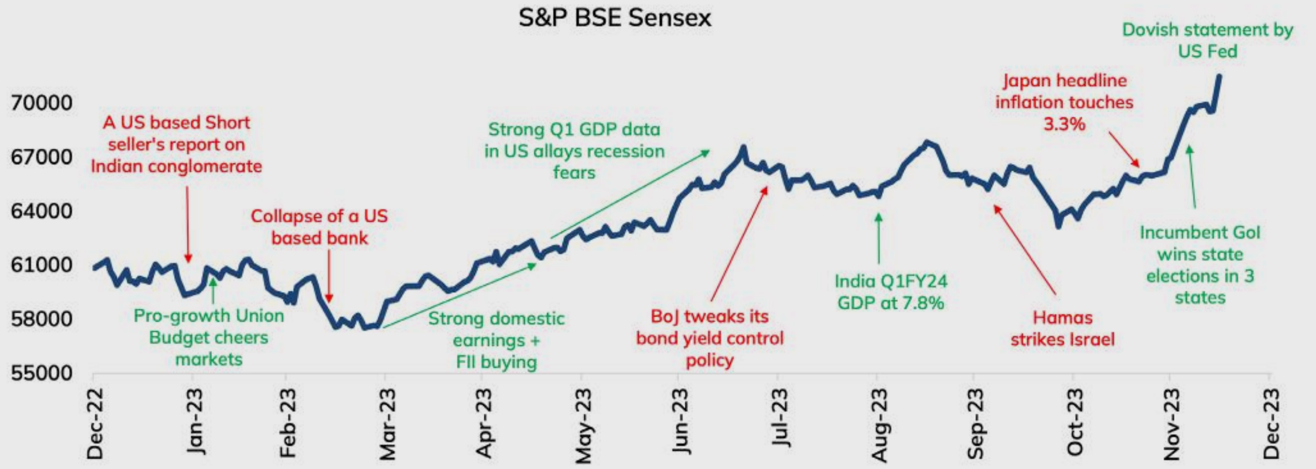
Capital League
PRIVATE WEALTH MANAGEMENT

INDIA 2024

INVESTMENT OUTLOOK

2023 RECAP

India shines with Global headwinds dominated markets in 2023. 58P BSE Sensex however, kept touching new highs and ended the year on a positive note (+17%)



Source: BSE, NSDL, Federal Reserve, India Budget, India Gov, Economic Times

01 2023 was marked by **turbulence** both in the Financial markets with a continuing sharp rise in interest rates **globally** and geopolitics with the continuing Russia-Ukraine crisis and the beginning of the Israel-Hamas conflict.

02 However, the Indian economy stood **strong** in the face of such tremendous uncertainty and volatility. Indian equity markets showed extreme resilience on the back of strong macros and **strengthening** domestic flows into equity markets.

03 Nifty50 concluded the year with an impressive 20% return and NIFTY 500 ended the year with gains of 27%.

04 Retail participation led to significant gains in Nifty Smallcap 100 and Nifty Midcap 100. Over 85% of stocks ended positively, highlighting the **broad-based** nature of the rally.

05 **Retailers' Rise amid FII Outflows: Local funds and FPIs 12-month cumulative investment touched a record high of INR 3.4 lac crores compared to INR 0.76 lac crores in 2022.**

Key Events that drove markets in 2023

GLOBAL

- **The US averted recession:** US growth surprised on the upside, staying on track for 2.5%-2.8% growth in 2023 and widely anticipated recessions did not materialise.

- **China reopening trade fizzled:** China's much-anticipated reopening in 2023, initially hailed as the year's biggest investment theme, ultimately faltered, leading to widespread investor disappointment and underweight position on China. Chinese stocks are trading at an all-time low relative to GDP. Net FDI also turned negative for the first time.

- **Bounce back in Japanese equities:** MSCI Japan Is up 30% for the year taking the markets to a 30-yr high on the back of an uptrend in Inflation and net positive Interest rates

- **Surprising strength in Emerging economies:** Only Ghana and Ethiopia defaulted and Emerging nations surprised by their resilience instead of their fragility on the back of tighter finances during COVID and sharper monetary tightening compared to earlier crisis periods.

