Wealth India

MONTHLY INVESTMENT PERSPECTIVES JAN-24

GLOBAL MACRO: 2024 ALL ABOUT DEMOCRACY

CY24 would see democracy taking center stage once again as the U.S., UK and India are among the major nations hosting elections. The U.S. might see a possible return of erstwhile President Donald Trump, though the current Biden administration has played its part in maintaining the U.S. fiscal balance. Should Mr. Trump trump, then there might be a policy boomerang back to isolationism. The UK has seen one of the highest Prime Minister churns ever witnessed by probably any developed economy – 5 in the last 15 years. The nation needs to establish political stability; otherwise, productivity issues and high public debt could hamper it. Back home, the NDA seems set to continue its winning strike after 2014 and 2019, thus offering tremendous political stability and policy continuity to the world's largest democracy.

GLOBAL EQUITIES: SLOWING GROWTH OR EASING FED?

Europe has already started to see some form of a credit-led economic revival as the Fed has broadly indicated that easing would materialize during CY24. The U.S. equity markets thesis would be characterized by two major opposing tenets: That growth would slow down initially and be seen in numbers of major fundamental indicators. But on the other hand, monetary easing by the Fed would no doubt provide some cushion to this. Focus should ideally be kept on volatility as risk mitigation should emerge as a significant source of returns rather than chase capital market assumptions.

Overall, bonds look very attractive as rates should fall in mid-2024. Bonds are expected to offer a better risk-return profile due to convexity. We **remain OW on U.S. and Japan & India, neutral on Asia ex-Japan & UW on EM ex-Asia and Europe.** Sectorally, **we remain OW on Comm. Svcs., Info Tech, Health Care & Cons. Discretionary; remain neutral on Real Estate, Financials and industrials and UW on Energy, Materials, Utilities, & Cons. Staples.**

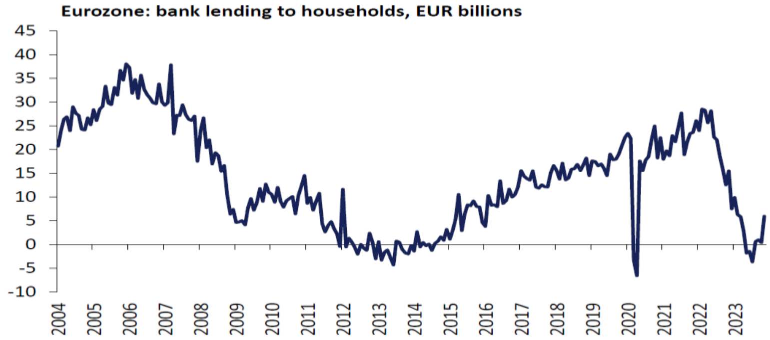
GLOBAL FIXED INCOME: OF FED PIVOTS AND RE-PIVOTS

As expected, the FOMC kept its policy Fed Funds rate unchanged at 5.25-5.5% at its meeting on 13-Dec-23, but also signaled a much more dovish consensus among FOMC members. The Summary of Economic Projections (SEP) showed FOMC members forecasting that the Fed Funds rate would decline 75bp from current levels (to 4.5-4.75%, or a central rate of 4.625%) by the end of CY24. However, minutes of the same meeting released on 3-Jan-24 revealed niggling fine print: Participants noted "an unusually elevated degree of uncertainty" about the economic outlook, with further rate increases still possible. Several participants also said they felt the Fed had gotten all the help it could expect from improved supply chains to lower inflation. At the same time, tighter monetary policy might still be needed to dampen demand, and new geopolitical risks could cause inflation progress to stall. **We remain OW on DM IG bonds, Neutral on HC EM Bonds, Subordinated Debt & DM Sovereign Bonds, and UW on HY Bonds. We also remain OW on Duration** in advance of Fed easing.

