EQUITY OUTLOOK

October 2023

GLOBAL ECONOMY

TATA MUTUAL FUND

Inflation poses a common challenge to the Global Economy

Bringing inflation down without causing too much collateral damage to economy and labour markets

Monetary Policy to tackle inflation

The direction of monetary policy in advanced economies is increasingly unambiguous now:

- Bringing down inflation
- Avoiding a wage-price spiral
- Preventing the hardening of inflation expectations

SOURCE: JP Morgan, India Monthly Wrap

OUTLOOK

CORRELATION TO GLOBAL ECONOMY

	Slow Recovery in China	Sharp Recovery in China
Deep Recession in US/UK/EU	**Earnings:** Impact likely, especially in sectors with global linkages offset slightly by lower input costs **Valuation**: Premium can sustain but risk-off will reduce absolute valuations	**Earnings:** Impact on global sectors, cushion in input prices **Valuation**: Premium can reduce meaningfully as flows to China increase
Shallow Recession in US/UK/EU	**Earnings:** Limited impact on India's GDP/Profit Growth **Valuation**: Growth Premium will sustain	**Earnings:** Limited impact, some impact on commodity prices **Valuation**: Premium will shrink although absolute valuations might sustain

Sweet Spot

Based on Internal Views and subject to change

PROFITABILITY TRENDS IMPROVED MARGINALLY

TATA MUTUAL FUND

Fundamentals

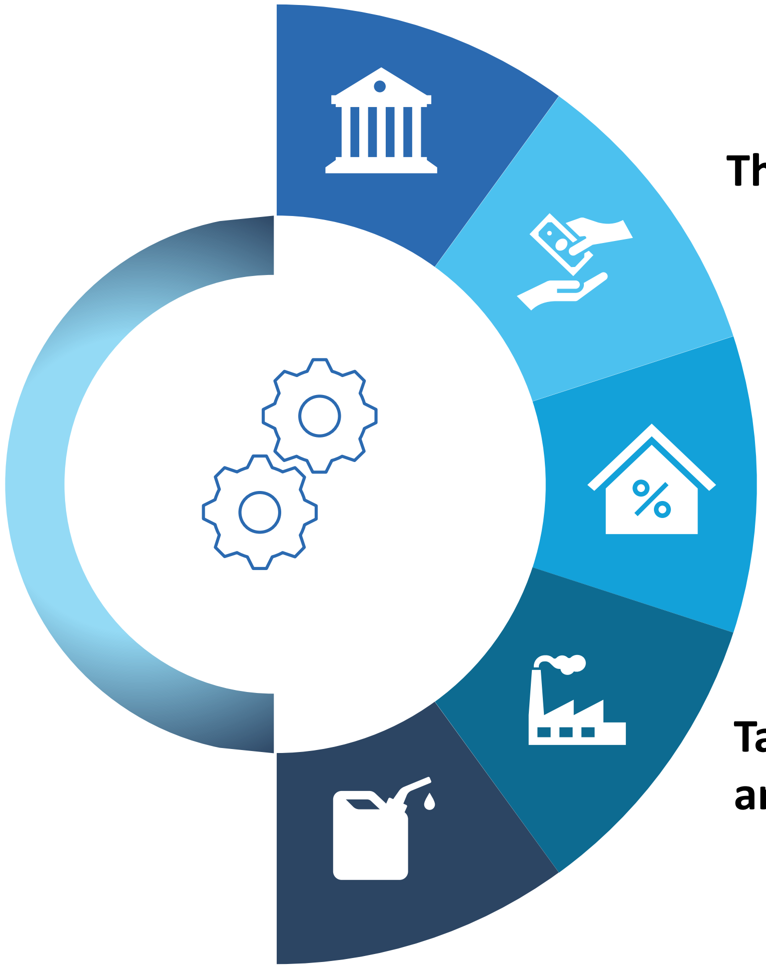
Positive	Banks, Capital goods, Manufacturing
	Rural consumption
Neutral	IT, Pharma
	Urban consumption, Commodities
Negative	

- India has outperformed given the expectation of strong earnings momentum this quarter.
- Corporate earnings downgrade risk has reduced.
  - Banks and Capital goods lead the positive earning upgrade cycle.
  - Urban consumption after significant growth in 2022 is slowing due to impact of inflation and interest rates. In contrast, rural consumption is picking up, albeit gradually. Pharma downside seems limited as US pricing normalizes
  - Sectors with topline risk (e.g IT, FMCG) have stabilized; margins to be supported by lower input costs or easing attrition & wage pressure.
- The biggest risk to the market comes from the behavior of crude prices if there is further deterioration in the conflict in Middle East. This could lead to reduction in India's valuation premium.

Based on Internal Views and subject to change

DRIVERS FOR INDIA

The longer term drivers of earnings in India

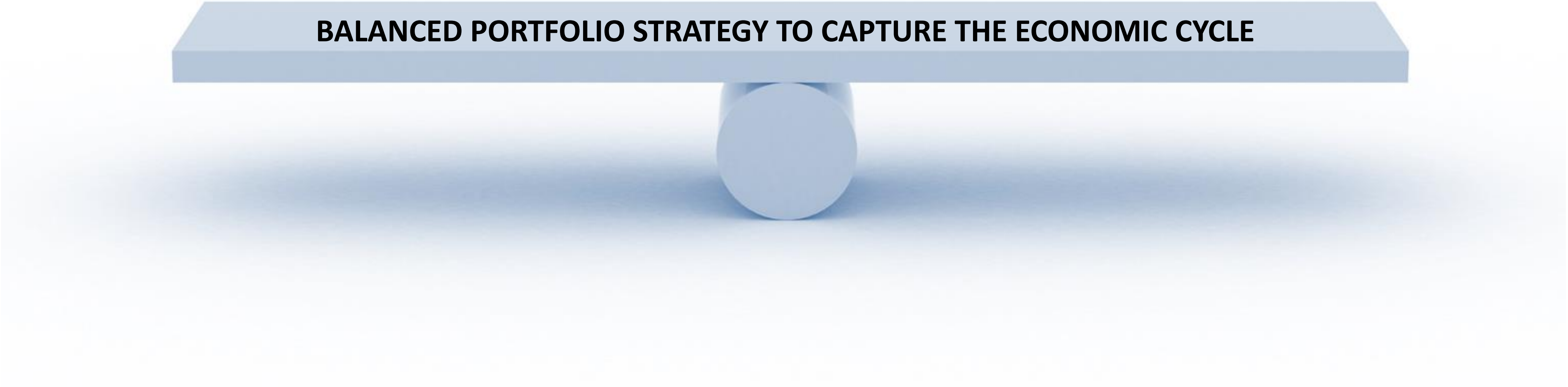


- The pickup in the investment cycle
- The pickup in the credit cycle
- The pickup in real estate
- Tailwinds for Indian manufacturing sector and the industrial sector
- Commodity prices coming down in case of global soft landing

PORTFOLIO STRATEGY

Active exposure in Mid & Small Caps to capitalise on investment cycle led economic growth

Actively seeking GARP opportunities (Value with Triggers, Earning Upgrade Cycle) on bottom-up basis; valuation discipline key in high interest rate regime



Based on Internal Views and subject to change

PORTFOLIO STRATEGY

- Balanced portfolio strategy to capitalise on the various pockets of strong earnings recovery and outlook
- Drivers of growth cutting across Financials (ROE normalisation), capital goods and urban consumption
  - Recovery in investment cycle led by healthy cash flows in the corporate sector and government's counter-cyclical fiscal policy makes us incrementally positive on the industrial/capital goods sector leading us to progressively increase the exposure to this segment.
  - Recovery in power demand, capex in generation (renewable + thermal) and transmission implies over-weight stance on the associated sectors/stocks.
  - In Financials, after a period of margin expansion and lowering credit costs, growth will normalise. Mid/small caps re-rating has been significant in last 6-12 months, future upside likely to be more bottom-up based on execution. Large cap banks still reasonably priced.
  - With an increasing number of companies seeking digital solutions, IT spends have gone up structurally. Global uncertainty over next 6 months however has led us to be on the sidelines even though the sector underweight on IT has come down slightly in portfolios.

