

Market Commentary
July 2024

| Broad Market Indices- Return(%) | | | | | |
|---------------------------------|------|-------|-------|-------|-------|
| | 1M | 3M | 1Yr | 3Yr | 5Yr |
| Nifty 50 | 4.00 | 11.07 | 27.84 | 17.90 | 18.92 |
| Nifty Next 50 | 4.66 | 15.49 | 66.18 | 24.87 | 24.50 |
| Nifty 500 | 4.39 | 12.57 | 39.28 | 21.09 | 22.35 |
| Nifty Midcap 150 | 5.04 | 15.94 | 55.53 | 28.66 | 31.58 |
| Nifty Smallcap 250 | 5.01 | 13.59 | 59.11 | 26.31 | 32.59 |
| Nifty Microcap 250 | 7.83 | 18.54 | 72.68 | 35.70 | 43.58 |
| Nifty Total Market | 4.51 | 12.78 | 40.26 | 21.52 | 22.82 |

✚ The market rally continued unabated, in spite of multiple concerns raised by regulators and market experts on valuations.

✚ The fact the Nifty Microcap 250 Index was up 7.83% during the month, indicates the relentless activity from retail participants.

✚ Increase in Capital Gains Tax, and other changes proposed in the Union Budget were no cause of deterrence. Indian VIX closed at 13.25 indicating complacency.

| Sectoral Indices - Returns (%) | | | | | |
|--------------------------------|-------|-------|-------|-------|-------|
| | 1M | 3M | 1 Yr | 3 Yr | 5Yr |
| Nifty Auto | 6.13 | 19.20 | 71.14 | 39.67 | 32.67 |
| Nifty Bank | -1.49 | 5.06 | 13.94 | 15.13 | 12.92 |
| Nifty Financial Services | 0.00 | 7.92 | 16.24 | 13.43 | 13.78 |
| Nifty FMCG | 9.45 | 15.54 | 20.12 | 22.00 | 18.42 |
| Nifty IT | 13.14 | 24.37 | 39.30 | 12.44 | 23.64 |
| Nifty Media | 7.90 | 13.57 | 4.67 | 6.89 | 2.65 |
| Nifty Metal | -2.25 | 4.56 | 42.38 | 20.17 | 31.88 |
| Nifty Pharma | 10.61 | 15.08 | 46.15 | 15.62 | 23.14 |
| Nifty Private Bank | -1.36 | 5.32 | 10.73 | 13.41 | 10.58 |
| Nifty PSU Bank | 0.42 | -2.04 | 61.24 | 46.53 | 22.83 |
| Nifty Realty | -0.84 | 12.58 | 93.53 | 40.52 | 33.02 |
| Nifty Consumer Durables | 3.78 | 15.16 | 45.70 | 19.15 | 23.40 |
| Nifty Oil & Gas | 8.47 | 12.12 | 64.12 | 28.42 | 26.21 |
| Nifty Healthcare Index | 9.55 | 15.07 | 44.57 | 16.33 | 25.05 |

The dispersion of returns amongst sectoral indices indicates a lack of breadth in the market.

FMCG, IT, Pharma & Healthcare, Oil & Gas sector indices delivered double digit or close to double digit returns.

Banks & Financial Services were flat or negative – although most fund managers believe private banks offer the best value in today's markets

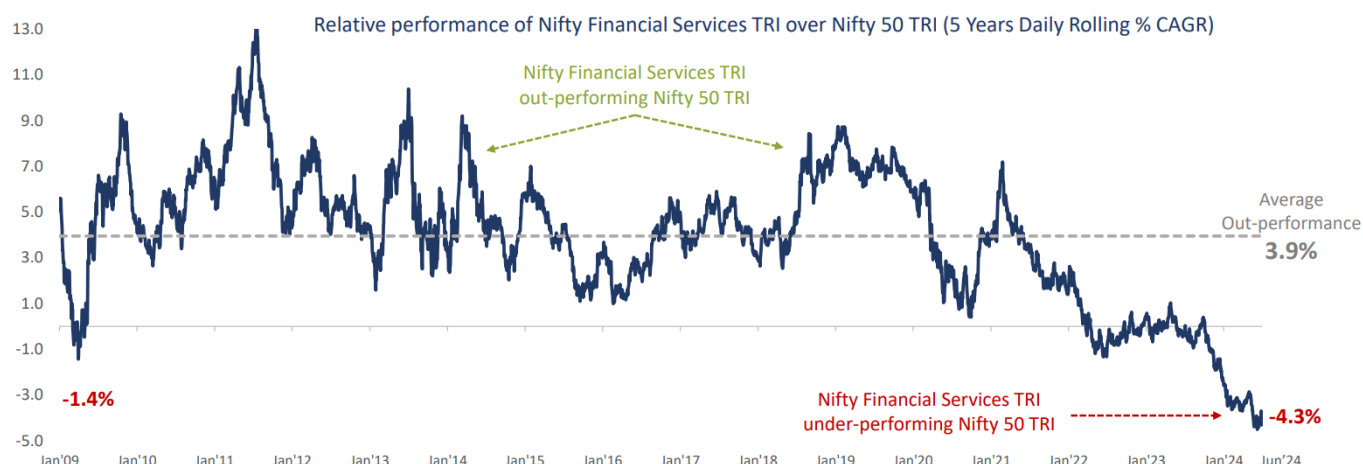
Sectoral breakup of NIFTY earnings outlook

