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ASSET MANAGEMENT

Monthly Market Outlook – August 2024

Global Macros

India Macros

Fixed Income Outlook

Equity Outlook

Global Macros

Global Macro Summary

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- Recent weeks saw significant market shifts due to weaker economic data and an unexpected rate hike (0.25%) by the BOJ, leading to widespread unwinding of positions. Consensus trades like short JPY and long Big Tech were unwound in dramatic fashion causing a broad risk-off just as the Fed paused in July . This also created fears that the Fed is behind the curve on policy easing as rates remain extremely elevated even as the labour market has continued to cool off and inflation now appears under control

- Global PMIs show a mixed economy, with the services sector leading. Inflation has cooled off directionally and is closer to target. This has allowed global central banks to begin their rate cutting cycles

- The U.S. July labour market report was weaker, with unemployment rising to 4.25%, but layoffs remain low. The rise in the unemployment rate is more labour supply driven and layoffs remain low. Weather effects may have contributed somewhat towards a weaker print as well.

- However, given a rapidly cooling labour market and inflation being under control, *a series of 25 bps rate cuts looks likely to us. We expect 75 bps of rate cuts this year from the Fed.*

- In China, strong exports and manufacturing investment are driving growth, despite the property sector's decline. Slow growth and low inflation have led to further rate cuts.

*Bank of Japan, ABSLAMC Research

PMIs continue to highlight the two-paced nature of the economy; Services outperform

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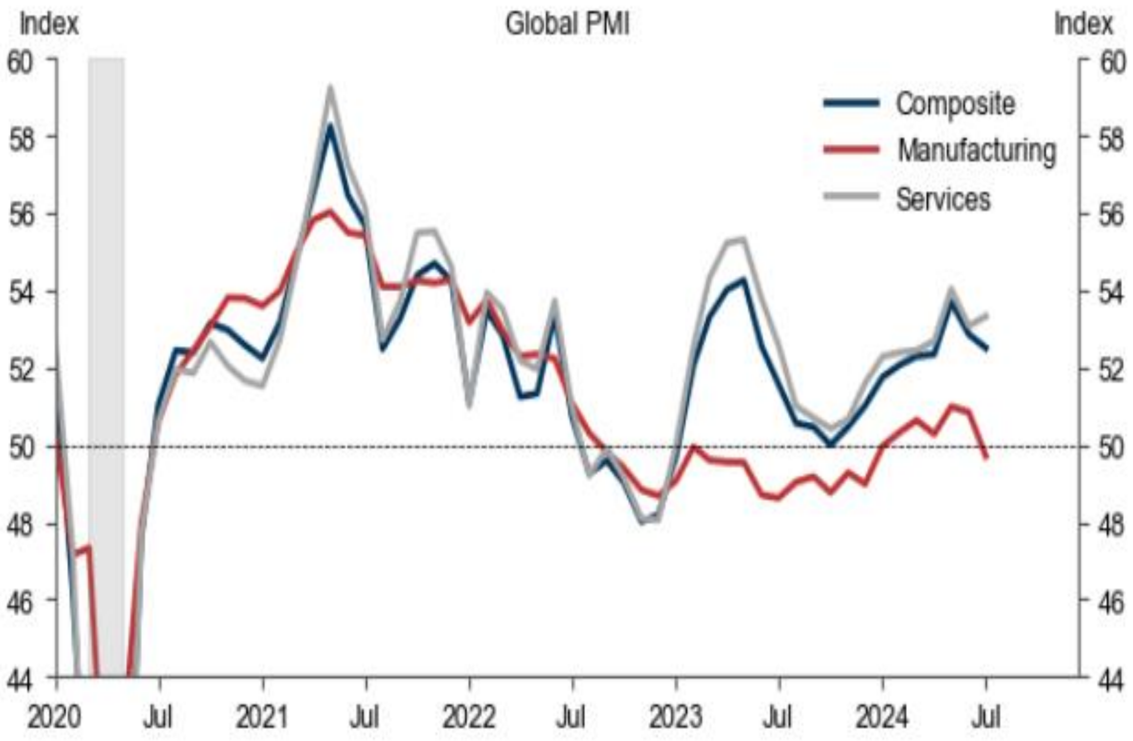
Exhibit 2: The Global Composite PMI Fell by -0.4pt in July to 52.5; the Manufacturing Component Fell by -1.1pt to 49.7 While the Services Component Edged Up by +0.2pt to 53.3



Note: Grey bars denote US recession.

Exhibit 7: The Global Forward-Looking PMI Components Fell for Manufacturing (Orders-to-Inventories Ratio -0.06 to 0.98) but Rose for Services (Services Future Activity +0.9pt to 63.8)

Note: Grey bars denote US recession.

Source: Goldman Sachs,

Cooling inflation allows for end of rate hikes; cuts to pick-up in H2 2024

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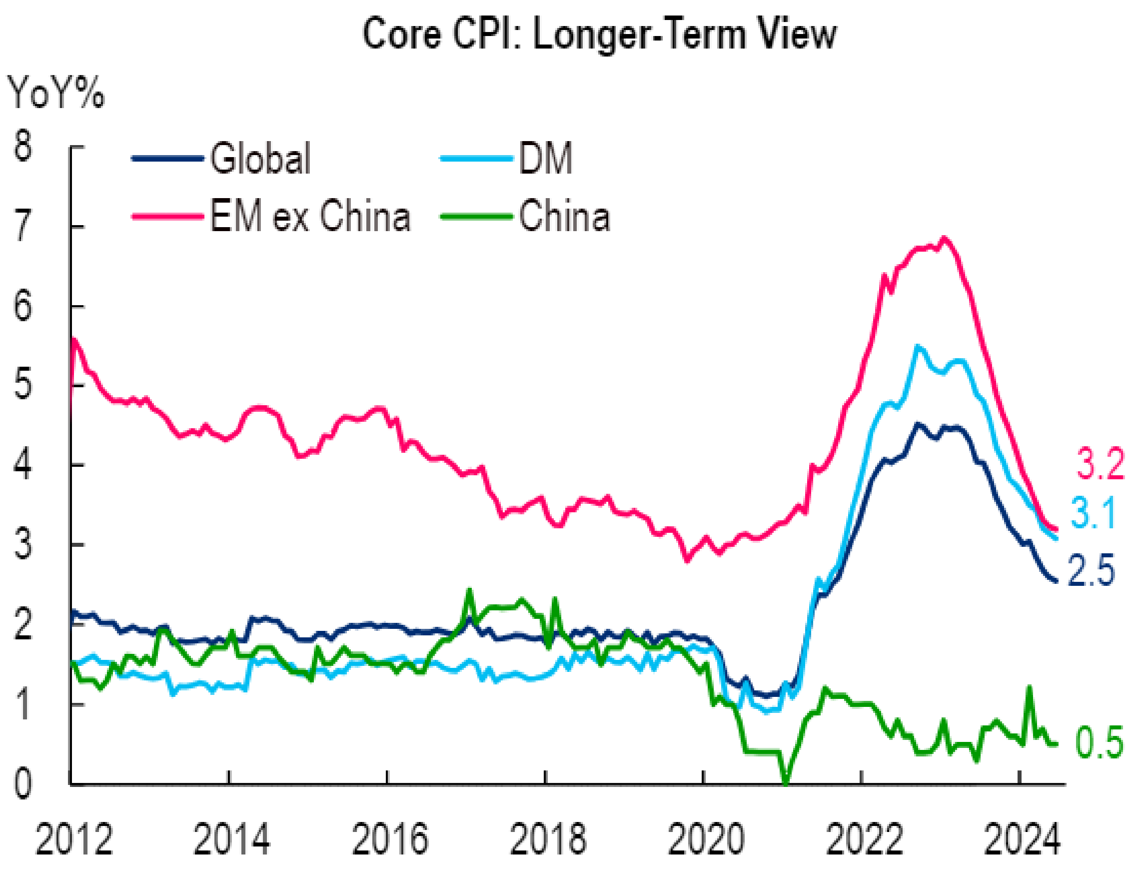
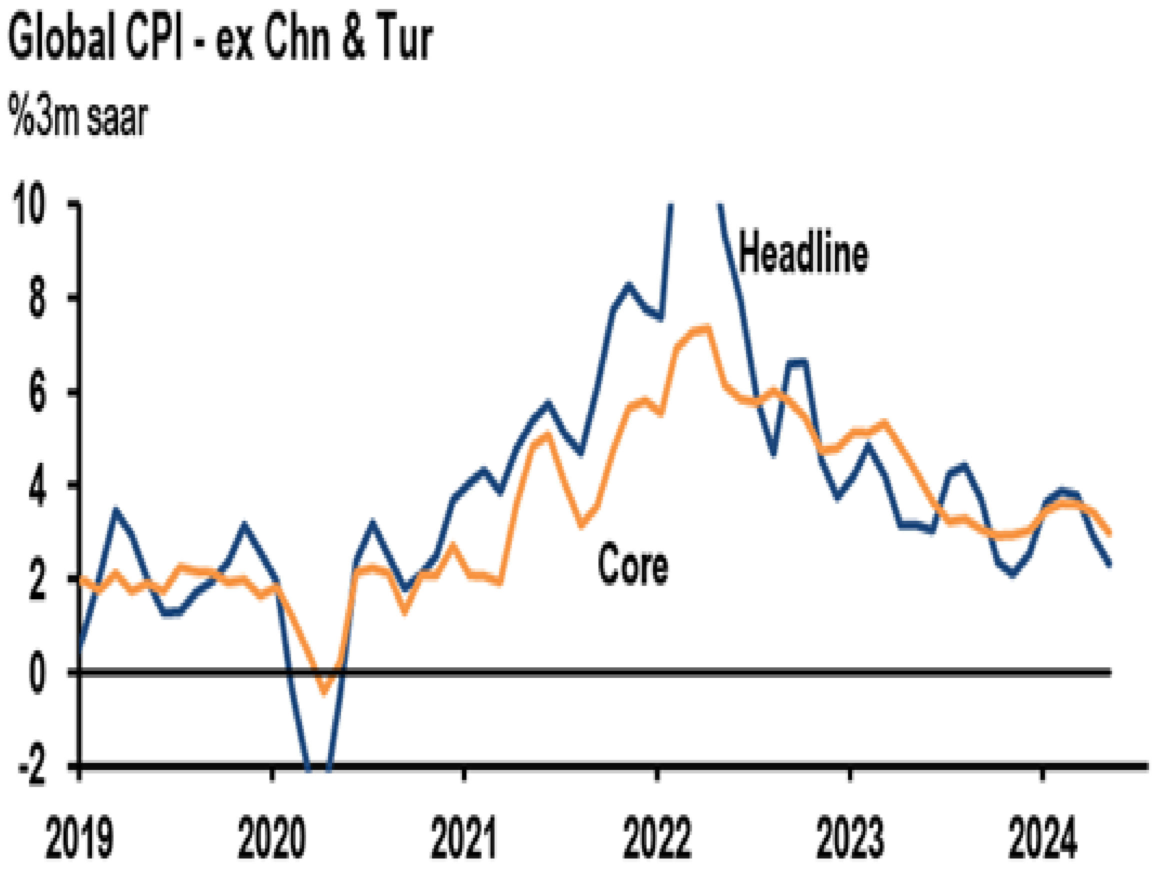




Source: Citi, JP Morgan

US inflation has come in lower than expected in Q2

Figure 1: Headline and core CPI inflation

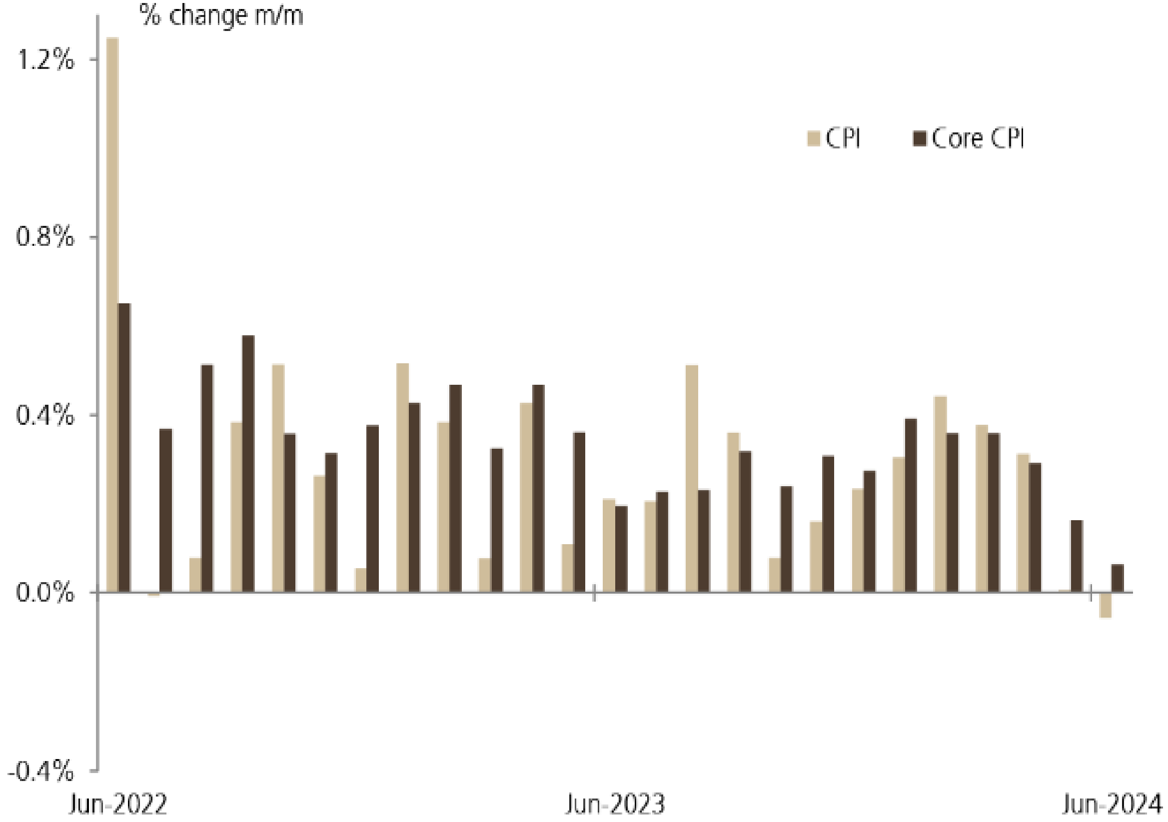
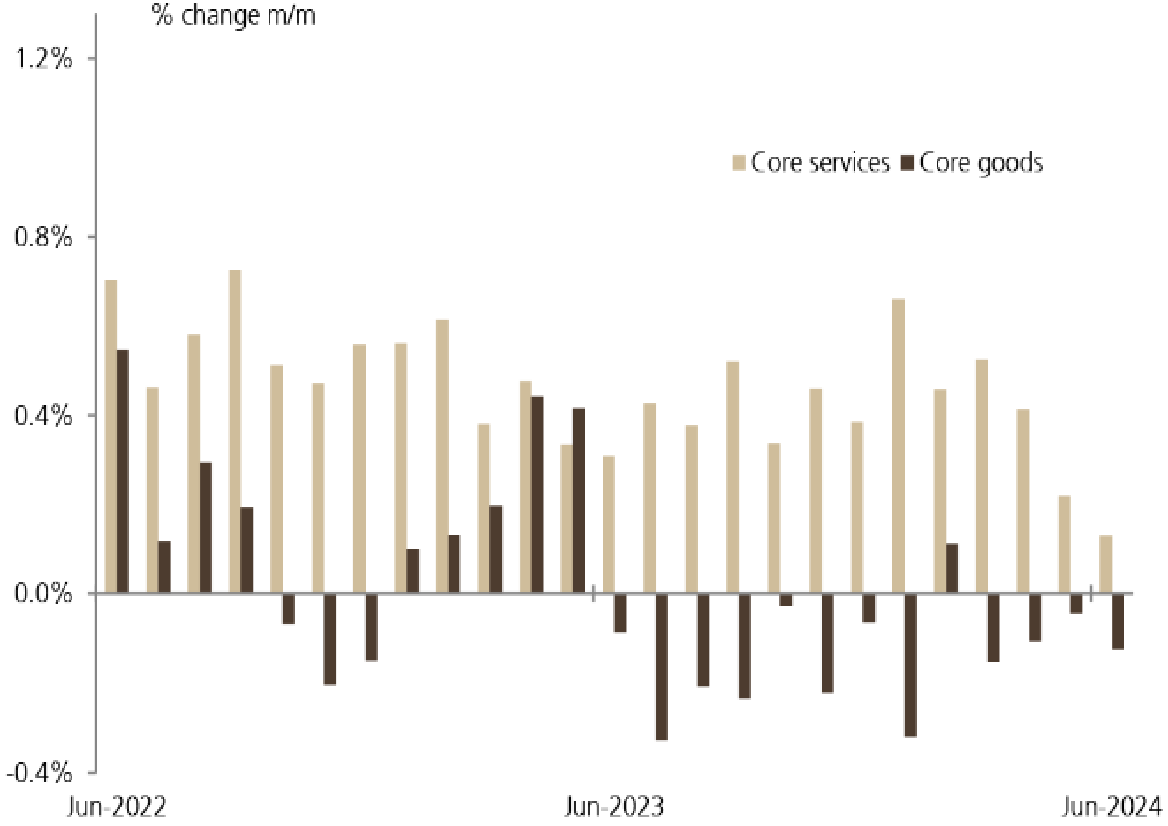


