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How has the equity market performed?

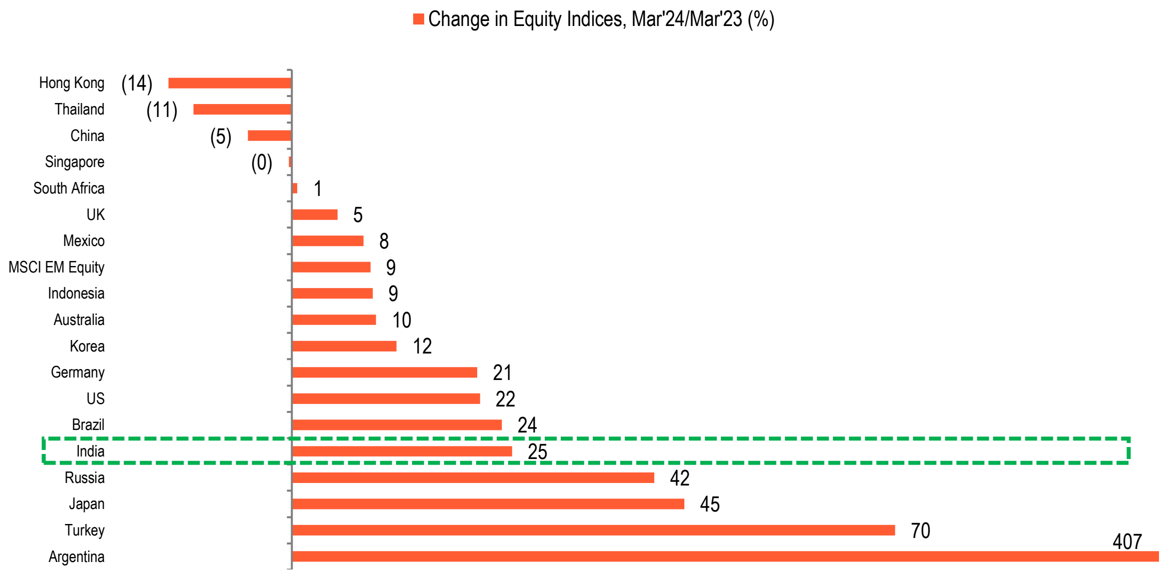
Global equity indices have broadly witnessed an uptick for the 12-month ending Mar'24 (till 18 Mar). Amongst major indices, India has been an outperformer registering 25.5% increase in Mar'24 compared with Mar'23. This is far higher compared to MSCI EM index which witnessed an increase of only 9.1% in the same period. This is attributable to India's domestic resilience. In fact, second advance estimate projection of India's growth for FY24 has surpassed market expectations. All these factors remained conducive to an increase in the domestic equity indices. Added to this, was buoyant FPI flows in the equity segment. The 12-month flow for India (equity) was only next to flows to the US and Japan.

The chart shows:

- Stocks in Japan rose considerably. Liquidity conditions remained supportive from an ultra-low rate, thus giving the equity market the desired impetus. Apart from this, widening policy divergence with the US, sustained growth of profit of major Japanese companies and concerns over weaker growth in China, have garnered more flows.
- Equity market in Russia has performed considerably well. This is on account of growth holding ground due to increased military spending and robust private consumption supported by wage growth.
- Stock market indices in Argentina and Turkey have also gained considerably. But these numbers need to be read with caution as inflation is significantly higher in these regions, thus inflating the numbers.
- In the US, the equity index (Dow) has inched up by 21.7%. There has been different narrative surrounding growth in the US, swinging from hard to soft landing. However, macro data pointed to growth remaining stable; from better new home sales data to stickier earning data and improvement in personal income, all pointed towards some degree of recovery.
    - Even in terms of equity flows, US topped the chart garnering around ~US$ 90bn equity flows for the 12-month period ending Mar'24 (till 15 Mar 2024). Going forward, a lot is contingent on evolution of Fed fund trajectory, where a delayed start to the rate cut cycle is a possibility to prevent overheating of the economy. Preferably, the timing of the cut seems favourable in Jun'24. Post that, easier liquidity conditions would further support equity market of the region.
- In Germany as well, equity market inched up. This is despite weaker growth conditions in the region. ECB commentary on the other hand remained broadly cautionary with cues for rate cut along the same time as Fed.
- Gains in equity markets in S. Korea, Australia, Indonesia, Mexico have remained in the median range. In Hong Kong and China, equity indices showed significant moderation. Weak external environment, strain in the property sector and muted domestic consumption demand have

