ICICI PRUDENTIAL MUTUAL FUND

THE MONTH GONE BY

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

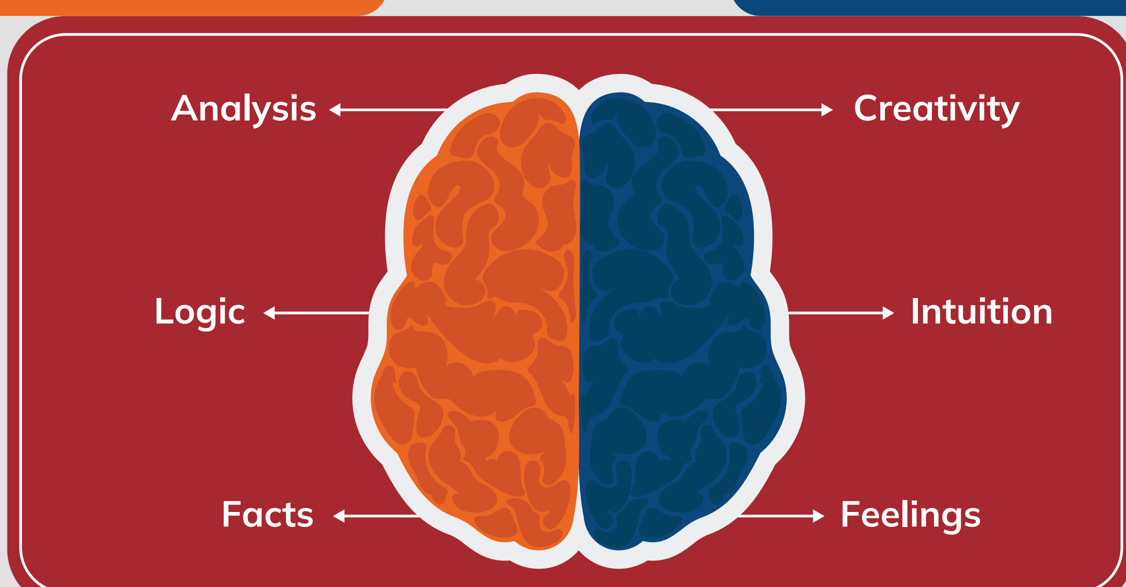
Picture this: As uncertainty grips the markets, you witness a rigorous tug of war between the bulls and bears. Amidst choppy market conditions, would you:

Rationalize and remain invested in the quest of achieving your goals?

OR

Let emotions take charge and succumb to the selling pressure?

LEFT BRAIN (LOGICAL) | **RIGHT BRAIN (EMOTIONAL)**



Our brains are wired to make decisions based on both – logic and emotions. However, investing based on emotions or biases is a common pitfall.

The upcoming Lok Sabha election has cast a wave of jitters across the market – Experts anticipate the number of seats of the incumbent government and its impetus to sectors. At this juncture, most investors find themselves in a limbo, ‘Should I invest now?’ and ‘Where should I invest?’.

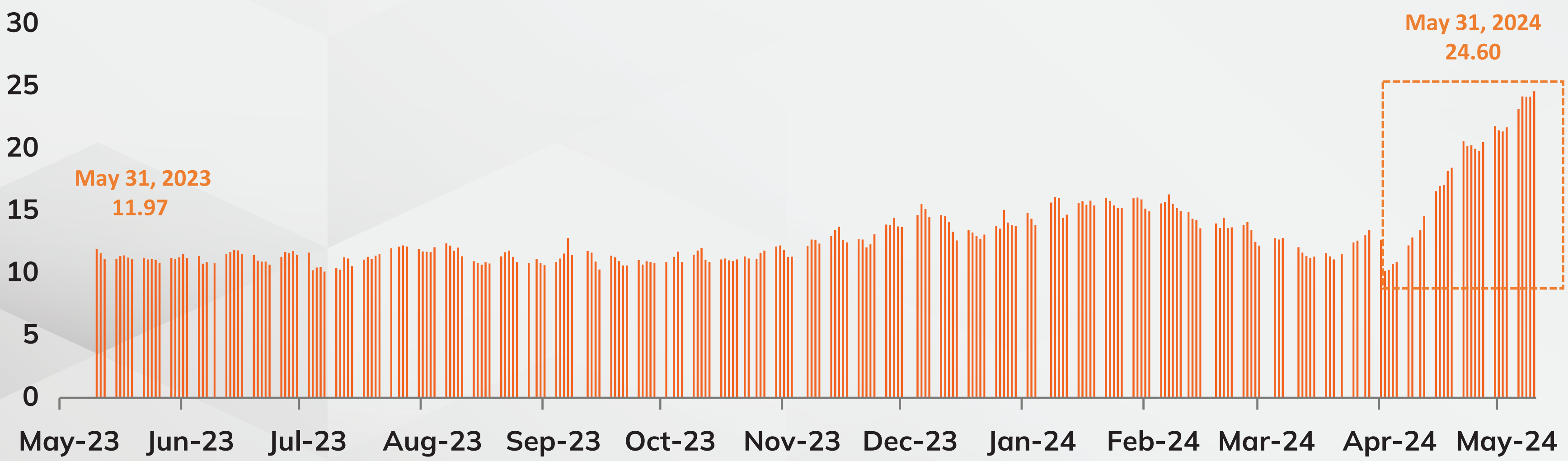
While we ponder about the course ahead, it is important to connect the dots with key market events, that happened in May 2024.

Why did 'Fear' pave its way into the Equity Markets?

India VIX, a widely tracked indicator of the expected volatility in the stock markets, **surged past the 20 mark in May 2024, signifying heightened volatility.**

