India Market Outlook and Road Map 2024

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Developments of Year 2023 Gone By:

The developments of the year 2023 reflect a dynamic and eventful economic landscape. Here's a breakdown of the key highlights:

Global Focus on Inflation Control: Central banks worldwide placed significant emphasis on controlling inflation in 2023.

Success in Inflation Management: Thanks to the concerted efforts of central banks, there are signs that inflation is receding.

Positive Global Equities Performance: The calendar year 2023 brought positive momentum to global equities, with many markets delivering reasonable returns.

Nasdaq's V-Shaped Recovery: Nasdaq, known for its technology-focused listings, showcased a V-shaped recovery. This rapid rebound is a testament to the resilience and strength of the technology sector in the face of economic challenges.

Chinese Economic Struggles: While global markets flourished, the Chinese economy faced challenges with a slower recovery.

Indian Equity Market Volatility and Recovery: The Indian equity markets witnessed interim volatility during the first half of 2023. However, the second half saw a rebound, delivering reasonable returns. The resilience displayed by the Indian market indicates adaptability to changing economic conditions.

Robust Total FPI Flows to India: India experienced robust Total Foreign Portfolio Investment (FPI) flows throughout the year. This influx of foreign investment signals confidence in India's economic prospects and investment opportunities.

India's Continued Growth: Despite challenges, India maintained its position as the 5th largest economy by GDP. The country continued to be one of the fastest-growing economies globally, highlighting its economic resilience and potential.

Pillars of Strength in Indian economic landscape

Each point highlights a key aspect of the economic environment, showcasing a promising and well-managed scenario.

Robust Auto Sales: Sustained demand and positive consumer sentiment led to a notable increase in month-on-month auto sales, surpassing figures from 2021 and 2022.

High Credit Growth: A substantial credit growth of 15.5% in November 2023, the highest since 2014-15, indicates increased economic activity and confidence in borrowing and lending.

Youth-Driven Consumption: The young and earning demographic is poised to drive consumption growth, fostering demand across various sectors and contributing to economic expansion.

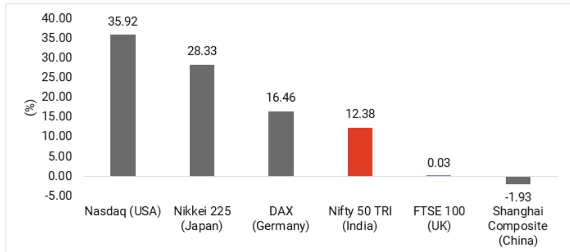
Changing Spending Patterns: The faster growth in high-income and upper-middle-income groups signals a shift in spending patterns, offering new opportunities and challenges for businesses catering to these segments.

Infrastructure Development: The commitment to constructing 13,800 km of highways in the fiscal year 2023-24 reflects a focus on infrastructure development, crucial for overall economic growth.

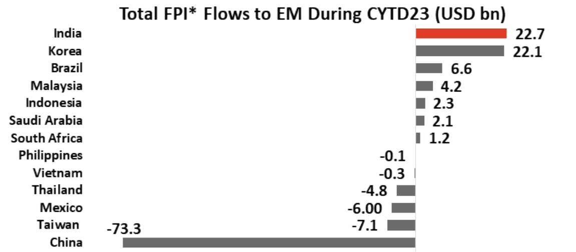
Logistics Cost Reduction: Efforts to reduce logistics costs from approximately 14% to around 10% demonstrate a commitment to enhancing efficiency and competitiveness in business operations.

Higher Public Capex Impact: Increased public capital expenditure has fuelled higher economic growth by supporting core sectors, showcasing a proactive economic strategy.

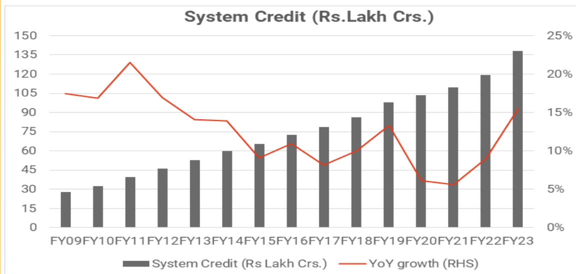
Controlled Fiscal Deficit and Inflation: Effective management and policies have kept both fiscal deficit and inflation in check, ensuring stability and mitigating potential risks.