GLOBAL COMMODITIES: POLARIZED COMMODITIES COMPLEX

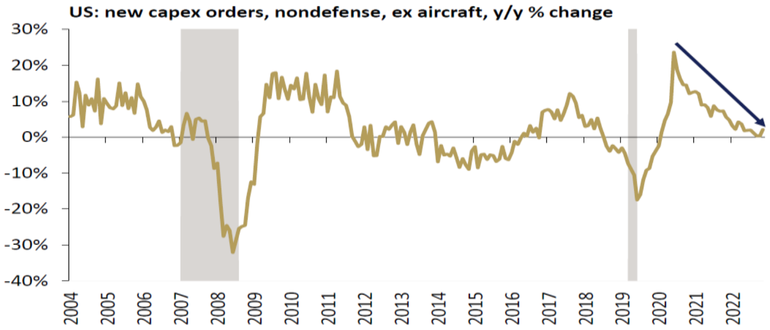
Crude oil prices remain volatile as traders monitor rising tensions in the Red Sea. Maersk said it would pause shipping through the Red Sea until further notice after one of its vessels came under attack. Apart from geopolitics, OPEC's influence on oil prices will remain significant in 2024. Fears of lower demand and rising non-OPEC supply threaten OPEC+ cuts. OPEC's share in the global total supply may have fallen because of the cuts, but it is still solid at 27%. Although the real estate market may have dampened in China, Iron ore prices continue surging unabated, and the gains made it one of the best performing commodities of the year, up by over 20% YoY by Dec-23 end. Gold prices rise amid 2024 rate cut expectations. Those rate-cut expectations helped Gold to post a 13% jump in 2023, its first annual gain since 2020. Consequently**, we turn one notch OW on Gold** on the back of dollar weakness.

Economic slowdown and higher interest rates in Europe: Prompted a sharp credit growth drop, now starting to reverse



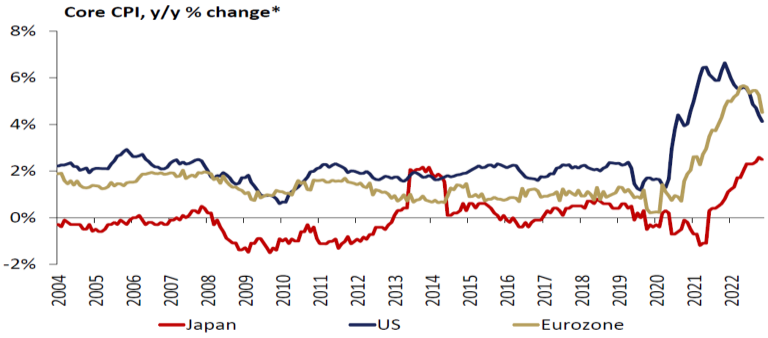
Source: ECB, LGT.

On the output side, the US economy has slowed down



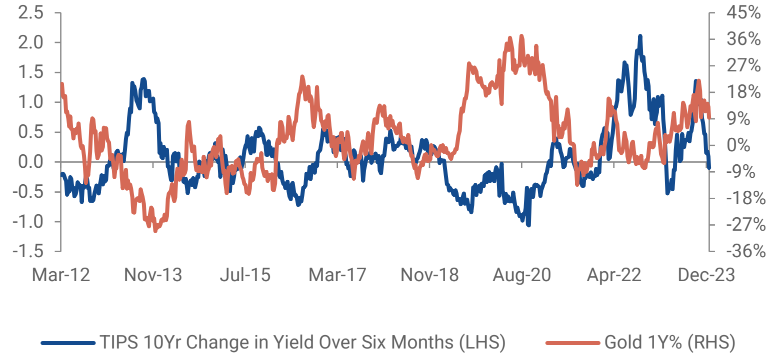
Source: US Census Bureau, National Bureau of Economic Research, LGT. Note: shaded areas denote recessions.

Core inflation in Europe and the US has visibly turned



*Source: LGT, Source: National central banks. Note: *Core CPI (inflation) removes volatile food and energy prices from headline CPI.*

TIPS yields change over 6 months has just turned negative which is positive for Gold given their inverse correlation.



