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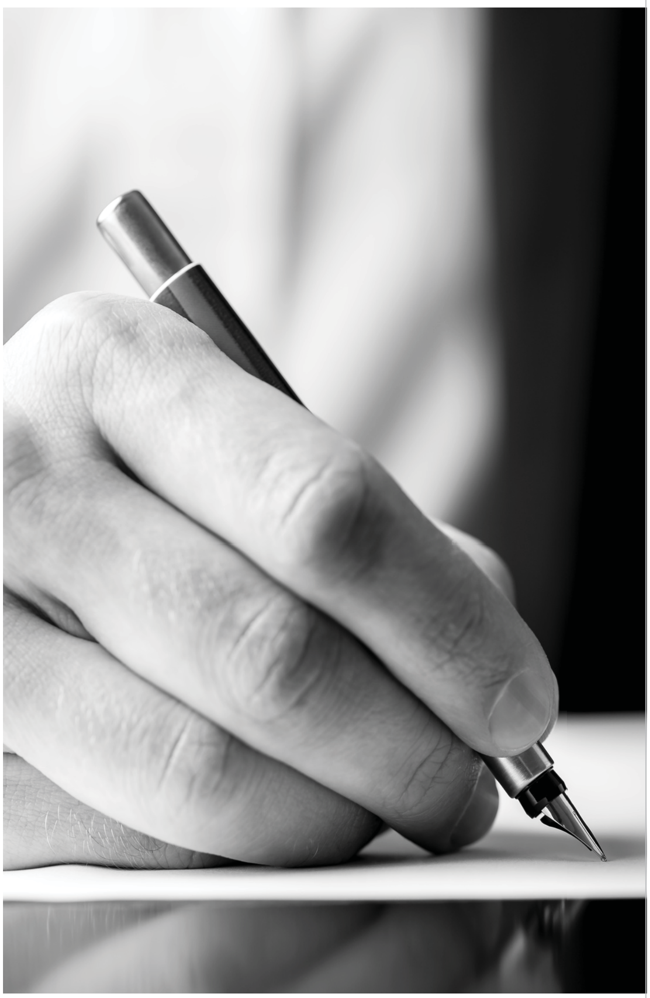
INVESTMENT COMMENTARY

OUTLOOK 2024 – INDIAN EQUITIES



IN THIS MONTH'S COMMENTARY...

- **WHAT'S DRIVING EARNINGS**
  In a quarter many investors expected to witness a slowdown, Indian equities have impressed. What's driving the impressive performance?
- **GLOBAL – MAJOR SHIFTS UNDERWAY**
  We report on major shifts underway and their impact on Indian equity markets.
- **MARKET OUTLOOK**
  Our outlook for equities, asset allocation over and underweights, and style preferences
- **THE DUAL MANDATE FOR INVESTORS/ADVISORS**
  We discuss the yin and yang of equities, investment strategy, portfolio construction and risk strategy.
- **MARKET DATA & TACTICAL WEIGHTS**
  Our key calls since 2020, cross asset market data, and our asset allocation tactical preferences

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What's Driving Earnings?

What a year 2023 has turned out to be for equities, small and mid in particular!

Let's face it, expectations were for a tepid or decelerating quarter of earnings performance. In the face of oncoming U.S. recession worries, high prices, wars, debt, a slowing China, there was legitimate concern about a deceleration in earnings.

Well, Indian equities have delivered a surprisingly **impressive earnings** performance. What exactly is driving performance is the question we attempt to tackle. We parse the sectoral **earnings data** across large, mid and small to **unpack the key trends** driving our markets and get a better sense of what lies ahead in 2024.

I. Nifty 50 Earnings - Performance Driven by Financials

Financials have posted 26% profit growth, and the highest profit contribution to the Nifty 50 (34.3%), 44.3% in the Midcap 150 and 33.7% in the Smallcap 250. Let's look at **what's been driving Financials.**

Cheap Data, Electrification and the India Stack

Mobile broadband subscribers have soared from 350 million to 750 million in the past five years. Gen Z spends an average 8 hours per day online. Data traffic usage during 2017-21 was amongst the highest in the world, with annual growth rates of 50%+. Electrification and cheap online access have led to a rise in aspirations. The India Stack has enabled easy and instantaneous access to credit. As a result, credit growth and e-commerce spending are surging.

Underlying the **entire ecosphere** is the India Stack, Aadhaar identity, UPI, cheap data, electrification, affordable mobile phones, fintech and private equity innovation and investments. **Access and infrastructure have unleashed aspirations**.

Tapping the Unserved Customer

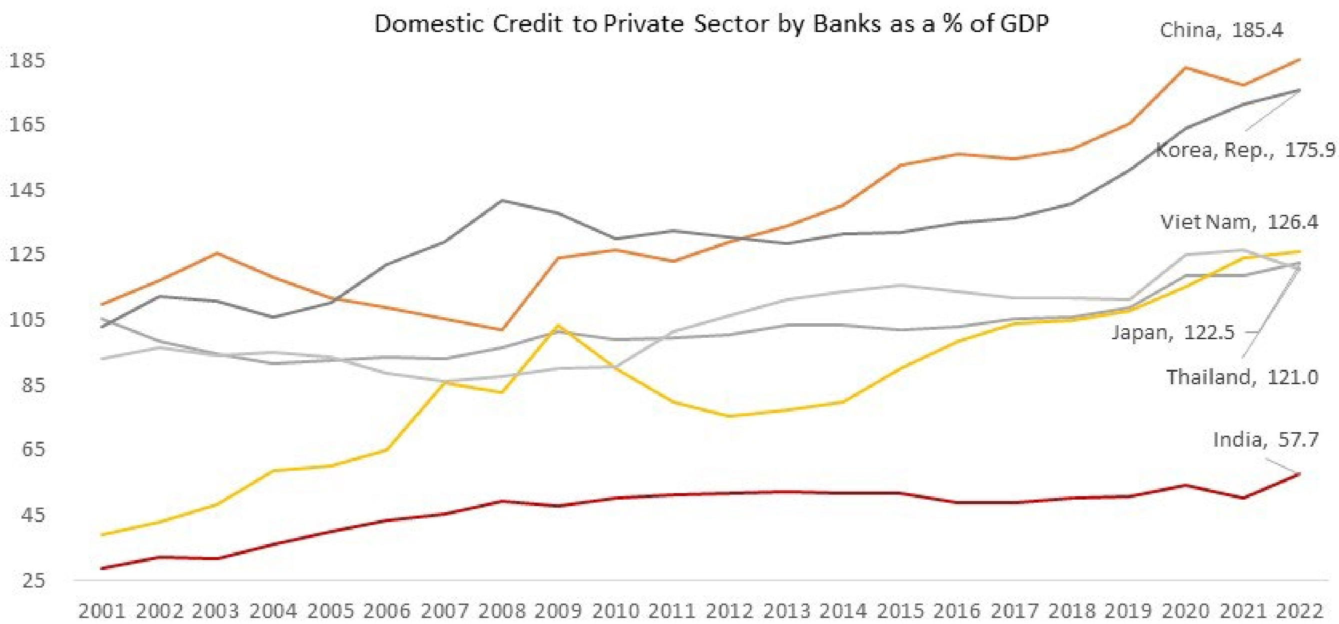
Jan Dhan started things with the opening of bank accounts for the unbanked. Frictionless direct benefit transfers put money in the hands of the rightful beneficiaries, largely eliminating corruption, fraud and

Financials Have Posted Stellar Earnings, the Highest Sales Growth, Highest Margins

Nifty 50	Cap Wt %	Profit Contrib %	Sales YoY %	Operating Profits YoY%	Net Profits YoY%	Sales QoQ %	Operating Profits QoQ%	Net Profits QoQ%	Oper Margin	Net Margin
Communication Services	3.6%	1.1%	7.3%	10.9%	-29.7%	-1.1%	4.8%	37.7%	52.7%	5.7%
Consumer Discretionary	8.8%	7.8%	24.6%	65.5%	85.0%	5.0%	2.8%	11.2%	14.2%	7.0%
Consumer Staples	10.2%	4.9%	4.5%	8.4%	6.6%	3.4%	0.1%	2.6%	27.6%	20.3%
Energy	13.7%	26.7%	-5.2%	70.8%	83.6%	-1.1%	24.6%	-5.0%	17.5%	10.0%
Financials	**26.5%**	**34.3%**	**32.6%**	**38.5%**	**26.6%**	**11.8%**	**26.2%**	**5.4%**	**38.1%**	**18.1%**
Health Care	4.2%	2.9%	11.3%	9.5%	15.3%	4.2%	21.8%	13.8%	24.7%	17.3%
Industrials	5.6%	3.1%	-6.9%	18.1%	19.9%	0.8%	-17.6%	0.8%	16.4%	7.4%
Information Technology	17.0%	13.4%	5.7%	3.5%	2.6%	0.8%	-5.0%	1.7%	22.2%	15.2%
Materials	7.5%	1.4%	-0.4%	25.7%	-59.2%	-1.0%	-12.0%	-76.2%	13.3%	1.2%
Utilities	2.8%	4.4%	1.7%	13.5%	20.4%	3.9%	-4.5%	0.0%	39.8%	15.1%
Total	**100.0%**	**100.0%**	**7.1%**	**34.7%**	**29.4%**	**2.8%**	**11.5%**	**-2.3%**	**23.2%**	**11.1%**

Source: All data from NSE, Bloomberg unless noted otherwise. Data as of November 16, 2023.

India is Severely Under-banked Relative to Asian Peers



bureaucracy. Peer to peer transacting further accelerated the velocity of money. The Open Credit Enablement Network (OCEN) will further democratize credit at scale.

