360 ONE

Outlook 2024

Navigating the winds of change

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Foreword

Navigating the Winds of Change

Welcome to *Outlook 2024: Navigating the Winds of Change* – a report that analyses the global and Indian macroeconomic landscape and growth expectations for the new year.

Just like the weathervane and eagle gracing our cover, emblematic of shifting directions and unwavering clarity, the financial landscapes of 2023 echoed this duality. Challenges and opportunities moved in tandem, shaped by the unpredictable winds of the market. The past year held a mirror to India's adaptability and resilience amidst global tremors, geopolitical unrest, humanitarian crises, and economic volatilities. Yet, amidst this, the financial world has soared to its highest peaks.

Looking ahead, 2024 whispers of a different cadence – we see a picture of possible shifts and subtle changes. While economic growth might taper, India stands resolute as one of the fastest-growing economies. The equity market continues to outshine, drawing global attention with sturdy corporate and economic foundations. The balance sheets, both corporate and government, offer stability in turbulent times—a beacon of hope amid potential slowdowns.

India's narrative in the global market is evolving, seizing opportunities in the wake of geopolitical shifts. As China's influence wanes, India emerges as a strategic player, capturing the confidence of investors worldwide. The resilience shown by mid- and small-cap stocks in 2023 indicates a broader market performance, unlike its global counterparts. The Indian economic landscape hints at an underlying hope, evident in a steady cycle of promise and possibility over the next two to three years.

We expect 2024 to be an eventful year on various fronts including economic, technological, domestic politics, and geo-political. There is a perceptible shift in sentiment - a newfound confidence driven by a series of better-than-expected economic data and the strong performance of risk assets.

In the unfolding chapters of 2024, may we embody the eagle's keen vision, staying resolute yet adaptable, and with unwavering resolve. Here's to soaring high through the year ahead.

Warm regards,

Karan Bhagat
Founder, MD & CEO, 360 ONE

Riding the Winds of Resilience: 2023's Market Ascent

2023 emerged as a triumphant year for risk assets, particularly in the last quarter. Global equities, excluding China, yielded returns exceeding 15%. The Nasdaq, which lagged in 2022, is now clocking returns surpassing 50%, vying for the best performance since the Great Financial Crisis. Indian equities showcased an exceptional 2023, demonstrating broader gains relative to global markets, where gains were narrow. The year witnessed an evident "risk on" sentiment, signified by even Bitcoin soaring by over 150%.

However, the outset of 2023 was less optimistic, contrasting sharply with the current upbeat mood. 2022 posed challenges for financial assets, marked by significant drawdowns and heightened volatility. Most global equity markets experienced a downturn of around 15%. Although the Nifty outperformed with a modest 4.3% return, the broader markets delivered negative returns. Sharp hikes in interest rates resulted in considerable losses in bonds.

The economic landscape grappled with unresolved questions about inflation and growth, leaving uncertainties regarding their direction and severity. The inflation debate was dominated by peak inflation vs peak central bank hawkishness. Similarly, growth prospects were framed as "slow growth" versus "mild recession."

From an initial perspective, 2023 eventually turned out to be a "positive surprise."

Global Market Performance

Throughout 2023, global equity markets decisively favoured a "risk-on" sentiment. Although sporadic "risk-on" phases were seen, equity markets favoured a "Goldilocks Scenario," characterised by a slowdown in growth as against a deep recession. This allowed central bankers to pause rate hikes towards the end of the year and markets to anticipate the rate-cutting phase to start sometime in 2024.

Both the global economy and the corporate sector displayed remarkable resilience, surpassing consensus expectations with better than-anticipated growth rates. This resilience, coupled with inflation trending down, fuelled global equities.

The last quarter saw a significant upswing in equities, primarily due to the potential shift in monetary policy.

The recent Federal Reserve policy meeting fuelled the bullish sentiments for risk assets. The unexpected "Fed pivot" triggered a substantial reassessment among investors. In the last quarter, markets were preparing for a pivot in response to improving economic trends, resolving supply chain issues, and the impact of sharp rate hikes, resulting in declining inflation.

The recent Fed policy meeting signalled this "pivot" earlier than expected, pleasantly surprising the markets. It is anticipated that the Fed's actions will prompt similar moves by other central banks in the near future.

Chinese equities, however, defied expectations this year. Initially perceived as a consensus trade in early 2023 due to low valuations and potential economic resurgence from the post-COVID-19 “re-opening trade”, Chinese equities, after showing initial signs of an upswing, faltered to deceive. Structural challenges in real estate and trade conflicts impacted Chinese growth, shifting investor sentiment significantly, with China being deemed "uninvestable."

Overall, however, it was a positive year following a lacklustre 2022.

Source: Bloomberg and 360 ONE

Performance in local currency

	Index Level	Absolute 1M	3M	6M	1Y	CYTD	CAGR 2Y	3Y	5Y	10Y	15Y	20Y
Global Indices												
Nasdaq 100 Stock Index	16878	5.6	16.0	14.9	53.6	54.3	1.7	9.9	21.9	16.8	19.5	13.0
S&P 500	4775	4.7	11.7	10.3	24.2	24.4	0.5	8.8	14.1	10.0	12.0	7.6
Dow Jones (US)	37545	6.1	11.7	11.4	13.1	13.3	2.2	7.5	10.4	10.4	8.6	10.4
CAC 40 (France)	7569	3.8	7.0	5.4	16.4	16.9	3.3	11.1	10.3	6.0	6.1	3.8
DAX (Germany)	16706	4.2	9.5	5.6	19.8	20.0	3.0	7.1	9.5	5.8	8.8	7.5
FTSE 100 (UK)	7698	2.8	0.9	3.3	3.0	3.3	2.2	5.8	5.9	1.4	3.9	2.7
Shanghai SE composite (China)	2899	-4.7	-6.6	-8.0	-5.4	-6.2	-10.5	-5.1	3.0	3.4	3.0	3.4
Hang Seng (Hong Kong)	16340	-6.9	-6.4	-13.1	-16.6	-17.4	-16.1	-14.8	-8.6	-3.4	0.9	1.3
Nikkei 225 (Japan)	33306	-1.0	3.1	1.9	26.1	27.6	7.6	7.7	11.5	7.5	9.3	5.9
Kospi (Korea)	2603	4.2	5.7	0.8	12.3	16.4	-7.1	-2.5	5.1	2.7	5.8	6.0
Straits Times (Singapore)	3140	1.5	-2.3	-1.6	-3.6	-3.4	0.5	3.4	0.8	0.0	3.9	3.0
Nifty (India)	21441	8.3	9.0	14.7	19.0	18.4	12.3	16.0	14.9	13.1	14.2	12.9

Performance in USD terms

	Index Level	Absolute 1M	3M	6M	1Y	CYTD	CAGR 2Y	3Y	5Y	10Y	15Y	20Y
Nasdaq 100 Stock Index	16878	5.6	16.0	14.9	53.6	54.3	1.7	9.9	21.9	16.8	19.5	13.0
S&P 500	4775	4.7	11.7	10.3	24.2	24.4	0.5	8.8	14.1	10.0	12.0	7.6
Dow Jones (US)	37545	6.1	11.7	11.4	13.1	13.3	2.2	7.5	10.4	8.6	10.4	6.6
CAC 40 (France)	8338	4.5	11.5	6.4	20.7	20.2	2.0	7.4	9.6	3.7	4.3	3.2
DAX (Germany)	18404	4.9	14.1	6.7	24.3	23.4	1.5	3.6	8.7	3.5	7.0	6.8
FTSE 100 (UK)	9783	3.6	5.4	3.2	8.6	8.5	-0.5	3.6	2.8	-1.1	3.0	1.0
Shanghai SE composite (China)	406	-4.6	-4.4	-6.8	-7.8	-9.4	-15.5	-7.9	2.3	1.7	2.7	4.1
Hang Seng (Hong Kong)	2092	-7.2	-6.3	-12.9	-16.7	-17.5	-16.2	-15.0	-8.6	-3.5	0.8	1.3
Nikkei 225 (Japan)	234	4.0	7.7	2.7	17.7	17.4	-3.6	-3.2	6.1	4.2	6.0	4.4
Kospi (Korea)	2	4.9	10.3	1.6	10.5	13.4	-11.1	-7.6	2.2	0.6	5.7	5.6
Straits Times (Singapore)	2372	2.7	1.0	0.6	-1.7	-2.3	1.8	3.5	1.6	-0.4	4.4	4.3
Nifty (India)	258	8.5	9.2	13.1	18.4	17.8	6.7	11.3	11.0	9.8	10.2	9.6

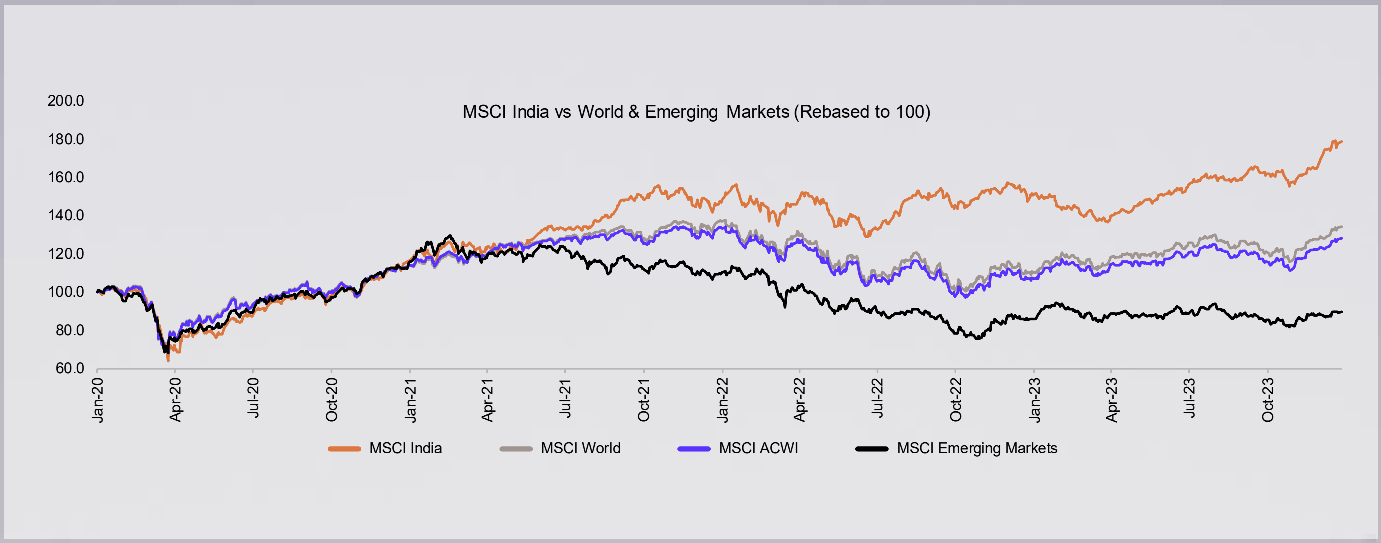
Source: Bloomberg and 360 ONE

Indian equities have continued their impressive outperformance, establishing themselves as a strategic allocation for many investors in this decade and beyond. This sentiment stems from several pivotal factors, with India's economic and corporate data showcasing strength both in absolute and relative basis.

