Overview:

For the month ended June 2024, the Nifty 50 index posted a strong performance, rising by 6.57% over the previous month. Large caps, represented by the Nifty 50, underperformed midcaps and smallcaps. The Nifty Midcap 100 index surged by 7.80%, while the Nifty Smallcap 100 index was up by 9.75%. Within sectors technology, financial services, consumer durables, realty and automobiles outperformed Nifty 50 whereas metals, pharma and oil & gas underperformed.

Sr No.	Index Name	Jun-24
		M-o-M Change
1	NIFTY 50	6.57%
2	NIFTY Midcap 100	7.78%
3	NIFTY Smallcap 100	9.75%
4	NIFTY Auto	7.59%
5	NIFTY Bank	6.81%
6	NIFTY Financial Services	7.82%
7	NIFTY FMCG	4.82%
8	NIFTY IT	11.65%
9	NIFTY Media	6.71%
10	NIFTY Metal	1.05%
11	NIFTY Pharma	5.03%
12	NIFTY Private Bank	7.62%
13	NIFTY PSU Bank	-0.32%
14	NIFTY Realty	8.10%
15	NIFTY Consumer Durables	9.19%
16	NIFTY Oil & Gas	5.10%

Source: National Stock Exchange of India

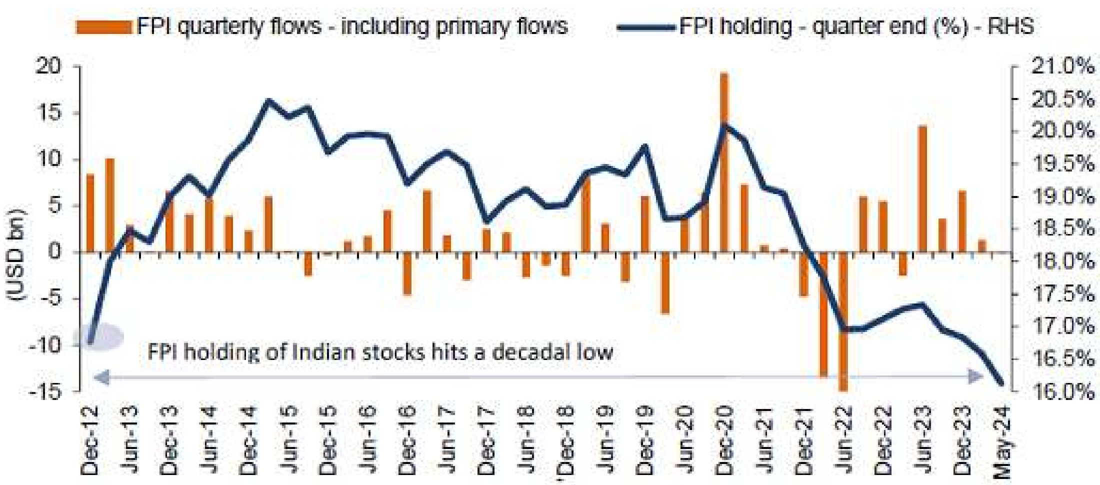
Foreign funds (FIIs/FPIs) were net buyers in June 2024 at ~USD3bn and domestic institutions were net buyers at USD3.4bn. Foreign fund buying in June 2024 resulted in the net flows finally turning positive in CY2024. Foreign fund net flows stand at mere USD161mn in CY24YTD versus inflows of USD21.4bn in CY2023. Domestic investors buying continued unabated even in June 2024. Domestic institutional inflows into equities crossed USD28bn in just first 6 months of 2024 versus USD22.3bn in CY2023.

Fig: Flows

Flows in Equity (in US$ mn)	Daily	MTD	CYTD	CY'23
FII flows	(3)	2,922	161	21,427
DII flows	798	3,434	28,478	22,331
Retail flows (as of 24th June)		2,318	10,110	624
Source: NSDL, NSE				

