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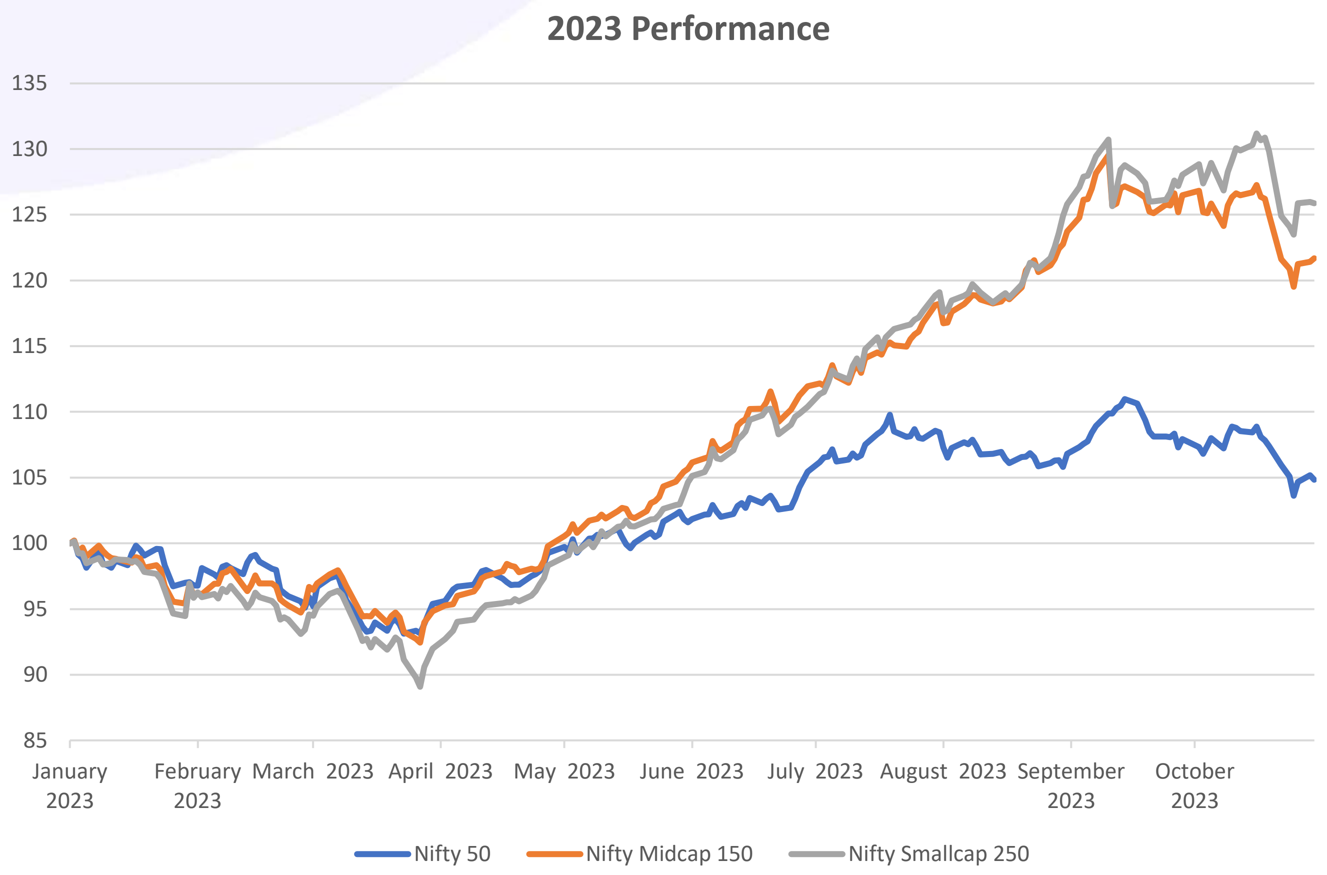
Market Insight – November 2023

Equity Outlook

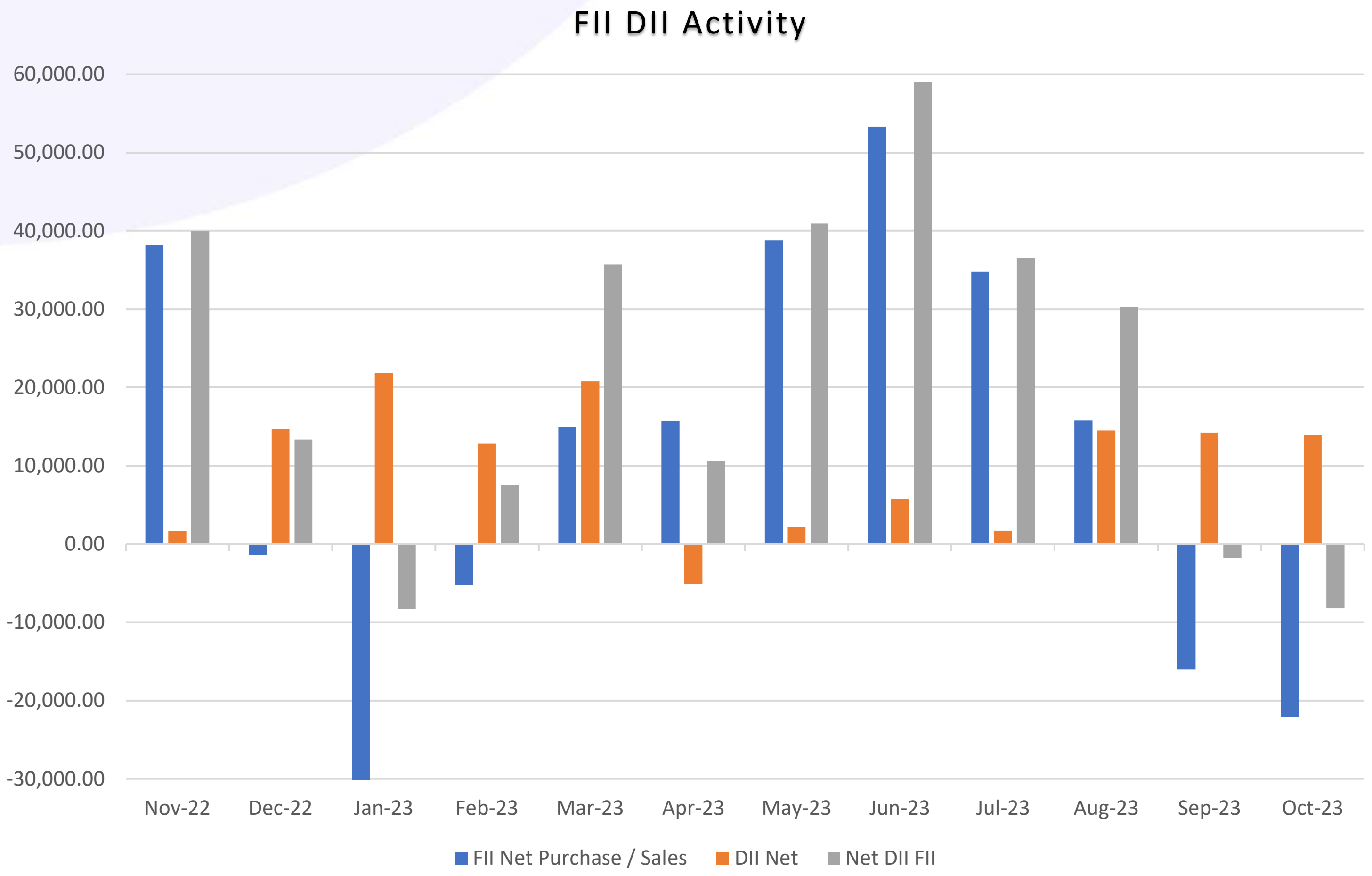
Indian Equities: A 2023 Recap



- Indian Equity markets turned positive for the calendar year in May 2023 after a severe fall in the first quarter of the calendar year.
- A correction was seen in Feb and March due to bad Q4 2022 GDP numbers, but markets saw a sharp recovery in April and market continued its bull run for 4 consecutive months, thanks to strong FII buying.
- Nifty 50 Index corrected a bit August. The Index reached all time high in Sept crossing 20000 mark and is now trading ~19000 as of Oct end, 5% below the all-time high.
- Mid and Small cap saw significant fall in the last week of October but thereafter in last 1 week started rising again. The Volatility is Huge in this Segment.
- The strengthening of the US dollar has exerted pressure on the emerging markets. Additionally, the news of the Israel-Hamas conflict has further weighed on the already vulnerable markets. This led to the correction in Indian Market in Oct 2023.

As on 31st Oct 2023
Source: https://www.niftyindices.com/reports/historical-data

FII net sellers in Sept and Oct after 6 consecutive months of buying



- There was heavy selling by FIIs in 2022. However, Domestic flows supported big outflows.
- FIIs took a U-turn in 2023 from March and were continuously buying the Indian Equities till August. June 2023 saw highest inflow from FIIs in last 12 months.
- However, there was a selling of nearly Rs. 38 thousand crores from FIIs in Sept and Oct. So far.
- These FII Flows have been countered by strong Domestic Flows. Till September Flows in Mid and Smallcaps have been huge but there has been a significant decline in flows within Small Caps, notably in the past month

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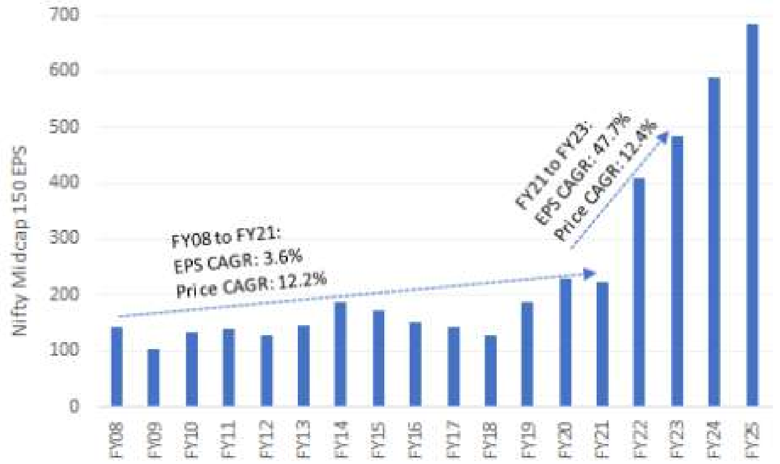
As on 31st Oct 2023
Source: moneycontrol.com

Bull Run Supported by earnings growth

- After a decade of draught in earnings, earnings made a comeback in 2021 in Indian Markets.
- Nifty 50 earnings are almost 2.5x in last two years.
- Last time such earnings growth was seen from 2004-2008 where earnings went up 3-4X during that period.

