



Wealth  
India

# MONTHLY INVESTMENT PERSPECTIVES MAY-24

## GLOBAL MACRO: ISOLATIONISTIC GROWTH IN GLOBAL GDP

Isolationism has been a trend setting in nation governance as highlighted in our last month's [commentary](#). Partly this is already visible in anemic Global trade volumes collapsing to 0.4% for CY23. Global trade normally grows 1.5x faster than global real GDP, except in recessions, but in CY23 world real GDP grew 3.1% far exceeding trade volumes. This "trade recession" though is likely to be a short-lived phenomenon as the OECD composite leading indicator for the G20 reached a 27-month high of 100.5 in Mar-24. ISM manufacturing new orders (6-month leading indicator for India exports), have rebounded over the past half year and averaged 51 in Jan-Mar'24, consistent with over 10% YoY growth in India's exports in Jul-Sep'24.

## GLOBAL EQUITIES: U.S. EQUITIES HAVE BUFFER FOR GROWTH

The most recent data print was the U.S. real GDP growth which moderated to 1.6% QoQ (SAAR, seasonally adjusted annualized rate) in Q1CY24, slower than consensus expectation of 2.4%, and 2.5% in CY23. While private consumption expenditure (2.5%), business investment (2.9%) and residential investment (13.9%) helped growth, there was a big 7% QoQ (SAAR) increase in imports – which subtracted 0.96pp from real GDP. The slower pace of economic growth should contribute toward reining in inflation over the next few months. The pick up seen in imports in addition to new orders and OECD LI should likely help global trade bottom-out as well in 2024. Coupled with a resilient U.S. household wealth position, the economy and equity markets should likely show resurgence despite the Middle East and geopolitics volatility which likely to remain a key feature of 2024.

**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

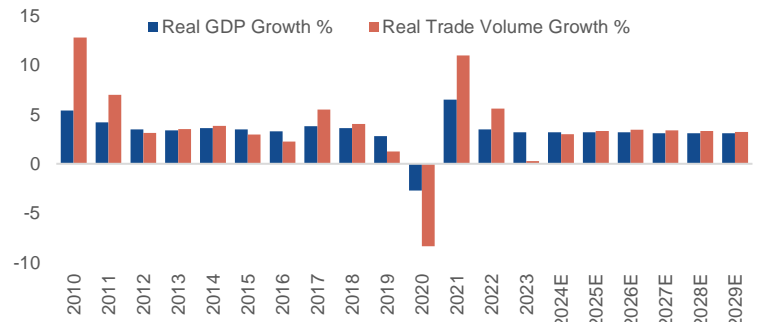
The latest U.S. FOMC meet decided to keep the policy rates unchanged at 5.25% - 5.50%. The general sentiment of the Fed seems tilted towards hawkishness as it seems that the Fed's expectations of three rate cuts in CY24 (in its Mar-24 projections) is likely to get dialed down and settle more towards consensus' forecast of only rate cut in the year. Meanwhile, Asia Credit was performing strongly till Q1CY24, but in Apr-24 most of the gains were wiped out due to strong rally in U.S. yields. Credit spreads in Asia Investment grade credits are currently trading tight vs. history while the absolute yields are attractive. In Asia credit there is limited issuance and strong local demand technically, coupled with stable credit fundamentals. **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: COPPER SURGE

U.S. crude oil dropped below \$82 a barrel on this week and now at 2 months low as the market was hit with another round of disappointing inflation and economic data. The decline in oil futures is coinciding with signs of easing tensions in the Middle East. Copper prices rallied to 2 years high and reached a record \$10,000 per metric ton due to surging demand and supply shortages. In Apr-24 itself the prices have rallied 14%. Supply constraints include increased tightening of mining regulations, geopolitical tensions, and mining labor strikes. Gold prices rallied sharply above the \$2,300 milestone after the Federal Reserve kept rates unchanged while announcing that it would diminish the pace of the balance sheet reduction.

