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Indian equities are rising on strong fundamentals, liquidity from economic growth, and positive sentiment. While some market segments are overvalued, core economic strength remains intact, with select opportunities for fresh investments.

Globally, equity sentiment is high, though sensitive to central bank actions, as seen with recent volatility linked to the Yen.

Investors may focus on asset allocation. Large caps currently seems to offer better value, while multi-asset allocation funds may provide a balance of equities, debt, and gold etc, helping to mitigate risk in uncertain market conditions.

## **MOMENT OF THE MONTH**

**Fed turns Amber:** Post the downward revision in jobs data and uninspiring economic data in the USA, the Federal Reserve alluded that the inflation is within control and time to change the policy stance on rate cycle seems closed. Global financial markets betting on Fed's rate cut at September meet.

**India Growth: Q1 GDP growth** came in at 6.7% YoY led and Gross Value Added grew by 6.8% YoY led by strong performance from construction 10.5%, utilities & others segment 9.5%, private consumption grew at 7.4% and government capex at 7.5% while agriculture slowed to 2%.

RBI continues to maintain status quo at their policy meet, while Consumer and Wholesale price inflation trended lower, month over month, sequentially.

**MSCI weight up:** India MSCI weight increased to 20.1% leading to a big passive Foreign Institutional Investor buying of approximate 5.5bn\$ on 30-August 2024 (rebalancing date).

**Earnings Q1FY25: Nifty500** Results show 7.4% profit growth year-on-year on aggregate basis however, ex-BFSI the profit growth drops to 1% as BFSI profit growth is 19.1% year-on-year. Commodities have posted high double digit declines. Fitch affirmed India's rating at 'BBB-' with a stable outlook

Source: Bloomberg/Internal Research

## **WHO MOVED MARKETS**

Foreign Portfolio Investor's, continued to buyers for the month of August as well with approximate. net flows of 1.3 bn\$. Source: NSDL/Internal Research

# **MOVERS AND SHAKERS**





Source: : Bloomberg; Data as on August 30, 2024; Performance – Absolute returns

## PERFORMANCE SNAPSHOT OF SECTORAL INDICES - QOQ

	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Jul-24	Aug-24
Nifty 50	-29.3	19.8	9.2	24.3	5.1	7	12.1	-1.5	0.6	-9.6	3.9	5.9	-4.1	10.5	2.3	10.7	2.7	7.5	3.9	5.1
Nifty Midcap 100	-31.6	25.6	15.5	22.7	13.7	13.8	12.7	0.2	-2.5	-10.9	5.8	2.7	-4.7	19	13.4	13.9	4.1	15.9	5.8	6.4
Nifty Small Cap 100	-38.4	28.4	26.2	21.7	14.5	20	11.9	3.7	-7.6	-19.1	4.5	3.1	-7.6	20.5	17.6	18.8	0.8	20	4.5	5.4

Note - Yellow highlighted cells represent highest returns amongst the 3 indices provided above, for the respective quarter end periods. Performance data for the month of July and August 2024 (Current quarter period). Performance – Absolute returns. **Past performance** may or may not be sustained in future. Source: Bloomberg Data as on August 30, 2024

