Elections over: BUDGET NEXT STOP

The World's largest democracy concluded the election process. As the new National Democratic Alliance (NDA) government takes oath of office, the financial market aim to looks forward to a stable political regime. The Budget may be the next stop for the markets to seek a clear direction.

EQUITY MARKET OUTLOOK

MOMENT OF THE MONTH:

- Indian economy grew at 8.2% in FY2024, a pleasant surprise over the estimates made at beginning of the year. The Q4FY24 GDP growth surprised on the upside at 7.8%, even as Gross Value Added (GVA) growth remained relatively muted at 6.3%. This makes a case for revision in FY25 growth estimates to around 7% despite the headwinds on global growth and higher rates. Above normal monsoon and some improvement in rural demand may add to the growth rates.
- The growth has been led by investments (Gross Fixed Capital Formation) while private consumption growth remained muted. The Nominal GDP growth in FY2024 was at 9.6% (FY2023: 14.2%).
- Macro Indicators: Central Government's fiscal deficit at 5.6% for FY2024, on track for fiscal consolidation. RBI's higher surplus transfer allows resources to continue with the capex thrust and/or some rural economy spending.
- **Goods and Service Tax (GST):** Gross GST Collections for May 2024 came at ₹1.73 lakh crore, 10% growth y-o-y, driven by increased revenues from domestic transactions.
- S&P Global Ratings revised its outlook for the Indian economy to 'positive' from 'stable.'
- **Corporate Results: Indian corporates ended FY2024 result season with a healthy growth in Q4FY24. The Q4FY24** corporate earnings saw the BFSI and Automobile sectors driving the overall performance. The Healthcare and Capital Goods sectors reported healthy earnings growth, supporting the overall earnings. The Q4 results indicate that margin expansion led growth in earnings has broadly peaked and going ahead, revenue growth is needed for earnings going forward.
- **Markets New High:** Nifty, Mid & Small-cap indices rallied to new highs in May.