NIFTY 50 EPS

Sharp growth in Midcap earnings during post-covid phase



Large Cap earnings growth too have returned but at a lower pace than midcap

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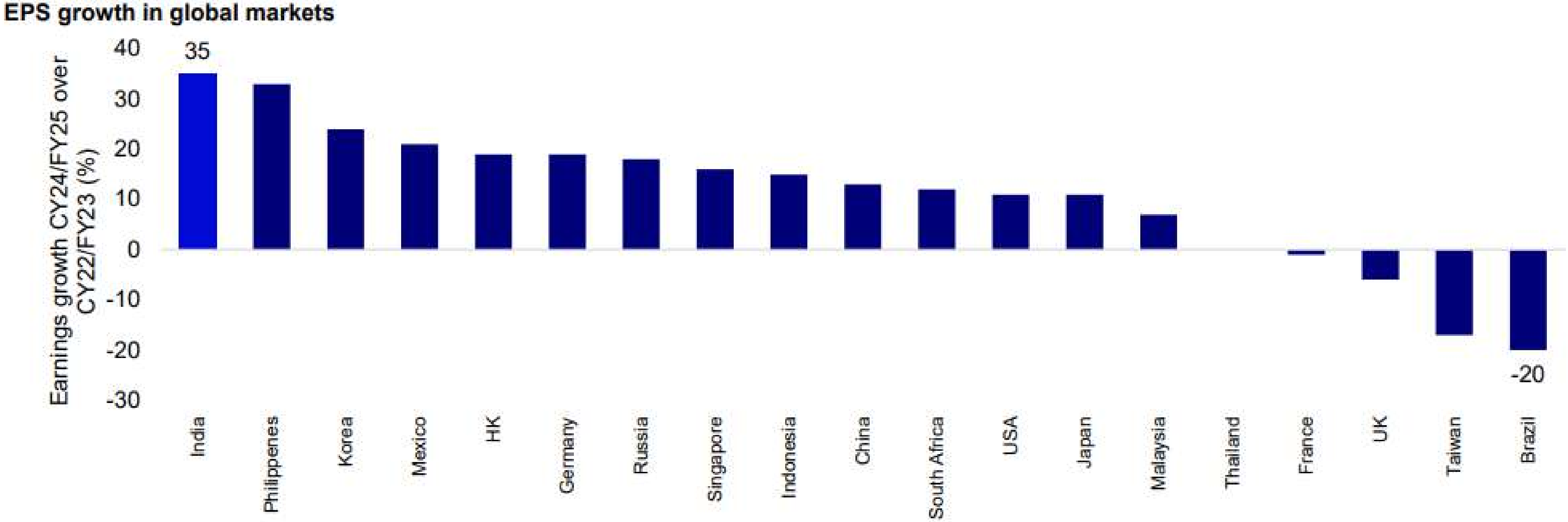
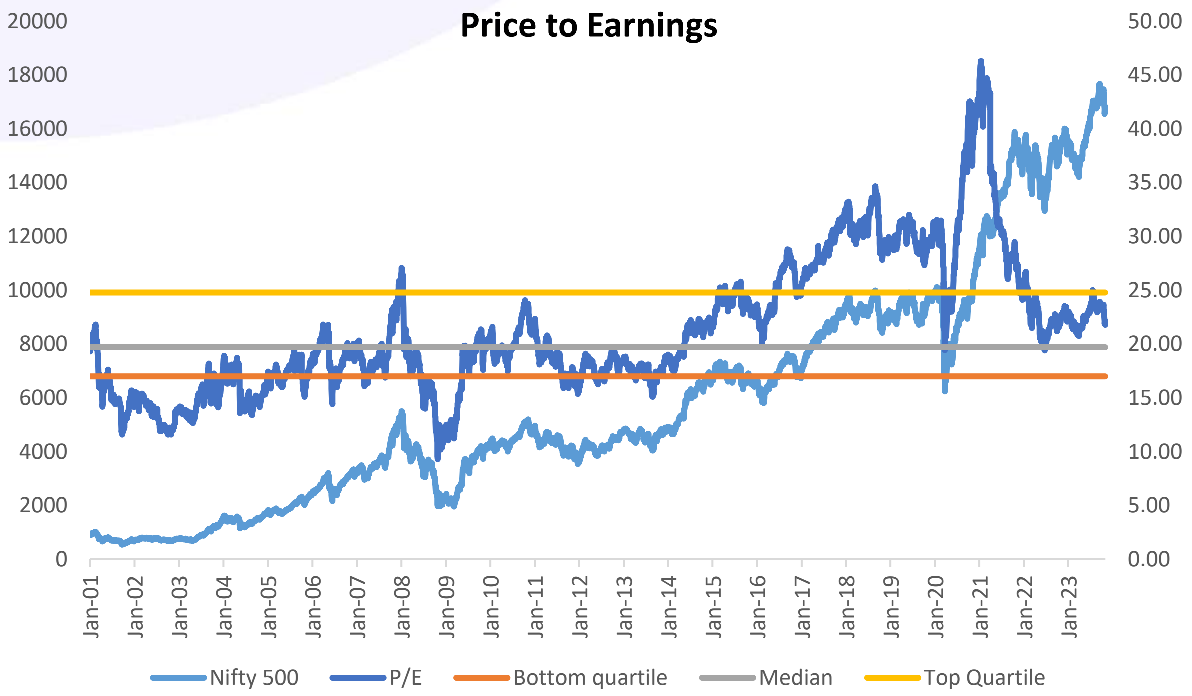
Source: Trendylene, bloomberg

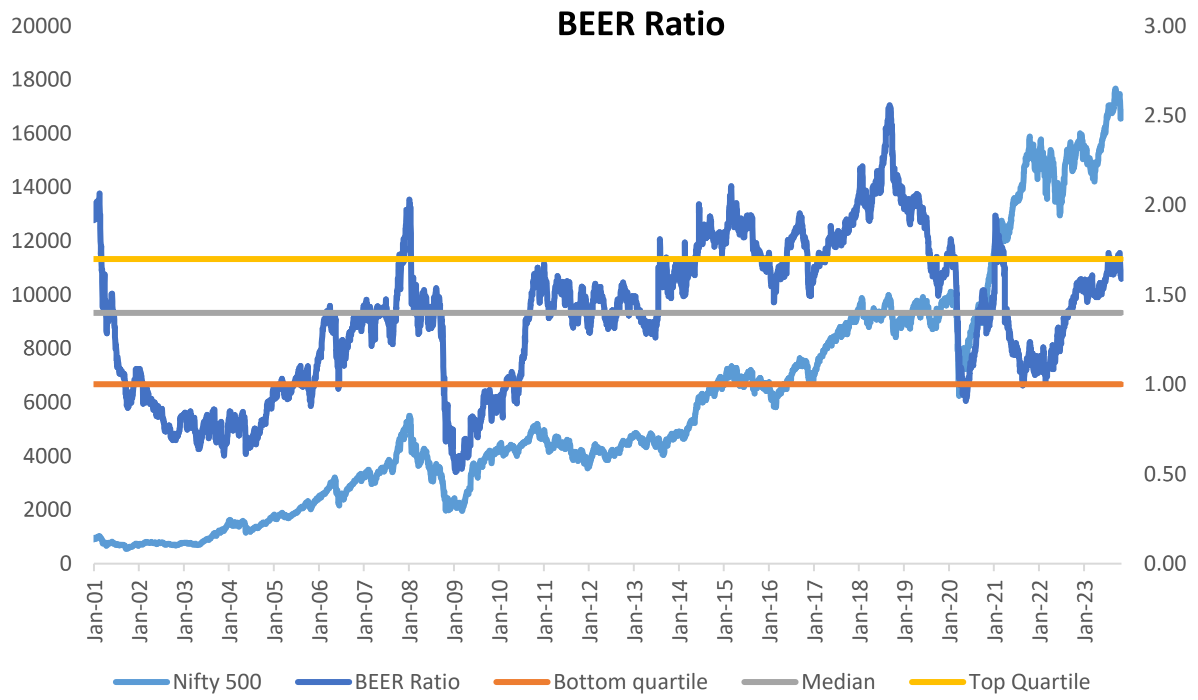
and Strong India story



Source: Bloomberg, CLSA.

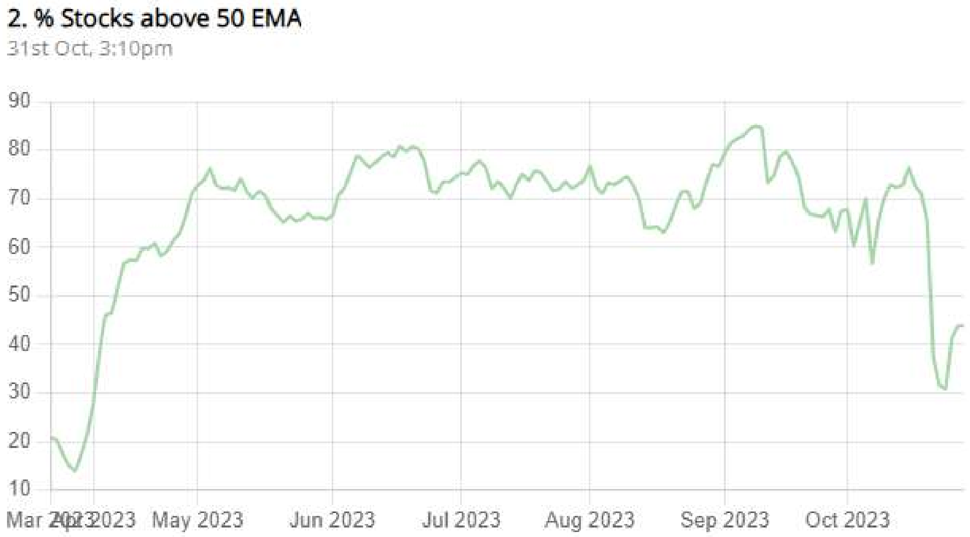
However, Concerns remain on Valuations and earnings yield

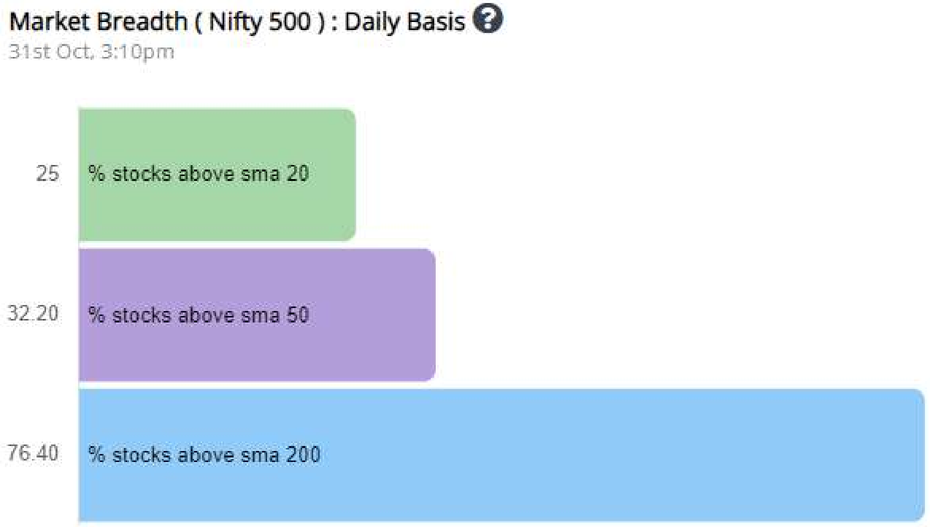




As on 31st October 2023
Source: NSE India

Further technical Indicators indicate concerns on Medium Term





- The bull market that started in 2020 made a top in Oct 2021 near 18600 levels.
- Markets consolidated for nearly two years.
- In June 2023, Nifty50 index crossed Oct 2021 high. Trading above 50 and 200 DMA.
- Mid cap and Small cap indices have also broken out of their resistance (Oct 2021) levels.
- After crossing 20000 mark in September, Nifty 50 index is going through a correction (-5%). Nifty 50 index crossed below 50 DMA on 20 Oct 2023.
- The no. of stocks above 20, 50 and 200 DMA has also gone down due to the recent correction in the market.
- Technically, this indicates weakness in the market.

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As on 31st Sept 2023
Source: Chartink.com

and RSI overbought concerns of Midcap Corrections

Historically, for Nifty Midcap 150 index, whenever

- Monthly RSI (5) crossed above 90 and,
- The index broke previous month’s low,

the broader markets topped off and the mid and small cap space went through a period of consolidation/correction.