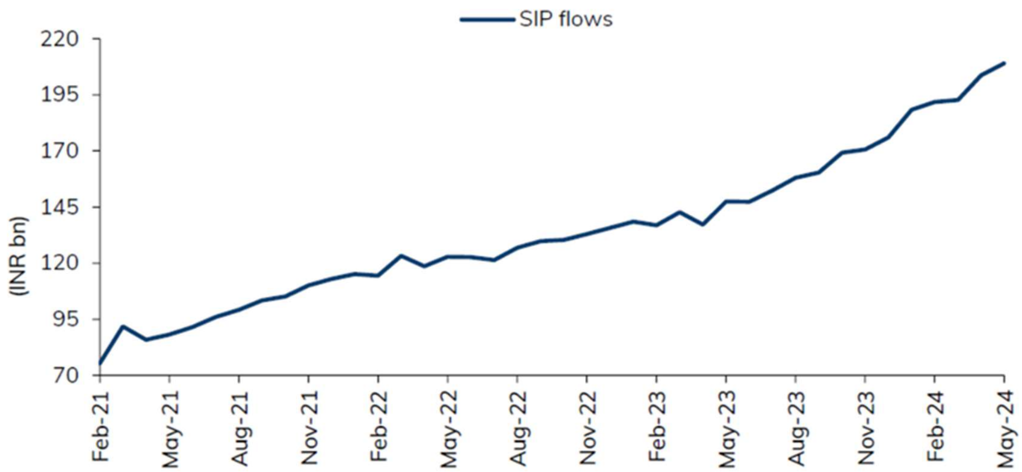
The rise of domestic investors or rather their awakening towards financial savings and particularly towards equities as a mode of building wealth has driven volatility lower and ensured the rise of markets despite relentless selling by foreign funds. Foreign fund holding is now at a decadal low, which is not worrying sign given the steady flow of funds into the market by domestic investors that too through monthly systematic investment plans (SIP) of domestic mutual funds. The divergence in returns between large caps (Nifty 50) and mid and small caps is a result of foreign fund outflows and domestic fund inflows.

