FINGINE Report

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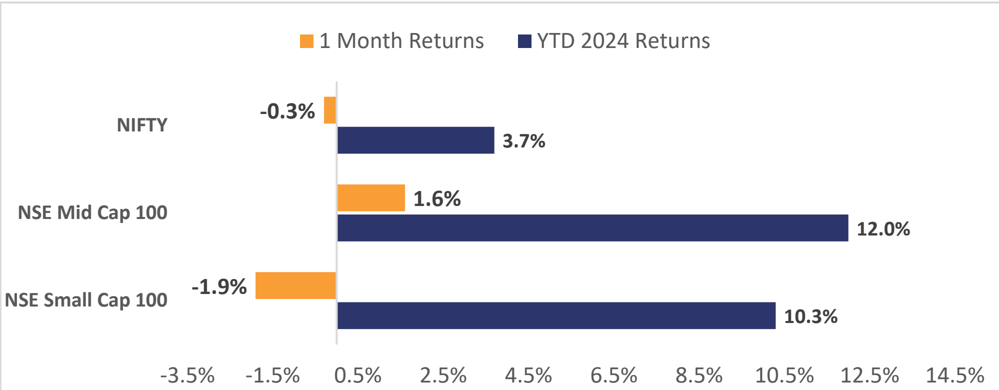
May 2024 was a period of heightened volatility, the month eventually ended with marginal variances compared to the previous month. On the sectoral front, capital goods, industrials and power delivered strong gains, while information technology remained negative based on the continuing weak demand environment. Global markets initially saw gains, which were largely diluted by the end of the month. Here, technology sectors, represented by NASDAQ performed well. Benchmark indices in Europe and Asia ended positive. Commodities corrected after rallying over the last few months while precious metals maintained their strength. Foreign portfolio investors continued to be sellers, with net equity divestment of about $ 3 billion during the month, while domestic equity inflows were strong and driven by increased retail participation. Mutual funds were once again net buyers in Indian equity markets to the extent of almost Rs. 48,000 crore (almost $ 6 billion), backed by continuing strong SIP inflows.



The Q4 results season saw positive outcomes in capital goods, auto/auto ancillaries, infrastructure, pharma, BFSI and a wide section of mid/small cap companies. Technology, consumer, metals and energy sectors were the weaker spots. Going forward, consumer sector demand is expected to improve, based on expectations of a normal monsoon. Currently, the Bloomberg consensus EPS estimate for the Nifty 50 index indicates a rise from 924 in FY24 to 1,093 in FY25, a gain of 18% on the back of last year's 13% increase. Thus, the corporate earnings momentum can be expected to sustain.

The general election process in an expectedly heated political environment in the middle of an unexpectedly hot summer season threw up a surprisingly weaker performance by the incumbent alliance. While the recent economic data – 8.2% GDP growth in FY24, the country's encouraging fiscal position, substantial dividend paid by the Reserve Bank, continuing low inflation and benign interest rates – is mostly positive, the government now faces a new reality of coalition-driven decision-making in its latest five-year term. Whereas the markets are concerned, there was a sharp sell-off after the election results became more evident. Subsequently, there has been an immediate bounce back and the country's major indices are back to all-time high levels.

Going forward, strong monsoon indications should drive rural growth, keep inflation at lower levels and create positive conditions for the revival of overall demand. Market watchers currently believe that while valuations are at the higher end of spectrum at present, with some specific segments such as renewable energy and mid/small cap stocks running ahead of earnings growth. While global economic data has been mixed, many of the significant markets have moved to all-time highs last month. Based on this, we may see a period of widespread consolidation in the coming months.

Irrespective of shorter-term variances in the market's mood and perspectives, we believe investors need to maintain a steadfast focus on building diversified portfolios that allow risk-hedged participation in the ongoing prospects of the Indian economy. From that perspective, we see it prudent to re-evaluating the portfolio periodically to remain aligned with personal objectives and upcoming milestones.

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