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BULL-E-TIN

April 2024

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Investment Banking | Private Wealth | M&A - Tax & Regulatory | Corporate Insurance

THE WISE OUTLOOK

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Equity Markets: Navigating Uncertainties

The road ahead for FY 2024-25 might be a bit bumpy owing to major events like elections in India and the US, uncertainty around the quantum and number of interest rate cuts, and geopolitical tensions, which might impact the commodities prices, especially crude. However, the Indian economic growth looks healthy, as the World Bank revised its expected GDP print upwards to 7.5% for FY 2023-24. Also, RBI's baseline GDP projection for the FY 2024-25 stood at 7.4%.

To weather the upcoming uncertainty and volatility better, we can expect increased inflows towards the Large Caps. Increasing allocation to Large Caps while decreasing the exposure to Mid and Small-caps will help investors lock in the gains of FY 2023-24 and be well prepared for FY 2024-25.

Debt & Other Investment Options: Falling Yields and Rising Opportunities

Market expectations suggest a continuation of range-bound behaviour with a tendency towards lower yields on the 10-year G-sec. We expect 10-year G-Sec to remain in the range of 6.95%-7.10%.
The short end of the curve should start easing off as liquidity in the system increases. The announcement of the inclusion of Indian bonds in JP Morgan's indices from June has the potential to attract inflows and might put some downward pressure on the yields as well.

We believe investors should consider medium-duration funds like banking and PSU funds and long-duration funds like gilt funds to benefit from capital appreciation when the rate cut starts. Considering the potential macroeconomic challenges, we believe investors should consider additional ways to protect their portfolios and narrow the range of potential outcomes. Asset classes like Gold can help mitigate the key risks ahead by providing effective diversification and enhancing risk-adjusted returns.

GLOBAL ECONOMY & MARKETS

GLOBAL ECONOMY

Inflation has gradually been coming down across the major global economies without a spike in the unemployment rate (so far). The **PMI** data has also moved towards the expansion zone (above 50), showing positive signs for global economic growth.

US equity markets appear overvalued, with a **high Mcap/GDP ratio** of 2.01. Consistent high inflation is deferring the rate cut cycle, making the debt expensive in the US.

China, the UK and the Euro Area (EA) look relatively inexpensive compared to the US from MCap/GDP valuation perspective.

In India, the Composite Purchasing Managers' Index (PMI) consistently above 55 since the pandemic, with frequent readings exceeding 60 since mid-2023, points to a very strong growth trajectory. Also, inflation in India has been consistently within the RBI range of 4% (+/- 2%).

Country	Interest Rate	Inflation	Unemployment	PMI	Market Cap/GDP	Debt/ GDP	GDP ($ Tn)
India	6.5%	5.09%	7.64%	61.8	1.36	0.87	3.41
USA	5.3%	3.50%	3.80%	52.1	2.01	1.29	26.97
China	3.5%	0.10%	5.30%	52.7	0.62	0.77	17.48
Euro Area	4.5%	2.40%	6.50%	50.3	1.06	0.91	15.18
Japan	0.0%	2.80%	2.60%	51.7	1.72	2.64	3.86
UK	5.3%	3.40%	3.90%	52.8	0.88	0.97	3.36

	Rate Hike/ Peak	High/Low	High	Expansion (50>)	Expensive (1>)	High (>0.8)
	Rate Cut /Bottom	Moderate	Low	Contraction (<50)	Inexpensive (<1)	Low (<0.8)

GLOBAL EQUITY MARKET

The **global equity market** rose for the fifth consecutive month in March 2024 as the rally broadened across regions and sectors. The strong global growth and the potential for rate cuts fuelled the rally in cyclical sectors of the market.

