

# ALPHA STRATEGIST

## “Journey to the East”



**WINNING PORTFOLIOS**  
**POWERED BY KNOWLEDGE**

July 2024 | Issue No. 139

- Post the completion of general elections 2024 and the dissolution of the uncertainty revolving around it, we have moved our attention towards the foreign money which has been on sidelines since 2023.
- We have tried to capture different trigger points for FPI money coming back into India in their **“Journey to the East”**
- As mentioned in our January edition of “Year of All-rounder”, our view that multi asset investment approach could prove to be an ideal one with uncertainties present in global markets
- The prominence of Mega caps (Magnificent 7/ FANG+) is increasing and is at one of the highest levels (based on market cap) leading to polarization and high concentration of these stocks in broad US benchmarks.
- This coupled with uncertainty over interest rates, upcoming general elections and expected slowdown in US economy provides an opportunity for investments coming into India (in the EM basket)
- Strong current account balance, on the back of higher service exports and increased crude oil imports from Russia, improving corporate profits, declining fiscal deficit and stable currency can lead to FPI flows coming into India
- Rich valuations of Indian equities and probable slow down in growth pace of earnings (on the back of higher base) could pose as risk factors going forward.





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# Different Asset Classes Performance

2021	2022	2023	1st Jan'24 to 5th Jul'24 (Abs basis)
Equity-IND 30.2%	Gold 13.9%	NASDAQ 46.0%	NASDAQ 22.1%
Equity-US 29.1%	Liquid 5.1%	Equity-IND 25.8%	Equity-US 16.9%
NASDAQ 23.5%	Equity-IND 3.0%	Equity-US 25.7%	Gold 14.9%
MSCI DM 22.2%	Real Estate 2.8%	MSCI DM 22.3%	MSCI DM 13.1%
Liquid 3.6%	Debt 2.5%	Gold 15.4%	Equity-IND 12.0%
Debt 3.4%	MSCI DM -10.0%	MSCI EM 7.7%	Debt 9.0%
Real Estate 3.1%	Equity-US -10.7%	Debt 7.3%	MSCI EM 8.2%
MSCI EM -2.9%	MSCI EM -13.5%	Liquid 7.1%	Liquid 7.4%
Gold -4.2%	NASDAQ -26.1%	Real Estate 2.0%	Real Estate 2.7%

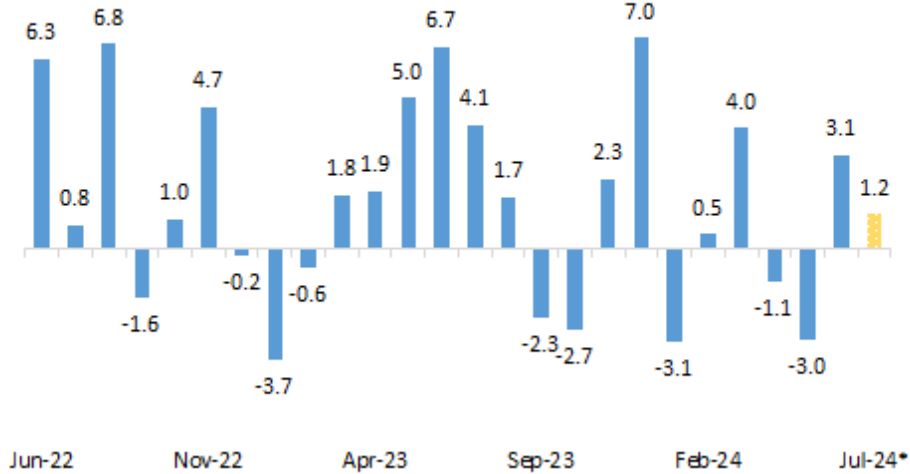
Note: Price Index values are being considered. Returns for Debt & Liquid are taken on Annualised basis, rest all are on absolute basis

Equity IND - Nifty 50, Equity US - S&P 500 INR, MSCI DM – MSCI World Index (Developed) INR, MSCI EM -MSCI Emerging Index INR, Gold - Gold INR, Debt - CRISIL Composite Bond Index, Liquid - CRISIL Liquid Index, NASDAQ - NASDAQ Composite index INR, Real Estate - RBI House Price Index (3 month returns for CY24 since data for this index is available only till end Mar'24)

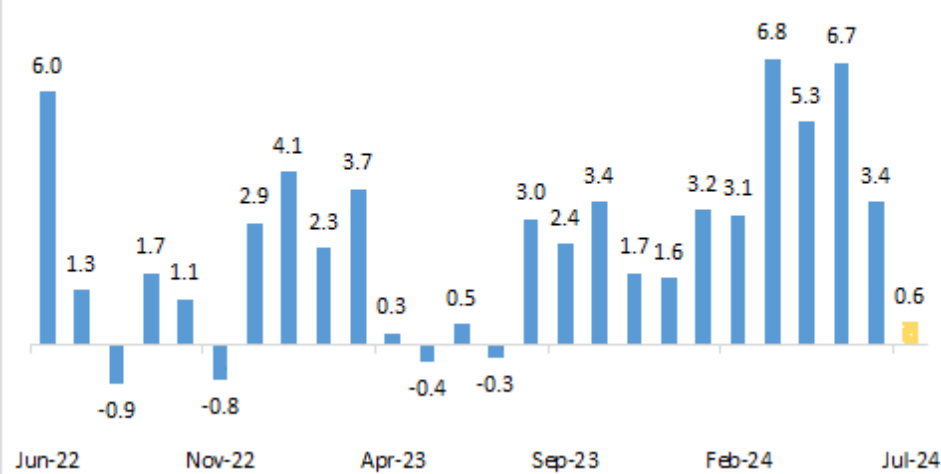


# FII flows into Equity & Debt markets

FII Equity Flows (USD bn)



FII Debt Flows (USD bn)



\*Data for Jul-24 Equity & Debt flows data is still 5<sup>th</sup> July 2024 and taken from Moneycontrol.

FPIs have been net buyers in both Indian Equity and Debt markets in the month of Jun-24 and the start of Jul-24

Following can be the triggers for further FII inflows into Indian Equities & Debt

- Government’s continuity following the election results guarantees ongoing reforms
- Improved GDP forecasts and robust earnings from Indian corporations
- Stable Currency
- Indian bonds inclusion in JP Morgan’s bond index and Bloomberg Bond Index



# MCap movement of top 500 USA and India stocks

### Market Cap of Top 500 USA Companies

Market Cap (USD bn)	Jun-23	Jun-24	% change in MCap
Top 10 stocks	12,042	17,288	44%
Next 90 stocks	15,513	17,898	15%
101 to 250 stocks	7,240	8,267	14%
251 to 500 stocks	4,323	4,696	9%
<b>Total</b>	<b>39,117</b>	<b>48,149</b>	<b>23%</b>

### Market Cap of Top 500 Indian Companies

Market Cap (USD bn)	Jun-23	Jun-24	% change in MCap
Mega Caps (Top 10)	950	1,163	22%
Large Caps (Next 90)	1,464	2,158	47%
Mid Caps (101 to 250)	604	978	62%
Small Caps (251 to 500)	294	469	60%
<b>Total</b>	<b>3,311</b>	<b>4,768</b>	<b>44%</b>

*Note: The above comparison is just to ascertain the change in the total market cap of top 500 stocks in USA and India (based on their market cap). Any change within the constituents in each bucket is not taken into consideration.*

*The market cap of Indian companies is converted into USD bn as per the average USD/INR rate prevailing in 2023 and 2024 (till date) i.e. 82.5738 & 83.245 respectively*

- In US, the rally in the total market cap is being driven by Mega caps followed by Large, Mid & Small caps. The weight of Mega caps has gone up from 31% in Jun'23 to 36% in Jun'24
- In India, the trend is opposite to US where the growth in market cap of Mid & Small caps (on absolute basis) is much higher compared to Mega & Large caps.

### Reasons for inflows coming into large caps

- Investors have scaled back bets amid uncertainty over interest rates & sticky inflation reports.
- Continue to post robust earnings growth
- Bigger stocks are also in favor due to the tailwind of artificial intelligence trade



# High Polarization & Increasing Concentration in US Markets

## Returns Data of major US Indices

Indices	6 Month	9 Month	12 Month
NYSE FANG+	29.7%	53.5%	46.0%
S&P 500	14.5%	27.3%	22.7%

## Proportion of FANG+ stocks in S&P 500 returns

Particulars	Wtd Avg Contribution of FANG+ Stocks in S&P 500		
	6 Month	9 Month	12 Month
FANG+ Stocks	10.3%	16.3%	15.0%
% of S&P 500 returns	71.3%	59.8%	66.0%

Data as on 30<sup>th</sup> June 2024

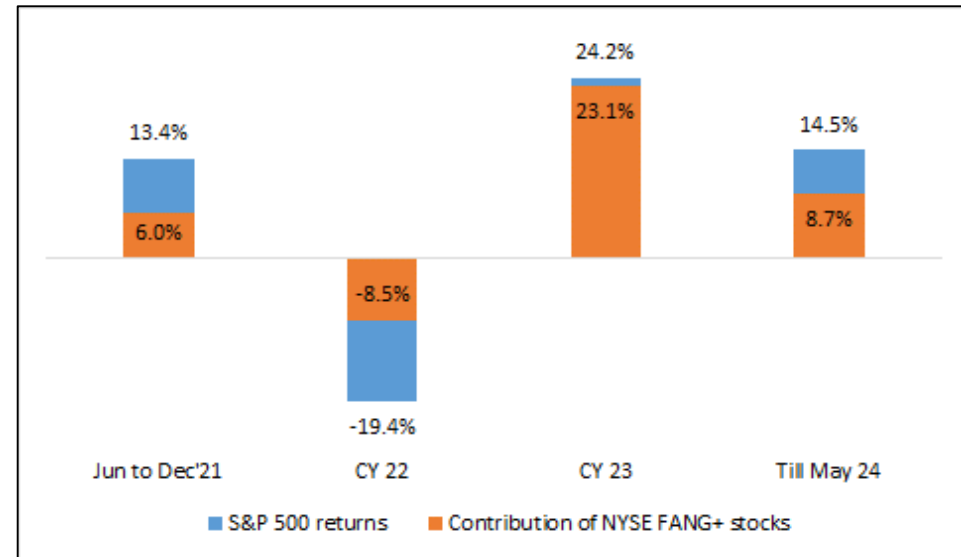
Data as on 30<sup>th</sup> June 2024

- NYSE FANG+ stocks have massively contributed in the performance attribution of S&P 500 returns contributing at least 60% of the total returns generated by S&P 500

## Increase in concentration of NYSE FANG+ stocks in S&P 500

- In CY23, NYSE FANG+ stocks have contributed ~95% of the total returns generated by S&P 500 index
- We have used Motilal Oswal S&P 500 Index fund as a proxy for S&P 500

