MONTHLY INVESTMENT PERSPECTIVES AUG-24

Wealth India

GLOBAL MACRO: U.S. ELECTIONS TAKE CENTER STAGE

Given that the first Presidential debate came much earlier in this election cycle, and consensus expects Republicans to trump, we are getting closer to engaging in election trades. Our base case remains that (1) Trump's victory will be USD positive (2) Tariff/trade policy, further fiscal expansion and growth supportive measures will imply higher yields/steeper curves; (3) Some currencies will be vulnerable including EUR, CHF, JPY, CNH and MXN. Lower EURUSD remains the favored tactical election expression in G10 on the back of tariff threat under Trump's victory. Two more cuts from ECB in Sep-24 and Dec-24, and a benign economic outlook in Eurozone are likely. On the geo-political front, the Middle East region continues to witness turmoil with the hope that it does not snowball into a broader conflict. Given Trump's isolationist policies, indications are that this may happen, but at the same time the costs associated are likely to impede such incidents from ballooning.

GLOBAL EQUITIES: SMALL CAPS MAY BE IN FOCUS FOR THE U.S.

On the macro front, the U.S. GDP appears to be stronger than expected as seen in the Jun-24 quarter print. At the same time, an under-control inflation suggests that the nation has the potential of inherent real growth. As a first step, investors may consider adding a US small caps equity allocation, within the context of a risk-managed, diversified portfolio.

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

GLOBAL FIXED INCOME: RAMIFICATIONS OF ELECTIONS ON RATES

UBS announced that it will call its low coupon AUD Additional Tier1 (AT1). Most European banks will try to call their AT1s on the first call date to avoid any negative impacts coming from the non-call events. With the lower yields on investment grade (IG) dated issues, clients can consider some AT1s with shorter call date, issued by IG European bank issuers to achieve additional yield. With an increased likelihood of Trump returning to White House, investors may start to have some concerns about Mexican credits such as PEMEX. As PEMEX bonds are still trading near1-year high level, view it as another opportunity to further reduce exposure.

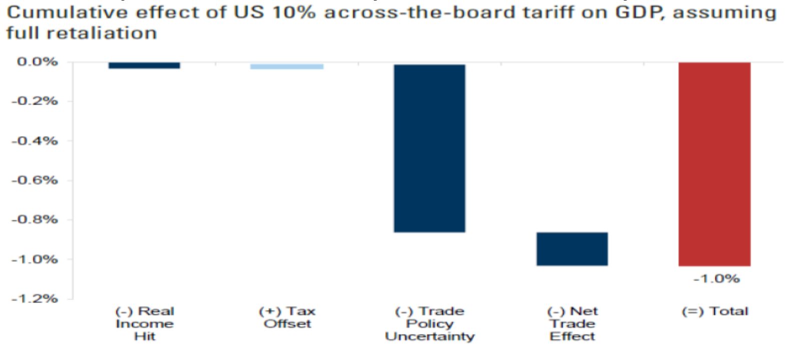
We remain OW on DM IG bonds, while turning Neutral on DM Sovereign Bonds and HY Bonds. Subordinated Debt continues to be Neutral, while HC EM Bonds are downgraded to UW. Further, we turn Neutral on Duration from OW.

GLOBAL COMMODITIES: ALL THAT GLITTERS IS NOT GOLD

Crude oil prices have dropped for the third consecutive week, hitting six-week lows. This decline is driven by concerns over Chinese demand following disappointing economic data, and after OPEC+ stuck to its plan to phase out voluntary production cuts from October. Meanwhile, the World Gold Council reported a 6% year-over-year decrease in gold demand for jewelry in Mainland China for Q1 2024, falling to 184.2 tonnes from 195.6 tonnes. As one of the world's largest gold consumers, China's reduced demand poses significant implications for global gold markets. The Indian government slashed custom duty on Gold by 6%. Hence, the narrowed duty differential and consequently, lower prices in India after the budget means buying gold overseas is likely to lose its luster significantly.