Net net, an economy that was plagued by **black money** and cash hoarding as recently as late 2016, is now rapidly moving towards cashless online transacting. India's share of global payment transactions is a stunning 46%.

Of the 320 to 340 million India working age population with credit scores above 650, only 120-140 million have loans from the formal sector, leaving an estimated **200 million customers with formal credit that have been unserved**.

Structural reforms, in unison, have unleashed a **tsunami of demand for credit** from the unbanked, real estate buyers, consumers, small business, investors, service providers etc.

Credit Growth is Surging

Indian **consumers are lapping up credit**. Scheduled banks credit to credit card customers has grown to INR 2.17 lakh crores from 1.67 L cr a year ago, up 29% YoY. **Personal loans** are up 30% YoY. Housing loans are up 13-14%. The **services** sector is growing credit at 21% YoY, lending to NBFCs is up 26% YoY, vehicle loans registered a robust growth of 21% YoY in September.

This dramatic growth has accelerated in the past couple of years, as digital infrastructure, lending infrastructure and digital payments have come online.

India Severely Lags Asian Peers

It's worth noting that **India lags Asian peers** in domestic credit to the private sector by banks as a percentage of GDP (chart above). In most peer countries, credit as a percent of GDP is in excess of 100%, while **India lags severely at 57.7%**. Credit growth is arguably catch-up, as under-served Indians are finally obtaining easy access to fair credit.

II. Mid Cap Earnings - Impressive Showing Continues

Coming to mid-cap earnings, mid-caps have delivered 11.3% YoY sales growth, a massive **profit growth of 53.1% YoY**, led again by a 42.9% profit contribution by Financials. We exclude Rajesh Exports, HPCL, Oil India and Vodafone Idea - due to their highly volatile profit performance - in order to get a clearer picture.

With 10.7% YoY top line and 27.1% profit growth YoY, **consumer discretionary spending has held up impressively** as well. Alongside strong Nifty 50 consumer discretionary performance, fears of the slowdown of the consumer remain unfounded. Across the mid cap universe, ***all* sectors** - with the exception of Consumer Staples – have **delivered sequential top line growth**, and the universe delivered top and bottom line sequential growth of 4.4% to 5.3%, an impressive showing.

Real estate companies have delivered standout results led by Oberoi Realty, Phoenix Mills and Prestige Estates in the mid cap space. This isn't evident in the consolidated data due to a large loss. While real estate is a tiny piece of the equity universe, it is a huge part of the economy and understanding the drivers is critical in unfolding the India story. Next, we look at the **factors behind the surge in real estate activity.**

Demographics Drive Destiny

First, India's working age population to total population ratio is projected to hit 68.9% by 2030. Roughly 35% of India's population is within the ages of 25 and 45. Second, India's median age is 28.4 years. A massive young population is entering their **prime home ownership and income earning years**.

Surging Real Estate Activity

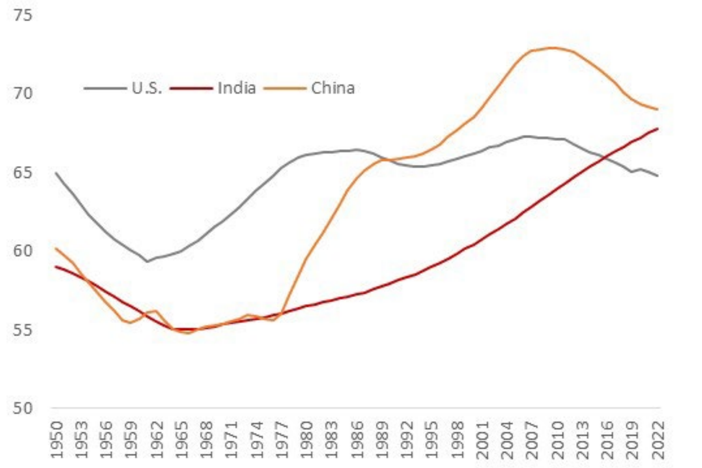
Per **Anarock's residential housing** report, in Q3 2023, 1.2 lakh units were sold in the top 7 cities, versus 88.2k units in the year ago period, representing a **36% YoY sales growth.** Sales were up 5% QoQ. The majority of sales are being driven by **end user** appetite. Mid segment homes in the 40-80 lakh range dominated new supply with a 28% share, confirming our view that young buyers are active. Prices rose in the top cities, 3-8% in Q3 and 8-18% annually. Per Anarock, there is an **unrelenting quest for home ownership** and branded product.

Mid Cap Earnings Led by Financials, Real Estate, Consumer Discretionary & Utilities

Nifty Midcap 150	Cap Wt %	Profit Contrib %	Sales YoY %	Operating Profits YoY%	Net Profits YoY%	Sales QoQ %	Operating Profits QoQ%	Net Profits QoQ%	Operating Margin	Net Margin
Communication Services	2.5%	3.0%	1.6%	14.7%	9.2%	2.0%	6.7%	-7.3%	35.5%	13.6%
Consumer Discretionary	14.6%	5.6%	10.7%	28.4%	27.1%	3.8%	8.5%	2.3%	14.8%	6.7%
Consumer Staples	3.7%	1.0%	-3.4%	30.3%	9.4%	-5.6%	-30.2%	8.3%	7.4%	4.9%
Energy	0.5%	1.2%	-21.6%	3.6%	9.9%	7.5%	25.3%	3.6%	9.7%	6.5%
Financials	**22.2%**	**42.9%**	**19.3%**	**43.9%**	**56.3%**	5.9%	11.3%	9.3%	58.4%	15.2%
Health Care	10.1%	6.5%	16.6%	33.3%	19.2%	7.8%	8.2%	28.9%	21.8%	13.1%
Industrials	15.4%	6.2%	10.3%	32.7%	40.3%	1.7%	-20.9%	5.7%	13.0%	7.4%
Information Technology	4.8%	2.5%	12.4%	6.7%	5.6%	3.8%	-2.3%	-0.2%	20.2%	13.7%
Materials	15.6%	13.0%	1.2%	27.8%	21.6%	2.9%	-11.9%	-1.9%	17.2%	9.3%
Real Estate	4.4%	2.8%	**36.7%**	**49.3%**	**-1200.9%**	7.8%	-35.8%	56.7%	31.9%	30.3%
Utilities	6.2%	**15.2%**	**23.7%**	**75.9%**	**153.9%**	7.2%	49.6%	-7.2%	33.4%	31.4%
Total	**100.0%**	**100.0%**	**11.3%**	**39.9%**	**53.1%**	**4.4%**	**6.6%**	**5.3%**	**33.1%**	**12.9%**

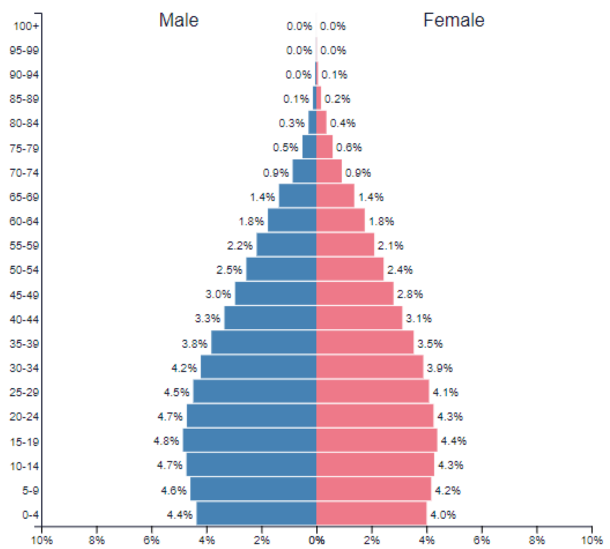
Note: Rajesh Exports excluded, Hind Petro and Oil India. Data as of Nov 15, 2023.

India's Working Age Population Ratio Will Rise Through 2030



Source: OECD.