*FANG+ stocks aka Magnificent Seven include Facebook, Amazon, Apple, Nvidia, Microsoft, Alphabet, Tesla & Netflix. Mirae Asset NYSE FANG+ ETF is used as a proxy*



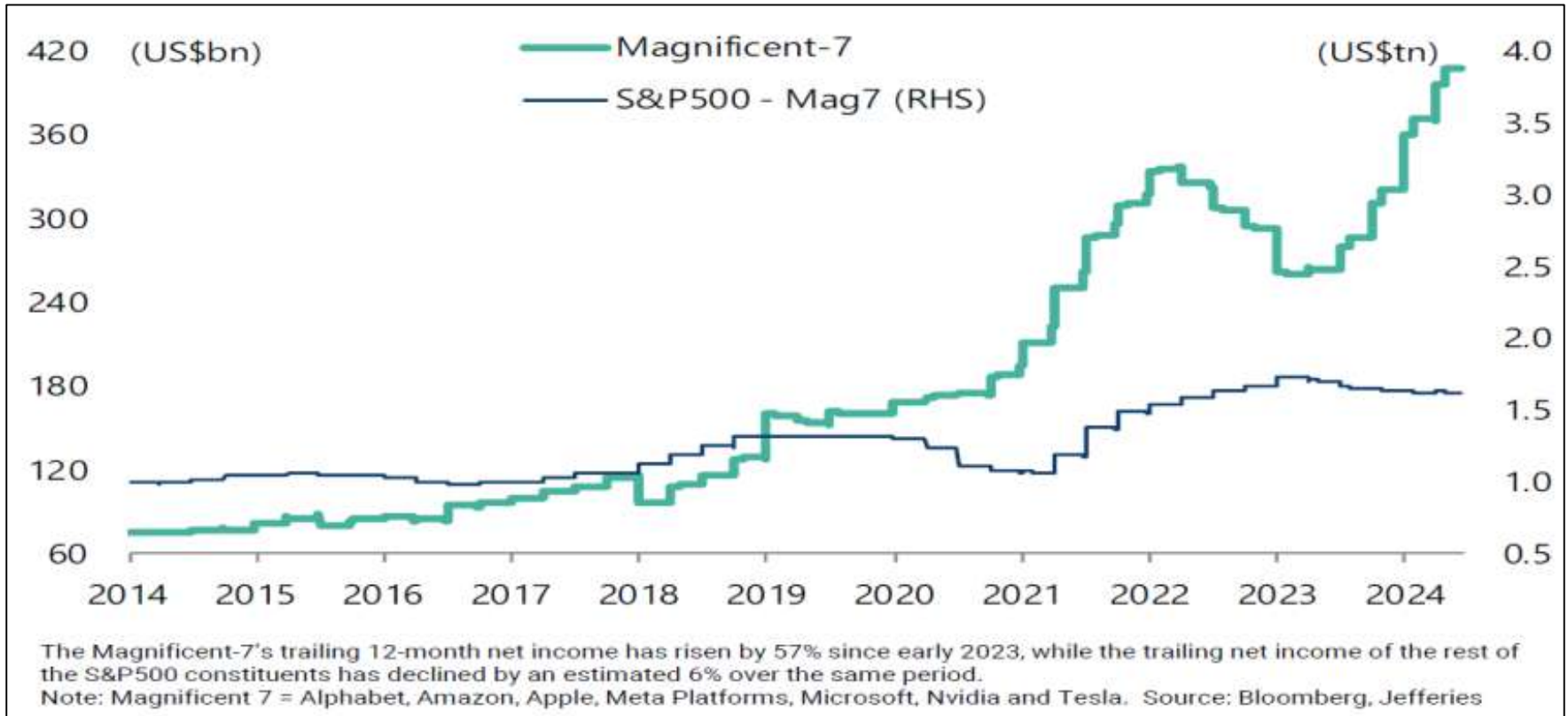
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Source: Internal Research

Disclaimer: The above chart/data is for informational purpose. Past performance may or may not be sustained in future



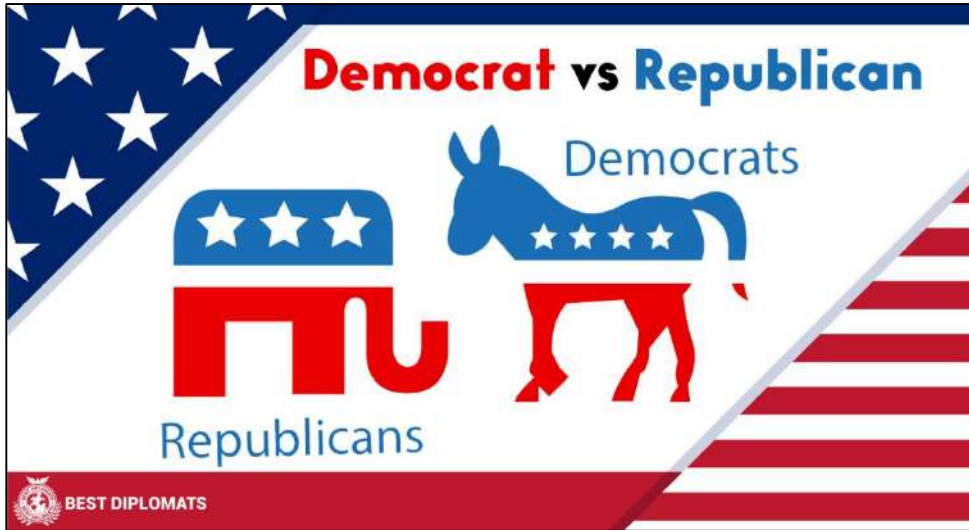
# Divergence In Earnings Growth – Magnificent 7 and Rest of US Markets





