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Investment Strategy I 18 December 2023

India Market Outlook 2024

Sailing with **the wind**

Getting into 2024, we expect equity markets to ride the positive momentum with bond markets offering attractive real yields. Nevertheless, we remain watchful for any shocks emanating from a shift towards a hard landing in developed economics

In foundation allocations, we are (i) Overweight equities, with 2023 strong performance extending into H1 2024, supported by strong earnings delivery and pre-election optimism, (ii) Overweight medium/long-maturity bonds, as yields gradually move lower and (iii) Overweight large-cap equities given greater margin of safety.

In opportunistic allocations, we prefer (i) Value-style equites, (ii) Investment sectors -manufacturing and infrastructure, and (iii) barbell-like sector positioning with Overweight on Industrials and Consumer Discretionary balanced with an Overweight on Healthcare.

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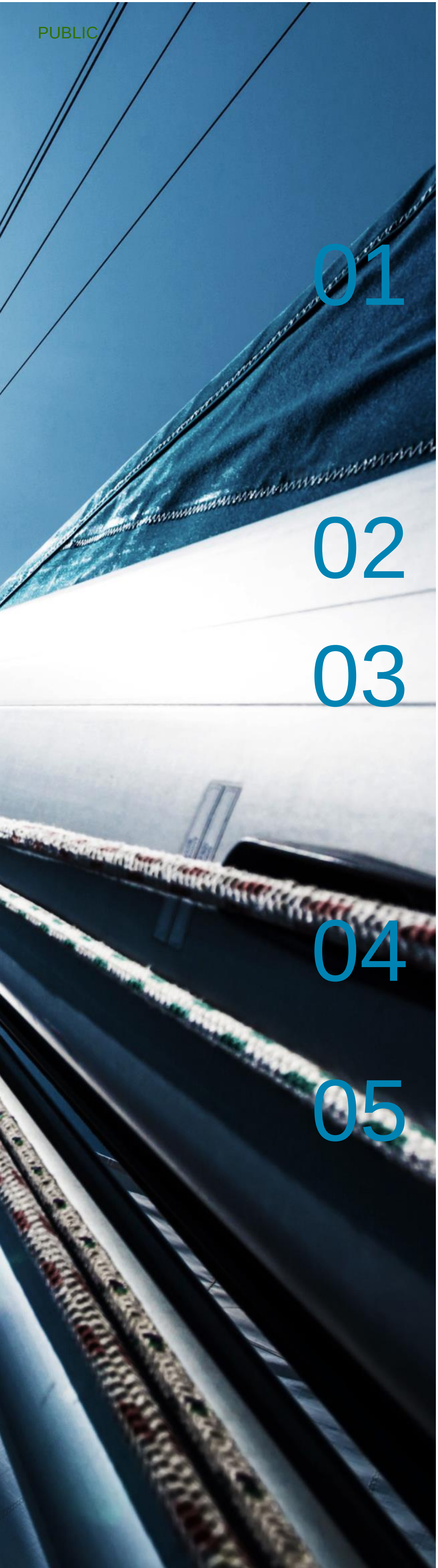

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(12-month outlook)

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- Equities
- *In equities: Large-caps*
- *In bonds:* Medium and Long-maturity bonds

Sector overweights

- Industrials
- Consumer Discretionary
- Healthcare

Sailing with the wind

- India's robust macro fundamentals and strong corporate earnings delivery, positions India at an advantage over other major economies, which could see slower growth. Getting into 2024, we expect equity markets to ride the positive momentum with bond markets offering attractive real yields. Nevertheless, we remain watchful for any shocks emanating from a shift towards a hard landing, in developed economics.
- In foundation allocations, we are (i) Overweight equities, with 2023 strong performance extending into H1 2024, supported by strong earnings delivery and pre-election optimism, (ii) Overweight medium/long-maturity bonds, as yields gradually move lower and (iii) Overweight large-cap equities given greater margin of safety. Equities and Bonds are likely to outperform current cash yields on offer.
- In opportunistic allocations, we prefer (i) Value-style equites, (ii) Investment sectors -manufacturing and infrastructure, and (iii) barbell-like sector positioning with Overweight on Industrials and Consumer Discretionary balanced with an Overweight on Healthcare.

Fig. 1 **Our 2024 Outlook**

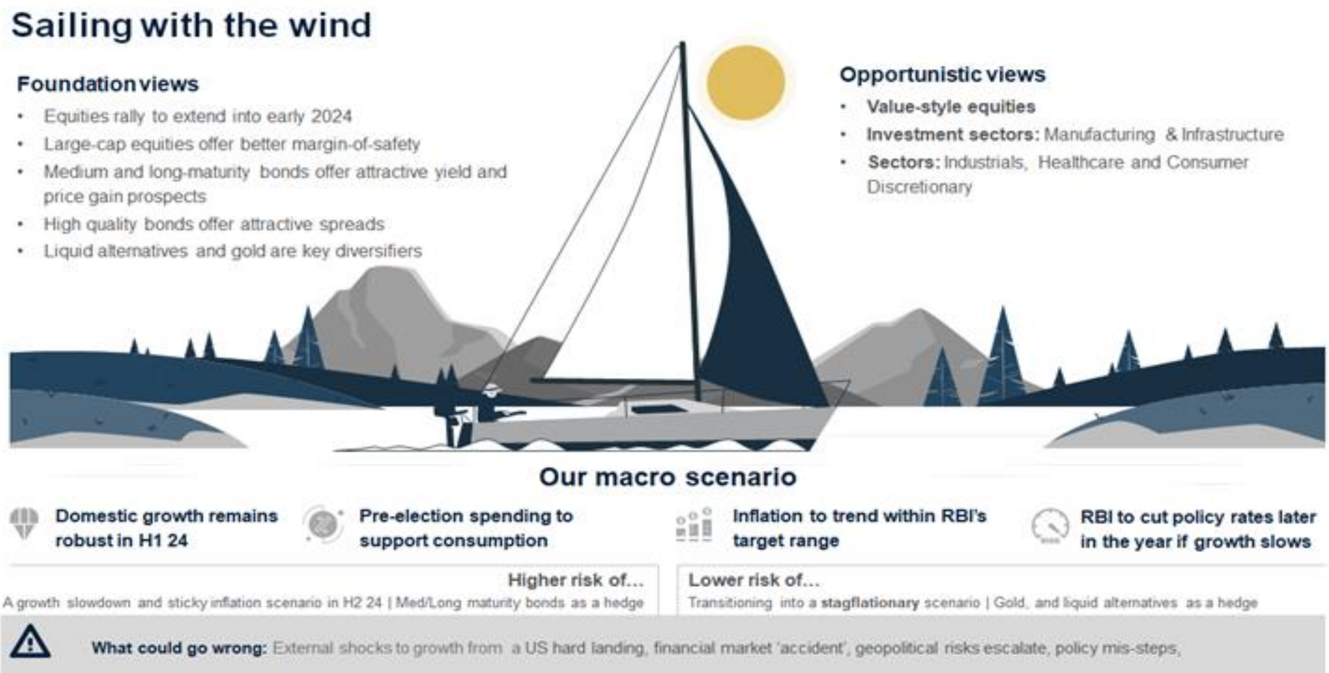
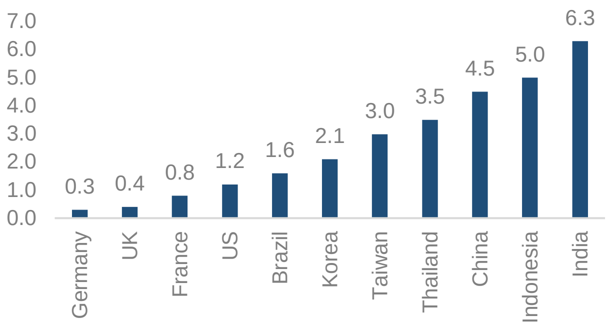


