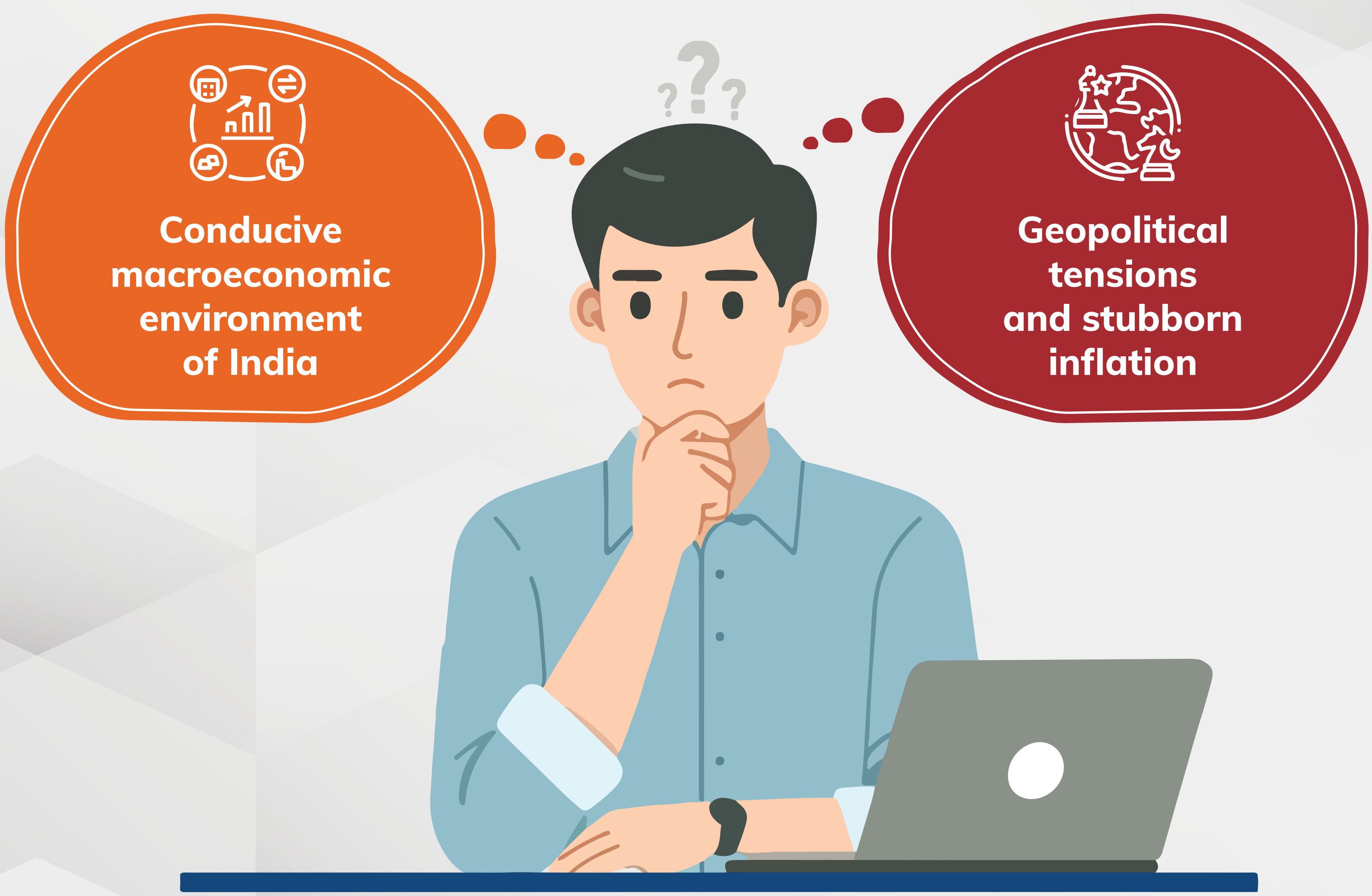
THE MONTH GONE BY

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

At this juncture, you would find yourself in the middle of two realms – at one end of the spectrum is the conducive macroeconomic environment of India; whereas the other end is layered by geopolitical tensions and stubborn inflation in major economies.



