ICICI PRUDENTIAL MUTUAL FUND

THE MONTH GONE BY

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

We may have been asked this classic rhetorical question some time or the other, **"If your friends jumped off a cliff, would you too?"** In October 2024, when Foreign Portfolio Investors retreated from the Indian stock market, a domino effect rippled – Several investors ran towards the exit door in reaction to the uncertainties led by global events. This turned into a full-blown stampede as more market participants followed the herd. When 'Fear' takes charge, it leaves no room for rational decision making.

What is the way out?

EVERY INDIVIDUAL IS UNIQUE, SO IS EVERY INVESTOR:

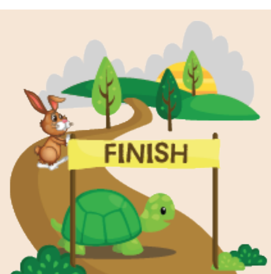
Focus on your investment journey – Do not get swayed by stock tips from unsolicited sources.

THE POWER OF FLEX:

For a smoother investment journey, build a portfolio with mutual fund schemes that have the flexibility to adapt to changing market conditions.

SLOW AND STEADY WINS THE RACE:

Invest regularly for the long term to benefit from the power of compounding.



THIS TOO SHALL PASS:

Nothing is permanent, not even market corrections – it could be just another speed breaker.

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

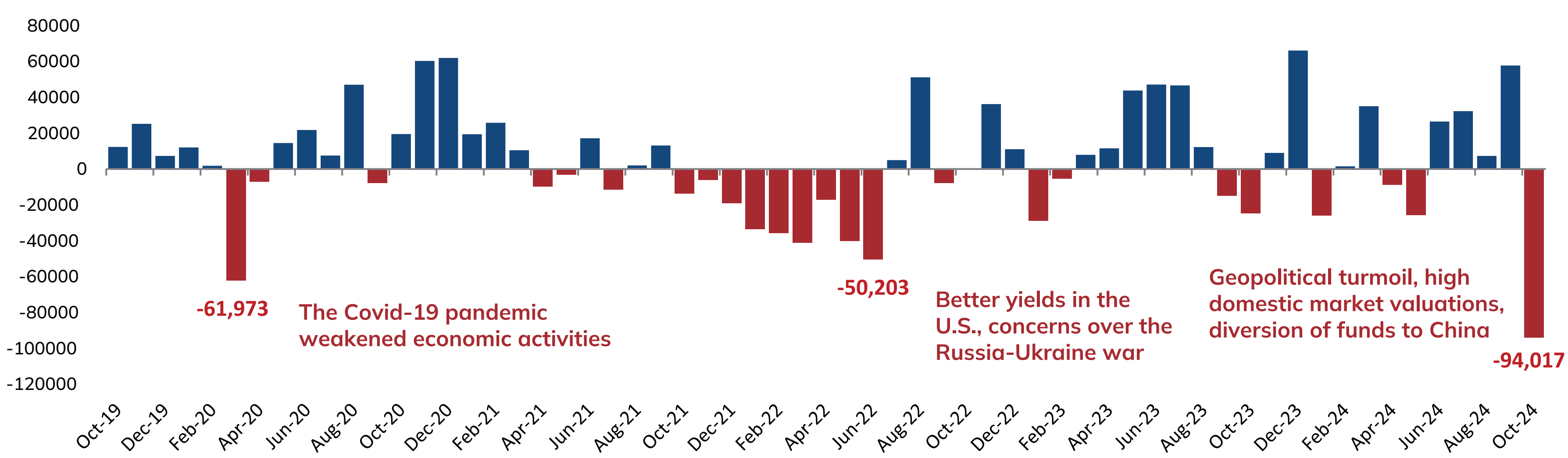
Foreign Investors are on a selling spree – What rattled the Indian equity market?

The Dalal Street was trapped in a downward spiral during the month, wrecking the nerves of most investors. From testing an all-time high of 85,978 on September 27, 2024, **the BSE Sensex slipped to 79,389 on October 31, 2024** as uncertainties engulfed the market.

Iran's air strikes on Israel darkened the clouds of war in West Asia. **What dampened the sentiment further were the twin concerns of Foreign Portfolio Investors (FPIs) offloading a significant volume of Indian equities** and investing in the Chinese market after the recent stimulus package. **Moreover, foreign investors are in a limbo due to the looming U.S. Presidential Elections** that would set the tone for trade relation prospects.

In October 2024, FPIs sold a massive ₹94,017 crore* of Indian equities, surpassing ₹61,973 crore withdrawn in March 2020, when economies were caged in the pandemic woods.

MONTHLY FPI NET INVESTMENTS (₹, CRORE)



Source: National Securities Depository Limited (NSDL). *October data is up to October 31, 2024, U.S.: United States. FPI: Foreign Portfolio Investors

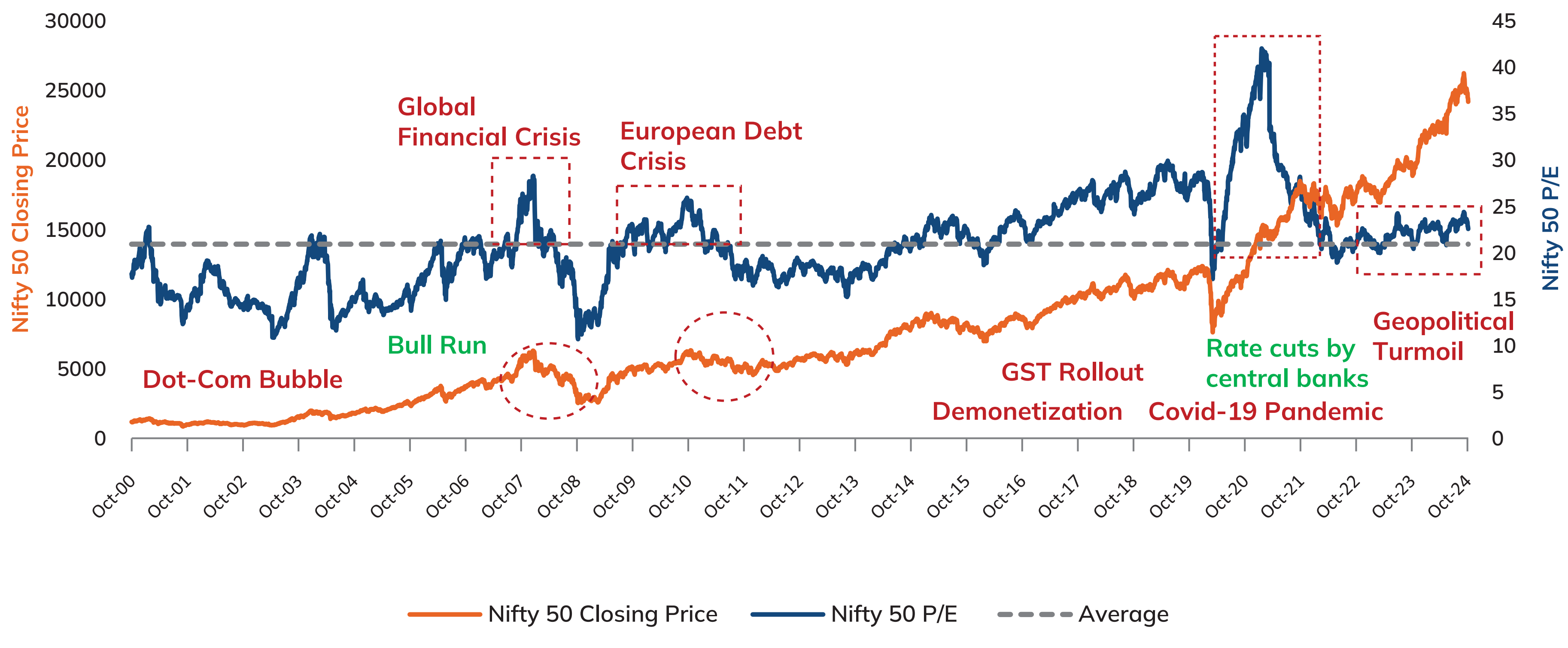
Will the 'Sell India, Buy China' strategy of the FPIs continue to steal the thunder from the Indian market even in the following month? Only time will tell.

The Domestic market is also rumbling over high valuation concerns

While the market mood turned gloomy amidst flaring geopolitical conflicts, another reason that prompted Foreign Portfolio Investors (FPIs) to shift from Indian equities to other markets is concerns around relatively high valuations.

The Price-to-Earnings (P/E) ratio of the Nifty 50 Index is hovering around 23x, higher than its long term average, **indicating that valuations are not cheap at these levels.**

NIFTY 50 CLOSING PRICE AND NIFTY 50 P/E RATIO



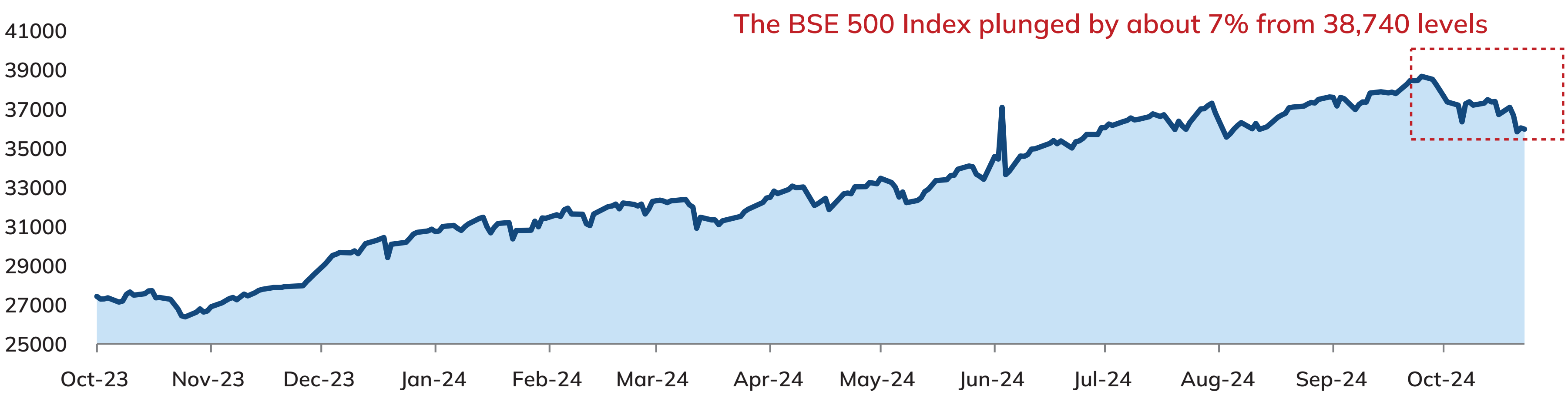
Source: NSE, P/E: Price-to-Earnings, Data as on October 30, 2024. Past performance may or may not sustain in future

A tepid Q2FY25 corporate earnings growth leaves a sour taste for investors

Banks are displaying a slowdown in credit growth with a contraction in margins. Moreover, **consumer demand has been sluggish across industries such as Automotive, FMCG and cement,** resulting in disappointing Q2FY25 corporate revenue numbers.

