

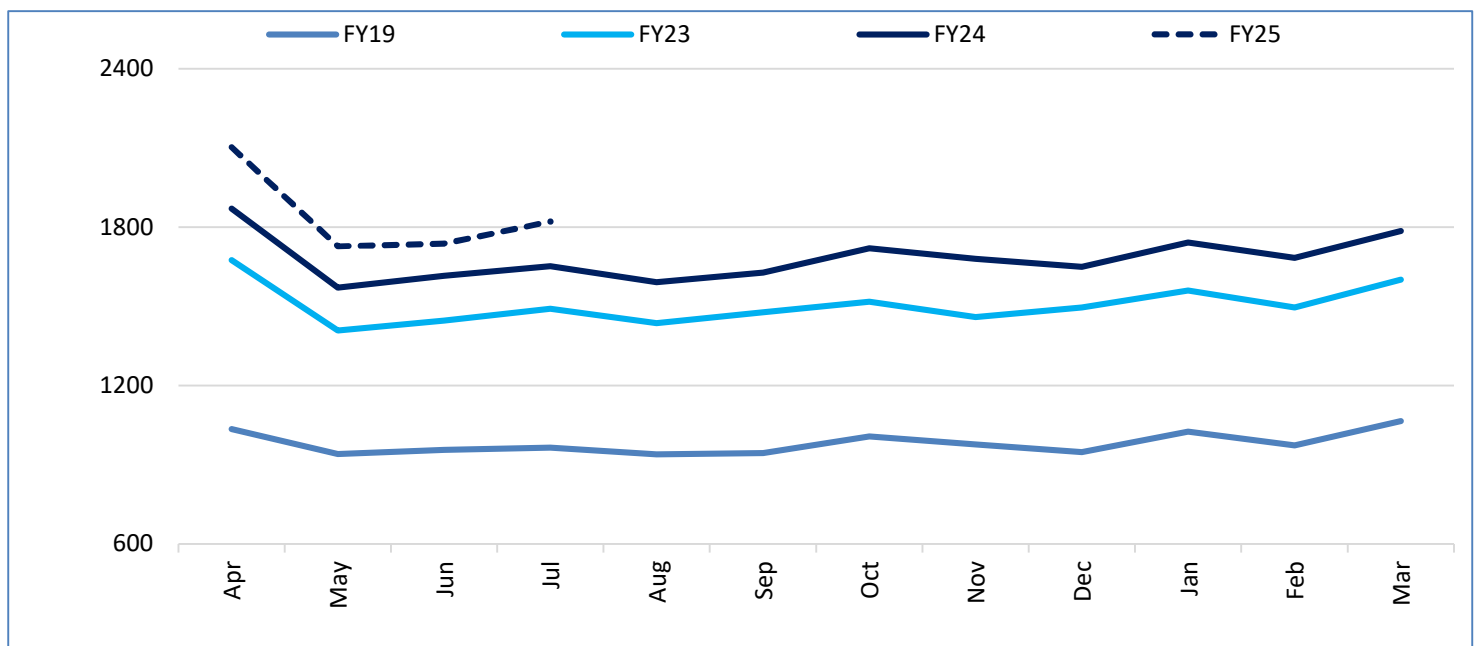
## From the Economists Desk

Equity markets, in dollar terms, continued to deliver good returns in July. Japan topped equity market returns, while commodities (including crude) continued to remain weak.

US macro data witnessed incremental strength, but markets chose to focus more on dovish comments from Fed Chair Powell and other Fed members. These supportive comments hinted at Fed rate cuts as early as the Sep'24 policy. This was clubbed with disappointing commentary from top AI related companies and a failed assassination attempt of the former President Trump. All of these led to a sharp rotation out of Tech and into US cyclicals, leading to a significant small cap outperformance in July.

The month also witnessed EU tariffs on China, indirect US tariffs on China through Mexico, soft China macro data and uneventful China 3rd Plenum meetings for the markets.