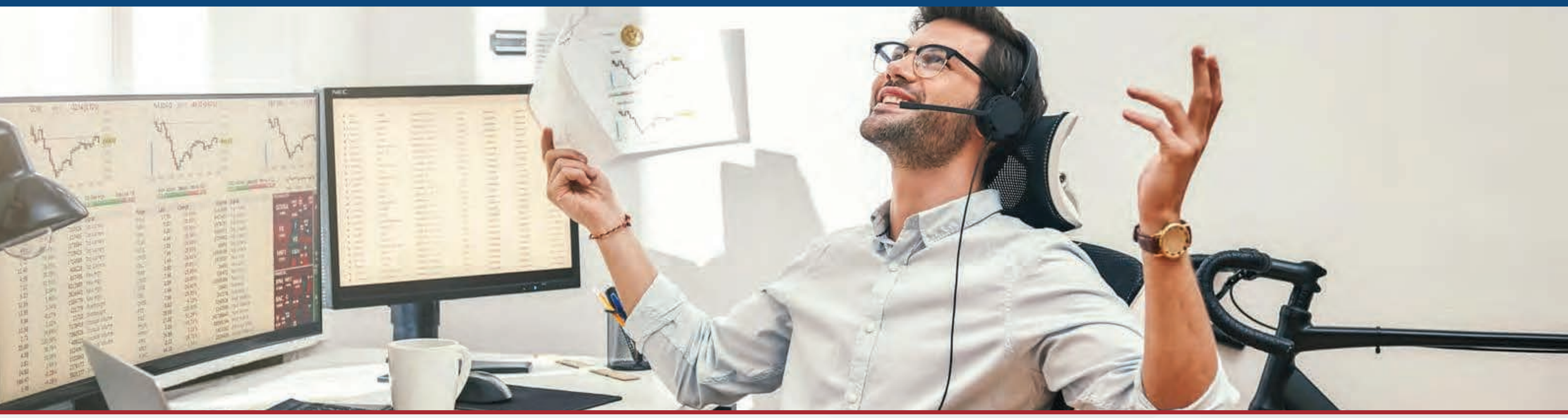
Market volatility spiked as **nervousness lingered around the looming Lok Sabha election outcome, foreign portfolio investors offloaded Indian equities worth ₹25,586 crore** in May 2024*, and **the U.S. Treasury yields continued to rise;** playing on the minds of investors.

INDIA VIX (CLOSING PRICE)



Source: NSE, Data as on May 31, 2024. *Data is up to May 31, 2024: National Securities Depository Limited (NSDL). India VIX is a volatility index based on the NIFTY Index Option prices. From the best bid-ask prices of NIFTY Options contracts, a volatility figure (%) is calculated, which indicates the expected market volatility over the next 30 calendar days.

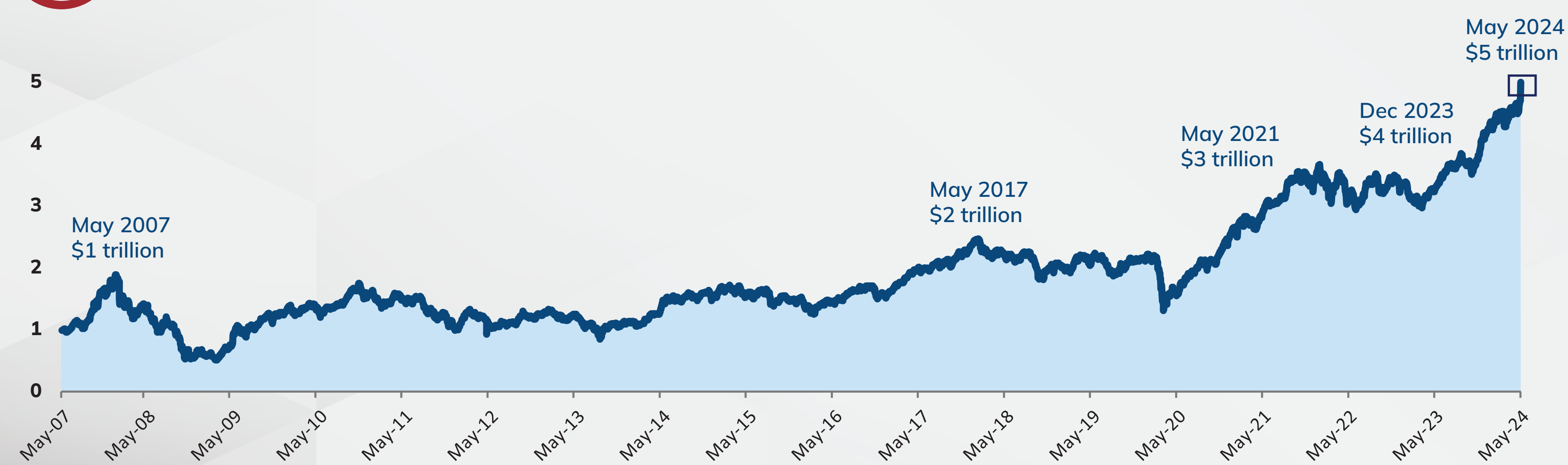
Amidst the chaos, investors had a reason to cheer



The BSE Sensex soared to test a record high of 76009.68 on May 27, 2024, supported by hopes of a lower fiscal deficit as **the Reserve Bank of India approved a dividend of ₹2.11 lakh crore for the Central Government for FY24.**

The market capitalization of companies listed on BSE hit the $5 trillion milestone on May 21, 2024, powered by a run-up in mid-cap and small-cap stocks.

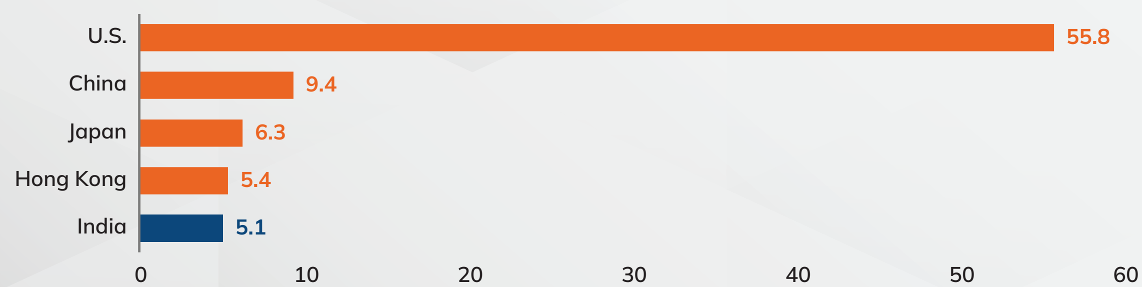
TOTAL MARKET CAPITALIZATION OF BSE-LISTED COMPANIES ($ TRILLION)



Source: BSE, Data as on May 22, 2024.

MARKET CAPITALIZATION OF TOP EQUITY MARKETS GLOBALLY ($ TRILLION)

With a market capitalization of $5 trillion, **India claimed its position as the fifth largest stock market; the U.S. continues to hold the first position.**



Source: BSE, Capitaline. For India, the total market capitalization data is as on May 23, 2024. For other countries, it is as on May 22, 2024.

