



Nippon *india* Mutual Fund

Wealth sets you free

EQUITY

Market Outlook

September 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 August 2024, (+1.1%) MoM, as Indian markets saw volatility owing to the weaker than expected United States of America (USA) employment data and the unwinding of the Yen Carry Trade. Major global indices, the S&P500 (+2.3%), the Euro 50 (+1.7%), the Morgan Stanley Capital International (MSCI) World (+2.5%), and the Japanese NIKKEI (-1.2%) ended the month, August 2024 with mixed results on a sequential basis. Performance was largely positive in August 2024 among the Emerging Market (EM) indices, with the Morgan Stanley Capital International Emerging Markets (MSCI EM), the Hang Seng (Hong Kong), the BOVESPA Brazil (BVSP) recording sequential growths of (+1.4%), (+3.7%), and (+6.5%), respectively.

The London Metals Exchange (LME) Metals Index rose (+2.8%) in August 2024, as the dollar weakened. The West Texas Intermediate (WTI) and Brent Crude fell MoM, by (-5.6%) and (-2.4%), respectively, as the United States (US) economic data remained weak, China demand slowing down, despite tensions in the Middle East looming.

The Dollar index depreciated by (-2.3%) through August 2024, with the US Dollar (USD) remaining flat vis-à-vis Emerging Market (EM) currencies and remaining flat against the Indian Rupee (INR) on the spot market (+0.2%). India 10Y G-Sec yields fell by (-6 bps), while US 10Y G-Sec yield fell by (-13 bps), and the German Bund yield fell by (-0.5 bps), with rates settling at 6.86%, 3.9% and 2.29% respectively.

Domestic Macro & Markets

The BSE SENSEX (+0.8%) rose in August 2024, in line with the NSE NIFTY index. BSE Mid-cap (+0.9%) and BSE Small-cap index (+1.2%) outperformed the BSE Sensex for the month. Sector-wise, Healthcare, Tech and Consumer Durables were the top 3 performers over the month, August 2024, clocking (+6.6%), (+4.6%), and (+4.4%), respectively.

Net Foreign Institutional Investors (FII) flows into equities were positive for August 2024 (+\$ 1.84 Bn, following \$ 3.34 Bn in July 2024). The Domestic Institutional Investors (DIIs) remained net buyers of Indian equities (+\$5.75 Bn, from +\$2.8 Bn last month, July 2024). In Calendar Year (CY2024), Net Foreign Institutional Investors (FII) Flows stood at (+\$4.91) Bn, while net Domestic Institutional Investors (DII) investments in the cash markets stood at (+\$37.04) 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 August 2024 fell to a six-month low of 57.5 (vs 58.1 in July 2024), remaining in expansion zone (>50) for the 37th straight month driven by the output index, and a marked increase in new orders. Input prices declined to a five-month low.

Goods and Services Tax (GST) Collection:

Gross collections of INR 1.75 Tn (+10% YoY) in August 2024 concluded the thirtieth consecutive month of collections over the INR 1.4 Tn mark. Rising compliance, higher output prices, rising collections from imports and domestic transaction volume uptick has driven elevated Goods and Services (GST) collections.

Core Sector Production:

The index of eight core sector industries decelerated to (-6.1%) YoY in July 2024, against a (+8.5%) jump in July 2023. The growth rate is up from (+5.1%) in June 2024. 6 out of eight constituent segments grew YoY, driven by steel production (7.2% YoY).

Industrial Production:

Factory output growth as measured by the Index of Industrial Production (IIP) decelerated MoM to (-4.2%) in June 2024, vs a growth of 5.9% YoY in May 2024, driven by positive, and stable YoY growths in 3 major sectors- Mining, Manufacturing and Electricity.

Credit growth:

Scheduled Commercial Bank Credit growth reached (+13.60%) YoY as of 9th August 2024 against a YoY growth of (+19.82% as observed on 8th September 2023, as a strong base effect came to play post the merger of HDFC and HDFC Bank.