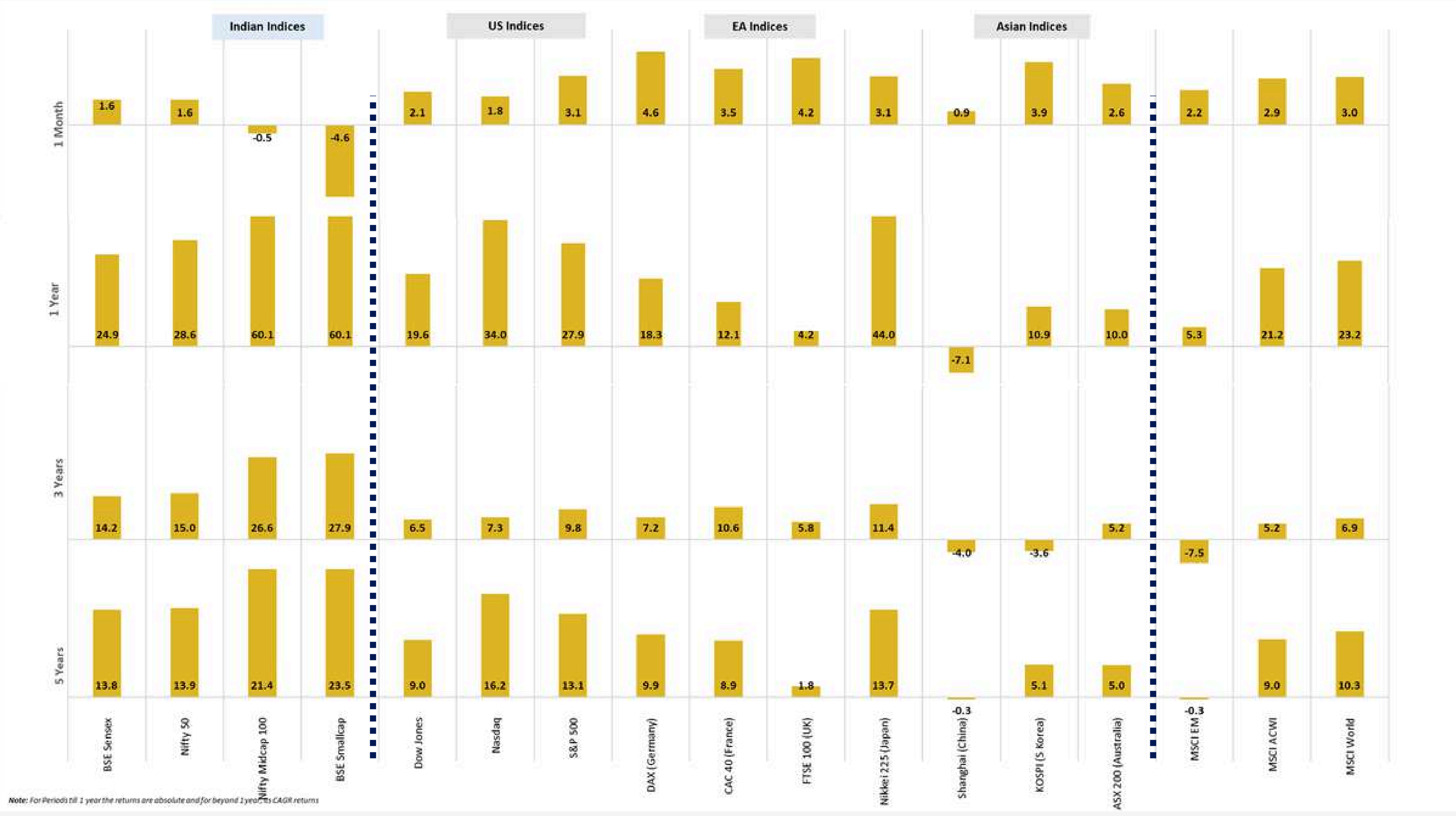
Commodity prices, including gold and oil, rose sharply in March 2024.

In the US, the technology index, **Nasdaq**, and industrial index, **Dow Jones**, rose by 1.8% & 2.1% in March 2024 as sectors such as miners, energy, and industrials outperformed technology sectors over the month.

Britain's FTSE surged by 4.2% in March 2024, led by sectors such as energy, materials and financials, which outperformed in the hope of an interest rate cut as the inflation cooled.

The **EA markets** followed the global trend. **Germany's DAX** and **France's CAC 40** rose sharply by 4.6% and 3.5%, respectively, in March 2024. **Japan's Nikkei** 225 rose by 3.1% in March 2024.

In China, authorities reduced the reserve requirement ratio for banks and a key mortgage benchmark in an attempt to boost the property sector. As a result, China's **Shanghai Composite** rose by 0.9%, and Hong Kong's **Hang Seng** rose by 0.2% in March 2024.

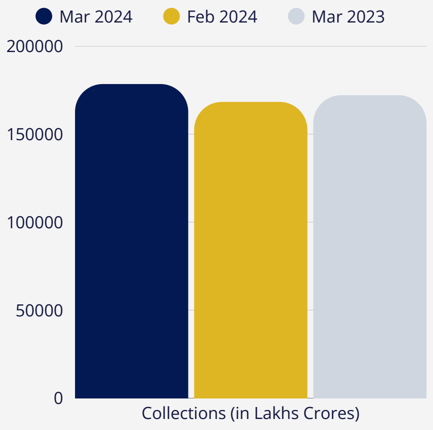


Note: For Periods till 1 year the returns are absolute and for beyond 1 year, its CAGR returns

