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Investment Strategy I 7 October 2024

India Market Outlook

Shifting growth inflation dynamics

Indian risk assets hit new all-time highs in Q3, as risk sentiment was boosted by US Fed rate cuts, falling domestic bond yields, easing domestic inflation and robust foreign investor inflows

We see increased risks of a pull-back in domestic equities in the near-term given India's stretched valuations to major regional peers, normalisation of economic and corporate earnings growth and significant event risks with elections in the US and key Indian states. The escalation of Middle East tensions into a regional conflict is a key risk to monitor.

We continue to prefer a diversified asset-allocation, with (i) an overweight on large-cap equities, (ii) an overweight on medium- and long-maturity bonds, (iii) owning gold as a diversifier, and (iv) cash as source of dry powder for future opportunities

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Important disclosures can be found in the Disclosures Appendix.

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Investment strategy and key themes

Our top preferences

Foundation Allocations

- Prefer a diversified asset allocation
- *In equities:* Large-cap equities
- *In bonds:* Medium-and long-maturity bonds

Opportunistic Allocations

- Investment sectors – *Manufacturing* *Infrastructure*
- High-quality corporate bonds

Sector overweights

- Industrials
- Financials
- Consumer Staples

FX views

- Bullish bias on USD (3-month)
- Mildly bearish bias on INR (12-month)

Shifting growth inflation dynamics

- Indian risk assets hit new all-time highs in Q3, as risk sentiment was boosted by US Fed rate cuts, falling domestic bond yields, easing domestic inflation and robust foreign investor inflows.
- We see increased risks of a pull-back in domestic equities in the near-term given India's stretched valuations to major regional peers, normalisation of economic and corporate earnings growth and significant event risks with elections in the US and key Indian states. The escalation of Middle East tensions into a regional conflict is a key risk to monitor.
- We continue to prefer a diversified asset-allocation, with (i) an overweight on large-cap equities, (ii) an overweight on medium- and long-maturity bonds, (iii) owning gold as a diversifier, and (iv) cash as source of dry powder for future opportunities.

Focus shifts on fundamentals

We believe the following macro and market trends are likely to influence domestic assets in Q4 2024: 1) **Domestic growth and earnings trajectory** – Lacklustre economic and corporate earnings growth in Q1, high-frequency indicators pointing to the slowdown extending into Q2 and high real rates amid stretched valuations leaves very little room for disappointment on earnings; 2) **The RBI's policy stance** – the recent slowdown in economic indicators and sustained easing of non-food inflation along with new members joining the MPC, could recalibrate RBI's policy stance to be more growth supportive; 3) **Rotation to China** – low valuations and return of 'animal spirits' in Chinese equities due to a decisive turn in policy could renew foreign investor interest. For now, we see limited impact on Indian markets given modest inflows YTD2024 and foreign investor positioning of Indian markets close to decadal lows; 4) **Middle East tensions** - the escalation into a major regional conflict, remains a key risk for global supply-chain, commodity prices and financial markets.

Fig. 1 Historically, bonds have delivered consistent performance around the RBI's easing cycle

Average change in domestic bond yields (bps) and asset class performance around the first rate cut by the RBI since 2002

	Leading up to the 1st rate cut				Index performance	Following the 1st rate cut			
	-1Y	-6M	-3M	-1M		+1M	+3M	+6M	+1Y
Yields change	-31	-63	-52	-29	10Y IGB yield (bps)	0	8	-21	-56
	-22	-54	-45	-15	3Y IGB (bps)	-17	-14	-32	-59
	26	-27	-29	5	3YAAA (bps)	-18	-20	-121	-177
	88	8	-23	-2	Cash (%)	-27	-54	-100	-130
Asset class performance	7.4%	4.7%	2.6%	0.7%	Composite Bond (%)	0.7%	2.1%	6.5%	9.8%
	15.8%	4.4%	0.4%	1.8%	USD/INR (%)	0.2%	-0.4%	2.3%	2.4%
	-7%	5%	6%	2%	Nifty index (%)	-3%	-2%	1%	8%
	14%	7%	3%	3%	Gold	-1%	3%	8%	14%

Source: Bloomberg, Standard Chartered. Performance analysis for the past 5 RBI policy easing cycles (2002, 2008, 2012, 2015 and 2019)