Inflation:

July's 2024 Consumer Price Index (CPI) inflation rate decelerated MoM to (+3.54%), down from (+5.08%) in June 2024. Food inflation came in at a slower pace, at 5.42% YoY. Wholesale Price Index (WPI) inflation accelerated sequentially in July 2024, with the print at (+2.04%) YoY, 68 bps down from June 2024

Trade Deficit:

Indian Merchandise Exports fell by (-1.5%) YoY to \$34 Bn in July 2024, while Imports rose by (+7.6%) YoY to \$57.5 Bn. Merchandise trade deficit widened by (-23.7%) YoY to \$23.5 Bn.

Market View

- August witnessed a slew of events ranging from geo-political tensions, rate hikes by Japan's Central Bank, unwinding of Yen carry trade, weaker macros from US etc. However Indian equities recovered to end the month on a positive note.
- India's real GDP in FY24 was 20% higher than pre-COVID levels, marking a 4.6% CAGR from FY20 despite a 5.8 % contraction in FY21.
- Most of the lead indicators remain in positive territory though there is some slowdown in discretionary spending.
- Overall, the long-term construct remains optimistic for the economy given the Corporate Balance Sheets, Bank Balance Sheets and Governments Fiscal position.
- 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.
- Current equity market valuations appear to reflect near term growth possibilities in large pockets of the market. At the prevailing higher valuations any unexpected news-flow can potentially lead to sharp volatility.
- From a market cap perspective, the Mid/Small cap space continues to trade at a premium to large caps supported by strong domestic flows.
- In our view Large Cap oriented strategies like Large/Flexi/Multi Cap appear better placed over the medium term while investors seeking better downside protection may consider asset allocation products like Multi Asset Allocation, Dynamic Equity etc
- Long term investors with appropriate risk appetite can consider Mid and Small Cap allocations in staggered manner through the systematic route.

Events to watch out for in September 2024:

Monsoon:

Till August 30 2024, cumulative rainfall was 6.9% above long-term average (LTA) while weekly rainfall was 52% above long-term average (LTA). On a cumulative basis, rainfall remained 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, 5 have received deficient rainfall, 19 have received normal rainfall, and 12 have received excess rainfall. Trends on sowing are encouraging so far and bodes well for agricultural output

Oil Prices:

Geopolitical tensions, weaker than normal demand from China, production cuts from The Organization of the Petroleum Exporting Countries (OPEC+) members have led to volatile but muted oil prices. Supply side constraints is expected to ease as The Organization of the Petroleum Exporting Countries (OPEC+) members will start to gradually unwind their recent layer of supply cuts of 2.2 Mn bpd as on Aug, 2024. Oil market developments remain a key monitorable for global markets and monetary policy setting.

China Stimulus:

Weak consumer sentiments and below par manufacturing activity has led to weak consumer demand. Broader stimulus directed towards property and consumer segments are key events to watch out for.

Other things to watch out for:

Festive season demand in Indian for autos and other durables, Any shift in Reserve Bank of India (RBI's) policy stance, the Federal Open Market Committee – The Fed (FOMC) monetary policy stance remain other key events for markets to watch out for.

Monthly Performance for Key Indices:

INDEX	*2021	*2022	*2023	Jun-24	Jul-24	Aug-24
MSCI WORLD	20.1%	-19.5%	21.8%	1.9%	1.7%	2.5%
S&P 500 (US Markets)	26.9%	-19.4%	24.2%	3.5%	1.1%	2.3%
Euro 50	21.0%	-11.7%	19.2%	-1.8%	-0.4%	1.7%
MSCI EM	-4.6%	-22.4%	7.0%	3.6%	-0.1%	1.4%
HANG SENG	-14.1%	-15.5%	-13.8%	-2.0%	-2.1%	3.7%
Nifty 50 India	24.1%	4.3%	20.0%	6.6%	3.9%	1.1%
LMEX LONDON METALS INDEX	31.8%	-11.5%	-5.6%	-4.6%	-5.8%	2.8%
BRENT	50.2%	10.5%	-10.3%	5.9%	-6.6%	-2.4%
DOLLAR INDEX SPOT	6.4%	8.2%	-2.1%	1.1%	-1.7%	-2.3%
BSE SENSEX	22.0%	4.4%	18.7%	6.9%	3.4%	0.8%
BSE MIDCAP	47.4%	2.5%	40.8%	8.5%	5.7%	0.9%
BSE SMALLCAP	62.8%	-1.8%	47.5%	10.3%	6.1%	1.2%
USDINR	1.7%	11.3%	0.6%	-0.1%	0.4%	0.2%

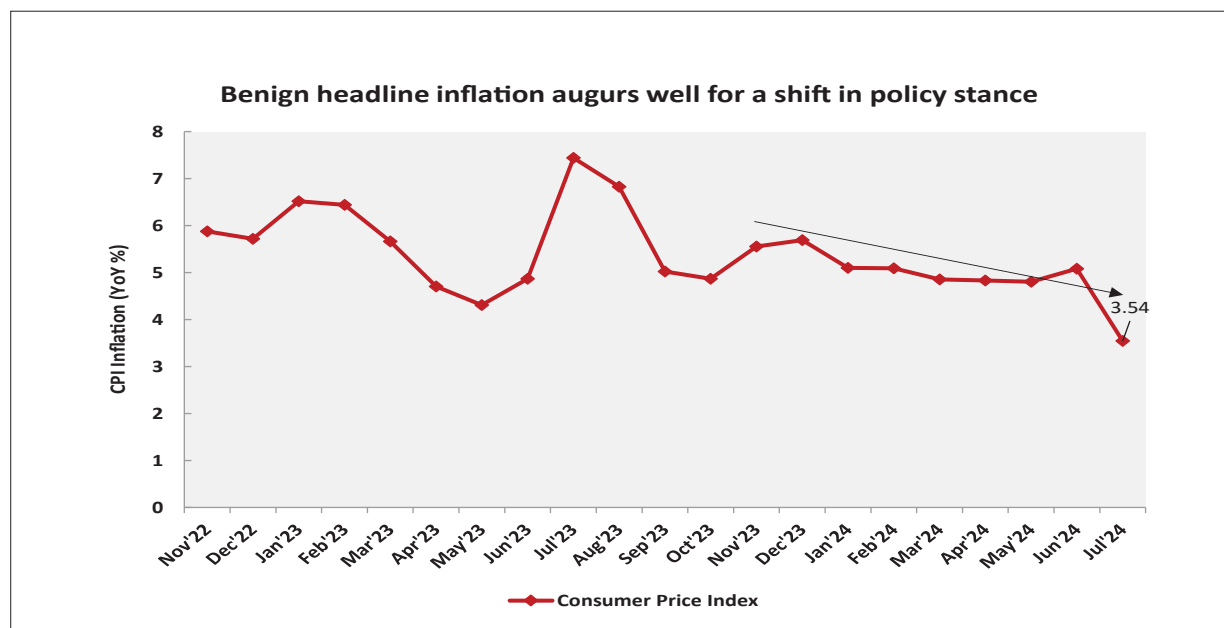
Source: Bloomberg .*Calendar year returns.

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: No complaints from the monsoon:

Headline Consumer Price Index (CPI) moderated to a five-year low of 3.5% YoY in July 2024, partly driven by favourable base effect: Consumer Price Index (CPI) has remained within the 2-6% confidence band in 10 out of the last 12 months. Inflation has turned more benign, and core inflation (3.35% YoY) provides comfort for increase in odds of change in policy stance by the Reserve Bank of India (RBI) in the next Monetary Policy Committee (MPC) meeting.



Source:

NIMF Research, CEIC

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