supportive pro-growth policies. However, near-term risks include a significant global growth slowdown, heightened geopolitical tensions, slowdown in government's reforms momentum, etc.

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Debt Market Update

Gsec yields continued a broad-based decline with 10Y Gsec yield ending the month at 6.86%, down 7 bps, after falling 8 bps in July 2024. The yields at the long end fell more than the short end, resulting in flattening of the yield curve. This was driven by likelihood of expectations of higher High Quality of Liquid asset (HQLA) by banks in view of RBI draft circular raising HQLA asset requirement. Further, FPI buying continued to remain strong. Apart from aforesaid, key factors and events which influenced the fixed income markets, include fall in US yields and oil prices, benign domestic core CPI, status quo RBI policy, affirmation of India's sovereign rating by Fitch at BBB-/Stable, etc. The 10-year corporate bond spreads over Gsec widened compared to last month. The table below gives a summary view of the movement of key rates and liquidity:

	Jul-24	Aug-24	Change (in bps)
MIBOR Overnight Rate (%)	6.55	6.80	0.25
3M Gsec yield (%)	6.67	6.63	-0.04
10Yr Benchmark G-Sec Yield^ (%)	6.93	6.86	-0.07
AAA 10Year Corporate Bond Yields#,& (%)	7.49	7.46	-0.03
AAA 10Y Corporate bond spread against 10Y benchmark@ (bps)	56	60	4
Average net liquidity absorbed/infused by RBI* (INR billion)	1,027	1,509	46.9%

NM – not meaningful. ^-bi-annual yield; #-annualised yield; & - Average yield of 8.62% NABARD bond maturing on 14-Mar-2034 provided by independent valuation agencies has been taken. @ - Spreads calculated by subtracting non-annualised Gsec yields from annualised corporate bond yields.
*Average net daily liquidity infused / absorbed through Liquidity Adjustment Facility, exports refinance, marginal standing facility and term repos/reverse repos. Source: Bloomberg, RBI

Average interbank liquidity improved in August 2024 driven by pick up in government spending and decline in currency in circulation.

FPIs bought debt (including under voluntary retention route) worth USD 2.0 billion in August 2024 (July 2024: USD 1.9 billion). FPIs have bought net debt worth USD 6.3 billion in 5MFY25 as against net buying of USD 2.7 billion during the same period last year.

Outlook

RBI delivered a status quo policy in August 2024 and minutes of the meeting were also largely in line with expectations.

Over the past couple of months, yields have moved lower and benchmark 10Y Gsec yield is now trading below 6.9% (~15 bps lower than end-June 2024) partly reflecting favourable SLR demand and supply situation and global risk off sentiments triggered by weakening in US labour market.

In our view, fixed income remains favourably placed over the medium term, considering:

- Global growth is increasingly showing signs of slowdown and AE central banks have begun to reduce policy rates and RBI is also expected to cut policy rates in H2FY25.
- Central government fiscal deficit is expected to consolidate to 4.9% of GDP (FY24: 5.6%) in FY25 and target of bringing down it to less than 4.5% of GDP by FY26 remains unchanged. This should keep market borrowings within manageable levels.
- Additional gain due to higher-than-expected RBI dividend and expectations that it could remain at an elevated level in next year as well.
- Inclusion of India's sovereign securities in JP Morgan global bond indices bodes well for demand outlook for G-Sec in FY25. Further, draft circular released by RBI on Liquidity Coverage Ratio (LCR) which, if implemented, could increase the SLR demand by banks
- Core CPI momentum remains subdued on back of lower input price pressure.
- External sector remains comfortable in view of steady growth in services exports, fall in oil prices and adequate foreign exchange reserves.
- Revision of India's sovereign rating outlook to positive (Rating unchanged at 'BBB-') from stable by S&P enhances the possibility of rating upgrade for India in next couple of years.

Key risks to the favourable outlook:

- Regular food price shocks keeping headline CPI at an elevated level.
- Robust credit growth and elevated SLR holdings can keep the incremental demand for G-Secs from banks subdued.
- Significant rise in commodity prices especially oil driven by escalation of geopolitical tensions.

Overall, in our view, yields are likely to trade with a downward bias and the long end of the yield curve is likely to outperform over the medium term. Thus, as highlighted in past, investors with a relatively longer investment horizon, could continue to increase allocation to longer duration funds in line with individual risk appetite. Further, while yield curve has steepened slightly, in view of elevated short-term rates along with expectations of rate cuts in H2FY25, one may also consider investment in short or medium duration categories of debt funds.

Source for various data points: Bloomberg, NSDL, CMIE, RBI, Kotak Institutional Research, World Bank, Daily valuation provided by ICRA/CRISIL.

Glossary

AE	Advanced Economies
BoE	Bank of England
BoJ	Bank of Japan
BoP	Balance of Payment
bps	Basis points
CAGR	Compound Annual Growth Rate
CMIE	Centre for Monitoring Indian Economy
CPI	Consumer Price Index
CRR	Cash Reserve Ratio
CV	Commercial Vehicle
DIIs	Domestic Institutional Investors
EA	Euro Area
ECB	European Central Bank
FOMC	Federal Open Market Committee
FPI	Foreign Portfolio Investment
GDP	Gross Domestic Product
GST	Goods and Services Tax
GVA	Gross Value Added
IMD	India Meteorological Department
INR	Indian Rupee
IMF	International Monetary Fund
IMPS	Immediate Payment System
JGB	Japanese Government Bonds
LCV	Light Commercial Vehicle
Mbpd	Million Barrels Per Day
MHCV	Medium and Heavy Commercial Vehicle
MIBOR	Mumbai Interbank Offered Rate
M-o-M	Month on Month
MPC	Monetary Policy Committee
MSP	Minimum Support Prices
NABARD	National Bank for Agriculture and Rural Development
NBFC	Non-Banking Financial Company
NONG	Non-Oil Non-Gold
NSO	National Statistical Organization
OMO	Open Market Operation
PIB	Press Information Bureau
PLI	Production Linked Incentive
PMI	Purchasing Managers' Index
PPI	Producer Price Index
PSU	Public Sector Undertaking
PV	Passenger Vehicle
RBI	Reserve bank of India
RE	Revised Estimates
RRR	Reserve Ratio Requirement (for banks in China)
SLR	Statutory Liquidity Ratio
UPI	United Payments Interface
US	United States of America
USD	United States Dollar
UST	US Treasuries
YoY	Year on Year