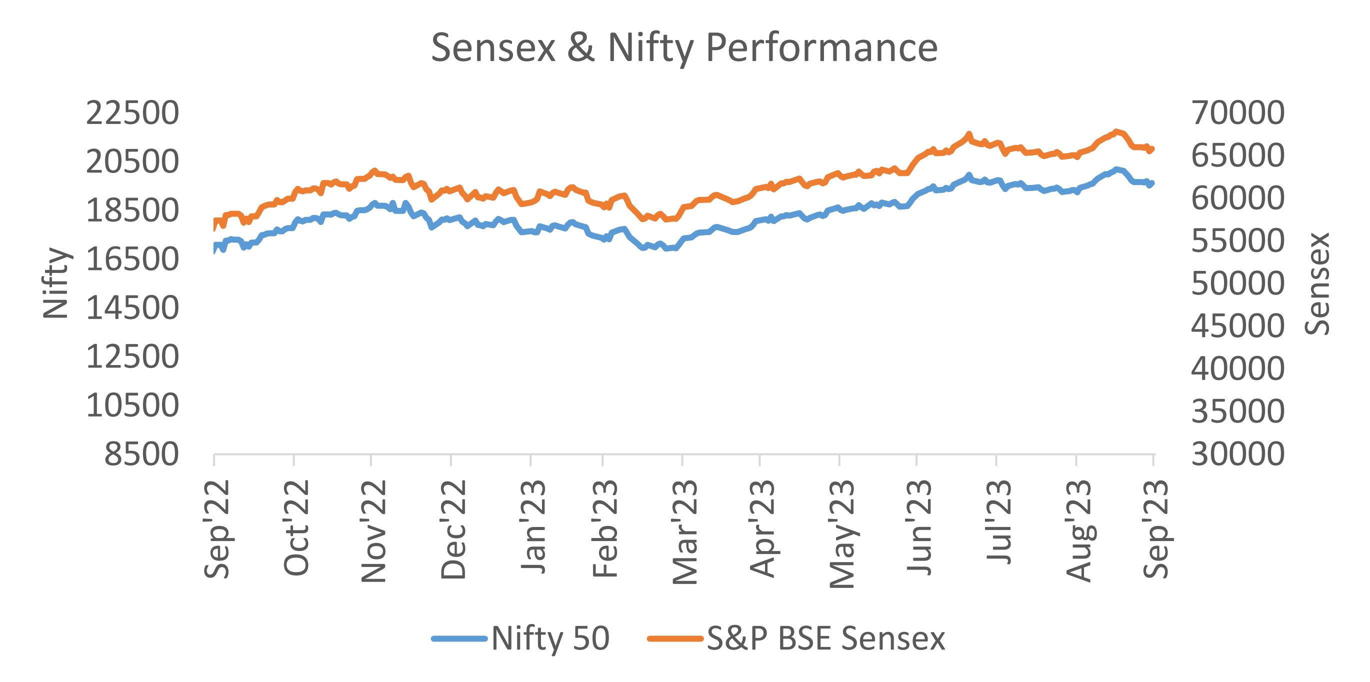
Domestic Macros Resilient

Fiscal Year end	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23	Latest*
GDP Growth (%)	6.6	7.2	7.9	7.9	7.3	6.1	4.2	-7.4	4.5	7.2	7.8
CPI Inflation (%)	9.5	5.9	4.9	3.8	3.6	3.4	5.8	5.5	7	5.7	6.83
Current Account (% of GDP)	-1.7	-1.3	-1.1	-0.6	-1.9	-2.4	0.1	-0.2	-1.2	-2	-1.1
Fiscal Deficit (% of GDP)	4.5	4.1	3.9	3.5	3.5	3.4	4.6	9.3	6.7	6.4	6.4
Crude Oil (USD/Barrel)	107	53	39	60	58	65	23	59	111	80	96
Currency (USD/INR)	60	63	66	65	65	70	75	73	76	82	83
Forex Reserves (USD bn)	304	342	356	370	424	413	490	579	606	579	587
GST collections (INR billion)							1222	1239	1421	1601	1627

*GDP data for Q1FY24, Current Account and Fiscal Deficit data is as of FY23, CPI data as on 31-Aug-2023,Crude oil, Currency, Forex Reserves and GST collections as on 30 Sep 2023

MARKET PERFORMANCE

BROAD MARKET UPDATE



	Nifty 50	Sensex
FYTD	13.13%	11.59%
CYTD	8.47%	8.20%
1 Year	14.88%	14.63%
1 Month	2.00%	1.54%

- Month of September 2023 started on a very positive note with a new High achieved for the index around 68000 levels on 15th September 2023.

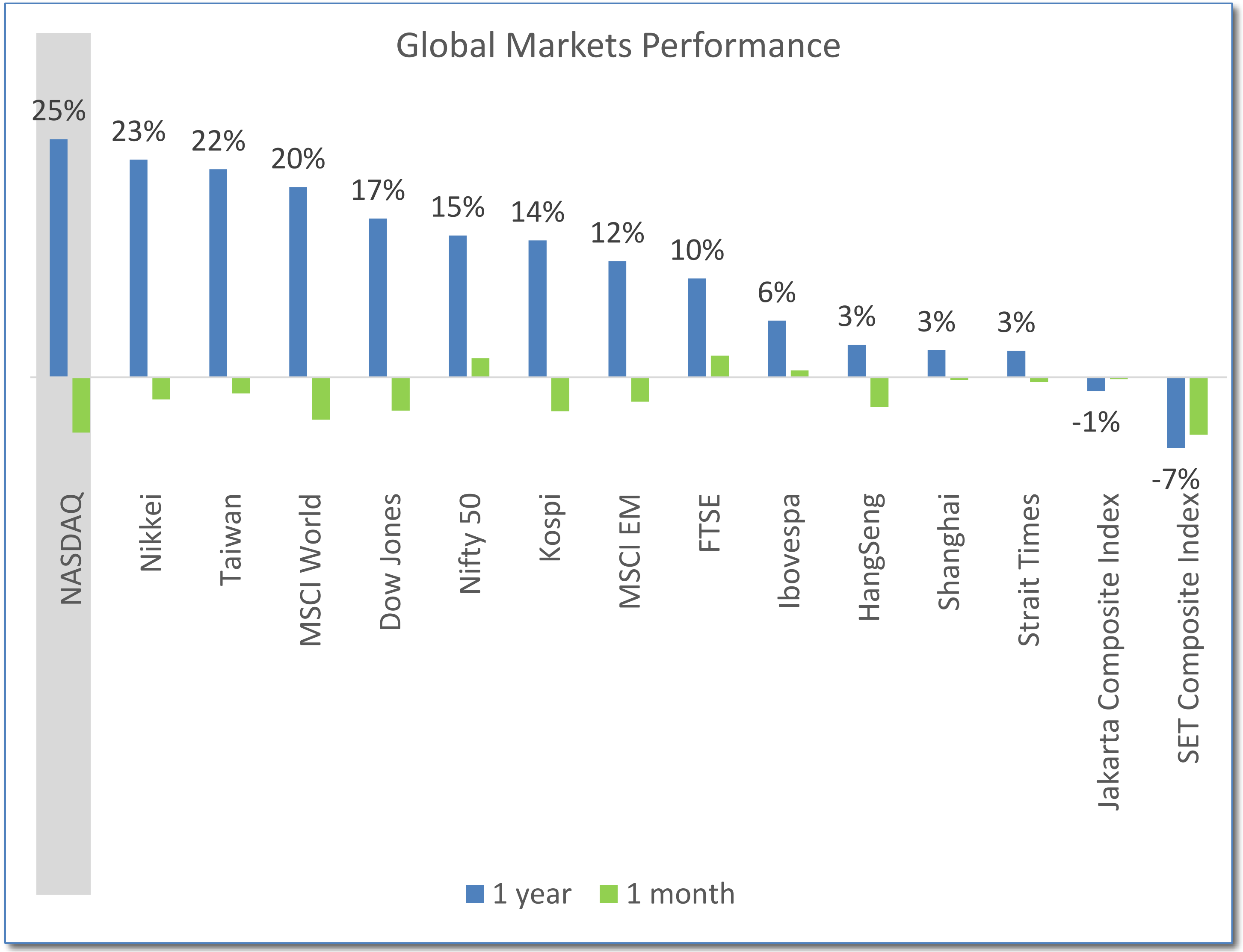
- However, on account of sharp correction in the US markets taking cues from higher 10-year US yields and the consensus on rates being higher for longer compared to the past expectation, led to some momentum being lost by end of the month.

