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FINSPHERE

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

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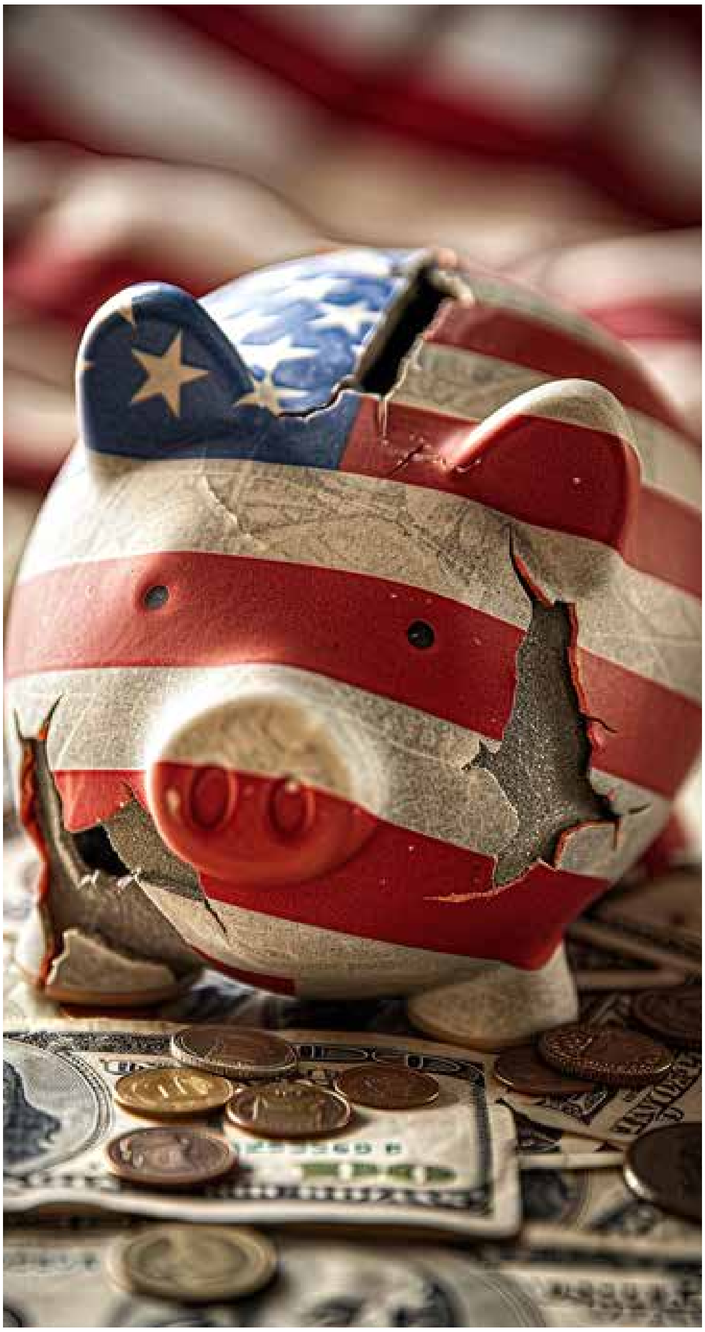
Explore Beyond the Surface



United States of America: Resilient economy

Dear Esteemed Clients,

I hope this letter finds you in pink of health and wealth. Year 2024, so far has turned out to be stellar for all asset classes. A rarity but a fact be it Gold, Equity, Real Estate, US Dollar, Crypto Currencies all are hitting new highs while bonds are seeing return of buying interest (US 10-year bond yields down 20 bps from highs). Though, such convergence does not last long, we at CSEC are all glued to spot the first sign of divergence and the direction thereafter. For equities, headline indices of developed markets like US and China (hang Seng index) were up 3% to 4% while France, Germany, UK and Japan in the past 1 month (April'24) have showed flattish performance.

Major US indices were up around 3% for the month of April while year till date they have been up around 7% both S&P 500 and Nasdaq 100. Fed chief continued with his unpredictable policy stance; keeping the benchmark interest rates unchanged at 5.25% - 5.50% for the sixth consecutive meeting, while suggesting probability of rate cuts soon. Inflation remains a central concern in US, with the Personal Consumption Expenditures (PCE) price index climbing to 3.7% in the first quarter, above expectations. On a monthly basis, the PCE Price Index and the core PCE Price Index both rose 0.3%.

On macro front the GDP growth for the first quarter came at 1.6% on annualized basis, a deceleration from the previous quarter's 3.4%. This slowdown was primarily due to reductions exports and low inventory levels along with some fall in consumer and government spending. This cooling phase reflects broader economic shifts and necessitates careful monitoring as we move forward.