Figure 2: Core CPI goods and services inflation



Source: UBS

BOJ hike, weak NFP and US ISM triggered an unwinding of the Yen carry trade

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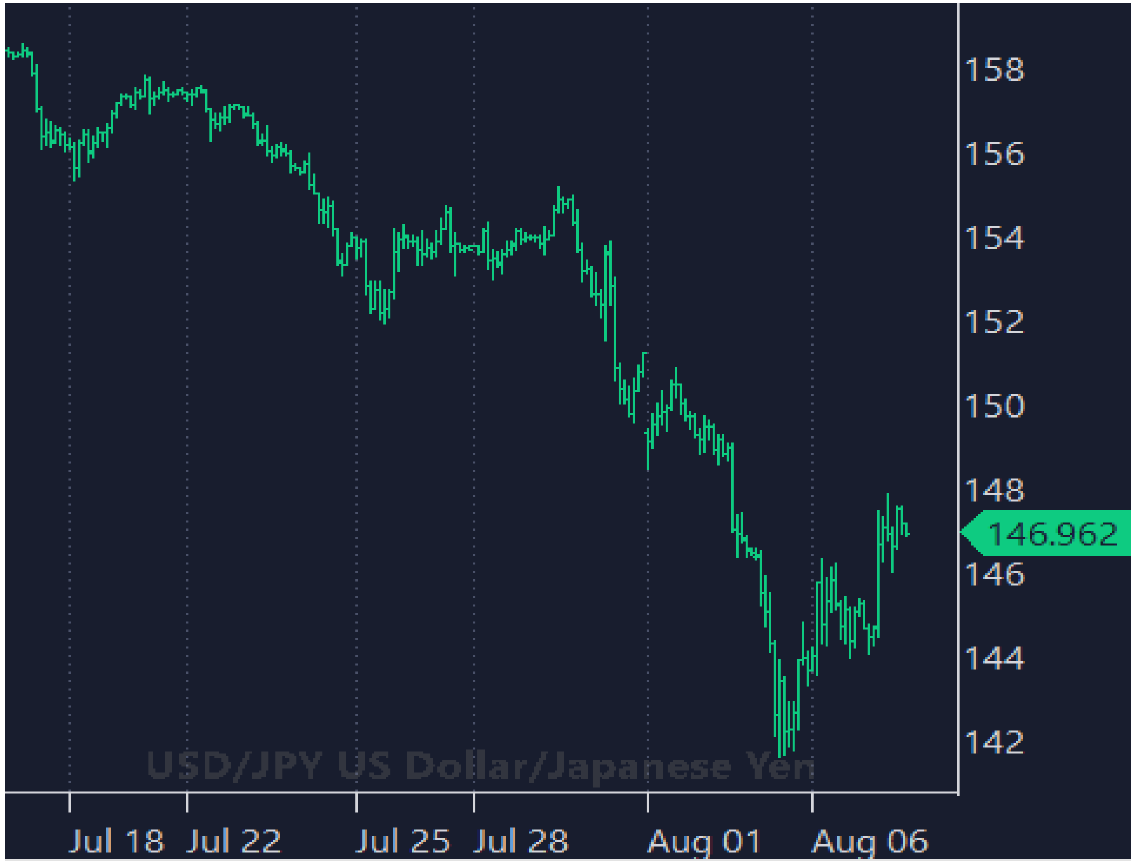
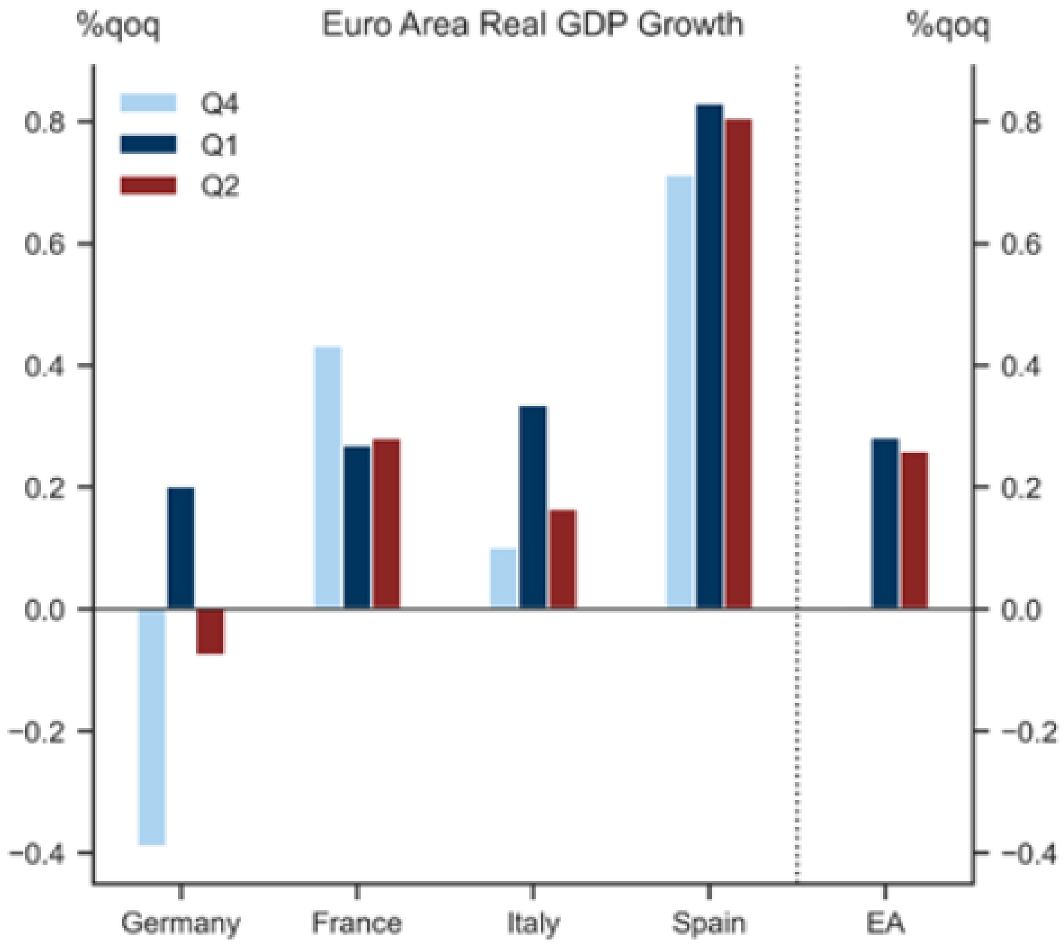
USD / JPY



Euro Area continues to grow at a modest pace with Germany underperforming



Source: Goldman Sachs

In China, exports and manufacturing investment are supporting growth

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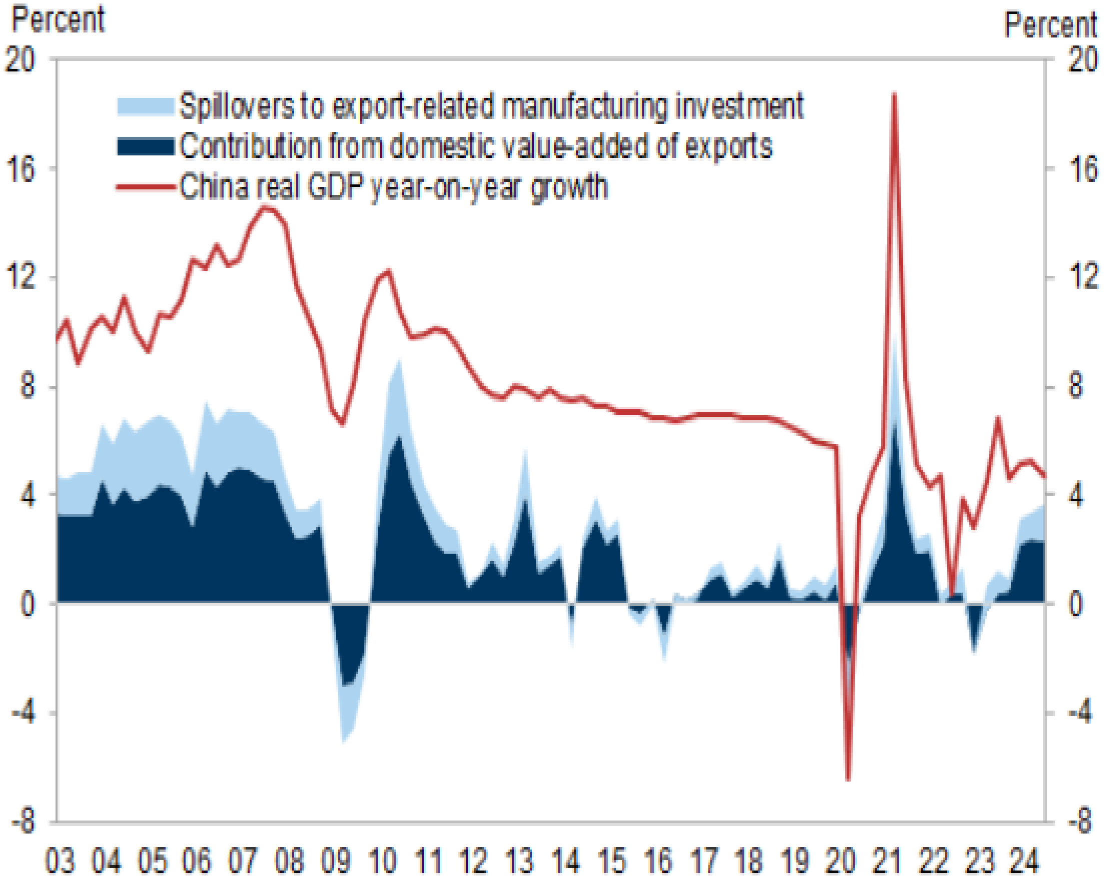


Exports contributed 2.3pp to the 4.7% yoy real GDP growth in Q2

Source: Goldman Sachs

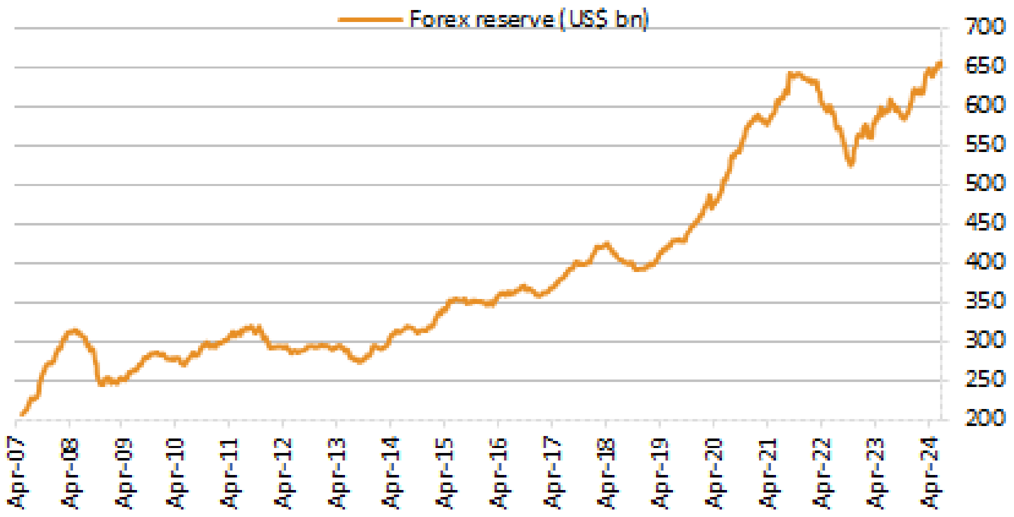
India Macro

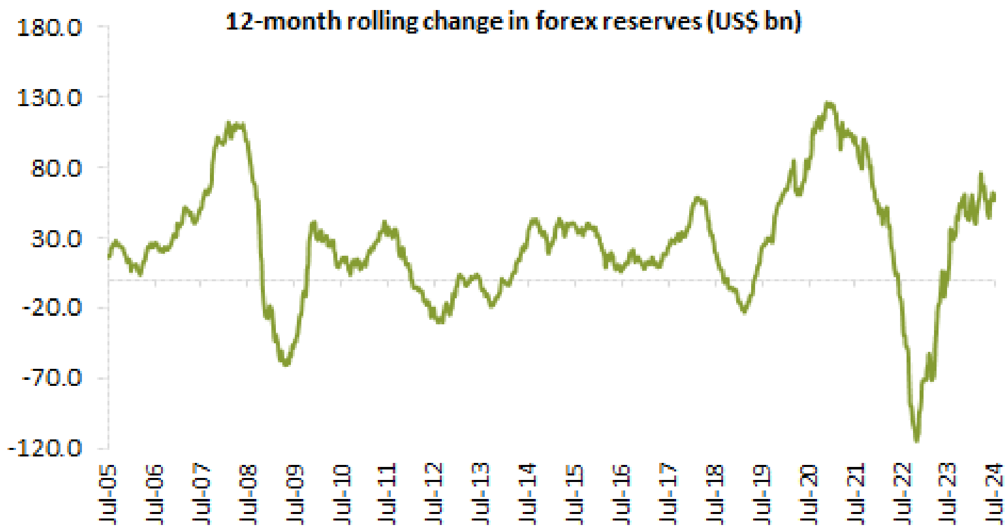
India Macro Summary

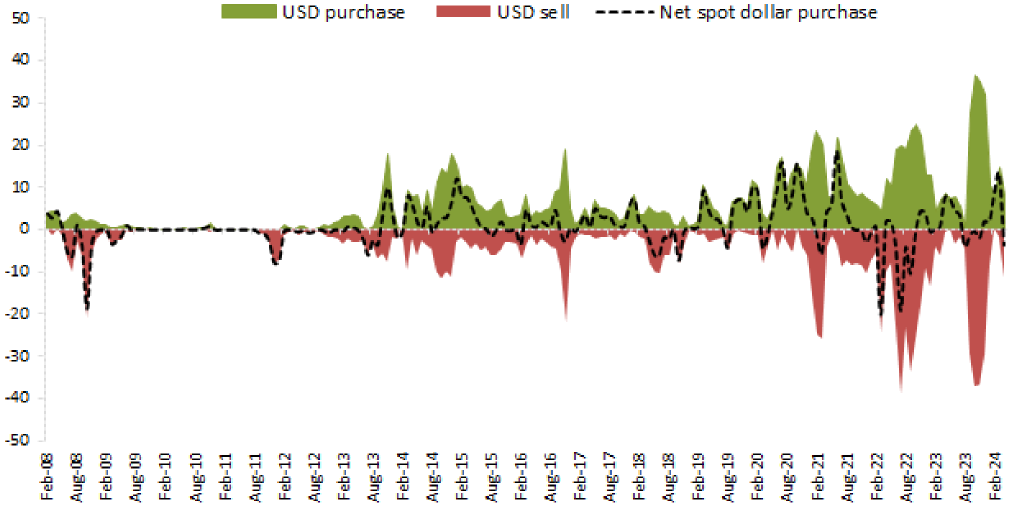
- India remains the fastest-growing major economy with strong high-frequency growth indicators, though some showed moderation. July's composite PMI was strong at 60.7, with solid e-way bill generation, GST collection, and power consumption, However, there is some moderation in indicators like infrastructure index, auto sales, cement sales, exports, imports and credit growth.
- Strong monsoon rains, 6% above normal, are positive for agriculture, supporting key crops like pulses, oilseeds, and rice, which boosts consumption and income distribution.
- Retail inflation softened to a near 5-year low in July-24 to 3.54%, led by a moderation in vegetables, fruits and spices and the impact of a statistical high-base effect, while the core inflation witnessed mild pick up to 3.4% from 3.1% in the month of June.
- The FY25 Union Budget reduced the fiscal deficit to 4.9% of GDP, with a focus on capex and a commitment to lower deficits, supporting disinflation and easing RBI pressures. FM reiterates commitment to deficit going lower than 4.5% by FY26, which is quite positive.
- However, despite large reduction in fiscal deficit by 72k crores and high cash balances, dated borrowing reduces only by 12k crore with bulk of reduction in fiscal deficit accounted for by large cut on T-Bill borrowing (by INR 1tn)

Source: ABSLAMC Research

Forex reserves at record highs should keep INR stable







Comfortable Balance of Payment position and persistent RBI purchases have taken forex reserve to record high levels.

Source: CEIC, ABSLAMC Research

India growth on top of the world

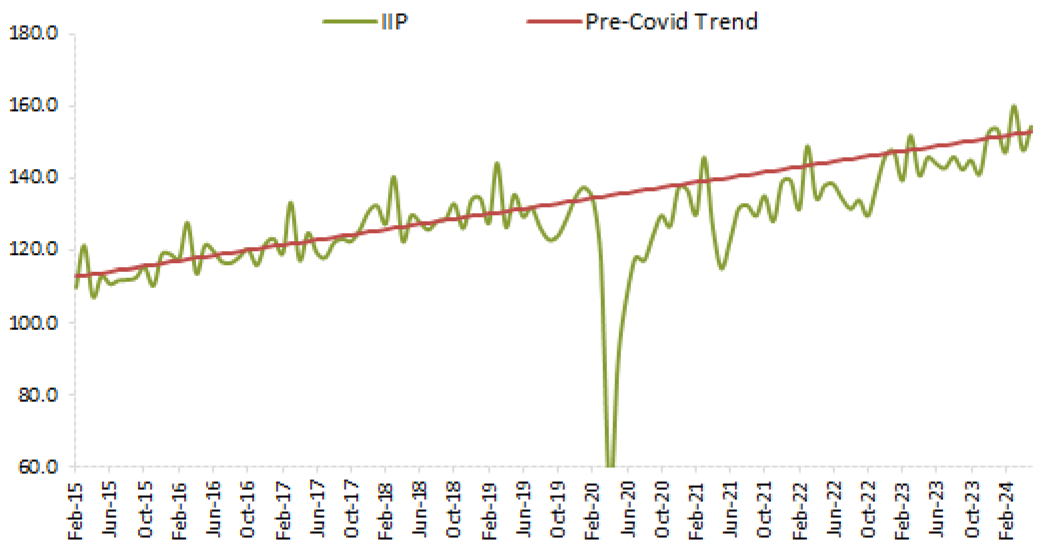
Composite PMIs									
	Global	DM	EM	US	UK	Japan	China	India	EU
Jul-24	52.9	52.8	53.3	55.0	52.7	52.5	51.2	60.7	50.1
Jun-24	53.7	53.4	54.3	54.8	52.3	49.7	52.8	60.9	50.9
May-24	52.3	51.8	53.6	54.5	53.0	52.6	54.1	60.5	52.2
Apr-24	52.3	51.5	53.8	51.3	54.1	52.3	52.8	61.5	51.7
Mar-24	52.1	51.4	53.4	52.1	52.8	51.7	52.7	61.8	50.3
Feb-24	51.8	50.8	53.5	52.5	53.0	50.6	52.5	60.6	49.2
Jan-24	51.0	49.9	53.2	52.0	52.9	51.5	52.5	61.2	47.9
Dec-23	50.5	49.6	52.1	50.9	52.1	50.0	52.6	58.5	47.6
Nov-23	50.0	49.4	51.1	50.7	50.7	49.6	51.6	57.4	47.6
Oct-23	50.5	49.6	52.0	50.7	48.7	50.5	50.0	58.4	46.5
Sep-23	50.6	49.4	52.7	50.2	48.5	52.1	50.9	61.0	47.2
Aug-23	51.6	50.9	52.9	50.2	48.6	52.6	51.7	60.9	46.7
Jul-23	52.6	52.1	53.5	52.0	50.8	52.2	51.9	61.9	48.6
Jun-23	54.3	53.6	55.5	53.2	52.8	52.1	52.5	59.4	49.9
May-23	54.0	53.6	54.8	54.3	54.0	54.3	55.6	61.6	52.8
Apr-23	53.3	52.5	54.6	53.4	54.9	52.9	53.6	61.6	54.1
Mar-23	52.1	51.0	53.9	52.3	52.2	52.9	54.5	58.4	53.7
Feb-23	49.7	48.4	51.8	50.1	53.1	51.1	54.2	59.0	52.0
Jan-23	48.2	47.1	50.0	46.8	48.5	50.7	51.1	57.5	50.3
Dec-22	48.0	47.4	49.0	45.0	49.0	49.7	48.3	59.4	49.3
Nov-22	49.0	48.5	49.8	46.4	48.2	48.9	47.0	56.7	47.8
Oct-22	49.6	49.2	50.1	48.2	48.2	51.8	48.3	55.5	47.3
Sep-22	49.3	46.9	53.4	49.5	49.1	51.0	48.5	55.1	48.1
Aug-22	50.7	49.0	53.9	44.6	49.6	49.4	53.0	58.2	48.9
Jul-22	53.4	52.4	55.1	47.7	52.1	50.2	54.0	56.6	49.9
Jun-22	51.3	53.7	46.9	52.3	53.7	53.0	55.3	58.2	52.0

Asian Manufacturing PMI										
	China	India P	Indonesi	Korea	Malaysia	Phillipin	Singapor	Taiwan P	Thailand	Vietnam
Jul-24	49.8	58.1	49.3	51.4	49.7	51.2	50.7	52.9	52.8	54.7
Jun-24	51.8	58.3	50.7	52.0	49.9	51.3	50.4	53.2	51.7	54.7
May-24	51.7	57.5	52.1	51.6	50.2	51.9	50.6	50.9	50.3	50.3
Apr-24	51.4	58.8	52.9	49.4	49.0	52.2	50.5	50.2	48.6	50.3
Mar-24	51.1	59.1	54.2	49.8	48.4	50.9	50.7	49.3	49.1	49.9
Feb-24	50.9	56.9	52.7	50.7	49.5	51.0	50.6	48.6	45.3	50.4
Jan-24	50.8	56.5	52.9	51.2	49.0	50.9	50.7	48.8	46.7	50.3
Dec-23	50.8	54.9	52.2	49.9	47.9	51.5	50.5	47.1	45.1	48.9
Nov-23	50.7	56.0	51.7	50.0	47.9	52.7	50.3	48.3	47.6	47.3
Oct-23	49.5	55.5	51.5	49.8	46.8	52.4	50.2	47.6	47.5	49.6
Sep-23	50.6	57.5	52.3	49.9	46.8	50.6	50.1	46.4	47.8	49.7
Aug-23	51.0	58.6	53.9	48.9	47.8	49.7	49.9	44.3	48.9	50.5
Jul-23	49.2	57.7	53.3	49.4	47.8	51.9	49.8	44.1	50.7	48.7
Jun-23	50.5	57.8	52.5	47.8	47.7	50.9	49.7	44.8	53.2	46.2
May-23	50.9	58.7	50.3	48.4	47.8	52.2	49.5	44.3	58.2	45.3
Apr-23	49.5	57.2	52.7	48.1	48.8	51.4	49.7	47.1	60.4	46.7
Mar-23	50.0	56.4	51.9	47.6	48.8	52.5	49.9	48.6	53.1	47.7
Feb-23	51.6	55.3	51.2	48.5	48.4	52.7	50.0	49.0	54.8	51.2
Jan-23	49.2	55.4	51.3	48.5	46.5	53.5	49.8	44.3	54.5	47.4
Dec-22	49.0	57.8	50.9	48.2	47.8	53.1	49.7	44.6	52.5	46.4
Nov-22	49.4	55.7	50.3	49.0	47.9	52.7	49.8	41.6	51.1	47.4
Oct-22	49.2	55.3	51.8	48.2	48.7	52.6	49.7	41.5	51.6	50.6
Sep-22	48.1	55.1	53.7	47.3	49.1	52.9	49.9	42.2	55.7	52.5
Aug-22	49.5	56.2	51.7	47.6	50.3	51.2	50.0	42.7	53.7	52.7
Jul-22	50.4	56.4	51.3	49.8	50.6	50.8	50.1	44.6	52.4	51.2
Jun-22	51.7	53.9	50.2	51.3	50.4	53.8	50.3	49.8	50.7	54.0

