



**Bandhan**  
Mutual Fund  
Badhte Raho

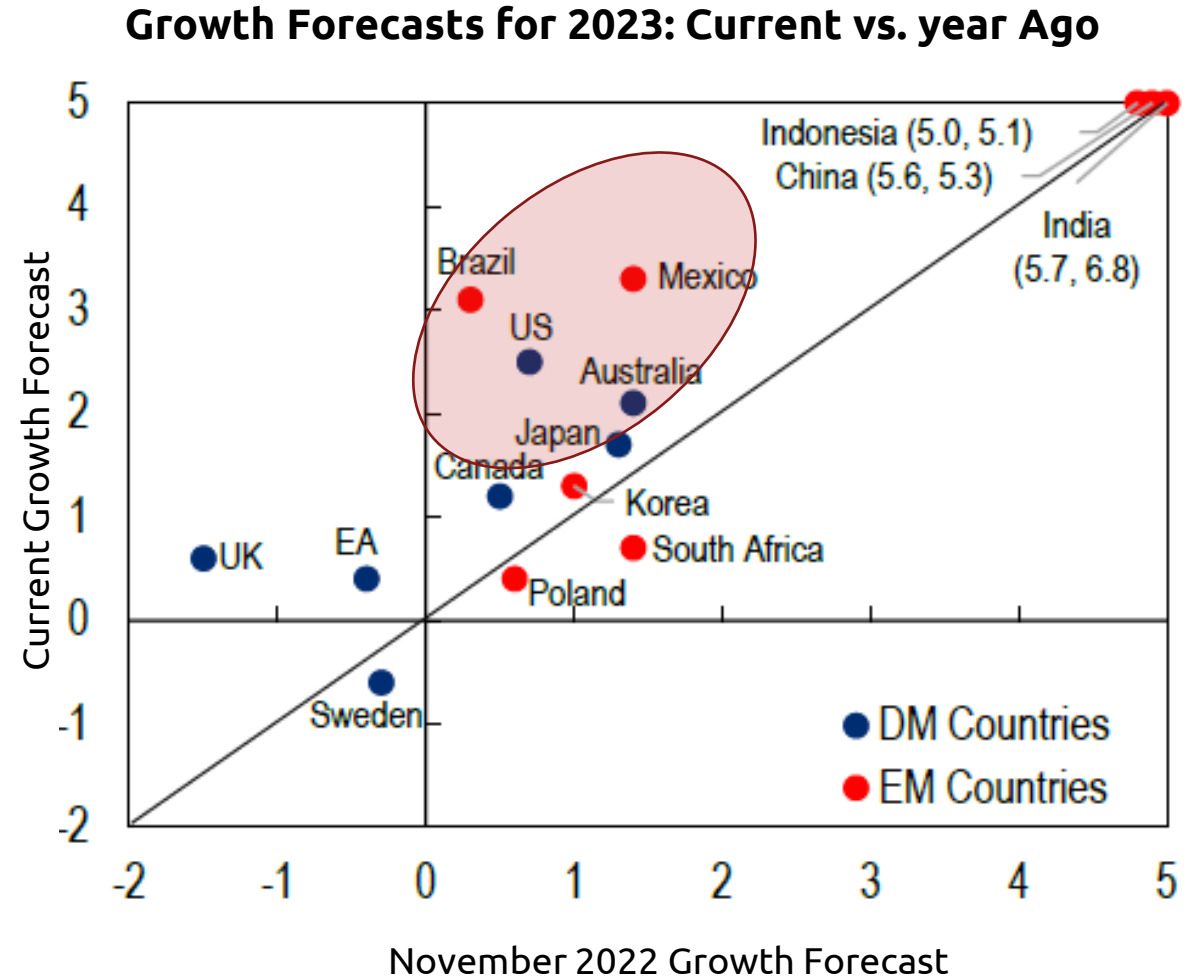
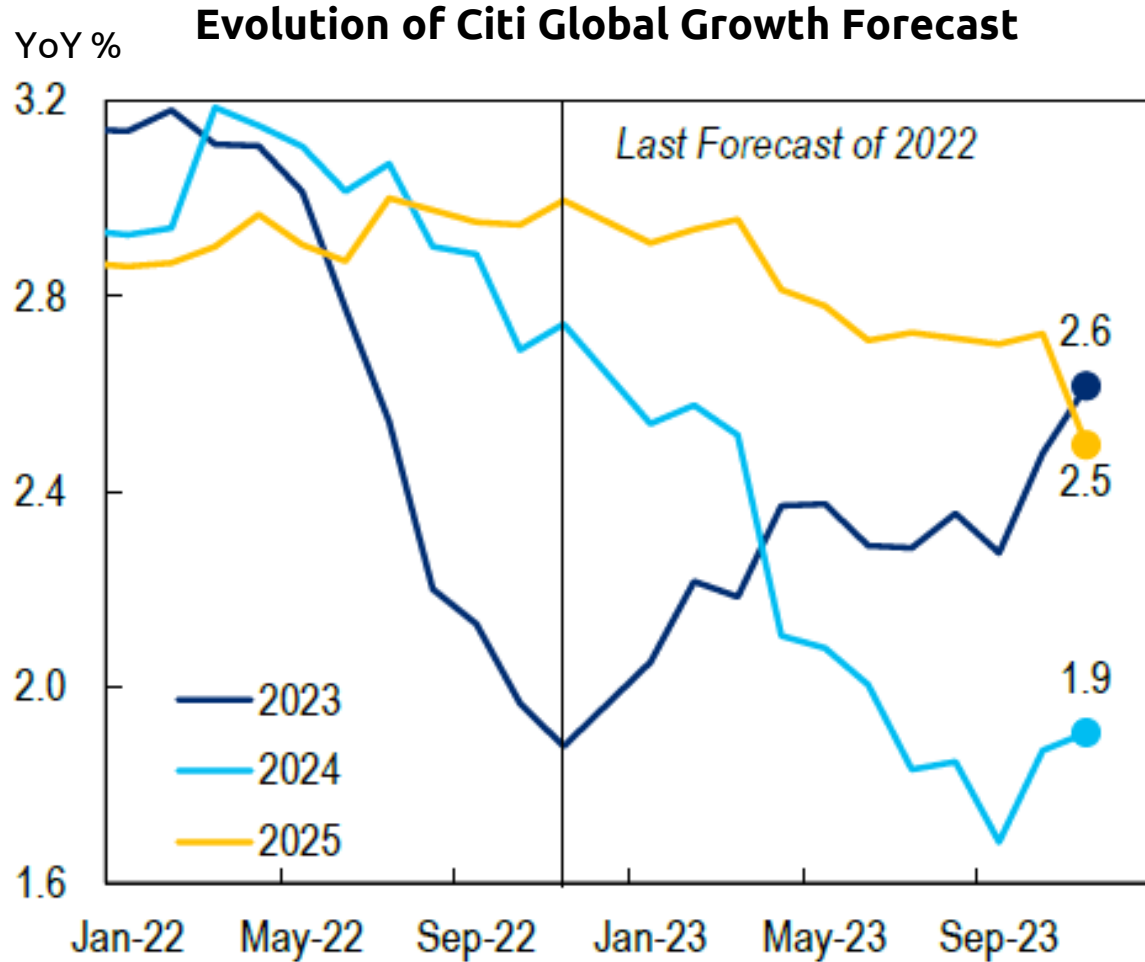
# **EQUITY MARKET OUTLOOK**

