



# October Blues: What's Dragging the Markets Down?

27th Oct 2024

## TL;DR | WHAT YOU NEED TO KNOW

### What's happening

In October, the Indian market posted its weakest monthly returns in over 30 months.

### Factors contributing to the correction

This is primarily because of three reasons - two India-specific and one global event

1. The earnings of Indian companies slowed down compared to expectations
2. Higher supply of equities in the market owing to -
  - i. Larger IPOs and QIPs (Qualified Institutional Placement)
  - ii. Aggressive selling by FIIs (Foreign Institutional Investors)
3. Heightened geopolitical situation -
  - i. Escalation of tensions in the Middle East
  - ii. Uncertainty around US election results

### Dezerv view

Even though the market may remain volatile in the short term, India's macroeconomic strength remains strong. Further, the possibility of interest rate cuts is higher today than in the past. We believe this correction can benefit disciplined investors, if necessary actions are taken.

### Strategic recommendations

#### 1. For Investors with Fresh Capital

Deploy 25% immediately to leverage the market correction and set up an STP to invest the rest over the next four months, with the option to accelerate if needed.

#### 2. For Investors with Equity Exposure

##### Managed by Dezerv

Stay invested. Continue holding your investments. We've proactively reduced exposure to riskier segments like mid- and small-cap stocks. We will inform you of any opportunities to adjust your portfolio.

##### Not managed by Dezerv

Assess your holdings to identify and mitigate risks, especially in mid- and small-cap stocks and thematic investments.

#### 3. For Investors with Fixed-Income Investments

##### Managed by Dezerv

Hold until maturity. Your investments remain unaffected by current market conditions. Continue to hold them until they mature.

##### Not managed by Dezerv

Hold assets purchased before March 2023 until maturity and periodically review other holdings.

#### 4. For Dezerv Clients with Funds in Liquid or Arbitrage Strategies

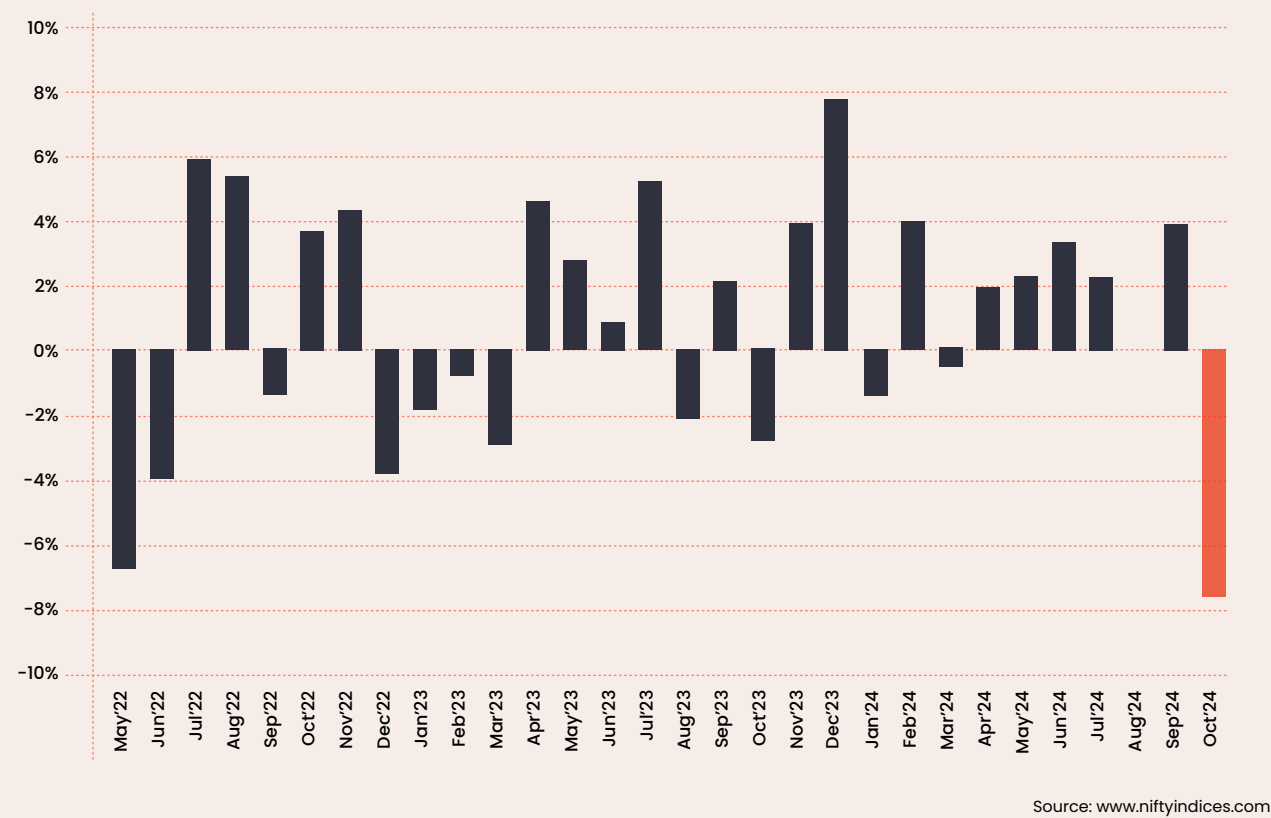
We will monitor market developments and advise you if accelerated deployment becomes beneficial. Existing STPs will continue as scheduled.

