Investor Insights & Outlook

AUGUST 2024

31 Aug 2024

Market Update

Nifty	25236
Sensex	82366
10Y G-Sec	6.86%
USD INR	83.86
Gold	73901 (Rs/10gm)
Brent	76.94 ($/bbl)
Repo Rate	6.50%
Reverse Repo	3.35%

Product Recommendations

Equity

Parag Parikh Flexi Cap Fund
Motilal Oswal Flexi Cap Fund
ICICI Pru Bluechip Fund
ICICI Pru Banking & Financial Services Fund
Tata Banking & Fin. Ser. Fund
ICICI Pru Balanced Advantage Fund

Debt

ICICI Pru Equity Savings Fund
Kotak Equity Savings Fund
ICICI Pru Regular Gold Savings Fund – FoF
Kotak Gilt Fund
HDFC Ltd Fixed Deposit
Bajaj Finance Fixed Deposit

Contact

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EQUITY OUTLOOK

Market Indices

August 2024 witnessed steady growth and significant inflows, with the MSCI rebalancing playing a crucial role. Both the indices, Sensex and Nifty managed to end the month on a positive note making newer highs but with significant volatility, with the Sensex up by 1.19% and the Nifty 50 by 1.14%.

Global Impact

FPIs have been cautious in view of the high valuations of Indian stocks, rising recession fears in the US amid weak jobs data, uncertainty over the timing of interest rate cuts, and the unwinding of yen carry trade. The Jackson Hole speech of the Fed chief Jerome Powell clearly signalled Fed's pivot that the rate-cut cycle may begin in September, and this could provide further resilience to stock markets globally amidst high valuations.

Sector Performance

FPIs continued to sell banking shares due to concerns over slow deposit growth but remains undervalued. Additionally, FPIs were net sellers in metals and mining stocks after the Supreme Court allowed States to levy taxes and royalties on minerals, leading to a rise in operating costs for miners.

The pharmaceutical sector remained bullish due to better-than-expected earnings and a strategic shift towards complex drugs. The FMCG sector is also attracting investors, driven by a significant recovery in rural consumption, supported by favourable monsoon forecasts and government welfare measures for rural economies.

Investor Sentiment

Investor sentiment remained positive reflecting optimism about the market's long-term growth potential. Overall, the sentiment was buoyed by strong earnings growth, sectoral performance, and positive market trends.

Bottom Line

India's GDP expanded at an impressive rate of 8.2% in the fiscal year 2023-24, and it remained the fastest-growing major economy. Although the MSCI rebalancing resulted in substantial inflows, the huge domestic liquidity that is already present in the markets will be amplified if foreign portfolio inflows into India become net positive. Emerging markets may also be stimulated by rate reductions in the United States. We are of the opinion that any correction or volatility may present excellent entry opportunities, as the long-term Indian narrative and fundamentals remain robust whilst the ongoing geo-political issues and valuations remain a concern in the short term. It is best to remain defensive now.

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DEBT OUTLOOK

Bond Yields

The 10-year benchmark 7.26% GS 2033 bond settled at 6.86%, down from 6.92% in July 2024. Indian government bond yields fell further last month tracking the US bond yields.

Global Impact

Bond markets gained after the U.S. Fed Chair, in his Jackson Hole Symposium speech, suggested that the central bank might cut rates in September as the upside risk to inflation has diminished. Crude oil prices declined during the month due to persistent demand concerns from China, further pressured by a downward revision of the U.S. annual job forecast, which raised additional demand concerns.

Monetary Policy

The RBI kept the policy rate unchanged at 6.50% during its August 2024 monetary policy review meeting. The RBI has maintained the full-year inflation target for FY 2024-25 at 4.5%, unchanged from the previous meeting. The RBI noted that while inflation is moderating, the progress is uneven and slow. The central bank aims to remain vigilant until the inflation target is achieved sustainably. There is a possibility that the RBI may consider easing monetary policy in H1 FY25, although we expect any rate cuts to be moderate.

Bottom Line

Under current conditions, inflation and growth in India are progressing in a balanced manner, with overall macroeconomic stability. The RBI remains committed to sustainable price stability, focusing on keeping inflation within target levels amid resilient growth. We anticipate that the RBI will continue to monitor inflation closely to prevent any spillover effects that could derail the progress made so far.

While anticipating large inflows from bond index inclusion, the RBI may utilize a mix of methods to control liquidity and market stability. Proactive measures like Open Market Operations (OMO) sales may continue to contain surplus liquidity.

For conservative investors, we suggest focusing on accrual assets such as money market funds and AAA-rated fixed deposits. For those comfortable with higher volatility and a long-term perspective, we recommend considering the dynamic management of duration.