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

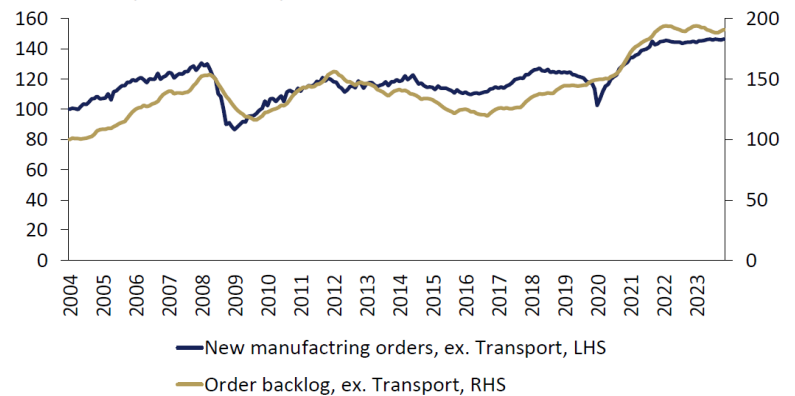
## Global trade recession with none seen in real GDP growth



Source: IMF, Bloomberg

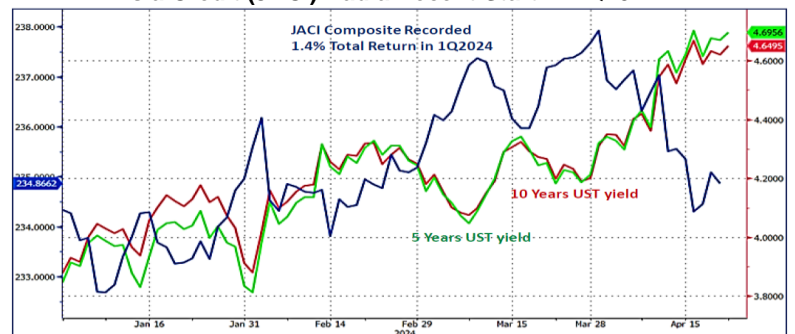
## Preview: U.S. firms getting reasonable goods orders

Orders, rebased to 100, both axis's



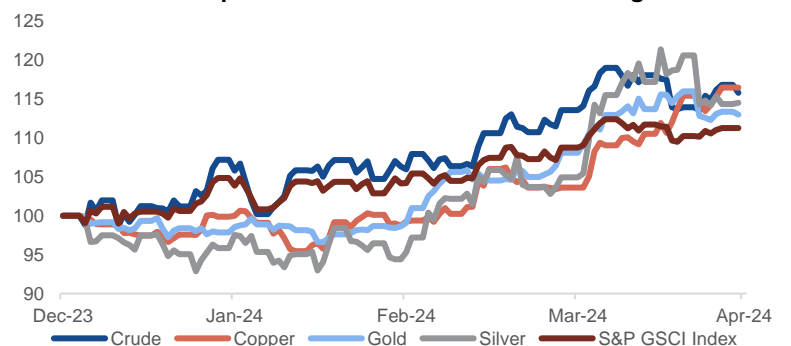
Source: U.S. Bureau of Economic Analysis, LGT

## Asia Credit (JACI) Had a Decent Start in 1Q2024



Source: Bloomberg, LGT

## Metals Complex in Commodities has seen strength



Source: Bloomberg

## INDIA MACRO: GFCF TO PIONEER INDIA GROWTH STORY

India's GDP growth is likely to be powered by an investment-driven impetus visible in GFCF expansion. Much of this would likely stem Household Sector gains in the form of Real Estate investments. The split for FY23 is yet unavailable and is keenly awaited. On the other hand, while GFCF is strong, savings has been a slight spot of bother. Gross household financial savings has fallen to 10.9% of GDP in FY23 from the highs of 15.4% in FY21 (pandemic peak year that had pushed precautionary savings). Interestingly, within this investments (primarily, into MFs) has seen a sharp improvement defying the savings trend. Net-net, the stock market and the real estate market no wonder has seen a current boom which hopefully should not result into a frothy bubble. At the broad level, India's high speed indicators remain in fine fettle. IIP has come in strong for FYTD24 @ 5.9% with Manufacturing @ 5.4%. One of the fastest-growing segments of manufacturing, electronics, declined 12.2% YoY (albeit growing 1.9% YoY in Feb'24). Obsolete parts of the electronics value chain had large weights in FY12 (e.g., basic cellphones) while those parts now growing rapidly (smartphones, semiconductors, flat screens) had negligible weights in the base period. Should a rebasing occur, "true" IIP numbers are likely to be even higher.