Source: Bloomberg, ABSLAMC Research

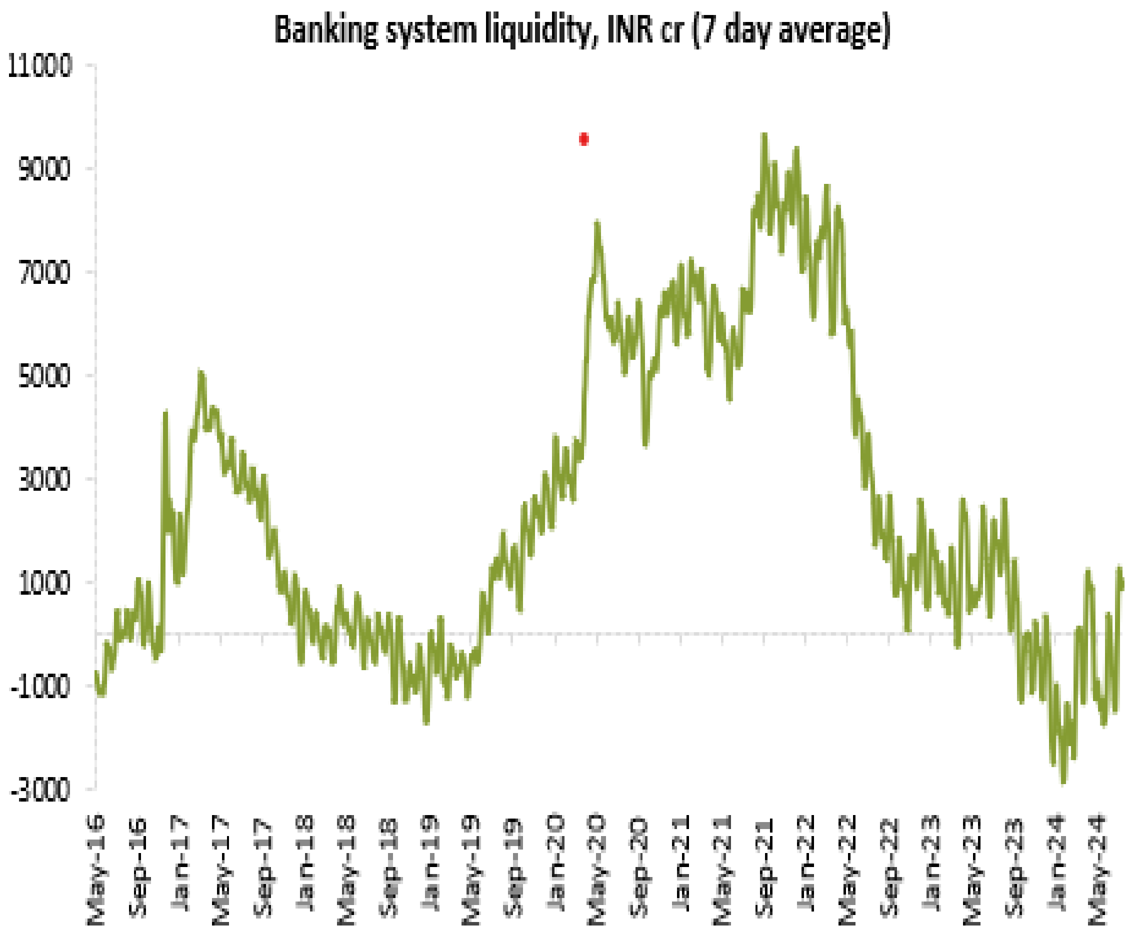
IIP at pre-Covid trend growth level

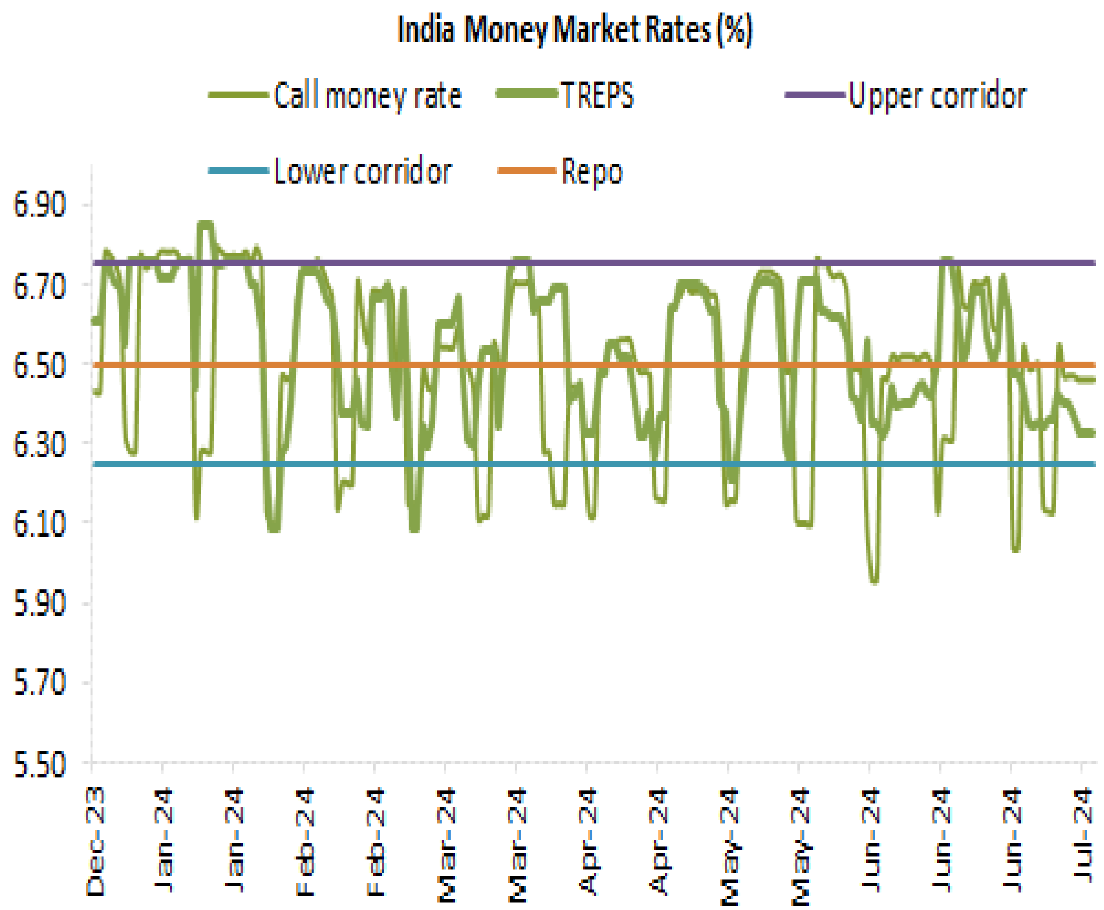
	IIP	Mining	Mfg	Electrici ty	Primary goods	Capital goods (8.2%)	diate goods (17.2%)	and constr (12.33%	er durable s	durable s (15.32%
05-2024	5.9	6.6	4.6	13.7	7.3	2.5	2.5	6.9	12.3	2.3
04-2024	5.0	6.8	3.9	10.2	7.0	2.7	3.2	8.0	10.0	-2.5
03-2024	5.4	1.3	5.8	8.6	3.0	6.6	5.5	7.4	9.5	5.3
02-2024	5.6	8.1	4.9	7.6	5.9	1.7	8.6	8.3	12.6	-3.2
01-2024	4.2	6.0	3.6	5.6	2.9	3.2	5.3	5.5	11.6	0.3
12-2023	4.4	5.2	4.6	1.2	4.8	3.7	3.7	5.5	5.2	3.0
11-2023	2.5	7.0	1.3	5.8	8.4	-1.1	3.4	1.5	-4.8	-3.4
10-2023	11.9	13.1	10.6	20.4	11.4	21.7	9.5	12.6	15.9	9.3
09-2023	6.4	11.5	5.1	9.9	8.0	8.4	6.1	10.1	1.0	2.7
08-2023	10.9	12.3	10.0	15.3	12.4	13.1	7.4	15.7	6.0	9.9
07-2023	6.2	10.7	5.3	8.0	7.7	5.1	3.2	12.6	-3.6	8.3
06-2023	4.0	7.6	3.5	4.2	5.3	2.9	5.2	13.3	-6.8	0.5
05-2023	5.7	6.4	6.3	0.9	3.6	8.1	3.4	13.0	1.5	8.9
04-2023	4.6	5.1	5.5	-1.1	1.9	4.4	1.7	13.4	-2.3	11.4
03-2023	1.9	6.8	1.5	-1.6	3.3	10.0	1.8	7.2	-8.0	-1.9
02-2023	6.0	4.8	5.9	8.2	7.0	11.0	1.0	9.0	-4.1	12.5
01-2023	5.8	9.0	4.5	12.7	9.8	10.5	1.4	11.3	-8.2	6.5
12-2022	5.1	10.1	3.6	10.4	8.5	7.8	1.5	11.0	-11.2	7.9
11-2022	7.6	9.7	6.7	12.7	4.8	20.7	3.5	14.3	5.0	10.0
10-2022	-4.1	2.6	-5.8	1.2	2.1	-2.9	-2.3	1.7	-18.1	-13.0
09-2022	3.3	5.2	2.0	11.6	9.5	11.4	1.7	8.2	-5.5	-5.7
08-2022	-0.7	-3.9	-0.5	1.4	1.7	4.3	1.3	3.0	-4.4	-9.0
07-2022	2.2	-3.3	3.1	2.3	2.5	5.1	3.7	4.8	2.3	-2.9



IIP growth for May stood at 5.9%, taking overall IIP index at close to pre-Covid trend levels. Manufacturing at 4.6% is decent. Infrastructure index growth for June however witnessed some decline at 3.9% y-y with weakness in steel and cement 2.7% and 1.9%, respectively.

Easing liquidity has brought down money market rate





Healthy fiscal backdrop to FY25 Budget

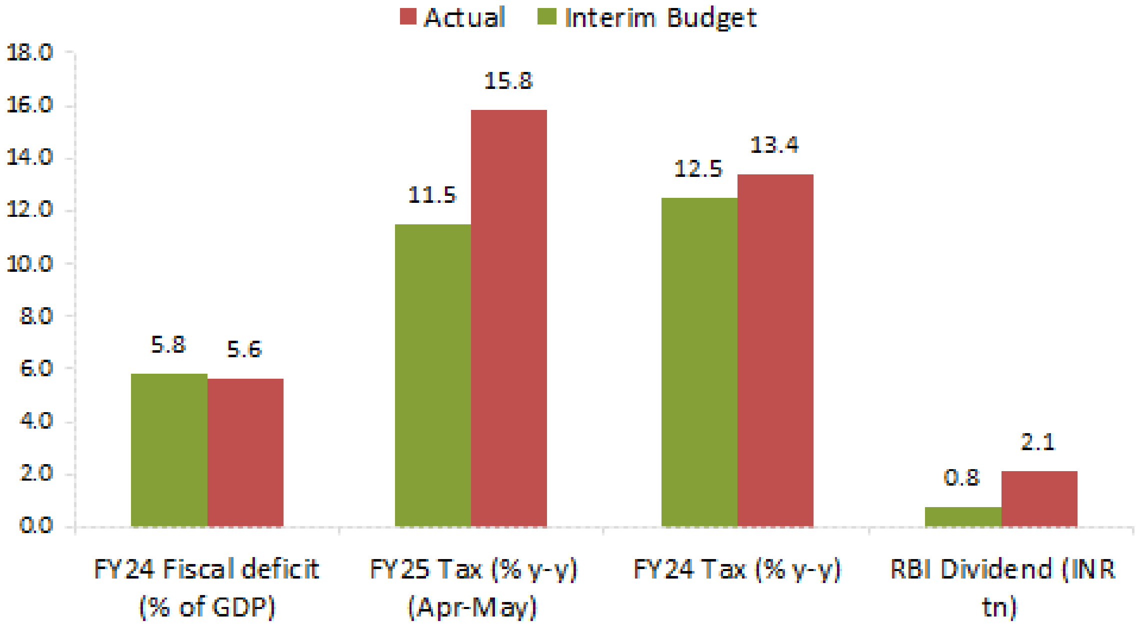
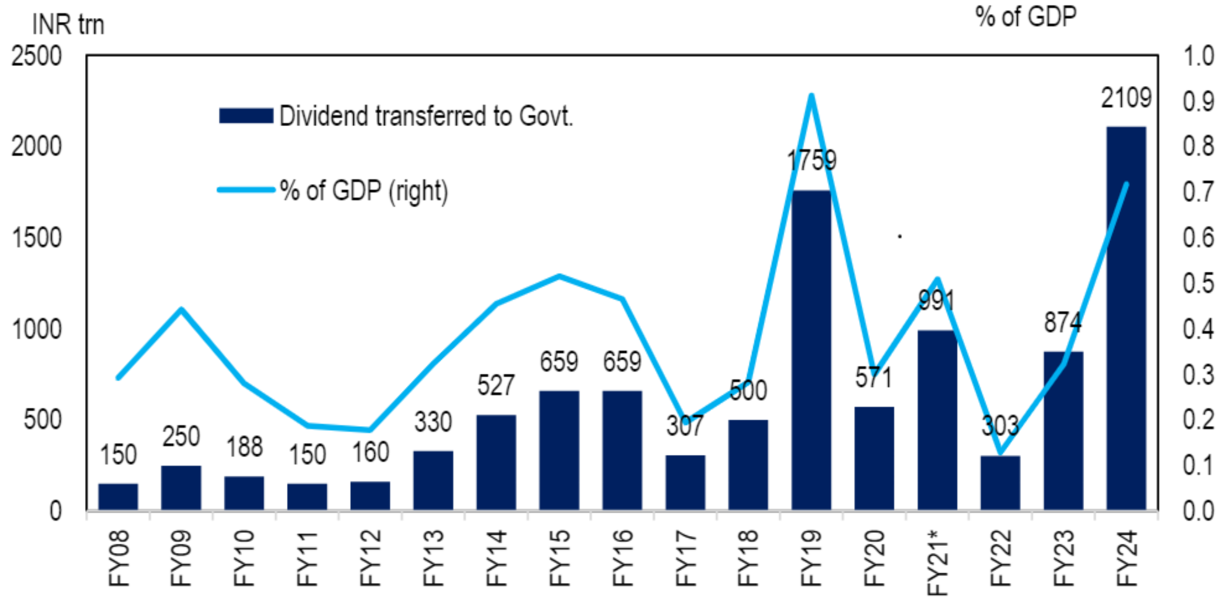


Figure 9. Record RBI dividend transfer to the government



The upcoming budget has a good fiscal backdrop for the government:

- FY24 fiscal deficit has come at 5.6% of GDP vs 5.8% budgeted (lower by 81k crs). With FY24 borrowing being as per budgeted this will results in higher cash balance to be used in FY25.
- Tax collection growth rate has been higher than budgeted numbers, which would likely result in higher tax collection budgeted for FY25
- RBI has given record high dividend of INR 2.1 tn, compared to 80k cr expected in Interim budget.

Source: ABSLAMC Research, CEIC, Citi

Credit growth moderating

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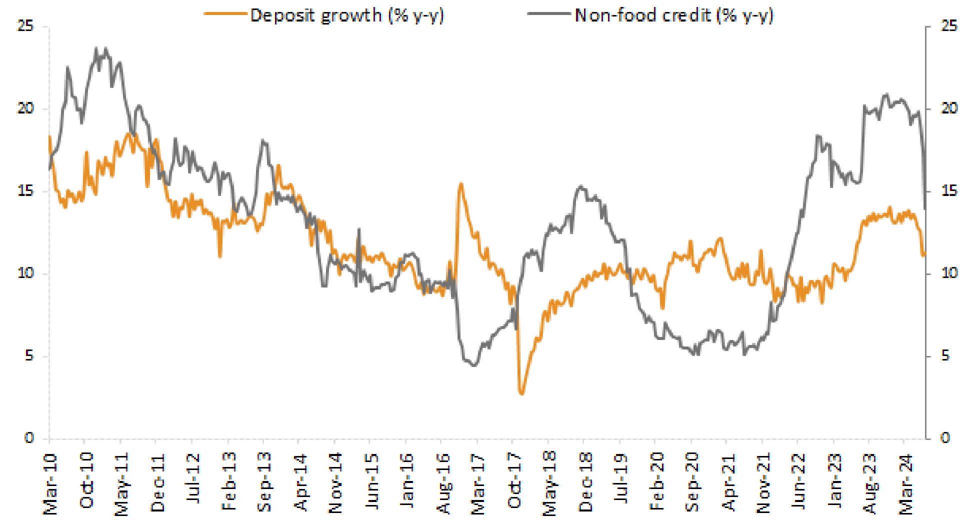

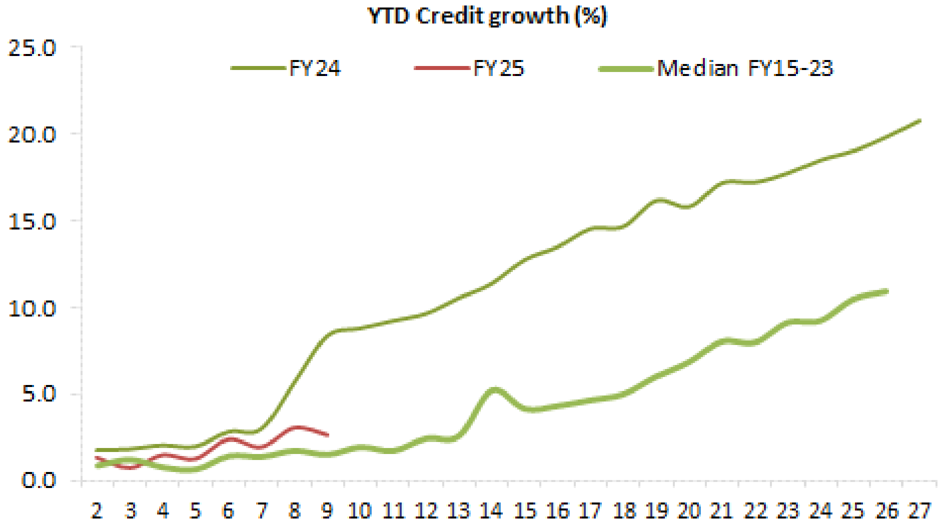

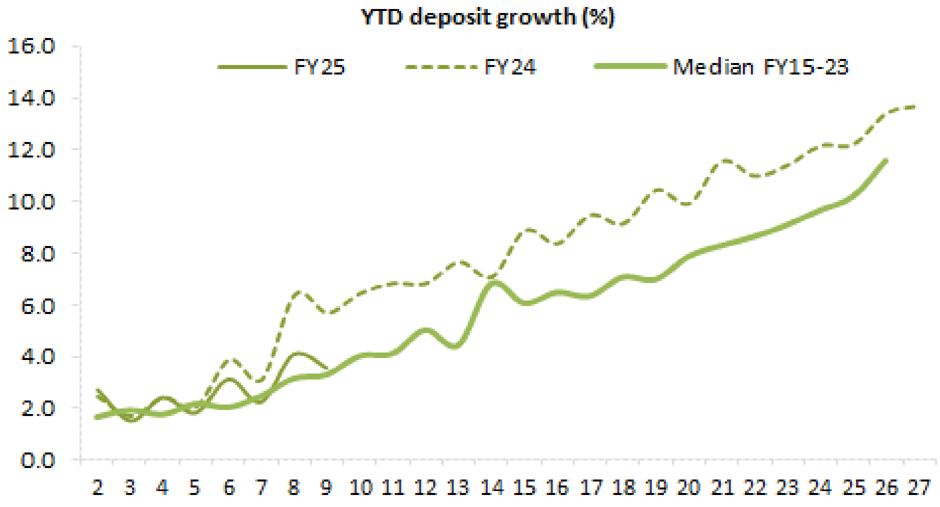

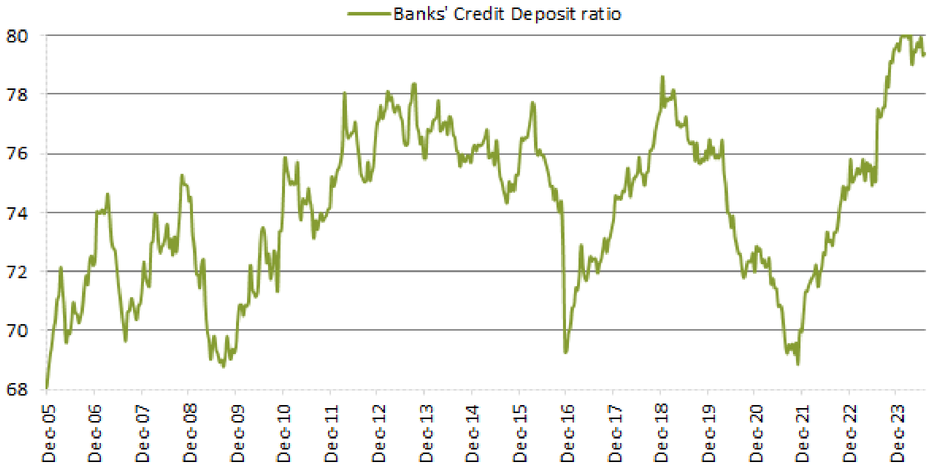

India banking sector growth is witnessing some moderation, with YTD credit growth at 2.7% Vs 8.3% in FY24 and 5.1% in FY23.

