

India Newsletter

September 2024

In this edition...

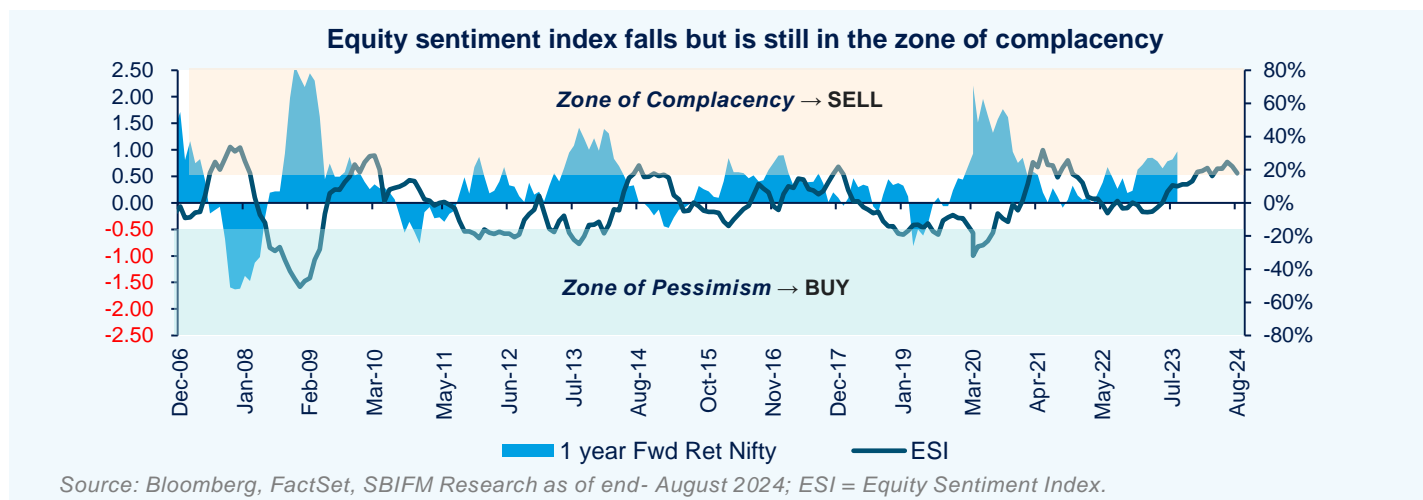
- **Market overview:** Indian equity market insights from SBIFM's CIO Team
- **Did you know?** Domestic participation is increasing
- **Hot topic:** Real GDP softens. Really?

MARKET OVERVIEW: Indian equity market insights from SBIFM's CIO Team

India market views

In August, MSCI India was up 0.9% (in USD terms). The month began with Foreign Portfolio Investors (FPIs) selling Indian equities tracking other global markets due to a confluence of global macro factors including the unwinding of the world's biggest carry trade (Japanese Yen) and rising US employment rates. **Indian markets remained resilient due to solid core fundamentals along with strong support from the increasing participation of Domestic Institutional Investors (DIIs)¹.** Towards the second half of the month, Foreign Institutional Investors (FIIs) also became buyers. During the month, MSCI rebalanced its indices, with India's weightage in the MSCI Emerging Markets (EM) Index rising to a record 20% from the current 19.4%, with a potential to bring USD 5.5 billion in net inflows. Markets closed in the positive territory.

As of the end of August 2024, our proprietary Equity Sentiment Index (ESI) declined but remained in the Zone of Complacency. The sentiment measure works as a contrarian indicator. The Sensex² was trading at a 25.3x price-to-earnings (P/E) multiple, compared to a historical average of 20.4x, placing it in the 90th percentile since 2001. MSCI India's valuation premium relative to emerging markets improved in August. **Beyond short-term excesses, the long-term earnings trajectory remains encouraging.** Corporate profits as a proportion of GDP in India have reversed the downtrend of the past decade and have been increasing over the past three years, suggesting we are in the early stages of an earnings expansion cycle, which should bode well for long-term investors. At SBIFM, our view remains that the market will become more discerning and **move back towards companies that have strong business models, long-term earnings growth visibility and sustainable cashflows.**