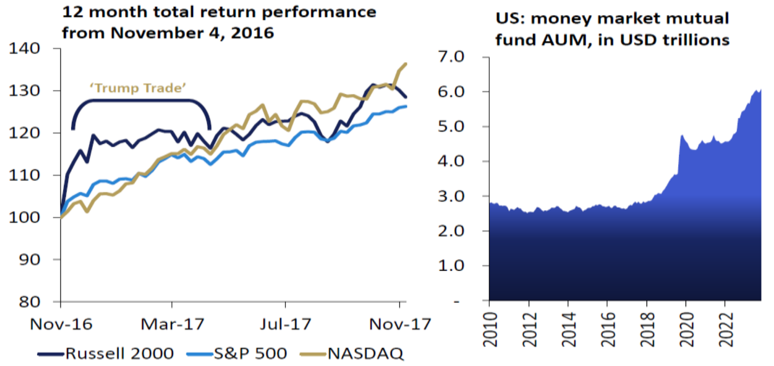
We remain one notch UW on Gold as technical indicators have started showing signs of softening.

Proposed Tariffs Would Likely Lower Euro Area GDP by 1%



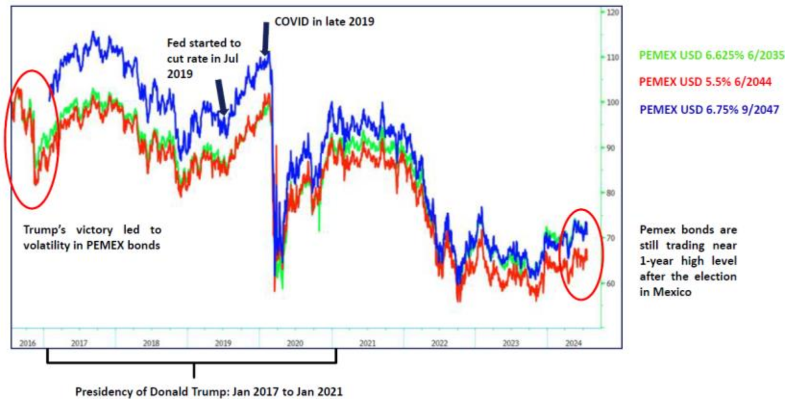
Source: Haver Analytics, Goldman Sachs Global Investment Research, LGT

May see a repeat of small caps outperforming if Trump wins



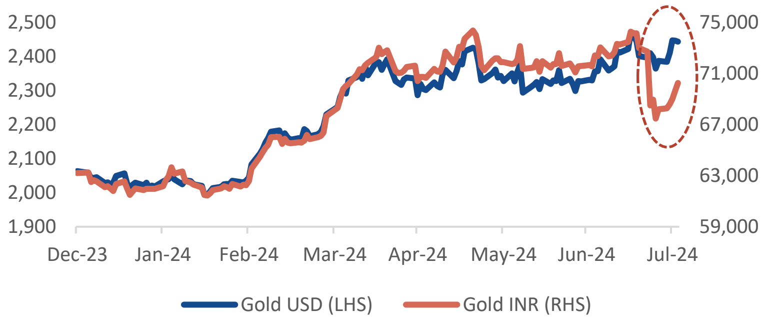
Source: Bloomberg, International Capital Institute, LGT

Trump's Win May Lead to Higher Volatility in PEMEX



Source: LGT, Bloomberg (22 Jul 2024). The issuers mentioned above are for illustration purpose only which does not imply a recommendation

