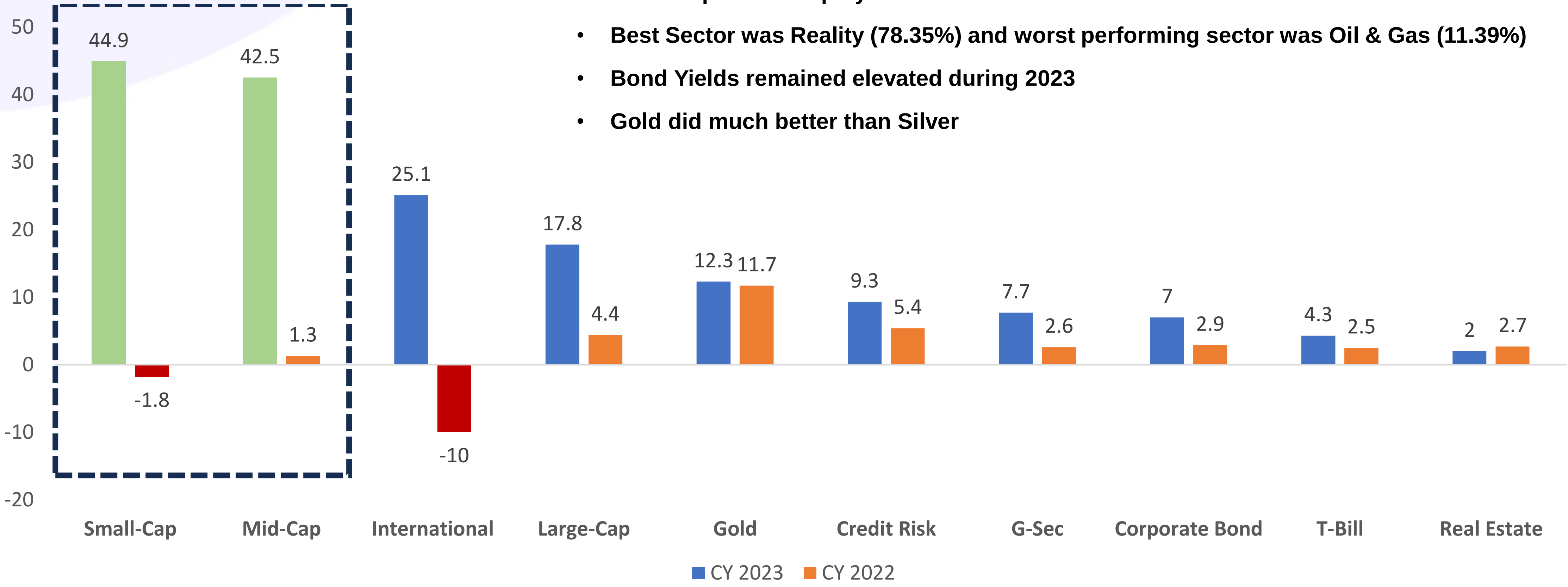
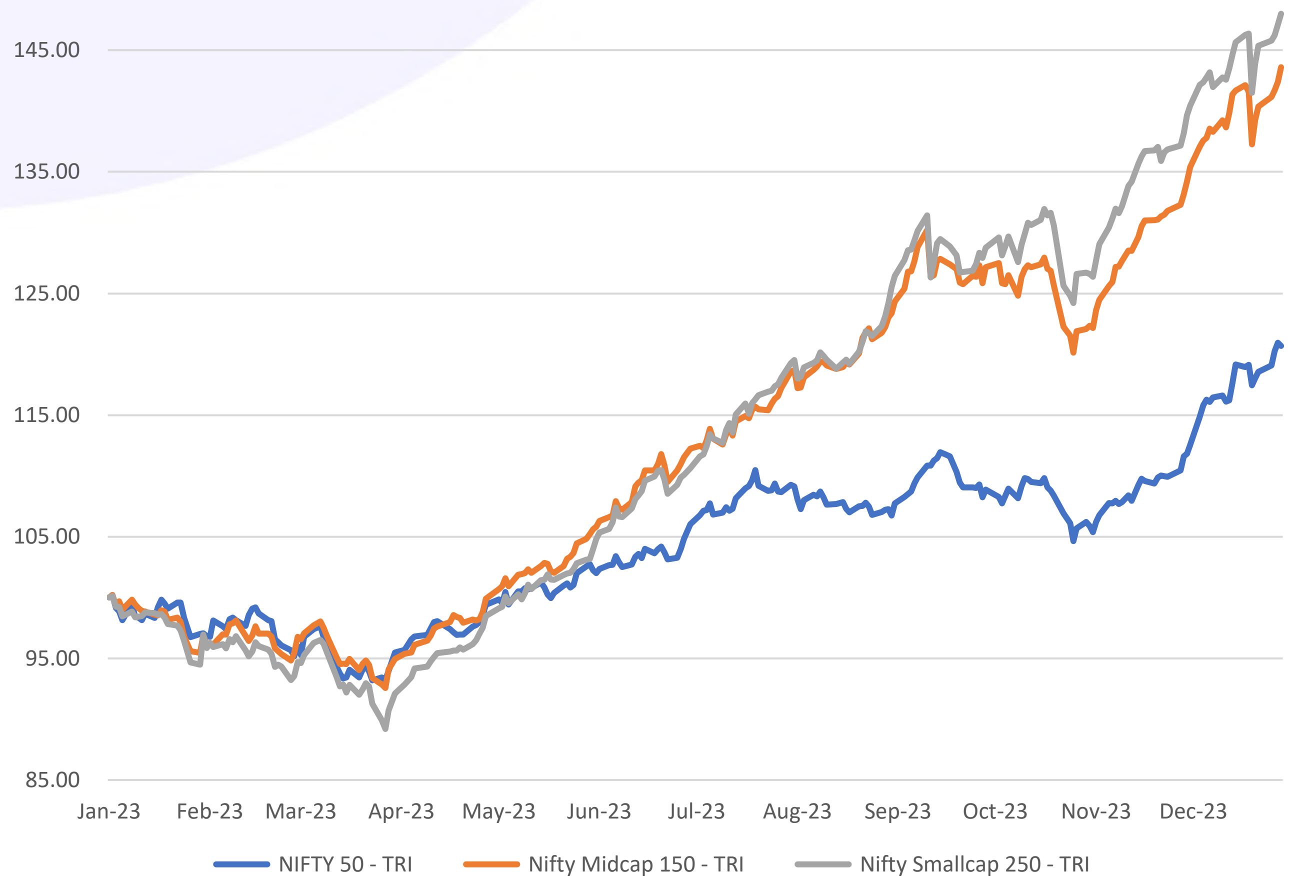
Market Insights
January 2024

2023 Recap

- Small cap led the equity Pack.
- Best Sector was Reality (78.35%) and worst performing sector was Oil & Gas (11.39%)
- Bond Yields remained elevated during 2023
- Gold did much better than Silver



Mid and Small cap Rallied Highest



- Nifty saw small correction in month of October but markets rallied again in November and continued in December crossing 21000 levels
- Midcaps and Smallcaps have significantly outperformed the largercaps in 2023 though Largecap's performed better in last month.
- Microcap Index gave return of **67.4%**
- Smallcap and Midcap Category shot up and saw huge inflows with category average return of **42.7% and 37.31%**

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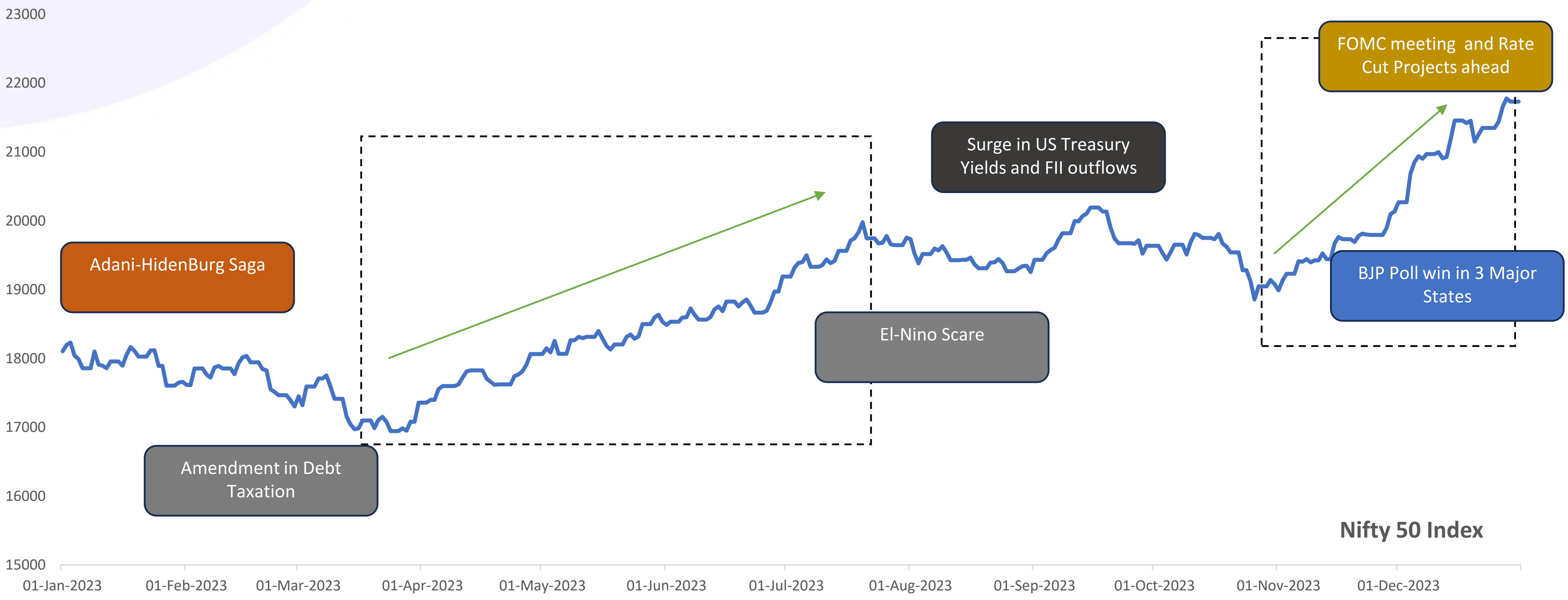
Source: niftyindices.com

2023 - Year was Full of Surprises but markets in upward trajectory



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Surprise was real as most Fund houses predicted something else!

- At the beginning of 2023, BeyondIRR made a summary of annual outlooks provided by Mutual Fund Houses for 2023 and discovered that Mutual Fund Industry and Fund Managers did not seem optimistic about Equity Markets.

- One common observation among the AMCs was the expectation of a debt-focused year.

- Further many AMCs also proposed to increase the duration. The Bond yields remained elevated during complete 2023 as 10 year G-sec yield was 7.33% at beginning of year vs 7.23% now

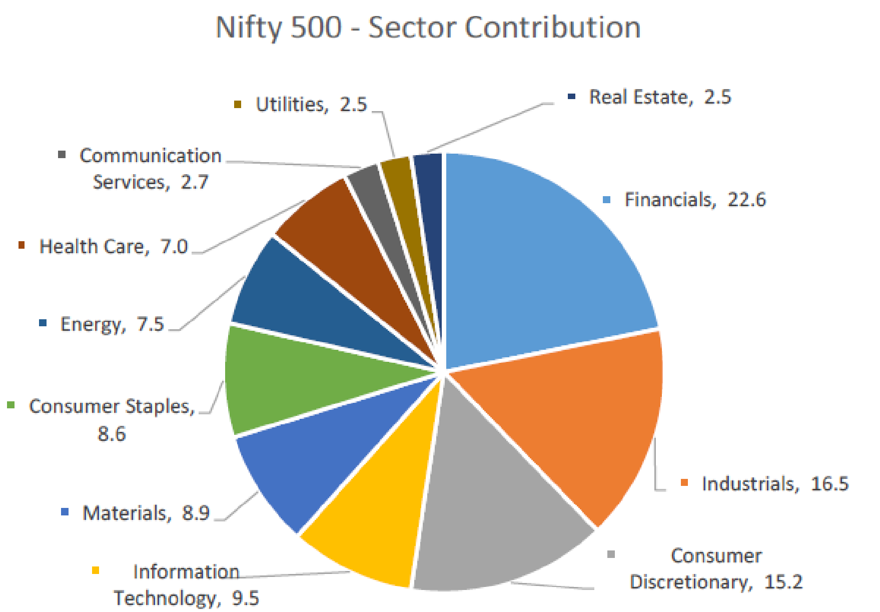
Nifty 500 – Index Contributors

In CY23, Nifty 500 index is up by 26%

Top leaders mentioned in following table contributed to **35%** of the index movement.