SECTION 1

WHAT'S HAPPENING

The Indian market has faced its sharpest decline in over 30 months this October, marking one of the toughest months for investors in recent years. Several macroeconomic and geopolitical factors have combined to create a perfect storm, unsettling markets and driving volatility.

Worst month in last 30 months



The ongoing market correction has rattled investors, with key indices experiencing significant declines. The Nifty 50 index is down about 7.7% from its peak earlier this year, while midcap and smallcap indices have each dropped over 8% in the past month. Market volatility has spiked, as reflected by a 22% surge in the India VIX, signalling heightened uncertainty. Among sectors, Realty and Auto have been the hardest hit, whereas IT has emerged as the top performer.

SECTION 2

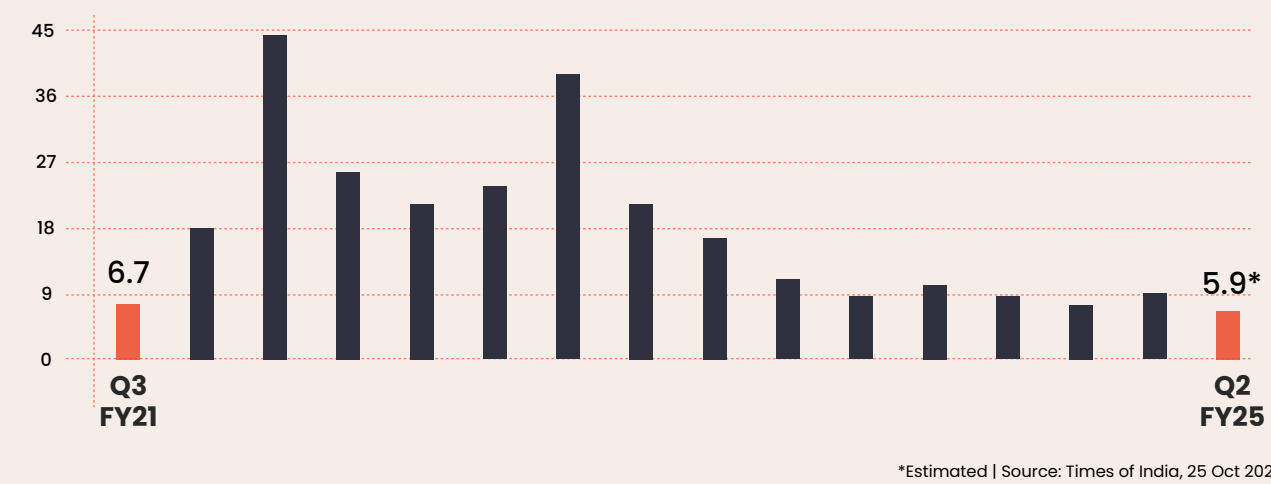
FACTORS CONTRIBUTING TO THE CORRECTION

We identify three main factors contributing to the current market downturn—two domestic and one global.

01 Earnings Disappoint: Slower Growth Than Expected

The earnings season has been underwhelming, with quarterly sales growing at a modest pace of around 5.9% year-on-year. This marks the slowest growth rate observed in the past 16 quarters, falling short of market expectations and adding to the pressure on stock prices.

