
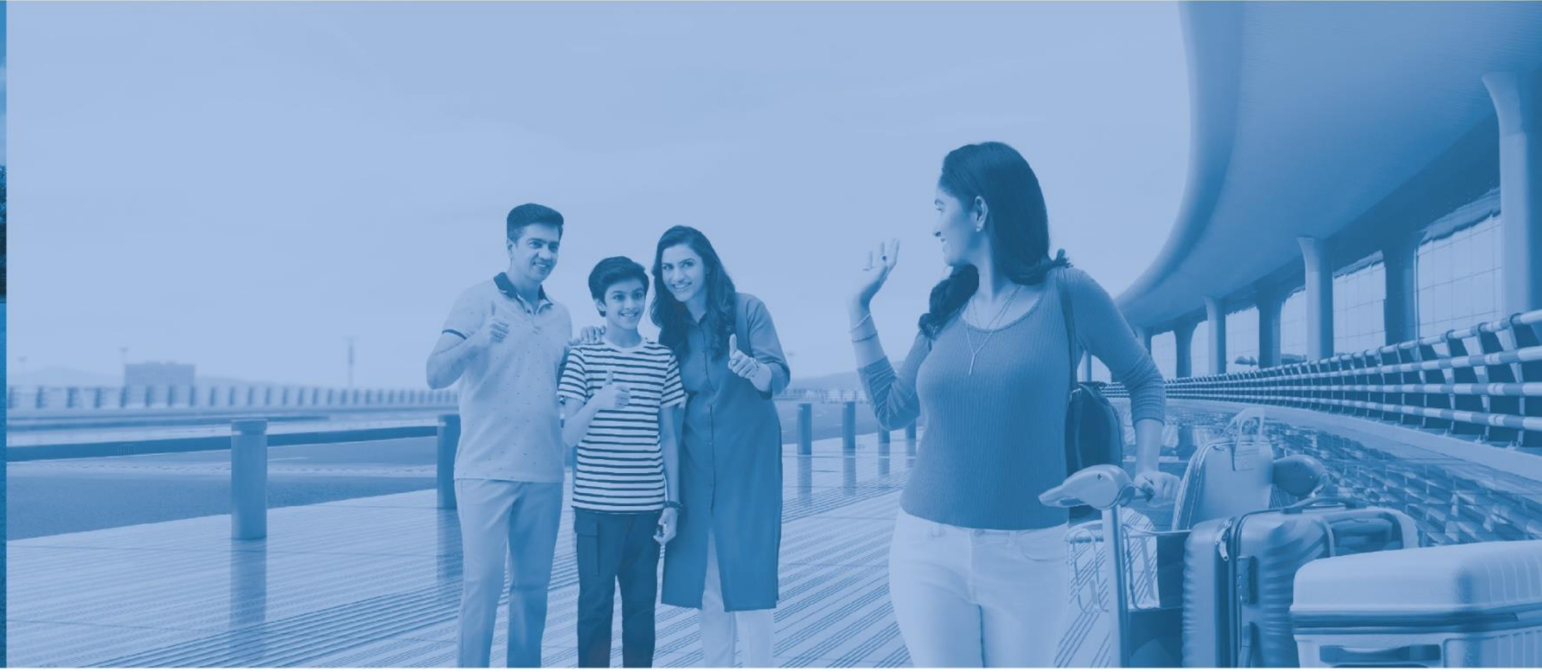

# Quarterly Market & Macro Overview

October 2023

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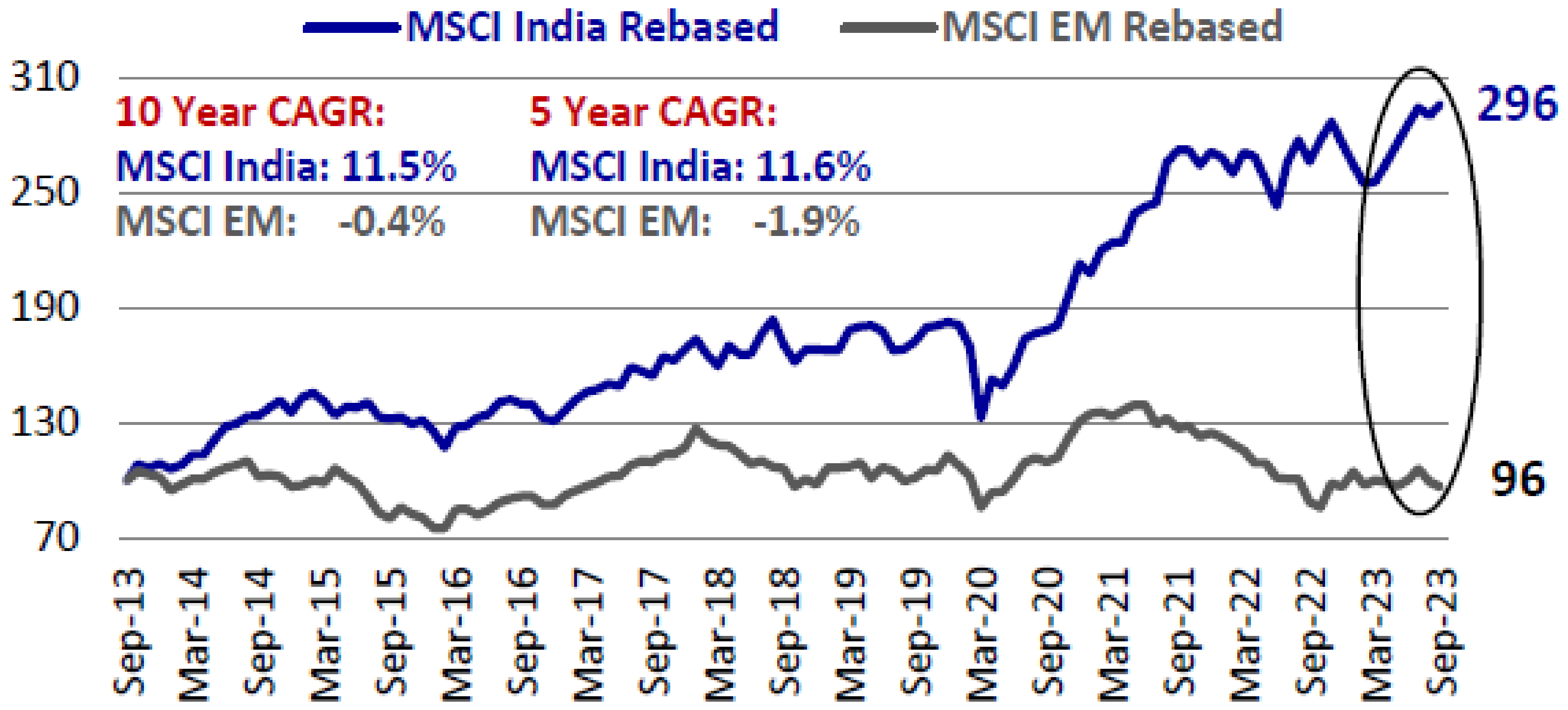
# Global Markets & Macros

# Indian market has outperformed emerging markets (EM) by a huge margin over the past 10 years

**MSCI India Vs MSCI EM Indexed Performance over 10 yrs (ended Sep 2023)**




**Source: Bloomberg, Motilal Oswal**

- MSCI Emerging Markets (EM) index has delivered negative return over the past 10 yrs, while MSCI India index has risen ~3x over the same period.

# Indian market tops the charts over most time periods

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| Performance of International Indices (ended Sep 2023, in %) | | | | | | |
|---|---|---|---|---|---|---|
| Index Name | Country / Region | 6 Mths (FYTD 24) | 1 Yr | 3 Yrs | 5 Yrs | 10 Yrs |
| NASDAQ 100 | US Tech | 11.6 | 34.1 | 8.8 | 14.0 | 16.4 |
| FSE DAX TR | Germany | -1.6 | 27.0 | 6.4 | 4.7 | 6.0 |
| CAC 40 | France | -2.6 | 23.8 | 14.1 | 5.4 | 5.6 |
| Nikkei 225 | Japan | 13.6 | 22.8 | 11.2 | 5.7 | 8.2 |
| TSEC TAIEX | Taiwan | 3.1 | 21.8 | 9.3 | 8.2 | 7.2 |
| MSCI World PR USD | World | 2.2 | 20.0 | 6.4 | 5.5 | 6.3 |
| S&P 500 | United States | 4.3 | 19.6 | 8.4 | 8.0 | 9.8 |
| **Nifty 50** | **India** | **13.1** | **14.9** | **20.4** | **12.4** | **13.1** |
| KOSPI | South Korea | -0.5 | 14.4 | 1.9 | 1.0 | 2.1 |
| FTSE 100 | UK | -0.3 | 10.4 | 9.1 | 0.3 | 1.6 |
| S&P/ASX 200 | Australia | -1.8 | 8.9 | 6.6 | 2.6 | 3.1 |
| MSCI EM PR USD | Emerging Mkts | -3.8 | 8.8 | -4.2 | -1.9 | -0.4 |
| MSCI Asia Ex Japan USD | Asia Ex Japan | -6.2 | 8.3 | -5.3 | -1.6 | 1.2 |
| BOVESPA | Brazil | 14.4 | 5.9 | 7.2 | 8.0 | 8.3 |
| Hang Seng | Hong Kong | -12.7 | 3.4 | -8.8 | -8.5 | -2.5 |
| Shanghai Composite | China | -5.0 | 2.8 | -1.1 | 2.0 | 3.6 |
| FTSE/SGX STI | Singapore | -1.3 | 2.8 | 9.3 | -0.2 | 0.2 |
| FTSE Bursa Malaysia KLCI | Malaysia | 0.1 | 2.1 | -1.8 | -4.5 | -2.1 |
| JSX Composite | Indonesia | 2.0 | -1.4 | 12.5 | 3.0 | 4.9 |
| FTSE SET All Share | Thailand | -7.0 | -6.3 | 6.8 | -4.3 | 0.0 |

Source : Morningstar Direct. Returns are in local currency of index, and returns greater than 1 year are CAGR. Data Sorted on the basis of 1 Yr return in descending order

- **Indian market has been among the top performing markets over most time periods & over the long term.**

**Over 1 Year Period**

- US Tech, European markets, Japan and US outperformed.
- Some of Asian and emerging markets were underperformers. Thailand & Indonesia were the bottom performers.
- **In FYTD24, India has fared relatively well**. Brazil & Japan were the top performers

# India among the fastest growing major economies globally

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## IMF GDP Growth Forecast Trend (% YoY)

| | 2022 | 2023 | 2024 |
|---|---|---|---|
| World Output | 3.5 | 3.0 | 2.9 |
| Advanced Economies | 2.6 | 1.5 | 1.4 |
| United States | 2.1 | 2.1 | 1.5 |
| Euro Area | 3.3 | 0.7 | 1.2 |
| Germany | 1.8 | -0.5 | 0.9 |
| France | 2.5 | 1.0 | 1.3 |
| Italy | 3.7 | 0.7 | 0.7 |
| Spain | 5.8 | 2.5 | 1.7 |
| Japan | 1.0 | 2.0 | 1.0 |
| United Kingdom | 4.1 | 0.5 | 0.6 |
| Canada | 3.4 | 1.3 | 1.6 |
| Other Advanced Economies | 2.6 | 1.8 | 2.2 |
| Emerging Market and Developing Economies | 4.1 | 4.0 | 4.0 |
| Emerging and Developing Asia | 4.5 | 5.2 | 4.8 |
| China | 3.0 | 5.0 | 4.2 |
| India | 7.2 | 6.3 | 6.3 |
| Emerging and Developing Europe | 0.8 | 2.4 | 2.2 |
| Russia | -2.1 | 2.2 | 1.1 |
| Latin America and the Caribbean | 4.1 | 2.3 | 2.3 |
| Brazil | 2.9 | 3.1 | 1.5 |

- World economic growth slowdown not as substantial as expected earlier.
- US growth has been upgraded and now expected to grow at 2.1% in CY23 and 1.5% in CY24.
- Europe (esp. Germany) to see a sharper slowdown. UK also seeing a substantial slowdown in growth.
- China growth downgraded to 5% in 2023 and 4.2% in 2024.
- India to see healthy growth of 6.3% in both FY24 & FY25 and remain one of the fastest growing major economies.