S&P 500 Index – Scaled to test unchartered heights

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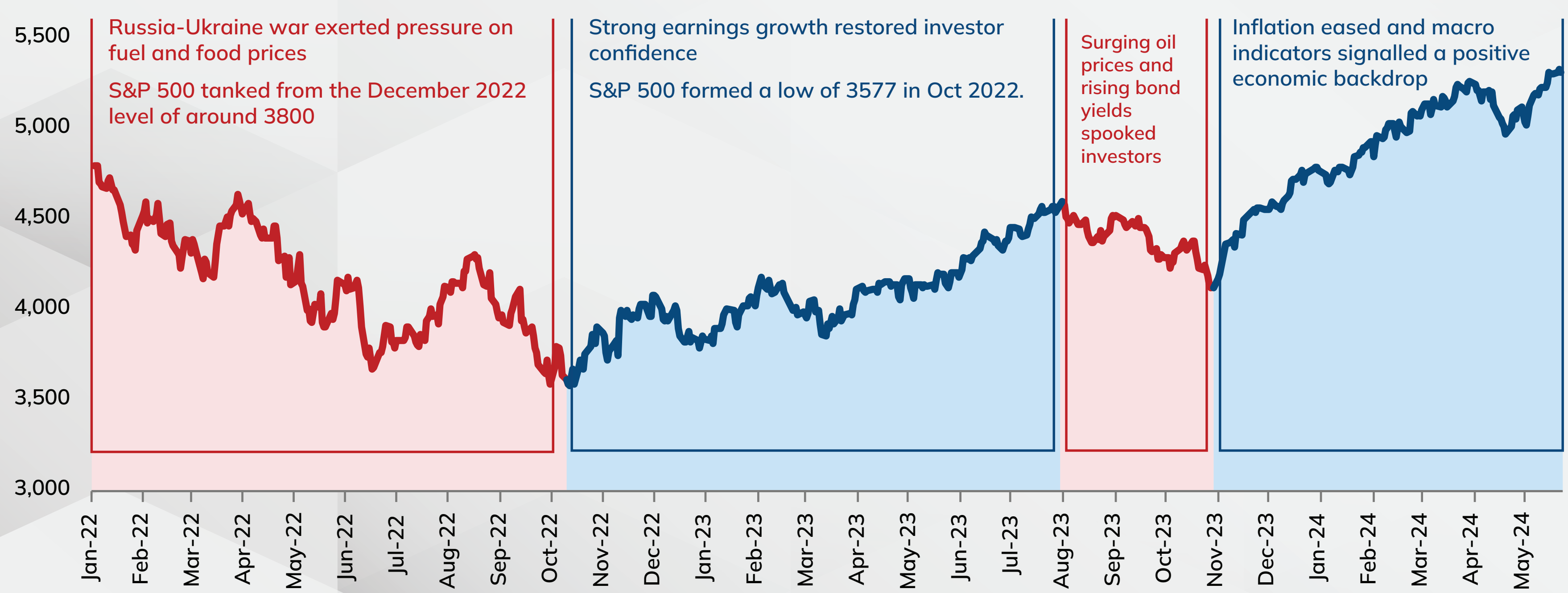
The broad-market **S&P 500 Index tested record highs of around 5341 on May 23, 2024** as the **U.S. consumer prices increased less than expected in April 2024 and a tech giant reported strong earnings for the quarter.**

The Consumer Price Index increased 3.4% for the 12 months ended in April 2024, cooling from 3.5% in March 2024.

Early this month, the U.S. Federal Reserve left its **benchmark overnight interest rate unchanged in the 5.25%-5.50% range.** Given the string of developments, investors are hopeful that the Federal Reserve would lean towards interest rate cuts in the following months.

S&P 500 INDEX (CLOSING PRICE)



Source: Refinitiv, Data as on May 24, 2024.

Gold and Silver Prices continue their upward trajectory – These metals are indeed precious!

From crossing ₹60,000/10 gm in March 2023 to testing ₹74,214/10 gm as on May 21, 2024 – Gold prices have traversed a long route. Major global events such as economic crises and geopolitical conflicts tend to influence gold prices.

Gold extended its rally to test a record high of around $2444 in May 2024 while **Silver climbed to around $31.** The increasing demand for gold can be attributed to the rising **demand from central banks worldwide to maintain reserves,** the quest for a **safe-haven asset in times of geopolitical turmoil and aggressive buying by China in recent weeks.**

GOLD AND SILVER PRICES (LBMA, $)

Source: LBMA: London Bullion Market Association, Data as on May 24, 2024

Copper prices hit record highs on rising demand – What are the catalysts for the rally?

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Copper has diverse uses – the metal has its footprints in power and construction industries, electric vehicle sector, Artificial Intelligence (AI) sector, transition towards green energy, solar panels and wind turbines.

Copper Futures traded at around $10,334/mt as on May 22, 2024. Prices surged in recent weeks due to the **strong demand across various segments.** Additionally, **sanctions on Russian metal exports, anticipation of tighter supplies and stimulus measures from China** have collectively contributed to a spike in copper prices.

COPPER FUTURES (IN $/MT, LME)

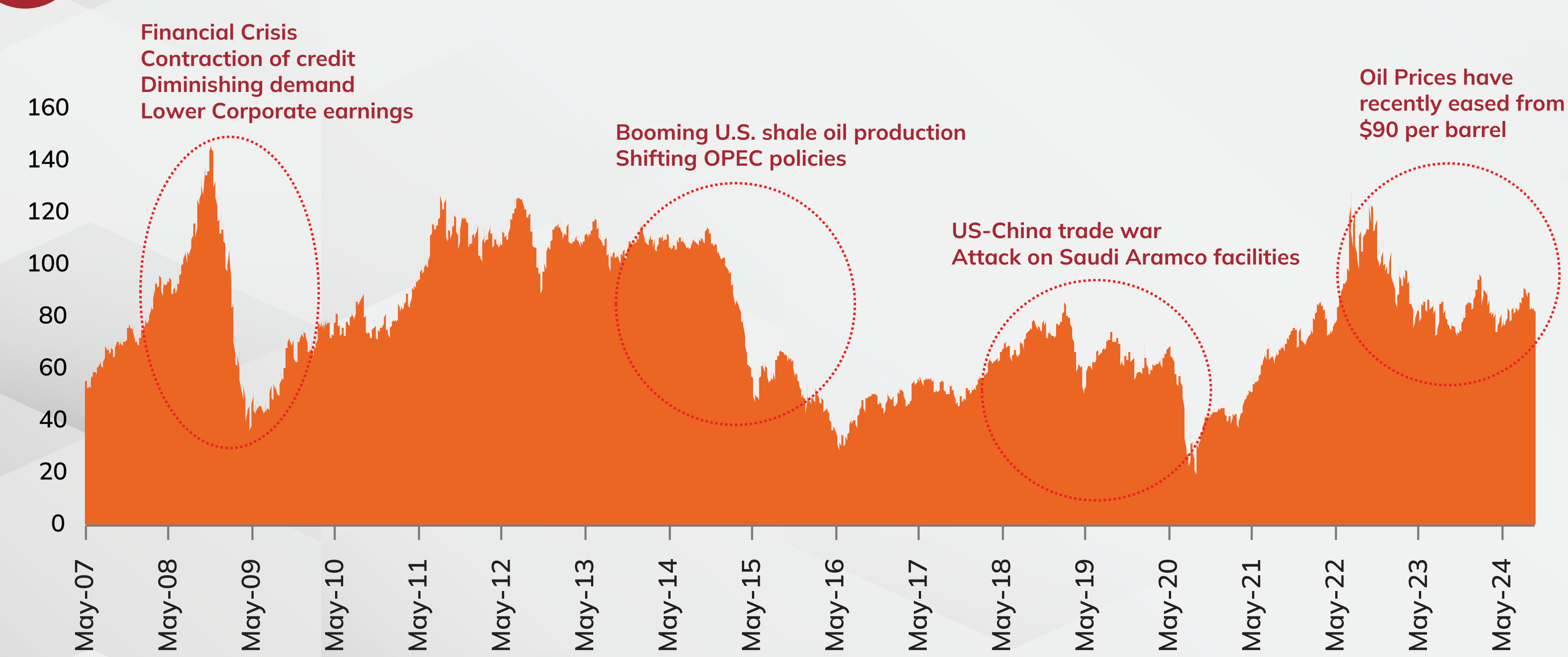
Source: LME: London Metal Exchange, Data as on May 22, 2024, Mt: Metric ton