India Inc's quarterly revenue growth (%)



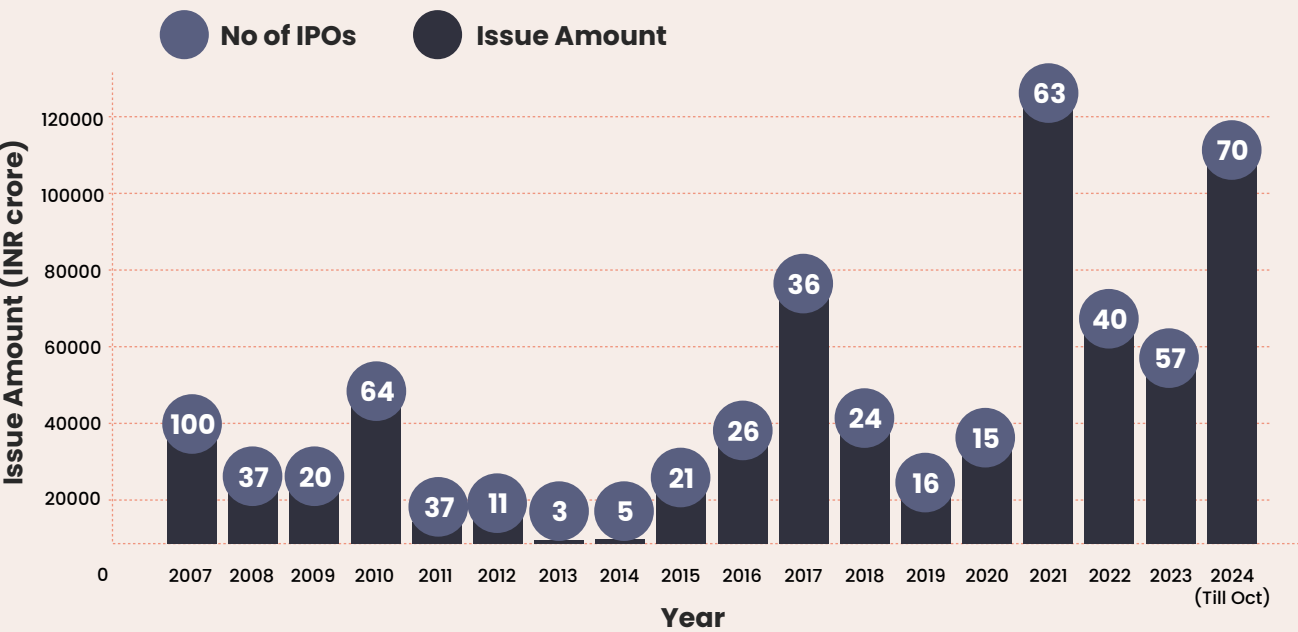
02 Increased Equity Supply Weighs on the Market

A key factor behind the market correction is the substantial increase in equity supply. In H1 FY25, the total stock supply is estimated at INR 3 lakh crore, driven by significant contributions from promoters, IPOs, Qualified Institutional Placements (QIPs), and Foreign Institutional Investors (FIIs). This surge in supply has added downward pressure on stock prices.

1. Larger IPOs and QIPs (Qualified Institutional Placement)

IPO fundraising has crossed INR 1 lakh crore for the second time in history, while QIPs have nearly tripled from the previous year, reaching INR 66,225 crore.