	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Jul-24	Aug-24
Nifty Auto	-42.6	42	17.7	16.3	7.3	7.5	0	3.2	-3.5	10.9	5.9	-0.7	-2.9	23.7	6.8	15	15	17.7	5.9	3.9
Nifty Bank	-40.5	11.6	0.4	45.7	6.5	4.4	7.6	-5.2	2.5	-8.1	-1.5	11.3	-5.5	10.2	-0.4	8.3	-2.4	11.1	-1.5	-1.9
Nifty Fin Services	-36	13.4	0.6	43.2	3.3	4.6	11.3	-5.3	-1.1	-9.8	0	8.4	-4.9	11.1	-1.2	8.5	-2.3	11.6	0	0.9
Nifty FMCG	-9.3	10	-0.7	14.5	2.2	3.3	12	-7	-3.4	3.8	9.4	-0.5	3.9	13.7	-1.1	10.4	-5.3	5.2	9.4	11.1
Nifty IT	-18.5	15.6	35.2	21.6	6.6	12.8	20.1	10.5	-6.2	-23.3	13	6.1	0.3	3	7.5	11.7	-1.7	3.6	13	18.3
Nifty Media	-42.3	29.2	15.2	6.5	-6.3	16.3	19	3.8	7.2	-20.3	7.9	-3.4	-14.7	2.6	30.1	5.3	-24.8	10.9	7.9	5.6
Nifty Metal	-43.4	25.6	12.6	45.1	22.2	31.1	7.6	-1.6	16.3	-27.4	-2.4	16.6	-18.2	12.9	10.1	16.6	3.5	18.9	-2.4	-4.2
Nifty Commodities	-33.1	24.6	8.8	22.2	17.7	14.9	10.9	-2.1	7.4	-16.2	4.2	6.9	-6.6	8.6	7.5	18.9	8	11.2	4.2	2.3
Nifty Realty	-41.2	15.5	4.6	48.1	6.5	2.9	49.4	-5.8	-4.3	-16.9	-1	1.8	-10.3	34.2	10.7	36	15	22.7	-1	-4.6
Nifty Pharma	-10.7	39.1	17.9	9.7	-5	16.6	1.1	-1.7	-4.5	-10.5	10.4	-2.9	-4.6	14.6	12	9.1	12.9	3.9	10.4	17.7
Nifty Energy	-30.1	29.4	4.4	12.6	7.5	9	15.3	-1	14.1	-2.8	5.5	1.1	-11.8	8.2	10.6	22.5	16.6	7.1	5.5	4.7

**Note** - Cells highlighted in green colour represents top 2 performers and the pink highlighted cells represent bottom 2 performers amongst the indices covered above for the respective quarter end periods. Performance data for the month of July and August 2024 (Current quarter period).

Returns have been calculated on Absolute basis for respective quarter end periods beginning March 2020 until August 2024. The data provided above is for illustrative purpose only and should not be construed as a promise on minimum returns and safeguard of capital. Mahindra Manulife Investment Management Company Private Limited/Mahindra Manulife Mutual Fund is not guaranteeing or forecasting any returns. **Past performance may or may not be sustained in future.** *Source: Bloomberg Data* 



Source: ICRA. Data period: 1st January 2006 till 30 August 2024. Returns are absolute returns (1 year) calculated as of the last business day of every calendrer year end. The data provided above is for illustrative purpose only and should not be construed as a promise on minimum returns and safeguard of capital. Mahindra Manulife Investment Management Private Limited/Mahindra Manulife Mutual Fund is not guaranteeing or forecasting any returns. **Past performance may or may not be sustained in future**.

# FIXED INCOME OUTLOOK

#### **BOND AND MONEY MARKET**

Shown below is a matrix detailing some movement in some key market (Domestic and global) and key event:

Parameters	30-Aug-2024	31-July-2024	31-Aug-2023
RBI Repo Rate %	6.5	6.5	6.5
5Y AAA PSU %	7.5	7.6	7.66
1 year CD %	7.63	7.57	7.44
10Y Gsec %	6.87	6.93	7.16
CPI (%)	3.54	5.08	7.44
IIP (YoY) %	4.24	5.9	3.69
US 10Y %	3.9	4.03	4.11
Dollar Rupee	83.87	83.73	82.73

Source: Bloomberg; Data as on August 31, 2024

# THE FIXED INCOME GLANCE

"The time has come for policy to adjust. The direction of travel is clear, and the timing and pace of rate cuts may depend on incoming data, the evolving outlook, and the balance of risks." The speech by the US Fed Chair marked a distinct shift in the US Fed stance; and the market conversations drifted from "if" to "how much, how soon. " Source: Bloomberg/US Federal Reserve

Domestically the MPC met in the first week of August and continued with an unchanged monetary policy stance. The MPC forecasted a GDP growth of 7.2% for the current fiscal year and a benign outlook for inflation. Retail inflation was printed at a 59- month low of 3.54 % with food inflation moderating to 5.42% (partly base effect). The fixed income markets continued to remain benign in August. The benchmark US 10-year treasury eased by around 13 basis points (bps) to close at 3.90 %. The benchmark India gilt yields also moderated by 6 bps to close at 6.87%. Domestic liquidity remained easy supporting low money market rates.

