THE MONTH GONE BY

An insightful roundup of relevant stories in the recent month backed by interesting data points

Sports enthusiasts were glued to the screen as athletes from every corner of the world converged to compete across varied sports in the Olympics. Beneath every medal won lies years of rigorous training, relentless effort, unwavering focus and commitment.

THE ICEBERG ILLUSION

Perseverance: Despite facing setbacks, athletes portray resilience in the face of adversity. Similarly, curveballs thrown by the market could unnerve investors – it is important to keep emotions at bay and remain invested for the long term.

Discipline: Just as how athletes adhere to strict training regimes; creating wealth requires discipline, patience and a well-thought-out strategy that aligns with your financial goals.

Adaptability: During the journey, athletes may have to embrace new strategies amid changing conditions. Similarly, investors should build a portfolio with mutual fund schemes that have the flexibility to adapt to changing market conditions for a smoother investment journey.

While we ponder about the course ahead, it is important to connect the dots with key market events of August 2024.

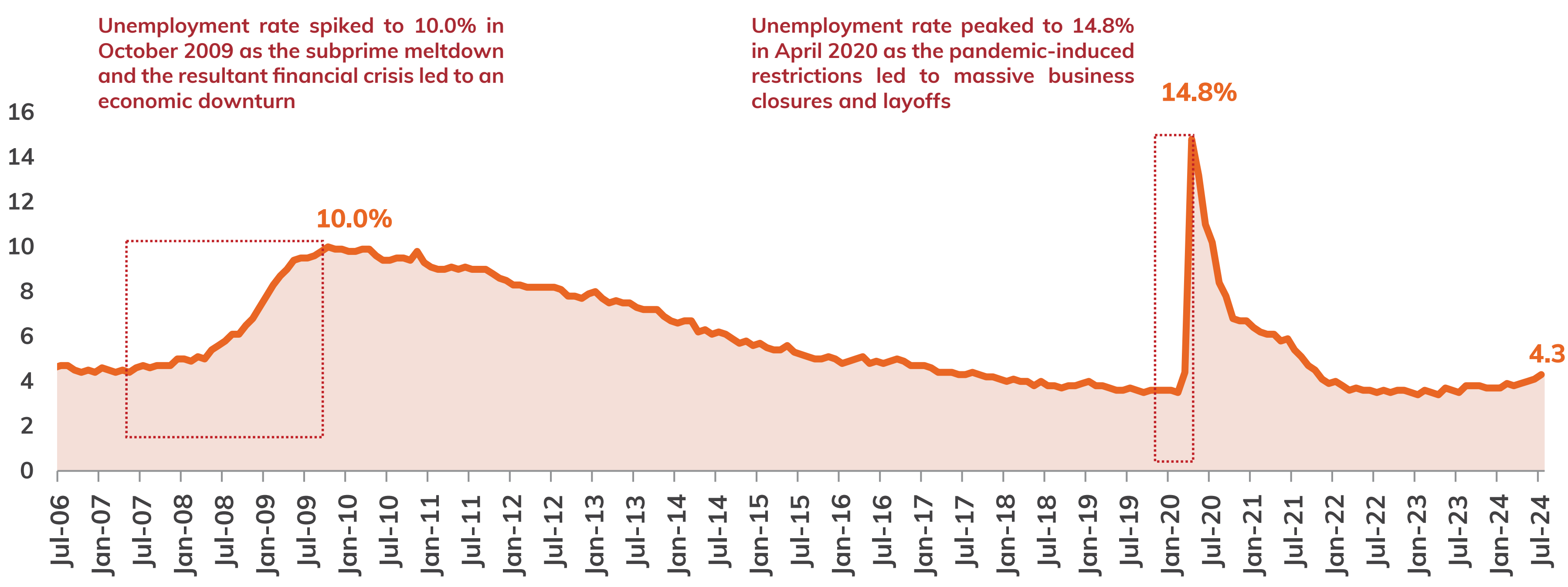
When the U.S. sneezes, the world catches a cold – What spooked the Equity Markets?

ICICI PRUDENTIAL MUTUAL FUND

Equity Markets experienced a rocky start to August 2024 – The rout began with the **Bank of Japan's surprise interest rate increase,** compelling investors to **unwind their Yen carry trade. Flaring geopolitical tensions** added an **additional layer of anxiety to the turbulence.** Further, a **weaker than expected jobs report in the U.S.** coupled with a contraction in manufacturing activity **sparked fears of potential recession.**

The U.S. unemployment rate ticked up to 4.3% in July 2024, the highest since October 2021. The U.S. labour market added only 114,000 new jobs in July 2024, a sharp slowdown from the 179,000 jobs reported in June 2024.

U.S. UNEMPLOYMENT RATE (%)



Source: U.S. Bureau of Labor Statistics. U.S.: United States of America. Pandemic refers to the Covid-19 outbreak.

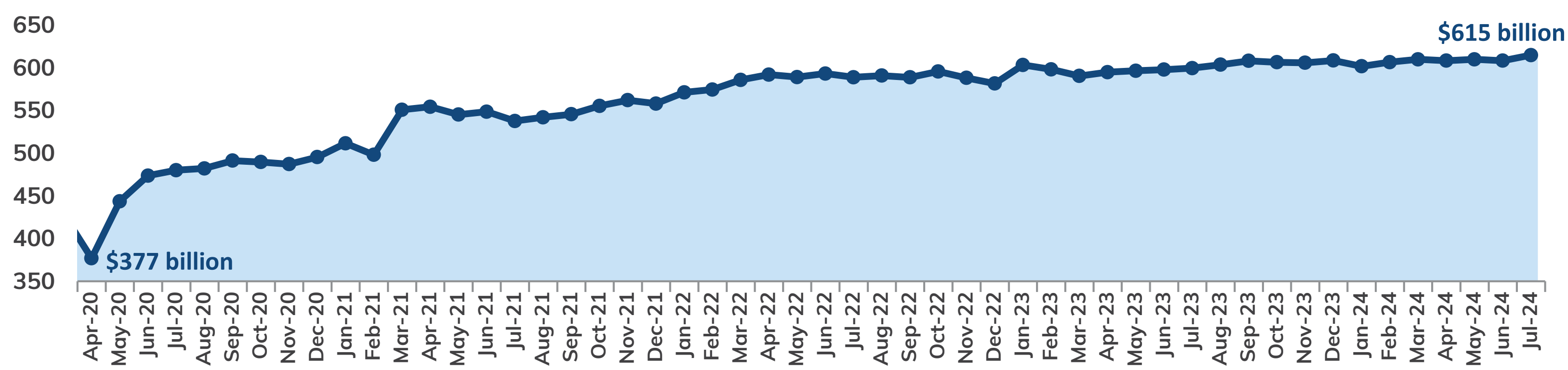
Dilemma of the Financial markets – Could the Recession flashing alarms be false?

