



Nippon **india** Mutual Fund

Wealth sets you free

EQUITY

Market Outlook

July 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 rebounded in June 2024, +6.6% MoM, as Indian markets saw volatility owing to General Election results. The S&P500 (+3.5%), the Euro 50 (-1.8%), the Morgan Stanley Capital International (MSCI) World (+1.9%), and the Japanese NIKKEI (+2.8%) ended the month, June 2024 with largely positive bias. Performance was mixed among Emerging Market (EM) indices, with the Morgan Stanley Capital International (MSCI) Emerging Markets (EM) and the BOVESPA Brazil (BVSP) ending the month, June 2024 in green, with returns of (+3.6%) and (+1.5%), respectively. The HANG SENG (Hong Kong) and the MOEX RUSSIA ended the month, June 2024 in negative, with returns of (-2.0%) and (-2.9%) respectively.

The London Metals Exchange (LME) Metals Index fell (-4.6%) in June 2024, as market tightness slackened. The West Texas Intermediate (WTI) and Brent Crude rose MoM, by (+5.9%) and (+5.9%) respectively as tight supplies and Middle East tensions loomed.

The Dollar index appreciated by (+1.1%) through May 2024, with the Dollar depreciating by (-1.6%) vis-à-vis Emerging Market (EM) currencies and remaining flat against the Indian Rupee (INR) on the spot market (-0.1%). India 10Y G-Sec yields rose by 3 bps, while US 10Y G-Sec yield fell by 10 bps, and the German Bund yield fell by 16 bps, with rates settling at 7.0%, 4.4% and 2.5% respectively.

Domestic Macro & Markets

The BSE SENSEX (+6.9%) rose in June 2024, in line with the NSE NIFTY index. BSE Mid-cap and Small-cap indices outperformed the BSE Sensex, with growths of (+7.7%) and (-10.3%) respectively. Sector-wise, Infotech, Teck and Realty were the top 3 performers over the month, June 2024 clocking (+11.3%), (+9.5%), and (+8.2%), respectively. All of BSE's 13 sectoral indices ended the month, June 2024 in green.

Net Foreign Institutional Investors (FII) flows into equities reversed to turn positive for June 2024 (+\$ 2.91 Bn, following -\$ 3.02 Bn in May 2024). The Domestic Institutional Investors DIIs remained net buyers of Indian equities (+\$3.42 Bn, from +\$6.68 Bn last month). In CY2024, Net Foreign Institutional Investors (FII) Flows stood at (+\$0.14) Bn, while net Domestic Institutional Investors (DII) investments in the cash markets stood at (+\$28.48) 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 strong credit growth augurs well for the Indian economy.

Manufacturing PMI:

India's Manufacturing Purchasing Managers' Index (PMI) in June 2024 rose to a two-month high at 58.3 (vs 57.5 in May 2024), remaining in expansion zone for the 35th straight month driven by manufacturing employment accelerating and improvement in new order intakes.

Goods and Services Tax (GST) Collection:

Gross collections of INR 1.74 Tn (+7.7% YoY, slowest in 3 years) in June 2024 concluded the twenty eighth 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, higher output prices, and domestic transaction volume uptick has driven tax collections. However, general elections in the month in May 2024 might have impacted sequential tax collections.

Core sector production:

The index of eight core sector industries decelerated YoY to 6.3% in May 2024, against a 6.7% jump in April 2024 (Revised upwards from 6.2%). 5 out of eight constituent segments grew YoY, driven by coal production (10.2% YoY) and electricity generation (12.8% YoY).

Industrial Production:

Factory output growth as measured by the Index of Industrial Production (IIP) moderated to 5% in April 2024, vs a growth of (+5.4%) YoY in March 2024, driven by positive, but slowing YoY growths in 3 major sectors- Mining, Manufacturing and Electricity. Sequentially, the Index of Industrial Production (IIP) saw a contraction of (7.6%) MoM.

