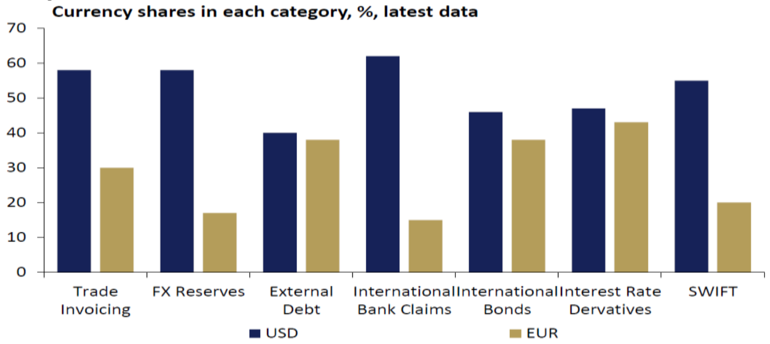
Wealth India

MONTHLY INVESTMENT PERSPECTIVES JUL-24

GLOBAL MACRO: USD – YELLOW OR BLACK GOLD?

Saudi Arabia has not renewed the 50-year-old "petro-dollar" agreement with the U.S. Henry Kissinger had originally coaxed the Saudis into brokering oil trade majorly in the greenback. However, this time around the dynamics of the oil market, trade, geopolitics and financial markets itself are different than those that existed in the 1970s. At the same time, the USD still remains the preferred choice in elements like the international FX reserves. These are still composed mostly in USD – as of 2023, 61% of FX reserves remain in the greenback, vs. 64% 10 years ago. On the other hand, the U.S. itself has become a major oil supplier over the last five decades and hence the USD first losing its Gold Standard (Aug-1971) and now the Petro-Dollar status while at headline level could be sensational, but on-the-ground impact should likely not be significant.

Beyond USD & EUR, all other FX share of transactions are low



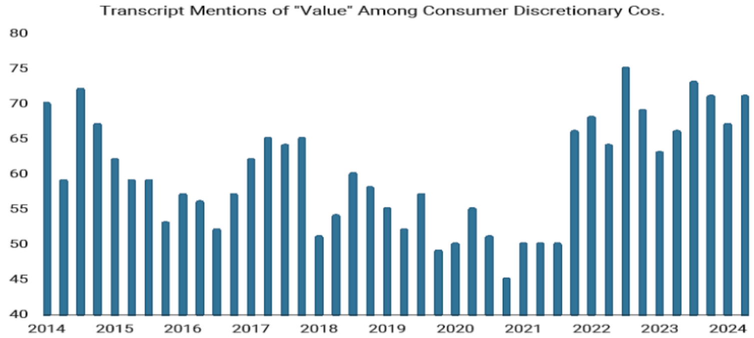
Source: Bank for International Settlements, LGT

GLOBAL EQUITIES: U.S. CONSUMPTION IN FOCUS

The U.S. macro backdrop and strong labour market remain supportive of healthy U.S. consumption. However, consumer surveys and company management have picked up signals of consumer trade-down and more caution on discretionary purchases. Within U.S. retail, e-commerce continues to outgrow overall retail sales and penetration is expected to approximately double from the current 22% to c.40% in the long term, driven by large and underpenetrated categories such as Groceries, Apparel & Accessories, and Home.

We remain OW on U.S and Japan. Europe, Asia ex-Japan and India 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, Further, we continue to be neutral on Real Estate, Financials, Health Care, Materials and UW on Energy, Utilities, & Cons. Staples.

Company management and consumer surveys pointing to trade-down in consumption in Q1CY24