ICICI PRUDENTIAL MUTUAL FUND

The U.S. economy grew at a 3% annualized rate during the April-June 2024 quarter, supported by an increase in consumer spending and business investment.*

Moreover, better U.S. retail sales numbers and a cooling inflation print released during the month **breathed new life into the Wall Street.**

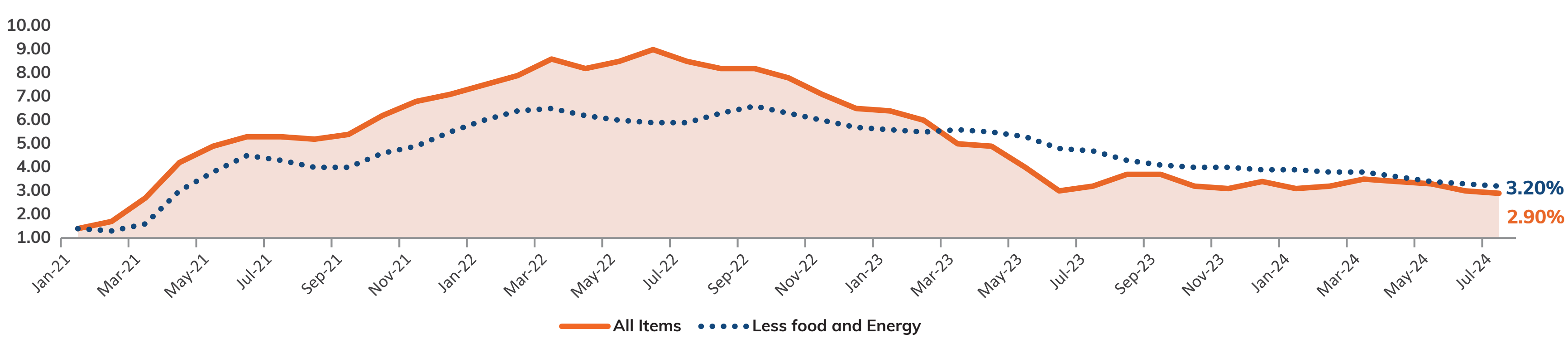
U.S. ADVANCE RETAIL SALES - RETAIL TRADE (US $ BILLION)



Source: U.S. Census Bureau, *U.S. Bureau of Economic Analysis, Second estimate of Gross Domestic Product Growth

U.S. CONSUMER PRICE INDEX (%)

The U.S. Consumer Price Index eased to 2.9% in July 2024, inching closer to the Federal Reserve's target inflation rate of 2%. **Inflation has cooled significantly from the June 2022 peak of 9.1%.**



Source: U.S. Bureau of Labor Statistics, Year-on-Year percent change

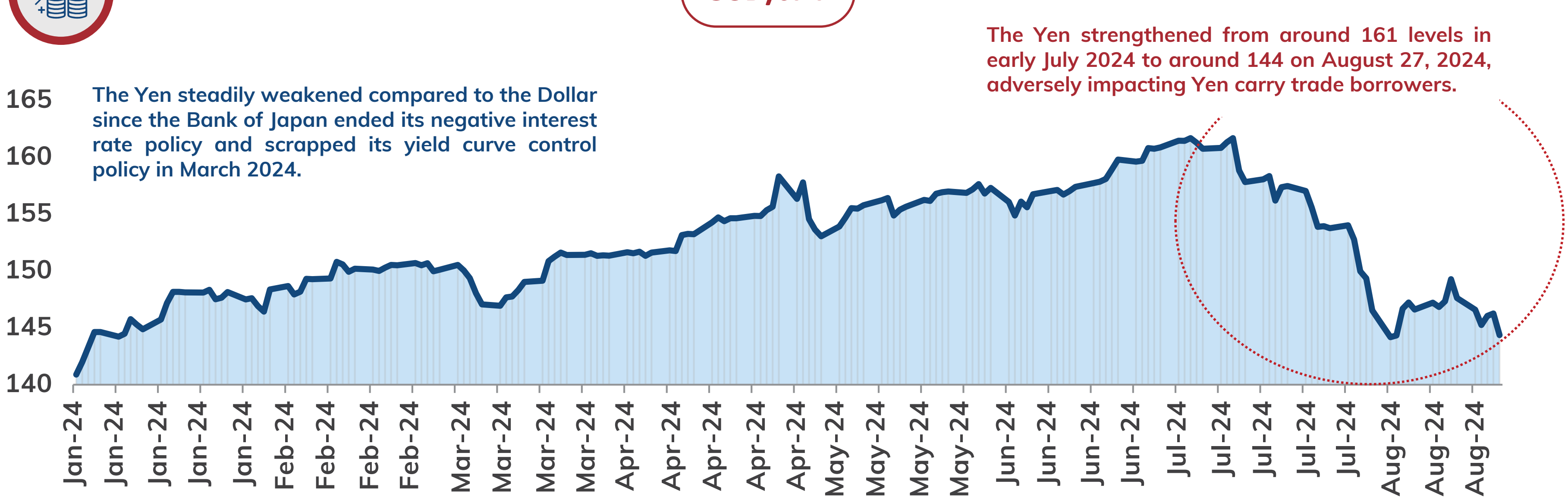
Unwinding of the Yen Carry Trade became the Talk of the Town

The Bank of Japan lifted its benchmark interest rate to 0.25% from the 0-0.1% range as inflation remained above the target. In reaction, **Japan's Nikkei 225 index plummeted around 12% on August 05, 2024,** its steepest single-day fall since October 1987. **As the Japanese Yen strengthened against the U.S. Dollar, investors began unwinding their carry trades** to curtail losses.

What are Carry Trades? A Carry Trade involves borrowing from a country with low interest rates and re-investing the money in financial assets of another country with a higher rate of return.

Why is the Yen Carry Trade considered important? The Japanese Yen had become a popular choice for carry trades as Japan's key interest rate hovered near zero for over two decades, providing investors an opportunity to borrow at a relatively lower interest rate and invest in other high-yielding assets. The interest rate hike in July 2024 sent jitters across the market – **Yen carry trade borrowers were adversely affected as the Yen appreciated by over 10% against the dollar in a month.**

USD/JPY



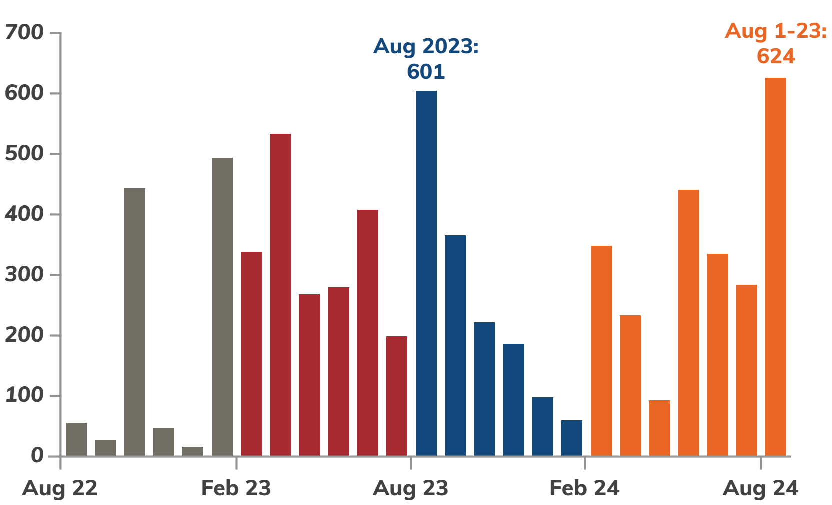
Source: Refinitiv, JPY: Japanese Yen, USD: U.S. Dollar. Data as on August 27, 2024.

Deep wounds of the Chinese Economy

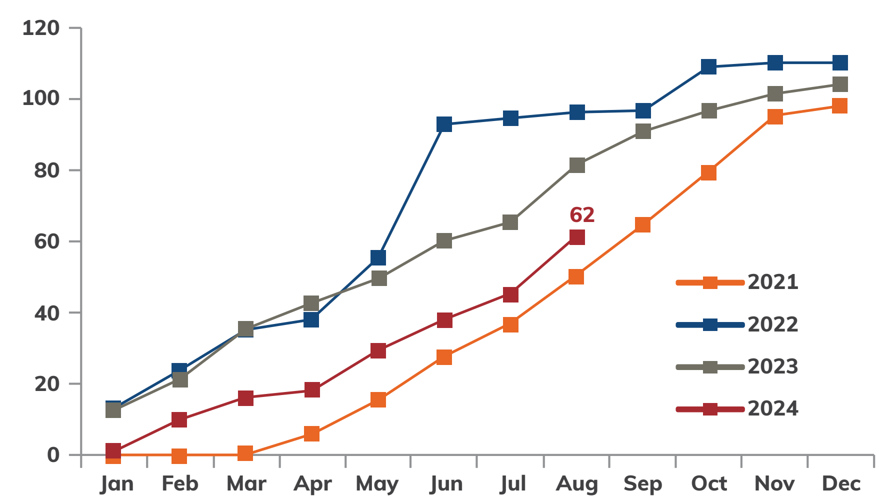
China's industrial production rose 5.1% year-on-year in July 2024, its slowest rate in four months, weighed down by deep slowdown in the property sector. **According to the State Administration of Foreign Exchange, foreign investors withdrew $14.8 billion between April 2024 and June 2024** as sluggish household demand, contracting manufacturing activities, rising unemployment levels and crisis in the housing market dampened business confidence.

