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Global & Domestic Macro-economic developments

- Major international organizations announced their India GDP outlook recently. Moody's revised its projection upward to 7.2% for the current fiscal year from 6.8% estimated earlier. It also pushed the FY26 estimate higher to 6.6% from 6.4% earlier. ADB (Asian Development Bank) retained its growth estimate for the current fiscal year at 7% and 7.2% for next year. S&P too maintained its growth projections, at 6.8% for FY25 and 6.9% for FY26. Government of India, in its monthly economic update also mentioned that in view of the progress seen in high frequency indicators, it continues to expect 6.5-7% growth this year.
- US PCE, Fed's preferred gauge of inflation moderated down to 2.2% (lower than anticipated) from 2.5% in Jul'24. Even the core PCE (excl food and energy prices) cooled off to 2.7% from 2.6% in Jul'24. US Fed chair recently in his speech noted that they will evaluate the incoming macroeconomic data and will take a decision on rates from meeting-to-meeting basis.
- ECB lowered the interest rates for the second time this year by an additional 25bps, bringing the rates down to 3.5-3.75%. Inflation in Germany eased down more than expected to 1.8% in Sep'24 from 2% in Aug'24. The Eurozone inflation reading in Sep'24 is expected to be much lower than the target level of 2%. The lowering of the price pressure has strengthened a case of another rate cut in Oct'24 to provide support to the economy.
- Bank of England maintained status quo on policy rates with a vote of 8-1 with a cautious tone as the Governor noted the rate cut will be a gradual approach amidst moderating inflation. Headline inflation in UK has remained steady at 2.2% in Aug'24 same as Jul'24.
- BoJ kept the benchmark rate steady at 0.25% in Sep'24 in line with expectation. The Governor noted they will spend more time before taking a decision on hiking rates again given the uncertainty in global economic outlook.
- The authorities in China announced fiscal stimulus measures (In an effort to revive the economy) which included lowering down of rates and injecting liquidity back into the system. The 7-day reverse repo rate have been lowered down by 20bps to 1.5%. It was also stated the reserve requirement ratio (RRR) will be cut by 50bps in the near term and this provide a liquidity boost of 1tn yuan.
- India's fiscal deficit for the period from Apr to Aug of FY25 stood at ₹ 4.35 lakh crore or 27% of the Budget Estimates (BE) of the current fiscal. India's fiscal deficit was at 36% of the BE in the corresponding period of the previous fiscal year. Total expenditure stood at ₹ 16.5 lakh crore or 34.3% of the BE as compared to 37.1% of the BE in the corresponding period of the previous fiscal year.
- India's current account deficit (CAD) widened marginally to US$ 9.7 billion (1.1% of GDP) in Q1 FY25 from US$ 8.9 billion (1.0% of GDP) in Q1 FY24 and against a surplus of US$ 4.6 billion (0.5% of GDP) in Q4 FY24. The widening of CAD on a YoY basis was primarily due to a rise in merchandise trade deficit to US$ 65.1 billion in Q1 FY25 from US$ 56.7 billion in Q1 FY24.
- The Manufacturing Purchasing Managers' Index edged down slightly to 56.5 in Sep 2024 compared to 57.5 in Aug 2024. The latest reading indicated growth decreased to 8 months low in Sep 2024. India's Services Purchasing Managers' Index (PMI) fell to 10-month low to 57.7 in Sep 2024 as compared to 60.9 in Aug 2024. Despite the slowdown, the sector remains in expansion territory. Growth was reportedly curbed by fierce competition, cost pressures and changes in consumer preference. Composite PMI fell to 58.3 from 60.7 in the same period.
- The Eight Core Industries contracted by 1.8% YoY in Aug 2024 as compared to 13.4% growth in Aug 2023. The production of most of the Eight Core Industries declined in Aug 2024 over the corresponding month of last year except steel and fertilizers. Steel and fertilizers experienced growth rates of 4.5% and 3.2%, respectively, in Aug 2024.
- IIP grew by 4.8% YoY (-0.7 MoM) in July 2024 as against 4.2% YoY (-3.0% MoM) in June 2024 led by manufacturing sector. Manufacturing production grew by 4.6% YoY (+1.6%MoM). Rains during July led to moderation in mining output (July: 3.7%; May: 10.3%). Electricity output declined by 1.2% MoM due to lower thermal electricity generation. On the use-based side, barring capital goods production, consumption, intermediate and primary goods sector output contracted sequentially.
- India's merchandise trade deficit widened to $29.65 billion in Aug 2024 from $24.02 billion in Aug 2023. Exports fell by 9.33% to $34.71 billion in Aug 2024 from $38.28 billion of the same month of previous year, while imports rose by 3.31% to $64.36 billion from $62.30 billion during the same period.
- Crude oil prices remained volatile during FYTD (April'24-Sep'24), it touched 86.91 $/bbl on April 5th, 2024, and dropped to its lowest point on Sep 10th, 2024, at 65.75 $/bbl, currently it is trading at 75 $/bbl levels. The prolonged conflict in Middle east can only fuel to the intense volatility in crude oil prices which may further dampen market sentiments if the conflict remains unresolved and escalated further.
- Gross goods and services tax (GST) collections in Sep 2024 stood at ₹ 1,73,240 crores, representing a 6.5% rise on a yearly basis. This growth was observed across all categories: Central GST (CGST), State GST (SGST), Integrated GST (IGST), and cess.
- INR appreciated by 0.1% in Sep'24 against a depreciation of -0.2% seen in Aug'24. This was supported by a weaker dollar. Apart from this, increased quantum of FPI flows (record high equity inflows), range bound commodity prices and the narrative of easier liquidity conditions amidst global monetary policy easing, have lend comfort.
- India's net foreign direct investment during the Apr to Jul period of FY25 rose to $5.5 billion compared to $3.8 billion in the year-ago period. Manufacturing, financial services, communication services, computer services, electricity, and other energy sectors accounted for more than three-fourths of the gross FDI inflows. The major source countries were Singapore, Mauritius, the Netherlands, the U.S., Belgium, and Japan.

