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Investment Strategy

India Market Outlook

Positioning for volatility

Global risk assets have retraced in Q3 as slowing macro indicators, rising bond yields and a higher-for-longer policy rates narrative has dampened market sentiment. Indian equities have been a notable exception, supported by resilient domestic macro fundamentals and strong earnings delivery.

In our view, the risk of a near-term consolidation has risen given stretched relative valuation premiums, slowing foreign investor inflows and potentially higher inflation driven by an uneven monsoon and elevated crude oil prices.

We believe a CALM strategy that takes a more balanced approach to Foundation portfolios and opportunistic allocations remains a prudent approach to tide through near-term uncertainty. We propose four ways to do this: Capitalise on market opportunities, Allocate broadly, Lean to Asia and Manage volatility.

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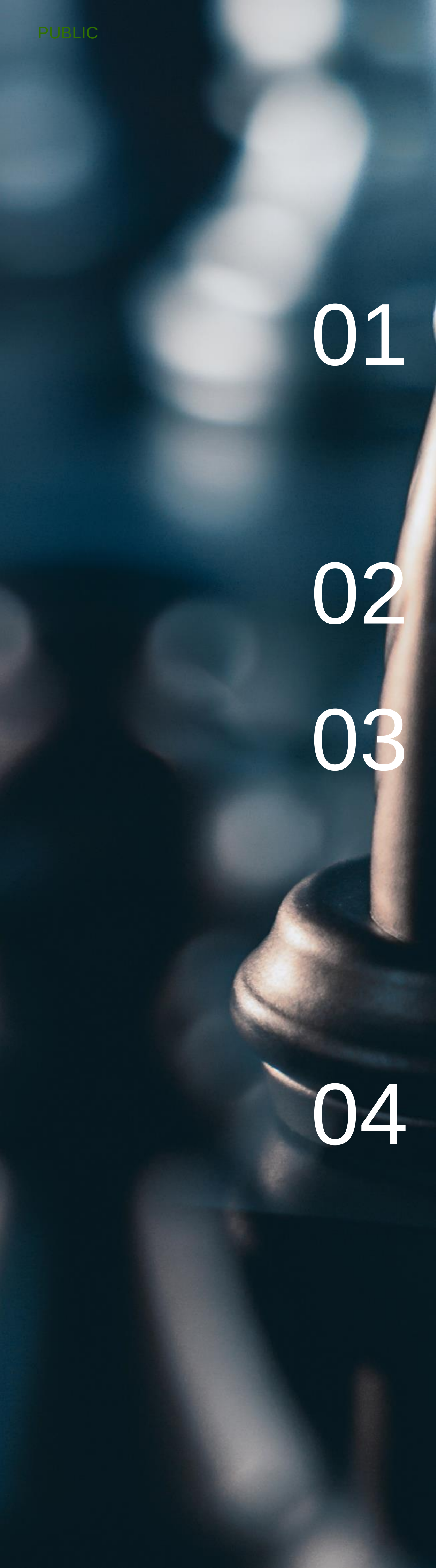
How should investors position for volatility?

What is the impact of India's inclusion in global bond index?

Key asset class views, themes and sector strategy

Important disclosures can be found in the Disclosures Appendix.



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Investment strategy and key themes

Our top preferences
(12-month outlook)

- We retain a diversified asset class preference

Foundation Overweights

- *In bonds:* Medium- and Long-maturity bonds and high-quality Corporate Bonds
- *In equities:* We prefer value-style equities.

Sector Overweights

- Financials
- Industrials
- Healthcare

FX views (12-month outlook)

- Neutral INR
- Modestly weaker USD

Positioning for higher volatility

- Global risk assets have retraced in Q3 as slowing macro indicators, rising bond yields and a higher-for-longer policy rates narrative has dampened market sentiment. Indian equities have been a notable exception, supported by resilient domestic macro fundamentals and strong earnings delivery.
- In our view, the risk of a near-term consolidation has risen given stretched relative valuation premiums, slowing foreign investor inflows and potentially higher inflation driven by an uneven monsoon and elevated crude oil prices.
- We believe a CALM strategy that takes a more balanced approach to Foundation portfolios and opportunistic allocations remains a prudent approach to tide through near-term uncertainty. We propose four ways to do this: **C**apitalise on market opportunities, **A**llocate broadly, **L**ean to Asia and **M**anage volatility.

Tread with caution

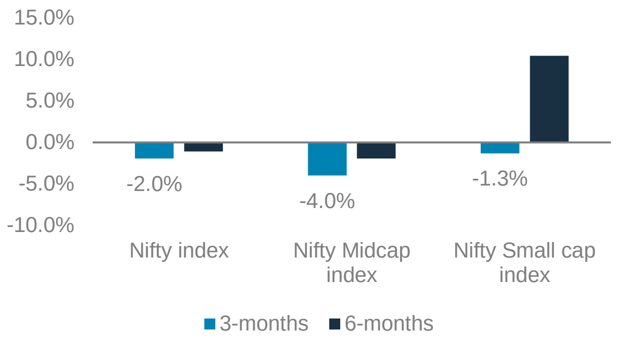
Indian equities have been the notable exception in Q3, as robust high-frequency macro indicators and strong corporate earnings delivery amid a stable policy environment has helped a broad-based recovery from March 2023 lows. The Nifty index rose 2.3% in the last quarter, while Nifty Midcap index and Nifty Small cap index were up 13.4% and 17.6% respectively. Bond yields have risen across maturities with the 2-year and 10-year IGB yields up 21bps and 10bps respectively.

Global financial markets came under pressure in Q3, as weak leading economic indicators, tight financial conditions, and rising bond yields begin to cloud growth and earnings outlook. Major global benchmarks have pared the gains of H1 2023, with the MSCI World and MSCI Asia-ex-Japan down 3.8% and 4.1% respectively over the last quarter. Bond yields have reset higher as hawkish central banks and rising fiscal deficits have fuelled expectations of an extended policy rate pause.

In our view, the risk of a near term pull-back in equities is high given stretched relative valuation premiums, slowing foreign investor inflows and a potential surge in inflationary pressures. Against this backdrop, we favour selective risk-taking within major asset classes, sectors, and quality segments, while maintaining balanced allocations across equities, bonds, cash, and gold.

