TATA MUTUAL FUND

EQUITY OUTLOOK

November 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

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

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Outlook	Fundamentals	Sectors
Positive	↑	Banks, Capital goods, Manufacturing
		Pharma/Healthcare
Neutral		IT, Rural Consumption
		Urban consumption, Commodities
Negative	↓	

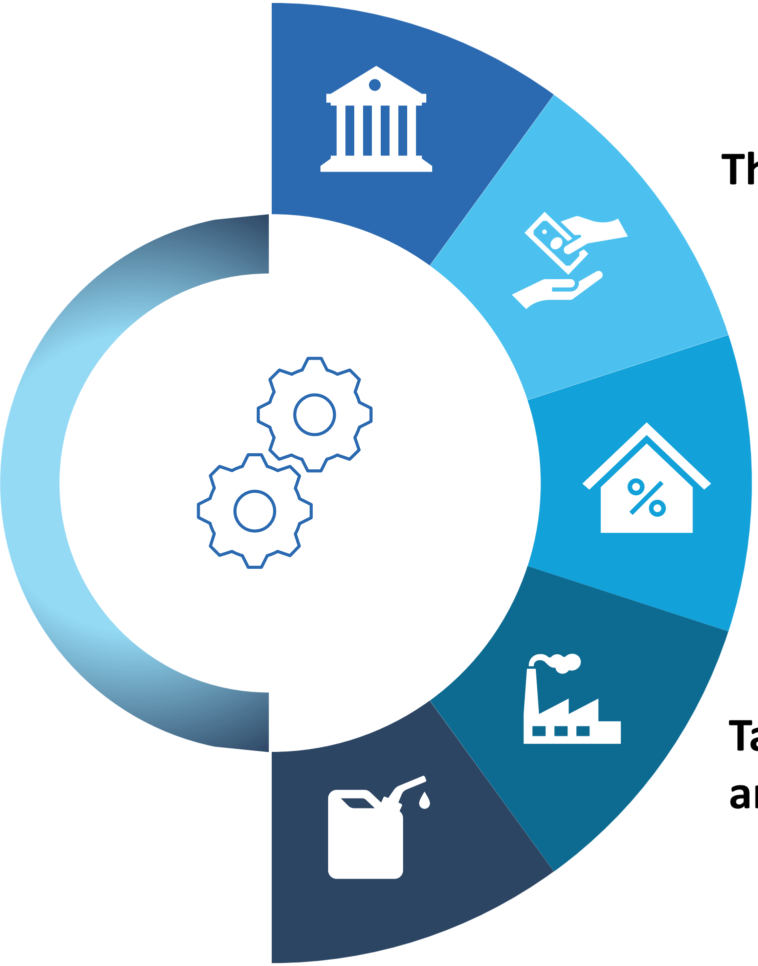
- India has outperformed given the expectation of strong earnings momentum this quarter.
- Corporate earnings downgrade risk has reduced.
  - Banks and Capital goods lead the positive earning upgrade cycle.
  - Urban consumption after significant growth in 2022 is slowing due to impact of inflation and interest rates. In contrast, rural consumption is picking up, albeit gradually. Pharma recovery underway especially in US generics
  - 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.

DRIVERS FOR INDIA

TATA MUTUAL FUND

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

Based on Internal Views and subject to change

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 real estate
  - 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

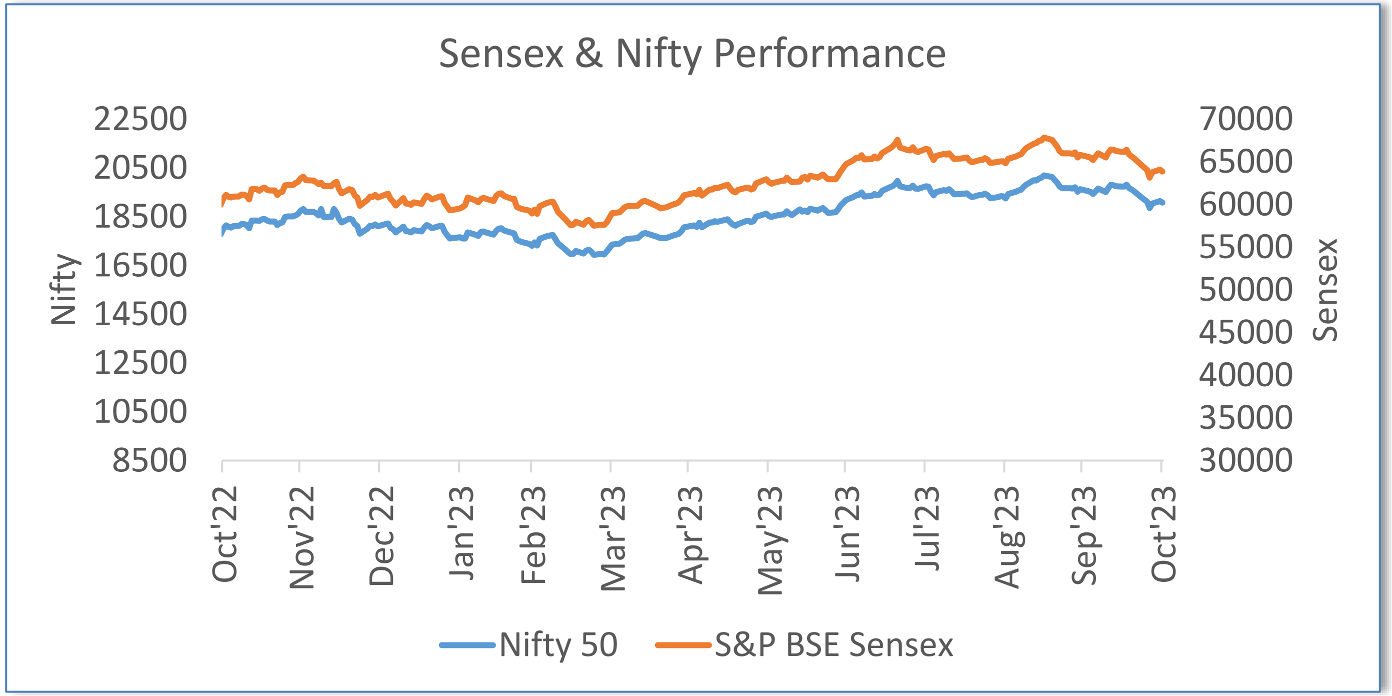
Fiscal Year end	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23	Latest*
GDP Growth (%)	6.6	7.2	7.9	7.9	7.3	6.1	4.2	-7.4	4.5	7.2	7.8
CPI Inflation (%)	9.5	5.9	4.9	3.8	3.6	3.4	5.8	5.5	7	5.7	5.00
Current Account (% of GDP)	-1.7	-1.3	-1.1	-0.6	-1.9	-2.4	0.1	-0.2	-1.2	-2	-1.1
Fiscal Deficit (% 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	89
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	586
GST collections (INR billion)							1222	1239	1421	1601	1720

