Wealth
India

MONTHLY INVESTMENT PERSPECTIVES NOV-24

GLOBAL MACRO: VOLATILITY IN MACROS COULD SUSTAIN

Middle East, West and Central Asia continue to attract attention. While most countries not in direct involvement are able to adopt balanced approaches, things may get trickier should the conflicts escalate further. The immediate consequence could be a ripple effect on the world's energy security and trade relationships. The U.S. Elections, too, are bound to create some stir in financial markets as the world adjusts to new leaders of the biggest super-power. India and China appear to have made some progress toward a reversion of the 2020 patrolling status, though India needs to be perennially wary and step up independence in critical strategic areas like EVs, semiconductors, etc.

GLOBAL EQUITIES: FED MODEL CAUTIONS AGAINST STOCKS

The U.S. listed equities markets have hovered near record highs towards the end of Oct-24. Tesla's shares surged after its Q3 earnings, and sentiment has remained relatively buoyant. Tech shares, too, have remained resilient, while small caps have been a tad nervous heading into the U.S. elections. U.S. Treasury yields have hardened despite expectations of rate cuts from the Fed largely on account of the burgeoning debt borrowing and concerns that the U.S. fiscal deficit may not sustainably remain under check. In the last 10 years, the Fed Model has consistently nearly always pointed to the stock market being relatively undervalued vs. bonds, but this time around, given the surge in stocks as well as the bond yield hardening, U.S. stocks do not seem nearly as attractive as bonds.

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. FED KEENLY AWAITS THE ELECTIONS OUTCOME

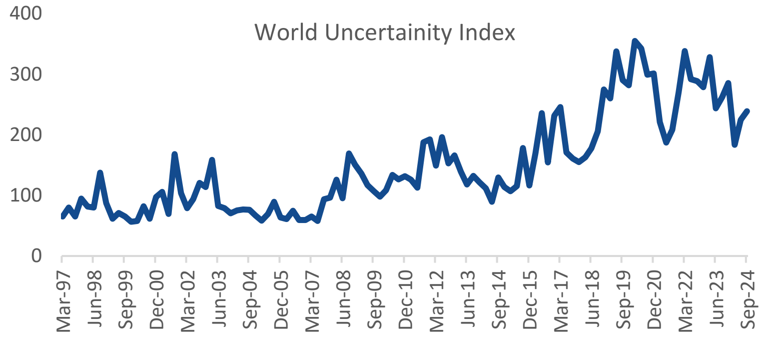
Kamala Harris is likely to be an extension of the Biden doctrine, and as such, the Fed would prefer such an outcome vs. Donald Trump coming to power that could re-stoke inflation. On opportunities – finance leasing companies have stable business profiles and diverse funding sources, while their larger banking parent group backs some. As such, most have high IG ratings, stable profitability and credit metrics. Compared to similarly rated peers, African multilateral development banks (MDBs) have been trading wider given the EM exposure, concerns over low ratings of their sovereign owners, and weak technicals. Nonetheless, most of these names are still IG-rated with recent positive rating actions. They continue to play an important regional policy function; funding access remains intact while the loan book is well-diversified with adequate capital ratios.

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 RISKS

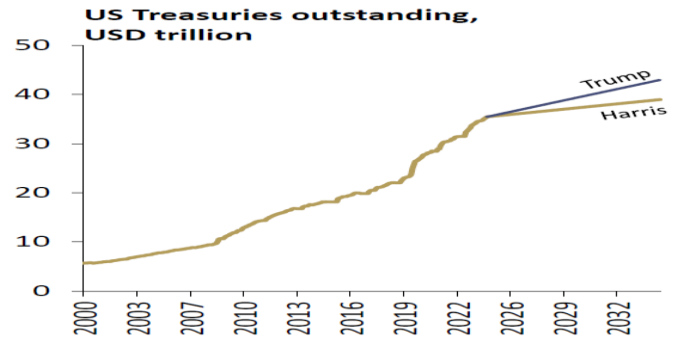
Oil markets saw a reprieve as Israel's recent strike on Iran avoided key oil and nuclear sites, alleviating immediate fears of a broad supply disruption. This more limited targeting has fueled hopes for a pathway to de-escalation, which has softened oil's risk premium by several dollars per barrel. China's economic performance continues to raise demand concerns, and OPEC+ production limits have yet to make a strong impact, while growth in U.S. output shows signs of slowing. Gold, meanwhile, has felt the weight of a strengthening U.S. dollar, which is on track for its strongest month since April 2022. Since gold is globally priced in dollars, the metal becomes less attractive for international buyers when the dollar strengthens. Nonetheless, gold prices have found support from ongoing geopolitical tensions, jitters surrounding the upcoming U.S. election, and market expectations of further rate cuts by the U.S. Federal Reserve. Net-net, we remain neutral on Gold.