# Events that can create uncertainty in US

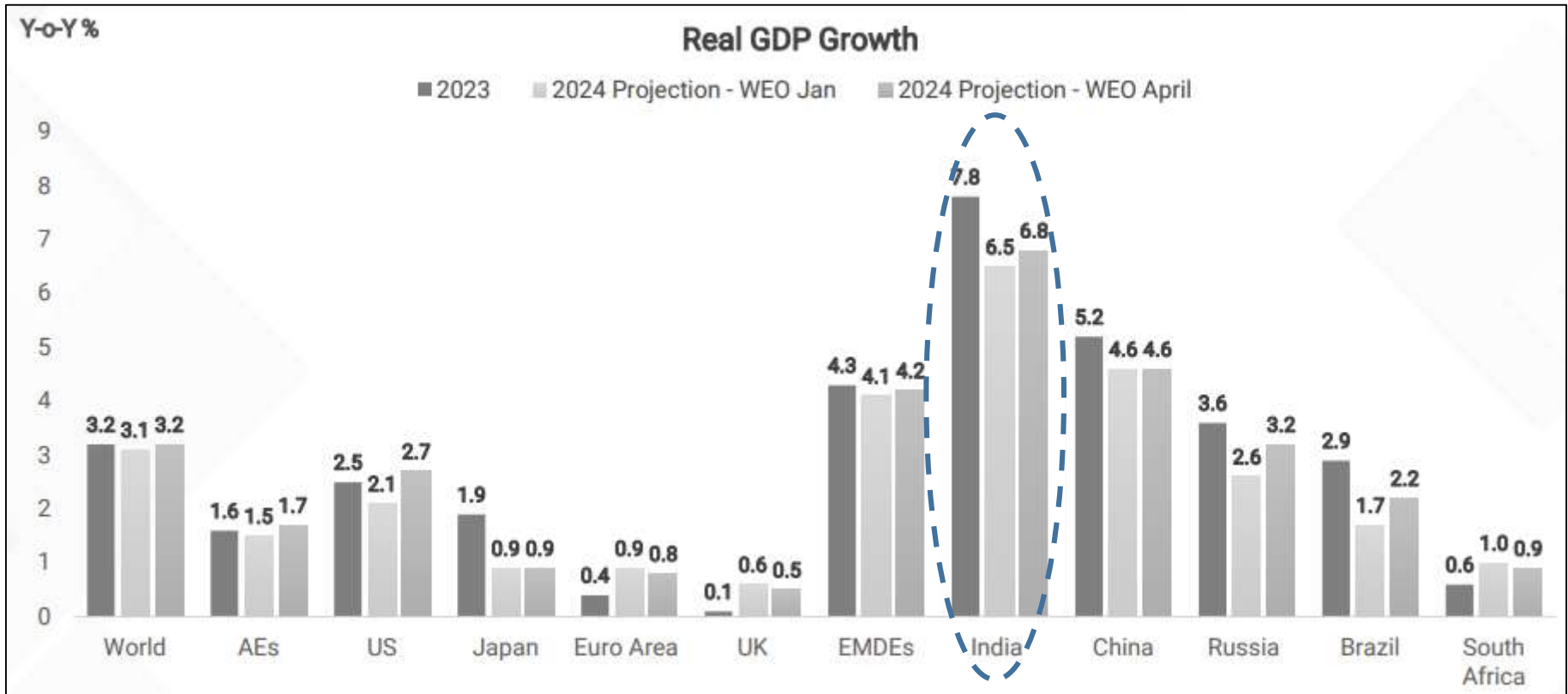
## US Elections in November 2024



## Federal Reserve & Interest Rates



# GDP projections of India and other economies

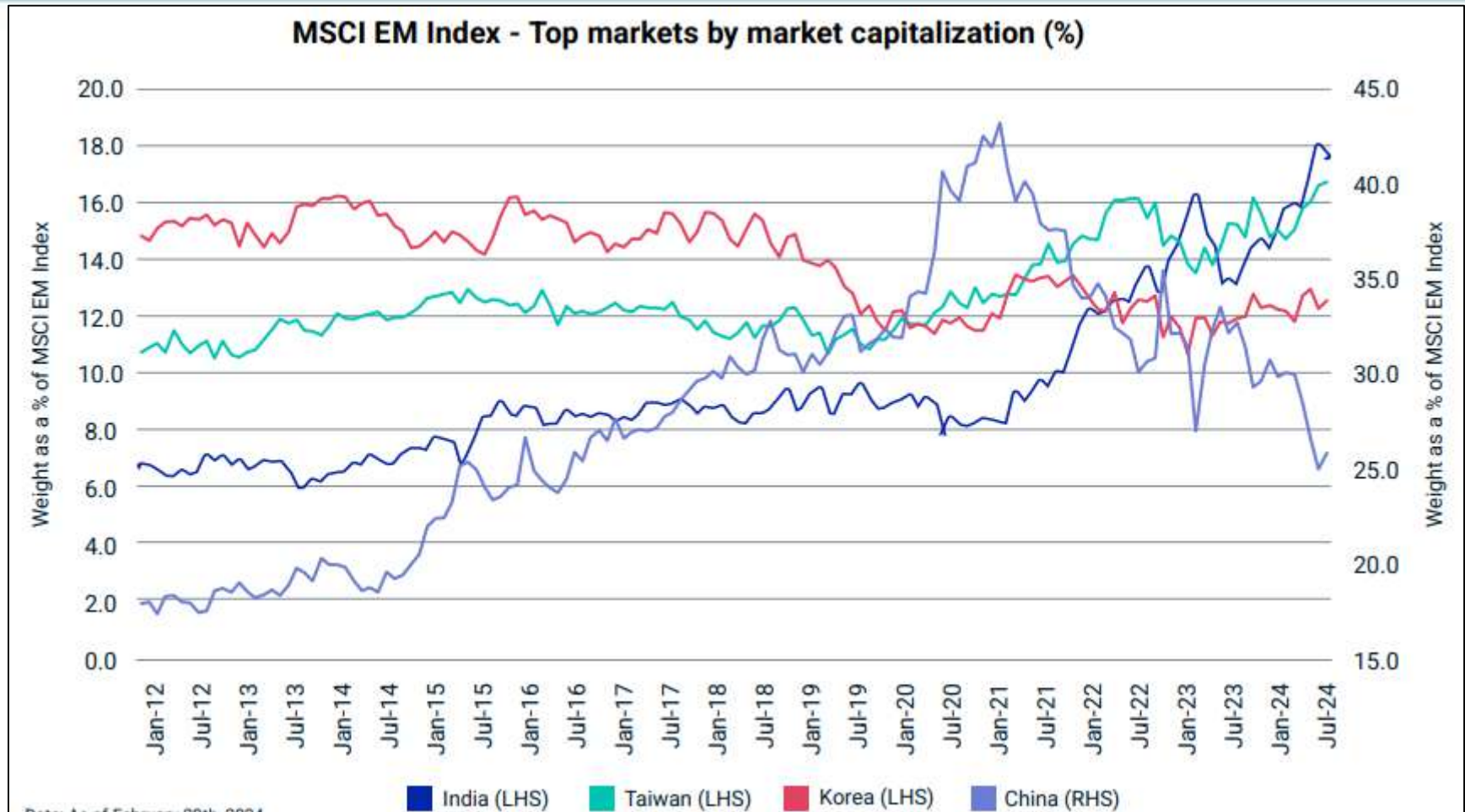


AEs = Advanced Economies EMDEs = Emerging Market and Developing Economies. Note: India's data is for fiscal year

- India's GDP is expected to grow significantly compared to other economies as per the projections made by IMF

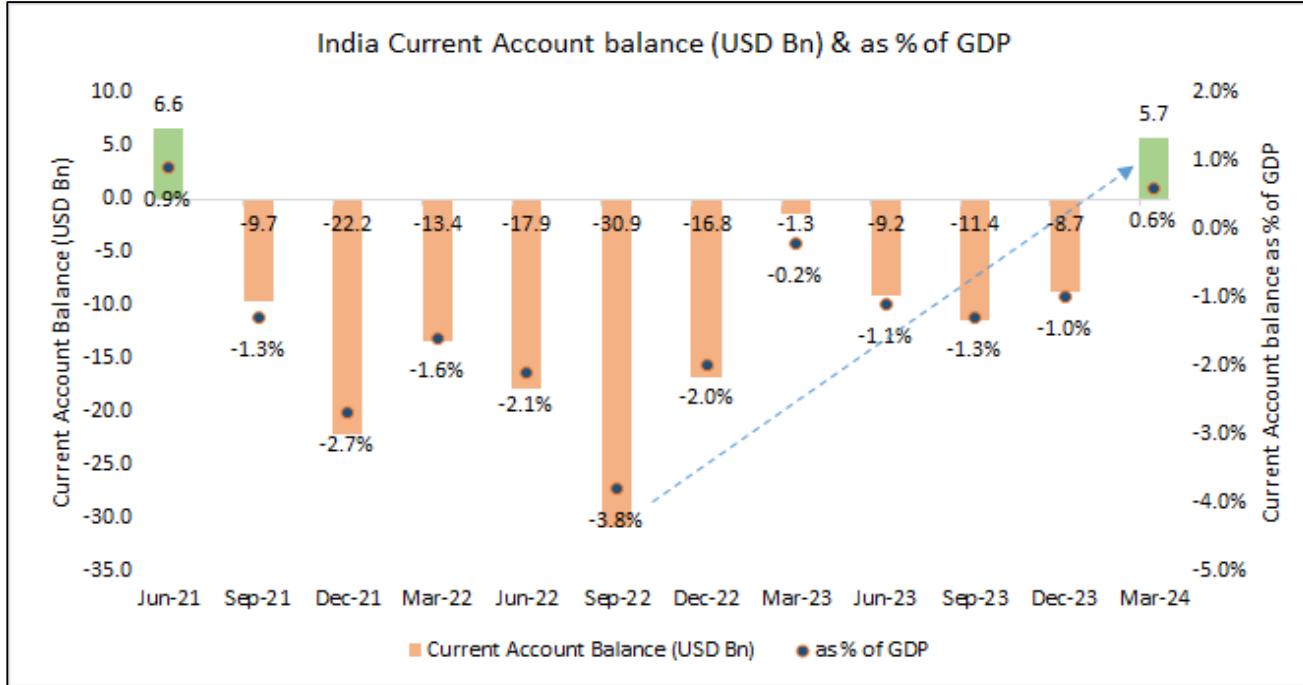


# India's weight in MSCI EM Index



- India's weight in MSCI EM index has also been increasing after being range bound for the period between Jan-12 to Jan-21.





- Aided by a narrower merchandise trade deficit and a robust expansion in the services trade surplus, India's current account reduced from a deficit of 3.8% of GDP in Sep-22 quarter to a surplus of 0.6% in Mar-24 quarter.
- ICRA expects the CAD to rise slightly in FY25, while remaining eminently manageable at ~1.0-1.2% of GDP, owing to a widening in the merchandise trade deficit, on the back of domestic demand and higher commodity prices



# India's top 10 trading partners

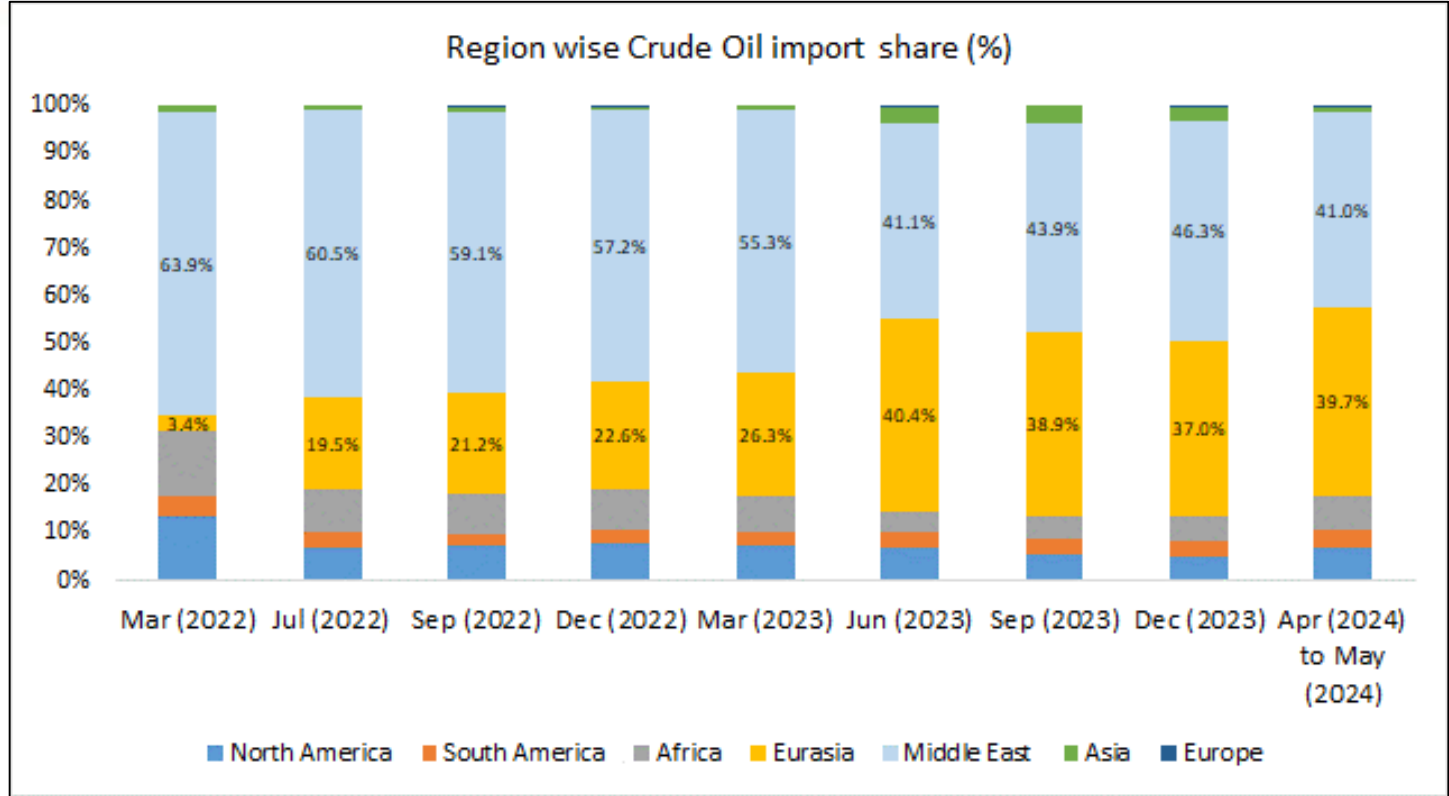
2018	2019	2020	2021	2022	2023
China 19%	U.S. 19%	China 20%	China 19%	U.S. 19%	U.S. 18%
U.S. 18%	China 18%	U.S. 20%	U.S. 19%	China 16%	China 17%
UAE 10%	UAE 12%	UAE 10%	UAE 11%	UAE 11%	UAE 11%
Saudi Arabia 7%	Saudi Arabia 7%	Saudi Arabia 6%	Saudi Arabia 6%	Saudi Arabia 8%	Russia 9%
Hong Kong 6%	Hong Kong 6%	Hong Kong 6%	Switzerland 5%	Russia 6%	Saudi Arabia 6%
Iraq 5%	Iraq 5%	Iraq 5%	Hong Kong 5%	Iraq 6%	Iraq 5%
Germany 5%	South Korea 4%	Germany 4%	Iraq 5%	Indonesia 5%	Indonesia 4%
South Korea 5%	Germany 4%	South Korea 4%	Singapore 4%	Singapore 5%	Hong Kong 4%
Singapore 4%	Singapore 4%	Singapore 4%	South Korea 4%	Hong Kong 4%	Singapore 4%
Indonesia 4%	Switzerland 4%	Indonesia 4%	Indonesia 4%	South Korea 4%	South Korea 4%

- Emergence of Russia into the top trading partners from 2022. European countries like Germany & Switzerland have moved out of the list.
- Top 3 trading partners i.e. US, China & UAE continue to remain at their respective positions





