Wealth
India

MONTHLY INVESTMENT PERSPECTIVES MAR-24

GLOBAL MACRO: GEOPOLITICS TAKES CENTERSTAGE

Global growth has recently gotten an upgrade with the IMF bumping up the growth estimate for CY24 by 0.2% to 3.1% thanks to resilience in DMs (mainly the U.S.). Statistically though, growth of major economies are still predicted at levels lower than global average implying that growth has to be driven by EMs like India. The Red Sea though, is being a spot of bother in the overall picture; for instance India to Europe's transit time has doubled to thirty days via the Cape of Good Hope. China's slowdown and property crisis, wherein property prices are now being quoted on average at a 20x multiple to one's income in China remains a concern. India's business return seems to be playing a handsome catch up.

GLOBAL EQUITIES: U.S. EQUITIES ROBUST

US equities have been consistently delivering high growth and exceptional profitability. Strong innovation may continue to sustain U.S. market outperformance in coming cycles. U.S. Manufacturing PMI for Feb-24 rose to 52.2. vs. 50.7 in Jan-24 – this is the highest reading since Jul-22 driven by new orders and output growth. The University of Michigan consumer sentiment faltered in late Feb-24 as current views of the economy and the outlook deteriorated, marking a reversal from earlier in the month that showed a pickup in optimism. The sentiment index declined to 76.9 from a preliminary reading of 79.6. Despite the drop, sentiment has largely been improving in the last two years as inflation has retreated without much damage to the economy.

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: INFLATION TAMED, INDIA AND U.S. IN FOCUS

U.S. Core PCE inflation rose by 0.4% in Jan-24, which was the largest monthly increase in a year. PPI also saw similar moves. While start-of-the-year price increases were anticipated, the strength in owners' equivalent rent – the largest component of core CPI – bears monitoring. However, ongoing disinflation in goods and services as the labour market rebalances should allow the Fed to commence rate cuts this year, at least. Meanwhile, Indian government local bonds will be included in the JPM Government Bond Index Emerging Markets (GBI EM Index) with a maximum weight of 10% starting in Jun-24 This should result in potential billions of inflows into the Indian bond market that helps the country's current account and fiscal deficits.

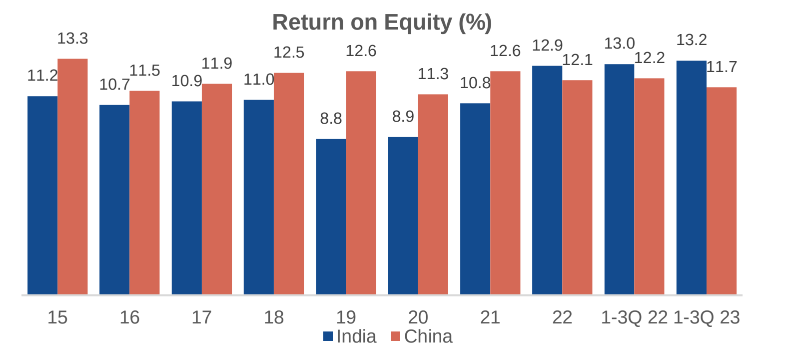
We remain OW on DM IG bonds, Neutral on HC EM Bonds, Subordinated Debt & DM Sovereign Bonds, and UW on HY Bonds. We also remain OW on Duration in advance of Fed easing.

GLOBAL COMMODITIES: IRON ORE SLUMP, STEEL TO FOLLOW?

OPEC+ output cuts is expected to cushion the market amid global concerns and rising output outside the group, with Russia's announcement surprising market. On the other hand, elevated production and inventory kept steel prices in check. Demand for steel is subdued with CISA mills inventory rising 18% in mid Feb vs early Feb. Iron ore prices, which was resilient despite the gloomy outlook from China, have come off since the end of Lunar New Year holiday. Gold rallied to the highest in nine weeks, driven by the aftermath of a U.S. inflation report that revealed a slightly cooler than expected reading.