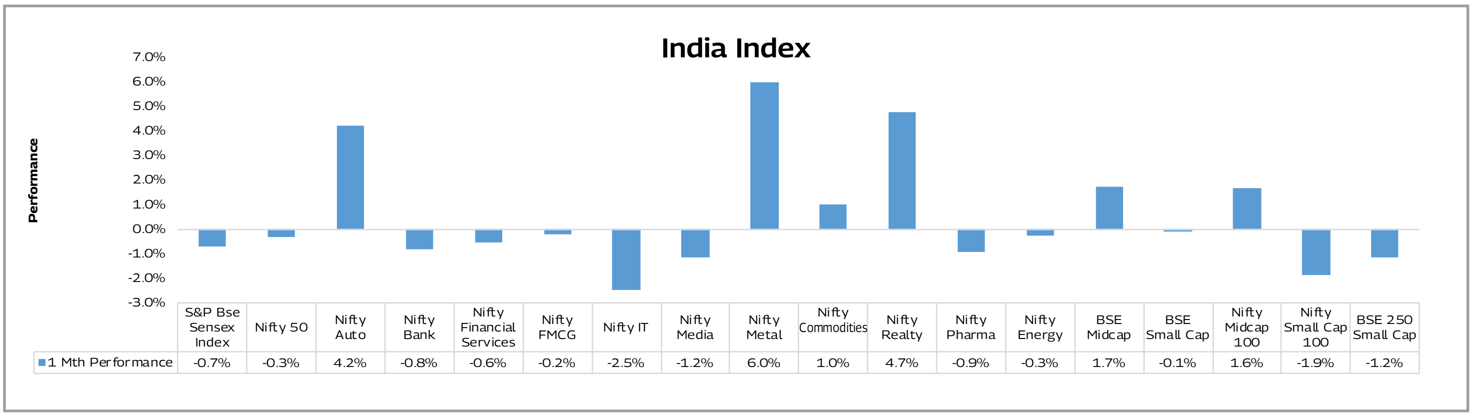
Source: *RBI/Bloomberg/S&P Global*

WHO MOVED MARKETS

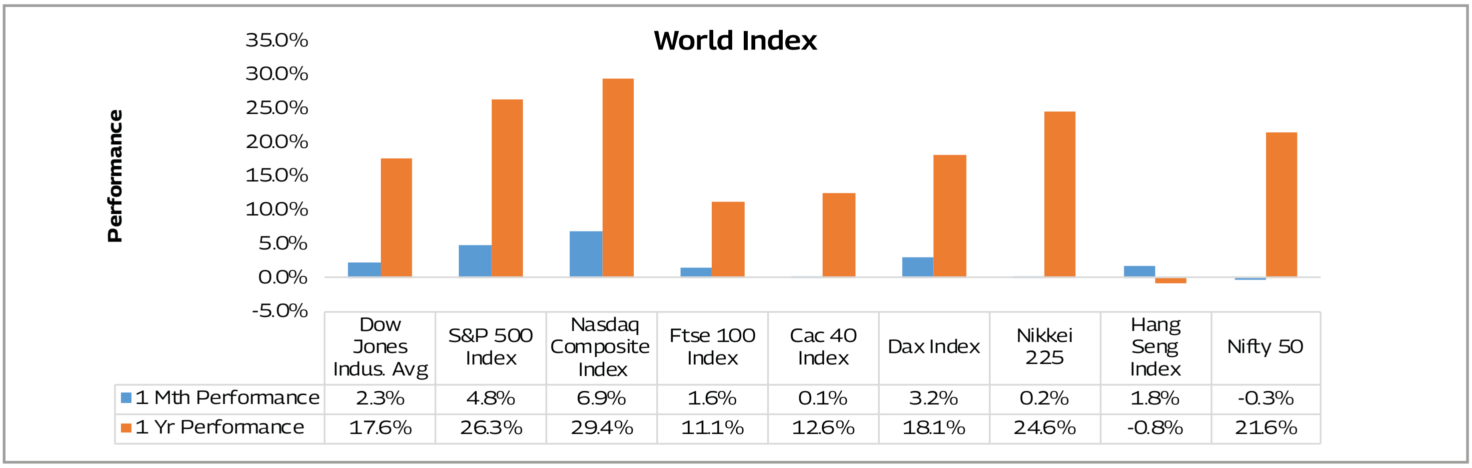
- Foreign Portfolio Investor(s), remained net sellers for the month. They have sold pprox.. 1.1bn$ in cash market in April. DIIs have more than matched the sell flows for the month with a cash buy of 5.3bn$.
- Metals, Power, Capital goods & Realty were the best performing sectors for the month while IT, Healthcare and Oil & Gas were losers.
- Global market connects: Taiwan, US (S&P 500) and Germany (+3.2%) were the major gainers.
- US Fed maintained status quo on the federal funds rate at 5.25%-5.5%.

Source: *RBI, Date May 31, 2024.*

MOVERS & SHAKERS



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



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

PERFORMANCE SNAPSHOT OF SECTORAL INDICES - QUARTER ON QUARTER

	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	May-24
Nifty 50	-29.3	19.8	9.2	24.3	5.1	7	12.1	-1.5	0.6	-9.6	8.3	5.9	-4.1	10.5	2.3	10.7	2.7	0.9
Nifty Midcap 100	-31.6	25.6	15.5	22.7	13.7	13.8	12.7	0.2	-2.5	-10.9	15.9	2.7	-4.7	19	13.4	13.9	4.1	7.6
Nifty Small Cap 100	-38.4	28.4	26.2	21.7	14.5	20	11.9	3.7	-7.6	-19.1	11.8	3.1	-7.6	20.5	17.6	18.8	0.8	9.3

***Note -** Yellow highlighted cells represent highest returns amongst the 3 indices provided above, for the respective quarter end periods.*