Nifty 500					
Top Leaders			Top Laggards		
Name	% Contribution to Index	Price Chg %	Name	% Contribution to Index	Price Chg %
Larsen & Toubro	5.6	69	Adani Total Gas	(2.5)	(74)
ITC	4.1	43	Adani Energy Sol	(1.4)	(61)
Reliance Industr	3.3	12	Adani Enterp.	(0.8)	(25)
NTPC	2.4	96	Adani Green	(0.4)	(18)
Tata Motors	2.3	104	UPL	(0.2)	(17)
ICICI Bank	2.2	11	Rajesh Exports	(0.1)	(48)
TCS	2.2	21	Adani Wilmar	(0.1)	(41)
HDFC Bank	2.0	5	Page Industries	(0.1)	(10)
Bharti Airtel	1.7	26	Aditya Bir. Fas.	(0.1)	(23)
HCL Technologies	1.6	47	ACC	(0.1)	(10)
Titan Company	1.5	44	City Union Bank	(0.1)	(15)
Axis Bank	1.5	18	Atul	(0.1)	(14)
M & M	1.4	39	Avenue Super.	(0.1)	(3)
Power Fin.Corpn.	1.3	266	Crompton Gr. Con	(0.1)	(8)
Coal India	1.3	85	AAVAS Financiers	(0.0)	(18)

Top 5 sectors contributed to **73%** of the index movement. Table clearly reflects diverse sectoral contribution with three consistent leaders.



Sectors as per GICS Classification | Source: Nuvama Alternative & Quantitative Research; Bloomberg

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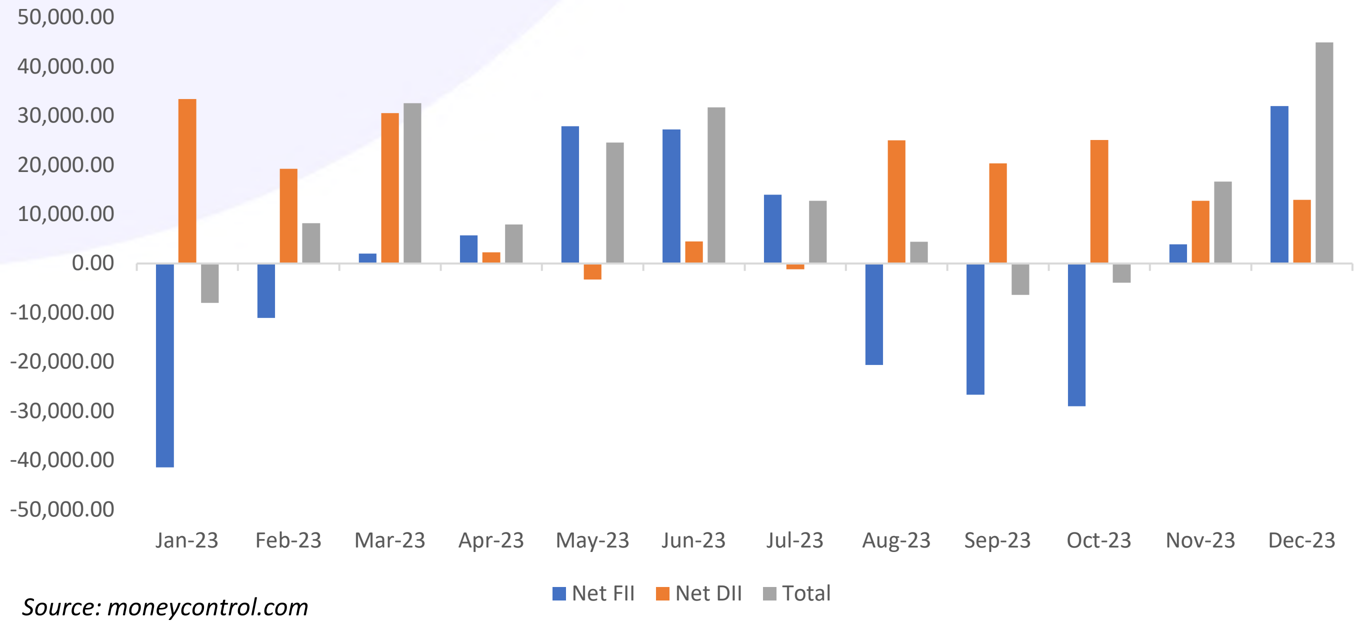
FII were Net sellers in 2023, but Domestic Flows kept the markets High



Source: moneycontrol.com

Net Purchases in Equity MF across the year was more than Rs 1.68 lakh crores

Small and Midcap Funds saw extraordinary Flows across the year

SIP Flows remained all time High and In November 2023 Monthly flows Cross Rs. 17 thousand crore for the first time.

- There was significant selling from FIIs in August to November but December saw Significant Inflows
- Domestic Institutions too were on the sidelines from April to July after buying in first three months of CY2023.

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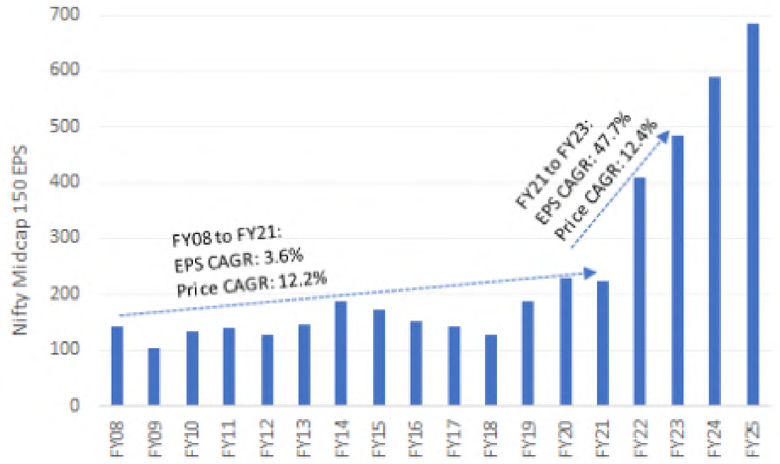
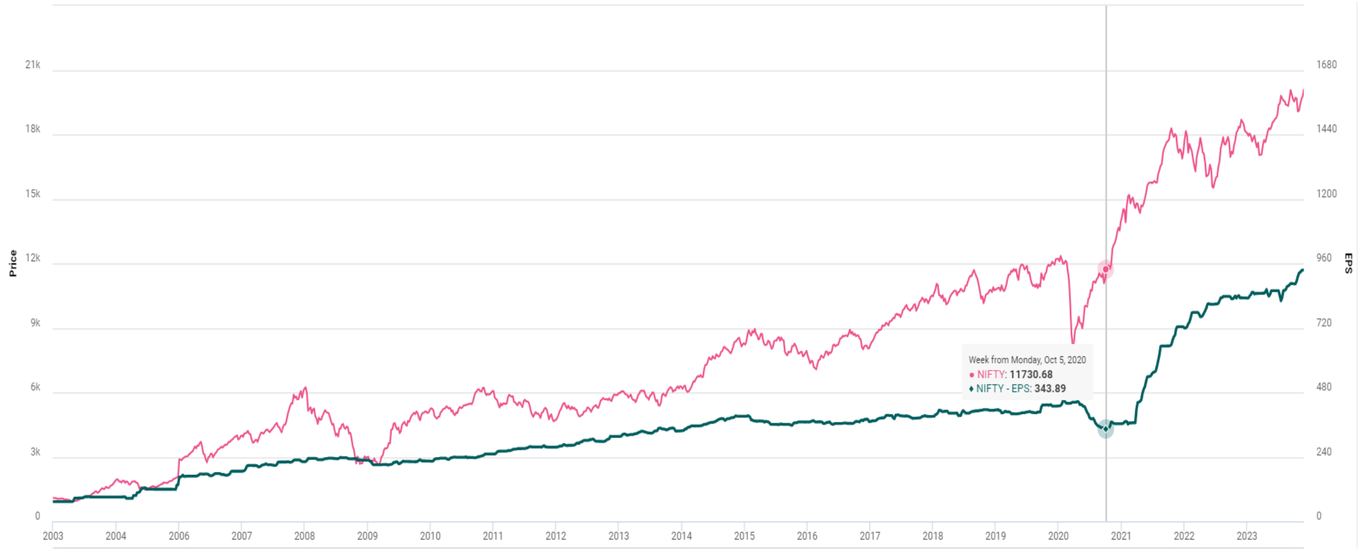
Bull Run Supported by earnings growth

- After a decade of draught in earnings, earnings made a comeback in 2021 in Indian Markets.
- Nifty 50 earnings are almost 2.5x since March lows.
- Last time such earnings growth was seen from 2004-2008 where earnings went up 3-4X during that period.
- Earnings as a % of the GDP are also at two decade high!

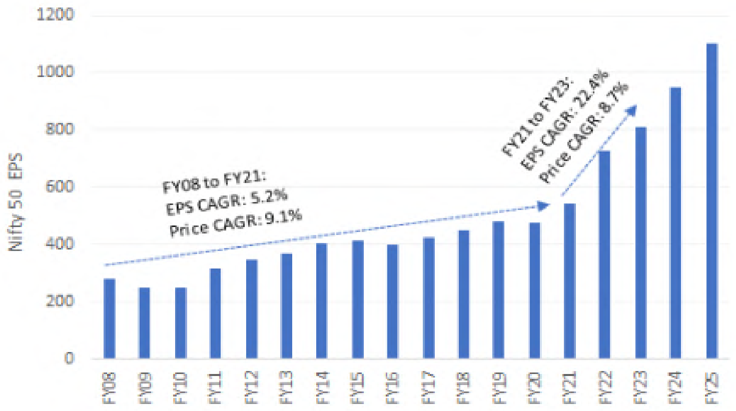
Sharp growth in Midcap earnings during post-covid phase



NIFTY 50 EPS



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



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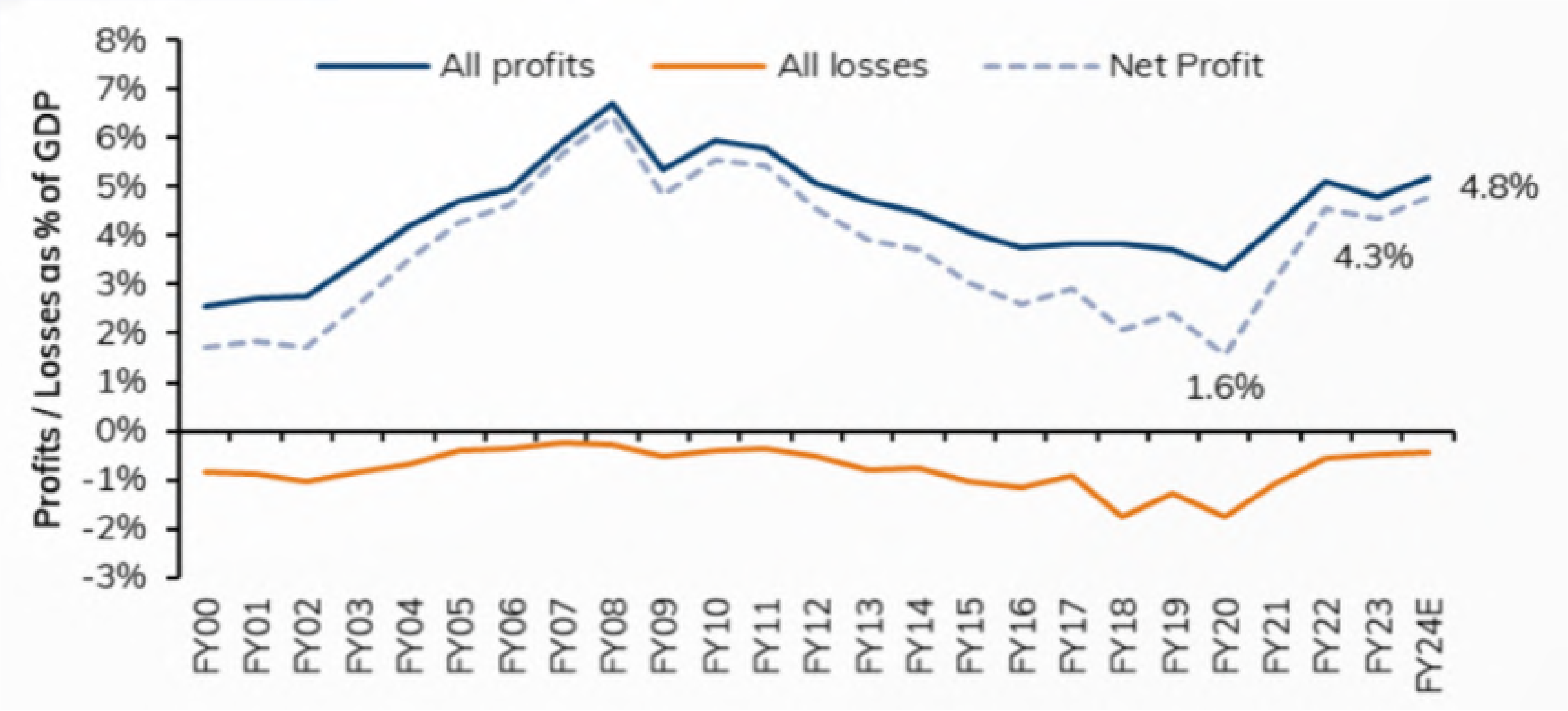
Source: Trendylene, bloomberg

Profit Cycle Rebounds After Two Decades!