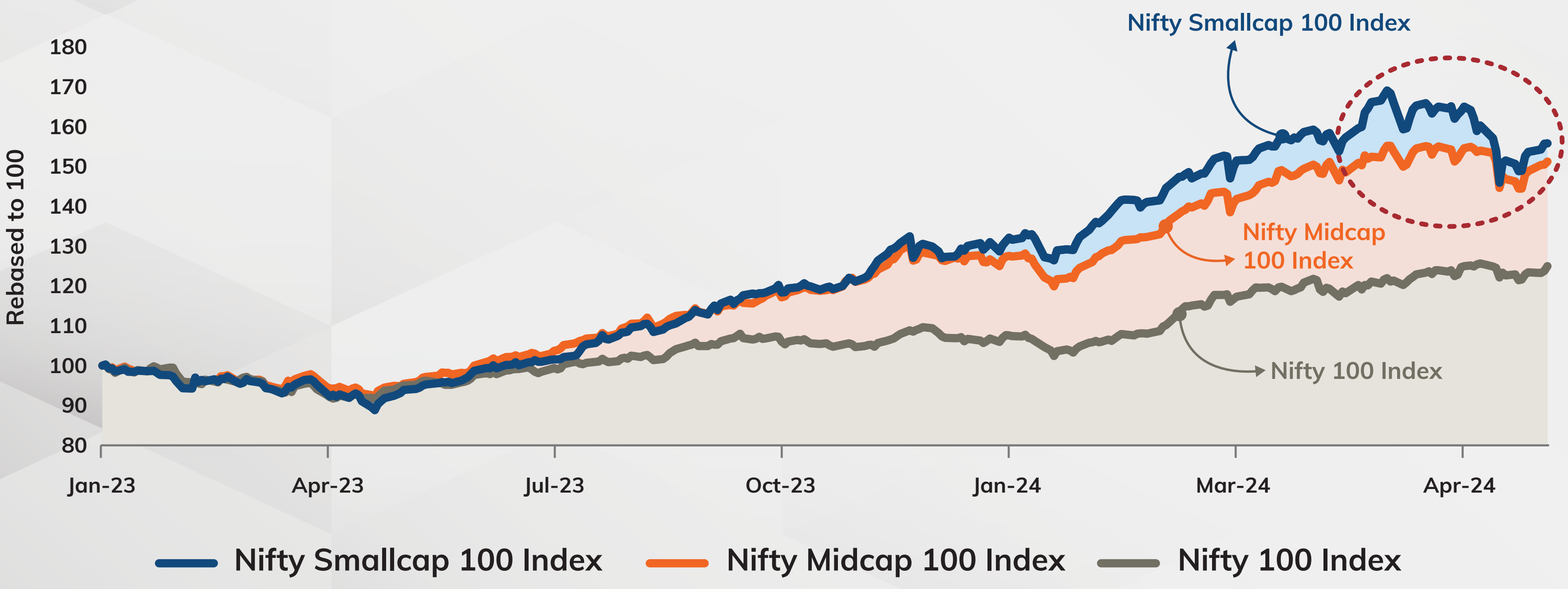
While we ponder, ‘What’s next?’, it is important to connect the dots with key events that made an impact.

Talk of the Town – Mid and Small cap segment

Mid and small caps witnessed robust inflows from investors over the past year as they were optimistic of a strong earnings narrative. Due to the euphoria, this segment has started displaying signs of higher valuations, worrying investors.

The bears have turned the tables on the bulls – The Nifty Midcap 100 Index and Nifty Smallcap 100 Index corrected by around -7% and -12%, respectively*.

CLOSING PRICE OF INDICES



Source: MFI Explorer. Data as on 28th March 2024. *The price correction is computed from the 7th February 2024 high. MFI Explorer is a tool provided by ICRA Online Ltd. For their standard disclaimer please visit http://www.icraonline.com/legal/standard-disclaimer.html

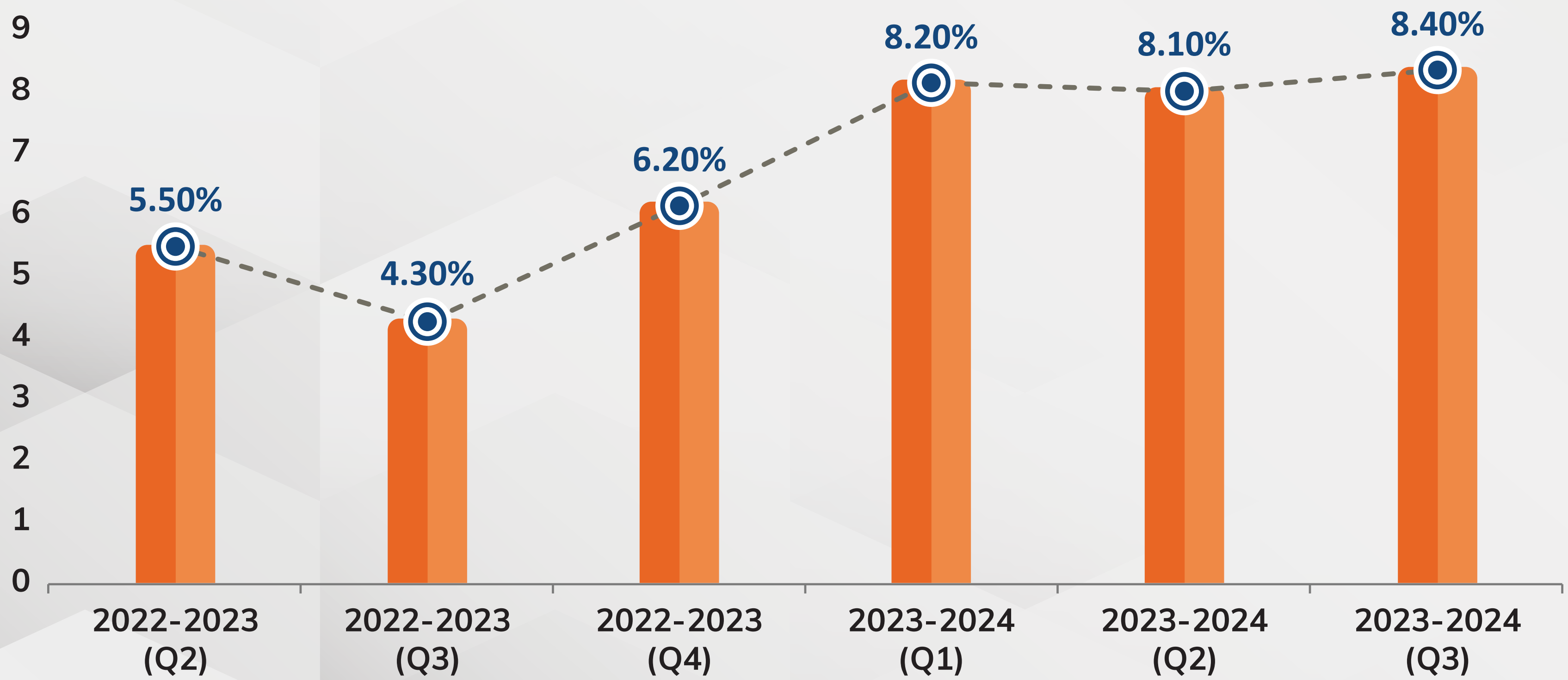
India's Real GDP Growth at a Six-Quarter High in Q3 FY24, Stealing the Show