The BSE 500 Index, which tracks the performance of the top 500 companies in India, spread over a diversified gamut of sectors, **plunged by about 7% from the high of 38,740 in September 2024 to 35,845 on October 30, 2024.**

BSE 500 INDEX (CLOSING PRICE)



Source: Bombay Stock Exchange (BSE), Data as of October 30, 2024

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. FMCG: Fast Moving Consumer Goods

The Awakened Chinese Dragon is grabbing attention

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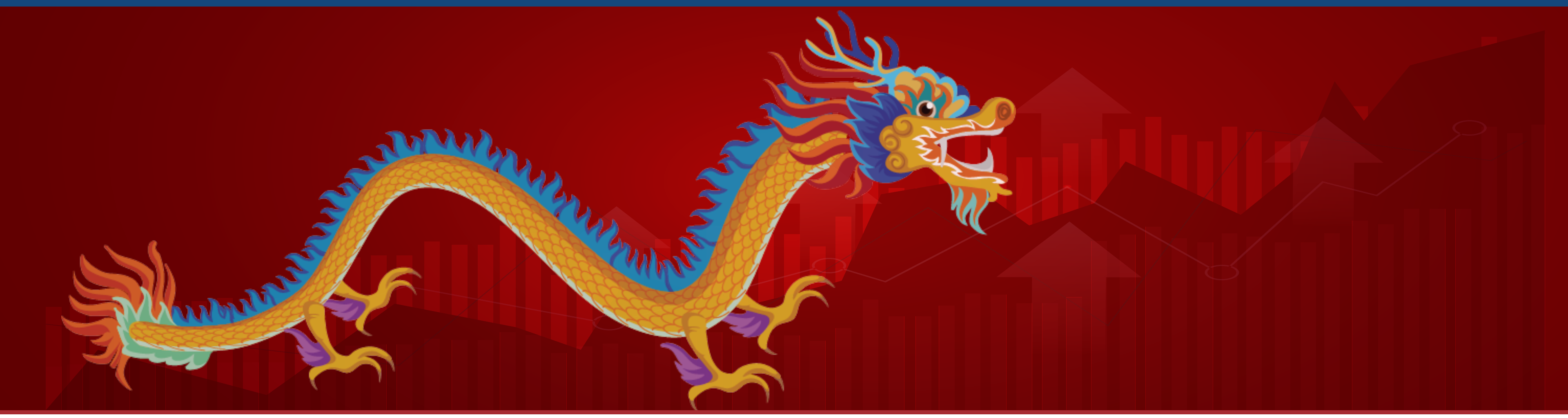
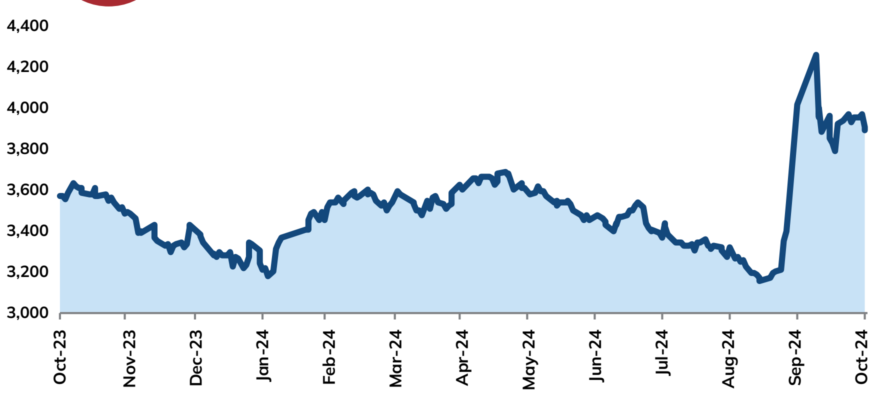


The People's Bank of China announced a slew of measures in September 2024, such as **reducing the benchmark seven-day reverse repo rate by 20 basis points and lowering mortgage rates on home loans** to stimulate the economy.

The CSI 300 Index leaped around 27% from 3,351 levels on September 24, 2024 to 4,256 levels in the first week of October 2024.

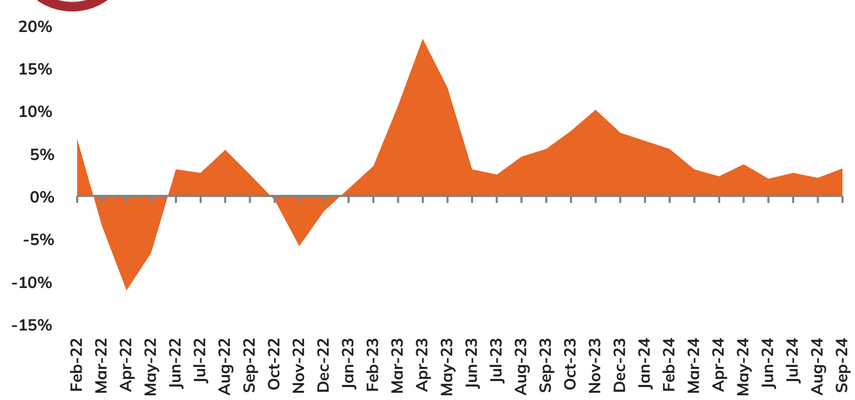
CSI 300 INDEX (CLOSING PRICE)



Source: Reuters, Data as on October 31, 2024

China's Retail Sales grew to a four-month high of 3.2% in September 2024, driven by a revival in sales of automobiles and household appliances.

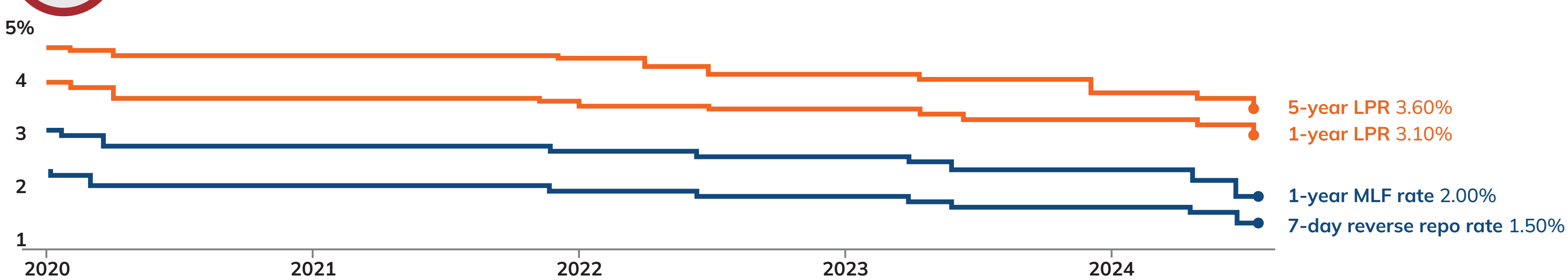
RETAIL SALES OF CHINA (%)



Source: National Bureau of Statistics of China, South China Morning Post Research

China introduced more stimulus measures on October 21, 2024 to revive growth – **The one-year loan prime rate (LPR) was lowered by 25 basis points to 3.10% from 3.35%, while the five-year LPR was reduced by 25 basis points to 3.60%** from the previous 3.85%.

CHINA'S CENTRAL BANK CUTS BENCHMARK LOAN PRIME RATES (%)



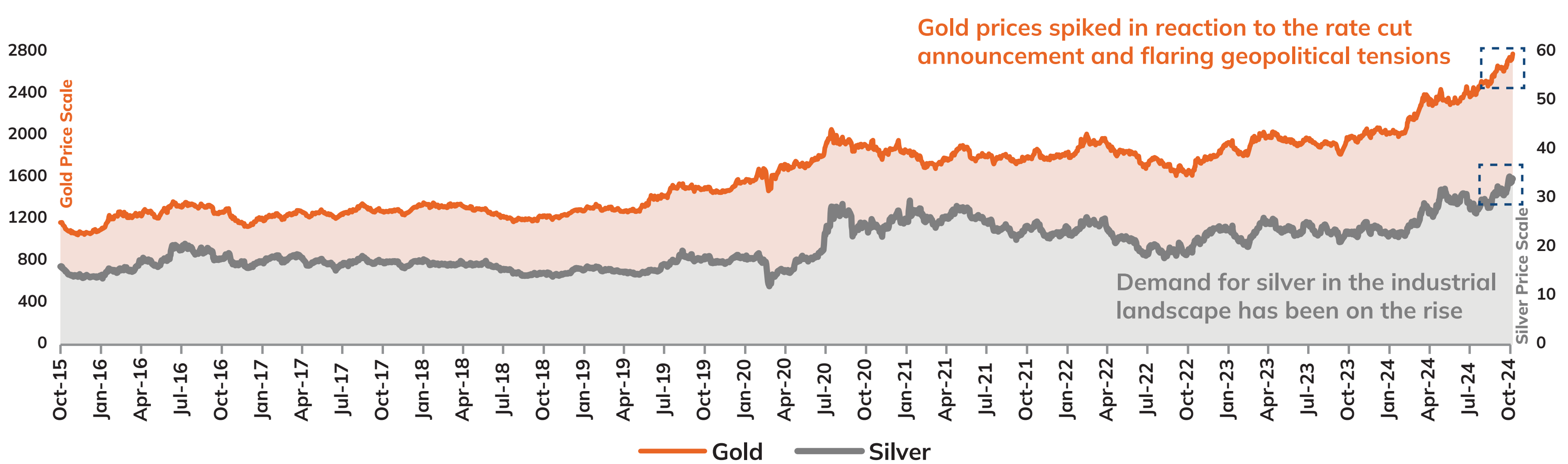
Source: Reuters, Data as on October 21, 2024. LPR: Loan Prime Rate. MLF: Medium-Term Lending Facility Rate

Gold shines to new highs on robust demand

The yellow metal tested a new high of around $2,783/ounce (LBMA price) on October 30, 2024, up nearly 40% from its February 2024 low of $1,990/ounce.

- **Investors lean towards Gold as a potential hedge against the market uncertainties** amidst unrest in the Middle East and jitters around the upcoming U.S. elections.
- **Central banks accumulate Gold to diversify their reserves** amidst a challenging economic environment.
- **Upbeat demand for jewellery and gold bars during festive season** could provide an impetus for this precious metal in the near term.
- **The U.S. Federal Reserve has signaled more interest rate cuts,** which sparked renewed interest in Gold, as the metal thrives amidst currency depreciation and geopolitical vulnerabilities.