Fig. 2 India's economic growth to remain above trend and outpace global peers

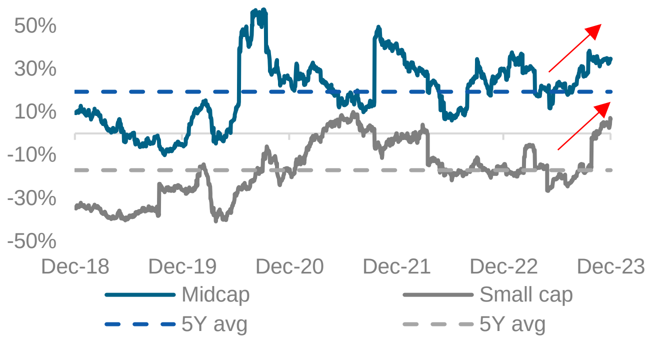
GDP growth (% y/y) forecast for 2024



Source: Bloomberg, Standard Chartered

Fig. 3 Broader markets are trading at a significant premium to large caps

12-month forward PE premium over Nifty index



Source: Bloomberg, Standard Chartered

Sailing through with the growth optimism

Indian economy has endured the impact of rapid monetary policy tightening better than major economies. Domestic GDP growth has stayed above trend and ahead of peers, while inflationary pressures' has stayed anchored around RBI's inflation target range. Government capex coupled with incentives to manufacturing and infrastructure sectors has driven a pick-up in private investments. These are strong tailwinds for the corporate profit cycle, which remains on track to be the best in a decade. The above macro scenario remains our base case and likely prevailing wind as we enter 2024.

In our view, domestic growth in H1 2024 is likely to get a boost from an acceleration in consumption demand through election-related spending. Investment growth could pick-up in H2 2024 with an acceleration in private spending as the new government's policy priorities become apparent. In addition, India is relatively less exposed to global macro risks emanating from slower global growth, still elevated interest rates and greater geo-political uncertainty; given its large domestic growth base and improving external position.

On inflation, the outlook has improved compared to the past year. Though, a surge in oil prices and weather-related uncertainty can still create inflation risks, ensuing disinflationary momentum in core-inflation and government's readiness to intervene on the supply-side, could help contain the impact of volatile food and energy prices.

In our assessment, the RBI is likely to maintain a pause in H1 2024 on policy rates given the above growth-inflation dynamics. As disinflationary pressures build over the first half of 2024, we expect the RBI to cut rates in the latter half of 2024. Nevertheless, the rate easing cycle is likely to be a shallow one as strong domestic demand and resilient growth impulses creates a floor on core inflation. However, this view could be tested if domestic growth slows or major central banks resort to further tightening should inflationary pressures resurface.

Foundation allocation: Raise equities to Overweight

Against the backdrop of strong domestic macro fundamentals and a weakening global growth outlook, we believe in 2024, investors would need to not only balance the evolution of the above macro scenario, but also find attractive risk/reward opportunities.

For Foundation allocations, our key Overweight is Equities, where we expect the positive momentum to extend in H1 2024, driven by the following factors:

1) **Superior profit cycle**: India's earnings remain resilient post a decade long down-cycle from 2011-2020. As per Bloomberg consensus estimates, Nifty index EPS is expected to grow by 14%/16% in FY2024 and FY2025. Overall, EPS growth of ~18 between FY2020-2025, makes the current cycle the best since 2004-08 period.

2) **Valuations appear more reasonable:** India's market capitalization crossed the USD ~4trn mark in 2023, as domestic equity indices scaled new all-time peaks. Despite the strong gains, Nifty Index's 12-month forward P/E ratio is at 19.8x, lower than 2021 peak of 23x. In our view, Indian equities valuation premium to peers is justified given superior GDP growth and earnings delivery.

3) **Low foreign investor positioning and strong domestic flows:** Despite strong foreign investor inflows (YTD'23 USD 17.9bn), foreign ownership of BSE 200 index market is at decadal lows of ~18%. Domestic flows remain strong on greater adoption of financial assets and robust systematic investment inflows in mutual funds.

4) **Pre-election optimism:** A historical analysis suggest that equity markets performance gets a pre-election boost *(see pg 6 for more details).*

Within equities, our key overweight is large-cap equities, given better margin of safety in terms of earnings and valuations and stronger balance sheets to cushion.

Bonds to outperform cash

In absolute terms, bond investors were reasonably compensated for staying invested in 2023, as higher yields at the start of the year translated into strong realized returns. We expect Bonds to outperform Cash in 2024 and have downgraded Cash to Underweight. This view is supported by the following drivers: 1) attractive carry as bond yields continue to trade above their long-term average 2) the increased likelihood of policy easing by the RBI and global central banks in H2 2024 and 3) improving demand outlook for Indian onshore bonds following India's inclusion in global bond index, starting June 2024.

Within Bonds, our highest conviction is on Medium and Long-maturity bonds, where we find the risk/reward attractive. Our base case scenario is likely to result in enough downside on bond yields (price gains), for it to beat cash yields. Further, we also see bonds as an attractive hedge against a scenario where domestic growth slows because of a hard landing in developed economies, in which case the fall in yield/rise in prices is likely to be more significant.

Fig. 4 **Risk-reward remains favourable for corporate bonds and medium and long-maturity bonds**

Return outcome scenario across various bond categories

		Gilt	Med. /Long	High Quality	Corp. Bond	Cash
	YTM	7.30%	8.00%	7.92%	8.00%	6.96%
	Mod	6.59	4.83	1.62	3.36	0.23
	12-month return outcome scenarios based on change in yields					
Change in yields	-0.25%	9.00%	9.20%	8.30%	8.80%	7.00%
	-0.50%	10.60%	10.40%	8.70%	9.70%	7.10%
	-0.75%	12.30%	11.60%	9.10%	10.50%	7.10%
	0.00%	7.30%	8.00%	7.90%	8.00%	7.00%
	0.25%	5.70%	6.80%	7.50%	7.20%	6.90%
	0.50%	4.05%	5.60%	7.11%	6.32%	6.85%
	0.80%	2.40%	4.40%	6.70%	5.50%	6.80%

Source: CRISIL, Standard Chartered

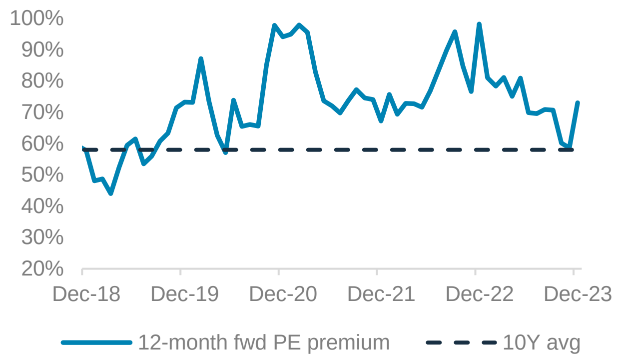
We prefer high-quality (AAA) corporate bonds over government bonds. The absolute yield on high-quality bonds remains close to recent peaks, requiring only modest price gains to beat cash and government bonds. Further, we expect the corporate bond spreads (over government bonds) to narrow amid steady demand for high-quality bonds and strong corporate fundamentals given robust profit growth outlook.