ICICI PRUDENTIAL MUTUAL FUND

India's economic growth surged to a six-quarter high of 8.4% in Q3 FY24, beating estimates. Some of the catalysts were **growth in investments, a surge in manufacturing activity and robust indirect tax.**

While strong demand stirred manufacturing and construction activities, agriculture went into contraction as patchy monsoon impacted the kharif harvest.

REAL GDP GROWTH (%)



Source: MOSPI. Latest data. GDP: Gross Domestic Product. Growth rates calculated with respect to previous year same quarter; Q1: Quarter 1; Q2: Quarter 2; Q3: Quarter 3; Q4: Quarter 4

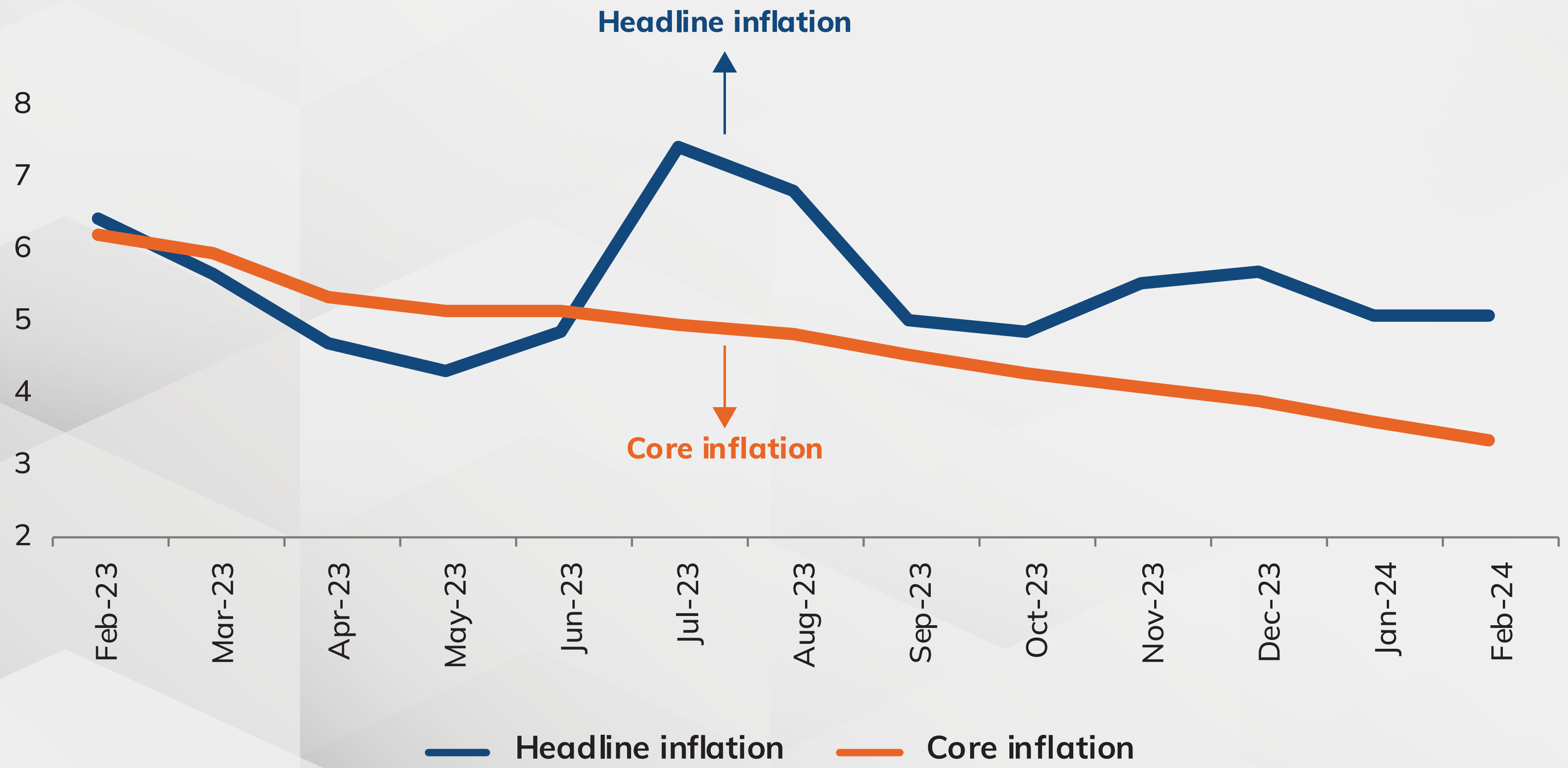
India's Consumer Price Index (CPI) Remains Sticky?

