Wealth
India

MONTHLY INVESTMENT PERSPECTIVES
JUN-24

GLOBAL MACRO: WHEN WILL THE RATE CUT TRANSPIRE…

A leading software and fabless company in the U.S. predominantly making GPUs reported stellar earnings and outlook with a successful businessman/investor declaring his multi-billion dollar startup would use the company's GPUs. Such has been the flavour of AI that its ripples have truly been felt across the globe. Should a rate cut transpire, tech spends should ideally boom, providing further fuel to the fire. Federal Reserve Bank of Minneapolis, though does not sound dovish indicating that while the U.S. central bank's policy stance is restrictive, policymakers haven't entirely ruled out additional interest-rate increases. The U.S. high speed macro-economic data is unexpectedly resilient as seen from consumer confidence and a pick-up in real estate prices in 20 key U.S. cities – which ideally, doesn't augur well for a relaxed monetary environment, but then – higher for how much longer?

GLOBAL EQUITIES: MIXED BAG

UK's snap elections called for July 4, 2024. Polling points to the end of 14 years of Conservative government. Some are hoping for better UK-EU relations post elections. This indeed, might prove to be a pivotal point for a turn in the nation's underlying long term economic fundamentals. FDI and FPI flows meanwhile, have found their way into ASEAN based economies (incl. China). Despite the U.S. tariffs on China, the U.S.-China trade deficit is unaltered. EU, Korea and Taiwan might face scrutiny should Trump 2.0 materialize. With elections this year in UK, U.S. and India (among others), it certainly marks a year of political uncertainty and should stability play out in terms of results meeting expectations, overall sentiment could turn out to be fairly positive.

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

GLOBAL FIXED INCOME: FOCUS ON CHINA

China high-yield (HY) property bonds rallied in the past month, helped by hopes of further policy easing. On 17-May, a slew of measures were announced which included easing mortgage rules, reducing down payment and encouraging local government to buy unsold units amongst others. Execution risks that favour state-related entities over privately-held entities are possible. The market does expect further measures to be rolled out should contracted sales remain weak. However, liquidity pressure may persist near term while offshore market access remains a secondary concern. Previous rallies have proved to be good exit points in the past. **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.

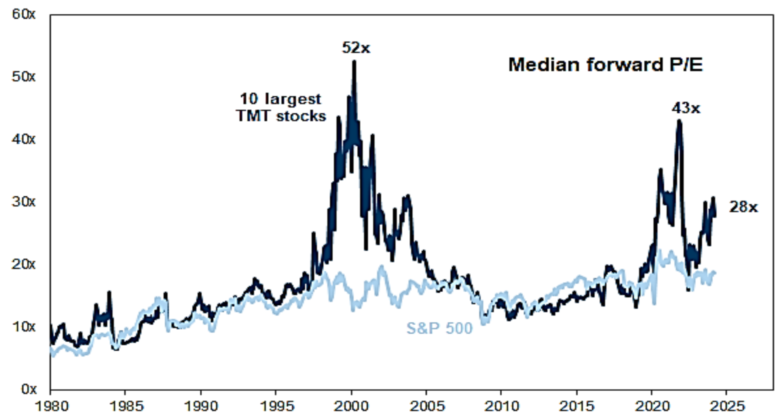
GLOBAL COMMODITIES: COPPER – PRICED FOR SCARCITY

The Organization of Petroleum Exporting Countries and allies (OPEC+) decided to extend its current run of production cuts at a meeting held on Sunday. The move was widely expected by markets, given that the OPEC+'s cuts were aimed largely at supporting oil prices through tighter markets. Copper prices soared amid concerns of resource scarcity and expectations of supply deficit. Bound by price sensitive Chinese consumer dip buying and US recession fear related macro selling, copper prices have been trapped so far this year between the mid-$8000s and low $9,000s. Whilst growth risks are genuine, it is important to recognize that global growth expectations have actually accelerated so far this year. The cooling US labor market, characterized by modest job growth and easing wage pressures, is affecting gold prices as investors anticipate potential federal reserve rate cuts. On the other hand, China's significant divestments from US treasury bonds and increased gold holdings highlight global dynamics that strongly influence gold prices. **We remain one notch OW on Gold on the back of dollar weakness. Net-net, we remain one notch OW on Gold.**