Fig. 1 **Mid-cap/Small-cap equities earnings revisions have turned negative over the past three months**

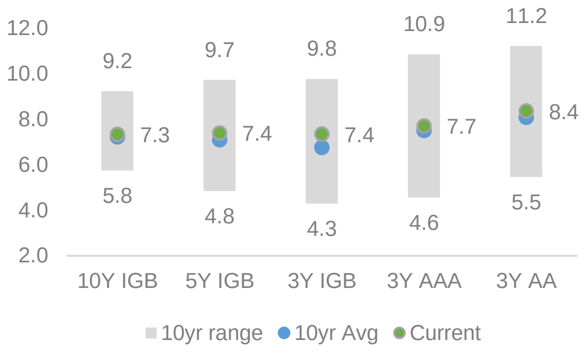
EPS revisions YTD 2023 (%)



Source: Bloomberg, Standard Chartered

Fig. 2 **Bonds yields are trading closer to their 10yr long-term averages**

Bond yields (%) across Indian government and corporate bonds



Source: Bloomberg, Standard Chartered

Balancing risk/reward in equities

Indian equities have bounced back strongly over the last two quarters of 2023, significantly outperforming its peers. From April 1st 2023, the Nifty index has risen 13.1% compared to the drop of 2.2% and 6.2% respectively for MSCI World and MSCI Asia-ex-Japan. Broader markets have surged, outperforming their large-cap peers (Nifty Midcap and Nifty Small cap indices are up 35% and 42% respectively), driven by strong tailwinds from superior earnings delivery, more reasonable valuations at the start of 2023 and expectations of lower bond yields.

We reduce mid-cap and small-cap equities to a core holding from overweight. The main driver of this shift is risk management rather than a change in underlying fundamentals. While, the relative earnings outlook is still superior for mid-cap and small-cap equities, the sharp divergence in performance in 2023 YTD has turned valuations rich for mid-cap and small-cap equities. Further, negative EPS revisions in Q3 2023 and tighter financial conditions amid a higher-for-longer policy rate outlook are headwinds.

We continue to see value in multi-year structural themes (Manufacturing and Infrastructure) in India, that are beneficiaries of the sustained investment cycle revival and numerous supply-side reforms to improve efficiencies, ease of doing business and competitiveness of domestic sectors.

Locking in still attractive yields

Within our core allocation to bonds, we retain an Overweight on medium- and long-maturity bonds. We see the recent surge in bond yields as an opportunity for bond investors to lock-in attractive carry, especially in medium- and long-maturity bonds, given: 1) attractive absolute yields with 5Y/10Y IGB yields trading close to their 10-year average, 2) lower likelihood of policy rate cuts by the RBI in FY 2024 given the RBI's focus remains on managing system liquidity amid still elevated inflationary pressures and 3) improving medium-term demand outlook post India bonds inclusion in global bond indices *(see page 3 for more details).*

We prefer high-quality corporate bonds (AAA), because we see a favourable risk/reward relative to government bonds as: (i) they offer an attractive absolute yield, (ii) current spreads are likely to narrow amid improving corporate profitability and strong demand for bonds from high-quality issuers and (iii) their returns are likely to be less impacted by changes in the RBI's policy rate stance.

Staying diversified

We expect market volatility to remain elevated over the remainder of 2023 as investors balance downside risks emanating from 1) the increased likelihood of major central banks staying on an extended pause, 2) a resurgence of inflationary pressures driven by higher crude oil prices and geo-political tensions, and 3) waning consumer confidence, slowing economic growth and corporate profitability, a consequence of the unusually rapid series of rate hikes.

We maintain our core allocations to cash, gold, and liquid alternatives as these asset classes have historically played the role of portfolio diversifiers. Gold remains our preferred portfolio diversifier as it has historically outperformed in recessions and displayed its safe-haven properties during crisis. This increases the appeal of gold as a hedge against a backdrop of elevated macro uncertainty. Continued central bank buying, household and investor demand are other key drivers to support gold.

Potential risks to monitor

Risks to our outlook include 1) central banks continuing to hike rates to counter persistent inflationary pressures, 2) narrowing Indian bond yield differential (with US and other DMs) leading to de-rating of Indian equities valuation, 3) shocks to domestic growth from global growth slowdown, 4) deteriorating external accounts driven by higher crude oil prices, 5) potential surprises in State and Parliamentary elections.

Perspectives on key client questions

What is the impact of India's inclusion in global bond index?

India had been on JP Morgan's Index Watch since 2021 for inclusion into the GBI-EM Index, following the government's substantive market reforms for aiding foreign portfolio investments, including the FAR (fully accessible route) program in 2020. After the 2023 Index governance review, JP Morgan announced in late September that India will be included in the GBI-EM Global index suite and all relevant derivative benchmarks (including custom indices).

Following the announcement, India is expected to reach the maximum weight of 10% in the GBI-EM Global Diversified Index (GBI-EM GD), staggered over a 10-month period starting June 28, 2024, through March 31, 2025 (i.e., inclusion of 1% weight per month). Currently, 23 Indian Government Bonds (IGBs) with a combined notional value of US$ 330 billion are index eligible (notional outstanding above US$ 1bn or equivalent and with at least 2.5 years remaining maturity).

We see this announcement as a medium term positive for Indian fixed income market, that has long struggled to attract foreign investor interest (foreign investors own only c.2% of IGBs, the lowest in EMs) despite being one of the largest liquid government bond market among major EMs. We expect this development to:

1) have limited immediate impact on IGB yields given long lead-time for index-related inflows and near-term headwinds (i.e., the rise in global crude oil prices and high US bond yields) limiting the appeal of IGBs.
2) improve the medium-term demand outlook for IGBs, with a potential for USD 20-25bn inflows by March 2025 given that the AUM tracking the GBI-EM-GD index stands at c.USD 200-250bn.
3) be positive for medium- and long-maturity bond yields as bulk of the eligible securities fall within the 5-14 years maturity profile, *see Fig 4.*
4) lead to a significant diversification in the investor base, supporting lower borrowing costs, which would be healthy for the overall market.
5) positive for India's external balances supporting INR stability in the medium-term, a key consideration for off-shore bond investments.

