FUTURE GENERALI
TOTAL INSURANCE SOLUTIONS

Investment Snapshot

For the quarter ended in March - FY 2024

AT THE DAWN OF INDIA'S DECADE

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Year gone by for market

The narrative for Fiscal year 2024 was initially dominated by that of an imminent slowdown across major economies, given the backdrop of aggressive global interest rate hikes and an imminent contagion risk emanating from US banking mayhem & Credit Suisse collapse in March 2023. However, post the onset of FY24, there was a swift turn in the narrative as the outlook for global economy turned positive defying market expectations. This was aided by both investment spending and consumer spending holding up better than expected. While inflation has abated after peaking, the labor market has been extremely resilient. Consequently, we saw central banks across major global economies ending their monetary tightening streak in Jul'23 with the final Fed rate hike of this tightening cycle. Now that the rate hike cycle is behind, the central banks will look to remain status quo until inflation sustainably aligns with their respective targets.

Global equity markets sailed through volatility in Fiscal year 2024 stemming from several financial, corporate, political, and geo-political affairs viz. Israel-Hamas conflict, the ongoing Russia-Ukraine war, the US-China Trade war, and commercial real estate plight thought to likely imperil the regional banks. The defining feature was the polarized rally in the US markets with 'Magnificent 7' leading bulk of the gains having returned more than 106% in 2023, significantly outperforming Nasdaq's ~54% gain and S&P 500's ~24% gain.

Navigating through the uncertainty from adverse geo-political developments, Indian economy stood as an epitome of stability and resilience delivering a robust GDP growth of 8% + in the nine months FY24. Strong domestic demand for consumption and investment, along with the Government's continued emphasis on capital expenditure were seen as the key drivers of the growth. Indian equity markets too remained resilient in FY2024, navigating well through bouts of volatility, buoyed by the confidence of domestic investors in India's economic strength and growth prospects. This confidence culminated in consistent market recoveries and multiple new lifetime highs during the year despite selling by FPI in the secondary market. Benchmark Nifty50 index witnessed an incredible rise of ~29% in Fiscal year 2024, with Nifty Midcap 100 and Nifty Smallcap 100 index returning an eye-popping ~60% and ~70% too, respectively. Strong economic growth, solid corporate results and robust retail participation contributed significantly to the bullish trend.

Quarter gone by for markets

The momentum in markets sustained in Q4FY24. The US stock market was off to a soaring start on the back of an improved economic outlook combined with imminent rate cut expectations. S&P 500 and Nasdaq hit their respective record highs during the quarter with an improved market breadth shrugging off the downward revision in expectations of Fed rate cut in 2024 from 150bps cut expected at the beginning of the year to 75bps.

Indian economy was on a strong footing with high-frequency data continuing to indicate robust macro setup. Q3FY24 GDP print came in higher than expected at 8.4% YoY and full year FY24 GDP expected to be at 7.6%. The Interim Budget 2024-25 continued its thrust on capex with 17% expansion vis-à-vis FY24 revised estimate and reinforced fiscal prudence targeting 4.5% fiscal deficit by FY26. The overall borrowing estimate for FY25 significantly undershot estimates leading to softening of Indian 10y yields.

While Q4CY23 was a strong quarter on the back of unexpected wins by BJP in state elections, Indian equity markets witnessed some moderation in momentum in Q1CY24 and underperformed its global peers during the quarter. Nifty50 index largely remained flat in Jan'24 while the mid-cap and small-cap indices continued to soar. In Feb'24 and Mar'24, Nifty50 was up ~1% and ~1.5%, respectively, although, mid-caps and small caps lost their sheen.

Macro & Fixed Income outlook

India's macro-outlook continues to improve with relatively higher growth outlook both in terms of GDP and rising corporate profitability augmented by receding fiscal deficit. The year was characterized by continued focus on capital expenditure in sectors like Power, Railways, Roads & Defense with investments by corporate India increasing, catalyzed by production linked incentive schemes. In India, the high frequency indicators continue to show resilience and stability. The GDP growth continues to remain strong aided by lower subsidies, strong government capex and rebound in manufacturing. While a flare-up in geo-political tensions can play spoilsport, we remain constructive on the Indian economy.

From an Interest Rate cuts standpoint, globally Interest rate hiking cycle has ended across economies (ex-Japan). Evidently markets have tempered down their expectations around quantum of rate cuts, from initial expectations of ~6-7 cuts in 2024 to that of 2 cuts now in

2024, lower than Fed's dot plot of 3 cuts in 2024. This change in narrative largely stems from sticky inflation prints, resilient growth and labour market dynamics. While growth in the US has been holding up, we expect some moderation going forward coupled with a downward trajectory in inflation towards Fed's target and would beckon Fed to embark on rate cut cycle. The current evolving circumstances with respect to escalating oil prices, geopolitical tensions do impart uncertainty and may delay the timing of rate cuts, however, we reckon it's just a matter of time and 2 rate cuts are imminent in 2024. From domestic standpoint, we don't expect RBI to embark on an aggressive rate cut cycle, given that growth outlook remains strong and inflation trajectory is well on track to be in RBI's target range. However, uncertainty persisting related to weather, upturn in crude oil prices and geopolitical tensions are likely to inject uncertainties into inflation's downtrend, thus warranting RBI to maintain its cautious and wait & watch approach. Overall, with the likely pivot from central banks and a favorable demand-supply outlook, we expect RBI to follow suit, although rate cut cycle in India is likely to be a shallow one of 50 bps rate cut in 2H2024.

