

MARKET OUTLOOK POST ELECTION RESULTS

The much-awaited results of the General elections of India were announced on June 4, 2024. In a surprise turn of events, the outcome of the elections has come as a negative surprise to the equity markets. Particularly as expectations sky-rocketed after the very optimistic forecasts by exit pollsters over the weekend.

Against the exit polls projection of 360-400 seats (out of 543) for the BJP-led NDA and upwards of 320 for BJP alone, the final tally is more like 292 for NDA and 240 for BJP (final numbers still not out). This has not been the best outcome and has led to markets reacting sharply.

At the same time, all is not lost. While the BJP fell short of the majority mark of 272 seats on their own, the coalition NDA with ~295 seats is well past the halfway mark and looks set to form the government. While a clear majority with no dependency risk on allies would have been an ideal scenario, we are not overly worried as these allies were pre-poll ones and should continue to be a part of the NDA alliance and the new Government. Modi is set to be the Prime Minister again for a third consecutive term, though with a lower mandate.

The equity markets corrected sharply on June 4, 2024, with the Nifty falling a sharp 5.93%, with the midcap and smallcap indices falling more. Public Sector Companies including defence, railway, banks and metals bore the brunt of the fall.

TOP LOSERS IN PSU SPACE (1-DAY):

Company Name	Closing Price	Relative Price Move		
		1-Day	1-Month	3-Months
REC Ltd.	452	-25.20%	-10.80%	-2.80%
Power Finance Corporation Ltd.	427	-23.10%	-3.20%	1.40%
Bharat Heavy Electricals Ltd.	246	-20.90%	-12.80%	-7.20%
Housing & Urban Development Corporation Ltd.	230	-19.90%	2.20%	17.30%
Steel Authority of India Ltd.	133	-19.90%	-18.90%	-6.30%
Bharat Electronics Ltd.	256	-19.70%	9.40%	21.90%
Hindustan Copper Ltd.	299	-19.20%	-22.50%	5.30%
Container Corporation of India Ltd.	947	-19.30%	-7.90%	-3.80%
National Aluminium Company Ltd.	159	-18.90%	-14.10%	-4.80%
Union Bank of India	139	-18.20%	-9.70%	-6.70%
Hindustan Aeronautics Ltd.	4337	-17.80%	10.10%	34.90%
Mazagon Dock Shipbuilders Ltd.	2679	-17.70%	14.00%	27.30%
Ircon International Ltd.	237	-17.40%	-5.60%	5.30%
GAIL (India) Ltd.	191	-17.30%	-8.60%	0.00%
Engineers India Ltd.	223	-16.80%	-9.00%	0.00%
Oil & Natural Gas Corporation Ltd.	237	-16.50%	-16.30%	-15.10%
Bank Of Baroda	248	-16.50%	-12.10%	-9.20%
Central Bank Of India	60	-16.70%	-10.40%	-4.80%
NLC India Ltd.	205.7	-14.60%	-15.00%	-9.40%
Punjab & Sind Bank	55	-15.40%	-12.70%	-12.70%
Punjab National Bank	115	-16.10%	-18.40%	-8.70%
NTPC Ltd.	331	-15.60%	-8.80%	-6.50%
Indian Overseas Bank	62	-15.10%	-8.80%	-1.60%
Hindustan Petroleum Corporation Ltd.	495	-15.10%	0.00%	-5.70%
Mishra Dhatu Nigam Ltd.	388	-13.80%	-11.60%	-7.80%
State Bank Of India	775	-14.50%	-6.20%	0.40%
Canara Bank	110	-14.10%	-11.30%	-6.80%
Bank Of India	117	-14.00%	-24.50%	-15.80%
Rites Ltd.	623	-14.10%	-8.90%	-18.50%

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Movement of Major Indices:

Indices	1-Day	1-Month	3-Month
BSE CPSE	-15.60%	-5.80%	0.60%
BSE Infra	-15.20%	-4.20%	0.90%
BSE Utilities	-14.40%	-6.20%	0.00%
BSE Power	-14.30%	-2.90%	4.20%
BSE Oil & Gas	-13.10%	-8.20%	-7.40%
BSE Capital Goods	-12.10%	3.50%	9.40%
BSE Momentum	-10.80%	-4.20%	4.80%
BSE Realty	-9.60%	1.10%	4.40%
BSE Bankex	-8.10%	-3.30%	-0.70%
BSE Midcap	-8.10%	-3.80%	1.90%
BSE Smallcap	-6.80%	-4.70%	-1.20%