**MARCH 2024**



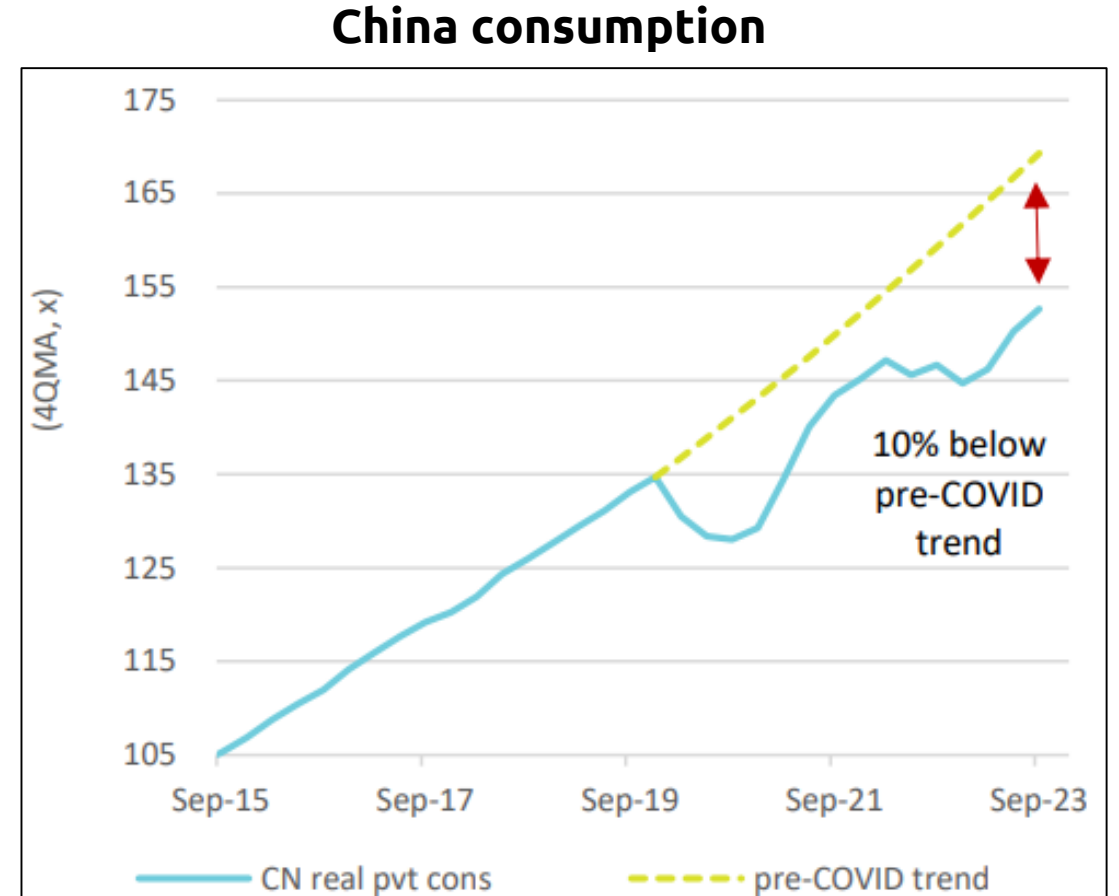
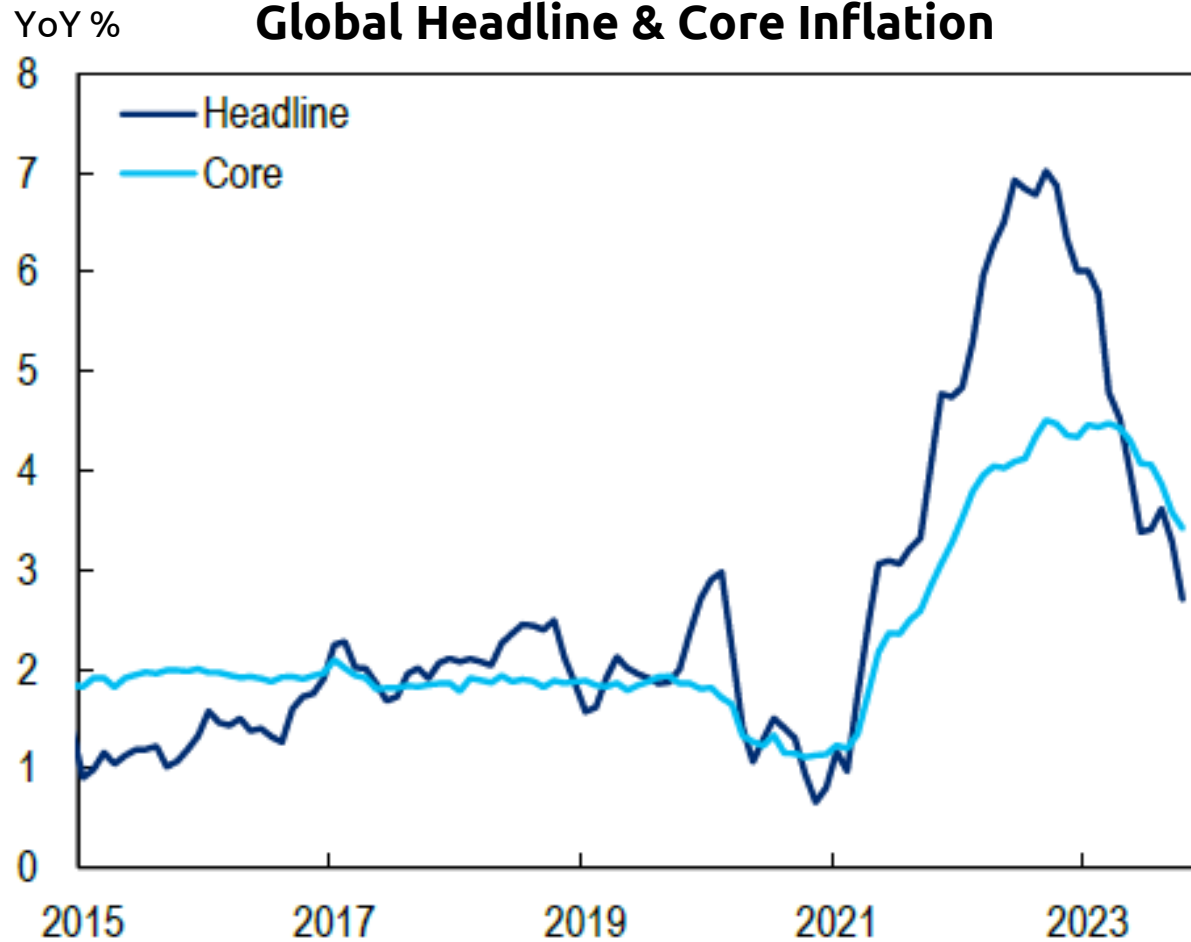
# **GLOBAL GROWTH**

# Global Growth Surprised Positively In 2023



Source: Citi Global Economic Outlook & Strategy Report, As per latest data available

# Inflation Fell While China Struggled For Growth



Source: Bloomberg, Nuvama Research, As per latest data available

Source: Citi Global Economic Outlook & Strategy Report, Data as of December 2023

# Three Probable Scenarios For Global Economy In 2024

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## 1. Soft landing (“1994-95” Cycle)

- Inflation falls without hurting growth too much
- Globally economy would slow down in 2024 but avoid a deep or long recession
- Due to the resilience of the global economy in 2023 this is the base case
- For global equities this seems neutral as fair amount of this is priced in

## 2. Low real rate to support economy (“1945-50” Cycle)

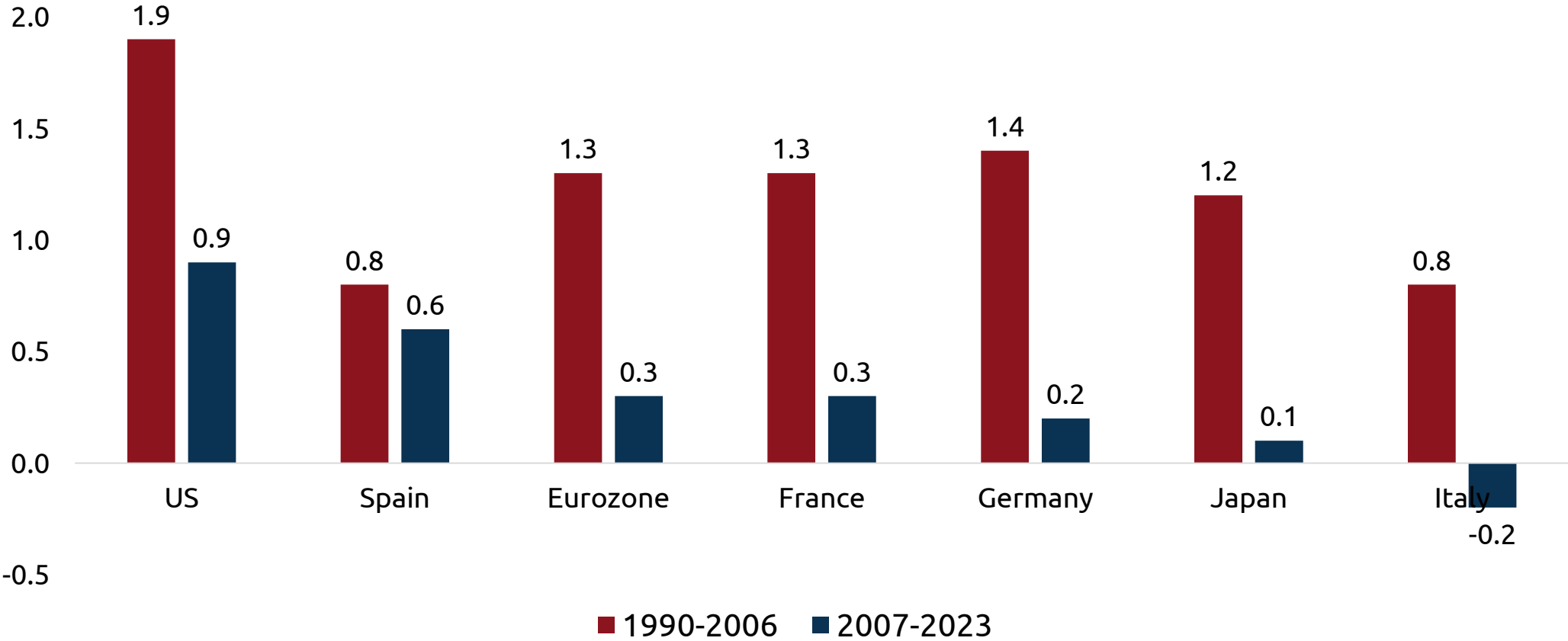
- Governments/Central banks run low to negative real rates to ensure nominal growth is high – for this central banks have to become very dovish
- This would help deflate the high government debt in developed countries
- This is the second most likely outcome
- For global equities this would be positive as cut in interest rates can help both earnings and valuations