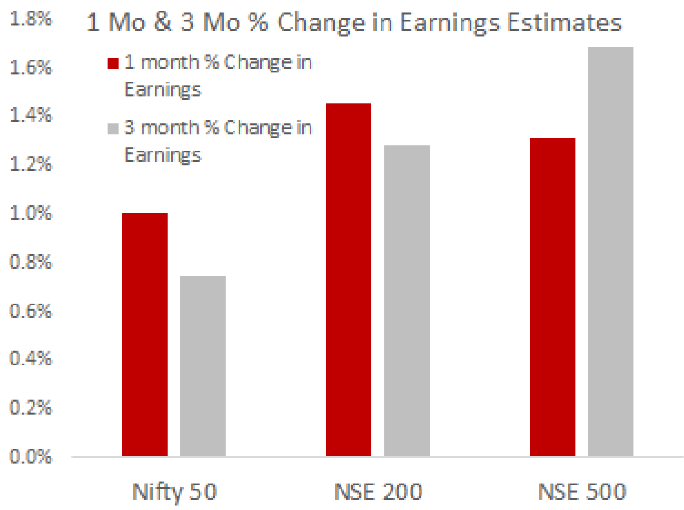
India's Population Pyramid

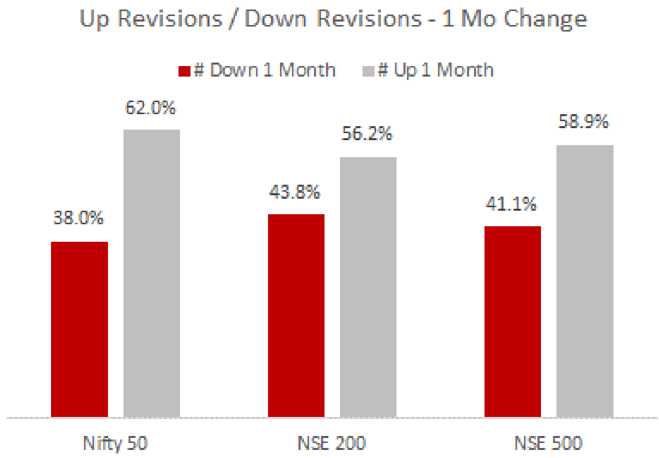


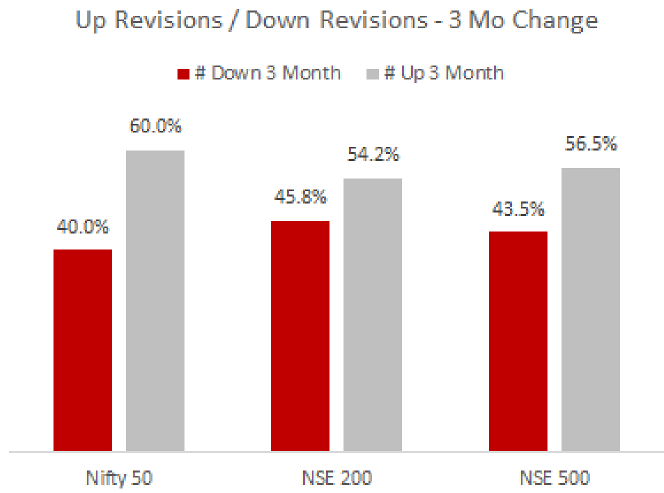
Alongside demographics, RERA, a steady decline in mortgage rates over the past decade, stable interest rates, rising incomes, easily available credit for home ownership have led to Indian consumers prioritizing dream homes, second homes and vacation homes.

III. Stellar Small Cap Earnings Growth

Small caps have continued to deliver both on top line and on bottom line. Sectors of note include Infra, IT, Financial Services, Consumer Services, Construction and Capital Goods and Power. We take a **deeper look at how Infra investments are creating multiplier impacts.**







Small Caps Earnings Driven by Cap Goods, Construction, Consumer, Financials, IT and Realty

Nifty Smallcap 250	Cap Wt %	Profit Contrib %	Sales YoY %	Operating Profits YoY%	Net Profits YoY%	Sales QoQ %	Operating Profits QoQ%	Net Profits QoQ%	Operating Margin	Net Margin
Automobile and Auto Com	4.1%	4.5%	10.5%	25.1%	51.1%	5.5%	5.7%	20.7%	13.6%	7.8%
Capital Goods	13.9%	12.5%	18.3%	58.9%	105.3%	7.9%	-18.3%	69.4%	12.1%	9.6%
Chemicals	6.2%	7.5%	-20.4%	-28.3%	-30.2%	7.9%	-15.3%	29.5%	10.4%	6.0%
Construction	3.8%	4.0%	18.9%	15.3%	20.5%	3.1%	3.1%	-11.5%	13.4%	5.8%
Construction Materials	1.5%	0.8%	8.8%	129.5%	-181.5%	-7.6%	6.0%	196.0%	9.8%	2.7%
Consumer Durables	5.6%	2.1%	12.7%	10.2%	3.6%	-8.2%	-4.6%	-16.6%	8.9%	4.8%
Consumer Services	4.5%	1.5%	15.0%	21.0%	21.2%	2.4%	-3.4%	-15.8%	18.0%	6.1%
Diversified	0.5%	0.1%	-1.2%	-57.7%	-74.8%	-2.6%	-52.0%	-43.0%	4.2%	1.2%
Fast Moving Consumer Go	4.8%	3.9%	8.2%	38.9%	47.0%	1.9%	-20.5%	15.8%	12.9%	7.4%
Financial Services	24.4%	34.9%	25.0%	32.0%	27.0%	4.4%	15.1%	6.4%	60.3%	18.1%
Forest Materials	0.6%	0.8%	-4.3%	-39.4%	-31.3%	1.9%	-1.0%	-10.7%	15.8%	9.9%
Healthcare	10.1%	6.3%	12.6%	23.3%	12.5%	4.5%	-10.6%	3.5%	19.6%	9.1%
Information Technology	4.5%	3.3%	17.7%	37.5%	40.7%	2.3%	10.1%	1.7%	16.9%	11.3%
Media Entertainment & Pu	1.4%	0.2%	47.4%	27.2%	-338.8%	-24.7%	-37.2%	-39.3%	6.2%	1.0%
Metals & Mining	1.8%	1.9%	-2.1%	17.2%	101.3%	-3.5%	-19.4%	3.2%	11.3%	9.3%
Oil Gas & Consumable Fue	1.6%	3.9%	-9.8%	12.5%	18.6%	-9.1%	1.2%	9.7%	22.6%	15.4%
Power	2.1%	5.8%	-0.9%	-8.2%	59.8%	-1.1%	24.6%	79.3%	26.6%	23.0%
Realty	1.6%	0.8%	83.0%	114.7%	3265.3%	33.1%	-8.0%	55.1%	18.0%	7.7%
Services	2.6%	4.7%	6.7%	-14.6%	-17.5%	4.1%	-6.4%	2.1%	5.4%	4.1%
Telecommunication	2.7%	-0.8%	3.5%	-7.6%	29.5%	10.6%	-21.5%	22.5%	12.3%	-5.7%
Textiles	1.7%	1.1%	0.8%	10.8%	58.2%	11.6%	-10.2%	-68.9%	10.6%	3.9%
Total	**100.0%**	**100.0%**	**8.3%**	**20.9%**	**26.9%**	**3.0%**	**2.6%**	**11.5%**	**20.9%**	**9.1%**

Dedicated Freight Corridors, Power & Infrastructure Reforms

According to the RBI, spending on infrastructure and construction creates **5X multiplier** on employment versus the broad average. Improved energy, transportation and logistics and digital infrastructure translate into improved competitiveness, drive exports, raise productivity and create employment in small to medium enterprises.

Dedicated Freight Corridors (DFCs) slash time and cost for transportation of goods. Freight Corridors have the capacity to take on 70% of India's current railway freight.

With net tax revenue in FY24 YTD up 14.8% and non-tax revenue up 79%, the **government has increased capital expenditures by 35%** over FY23.

Infrastructure investment reduces slippage, improves the competitiveness of the economy, while creating employment.

The National Infrastructure Pipeline (NIP) of US $1.4 trillion underpins the large infrastructure investment opportunity in India, duly supported with tax concessions for Sovereign Wealth and Pension Funds and an enabling market for Infrastructure.

Airports and Railways are being upgraded, power networks expanded. Indigenously designed and manufactured Vande Bharat trains now offer modern and fast short-distance passenger services between major cities. Recognizing the need for attracting long-term capital for such infrastructure investments, the GoI has provided an enabling environment for private capital.

Global – Shifts Underway

China's Plethora of Problems

President Xi visited the U.S. recently, his first visit to the U.S. in six years. The tone appeared conciliatory, friendly, reminiscent, a far cry from recent years, and it's not difficult to understand why.

China's FDI Plummets into a Quarterly Deficit

Reuters reports that China recorded its first-ever quarterly deficit in foreign direct investment (FDI) in Q3 2023, according to balance of payments data. **Western corporations**, most recently Vanguard, are wrapping up business operations in the country. Others, like Apple, Tesla, Nike are **de-risking**.

The **Belt and Road Initiative** has made limited progress. U.S. **corporations appear wary** of doing business in China, post heavy-handed policy shifts. The **real estate** market also appears to be in trouble, and **massive debt** exists at the state level. Adding to China's woes is the rising cost of labor, and alarming demographics.

India's Exports to U.S. are Rising Rapidly

India has wisely created attractive tax incentives, manufacturing incentives and offers cheap cost of labor and a huge domestic market. The PLI scheme attracted investment commitments of US $5 billion in FY 2023. **New industries** such as semi-conductors, electric vehicles, green energy, space, EV and batteries, green hydrogen, drones, domestic data centers are being birthed.

India, alongside Mexico, Vietnam are key beneficiaries. India's democratic, English speaking labor force, well-functioning and trusted institutions, stable political and regulatory regime, and robust capital markets make it an attractive **manufacturing destination**.

India's Exports to the U.S. Are Rising Rapidly, While China's Have Stagnated Since 2018

Shifting Global Manufacturing

China's policies and **geo-political alignments** are shifting the global manufacturing map. U.S. goods imports from China have stagnated, while India and Mexico have seen imports to U.S. rise.

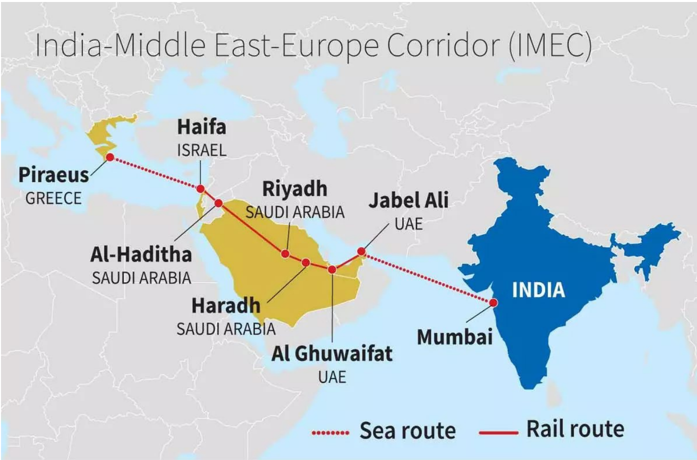
India exports to the U.S. are up 152% since May '14 and +71% Since Jan 2021. India's share of global handset output has increased 60% to 16% over the past five years. U.S. imports of machinery from China have shrunk by 28% since 2018, but are up 70% from India.

