



Nippon **india** Mutual Fund

Wealth sets you free

EQUITY

Market Outlook

March 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 ended the month higher, +1.2% MoM, in February 2024. The S&P500 (+5.2%), the Euro 50 (+4.9%), the Morgan Stanley Capital International (MSCI) World (+4.1%), and the Japanese NIKKEI (+7.9%) rounded a second consecutive positive month for major global indices. Among Emerging Market (EM) indices, the Morgan Stanley Capital International (MSCI) Emerging Markets, the HANG SENG (Hong Kong), The Moscow Exchange (MOEX) Russia and the BOVESPA (BVSP) Brazil ended February 2024 in green, with returns of +4.6%, +6.6%, 1.3%, and +1.0% respectively.

The London Metal Exchange (LME) Metals Index was down (-1.0%) in February 2024, as top consumer China's demand outlook remained moderate, with manufacturing London Metal Exchange Purchasing Managers' Index (PMI) remaining in contraction in February 2024. West Texas Intermediate (WTI) and Brent Crude rose over the month, by +3.2% and +2.3% respectively as global oil markets remained volatile based on the sustenance of The Organization of the Petroleum Exporting Countries (OPEC+) production caps, anticipation of US inventory data and the situation in the Red Sea. The West Texas Intermediate (WTI) reached the highest prices seen since November 2023.

The Dollar index strengthened by +0.9% through February 2024, with the Dollar depreciating by -1.2% vis-à-vis Emerging Market currencies and depreciating by -0.2% against the Indian Rupee on the spot market. India 10Y G-Sec yields fell by -6.6 bps, while US 10Y G-Sec yield rose by +33.8 bps, and the German Bund yield rose by +24.5 bps, with rates settling at 7.08%, 4.25% and 2.41% respectively.

Domestic Macro & Markets

The S&P BSE SENSEX (+1.2%) rose in February 2024, in line with the NSE NIFTY Index. BSE Mid-cap index outperformed the S&P BSE SENSEX Index, rising by +1.6%, while the BSE Small-cap index ended the month -1% down. Sector-wise, Oil & Gas, Auto, and Realty were the top 3 performers over the month, clocking +6.7%, +6.4%, and +6.3%, respectively. 12 of S&P BSE's 13 sectoral indices ended the month in green.

Net Foreign Institutional Investors (FIIs) flows into equities were positive for February 2024 (+\$0.4 Bn, following -\$3.35 Bn in January 2024). Domestic Institutional Investors (DIIs) remained net buyers of Indian equities (+\$3.06 Bn, from +\$3.3Bn last month). In CY2024, Net Foreign Institutional Investors (FIIs) Flows stood at -\$2.7 Bn, while net Domestic Institutional Investors (DIIs) investments in the cash markets stood at +\$6.3 Bn, outpacing Foreign Institutional Investors (FIIs) investments.



India's high frequency data update:

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

Manufacturing PMI:

Manufacturing Purchasing Managers' Index (PMI) in February 2024 recovered to 56.9, at a five-month high and remained in expansion zone for the 32nd straight month driven by accelerating sales and new export orders.

GST Collection:

Gross collections of INR 1.68 Tn (+12.5% YoY, fourth highest ever recorded) in February 2024 concluded the twenty fourth consecutive month of collections over the INR 1.4 Tn mark, following record collections of INR 1.87 Tn in April 2023. Collections for 9 out of 10 months in this fiscal year crossed INR 1.6 Tn. Rising compliance, increased formalization of the economy, festive demand, and improved administrative efficiency have driven high tax collection buoyancy.

Core sector production:

The index of eight core sector industries grew by 3.6% in January 2024, against a 3.8% jump in December 2023, as an unfavourable base effect came into play. Six of the eight constituent sectors recorded positive YoY growths, with refinery products and fertilisers recording a YoY degrowth.

Industrial Production:

Factory output growth as measured by the Index of Industrial Production (IIP) index accelerated MoM in December 2023, with a rise of 3.8%, vs a growth of 2.4% YoY in November 2023, driven by muted, but positive YoY growths in all 3 constituent sectors- Mining, Manufacturing and Electricity.

Credit growth:

Scheduled Commercial Bank Credit growth reached 20.34% YoY as of 9th February 2024 against a YoY growth of 16.06% as observed on 10th February 2023.

Inflation:

January's 2024 Consumer Price Index (CPI) inflation rate reached a 3-month low of 5.1%, decelerating from 5.69% in December 2023. Food inflation remained elevated but falling, coming in at 8.3%. WPI inflation reached a three month low, with the January 2024 print at +0.27%, 46 bps down from December's 2023 at +0.73%, as WPI inflation printed positive for the third month in a row.

Trade Deficit:

Indian Merchandise Exports rose by +3.13% YoY to \$36.92 Bn in January 2024, while Imports rose by +2.99% YoY to \$54.41 Bn. Merchandise trade deficit narrowed by +2.7% to \$17.49 Bn as the global economic situation remained uncertain.

Market View

- India displays resilience with notable gains across major broad based indices, reflecting positive investor sentiment and confidence supported by demographic advantage, deregulation & policy reforms, digitization, and demand (aspirational spending).
- The earnings season gone by was strong, driven by margin tailwinds in domestic cyclicals (Autos and Financials) and global cyclicals (Metals and Energy) and the overall outlook towards domestic capital markets remains optimistic as the earnings cycle for 3QFY24 was in line with the expectations.
- Going forward the sentiment appears to be buoyant supported by India's relatively better macros, earnings outlook for India remains strong relative to emerging markets, driven by healthy credit demand and robust high-end consumption demand, possibility of higher foreign flows and the narrative around policy continuity in the upcoming general elections.
- We believe Large Cap oriented strategies across Large Cap and Flexi/Multi Cap categories appear to be better placed on a risk-reward basis while Asset allocation products can help to manage the downside risks.
- Asset allocation in line with investment goals and risk appetite is important for better risk – return optimization. Herein asset allocation funds can help in lowering volatility and provide better balance to the overall portfolio mix.