Notably, corporate and banking balance sheets are in their best condition in a long time, and this trend is anticipated to continue for the foreseeable future. Furthermore, the government's balance sheet remains stable, offering leeway for increased spending during a global economic downturn.

Indian corporate earnings are expected to revert to their long-term range following a period of sluggish growth. Expectations hover between 14% to 17% for the next two years, with an emphasis on improved earnings quality, given that growth will primarily be fuelled by demand rather than cyclical factors.

India's positioning as a strategic player is progressively gaining recognition among global investors and businesses. The country is enjoying a sweet spot due to geopolitical trends, capitalising on the decline of China's strategic stature in the Western world. This shift in perception has further bolstered confidence in India's growth prospects and enhanced its appeal as an investment destination.



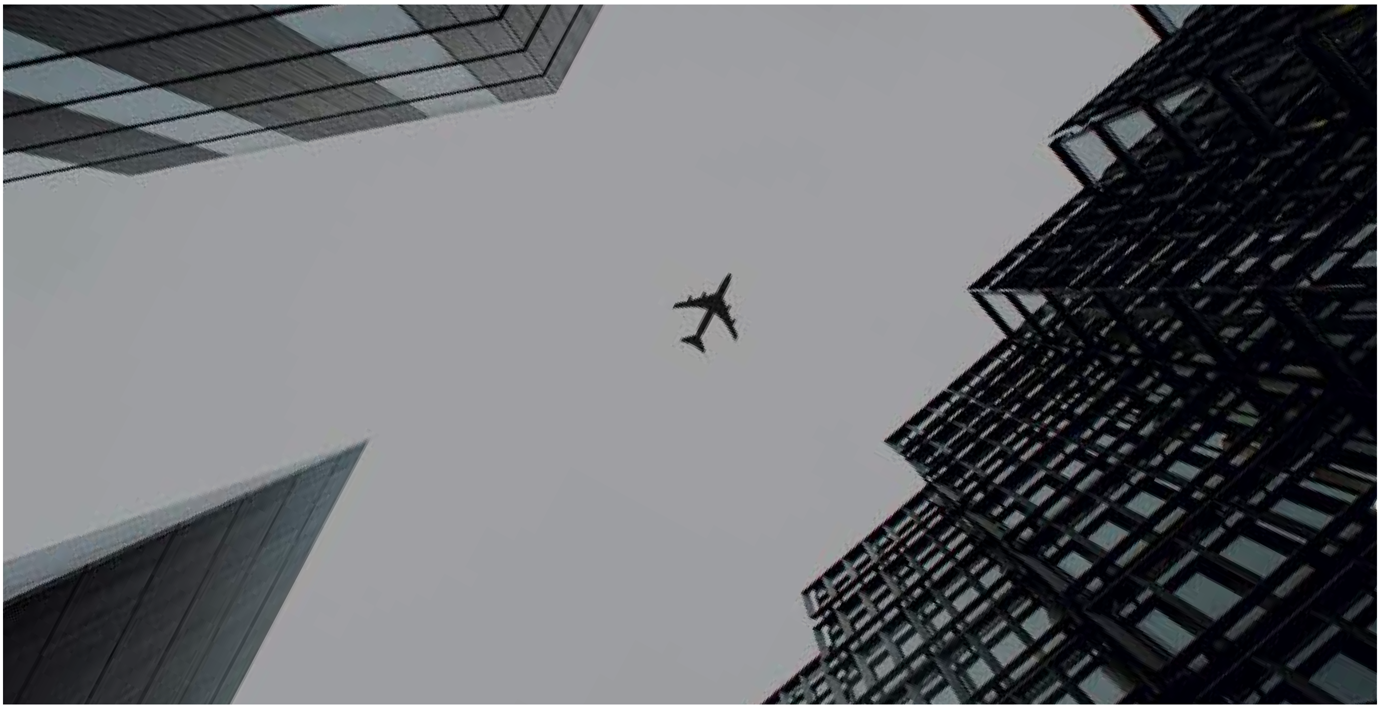
Source: Bloomberg and 360 ONE

Domestic Equity Performance

Indian markets stood out for the broad-based nature of market performance relative to global peers, where performance is attributed to narrow segments of the market. The mid- and small-cap stocks outperformed the larger peers by a significant margin, making up for a negative 2022.

The outperformance of the broader market has been significantly driven by strong domestic flows and corporate performance being better than earlier expected.

		Absolute					CAGR					
	Index Level	1M	3M	6M	1Y	CYTD	2Y	3Y	5Y	10Y	15Y	20Y
Indian Indices												
Sensex	71337	8.1	8.2	13.3	17.8	17.3	11.7	14.9	14.9	13.0	14.4	13.3
Nifty 50	21441	8.3	9.0	14.7	19.0	18.4	12.3	16.0	14.9	13.1	14.2	12.9
Bse 100	22088	8.6	9.6	15.6	20.6	19.9	13.0	16.8	14.9	13.4	14.6	13.4
Bse 200	9503	8.8	10.3	17.6	22.1	21.0	13.5	17.8	15.7	14.2	15.2	13.4
Bse 500	30277	8.5	10.6	18.7	24.3	23.0	14.0	18.9	16.1	14.5	15.4	13.6
Bse Midcap	36140	7.5	12.7	27.8	44.6	42.8	21.8	26.9	19.0	18.5	17.7	14.5
Nifty 500	19149	8.5	10.8	19.2	25.2	24.0	14.3	19.1	16.2	14.6	15.3	13.5
Nifty Midcap	45388	7.9	12.5	29.2	46.5	44.0	23.8	30.4	20.9	19.0	18.4	15.9
Nifty Next 50	52435	12.5	16.1	21.9	25.7	24.3	12.4	17.8	13.6	15.1	17.9	14.6
Nifty Small Cap	14866	7.5	18.4	39.1	56.0	52.8	17.1	29.1	18.7	15.9	15.9	NA
BSE Small Cap	42203	6.0	13.4	31.0	50.2	45.9	22.0	33.7	23.9	20.6	17.9	15.3



Source: Bloomberg and 360 ONE

Global Yields

While equities moved up through the year, globally, bonds have had one of the worst years in recent memory till October. The laser focus of central bankers on breaking the back of stubborn inflation caused significant losses in bonds of all types across the globe for the first nine months.

Post-October, the markets anticipated a move by central bankers to a less hawkish scenario as trends in economic activity, supply chain issues being sorted, and the impact of the sharp rate hikes resulted in inflation coming down. Global bond yields peaked and started their journey downwards. The recent Fed policy meeting signalled the "pivot" to a more normalised policy and that resulted in yields moving close to or below last year's level.

					Yield Change (bps)		
10Y Sovereign Yield	Current	1M	3M	1Y	1M	3M	1Y
US	3.90	4.47	4.54	3.75	-57	-64	15
Eurozone	1.98	2.64	2.81	2.40	-66	-83	-42
Germany	1.98	2.64	2.81	2.81	-66	-83	-42
Japan	0.63	0.77	0.74	0.43	-15	-11	19
UK	3.50	4.28	4.32	3.63	-78	-82	-13
Australia	4.01	4.55	4.40	3.83	-54	-39	18
China	2.58	2.71	2.71	2.85	-13	-12	-27
S Korea	3.27	3.78	4.06	3.64	-51	-79	-37
Indonesia	6.50	6.66	6.87	6.94	-16	-37	-44
India	7.18	7.27	7.14	7.32	-9	4	-14

Cumulative Rate Hikes

Country / Central bank	Cumulative rate hikes (bps)	
	Since Dec-20	For 2023
US / Fed	525	100
UK / BoE	515	175
Euro / ECB	450	200
India / RBI	250	25

Country / Central bank	Cumulative rate hikes (bps)	
	Since Dec-20	For 2023
Japan / BoJ	0	0
Australia / RBA	425	125
Indonesia / Bank Indonesia	225	50
Brazil / Banco Central	975	-200

Source: Bloomberg and 360 ONE

Domestic Yields

In India, yield movement has been relatively more stable. The RBI Monetary Policy Committee (MPC) surprised the market and decided to pause in March. The MPC committee's actions were likely influenced by the improvement in the current account deficit, moderating inflation drivers, and growth outlook which could be impacted by a lag.

Bond yields in India made their initial downward move in the first quarter of the financial year on the back of RBI's earlier-than-anticipated pause and remained in the zone, specifically, due to lower energy prices.

	Dec-23	Sep-23	Jun-23	Last 3M Avg	2023	2022	2021	2020	2019
Repo Rate	6.50	6.50	6.50	6.50	6.48	4.96	4.00	4.26	5.73
3M T-Bill	6.96	6.80	6.71	6.92	6.79	5.13	3.39	3.62	5.74
12M T-Bill	7.10	0.77	6.87	7.11	7.03	5.86	3.81	3.87	5.92
Yields									
3Y G-Sec	7.09	7.26	7.05	7.21	7.13	6.56	5.00	4.92	6.45
10Y G-Sec	7.18	7.22	7.12	7.26	7.22	7.19	6.19	6.04	6.87
2Y AAA	7.86	7.64	7.69	7.84	7.72	6.69	4.90	5.37	7.38
3Y AAA	7.77	7.79	7.61	7.80	7.73	6.96	5.34	5.65	7.50
5Y AAA	7.81	7.71	7.67	7.78	7.72	7.23	6.06	6.23	7.75

Source: Bloomberg and 360 ONE

Currency

The dollar, which had appreciated against most currencies in 2021 and 2022, weakened for the year and specifically in the last quarter as the hiking cycle was deemed to come to an end in the US and the popular sentiment was that the Fed would begin cutting rates sometime in 2024. The exception for the year was the Japanese Yen, a major loser against the dollar, as the Bank of Japan (BoJ) continued with its accommodative stance.

