SAMVAAD
Monthly Newsletter
October 2024

mahindra Manulife MUTUAL FUND

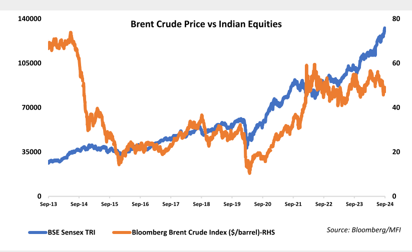
OIL PRICE SHOCK? DON'T BE SHOCKED.

Oil Prices have recently seen an uptick, with the price of the Bloomberg Brent Crude Index rising by ~6% between 30th September and 9th October 2024. This increase has largely been driven by the uncertainties created by political instability in the Middle East which remains a major producer of crude oil and natural gas.

Source: Bloomberg

The prices of crude oil and natural gas can have a major impact on the price of feedstock and fuel across a wide variety of sectors from the closely related Oil & Gas, automobile, aviation, and power sectors to less obvious such as plastics and rubber which derive their raw materials from petrochemicals.

While the upward movement of oil prices can rattle the markets, the long-term impact is much more ambiguous as can be seen below



As can be seen, while crude oil prices fell in from 2013-15 due to the shale boom and then remained range-bound till ~2020, the equity indices continued to grow. When oil prices started to rise again on back of renewed demand after the pandemic, the equity indices grew faster, and even in recent months of comparatively elevated prices, equity indices have gone from strength to strength.

This may be because while higher oil prices may impact certain sectors such as aviation (higher fuel prices may cut into margins) others such as upstream oil firms that explore and drill for crude oil could benefit. In the near term though markets may have their own volatility as some concern on India's Current Account Deficit (CAD) and Balance of Payments (BoP) might surface as well as some adjustment to earnings of oil-related industries may play out. Eventually the CAD and BoP concern gets played out via currency depreciation and that seems to create its own winners in terms of incremental profit pool participation amongst sectors and stocks.

What most firms may want is not higher or lower prices, but stable prices as have been seen in the recent 7-8 quarters because it tends to allow businesses to forecast demand and prices of sales and acquisition more accurately.

What may an investor do in case of a rapid increase in oil prices? In one word,nothing. Oil prices have their own dynamic, one that is often removed from the dynamics of the equity markets. As the chart above shows, staying invested despite the near-term ups and downs of both the equity markets and oil prices might be the best way of long-term wealth creation.

MOMENT OF THE MONTH

- **The Rush for Easing: USA, China & Japan, Top 3 economies announce policy measures towards easing, either a rate cut or infusion of liquidity or no more rate hike. US** Federal Reserve initiated the rate cutting cycle with a hefty 50bps cut. While rate cut by USA was reasonably expected, China & Japan were a surprise. China announced a series of measures to boost growth by cutting rate as well as liquidity infusion. Japan on the other hand had a change of leadership with the new Prime Minister expressing his support for no more rate hikes.
- Going ahead, US Fed has guided for another 50bps cut by year end. US data continue to be mixed with GDP data clocking higher at 3% Quarter-on-Quarter but other data showing softness. However, inflation continues to remain within Fed limits.
- Israel's steps its action on Hezbollah group in Lebanon. Any escalation in the conflict creates a potential rise in oil prices as well as geopolitical risk premium.
- **Earnings Q2FY25:** Q2 results, and commentary of festive sales maybe one of the key things to watch out for this result season as the market balances between the consumption and investment sectors.

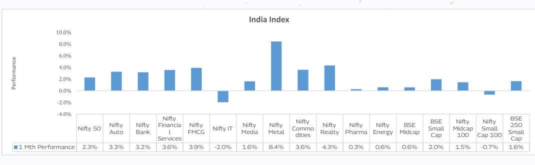
Source: Bloomberg

WHO MOVED MARKETS

Foreign Portfolio Investors (FPI) has become a material buyer of India in September with net inflows at $5.4 billion.