* For India fiscal year being considered. 2023 = FY24 & 2024= FY25
Source: IMF World Economic Outlook, Oct 2023

# US Fed in a hawkish pause; rates to remain elevated for longer

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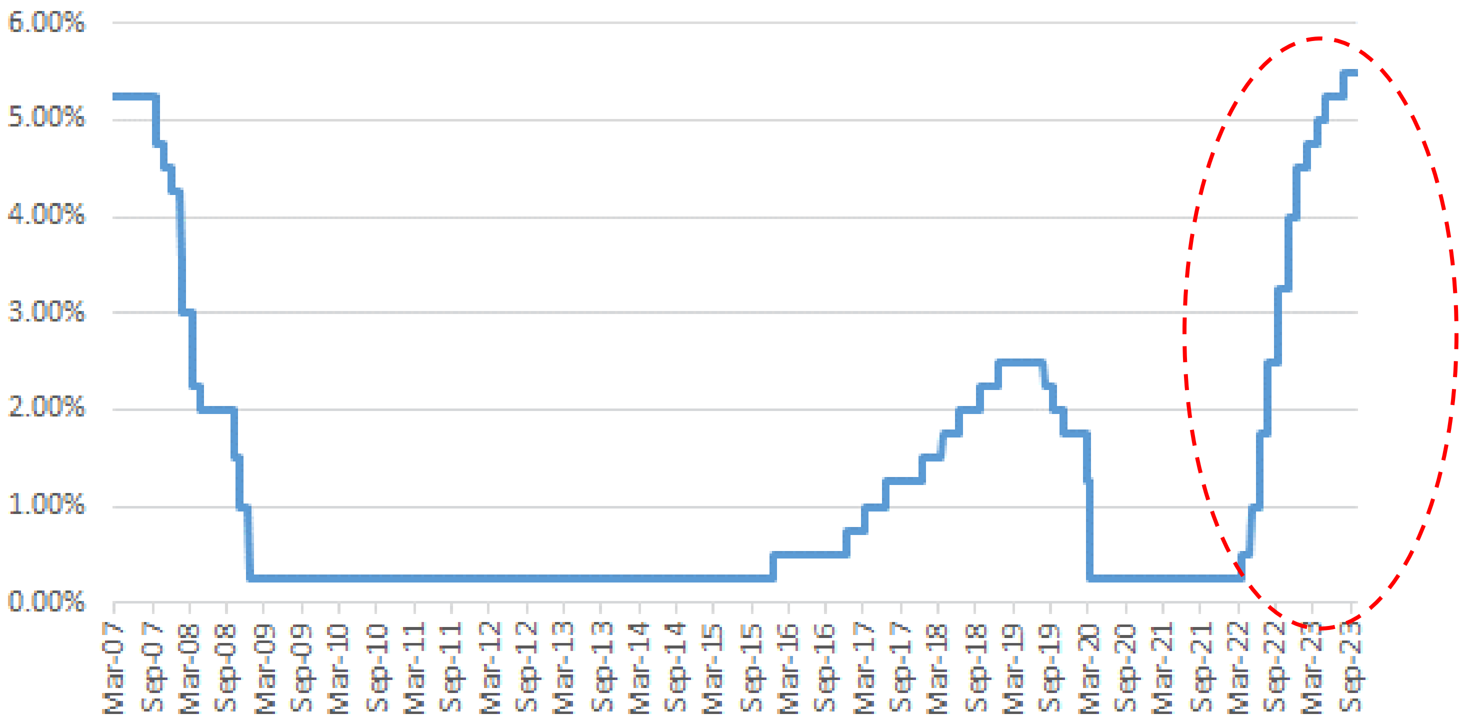
## The US Federal Funds rate trend




## The US Fed meeting Projections – Sep 2023

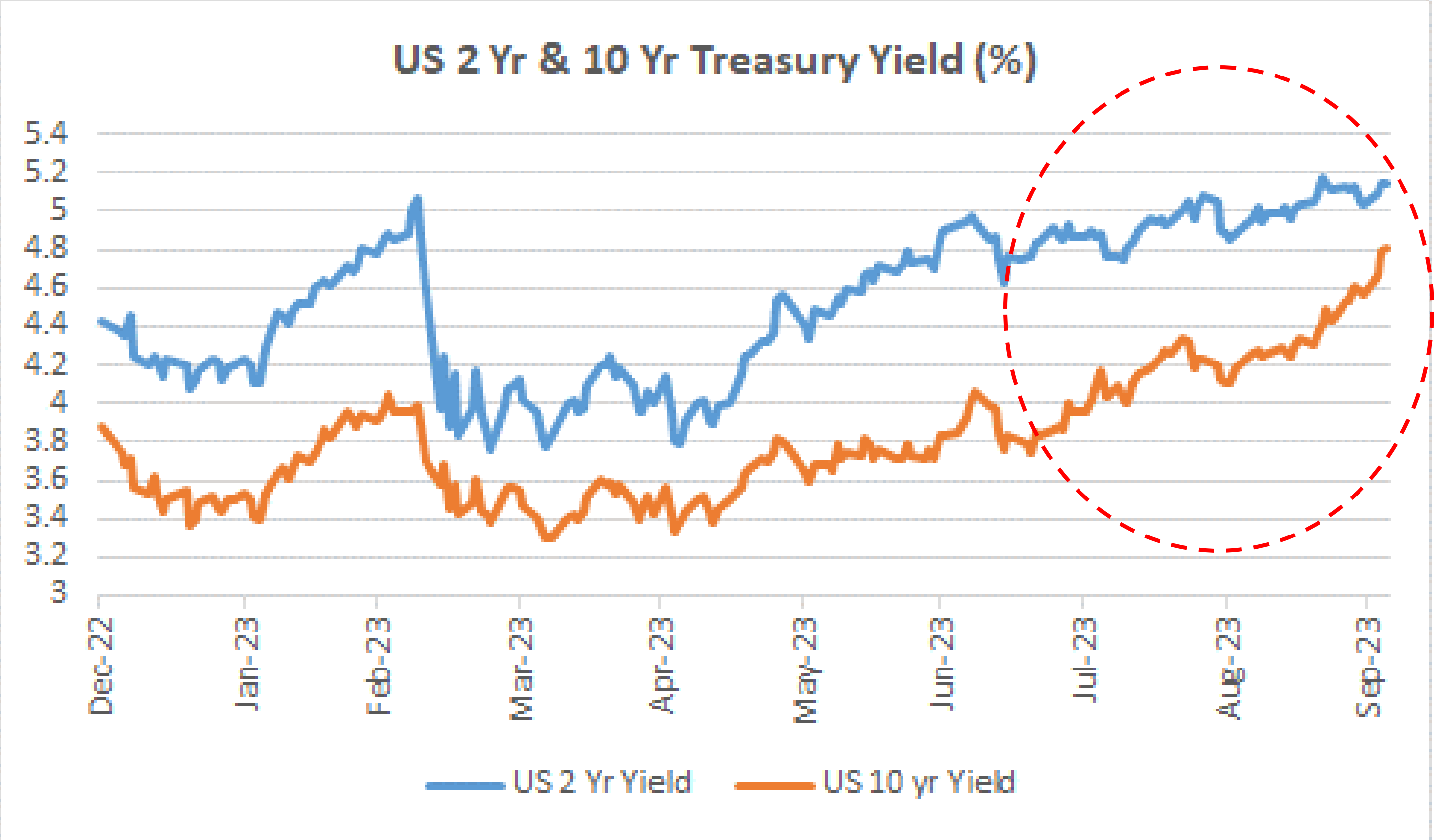
Percent

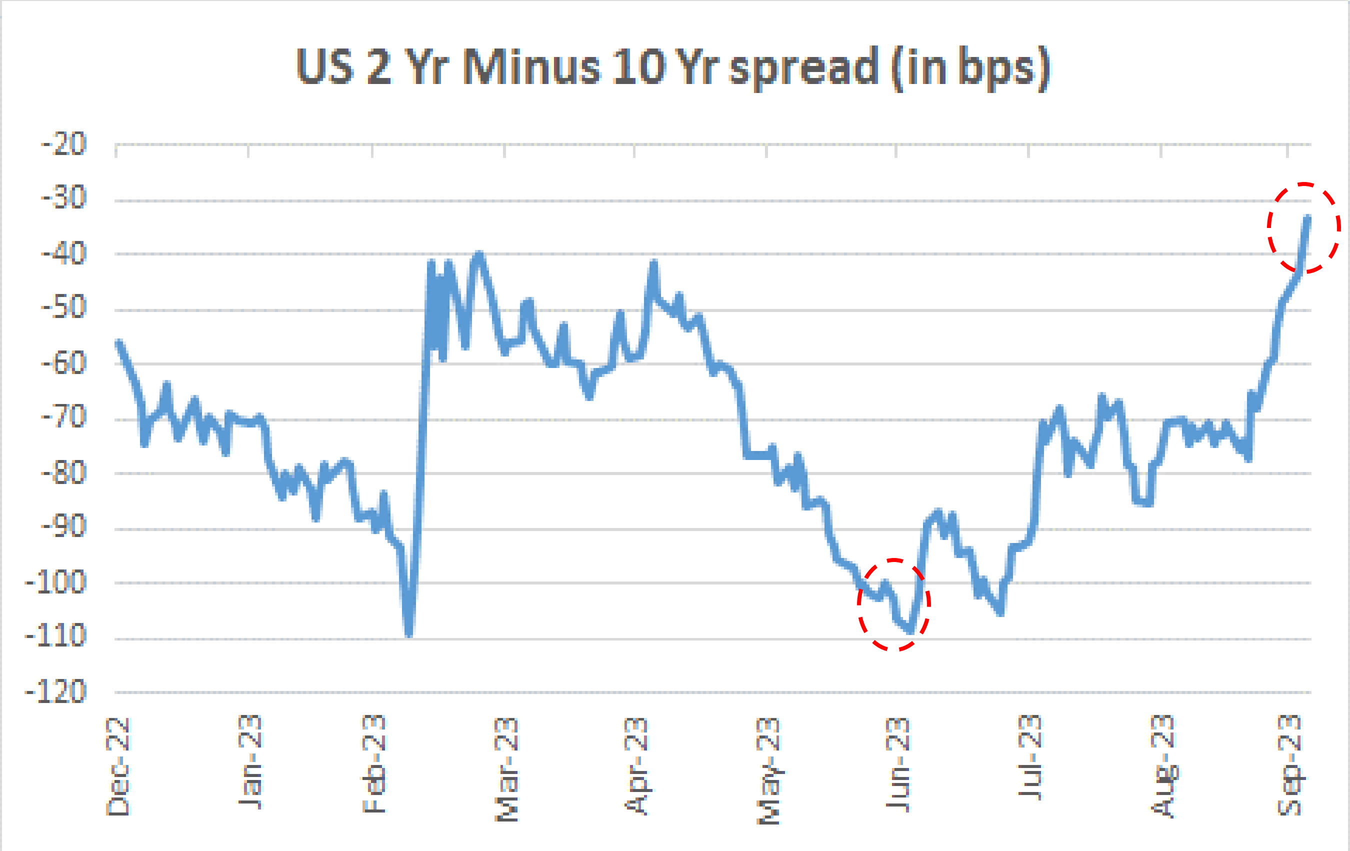
| Variable | Median[1] 2023 | 2024 | 2025 | 2026 | Longer run |
|---|---|---|---|---|---|
| Change in real GDP | 2.1 | 1.5 | 1.8 | 1.8 | 1.8 |
| June projection | 1.0 | 1.1 | 1.8 | | 1.8 |
| Unemployment rate | 3.8 | 4.1 | 4.1 | 4.0 | 4.0 |
| June projection | 4.1 | 4.5 | 4.5 | | 4.0 |
| PCE inflation | 3.3 | 2.5 | 2.2 | 2.0 | 2.0 |
| June projection | 3.2 | 2.5 | 2.1 | | 2.0 |
| Core PCE inflation[4] | 3.7 | 2.6 | 2.3 | 2.0 | |
| June projection | 3.9 | 2.6 | 2.2 | | |
| Memo: Projected appropriate policy path | | | | | |
| Federal funds rate | 5.6 | 5.1 | 3.9 | 2.9 | 2.5 |
| June projection | 5.6 | 4.6 | 3.4 | | 2.5 |

**Source: Bloomberg, US Federal Reserve**

- The US Fed delivered a hawkish pause in Sep 2023 meeting. It has raised rates by a cumulative 525 bps since low of 2022 to 5.25-5.5%.
- Fed dot plot indicates possibility of one more rate hike in 2023. **The quantum of rate cut projection in 2024 has been reduced to 50 bps (from 100 bps earlier)—** indicating that rates will remain elevated for longer.
- US GDP growth forecast for 2023 was revised up significantly to 2.1% (from 1% in June), and to 1.5% in 2024. This indicates that the economy is relatively better placed than what was anticipated earlier.

