InCred Wealth

Consolidation ahead; Stagger deployment

Feb 2024

Equity View

Asset Class	Sub-category	Index	Closing Level	InCred Outlook	Key points
Indian Equities	Large Cap	Nifty 50	21,929	Positive	• Nifty, after an impressive 20% gain in CY23, has begun CY24 on a cautious note. The month was characterized by extreme volatility, with the benchmark oscillating in a wide range (~1,000 points) and pulling back from record highs to close flat. • On FY26 EPS, Nifty trades @~18.4x (at long period average), indicating the Nifty Index could post moderate returns in 2024. • Outcome for 2024 will be a function of pushes and pulls of global and local macro, how soon central banks initiate rate cuts, general elections outcome and improved margin of safety (rationalization in valuations). • In our view the base case for CY24 calls for government stability, strong earnings, initiation of rate cuts and benign commodity / energy prices. • Taking into account these factors, we see Nifty Index trading in the of 21,000 to 23,000 band for the coming year. Depending on the extent to which risks playout, the worst case for Nifty Index could be around 20,000 and the best case could be 25,000. • Investors could deploy 50% - 60% towards large cap equities as lumpsum investments with the balance getting staggered over the next 5 - 6 months.
	Mid and Small Cap	Nifty Midcap 100	48,985	Underweight	• Over the last 12 months, midcaps and smallcaps have gained 58% and 69%, respectively, while largecaps have risen 23%. • Midcap and Small cap indices are trading at a premium of 28% and 30% to their respective Long Period Averages • Nifty 50 or Large Cap stocks thus offer a reasonable margin of safety to allocate incrementally v/s Mid Caps and Small Caps. We would suggest steady state Large Cap allocation of 60%, Mid Cap of 25% and balance 15% in Small Caps for the coming year. • However, after the recent rally and relative rich valuations in SMID segment we believe it’s a good time to book profits and go marginally underweight small and mid caps by bringing allocations closer to 10% and 20% respectively. • Mid and small cap allocations to be staggered over 12m horizon but capped at tactically lower weights stated above.

Source: Prices as of 6th Feb’24; Bloomberg

Fixed Income View

InCred Wealth

Fixed Income	G-Sec	10-year G-Sec	7.07%	Positive on medium duration and high yield strategies	• Globally, markets have firmly entered a mature stage of the current rate hike cycle – post rapid and substantial hikes through 2022 • As we have been highlighting for quite some time, investment dynamics materially favours fixed income investors, given that real rates have firmly moved in the positive territory • Yield curve is relatively flat, and we are unlikely to see any significant change in the shape of the curve in the coming months. • Earlier, the US Fed held on to policy rates and signaled that rates could remain elevated for longer. With the recently concluded Fed policy, Fed seems to be indicating initiation of rate cuts in Q2CY2024 . • In our view, RBI's rate actions would be guided by the Fed's action. • We expect the RBI to initiate rate cuts towards H2CY2024 and cumulatively deliver 50bps – 75bps of rate cut • Staggered inclusion of Indian sovereign bonds in the JP Morgan index is expected to result in cumulative ~$25bn of FPI inflows in the bond market. No major populist announcements in the Budget, lower net (and gross) market borrowings for FY25 and a 5.1% fiscal deficit target (as a % of GDP) were big positives for bond markets. • Given this backdrop, allocation towards duration / active debt strategies (elongating portfolio maturities) should be encouraged as it would help building a long-term strong core fixed income portfolio and help in generating meaningful net returns for investors. Allocation of upto 50% of fixed income portfolios towards such strategies are recommended. • Further, allocation of upto 35% of fixed income portfolio towards high yielding assets (bonds and structured credit funds) is suggested • Balance 15% of the fixed income portfolio can be allocated towards accrual / shorter term strategies
	AAA Corporate	3y AAA	7.75%		
	AA Corporate	3y AA	8.38%		
	A Corporate	3y A	10.03%		

Source: Bloomberg; Bond yields as on 7th Feb'24

Other Asset Class

InCred Wealth

Asset Class	Sub-category	Benchmark	Closing level	Incred Outlook	Key points
Global Equities	US	S&P 500	4,954	Neutral	• Offer diversified growth story with preference across world, transformational technology, biotechnology etc., themes that are not available in India • Prefer Global Equities to diversify portfolio from single currency and market risk • Recommend buy on dips or staggered investment strategy
	Europe	MSCI Europe	164		
	China	Shanghai Composite	2,789		
Precious Metal	Gold	LBMA USD	2,031	Neutral	• Recent strengthening of USD and rates expected to remain higher for longer has weighed on the gold market. • If the U.S. continues to post strong economic data, it could further support a stronger USD which traditionally has an inverse relationship with gold. • Should the conflict in the Middle East, inciting heightened geopolitical tensions, investors may gravitate towards the safety of US Treasuries, consequently driving down Treasury and global yields. This shift, in turn, bolsters the appeal of non-yielding gold as a safe-haven asset.
Commodities	Crude	Brent Crude (US$/bbl)	78.6	Neutral	• Even as OPEC+ agreed to maintain production cuts, oil prices are down nearly 10% in less than 5 days. • The decline accelerated after Wednesday's Fed meeting when Powell said a rate cut in March is unlikely. • Latest jobs report only added more pressure as rate cuts are being priced-out. • All as geopolitical tensions continue to fail to spark a bid in oil prices due to economic concerns in China.

Source: Prices as of 6th Feb'24; Bloomberg

2024 started with global markets attaining new highs amidst volatility

InCred Wealth

US and Japanese markets outperformed rest of the world; Small and Mid Caps outperformed in India; Crude oil cooled off

As of 6th Feb 2024	Current Level	1M	3M	6M	1Y		CYTD24	CY23	CY22	CY21	CY20	CY19
EM and DM												
MSCI Emerging Markets	1,000	-0.2%	4.1%	-1.6%	-1.5%		-2.3%	7.0%	-16.9%	-4.6%	15.8%	15.4%
MSCI World Index (Developed equities)	3,245	4.0%	12.4%	8.0%	15.0%		2.4%	21.8%	-1.9%	20.1%	14.1%	25.2%
Key Equity Indices												
S&P 500	4,954	5.5%	13.2%	9.6%	19.0%		3.9%	24.2%	0.1%	26.9%	16.3%	28.9%
MSCI Europe	164	2.3%	9.8%	6.0%	6.4%		1.8%	12.7%	-0.6%	22.4%	-5.4%	22.2%
Nikkei	36,161	8.3%	12.1%	12.1%	30.6%		8.1%	28.2%	16.2%	4.9%	16.0%	18.2%
Shanghai Composite	2,789	-4.8%	-8.8%	-14.7%	-14.1%		-6.2%	-3.7%	-18.3%	4.8%	13.9%	22.3%
Nifty	21,929	1.0%	13.0%	11.9%	23.7%		0.9%	20.0%	25.2%	24.1%	14.9%	12.0%
BSE MidCap	39,349	4.4%	22.2%	29.7%	59.7%		6.8%	45.5%	47.5%	39.2%	19.9%	-3.0%
BSE SmallCap	46,308	5.7%	21.5%	31.7%	65.6%		8.5%	47.5%	44.9%	62.8%	32.1%	-6.8%
Other Assets (levels)												
Brent Crude	78.6	78.8	81.6	85.3	83.7		77.0	85.9	77.8	51.8	66.0	53.8
Gold	2,031	-1.2%	3.6%	5.1%	8.6%		-2.3%	14.6%	15.1%	-4.3%	24.6%	18.4%
Dollar index	104.2	102.4	105.5	102.0	103.4		101.3	103.5	95.7	89.9	96.4	96.2
Credit/ yields (%)												
India 10 year G-sec	7.09	7.24	7.28	7.20	7.31		7.17	7.33	6.45	5.87	6.56	7.37
US 10 year G-sec	4.10	4.05	4.57	4.09	3.67		3.88	3.87	1.51	0.91	1.92	2.68
Germany 10 year G-sec	2.29	2.16	2.66	2.60	2.35		2.02	2.57	-0.18	-0.57	-0.19	0.24

Source: Bloomberg

Broader markets continue to outperform; Oil & Gas and PSUs top sectors

InCred Wealth

Broader Markets significantly outperformed; Value style did better than Growth

As of 6th Feb 2024	1M	3M	1Y	CYTD24	CY23	CY22	CY21	CY20	CY19
Overall Markets									
Nifty	1.0%	13.0%	23.7%	0.9%	20.0%	25.2%	24.1%	14.9%	12.0%
Nifty Equal weight	3.2%	17.8%	38.5%	3.3%	29.8%	38.0%	32.6%	17.6%	2.7%
BSE Mid cap	4.4%	22.2%	59.7%	6.8%	45.5%	47.5%	39.2%	19.9%	-3.0%
BSE Small Cap	5.7%	21.5%	65.6%	8.5%	47.5%	44.9%	62.8%	32.1%	-6.8%
Styles									
Nifty 200 Quality 30	1.4%	14.6%	32.4%	1.5%	29.9%	21.7%			
MSCI India Value	4.9%	20.4%	33.4%	5.3%	25.9%	24.1%	31.5%	23.7%	9.6%
MSCI India Growth	1.0%	12.7%	28.7%	1.7%	14.8%	20.0%	22.7%	10.1%	7.3%
Financials									
NSE Financials	-5.3%	4.1%	10.7%	-5.2%	13.2%	24.0%	14.0%	4.5%	25.6%
Nifty Bank	-5.1%	4.5%	10.1%	-5.4%	12.3%	36.1%	13.5%	-2.8%	18.4%
Nifty Private Bank	-6.2%	2.4%	9.9%	-6.3%	13.8%	37.9%	4.6%	-2.9%	16.2%
Nifty PSU Banks	12.3%	30.5%	68.5%	14.8%	32.3%	125.8%	44.4%	-30.6%	-18.3%
Asset heavy sectors									
BSE Oil and Gas	19.7%	48.0%	61.1%	23.2%	12.8%	31.5%	24.3%	-4.4%	7.2%
BSE Capital Goods	0.4%	20.1%	64.6%	1.5%	66.9%	93.5%	53.4%	10.6%	-10.0%
BSE Utilities	8.9%	47.2%	93.6%	13.6%	32.6%	62.0%	64.4%	-0.4%	-7.3%
NSE Infrastructure	8.0%	27.8%	58.1%	9.4%	39.1%	47.5%	35.6%	12.2%	2.5%
Services oriented sectors									
NSE IT	9.7%	23.4%	26.2%	7.7%	24.1%	-8.2%	59.6%	54.9%	8.4%
BSE Telecom	1.4%	14.9%	47.0%	5.3%	30.8%	24.9%	43.0%	13.6%	12.9%
NSE Financial services	-5.3%	4.1%	10.7%	-5.2%	13.2%	24.0%	14.0%	4.5%	25.6%
Others									
NSE Media	-13.7%	-6.1%	14.9%	-10.8%	19.9%	7.6%	34.6%	-8.6%	-29.7%
NSE Auto	8.1%	23.3%	50.5%	6.9%	47.6%	70.2%	19.0%	11.5%	-10.7%
NSE FMCG	-5.3%	4.8%	19.3%	-4.2%	29.0%	51.6%	10.0%	13.5%	-1.3%
NSE Pharma Index	6.5%	21.1%	51.6%	9.8%	33.6%	18.3%	10.1%	60.6%	-9.3%
NSE Real Estate	2.6%	34.8%	110.5%	10.6%	81.3%	61.7%	54.3%	5.1%	28.5%

- ✓ **On YTD basis, Nifty is up 0.9% with Mid Cap and Small Cap indices delivering 6.8% and 8.5% respectively.**
- ✓ **Broader markets outperformance over Large cap continues after delivering a healthy outperformance in CY22 and CY23**
- ✓ **Oil and Gas (19.7%), PSU Banks (12.3%), Auto (8.1%) and IT (9.7%) are top performing sectors in Jan 2024**
- ✓ **Value delivered 4.9% in the past 1m, outperforming growth index (1.0%)**