Mainboard IPO issue amounts (INR crore) over the years



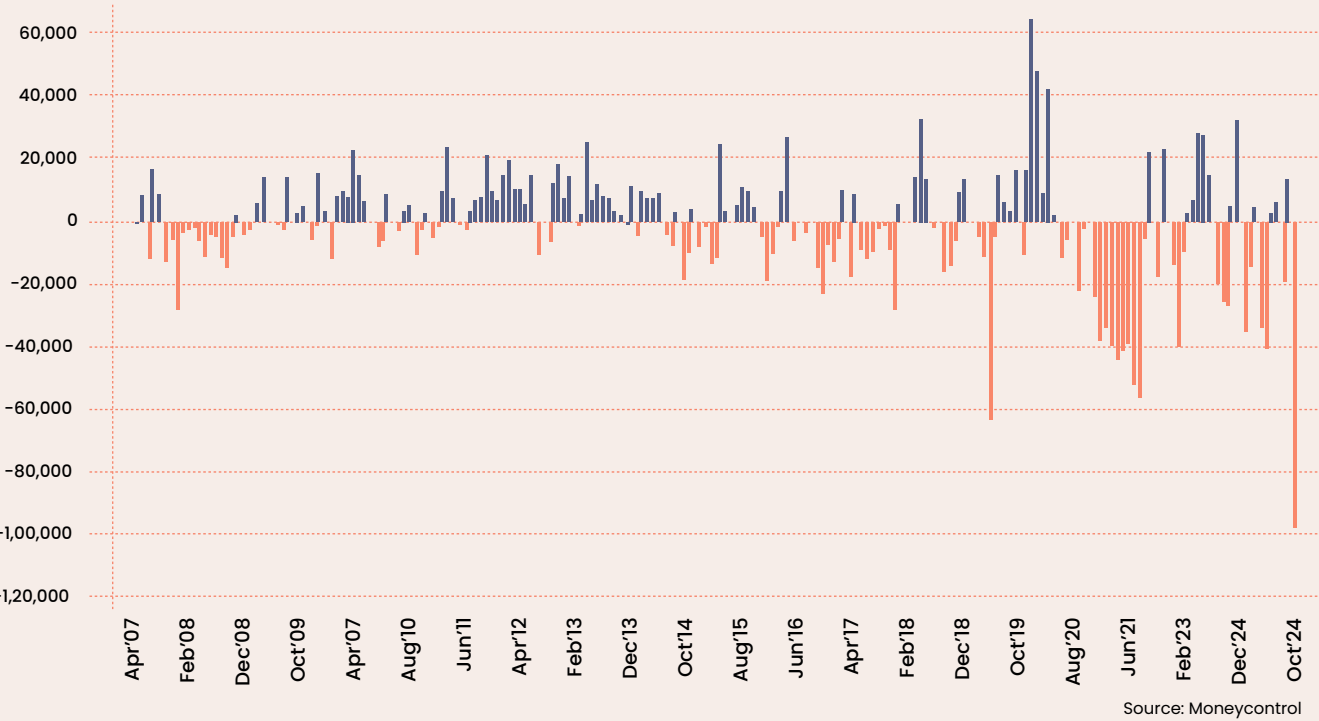
2. Aggressive selling by FIIs (Foreign Institutional Investors)

Foreign Institutional Investors (FIIs) have been significant net sellers in October, with outflows amounting to approximately INR 76,400 Crores. This selling pressure is largely driven by a reallocation of funds towards markets with more attractive valuations, such as Japan, China, and Taiwan. The aggressive selling has added to the downward pressure on Indian equities, making it one of the worst-hit markets in terms of FII outflows for the month.

FII flows in October remain unfavourable for India

Country	MTD Net (in INR crore)
India	-76,400
South Korea	-13,440
Thailand	-4,788
South Africa	-4,066
Brazil	-3,973
Indonesia	-2,570
Malaysia	-1,210
Qatar	-957
Philippines	655
Taiwan	14,616
Japan	1,06,478

Highest FII Outflow in a single month



DII (Domestic Institutional Investors) have maintained positive flows for 14 straight months, and the sustained confidence continues to keep the Indian equity markets buoyant.

03 Heightened geopolitical situation

1. Escalation of tensions in the Middle East

The war between Israel and Hamas has consistently escalated, leading to Iran and Israel coming into direct conflict with each other now. With ongoing attacks from both sides, these escalations pose a significant threat to crude oil prices and shipping freight rates. It can lead to a disruption in global inflation, the interest rate cycle, and consumer sentiment.

2. Uncertainty around US election results

The upcoming US presidential election is poised to have significant global economic implications. The markets will remain volatile till the results are out towards the end of the year.

Together, the combination of geopolitical risks, shifting global capital flows, and domestic economic pressures has unsettled investor sentiment and have created a challenging environment for Indian equities, driving increased volatility and contributing to the recent market downturn.

