

Ebony Research - Monthly update November 2024

Global Overview

The U.S. election results were the primary driver of market performance in November. Donald Trump's presidential victory and the Republican party securing a majority in both chambers of Congress fuelled expectations that the next government's policies will extend American exceptionalism in the economy and markets.

The prospect of further tax cuts, expansionary fiscal policy, and a more nationalist trade agenda boosted U.S. equity markets, with the S&P 500 up 5.9% for the month. The US dollar also saw strong gains, as the perception that Trump's fiscal plans could be inflationary led to speculation that the Federal Reserve's rate-cutting cycle may be cut short. This in turn led to significant under performance of emerging markets, with the MSCI EM index down 3.6% compared to a 4.6% gain for the MSCI World Index. Chinese equities declined due to concerns about a potential trade conflict.

In November, the Federal Reserve voted to further lower the federal funds rate by 25 basis points to a target range of 4.50%-4.75%. Progress on disinflation and recent employment data supported the decision. However, bond markets only marginally benefited, as concerns that Trump's policy proposals could reignite inflation and thereby limit future rate cuts. The clear implication is that both developed and developing economies are likely to see higher terminal rates in this rate cycle compared to the previous decade.

Moving to US Equities, the unprecedented bull run has led to a notable uptick in valuations, though the rally has been concentrated in a few stocks. Several factors suggest caution in going all-in on US equities at this stage: unsustainable debt levels, high interest rates amidst a slowing global economy, persistent yet sticky inflation, geopolitical uncertainties, and a low to near-zero equity risk premium (ERP). The ERP, which represents the difference between the S&P 500 Index's earnings yield and the 10-year US Treasury yield, being close to zero indicates that investors are taking on equity risk without adequate compensation. This

typically reflects inflated valuations, with the S&P 500 trading at elevated price-to-earnings (P/E) ratios.

However, history demonstrates that a low or negative ERP does not always preclude strong market performance. For instance, during the 1990s, the ERP was negative for much of the decade, yet the S&P 500 advanced more than 400%, fuelled by robust economic growth, technological innovation, and strong corporate earnings. This suggests that while a low ERP often warrants caution, it does not necessarily mean poor equity market returns, particularly when supported by favourable macroeconomic or sector-specific factors. While we remain positive on US equities, we advocate a "buy on dips" approach, recognizing the need for prudence given current valuations and macroeconomic uncertainties. In contrast, we are more confident about US Treasuries, where the risk-reward dynamics appear more favourable, making them an attractive option for deploying capital in the current environment.

Domestic Overview

India GDP growth has slowed sharply to 5.4% during the September 2024 quarter. This is down from under 7% YoY growth during the June quarter and almost 8% growth during the September quarter last year. This is also the slowest growth since the December quarter of 2022. The slowdown concerns seem to be gaining pace as witnessed in other economic indicators like urban consumption, and lower tax collections. Over the past 3 months, tax collections, in aggregate, have grown by less than 1% YoY. At this rate, the full-year tax collections estimate will be missed by a wide margin as well. Manufacturing growth in the September quarter slowed to 2.2% from 14.3% in the year-ago second quarter and 7% in the June quarter.

This swift slowdown in India's economic growth has led to growth downgrades by economists. In-line with this trend, we expect RBI as well to downgrade GDP growth forecast for FY25. Further elevated consumer price inflation (In October the headline CPI inflation print came in at 6.2%) is likely to push down the rate cut cycle further. However, we believe liquidity easing measures like CRR cut could be on the cards in the December monetary policy meet.

The Indian Government and RBI are likely to face the “impossible trinity” of Growth vs. Rates vs. Currency at least in the near term.

India's foreign exchange (forex) reserves fell for an eighth consecutive week to hit a multi-month low of US\$ 656.5bn in the week that ended on November 22, data from the Reserve Bank of India (RBI) showed. The forex reserves dropped by US\$ 1.31bn in the reporting week. The forex kitty had dropped a record US\$ 17.7bn to US\$ 657.8bn in the previous reporting week ending November 15. The reserves, which had hit an all-time high of US\$ 704.8bn in end-September, have been declining for multiple weeks, at a time when the rupee has also been under pressure. The fall in reserves is being attributed to RBI's intervention in the foreign exchange markets as well as revaluation of reserves. Despite intervention by RBI, Indian Rupee weakens to near an all-time low on account of persistent selling by foreign investors both in Indian Bonds and Equities market.