- **Oil failed to hold supply risk premium:** Output cuts from OPEC coupled with tensions in EMEA was expected to push crude higher which lost steam after moving to USD 95/bbl in Sep-23. Demand side factors kept the upside in check and prices receded to USD 75/bl at the beginning of Dec'23 providing relief to EMs.

- **Muted commodity prices:** Commodities have been trading in a flat narrow channel for the last year with expectations of weak demand from China and the US.

- **Global inflation downtrend:** Receding supply chain bottlenecks coupled with a fast pace of rate hikes by central and base effects, aided global inflation moderation.

- **Sharp fall in US treasury yields on the back of softening inflation:** The closing weeks of the year saw a sharp fall in inflation leading to investor euphoria both in debt and equity markets giving hope (75% probability) of Fed cutting rates as soon as March.

DOMESTIC

- **Adani Group Controversy:** Hindenburg's report on Adani Group triggered a sharp correction in Adani group stocks and consequently in Nifty Next 50 Index. Adani Group lost about USD 100 Bn in market value.

- **El-Nino Impact:** Deficient monsoon season led to the driest August on record. FMCG Industry's sales value grew, but volume declined due to reduced rainfall and a continuing slowdown in rural demand in the first three quarters.

- **BJP's State Election Victories:** BJP's decisive mandate in Chhattisgarh, Madhya Pradesh, and Rajasthan sparked a significant market rally with expectations of an easy win for NDA in the Main elections in 2024. Markets like stable and reformist government at the Centre.

- **Inclusion of Indian sovereign bonds in the J P Morgan Bond Index:** On J P Morgan's inclusion of India in its Bond Index, the market expects USD 25-30 Bn of flows into the local bond market over the next 12-15 months. This should contribute to softening interest rates, improved liquidity, lowering the cost of funds for corporates, and a more resilient currency in the medium term.

- **Highest ever monthly FII flows led to an 8% jump in NIFTY in December:** India's appeal as an investment destination outpaced the global market on the back of strong macros, resilient domestic flows, high probability of NDA coming back to power and peaking out of global interest rates leading to risk-on trade with regard to attractiveness of Emerging markets.

Key Trends for 2024

DOMESTIC

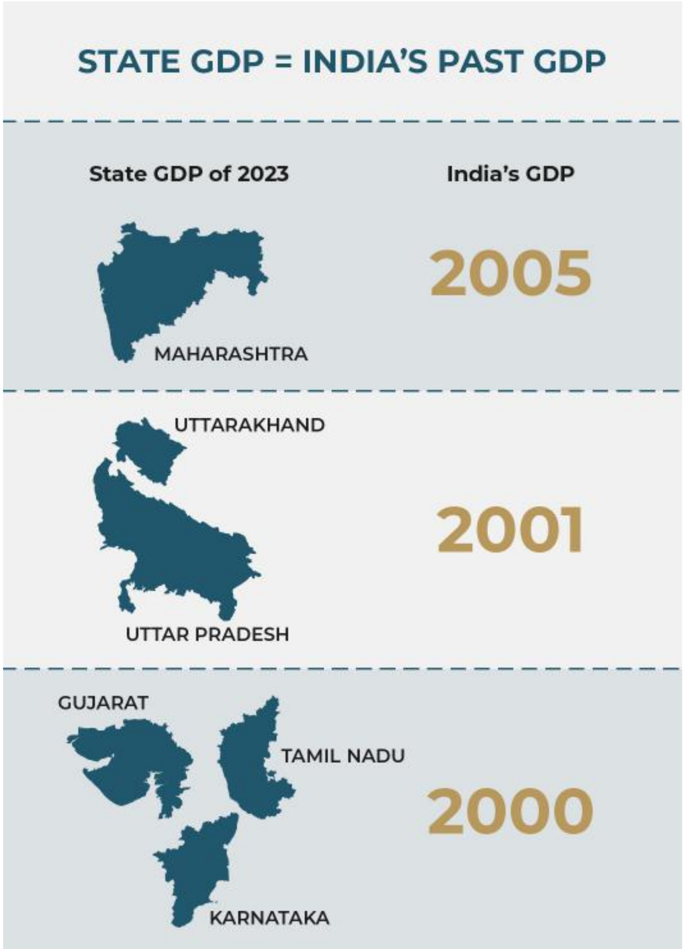
India is entering a period of self-sustaining expansion as an aspirational young population, growing mass affluent middle class and prior year reforms create a virtuous cycle of growth

