Dear Investor,

The month of October was bogged down by multiple headwinds globally as the world witnessed the emergence of yet another conflict arising out of the Middle East. Post the negative impacts ravaging the World economies due to the ongoing war between Russia and Ukraine, a start of another conflict can have a contagion effect. Amidst these escalating geo-political tensions, IMF released the revised expected growth rate in its October'23 World Economic Outlook. The major excerpts include:

- India's growth forecast for 2023 was increased by 20 bps to 6.3%.
- United States' growth forecast for 2023 was increased by 30 bps to 2.1% and that for 2024 was increased by 50 bps to 1.5%.
- China's 2023 growth forecast was reduced by 20 bps to 5.0% and that of 2024 was decreased by 30 bps to 4.2%.
- EU's growth rate was also revised downwards for both 2023 and 2024.
- The world's growth forecast for 2023 has remained constant at 3.0% and revised downwards for 2024 to 2.9%.

The upward revision of India's growth rate was based on growth of manufacturing and consumption showcased in the last 9 months of this year, along with strong expectations from festive season. Currently, festive season has started off well. Online sales have bounced strongly.

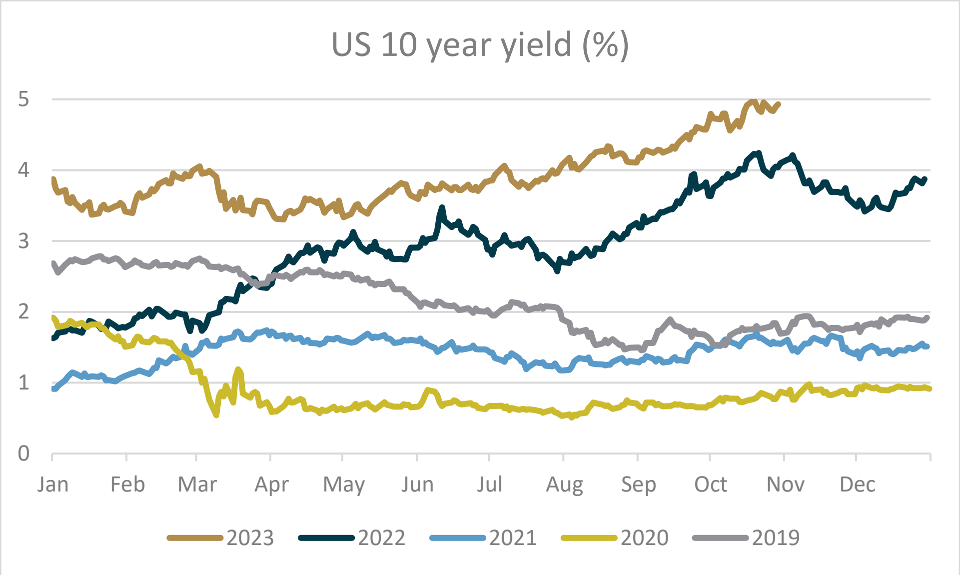
However, one need to take the current global forecasts of IMF, with a pinch of salt, as these are based on views prior to the outbreak of Israel-Palestine War, which has increased the global risk. The contagion effect of the war, if it persists, may spillover past the Middle East region and the intensity will increase if other countries join the conflict. As a fall out of this, inflation may remain high and sticky.

The record debt levels globally clubbed with high interest rates, puts the global Governments' borrowing costs and capability in limelight. Post a minor drop in global debt levels in 2022, it has started rising in 2023, and most of the increment came from developed countries. The debt ceiling crisis in the US continues with conflict between Republicans and Democrats rising in relation to the US funding Ukraine in the ongoing war at a time when its own debt levels are at all-time high. In Europe, countries like Italy and Britain are also undergoing pressure of rising debt and it has become a cause of concern. The question is not in relation to the repayment of huge debts accumulated by these developed nations, but the effects on fiscal policies that they would be forced to undertake to fund these debts. With interest rates at elevated levels, the fiscal deficit of these nations will be under stress. The spillover effect of that on all the economies around the world will unfold with time.