## INDIA EQUITIES: INDICES OPTICALLY EXPENSIVE

Indian benchmark indices have seen remarkable growth, with the Nifty 50 reaching new highs in April 2024. However, investors are expressing concerns that the markets are in expensive territory, citing that fundamentals do not support the observed growth. But in last few years Nifty 50 index has seen significant change in constituents with inclusion of expensive stocks – Britannia, Nestle, Titan, Tata Consumer, Divis Labs, HDFC Life etc. which have high P/E vs. excluded stocks of the likes – IOCL, GAIL, Indus Tower, Vedanta, HPCL, Zee etc. Financials and energy (ex RIL) contribute ~53% of the free float earnings of the Nifty50 index and the P/E on this profit pool has dipped from 23x to 16x over the past six years. However, remarkable P/E expansion is visible in IT, industrials and select auto stocks. Consumption has seen some moderation in P/E but still remains relatively high compared to the growth outlook.

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

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

The Indian fixed-income market saw volatile trading with a negative bias last month due to uncertain prospects for easing and robust growth. Geopolitical tensions, like the Israel-Iran Gulf war, added to the volatility, impacting crude prices and, subsequently, yields. Despite this, there was steady demand from long-term investors.

Yields across the curve increased by 10-18 basis points in April 2024. For instance, the Indian 10-Year Government Security (G-sec) rose by 13 basis points to 7.19% compared to 7.06% at the end of March 2024. Concurrently, 10-year corporate bonds also saw an uptick of 7 basis points. This led to a reduction in credit spread on a semi-annualized basis from 34 basis points in March to 27 basis points by the end of April. Overall, the sovereign yield curve experienced a bear steepening, with the spread between 1 and 10-year G-sec widening to 15 basis points from 2 basis points in March 2024.

Going forward, we foresee India maintaining resilient growth alongside declining inflation. Consequently, we expect the RBI to keep rates steady until there's more clarity on developed markets' monetary policies.

**We advise an overweight position in the medium to long end of the yield curve, driven by appealing carry and duration potential, especially in the 3-6-year range. While liquidity factors may play a role, we don't anticipate immediate rate cuts. Furthermore, we prefer Government Securities (G-Sec) over Corporate Bonds due to tightening credit spreads and duration advantages.**

## CURRENCY: FED MOVING THE RATE CUT GOALPOST

INR resilience and low volatility have been the FX theme of FY24. The recent weakness in Asian FX and INR has been led by a rebound in the USD and a weaker CNY. Market participants will closely watch the interplay of the Fed's rate cut repricing, China's survival strategy (India runs nearly 40% trade deficit with China) and most Asian FX. Markets are now seeing the first Fed cut in Dec-24 from Mar-24 at the beginning of the year. On the Asian FX front, the consistently weaker JPY is likely to see spillovers into the rest of Asia, notwithstanding the regional central banks mechanisms to defend their currency. **Nevertheless, we remain one notch OW on the INR given India's strong fundamentals and high speed indicators.**

## GFCF and Savings Split Metrics

% of GDP	FY21	FY22	FY23
<b>GFCF</b>	<b>27.3%</b>	<b>29.6%</b>	<b>30.7%</b>
• Corporates	12.8%	13.4%	13.8%
• Gen. Govt.	3.9%	3.7%	4.0%
• Hhld Sector	10.7%	12.5%	12.9%
<b>Gross Hhld Fin. Savings</b>	<b>15.4%</b>	<b>11.1%</b>	<b>10.9%</b>
• Investments	0.6%	1.2%	1.1%
o/w MFs	0.3%	0.8%	0.9%
o/w Direct Equity	0.2%	0.2%	0.1%