Opportunistic portfolios – taking advantage where possible

Within equities, we like Value-style equities, where we expect the momentum to continue with cyclical growth momentum remaining strong and bond yields still elevated. The MSCI Value index (12-month forward PE ratio at 17x) trades at a discount to the overall market, compared to MSCI India (PE at 22x) and MSCI India Growth index (PE at 27x).

Fig. 5 **Value style equities still trading inexpensive**

12-month forward PE premium (MSCI India Growth index over MSCI India Value index)



Source: Bloomberg, Standard Chartered

Our preference for investment sectors over the past two years has resulted in outsized gains. We continue to see value in manufacturing and infrastructure, with multi-year structural drivers still in place: (i) sequential improvement in capacity utilization driven by government's continued thrust on capex and a pickup in private investments, (ii) strong corporate sector balance sheet and improving credit cycle, and (iii) structural reforms and government's past policy initiatives to boost domestic manufacturing capability.

Within our sector strategy, we prefer a barbell approach through an overweight on domestic cyclicals, like Industrials and Consumer Discretionary along with a defensive overlay through an overweight on Healthcare. Resilient domestic growth and pre-election spending bodes well for a pick-up in discretionary consumption. While the valuation looks stretched for the sector, this is balanced by a robust earnings growth outlook. The prospect for Industrial sector remains bright given the strong government capex momentum, government policy incentives and improving private investments.

What could change or go wrong?

A relatively positive view does not take away from the importance of being nimble if conditions change.

Our positive view on equities, at least for the H1 of 2024, may be at risk if the economic growth or earnings delivery faulters, either for domestic reasons or a hard landing scenario in major developed economies.

Geopolitics is one potential risk, especially given 2024 is likely to experience an unusually busy election calendar. As market consensus leans towards continuity in government in the upcoming General Elections in India, a surprise outcome could trigger market volatility in the near-term.

History shows us that something 'breaks' when rates are high. Finally, we would remain on watch for any potential policy missteps of being too hawkish or too dovish.

Perspectives on key client questions

Does election influence equity market performance?

Equity markets respond to changes in fundamental factors such as trends in economic growth conditions, stage of the business cycle, fiscal and monetary policies and the corporate profitability cycle. While this is true for a developing economy like India, a historical analysis of the past General Elections, indicate a strong short-term linkage to elections.

Pre-election cyclicality in equities performance

Analysis of the past 5 General elections (which are more relevant given incumbent governments have served full 5-year terms), indicates that markets approach the elections with optimism. Nifty index rose an average 13% over the 6-month period leading up to the elections. This can be attributed to a pick-up in pre-election spending and populist measures, both of which are positive for consumption demand. Further, post-election performance data indicates that: 1) markets dislike surprise polling outcomes, as in 2004 when the loss of NDA triggered a sharp correction and 2) markets cheer larger than consensus verdicts, as observed in 2009 and 2014. Market reaction to 2019 election outcome was mixed, even though the incumbent NDA manged to secure a comfortable majority in the General Elections despite its below-par performance in 3 key state elections before the LS polls.

How different is it this time?

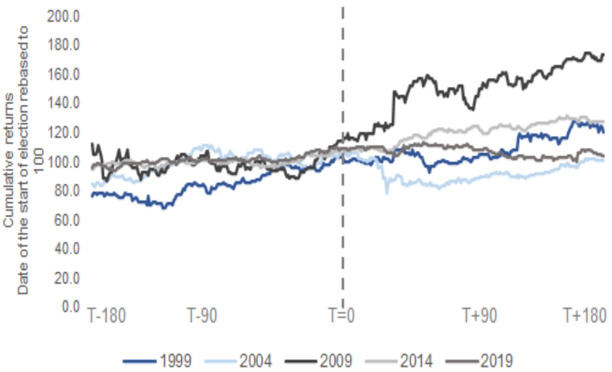
History shows that election outcomes can be unpredictable as sentiments can swing throughout the campaign season. At present, markets seem to be pricing in the likelihood of government continuity, especially after the NDA's strong performance in the recent State polls. While we dial up risk in our Foundation portfolios, to participate in the pre-election optimism, we remain mindful of the volatility that could accompany it and stay nimble to adapt to changing market landscape.

Outside of the elections, we remain positive on India's long-term structural story given long-standing reforms and policy initiatives taken over the last decade. In the event of a non-consensus election outcome, markets could experience immediate volatility, but over the long-term, we expect markets to adjust to the strong macro fundamentals and resilient corporate profit cycle.

Fig. 6 **Historically, equity markets approach the General Elections with optimism**

Nifty index performance (%) around the start of General Elections

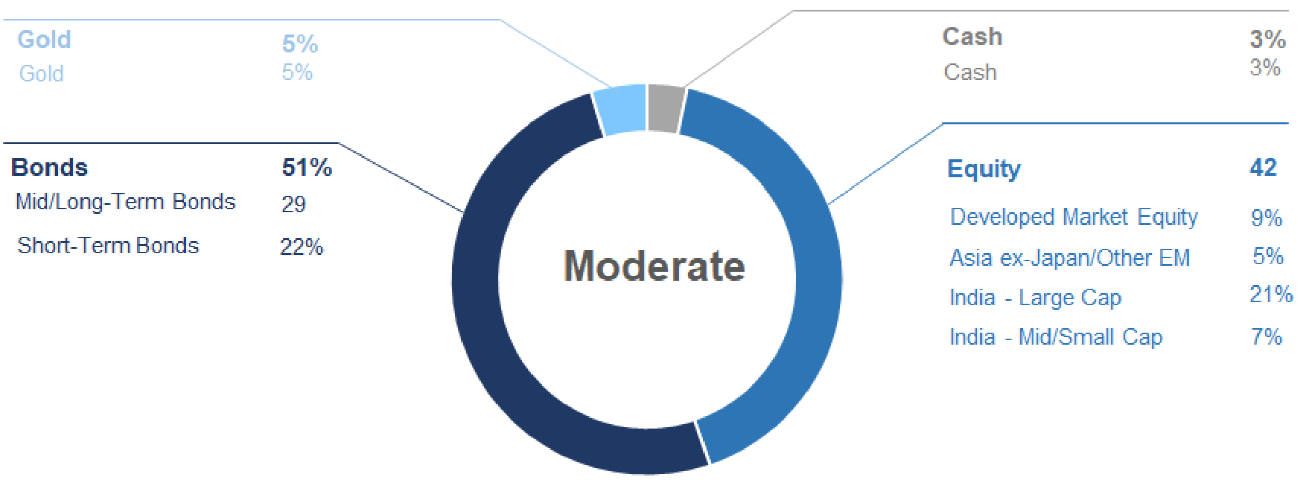
-6M	-3M	-1M	Election period	+1M	+3M	6M
30.4%	19.0%	4.4%	5 Sep to 3 Oct 1999	0.2%	3.1%	20.4%
22.4%	-2.6%	6.9%	20 Apr to 10 May 2004	-16.3%	-15.1%	-1.9%
3.1%	23.1%	22.2%	16 Apr to 13 May 2009	9.0%	25.6%	51.6%
13.4%	8.1%	2.6%	7 Apr to 12 May 2014	-0.6%	16.3%	18.7%
13.3%	7.2%	2.6%	11 Apr to 19 May 2019	-2.7%	-0.1%	-3.1%
13.4%	**8.1%**	**4.4%**	**Median**	**-0.6%**	**3.1%**	**18.7%**
100%	**80%**	**100%**	**% of +ve returns**	**40%**	**60%**	**60%**



Source: Bloomberg, Standard Chartered.

