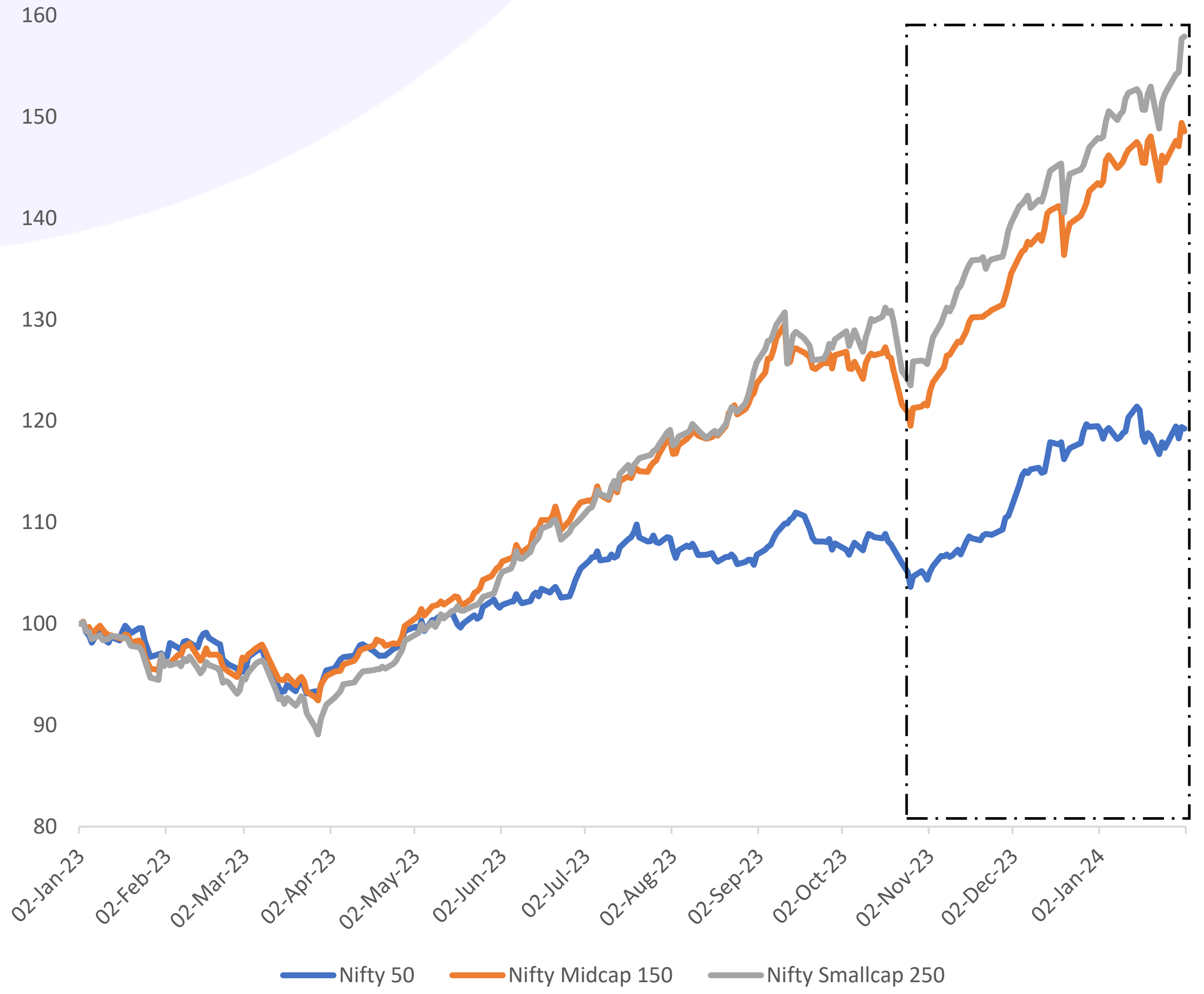
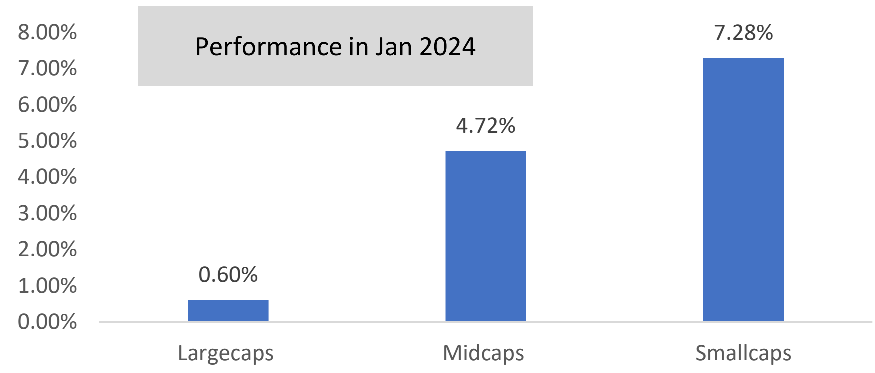
Market Insights
February 2024



Indian Equities at all-time high in Jan 2024!



- Indian equities rallied sharply since October lows, as state elections results indicated signs of continuation of current government in Central election.
- In India, strong corporate earnings, better-than-expected Q2 GDP growth, and robust buying by domestic investors—institutional as well as retail—added to the rally.
- Also, the signs of slowdown in the global economy and falling inflation trajectory strengthened expectations of possible peaking of global interest rates.



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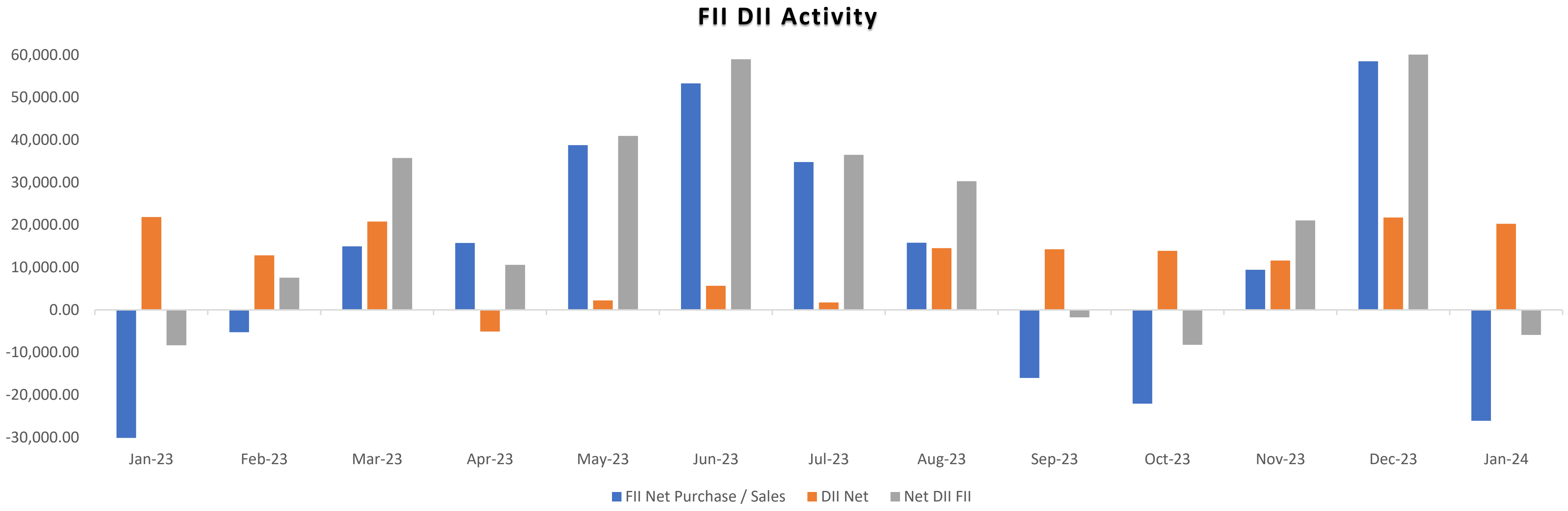
Source: niftyindices.com

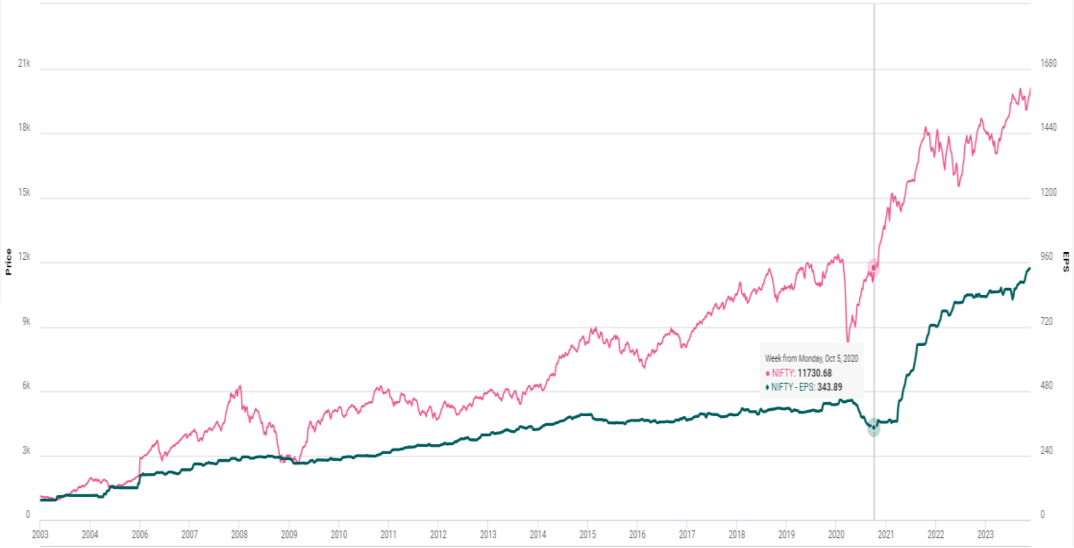
FII outflow had nearly no impact

- There was a heavy selling by FIIs in Jan 24 of nearly Rs. 26 thousand crores highest since January 2023.
- Higher Retail participation and Domestic Institutions have been continuously supporting Indian equity markets and January was the ninth consecutive month where domestic institutions bought equities.