Equity market developments and Outlook

- The Nifty touched a fresh high of 26,277 before ending +2.3% MoM at 25,811 in Sep'24. The index has closed higher for the fourth straight month now. Notably, the index was volatile during the month and traded in a range of 1,524 points (~6%) before closing 575 points higher. The Nifty is up 18.8% in CY24YTD.
- The Nifty is trading at a P/E ratio of 23x on FY25E earnings, which is higher than its historical (10 years) average multiple by around 20%.
- During the last 12 months, mid-caps and small caps have gained 48% and 50%, respectively, while large caps have risen 31%. During the last five years, midcaps have outperformed large caps by 150%, while small caps have outperformed large caps by 118%.
- Among the sectors, Metals (+8%), Utilities (+5%), Real Estate (+4%), Consumer (+4%), and Financial (+4%) were the top gainers, whereas Telecom (-5%), PSU Banks (-3%), and Technology (-2%) were the laggards MoM.
- Among the key global markets, China (+17%), MSCI EM (+6%), Russia (+6%), India (+2%), and the US (+2%) ended higher in local currency terms. However, Brazil (-3%), Korea (-3%), Japan (-2%), Indonesia (-2%), and the UK (-2%) ended lower MoM in Sep'24.
- Over the last 12 months, the MSCI India Index (+40%) has outperformed the MSCI EM Index (+23%). Over the last 10 years, the MSCI India Index has significantly outperformed the MSCI EM index by a robust 195%.
- India's share of the global market cap stood at 4.6%, its all-time high and above its historical average of 2.7%. India is among the top 10 contributors to the global market cap. The top 10 contributors accounted for ~83% of the global market cap as of Sep'24.
- Over the last 12 months, global market cap has increased 21.8% (USD22.4t), whereas India's market cap surged 54.6%. All key global markets have witnessed a rise in market cap over the last 12 months.
- FPIs maintained positive momentum with a significant inflow of ₹ 42,759 crores in Sep'24, up from a net equity inflow of ₹ 11,678 crores in Aug'24. However, FPIs witnessed a substantial net outflow of ₹ 52,284 crores as of 11th Oct 2024.
- For the last 14 straight months, Domestic Institutional Investors (DIIs) flows have been positive and registered inflow of ₹ 31,860 crores in Sep'24, though slightly lower than the ₹ 48,279 crores seen in Aug'24. As of 11th Oct 2024, DIIs remained net buyers, with a large inflow of ₹ 59,828 crores.
- In Sept 2024, the markets hit new highs, basis one year forward earnings, Nifty 50 is trading at a premium to its long-term historical average. Indian market valuation has been seen as more expensive compared to other emerging markets. This valuation premium is backed by a stable political environment, strong GDP growth projection of 6%-7% for FY25, a relatively stable currency, peaking interest rates, moderating inflation and thrust to infrastructure development. However, slowing earnings growth of certain sectors could pose some downside risk in the near term. Therefore, we remain cautious on the markets and our preference is predominantly in favor of large caps, as the valuations of midcap and small cap are at a premium to large caps. We remain focused on fundamentally strong companies with long-term investment horizon.
- Investors can continue to invest systematically in equities. Any market volatility/dips can be used as an opportunity to increase their equity exposure gradually, as per their individual risk profile.