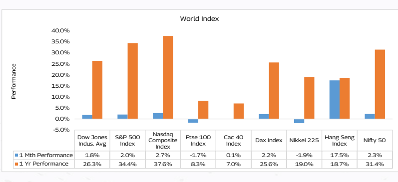
Source: NSDL/Internal Research

MOVERS AND SHAKERS



	Nifty 50	Nifty Auto	Nifty Bank	Nifty Financial Services	Nifty FMCG	Nifty IT	Nifty Media	Nifty Metal	Nifty Commodities	Nifty Realty	Nifty Pharma	Nifty Energy	BSE Midcap	BSE Small Cap	Nifty Midcap 100	Nifty Small Cap 100	BSE 250 Small Cap
1 Mth Performance	2.3%	3.3%	3.2%	3.6%	3.9%	-2.0%	1.6%	8.4%	3.6%	4.3%	0.3%	0.6%	0.6%	2.0%	1.5%	-0.7%	1.6%

Source: Bloomberg; Data as on September 30, 2024; Performance - Absolute returns. **Past performance may or may not be sustained in future.**



	Dow Jones Indus. Avg	S&P 500 Index	Nasdaq Composite Index	Ftse 100 Index	Cac 40 Index	Dax Index	Nikkei 225	Hang Seng Index	Nifty 50
1 Mth Performance	1.8%	2.0%	2.7%	-1.7%	0.1%	2.2%	-1.9%	17.5%	2.3%
1 Yr Performance	26.3%	34.4%	37.6%	8.3%	7.0%	25.6%	19.0%	18.7%	31.4%

Source: Bloomberg; Data as on September 30, 2024; Performance - Absolute returns. **Past performance may or may not be sustained in future.**

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	Sep-24
Nifty 50	-29.3	19.8	9.2	24.3	5.1	7.0	12.1	-1.5	0.6	-9.6	3.9	5.9	-4.1	10.5	2.3	10.7	2.7	7.5	7.5
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	19.0	13.4	13.9	4.1	15.9	7.9
Nifty Small Cap 100	-38.4	28.4	26.2	21.7	14.5	20.0	11.9	3.7	-7.6	-19.1	4.5	3.1	-7.6	20.5	17.6	18.8	0.8	20.0	4.7

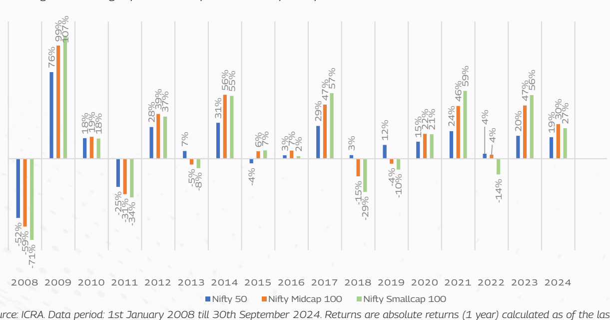
Note - YYellow highlighted cells represent highest returns amongst the 3 indices provided above, for the respective quarter end periods. Performance - Absolute returns. **Past performance may or may not be sustained in future.**

