

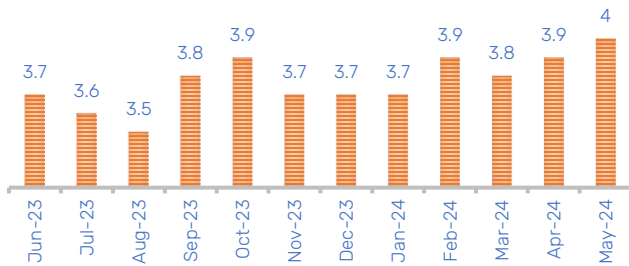
# MACRO INSIGHTS & MARKET OUTLOOK

Jul 2024

## US - Macro Factors

### US Unemployment

US UNEMPLOYMENT (%)



Source: US Bureau of Labour Statistics

The unemployment rate in the United States rose to 4% in May 2024, the highest since January 2022, up from 3.9% in the previous month and surprising market expectations, which had forecasted the rate to remain unchanged.

The number of unemployed individuals increased by 157,000 to 6.65 million, while employment levels went down by 408,000 to 161.1 million.

The labor force participation rate dropped to 62.5% from 62.7%, and the employment-population ratio decreased to 60.1% from 60.2%.

### Inflation

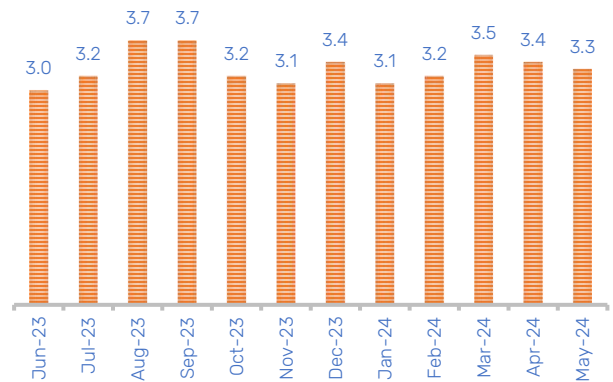
The annual inflation rate in the US unexpectedly slowed to 3.3% in May 2024, the lowest in three months, compared to 3.4% in April and forecasts of 3.4%.

Inflation eased for food (2.1% vs 2.2%), shelter (5.4% vs 5.5%), transportation (10.5% vs 11.2%) and apparel (0.8% vs 1.3%) and prices continued to decline for new vehicles (-0.8% vs -0.4%) and used cars and trucks (-9.3% vs -6.9%). On the other hand, energy costs rose more (3.7% vs 2.6%), namely gasoline (2.2% vs 1.1%), utility gas service (0.2% vs -1.9%) and fuel oil (3.6% vs -0.8%).

Compared to the previous month, the CPI was unchanged, the least since July 2022, compared to forecasts of a 0.1% increase and after a 0.3% rise in April.

A decline in gasoline prices was offset by higher shelter costs.

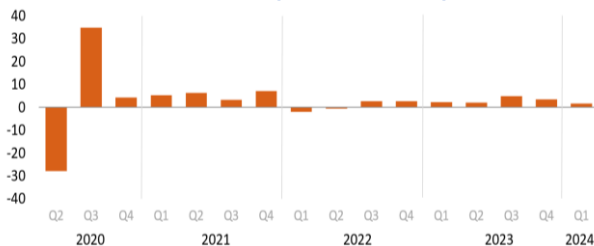
US INFLATION (%)



Source: US Bureau of Labour Statistics

### Gross Domestic Product (GDP)

US Real GDP (% change from preceding quarter)



Source: US Bureau of Economic Analysis

Real gross domestic product (GDP) increased at an annual rate of 1.6% in the first quarter of 2024, according to the "advance" estimate released by the Bureau of Economic Analysis. In the fourth quarter of 2023, real GDP increased 3.4%.

The increase in real GDP primarily reflected increases in consumer spending, residential fixed investment, nonresidential fixed investment, and state and local government spending that were partly offset by a decrease in private inventory investment.

### Purchasing Manager's Index (PMI)

The S&P Global US Manufacturing PMI was revised slightly lower to 51.6 in June 2024 from a preliminary of 51.7 but continued to point to the highest reading in three months and to an improvement in the manufacturing sector. New orders rose for a second month running and production continued to rise, albeit at a weaker rate. Although input costs continued to rise sharply, the rate of inflation eased in June, while selling prices increased at the slowest pace in the year-to-date. Meanwhile, business confidence hit a 19-month low, although client demand remained muted.

