



Nippon **india** Mutual Fund

Wealth sets you free

EQUITY

Market Outlook

August 2024



Good gets *better*

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

Macro and Equity Market Outlook

GLOBAL MACRO & MARKETS

India's NSE NIFTY index rose to higher levels in July 2024, (+3.92%) MoM, amidst volatility owing to the Union Budget 2024. Major global indices, the S&P500 (+1.1%), the Euro 50 (-0.4%), the Morgan Stanley Capital International (MSCI) World (+1.7%), and the Japanese NIKKEI (-1.2%) ended the month, July 2024 with mixed results on a sequential basis. Performance was also mixed among Emerging Market (EM) indices, with the Morgan Stanley Capital International Emerging Markets (MSCI EM) and the Hang Seng (Hong Kong) ending the month July 2024 lower, with returns of (-0.1%) and (-2.1%), respectively. The BOVESPA Brazil (BVSP) ended the month July 2024 with a growth of (+3%) MoM, while the MOEX Russia remained flat (+0.0%) in July 2024.

The London Metals Exchange (LME) Metals Index fell (-5.8%) in July 2024, as industrial growth data from China, the largest consumer of metals remained soft. The West Texas Intermediate (WTI) and Brent Crude fell MoM, by (-4.5%) and (-6.6%) respectively as United States (US) economic data remained weak, despite tensions in the Middle East looming ending July 2024.

The Dollar index depreciated by (-1.7%) through July 2024, with the US Dollar (USD) depreciating by (-0.1%) vis-à-vis Emerging Market (EM) currencies and remaining flat against the Indian Rupee (INR) on the spot market (+0.4%). India 10Y G-Sec yields fell by (-8 bps), while US 10Y G-Sec yield fell by (-37 bps), and the German Bund yield fell by (-19.6 bps), with rates settling at 6.92%, 4.02% and 2.30% respectively.

Domestic Macro & Markets

The BSE SENSEX (+3.4%) rose in July 2024, in line with the NSE NIFTY index. BSE Mid-cap and Small-cap indices outperformed the BSE Sensex, with growths of (+5.4%) and (+6.1%) respectively. Sector-wise, Infotech, Teck and Oil & Gas were the top 3 performers over the month, July 2024 clocking (+12.9%), (+11.2%), and (+10.5%), respectively. 10 of BSE's 13 sectoral indices ended the month, July 2024 in green.

Net Foreign Institutional Investors (FIIs) flows into equities were positive for July 2024 (+\$ 3.27 Bn, following -\$ 3.11 Bn in June 2024). The Domestic Institutional Investors (DIIs) remained net buyers of Indian equities (+\$2.80 Bn, from +\$3.43 Bn last month, June 2024). In CY2024, Net Foreign Institutional Investors (FIIs) Flows stood at (+\$3.60) Bn, while net Domestic Institutional Investors (DIIs) investments in the cash markets stood at (+\$31.29) Bn, outpacing Foreign Institutional Investors (FII investments).



India's high frequency data update:

Record levels of Goods and Services Tax (GST) collections, stable retail inflation, deflated input inflation, rising core sector outputs, and elevated credit growth augurs well for the Indian economy.

Purchasing Managers' Index Manufacturing PMI:

India's Manufacturing Purchasing Managers' Index (PMI) in July 2024 fell to 58.1 (vs 58.3 in June 2024), remaining in expansion zone (>50) for the 36th straight month driven by positive sentiment, strong production volumes and new order intakes.

Goods and Services Tax (GST) Collection:

The index of eight core sector industries decelerated YoY to (-4%) in June 2024, against a (+6.3%) jump in May 2024. This was the lowest growth witnessed in twenty months (20 months). 7 out of eight constituent segments grew YoY, driven by coal production (14.8% YoY) and with electricity generation falling to a seven-month low (7.7% YoY).

Industrial Production:

Factory output growth as measured by the Index of Industrial Production (IIP) accelerated to (+5.9%) in May 2024, vs a growth of (+5%) YoY in April 2024, driven by positive, and stable YoY growths in 3 major sectors- Mining, Manufacturing and Electricity.

