Abakkus
Believe in the Basics

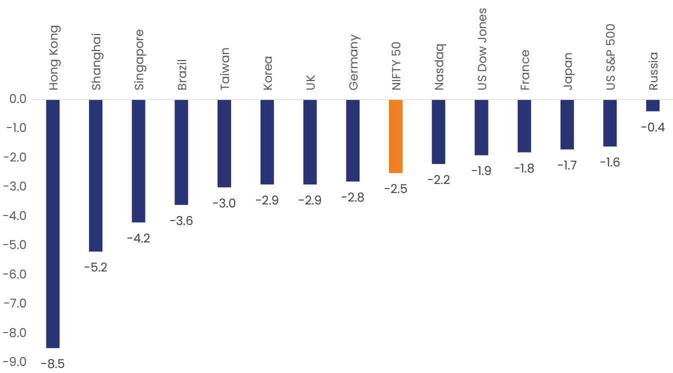
# Market Outlook

September 2023

## Market Update

After a stupendous run since April 23, markets globally took a breather in August. Almost all major global indices were down for the month, with the Chinese markets correcting the most. The change in sentiments may be attributed to the Fitch's downgrade of the US credit rating from 'AAA' to 'AA+' which resulted in US bond yields spiking up. The slow growth seen in China also added to the weak sentiments. Indian markets too followed global clues with the benchmark NIFTY50 down 2.5% for the month. However, the headline index performance camouflaged the real action, with the broader market rally continuing unabated. S&P BSE Midcap and S&P BSE 250 SmallCap gained another 2.6% and 4.5% respectively for the month. With this move, S&P BSE MidCap and S&P BSE small cap indices have delivered 23% and 28% returns respectively YTD. Sector-wise for the month, oil & gas (-5%), banks (-4%) and FMCG (-2.7%) declined the most, whereas consumer durables (+4.2%), IT (+2.7%) and capital goods (+2.7%) gained the most. FIIs continued to be net buyers for sixth consecutive month having invested another USD ~1.5 bn in August. DIIs flows were positive to the tune of USD ~3.0 bn.

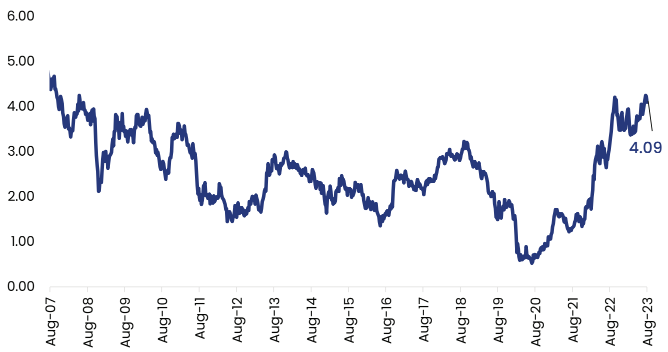
**Global and regional indices 1 Month performance (%)**




Source: Bloomberg, Kotak Institutional Equities (Data as on 31st August, 2023 in Local Currency)

Globally investor focus remains on inflation and bond yields. Inflation in the USA remains higher than comfort and this is pushing back expectations of an early rate cut. Opinion is also now divided that there can be another small rate hike which can come in. US Fed Chair Jerome Powell indicated that policymakers will proceed "carefully" when looking at whether to continue to raise interest rates to bring down inflation. Crude oil prices have also moved up sharply over the last three months, adding to inflation concerns. In India too, as CPI inflation hit a 15-month high, though RBI-the central bank, has maintained its status quo stance for now.