After the rescue packages failed to brace the market, **China is considering a new funding option that would enable local governments to use special bonds for the purchase of unsold homes from developers** (Source: The Strait Times). **Local government special bonds issuance surged in August 2024, reaching a new high since August 2023.**

MONTHLY ISSUANCE OF LOCAL GOVERNMENT SPECIAL BONDS (RENMINBI BILLION)



LOCAL GOVERNMENT SPECIAL BOND ISSUANCE (% OF QUOTA)



Source: MoF, WIND, Macquarie Macro Strategy. Data as on August 23, 2024. 62% of special bond quota has been issued so far this year

What Prompted OPEC to Cut its Global Oil Demand Growth Forecast for 2024?

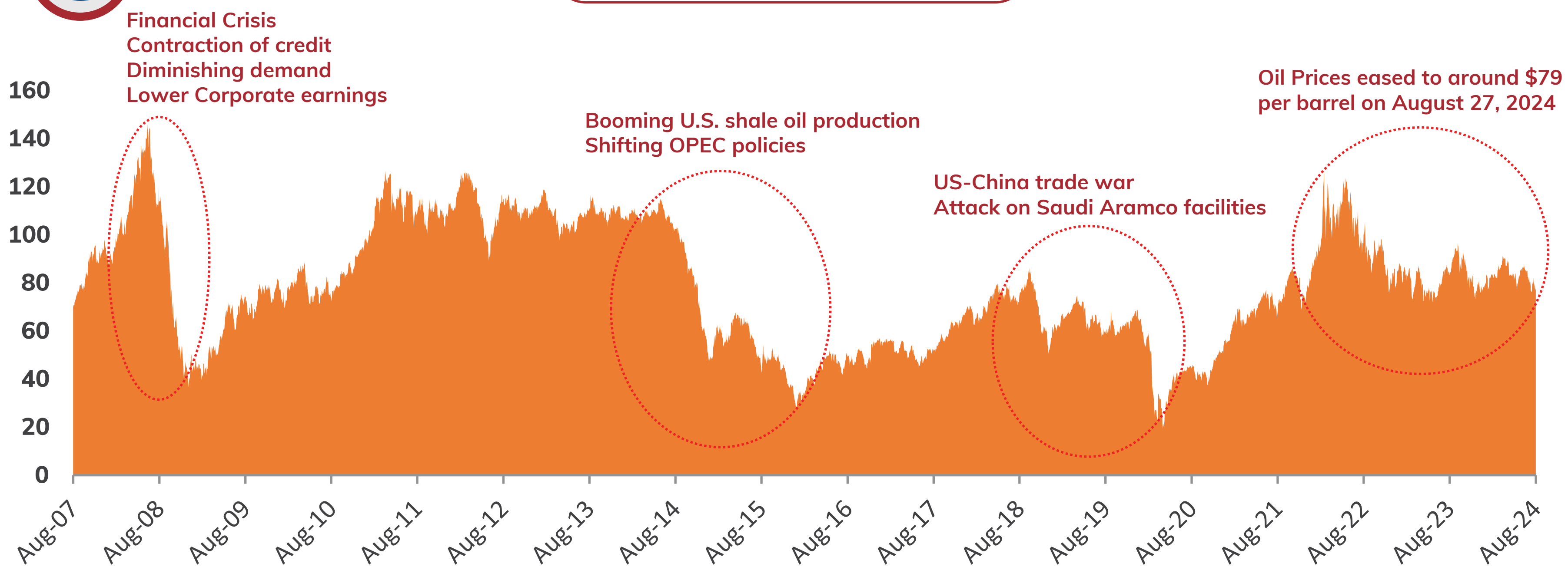
ICICI PRUDENTIAL MUTUAL FUND

The Organization of the Petroleum Exporting Countries (OPEC) trimmed its 2024 oil demand growth forecast by 135,000 bpd, citing **weaker Chinese demand as the world's largest oil importer** continues to grapple with slower industrial output, declining home prices and a fall in investment growth.

Another factor that impacted oil markets was the decline in U.S. crude, gasoline and distillate inventories during the week ending August 16, 2024. U.S. gasoline demand has been tepid, compelling several U.S. refiners to reduce refining operations (Source: Energy Information Administration).

The Middle East plays a significant role in the global energy sector, facilitating production and transportation of energy resources. **The oil market is sensitive to any development related to the Israel-Hamas conflict,** which could impede global oil supply chains.

BRENT CRUDE OIL ($/BARREL)



Source: Refinitiv. Data as on August 27, 2024. bpd: barrel per day

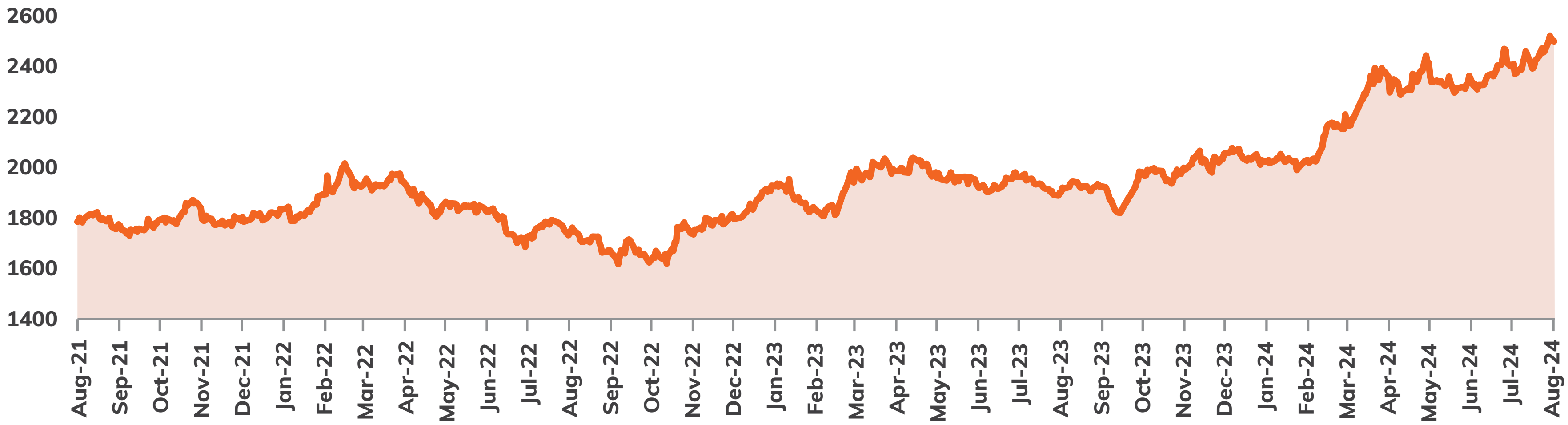
Gold prices staged a strong comeback in August 2024, shining to new highs

When market uncertainties rise, investors tend to lean towards Gold – the safe-haven asset acts as a 'knight in shining armour' during the storm. This is evident from the surge in gold prices since the latter half of 2022, when **central banks bolstered their gold reserves amidst mounting geopolitical tensions.**

Gold prices soared to a yet another high of around $2,521/ounce (LBMA price) on August 20, 2024, driven by several factors:

Concerns of growth slowdown in a major economy stirred widespread uncertainties in global equity markets. **The U.S. Dollar Index slipped below the 102 mark in mid-August 2024,** its lowest level since December 2023. **Increasing optimism that the U.S. Federal Reserve** would reduce interest rates in September 2024, fueled demand for the yellow metal. Moreover, **geopolitical tensions between Iran and Israel intensified.**

GOLD PRICES (LBMA, $/OUNCE)



Source: LBMA: London Bullion Market Association, Data as on August 27, 2024. The gold price in India was around ₹71,691/10 gm on August 28, 2024.