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 || - lower starting 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 demand outlook on India's inclusion to global bond index || - sensitive to rising yields**
Equities	▲	
DM Equities	▲	**+ Strong labour market || - Growth risks from high rates**
Asia ex-Japan/ Other EM	◆	**+ Earnings rebound, China policy support || - China growth concerns**
India – Large cap	▲	**+ Robust growth, stable earnings, resilient domestic inflows || - weaker exports amid slow global growth**
India – Mid/Small Cap	◆	**+ Improving macro fundamentals, strong earnings growth and stable earnings revisions || - stretched relative valuations, lower margin of saftey**
INR Gold	◆	**+ Portfolio hedge, central bank demand || - Resilient USD**

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 2024. Resilient domestic demand, supportive government policies and a pick-up in private capex are tailwinds for growth. Additionally, pre-election spending could support a pick-up in consumption demand. In our view, CPI inflation is likely to trend lower in 2024 and track within the RBI's medium-term target range of 2%-6% on disinflationary pressures from past policy tightening, easing food and commodity prices and timely policy interventions by the government to manage supply side concerns.

In our assessment, fiscal policy remains the key driver for growth in 2024, as financial conditions remains tighter than normal. Previous 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, given the underlying strong growth momentum and contained inflationary pressures, the RBI is likely to keep policy rates on hold in H1 2024. We expect the RBI to ease policy rates later in the year should growth moderate, but the rate cycle could be a shallow one given the low starting level for policy rates.

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 6.6% and CPI is expected to average 5.4%.

Fig. 7 **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 FY 2024.** India's GDP grew 7.7% in H1 FY24 compared to 7.2% in FY23. Industrial production growth has averaged 6.2% YTD CY 2023 (vs 4.8% in CY 2022), while manufacturing and services PMI has averaged 57/60 YTD CY 2023 (vs 55/56 in CY 2022).
Inflation	◒	**India's consumer price inflation eased to an average of 5.7% in 2023 YTD (until November 2023)** compared to 6.7% in CY22. Moderating core inflation, lower food and commodity prices are the primary drivers of lower inflation.
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. YTD 2023 GST collections has averaged INR 1.63trn (until November 2023), compared to an average collection of INR 1.46trn in CY 2022.
External	◒	**India's trade deficit has averaged USD 20.8 bn YTD 2023 (till October 2023) compared to USD 23.3bn in CY 2022.** 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, 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 December 2023 policy review for the fifth consecutive meeting.** The RBI retained its monetary stance of 'withdrawal of accommodation' and indicated it would conduct OMO sales to manage banking system liquidity as and when necessary. Further, the RBI retained its average inflation forecast for FY2024 at 5.4% and revised it real GDP growth forecast higher by 50bps for FY2024 at 7.0% 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 are neutral on bonds, as attractive absolute and real yields are counterbalanced by below average yield premiums, stretched medium-term fiscal position and weak government bond demand-supply balance. Nonetheless, India's recent inclusion in the global bond index is an additional tailwind for bonds. We are overweight medium and long-maturity bonds given their attractive carry and potential for higher price gains as yields fall. We prefer corporate bonds (i.e. bonds that offer a yield premium over government bonds), especially high-quality (AAA-rated) corporates.

In our view, the RBI's prolonged pause on policy rates, indicates the likelihood of bond yields being closer to the peak. We expect 10-year IGB yield to trade in the range of 7.00%-7.25% % over the next 6-12 months. In our assessment, high quality (AAA) corporate bonds offer a better risk-reward amid attractive spreads and improving corporate fundamentals. In addition, India's nominal bond yields are higher compared to their Emerging Market (EM) peers.

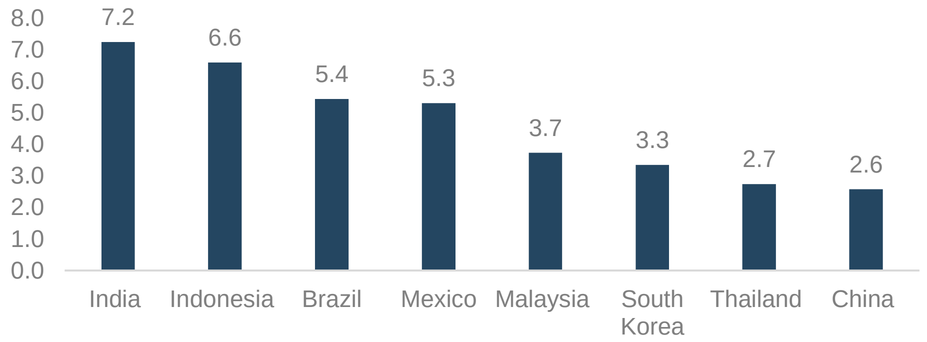
However, three factors for bonds remain unfavourable: 1) High fiscal deficit over the medium-term, 2) Worsening government bond supply balance given high supply of government bonds amid a lack of support from the RBI, and 3) Above average inflation is likely to keep bond yields elevated.

Key chart

India's nominal yield is better than most peers.

Fig. 8 **India's nominal yield 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 like other Emerging Markets.** The 10-year IGB real yield at 1.7% is close to the average real yield of 1.9% for other major EMs.
Supply dynamics	◐	**High bond sales is a risk**. The government pegged its net borrowing for FY 2024 at about INR 11.8trn. Lack of support by the RBI and its stance of managing system liquidity via OMO sales, remains a concern.
Monetary policy	◓	**Market expects no further rate hikes by the RBI.** 1-year Overnight Indexed Swap (OIS) spread suggests market participants expect the RBI to maintain a pause in policy rates over the next 12 months.
Liquidity	◓	**The RBI's focus remains on withdrawal of excess liquidity.** After remaining in surplus throughout H1 2023, the banking system liquidity has remained in a deficit since Oct'23. Increased currency leakage ahead of the general elections, could keep banking system liquidity tight in H1 2024.
Demand dynamics	◐	**Demand dynamics have been stable** given lower issuances by States. CYTD 2023, foreign investor flows into bonds remain positive. Additionally, India's inclusion in global bond indices could help off-set the lower demand from banks and a lack of RBI OMO purchases plan so far in FY2024.
Yield premiums	◓	**Yield premiums trade below average.** The spread between 10-year IGB and repo rate is at 69bps vs. 5yr avg. of 162bps. High-quality (AAA) bonds are attractive with the yield spread between 3YAAA rated bond and 3Y G-sec trading at 64bps compared to 30bps in March 2022 and 5Y avg. of 63bps.

Source: Bloomberg, Standard Chartered India Investment Committee

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

Equity - at a glance

Key themes

Going into 2024, we upgrade Indian equities to Overweight. India's strong domestic growth momentum, up trending earnings cycle and robust fund inflows are likely to off-set above average valuation premiums. Further, pre-election optimism amid expectations of government and policy continuity, are tailwinds for equities. Within equities, we are overweight large-cap equities given better margin of safety in terms of earnings and valuation. We prefer value-style equities.