# US treasury yields have gone up sharply; especially at the longer end

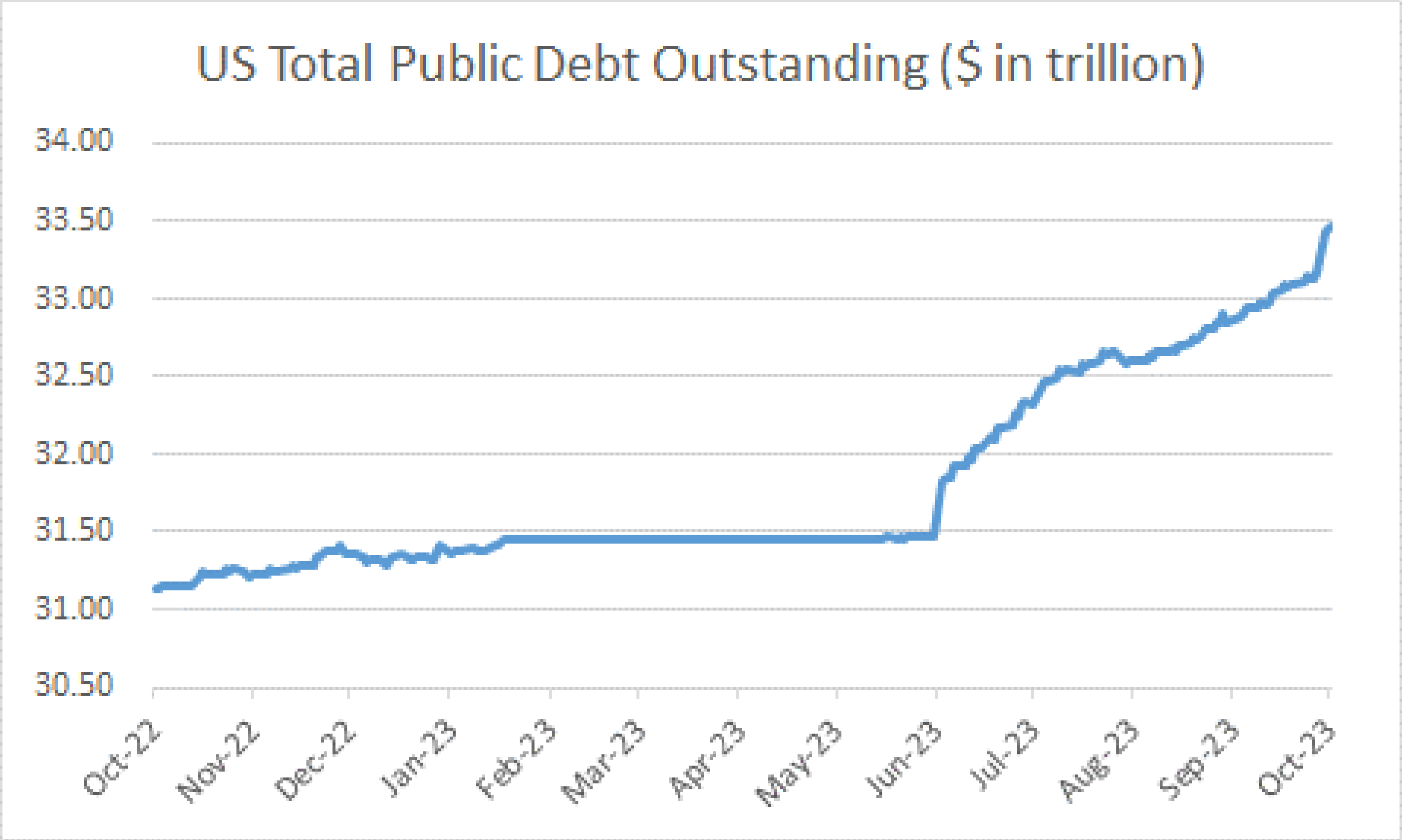


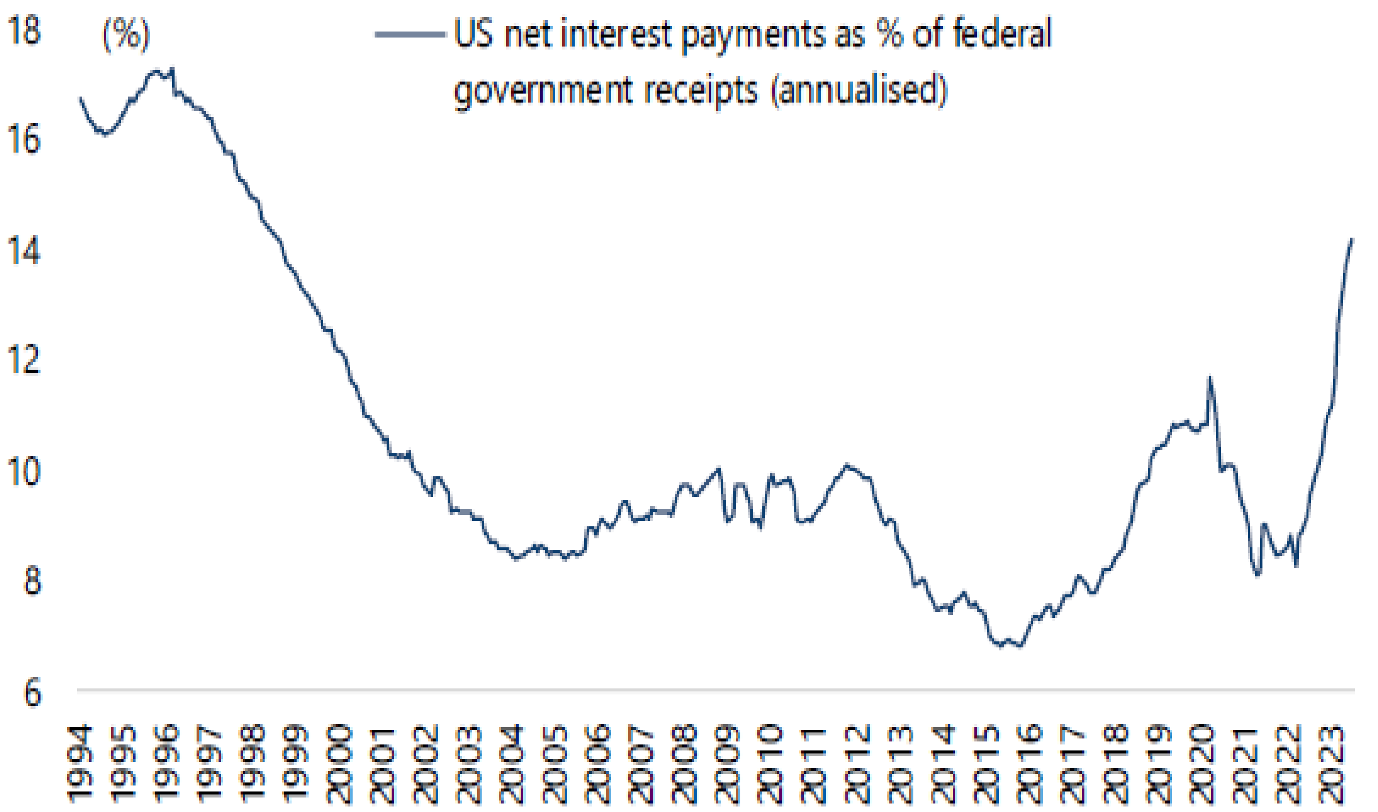

**Source: Bloomberg**

- US bond yields have hardened recently on the back of hawkish US Fed commentary and some stronger than expected US economic data.
- Bonds yields have gone up more at the longer end. As a result, the US 2 Yr minus 10 Yr spread has reduced considerably over the past quarter.

# US debt and interest burden has gone up substantially




Source: Bloomberg



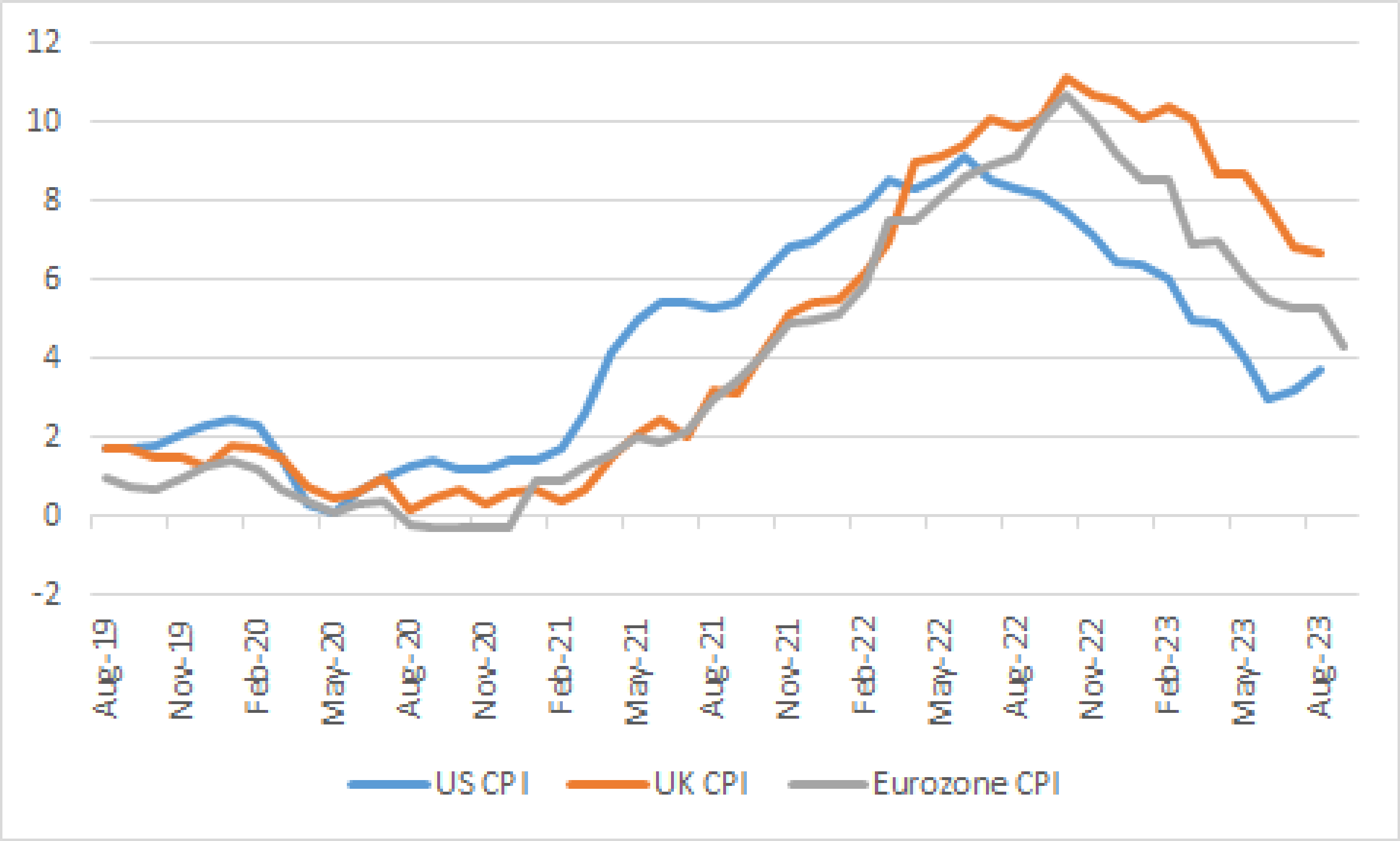

Source: US treasury, Jefferies

- Total US outstanding public debt has gone up quite significantly from ~$23 trillion (pre-pandemic) to above $33 trillion presently. Over the past quarter total debt has gone up by $2 trillion.