The India - Middle East - Europe trade corridor

Longer term, the India-Middle East-Europe Economic Corridor (IMEC) is a new route to Europe via the Middle East (Saudi Arabia, Israel, UAE) bypassing Pakistan, Iran, Afghanistan and the Suez Canal for freight, energy and data. It is not a coincidence that India is pursuing free trade agreements with countries along the route.

It will cut transport time between East Asia and northern Europe by 15 days, while reducing cost. It is estimated travel times to Europe could be reduced by 40% were high-speed rail to be incorporated in Saudi Arabia. The corridor will facilitate export of goods, energy, including green hydrogen, with plans to for fiber optic cables alongside the energy pipeline.

India Middle East Europe Trade Corridor



Source: Drishti IAS.

Outlook

Forecasts Are Widely Dispersed…

2023 has been a good year so far… we **reiterated our bullish call** from June 2022 in late March 2023. We first spoke about **large cap underperformance** in spring 2022 and have been **over-weight skewed towards mid and small** caps this year. We chose to ride out the Israel Hamas war with no change in our view. We've patiently stayed invested, often the difficult thing to do. Net net, we've been on the right side of this rally.

Global Outlook Will Remain a Concern

There is a plethora of institutional bearishness prevalent in the U.S. today. A star hedge fund manager is predicting the Fed will cut rates in Q1 2024. Aggressive rate hikes, dwindling excess savings, high interest burden on debt that is unsustainable, signs of stress in real estate etc. Post a stupendous rally, taking chips off is an **easy** choice. On the flip side, a number of notable institutional houses have raised their weights on India and issued a bullish view. Forecasts are all over the place, and should frankly, be treated with some disdain, because the record shows they are rarely accurate.

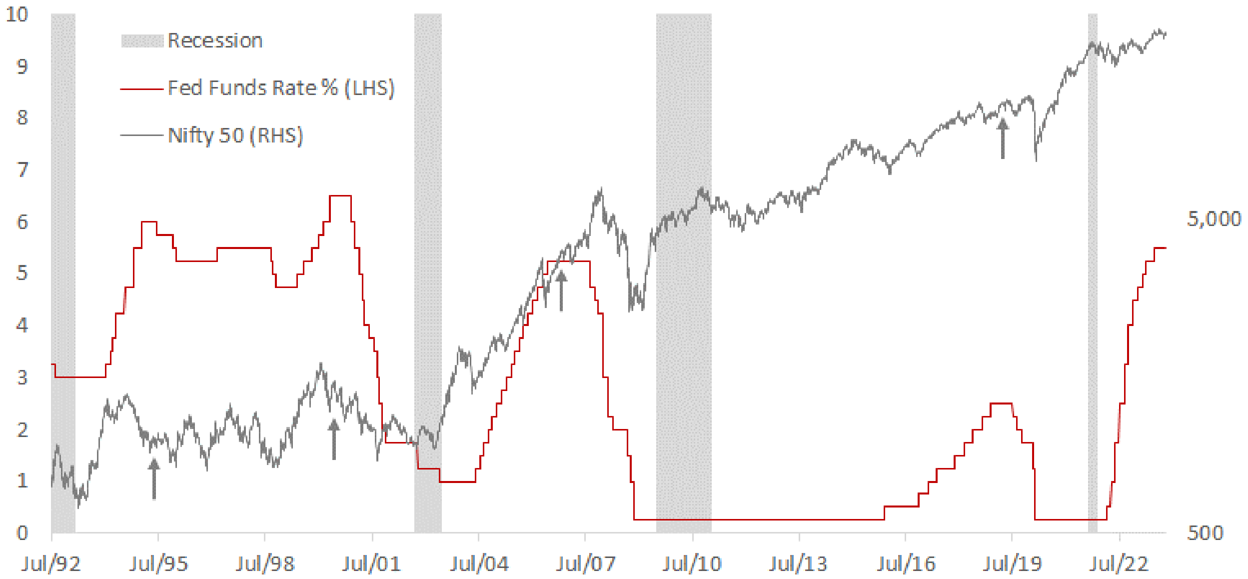
U.S. Rate Hikes & Outlook

Latest data on the **probability of a U.S. recession** for the current quarter, next quarter, and four quarters ahead are 22%, 34%, and **34%,** respectively. The data suggest the probability of recession continues to remain low.

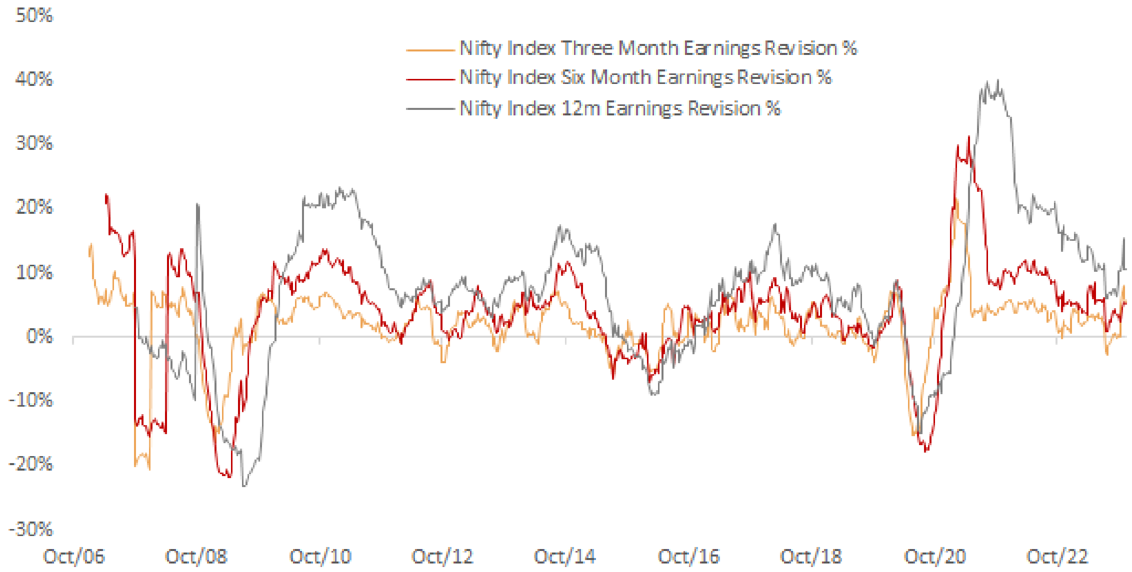
The most recent CPI reading in the U.S. suggests the Fed is done on rate hikes. 2/4 previous hike cycles occurred during bubble years - the housing bubble of 2007 and the Nasdaq bubble of 1999. The recent rate hike cycle ended in early 2019, a decent year for equity markets. The other instance was in 1994-95 when the Fed engineered a soft landing. With no bubbles

Recent U.S. Expansions Have Been Amongst the Longest in History…

…and the Probability of Recession Remains Low in the U.S…



Nifty 50 Earnings Revisions Data Has Picked Up Momentum...



evident today, our expectation is that the U.S. will muddle through and the Fed will have the ability to lower rates, so market performance could diverge from economic performance. The RBI may also consider rate cuts in the second half of the calendar year in 2024 if necessary.

We also note that the prior two expansions in the U.S. were amongst the longest in history. **The drag from monetary and fiscal tightening by the U.S. Fed is largely behind us** and banks appear to be easing a bit on lending standards. Inflation appears to be declining YoY.

The India Story Remains on Firm Footing

There are two key questions we will attempt to address: one, how long does the rally continue and two, what to do about elections?

While recognizing the risk of being overly bullish, we've made the case that the following factors are key drivers of the India story:

Key Factors Driving India Story

- Structural Reforms
- Infrastructure Investments & Multiplier Effects
- A Credit Tsunami & Demographics
- Earnings Delivery
- Reasonable Valuations
- Housing Demand & Demographics
- China +1 Market Share Gains
- PLI, FDI, Manufacturing Resurgence
- New Industries
- Equity Wealth Creation & Multiplier Effects
- Strong Fiscal, Stable Rates
- SIP Flows
- Declining Inflation & Crude Oil

Earnings Revisions Rising

Forward earnings revisions tend to correlate with historical market cycle peaks. Nifty earnings estimates are up 8.8% YTD, mid cap earnings estimates have soared **+27% YTD**, and small cap are up 16% YTD. The upward momentum in earnings revisions suggests the **strong earnings recovery remains underway**,

Rising SIP Investments Cross $2 Billion a Month

SIPs have been steadily on the rise, and have recently surpassed Rs 17,000 crores or **$2 billion a month**. Domestic investors are increasingly asserting their presence and the volatile impact of FIs is waning.

Rounding out the bullish trends, real estate activity is creating multiplier benefits, valuations for equities generally remain fair, crude oil prices have declined, inflation is declining, and the fiscal position remains strong.

Valuations Are Fair

Nifty, mid and small valuations remain at or near fair value. Looking ahead, our fair value P/E model suggests forward fair value targets in the range of 23,000 for the Nifty. Should rates come down next year fair value targets will have further upside.