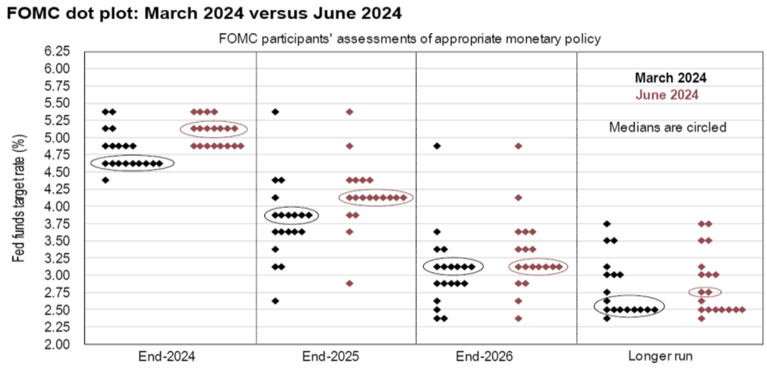
Source: Morgan Stanley, LGT

GLOBAL FIXED INCOME: FED WANTS TO SEE MORE CONCRETE SIGNS

While the Fed pivot has been delayed, the current situation could offer a longer runway for clients to lock in the high carry/yields. Yields are unlikely to move up significantly higher from current levels. As such, income-focused clients should consider picking up high-coupon bonds while the potential capital appreciation from rate cuts would likely only be felt more meaningfully next year. End 2024E core PCE projection of 2.6-2.8% YoY, indicates a 0.1-0.2% MoM run-rate for core PCE, incrementally slowing from realized run-rate of 0.33% in Jan-Apr-24 and projected average run-rate of 0.24% in Q1-Q3CY24E. In terms of the labour market as well, signs of cooling are imminent: YoY employment growth has almost stagnated, with full-time employment declining for four straight months. The job opening ratio moderated to the pre-Covid level of 1.2x vs. 2x at the peak in Mar-Jul-22.

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.

The New Dot Plot – Fed Cuts are Delayed not Derailed



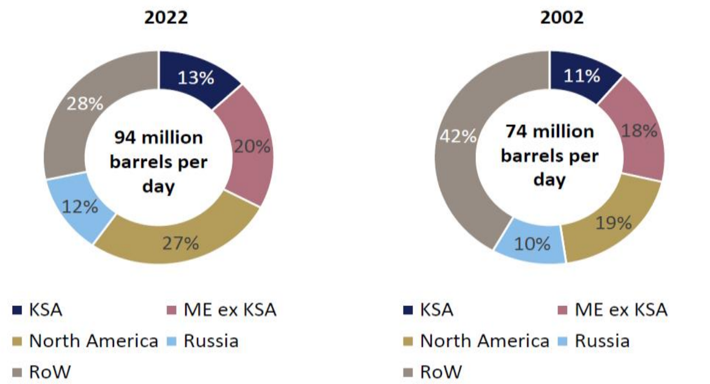
Source: Federal Reserve; HSBC, LGT

GLOBAL COMMODITIES: SILVER LINING

Oil prices jumped nearly 2.5% on Monday, reaching their highest since April as geopolitical tensions boost supply and demand sentiment despite economic and interest rate uncertainty, and as the summer driving season kicks off in earnest, sparking hopes of higher consumption. Copper prices eased in London on Monday on rising inventories. LME copper price hit a record high above USD 11,100 in May but has fallen 14% since. In June alone, the contract fell 4.4%, the biggest monthly loss since August 2023. A global supply deficit and bets on rising demand helped silver outpace the gains of gold, copper and other financial assets in the second quarter. Gold prices held steady after data showed U.S. inflation subsided, bolstering hopes that the Federal Reserve will start cutting interest rates this year.

We turn one notch UW on Gold as technical indicators have started showing signs of softening.

Over the past two decades, North America is the new oil 'major'



Source: British Petroleum, LGT

INDIA MACRO: HOW ELECTIONS MIGHT ALTER MACROECONOMICS

Within an Asian equity investing context, India is attracting a wave of excitement as the fruits of massive infrastructure projects, broad monetary and institutional reforms became more obvious. The outcome of these measures is that India is widely expected to grow its economy by at least 6% in 2024 and the same into 2025 (worst case). Given this growth trajectory, investors have set aside the high valuation of the Indian market, and focused on the game-changing growth initiatives that the BJP ushered in. The question now is whether the enthusiasm for India should remain unchanged as PM Modi will likely need to make some (fiscally costly) concessions to coalition partners. The government is expected to announce a budget statement in the middle of July, and investors will likely get a first impression of how BJP-led coalition differs, if at all, in terms of policy priorities. In terms of macro, economic growth may not be impacted, as the new government is a strong coalition (BJP accounting for ~80% of the seats in the NDA) and its main allies – Telugu Desam Party (TDP) and Janata Dal (United) - are pro-growth (as seen in the past). Inflation should not be a concern under the new government, given the institutionalized monetary policy framework with price stability as its primary objective and past track record (BJP ran a weak coalition government in FY99-04).