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

MARKET PERFORMANCE

BROAD MARKET UPDATE

TATA MUTUAL FUND



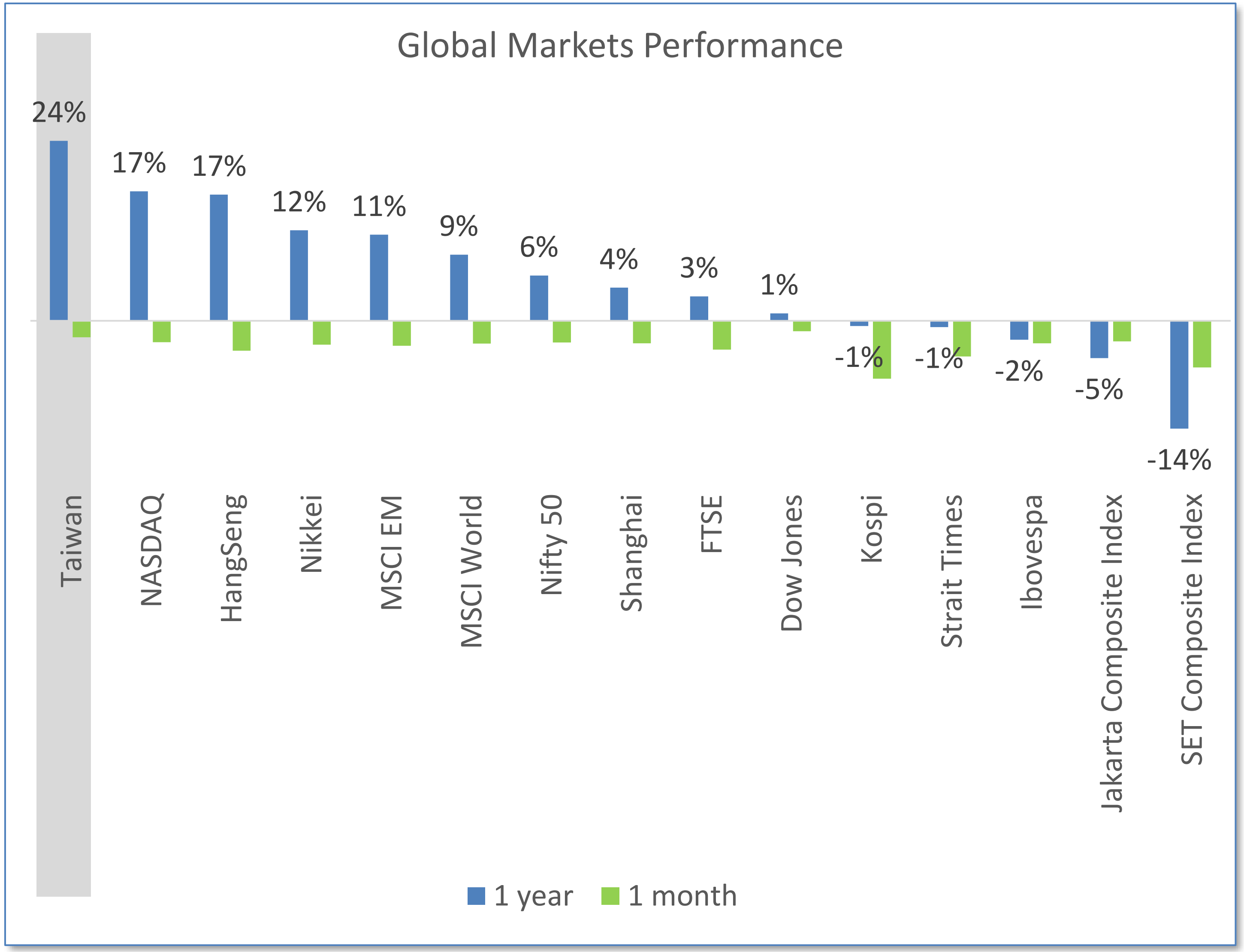
	Nifty 50	Sensex
FYTD	9.91%	8.28%
CYTD	5.38%	4.99%
1 Year	5.93%	5.15%
1 Month	-2.84%	-2.97%

- The month of October 2023 started on a positive note closer to Highs achieved for the index around 66500 levels.
- 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 31st Oct 2023

GLOBAL MARKETS PERFORMANCE

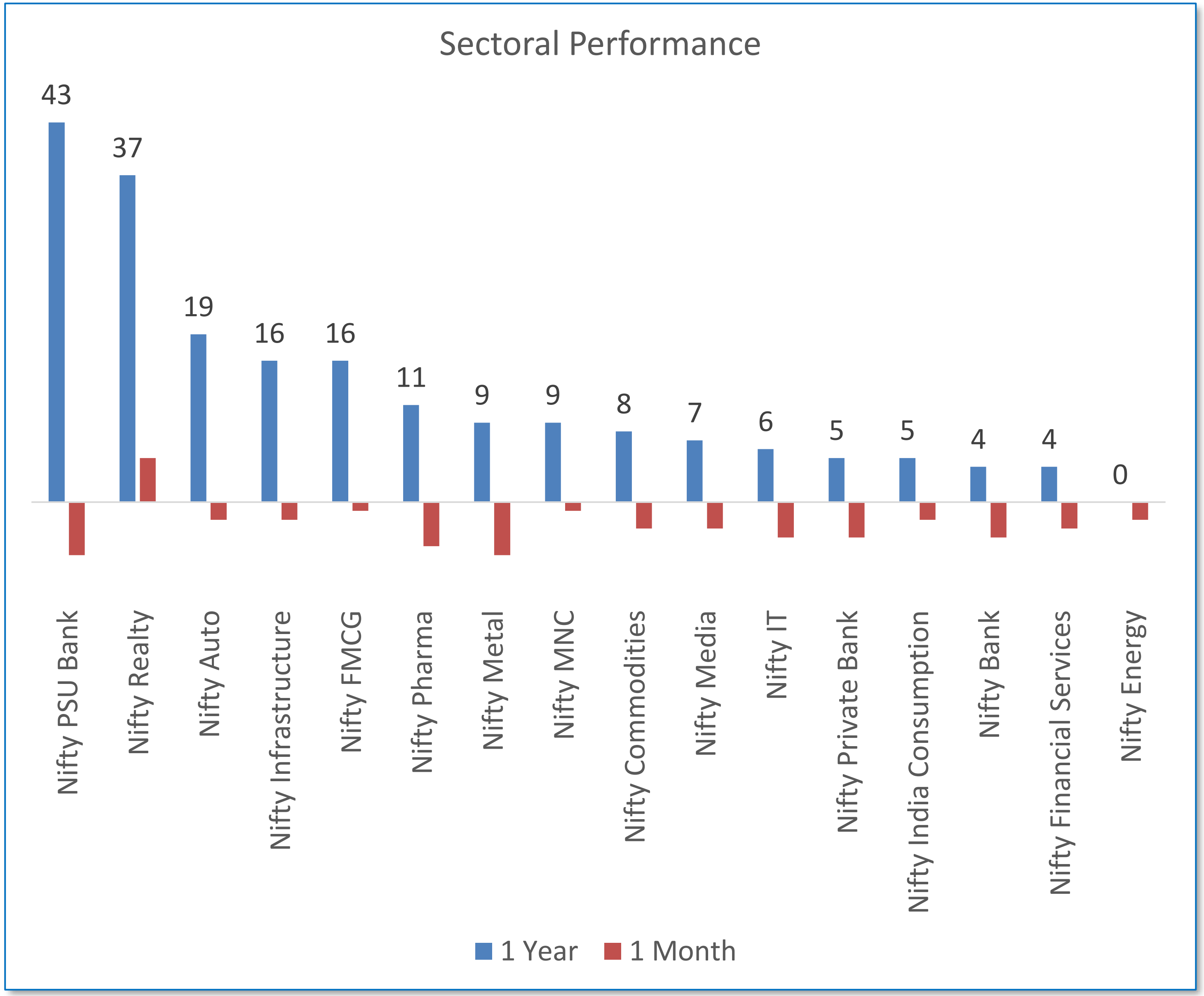


- A selloff in global bond markets led to pressure on global equities. The heightened geopolitical uncertainty also weighed on market sentiment.
- Global stocks declined during the month with MSCI world index declining 3.0% in USD terms and the MSCI Emerging Markets declined by 3.3% for the same period.