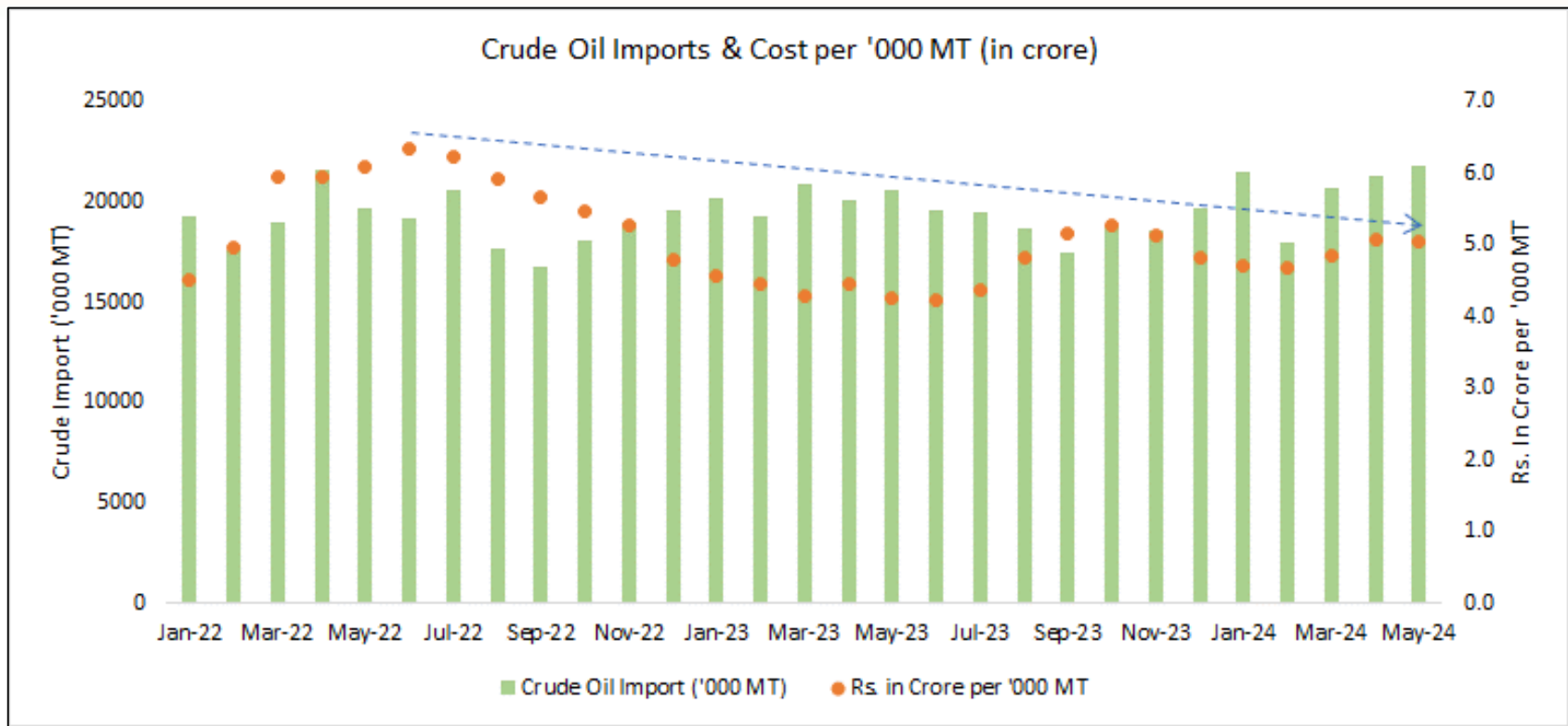
# Increasing Russia's share in Crude Oil imports



- The share of Imports from Eurasia (majorly Russia) have been on an increasing trend post the start of CY2022
- Share of crude oil imported from Eurasia has increased from 3% in Mar'22 to ~40% in May'2024 eating into the share of Middle East which has declined from ~64% to ~41% during the same period



# Trend in monthly crude oil imports and the cost

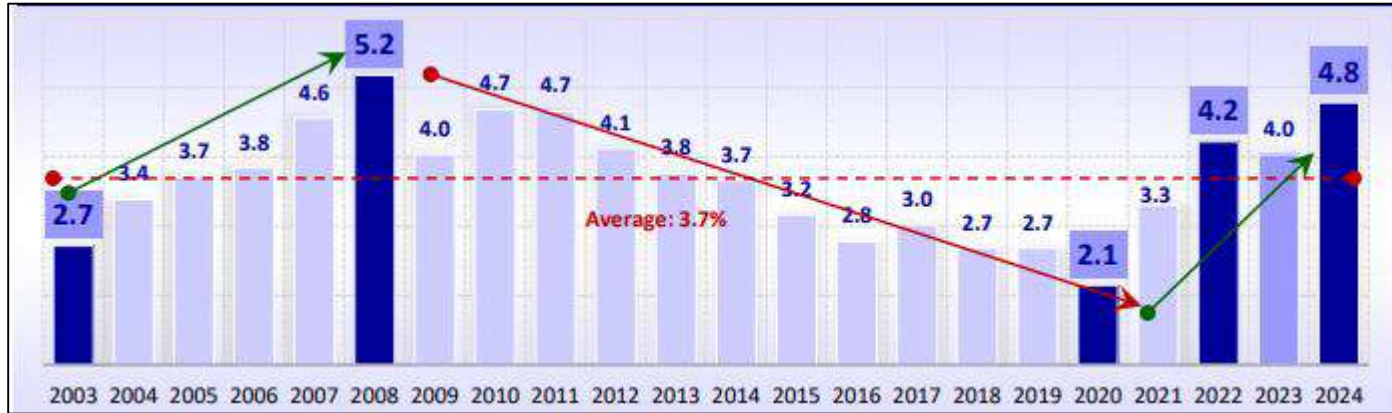


- The import cost per '000 metric ton has come down from INR 6.3 Cr in Jun-22 to INR 5.0 Cr as of May-24
- Crude Oil imports have been on an increasing trend since Feb-24 onwards.

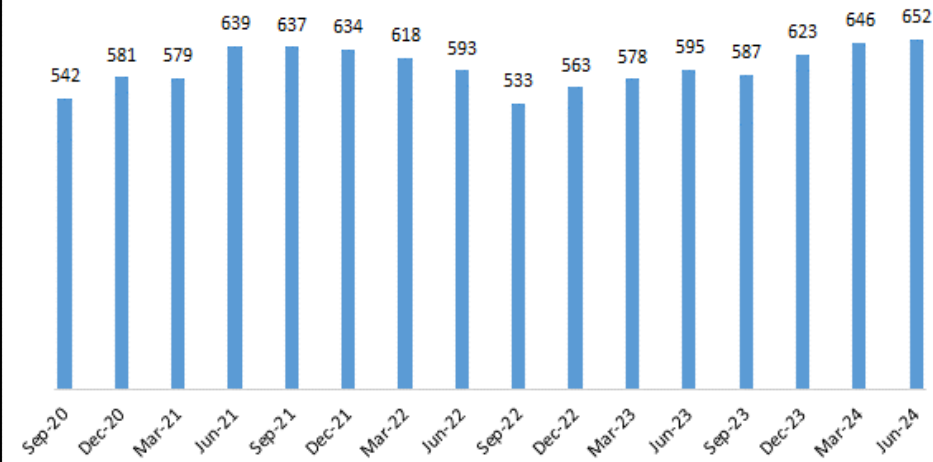




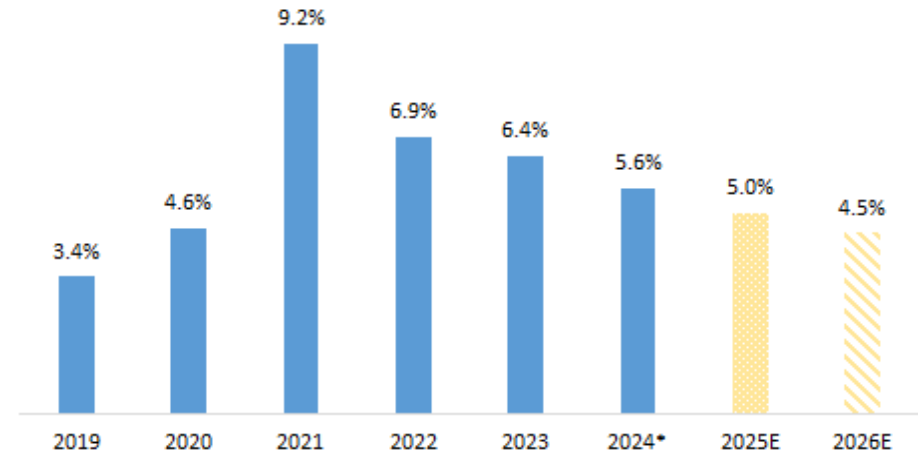
### Nifty-500 – the corporate profit to GDP ratio climbs in 2024



### Significant & Increasing Forex reserves (USD bn)



### Fiscal Deficit as % of GDP



\*Based on data released by Controller General of Accounts (CGA)

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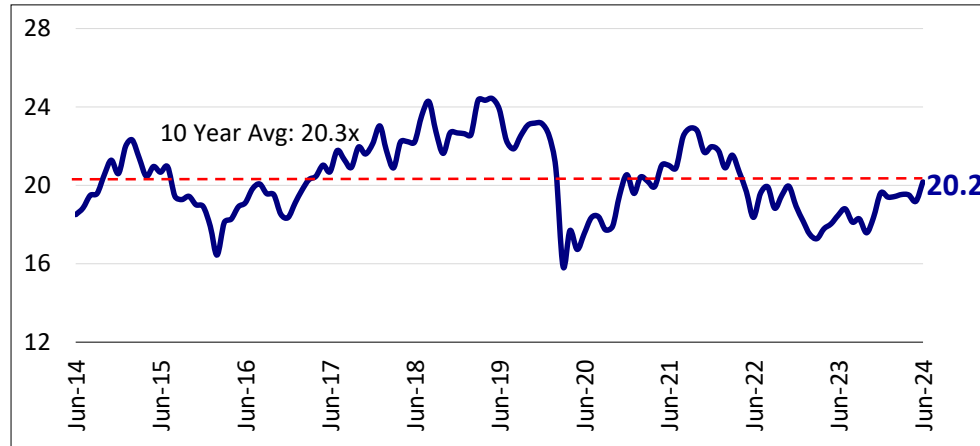
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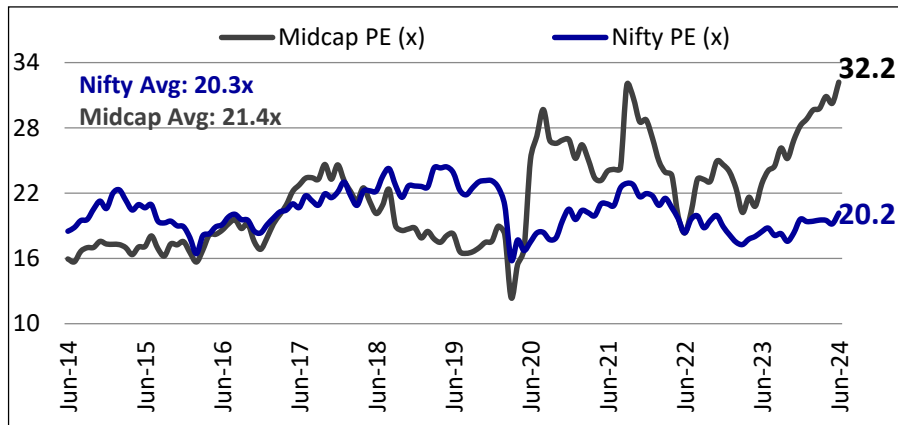
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# Market Indices Valuations