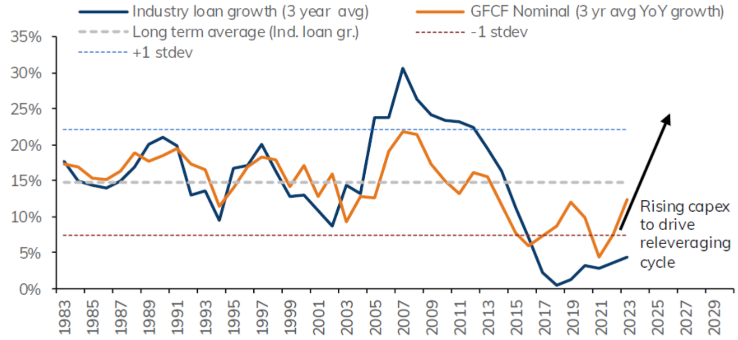
Source: Bloomberg

INDIA MACRO: LOW COST OF CAPITAL INDICATES MARKET FROTH

India has transitioned seamlessly over the decades, where its citizens gradually but slowly transformed from savers to investors. In the olden era, many Indians had little confidence in financial assets, but only in real assets like real estate and Gold. However, a series of structural reforms like IBC, GST, Infra build, PLI, RERA, Digitization, JAM, Banks and Corporate balance-sheet deleveraging, etc, won the trust of the average Indian saver. They started believing in the potential of India Inc. which led them to take the plunge from investing in physical assets to financial assets to the point where Fixed Deposits were also cast aside. Equities have become the norm for every saver/investor now. Issuers are now flooded with capital – every alternate day, one hears of an SME corporate asking for Rs. X Cr. via IPO but receives subscriptions up to Rs. 1000X! Industrial credit growth is currently anemic for the above reasons, and business owners have a new discipline in borrowing, thanks to bankruptcy laws. India's capex story certainly boasts of a tremendous impetus from GFCF formation (PLIs, supply-side reforms, etc.), which no doubt will require corporates to raise capital – whether from capital markets (debt or equity) or old-fashioned bank loans is the question. The financial model for financing India's growth to a $30 trn. by 2047 would need to sort itself out quickly via natural market equilibrium, or else a bubble is the only option for a hard reset.

Will India Inc. resort to bank debt for future growth?

Exhibit 2: Empirical evidence pointing towards significant industry re-leveraging cycle ahead given the low base and capex cycle beginning to fire on all cylinders



Source: CEIC, I-Sec Research

Investment cycle to propel GDP growth

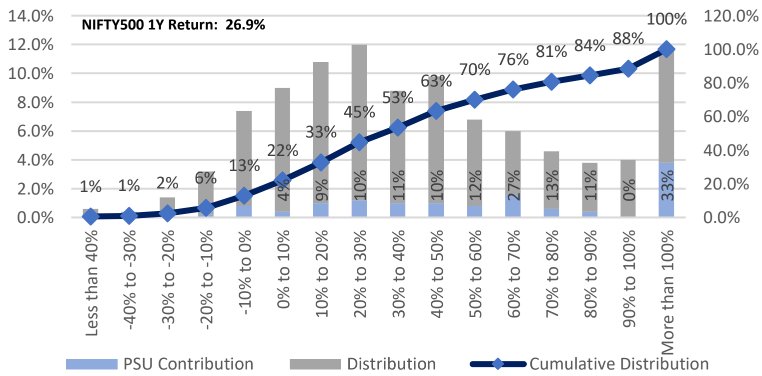
	GDP	C	G	I	X	M
Contribution to GDP (FY23)	100.0%	58.5%	9.9%	36.2%	23.5%	25.6%
Average FY03 - 08 Growth	8.8%	7.5%	5.8%	18.7%	17.8%	20.1%
Average FY09 - 12 Growth	6.2%	5.9%	9.3%	6.8%	11.3%	14.3%
Average FY13 - 22 Growth	5.6%	6.0%	5.1%	5.0%	4.9%	3.1%
Average FY23 Growth	7.2%	7.5%	0.1%	9.1%	13.6%	17.1%