SOURCE: Bloomberg

Data as on 31st Oct 2023

SECTORAL PERFORMANCE

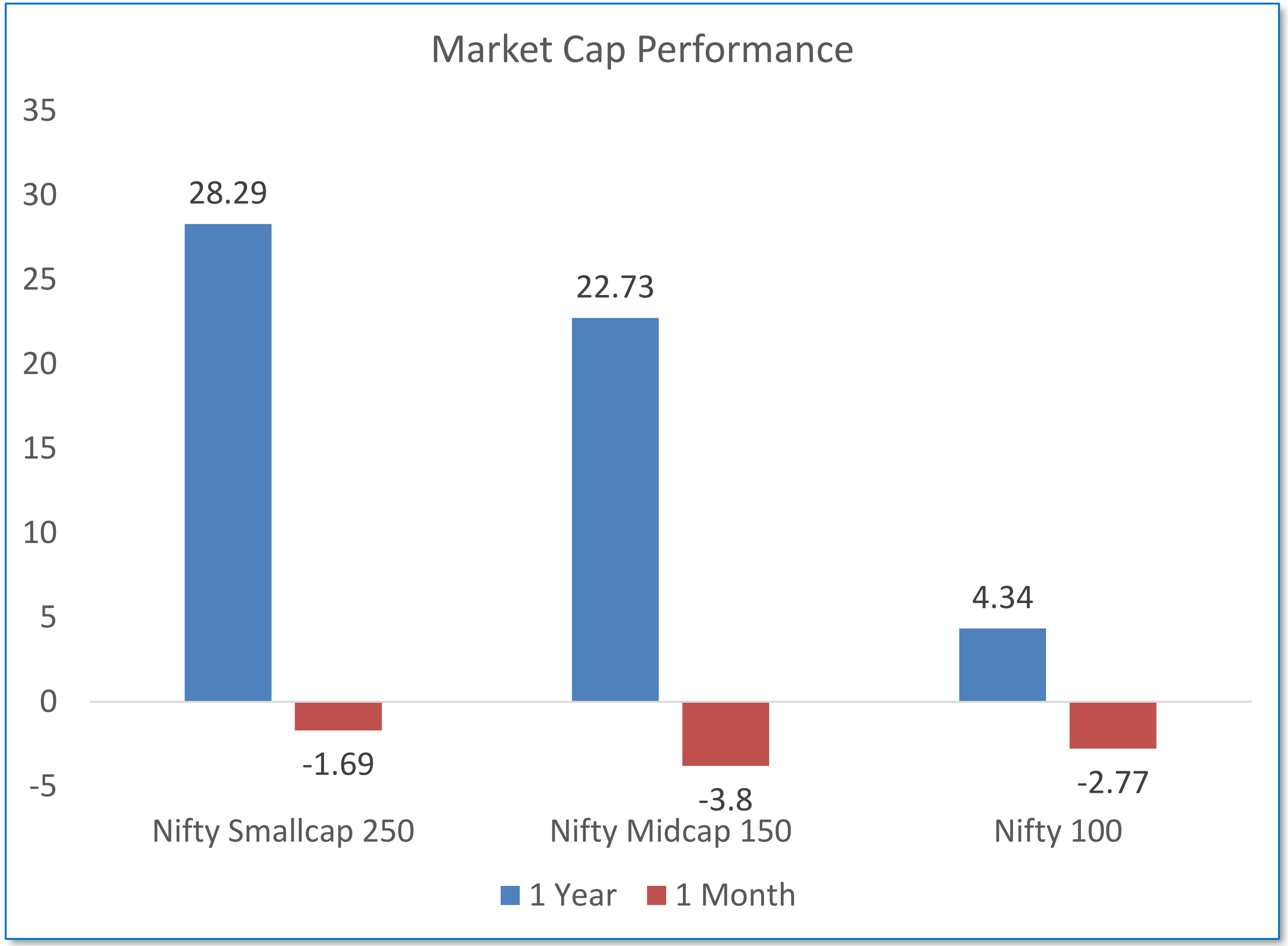


- All major sectors ended lower in Oct 23. PSU banks declined the most while Realty gained for the month.
- For the year ending Oct 23, PSU Banks (+43%) and Realty (+37%) made the highest gains while Energy (0.42%) was the lowest performer.

SOURCE: Bloomberg

Data as on 31st Oct 2023

MARKET CAP PERFORMANCE



- Mid-cap index underperformed large-cap with a loss of -3.8% while Small caps outperformed the large cap index with a loss of -1.7%.
- On a 1 year return, the midcap and small cap continue to outperform the large caps.