Indian Bonds

Indian bond markets despite surrounded by the impossible trinity in the near term offers attractive opportunity for investors on account of the following

- Between 2022 and 2023 RBI had significantly raised the repo rate by 250bps to 6.5% following global peers and now have moved the policy framework to Neutral in its last October policy
- Comfortable fiscal glide path. Centre's Fiscal deficit has come down every year from 6.4% in FY23 to 5.6% in FY24 to 4.9% in FY25. Net borrowing programme
- Attractive carry along with potential benefits from rate cuts in latter part of 2025. 2-3 Year Duration AAA Corporate Bonds are offering yields in excess of 7%
- Inclusion of Indian Bonds in more global indices and additional allocation from global investors.

Indian Equities

India's equity market has been on a relentless bull run since the pandemic, but recent lacklustre earnings and slowing GDP growth may mean stocks take a pause — at least for now. The Equity market had witnessed an unprecedented run between April 2020 and

September 2024, with Nifty 50 up by 198% and BSE Midcap up by 351%, largely driven by strong corporate performance.

India's market capitalization has soared to an impressive USD 5.4 trillion from USD 1.2 trillion in March 2014, positioning it as the fifth-largest market globally. Notably, smaller companies and emerging industry segments are making substantial contributions across various sectors. Strong returns in India have been primarily driven by domestic institutional investors and a surge in retail participation. Rising investor interest is starting to form a virtuous cycle of liquidity, investor participation, and capital issuance.

The barometer to assess the health of Indian equity markets through FII flows has seen a significant shift in recent years. Rising awareness about equity investing, the financialization of savings, and digitization have attracted domestic investors to equity markets. The continuous rise in retail participation, as evidenced by the growing number of demat accounts and expanding SIP flows, has resulted in strong domestic institutional investor (DII) inflows into Indian equities.

However, the bull run in equities seems to have hit a temporary wall due to slowing earnings/profitability growth, elevated valuation metrics such as price-to-earnings and market cap-to-GDP ratios, and persistent outflows due to FII selling. We expect the earnings trajectory to remain largely intact, although the magnitude of growth is expected to moderate over FY24–26, with some interim but short-lived slowdown, as seen in 2QFY25.

Although the market is currently experiencing a tactical breather, India's long-term economic drivers remain strong. These include a demographic dividend with increasing urbanization and rising wealth, a strong infrastructure push by the government, a manufacturing sector gaining traction under supply chain diversification, sustainable and pro-industry policies, and growing renewable energy capacity.

Based on International Monetary Fund (IMF) data, the nation is projected to clock a growth rate of 6.1% over the next five years, becoming the world's third-largest economy by 2027, after the U.S. and China. India is expected to double its current annual GDP of USD 3.5trn to USD 7trn by 2030. Its considerable size and diverse sectoral offerings place India among the key equity markets globally.

We remain optimistic that Indian equities will deliver healthy long-term compounding, given the strength of corporate India's balance sheet and prospects for secular profitable growth amid robust economic prospects. Investors are encouraged to systematically invest in equities over the next few months and on dips, as Indian equities appear poised for a period of time correction rather than price correction.

India Equity Ownership data across NSE listed Universe (Source NSE India)