The INR was relatively stable and currently has one of the lowest one-year implied volatility since the early 2000. The stability of the Indian rupee helped ease inflation.

		Absolute					CAGR					
	Index Level	1M	3M	6M	1Y	CYTD	2Y	3Y	5Y	10Y	15Y	20Y
Currency												
Dollar Index	101.5	-1.9	-4.5	-1.2	-2.7	-2.0	2.8	4.0	0.9	2.3	1.5	0.8
USDINR	83.2	-0.2	-0.1	1.4	0.7	0.6	5.3	4.2	3.5	3.0	3.7	3.0
USDGBP	0.8	-1.0	-4.4	-0.1	-5.2	-5.0	2.6	2.2	-0.1	2.6	0.8	1.7
USDEUR	0.9	-0.9	-4.3	-1.2	-3.7	-3.1	1.2	3.4	0.6	2.2	1.6	0.7
USDJPY	142.4	-4.7	-4.5	-0.8	7.2	8.6	11.6	11.2	5.0	3.1	3.1	1.4
USDCNY	7.1	-0.1	-2.3	-1.3	2.6	3.5	5.9	3.0	0.7	1.6	0.3	-0.7
USDSGD	1.3	-1.2	-3.3	-2.2	-1.8	-1.2	-1.3	-0.2	-0.7	0.4	-0.6	-1.2
USDKRW	1294.2	-0.9	-4.0	-0.9	1.5	2.7	4.4	5.5	2.8	2.0	0.1	0.4
USDCAD	1.3	-3.2	-2.4	0.3	-2.8	-2.6	1.5	0.8	-0.6	2.2	0.5	0.1
USDAUD	1.5	-3.5	-6.3	-2.2	-1.4	-0.2	2.9	3.7	0.7	2.7	0.0	0.5
USDBRL	4.8	-1.7	-3.4	1.1	-7.6	-8.8	-7.8	-2.6	4.2	7.4	4.8	2.6
USDTWD	31	-2.1	-3.8	-0.2	0.9	0.8	5.7	3.3	0.1	0.3	-0.4	-0.5
USDRUB	92.3	3.6	-4.8	9.3	34.2	24.4	12.0	7.6	6.1	11.0	7.9	5.9

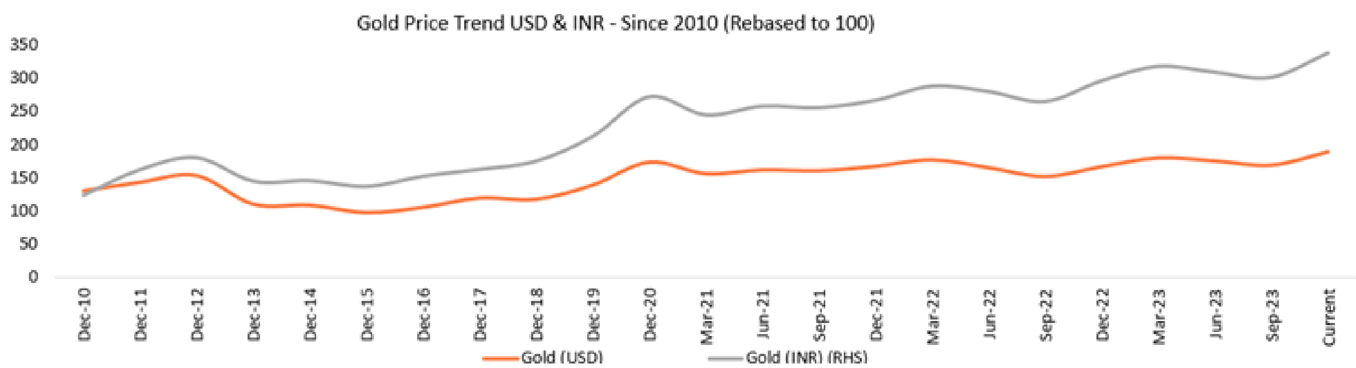
Source: Bloomberg and 360 ONE

Commodities

Commodities had a challenging year on both demand and growth concerns. A big surprise was the energy complex, which corrected sharply. In a year with geo-political events like the Ukraine and Israel conflict involving players and regions that are major producers of oil, along with cuts by the Organisation of the Petroleum Exporting Countries (OPEC), would have in most circumstances caused spikes, however crude prices have remained surprisingly benign.

		Absolute					CAGR					
Commodity	Index Level	1M	3M	6M	1Y	CYTD	2Y	3Y	5Y	10Y	15Y	20Y
Crude Oil (USD/bbl)	81	0.6	-13.7	9.3	-3.4	-5.6	3.2	16.5	8.3	-3.2	4.7	5.1
Coal (USD/mt)	146	19.3	-9.3	15.9	-63.7	-64.0	-7.2	22.1	7.6	5.4	4.5	NA
Natural Gas (USD/MMBtu)	3	-10.7	-4.0	-8.6	-49.8	-43.0	-17.3	0.4	-6.4	-5.4	-5.7	-4.3
Gold (USD)	2068	3.3	8.8	7.5	15.0	13.4	6.9	3.2	10.3	5.5	5.9	8.4
Silver (USD)	24	-0.4	6.0	6.3	2.1	1.1	2.6	-2.1	10.0	2.1	5.5	7.3
Palladium (USD)	1177	9.7	-4.4	-10.1	-32.9	-34.3	-22.3	-20.5	-1.3	5.3	13.0	9.4
Iron Ore (USD)	131	3.4	13.7	24.0	23.3	17.5	6.2	-5.9	13.2	0.0	NA	NA
Aluminium (USD)	2283	4.9	3.6	8.2	-3.4	-2.8	-10.3	4.1	3.8	2.9	3.0	1.8
Copper (USD)	8484	1.8	5.6	0.7	1.9	1.4	-6.0	3.0	7.4	1.5	7.5	6.7
Lead (USD)	2030	-6.9	-8.5	-4.4	-12.6	-13.1	-6.2	1.4	0.5	-0.9	5.3	5.2
Nickel (USD)	16279	2.3	-12.6	-19.0	-44.6	-45.5	-10.1	-1.3	8.6	1.4	3.6	-0.1
Tin (USD)	24629	4.3	-4.5	-9.0	3.0	-0.5	-21.4	6.5	4.9	0.7	6.2	6.8
Zinc (USD)	2588	1.4	4.1	11.6	-13.3	-13.8	-14.7	-2.8	0.5	2.2	5.8	4.9

Gold



	Absolute				CAGR				
Net Flows	1M	3M	6M	1Y	2Y	3Y	5Y	10Y	CYTD
Gold (USD)	3.3	8.8	7.5	15.0	6.9	3.2	10.3	5.5	13.4
Gold (INR)	3.1	8.7	9.0	15.7	12.5	7.5	14.1	8.6	14.0

Gold has experienced a good year, capitalising on a weakened dollar and peak in the rates cycle. After weathering years of negative performance, the precious metal defied expectations. This rally was further fuelled by strategic moves from central banks, coupled with a surge in some level of safe haven buying by investors.

Source: Bloomberg and 360 ONE

The Macro Picture

Global Inflation Landscape

Globally, the inflation trajectory has been trending down, aligning it closely with the inflation target figures set by a majority of central bankers.

Inflation numbers of various countries

	Nov-23	Oct-23	Sep-23	Aug-23	Jul-23	3M Avg	6M Avg	2023	2022	2021	2020
United States	3.1	3.2	3.7	3.7	3.2	3.2	3.3	4.2	8.0	4.7	1.2
China	-0.5	-0.2	0.0	0.1	-0.3	-0.2	-0.2	0.3	2.0	0.9	2.5
European Union	2.4	2.9	4.3	5.2	5.3	3.2	4.3	5.7	8.4	2.6	0.3
Japan	2.8	3.3	3.0	3.2	3.3	3.0	3.2	3.2	2.5	-0.3	0.0
Germany	3.2	3.8	4.5	6.1	6.2	3.8	5.0	6.2	6.9	3.1	0.5
United Kingdom	3.9	4.6	6.7	6.7	6.8	5.1	6.1	7.7	9.1	2.6	0.9
India	5.6	4.9	5.0	6.8	7.4	5.1	5.8	5.7	6.7	5.1	6.6
France	3.5	4.0	4.9	4.9	4.3	4.1	4.4	5.0	5.2	1.6	0.5
Italy	0.7	1.7	5.3	5.4	5.9	2.6	4.2	6.2	8.2	1.9	-0.1
Canada	3.1	3.1	3.8	4.0	3.3	3.3	3.4	3.9	6.8	3.4	0.7
South Korea	3.3	3.8	3.7	3.4	2.3	3.6	3.2	3.7	5.1	2.5	0.5
Russia	7.5	6.7	6.0	5.2	4.3	6.7	5.5	5.8	13.8	6.7	3.4
Australia			5.4			5.4	5.7	6.6	6.6	2.9	0.9
Brazil	4.7	4.8	5.2	4.6	4.0	4.9	4.4	4.6	9.3	8.3	3.2
Mexico	4.3	4.3	4.5	4.6	4.8	4.4	4.6	5.6	7.9	5.7	3.4
Indonesia	2.9	2.6	2.3	3.3	3.1	2.6	2.9	3.8	4.2	1.6	2.0
Saudi Arabia	1.7	1.6	1.7	2.0	2.3	1.7	2.0	2.4	2.5	3.1	3.4
Argentina	160.6	146.4	140.9	127.3	117.9	149.3	135.3	121.7	68.6	42.7	37.8
South Africa	5.5	5.9	5.4	4.8	4.7	5.6	5.3	6.0	6.9	4.6	3.3

While central bankers would continue to be vigilant, the lag impact of the rise in interest rates over the last two years, energy prices being in check, and supply-side issues being addressed have given confidence that inflation in 2024 is likely to trend downwards moving closer to the respective central banks inflation target numbers.