Source: Bloomberg

Global Macro

www.incredwealth.com

Central Banks expected to initiate rate cuts in CY 2024

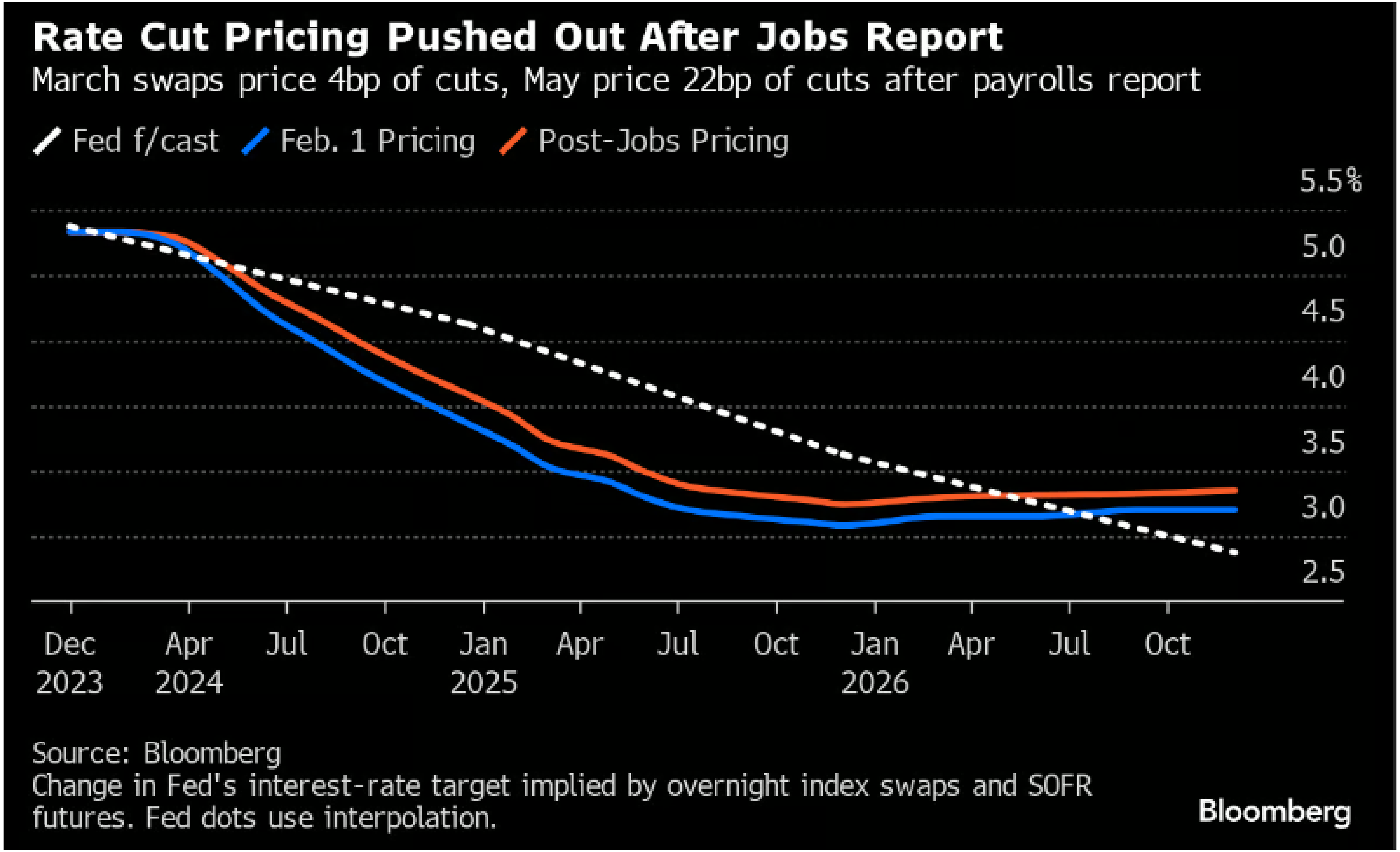
InCred Wealth

	Quarterly GDP	Inflation	Current Policy Rate	10Y bond yield	Comments
	Dec-23	**Jan-24**	**Feb-24**	**7-Feb-24**	
	SA qoq (%)	*yoy (%)*			
US	3.30%	3.4%	5.25% - 5.50%	4.09%	The Federal Reserve has held the policy rate unchanged at 5.25%-5.5% for the fourth consecutive meeting. The Fed does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2%. The risks to achieving its employment and inflation goals are moving into better balance. The Fed's prior statement, issued in December 2023, had laid out the conditions under which it would consider "any additional policy firming," language that excluded any consideration of rate cuts. The language was a blow to investors who have been expecting rate cuts to start as early as March. Market is now factoring in the Fed to initiate rate cuts in Q2CY24.
Europe	0.1%	2.8%	4.00%	2.32%	The European Central Bank decided to keep the three key interest rates unchanged. The incoming information has broadly confirmed its previous assessment of the medium-term inflation outlook. Aside from an energy-related upward base effect on headline inflation, the declining trend in underlying inflation has continued, and the past interest rate increases keep being transmitted forcefully into financing conditions. Tight financing conditions are dampening demand, and this is helping to push down inflation. ECB’s future decisions will ensure that its policy rates will be set at sufficiently restrictive levels for as long as necessary.
Japan	1.5%	3.2%	-0.10%	0.71%	The Bank of Japan made no change to its negative interest rate policy, holding the benchmark interest rate at -0.1%. The central bank also kept its stance on its yield curve control policy unchanged. The central bank also warned of “extremely high uncertainties” affecting Japan’s economy, saying that core inflation will stay above 2% throughout fiscal 2024.

Source: Bloomberg

Treasury yields surge as hot jobs data dash rate cut hopes

InCred Wealth

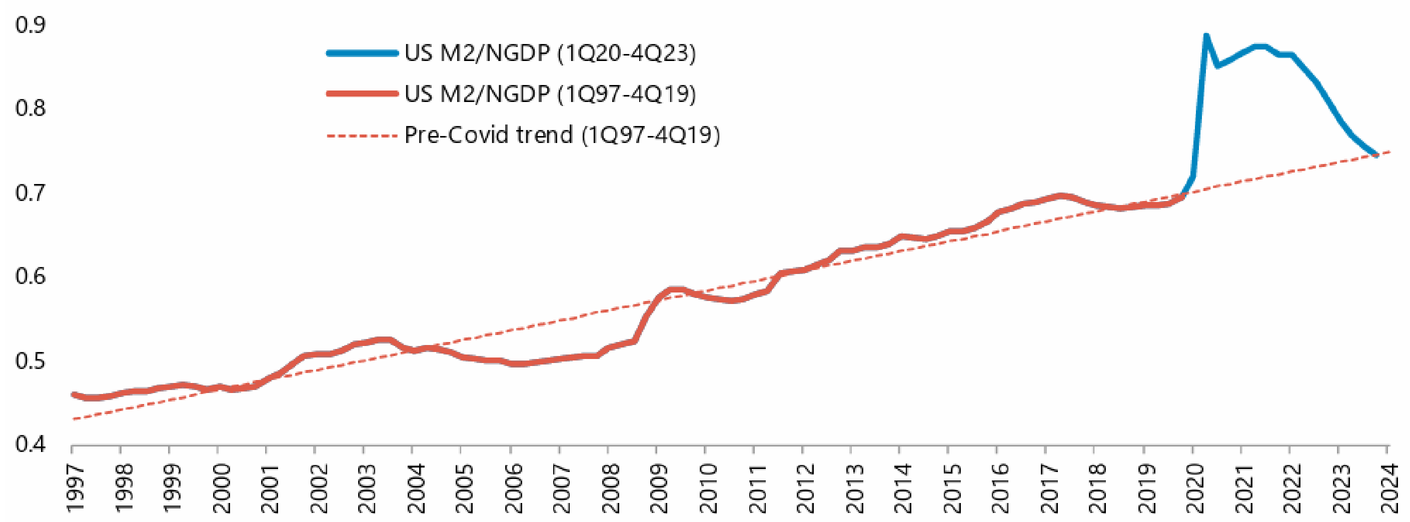


- US job employment data for Jan came in stronger
- 2yr – 5yr yields rose over 20bps
- 10yr UST rose 17bps
- Steepest climb in yield since May last year
- OIS now pricing only a 15% chance for March Fed rate cuts
- 3 rate cuts expected from the Fed this year
- Dec swaps are pricing in a cumulative 125bps rate cuts this year (20bps lower)

Developments in the US worth pondering over

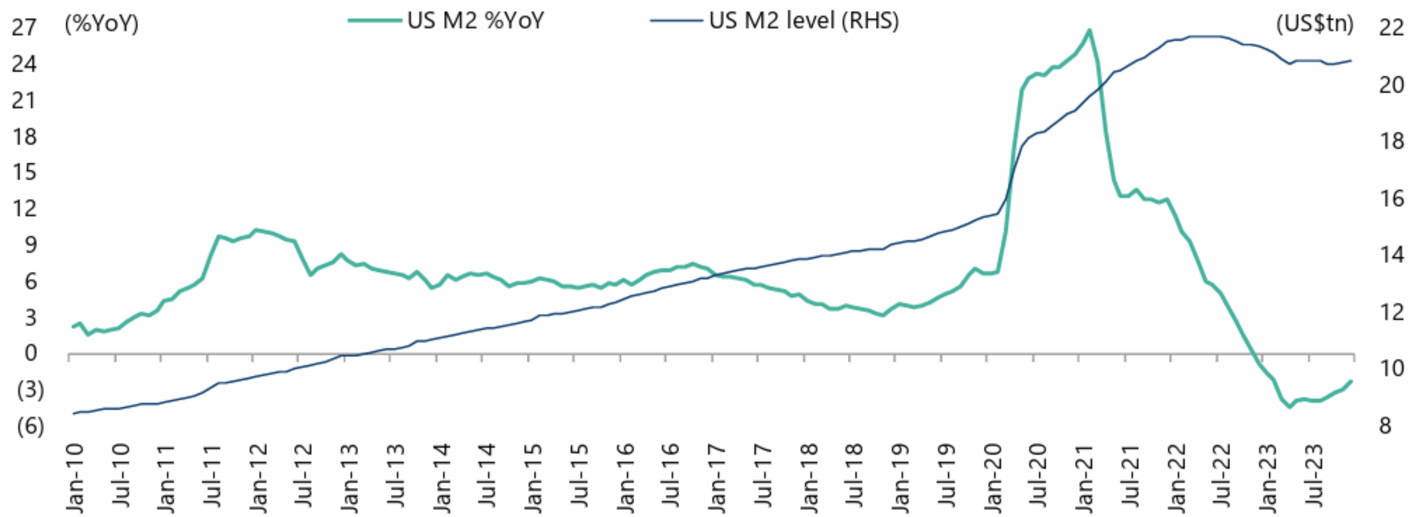
InCred Wealth

Exhibit 13: US M2 to nominal GDP ratio and pre-Covid trendline



Source: Federal Reserve, Bureau of Economic Analysis, Jefferies

Exhibit 14: US M2 growth



Source: Federal Reserve

- Ratio of US M2 to GDP has declined below pre-Covid trendline (1997 – 2019)
- This highlights the lags in monetary policy tightening
- This also highlights the continued potential for a downturn in the American economy this year
- 2 other data points that are pointing towards disinflationary story in the US – Core CPE slowed, and Employment cost index also sequentially declined
- Meanwhile, this is also a presidential election year (Latest BBG poll indicates Trump leading in all 7 swing battleground states 48% vs. 42% for Biden)
- US 30yr mortgage rate at 6.7% and mortgage applications are on the decline (8% weekly fall)
- Senate Banking Committee has written to the Fed to lower rates to make housing more affordable

India Macro Outlook

www.incredwealth.com

High frequency indicators continue to suggest a strong economy

InCred Wealth

GST collections at INR 1.72trn with 10% yoy growth; Auto sales slowed, Credit growth and PMI data indicate strong growth momentum

	As on	Unit	Latest	Last	One year back
O/s non-food Credit Growth	Dec-23	yoy (%)	15.8%	16.3%	15.3%
Consumption					
Auto Volumes					
PV	Dec-23	Units Sold	2,93,005	3,60,431	11,36,465
2W	Dec-23	Units Sold	14,49,693	22,47,366	2,85,429
Industries					
Power Consumption	Jan-24	yoy (%)	6.0%	-9.8%	13.0%
Manufacturing PMI	Jan-24	X	56.5	54.9	55.4
Core Industries output	Dec-23	yoy (%)	3.8%	7.9%	9.7%
Overall, Economy					
GST Collection	Jan-24	Rs Trn	1.72	1.65	1.56

- ✓ Growth in power consumption highlights sustenance of recovery in economic activities.
- ✓ Strong GST collections continue to depict a good recovery momentum
- ✓ Manufacturing PMI remains in expansionary phase

Source: Bloomberg, FADA, Company Data

Real GDP much better than expected in Q2FY24

InCred Wealth

	As of	Unit	Latest	Last	1 year back
GDP quarterly	Sep-23	yoy (%)	7.60%	7.80%	6.20%
GDP Annual	FY23	yoy (%)	7.20%	9.10%	-5.80%
Inflation	Dec-23	yoy (%)	5.69%	5.55%	5.72%
Policy Rate	Feb-23	%	6.50%	6.50%	6.25%
IIP	Nov-23	yoy (%)	2.4%	11.6%	7.6%
INR/USD	Jan-24	X	83.02	83.21	82.50

- ✓ GDP growth in Q2FY24 was at 7.6% year-on-year, compared to 6.2% for Q2FY23 – beating market estimates of 6.8% growth for Q2FY24
- ✓ Better growth was largely driven by investments (9.9% in Q2FY24 vs. 6.5% in Q2FY23). Private consumption growth remained weaker growing at 3.1% in 2QFY24 vs. 8.3% in Q2FY23.
- ✓ Exports saw a slowdown, but imports grew at a shaper pace thus external trade subtracted 3.6% from real GDP growth in Q2FY24
- ✓ Growth in farm sector stood at 18Q low of 1.2% YoY in Q2FY24, growth accelerated to 13.2% YoY (9Q high) in industrial sector while services sector growth decelerated to 5.8% YoY (vs. 9.4% YoY in 1QFY23). Acceleration in industrial sector has been broad based mostly led by lower input costs and better corporate performance.
- ✓ Overall GDP growth has been robust led by domestic demand. Government consumption and investments provided cushion to GDP growth.
- ✓ RBI revised its real GDP growth forecasts for FY24 to 7% (v/s 6.5% earlier). GDP growth in Q1FY25 is expected to average 6.7%.