INDIA MACRO: ALL EYES ON POLITICS

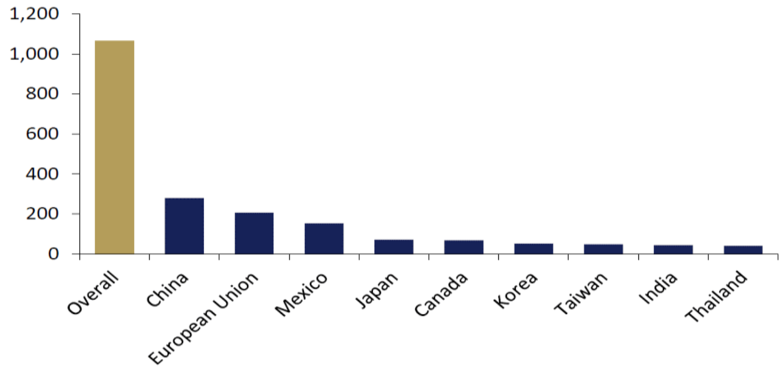
General election results have thrown a surprise against the media narrative, with departure from a single-party-led majority that existed from 2014-2024. Like in 1999, there is a small shortfall to the majority and reliance through time tested coalition of

Valuation of largest TMT stocks still below Tech Bubble



Source: IBEs, Factset, Goldman Sachs Global Investment Research, LGT

U.S. Annual Trade Deficits by Trading Partner, $ bn., 2023

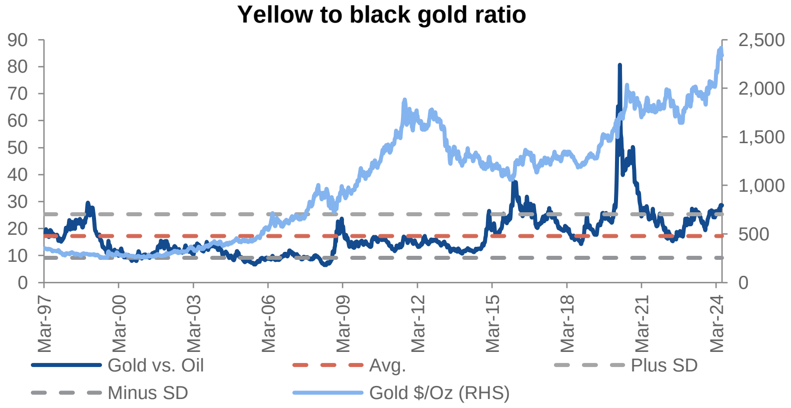


Source: IMF, LGT

Bond Index has given good selling opportunities in the past

Source: Markit, HSBC. Note: Index inception = 100 @ 30-Dec-05.