## 3. Resurgence of inflation (“1973-79” Cycle)

- Inflation comes back to high levels due to supply chain shortages and wage spiral
- Probability looks quite low as globally demand is weak and commodity prices soft
- This can be negative for equities as long persistence of inflation can require very high interest rates to control it

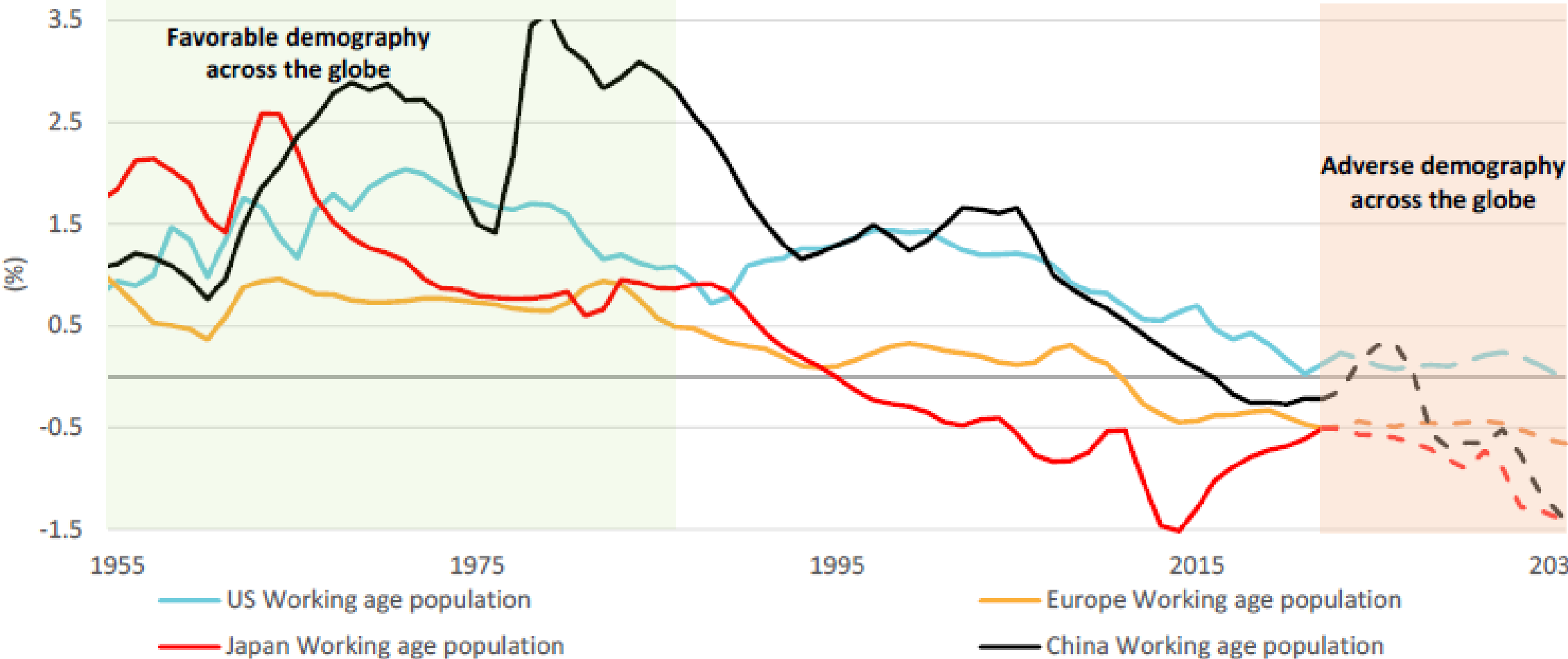
# Developed Countries Struggling For Growth

## Output Per Employee (%) – 1990 to 2023



Source: TED, Macquarie Global Strategy, Data as of December 2023

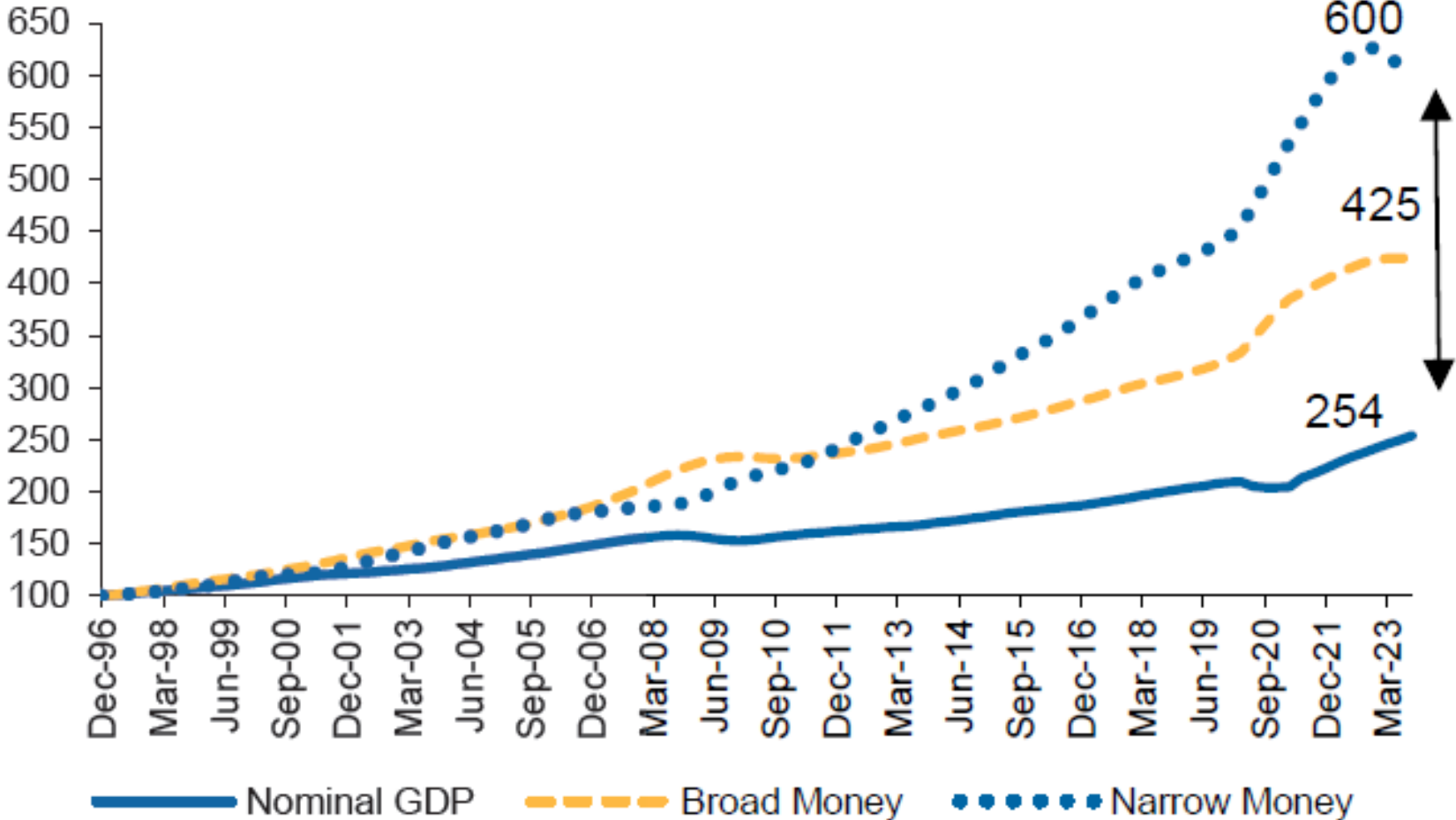
# Long Term Challenge To Global Growth - Demographics



