PRANITYA

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Market Outlook
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Overview

As anticipated, March 2024 witnessed significant volatility and profit booking, with the market encountering resistance each time it attempted to break out. This trend was primarily triggered by valuation concerns highlighted by SEBI for midcaps and small caps, alongside year-end loss booking to offset tax implications. Additionally, concerns regarding inflation data in both the US and India further contributed to market unease. In the last 2 trading sessions however, we saw some bounce back due to US Fed policy stance, our central bank easing recently tightened rules for lenders' investments in alternative investment funds (AIFs) and foreign portfolio investors buying Indian shares worth Rs 2,170 crore on a net basis on 27th March, Wednesday, while domestic institutional investors purchased a net Rs 1,198 core worth of stocks.

Global Cues

- Recent higher-than-anticipated U.S. inflation figures sparked concerns regarding a potential delay in interest rate cuts. However, the **Fed's remarks** at the policy meeting earlier this month **eased these concerns**, as the central bank maintained its outlook for **three rate cuts** this year.
- **The S&P 500 and Dow Jones** industrial average both closed at all time highs this month indicate strength of the US economy despite high interest rates meant to get inflation under control.
- **The Bank of Japan** has stopped its eight-year-long negative interest rate policy, which was aimed at encouraging banks to lend more and boost demand. This marks the **first interest rate hike in 17 years**, with the short-term policy rate now raised from -0.1% to a range of zero to 0.1%.
- With inflation comfortably within the 0-2 percent price stability range, **the Swiss Bank lowered its policy rate** on March 21 by 25 basis points to 1.5 percent, ahead of other major central banks, indicates proactive measures to maintain price stability in the face of global economic challenges.
- **Global growth** is projected to slow for the third year in a row—from 2.6% last year to **2.4% in 2024**, almost three-quarters of a percentage point below the average of the 2010s. This highlights the need for prudent monetary policies to support recovery.

Indian Macros

India's net **direct tax collection** grows **20%** annually to over Rs 18.90 lakh crore till March 17.

India's headline **retail inflation rate** was largely **unchanged at 5.09 percent** in February, according to data released by the Ministry of Statistics and Program Implementation on March 12. The inflation rate has remained above the Reserve Bank of India's medium-term target of 4 percent for 53 consecutive months.

India's **foreign exchange reserves** jumped by $10.47 billion to **$636.1 billion** for the week ending on March 8, latest data by the Reserve Bank of India (RBI) showed on Friday. This is the biggest surge since the week ended July 14, 2023.

It must be noted that the government spending was significantly higher at ₹1,179 crore during the election year of 2018-19 as against ₹408 crore in 2022-23. This **expenditure is likely to rise in 2023-24 as the general elections are due in April-May.**

GDP Growth came in at **8.4%** for the Oct-Dec quarter where FY 23-24 full year growth is estimated to be 7.6%. Next year's GDP forecast came in at **above 7%**.

The data up to the last week showed that **GST collections** in the month of March 2024 may significantly **exceed ₹1.60 lakh crore**, which will likely take gross revenues for the entire financial year past the ₹20 lakh crore mark.

A year after suffering from weak and uneven monsoon, India is likely to witness **abundant rainfall** during the season in 2024. According to the IMD, the impact of **El Nino** (the periodic warming of waters in the central Pacific Ocean) will **fade away**, and **La Nina** (the periodic cooling of ocean surface temperatures in the central Pacific Ocean) conditions likely to be set in by the second half of the monsoon season ensuring abundant rainfall.

FPI Activity

FPI flows into India hit record ₹3.33 lakh crore this fiscal year (highest ever). This influx includes investments in equities, debt, and hybrid instruments, with equity flows exceeding $25 billion, positioning India as a top destination for FPIs in Asia. This is 25 per cent higher than the previous high of ₹2.67-lakh crore achieved in FY21. China, on the other hand, saw outflows of over $67 billion in the 12 months to December.

FPIs have invested $14.4 billion in Indian debt, higher than all other years except FY15 and FY18. Another $1.5 billion of FPI money has flowed into hybrid instruments. A steady growth in FPI investments in debt was seen during the year.

The inclusion of Indian bonds in the JP Morgan EM Bond Fund and Bloomberg Bond Index is expected to bring in around $25 billion, starting June this year.

However, if the differential between developed market bond yields, particularly US bonds, and Indian bond yields decline, the debt inflows will moderate.

After net outflows worth ₹37,632 crore in the financial year 2022-23 (FY23), foreign portfolio investors (FPIs) returned as buyers in the current financial year (FY24), buying Indian equities worth ₹2.04 lakh crore so far.

The rise in FPI inflows came on the back of improving macros, declining inflation, hopes of a rate cut in 2024, and the possibility of the existing government returning for the third term.

Norway's Govt. Pension Global, world's largest sovereign fund, raised India bets to $22 b in CY23. Norway's sovereign wealth fund, worth $1.4 trillion, raised India investments to 2.2% of equity portfolio amid market surges.

Equities

March 2024 proved to be another volatile month, marked by a sell-off in midcap and small cap stocks due to concerns over valuation. As mentioned in our previous outlook at the beginning of March, we advised against adding equity, anticipating a correction of around 10%. Indeed, some mid and small cap stocks experienced corrections of 30-40%. The anticipated global slowdown, with global growth projected at only 2.4% next year, adds to the backdrop of concern. Stock valuations remain elevated in this context.

Currently, the Nifty 50 is trading at 20.6 times forward EPS, representing a premium of 15% over the 10-year average. Similarly, the Nifty Midcap 100 Index is trading at 25.9 times one-year forward EPS, a premium of 22% over the 10-year average. Despite this, mutual funds continue to maintain liquidity, particularly after the SEBI stress test. Consequently, there have been no signs of panic redemptions or selling pressure.

