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FINSPHERE

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

WHAT'S INSIDE

Tech Leads the Equity Boom in Global Markets.

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Explore Beyond the Surface

2024 Ignites Global Equity Rally Across Markets

Dear Esteemed Clients,

What a beginning to 2024 for the equity asset class. After a solid start in January, markets gathered a strong pace in February across geographies. The Mother of the Economy USA triggered this massive rally led by technology companies. The S&P 500 notched up ~5.10% in February, while the Nasdaq Composite index was up around 6.10%. European indices like CAC (France) and DAX (Germany) followed suit with nearly 5% gains, along with matching participation coming in from South Korea (Kospi) & Hong Kong (Hang Seng). Japan is on a roll of its own. Their headline index Nikkei was up ~8% for the month of February, after 8.40% gains in January'24. For the year CY24, so far, the Nikkei index is up 19.26%. India too galloped to new highs helped strong Q3 FY24 real GDP growth at 8.40%, surpassing all estimates, and a stronger earnings update for the third quarter of FY'24. Generally speaking, all major economies are trading at all-time highs.

This unprecedented equity rally is fueled by demand-driven consumer economies, stable currencies, a falling inflation trajectory, stable governments & their policies, & the expectation of easing out of monetary policy soon across geographies. Industrial commodities have been in a trading range at the lower end of the band. This is instrumental in the gradual decline in the inflation trajectory. Most of them are down over 20% to 40% since the highs of 2021/22. For the calendar year 2023, many have delivered negative returns, and similar is the outcome so far in 2024 namely; Aluminum, Copper, Zinc, Coal or Steel which augurs well for equities.

Monetary quantitative tightening in the US, China's failure to create artificial growth, and prevailing higher interest rates have sucked the bubble out of industrial commodities. Now, demand and supply are the sole price determinants. This has helped commodity consumer economies like the US, India, and Europe with higher operating profits while undertaking competitive pricing of manufactured products.

Agreed, valuations are rich, but so are fundamentals. Time & again, re-emphasising the fact that staying invested in valued companies is the only mantra for wealth creation. Caution, in the wind comes from the geo- political situation in the Middle East. There has not been any improvement in the situation in Russia-Ukraine, albeit now west Asia is also marred with aggravating conflicts between militia groups & sovereigns.

With regard to growth and benign inflation; monetary policy makers across the board have put interest rate hikes on hold while studying the possibility of interest rate cuts if need be or if natural economic balancing parameters warrant it.

Let's recap the evolving global economic landscape. We strive to furnish you with comprehensive insights that help you construct well-studied and informed investment decisions.

US Economy Grows Amidst Recession Speculations

The US economy is growing well, delivering real GDP growth for CY23 at 2.50% over 2.06% in CY'22 and 3.20% for the last quarter of CY'23. This comes on the back drop of arguments & thesis by economists & opinion makers since the last 2 years of an impending recession, which was later revised to soft landing in the US. The job market is hot having unemployment rate of around 3.70%, down from over 8.0% in 2020. Healthy capacity utilisation, improving consumer sentiments, pick up in construction & home sales augurs well. AI driven technology companies both hardware and software have delivered a strong set of earnings in the October-December quarter.

Monetary policymakers are armed with the option of easing policy rates as inflation is decelerating faster than expected to reach their target rate of 2%. Timing and quantum are factors of evolving macro-economic scenario, which is keenly being monitored.

Challenges Hit Europe and Asia's Economies

The picture does not appear so rosy for the European and Asian economies. The UK and Japan are facing a recessionary challenge. Real GDP for countries has reported negative growth for the last two consecutive quarters. Japan is the only country where the central bank policy rate is negative at -0.10%. Germany's real GDP for CY'23 contracted by -0.30%, while for the last quarter of CY23 it contracted by -0.30%. It is on the verge of going into recession.

China's GDP is picking up at a slower pace. At constant price, it grew by 5.20% in CY23 over a 3.0% rise in CY'22. It has cut policy rates for the second time for loans having a tenure of 5 years. The Chinese government has been taking several measures to stimulate their economy and prevent stock prices from crumbling (like measures taken to curb short selling in the cash segment).

India's Q3 Economic Surge Defies Expectations

Robust earnings update for Q3CY24, driven largely by operating margins. The universe of top 500 companies by market capitalization delivered PAT growth of around 20% for Q3 FY24 on a YoY basis.

Real GDP for Q3 FY24 grew at 8.40% way beyond any estimate worth its salt. Largely driven by indirect tax collection (grew by +32% Y/Y), aided further by surges in manufacturing (+11.60% Y/Y), construction (+9.50% Y/Y) and Electricity/Power (+9% Y/Y). Investments recorded 10.60% growth on a YoY basis.

However, weakness in agriculture (decline of -0.80% Y/Y), lower private consumption at +3.5% Y/Y and contraction in government expenditure at -3.20% led to GVA coming in at around 6.50% which was lower than the consensus estimate of 6.70%.

It can be argued that desired consumption growth is missing. But, for an economy that is taking giant strides to migrate from an emerging to a developed economy, the path is carved by investments and private capex. Consumption follows in due course as per capita income rises due to the aforesaid activities, leading to more job opportunities and a lower unemployment rate.

India's GDP growth for FY'24 has been revised upward to 7.60% from earlier estimates of 7.30% by the NSO. The country is well on the-path to being a developed economy by 2047.

We remain constructive on Indian equities from a medium to long-term perspective. Corrections, if any, will be an opportunity to accumulate quality companies at lower levels. We are committed to grow your valued trust in our research and analysis; enriching your investment journey with relevant guidance.

Warm Regards,

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