Credit growth:

Scheduled Commercial Bank Credit growth reached 19.16% YoY as of 14th June 2024 against a YoY growth of 15.42% as observed on 16th June 2023

Inflation:

May's Consumer Price Index (CPI) inflation rate reached a 12-month low of 4.75%, decelerating from 4.83% in April 2024. Food inflation remained flat, coming in at 7.87%. Wholesale Price Index (WPI) inflation accelerated from April 2024, with the May 2024 print at (+2.61%), 135 bps up from March 2024, as Wholesale Price Index (WPI) inflation printed at a 14 month high.

Trade Deficit:

Indian Merchandise Exports rose by (+9.10%) YoY to \$38.13 Bn in May 2024, while Imports rose by (+7.71%) YoY to \$61.91 Bn. Merchandise trade deficit narrowed by (-5.55%) YoY to \$23.78 Bn.

Market View

- India appears well-positioned with several macroeconomic indicators, with real GDP growth surpassing expectations in FY24. India's economy has shown remarkable resilience, with real GDP growth surpassing expectations in FY24, including Gross Value Added (GVA) growth, trade and fiscal deficit within limits, inflation around 5% as on June, 2024, a good corporate earnings result cycle and a stable currency.
- A good spot in India's economic performance was the improvement in the gross domestic savings rate as of May 2024, which reached a nine-year high in FY24, driven by an increase in household financial savings. This rise in savings, if channelled into productive investments, could help support economic growth in the future.
- Investment cycle is expected to continue with greater participation from private sector, assuming no major shifts in the global dynamics and risk appetite.
- In 2024, the corporate profit to GDP ratio stood at approx. 5% and reached at a 15-year high as of March, 2024.
- Longer term construct from a domestic growth point of view remains positive but well captured in near term valuations.
- We believe mid-teen earnings improvement is possible at a broad level. Recovery 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 July 2024:

Union Budget:

The Union Budget will be presented in the latter half of July 2024. The finance minister presented the interim budget in February 2024 earlier this year. The upcoming budget is also expected to address some of the demand side concerns towards the betterment of the overall household situation. The tone and allocation of the budget remains a key monitorable for the markets.

Monsoon:

Till June 28 2024, cumulative rainfall was 14.5% below long-term average (LPA) while weekly rainfall was 8.3% above long-term average (LPA). On a cumulative basis, rainfall was above normal in southern India while deficient in rest of India. Out of the 36 sub-divisions, till date, four have received scanty rainfall, 14 have received deficient rainfall, 11 have received normal rainfall, and seven have received excess rainfall.

Earnings Season:

Indian companies report earnings for Q1FY25/ Q2CY24 from the beginning of July 2024 till the middle of August. Earnings outlook remains buoyant amidst stable economic growth and the upcoming union budget.

Oil Prices:

Oil demand and rising tensions in the Middle East have kept crude prices elevated. The Organization of the Petroleum Exporting Countries (OPEC+) cuts have also played a role. Oil prices remain key monitorable for markets

Monthly Performance for Key Indices:

INDEX	2021	2022	2023	Apr-24	May-24	Jun-24
MSCI WORLD	20.1%	-19.5%	21.8%	-3.9%	4.2%	1.9%
S&P 500 (US Markets)	26.9%	-19.4%	24.2%	-4.2%	4.8%	3.5%
Euro 50	21.0%	-11.7%	19.2%	-3.2%	1.3%	-1.8%
MSCI EM	-4.6%	-22.4%	7.0%	0.3%	0.3%	3.6%
HANG SENG	-14.1%	-15.5%	-13.8%	7.4%	1.8%	-2.0%
Nifty 50 India	24.1%	4.3%	20.0%	1.2%	-0.3%	6.6%
LMEX LONDON METALS INDEX	31.8%	-11.5%	-5.6%	13.0%	1.3%	-4.6%
BRENT Crude Oil	50.2%	10.5%	-10.3%	0.4%	-7.1%	5.9%
DOLLAR INDEX SPOT	6.4%	8.2%	-2.1%	1.7%	-1.5%	1.1%
BSE SENSEX	22.0%	4.4%	18.7%	1.1%	-0.7%	6.9%
BSE MIDCAP	47.4%	2.5%	40.8%	6.7%	2.3%	8.5%
BSE SMALLCAP	62.8%	-1.8%	47.5%	9.6%	-0.1%	10.3%
USDINR	1.7%	11.3%	0.6%	0.0%	0.0%	-0.1%