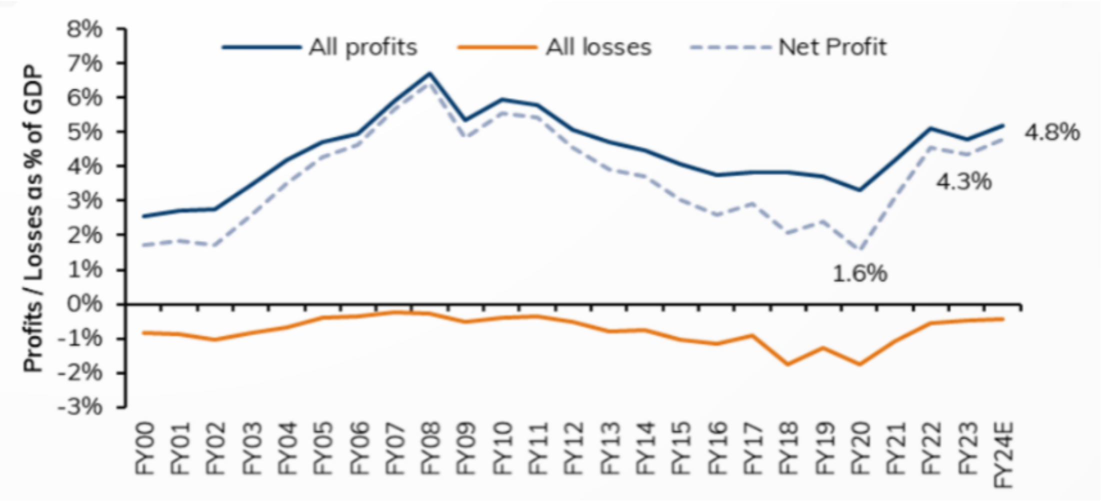


Source: moneycontrol.com

Bull Run Supported by earnings growth



NIFTY 50 EPS

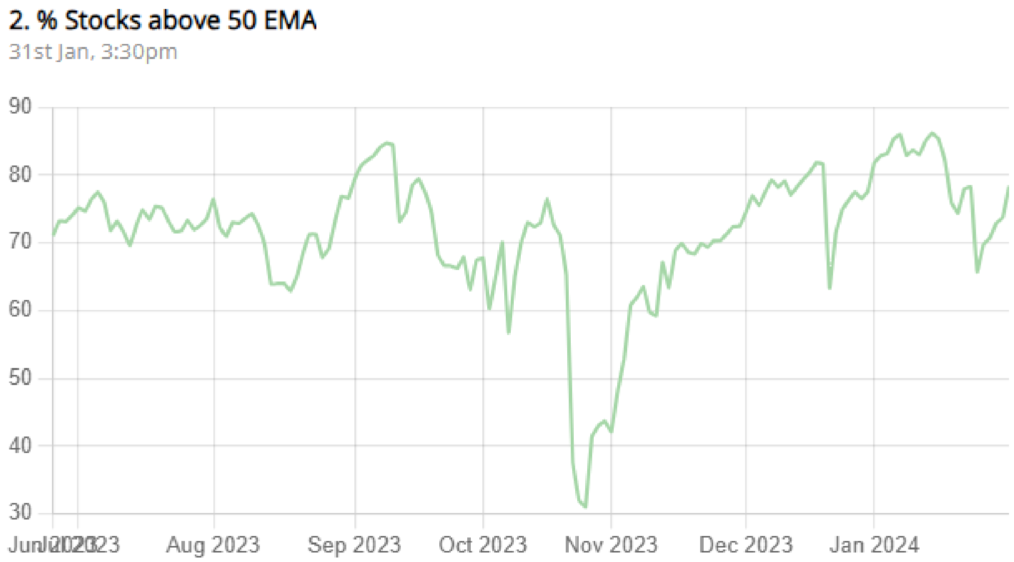


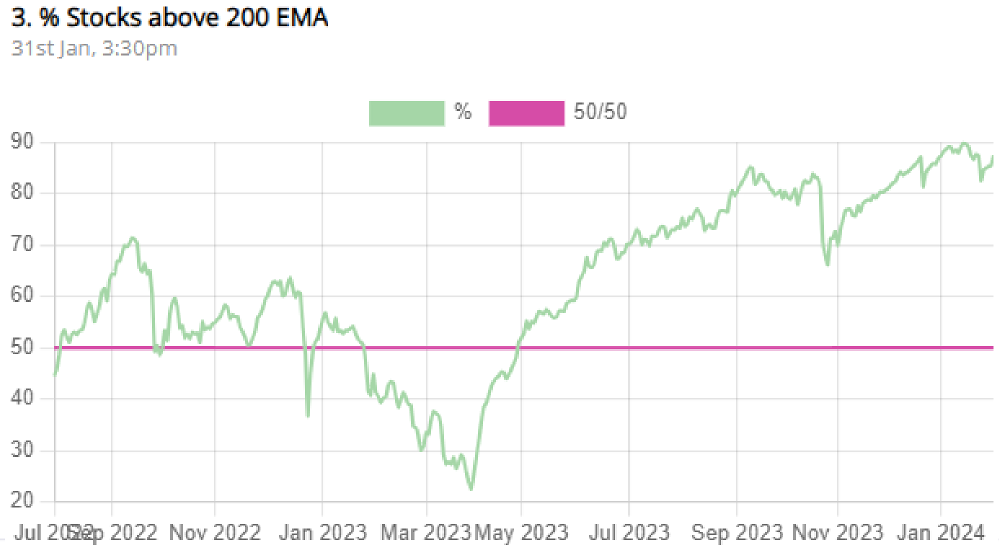
Corporate Profits to GDP

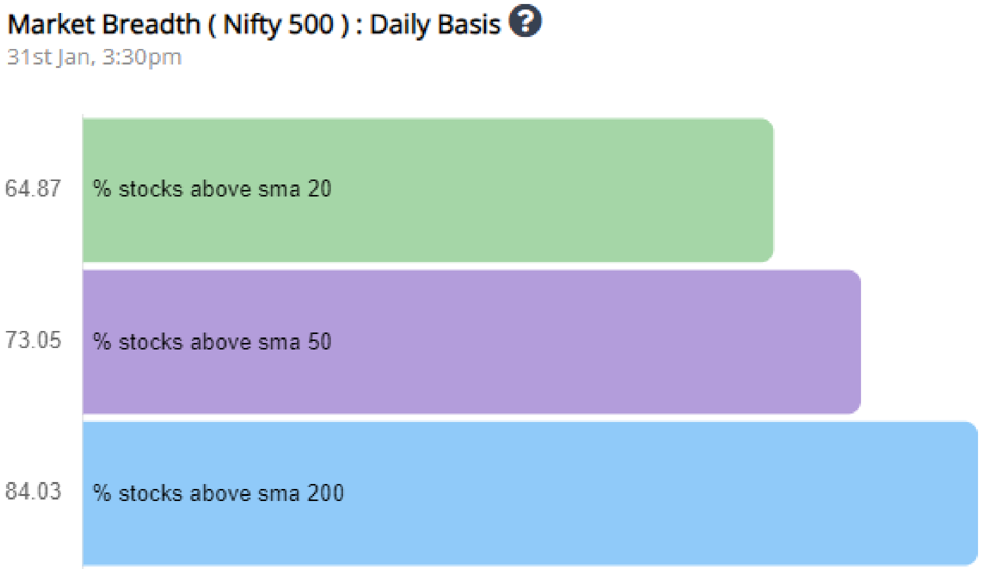
- After a decade of draught in earnings, earnings made a comeback in 2021 in Indian Markets and have continued strong uptrend.
- Nifty 50 earnings are almost 2.5x since March lows.
- Last time such earnings growth was seen from 2004-2008 where earnings went up 3-4X during that period.
- Earnings as a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

Source: Trendylene, bloomberg

Technical Indicators indicating momentum in the Medium Term







- Nifty 50 is trading above 50 and 200 DMA.
- No of stocks above 50EMA and 100EMA are indicating further moment in the market.
- Large caps currently exhibit short term consolidation while Midcap and Small Caps are leading the market.
- Market Breadth is robust, with 84% of stocks above their long-term moving average.
- The US market has confirmed it’s breakout. It is trading at All time High levels. This would attract new inflows into the market.
- However, there was a strong rally in the market in the Jan with indices MAKING NEW HIGH’S.