SOURCE: Bloomberg

Data as on 30th Sep 2023

GLOBAL MARKETS PERFORMANCE

TATA MUTUAL FUND

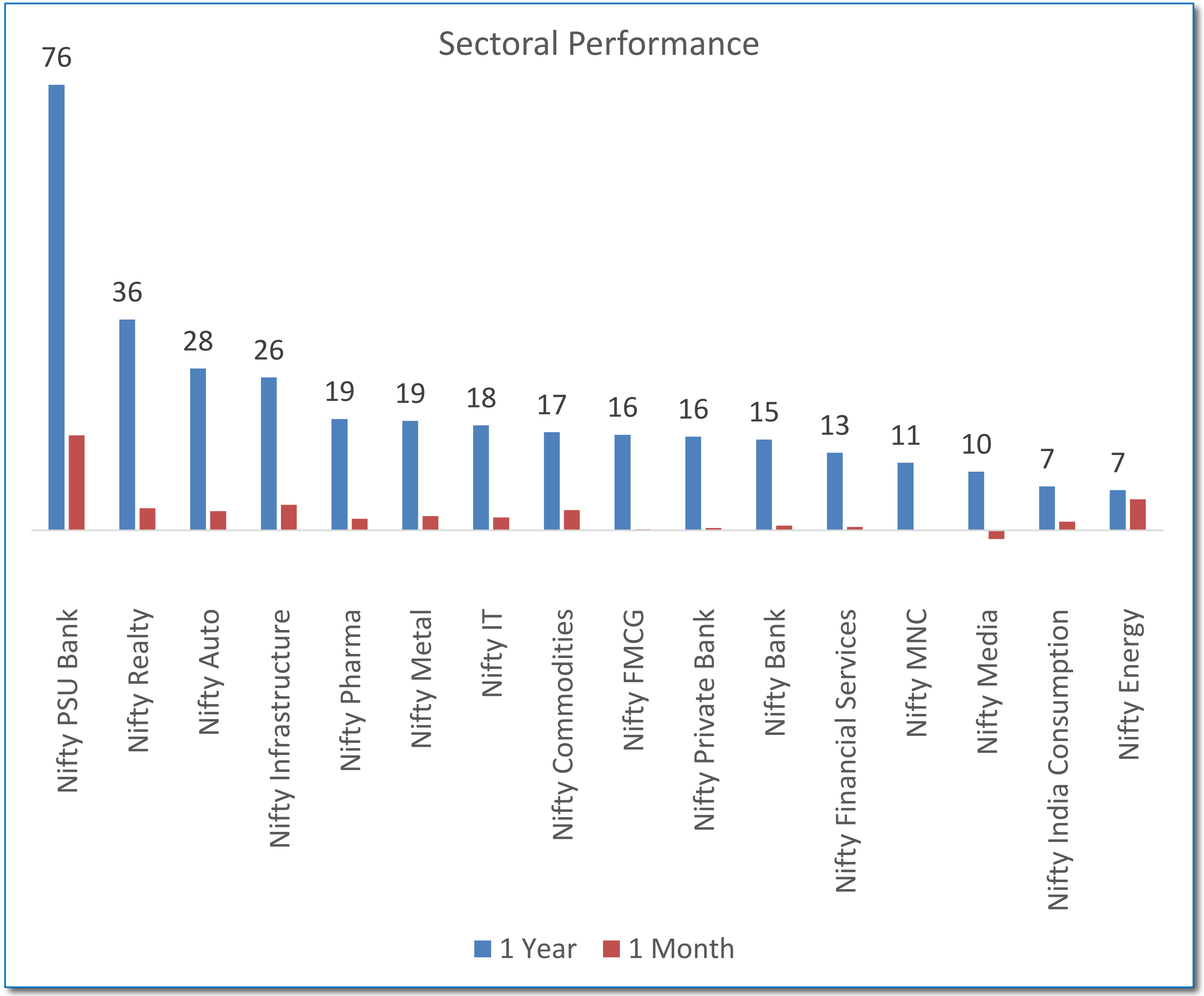


- A selloff in global bond markets led to pressure on global equities.
- Global stocks declined during the month with MSCI world index declining 4.5% in USD terms and the MSCI Emerging Markets declined by 2.6% for the same period. MSCI India outperformed (+2.04%) EM and world index.

SOURCE: Bloomberg

Data as on 30th Sep 2023

SECTORAL PERFORMANCE

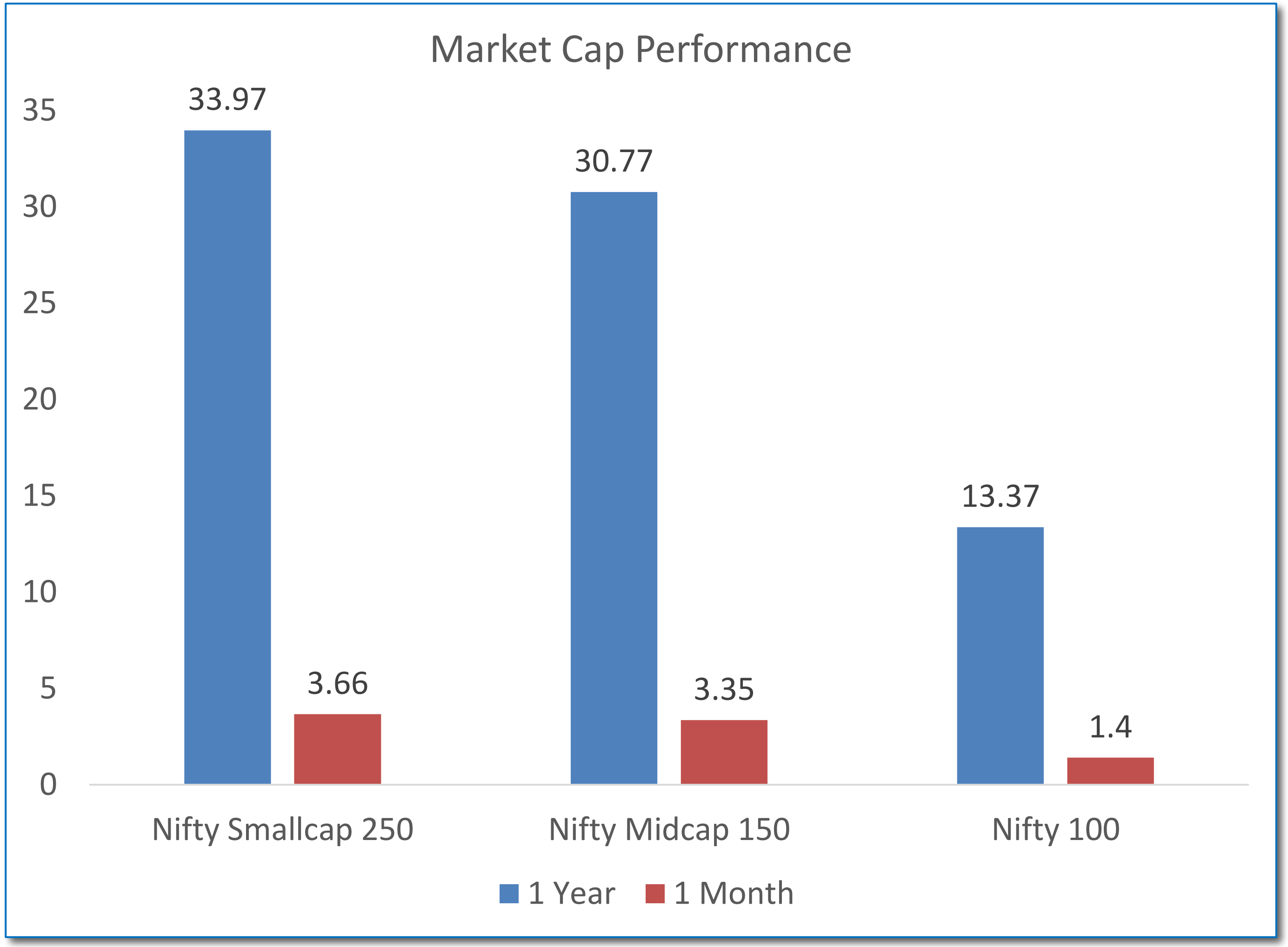


SOURCE: Bloomberg

- All major sectors ended higher in Sep 23. PSU banks gained the most while media declined for the month.
- For the year ending Sep 23, PSU Banks (+76%) and Realty (+36%) made the highest gains while Energy (7%) was the lowest performer.

Data as on 30th Sep 2023

MARKET CAP PERFORMANCE



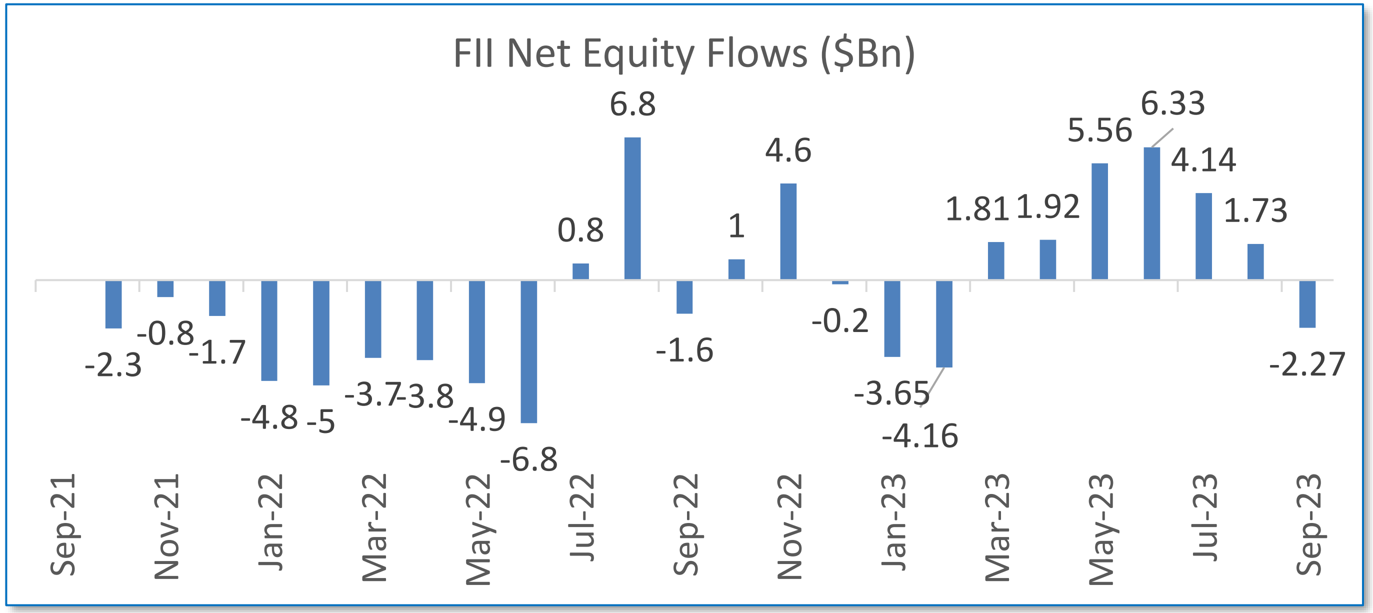
- Large cap made marginal gains for the month of September 2023. However, Mid and Small caps continues to deliver alpha.
- Strong momentum in the small cap segment supported by broadening of economic growth and large domestic flows in dedicated funds.