- US annualized net interest payment as a percentage of government receipts has risen from 8.3% in April 2022 to 14.2% in Aug 2023.

# Globally, inflation has moderated from earlier highs, but is still quite elevated

## Global Consumer Inflation Trend (% YoY)




Source :- Bloomberg

- US consumer inflation has moderated from 9% in Jun 2022 to 3.7% in Aug 2023, but still quite above the long-term average.
- In the Sep 2023 US Fed meeting, the central bank reduced the median Core PCE inflation projection for 2023 end to 3.7% (from 3.9% earlier). US Core PCE inflation (Fed's preferred inflation gauge) fell to 3.9% in Aug 2023.

# Rise in crude oil prices poses a risk to India, especially above the $100/bbl mark

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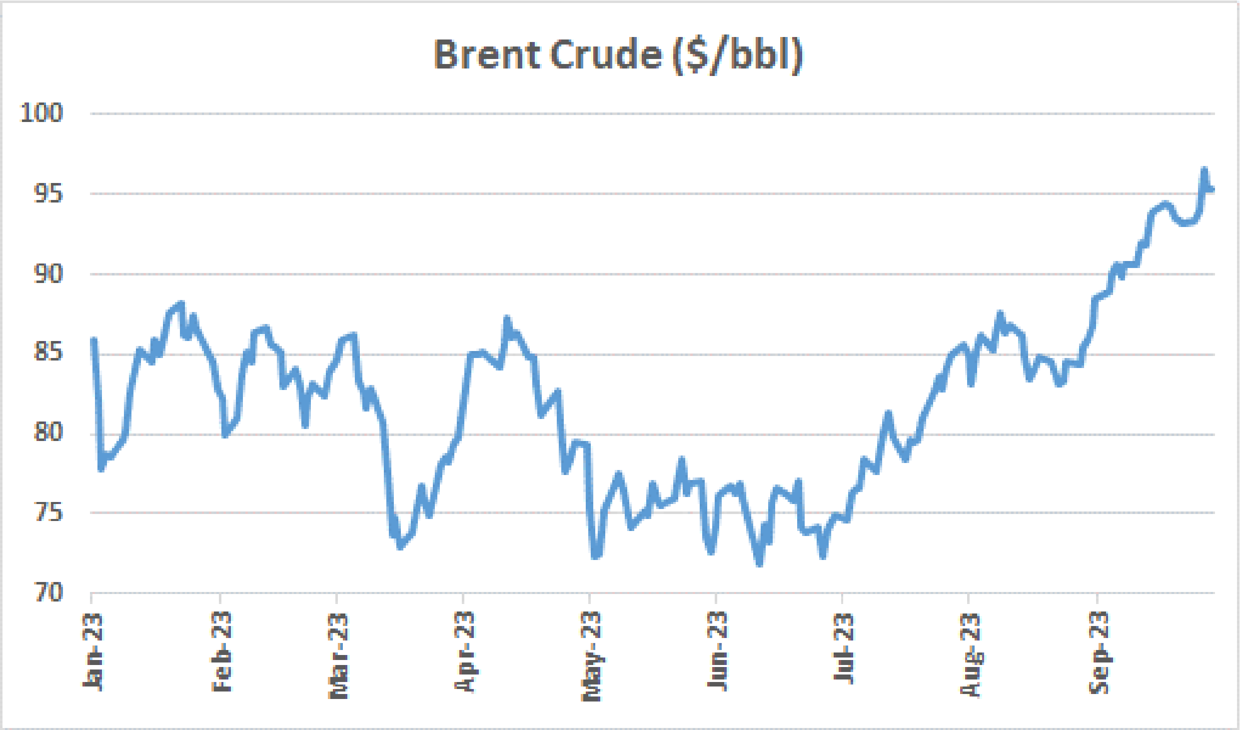
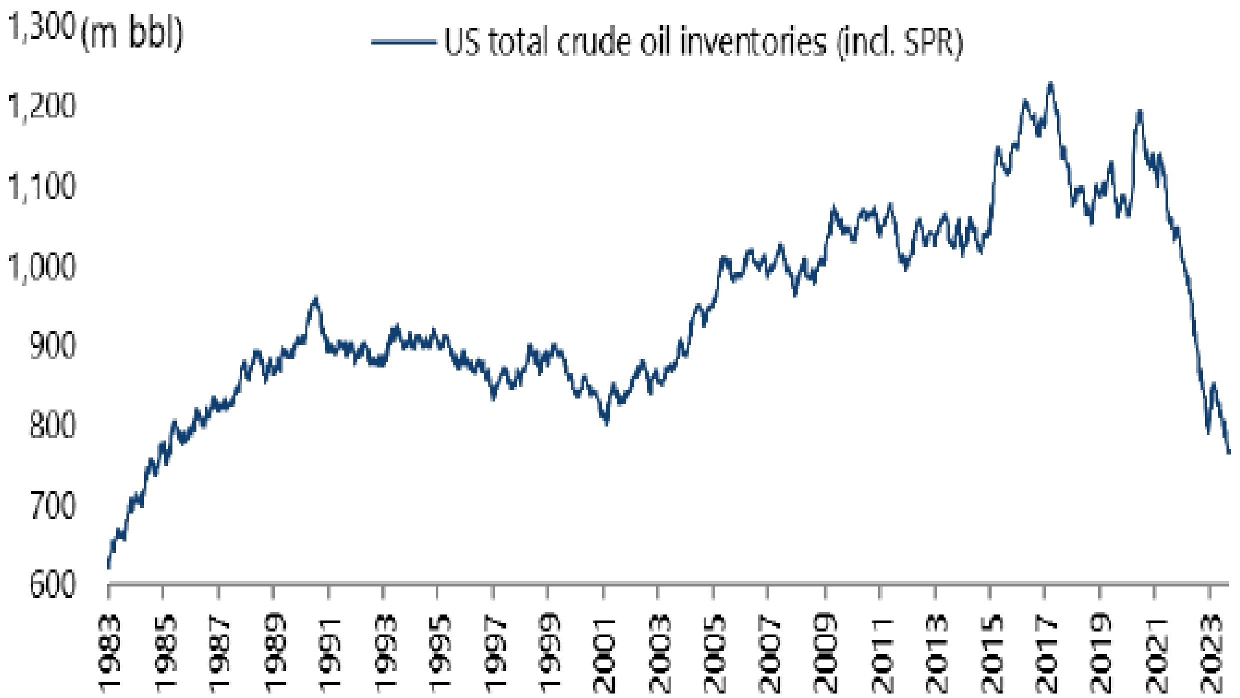



Source :- Bloomberg



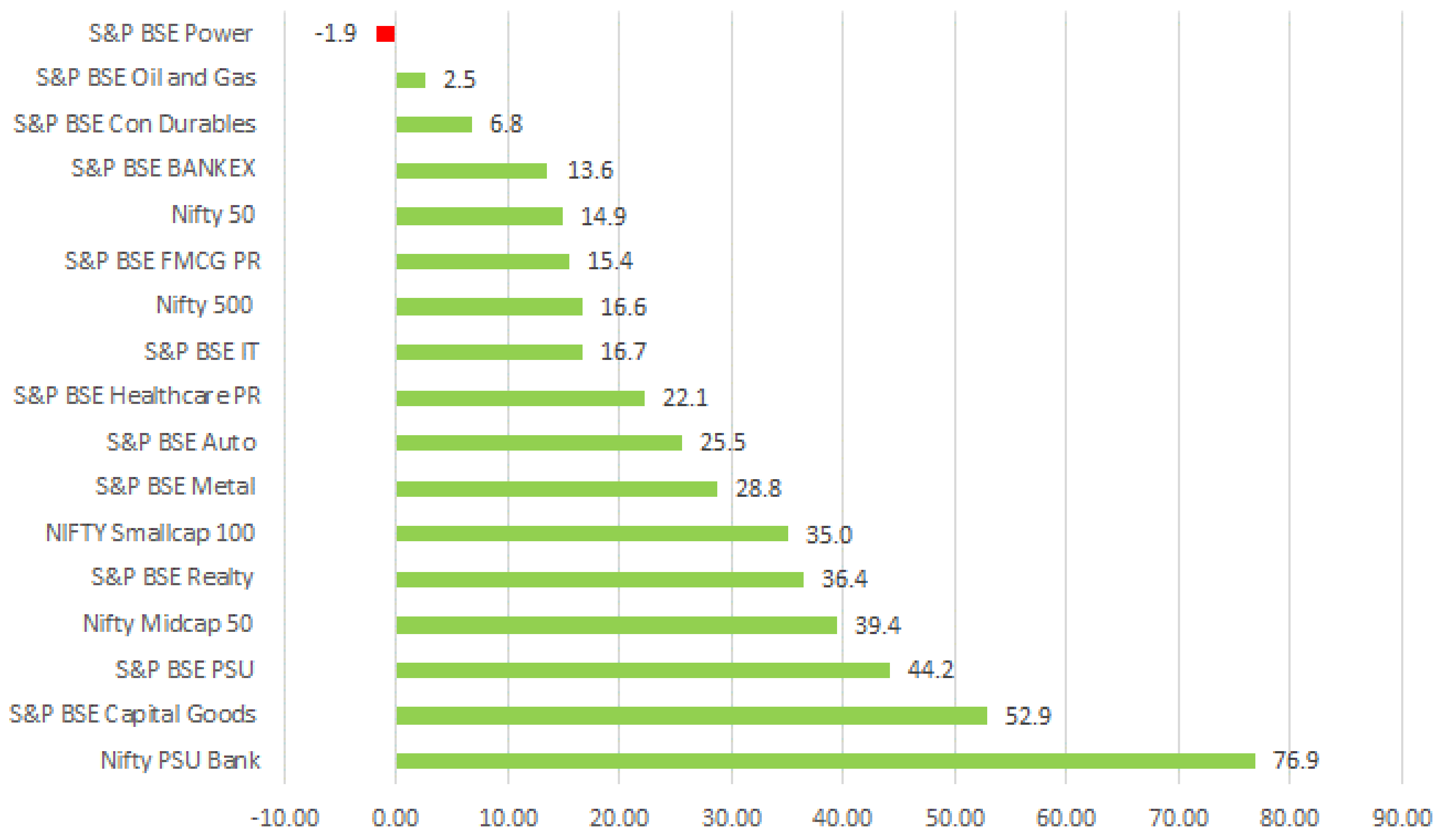

Source :- EIA, Jefferies

- Brent crude price rose from around $75/bbl in June to above the $95/bbl mark in late September. Recently in October, prices have softened.
- US crude oil inventories (incl strategic petroleum reserves) has fallen to the lowest level since 1985.
- Crude oil above $100 mark poses some risk for a large oil importer like India. At $100/bbl, current account deficit can rise above 2% of GDP in FY24.
- Historical data shows that every 10% rise in crude oil price has impacted consumer headline inflation by 0.3-0.4%, and current account deficit by ~0.4% in India

# Indian Markets & Macro

# PSU banks, capital goods, realty were the top performing sectors over past year, along with broader markets (mid/small-caps)