ICICI PRUDENTIAL MUTUAL FUND

India's retail inflation exhibited a steady show as it stood at 5.09% in February 2024, compared to the previous month reading of 5.10%. Food inflation edged up due to a **rise in the prices of vegetables, meat, fish and eggs.**

While the CPI print is still hovering above the RBI's target of 4%, the easing of core inflation offers some solace.

YEAR-ON-YEAR INFLATION (%)



Source: CMIE, Latest data as on February 2024. Core inflation excludes food, fuel and light category

The Downward Trajectory of India's 10-year G-Sec yield

ICICI PRUDENTIAL MUTUAL FUND

The benchmark 10-year G-Sec yield is at a 9-month low as it softened to 7.01% on March 11, 2024.

GDP has been resilient, inflation remained steady, liquidity conditions improved and foreign exchange reserves have grown – stable macros are supportive of the downtrend in yields.

Moreover, **the inclusion of Indian sovereign bonds in global bond indices** led to renewed interest from foreign portfolio investors in debt markets.

INDIA 10-YEAR G-SEC BOND YIELD (%)

Source: RBI, Data as on 28th March 2024.

Participation of Foreign Portfolio Investors – Net Buyers or Net Sellers?

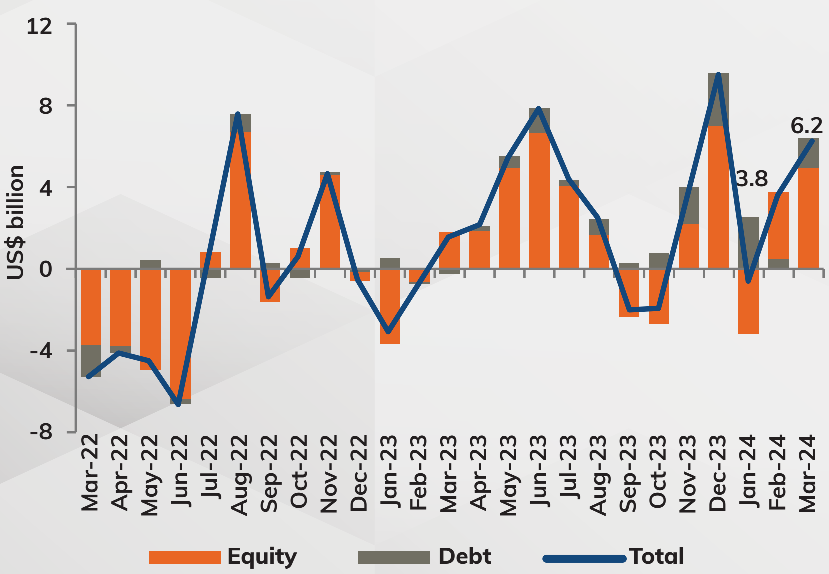
ICICI PRUDENTIAL MUTUAL FUND

Foreign Portfolio Investors (FPIs) were net buyers in March 2024 – The inflows into the equity markets were to the tune of US$ 4.2 billion and that into the debt segment was around US$ 2.0 billion.