In India, the frequent food price shocks cause headline inflation to spike but are seen as transient and manageable. The persistent downturn in core inflation is reflective of the impact of strategic policy changes and slower global growth. The stable rupee, favourable energy prices, and a prudent fiscal policy, increase the probability of a lower inflation trajectory, inching closer to the RBI's comfort zone.

Source: Bloomberg and 360 ONE

Growth Expectations

GDP Growth is expected to slow down in 2024 as the impact of the sharp increases in interest rates work through economies. The consensus expectation is of a slowdown and not a recession. India is likely to remain one of the fastest-growing economies and has a fiscal situation that is not excessive.

	Real GDP Growth			
	2021	2022	2023 E	2024 E
United States	5.9	2.1	2.1	1.5
China	8.5	3.0	5.0	4.2
Japan	2.2	1.0	2.0	1.0
Germany	3.2	1.8	-0.5	0.9
United Kingdom	7.6	4.1	0.5	0.6
India	9.1	7.2	6.3	6.3
France	6.4	2.5	1.0	1.3
Italy	7.0	3.7	0.7	0.7
Canada	5.0	3.4	1.3	1.6
South Korea	4.3	2.6	1.4	2.2
Russia	5.6	-2.1	2.2	1.1
Australia	5.2	3.7	1.8	1.2
Brazil	5.0	2.9	3.1	1.5
Mexico	5.8	3.9	3.2	2.1
Indonesia	3.7	5.3	5.0	5.0
Saudi Arabia	3.9	8.7	0.8	4.0
Türkiye	11.4	5.5	4.0	3.0
Argentina	10.7	5.0	-2.5	2.8
South Africa	4.7	1.9	0.9	1.8

Source: IMF

Corporate Earnings

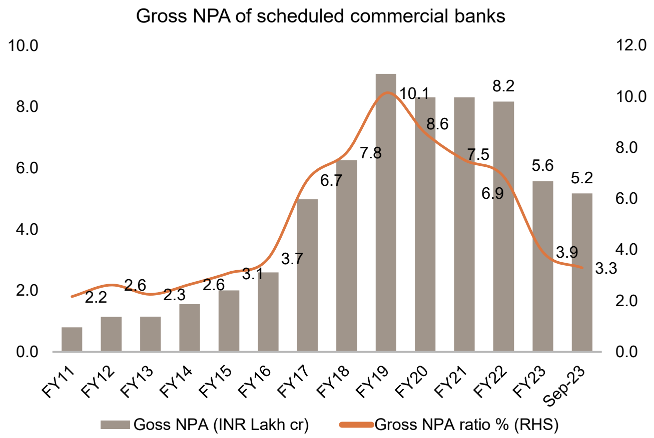
A key positive of the Indian markets is the improvement that is seen in corporate and banking balance sheets. In the last ten years, corporate India has shed the excess and cleaned up its balance sheet and the results have been visible in the last three years. Currently, the strength of corporate balance sheets bodes well for navigating dynamic economic environments and further adding capacity.

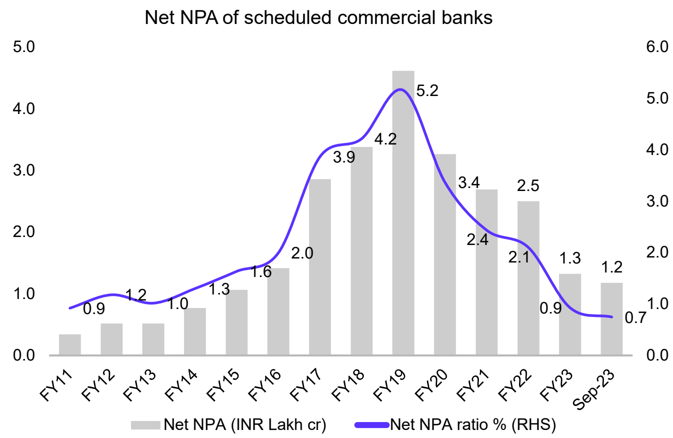
					CAGR			Multiplier		
					10Y	5Y	3Y	10Y	5Y	3Y
	FY13	FY18	FY20	FY23	2013 - 23	2018 - 23	2020 - 23	2013 - 23	2018 - 23	2020 - 23
Nifty 500 Ex Financials (All in INR Lakh cr)										
Market capitalization	44.1	94.1	79.8	180.8	15.2	13.9	31.3	4.1x	1.9x	2.3x
Shareholders funds	19.2	31.2	35.9	50.3	10.1	10.0	11.9	2.6x	1.6x	1.4x
Total Assets	50.6	81.3	98.5	127.2	9.7	9.4	8.9	2.5x	1.6x	1.3x
Debt	15.7	23.6	30.5	32.8	7.6	6.8	2.5	2.1x	1.4x	1.1x
Net debt	9.0	15.4	20.9	19.6	8.1	4.9	-2.1	2.2x	1.3x	0.9x
Net sales	42.5	57.3	67.7	102.9	9.3	12.4	15.0	2.4x	1.8x	1.5x
Operating profit	5.5	8.7	9.5	14.4	10.2	10.5	14.7	2.6x	1.6x	1.5x
Interest expenses	0.9	1.6	2.3	2.5	10.4	10.2	2.9	2.7x	1.6x	1.1x
Profit after tax	2.7	4.3	2.9	6.7	9.4	9.3	31.8	2.5x	1.6x	2.3x

Source: ACE Equity ; Nifty 500 Ex Financials

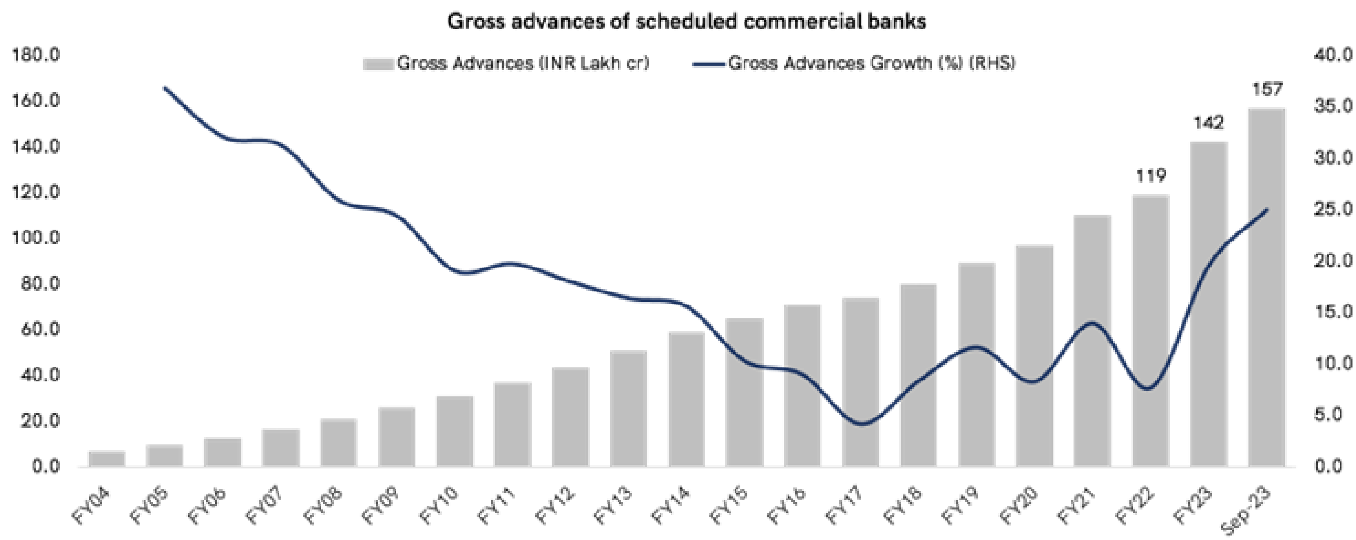
Improved Banks Balance Sheet

After a period of balance sheet clean-up, banks have regained their strength and are positioned for growth. The sector also saw a very benign credit cost environment, which boosted earnings and strengthened balance-sheets.





