Wealth India

MONTHLY INVESTMENT PERSPECTIVES SEP-24

GLOBAL MACRO: OF WARS AND CENTRAL BANKS…

The recent rate hike by the Bank of Japan and the substantial increase in the value of the Yen have raised concerns about a potential big swing in the Yen carry trade. These worries have been magnified by the uncertainty surrounding a possible U.S. recession following the disappointing U.S. jobs data, which triggered a worldwide market decline. Despite these challenges, the possibility of a U.S. recession seems unlikely. Encouragingly, the International Monetary Fund (IMF) and the U.S. Federal Reserve have issued optimistic forecasts, projecting a growth rate of 1.9% to 2% for 2025. While there are ongoing conflicts that have yet to show signs of resolution, there is still hope for improvement. Additionally, discussions at the Jackson Hole symposium have highlighted the potential for easing monetary conditions in the U.S. and Europe in 2024, potentially alleviating global trade tensions.

GLOBAL EQUITIES: CONSUMPTION SECTORS IN FOCUS

It looks like consumers in the U.S. have been making the most of their savings, causing a 162 bps increase in credit card delinquencies from a recent low. This increase is higher than the 123 bps rise observed before the global financial crisis (GFC) 2008. Looking at leading indicators of the labour market, like continuing jobless claims, a rise in unemployment, and reduced small business hiring plans, suggests a gradual weakening shortly, which might limit consumer spending. With the upcoming elections, global markets are somewhat uncertain in CY24. However, more stimulus measures may be on the way to help secure votes, which could potentially boost consumer spending.

We remain OW in the U.S., Japan, and India. Europe and Asia ex-Japan continue to be Neutral while we remain U.W. on E.M. ex-Asia. Sectorally, we stay O.W. on Comm. Services, Info Tech, Financials and Industrials, and remain neutral on Real Estate, cons Discretionary, & Health Care. U.W. sectors include Energy, Utilities, & Cons. Staples & Materials.

GLOBAL FIXED INCOME: MONETARY EASING ON THE CARDS

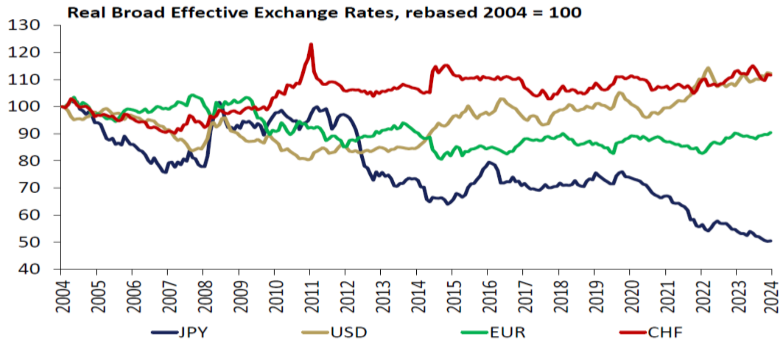
Anticipate an uptick in spending post-U.S. elections, regardless of the outcome. If the Republicans secure victory, tax cuts are on the horizon, while the Democrats may prioritize increased expenditure. It's crucial to monitor U.S. treasuries closely, given the potential impact. With Kamala Harris joining the race, the conversation around 'Women of Color' has emerged as a resilient force countering the momentum sparked by the 'Attack on Trump'. Notwithstanding this, Trump's proposed economic strategies, including tariffs on China and his commitment to global peace, could work in his favour. The Federal Reserve has underscored its intentions to enact a rate adjustment in September 2024, responding to a recent surge in unemployment. Furthermore, the U.S. Treasury is gearing up to accelerate security buybacks, a move expected to bolster short-term liquidity. Exciting times lie ahead as we navigate the dynamic landscape post-election!

We remain O.W. on D.M. IG bonds, while D.M. Sovereign Bonds, HY Bonds & Subordinated Debt continues to be Neutral, while HC EM Bonds are downgraded to U.W. Further, we remain Neutral on Duration.

