



# Nippon *india* Mutual Fund

Wealth sets you free

# EQUITY

## Market Outlook

### May 2024



Good gets *better*

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

# Macro and Equity Market Outlook

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## GLOBAL MACRO & MARKETS

India's NSE NIFTY index ended the month in green, up +1.2% MoM, in April 2024. The S&P500 (-4.2%), the Euro 50 (-3.2%), the Morgan Stanley Capital International (MSCI) World (-3.9%), and the Japanese NIKKEI (-4.9%) all ended the month in red. Among Emerging Market (EM) indices, the Morgan Stanley Capital International (MSCI) Emerging Markets, the HANG SENG (Hong Kong), The Moscow Exchange (MOEX) Russia ended April 2024 in green, with returns of +0.3%, +7.4%, +4.1%, respectively. The BOVESPA (BVSP) Brazil ended in negative in April 2024, with a return of -1.7% MoM.

The London Metals Exchange (LME) Index rose (+13.0%) in April 2024, as base metals gained, it drove global demand amidst tighter supplies. The West Texas Intermediate (WTI) fell, and Brent Crude rose MoM, by -1.5% and +0.4% respectively as high inventory levels drew prices lower. The Dollar index strengthened by +1.7% through April 2024, with the Dollar depreciating by -0.8% vis-à-vis Emerging Market (EM) currencies and remaining flat against the Indian Rupee on the spot market. India 10Y G-Sec yields rose by 13 bps, while US 10Y G-Sec yield rose by 48 bps, and the German Bund yield rose by 29 bps, with rates settling at 7.19%, 4.67% and 2.58% respectively.

# Domestic Macro & Markets

The S&P BSE SENSEX (+1.1%) rose in April 2024, in line with the NSE NIFTY index. BSE Mid-cap and Small-cap indices outperformed the S&P BSE Sensex, with performances of +7.1% and +9.6% respectively. Sector-wise, Metals, PSU and Power were the top 3 performers over the month, clocking +10.8%, +10.0%, and +7.7%, respectively. 11 of BSE's 13 sectoral indices ended the month in green.

Net Foreign Institutional Investors (FII) flows into equities were negative for April 2024 (-\$1.3 Bn, following +4 Bn in March 2024). The Domestic Institutional Investors (DIIs) remained net buyers of Indian equities (+\$5.3 Bn, from +\$6.78 Bn last month). In CYTD2024, Net Foreign Institutional Investors (FII) Flows stood at +\$0.04 Bn, while net Domestic Institutional Investors (DII) investments in the cash markets stood at +\$18.36 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 may augur well for the Indian economy.

### Manufacturing PMI:

India Manufacturing Purchasing Managers' Index (PMI) in April 2024 remained strong at 58.8 (vs 59.1 in March 2024), remaining in expansion zone for the 33rd straight month driven by accelerating output and new orders, underpinning strong demand conditions.

### Goods and Services Tax (GST) Collection:

Gross collections of INR 2.10 Tn (+12.4% YoY, highest ever recorded) in April 2024 concluded the twenty sixth consecutive month of collections over the INR 1.4 Tn mark, following previous record collections of INR 1.87 Tn in April 2023. Rising compliance, increased formalization of the economy, domestic transaction volume uptick, and growth in imports have driven elevated tax collections.

### Core sector production:

The index of eight core sector industries decelerated YoY to -5.2% in March 2024, against a +7.2% jump in February 2024 (Revised upwards from +6.7%). Six of the eight constituent sectors recorded positive YoY growths, with Fertilizers and refinery outputs recording a YoY degrowth.

### Industrial Production:

Factory output growth as measured by the Index of Industrial Production (IIP) index rose to a 4-month high in February 2024, with a rise of +5.7%, vs a growth of +3.8% YoY in January 2024, driven by positive YoY growths in 3 major sectors- Mining, Manufacturing and Electricity.

### Credit growth:

Scheduled Commercial Bank Credit growth reached 19.01% YoY as of 19th April 2024 against a YoY growth of 15.92% as observed on 21st April 2023.

## Inflation:

March's 2024 Consumer Price Index (CPI) inflation rate reached a 10-month low of 4.85%, decelerating from 5.09% in February 2024. Food inflation decelerated, coming in at 8.52%. Wholesale Price Index (WPI) inflation accelerated from February 2024, with the March 2024 print at +0.53%, 33 bps up from February 2024, as WPI inflation printed positive for the fifth month in a row.