World in Uncertainty



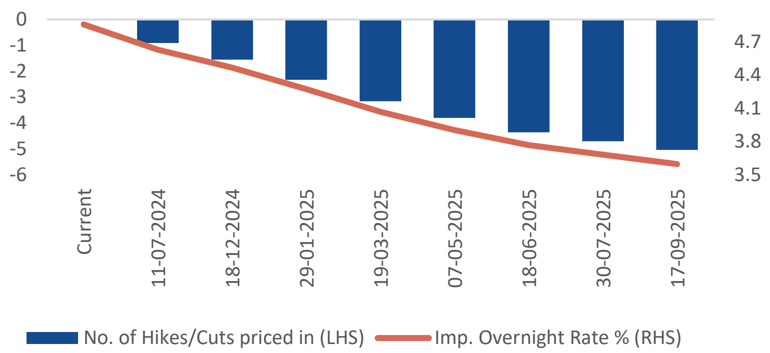
Source: Bloomberg

By 2033, the current fiscal generosity faces a hard stop.



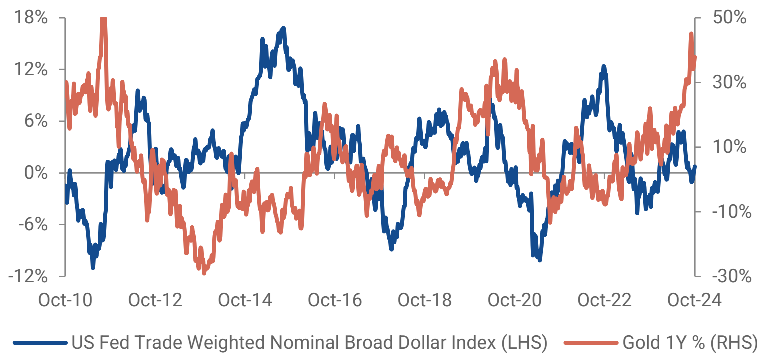
Source: U.S. Treasury Department, LGT, October 2024, according to Congressional Budget Office, September 2024.

U.S. Fed Rate Cut Path Dependent on Elections Outcome



Source: Bloomberg

Dollar strength hinders gold rally.



Source: Bloomberg

INDIA MACRO: SLIGHT TEMPORARY BLIP IN GROWTH

While the RBI, in its latest MPC, has maintained status-quo on interest rates, the central bank has changed its stance from “withdrawal of accommodation” to “neutral”. A slight slowdown is being seen in Q2FY25 Real GDP growth, with RBI now expecting 7.0% growth vs 7.2% in its prior MPC meet (6-8-Aug-24). A few high-frequency indicators like GST collections, auto sales, air traffic, fuel consumption and declining exports show slight weaknesses. Nevertheless, India’s long-term macroeconomic goldilocks equilibrium remains in balance, with the IMF retaining its real GDP growth estimates for the nation vs. its prior outlook (Jul 24). This is commendable given the two nearly endless wars currently ravaging the global geopolitical landscape, taking a toll on the world GDP, now expected to fall -10bps to 3.3% (vs. IMF’s Jul-24 outlook).