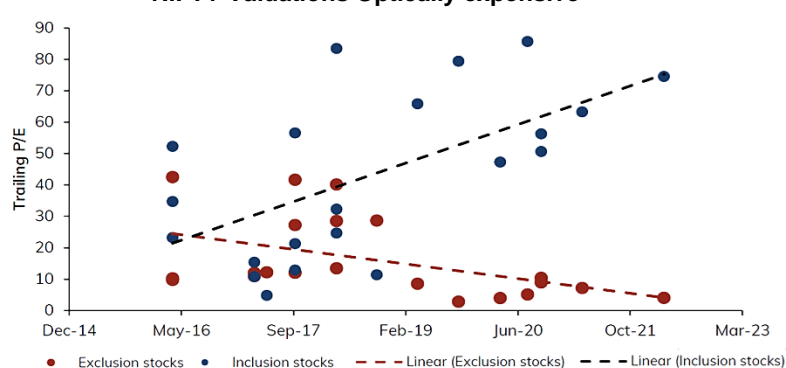
Source: Industry, JM Financial, MOSPI, NSO, CEIC, I-Sec

## IIP not capturing technological progress due to obsolescence

YoY	Weight	Feb-24	FYTD24
<b>IIP Headline</b>	<b>100.0%</b>	<b>4.6%</b>	<b>5.9%</b>
• Mining & quarrying	14.4%	13.9%	8.2%
• Electricity	8.0%	-2.7%	6.9%
• Manufacturing	77.6%	4.1%	5.4%
o/w Mfg. of electronics	1.2%	13.1%	-12.2%

Source: CMIE

## NIFTY Valuations Optically expensive



Source: Capitaline, I-Sec

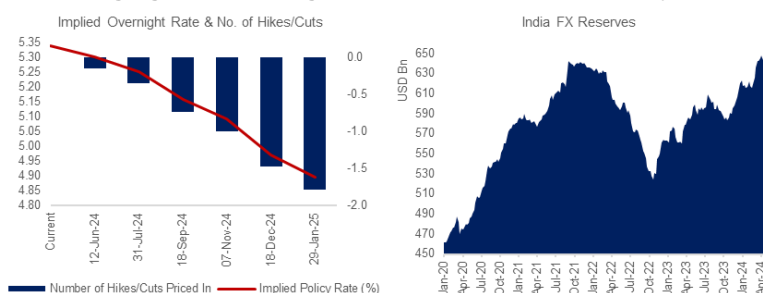
## Debt Market Snapshot

### Yield Levels as of April 30, 2024



Source: Bloomberg

## Fed changing the rate cut goal post leads to the USD carry trade



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	30-Apr-24	Open	2.06%
Corp Bonds Vs G-Secs	Negative	G-Secs	31-Jul-23	30-Apr-24	Open	-0.40%
Large Cap Vs Mid Cap	Positive	Large Cap	30-Sep-23	30-Apr-24	Open	-5.77%
Gold Vs Cash	Positive	Gold	31-Dec-23	30-Apr-24	Open	9.68%
USD / INR	Negative	INR	31-Dec-23	30-Apr-24	Open	-0.27%

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%	48.1%	57.8%	55.2%	57.1%	60.0%
Avg. positive alpha	4.3%	2.4%	0.5%	0.6%	1.1%	3.8%
Avg. negative alpha	-2.7%	-2.5%	-0.5%	-0.9%	-0.8%	-3.3%
Avg. alpha	1.8%	-0.2%	0.1%	0.0%	0.3%	1.0%

Source: Bloomberg. Assuming a 6% annualised yield for cash. Note: ST vs. LT as of Mar-24.