	Non-promoters (%) ^										Market cap (Rs lakh crore) #
	Institutional					Non-Institutional					
	Domestic MFs	Banks, FIs & Insurance	FPIs*	Other Inst.	Total	Non-promoter corporate	Ind. Investors	Other non-Inst. **	Total	Total	
FY07	3.8	5.4	19.2	0.3	28.6	4.2	10.1	3.0	17.3	45.9	34
FY08	3.8	5.4	17.5	0.4	27.1	4.3	9.1	2.9	16.3	43.4	49
FY09	3.8	6.7	14.9	0.3	25.7	4.5	8.7	3.6	16.8	42.4	29
FY10	3.9	6.9	16.4	0.3	27.5	4.5	8.5	3.3	16.2	43.7	60
FY11	3.6	6.9	17.5	0.3	28.2	4.5	8.2	3.2	15.9	44.1	67
FY12	3.6	7.2	17.7	0.2	28.7	4.4	8.5	3.2	16.2	44.9	61
FY13	3.5	6.9	20.7	0.1	31.2	4.3	8.0	3.6	15.9	47.2	63
FY14	3.4	6.8	22.1	0.1	32.3	4.0	8.0	4.0	15.9	48.3	73
FY15	3.9	5.9	22.0	0.6	32.4	4.2	8.7	3.7	16.5	49.0	100
FY16	4.4	6.4	20.8	0.3	31.9	5.8	9.1	2.8	17.7	49.6	95
FY17	4.9	6.2	20.6	0.2	32.0	5.8	9.3	2.9	18.0	49.9	121
FY18	6.1	5.6	20.1	0.3	32.0	5.6	9.0	3.0	17.6	49.6	142
FY19	7.2	5.5	21.0	0.4	34.0	5.0	8.6	3.0	16.5	50.6	150
FY20	7.9	5.5	20.8	0.4	34.6	3.3	8.4	2.7	14.5	49.1	112
FY21	7.2	5.1	21.5	1.2	35.0	3.1	9.0	2.9	15.0	50.0	203
FY22	7.7	4.5	19.2	1.5	32.9	3.6	9.7	3.1	16.3	49.3	261
FY23	8.7	6.1	19.1	2.3	36.2	1.7	9.4	2.8	13.9	50.1	254
FY24	8.9	5.6	17.9	2.0	34.4	1.9	9.5	2.7	14.2	48.6	382
Q1FY25	9.2	5.4	17.6	2.0	34.2	1.9	9.6	2.7	14.3	48.5	433
Q2FY25	9.5	5.4	17.7	2.0	34.6	2.0	9.6	2.8	14.4	48.9	468

Source: CMIE Prowess, NSE EPR. ^ Ownership shares provided here for non-promoters are based on total market cap and therefore do not add up to 100. Institutional and non-institutional share add up to the total non-promoter share. *FPI ownership includes ownership through depository receipts held by custodians. **Other non-institutions include other non-institutional non-promoters and government non-promoter. #Market cap is for all companies whose ownership data was available for the quarter.

%	Passive DMFs ^	Active DMFs \$	Banks, FIs & Insurance	FPIs*	Non-promoter corporate	Individual Investor	Others**
Dec-21	2.7	12.4	8.8	39.9	7.6	19.6	9.1
Mar-22	2.9	12.7	9.1	39.1	7.3	19.7	9.3
Jun-22	3.1	13.3	9.6	38.1	7.6	19.7	8.7
Sep-22	3.2	13.2	11.9	38.5	5.7	19.1	8.4
Dec-22	3.4	13.3	12.0	38.8	3.7	18.9	10.0
Mar-23	3.5	14.0	12.1	38.1	3.5	18.7	10.2
Jun-23	3.5	13.8	11.7	38.1	3.8	18.8	10.3
Sep-23	3.4	14.2	11.5	37.1	4.0	19.5	10.2
Dec-23	3.4	14.5	11.3	37.0	4.0	19.6	10.2
Mar-24	3.5	14.9	11.4	36.7	4.0	19.6	9.8
Jun-24	3.6	15.4	11.1	36.3	4.0	19.9	9.8
Sep-24	3.7	15.7	11.0	36.1	4.0	19.6	9.9
QoQ change	10bps	30bps	-12bps	-16bps	3bps	-24bps	10bps

Source: CMIE Prowess, NSE EPR. Note: Ownership across key non-promoter stakeholders is based on free float market cap and add up to 100. *FPI ownership includes ownership through depository receipts held by custodians. ** Others include other institutional non-promoters, other non-institutional non-promoters and government non-promoters. ^ Passive mutual funds track an index by maintaining a portfolio that mimics the underlying assets of an index. \$ Active funds are those which involve active investment decisions on the part of the fund manager; share of these funds has been arrived at by subtracting passive AUM from the overall DMF holding.