Source - Bloomberg

This sharp fall of ~6% fall in NIFTY50 should though be looked at in conjunction with the sharp rise on Monday, June 3, 2024, based on the very optimistic exit polls predictions. The markets since Friday i.e. May 31, 2024, are down a very modest 2.9% and the fall looks magnified due to the sharp rise a day earlier. Even on FYTD, Nifty is down a small 2% and since January 1, 2024, it is still positive 0.7%

Period	Returns
2-Day	-2.90%
FYTD	-2.00%
CYTD	0.70%

Source: NSE Website

Elections in the past have always led to sharp movements pre and post-event, but history has shown that the markets finally stabilize one to six months post-event. Over the past five elections dating back to 1999, Indian equity markets have always given positive returns six months after the elections. This includes coalition governments being formed and outcomes less favourable than the current one.

Nifty Index price performance								
Results Date	Before Election results				After election results			
	1 year	6 months	3 months	1 month	1 month	3 months	6 months	1 year
06-Oct-99	65%	36%	12%	0%	-2%	16%	4%	-8%
13-May-04	82%	9%	-10%	-9%	-12%	-7%	9%	16%
16-May-09	-29%	31%	29%	9%	23%	25%	38%	39%
16-May-14	17%	19%	19%	8%	5%	8%	16%	15%
23-May-19	12%	11%	8%	1%	1%	-7%	2%	-22%

Source: Bloomberg, Nomura research

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Our View:

- Modi-led BJP and NDA still emerge as the largest block, well past the 50% mark of 272 and should comfortably form the government.
- BJP is short of an absolute majority on its own and will be slightly constrained by the dynamics of coalition rule for the first time since 2014.
- Modi should be the Prime Minister for the third term in succession.
- Worries about socialistic policies might rear their heads, but we believe that the incumbent government will balance growth with populism.
- Moderation of valuations particularly in recent traders' favourite sectors like defence, railways, manufacturing, and PSUs is likely.
- Modi's ambition of making India a developed country by 2047 should continue, focusing on infrastructure, Make in India, energy self-reliance, defence, etc. However, increased focus should also be seen in mass developmental projects like employment, rural income, water for all, electricity for all, and poverty eradication.
- BJP, by far, has emerged as the largest single party winning ~240 seats, significantly higher than the second-placed Congress at less than 100 seats. Thus, it can be said that the mass popularity of Modi might have waned a bit, but he still comes across as the most popular mass leader in India.
- To refresh, the Vajpayee government of 1999 was regarded as the one that gave a push to Indian growth by unveiling path-breaking reforms. BJP won only 182 seats in that election and was able to form the government with the support of almost 20 allies including the left and almost all major state parties. This government lasted the full five-year term and was hailed as the most progressive government that India had for a long time. This time, BJP is in a much better situation with 240 seats and very few allies to manage. BJP tally of 240 seats is more than the over 20 party I.N.D.I alliance.
- There are ~20 seats that have been won by smaller parties and independents that have no pre-poll alliance with either the NDA or I.N.D.I.A. Quite a few of them may support the NDA government and thus allay the concerns of the markets further.

Abakkus Fund Strategy:

We expect clarity to come over the next few days in terms of the government formation and also the narrative of the government post this not-so-favourable election outcome. Till then, we expect markets to be choppy with bouts of sharp movements on either side. Corrections should continue in stocks running much ahead of their fair value and those which have moved up sharply recently just on hope and conjecture.

While we also did not expect this scenario, we have been highlighting for almost a year that (1) returns expectations have to be more moderate (2) we will dissuade from momentum investing (3) we will continue to follow our fundamental-based approach to investing.

The current fall in the markets does not look very large from the Nifty perspective, but there have been very sharp corrections in many stocks. Though brunt of the fall will be borne by momentum-based stocks, opportunities do open up across in uncertain times. We might get an opportunity to invest in companies which look good from the next 2/3 years' perspective but where we were not comfortable only because of valuations in the current correction.

On positive side, the Q4 GDP came at upwards of 8% and highlights the resilience as well as the growth potential of the Indian economy. GST collections for May also came in higher. Crude has corrected to \$77 per barrel and should also aid the Indian economy.

We will come back again when we have more clarity after the formation of the government and the narrative in a few days.

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