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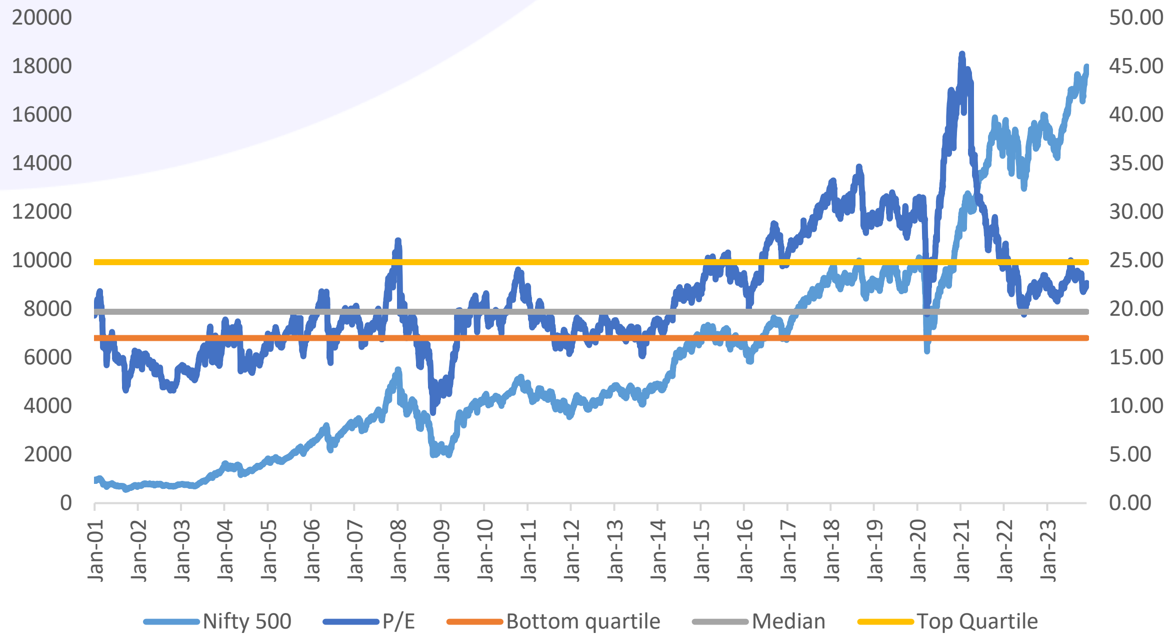
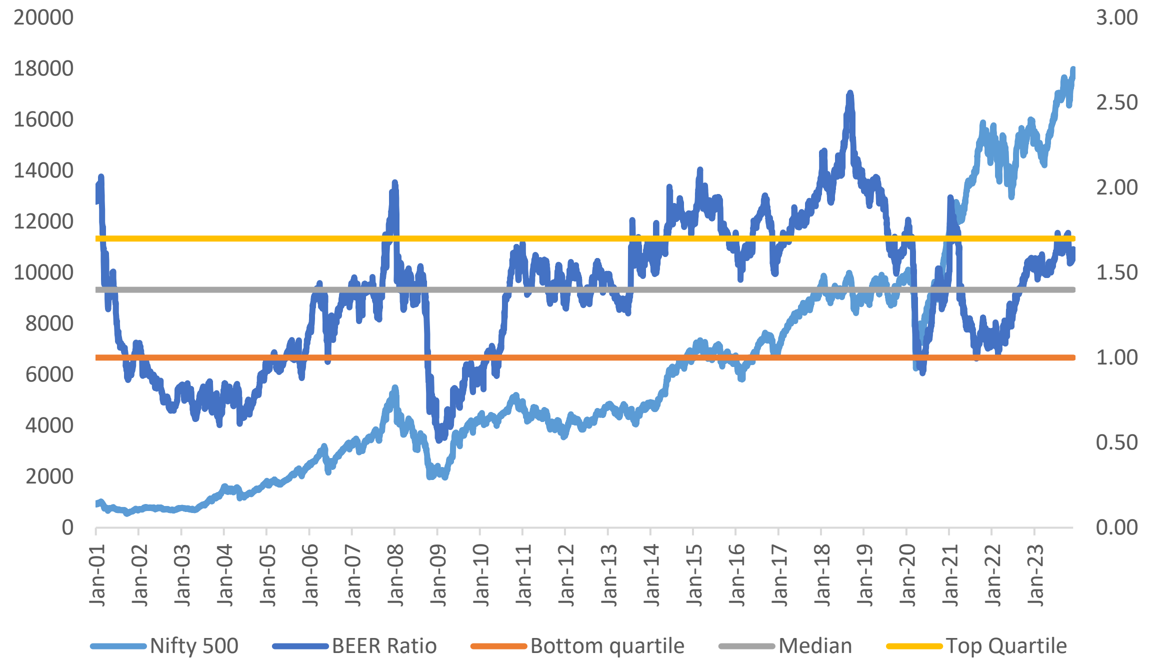
Source: Chartink.com

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





PE of 22.6 Vs long term median of 19.7 and top quartile of 24.8

BEER Ratio of 1.64 vs long term median of 1.40 and top quartile of 1.70

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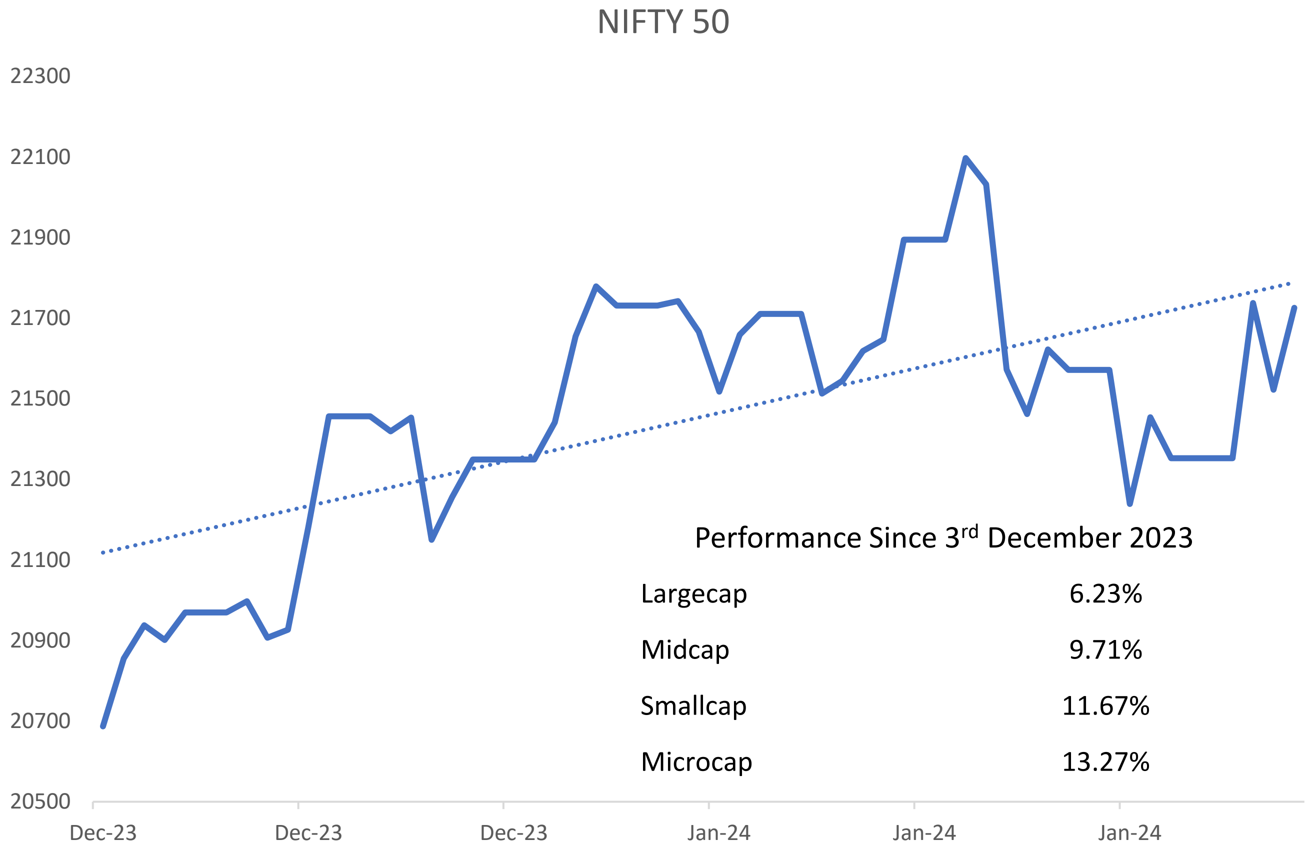
Market already priced in 2024 General Election Outcome?

Rajasthan	November 23
Chhattisgarh	Nov 7, 17
Madhya Pradesh	November 17
Telangana	November 30
Mizoram	November 7



In the event of the BJP coming to power at the center, the market's reaction might be subdued, given that this scenario could already be reflected in existing price levels.

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What to do in this Kind of Scenario?

Focus on Relative Valuations

Determine the current economic phase of the business cycle and identify sectors that align with the prevailing economic conditions

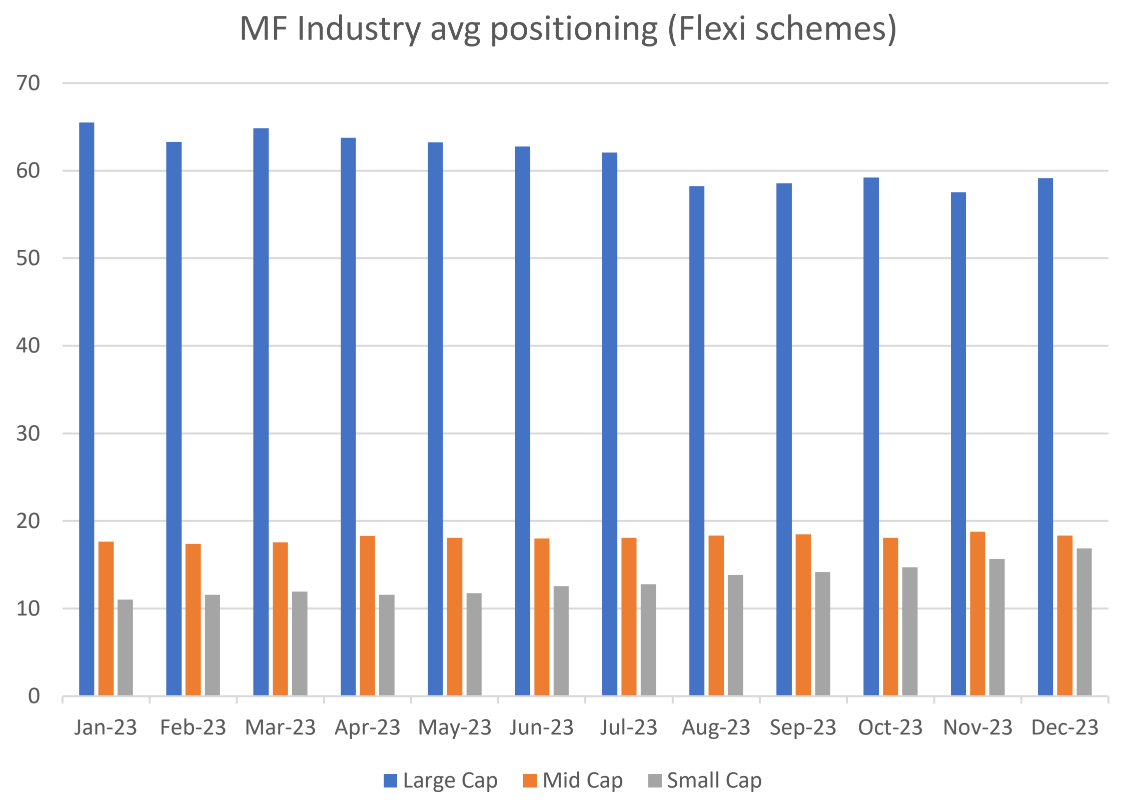
With respect to Mcap, Large caps look attractive

- Midcaps rallied almost 40+% in CY 2023 and large caps rallied 20%. Largecap valuations are near historical avg range. The probability of large caps outperforming in 2024 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 in Feb 2024, 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 above 2008 levels indicating overstretched rally in small caps.

