Wealth
India

MONTHLY INVESTMENT PERSPECTIVES DEC-23

GLOBAL MACRO: U.S. NOT GOING DOWN WITHOUT A FIGHT

U.S. and China have overshot Q3CY23 GDP expectations – U.S. arguably might just be at the peak of its economic cycle before it **troughs softly** into gentle recession. A slow-down in U.S. new capex orders, ISM Mfg. PMI and the rather weak unemployment report for Oct-23 overall sum up to a negative overhang of impending recession. U.S. net non-farm payrolls (NFP) increased by a modest 150,000 in Oct'23 (lower than consensus of 180,000), down sharply from the increase of 297,000 in Sep'23 (which itself was downwardly revised from the previously reported increase of 336,000). The unemployment rate has also edged up to 3.9% in Oct'23 (the highest since Jan'22).

GLOBAL EQUITIES: H2CY24 COULD SEE A RALLY AS RATES EASE

The completion of inventory destocking, rush orders, and overwhelming demand for Huawei's phones could trigger a cyclical recovery in smartphones. Besides, inflation is peaking and potential declines in interest rates in 2024 could lift consumption as smartphones remain the most used technology hardware, a recovery is likely from 2024. Edge AI could be the next big thing to take hold driving a new product cycle for smartphones We see smartphones' memory and SoC (system on Chip) as the best way to ride the trend, followed by other supply chains Android's suppliers are likely to outperform Apple's given its volume decline in 2022 but Huawei's return is likely to intensify competition among smartphone OEMs.

Overall, from a global allocation perspective, **the equity position is Neutral** (to stay close to defined/strategic allocations) **& Fixed Income focus is on IG Bonds.** We **remain OW on U.S. and Japan & turn OW on India, we remain 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 remain UW on Energy, Materials, Utilities, & Cons. Staples.**

GLOBAL FIXED INCOME: BONDS CHEAPLY VALUED

Prefer bonds over equities in H1CY24 as rates should fall in mid-2024. Bonds expected to offer attractive risk return due to **convexity**. Simulating under current conditions, on a total return basis, (incl. price movement, coupon carry, rolling down the yield curve), a 1% fall in U.S. 10Y results in a +12% gain and an equal rise in rates results in only, a -3% loss. Interest rate expectations are very volatile but can look for the Federal Reserve to start cutting rates in mid-2024. **We remain OW on DM IG bonds; Neutral on HC EM Bonds, Subordinated Debt & DM Sovereign Bonds, and UW on HY Bonds. We also turn OW on Duration** in advance of Fed easing.

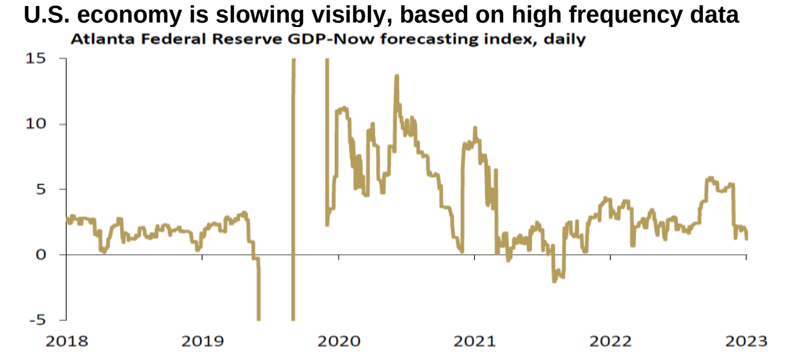
GLOBAL COMMODITIES: SURGING BULLION

Uncertainty over global fuel demand growth and persistent pressure from the OPEC+ decision is weighing on crude prices. OPEC+ did relent and announced production cuts but, it failed to provide any support to oil markets. Brent closed below $80 a barrel amid demand worries. On the other hand, the Baltic dry index which is seen as a barometer of global trade experienced a significant surge, reaching its highest level in a year and half. This surge is attributed to increased demand for iron ore and larger shipping vessels in market. Gold prices also surged and are now at a record high above $2150 levels. Markets bet that the Federal Reserve could begin cutting interest rates as soon as March 2024. Yellow metal appreciated sharply in recent sessions amid easing inflation, soft labor market data, and some less-hawkish signals from the Fed. Gold demand was fueled by the attack on American warships and commercial vessels in the Red Sea, ramping up concerns over an escalation in the Israel-Hamas war. **We remain neutral on Gold,** as some profit booking is expected at these multi-year highs.

