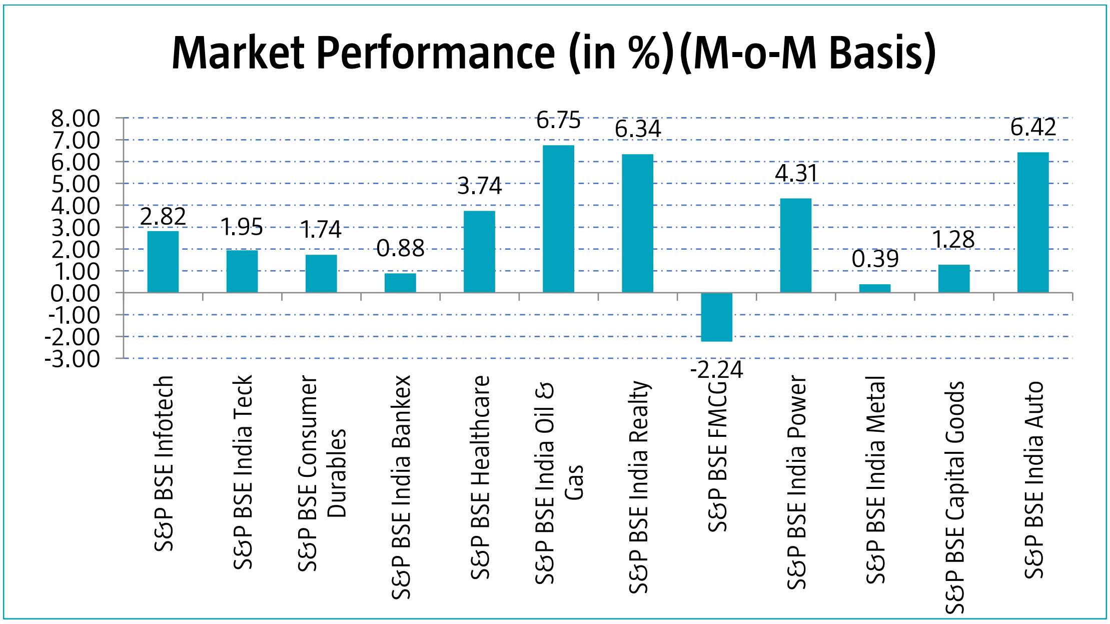
Equity Market Update

- In the month of Mar'24, equity markets went north with increment in Nifty 50 of 1.18% on m-o-m basis as retail inflation eased and U.S. Federal Reserve's decision to keep the interest rate unchanged for the fifth consecutive meeting in Mar'24 that caused ease in U.S. Treasury yields. A major global credit rating agency increased India's GDP growth forecast for the 2024 calendar year to 6.8% from 6.1% on the back of improving global economic conditions and India's strong economic performance in CY'23. Sentiments were boosted after PMI flash data of Mar'24 for manufacturing activities increased for the domestic economy.
- Though during the month, broader markets fell as heavy sell-off was witnessed across the segments before the release of the stress test result on mid-cap & small-cap schemes.
- Foreign Institutional Investors (FIIs) were net buyers in Indian equities to the tune of ₹ 35,098.40 crore.
- Goods and Services Tax (GST) shows collection of ₹1.78 lakh crore for Mar'24, second highest since the regime came into force in Jul'17, 11.5% more than the corresponding period of last year and this points towards the growing trajectory of the Indian economy. The gross GST collection surpassed the mark of Rs. 1.60 lakh crore for the tenth time in FY'24.
- The combined Index of Eight Core Industries increased by 6.7% in Feb'24 as compared to 7.4% in Feb'23. The production of all Eight Core Industries recorded growth in Feb'24 over the corresponding month of last year except fertilizers. Coal witnessed the maximum growth at 11.6% in Feb'24 followed by natural gas with 11.3% growth.
- Globally, US Equity Markets surged following a positive reaction to the latest monetary policy announcement by the U.S. Federal Reserve. Additionally, there was reduction in fears about violence in the Middle East following Israel and Hamas's agreement to a ceasefire mediated by Qatar. European equity markets rose on hopes that several central banks will likely decrease interest rates sooner than later. Asian equity markets remained rangebound, Bank of Japan terminated its negative interest rate and yield curve control policies, inflation reports from Singapore and Malaysia came in higher than expected for Feb'24.