Headline credit growth stands at 14%. Banks' credit deposit ratio stood at 79.4, down from recent peak of 80.3. 1 year incremental credit deposit ratio has finally declined to below 100 (at 96.3). Recent RBI draft guideline on LCR can potentially further reduce credit-deposit ratio.

Forex reserves at record highs should keep INR stable

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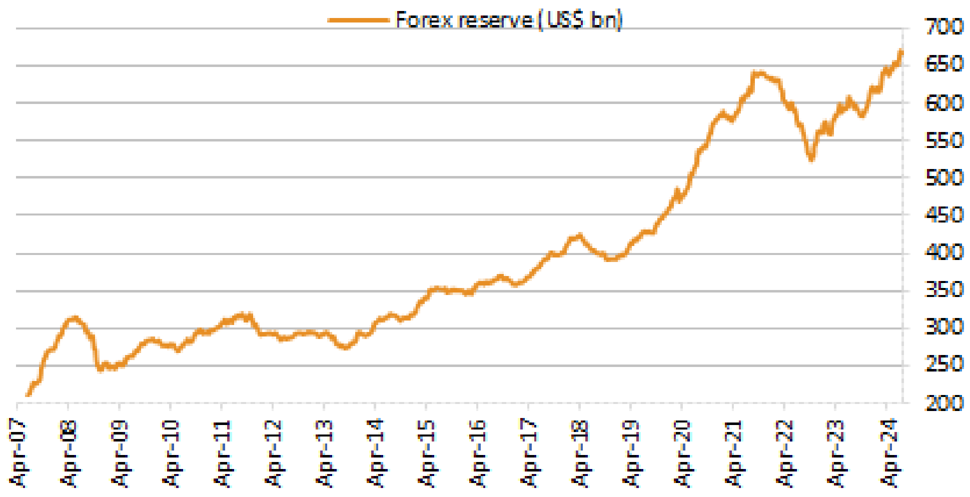

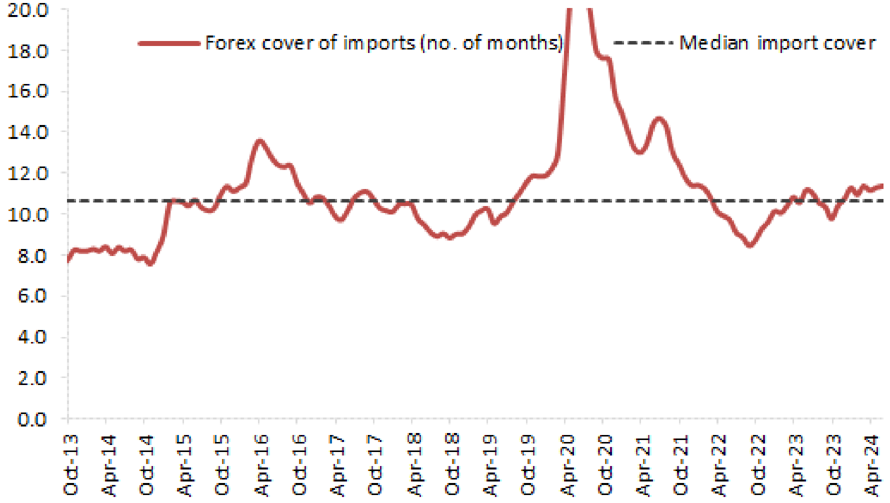

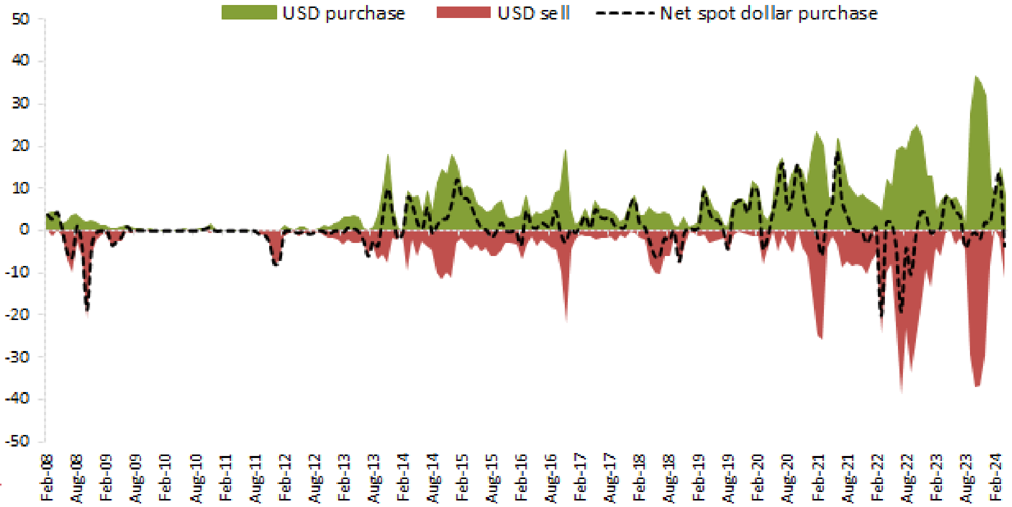

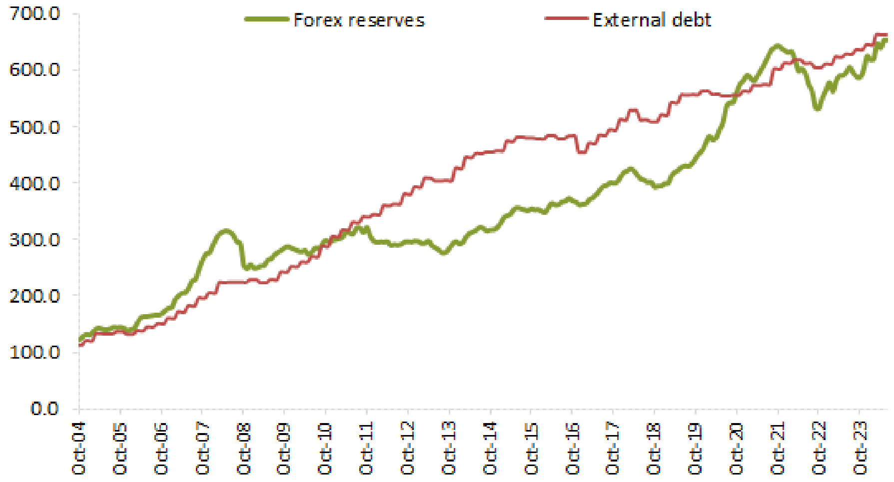

Comfortable Balance of Payment position and persistent RBI purchases have taken forex reserve to record high levels. Forex reserves are adequate by most matrices

Source: CEIC, ABSLAMC Research

Union Budget FY25: Key budget numbers

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	FY25	FY24	FY23	FY25	FY24	FY23	FY25	FY24	FY23
	INR tn			% of GDP			% y-y		
Receipts	46.80	45.17	41.95	14.34	15.29	15.57	3.61	7.68	6.31
Revenue receipts	31.29	27.00	23.83	9.59	9.14	8.84	15.91	13.28	9.83
Gross Tax	38.40	34.37	30.54	11.77	11.64	11.33	11.72	12.54	12.73
Direct Tax	22.12	19.50	16.64	6.78	6.60	6.17	13.46	17.19	17.80
Indirect Tax	16.28	14.88	13.91	4.99	5.04	5.16	9.44	6.98	7.21
Less States share and NCCF	12.57	11.13	9.56	3.85	3.77	3.55	12.88	16.40	5.74
Net Tax to Centre	25.83	23.24	20.98	7.92	7.87	7.78	11.17	10.78	16.23
Non tax Revenue receipts	5.46	3.76	2.85	1.67	1.27	1.06	45.21	31.66	-21.83
Capital	15.51	18.17	18.12	4.75	6.15	6.72	-14.66	0.32	2.02
Divestment	0.50	0.30	0.46	0.15	0.10	0.17	66.67	-34.83	214.49
Gross market borrowing (INR tn)	14.01	15.43	14.21	4.29	5.22	5.27	-9.20	8.59	46.74
Repayments	-2.38	-3.63	-3.13	-0.73	-1.23	-1.16	-34.40	15.92	18.33
Net Market borrowing (INR tn)	11.63	11.80	11.08	3.56	4.00	4.11	-1.46	6.51	57.40
Small Savings (INR tn)	4.20	4.71	3.96	1.29	1.60	1.47	-10.87	19.06	-28.19
Recovery of loans	0.28	0.26	0.26	0.09	0.09	0.10	7.69	-0.62	5.78
External assistance	0.16	0.25	0.37	0.05	0.08	0.14	-35.76	-33.11	2.70
State PF	0.05	0.05	0.05	0.02	0.02	0.02	-3.85	2.18	-50.67
Others	-0.81	0.78	0.83	-0.25	0.27	0.31	-203.81	-6.19	-50.81
Expenditure	48.21	44.43	41.93	14.77	15.04	15.56	8.51	5.95	10.53
Revenue	37.09	34.94	34.53	11.37	11.83	12.81	6.16	1.18	7.88
Capital	11.11	9.49	7.40	3.40	3.21	2.75	17.14	28.17	24.82
Fiscal deficit (INR tn)	16.13	16.54	17.38	4.94	5.60	6.45	-2.44	-4.84	9.67
GDP at MP	326.37	295.36	269.50				10.50	9.60	14.21

Source: Budget Documents, ABSLAMC Research

Union Budget FY25: Fiscal deficit to decline by 0.9ppt Vs FY24BE

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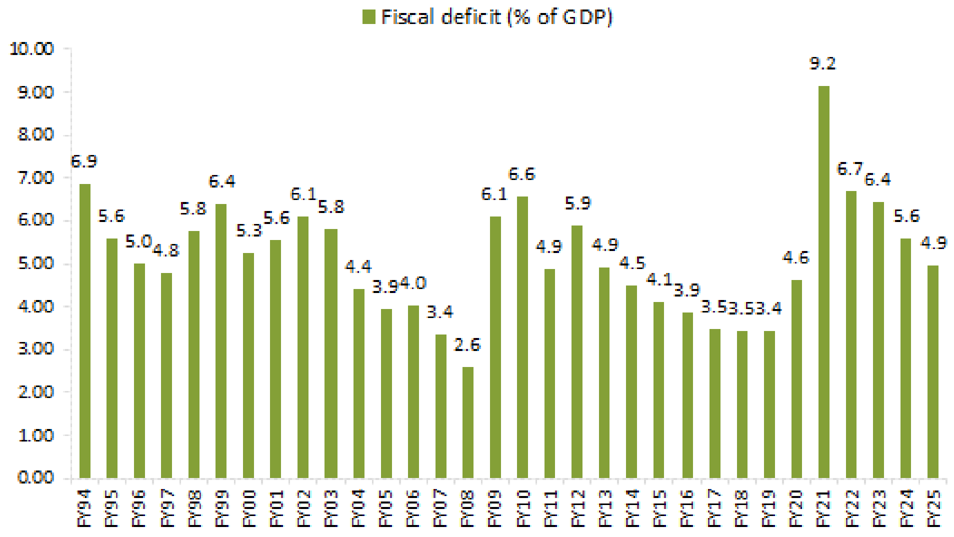
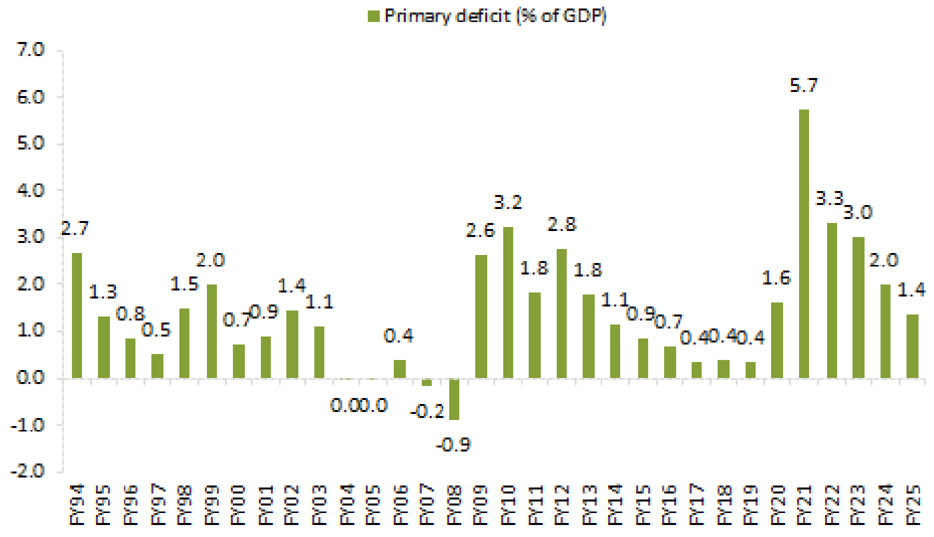
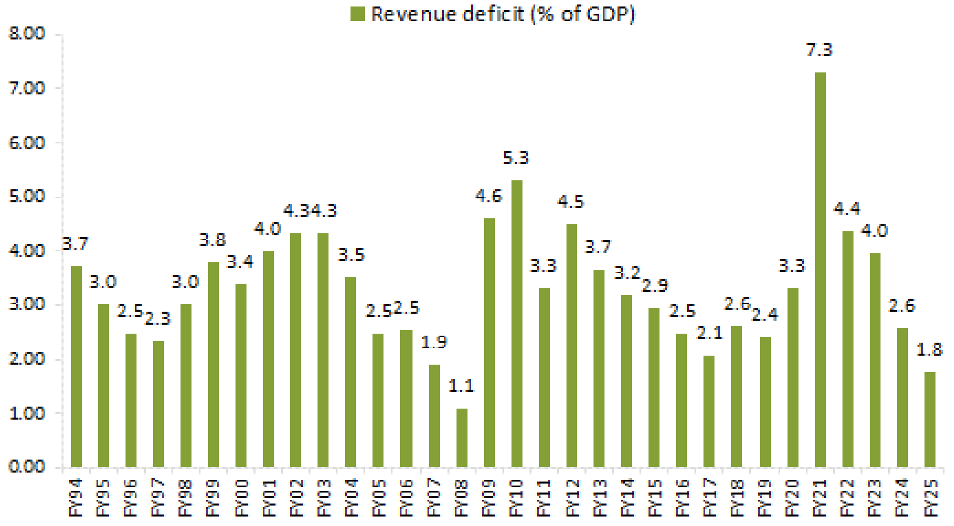