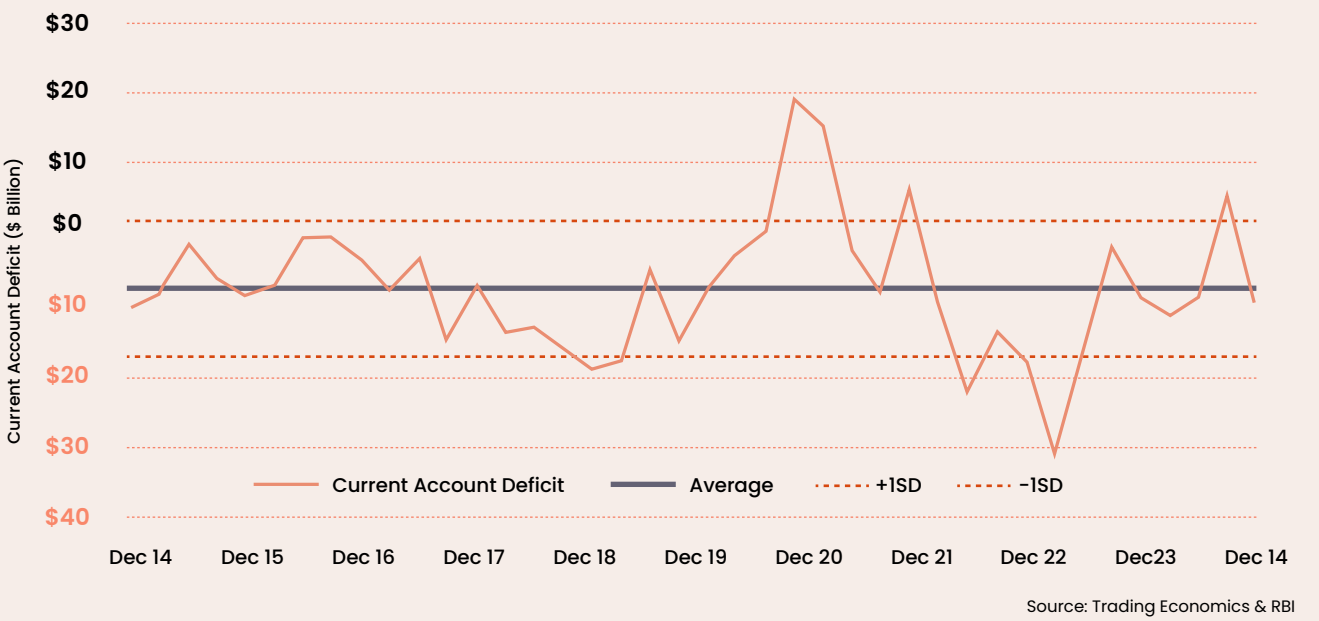
SECTION 3

DEZERV VIEW

Despite the recent market volatility, India's macroeconomic fundamentals remain resilient.

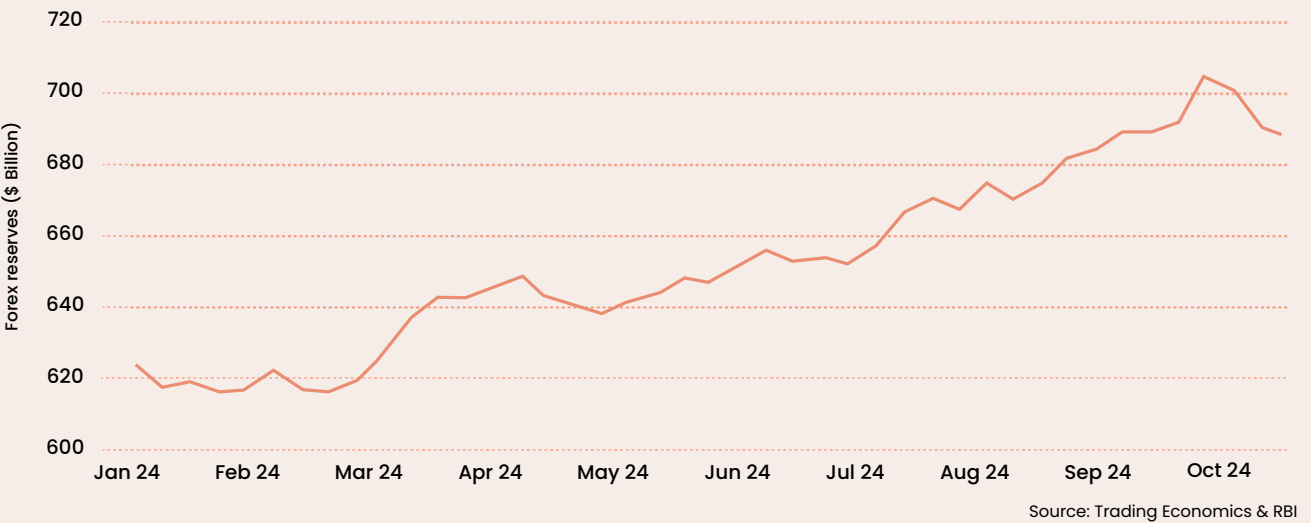
The Current Account Deficit (CAD) shows no signs of stress and continues to fluctuate within a stable range. The CAD has remained close to its long-term average, with recent data well within one standard deviation, indicating that external sector pressures are manageable.