Source: Govt of India

INDIA EQUITIES: EQUITIES SENTIMENT REMAINS BUOYANT

High-frequency economic indicators might exhibit noise intermittently due to seasonality or changes in demand spurting festive periods between comparable periods. The IIP and the trade deficit data for Nov-23, wherein the holiday season skewed the growth (Oct-22/23 had many/fewer holidays; Nov-22/23 reversed). Nevertheless, on a moving average basis, the economic situation remains rosy. Given likely sustained political continuity, Indian equities remain bullish. India seems to be in a Goldilocks cycle, with GDP growth expected to be mainly driven by investments. Consumption is currently weak because of supply and demand constraints, but the former should likely be addressed via the investment driver. Exports have picked up recently mainly because of services, but any global macro environment slowdown could dampen here going forward. Should consumption pick up in the next phase of growth (post-investment phase), then imports would likely also remain elevated. For CY23, the broader market returns have been right-skewed, with most of the right-side-fat-tail dominated by PSUs outperformance.

NIFTY500 Returns Distribution has Fat Right Tail thanks to PSUs



Source: Bloomberg

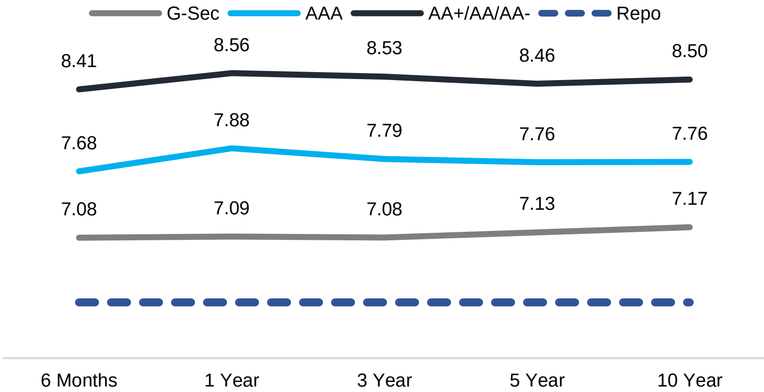
We remain Neutral between Equities and Bonds, maintaining strategic Asset Allocation. Within Large and Mid-caps, **we remain OW on Large caps but tone it down to two notches vs previously three notches OW**.

INDIA FIXED INCOME: 2024 - YEAR OF THE BOND

In 2023, the global economy surpassed expectations, exhibiting robust growth. Initially, central banks globally were increasing interest rates, but this momentum slowed, leading many to adopt a pause. India's fixed-income markets maintained stability throughout 2023, with yields experiencing a slight year-on-year decrease. The Reserve Bank of India (RBI) implemented a 25-basis points rate hike in February 2023 and has since maintained a pause from April onwards. India's domestic macro indicators portray resilient economic growth compared to major peers. The expectation is for the RBI to sustain steady rates in the first half of 2024, with a likelihood of rate cuts later in the year due to disinflationary trends. The fixed-income markets outlook in 2024 appears optimistic, potentially benefiting from capital gains from expected rate cuts. Analysis suggests a positive outlook for the medium to long duration of the yield curve. Historical patterns indicate that yields in the mid to long end of the curve react early to changes in the interest rate cycle. Therefore, the 3-6-year range in the medium-duration segment of the yield curve is deemed attractive from a risk-reward perspective. In the short term, yields are expected to trade within a narrow range. Specifically, the 10-year government security (g-sec) will likely trade in the 7.00-7.30% range. Short-term movements in the yield curve may be influenced by liquidity surplus or deficit conditions, as no immediate rate easing actions are expected. **Maintaining an overweight position on the medium to long-duration segment** of the yield curve is advised, considering recent yield levels and attractive carry. Despite narrow credit spreads, **an overweight position in Government Securities (G-Sec) is retained compared to Corporate Bonds**.