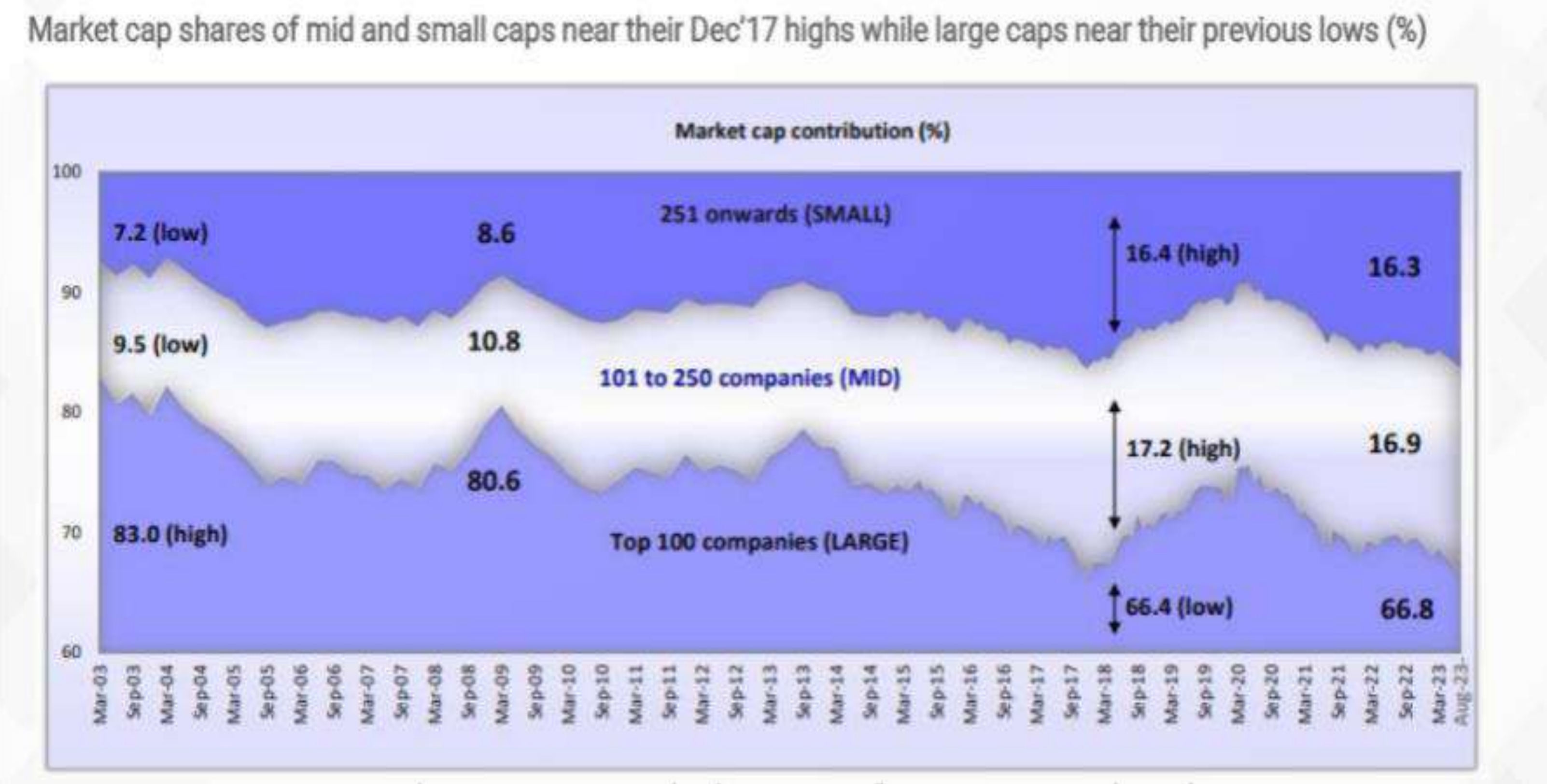
- Previously, these conditions were met in
  - Oct 2021
  - Feb 2018
  - April 2015
  - Jan 2008
  - May 2006

What followed was significant correction/ consolidation in the mid and small cap space and the broader market in general

Source: Screener

So, Large caps look attractive from both Valuations & Technically

- Smallcaps which were undervalued in the beginning of 2023, have now caught up. RBI's pause was one of the triggers which drove it.
- Now in Oct 2023, it looks like flows are driving the rally in mid and small cap space much faster than from a pure fundamental catch-up.
- The market cap share of mid and small caps is near their Dec 17 highs while that of large caps is near its previous low in Mar 2018.
- The sensex to small cap ratio has also reached near 2008 levels indicating outperformance of larges over smallcaps



Source: Motilal Oswal Research

What Money Managers are saying..

"There is more heterogeneity in the flows today. There are some flows which are very matured and smart. There are some which are following the momentum. For example, there are flows in small and mid-caps that are more momentum driven. Now, looking at the past six months of those flows, their one-year returns will get impacted."

-

Nilesh Shah, MD, Kotak Mutual Fund.

"The only area of bubble right now, and where we are not involved, is the SME IPO. Every other day, I hear about an issue that has been oversubscribed 200 times or 300 times. I don't know the fundamental picture because we are not allowed to invest in it. But whenever I see something getting subscribed 300 times, I am trained to think it is a bubble."

S Naren, CIO, ICICI Pru Mutual Fund.

"My recommendation at this point would be to book profits in smallcap and midcap names where clearly the investors have become lucky, where the earnings are not really supporting the current valuation. One should take a look back at earnings and valuations and see if any stock has run up without too much of an earnings bump up but only on hope and narrative and incrementally start moving a little bit of money towards largecaps."

Dhiraj Agarwal, MD, Ambit Investment Managers.

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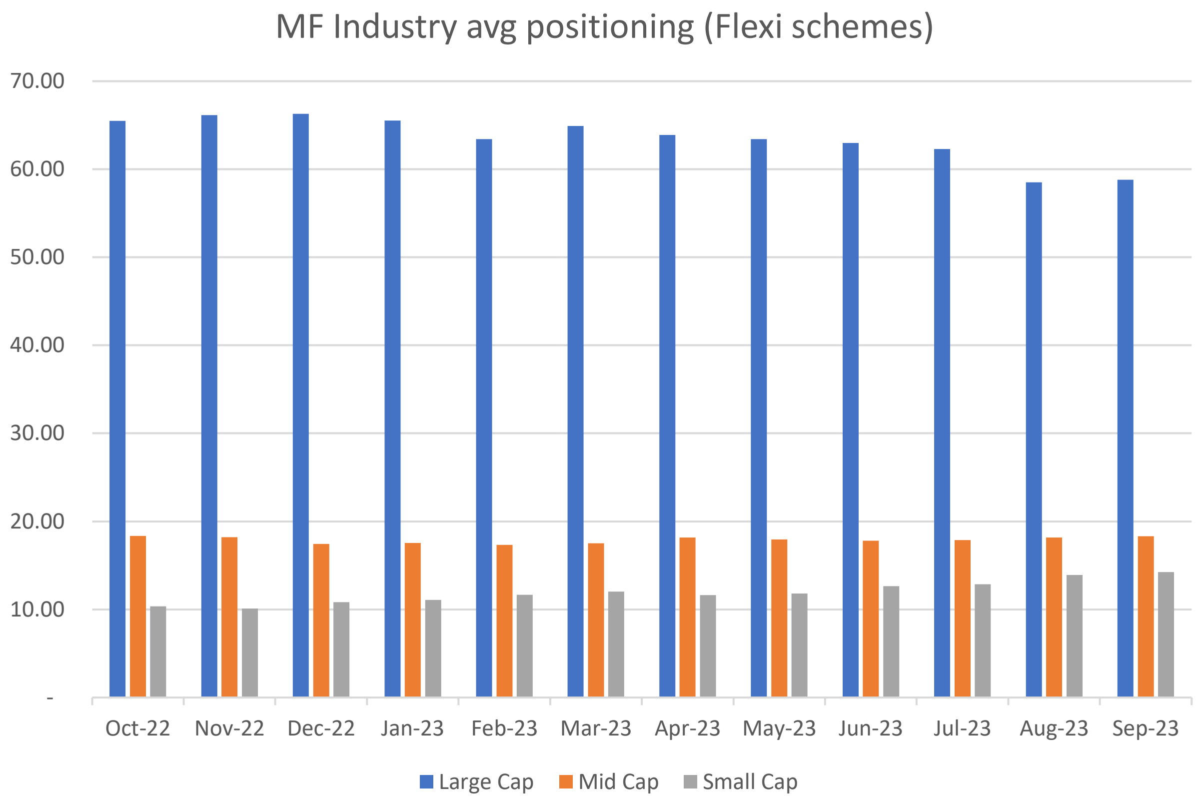
Source: News Channels

And Industry is doing….

		Current	NSE 500	Industry last 12m Avg	Last 12m Min	Last 12m Max
Large	UW	58.80	73.73	63.47	58.50	66.30
Mid	Marginally OW	18.31	17.03	17.90	17.33	18.37
small	OW	14.26	9.11	11.94	10.09	14.26

- MF industry is bullish on smallcaps and midcaps over large caps. As seen in the allocation of flexi cap category.
- The allocation to mid-caps is above the 12m average, while the allocation to large caps is lowest in the last 12 months
- Also, industry is bullish on small caps as the allocation is highest in last 12 months. Well above the industry average and Index fund allocation.



Source: ACE MF

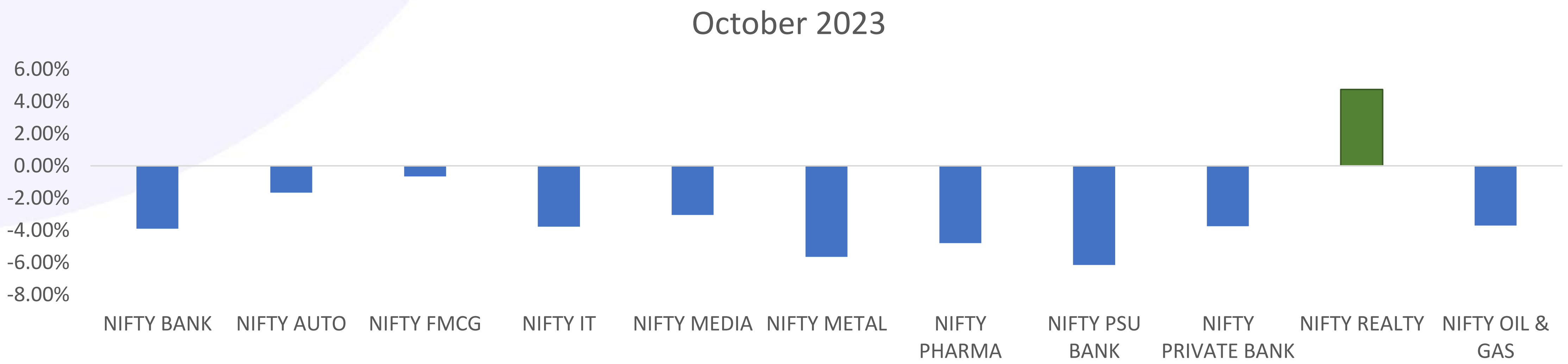
Source: AceMF. Data as on 30th Sep 2023

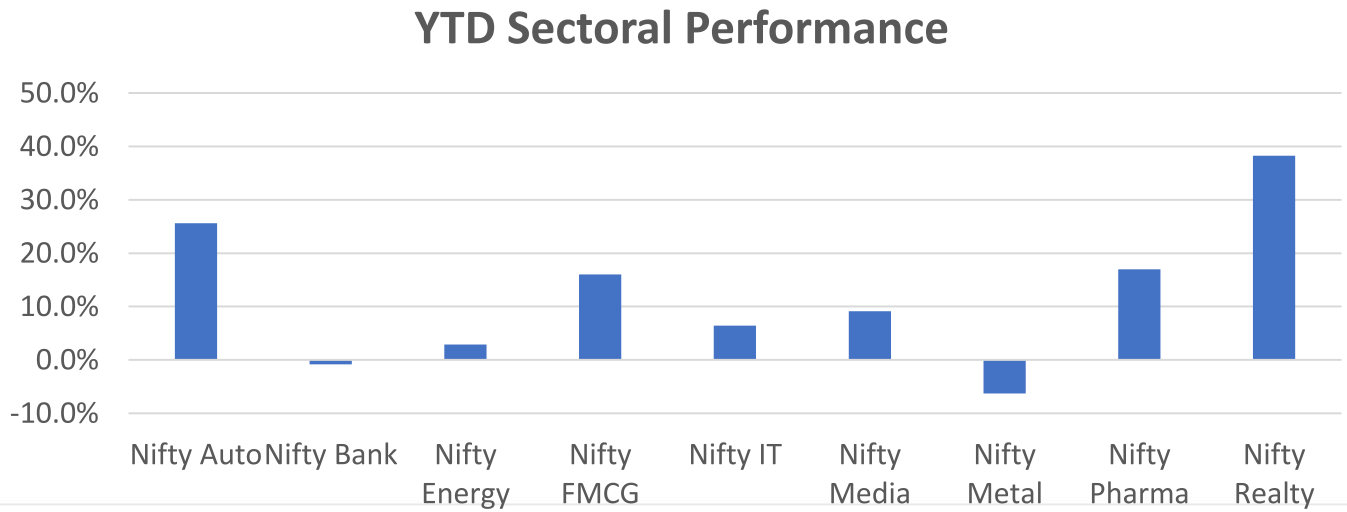
Trending Flexicap positioning

Sept-23	Large Cap	Mid Cap	Small Cap
MF Industry Average	58.80	18.31	14.26
Motilal Oswal Nse 500 ETF	73.73	17.03	9.11
Parag Parikh Flexi Cap Fund-Reg(G)	57.88	5.54	7.22
Quant Flexi Cap Fund(G)	40.80	3.28	18.50
ICICI Pru Flexicap Fund(G)	75.02	8.89	9.91
Kotak Flexicap Fund(G)	72.30	24.39	1.92