Source: Ace Equity ; All Listed Private & PSU Banks

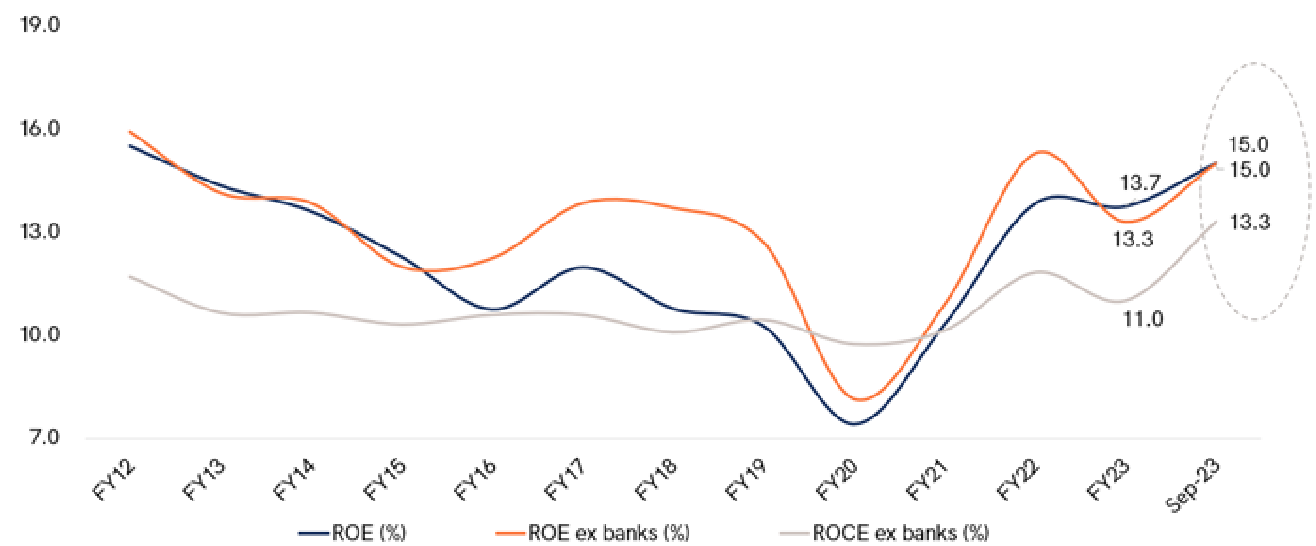


Source: Ace Equity ; All Listed Private & PSU Banks

Return Ratios – Nifty 500 Ex Financials

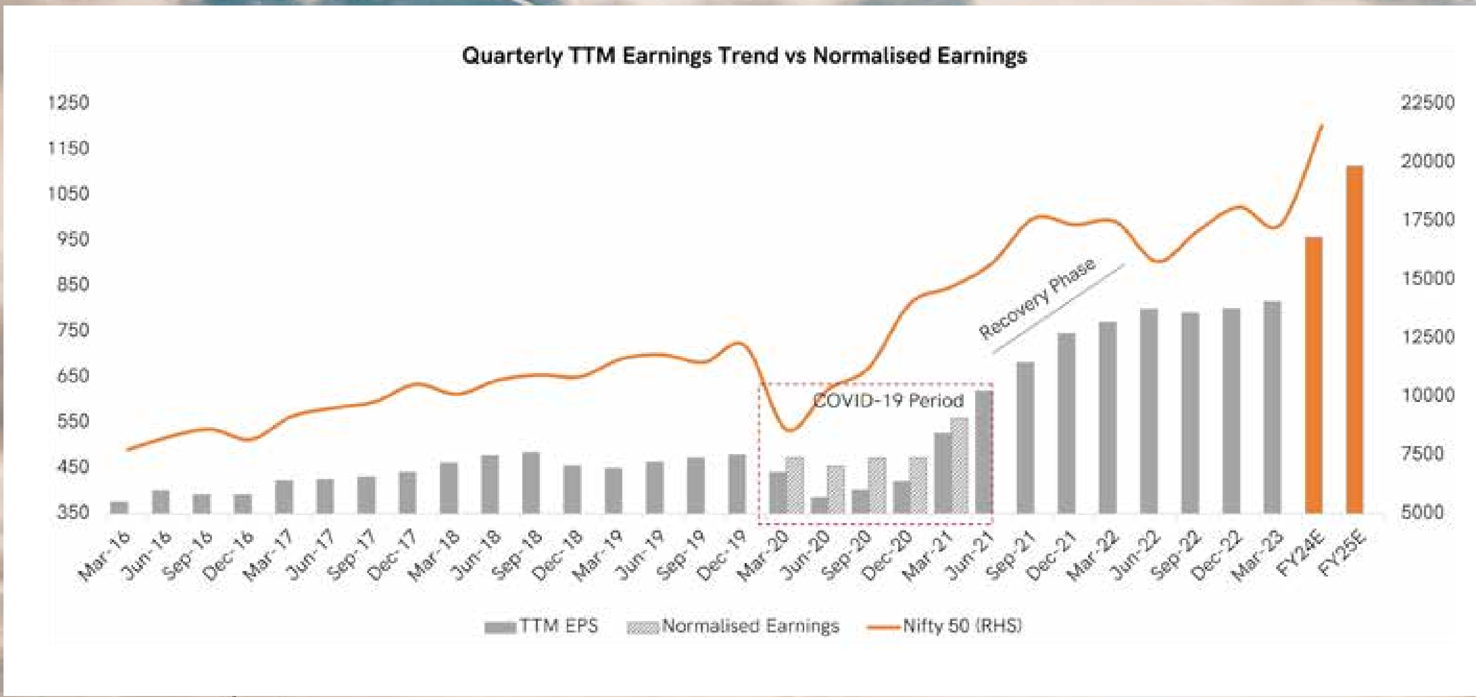
Ratios	FY13	FY18	FY20	FY23
Interest cover	4.1	5.07	2.83	4.65
Debt-equity ratio	0.92	0.76	0.85	0.65
Asset Turnover Ratio	0.76	0.71	0.69	0.81
ROE Ex Financials (%)	13	13.71	8.13	13.27
ROE (%)	13.31	10.77	7.4	13.72
Corporate Profit (NSE 500) to GDP (%)	3.96	2.89	1.99	4.06

Source: ACE Equity ; Nifty 500 Ex Financials



Source: Ace Equity ; All Listed Private & PSU Banks

Corporate earnings have also returned to their trend level post-COVID-19 and the low growth years of 2010 decade.



Source: Bloomberg

Valuations and Flows

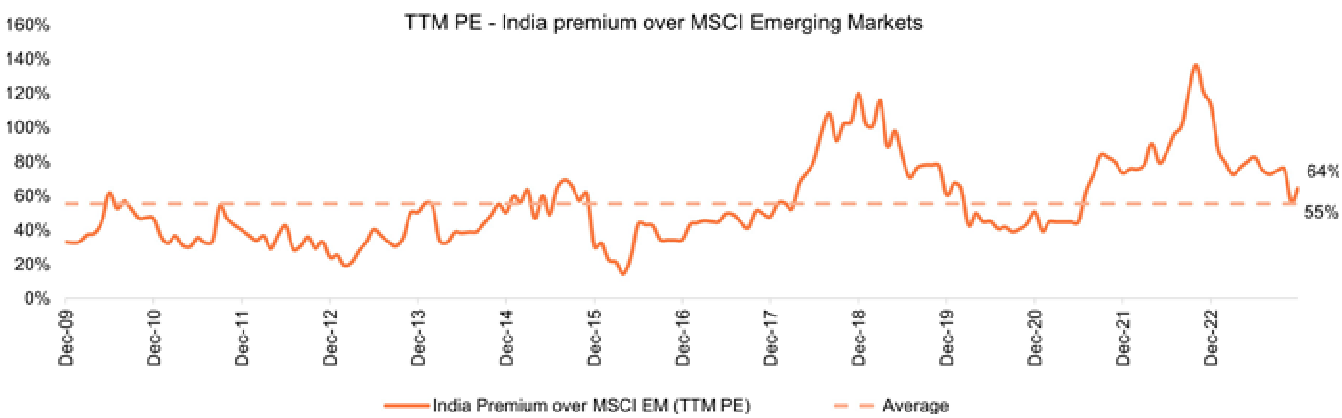
A look at historical averages

		Historical Avg		
	TTM PB	3Y Avg	5Y Avg	10Y Avg
Nifty 50	3.4	3.1	2.9	2.9
Nifty Next 50	4.1	3.9	3.5	3.2
Nifty 100	3.2	3.2	3.0	3.0
Nifty 200	3.3	3.2	3.0	2.9
Nifty 500	3.4	3.3	3.0	2.9
Nifty Midcap 100	3.9	3.1	2.8	2.5
Nifty Smallcap 100	4.1	3.2	2.6	1.9

While it is tough to argue with India's potential to grow faster and the tailwinds that are in place for the medium and long term, excessive discounting could potentially moderate future returns.

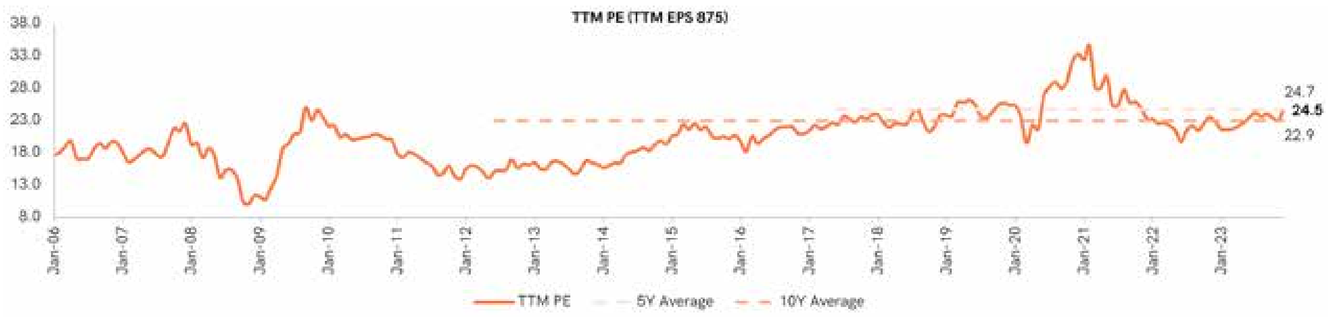
Valuations

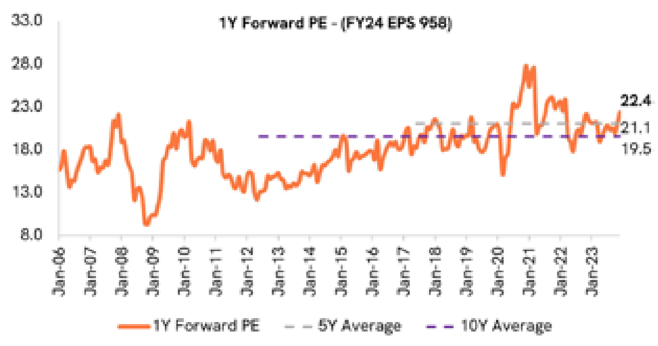
The valuations of Indian equities, while not over the top, are above long-term averages. However, mid- and small-cap segments in the last six months were buoyed by strong liquidity and better-than-expected results are trading significantly over their averages and their large-cap peers.