INDIAN ECONOMY & MARKETS

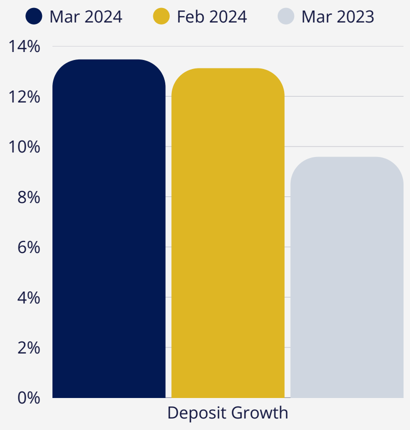
INDIAN ECONOMY

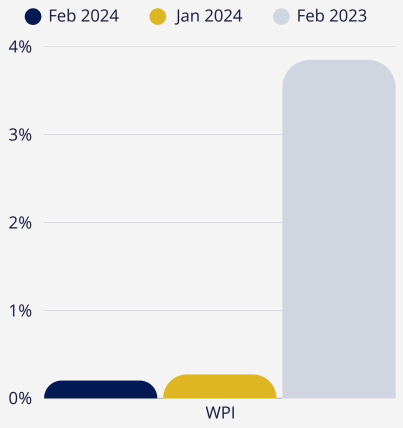
In March 2024, **Goods and Service Tax (GST) collection** surged 11.5% year-on-year to Rs. 1.78 lakh crore, marking the second-highest since GST's inception in July 2017. Also, the total gross Goods and Service Tax (GST) collection for FY 2023-24 stood at Rs. 20.18 lakh crore, a 11.7% increase compared to FY 2022-23.



Credit offtake continued to grow, increasing by 20.2% (y-o-y) to reach Rs. 164.3 lakh crore, for the fortnight ending March 22, 2024. The outlook for bank credit offtake continues to remain positive.

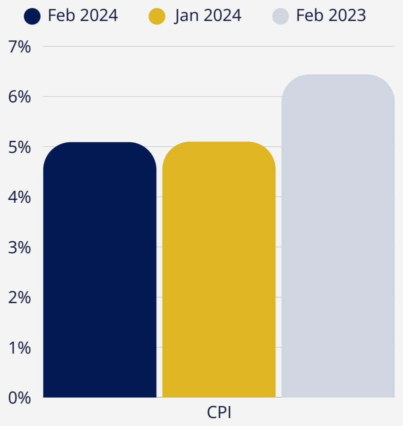
Deposits grew by 13.5% y-o-y for the fortnight and reached Rs. 204.8 lakh crore as on March 22, 2024, driven by growth in time deposits. Deposit growth is expected to improve compared to earlier periods as banks shore up their liability franchise and ensure that deposit growth does not constrain credit offtake. Further with rate cuts anticipated in the later part of FY25, some amounts might flow back into the banking system thereby improving the CASA ratios to a certain extent.

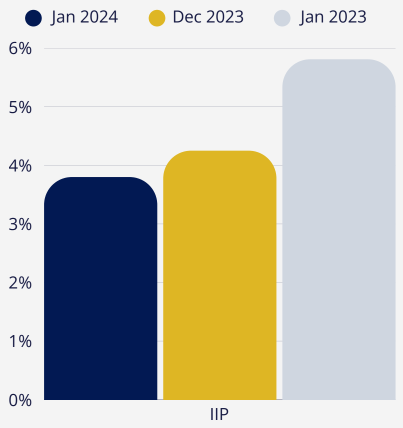




India's **Wholesale Price Index (WPI) inflation** eased to 0.20% in February from 0.27% in January 2024, mainly due to an increased deflation in manufacturing products and fuel and power items.

India's **Consumer Price Index (CPI)**-based inflation eased slightly to 5.09% in February 2024 compared to 5.1% in January 2024 due to a favourable base effect and easing food prices.





Growth in **India's industrial output** decelerated to 3.8 percent in January. The eight core industries – coal, crude oil, natural gas, refinery products, fertilisers, steel, cement, and electricity – make up around 40 percent of the IIP. As such, it is seen as a lead indicator of industrial growth data.

