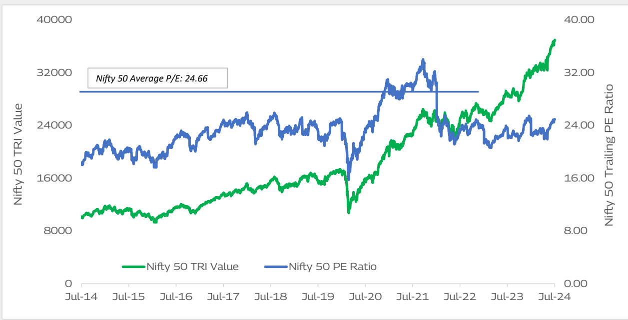
SAMVAAD
Monthly Newsletter
August 2024

mahindra Manulife MUTUAL FUND

RIDING THE MARKET WAVE

In the past few months, the markets have been breaking their own records of all-time high. Despite a major downturn in the first couple of quarters of calendar year 2020, due to the coronavirus pandemic, the markets made a comeback, especially as the economy re-opened after a punishing lockdown that initially looked like it would have an adverse impact on valuations for a long time .



Source: MFI/Bloomberg; Data as on 31st July 2024
Past performance may or may not be sustained in future.

As can be seen from the above graph, Rs. 10,000 invested in Nifty 50 TRI in July 2019 would have turned into Rs. 23,784 in July 2024, a CAGR growth of ~19% every year. One concern that investors always have about the markets is that are they overvalued?

As the market valuations of stocks continue to grow unbounded, question that always springs to the mindls the growth in valuation justified by the growth in earnings seen i.e., is the investor overpaying for relatively lower earnings position. Also, whatever the current market valuations, how do they compare with the historical experience of the markets.

As shown in the graph above, the markets saw a swift run-up in valuations after the initial fall during the beginning of the covid-year in March-2020, reaching highs of 34x of earnings in October 2021. In this period, while earnings fell or remained stagnant, valuations increased relatively as the markets priced in the earnings growth that would come as the markets re-opened.

Since then, PE ratio has declined to the current levels, which are very close to the 5-year average. This could mean that as the economy recovered from Covid, as earnings growth has kept up with price growth of equity securities, resulting in a flat trajectory of the valuations data.

This shows that while the markets have provided double-digit CAGR growth in the past 5 years, the markets are not overvalued. As earnings have matched the pace of the market prices of equities, the current markets still provide a healthy entry point .Investors are afraid of investing that would result in overpaying for good investments.
It shall be remembered that these valuation levels are nor uniform across stocks and there are pockets of stocks that are overvalued, undervalued and fairly valued , all providing a different risk-reward prospect. A diversified actively managed portfolio provided by a mutual fund could be a better way to navigate the markets.

MOMENT OF THE MONTH

Nifty @ 25000: Nifty, Mid & Small-cap indices rallied to newer highs in July, the fastest such move for the last 1000 points.

Budget FY25:

- Rationalization of capital gains taxes across asset class to remove any tax arbitrage led investment decisions.
- Fiscal consolidation on track. Fiscal deficit 4.9% with realistic tax revenue targets. Supportive for Sovereign rating upgrade as well as accommodative monetary policy.
- Maintains capex spend same as interim budget, Manufacturing led growth supported by Production Linked Incentive (PLI), infrastructure creation & Green energy. Incremental focus on job creation & skill development, rural & urban housing.
- Higher Securities Transaction Tax (STT) on Derivatives.

RBI as well as US Fed maintained status quo at their policy meets. US Federal Reserve Chair during his post Federal Open Market Committee conference has signalled a rate cut for September if data evolves as he expects.

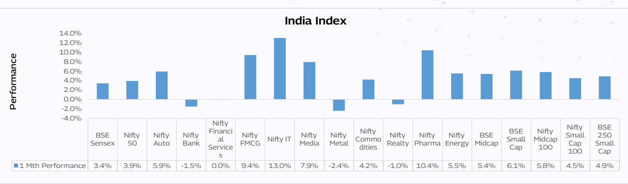
Source: Bloomberg/Internal Research

WHO MOVED MARKETS

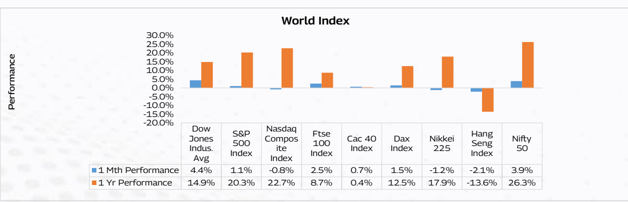
FPIs continued to be the buyers for the month of July as well with net flows 3.7 bn$.