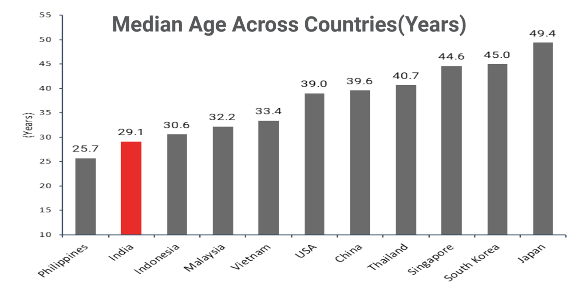
Source: ACE MF, CYTD'23 Data as on 30th Nov 2023 Past performance may or may not be sustained in future and is not a guarantee of any future returns and should not be used as a basis of comparison with other investments.



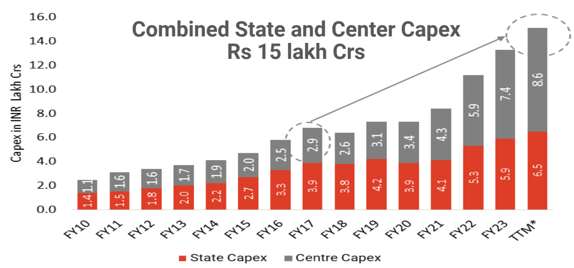
*Source: NSE, YTD returns Data as on 30th Nov '23, Total FPI Inflows is for Equity+ Debt. *FPI stands for Foreign Portfolio Investment and EM : Emerging Markets. Past performance may or may not be sustained in future and is not a guarantee of any future returns and should not be used as a basis of comparison with other investments.*



Source: Internal Research



Source: JMF MF research, Internal Research, UNDP CLSA Latest available data as on 30th Nov'23



Source : Mordor, Business Today, IBEF Nov 2023

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Way Forward – 2024

Indian G-Sec Inclusion in JP Morgan's Index:

This move could enhance the reasonability of Indian bonds for global investors.

US Fed's Approach to Rate Hikes:

The U.S. Federal Reserve's decision to hold back on rate hikes indicates a cautious approach to monetary policy.

Robust Consumption Fuelled by Credit Growth:

The combination of robust consumption and credit growth suggests a positive outlook for economic activity.

Buoyant Auto Sales:

The expectation of buoyant auto sales points to sustained demand in the automotive sector.

Pickup in Private Capex:

The anticipated pickup in private capital expenditure (capex) signifies growing confidence among businesses.

Policy Repo Rate Expectation:

The projection that the policy repo rate is expected to end 2024 in the range of 5.75% to 6.0% indicates a potential path for monetary policy.

Valuations

Valuations:

The 1-year forward P/E ratio for Nifty (Large Cap) is trading below the 10-year average. The 1-year forward P/E for Nifty Mid Cap and Small Cap is above the 10-year average. This implies that mid-cap and small-cap stocks may be relatively more expensive compared to their historical average. Investors may be pricing in expectations for significant growth in this segment.

Equity Outlook

Growth-Inflation Dynamics: A balanced interplay between economic growth and controlled inflation is deemed supportive of equity markets, fostering a favourable environment for corporate profitability and stock market performance.

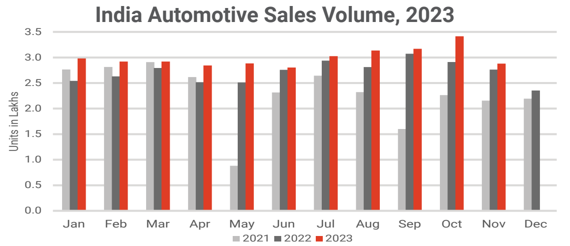
Growth-Focused Fiscal Policy: The emphasis on a growth-focused fiscal policy signals government initiatives aimed at stimulating economic expansion.