India Government Bond (IGB) yields have seen less volatility compared to the advanced economies. With the fiscally expansionary economic cycle and tight monetary condition, shape of the yield curve is flattish. Going ahead with a favorable demand-supply outlook and likely pivot from central bank, we expect IGB yields to soften, and curve to steepen over the next few quarters.

Indian bond yields were aided by favorable domestic cues with lower-than-expected Gsec Borrowing (53.1% of total FY25BE vis-à-vis expectations of ~58-60%). With most of the supply being in the belly and duration of the curve, our view of steepening gets further credence. Indian market has already started to witness a monthly inflow of US$2bn by active managers post its inclusion in JP Morgan bond index. Albeit India's bond inclusion in FTSE Emerging Market Government Bond Index (EMGBI) has been deferred, they continue to acknowledge the progress in India and has kept the country on watch list for an upgrade and possible inclusion. Amid recent rise in US Bond yields and crude prices, we reckon the Indian bond yields are likely to remain under check in the interim. However, we continue to have a constructive view on Indian IGB's given the favorable macro back drop, contained supply and robust demand with bond inclusion in the horizon.

Equity market outlook

Clearly the stupendous rally seen in the domestic Equity markets reflects the exuberance of having policy continuity, goldilocks macro (strong economic growth, contained inflation, stable rupee & structural capex push) and impending Fed rate cuts in latter half of 2024. Going forward, the direction of the markets in the near-term will be pegged to – i) election outcomes, ii) the direction of US Fed and RBI, and iii) corporate earnings and guidance. Any negative surprises may have negative ramifications on the market, especially in Indian Small & Midcap space, which have massively outperformed large caps in 2023.

We are cautiously optimistic on Indian Equity markets. We believe the backdrop for Indian equities is conducive with strong GDP growth and strong earnings performance driven by domestic facing sectors like BFSI, Cement, Infrastructure & Capital Goods. Furthermore, monsoon is also pegged to be normal which is important for rural recovery and exports are rebounding as monetary tightening has eased in developed economies. Liquidity is expected to remain extremely strong aided by India's increased weights in major global equity indices and strong & consistent domestic inflows. We believe the stability in Indian markets will also be infused by the general elections due in May'24, wherein the incumbent is likely to continue term resulting in policy continuity and a stable government.

Our caution, however, stems from the recent run up in Indian Small & Midcap stocks which has created certain pockets of exuberance which may lead to some correction in the broader markets. The sharp outperformance by mid and small caps compared to large caps in Fiscal year 2024 has set the stage for a reversion to mean in fiscal year 2025. We therefore find relative comfort in large cap names and remain selective in our portfolio construction. Thus, Indian Equity markets present an attractive opportunity given the favourable domestic macro backdrop and we expect Indian equities to continue to command better valuation premium compared to EM peers. Given this construct, we remain constructive on equities as an asset class and history has exemplified that we should be believers in the ability of Equities to compound wealth over long period of time. We advise investors to partake in long-term potential of India and stay on course to leverage any dips, as an opportunity to buy.

Snapshot of Macro Indicators

Indicators	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24
Real GDP % YoY	3.4	21.6	9.1	5.2	4.0	13.2	6.3	4.4	6.1	8.2	8.1	8.4
Real GVA % YoY	6.3	20.3	9.3	4.7	3.9	12.1	5.5	4.6	6.5	8.2	7.7	6.5
Agriculture	3.4	3.4	4.8	2.3	4.1	2.5	2.4	3.7	5.5	3.5	1.6	-0.8
Industry	16.3	49.1	8.1	1.6	2.3	9.6	-0.4	2.4	4.7	5.0	13.6	10.9
Services	1.5	12.5	11.1	7.6	4.9	16.3	9.4	6.2	7.4	10.4	6.9	7.4
Export Growth %	20.6	85.9	38.6	41.0	29.4	26.1	7.1	-3.1	-1.9	-15.4	-3.0	1.0
Import Growth %	19.3	107.5	62.7	50.7	30.3	45.0	27.4	4.9	-2.4	-13.8	-10.9	0.7
Trade balance $ bn	-41.3	-31.5	-44.7	-60.2	-54.6	-62.7	-78.3	-72.8	-52.6	-56.3	-61.0	-71.6
CAD ($ bn)	-8.2	6.6	-9.7	-22.2	-13.4	-18.4	-30.9	-16.8	-1.4	-9.2	-11.4	-10.5
BOP ($ bn)	3.4	31.9	31.2	0.5	-16.1	4.6	-30.4	11.1	5.6	24.4	2.5	7.7
CAD as % of GDP	-1.0	1.0	-1.3	-2.7	-1.6	-2.1	-3.8	-2.2	-0.2	-1.0	-1.3	-1.2