Decoding the trajectory of Oil

In early April 2024, Brent crude oil prices hovered around $90 per barrel as the Iran-Israel stand-off was anticipated to disrupt global oil supply chains. **Crude oil prices cooled during the month (around $82 per barrel on May 24, 2024)** given the possibility of higher-for-longer U.S. interest rates and its impact on demand for oil.

What's on the cards? Market participants await the **decision of the Organization of the Petroleum Exporting Countries (OPEC)** in the June 2024 meeting and **clues from the U.S. Federal Reserve.**

BRENT CRUDE OIL ($/BARREL)



Source: Refinitiv. Data as on May 24, 2024.

The RBI approved a dividend of ₹2.11 lakh crore for the Central Government for FY24.

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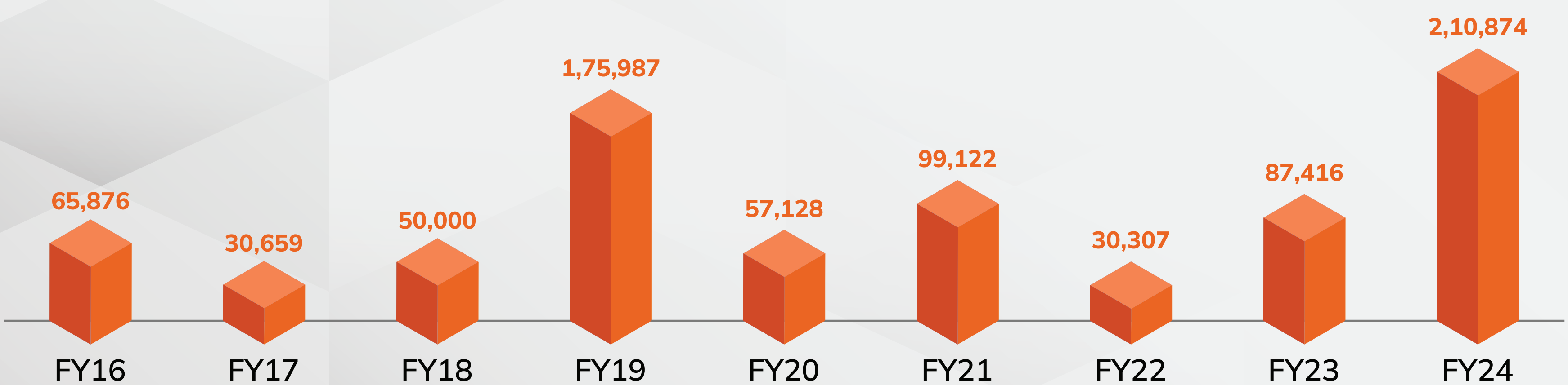
The Reserve Bank of India has approved a dividend of ₹2.11 lakh crore for the Central Government for FY24. The dividend payout is around 140% higher than in FY23 and twice the budgeted amount in the recent 2024 Interim Budget.

One of the **key reasons** behind the bumper dividend announcement is the **rise in the RBI's interest earnings from foreign exchange assets.**

What does this mean for the market?

This announcement has an immediate impact on bond yields, with the Indian 10-year benchmark yield falling marginally below 7%. Higher than expected dividend pay to the Centre **could likely help reduce the fiscal deficit.** The announcement has delivered **a sentiment boost to the G-Sec market.** Spillover effects could benefit via foreign portfolio inflows and improved liquidity to the system.

DIVIDEND HISTORY OF THE RBI (₹ CRORE)



Source: Reserve Bank of India (RBI)

S&P Global Ratings upgraded India's sovereign rating outlook


Image used for illustration purposes only

A sovereign credit rating measures a government's ability to repay its debt. A higher rating would denote greater potential to repay.

S&P Global Ratings upgraded India's sovereign rating outlook to 'positive' from 'stable', citing India's sound economic fundamentals, expectation of broad continuity in reforms and improved quality of government spending. However, it maintained India's sovereign credit rating at BBB-.