Improving Real Income Levels: Expectations of improving real income levels are seen as positive for consumers, potentially leading to increased consumer spending—a key driver of economic growth.

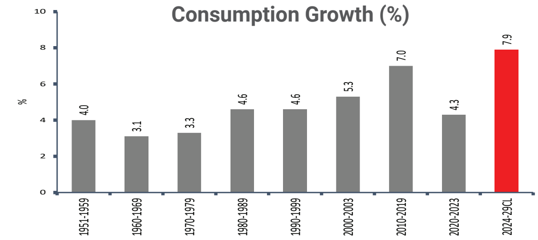
Broadening Growth Momentum: The indication of broadening growth momentum suggests that economic expansion is not limited to specific sectors but is spreading across various segments, contributing to overall market strength.

Support for Corporate Profitability: A positive economic environment, characterized by growth-focused policies and improving real incomes, is expected to support corporate profitability—a crucial factor for driving equity market returns.

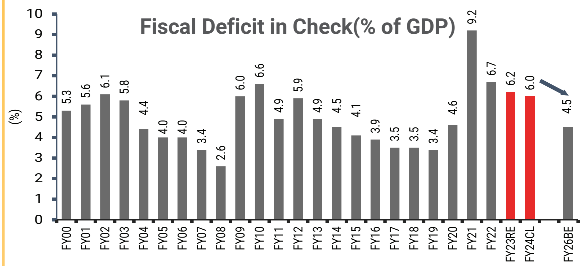
Investment Recommendation for Retail Investors: The recommendation for retail investors to continue investing in well-managed funds through SIPs or STPs encourages a long-term and disciplined investment approach, taking advantage of market fluctuations.



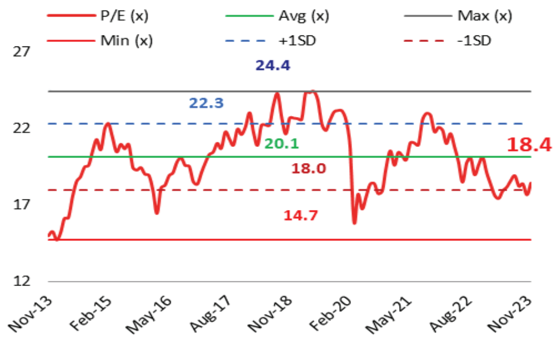
Source : Marklines



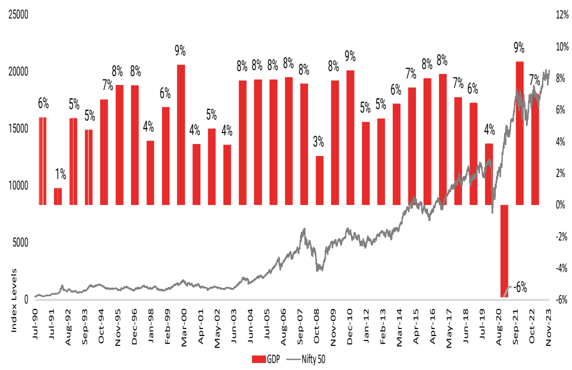
Source: JMF MF research, Internal Research, UNDP CLSA Latest available data as on 30th Nov'23. Past performance may or may not be sustained in future and is not a guarantee of any future returns and should not be used as a basis of comparison with other investments.



Source: Ministry of Finance, Ministry of Statistics & Programme Implementation, Latest available data as on 30th Nov'23. Past performance may or may not be sustained in future and is not a guarantee of any future returns and should not be used as a basis of comparison with other investments.



Source: Motilal Oswal, Data as on 30th Nov'23. Past performance may or may not be sustained in future and is not a guarantee of any future returns and should not be used as a basis of comparison with other investments.



Source: Acemf Data as on 30th Nov 2023. Past performance may or may not be sustained in future and is not a guarantee of any future returns and should not be used as a basis of comparison with other investments.

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Fixed Income Outlook

Interest Rates:

We continue to anticipate the Central Bank to have a small window to cut the policy repo rate in April 2024. Additionally, we expect the policy repo rate to end 2024 around 5.75% - 6.0% range.