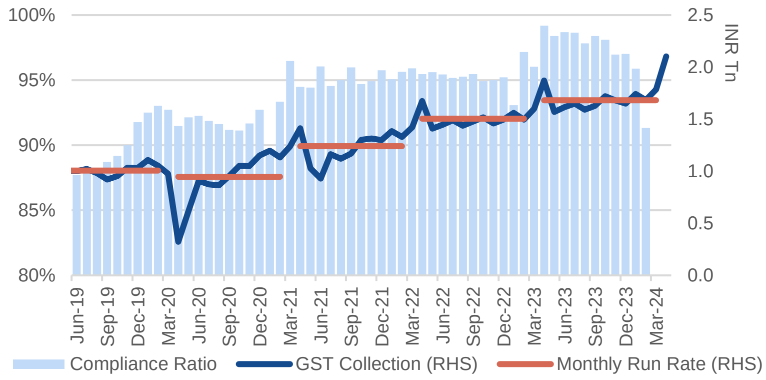
Yellow to black gold ratio



Source: Bloomberg

NDA needs to be watched. This will make the government dependent on a few smaller regional parties; most of whom are currently running governments in a few states as a coalition; hence, it is neither a new arrangement not a new mutual need per se. However, the policymaking would not be like in the past ten years; as the establishment has to take the coalition partners into confidence before making critical policy decisions. Given the absence of contentious agendas as part of the manifesto during this term, it is less likely to impact governance and decision-making. Four state elections before this year's end may keep the government focused on expansionary policies, including populism. This would lead to a delay in fiscal consolidation for a while. There is less risk to existing policies, including investment and socio-economic development-led growth-oriented policies. Meanwhile, India's GST collections have taken off spectacularly with the Apr-24 number coming in well above the FY24 monthly average (INR 2.10tn vs. INR 1.68tn). A major driver of this growth is the gains from compliance: the ratio of GST returns filed to the eligible GST filers. Compliance has convincingly crossed 95% Mar-23 with Q3FY24 coming in at 97.3% vs. 95.5% in Q2FY23. Add the Rs 2.1 trn. RBI dividend to the mix and the overall fiscal balance for the GOI seems rightly poised for growth. Favourable monsoons should also assist, but path of fiscal prudence needs to be watched out as politics at the top achieves clarity.

GST: Barometer for fiscal strength



Source: CMIE

INDIA EQUITIES: FOCUS ON ELECTIONS

Optimism was reflected in swelling MF net inflows as of May-24, with relatively higher interest seen in niche themes (sectoral/thematic funds). FMCG can arguably be labelled as a niche theme, at the moment. The sector seen some interest as certain segments have witnessed uptick in rural demand. Most companies are bullish on volume growth in FY25 based on either/a combination of rural recovery, price cuts taken over FY24, elevated marketing spends, or/and distribution expansion. On the political front, because of the shortfall to achieve decisive single-party mandate in the near term, some derating in price at broad index level could ensue. India's growth story though, is intact and backed by investment and structural consumption demand. Corporate fundamentals, demand-led capex revival and medium-term earning growth trajectory look promising. In FY25, monsoons are expected to be above average after a year of weaker rainfall; hence, rural-led consumption segments are expected to lead the march, while the broader market could take time to adjust its multiples in a new reality.

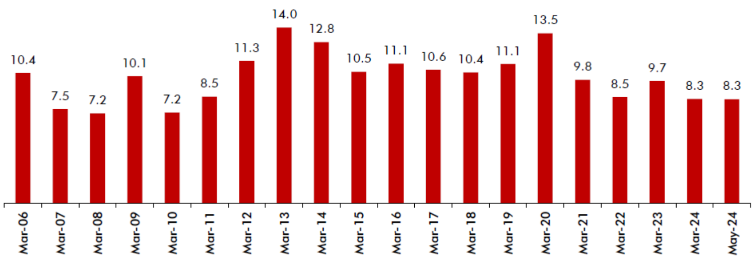
We remain Neutral between Equities and Bonds, maintaining strategic Asset Allocation. Within Large and Midcaps, we remain one notch OW on Large Caps vs Mid Caps.