ECONOMIC PERFORMANCE

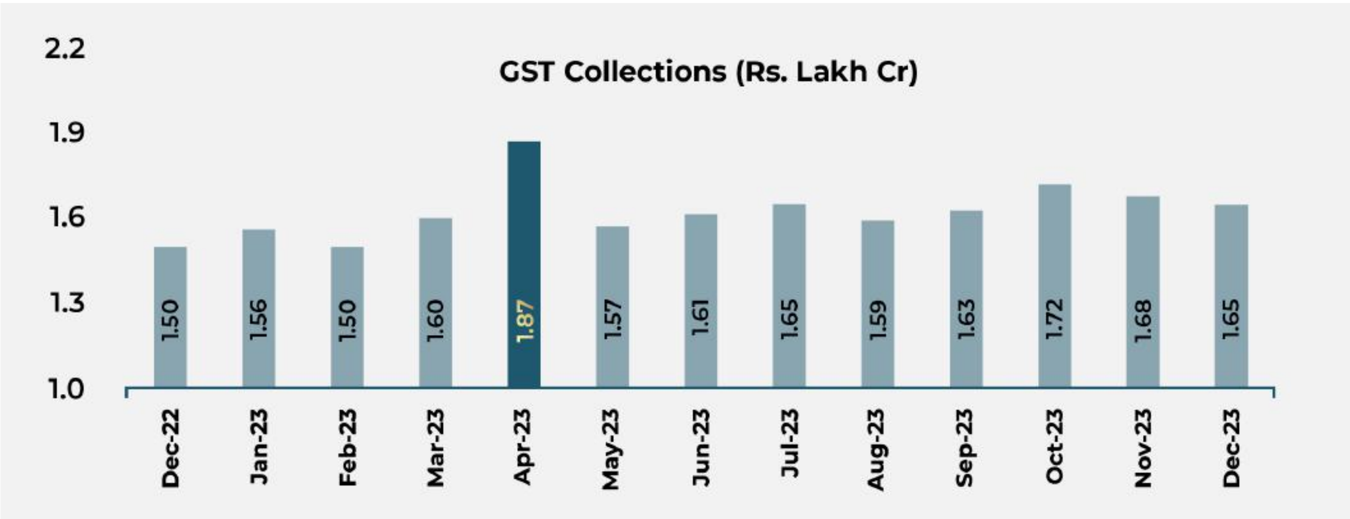
- Macro parameters to stay strong: Key indicators, such as robust tax collections, strong PMI for goods and services, healthy credit growth, inflation within RBI range, stable currency, and on-target fiscal deficit bode well for continuing strength in economic performance.

- Manufacturing and revival in Infra/ Real estate are identified as pivotal drivers of growth in the non-agricultural sectors.

- The medium-term growth outlook remains optimistic, with an average GDP growth of 6.7% per year until the end of the decade driven by a self-sustaining cycle of expansion on the back of demographics and prior reforms.