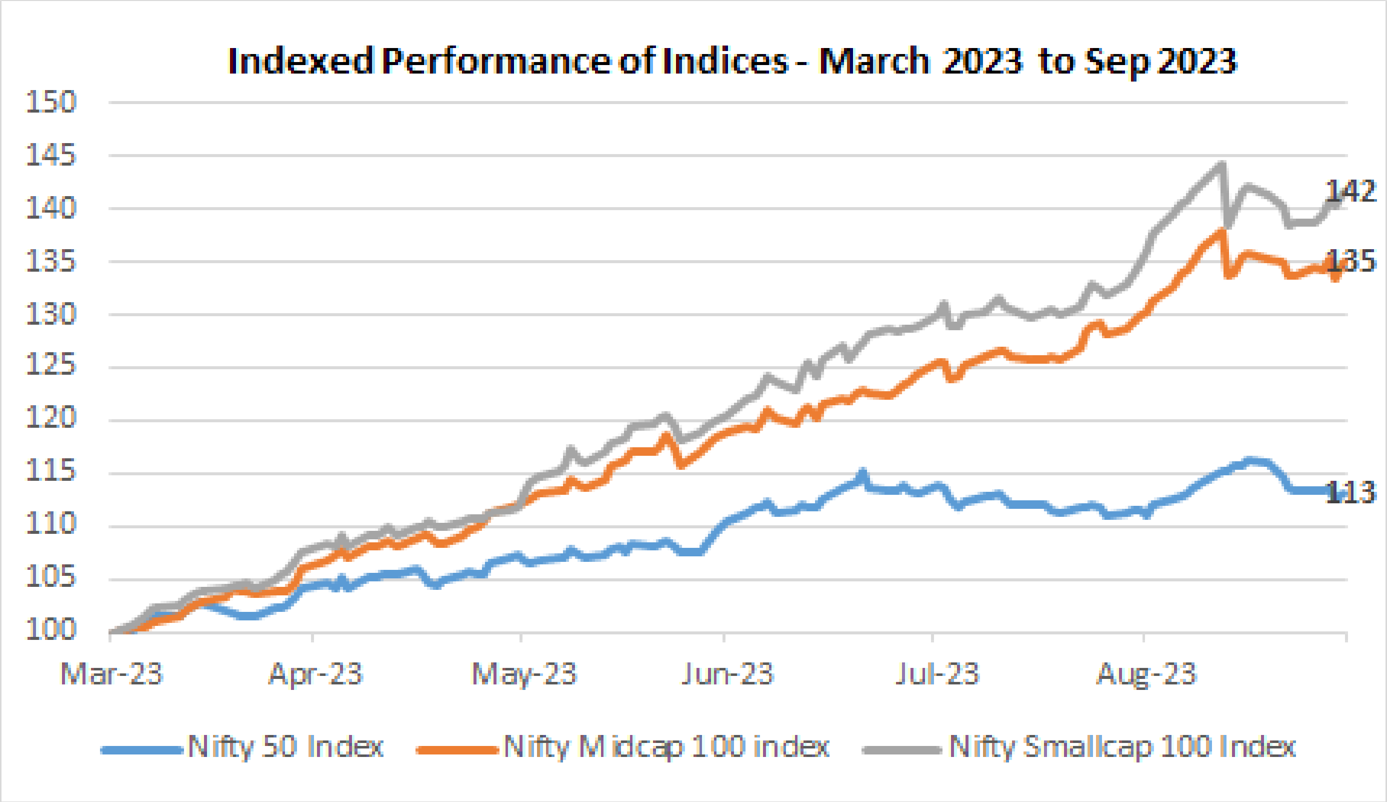
## Domestic Indices – 1 Yr Return in % (ended Sep 2023)



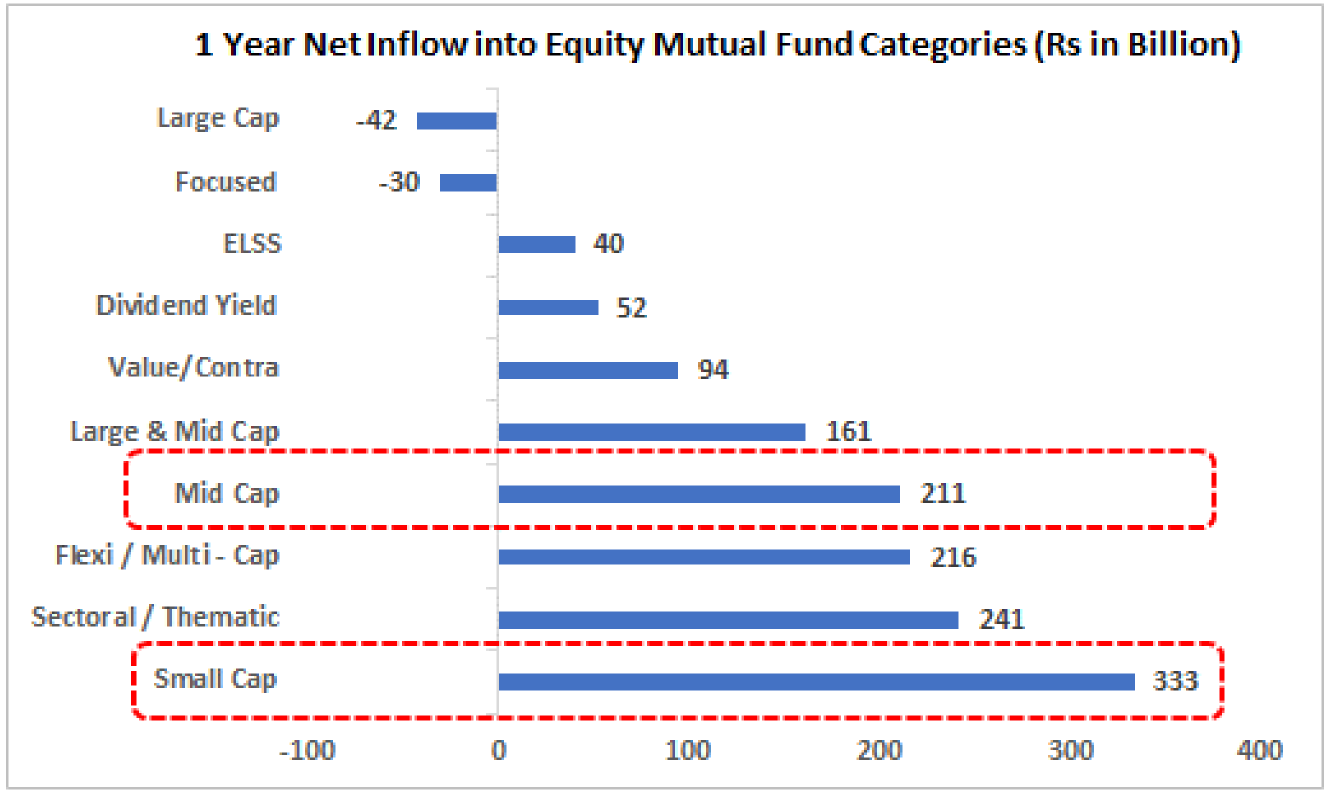

**Source: Morningstar Direct. Data sorted in descending order.**

- Power, Oil & gas and consumer durables sectors underperformed over the past year.

# Small/Mid-caps have seen a strong rally in FYTD24; we recommend reducing allocation




Source :- Bloomberg

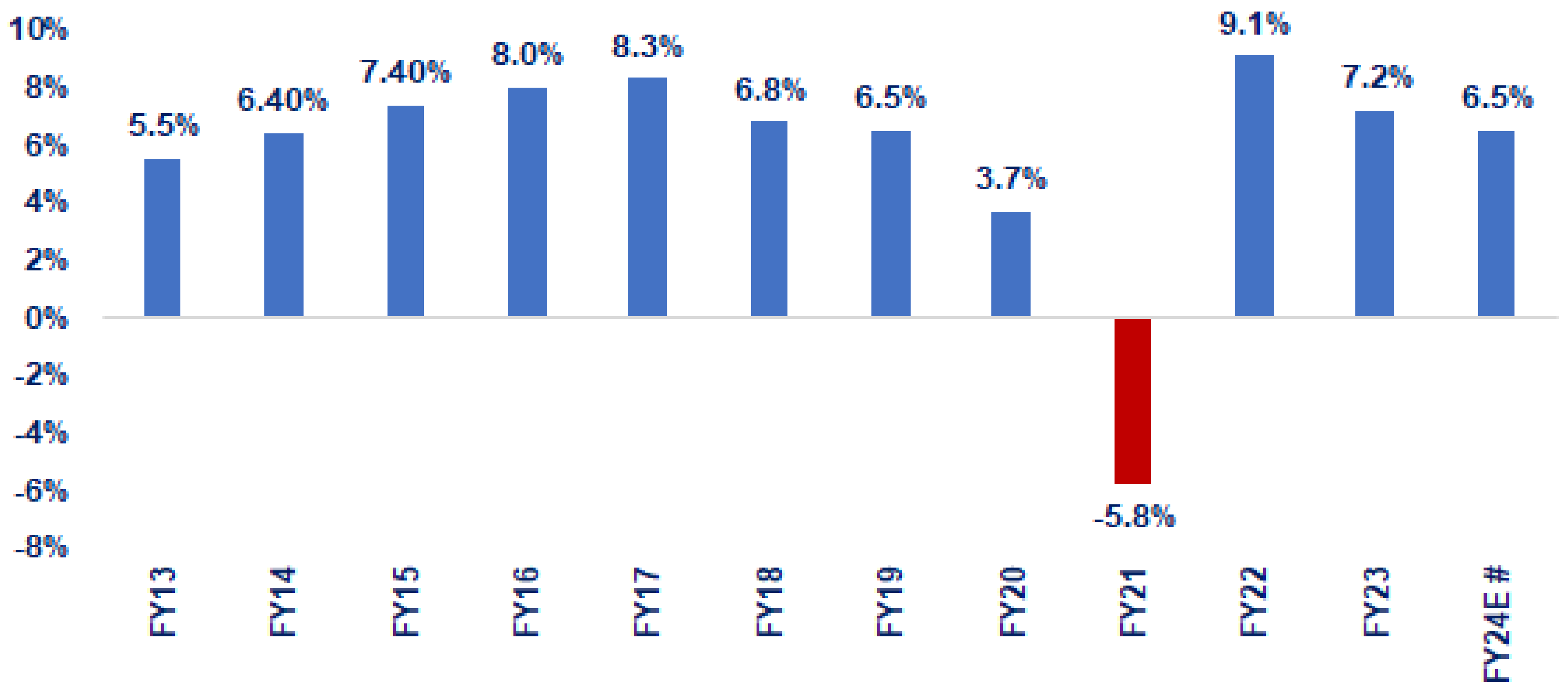



Source : AMFI, CLSA

- Small/Mid-Cap indices have seen strong rally on the back of strong domestic fund flows and return of risk appetite.
- Small-cap mutual fund category has received the highest inflows over the past year, among various equity MF categories. Also, the no. of folios of small-cap MF category (indicating approx. investor count) has crossed the larger fund categories like flexi-cap and large-cap.
- Midcap equity funds have also seen large inflows and strong growth in no. of folios.
- **The risk-reward for small/mid-caps is not looking that attractive and we presently prefer the large / flexi-cap segment.**