No signs of stress on Current Account Deficit



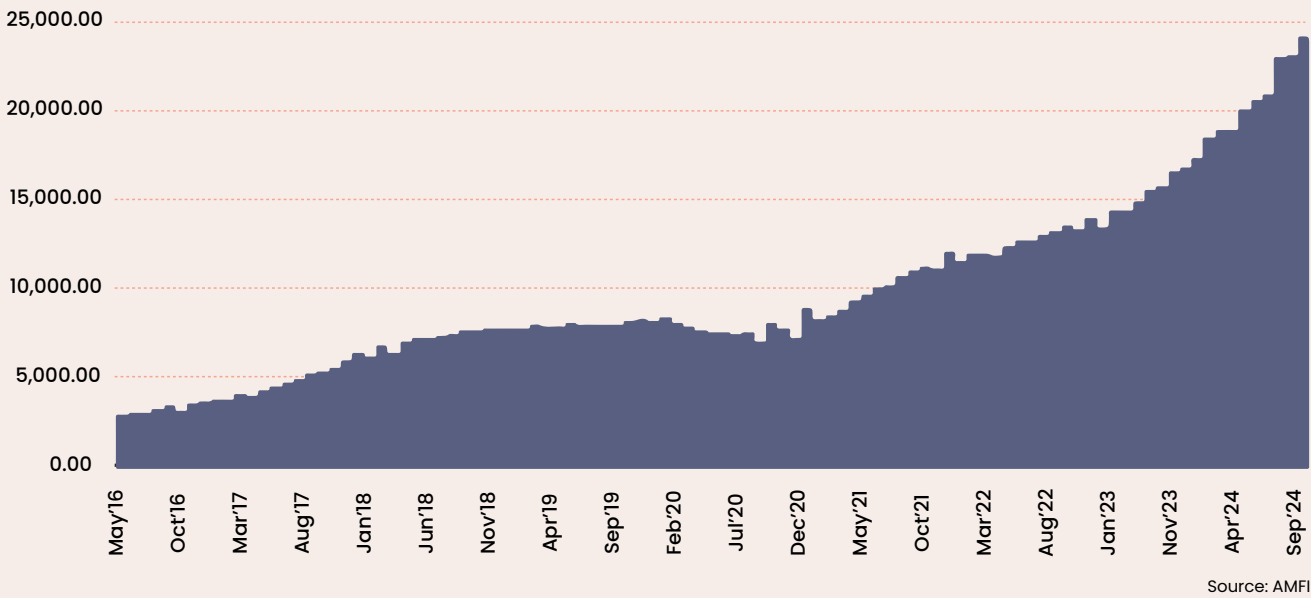
Additionally, India's foreign exchange reserves are near all-time highs, providing a significant buffer against external shocks. The steady rise in reserves over the past year reflects robust capital inflows and effective management by the Reserve Bank of India.

India’s Forex Reserves near all time highs



Retail participation in equity markets through mutual funds remains strong. There is no indication of a structural downturn, and the correction can be seen as a normalisation of valuations.

SIP inflows reaching close to INR 25,000 crores



Inflation appears to be stabilising, and we have seen the beginning of an interest rate cut cycle, with the US Fed recently slashing interest rates by 50 bps. It is expected that the Fed will cut policy rates by 25 bps in November and December. We expect the RBI to start with a rate cut cycle in December or at the start of the first quarter of CY2025.

This would likely boost consumer demand and corporate earnings, creating favourable conditions for market recovery in the medium term.

We believe the current fall in the markets can benefit disciplined investors, if necessary actions are taken.