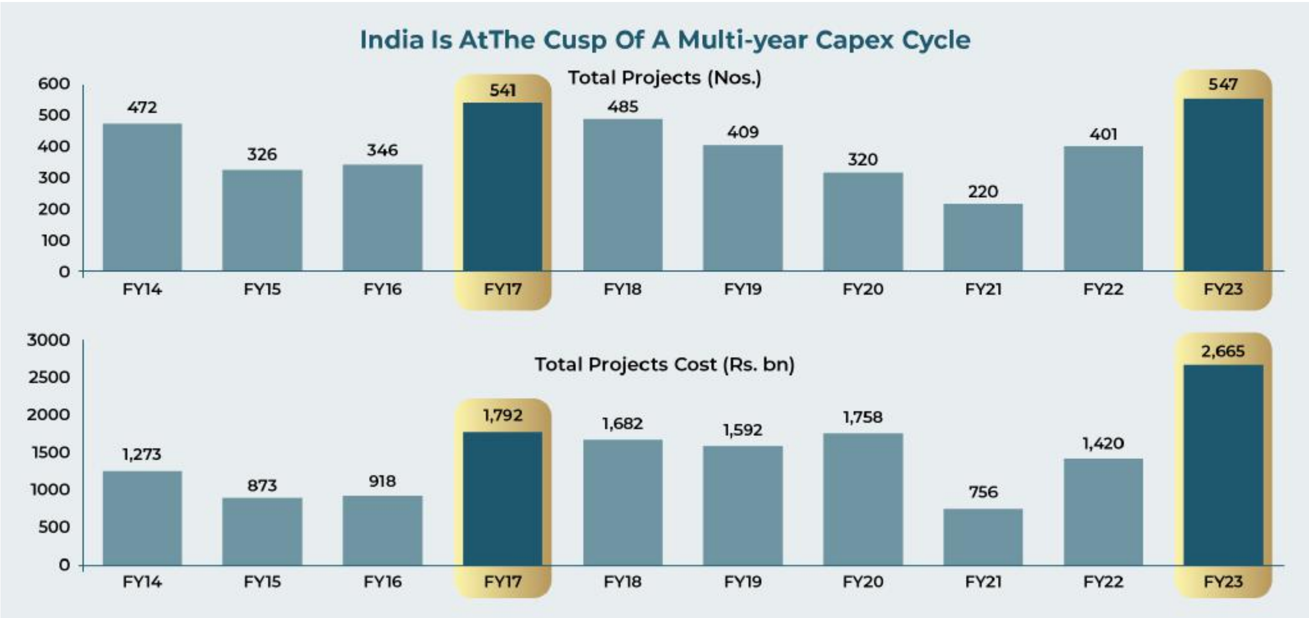
Source: Ministry of Statistics & Programme Implementation



Source: Morgan Stanley Research

PUBLIC AND PRIVATE CAPEX

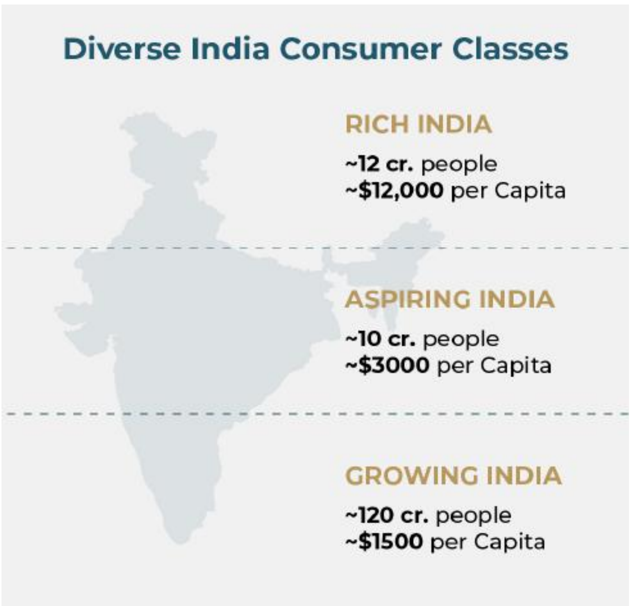
- The share of fixed investment in GDP has reached a decade high at 34.9%, supported by increased government spending on capital expenditure.
- Notably, central government investments grew by 31%, and state investments by 40% (on a low base) in the first eight months of the fiscal year.
- Further **revival in private sector investments** by Indian corporates is expected. Top 500 listed companies ex of financials have increased their capex by close to about 49% (on a low base) in fiscal year 2023 versus fiscal year 2022.