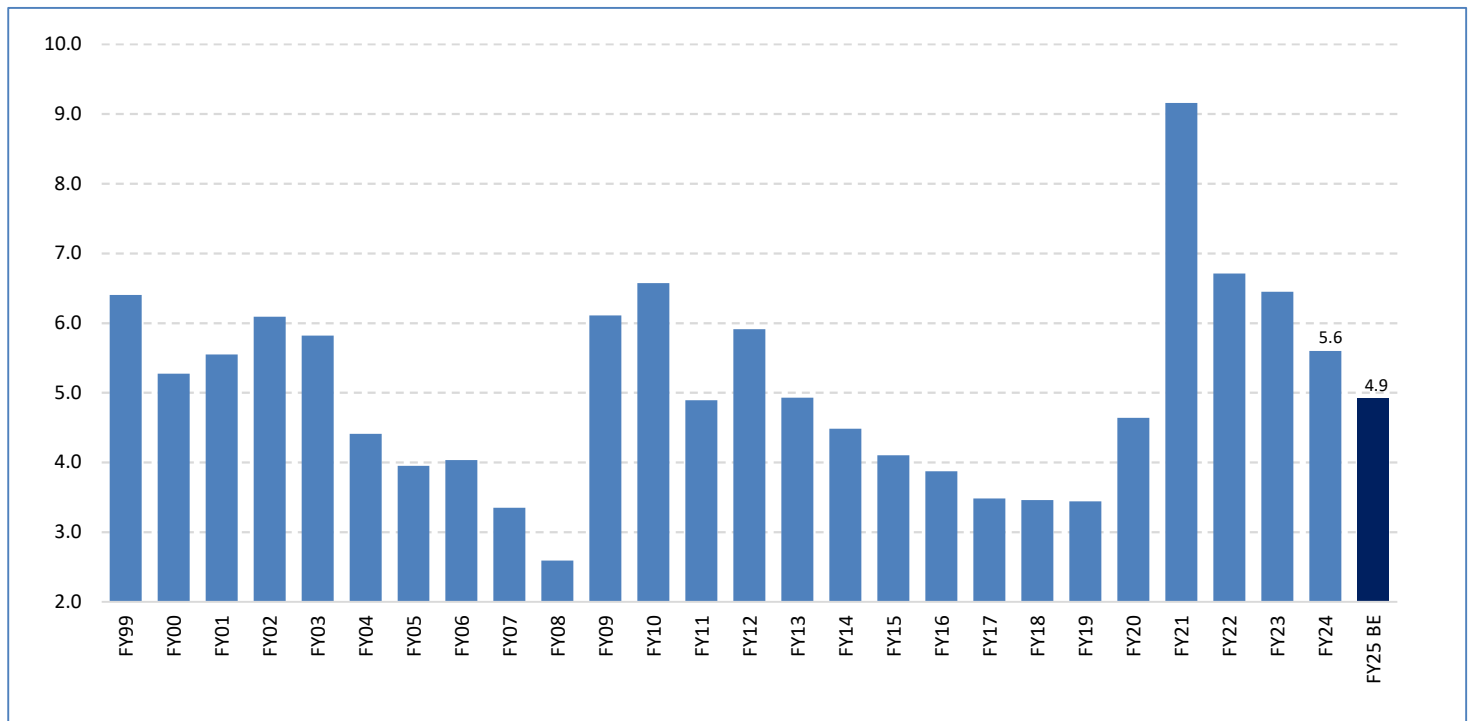
### Aggregate GST collections continue to hold up well in July (Rs.Bn.)



Total GST collections for the center and the state aggregated saw a growth of 10% y/y. GST collection growth remains broadly positive, with the 5Y CAGR from July FY20 just above 12%.

PMI numbers for the month of July inched down on the back of both manufacturing and services. However, note here that both the PMI numbers are at elevated levels, with services PMI (60.3) in a more expansionary phase than manufacturing (58.1). While the services' PMI recorded an appreciable increase in new orders on the back of new export orders, manufacturing saw strong demand. Broad macro indicators continue to remain resilient.

### Fiscal deficit (% GDP) saw another year of appreciable consolidation



The final budget was presented by the government in July. These numbers need to be compared with the interim budget. Most of the budget numbers remain unchanged from that of the interim budget. The excess RBI dividend has led to an increase in non-tax revenue growth. Clubbed with some positive rub off assumed in income tax growth, the budget sees a large transfer to states in three buckets: an increase in its mandated (finance commission) transfer to states, in revenue spends and in capex spends. In addition to this, allocations are made to the ministries of labor & employment, consumer affairs, renewable energy, urban housing and farmer welfare, in that order of priority. This is alongside an aggressive effort to cut back on the fiscal deficit as well.