Fig. 3 **Country weight projections for GBI-EM series post India inclusion**

Change in country weights (%) (for countries with minimum 5% allocation to the index)

Country	Current Wt (%)	Est. Wt (%)	Delta (%)
India	-	10.00	10.00
China	10.00	10.00	-
Indonesia	10.00	10.00	-
Mexico	10.00	9.99	-0.01
Malaysia	10.00	9.49	-0.51
Brazil	10.00	9.00	-1.00
Thailand	9.79	8.14	-1.65
South Africa	8.11	6.75	-1.36
Poland	7.57	6.29	-1.27
Czech Republic	6.18	5.14	-1.04

Source: J.P. Morgan. As of August 31, 2023.

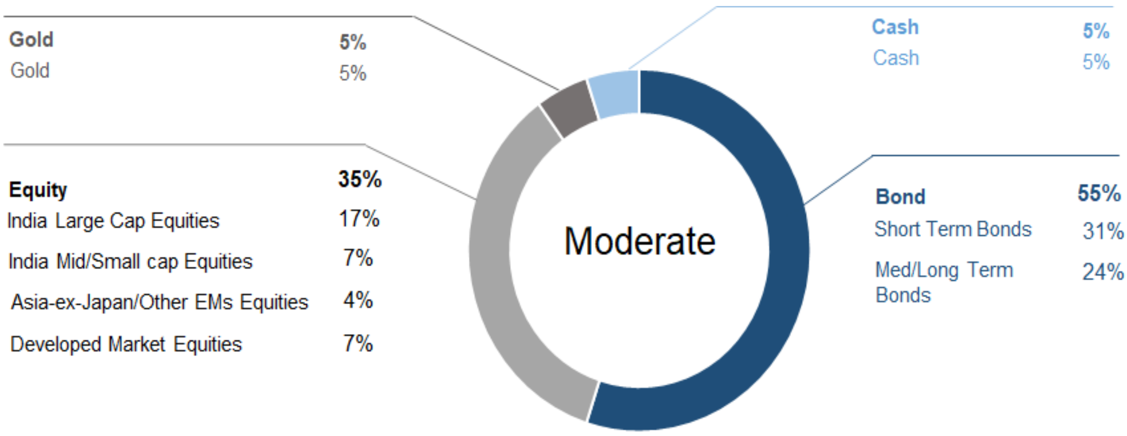
Fig. 4 **Bulk of the flows could be directed towards IGBs with 7 -14 years remaining maturity**

Cumulative outstanding Face Value (USD mn) of IGBs eligible for inclusion in the index

Years to maturity	Outstanding face value	Cumulative allocation (%)
< 5 years	27783	8.4%
5 - 7 years	85616	25.9%
7 - 14 years	131172	39.8%
> 14 years	85377	25.9%
Total	**329948**	**100%**

Foundation: Our tactical asset allocation

India allocation for a moderate risk profile



Our tactical asset allocation views (12m) INR

Summary	View	Detail
INR Cash	◆	**+ Safety, attractive yields || - Risk of missing higher yields elsewhere**
Bonds	◆	
Short-term bonds	◆	**+ Low sensitivity to rising rates || - Elevated inflation**
Mid- to long- term bonds	▲	**+ High absolute yields, improving near-term government bond demand-supply balance || - sensitive to rising yields**
Equities	◆	
DM Equities	▲	**+ Fed rate pause, growth resilience || - Recession risks, valuations**
Asia ex-Japan/ Other EM	◆	**+ China's policy support, valuations || - Geopolitical tensions, China macro uncertainty**
India – Large cap	◆	**+ Robust growth, stable earnings, resilient domestic inflows || - weaker exports amid slow global growth, a sharp rise in bond yields**
India – Mid/Small Cap	◆	**+ Improving macro fundamentals, superior relative earnings || - stretched relative valuation, negative earnings revisions**
INR Gold	◆	**+ Portfolio hedge || - Risk of a USD rebound, rising yields**

Source: Standard Chartered India Investment Committee. || **Green:** upgrade from prior view | **Red:** downgrade from prior view

Legend: ▲ Overweight | ▼ Underweight | ◆ Neutral

Macro overview – at a glance

Key themes

We expect India's economic growth to stay above its long-term trend and ahead of its major peers in H2 2023. India's growth is likely to be resilient to weakening global growth given supportive government policies, sustained revival in services and a pick-up in private capex. Further, a likely peak in RBI's policy rate could boost consumption demand. In our view, CPI inflation is likely to trend lower in H2 FY2024, tracking within the RBI's medium-term target range of 2%-6% given high base effect, lagged impact of monetary policy and a gradual easing of commodity prices.

In our assessment, fiscal policy is likely to be the key driver for growth in 2023, as financial conditions remain tighter than normal. The past measures undertaken by the government including (i) greater public capex spend, (ii) long-standing reforms related to taxation and labour and (iii) providing incentives to boost manufacturing and infrastructure, is likely to boost India's medium-term growth outlook. In our view, the RBI's decision to keep policy rates unchanged in its past three policy meetings, despite the recent surge in inflation prints, likely signals an end to the tightening cycle.

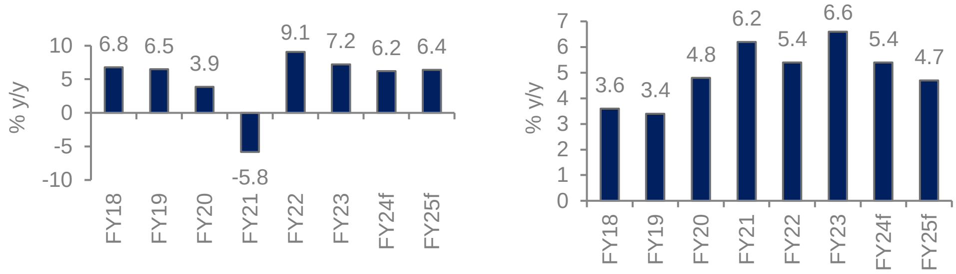
Key risks to our macro-outlook are: 1) Global growth slowdown, 2) Persistent high inflation, 3) Escalating geo-political tensions.