Debt Market Snapshot

Yield Levels as of December 29, 2023

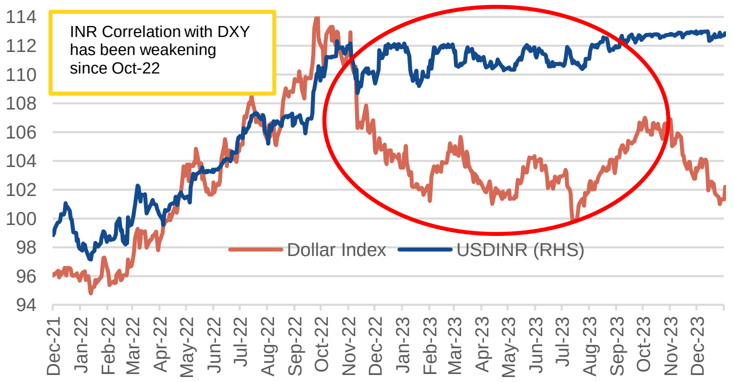


Source: Bloomberg, as on 31st December,2023

CURRENCY: RBI OVERLY STABILIZING THE INR

Since Oct-22, the INR has been exceptionally lackluster, flatlining in CY23. The period post-Oct-22 saw the DXY reaching lows of 99.7 in July-23. But, the INR remained unperturbed, ranging at 81.12-83.40 in 2023 (barely flat in the last 3M) and with 1Y vols as low as 3.4% vs. the EM average of 12.3%. In its recent review, the IMF reclassified India's FX rate regime to "stabilized arrangement" from "floating" for Dec-22-Oct-23, indicating excessive intervention. The RBI has opposed this, calling it myopic, data- and time-selective, and asserted that any policy assessment needs to be viewed over a longer term of 2-5 years. The INR has weakened considerably over the last 5 years in terms of depreciation vs. the USD, but this time around India boasts of a structurally long-term revival in fundamentals which could attract portfolio in-flows which should lessen this traditional depreciation bias. **Consequently, we turn one notch OW on the INR.**