Slowing growth urge policy recalibration

In our H2 Outlook, we argued that the RBI could remain on hold for the rest of 2024. The view was underpinned by resilient growth momentum affording the monetary policy committee (MPC) the policy space to deal with last mile disinflation. Since then, non-food inflation remains below 4%, while the outlook on food prices has improved on surplus monsoon and positive Kharif sowing. On the growth front, most high frequency indicators – GST collections, manufacturing and services PMI, credit growth, and industrial production, points to growth slowing down further in Q2 2025 after a lacklustre Q1 2025. This led to more MPC members dissenting in August policy. The change in the composition of MPC along with the shifts in the growth-inflation dynamics since the last policy, could necessitate a more nuanced policy intervention than a hawkish inflation focus. Though, we expect the RBI to stay on hold in October policy meeting, the odds of a pre-emptive shift in monetary policy has increased, with rate cuts of 50-75 bps over the next 12 months. However, the current rate easing cycle is likely to be shallow given the low starting point of policy rates and surplus system liquidity.

Bonds – add to the recent rebound in yields

Historically, domestic bond yields have trended lower around the start of the RBI's easing cycle, like the current cycle. Extension of maturity in our Foundation allocations through an overweight on medium-and-long-maturity bonds has benefitted investors as sovereign yields have fallen 35-55 bps across maturities. The benchmark 10-year IGB yield fell to 6.72% in late September, before rising on escalating middle east tensions and the government sticking to its borrowing plan for H2 FY 2025. We see scope for yields to decline further, supporting our OW on medium-and-long-maturity bonds, though the relative outperformance over short-maturity bonds is likely to narrow. We expect the 10-year IGB yield to trade in the range 6.50%-6.75% over the next 12-months.

Our preference for corporate bonds has not performed well, as AAA-rated bonds have trailed sovereign bonds with liquid government bonds adjusting to lower interest rate scenario quicker than corporate bonds. However, history indicates the fall in AAA-rated bond yields following the first RBI rate cut *see fig 1*, outpaces government bond yield fall by a significant margin. Further, the current corporate bond spreads (86bps over government bonds) are at a cyclical high offering investors to lock-in attractive 'carry' yields, making corporate bonds attractive from both, absolute and relative return.

Equities – a balanced view

Declining bond yields and improving global growth outlook while positive for equites is counterbalanced by stretched valuation premiums and normalizing growth and corporate earnings. Broader markets are trading at cycle-high premiums to large-cap equities, buoyed by excessive inflows from retail investors and mutual funds, raising the odds of a pull-back. Given the risk-reward, we are neutral on Equities, in our Foundation allocations, with an OW on large-cap equities over mid-and-small cap equities, given better margin of safety in terms of earnings and valuations.

Cash yields at risk

Yields on cash have been rewarding over the past two years. However, this period is now coming to an end. Historically, the start of the RBI easing cycle leads to a sharp decline in cash yields over 6-12 months, increasing reinvestment risks. This is the reason we continue to expect bonds to outperform cash.

Can gold keep rising?

In our view, gold prices have room to rise further. Declining bond yields, central bank purchases and strong domestic demand during festive season amid a decline in import duty, are key supportive factors. We prefer gold as a solid core holding and a key portfolio hedge against escalating geopolitical tensions, commodity price shocks or a global growth slowdown.

Equity sectors & Style: Rotation in play

Heading into the first rate cut, Indian equities on an average fell 6% over the trailing 12-month period, attributable to slower growth on revenue and corporate profitability. The performance in the immediate 1-3 month post the first rate cut is weak as growth challenges linger on. However, performance recovers over the following 6-12 month, as financial conditions ease, economic activity stabilizes, and profit outlook improves, albeit with a significant divergence across sectors and investing style.

Cyclicals underperform. The impact of deteriorating growth conditions is more pronounced in the performance of cyclical sectors. Financials, Industrials Materials, Utilities are the weakest over the 12-month period before the first rate cut, with the underperformance continuing over the 6–12-month period following the first rate cut, except for Financials, which likely is boosted by pick-up in loan disbursal and lower borrowing costs.

Consumption sectors offer resilience. Both Staples and Discretionary sectors deliver strong positive returns over the 12-month period before the first rate cut. Over the 6–12-month period following the first rate cut, Staples continue to outperform given lower sensitivity to economic growth conditions while Discretionary sector comes under pressure, given increased uncertainty on income and employment.

