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Your Monthly Guide on Global and Local markets from our Business Head's Desk.



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US Markets Recap: A month of strong gains

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Dear Esteemed Clients,

The much-awaited general election results unfolded with a minor twist. Incumbent government has got the requisite mandate together with its coalition partners, which in all probability ensures continuity of policy framework and directional initiatives. Nothing more pleases the markets/business houses than stable structural policy environment. Normal economic push and pulls can be ably balanced with stable policies.

This letter encapsulates the critical developments across global markets, providing insights into the macro-economic developments and significant trends that have shaped the past month. Our analysis is data-driven, offering a detailed perspective on the US, European, UK, Asian, and Indian markets. As always, our aim is to equip you with the knowledge necessary to make informed investment decisions.

The US economy exhibited resilience amidst slightly tapering growth. The macro-economic indicators point to a robust underlying economy undergoing consolidation. The annualised GDP growth rate was revised down to 1.3% for Q1CY24 from the previous reading of 1.6%, which optically looks like a marked slowdown from the robust 3.4% growth seen in the fourth quarter of 2023. A deep dive and a little bit of shredding present a different story.

This deceleration was mainly due to two factors, first being surge in imports and second was reduction in business inventories, which usually tend to fluctuate from quarter to quarter. Numerically, in Q1CY24 imports subtracted more than 1% point from last quarter's growth, and reduction in business inventories took off a nearly half a percentage point, adjusting for the two the pro-forma growth could have been in excess of 2.50%.

Consolidation was observed in consumer spending as well as state & local government spending. In nominal terms, Q1CY24 GDP rose by 4.3% annualised rate, amounting to an increase of \$298.9 billion, bringing the total to \$28.26 trillion in Q1.

Other parameters, like house prices have climbed to all-time highs (despite high mortgage rates for new buyers), the median sales price for new houses stood at \$433,500, while the average sales price was \$505,700. The labour market remains strong, with the unemployment rate at 3.90%, a sub-4% level for the 27th consecutive month. Initial jobless claims for unemployment benefits are oscillating in the lower band of 2,05,000 to 2,25,000 on a weekly basis.

US consumer confidence recovered to a reading of 102 from an upwardly revised 97.50 in April. Pick up in corporate profits, capital goods order and personal savings augurs well. New orders for non-defence capital goods, excluding aircraft rose by 0.3% in April, following a slight dip in March. Core capital goods orders jumped by 1.2% year-on-year, indicating sustained investment in business equipment. Shipments of these goods increased by 0.4%, following a 0.3% decline in March.

There has been a significant rise in personal disposal income, which increased by \$266.7 billion, or 5.3 percent, in the first quarter, an upward revision of \$40.5 billion from the previous estimate. Real disposable personal income increased by 1.9 percent, an upward revision of 0.8 percentage points.

Inflation, as measured by the Personal Consumption Expenditures (PCE) Price Index, remained stable at 2.7% year-on-year in April, consistent with the previous month's increase and aligning with market

expectations. In line with consumer prices, which also saw a moderate increase, CPI rose by 0.3% in April, down from a run rate of 0.4% rise in the previous two months. Year-on-year, the CPI increased by 3.4%, and the core CPI, excluding food and energy, retreated to 3.6%.

Overall, US economy is shaping up fine. Caution being the valuation of equities.

Major indices are trading at or near all-time highs discounting 1 year forward earnings (CY24) at a PER (price to earnings ratio) of ~ 22x which is at higher end of historical valuation multiples. We expect time correction in US markets with consolidation in a narrow band till their Presidential election in November'24.



straight month to 2.2% in April, staying above the central bank's 2% target.

The country's trade balance recorded a deficit of \$2.96 billion in April as both exports and imports rose by 8.3%. The services sector showed strong growth, with the services PMI rising to 54.3 in April, the highest in eight months. Meanwhile, manufacturing activity contracted at a slower pace, with the PMI improving to 49.6. Factory output and retail sales also showed positive trends, with output rising 3.8% in March and retail sales growing by 1.2%, marking the 25th consecutive month of expansion.

Overall, Asian markets ended with minor gains and losses for the month of May. Hang Seng index outperformed others notching +1.78% in May. For the calendar year 2024 so far, Japan is at top of table with gains of +15%, followed by China +6% & India +3.6%.



Indian Market: Resilient Growth and Strong Economic Indicators

India's economic performance outclassed all other relevant economies, ticking of all boxes. Real GDP grew by +7.8% (Y/Y) for Q4FY24, taking the full-year growth for FY24 to 8.2% up from 7% in FY23. Total net tax collections for FY24 were at time high of -Rs. 23.27 lakh cores. Fiscal deficit at 5.60% was a beat on governments own previously revised estimate of 5.8% aided by higher revenue collection, curtailed revenue expenditure and fatter denominator (GDP number).

