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FUND MANAGERS COMMUNICATIONS

Global Market: Worrying concerns have bought some nervousness among investors. Central banks have maintained their stance on a 'higher for longer' interest rate narrative, while keeping rates unchanged. This has led to a cautious sentiment among investors, 10-year US Treasury yields have skyrocketed to a 16-year high, adding another layer of uncertainty. The volatile macroeconomic environment has cast doubts over central bank policies and future risks. Supply constraints have pushed oil prices higher, adding inflationary pressure to the global economy. Global market witnessed profit booking for the second consecutive month. The S&P 500 finished the month of September and the third quarter of the year in the red with 4.5% drop as investors weighed the U.S. economic outlook and the potential for a U.S. government shutdown.
Though major macro data were positive and corrections could be temporary as US continued tightness in labour market & strength in domestic consumption also nudged Fed to revise upwards its GDP projections for CY23 and CY24. CPI estimates for CY23 are also projected to be higher than earlier anticipated. Pick up manufacturing and non-manufacturing PMIs, along with improvement in industrial output, retail sales and policy support by the government (RRR cut), has led to upward revision in various analysts forecasts for China's CY23 GDP growth.

Central Banks: In Sep'23, US Fed and BoE held rates unchanged, while ECB hiked its main policy rate by 25bps to 4%. While Fed's policy statement was more hawkish and signalled one more rate hike in CY23 and fewer rate cuts in CY24, analysts expect BoE to remain on continued pause now. In case of ECB, a lot will depend on the inflation trajectory, which may get impacted by rising international oil prices. On the other hand in Asia, PBOC continues to loosen its monetary policy to support growth, and BoJ is hinting that discussions might be underway to formulate a gradual exit from its ultra-loose policy. RBI MPC maintained a pause and keep the rates unchanged. RBI will keep liquidity tight to keep short-term rate higher and support INR.

Domestic Market: Back at home important event during the month has been inclusion of Indian Government bond in JP Morgan Emerging Market Bond Index. Inclusion is slated to commence on June 28th, 2024, in a staggered manner. From the date of commencement, 1% weight will be added to the index every month for the next 10 months to take the overall weightage to 10% by March'25. India is expected to witness inflow of over USD 20 bn in the Indian bond markets. On the domestic front, while rainfall picked up in September after a long dry spell in August, the monsoon appears to be ending with a deficit of 5%. High frequency data points such as PMI, cement consumption and steel consumption pointed towards improvement in economic activity. Nifty ended September with 2% gain. Broader market also seen momentum continued as Midcap 100 and small cap100 index gained 4% & 4.6%. Sectorial Indices also saw positive momentum as PSU bank index ended with strong 19% gain. Auto index gained 3.4% whereas IT, metal and Pharma were up by more than 2% each.

Fund Flow: Firming crude oil prices and rising bond yield has led to negative sentiment among the FIIs leading to recent net sell numbers in the equity markets during the month. After six months of robust FII inflows totalling USD 23bn since Mar'23, the Indian equity market experienced a slight reversal with outflows of USD 1.9bn in September 2023. However, DIIs have continued to remain net buyers.

Consumer price Inflation (CPI): India's CPI inflation for Aug'23 registered a better-than-expected decline of 0.61% to 6.83% in Aug'23, from a 15-month high of 7.44% in Jul, As expected, food inflation eased to 9.2% in Aug compared to a 10.6% surge in Jul. Both core and non-core also decelerated. Still Inflation on bit higher side above Reserve Bank's tolerance band of 2-6% for second straight month.

PMI: India Manufacturing Purchasing Managers' Index (PMI) fell to 57.5 in September, down from 58.6 in August. Manufacturing activities in India fell to a five-month low in September as new orders rose at a softer pace. Nevertheless, both demand and output saw significant upticks, and firms also noted gains in new business from clients across Asia, Europe, North America, and the Middle East.

GST Collection: Central and state governments collected ₹1.62 trillion in goods and services tax (GST) in September, marking the fourth highest monthly collection since the inception of the indirect tax regime and a 10% annual growth from the year-ago period. After the settlement of taxes on inter-state sales, the central government received ₹63,555 crore while states received ₹65,235 crore in September.

Monthly Auto Sales Data: In Sep'23 2W wholesales are likely to have grown slightly y/y due to a later festival period and a high base for Bajaj. Retails have grown a strong ~20% y/y, partly due to the low base (shraddh in Sep last year vs Oct this year). Similarly, PV volumes are likely to have grown only slightly. Retails have seen a better trend with good festival demand and greater supplies. CVs are likely to have grown in mid-single digits, bolstered by healthy freight/infra activity. Tractors are likely to have fallen by double digits due to subdued demand and the late festivals.

Outlook: With strong purchasing Manufacturing and Service indices, Strong labour markets and GDP growing robustly, Indian Equity market is in healthy position. Healthy macro domestic numbers provide stability and confidence to investors. However rising crude oil prices in past two months, Rising Bond Yield and Moderate rainfall has bought some concerns for short term in market, this could be temporary effect. Indian Equity valuation is reasonable based on forward multiple. However would require earnings supports to surpass the psychological mark of 20000 on NIFTY. We believe there could be continuation of consoliadation for couple of month and as the festive season is near strong demand should follow which will help the earnings to improve further. It's time to keep accumulating in the market as the consolidation period seems to getting ended by this December. We believe as festive season is near strong demand should follow it's time to get aggressive in the market as the consolidation period seems to getting ended. The only risk to the view, further escalation in geopolitical issues and any disturbance related to political environment with respect to election due next year.

Regards,
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