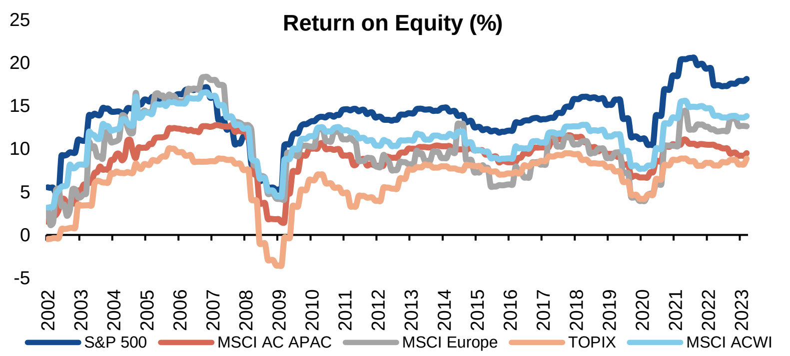
Consequently**, we remain one notch OW on Gold** on the back of dollar weakness.

India and China ROE trajectories



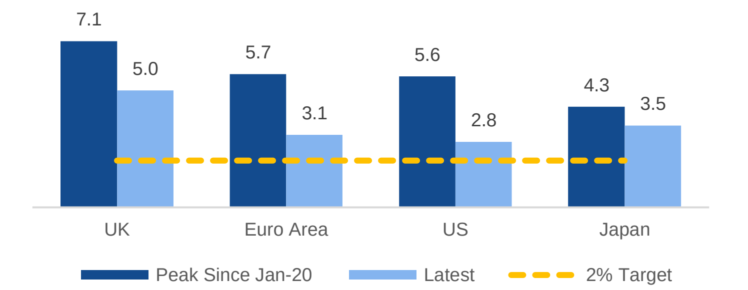
Source: Bloomberg, Aletheia Capital

Robust U.S. ROEs



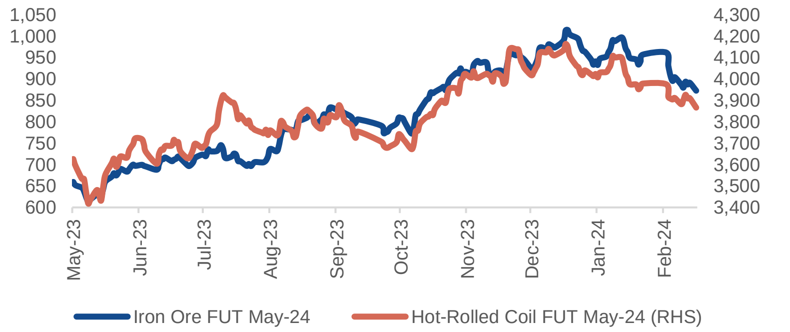
Source: Bureau of Economic Analysis, LGT

Disinflation on track despite minor bump (annual core inflation (%))



Source: Goldman Sachs Asset Management, Macrobond. As of Jan-24. U.S. denotes core PCE inflation. Japan denotes national core CPI inflation (excludes fresh food and energy).

Iron Ore and Steel prices could portend weakness (CNY/MT)



Source: Bloomberg

INDIA MACRO: EVENTFUL FISCAL AND MONETARY FEBRUARY

India had a "macro-economical" month of Feb-23 starting with the fiscally prudent interim budget, flowing onwards to a monetary policy meeting reeking of a tightening bias that got followed up by a circulation of the minutes for the same. In between, exim trade data, inflation, and IIP had their fair share of the limelight. Broadly, India remains a preferred investment destination amidst a rapidly evolving global backdrop thanks to the Red Sea and multiple regional geopolitical forces. Prime Minister Modi's focus on Garib (poor), Youth, Annadata (farmer), Nari-shakti (woman power) should paint an attractive cover to the underlying book comprising multiple pages of infrastructure driven growth accompanied by a watchful central bank conscious of balancing growth with inflation. Household assets are likely to increase given the top-down tailwinds from an economy further expected to generate a CAD surplus, export-driven growth over and above an expectedly resilient consumption demand evident from the latest NSSO's Household Consumption survey. This should ultimately trickle down to India growth having ample catch-up room vs. other nations by a structural shift in consumption.

INDIA EQUITIES: ALL EYES ON THE PSU FROTH

Starting with headline numbers, for CY23 it is a well known fact that MFs and FPIs have been major buyers of Indian stocks. The other side of this trade has been majorly promoters (40%), other foreign investors (mostly FDI) (38%), retail (16%), and insurance companies (6%). Specifically, PSUs have caught many investors', traders' and other market participants' fancy within broader markets. From point of view of fundamental long term investing, a reasonable improvement in ROEs (13.5% vs. 11% average) and margins (7.5% vs. 6% average) for the BSE PSU Index is acknowledged, but valuations are stretched at +1SD vs. history (esp. Industrial PSUs). From a supply-demand (technical) perspective, no FII crowding has pushed PSU share prices. Even DIIs have been reducing their ownership in PSU names (13.7% now vs. 10yr avg of 14.6%) and increasing in non-PSU (15.7% now vs. 10yr avg of 12.8%) over the last year, implying that Retail investors have been the main demand driver.