However, Flexicap Funds are still OW on Mid and small cap

		Current	Nifty 500 ETF	Industry last 12 m avg	Last 12 m min	Last 12 m max
Large	UW	59.14	73.54	61.52	57.54	65.50
Mid	OW	18.33	16.93	18.08	17.38	18.76
small	OW	16.88	9.52	13.21	11.02	16.88

- 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 higher than past 12 m average, highest in last 12 months while the allocation to large caps is lower than the last 12m average.
- Also, industry is bullish on small caps as the allocation is highest in the past 12 months. Well above the Industry average and the Index fund allocation.



**Source: ACE MF*

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Top AMC positioning

Dec-23	Large Cap	Mid Cap	Small Cap
MF Industry Average	61.52	18.08	13.21
Motilal Oswal Nse 500 ETF	73.54	16.93	9.52
Parag Parikh Flexi Cap Fund-Reg(G)	56.16	6.59	7.92
Quant Flexi Cap Fund(G)	36.91	17.43	31.14
ICICI Pru Flexicap Fund(G)	72.74	10.22	14.40
Kotak Flexicap Fund(G)	72.30	24.48	2.39

Source: ACE MF

Where we are in Current Scenario?

GDP Growth High	**Positive**
Inflation Cooling Down	**Positive**
GST Collections Rising	**Positive**
Tourism Rising	**Positive**
Capacity Utilization Rising	**Positive**

Domestic Economy
Strong

GDP Growth Slow	**Negative**
Inflation Cooling Down	**Positive**
Unemployment Rate high	**Negative**
Real Consumer Spending Low	**Negative**
Industrial Production coming down	**Negative**

International Economy
Weak

- Developed economies face challenges of high interest rates, slow growth, and financial sector shocks, while the Indian economy is relatively resilient.
- India benefits from positive factors such as government-led supply side reforms, favorable demographics, and rising income levels, contributing to its economic well-being.

This indicates themes related to Domestic Economy can do well

	Maro Scenario		Suitable Approach
	Global	Domestic	
Current	Weak	Strong	Domestic Cyclicals
2021	Recovery	Recovery	Global & Domestic Cyclicals
2018-2020	Strong	Weak	Global Cyclicals & Domestic Defensives
2013-2014	Neutral	Recovery	Domestic Cyclicals
2011-2012	Weak	Weak	Domestic Defensives
2008-2009	Weak	Recovery	Domestic Cyclicals
2003-2004	Recovery	Recovery	Global & Domestic Cyclicals

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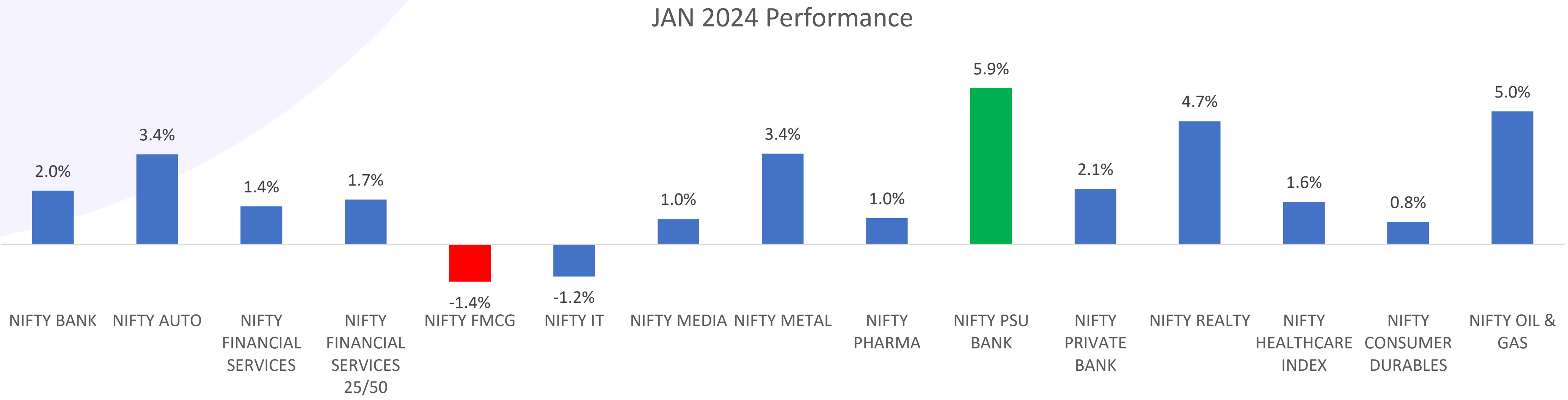
Sectoral – PSU Banks best performers in Jan 2024!



- Almost all sectors gave Positive returns in Jan 2024 except for FMCG and IT.
- PSU Bank has been the best performing sector in Jan 2024 with monthly return of almost 6%. Followed by Oil&Gas (5% up) and Realty (up 4.7%)
- Auto and Metals have performed decently (up
- Almost all the sectors gave a positive returns since march 2023 lows. With Realty being the highest gaining sector since then. Pharma and Energy have started delivering recently.

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Source: nse.com, niftyindices.com

Sectoral Breadth

Sector	4W EMA	20W EMA	30W EMA	40W EMA	52W EMA
Oils	75	95	95	95	95
Metals	62.2	89.02	92.68	93.9	95.12
Realty	58.04	89.51	92.31	92.31	93.71
Media	58	80	84	86	84
Auto	57.45	77.66	87.23	91.49	94.68
Services	55.15	80.41	82.99	84.54	83.51
Miscellaneous	54.29	81.43	84.29	86.43	85.71
Finance	50.72	86.96	89.13	90.58	90.58
Fmcg	50.15	71.21	74.61	78.02	78.64
Textiles	50	74.53	82.08	83.02	82.08
Indices	49.76	80.68	79.23	86.96	88.89
IT	49.29	83.57	88.57	87.14	88.57
Telecom	47.06	82.35	94.12	94.12	100
Pharmaceuticals	46.67	76.67	82.5	84.17	85
Bank	43.59	74.36	79.49	82.05	87.18
Industrials	42.22	71.75	76.83	78.73	78.1
Aerospace & defence	35.29	70.59	82.35	82.35	88.24
Plywood boards/laminates	22.22	100	100	100	100
Quick service restaurant	0	42.86	42.86	42.86	57.14

India Market Breadth as of Week Ending 28th Jan 2024
Numbers show % of stocks above their particular Moving Averages within a sector

- Oils look strongest while QSR space looks weakest.
- Auto and Reality has been continuing their rally.
- IT Index has lagged Nifty for a very long time, recent momentum shows IT is poised to break it's 2022 highs soon.

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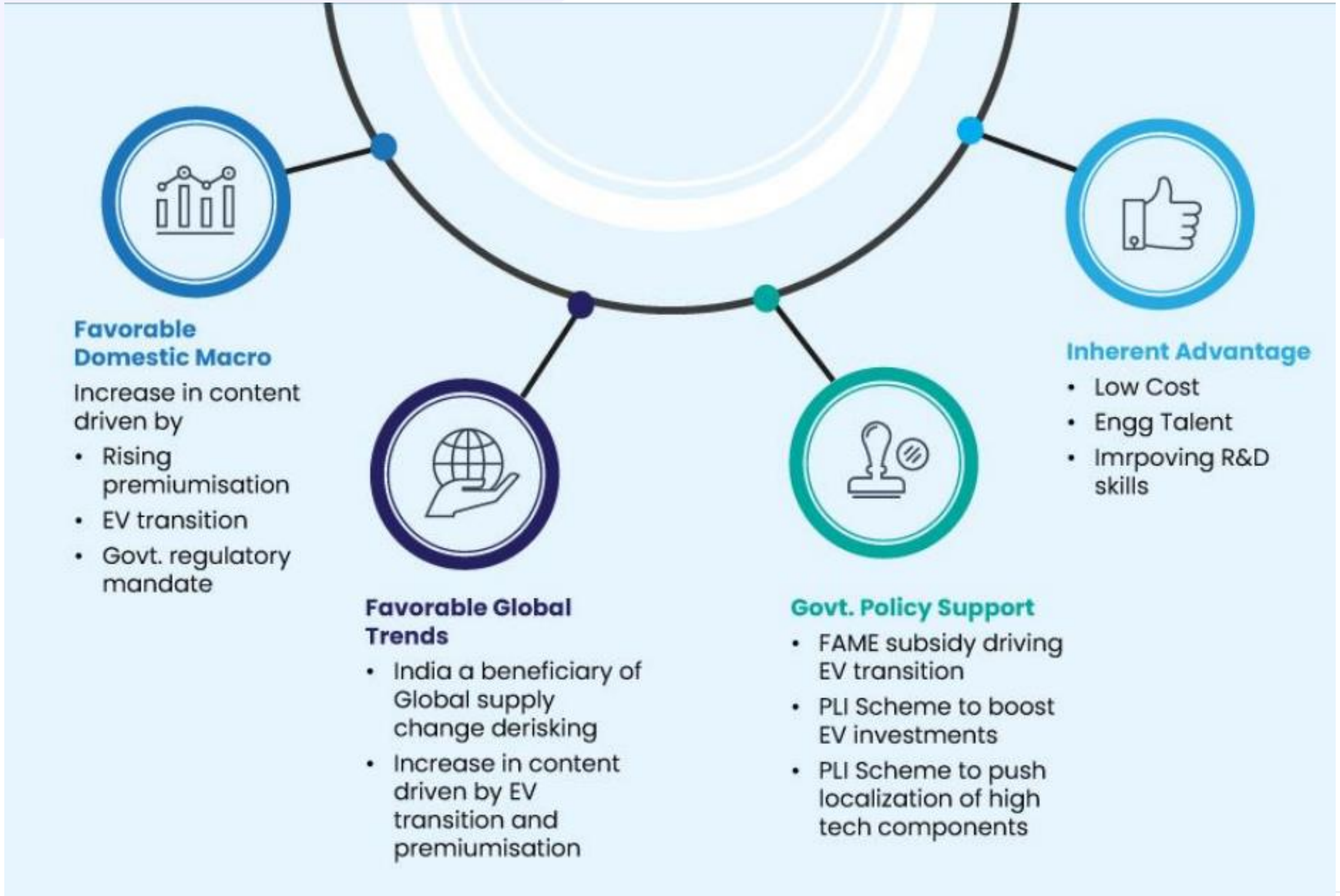
Sector in Focus: Auto Components



The domestic auto component industry appears to be in a sweet spot as several tailwinds collude to drive a sustainable long term growth opportunity which include:

1) Indian component industry emerging as one of the beneficiaries of the supply chain derisking strategy by global OEMs post continued supply chain disruptions over the last 3-4 years

2) Outperformance likely to sustain going forward driven by rising content led by premiumization and EV transition

3) Favorable Government policies advocating “Make In India”

4) India emerging as an auto hub for global OEMs

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Why Auto Ancillary Sector Looks interesting now?