GOLD AND SILVER PRICES (LBMA, $/OUNCE)



Source: LBMA: London Bullion Market Association, Data as on October 30, 2024. The gold price in India was around ₹78,745/10 gm as on October 30, 2024.

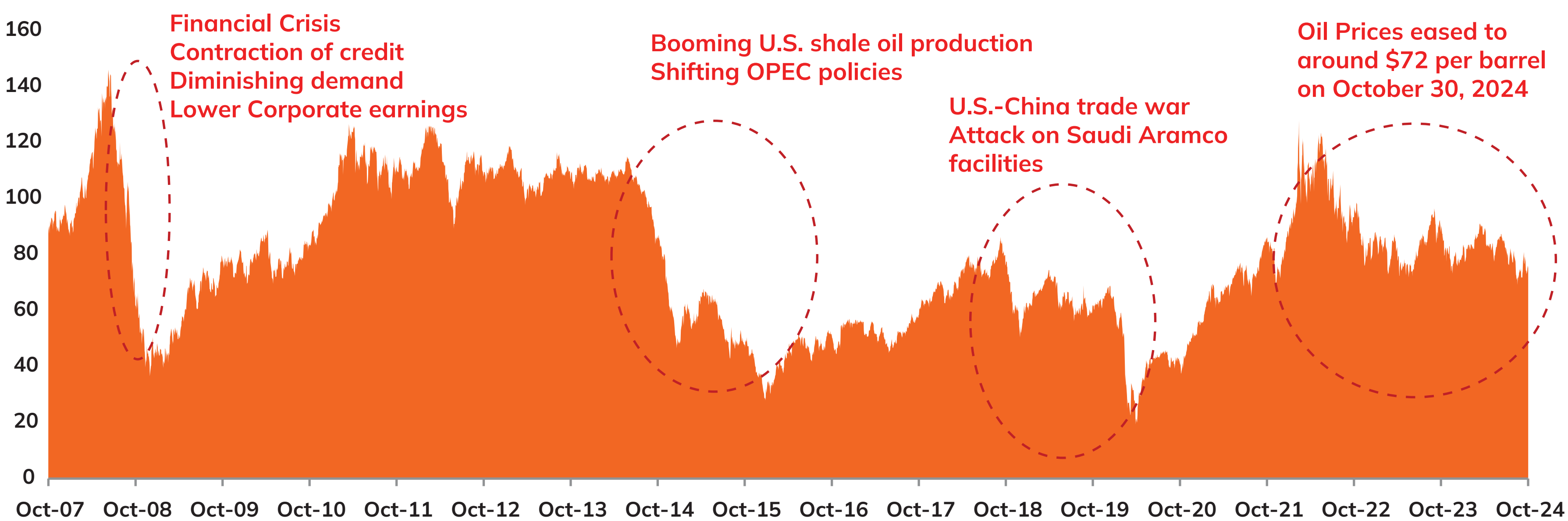
Silver is also considered an important precious metal for its **store of value and extensive usage in the industrial landscape. Silver prices traded around $34.03/ounce (LBMA price) on October 30, 2024.**

The wavering journey of Crude Oil prices through tides of twists and turns

Crude oil prices rebounded to around $81 per barrel in early October as the Middle East conflict took center stage, signaling **disruptions to Iranian exports and posing severe oil supply risks.**

However, the price rise was short-lived as sluggish demand from China and a surge in U.S. crude oil inventories kept the oil market at the edge of the cliff. U.S. crude oil inventories rose by 5.5 million barrels to 426 million barrels in the week ended October 18, 2024 (Source: Energy Information Administration). Oil prices continued to decline on concerns over the possibility of a demand-supply imbalance in the global oil market.

BRENT CRUDE OIL ($/BARREL)



Source: Refinitiv. Data as on October 30, 2024. OPEC: Organization of the Petroleum Exporting Countries

The revival in demand from China, the intent of the Organization of the Petroleum Exporting Countries (OPEC) to gradually restore supplies, subsequent interest rate cuts by the U.S. and the course of the geopolitical turmoil would play a pivotal role in determining the trajectory of the oil market in the medium term.

Unfolding the Trajectory of the Yields

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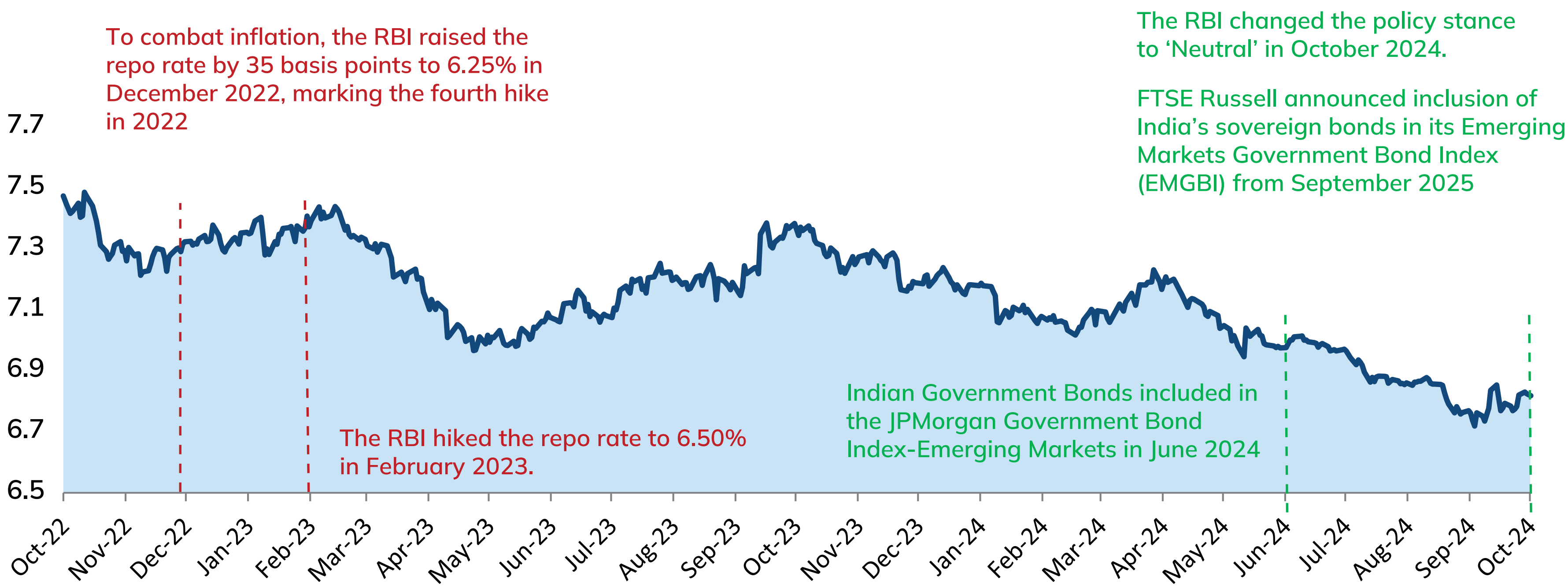
The Indian economy remains stable on the back of a sound financial sector, foreign exchange reserves testing new highs, prudence in fiscal management and improved business confidence.

India's benchmark 10-year bond yields have eased from 7.35% on October 31, 2023 to around 6.83% on October 30, 2024. Yields declined in early October 2024 after the **Reserve Bank of India (RBI) changed the policy stance to 'neutral'. Market participants anticipated a rate cut in December 2024;** however, **hopes began to fade a few days later as the RBI governor indicated that it would be very premature to cut rates at this stage.**

INDIA 10-YEAR G-SEC (%)



Source: CRISIL Research, Data as on October 30, 2024, G-Sec: Government Securities

FTSE Russell's plan to add Indian bonds to its Emerging Markets Government Bond Index in 2025

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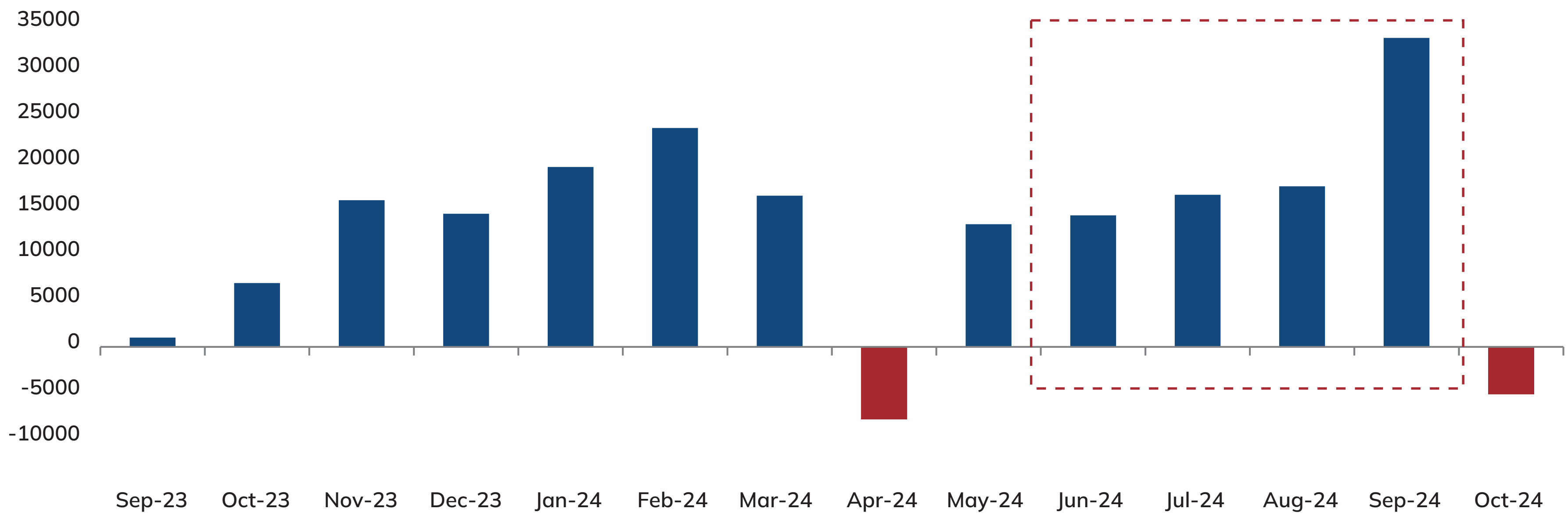
FTSE Russell would include India's sovereign bonds in its Emerging Markets Government Bond Index (EMGBI) over a six-month period from September 2025 with a share of 9.35% on a market value weighted basis. (Source: Reuters).