INDIA EQUITIES: LONG TERM EQUITY THESIS INTACT

In the short term, there might be perceptions of risk to the government's fiscal deficit goals for the year because of the shortfall in the decisive electoral mandate. Current rural distress and unemployment, at least partly due to weaker monsoons last year and a lack of fiscal actions prior to elections to overcome that might be leading to nervousness. Now, too, rural recovery is contingent on normal to above average monsoons; so far, monsoons have been 17% deficit to average June rainfall; absence of any improvement before mid-Jul-24 might force Government to hike allocations to rural employment guarantee scheme and quarterly payouts to farmers. Ahead, four key state elections in the next six months leaves very little choice to the policymakers. RBI too, is likely to face constraints to ease its monetary stance soon. Valuations in certain segments have become frothy and certain stakeholders are opportunistically trimming their stakes as seen in large FDI redemptions. Nevertheless, on a longer-term horizon, a virtuous cycle may well be falling into place. Namely, if the infrastructure boom is not derailed, then more economic activity leads ultimately to higher domestic demand. Put differently, India could become the world's third largest consumer market by 2026, if the BJP can deliver on its manifesto. That has positive domestic, regional, and international implications, and enough so that high equity valuations could be tolerated for a longer period. From an investment perspective, it would be prudent to wait for the mid-Jul-24 budget statement before adding more India equity risk to a broadly diversified equity portfolio. Barring any material setbacks to fiscal discipline and the reform agenda, Indian equities should have further room to run this year and beyond.

We remain Neutral between Equities and Bonds, maintaining strategic Asset Allocation. Within Large and Midcaps, we turn two notches OW on Large Caps vs Mid Caps as valuations for the former are looking more attractive.

INDIA FIXED INCOME: 2024 - YEAR OF THE BOND

June 2024 witnessed significant movements in the Indian bond market driven by cooling inflation, a pause by the Reserve Bank of India (RBI), and a stable macroeconomic environment. These factors have kept bond yields in a narrow range, although with shifts at different ends of the yield curve. Toward the end of June, yields at the shorter end of the curve dropped due to a surge in system liquidity. In contrast, the yields at the longer end edged up slightly. The yield on the 10-year Government Security (G-sec) increased by approximately 3 basis points (bps), closing at 7.01% on June 28, up from 6.98% on May 31. Similarly, 10-year corporate bonds experienced an increase of around 3 bps. The credit spread on a semi-annualized basis narrowed to 42 bps from 47 bps at the end of May. Furthermore, the spread between 1-year and 10-year G-secs widened to 6 bps from negative 5 bps in May, with the 1-year G-sec closing at 6.95%.

High-frequency data indicates that the Indian economy is well-positioned to achieve over 7% growth for the June quarter, aligning with the RBI's GDP growth projection of 7.3% for Q1 of 2024-25. Favorable demand and supply dynamics, bolstered by India's inclusion in the JP Morgan India Bond index, are expected to continue supporting the bond market. India was added to the index on June 28 with an initial weight of 1%, set to increase to a maximum of 10% by March 2025. The government is expected to maintain the fiscal deficit at 5.1% in the upcoming budget. Additionally, increased government spending and scheduled G-sec maturities are likely to sustain a surplus in banking liquidity, positively affecting the short end of the yield curve.

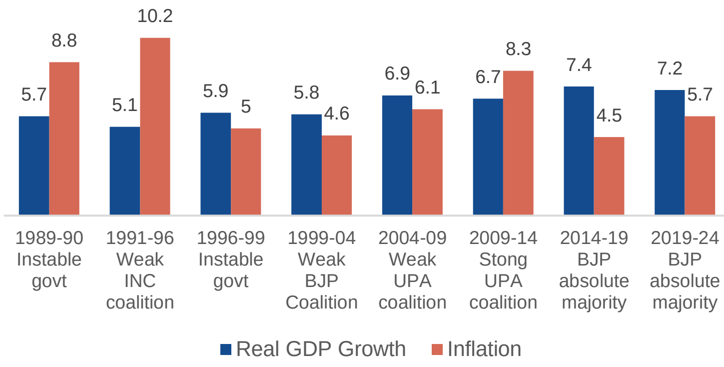
In the short term, the 10-year G-sec yield is projected to remain volatile but within a range of 6.90-7.05%. A declining Consumer Price Index (CPI) and favourable bond market dynamics are anticipated to gradually lower bond yields to the 6.75-6.85% range in the medium term.