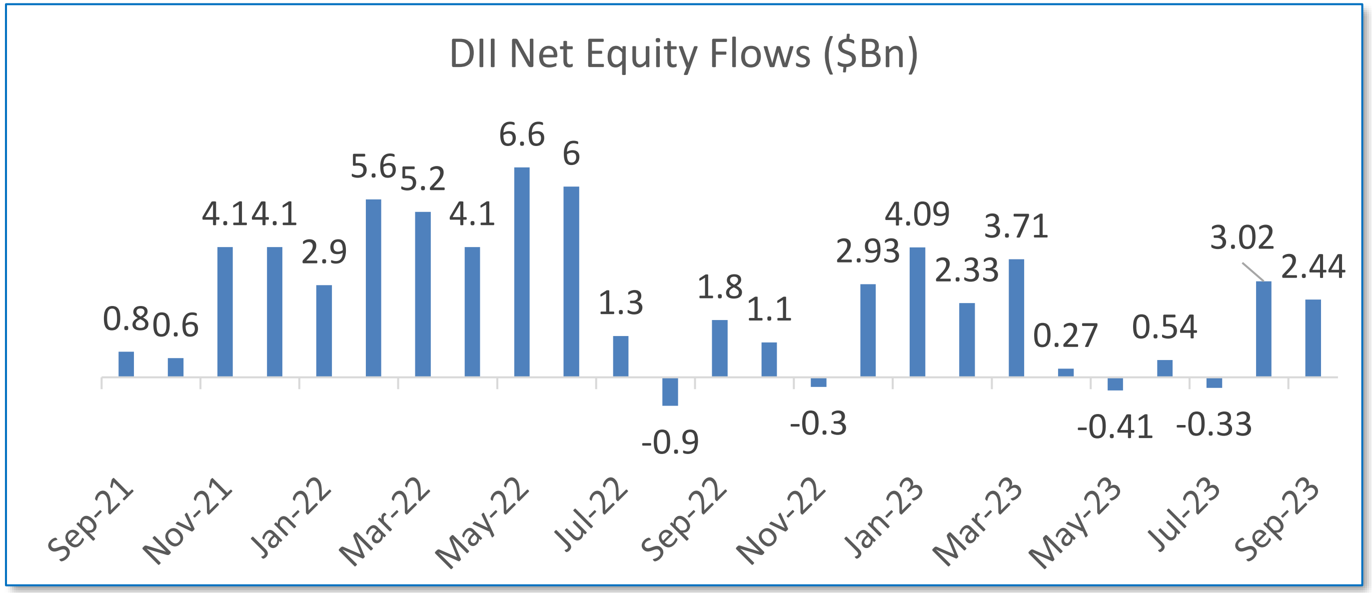
SOURCE: Bloomberg

Data as on 30th Sep 2023

FLOWS

EQUITY FLOWS – FIIs & DIIs





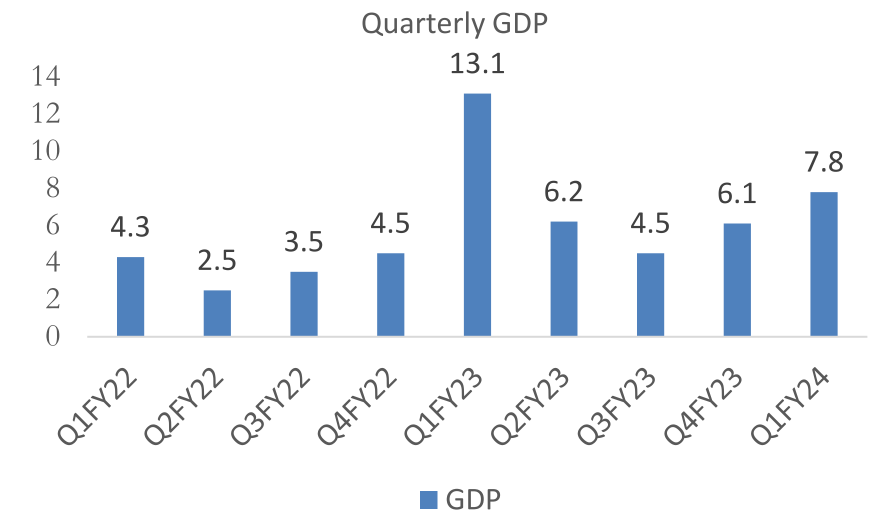
- After six consecutive months of buying foreign institutional investors turned sellers in Sep 23.
- DIIs continued healthy inflows in second consecutive month.
- For FY23 the FII were net sellers with outflows of close to USD ~10 bn. While the DII inflows were robust at USD ~33 bn.
- For FY24TD, the FII flows is USD ~17.4 bn. And the DII flows is USD ~5.5 bn.