Source: Bloomberg

CONSUMPTION

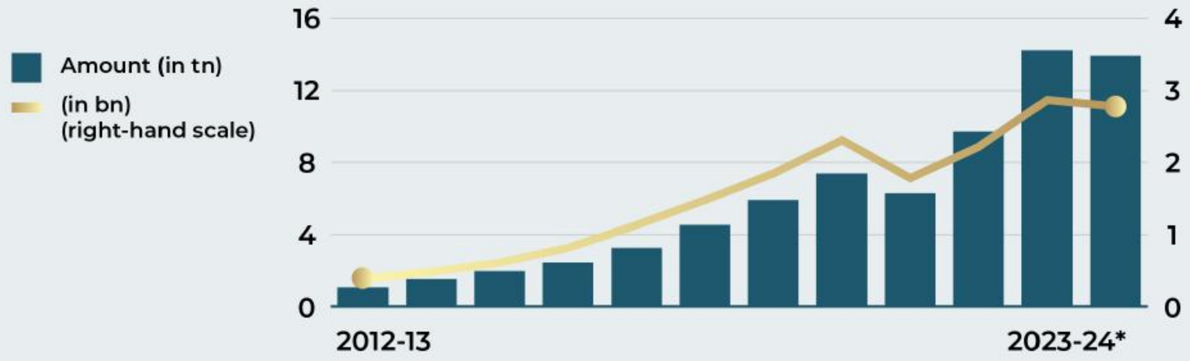
- Private consumption is growing at 4.4%, with expectations that **urban consumption** will **outpace** rural consumption.
- A noticeable trend is the shift towards premiumization in both the automotive and housing sectors



Source: Shutterstock* Income higher than $2000

Credit Card Spend Set To Hit All Time High

Value and volume of credit card transactions, yearly



*Data for FY24 till October

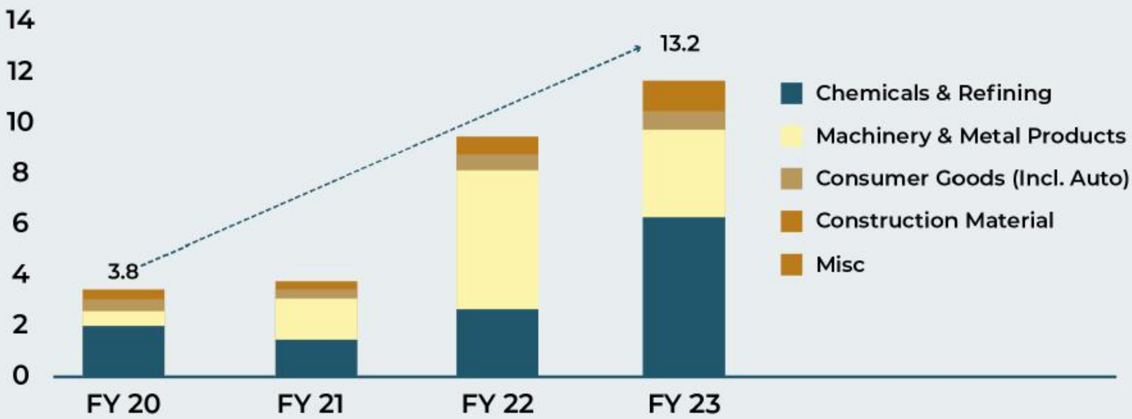
Source: Livemint

Domestic Air Travel Roared in 2023, Breaching The Pre-Covid High

Passengers carried by domestic airlines, monthly (in millions)

Source: Livemint

New Projects Announced under Manufacturing (in INR Tn)



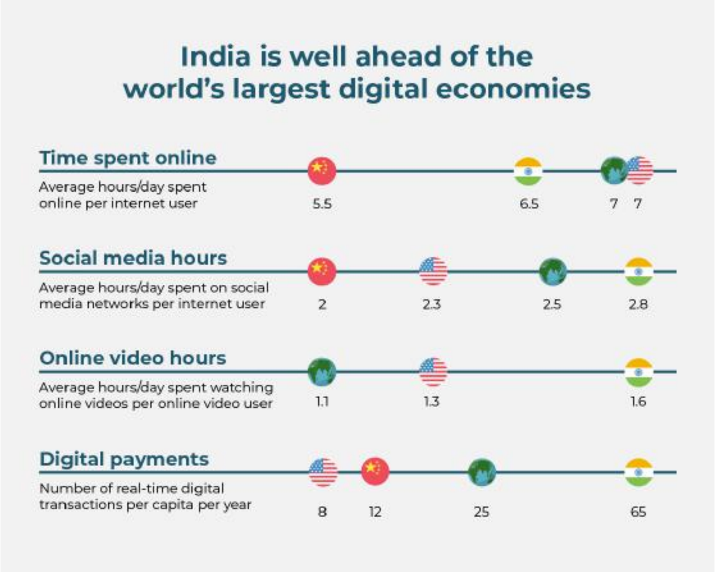
Source: Macquarie Research and (https://pib.gov.in/)