India's inclusion in JPMorgan's Government Bond Index- Emerging Markets in June 2024 enhanced the visibility of Indian bonds in global financial markets. **Inclusion of Indian bonds in FTSE Russell's Emerging Markets Government Bond Index could further attract foreign inflows into the Indian debt market.**

FPI INVESTMENT IN INDIAN DEBT MARKET (₹, CRORE)

FPI investment increased on inclusion of Indian Government Bonds in the JPMorgan Government Bond Index-Emerging Markets in June 2024.



Source: National Securities Depository Limited (NSDL), FPI data of October 2024 is up to October 31, 2024. The Debt component includes Debt General Limit, Debt VRR and Debt FAR. FPI: Foreign Portfolio Investors. VRR: Voluntary Retention Route. FAR: Fully Accessible Route

U.S. Retail Inflation eases further, inching closer to the Federal Reserve target of 2%

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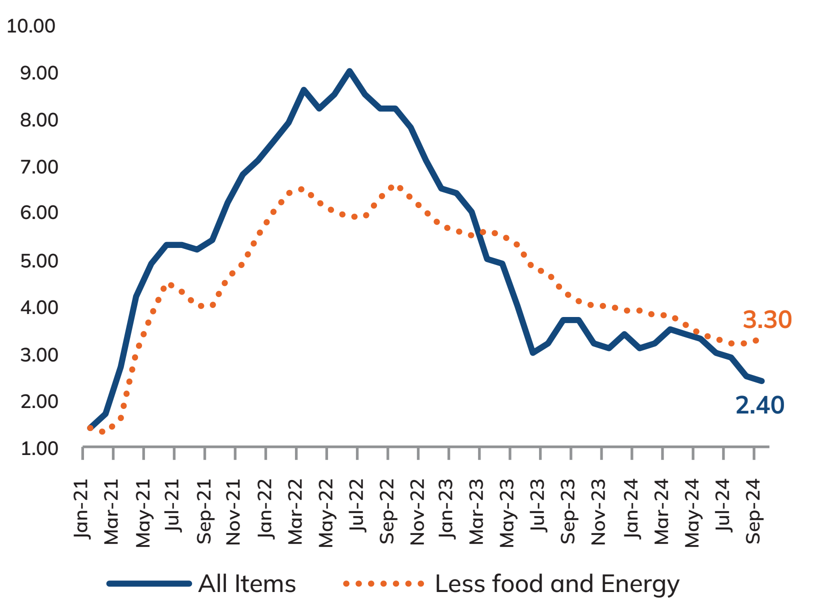
Households cheered as the annual inflation rate in the U.S. continued its downward trend, easing to 2.4% in September 2024, its lowest print since February 2021. Business activity increased amid moderating input costs, strong demand and a sharp rise in new orders for goods and services.

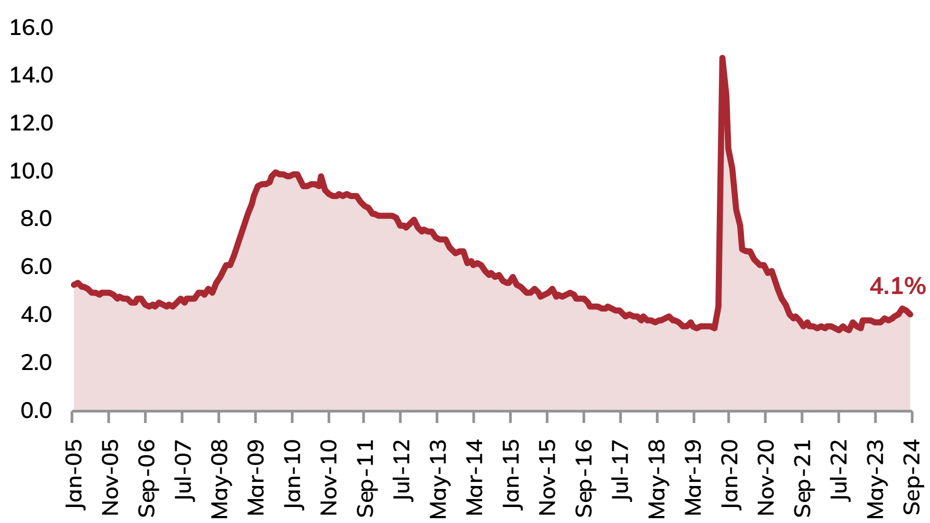
Also, the U.S. unemployment rate fell to 4.1% in September 2024 with a better-than-expected increase in total nonfarm payroll employment by 254,000, easing concerns about a weakening labour market.

U.S. CONSUMER PRICE INDEX (%)



Source: U.S. Bureau of Labor Statistics, Year-on-Year % Change

U.S. UNEMPLOYMENT RATE (%)



Source: Data as on September 2024. U.S. Bureau of Labor Statistics
U.S.: United States

Further interest rate cuts by the U.S. Federal Reserve would **reduce the cost of borrowing, encouraging businesses to invest and scale their operations. Cheaper car loans, home loans, mortgages would lead to higher consumer spending and boost economic growth, stimulating the job market.**

A pickup in food price momentum plays spoilsport for India's retail inflation

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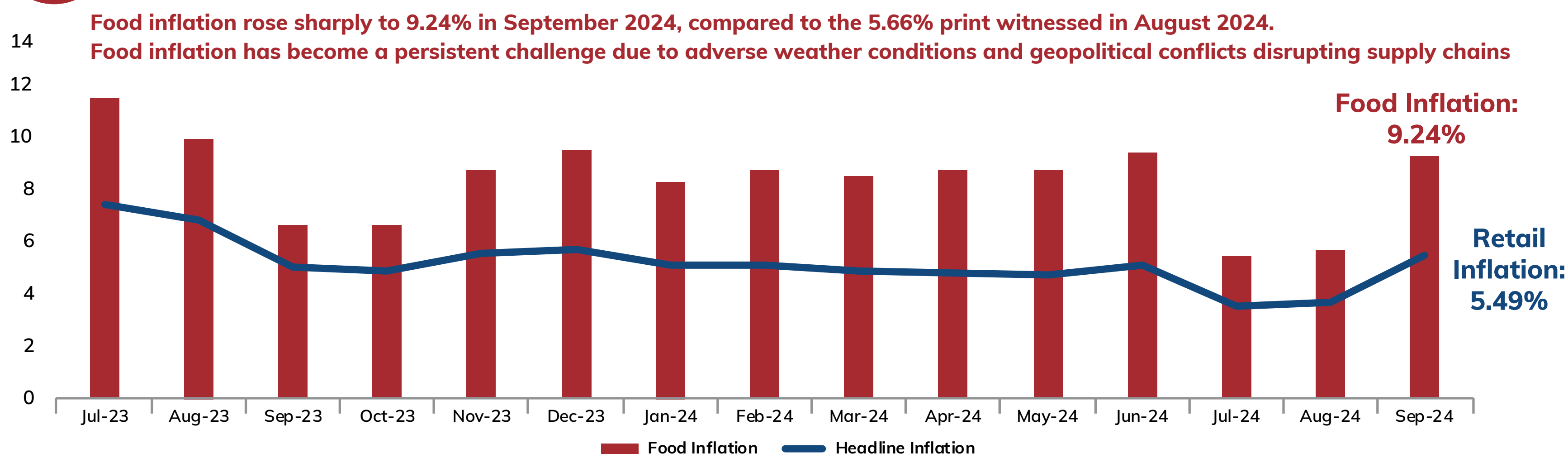
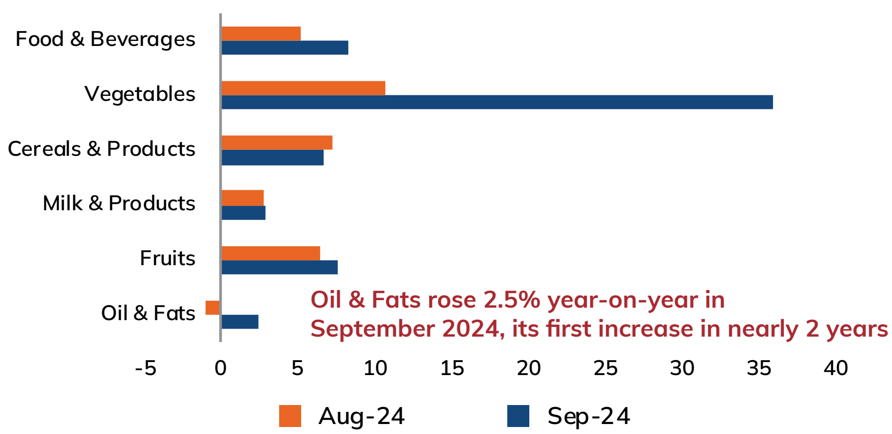
India's Retail Inflation, based on Consumer Price Index (CPI), rose to a nine-month high of 5.49% in September 2024, higher than 3.65% recorded in August 2024 as the **favourable base effect began to wear off and vegetable prices climbed higher.**

INFLATION (%)

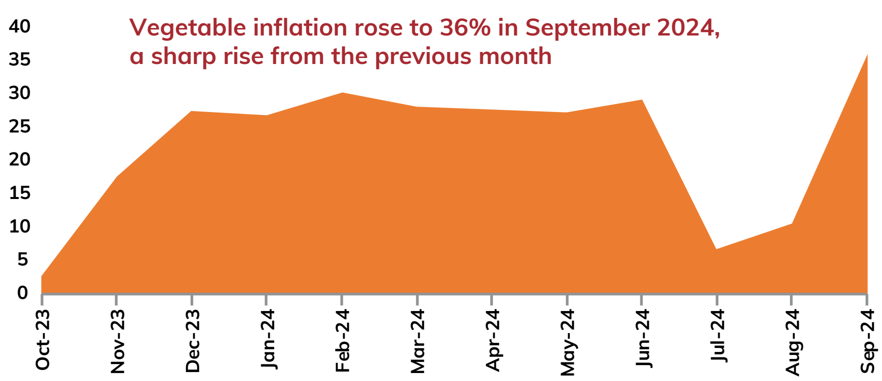


Source: CMIE: Centre for Monitoring Indian Economy, Data as on September 2024. RBI: Reserve Bank of India

YEAR-ON-YEAR RETAIL INFLATION IN KEY FOOD ITEMS (%)



VEGETABLE INFLATION (%)



Source: CMIE: Centre for Monitoring Indian Economy, Data as on September 2024.