Few High-Frequency Indicators Slowing down

Particulars	Current	1M	3M	6M	CYTD	1Y	3Y
Domestic air traffic passengers	13.2 (Rs. Mn)	1.0%	-5.0%	4.0%	-5.0%	6.0%	99.0%
Domestic PVs	352921 (Units)	3.0%	2.0%	-5.0%	23.0%	-2.0%	36.0%
India GST Collections	1732 (Rs. Bn)	-1.0%	0.0%	-3.0%	5.0%	6.0%	48.0%

Source: MOSPI. Note: seen from Q2FY25 perspective i.e. ending Sep-25

INDIA EQUITIES: BEARING THE BRUNT OF FLIGHT OF FPI CAPITAL

Equity markets have been in a downward trend due to concern over valuations, rising geopolitical tensions, China’s apparent fiscal pivot, SEBI’s F&O curbs and the highest month FII outflow of ~Rs. 1,10,000 crores. A slew of IPOs have been capitalising on the apparently low equity cost, which has given rise to frothy valuations. Despite the massive sell-off, the impact on the Indian market has been relatively limited due to strong buying from DII. Indian market should not be able to sustain premium valuations, as corporate earnings in Q2FY25 compared to Q1FY25 are below expectations. The fear of a downgrade in earnings is becoming real - with the start of the result season reflecting high global inflation impacting operating margins. Given the risks—such as potential earnings downgrades, margin pressures due to inflation, and global uncertainty—market sentiment is cautious. The combination of these factors suggests that the near-term outlook remains volatile, with a potential downside if earnings continue to underperform.

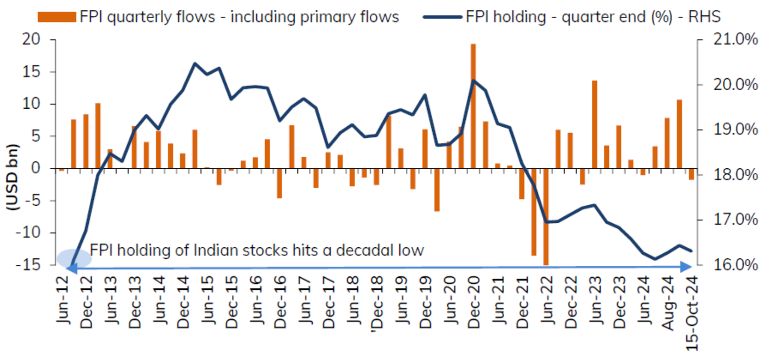
We remain Neutral between Equities and Bonds, maintaining strategic Asset Allocation. Within Large and Midcaps, we are two notches OW on Large Caps vs Mid-Caps as valuations for the former look more attractive.

Some de-rating of valuations possibly being seen in IPOs recently

Years	Total IPOs (SME +Mainboard)	NSE500 Return	Total M. Cap Return	Delta
CY24TD	283	16.3%	6.7%	9.6%
CY23	240	25.8%	27.0%	-1.3%
CY22	149	3.0%	6.8%	-3.8%
CY21	122	29.6%	39.2%	-9.6%
CY20	42	16.5%	19.7%	-3.2%
CY19	70	7.3%	5.2%	2.1%
CY18	168	-2.8%	-5.1%	2.3%
CY17	173	35.9%	43.2%	-7.3%
CY16	93	3.4%	5.3%	-1.9%
CY15	64	-0.9%	1.8%	-2.7%
CY14	45	37.6%	39.6%	-1.9%
CY13	37	2.7%	1.2%	1.5%
CY12	25	31.8%	29.3%	2.6%

Source: Chittorgarh, & Bloomberg

FPI holding of Indian equities



Source: NSDL, BSE, I-Sec

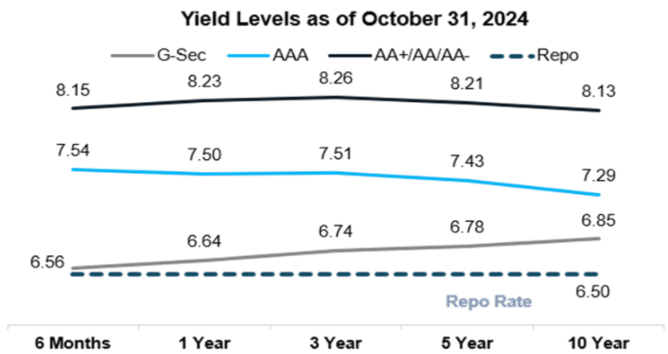
INDIA FIXED INCOME: 2024 - YEAR OF THE BOND

October was a pivotal month for India’s fixed-income markets, with a notable change in the Reserve Bank of India (RBI)’s monetary policy stance and key global and domestic developments influencing yields and investor sentiment. Globally, elevated U.S. Treasury yields and persistent geopolitical tensions weighed on risk sentiment, while domestic factors, such as moderating core inflation and strong capital inflows, offered some resilience to the fixed-income market. The 10-year Government of India (GoI) bond yield fluctuated between 6.75% and 6.85%, with an encouraging contraction in spreads across segments in anticipation of policy easing.

