PRANITYA

Pranitya Wealth LLP
Market Outlook
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EQUITIES

Indian market finally tested 18500 levels of Nifty as we expected three months ago. The rally was more prominent in banking stocks and the mid-cap segment of the market. IT stocks gained on the back of the good Q4 numbers and news of the US avoiding recession. Most of the IT companies have seen steady growth in the top line and improvement in the margins against the contradictory expectations.

We see this phase of consolidation as largely complete. Incrementally, macro-trends, valuations & quality of companies are likely to drive global demand for Indian equities.

FII were buyers throughout the month of May 2023. Globally AI has caught investors fancy and we do believe that this can actually help many US listed companies to still outperform. Companies like Apple, Microsoft and Nvidia can deliver better returns on the back of their AI initiatives going ahead.

On the other hand, the primary market scene is not that great with many IPOs being withdrawn and response for subscription has been without any frenzy.

Equities are looking fairly valued at the current level with limited room for upside in the immediate future. Ideally the market should go in for time correction mode if not price correction at the current level. We would direct only staggered allocation to equities at the current level of the market.

We do believe that monsoon in India will play a leading role. Thus, we remain cautious about the food stock situation and its prices, which can lead to inflation.

Global markets are closer to the highs. Nifty may move up provided there is no unwelcome news about monsoon. All eyes will be on elections 2024 and the performance of the ruling party in local elections will be closely watched.

There will be pockets of opportunities even at current levels and the market will be reacting to news inflows from time to time.

Sectors like capital goods, paper, tyre, pharma, IT, and banking have shown strength in Q4 results and FMCG sector depending on rural demand to pick up along with their margin improvements. Quarter 4 numbers have overall been very good lifting **FY 23 growth to 7.2%** beating GDP estimates**.** Corporate earnings growth will most likely drive the next rally in markets.

Demand for consumer goods was good and seen improvement over the period. Consumption has not seen any kind of slowdown and we have seen spending hitting new highs.

Today we would prefer to book profit and wait in cash to some extent, the next big decision on equities to be taken post monsoon progress only.

FPI/FDI Inflows

FDI has fallen in the current fiscal year ended 31st March 2023. We closed at 70.97 billion USD against 84.83 billion USD in gross terms. That is a fall of 16% against expectation of higher FDI. On a net basis it is about 28.01 billion against 43.96 billion with a fall of 36%. It is about 2.67% of GDP usually it is not a considerable number for India anyway. There is a slowdown in FDI global trend in general during 2022 so these numbers don’t come as a surprise. India still remains one of the fastest growing economies in emerging markets, well positioned to attract health FDI flow ahead.

VC/PE follows peaked out after US interest rate gone up. There was global slowdown this year, not so favorable geo-political equation, self-reliance post pandemic and tense external relationships. A lot depends upon the global trend of fund raising and India's attractiveness over longer run.
FPI/FDI is must for country like India where we are investment-deficient economy in need of private investment and forex reserve building.

Global Pessimism Persists

India continues to standout on account of stability.
Chris Wood , Global Head Equity Strategy, Jefferies recent remarks about Sensex at 1,00,000 and saying it is a best structural story across world markets was like a confirmation of India Story once again. This of course is a 5-yr target with an assumption of 15% earnings growth and at P/E of 19.8% this is achievable.
Another hot topic was the US debt limit which finally settled with a lot of drama that was expected. But the recent inflation data in the US may put FED in fix again. New analyses by both the Congressional Budget Office and the U.S. Department of the Treasury suggest the United States is rapidly approaching the date at which the government can no longer pay its bills, also known as the "X-date."
History is clear that even getting close to a breach of the U.S. debt ceiling could cause significant disruptions to financial markets that would damage the economic conditions faced by households and businesses.
The tension between further tightening of DM central banks, resilient macro-outlook, and persistent inflation, on one side, and weaker credit conditions feeding to the real economy, on the other, continues as we approach the late stage of the tightening cycle.
This will help savings and consumption. Globally commodity prices have moderated including oil. This will somewhat help boost urban consumption.
We are more concerned about the changes in the global climatic conditions. Any drought kind of a situation in India will have a serious impact on the economy. We will remain watchful about it but initial IMD estimate shows near normal monsoon this year

India Economic Growth

Though Indian economy is growing well, we have different issue on hand to handle, with more than 40% of the population is under of 25 yrs. Almost half of them 45.80% were unemployed according to CMIE. If we don't make enough jobs available then what was seen as an opportunity the bulge in that demographic dividend continued to become huge challenge and problem for India. We need to create globally competitive and labour intensive manufacturing sector.
Earnings growth for the entire year will come around 11% to 12% and next year we expect 15% CAGR.We are able to avoid slow down which is thanks to our services sector. In case of emergency and capital goods exports, we have a long way to go. Most of the rating agencies have maintained that India GDP will grow at 6.25% for 2023-24, making it the fastest growing economy. Focus on exports is must at current level and job creation will help to achieve GDP growth of over 6% p.a.

India aims to double its annual GDP from 3.5 trillion USD to USD 7 trillion by 2027 and then 10 trillion USD by 2030. IMF expect India's average growth rate at 6.10% over next 5 years. India will contribute 15% of global growth in 2023. India is fastest growing economy where it has grown by 5.5% in the past decade. Next 7 years are important though we shown resilience. IMF expect global growth at 2.8% for 2023-24.

Options post change in debt taxation since April 2023

We still feel short term rates are high and one can earn better return on liquid or overnight funds. Structure of Arbitrage funds is also looking good due to rising spread and supporting interest rate scenario . This is ideally suitable with 4-6 months investment horizon with better post tax returns. (due to equity taxation)
Hybrid equities also look good, where you have better post tax returns with limited exposure to equities. Equity Savings park around 35% in equities, 25% plus in arbitrage and balance 40% in pure debt which makes it a good option as it attracts equity taxation. This is suitable for long term investment horizon. Most of the options are still available and one can certainly look for some debt long term funds and Dynamic Bond Funds at yields have potential of going down further. Corporate and bank deposits over 8% can be considered with high rated NBFCs and some private sector banks.

Fixed Income

In India inflation dropped to lowest level since Oct 2021 in April 2023 to 4.70% from 5.70% in March 2023.
The S&P Global India Composite PMI jumped to 61.6 in April 2023 from 58.4 in the prior month, pointing to the highest reading since July 2010 amid quicker expansions at goods producers and service providers. New orders rose the most in almost 13 years, reflecting faster increases in new business, both the manufacturing and service sectors.
RBI had pre empted it while going for pause in the last MPC meeting. On the other hand US inflation fell to 4.93% for 12months ended April 2023. Though this is higher than the long term average of 3.28%. It had come down below 5% for the first time in 2years.

The debt ceiling limit drama got over and may cool US treasury prices eventually. Recently rise in the yield on state management index in US rose in April and better than expected job data spurred worries about rate hike than pause. Call rates in May went up to 6.6% from 5.75% month ago. Though report remained the same 1,3,5 years G-Sec fallen by 3bps to 20bps. 10 year G Sec is at 7% after breaching 7% level briefly.

Gsec yields may remain stable in the next couple of months ranging between -7.15%.Shorter end of yield curve will continue to remain well bid due to improving liquidity conditions for next 3 months. We also feel adding duration in the portfolio is likely a good strategy. In the next 12 months, we expect yields to go down substantially and duration in the portfolio will help long-term investors. We can choose medium to long term funds, dynamic bond funds. Only caviate here is the drought like situation and global inflation can delay this party.