Source: Bloomberg/RBI



# WHAT NEXT?

India's core economy remains on track with markets recording newer highs

- Core sector growth: Output of India's eight key infrastructure industries expanded by 6.1% in July 2024 vs the slowest reading of 4 per cent year-on-year in June 2024.
- GST Collections for August came at Rs 1.75 lac, a 10% growth yoy.
- All the NSE Indices (Nifty, Midcap & Smallcap) had a similar return for the month breaking the long running trend of mid & small cap outperformance over Nifty.
- Nifty IT & Pharma were the key outperforming indices for the month.
- Equity MF Schemes see Rs 370bn of net flows for July with the shift happening towards Sectoral/Thematic funds (nearly Rs18000Crs). Monthly gross SIP continues to inch up. Small & midcap fund flows moderate to Rs3750Crs.

Government spending in Q1 seems muted due to elections and we are seeing pick up in July and this may lead to a good boost to growth going forward. Overall growth for FY25 likely to be in range of 7%-7.2%, despite 6.7% in Q1FY25.

Market moves are a function of fundamentals, liquidity & sentiments. The Indian equity markets are rising on the back of fundamentals (expected economic growth over next 3-5-7 years), liquidity (savings generated with nominal economic growth) and sentiment towards equities as an asset class (a rare combination of some under-invested population as well as some leveraged investors).

For now, the rise in markets has created worries more on valuations front and less on India's core economic fundamentals. On the valuations front, we believe that a few pockets/segments in equity markets have run up ahead of time, there exists few pockets of value for fresh investing.

Sentiments towards equity as an asset class is a global phenomenon with equity markets in many countries trading at or around newer highs. These sentiments remain dependent on global monetary policy actions as witnessed earlier during the month. Worries over Yen appreciation caused a sharp downtick in global equities that was recovered fully as Bank of Japan stepped in to say, **"the central bank would not hike interest rates when markets are unstable".** 

We believe asset allocation could be key for investors in their journey of wealth creation. The allocation is applicable to both equity as an asset class as well as choice of market capitalization within equities. From investors perspective, we believe as an aggregate large cap tends to offer better value and margin of safety as compared to micro caps, small caps & mid-caps. For now, the valuation may favors large caps while sentiments, flows & momentum may favor others.

Investors with near term objectives or low risk appetite, may opt to prefer Equity Hybrid Funds or multi asset allocation funds. Investors with a longer-term horizon may continue to remain invested with fresh equity allocation towards large caps.

SUMMARY

Source: Bloomberg/RBI, Data as on August 31, 2024

# SUMMARIZING OUR THOUGHTS

While the MPC has continued its monetary policy stance in our opinion, the MPC may possibly shift the stance to neutral as we go through the year. It is unlikely that the MPC would move ahead of US Fed in cutting the policy rates.

- The FPI flows in GoI security post the induction of India bonds in the JP Morgan Bond Index continues to be robust.
- Globally interest rates have possibly moved to a benign regime. While the US economy continues to do well, large parts of the global economy predominately China and European economy may possibly show a sluggish growth, thereby creating a lower inflation trajectory globally.
- While China announced a policy push for economy revival, they don't seem to be large enough to put a sustained inflationary pressure on commodity prices.

Our portfolio strategy across our duration-oriented funds run in a similar vein a) Relatively heavy on duration (b) Bias towards Gilts which is gradually shifting towards credits (c) A steepening of the Yield curve.

Source: Bloomberg Data as on August 31, 2024

### Aim to hit the right note

#### Mahindra Manulife Business Cycle Fund

(An open ended equity scheme following business cycles based investing theme)



This product is suitable for investors who are seeking

Long term capital appreciation Investment predominantly in equity & equity related instruments of business cycle based theme

Investor should consult their financial advisers if in doubt about whether the product is suitable for them.



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