FINGINE Report

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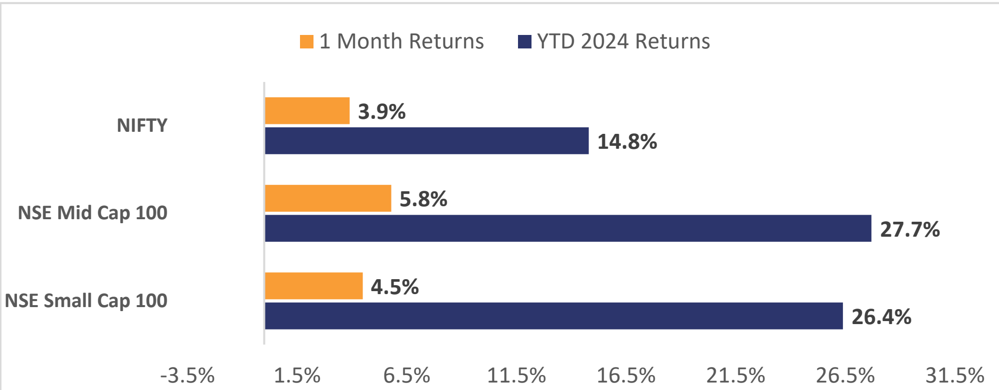
The previous month was another period of exceptionally positive traction in Indian equities. Over the last two months, indices representing stocks across every segment of the Indian markets have gained by value in the range of 10-15%. This trend has been supported by sustained buying by mutual funds and resumption of buying by foreign institutions. Incidentally, the value of net buying by each of domestic and foreign funds has been to the tune of Rs. 50,000 crore over June and July. Stock markets held up well despite the initial view that policy announcements made while presenting the union budget for 2024-25 may not be supportive of the market sentiment, while higher taxes on capital gains may have a negative impact.



Ongoing financial results announcements for the first quarter of FY25 have indicated positive performance by automobiles, manufacturing and technology sectors. Strong results in consumer durables and recovery in consumer staples point towards improving consumption demand, which may convert to a secular trend going forward based on pro-active measures from the government to promote spending. However, BFSI had a mixed set of numbers and there is ongoing concern about margins based on reducing visibility from lower cost funds. Overall, on the back of increasing market valuations, there have not been any significant upgrades.

One near term positive is that the monsoons seem to be on track and this may address any worries of high food inflation which has kept the RBI from reversing its stance of maintaining a tight monetary policy. Also, the union budget discourse has clearly indicated the government's intent to maintain a clear path to fiscal deficit rationalization, which is also positive from the perspective of interest rates. We have already seen the 10-year bond yield move down to around 7%, which is the lowest level over the last two years. The current call for rate cuts is something common to several leading economies and reducing rates/bond yields generally tend to make equities more attractive to investors.

Currently, the broad markets as represented by the Nifty 50 trades at 22.5 times FY24 earnings and 20 times FY25 earnings. While on an absolute basis, the index has attempted to scale the key 25,000 milestone, when viewed in perspective of the underlying earnings, the valuation multiple remains well within the historical range. As Indian companies benefit from progressively developing ecosystems in multiple industries/sectors over the next several years, the earnings momentum is likely to sustain. Even so, the overall expectation is that the recent momentum in the broader markets, near to medium term may see some consolidation as earnings catch up. Meanwhile, many investors in India and globally are seen to be increasing allocation to cash, awaiting opportunities to enter once again at the sign of any correction.

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