We remain Neutral between Equities and Bonds, maintaining strategic Asset Allocation. Within Large and Midcaps, **we stay two notches OW on Large caps vs midcaps**(prefer large caps).

INDIA FIXED INCOME: 2024 - YEAR OF THE BOND

India's real GDP expanded by 8.4% year-over-year in the fourth quarter of the 2023 calendar year, contributing to a robust 7.7% growth for the full year. This performance underscores India's resilience compared to its major counterparts. Moreover, in January, headline inflation moderated to 5.1% year-on-year, following its peak in December. Core inflation, which has remained below the 4% mark for two consecutive months, also decreased to 3.6% year-on-year. Given these favourable domestic macroeconomic indicators and the inflation comfortably within target, any immediate policy easing seems unlikely. The RBI anticipates maintaining steady rates in the first half of 2024, with potential rate cuts later in the year, driven by disinflationary trends.

The Indian Sovereign Yield curve exhibits an inverted structure, with the 1-year T-bill trading around 7.10 levels, while the 10-year G-sec hovers around 7.05 levels. This inversion suggests a market preference for longer-dated securities, possibly in anticipation of an impending rate-easing cycle. Conversely, tighter liquidity conditions have kept the shorter end of the yield curve anchored at higher levels.

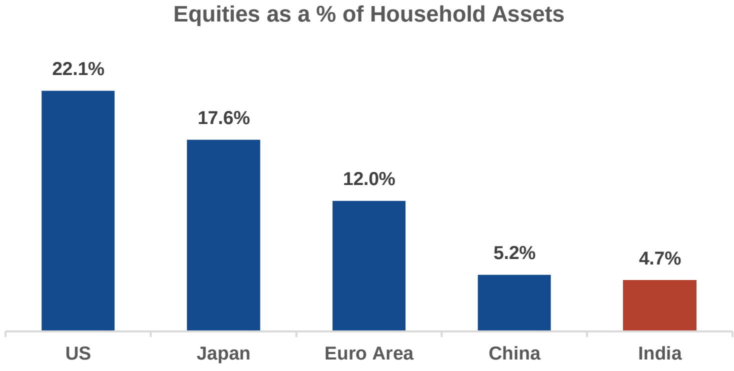
Our outlook remains positive for the medium to long duration of the yield curve, as these segments tend to react more promptly to changes in the interest rate cycle. Therefore, we find the 3-6-year range in the medium-duration segment particularly attractive from a risk-reward standpoint. In the short term, yields are expected to remain within a narrow range, with the 10-year government security (g-sec) likely trading between 6.95% and 7.15%. Liquidity conditions may influence short-term movements in the yield curve, as no immediate rate easing measures are anticipated.

We continue to advocate for an overweight position in the medium to long end of the yield curve. Additionally, given the narrowing of credit spreads across various maturities and from a duration perspective, we maintain our overweight recommendation for Government Securities (G-Sec) over Corporate Bonds.

CURRENCY: USD CARRY TRADE OFFERS WEAK PROSPECTS

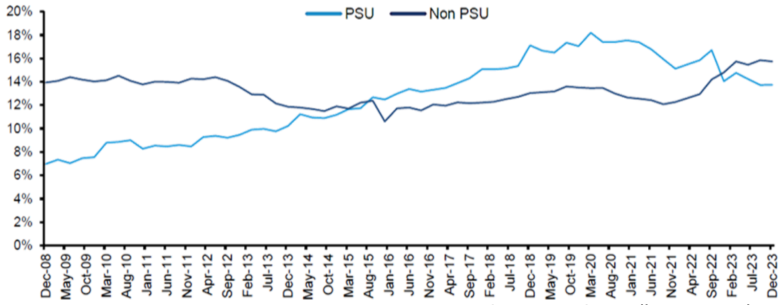
Since the Fed had indirectly initiated towards the end of CY23 that some form of a rate environment easing was on the cards the carry trade for the USD has likely wound up. At the current juncture, the INR is likely to have additional support from MSCI's quarterly rebalancing passive inflows towards Indian equities to the tune of as much as $1.2 bn starting 29-Feb-24. India being a large importer of Oil might stand to benefit in the form of potential INR appreciation given likely weaker USD in which most Oil trade is executed. India's own macro-economic background is robust both in the short and in longer term. **Consequently, we remain one notch OW on the INR.**