# India GDP growth still relatively healthy at 6.5% in FY24

## India Fiscal Year-Wise GDP Growth (% YoY)

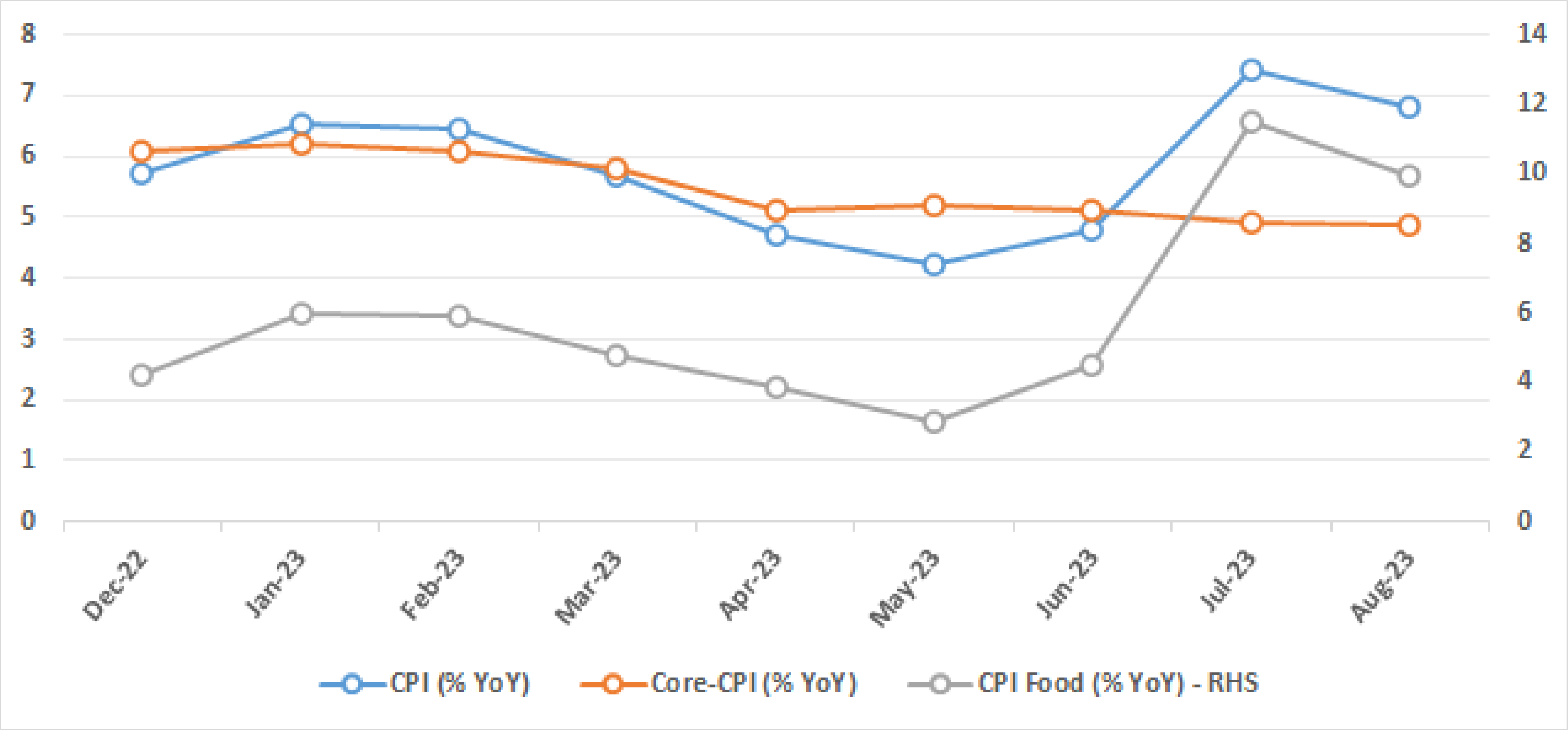



Source: MOSPI, RBI. # FY24 GDP growth is forecasted by RBI

- In Q1 FY24, GDP grew by a strong 7.8%, helped by private consumption (6% growth) and investments (8.0% growth)
- RBI forecasts GDP growth of 6.5% in FY24, while World Bank and IMF forecast stands at 6.3%.
- Despite the global growth slowdown, India is among the fastest growing major economies.

# India inflation started to moderate after the surprise spike in July

## India Consumer Inflation Trend (% YoY)

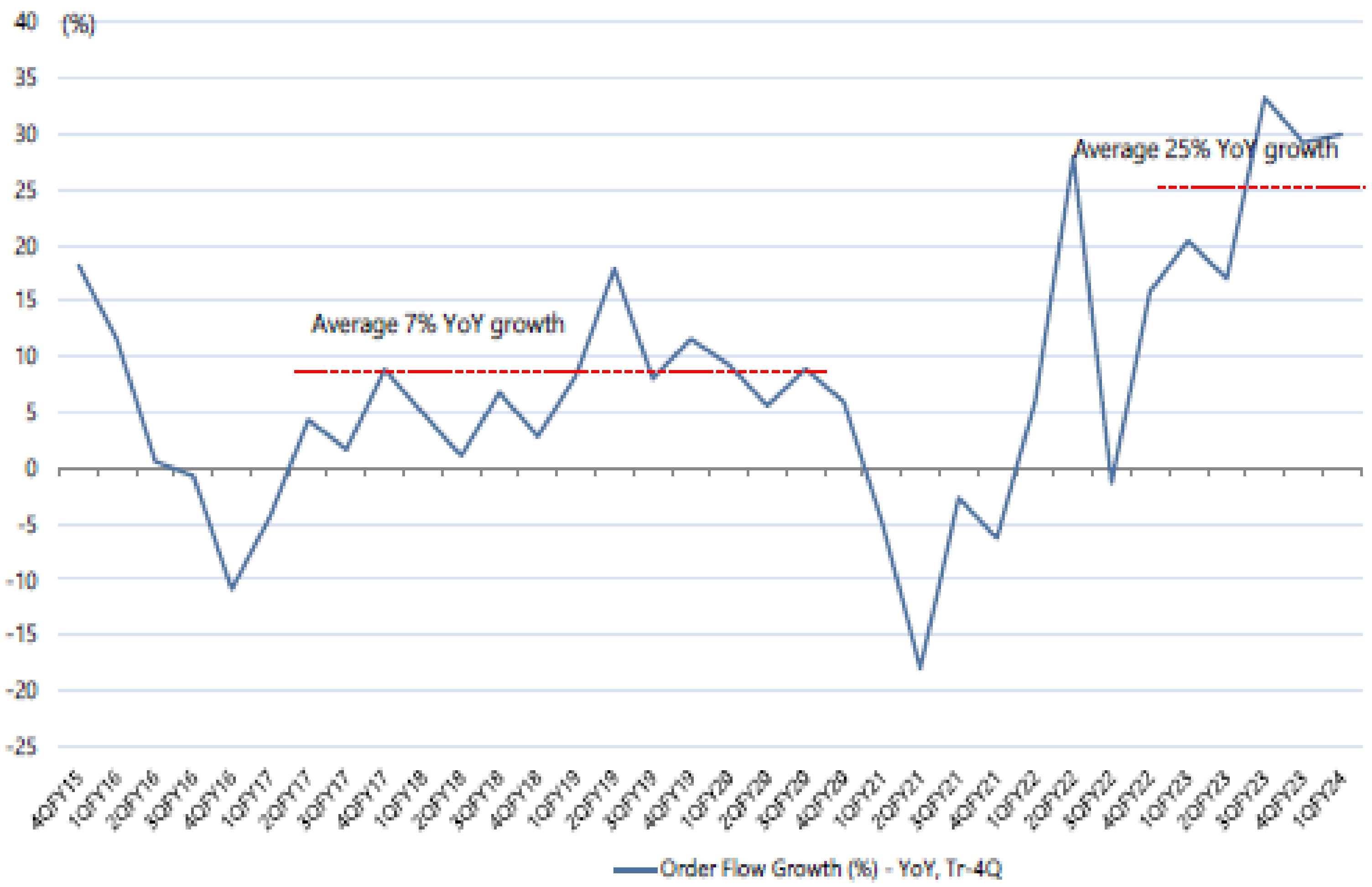



Source: Bloomberg

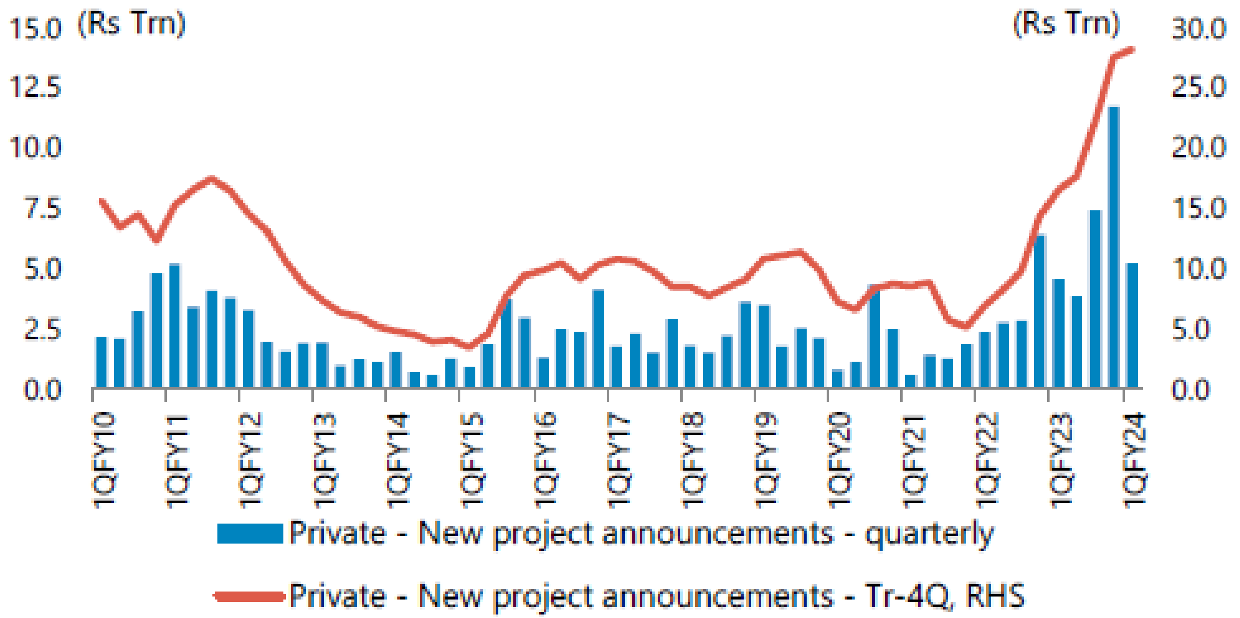
- In July 2023, CPI inflation spiked to 7.4% on the back of sharp rise in food prices (esp. vegetable prices).
- With vegetable and food prices normalizing in August, headline inflation moderated to 6.8%.
- Core inflation (ex food & fuel) remained steady at 4.8% in Aug 2023.
- In its Oct 2023 monetary policy meeting, RBI retained its inflation forecast for FY24 at 5.4%. Oil prices and geopolitics will be an important factor to watch out for.

# Capex cycle in India in recovery mode; helping industrials / capital goods sector to outperform

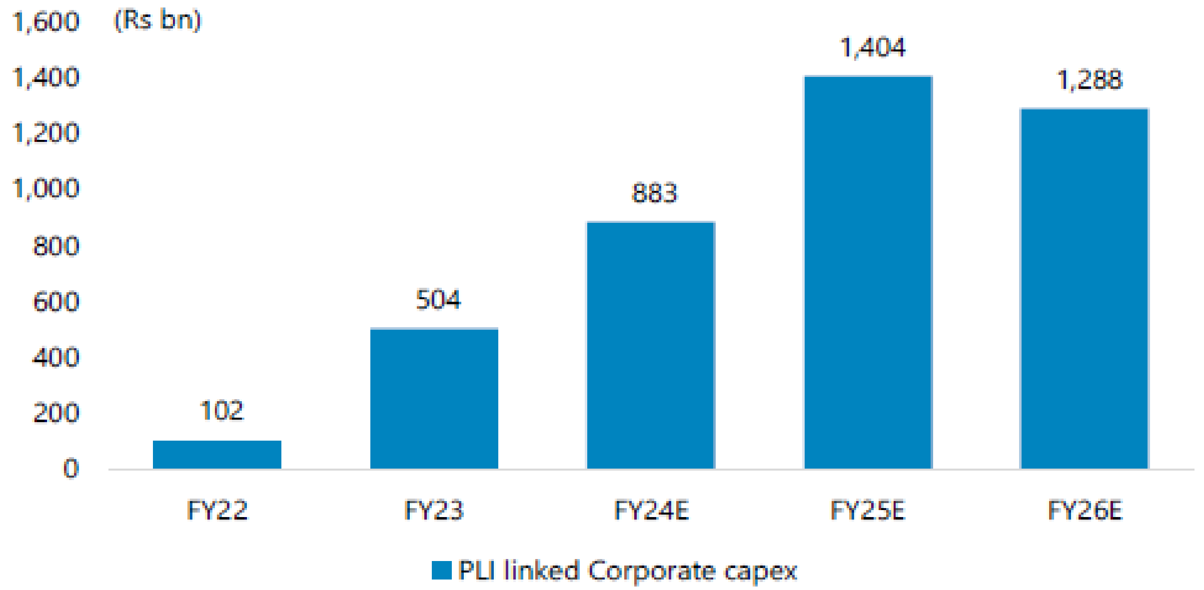
## Order flows of Capital Goods Majors* has picked up