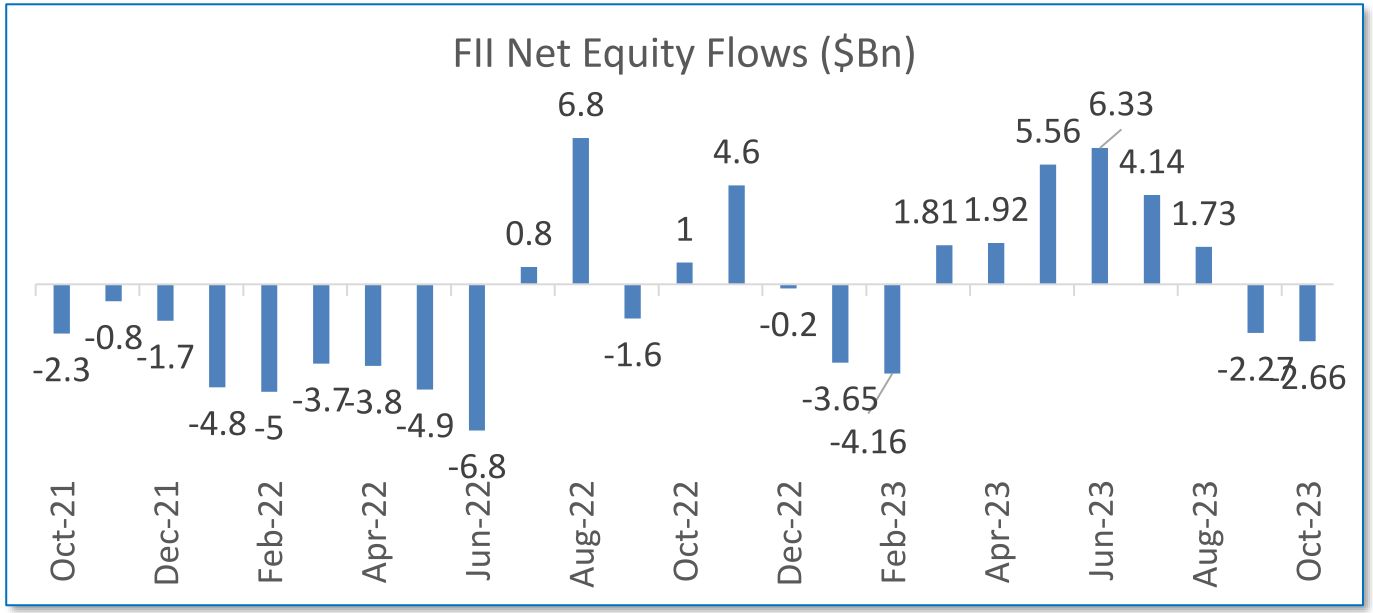
SOURCE: Bloomberg

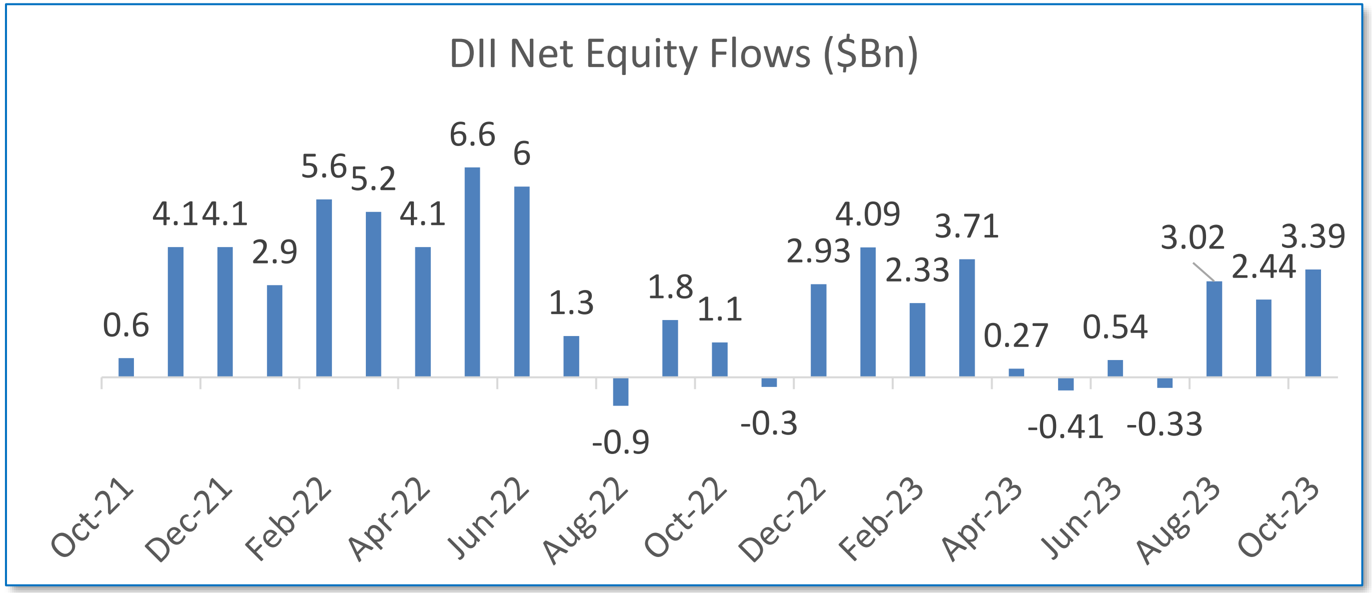
Data as on 31st Oct 2023

FLOWS

FLOWS

EQUITY FLOWS – FIIs & DIIs





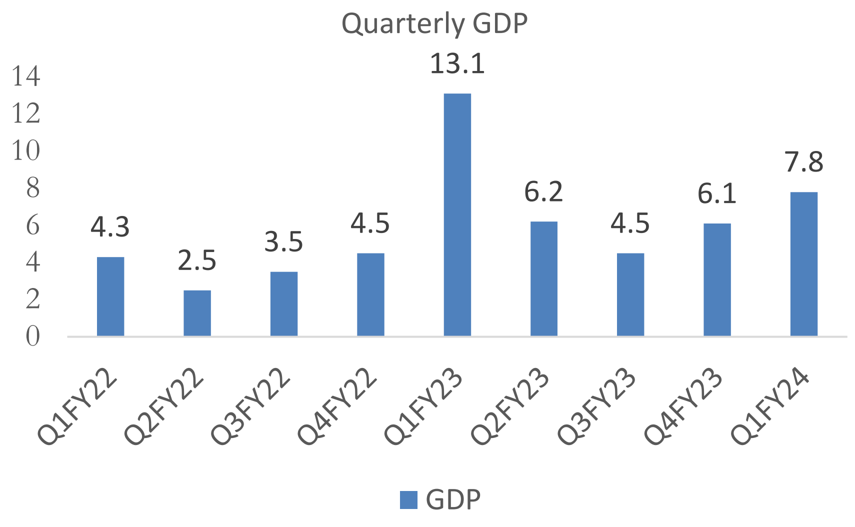
- Foreign institutional investors continued to be sellers for the second consecutive month in Oct 23.
- DIIs continued healthy inflows in third consecutive month.
- For FY23 the FII were net sellers with outflows of close to USD ~10 bn. While the DII inflows were robust at USD ~33 bn.
- For FY24TD, the FII flows is USD ~14.8 bn. And the DII flows is USD ~8.9 bn.

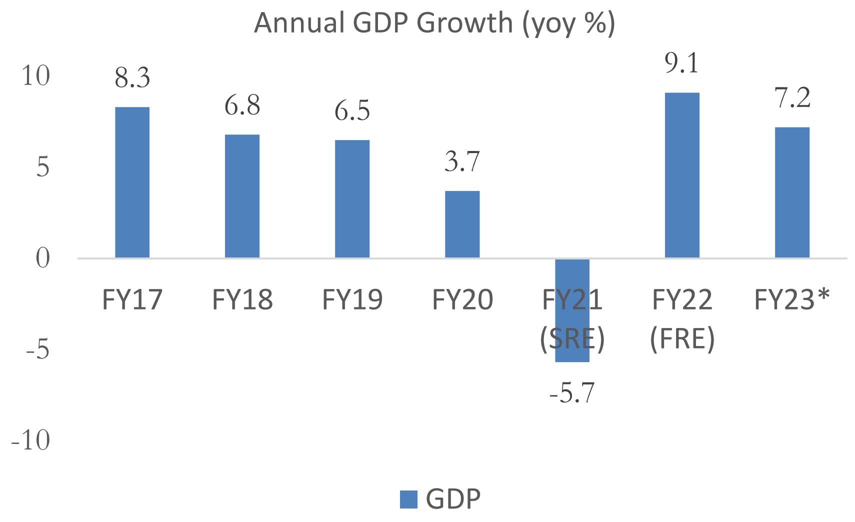
SOURCE: Bloomberg, J.P. Morgan

Data as on 31st Oct 2023

MACRO

GDP

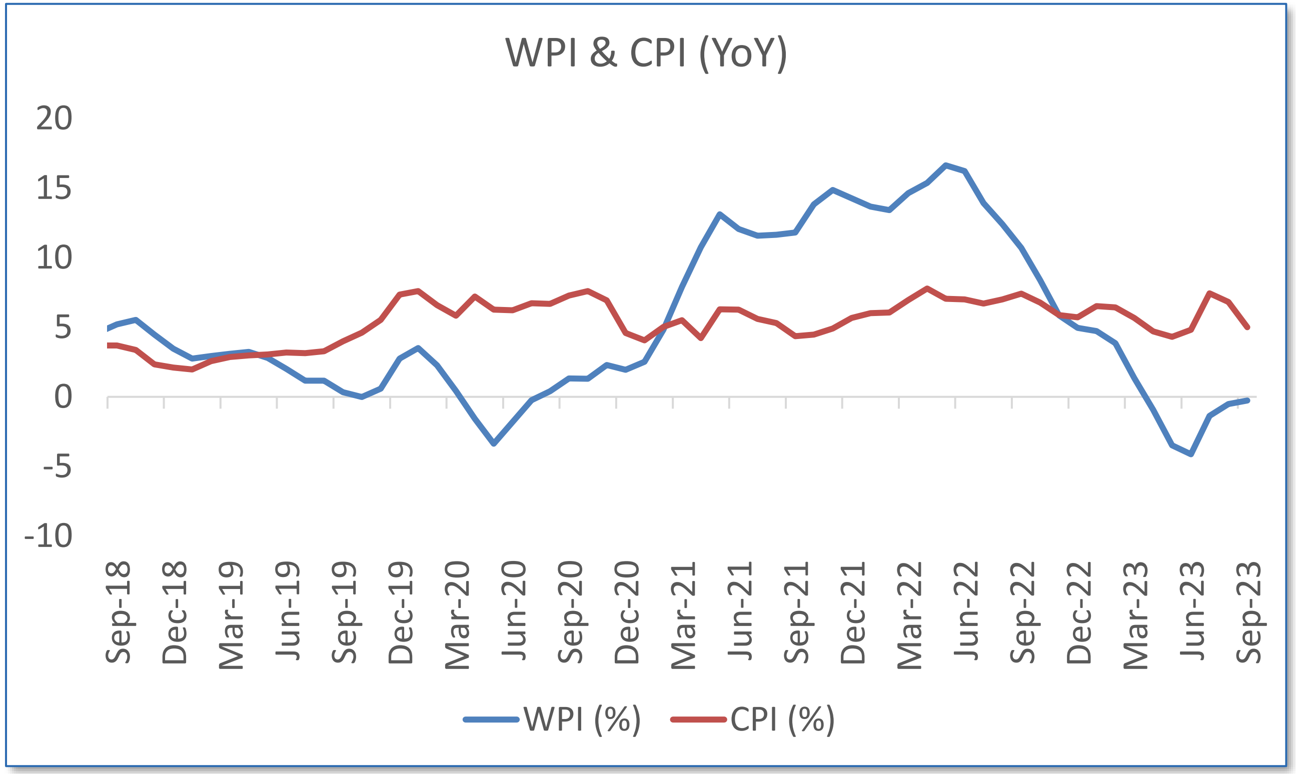




- India's economic growth accelerated in Q1FY24 to 7.8% (Q4FY23: 6.1), a supportive base along with continued strength in services and construction activities supported the growth.
- Investment growth remained strong (8%yoy) benefitting from front-loading of govt capital expenditure ahead of elections. 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