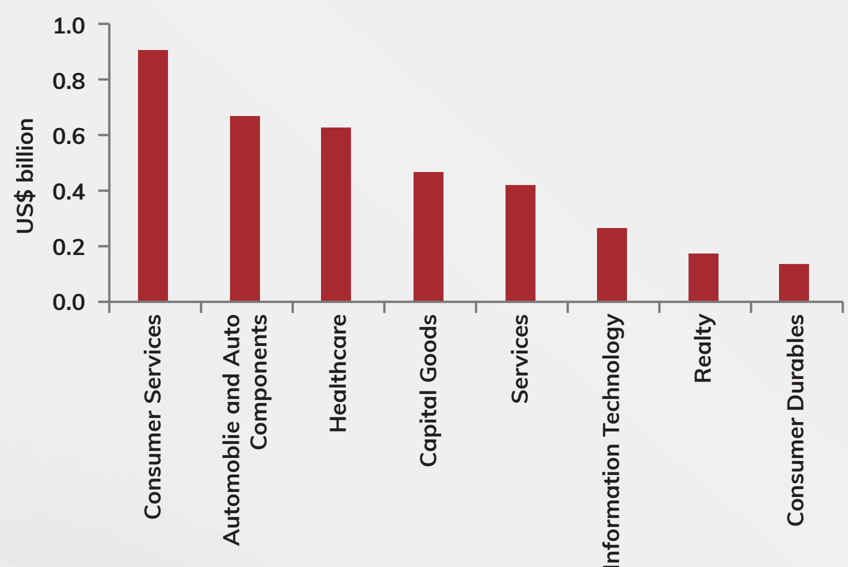
The renewed interest from foreign investors reflects confidence in the improving macros of the Indian economy.

NET PORTFOLIO INVESTMENTS

India



Top Sectors by Equity Inflows (February 2024)



Source: National Securities Depository Limited, RBI Bulletin. Data as on March 28, 2024. Debt includes investments under the voluntary retention and hybrid instruments.

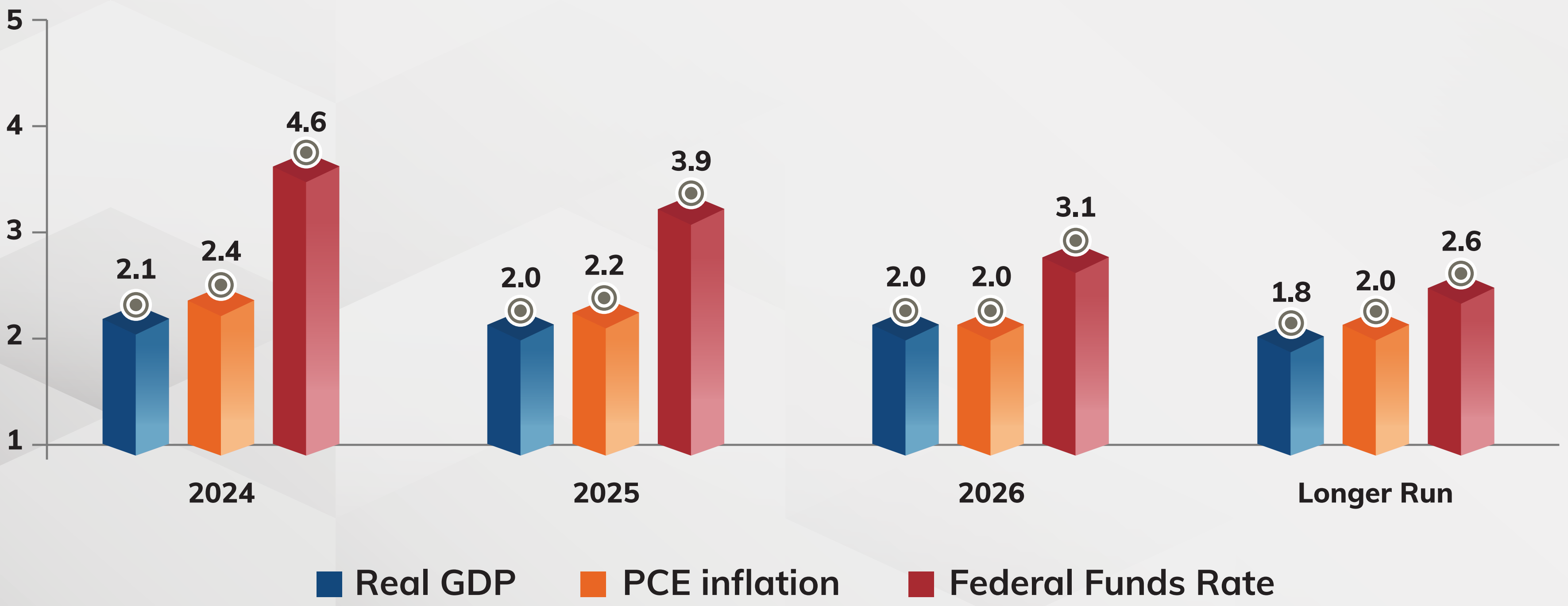
A Glimpse Into the US Fed Meeting

ICICI PRUDENTIAL MUTUAL FUND

In the March 2024 policy meet, the FOMC kept the benchmark overnight borrowing rate at 5.25% - 5.50% in line market expectations. The US economy is expanding at a solid pace bolstered by strong demand and improving supply conditions (GDP Growth for CY23 was 3.1%).

Despite a strong economy, better balanced jobs market and sticky inflation, the US Fed penciled in the possibility of rate cuts in 2024 (approx. by 75 bps in CY24).

