MONTHLY INVESTMENT PERSPECTIVES
OCT-24

LGT Wealth India

GLOBAL MACRO: U.S., MIDDLE EAST, JAPAN AND CHINA HOG LIMELIGHT

The Federal Reserve's unexpected interest rate cut is a proactive step in managing economic uncertainties. While Chairman Jerome Powell has indicated that future rate cuts will be more measured, the resilience of earnings growth signals a potential smooth economic slowdown despite concerns about a recession. It's worth noting that global oil demand, particularly in China, has declined, prompting some caution about the overall economic outlook. Historical data shows that uncoordinated rate cuts have previously sparked positive reactions in financial markets, such as in the US in 1995. The Fed's recent rate cut reinforces the argument for a soft landing. Additionally, ongoing conflicts in the Middle East and the appointment of a new Prime Minister in Japan are significant developments to watch.

GLOBAL EQUITIES: REAL ESTATE U.S. SECTOR IN FOCUS

Historically, real estate benefits from lower interest rates, as they drive mortgage rates (increasing affordability) lower for home buyers and reduce interest expenses for REITs. However, there are varying degrees of impact on earnings and multiples across global property, with a greater benefit to earnings and valuations in developed markets. Many developed market (DM) stocks trade based on their dividend yield and could rise if rates fall. DM stocks are also sensitive to their asset and book values, which can increase if cap rates decline. In contrast, emerging market (EM) stocks are more influenced by local demand, supply, and regulations. Japan is somewhat unique in that its interest rates are expected to rise. Real assets, which also serve as a bond proxy, are generally unloved by long-only funds and hedge funds. However, there could be selective opportunities in property names that benefit from interest rate cuts and improving fundamentals.

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: U.S. AND CHINA OPT FOR EASING

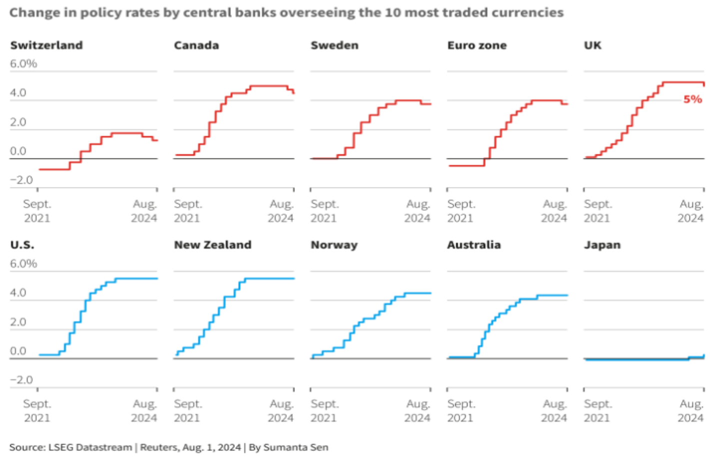
The US Federal Reserve has started reducing interest rates with a "jumbo" cut of -50 basis points, which was more aggressive than the expected -25 basis points cut. The following two FOMC meetings are expected to see cuts of -25 basis points each. The market has been postponing the expected timing of a recession for almost 18 months now. Opinion polls still indicate a very close race between Harris and Trump. Although Harris seems to have a lead, it is within the margin of error. In emerging markets, China has introduced another stimulus. Still, it remains to be seen if this will positively impact fundamentals and corporate earnings, which have yet to improve convincingly during past easing cycles. Real estate prices need to show sustained improvement over the medium term.

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

GLOBAL COMMODITIES: BALANCING GEOPOLITICAL RISK & ECONOMIC STIMULUS

Crude oil markets are currently unstable due to recent attacks in the Middle East, which have raised concerns about Iran's potential involvement in the conflict. This poses a significant risk of supply disruptions from one of OPEC's main producers. Despite these risks, oil prices have been under pressure as OPEC+ plans to increase output by 180,000 barrels per day in December. Additionally, Libya's oil exports are expected to resume, further adding to global supply. On the other hand, the recent 50 basis points rate cut by the U.S. Federal Reserve and expectations of further easing have driven a surge in gold prices. Geopolitical tensions, such as the Israel-Hezbollah conflict and the ongoing Russia-Ukraine war, have also boosted demand for Gold as a safe-haven asset. Central banks' continued buying has supported prices, and fears of escalating tensions in the Middle East remain a critical factor that could limit any downside for gold prices in the near term. Therefore, we **turn neutral on Gold.**