## New Pvt. Project Announcements pick-up

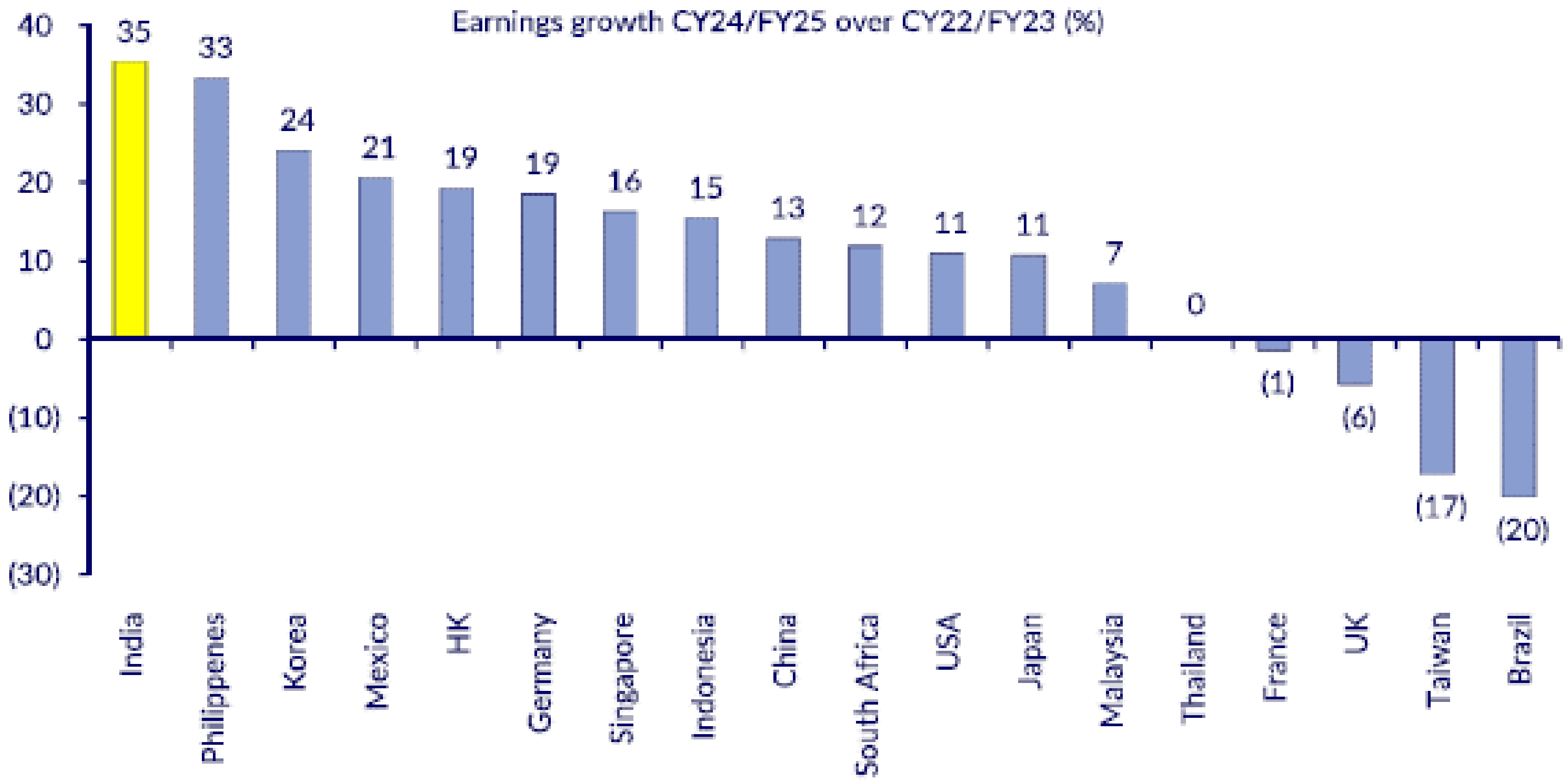



## PLI scheme related capex expected to grow at robust pace




Source: Jefferies. *Capital goods major companies include L&T, Siemens, Thermax & ABB

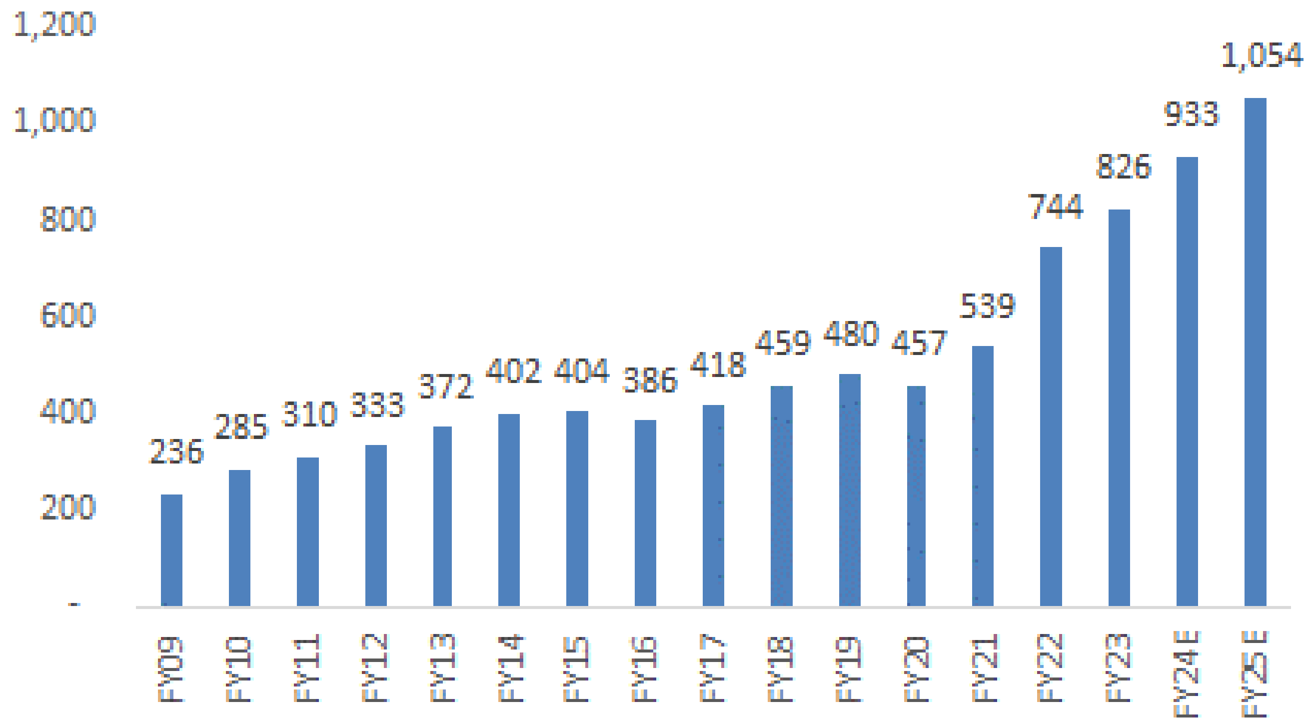
# India to see one of the strongest corporate earnings growth over next 2 years




**Source: Bloomberg, CLSA**

# We expect Nifty earnings growth of ~13% in FY24 & FY25

## Nifty EPS Trend




**Source: Bajaj Allianz Life Research Estimates**

- Q1 FY24 corporate earnings were better than expectations and we expect that Q2 FY24 corporate earnings will also be good.
- We anticipate some moderation in earnings growth in H2 of FY24.
- We expect Nifty earnings growth of ~13% in both FY24 & FY25, which is quite healthy, amidst the global slowdown.

# India market valuations (in large-cap segment) not cheap; but not very expensive as well

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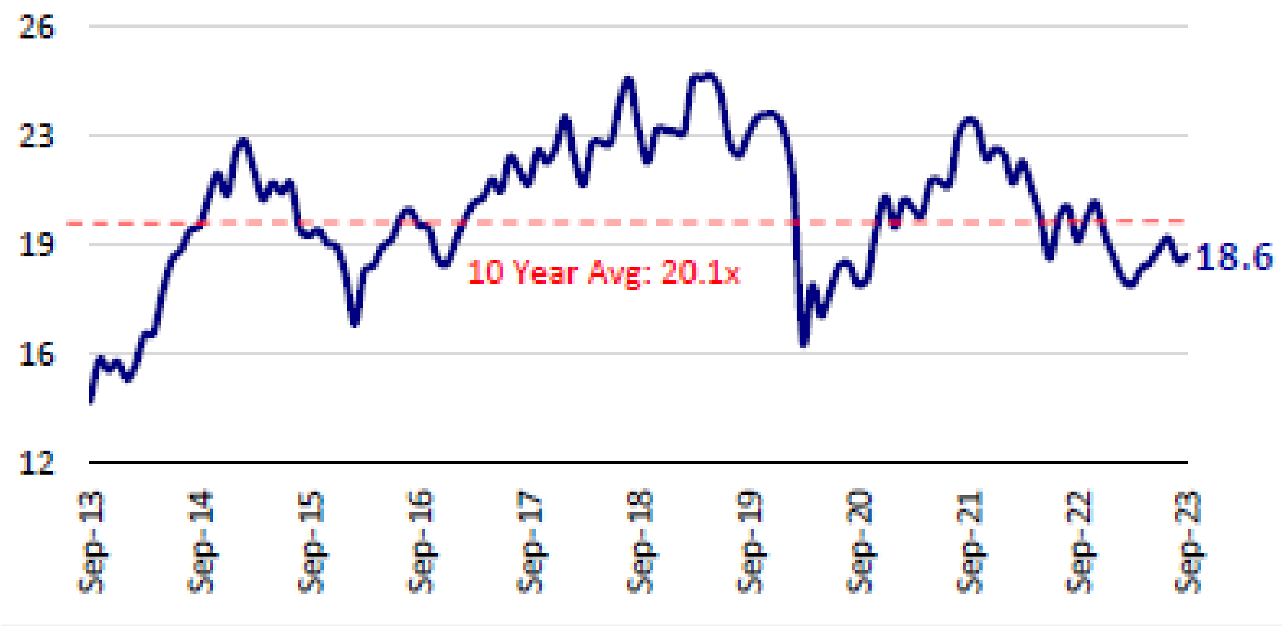
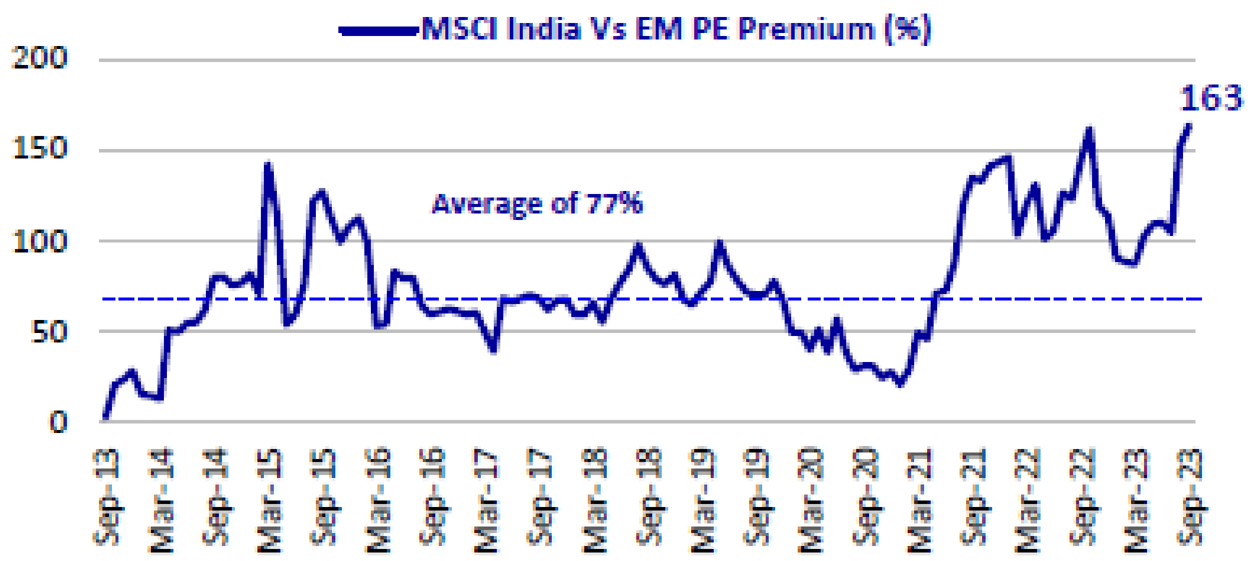
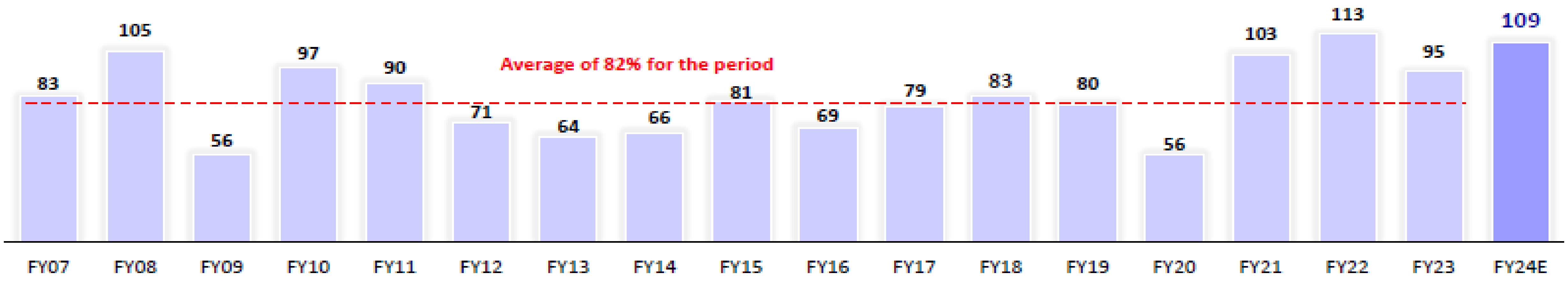
## Nifty 1 Year Fwd Consensus P/E Ratio