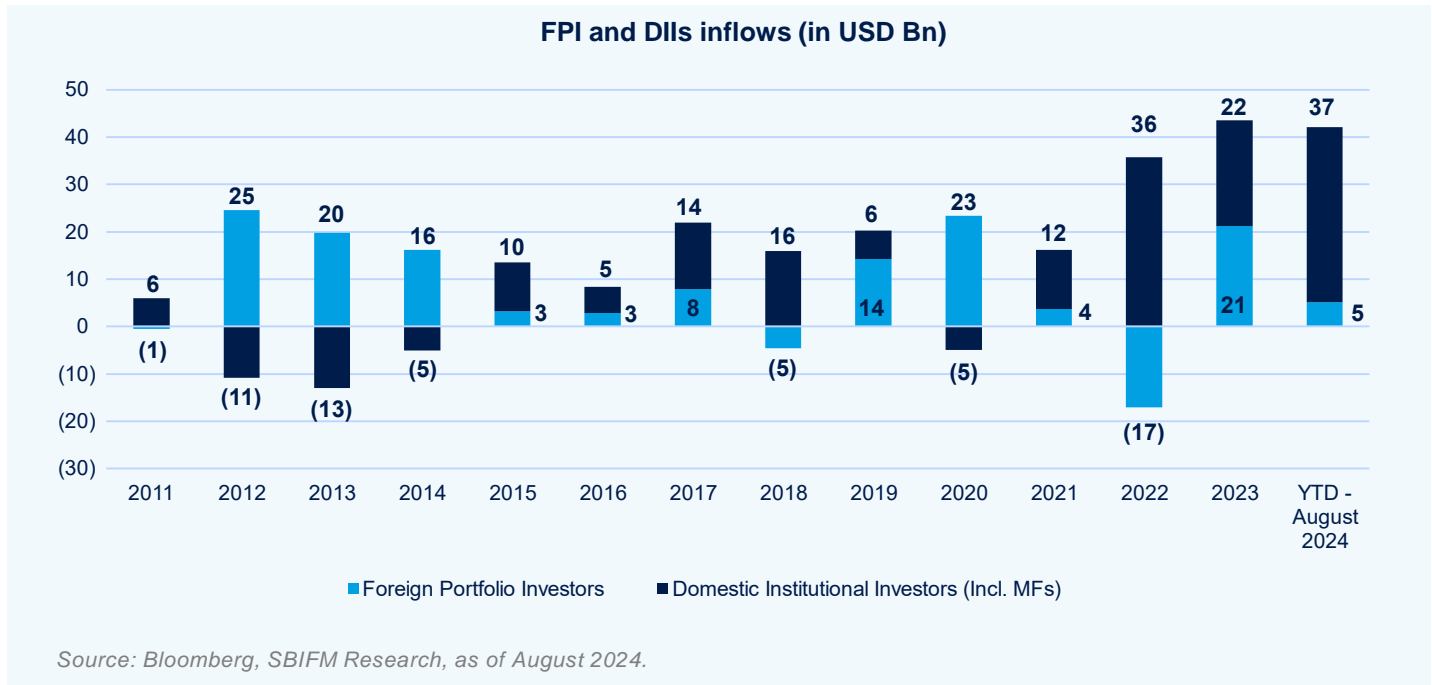
¹See the next section "Increasing domestic participation: Made in India shock absorber for markets".

²The Sensex index is based on companies listed on the Bombay Stock Exchange (BSE) of India. The Nifty is the index for the National Stock Exchange (NSE).