Source: Bloomberg, MOSPI, ICRA

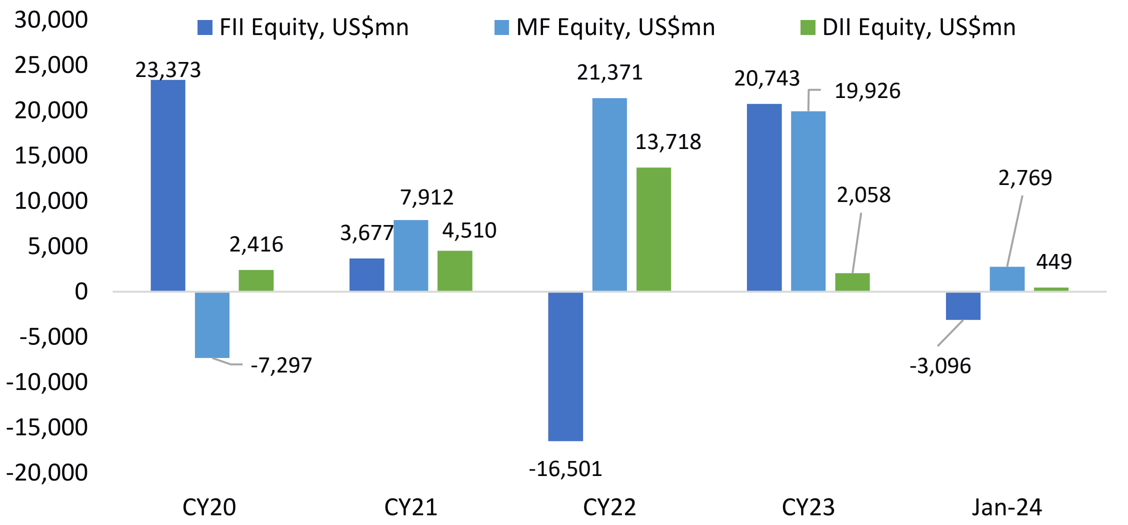
Flows, Valuations, Earnings

FIIs turned net sellers in Jan'24; MFs remain buyers of equities

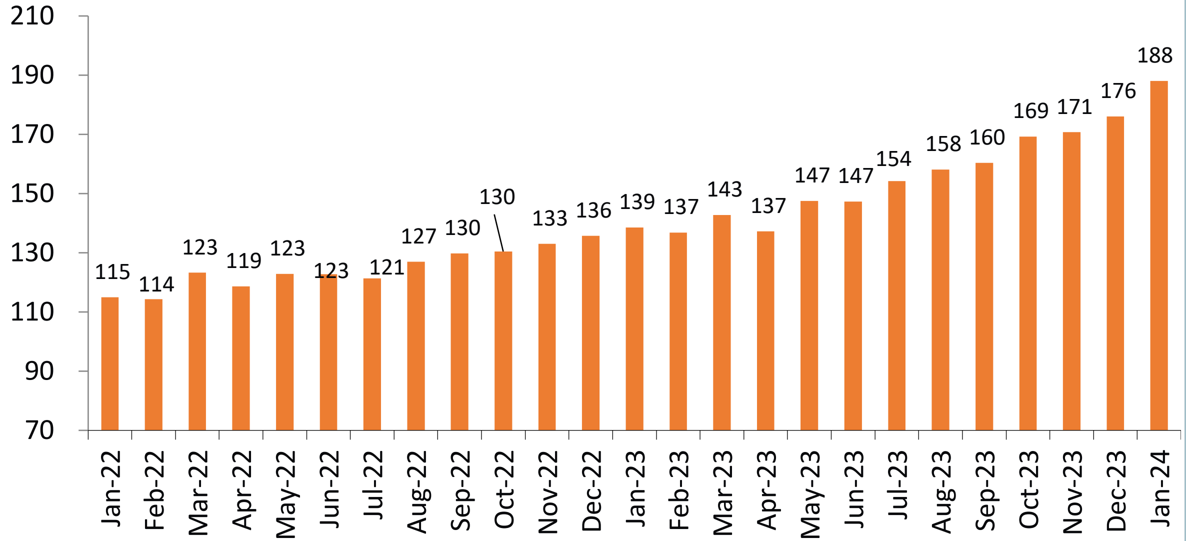
InCred Wealth

- FIIs turned net seller of Indian equities (-$3.1bn) in Jan-24. DIIs were net buyers at $0.45bn while MFs were net buyers at $2.8bn.
- FIIs have net bought India equities in CY23 to the tune of $20.7bn while MFs net bought India equities to the tune of $20bn in CY23.
- FIIs were net buyers in debt markets at $2.84bn while MFs were net sellers at -$2.6bn in the month of Jan-24.
- In CY23, FPIs bought $8.3bn of Indian debt, while MFs sold -$11bn.
- SIP flows have averaged ₹15,561cr in this fiscal (₹12,573cr in FY23; 24% YoY); Jan'24 SIP flows were at all time high of INR 18,800 cr

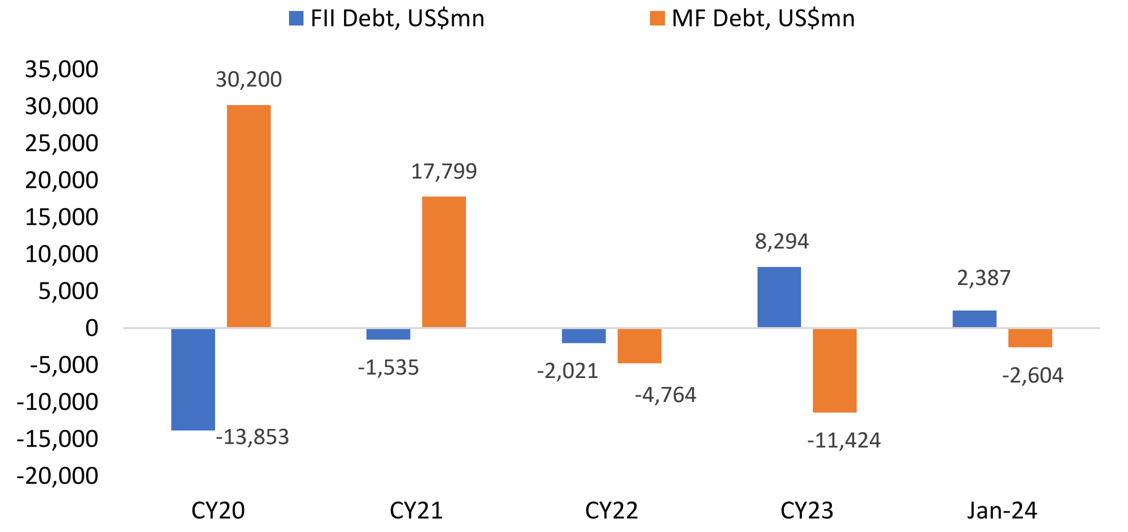
2: FIIs and MFs continued to be net buyers of Equities; DIIs were net sellers



1: Jan-24 SIP flows at Rs188bn, up 36%yoy



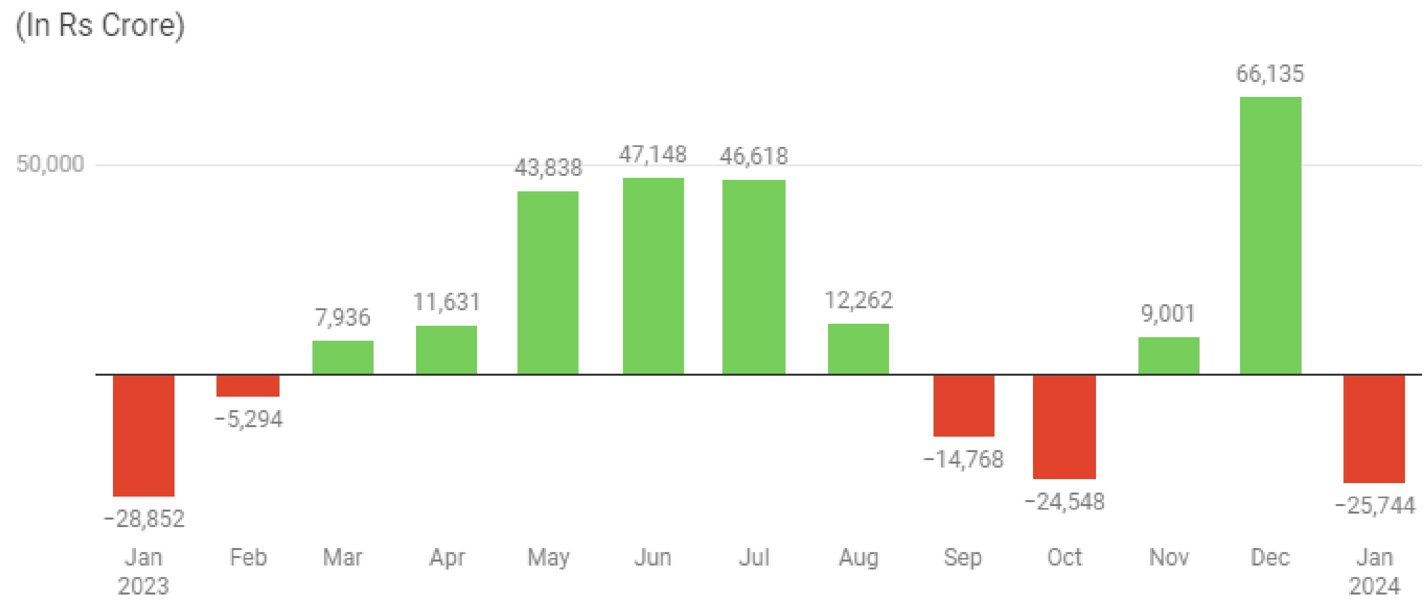
3: FIIs turned net buyers of Indian debt in CY23; MFs have been marginal sellers



Source: Bloomberg, NSDL, SEBI, AMFI

FPI investments in Indian equities

InCred Wealth



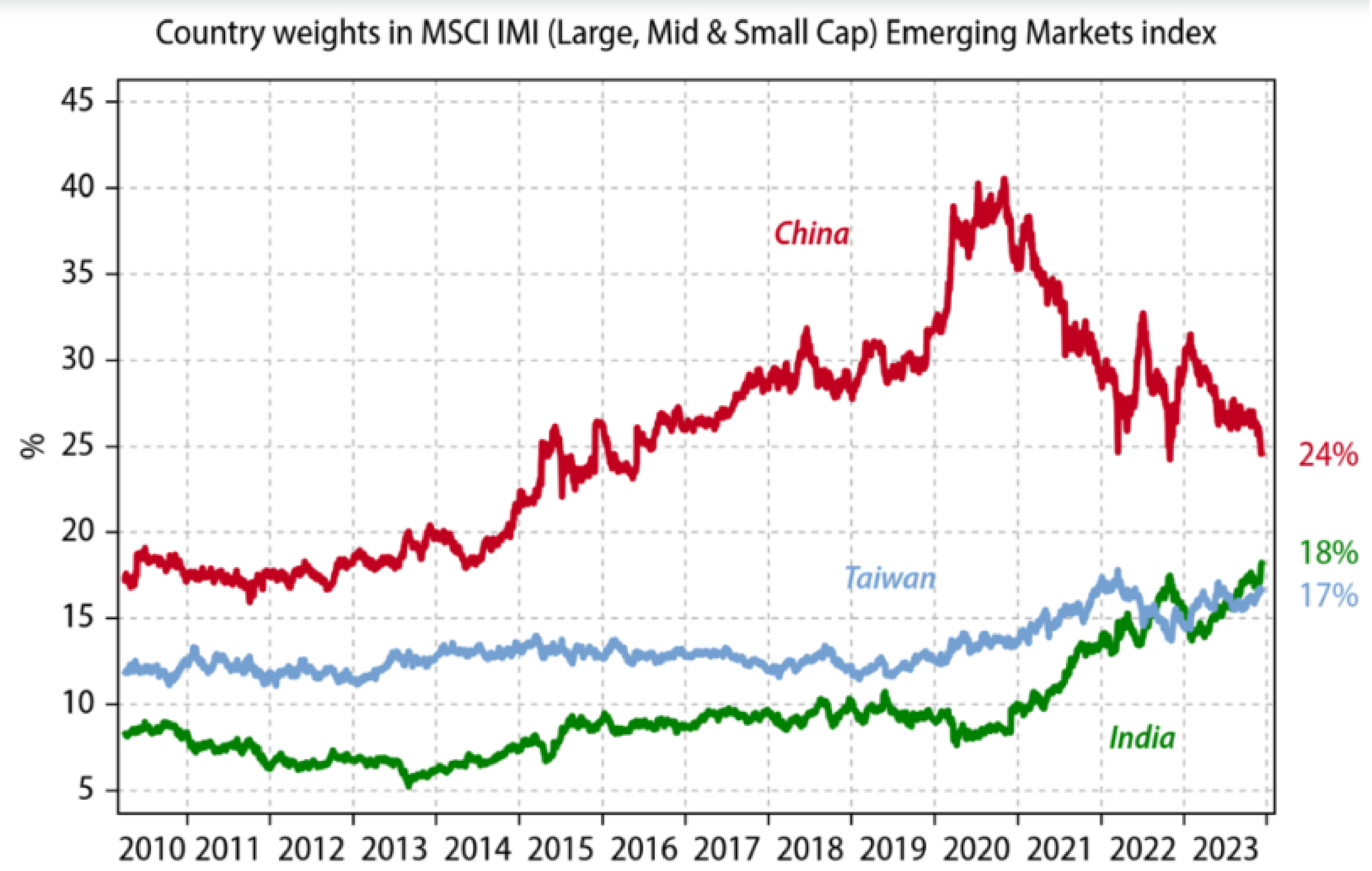
(Flows In $ million)

Emerging Market Country	Flows (Year-To-Date)
India	-3140.60
Indonesia	590.60
Malaysia	145.30
Philippines	87.90
South Korea	3514.20
Sri Lanka	-7.10
Taiwan	2422.70
Thailand	-811.20
Vietnam	53.00
Brazil	-1386.70

- Inflows have slowed vis-à-vis Dec 2023
- FPIs sold higher in Indian equities vis-à-vis rest of Ems
- This has to be tracked in conjunction with 2023 flows where India received highest FPI inflows amongst Ems
- Delay in Fed pivot and geopolitical tensions seem the primary reasons for FPI sell off

China's loss is India's gain! Should aid FPI flows further in CY24

InCred Wealth



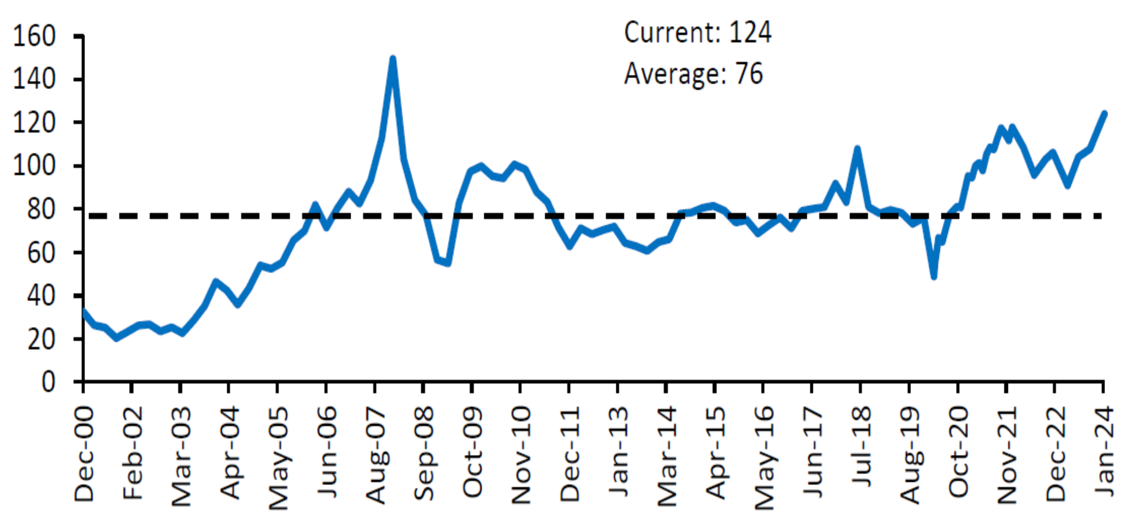
- China's weight in MSCI EM has slumped to 24% from being around 40% three years ago
- While India's has **DOUBLED** from being around 9% three years ago to **18%** now

Equity markets are not cheap; Fixed Income investing remains attractive

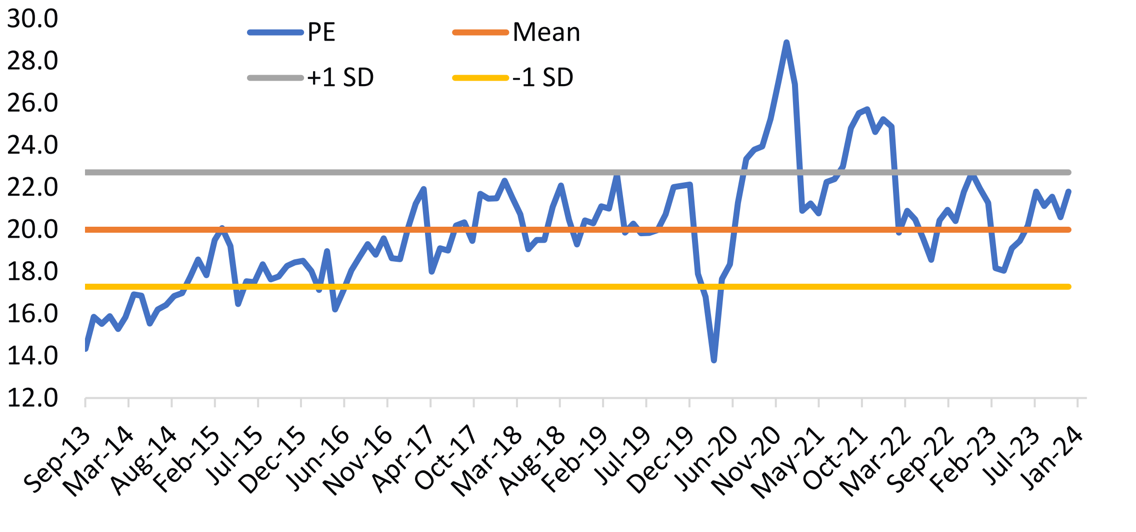
InCred Wealth

Nifty valuations above long period average; further upside could be limited till valuation argument further improves.

