THE SCANNER

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Prudent Strategies in Uncertain Times: A Market Outlook

Key takeaways

Prudence is the word of the season. Market sentiment has been optimistic, but a tone of caution is recommended.

Keep a close eye on budget announcements and its overall tone towards reforms and policy continuum.

Don't chase past return stories. Avoid overheated and stretched sectors (Defense, Railways, PSUs-PSBs, etc.).

Sector rotation (of flows) has been the story over the last couple of years. Keep an eye for Defensive and Discretionary (D&D) to do well in periods of uncertainties / populism.

Avoid speculation. The government / regulators seem to be wary of retail investors' participation in options trading. Taxation changes therein might not come as a surprise.

View from the top

Now with the dust settling after The Great India Election saga, what has emerged is a government that can be viewed as either a harbinger of change or one that maintains status quo. The immediate impact was negative as change is often viewed with a certain degree of scepticism. However, retail/domestic investors have exhibited extreme resilience, absorbing the market fall and using the dip as a buying opportunity.

At the offset, the larger message has been one of continuity with expectation that the government would continue with bold reforms, especially since the fiscal situation is rather favourable and not precarious as has been during certain periods in the past.

View from the bottom - SIP Sahi hai?

One of the key indicators of retail investor participation is the Systematic Investment Plan (SIP) growth in the country. This tells an interesting story. It is well known that investment via the SIP route is increasing at a strong clip with monthly net inflows through SIPs hitting a record high of INR 20,904 crore in May 2024 – the 11th successive month of a new high. However, beneath the euphoria of this number lies another data point, which is a bit disconcerting – the SIP stoppage or closure ratio has also hit a record high, standing at 88.38% in May 2024. A probable technical factor for the spike in stoppage ratio could be attributed to the recent KYC validation process.

Exhibit 2: Details of new SIPs registered and discontinued (SIP count in lakhs)[1]

Month	Total No. of outstanding SIP Accounts	No. of New SIPs registered	No. of SIPs discontinued/ tenure completed	SIP AUM ₹ crore	SIP Contribution ₹ crore
Apr 24 - May 24	**875.89**	**113.39**	**77.21**	**11,52,801**	**41,275**
May 24	875.89	49.74	43.96	11,52,801	20,904
Apr 24	870.11	63.65	33.25	11,26,129	20,371
Apr 23 - Mar 24	**839.71**	**428.09**	**224.37**	**10,71,666**	**1,99,219**
Apr 22 - Mar 23	**635.99**	**251.41**	**143.15**	**6,83,296**	**1,55,972**
Apr 21 - Mar 22	**527.73**	**266.36**	**111.17**	**5,76,358**	**1,24,566**

This should serve as a tale of caution – while markets are enthusiastic about the prospects of the Indian economy, there is a need to check the maneuverability of the government in terms of implementing bold reforms going forward. Further, markets are currently very expensive from a valuation perspective and hence, fresh exposure to markets should be taken with a great deal of caution and prudence.

Market view

Despite a small pullback, domestic fund flows into the equity markets have been robust. For the market's assumption of continuity, there are a few factors that will have to align:

Infra spend should continue to be strong

Government's focus on make in India should continue through PLI schemes

Fiscal prudence would be maintained

At the same time, the government will have to balance its reform and growth oriented agenda with some popular measures to further solidify their position. As long as they maintain a fine balance, it would be taken well by the market.

1 https://www.amfiindia.com/mutual-fund

One of the biggest focus points of the incumbent NDA government has been capital expenditure that can power the economy, increase production, and create employment. Accordingly, the government, between 2019-2024, had allocated significant funds to the development of infrastructure, railways, highway, and the defense sector. While capex spending is expected to continue in a similar vein, with slight variations, we don't expect that the variations under the coalition government will be significant. Accordingly, any minimal reductions in capex are unlikely to have an impact on India's growth story and market sentiment. Overall, we believe that GoI will continue to focus on infrastructure and manufacturing and extend policy support as required.

Correspondingly, considering the realities of a coalition government and the relatively muted performance of the NDA in the so-called hinterland, there is a possibility of an increase in revenue expenditure, especially in rural areas. This can have multiple ramifications, both positive as well as slightly negative. Firstly, in order to enable the revenue expenditure, the government might want to maintain some leeway to keep the fiscal deficit slightly elevated. Secondly, expenditure in the rural areas can positively impact disposable incomes, thereby giving a fillip to both consumption as well as rural inflation. Having said that, slightly elevated inflation is unlikely to have a significant impact on capital markets as earnings growth and business momentum is expected to continue.

Sectoral view

From a sectoral perspective the financial space and consumer goods could present good long-term investment opportunities.

In the **Consumer goods space,** there could be pockets of opportunity especially for companies that have a rural focus and cater to the low-income household. This opportunity stems directly from expected increase in disposable incomes in this segment.

The **Banking, Financial Services, and Insurance (BFSI) industry** is a structural long-term story and acts as a pillar for India's growth ambitions. Additionally, select opportunities in this space are also attractively valued.

Technical view

The technical charts show that there is currently a high degree of indecisiveness amongst market participants. On the weekly charts, we see that the bullish momentum remains intact. However, on the daily charts, the bullish momentum is weakening, with the presence of a 'Doji' pattern indicating that both buyers and sellers are currently balanced, with no strong bias in either direction. Thus, while the weekly trend continues to be bullish, we would suggest that investors err on the side of caution and remain alert to changing market sentiment.

What to watch out for?

The union budget is likely to set the tone for the markets in the near future as it will reflect the stance of the coalition government. Thus, the policy announcements made during the budget need to be closely evaluated. From a valuation perspective, markets are currently trading significantly above fair valuation. This opens the door for the possibility of a market decline/correction, thus demanding caution. At the same time, the long-term structural growth story continues to be robust, thereby presenting select opportunities for long-term wealth creation. Overall, considering where we are in terms of market valuation, upside from a balanced budget could be limited as compared to the downside if there is any negative surprise in the budget.

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