



**POST
Lok Sabha Election 2024**

EQUITY INVESTMENT STRATEGY

Mandate Below Market Expectations; What are the market Implications?

On 4th June 2024, three election results were due 1) Loksabha election 2024, 2) State election results of Andra pradesh, and 3) State election results of Odisha. In all three elections, including the central as well as state, the ruling party NDA has won the mandate and will easily be able to form the government. However, at the central level, it fell short of market expectations. As per the latest number, NDA won 292 seats which is well behind the exit poll numbers but still above the minimum mark of 272 (The minimum number to form the government). BJP standalone won 240 seats vs. the tally of 303 in 2019. This time the ruling party NDA has faced tough competition from the opposition, especially in bigger states such as UP and Maharashtra. The current number indicates that NDA is going to form a government under the leadership of Prime Minister Narendra Modi; however, this will be a coalition government after a successful completion of two terms with a full majority. This implies coalition government politics in the Modi 3.0 term. Nonetheless, with this development, Prime Minister Narendra Modi is likely to join the camp of the longest-serving Prime minister in India.

Yesterday, the market was not prepared for this type of outcome which was short of expectations from the exit poll and opinion poll results. This has led to a knee-jerk reaction in the market in which the benchmark index Nifty 50 went down by 6% and the volatility index India VIX jumped up by 24% in a single day. The reaction also reflected a lower-than-expected sentiment coming from the lower end of the pyramid which was struggling due to inflation from the last couple of years.

What are the possible actions in the market?

1. NDA will form the Modi 3.0 government with coalition partners. With this, the market will likely gain confidence in the *political* stability as well as the *policy* stability. Some positive recovery is hence expected going forward.
2. Now the full-year budget remains critical at the current juncture which is further likely to address the challenges of rural India. After the RBI dividend of Rs 2.1 Lc Cr, the government has enough ammunition to address those challenges.
3. Falling short in the majority will indeed pose some challenges to the premium valuation of our market as it was trading at a premium valuation to other EMs before this event, which was on the expectations of political and policy continuity.
4. Policy reforms are likely to continue in Modi 3.0 but some positioning is likely to shift towards populist measures which could likely pose challenges on the fiscal prudence path.
5. We expect the focus in the Modi 3.0 term will continue on infrastructure building, manufacturing, road & railways, and other crucial Capex. Its overall focus would also be on creating more jobs and achieving investment-driven growth.
6. Some reforms or policy allocation could be possible for the bottom of the pyramid to address the rural challenges. This could be positive for the consumption sector which has seen muted growth for the last couple of years.
7. In our base case, we maintained our Mar'25 Nifty target at 24,600.

With this development, the volatility in the domestic market is likely to remain on the higher side for some time. Against this backdrop, the market positioning is likely to shift towards Quality and Low Volatility stocks with some tilt towards defensive names. Based on this development, the money may flow towards Largecaps in the near term. Hence, we recommend investors to remain invested in the market and use yesterday's dip to build a position in high-quality companies (where the earnings visibility is quite high) with an investment horizon of 12-18 months.

Based on the above development, we recommend the following stocks:

HDFC Bank, ICICI Bank, SBI, Ultratech cement, HUL, Nestle, M&M, Hero Motocorp, Lupin, Suzlon and J Kumar Infra

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