GLOBAL COMMODITIES: GOLD FACING RESISTANCE DESPITE STRONG DEMAND

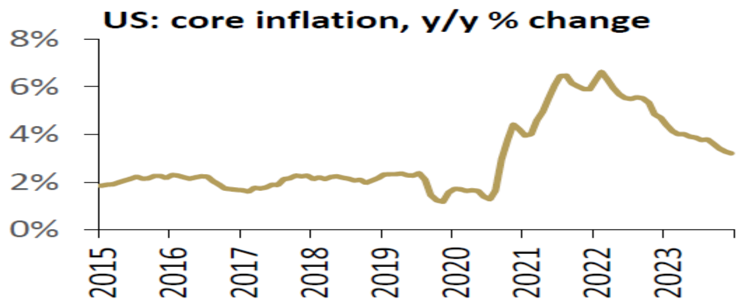
Amidst fluctuations in the market, crude oil prices have recently been on a downward trend primarily due to the anticipation of heightened OPEC+ production in October, coupled with sluggish demand in key consumer markets such as China and the U.S. Concerns over future consumption have been mounting, potentially exacerbating the delicate balance between supply and demand. Consequently, both Brent and WTI have recorded losses over the past two months, reflecting prevalent worries about demand despite recent disruptions in Libyan oil supply. Conversely, the allure of gold has been growing, buoyed by expectations of a Federal Reserve rate cut, robust central bank acquisitions, and increased demand as a secure investment during periods of geopolitical tensions. However, the potential for further upticks in gold's value may hinge on a more substantial rate cut than is presently envisaged. Therefore, our outlook on gold remains cautiously guarded and **we remain one notch UW on Gold.**

Roller coaster ride for the Yen



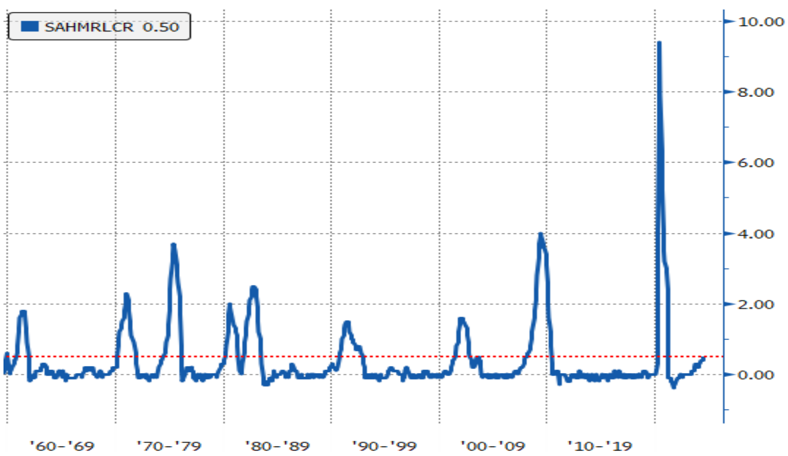
Source: JP Morgan, LGT

Cooling U.S. Core Inflation



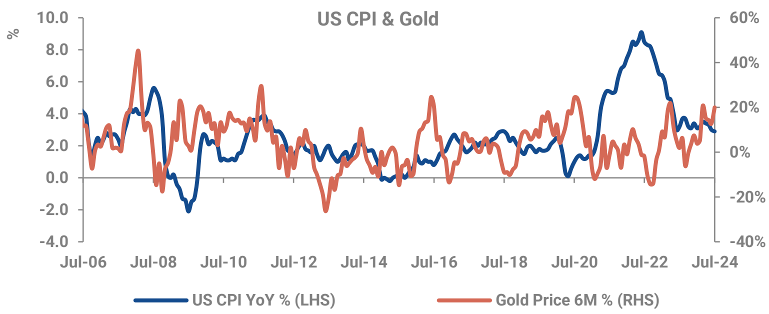
Source: Bloomberg, International Capital Institute, LGT