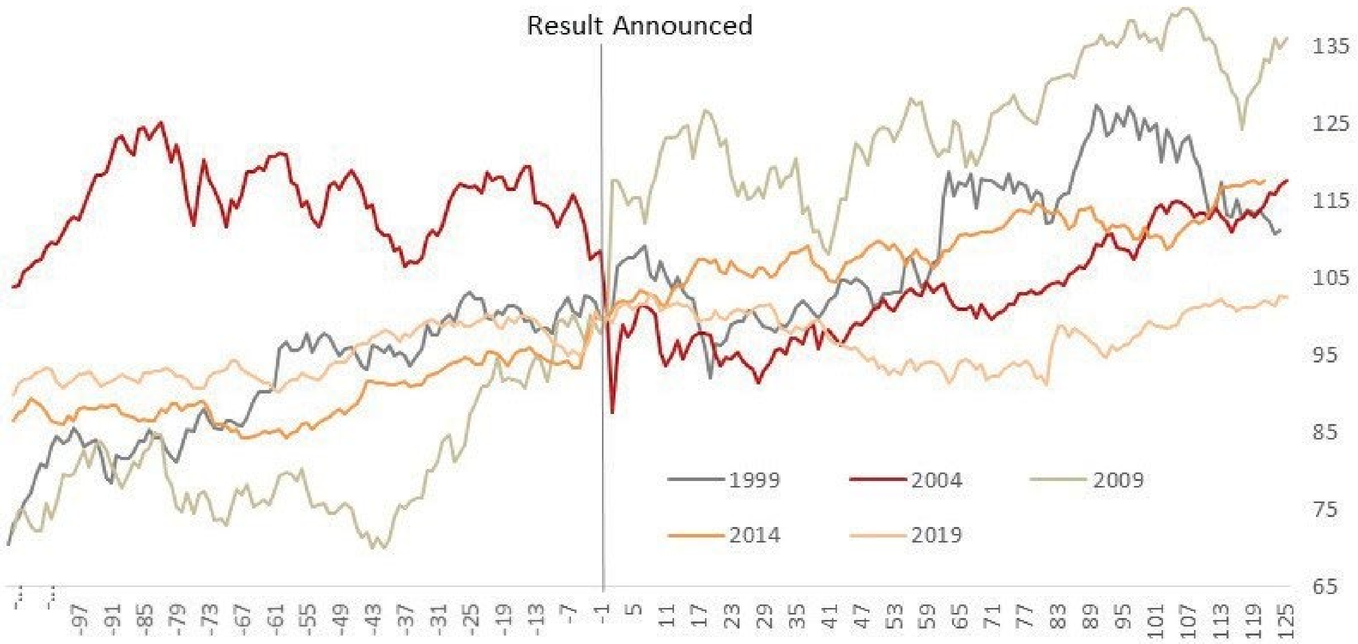
An impending global fixed income benchmark inclusion will improve the basic balance of payments funding gap, lower interest rates into 2024.

Pre and Post Election Market Action

Nifty 50 **performance has been largely positive** heading into elections since 1999, and positive six months post the date of the election results announcements. Short term volatility occurred prior to and post the 2004 election, and post the 2009 elections, but was short- lived in each case, and markets recovered and rose higher over time.

Opinion **polls** so far for the 2024 elections indicate a **clear majority for the BJP,** with high 65-70% approval ratings for P.M. Modi, and the BJP winning a 53% seat share, and 56% NDA. The 26 opposition parties that have come together to form the INDIA

**In Every Election Back to 1999, Markets were Higher 6 Months Post Elections ...
...and Typically Rose Leading into Elections (with one exception: 2004)**



alliance means the alliance will field one candidate as against 2 or 3 earlier. The impact of this alliance appears to be limited to a small number of states. Our **base case is a continuation of the current regime**. Should the unexpected unfold, we note that India's track record of real GDP growth was impressive under UPA 1 and FDI first accelerated during the latter stages of UPA1.

The Dual Mandate for Investors

As we sit here near the end of 2023, one can say "the easy money has been made in this rally". But the fact is that it is never easy. Putting a call out in March to buy equities carried risk.

Which brings us to the dual mandate that all investors inherently adhere to. A **growth mandate** during good times and **protection mandate** during bear markets. Managing FOMO and preventing loss of capital.

While **cash and FDs** can be comforting allocations delivering predictable monthly income, these assets post tax are ultimately a drag on long term real growth.

Bonds should experience a boost in inflows following inclusion in global bond indices mid next year. Alongside dropping inflation, and some star managers calling for rate cuts in the U.S. and a recession in the U.S. next year, a case can be made for duration for investors with a medium term horizon.

Equities

2023 has been a glorious year for those that aligned with a bullish view and built exposure to equities, small and mid-caps in particular.

We **remain watchful on the global environment**. The worst of the rate hikes are behind us. We would note that historically the Fed has been slow to react to a slowing economy. This **Fed has demonstrated the ability to act with speed** and aggressive action. That ensures the Fed — and arguably the RBI — will be generally **supportive of equities**.

Meanwhile, earnings continue to deliver domestically, the domestic investor flows are strong and rising continuously, central banks are transitioning to supportive policy, and many **positives are driving the India story**.

Prudent portfolio strategy suggests SIPs, aligning with proven, experienced portfolio managers, and **not over extending to extreme allocations**. How to manage volatility is a client advisor conversation, with options generally being buy and hold, cash, tactical calls, rebalancing, hedging strategies, income generation, and cross asset diversification. In equities, short term volatility is the price investors pay for long term wealth creation.

Our views on equity being largely data dependent, remain positive heading into 2024. We remain **overweight equities**. Our cap preferences are growth selling at reasonable prices, supported by momentum. In other words, **GARP and momentum**.

Style Preferences

While earnings at an index level have been solid, the earnings performance is widely dispersed across sectors, industries and stocks. We prefer **active managers** in such an environment. Stock selection and sector allocation will continue to matter in 2024.

Large caps delivered good earnings, but many are challenged by high valuations, and **valuation compression** continues to constrain performance. Opportunities remain easier to come by in the **mid and small cap** space. Yet again, we prefer a portfolio focused on **domestic growth**. Markets have shown a proclivity to shift leadership across capitalization, style and sector in recent years. Identifying these shifts, being somewhat nimble, will generate opportunities for alpha.

Ignoring the Noise

There will be noise in 2024. There always is. There has been noise in global markets since 2008, 2001 and going back to the 1990s. Today is no different.

Alongside this noise, **meaningful wealth creation has occurred**. Indeed, much of wealth creation comes down to the ability to **avoid mistakes** at times of duress and staying the course.

Tactical calls can enhance returns and reduce risk, and are worthy considerations, that **should be part of investor toolkits**. Investing isn't about the market; it's ultimately about companies. A diversified portfolio of quality growth Indian equities has generally been kind, some cases extremely kind, to investors that stayed the course, in the 1990s, the 2000s and the 2010s. This decade looks to be as good, if not better.

AMBIT
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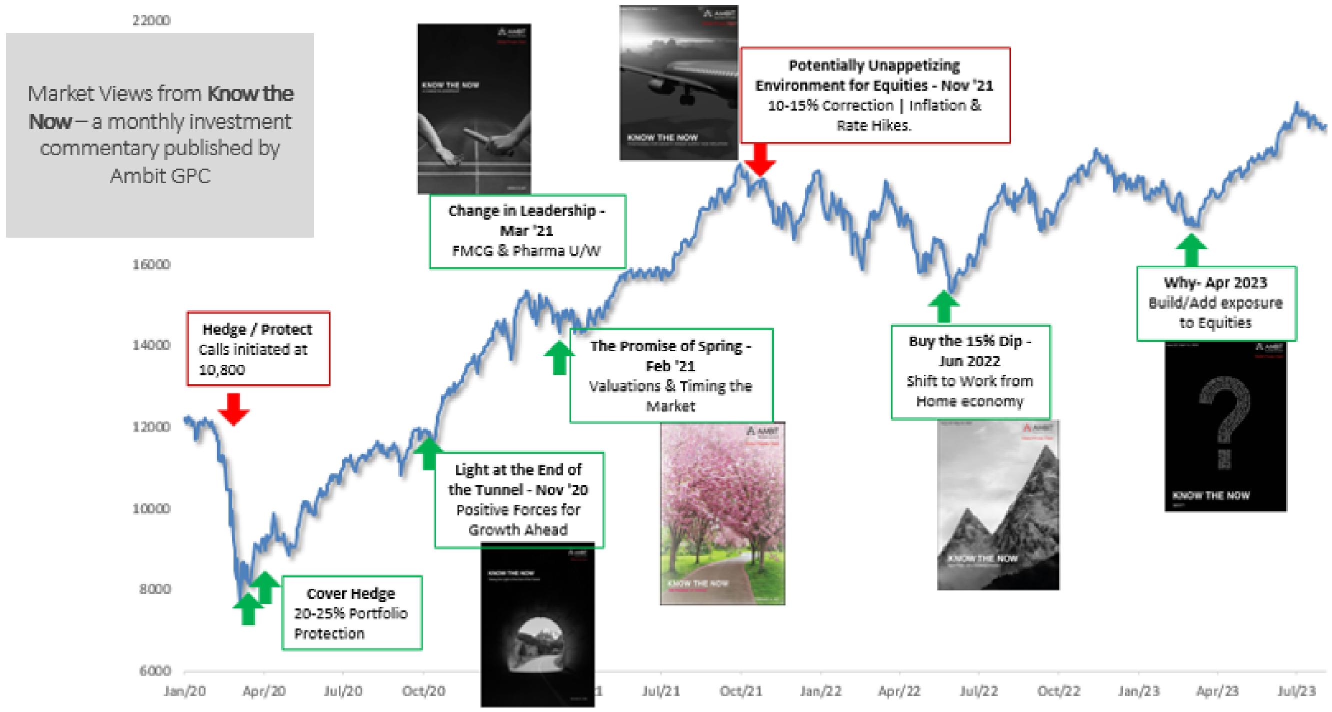
Key Calls from Past Commentaries

- Hedge in March 2020, Exited Hedge at the Bottom
- Neutral Summer 2020
- Bullish Fall 2020 – Nov 2021
- Cautious Nov 2021 – Expected a 10-15% Correction
- Bullish in June 2022, Reiterated in March 2023