In our view, Indian equities continue to be supported, at least in H1 2024, by strong positive drivers: 1) GDP growth and earnings outlook remains robust and continues to outpace its major peers. 2) Despite the strong performance in CY2023, absolute valuation for Indian equities is fair compared to previous peaks amid strong earnings delivery. Though, relative valuations are above average, they are lower than earlier peaks. 3) Stable inflows from domestic investors driven by inflows into systematic investment plans. 4) Pace of foreign investor inflows have improved amid reasonable valuations, robust fundamentals, and low foreign investor positioning in Indian equities.

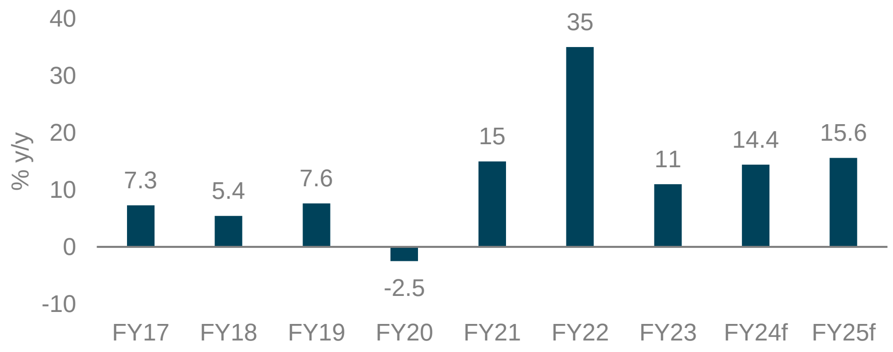
Risks to our positive equity view are: 1) Global growth slowdown and probable downgrades of earnings expectations, 2) Above-average equity valuations, both absolute and relative to peers, 3) Foreign investor selling amid slowing domestic investor flows.

Key chart

Bloomberg Consensus expectation is for Nifty earnings to rise by 14% and 16% in FY 2024 and FY 2025.

Fig. 9 **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 real income levels 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 14% and 16% respectively. EPS estimates for large cap equities (Nifty index) have seen upward revisions over the past three months.
Valuations	◓	**Valuations have moderated**. Nifty 12-month forward P/E trades at 19.8x, is below its peak of 23x, but higher than its long-term average of 17.6x. Price to book value ratio (P/B) at 3.0x and Market cap to GDP ratio at ~122%, are above long-term averages. Nifty Small-cap 12-month forward P/E trades at 21.1x, higher than its 5-year average of 15.9x
Flows	◓	**Foreign investors have turned net buyers since September 2023.** YTD 2023, foreign investors have bought USD 17.9bn 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 21.5bn 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 our view of strong domestic growth momentum, peak in interest rate cycle, and contained inflation amid slowing global growth. We upgrade Consumer Discretionary to Overweight given our view of improving consumption driven by pre-election spending and strong earnings growth outlook.

Industrials – Overweight

Industrials remains an overweight sector. The sector benefits from a multi-year investment-led economic growth cycle. 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, still robust public capex outlay, strong order book, lower commodity prices and a pick-up in private capex, are additional tailwinds for the sector. Earnings outlook for the sector remains among the strongest across sectors (FY24/FY25 EPS at 42%/22% y/y), which justifies expensive multiples for the sector.

Consumer Discretionary – Overweight

Consumer discretionary is an overweight sector. We expect the India's strong domestic growth and improving real income levels, to be supportive of a pick-up in consumption demand. In our view, the ensuing pre-election spending is a strong tailwind for the consumption sectors, especially for the high-ticket discretionary segment. In addition, easing raw material prices and lower transportation costs is supportive of margin improvement, partially offsetting slower volume growth. The sector trades at a premium to the overall market, though this is justified by the best earnings growth outlook (FY24/FY25 EPS at 103%/28% y/y) across sectors.

Healthcare – Overweight

Healthcare is an overweight sector. We prefer the sector for its defensive nature and as a potential hedge against an uncertain global backdrop and our overweight on domestic cyclicals. The sector has witnessed improved traction in 2023 driven by stable volume growth in domestic formulation, lower raw material costs and a gradual decline in freight costs. Global sales have improved driven by increased niche launches, improved sales in existing products and lower intensity of price erosion in the US generics market. The earnings outlook for the sector has stabilized and the sector trades at a lower valuation premium (12-month forward P/E of 29x compared to 2020 peak of 36x and 22x long-term average).

Fig. 10 **Our sector views**

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

Source: Standard Chartered

Legends: Overweight | Neutral | Underweight

▲ Upgrade from last quarter | ▼ Downgrade from last quarter

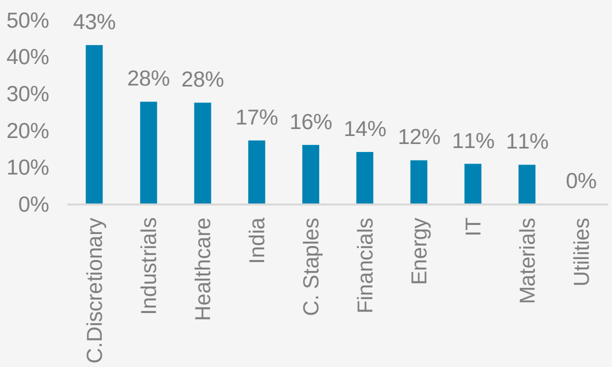
Fig. 11 **Sector valuations and earnings growth**

	12-mth Fwd P/E (x)		EPS Growth (Y/Y)	
MSCI Sector	**Current**	**15yr avg.**	**FY24**	**FY25**
India	21.8	17.1	12%	17%
Consumer Discretionary	26.4	17.5	103%	28%
Consumer Staples	45.2	33.9	15%	15%
Energy	13.7	12.7	26%	7%
Financials	17.8	16.3	23%	16%
Healthcare	28.8	22.0	14%	18%
Industrials	33.8	21.7	42%	22%
IT	24.8	19.0	4%	11%
Materials	21.0	13.5	-36%	32%
Utilities	31.6	12.2	1%	12%

Source: Bloomberg, Standard Chartered

Fig. 12 **Domestic sectors outperform in 2023**

YTD 2023 sectoral performance (%)



Source: MSCI, Bloomberg, Standard Chartered. 2023 YTD period from 31 December 2022 to 15 December 2023

Global equity – at a glance

Key themes

We are Overweight equities, and US equities within that, given our central scenario of a soft-landing in the US, at least in the first half of 2024. US companies are displaying strong corporate pricing power, resulting in solid net margins as inflation pulls back. Japan equities is the other Overweight region that continues to display a healthy combination of solid earnings, improving corporate governance and being less expensive than US equities.

We attach a Neutral weight to Asia ex-Japan equities. The region has potentially the highest earnings growth. We are Overweight Korea – the demand for AI is likely to support earnings. We are Neutral China equities; although sentiment is bearish, the government is supporting the economy via piece-meal stimulus. We are Neutral Indian equities, given the trade-off between relatively strong earnings and high valuations. Within Indian equities, we prefer large-cap over small- and mid-cap.