Exhibit 12: India: one of the beneficiaries of the supply chain de-risking globally

Company	Comments around India plans
Stellantis	has 40 parts suppliers which are exporting from India to LatAm to help get competitive prices by leveraging on volumes
Tesla	Tesla plans to double its sourcing from India to USD1.9bn in 2023
Continental	scaling up R&D and manufacturing capabilities for connected tech in India; this is expected to significantly boost its export share to Europe, East Asia and Asean
Bosch Mobility Global CTO	"There is such brilliant talent in India. India is a location where we are prepared to shift more competence, responsibility and accountability, particularly on the software side, on the software defined vehicles as well as application side"
Valeo	to invest close to the M&M Pune plant and localise electric powertrain in India
Schaeffler	Plans to make India manufacturing hub for specific product lines by shifting production from European plants
SEG Automotive India	positioning India as exports hub of light electromobility and software solutions
Magna	Opened an Asia Innovation Centre in Bangalore at an investment of USD120mn for assisting future trends like EVs, driver assistance systems etc
Grupo Antolin (Ramon Sotomayor, Global CEO)	"We see high competitiveness for technology products made out of India in the global marketplace, we will be looking at exporting lighting, electronics and technology product". "we have got every technology here in Pune. We are working on more advanced technology than in Detroit or Europe"
Delta Electronics	Taiwan based Delta has invested USD500mn in India so far on local manufacturing; plans to offer localised EV components, such as power electronics, from its global portfolio for automotive OEMs in India
Stuken	Plans to commence deep drawn parts production from India by 2025; setting up a plant in Pune which will be its 5th site globally
Saietta VNA	Commenced production of axial flux technology e-motor for EV's; while they are completely focussed on India, Make in India and export is a distinct possibility
Borg Warner	Set up new Tech Centre in Bangalore to offer end to end development, testing and valdiation support for its engg centres in North America, Europe and Asoa

Source: HSIE Research

Auto Ancillary sector set to sustain strong outperformance to core led by:

(1) Derisking strategy of global OEMs: Given the multiple supply chain disruptions over last 3-4 years, global OEMs seek to derisk their supply chain and India seems to be emerging one of the key beneficiaries of this trend

(2) Rising content driving sustainable outperformance: Over the last few years, the auto component industry is seeing rising content supplied to OEMs which in turn is being driven by: 1) ever rising premiumization trend across segments in India, which is here to stay 2) Government regulatory push which is pushing up avg ASP 3) EV transition. We expect these trends to help drive a sustainable outperformance of the industry relative to core even going forward

(3) Favorable Government policies: Indian Government is strongly advocating "Make In India" across categories and has framed favorable policy incentives including PLI schemes to drive rapid localisation.

(4) India emerging as an auto hub: Given each of these tailwinds above and the fact that Indian emissions now are in line with many global markets, India is now emerging as an auto hub for global players, which in turn would benefit the Ancillary sector.

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EV Transition benefiting AUTO Components companies

Exhibit 29: EV transition to provide huge opportunity for component suppliers

Segment	Potental market size Rs crs	
	2025	2030
Electric Motors and transmission	900-1,000	4400-4700
Thermal Management	1000-1100	4600-4800
Lithium ion battery	5000-5100	22000-23000
Electronics	2400-2500	10000-11000
Power Electronics	700-800	3000-3500
Others	4000-4500	20000-21000
Total	**14000-15000**	**64000-68000**

Source: ICRA Research

- Transition to EVs is picking up pace rapidly in key global markets and in a measured way in India.
- In India, EV transition is visible primarily in 2Ws and 3Ws currently.
- However, on the back of a significant push from the Government in terms of policy incentives discussed in the previous section, we expect the EV transition to pick up pace in multiple segments

Exhibit 26: EV transition may pose a challenge for ICE-only focused suppliers

Negative impact	Neutral	Positive Impact
Engine parts	Steering systems	Electric motors
Clutch	Seats	wiring harness
Radiator	Brakes	inverters
	Shock absorbers; Leaf springs	microprocessors
		Controllers

Source: ICRA Research

Exhibit 25: EV penetration to pick-up pace across key segments in India

	EV Penetration (%)	
	FY23	FY30E
Two Wheelers	4	30
Electric Bus	7	40
LCVs	Negligible	40
PVs	1	15

Source: ICRA Research

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.

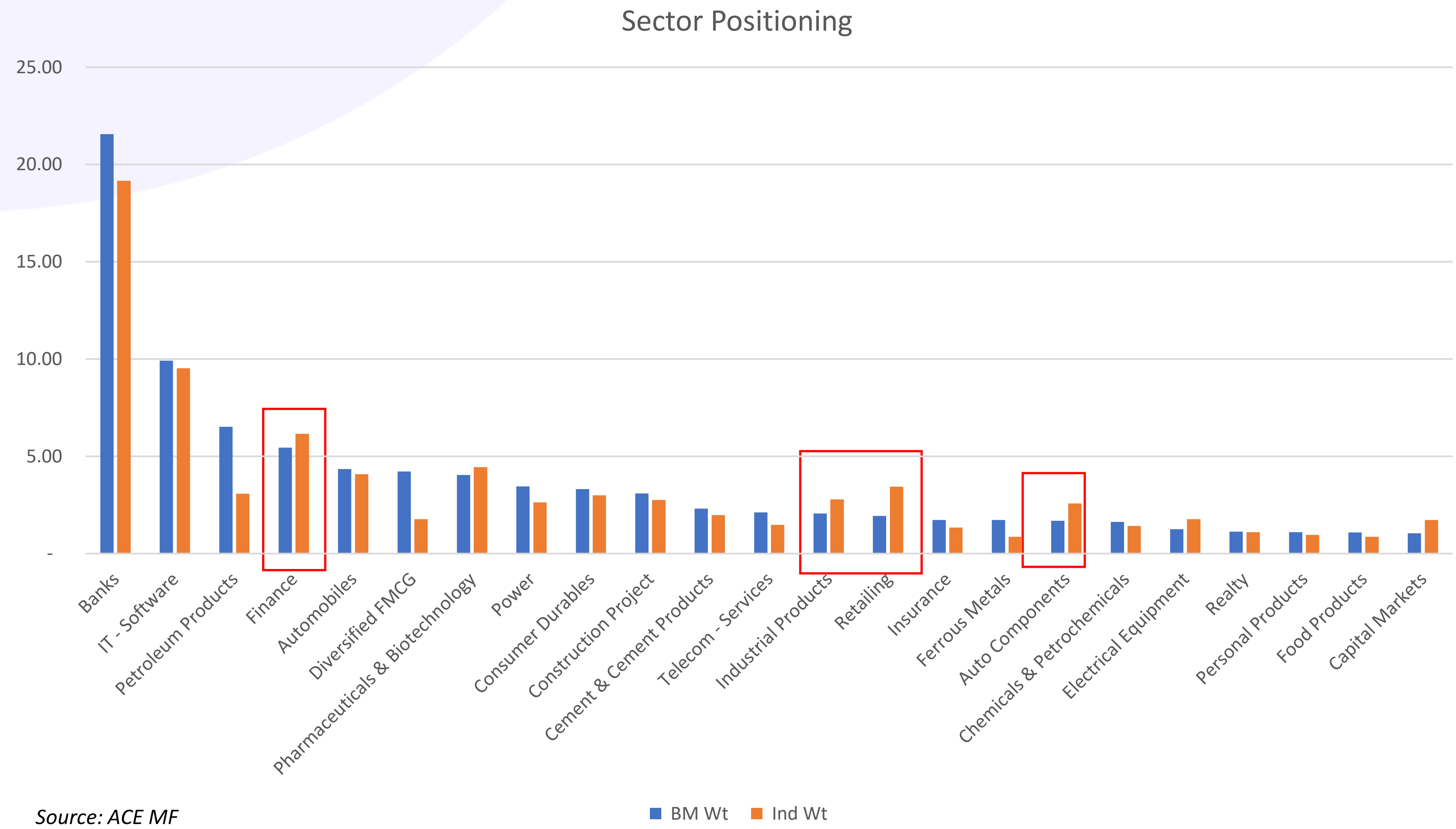
Consolidation leading to Pricing prower: Consolidation in the industry will give pricing power to players and greater ability to negotiate with talent (very important factor in entertainment business). (Although the current news of Sony-Zee merger fallout is a little bump in the short term)

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.