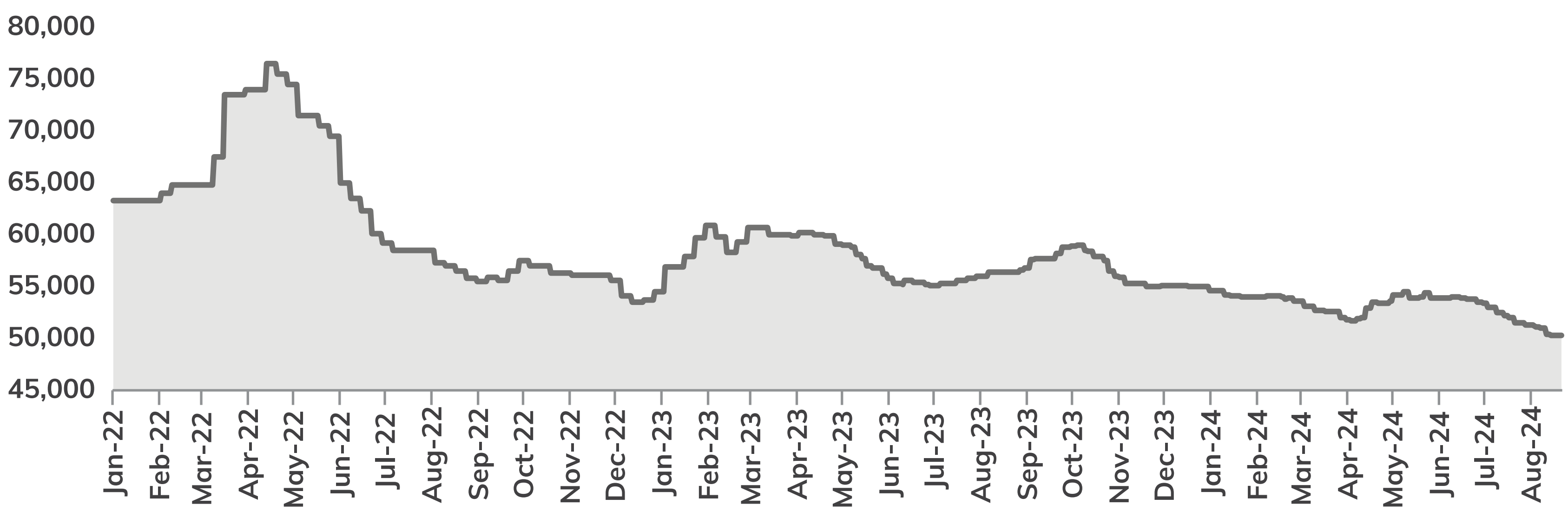
Domestic steel prices plunge to its lowest level in more than three years, continuing the falling streak

Steel is essential to various industries such as construction, infrastructure, automotive, engineering and defence.

Hot rolled coils (HRC) prices have plunged from around ₹76,000/tonne in April 2022 to ₹50,300/tonne on August 27, 2024. A major reason for the steep decline in steel prices is increased imports from China into India due to competitive pricing by China.

India shifted from being a net exporter of steel to a net importer in Q1FY25 – Steel exports continue to be subdued due to global economic headwinds and availability of the alloy at a lower price in China. **India imported 2.69 million metric tonne of steel between April and July of the current fiscal year, and exported 1.57 million tonne** as per government data.

STEEL PRICES - HRC (₹/TONNE)



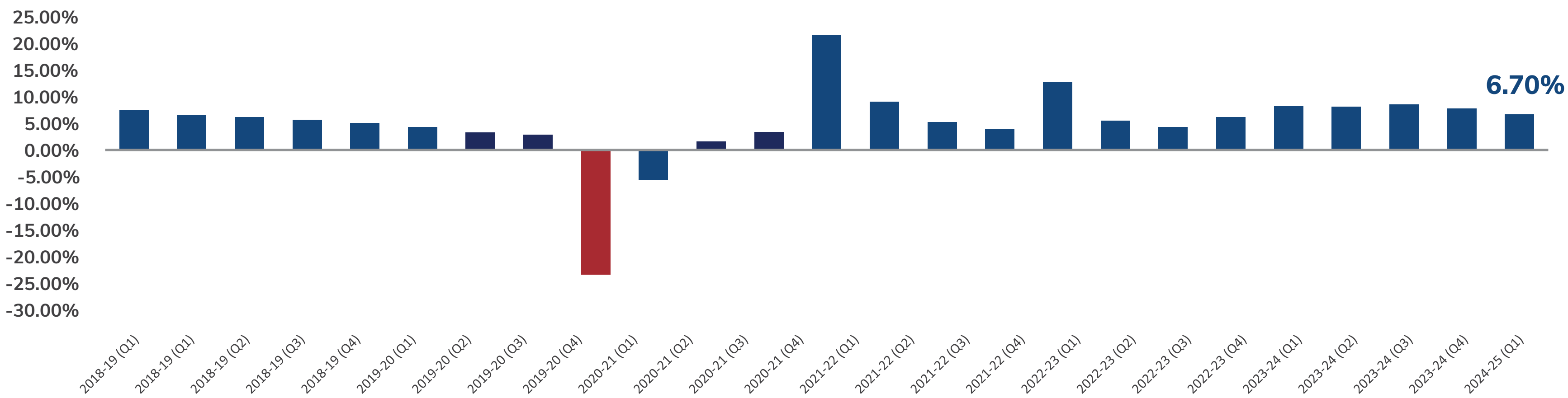
Source: Refinitiv, Data as on August 27, 2024. HRC: Hot rolled coils – 2.5mm has been considered.

While industries dependent on steel, such as construction and manufacturing, would benefit from the lower cost of raw materials, a prolonged fall in steel prices could meddle with India's ambition to scale its installed steel-making capacity to 300 million tonne by 2030.