Know the Now - Equity View - Timeline



Equity Index Performance

20/11/2023	Price	1 Mo %	MTD %	3 Mo %	6 Mo %	QTD %	YTD %	1 YR %	52 Wk High	52 Wk Low	% from 52 Wk Hi	% from 52 Wk Lo
Nifty 50	**19,702**	**0.8**	**3.3**	**2.0**	**8.2**	**0.3**	**8.8**	**7.6**	**20,222**	**16,828**	**-2.6%**	**17.1%**
Americas												
S&P 500 Index	4,514	6.9	7.6	3.3	7.7	5.3	17.6	13.8	4,607	3,764	-2.0%	19.9%
Dow Jones Indus. Avg	34,947	5.5	5.7	1.3	4.5	4.3	5.4	3.6	35,679	31,430	-2.1%	11.2%
Nasdaq Composite	14,125	8.8	9.9	6.3	11.6	6.9	35.0	26.7	14,447	10,207	-2.2%	38.4%
Nyse Fang+ Index	8,189	11.6	12.7	12.1	21.4	11.1	84.1	77.6	8,293	4,218	-1.3%	94.2%
Canada	20,176	5.5	6.9	1.8	-0.9	3.2	4.1	1.0	20,843	18,692	-3.2%	7.9%
Mexico	52,685	9.1	7.4	-1.0	-3.0	3.6	8.7	2.2	55,627	47,765	-5.3%	10.3%
Brazil Bovespa	124,773	10.3	10.3	8.1	12.7	7.0	13.7	14.6	125,431	96,997	-0.5%	28.6%
Europe												
Euro Stoxx 50 Pr	4,337	7.8	6.8	2.9	-1.3	3.9	14.3	10.5	4,492	3,767	-3.4%	15.1%
FTSE 100	7,484	1.1	2.2	3.1	-3.5	-1.6	0.4	1.3	8,047	7,207	-7.0%	3.9%
CAC 40 Paris	7,251	6.4	5.3	1.2	-3.2	1.6	12.0	9.1	7,581	6,388	-4.3%	13.5%
DAX Germany	15,898	7.4	7.3	2.1	-2.3	3.3	14.2	10.2	16,529	13,792	-3.8%	15.3%
Asia												
Nikkei 225	33,388	6.8	8.2	6.2	8.4	4.8	28.0	19.7	33,853	25,662	-1.4%	30.1%
Hang Seng	17,778	3.5	3.9	-1.0	-8.6	-0.2	-10.1	-1.2	22,701	16,834	-21.7%	5.6%
Shenzhen CSI 300	3,576	1.9	0.1	-5.5	-9.3	-3.1	-7.6	-5.9	4,268	3,451	-16.2%	3.6%
Australia	7,058	2.3	4.1	-1.3	-3.0	0.1	0.3	-1.3	7,568	6,751	-6.7%	4.5%
Taiwan	17,210	4.7	7.6	5.1	6.4	5.2	21.7	18.7	17,464	13,982	-1.5%	23.1%
Korea	2,491	4.9	9.4	-0.5	-1.8	1.1	11.4	1.9	2,668	2,181	-6.6%	14.2%
Straits Times Index STI	3,107	1.0	1.3	-2.1	-3.0	-3.4	-4.4	-5.0	3,408	3,042	-8.8%	2.2%
Vietnam Ho Chi Minh	1,104	-0.4	7.3	-6.3	3.4	-4.4	9.6	13.9	1,255	934	-12.1%	18.1%
Jakarta Indonesia	6,995	2.1	3.6	2.0	4.4	0.8	2.1	-1.2	7,109	6,543	-1.6%	6.9%
Phillipines	6,184	0.7	3.5	-1.7	-7.2	-2.2	-5.8	-3.9	7,138	5,920	-13.4%	4.4%

Leadership Stocks – U.S. & India

Select Leadership Stocks - India U.S.	Price	1 Mo %	MTD %	3 Mo %	6 Mo %	QTD %	YTD %	1 YR %	52 Wk High	52 Wk Low	% from 52 Wk Hi	% from 52 Wk Lo
Nifty 50	**19,702**	**0.8**	**3.3**	**2.0**	**8.2**	**0.3**	**8.8**	**7.6**	**20,222**	**16,828**	-2.6%	17.1%
Microsoft Corp	370	13.2	9.4	16.9	16.2	17.1	54.2	53.3	376	219	-1.7%	68.6%
Meta Platforms Inc-Class A	335	8.6	11.2	18.3	36.4	11.6	178.4	199.0	338	108	-1.0%	209.3%
Apple Inc	190	9.7	11.1	8.7	8.3	10.8	46.0	25.4	198	124	-4.3%	52.8%
Walt Disney Co/The	94	13.9	15.4	9.5	3.1	16.2	8.4	2.6	118	79	-20.3%	19.6%
Amazon.Com Inc	145	16.0	9.1	9.0	24.9	14.2	72.8	54.2	147	81	-1.4%	78.3%
Netflix Inc	466	16.2	13.2	15.2	27.5	23.4	58.0	61.8	485	273	-3.9%	70.4%
Alphabet Inc-Cl A	135	-0.2	9.1	6.2	10.2	3.4	53.4	38.9	141	85	-4.2%	59.5%
Hdfc Bank Limited	1,506	-1.1	2.0	-5.3	-8.6	-1.3	-7.5	-6.7	1,758	1,460	-14.3%	3.1%
Icici Bank Ltd	922	-1.1	0.8	-3.0	-3.3	-3.1	3.5	0.2	1,009	796	-8.6%	15.9%
Tata Consultancy Svcs Ltd	3,519	0.7	4.5	4.5	9.2	-0.3	10.2	7.4	3,679	3,070	-4.3%	14.6%
Bajaj Finance Ltd	7,087	-8.8	-5.4	3.3	4.5	-9.3	7.8	4.3	8,192	5,486	-13.5%	29.2%
Hindustan Unilever Ltd	2,508	0.5	1.0	-1.8	-5.1	1.7	-2.1	1.0	2,770	2,393	-9.5%	4.8%
Nestle India Ltd	24,269	-0.0	0.1	11.2	11.9	7.8	23.8	21.8	24,745	17,880	-1.9%	35.7%
Titan Co Ltd	3,335	2.1	4.6	9.3	23.5	5.9	28.4	30.0	3,366	2,270	-0.9%	47.0%
Asian Paints Ltd	3,139	1.1	4.8	-0.8	1.8	-0.7	1.7	1.4	3,568	2,686	-12.0%	16.9%
Srf Ltd	2,328	4.2	6.0	2.2	-4.4	3.5	1.6	2.3	2,636	2,040	-11.7%	14.1%

Large, Mid & Small

20/11/2023	Price	1 Mo %	MTD %	3 Mo %	6 Mo %	QTD %	YTD %	1 YR %	52 Wk High	52 Wk Low	% from 52 Wk Hi	% from 52 Wk Lo
India Indices												
Nifty 50	**19,702**	**0.8**	**3.3**	**2.0**	**8.2**	**0.3**	**8.8**	**7.6**	**20,222**	**16,828**	**-2.6%**	**17.1%**
Sensex	65,689	0.4	2.8	1.1	6.4	-0.2	8.0	6.5	67,927	57,085	-3.3%	15.1%
Nifty 500	17,575	2.1	4.6	4.9	14.1	1.6	13.8	13.0	17,754	14,178	-1.0%	24.0%
NIFTY Midcap 100	41,835	4.9	7.6	10.6	28.5	3.2	32.8	35.3	42,011	29,200	-0.4%	43.3%
NIFTY Smallcap 100	13,854	7.2	9.5	18.6	40.1	8.7	42.4	44.1	13,970	8,682	-0.8%	59.6%

Nifty Sectors

20/11/2023	Price	1 Mo %	MTD %	3 Mo %	6 Mo %	QTD %	YTD %	1 YR %	52 Wk High	52 Wk Low	% from 52 Wk Hi	% from 52 Wk Lo
Nifty Sectors												
Nifty Auto	16,779	1.7	5.4	9.0	21.0	3.7	33.0	31.3	16,952	11,902	-1.0%	41.0%
Nifty Bank	43,634	-0.2	1.8	-0.5	-0.8	-2.1	1.5	2.8	46,370	38,613	-5.9%	13.0%
NIFTY Private Bank	22,707	-0.4	2.1	0.4	1.8	-1.7	3.9	5.5	23,955	19,593	-5.2%	15.9%
Nifty Financial Services	19,537	-0.4	1.7	0.3	0.6	-1.4	2.9	2.4	20,667	17,261	-5.5%	13.2%
Nifty India Consumption	8,749	2.6	5.0	6.5	13.9	3.4	15.8	13.7	8,789	7,040	-0.4%	24.3%
Nifty FMCG	52,552	1.4	2.5	2.1	7.5	1.8	19.0	20.1	54,350	43,448	-3.3%	21.0%
Nifty Energy	28,274	4.9	5.6	7.5	19.2	3.5	9.3	6.7	28,577	21,631	-1.1%	30.7%
Nifty Infrastructure	6,420	3.4	5.3	7.4	19.7	2.8	22.2	22.0	6,446	4,931	-0.4%	30.2%
Nifty IT	32,398	2.9	5.9	5.9	14.5	1.9	13.2	9.2	33,403	26,184	-3.0%	23.7%
Nifty Metal	6,773	0.9	5.0	4.3	20.6	-1.0	0.7	5.1	7,169	5,209	-5.5%	30.0%
Nifty Pharma	15,806	4.6	7.6	3.5	30.4	2.5	25.5	22.9	15,951	11,542	-0.9%	36.9%
Nifty PSU Bank	5,078	2.6	2.9	10.3	27.9	-3.4	17.6	31.9	5,397	3,529	-5.9%	43.9%
Nifty Realty	691	15.2	14.5	30.3	50.6	20.0	60.0	53.9	701	371	-1.4%	86.3%
Nifty Sectors & Themes												
Nifty Media	2,262	-1.8	2.9	0.5	35.7	-0.3	13.6	13.6	2,466	1,637	-8.3%	38.2%
Nifty CPSE	4,149	5.8	6.9	20.8	33.4	6.1	48.3	47.9	4,198	2,693	-1.2%	54.1%
Nifty PSE	6,498	8.7	10.4	20.9	37.0	8.5	48.8	52.3	6,534	4,181	-0.6%	55.4%
Nifty Commodities	6,618	3.7	5.7	7.1	15.1	2.0	11.3	12.8	6,689	5,354	-1.1%	23.6%
Nifty MNC	22,420	1.4	3.3	3.4	9.9	2.1	13.8	12.6	22,675	18,651	-1.1%	20.2%