Source: S&P Global

The Reserve Bank of India unveils three major initiatives in May 2024

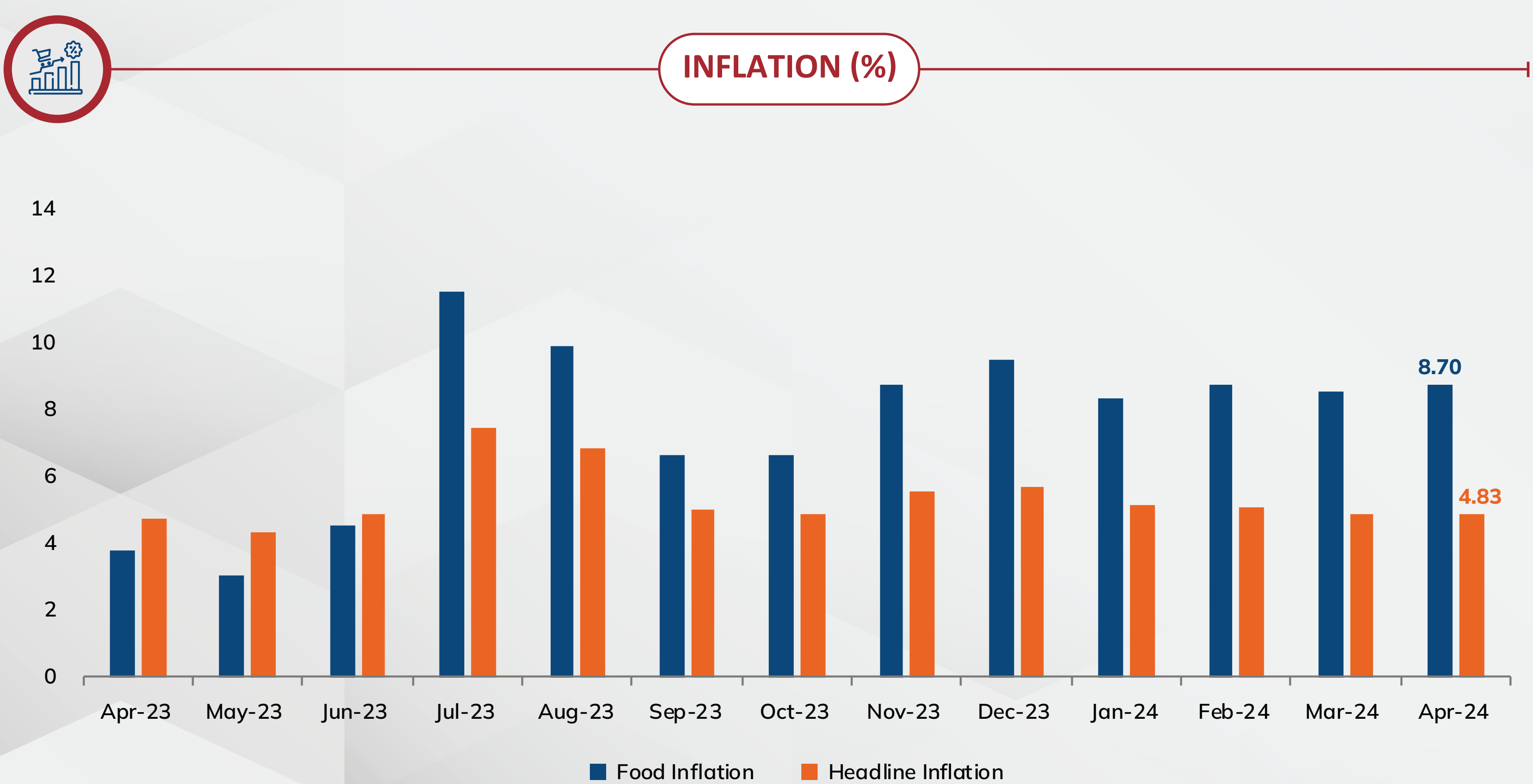
- **The PRAVAAH portal, a centralized web-based platform would enable** any individual or entity to apply online for various regulatory approvals from the RBI in a seamless manner.
- **The Retail Direct Mobile App** would provide retail investors a convenient access to the retail direct platform for transacting in government securities.
- **The FinTech Repository** aims to capture comprehensive data on Indian FinTech firms for a better understanding of the sector from a regulatory perspective.

Source: Reserve Bank of India (RBI)

India's retail inflation eased in April 2024 - Is the elephant gradually returning to the forest?

The headline Consumer Price Index (CPI) eased to a 11-month low of 4.83% in April 2024, aided **by lower fuel costs and softening core inflation.** While the core components of the index cooled, **food inflation remained elevated at 8.70% in April,** up from 8.52% in March, driven by higher prices of meat and fish, cereals and fruits.

While headline inflation is crawling towards RBI's medium-term target of 4%, **market participants are wary of erratic weather conditions and supply side shocks,** that could pose a risk to the inflation outlook.



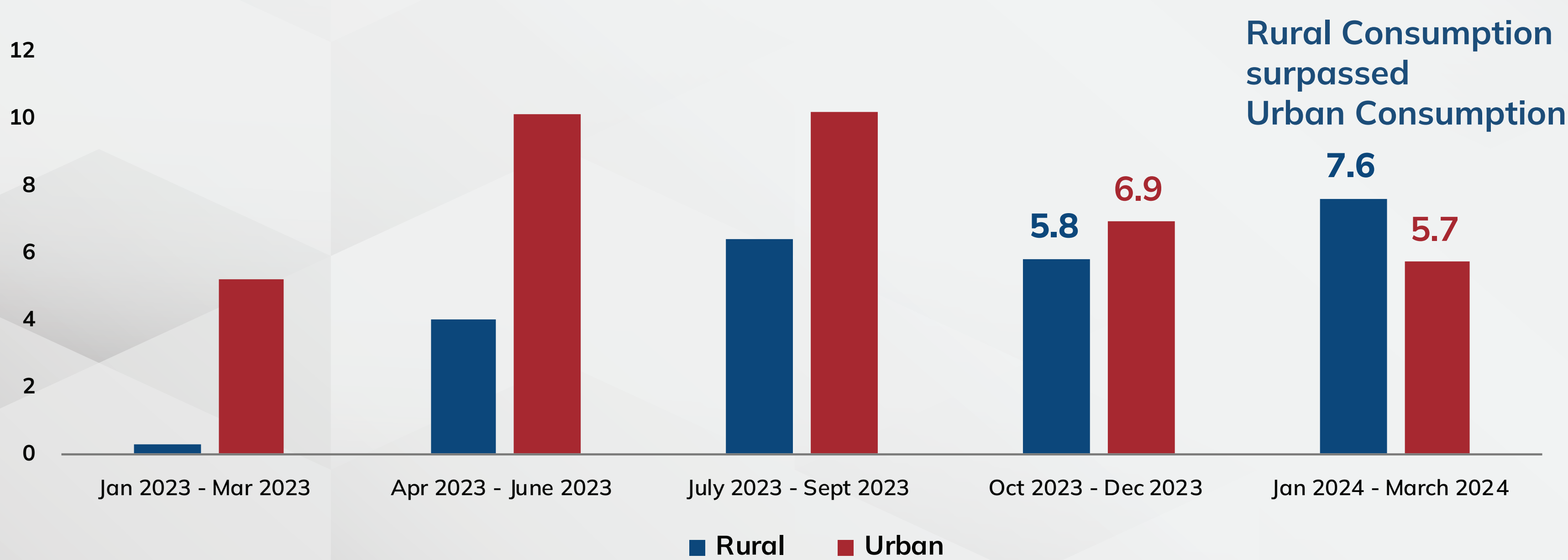
Source: Data as on May 15, 2024. Centre for Monitoring Indian Economy Pvt. Ltd. (CMIE)

Rural FMCG consumption outpaced Urban in the January-March 2024 Quarter – Have the tables turned?