Source: S&P Global

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## Consumer Sentiments Index

	Jun 2024	May 2024	Jun 2023	M-o-M Change	Y-o-Y Change
Index of Consumer Sentiment	68.2	69.1	64.2	-1.3%	+6.2%
Current Economic Conditions	65.9	69.6	68.9	-5.3%	-4.4%
Index of Consumer Expectations	69.6	68.8	61.1	+1.2%	+13.9%

Consumer sentiment held steady in June; this month’s reading was a scant and statistically insignificant 0.9 index points below May and well within the margin of error. While consumers exhibited confidence that inflation will continue to moderate, many expressed concerns about the effect of high prices and weakening incomes on their personal finances. These trends offset the improvements in the short- and long-run outlook for business conditions stemming in part from expectations for softening interest rates. Still, sentiment is currently about 36% above the trough seen in June 2022.

Source: University of Michigan

## US Fed Rate Hike Probability

	CME FEDWATCH TOOL - CONDITIONAL MEETING PROBABILITIES								
MEETING DATE	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550
31-Jul-24				0.00%	0.00%	0.00%	0.00%	8.80%	91.20%
18-Sep-24	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	5.40%	59.90%	34.70%
07-Nov-24	0.00%	0.00%	0.00%	0.00%	0.00%	1.90%	24.20%	51.20%	22.70%
18-Dec-24	0.00%	0.00%	0.00%	0.00%	1.40%	18.50%	44.30%	30.00%	5.80%
29-Jan-25	0.00%	0.00%	0.00%	0.80%	10.70%	32.50%	36.50%	16.90%	2.70%
19-Mar-25	0.00%	0.00%	0.50%	6.90%	24.10%	35.00%	24.40%	8.10%	1.00%
30-Apr-25	0.00%	0.20%	3.00%	13.60%	28.40%	30.80%	18.00%	5.30%	0.60%
18-Jun-25	0.10%	1.80%	9.00%	22.00%	29.80%	23.60%	10.80%	2.70%	0.30%
30-Jul-25	0.70%	4.30%	13.50%	24.70%	27.60%	19.20%	8.00%	1.80%	0.20%

Source: CME

## India - Macro Factors

### Gross Domestic Product (GDP)

India’s estimated GDP is more than 4.1 trillion dollars.

India is among the highest population-based economies.

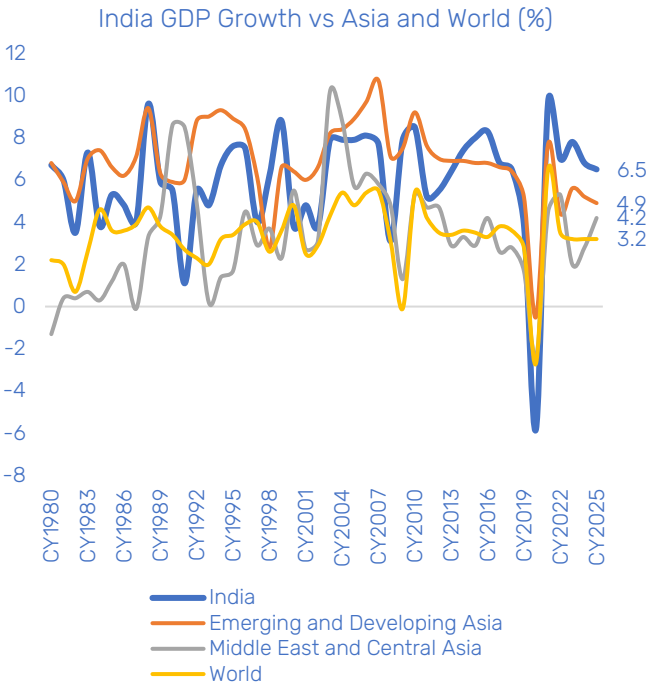
The Economic Survey forecasted India to grow 6.5% in 2023-24.

Buoyant public investment and improved business confidence are expected to propel India’s GDP growth.

The global GDP growth is projected to be 3.2% in CY25, fueled by stronger real income growth and lower policy interest rates.

India is poised to play a defining role in shaping the future of the global economy in 2024 and beyond.

With the expectation that the number of middle-to-high-income segments will be one in two households by 2030/31, up from one in four currently.



