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

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June Market Surge:

Stability and Growth Amid Global Shifts

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EXPLORE BEYOND THE SURFACE!

US Markets:

Riding the Wave of Resilience and Growth

Dear Valued Clients and Stakeholders,

What a roller coaster June was for Indian markets. We were top performer across the globe, galloping well past 24,000 mark on Nifty 50 index while gaining 6.57% for the month. Continuity of incumbent government, retention of major ministries with BJP without change in ministerial guard enthused markets with expectation of stability in policy framework and directional initiatives. Political stability in India appears more pronounced in light of fast changing global political landscape (UK, France, USA).

Macro-economic data points are indicating firming of global economic growth, tamed inflation and better employment rate. 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. Join us as we explore the key drivers and emerging trends shaping the economic narrative in this pivotal period.

June marked a continuation of the equity market's upward momentum, closing the first half of the year on a high note. The Dow Jones Industrial Average edged up by 1.12%, the S&P 500 advanced by 3.5%, and the NASDAQ surged by an impressive 6% in June 2024. Large-cap stocks outperformed, with the Russell 1000 index gaining 3.3%, whereas the small-cap Russell 2000 index saw a decline of -1.08%.

Caution comes from narrow breadth of the market. Notably, only five of the eleven sectors contributed positively, led by the Technology sector, which saw a remarkable 7.8% increase. Consumer Discretionary and Communication

Services followed with gains of 3.9% and 3.2%, respectively. However, the Utilities sector experienced a significant setback, declining by 5.6%. Nvidia emerged as a standout performer, briefly becoming the world's most valuable company, surpassing even Microsoft. Anything and everything to do with artificial intelligence is in demand.

On macro-economic lead indicators are giving mixed signals. Notably, the labor market showed signs of cooling, with unemployment rate hitting 4% for the first time since January 2022 and the labor force participation rate falling to 62.5%. Both new and existing home sales declined in June, yet the median existing home sales price reached another all-time high.

The core inflation metric continues to show monthly declines. The Federal Reserve maintained its benchmark interest rate between 5.25% and 5.50% for the seventh consecutive meeting, indicating modest progress towards its 2% long-term inflation target. Federal Reserve Chair Jerome Powell emphasized the need for more data before considering interest rate cuts to ensure that the recent weaker inflation readings accurately reflect underlying price pressures.

The final GDP growth rate for Q1 2024 was revised slightly upward to an annualized 1.4%, indicating modest economic expansion. This growth was supported by faster rises in exports and lower imports, alongside increased government spending.

Final sales of domestic product increased by an annualized 1.8% in Q1 2024, showing steady economic activity. The US trade deficit widened to $75.1 billion in May 2024, the largest since October 2022. Both exports and imports saw declines, with significant decreases in pharmaceutical preparations and automotive vehicles, parts, and engines.

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.

Caution and Uncertainty:

Euro Area and Great Britain

The European markets demonstrated a cautious stance in June, influenced by upcoming elections and central bank actions. The pan-European STOXX 600 fell by 0.97% in June, reflecting investor wariness ahead of the French elections.

Similarly, the UK's FTSE 100 index dropped by 0.45%, with the British elections on the horizon. In a significant move, the European Central Bank (ECB) cut its interest rate by 0.25% to 3.75%—its first reduction in nearly five years. However, the ECB refrained from committing to a future rate path, emphasizing data-dependent decisions.

Despite a reduction in inflation from its peaks, the ECB projected it would stay above the 2% target until late 2025. Meanwhile, the Bank of England (BoE) held interest rates steady at 5.25%, even as inflation reached its 2% target in May, down from 2.3% in April, citing persistent core and services inflation.

Economic growth in the Euro Area saw a modest recovery, with GDP increasing by 0.3% in the first quarter of 2024, reversing a 0.1% decline in the previous quarter. Year-on-year, GDP growth improved to 0.4% from 0.2%, driven by gains in employment and output across the region.

In the UK, the economy grew by 0.7% in Q1 2024, slightly above initial estimates, marking the strongest expansion in over two years and ending a recession. This growth was driven by robust services and production sectors, though construction contracted. The UK unemployment rate edged up to 4.4% in the three months to April, the highest since September 2021, despite strong wage growth.

Overall, economic recovery is fragile in Europe. Monetary policy makers are responding by cutting interest rates. We expect Euro zone to witness volatility while markets digest recent political developments in UK and France.

India:
Strong Inflows driving markets higher

Markets was on a roll back home, where headline indices surged to new highs gaining over 6% in June. Domestic institutional investors continued to show confidence, buying a record ₹2.36 lakh crore in shares in the first half of 2024. FII's also turned buyers in June to the tune of around Rs. 26,565 crores in secondary market.

Macro-economic lead indicators are pointing to stable economic momentum. In light of improving economic outlook RBI raised its real GDP growth rate by 20 basis points to 7.20% for FY'25. The full-year GDP growth for FY'24, stood at 8.2%. GST collections in June observed a slower growth of 7.7%, due to high base effect. However, net direct tax collections rose by 21% year-on- year till mid-June, with significant contributions from corporate and personal income taxes, highlighting strong corporate performance and personal income growth.

Another feather in the cap was fall in fiscal deficit to 5.63% of GDP in FY24, better than the government's target of 5.8%. Despite rising external debt, which stood at $663.8 billion at end-March 2024, the debt-to-GDP ratio declined, highlighting improved debt management and economic growth. Retail inflation eased to a year-low of 4.75% in May, driven by stable food prices and reduced fuel costs. Forex reserves rose to $653.7 billion, while currency remained stable.

Markets at new all-time highs are gearing up for upcoming quarterly (Q1FY25) earnings update by corporates and budget roll-out by government. Another, significant factor is monsoons. Rainfall deficit widened to 18.8% by late June, with 16 states experiencing over 33% deficiency. Much depends on IMD's projection of strong rainfall in July and August which will take care of June's deficit turning into reality.

As we look ahead, the economic and political landscapes appear to be dynamic. India's upcoming budget will be a focal point, setting the tone for future economic policies & priorities. 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.

Warm Regards,

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