Bloomberg Data as on September 30, 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	Sep-24
Nifty Auto	-42.6	42.0	17.7	16.3	7.3	7.5	0.0	3.2	-3.5	10.9	5.9	-0.7	-2.9	23.7	6.8	15.0	15.0	17.7	7.2
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	1.2
Nifty Fin Services	-36.0	13.4	0.6	43.2	3.3	4.6	11.3	-5.3	-1.1	-9.8	0.0	8.4	-4.9	11.1	-1.2	8.5	-2.3	11.6	4.5
Nifty FMCG	-9.3	10.0	-0.7	14.5	2.2	3.3	12.0	-7.0	-3.4	3.8	9.4	-0.5	3.9	13.7	-1.1	10.4	-5.3	5.2	15.5
Nifty IT	-18.5	15.6	35.2	21.6	6.6	12.8	20.1	10.5	-6.2	-23.3	13.0	6.1	0.3	3.0	7.5	11.7	-1.7	3.6	16.0
Nifty Media	-42.3	29.2	15.2	6.5	-6.3	16.3	19.0	3.8	7.2	-20.3	7.9	-3.4	-14.7	2.6	30.1	5.3	-24.8	10.9	7.3
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	3.9
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	8.0	11.2	6.0
Nifty Realty	-41.2	15.5	4.6	48.1	6.5	2.9	49.4	-5.8	-4.3	-16.9	-1.0	1.8	-10.3	34.2	10.7	36.0	15.0	22.7	-0.5
Nifty Pharma	-10.7	39.1	17.9	9.7	-5.0	16.6	1.1	-1.7	-4.5	-10.5	10.4	-2.9	-4.6	14.6	12.0	9.1	12.9	3.9	18.0
Nifty Energy	-30.1	29.4	4.4	12.6	7.5	9.0	15.3	-1.0	14.1	-2.8	5.5	1.1	-11.8	8.2	10.6	22.5	16.6	7.1	5.3

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 Mar 2020 until Sep 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.



Source: ICRA. Data period: 1st January 2008 till 30th September 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

Shown below is a matrix detailing some movement in some key market (Domestic and global) and key event:

Parameters	30-Sep-2024	30-Aug-2024	29-Sep-2023
RBI Repo Rate %	6.50	6.50	6.50
5Y AAA PSU %	7.37	7.50	7.69
1 year CD %	7.56	7.63	7.40
10Y Gsec %	6.75	6.87	7.22
CPI (%)	3.65	3.54	6.83
IIP (YoY) %	4.80	4.24	5.65
US 10Y %	3.78	3.90	4.57
Dollar Rupee	83.80	83.87	83.04

Source: Bloomberg; Data as on September 30, 2024

THE FIXED INCOME GLANCE

The US Fed finally did bite the bullet. After around 15 hiatus months of no action and 11 rate hikes, the Fed lowered the Federal fund rates by 50 basis points (50 bps) to the range of 4.75% -5.00%. The Federal Reserve Chairman later in the press conference while alluding to a strong and resilient US economy also referred that" the upside risks to inflation have diminished, and the downside risks to employment have increased".

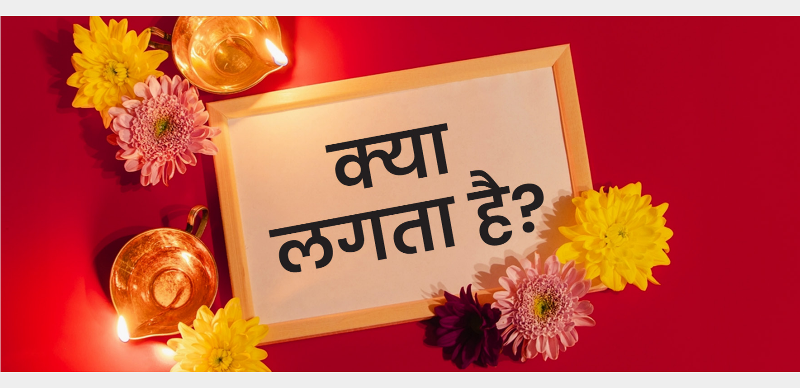
Source: Bloomberg Federal Reserve

The US Fed action was certainly a closely watched event. However, what was unanticipated was the stimulus action by China which also grabbed the economic headlines. The Chinese central bank unveiled its biggest stimulus since the pandemic in an attempt to pull the nation out of a possible deflation. The Central Banker cut the reserve requirement ratios (RRR) by 50 bps freeing up about USD 142 billion for new lending. The seven-day repo rate was cut by 20 bps to 1.50% and announced support to the property markets that included a 50-bps reduction on average interest rates for existing mortgages, and a cut in the minimum downpayment requirement to 15% on all types of homes.

