



Wealth India

# MONTHLY INVESTMENT PERSPECTIVES APR-24

## GLOBAL MACRO: HIGH GROWTH, WITH LOW INFLATION

Across the world in most regions, inflation appears to be largely tamed as seen in U.S., Eurozone, Japan and China (except probably for an unexpected uptick in Feb-24 due to demand resurgence from Lunar New Year). Simultaneously, Manufacturing PMIs have also seen some bottoming out and Japan and Eurozone latest readings are still sub-50, the pace of decline at least suggests some moderation. Services PMIs also for all have been robust and trending above the 50-mark indicating growth persistence. While high speed indicators paint a picture of cheerfulness, the U.S. elections could bring about a return to the regime of isolationism under Mr. Trump. Germany is already seeing Right Wing politics and the UK though not witnessing any such trends thanks to the Labour Party still has a mammoth problem to solve i.e. turning around after a decade of stagnation. The two wars (Russia-Ukraine and Israel-Hamas) has once again indirectly dragged the U.S. into playing the role of global policeman and has stretched directly as well as indirectly participating nations. On the other hand the **Eastern part of the world seems much more balanced** with China trying to emerge from Real Estate related problems and revive manufacturing. Taiwan, Korea, Vietnam seem in sweet spots with India also proving her mettle.

## GLOBAL EQUITIES: U.S. EQUITIES – HIGHER FOR HOW MUCH LONGER

U.S. equity markets have remained resilient over the medium term thanks to decent PMIs and durables goods orders. With the robust equity outperformance, pensions would need to **sell roughly \$22 billion in global stocks and buy \$17 billion of fixed income** in order to return to prior asset allocation levels, according to a recent estimate from Morgan Stanley. The US equity benchmark is on track to notch five straight months of gains from November through March — a feat only accomplished one other time this century in 2013. Now, traders are debating whether the road gets rougher for the rally to keep chugging along as stock valuations remain elevated relative to history.

**We remain OW on U.S, Japan & India, whereas we upgrade Europe to Neutral. Asia ex-Japan continues to be neutral while we remain UW on EM ex-Asia. Sectorally, we remain OW on Comm. Svcs., Info Tech, & Cons. Discretionary, upgrading Industrials to OW while downgrading Health Care to Neutral. We remain neutral on Real Estate and Financials while staying UW on Energy, Materials, Utilities, & Cons. Staples.**

## GLOBAL FIXED INCOME: FED STILL KEEPING EYE ON INFLATION

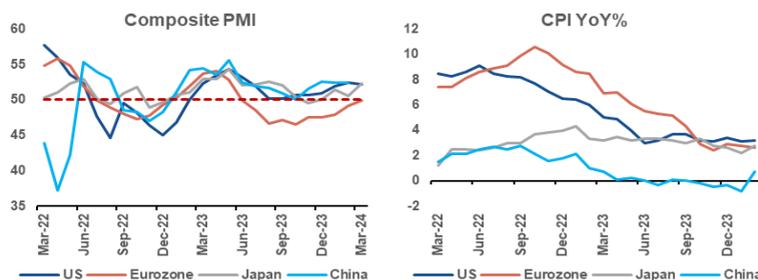
Bond traders are now pricing in less monetary-policy easing by the Federal Reserve this year — and briefly set the odds of a first move in Jun-24 below 50% — after a gauge of U.S. manufacturing activity by ISM showed expansion for the first time since 2022. Fed chairman Jerome Powell said the data on U.S. CPI supported the Fed's cautious approach to the first rate cut, and added that policymakers are still looking for more evidence that inflation is headed convincingly toward their 2% goal. **We remain OW on DM IG bonds and DM Sovereign Bonds, Neutral on HC EM Bonds & Subordinated Debt, and UW on HY Bonds. We also remain OW on Duration** in advance of Fed easing.