Hold your horses – The RBI retains the policy repo rate but shifts gears to a 'neutral stance'

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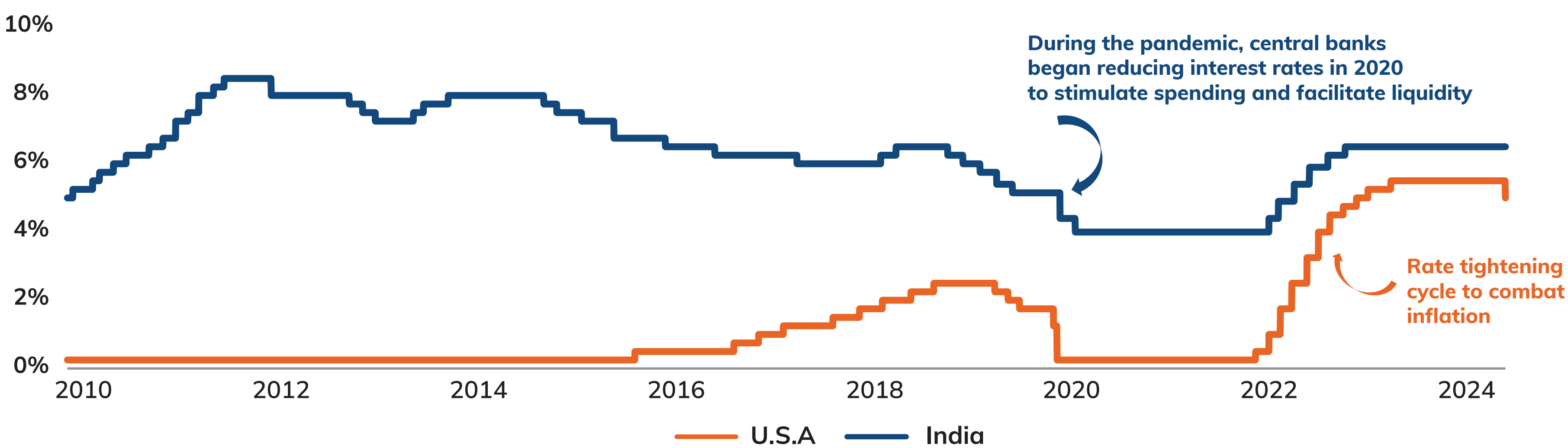
When the U.S. Federal Reserve reduced its benchmark rates by 50 basis points in September 2024, market participants anticipated that the Reserve Bank of India (RBI) would follow suit. However, **the RBI followed its own path by keeping the policy repo rate unchanged at 6.5% in the October 2024.**

Here is the twist to the plot – **The central bank changed its policy stance to 'neutral' from 'withdrawal of accommodation',** opening doors to a potential rate cut in the future.

A neutral stance gives a central bank the flexibility to either increase or decrease interest rates based on prevailing economic conditions, such as inflation and growth. **The Indian growth narrative continues to gain momentum** underpinned by strong private consumption and investment, providing **headroom for the RBI to focus on aligning inflation to the 4% target.**

MONETARY POLICY RATE – INDIA AND THE U.S.



Source: Reserve Bank of India (RBI), U.S. Federal Reserve, Data as on October 2024

Controlling inflation is like taming a wild horse that requires constant vigilance. Geopolitical tensions, unpredictable weather and rising food prices continue to nag the inflation outlook.

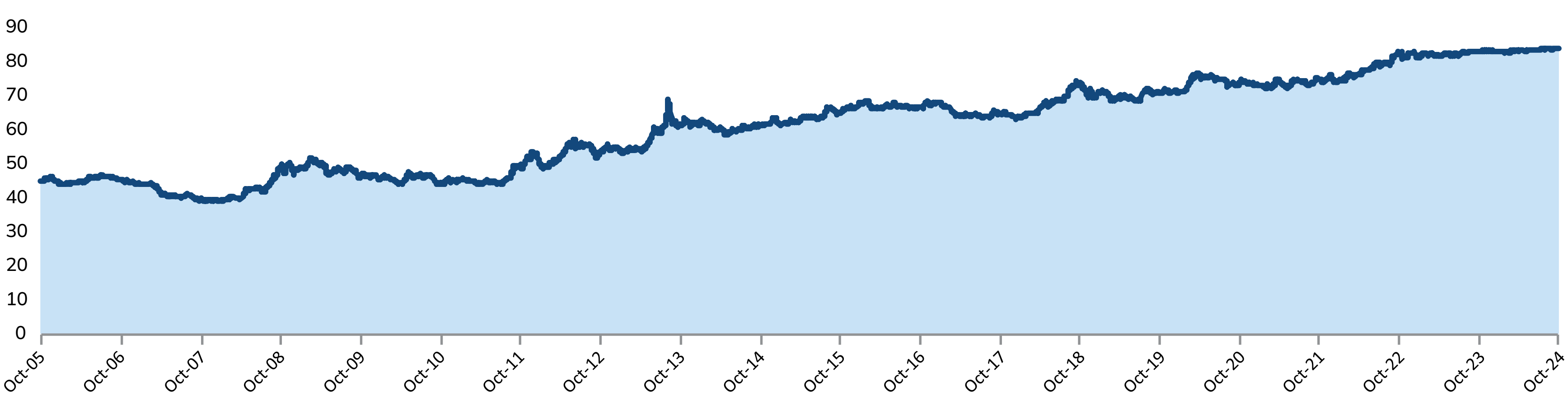
The Melodrama of the Indian rupee

The Indian rupee plunged to an all-time low of around 84.09 in October 2024, weakening against the U.S. Dollar.

Why has the rupee moved past the 84 level? **Firstly, significant foreign portfolio outflows from the Indian market weighed on the rupee.** FPI investments are often referred to as ‘hot money’ because of the tendency of foreign portfolio investors to shift exposure rapidly based on economic conditions. **When foreign investors sell Indian equities, they convert rupees into dollars to invest in other economies, which weakens the value of the rupee.**

Secondly, geopolitical instability impedes global supply chains, adding to the volatility in the oil market. **The grip of the rupee could loosen further with a surge in oil prices** as India would require more dollars to import the commodity, straining the import bill.

USD/INR



Source: Refinitiv. Data as on October 30, 2024. FPI: Foreign Portfolio Investors

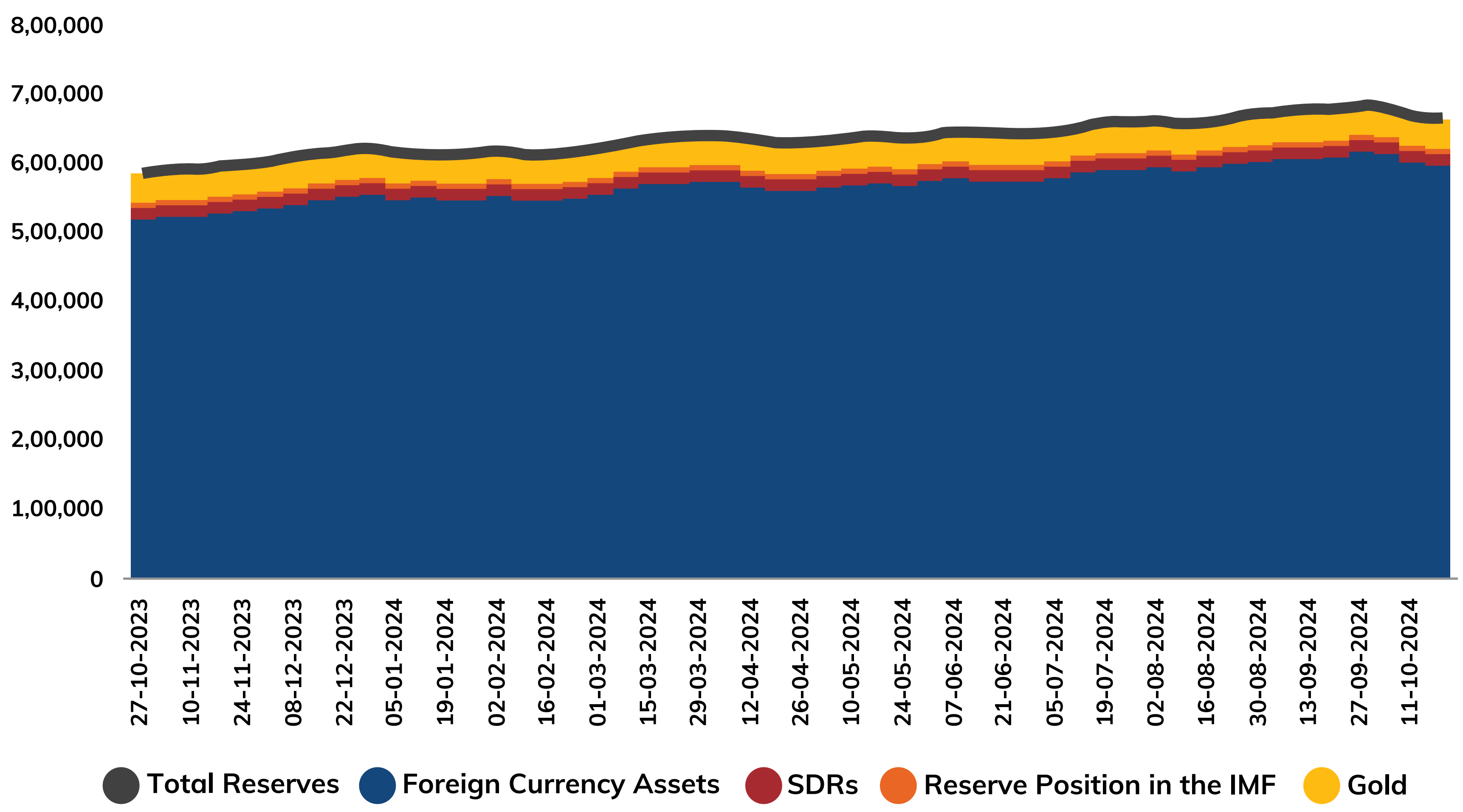
What does the falling rupee signify for sectors? **A depreciating rupee could be beneficial for export-oriented sectors** like IT services and Pharmaceuticals. **Conversely, imports could become more expensive, raising costs** for industries related to chemicals, oil and electronics.

India's foreign exchange reserves kitty surpassed the $700 billion milestone

India's forex reserves scaled to a high of $704.885 billion for the week ended September 27, 2024, which could be on the back of **strong foreign investment in Indian government bonds after inclusion in the JP Morgan Emerging Market Bond Index** and robust FPI inflows in Indian equities throughout September 2024.

A healthy level of foreign exchange reserves act as a buffer against global financial turbulence, which could be directed by the Reserve Bank of India (RBI) to defend the rupee in times of volatility.