The January-March 2024 quarter indicated a turnaround for India's fast-moving consumer goods (FMCG) sector as **rural consumption outpaced urban consumption for the first time in five quarters.** During the period, **rural consumption grew at 7.6% year-on-year vis-à-vis that in urban regions which stood at 5.7%,** a notable change from the preceding quarters.

While both food and non-food sectors contributed to the consumption growth story in Q1CY24, **the home and personal care categories outshined food categories.**

VOLUME GROWTH IN RURAL AND URBAN MARKETS (%)

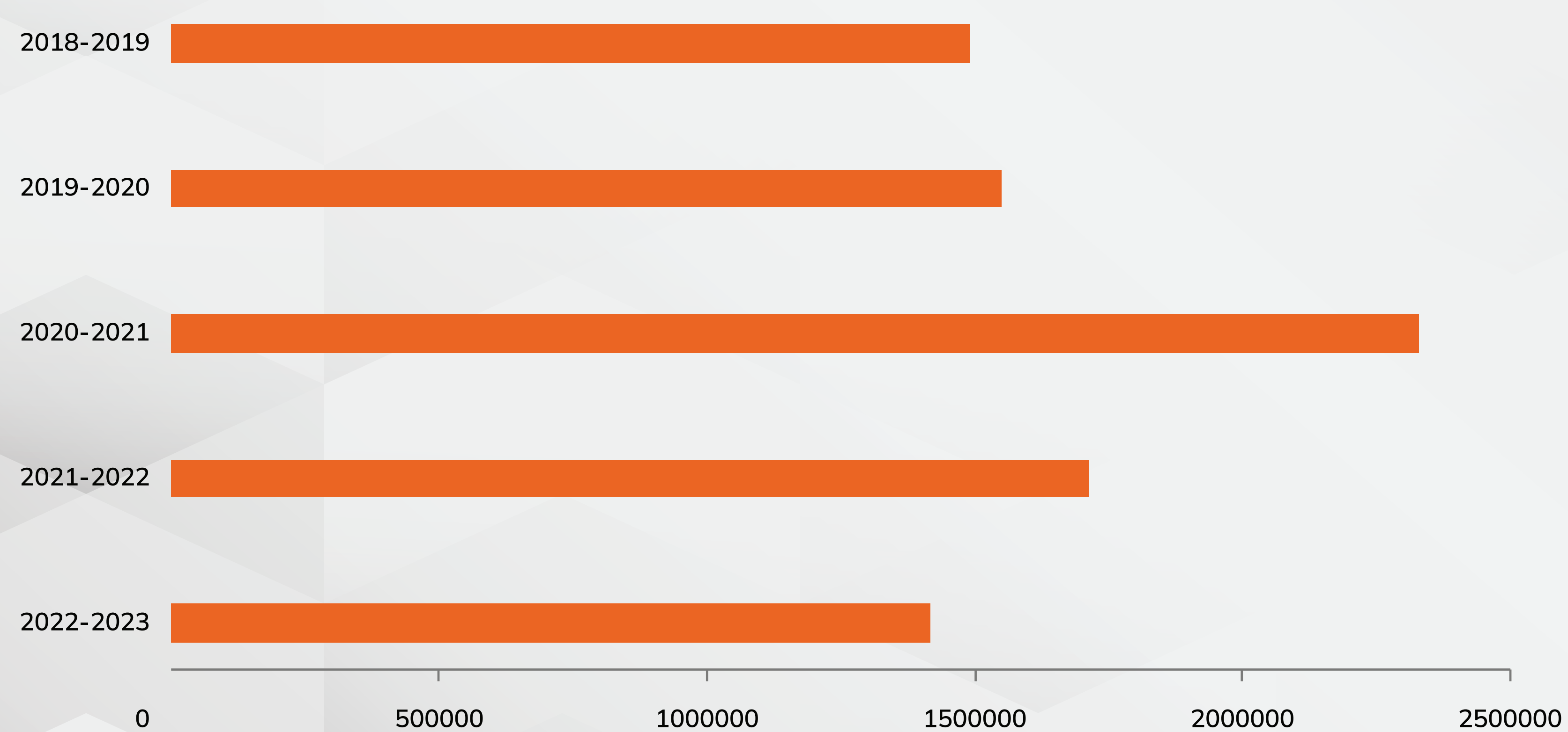


Source: NielsenIQ (NIQ). The sector(s) /stock(s) mentioned in this presentation do not constitute any recommendation of the same and ICICI Prudential Mutual Fund may or may not have any future position in these sector(s)/stock(s).

Household financial savings plunge to a 5-year low in FY23

The net financial savings of Indian households plunged to a five-year low of ₹14.16 lakh crore trillion in FY23, a sharp decline from ₹17.12 lakh crore trillion recorded in the previous year. The fall can primarily be attributed to a rise in **household financial liabilities** as short-term credit, particularly from credit cards and other bank advances increased significantly.

NET FINANCIAL SAVINGS OF HOUSEHOLD SECTOR (₹ CRORE)



Source: Ministry of Statistics and Programme Implementation (MoSPI)

