

Pranitya Wealth LLP
Market Outlook
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Snapshot for October

In October 2024, FPIs recorded an all-time high outflow of over ₹1.13 lakh crore in equities, reversing September's ₹58,000 crore inflow. Despite this, Nifty corrected by 6.25%, compared to the 23.25% drop in March 2020 (~62000 crores) where outflow from FPIs was around during the COVID-19 outbreak. This limited correction, with broader indices moving similarly, highlights strong domestic support in the market.



Corrections within a bull market are expected and consistently test investor patience and conviction. However, Indian equities, supported by their broad-based holding and fundamental strength, have shown resilience in weathering such fluctuations. With this correction Nifty is still around 24000 which itself was a dream number when we started this new year in Jan 2024. Market should find support at current levels.

Reasons for the Fall

1. FPI money rotating to China – It was very evident that the fall was led by FPIs who moved part of their money to China as it is attractive in terms of valuations.
2. Rising impact cost due to recent regulatory changes.
3. Q2 results were a little disappointing in terms of expectations. Markets had factored higher expectation, so stock prices are reverting to their means.
4. News of consumption slow down has dampened investor sentiment.
5. A delayed monsoon created supply logistics issue leading to price rise and in turn less consumption.
6. Market volatility may persist as there will also be noisy political narratives due to the U.S. elections going ahead. No doubt they will have bearing on the global economy including India.

Geo-political Situation:

We are navigating through significant geopolitical tensions—Ukraine-Russia, Israel-Hamas/Iran, South Korea-North Korea, and China-Taiwan, among others. Signs of a truce between Israel and Hamas/Iran could positively impact countries like India. Already, supply chain logistics are being affected by disruptions near the Red Sea. However, we've seen

minimal economic impact from these conflicts thus far, with oil even reaching a low of USD 71-72 per barrel, despite these tensions among oil-producing countries.

At the same time, nations are increasingly turning inward, focusing more on trade tariffs and restrictions rather than global collaboration.

U.S. Election Outcome

It may have impact on global trade specially when trade tariff was discussed widely in the election campaigns. Amongst emerging markets, analysts believe that Trump's win would have a positive impact on India due to the domestic demand-driven growth model and benefits from lower commodity prices, supply chain shifts, and foreign policy. India-US trades are largely IT services which are usually non- discretionary which means demand may not be affected.

If Harris wins the election, it may leave both the global and U.S. economic frameworks unchanged. The potential for a global "soft-landing," with U.S. growth aligning more closely with global trends, could support stable medium-term price action. However, the effect on equity markets, energy prices, gold, base metals, and the USD is likely to remain neutral.

Macro-economic factors

Inflation:

As of October 2024, India's annual inflation rate rose to 5.49%, up from 3.65% in the previous month. This increase, driven mainly by food prices, places inflation above the Reserve Bank of India's target of 4%. Key contributors include significant price hikes in vegetables and pulses, while fuel prices declined at a slower pace. The RBI remains cautious, with potential risks from food and global factors, suggesting it may delay any interest rate cuts to keep inflation in check for now.

GDP:

The Reserve Bank of India (RBI) has projected that real GDP growth for 2024-25 will be 7% in Q2, 7.4% in Q3 and Q4, and 7.3% in Q1. The RBI has also noted that the share of investment in GDP has reached its highest level since 2012-13. India's GDP growth is projected to remain robust, exceeding 7% over the next 5 to 6 years, as anticipated by both the Reserve Bank of India (RBI) and the government. If this forecast holds true, the Indian stock market, supported by significant earnings growth over the past 14 to 15 years, could emerge as an optimal investment destination for those looking to allocate their funds effectively.

Tax Numbers:

Direct tax-to-GDP ratio increased from 5.55 percent in 2014-15 to 6.64 percent in 2023-24. Tax buoyancy, which measures revenue mobilisation efficiency with respect to GDP growth, increased from 0.86 to 2.12 in the 10-year period. The number of taxpayers increased from 5.70 crore in Assessment Year (AY) 2014-15 to 10.41 crore in 2023-24 AY. India's net direct tax

collection for the fiscal year 2024-25 has seen a significant surge, with an increase of 18.35 per cent to almost 11.26 lakh crores year on year. Overall, the growth in tax collections continues to show positive trends, contributing to the fiscal health of the country. GST collection is on track and likely to pick up in next two quarters.

Private Investment: As of October 2024, private investment in India has shown mixed trends across various sectors:

Private Equity and Venture Capital (PE/VC):

Investment Activity: In the first half of 2024, PE/VC investments reached approximately \$31.5 billion, marking an 8% year-on-year growth and a 30% increase compared to the second half of 2023.

Sector Focus: Key sectors attracting these investments include technology, healthcare, and financial services, reflecting investor confidence in India's growth potential.