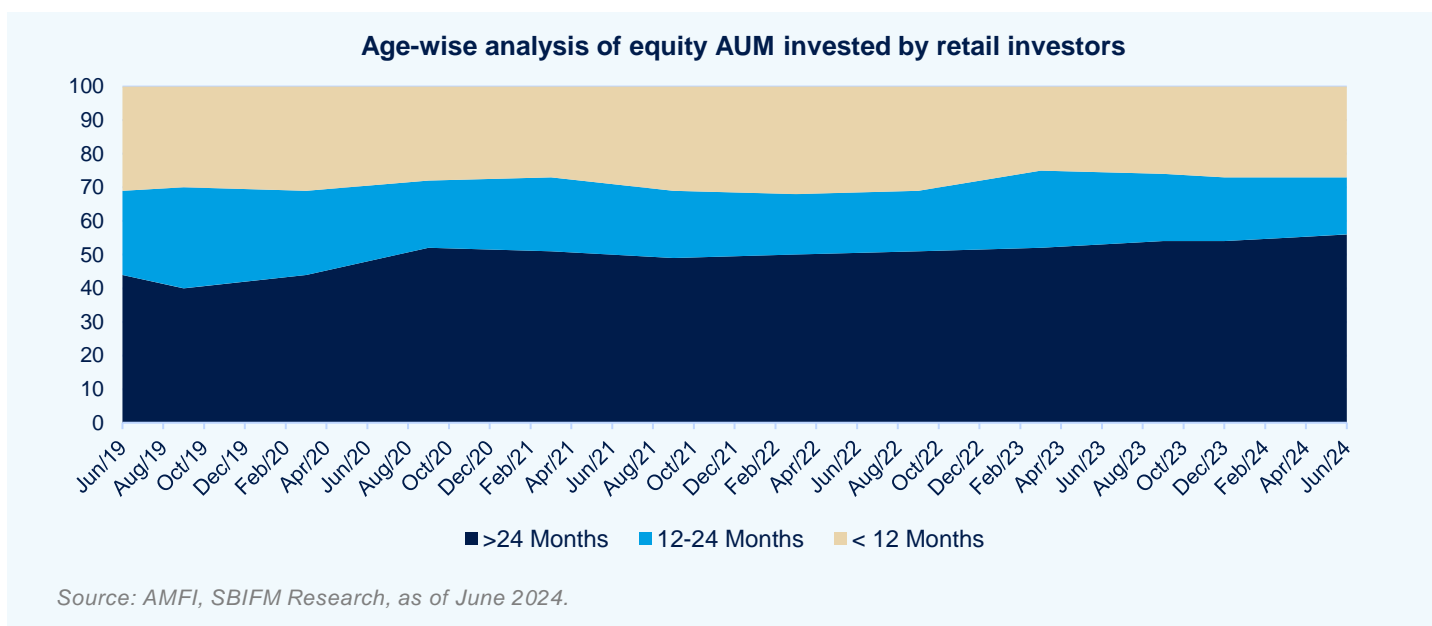
DID YOU KNOW? What stood out to us this month

Increasing domestic participation: Made in India shock absorber for markets

Indian households have traditionally held their savings in physical assets such as real estate or valuables like gold. However, in recent years, this trend has been shifting, with more investors moving towards financial assets, such as mutual funds or investing directly in equities. Since 2015, except for an outlier year of 2020 during COVID-19, DIIs have been consistent buyers of equities, often outpacing the FPIs. This increasing domestic participation has made equity markets more resilient, acting as a 'shock absorber' to counter potential selloffs by foreign investors.