Defensives performance mixed. On an average, they have underperformed over the 12-month period before and after the first rate cut. But there is sharp divergence in performance – positive returns during 2008 and 2012 cycles, and negative returns during 2002, 2015 and 2019 cycles.

Growth outperforms Value. Value style equities, whose performance is linked to the stage of economy cycle, have lagged Growth peers before and after a rate cut as value-style equities perform well in an environment of improving macros and rising bond yields. In period of stable or slower growth and declining bond yields, investors tend to prefer the safety of companies with strong balance sheets and resilient and high-quality earnings growth. This rotation drives the outperformance of growth-style equities.

Opportunistic ideas: prefer a barbell approach

We continue to prefer domestic cyclicals given our view of normalizing, but still above peers economic growth. We retain our Overweight on Industrials. While, the sector trades at expensive valuations, the sector's earnings growth remains ahead of its sector peers. Industrial sector fundamentals remain strong on government focus on improving domestic infrastructure, supported by past policy reforms and a gradual pick-up in private investment.

We retain our Overweight on Financials, given its strong linkage to domestic growth, healthy earnings outlook and reasonable valuations compared to other sectors. A falling interest scenario could impact interest margins, but this could be offset by a pick-up in loan disbursal as borrowing costs moderate.

We balance our preference for domestic cyclicals through a defensive overlay with an Overweight on Consumer staples. The sector has outperformed peers since our upgrade at the start of H2 2024. While the revenue and growth outlook for the sector lags peers, we like the sector for its defensive nature in a period of growth normalization and policy easing. Further, an improvement in rural income and farm sector demand given a better monsoon and likely government policy support to boost consumption, are supportive factors.

We retain our preference for Investment Sectors – *Manufacturing* and *Infrastructure*. We find multiple structural drivers still in place for these sectors - sustained investment cycle, continuity of past policy reforms, infrastructure delivery and incentive schemes to boost domestic manufacturing ecosystem. India's technological advancements, demographic dividend and lower labour costs are additional tailwinds.

Fig. 2 **Historically, Indian equities have seen a rotation in sector performance and style of investing**