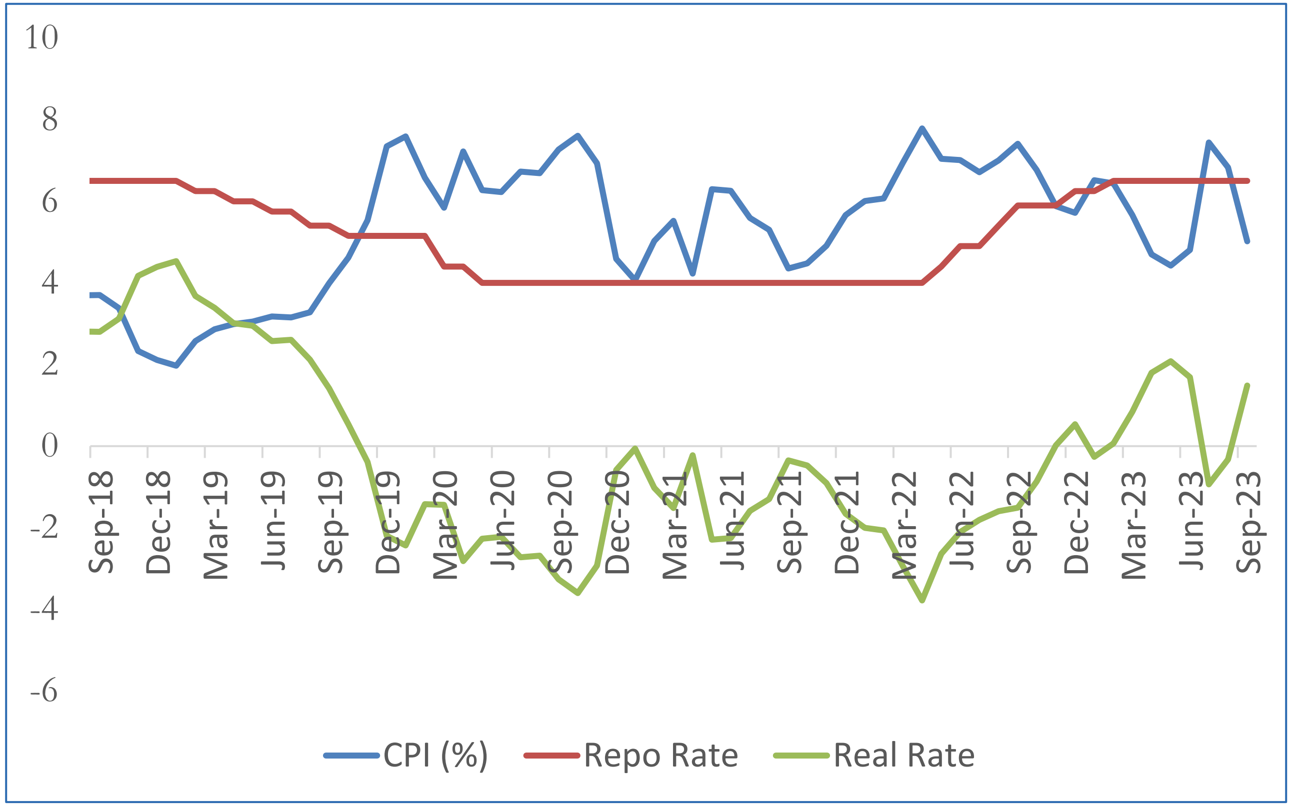


- India's retail inflation moderated to 5.0% yoy in Sep 23 from 6.8% yoy in Aug 23 primarily due to sharp correction in vegetable prices and low LPG prices.
- Food and beverages inflation (CPI) eased to 6.3% from 9.2% a month ago due to easing prices for vegetables and deflation in edible oils.
- The fuel and light category witnessed a marginal deflation (0.1%) in September for the first time in around four years due to a reduction in LPG prices.
- India's wholesale price index remained in deflationary territory for the sixth consecutive month in Aug, although it rose to a six month high of -0.26%.
- The negative rate of inflation is due to yoy fall in prices of chemical & chemical products, mineral oils, textiles, basic metals and food products as compared to the corresponding month of previous year.

SOURCE: Bloomberg

Latest available data

Real Rates

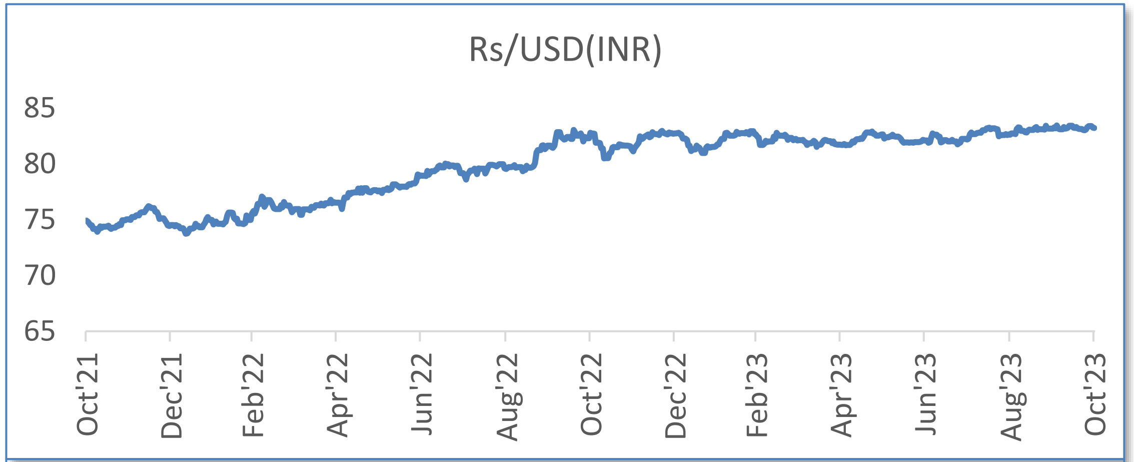


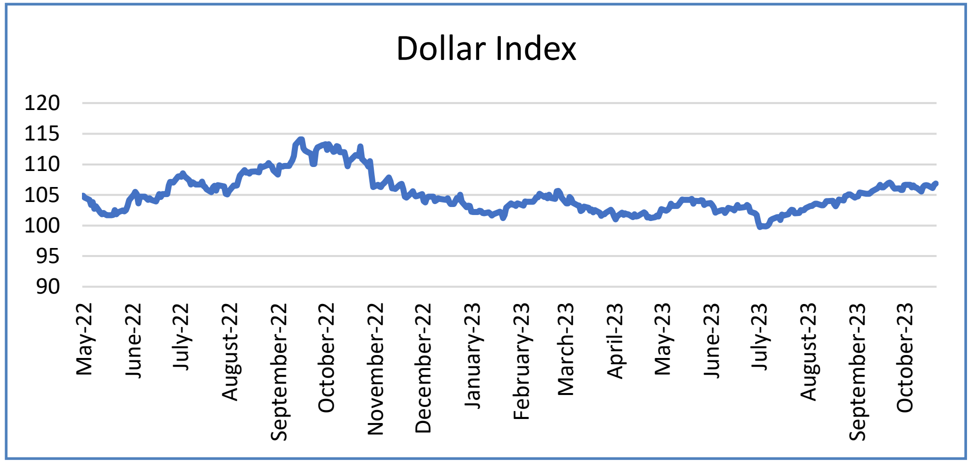
- In the Oct MPC RBI maintained a status quo on the repo rate keeping it unchanged at 6.5%. MPC decided with a 5 1 majority to maintain stance as withdrawal of accommodation
- The recent fall in inflation bought the real rates in positive territory.
- RBI revised its Q2FY24 CPI projections upwards by 20bps and revised the Q3FY24 estimates down by 10bps to 5.60%
- RBI maintained the growth FY24 growth expectation at 6.5%.