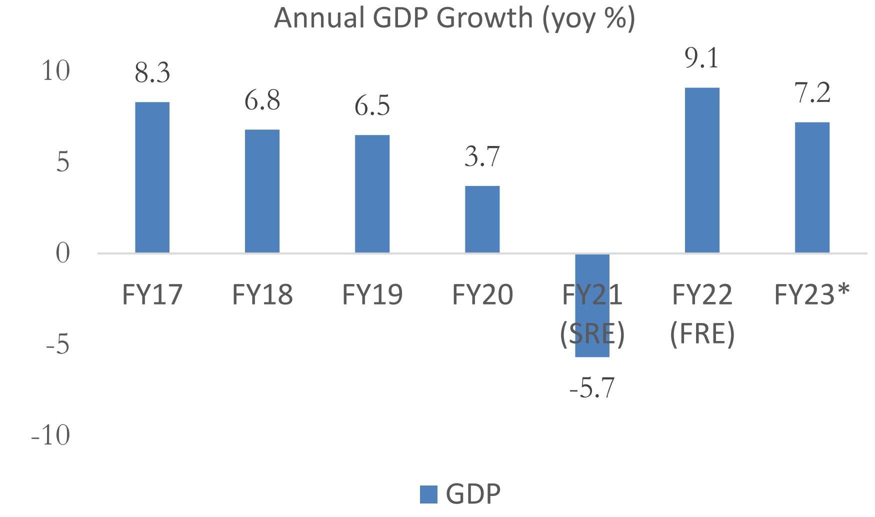
SOURCE: Bloomberg, J.P. Morgan

Data as on 30th Sep 2023

MACRO

GDP

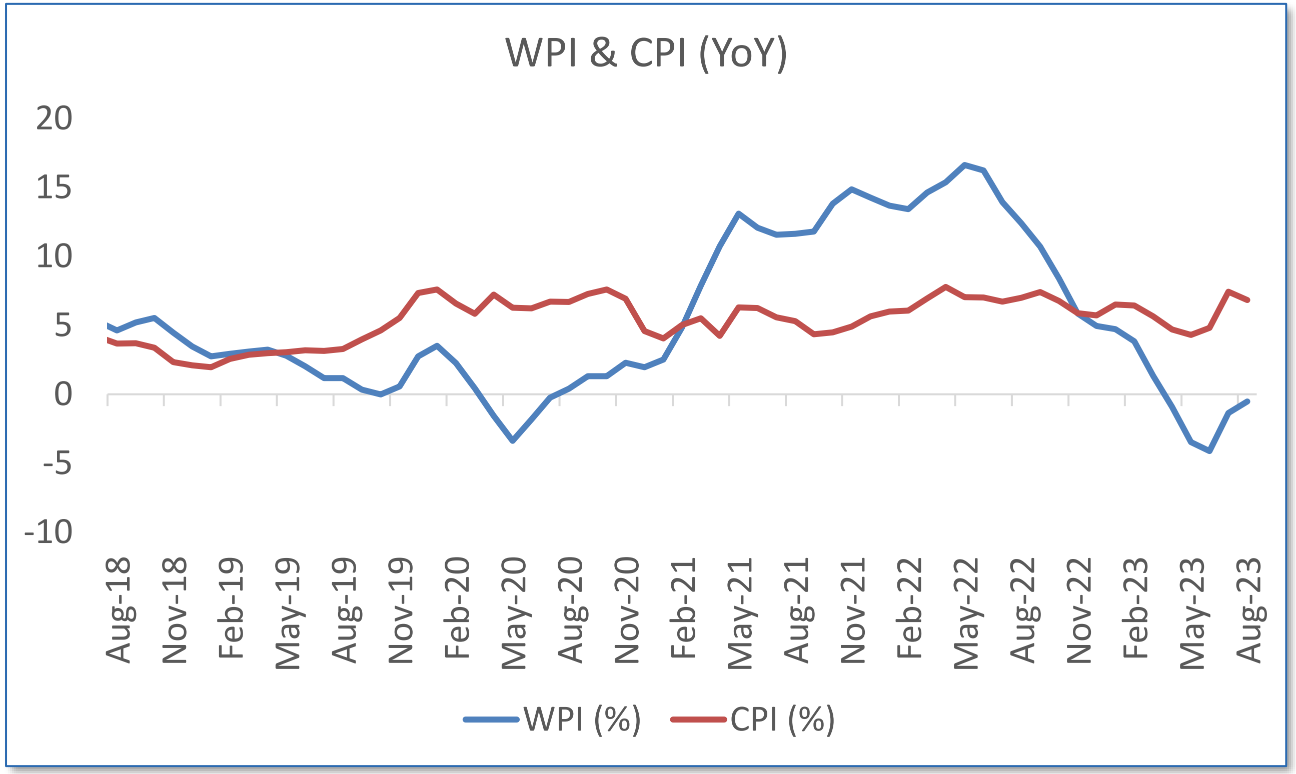




- India's economic growth accelerated in Q1FY24 to 7.8% (Q4FY23: 6.1), a supportive base along with continued strength in services and construction activities supported the growth.
- Investment growth remained strong (8%yoy) benefitting from front-loading of govt capital expenditure ahead of elections. The central government capex recorded a growth of 59% in Q1FY24.
- Private consumption expenditure grew by 6%, up from 2.8% a quarter ago.
- Services sector growth jumped to 10.3% in Q1 FY24 from 6.9% a quarter ago.
- The agriculture sector expanded at a slower pace of 3.5% in Q1 FY24 compared with 5.5% a quarter ago.
- The industrial sector grew by 5.5% in Q1 FY24 compared with 6.3% a quarter ago.

Source: MOSPI, SRE: Second Revised Estimates; FRE: First Revised Estimates; SAE: Second Advanced Estimates; FY23* Provisional Estimate, GFCF: Gross fixed capital formation

Latest available data

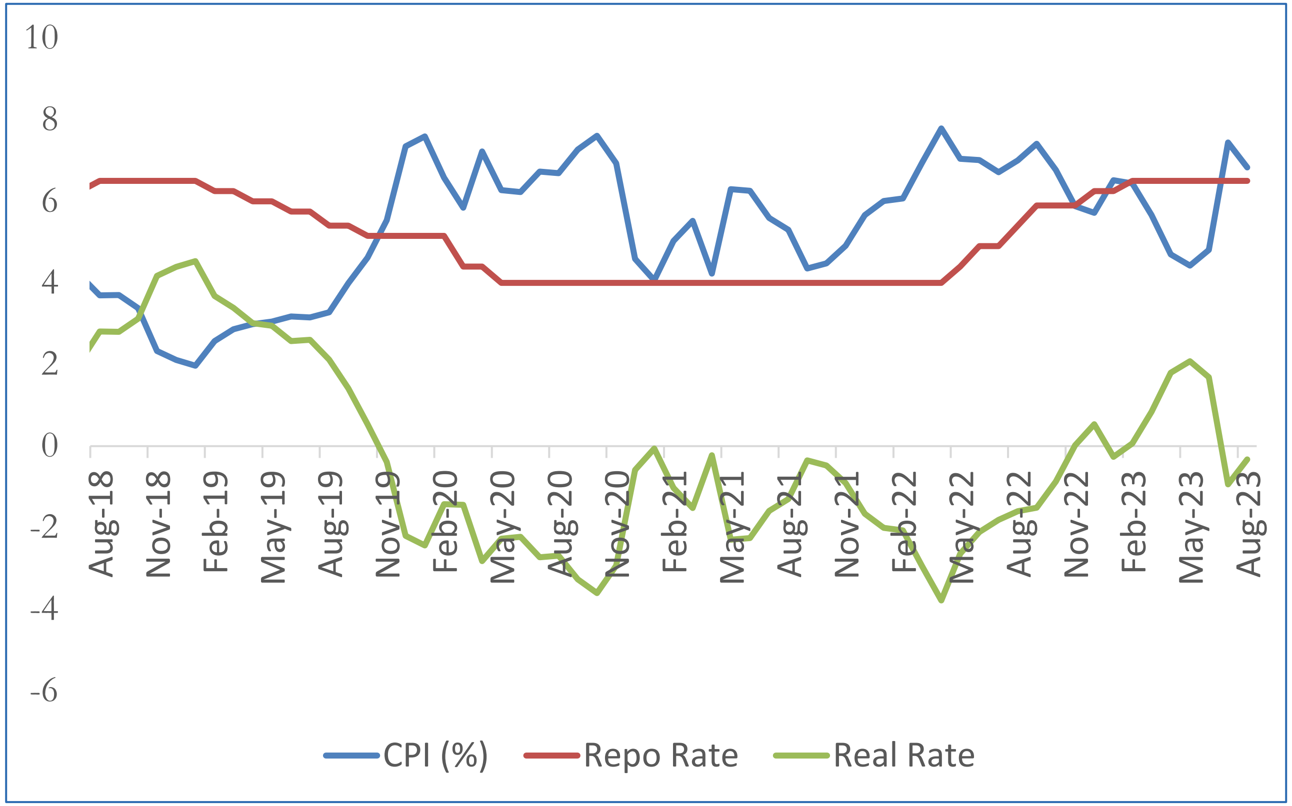


- India's retail inflation moderated to 6.8% yoy in Aug 23 from a high of 7.4% yoy in July 23. Despite the moderation, inflation continues to remain well above the central bank's comfort level.
- Food inflation eased from double-digit growth of 10.6% y-o-y in July, to 9.2% y-o-y in August. The food and beverages contributed 62% to the overall inflation.
- Fuel and light inflation firmed to 4.3% yoy in August, from a 31-month low of 3.7% yoy in July. The firming of prices in this category was largely on account of rise in electricity component.
- India's wholesale price index remained in deflationary territory for the fifth consecutive month in Aug, although it rose to a five month high of -0.52%. The negative rate of inflation is due to yoy fall in prices of mineral oils, basic metals, chemical products, textiles and food products .

SOURCE: Bloomberg

Latest available data

Real Rates



- In the Aug MPC RBI maintained a status quo on the repo rate keeping it unchanged at 6.5%. MPC decided with a 5 1 majority to maintain stance as withdrawal of accommodation

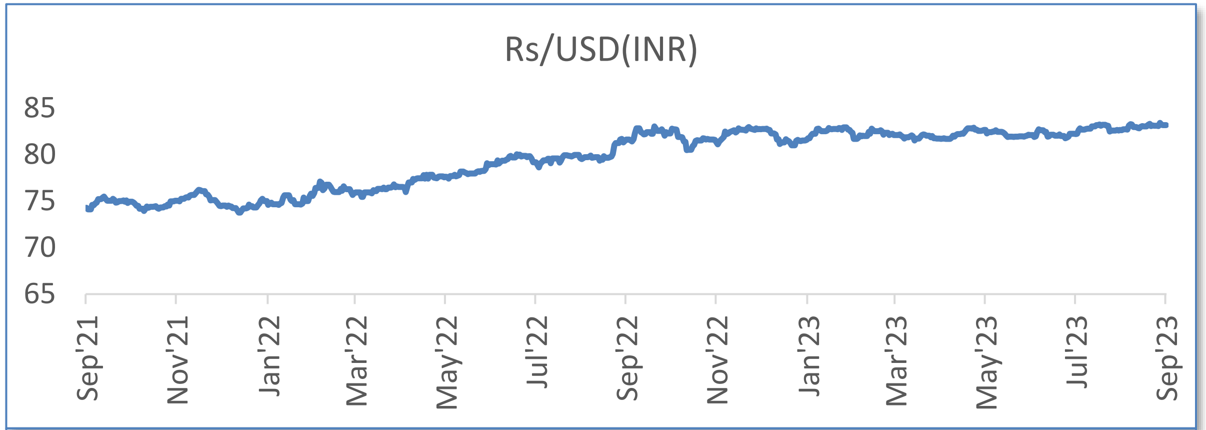
- The recent spike in inflation bought the real rates in negative territory.