Government well on path towards achieving its target of bringing down fiscal deficit to 4.50% of GDP in near future on back drop of improving direct and indirect tax collections. GST collection for the month of May came at Rs. 1.73 lakh crores an increase of +10% Y/Y while for month of April it stood at Rs. 2.10 lakh crores (+12.40% Y/Y).

Corporates delivered one of the best quarterly and yearly earnings. Nifty 50 delivered EPS growth of +22% in FY'24 over FY23. Looking at aggregates presented a similar picture. Net profit aggregate of 484 companies under study grew by 28% for FY24 (Y/Y), led by financials.

Highlight of Q4FY24, earnings were sustained margins, better capacity utilization, improved volume growth while lack of pricing power led to mid-single digit revenue growth. IT companies lowered their outlook/guidance while delivering mid-single digit profit growth. Banks and NBFC's are looking forward to credit growth of around 15-16% in FY'25.

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Investments in securities market are subject to market risks, read all the related documents carefully before investing.

We believe it would be a challenge for corporate India to maintain same level of operating margins in FY25, having regard to recent flare up in commodity prices, ongoing capacity expansions and lack of pricing power.

Our interactions with various management's suggest discretionary spending is going to take a hit in FY25 as focus shifts back to cost control measures in light of moderation in business growth expectation.

Valuation wise markets are trading at expensive multiples with zero scope of missas. The market capitalization to GDP ratio has reached a 15-year high of 140.2% as of March 2024. Equity risk premium has climbed to 2.50% which is on back drop of 50 basis points drop in earnings yield (from 5.10% in FY22 to 4.60% in FY24).

For equity risk premium to sustain above 2.50%, earnings growth should come in excess of 25% for FY25 given constant 10-Yr bond yields. Any interest rate cut would further lead to rise in equity risk premium due to correction in 10-year bond yields.

Though, continuity of incumbent government at center augurs well. Arithmetically a dream budget roll out should be on cards, enabled by higher than earlier estimated tax and non-tax revenue visibility. India Inc.

will have to do a tight rope walking while balancing expenses both operating and capital, maintaining pricing, building in higher input cost pass-on capabilities and coming out with schemes or products which sustains and/or better volume growth prospects. The Jokers in pack are rising commodity inflation led by Chinese economic recovery and the other one - In case Monsoons weaken from projections.



Having regard to all above factors, we remain constructive on Indian equities from a medium to long term perspective. Corrections, will be an opportunity to accumulate quality companies at lower levels.

We extend our sincere gratitude to all investors for their continued trust and confidence in our platform. Your unwavering support fuels our commitment to providing robust investment opportunities and fostering growth in the market. As we move forward, we remain dedicated to delivering excellence, transparency, and innovation to support your investment journey.

Together, we will navigate the ever-evolving landscape of the Indian markets, seizing opportunities and overcoming challenges, to achieve mutual success and prosperity. Thank you for choosing us as your partner in the journey towards financial growth and prosperity.



Warm Regards,

Mr. Senthikumar Naidu
Business Head, CSec

European and UK Markets:

Interest Rate Uncertainty Amid Mixed Economic Signals

For Q1CY24 the euro area's GDP grew by 0.3% quarter-on-quarter, recovering from previous quarter (Q4CY23) contraction. The eurozone posted a €24.1 billion trade surplus in March, despite a decline in both exports and imports. While in May, eurozone inflation rose to 2.6%, with core inflation increasing to 2.9%, however market participants are hopeful of an economic stimulus through interest rate cut by ECB.

The UK's central bank maintained interest rates at 5.25% amid mixed signals, with inflation falling to 2.3% in April while producer prices showing slight increases. The UK's PMI indices were mixed, with a decline in services but improvements in manufacturing. Germany outperformed other economies in Europe which were largely flat with minor gains.



Asian Markets Recap: China stealing the show!

Chinese economy appears to be back on accelerated growth path. Looking at past few years trend, Chinese government usually dole out some form of economic stimulus in last quarter of a calendar year which plays out in first and second quarter of subsequent year, thereafter the growth effect fizzles out.

Charting the same course China's industrial profits rose by 4.3% year-on-year for January to April, consistent with the first quarter's increase. Jury is divided whether now found manufacturing growth momentum can sustain and stride further.

Japan's economic indicators painted a mixed picture. Japan's GDP contracted at an annualized rate of 2% in Q1, worse than expected, while wholesale inflation rose by 0.9%. Core inflation slowed for the second