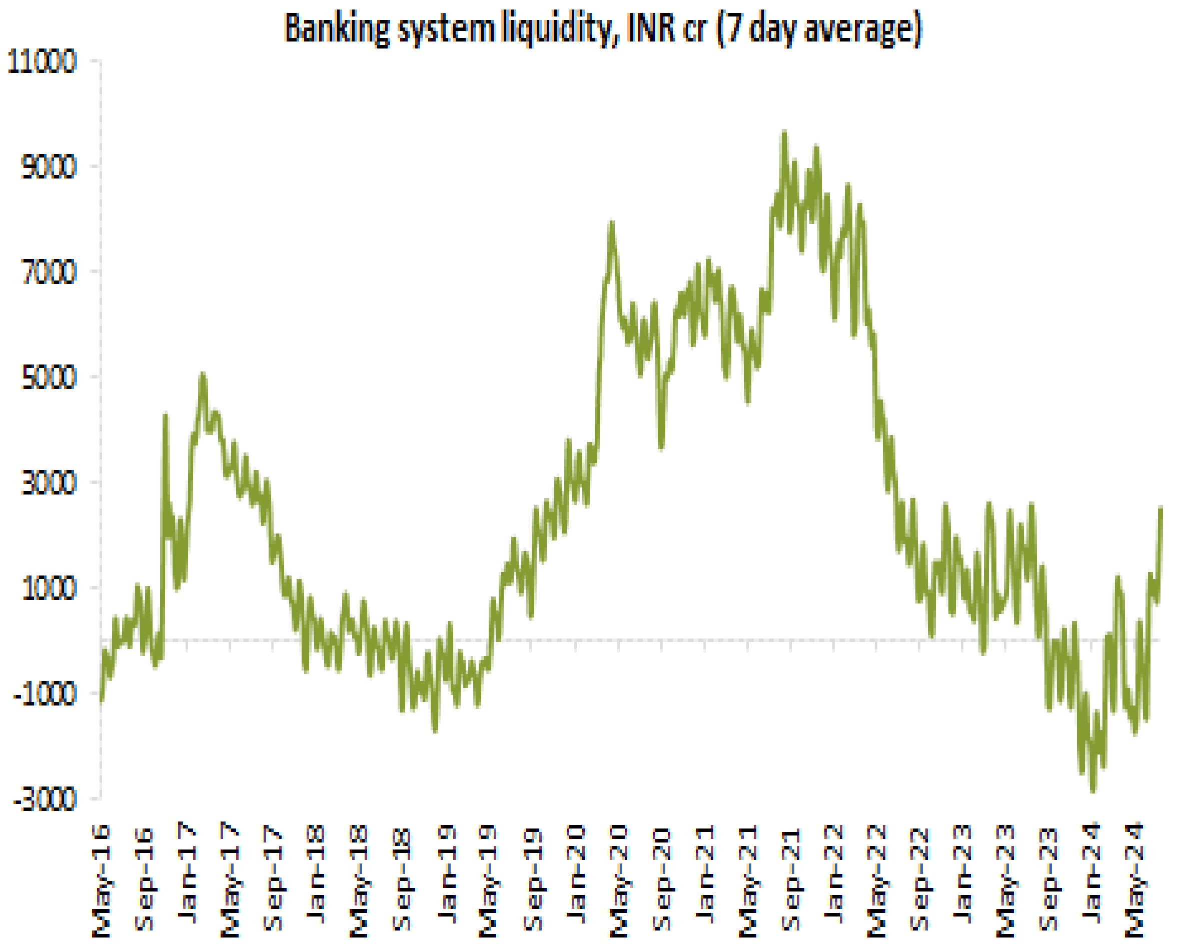


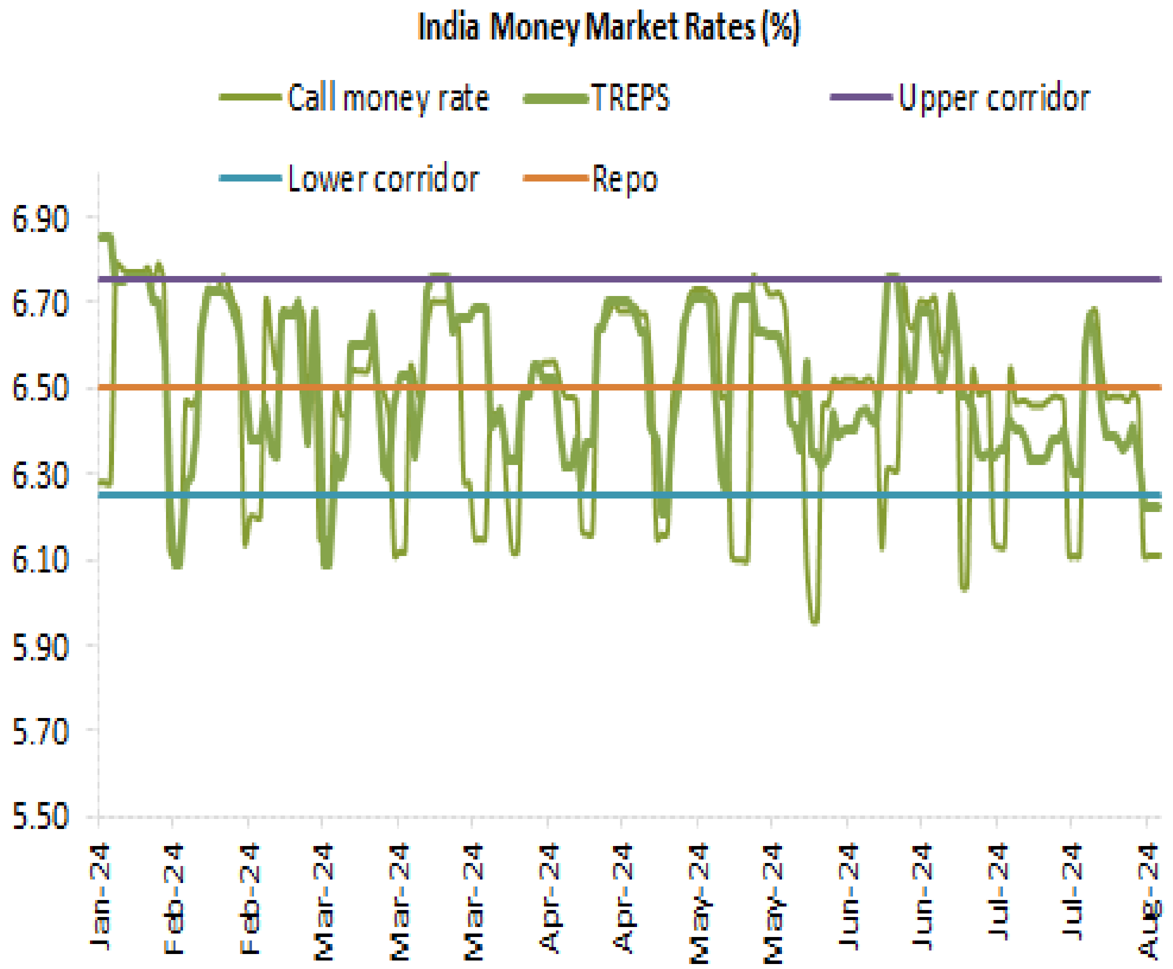


Headline deficit is budgeted to decline to 4.9% a 0.9ppt decline from FY24 levels, which is remarkable.

Source: Budget Documents, ABSLAMC Research

Easing liquidity has brought down money market rate





Yield fall has so far been less than previous episodes

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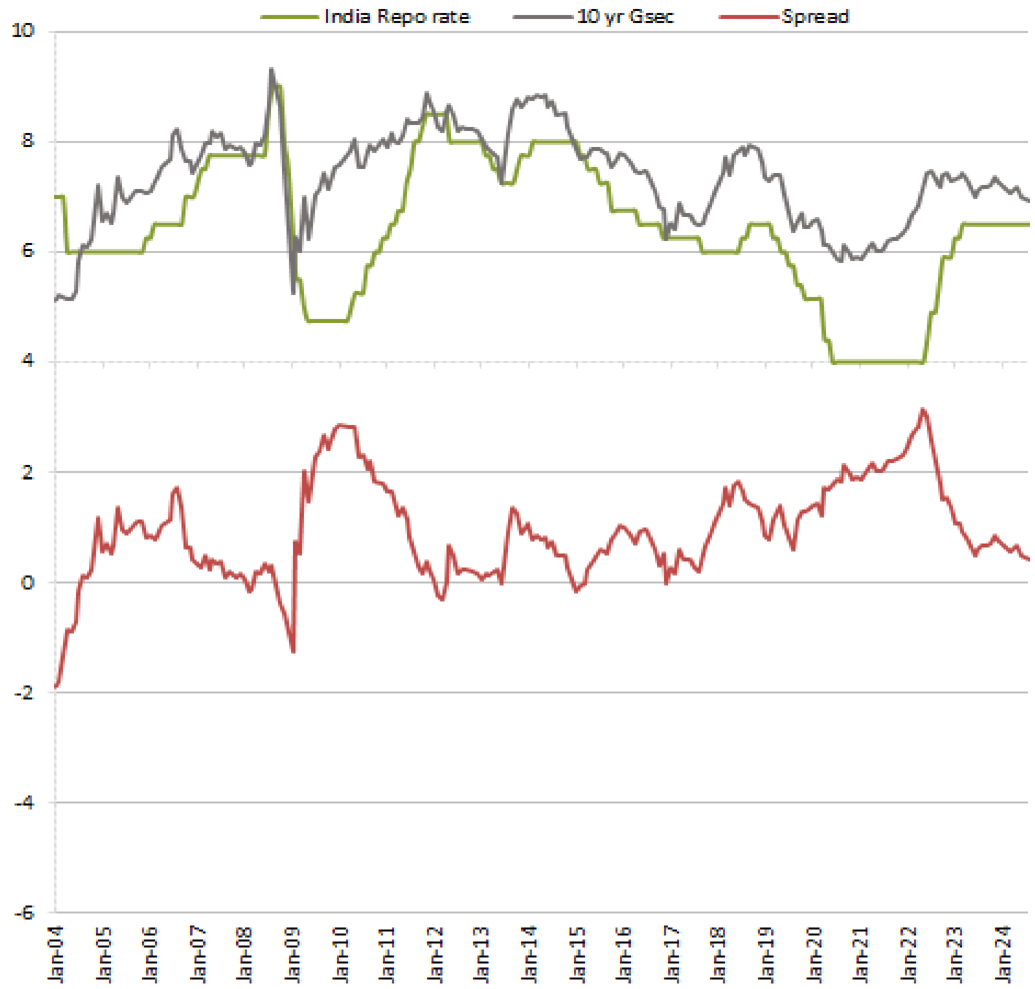
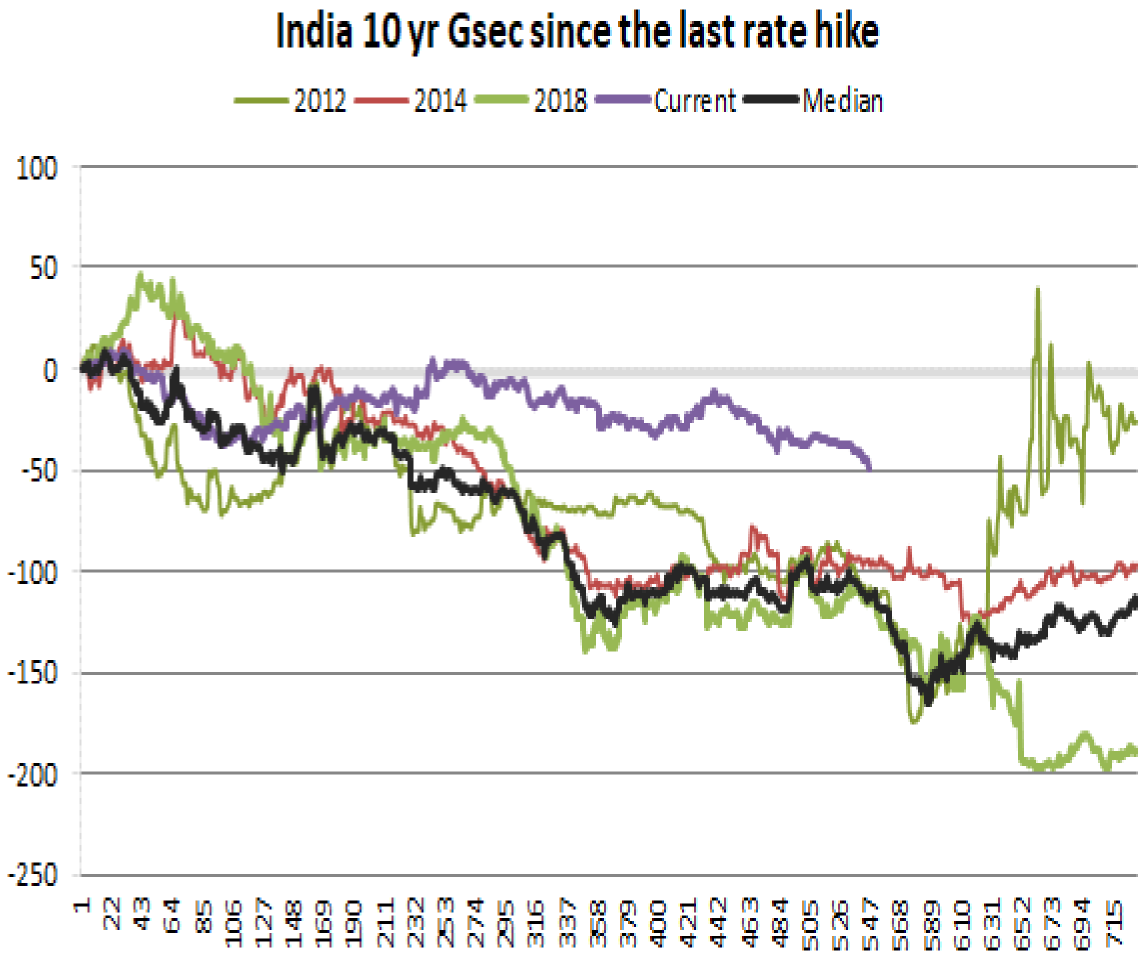




Fixed Income Outlook

- On the CPI front, new supply of vegetables, especially tomatoes, along with some government measures have helped bring down veg prices. The total area under sowing, as of 2-Aug, is higher (3% y-y) than last year. While we note the significant spatial divergence cumulative rainfall as of 2nd August was 4% above the LTA. These conditions augur well for food inflation for the remaining part of the financial year, and we expect headline inflation to be in line with RBI estimate for the full financial year at 4.5% y-y.

- In the USA, growth is cooling off directionally as excess savings have depleted, and income growth has slowed. Inflation has returned closer to the target. Sharply lower employment data and lower inflation have created space for the Fed to dial down policy restraint.

- India’s banking sector growth is witnessing some moderation, with YTD credit growth at 2.7% Vs 8.3% in FY24 and 5.1% in FY23. Headline credit growth stands at 14%. Banks’ credit deposit ratio stood at 79.4, down from a recent peak of 80.3. 1-year incremental credit deposit ratio has finally declined to below 100 (at 96.3).

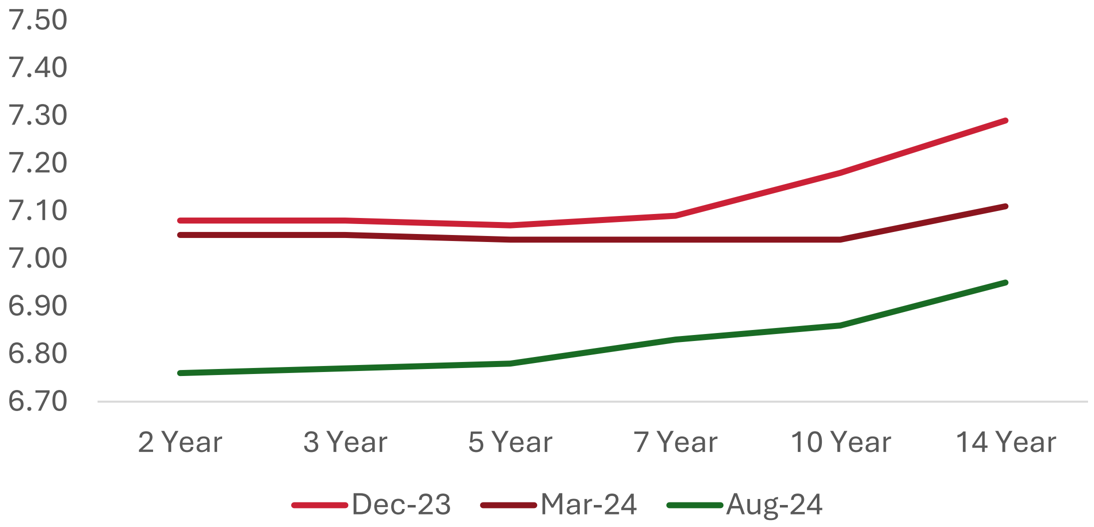
- Lower supply of government papers in FY25 amidst large expected FPI inflows on bond inclusion, tighter fiscal policy, improving global backdrop for fixed income, and easing inflation presents an excellent backdrop for Indian government bonds. Liquidity is also expected to remain closer to neutral which augurs well for short-end of the curve.

- Investors at short-end of the curve having monies over 1 month duration should look to switch to one bucket higher given the kink available in the yield curve from 3 month to 1 year.

Sovereign Yield Curve – Levels and Steepness

Central Govt.

Sovereign	2Y	3Y	5Y	7Y	10Y	14Y
End CY 2019	5.78	6.36	6.48	6.88	6.55	6.96
End CY 2020	3.87	4.41	5.10	5.73	5.89	6.24
End CY 2021	5.00	5.30	5.87	6.42	6.47	6.91
End CY 2022	6.96	7.14	7.23	7.31	7.33	7.43
End CY 2023	7.08	7.08	7.07	7.09	7.18	7.29
End FY 2024	7.05	7.05	7.04	7.04	7.04	7.11
August 2024	6.76	6.77	6.78	6.83	6.86	6.95



State Govt.

Yield curve has moved lower on back of global fall in yields, domestic LCR draft circular for banks and continued strong demand from FPIs for IGBs. Spreads on longer end SDLs have increased over the last couple of months making them slightly attractive for HTM investors, whilst these spreads can remain higher given strong demand in IGBs from FPIs

Latest data for the curves is as of 5th August 2024, ABSLAMC Research

AAA Corporate / PSU Curve

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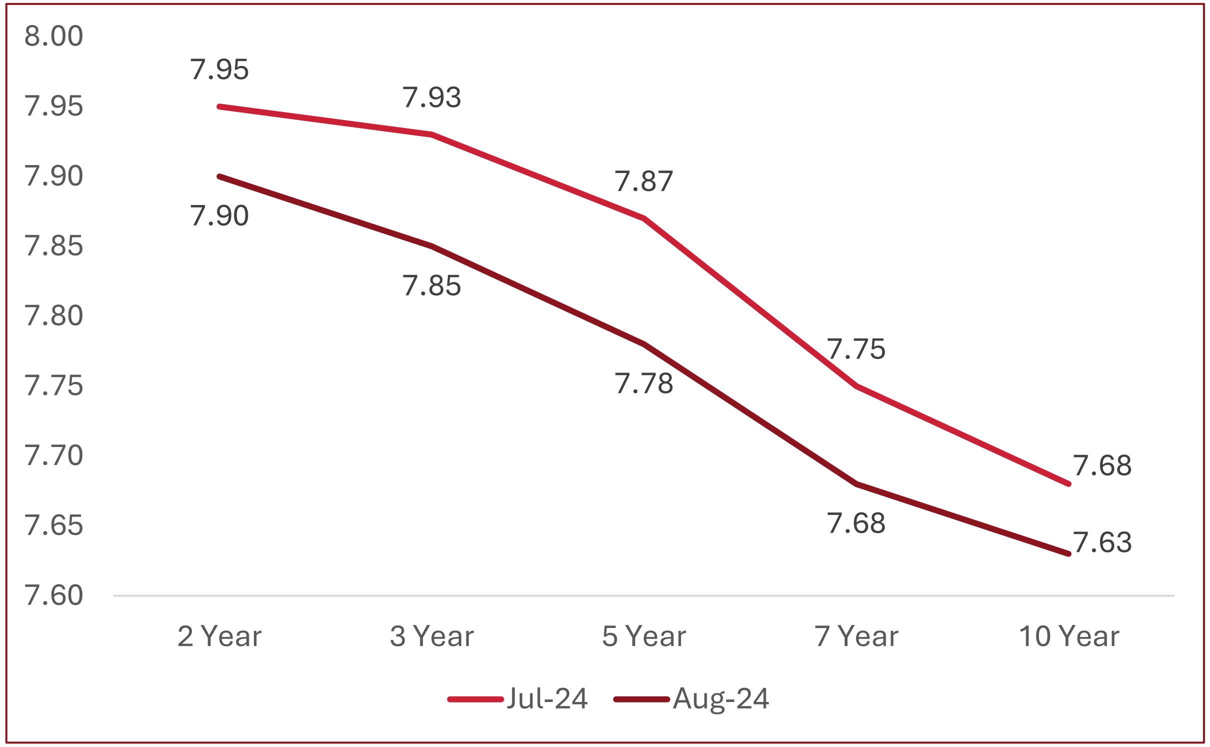
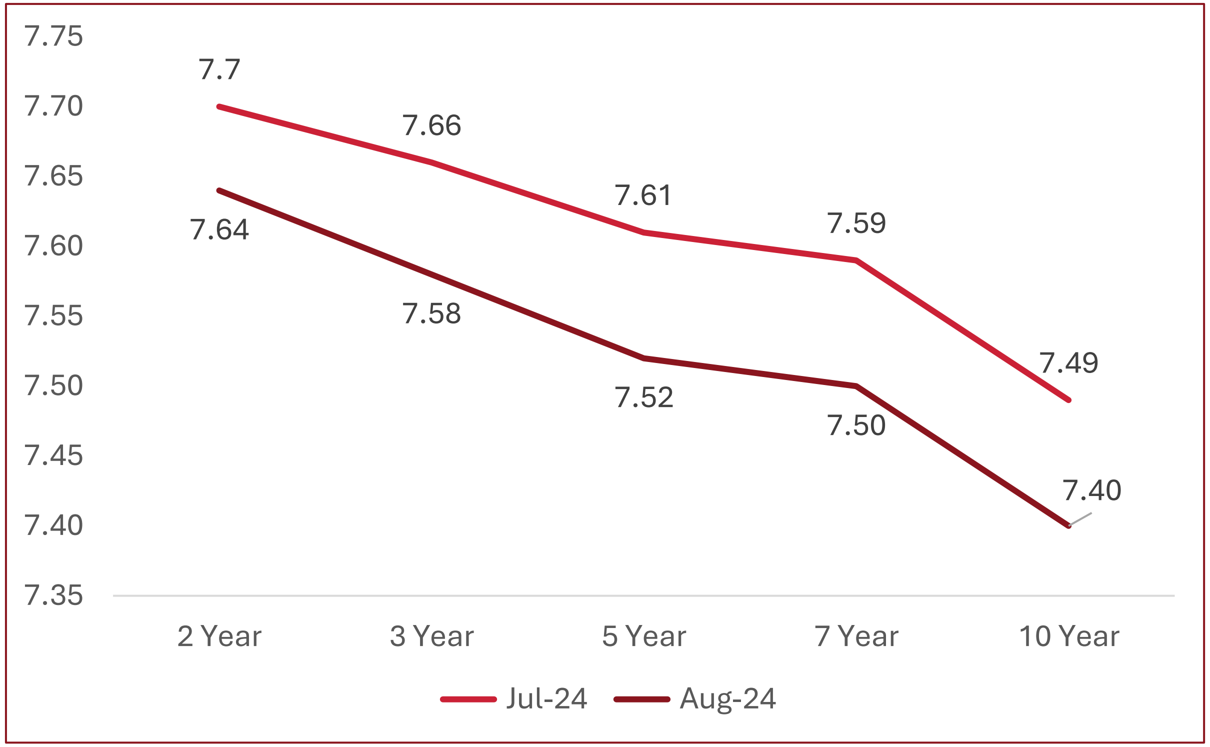
HDFC Ltd.