Fixed Income

Post US Fed commentary, bond yields came off. Indian government bond yields posted their first decline in the last four financial years as the central bank held rates, the demand-supply dynamics turned favorable and foreign inflows boosted sentiment. This shows investor confidence in Indian market. The benchmark 10-year bond yield ended at 7.0556%, following its previous close of 7.0927%.

The market's strong ability to tackle large supply this year, smaller than expected bond borrowing program for FY25, pick up in foreign demand after bond index inclusion announcement and broadly favorable global backdrop have together spurred rally in bonds. Domestic bonds also got a push as the decade-long wait for the inclusion of securities in global bond indices finally ended, with JP Morgan announcing that it would include some notes in its emerging market debt index from June 2024.

This was followed by Bloomberg Index Services adding notes in its Emerging Market Local Currency Index from January 2025 and investors expect passive inflows upwards of an aggregate of $25 billion over the next 12-18 months.

Funds with longer durations are generally more sensitive to interest rate changes compared to those with shorter durations. Hence with expectations of rate cuts domestically as well we feel investment in long-term bond funds, GSec/Gilt funds are likely to deliver better returns. With coupon plus capital gain from appreciation of NAV in Gilt funds we believe that our return will go above 9%-10%

For example, a Gilt Fund – with coupon 6% post expense with a mod duration of 7.56

1.If the Interest rates stay unchanged, we will make the coupon of 6%

2.If the Interest rates go down by say 50bps, we will make capital appreciation of 3.8% (half of mod duration) along with the coupon of 6%. Which makes our total return of around 9.8%.

Our View

We believe that the India story is far from over, with high growth expected over the next 5 to 10 years. While the world GDP is projected to shrink to around 3%, India is poised to emerge as the fastest-growing economy. Globally, a general rule is that growth attracts capital and investments. With this principle in mind, India stands to be the biggest beneficiary. We see four broad themes that investors can consider while making their investment decisions in India.

1. Financialization
2. Consumerization
3. Engineering and Infrastructure
4. PSU Rerating

Financialization –

India boasts a large and dynamic working population, yet only a small fraction invests in the stock market, resulting in low penetration rates. Currently, this stands at 7%, largely due to robust growth in retail participation over the past two years. However, this presents an opportunity for exponential market growth in the future as participation increases. Major beneficiaries of this trend are expected to be stock exchanges, wealth managers, broking houses, rating agencies, and RT agents.

Consumerization –

With the rise in disposable income and overall enhancement in per capita income, consumption in India is expected to experience rapid growth. There will be an increased demand for houses, luxury cars, travel, and lifestyle discretionary spending, as observed post-COVID. The proportion of discretionary spending in the monthly income of the young population is facilitating this trend. Additionally, a significant portion of the working-class population, which accounts for over 56%, will further contribute to growth across all the mentioned sectors.

Engineering and Infrastructure

The government has been actively working to reduce our reliance on the service sector, with a particular focus on boosting manufacturing through policies such as the Production Linked Incentive (PLI) scheme. These efforts are yielding positive results, with the manufacturing sector, currently accounting for 17% of GDP, experiencing accelerated growth. Meanwhile, the contribution of the agricultural sector to GDP is gradually declining, and there is limited scope for significant intervention in this regard. As a result, with the "China plus one" and "new Europe plus one" trends, which offer production incentives, have gained traction. These economic trends have spurred growth across the entire spectrum of companies, including SMEs, MSMEs, and large enterprises. Additionally, support from the rail and defense sectors is further increasing the share of manufacturing in GDP. Consequently, private and public sector companies are poised to benefit from these developments. Moreover, a capacity utilization rate exceeding 80% is likely to stimulate investment in industry as a secondary effect.

PSU Rerating

The public sector has historically been overlooked, with perceived inefficiencies in leadership and ownership preventing it from being viewed on par with the private sector. However, this perception has changed significantly, particularly in sectors such as railways, power, and defense, where public sector companies are now performing well and commanding respectable valuations. In particular, the power and banking sectors are poised for further rerating, presenting attractive investment opportunities.

The current market situation is a mix of positives and negatives, like a glass being half full and half empty. While finding new investment opportunities may be challenging in the short term, we remain optimistic about the long-term outlook. Good earnings in Q4 and positive news about the monsoon could lead to a market rally. We are ok with current valuations looking at earnings growth and suggest adding equity large caps or quality midcaps with good potential growth during any dips, rather than waiting for a big market correction.

It is important to focus on quality investments and avoid stocks with weak fundamentals. The current market does not leave room for mistakes, so it is crucial to avoid value traps and stick with quality options – in mutual funds, PMS,AIFs and stocks. Today for India equity is all about long term investing and take short volatility in stride while embarking on this journey. We do see good amount of visibility which warrants for optimum allocation to equities in your portfolio.

Index Returns for the year ended FY 24

Index	Closing Level	1 yr Return %
NIFTY 50	22,327	28.61
NIFTY MIDCAP 100	48,076	63.94
NIFTY SMALLCAP 100	15,270	**75.49**
NIFTY NEXT 50	60,624	60.39
NIFTY BANK	47,125	**16.05**
NIFTY IT	34,898	25.97
NIFTY PHARMA	18,996	58.08
NIFTY AUTO	21,419	74.94
NIFTY ENERGY	39,021	74.29
NIFTY FMCG	53,949	**19.77**
NIFTY PSU BANK	7,007	**96.43**

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