

Muted reaction at Dalal Street

Benchmarks indices creep higher, broader market falls

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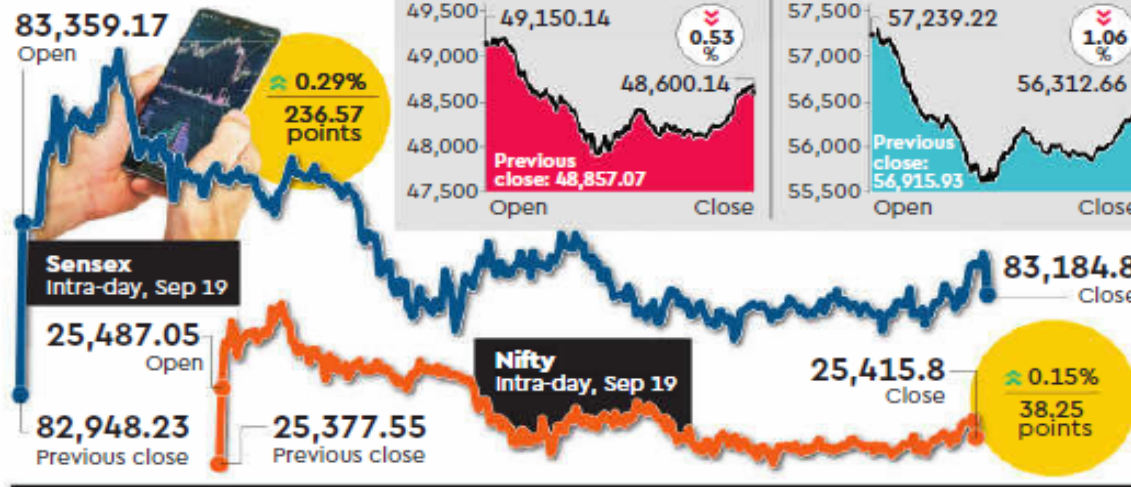
THE BENCHMARK indices hit fresh record highs intra-day on Thursday, but closed with nominal gains as investors were unsure about the impact of larger-than-expected interest rate cut by the US Federal Reserve vis a vis rising concerns over a potential recession in the US economy.

The Sensex rose 1% to hit a record high of 83,773.61 points in intra-day trading, but ended just 0.3% higher at 83,184.80 points. The Nifty closed up 0.2% at 25,415.80 points, after surpassing 25,600 points for the first time earlier in the session.

While the benchmark indices managed to close higher, the broader market indices saw sharp cuts in intra-day trading. The BSE Smallcap index ended 1.1% lower, recovering from the 2.3% fall during the day. The BSE Midcap index rebounded from a 2% fall intraday to close 0.5% lower.

Foreign portfolio investors sold

UNDERPERFORMING EMS



shares worth ₹2,547.53 crore while domestic institutional investors bought shares worth ₹2,012.86 crore.

US equities ended marginally lower on Wednesday after the initial gains. However, the US index futures were up 1-2% late evening India time on Thursday, indicating a recovery.

The Fed cut interest rates by 50 bps in a first such move in more than four years on account of a sharp decline in the US inflation

from last year and to keep the labour market healthy. The August retail inflation was at 2.5%, compared with the Fed's target of 2%.

The 50-bps rate cut was bigger than what some experts had expected, raising concerns that the US economy might be heading for a slowdown.

"I think the US economy is not in its best phase. While the cut in interest rate might cheer up the equity markets in the short run, concerns

about unemployment and the general slowdown in the economy will eventually play out. With the current level of inflation, the robust 50-bps cut was somewhat surprising," said UR Bhat, co-founder of Alphaniti Fintech.

Nilesh Shah, MD of Kotak Mahindra AMC, said: "The Fed cutting rates by 50 bps looks (like a) pre-emptive move. The US economy should manage a soft landing with expansionary fiscal and easing

monetary policy."

Nevertheless, domestic equities underperformed most of their emerging market peers on Thursday. While Nifty rose 0.2%, the MSCI EM index rose 0.4%, with key indices in Hong Kong, Taiwan, Singapore, and Indonesia rising 1-2%.

For every stock that rose on the BSE, there were two that fell. Overall, the investor wealth declined by ₹2.26 lakh crore to ₹465.47 lakh crore (\$5.57 trillion).

Concerns over valuations likely led to India's underperformance, according to experts.

"Globally, I think the markets are rejoicing a bit more than in India. India doesn't seem to be rejoicing too much because it has already factored almost all the positives," Bhat said.

Among sectors, FMCG, private banks, real estate, consumer durables and automobile were among gainers. Shares of telecom, energy, public sector banks and capital goods companies fared poorly.

Shares of Vodafone Idea tumbled nearly 20% after the Supreme Court rejected a plea to re-calculate adjusted gross revenue dues. The ruling also propelled a decline in state-owned banks having outstanding dues pending from the telecom company.