PINC

April 2003

Market Commentary

PIONEER WEALTH MANAGEMENT

The S&P BSE Sensex experienced a 3.6% increase in April, benefiting from favorable economic conditions and strong corporate earnings. The S&P BSE Midcap Index and S&P BSE Small cap Index performed even better, rising by 6.0% and 7.3% respectively. The decision by the RBI to pause rate hikes resulted in a rally in real estate and automotive stocks. With the exception of the IT and consumer durables sectors, all other sectoral indices outperformed the Sensex.

Global indices displayed mixed performance during the month. The S&P 500 advanced by 1.6%, while the broader MSCI EM index declined by 1.1%, and the MSCI World Index increased by 1.8%. The rally in the S&P 500 was driven by indications of decreasing inflation and expectations of the Federal Reserve nearing the peak of its interest rate hikes. Unlike previous crises, the current banking crisis in the United States appears to have a more limited impact, although concerns about contagion effects could discourage further rate hikes. The decline in the EM index was influenced by lower-than-expected activity levels in China and the re-emergence of conflicts between China and Taiwan.
In terms of investment flows, foreign portfolio investors (FPIs) purchased USD 1.4 billion worth of Indian securities, while domestic institutional investors bought USD 1.7 billion. Despite the global slowdown, India's stable macroeconomic environment and the low likelihood of further rate hikes could maintain positive momentum in foreign investment flows.

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The long-term growth potential of the IT sector remains intact, despite recent concerns about slower technology spending due to the banking crisis in the US. The fact that Indian IT companies derive approximately 30% of their revenue from the BFSI sector has made investors cautious. However, the current crisis appears less severe than previous downturns. Indian IT companies' aggregate revenue is conservatively estimated at around 19.9% of global technology

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spending, leaving ample room for long-term growth. The availability of a large pool of fresh recruits and the easing of supply-side pressures are expected to 2019 when growth rates significantly slowed down, there is currently no immediate risk of large-scale technology transitions. Considering the long-term structural story, the growth rates of Tier 1 IT companies over the next 4-5 years are expected to be reasonable. Most companies have improved their capital allocation policies in recent years, which justifies higher valuation multiples compared to historical averages. The stock prices of Tier 1 IT companies reflect embedded growth rates that are reasonably discounted compared to long-term industry growth rates, making their valuations attractive.

Given the potential pause in global interest rate hikes, the moderation of inflation, and the continuation of the corporate earnings upcycle, we maintain a positive outlook on Indian equities. Investors with a long-term perspective can take advantage of the current opportunity to gradually increase their equity allocation.