Key chart

For FY2024, India's GDP is expected to grow at 6.% and CPI is expected to average 5%.

Fig. 5 **India's growth-inflation dynamics stronger than peers**

GDP Growth (Y/Y) and CPI Inflation (Year average) – Bloomberg consensus estimate*



Source: Bloomberg, Standard Chartered

Macro views at a glance

Factors	View	Comments
Economic growth	◑	**Economic activity remained strong in September 2023.** Services PMI rose to 61 in September 2023 while Manufacturing PMI eased to 57.5 in September 2023. Industrial production rose to 5.7% y/y in July 2023, higher than the 3.8% growth recorded in the previous month.
Inflation	◓	**India's consumer price inflation eased to 6.8% y/y in August 2023 from a fifteen-month high of 7.4% last month,** driven by a moderation in food article prices. Core inflation eased to 4.8% from 5% over the previous month.
Fiscal deficit	◓	**The government balanced its growth priorities with fiscal consolidation in the latest budget.** FY 2024 fiscal deficit is estimated at 5.9% of GDP while FY 2023 fiscal deficit was retained at 6.4% of GDP. India's GST collections rose 10% y/y to INR 1.63trn in September 2023, tracking above INR 1.6trn for the fourth time in FY2024.
External	◓	**Trade deficit widened to USD 24.2bn in August 2023.** Imports fell by 5.2% y/y to USD 58.6bn, while exports fell by 6.9% y/y to USD 34.5bn. India's current account deficit rose to USD 9.2bn or 1.1% of GDP in Q1 FY2024 compared to USD 1.3bn or 0.2% of GDP in Q4 FY23. The widening was driven by a rise in merchandise trade deficit and a decrease in net services surplus.
Monetary Policy	◓	**The RBI kept the policy repo rate unchanged at 6.5% in its October 2023 policy review.** The RBI cumulatively hiked policy rates by 250 bps in FY 2023. The RBI retained its monetary stance of 'withdrawal of accommodation' and indicated that it would conduct OMO sales to manage banking system liquidity. Further, the RBI retained its average inflation forecast for FY2024 at 5.4% and real GDP growth forecast for FY2024 at 6.5% y/y.

Source: Bloomberg, Standard Chartered India Investment Committee

Legend: ○ Not supportive ◐ Somewhat supportive ◓ Balanced ◑ Supportive ● Very supportive

Bonds – at a glance

Key themes

We maintain our neutral stance on bonds, as we expect attractive absolute yields to be counterbalanced by below average yield premiums, stretched medium-term fiscal position and weak government bond demand-supply balance. We see the recent surge in bond yields as an opportunity to lock-in attractive yields, with the increased likelihood of a peak in bond yields as the RBI stays on a prolonged pause on policy rates. We are Overweight medium- and long-maturity bonds. We have a preference for corporate bonds (i.e. bonds that offer a yield premium over government bonds).

In our view, the RBI's decision to keep policy rates unchanged in the latest monetary policy, indicates the likelihood of bond yields being closer to the peak. We expect the 10-year IGB yield to trade in the range of 6.75%-7.00% over the next 12 months. In our assessment, corporate bonds offer a better risk-reward given attractive credit spreads and improving corporate fundamentals. In addition, higher absolute bond yields and lower currency volatility, provide a stable carry relative to their Emerging Market (EM) peers.

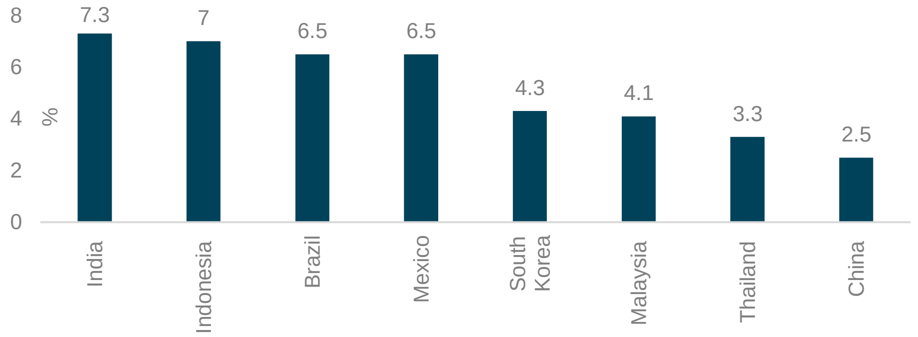
However, three factors for bonds remain unfavourable: 1) Fiscal deficit is likely to remain high over the medium-term, 2) Worsening government bond supply balance given high supply of government bonds amid a lack of support from the RBI, and 3) Higher-than-expected inflation could keep bond yields elevated as the RBI maintains a prolonged pause on policy rates.

Key chart

India's nominal yield is better than most peers.

Fig. 6 **India's nominal is better than most peers**

10-year government bond yields (%)



Source: Bloomberg, Standard Chartered.

Bond views at a glance

Factors	Views	Comments
Real Yields	◓	**India's inflation-adjusted yield is lower compared to other Emerging Markets.** The 10-year IGB real yield at 0.5% is lower than the average real yield of 2.1% for other major EMs.
Supply dynamics	◐	**High bond sales is a key risk**. The government pegged its net borrowing for FY 2024 at about INR 11.8trn. Sustained demand from domestic investors and improvement in institutional investors' participation especially by foreign investors will be key to address supply concerns.
Monetary policy	◓	**Market expects no rate cuts by the RBI in the near-term.** 1-year Overnight Indexed Swap (OIS) spread suggests market participants expects the RBI to not cut policy rates over the next 12 months.
Liquidity	◐	**The RBI's focus remains on withdrawal of excess liquidity.** The RBI has drained INR 11.2trn of system liquidity via variable rate reverse-repo (VRRR) so far in H1 2024. The banking system liquidity improved to a deficit of INR 0.2trn compared to a deficit of INR 1.5trn in September 2023.
Demand dynamics	◐	**Demand dynamics have been stable** given lower issuances by States. CYTD 2023, foreign investor flows into bonds remain positive. Demand from institutional investors (banks, insurers, and mutual funds) will be a key determinant of bond yields in H2 2023, amid RBI's plans for OMO sales.
Yield premiums	◓	**Yield premiums trade below average.** The spread between 10-year IGB yield and repo rate is at 84bps vs. 5yr avg. of 165bps. High-quality (AAA) bonds have turned attractive with the yield spread between 3YAAA rated bond and 3Y G-sec trading at 44bps compared to 30bps in March 2022 and 5Y avg. of 66bps.