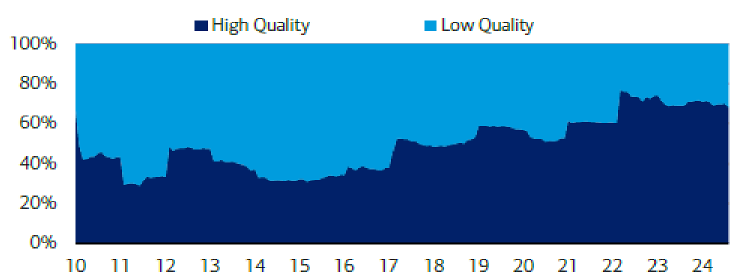
So far…The global race to cut rates has started since Mar-24



Source: LSEG DataStream, Reuters, 1-Aug-24, By Sumanta Sen, LGT

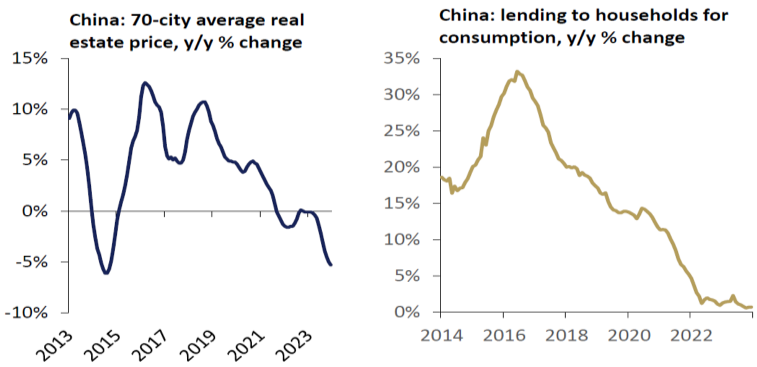
U.S. Property: Real Estate market cap doubled in quality proportion

% of S&P 500 Real Estate (by market cap) with B+ or higher S&P quality rating vs. % with B or worse (as of 8/2024)



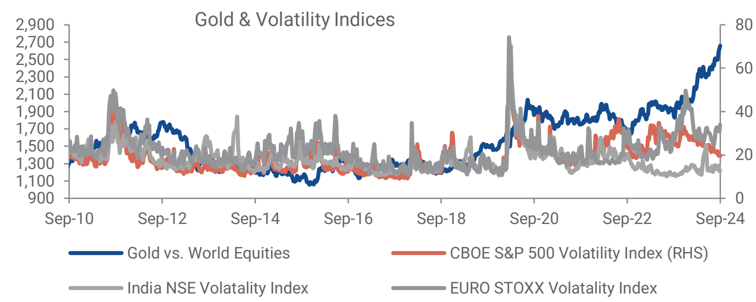
Source: Factset, Standard & Poor's BoFA Research (9 Sep 24), LGT.

China's household balance sheets are under pressure



Source: National Statistics Bureau, LGT

Despite geopolitical tensions, VIX indices remain stable



Source: Bloomberg

INDIA MACRO: GDP INTERNALS IN THE MIDST OF A REJIG

India's economy is experiencing a remarkable surge in production and demand, signalling a bright future. The manufacturing industry is taking centre stage in propelling economic growth, complementing the longstanding dominance of the services sector, particularly in IT exports. There's a noticeable uptick in consumption growth on the demand front, indicating a favourable recovery trajectory. Government capital expenditure has rebounded impressively since July 2024, following a temporary slowdown during the elections. With robust personal income collections, it's evident that the fiscal target of 4.9% for FY25 is well within reach. While there are some concerns regarding personal income tax collections, excluding STT and capital gains tax, the stability of corporate income taxes is reassuring, thanks to the increasing profitability of many firms. India's economic landscape is brimming with promise and resilience, setting the stage for sustained growth and prosperity.

INDIA EQUITIES: BRIGHT DOMESTIC MACRO COUPLED WITH FOREIGN MONETARY EASING

Indian equity markets responded positively to the Fed's decision to cut rates by 50bps on September 24th. In the 1995 rate-cut cycle, the small-cap segment and Indian equities delivered higher returns, and we can expect similar positive outcomes this time, too. Despite slightly higher valuations, Indian stocks are poised for substantial macroeconomic growth, making them attractive to foreign investors who may have missed out on recent market movements. With this promising outlook, we can continue to witness a positive outlook for Indian equity markets.

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 look more attractive. Financials, IT and Consumer Staples are likely to be in focus with the start of the rate ease cycle and impending improvements in rural demand. Industrials and consumer discretionary offer healthy earnings growth, but valuations limit the margin of safety and upside in the near term. However, from hereon, portfolio gains could be led by bottoms-up selection.