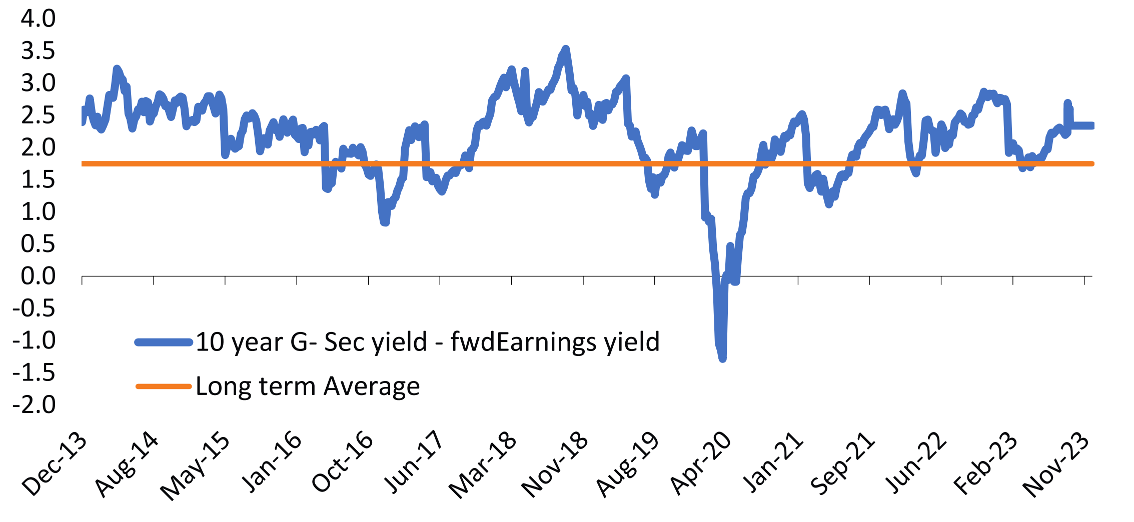
1: India's market cap to GDP expensive, continues to move higher



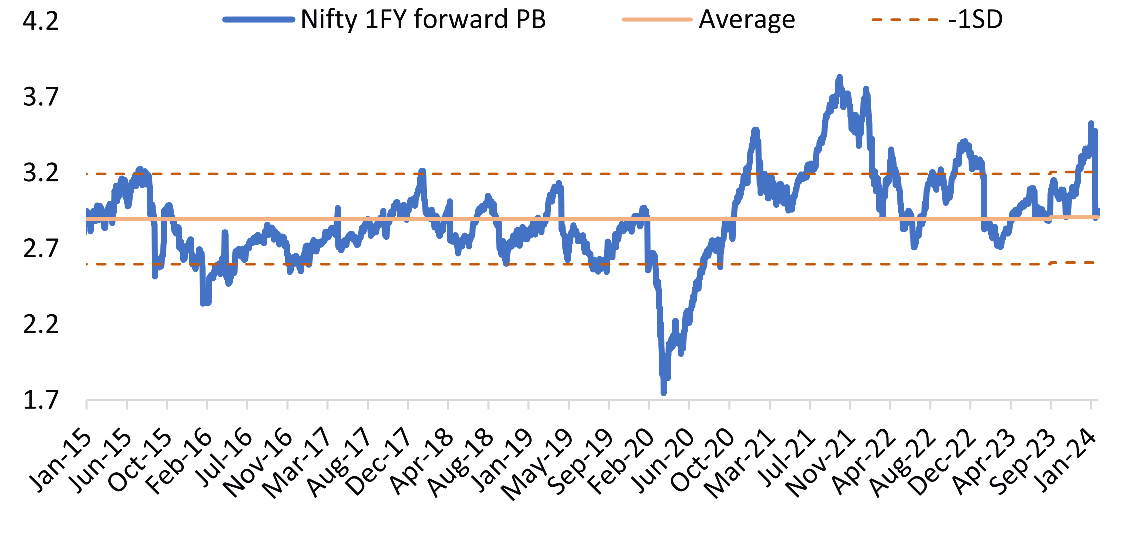
3: Nifty forward PE has moved closer to +1SD levels above LPA



2: Gap between G sec and Nifty earning yields indicate bonds are extremely attractive



4: Nifty PB at LPA



Source: CMIE, Bloomberg

Don’t go on a Small and Mid Cap OVERDRIVE!

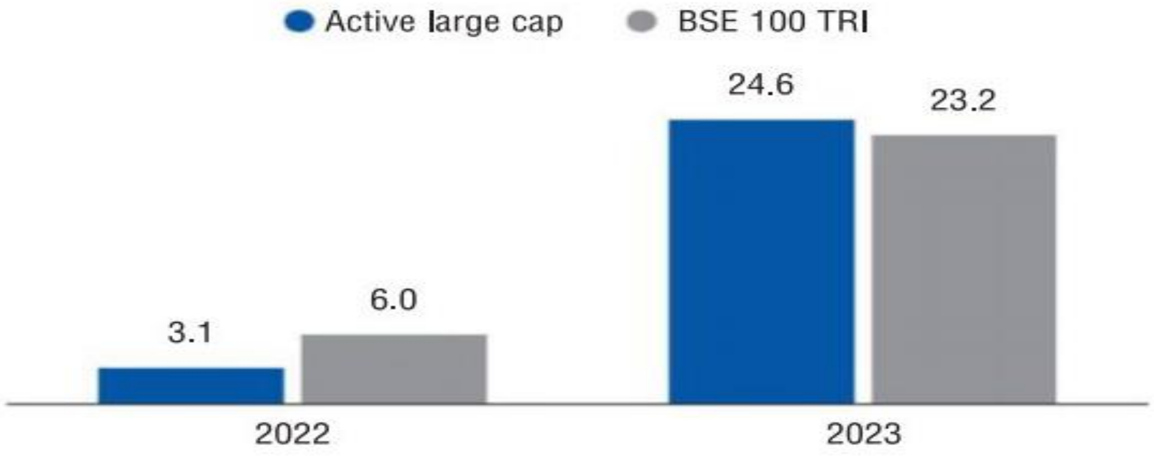
InCred Wealth

Feast and famine

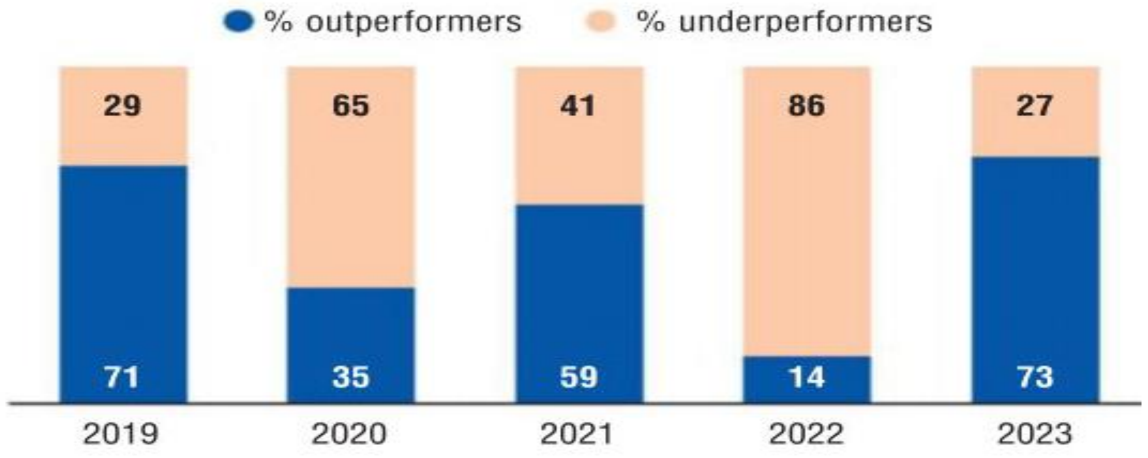
Mid and small caps have been prone to taking breathers after stellar years

The majority of active large-cap funds have generated alpha this year

Last year vs current year performance (%)



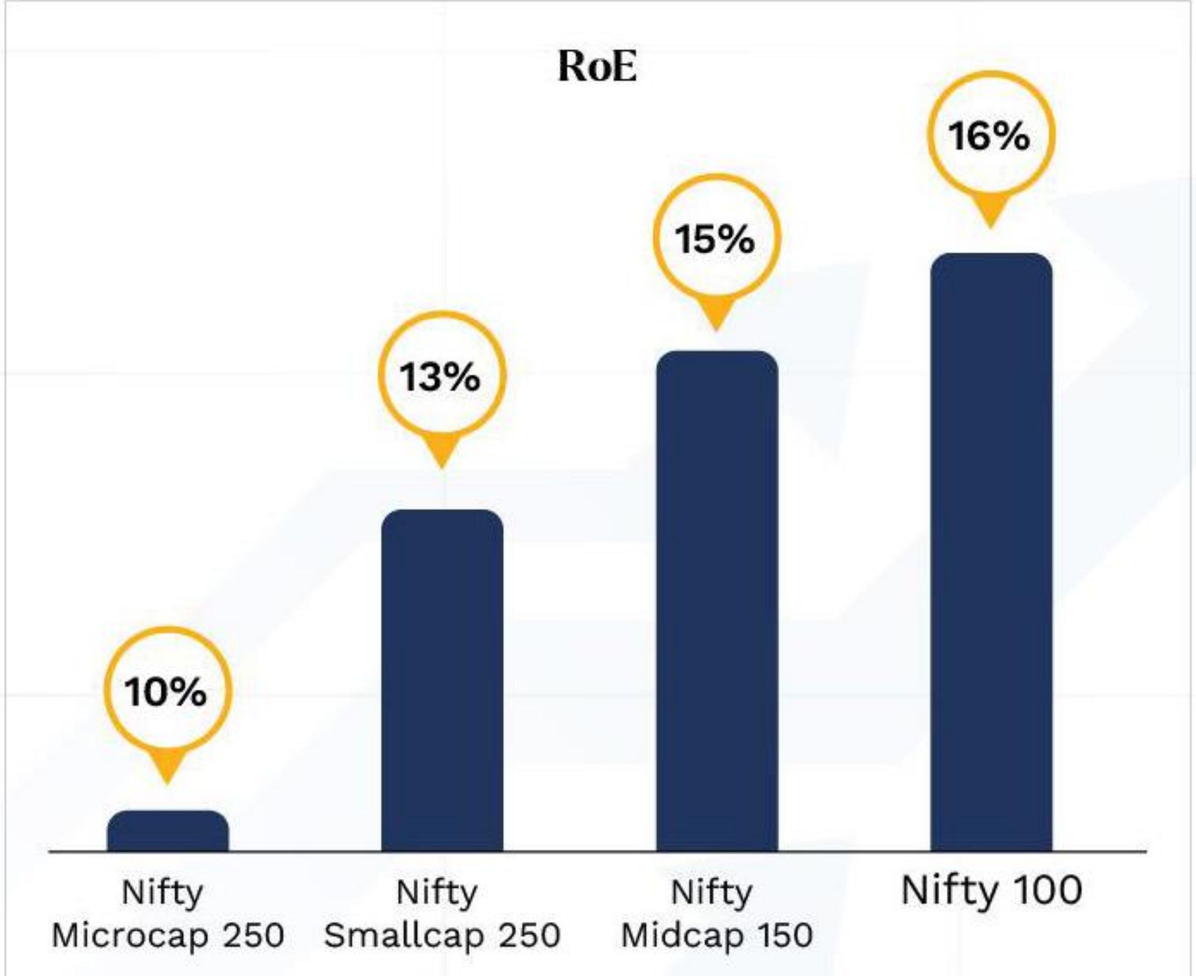
The proportion of active large-cap funds beating BSE 100 TRI index