## GLOBAL ASSET PERFORMANCE SNAPSHOT

	Asset	Equities					Commodities					
		Current	1m	3m	6m	1y	Current	1m	3m	6m	1y	
Global	S&P 500 INDEX	5,036	-4.2%	3.9%	20.1%	20.8%	TR Commodity CRB Index	291.5	0.4%	7.0%	3.7%	8.7%
	EURO STOXX 50 Price EUR	4,921	-3.2%	5.9%	21.2%	12.9%	Indian Crude Oil Basket	88.5	3.9%	7.2%	0.3%	10.1%
	FTSE 100 Index	8,144	2.4%	6.7%	11.2%	3.5%	Brent	87.9	0.4%	7.5%	0.5%	10.5%
	Nikkei 225	38,406	-4.9%	5.8%	24.5%	33.1%	Gold	2,286.3	2.5%	12.1%	15.2%	14.9%
India	NSE Nifty 50 Index	22,605	1.2%	4.0%	18.5%	25.1%	Aluminium	2,565.7	11.2%	13.9%	14.1%	8.2%
	NIFTY Midcap 100	50,868	5.8%	4.7%	30.8%	60.0%	Copper	456.5	13.9%	16.9%	25.1%	17.9%
	NIFTY Smallcap 100	17,012	11.4%	6.1%	34.5%	75.9%	Corn	439.5	-0.6%	-2.0%	-8.2%	-30.9%
	NSE Nifty 500 Index	20,997	3.7%	6.0%	25.0%	38.0%	Soyabean	1,163.0	-3.5%	-6.3%	-13.6%	-8.9%
Global	Fixed Income					Currencies						
	US Generic Govt 10 Yr	4.68%	4.20%	3.91%	4.93%	3.42%	Dollar Index	106.22	1.7%	2.9%	-0.4%	4.5%
	German Bunds	2.58%	2.30%	2.17%	2.80%	2.31%	EUR/USD	1.07	-1.1%	-1.4%	0.9%	-3.2%
	JGB 10Yr Comp Yield	0.88%	0.75%	0.74%	0.95%	0.40%	USD/JPY	157.80	4.3%	7.4%	4.0%	15.8%
	UK Gilts 10 Yr	4.35%	3.93%	3.79%	4.51%	3.72%	GBP/USD	1.25	-1.0%	-1.5%	2.8%	-0.6%
	China 10Y	2.31%	2.30%	2.43%	2.69%	2.78%	USD/CHF	0.92	2.0%	6.7%	1.0%	2.8%
India	India 10Y G-Sec	7.19%	7.06%	7.14%	7.36%	7.12%	USD/CNY	7.24	0.3%	1.0%	-1.0%	4.8%
	India 1Y TB	7.06%	6.99%	7.15%	7.14%	7.00%	USD/HKD	7.82	0.0%	0.1%	0.0%	-0.3%
	India 10Y AAA	7.58%	7.52%	7.68%	7.78%	7.65%	USD/INR	83.44	0.0%	0.5%	0.2%	2.0%
	India 1Y AAA	7.80%	7.76%	7.89%	7.69%	7.61%	USD/CAD	1.38	1.8%	2.6%	-0.7%	1.7%

Source: Bloomberg Equity/Fixed Income Returns/Yields in local currencies. Commodities in USD. Numbers for Fixed Income are Yields as of April 30, 2024.

**Glossary:**  
**GDP:** Gross Domestic Product, **CY:** Calendar Year, **OECD:** Organisation for Economic Co-operation and Development, **ISM:** Institute of Supply Management, **YoY:** Year on Year, **LI:** Lead Indicator, **US:** United States, **QoQ:** Quarter on Quarter, **SAAR:** Seasonally Adjusted Annual Rate, **OW:** Overweight, **UW:** Underweight, **EM:** Emerging Markets, **DM:** Developed Markets, **Fed:** Federal Reserve System, **FOMC:** Federal Open Market Committee, **IG:** Investment Grade, **HY:** High Yield, **HC:** Hard Currency, **GFCF:** Gross Fixed Capital Formation, **MF:** Mutual Funds, **IIP:** Index of Industrial Production, **FY:** Fiscal Year, **P/E:** Price/Earnings, **FX:** Foreign Exchange, **USD:** United States Dollar, **CNY:** Chinese yuan renminbi, **JPY:** Japanese Yen, **INR:** Indian Rupee, **G-Sec:** Government Securities, **RBI:** Reserve Bank of India

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