

Investing amid volatility

Key Factors Driving Volatility across Global Markets

TL;DR

Market Overview:

Global markets are volatile, with Japan's Nikkei down 25% and Nifty50 down 4%. US recession risks rise with 4.3% unemployment, and Bank of Japan's rate hike disrupts Yen carry trade. Geopolitical tensions and high valuations add to the uncertainty.

India's Strengths:

Expected US rate cuts, positive foreign investment trends, and a robust domestic economy bolster India's market outlook.

Recommendation:

Deploy 25% of fresh equity capital as lump sum and stagger the rest fortnightly over 4 months.

WHAT'S HAPPENING

Global equity markets, especially Japanese markets, are experiencing some volatility. Nikkei has lost 25% from its recent peak. Even so, American and European markets are down by ~5% to 7%. India's Nifty50 has also fallen by ~4% since the start of this month.

FACTORS LEADING TO POTENTIAL MARKET VOLATILITY

Increased recession risk in the US

The deteriorating US labor market heightens fears of a potential recession, with some analysts estimating an increased chance of a recession occurring in the next 12 months. The surge in US unemployment to a near three-year high of 4.3% in July, coupled with a significant slowdown in hiring, indicates a weakening labor market.

Premium valuations

Given the strength of the economy, Indian equity markets are trading at a premium, and there are pockets in the midcap & smallcap segments where valuations are in a bubble zone. Nifty 500 Dividend Yield is currently at 1.03%, lower than the historical average of 1.28%.

Shift in Yen Carry Trade dynamics

The Bank of Japan's decision to raise interest rates to their highest in 15 years. As a result of this, Yen has appreciated sharply from its peak of 160 Yens per US Dollar to 142 Yens per US Dollar. This shift is disrupting the Yen carry trade and leading to heightened market volatility.

Geopolitical tensions

The assassination of Hamas leader Ismail Haniyeh, has renewed the fears of the war spreading to the other neighboring countries as well.

INDICATORS STACKED IN FAVOR OF DOMESTIC MARKETS

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01 Rate cut expectations

The weak US job data and benign inflationary environment increase the likelihood of a rate cut by the US Federal Reserve in September. CME FedWatch data suggests that 100% of the traders are expecting a rate cut. This could further boost investor sentiment towards India.

02 Positive FII outlook

Loosening monetary policy in the US, driven by weak growth projections, could attract foreign investment into India. Net FII Equity buying activity in India reached INR 53,897 crores in June & July 2024, suggesting growing investor interest in the Indian market.

03 Strong domestic economy

India's stable political environment and consistent pro-business policies, supported by a strong GDP growth (7.8% in Q4FY24), young workforce and expanding consumer market make it an attractive investment destination. Overall, India offers a resilient and diversified economy for investors, backed by the government's focus on fiscal prudence & policy continuity.

OVERALL OUTLOOK

A combination of factors as detailed above suggests the potential for short-term market volatility. Nevertheless, India's robust economic fundamentals and attractive investment climate position it favorably. While increased foreign investment can contribute to economic expansion, its impact will be contingent upon prevailing global economic conditions.

RECOMMENDATION

If you are planning to deploy fresh capital in equity, Invest 25% as lump sum and stagger the rest on a fortnightly basis over the next 4 months.

CURRENT DEPLOYMENT PLAN