INDIA FIXED INCOME: 2024 - YEAR OF THE BOND

The Indian fixed-income market experienced a significant rally across the yield curve in September 2024, supported by favourable global and domestic developments. The standout factors driving this rally include global monetary easing led by the US Federal Open Market Committee (FOMC), a benign CPI inflation print, and strong Foreign Institutional Investor (FII) debt inflows. As of September 30, 2024, the 10-year government security (G-sec) yield had fallen to 6.75%, down from 6.86% in August, highlighting a 42-basis point (bps) rally since the start of the year.

Notably, the shorter end of the yield curve softened more than the longer end, driven by surplus liquidity and the cancellation of the last two weekly T-bill auctions. This led to a narrowing of the spread between the 10-year G-sec yield and the repo rate, which contracted to 25 bps from 36 bps in August and 67 bps in December 2023.

The upcoming RBI monetary policy will be critical for market participants. With growth and inflation expected to moderate, the RBI may signal a slightly dovish stance. We anticipate that while the RBI may maintain its current policy rate in the near term, it could lay the groundwork for a rate-cutting cycle beginning in December 2024. By then, the central bank will have further clarity on inflation trends and the Q2 FY25 GDP report to guide its decisions.

In the near term, the 10-year G-sec yield is expected to remain volatile within a range of 6.70% to 6.85%. However, as global central banks continue their dovish pivot and domestic inflation moderates, there is potential for the 10-year yield to drift lower towards 6.60% in the latter half of the fiscal year. This outlook is supported by favourable supply-demand dynamics, particularly with the government's H2FY25 borrowing calendar of INR 6.61 trillion, which includes a balanced distribution of maturities across the curve.

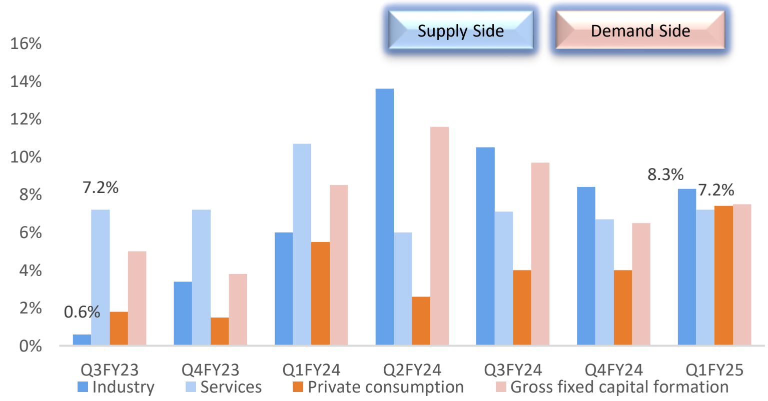
Given the current environment, we recommend maintaining an overweight position in the medium to long end of the yield curve. The 3-6-year segment offers an attractive risk-reward balance, benefiting from potential duration plays as yields respond early to interest rate cycle changes. From a pure duration perspective, we maintain a preference for government securities (G-secs) over corporate bonds, given the former's better carry and safety in the current interest rate environment.

In conclusion, while volatility remains in the short term, we see room for yields to compress further, presenting opportunities for duration strategies. We continue to monitor the RBI's stance closely as it navigates the evolving macroeconomic landscape.

CURRENCY: LOOKING AT HISTORY FOR CURRENCY MOVEMENTS

When analyzing Fed cutting cycles since 1995, the Dollar's returns do not show a consistent pattern before or after the easing cycle. However, comparing easing cycles between the Fed and G10 central banks in the same period reveals a clearer picture. Coordinated cutting cycles typically result in Dollar strength, while uncoordinated cycles are usually associated with Dollar weakness or neutral performance. Regardless of the type of cutting cycle, the Dollar tends to outperform its counterparts. As a non-G10 country, India may remain resilient due to strong fundamentals and potentially robust FII flows, especially considering their recent underperformance in the last few quarters. As a result, **we maintain a neutral stance on USD vs INR.**