Corporate Profits to GDP

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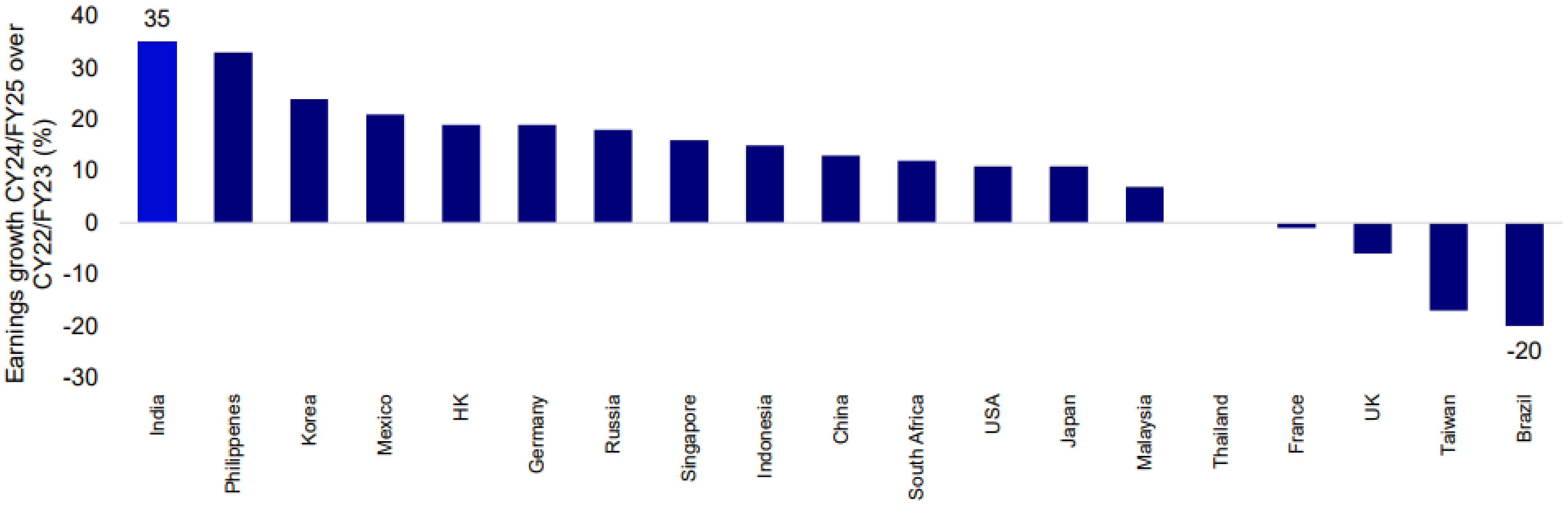
Source: Kotak Mutual Fund

India story remains strong backed by higher earnings growth.

India earnings growth placed better relative to global peers

EPS growth in global markets



Source: Bloomberg, CLSA.

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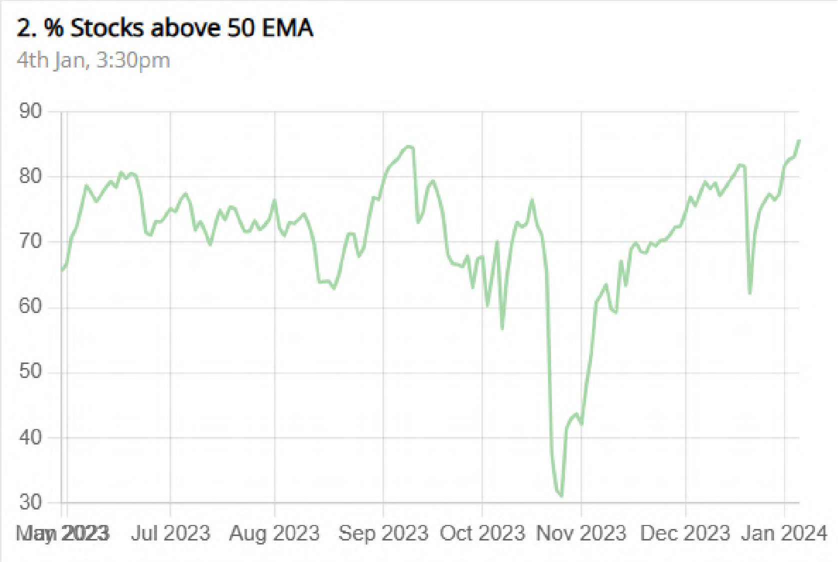
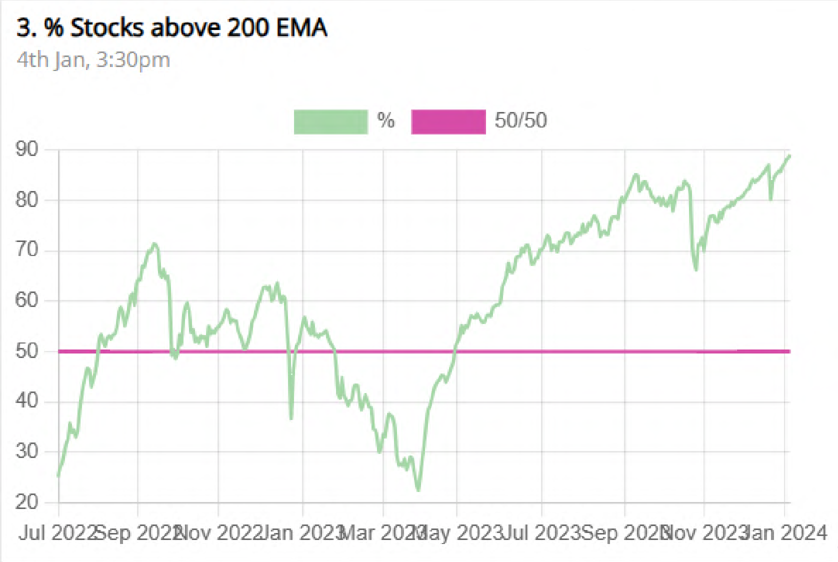
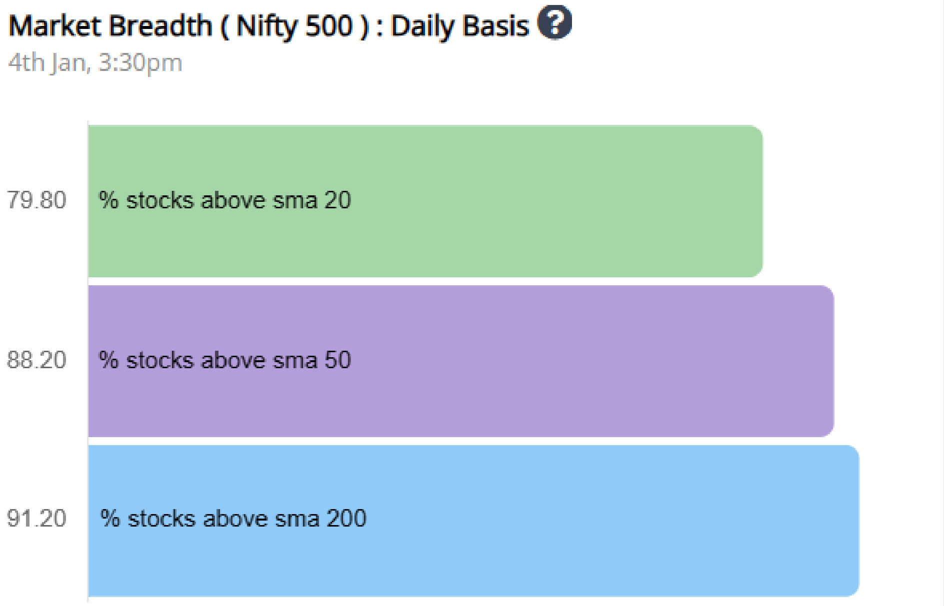
Technical Indicators back on track in the Medium Term







- Nifty 50 is trading above 50 and 200 DMA.
- No of stocks above 50EMA and 200EMA are indicating further momentum in the market.
- Mid cap and Small cap indices also made all time highs in December.
- After crossing 20000 mark in September, Nifty 50 index went through a correction (-5%). Nifty 50 index crossed below 50 DMA on 20 Oct 2023.
- However, there was a strong rally in the market in the November and December with indices MAKING NEW HIGH'S.

Source: Chartink.com

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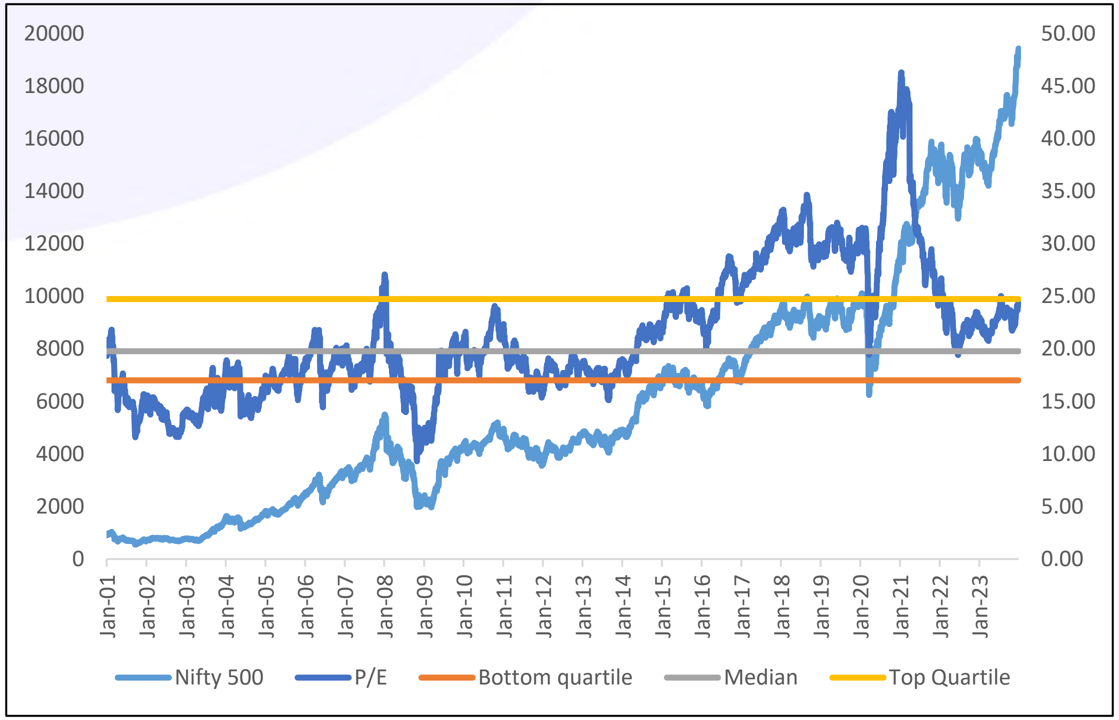
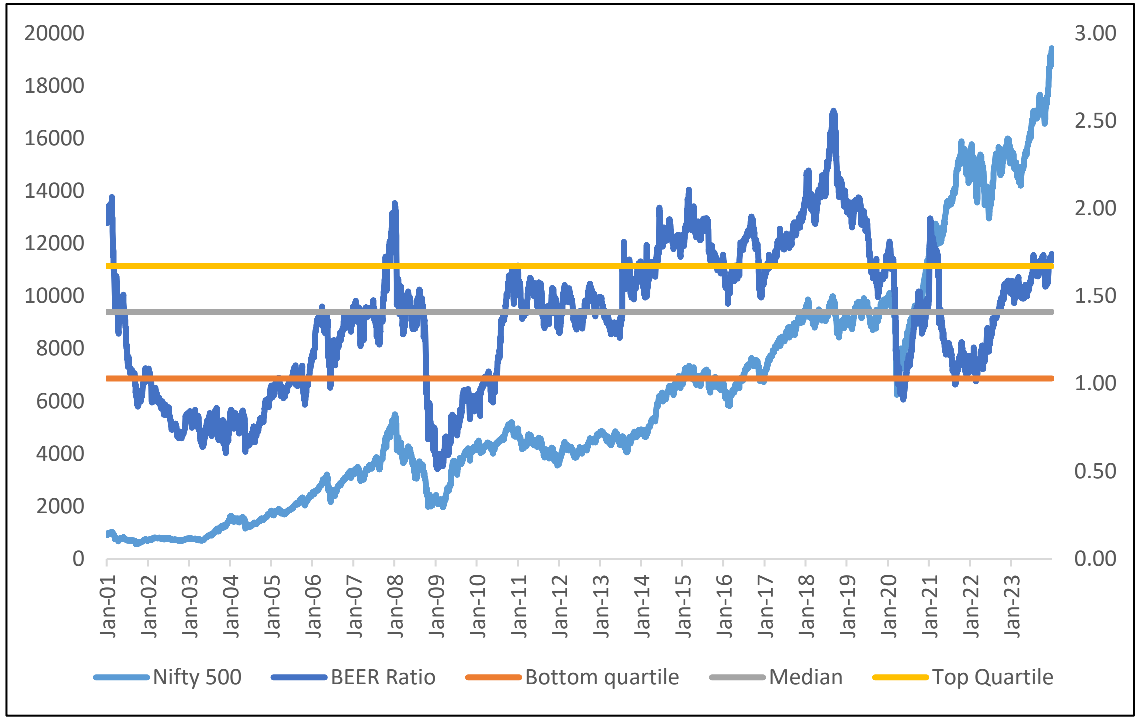
However, Concerns remain on Valuations –near top quartile on PE, BEER Basis