The construction sector saw a slight decline, with spending down by 0.2% in March.

Residential construction also decreased, indicating a cooling in the housing market, which could be a response to the cumulative effects of higher interest rates and general economic uncertainty. However, new home sales in March painted a brighter picture, jumping 8.8% to the highest level since September, suggesting a segmented resilience in the housing market.

The U.S. manufacturing sector, as indicated by the Purchasing Managers' Index (PMI), remained stable but showed signs of cooling. The PMI stood at a neutral 50 in April, down from 51.9 in March, signaling a pause after three months of improving conditions.
The labor market remains hot, the Employment Cost Index rose by 1.2% in the last quarter, indicating sustained wage pressures that could influence inflationary trends while the unemployment rate was below 4% at 3.9% in April.

Overall, US appears stable observing normal push and pulls of economic activities while Q1CY24 earnings which have been reported so far have been largely better than consensus estimates.

Global Economic Landscape: Mixed Signals

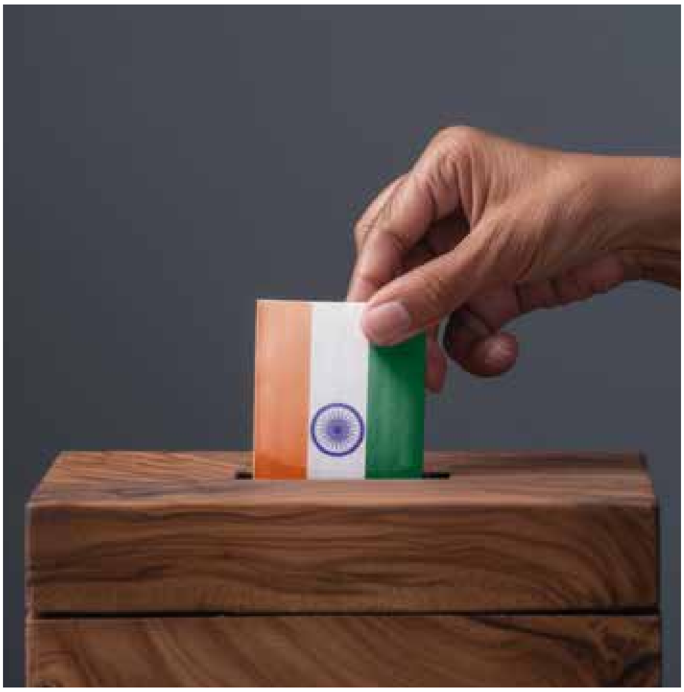
The Euro Area's GDP experienced a modest rebound in the first quarter of 2024, growing by 0.3% QoQ, a notable recovery from a 0.1% contraction in the previous quarter. Spain's GDP grew by 0.7% QoQ and 2.4% YoY while Germany, France, and Italy also showed positive movement, though at a more tempered pace. Concurrently, inflation within the Eurozone remained steady at 2.4% in April, in line with expectations.

Interestingly, core inflation, which excludes volatile items such as food and energy, decreased to 2.7% from 2.9%, indicating a potential easing in underlying price pressures. Such inflation trends are critical as they influence the European Central Bank's (ECB) monetary policy stance. The ECB has maintained interest rates at a record high of 4% for the fifth consecutive time, reflecting a cautious approach amid shifting economic signals.

Asia presented a brighter picture. China's economic recovery exhibits an uneven but promising trajectory. The first quarter saw industrial profits rise by 4.3% while China's GDP outperformed expectations, growing at 5.3% in the first quarter, driven predominantly by robust factory output.

This was complemented by a 6.1% rise in industrial output during the same period, showcasing strong production capabilities. Notably, China's manufacturing PMI slightly declined to 50.4 in April, indicating slight slowdown in expansion pace which aligns with the broader theme of an uneven recovery across different sectors of the economy. Japan's manufacturing sector is showing signs of resilience, albeit in the contraction zone, with the manufacturing PMI inching closer to the neutral mark of 50, reaching 49.6 in April from 48.2 in March. This indicates a deceleration in the contraction pace, hinting at potential stabilization.