FOREIGN EXCHANGE RESERVES (US $, MILLION)



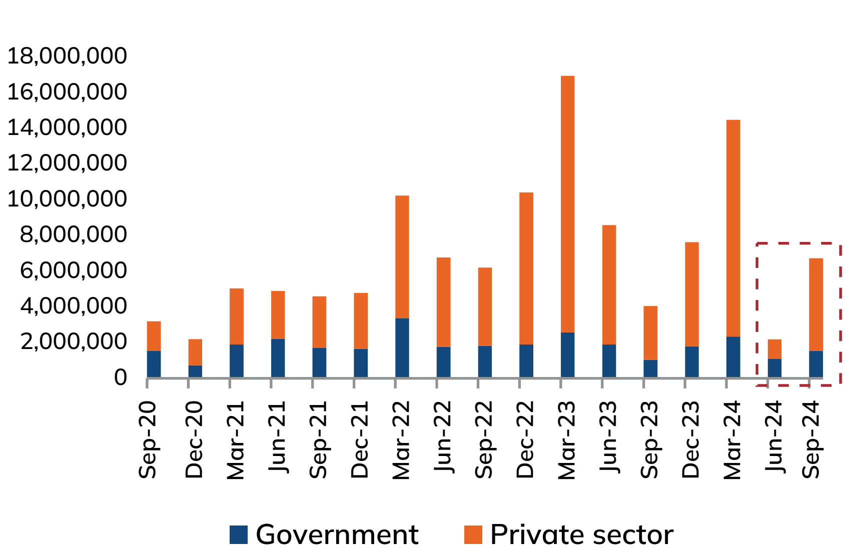
Source: Reserve Bank of India (RBI), Data as on October 11, 2024. SDR: Special Drawing Right

Comeback of Capex – Projects announced picked up steam in September 2024

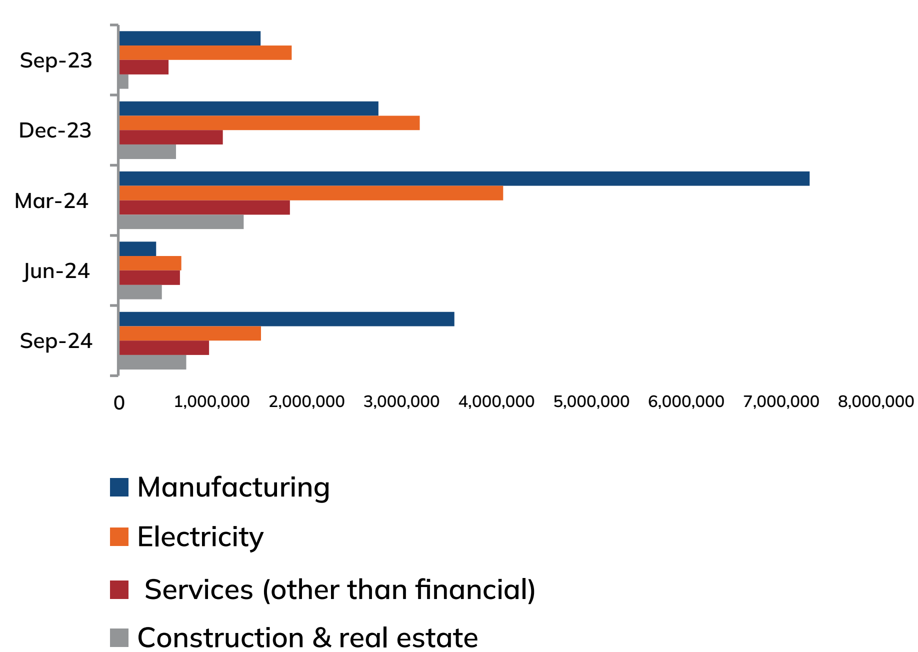
New capital investments displayed signs of recovery in September 2024, indicating positive business sentiment post elections. **The value of the new projects announced, which includes Government and Private sector related projects, increased by around 66% in September 2024 from the same period a year earlier.**

The manufacturing sector witnessed higher new projects than other sectors such as Services, Electricity, Construction and Real estate. **Some of the factors that support India's robust manufacturing narrative are the PLI scheme (Production Linked Incentive) scheme,** infrastructural development, focus on import substitution and a gradual revival in rural demand.

VALUE OF NEW PROJECTS ANNOUNCED (₹, MILLION)



VALUE OF NEW PROJECTS ANNOUNCED BY INDUSTRY (₹, MILLION)



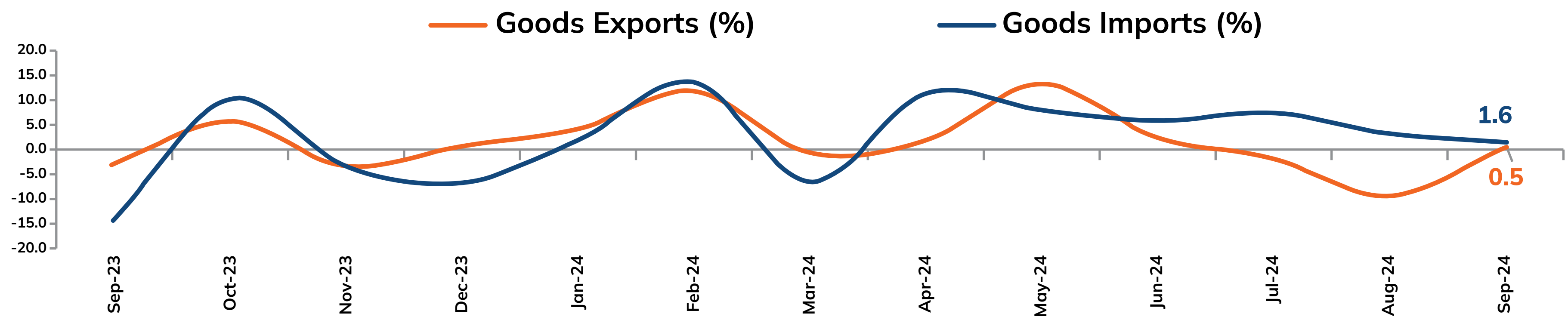
Source: Centre for Monitoring Indian Economy (CMIE), Data as on September 2024. Quarterly data has been considered. Capex: Capital Expenditure.

India's Trade Dynamics – Merchandise Exports rebound while imports moderate

Heightened geopolitical tensions, volatile oil prices, slowing global growth and disruptions along the Red Sea trade routes impeded exports of India in recent times.

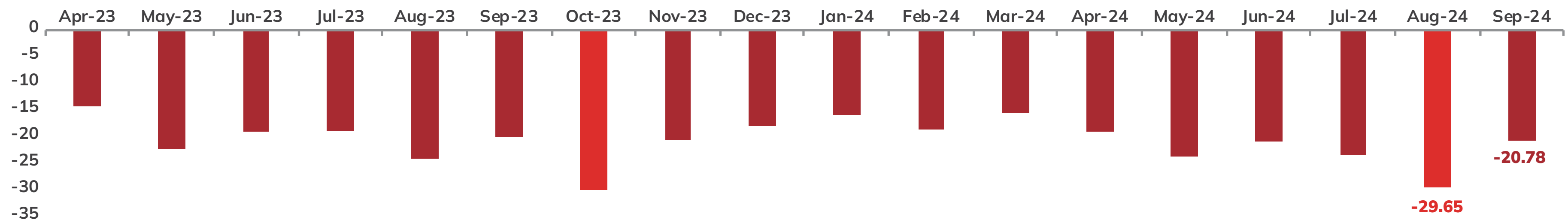
Despite challenges, India's merchandise exports witnessed a marginal uptick of 0.5% year-on-year to $34.58 billion in September 2024, owing to a **rise in shipments of engineering goods, chemicals, plastic, pharmaceuticals, ready-made garments and electronic goods.**

MERCHANDISE EXPORTS REBOUNDED IN SEPTEMBER AFTER SHRINKING FOR TWO MONTHS



With merchandise exports growing and imports slowing, **India's merchandise trade deficit, narrowed to a five-month low of $20.78 billion in September 2024** compared to $29.65 billion in August 2024.

INDIA'S MERCHANDISE TRADE BALANCE ($, BILLION)



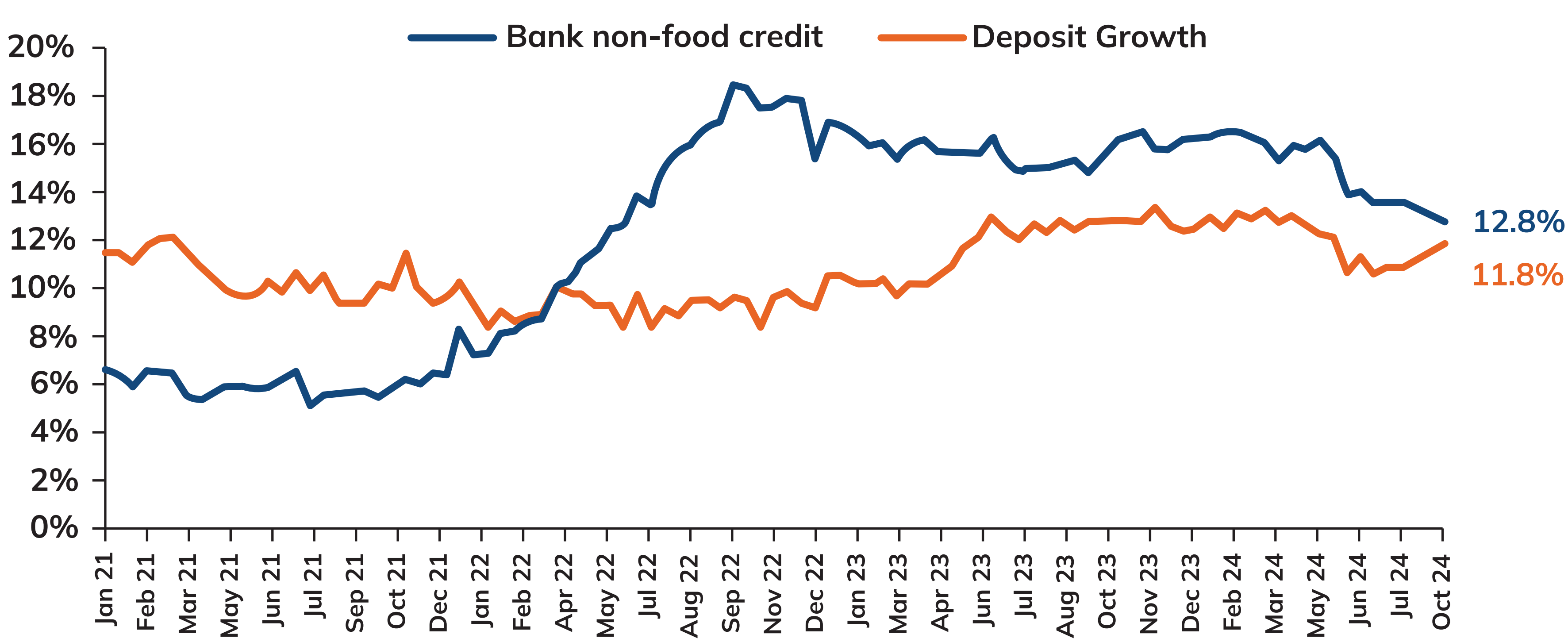
Source: Ministry of Commerce and Industry, CEIC, CRISIL

Bank Deposit Growth moderates to 11.8% in the first week of October 2024

The Indian banking sector has been grappling with slower growth in deposits compared to credit in recent months. If the gap between the deposits kept with the bank and the credit provided to customers widens, it could eventually lead to an asset-liability mismatch.