U.S. Unemployment – SAHM rule kicking in for Jul-24 data (4.3%)



Source: Bloomberg

US CPI tends to be cooling down which might put brakes on this gold rally



Source: Bloomberg

INDIA MACRO: HOW DOES THE LARGEST DEMOCRACY ENSURE SUSTAINED GROWTH

India's economy is experiencing robust real growth on a grand scale, indicating significant progress. However, the current surge in growth may be partly influenced by an artificial reduction in our GDP deflator, potentially resulting in a slight overestimation of the real growth. The prediction of high real interest rates for Q1FY26 by the RBI suggests the likelihood of a rate cut, which is quite promising. Several central banks, including the Bank of Canada, the Swiss National Bank, and the Bank of England, have proactively implemented rate cuts, setting a positive precedent. Our recent commentary highlighted the temporary decline in capital expenditure, with the central government taking a step back and the states yet to pick up the pace. Looking ahead, there's optimism that an anticipated rate cut could stimulate infrastructure development led by the states and drive future national GDP growth through increased private investment.

INDIA EQUITIES: A PAUSE AFTER A STELLAR CYTD RUN FOR INDICES

The past month has been a whirlwind of events, from geopolitical tensions in the Middle East to shifts in Japan's monetary policies and challenges in the U.S. labour market. Despite this volatility, there have been some interesting trends in investment flows. Foreign portfolio investors (FPIs) have shown an affinity for mid and small caps, particularly within the industrial sector. On the other hand, mutual funds (MFs) have been bullish on large caps and mid and small caps, with preference for the healthcare sector and private banks.

The Q1FY25 earnings season has yielded a mix of results, with sectors like IT and pharma demonstrating healthy performance due to their export orientation. Despite the uncertainties, India's consistent policies after the Union budget, declining inflation, and a promising growth outlook continue to make Indian equities an attractive investment option. Valuations are deemed fair, and mid-teen earnings growth is anticipated over a two-year CAGR basis (FY24-26). Furthermore, robust domestic liquidity, strong domestic institutional investor (DII) flows, and a surge in retail inflows provide a buffer against significant downside risks.

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 August 2024, the Indian fixed-income market underwent remarkable changes, reflecting a dynamic economic landscape. Surplus liquidity caused the shorter end of the yield curve to soften more than the longer end. Notably, the spread between the 10-year and repo rate narrowed to 36 basis points, signifying increased stability compared to previous months. Looking back, the 10-year G-sec yield had increased by 31 basis points from the beginning of the year. At the same time, the 1-year G-sec saw a 35-basis point increase, demonstrating a resilient market response.

Despite the real GDP growth rate for Q1 FY25 being 6.7%, the slowest since Q4 FY23, there is optimism for the future. Although lower than the previous quarter's growth rate of 7.8% and the Reserve Bank of India's (RBI) revised forecast of 7.1%, this figure is attributable to specific factors such as unfavourable base effects, heat waves, and the general elections. Growth and inflation have a positive outlook, with expectations for moderation in the coming months. The RBI is poised to carefully assess economic data before making any decisions, a proactive approach many stakeholders appreciate.

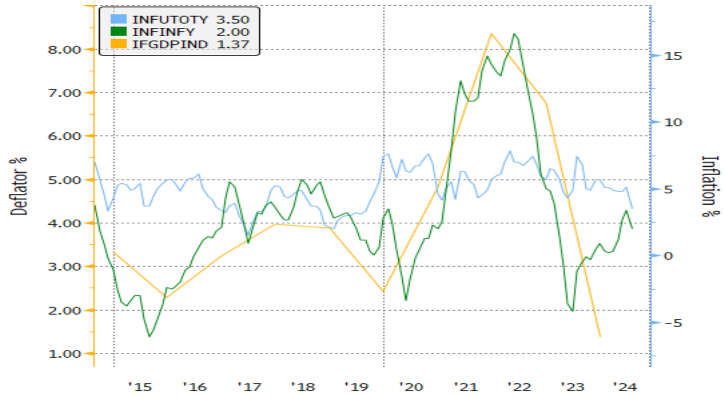
The 10-year G-sec yield is anticipated to remain 6.80-6.95% in the near term. However, an optimistic view is that it may drift towards 6.75% over the medium term, particularly in the latter half of the fiscal year. This positive outlook is bolstered by the anticipated moderation in inflation and favourable supply-demand dynamics. Furthermore, the RBI is expected to shift its stance from withdrawing accommodation to neutral before initiating the rate easing cycle, a move welcomed by market participants.