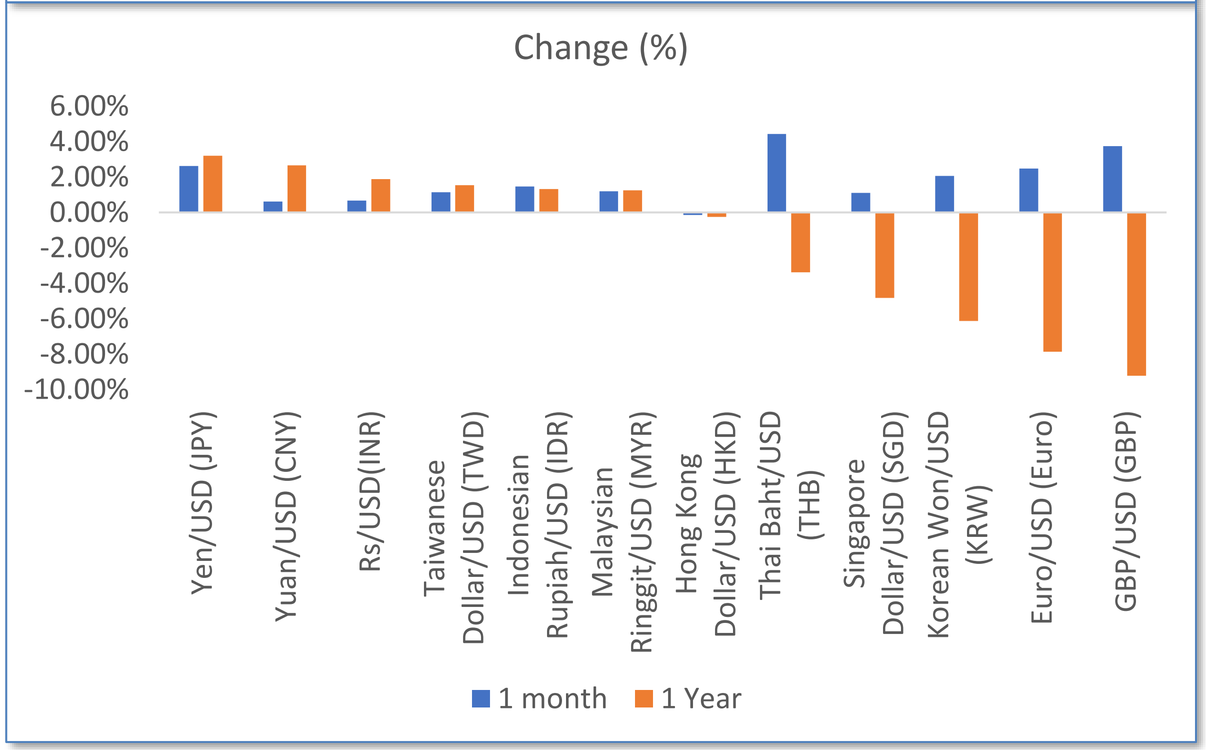
- RBI revised its Q2FY24 CPI projections upwards by 20bps and revised the Q3FY24 estimates down by 10bps to 5.60%
- RBI maintained the growth FY24 growth expectation at 6.5%.

SOURCE: Bloomberg

Latest available data

CURRENCY



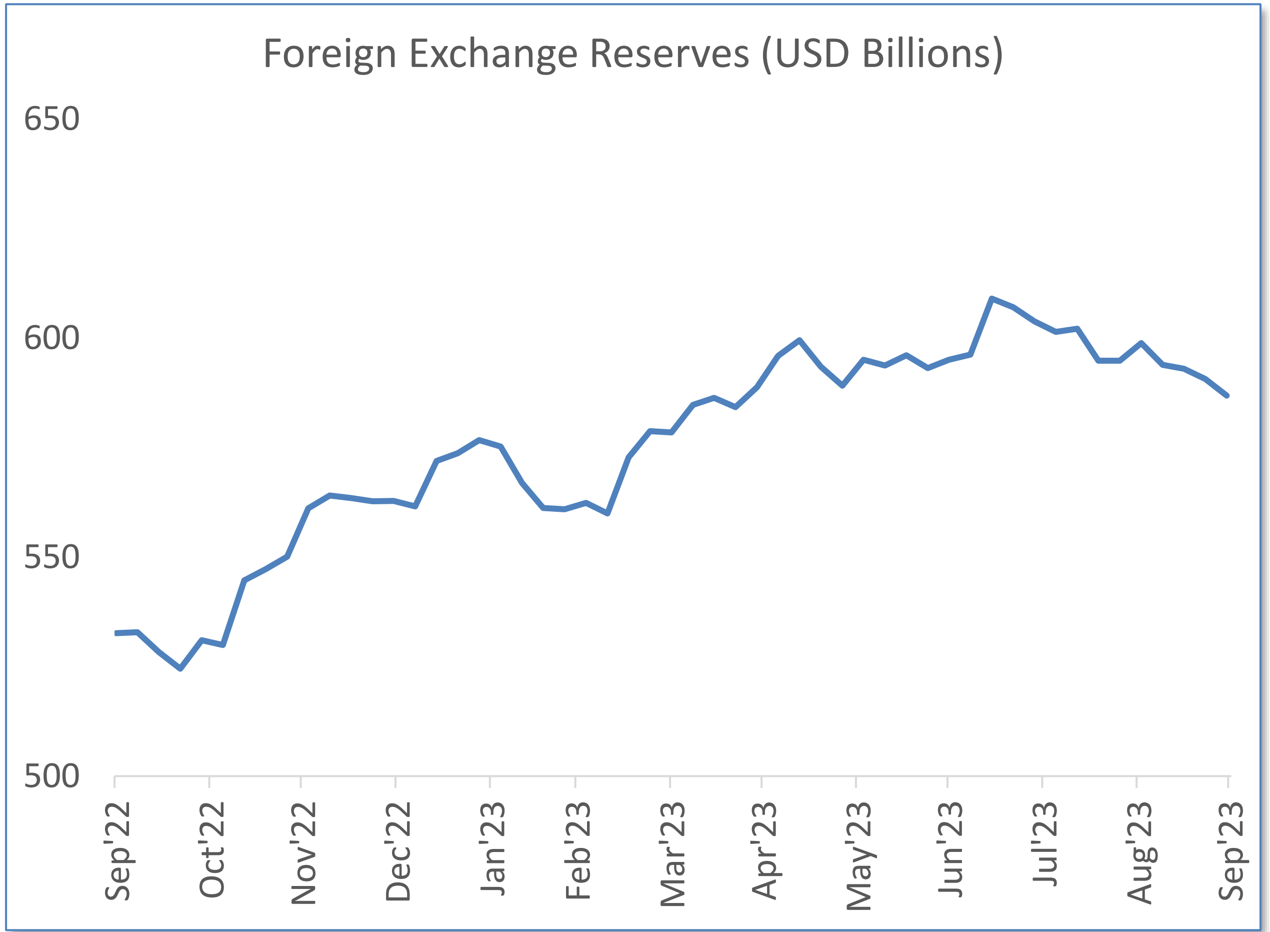


- The Indian Rupee has recently breached the 83-level against the US Dollar, but its decline has been curtailed by interventions by the Reserve Bank of India (RBI).
- Global currencies depreciated against the dollar. Higher US yields amidst expectations of another rate hike by the Fed boosted demand for US dollar.