Source: US Federal Reserve/PBOC

Domestically retail inflation was printed at a low of 3.65% with food inflation moderating to 5.66%.
The fixed income markets continued to remain benign in September. The benchmark US 10-year treasury eased by around 12 basis points (bps) to close at 3.78 %. The benchmark India gilt yields also moderated by 12 bps to close at 6.75%. Domestic liquidity remained easy supporting low money market rates.

Source: US Federal Reserve



WHAT NEXT?

India's core economy remains on track and markets keep recording newer highs driven by investment surge by domestic investors.

- Core sector growth: First time in 42 months, the output of India's eight key infrastructure industries contracted by 1.8% in August. Contraction may be attributed to high base or monsoon impacting industrial activity
- Goods and Services Tax Collections for September came at Rs 1.73 trillion, a 10% growth year-on-year
- Nifty rallied by 2.3% for the month with Mid & small cap trailing for the first time at 1.5% and small cap showing a marginal decline of 0.7%. However, the wider NSE Smallcap 250 index was up 1.4%.
- Nifty Metals & Realty were the key outperforming indices for the month with NSEIT index posting a negative return
- Equity MF Schemes see Rs 38000 crores of net flows for August with the shift happening towards Sectoral/Thematic funds (nearly Rs 18000 Crores). Monthly gross SIP continues to inch up. Small & midcap fund flows got higher flows at Rs 6200 Crores.

India's fiscal deficit for the first five months of this fiscal year through August stood at Rs 4.35 lakh crore, or 27% of annual estimates vs 36% reported in comparable period last year. Government spending pickup seems yet running lower versus estimates

Source: NSDL/Bloomberg

Market moves are a function of fundamentals, liquidity & sentiments. The Indian equity markets are rising on the back of fundamentals (expected economic growth over next 3-5-7 years), liquidity (savings generated with nominal economic growth) and sentiment towards equities as an asset class (a rare combination of some under-invested population as well as some leveraged investors).

In the short term, the economic indicators like core sector growth, GST, corporate commentary showing some softness in economic momentum. India has been the most preferred country in the recent past, enjoying high valuations as China struggled to recover post Covid. However, as government announced a big stimulus with a focus on reviving GDP growth, it could be possible that the global flows could move back to China. This could cause volatility in the short term for Indian markets. Another concern area for Indian equity markets might be the transition to new norms governing derivative segment. Regulator is working towards improving quality of participating investors (!) by raising bar on the size of minimum market lot as well as strengthen market processes by raising margin requirements. Any sharp reduction in market volumes on the derivatives segment could impact overall liquidity and sentiments.

For now, the rise in markets has created worries more on valuations front and less on India's core economic fundamentals. On valuations front, we believe that a few pockets/segments in equity markets have run up ahead of time, there exists few pockets of value for fresh investing. Sentiments towards equity as an asset class may be a global phenomenon with equity markets in many countries trading at or around newer highs. These sentiments remain dependent on global monetary policy actions as witnessed earlier during the month. Worries over Yen appreciation caused a sharp downtick in global equities that was recovered fully as Bank of Japan stepped in to say, "the central bank would not hike interest rates when markets are unstable".

We believe asset allocation could be a 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.

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

Source: Internal Research/RBI/Bloomberg

SUMMARIZING OUR THOUGHTS

While the Monetary Policy Committee has continued its monetary policy stance. With the US Fed announcing its first cut, the MPC may possibly shift the stance to neutral as we go through the year. We believe the MPC would still be in a wait and watch mode before initiating its first cut. The FPI flows in Government of India securities post the induction of India bonds in the JP Morgan Bond Index continues to be robust

While China announced a policy push for economy revival, it has flattered to deceive in the past. We would be closely watching the commodity prices as a harbinger for the recovery in China. With the escalation of the crisis in the Middle East and the bearing on crude prices, we would remain wary about sustainable upward movements in crude. However, we believe that energy prices may not escalate dramatically going ahead.

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.

Cno.02189

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022-6632-7900 or 1-800-419-6244 | www.mahindramanulife.com | mfinvestors@mahindra.com