On the output side, the U.S. economy has slowed down

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

U.S. economy is slowing visibly, based on high frequency data

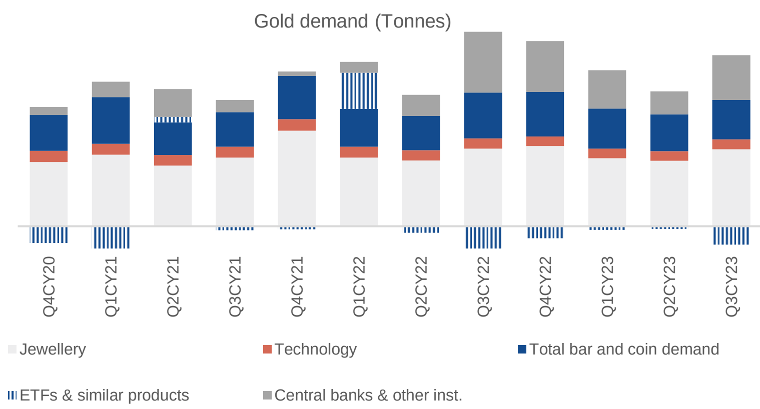


Source: U.S. Federal Reserve of Atlanta, LGT

Global equities earnings yield = USD corporate bond yield

Source: LGT, Bloomberg

Some revival in Gold Demand esp. Central Banks



Source: Bloomberg

INDIA MACRO: AN ENTRENCHED INVESTMENT IMPETUS

India's macro has remained buoyant with real GDP growth for Q2FY24 remaining resilient at 7.6% YoY. Much of the incremental GDP growth was driven by GFCF though Consumption (PFCE) maintains its lion's share of absolute GDP. Broad-based strength in imports have also played their part as the goods trade deficit has reached an all-time high in Oct-23 (USD31.5bn). Separately, services exports continue to maintain strength and can serve as a major USP for India vs. China. IIP for Sep-23 came in a tad lower (despite low base) but Oct-23 should bounce back as capex remains steadfastly robust. While announcements may have slowed down a bit given the state elections, the longer term investment drive should **fuel a probable relative rise in GFCF** (vs. consumption) that could **lead to a spike in savings** and hence a meaningfully stable CAD wherein the present trend is narrowing. Geopolitically, along with the G20, India is also a part of the India-Middle East-Europe Economic Corridor, that aims to stimulate economic development through enhanced connectivity between Asia, the Gulf, and Europe. India has also asserted its position in I2U2 and Quad. Quad is especially important because Australia, Japan, and the US share similar interests. Post COVID-19, India also wanted to safeguard its supply chains and diversify import sources, leading to more focused efforts in FTAs.

INDIA EQUITIES: Q2FY24 EARNINGS ROBUST

Post-Q2FY24 results, the listed corporate space's 'PAT/GDP' ratio rose sharply to 4.7% on a trailing twelve-month basis and is on course to exceed 5% by FY25. Earnings growth for the broader universe in Q2FY24 was robust on a free-float basis (excluding HDFC Bank) while earnings beat exceeded misses. Cyclicals drove profit growth by contributing most of the change in FF PAT (YoY) while defensives, led by IT, lagged. On the flip side, metals and telecom added the maximum to the loss pool while internet blunted some of the impact. Inflation can be expected to remain above 5% for next few months as the baton has now passed on from milk, cereals and tomatoes to **onions**. Hostage exchange updates emanating from the Middle-East war-stricken area also bodes well for equities. IPO frenzy has been a spot of bother in recent times, but vs. China India still remains **comfortably placed in terms of their contribution** to market cap growth.