We 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, we find the 3-6-year range in the medium-duration segment appealing from a risk-reward perspective. From a pure duration perspective, we maintain an overweight stance on Government Securities (G-Sec) compared to Corporate Bonds.

CURRENCY: INR HOLDING ON AGAINST ASIAN EMFX

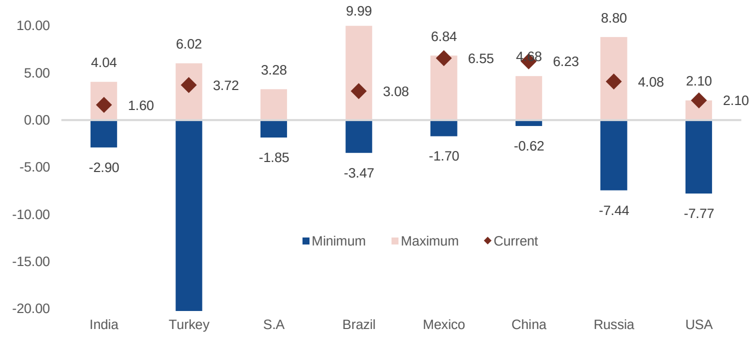
The recent change in the system where the Japanese Yen is no longer the preferred currency for a carry trade has caused some shifts in the currency markets. Many currency trades have been closed, leading to short covering in several Asian emerging market currencies. Among the unpegged foreign exchange (FX), the USD/INR pair is in the best position because it has the lowest 3-month forward implied volatility, one of the highest Forex reserves, and the lowest short-term external debt-to-reserves ratio. India's overall economic situation is well-balanced and positioned for strong growth in the medium term. As a result, **we maintain a positive outlook on the Indian Rupee and remain one notch OW.**

Deflator vs. CPI and WPI: Real GDP seems overstated given a soft deflator vs. harder inflation indices