Industry placing bets on Finance, Auto components and Industrials



Source: ACE MF

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

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MF Industry positioning on stocks

Large cap

Overweight	Active Weight
NTPC Ltd.	1.10
Sun Pharmaceutical Industries Ltd.	1.04
ICICI Bank Ltd.	1.03
JIO Financial Services Ltd.	0.59
Ultratech Cement Ltd.	0.59

Underweight	Active Weight
HDFC Bank Ltd.	-2.94
Reliance Industries Ltd.	-2.38
Tata Consultancy Services Ltd.	-1.44
Hindustan Unilever Ltd.	-1.13
Asian Paints Ltd.	-1.08

Mid Cap

Overweight	Active Weight
Trent Ltd.	1.35
TVS Motor Company Ltd.	1.20
Cholamandalam Investment and Finance Company Ltd.	1.10
Bharat Electronics Ltd.	1.06
The Federal Bank Ltd.	0.79

Underweight	Active Weight
Adani Power Ltd.	-1.76
Yes Bank Ltd.	-1.45
IDFC First Bank Ltd.	-1.10
Tata Elxsi Ltd.	-1.04
AU Small Finance Bank Ltd.	-1.04

Small Cap

Overweight	Active Weight
Carborundum Universal Ltd.	0.87
Clearing Corporation Of India Ltd.	0.57
KPIT Technologies Ltd.	0.54
Reliance Industries Ltd.	0.51
Persistent Systems Ltd.	0.50

Underweight	Active Weight
Suzlon Energy Ltd.	-2.72
BSE Ltd.	-1.45
Angel One Ltd.	-0.92
Glenmark Pharmaceuticals Ltd.	-0.90
Indian Energy Exchange Ltd.	-0.85

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Source: ACE MF

Equity Outlook – Neutral on Equities, Bullish on Large cap, Auto Components

- Indian equities rallied sharply since October lows, as state elections results indicated signs of continuation of current government in Central election. Indian markets have entered CY24 on a high note with most indices hitting all time highs. India has been amongst the best performing markets recently and is currently at all time high levels. Crude oil prices have also corrected below $80 per barrel, despite the war in West Asia.

- The Union Budget 2024 has maintained the capex led template to deliver socio-economic growth, while maintaining the fiscal prudence with fiscal deficit target of 5.1% for the coming financial year.

- However, markets have run up sharply from October lows and we might see some correction in the coming months. Hence, we are Neutral on Indian Equities.

- Market cap – From market cap allocation perspective, we prefer a gradual shift 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.

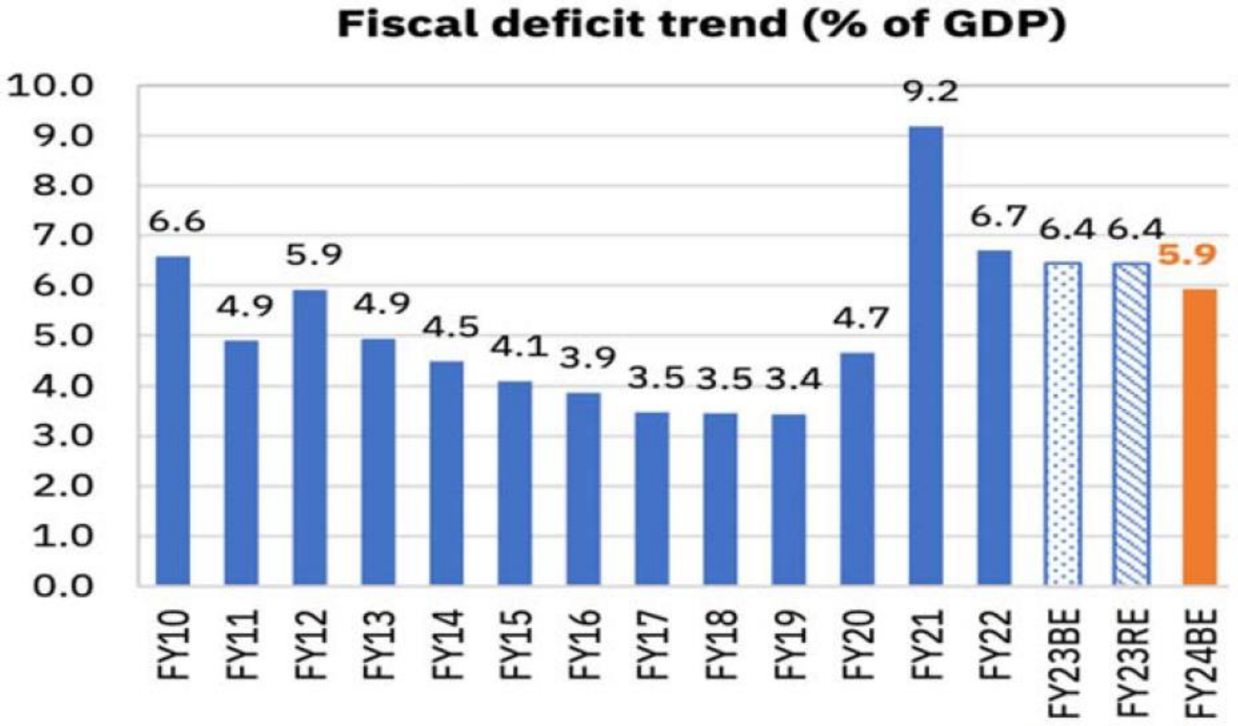
- Sector – The domestic auto component industry appears to be in a sweet spot as several tailwinds collude to drive a sustainable long term growth opportunity. Tailwinds include global supply chain disruptions, Premiumization, EV transition, Make in India and India emerging as an auto hub for global OEMs. MF industry has been bullish on Auto components for a while. 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. In context of the upcoming elections, media looks promising in the short term too, as the news viewership goes up during these periods.

- Also, the general consensus regarding election results is that the current government will continue its third term in power and this government could further bring in policies and investments in the "Make in India" theme benefitting the manufacturing sector.

Fixed Income Outlook

Key Global Trends Visible

- From 9.2% of GDP in FY21, fiscal deficit is easing gradually
- First eight months of the year, fiscal deficit is 50.7% of budget for the year. This is a good run-rate. Going by this run rate i.e. 50.7% against 80%, we are on course for achieving the target of 5.9% of GDP for the year. So, Against the budgeted fiscal deficit of Rs 17.8 lakh crore, it is Rs 9.06 lakh crore so far.
- Further, Over the last three years, indirect tax collections have been increasing, direct tax collections are higher by 25% over previous year.



(Source: NSE Market Pulse)

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Fiscal Deficit target for FY25 is 5.1%, beyond market expectations of 5.2% to 5.5% of GDP.

With this 10 year G-sec yields which were trading at 7.18% have come down to 7.05-7.08% levels and fell by more than 10 bps in last one week.

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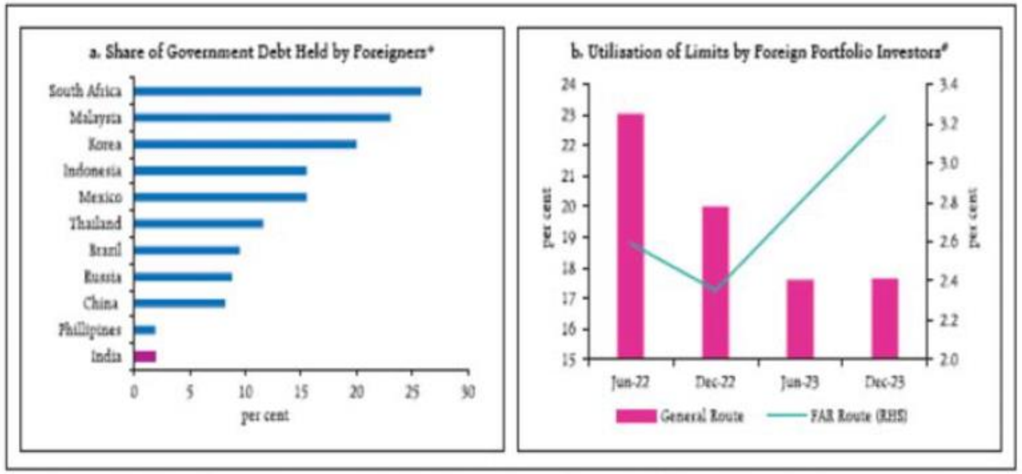
Index inclusion will lead to buoyant FPI inflows into government bonds

- JP Morgan has announced inclusion of 23 India sovereign FAR bonds in the EM Index from June 2024 onwards, 1% of total weightage every month, culminating in 10% of total weight by March 2025.

- Index inclusion will lead to buoyant FPI inflows into government bonds. Estimates vary from USD 20 to 30 billion; the range is wide because there are active funds who will be influenced by the index inclusion. It is difficult to put a finger on the quantum of inflows.

Chart 1.61: Foreign Holding of Government Bonds



Note: (1) * For India, holdings refer to central government debt held under the medium-term framework and fully accessible route (FAR). Data as on December 08, 2023. For other countries, data as on June 30, 2023.
(2) # General Route includes FPI holdings under medium term framework for FPI investments in Government securities. FAR includes FPI holdings of 'specified securities', which are central government securities opened fully for non-resident investors without any restrictions.

(Source: RBI FSR 28 Dec 2023)

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.
- From peak deficit of 9.2% of GDP in FY21, it eased to 6.8% of GDP in FY22, 6.4% in FY23 and the target for FY24 is 5.8%.
- For FY25, the interim budget lays down the target at 5.1% of GDP. The quantum of borrowing from the market is lower than market expectations. For FY25, the gross borrowing is Rs 14.13 lakh crore.
- The RBI has paused on rate hike after the policy review on 8 February 2023, in five consecutive meetings. We expect a change in the stance from 'withdrawal of accommodation' to neutral in the first half of calendar 2024 and the easing cycle to start in third quarter of calendar 2024.
- **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.**