Source: IMF

# MACRO INSIGHTS & MARKET OUTLOOK

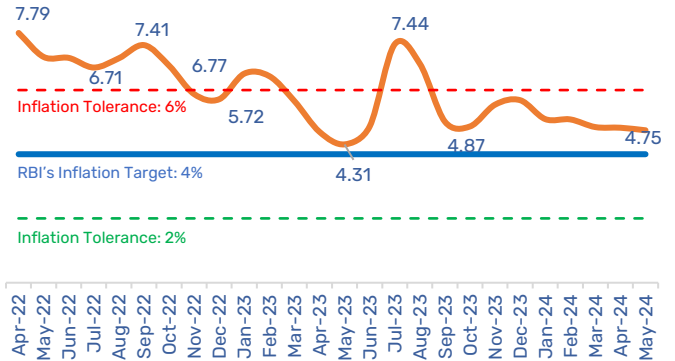
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## Inflation

The annual consumer inflation rate in India eased to 4.75% in May of 2024 from 4.83% in the previous month, below expectations that the rate would rise to 4.9%, to mark the slowest increase in consumer prices in one year.

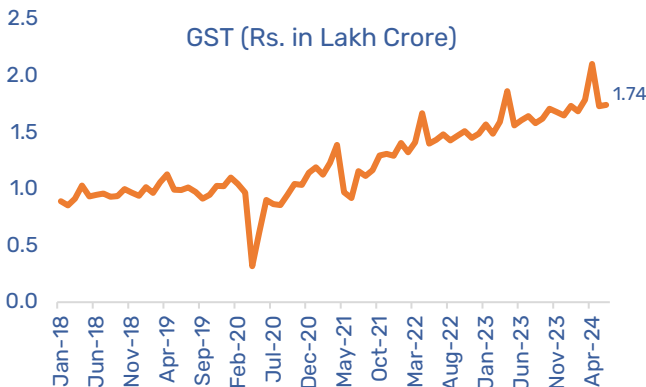
It was the ninth consecutive month that Indian inflation remained within the RBI's tolerance band of 2% from 4%, one among multiple conditions necessary for the central bank to deliver rate cuts this year.

Prices slowed for housing (2.56% vs 2.68% in April) and clothing and footwear (2.74% vs 2.85%), while remaining loosely stable for food (8.69% vs 8.7%). On the other hand, deflation softened for fuel and light (-3.83% vs 4.24%).



Source: RBI

## Goods and Services Tax (GST)



Source: Ministry of Finance

Marking its seventh anniversary, the Goods and Services Tax (GST) collections reached Rs.1.74 lakh crore for the month of June 2024.

This came with a 7.7% YoY increase compared to June 2023. The cumulative collections for the current year stood at Rs.5.57 lakh crore.

The GST figure continues to reflect a positive economic trend owing to efficient and timely self-compliance by businesses. This can further be evidenced by a gradual MoM and YoY increase in the figures.

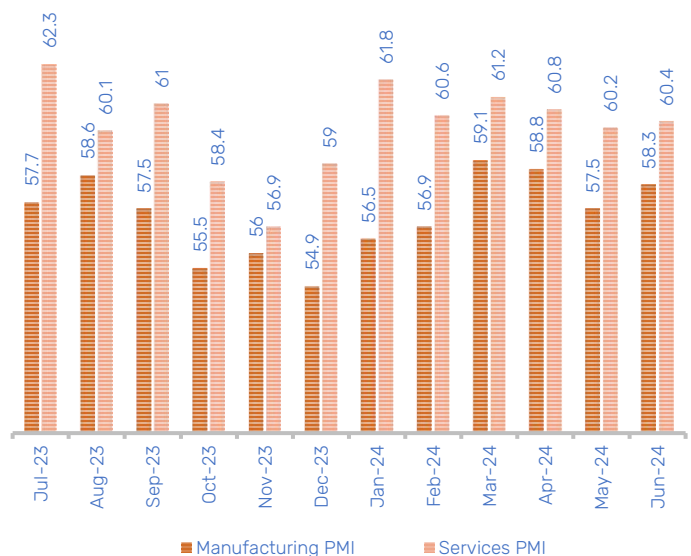
## Purchasing Managers Index (PMI)

June Manufacturing PMI improved to 58.3 vs. 57.5 last month indicating that the sector ended the June quarter on a stronger footing. Buoyant demand conditions supported the expansions in new orders, output and buying levels. Exports continued to increase substantially and job creation was sharply higher.

India Services PMI edged up to 60.4 in June 2024 from 60.2 in the previous month, compared to market forecasts of 60, preliminary estimates showed. This marked the 35th consecutive month of growth in services activity, supported by a further rise in new orders. Additionally, new export orders expanded for the 22nd straight month, with the service economy contributing mostly to this growth. Employment levels in the sector also increased during the month. On the price front, input price inflation slowed in the service sector, while charge inflation fell to a joint four-month low (the same as in April). Lastly, business confidence remained upbeat in June, as firms expect their marketing efforts to bear fruit and positive demand momentum to be sustained.