INR no longer appears to be a floating currency



Source: Bloomberg

TACTICAL ASSET ALLOCATION (TAA) VIEWS & PERFORMANCE

Asset Class Pairs	View	Favouring	Start Date	End Date / Open	Call Status	Alpha Return
Equities Vs Bonds	Positive	Equities	31-Dec-18	30-Apr-19	Close	5.90%
Large Cap Vs Mid Cap	Negative	Mid Cap	31-Dec-18	31-Jan-20	Close	-8.00%
Short Term Vs Long Term	Positive	Short Term	30-Nov-18	31-Dec-21	Close	-6.00%
USD / INR	Positive	USD	30-Nov-18	31-Jan-19	Close	2.20%
USD / INR	Positive	USD	31-Mar-19	30-Apr-19	Close	0.60%
USD / INR	Positive	USD	31-Jul-19	31-Dec-19	Close	3.70%
Gold Vs Cash	Negative	Cash	30-Nov-18	28-Feb-19	Close	-7.60%
Gold Vs Cash	Positive	Gold	31-Mar-19	30-Jun-21	Close	32.00%
Equities Vs Bonds	Positive	Equities	30-Nov-20	30-Apr-21	Close	11.80%
USD / INR	Negative	INR	31-Dec-20	31-Jan-21	Close	0.20%
USD / INR	Positive	USD	28-Feb-21	31-May-21	Close	-1.20%
USD / INR	Negative	INR	31-Aug-21	30-Sep-21	Close	-1.70%
Large Cap Vs Mid Cap	Negative	Mid Cap	31-Oct-20	30-Nov-21	Close	26.70%
Equities Vs Bonds	Positive	Equities	31-May-21	30-Nov-21	Close	8.90%
Short Term Vs Long Term	Positive	Short Term	30-Nov-18	31-Dec-21	Close	-5.90%
USD / INR	Positive	USD	31-Oct-21	31-Dec-21	Close	-0.70%
Gold Vs Cash	Positive	Gold	31-Jul-21	31-Jan-22	Close	-2.60%
Large Cap Vs Mid Cap	Positive	Large Cap	31-Dec-21	30-Apr-22	Close	0.90%
Gold Vs Cash	Positive	Gold	28-Feb-22	31-May-22	Close	-1.80%
Short Term Vs Long Term	Positive	Short Term	28-Feb-22	30-Jun-22	Close	2.20%
USD / INR	Positive	USD	31-Jan-22	31-Jul-22	Close	6.20%
Large Cap Vs Mid Cap	Positive	Large Cap	30-Jun-22	31-Jul-22	Close	-2.80%
Equities Vs Bonds	Positive	Equities	31-Dec-21	30-Sep-22	Close	0.80%
USD / INR	Negative	INR	31-Jul-22	30-Sep-22	Close	-2.60%
Large Cap Vs Mid Cap	Negative	Mid Cap	31-Jul-22	30-Nov-22	Close	-0.60%
USD / INR	Positive	USD	30-Sep-22	30-Nov-22	Close	0.10%
Gold Vs Cash	Negative	Cash	30-Jun-22	30-Sep-22	Close	6.50%
Equities Vs Bonds	Positive	Equities	31-Oct-22	31-Dec-22	Close	-2.00%
Large Cap Vs Mid Cap	Positive	Large Cap	30-Nov-22	31-Dec-22	Close	-1.80%
USD / INR	Negative	INR	31-Dec-22	31-Jan-23	Close	1.00%
Large Cap Vs Mid Cap	Negative	Mid Cap	31-Dec-22	31-Jan-23	Close	1.00%
Large Cap Vs Mid Cap	Positive	Large Cap	31-Jan-23	28-Feb-23	Close	-1.10%
USD / INR	Positive	USD	28-Feb-23	31-Mar-23	Close	-0.60%
Large Cap Vs Mid Cap	Positive	Large Cap	31-Mar-23	30-Apr-23	Close	1.70%
Corp Bonds Vs G-Secs	Positive	Corp Bonds	30-Nov-18	30-Jun-23	Close	7.80%
Short Term Vs Long Term	Positive	Short Term	30-Nov-22	30-Jun-23	Close	-0.97%
Equities Vs Bonds	Positive	Equities	31-Mar-23	30-Jun-23	Close	8.10%
Gold Vs Cash	Positive	Gold	30-Nov-22	31-Jul-23	Close	8.80%
USD / INR	Negative	INR	30-Apr-23	31-Aug-23	Close	-1.20%
Large Cap Vs Mid Cap	Negative	Mid Cap	31-Jul-23	31-Jul-23	Close	6.10%
Gold Vs Cash	Negative	Cash	30-Sep-23	31-Oct-23	Close	-6.32%
USD / INR	Positive	USD	30-Sep-23	31-Dec-23	Close	0.20%
Short Term Vs Long Term	Negative	Long Term	30-Jun-23	31-Dec-23	Open	-0.54%
Corp Bonds Vs G-Secs	Negative	G-Secs	31-Jul-23	31-Dec-23	Open	-0.10%
Large Cap Vs Mid Cap	Positive	Large Cap	30-Sep-23	31-Dec-23	Open	-2.00%
Gold Vs Cash	Positive	Gold	31-Dec-23	31-Dec-23	Open	0.00%
USD / INR	Negative	INR	31-Dec-23	31-Dec-23	Open	0.00%

M-o-m Summary	Equity vs Bonds	Large vs Mid	Corp. Bond vs. G-Secs	ST vs LT	USD vs. INR	Gold vs Cash
% of Months calls issued	53.2%	79.0%	98.4%	88.7%	62.9%	83.9%
Success Ratio (%)	63.6%	47.9%	58.3%	53.7%	57.9%	58.8%
Avg. positive alpha	4.3%	2.4%	0.5%	0.6%	1.2%	3.8%
Avg. negative alpha	-2.7%	-2.4%	-0.5%	-0.9%	-0.9%	-3.4%
Avg. alpha	1.8%	-0.1%	0.1%	-0.1%	0.3%	0.8%

Source: Bloomberg. Assuming a 6% annualised yield for cash.

