



Nippon **india** Mutual Fund

Wealth sets you free

EQUITY

Market Outlook

June 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 marginally down, (-0.3%) MoM, in May 2024. The S&P500 (+4.8%), the Euro 50 (+1.3%), the Morgan Stanley Capital International (MSCI) World (+4.2%), and the Japanese NIKKEI (+0.2%) all ended the month, May 2024 in positive. Performance was mixed among Emerging Market (EM) indices, with the Morgan Stanley Capital International (MSCI) Emerging Markets (EM) and the HANG SENG (Hong Kong), ending the month, May 2024 in green, with returns of +0.3% and +1.8%, respectively. The BOVESPA (BVSP) Brazil and the MOEX RUSSIA index ended the month, May 2024 in negative, with returns of (-3.0%) and (-7.3%) respectively.

The London Metals Exchange (LME) Metals Index rose (+1.3%) in May 2024, as base metals demand outpaced tighter supplies, and manufacturing data from China, the largest consumer, grew at a faster pace

The West Texas Intermediate (WTI) and Brent Crude fell MoM, by (-6.0%) and (-7.1%) respectively even as oil cuts by The Organization of the Petroleum Exporting Countries (OPEC+) may extend into the year 2025.

The Dollar index depreciated by (-1.5%) through May 2024, with the Dollar appreciating by +1.1% vis-à-vis Emerging Market (EM) currencies and remaining flat against the Indian Rupee (INR) on the spot market. India 10Y G-Sec yields fell by 21 bps, while US 10Y G-Sec yield fell by 18 bps, and the German Bund yield rose by 8 bps, with rates settling at 6.97%, 4.50% and 2.66% respectively.

Domestic Macro & Markets

The S&P BSE SENSEX (-0.7%) remained flat in May 2024, in line with the NSE NIFTY index. BSE Mid-cap and Small-cap indices outperformed the S&P BSE Sensex, with performances of +2.3% and (-0.1%) respectively. Sector-wise, Capital Goods, Power, and Metals were the top 3 performers over the month, May 2024, clocking +11.2%, +6.6%, and +4.7%, respectively. 6 of S&P BSE's 13 sectoral indices ended the month May 2024 in green.

Net Foreign Institutional Investors (FII) flows into equities were negative for May 2024 (-\$ 3.15 Bn (Up to May 29th, 2024, following (-\$ 1.3) Bn in April 2024). The Domestic Institutional Investors (DIIs) remained net buyers of Indian equities (+\$6.43 Bn (Up to May 30th, 2024), from +\$5.30 Bn last month). In CYTD2024, Net Foreign Institutional Investors (FII) Flows stood at -\$2.8 Bn, while net Domestic Institutional Investors (DII) investments in the cash markets stood at +\$19.17 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.

Manufacturing PMI:

India's Manufacturing Purchasing Managers' Index (PMI) in May 2024 remained strong at 57.5 (vs 58.8 in April 2024), remaining in expansion zone for the 34th straight month driven by accelerating new export orders and jobs growth.

Goods and Services Tax (GST) Collection:

Gross collections of INR 1.73 Tn (+10% YoY) in May 2024 concluded the twenty seventh (27th) consecutive month of collections over the INR 1.4 Tn mark, following previous record collections of INR 2.1 Tn in April 2024. Rising compliance, increased formalization of the economy, and domestic transaction volume uptick has driven elevated tax collections.

Core sector production:

The index of eight core sector industries accelerated YoY to +6.2% in April 2024, against a +6% jump in March 2024 (Revised upwards from +5.2%). On a sequential basis, however, the index fell by (-8.1%), the sharpest pace in last 12 months. Typically, April 2024 witnesses a contraction in production as compared to March 2024.

Industrial Production:

Factory output growth as measured by the Index of Industrial Production (IIP) decelerated to (-4.9%) in March 2024, vs a growth of +5.7% YoY in February 2024, driven by positive YoY growths in 3 major sectors- Mining, Manufacturing and Electricity.

Credit growth:

Scheduled Commercial Bank Credit growth reached 19.54% YoY as of 17th May 2024 against a YoY growth of 15.42% as observed on 19th May 2023.

Inflation:

April's 2024 Consumer Price Index (CPI) inflation rate reached a 11-month low of 4.83%, decelerating from 4.85% in March 2024. Food inflation decelerated, coming in at 7.87%. Wholesale Price Index (WPI) inflation accelerated from March 2024, with the April 2024 print at +1.26%, 73 bps up from March 2024, as WPI inflation printed positive for the sixth month in a row.

Trade Deficit:

Indian Merchandise Exports rose by +1.07% YoY to \$34.99 Bn in April 2024, while Imports rose by +10.26% YoY to \$54.09 Bn. Merchandise trade deficit widened by +32.29% YoY to \$19.1 Bn as oil exports grew YoY.

Market View

- The biggest takeaway of the general election outcome is the likely policy continuity across key facets like development and reforms. This along with India's strong fundamentals, domestic demand resilience, and policy support may help provide buffers against external shocks.
- Hence, we maintain our optimistic view in terms of economic growth as reforms of the past are enough to support future growth.
- Investment cycle is expected to continue with greater participation from private sector, assuming no major shifts in the global dynamics and risk appetite.
- Consumption especially the rural part appears well placed for a recovery supported by low base, falling inflation and expectations of above normal monsoons.
- Post the election results we can expect sector rotation based on valuations and relative growth prospects.
- We believe mid-teen earnings improvement is possible at a broad level. 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 June 2024

The Federal Open Market Committee (FOMC) meet:

The Federal Reserve meets on June 11th–12th 2024, with rate cuts unlikely. A year since the Federal Funds rate were last raised to 5.25%–5.5% in July 2023, the fed maintains a “robust”, with a keen eye on inflation and job market numbers. Economic activity in the USA may continue to expand, and rate cut decisions will be data driven.