Source: S&P Global

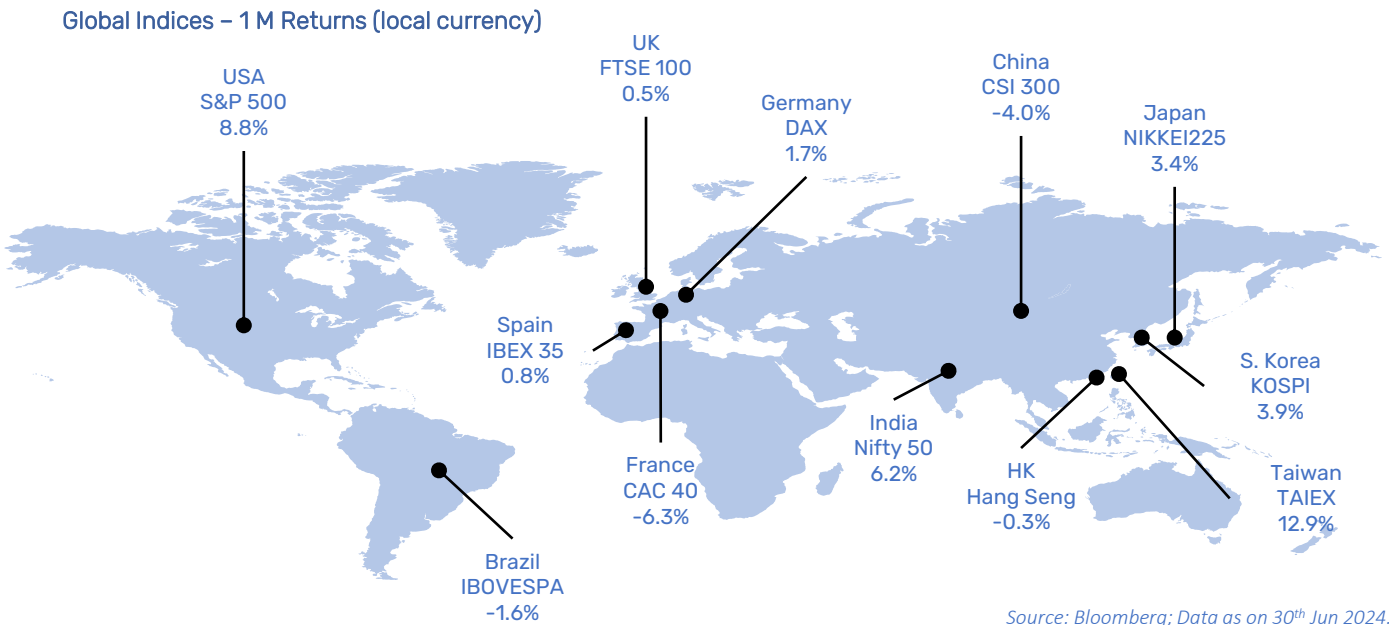
## India - Manufacturing & Services PMI



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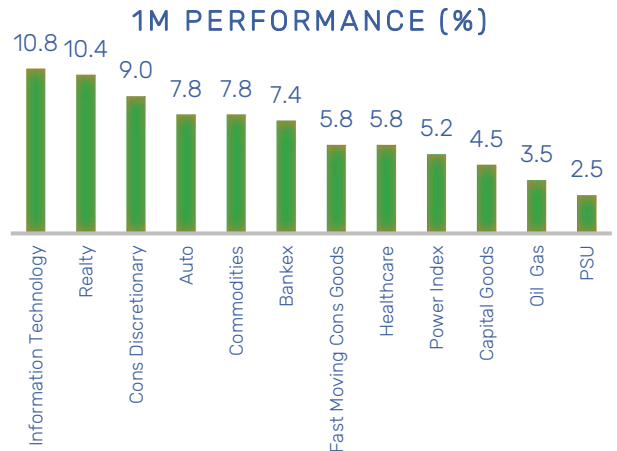
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## Equity Market Insights



### Indian Indices – 1 M Returns

- Indian equities at new all-time high (post-election results); Nifty up 6.2% m-o-m. Major push came from IT, Realty and Consumer Discretionary. DIIs remained net buyers.
- Within Nifty 50, the sectors that contributed to performance were Financials (2.7%), IT (1.2%), Energy (0.9%) and Consumer Discretionary (0.6%).
- FPIs net flow into equities in Jun was up by Rs 244 bn vs. Rs 253 bn decrease in the previous month. DIIs were net buyers, net inflows at Rs 286 bn vs. Rs 557 bn net inflows in last month.