GLOBAL ASSET PERFORMANCE SNAPSHOT

	Asset	Current	1m	3m	6m	1y		Current	1m	3m	6m	1y
	Equities						Commodities					
Global	S&P 500 INDEX	4,770	4.4%	11.2%	7.2%	24.2%	TR Commodity CRB Index	263.8	-3.6%	-7.3%	0.7%	-5.0%
Global	EURO STOXX 50 Price EUR	4,521	3.2%	8.3%	2.8%	19.2%	Indian Crude Oil Basket	77.2	-8.3%	-20.4%	1.3%	-2.0%
Global	FTSE 100 Index	7,733	3.7%	1.6%	2.7%	3.8%	Brent	77.0	-7.0%	-19.2%	2.9%	-10.3%
Global	Nikkei 225	33,464	-0.1%	5.0%	0.8%	28.2%	Gold	2,063.0	1.3%	11.6%	7.5%	13.1%
India	NSE Nifty 50 Index	21,731	7.9%	10.7%	13.2%	20.0%	Aluminium	2,351.5	8.6%	0.5%	10.9%	0.1%
India	NIFTY Midcap 100	46,182	7.6%	13.9%	29.2%	46.6%	Copper	389.1	1.6%	4.1%	4.0%	2.1%
India	NIFTY Smallcap 100	15,144	6.9%	18.8%	39.7%	55.6%	Corn	471.3	2.1%	-1.2%	-15.0%	-30.5%
India	NSE Nifty 500 Index	19,429	8.0%	12.4%	18.3%	25.8%	Soyabean	1,298.0	-4.7%	-0.9%	-2.1%	-7.3%
	Fixed Income						Currencies					
Global	US Generic Govt 10 Yr	3.88%	4.33%	4.57%	3.84%	3.87%	Dollar Index	101.33	-2.1%	-4.6%	-1.5%	-2.1%
Global	German Bunds	2.02%	2.45%	2.84%	2.39%	2.57%	EUR/USD	1.10	1.4%	4.4%	1.2%	3.1%
Global	JGB 10Yr Comp Yield	0.65%	0.69%	0.77%	0.43%	0.45%	USD/JPY	141.04	-4.8%	-5.6%	-2.3%	7.6%
Global	UK Gilts 10 Yr	3.54%	4.18%	4.44%	4.39%	3.67%	GBP/USD	1.27	0.8%	4.4%	0.2%	5.4%
Global	China 10Y	2.56%	2.69%	2.68%	2.64%	2.84%	USD/CHF	0.84	-3.9%	-8.1%	-6.1%	-9.0%
India	India 10Y	7.17%	7.28%	7.22%	7.12%	7.33%	USD/CNY	7.10	-0.5%	-2.7%	-2.1%	2.9%
India	India 1Y	7.09%	7.13%	7.02%	6.87%	6.87%	USD/HKD	7.81	0.0%	-0.2%	-0.3%	0.1%
India	India 10Y AAA	7.76%	7.84%	7.70%	7.63%	7.72%	USD/INR	83.21	-0.2%	0.2%	1.4%	0.6%
India	India 1Y AAA	7.91%	7.79%	7.58%	7.43%	7.61%	USD/CAD	1.32	-2.3%	-2.5%	0.0%	-2.3%

Source: Bloomberg Equity/Fixed Income Returns/Yields in local currencies. Commodities in USD. Numbers for Fixed Income are Yields as of December 31, 2023.

Glossary:

***US**: United States, **UK**: United Kingdom, **NDA**: National Democratic Alliance, **CY**: Calendar Year, **OW**: Overweight, **UW**: Underweight, **EM**: Emerging Markets, **FOMC**: Federal Open Market Committee, **DM**: Developed Markets, **IG**: Investment Grade, **HC**: Hard Currency, **HY**: High Yield, **TIPS**: Treasury Inflation Protected Securities, **OPEC**: Organization of the Petroleum Exporting Countries, **YOY**: Year on Year, **IBC**: Insolvency and Bankruptcy Code, **GST**: Goods and Services Tax, **PLI**: Production Linked Incentive, **RERA**: Real Estate Regulatory Authority, **JAM**: Jan Dhan Yojana, Aadhaar and Mobile number, **SME**: Small and medium-sized enterprises, **IPO**: Initial Public Offering, **GFCF**: Gross Fixed Capital Formation, **IIP**: Index of Industrial Production, **GDP**: Gross Domestic Product, **PSU**: Public Sector Undertakings, **INR**: Indian Rupee, **FX**: Foreign Exchange, **IMF**: International Monetary Fund, **DXY**: Dollar Index*

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