Reduction in gold import duties impacted Indian gold market



Source: Bloomberg

INDIA MACRO: CAPEX INITIATIVE PUSHED ONTO STATES AND PRIVATE SECTOR

While the Budget maintained its steadfast focus on capex committing INR 11.1 lakh crores (as in the interim Budget as well), the FM sought certain, arguably populist, measures in revenue expenditure such as DBT for first time employees, e-vouchers for Education loans, financial support up to INR 10 Lakhs for domestic educational institutions etc. Within capex, however, allocations towards the major segments (Defense, Railways, Roads & Highways, and Housing & Urban development) seem subdued compared to recent years at a 5.5% YoY increase in spends for FY25. While the overall capex itself is budgeted to increase at 17.1% YoY, a sizeable allocation is in the form of the INR 1.6 lakh crore loans and advances given to state governments, pushing out some of the onus of capex intensity onto the States, which is yet to translate in their accounts as per CAG India. Thus, excluding the capital infusion to PSUs and state loans for capex, the adjusted Capex growth for FY25 appears to moderate at 12.4%. On the revenue side, strong personal income tax collection (13.6% YoY) and windfall RBI dividends should enable the government to display a faster fiscal consolidation path to 4.9% in FY25.

INDIA EQUITIES: EQUITIES REMAIN IN THE LIMELIGHT

Now that the Union Budget has been presented and the coalition partners' trust has been won through focused allocations to AP and Bihar, the first test of the Govt.'s stability is behind us. In recent weeks, monsoons have spread in most of the regions and the area under cultivation is on the rise. Although certain regions are still to see normal rains, overall monsoon outlook seems closer to long-term averages. This would help revive rural consumption in the weeks to come. A focus on manufacturing indigenisation programmes points to policy continuum. Fiscal prudence while expanding balance sheet has been the hallmark of "Modi"nomics over the past decade. The FY25 budget with a balanced fiscal deficit glide path asserts the Govt.'s position despite recent odd electoral outcomes, imparts credibility to the ruling coalition and the market sentiment. In this backdrop, we see market participants' focus shifting back to corporate and macro fundamentals, valuations, earnings outlook, and the demand-supply of liquidity in the marketplace. A virtuous cycle may well be falling into place on a longer-term horizon that has positive domestic, regional, and international implications of liquidity chasing Indian equities and could keep equity valuations higher for longer. Incremental allocations can be considered in stock-specific and market-wide corrections from a medium to longer-term perspective.

We remain Neutral between Equities and Bonds, maintaining strategic Asset Allocation. Within Large and Midcaps, we are 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

In July, the Indian fixed-income market experienced a notable rally across the yield curve, driven by positive sentiments surrounding the country's fiscal consolidation path outlined in the final budget, increased foreign portfolio investment (FPI) participation, and a globally benign rate easing environment. By end July, the 10-year government security (G-sec) yield had decreased to 6.93% by 8 bps in a month. During the same period, the spread between the 10-year benchmark bond and the repo rate narrowed to 43 bps from 51 bps. Money market yields too declined sharply in July due to surplus liquidity, leading to a steepening of the sovereign yield curve as yields at the shorter end decreased more than those at the longer end.

The upcoming monetary policy meeting is anticipated to be uneventful; The Reserve Bank of India (RBI) Monetary Policy Committee (MPC) is expected to keep the rates unchanged and maintain the current monetary policy stance of withdrawing accommodation until there is greater clarity on inflation trends and the US policy outlook. Positive market sentiment driven by global rate cuts and favourable supply-demand dynamics is expected to keep yields stable. The 10-year G-sec yield is projected to trade between 6.85-7.00%, with the potential to drift towards 6.75% over the medium term in the latter half of the fiscal year, benefiting from the change in stance by central banks in major developed markets. The RBI is anticipated to shift its stance from the withdrawal of accommodation to neutral before starting the rate easing cycle.

From a risk-reward perspective, it is advisable to maintain an overweight position in the medium to long end of the yield curve, specifically in the 3-10-year range. This segment offers an attractive carry and potential for a duration play, as yields tend to respond early to changes in the interest rate cycle. The short end of the yield curve may remain anchored around the repo rate, mainly influenced by surplus liquidity conditions. Furthermore, given the narrowing credit spread across various maturities and from a pure duration perspective, an overweight stance on Government Securities (G-Sec) compared to Corporate Bonds is recommended.