Fixed Income market developments and Outlook

- US 10Y yields ended lower by 12bps in Sep'24. US Fed began with the aggressive rate cut as it announced the 50bps cut and the beginning of the easing rate cycle after a span of 4-years. With this the benchmark policy rate were lowered down to 4.75-5%. According to the Fed dot plot, FOMC members have projected the fed funds rate to be lowered down by a total of 100bps this year (including the Sep'24 cut), by 100bps in CY25 and by 50bps in CY26.
- On the domestic front, India's 10Y yield eased by 8bps and traded in the range of 6.72-6.88% in Sep'24 from 6.85-6.91% in Aug'24. Given the favorable supply-demand dynamics, the 10Y yield touched the 6.72%-mark lowest level in more 2-years in Sep'24 (lowest since Feb'22) post the announcement of the borrowing calendar for H2FY25.
- System liquidity remained in surplus through August to early October, supported by increased government spending and a decline in currency in circulation. However, liquidity briefly shifted to a deficit in late September due to tax outflows. The RBI responded proactively, conducting two-way liquidity operations to align inter-bank rates with the policy repo rate.
- The Reserve Bank of India's (RBI) Monetary Policy Committee (MPC) has maintained policy rates for the 10th consecutive time, keeping the repo rate at 6.5%, the Standing Deposit Facility (SDF) at 6.25%, and the Marginal Standing Facility (MSF) at 6.75%. The MPC unanimously shifted its stance to 'neutral,' moving away from its previous stance of 'withdrawal of accommodation.' It indicates that RBI is comfortable with softening inflation and could follow up with policy rate cuts in the future to support economic growth. This is constructive for bond yields and interest rate sensitive sectors.
- The MPC keeps inflation forecast for FY25 unchanged at 4.5%, with marginal revisions to quarterly projections (for 2QFY25 was revised down by 30 bps, 3QFY25 was revised up by 10 bps, 4QFY25 was revised down by 10bps, and 1QFY26 was revised down by 10 bps). The GDP growth projection for FY25 stays at 7.2%, with slight adjustments in quarterly estimates (for 2QFY25 was revised down by 20 bps, 3QFY25 was revised up by 10 bps, 4QFY25 was revised up by 20bps, and 1QFY26 was revised up by 10 bps).
- Consumer price inflation (CPI) in India remained flat at 3.65% YoY (0% MoM) in August 2024. Higher vegetable and fruit prices were the sore points in the data. Favorable base effect which supported the July and August print is likely to fade away September onwards, pushing the retail inflation once again above the RBI's 4% target.
- Core inflation remained steady at 3.3% YoY. However, looking at the internals, prices of household goods and services, health and recreation increased. There was minimal effect of telecom tariff hike. On a YoY basis, food inflation increased by 5.3% (-0.30% MoM) in August 2024 as against 5.06% (2.5% MoM) in July 2024 led by increase in price of eggs, fruits and vegetables.
- Foreign Portfolio Investors (FPIs) flows remained positive however slowed down a bit to an inflow of ₹ 1,268 crores in the month of Sep'24, compared to a net inflow of ₹ 16,421 crores in the previous month.
- From an investment perspective, we prefer the medium-term part of the yield curve.