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. From a pure duration perspective, we maintain an overweight stance on Government Securities (G-Sec) compared to Corporate Bonds.

CURRENCY: A PROXY FOR THE FED RATE CUT SENTI-METER

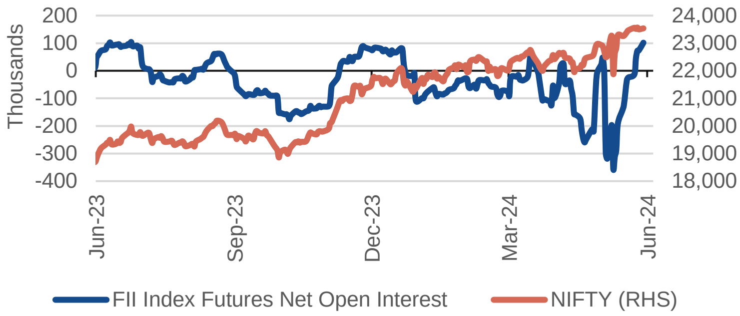
EMFX has recently came under pressure owing to the likelihood of the Fed lowering 'rate cut' guidance. The INR was not spared as the greenback found renewed strength in the carry trade however RBI has managed the "fall" relatively better vs. other EM central banks and EM currencies. The U.S. carry trade might still have some legs as the Fed turns out to be more highly data-dependent (and negate any "negative" Petro Dollar sentiment), but over the medium term, India's strong fundamentals particularly in high speed indicators should keep the INR in the least, steady with further support in the form of RBI's astute interventions. **Consequently, we remain one notch OW on the INR.**

GDP and CPI in various govt. regimes



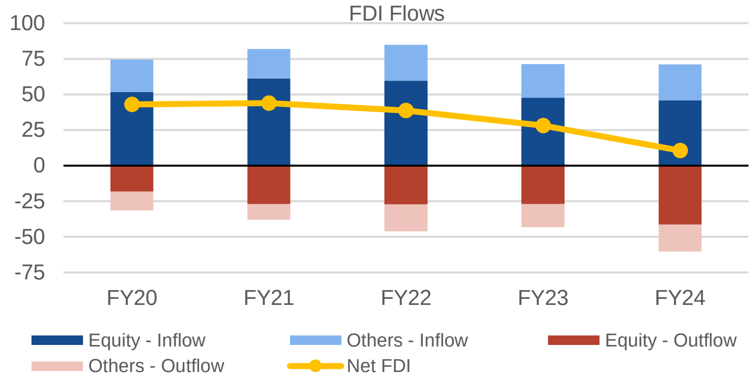
Source: CMIE, Antique

FII net longs in futures: Shorts before election but markets ran up



Source: Bloomberg

FDI: Strong redemptions likely on justified valuations



Source: DPIIT, Avendus Spark Research

Debt Market Snapshot

Source: Bloomberg

U.S. vs. India: Monetary situation

%	U.S.		India	
Year	2024	2025	FY24	FY25
Real GDP Growth	2.1	2.0	8.2	7.2
Central Bank Inflation metric	2.6	2.3	4.9	4.5
Core PCE Inflation	2.8	2.3	3.2	-

Source: Central banks. Note inflation for U.S. is PCE and India is headline CPI

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%
Gold Vs Cash	Positive	Gold	31-Dec-23	30-Jun-24	Close	10.14%
Short Term Vs Long Term	Negative	Long Term	30-Jun-23	30-Jun-24	Open	2.06%
Corp Bonds Vs G-Secs	Negative	G-Secs	31-Jul-23	30-Jun-24	Open	-0.14%
Large Cap Vs Mid Cap	Positive	Large Cap	30-Sep-23	30-Jun-24	Open	-9.76%
USD / INR	Negative	INR	31-Dec-23	30-Jun-24	Open	-0.22%
Gold Vs Cash	Negative	Cash	30-Jun-24	30-Jun-24	Open	0.00%