ECONOMIC PROJECTIONS OF FEDERAL RESERVE BOARD (MAR-24)



Data as on March 20, 2024. US Fed: Federal Reserve System of US. FOMC: Federal Open Market Committee.
Data Source: US Fed (www.federalreserve.gov), Emkay Research and Equirus Research

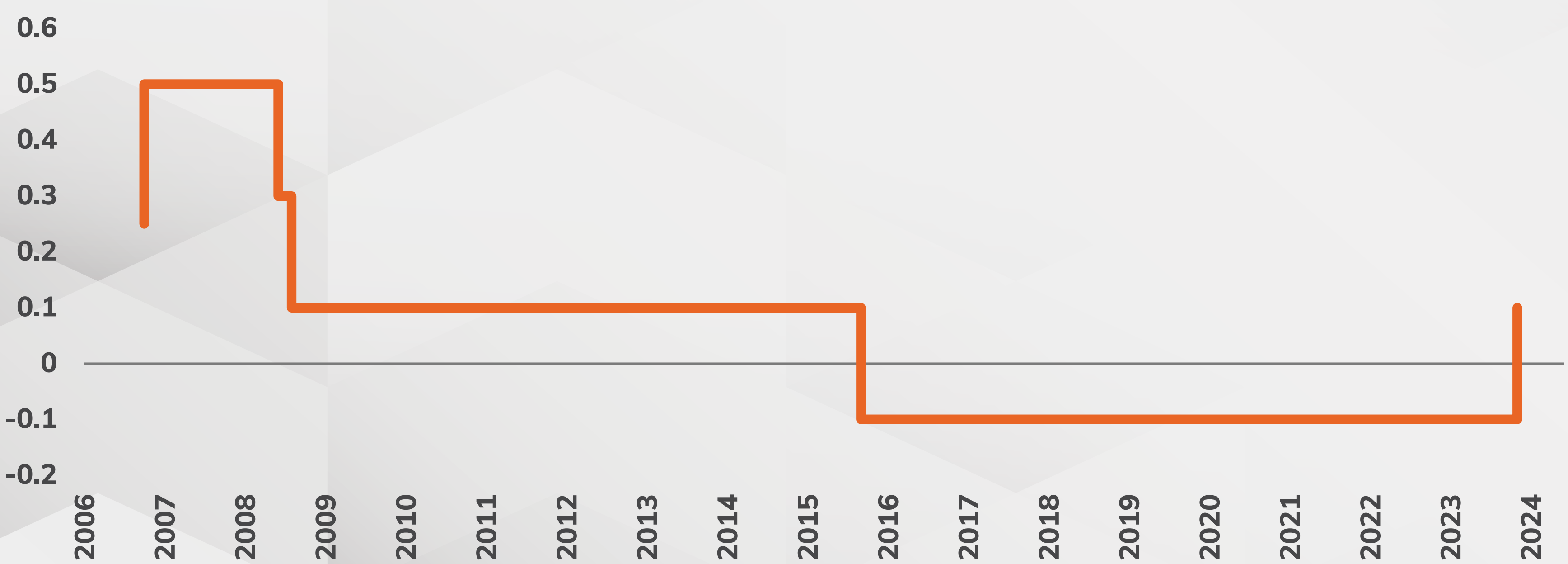
Japan Bid Farewell to the Negative Policy Rate Era

ICICI PRUDENTIAL MUTUAL FUND

In the recent policy meeting, the Bank of Japan decided to end its negative interest rate policy, making a historic shift from its monetary easing programme. **The bank raised its target policy rate from -0.1% to 0%** for the first time in 17 years. Furthermore, the central bank **abandoned yield curve control policy**, introduced in 2016 to cap long-term bond yields.

Why now? Recent negotiations between trade unions and large Japanese companies indicate wage growth of more than 5%. Moreover, Japan's inflation (CPI excluding fresh food) eased to 2% in January 2024 from 2.3% in December 2023. With improvement in economic health, it displayed signs of moving out of deflation.

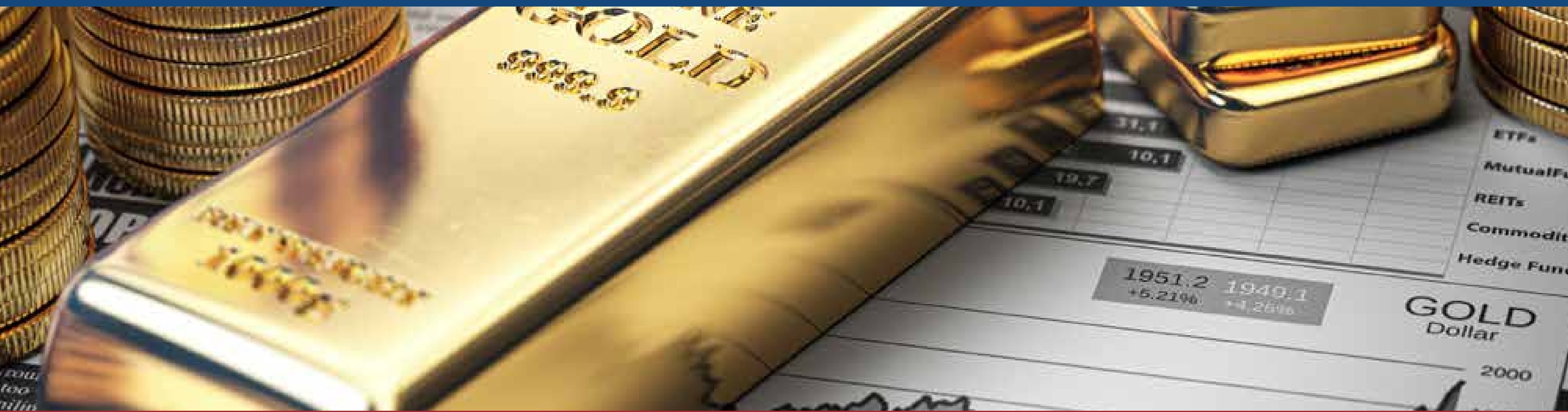
BOJ POLICY RATES (UPPER BOUND)