Source: AceMF. Data as on 30th Sep 2023

Sectorally - Realty staying strong!





- Almost all sectors gave Positive returns in 2023, except banks and metals.
- Realty has been the best performing sector YTD. Followed by Auto and Pharma.
- Banks and IT have been flat for last 2-3 months.
- Recently realty has started to outperform and has been the best performing sector in Oct. Realty the only sector that gave positive returns in October
- Banks corrected heavily and turned negative for the calendar year in Oct.

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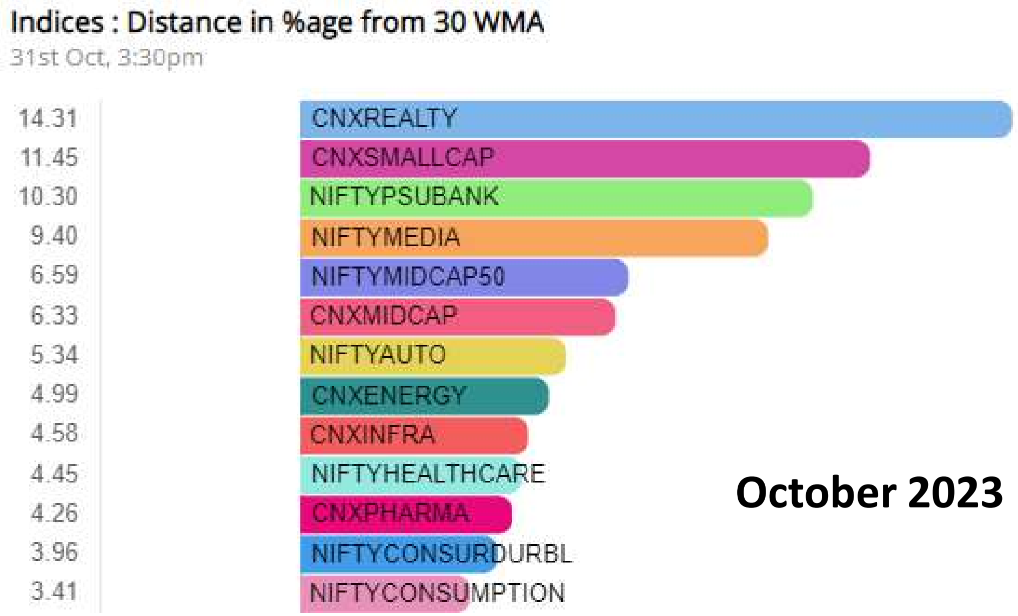
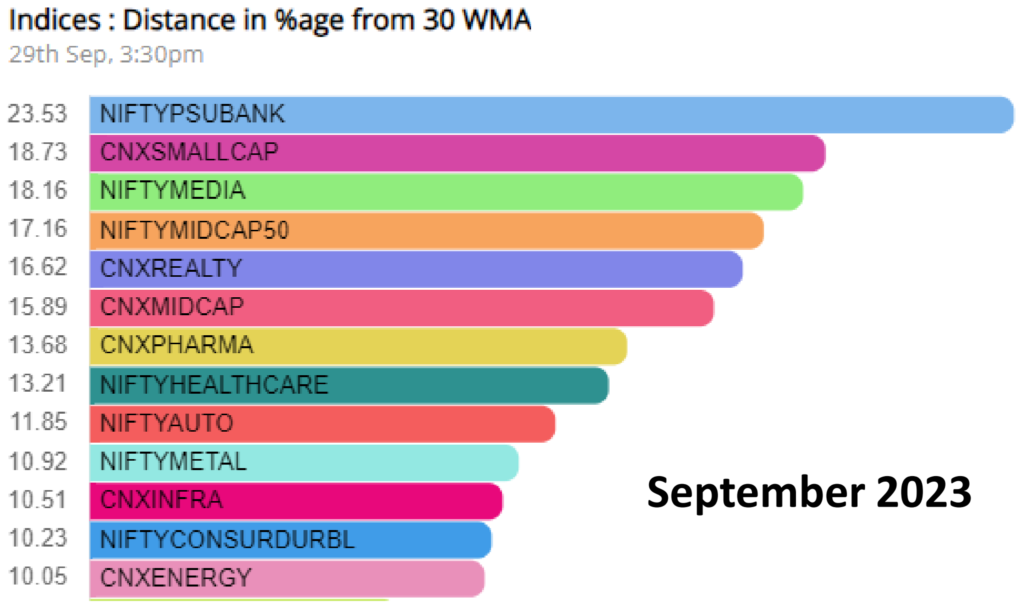
Source: AceEquity. Data as on 31st October a2023

Realty least impacted in recent fall!





- Chart represents indices up from their respective 30 week moving average.
- The momentum in small cap and midcap has slowed in October.
- Nifty Realty was the least impacted index in the recent correction in the market.
- The momentum in Media and PSU Banks has slowed down a bit in the short term. But the uptrend is still intact.

As on 31st October 2023
Source: Chartink.com

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Sector in Focus: Media

Media & Entertainment provides a large long term structural opportunity in India and the consolidation in the sector is a great inflexion point for the business.

Indian M&E sector grew 16.4% in 2021 to reach INR1.61 trillion

	2019	2020	2021	2022E	2024E	CAGR 2021-2024
Television	787	685	720	759	826	5%
Digital media	221	235	303	385	537	21%
Print	296	190	227	241	251	3%
Online gaming	65	79	101	120	153	15%
Filmed entertainment	191	72	93	150	212	32%
Animation and VFX	95	53	83	120	180	29%
Live events	83	27	32	49	74	32%
Out of Home media	39	16	20	26	38	25%
Music	15	15	19	21	28	15%
Radio	31	14	16	18	21	9%
Total	**1,822**	**1,386**	**1,614**	**1,889**	**2,320**	**13%**

All figures are gross of taxes (INR in billion) for calendar years | EY estimates

Sub-sectors		Key drivers
Television	Subscription	+ Strong performance by regional channels; Cost advantage vs. OTT − Second / Third pay TV connections getting curtailed on the back of OTT and Free dish
	Advertisement	+ Continued mass & wide reach with high penetration for building & sustaining brands + Ad revenue as share of GDP lags other countries, expected to increase
OTT	SVOD	+ Improved internet & smartphone access, and payment mechanisms + Investment in content, pricing innovations & bundling creating targeted niche properties
	AVOD	+ Significant increase in online content consumption + Ad technology and format innovations
Gaming		+ Mobile first gaming population with rising internet & smartphone access + Local games targeted specifically at local audience
Print		+ Focus on exclusive content with emphasis on credibility; reputed brands to gain − Shift to digital (esp. ads), reduced metro/English press subscriptions
Search & Social		+ Rise in online shoppers, social media users + Low ticket size makes it suitable for India's large SME segment
Audio		+ Growth in audio streaming, international & regional music + Wide reach with high penetration; Ad volumes shifting to Tier2++
Cinema		+ Expectation of growth due to a strong content pipeline and rebound demand − Shift to Digital/OTT release during the pandemic
Animation, VFX & Post-production		+ Increasing importance on content and better technology adoption + Availability of low cost and high skilled talent in India
OOH & Others		+ Upcoming infra projects, evolving digital OOH (DOOH)

Why Media Looks interesting now?

Consolidation in the Industry: 1.4 billion Indians, distributed over 280 million households, need to be entertained and after the near to-complete industry consolidation phase, there will only be 3 large Indian players and a couple of international players that will be able to meaningfully cater to this need.

Consolidation leading to Pricing prower: Consolidation in the industry will give pricing power to players and greater ability to negotiate with talent (very important factor in entertainment business)

High Growth expected: Media and Entertainment Industry in India is about USD 27 billion with 1.4 billion consumers. This is expected to grow at 10-12% over the next decade to reach USD 55-70 billion in size offering a very large opportunity to leading players.

Attractive Valuations: Media companies are available at very attractive valuations at the bottom of their earnings cycle. The earnings cycle for these companies, today, factors in very little growth in advertisement, no increase in subscription revenues for almost 4 years and peak losses on OTT platforms.

Tailwinds: TRAI has finally implemented the New Tariff Order 2.0, now called NTO 3.0, starting April 1, 2023 and with this, broadcasters would now be able to now raise prices increasing their Average Revenue Per User (ARPU). Advertisement revenues are expected to bounce back from 2nd Half of financial year 2024 and losses on OTT platforms should also start coming down after peaking in financial year 2023.

Theme we like: Consumption & Premiumization Behavior

India crossed USD 2000 per capita income in FY19 which was China's stage in 2006. China's Growth n next 10 years (CY06-16) was 14.5% and India Might replicate the similar path.