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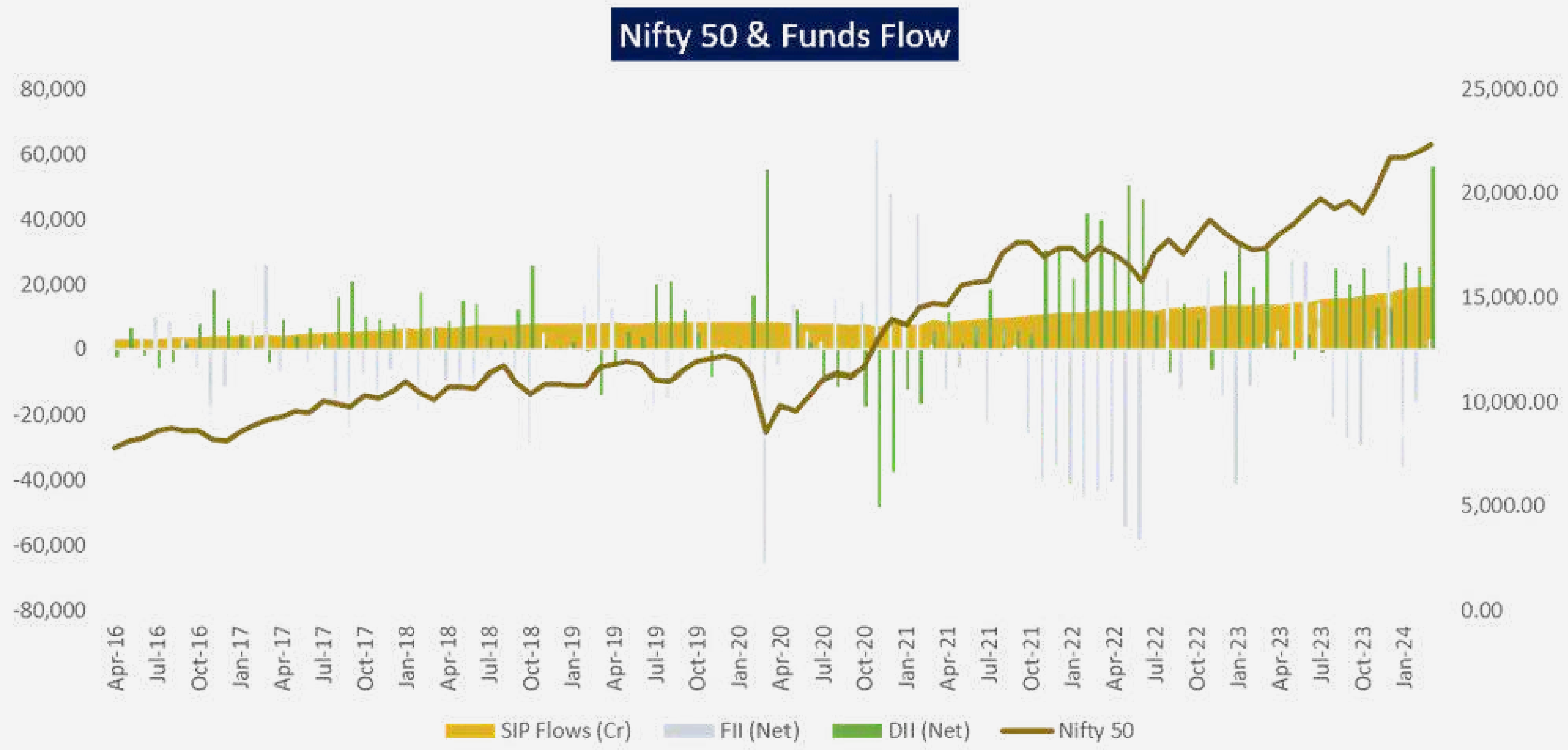
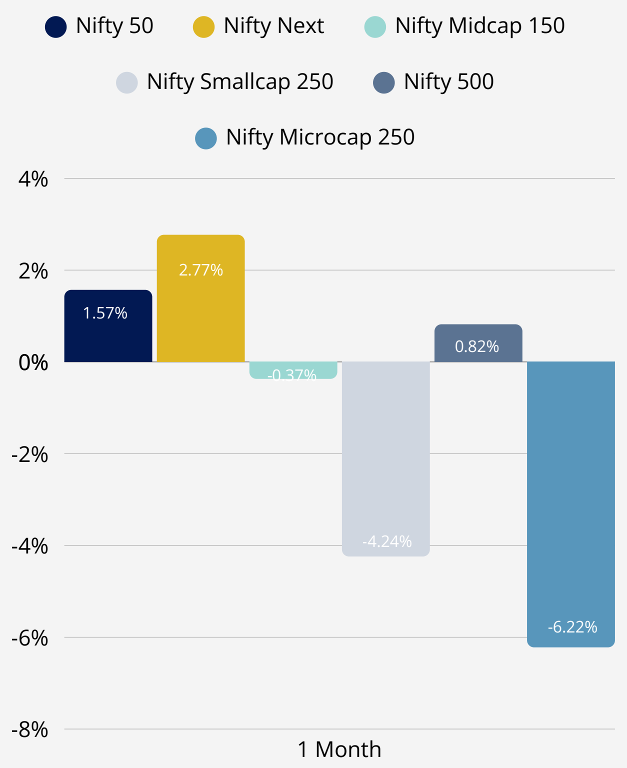
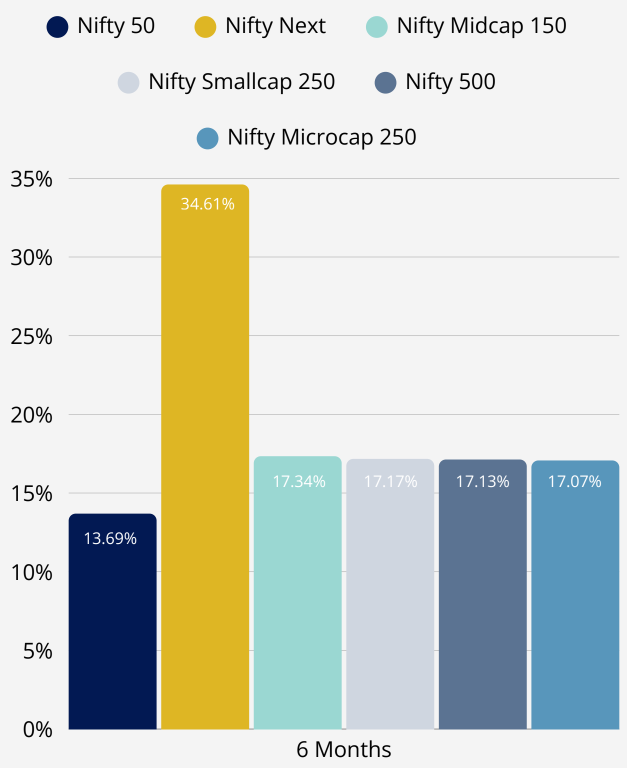
EQUITY & FUND FLOWS