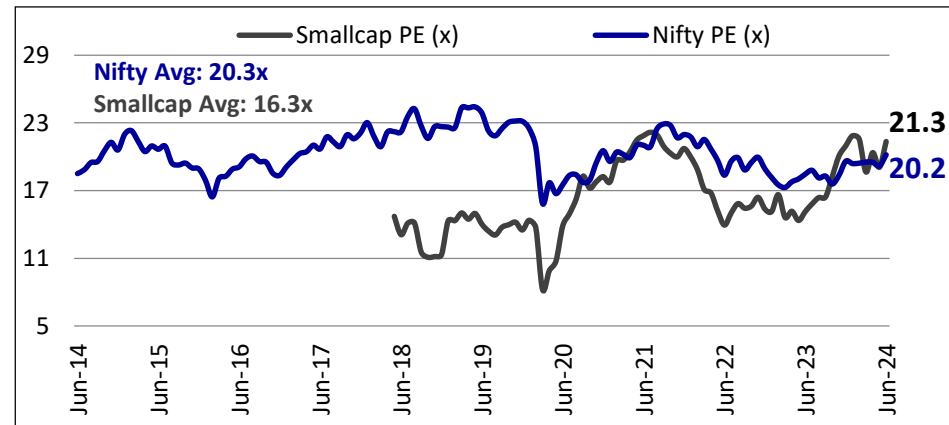
Nifty 50 PE 1 Year Forward - (10 Year Period)



Nifty Midcap 100 PE 1 Year Forward - (10 Year Period)



Nifty Smallcap 100 PE 1 Year Forward - (10 Year Period)

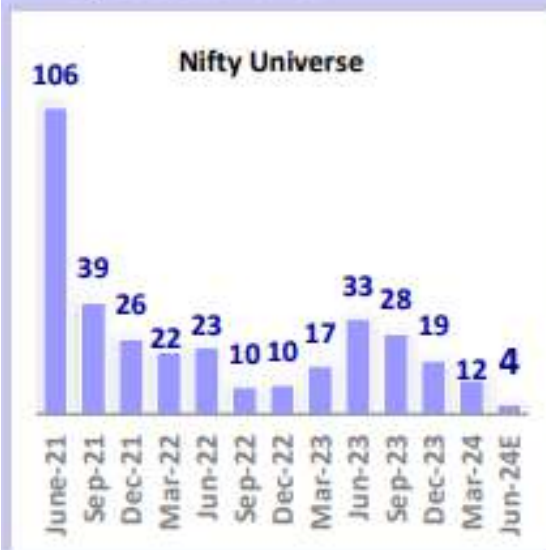


- Nifty Midcap forward PE & Nifty Smallcap forward PE are trading significantly higher & higher respectively compared to their respective long term average.



# Earnings expected to remain flat on the back of higher base

PAT growth for the Nifty Universe likely to be at 4% YoY



PAT to remain flat YoY for the Nifty Universe, sans Financials



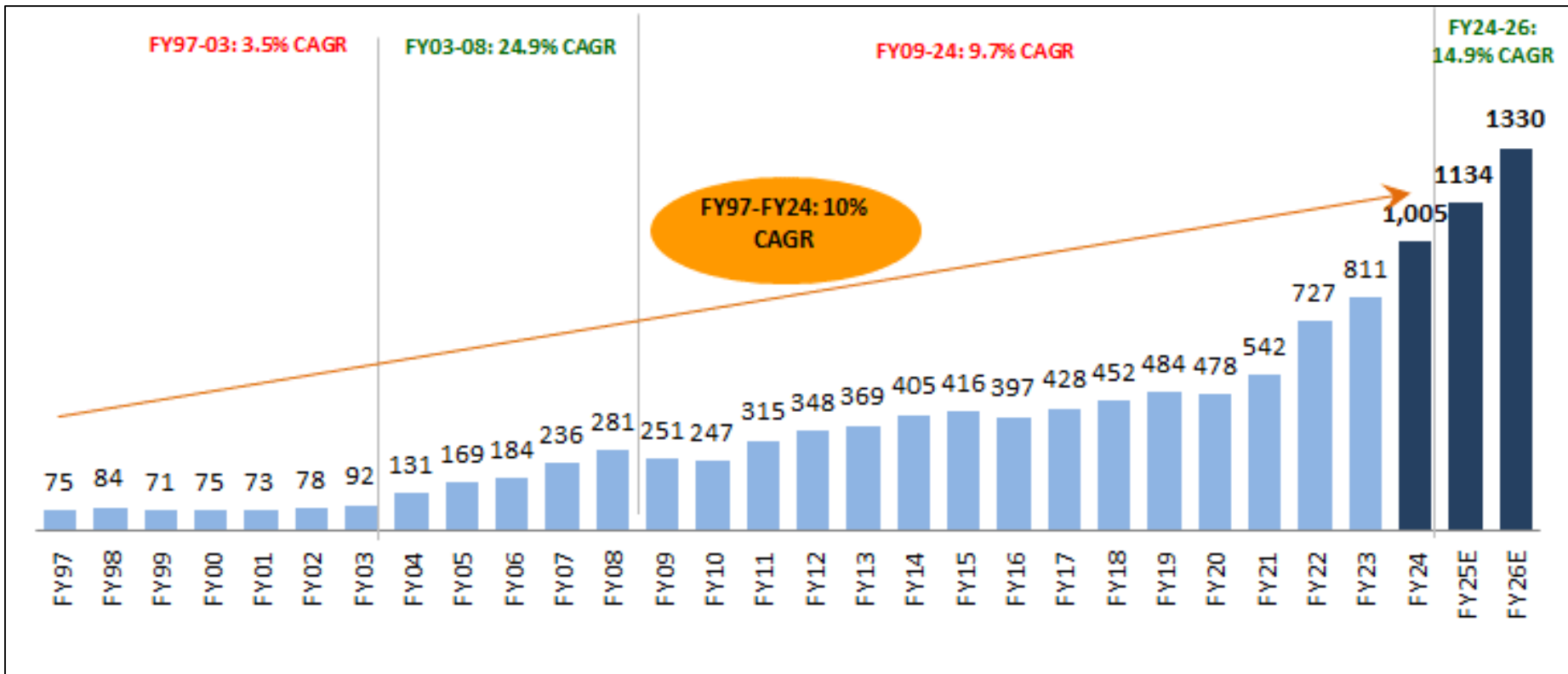
PAT to jump 10% YoY for the Nifty Universe, sans Metals and O&G



- The overall earnings growth is anticipated to be driven, once again, by domestic cyclicals such as Auto & BFSI.
- Conversely, earnings growth is likely to be weighed down by global cyclicals, such as O&G (led by OMCs), Metals, along with Cement.
- Nifty earnings, ex Metals/O&G, are likely to increase 10% YoY in 1QFY25



# Nifty 50 - Earnings Growth Outlook

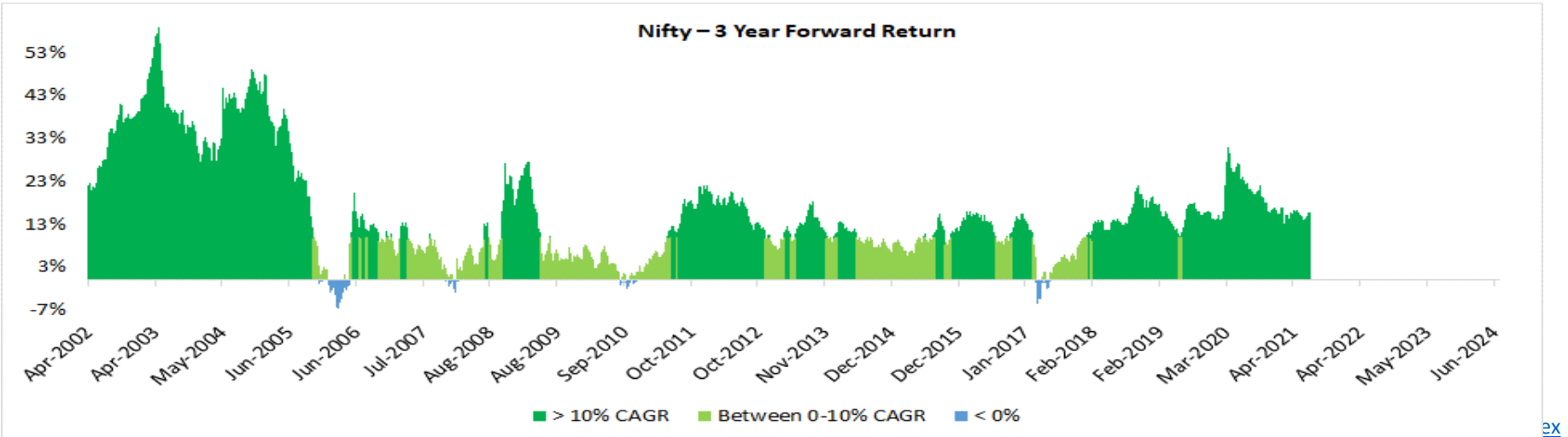
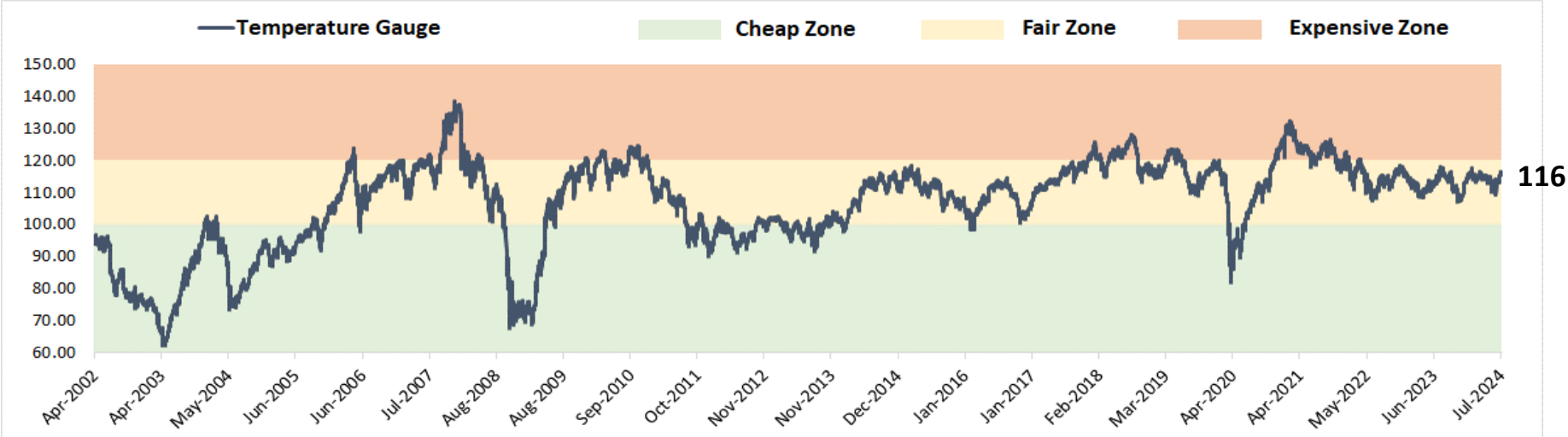


- Nifty EPS remains stable at INR1,134/INR1,330. Nifty EPS is expected to grow 13% and 17% in FY25 and FY26, respectively



# Temperature Gauge Index

- Temperature Gauge Index is an equally weighted index of EY-BY and MOVI Index
- It incorporates PE Ratio, PB Ratio, Div. Yield and G-sec Yield, and hence is a useful valuation metric.



