Market Outlook

September 2024

Market Update

The month began with a sharp decline in Indian markets, in line with the trends in the global markets. Strength in Japanese yen led to a sell-off in Japan and weaker-than-expected US employment figures as well as geo-political tensions in the Middle East were the major reasons for the weak sentiments. However, Indian markets recovered quite well with the Nifty Index ending the month up 1.1%. The sectoral indices had a mixed finish. PSU (-4%), real estate (-4%) and capital goods (-3%) were the main losers, while healthcare (+7%), consumer durables (+4%), and IT (+4%) were the biggest winners. Brazil, Indonesia, and the Philippines saw gains of 6.5%, 6%, and 4% worldwide, while South Korea, Shanghai, and Mexico fell 3.5%, 3%, and 2% respectively.

Foreign Portfolio Investors (FPIs) bought US$320 million of Indian equities in the secondary market, whereas Domestic Institutional Investors (DIIs) continued to be huge buyers at US$5.8 billion for the month.

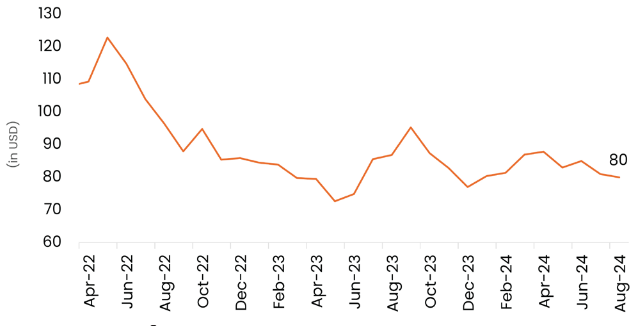
Global and regional indices 1 Month performance (%)

Source: Bloomberg, Kotak Institutional Equities (Data as on 31st August 2024 in local currency)

Macro Update

On the economy front, CPI inflation in July fell to 3.5% from 5.1% in June, supported by a favorable base despite a continued increase in vegetable prices. WPI inflation in July fell to 2% from 3.4% in June. IIP growth in June was 4.2% compared to 6.2% in May. Real GDP growth in 1QFY25 eased to 6.7% compared to 7.8% in 4QFY24. India had a trade deficit with 75 countries, which accounted for 44.2 per cent of its exports and 83.5 per cent of its imports, resulting in a $185.4 billion deficit, much larger than India's overall trade deficit. The gross GST collection, which is the number before adjusting refunds, stood at Rs 1.75 trillion in August, with growth tapering slightly to 10 per cent Y-o-Y from 10.3 per cent in the previous month. Gross GST revenue stood at Rs 1.82 trillion in July 2024. India 10-year G-sec yield ended the month at 6.86%. The INR for the month was stable and closed at ~83.9. Brent crude price fell to USD 80.00 per barrel in the month of August'24.

Brent Crude



Source: Bloomberg

Earnings

The Q1FY25 earnings review for Nifty 50 companies showed growth, driven by strong performances in banking, IT, Metals and consumer sectors, while cyclical sectors faced challenges. Banks benefitted from robust credit growth and improved asset quality, with rising interest rates boosting net interest margins. The IT sector saw stable demand, though margin pressures from wage hikes were evident. FMCG companies managed to grow despite inflationary pressures, supported by price hikes and recovering rural demand. Energy companies experienced mixed results, while government infrastructure spending provided some relief. Pharmaceuticals posted steady growth with strong exports, and the auto sector saw mixed results, with passenger vehicles performing better than two-wheelers. Cement companies faced margin pressures due to high input costs, but the real estate sector remained strong, especially in residential demand. Overall, the earnings were robust, though inflation and global uncertainties remain key concerns.

Market Outlook

The markets have shown amazing resilience over the last couple of months, primarily driven by domestic flows and investor interest. Earnings season ended mixed, with some downgrades in the overall earnings trajectory. However, India's monsoon remains largely favourable, boosting the agricultural outlook, which is a positive sign for rural demand as we move into the second half of the fiscal year.

- **Global Factors Continue to Dominate**
  As highlighted in prior updates, Indian equities remain more susceptible to global risks than domestic ones. August saw continued volatility stemming from global macro factors. Inflation fears are receding in the US and the 10-year yields have also come off to 3.75%. This has raised the expectations of a rate cut and should be a key monitorable in September. We also saw renewed concern over the Chinese economy, with slow growth and concerns around property sector defaults, contributing to a broader risk-off sentiment in global markets. This has also led to pressure in commodity prices.

- **Broader Markets Remain Strong but Valuations Stretching**
  On the domestic front, mid-caps and small caps continue to see strong momentum, with many sectors seeing elevated valuations. This ongoing rally reflects the strong interest in broader markets. However, investors must exercise caution as valuations in certain pockets have risen beyond historical averages, reinforcing the need for a disciplined, fundamental-driven approach to investing. While there are still select opportunities, valuations are critical to avoid overexposure to hyped sectors.

- **Positioning for the Months Ahead**
  Our long-term optimism on Indian equities remains intact, particularly given the country's resilient economic fundamentals and the supportive domestic consumption story. However, we remain mindful of the global headwinds that could trigger short-term corrections. Any substantial market dips caused by global factors may present favourable buying opportunities. We continue to advocate for a selective, bottom-up approach to investing, with an emphasis on reasonable return expectations and valuation discipline. In the current environment, avoiding speculative or momentum-driven plays will help mitigate risks.
  In conclusion, while the broader trend for Indian markets is positive, staying patient and focused on long-term value remains key as we navigate the global macro uncertainties.

Disclaimers

September 2024

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Compliance Officer details under AIF:
Mr. Biharilal Deora, Tel: 022-68846600
For Queries/Grievances -
Email – complianceteam@abakkusinvest.com

Portfolio Management Services:
You may refer the Disclosure Document available at https://abakkusinvest.com/regulatory-disclosure/ for detailed disclosures.
As per SEBI circular SEBI/HO/IMD/IMD-PoD-2/P/CIR/2022/172 dated December 16, 2022, the comparison of the relative performance of the investment approach with other portfolio managers is available at https://www.apmiindia.org/apmi/IACompare.htm?action=iacomaprepage

Principal Officer and Compliance Officer Details under PMS:
Principal Officer: Mr. Aman Chowhan, Tel: 022-68846600
Compliance Officer: Mr. Biharilal Deora, Tel: 022-68846600

Investment Advisory Services:
You may refer the Disclosure Document available at https://abakkusinvest.com/regulatory-disclosure/

Principal Officer and Compliance Officer Details under IA:
Principal Officer: Mr. Biharilal Deora, Tel: 022-68846600
Compliance Officer: Mr. Lijo Varghese, Tel: 022-68846600

Contact Us:
Website: www.abakkusinvest.com
Email: info@abakkusinvest.com
Tel: 022-68846600

Corporate and Registered Address:
Abakkus Corporate Center, 6th Floor, Param House, Shanti Nagar, Near Grand Hyatt, Off Santacruz Chembur Link Road, Santacruz East, Mumbai – 400055.
LLPIN: AAM-2364;