As of October 04, 2024, the bank deposit mobilization pace slowed to 11.8% year-on-year, compared to 13.6% recorded a year ago. Other investment avenues, such as Equities could have become attractive in the wake **of inflationary pressures, better awareness of other investment products as well as increasing digitization.**

BANK CREDIT AND DEPOSIT GROWTH (%)

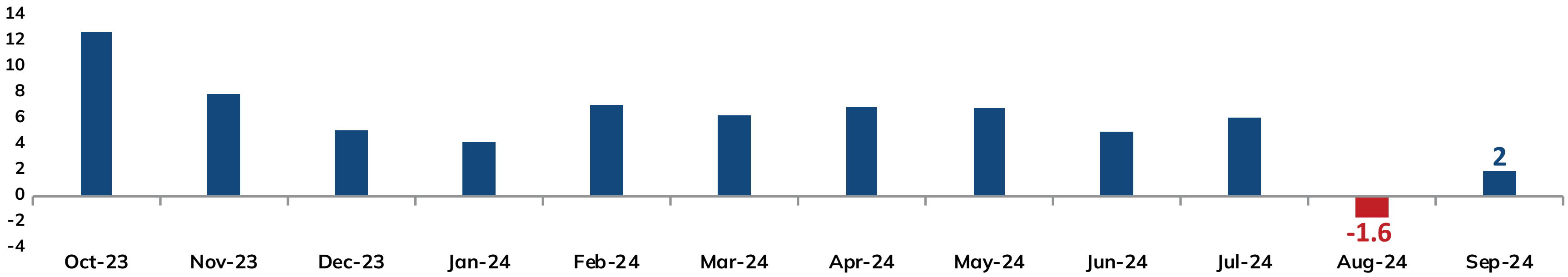


Source: RBI, CLSA; Note: The above has been adjusted for the HDFC merger impact. Data as on October 04, 2024.

Revival of India's core sector growth

India's core sector growth rebounded to 2% in September 2024 after plummeting to a 42-month low of 1.6% in the previous month as five out of the eight industries reported positive growth during the month.

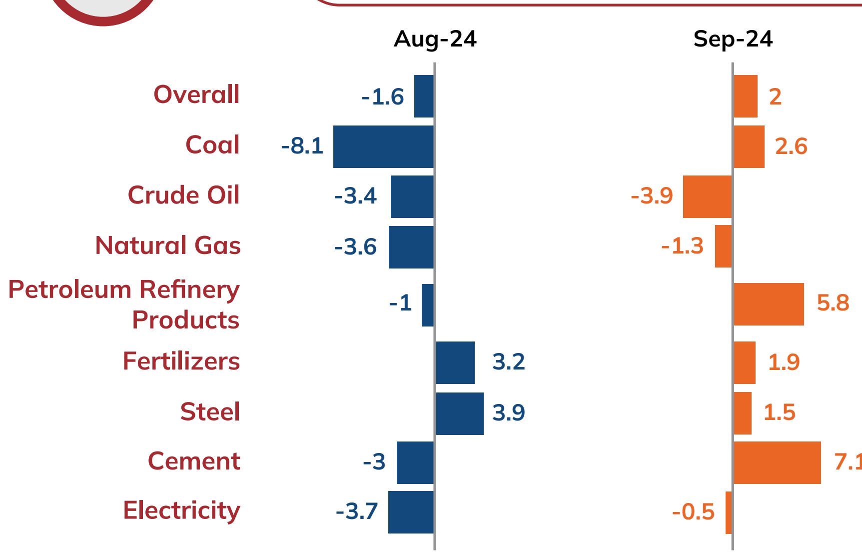
INDIA'S CORE SECTOR GROWTH (% CHANGE, YEAR-ON-YEAR)



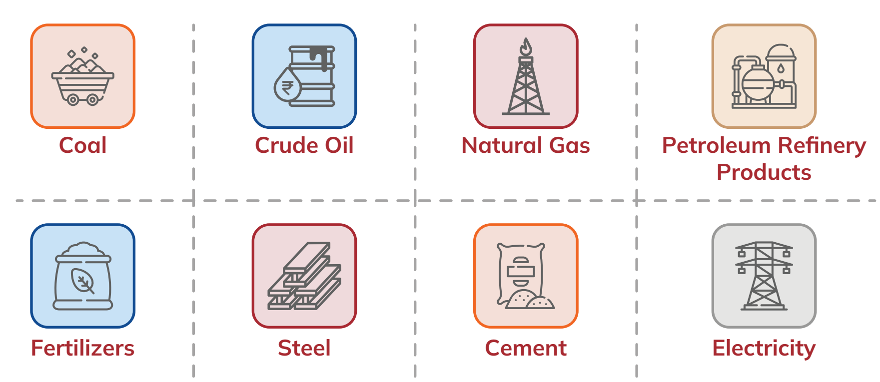
Source: Ministry of Commerce and Industry. Core sector Includes petroleum refinery products, electricity, steel, coal, crude oil, natural gas, cement and fertilizer.

Cement, steel, coal, fertilizers and refinery products displayed an annual rise in production in September 2024, whereas **the output of electricity, crude oil and natural gas contracted.**

FIVE OF EIGHT INDUSTRIES PERFORM BETTER (% CHANGE YEAR-ON-YEAR)



Source: Ministry of Commerce and Industry.



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Transformation of the Payment System with Unified Payments Interface (UPI) stealing the limelight

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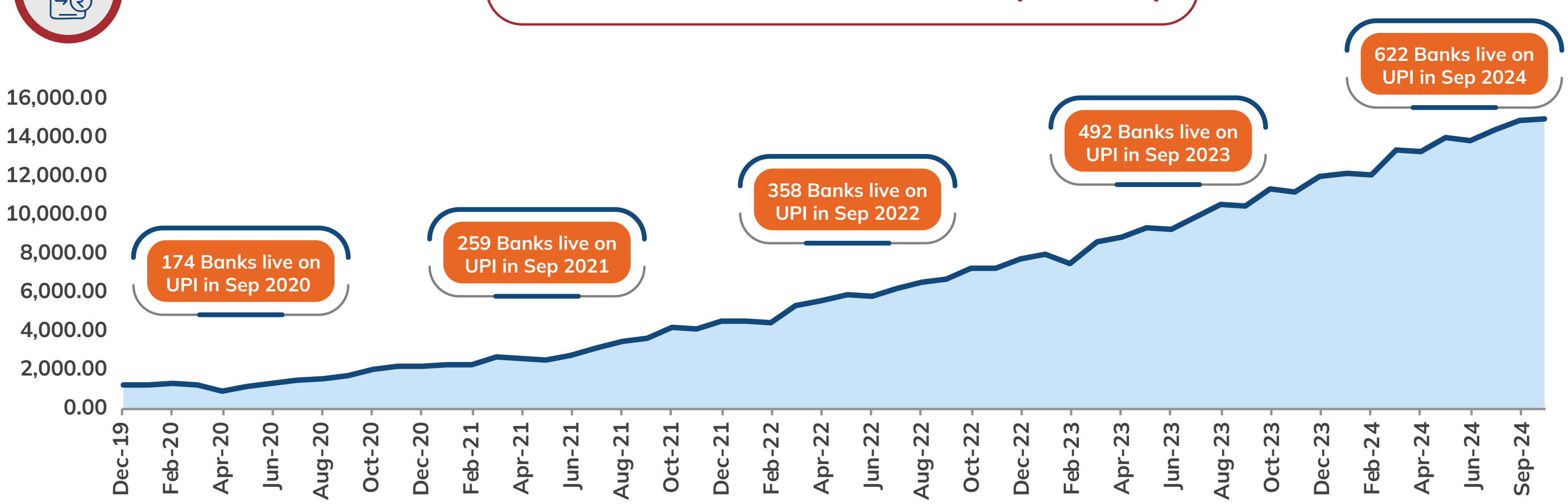
Unified Payments Interface (UPI) reached a milestone in September 2024 as it processed 15,041 million transactions worth ₹20.64 lakh crore in a single month. This represented a 42% year-on-year growth in volume compared to 10,586 million recorded in August 2023. **The number of banks participating on UPI increased** to 622 in September 2024, up from 492 banks in September 2023.

VOLUME OF UPI TRANSACTIONS (MILLION)



Source: National Payments Corporation of India, Data as on September 2024. This data excludes the transactions having debit/credit to the same account. UPI: Unified Payments Interface

The growing adoption of digital payments in India signifies the preference for an inclusive and convenient interface, reducing the dependency on cash. To further encourage wider adoption of UPI, **the Reserve Bank of India announced the following:**

The per-transaction limit for UPI 123Pay has been raised from ₹5,000 to ₹10,000.

The UPI Lite wallet has been increased to ₹5000 from ₹2000.

UPI Lite per-transaction limit has been raised to ₹500 from ₹100.

Source: Reserve Bank of India bulletin, October 2024

SEBI's six-step plan to regulate the high-risk world of Futures and Options (F&O)

A recent study conducted by SEBI (Securities and Exchange Board of India) revealed that 93% of individual F&O traders lost money in three years from FY22 to FY24, raising concerns over the risk involved in this segment.

The following are six rules proposed by SEBI to regulate F&O trading in India:

1) UPFRONT COLLECTION OF OPTION PREMIUM:

What: Mandate collection of options premium upfront from options buyers by the Trading Member/Clearing Member.

Why: To avoid any undue intraday leverage to the end-client and to discourage any practice of allowing any positions beyond the collateral at the end-client level.

2) REMOVAL OF CALENDAR SPREAD TREATMENT ON THE EXPIRY DAY:

What: The benefit of offsetting positions across different expiries shall not be available on the day of expiry for the contracts expiring on that day.

Why: The value of a contract expiring on the day can move differently from the value of similar contracts expiring in the future.

3) INTRADAY MONITORING OF POSITION LIMITS:

What: Decided that existing position limits for equity index derivatives shall also be monitored intra-day by exchanges.

Why: Amid large volumes of trading on expiry day, there is a possibility of undetected intra-day positions beyond permissible limits.