Duration:

We increased duration across portfolios as global environment became less hostile over the past month.

Liquidity:

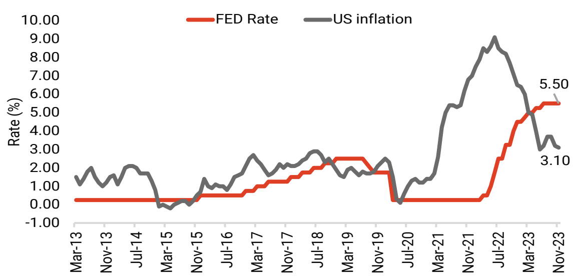
The RBI's focus remains on withdrawal of excess liquidity. After remaining in surplus throughout H1 2023, the banking system liquidity has remained in a deficit since Oct'23.

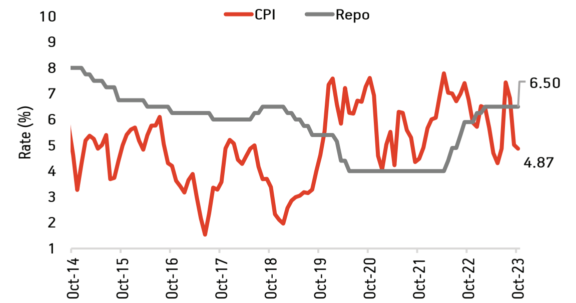
Yields:

We expect bonds to trade in a narrow range in the near term with a softening bias.

Fund Strategy:

Given that policy rates are at peak levels and are likely headed lower (bar any geopolitical flareup) over the coming quarters, actively managed funds with higher duration can be suitable.

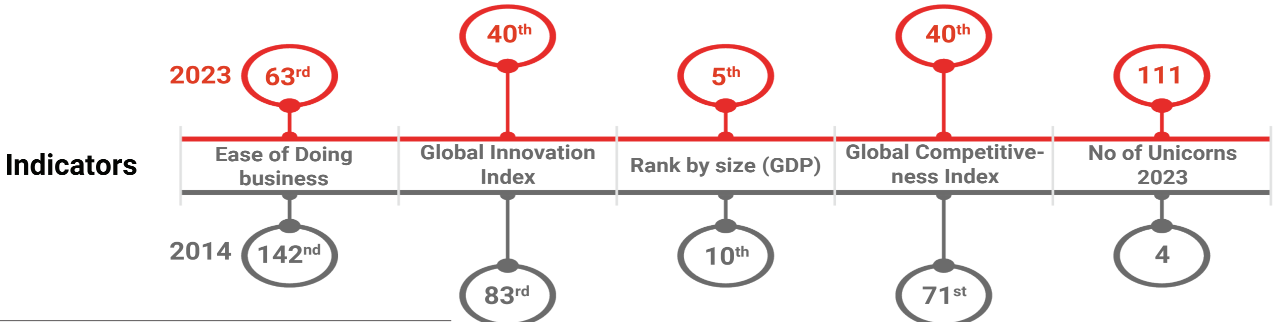




Source: JMF MF research, Internal Research, Latest available data as on 30th Nov'23. Past performance may or may not be sustained in future and is not a guarantee of any future returns and should not be used as a basis of comparison with other investments.

India has been witnessing perks of sound governance

India has achieved **rapid growth and global recognition** under Current Government Regime. India's improved international standing has had a direct relation to Rupee's acceptance globally. Current Government Regime's past two terms may be called as **"Amritkaal"** of Indian economy.



Source: Internal Research, Latest available data dated 30-Nov-2023

Risks to Our Outlook

Hard Landing of US Economy

Unfavourable Monsoon season still has higher impact on the agricultural output, highest contributor of GDP in India.

Geopolitical Tension – Escalation of Israel war and involvement of the Middle East remains a threat which if materialized could threaten the global trade.

High Global inflation leads to a chain reaction of lower demand-higher cost of production prospective losses & unemployment.

Commodity Prices – Hardening of commodity prices due to Chinese growth come back may be detrimental.