Data as of 8<sup>th</sup> July'24,

Source: Capital Line, Bloomberg Internal Research

Disclaimer: The above graph is for informational purpose. Past performance may or may not be sustained in future.

# Temperature Gauge Index – Sensitivity Analysis

Temperature Gauge Index - Sensitivity Analysis					
Nifty50/10 Yr Gsec	6.59%	6.79%	6.99%	7.19%	7.39%
23050	112	113	114	115	116
23300	113	114	115	116	117
23550	113	114	115	116	117
23800	113	114	115	116	117
24050	114	115	116	117	118
24300	114	115	<b>116</b>	117	118
24550	114	116	117	118	119
24800	115	116	117	118	119
25050	115	116	117	118	119
25300	116	117	118	119	120
25550	116	117	118	119	120
25800	116	117	118	120	121
26050	117	118	119	120	121

Pink cell Indicates Current Level of Nifty 50 and 10 yr G-sec levels. Data as of 8<sup>th</sup> July '24





# 3 Yr Forward Returns Of Nifty At Different Levels Of Temperature Gauge Index

Nifty 50		3 Yr Return CAGR					% Times in CAGR range		
Index in Range	No. of Observations	% of Observations	Min	Max	Average	% Times Positive	6% to 10%	>=10%	
65 - 70	60	1%	24%	57%	43%	100.0%	0%	100%	
70 - 75	202	2%	15%	51%	32%	100.0%	0%	100%	
75 - 80	285	3%	14%	45%	37%	100.0%	0%	100%	
80 - 85	168	2%	15%	43%	34%	100.0%	0%	100%	
85 - 90	207	3%	12%	49%	33%	100.0%	0%	100%	
90 - 95	539	7%	2%	47%	27%	100.0%	2%	97%	
95 - 100	832	10%	1%	44%	18%	100.0%	8%	91%	
100 - 105	714	9%	-2%	30%	13%	98.7%	20%	71%	
105 - 110	810	10%	-4%	22%	10%	83.1%	15%	56%	
110 - 115	1777	22%	-7%	22%	9%	65.2%	29%	23%	
115 - 120	1542	19%	-4%	21%	8%	75.4%	22%	23%	
120 - 125	804	10%	-2%	18%	9%	77.0%	7%	48%	
125 - 130	135	2%	0%	16%	12%	88.1%	4%	69%	
130 - 135	84	1%	-2%	15%	6%	91.7%	0%	36%	
135 - 140	28	0%	-3%	0%	-1%	10.7%	0%	0%	

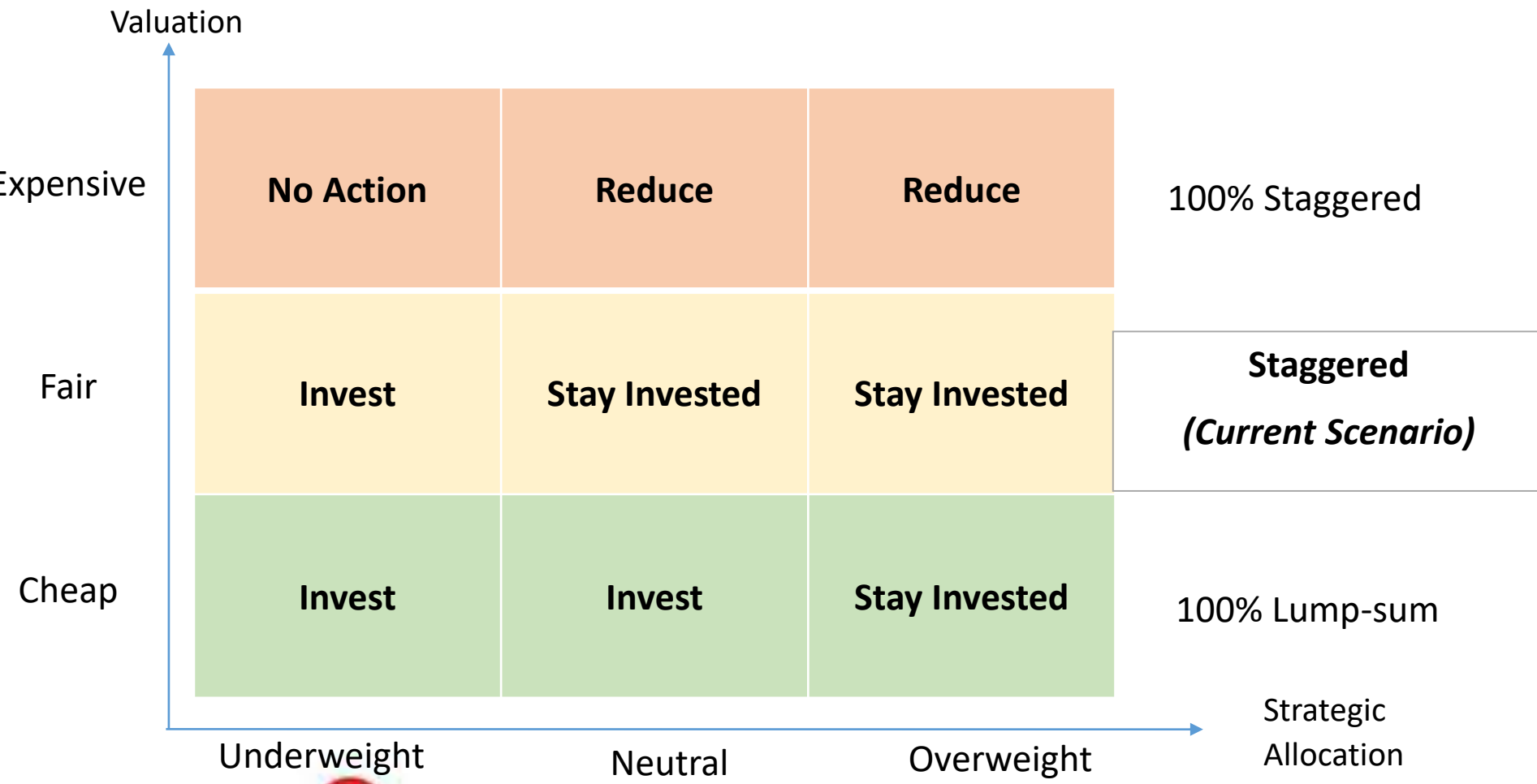
Data as of 8<sup>08</sup> July'24



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# Equity Allocation & Deployment Grid

➤ Below grid is based on Temperature Gauge Index



- Equity market outlook continues to remain positive based on deleveraging of Corporate Balance Sheets, uptick in Capex cycle and an expected steady trend in profit growth over the next few years.
- However, given the uncertainties in the global context and rich domestic valuations, it is advisable to tread with caution by adopting a strategy which is balanced and resilient.
- Based on their risk profile, investors having the appropriate level of Equity allocation can continue to remain invested
- If Equity allocation is lower than desired levels, investors can increase allocation by implementing a staggered investment strategy over **3 to 6 months for large & multi cap strategies**, and 6 to 12 months for select mid & small-cap strategies.
- The most optimum lumpsum deployment strategy could be through Multi-Asset & Balanced Advantage category of funds taking exposure across asset classes in the current scenario with accelerated deployment in equity in the event of a meaningful sharp correction.