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	50.7%	82.1%	100.0%	91.0%	67.2%	86.6%
Success Ratio (%)	63.6%	46.3%	57.6%	53.3%	56.8%	59.6%
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%	-3.2%
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	5,460	3.5%	3.9%	14.5%	22.7%
Global	EURO STOXX 50 Price EUR	4,894	-1.8%	-3.7%	8.2%	11.3%
Global	FTSE 100 Index	8,164	-1.3%	2.7%	5.6%	8.4%
Global	Nikkei 225	39,583	2.8%	-1.9%	18.3%	19.3%
India	NSE Nifty 50 Index	24,011	6.6%	7.5%	10.5%	25.1%
India	NIFTY Midcap 100	55,737	7.8%	15.9%	20.7%	55.9%
India	NIFTY Smallcap 100	18,318	9.7%	20.0%	21.0%	69.0%
India	NSE Nifty 500 Index	22,560	6.9%	11.4%	16.1%	37.3%
	Fixed Income					
Global	US Generic Govt 10 Yr	4.40%	4.50%	4.20%	3.88%	3.84%
Global	German Bunds	2.50%	2.66%	2.30%	2.02%	2.39%
Global	JGB 10Yr Comp Yield	1.06%	1.08%	0.75%	0.65%	0.43%
Global	UK Gilts 10 Yr	4.17%	4.32%	3.93%	3.54%	4.39%
Global	China 10Y	2.21%	2.32%	2.30%	2.56%	2.64%
India	India 10Y	7.01%	6.98%	7.06%	7.17%	7.12%
India	FBIL FBTB12M	6.93%	7.02%	6.99%	7.09%	6.87%
India	India 10Y AAA	7.55%	7.57%	7.52%	7.76%	7.63%
India	India 1Y AAA	7.74%	7.72%	7.76%	7.91%	7.43%

Asset	Current	1m	3m	6m	1y
Commodities					
TR Commodity CRB Index	290.5	0.1%	0.1%	10.1%	10.9%
Indian Crude Oil Basket	86.0	4.1%	1.0%	11.4%	12.8%
Brent	86.4	5.9%	-1.2%	12.2%	15.4%
Gold	2,326.8	0.0%	4.3%	12.8%	21.2%
Aluminium	2,490.5	-5.0%	8.0%	5.9%	17.4%
Copper	439.1	-4.6%	9.6%	12.9%	17.4%
Corn	397.3	-11.0%	-10.1%	-15.7%	-28.4%
Soyabean	1,104.0	-6.8%	-6.9%	-11.4%	-8.5%
Currencies					
Dollar Index	105.87	1.1%	1.3%	4.5%	2.9%
EUR/USD	1.07	-1.2%	-0.7%	-3.0%	-1.8%
USD/JPY	160.88	2.3%	6.3%	14.1%	11.5%
GBP/USD	1.26	-0.8%	0.2%	-0.7%	-0.5%
USD/CHF	0.90	-0.4%	-0.3%	6.8%	0.4%
USD/CNY	7.27	0.4%	0.6%	2.4%	0.2%
USD/HKD	7.81	-0.1%	-0.2%	0.0%	-0.4%
USD/INR	83.39	-0.1%	0.0%	0.2%	1.6%
USD/CAD	1.37	0.4%	1.0%	3.3%	3.3%

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

Glossary:

US: United States, FX: Foreign Exchange, USD: United States Dollar, OW: Overweight, UW: Underweight, EM: Emerging Markets, DM: Developed Markets, PCE: Personal Consumption Expenditure, Fed: Federal Reserve System, YoY: Year on Year, MoM: Month on Month, FY: Fiscal Year, CY: Calendar Year, HY: High Yield, IG: Investment Grade, HC: Hard Currency, LME: London Metal Exchange, FDI: Foreign Direct Investment, RBI: Reserve Bank of India, GDP: Gross Domestic Product

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