MSCI India indices performance (%) around the start of RBI policy easing

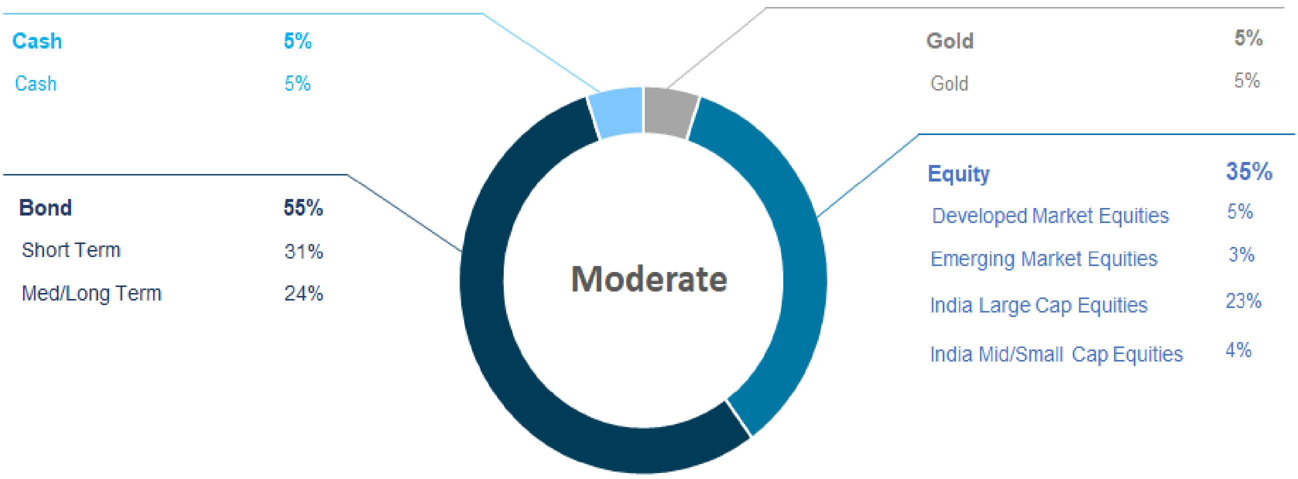
Sectors & Style performance

Leading up to the 1st rate cut				Index performance	Following the 1st rate cut			
-1Y	-6M	-3M	-1M		+1M	+3M	+6M	+1Y
-6.2%	4.1%	6.4%	3.3%	MSCI India	-2.8%	-2.9%	2.0%	6.9%
31.9%	10.7%	5.6%	2.4%	Discretionary	-1.7%	-9.2%	-6.8%	-5.7%
20.8%	7.4%	10.3%	7.5%	Staples	-2.9%	3.8%	-1.4%	5.2%
-6.3%	7.0%	10.9%	2.1%	Financials	-0.5%	-0.1%	1.7%	12.9%
-15.8%	-3.8%	2.0%	0.3%	Industrials	-3.4%	-2.4%	2.0%	1.7%
-12.6%	10.9%	3.1%	3.3%	IT	-3.9%	-3.9%	-2.5%	2.5%
13.1%	15.0%	6.9%	1.9%	Healthcare	-0.2%	0.4%	-4.9%	0.5%
4.2%	-5.2%	1.7%	0.6%	Energy	-5.2%	-1.6%	6.2%	5.2%
-11.5%	-9.0%	-3.1%	-1.5%	Utilities	-1.9%	2.5%	-3.0%	-7.4%
-17.9%	-10.1%	2.5%	-2.9%	Materials	-3.0%	-4.7%	-1.0%	-11.0%
-10.9%	2.7%	5.0%	4.6%	Value	-2.1%	-6.5%	-1.7%	-3.3%
-1.2%	4.3%	5.3%	2.1%	Growth	-3.5%	-0.5%	5.6%	8.7%

Source: Bloomberg, MSCI, Standard Chartered. Performance analysis of past 5 RBI policy easing cycles (2002, 2008, 2012, 2015 and 2019)

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, yields || - Reinvestment risk, Risk of missing higher returns elsewhere
Bonds	◆	
Short-term bonds	◆	+ Low sensitivity to rising rates || - Elevated inflation
Mid- to long- term bonds	▲	+ High absolute yields, improving government bond demand-supply balance || - sensitive to rising yields
Equities	◆	
DM Equities	▲	+ Strong earnings growth, room for rate cuts || - Elevated valuations
Asia ex-Japan/ Other EM	◆	+ Earnings rebound, China policy support || - China structural growth concerns
India – Large cap	▲	+ Robust growth, stable earnings || - weak exports amid slow global growth, stretched valuation premiums
India – Mid/Small Cap	▼	+ Higher relative earnings growth || - cyclically high relative valuations, negative earnings revisions
INR Gold	◆	+ Portfolio hedge, central bank demand, falling real rates || - 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 over the next 12 months. Resilient domestic demand, broadening government policy support and focus on capex are tailwinds for growth. In our view, CPI inflation could surge from the recent lows on fading base effects but stay within the RBI's inflation target range of 2%-6% on disinflationary pressures from previous policy tightening, lower food article prices given better monsoon and likely government policy interventions to manage supply side concerns.

In our assessment, fiscal policy remains the key driver for growth in 2024, as financial conditions are tighter than normal. Continuity of past policy measures undertaken by the government that include (i) greater public capex spend, (ii) structural reforms and (iii) incentives to boost manufacturing and infrastructure, supports India's medium-term growth outlook. In our view, the RBI is likely to keep policy rates on hold in Q4 2024 and cut rates in Q1 2025 as inflation stays close to the medium-term target of 4% and growth slows. However, the quantum of easing in this cycle is likely to be shallow.

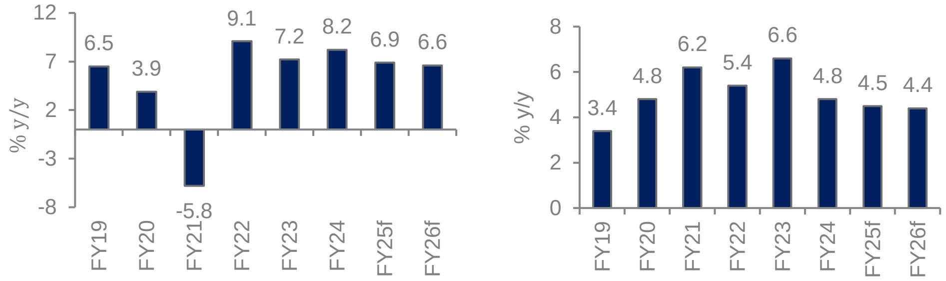
Key risks to our macro-outlook are: 1) Global growth slowdown, 2) Persistent high inflation, 3) Escalating geo-political tensions.