CURRENCY: INDIA MACRO REMAINS SOLID FOR THE INR

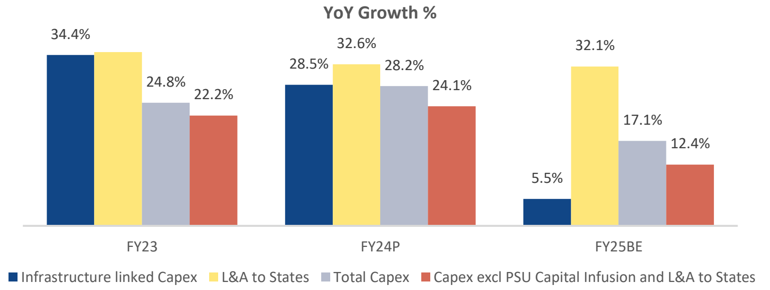
The INR has been weakening vs. the USD in the last month primarily because of strong greenback buying by the RBI via intervention. Secondly, the union Budget FY25 also made a slew of changes in the capital gains taxation regime across the holding period and taxation rates. This, along with the increase in STT in F&O, may have caught some market participants off-guard. Simultaneously, the latest Q2CY24 U.S. GDP print came in higher than expectations, fueling the thesis that rate cuts might once again get pushed off the table for CY24 thereby creating a safe-haven carry yield investment in the USD. Consequently, some weakness was perceived in the INR, though a reinforced downtrend in the glide path of fiscal deficit provides comfort. **Consequently, we remain one notch OW on the INR.**

Capex Deep Dive

Central Government Capex (INR Lakh Cr.)	FY22	FY23	FY24P	FY25BE	YoY
Ministry of Defense	1.38	1.43	1.54	1.72	11.5%
Ministry of Railways	1.17	1.59	2.43	2.52	3.9%
Ministry of Road Transport & Highways	1.17	2.06	2.64	2.72	3.1%
Ministry of Housing & Urban development	0.26	0.27	0.27	0.29	7.9%
Infrastructure linked Capex	**3.98**	**5.35**	**6.87**	**7.25**	**5.5%**
Others	**1.36**	**0.90**	**1.00**	**1.94**	**93.5%**
PSU Capital Infusion (Air India and BSNL)	*0.62*	*0.26*	*0.55*	*0.83*	*50.7%*
Loans and advances (L&As)	**0.58**	**1.15**	**1.61**	**1.92**	**19.4%**
L&A to States	0.23	0.93	1.23	1.62	32.1%
Total Capex	**5.93**	**7.40**	**9.49**	**11.11**	**17.1%**
Capex excl PSU Cap. Infusion & L&A to States	*5.08*	*6.21*	*7.71*	*8.66*	*12.4%*

Source: Budget Documents, MOFSL

Are the States up for the uphill Capex task?