SOURCE: Bloomberg

Data as on 30th Sep 2023

FOREX RESERVES

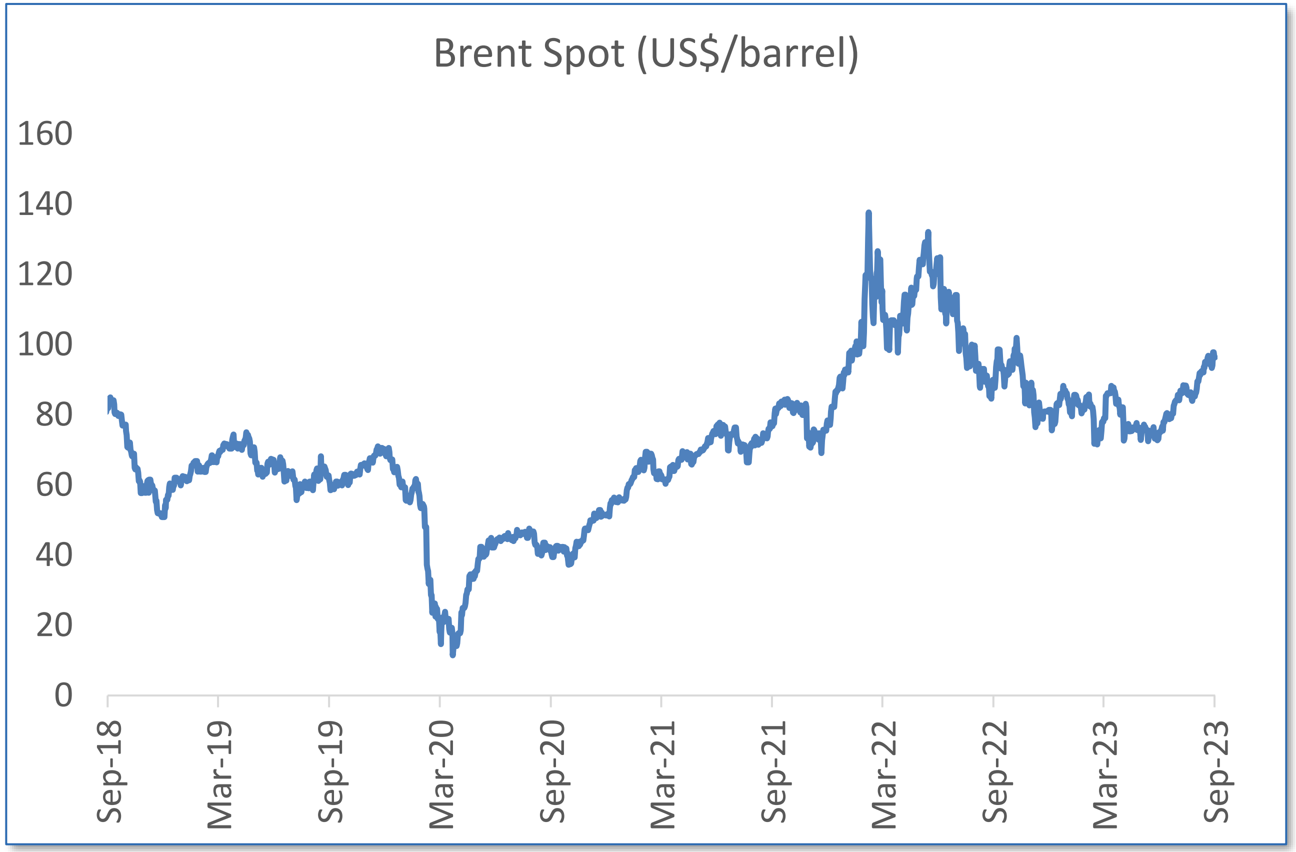


- Foreign exchange reserves reduced to a five-month low of USD 587 bn in Sep 23 (USD 595 bn Aug 23). The decline is primarily due to RBI's intervention to support rupee.
- The central bank intervenes in the spot and forwards markets to prevent runaway moves in the rupee.
- Apart from the central bank's intervention, changes in foreign currency assets, expressed in dollar terms, include the effects of appreciation or depreciation of other currencies held in the RBI's reserves.

SOURCE: Bloomberg

Data as on Sep 2023

CRUDE OIL



- Oil prices were very volatile for the month and traded between 87 – 98 USD/barrel before ending the month at 96.3 USD/barrel.
- Oil prices rose (10.17%) for the month of Sep due to additional 1.3 million barrels of production cuts by Saudi Arabia and Russia.
- Crude prices remain critical for India as they directly affect the country's macro parameters much more than the other emerging markets

SOURCE: Bloomberg

Data as on 30th Sep 2023

INTEREST RATES

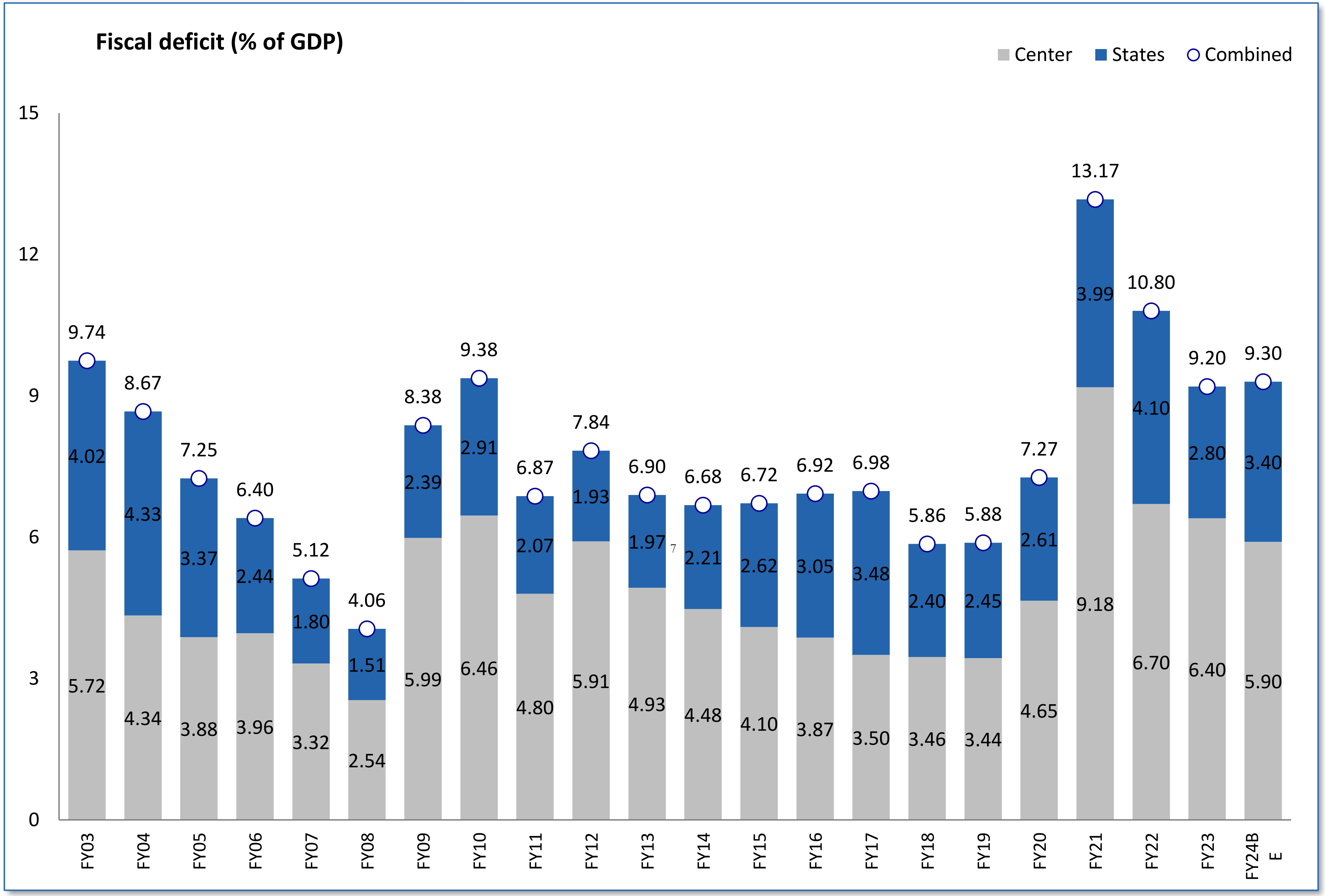
Country	Rate	Central Bank Rate	CPI YoY	Real Rates
US	Fed funds	5.38%	3.7%	1.68%
UK	Bank Rate	5.25%	6.7%	-1.45%
Canada	Overnight	5.00%	4.00%	1.00%
Switzerland	Target Rate	1.75%	1.70%	0.05%
Eurozone	Deposit rate	4.00%	7.50%	-3.50%
Japan	Policy rate	-0.10%	3.20%	-3.30%
Australia	Cash rate	4.10%	5.20%	-1.10%
South Korea	Repo rate	3.50%	3.70%	-0.20%
Taiwan	Discount rate	1.88%	2.90%	-1.02%
China	Loan Prime rate	3.45%	0.10%	3.35%
India	Repo rate	6.50%	6.80%	-0.30%
Russia	Key Policy rate	13.00%	5.20%	7.80%

- US headline Consumer Price Index (CPI) increased to 3.7% yoy in Aug due to a surge in energy prices.
- The European Central Bank (ECB) raised its key interest rate to all-time record-high of 4.00%. The ECB signaled that its rate hikes were probably at the end .
- UK headline CPI eased to 6.7 % yoy in Aug (6.8% yoy in July).

SOURCE: Bloomberg

Data as on 10 Oct 2023

FISCAL DEFICIT



- The revised estimate or the budget deficit for FY23 was pegged at 6.4 per cent.
- The government reiterated its stated objective of bringing down the Fiscal to 4.5% of GDP by FY26.
- This budget takes a step in that direction with the proposed reduction of 50bps down to 5.9% of GDP for FY24.