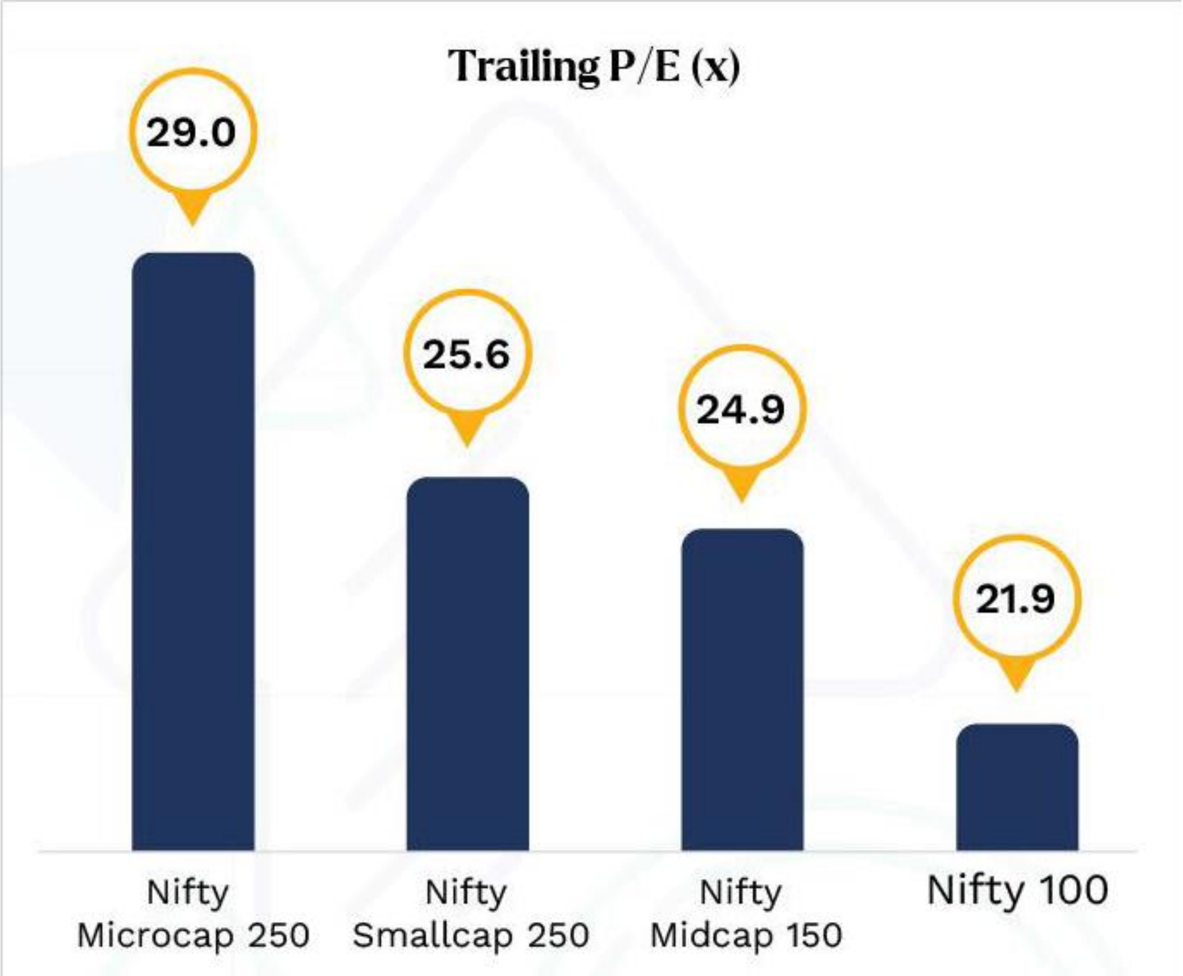


Large Caps are making more sense than in the recent past! (1/5)

InCred Wealth

LC offer highest quality and are available at the lowest valuations v/s SMID and Micro Caps



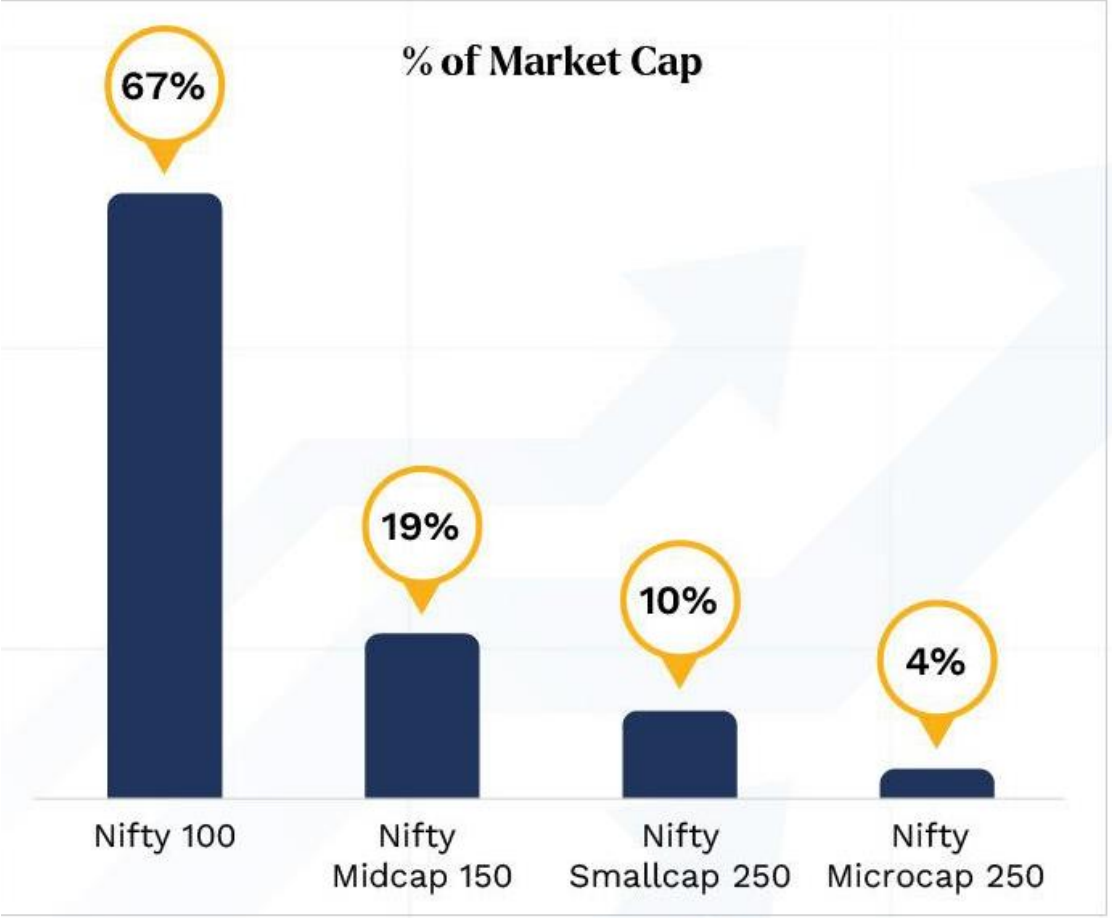


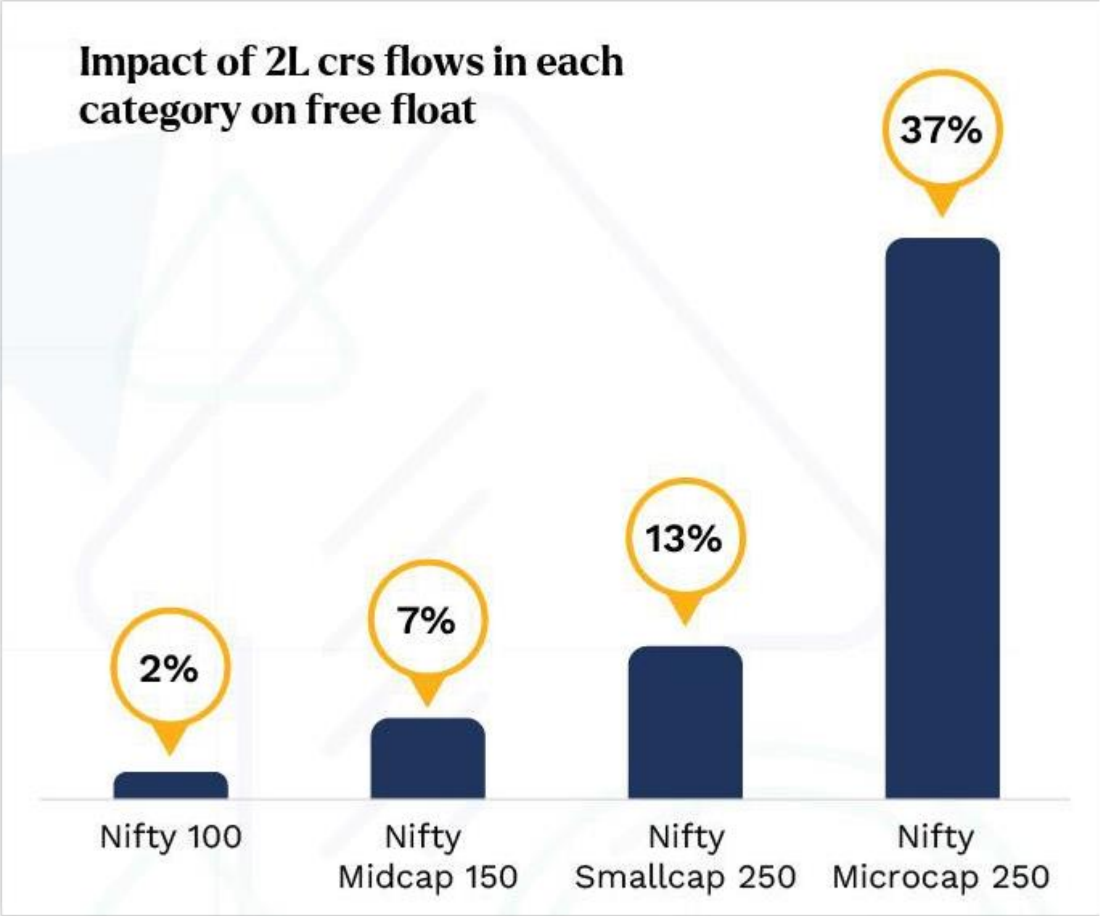
Source: MOSL AMC

Large Caps are making more sense than in the recent past! (2/5)

InCred Wealth

Absolute flows have a huge degree of relative impact on small / mid / micro caps vs Large Caps





- As can be seen above, higher flows have higher impact as we move down the market cap due to limited free float
- This is one of the major reasons of skewed returns in other market categories relative to large caps
- However, FIIs are mostly invested in the large cap universe and their return shall be favorable for the category

Source: MOSL AMC

Large Caps are making more sense than in the recent past! (3/5)

InCred Wealth

Large Caps are more consistent and hence merit allocation specially when valuations are supportive

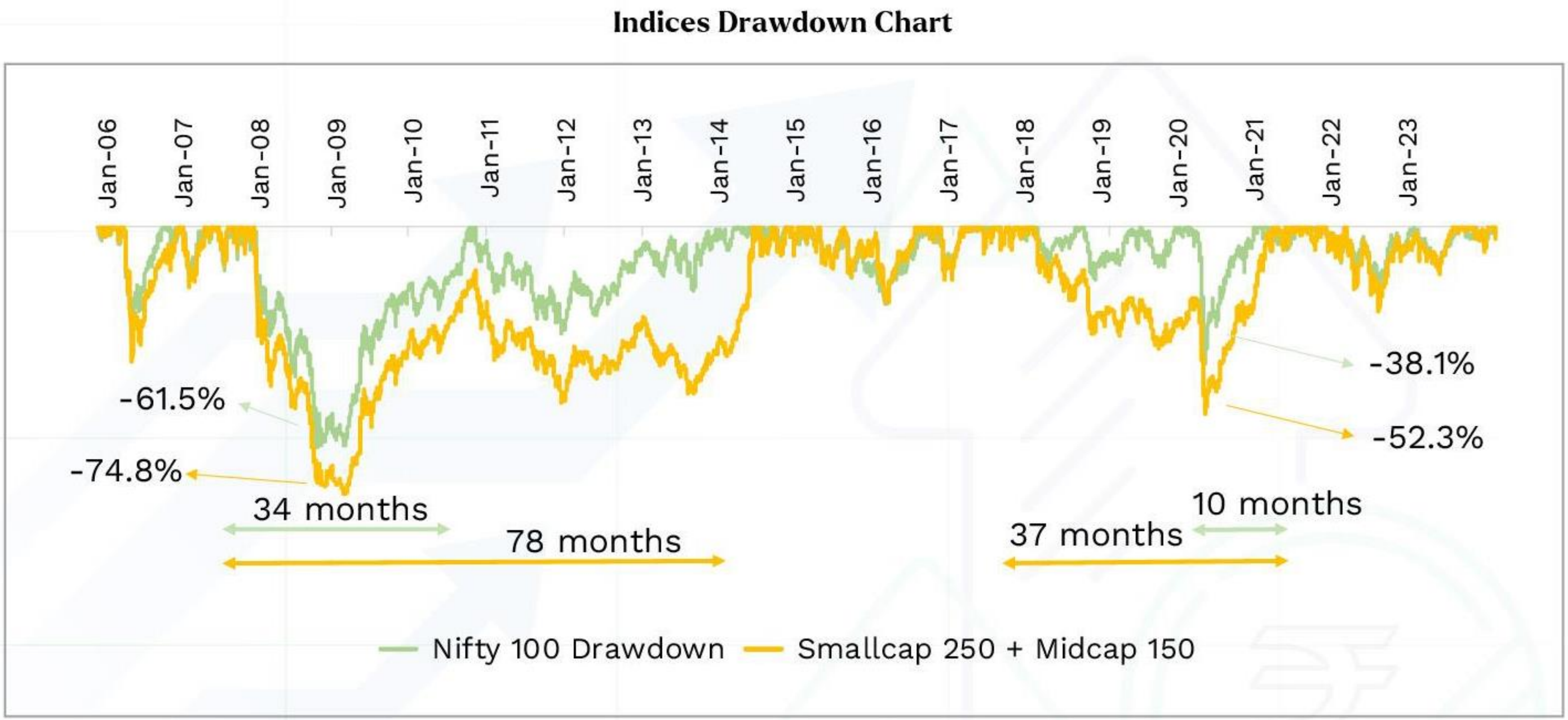
2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
International 12.5	Small Cap 69.2	Credit Risk 10.00	G-Sec 15.0	Small Cap 59.6	Gold 8.4	International 31.8	Small Cap 32.1	Small Cap 62.8	Gold 11.7	Small Cap 44.9
Large Cap 9.0	Mid Cap 54.7	Corporate Bond 9.00	International 12.5	Mid Cap 48.1	G-Sec 8.0	Gold 21.1	Gold 27.6	Small Cap 39.2	Mid Cap 5.4	Small Cap 42.5
Real Estate 7.5	Large Cap 29.9	Mid Cap 7.4	Corporate Bond 12.0	Large Cap 27.9	Large Cap 5.9	Large Cap 14.4	International 19.0	International 29.1	Large Cap 4.4	International 25.1
Credit Risk 7.0	G-Sec 17.0	G-Sec 7.0	Credit Risk 12.0	International 12.3	Corporate Bond 5.0	G-Sec 12.0	Small Cap 18.8	Large Cap 22.0	Corporate Bond 2.9	Large Cap 17.8
Corporate Bond 6.0	Credit Risk 14.0	Small Cap 6.8	Gold 10.9	Credit Risk 8.0	Mid Cap 5.0	Corporate Bond 10.0	Large Cap 15.8	Mid Cap 8.6	T-Bill 2.5	Gold 12.3
T-Bill 5.5	International 13.6	T-Bill 5.4	Real Estate 9.6	Corporate Bond 7.0	Real Estate 4.8	Mid Cap 8.0	G-Sec 12.8	Corporate Bond 4.9	G-Sec 2.6	Mid Cap 9.3
G-Sec 2.0	Corporate Bond 13.0	Real Estate 4.5	Mid Cap 8.0	Real Estate 6.4	T-Bill 4.1	T-Bill 4.2	Corporate Bond 12.3	Real Estate 3.1	Real Estate 2.7	G-Sec 7.7
Mid Cap -5.7	Real Estate 11.9	International 4.2	T-Bill 4.7	Gold 6.0	International 2.4	Real Estate 4.2	Mid Cap 11.4	G-Sec 2.2	Gold 1.3	Corporate Bond 7.0
Small Cap -11.2	T-Bill 5.7	Large Cap -5.0	Large Cap 1.9	T-Bill 4.0	Gold -13.4	International -4.0	T-Bill 3.1	G-Sec 2.0	Small Cap -1.8	T-Bill 4.3
Gold -18.0	Gold 2.2	Gold -7.9	Small Cap 1.8	G-Sec 2.0	Small Cap -23.5	Small Cap -6.8	Real Estate 1.2	Gold -2.7	International -10.0	Real Estate 2.0