Source: Bloomberg

Real Rates remain high for India



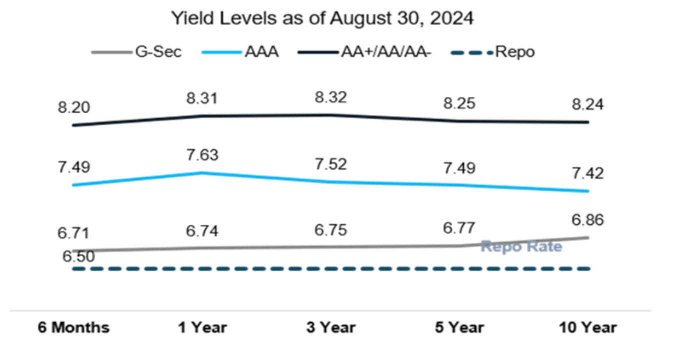
Source: Bloomberg

Q1FY25 NIFTY500 Review

NIFTY 500	PAT			EBIDTA			REVENUE	
Sector	Growth YoY	Growth QoQ	Margins	Growth YoY	Growth QoQ	Margins	Growth YoY	Growth QoQ
Communication Services	NA	NA	-0.8%	4.3%	2.7%	43.0%	3.3%	3.0%
Consumer Discretionary	24.2%	-28.4%	6.1%	19.3%	0.6%	14.0%	4.1%	-7.4%
Consumer Staples	9.0%	8.6%	11.5%	9.4%	8.1%	18.2%	8.1%	5.6%
Energy	-39.9%	-19.2%	5.0%	-25.7%	-11.3%	11.4%	3.5%	-1.8%
Financials	17.1%	-6.2%	16.5%	14.6%	-2.6%	34.2%	20.1%	-4.8%
Health Care	30.8%	22.3%	16.3%	25.5%	8.6%	27.8%	10.9%	3.9%
Industrials	29.6%	-17.7%	9.6%	22.2%	-14.8%	19.1%	12.1%	-15.7%
Information Technology	9.2%	-4.4%	13.8%	9.0%	-2.7%	21.9%	4.8%	1.0%
Materials	3.7%	-2.2%	7.0%	8.2%	-2.1%	17.7%	1.3%	-4.2%
Real Estate	85.1%	-21.9%	23.0%	60.6%	-15.5%	43.4%	26.6%	-26.4%
Utilities	-5.5%	12.9%	13.2%	4.4%	7.6%	31.7%	12.8%	7.1%
Aggregate	2.5%	-8.2%	9.8%	5.6%	-3.2%	21.3%	8.3%	-3.7%
Ex Financials	-5.2%	-9.4%	7.7%	0.9%	-3.5%	17.4%	5.2%	-3.4%
Ex Financials and Oil & Gas	13.2%	-6.2%	9.2%	12.3%	-1.0%	20.6%	6.0%	-4.2%

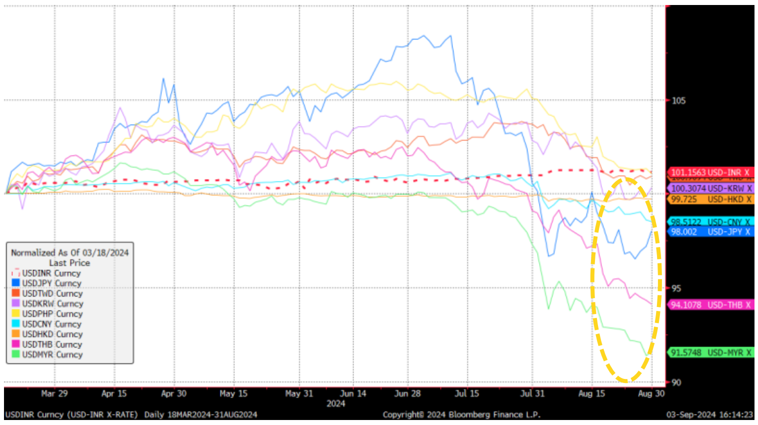
Source: ACE Equity

Debt Market Snapshot



Source: Bloomberg

INR vs. Asian EMFX



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%
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-Aug-24	Open	-4.05%
Corp Bonds Vs G-Secs	Negative	G-Secs	31-Jul-23	31-Aug-24	Open	1.40%
Large Cap Vs Mid Cap	Positive	Large Cap	30-Sep-23	31-Aug-24	Open	-12.04%
USD / INR	Negative	INR	31-Dec-23	31-Aug-24	Open	-0.79%
Gold Vs Cash	Negative	Cash	30-Jun-24	31-Aug-24	Open	0.95%

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	47.8%	81.2%	98.6%	89.9%	66.7%	85.5%
Success Ratio (%)	63.6%	46.4%	60.3%	48.4%	54.3%	59.3%
Avg. positive alpha	4.3%	2.3%	0.5%	0.6%	1.1%	3.7%
Avg. negative alpha	-2.7%	-2.4%	-0.5%	-0.8%	-0.7%	-3.2%
Avg. alpha	1.8%	-0.2%	0.1%	-0.1%	0.2%	0.9%

Source: Bloomberg. Assuming a 6% annualised yield for cash. Note: MCX Generic gold from 31st August 2024.