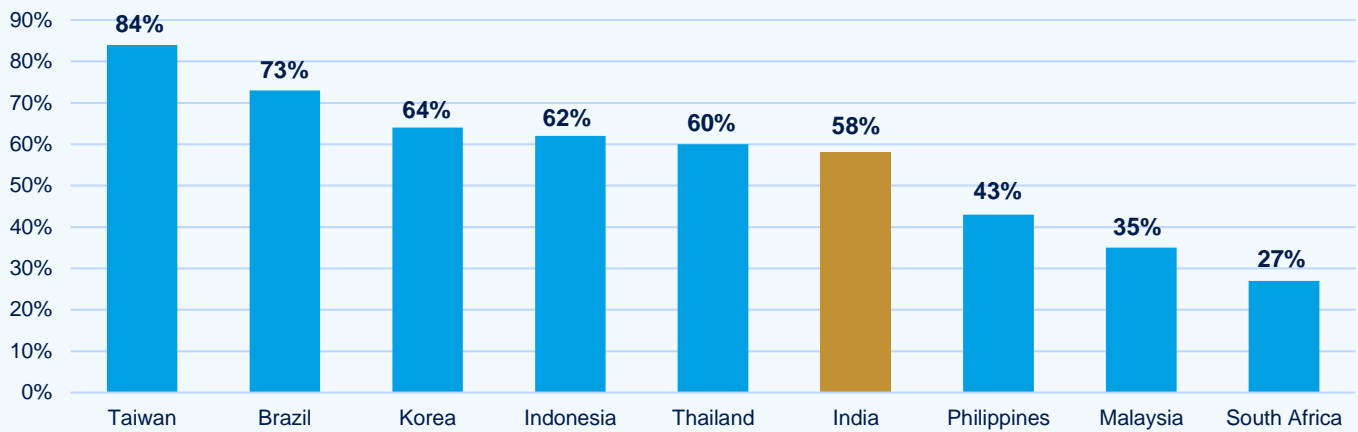


Domestic investors have also been increasing their holding period (refer to the chart below) in the market. Our view is that, as they stay invested, they improve their understanding of the power of equity markets in compounding profits and creating wealth. This, in turn, has been helping the DIIs as well.



The increasing domestic participation in equities has reduced the correlation between Indian equity markets and FII inflows. The correlation has slipped to 58% from a two-year average of 65%.

Equity returns and foreign flows – Correlation



Source: Bloomberg and SBIFM Research, as of August 2024. Note: Average 2-year correlation of foreign flows and respective equity market returns, measured by monthly Index returns (in India's case, MSCI India Index) and buying and selling. The above is based on monthly log returns.

HOT TOPIC: Real GDP softens. Really?

Real GDP growth in Q1 FY25³ softened to 6.7%, compared to nearly 8% in each quarter of FY24, in line with expectations. However, our analysis at SBIFM made us conclude that **this moderation was more due to idiosyncratic and statistical factors, with underlying momentum remaining strong**. A few notable points were:


- **Investment and consumption convergence:** investment growth that outpaced private consumption for six quarters in a row (avg. 7.5% vs 3.2%) finally converged, led by a meaningful pickup in the latter. Private consumption grew by 7.4% (See table below);
- **Industrial growth and services growth convergence:** industrial growth has been much higher in the last three quarters than services growth. The two showed signs of convergence in the current reading, with industrial growth softening and services growth rising.
- **Exports outpace imports:** after a wait of four quarters, export growth outpaced import growth.

	% Share in GDP (5Yr avg)	FY19	FY20	FY21	FY22	FY23	FY24	Q1 FY25
Real GDP	100	100	6.5	3.9	-5.8	9.7	7.0	6.7
Private Consumption	57	57	7.1	5.2	-5.3	11.7	6.8	7.4
Govt. Consumption Spending	10	10	6.7	3.9	-0.8	0.0	9.0	-0.2
Gross Capital Formation	35	35	11.0	-2.6	-7.4	21.1	5.5	7.1
Exports	22	11.9	-3.4	-7.0	29.6	13.4	2.6	8.7
Imports	23	8.8	-0.8	-12.6	22.1	10.6	10.9	4.4

Source: CMIE Economic Outlook, SBIFM Research, data as of July 2024.

³ FY25: April 2024 to March 2025.

The Indian macro environment continued to sustain healthy momentum, as indicated by movements in high-frequency indicators. Key macro indicators such as electricity generation and bank credit continued to expand, and GST collections remained healthy.

Index value for every month compared to corresponding month in the prior year	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24
Macro indicators													
Bank credit deflated by WPI	121	120	120	120	120	119	120	120	120	118	118	114	112
GST deflated by WPI manufacturing	113	113	111	114	116	111	113	114	112	113	109	106	109
Consumption of petroleum products	103	108	108	105	98	103	108	106	99	108	102	103	107
Electricity generation	112	119	113	125	111	105	107	108	108	110	115	109	108
Weak to stronger data → 													

Source: CMIE Economic Outlook, CEIC, SBIFM Research, as of July 2024.

GDP Outlook: according to SBIFM forecasts, the outlook remains close to 7% for each of the remaining three quarters of FY25. This comes at a time when the consumer price index (CPI) hovers around 4%, wholesale price index (WPI) is below 3%, the current account deficit (CAD) is under 1% of GDP, fiscal consolidation is stronger than expected, and the rupee remains range bound.

Important information – Marketing Communication

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