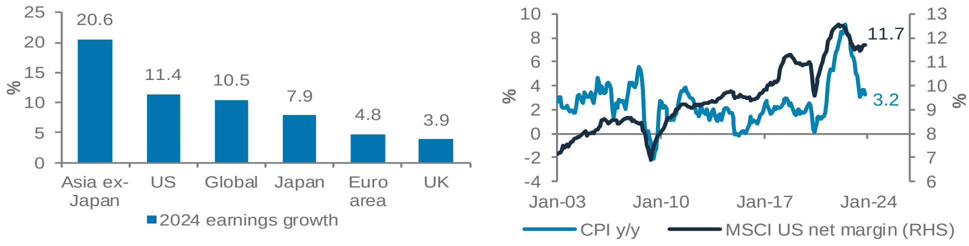
Elsewhere, we are Neutral Euro area equities. Growth prospects remain lacklustre, but cheap valuations and low positioning are counter-balancing factors. We stay Underweight UK equities – despite cheap valuation, the sector composition could be overly defensive and may underperform as the current global rally continues.

Key chart

Earnings growth favour Asia ex-Japan, US and Japan; US equities' displaying strong pricing power while inflation retreats

Fig. 13 **Earnings growth likely to be key driver of global equities; US equities net margin strong while inflation appears increasingly tamed**

Regional 2024 earnings growth; US net margin vs. CPI



Source: MSCI, FactSet, Standard Chartered

Preference order	The bullish case	The bearish case
US equities ▽ ◇ ▲	+ Resilient corporate profit margins + Technology sector propelling performance + More sensitive to declining bond yields	– Too-strong data leading to "higher for longer" – Macro uncertainties: eg, US election – Expensive valuations
Japan equities ▽ ◇ ▲	+ Strong corporate balance sheets + Corporate governance policies boost ROE + Foreign interest in Japan equities	– Rebound in JPY to hurt company earnings – Rising volatility from a tightening BoJ – Global growth slowdown
Asia ex-Japan equities ▽ ◆ △	+ China's fiscal and monetary stimulus + Attractive valuations and light positioning + Highest projected EPS growth in 2024	– Persistence in geopolitical tensions – Structural issues: eg, China properties – Lack of confidence from investors
Within AxJ	India equities ◆ South Korea equities ▲	China equities* ◆
Euro Area equities ▽ ◆ △	+ Valuations remain attractive + Light positioning + Improving corporate margins and ROE	– Weakening earnings growth – Heightened recession risk – Euro area factory activity deterioration
UK equities ▼ ◇ △	+ High dividend yield + Valuations extremely cheap + Relatively defensive sectors	– Weak earnings growth expected in 2024 – Substantial fund outflows – Lightly weighted toward growth sectors

Source: Standard Chartered Global Investment Committee
*We are Neutral China onshore vs offshore equities

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. Ahead of peer's economic growth, attractive real yields, improving balance of payments outlook supported by India's inclusion in global bond index, softer commodity prices, strong RBI FX-reserves and a mildly bearish USD outlook are key factors supportive of the INR. However, slowing FDI flows, weak manufacturing export growth amid slowing global growth and narrowing policy rate differential with the US are likely to pressurize the INR**.**

We expect a rangebound USD over the next 3 months. Major pairs are likely to consolidate after the market's adjustment following the Fed's December meeting. However, USD/JPY may have further to fall while USD/CHF looks oversold.

On a 6-12-month horizon, we expect the USD to move modestly lower. The Fed's increasingly dovish tone supports our view that G10 central banks have largely ended their rate hike cycle as global inflation slows. This, in turn, is likely to lead to more rangebound interest rate differentials, creating an opportunity to play the USD range. Rising risks of a hard landing scenario later in 2024, though, pose downside risks to US yield differentials and the USD.

Gold remains a core allocation within our portfolio. While other asset classes offer better return potential, we see gold as an attractive hedge against meaningful recession and geopolitical risks. Moreover, we see gold prices rising further to a record USD 2,150/oz over a 12-month horizon as Fed rate cuts commence, pulling down real yields and the USD. Central bank demand has been a dominant factor bolstering gold prices this year, defying several headwinds such as rising real yields, USD strength and weak investor demand. We expect central banks to remain buyers, lending additional support to the precious metal. In the near term, the continued disinflation, coupled with rangebound bond yields, is likely to lead real yields temporarily higher, capping gold's upside. Therefore, we expect gold to move to USD 2,060/oz over the next three months.

Crude oil prices are likely to trade at around USD 75/bbl towards the end of 2024, albeit with some volatility, given the potential for oil supply disruptions. Global oil demand growth is likely to slow on the back of a sluggish global economy in 2024, weighing on oil prices. Conversely, thin spare capacity following many years of underinvestment puts a floor on the downside. Furthermore, we expect OPEC+ to react to the price dynamics to keep the demand-supply in equilibrium. Put together, this scenario suggests the oil market stays largely balanced in 2024, barring any exogenous shocks. In the near term, the geographical risk premium has mostly faded, but could return on any escalation of tensions in the Middle East.

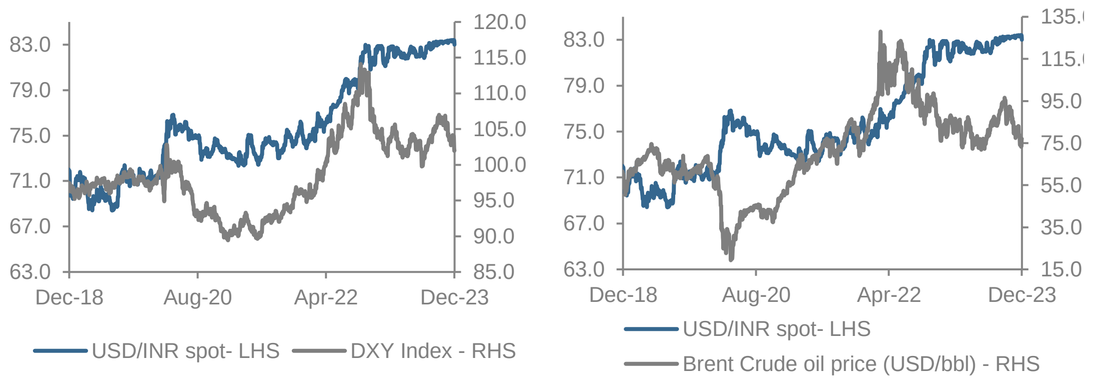
Key chart

Strong domestic growth, high real yield, improving balance of payments and a modestly weaker USD to off-set in weakness in exports and lower interest rates differential.

Fig. 14 **Strong macro fundamentals and a modestly 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

A holistic approach to managing your wealth

SC Wealth Select

A focus on you - Purpose, Principles and Process

There's nothing like a new year to reassess your goals and what's important. As you plan for the year ahead, take the time to review your investments. We understand that everyone approaches their wealth differently. However, what truly matters is that you feel in control of your wealth journey and are well-positioned to secure your financial future.

In a world of financial complexity, our goal is to help you stay focused. Our *Outlook 2024* report provides deep insights into markets and guides your asset allocation to optimally position for the future. To help you make well-informed investment decisions, we follow a holistic approach to helping you manage your wealth. 'SC Wealth Select' is a framework that focuses on understanding the Purpose of your wealth, using Principles to guide your investment decisions, and is underpinned by a rigorous Process to deliver on your wealth goals.

As you look ahead to 2024, be sure to follow a few key SC Wealth Select tenets. Be disciplined. Stay focused on your wealth goals. Keep emotions in check. And don't let short-term market noise divert your focus from your longer-term wealth objectives.

Purpose

Today, Tomorrow, Forever

Our approach to wealth is built on your vision of Today, Tomorrow and Forever for yourself, your family and beyond. As you move through life, your needs, life goals and preferences change. However, at every stage, clearly defined goals help to anchor your investment decisions.