**US 10 Year G-Sec**




Source: Bloomberg

## Macro Update

On the domestic macro front, economic data continues to stay strong. India's gross domestic product (GDP) grew by 7.8% in the April-June quarter of current fiscal (2023-2024), compared to a growth of 6.1% in the previous January-March quarter of fiscal 2022-23. CPI inflation rose to 15 months high of 7.44% YoY in July'23 vs 4.81% in June'23. The spike was led by high vegetable prices. WPI inflation contracted for the fourth straight month at -1.36% in July'23 vs -4.12% in June'23, led by falling prices in various sectors like mineral oils, basic metals, chemical & chemical products, textiles, and food products. India's manufacturing PMI rose to 3-month high at 58.6 in August'23 vs 57.7 in July'23, indicating robust improvement in conditions across India as new orders and output increased. IIP growth in June'23 stood at 3.7% vs 5.2% in May'23. Brent crude hovered around USD ~86/bbl in August'23. GST collection rose 11% YoY to 1.65 lakh cr in July'23. GST collections have been more than INR 1.6 lakh cr for the 6th time since inception of GST. INR was stable and closed at ~82.6.

## Earnings Update

The corporate earnings for FY24 have begun on a healthy note. After a solid 22% earnings CAGR over FY20-23, NIFTY 50 for 1Q FY24 reported a 32% earnings growth. Reported revenue growth was a sober 5%. Earnings beat was seen in Banks, Capital Goods, Infrastructure, Metals, Oil & Gas, and Paints; missed for Automobiles, Retail, FMCG, NBFC, and IT. Going forward, we expect the earnings to remain healthy and pencil in 20%+ earnings growth for NIFTY50 in FY24.

FY period: April-Mar, CPI: Consumer Price Index, WPI: Wholesale Price Index FII: Foreign Institutional Investors, GST: Goods & Services Tax, DII: Domestic Institutional Investors Fed: US Federal Reserve, IIP: Index of Industrial Production, GSec: Government of India Dated Securities, GOI: Government of India, FDI: Foreign Direct Investment, CAD: Current Account Deficit, YTD: Year To Date, CY: Calendar Year, WTI: West Texas Intermediate, UPI: Unified Payments Interface. Inflation numbers released with 1 month lag, Core Sector number released with 1 month lag, IIP number released with 2 months lag.

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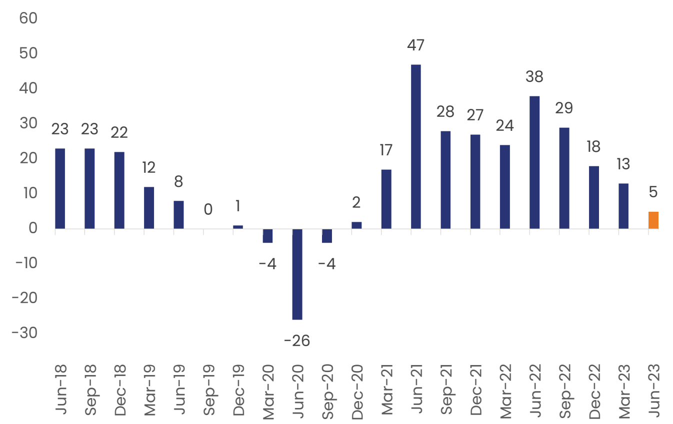
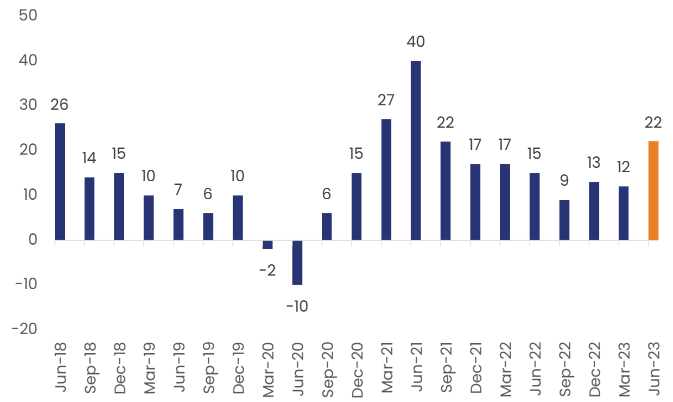
**NIFTY50 sales up 5% YoY (est.3%) in 1QFY24**