Source: NSDL/Internal Research

MOVERS AND SHAKERS



Source: Bloomberg; Data as on July 31, 2024; Performance - Absolute returns



Source: Bloomberg; Data as on July 31, 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
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
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
Nifty Small Cap	-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

Note - Yellow highlighted cells represent highest returns amongst the 3 indices provided above, for the respective quarter end periods.
Source: Bloomberg Data as on July 31, 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
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
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
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
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
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
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
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
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
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
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
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

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.

Source: Bloomberg. Returns have been calculated on Absolute basis for respective quarter end periods beginning June 2022 until July 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.***

MARKET CAPITALIZATION - PERFORMANCE SNAPSHOT

Source: ICRA. Data period: 1st January 2006 till 31st July 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

We present a matrix detailing some movement in some key market (Domestic and global) and key event:

Parameters	30-Jun-2024	31-May-2024	30-Jun-2023
RBI Repo Rate %	6.5	6.5	6.5
5Y AAA PSU %	7.6	7.64	7.62
1 year CD %	7.57	7.62	7.35
10Y Gsec %	6.93	7.01	7.18
CPI (%)	5.08	4.75	4.81
IIP (YoY) %	5.9	4.98	5.22
US 10Y %	4.03	4.4	3.96
Dollar Rupee	83.73	83.39	82.25

Source: Bloomberg; Data as on July 31, 2024

THE FIXED INCOME GLANCE

August was a benign fixed income market globally. Leading the pack were the Swiss National Bank and the Bank of Canada with its second rate cut in 2024 by 25 basis points. As the US Fed Reserve Chair Powell also hinted at a possible rate cut in September, globally fixed income markets were buoyant last month.

Domestically as the Budget guided for a lower Fiscal Deficit (4.90%) and a lower borrowing program, the benchmark 10-year Gilt rallied, and it closed around 6.93%. The gilt curve steepened as the short end of the gilt curve rallied close to 15 bps as RBI raised the liquidity requirements of banks for certain types of liabilities. Money market rates too moved down by around 5 bps. FPIs continued their investment in debt with close to USD 2 billion invested in the domestic debt markets.
Retail inflation was printed at 5.08% with Vegetable and Pulses inflation continue to remain uncomfortably high at 29 % and 16 % respectively.

Source: Bloomberg/Internal Research

WHAT NEXT?

India's core economy and markets are showing diverse numbers.

- Core sector growth: Output of India's eight key infrastructure industries expanded by 4 per cent year-on-year in June, the slowest growth in 20 months.
- Q1 results so far showing 6-7% earnings growth with BFSI sector leading at double digit growth. However, ex BFSI the earnings growth is negative. The biggest drags on earnings this quarter so far is Cement, Metals and Oil & Gas companies.
- Strong tax collections for Q1FY25: Centre's gross tax revenue (GTR) is 23.7% up year-on-year with corporate tax collections up 26% year-on-year and Personal Income Tax collections up 50% year-on-year.
- Capex spending by the Centre and central public sector enterprises (CPSEs) declined by 35% and 39% respectively in Q1FY25 leading to fiscal deficit at barely 8% of FY25BE.

Going ahead, as government normalizes on it spends, room to catch up on capex would ensure a good boost to GDP growth going forward.

On a longer-term basis, the equity markets continue to rise on the back of fresh flows as well as positive sentiments associated with India's economic growth over next 3-5-7 years. We believe that economic growth trajectory remaining on track, quite a few pockets/segments of equity markets have run up ahead of time. Partly a case of investors accepting high valuations in lieu of growth and partly the high sentiments & momentum accompanied by leveraged participation.

Leverage in a way creates additional demand for equities. The Regulator has released consultative paper with an eye to tighten the regulations surrounding derivative based trading. These involve increasing minimum contract value, reducing the strikes available for options, raise margins, surveillance for intraday limits, etc. We believe these measures when implemented can raise the capital and liquidity requirements for derivatives traders and would help markets achieve an improved mix for investors vis a vis traders & speculator.

We believe asset allocation remains 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 offers better value and margin of safety as compared to micro caps, small caps & mid-caps. For now, the valuation favors large caps while sentiments, flows & momentum favor others. We attach a market map reflecting changing weights of various market capitalizations since December 2020, capturing the growth in Indian markets.

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

Source: Bloomberg, Data as on July 31, 2024

SUMMARIZING OUR THOUGHTS

- The Budget outlined the Government's commitment of fiscal rectitude and forms a bulwark for the domestic debt markets.
- The Monetary Policy Committee (MPC) meets this month and it may 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.
- What will also be interesting would be to track the FPI flows in Government of India security post the induction of India bonds in the JP Morgan Bond Index.
- 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 large enough to put a sustained inflationary pressure on commodity prices.

The 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 July 31, 2024

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