Source: MOSL AMC

Large Caps are making more sense than in the recent past! (4/5)

InCred Wealth

Large Caps have historically had lower drawdowns and have recovered faster vs SMID



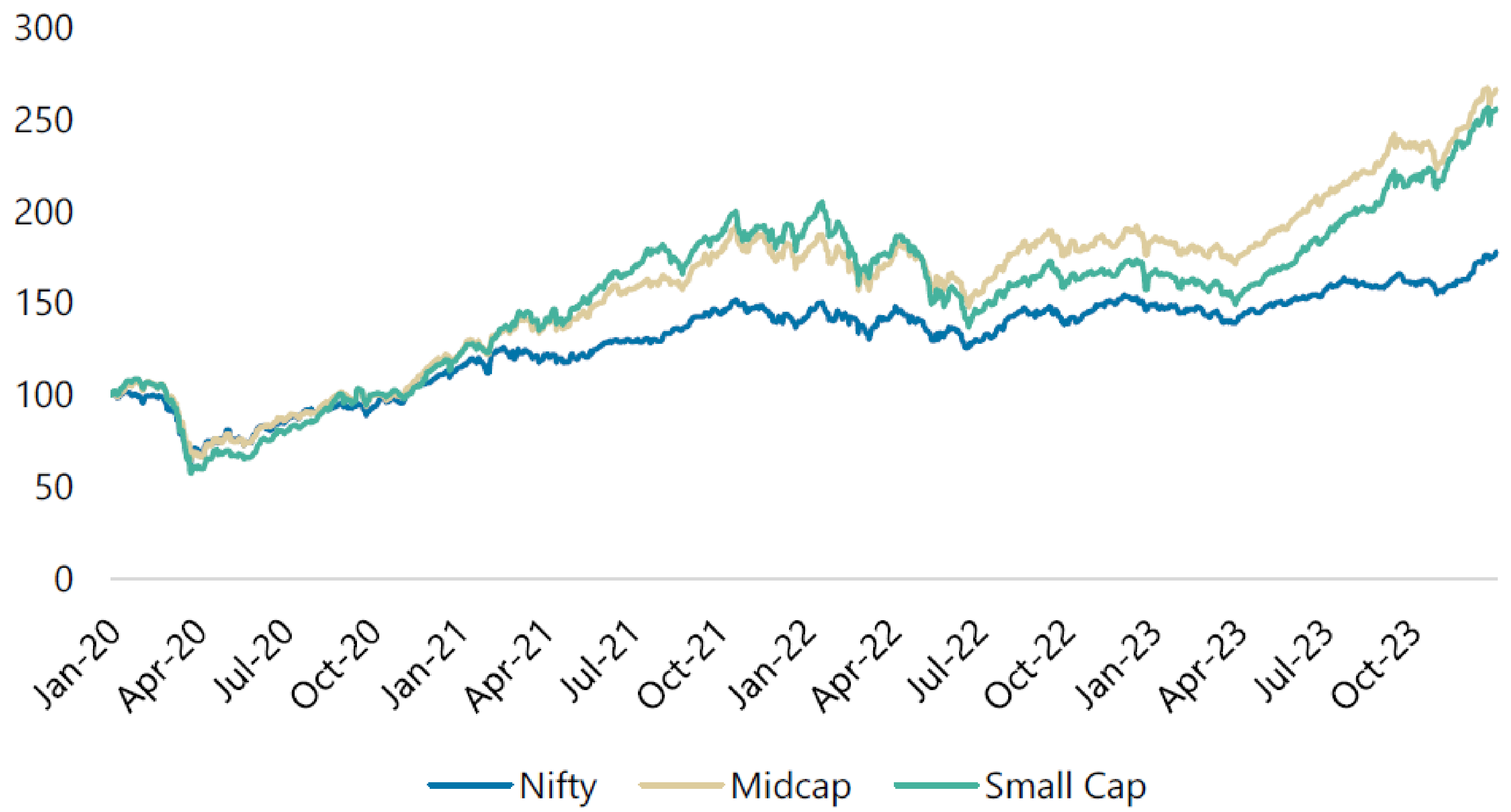
Upside required from the bottom to recover	Nifty 100 TRI	Nifty Smallcap 250 TRI + Nifty Midcap 150 TRI
Post 2008 Financial Crisis	159.7%	296.8%
Post 2020 Covid Crisis	61.6%	109.6%

Source: MOSL AMC

Large Caps are making more sense than in the recent past! (5/5)

InCred Wealth

Large Caps catch-up to continue this year



- After a 25%-35% Outperformance, by Mid/Small cap indices, CY2024 could start with a bias rotation towards larger caps
- Early rotation signs in December has seen large caps outperforming midcaps.
- Nifty Midcap100 index trades at 35% premium to its average valuations

Source: Bloomberg

Equity Market Outlook

www.incredwealth.com

Equity Outlook & Strategy

InCred Wealth

- Nifty, after an impressive 20% gain in CY23, has begun CY24 on a cautious note.
- The month was characterized by extreme volatility, with the benchmark oscillating in a wide range (~1,000 points) and pulling back from record highs to close flat.
- Over the last 12 months, midcaps and small caps have gained 58% and 69%, respectively, while large caps have risen 23%. During the past fie years, Midcaps have outperformed large caps by 86% and small caps have outperformed by 68%.
- On FY26 EPS, Nifty trades @~18.4x (around LPA), indicating the Nifty Index could post high single digit to low double digit returns in 2024.

1: Nifty December 2024 target range based on adjusted EPS expectations

	-1SD	10 Year Average	+1SD
Nifty 1-year forward PE (ex-2020/21)	17.4	19.4	21.4
Nifty EPS expectations in FY26 (adjusted)		1180	
Nifty range at end of 2024	20,000	23,000	25,000

- Historically, market has favored continuity and a majority electoral mandate as it implies limited policy shifts once new Government is formed. We are considering this to be the base case.
- With Budget out of the way, next important factor to drive markets are earnings – we expect earnings to be strong and durable rise in capital spending with lower commodity prices. 12% Earnings CAGR over next 2years could mean reasonable floor for markets.
- 3QFY24 results for Indian companies have been broadly in-line. Nifty companies have so far reported 6% Sales growth (yoy) while 21% PAT growth (yoy). Healthcare and Tech saw earnings upgrades while Retail and Consumer sectors registered an earnings downgrade.
- While RBI may attribute CPI data as the major determinant of the policy rates, we believe that its policy decision is also largely influenced by the rate dynamics in the US given its wider impact on aspects such as currency, trade balance and FPI flows. Fed has signaled end to the rate hikes and possibility of rate cuts in 2024. In our view, RBI too might initiate rate cuts by H2CY24. This would be market positive.
- Taking into account these factors, we see Nifty Index trading in the 21,000 to 23,000 band for this year.
- Depending on the extent to which risks playout, the worst case for Nifty Index could be around 20,000 and the best case could be 25,000.

Source: Bloomberg; InCred Wealth

- **Existing equity holdings:**

  i. It's a good time to revisit equity allocations across investor portfolios. As a steady state allocation within equities, we suggest 60% to Large Caps, 25% towards Mid Caps and balance 15% towards Small Caps as an allocation strategy

  ii. However, given the wide outperformance of SMID segment over Large Cap stocks, and the fact that this segment is trading at 30% premium to its average valuations, we think it's necessary to exert some caution here and hence go marginally underweight in Mid and Small caps. Basis this view, tactically we go overweight Large Caps (70% of portfolio) and restrict Mid Caps and Small Caps to 20% and 10% respectively.

  iii. This could be a good time to take profits specially from mid and small cap investments made over past 2 years given the sharp rise in stock prices in these segments of the market. We envisage a possibility of valuation rationalization here during the year.

  iv. Re-invest 50%-60% of these profits immediately as lumpsum back into equities with a large cap tilt (given the relative value there) to benefit from the expected pre-election rally and the much-awaited US Fed pivot to playout in Q2CY2024. Balance 50% to be staggered over the next 3 – 4 months / partly on market dips.

  v. For those under allocated towards the mid and small cap segment, its prudent to deploy over a 10 months stagger (within the stated allocation limits above)

  vi. Alternative investment solutions such as MLD ideas can be considered that generally offer principal protection and accelerated participation in market up-move.

- **Investors sitting on the sidelines with cash in portfolios:**

  i. Points ii. through v. in the section above can be followed.

Risks that could alter markets

Key risks to watch out for in 2024

InCred Wealth

- **Global Monetary and Fiscal Policy**
  - ✓ While the Fed has signaled a pause in rate hikes (for now) and US economy is showing incredible resilience, flare up in geopolitical tensions along with crude oil supply cuts by OPEC+ could stock inflationary fears, thereby delaying anticipated rate cuts in CY2024
  - ✓ Additionally, loose fiscal policy ahead of the elections in the US and UK could stoke inflation concerns thereby delaying rate cuts
  - ✓ Higher for longer interest rates could also impact discretionary spending / consumption in both the US impacting merchandise exports from countries like India
  - ✓ Resurgence of recessionary concerns in the US could have a significant bearing on the markets
- **Election results**
  - ✓ With favorable State election results, all eyes will be on 2024 General Election outcome
  - ✓ A fractured mandate (low probability event) could also be a huge risk to the market sentiment
- **Geopolitical issues**
  - ✓ Escalation in the ongoing war between Israel – Hamas and the long-drawn war between Russia – Ukraine may potentially disrupt supply – chains leading to re-escalation of global commodity prices (especially crude)
- **Small and Mid Cap valuations is a concern**
  - ✓ YTD basis, Nifty Mid-cap and Nifty Small Cap have outperformed Nifty 50 Index.
  - ✓ On a 1yr fwd P/E basis, Midcap and Small cap indices are trading at a premium of 28% and 30% to their respective Long Period Averages
  - ✓ Nifty 50 or Large Cap stocks thus offer a reasonable margin of safety to allocate incrementally v/s midcaps and small caps

Fixed Income Outlook

www.incredwealth.com

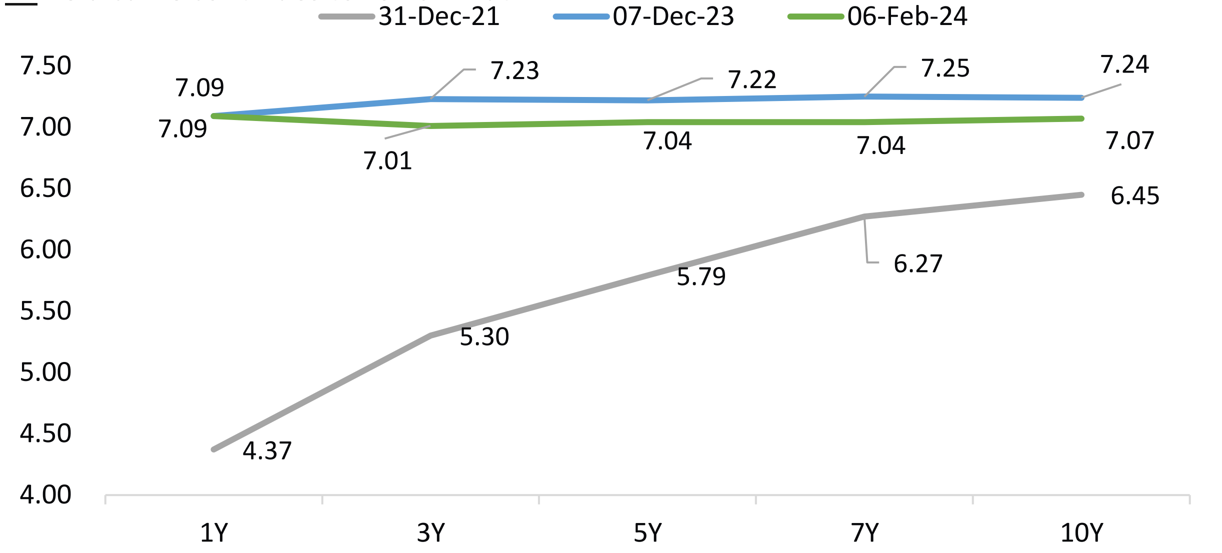
Yield curve continues to remain flat as seen through CY2023

- G-sec yields have come off in the 3-year and above segment, while yields in the 1yr segments has remained constant from Dec 2023.
- AAA Corporate bond yields have come off in the 5yr and the 7yr segment while the 10yr corporate bond yields have remained rather stable since Dec-23.
- Movement in rates upto 1yr maturity has been the most subdued.
- Spreads in the AA / A rated segment continue to remain attractive in the 3yr maturity segment. Some spread improvement has been seen in the AAA 3yr segment in the past month.