SEBI's six-step plan to regulate the high-risk world of Futures and Options (F&O)

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4) CONTRACT SIZE FOR INDEX DERIVATIVES:

What: Increased the minimum contract size for index futures and options from ₹5-10 lakh currently to ₹15 lakh at the time of its introduction in the market. Additionally, the lot size shall be fixed in such a manner that the contract value of the derivative on the day of review is within ₹15 lakh to ₹20 lakh.

Why: Would ensure that an inbuilt suitability and appropriateness criteria for participants is maintained as intended.

5) RATIONALIZATION OF WEEKLY INDEX DERIVATIVE PRODUCTS:

What: Decided to rationalize index derivatives products offered by exchanges which expire on weekly basis. Therefore, each exchange will provide derivative contracts for only one of its benchmark index with weekly expiry.

Why: To specifically address this issue of excessive trading in index derivatives on expiry day.

6) INCREASE IN TAIL RISK COVERAGE ON THE DAY OF OPTIONS EXPIRY:

What: Increase the tail risk coverage by levying an additional Extreme Loss Margin (ELM) of 2% for for short options contracts.

Why: Owing to high speculative activity around options positions and attendant risks on the day of options contracts expiry.

Measure	Effective From
Upfront collection of Option Premium from buyers	1 Feb 2025
Removal of Calendar spread treatment on the Expiry Day	1 Feb 2025
Intraday monitoring of position limits	1 Apr 2025
Contract size for index derivatives	20 Nov 2024
Rationalization of Weekly Index derivatives products	20 Nov 2024
Increase in tail risk coverage on the day of options expiry	20 Nov 2024

Source: Securities and Exchange Board of India (SEBI), October 2024 announcement. F&O: Future and Options

Other Key Developments

- **The European Central Bank cut its key interest rate by a quarter-point to 3.25% in October 2024:** The annual inflation rate showed signs of further easing to 1.7% in September 2024, which is lower than the central bank's target of 2%.

- **Narrowing Fiscal Deficit:** India's fiscal deficit narrowed to ₹4.75 trillion during April-September 2024, accounting for 29.4% of the FY25 target (Source: Reuters). The lower fiscal deficit was supported by the Reserve Bank of India's (RBI) decision of dividend payment to the government during the year coupled with a contraction in the capital expenditure in the first quarter of FY25 on account of the elections.

- **The Securities and Exchange Board of India (SEBI) has approved the creation of a new asset class to bridge the gap between mutual funds and portfolio management services (PMS) in terms of flexibility in asset construction:** The minimum investment limit would be ₹10 lakh per investor across all strategies. Exposure to derivatives would be limited to 25% of the Asset Under Management for purposes other than hedging and rebalancing.

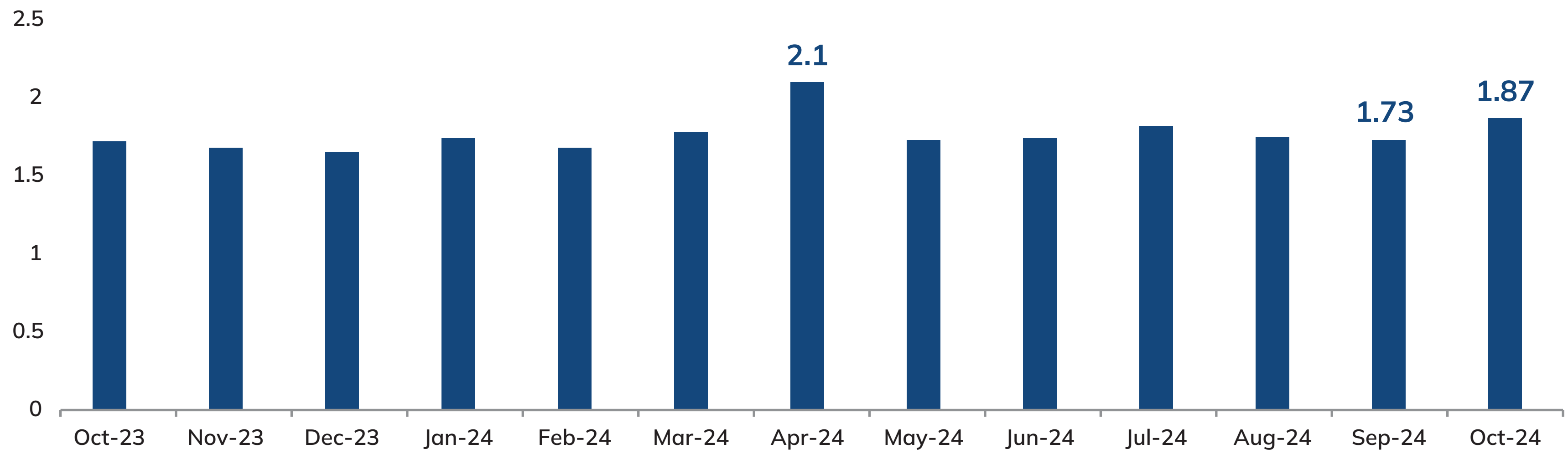
- **The Securities and Exchange Board of India (SEBI) has introduced a liquidity window facility to encourage retail participation in the corporate bond market.** Available from November 01, 2024, the liquidity window facility would allow investors holding listed debt securities to sell it back to the issuer using a put option on specific dates, facilitating liquidity.

- **The Central Government announced the Minimum Support Price (MSP) hike in six Rabi crops for FY26 –** Wheat, barley, gram, lentil/masur, mustard and safflower. Comfortable reservoir levels and remunerative crop prices would encourage farmers for effective crop diversification, which would eventually facilitate an uptick of consumption demand.

Other Key Developments

GST Collections shot up: Goods and Services Tax (GST) collection increased to ₹1.87 trillion in October 2024, the second highest reported so far since April 2024. **The ongoing festive season provided a fillip to consumption** in the economy, which has in turn **facilitated better GST revenue receipts.**

GOODS AND SERVICES TAX COLLECTIONS (₹, TRILLION)



Source: Ministry of Finance

Business Growth picks up in India: The India Composite PMI Output Index, combining manufacturing and services, increased to 58.6 in October 2024 from 58.3 in the previous month, indicating an upturn in new orders and strong business growth. A sharp rise in orders encouraged companies to scale business activities and hire more workers. While new export orders expanded, the profit margins of manufacturers are still under pressure on account of a climbing input price inflation (Source: S&P Global).

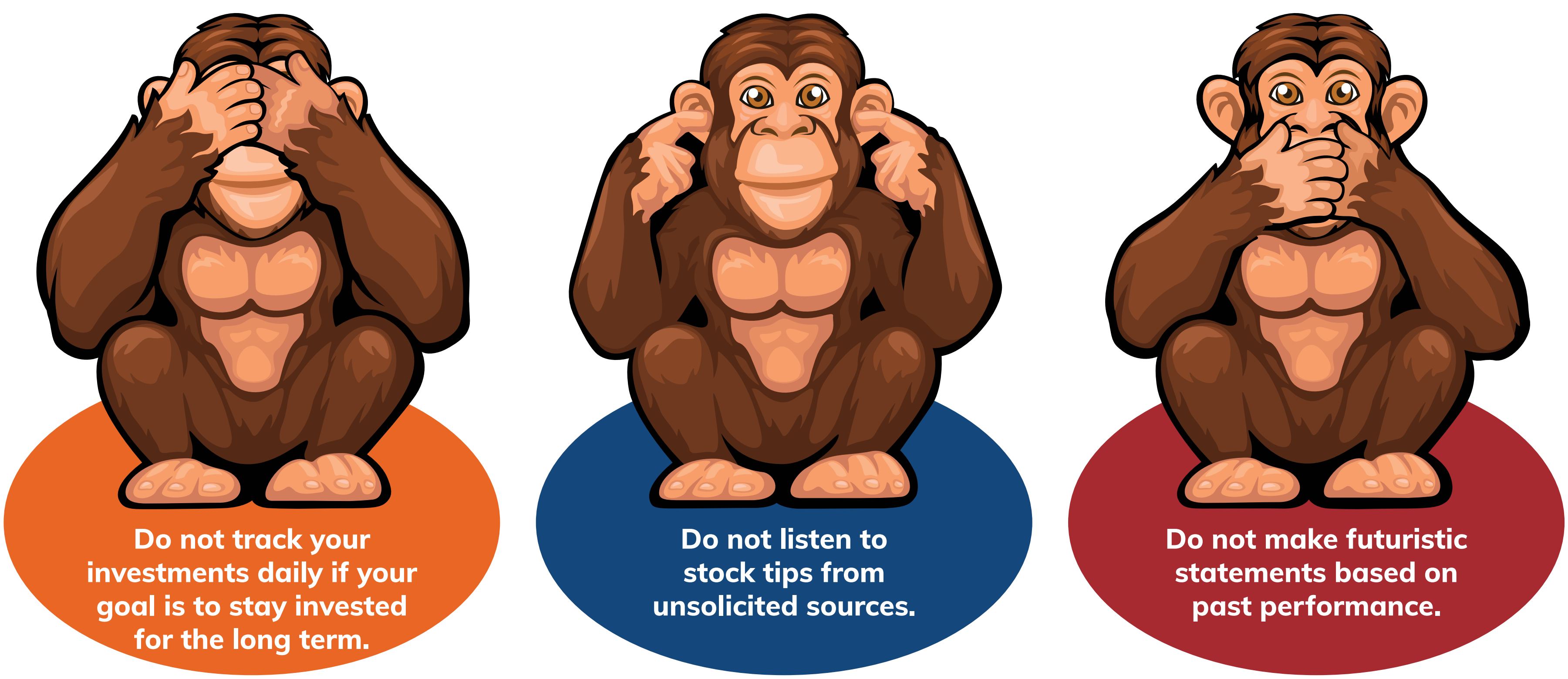
The India-China Border Pact bringing relations back to a normal path: India and China are in the process of implementing an agreement to end a military standoff on their disputed Himalayan border (Source: Reuters, October 2024). This could improve bilateral communication and facilitate cooperation, beneficial to both economies.

And it is a wrap for the month

The Indian stock market is reeling under the pressure of escalating geopolitical tensions in the Middle East, a reallocation of portfolios by overseas investors towards China following the announcement of stimulus measures, **rising food prices and disappointing Q2FY25 earnings. Any spike in oil prices could hurt the trade bill for economies that rely heavily on imports** for their oil consumption.

Market participants are awaiting **the outcome of the U.S. elections,** any developments related to the **global commodity markets, easing tensions in the Middle East, the central bank interventions ahead,** the trajectory of the rupee and the further Q2FY25 corporate earnings results. **These factors could play a key role in steering the course of the financial markets ahead.**

PICTURE OF THE MONTH



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