- PE ratio for Nifty 500 as of December 29, 2023, reveals a value of 24.48, positioning us in the 7th decile—just below the top quartile threshold of 24.74. While this places us marginally above the median of 19.8, our assessment suggests a slight overvaluation based on PE criteria.
- With respect to BEER ratio, incorporating Nifty 500 PE values and one-year government securities yields, the ratio as of the same date stands at 1.74. This places us in the 9th decile, surpassing the median of 1.41 and the top quartile cutoff of 1.67. Consequently, our analysis indicates an overvaluation according to the BEER ratio criteria.

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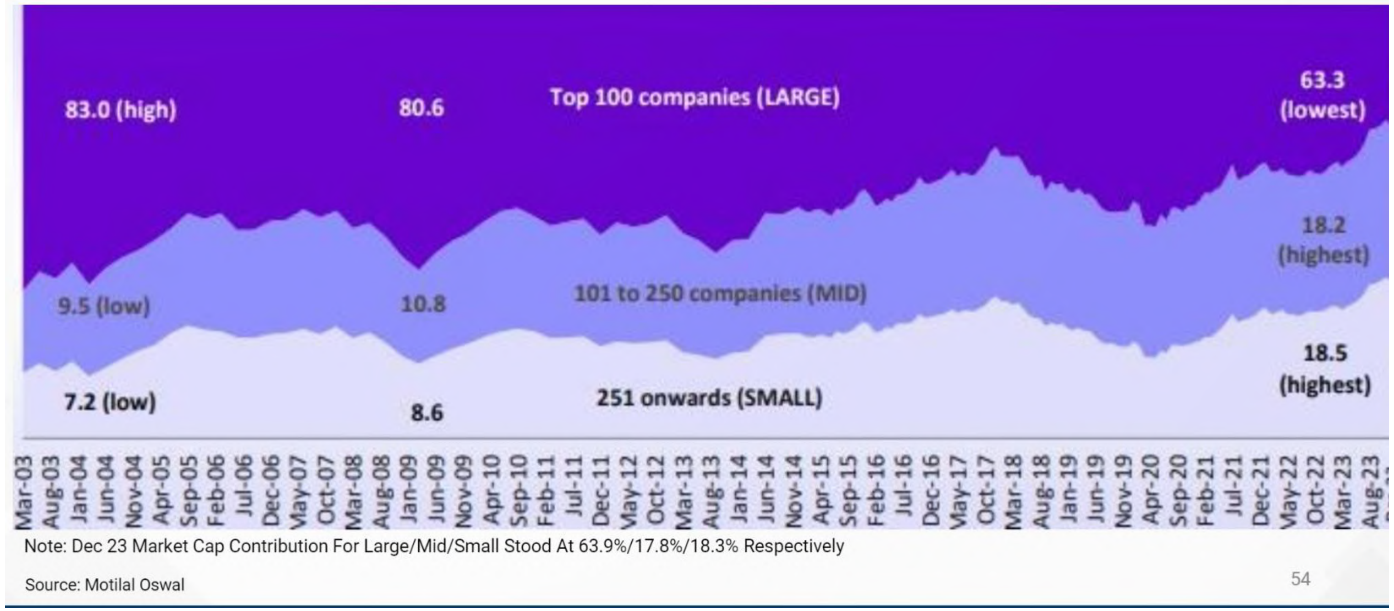
With respect to Mcap, Large caps look attractive

<u>Why Large caps?</u>

- Midcaps have rallied almost 40+% in 2023 and largecaps have rallied 18%, largecap valuations are near historical avg range. In 2024, as the foreign fund inflow returns into emerging markets including India, the probability of largecaps outperforming is much greater.

- 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, it looks like flows are driving the rally in mid and small cap space much faster than from a pure fundamental catch-up.



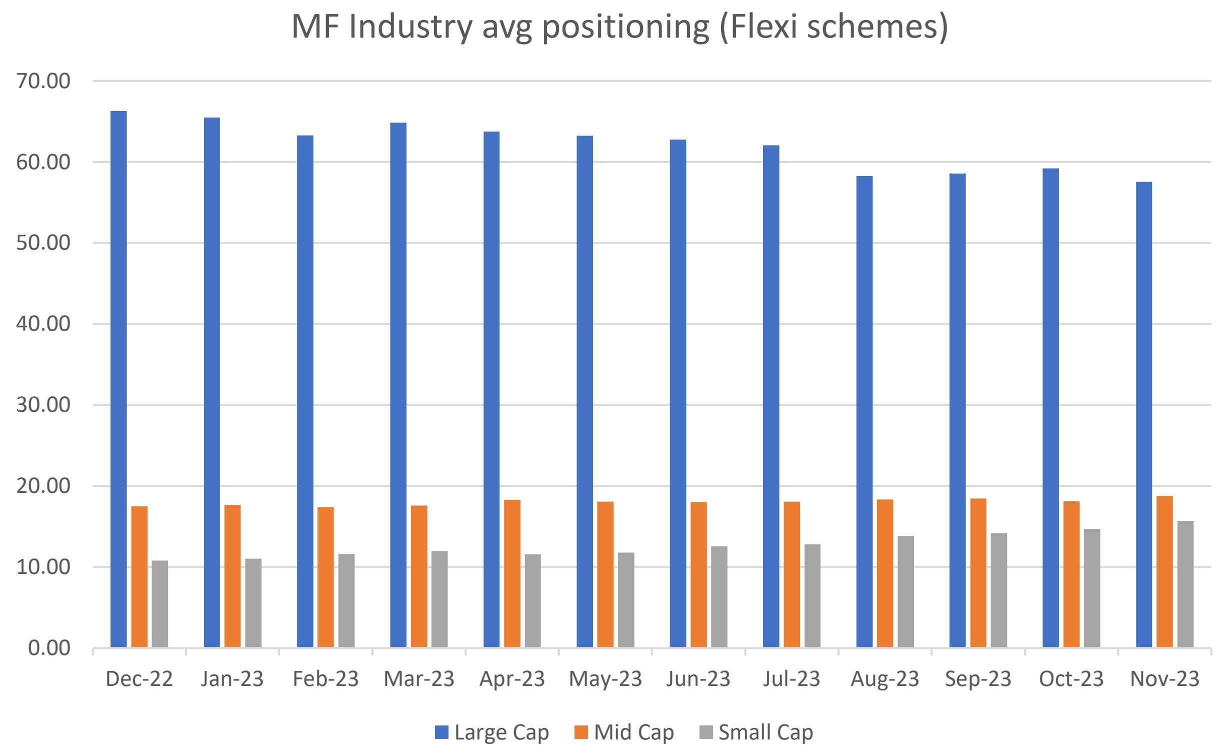
- The market cap share of mid and small caps is near their Dec 17 highs while that of large caps is near its previous low in Mar 2018.

- The sensex to small cap ratio has also reached near 2008 levels indicating outperformance of larges over smallcaps

However, MF Industry Bullish on Mid and small cap

		Current	NSE 500	Industry last 12 m Avg	Last 12 m min	Last 12 m max
Large	UW	57.54	73.10	62.11	57.54	66.30
Mid	OW	18.76	17.23	18.01	17.38	18.76
small	OW	15.66	9.50	12.70	10.77	15.66

- MF industry is bullish on smallcaps and midcaps over large caps. As seen in the Mf Industry's allocation of flexi cap category.
- The allocation to mid-caps is above the 12m average, highest in last 12 months while the allocation to large caps is lower than last 12-month average.
- 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*

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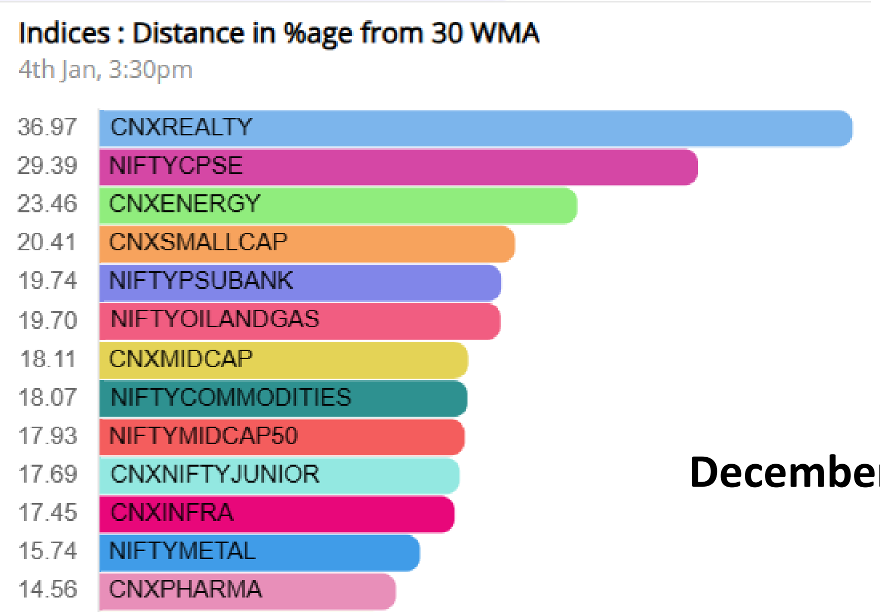
Top AMC positioning

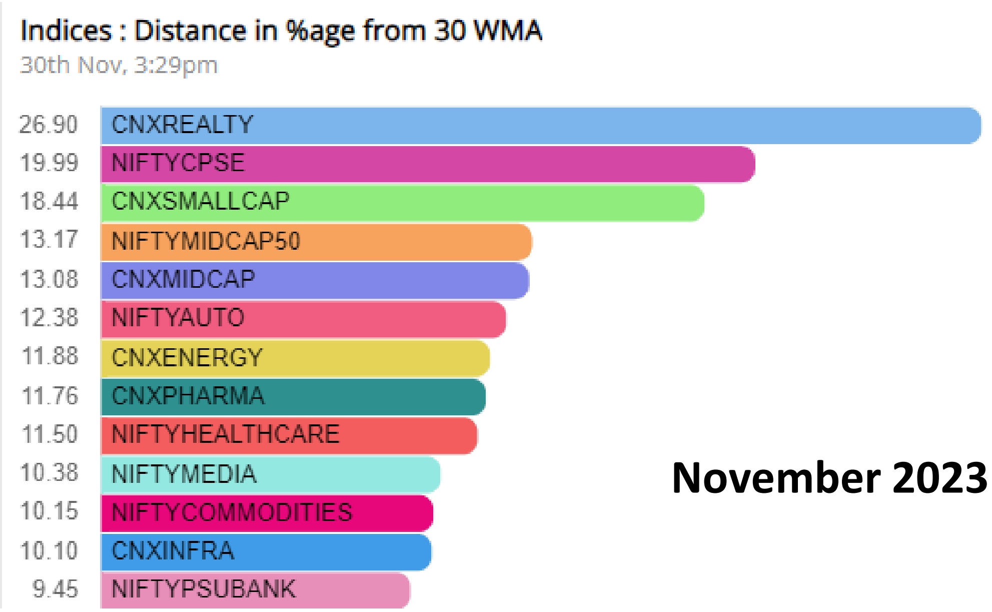
Nov-23	Large Cap	Mid Cap	Small Cap
MF Industry Average	57.54	18.76	15.66
Motilal Oswal Nse 500 ETF	73.10	17.23	9.50
Parag Parikh Flexi Cap Fund-Reg(G)	55.55	6.38	8.22
Quant Flexi Cap Fund(G)	33.62	13.30	19.79
ICICI Pru Flexicap Fund(G)	75.03	8.87	8.96
Kotak Flexicap Fund(G)	72.61	24.35	1.75

Source: ACE MF

Sectorally – Realty best performer!