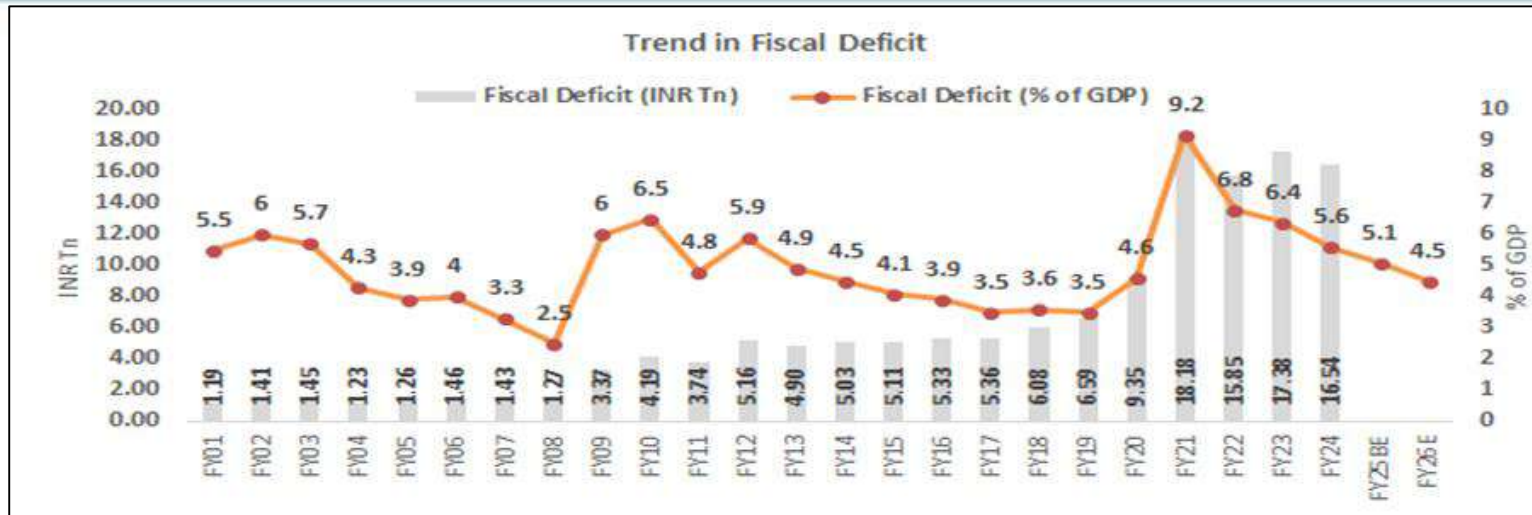
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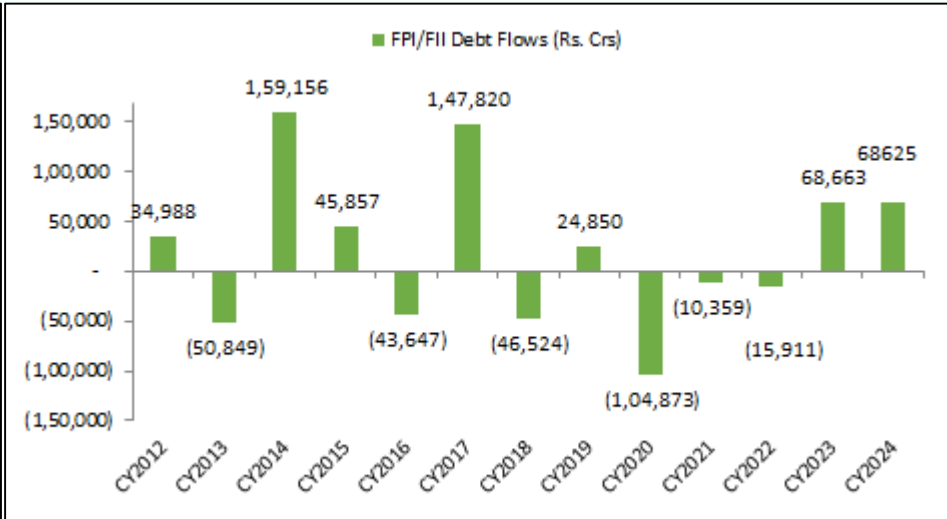
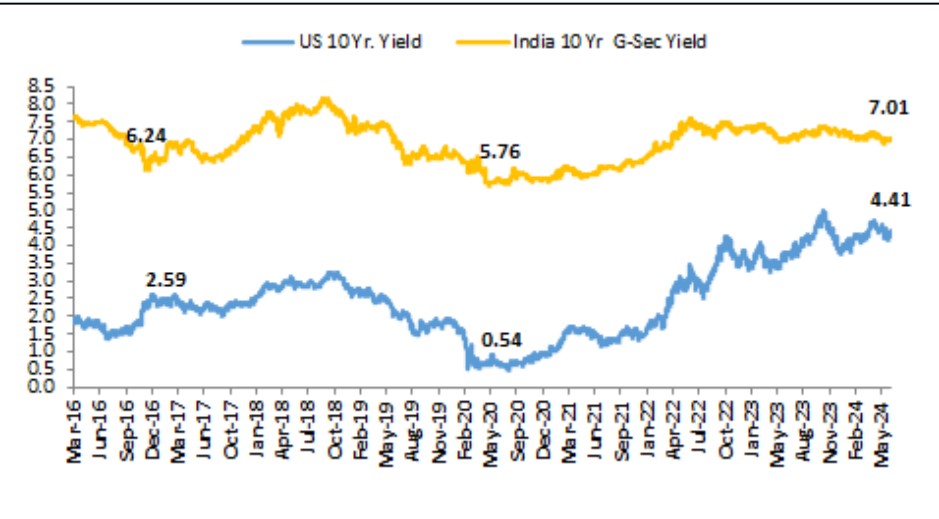
# Government may not divert from the Fiscal Consolidation Path



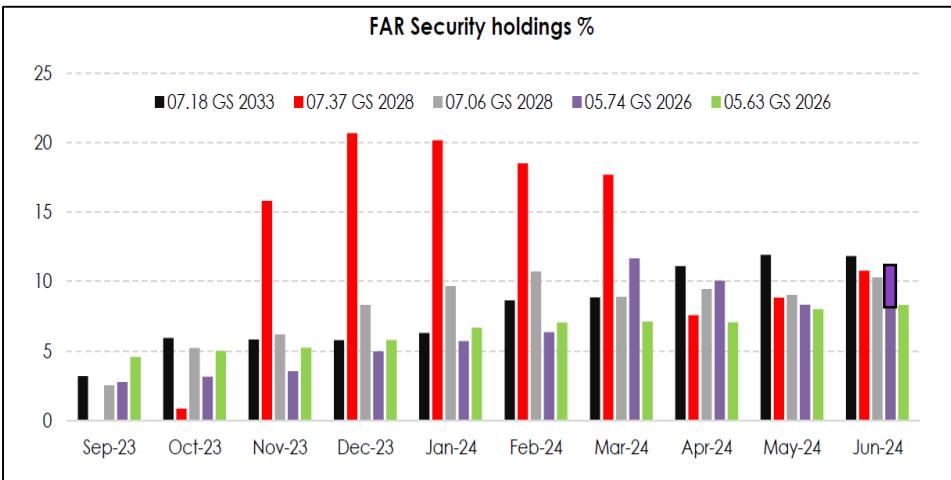
- FY24 Fiscal Deficit at 5.6% vs RE of 5.8% on back of higher tax receipts and lower revenue spending
- Government may stick to medium-term fiscal roadmap of 4.5% in FY26BE while improving the quality of fiscal spending
- RBI dividend transfer of INR 2.1 Lakh Cr (vs INR 1.02 Lakh Cr budgeted)
  - May create fiscal leeway towards populist and capital spending
  - A small portion to the tune of INR 300 – 400 Bn can be utilized to reduce fiscal deficit to 5% from 5.1% for FY25BE announced in Interim Budget.



# FPI flows in Indian Bonds

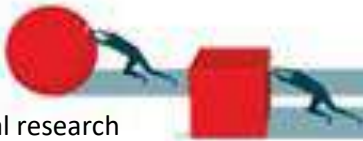


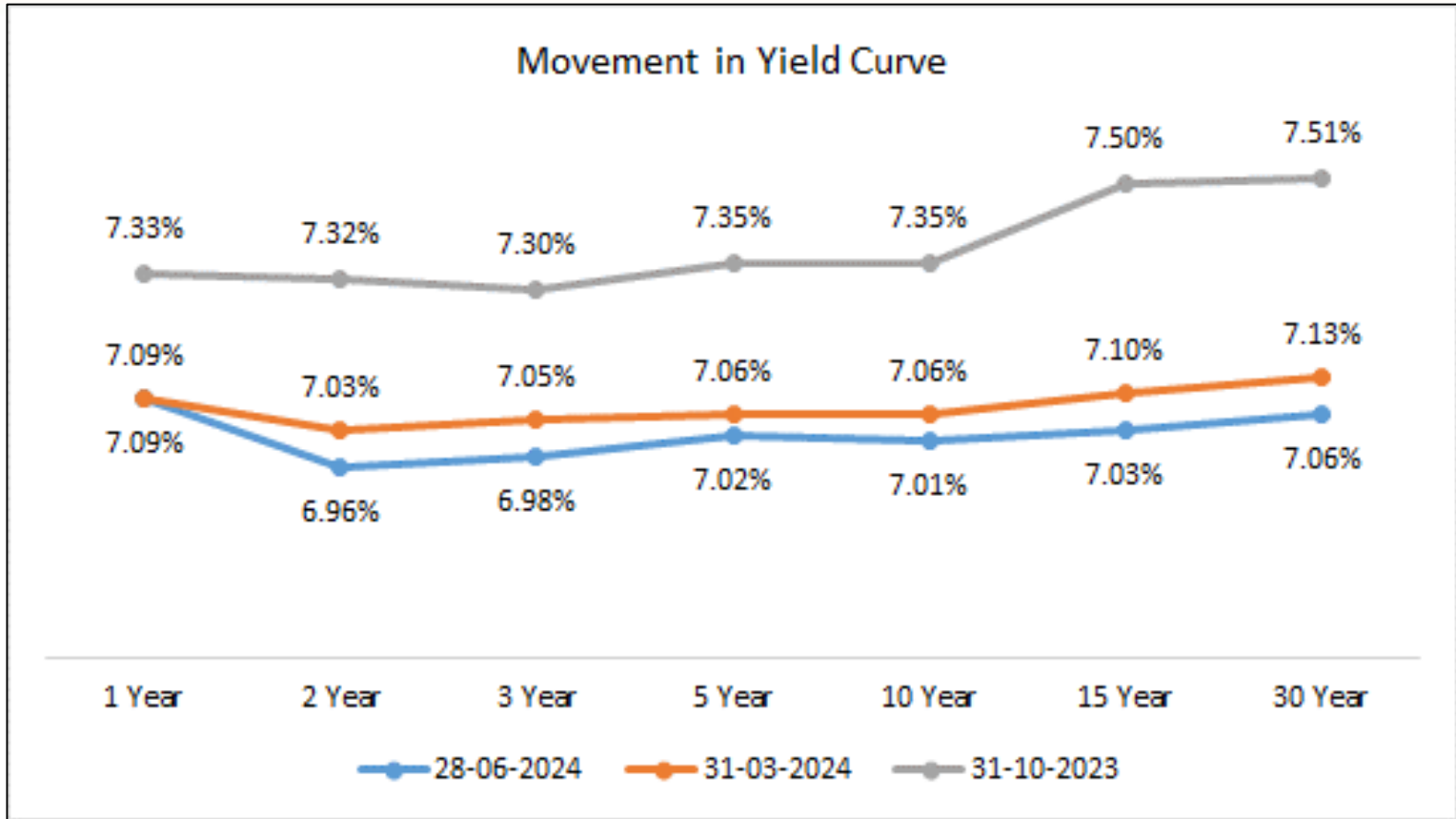
- FPI flows in Indian Bonds picked up post global index inclusion announcement & strong macro fundamentals
- JP Morgan Government Bond Index inclusion of Indian Government Bonds (IGB) commenced on 28th June 2024. A 10% weight for IGB in the JP Morgan EM Bond Index could lead to inflows worth \$20 - 25 billion by 31st March 2025. 1% weight will be added each month from June-24 till Mar-25.



the share above indicates holdings of FPIs under FAR segment and are a proportion of GOI outstanding in that paper as on 30<sup>th</sup> June 2024