Source: Bloomberg, Standard Chartered India Investment Committee

Legend: ○ Not supportive ◐ Somewhat supportive ◓ Balanced ◑ Supportive ● Very supportive

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Equity - at a glance

Key themes

We remain neutral on Indian equities, as robust domestic growth and strong corporate earnings cycle is counterbalanced by stretched valuation premiums, both absolute and relative to peers. Within equities, we have downgraded mid-cap and small-cap equities to neutral, given stretched valuation premiums over large-caps and downward earnings revision over the past three months. We prefer value-style equities.

In our view, Indian equities are supported by the following drivers: 1) Economic growth and earnings outlook remains robust and continues to outpace its major peers. 2) Indian equities underperformance in Q1 2023 amid strong earnings delivery has turned valuations more reasonable 3) Stable inflows from domestic investors driven by inflows into systematic investment plans is a key support for the market. 4) Positive foreign investor inflows amid reasonable valuations, robust fundamentals, and low foreign investor positioning in Indian equities.

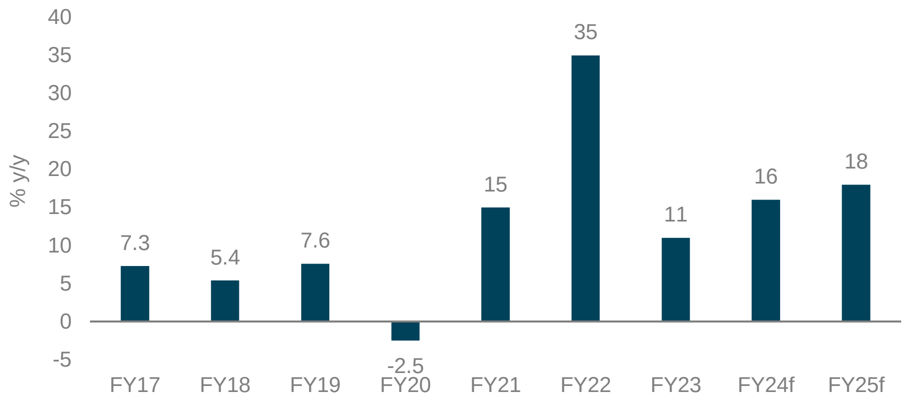
Risks to our positive equity view are: 1) Global growth slowdown and probable downgrades of earnings expectations, 2) Above-average equity valuations, both absolute and relative to peers, 3) Foreign investor selling amid slowing domestic investor flows.

Key chart

Bloomberg Consensus expectation is for Nifty earnings to rise by 16% and 18% in FY 2024 and FY 2025.

Fig. 2 **Indian equities earnings growth expectations remain robust**

Consensus estimates for Indian equities (Nifty index) earnings per share growth



Source: Bloomberg, Standard Chartered

Equity views at a glance

Factors	Views	Comments
Economic environment	◑	**Growth-inflation dynamics are supportive of equities**. Growth focused fiscal policy, improving income levels, early signs of improving rural demand and broadening growth momentum is likely to support corporate profitability. Rising food article prices amid skewed rainfall distribution and possible EL-Nino related weather disruptions, remains a key risk.
Earnings growth	◑	**Earnings growth expectations are robust.** Nifty index earnings grew 11% in FY 2023. Bloomberg consensus earnings growth expectations for the Nifty Index for FY 2024 and FY 2025 stands at 16% and 18% respectively. EPS estimates for Nifty Mid-cap and Nifty Small-cap indices have seen significant downward revisions over the past three months.
Valuations	◓	**Valuations have moderated but remain stretched**. Nifty 12-month forward P/E trades at 18.2x, is below its peak of 23x, but higher than its long-term average of 17.5x. Price to book value ratio (P/B) at 2.9x and Market cap to GDP ratio at ~111%, are above long-term averages.
Flows	◓	**Foreign investors have turned net buyers since March 2023.** YTD 2023, foreign investors have bought USD 14.1bn worth of equities compared to USD 17bn outflows in CY 2022. **Domestic institutional investors remain buyers in 2023**. YTD 2023, domestic institutional investor inflows are at USD 16.2bn compared to USD 36bn inflows in CY 2022.

Source: Bloomberg, Standard Chartered India Investment Committee

Legend: ○ Not supportive ◐ Somewhat supportive ◓ Balanced ◑ Supportive ● Very supportive

Equity sector views

Prefer a barbell-sector strategy

We are overweight domestic cyclicals given resilient domestic growth, favourable earnings expectations and relatively better valuations. We retain an Overweight on Healthcare given its defensive nature and improving earnings outlook.

Financials – Overweight

Financials is a key overweight sector. Broadening economic growth recovery is likely to drive an improvement in retail credit demand. Healthier corporate balance sheets, robust loan disbursal momentum is likely to off-set margin compression due to rising funding costs. Further, healthy asset class outlook driven by a moderation in slippages, robust contingent buffers and lower core credit costs, are likely to support the sector's profitability. Earnings expectations remain robust, with ahead of market EPS growth of 16% and 20% for FY24 and FY25. The sector is trading at a 12-month forward P/E of 18.5x, lower than its long-term average and market valuation of 22.8x for MSCI India.

Industrials – Overweight

Industrials remains an overweight sector. The sector benefits from a multi-year investment-led economic growth cycle, with earnings growth (FY24/FY25 EPS at 44%/25% y/y), among the strongest across sectors. The government's continued focus on capital expenditure coupled with providing incentives to boost manufacturing and infrastructure spending is a strong structural driver for the sector. Further, continued public capex outlay, strong order book and nascent signs of a revival in private capex, are additional tailwinds for the sector.