Key Medium to Long term drivers of Economic growth

PRIOR REFORMS

- The economy will continue to benefit and leverage from multiple structural reforms such as the Insolvency and Bankruptcy Code, GST, RERA, Financialisation of Savings, and digitization via the trinity of Aadhaar, UPI, and Jan Dhan utilizing mobile communications.

- Digitally dependent economy is estimated to be around 25% of GDP

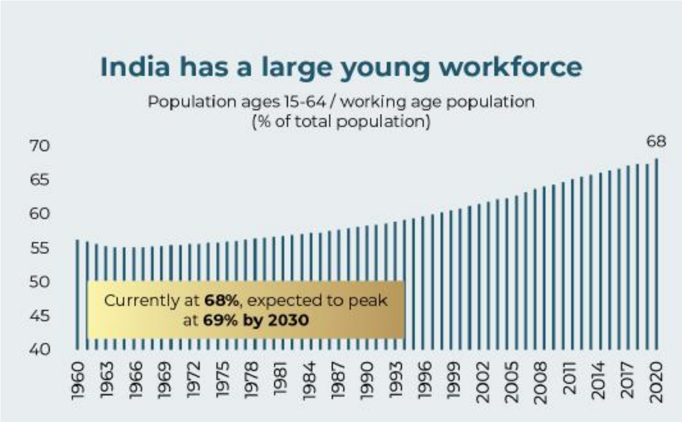


Source: EY, IBEF

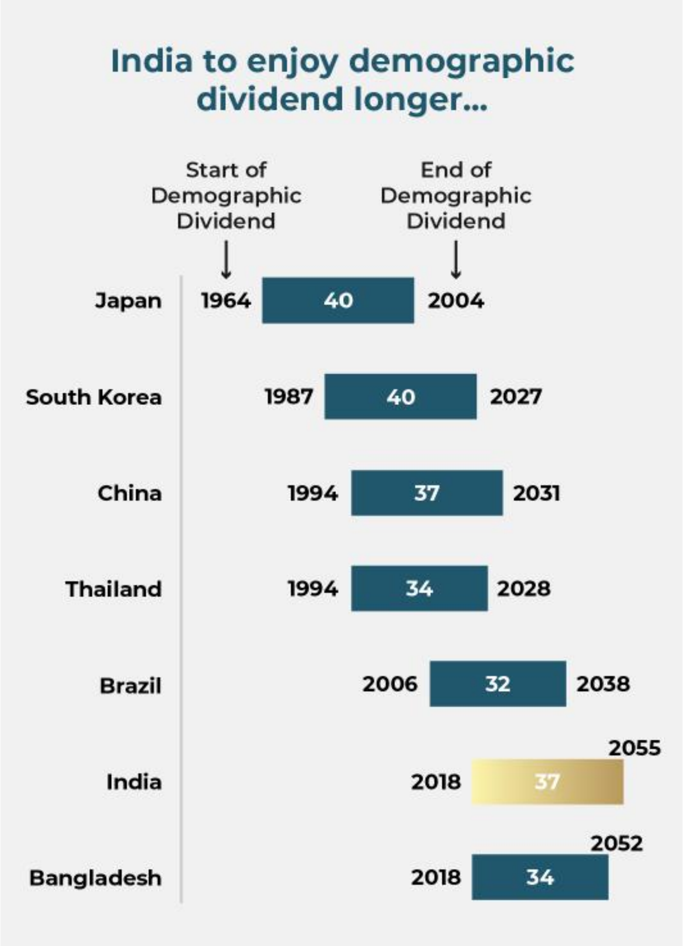
DEMOGRAPHIC DIVIDEND

- India has finally hit the **demographic sweet spot**.