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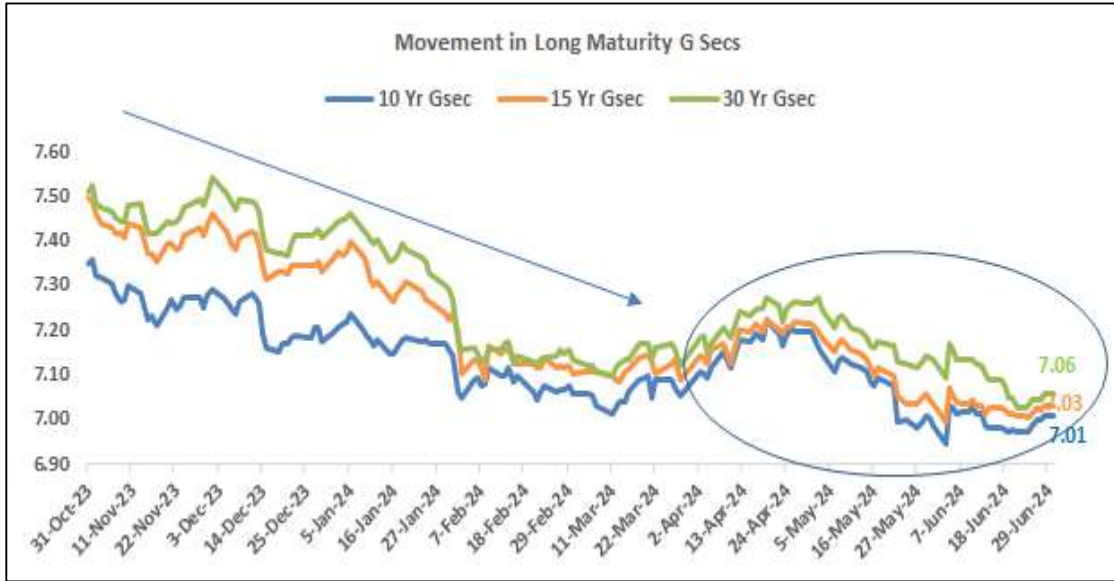


- Yields curve has moved lower and flattened as compared to the curve seen at end FY 2024 on back of favourable demand supply dynamics and well-contained inflation





# Current Scenario : Fixed Income



- 10 year Gsec yield eased from 7.35% in Oct 2023 to 7.00% in March 24 post which it saw increasing volatility trading in the broad range of 6.95% - 7.20%.
- Volatility may remain till clarity emerges in the Union Budget & Govt policies

## Positive Factors :

- Stable Domestic Macros & Inclusion of Bonds in Global Indices
- Lower Gross Borrowings
- Change in India's Sovereign Outlook
- Path to Fiscal Consolidation till FY24

## Downside Risks :

- Delay in Fiscal Consolidation Trajectory
- Mixed Global macro signals
- Uncertainty in Global Central Bank Policies
- Rising Geopolitical tension

## Reiteration of our View :

- Core Allocation tilted towards duration through active & passive strategies to capitalize on evolving fixed income scenario



We reiterate our view to have a duration bias in the fixed income portfolio so as to capitalize on the likely softening of yields in the next 1-2 years

- **65% - 70% of the portfolio can be invested in combination of**
  - Actively & Passively managed debt strategies to capitalize on duration and accrual as per the evolving fixed income scenario
  - Equity Savings funds/Conservative multi asset funds which aim to generate enhanced returns than traditional fixed income with moderate volatility through a combination of equities, arbitrage, fixed income, commodities, REITs/InvITs
- To improve the overall portfolio yield, **30% – 35% of the overall fixed income portfolio** can be allocated to Private Credit strategies, REITs/InvITs & select high yield NCDs.
- **For liquidity management or temporary parking**, investments can be allocated to Floating Rate (min 9-12 months) Arbitrage/Ultra Short Term (minimum 6 months)/Liquid (1-3 months)/Overnight (less than 1 month) strategies.





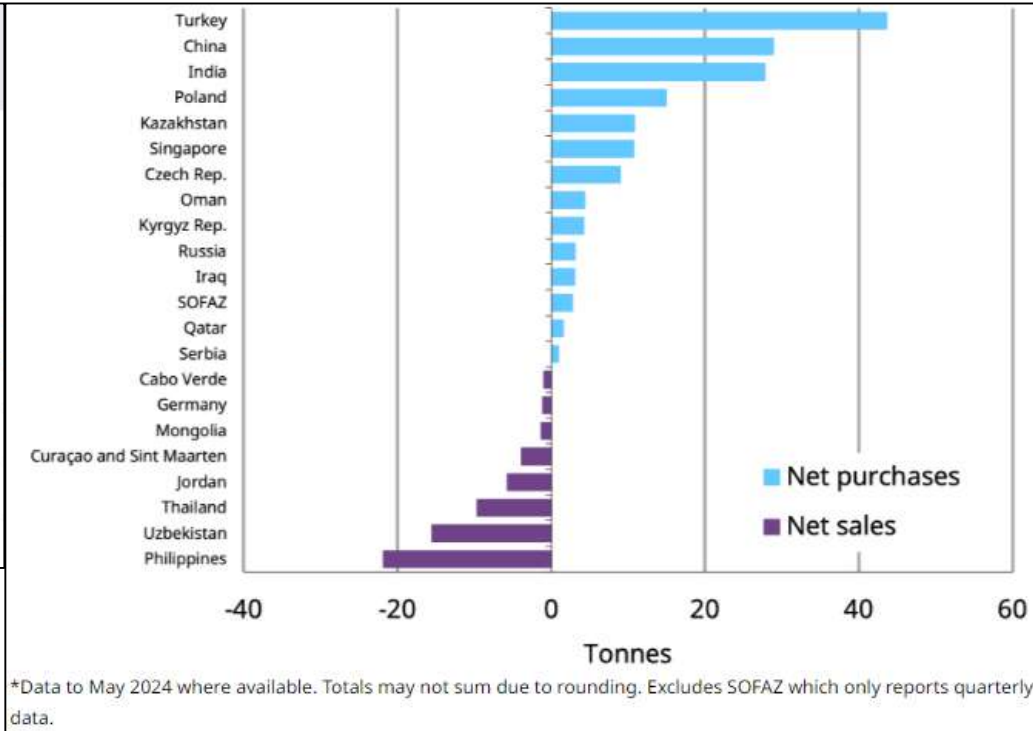
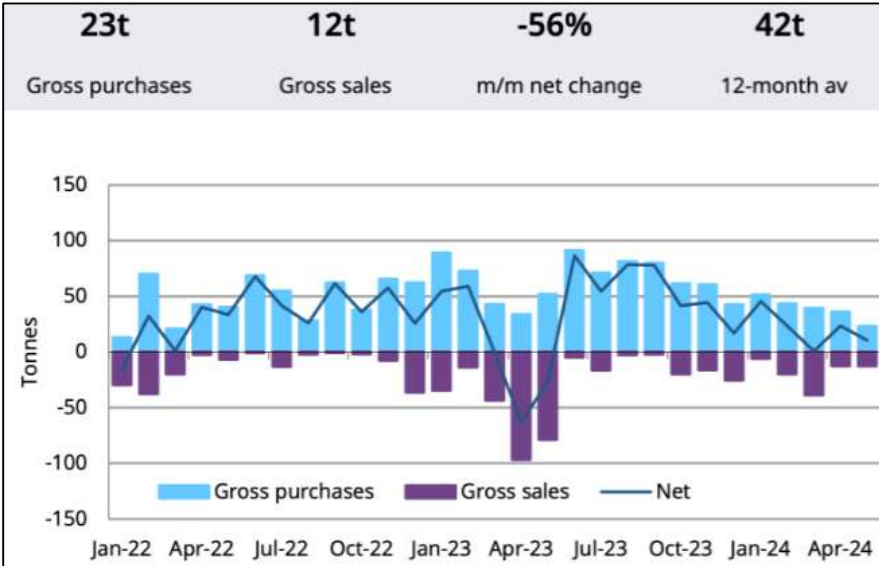
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## May'24 Highlights

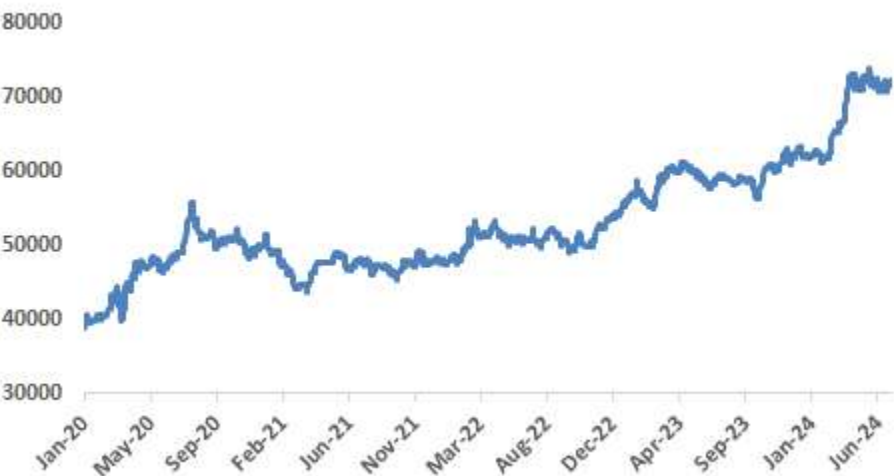


- As per World gold council, RBI added more than 9 tons in June, based on calculations using weekly data from the bank.
- That's the most since July 2022, and means India's reserves have expanded by 37 tons this year to 841 tons.

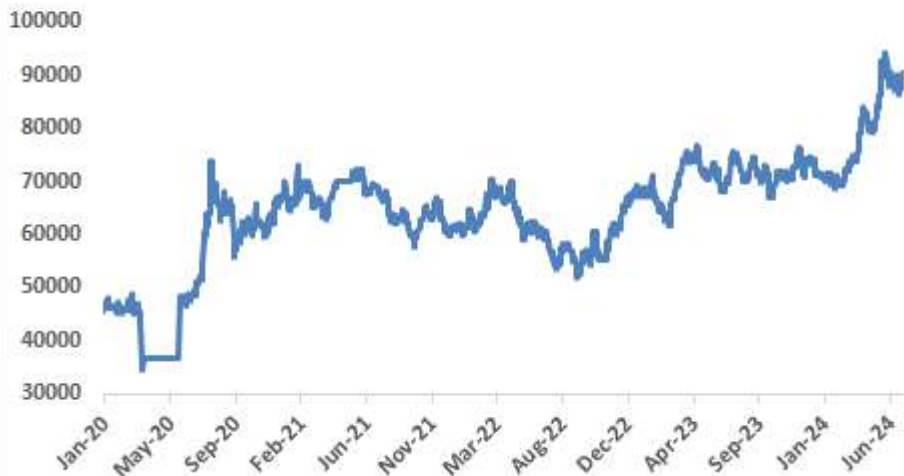


# Gold & Silver – Historical Performance

MCX Gold Spot (INR/10 gm)



MCX Silver Spot (INR/Kg)



Particulars	Absolute Returns (%)				CAGR (%)	
	1 month	3 months	6 months	1 year	3 year	5 year
MCX Gold Spot (Rs)	0.9%	3.8%	16.1%	23.8%	15.2%	15.9%
MCX Silver Spot (Rs)	2.6%	14.7%	27.1%	30.2%	9.2%	19.1%



Data as on 5<sup>th</sup> July '24

Source: Bloomberg; Internal Research

Disclaimer: The above graph/data is for informational purpose. Past performance may or may not be sustained in future.

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