| | No. of Cos. | EPS Change | | | | | | |
|------------------------|-------------|------------|--------|--------|--------|-------|-------|---------|
| | | FY20 | FY21- | FY22- | FY23- | FY24- | FY25- | FY24-26 |
| | | | -21 | 22 | 23 | 24 | 25 | 26 |
| Nifty | | 20.0% | 35.7% | 5.9% | 29.5% | 10.1% | 15.2% | 12.6% |
| Materials | 6 | 55.2% | 222.9% | -54.7% | -13.8% | 56.9% | 25.7% | 40.5% |
| Industrials | 3 | 22.9% | -30.1% | -0.9% | -0.9% | 30.6% | 25.6% | 28.1% |
| Financials | 11 | 13.8% | 27.3% | 23.1% | 53.0% | 14.1% | 14.2% | 14.2% |
| Health Care | 5 | 5.9% | 51.7% | 23.6% | 2.5% | 9.4% | 13.4% | 11.3% |
| Consumer Discretionary | 7 | 20.7% | -33.4% | 186.5% | 58.8% | 2.9% | 16.2% | 9.3% |
| Consumer Staples | 5 | -5.0% | -3.9% | 5.6% | 32.6% | 5.5% | 11.4% | 8.4% |
| Utilities | 2 | 18.0% | -9.7% | 6.0% | -28.7% | 4.7% | 8.5% | 6.6% |
| Energy | 4 | 56.9% | 11.4% | 8.1% | 33.6% | -1.3% | 12.4% | 5.3% |
| Information Technology | 6 | 9.6% | 37.1% | 13.3% | 13.5% | -3.6% | 12.8% | 4.3% |
| Communication Services | 1 | | NA* | | -6.1% | 95.6% | 41.3% | 66.3% |

Going by Nifty EPS growth estimate of 10.1% in FY 24-25 & 15.2% in FY 25-26, it may be reasonable to expect that equity returns will be closer to Nifty EPS growth. The argument that there will be continuous PE expansion due to strong retail sentiment has the risk of being neutralised by possible earnings downgrade

Source: SBI MF Earnings Estimate

Nifty Financial Services TRI vs Nifty 50 TRI - Relative Performance Analysis (5 Years Rolling Return Analysis for as on 30th June 2024)



Financial Services faced many challenges (both local and global) over the last two decades. Current Under-performance by Nifty Financial Services TRI over Nifty 50 TRI is the highest in last fifteen years.

Source: MFIE & WhiteOak Capital Internal Research

- Clearly Financial Services offer the best value at the moment. However, this segment is dominated by large private banks, where growth could be a concern.
- Therefore, investors looking for large margin of safety would be well off allocating money to this segment, while investors chasing growth will continue to look at smaller riskier bets.