Source: ILO, Nuvama Research

# Long Term Challenge To Global Growth - Debt

## G4 – Money Supply vs Nominal GDP



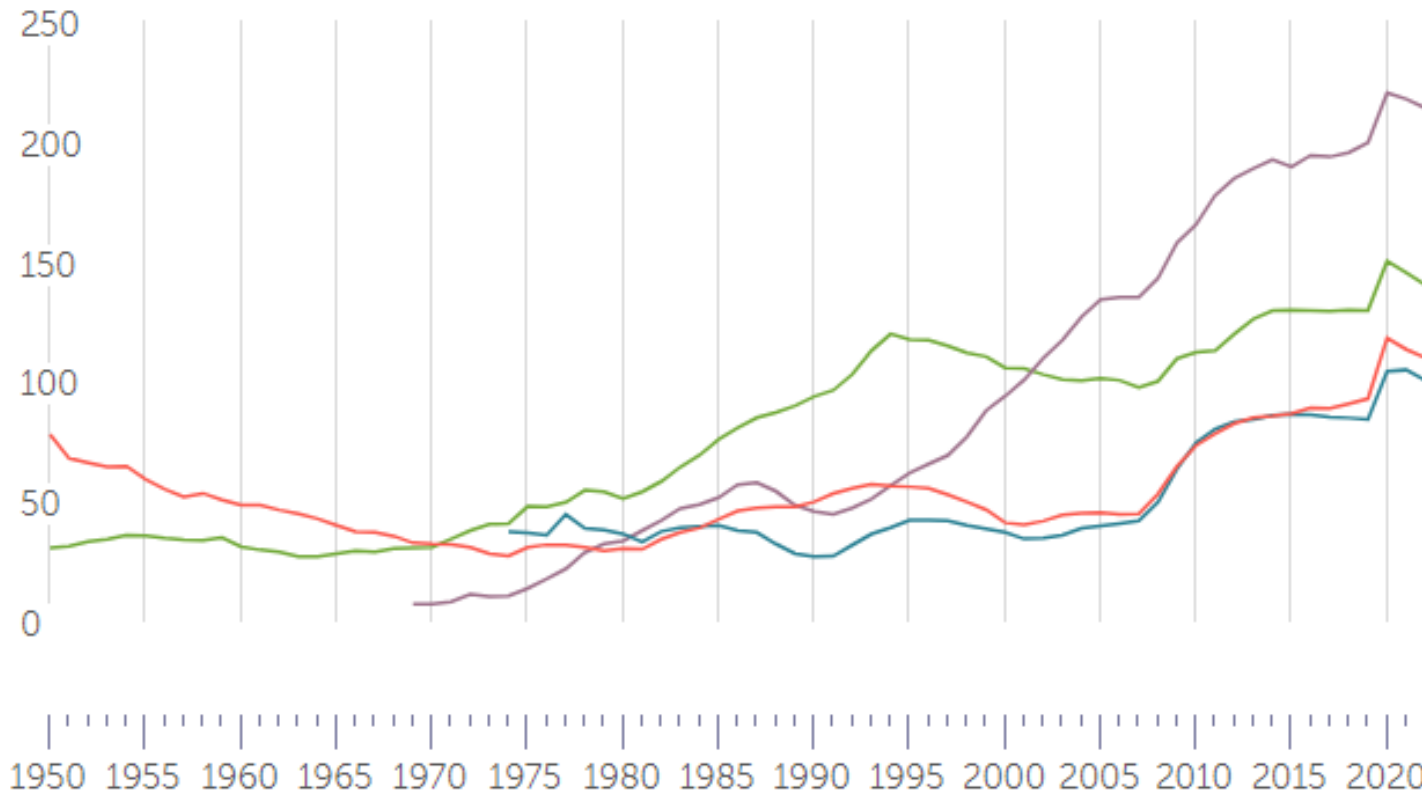
Source: Bloomberg, Macquarie Global Strategy



# Government Debt Has Exploded

TREND (1950-2022)

Percent of GDP

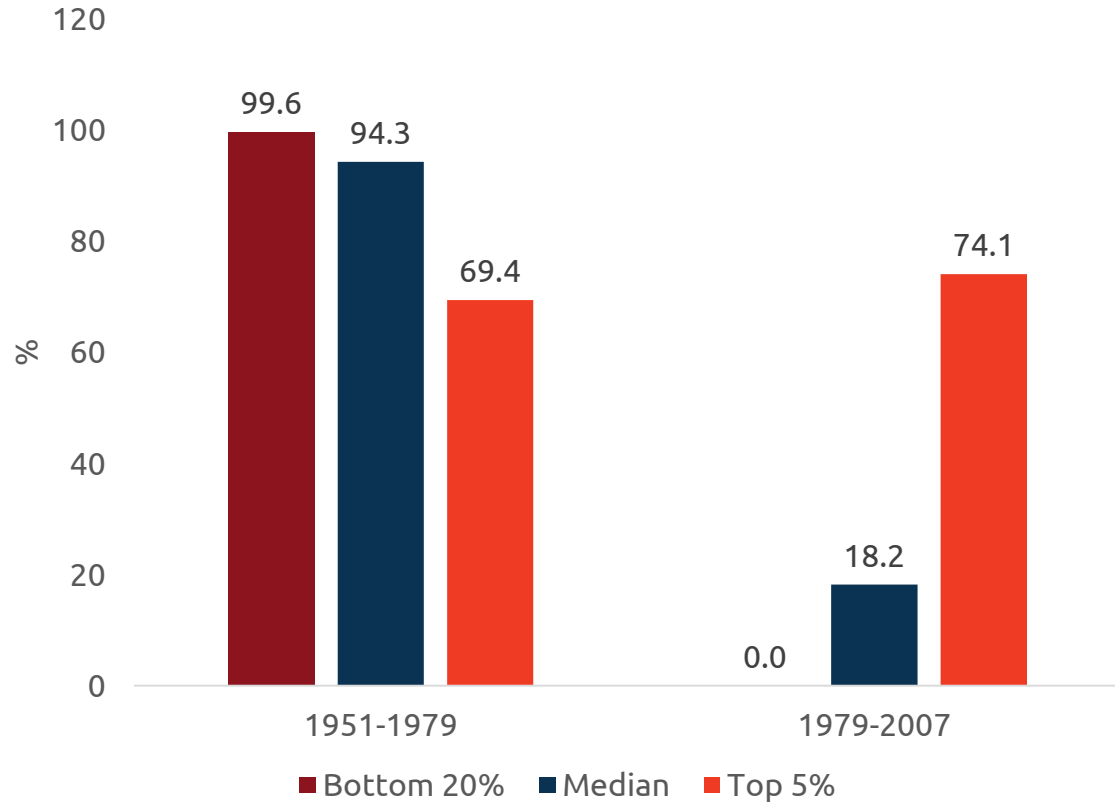


Italy	140.57
Japan	214.27
United Kingdom	100.75
United States	110.15

Source: IMF

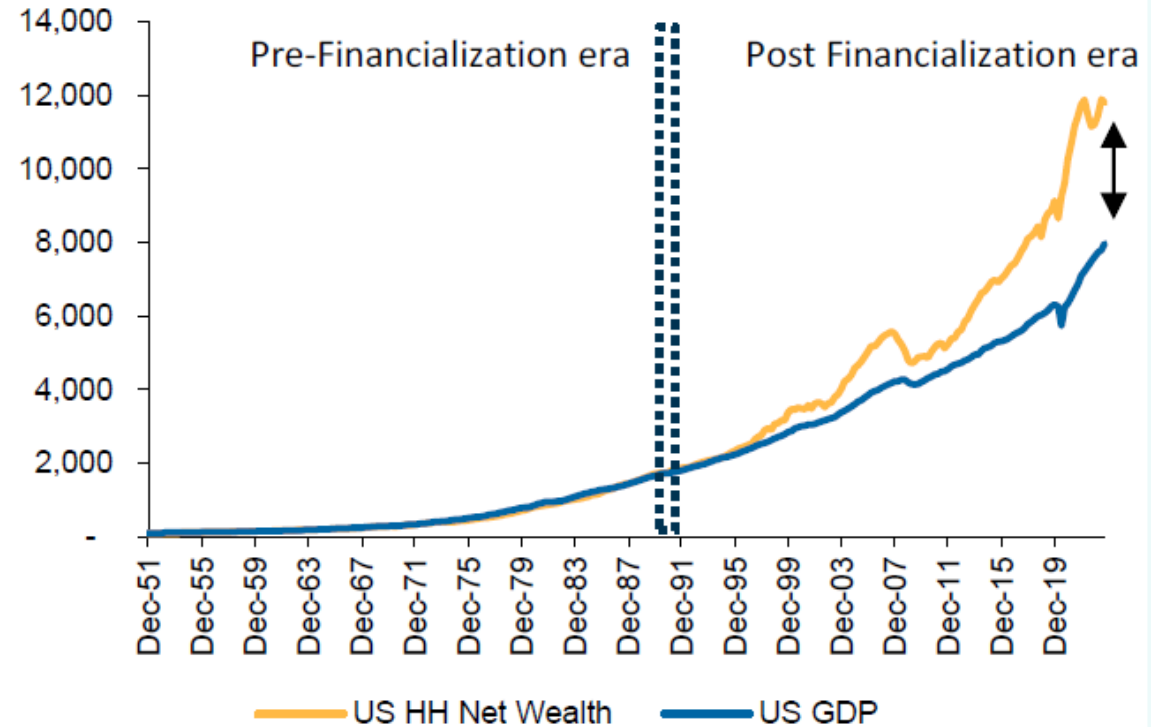
# Long Term Challenge To Global Growth - Inequality