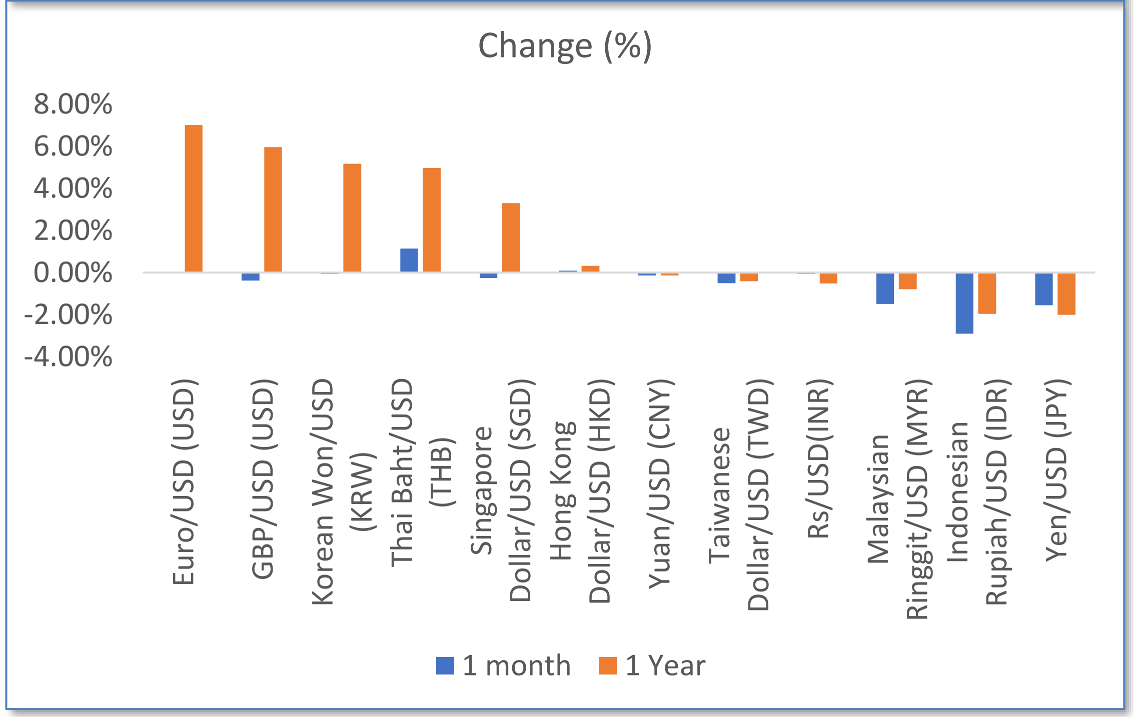
SOURCE: Bloomberg

Latest available data

TATA MUTUAL FUND





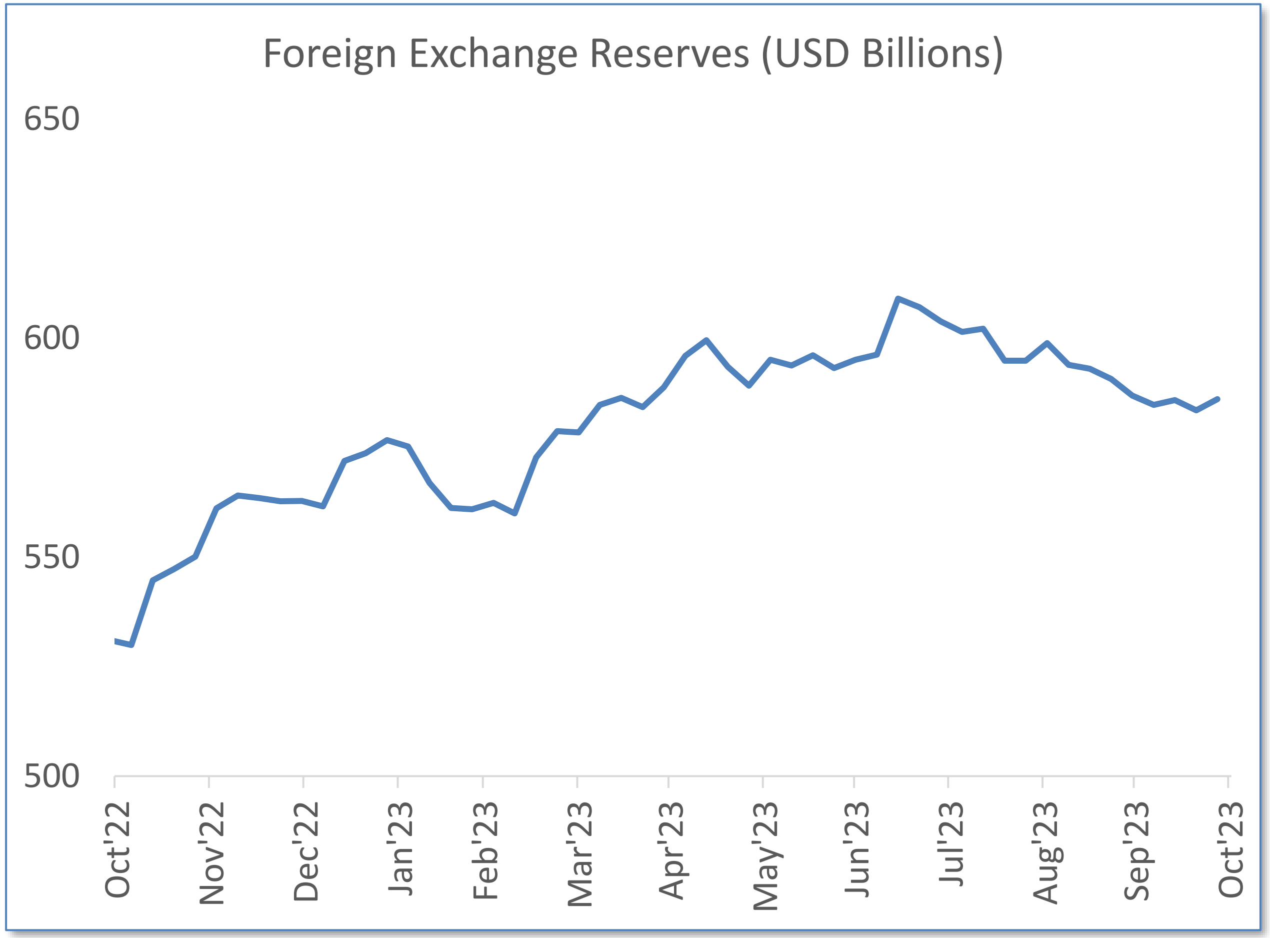


- Dollar Index closed in the green for the third successive month following safe haven buying and better-than-expected economic number from the US.
- Rupee depreciated to its lowest level in 2023 amidst a narrowing yield differential with US, slowing FPI flows and a rise in oil prices.
- RBI’s FX intervention expected to reduce volatility in rupee going ahead.