Healthcare – Overweight

Healthcare is an overweight sector. We prefer the sector for its defensive nature, acting as a potential hedge against an uncertain global backdrop and our overweight on domestic cyclicals. The sector has recovered strongly in 2023 after underperforming in 2022 on covid-era expensive valuation multiples and muted earnings performance albeit on a high base. The earnings outlook for the sector has stabilized given 1) stable performance in domestic formulations, 2) lower price erosion in US generics segment and 3) reversal in raw material and freight costs. The sector trades at a lower valuation premium (12-month forward P/E of 31.7x compared to 2020 peak of 36x and 24x long-term average).

Fig. 7 **Our sector views by region**

India
Financials
Industrials
Healthcare
Information Technology
Consumer Discretionary
Consumer Staples
Utilities
Energy
Materials

Source: Standard Chartered

Legends: Overweight | Neutral | Underweight

▲ Upgrade from last quarter | ▼ Downgrade from last quarter

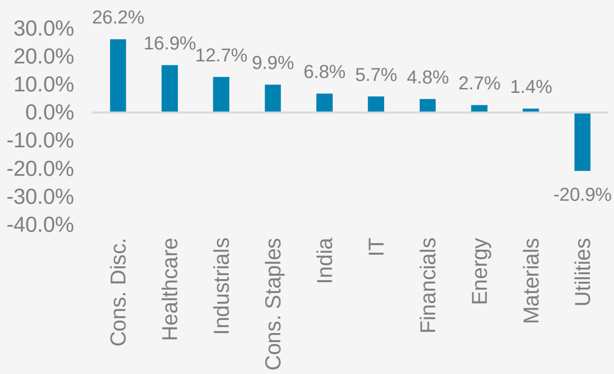
Fig. 8 **Sector valuations and earnings growth**

	12-mth Fwd P/E (x)		EPS Growth (Y/Y)	
MSCI Sector	**Current**	**15yr Avg**	**FY2024**	**FY2025**
India	22.8	19.5	14%	18%
Discretionary	31.2	23.6	91%	26%
Staples	48.8	38.2	15%	16%
Energy	14.2	14.0	12%	11%
Financials	18.5	18.8	16%	20%
Healthcare	31.7	24.5	11%	18%
Industrials	35.3	26.2	44%	25%
IT	25.5	20.1	5%	13%
Materials	20.9	15.5	-18%	18%
Utilities	14.2	13.2	0%	11%

Source: Bloomberg, Standard Chartered

Fig. 9 **Domestic sectors outperform in YTD 2023**

YTD 2023 sectoral performance (%)



Source: MSCI, Bloomberg, Standard Chartered. 2023 YTD period from 31 December 2022 to 6 October 2023

Equity – at a glance

Key themes

We remain Neutral (core holding) on global equities in the coming 12-month horizon, backed by resilient economic data and corporate margins YTD. We upgrade the US to Overweight amid our positive view in the region's earnings growth after it delivered stronger-than-expected Q2 results, on top of a likely pause in the Fed's tightening cycle and recession delay.

Japan remains our most preferred region. Tailwinds such as improving corporate governance, rising share buybacks, net cash positioning and relative insulation from geopolitical exposures compared with its Asia peers are expected to support the region's sustainable growth. A potential relaxation of Yield Curve Control policy is a risk which may dampen corporate earnings.

We trim Asia ex-Japan to Neutral, as a muted recovery in China weighs on consumption and earnings growth across Asian markets. We are Neutral on China within the region due to the "piece-meal", but not "big-bang", supportive policies from the government. India equities are also likely to perform in line with the region due to a tug-of-war between a high valuation premium vs strong estimated (consensus) EPS growth in excess of 20% in FY23 and FY24.

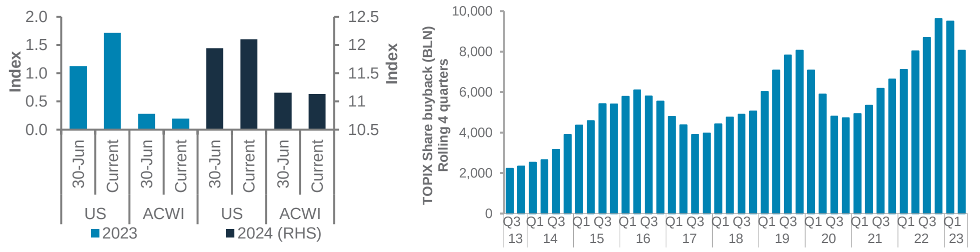
We are Underweight UK equities as the region has the weakest earnings growth forecast this year, despite the market's low valuation. We downgrade Euro Area equities to Underweight in light of the cooling macro data and declining profit margins.

Key chart

US companies continue to defy expectations and deliver solid earnings growth. Meanwhile, the Tokyo Stock Exchange's initiative to improve corporate governance has led to more transparency and share buybacks from Japanese companies

Fig. 10 **US companies' earnings growth continues to dominate global earnings growth, while Japan is riding on improving corporate governance**

US vs global earnings growth (LHS); Japan share buybacks



Source: Bloomberg, FactSet, MSCI, Standard Chartered; *table below: We are Neutral China onshore vs offshore

Preference order

	The bullish case	The bearish case
Japan equities ▽ ◇ ▲	+ Strong corporate balance sheets + Corporate governance policies boost ROE + Domestic demand remains resilient	– Rebound in JPY to hurt company earnings – Rising volatility from a tightening BoJ – Potential global growth slowdown
US equities ▽	+ Resilient corporate profit margins + Resurgence in the key technology sector + Increasing inflow	– Delay of potential Fed pivot – Fading consumer strength – Expensive valuations
Asia ex-Japan equities ▽ ◆ △	+ China's fiscal and monetary stimulus + Attractive valuations, especially in China + High projected EPS growth in 2023-24	– Persistence in geopolitical tensions – Structural issues; eg Chinese properties – China's quality focus via targeted measures
Within AxJ	India equities ◆ South Korea equities ◆	China equities* ◆
Euro Area equities ▼ ◇ △	+ Valuations remain attractive + Household real incomes recovery + Light positioning	– Heightened recession risk – Weakening earnings growth – Persistence of tight monetary policies
UK equities ▼ ◇ △	+ High dividend yield + Valuations extremely cheap + Relatively defensive sectors	– Negative expected earnings growth in 2023 – Substantial fund outflows – Subdued business environment