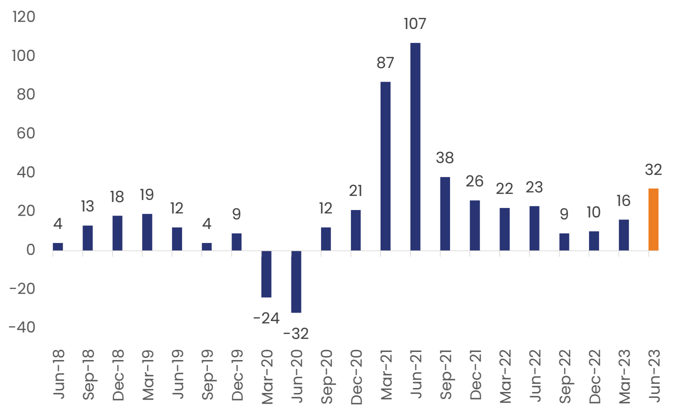

Source: MOSL

**NIFTY50 EBITDA up 22% YoY (est. 18%) in 1QFY24**




Source: MOSL

**NIFTY50 PAT up 32% YoY (est. 25%)**




Source: MOSL

**Market Outlook**

To us, a flattish August has been a welcome move. After a sharp run, such a slowdown in momentum is very much needed. While the headline markets have taken a breather, mid-cap and small-cap rally has continued unabated in August. We have seen strong equity supply coming in via PE exits and IPO's and this can absorb decent inflow liquidity. August itself has seen around USD 1.8-2 bn of deals happening. The demand for equities can be gauged by the fact that the entire ownership of a PE-owned IT services company worth almost USD 1 bn, was lapped up by institutional investors as a secondary offering. The company now has no identifiable promoter and will be independently managed by the board. More concerning has been the momentum in theme-based and FOMO-based (Fear Of Missing Out) investing.

The economic growth trajectory and earnings growth does offer comfort. Also, there has been a decent earnings upgrades for NIFTY50 earnings for FY24 and FY25, bringing the NIFTY50 PE multiples for FY25 to only slightly over the 10-year average. The festive season approaching is also poised to bring in demand growth on the consumption side, while spending on infrastructure and capital expenditure continues to see a lot of traction. On a concerning note, monsoons have been dismal for the month of August, though normalcy is expected in months to come. Higher crude prices also need to be heeded. In short, we remain positive but much more careful.

On Abakkus front, we continue with our stance of not getting carried away in the momentum and judiciously deploying capital, based on fundamentals and adherence to our MEETS framework. This stance has worked well for us, with consistent performance across our strategies and time periods. We are prepared to bear small underperformance also, if any, in the very near term, if this momentum in broader markets continues, but would stay away from non-fundamental investing.

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# Disclaimers

September 2023

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Abakkus is also the Investment Manager to Abakkus Growth Fund, a SEBI registered Category III AIF vide SEBI Reg. No.: IN/AIF3/18-19/0550 dated June 05, 2018, India-Ahead Venture Trust, a SEBI registered Category I AIF vide SEBI Reg. No.: IN/AIF1/21-22/0976 dated January 25, 2022 and India-Ahead Private Equity Trust, a SEBI registered Category II AIF vide SEBI Reg. No.: IN/AIF2/21-22/0980 dated January 27, 2022, under SEBI (Alternative Investment Fund) Regulations, 2012 as amended from time to time and the Circulars and Guidelines issued there under from time to time collectively referred as the SEBI Registered Intermediary.

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**Portfolio Management Services:**
You may refer the Disclosure Document available at https://abakkusinvest.com/regulatory-disclosure/ for detailed disclosures.
As per SEBI circular SEBI/HO/IMD/IMD-PoD-2/P/CIR/2022/172 dated December 16, 2022, the comparison of the relative performance of the investment approach with other portfolio managers is available at https://www.apmiindia.org/apmi/IACompare.htm?action=iacomaprepage

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