December 2023



November 2023

- Chart represents indices up from their respective 30 week moving average.
- The momentum in Oil & Gas, Energy, Public Sector Enterprises (PSE’s) picked up in December
- Nifty Realty has been the best performing index in the market.
- The momentum in Auto has slowed down a bit in the short term. But the uptrend is still intact.

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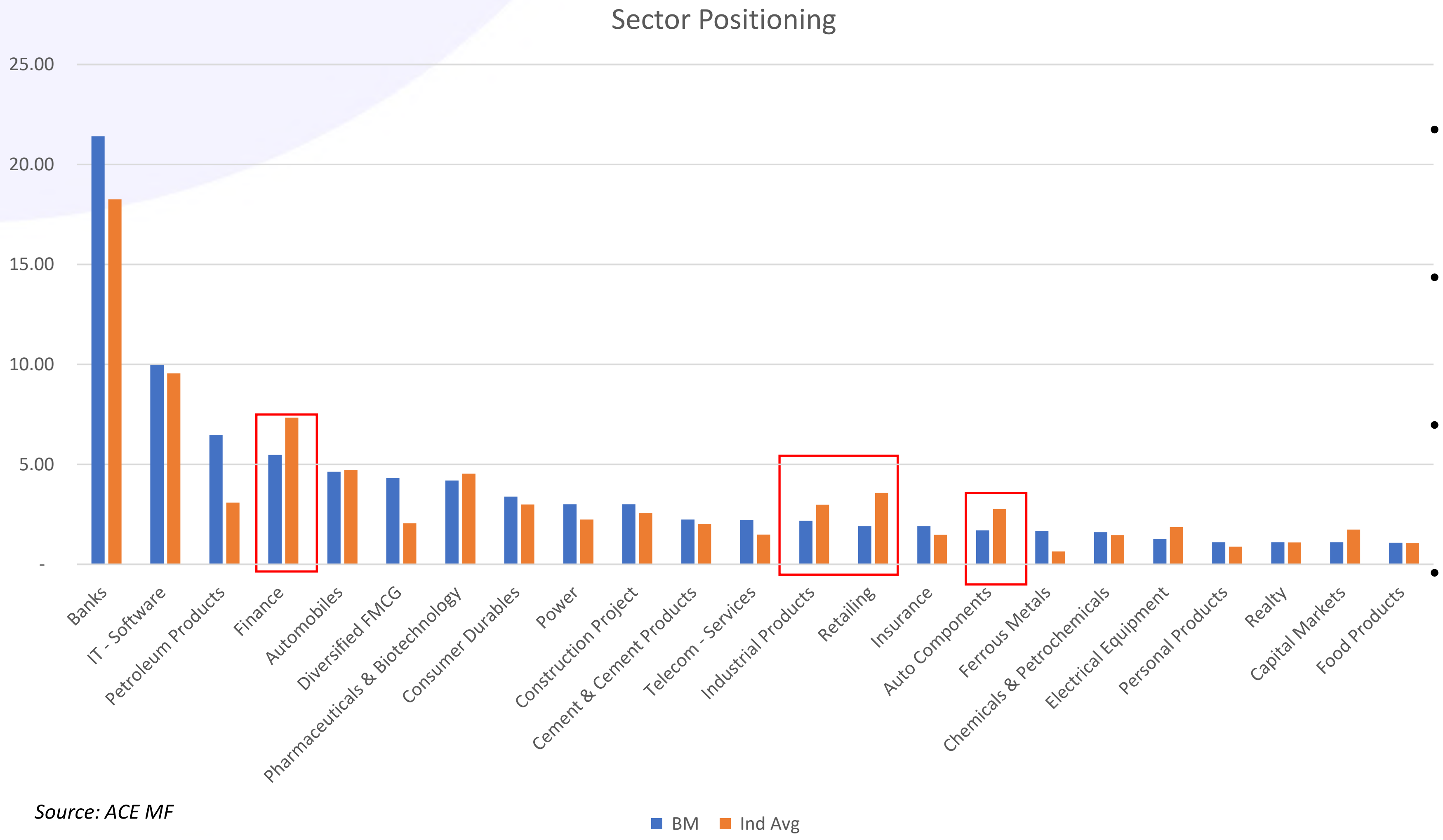
Source: niftyindices.com

Industry placing bets on Finance, Auto components and Industrials



Source: ACE MF

- 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.

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MF Industry positioning on stocks

Large cap

Overweight	Active Weight
Sun Pharmaceutical Industries Ltd.	1.07
NTPC Ltd.	0.95
Maruti Suzuki India Ltd.	0.89
ICICI Bank Ltd.	0.87
JIO Financial Services Ltd.	0.64

Underweight	Active Weight
HDFC Bank Ltd.	-3.13
Reliance Industries Ltd.	-2.50
Tata Consultancy Services Ltd.	-1.40
Asian Paints Ltd.	-1.05
Hindustan Unilever Ltd.	-1.00

Mid Cap

Overweight	Active Weight
Trent Ltd.	1.51
TVS Motor Company Ltd.	1.51
Cholamandalam Investment and Finance Company Ltd.	1.10
Clearing Corporation Of India Ltd.	0.97
Bharat Electronics Ltd.	0.94

Underweight	Active Weight
Yes Bank Ltd.	-1.42
Adani Power Ltd.	-1.26
AU Small Finance Bank Ltd.	-1.12
Tata Elxsi Ltd.	-1.04
FSN E-Commerce Ventures Ltd.	-0.92

Small Cap

Overweight	Active Weight
Carborundum Universal Ltd.	0.97
Clearing Corporation Of India Ltd.	0.97
KPIT Technologies Ltd.	0.63
K.P.R. Mill Ltd.	0.51
Persistent Systems Ltd.	0.47

Underweight	Active Weight
Suzlon Energy Ltd.	-2.96
BSE Ltd.	-1.79
Glenmark Pharmaceuticals Ltd.	-0.88
Angel One Ltd.	-0.82
RBL Bank Ltd.	-0.81

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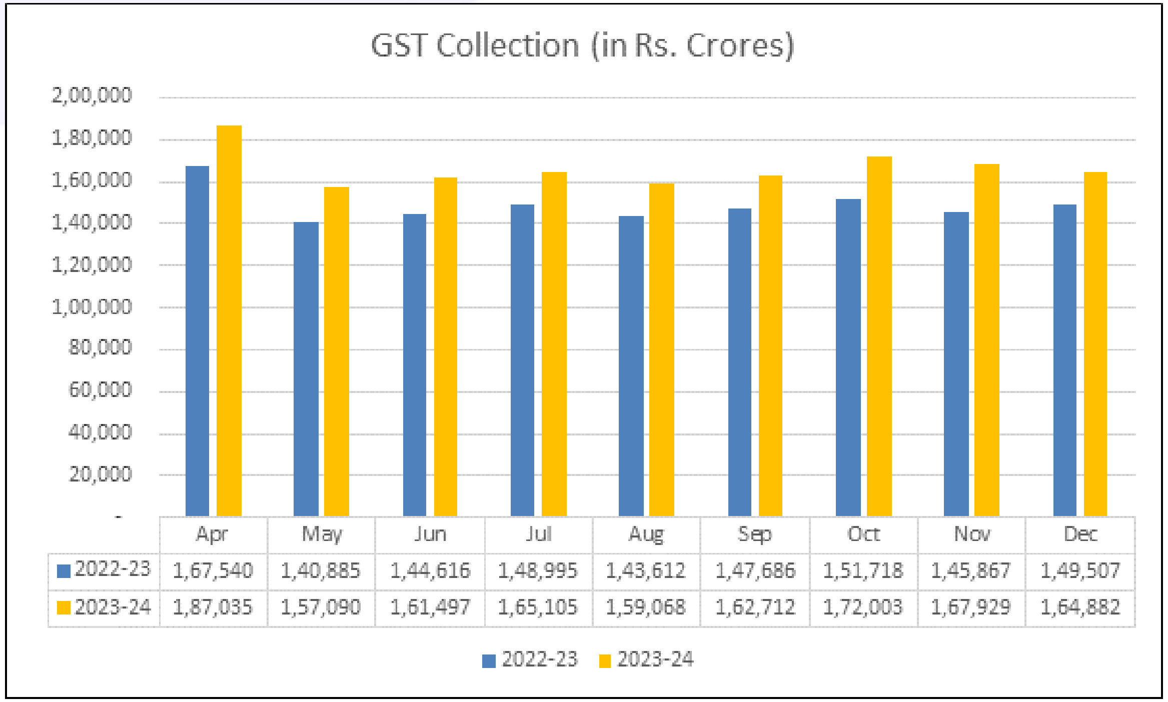
Source: ACE MF

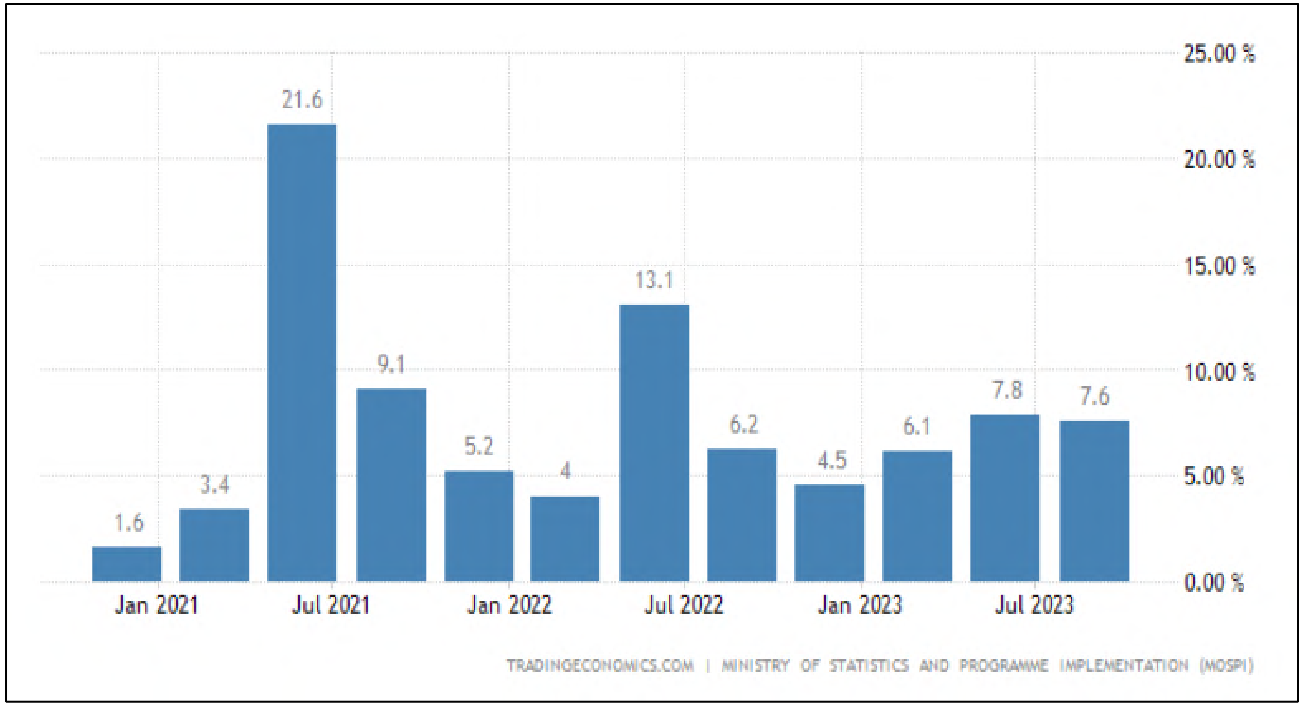
Strong Macro Picture!