## GLOBAL COMMODITIES: CRUDE – WOULD THERE BE A BREAKOUT?

Productions cuts from OPEC+ has sustained oil prices and the next OPEC+ meeting is keenly awaited for possible policy signals. The combination of decreasing U.S. inventories, strong U.S. economic growth, continued OPEC+ production restraint, and geopolitical tensions affecting Russian refining capacities points to a potential supply crunch. Together with anticipated demand increases, this suggests a likelihood of rising oil prices shortly. Among industrial metals, copper prices rebounded from recent losses, moving back towards 11-month peaks after reports showed that Chinese copper smelters were proposing output cuts. Gold prices gain as investors await crucial US inflation data this week.

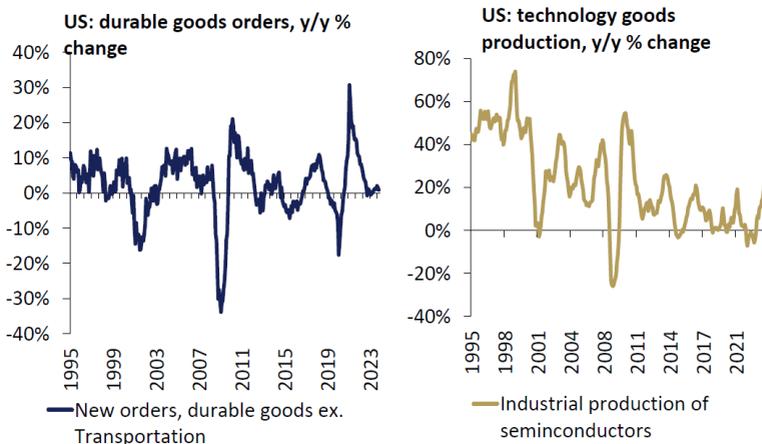
**Net-net, we remain one notch OW on Gold.**

## High Speed Indicators indicate good growth and calm inflation



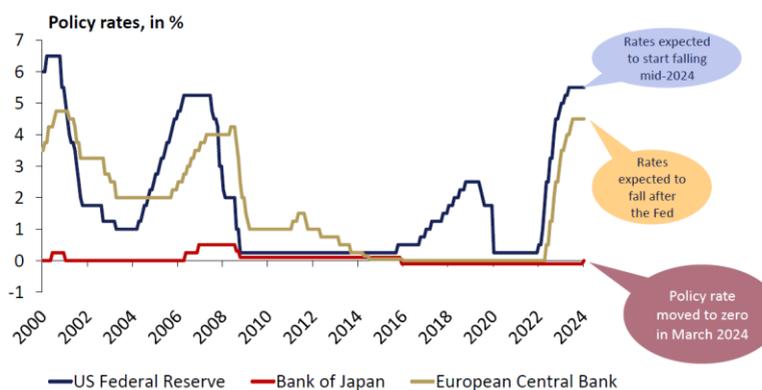
Source: Bloomberg

## Signs of technology hardware demand being resilient augur well for Durable Goods orders



Source: U.S. Bureau of Economic Analysis, LGT

## Interest rate expectations are very volatile



Source: National central banks, LGT

## Black-to-Yellow Gold Ratio touching +1SD



Source: Bloomberg

### Consumption: Lion's share moving at Snail's pace

	Q3FY24	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Units	INR Trn.	% YoY			
Real GDP	43.7	6.1%	8.2%	8.1%	8.4%
Consumption	29	2.7%	4.4%	3.9%	2.7%
Private	25.6	2.8%	5.3%	2.4%	3.5%
Government	3.4	2.3%	-0.1%	13.8%	-3.2%
GFCF	14.2	8.9%	8.5%	11.6%	10.6%
Change in stocks	0.5	5.9%	1.6%	10.7%	7.9%
Valuables	0.7	-23.4%	-21.2%	-1.1%	61.8%
Exports	9.7	11.9%	-6.5%	5.3%	3.4%
Imports	10.5	4.9%	15.3%	11.9%	8.3%
Discrepancies	0.1	2.9%	-183.0%	-122.6%	-105.2%