India's saving share in equities is the lowest among major economies



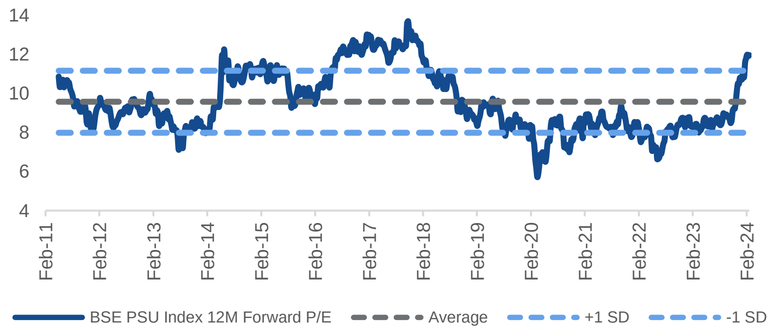
Source: RBI, Flow of Funds, Jefferies

PSU vs Non-PSU: DII Ownership (%) - Mcap Weighted



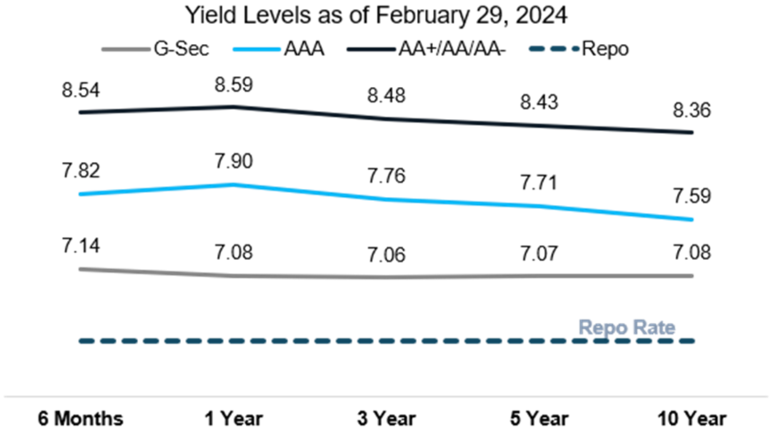
Source: BSE India, Bernstein

Headroom might still be available in terms of BSE PSU valuation



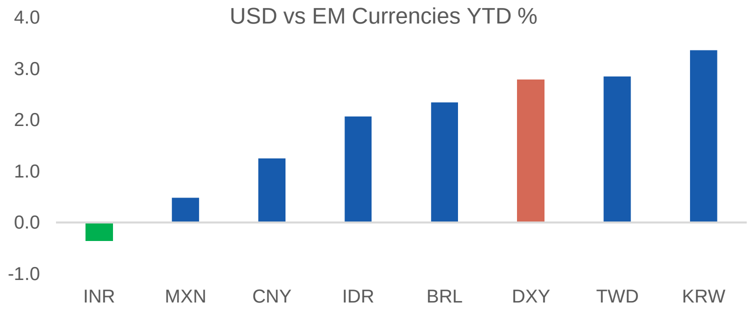
Source: Bloomberg

Debt Market Snapshot



Source: Bloomberg

Dollar index strengthened, but INR stands tall YTD



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	29-Feb-24	Open	1.64%
Corp Bonds Vs G-Secs	Negative	G-Secs	31-Jul-23	29-Feb-24	Open	-0.15%
Large Cap Vs Mid Cap	Positive	Large Cap	30-Sep-23	29-Feb-24	Open	-4.17%
Gold Vs Cash	Positive	Gold	31-Dec-23	29-Feb-24	Open	-2.16%
USD / INR	Negative	INR	31-Dec-23	29-Feb-24	Open	0.36%