GST Collections (Rs Crore)



	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2022-23	1,67,540	1,40,885	1,44,616	1,48,995	1,43,612	1,47,686	1,51,718	1,45,867	1,49,507
2023-24	1,87,035	1,57,090	1,61,497	1,65,105	1,59,068	1,62,712	1,72,003	1,67,929	1,64,882

GDP Growth YOY



Source: pib.gov.in

Source: Trading Economics

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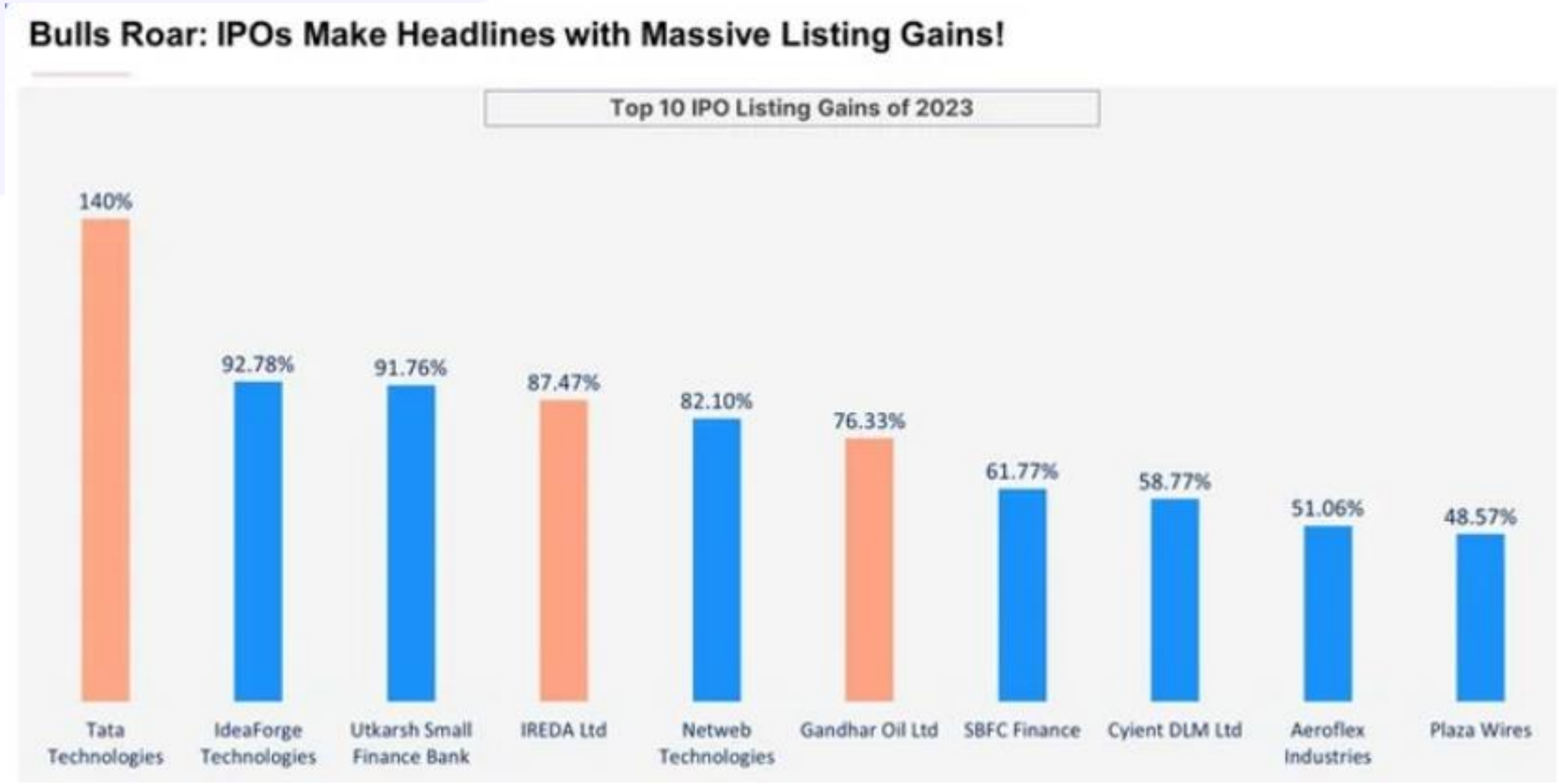
IPO's Making Headlines with Massive Listing Gains



- The recent listings of Tata Tech, IREDA Ltd and Gandhar Oil ltd proved to be a blockbuster listing.
- This Calendar Year has been a fantastic year for IPO investors, with its top 10 listing IPOs reporting an average listing gain of 83.2%.

Source: Samco Securities

Equity Outlook – Neutral on Equities, Bullish on Large cap

- Indian economy has been very resilient last couple of years despite the growing challenges faced by the world. The 7.6% print for GDP growth reported for the last quarter has only reinforced the fact that India should be the fastest growing large economy in the world for the next few years.
- The strong win for the ruling party in the just concluded state elections has also reinforced the views that there will be continuity of the Modi government for the third term in the elections to be held in 2024. Corporate earnings have trended better than expected, providing fundamental support to the markets.
- However, markets have run up sharply from October lows and we might see some consolidation in the coming months. Hence, we are Neutral on Indian Equities.
- Market cap – From market cap allocation perspective, we prefer a gradual shift from midcap to largecap space. 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 analyzed the MF Mcap positioning of flexicap funds and largecaps are near the 12 months low allocation, so MF industry is overweight on mid and small-caps. However, considering the recent comments of fund managers, we expect this picture to change with time.

Fixed Income Outlook

Key Global Trends Visible

Inflation is easing, from the post-war, post-sanction peak of 2022.

Rates have been hiked all over the world, except China and Japan

The 'language' and 'message' of central banks all over the world is turning soft, except Japan

Market is pricing in rate cuts in 2024, particularly from two major economic blocks, US and Euro-zone.

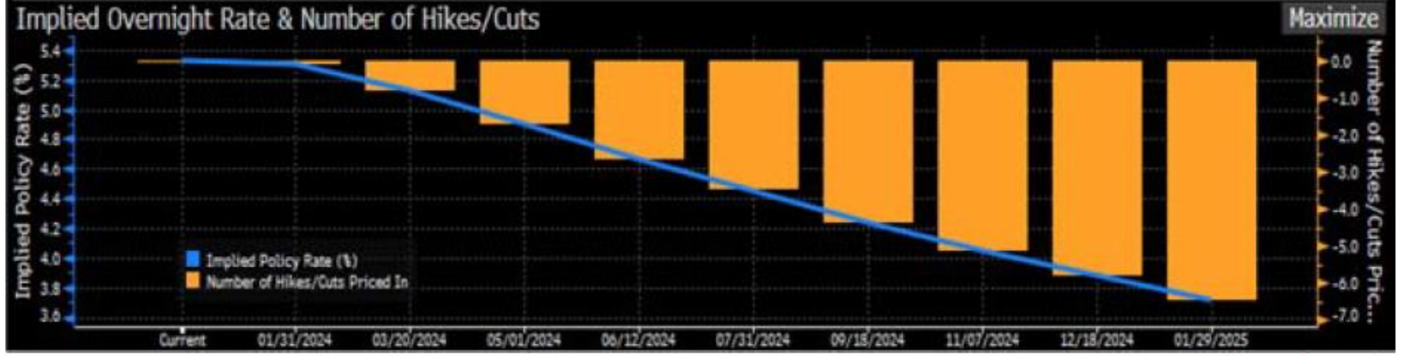
Growth is a challenge, expected to be muted in 2024. This would lead to expectation of softening interest rates 2024.

Market view on US Fed Rate

The implied Fed rate for the meeting on 31 January 2024 is 5.3%, that on 20 March is 5.12% and for the meeting on 1 May it drops further to 4.9%.

Region: United States »		Instrument: Fed Funds Futures »	
Target Rate	5.50	Pricing Date	12/18/2023
Effective Rate	5.33	Cur. Imp. O/N Rate	5.328

Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
01/31/2024	-0.100	-10.0%	-0.025	5.302	0.250
03/20/2024	-0.826	-72.6%	-0.207	5.121	0.250
05/01/2024	-1.729	-90.3%	-0.432	4.895	0.250
06/12/2024	-2.667	-93.8%	-0.667	4.661	0.250
07/31/2024	-3.490	-82.3%	-0.873	4.455	0.250
09/18/2024	-4.368	-87.8%	-1.092	4.236	0.250
11/07/2024	-5.127	-75.9%	-1.282	4.046	0.250
12/18/2024	-5.793	-66.7%	-1.448	3.879	0.250
01/29/2025	-6.460	-66.7%	-1.615	3.713	0.250



(Source: Bloomberg)

Global growth momentum Slowing

IMF projections - global growth

Advanced economies are expected to grow at 1.5% in 2023, slower than 2.6% in 2022, projected to slow down further to 1.4% in 2024.

	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

(Source: https://www.imf.org/en/Publications/WEO/Issues/2023/10/10/world-economic-outlook-october-2023)

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India’s 10-year level is 7.23%, which shows the relative attractiveness, from the perspective of FPIs.

The inclusion in JP Morgan Emerging Market Bond Index is a positive from the perspective of FPIs looking at Indian fixed income investments. Though the actual inclusion will start from June 2024, it leads to positive vibes and enhances the comfort factor of FPIs about India.

FPIs’ ₹12,399 cr bet on debt this month highest in over 2 yrs

Foreign inflows of ₹47,105 crore into debt in CY23 at 6-yr high

ANJALI KUMARI
Mumbai, 27 November

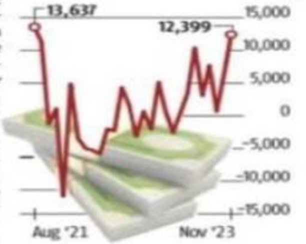
Foreign portfolio investments in the domestic debt market hit a 27-month high in November on the back of the announcement of India's inclusion in JP Morgan's widely tracked Government Bond Index-Emerging Markets (GBI-EM) from June next year.

FPI inflows in debt stood at ₹12,399 crore as on November 26, against ₹6,382 crore in October, according to data from the National Securities Depository Limited (NSDL).

"The reason is bond inclusion," explained Vikas Goel.

ON THE RISE

Net monthly FPI investment in debt (₹crore)



Data until November 26, 2023

S&P raises India's FY24 GDP growth forecast by 40 bps

S&P Global Ratings has raised India's gross domestic product growth forecast for the current financial year by 0.4 percentage points to 6.4 per cent, saying robust domestic momentum seems to have offset headwinds from high food inflation and weak exports. 4

US pension fund

(Source: Business Standard)