We remain Neutral between Equities and Bonds, maintaining strategic Asset Allocation. Within Large and Mid-caps, there are earnings downgrades in the latter for both next year and the 2-Y forward outlooks. Consequently, **we retain our three notches OW on Large caps** amidst a slightly volatile macroeconomic environment.

INDIA FIXED INCOME: RBI POISED FOR STABILITY AS YIELDS REFLECT ECONOMIC DYNAMICS

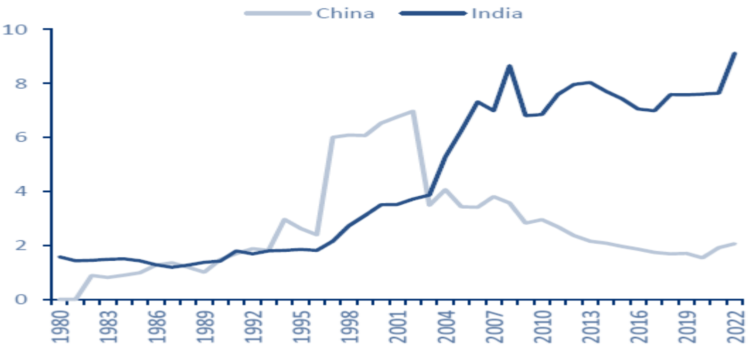
In November 2023, the 10-year benchmark government security (G-sec 7.18% GS 2033) closed at 7.28%, down from October's 7.36%. This 8 basis points (bps) decline resulted from favorable Consumer Price Index (CPI) figures and aligned with US bond yield movements. The shorter end of the yield curve experienced a slight uptick due to tightened liquidity, while the 5-10-year segment saw a decrease. The yield curve is flat, with the 1Y to 10Y spread moderating to 15 bps from October's 26 bps.

Considering current growth-inflation dynamics, with inflation stable and accelerated economic growth, the RBI is likely to maintain policy rates. The MPC will focus on liquidity management and encourage better credit behaviour to maintain financial stability. High-frequency economic indicators suggest a potential 20-30 basis points revision in growth projections. Contemplation of rate cuts by the MPC is expected after the first quarter of the next fiscal year. We anticipate yields trading in a narrow range, specifically expecting the 10-year government security (g-sec) to range between 7.10% and 7.35%. Given recent yield levels and an attractive carry, we **favor the medium to long-duration part of the curve**. Despite a narrow credit spread across maturities, we maintain an **overweight position in Government Securities** (G-Sec) compared to Corporate Bonds.

CURRENCY: MONETARY POLICY REVERSAL LOOMS FOR THE USD

The INR has remained largely detached from global events, showing a distinct lack of responsiveness to the prevailing weakness in the DXY and the falling US 10Y yields, which contracted nearly 3% and 60bps in Nov-23, respectively. Meanwhile, FPIs were prompted to turn net buyers of Indian Equities after 3 consecutive months of selling. While short-term stability for the INR may be supported by subdued U.S. inflation too, the upcoming macroeconomic data like the U.S. jobs report may be significant in ascertaining indications of a mild slowdown or a potential hard landing. The RBI's FX reserves of ~USD 598 bn, indicating an import cover of 10 months would support RBI interventions to contain INR volatility emerging from the US data. Net-net, **we remain one notch overweight on the USD**.