Source: CEIC, Elara

### INDIA MACRO: INDIA GDP'S CONSUMPTION CYLINDER MISFIRING

India's real GDP for Q3FY24 came in firing on all cylinders except on consumption. Consumption (Government plus Private) typically accounts for ~65% of real GDP. The balance is typically Gross Fixed Capital formation majorly as Ex-Im offsets, discrepancies etc. nullify each other. The latest NSSO consumption expenditure survey shows that while expenditure growth in rural areas has been higher than urban, inflation adjusted expenses growth has been meagre (MPCE 3.2% for rural vs. 2.8% for urban) since the start of the current CPI basket i.e. FY12. Certainly some form of easing is the doctor's orders. The RBI has discreetly done exactly as asked – though rates have not been tinkered with, the central bank has gradually kept on pumping funds into the system with **systemic liquidity now just about touching the surplus territory**.

### INDIA EQUITIES: DISSECTING THE PSU AND THE SMALL CAP

Market performance attribution can be sliced across any factor(s) of choice. Looking at two specific factors: market cap and house ownership i.e. PSU we can see that there is a **decent amount of froth in markets** attributed to these 2 factors. Small and micro caps have seen significant P/E re-rating (wherever applicable, given profitability) incommensurate with trailing earnings. Similarly, if we slice ADTV across liquidity buckets, the number of stocks in the rightmost bucket tend towards outlier levels – indicating high right skew in liquidity in small and mid caps – again incommensurate with business fundamentals where no such right tail is observed and hence warrants caution in Mid Caps. Moving on to the PSU factor: PSUs weight in the FPI portfolio has seen a decent increase from Mar-23 till Dec-23. However, **heavy weights SBI and PowerGrid are already seeing the brunt of FPIs cashing out**. On a similar note, in the same period, of the free-float, Non-institutional holdings has increased indicating that much of the buying support was **not provided by Promoters and / or Institutional support**.

**We remain Neutral between Equities and Bonds, maintaining strategic Asset Allocation. Within Large and Midcaps, we move from two notches to one notch OW on Large Caps vs Mid Caps.**

### INDIA FIXED INCOME: 2024 - YEAR OF THE BOND

The Indian fixed-income market wrapped up the fiscal year positively, with yields across the AAA and Sovereign curve witnessing a downward shift. This contrasted with the rising trend seen in the first half of the fiscal year. Specifically, the 10-year bond yield dropped to 7.06% on March 28th, 2024, from 7.31% on March 31, 2023. Corporate bond yields also saw a decline, ranging from 15 to 30 basis points depending on tenor.

Economically, India continues to enjoy robust growth momentum, driven by increased investments. While the Central Government has been spearheading capital expenditure, promising signs indicate the emergence of a private-led capex cycle.

Looking forward, we anticipate that the RBI will maintain a flexible stance until there is greater clarity on inflation trends and the US policy outlook. The news of lower planned borrowings in the first half of the upcoming financial year has been a welcome surprise, expected to initially support lower bond yields followed by lower inflation prints in H1FY25.

The Indian Sovereign Yield curve appears flat, with market preference leaning towards the longer end due to the anticipated rate easing cycle. Conversely, the shorter end of the curve remains anchored at higher levels due to tighter liquidity conditions.

**In light of these factors, we recommend an overweight position in the medium to long end of the yield curve, which typically responds early to changes in the interest rate cycle. Specifically, from a risk-reward perspective, we find the 5–10-year range in the medium-duration segment attractive. The short end of the yield curve may continue to be influenced by liquidity conditions, as immediate rate easing actions are not anticipated. Additionally, given the narrowing credit spread across various maturities and from a pure duration perspective, we maintain an overweight stance on Government Securities (G-Sec) compared to Corporate Bonds.**

