Investor Insights & Outlook

JULY 2024

31 July 2024

Market Update

Nifty	24951
Sensex	81741
10Y G-Sec	6.92%
USD INR	83.69
Gold	71111 (Rs/10gm)
Brent	77.91 ($/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 Dynamic Bond Fund
HDFC Ltd Fixed Deposit
Bajaj Finance Fixed Deposit

Contact

If you require any detailed information, please contact:

Gurmeet Singh
gurmeet@divitascapital.com
+91 - 98 73 010 019

Ashish Tyagi
ashish@divitascapital.com
+91 - 99 11 222 707

EQUITY OUTLOOK

Market Indices

The BSE Sensex and NSE Nifty 50 saw fluctuations in July 2024 due to domestic and global economic factors. Despite this, both indices managed to end the month on a positive note, with the Sensex up by 3.42% and the Nifty 50 by 3.91%.

Budget Impact

Our finance minister presented the maiden budget of the NDA 3.0 Government in July 2024 and albeit noise around yielding to demands of coalition partners and capital gains tax tweak, the budget's direction is one of continuity with adherence to the fiscal consolidation roadmap and sustained emphasis on capex. However, there was significant selling by FIIs, especially after the budget announcement which included tax hikes on capital gains from equity investments.

Sector Performance

We have started to witness some green shoots in sectors which earlier did not participate in this market rally. For example, the Indian chemical sector is gradually overcoming the headwinds of inventory destocking and demand slowdown. The IT and Banking sectors showed resilience and contributed to the market's recovery mid-month. However, auto stocks and steel companies faced pressure due to weak earnings and global economic concerns.

Investor Sentiment

Domestic Institutional Investors (DIIs) and retail investors played a crucial role in supporting the market, with substantial fund inflows throughout the month. Overall, while the market faced challenges, strong domestic participation helped maintain a positive trajectory last month.

Bottom Line

Although there were concerns on valuations that remained high supported by revival in corporate earnings and turnaround in the economy, we have witnessed heightened volatility in the past few days on account of escalation in Israel-Hamas war, Red sea crisis, risk of recessionary conditions in US followed by Yen-carry trade and coup in Bangladesh. We believe that some of these risks are transitory in nature and will be short-lived. As the froth clears, we believe that the current turmoil and volatility may offer great entry opportunities as the long-term Indian story and fundamentals remain strong.

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DEBT OUTLOOK

Bond Yields

The 10-year benchmark 7.26% GS 2033 bond settled at 6.92%, down from 7.00% in June 2024. Indian government bond yields declined to a 28-month low of 6.90% after U.S. yields slid following the Federal Reserve's dovish comments. Bond yields have been on a downtrend in the past couple of months, supported by news of Indian bonds becoming part of global bond indices. The resulting foreign portfolio investments in Indian bonds and the positive sentiment around it have helped bring down yields.

Budget

The Union Budget 2024-25 maintains a steady focus on fiscal consolidation. It projects gross tax revenues to grow by 10.8% year-on-year (y/y), while nominal growth is retained at 10.5% for FY24-25. Total expenditure is projected to increase by only 8.5% y/y, making these numbers look credible. The Economic Survey conservatively projects a real GDP growth of 6.5–7%, with risks evenly balanced, acknowledging that market expectations are on the higher side. In the Union Budget, the allocation to capital expenditure is estimated at 3.4% of GDP for FY25BE. Capital expenditure remains a focus, accounting for around 23% of total central government expenditure.

Fiscal deficit for FY24 (Provisional Actuals) and FY25 (Budget Estimates) are at 5.6% and 4.9% respectively, aligning with budget estimates and market expectations. The government reiterated its intention to bring the fiscal deficit below 4.5% of GDP by 2025-26. The government will borrow Rs 14.01 lakh crore this fiscal to meet its expenditure requirements, lower than the Rs 14.13 lakh crore announced in the interim budget in February.

Monetary Policy

According to the U.S. Fed Chairperson, price pressures are broadly easing, and a rate cut might be considered in September 2024. On India's monetary policy, we believe that the RBI is unlikely to change its policy stance as the economy is growing favourably and inflation remains within the RBI's expectations.

Bottom Line

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.