On the other hand, developing nations like India are in a better position with comparatively much lesser external debt, which brings a lot more stability for them as developed economies face uncertainty. In terms of inflation as well, India is very well poised compared to their developed counter parts who are struggling to get it within tolerable limits.

An important event during the month has been the rapid ascent of the US Treasury, unsettling investors globally. The benchmark 10-year yields have surged from 3.3% in April 2023 to around 5%. This is the highest level since the financial crisis in 2007. This sharp rise has been mirrored at the shorter end of the yield curve as well, with 3-month T-bill yields crossing the 5.3% mark and 2-year yields surging to 5.2% from CY23TD low of 3.75% as US treasury bill issuances remain elevated. The surge in US treasury yields has sparked anxiety among investors in recent days raising worries about persistence of tight financial conditions.

US benchmark yields significantly elevated in 2023:



Source: Bloomberg, ASK IM Research, data till 31st Oct'23

One of the key factors that led to the surge in US rates in 2023 is the hawkish stance of Fed amid the tight labor market conditions and relatively resilient economy. Fed has continuously upgraded its assessment of US growth (Mar-23 0.4%, Jun-23 1%, Sep-23 2.1%) (Source: federalreserve.gov) and as well as guidance on Fed Funds Rate (Mar-23 5.1%, Jun-23 5.6%, Sep-23 5.6%, 2024 was raised by 50 bps to 5.1%) for this year and this has led to repricing of the US bond market.

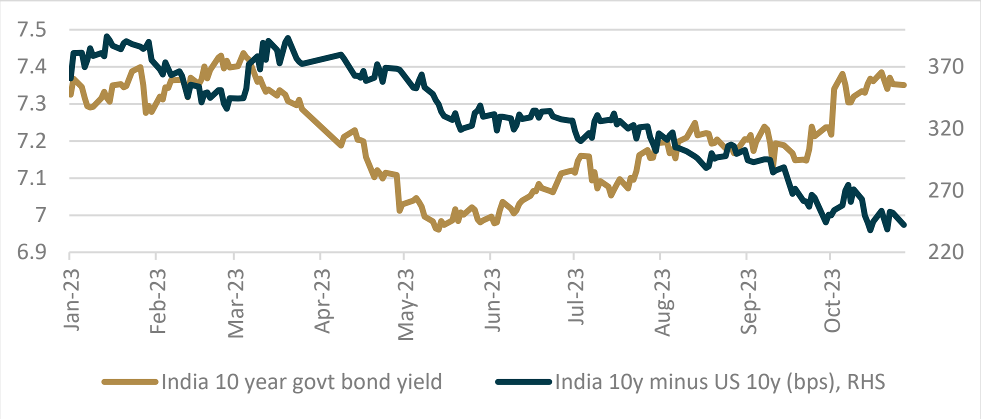
Another aspect that kept pressure on the bond market is the demand-supply dynamics and US government's fiscal health and operational headwinds. Gross issuance of T-bills rose by ~40% YoY to USD 13.1tn. in Jan-Sept this year vs same period last year. This gush of bills supplies to meet expenditure needs post debt ceiling liftoff, uncertainties about US fiscal health, concerns over overall long term US macroeconomic trajectory has kept pressure on yields persistent.

The spike in rates has led to tightening of financial conditions by making new debt much more expensive. This may eventually raise the cost of existing debt as fixed terms run out on loans to businesses and households. This would weigh on investment, real GDP growth, and eventually inflation driving yields lower. This, however, would take a while.

Impact on India

The primary impact on the Indian markets due to rising US 10y yields can be seen through flows and pressure on the currency. The persistent pressure on the currency amid narrowing spreads of India yield and US yield compelled RBI to recently inch up the bond yields through announcement of likely bond sales under Open Market Operations. India 10-year yields rose to 7.4% on 23rd Oct'23 vs CY 2023 low of 6.9% in May 2023 and September 2023 average of 7.1% (Source: Bloomberg). However, the delta rise in yield in India has been comparatively lower than that of US Treasury and for that matter may other parts of the world.