Service exports as % of nominal GDP



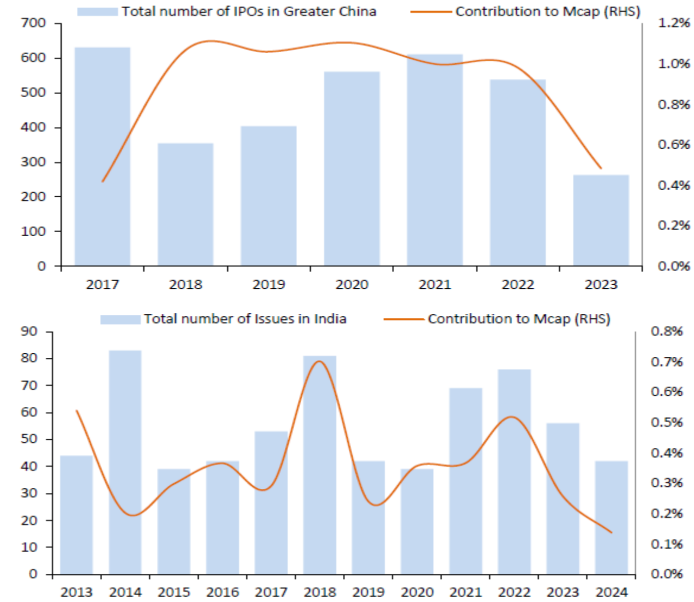
Source: World Bank, PhillipCapital

Listed Equities: Emerging battle-hardened

War details	Period	Correction in Nifty 50	1Y recovery in Nifty 50
Gulf	August-90	-28.5%	118.1%
Afghanistan	October-01	-21.8%	25.1%
Iraq	March-03	-14.5%	92.3%
Crimean	February-14	-3.2%	44.7%
Russia-Ukraine	February-22	-9.2%	21.6%
Israel-Hamas	October-23	-3.9%	+ ??

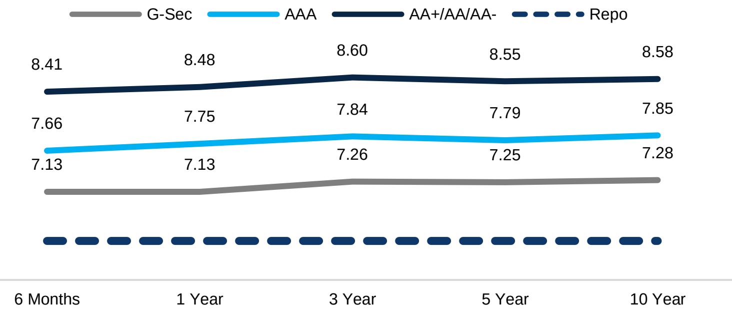
Source: Bloomberg

IPO contribution to Mcap growth at 0.15% for India vs 0.5% for China



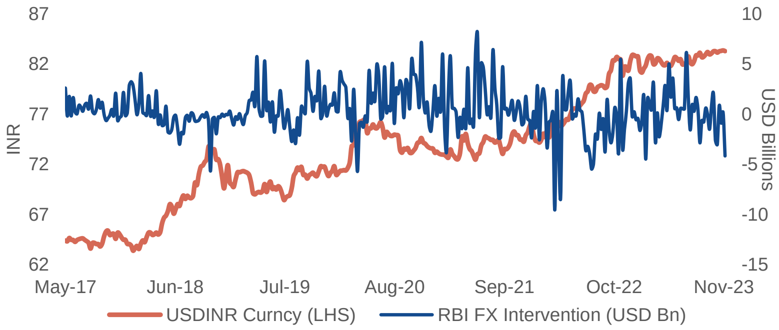
Source: Bloomberg

Debt Market Snapshot



Source: Bloomberg, as on 30th November,2023

RBI Actively Involved in INR Interventions



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%
Short Term Vs Long Term	Negative	Long Term	30-Jun-23	30-Nov-23	Open	-1.11%
Corp Bonds Vs G-Secs	Negative	G-Secs	31-Jul-23	30-Nov-23	Open	-0.40%
Large Cap Vs Mid Cap	Positive	Large Cap	30-Sep-23	30-Nov-23	Open	-2.70%
USD / INR	Positive	USD	30-Sep-23	30-Nov-23	Open	0.40%