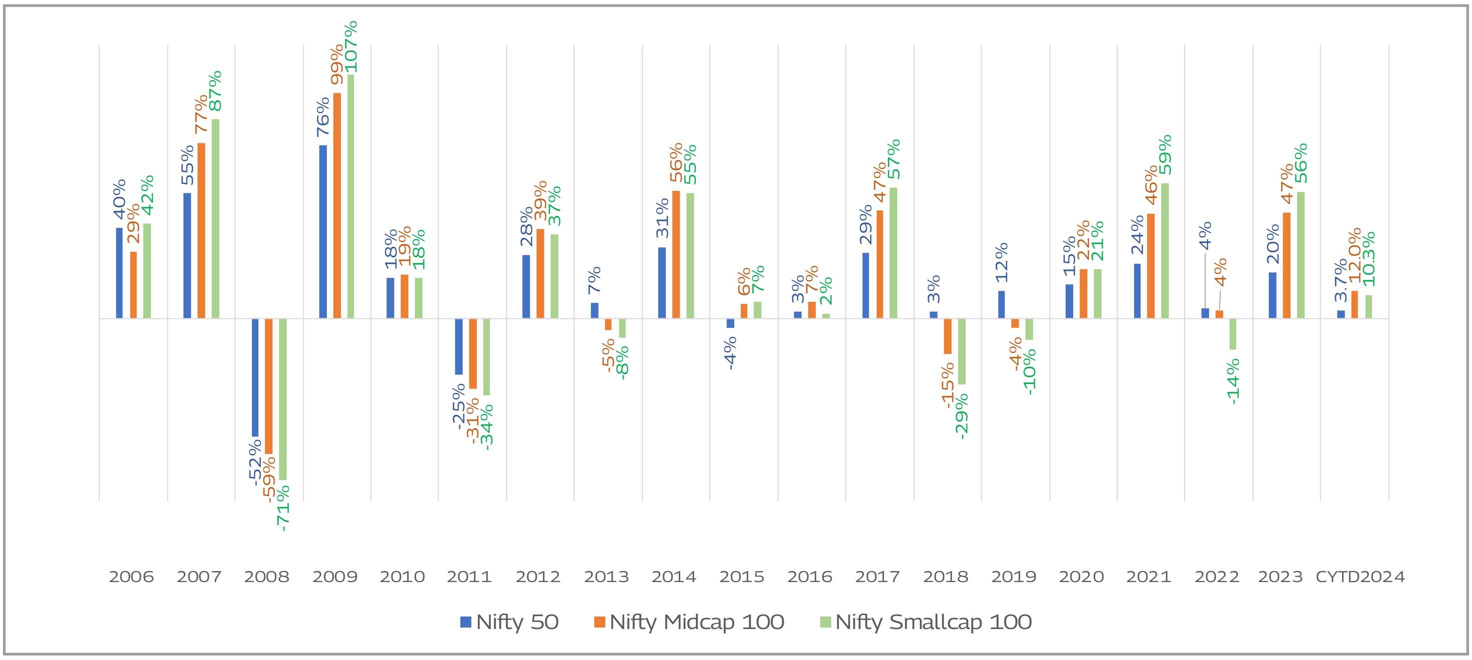
***Source:** Bloomberg Data as on May 31, 2024*

	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	May-24
Nifty Auto	-42.6	42	17.7	16.3	7.3	7.5	0	3.2	-3.5	10.9	8.5	-0.7	-2.9	23.7	6.8	15	15	9.3
Nifty Bank	-40.5	11.6	0.4	45.7	6.5	4.4	7.6	-5.2	2.5	-8.1	15.6	11.3	-5.5	10.2	-0.4	8.3	-2.4	3.9
Nifty Fin Services	-36	13.4	0.6	43.2	3.3	4.6	11.3	-5.3	-1.1	-9.8	13.1	8.4	-4.9	11.1	-1.2	8.5	-2.3	3.5
Nifty FMCG	-9.3	10	-0.7	14.5	2.2	3.3	12	-7	-3.4	3.8	17.9	-0.5	3.9	13.7	-1.1	10.4	-5.3	0.3
Nifty IT	-18.5	15.6	35.2	21.6	6.6	12.8	20.1	10.5	-6.2	-23.3	-3.1	6.1	0.3	3	7.5	11.7	-1.7	-7.2
Nifty Media	-42.3	29.2	15.2	6.5	-6.3	16.3	19	3.8	7.2	-20.3	8.7	-3.4	-14.7	2.6	30.1	5.3	-24.8	4.2
Nifty Metal	-43.4	25.6	12.6	45.1	22.2	31.1	7.6	-1.6	16.3	-27.4	23.8	16.6	-18.2	12.9	10.1	16.6	3.5	17.8
Nifty Commodities	-33.1	24.6	8.8	22.2	17.7	14.9	10.9	-2.1	7.4	-16.2	10.8	6.9	-6.6	8.6	7.5	18.9	8	6.6
Nifty Realty	-41.2	15.5	4.6	48.1	6.5	2.9	49.4	-5.8	-4.3	-16.9	10	1.8	-10.3	34.2	10.7	36	15	13.2
Nifty Pharma	-10.7	39.1	17.9	9.7	-5	16.6	1.1	-1.7	-4.5	-10.5	6.7	-2.9	-4.6	14.6	12	9.1	12.9	-1.1
Nifty Energy	-30.1	29.4	4.4	12.6	7.5	9	15.3	-1	14.1	-2.8	1.9	1.1	-11.8	8.2	10.6	22.5	16.6	3.2

***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 May 2022 until May 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 May 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	31-May-2024	30-Apr-2024	31-May-2023
RBI Repo Rate %	6.5	6.5	6.5
5Y AAA PSU %	7.66	7.74	7.45
1 year CD %	7.62	7.54	7.34
10Y Gsec %	6.98	7.19	6.99
CPI (%)	4.83	4.85	4.7
IIP (YoY) %	4.94	5.67	1.14
US 10Y %	4.59	4.68	3.64
Dollar Rupee	83.47	83.44	82.73

Source: *Bloomberg; Data as on May 31, 2024*

FIXED INCOME IN A GLANCE

It was not an election outcome that the markets were prepared for.