## India P/E Premium to EM




## India Market Cap to GDP Trend (in %)




Source: Bloomberg, Motilal Oswal

# FPI equity flows have picked up in FYTD 24, while DII flows have slowed down

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| Source: NSDL, Axis Capital | Rs in Crore | |
|---|---|---|
| **Year** | **FPIs** | **DIIs** |
| FY2008 | 52,572 | 47,794 |
| FY2009 | -48,250 | 60,040 |
| FY2010 | 1,10,752 | 24,211 |
| FY2011 | 1,10,121 | -18,709 |
| FY2012 | 43,738 | -5,347 |
| FY2013 | 1,40,032 | -69,069 |
| FY2014 | 79,709 | -54,161 |
| FY2015 | 1,11,445 | -21,446 |
| FY2016 | -14,171 | 80,416 |
| FY2017 | 60,196 | 30,787 |
| FY2018 | 21,074 | 1,13,258 |
| FY2019 | -90 | 72,115 |
| FY2020 | 6,151 | 1,29,301 |
| FY2021 | 2,74,897 | -1,34,056 |
| FY2022 | -1,39,434 | 2,21,389 |
| FY2023 | -35,268 | 2,56,128 |
| FY2024 (As of Sep 2023) | 1,79,284 | 46,001 |

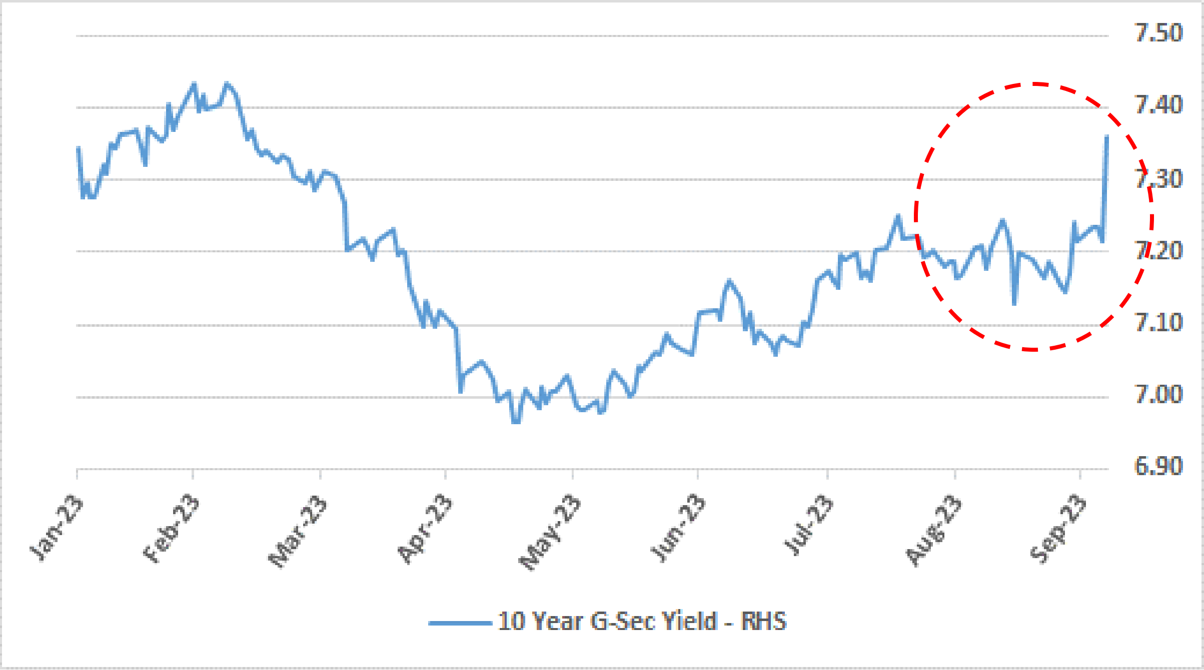
| Source: NSDL, Axis Capital | Rs in Crore | |
|---|---|---|
| **Month-end** | **FPIs** | **DIIs** |
| 30 September 2022 | -13,406 | 14,120 |
| 31 October 2022 | 8,431 | 9,197 |
| 30 November 2022 | 38,234 | -6,302 |
| 31 December 2022 | -1,356 | 24,159 |
| 31 January 2023 | -29,950 | 33,412 |
| 28 February 2023 | -5,279 | 19,239 |
| 31 March 2023 | 14,944 | 30,549 |
| 30 April 2023 | 15,733 | 2,217 |
| 31 May 2023 | 41,207 | -3,306 |
| 30 June 2023 | 55,161 | 4,458 |
| 31 July 2023 | 33,994 | -2,698 |
| 31 Aug 2023 | 14,295 | 25,017 |
| 30 Sep 2023 | -18,894 | 20,313 |

- FPI equity flows have picked up considerably in FYTD 24, after registering outflows in FY23. This has helped equity markets to outperform over past few months. Flows turned negative in month of Sep 2023.

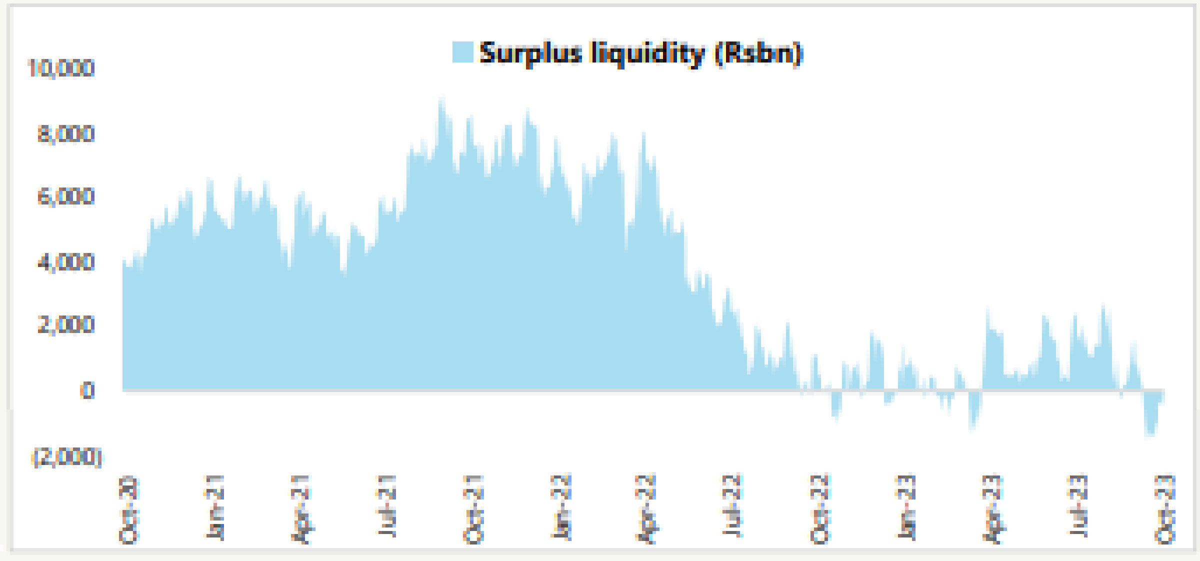
- Meanwhile, DII equity flows slowed down in FYTD 24 (esp. April – July) after registering a record high inflow in FY23. DII flows picked up in Aug – Sep 2023, on the back strong inflows into mutual funds.

# RBI delivers a hawkish pause in October meeting, leading to spike in bond yields

**India 10 Yr Yield**




**India Banking System Liquidity (Rs in billion)**




- RBI kept rates unchanged and maintained stance as – “withdrawal of accommodation”, as was widely expected.
- However, the central bank gave some hawkish comments relating to OMO sales and commitment of bringing inflation down to 4% on a durable basis.
- As result of this bond yields spiked post the policy.
- Banking system liquidity is presently negative. The possibility of OMO-sales to manage liquidity may pose short-term pressure on interest rates.
- RBI retained its inflation & GDP forecast for FY24 at 5.4% and 6.5% respectively.
- We expect an extended pause in interest rates in India and prefer the medium to long-term part of yield curve presently.

**Source: Bloomberg, RBI**

# India's inclusion in global EM bond indices a long term positive

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| | GBI-EM Global Diversified weights | | |
|---|---|---|---|
| | Current (%) | Mar 2025 (%) | Change (ppt) |
| India | – | 10.0 | 10.0 |
| China | 10.0 | 10.0 | – |
| Indonesia | 10.0 | 10.0 | – |
| Mexico | 10.0 | 10.0 | (0.0) |
| Malaysia | 10.0 | 9.5 | (0.5) |
| Brazil | 10.0 | 9.0 | (1.0) |
| Thailand | 9.8 | 8.1 | (1.7) |
| South Africa | 8.1 | 6.8 | (1.4) |
| Poland | 7.6 | 6.3 | (1.3) |
| Czech Republic | 6.2 | 5.1 | (1.0) |
| Colombia | 4.5 | 3.7 | (0.8) |
| Romania | 3.8 | 3.2 | (0.7) |
| Hungary | 3.1 | 2.6 | (0.5) |
| Peru | 2.4 | 2.0 | (0.4) |
| Chile | 2.0 | 1.7 | (0.3) |
| Egypt | 1.0 | 0.9 | (0.2) |
| Turkey | 0.7 | 0.6 | (0.1) |
| Serbia | 0.3 | 0.2 | (0.1) |
| Uruguay Global | 0.2 | 0.2 | (0.0) |
| Dominican Rep. Glob | 0.2 | 0.1 | (0.0) |
| Philippines Global | 0.1 | – | (0.1) |

**Source: JP Morgan Global Index Research, Kotak Economics Research**

- Indian G-Secs will be included in the JP Morgan Global Emerging Market (EM) Bond index starting June 2024 in a staggered manner.
  - The India weight will start with 1% on June 2024, with staggered increase over a 10-month period and a final weight of 10% for Indian G-secs in the index by March 2025
  - This will make India as one of the largest weights in the index
- This could lead to ~$30 billion of foreign passive inflows into Indian G-Secs over next 2 years.
- FPI ownership of Indian G-Secs could increase from 1.6% currently to 3.5-4% by FY25.
- This could trigger inclusion of India in other global bond indices like Bloomberg-Barclays and FTSE-Russell indices.
- Overall, a long term positive for flows into Indian debt markets and a sentiment booster.

# Thank You

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