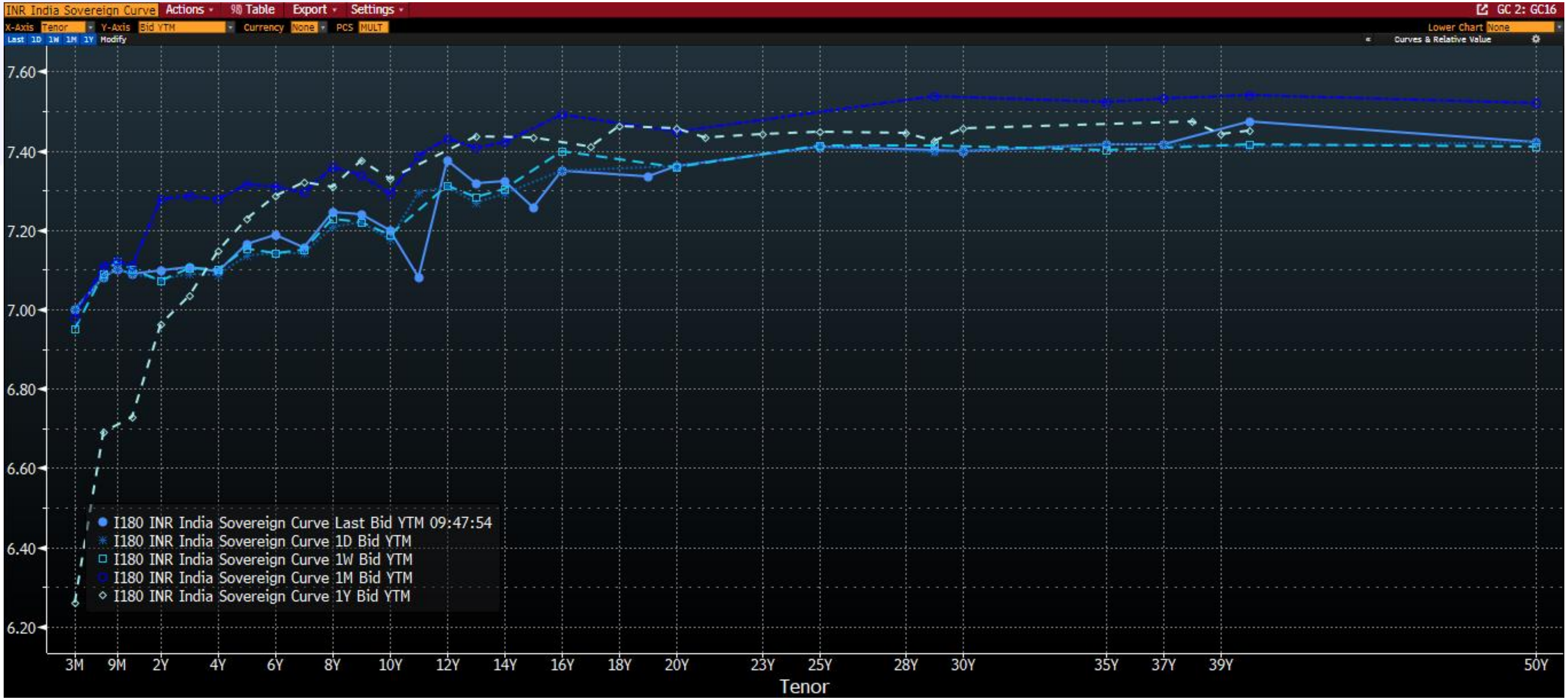
Government bond yields: Asia-Pac

1) Philippines	RPGB 3 5/8 33	C		
2) Japan	JGB 0.8 09/33	100.440	+0.112	0.752
3) Taiwan	TGB1 1/4 10/33	88.052	+0.000	1.305
4) China	CGB2.52 08/33	98.538	+0.102	2.691
5) Singapore	SIGB 3 3/8 33	102.940	+0.023	3.024
6) Thailand	THAIGB3.35 33	102.465	+0.233	3.050
7) South Korea	KTB3 1/4 06/33	97.630	+0.000	3.738
8) Malaysia	MGS 4.642 33	106.570	+0.070	3.840
9) Australia	ACGB 3 11/33	88.095c	+0.516	4.494
10) New Zealand	NZGB 3 1/2 33	89.373c	+0.515	4.929
11) Philippines (US...	PHILIP5 07/33	98.129	+0.458	5.249
12) Indonesia (USD)	INDON 8 1/2 35	126.012	+0.534	5.488
13) Indonesia	INDOGB7 02/33	102.406	+0.209	6.645
14) India	IGB7.18 08/33	99.488	+0.128	7.252
15) Pakistan	PAKGB14 11/33	92.696	+0.000	15.457

(Source: Bloomberg)

Fixed Income – Update

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



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Fixed Income Outlook

- The year 2024 is set to be the year of rate cuts, driven by easing inflation and challenges to growth and servicing the piling stock of global debt.
- There would be opportunities for capturing capital gains as the market starts pricing in the expected policy rate easing. Hence, it is advisable to lock in to higher yields available currently to capture the emerging capital gains potential.
- 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.

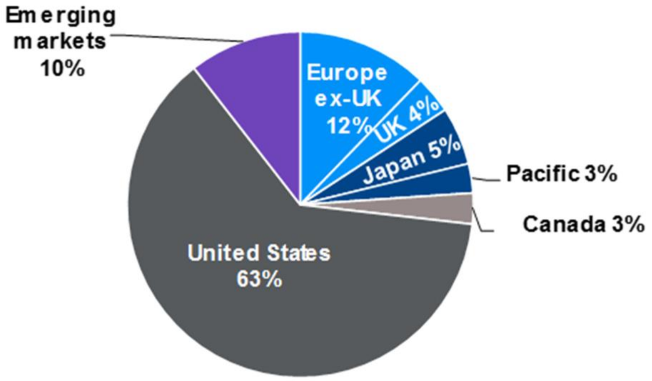
Global Outlook

Global Equity Market Performance

Returns	2023		2022		15-years	
	Local	USD	Local	USD	Ann.	Beta
Regions						
U.S. (S&P 500)	-	26.3	-	-18.1	14.0	0.9
AC World ex-U.S.	14.7	16.2	-9.2	-15.6	7.2	1.0
EAFE	16.8	18.9	-6.5	-14.0	7.4	1.0
Europe ex-UK	17.3	22.7	-12.2	-17.3	8.0	1.2
Emerging markets	10.3	10.3	-15.2	-19.7	6.9	1.0
Selected Countries						
Japan	29.0	20.8	-4.1	-16.3	6.2	0.7
United Kingdom	7.7	14.1	7.2	-4.8	6.9	1.0
France	18.1	22.3	-6.9	-12.7	8.1	1.2
Canada	13.3	16.4	-5.8	-12.2	8.3	1.1
Germany	19.8	24.0	-16.5	-21.6	6.6	1.3
China	-10.6	-11.0	-20.6	-21.8	4.6	0.9
Taiwan	31.1	31.3	-21.3	-29.1	14.2	1.0
India	22.0	21.3	3.0	-7.5	11.1	1.0
Brazil	22.7	33.4	8.6	14.6	5.4	1.3