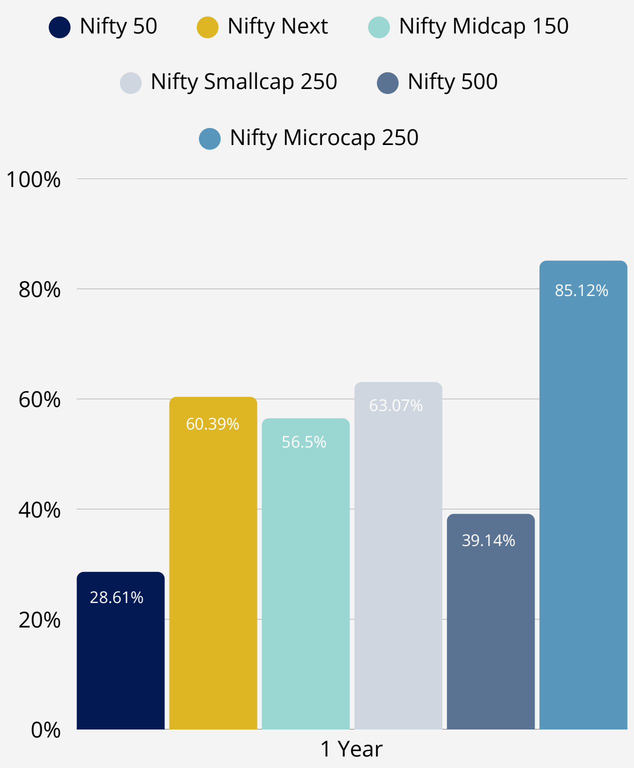
FY 2023-24 was a remarkable year for the **Indian equity markets**, with broader indices hitting all-time highs mainly due to active retail participation. The **SIP flows are nearing Rs. 2 trillion**, with the SIP account breaching the 8.2 Cr mark. As a result, **BSE Sensex and Nifty 50** rose by 24.9% & 28.6% in FY 2023-24 and 1.6% & 1.6%, respectively, in March 2024.

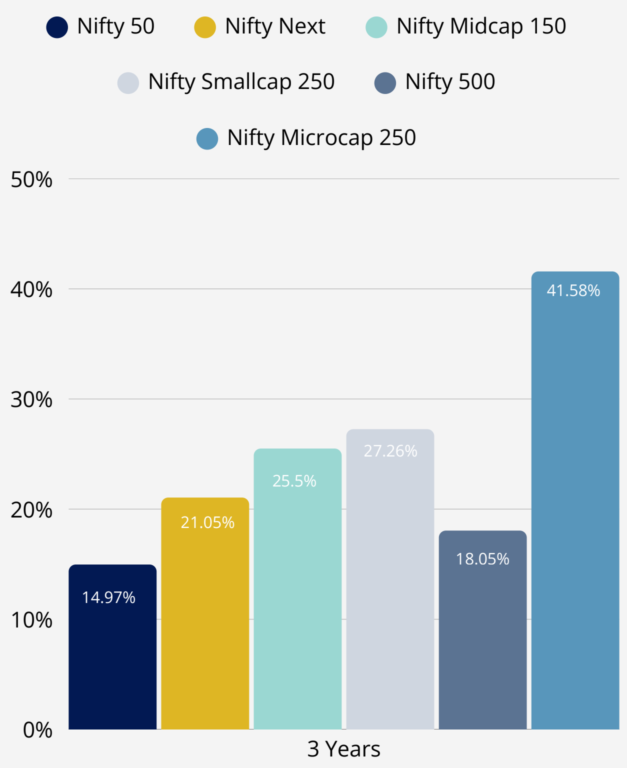


Other broader indices, the **Nifty Midcap & Small cap**, gave a remarkable return of 56.5% and 63.07% in FY 2023-24; however, they declined by 0.4% & 4.2%, respectively, in March 2024.