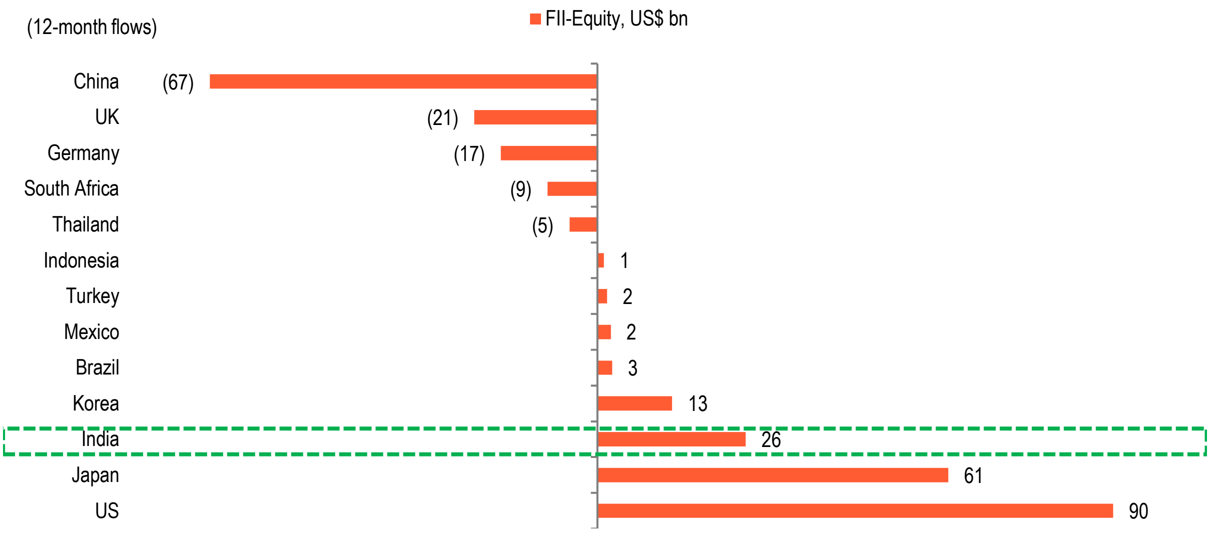
all contributed to a fall in the indices. Investors are seeking a more holistic approach rather than the piecemeal approach undertaken by the regulators of the region.

Fig 1: Movement of major equity indices globally



Source: Bloomberg, Bank of Baroda Research, Note: For India, BSE Sensex is used

Fig 2: Country-wise data of FII-equity flows



Source: Bloomberg, Bank of Baroda Research, Note: for 12 month flows the terminal data is the latest available data as of Mar'24, For Germany it is as of Jan'24, For US and China it is as of Dec'23 and for UK it is as of Sep'23.

What has supported equity flows in India?

India has remained an outperformer on account of following reasons:

- **Robust growth conditions:** Notwithstanding uncertain external environment, India's growth indicators showed considerable resilience. The government's focus on capital spending, improved capacity utilization of the manufacturing sector and services sector outshining especially financial, real estate and professional services, all have been positive. Notably, domestic flows got boosted from an increased interest of savers in Mutual Funds. Going forward, we expect this momentum to continue. India's growth for FY25 is projected at 7.8%. Further with more discipline towards formalization of savings, more flows are bound to come in the near term.

- **Corporate Performance remaining robust:** This has instilled confidence in investors in the domestic economy. Robust profit growth compensated for the lower growth in revenues. Added to this was the improvement in the debt servicing capability of firms.
- **Government's adherence to fiscal discipline:** Progressively bringing down fiscal deficit to GDP ratio while focusing on quality spending and less reliance on market borrowing have also impacted investor sentiments positively, thus contributing to an increase in equity flows. Going forward, with the expectation of the return of the current government to power would further provide stability to the financial market in terms of continuity of policies.
- **Investors are convinced that inflation has peaked.** This means that the direction of monetary policy will be in downward direction though the timing cannot be conjectured as of now.
- **The rupee remains strong, tending towards appreciation rather than depreciation.** The fundamentals in terms of current account balance, FDI, FPI, ECBs have been quite favourable. This is a factor that investors take into account when investing in any country.

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