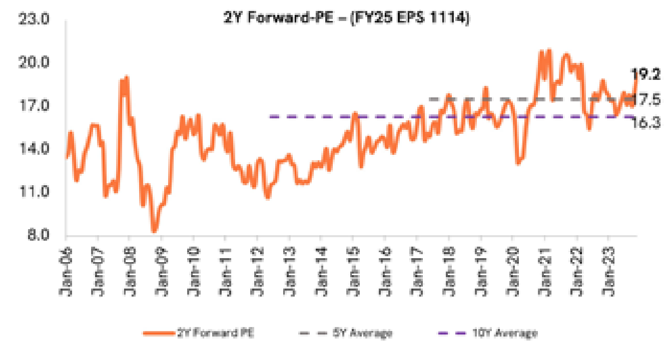


Source: Bloomberg and 360 ONE

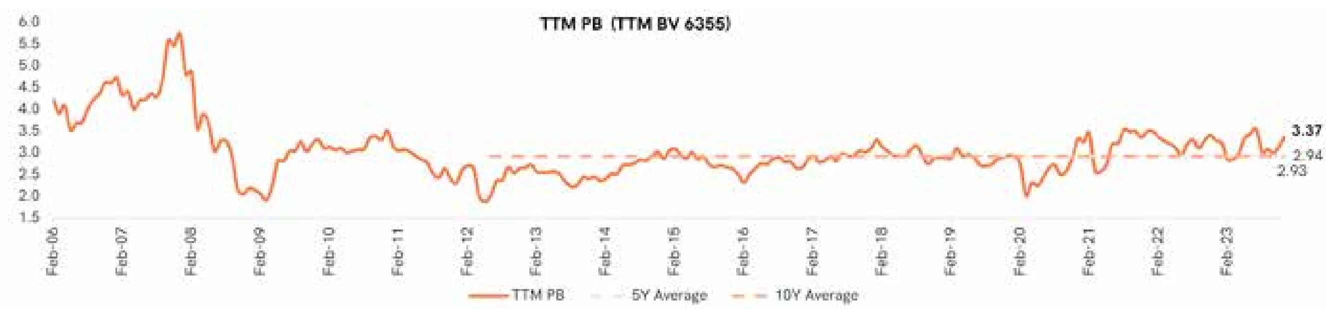
Nifty PE

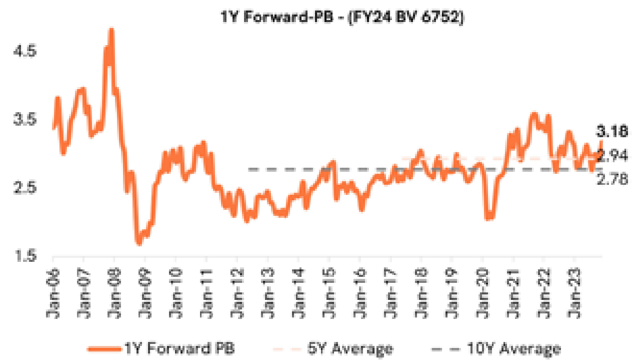


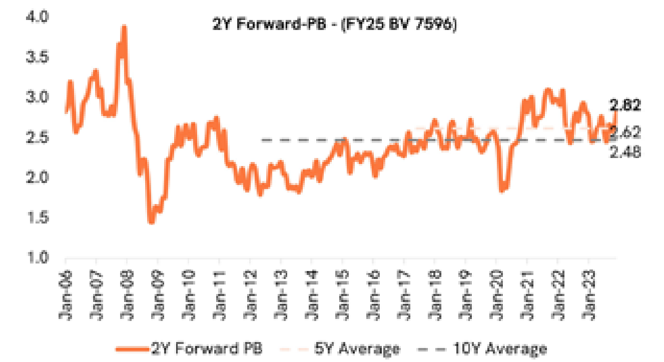




Nifty PB

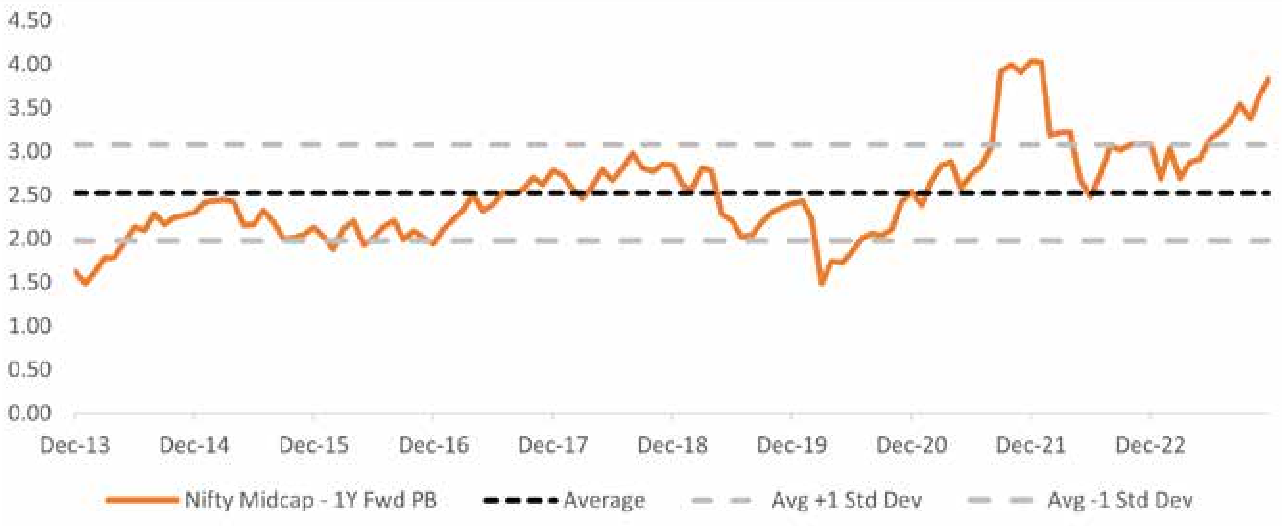




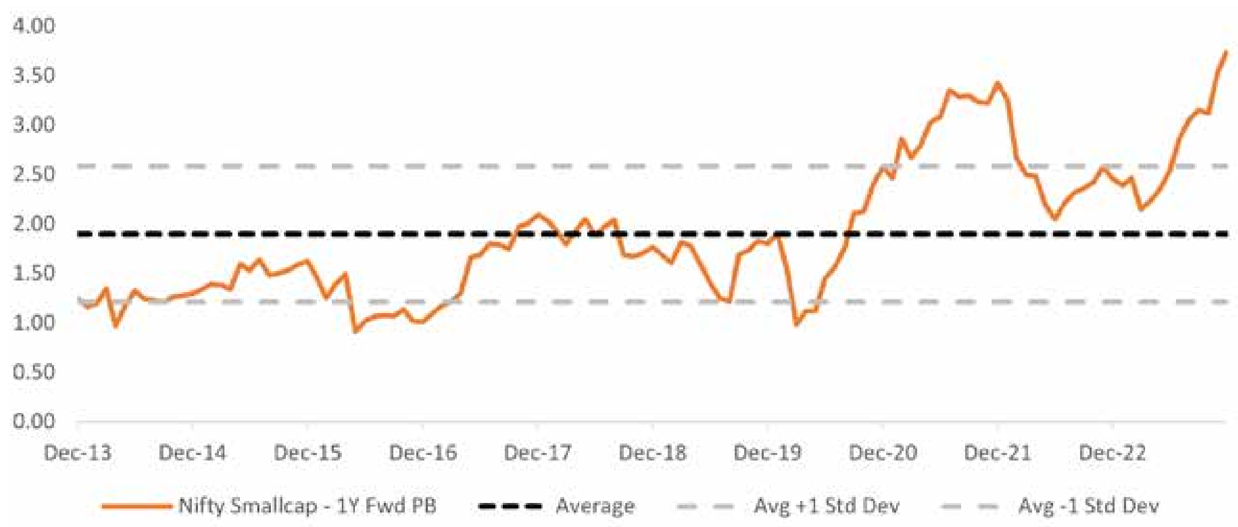


Source: Bloomberg and 360 ONE

Nifty Midcap 100 - 1Y Fwd PB

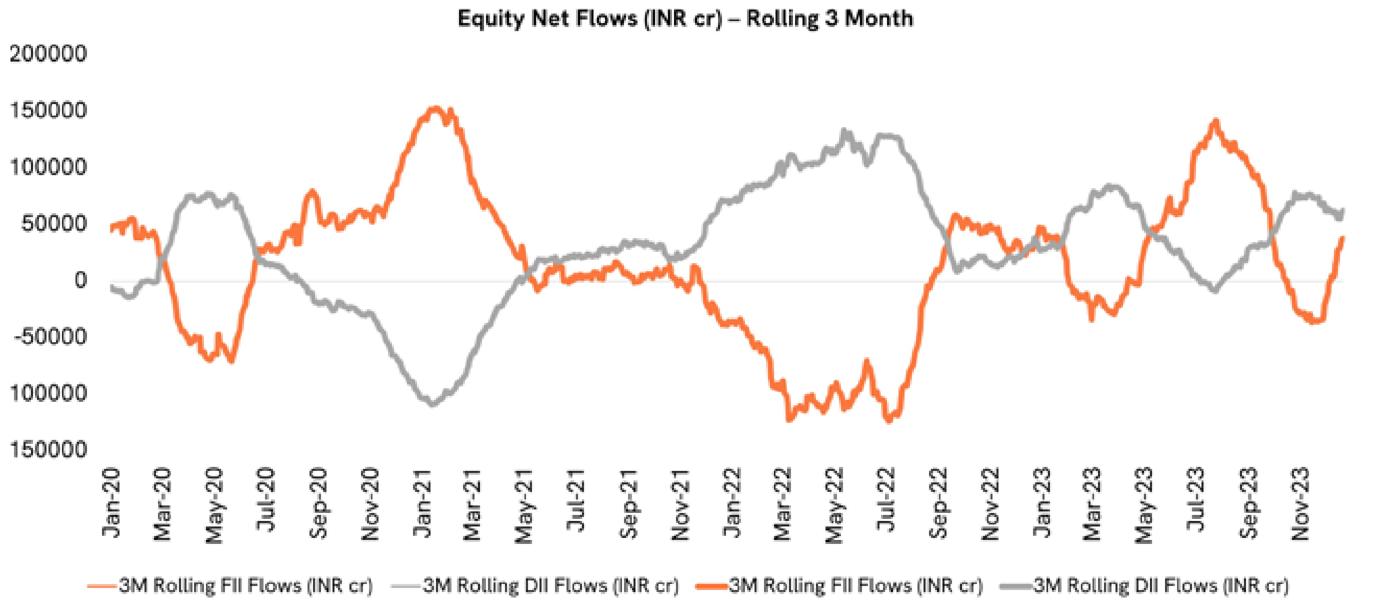


Nifty Smallcap 100 - 1Y Fwd PB



Source: Bloomberg and 360 ONE

Flows



Net Flows	1M	CY23TD	CY22	CY21	CY20
FII	65,429	1,65269	-1,25,635	25,769	1,72,849
DII	16,495	1,83,889	2,75,508	99,216	-36,169