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	51.6%	79.7%	98.4%	89.1%	64.1%	84.4%
Success Ratio (%)	63.6%	48.0%	58.1%	55.4%	60.0%	58.5%
Avg. positive alpha	4.3%	2.4%	0.5%	0.6%	1.1%	3.7%
Avg. negative alpha	-2.7%	-2.4%	-0.5%	-0.9%	-0.9%	-3.3%
Avg. alpha	1.8%	-0.1%	0.1%	0.0%	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	5,096	5.2%	11.6%	13.1%	28.4%	TR Commodity CRB Index	275.1	1.0%	0.5%	-2.4%	1.9%
Global	EURO STOXX 50 Price EUR	4,878	4.9%	11.3%	13.5%	15.1%	Indian Crude Oil Basket	82.5	0.0%	-2.1%	-5.9%	0.1%
Global	FTSE 100 Index	7,630	0.0%	2.4%	2.6%	-3.1%	Brent	83.6	2.3%	1.0%	-3.7%	-0.3%
Global	Nikkei 225	39,166	7.9%	17.0%	20.1%	42.7%	Gold	2,044.3	0.2%	0.4%	5.4%	11.9%
India	NSE Nifty 50 Index	21,983	1.2%	9.2%	14.2%	27.0%	Aluminium	2,197.2	-2.4%	1.4%	1.1%	-6.0%
India	NIFTY Midcap 100	48,336	-0.5%	12.6%	23.6%	60.5%	Copper	383.5	-1.8%	0.1%	1.6%	-6.4%
India	NIFTY Smallcap 100	15,976	-0.3%	12.7%	30.5%	74.5%	Corn	415.8	-7.3%	-10.0%	-9.8%	-34.0%
India	NSE Nifty 500 Index	20,090	1.5%	11.7%	18.7%	38.4%	Soyabean	1,140.8	-7.5%	-17.1%	-17.7%	-15.2%
	Fixed Income						Currencies					
Global	US Generic Govt 10 Yr	4.25%	3.91%	4.33%	4.11%	3.92%	Dollar Index	104.16	0.9%	0.6%	0.5%	-0.7%
Global	German Bunds	2.41%	2.16%	2.45%	2.46%	2.65%	EUR/USD	1.08	-0.1%	-0.8%	-0.4%	2.2%
Global	JGB 10Yr Comp Yield	0.72%	0.74%	0.69%	0.66%	0.52%	USD/JPY	149.98	2.1%	1.2%	3.1%	10.1%
Global	UK Gilts 10 Yr	4.12%	3.79%	4.18%	4.36%	3.83%	GBP/USD	1.26	-0.5%	0.0%	-0.4%	5.0%
Global	China 10Y	2.35%	2.43%	2.69%	2.58%	2.91%	USD/CHF	0.88	2.7%	1.1%	0.1%	-6.1%
India	India 10Y	7.08%	7.14%	7.28%	7.16%	7.43%	USD/CNY	7.19	0.3%	0.8%	-1.0%	3.6%
India	India 1Y	7.11%	7.15%	7.13%	7.01%	7.32%	USD/HKD	7.83	0.1%	0.2%	-0.2%	-0.3%
India	India 10Y AAA	7.63%	7.68%	7.84%	7.62%	7.87%	USD/INR	82.91	-0.2%	-0.6%	0.2%	0.3%
India	India 1Y AAA	7.88%	7.89%	7.79%	7.68%	7.35%	USD/CAD	1.36	1.1%	0.1%	0.5%	-0.5%

Source: Bloomberg Equity/Fixed Income Returns/Yields in local currencies. Commodities in USD. Numbers for Fixed Income are Yields as of February 29, 2024.

Glossary:

CY: *Calendar Year,* ***IMF****: International Monetary Fund,* ***DM****: Developed Markets,* ***EM****: Emerging Markets,* ***US****: United States,* ***PMI****: Purchasing Managers' Index,* ***OW****: Overweight,* ***UW****: Underweight,* ***PCE****: Personal Consumption Expenditure,* ***PPI****: Producer Price Index,* ***CPI****: Consumer Price Index,* ***IG****: Investment Grade,* ***HC****: Hard Currency,* ***HY****: High Yield,* ***Fed****: Federal Reserve System,* ***OPEC****: Organization of the Petroleum Exporting Countries,* ***CISA****: China Iron and Steel Index,* ***IIP****: Index of Industrial Production,* ***CAD****: Current Account Deficit,* ***NSSO****: National Sample Survey Office,* ***MF****: Mutual Funds,* ***FPI****: Foreign Portfolio Investment,* ***FDI****: Foreign Direct Investment,* ***PSU****: Public Sector Undertakings,* ***ROE****: Return on Equity,* ***FII****: Foreign Institutional Investors,* ***DII****: Domestic Institutional Investors,* ***INR****: Indian Rupee*

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AMFI Registration No. ARN-201038; Portfolio Management Registration No. INP00007322