Source: Standard Chartered Global Investment Committee

Legends: ▲ Overweight | ▼ Underweight | ◆ Neutral

FX and commodities – at a glance

Key themes

We expect the INR to be range-bound over a 12-month time horizon. Above-trend and ahead of peers' economic growth, strong external balances, robust FX-reserves and a bearish USD outlook are key factors supportive of the INR. However, falling export growth amid weak global growth outlook, slowing foreign investor flows, narrowing policy rate differential with the US are likely to pressurize the INR**.** Rising crude oil prices is an additional headwind for the INR

We are bearish on the USD over 3 and 12 months, but we moderate our downside expectations. The USD index (DXY) rally since mid-July has predominantly been driven by US exceptionalism, with US growth expectations outpacing other developed markets. Resilience in the US economy has led us to lower our recession expectations. This reduces the need for the Fed to cut rates rapidly in 2024, as evidenced by the latest "dot plot" released by the FOMC. That said, we believe the recent USD rally has overshot fundamentals and we expect USD to decline towards 103.6 over the next 1-3 months as the currency returns closer to our estimated fair value. Over the next 12-months, the broader fundamental drivers for USD weakness are still in place. **While the Fed may cut rates at a slower pace than previously anticipated, it is still expected to deliver more rate cuts vs other Developed Market (DM) central banks**. This combined with a rebound in China's growth and faster decline in European inflation (vs the US) should lead to further compression of the USD's real (net of inflation) interest rate differentials and push the USD lower.

We keep our Neutral view on gold vs other major asset classes, with a 12-month forecast of USD 2,010. The market believes the Fed's rate hike cycle is close to its end though inflation accelerated for a second straight month in August to 3.7%, higher than expected. Real yields are likely to increase, which means the opportunity costs of holding gold may be pushed higher and lead us to see a smaller upside for gold from here. Gold has historically outperformed in recessions and displayed safe-haven properties during crisis. These increase the appeal of gold as a hedge against a backdrop of elevated macro uncertainty. Continued central bank, household and investor demand are other key drivers to support gold.

We stay moderately bullish on oil on a 3-month horizon amid OPEC+ supply tightness. While Saudi Arabia extends its oil production cut till year end, with a possibility of extending it even further, the scope of further production cuts has not been ruled out. Because of this, we raise our 3-month WTI oil price expectation to USD 90/bbl. On a 12-month horizon, we expect it to trend lower towards USD 75/bbl. The global crude oil consumption growth y/y has declined amid a slowing Euro area and Asia, but oil's slowing supply growth risks are intensifying the oil market deficit and offering more support to oil. China's economy remains a key swing factor; oil demand could improve if the economy undergoes a significant recovery in Q4.

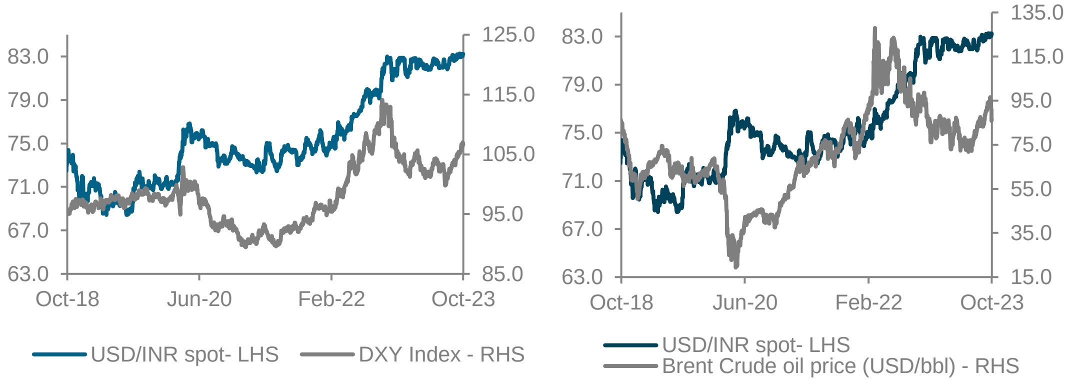
Key chart

Improving balance of payments and weaker USD to off-set in weakness in exports and lower interest rates differential.

Fig. 11 **Above-trend growth and a weaker USD is supportive of the INR**

LHS chart: USD/INR Spot -LHS and DXY Index – RHS

RHS chart: USD/INR Spot -LHS and Brent Crude oil price (USD/bbl) – RHS



Source: Bloomberg, Standard Chartered

Foundation: Asset allocation summary

Summary			View vs. SAA	Conservative	Moderate	Moderately Aggressive	Aggressive	Very Aggressive
Cash			◆	25.0	5.0	5.0	5.0	0.0
Fixed Income			◆	55.0	55.0	40.0	25.0	15.0
Equity			◆	15.0	35.0	50.0	65.0	80.0
Commodities			◆	5.0	5.0	5.0	5.0	5.0
Level 1	**Level 2**	**Level 3**						
Cash & Cash Equivalents			◆	25.0	5.0	5.0	5.0	0.0
Fixed Income	Short-term Bonds		◆	36.6	31.1	25.4	15.3	9.0
	Mid/Long-term Bonds		▲	18.4	23.9	14.6	9.7	6.0
Equity	DM Equity		▲	3.4	6.8	10.2	13.6	17.0
	Asia Ex-Japan / Other EM Equity		◆	1.9	3.9	5.8	7.8	9.7
	Indian Equities	Large-cap equities	◆	6.8	17.0	23.8	30.5	37.3
	◆	Mid/small-cap equities	◆	2.9	7.3	10.2	13.1	16.0
Commodities (INR Gold)			◆	5.0	5.0	5.0	5.0	5.0
				100	**100**	**100**	**100**	**100**