Applauding yet another milestone for the Indian Mutual Fund Industry

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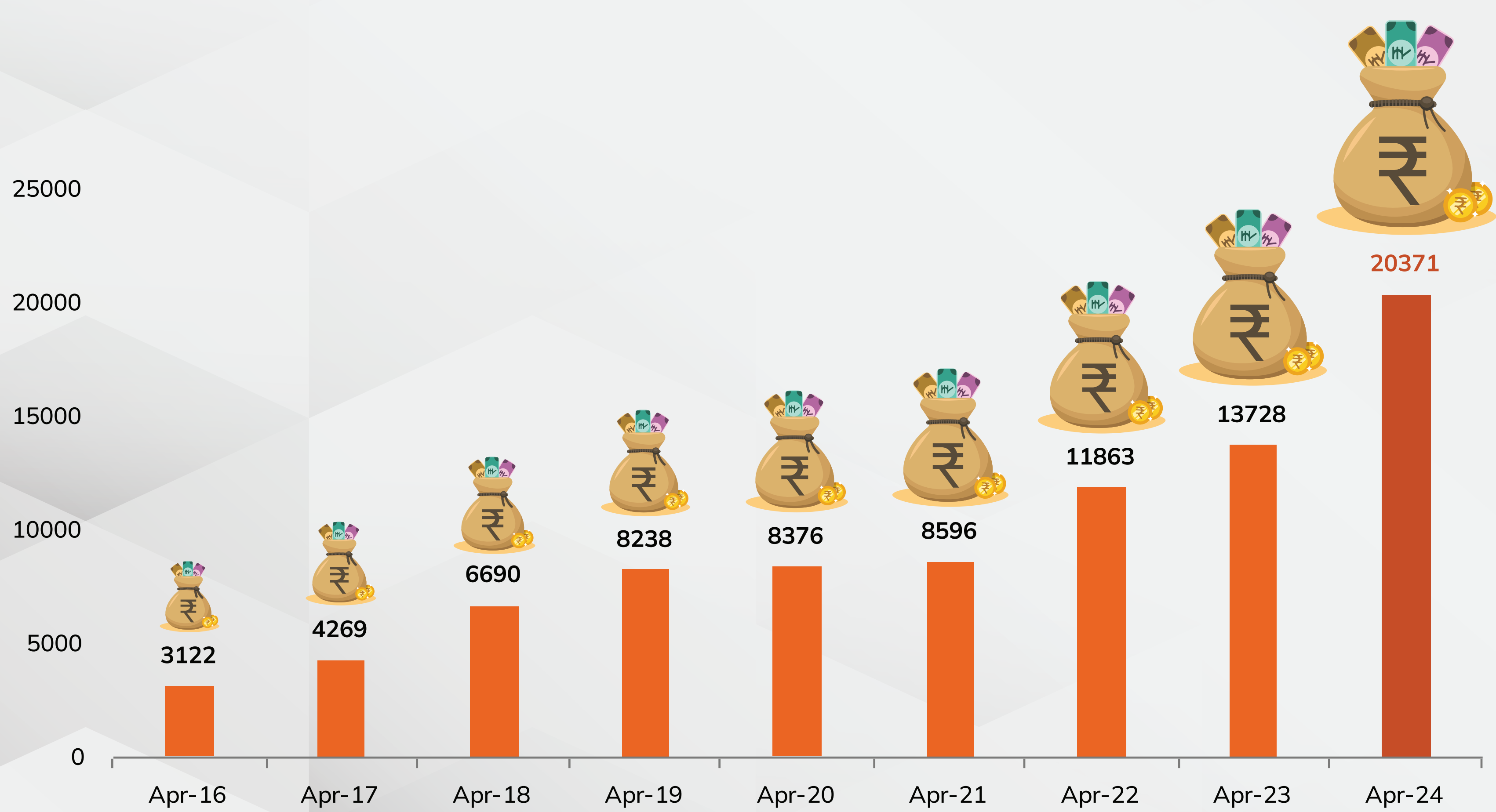
Despite a spike in market volatility and decline in household financial savings in FY23, the mutual funds **Systematic Investment Plan (SIP) book scaled to a record high of ₹20,371.47 crore in April 2024.** This was accompanied by around **6.4 million new SIP accounts in the month,** indicating the **commitment of investors to disciplined investing across markets cycles.**

SIP CONTRIBUTION (₹ CRORE)



Source: Data as on April 30, 2024. Association of Mutual Funds in India (AMFI)

India's merchandise trade deficit expanded in April 2024

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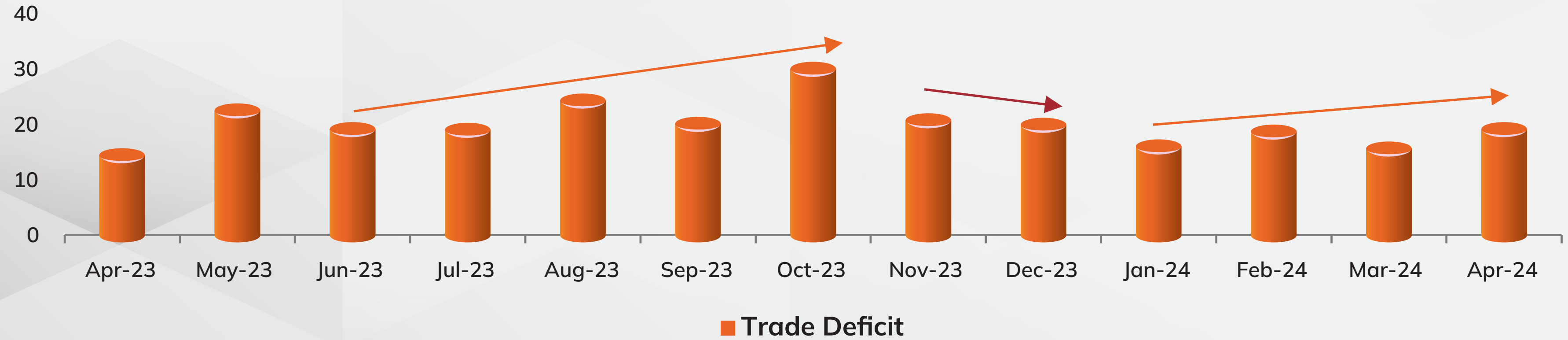
India's merchandise trade deficit widened to a four-month high of $19.1 billion in April 2024, primarily owing to a rise in gold and oil imports.

Merchandise exports rose marginally to $34.99 billion in April 2024, against $34.62 billion in April 2023. **Meanwhile, merchandise imports stood at $54.09** billion, up around 10.25% from $49.06 billion recorded in April 2023.

Overall trade is impeded by the **Red sea crisis, aftermath of geopolitical tensions, a slowdown in global growth** and the **inflationary pressures** built by high energy prices.

MERCHANDISE TRADE DEFICIT (USD BILLION)



Source: Centre for Monitoring Indian Economy (CMIE)

The Chinese economy announced significant steps to stabilize the crisis-hit property sector