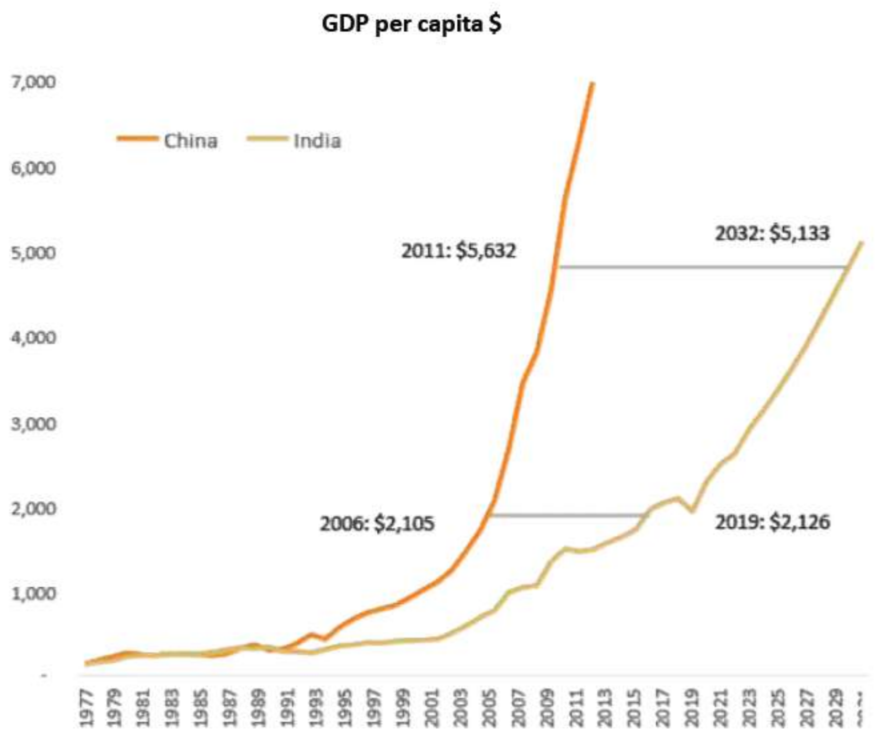
During this period

- China Car sales grew by 5x from 5mn to 24mn (India FY23 car sales was4mn)
- China air passenger travel grew by 3x from 158mn to 488mn (IndiaFY20 air passenger was 164mn)
- Other categories like Food & Beverage grew 3.6x, Medicines & Medical appliances 3.5x and Sports Equipment 7.4x

India's current and expected future population breakup holds the key

•34 million new households (HH) likely to enter Aspirers category while 43 Mn HH to enter Affluent & Elite category by the end of this decade and hence behavior is Moving towards buying Premium Products

China vs India (per Capita Income)



Source: World bank, NBS of PRC, Bloomberg, Latest available data updated, Data as on 31 May 2023

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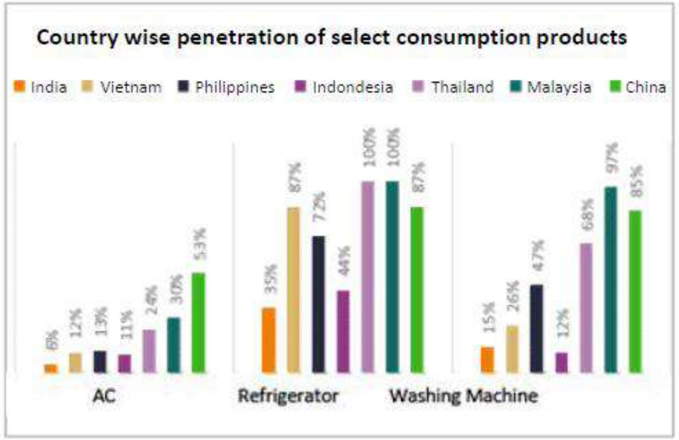
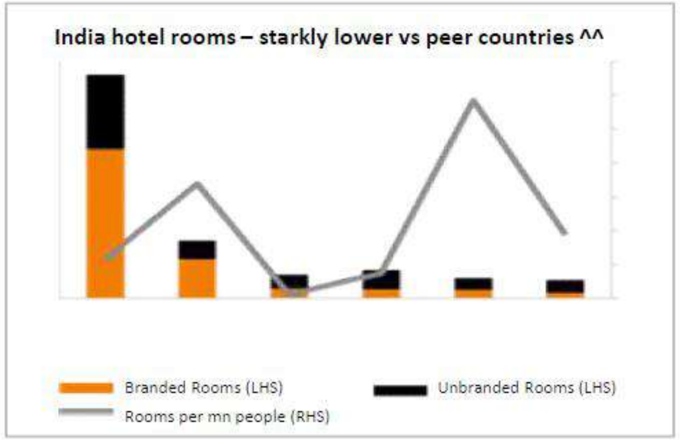
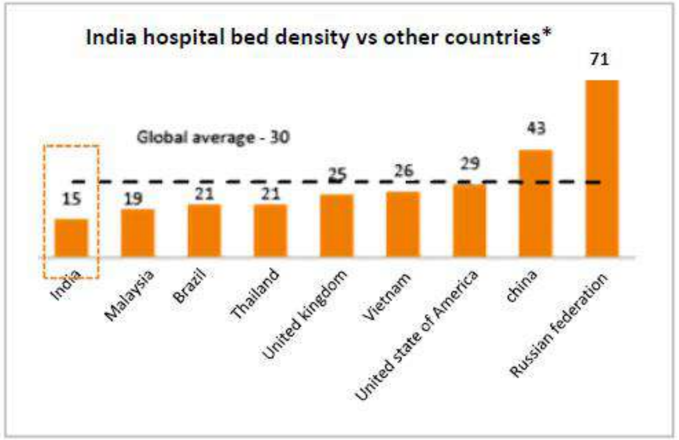
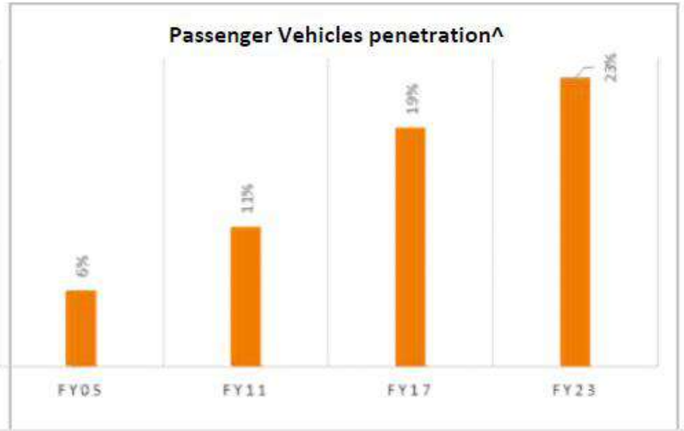
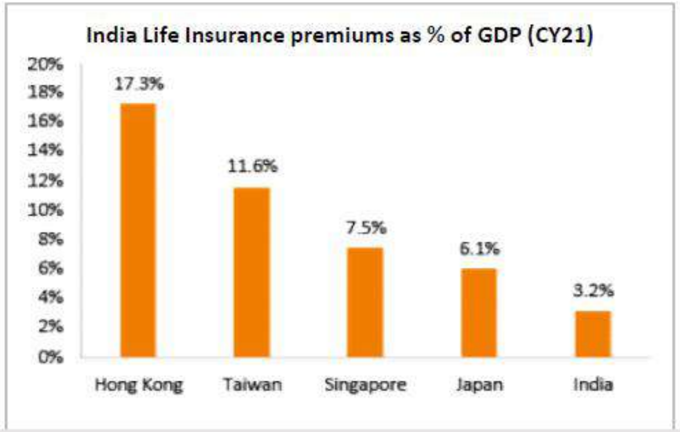
And there is significant opportunity on penetration across Lifestyle

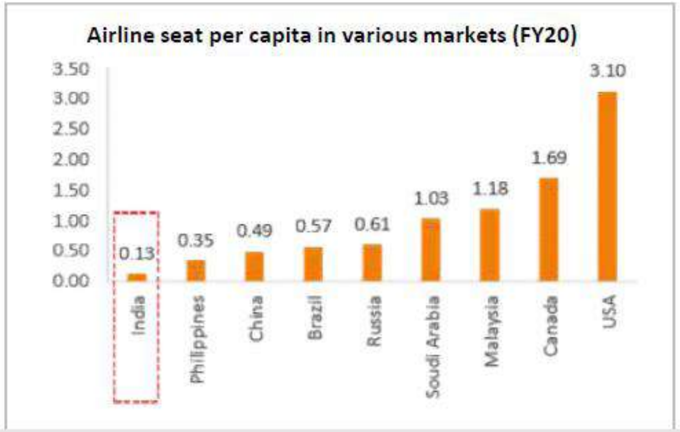












Source: World bank, NBS of PRC, Bloomberg, Latest available data updated, Data as on 31 May 2023

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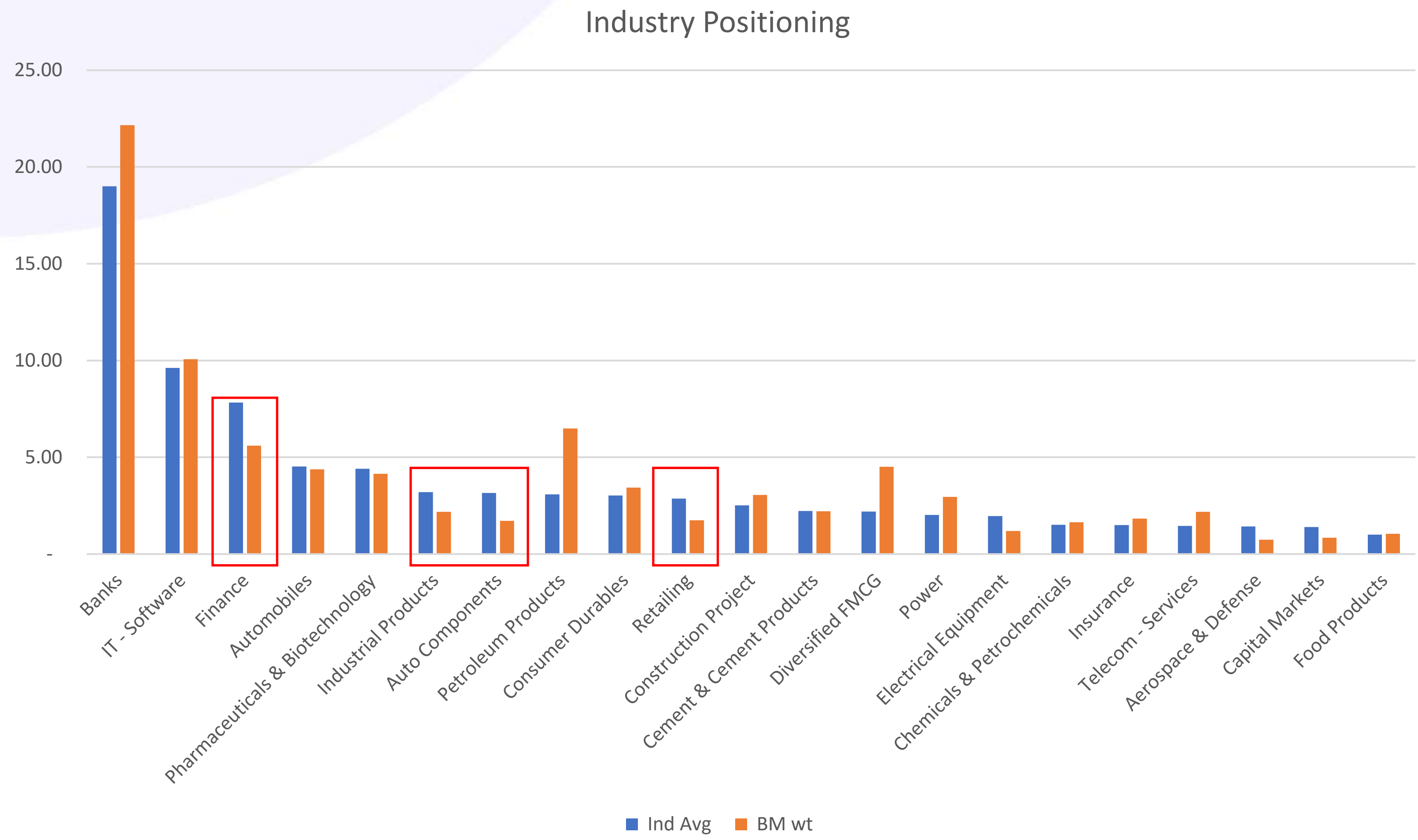
Industry placing bets on Finance, Auto components and Industrials



- MF Industry exhibits notable overweight positions in Industrial Products, Finance.
- Mainly underweight positions in banks, Petroleum Products, Diversified FMCG and Power.
- The industry is also bullish on retailing, Auto and Auto components and pharma.
- Whereas there is under ownership in IT stocks.