## Trade Deficit:

Indian Merchandise Exports rose by +0.67% YoY to \$41.67 Bn in March 2024, while Imports fell by -5.98% YoY to \$57.27 Bn. Merchandise trade deficit widened by +17.74% YoY to \$15.59 Bn as oil exports decelerated.

# Market View

- India's growth story may continue to unfold positively, supported by a confluence of factors. FY24 was a good year for all categories in the market, with mid and small cap doing very well.
- Despite global headwinds like geopolitical tensions and commodity price volatility, the domestic economy has displayed resilience. Several tailwind indicators such as power demand, recovering rural demand, buoyant capital markets, improving corporate capex and external demand, rising industrial output led to a healthy investment climate and may provide a fillip to the economy leading to growth momentum.
- A notable trend in India's growth story is the improvement in capacity utilization, largely driven by cyclical and capital-intensive sectors which in turn suggests that corporates are investing to keep pace with rising demand in the economy.
- While the larger construct looks positive in India, valuations continue to remain elevated at a broad level with some exceptions like Large Banks, select utilities, commodities etc. With elevated valuations and rising bond yields, the equity risk premium tends to reduce.
- Given the election cycle across different countries, we can anticipate some policy shifts which in turn may lead to higher volatility/uncertainty in 2nd half of the year making a case of asset allocation strategies which can aid better risk management.
- Asset allocation in line with investment goals and risk appetite is important for better risk – return optimization. Herein asset allocation funds investing across two or more asset classes can help in lowering volatility and may provide better balance to the overall portfolio mix.
- From a pure equity perspective Large Cap oriented strategies like Large/Flexi/Multi Cap appear better placed in the current context while on the thematic space Banking & Financial services space appears interesting on relative valuations.

## Events to watch out for in May 2024

### Q4FY24 Earnings Season:

The Q4FY24 earnings season continues in May 2024, against the backdrop of a better-than-expected earnings season in the previous quarter. Earnings in general has been better than expected led by domestic cyclical segments. Information Technology (IT) services and Fast-moving consumer goods (FMCG) posted weaker than expected earnings so far. Management commentary around the outlook for FY25 profitability is one of the most important variables to watch out for.

### General Election Developments:

Voting for Indian General Elections which started on April 19th, 2024, which will run over six weeks in seven phases. Bulk of the polling will happen in May 2024. The third phase for elections will start from May 7th, 2024, with a total of 92 seats across 11 Union Territories (UTs) and states going to the polls. Policy continuation towards developmental agenda makes the elections a key monitorable for markets.

### Oil Prices:

Oil markets remain data driven, with United States (US) economic data leading to fresh concerns over near term demand, with aggravated crude inventories and potential easing of geopolitical risk leading to a drop in oil prices. When The Organization of the Petroleum Exporting Countries (OPEC+) cartel meets in June 2024, supply cuts are expected to be carried over into the second half of the next year. Oil prices in the context of supply cuts and weakening demand will be a monitorable for markets.

## Heat/ Monsoon:

The Indian Meteorological Department (IMD) forecasts an above normal monsoon (> 106% of long period average (LPA) rainfall). Climate model forecasts indicate neutral condition by the beginning of monsoon season and La Niña conditions during second half of monsoon season. The model forecasts also indicate positive Indian Ocean Dipole (IOD) conditions likely to develop during the monsoon season. With regards to the spatial distribution, forecasts indicate above normal rainfall is likely over most part of the country except some areas of north-west, East, and north-east India, where below normal rainfall is likely.