### Brief Earnings Summary on Key Sectors:

**Banks:** The banking sector reported a healthy performance in 4QFY24, fueled by robust business growth and controlled provisions. Net Interest Margins performance was mixed, with many banks reporting margin improvements. Opex was high for most of the banks. Credit growth was healthy, supported by strong traction in the retail and MSME segments. Public Sector Banks continued to report strong improvements in operating performance. Net Interest Income (NII) growth also remained strong, which, along with steady fee income and treasury gains, led to healthy growth in profit after tax (PAT).

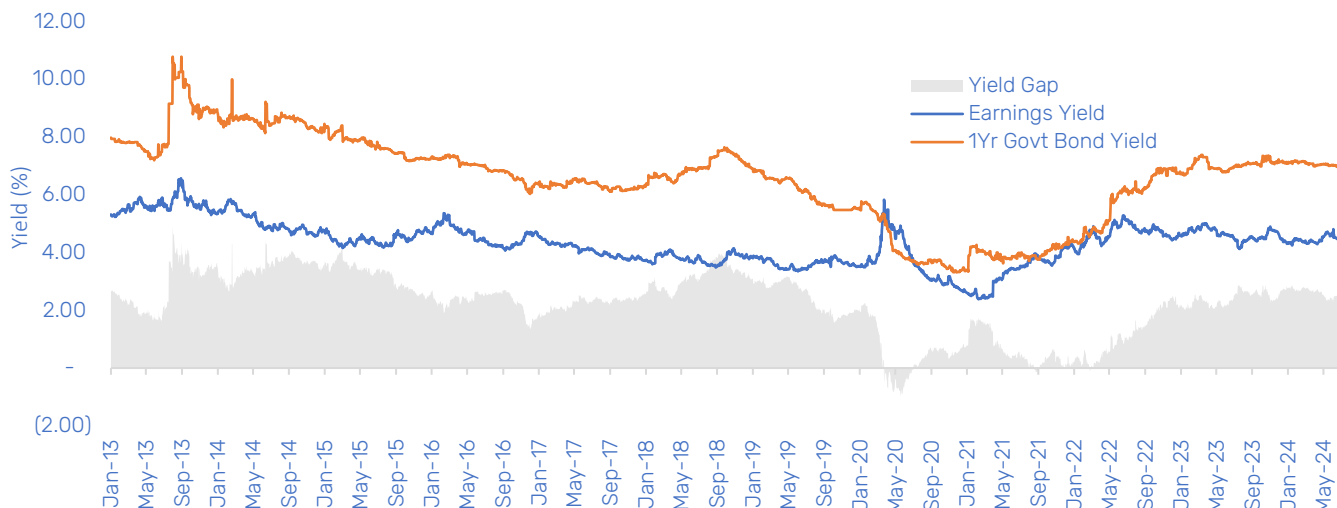
**Autos:** Volumes (ex-tractors) in 4QFY24 grew 20% YoY, led by a healthy recovery in 2 Wheelers and a sustained growth in the SUV segment. 2 Wheelers witnessed the highest growth of ~26% YoY during the quarter, driven by a low base and strong demand for the 125cc+ segment.

**Consumer:** The demand trends were largely stable, but most companies witnessed rural recovery, primarily towards the end of 4QFY24. After a lackluster demand trend in FY24, the commentaries from most management teams look promising, backed by a volume recovery in FY25.

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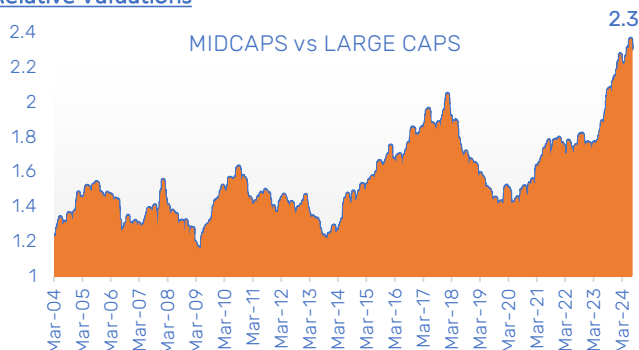
## Yield Gap



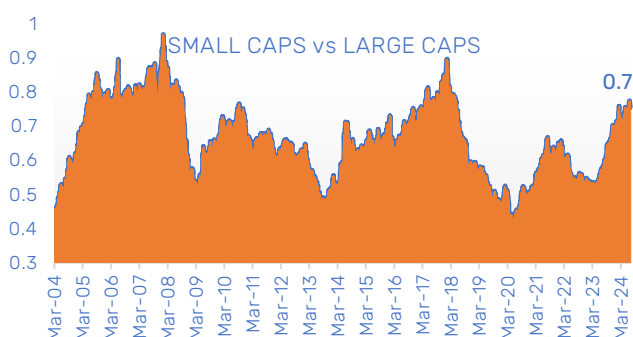
Source: Bloomberg; Internal Research; Data as on 28<sup>th</sup> Jun 2024.