Key chart

For FY2025, India's GDP is expected to grow at 6.9% and CPI is expected to average 4.5%.

Fig. 3 **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 moderated in August 2024.** India's Manufacturing PMI eased to 56.5 while Services PMI eased to 57.7 in September 2024. Industrial production grew 4.8% y/y in July 2024, higher than the 4.7% growth recorded in the previous month.
Inflation	◓	**India's consumer price inflation rose to 3.65% in August 2024,** partly due to a high base effect and a rise in food article prices. Core inflation rose to 3.44%, rising for the second consecutive month since hitting an all-time low of 3.1% in May 2024.
Fiscal deficit	◓	**The government prioritized fiscal consolidation while supporting growth in the latest budget.** FY 2025 fiscal deficit is estimated at 4.9% of GDP vs interim budget target of 5.1%. GST collections eased to a four-month low of INR 1.72trn in September 2024 compared to INR 1.75trn last month.
External	◓	**India's trade deficit widened to USD 29.7bn in August 2024 compared to USD 23.5bn in July 2024.** Imports rose 3.3% y/y to USD 64.4bn, while export fell 9.3% y/y to USD 34.7bn. India's current account recorded a deficit of USD 9.7 bn or 1% of GDP in Q1 FY2025 compared to a surplus of USD 4.6bn or 0.5% of GDP in Q4 FY2024. This was driven primarily by a widening of merchandize trade deficit.
Monetary Policy	◓	**The RBI kept policy repo rate unchanged at 6.5% in its August 2024 policy review for the ninth consecutive meeting.** The RBI retained its monetary stance of 'withdrawal of accommodation' and indicated flexible liquidity management through two-way actions. Further, the RBI retained its GDP growth forecast for FY 2025 at 7.2% y/y and retained its average inflation forecast for FY 2025 at 4.5% 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 are neutral on bonds as attractive absolute yields are counterbalanced by below-average yield premiums. Improving bond demand-supply balance given lower government borrowing, higher RBI dividend and India bonds' inclusion in the global bond indices is a tailwind for bonds. We stay overweight medium and long-maturity bonds given their attractive carry and potential for higher price gains as bond yields fall. We prefer corporate bonds (i.e., bonds that offer a yield premium over government bonds), especially high-quality (AAA) corporates, given higher absolute 'carry' yields and cyclically high spreads.

In our view, the RBI's prolonged pause on policy rates, indicates the likelihood that bond yields have peaked. We expect 10-year IGB yield to trade in the range of 6.50%-6.75% over the next 6-12 months. In our assessment, high quality (AAA) corporate bonds offer a better risk-reward given attractive spreads and improving corporate fundamentals. In addition, India's real bond yields are higher compared to most Emerging Market (EM) peers.

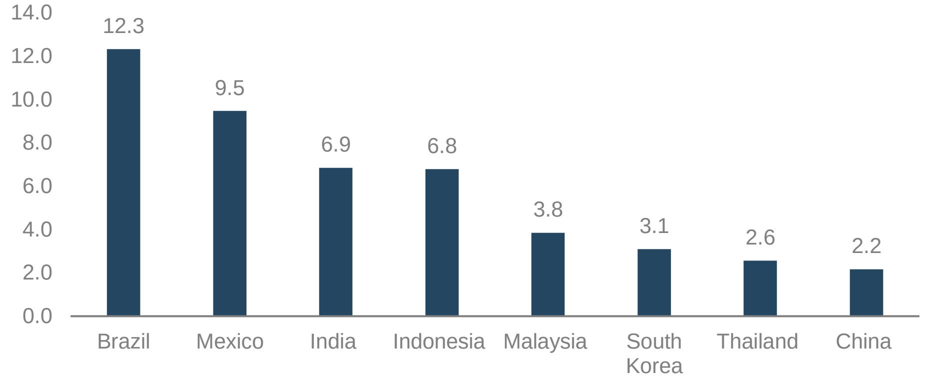
However, three factors for bonds remain unfavorable: 1) High fiscal deficit over the medium-term, 2) Tight banking system liquidity and lack of outright support from the RBI, and 3) A populist tilt in government policy focus could drive inflation higher.