NABARD



Corporate Bond yield curve is lower v/s last month sharply on back of global yield fall

Latest data for the curves is as of 5th August 2024, ABSLAMC Research

Sovereign Yield Curve – Levels and Steepness

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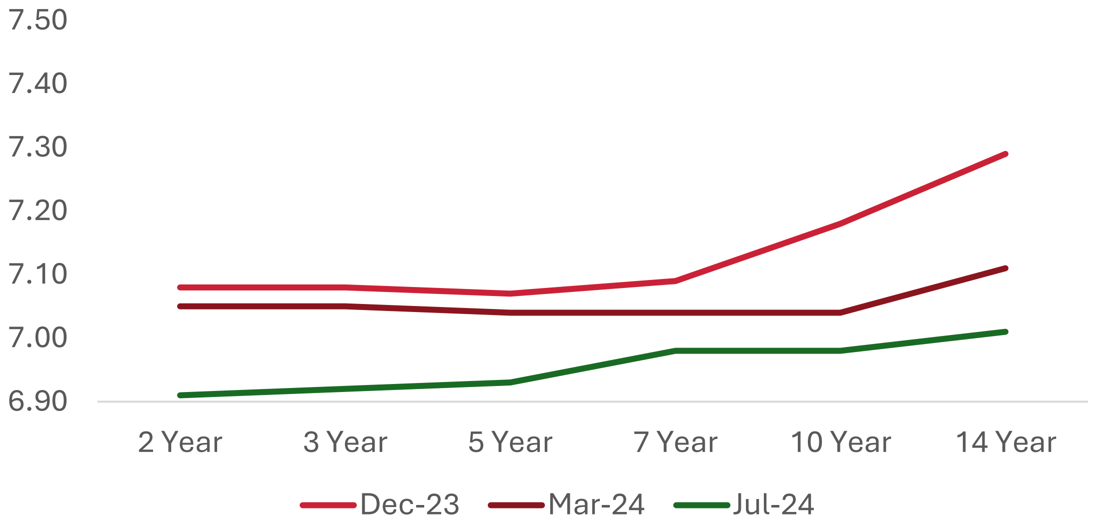
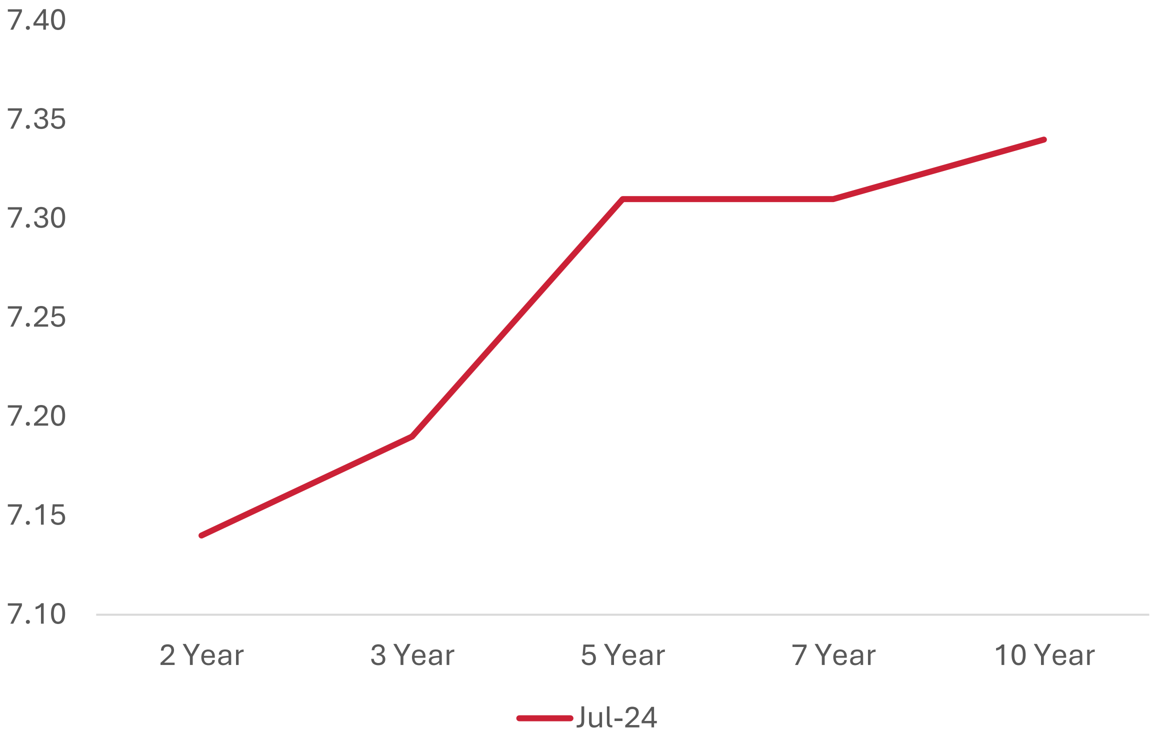
Central Govt.

Sovereign	2Y	3Y	5Y	7Y	10Y	14Y
End CY 2019	5.78	6.36	6.48	6.88	6.55	6.96
End CY 2020	3.87	4.41	5.10	5.73	5.89	6.24
End CY 2021	5.00	5.30	5.87	6.42	6.47	6.91
End CY 2022	6.96	7.14	7.23	7.31	7.33	7.43
End CY 2023	7.08	7.08	7.07	7.09	7.18	7.29
End FY 2024	7.05	7.05	7.04	7.04	7.04	7.11
July 2024	6.91	6.92	6.93	6.98	6.98	7.01



State Govt.



Yields curve has moved lower and steepened as compared to the curve seen at end FY 2024 on back of favorable demand-supply dynamics, global rates and well-contained domestic core inflation. These levels continue to remain attractive given the favorable demand / supply dynamics in India.

Latest data for the curves is as of 15th July 2024, ABSLAMC Research

AAA Corporate / PSU Curve

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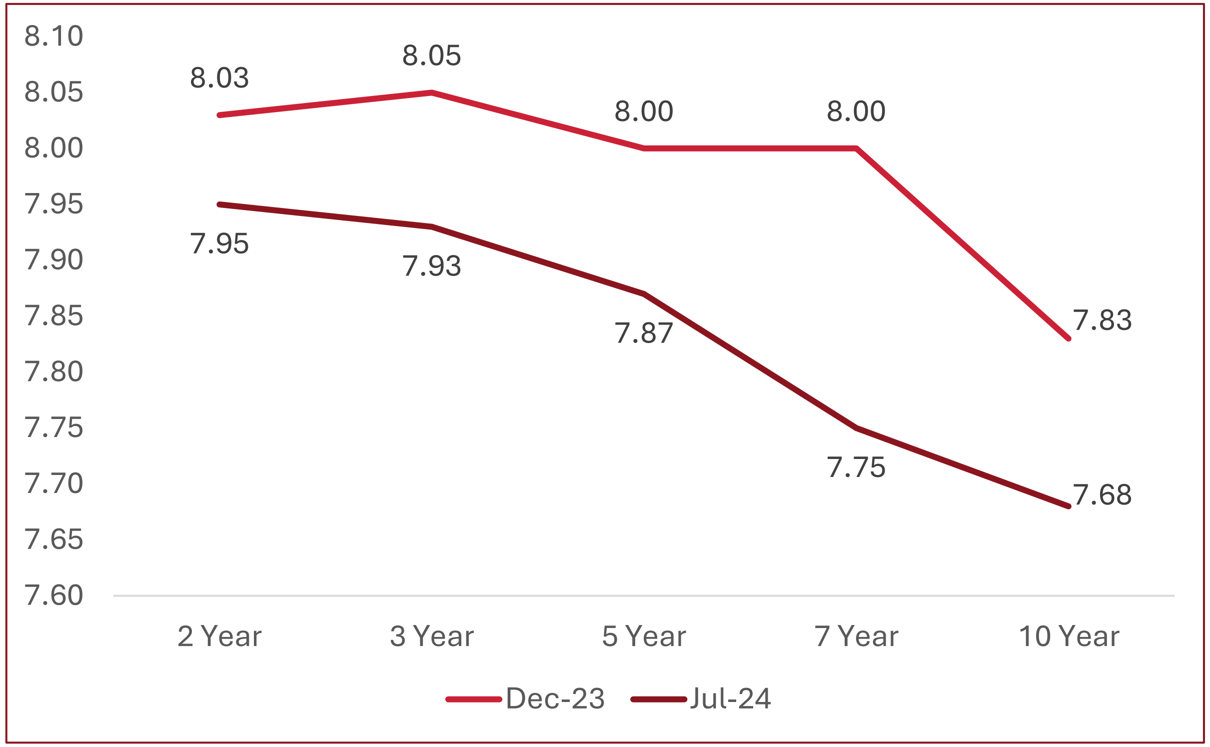
ASSET MANAGEMENT

HDFC Ltd.



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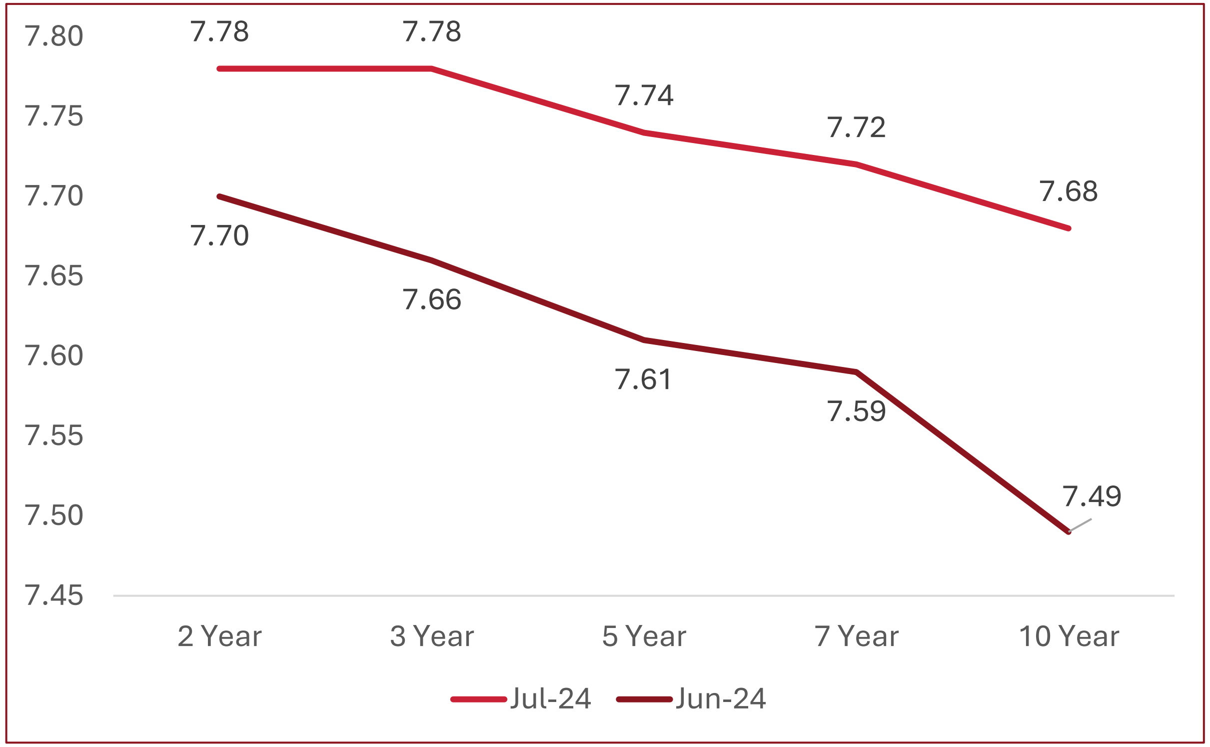


Corporate Bond yield curve is lower v/s Dec 23 levels

Latest data for the curves is as of 15th July 2024, ABSLAMC Research

Equity Outlook

Summary

- The Union budget from Equity market perspective was neutral and did not materially change the earnings outlook. At the same time, the changes in the capital gains tax have been absorbed by the market and equity markets are at all-time highs. With the uncertainty regarding both elections and budget behind us, we can take a step back and evaluate the three key drivers for markets

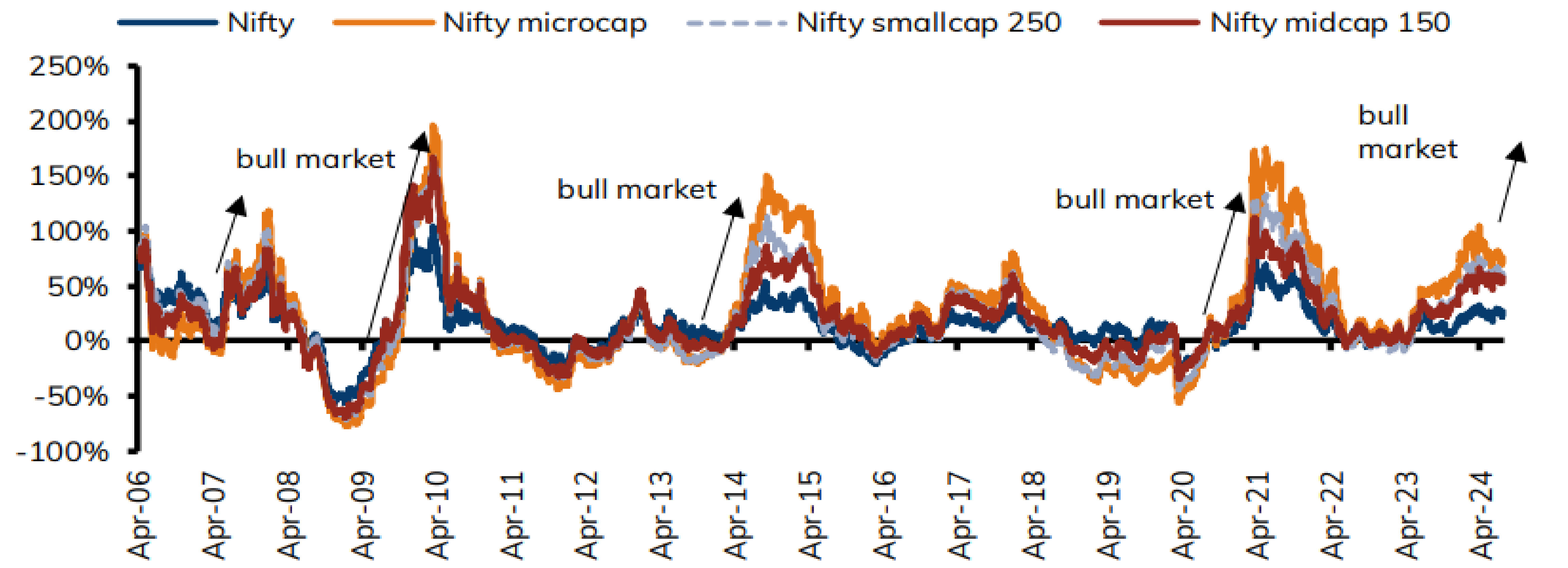
- Q1 FY25 earnings season is ongoing. So far, results are in line. But we are seeing more downgrades than upgrades for future earnings growth. While we are still maintaining our FY25 earnings growth projection of 15% yoy, we will need to monitor if companies can execute and meet expectations.

- While earnings are the main driver for markets in the long-term, it is liquidity that drives markets in the short-term. And liquidity is in over-supply in Indian equity markets in the form of SIP and lumpsum flows in Mutual Funds, direct investments in stocks, flows from EPFO/NPS/ULIPs, and FII inflows in equity market. In addition, with India now being included in global bond indices, $25 Bn of FII flows is expected in debt markets in FY25 displacing domestic flows into debt markets. Some portion of this domestic money could also potentially flow into equity markets.

- That investor sentiment is at a peak is evident from the fact that any correction in markets is not lasting for more than a few hours as we saw both on the election results day as well as budget day. In the next 6 months, there are some events like State elections in India as well as the US elections in Nov which could impact sentiment and lead to higher volatility in markets.

- Positive investor sentiment and high liquidity is translating into increasing valuations in all segments of the market. However, compared to Mid/Small/Microcap, large caps still seem reasonably valued.

Broader market has entered bull market



Source: NSE Indices, I-Sec research

Corporate profit to GDP ratio – analyzing growth across cycles

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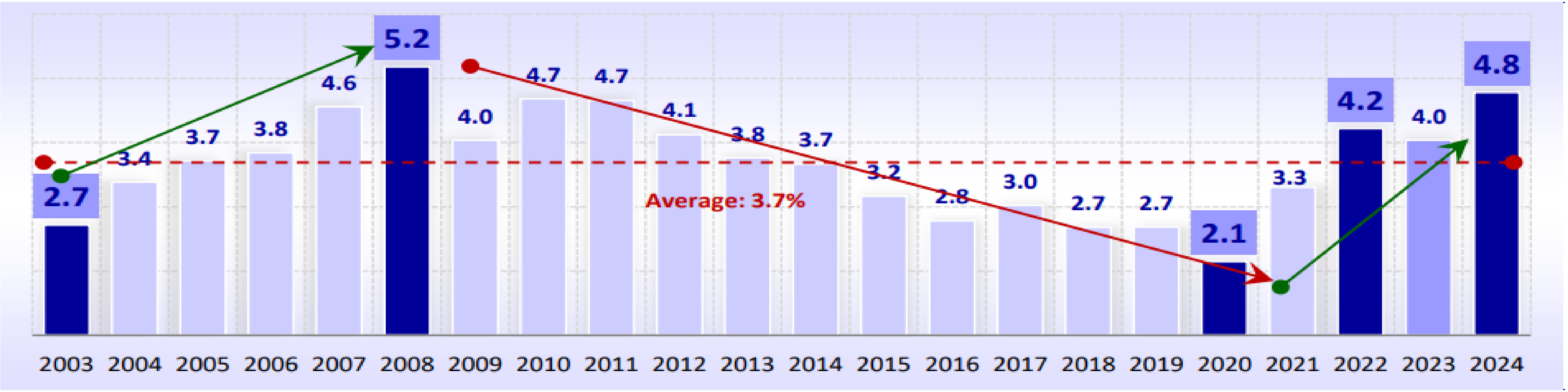
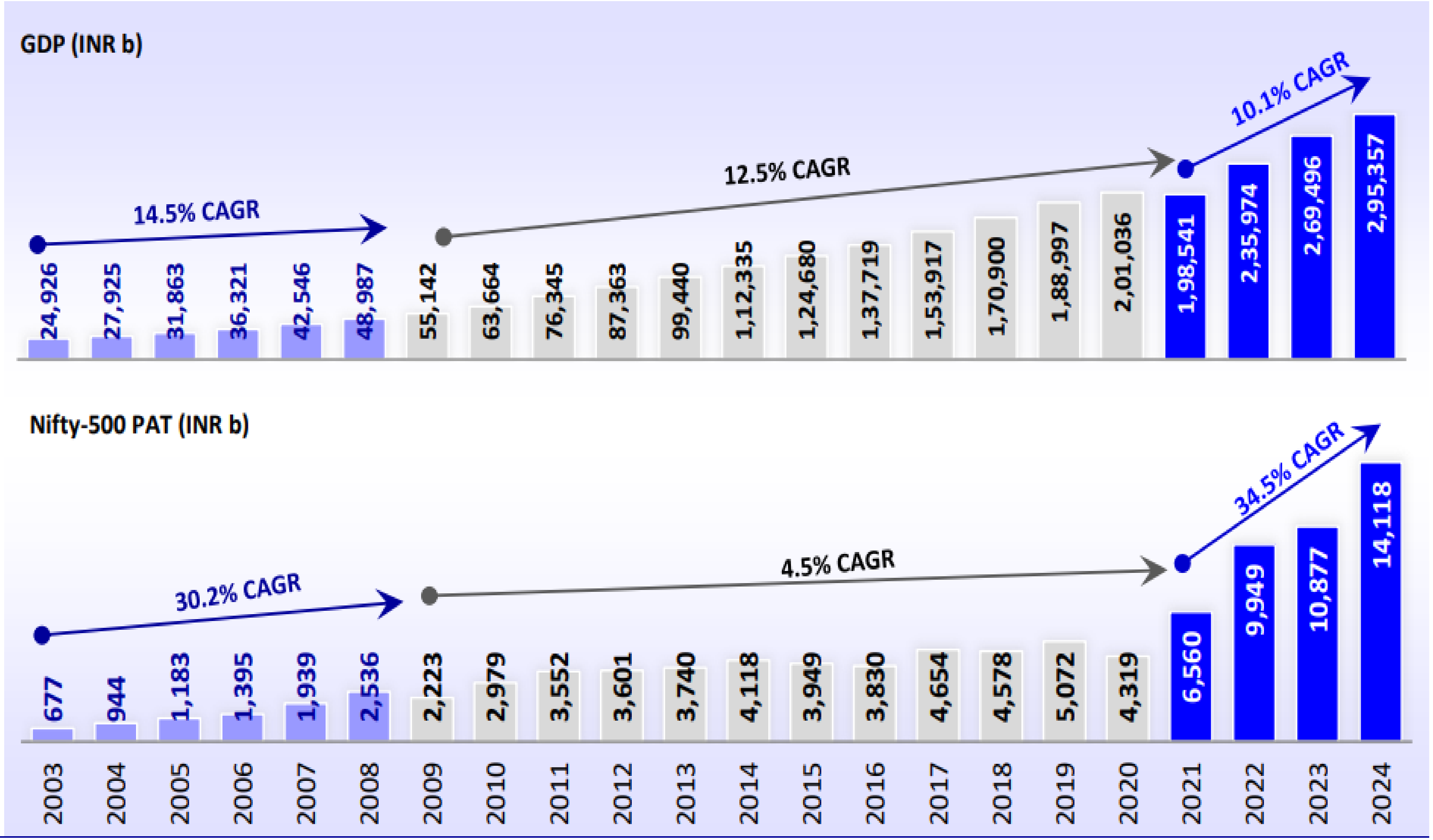
ASSET MANAGEMENT



- Phase 1 (2003-08), the corporate profit to GDP ratio almost doubled to 5.2% from 2.7% over the same period, with Nifty-500 profits surging 30%, which was twice the pace of underlying GDP growth (at 14.5% CAGR) over the same period.
- Phase 2 (2008-20), the downturn in domestic corporate earnings resulted in a compression in the Nifty-500 profit to GDP ratio to 2.1% from 5.2%.
- Notwithstanding the pandemic-led gloom and weak economic recovery during Phase 3 (2020-24), corporate profits have recovered sharply from the lows. Consequently***, the ratio rebounded to a 15-year high of 4.8% (long-period average of 3.7%) in 2024 as profits grew at a faster pace (of 30% YoY).***

Continued..