Yield gap between 1 year G Sec Yield and 1 year forward Nifty Earnings Yield (Earning Yield = 1/1Year Fwd PE) remains higher than the long term average.

## Relative Valuations



Source: Bloomberg; Internal Research; Data as on 28<sup>th</sup> Jun 2024.



Source: Bloomberg; Internal Research ; Data as on 28<sup>th</sup> Jun 2024.

The relative strength of Nifty Midcap 100 vis-à-vis Nifty 50 is at 2.3 and Nifty Small Cap 100 vis-à-vis Nifty 50 at 0.7. The trend has been in an upward move, indicating that the midcap and small cap indices has been outperforming the large cap index.

## Commodities Performance

Commodities	1 Month	3 month	6 Month	1 Year	3 Year	5 Year
Gold	-0.57%	6.83%	13.14%	23.49%	15.11%	16.03%
Silver	-5.43%	18.66%	17.98%	27.20%	8.82%	18.58%
Crude	5.63%	0.66%	10.51%	22.91%	8.07%	10.64%
WTI	3.09%	-0.55%	16.39%	19.81%	4.53%	7.44%

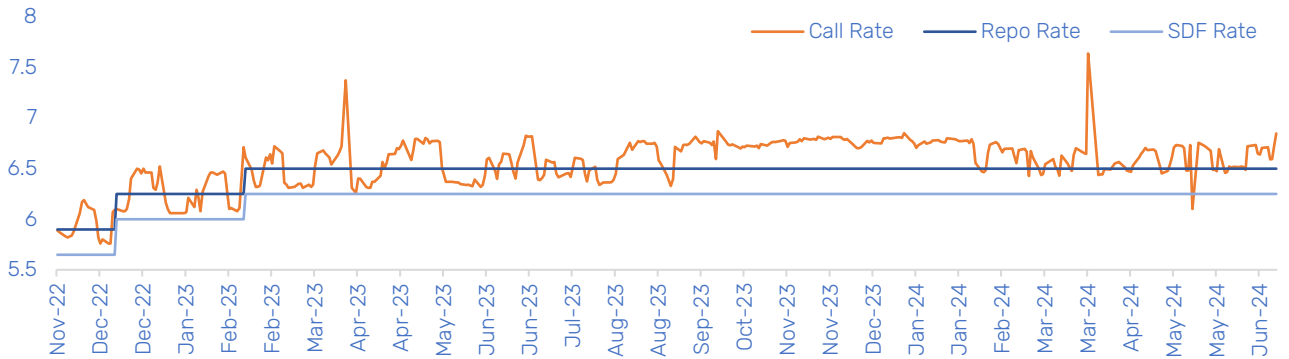
Source: ICRA; Data as on 28<sup>th</sup> May 2024.

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## Fixed Income Market Insights

### Key Policy Rates



Source: Bloomberg; Data as on 28<sup>th</sup> Jun 2024.

Broad Indices	28-Jun-24	Week Ago	Month Ago	3M Ago	6M Ago	Year Ago
Call Rate	6.85%	6.70%	6.49%	7.63%	6.80%	6.82%
T-Repo	6.72%	6.68%	6.42%	6.99%	6.77%	6.76%
Repo	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%
Reverse Repo	3.35%	3.35%	3.35%	3.35%	3.35%	3.35%
3 Month CP	7.21%	7.16%	7.18%	7.70%	7.51%	6.99%
1 Year CP	7.68%	7.69%	7.70%	7.70%	7.90%	7.47%
3 Month CD	7.12%	7.13%	7.26%	7.77%	7.44%	6.93%
1 Year CD	7.62%	7.56%	7.50%	7.62%	7.88%	7.38%

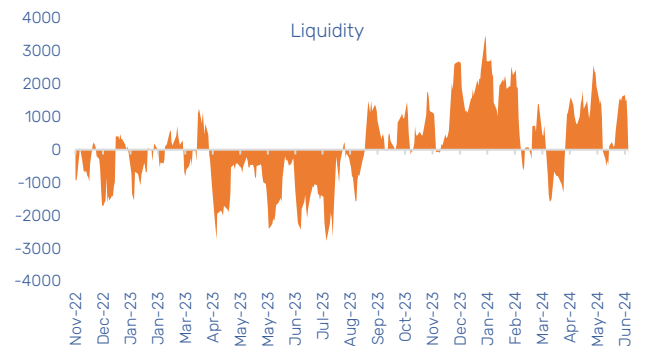
Source: ICRA; Data as on 28<sup>th</sup> Jun 2024.