As on 22-Dec-23

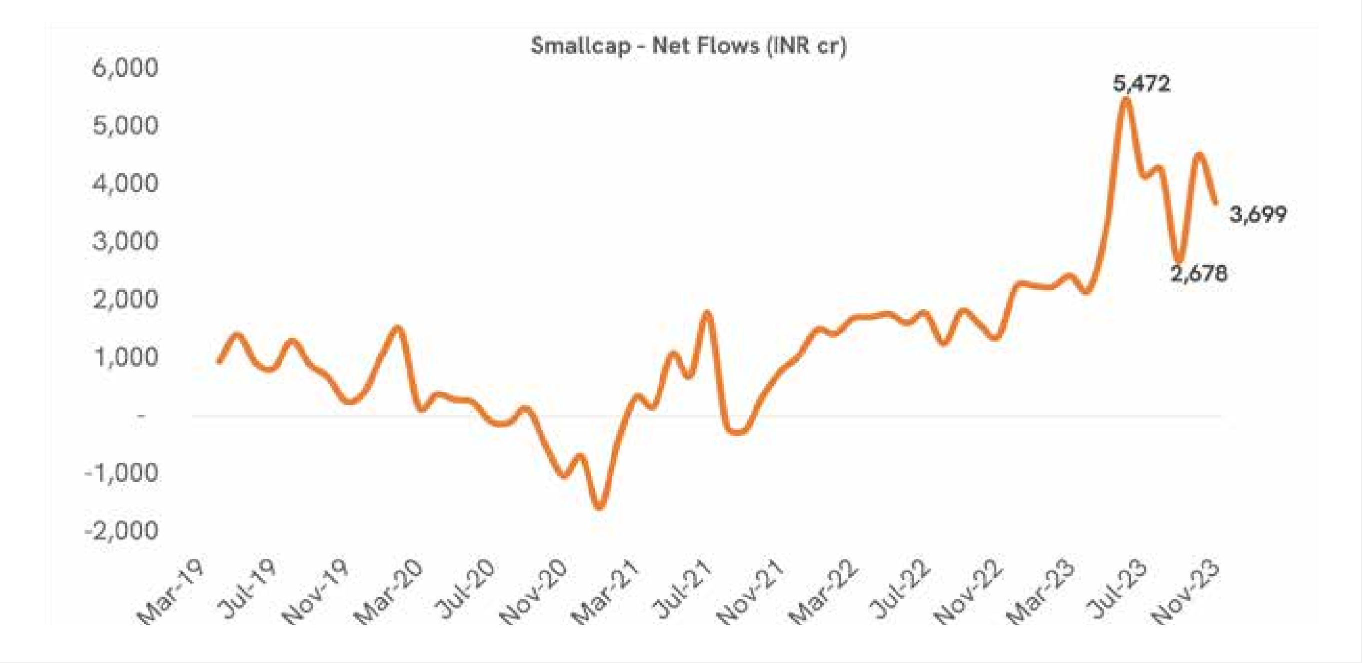
A key structural advantage that the Indian equity markets have developed in the last decade is a very strong pool of local capital investing in equities. Domestic investors, specifically retail, have been increasing the allocation to equities and showing equal, if not greater, bias over other asset classes. The emergence of a strong domestic pool of capital has acted as a counterweight to Foreign Institutional Investors (FIIs) and helped Indian equities become more resilient.

The appeal of India as a structural asset on the global stage has not gone unnoticed by FIIs. Despite being occasionally dissuaded by higher-than-peer valuations of Indian equities, FIIs are actively exploring avenues to penetrate the Indian markets. This is evident in the aggregate numbers spanning multiple years.

Source: Bloomberg and 360 ONE

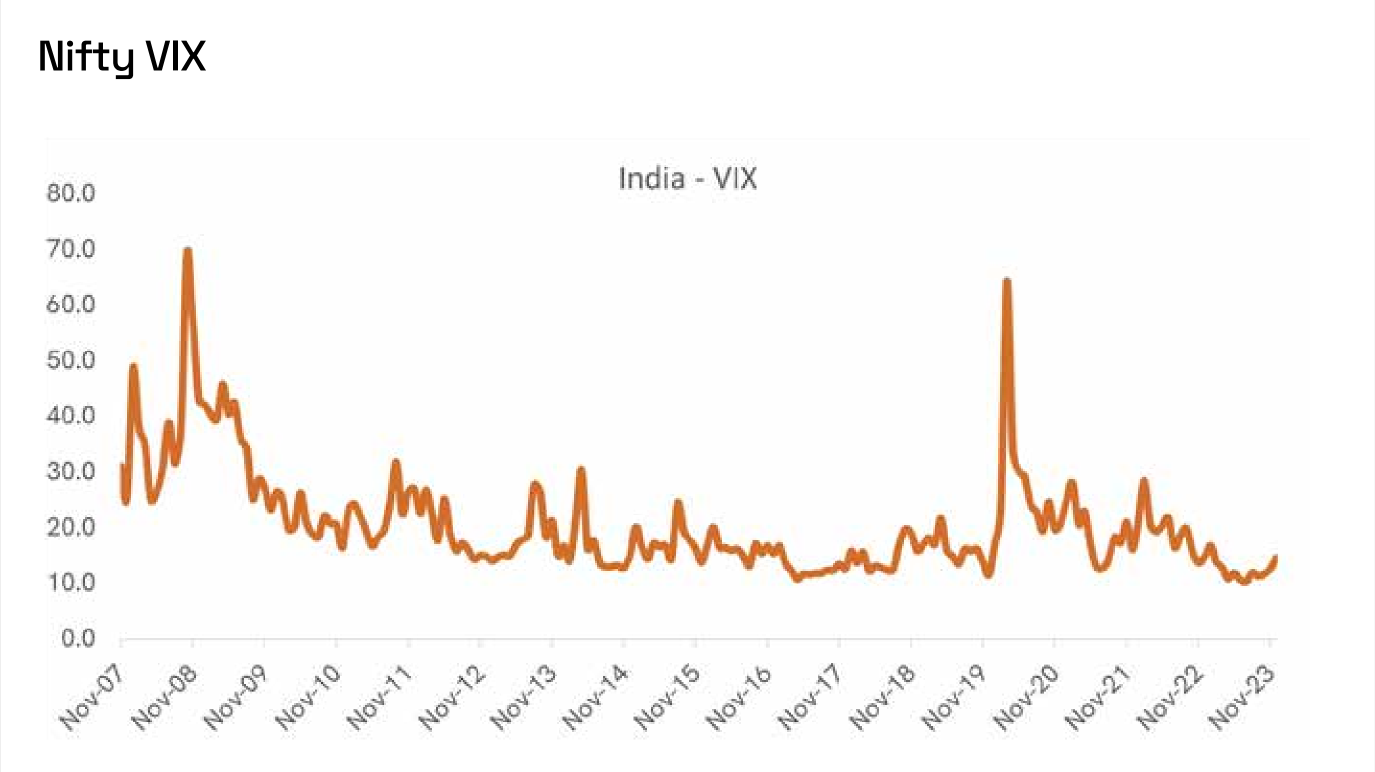
Flows into Small Cap Funds

While the emergence of domestic flows is a great opportunity, it could cause near-term excess. The flow of money into small-cap markets, while offering growth potential, has also led to inflated valuations and heightened possibilities of significant volatility.



Source: AMFI

A feature of Indian equities in 2023 is that it has exhibited very low volatility as can be seen in the chart below.



Source: Bloomberg

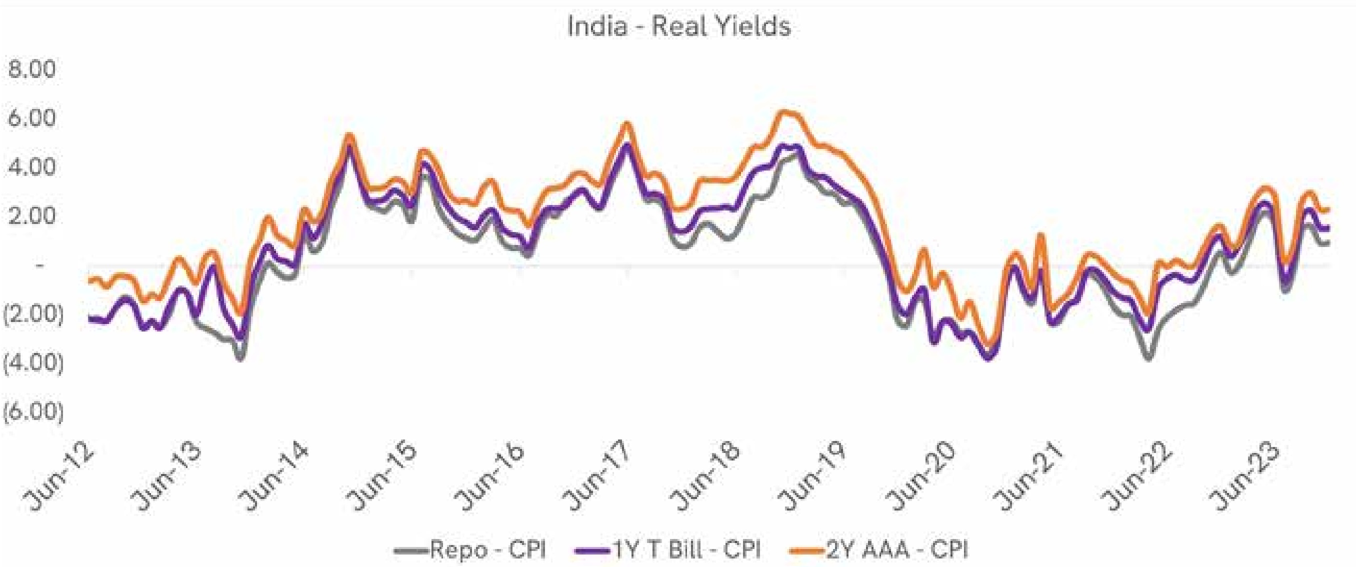
We expect 2024 to be an eventful year on all fronts – economic, technological, domestic politics and geo-political. Markets started in the year 2023 assuming a more circumspect stance. As we move into 2024, there is a perceptible shift in sentiment—a newfound confidence driven by a series of better-than-expected economic data and the strong performance of risk assets.