### CURRENCY: RBI AN ASTUTE CURRENCY MANAGER

In FY24 Foreign Portfolio Investments (have been net buyers in both Equity (primary and secondary) and Debt segment with flows at INR 1.05 Lakh Cr. and INR 1.21 Lakh Cr. respectively). The positive long term growth story of India led by ~35% of its real GDP seeing a strong revival in capex and the remaining ~65% by a potential turn-around in ever-green Consumption (mainly rural) augurs well for the economy. Over and above this, the RBI has adeptly managed the INR and in fact, over the last three months the currency has outperformed most peers except the greenback. **Consequently, we remain one notch OW on the INR.**

### Dissecting small caps

Index	Market cap	TTM EPS Growth	P/E Expansion	Liquidity Histogram	ROE Histogram
Nifty	Large	17%	14%	Negligible	Slight Right Tail
Nifty Next 50		26%	29%		
Nifty Midcap 100	Mid	29%	22%	Slight Right Tail	Negligible
Nifty Smallcap 100	Small	23%	32%	Strong Right Tail	
Nifty Microcap 250	Micro	18%	56%	Right Tail	

Source: Capitaline, I-Sec

### Dissecting PSUs

	Mar-23	Dec-23
Total Mcap (INR Cr.)	25,762,355	36,271,654
FPI Holdings – Total (INR Cr.)	4,877,556	6,641,579
% of total Mcap	18.9%	18.3%
FPI Holdings – PSU (INR Cr.)	327,243	545,409
% of total FPI	6.7%	8.2%
SBI FPI (% of total FPI)	14.1%	11.5%
PowerGrid FPI (% of total FPI)	15.5%	12.3%
Non-insti (% of f-float)	20.9%	22.8%

Source: ACE Equity, all listed stocks as of Mar-24

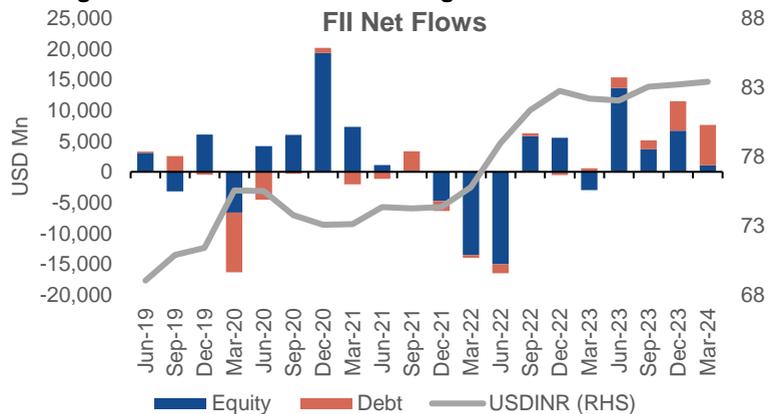
### Debt Market Snapshot

#### Yield Levels as of March 28, 2024



Source: Bloomberg

### Strong FPI flows as well as RBI management has held the INR



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-Mar-24	Open	2.06%
Corp Bonds Vs G-Secs	Negative	G-Secs	31-Jul-23	31-Mar-24	Open	-0.14%
Large Cap Vs Mid Cap	Positive	Large Cap	30-Sep-23	31-Mar-24	Open	-1.52%
Gold Vs Cash	Positive	Gold	31-Dec-23	31-Mar-24	Open	-5.55%
USD / INR	Negative	INR	31-Dec-23	31-Mar-24	Open	-0.23%

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%	49.0%	58.7%	56.1%	58.5%	59.3%
Avg. positive alpha	4.3%	2.4%	0.5%	0.6%	1.1%	3.8%
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%	0.9%