Narrowing yield spread pushing up India 10y rates:



Source: Bloomberg, ASK IM Research, data till 31st Oct'23

10 Year Government Bond yield across countries:

10y govt bond yield	31/10/2023	FY Low	Difference
China	2.7%	2.5%	0.2%
India	7.4%	7.0%	0.4%
Japan	0.9%	0.2%	0.7%
EU	2.8%	2.0%	0.8%
Brazil	11.9%	10.5%	1.3%
Canada	4.1%	2.7%	1.3%
US	4.9%	3.3%	1.6%
UK	4.5%	3.0%	1.5%

Source: Bloomberg, ASK IM Research, data till 31st Oct'23, in local currency

The Indian currency has also been relatively stable currency this calendar year and has seen lower depreciation vs other major currencies.

Currency	3 Months	6 Months	CYTD Returns
INR/USD	1.2%	1.7%	0.6%
Euro/USD	3.9%	4.0%	1.2%
Pound/USD	5.1%	2.6%	-0.6%
Yen/USD	5.8%	11.1%	15.7%
Yuan/USD	1.9%	5.8%	6.1%
Brazilian Real/USD	5.1%	0.0%	-4.7%

Source: Bloomberg, ASK IM Research, data till 31st Oct'23

With the global uncertainties, FPI flows in equity markets in India turned negative in September with net FPI outflows of USD 1.77 bn in Sep-23 – first since Feb-23. Selloff continued in October too, with net FPI outflow of USD 1.1 bn in October. Yet, this financial year, India has been one of the few nations with net FPI inflows. Most of the other major economies have been witnessing huge drawdowns from foreign investors this year.

	India	Indonesia	Taiwan	Brazil	S.Africa	Thailand	Malaysia	S.Korea	China
MTD	-2605	-496	-4957	-530	-563	-431	-461	-25	-
Q2	3593	-1400	-13427	-1544	-2457	-1420	488	-17	-
Q1	13649	645	3277	1783	-1985	-1461	-506	26	-41409
CYTD	12154	-806	-7137	1399	-6770	-4957	-902	37	6780
CY22	-17016	4267	-44007	19384	-5260	5960	1096	-95	-160700

Source: Bloomberg, ASK IM Research, data till 31st Oct'23, in USD Millions

While macroeconomic factors like U.S. yields and geopolitical tensions have a broad impact on markets, it's also important to zoom in on sector-specific trends that are shaping the investment landscape. One such sector warranting close attention is the Indian IT sector, which we believe, is currently navigating a transitional phase characterized by both challenges and opportunities.

In our assessment of IT companies that have posted their quarterly results, we observe an interesting dichotomy between slowing top-line growth and a robust order inflow. On one hand, the companies are increasingly reporting higher deal wins led by longer-term deals that are more cost-focused, signaling a strategic shift from their emphasis on digital transformation projects. On the other hand, the increased scrutiny of earlier deals has led to revenue leakage, which are raising concerns about both the quality of earnings and operational efficiency. The changed character of the deal wins implies an increased execution period. This would mean a sustained but a low rate of growth in the foreseeable future. Also, there has been slow/reduced hiring by the IT companies during the quarter, pointing to slow ramp up of the deal wins.

	Q2FY24 LTM TCV Growth	YOY CC Growth Reported in Q2FY24	Cut in Guidance for FY24	Employee Count Change (YoY%)
Infosys	20.0%	2.5%	1-3.5% to 1-2.5%	-4.8%
TCS	11.4%	2.8%	NA	-1.2%
Wipro	62.2%	-4.8%	-3.5% to -1.5% for Q3FY24	-6.0%
HCL Tech	12.7%	3.4%	6-8% to 5-6%	0.8%

Source: ASK IM Research, LTM: Last Twelve Months; TCV: Total Contract Value; CC: Constant Currency

Other companies that have declared results so far are from private banks, NBFCs, Consumer and auto. Most of the results declared so far have been in line, except Auto, which once again, is standing out with solid margin expansion. Staples continue to report slow but stable revenue and profit growth.

Happy investing!

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ENDS

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