Spread (in bps)	28-Jun-24	Week Ago	Month Ago	3M Ago	6M Ago	Year Ago
1 Y-AAA & G-Sec	83	88	90	95	77	72
3 Y-AAA & G-Sec	60	67	67	63	60	76
5 Y-AAA & G-Sec	54	54	56	60	42	48
10 Y-AAA & G-Sec	56	61	53	54	57	37
1 Y-AA & G-Sec	132	133	136	141	110	133
3 Y-AA & G-Sec	118	120	122	117	102	105
5 Y-AA & G-Sec	103	102	103	105	102	97
10 Y-AA & G-Sec	117	120	116	112	78	86

Source: ICRA; Data as on 28<sup>th</sup> Jun 2024.

### Market Liquidity

Banking system's liquidity remained in deficit mode, however, the deficit narrowed slightly compared to previous week's average. Reduced government spending along with outflows of dues pertaining to goods and services tax are mainly attributed for the liquidity deficit in the banking system. In response to the tight liquidity, the RBI conducted two variable rate repo auctions of aggregate amount of Rs. 75,000 crore, which witnessed bids of around 1.7 times of the notified amount from the banks.



Source: Bloomberg; Data as on 28<sup>th</sup> Jun 2024

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## Foreign Exchange

India's foreign exchange reserves have sustained their elevated levels, as on 21<sup>st</sup> Jun 2024 it stood at \$653 billion. The foreign currency assets include the impact of the rise or fall in the value of non-US currencies, such as the euro, pound, and yen, which are held within the foreign exchange reserves.

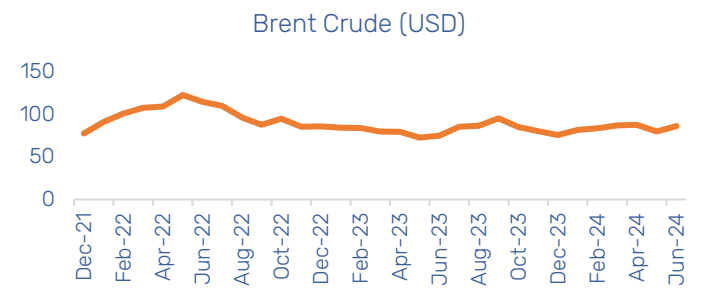
	21-Jun-24	Variation Over		
		Week	Mar-24	Year
1 Total Reserves	653711	816	7292	60513
1.1 Foreign Currency Assets #	574134	-106	3183	48694
1.2 Gold	56956	988	4281	12651
1.3 SDRs	18049	-57	-82	-285
1.4 Res Position in the IMF	4572	-9	-90	-548

Source: RBI; \*Difference, if any, is due to rounding off. # Excludes (a) SDR holdings of the Reserve Bank, as they are included under the SDR holdings; (b) investment in bonds issued by IIFC (UK); and (c) amounts lent under the SAARC Currency swap arrangements.

## Brent Crude

CYTD, the Brent Crude has been range bound between USD 75 per barrel and USD 90 per barrel. As of 31<sup>st</sup> May 2024, the rate per barrel was USD 79.79.

Crude sustaining within the USD 90-level could be a comfortable number to keep our core inflation under control.



Source: Bloomberg; Data as on 28<sup>th</sup> Jun 2024

## Market Outlook

### Equity Market Outlook

In June 2024, many global indices closed positively, marking the third consecutive positive quarter. This growth was largely driven by strong corporate earnings, subsiding inflationary pressures, and anticipated productivity enhancements from AI. The United States led the global equity landscape, although the average US stock underperformed the broad cap-weighted index by nearly 10%. European stocks lost ground in June but still delivered a positive quarter. The euro zone continues to struggle with inflation above the ECB's 2% target, driven by wage pressures. Despite this, the ECB cut its interest rate from 4% to 3.75% to stimulate the economy. Japan saw gains in local currency terms, but the yen depreciated by 2% in June due to the Bank of Japan's interest rate policy. Asian markets performed strongly in June, with Taiwan rising over 15% in the quarter. However, China lost nearly 4% as investor sentiment and consumer spending remained muted.

In June 2024, Indian markets resumed its uptrend after overcoming uncertainty following election results in the first week. Broader markets outperformed large caps, with small and mid-caps significantly outperforming the Nifty 50. India's macroeconomic story remains robust, presenting opportunities across various segments. The upcoming budget may provide insights into the new government's policy priorities and clarity on taxation.