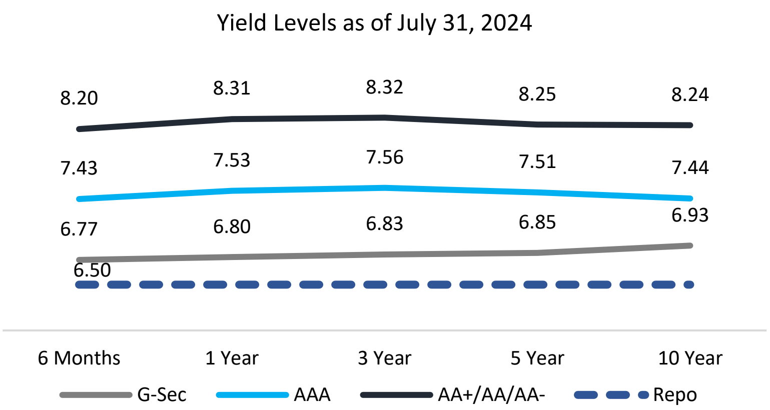
Source: Budget Documents, MOFSL

Autos and Housing: Major Beneficiaries from the Budget FY25

PLI for (INR Cr.)	Total Outlay Planned	3yr Total	FY23	FY24BE	FY24RE	FY25BE
LS electronics & IT hardware	46,000	12,410	1,650	4,650	4,560	6,200
Pharma drugs	15,000	4,290	660	1,000	1,630	2,000
Telecom	12,200	40	40	0	0	0
High eff. solar PV modules	24,000	0	0	0	0	0
ACC battery	18,100	260	0	0	10	250
Auto	25,900	3,990	10	600	480	3,500
Semicon.	76,000	8,410	10	3,000	1,500	6,900
Others	44,300	4,010	520	1,810	1,300	2,190
Total	**261,500**	**33,410**	**2,890**	**11,060**	**9,480**	**21,040**
Min. of Housing & Urban Affairs		229,158	77,310	76,432	69,271	82,577

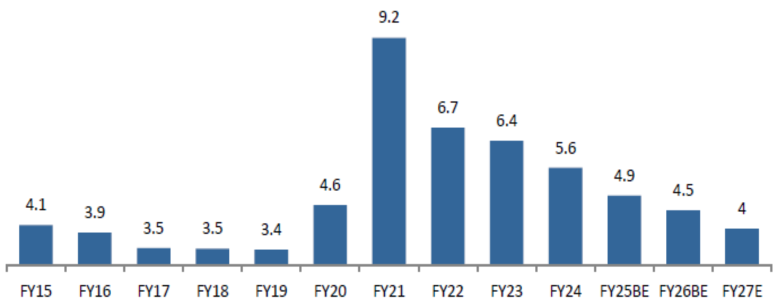
Source: Budget documents

Debt Market Snapshot



Source: Bloomberg

Fiscal Deficit Glide Path (% of GDP)



Source: GoI

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	31-Jul-24	Open	-3.40%
Corp Bonds Vs G-Secs	Negative	G-Secs	31-Jul-23	31-Jul-24	Open	1.02%
Large Cap Vs Mid Cap	Positive	Large Cap	30-Sep-23	31-Jul-24	Open	-12.6%
USD / INR	Negative	INR	31-Dec-23	31-Jul-24	Open	-0.62%
Gold Vs Cash	Negative	Cash	30-Jun-24	31-Jul-24	Open	4.09%

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	48.5%	80.9%	98.5%	89.7%	66.2%	85.3%
Success Ratio (%)	63.6%	45.5%	59.7%	49.2%	55.6%	60.3%
Avg. positive alpha	4.3%	2.4%	0.5%	0.6%	1.1%	3.7%
Avg. negative alpha	-2.7%	-2.4%	-0.5%	-0.8%	-0.7%	-5.9%
Avg. alpha	1.8%	-0.2%	0.1%	-0.1%	0.3%	-0.1%

Source: Bloomberg. Assuming a 6% annualised yield for cash. Note: MCX Generic gold from 30th June 2024.

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%

	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 July 31, 2024.

Glossary:

US: United States, USD: United States Dollar, EUR: Euro, CHF: Swiss Franc, JPY: Japanese Yen, CNH: Chinese Renminbi, MXN: Mexican Peso, GDP: Gross Domestic Product, OW: Overweight, UW: Underweight, EM: Emerging Markets, DM: Developed Markets, HY: High Yield, IG: Investment Grade, HC: Hard Currency, OPEC: Organization of the Petroleum Exporting Countries, FM: Finance Minister, DBT: Direct Benefit Transfer, PSU: Public Sector Undertakings, Capex: Capital Expenditure, RBI: Reserve Bank of India, CAG: Comptroller and Auditor General, FY: Fiscal Year, YoY: Year on Year, AP: Andhra Pradesh, INR: Indian Rupee, STT: Securities Transaction Tax, F&O: Futures & Options, CY: Calendar Year

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