Source: ACE MF
Data as on 30th Sep 2023

MF Industry positioning on stocks

Large cap

Overweight	Active Weight
ICICI Bank Ltd.	1.04
Sun Pharmaceutical Industries Ltd.	0.99
Maruti Suzuki India Ltd.	0.90
JIO Financial Services Ltd.	0.74
Ultratech Cement Ltd.	0.65

Underweight	Active Weight
HDFC Bank Ltd.	-3.03
Reliance Industries Ltd.	-2.44
Tata Consultancy Services Ltd.	-1.37
Asian Paints Ltd.	-1.07
Kotak Mahindra Bank Ltd.	-1.06

Mid Cap

Overweight	Active Weight
Cholamandalam Investment and Finance Company Ltd.	1.46
TVS Motor Company Ltd.	1.26
Trent Ltd.	1.14
Bharat Electronics Ltd.	1.05
Clearing Corporation Of India Ltd.	0.85

Underweight	Active Weight
Yes Bank Ltd.	-1.33
Adani Power Ltd.	-1.14
IDFC First Bank Ltd.	-1.10
AU Small Finance Bank Ltd.	-1.04
Tata Elxsi Ltd.	-1.03

Small Cap

Overweight	active Weight
Carborundum Universal Ltd.	1.19
Clearing Corporation Of India Ltd.	1.11
Persistent Systems Ltd.	0.56
DCB Bank Ltd.	0.55
KPIT Technologies Ltd.	0.55

Underweight	Active Weight
Suzlon Energy Ltd.	-1.88
BSE Ltd.	-1.08
Glenmark Pharmaceuticals Ltd.	-1.05
RBL Bank Ltd.	-1.05
IDFC Ltd.	-1.00

Source: ACE MF
Data as on 30th Sep 2023

Equity Outlook – Neutral on Equities, Bullish on Large cap, Media

- Though Indian markets have been remarkably resilient in the face of global challenges, some volatility has been seen in recent times and we do expect this to continue for some more time. Initial feedback of demand from the ensuing festive and wedding season is quite strong and corporate earnings outlook for Q2FY24 is also positive.

- However, multi-year high-rate yields in US and sticky inflation with weak global economic outlook presents a complete opposite view. Globally markets were weak following a hawkish commentary by US FED at the Federal Open Market Committee (FOMC) meeting. The FED left the rate unchanged but guided that more hikes would be needed to manage inflation. The rise in crude prices and the Israel issue are also some additional challenges. With general elections less than a year away, we may see high volatility in the markets. Hence, we are currently neutral on the equity markets.

- Despite global challenges, JPMorgan made an announcement that it would include Indian Government Bonds in its emerging market debt family of indices. This move can lead to estimated inflows to the tune of US$32bn across indices over a period, in addition to additional inflows from active investors. This announcement could also drive expectations of inclusion by other index managers. This move is very positive for India as the expected inflows will likely reduce the upside risk for both India bond yields and currency.

- Market cap – From market cap allocation perspective, we prefer a gradual shift from midcap to largecap space. Technically, the mid and small indices have corrected more than the Nifty 50 Index. Other indicators such as Mcap weights of midcaps vs largecaps and sensex to small cap ratio also indicate some froth in Mid and smallcap space. We also analyzed the MF Mcap positioning of flexicap funds and largecaps are near the 12 months low allocation, so MF industry is also overweight on mid and small-caps. However, considering the recents comments of fund managers, we expect this picture to change with time.

- Sector – Media & Entertainment provides a large long term structural opportunity in India and the consolidation in the sector is a great inflexion point for the business. MF industry has been bullish on Auto components and Industrials for a while.

Fixed Income – Update

There is not much reward for increasing the Duration and 12 Month to 24 Months Remain the Sweet Spot

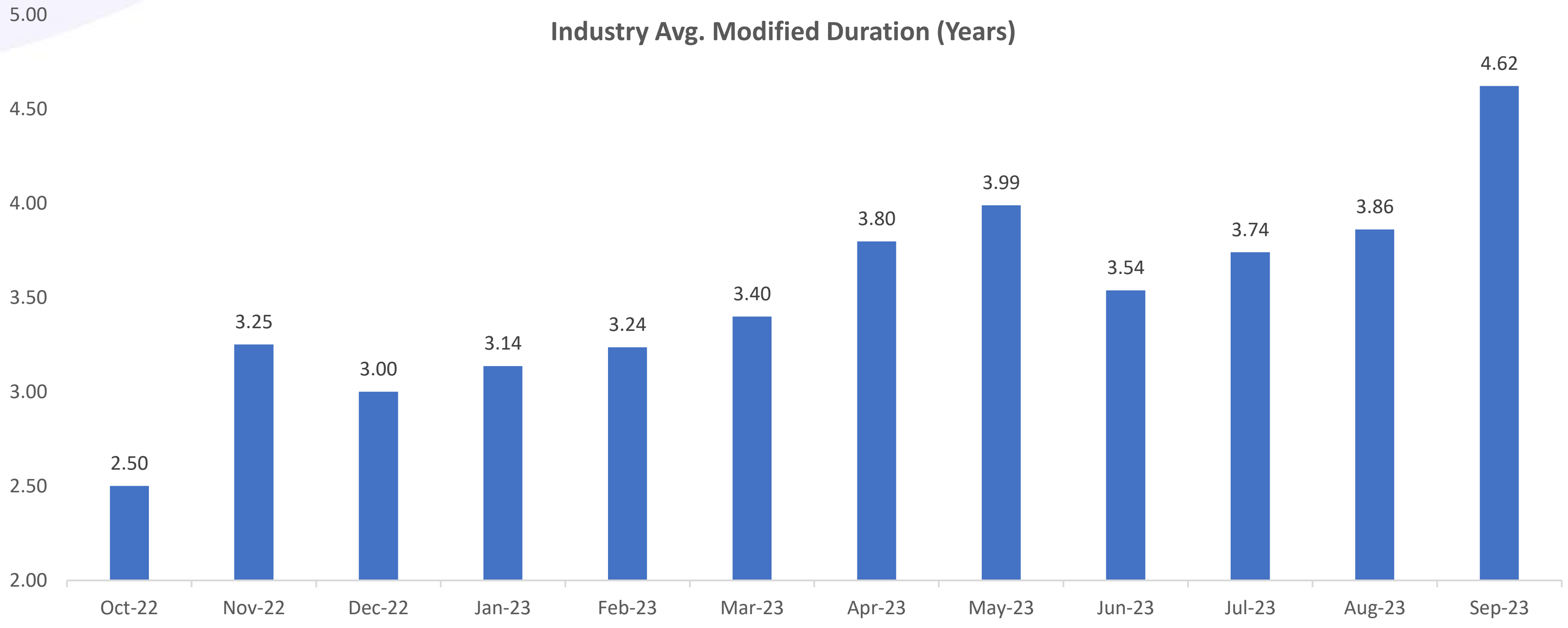
Further Macro Factors indicate no rate cut soon

- **Inflation**
  - Retail price inflation in India eased to 6.83% in August 2023 from 7.44% in July which was the highest since April 2022, and below market forecasts of 7%.
  - Despite the slowdown in August, inflation stayed above the central bank target of 2-6% impacting agricultural production and prompting a spike in food prices, specially vegetables.
  - But the government then subsidised vegetable prices and ban exports of some cereals including sugar and rice to control inflation

- **Growth (GDP)**
  - India's economy expanded by 7.8% in the April-June quarter, the most in a year and slightly surpassing market expectations of a 7.7% expansion.
  - The robust performance of the service sector was the main driver of GDP growth, accompanied by strong consumer demand and increased government capital expenditure. Private consumption, which accounts for nearly 60% of the economy, grew about 6% (vs 2.8% in Jan-Mar), while capital formation growth eased to about 8% (vs 8.9%).
  - According to forecasts released by the Reserve Bank of India, Asia's third-largest economy is projected to expand by 6.5% in this fiscal year.

However, MFs are have increased Duration

An analysis of Dynamic Bond Funds reveals that over the past 4 months, Fund Managers have consistently increased the duration of the funds, reaching the highest level in the last 12 months.



Source: ACE MF
Data as on 30th Sep 2023

Fixed Income Outlook

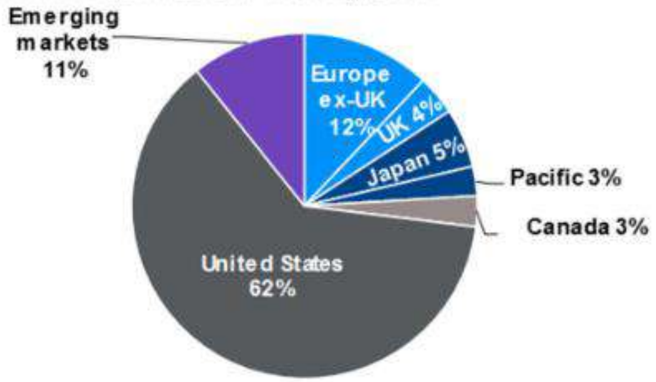
- MF investors looking for higher YTM can explore Short Duration, Medium Duration Funds and Credit Funds have the Highest YTM
- The RBI has paused on rate hike in the policy reviews on 6 April, 8 June, 10 August and 6 Oct 2023. Though the RBI stance remains as that of “withdrawal of accommodation”, practically, rate hikes look extremely unlikely
- One can take exposure to longer maturity bonds as well. However, the yield curve is flat and you would not be compensated in terms of higher yield. From this perspective, it is better to match your investment horizon with the maturity of the bond.
- Further, For AAA and AA rated bonds, currently available yield levels are marginally higher than 10-year average. For A rated bonds, currently available levels are palpably higher.
- For AAA and AA rated bonds, current spreads over benchmark Gsec is lower than 10-year average. For A rated bonds, current spread is higher than 10-year average. Historical data from Crisil shows risk-adjusted returns, computed as quoted level vis-à-vis the required yield for that rating category, has been positive for AA and A rated categories.
- Net-net, you can take credit exposure as long you are comfortable with the business model, track record and promoter quality of the issuer, and you are getting compensated in terms of yield

Global Outlook

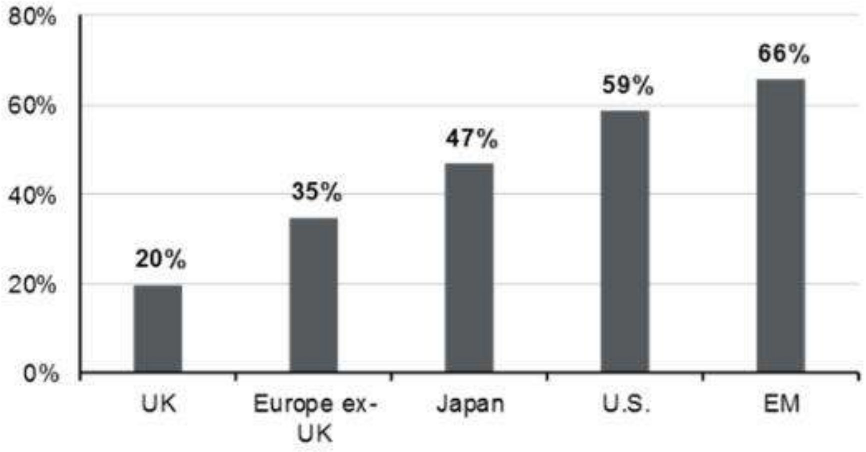
Global Equity Market Performance

Returns	2023		2022		15-years	
	Local	USD	Local	USD	Ann.	Beta
Regions						
U.S. (S&P 500)	-	13.1	-	-18.1	11.3	0.9
AC World ex-U.S.	8.7	5.8	-9.2	-15.6	4.8	1.0
EAFE	11.2	7.6	-6.5	-14.0	5.2	1.0
Europe ex-UK	10.0	9.2	-12.2	-17.3	5.5	1.2
Emerging markets	4.4	2.2	-15.2	-19.7	4.1	1.1
Selected Countries						
Japan	26.2	11.6	-4.1	-16.3	4.9	0.7
United Kingdom	5.2	6.8	7.2	-4.8	4.3	1.0
France	11.7	10.8	-6.9	-12.7	5.8	1.2
Canada	4.2	4.5	-5.8	-12.2	4.7	1.1
Germany	10.6	9.7	-16.5	-21.6	4.1	1.3
China	-6.1	-7.1	-20.6	-21.8	4.2	1.0
Taiwan	17.4	11.8	-21.3	-29.1	10.9	1.0
India	8.7	8.3	3.0	-7.5	7.7	1.1
Brazil	7.1	13.0	8.6	14.6	1.1	1.4

Weights in MSCI All Country World Index
% global market capitalization, float adjusted



Revenue exposure vs. country of listing
% of total revenue from home countries



Source: JPM Research
Data as on 31st Oct 2023

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Rates in Global Economies

The advanced economies, given their historical interest rates, are not in a position to absorb high interest rates for a long time, without impacting their growth.