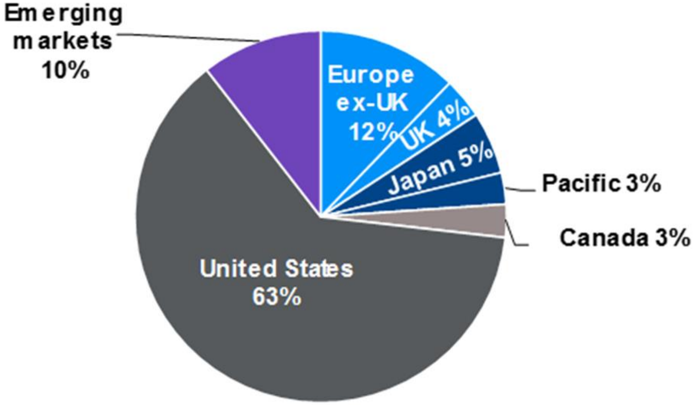
Global Outlook

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

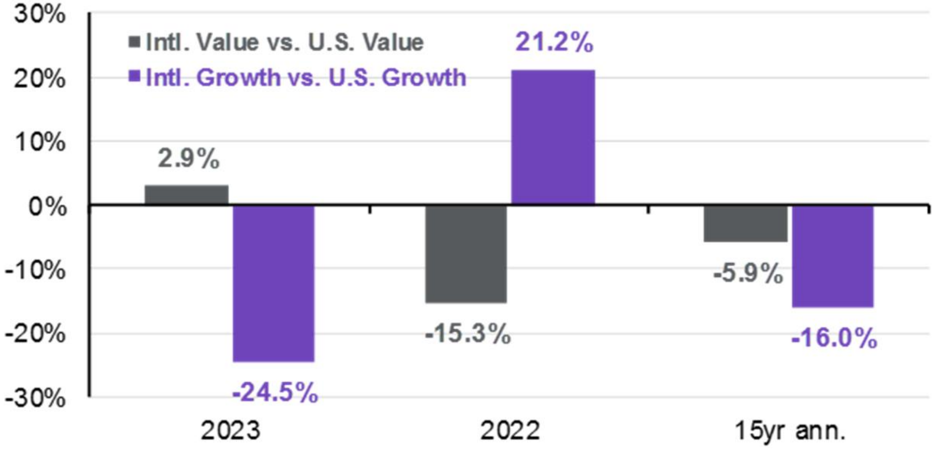
Weights in MSCI All Country World Index

% global market capitalization, float adjusted



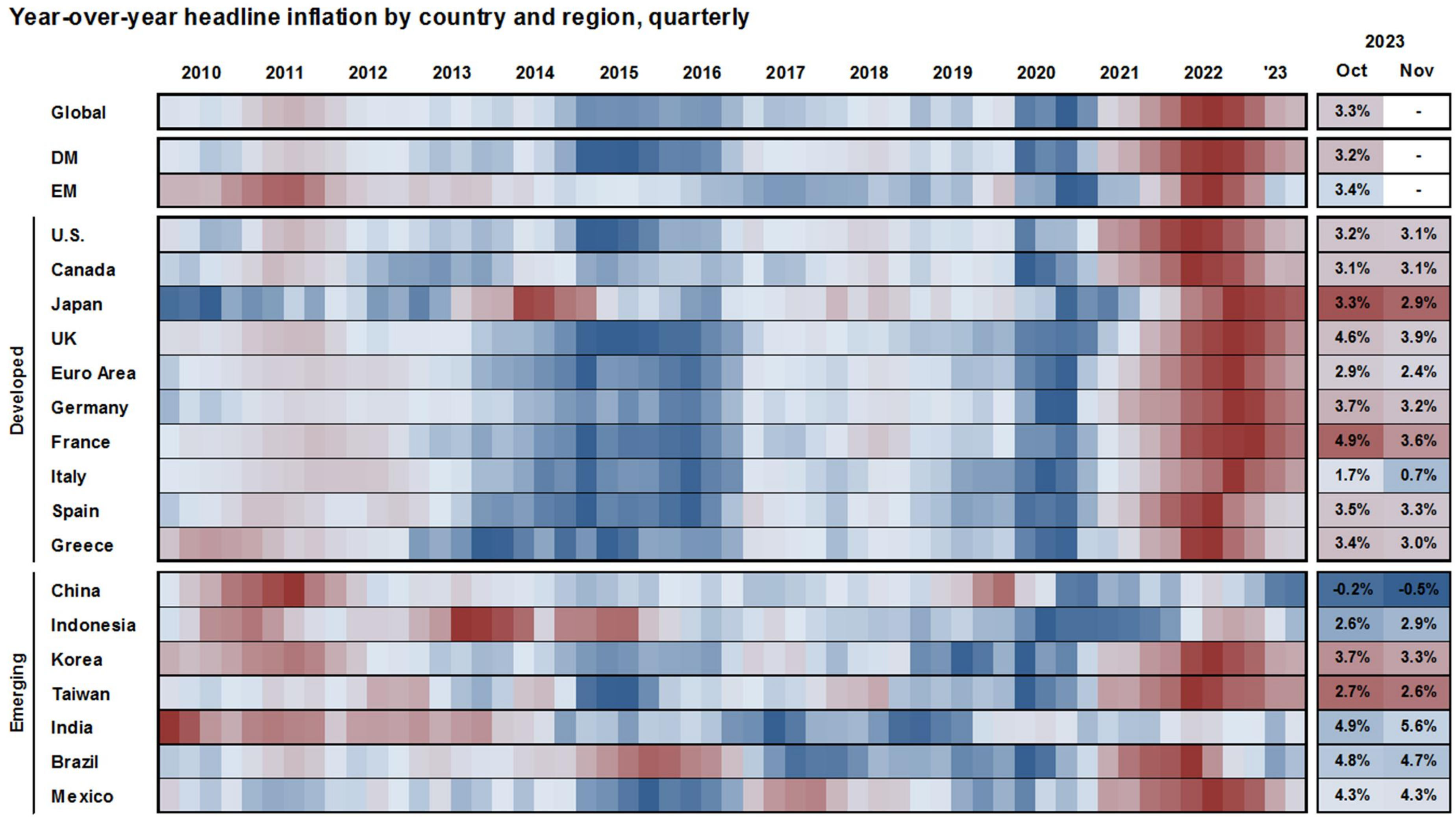
Global Value and Growth returns

Monthly, USD, total return



Source: JPM Research

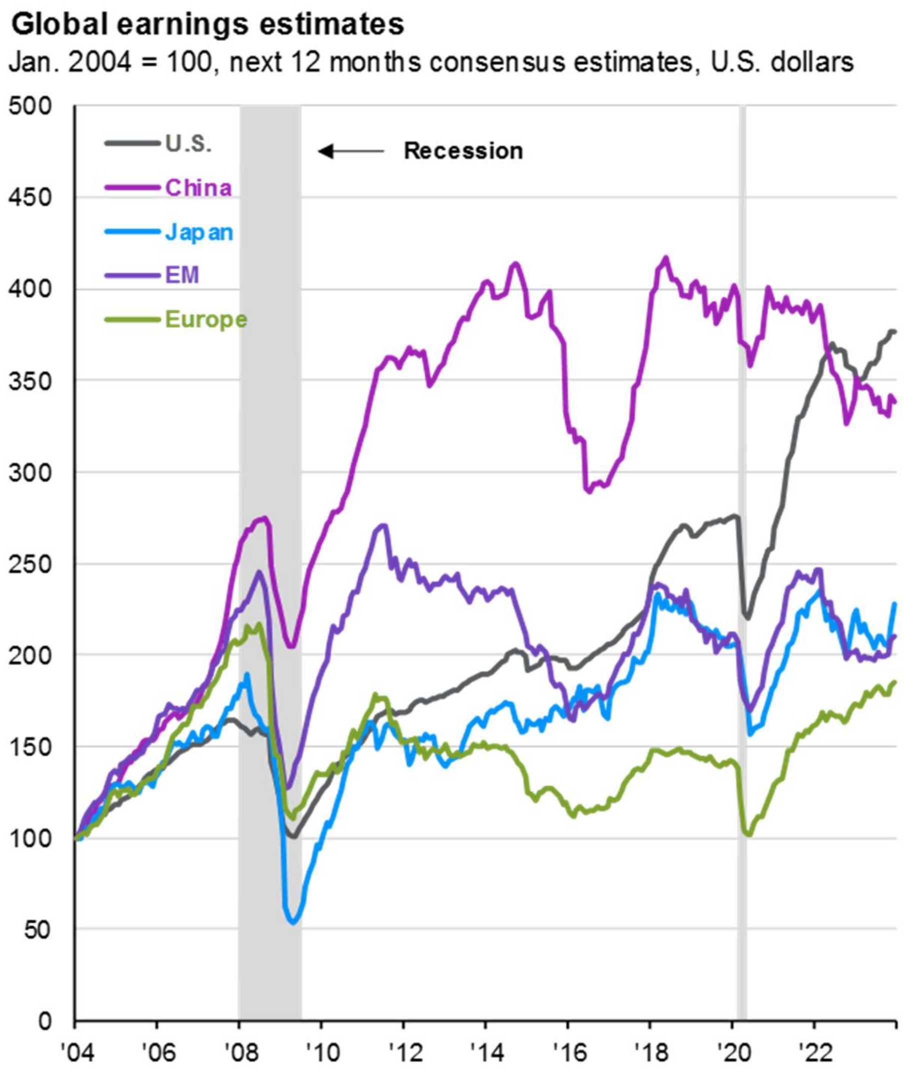
Inflation cooling down across Globe

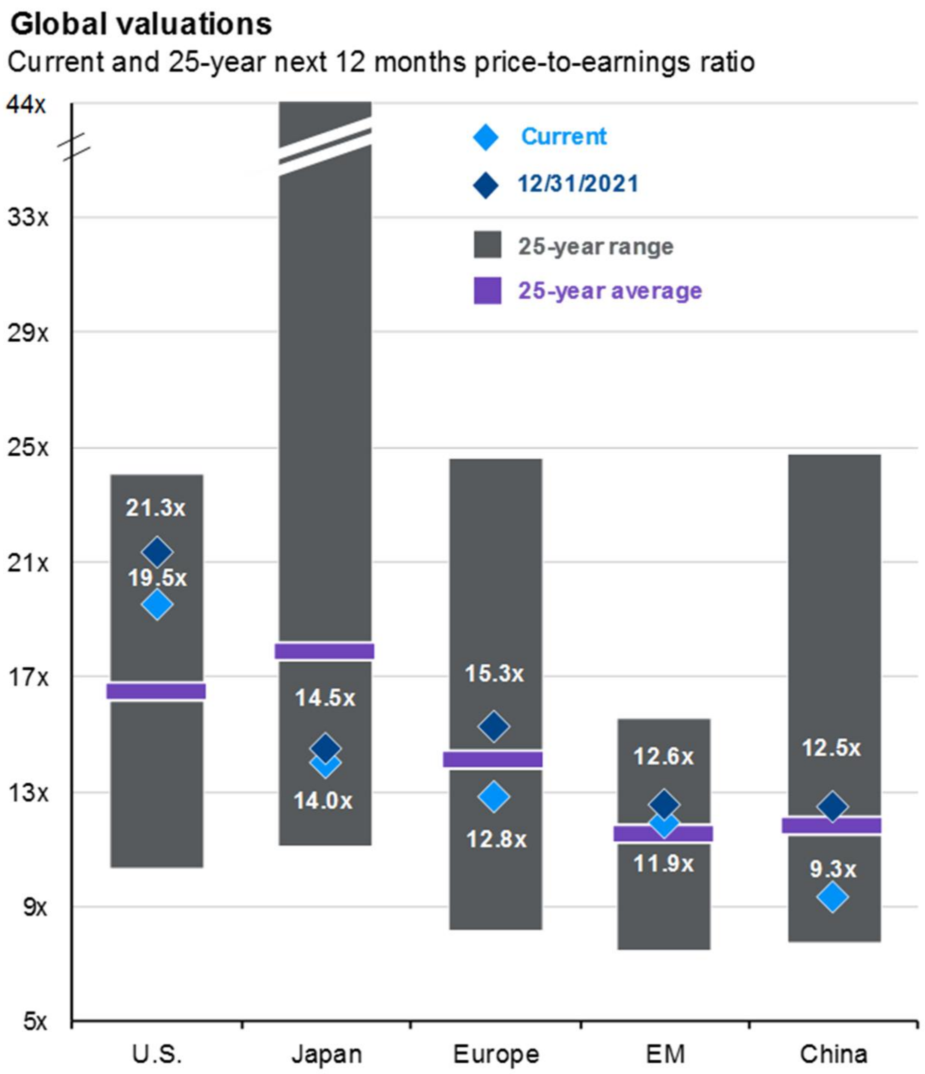


Source: JPM Research

POLO Wealth

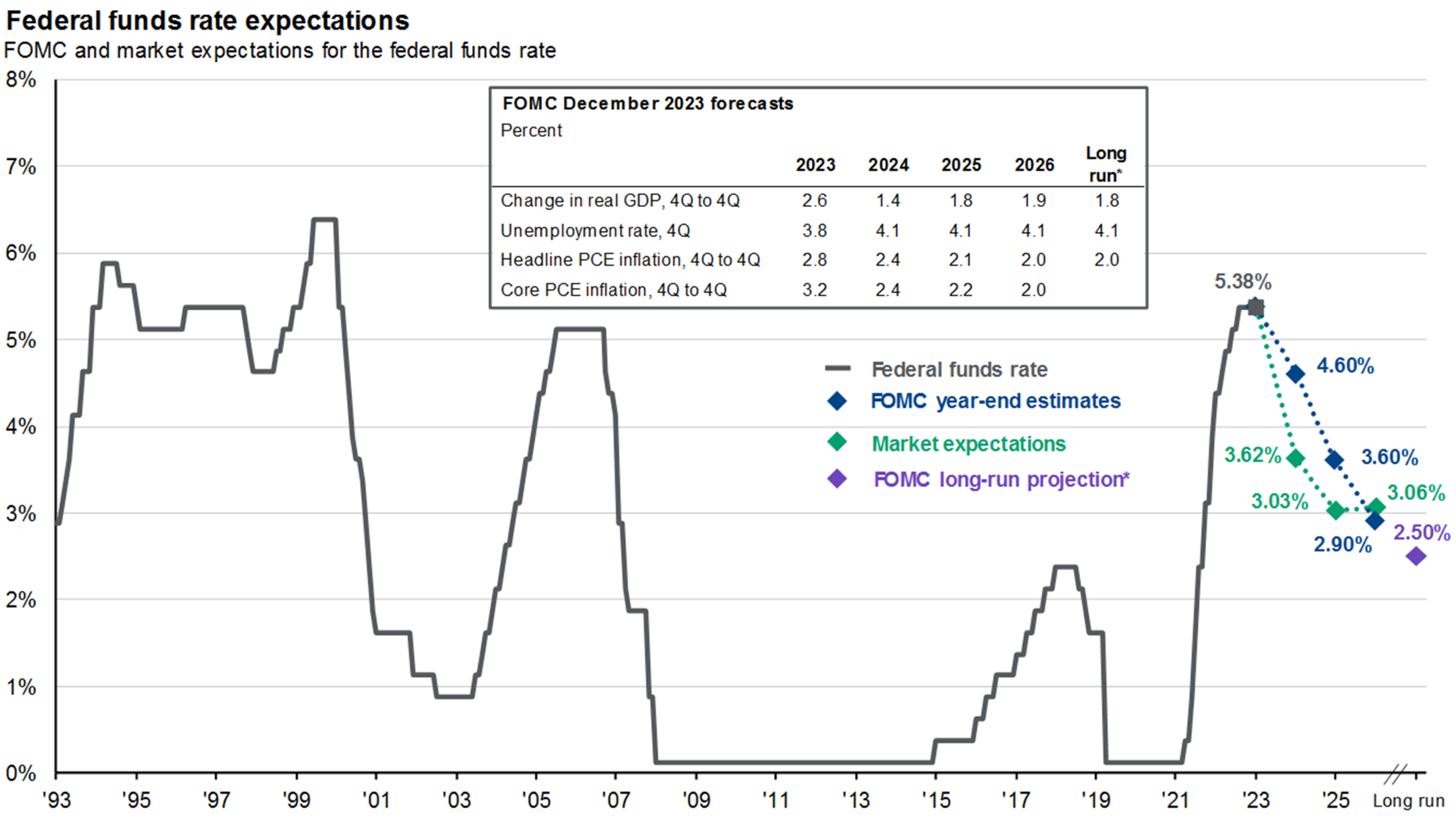
US looks promising from here on & Japan may continue to do well





POLO Wealth

Why US? Rate Cuts ahead is positive for Growth



	2023	2024	2025	2026	Long run*
Change in real GDP, 4Q to 4Q	2.6	1.4	1.8	1.9	1.8
