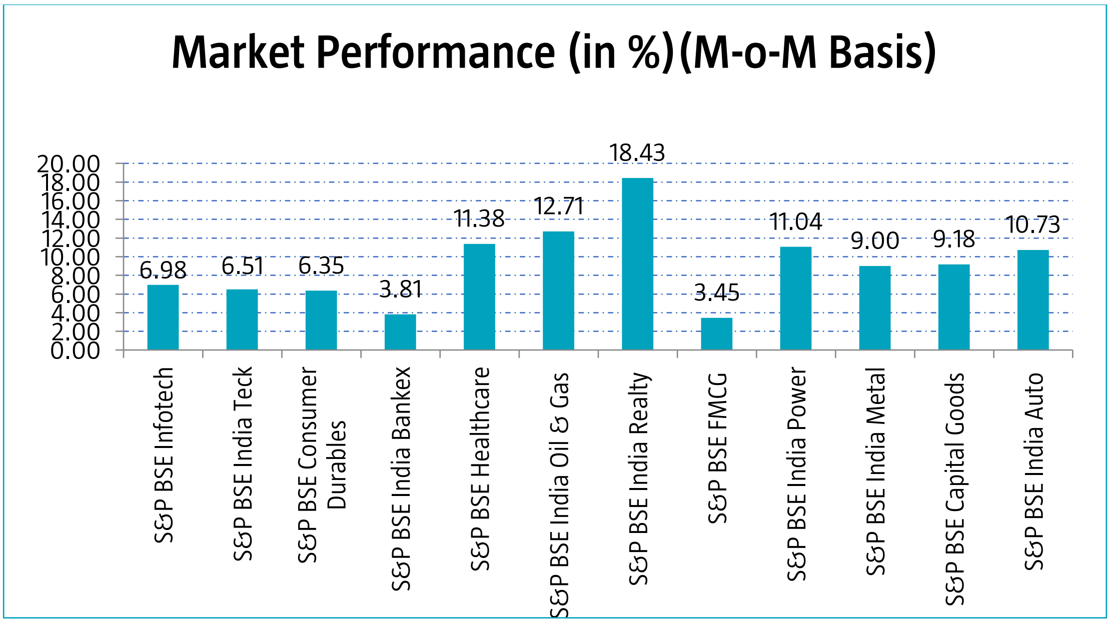
Equity Market Update

- In the month of Nov'23, equity markets gave applaudable returns with Nifty 50 gaining by 5.52% on m-o-m basis following upbeat quarter end earning numbers, U.S. Federal Reserve kept interest rates on hold for the third consecutive time, fall in global crude oil prices and strong GDP data in the second quarter of FY'24 added to the gains.
- Foreign Institutional Investors (FIIs) were net buyers in Indian equities to the tune of ₹ 9000.88 crores.
- Goods and Services Tax (GST) shows highest ever collection of ₹1.68 lakh crore for Nov'23, 15% 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 sixth time in FY'24.
- The combined index of eight core industries increased by 12.1% in Oct'23 as compared to 0.7% in Oct'22. The production of all Eight Core Industries recorded positive growth in Oct'23 over the corresponding month of last year.
- Globally, US Equity Markets also went north amid expectations from investors that the U.S. Federal Reserve will cease raising interest rates. 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 too rose on slightly easing geopolitical tensions and better than expected Eurozone business activity for Nov'23 data. Asian equity markets closed on a mixed note amid continuing concerns about the Chinese economy. Remarks from a Bank of Japan representative that it was too early to discuss policy normalization added to the losses.



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

Source: MFI Explorer, ICRA Analytics Ltd. Data as on: 30th Nov'23

Equity Market Outlook

Global macro environment remains complex with persistent inflation at higher level than expected (although its moderating faster), delayed recession in US (resilient households despite high interest rates) and geopolitical conflicts and re-alignment and its long-term implications for supply chains. There are initial signs of the economy slowing down in US. Although the data remains mixed and resilient on the consumer side. US yields declined substantially in last 2 month from 5% to almost 4.2% as inflation data moderated and oil price moving back to $75/bbl indicating global weakness in demand. Global compression in money supply, higher interest rates and moderation in growth everywhere (except India) is gradually flowing into lower inflation. Expect further reduction of inflation and energy/commodity prices in the next 3-4 quarters. While the CPI inflation has been moderating, US growth data points are far more positive than earlier expected; indicating that the higher rates are here to stay for longer time than expected. However, the market is expecting rate cuts in 2HCY24 and that's why the yields are correcting – a EM flow positive. Combination of slowing growth, yet sticky inflation is an outcome of healthy US household/Private balance sheets, challenged supply chains, which are taking time to correct itself. 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 in 2023/24, missing till 2022. This will mean that the developed world will see growth moderation through CY24. EU is already in recession and China has failed to show any growth uptick post opening of economy. 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 already witnessed liquidity reversal in the last few quarters (although was forced to reverse due to the banking crisis); growth has started receding (Europe is already in recession, US is slowing and China is very weak) and inflation will be the last one to moderate. 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 in China.

Indian macro remains best among large markets. Post state election results: political stability looks almost given. CAD has improved significantly and is expected to be within <1.5% 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 FY23-25E) remains relatively far better than most EM/DM markets. The cost of capital (unexpectedly) is turning positive earlier than expected. 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 are witnessing a healthy earnings cycle whereas Energy/commodities, chemicals and IT continues to face headwinds. Indian equity market trades at 20FY25 earnings – with earnings CAGR of >15% over FY23-25E – 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 FY25/26. 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 next 4 quarters 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 FY23-26E – indicating starting of healthy earnings cycle from medium term perspective.

Source: ICRA MFI Explorer

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