Foreign Direct Investment (FDI):

Inflows: FDI inflows have remained steady, with significant investments in sectors such as services, pharmaceuticals, and renewable energy. Major contributing countries include Singapore, the Netherlands, and the USA.

Current Account Deficit:

India's current account deficit (CAD) widened to \$9.7 billion (1.1% of GDP) for Q1 FY 2024-25, primarily due to a merchandise trade deficit of \$65.1 billion driven by strong demand for oil, gold, and non-oil imports. A \$39.7 billion services surplus offered some balance, while stable remittances and service exports are expected to keep CAD manageable despite global economic uncertainties.

Fiscal deficit:

India's fiscal deficit for FY 2023-24 was 5.63% of GDP, better than the 5.8% target, totalling ₹16.53 lakh crore. For FY 2024-25, the government targets a 5.1% fiscal deficit, aiming for 4.5% by FY26. Strong tax collections, RBI dividends, and improved compliance through AI-driven tax administration have supported this fiscal consolidation.

Precious Metals

Investor Sentiment: Rising prices in precious metals indicate a loss of confidence in other asset classes, driving investors toward safe havens like gold and silver.

Economic Factors: Anticipation of another round of quantitative easing (QE) following the U.S. presidential election, often referred to as the "Trump Effect," could further support precious

metal prices. Increased liquidity tends to devalue currencies and boost demand for non-yielding assets.

November Outlook: While a positive trend for gold and silver is expected, short-term volatility may occur, particularly as the election approaches.

Election Impact: The outcome of the upcoming U.S. election is likely to be a significant factor influencing precious metal prices, with increased uncertainty typically leading to higher demand for safe-haven assets.

Interest Rate Expectations: The market has likely priced itself in a quarter-point rate cut by the Fed, suggesting that any deviations from this expectation will be closely watched.

Fixed Income

As of October 2024, the yield on India's 10-year government bond was around 6.81%, showing a slight rise from earlier in the month due to rupee depreciation and US yields remaining firm on account of future Fed Reserve move. The bond yield had ranged between 6.7% and 7.2% over the past year, influenced by global rate environments and domestic fiscal policies. India, RBI feels that there is no need to cut rates as inflation is under control growth is intact.

In the month of October, FPIs who had invested in India's debt market recently withdrew a substantial amount which caused yields to go up. This was backed by the fact that 10 yr yield in US had gone up abruptly due to overhang of US Presidential election and its impact on FOMC decision on rates. RBI will keep a close eye on what is happening in the US, as it is very comfortable currently with lower inflation and higher growth without any rate action. We feel 10yr will eventually go down, making a good case for investment for generating decent returns.

Conclusion

We see this as a time correction where the markets slipped ahead of expectations and faced a reality check. Having said that, we remain optimistic about Indian equities over the long term, but investors should be prepared for near-term volatility driven by current macroeconomic factors and geopolitical tensions. We have consistently reiterated our belief that the period until 2047 will be pivotal for India, and we continue to stand by it.

We have based our view on the very fact that India's nominal GDP is around 11-12% and with the strong banking system the corporate earnings have to grow by 11-12% every year. It is very difficult for GDP growth to collapse in the short term and specially in the Indian context all the parameters have shown no sign of any weakness. Hence Indian equity market can trade slightly above the historical valuations and premium over other markets due to its growth trajectory. At the current juncture it is overvalued in terms of the broader market, and we feel a stock specific approach will help investors to generate superior returns.

Mathematically also Nifty EPS is expected round 1070 and by adding another 15% we reach 1230 for FY 25-26. Ideally in the month of number we start discounting FY25-26 EPS rather than FY 24-25, which means that we are trading at long term historical average of 19.5 PE currently. Any improvement in fundamentals like the fall in oil will help valuation to go up.

Thus, any big re-rating of Nifty is ruled out and one can expect returns in line with growth which is around 15%. Keep in mind that compounding at 15% will double your money in around 5 years. With the help of wealth managers and financial advisors one can generate alpha by tracking sector rotation, timely profit booking, buy on dips, moving from small and mid to large caps, and adopting stock specific approach.

Focus on financials, private banks, PSU Banks, ETFs, manufacturing and consumption themes will work well looking at domestic growth. We especially like top private banks, broking firms, R&T agencies, asset management companies, diagnostics, power generation and distribution and engineering sector as discussed in the past.

The market is expected to stay largely range-bound in the near term, with large-cap stocks likely to attract more attention as the preferred choice for cautious investors (currently they have been corrected by FII selling).

It's also wise to include gold and silver in your portfolio for added security. Patience is important, as the market may slow down while waiting for new developments. A focused approach on specific stocks is advisable since some areas of the market are currently undervalued.

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