Heat/ Monsoon:

India Meteorological Department (IMD) retained its long-range south-west monsoon forecast at above normal long period average (LPA) in its second forecast release. The forecast of above-normal rainfall augurs well for kharif sowing this year, though the distribution of rainfall across different regions and states will play a crucial role in determining the quantum of food grain production. As of 24 May 2024, overall water levels in reservoirs are 5% below normal, which deviates from the 10-year average.

Central Government Formation and Budget:

Key catalysts for the market will be among others, the cabinet formation post-election, first 100 days agenda/major policy announcements, and the FY24–25 full year budget in July 2024. Ministry allocations, policy trajectory and budget priorities remain a key monitorable for the market over June 2024.

Monthly Performance for Key Indices:

INDEX	*2021	*2022	*2023	Mar-24	Apr-24	May-24
MSCI WORLD	20.1%	-19.5%	21.8%	3.0%	-3.9%	4.2%
S&P 500 (US Markets)	26.9%	-19.4%	24.2%	3.1%	-4.2%	4.8%
Euro 50	21.0%	-11.7%	19.2%	4.2%	-3.2%	1.3%
MSCI EM	-4.6%	-22.4%	7.0%	2.2%	0.3%	0.3%
HANG SENG	-14.1%	-15.5%	-13.8%	0.2%	7.4%	1.8%
Nifty 50 India	24.1%	4.3%	20.0%	1.6%	1.2%	-0.3%
LMEX LONDON METALS INDEX	31.8%	-11.5%	-5.6%	3.2%	13.0%	1.3%
BRENT	50.2%	10.5%	-10.3%	4.6%	0.4%	-7.1%
DOLLAR INDEX SPOT	6.4%	8.2%	-2.1%	0.3%	1.7%	-1.5%
BSE SENSEX	22.0%	4.4%	18.7%	1.6%	1.1%	-0.7%
BSE MIDCAP	47.4%	2.5%	40.8%	-0.5%	6.7%	2.3%
BSE SMALLCAP	62.8%	-1.8%	47.5%	-4.6%	9.6%	-0.1%
USDINR	1.7%	11.3%	0.6%	0.6%	0.0%	0.0%

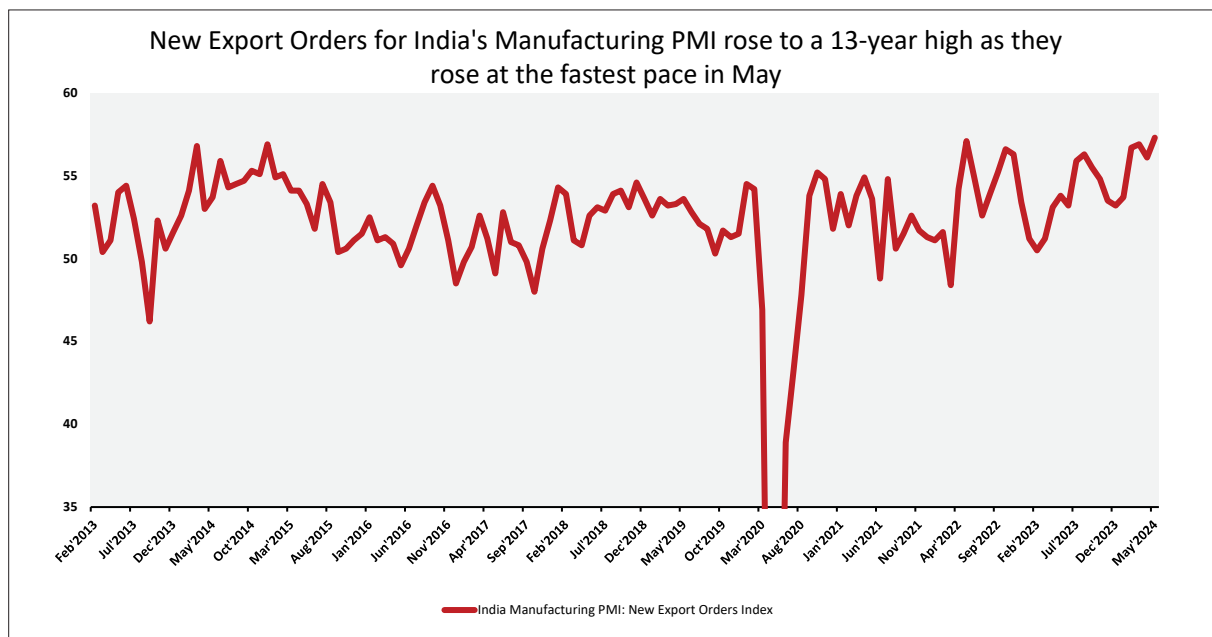
Source: Bloomberg . *Calendar year returns.

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 :

Indian exports have been under pressure in the last few quarters. There are now signs of recovery in exports. For instance, new export orders within India Purchasing Managers' Index (PMI) manufacturing survey rose to a 13-year high of 57.3 in May 2024 (vs. 56.1 in April 2024), as firms reported gains from clients across most regions.



Source:

NIMF Research, CEIC

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