

DEBT & EQUITY OUTLOOK

JULY 2024



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June'2024 was dominated by the General Election and the subsequent news flow. The incumbent government with its alliance partners has come to power for a third term to form a strong coalition Government. Given the surprise in election results, the equity market saw a sharp sell-off on the results day but was quick to recover. As the days progressed, and the cabinet ministry was formed, it became clear that there would be a continuation of the policies of the government which will lead India to be a high growth economy.

Globally, resilient growth and a re-acceleration in inflation in the US in Q1 has led markets to reprice the number of cuts needed this year. The resilient global growth displayed in the face of multi-decade high interest rates has caught many investors off guard. In US, with unemployment rates low, labour markets strong and inadequate progress on inflation, markets are pricing in only two rate cuts by the Fed in 2024.

In the face of global backdrop, high frequency data in India continues to show strong growth momentum. Indian PMIs (Purchasing Managers' Index) both services and manufacturing are running high with manufacturing PMI strongest in peer Asian region and IIP (Index of Industrial Production) growth resilient. Market consensus of FY25 GDP growth rate has moved from 6.2% at the start of the year to our year beginning forecast of 6.5% now. RBI also upgraded its growth forecast recently to 7.2% (from 7%) which we think is achievable if global backdrop and monsoon remains favourable.

The GDP growth in this cycle has been initially led by investments supported by government capex and the housing sector, with green shoots of private capex also visible. However, with the incumbent government's weaker than expected performance in key States and with different priorities of its alliance partners, there can be increased focus on welfare schemes and address the demand side equation which should benefit the overall Consumer space. In FY25, government also has additional resources due to the larger than expected special dividend from RBI (nearly 1lakh crore higher over last year) which can be used for this purpose. Separately, the sector is also recovering from a low base and the IMD (India meteorological department) is forecasting a good monsoon. Hence, the overall setup for the Consumption sector, especially consumer discretionary sector which has not done too well in FY24, looks promising. The fallout of the election mandate can mean a more balanced growth going forward with investments which was leading the recovery of GDP post covid now being supported by consumption.

Inflation data also continues to be supportive with the sticky core inflation making new lows. In its latest meet, RBI MPC (Monetary Policy Committee) kept the repo rate and the stance unchanged from the previous meeting. We believe evolving growth conditions will drive incremental policy bias. By October, RBI should have a clearer sense on the new government's fiscal priorities, the monsoon season, and the path of developed markets interest rates. If these factors align, we could see a shallow rate cut cycle in H2FY25.

Amidst the market volatility, domestic equity flows continue to be resilient with MF SIP, EPFO, NPS and Insurance averaging USD 3.5-4bn on monthly basis. Post-covid, corporate earnings growth has been strong with more than 20% CAGR, however, as the base effect and efficiency gains plateau, going forward corporate earnings growth will moderate but should clock low double digits closer to the long-term average of around 13%. The big difference between the pre-covid period and now is that the growth is more broad-based, driven by many sectors where the outlook is improving. Overall, we believe despite a reduced government majority, broad policy continuity, macro-economic stability and double-digit earnings delivery should keep the investment appeal for Indian equities intact.

From a sectoral viewpoint, we believe earnings growth will be driven by Banks, Autos, Capital goods, Consumer durables, and Real Estate. Discretionary consumption is still below its pre-Covid peak and with inflation on a declining trend, we should see a pickup in discretionary consumption as well. We also expect infrastructure development and manufacturing to remain the key priorities for the third term of the incumbent government, as highlighted in the manifesto.

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In the last two years, large cap stocks have significantly under-performed the midcap and small caps. Large cap stocks ratio to total market cap is lower versus previous periods while share in total profit pool has improved continuously over the last few quarters. Also, the relative valuation of large cap stocks vis-a-vis Small and Midcap is at historical lows. All these data points make us believe that risk reward favours large cap stocks and would advise more allocation to large cap biased funds. However, we continue to be believers in Mid and Small cap names from a longer-term perspective as India growth story remains on track.

Also, with interest rates at their peak and expectations of moderate equity returns from current levels, fixed income looks attractive. We recommend that investors in fixed income should continue to add duration to their portfolios and take benefit of any intermittent selloffs through short-term funds (Short Duration Fund, corporate Bond Fund, and Banking & PSU Fund). Overall, from a portfolio perspective, risk reward seems balanced across asset classes, hence, a multi-asset allocation approach with exposure to Equity, Fixed Income, and Gold continues to remain well-suited for the coming year.

Source: GS, Kotak, MOSL, ABSLAMC Research

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Aditya Birla Sun Life AMC Ltd ("ABSLAMC") /Aditya Birla Sun Life Mutual Fund is not guaranteeing/offering/communicating any indicative yield/returns on investments.

Our Recommendations

Market Cap Specific	Hybrid Solutions	Thematic & Sectoral Solutions	Diversified across Market Cap
Aditya Birla Sun Life Frontline Equity Fund	Aditya Birla Sun Life Balanced Advantage Fund	Aditya Birla Sun Life India GenNext Fund	Aditya Birla Sun Life Multi-Cap Fund
Aditya Birla Sun Life Mid Cap Fund	Aditya Birla Sun Life Multi Asset Allocation Fund	Aditya Birla Sun Life Digital India Fund	Aditya Birla Sun Life Flexi Cap Fund
Aditya Birla Sun Life Small Cap Fund			

None of the aforesaid recommendations are based on any assumptions. These are purely for reference and the investor are requested to consult their financial advisors before investing.

Our Recommendations

Approach	Fund	Investment horizon
Very Short Duration	Aditya Birla Sun Life Liquid Fund	7 days -1 month
Very Short to Short Duration	Aditya Birla Sun Life Savings Fund	1 month -6 months
Short Duration	Aditya Birla Sun Life Low Duration Fund	6-12 months
Accrual Strategy with High Quality Credit	Aditya Birla Sun Life Corporate Bond Fund	1-3 years
Active Management	Aditya Birla Sun Life Dynamic Bond Fund	Above 3 years
Accrual Strategy with High Yielding Credit	Aditya Birla Sun Life Medium Term Plan	Above 3 years

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Mutual Fund investments are subject to market risks, read all scheme related documents carefully.