India's Q1 Gross Domestic Product (GDP) growth for FY2024-25 slows to a 15-month low of 6.7%

Real GDP growth rate stood at 6.7% in the first quarter of FY2024-25 as compared to the 7.8% growth posted in Q4:FY2023-24 and 8.2% growth in Q1:FY2023-24. **The GDP growth slowed down amid a reduction in government capital expenditure owing to elections in the country.**

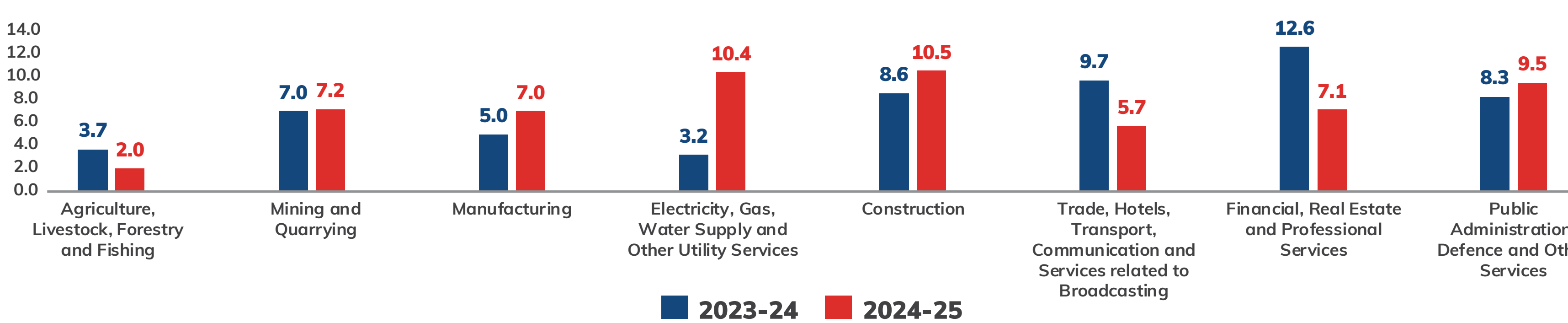
QUARTERLY REAL GDP GROWTH RATE OF INDIA (%)



Source: Ministry of Statistics and Programme Implementation, Q1: Quarter 1, Q2: Quarter 2, Q3: Quarter 3, Q4: Quarter 4

SECTOR-WISE GROWTH RATES % OF REAL GVA FOR Q1 OF FY 2023-24 AND 2024-25

While muted Agriculture growth dragged the overall Gross Value Added (GVA), significant growth was witnessed in the Secondary Sector consisting of Construction (10.5%), Electricity, Gas, Water Supply & Other Utility Services (10.4%) and Manufacturing sector (7.0%).



Source: Ministry of Statistics and Programme Implementation

India's Retail Inflation dropped below RBI's target of 4% in July 2024 – Too good to be true?

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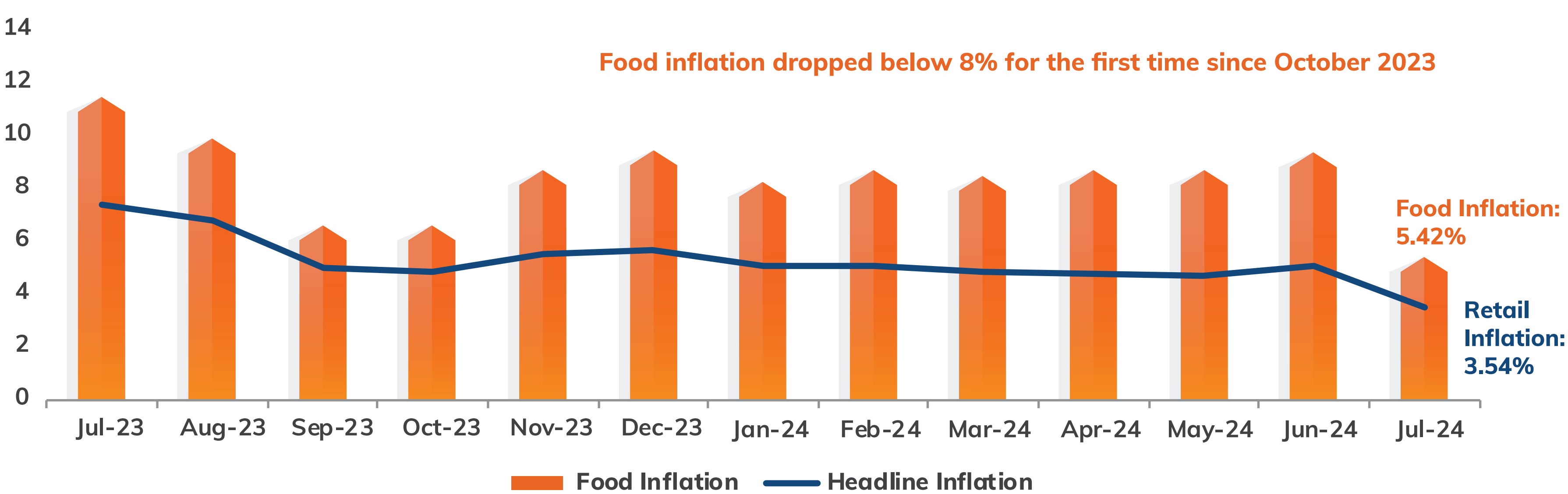
India's Retail Inflation, based on Consumer Price Index (CPI), stole the limelight as it **slowed to a five-year low of 3.54% in July 2024.**

The sharp drop is largely due to the 'base effect', which relates to the steep inflation of 7.44% observed a year ago in July 2023.

Food inflation eased to 5.42% in July 2024, driven by a fall in prices of fruits and vegetables as the southwest monsoon picked up pace. **On the other hand, Core inflation, which excludes food and energy prices edged up to 3.4% in July 2024,** likely due to the recent telecom tariff hikes by major mobile service providers.

INFLATION (%)



Source: CMIE: Centre for Monitoring Indian Economy, Data as on July 2024. RBI: Reserve Bank of India

Once the base effect wears off, inflation has the potential to bounce back. Has the elephant returned to the forest? Only time will tell.

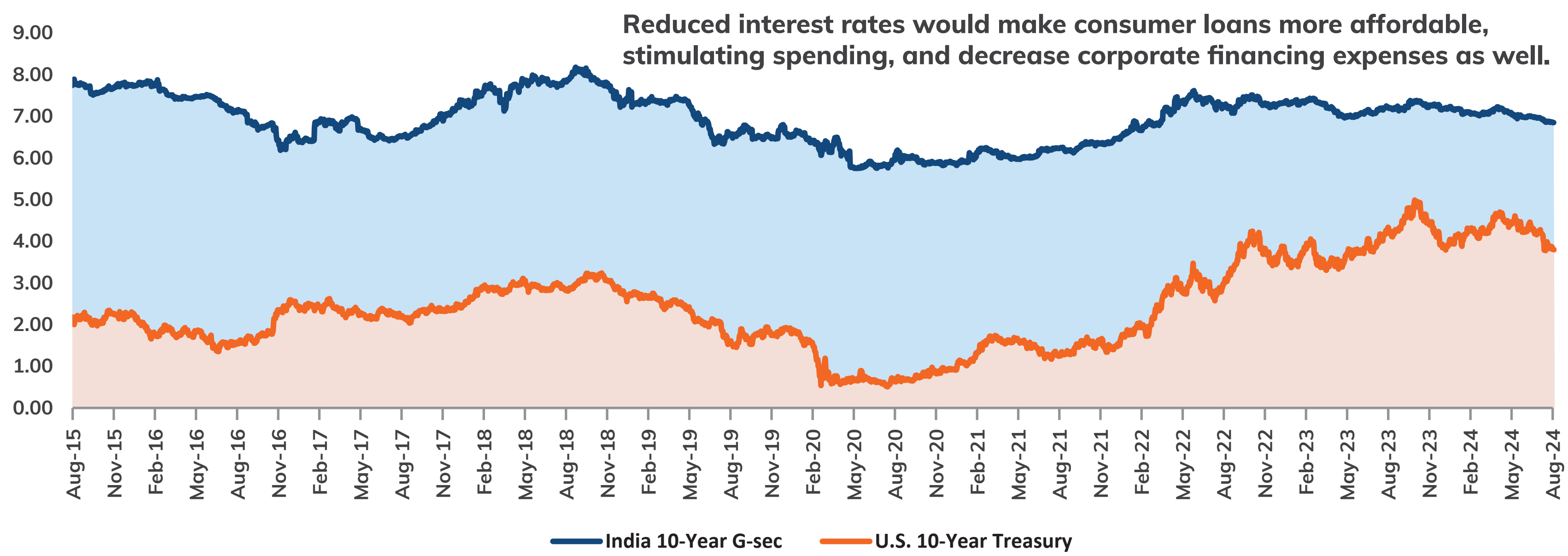
Reasons Behind Softening G-sec yields

G-sec (Government securities) yields are likely to be influenced by several factors such as inflows/outflows by foreign portfolio investors, the rupee-dollar equation, crude oil price movements, interest rate decisions by the central bank and other key economic developments.