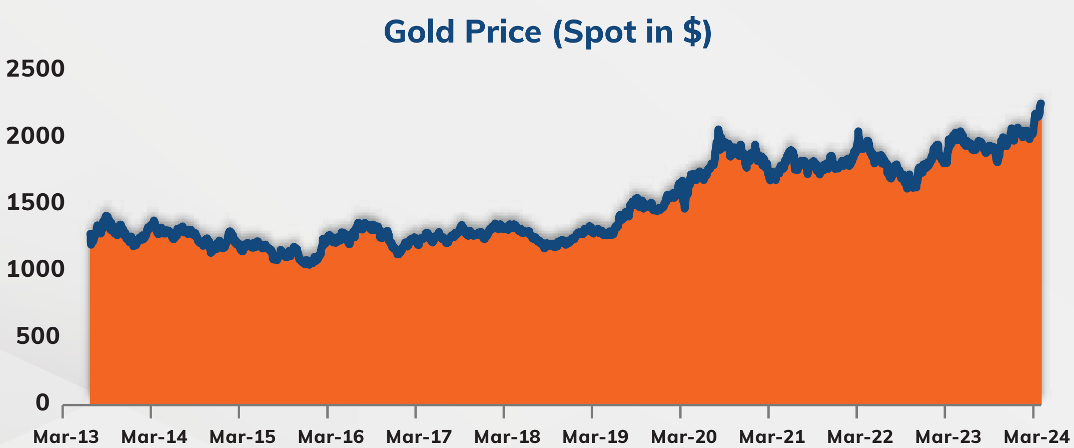
Source: Data as on 19th March 2024. Bank of Japan, Bloomberg, Nomura Research, Macquarie Group

The Shining Glitter of Gold

ICICI PRUDENTIAL MUTUAL FUND



A symbol of prosperity in India, Gold is also admired as a potential hedge against economic uncertainties. **The yellow metal surged to test a record high of around $ 2229.87 in March 2024.**



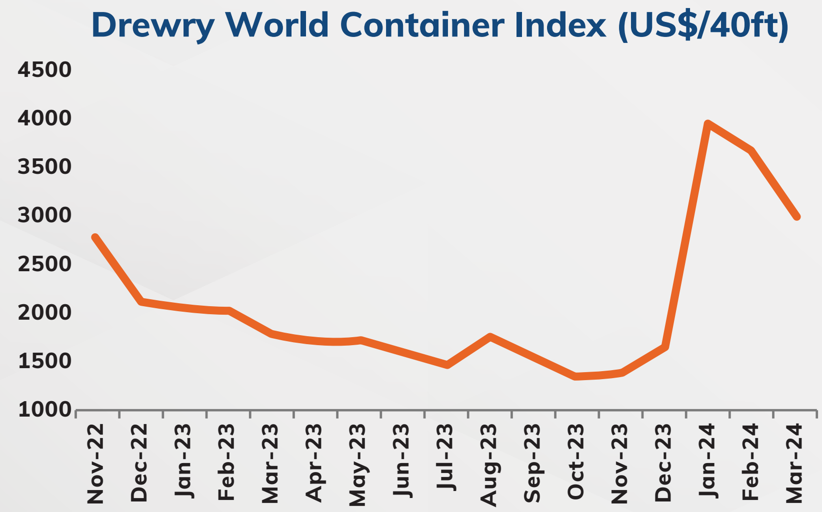
Source: Bloomberg, Data as on 28th March 2024.

This rise is powered by the **rising demand from central banks** readjusting their reserves in the quest of safe haven, escalating geopolitical turmoil and sticky inflation.

Update on Container Freight Rates

Container freight rates have started declining from its peak established in January end.

Drewry World Container Index has declined by 24% from the peak of 3,964 on 25th January 2024 to 3,010 on 21st March 2024. Despite the decline, the index is still higher by 68% on year-on-year basis from the 1,790 level witnessed in March 2023.