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

## GLOBAL ASSET PERFORMANCE SNAPSHOT

	Asset	Equities					Commodities					
		Current	1m	3m	6m	1y	Current	1m	3m	6m	1y	
Global	S&P 500 INDEX	5,254	3.1%	10.2%	22.5%	27.9%	TR Commodity CRB Index	290.3	5.5%	10.0%	2.0%	8.4%
	EURO STOXX 50 Price EUR	5,083	4.2%	12.4%	21.8%	17.8%	Indian Crude Oil Basket	85.2	3.3%	10.3%	-12.2%	8.8%
	FTSE 100 Index	7,953	4.2%	2.8%	4.5%	4.2%	Brent	87.5	4.6%	13.6%	-8.2%	9.7%
	Nikkei 225	40,369	3.1%	20.6%	26.7%	44.0%	Gold	2,229.9	9.1%	8.1%	20.6%	13.2%
India	NSE Nifty 50 Index	22,327	1.6%	2.7%	13.7%	28.6%	Aluminium	2,306.9	5.0%	-1.9%	-1.4%	-3.2%
	NIFTY Midcap 100	48,076	-0.5%	4.1%	18.6%	60.1%	Copper	400.7	4.5%	3.0%	7.2%	-2.1%
	NIFTY Smallcap 100	15,270	-4.4%	0.8%	19.8%	69.8%	Corn	442.0	6.3%	-6.2%	-7.3%	-33.1%
	NSE Nifty 500 Index	20,255	0.8%	4.3%	17.1%	39.1%	Soyabean	1,191.5	4.4%	-8.9%	-9.9%	-9.6%
Global	Fixed Income					Currencies						
	US Generic Govt 10 Yr	4.20%	4.25%	3.88%	4.57%	3.47%	Dollar Index	104.49	0.3%	3.1%	-1.6%	1.9%
	German Bunds	2.30%	2.41%	2.02%	2.84%	2.29%	EUR/USD	1.08	-0.1%	-2.3%	2.1%	-0.5%
	JGB 10Yr Comp Yield	0.75%	0.72%	0.65%	0.77%	0.39%	USD/JPY	151.35	0.9%	7.3%	1.3%	13.9%
	UK Gilts 10 Yr	3.93%	4.12%	3.54%	4.44%	3.49%	GBP/USD	1.26	0.0%	-0.8%	3.5%	2.3%
China 10Y	2.30%	2.35%	2.56%	2.68%	2.86%	USD/CHF	0.90	1.9%	7.1%	-1.5%	-1.5%	
India	India 10Y G-Sec	7.06%	7.08%	7.17%	7.22%	7.31%	USD/CNY	7.22	0.5%	1.7%	-1.0%	5.1%
	India 1Y T-Bill	6.99%	7.11%	7.09%	7.02%	7.16%	USD/HKD	7.82	-0.1%	0.2%	-0.1%	-0.3%
	India 10Y AAA	7.52%	7.63%	7.76%	7.70%	7.81%	USD/INR	83.40	0.6%	0.2%	0.4%	1.5%
	India 1Y AAA	7.76%	7.88%	7.91%	7.58%	7.73%	USD/CAD	1.35	-0.3%	2.2%	-0.3%	0.2%

Source: Bloomberg Equity/Fixed Income Returns/Yields in local currencies. Commodities in USD. Numbers for Fixed Income are Yields as of March 31, 2024.

**Glossary:**  
**US:** United States, **PMI:** Purchasing Managers' Index, **UK:** United Kingdom, **UW:** Underweight, **OW:** Overweight, **EM:** Emerging Markets, **DM:** Developed Markets, **ISM:** Institute of Supply Management, **IG:** Investment Grade, **HC:** Hard Currency, **HY:** High Yield, **OPEC:** Organization of the Petroleum Exporting Countries, **GDP:** Gross Domestic Product, **NSSO:** National Sample Survey Office, **MPCE:** Monthly per Capita Consumer Expenditure, **CPI:** Consumer Price Index, **RBI:** Reserve Bank of India, **PSU:** Public Sector Undertakings, **ADTV:** Average Daily Traded Value, **P/E:** Price/Earnings, **FPI:** Foreign Portfolio Investment, **G-Sec:** Government Securities, **INR:** Indian Rupee, **Fed:** Federal Reserve System

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