▼ Underweight ◆ Neutral ▲ Overweight

Source: Bloomberg, Standard Chartered

All INR converted exposure. For illustrative purposes only. Please refer to the disclosure appendix at the end of the document

Performance of our calls

	Open calls	Open date	Close date	Absolute	Relative
Bonds	Indian mid- and long- maturity bonds to outperform short-maturity bonds	30-Jun-23	Open		✗
Equities	Indian mid-cap and small-cap equities to outperform large-cap equities	30-Jun-23	06-Oct-23		✓

	Open calls	Open date	Close date	Absolute	Relative
Equity Sectors	Indian Financial Sector to outperform Indian Equities	19-Dec-22	Open		✗
	Indian Industrial Sector to outperform Indian Equities	19-Dec-22	Open		✓
	Indian Healthcare Sector to outperform Indian Equities	30-Jun-23	Open		✓
Thematic	India Investment Sectors to outperform Indian Equities	19-Dec-22	Open		✓
	Indian Value style equities to outperform Growth style equities	30-Jun-23	Open		✓
	Indian Corporate Bonds to outperform Government Bonds	30-Jun-23	Open		✓
	India Hybrid strategy (absolute return)	19-Dec-22	Open		✓

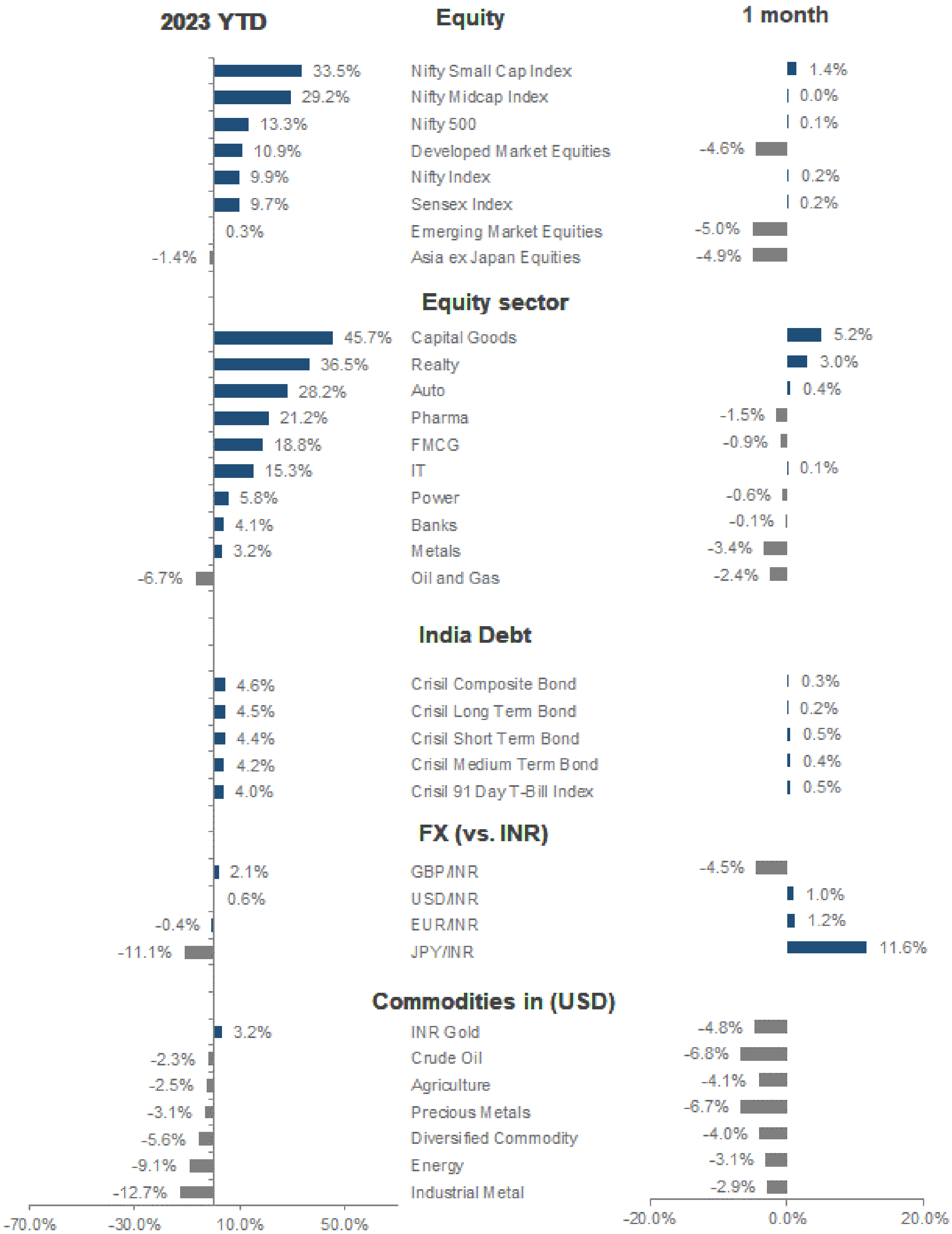
	Closed calls	Open date	Close date	Absolute	Relative
Bonds	Indian short-maturity bonds to outperform mid- and long- maturity bonds	19-Dec-22	30-Jun-23		✗
Equities	Indian large-cap equities to outperform mid-cap and small-cap equities	19-Dec-22	30-Jun-23		✗
Equity Sectors	India Consumer Staple Sector to outperform Indian Equities	19-Dec-22	30-Jun-23		✓

Source: Bloomberg, Standard Chartered. Performance measured from 19 December 2022 (release date of our 2023 Outlook) to 6 October 2023 or when the view was closed.

Legend: ✓– Correct call; ✗ – Missed call; n/a – Not Applicable.

Past performance is not an indication of future performance. There is no assurance, representation or prediction given as to any results or returns that would actually be achieved in a transaction based on any historical data.

Market performance summary*



Source: MSCI, NSE, S&P BSE, Crisil, Bloomberg, Standard Chartered
*2023 YTD period from 31 December 2022 to 6 October 2023. 1-month period from 6 September 2023 to 6 October 2023.

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