The U.S. 10-Year Treasury yield softened to around 3.83% on August 27, 2024 after the U.S. Federal Reserve Chairman indicated reducing interest rates in September 2024 during his speech at the Jackson Hole Economic Symposium. **A healthy U.S. retail sales data, a smaller-than-expected rise in weekly unemployment claims and an easing inflation print** provided solace to the financial markets.

India's benchmark 10-year bond yield hovered around 6.86% on August 27, 2024 – Fiscal prudence and inclusion of Indian government bonds in JP Morgan's widely tracked Government Bond Index-Emerging Markets (GBI-EM) has opened a plethora of opportunities for the Indian debt market.

10-YEAR GOVERNMENT BOND YIELDS (%)



Source: CRISIL Research, Data as on August 27, 2024, G-Sec: Government Securities

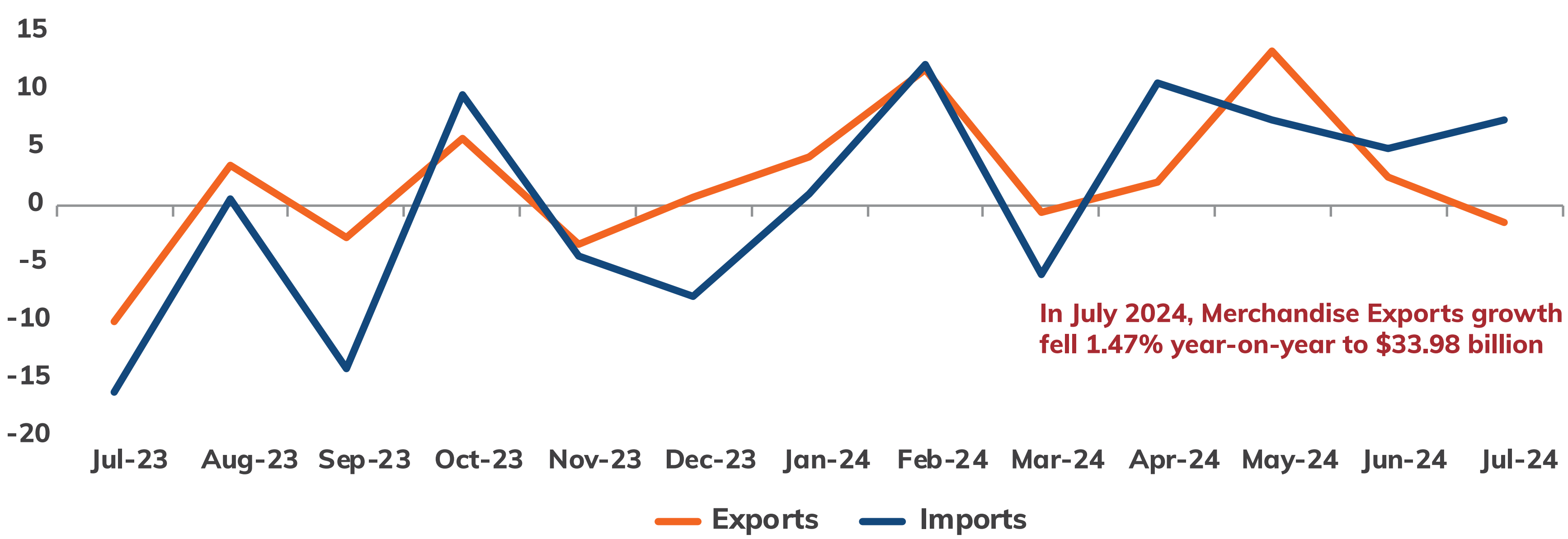
Challenging trade conditions nag Indian exports

ICICI PRUDENTIAL MUTUAL FUND

India's merchandise trade deficit widened to $23.5 billion in July 2024 from $20.98 billion in June 2024 due to **dampening global demand amid geopolitical conflicts, higher import of crude products and a contraction in overall exports.**

India's merchandise exports growth fell 1.47% year-on-year in July 2024, to an eight-month low of $33.98 billion owing to dwindling global demand and a decrease in prices of metals and commodities.

YEAR-ON-YEAR GROWTH (%) IN INDIA'S MERCHANDISE EXPORTS AND IMPORTS



The import of petroleum and crude products registered 17.4% growth at $13.87 billion in July 2024. India's domestic consumption of petroleum products has increased as demand remains robust, particularly for transportation fuels petrol and diesel.

Source: CMIE: Centre for Monitoring Indian Economy

India's bilateral trade with Bangladesh in choppy waters?

ICICI PRUDENTIAL MUTUAL FUND

Bangladesh continues to grapple with rising unemployment levels, severe dollar shortage and inflationary pressures. The country **spiraled into a political turmoil as protests against a quota system for government jobs** flared up in July 2024, following which the prime minister resigned. **The ongoing unrest in Bangladesh could impact supply chains where Bangladesh is a key player.**

In recent years, the economic challenges of Bangladesh have impacted bilateral trade with India – Indian exports to Bangladesh fell to around $11.1 billion in 2023-24 from around $16.2 billion in 2021-22. This was partially due to a decline in exports of agricultural products due to export restrictions on rice and wheat.

TRADE BETWEEN INDIA AND BANGLADESH (US $ BILLION)

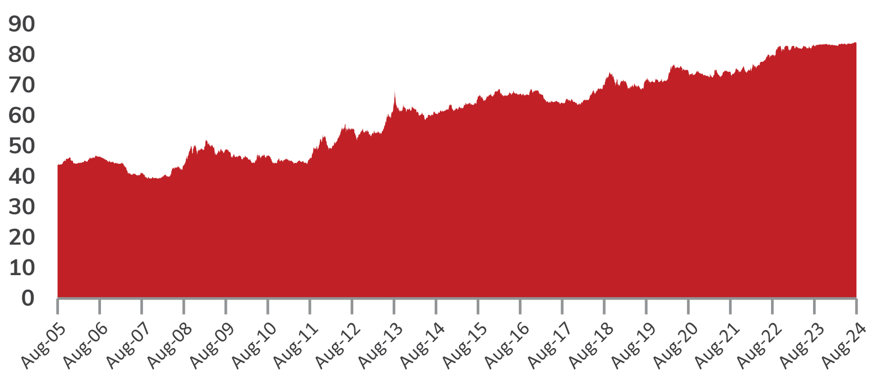
Source: Centre for Monitoring Indian Economy (CMIE)

