PGIM
India Mutual Fund

# Market Outlook

April 2024

## Equity Market

### Returns would be dictated by earnings growth rather than valuation multiple expansion

The Nifty50 index recorded a gain of 1.2% in April 2024, along with a rally in broader markets. NSE Mid Cap 100 and NSE Small Cap 100 indices were up 5.8% and 11.4% respectively for the month. During April, indices for Realty, Auto, and Banking sector outperformed the broader market, while indices for Information Technology (IT) and Healthcare sector underperformed. The month saw multiple negative news-flows on the global front, like escalation of geopolitical tensions in Middle East, rise in crude oil prices and uncertainty in US Fed rate cut timelines. Key domestic macroeconomic developments for the month included OECD raising India's GDP growth forecast for 2024-25 to 6.6% and India's CPI inflation easing to 4.85%, on an annual basis, in March as against 5.09% in February 2024. The results season, so far, for Q4-FY24 has been mixed, with IT sector reporting weak numbers and guiding for a weak H1-FY25, and larger private banks reporting steady numbers. During the month, Foreign Portfolio Investors were net sellers to the tune of USD 1.1 bn while Domestic Institutional Investors remained net buyers to the tune of USD 5.3 bn.

#### Going forward

While mid- to long-term economic and earnings growth prospects remain healthy, we need to be careful to avoid pockets of over-exaggeration of longer-term growth. The strong market rally has led to valuation expansion for strong and weak long-term growth companies alike, in some cases more so in the case of the latter. While we don't mind paying for structural long-term growth, we certainly would like to avoid growth which is cyclical, and of poor quality. In general, returns may be dictated by earnings growth rather than valuation multiple expansion, and it may be best to stick with investments offering the 'higher for longer' growth earnings visibility.

The bi-decadal exercise of Union Elections are currently in progress, and political stability and positive policy environment along with necessary capex thrust is what markets would seek in the long-term.

## Debt Market

### Rate cuts could start from Q3/Q4 of FY 2025 onwards

Global cues were the dominant theme for Indian bond markets in April, as yields came under pressure on firming up of global bond yields, especially in the US. Yields were higher, both in the money market and the longer end of the yield curve. The benchmark 10 yr bond yield was up 13 bps while the shorter maturity money market yields (3-6 months maturity) were higher by 15-20 bps as compared to levels seen in the first week of April. In fact, for the money market segment it was a month of two halves, as in the first half of April money market yields came down, while in the second half of the month yields went up. Banking sector liquidity tightened after the GST outflows and also owing to the fact that government surplus continued to build up while spending was in the slow lane and is expected to remain slow till after the general elections get over. Economic data continued its strong run with the revised services PMI coming in at the highest point in the last 13 years. The composite PMI number came in at 61.8, higher than last month's print of 60.60. The IIP and inflation numbers were in line with expectations, though core inflation continued to print lower, coming in at 3.26%, a new low in this series. GST collection crossed the INR 2 tr mark coming in at INR 2.10 tr, a growth of 12.4% YoY. Strong GDP growth rate, stable inflation and external position underscore the current strong macroeconomic position of India, though INR came under pressure during the month on back of a stronger dollar index. INR touched a low of 83.54 against the USD before ending the month at 83.44. FPI inflows in the bond markets turned negative for the first time in seven months as US yields surged. FPI's pulled out USD 1.31 bn from Indian bond markets, though on a CYTD basis FPI flows into debt remains positive at USD 4.40 bn. The yield curve, which had bull flattened over the course of the last couple of months, remained flat as demand-supply dynamics were favourable.

The OIS curve echoed the bond curve and went higher during the month. 1 yr OIS was up 13 bps ending the month at 6.88% while the 5 yr OIS was up by 26 bps during the month, ending the month at 6.60%. The 1 yr OIS is currently not pricing in any rate cuts over the course of the year.

Bank of Japan (BOJ) stayed pat on rates after ending its negative interest rate policy in March and given the recalibration on the interest rate outlook of the US Fed, Yen came under pressure before BOJ intervened to stabilise the Yen. While the US Fed stuck to its forecast of rate cuts in the FOMC meeting on May 1, 2024, the US bond market is currently pricing in one rate cut and is split on the possibility of a second rate cut by the end of CY2024. US economic data continues to be quite robust while inflation is proving to be sticky leading the US bond markets to scale back their expectations of rate cuts during 2024. The benchmark US 10 yr yield was higher by 48 bps during April, ending the month at 4.68%.

Going ahead we believe that RBI is likely to be on a long pause and is likely to start cutting rates only after the developed market central banks start their rate cutting cycle. Given the current growth - inflation dynamics in India, we believe that rate cuts will start from Q3/Q4 of FY 2025 onwards. Markets tend to react before the start of a rate cutting cycle and the current retracement in yields offers a good opportunity to investors to increase their allocation to fixed income as real and nominal yields remain attractive with favourable demand-supply dynamics playing out in the sovereign bond market.

## Fixed Income Market

| | March 2024 | April 2024 | Change (in bps) |
|---|---|---|---|
| Overnight rate (NSE MIBOR) | 7.90% | 6.75% | -115 |
| 1 yr CD | 7.60% | 7.55% | -5 |
| 10 yr GOI Yield | 7.06% | 7.19% | 13 |
| INR/USD | 83.40 | 83.44 | 4 paise |
| IIP (Monthly with 2 month lag) | 4.10% (revised) | 5.70% | 160 |
| CPI (Monthly with 1 month lag) | 5.09% | 4.85% | -24 |
| 5 Yr AAA PSU spread (bps) | 38 | 36 | -2 |
| 5 Yr OIS | 6.34% | 6.60% | 26 |
| US 10 Yr yield | 4.20% | 4.68% | 48 |
| CRR | 4.50% | 4.50% | 0 |
| REPO | 6.50% | 6.50% | 0 |
| SDF (Standing Deposit Facility) | 6.25% | 6.25% | 0 |

Source: RBI Weekly Statistical Supplement & Bloomberg

**Note:** IIP has been revised lower for the previous reading.



Source: BSE, RBI & Bloomberg