%	Investment (Rs lakh crore)			Ownership in NSE total market cap (%)			Ownership in NSE floating stock (%)		
	Active	Passive	Total	Active	Passive	Total	Active	Passive	Total
FY15	3.9	0.1	4.0	3.9	0.1	3.9	7.9	0.2	8.1
FY16	4.0	0.2	4.1	4.2	0.2	4.4	8.4	0.4	8.8
FY17	5.5	0.5	6.0	4.6	0.4	4.9	9.2	0.8	9.9
FY18	7.9	0.7	8.6	5.5	0.5	6.1	11.2	1.1	12.2
FY19	9.4	1.4	10.7	6.3	0.9	7.2	12.4	1.8	14.2
FY20	7.5	1.4	8.8	6.7	1.2	7.9	13.6	2.5	16.1
FY21	12.2	2.5	14.7	6.0	1.2	7.2	12.0	2.5	14.5
FY22	16.4	3.8	20.1	6.3	1.4	7.7	12.7	2.9	15.7
FY23	17.8	4.4	22.2	7.0	1.7	8.7	14.0	3.5	17.4
FY24	27.7	6.5	34.2	7.2	1.7	8.9	14.9	3.5	18.4
H1FY25	35.9	8.4	44.4	7.7	1.8	9.5	15.7	3.7	19.4

Source: CMIE Prowess, AMFI, MF1 Explorer, NSE EPR. Note: Passive mutual funds track an index by maintaining a portfolio that mimics the underlying assets of an index. Active funds are those which involve active investment decisions on the part of the fund manager; share of these funds has been arrived at by subtracting passive AUM

Equity Market Data (November 2024)

Broad Based Indices

Source: NSE India

Market Data

Index Performance 29 Nov 24	1M	1Y	3Y
Nifty 50	-0.26	21.27	13.76
Nifty Next 50	1.24	48.24	20.18
Nifty 200	0.12	26.38	15.93
Nifty 500	0.05	27.29	16.89
Nifty Midcap 150	0.21	31.68	23.91
Nifty Smallcap 250	-0.13	34.52	24.77
Nifty Microcap 250	1.09	40.98	37.49
Theme/Sector			
Nifty Auto	-0.6	34.15	31.28
Nifty Bank	1.13	18.07	14.36
Nifty CPSE	-0.79	57.38	46.64
Nifty Defence	5.68	85.07	70.64
Nifty FMCG	-1.86	11.36	17.81
Nifty Infrastructure	-0.93	33.67	21.98
Nifty IT	6.78	35.02	9.28
Nifty Manufacturing	-0.81	37.54	23.94
Nifty Metals	-3.09	29.46	21.9
Nifty Oil and Gas	-2.09	31.98	15.76
Nifty Pharma	-2.16	37.88	18.54

Note: 1 Source NSE India, Statlane Research, 2 Index Performance is of Total Return Index, Performance above 1 year is CA

Index Performance 29 Nov 24	1M	YTD	1Y
S&P 500	5.87	28.07	33.89
Dow Jones Industrial Average	7.54	19.16	24.92
S&P Developed Ex US BMI	0.11	6.77	12.97
S&P Europe 350	-1.75	5.04	10.45
S&P Asia 50	-4.69	19.52	22.29
S&P EM BMI	-2.77	11.75	15.81

Note 1: Source: S&P Dow Jones Indices LLC and/or its affiliates. 2 Index performance based on total return (USD)

Fixed Income Data

29 Nov 24

Month back

Repo	6.50%	6.50%
1 Year CD	7.60%	7.51%
10 Year GOI	6.83%	6.84%
5 Year PSU	7.26%	7.42%
1 Year NBFC	7.73%	7.84%
3 Year NBFC	7.65%	7.73%
US 10 Year Treasury	4.24%	4.28%

Source: Statlane Research

As of 30 Nov 2024			Index Return %	
Indices	Yield (%)	Macaulay Duration Yrs	1M	1Y
Nifty 5Y SDL Index	7.17	4.25	0.44	9.75
Nifty 10Y SDL Index	7.30	7.09	0.29	11.09
NIFTY 10 yr Benchmark G-Sec	6.87	7.27	0.93	10.36
NIFTY AAA Low Duration Bond Index	7.70	0.71	0.54	7.45
NIFTY AAA Short Duration Bond Index	7.54	2.00	0.44	7.67
NIFTY G-Sec Jul 2031 Index	6.91	5.27	0.61	10.27
NIFTY BHARAT Bond - April 2031	7.28	4.88	0.32	9.37

Source: NSE India, Statlane Research

Commodities	11/29/24	11/29/23
Oil (WTI)	68.78	77.56
Gold	2651	2047
Silver	30.7	24.97

Source: Statlane Research

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