For Apr-24 Sectoral Themes sparked interest, DIIs overall robust

Category	Net Inflows (Rs. Mn.)	Share in inflows	AAUM (Rs. Mn.)	% of AUM
Multi Cap Fund	27,239	14.4%	1,304,925	2.1%
Large Cap Fund	3,576	1.9%	3,177,881	0.1%
Large & Mid Cap Fund	26,389	13.9%	2,129,263	1.2%
Mid Cap Fund	17,931	9.5%	3,083,878	0.6%
Small Cap Fund	22,087	11.7%	2,575,893	0.9%
Dividend Yield Fund	3,413	1.8%	245,356	1.4%
Value Fund/Contra Fund	19,867	10.5%	1,542,963	1.3%
Focused Fund	-3,280	-1.7%	1,319,265	-0.2%
Sectoral/Thematic Funds	51,661	27.3%	3,061,180	1.7%
ELSS	-1,440	-0.8%	2,188,523	-0.1%
Flexi Cap Fund	21,729	11.5%	3,586,417	0.6%
Total	189,172	100.0%	24,215,544	0.8%

Source: Avendus Spark, ACE MF

FMCG weight in NSE500 is at a 13-year low of ~8.3%

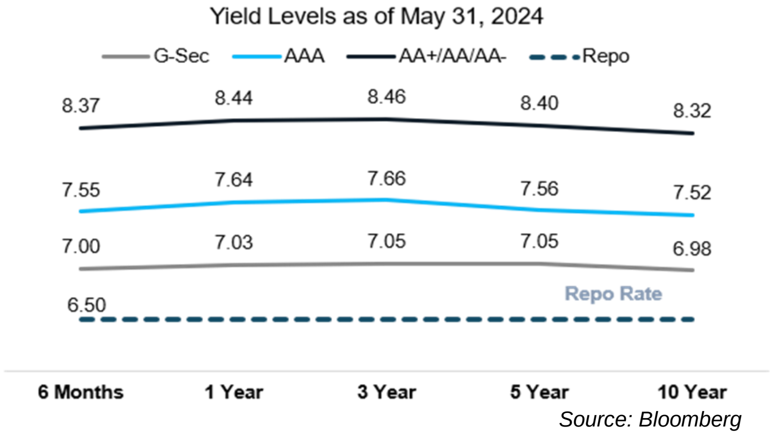


Source: NSE, ACE Equity, Ambit

INDIA FIXED INCOME: 2024 - YEAR OF THE BOND

In May, the Indian fixed-income market experienced a rally across the yield curve due to positive sentiment surrounding several key developments: the RBI's announcement of a substantial dividend of INR 2,11,000 crore, a reduction in the weekly T-bill auction for the quarter, and an S&P outlook upgrade. Yields across the curve decreased by 10-18 basis points during May 2024. As of 31st May 2024, the yield on the Indian 10-Year G-Sec fell by approximately 21 basis points to 6.98%, down from 7.19% on 30th April 2024. Concurrently, 10-year corporate bonds saw a decline of about 8 basis points. Consequently, the credit spread on a semi-annualised basis widened to 47 basis points from 27 basis points at the end of April. Overall, the sovereign yield curve experienced bull flattening, with the spread between 1-year and 10-year G-Secs moving to negative 5 basis points from 15 basis points in April 2024. Recently, the results of the Lok Sabha Elections 2024 were slightly below investor expectations, potentially causing near-term disruption to overall market positioning, primarily from a short-term perception perspective. This led to a marginal rise in yields across the sovereign curve as an immediate reaction. Despite this, we anticipate no change in fiscal pressures and expect the government to adhere to its fiscal consolidation path, although there might be a shift towards using recent additional revenue for spending rather than deficit reduction. This could lead to some reorientation from capital expenditures to revenue expenditures. Thus, our base case is for the government to maintain its medium-term fiscal consolidation roadmap, albeit with a populist bias. We expect the RBI to remain accommodative in its upcoming policy, potentially revising the FY25 GDP projection from 7.00%, while keeping the inflation forecast unchanged. In the near term, we foresee the 10-year government securities remaining volatile, trading within the range of 7-7.15%. Increased government spending and the reversal of Currency in Circulation (CIC) are expected to sustain a surplus in banking liquidity, positively impacting the short end of the curve. In the medium term, favorable demand-supply dynamics for bonds and a declining CPI trajectory are anticipated to gradually lower bond yields to the range of 6.75-6.85%. **We continue to recommend an overweight position in the medium to long end of the yield curve due to the attractive carry and potential for duration play, as yields tend to respond early to changes in the interest rate cycle. Specifically, from a risk-reward perspective, we find the 3-6-year range in the medium-duration segment appealing. From a pure duration perspective, we maintain an overweight stance on Government Securities (G-Sec) compared to Corporate Bonds.**