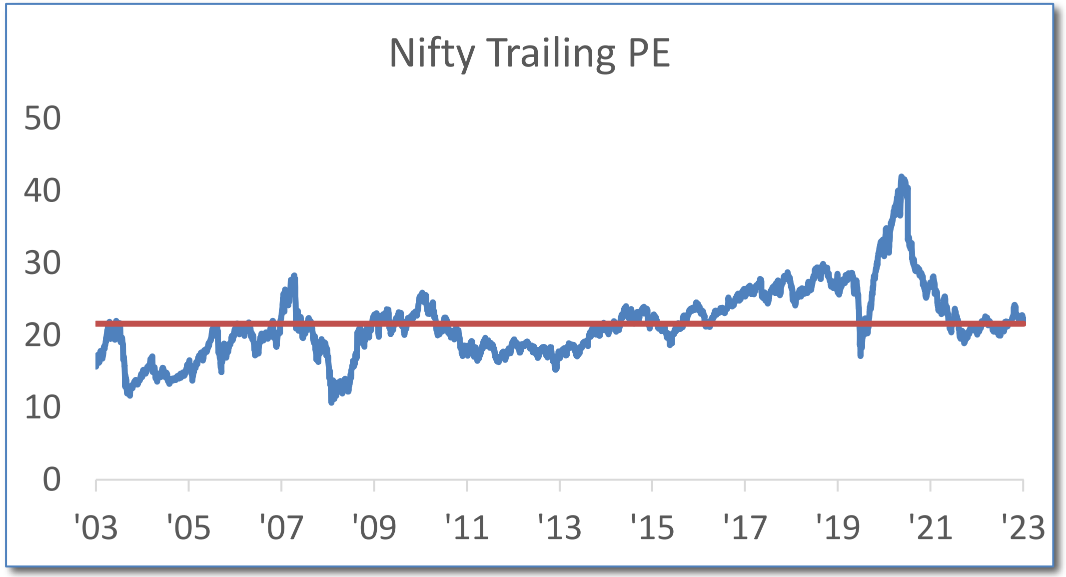
SOURCE: Bloomberg ; BE- Budgeted Estimate, RE – Revised Estimate

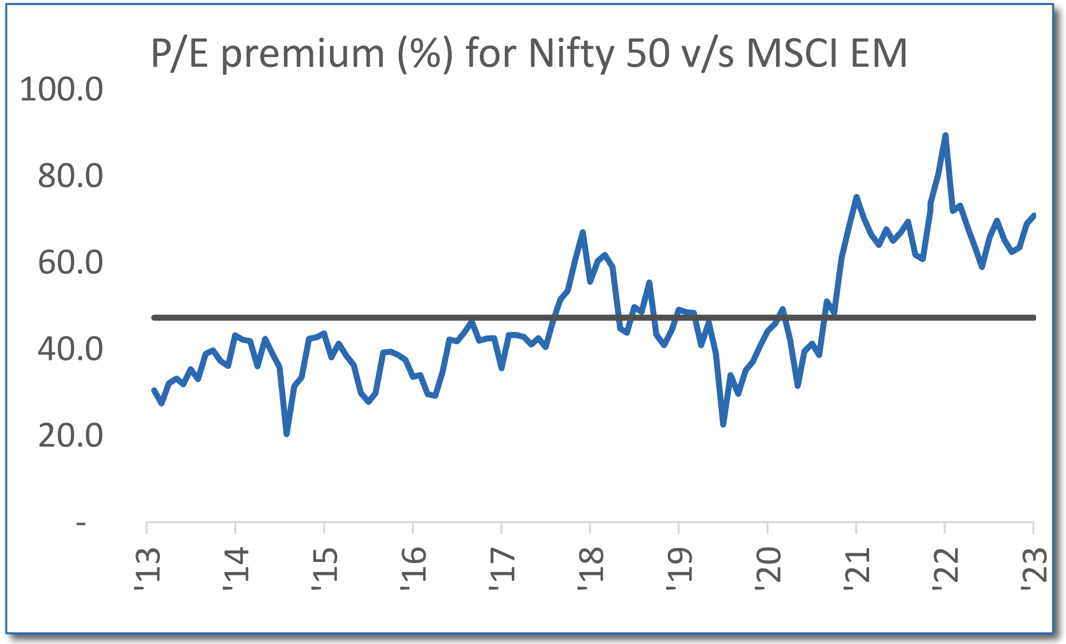
Latest available data

VALUATION

VALUATION

INDIA VALUATION VS EMERGING MARKETS



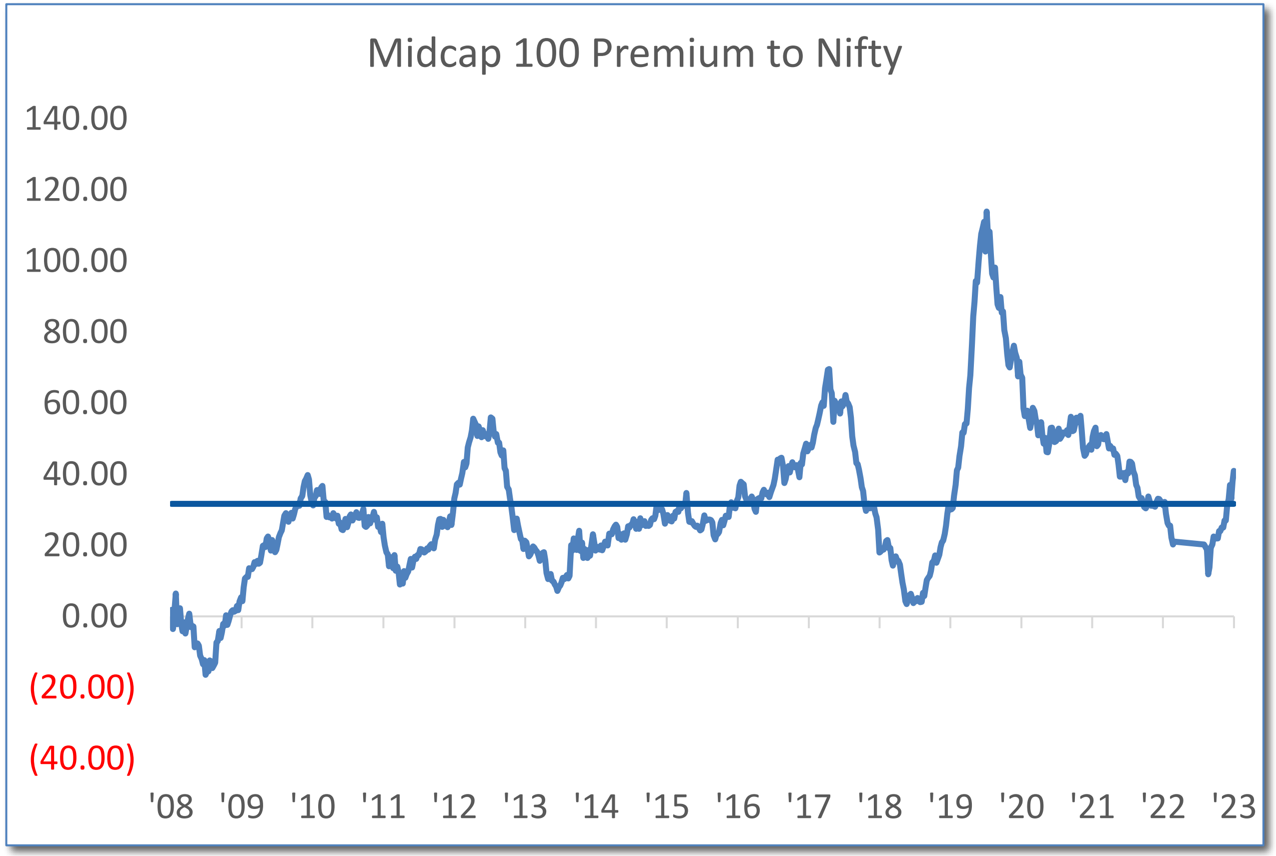


- Nifty50 1 year forward PE stands at 19.0-19.5x, higher than the historical average
- Expected earnings for FY24 is 15.0% and FY25 is at 15.8%
- Over the last 12 months, the Nifty 50 (14.88%) has outperformed the MSCI EM index (12.17%).
- In P/E terms, the Nifty 50 is trading at 70% premium to the MSCI EM index, above its historical average of ~50%.
- The premium however has reduced from peak of 80-85% about twelve months back.
- Stable macros, broad based earnings growth and robust banking/corporate sector health driving the premium
- Crude price and domestic elections are key risks to the valuation premium

SOURCE: Bloomberg

Data as on 30th Sep 2023

MID CAP VALUATION



- The headline valuations for Nifty Midcap 100 suggest that we are in an acceptable zone which can act as a platform for the broader markets to continue to do better.
- Midcaps in a growing market with market leadership and low leverage may be considered on par with large caps
- Broad-based economic recovery (investment cycle revival) would also result in more investment opportunities in mid and small caps.

SOURCE: Motilal Oswal

Data as on 30th Sep 2023

THANK YOU