% Contribution to Total Market Cap - Segment Wise Trend

| Month End | % to Total Market Capitalisation | | | % to Total Market Cap (Last 5 Years Monthly Average) | | | Premium/Discount over Long Period Average (Current % to Total Market Cap vs Last 5 Years Average) | | |
|-----------|----------------------------------|-----------------|-----------------------|--|-----------------|-----------------------|---|-----------------|-----------------------|
| | Large Cap Top 100 | Mid Cap 101-250 | Small Cap 251 onwards | Large Cap Top 100 | Mid Cap 101-250 | Small Cap 251 onwards | Large Cap Top 100 | Mid Cap 101-250 | Small Cap 251 onwards |
| Dec-13 | 77.0 | 12.6 | 10.4 | 75.3 | 12.9 | 11.8 | 2% | -3% | -12% |
| Dec-14 | 73.5 | 14.0 | 12.5 | 74.9 | 13.2 | 11.9 | -2% | 6% | 5% |
| Dec-15 | 71.5 | 15.2 | 13.3 | 75.0 | 13.4 | 11.7 | -5% | 14% | 14% |
| Dec-16 | 70.7 | 15.3 | 14.0 | 74.4 | 13.7 | 11.9 | -5% | 11% | 18% |
| Dec-17 | 66.5 | 17.2 | 16.3 | 73.2 | 14.3 | 12.5 | -9% | 21% | 30% |
| Dec-18 | 70.7 | 16.2 | 13.1 | 71.7 | 15.0 | 13.3 | -1% | 8% | -1% |
| Dec-19 | 73.8 | 15.6 | 10.5 | 71.3 | 15.5 | 13.3 | 4% | 1% | -21% |
| Dec-20 | 73.4 | 15.6 | 10.9 | 71.4 | 15.7 | 12.9 | 3% | -1% | -15% |
| Dec-21 | 68.7 | 16.7 | 14.6 | 71.1 | 16.0 | 12.9 | -3% | 4% | 14% |
| Dec-22 | 69.3 | 16.1 | 14.6 | 71.1 | 16.1 | 12.8 | -3% | 0% | 14% |
| Dec-23 | 63.9 | 17.8 | 18.3 | 70.6 | 16.2 | 13.2 | -9% | 10% | 38% |
| Jun-24 | 62.6 | 18.6 | 18.8 | 69.7 | 16.5 | 13.8 | -10% | 13% | 36% |

Source: MOSL, WhiteOak Capital Internal Research

Market Capitalisation contribution of Small Cap to overall market cap has gone up significantly. This warrants caution since there is a large element of froth getting built in this segment in terms of valuations, albeit expectations of high growth.

Small Cap Contribution to Market Cap & Future Returns

| Month End | Small Cap (251 st Rank onwards) % to Total Market Capitalisation | | | Nifty Smallcap 250 TRI (% CAGR) | | |
|---------------|--|-------------------------|--|---------------------------------|--------------|--------------|
| | As on Date | Last 5 Years Average | Premium/Discount over Last 5 Years Average | Next 1 Year | Next 2 Years | Next 3 Years |
| Dec-13 | 10.4 | 11.8 | -12% | 72% | 38% | 25% |
| Dec-14 | 12.5 | 11.9 | 5% | 11% | 6% | 21% |
| Dec-15 | 13.3 | 11.7 | 14% | 1% | 27% | 6% |
| Dec-16 | 14.0 | 11.9 | 18% | 58% | 8% | 3% |
| Dec-17 | 16.3 | 12.5 | 30% | -26% | -17% | -5% |
| Dec-18 | 13.1 | 13.3 | -1% | -7% | 8% | 24% |
| Dec-19 | 10.5 | 13.3 | -21% | 26% | 44% | 26% |
| Dec-20 | 10.9 | 12.9 | -15% | 63% | 26% | 33% |
| Dec-21 | 14.6 | 12.9 | 14% | -3% | 20% | |
| Dec-22 | 14.6 | 12.8 | 14% | 49% | | |
| Dec-23 | 18.3 | 13.2 | 38% | | | |
| Jun-24 | 18.8 | 13.8 | 36% | | | |

Source: MOSL, WhiteOak Capital Internal Research

- Whenever small-cap contribution as a percentage of total market cap has gone up, subsequent 1 & 2 year returns have been negative or subdued. It is difficult to assess how much above average should be considered over valuation, but last 10 years data, as per the above table suggests readings above 30% (market cap contribution premium/discount over last 5year average) have seen negative returns in the segment in subsequent years.
- However, if one saw this table in Dec 23 & reduced/exited small cap considering the small cap market cap market cap contribution premium was already 38%, it may have been a decision taken too soon, since the Nifty Small cap 250 Index went up 22% between 1st Jan 24 – 30th June 24.
- July 24 saw the Nifty Small cap 250 Index go up 5.01%!!

Is it time to take some money off the table?

- Conservative Investors may consider reducing exposure to small cap & allocating to balanced advantage funds or multi cap funds, flexi-cap & large & midcap category funds.
- It is advisable to allocate fresh money into the markets in a staggered manner, rather than waiting for a correction. Corrections, if any, are sharp short & swift & hardly provide any opportunities to buy on dips for most investors, except traders sitting on cash.
- Going forward money managers who have better insights of business models and sustainable growth along with a penchant to identify businesses which are at an inflexion point of growth & scalability, are likely to generate alpha over benchmark.
- We believe portfolios returns going forward, will be a function of this aspect rather than one who is riding a broad-based market rally.

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