Crude Oil & Commodities

20/11/2023	Price	1 Mo %	MTD %	3 Mo %	6 Mo %	QTD %	YTD %	1 YR %	52 Wk High	52 Wk Low	% from 52 Wk Hi	% from 52 Wk Lo
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Gold U.S. & India												
Gold Spot $/Oz	1,979	-0.1	-0.2	4.4	0.4	7.1	8.5	13.9	2,063	1,729	-4.1%	14.5%
Gold India	60,784	0.6	-0.5	4.4	1.3	5.5	11.4	15.2	61,460	52,159	-1.1%	16.5%
Platinum Spot $/Oz	906.1	0.7	-3.3	-1.0	-15.3	-0.2	-15.7	-8.0	1,135	843	-20.2%	7.5%
Crude												
Brent Crude	81.0	-12.2	-7.4	-4.5	7.1	-15.1	-5.8	-7.6	98	70	-17.1%	15.4%
WTI Crude	76.2	-14.1	-5.9	-6.2	6.5	-16.1	-5.1	-4.8	95	64	-19.8%	19.7%
Metals												
LME Copper	8,168.2	3.4	1.7	-0.4	-1.1	-0.5	-2.3	1.2	9,436	7,790	-13.4%	4.9%
LME Aluminum	2,169.5	0.6	-3.2	2.9	-6.0	-6.9	-7.7	-8.3	2,636	2,061	-17.7%	5.3%
LME Nickel	16,672.5	-9.1	-6.9	-16.7	-21.4	-9.6	-44.2	-33.1	31,176	16,750	-46.5%	-0.5%
LME Zinc	2,553.3	6.4	5.6	11.7	1.4	-3.4	-15.0	-14.4	3,509	2,222	-27.2%	14.9%
LME Lead	2,297.0	9.4	10.3	6.8	12.0	4.4	-1.7	7.4	2,335	1,988	-1.6%	15.5%
LME Tin	24,640.0	-1.7	3.6	-1.4	-1.7	4.1	-0.5	8.4	32,170	21,200	-23.4%	16.2%
Commodities												
Lumber	8,168.2	3.4	1.7	-0.4	-1.1	-0.5	-2.3	1.2	9,436	7,790	-13.4%	4.9%
Palm Oil	3,799.0	2.2	6.6	-1.4	2.0	3.0	-8.9	0.2	4,349	3,232	-12.6%	17.5%
BBG Cmdty ex-Prec Mtl	92.2	-4.4	-3.2	-3.5	2.1	-4.8	-12.0	-15.0	112	86	-17.7%	7.2%
CRB Metals Index	998.6	2.3	2.7	2.0	-0.9	0.9	-1.3	2.2	1,149	954	-13.1%	4.7%
Bloomberg Commodity Index	102.0	-3.6	-2.5	-2.2	0.9	-2.7	-9.6	-11.1	118	97	-13.4%	5.2%
CRB Commodities Index	531.1	-2.5	-1.6	-3.6	-2.7	-3.2	-4.3	-5.9	569	531	-6.6%	0.0%
Wheat	550.3	-6.1	-1.1	-10.3	-9.0	1.6	-30.5	-31.5	809	540	-32.0%	1.9%
CRB Raw Industrials Index	542.5	-0.2	0.6	-1.8	-1.9	-2.3	-4.8	-4.6	590	538	-8.0%	0.8%
Commodities												
Bloomberg Grains Spot	254.02	-1.1	1.9	-4.7	-7.1	3.0	-22.4	-21.2	331	247	-23.2%	3.0%
Raw Sugar	27.14	1.1	0.2	14.2	5.3	3.3	35.4	35.4	28	19	-3.6%	43.4%
Simex Iron Ore	130.40	11.1	9.7	21.6	21.8	8.0	17.2	38.9	132	91	-1.1%	42.7%

Interest Rates and Inflation

20/11/2023	Price	1 Mo %	MTD %	3 Mo %	6 Mo %	QTD %	YTD %	1 YR %	52 Wk High	52 Wk Low	% from 52 Wk Hi	% from 52 Wk Lo
India G-Sec Yields												
10 Year India G-Sec	7.24	7.36	7.36	7.22	7.01	7.22	7.33	7.31	7.45	6.94	-0.21	0.30
5 Year India G-Sec	7.23	7.36	7.35	7.20	6.95	7.23	7.23	7.18	7.47	6.86	-3.2%	5.5%
3 Year India G-Sec	7.20	7.30	7.34	7.24	6.87	7.26	7.04	6.98	7.42	6.79	-3.0%	6.0%
1 Year India G-Sec	7.09	7.08	7.08	6.83	7.38	7.09	6.72	6.30	7.38	6.67	-4.0%	6.3%
3 Month India G-Sec	6.92	6.84	6.89	6.76	6.93	6.80	6.26	6.42	7.12	6.26	-2.8%	10.5%
Repo Rate India	6.50	6.50	6.50	6.50	6.50	6.50	6.25	5.90	6.50	6.25	N/A	N/A
India CPI												
India CPI Combined YoY	4.87	5.02	4.87	7.44	4.70	5.02	5.72	6.77	7.44	4.31	-2.57	0.56
India WPI	-0.52	-0.3	-0.5	-1.2	-0.8	-0.3	5.0	8.7	6	-4	-108.5%	-87.6%
India Core CPI	4.62	5.0	4.6	5.6	5.8	5.0	6.4	6.4	6	5	-28.7%	0.0%
U.S. & China Yields & CPI												
U.S. 10 Year	4.46	4.91	4.93	4.25	3.67	4.57	3.87	3.83	5.02	3.25	-0.56	1.22
U.S. 5 Year	4.47	4.86	4.85	4.39	3.73	4.61	4.00	4.01	4.99	3.20	-0.53	1.27
U.S. 2 Year	4.90	5.07	5.09	4.94	4.27	5.04	4.43	4.53	5.26	3.55	-0.36	1.35
U.S. 1 Year	4.94	5.40	5.46	5.34	5.01	5.46	4.71	4.72	5.50	4.06	-0.57	0.87
U.S. 3 MO T-BILL	5.17	5.46	5.47	5.44	5.24	5.45	4.37	4.24	5.51	4.20	-0.34	0.96
Spread 10-2	-0.44	-0.16	-0.16	-0.69	-0.59	-0.47	-0.55	-0.70	-0.24	-0.31		
Spread 5-1	-0.47	-0.54	-0.61	-0.96	-1.28	-0.85	-0.71	-0.72	-0.51	-0.86		
U.S. CPI	3.20	3.70	3.20	3.20	4.90	3.70	6.50	7.70	7	3	-54.9%	6.7%
China CPI	-0.20	-	-0.2	-0.3	0.1	-	1.8	2.1	2	-0	-109.5%	-33.3%
Inflation Expectations 10 Year US	2.21	2.3	2.2	2.2	2.2	2.3	2.3	2.3	2	2	-10.1%	0.7%
U.S. Dollar & INR												
USD INR	83.3	83.1	83.3	83.1	82.8	83.0	82.7	81.8	83.5	80.9	-0.2%	3.0%
Dollar Index	103.6	106.2	106.7	103.4	103.2	106.2	103.5	106.9	108.0	99.6	-4.1%	4.0%