The RBI’s Monetary Policy Committee (MPC) meeting in October resulted in a significant shift from a "withdrawal of accommodation" to a "neutral" stance, suggesting the central bank believes its policy is sufficiently tight to curb inflationary pressures. The shift was broadly welcomed by markets, with the 10-year G-Sec yield declining by 7 basis points post-announcement. The MPC, by a 5-to-1 majority, kept the repo rate steady at 6.5% for the tenth consecutive time. Accordingly, the standing deposit facility (SDF) rate remains at 6.25%, while the marginal standing facility (MSF) rate and Bank Rate hold at 6.75%. The RBI's shift to a neutral stance reflects its belief that previous tightening measures are now sufficient to manage inflation. This change signals a possible shift towards rate cuts in the future, especially as growth shows signs of moderation. The RBI’s real GDP growth projections for FY25 were maintained at 7.2%, reflecting confidence in India’s economic resilience. The RBI also maintained CPI inflation projections at 4.5% for FY25, although near-term risks from food prices remain. Quarterly CPI estimates were projected at 4.1% (Q2), 4.8% (Q3), 4.2% (Q4), and 4.3% (Q1FY26). Above-average monsoon activity has boosted Kharif and Rabi crop prospects, helping ease food inflation pressures. However, volatility in global food markets remains a potential risk to the inflation outlook.

With a more balanced inflation outlook and signs of moderating growth, we believe that the RBI could consider rate cuts in the coming quarters, particularly if core inflation continues to ease and global borrowing costs decrease. With the RBI's shift to a neutral stance and easing core inflation, there is an optimistic outlook for the 10-year GoI bond yield. G-Secs may experience a rally driven by strong FPI inflows and a dovish market view on RBI policy. However, upward pressures from global yields and potential inflation risks from food prices could lead to short-term volatility. A prudent approach to duration while monitoring geopolitical and economic developments remains advisable in the current environment. We **maintain a preference for government bonds over corporate bonds** and recommend a **medium-duration portfolio strategy** to balance yield opportunities with interest rate risk.

Debt Market Snapshot

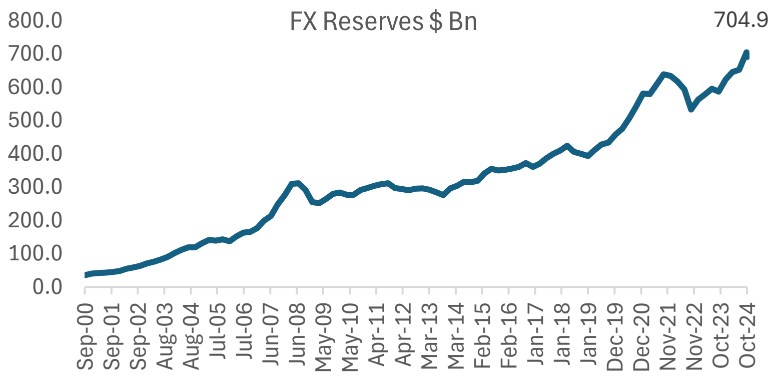


Source: Bloomberg

CURRENCY: RBI AT THE FOREFRONT IN MANAGING THE INR

While net debt flows owing to Index inclusions remain a key tailwind, the equity flows outlook remains uncertain amid China’s attempts at reviving its economy, flaring up rotation risks from other EM equities. Asian peers have started to cut rates, and inflation remains benign compared to India, indicating debt flows could come under pressure in the upcoming months. The RBI, though, has been supportive of currency management and has bulked up reserves to nearly 10-year highs. As a result, net-net, **we maintain a neutral stance on USD vs INR.**

India’s forex reserves hit fresh highs, currently at $705bn.