Industry picks up the baton from Services; Consumption also picking up



Source: MOSPI

Revenue collections under the scanner; Centre's capex re-ignited

(Rs. tn)	FY19	FY20	FY21	FY22	FY23	FY24	FY25E
Personal income tax	4.7	4.9	4.9	7	8.3	10.2	11.9
Personal Income Tax Growth %		*4.3%*	*0.0%*	*42.9%*	*18.6%*	*22.9%*	*16.7%*
Capital gain tax	0.29	0.26	0.39	0.86	0.99	1.43	2.07
Capital Gains Tax growth %		*-10.3%*	*50.0%*	*120%*	*15.1%*	*44.4%*	*44.8%*
STT	0.11	0.12	0.17	0.23	0.25	0.32	0.61
STT growth %		*9.1%*	*41.7%*	*35.3%*	*8.7%*	*28.0%*	*90.6%*
Personal income tax ex Capital gains & STT	4.3	4.5	4.3	5.9	7.1	8.5	9.2
Personal Income tax ex CG & STT growth %		*4.7%*	*-4.4%*	*37.2%*	*20.3%*	*19.7%*	*8.2%*

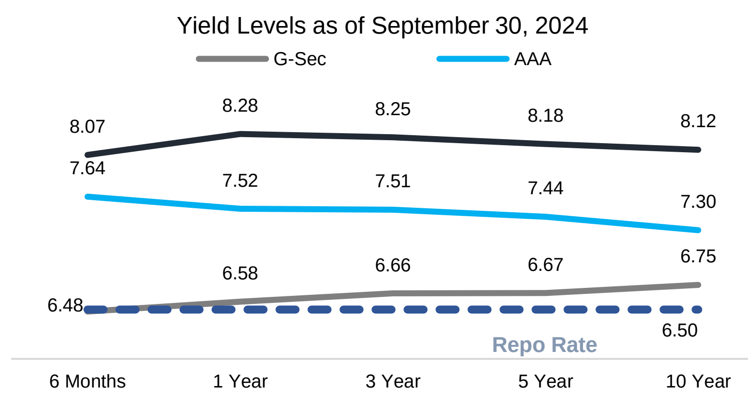
Source: GOI

U.S. soft landing scenario bodes well in general for listed equities

1995 Rate Cut Cycle	Jan95-Jul-95	Jan95-Oct95	Jan95-Jan96
SP500 Earnings growth (Avg. YoY)	*50.2%*	*47.5%*	*44.1%*
Post rate cut (Jul-95) Returns	3m	6m	12m
S&P 500 INDEX	5.1%	11.3%	18.7%
NASDAQ 100 STOCK INDX	2.4%	2.0%	18.7%
RUSSELL 2000 INDEX	5.5%	9.1%	18.5%
Nifty 50	12.0%	-5.1%	17.2%
SENSEX	13.6%	-3.7%	17.1%
Current Rate Cut Cycle	Jan24-Mar-24	Jan24-Jun-24	Jan95-Sep-24
SP500 Earnings growth (Avg. YoY)	*-0.7%*	*-0.1%*	*1.4%*
Post rate cut (Sep-24) Returns	?	?	?

Source: Bloomberg

Debt Market Snapshot



Source: Bloomberg

Dollar typically outperformed in coordinated global easing cycles

US Dollar Performance in the 3 Months After the First Fed Cut						
Cycle	Type	Real TWI	Nominal TWI	USD vs G10	USD vs Coordinators	USD vs Non-coordinators
1995	Uncoordinated	2.5	3.4	-0.3	-*	-0.3
1998	Coordinated	-4.4	-4.0	-2.3	-3.2	-1.2
2001	Coordinated	4.5	3.9	6.8	7.3	6.4
2007	Uncoordinated	-2.8	-3.0	-4.0	-1.8	-4.7
2008	Coordinated	1.3	4.7	8.1	8.1	-
2019	Uncoordinated	0.7	0.5	0.6	2.4	0.1
2020	Coordinated	3.7	4.6	2.3	4.7	0.4
Average	Coordinated	1.3	2.3	**3.7**	4.2	1.9
Average	Uncoordinated	0.1	0.3	**-1.3**	0.3	-1.6

* We omit JPY returns from the 1995 cycle given a high degree of USD/JPY intervention around the recession. However, they are still included in the real and nominal USD TWI returns. The BoJ was the only coordinator with the Fed during this cycle.