- Huge opportunity as the most populated country in the world along with the largest workforce with median age of 28 years. This is expected to **increase per capita income** translating into **high aspiration** and increased **discretionary consumption.**



Source: UN World Bank



Source: UN World Bank

GLOBAL

MAXIMUM NUMBER OF DEMOCRACIES SIMULTANEOUSLY GOING TO ELECTIONS IN 200 YEARS!

- Elections in nearly 40 countries to drive geopolitics and policy changes leading to an uncertain environment on various fronts including the pace of de-globalisation.

- Excess spending by politicians during the elections may lead to a bounce back in inflation and may put widely anticipated interest rate cuts on the back burner.

FADING ECONOMIC PROSPECTS OF CHINA

- The World Bank predicts a slowdown in growth in China's economy to 4.5 percent in 2024 which can have widespread repercussions on oil and commodity prices. China's GDP is now 66% of the US GDP down from 76% just 2 years ago in 2021.

HIGH US TWIN DEFICIT MAY LEAD TO A WEAK DOLLAR

- The US twin deficit at more than 10% is double of global average and may put pressure on the US Dollar which is currently overvalued against all global currencies. Global central banks may continue to diversify away from USD through trades in alternate currencies and the purchase of Gold.

EUROPE MAY BOUNCE BACK

- Having seen the worst of inflation, high interest rates, and tight monetary conditions, Europe can bounce back with consumption coming back from excess household savings at 14% compared to 11% two years ago.

KEY CHALLENGES:

Domestic challenges include higher lending rates and managing inflation, with consumer inflation rebounding to 5.6% in November.

Globally, economic uncertainties arising from the potential impact of geopolitical tensions and impending elections in key economies.

Global growth is projected to slow down in advanced countries and heightened geopolitical stress, contributing to an uncertain economic environment.

Oil prices may bounce back

A surprise win by the Opposition alliance I.N.D.I.A. will disappoint and lead to market correction in the short term though it is unlikely to impact the long-term growth trajectory of the country.

OUTLOOK

- **Economic virtuous cycle:** 2024 should offer sustenance of strong Indian macros, revival of the real estate cycle with better affordability and reasonable interest rates resulting in a positive impact on the capital goods industry and employment generation

- **Sustained revival in Manufacturing:** Indian manufacturing to benefit from tailwinds from China+1, PLI, and supported by Skilled labor, benign interest rates, large domestic economy. With strong corporate and bank balance sheets, private capital expenditure is likely to take a front seat in 2024.

- **Capex recovery:** Infrastructure spending resulting from private capacity expansion and government capex and initiatives for Infrastructure creation and Green Energy will be a key driver

- **Revival in the Housing cycle:** The turnaround in the real estate sector is happening after nearly a decade. It is driven by the best affordability in 25 years. Unsold inventory is at a multi-year low.

- **Formalisation of the economy:** Leadership share in all sectors is consolidating in the top 5-7 companies which now have 70-80% market share. Formalisation driven by GST, COVID, digitization, and financialization of savings will continue leading to better prospects for mid and small companies leading to a more broad-based growth

- **Interest rate cycle:** RBI may start cutting rates in 2024 on the back of rate cuts by the Fed which is likely to wind to the sails of the economy while supporting key drivers like capex, real estate, and consumption demand revival.

- **Liquidity drivers:** Strong DII inflows on the back of strong retail flows are expected to continue along with the return of FII flows to Emerging markets with India being a key beneficiary.

- **Improved Quality of economic and corporate growth:** India's growth is now both structural and resilient in the face of global headwinds. The quality and certainty of earnings for the corporate sector have improved in a big way.

- **Earnings and Valuations:** Earnings growth in 2024 is forecast to rise 17% which is supportive of the current PER at a broad level though there are pockets of overvaluation. The market PER is currently 5-10% higher than the 10-year average and at a massive premium over other Emerging markets which is justified by the long-term growth potential of India and the growth trajectory having moved to a higher trajectory on a sustainable basis.

Source: Bloomberg; Nifty 50 EPS estimates

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