## Average US HH Real Income Growth



Source: St. Louis Fed Economic Data, Nuvama Research

## US Household Wealth vs GDP



Source: Fed, Macquarie Global Strategy



**LIQUIDITY**

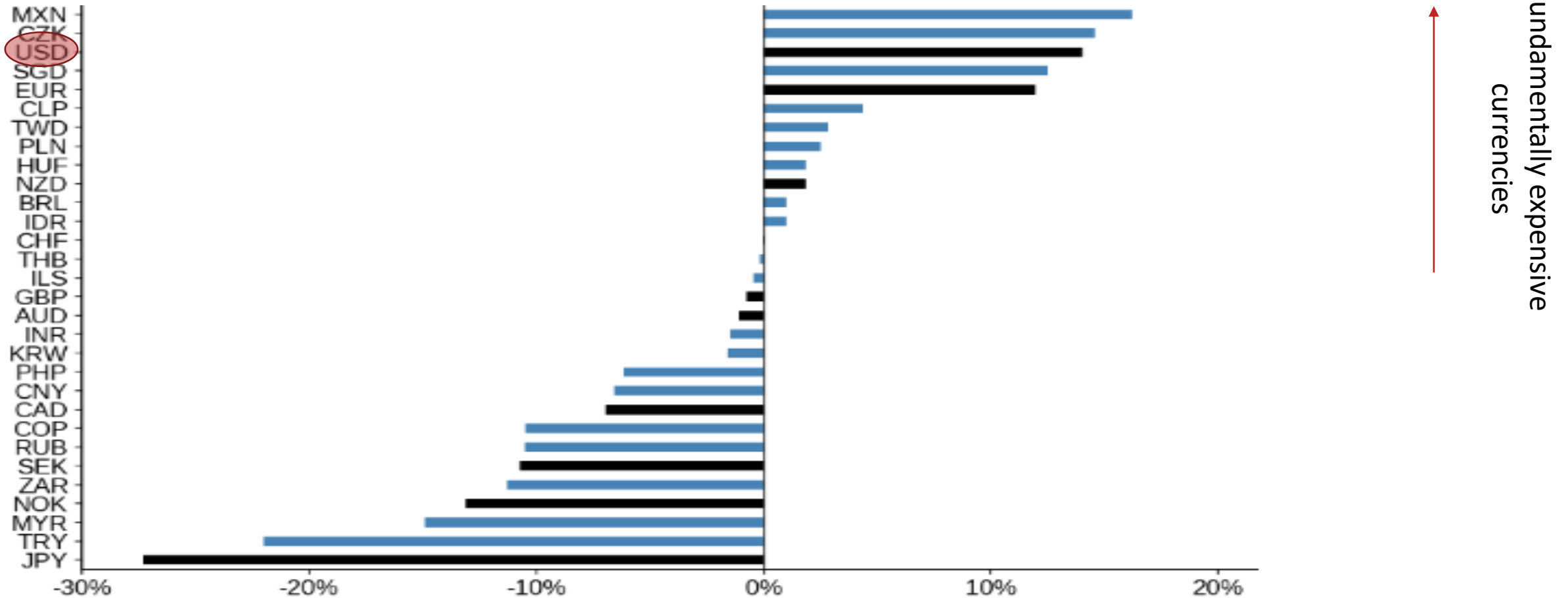
## Key Factors For Liquidity

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- USD – INR dynamics
- Global real rates
- Domestic real rates

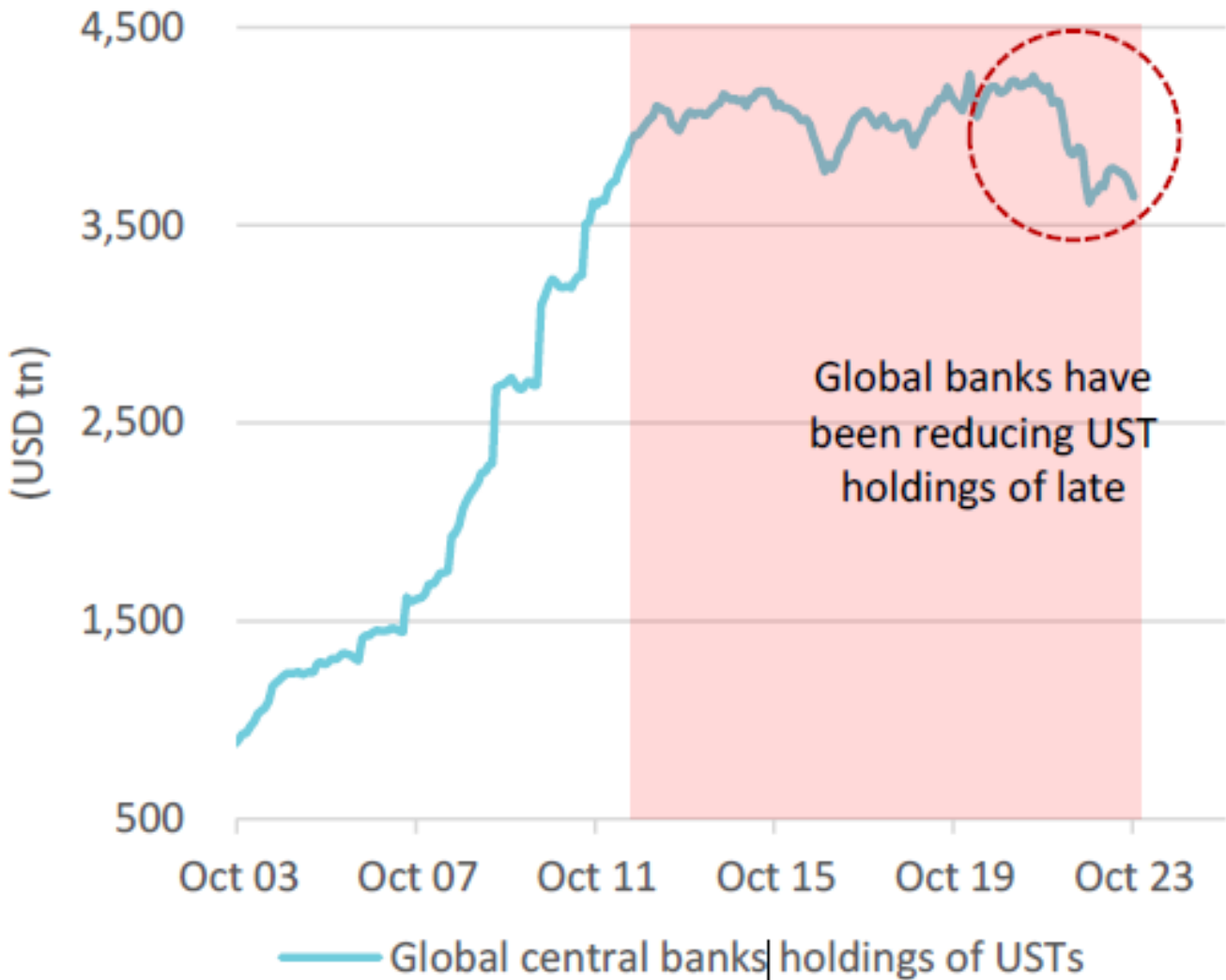
# Liquidity Outlook – USD Valuation Looks Stretched

Current deviation of average REER PPI/CPI vs 15 year moving average, %. +/- value indicated currency is rich/cheap



Source: JP Morgan, REER is Real Effective Exchange Rate, PPI is Producer Price Index, CPI is Consumer Price Index