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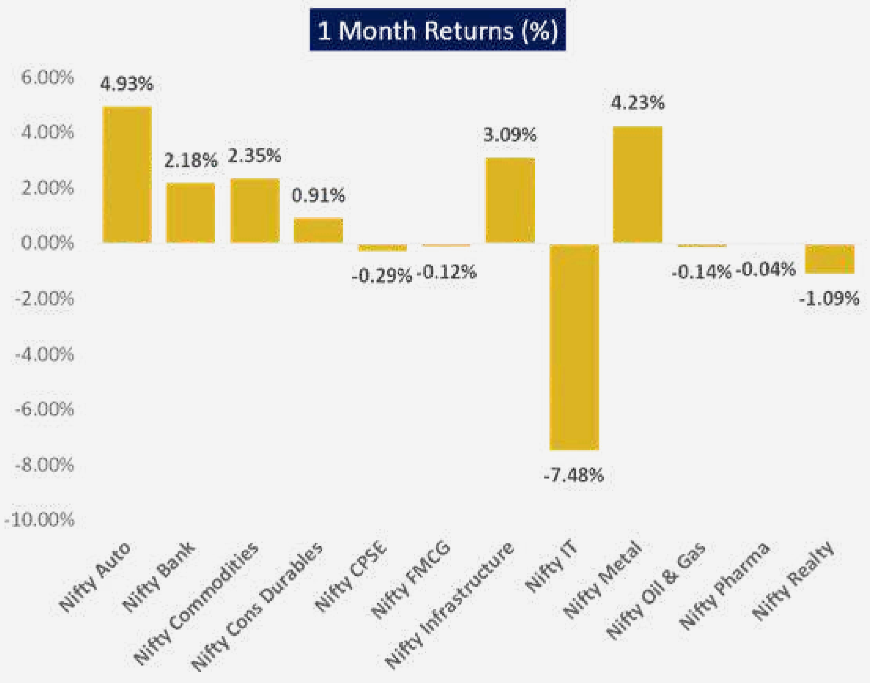
NIFTY 50 VALUATION & RETURNS

Auto, Metals and Infra indices have outperformed in the previous month with 4.9%, 4.2% and 3.1% returns respectively, whereas Nifty IT had a massive underperformance and corrected by 7.5% in March 2024.

Markets have been re-pricing the PE of Nifty 50. From an average of 18 PE couple of decades ago, it has gone and has been consistently above 20 with a peak of 40 post the COVID low rate and liquidity rush.

Historically, 3-year CAGR returns ~40% has been earned when investments happen when Nifty 50 PE is ~20. Current Nifty PE of 22.9 indicates a good range to accumulate into broad market indices.

Indian Equity Markets - Sectoral Performance

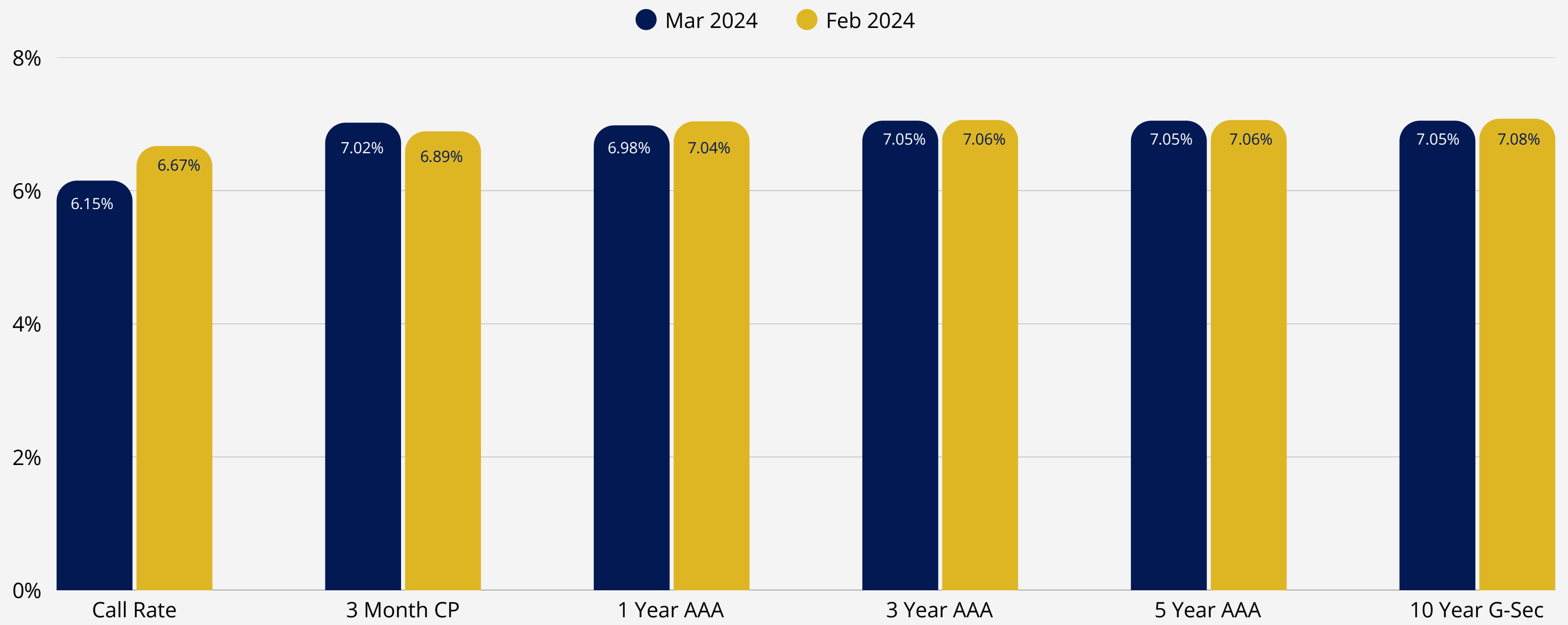


Years	Average PE
2000-09	17.80
2010-19	22.16
2020-YTD	25.42
2000-YTD	20.92
Current	22.66