Unraveling the Trajectory of the Indian Rupee

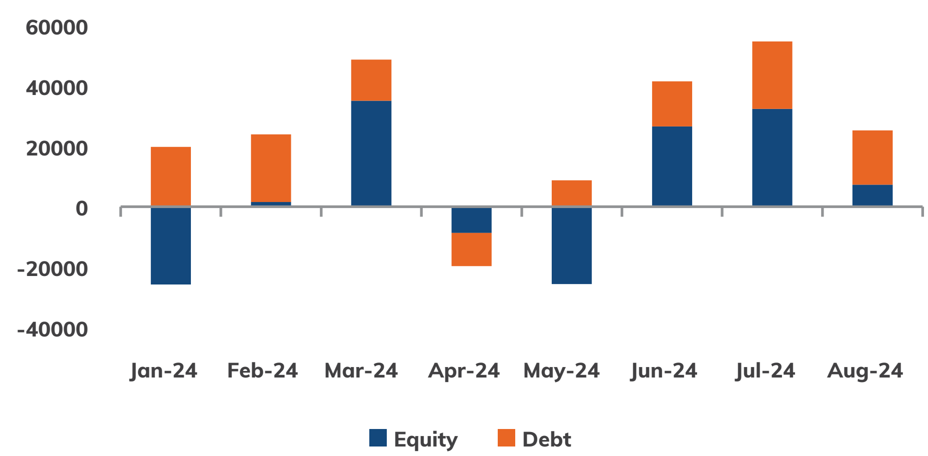
ICICI PRUDENTIAL MUTUAL FUND

The Indian rupee traded around 83.91 against **the US Dollar** on August 27, 2024. Several factors weighed on the rupee – **stronger dollar demand from importers and a widening trade deficit. The rupee also bore the brunt of weakness in the global market** and risks posed by heightened **geopolitical tensions.**

USD/INR



FPI INVESTMENT (₹, CRORE)



Source: USD/INR: Refinitive, Data as on August 23, 2024.
FPI Data: National Securities Depository Limited (NSDL), FPI data of August 2024 is up to August 30, 2024. FPI: Foreign Portfolio Investors

The rupee could stabilize in the near term given a conducive economic environment, fiscal prudence, easing crude oil prices and robust foreign exchange reserves that tend to act as a protective wall against financial adversities. **India's forex reserves jumped to USD 674.664 billion** during the week ended August 16, 2024 (Data Source: Reserve Bank of India).

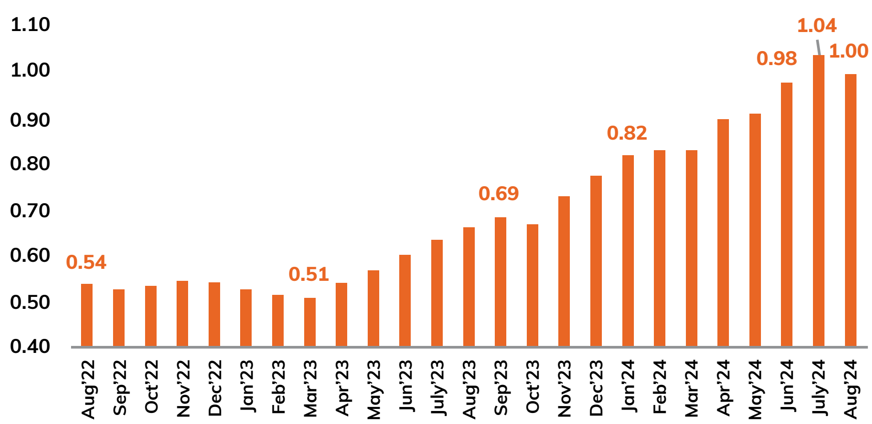
India's Mid and Small cap universe have each crossed US$ 1 Trillion Market Cap

ICICI PRUDENTIAL MUTUAL FUND

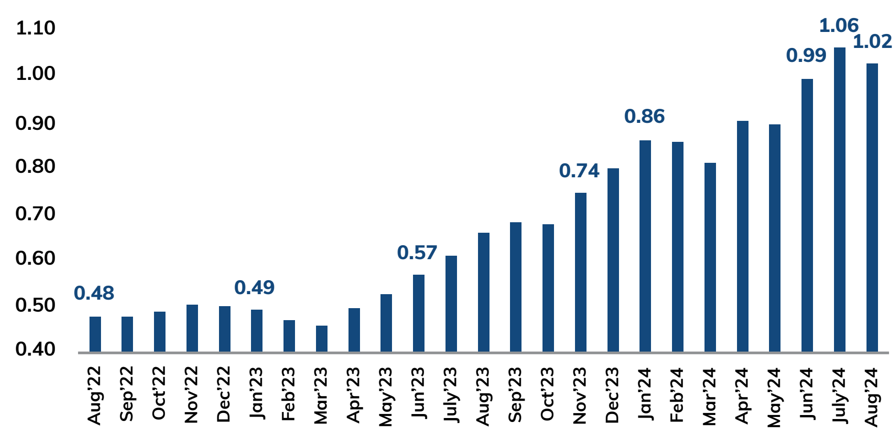
Over the past year, Mid and Small caps witnessed robust inflows from retail investors as they were optimistic of a strong earnings narrative. **Mid caps tend to provide a sweet spot from the risk-return perspective**, generating capital appreciation over the long term. On the other hand, **Small caps hold the allure of relatively higher growth potential,** but this is accompanied with greater risks.

The significant rally of Mid and Small cap indices in last 12 months has pushed the **market caps of both Mid and Small cap companies in India over US$ 1 trillion each.**

MARKET CAP OF MID CAPS ($ TRILLION)



MARKET CAP OF SMALL CAPS ($ TRILLION)



Large caps have reached the $3.3 trillion market capitalization mark, which is 62.17% of the total market capitalization.

Snapshot of the Past Decade Narrative				
CAGR RETURNS (YEAR)	Large	Mid	Small	All
1	39%	51%	55%	**44%**
3	16%	27%	37%	**21%**
5	22%	31%	41%	**26%**
10	15%	21%	23%	**17%**
Current Mcap (INR Trn)	**279**	**84**	**86**	**448**
Current Mcap (U.S. $ Trn)	**3.32**	**1.00**	**1.02**	**5.34**

Despite their strong performance, mid and small cap stocks are prone to high volatility in the face of elevated valuations. Hence, considering the current scenario, investors should invest in these segments for the long-term basis their risk-return appetite.

Source: Motilal Oswal Securities. Mcap: market capitalization. CAGR: Compound Annual Growth Rate. Trn: Trillion. INR: Indian Rupee.

The Reserve Bank of India unveiled a host of measures in the policy meeting

In its first policy meeting after the Union Budget 2024-25, **the Reserve Bank of India (RBI) decided to keep the policy repo unchanged at 6.50% in the August 2024.** The Reserve Bank proposed several measures during the policy meeting:

Faster cheque clearance: The RBI proposed to reduce the clearing cycle by introducing continuous clearing with 'on-realization-settlement' in Cheque Truncation System (CTS). Cheques would be cleared within a few hours on the day of presentation, facilitating convenience for both the payer and the payee.

UPI Tax Payment Limit: The RBI decided to enhance the limit for tax payments through UPI from ₹1 lakh to ₹5 lakh per transaction, which would ease tax payments by consumers through Unified Payments Interface (UPI).

Public Repository of Digital Lending Applications: The RBI proposed to create a public repository of digital lending applications (DLAs) deployed by its regulated entities. The regulated entities would report and update information about their DLAs in this repository, which would aid consumers to identify the unauthorized lending apps.

Introduction of 'Delegated Payments' through UPI: The 'Delegated Payments' facility in UPI would enable the primary user to allow the secondary user to make UPI transactions up to a limit from the primary user's bank account even without the secondary user having a separate bank account linked to UPI.

Frequency of Reporting of Credit Information to Credit Information Companies: The RBI proposed to increase the frequency of reporting credit information to a fortnightly basis or at shorter intervals. Consequently, borrowers will benefit from faster updation of their credit information and lenders would be able to make better risk assessment of borrowers.