The progress of the monsoon has been better than expected, covering the nation seven days ahead of the MET's anticipation. This will be crucial to monitor, especially given historically low reservoir levels and high food inflation. While liquidity remains strong and valuations are high across market segments, midcaps appear to be more valued compared to large caps and small caps.

We continue to believe that India is in a "Goldilocks" moment due to solid macroeconomic conditions, healthy corporate earnings, peaking interest rates, moderate inflation, and ongoing policy momentum. This environment is expected to anchor a bull market in stocks as the country continues to focus on macro-stability.

The government's emphasis on infrastructure spending, affordable housing, and reforms in all factors of production to boost manufacturing and remove supply-chain bottlenecks will be significant. Over the medium term, the market is expected to focus on earnings delivery. A mid-teen earnings improvement appears broadly possible, and future market performance may largely depend on earnings growth. Increased support for lower-income categories and the agricultural sector, coupled with a pickup in capital expenditure, is key to a constructive economic outlook over the medium term.

continued overleaf...



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We believe that the discretionary consumption theme is expected to see significant growth. The next five years are likely to bring a major rise in corporate capital expenditure, leading to strong order books for industrial companies and the infrastructure segment. The real estate sector also appears to have a positive outlook.

Market valuations are elevated from a historical perspective, but earning momentum is strong with robust domestic capital inflows. Currently, large-cap stocks with higher liquidity have higher valuation comfort compared to their smaller peers.

In summary, the global market's positive trajectory in June 2024 highlights the varied yet promising economic landscapes across regions. While challenges persist, especially in Europe and China, robust corporate earnings and strategic policy adjustments are paving the way for continued growth. India's unique position, bolstered by strong macroeconomic fundamentals and proactive government policies, underscores its potential for sustained market leadership in the coming years.

While the long-term outlook for Indian Equity Markets remains positive in the backdrop of Viksit Bharat vision, the possibility of short-term volatility cannot be completely ruled out. To navigate this, investors might consider less volatile options like balanced advantage funds or multi-asset allocation funds. For those interested in equity-oriented products, flexi cap funds and large and mid cap funds, which typically have lower standard deviations, can help manage risk. We strongly advise investors to consult their financial advisors to ensure their investments align with their risk tolerance and financial goals.

## Fixed Income Market

The MPC meeting's outcome during the month was largely in line with market expectations. The upward revision in real GDP growth projection by 20 bps though wasn't much expected by market but given the momentum in recent quarters it doesn't come as big surprise. Also note we now have one more MPC member in dissent voting for 25 bps rate cut along with change in stance to neutral.

The RBI's policy rate of 6.5% amounts to a real policy rate of 2%, based on the central bank's year-ahead inflation projection. The neutral real policy rate can be estimated as being in the 1.0%-1.5% range. The real policy rate facing the industrial sector is even higher. This creates the possibility of more members in MPC turning dovish in coming months barring any food inflation shock or big change in Fiscal policy (watch out for Final Budget FY 2025).

In the near term, India's robust growth conditions has provided the Reserve Bank of India (RBI) with the flexibility to maintain its current pause on interest rate. This pause is likely to continue until there is some slack in growth momentum. Recent heatwave conditions have posed a short-term upside risk to food inflation, but this risk is expected to diminish as the monsoon season progresses and food prices stabilize post monsoon.

Macroeconomic stability in India is expected to continue with favourable growth and inflation projection. This is bolstered by continued Foreign Portfolio Investment (FPI) inflows, especially after India's inclusion in global bond indices. This inclusion is expected to attract significant foreign investments into the Indian bond market, supporting overall economic stability.

Globally, the US Federal Reserve may start to implement rate cuts in the near future as US Consumer Price Index (CPI) figures could show easing trends. The current pricing by US Treasury curve suggests that bond markets are pricing in around two 25bps cut by December 2024.

In near term, we expect the longer yields to be range-bound. The benchmark 10-year government securities (GSec) yield in India is anticipated to remain within the 6.90% to 7.05% range.

On the short end of the yield curve, we could see a rally of 10-20 basis points, driven by an expected improvement in liquidity conditions in month of July. Improved liquidity can lead to lower yields at the short end, providing attractive opportunities for investors looking to capitalize on short-term fixed income instruments.

In the context of above, we believe that the investor with time horizon of about a year may invest in duration funds. Others with shorter horizon may consider Banking and PSU Funds or Short Term funds.

Source: RBI, CDSL, NSDL, Bloomberg, MOSPI, AMFI



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