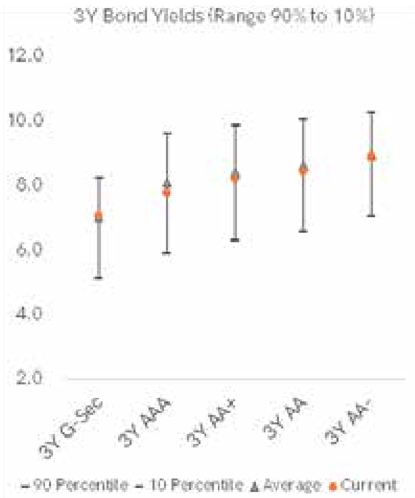
Many of the issues debated at the beginning of the year have progressed but not all have been resolved or have increased in complexity. On the other hand, newer and complex issues, such as the Israel- Palestine conflict, have added a significant layer of complexity and polarisation.

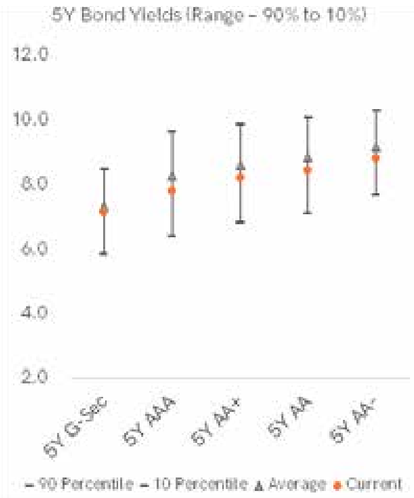
With equity markets exhibiting very low volatility, any unexpected developments or mismatch between actual events and expectations could result in a spike in volatility.

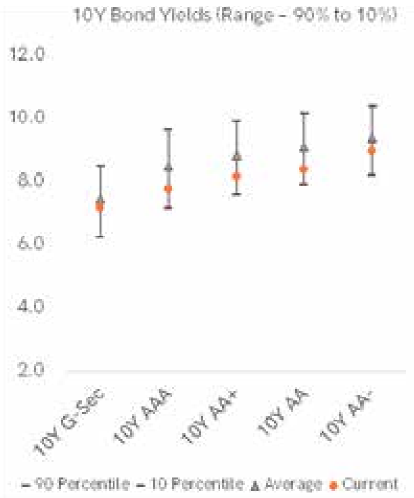
Fixed Income Valuations

Bond valuations by all measures currently stand at levels ranging from are reasonable to attractive. Real yields across the spectrum is at are at healthy levels and as we anticipate more moderate inflation in the upcoming year, the stage is set for prospective returns to be relatively attractive.









Source: Bloomberg

2024: Projections and Expectations

Looking ahead

Indian equities remain our preferred asset class for the medium to long term driven by our bullish outlook on India's growth potential. Our confidence stems from the ongoing global shifts in manufacturing preferences, a supportive policy stance, healthy corporate and banking balance sheets, and a thriving domestic market.

In the near term, the stretched valuations in the mid- and small-cap segments make us more inclined to tilt towards the large caps.

On the fixed-income side, we are positive towards all parts of the curve. The anticipated global softening of interest rates provide a solid foundation for this stance. Our expectation of a weakening dollar as well as investor and central bank demand suggests a tactical overweight position on gold.

Critical Headwinds on Our Radar

We remain vigilant of potential headwinds, including the geopolitical expansion of conflict zones disrupting supply chains, the persistent stickiness of inflation with a longer path to normalisation than market expectations, the strength of the dollar, a potential sharp decline in global growth affecting key players like the US, China, and Europe, the impact of artificial intelligence on employment, and the upcoming election season.

Indian Equity

Macro Overview
In 2024, fiscal and government policies will remain supportive of growth. However, the horizon is shadowed by geopolitical and trade disruption risks. Global currency volatility could add an additional layer of uncertainty, with the current account deficit being a key metric to be tracked. Overall, the Indian corporate sector benefits from ongoing medium-term macro tailwinds.

Monetary Policy Dynamics
For FY 2025, a nuanced shift is expected in monetary policy dynamics. The emphasis is to transition away from a singular focus on inflation as the Reserve Bank of India (RBI) and fellow central bankers strategically balance growth, inflation, and systemic risks.

Corporate Earnings Impact
Earnings are expected to see a continuation of above-trend performance. However, a high dispersion is projected among sectors. Banking and financial services will continue to have the highest influence on overall EPS trends. Key risks to earnings would be greater than the anticipated slowdown in global growth.

Valuations Assessment
Valuations persist in the expensive zone on an absolute and relative basis, albeit more subdued compared to the robust earnings growth observed last year. Large and Large-Midcap segment valuations are supportive of moderate medium to long-term returns. Conversely, the smallcap segments near bubble territory valuations could result in sharp drawdowns in the near term and lower prospective returns from the current levels.

Sentiment Analysis
An increasing number of global investors are considering India to be a strategic allocation. However, in the near term, India's relatively higher valuations could temper foreign flows. Domestic investors continue to remain positive on India's long-term strategic advantages, resulting in consistent equity flows.

Base Case Assumptions
The next few quarters could see increased volatility as investors' expectations remain very positive while the global landscape remains susceptible to disruptions and slowing growth. Nevertheless, anchored in the strategic advantages of the Indian economy, a resilient balance sheet, and the nascent stages of both the credit and capex cycle, Indian equities remain the preferred asset class over a 3-year horizon. The return profiles of equity are, however, expected to be patchy and rear-ended.

Fixed Income

Macro Overview
Domestic inflation is expected to stabilise after a spike primarily driven by food prices. The recent "Fed Pivot" and the weakening of the dollar are viewed positively. India's inclusion into global bond market indices presents a medium-term positive outlook for Indian fixed income.

Monetary Policy Dynamics
Anticipated to revert to normalisation mode following an intense focus on inflation control. The decrease in global yields and a weaker dollar are favourable factors. Policy decisions will likely be influenced by currency fluctuations, energy inflation, and liquidity conditions.

Corporate Earnings Impact
Corporate earnings' effect on fixed income is projected to be neutral. However, an uptick in capital expenditure is poised to generate greater demand for credit.

Valuations Assessment
While yields have eased, the adjustment has been more subdued compared to the significant drop in global yields. The mid part of the curve exhibits high attractiveness. The long end remains appealing for tactical investments spanning a 12 to 24-month horizon.

Sentiment Analysis
Sentiment surrounding Indian fixed income has transitioned from negative to neutral and is currently marginally positive due to attractive valuations.

Base Case Assumptions
Yield fluctuations are expected to be volatile with a downward bias from a 12 to 18-month perspective. Short-term mark-to-market (MTM) losses could occur, yet the portfolio's accrual aspect should remain fully allocated. Duration can build with a 12-24 month view and any volatility on account of inflation of other geo-political factors should be used to increase allocation.

Gold

Macro Overview
2024 is likely to witness gold's continued inverse relationship with the US dollar. The expected decrease in yields presents a significant tailwind for gold prices.

Monetary Policy Dynamics
The neutral stance in monetary policy is transitioning away from a restrictive position. This shift is poised to favour gold as it moves in response to more accommodative monetary policies.

Corporate Earnings Impact
Gold is forecasted to witness demand surpassing the trends of the past three years. This heightened demand is attributed to increased central bank buying and shifts in investor positioning, driving potential upward momentum.

Valuations Assessment
Current valuations signal a buy zone for gold. The potential peaks in inflation and sluggish growth could act as catalysts for a bullish trend in gold prices.

Sentiment Analysis
The sentiment surrounding gold has exhibited noticeable fluctuations over the last six months, currently reflecting a positive outlook.

Base Case Assumptions
Central to gold’s outlook is the assumption that US dollar and global bond yields have peaked. Given the expectation that long-term negative correlation with the dollar will continue in 2024, gold can be positioned for fixed income plus returns and as a hedge against currency volatility.

Steadfast
Amidst Volatility

Beyond the short term

In the world of capital markets, volatility is a constant. That's just the nature of the beast. Looking beyond short-term volatility to focus on long-term investment goals is a prudent course of action. Our conviction is clear - India stands poised for a spectacular decade. And where the underlying reality is strong, investment returns inevitably follow. While the macro reality is supportive, we remain committed to finding the best bottom-up opportunities even within that broader setup. Whether it is equities or credit, our focus is on looking for opportunities that have the potential to outperform even the broader markets. We believe that a combination of a long-term perspective and an alpha-seeking approach is the key to generating the best risk-adjusted returns for our investors.

About 360 ONE

360 ONE, earlier known as IIFL Wealth & Asset Management, is one of the leading wealth and alternates-focused asset management firms in India. 360 ONE is the investment and financial advisor to more than 6,900 relevant families in the High Net Worth Individuals (HNI) and Ultra HNI segments, with aggregate assets of around INR 4,13,000 crores (close to USD 50 bn) under management, as on September 30, 2023.

360 ONE is an embodiment of two words that are extremely important to the firm, '360' represents the holistic view we take of the 'ONE' person whose interests are always first: Our Client. The new brand 360 ONE will help the company retain all the elements that make it unique, while also injecting the vibrancy and freshness of a modern India. It not only captures the company's ethos but will also resonate with a more diverse set of clients and prospects, including the next generation.

360 ONE is one of the pioneers in the industry to bring about product innovations. The firm has won more than 160 awards of repute since its inception in 2008, and its latest wins include Best Domestic Private Bank, India at the Asiamoney Private Banking Awards 2023, Best Private Bank for HNWIs, India at The Asset Private Capital Awards 2022, Best Domestic Bank and Wealth Manager in India at WealthBriefing Asia Awards 2022 and Best for Wealth Transfer/Succession Planning at Asiamoney Private Banking Awards 2022. Earlier awards include the prestigious Best Investment Management Services and Best Innovative Technology Adoption awards for India in the Euromoney Private Banking and Wealth Management Survey 2021. At the Global Private Banking Innovation Awards 2021, it has received accolades in categories such as the Most Innovative Wealth Management Service, Outstanding Estate Planning Advisory, and Themed Investment Proposition.

Headquartered in Mumbai, 360 ONE has more than 1000+ employees and a presence in 5 major global financial hubs and 23 locations in India.

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