Source: Bloomberg, Reuters & FG Research

Indicators	Yearly Data											
	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
GDP Growth %	5.5	6.4	7.4	8.0	8.3	6.8	6.5	4	-7.3	8.7	7	
GVA growth %	5.4	6.1	7.2	8.0	8	6.2	5.9	4.1	-6.2	8.1	6.7	
CPI Inflation Avg	9.9	9.4	5.9	4.9	4.5	3.6	3.4	4.8	6.3	5.5	6.7	5.4
Exports (US$bn)	307	319	317	266	280	309	337	320	296	429	454	437
Imports (US$bn)	502	466	461	396	393	469	518	478	399	619	718	677.5
Trade Deficit (US$bn)	-196	-148	-144	-130	-112	-160	-180	-158	-102	-190	-264	-240.8
Trade Deficit (%of GDP)	-10.7	-7.9	-7.1	-6.2	-4.9	-6	-6.7	-5.5	-3.8	-6	-7.8	
Brent Crude oil prices Y/E	109.3	107	53.3	38.7	52.7	69.1	70.3	21.5	62.4	106.6	79.3	86.96
Oil Import USD Bn	163.8	164.9	137.8	82.6	86.9	108.7	141.1	130.5	82.4	162	208	192.1
CAD $ Bn	-88.2	-32.4	-27.9	-22.2	-15.3	-48.7	-57.3	-24.6	24	-38.8	-61.3	
CAD (% of GDP)	-4.8	-1.7	-1.4	-1.1	-0.7	-1.8	-2.1	-0.9	0.9	-1.2	-1.8	
Capital account balance (US$bn)	89.3	48.8	90	41.1	36.5	91.4	54.4	79.1	63.7	86	70	
FDI (US$bn)	19.8	21.6	32.6	36	35.6	30.3	30.7	43	44	39	35	
FII (US$bn)	26.9	4.8	40.9	-4.1	7.6	22.1	-0.6	1.4	36.1	-17	-5	24.3
Total BoP (US$bn)	3.8	15.5	61.4	17.9	21.6	43.6	-3.3	59.4	87.3	47.5	8.7	
Fiscal Deficit %	-4.9	-4.5	-4.1	-3.9	-3.5	-3.5	-3.4	-4.6	-9.2	-6.7	-5.9	
Foreign Reserves (US$bn)	292	304	342	360	370	425	413	478	579	607	579	643
Rupee (INR/$) Average	54.5	60.9	61.2	65.7	67.1	64.5	69.9	71	74.2	74.4	82.2	83.4
Repo Rate year ending	7.5	8	7.5	6.8	6.3	6	6.3	4.4	4.4	4	6.5	6.5
US-10 year end	1.8	2.7	1.9	1.8	2.4	2.7	2.4	0.7	1.7	2.3	3.5	4.2
GIND-10 year end	8	8.9	7.8	7.4	7.1	7.4	7.4	6.1	6.2	6.8	7.3	7.0

Source: Bloomberg, Reuters & FG Research

Market Performance

Performance of Indian Equities across Market Caps and Debt benchmarks as on March 31, 2024

Sector	7 year CAGR	5 year CAGR	3 year CAGR	1 year	6 months	3 months
Nifty	13.5%	13.9%	15.0%	28.6%	13.7%	2.7%
Sensex	13.9%	13.8%	14.2%	24.9%	11.9%	2.0%
Nifty Midcap Index	15.8%	21.4%	26.6%	60.1%	18.6%	4.1%
Nifty Smallcap Index	11.8%	18.0%	23.5%	69.8%	19.8%	0.8%
NIFTY Composite Debt Index	7.0%	7.5%	5.7%	8.2%	4.3%	2.5%

Source: Bloomberg, Reuters & FG Research

Global Indices Performance (%)

Sector	7 year CAGR	5 year CAGR	3 year CAGR	1 year	6 months	3 months
Dow Jones Index (USA)	9.8%	9.0%	6.5%	19.6%	18.8%	5.6%
S&P 500 (USA)	12.1%	13.1%	9.8%	27.9%	22.5%	10.2%
Nikkei 225 (Japan)	11.4%	13.7%	11.4%	44.0%	26.7%	20.6%
Hang Seng (Hong Kong)	-5.2%	-10.7%	-16.5%	-18.9%	-7.1%	-3.0%
FTSE 100 (UK)	1.2%	1.8%	5.8%	4.2%	4.5%	2.8%
Shanghai Composite Index (China)	-0.8%	-0.3%	-4.0%	-7.1%	-2.2%	2.2%
DAX (Germany)	6.0%	9.9%	7.2%	18.3%	20.2%	10.4%
iBovespa (Brazil)	10.2%	6.1%	3.2%	25.7%	9.9%	-4.5%

Source: Bloomberg, Reuters & FG Research

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