Source: GS Research (as of Sep 10, 2024)

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-Sep-24	Open	-5.17%
Corp Bonds Vs G-Secs	Negative	G-Secs	31-Jul-23	30-Sep-24	Open	-0.82%
Large Cap Vs Mid Cap	Positive	Large Cap	30-Sep-23	30-Sep-24	Open	-11.04%
USD / INR	Negative	INR	31-Dec-23	30-Sep-24	Close	-0.71%
Gold Vs Cash	Negative	Cash	30-Jun-24	30-Sep-24	Close	-12.32%

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	46.5%	81.7%	98.6%	90.1%	66.2%	84.5%
Success Ratio (%)	63.6%	47.4%	59.4%	47.6%	55.3%	56.7%
Avg. positive alpha	4.3%	2.2%	0.5%	0.6%	1.0%	3.8%
Avg. negative alpha	-2.7%	-2.4%	-0.6%	-0.8%	-0.7%	-3.3%
Avg. alpha	1.8%	-0.2%	0.1%	-0.2%	0.2%	0.7%

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

GLOBAL ASSET PERFORMANCE SNAPSHOT

	Asset	Current	1m	3m	6m	1y		Current	1m	3m	6m	1y
	Equities						Commodities					
Global	S&P 500 INDEX	5,762	2.0%	5.5%	9.7%	34.4%	TR Commodity CRB Index	284.9	2.9%	-1.9%	-1.8%	0.1%
	EURO STOXX 50 Price EUR	5,000	0.9%	2.2%	-1.6%	19.8%	Indian Crude Oil Basket	73.2	-7.0%	-14.8%	-14.0%	-24.5%
	FTSE 100 Index	8,237	-1.7%	0.9%	3.6%	8.3%	Brent	71.8	-8.9%	-16.9%	-18.0%	-24.7%
	Nikkei 225	37,920	-1.9%	-4.2%	-6.1%	19.0%	Gold	2,634.6	5.2%	13.2%	18.1%	42.5%
India	NSE Nifty 50 Index	25,811	2.3%	7.5%	15.6%	31.4%	Aluminium	2,619.8	7.6%	5.2%	13.6%	12.0%
	NIFTY Midcap 100	60,154	1.5%	7.9%	25.1%	48.4%	Copper	455.3	9.8%	3.7%	13.6%	21.8%
	NIFTY Smallcap 100	19,180	-0.7%	4.7%	25.6%	50.4%	Corn	424.8	12.4%	6.9%	-3.9%	-10.9%
	NSE Nifty 500 Index	24,245	2.2%	7.5%	19.7%	40.2%	Soyabean	1,057.0	5.7%	-4.3%	-10.9%	-16.1%
	Fixed Income						Currencies					
Global	US Generic Govt 10 Yr	3.78%	3.90%	4.40%	4.20%	4.57%	Dollar Index	100.78	-0.9%	-4.8%	-3.5%	-5.1%
	German Bunds	2.12%	2.30%	2.50%	2.30%	2.84%	EUR/USD	1.11	0.8%	3.9%	3.2%	5.3%
	JGB 10Yr Comp Yield	0.89%	0.92%	1.06%	0.75%	0.77%	USD/JPY	143.63	-1.7%	-10.7%	-5.1%	-3.8%
	UK Gilts 10 Yr	4.00%	4.02%	4.17%	3.93%	4.44%	GBP/USD	1.34	1.9%	5.8%	6.0%	9.6%
	China 10Y	2.21%	2.18%	2.21%	2.30%	2.68%	USD/CHF	0.85	-0.5%	-5.9%	-6.2%	-7.6%
India	India 10Y	6.75%	6.86%	7.01%	7.06%	7.22%	USD/CNY	7.02	-1.0%	-3.4%	-2.8%	-3.8%
	FBIL FBTB12M	6.55%	6.72%	6.93%	6.99%	7.02%	USD/HKD	7.77	-0.3%	-0.5%	-0.7%	-0.7%
	India 10Y AAA	7.31%	7.45%	7.55%	7.52%	7.70%	USD/INR	83.80	-0.1%	0.5%	0.5%	0.9%
	India 1Y AAA	7.69%	7.76%	7.74%	7.76%	7.58%	USD/CAD	1.35	0.2%	-1.1%	-0.1%	-0.4%

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

Glossary:

US: United States, DM: Developed Markets, BPS: Basis Points, EM: Emerging Markets, UW: Underweight, OW: Overweight, REITs: Real Estate Investment Trusts, FOMC: Federal Open Market Committee, HC: Hard Currency, HY: High Yield, OPEC: Organization of the Petroleum Exporting Countries, GFCF: Gross Fixed Capital Formation, STT: Securities Transaction Tax, IT: Information Technology, FY: Fiscal Year, CPI: Consumer Price Index, FII: Foreign Institutional Investors, G-Sec: Government Securities, GDP: Gross Domestic Product, INR: Indian Rupee, RBI: Reserve Bank of India, USD: United States Dollar, IG: Investment Grade

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