SOURCE: Bloomberg

Data as on 31st Oct 2023

FOREX RESERVES

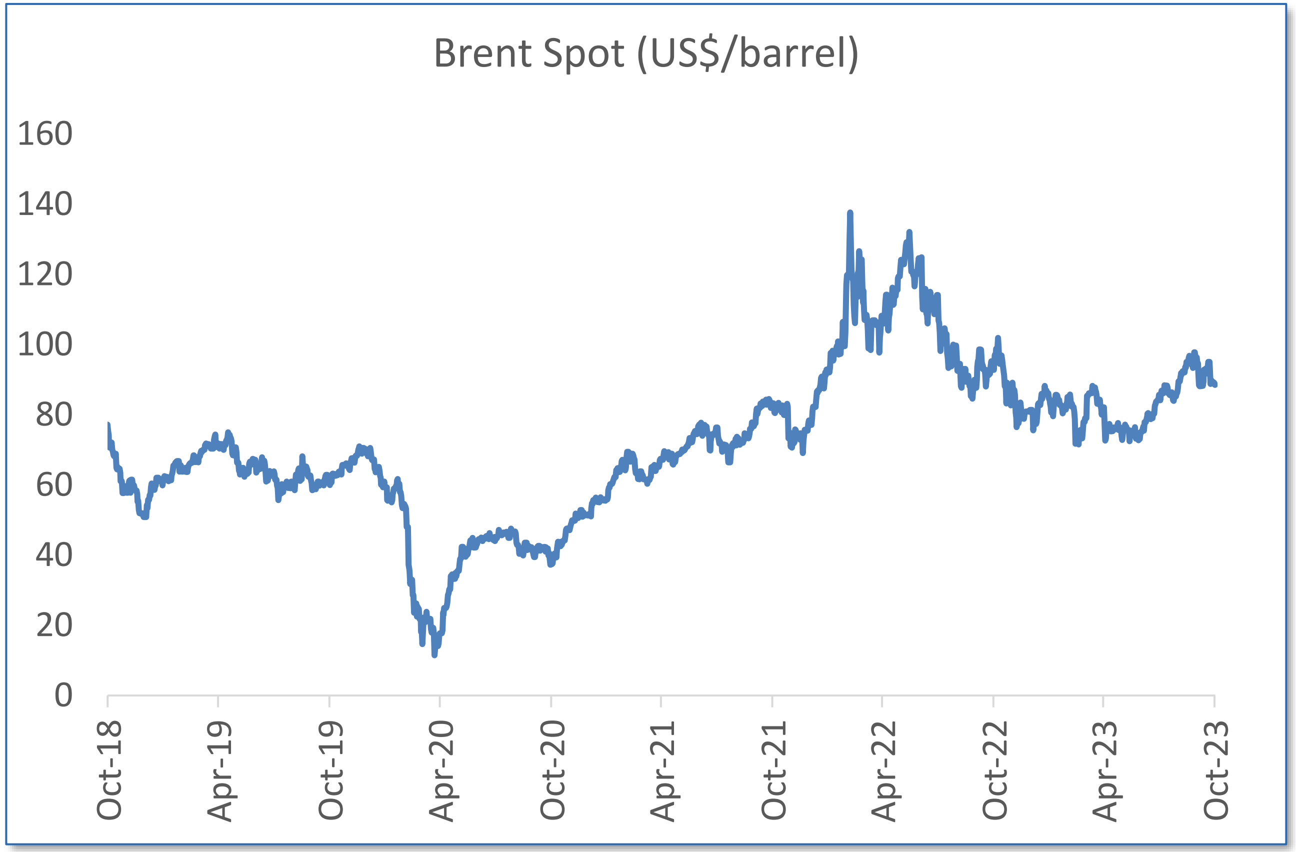


- Foreign exchange reserves reduced marginally to USD 586 bn in Oct 23 from USD 587 bn in Sep 23.
- The central bank intervenes in the spot and forwards markets to prevent runaway moves in the rupee.
- Apart from the central bank's intervention, changes in foreign currency assets, expressed in dollar terms, include the effects of appreciation or depreciation of other currencies held in the RBI's reserves.

SOURCE: Bloomberg

Data as on Oct 2023

CRUDE OIL



- Oil prices were very volatile for the month and traded between 88 – 96 USD/barrel before ending the month at 98.5 USD/barrel.
- Oil prices saw a turbulent month, as sentiments remained torn between worries about effect of high interest rates on oil consumption, and war premium in constant battle between Israel and Gaza brining choppiness.
- 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 31st Oct 2023

INTEREST RATES

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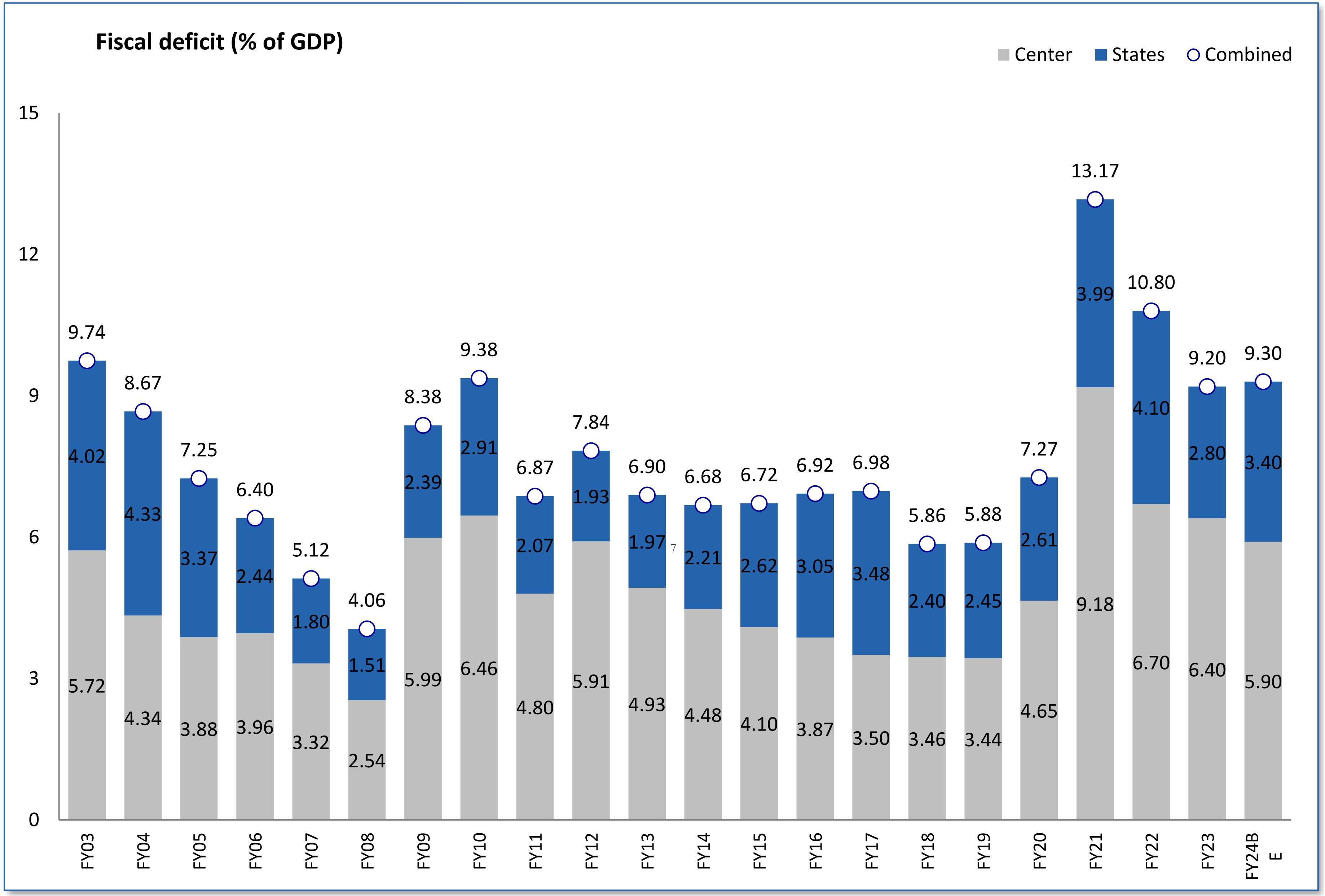
Country	Rate	Central Bank Rate	CPI YoY	Real Rates
US	Fed funds	5.38%	3.7%	1.68%
UK	Bank Rate	5.25%	6.7%	-1.45%
Canada	Overnight	5.00%	3.80%	1.00%
Switzerland	Target Rate	1.75%	1.70%	0.05%
Eurozone	Deposit rate	4.00%	2.90%	1.10%
Japan	Policy rate	-0.10%	3.00%	-3.10%
Australia	Cash rate	4.35%	5.40%	-1.05%
South Korea	Repo rate	3.50%	3.80%	-0.30%
Taiwan	Discount rate	1.88%	3.10%	-1.22%
China	Loan Prime rate	3.45%	0.00%	3.45%
India	Repo rate	6.50%	5.00%	1.50%
Russia	Key Policy rate	15.00%	6.00%	9.00%

- Federal Open Market Committee (FOMC) in its Nov meeting, unanimously agreed to keep the target range of its Fed Funds Target Rate (FFTR) unchanged at 5.25%-5.50%.
- This was the second consecutive pause and the third in the Fed’s current rate hike cycle after having raised rates for ten meetings in a row before taking a first pause in Jun followed by another 25-bps hike in Jul.
- The European Central Bank held interest rates, bringing an end to its unprecedented streak of 10 consecutive increases in borrowing costs amid rising concerns over eurozone growth.
- Eurozone inflation fell to 2.9 per cent in October, its lowest for more than two years.

SOURCE: Bloomberg

Data as on 7 Nov 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.