Unemployment rate, 4Q	3.8	4.1	4.1	4.1	4.1
Headline PCE inflation, 4Q to 4Q	2.8	2.4	2.1	2.0	2.0
Core PCE inflation, 4Q to 4Q	3.2	2.4	2.2	2.0	

POLO Wealth

Why US? Valuations slightly 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

POLO Wealth

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

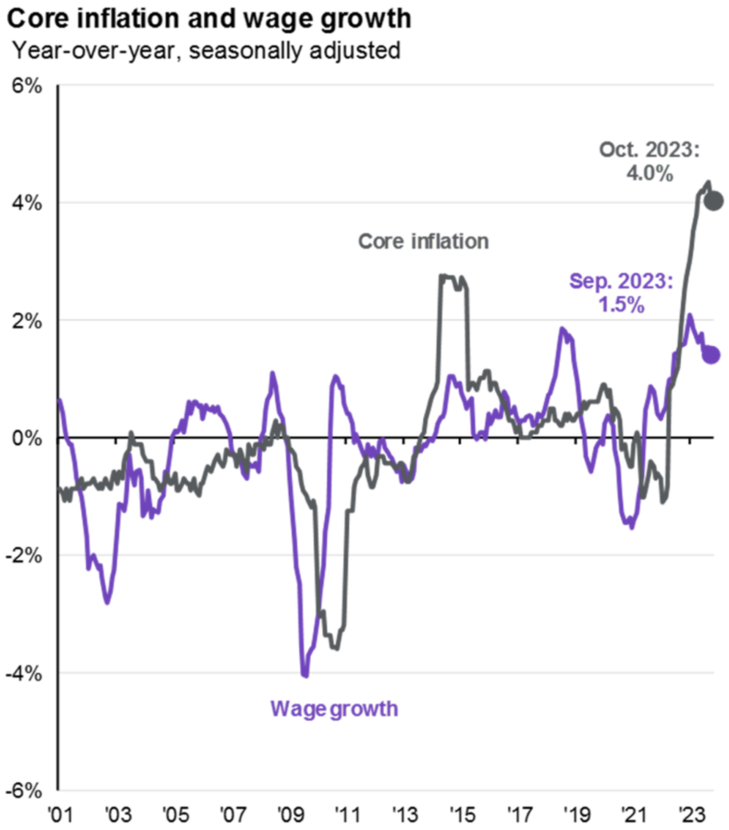
- **Attractive valuations and robust earnings support -**Even though Japan market has delivered strong returns YTD, up 22% in local currency terms, the market still looks attractive on valuations. MSCI Japan is trading at 15.0 x fwd PE vs. US market at 20.6 x PE.

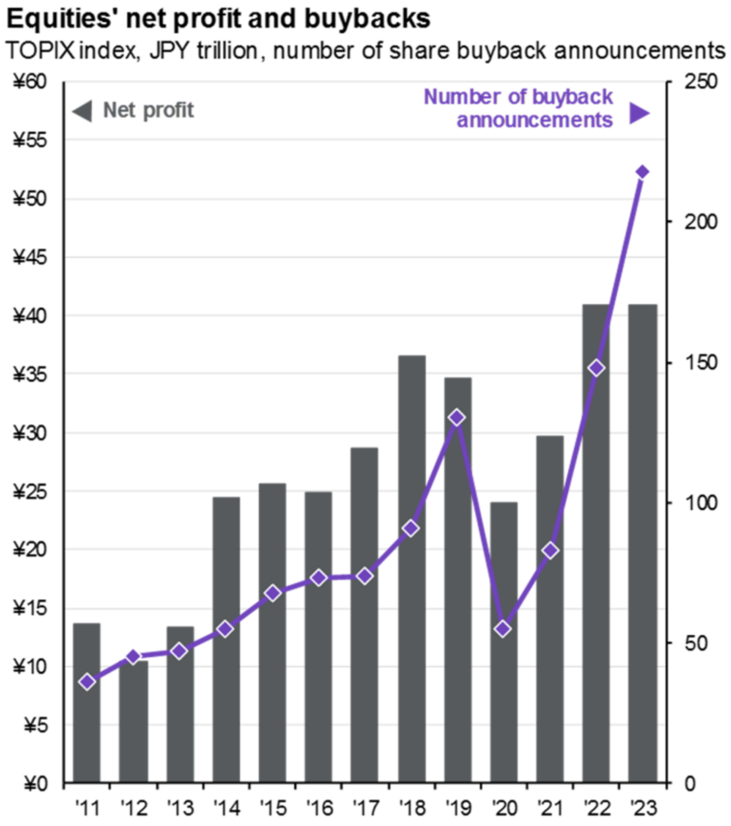
Japan: Economy and markets

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!