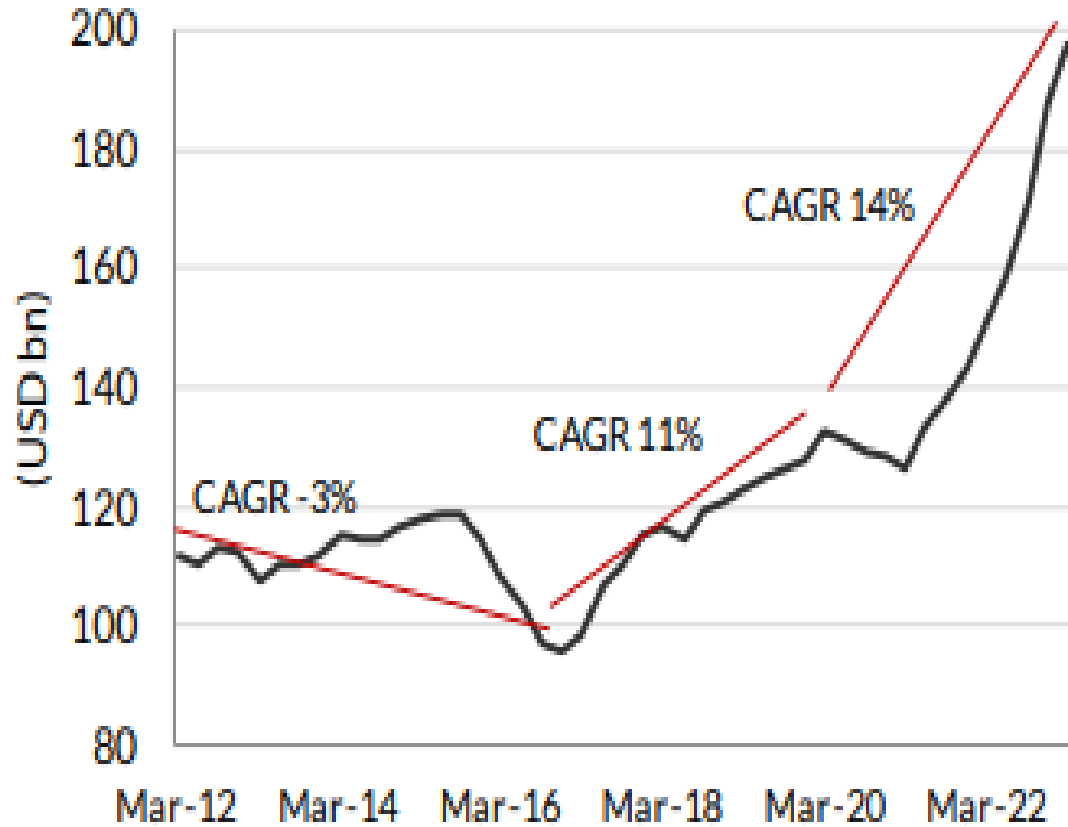
# Liquidity Outlook – USD Trajectory



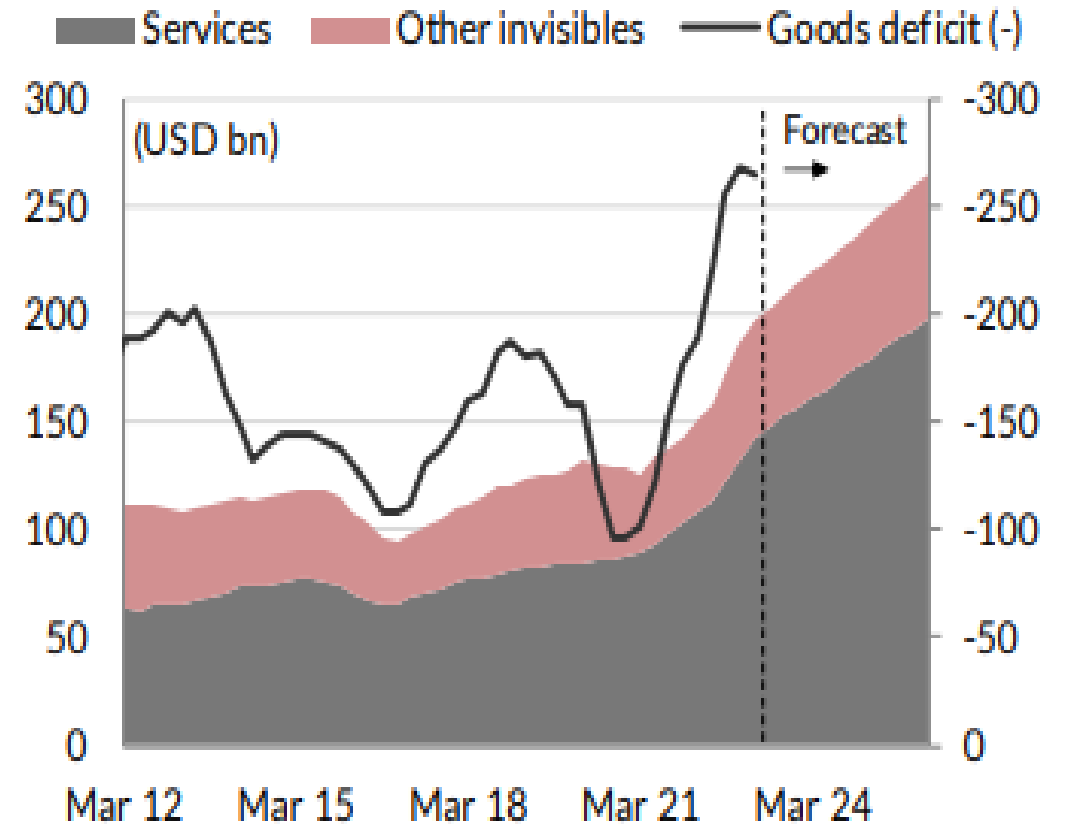
Source: Bloomberg, Nuvama Research

# Liquidity Outlook – Structural Improvement In CAD For India

India's net services exports (Rolling 12M)



India's highest ever goods trade deficit is USD 265 bn



Source: Axis Capital; \* Services exports includes primary income and transfers, Latest data as of August 2023

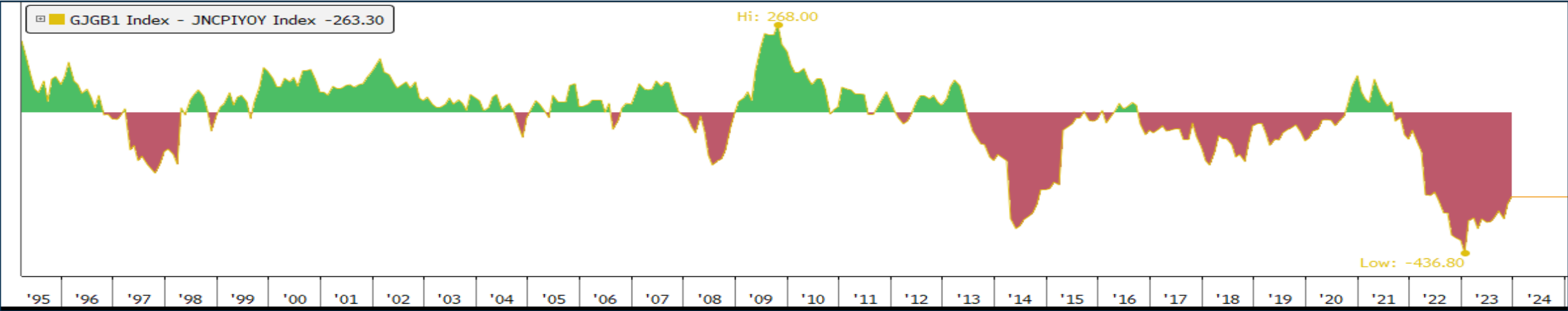
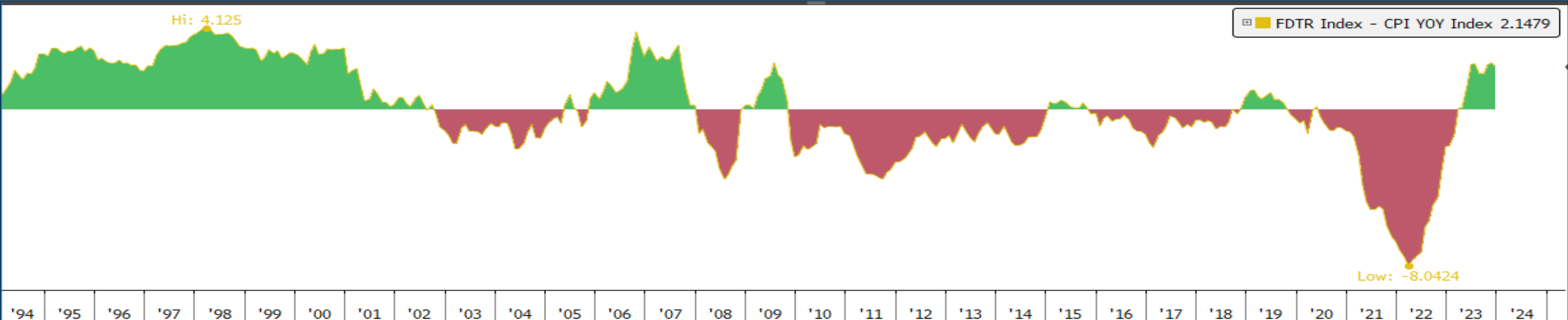
## India Relative To Other Emerging Markets

COUNTRY	WEIGHT IN EM INDEX	DOMESTIC GROWTH	EXPORT DEPENDANCE	COMMODITY DEPENDANCE	GEOPOLITICAL OUTLOOK
China	27	Weak	High	Medium	Weak
Taiwan	15	Medium	High	Low	Weak
South Korea	12	Medium	High	Low	High
Brazil + Saudi + South Africa	13	Medium	High	High	Medium
India	14	High	Medium	Low	High