	Nifty 50 - Average PE											
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2000	26.16	27.12	25.69	22.81	20.33	23.68	22.33	20.53	20.84	18.22	18.77	19.59
2001	20.75	21.32	18.20	16.08	15.74	15.37	15.32	15.23	13.65	13.76	14.86	15.59
2002	16.42	18.32	18.59	18.02	17.44	16.28	15.39	14.54	14.69	14.25	14.55	14.57
2003	14.56	14.32	13.85	13.20	11.15	12.20	12.50	13.89	15.09	16.60	17.42	19.19
2004	21.02	20.32	20.78	19.91	14.86	12.18	13.08	13.50	14.14	15.00	15.67	16.04
2005	14.41	14.40	14.98	14.16	13.77	14.01	14.31	14.61	15.58	15.26	15.47	16.72
2006	17.27	17.97	19.25	20.59	19.53	16.65	17.95	18.55	20.09	20.92	20.72	20.95
2007	21.24	19.64	17.95	19.28	19.74	20.08	21.30	19.47	21.05	24.59	25.15	26.55
2008	25.33	22.19	20.58	21.26	21.46	19.04	17.56	18.63	17.98	13.77	12.42	12.69
2009	12.73	13.38	13.30	15.89	18.67	20.16	19.83	20.50	21.86	22.34	21.91	22.70
2010	22.84	20.72	22.03	22.76	21.20	21.73	22.42	22.95	24.51	25.23	24.39	23.82
2011	22.84	20.67	21.16	22.02	20.37	20.20	20.49	18.29	18.11	18.15	18.11	17.32
2012	17.71	19.09	18.74	18.46	16.97	16.89	17.22	17.67	18.42	18.95	18.14	18.63
2013	18.87	18.26	17.89	17.40	18.13	17.49	17.88	16.12	16.83	17.72	17.80	18.56
2014	18.29	17.37	18.33	18.99	19.62	20.57	20.66	20.42	21.20	20.65	21.50	21.23
2015	21.73	23.09	23.21	22.88	22.40	22.70	23.49	22.99	21.69	22.48	21.36	21.10
2016	20.34	19.34	20.39	21.29	21.51	22.52	23.33	23.65	24.08	23.35	21.99	21.49
2017	22.44	23.23	23.47	23.37	24.25	24.31	25.10	25.37	25.99	26.26	26.35	26.42
2018	27.24	25.61	24.97	26.00	26.58	26.77	27.19	28.22	27.46	25.05	25.59	26.07
2019	26.08	26.66	27.76	29.12	28.88	29.25	28.28	27.12	26.93	26.51	27.67	28.18
2020	27.96	26.92	21.38	20.38	21.24	24.70	28.60	31.59	32.55	33.99	34.34	37.26
2021	38.90	40.80	40.43	32.73	29.27	29.08	28.11	26.11	26.98	27.31	23.43	23.69
2022	23.42	22.54	21.70	22.70	20.32	19.50	20.73	21.20	20.64	20.90	21.90	22.09
2023	21.49	20.89	20.29	20.70	21.56	21.80	23.35	22.43	22.39	21.75	21.05	22.61
2024	22.88	22.66	22.90									

DEBT & OTHERS

Some volatility around short term rates with overnight call rate dipped by 50 bps and 3 month rates gone up by 10 bps. Yields across Medium and Long Term tenures have largely remained flat. RBI's liquidity management has been more active since the February monetary policy committee (MPC) meeting, with multiple interventions on both sides (that is, liquidity withdrawals and injections) gradually to align the weighted average call rate (WACR),with the repo rate.