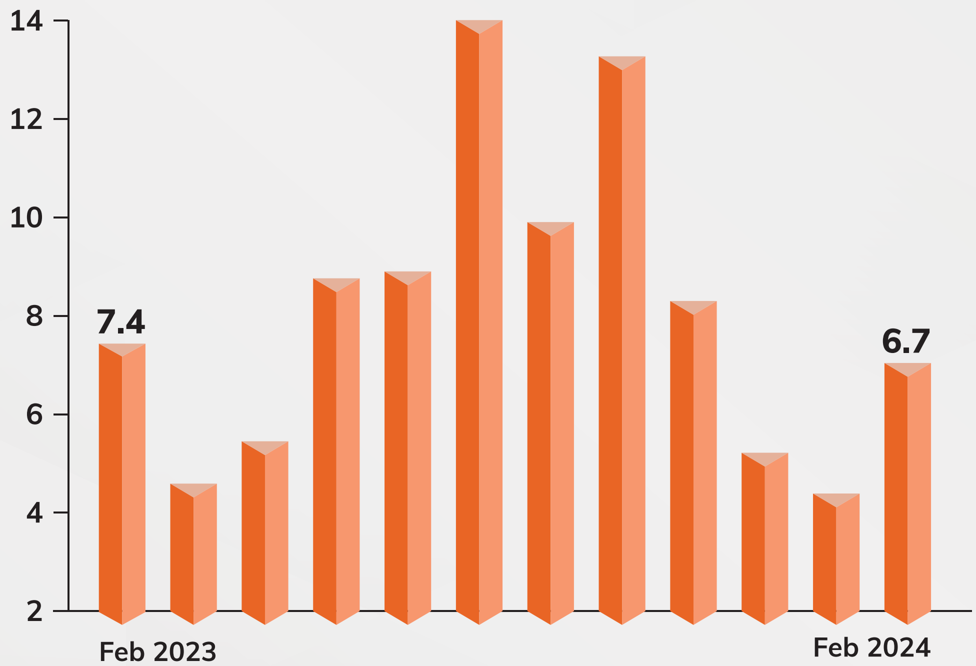
Source: Drewry, Data as on 21st March 2024.

India's Core Infrastructure Sectors Growth at a 3-Month High

ICICI PRUDENTIAL MUTUAL FUND

India's eight core infrastructure sectors comprising coal, crude oil, steel, cement, electricity, fertilisers, refinery products and natural gas, **clocked 6.7% growth in February 2024 – the fastest pace in three months.**

YEAR ON YEAR GROWTH IN OUTPUT IN EIGHT CORE INDUSTRIES (%)



Source: Ministry of commerce and industry

Moreover, the Credit to industry grew 8.6% year-on-year in February 2024 as compared to 6.8% in February 2023 (Source: RBI). The growth corresponding to the previous month is majorly due to health credit demand from sectors such as infrastructure and textiles.

INDIA INKS A TRADE AGREEMENT WITH EFTA NATIONS

India signed a trade and economic partnership agreement with the four-nation European Free Trade Association (EFTA) in March 2024. EFTA comprises Iceland, Liechtenstein, Norway, and Switzerland.

The trade aims at Foreign Direct Investment (FDI) to the tune of US$ 100 billion in India from EFTA over the next 15 years and one million direct employment generation (Source: RBI Bulletin).

This pact could cultivate new business opportunities, integrate supply chains and boost India's export to ETFA markets.

INDIA UNVEILED A NEW ELECTRIC VEHICLE (EV) POLICY TO ATTRACT FOREIGN PLAYERS

India would allow automakers to import up to 8,000 Electric Vehicles (EV) priced $35,000 or more every year at a reduced import duty of 15%. The companies should commit to investing at least $500 million in India over the next three years (Ministry of Commerce & Industry).

Earning for Q3 FY 24 – A Mixed Bag

BANKING SECTOR

reported rising PAT and robust credit growth but NIMs continued to contract owing to deposit pricing.

REALTY SECTOR, AUTO SECTOR, METALS AND OMCS

were the outperforming sectors with major upgrades.

IT SECTOR INCLUDING SERVICES AND FMCG WERE THE MAJOR LAGGARDS

in the third quarter witnessing significant downgrades.

Source: Kotak Institutional Research, NIM – Net Interest Margins, OMC – Oil Marketing Companies, IT – information Technology. The performance shown is the past performance of companies/ sectors for Q3 FY 2024, the investors may also refer to other factors before investing. Data as on 26th February, 2024. Past performance may or may not sustain in future. The sector(s)/stock(s) mentioned in this document do not constitute any recommendation of the same.

And it's a Wrap for The Month

March was an eventful month – The markets witnessed volatility due to anxiety around the US Fed meeting outcome, the mid and small cap fund stress test results and the ongoing geopolitical tensions. Amidst the chaos, the Sensex settled at 73,651.35 as on 28th March 2024 (+655.04 points compared to the previous day, Source: BSE). We step into the new financial year on a positive note driven by strong macroeconomic indicators, steady retail inflation print, robust corporate growth earnings, improved domestic demand and encouraging growth of the manufacturing sector.

What's in store for April? Stay tuned as we will keep you updated on a host of important events, such as global cues, the Monetary Policy Committee (MPC) meeting by the RBI, foreign capital inflow, crude oil prices and other important macro events.

DISCLAIMER

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