Using a 'Today, Tomorrow and Forever' approach, we distinguish the assets intended to be used in the near term (Today) from the assets that are to be used over decades (Tomorrow and Forever), thereby segmenting your allocations into different strategies that can help you meet your short- and long-term goals.

'Today, Tomorrow and Forever' planning is unique to you. Our specialist's partner with you to build well-diversified, long-term Foundation, aligned to your Today, Tomorrow, Forever needs. Opportunistic ideas are added to capture short term opportunities, while sufficient protection is included to address your and your family's objectives.

Today, Tomorrow, Forever Approach

Planning for Today

Requires ensuring sufficient liquidity and income flows to meet immediate day-to-day needs.

Securing Tomorrow

Entails a well-diversified investment and protection allocation with a focus on growth, while ensuring inflation is accounted for and risks are mitigated.

Building for Forever

Involves greater focus on long-term returns, given the time horizon of the allocation can be measured in decades. This might include business interests, real estate, collectibles, or charitable funds.

Principles

that have stood the test of time

Adhering to time-tested Principles, to ensure your investment decisions remain robust and are consistently applied, is paramount to your success Today, Tomorrow and Forever. We use five Wealth Principles to guide and guardrail your wealth decisions.

Discipline – Ensure consistency and prudence over your emotions

- Reacting to emotions such as optimism and fear can lead to poor investment decisions at the worst times
- Have a plan and stick to it – this helps you to stay focused on the bigger picture

Diversification – Simply put, don't put all your eggs in one basket

- Reduce risk by holding a variety of financial assets. Multi-asset diversification in your Foundation allocation is important
- As a guide, make sure your investments contain a variety of asset classes that have low correlation with one another

Time in the Market – A more robust strategy than timing the market

- Predicting market upturns and sell-offs is challenging, and timing your exit and re-entry is difficult
- Missing out on the best performing days of a market can have a significantly detrimental impact on your investments
- 'Time in the market' and buying the market with a longer-term view provide more consistent returns that can ride out bumps along the way

Risk and Return – Make sure the risk is worth the return

- To achieve higher investment returns, you will likely have to accept a greater level of risk in your investments
- Therefore, it's important to understand the risks and manage these on an ongoing basis

Protection – Don't let the unexpected catch you unprepared

- Even though you may feel healthy, or financially stable now, protection offers the ability to overcome times of financial uncertainty and mitigate the long-term impact of unforeseen events on your wealth
- A good protection plan not only safeguards your wealth today, but also considers the value of your future earnings over your lifetime, in today's terms

Process

Following a holistic approach to managing your wealth

We follow a rigorous process to ensure your needs and objectives are well-understood, and your investments are aligned and managed to deliver on these objectives.

However, markets constantly evolve and your needs change. Hence, we encourage you to undertake regular reviews to ensure your investments remain aligned to your Today, Tomorrow and Forever objectives. This proactive approach includes strategic rebalancing based on insights from our Chief Investment Office.

Learn more

Scan the QR code below to learn more about our SC Wealth Select approach to growing, managing and protecting your wealth.

The five-step process

Showcase
Demonstrate how SC Wealth Select can help you

Discover
Understand you better – your needs, preferences and goals

Propose
Design a diversified foundation tailored for you, with Opportunistic overlays

Implement
Seamlessly and efficiently

Monitor & Review
Regularly review and rebalance your investments

2023 in review

Overall, 2023 has turned out to be a good year for all major asset classes. After a mixed start to the year amid record tightening by the major central banks, markets cheered the disinflationary momentum from Q3, as equities and bonds staged a strong come back.

Asset allocation views

We publish tactical asset allocation models for India, where we add allocations to asset classes which we expect to outperform in the coming 12 months and trim allocations to those we expect to underperform. Here, we report the performance of our baseline tactical asset allocation: the India moderate allocation – based off a strategic 5% weight to cash, 55% to bonds, 35% to equities and 5% gold.

Our tactical moderate asset allocation model has delivered notional returns of 12.5% since we published our 2023 Outlook (until 15 December 2023), outperforming the strategic asset allocation by 0.2%. We started tracking performance of our moderate allocation since 2016, and this has been below the average outperformance so far. Given our neutral stance on all major asset classes for 2023, there was limited scope to generate alpha. The surprise rally in domestic equities later in the year, resulting in its outperformance over all other asset classes, was a miss. However, the performance of our TAA model was supported by opportunistic shifts from 1) moving to OW from Neutral on DM equities in Q3, 2) moving to OW on mid-cap and small-cap equities in H2 2023. Our OW stance on medium and long-maturity bonds and neutral stance on short-maturity bonds, both dragged our model performance.

Cash returns were in line with our expectation, supporting our decision to remain neutral on the asset class. Gold lived up to its reputation as a portfolio diversifier and a hedge against uncertainty.

Key calls performance

Outside of our regular asset allocation views, we had many thematic and sector calls, which did well.

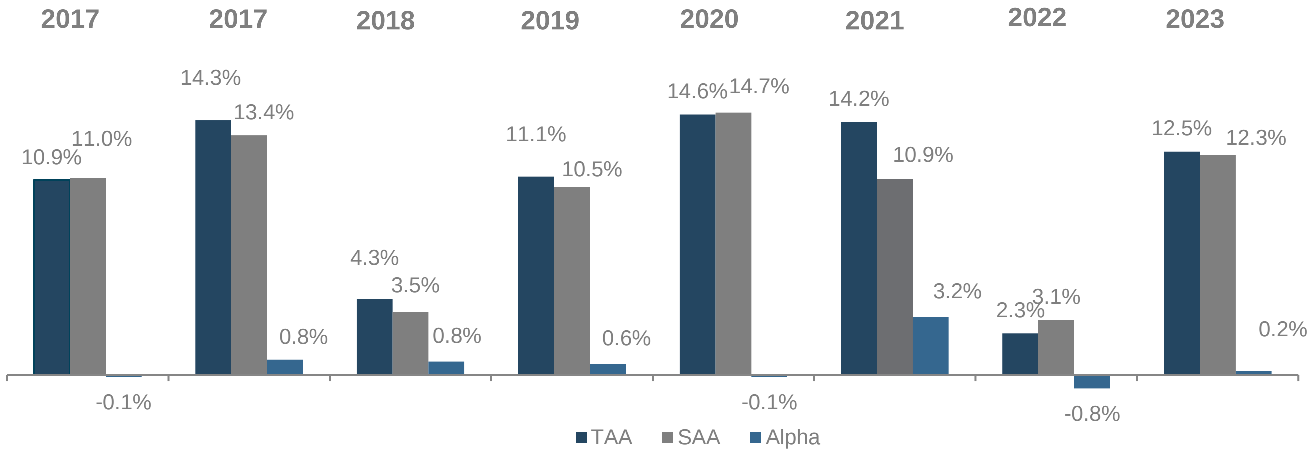
Our equity themes, 1) preference for domestic cyclicals (Financials & Industrials) to outperform Indian equities, delivered positive relative returns, 2) Value-style equities to outperform Growth-style, did well, and 3) India's Investment sectors (preference for Manufacturing and Infrastructure) to outperform Indian equities, delivered strong absolute and relative performance.

Our key bond theme for H2, corporate bonds to outperform government bonds, delivered positive relative returns.

Our equity sector calls, preference for Industrials, Consumer Staples (till H1 2023) and Healthcare (for H2 2023), delivered strong absolute and relative performance while our preference for Financials delivered negative relative returns.