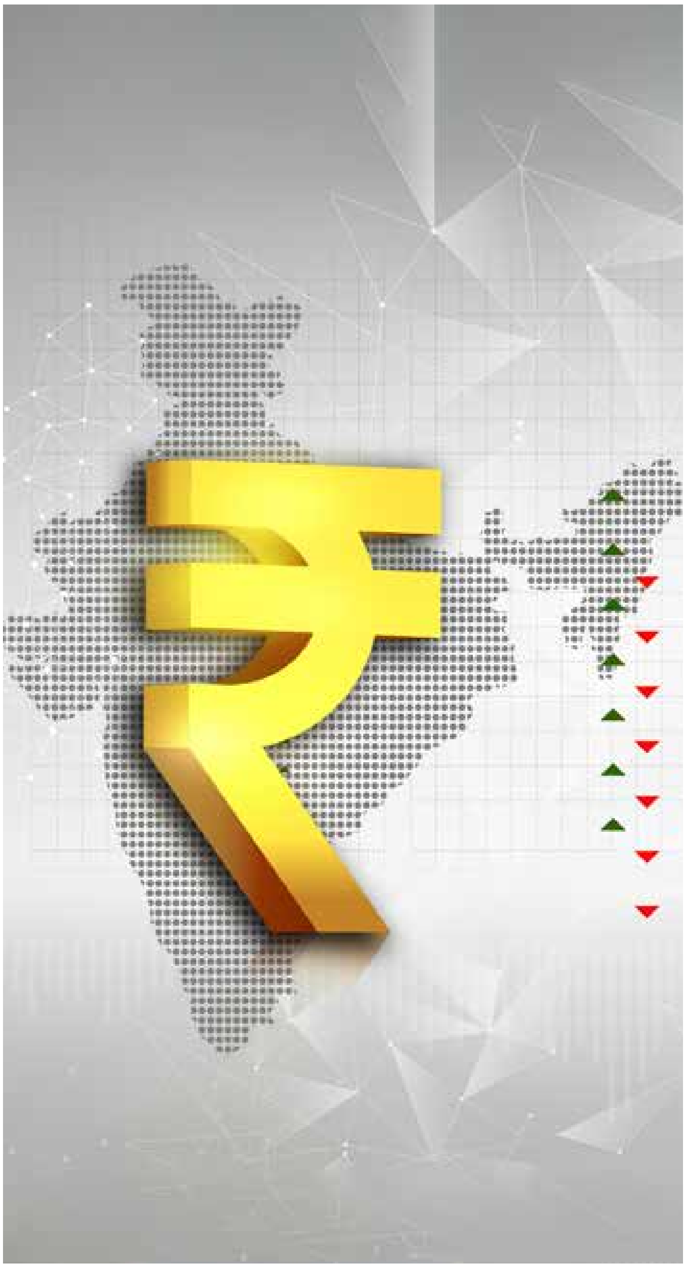
Notably, service sector activity in Japan is demonstrating robust growth, fueled by strong demand particularly from inbound tourism, with the service PMI climbing to 54.1 in March.



India: Building into strength

As we march into ongoing general elections Indian market is witnessing bouts of high volatility. Earnings trajectory so far for Q4FY24 has been mixed and benign. IT majors have reported scratchy Q4FY24 earnings update as uncertainty loomed on the business pick up in BFSI, North America and discretionary spends. Financials have been the sole value drivers of earnings so far in Q4FY24, aggregates of 46 companies have delivered a PAT growth of 60% in Q4FY24 (y/y), while EX-Nifty & BFSI the aggregate of 134 companies over the same delivered a PAT growth of mere 0.01% (y/y); a matter of concern for mid and small companies. Micro's are pointing to caution.

However, macro-economic indicators are pretty strong. Which is always a healthy sign as any micro concern can be easily addressed on back of strong macros. April witnessed a record GST collection of Rs 2.1 lakh crore, marking a 12.4% YoY growth. Net direct tax collections for FY24 exceed budget estimation by 7.4%: growing by 17.70% to Rs 19.58 lakh crore compared to Rs 16.64 lakh crore in the previous financial year.



The Index of Industrial Production showed a commendable increase of 5.7% in February, propelled by advancements in mining, manufacturing, and electricity generation. Consumer confidence, particularly future expectations, has improved, reaching levels not seen since mid-2019. Retail inflation eased to a 10-month low at 4.85% in March, with significant contributions from lower fuel prices. Concurrently, India's trade deficit narrowed significantly in March to an 11-month low, largely due to a substantial reduction in gold imports and other non-essential goods.

Meanwhile, The Reserve Bank of India's (RBI) Monetary Policy Committee (MPC) has maintained the repo rate unchanged for the seventh consecutive time, reflecting a strategic pause after a significant tightening cycle. The RBI's vigilant stance on inflation, particularly with respect to food prices amidst a forecasted normal monsoon, supports an inflation projection of 4.5% for FY25. This outlook aligns with the RBI's firm commitment to steer inflation towards the 4% target.

We remain constructive on Indian equities from a medium to long term perspective. Corrections, are 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.

Thank you for your continued trust.

Warm Regards,

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