Nifty-500 profits remained rangebound at INR4-5t over FY14-20, while the same jumped sharply to INR10.9t in 2023 and further to INR14.1t in 2024.

Notably, the corporate profit CAGR of 22.7% was much higher than the GDP CAGR of 9.3% over 2019-24.

During 2020–24 too, the corporate profit CAGR of 34.5% was significantly higher than the GDP CAGR of 10.1%.

Rural demand recovery in sight

Aditya Birla Capital Asset Management

Rural demand indicators have started to recover from May onwards. Expectations of normal monsoon, improved sowing prospects and FY25 budgetary allocation (Rs860 bn) are likely to support rural demand in H2FY25.

Management commentaries of companies with a strong rural presence have alluded to the recovery in demand conditions starting at the end of Q1FY25. As per syndicated industry data, rural consumption growth has moved ahead of urban after three years.

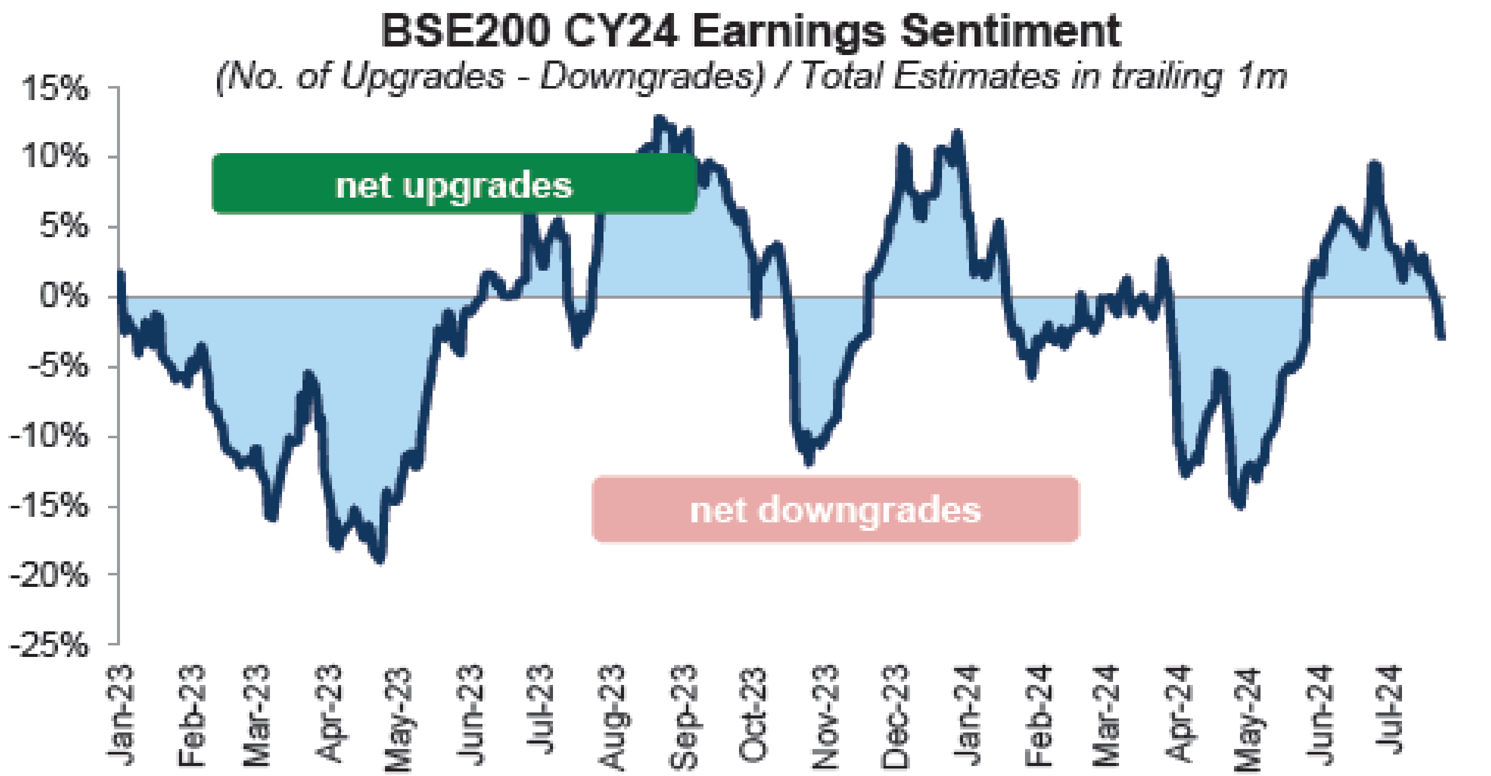
Though, moderate inflation would benefit in terms of pricing growth, it would not impact margin due to scaling up of nascent categories, premiumization trend and requisite pricing actions.

Rural demand indicators

Rural Indicators	Jun-24	May-24	Apr-24	Mar-24	Feb-24	Jan-24	Dec-23	Nov-23	Oct-23	Sep-23	Aug-23	Jul-23	Jun-23	May-23	Apr-23	Mar-23	Feb-23	Jan-23
2W ('000 units)	1376	1535	1644	1530	1440	1459	1450	2247	1508	1312	1254	1228	1315	1493	1230	1446	1271	1269
Tractor ('000 units)	71	70	57	78	77	89	79	62	62	54	74	91	99	71	56	81	69	73
Consumer Non-Durables (Index)		153	151	155	150	165	180	157	142	143	148	154	147	150	155	148	155	164
Diesel Consumption ('000 MT)	7984	8408	7925	8007	7443	7424	7603	7525	7634	6493	6670	6885	7906	8217	7818	7794	7003	7178
Agriculture Credit (% YoY)	17.4	21.5	19.7	20.0	20.1	20.1	19.5	18.2	17.5	16.8	16.6	16.9	19.7	16.1	16.8	15.3	15.0	14.4

Source: CEIC, DAM Capital Research

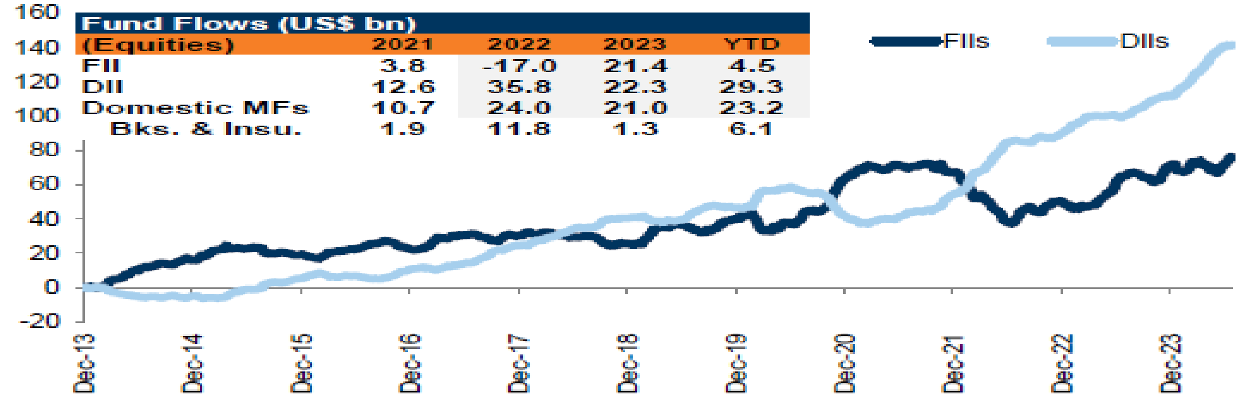
Q1 FY25 earnings season is ongoing. So far, results are in line. But we are seeing more downgrades than upgrades for future earnings growth. While we are still maintaining our FY25 earnings growth projection of 15% yoy, we will need to monitor if companies can execute and meet expectations.



Source: BSE, FactSet, I/B/E/S, Goldman Sachs Global Investment Research

Liquidity & Market Sentiments – Key market drivers in the near term

Cumulative fund flows in Indian equities (US$ bn)



Source: Bloomberg

Market Cap	Current PE	10 Year Average
Large	25.7	21.8
Mid	36.9	21.1
Small	34.3	19.2
Micro	29.6	14.8

- While earnings are the main driver for markets in the long-term, it is liquidity that drives markets in the short-term. And liquidity is in over-supply in Indian equity markets in the form of SIP and lumpsum flows in Mutual Funds, direct investments in stocks, flows from EPFO/NPS/ULIPs, and FII inflows in equity market.

- In the next 6 months, there are some events like State elections in India as well as the US elections in Nov which could impact sentiment and lead to higher volatility in markets.

- Positive investor sentiment and high liquidity is translating into increasing valuations in all segments of the market. However, compared to Mid/Small/Microcap, large caps still seem reasonably valued.

India’s Financial Sector is witnessing transition

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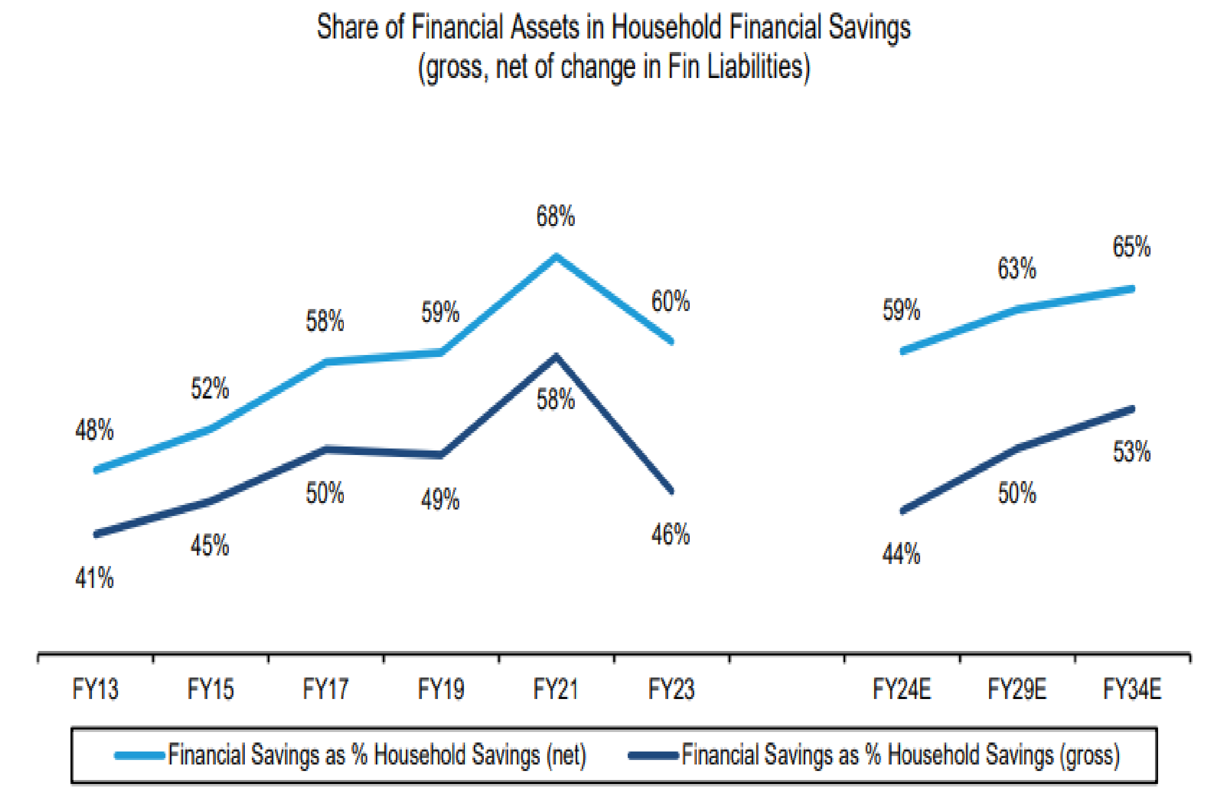
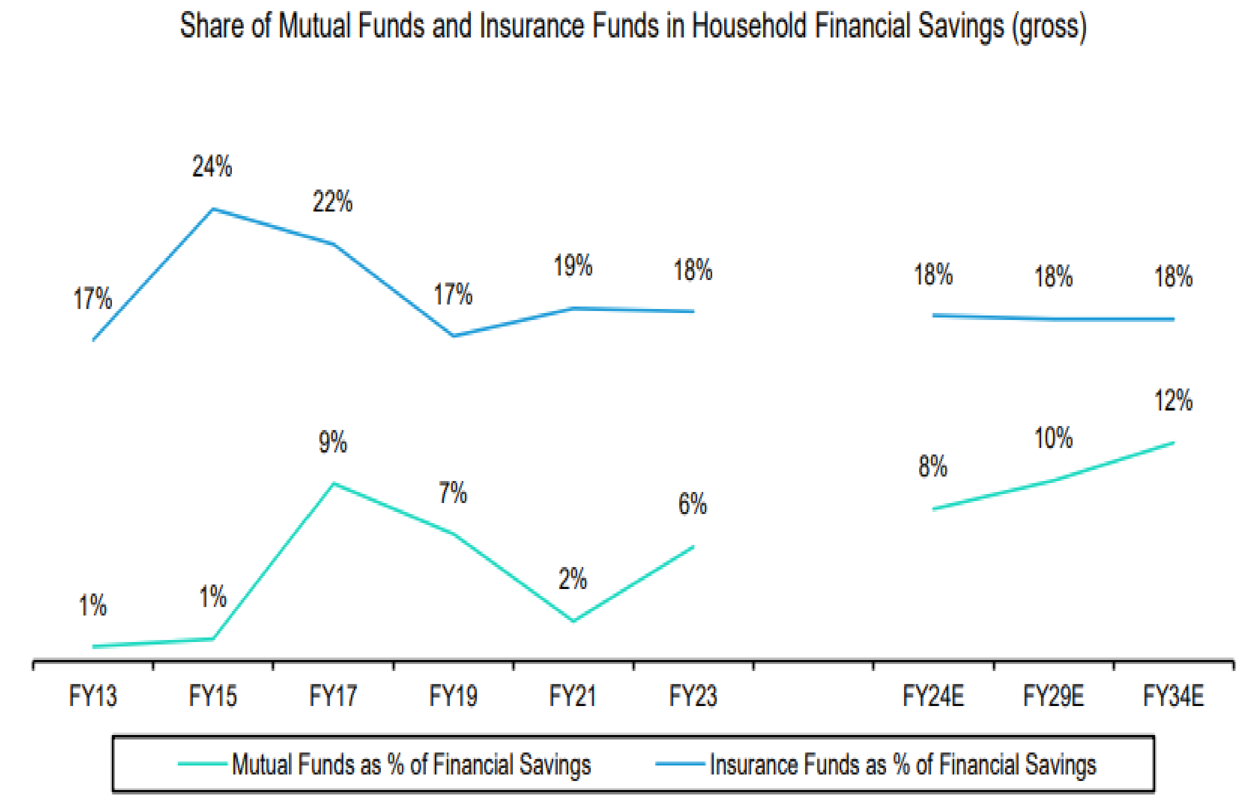
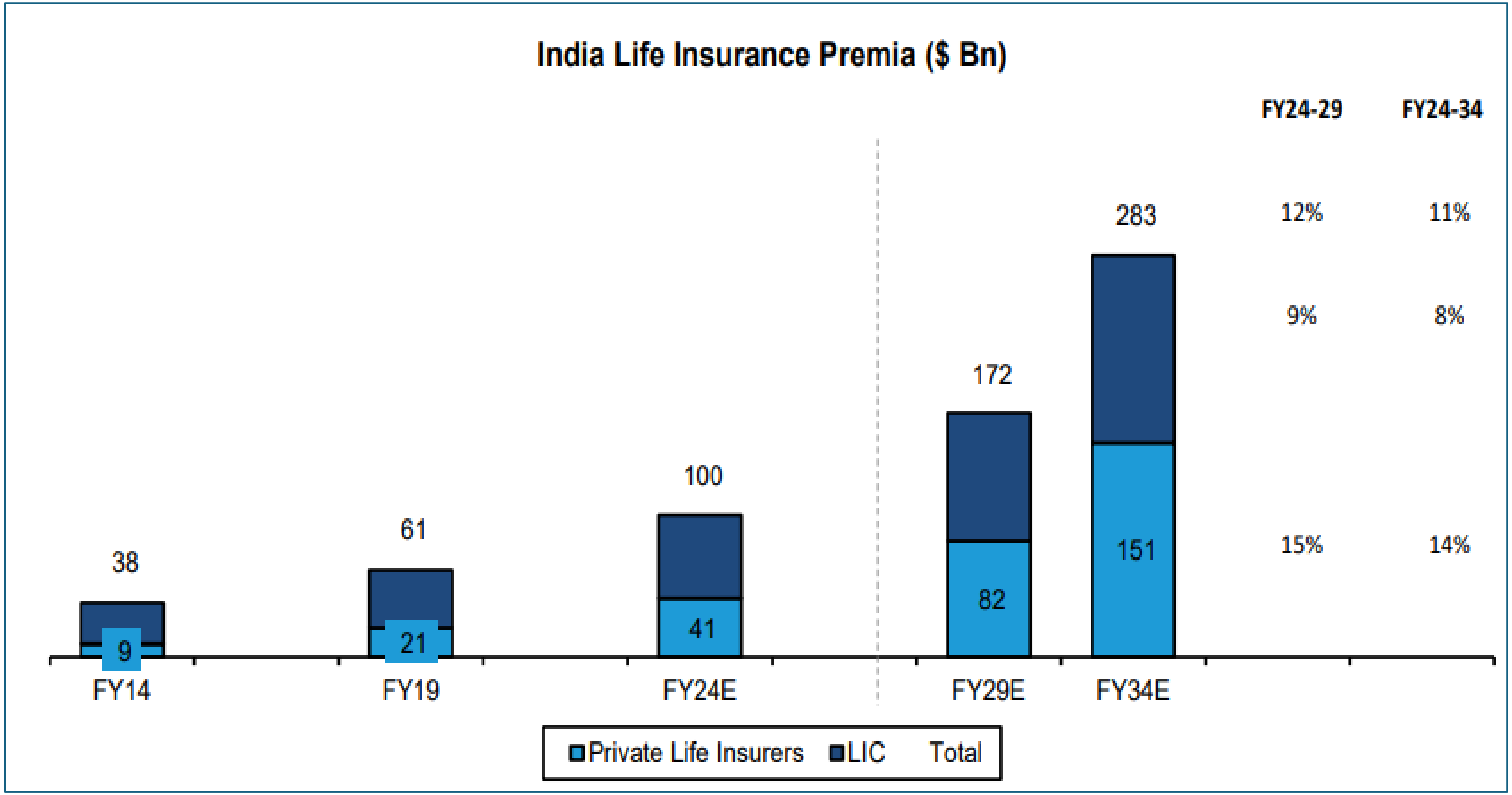
We believe India is marching ahead on the financial product hierarchy seen across nation. The increase in household annual savings from $650 bn to $1 trillion by this decade (in line with recent growth trends) coupled with changing behavior to chase competitive returns presents the much-needed scale for Asset Management & Insurance sectors.