Major relief for property owners

On August 07, 2024, the government proposed an amendment to the Finance Bill 2024 related to long-term capital gains (LTCG) tax on immovable properties, relieving property owners. **Tax payers would be offered a choice between a 12.5% long term capital gains tax on real estate without indexation or a 20% tax with indexation for properties acquired before July 23, 2024.**

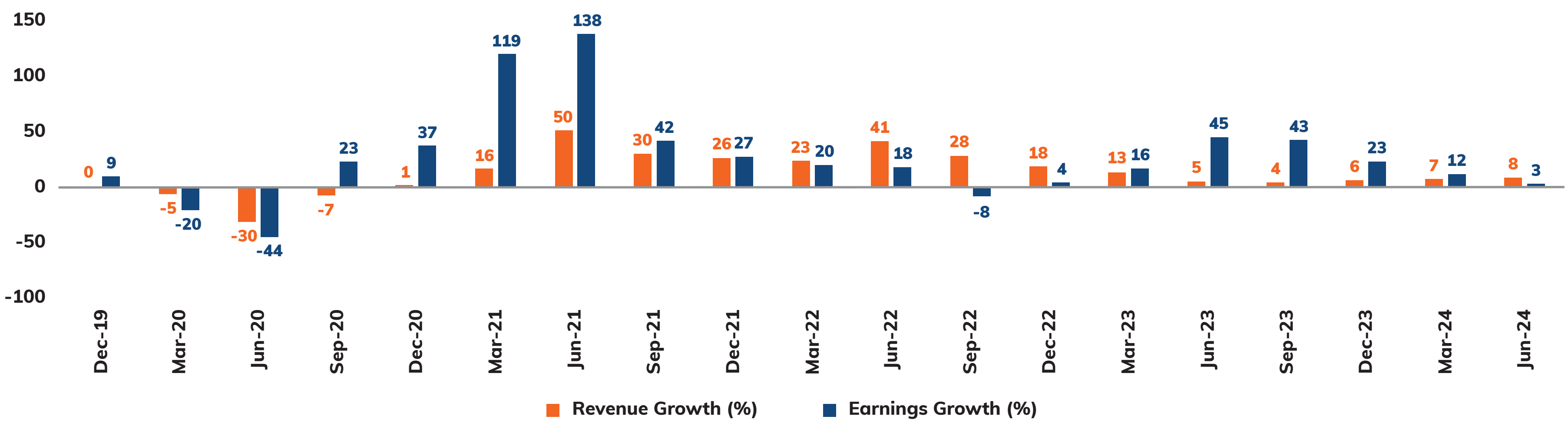
This gives them the **flexibility to compute taxes** under both schemes and **choose the tax computation method that would carry lower tax liability.**

Q1 FY25 Earnings update

ICICI PRUDENTIAL MUTUAL FUND

Net profits witnessed a 3% year-on-year growth in Q1 FY25 for BSE-500 companies, whereas **Revenue growth continues to remain lackluster at 8% year-on-year growth.**

REVENUE & EARNINGS YOY GROWTH (%)



Source: Kotak and Nuvama Research, YOY- Year-on-Year. Data as on August 31, 2024. Past performance may or may not sustain in future.

Global exporters like Pharma reported better than expected earnings and **IT witnessed recovery across key verticals** with some stability in earnings and revenue. **Banks managed to maintain steady performance, supported by improving asset quality;** however, credit growth slowed.

Metal companies reported subdued operating performances amid weak demand from China. **The Automobile sector is coping** with muted demand for Passenger Vehicles and rising inventory levels. **Rural recovery could gain traction** on the back of a normal monsoon, government spending and cooling inflation.

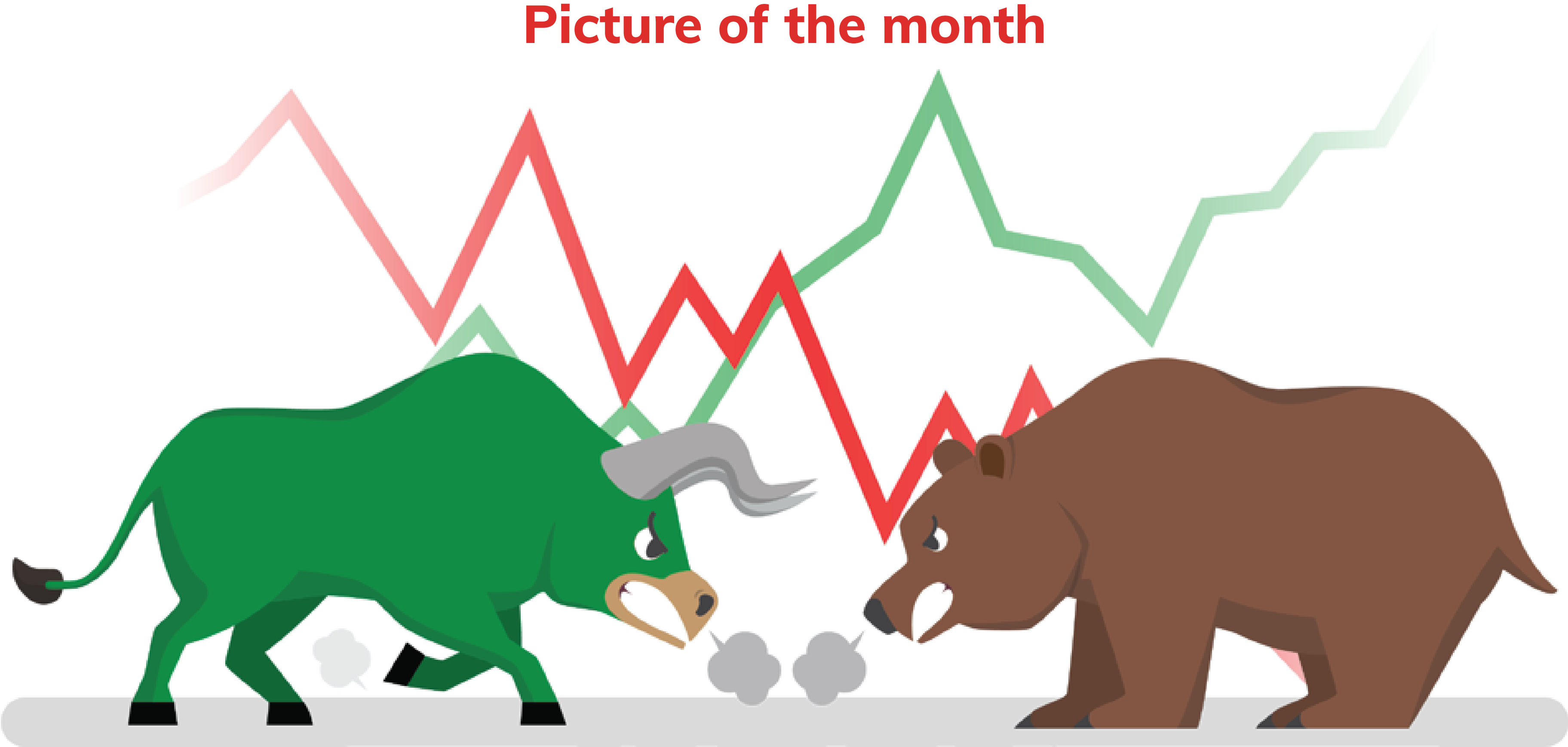
IT: Information Technology. The sector(s) /stock(s) mentioned in this presentation do not constitute any recommendation of the same and ICICI Prudential Mutual Fund may or may not have any future position in these sector(s)/stock(s). The portfolio of the scheme is subject to changes within the provisions of the Scheme Information Document of the Scheme.

And it is a wrap for the month

August 2024 was a roller coaster ride for equity markets – Uncertainty engulfed the markets during the beginning of the month as global cues cast a shadow on global growth prospects. **However, the BSE Sensex recouped from 78,593.07 on August 06, 2024 to 82,365.77 on August 30, 2024** as encouraging macroeconomic data released during the month offered some solace to investors.

Growth remains resilient, inflation has been trending downward, manufacturing activity has picked up steam on the back of improving domestic demand, oil prices have eased and continued inflows from foreign investors into the debt markets is encouraging.

Picture of the month



Who will win the Market Olympics?

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