	Yield		2023 Return			
Aggregates	9/30/2023	12/31/2022	Local	USD	Duration	Correlation to U.S. 10yr
U.S.	5.39%	4.68%	-1.21%	-1.21%	6.2 years	0.91
Gbl. ex-U.S.	3.47%	3.13%	-	-2.84%	6.8	0.59
Japan	0.89%	0.75%	0.19%	-11.41%	9.2	0.63
Germany	3.58%	3.22%	0.23%	-0.57%	6.0	0.51
UK	4.99%	4.29%	-2.96%	-1.53%	7.8	0.50
Italy	4.41%	4.10%	1.91%	1.10%	5.9	0.38
China	2.80%	2.94%	3.45%	-1.54%	5.9	0.54
Sector						
Euro Corp.	4.52%	4.32%	2.53%	1.71%	4.3 years	0.42
Euro HY	8.43%	8.32%	6.76%	5.91%	3.0	0.01
EMD (USD)	9.03%	8.55%	-	1.76%	5.8	-0.02
EMD (LCL)	6.76%	6.86%	5.02%	4.28%	4.9	-0.09
EM Corp.	7.75%	7.28%	-	3.38%	4.8	-0.04

Source: JPM Research
Data as on 31st Oct 2023

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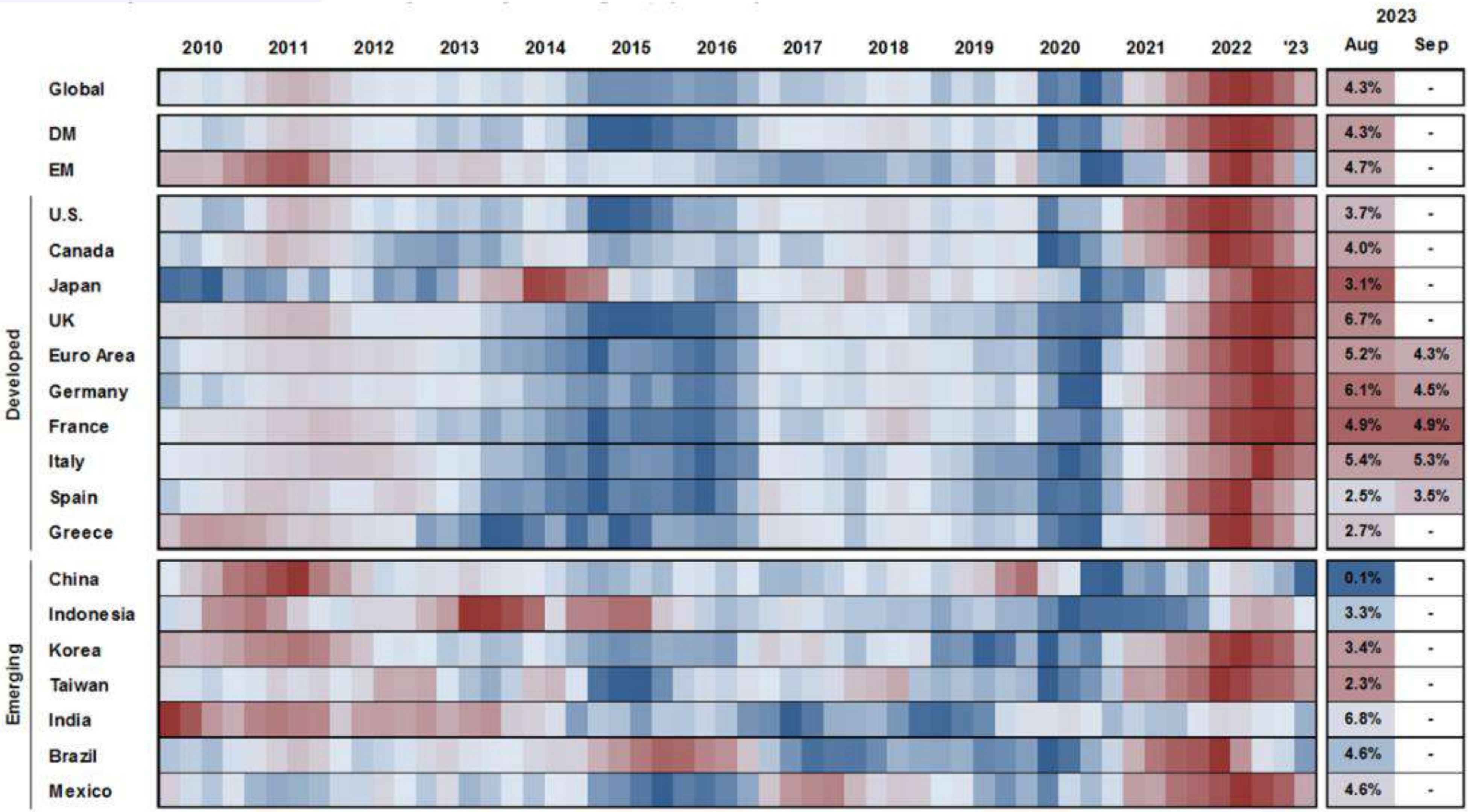
And the Inflation remains the concern



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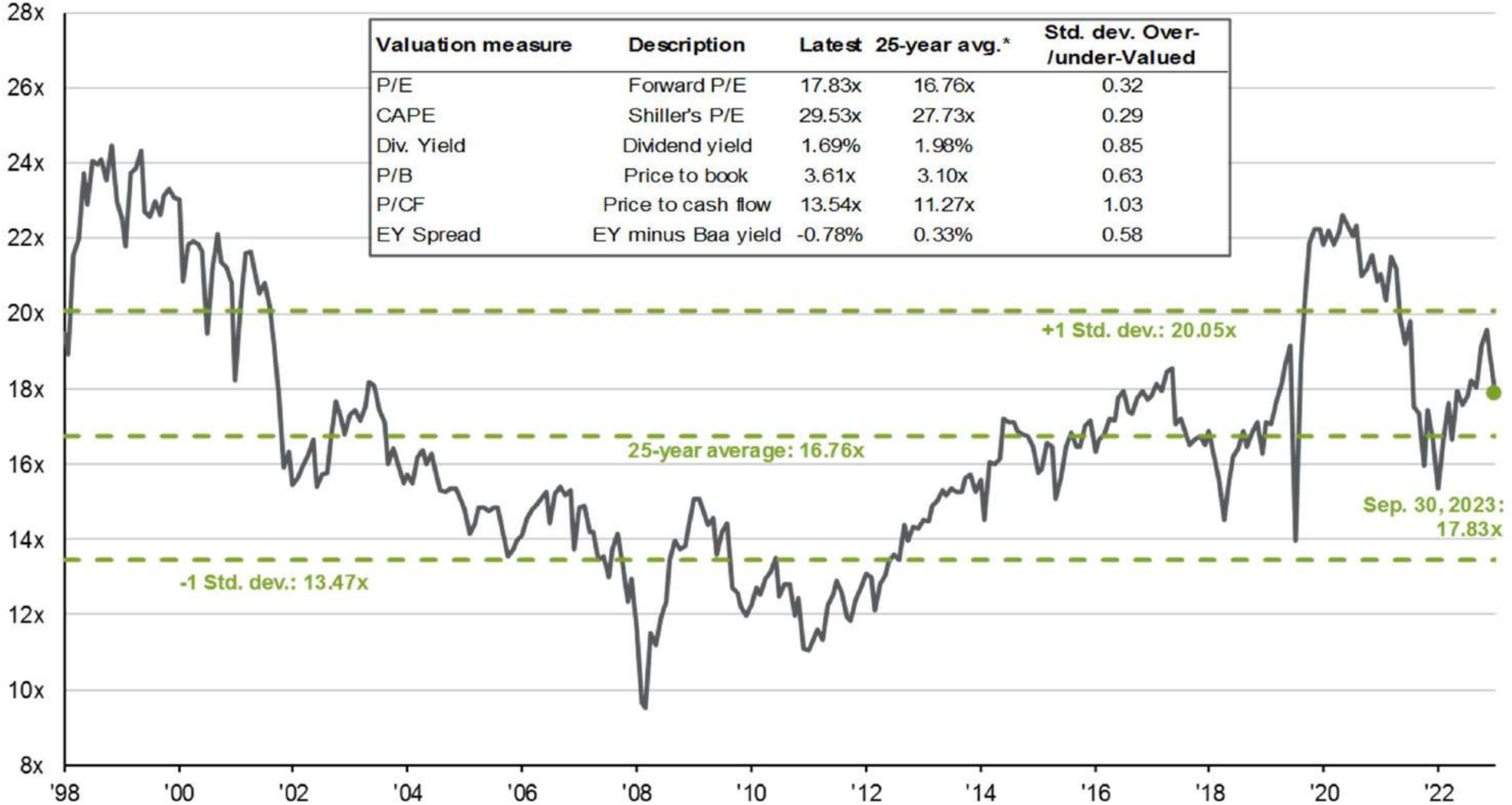
Source: JPM Research
Data as on 31st Oct 2023