GLOBAL ASSET PERFORMANCE SNAPSHOT

	Asset	Current	1m	3m	6m	1y
	Equities					
Global	S&P 500 INDEX	5,648	2.3%	7.0%	10.8%	25.3%
Global	EURO STOXX 50 Price EUR	4,958	1.7%	-0.5%	1.6%	15.4%
Global	FTSE 100 Index	8,377	0.1%	1.2%	9.8%	12.6%
Global	Nikkei 225	38,648	-1.2%	0.4%	-1.3%	18.5%
India	NSE Nifty 50 Index	25,236	1.1%	12.0%	14.8%	31.1%
India	NIFTY Midcap 100	59,287	0.5%	14.7%	22.7%	51.6%
India	NIFTY Smallcap 100	19,307	0.9%	15.6%	20.8%	57.7%
India	NSE Nifty 500 Index	23,735	0.9%	12.5%	18.1%	40.2%
	Fixed Income					
Global	US Generic Govt 10 Yr	3.90%	4.03%	4.50%	4.25%	4.11%
Global	German Bunds	2.30%	2.30%	2.66%	2.41%	2.46%
Global	JGB 10Yr Comp Yield	0.92%	1.07%	1.08%	0.72%	0.66%
Global	UK Gilts 10 Yr	4.02%	3.97%	4.32%	4.12%	4.36%
Global	China 10Y	2.18%	2.15%	2.32%	2.35%	2.58%
India	India 10Y	6.86%	6.93%	6.98%	7.08%	7.16%
India	FBIL FBTB12M	6.72%	6.79%	7.02%	7.11%	7.01%
India	India 10Y AAA	7.45%	7.48%	7.57%	7.63%	7.62%
India	India 1Y AAA	7.76%	7.65%	7.72%	7.88%	7.68%

	Current	1m	3m	6m	1y
Commodities					
TR Commodity CRB Index	277.0	-0.4%	-4.5%	0.7%	-1.7%
Indian Crude Oil Basket	78.8	-1.5%	-4.7%	-4.5%	-10.2%
Brent	78.8	-2.4%	-3.5%	-5.8%	-9.3%
Gold	2,503.4	2.3%	7.6%	22.5%	29.0%
Aluminium	2,433.9	8.6%	-7.1%	10.8%	12.0%
Copper	414.5	-0.8%	-9.9%	8.1%	9.9%
Corn	378.0	-1.2%	-15.3%	-9.1%	-18.0%
Soyabean	1,000.0	-2.2%	-15.6%	-11.8%	-22.6%
Currencies					
Dollar Index	101.70	-2.3%	-2.8%	-2.4%	-1.9%
EUR/USD	1.10	2.1%	1.8%	2.2%	1.9%
USD/JPY	146.17	-2.5%	-7.1%	-2.5%	0.4%
GBP/USD	1.31	2.1%	3.0%	4.0%	3.6%
USD/CHF	0.85	-3.2%	-5.8%	-3.9%	-3.8%
USD/CNY	7.09	-1.9%	-2.1%	-1.4%	-2.3%
USD/HKD	7.80	-0.2%	-0.3%	-0.4%	-0.6%
USD/INR	83.87	0.2%	0.5%	1.2%	1.3%
USD/CAD	1.35	-2.3%	-1.0%	-0.6%	-0.1%

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

Glossary:

BOJ: Bank of Japan, US: United States, CY: Calendar Year, IMF: International Monetary Fund, FED: Federal Reserve System, GFC: Global Financial Crisis, OW: Overweight, DM: Developed Markets, IG: Investment Grade, HC: Hard Currency, EM: Emerging Markets, HY: High Yield, OPEC: Organization of the Petroleum Exporting Countries, WTI: West Texas Intermediate, FPI: Foreign Portfolio Investment, UW: Underweight, GDP: Gross Domestic Product, CAGR: Compounded Annual Growth Rate, G-sec: Government Securities, MPC: Monetary Policy Committee, RBI: Reserve Bank of India, EMFX: Emerging Markets Foreign Exchange, FX: Foreign Exchange, JPY: Japanese Yen, USD: United States Dollar, INR: Indian Rupee, Capex: Capital Expenditure, CNY: Chinese yuan renminbi, BPS: Basis Points, G-SEC: Government Securities