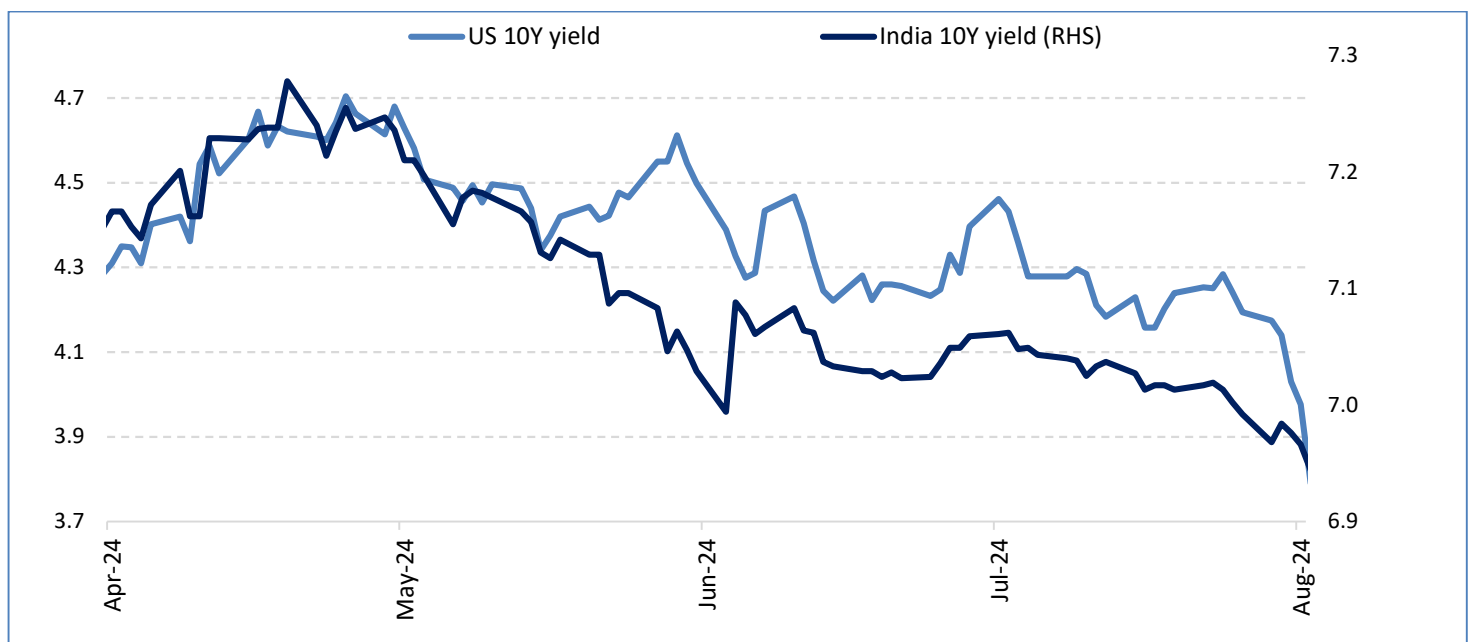
The key highlight of the budget in numbers are its continued trajectory of fiscal consolidation, its conservative assumptions and its strong capex focus. The budget saw a 20bps surprise in its fiscal deficit to 4.9% from its earlier estimate of 5.1%. This is 70bps lower than the FY24 fiscal deficit. And if one were to make a like-to-like comparison with the FY24 budgeted figure, it would be 100bps lower! The budget assumptions remain conservative and maintain a flat net tax/GDP ratio alongside a conservative nominal GDP growth. If one adds PSU capex, the total capex number from the budget sees an appreciable increase of 20bps from its interim projection to 4.3% GDP.

NIFTY delivered a 3.9% return in rupee terms for July. Small cap and Mid cap returns were seen well above large cap, and IT, Pharma and FMCG were the top three performing sectors during the month.

FII inflows continued to remain strong into both equities and debt. July saw \$6bn of net FII inflows, with \$3.4bn into equities and \$2.6bn in debt.

The Union budget was presented with its focus largely on employment linked incentives. While the absence of significant personal income cuts and the removal of LTCG for real estate were not appreciated by the markets, overall, the government continued to maintain its momentum on both fiscal consolidation and government capex.

### India 10Y moved well below the 7% level, on falling US yields



India 10Y yields have been secularly moving lower since end-Apr'24. This has largely been on the back of a strong move lower in US yields as markets increasingly expect the Fed to start its rate cuts from the Sep'24 policy. Early August saw an increase in US unemployment which further led to markets repricing their Fed rate cut quantum to 50bps from 25 earlier. Lower crude prices and favorable domestic liquidity have also greatly helped India 10Y yields move lower. With increasing Fed rate cut expectations, markets expect the RBI to follow suit. However, with strong underlying growth, the start to the

RBI's rate cut cycle could take some time.

## Equity Market Outlook

Budget 2024-25 focused on fiscal consolidation while maintaining momentum on capex, setting priorities for further simplification of taxes and laying foundation for medium-term job creation through targeted schemes. From an equity perspective, absence of populism and focus on macro-economic stability augurs well for overall sovereign ratings and currency stability, both being key elements for investor confidence and capital flows over the medium-term. With the Budget priorities laid out, we expect broad markets to consolidate and focus shift back to earnings and sustenance of medium-term earnings catalysts. The last few years have witnessed appreciable equity returns across cap-curves as the economy has experienced continued expansion in its macro variables.

Over the medium-term, the twin cylinders of investment and consumption are expected to fire up growth through manufacturing and services. Our medium-term approach is to pursue a well-diversified portfolio strategy with a focus on growth-oriented companies with adequate margin of safety, within the above themes of manufacturing, industrials, consumer, services, and technology.

**Source:** In-house

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