Debt Market Snapshot

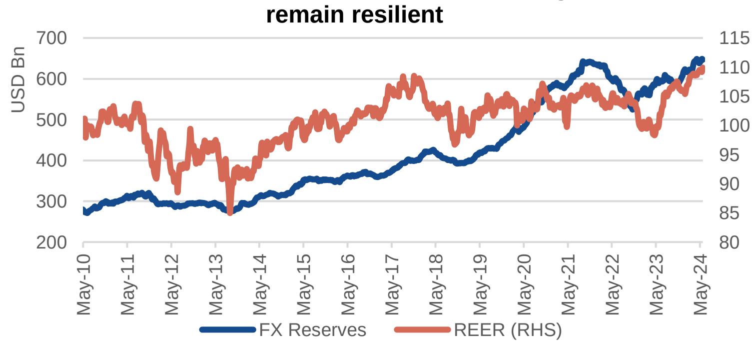


Source: Bloomberg

CURRENCY: BUMPER DIVIDEND BY THE RBI TO BOOST THE INR

There was a recent surprise hike from the Bank of Indonesia that raises questions on the stability of Asia FX. Whie pre-empting the Fed could be a bold move as such idiosyncratic carry opportunities could inject sudden volatility, most central banks like India's own RBI would resort to the more stable intervention mechanisms to shore up their respective FX rates. The INR has remained very stable and the recent large Rs. 2.1 trn. dividend should help contain the fiscal deficit and/or spur the economy via Govt. rev/capex. **Consequently, we remain one notch OW on the INR given India's strong fundamentals and high speed indicators.**

RBI Intervention has been the best-in-class helping India's REER remain resilient



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-May-24	Open	2.06%
Corp Bonds Vs G-Secs	Negative	G-Secs	31-Jul-23	31-May-24	Open	0.23%
Large Cap Vs Mid Cap	Positive	Large Cap	30-Sep-23	31-May-24	Open	-7.42%
Gold Vs Cash	Positive	Gold	31-Dec-23	31-May-24	Open	10.82%
USD / INR	Negative	INR	31-Dec-23	31-May-24	Open	-0.31%

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%	47.2%	58.5%	54.2%	55.8%	60.7%
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%	-0.8%	-3.3%
Avg. alpha	1.8%	-0.2%	0.1%	-0.1%	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	Current	1m	3m	6m	1y
	Equities					
Global	S&P 500 INDEX	5,278	4.8%	3.6%	15.5%	26.3%
Global	EURO STOXX 50 Price EUR	4,984	1.3%	2.2%	13.7%	18.2%
Global	FTSE 100 Index	8,275	1.6%	8.5%	11.0%	11.1%
Global	Nikkei 225	38,488	0.2%	-1.7%	14.9%	24.6%
India	NSE Nifty 50 Index	22,531	-0.3%	2.5%	11.9%	21.6%
India	NIFTY Midcap 100	51,706	1.6%	7.0%	20.5%	53.2%
India	NIFTY Smallcap 100	16,697	-1.9%	4.5%	17.8%	64.2%
India	NSE Nifty 500 Index	21,103	0.5%	5.0%	17.3%	33.8%
	Fixed Income					
Global	US Generic Govt 10 Yr	4.50%	4.68%	4.25%	4.33%	3.64%
Global	German Bunds	2.66%	2.58%	2.41%	2.45%	2.28%
Global	JGB 10Yr Comp Yield	1.08%	0.88%	0.72%	0.69%	0.45%
Global	UK Gilts 10 Yr	4.32%	4.35%	4.12%	4.18%	4.18%
Global	China 10Y	2.32%	2.31%	2.35%	2.69%	2.71%
India	India 10Y	6.98%	7.19%	7.08%	7.28%	6.99%
India	FBIL FBTB12M	7.02%	7.06%	7.11%	7.13%	6.88%
India	India 10Y AAA	7.57%	7.58%	7.63%	7.84%	7.56%
India	India 1Y AAA	7.72%	7.80%	7.88%	7.79%	7.47%