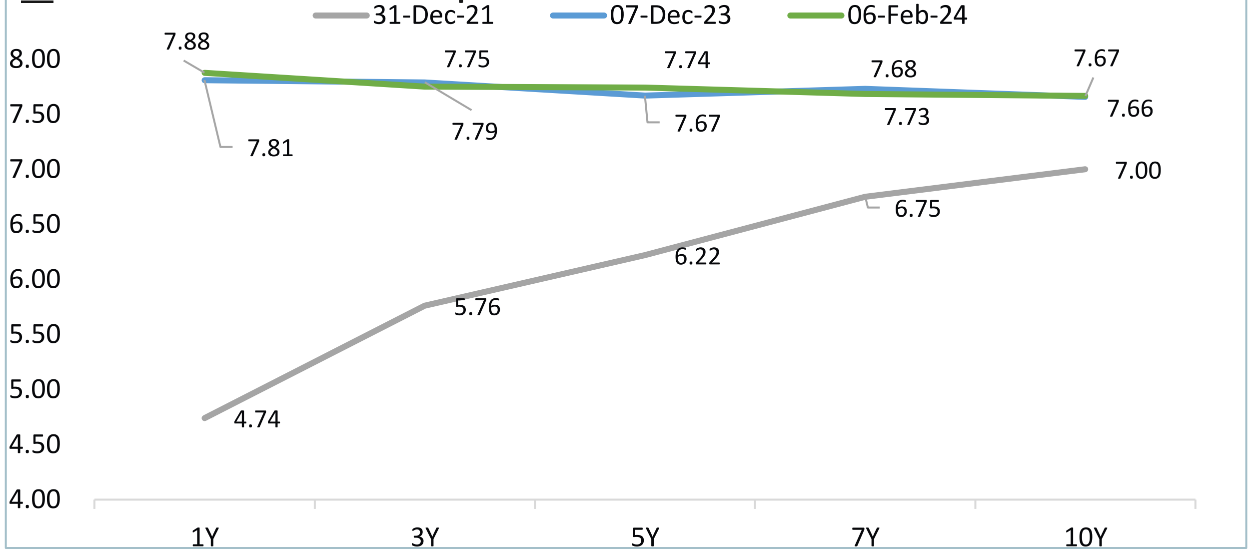
1: Issuers with credit rating "A" offers higher credit spreads

3-year tenor	6-02-2024	Dec-23	Dec-22	Dec-21
G sec	7.01	7.23	7.04	5.30
Credit Spreads (bp)				
AAA over G sec	74	56	62	46
AA over AAA	63	67	63	69
A over AAA	228	249	246	260

2: Yield curve continues to remain flat



3: AAA Yields followed a similar pattern vis-à-vis G-Sec.

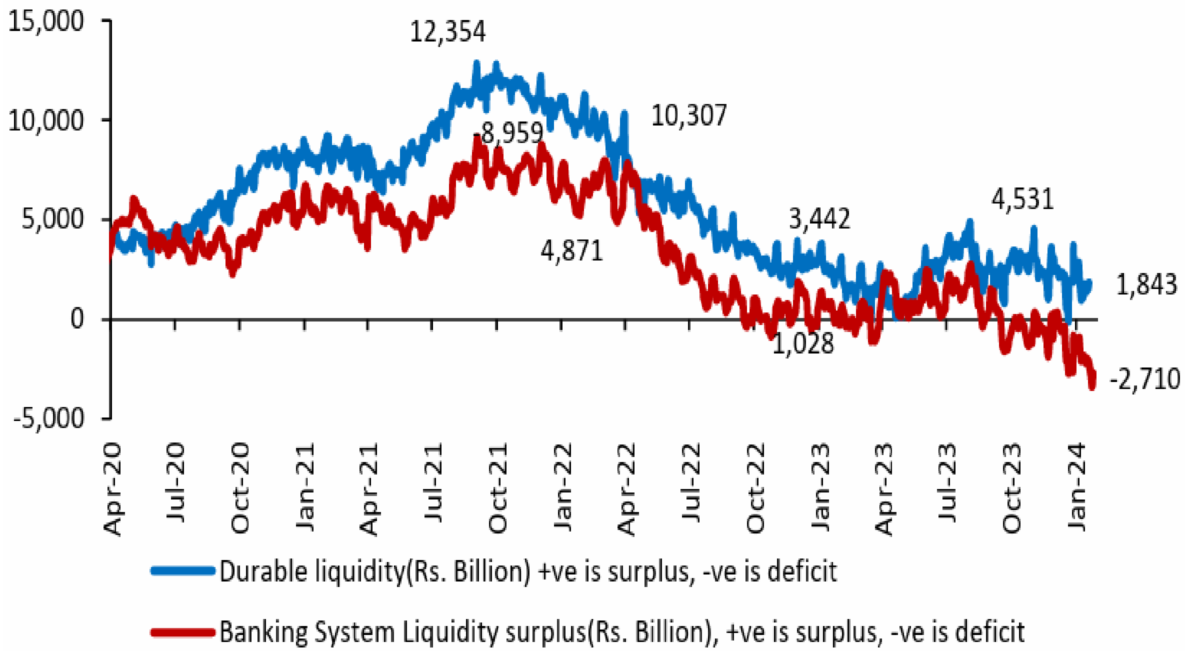


Source: Bloomberg, CRISIL

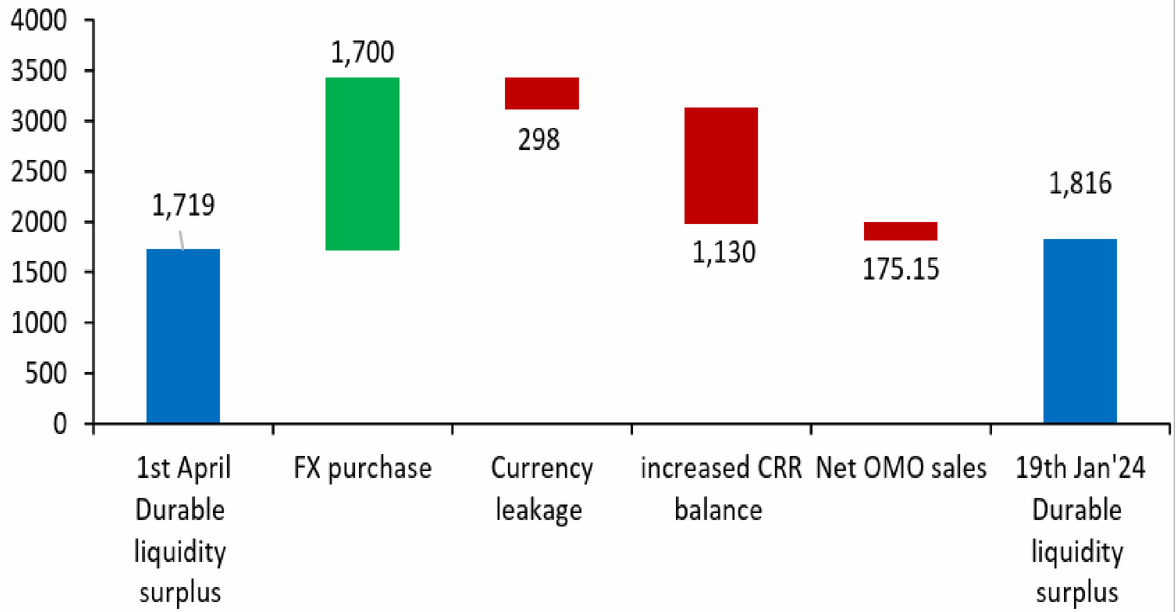
Banking system liquidity deficit mode

InCred Wealth

1: Durable liquidity (adjusted for govt cash) in sharp deficit since December 2023



2: Factors that explain the build-up in liquidity since Apr'23 till Jan'24

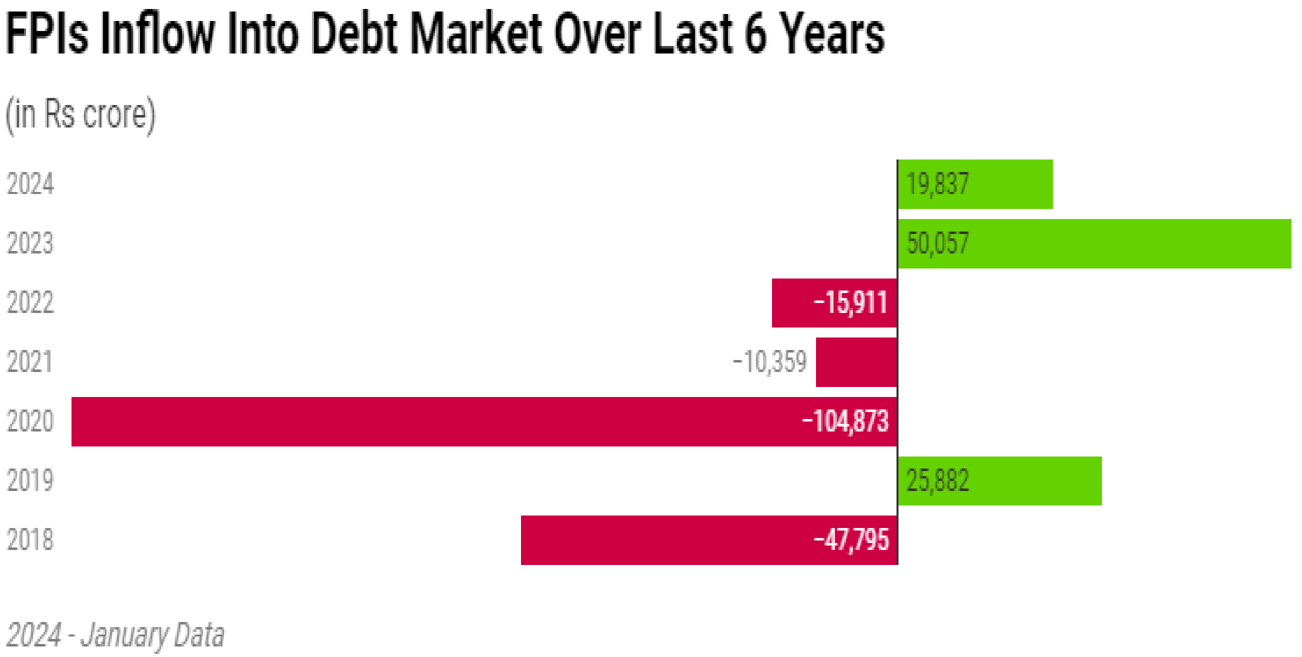


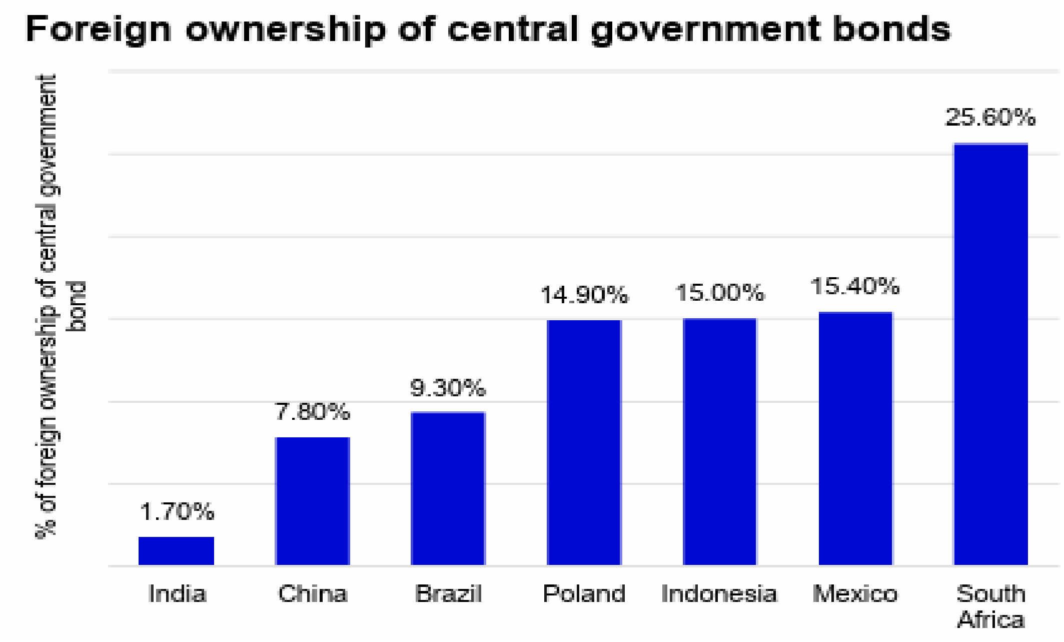
NB:Reported durable liquidity at INR1,843 as on 19th January 2024

- Durable liquidity (LAF adjusted for govt. cash) moderated to INR 1.8 trillion. Banking system liquidity (LAF) is in deficit of INR 2.7 trillion.
- FYTD saw build-up in liquidity due to healthy foreign capital inflow. This has reversed in the last few months given absorption via CRR and Open Market Operation (OMO) bond sales.
- Liquidity deficit in the banking system has resulted in overnight rates moving above MSF rate
- Market estimates banking system liquidity to remain in the deficit zone in the Feb 2024 – March 2024 period.