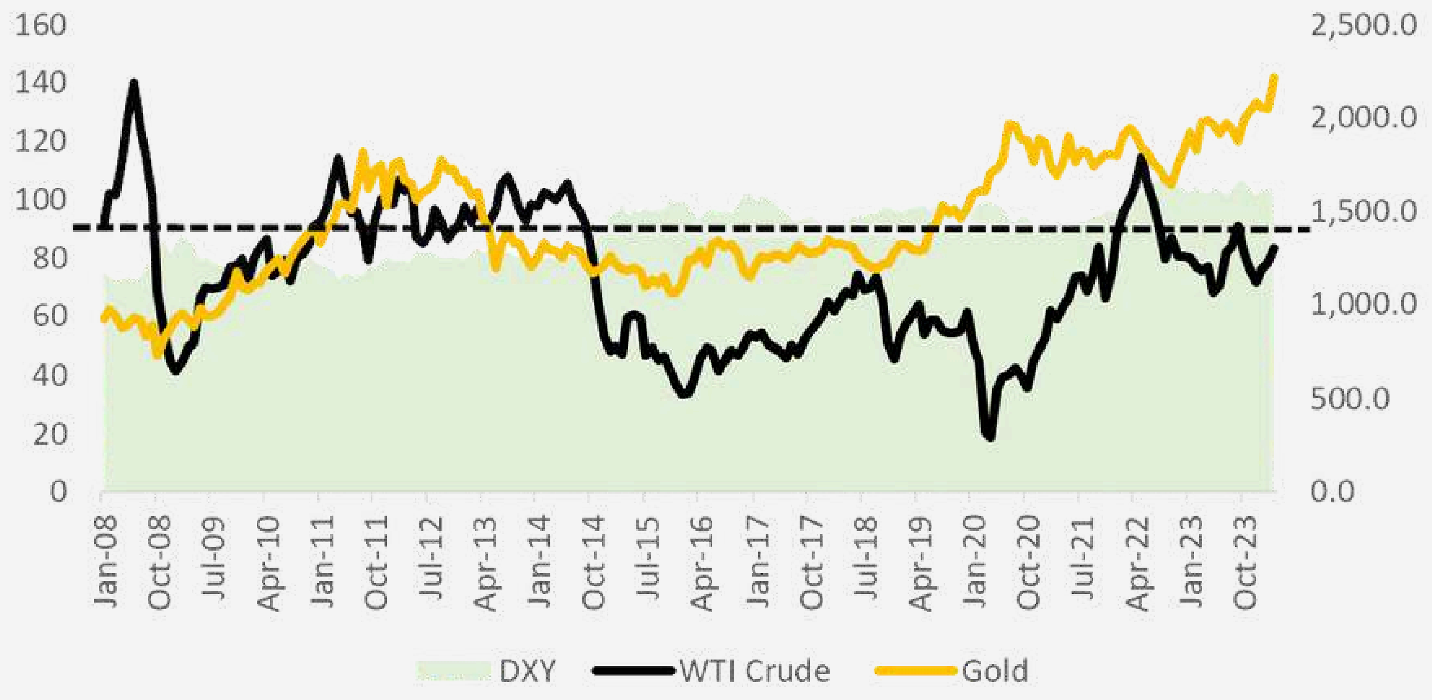


The RBI's two-way FX intervention to keep the rupee stable has capped volatility. The RBI has been building up its foreign currency reserves, whenever possible, which are at record high of $645.58 as on 29 March 2024.

Major Currencies				
Duration	**US Dollar**	**GBP**	**Euro**	**Yen**
March 2024	83.37	105.29	90.22	0.55
3 months ago	83.12	106.11	92.00	0.59
6 months ago	83.06	101.67	87.94	0.56
1 year ago	82.04	103.51	89.13	0.57

Gold has reached it's all time high levels of $2,214.35/Oz in March. Consistent buying of gold by countries like China and Russia who are seeking an alternative to USD. Increased central bankpurchases as a hedge against currency uncertainties. Increased consumer demand in China as a safe haven asset might further aid the gold rally.

Dollar Index v/s Crude and Gold



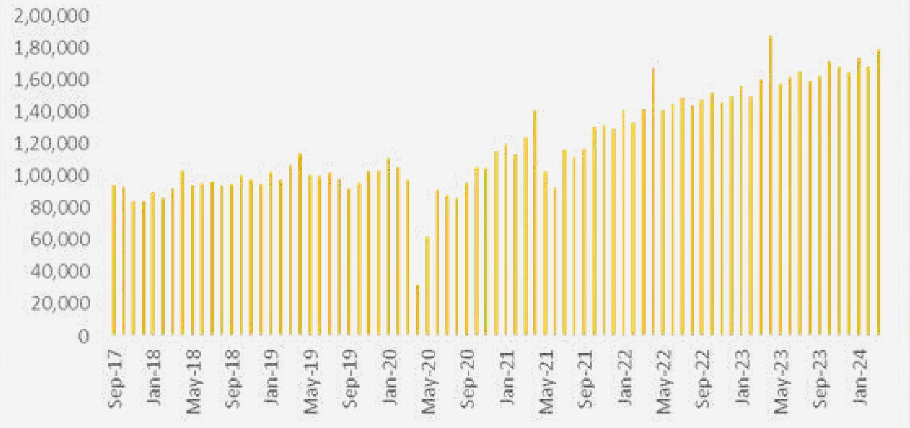
ANNEXURE

Interest Rate V/s. Inflation and Unemployment

Composite PMI

Deposit V/s. Credit

GST Collection (Cr)



CPI, WPI and IIP

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