## Monthly Performance for Key Indices:

INDEX	2021	2022	2023	Feb-24	Mar-24	Apr-24
MSCI WORLD	20.1%	-19.5%	21.8%	4.1%	3.0%	-3.9%
S&P 500 (US Markets)	26.9%	-19.4%	24.2%	5.2%	3.1%	-4.2%
Euro 50	21.0%	-11.7%	19.2%	4.9%	4.2%	-3.2%
MSCI EM	-4.6%	-22.4%	7.0%	4.6%	2.2%	0.3%
HANG SENG	-14.1%	-15.5%	-13.8%	6.6%	0.2%	7.4%
Nifty 50 India	24.1%	4.3%	20.0%	1.2%	1.6%	1.2%
LMEX LONDON METALS INDEX	31.8%	-11.5%	-5.6%	-1.0%	3.2%	13.0%
BRENT	50.2%	10.5%	-10.3%	2.3%	4.6%	0.4%
DOLLAR INDEX SPOT	6.4%	8.2%	-2.1%	0.9%	0.3%	1.7%
BSE SENSEX	22.0%	4.4%	18.7%	1.0%	1.6%	1.1%
BSE MIDCAP	39.2%	1.4%	45.5%	1.5%	-0.1%	7.1%
BSE SMALLCAP	62.8%	-1.8%	47.5%	-1.1%	-4.6%	9.6%
USDINR	1.7%	11.3%	0.6%	-0.2%	0.6%	0.0%

Source: Bloomberg . \*Calendar year returns.

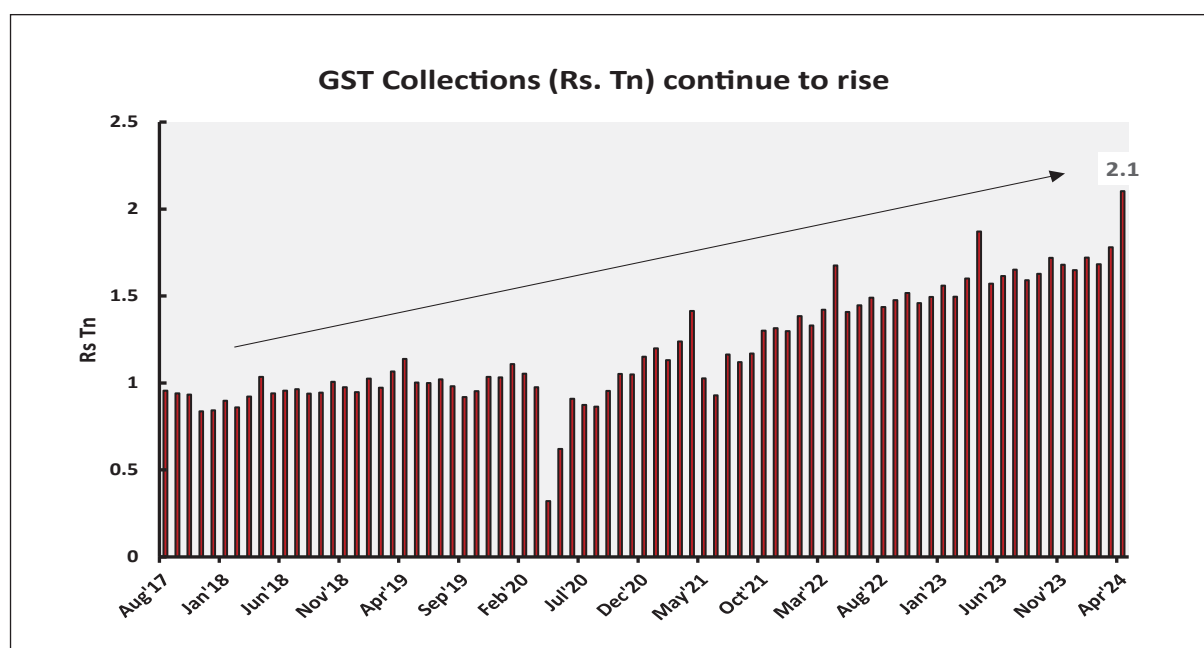
**Note:** Market scenarios are not reliable indicators for current or future performance. The same should not be construed as investment advice or as any research report/research recommendation.

**Past performance may or may not be sustained in future.**



## Chart of the month :

**Solid end to FY24 as Goods and Services Tax (GST) collections rose to record high level. GST collections in April 2024 (pertaining to business activity in March 2024) grew +13% YoY, broadly the same growth as in the last few months (growth had averaged 13% between the October 2023 – March 2024 period). Collections rose to record levels at INR 2.1 Tn in April 2024, highest since the tax regime started in 2017. Growth in GST collections is being driven largely by domestic activity led collections and not due to Indian Export Import (EXIM) Bank trade.**



**Source:**

NIMF Research, CEIC

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