The month of May had been a good month for the debt markets. The benchmark 10-year yield fell by about 20 basis points through the month to close marginally below 7%. The softening yields was a result of multiple tail winds: A windfall dividends by the RBI for the Government of India, a positive outlook by S&P on Sovereign credit, fall in US treasury yield and a stable inflation. The banking liquidity was marginally in deficit through the month due to reduced Government spending resulting in marginally higher short-term rates.

However, with the change in election outcome from the market expectation, yields sold off by around 10 bps and the rupee also weakened marginally. The worry on the street was predominantly if the new coalition government would stick to the fiscal consolidation glide path laid down in the previous and interim budget.

Source: *RBI, Date May 31, 2024*

WHAT NEXT?

Post the election verdict, we believe markets would be driven by clarity over the economic agenda of the new government. The earliest indicator would be from the 1st budget of the new government that may lay down the 5-year road map. Indian financial markets would look for any changes in the taxation.

Earnings wise, consensus estimates for FY2025 are for 12-14% growth in NIFTY earnings. Indian corporates have reported very good earnings in the past 3-4 quarters, led by margin expansion and now the incremental earnings growth needs volume/revenue led growth.

FY2024 Nifty EPS estimate is stable at Rs 980 growing at 21% yoy. FY25 EPS estimate is Rs 1132 a growth of 16% yoy. Q4 result reporting season has begun, and the estimates build in 6% EPS growth mostly led by double digit growth from domestic cyclicals Auto & Financials and muted numbers from metals & oil & gas. So far 28 of the 50 companies of Nifty have reported with a sales/EBITDA/PAT growth of 15%/11% and 12.7% respectively which keeps the momentum strong for Nifty earnings.

The prospects for India remain for a capex cycle led economy, as manufacturing activities is one of the aim for policy makers via Product Linked Incentives ('PLI') & Atmanirbhar Bharat initiatives. Looking at the slowdown on personal consumption in FY24, some pick up may be required to support higher growth. While the K shaped recovery post covid has helped the premium end consumption to prosper, the consumption by mass & weaker economic section has been impacted. Some incremental resource allocation from the budget or a cut in GST rates on few products of mass consumption may help spur the growth.

We maintain that Indian economy and markets may continue to remain good for long term investors with valuations at times interchanging between Green, Amber & Red for fresh investments. As we know, Asset allocation (equities vs debt vs other asset classes like gold, silver etc) aims to drive a significant portion of wealth creation and within the equity allocation, choice between Lumpsum (favourable valuation) & SIP (discipline) may help. Post the stupendous rally in Indian markets, we believe SIPs may be better for now and its time to focus on asset allocation. Just a perspective, Indian equities have delivered as under:

We have been cautious about the trend of "investing via leveraging" in Indian markets. This has kept on creating sector rotations at shorter frequencies as well as extreme volatilities that were seen on 3rd and 4th June. Market moves for now are dominated more by excesses of derivative traders. The regulatory glare on this is evident as Finance Minister as well as SEBI Chief have been vocal about it in recent past. Some regulatory action on this front may be expected which would be good for investors as long-term investing could be back over extreme short term leveraged trading (Derivatives).

SUMMARISING OUR THOUGHTS

With a coalition government possibly at the centre, its time to cast a fresh glance and rethink what the possible future may look.

- We think the new Government may continue with the Fiscal consolidation path. While the fiscal deficit (absolute borrowing) may remain the same ; there remains a risk on the quality of fiscal deficit vis a vis the mix between capital and revenue expenditure
- The Monetary policy Committee (MPC) of RBI meets in the first week of June. The MPC is expected to keep all the rates and the stance unchanged. The MPC had projected average inflation at around 4.5% and GDP growth at 7% for Fiscal 2025 in their April policy and would retain those numbers. While the MPC would possibly wait for the Budget presented by of the New Government, in our opinion, the MPC may possibly 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 GOI security post the induction of India bonds in the JP Morgan Bond Index in June
- Globally interest rates have looked at askance at the US interest rates. The narrative continues to be in a flux with uncertainty surrounding the inflation trajectory. However, despite the low unemployment numbers and an uncomfortable inflation, the data on credit card and auto loan delinquencies present an interesting dichotomy. We also believe, with China and European economy may possibly show a sluggish growth, thereby creating a lower inflation trajectory globally.
- The rise in commodity prices along with the dollar index is currently a challenge to a softer regime bias. The US Fed, while keeping policy rates unchanged, appears to be uncertain on the timing of the rate cut, with markets now restricting the number of rate cuts in US to just two.
- 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
- Our 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.
- We also believe that as credit spreads have increased and now merit a gradual look into the portfolio.

Source: *Bloomberg, Data as on May 31, 2024.*