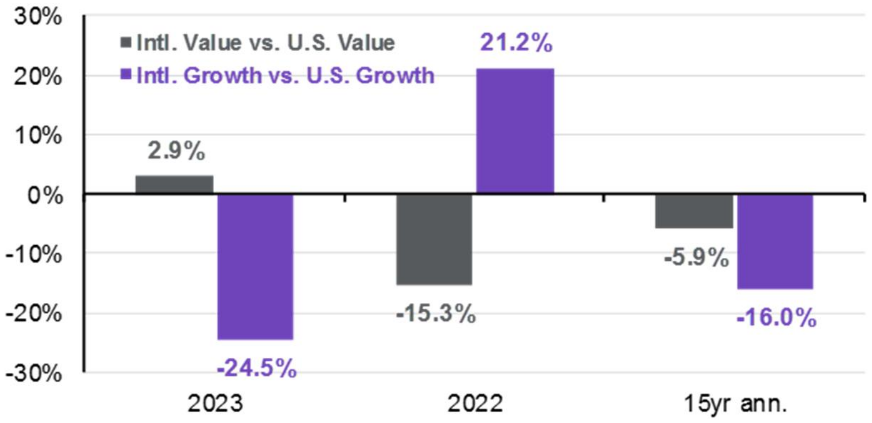
Weights in MSCI All Country World Index

% global market capitalization, float adjusted



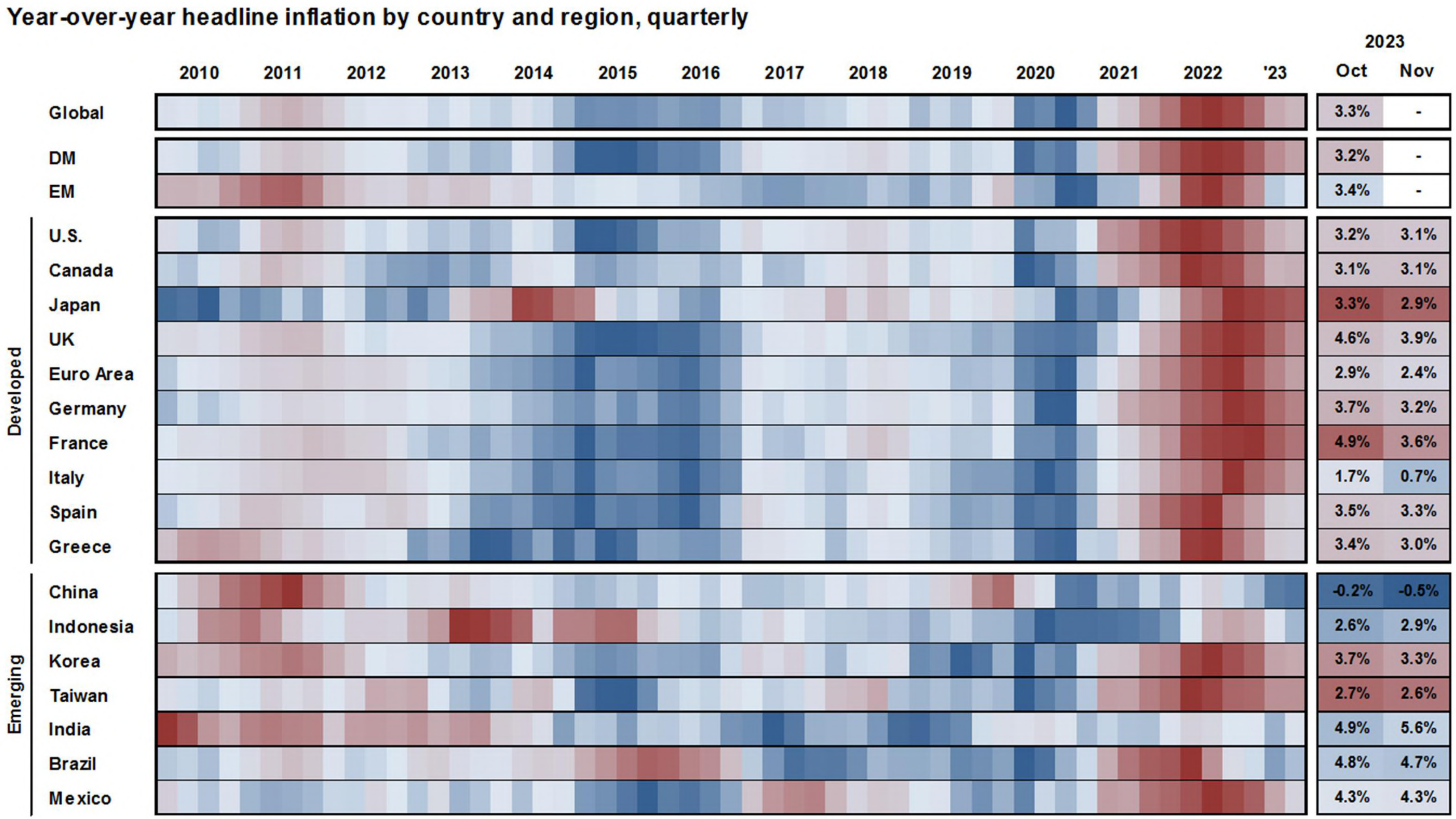
Global Value and Growth returns

Monthly, USD, total return



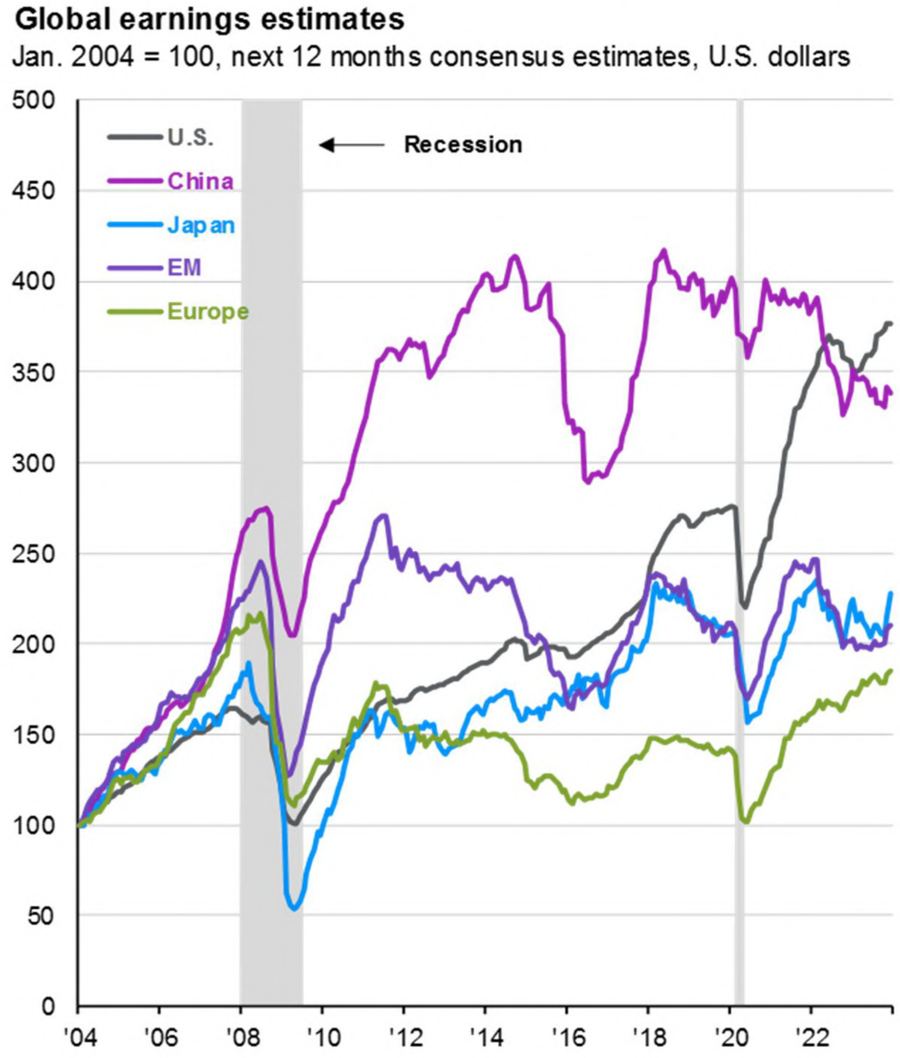
Source: JPM Research

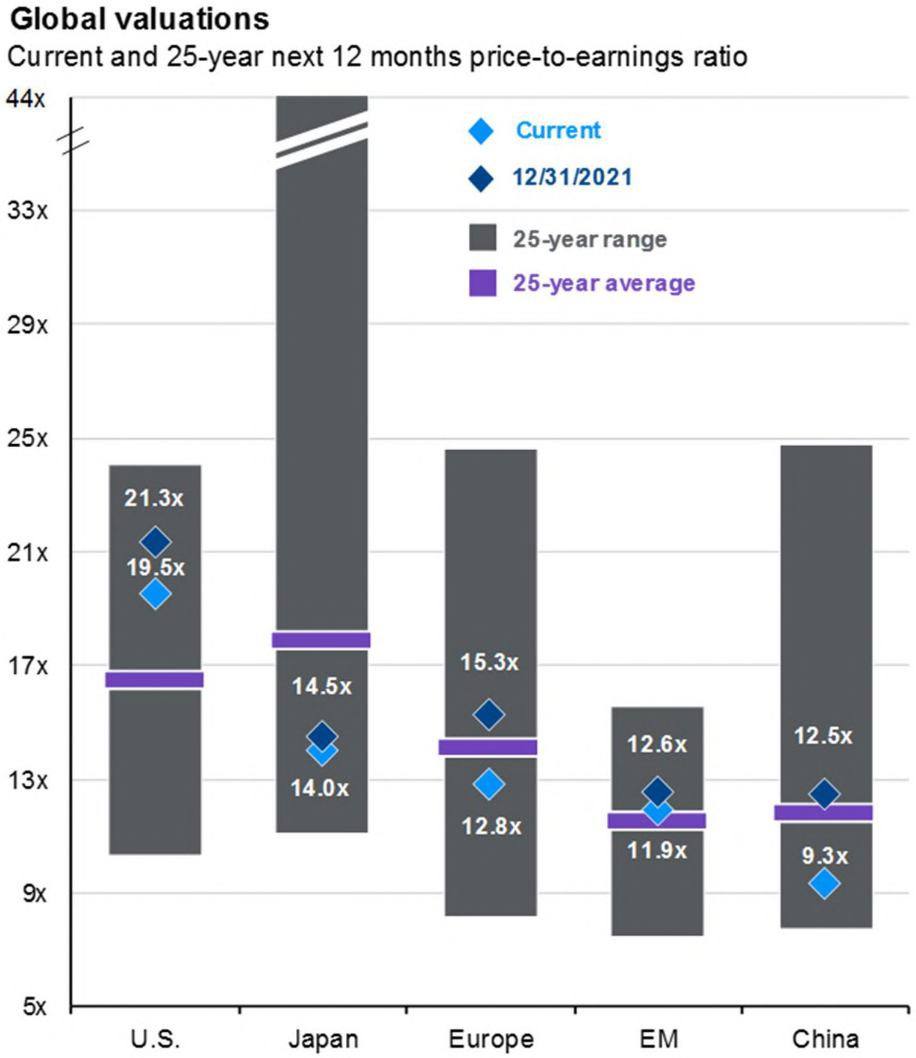
Inflation cooling down across Globe



Source: JPM Research

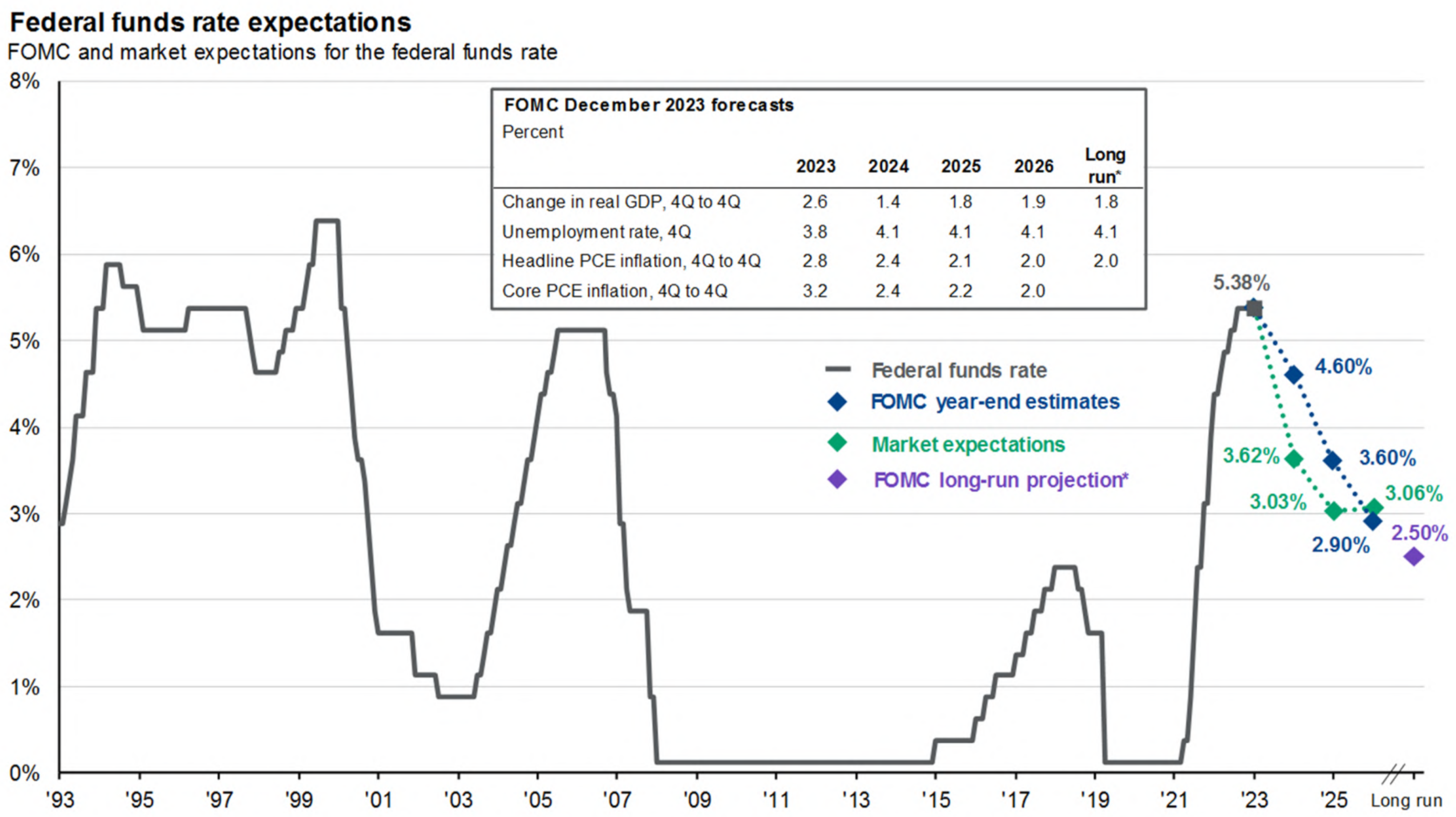
US looks promising from here on & Japan may continue to do well





POLO Wealth

Why US? Rate Cuts ahead is positive for Growth



POLO Wealth

Why US? Valuations sightly expensive but comfort of earnings expectations

Valuation measure	Description	Latest	30-year avg.*	Std. dev. over/under-valued
P/E	Forward P/E	19.51x	16.59x	0.90
CAPE	Shiller's P/E	32.43x	27.55x	0.79
Div. Yield	Dividend yield	1.54%	2.00%	1.33
P/B	Price to book	3.97x	3.11x	1.10
P/CF	Price to cash flow	14.82x	11.13x	1.64
EY Spread	EY minus Baa yield	-0.33%	0.04%	0.20

Why 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

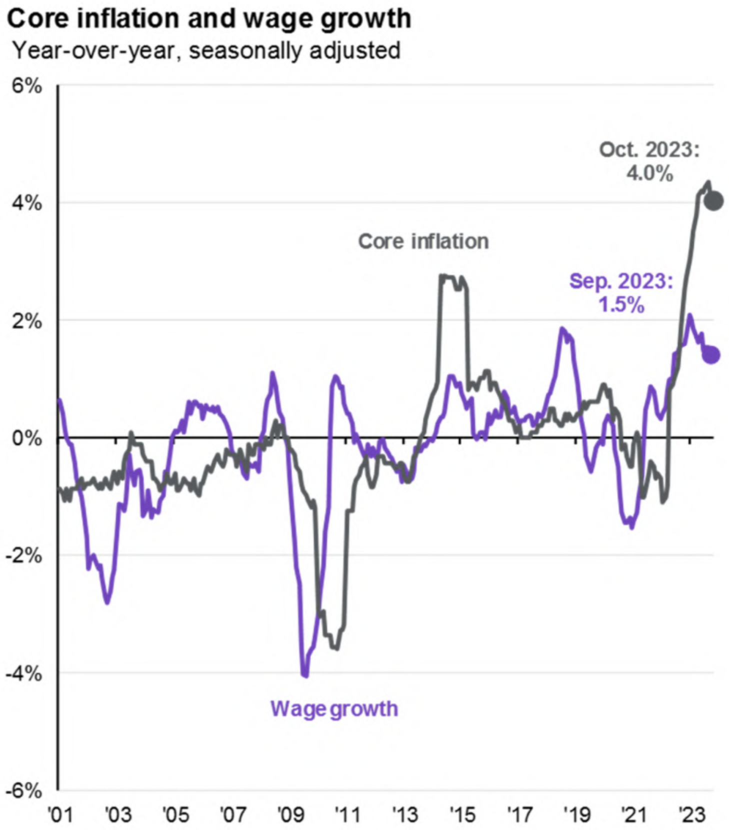
- **Attractive valuations and robust earnings support -**Even though Japan market has delivered strong returns YTD, up 22% in local currency terms, the market still looks attractive on valuations. MSCI Japan is trading at 15.0 x fwd PE vs. US market at 20.6 x PE.

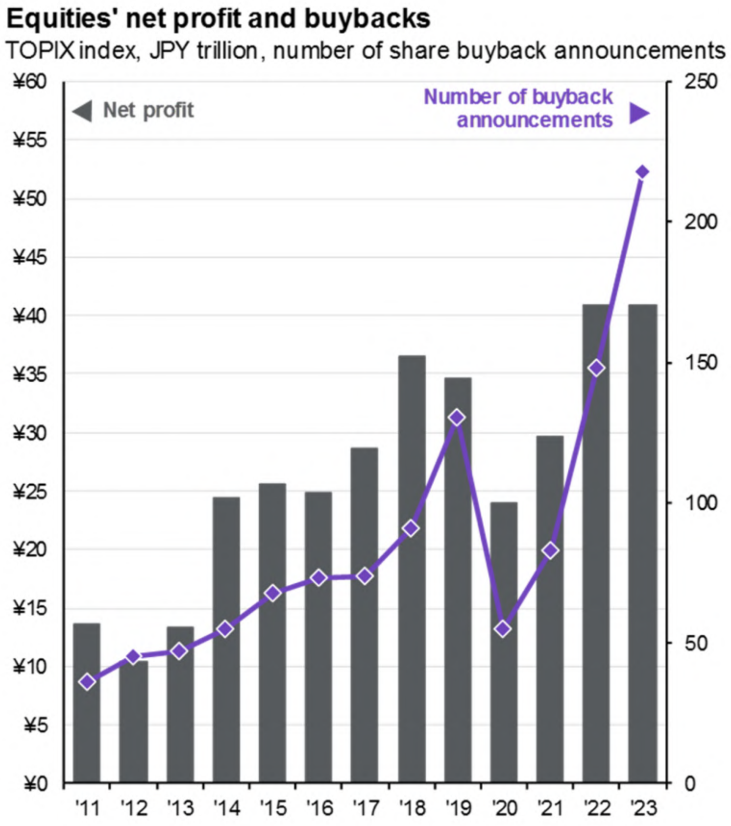
Japan: Economy and markets

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

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

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





Source: JPM Research

Thank You!