SECTION 4

STRATEGIC RECOMMENDATIONS

01 Fresh cash flows from new or existing clients

- 1. Overall, while the market's recent decline presents challenges, it also offers long-term opportunities for disciplined investors. Staying focused on fundamentals and avoiding impulsive reactions is essential during this period of heightened market volatility.
- 2. We recommend investors to deploy 25% of fresh capital immediately given the recent correction and set up an STP (Systematic Transfer Plan) for the rest of the capital to be deployed in the next four months with an option to accelerate the deployment.

3. It is important to note that markets move quickly and sharply in such scenarios, and investors' reaction time will be minimal. If such a scenario arises, Dezerv will recommend and execute an accelerated deployment of the assets from the liquid strategy to equity strategies or any other necessary changes.

In the past, when we saw an opportunity to deploy during a market correction, our timely action has been imperative in wealth creation for our clients.

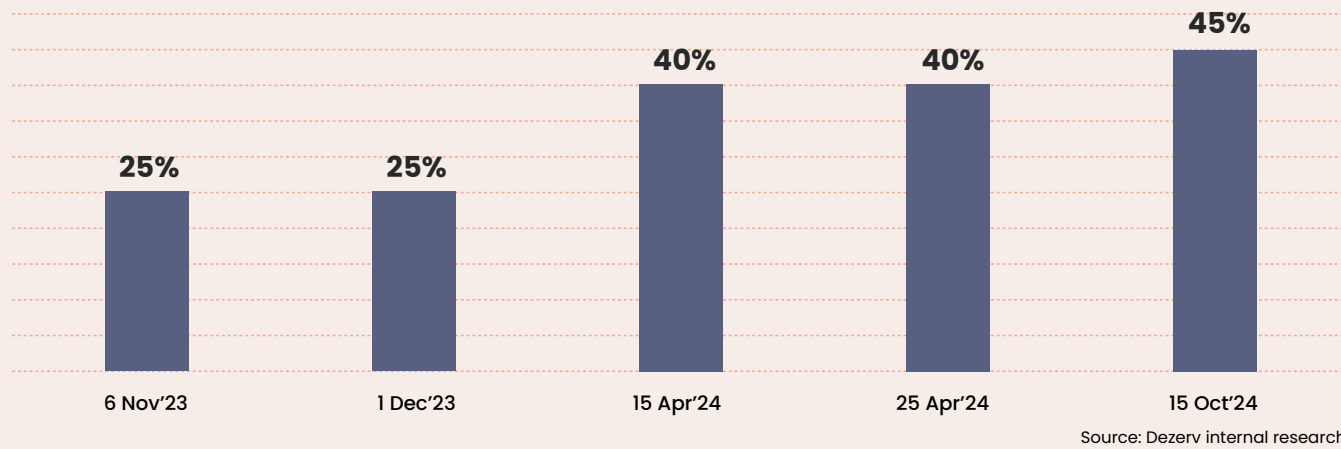
Event	Event Date	Max Drop	New high date	Time to recovery (Days)
Russian invasion of Ukraine	24 Feb'22	-7.03%	17 Mar'22	21
Loksabha Election 2024	4 Jun'24	-5.93%	7 Jun'24	3
Silicon Valley Bank Collapse	10 Mar'23	-3.66%	6 Apr'23	27
Yen carry trade unwinding	31 Jul'24	-3.48%	26 Aug'24	26

02 Investors who already have equity exposure

1. **For equity assets managed by Dezerv:** Proactive steps have already been taken to reduce exposure to vulnerable market segments, such as mid- and small-caps.

Increasing large cap exposure in our model portfolio to capitalise opportunities

Allocation to Large Cap funds in Model Portfolio



The portfolio remains well-positioned to generate alpha over its benchmark, the BSE500. We are actively monitoring the markets and will contact you proactively if there is an opportunity to accelerate deployment.

2. **For equity assets not managed by Dezerv:** We perceive higher risks in the mid-and small-cap space and specific thematic plays. We recommend that you review your portfolio to identify pockets of risk.

03 Investors who have invested in fixed income instruments

1. **Fixed income investments managed by Dezerv:** None of the above mentioned aspects impact your existing fixed income holdings managed by Dezerv. We recommend that you continue holding these assets until maturity.

2. **Fixed-income assets not managed by Dezerv:** You should continue to hold any asset purchased before March 2023 until maturity. We recommend that you review the rest of your fixed-income holdings periodically.

04 Existing clients of Dezerv who have money in liquid, arbitrage, etc

We will wait and watch. If any acceleration is needed, we will contact clients. We will continue current STPs as is.

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