Note: The past performance may or may not be sustained in the future.

Source: MFI Explorer, ICRA Analytics Ltd. Data as on: 28th Mar'24

Equity Market Outlook

Global macro environment while remains complex on geopolitical front, it seems to be stabilizing on the economic front. US growth is stabilizing, employment data remains healthy, and inflation is moderating gradually. This is leading to a possible goldilocks scenario where you might get lower inflation without hurting growth too much. Having said this, inflation remains higher at around 3-3.5% and growth and employment data too strong – a recipe for delayed timelines for interest rate cuts. We are now expecting interest rates cuts only post August'24. Europe is gradually stabilizing at lower growth /degrowth state, but not deteriorating further, as inflation and interest rates peak in most economies there. China continues to have challenges on growth revival due to ageing population and leverage in households/Real estate, which are structural in our view and thus commodities in general will remain muted for extended period, given >30-40% of every commodity is consumed by China. Geopolitical tensions are taking time to abate and are only getting complex. Given these tensions, supply chains and global trade has become vulnerable to new dimension now, missing till pre-covid. India remains one of the differentiated markets in terms of growth and earnings. In our worldview, 1) the Liquidity, 2) Growth and 3) Inflation surfaced post monetary and fiscal expansion in CY20-21 in that order and they will reverse in the same order during CY23-24. We have seen an initial downtick in inflation, which will accelerate in our view over next few quarters. Inflation is taking more time than usual to recede given healthy household savings in US, elevated energy prices, tight labor markets and challenged supply chains.

Indian macro remains best among large markets. Political stability looks almost given. CAD has improved significantly and is expected to be ~1% for FY24. Most domestic macro and micro indicators remain steady. Given these aspects, the domestic equity market remains focused on earnings. Earnings growth (>15% earnings CAGR FY24-26E) remains relatively far better than most EM/DM markets. While the earnings are not getting upgraded significantly yet; they are resilient and seems to be bottoming. Financials, Auto, industrials, Cement, Telecom, Hospital and Hotels and Real Estate are witnessing a healthy earnings cycle whereas FMCG, chemicals and IT continue to face headwinds. Indian equity market trades at 20FY26 earnings – with earnings CAGR of >15% over FY2$-26E – in a fair valuation zone from medium term perspective – given longevity of earnings cycle in India. The broader market has moved up >25% in last 6 months -capturing near term earnings valuation positives for FY24/25. Expect a rollover return as the earnings rollover to F26. Given the upfronting of returns in mid and small caps (aided by very strong flows also), valuation premium of mid/small caps over past; we are more constructive on large caps from FY25/26 perspective.

Having said this on near term earnings /market context, we believe that Indian economy is in a structural upcycle which will come to fore as global macroeconomic challenges recede over next few quarters. Our belief on domestic economic up-cycle stems from the fact that the enabling factor are in place viz. 1) Corporate and bank balance sheets are in best possible shape to drive capex and credit respectively, 2) Consumer spending remains resilient through cycle given our demographics, 3) Govt is focused on growth through direct investments in budget as well as through reforms like GST(increasing tax to GDP), lower corporate tax and ease of doing business (attracting private capex), PLIs(private capital through incentives for import substitution or export ecosystem creation) and 4) Accentuated benefits to India due to global supply chain re-alignments due to geopolitics. This makes us very constructive on India equities with 3years view. We believe that India is in a business cycle / credit growth cycle through FY24-27E – indicating starting of healthy earnings cycle from medium term perspective.

Source: ICRA MFI Explorer

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