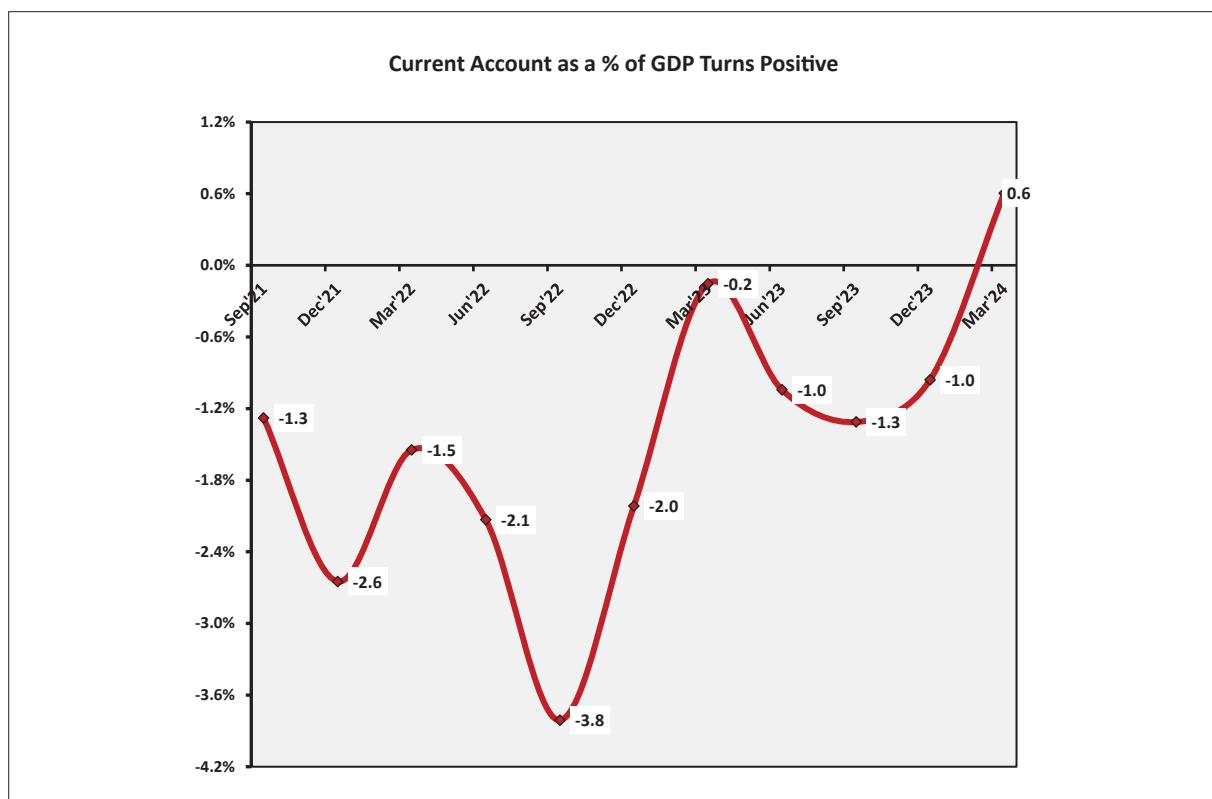
Source: Bloomberg .*Calendar year returns.

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 :

India's current account stood at a surplus of ~USD6bn (0.6% of GDP) in Q4FY24 as goods trade deficit shrank helped by positive seasonality effect in exports and weaker imports.



Source:

NIMF Research, CEIC

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