Other key updates:

Earnings Season 3Q FY24:

The earnings season gone by was strong, driven by margin tailwinds in domestic cyclicals (Autos and Financials) and global cyclicals (Metals and Energy). A higher number of companies in Energy, Auto, Healthcare, Industrials and Utilities had earnings revised upwards, while IT earnings delivery remained tepid. Interest rate and an uncertain global economic outlook continues to drive earnings expectations, which remained stable.

Oil Prices:

The coalition of Oil Producing and Exporting Countries (OPEC+) rolled over its production cut policy to the second quarter of 2024, in March 2024. Current production cuts remain at 2.2 Mn BPD (Barrels per day), with Saudi Arabia maintaining a 1 Mn BPD voluntary cut in production till the end of June 2024. Russia also agreed to cut its production by .47 Mn BPD until the end of June 2024. The situation in the Red Sea and the Israel-Hamas conflict remains an overhang for global oil markets.

Monthly Performance for Key Indices:

INDEX	2021	2022	2023	Dec-23	Jan-24	Feb-24
MSCI WORLD	20.1%	-19.5%	21.8%	4.8%	1.1%	4.1%
S&P 500 (US Markets)	26.9%	-19.4%	24.2%	4.4%	1.6%	5.2%
Euro 50	21.0%	-11.7%	19.2%	3.2%	2.8%	4.9%
MSCI EM	-4.6%	-22.4%	7.0%	3.7%	-4.7%	4.6%
HANG SENG	-14.1%	-15.5%	-13.8%	0.0%	-9.2%	6.6%
Nifty 50 India	24.1%	4.3%	20.0%	7.9%	0.0%	1.2%
LMEX LONDON METALS INDEX	31.8%	-11.5%	-5.6%	3.3%	-0.8%	-1.0%
BRENT	50.2%	10.5%	-10.3%	-7.0%	6.1%	2.3%
DOLLAR INDEX SPOT	6.4%	8.2%	-2.1%	-2.1%	1.9%	0.9%
BSE SENSEX	22.0%	4.4%	18.7%	7.8%	-0.7%	1.0%
BSE MIDCAP	39.2%	1.4%	45.5%	7.5%	5.3%	1.5%
BSE SMALLCAP	62.8%	-1.8%	47.5%	5.7%	7.1%	-1.1%
USDINR	1.7%	11.3%	0.6%	-0.2%	-0.2%	-0.2%

Source: Bloomberg . *Calendar year returns.

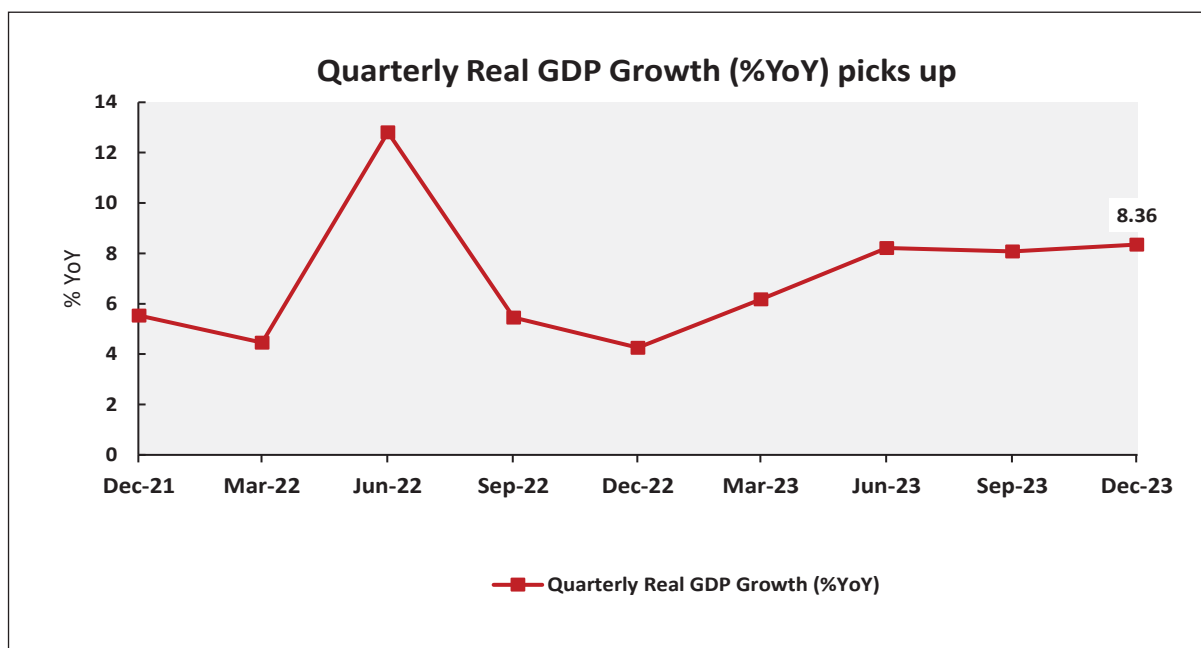
Note: Market scenarios are not reliable indicators for current or future performance. The same should not be construed as investment advice or as any research report/research recommendation.

Past performance may or may not be sustained in future.

Chart of the month :

Quarterly Real GDP Growth (%YoY) picks up

India's economy rose 8.4% in the October 2023–December 2023 period, the fastest pace seen in last six quarters and partly helped by a surge in manufacturing activity, according to data released by the government on 29th February'2024.



Source:

MOSPI, NIMF Research, CEIC

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