$100 Bn+ annual premia market; ~14% 10-yr premia growth for private life insurers

India's life insurance premia as a percentage of its nominal GDP stands at ~2.8% (FY24 estimates). Factoring in growth estimates for the industry, India's life insurance premia as a percentage of nominal GDP is expected to rise to ~3.2% by FY34E



Preference for Financial savings => Faster growth for Mutual Funds & Life Insurance

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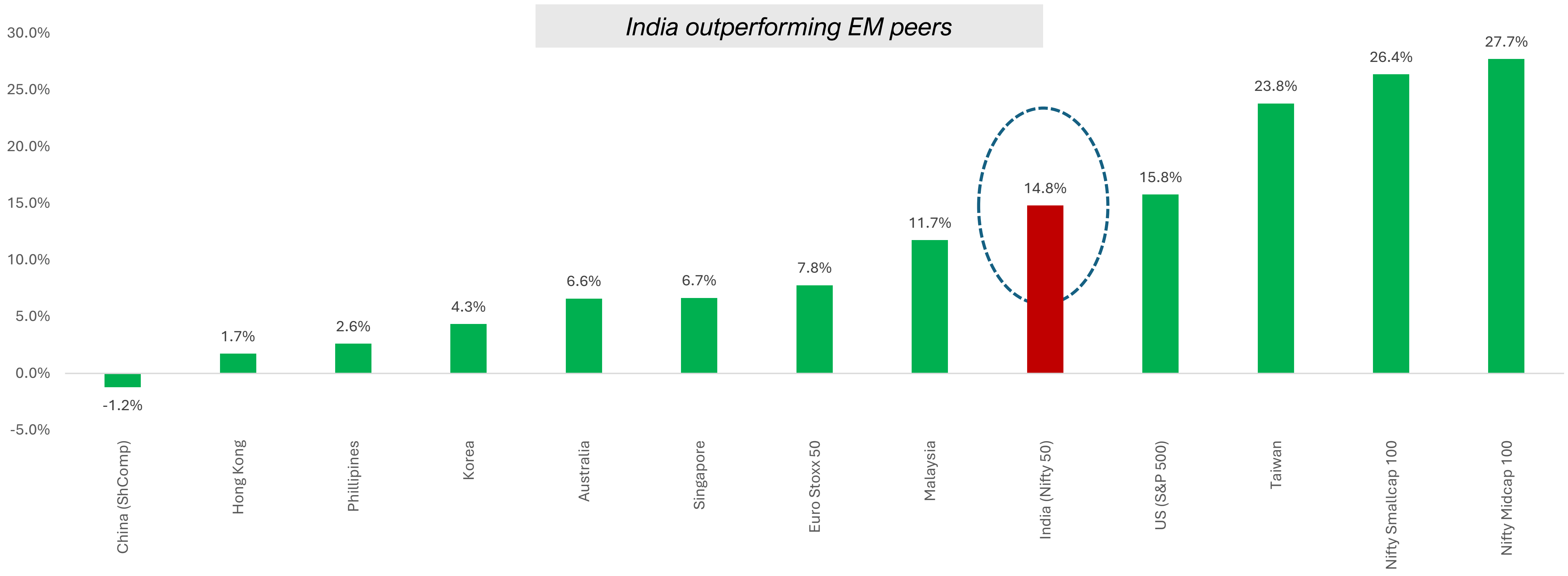
		5-yr outlook	
~$3.5 Tn	Nominal GDP (E)	~10% CAGR	
~$0.65 Tn (18% GDP)	Household (HH) Savings (E)	~9.5% CAGR	Marginal fall in savings rates
~$380 Bn (59% HH savings)	Gross Savings in Financial Assets (E)	~11% CAGR	Rising preference for Financial assets vs. Physical Assets
~$70 Bn (18% Fin Savings)	Annual HH [2] Savings in Life Insurance (E)	~11% CAGR	***Private Insurers grow by ~15% with market share gains***
~$30 Bn (8% Fin Savings)	Annual HH [2] Savings in Mutual Funds (E)	~15% CAGR	***Mutual Fund Industry AuM to grow ~16% AuM***
~$280 Bn (75% Fin Savings)	Annual HH [2] Savings in Debt Instruments (E)		

1. USD 1 = INR 83; 2. HH – households; Represent FY24 estimates
Source: MOSPI, Bernstein estimates and analysis

Market Valuations & Performances

Market Performance CYTD

Index Performance YTD CY24 (in local currency)



Source: ABSLAMC Research; Note: Data as of 31st July 2024

India - Various Asset Classes: 1M (Jun) & 1-Yr Performance (in INR)

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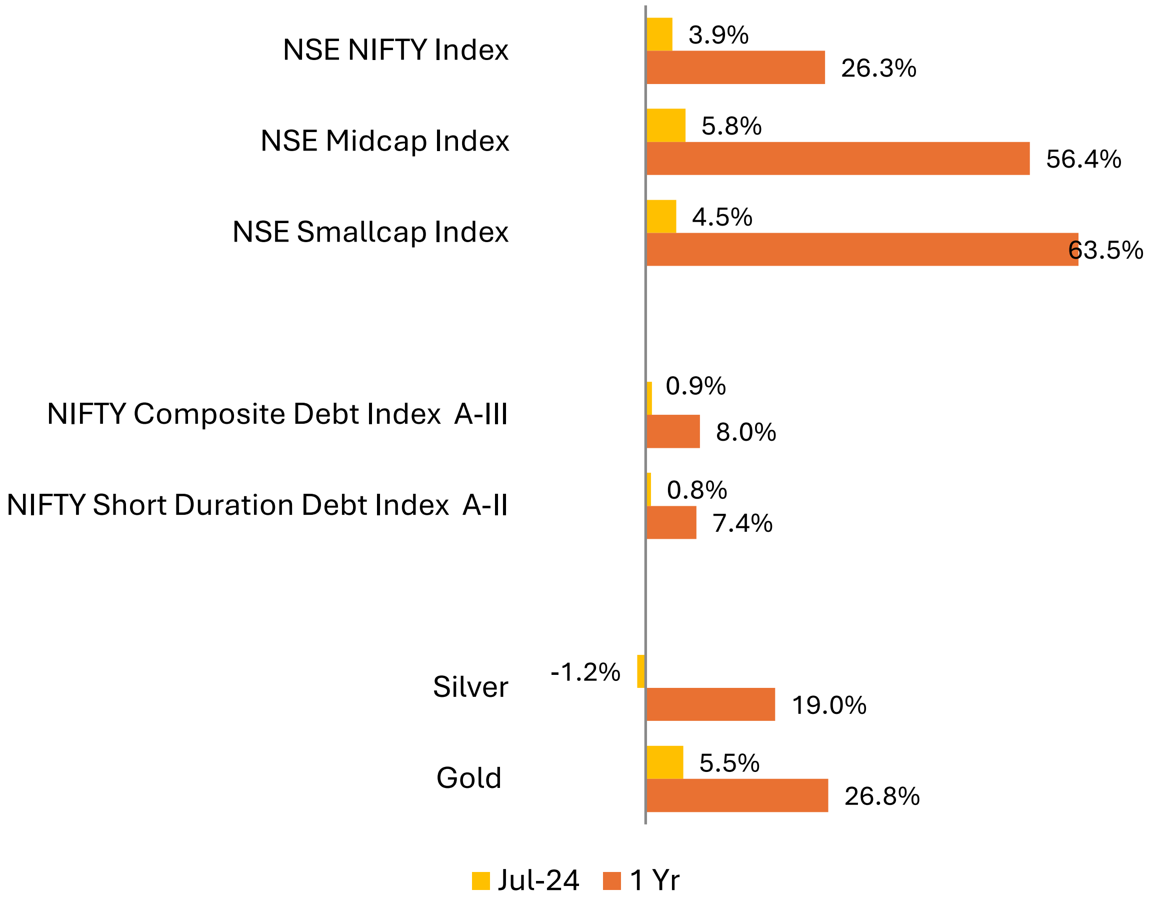
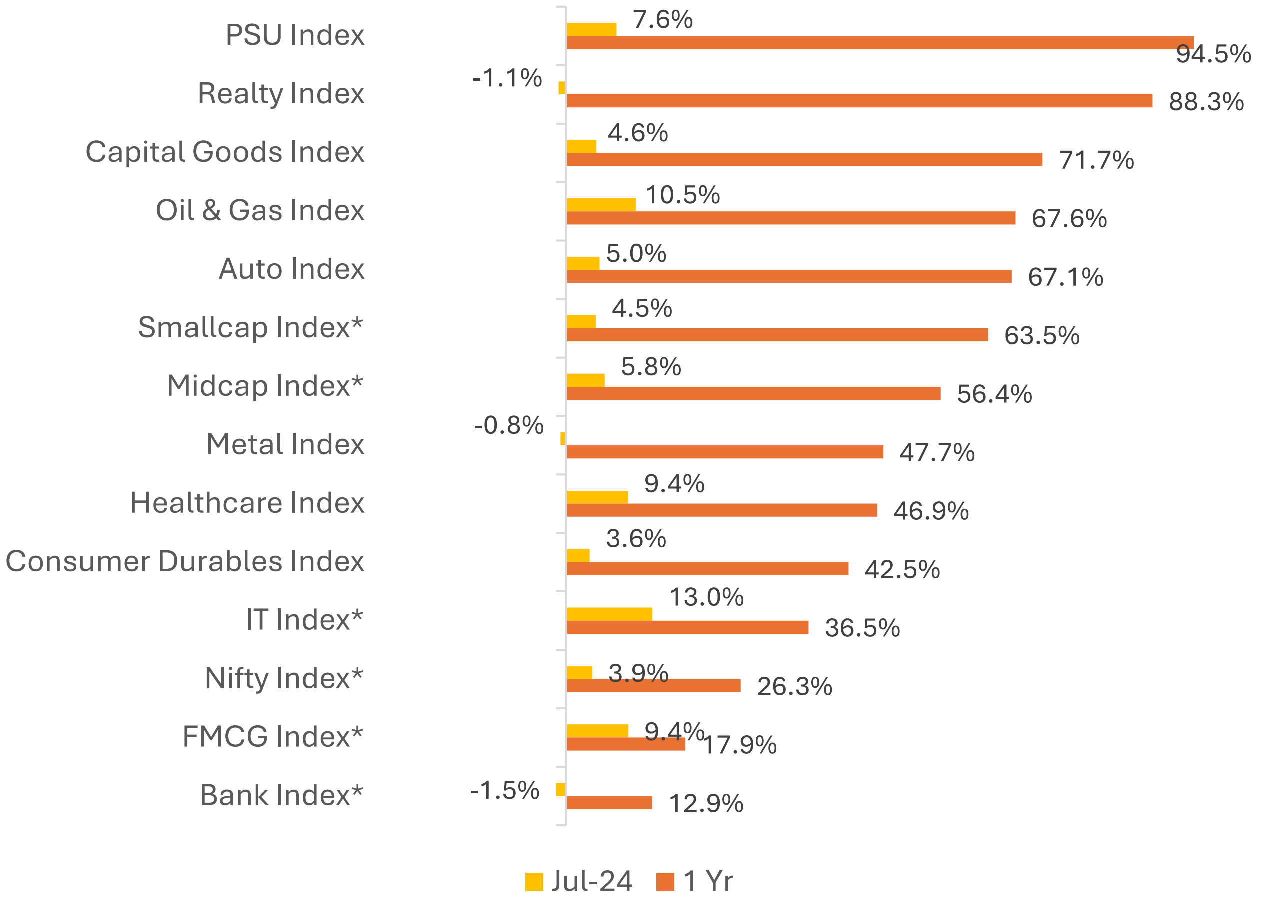
Mid & Small Cap Indices continues to do well



Banking, Realty and Metals were negative for the month. Over the past 1-year, PSU, Realty & Cap Goods Index are the best performers



Source: Bloomberg, ABSLAMC Research

Nifty-50 valuations 13% higher than historical average on PE basis

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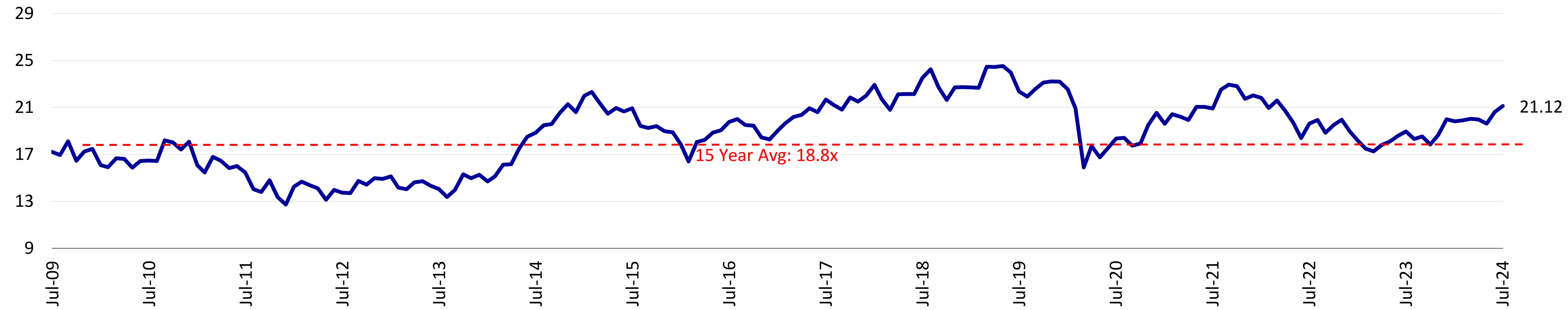
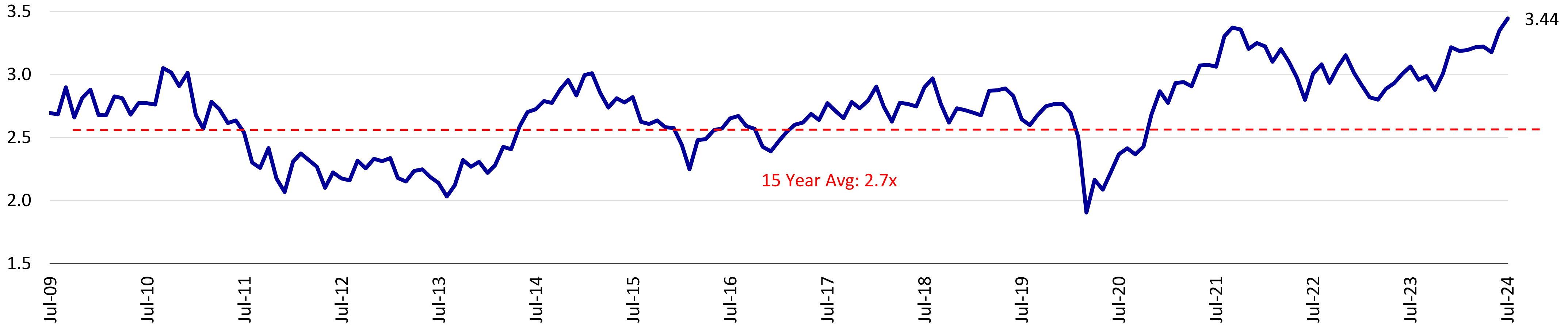
Nifty 1Y Fwd. P/E



Nifty 1Y Fwd. P/B



Source: MOSL, ABSLAMC Research; Note: Data as of 31st Jul 2024

ADITYA BIRLA CAPITAL
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India is always considered expensive, but why?

Compared to its EM peers, India has been considered expensive over the last 20 years. An anomaly in a data set can be overlooked, but when consistent, it becomes the norm. India enjoys its premium valuations due to:

1) Stable Government at the Centre with policy continuity & reform momentum for the third consecutive term

2) a GDP growth rate ranging between 6% and 7% during this period;

3) Healthy macros – stable currency, twin deficits under control,, moderating inflation print, fast track development of digital and physical infrastructure, and financialization of savings;

4) Stable external position with record level of FX reserves along with USD120b+ in remittances to maintain the BoP accounts.

Outlook for other key sectors

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Metal

Neutral: Slowdown in Chinese demand due to slump in real estate sector is impacting commodity prices. However, Chinese government has come out with certain policy measures to spur growth in the real estate sector. On the other hand, Indian demand scenario remain robust. Thus, domestic commodity prices are at premium to international prices, safeguarding margins. Stocks are trading close to historical averages.

Auto

Neutral: 2W growth is expected to continue. PV segment also expected to report a stable growth. CV and tractors however, are expected to remain weak. Overall, expect mixed performance from the sector.

Consumer Staples

Neutral to marginally positive: We expect stable to improving volume and value growth for FMCG pack. On a positive note, rural has started to see an uptick as highlighted by most FMCG players. Higher than normal monsoons and benign raw material scenario are incremental positives.

Cement

Negative: Post election demand is weak while competitive intensity has also increased. Larger players are focusing on market share gains leading to weak pricing environment. Margins are expected to remain muted over short to medium term.

Power

Positive: Indian power sector likely to face intermittent peak power deficit thus need for coal/hydro power capacity addition. Remain constructive for next 2-3 years on capacity visibility and reform measures.

The Scheme(s) may or may not have any present or future positions in these Sectors and should not be construed as promise, guarantee on or a forecast of any minimum returns.

Source: ABSLAMC Research

Outlook for other key sectors

ADITYA BIRLA CAPITAL ASSET MANAGEMENT

Telecom

Positive: Price hike in telecom tariff and increasing 4G penetration to continue drive ARPU improvement. Market share shift led by superior execution to continue in favor of strong incumbent. Unlocking of digital businesses may act as further trigger. Any relief from Government on the curative petition for AGR liability is additional trigger for the sector.

Oil & Gas

Negative: Windfall tax on Crude oil and Expected the same in Natural Gas would curb the earnings for upstream companies. Moreover, higher crude oil price coupled with Elections will put further pressure on OMCs in terms of losses in Marketing segment (Diesel / LPG).

Pharma

Positive: Domestic business outlook is robust and export business traction is improving based on pipeline of new product launches. Valuations are a bit higher than long term averages.

Real Estate

Positive: Some moderation is being seen in real estate demand in last few months. Notwithstanding short-term hiccups, trajectory remains positive with increased affordability, consolidation and favorable supply-demand scenario. Strong companies are gaining market share, and this trend is likely to continue

PSUs

Positive: Economic recovery is broadening, boding well for PSUs. Valuations still offer decent upside, especially in PSU Banking, Power, and Energy sectors. Tactically positive on Metals and Oil & Gas.

The Scheme(s) may or may not have any present or future positions in these Sectors and should not be construed as promise, guarantee on or a forecast of any minimum returns.

Source: ABSLAMC Research

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Equity Mutual Funds

Debt Mutual Funds

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