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	54.1%	78.7%	98.4%	88.5%	62.3%	83.6%
Success Ratio (%)	63.6%	46.8%	57.6%	52.8%	59.5%	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
	Equities					
Global	S&P 500 INDEX	4,568	8.9%	1.3%	9.3%	12.0%
Global	EURO STOXX 50 Price EUR	4,382	7.9%	2.0%	3.9%	10.5%
Global	FTSE 100 Index	7,454	1.8%	0.2%	0.1%	-1.6%
Global	Nikkei 225	33,487	8.5%	2.7%	8.4%	19.7%
India	NSE Nifty 50 Index	20,133	5.5%	4.6%	8.6%	7.3%
India	NIFTY Midcap 100	42,909	10.4%	9.7%	27.1%	33.9%
India	NIFTY Smallcap 100	14,171	12.0%	15.7%	39.4%	42.1%
India	NSE Nifty 500 Index	17,988	7.1%	6.3%	14.1%	12.8%
	Fixed Income					
Global	US Generic Govt 10 Yr	4.33%	4.93%	4.11%	3.64%	3.61%
Global	German Bunds	2.45%	2.80%	2.46%	2.28%	1.93%
Global	JGB 10Yr Comp Yield	0.69%	0.95%	0.66%	0.45%	0.28%
Global	UK Gilts 10 Yr	4.18%	4.51%	4.36%	4.18%	3.16%
Global	China 10Y	2.69%	2.69%	2.58%	2.71%	2.92%
India	India 10Y	7.28%	7.36%	7.16%	6.99%	7.28%
India	India 1Y	7.13%	7.14%	7.01%	6.88%	6.84%
India	India 10Y AAA	7.84%	7.78%	7.62%	7.56%	7.71%
India	India 1Y AAA	7.79%	7.69%	7.68%	7.47%	7.53%

	Current	1m	3m	6m	1y
Commodities					
TR Commodity CRB Index	273.6	-2.7%	-2.9%	7.8%	-2.2%
Indian Crude Oil Basket	84.2	-4.5%	-3.9%	16.4%	2.8%
Brent	82.8	-5.2%	-4.6%	14.0%	-3.0%
Gold	2,036.4	2.6%	5.0%	3.8%	15.1%
Aluminium	2,166.0	-3.7%	-0.4%	-3.4%	-11.8%
Copper	382.9	4.9%	1.5%	5.3%	2.7%
Corn	461.8	-3.6%	0.2%	-22.3%	-30.2%
Soyabean	1,342.8	2.5%	-2.8%	16.1%	-4.1%
Currencies					
Dollar Index	103.50	-3.0%	-0.1%	-0.8%	-2.3%
EUR/USD	1.09	3.0%	0.4%	1.9%	4.6%
USD/JPY	148.20	-2.3%	1.8%	6.4%	7.3%
GBP/USD	1.26	3.9%	-0.4%	1.5%	4.7%
USD/CHF	0.88	-3.9%	-0.9%	-3.9%	-7.5%
USD/CNY	7.14	-2.5%	-1.7%	0.4%	0.6%
USD/HKD	7.81	-0.2%	-0.4%	-0.2%	0.0%
USD/INR	83.40	0.2%	0.7%	0.8%	2.4%
USD/CAD	1.36	-2.3%	0.4%	-0.1%	1.1%

Source: Bloomberg Equity/Fixed Income Returns/Yields in local currencies. Commodities in USD. Numbers for Fixed Income are Yields as of November 30, 2023.

Glossary:
US: *United States,* ***FOMC***: *Federal Open Market Committee,* ***UST***: *US Treasuries,* ***USD***: *United States Dollar,* ***NII***: *Net Interest Income,* ***YTD***: *Year to Date,* ***IG***: *Investment Grade,* ***OW***: *Overweight,* ***UW***: *Underweight,* ***EM***: *Emerging Markets,* ***CDS***: *Credit Default Swap,* ***GFC***: *Global Financial Crisis,* ***DM***: *Developed Markets,* ***HC***: *Hard Currency,* ***HY***: *High Yield,* ***FII***: *Foreign Institutional Investors,* ***RBI***: *Reserve Bank of India,* ***OMO***: *Open Market Operations,* ***NBFC***: *Non-Banking Financial Company,* ***FMCG***: *Fast Moving Consumer Goods,* ***PAT***: *Profit after Tax,* ***NPA***: *Non-Performing Asset,* ***AI***: *Artificial Intelligence,* ***EV:*** *Electronic Vehicle,* ***ISM***: *Institute of Supply Management,* ***MPC***: *Monetary Policy Committee,* ***DXY***: *Dollar Index,* ***INR***: *Indian Rupee,* ***JPY***: *Japanese Yen,* ***REER***: *Real effective exchange rate,* ***FX***: *Foreign Exchange*

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