Our India-focused TAA* delivered positive relative performance in 2023

Annual performance of our Tactical Asset Allocation* (TAA) relative to the Strategic Asset Allocation* (SAA) baseline model



Source: Crisil, NSE, Bloomberg, Standard Chartered

*SAA is our India-focused moderate strategic asset allocation. The SAA is made up of 5% INR cash, 55% INR bonds, 35% equities and 5% INR Gold.

TAA is our India-focused moderate tactical asset allocation which tilts the SAA allocation according to the Standard Chartered Bank's India Investment Committee's views.

**SAA and TAA performance is measured from the publication of our Outlook 2023 report on 19 December 2022 to 15 December 2023.

Foundation: Asset allocation summary

Summary			**View vs. SAA**	**Conservative**	**Moderate**	**Moderately Aggressive**	**Aggressive**	**Very Aggressive**
Cash			▼	18.3	3.3	3.1	3.0	0.0
Fixed Income			◆	56.6	50.6	35.4	21.3	12.2
Equity			▲	19.9	41.5	57.0	71.4	83.8
Commodities			◆	5.1	4.6	4.4	4.3	4.1
Level 1	**Level 2**	**Level 3**						
Cash & Cash Equivalents			▼	18.3	3.3	3.1	3.0	0.0
Fixed Income	Short-term Bonds		◆	38.2	29.1	22.8	13.3	7.4
	Mid/Long-term Bonds		▲	18.5	21.5	12.6	8.0	4.8
Equity	DM Equity		▲	5.1	9.2	13.3	17.1	20.3
	Asia Ex-Japan / Other EM Equity		◆	2.5	4.5	6.4	8.2	9.8
	Indian Equities	Large-cap equities	▲	9.2	20.9	28.0	34.6	40.3
	◆	Mid/small-cap equities	◆	3.1	6.9	9.3	11.5	13.4
Commodities (INR Gold)			◆	5.1	4.6	4.4	4.3	4.1
				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

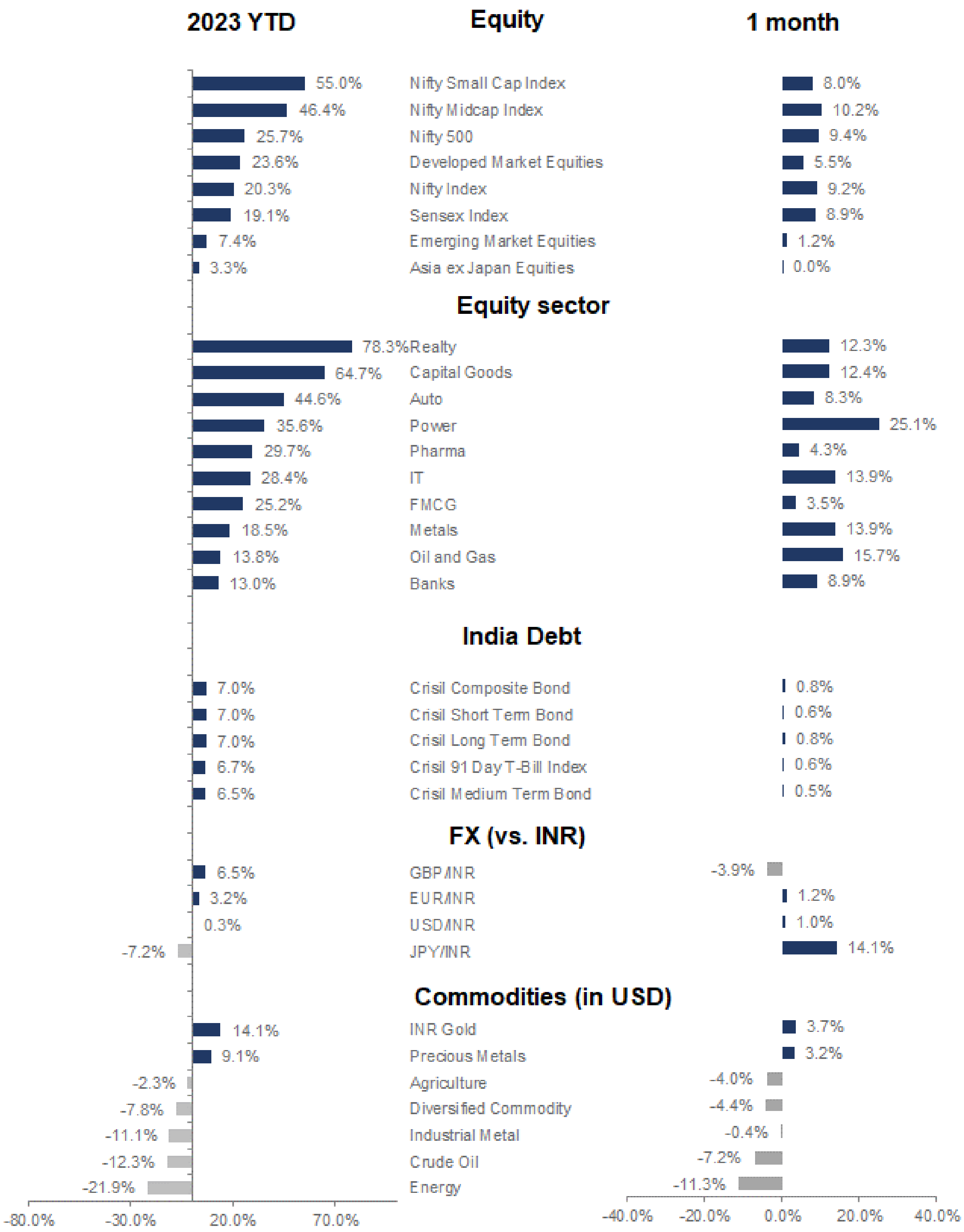
	Closed calls	Open date	Close date	Absolute	Relative
Bonds	Indian short-maturity bonds to outperform mid- and long- maturity bonds	19-Dec-22	30-Jun-23		✗
	Indian corporate bonds to outperform Indian government bonds	30-Jun-23	15-Dec-23		✓
	Indian mid- and long-maturity bonds to outperform short-maturity bonds	30-Jun-23	15-Dec-23		✗
Equities	Indian large-cap equities to outperform mid-cap and small-cap equities	19-Dec-22	30-Jun-23		✗
	India Value equities to outperform Indian equities	30-Jun-23	15-Dec-23		✓
	Indian mid-cap and small-cap equities to outperform large-cap equities	30-Jun-23	6-Oct-23		✓
	Indian large-cap equities to outperform mid-cap and small-cap equities	6-Nov-23	15-Dec-23		✗
Equity Sectors	India Financial Sector to outperform Indian Equities	19-Dec-22	15-Dec-23		✗
	India Industrial Sector to outperform Indian Equities	19-Dec-22	15-Dec-23		✓
	India Consumer Staples Sector to outperform Indian Equities	19-Dec-22	30-Jun-23		✓
	India Healthcare Sector to outperform Indian Equities	30-Jun-23	15-Dec-23		✓
Thematic	Indian domestic sectors to outperform Indian equities	19-Dec-22	30-Jun-23		✓
	Indian Investment sectors to outperform Indian equities	19-Dec-22	16-Dec-23		✓
	India Hybrid strategy (absolute returns)	19-Dec-22	15-Dec-23		✓

Source: Bloomberg, Standard Chartered. Performance measured from 19 December 2022 (release date of our 2023 Outlook) to 15 December 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 15 December 2023. 1-month period from 15 November 2023 to 15 December 2023.

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