Asset	Current	1m	3m	6m	1y
Commodities					
TR Commodity CRB Index	290.2	-0.4%	5.5%	6.0%	14.3%
Indian Crude Oil Basket	82.7	-6.6%	0.2%	-1.9%	14.2%
Brent	81.6	-7.1%	-2.4%	-1.5%	12.3%
Gold	2,327.3	1.8%	13.8%	14.3%	18.6%
Aluminium	2,621.1	2.2%	19.3%	21.0%	16.9%
Copper	460.2	0.8%	20.0%	20.2%	26.5%
Corn	446.3	1.5%	7.3%	-3.4%	-24.9%
Soyabean	1,205.0	3.6%	4.7%	-12.7%	3.0%
Currencies					
Dollar Index	104.67	-1.5%	0.5%	1.1%	0.3%
EUR/USD	1.08	1.7%	0.4%	-0.4%	1.5%
USD/JPY	157.31	-0.3%	4.9%	6.1%	12.9%
GBP/USD	1.27	2.0%	0.9%	0.9%	2.4%
USD/CHF	0.90	-1.9%	2.0%	3.1%	-0.9%
USD/CNY	7.24	0.0%	0.7%	1.5%	1.9%
USD/HKD	7.82	-0.1%	-0.1%	0.1%	-0.1%
USD/INR	83.47	0.0%	0.7%	0.1%	0.9%
USD/CAD	1.36	-1.1%	0.4%	0.5%	0.4%

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

Glossary:

***US:** United States, **GPU**: Graphics processing unit, **AI**: Artificial Intelligence, **UK**: United Kingdom, **EU**: Europe, **ASEAN**: Association of Southeast Asian Nations, **FDI**: Foreign Direct Investment, **FPI**: Foreign Portfolio Investment, **OW**: Overweight, **UW**: Underweight, **HY**: High Yield, **IG**: Investment Grade, **HC**: Hard Currency, **EM**: Emerging Markets, **DM:** Developed Markets, **OPEC**: **Organization** of the Petroleum Exporting Countries, **NDA**: National Democratic Alliance, **GST**: Goods and Services Tax, **GOI**: Government of India, **MF**: Mutual Funds, **FMCG**: Fast Moving Consumer Goods, **FY**: Fiscal YearUS: United States, GPU: Graphics processing unit, AI: Artificial Intelligence, UK: United Kingdom, EU: Europe, ASEAN: Association of Southeast Asian Nations, FDI: Foreign Direct Investment, FPI: Foreign Portfolio Investment, OW: Overweight, UW: Underweight, HY: High Yield, IG: Investment Grade, HC: Hard Currency, EM: Emerging Markets, DM: Developed Markets, OPEC: Organization of the Petroleum Exporting Countries, NDA: National Democratic Alliance, GST: Goods and Services Tax, GOI: Government of India, MF: Mutual Funds, FMCG: Fast Moving Consumer Goods, FY: Fiscal Year, RBI: Reserve Bank of India, G-Sec: Government Securities, GDP: Gross Domestic Product, CPI: Consumer Price Index, FX: Foreign Exchange, **RBI**: Reserve Bank of India, **G-Sec:** Government Securities, **GDP:** Gross Domestic Product, **CPI**: Consumer Price Index, **FX**: Foreign Exchange*

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