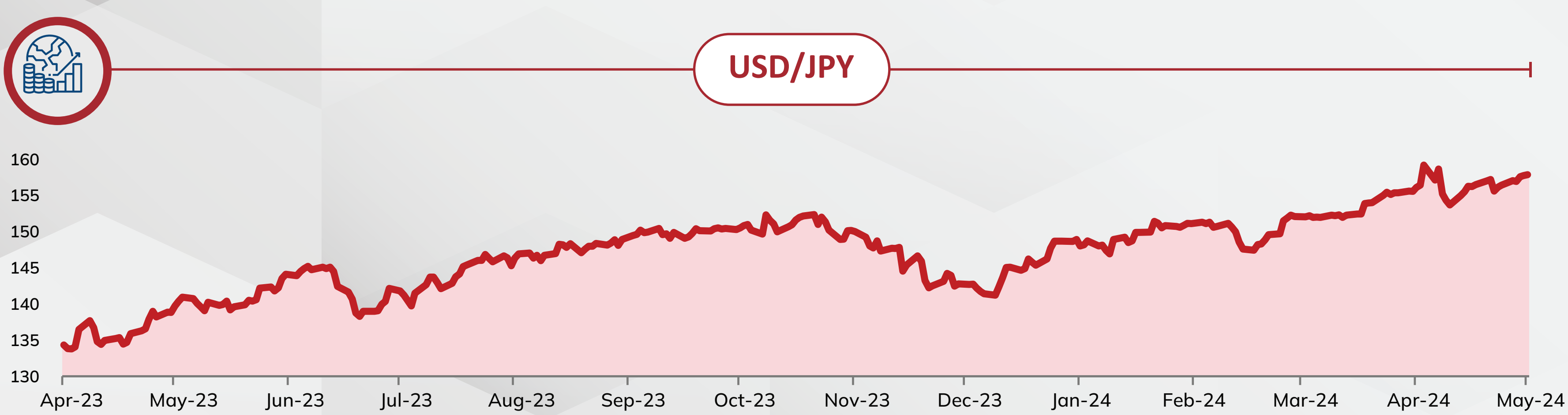
In May 2024, China announced steps to stabilize its property sector – the People's Bank of China (PBOC) talked about facilitating 1 trillion yuan ($138 billion) in extra funding, relaxing mortgage rules and the prospect of local governments buying some properties at reasonable prices (Data source: Reuters). The central bank also earmarked another 300 billion yuan to support affordable housing.

The property sector of China began its downturn trajectory in 2021 as several developers defaulted. While the rescue measures announced are encouraging, **it could take time for the deep wounds of the housing sector to heal.**

Japanese economy at crossroads as the Yen continues to weaken

The Japanese Yen (JPY) witnessed a roller-coaster ride in recent weeks as the currency weakened to around 157 on May 24, 2024 against the U.S. dollar (USD) owing to the strength of the U.S. economy and delayed prospect of interest rate cuts by the Federal Reserve.

While depreciation of the Japanese Yen is beneficial for exporters, **it could escalate import costs, adding to inflationary pressures.**



Source: Data as on May 24, 2024. Refinitiv

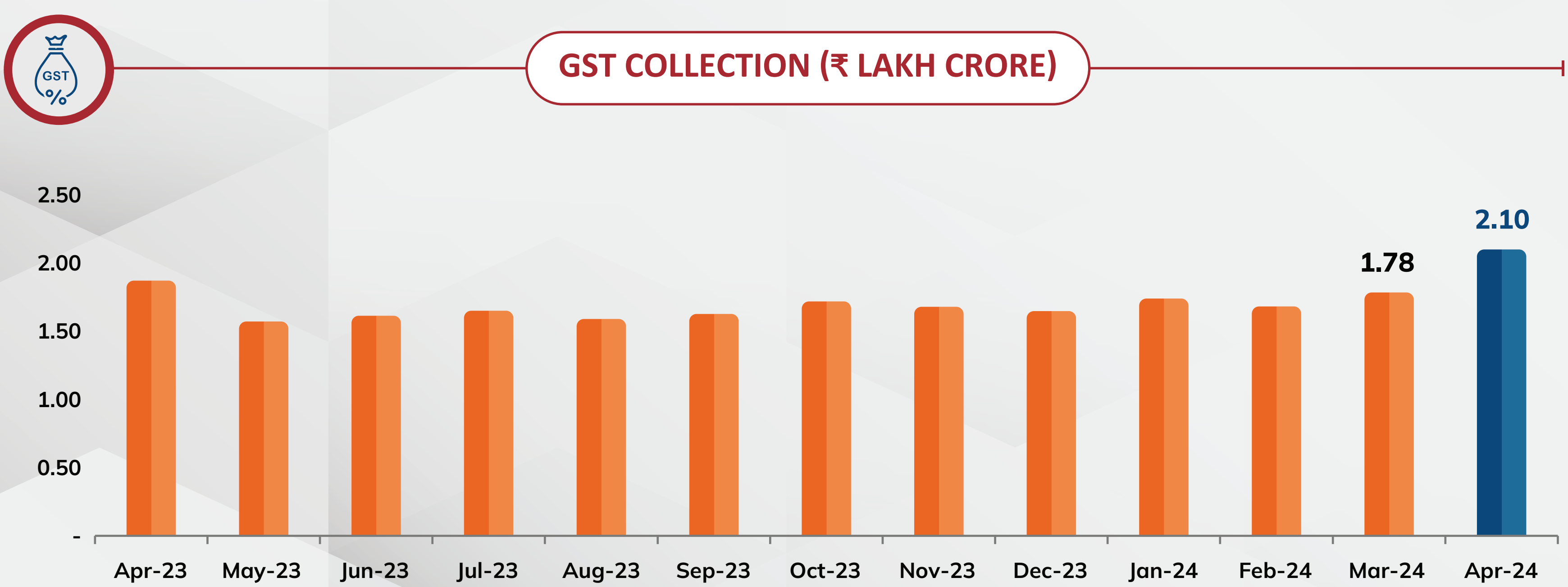
India, Iran sign a long-term contract for Chabahar Port after years of negotiations

May 2024 is a historic month for the maritime sector as **India and Iran finally signed a long-term contract for the development of the Chabahar Port in May 2024.**

The Chabahar Port facilitates the movement of goods between India and Central Asian countries. The collaboration between India and Iran could **enhance infrastructure and logistics, reduce transportation costs and promote trade between the regions.**

GST Collection at record high of ₹2.10 trillion in April 2024

Goods and Services tax (GST) tested a record high of ₹2.10 lakh crore in April 2024, denoting robust economic growth. The significant 12.4% year-on-year growth was driven by a strong increase in domestic transactions.



Source: Data as on April 30, 2024. Source – Public Information Bureau; RBI.

And it’s a wrap

Global financial markets continue to grapple with bouts of volatility stemming from tight monetary conditions, ongoing geopolitical tensions and high public debt burdens.

Amidst challenges, the Indian economy is displaying robust macroeconomic fundamentals – the S&P Global Ratings upgraded India’s sovereign outlook to ‘positive’, there has been a pick-up in the investment cycle, international trade improved, manufacturing activities have gained traction, healthy balance sheets of banks and corporates contribute to the overall financial stability.

What’s in store for June? Stay tuned as we will keep you updated on a host of important events, such as global developments, trajectory of gold prices, inflation print, foreign capital inflow and other relevant macro events.

Disclaimer

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

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