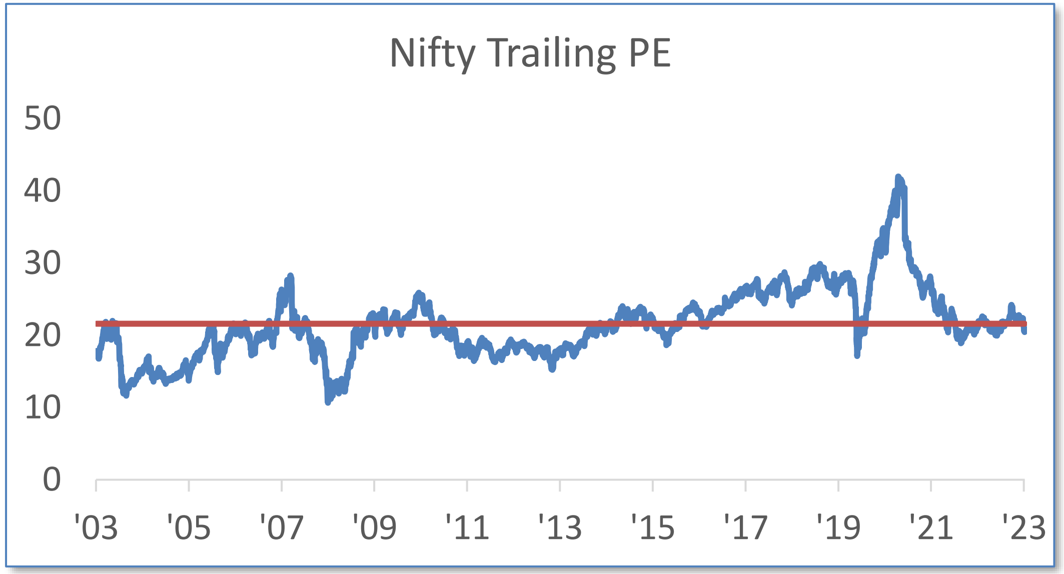
SOURCE: Bloomberg ; BE- Budgeted Estimate, RE – Revised Estimate

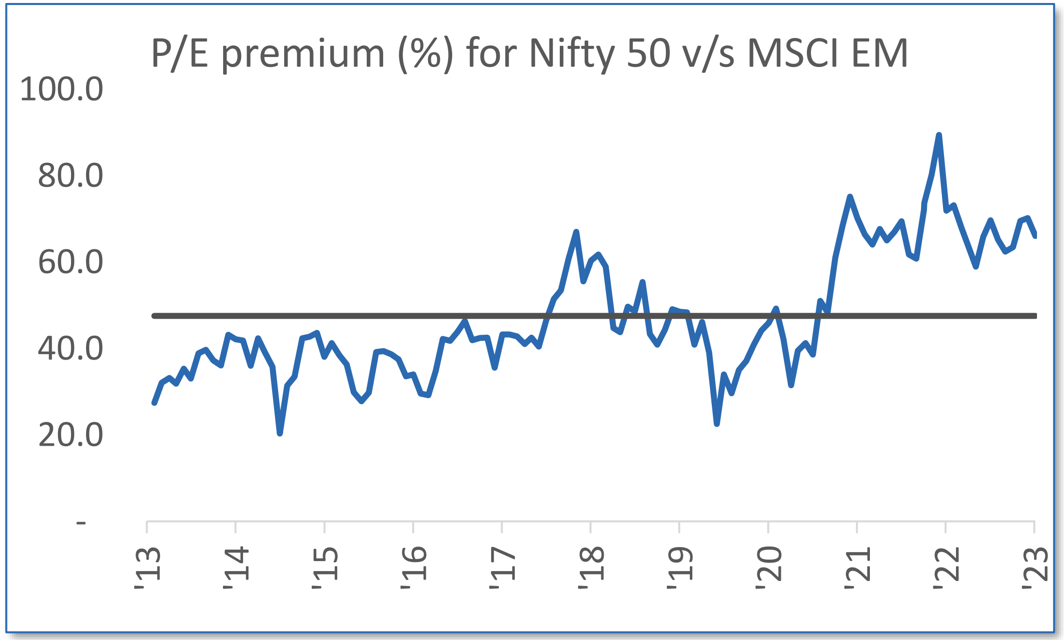
Latest available data

VALUATION

VALUATION

INDIA VALUATION VS EMERGING MARKETS



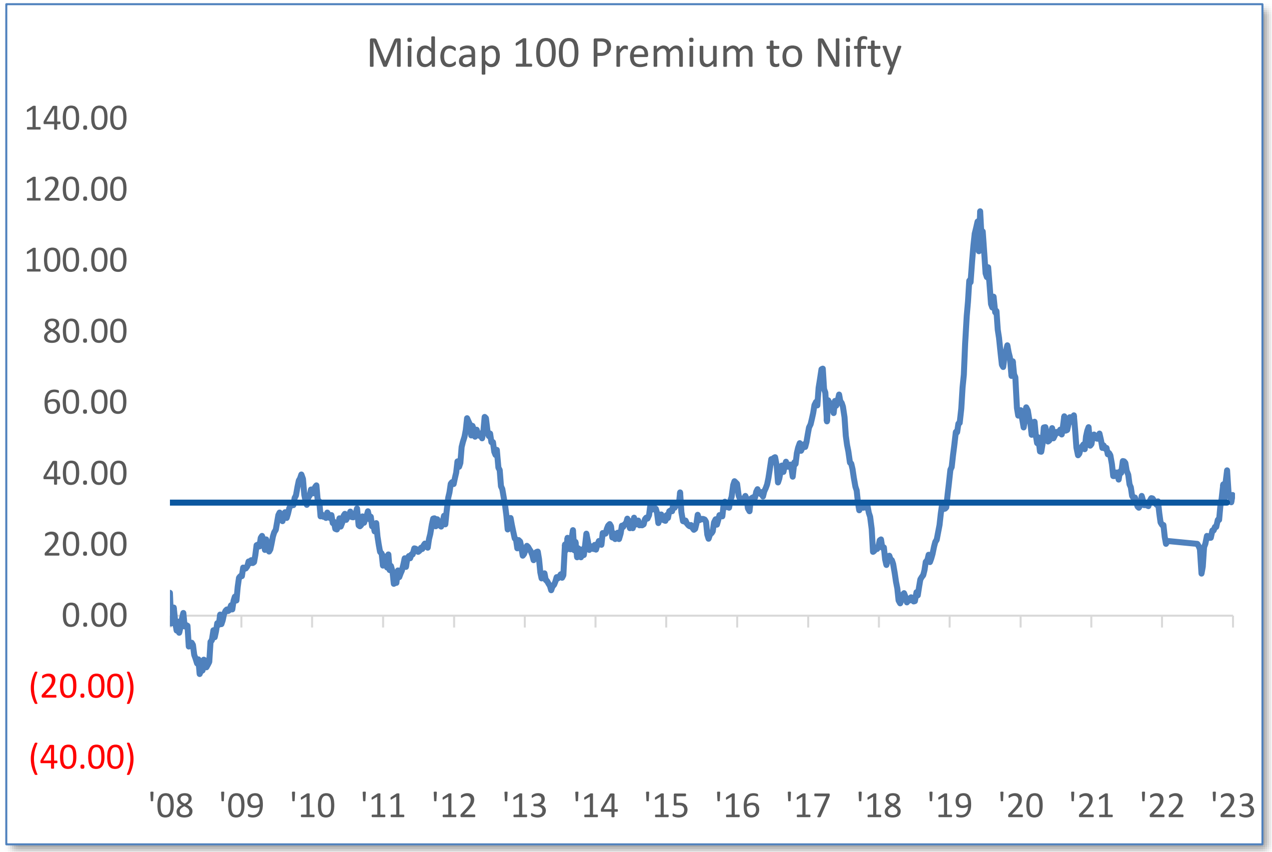


- Nifty50 1-year forward PE stands at 19.0x, higher than the historical average.
- Expected earnings for FY24 is 15.0% and FY25 is at 15.8%
- Over the last 12 months, the Nifty 50 (14.88%) has outperformed the MSCI EM index (12.17%).
- In P/E terms, the Nifty 50 is trading at 66% premium to the MSCI EM index, above its historical average of ~48%.
- 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 31st Oct 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 31st Oct 2023

THANK YOU