Source: Bloomberg; SBI MF

FPI investments in Indian debt





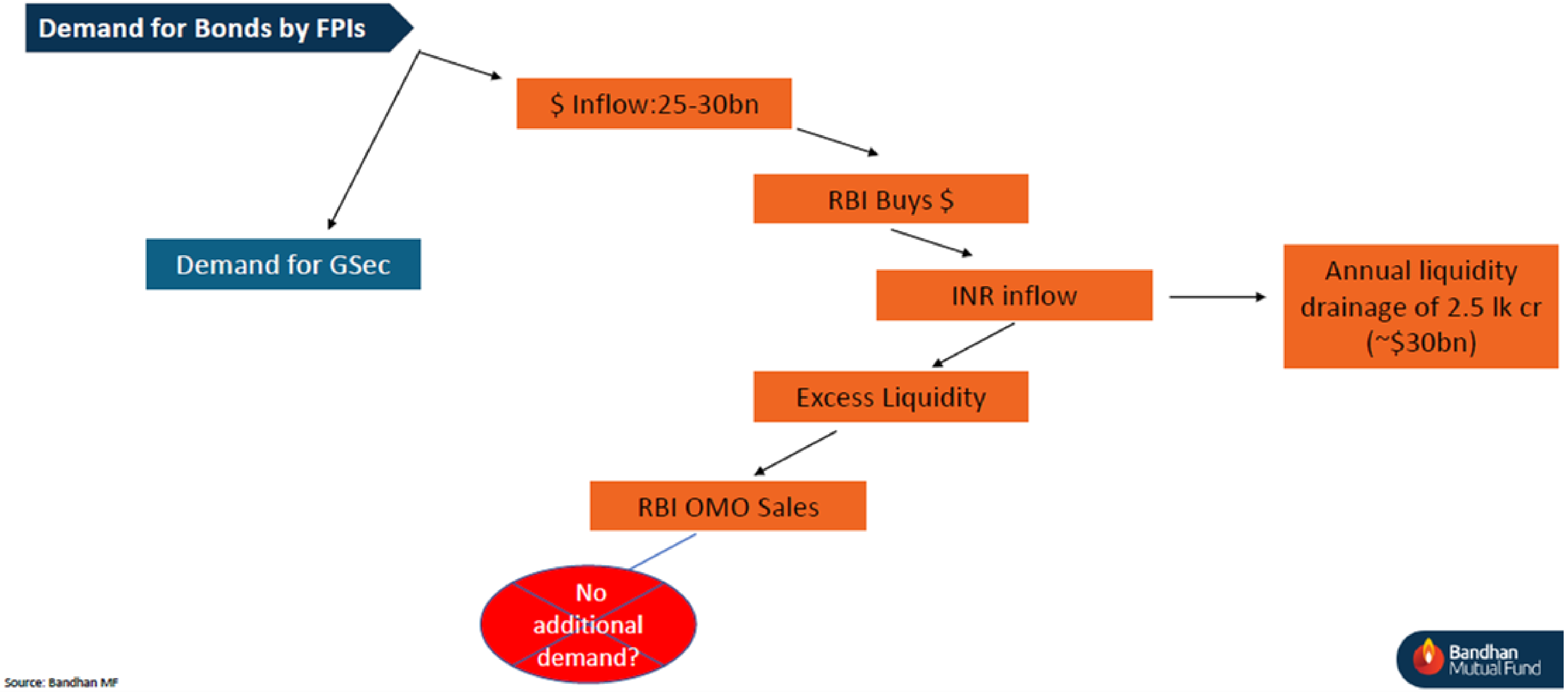
- FPIs have infused INR 19,837cr in Jan'24 (~2.40bn) - Previous highest was in June 2017!!
- Indian central government bonds are under owned by FPIs – lowest amongst EMs.
- Inclusion of GOI bonds in JPM index and reducing inflation is giving **FPIs opportunity to frontload** investments in Indian debt. Post last week's Union Budget announcement, benchmark 10yr GOI yield has fallen to 7.04% - 7.05%
- For context – past 1m annualized returns in duration funds are on an average 20.5% for Gilt, 22.8% for Income / long duration funds, 18% for dynamic bond funds vis-à-vis 10% for medium term, 9% for BPSU debt, 8.5% for Corp bond / ST funds – **TIME TO ELONGATE PORTFOLIO MATURITIES**

Implication of Index Inclusion & Bond Supply Dynamics

A sharp drop in the supply in bonds in the 2nd half coupled with demand from bond inclusion creates a conducive environment for long term bonds

INR Lakh cr	Gross G-sec borrowing	G-sec redemption	Net G-sec borrowing
H1 FY24 calendar	8.88	1.36	7.52
H2 FY24 calendar	6.55	2.26	4.29
FY24	15.43	3.62	11.81

Why duration is making more sense than ever!

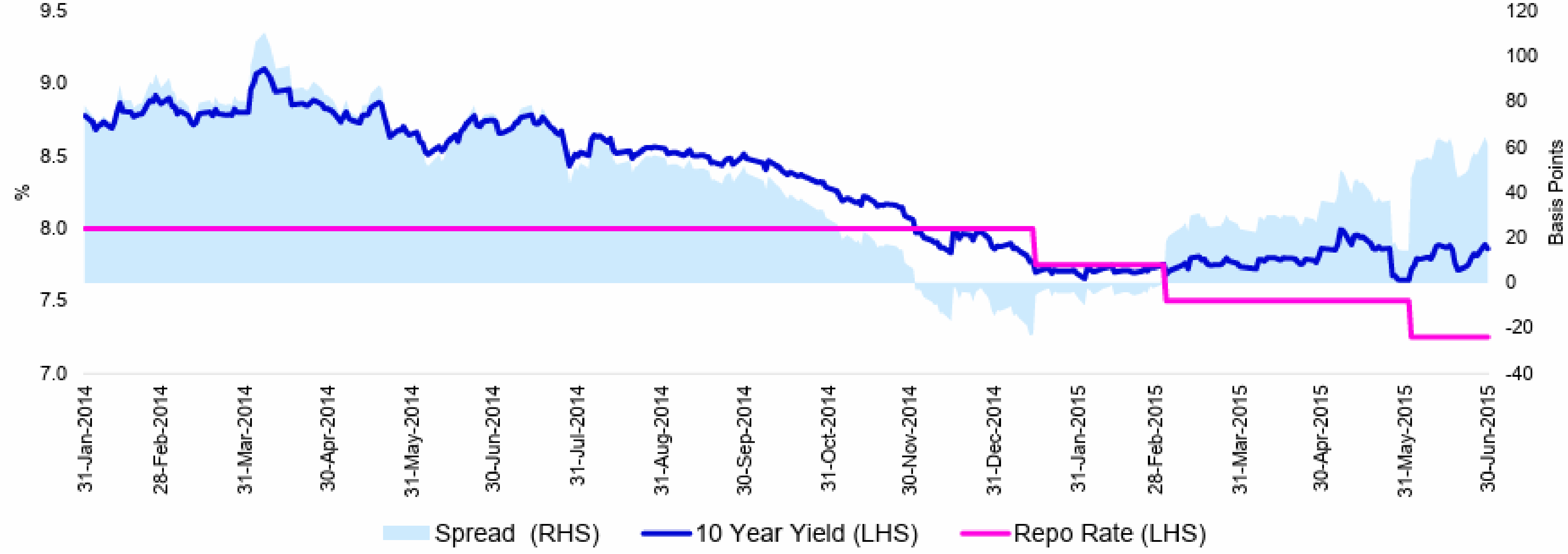


How would the RBI manage $30bn of USD inflow?

Source: Bandhan MF

What happened in the previous rate cut cycle in India? Why duration matters?

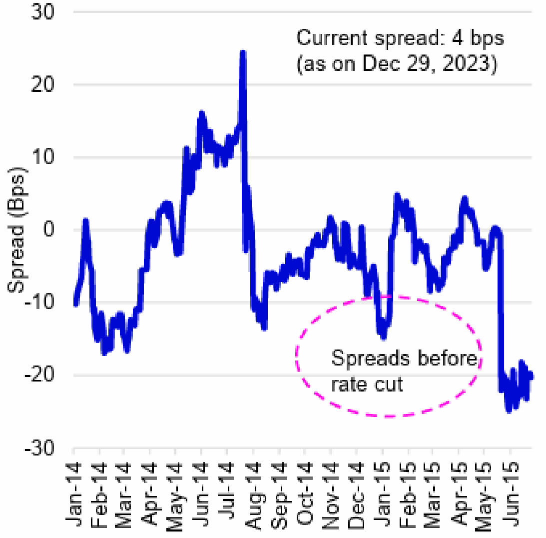
InCred Wealth



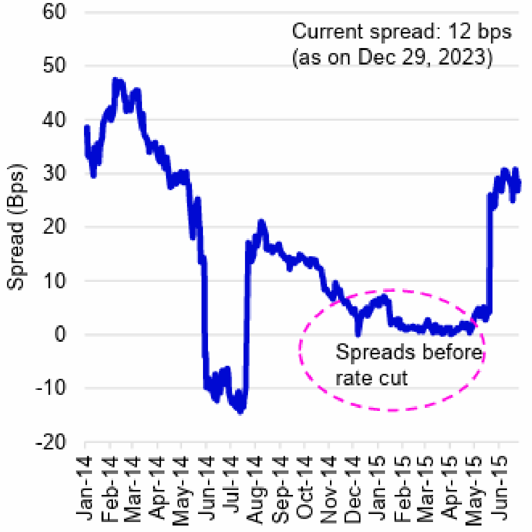
Interest rate rally happened much earlier than the beginning of the rate cuts!

Rate cut started in Dec'14 – Jan 15, but rates started coming off from Jul'14 - Aug'14

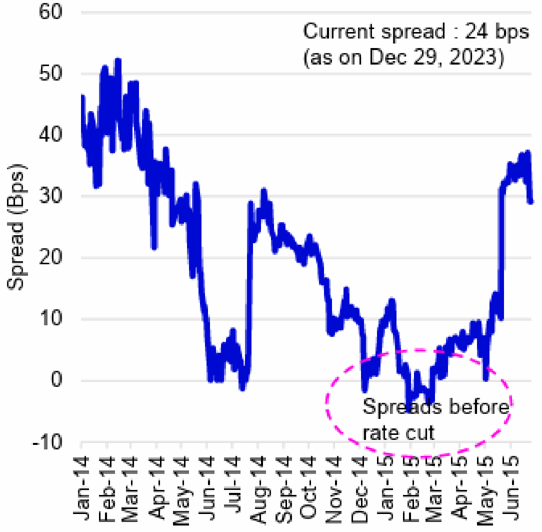
Spread between 5 years & 10 years G-sec



Spread between 10 years & 14 years G-sec



Spread between 10 years & 30 years G-sec



G-Sec yield curve saw higher spread compression in the longer end before the rate cut

Source: Bloomberg; Invesco AMC

Fixed income Outlook and Allocation Strategy

InCred Wealth

Outlook:

- Globally, markets have firmly entered a mature stage of the current rate hike cycle – post rapid and substantial hikes through 2022
- As we have been highlighting for quite some time, investment dynamics materially favours fixed income investors, given that real rates have firmly moved in the positive territory
- Yield curve is relatively flat, and we are unlikely to see any significant change in the shape of the curve in the coming months.
- Earlier, the US Fed held on to policy rates and signaled that rates could remain elevated for longer. With the recently concluded Fed policy, Fed seems to be indicating initiation of rate cuts in Q2CY2024. In our view, RBI's rate actions would be guided by the Fed's action.
- We expect the RBI to initiate rate cuts towards H2CY2024 and cumulatively deliver 50bps – 75bps of rate cut
- Staggered inclusion of Indian sovereign bonds in the JP Morgan index is expected to result in cumulative ~$25bn of FPI inflows in the bond market. No major populist announcements in the Budget, lower net (and gross) market borrowings for FY25 and a 5.1% fiscal deficit target (as a % of GDP) were big positives for bond markets.
- Given this backdrop, allocation towards duration / active debt strategies (elongating portfolio maturities) should be encouraged as it would help building a long-term strong core fixed income portfolio and help in generating meaningful net returns for investors

Deployment Strategy:

- Upto 50% of fixed income to be allocated towards medium – long duration strategies.
- Further, allocation of upto 35% of fixed income portfolio is suggested towards high yielding assets (bonds /structured credit funds)
- Balance 15% - 20% could be invested in accrual oriented short-term strategies.

Disclaimer

InCred Wealth and Investment Services Private Limited InCred Wealth"), is engaged in the business of distribution of third party financial products or acts as a referral agent of third party financial products and services (“Investment Products“). InCred Wealth may earn fees, commissions from the manufacturers of Investment Products.

InCred Wealth does NOT provide investment advisory services in any manner or form. InCred Wealth is AMFI registered Mutual Fund Distributor.

InCred Wealth may discuss with you (“Client/investor”) about investment products that are in line with your risk profile rating as maintained with us. Investment products are referred/distributed by InCred Wealth on a non discretionary and non participation basis. Such discussion would be a service without any consideration by InCred Wealth to the Investor and the final investment decision shall always exclusively remain with the investor. Clients/ Investors should independently evaluate the investment, risks and carry out the required due diligence prior to making any investment decision. Investment products are subject to market risks and are not guaranteed by Incred Wea lth . Investment products are subject to investment risks, including the possible loss of the principal amount invested. Past performance is not indicative of future results, investments are subject to market risks which may result in appreciation or depreciation. There is no assurance or guarantee that the objectives of investment will be achieved. The risks associated wit h the Investment products are mentioned in the product documentation supplied by the manufacturer of the products. Please read the relevant disclosure documents or Term Sheet or investment agreement or offer documents or prospectus or scheme information document as applicable carefully before investing. Information and opinions contained in this report/presentation have been obtained from sources believed to be reliable, but no representation or warranty, expressed or implied, is made that such information is accurate or complete. This document has been prepared in good faith and provided to you by InCred Wealth for informational purposes only, is intended for your use only and may not be quoted, circulated or otherwise referred t o without InCred Wealth’s expressed consent. This document is not a research report or a research recommendation and does not constitute a personal recommendation n. The information and opinions are not and should not be construed as an offer or solicitation to buy or sell any securities or make any investments. The financial instrument discussed, and opinions expressed in this presentation/note may not be suitable for all investors, who must make their own investment decisions, based on their own investment objective, financial positions and respective needs. This presentation /note should not be taken in substitution for the exercise of independent judgement by any recipient. The recipient should in dependently evaluate the investment, risks and carry out the required due diligence. The client is solely responsible for consulting his/her/its own independent advisors as to the legal, ta x, accounting and related matters concerning investments and nothing in this document or in any communication shall constitute such legal, tax or accounting advice. As a condition for providing this information, the client agrees that InCred Wealth makes no representation and shall have no liability in any way arising to them or any other entity for any loss or damage, di rec t or indirect, arising from the use of this information. All third party trademarks (including logos and icons) referenced here are for illustration purposes only and remain the property of their respective owners and constitute neither an endorsement nor a recommendation of those organizations/owners and not intended to imply, directly or indirectly, that those organizations endorse or have any affiliation with InCred Wealth.

Incred Wealth and Investment Services Private Limited
A Mutual Fund distributor registered with AMFI.
Registered Office and Corporate Office Address: Unit No 1203, 12th Floor, B Wing, The Capital, C 70, B Block, BKC, Bandra (E), Mumbai 400051; Phone: +91 22 68446100;
website: www.incredwealth.com ; CIN: U67190MH2020PTC350270.

Thank you

www.incredwealth.com