US not Looking Attractive at present

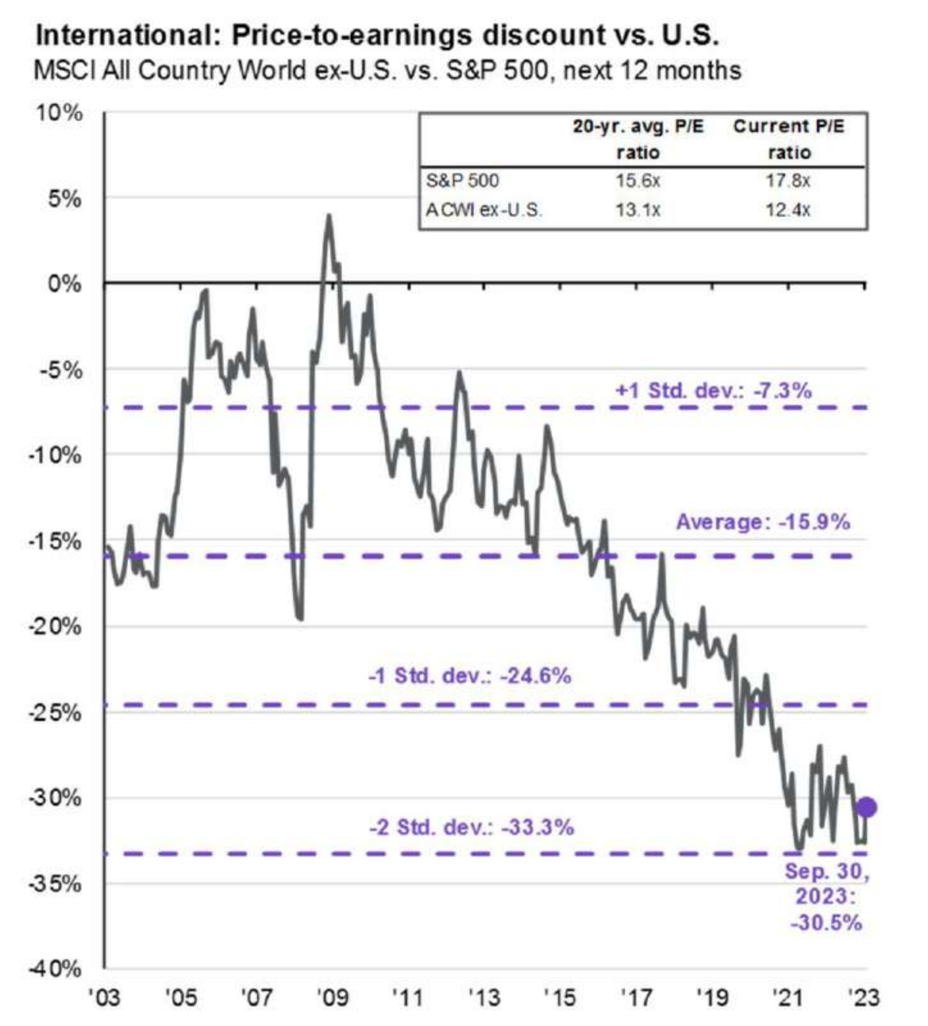
S&P 500 Index: Forward P/E ratio

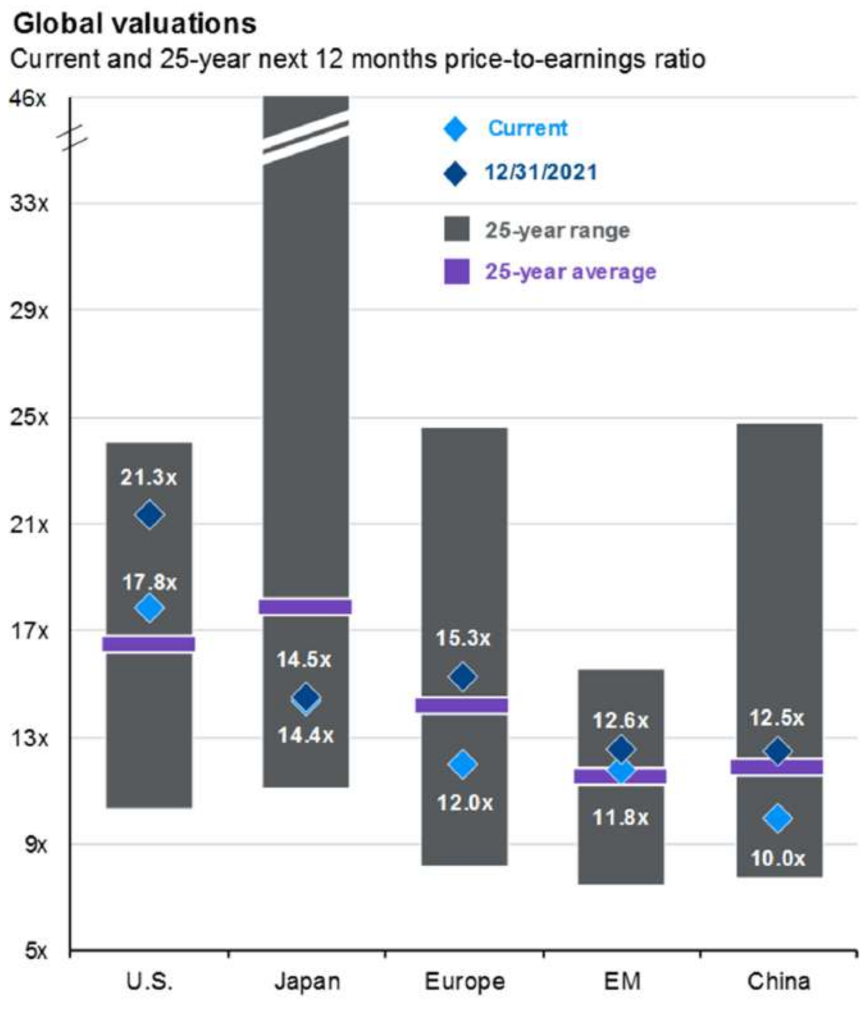


Valuation measure	Description	Latest	25-year avg.*	Std. dev. Over-/under-Valued
P/E	Forward P/E	17.83x	16.76x	0.32
CAPE	Shiller's P/E	29.53x	27.73x	0.29
Div. Yield	Dividend yield	1.69%	1.98%	0.85
P/B	Price to book	3.61x	3.10x	0.63
P/CF	Price to cash flow	13.54x	11.27x	1.03
EY Spread	EY minus Baa yield	-0.78%	0.33%	0.58

Source: JPM Research
Data as on 31st Oct 2023

If not US, then where?





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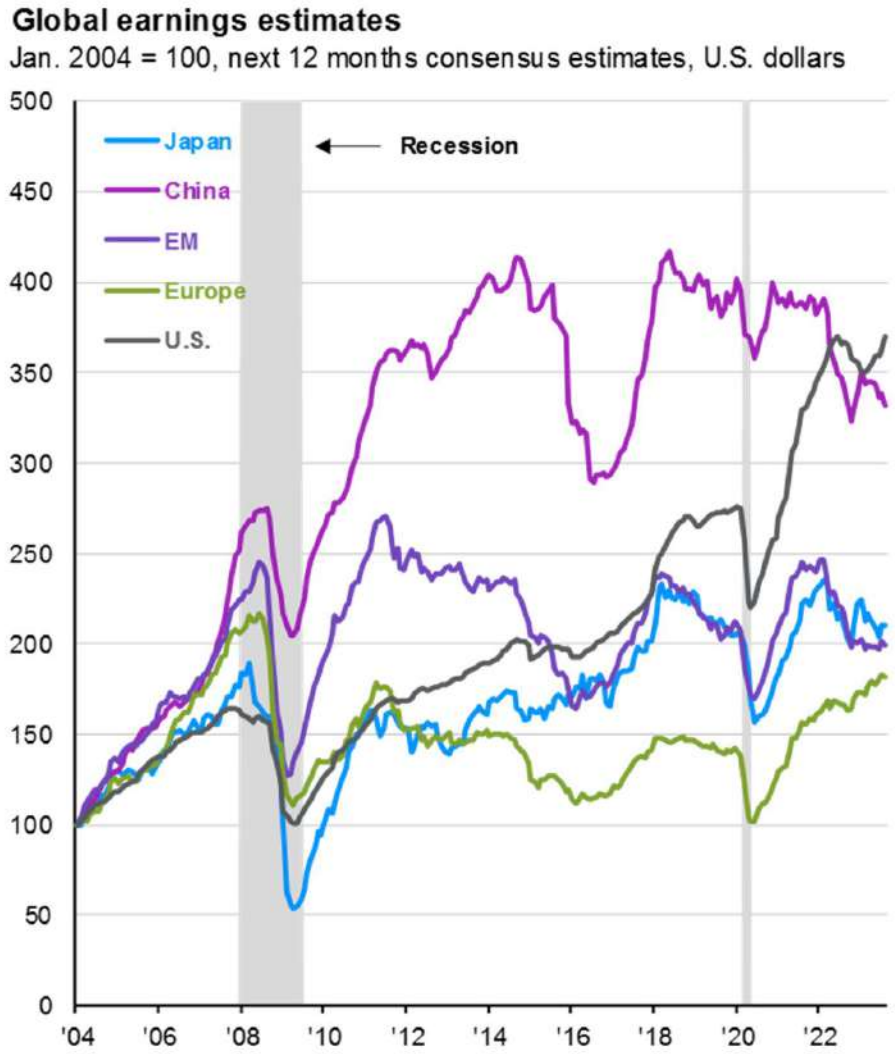
Source: JPM Research
Data as on 31st Oct 2023

Where in International Markets?

- Earning growth in international markets combined with discounted valuations, help make the case for investing in non US Equities.

- However, Relatively Japan Looks most promising compared to Europe, China, or other EMs



Source: JPM Research
Data as on 31st Oct 2023

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Preference stays on Japan

- **Reforms are front-and-center again:** Current the reforms are being led by Tokyo Stock Exchange where it has urged all companies trading below their book value to devise a plan to improve capital efficiency and support their stock price. The scope for improvement is high as 50% of the stocks listed on TOPIX and 26% of stocks in MSCI Japan are currently trading at PB<1. We believe this could be a potential catalyst for structural re-rating of Japanese equities, an issue which has long haunted investors and would add to the tailwinds from ongoing accommodative policy stance.

- **Expect renewed interest from both foreign and domestic investors:** Japanese equities have been seeing renewed interest from foreign investors who have poured in 50.6$bn of money this year, which is the highest foreign institutional flow seen in Japan since 2013. Retail investor ownership has fallen from 40% in 1970s to ~17% now– we expect retail investor participation to also increase as households break-out of ‘saving’ mindset to ‘investing’ mindset led by inflation, wage growth and high savings.

- **Breaking the deflation spiral**- Japan is seeing inflation, which is at 3.3% after hitting a four decade high of 4.3% in Jan 2023. Return of inflation, reasonable growth and low unemployment rate is expected to bring change in consumption and investment patterns in Japan, and we are already seeing early signs of a shift with healthy wage growth, increasing capex and falling savings with steady consumption activity

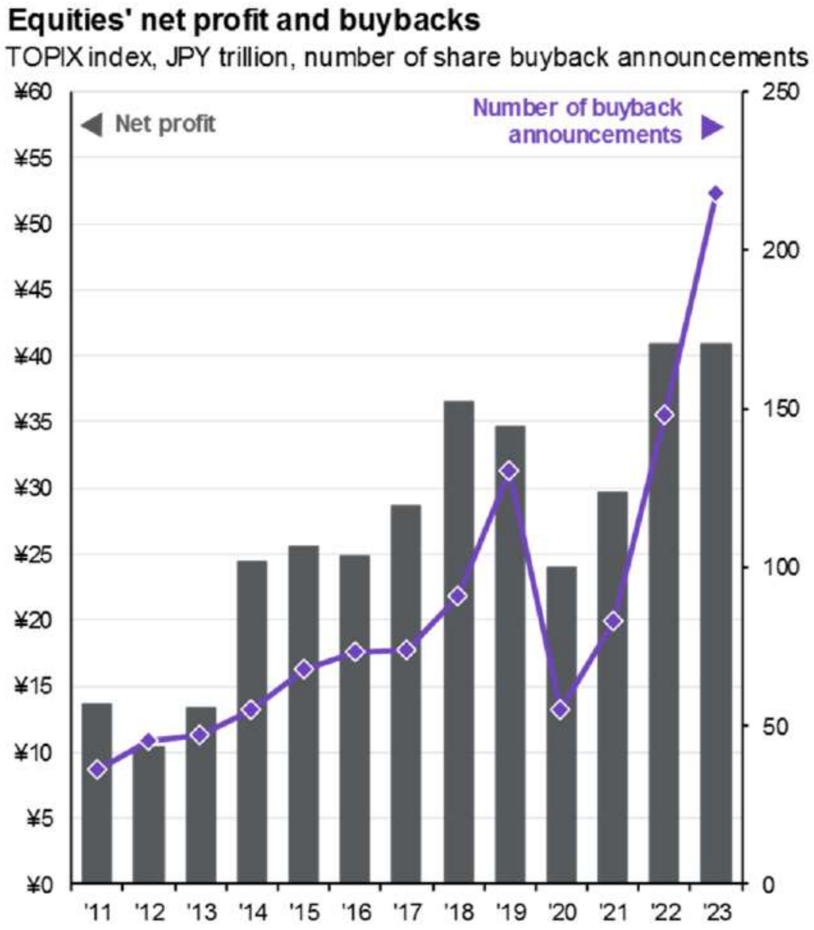
- **Attractive valuations and robust earnings support -**Even though Japan market has delivered strong returns YTD, up 22% in local currency terms, the market still looks attractive on valuations. MSCI Japan is trading at 15.0 x fwd PE vs. US market at 20.6 x PE.

Japan: Economy and markets

Historically, Japan has had weak, ever negative, wage growth and deflation as ; result of slow GDP growth.

More recently, both core inflation anc wage growth have been picking up, whicl suggests more momentum in the economy.

The right hand side shows that share buybacks in Japan have increased meaning companies are more confiden about their future earnings and growth.



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Thank You!