Tactical Asset Class Rationale

Equities	Weight	Rationale
India Equities	**Over Weight & Stagger**	Outlined in the commentary, we continue to remain moderately over-weight equities and prefer staggered deployments into equities. At this stage of the cycle, we prefer a higher over-weight exposure to mid and small caps.
India Hedge Funds	**Marginal Over Weight**	Hedged portfolios provide an attractive complement to equity portfolios, providing a diversifying non-correlated asset class that enhances risk adjusted return, while holding the opportunity to provide equity-like returns with debt-like risk. Typically, rising volatility is a constructive environment for hedge fund managers; however, we have not witnessed it translate to alpha for fund managers.
Long Short (Absolute Return)	**Marginal Over Weight**	Long short funds that have consistently delivered post-tax 8% returns are a worthy consideration for portfolios. Due to the sharp rally, and the upcoming elections, the environment is favourable for L/S strategies. We remain marginally over weight here.
U.S. Equities	**Market Weight**	Indian HNI portfolios are dramatically underweight U.S. equities. Diversification provides strong portfolio optimization benefits. U.S. equities have dramatic barriers to entry and global leadership. We recommend a staggered accumulation approach.
Emerging Market Equities	**Market Weight**	The Japanese economy is witnessing a surprising uptick after many years. China concerns remain around real estate and debt. Other emerging markets are valued reasonably and showing growth, but India remains a standout outperformer.
Europe Equities	**Under Weight**	Growth in India, emerging markets is likely to outpace European growth and therefore find limited triggers to gain exposure to European equities.
Fixed Income	**Weight**	**Rationale**
Duration	**Selectively Positive**	Global financial volatility, continuing geopolitical tensions and consequently crude oil price worries are causing duration jitters. Having said that, domestically strong macros especially slowdown in inflation increase and strong revenue collections, and internationally US market cooling in yields, all of this are acting as tailwinds to duration. Investors are advised to consider their appetite to digest intermittent mtm volatility and basis that do allocation.
Accrual	**Selectively Positive**	Accrual space offers good opportunity to lock in yields. The journey from here could be positive baring occasional hiccups in terms of temporary spread widening. The near and belly of the curve offers good options for investors.
Credit Risk	**Selectively Positive**	Rich pickings are available in credit space of lesser understood / lesser known issuers and they offer attractive risk reward opportunities for risk savvy investors. Post RBI change in norms for NBFCs, spread widening for certain subsectors is likely. While there could be higher returns, they will come with higher risks too and investors are cautioned to be mindful of same while taking advantage of richer pickings available.
REITs	**Selectively Over Weight**	Real estate investment trusts (REITs) lagged in 2020 and 2021 due to the impact of Covid on retail and urban office space. However, REITs recovered in 2022. During an uncertain and inflationary environment, REITs offer an attractive inflation hedge that provides exposure to fixed assets. We recommend exposure be considered only with strong due diligence on a case by case bottom up basis.
InvITs	**Over Weight**	Infrastructure Investment trusts offer an attractive opportunity to invest in diversified portfolio of assets generating an attractive yield through regular income distribution
Alternate	**Weight**	**Rationale**
Private Unlisted	**Selectively Positive**	We are selectively positive and expect significant value and wealth creation in the unlisted space in India primarily led by Technology, Financial and New Age Consumption companies. Our Direct Deal Thesis focuses on late stage companies with significant market share & profitability and our Manager Selection in early stage investments focuses on fund managers with established track record across cycles.
Gold	**Weight**	**Rationale**
Gold	**Under Weight**	Given the recent run up in Gold prices and attractive opportunities available in equities and fixed income, and where we are in the business cycle, we recommend an under-weight position in Gold.

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Ambit Global Private Client - Asset Allocation & Investment Committee

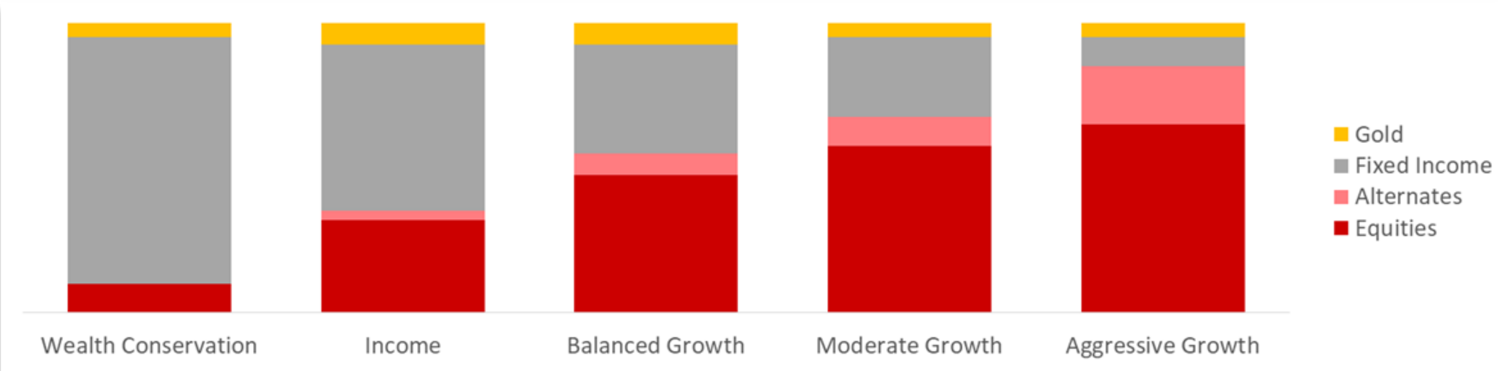
The Ambit GPC Asset Allocation & Investment Committee (AAIC) is a group comprised of the CEO, Head of Products and Alternates, Chief Investment Strategist and Head of Fixed Income (listed below). The team has over 100 years of collective investment experience in markets. The AAIC meets monthly and as necessary during periods of market volatility to discuss the economy and markets. The committee determines the investment outlook that guides our advice to clients. The AAIC continually monitors developing economic and market conditions, reviews tactical outlooks and recommends asset allocation model changes, as well as analysis, investment commentary, portfolio recommendations and reports.

Tactical Allocation Weights Vs Strategic

Asset Class Pairs	Scale: -5 -4 -3 -2 -1 0 1 2 3 4 5	View
Equities		Over-Weight
India Equities – Large		Over-Weight
India Equities – Mid & Small		Over-Weight
U.S Equities		Market-Weight
International ex-U.S.		Under-Weight
Long Short		Over-Weight
Hedge Funds		Over-Weight
Fixed Income		Positive
Duration		Selectively Positive
Accrual		Selectively Positive
Credit Risk		Selectively Positive
InvITs		Over-Weight
REITs		Over-Weight
Alternates		Neutral-Weight
Private Unlisted		Selectively Positive
Gold		Under-Weight

Wealth Profiles - Summary

Strategic Asset Class Weights by Profile



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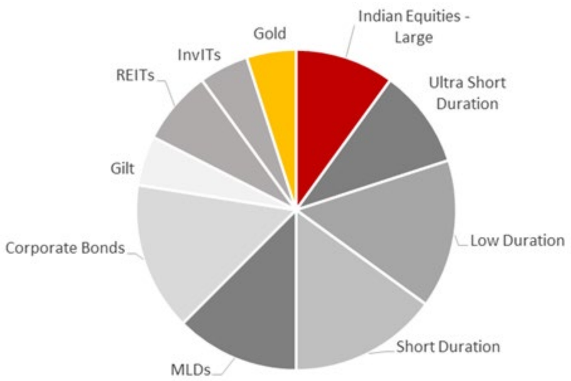
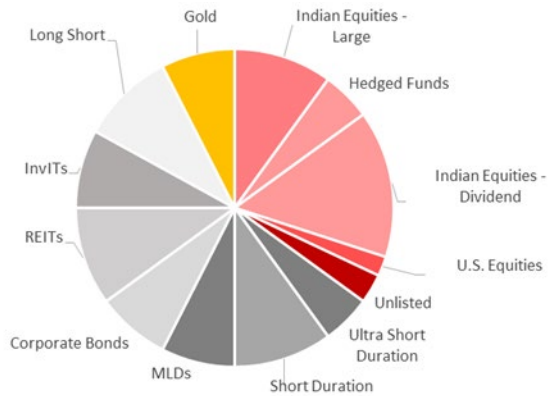
Ambit GPC Wealth Profiles - Strategic Weights

The Ambit GPC Asset Allocation & Investment Committee (AAIC) provide guidance on asset allocation via our wealth profile models below. The models are listed on a scale of rising return and rising risk and represent the most common investor profiles that we base our portfolio construction around.

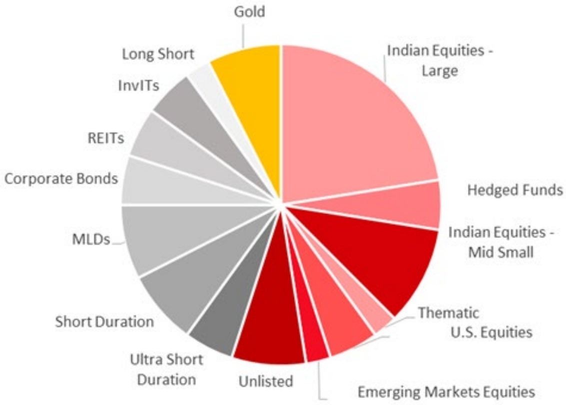
Wealth Conservation



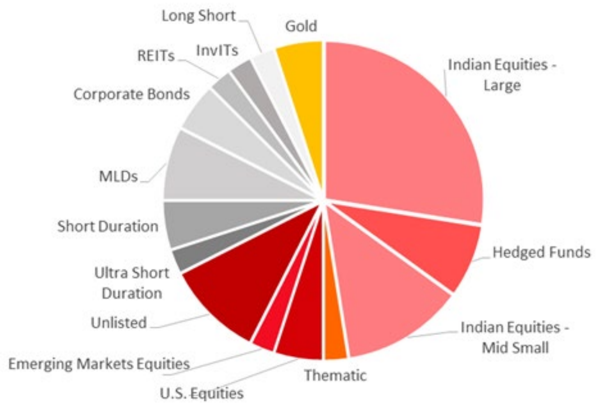
Income



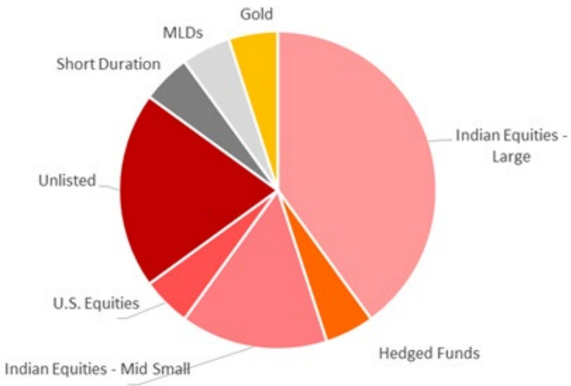
Balanced Growth



Moderate Growth



Aggressive Growth



Ambit Global Private Client – Asset Allocation & Investment Committee

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Sources: All sources unless otherwise noted are Bloomberg, NSE.