Credit growth:

Scheduled Commercial Bank Credit growth reached (+14.01%) YoY as of 12th July 2024 against a YoY growth of (+20.07%) as observed on 14th July 2023, as a strong base effect came to play post the merger of HDFC and HDFC Bank.

Inflation:

June's 2024 Consumer Price Index (CPI) inflation rate accelerated MoM to (+5.08%), up from (+4.80%) in May 2024. Food inflation came in at a faster pace, at 9.36%. Wholesale Price Index (WPI) inflation accelerated to a sixteen-month high in June 2024, with the print at (+3.36%), 75 bps up from May 2024.

Trade Deficit:

Indian Merchandise Exports rose by (+2.56%) YoY to \$35.2 Bn in June 2024, while Imports rose by (+4.99%) YoY to \$56.18 Bn. Merchandise trade deficit narrowed by (-9.33%) YoY to \$20.98 Bn.

Market View

- Indian growth outlook remains as most lead indicators remain in the green. Longer term construct from a domestic growth point of view remains positive but well captured in near term equity valuations. From a market perspective the recent quarterly earnings growth was largely in line with expectations, however given the elevated valuations the room for disappointments are incrementally lower.
- The Union Budget 2024 remained focused on the fiscal consolidation path as laid out in the Interim Budget 2024, addressing skill development, agriculture, Ministry of Micro, Small and Medium Enterprises (MSMEs), climate change and digital penetration.
- The Union Budget 2024 also reflected the policy continuity with a continued thrust on Capex while attempting to create more employment opportunities and drive consumption.
- Investment cycle is expected to continue with greater participation from private sector, assuming no major shifts in the global dynamics and risk appetite.
- We believe mid-teen earnings improvement is possible at a broad level. Recovery in International demand conditions and local rural recovery can provide some upside and going forward its estimated that market performance may be largely dependent on earnings growth.
- In our view Large Cap oriented strategies like Large/Flexi/Multi Cap appear better placed while on the thematic space Banking & Financial services space appears interesting on relative valuations.
- In line with the medium-term perspective Mid and Small Cap allocations in staggered manner through the systematic route

Events to watch out for in August 2024:

Earnings Season:

Indian companies may continue to report earnings for Q1FY25/Q2CY24 from the beginning of July 2024 till the middle of August 2024. Early days but earnings have remained buoyant and in line with consensus expectations amidst robust economic growth.

Monsoon:

Till 2nd August 2024, cumulative rainfall was 4.4% above long-term average (LTA) while weekly rainfall was 18% above long-term average (LTA). On a cumulative basis, rainfall was excess in central India and southern India, normal in northern India, and deficient in east and north-east India. Out of the 36 sub-divisions, till date, nine have received deficient rainfall, 14 have received normal rainfall, and 13 have received excess rainfall.

The Reserve Bank of India (RBI) Meeting:

The Reserve Bank of India's (RBI's) monetary policy committee will meet to discuss the policy rate from 6-8th August 2024, with the announcement likely to be made on 8th August 2024. Inflation is within the RBI's tolerance band of 2-6%, with the latest print at 5.08% in June 2024. The RBI will closely track US policy trajectory, with the Federal Open Market Committee (FOMC) keeping rates unchanged at the end of July 2024, before tweaking the policy repo rate, which stands at 6.5% since February 2023.

Monthly Performance for Key Indices:

INDEX	2021	2022	2023	May-24	Jun-24	Jul-24
MSCI WORLD	20.1%	-19.5%	21.8%	4.2%	1.9%	1.7%
S&P 500 (US Markets)	26.9%	-19.4%	24.2%	4.8%	3.5%	1.1%
Euro 50	21.0%	-11.7%	19.2%	1.3%	-1.8%	-0.4%
MSCI EM	-4.6%	-22.4%	7.0%	0.3%	3.6%	-0.1%
HANG SENG	-14.1%	-15.5%	-13.8%	1.8%	-2.0%	-2.1%
Nifty 50 India	24.1%	4.3%	20.0%	-0.3%	6.6%	3.9%
LMEX LONDON METALS INDEX	31.8%	-11.5%	-5.6%	1.3%	-4.6%	-5.8%
BRENT	50.2%	10.5%	-10.3%	-7.1%	5.9%	-6.6%
DOLLAR INDEX SPOT	6.4%	8.2%	-2.1%	-1.5%	1.1%	-1.7%
BSE SENSEX	22.0%	4.4%	18.7%	-0.7%	6.9%	3.4%
BSE MIDCAP	47.4%	2.5%	40.8%	2.3%	8.5%	5.7%
BSE SMALLCAP	62.8%	-1.8%	47.5%	-0.1%	10.3%	6.1%
USDINR	1.7%	11.3%	0.6%	0.0%	-0.1%	0.4%

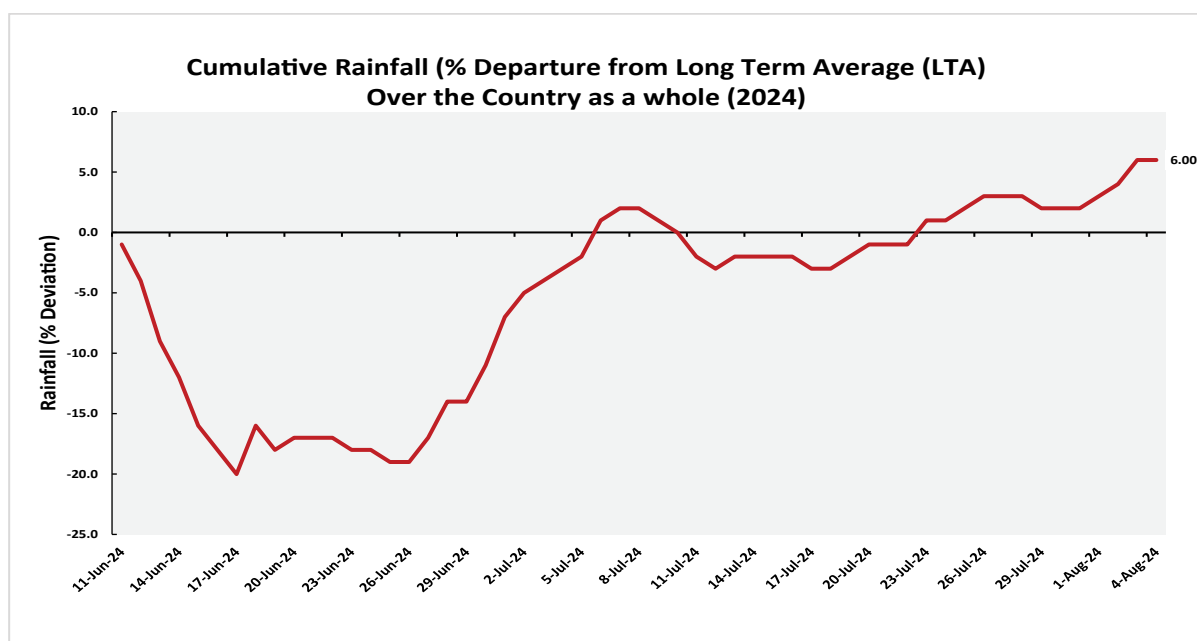
Source: Bloomberg .*Calendar year returns.

Note: Market scenarios are not reliable indicators for current or future performance. The same should not be construed as investment advice or as any research report/research recommendation.

Past performance may or may not be sustained in future.

Chart of the Month: No complaints from the monsoon:

Till 4th August 2024, cumulative rainfall was 6.4% above long-term average (LTA) while weekly rainfall was 18% above long-term average (LTA). Healthy monsoons augur well for Indian food inflation, as vegetable prices are seen to be moderating, decelerating to 3.9% YoY in the week ending 1st August 2024, from 8.9% YoY last year. Surplus reservoir levels, improving rainfall spreads, and higher than normal sowing of pulses all portend well towards the dousing of agflation which may enable the RBI to consider policy easing.



Source:

NIMF Research, CEIC, IMD

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