Fig: FPI flow and holding trend



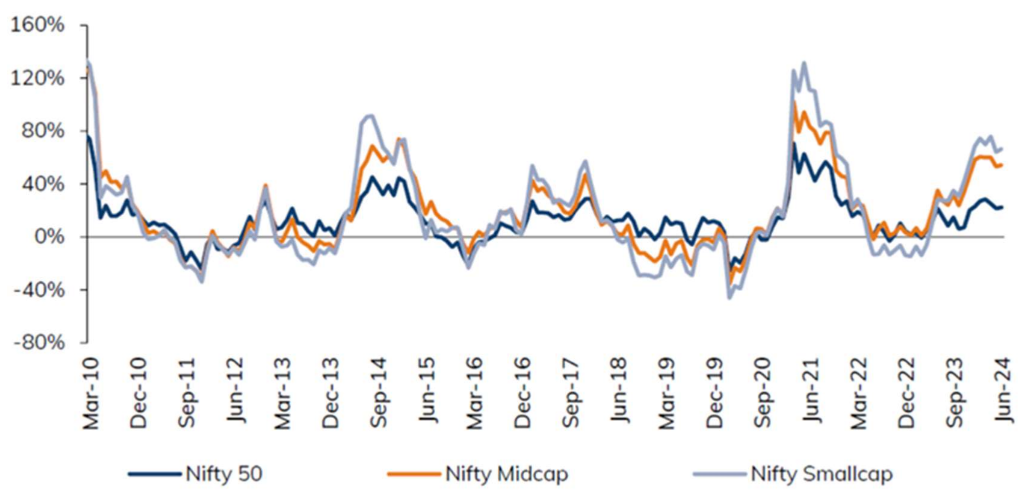
Source: ISec

Fig: SIP trends



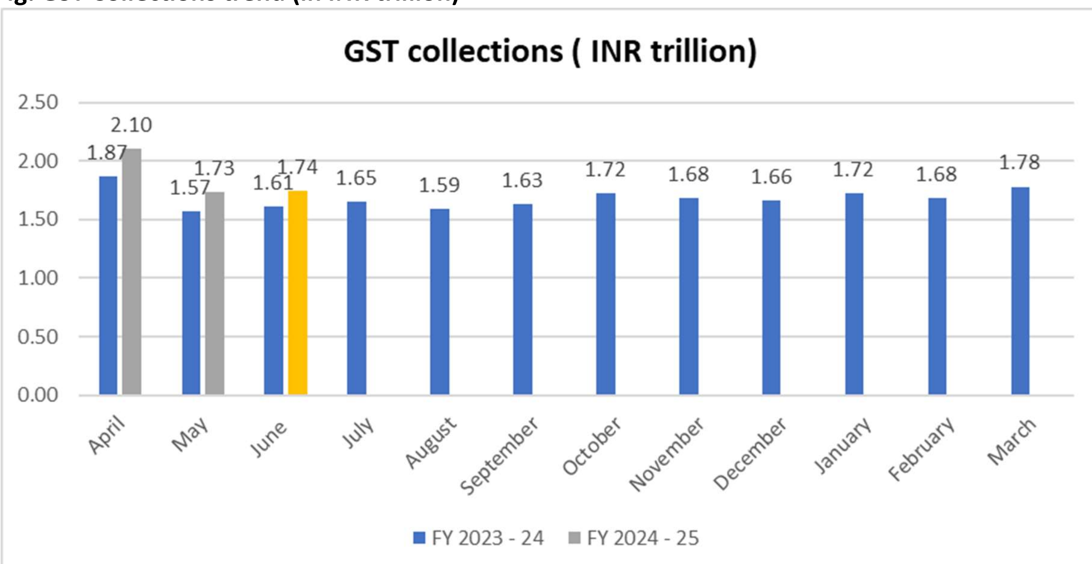
Source: AMFI

Fig: Rolling 12-month returns for NIFTY50, Nifty Midcap 100 and Nifty Small Cap 100 indices



On the macroeconomic front, Good and Services Tax (GST) revenue for June 2024 were INR1.74 trillion, up 8% YoY. On July 01, 2024, the implementation of the Goods and Services Tax (GST) completes 7 years. Since its implementation seven years ago, GST has significantly boosted India's economic landscape. Monthly collections have consistently exceeded INR1.5 trillion since March 2023.

Fig: GST Collections trend (in INR trillion)



Source: Government of India, EquiPoise Capital research

India's balance of payments (BoP) current account swung to a surplus of USD 5.7bn (0.6% of quarterly GDP) in Q4FY24, from a deficit of USD1.3bn (0.2% of GDP) in Q4FY23. The rebound in global trade in CY24 is expected to bolster India's merchandise exports, subdued commodity-import prices should also contribute to reining-in the merchandise deficit, while a modestly larger services surplus is expected to contribute to a modest current account surplus in FY25.

<u>Our view:</u>

With the uncertainty around general elections, new government formation and in general policy continuity behind us the market is now looking forward to Union Finance Budget to be presented in July 2024. This would be an official confirmation for the market which is by and large expecting policy continuity, rise in capex and investment led growth approach from the government. Strong tax collections plus a transfer of INR 2.11 trillion from Reserve Bank of India i.e. excess receipts, will not only support capex but also help reduce fiscal deficit further.

In 2024, the corporate profit to GDP ratio for the Nifty 500 companies and listed universe swelled to 4.8% and 5.2%, respectively, scaling a 15-year high. The YoY improvement was led by the BFSI, Oil & Gas, and Automobile sectors, which contributed 95% of the total improvement.

We believe, India is witnessing excellent macros –

1. GDP growth of 8.2% in FY2024 (on the back of ~7% growth in FY2023)
2. Inflation at ~5%,
3. Both current account and fiscal deficits well within tolerance band,
4. Stable currency,
5. Robust corporate earnings (Nifty ended FY24 with 25% earnings growth),
6. Government focus on manufacturing, defence, capex and infrastructure creation, and
7. Strong foreign exchange reserves.

In addition to the above, Indian government bonds or government securities (G-secs) have been included in the JP Morgan-Emerging Market Bond Index effective June 28. This is expected to reduce borrowing cost for the government, apart from putting the Indian bond market on the radar of global bond investors. Currently, India carries a 1 per cent weight in the JP Morgan-Emerging Market Bond Index. India's weight is expected to reach the maximum threshold of 10 per cent in the GBI-EM Global Diversified, and approximately 8.7 per cent in the GBI-EM Global Index. JP Morgan has included 29 Indian government securities under the Fully Accessible Route (FAR) in its emerging market index. This inclusion of Indian bond market in the JP Morgan-EMB Index will help attract higher foreign flows, will also help bring in large passive investments from overseas, as a result of which more domestic capital would be available for industry, as crowding out would be reduced.

Given this background, we remain focused on our portfolio and on bottom-up approach. We are also cautious given the strong rally in the market. We maintain focus on domestic sectors viz infrastructure, defence manufacturing, engineering and construction, and capital goods. We believe India's long term growth story is intact, corrections present an opportunity for long term investors and all eyes are now on Union Finance Budget.

EquiPoise Investment Advisers
(A division of EquiPoise Capital Management Pvt. Ltd.)

July 04, 2024.

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