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%
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%
Short Term Vs Long Term*	Negative	Long Term	30-Jun-23	31-Oct-24	Open	-5.17%
Corp Bonds Vs G-Secs*	Negative	G-Secs	31-Jul-23	31-Oct-24	Open	-0.82%
Large Cap Vs Mid Cap	Positive	Large Cap	30-Sep-23	31-Oct-24	Open	-10.42%

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	45.8%	81.9%	98.6%	90.3%	65.3%	83.3%
Success Ratio (%)	63.6%	46.6%	60.9%	47.6%	55.3%	56.7%
Avg. positive alpha	4.3%	2.2%	2.8%	0.6%	1.0%	3.8%
Avg. negative alpha	-2.7%	-2.3%	-0.5%	-0.8%	-0.7%	-3.3%
Avg. alpha	1.8%	-0.2%	1.5%	-0.2%	0.2%	0.7%

*Source: Bloomberg. Assuming a 6% annualised yield for cash. Note: * - Returns as of 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	5,705	-1.0%	3.3%	13.3%	36.0%	TR Commodity CRB Index	279.9	-1.8%	0.6%	-4.0%	-0.5%
	EURO STOXX 50 Price EUR	4,828	-3.5%	-0.9%	-1.9%	18.9%	Indian Crude Oil Basket	72.3	-1.3%	-9.6%	-18.3%	-18.1%
	FTSE 100 Index	8,110	-1.5%	-3.1%	-0.4%	10.8%	Brent	73.2	1.9%	-9.4%	-16.7%	-16.3%
	Nikkei 225	39,081	3.1%	-0.1%	1.8%	26.6%	Gold	2,744.0	4.2%	12.1%	20.0%	38.3%
India	NSE Nifty 50 Index	24,205	-6.2%	-3.0%	7.1%	26.9%	Aluminium	2,601.2	-0.7%	16.0%	1.4%	15.7%
	NIFTY Midcap 100	56,113	-6.7%	-4.9%	10.3%	44.3%	Copper	434.0	-4.7%	3.9%	-4.9%	18.9%
	NIFTY Smallcap 100	18,603	-3.0%	-2.8%	9.4%	47.1%	Corn	410.8	-3.3%	7.3%	-6.5%	-14.2%
	NSE Nifty 500 Index	22,689	-6.4%	-3.6%	8.1%	35.0%	Soyabean	994.5	-7.5%	-4.3%	-15.1%	-22.0%
		Fixed Income						Currencies				
Global	US Generic Govt 10 Yr	4.28%	3.78%	4.03%	4.68%	4.93%	Dollar Index	103.98	3.2%	-0.1%	-2.1%	-2.5%
	German Bunds	2.39%	2.12%	2.30%	2.58%	2.80%	EUR/USD	1.09	-2.3%	0.5%	2.0%	2.9%
	JGB 10Yr Comp Yield	0.95%	0.89%	1.07%	0.88%	0.95%	USD/JPY	152.03	5.8%	1.4%	-3.7%	0.2%
	UK Gilts 10 Yr	4.45%	4.00%	3.97%	4.35%	4.51%	GBP/USD	1.29	-3.6%	0.3%	3.3%	6.1%
	China 10Y	2.15%	2.21%	2.15%	2.31%	2.69%	USD/CHF	0.86	2.2%	-1.6%	-6.0%	-5.1%
India	India 10Y	6.85%	6.75%	6.93%	7.19%	7.36%	USD/CNY	7.12	1.4%	-1.5%	-1.7%	-2.7%
	India 1Y	6.54%	6.55%	6.79%	7.06%	7.14%	USD/HKD	7.77	0.0%	-0.5%	-0.6%	-0.6%
	India 10Y AAA	7.34%	7.31%	7.48%	7.58%	7.78%	USD/INR	84.08	0.3%	0.4%	0.8%	1.0%
	India 1Y AAA	7.63%	7.69%	7.65%	7.80%	7.69%	USD/CAD	1.39	3.0%	0.9%	1.1%	0.4%

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

Glossary:
US: United States, EV: Electronic Vehicle, OW: Overweight, UW: Underweight, IG: Investment Grade, EM: Emerging Markets, DM: Developed Markets, HC: Hard Currency, OPEC: Organization of the Petroleum Exporting Countries, MPC: Monetary Policy Committee, GDP: Gross Domestic Product, GST: Goods and Services Tax, PV: Passenger Vehicles, IMF: International Monetary Fund, BPS: Basis Points, IPO: Initial Public Offering, FII: Foreign Institutional Investors, DII: Domestic Institutional Investors, RBI: Reserve Bank of India, FPI: Foreign Portfolio Investment, USD: United States Dollar, INR: Indian Rupee

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