Source: Bloomberg, Internal Research, As per latest data available

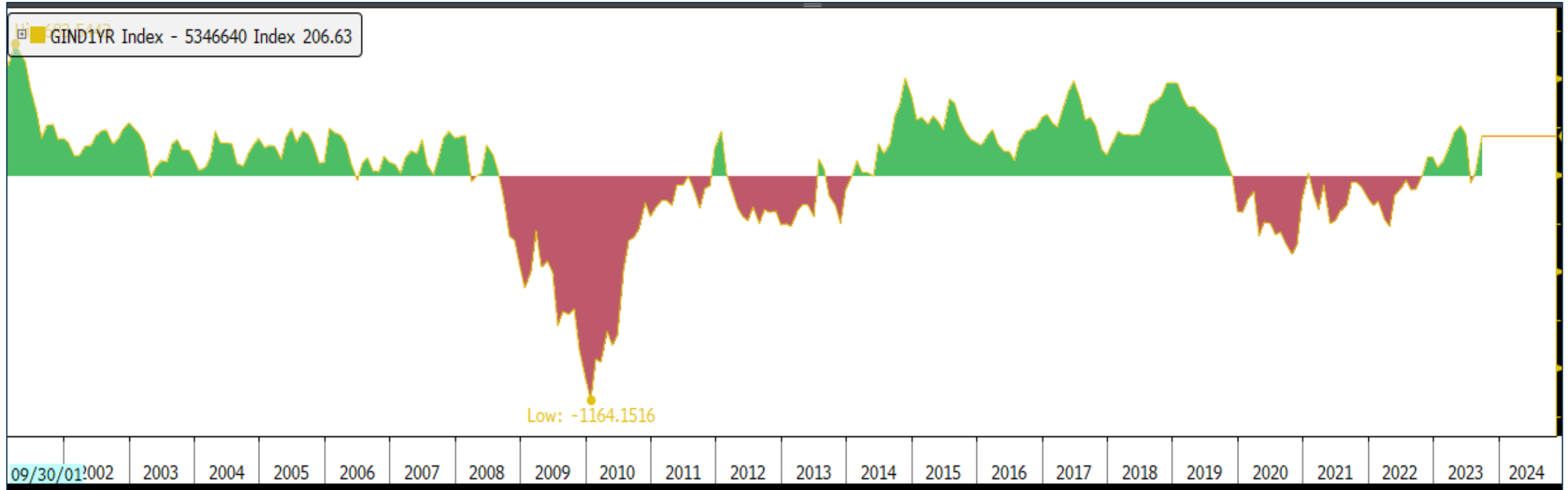


# Real Rates – US and Japan



Source: Bloomberg, Data as of January 2024

# Real Rates – India



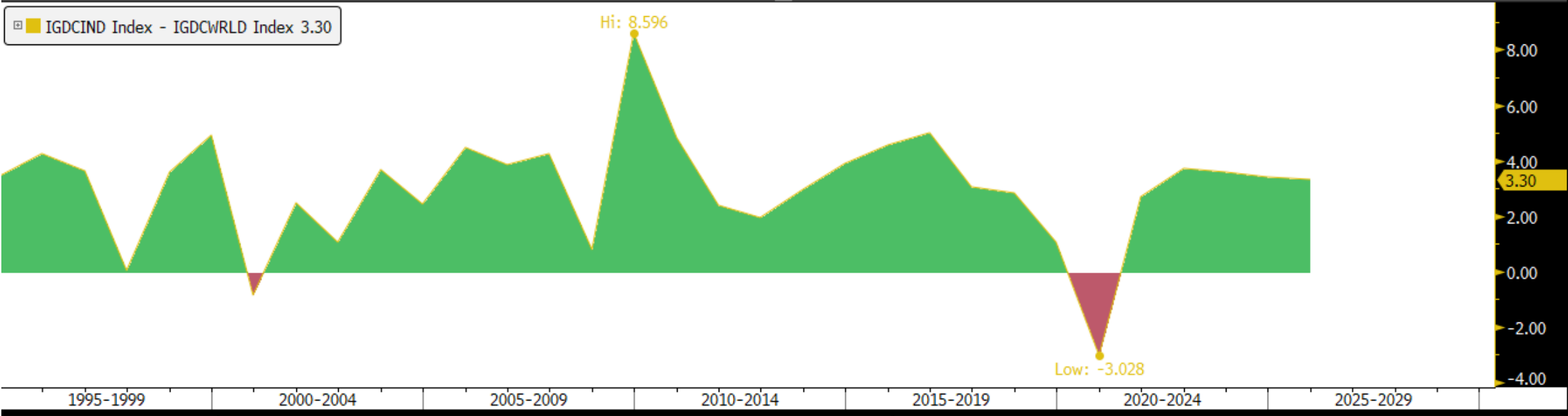
## ISSUES:

- Tax rate differential among asset classes
- CPI measurement



# DOMESTIC GROWTH

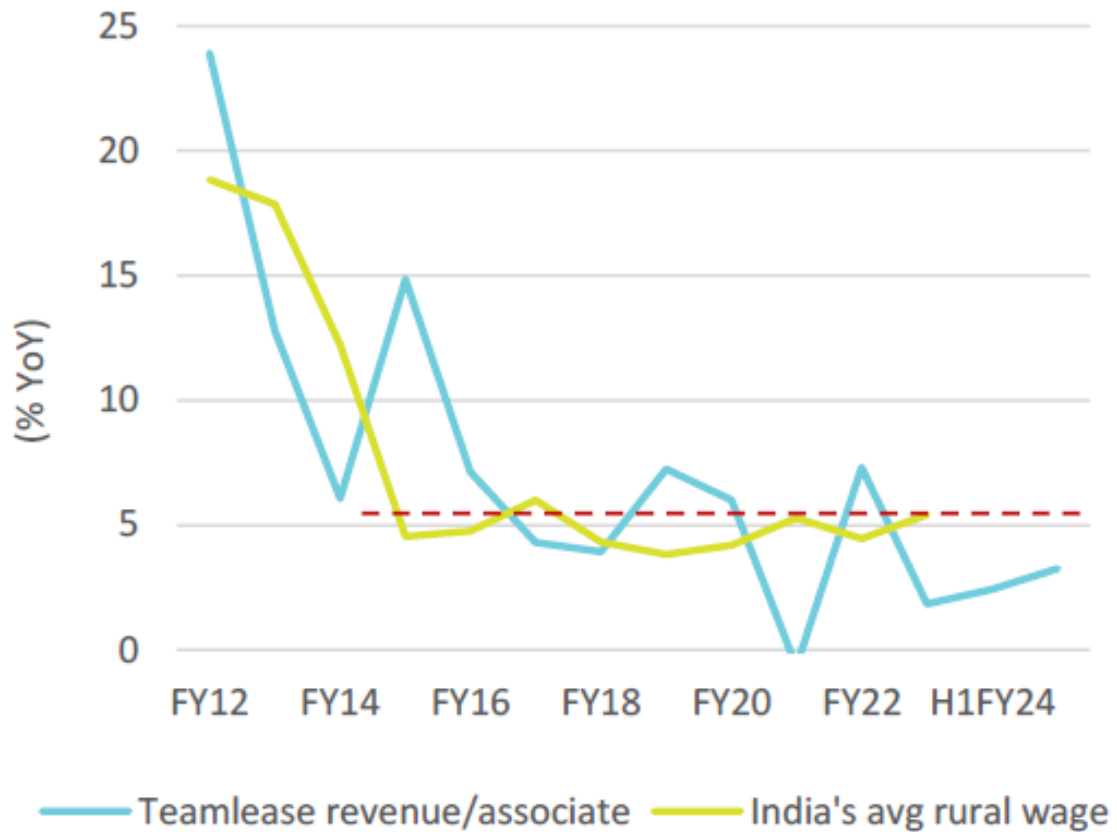
# GDP Growth – India vs World



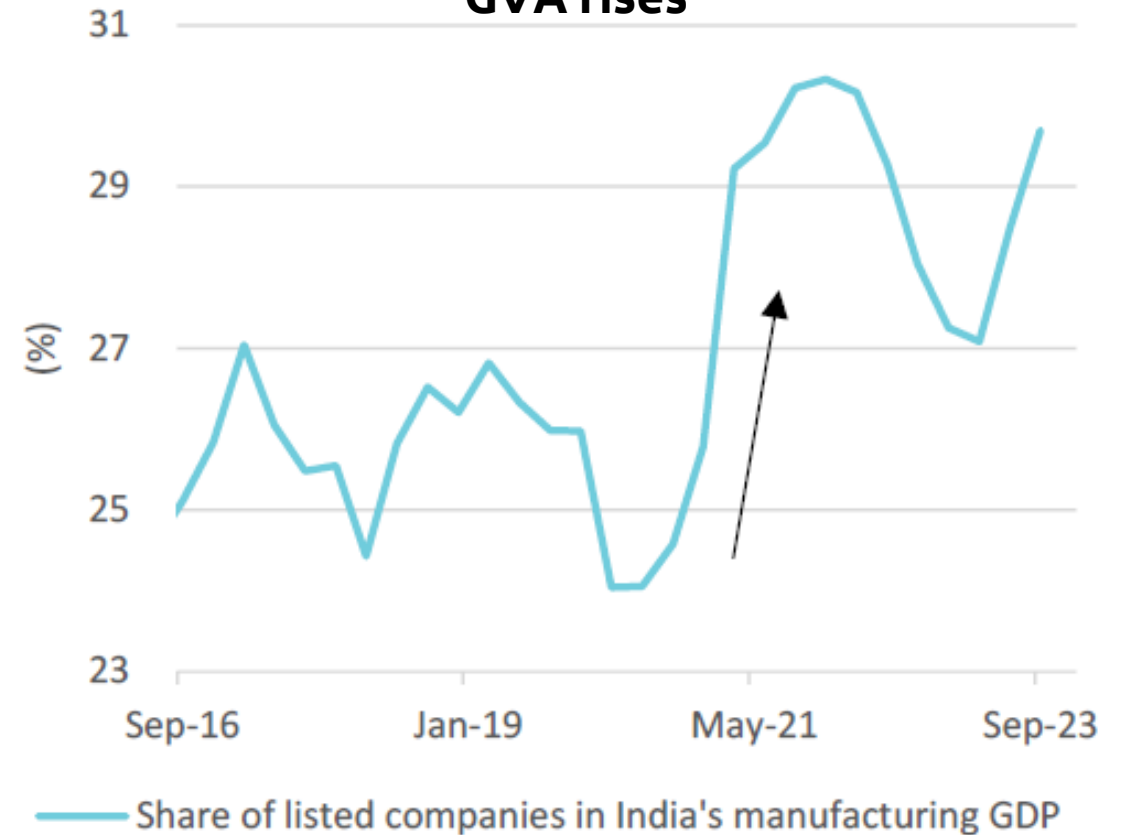
Source: Bloomberg, Data as of January 2024

# INDIA – Organized vs Unorganized

Rural wage growth/Teamlease growth weak



Share of organised corporates in manufacturing GVA rises



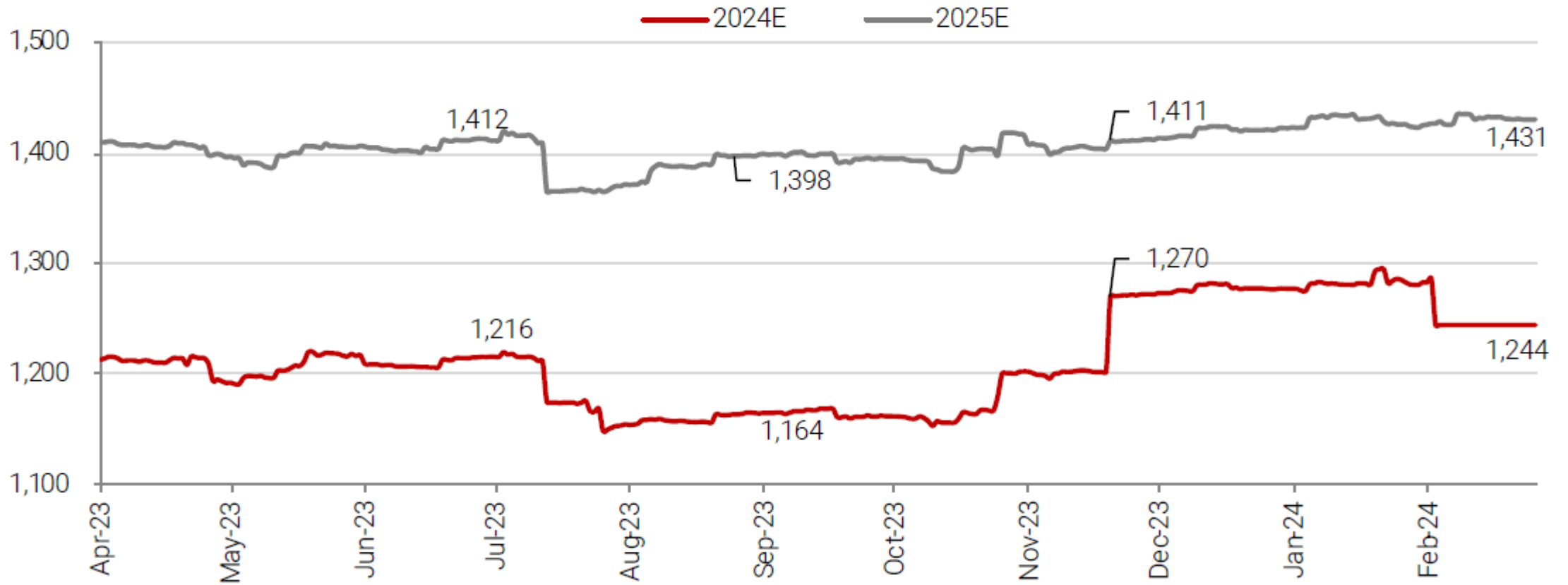
Source: Company, CMIE, Nuvama Research

## INDIA – Divergence In States

- ✓ Per capita state GDP annual growth rate average 2012-22: More developed states continue to outpace lesser developed

State	Growth (%)	State	Growth (%)
Maharashtra	3%	UP	3%
Gujarat	7%	Bihar	3%
TN	5%	Orissa	5%
Karnataka	6%	West Bengal	3%
Delhi	3%	MP	3%
<b>AVERAGE</b>	<b>4.8%</b>	<b>AVERAGE</b>	<b>3.4%</b>

# Consensus earnings trajectory (S&P BSE500 EPS)



Source: Bloomberg, Kotak Institutional Equities estimates as of latest data available

## Highlights of Recent Budget

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- Significant benefits indirectly through macro stability
  - *Lower inflation, lower interest rates, lower CAD*
  - *Further improves sentiment on INR*
- Conservative assumptions
  - *Tax, non-tax income, etc.*
- Healthy allocations to infrastructure, affordable housing, etc.
  - *Provides growth momentum but going forward private sector has to pick up*





# **PORTFOLIO STRATEGY**

# Structurally Small Caps Better Positioned

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## GROWTH

- Weak global growth affects many large caps
- Also puts a lid on India's growth
- High inequality also restricts the growth of big industries
- Larger companies more dependent on macro growth

## OPPORTUNITY

- Tech disruption
- Policy change
- Global trends like China+1, power capex, etc.
- Healthy private equity ecosystem improves pipeline/corporate governance

## LIQUIDITY

- Low real rates globally
- USD-INR looks attractive for foreign investors
- Most other big emerging markets have structural issues
- Domestic - Tax differential in favour of equities vs bonds

## Indian Economy – Segment Outlook

COMPONENT	OUTLOOK	PREFERRED SEGMENTS
<ul style="list-style-type: none"> <li>Affluent Consumption (Real estate, Modern retail, Hotels, Aviation etc)</li> </ul>	<ul style="list-style-type: none"> <li>✓ Has been strong but high interest rates and pent-up demand slowing down are challenges</li> </ul>	<ul style="list-style-type: none"> <li>✓ Real Estate</li> </ul>
<ul style="list-style-type: none"> <li>Middle income and Rural Consumption (FMCG, 2-Wheelers, Cement, Consumer durable etc.)</li> </ul>	<ul style="list-style-type: none"> <li>✓ Weak but improving prospects as election spending plus effect of COVID/inflation wearing off</li> </ul>	<ul style="list-style-type: none"> <li>✓ Auto</li> </ul>
<ul style="list-style-type: none"> <li>Private Investment (Capital goods, Infra, Commercial Vehicle etc)</li> </ul>	<ul style="list-style-type: none"> <li>✓ Structural positives and strong narrative but global headwinds remain a risk</li> </ul>	<ul style="list-style-type: none"> <li>✓ Power and Energy transition</li> </ul>
<ul style="list-style-type: none"> <li>Government spending</li> </ul>	<ul style="list-style-type: none"> <li>✓ Has supported capex but overall weakening over next 2 years</li> </ul>	<ul style="list-style-type: none"> <li>✓ Railway Capex</li> </ul>
<ul style="list-style-type: none"> <li>Exports</li> </ul>	<ul style="list-style-type: none"> <li>✓ Global headwinds persist</li> </ul>	<ul style="list-style-type: none"> <li>✓ Pharma/Auto/Capital Goods</li> </ul>

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## Portfolio Strategy

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- ✓ Global economy seems to be headed for soft landing, but impact of monetary tightening still warrants caution
- ✓ Liquidity at global level is likely to be better going forward. Indian currency seems to be well placed.
- ✓ Prefer domestic plays to global. Rupee depreciation slowing down may impact exporter margins
- ✓ Overall value trade in financials, power, etc. seems to have still some room
- ✓ Valuation of some quality growth stocks is reasonable now
  - Internet, Insurance etc
- ✓ As nominal growth slows down niche small caps may provide healthy returns

# Disclaimer

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Thank you