Key chart

India's nominal yield is better than most peers.

Fig. 4 India's nominal yield is better than most peers

10-year government bond yields (%) adjusted for inflation



Source: Bloomberg, Standard Chartered.

Bond views at a glance

Factors	Views	Comments
Real Yields	◑	**India's inflation-adjusted yield is better than most Emerging Market peers**. The 10-year IGB real yield at 3.1% is same as the average real yield of 3.1% for other major EMs.
Supply dynamics	◑	**Government bond supply dynamics have turned favorable**. The government pegged its gross borrowing for FY 2025 at ~INR 14.0trn compared to INR 15.4trn in FY 2024. Both, FY 2025 fiscal deficit and government borrowing target was lower than market expectations.
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 stay on hold over the next 12 months.
Liquidity	◓	**The RBI's focus remains on withdrawal of excess liquidity**. The banking system liquidity remains in surplus, currently at INR 2.74bn after hitting a deficit of INR 1.6trn in June. Improving government spending could keep the banking system liquidity benign in H2 2024.
Demand dynamics	◑	**Demand dynamics have improved**. YTD 2024, foreign investor inflows are positive and is likely to stay robust given India's bond inclusion in global indices. Demand from domestic institutional investors (banks, insurers and mutual funds) will be a key determinant of bond yields in 2024.
Yield premiums	◓	**Yield premiums trade below-average**. The spread between 10-year IGB yield and repo rate is at 33bps vs. 5yr avg. of 154bps. High-quality (AAA) bonds have turned attractive with the yield spread between 3Y AAA rated bond and 3Y G-sec rising to 86bps, higher than 43bps in Oct 2023 and 10Y avg. of 70bps.

Source: Bloomberg, Standard Chartered India Investment Committee

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

Equity - at a glance

Key themes

We stay neutral on Indian equities. India's robust domestic growth momentum, strong earnings delivery and robust domestic investor inflows are counter balanced by stretched valuation premiums, both absolute and relative to peers. We expect volatility to stay elevated in Q4 2024 as the government broadens its policy priorities amid a busy election calendar with state assembly polls in key States and a tight race to US presidential elections. Within equities, we are overweight large-cap equities given higher margin of safety in terms of earnings and stronger balance sheets to withstand market transitions.

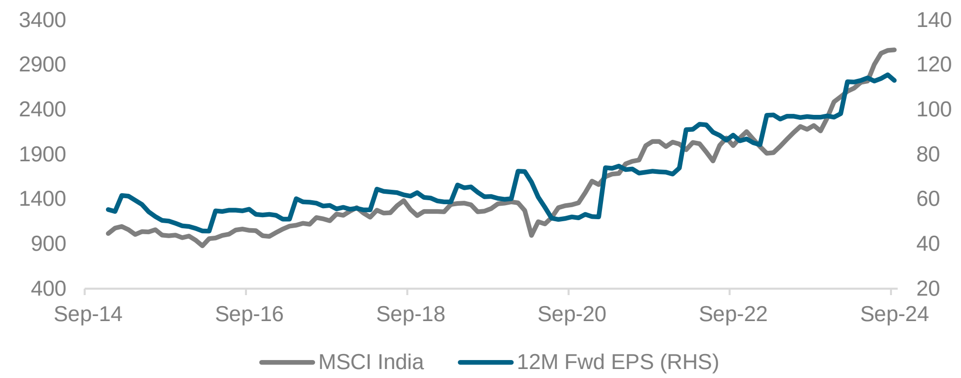
In our view, Indian equities is likely to be supported by the below positive drivers: 1) GDP growth and earnings outlook remains robust and is likely to outpace its major peers. 2) Stable inflows from domestic investors driven by inflows into systematic investment plans and 3) Pace of foreign investor inflows could improve amid strong earnings delivery, start of US Fed rate cut cycle, 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) Elevated equity valuations, both absolute and relative to peers, 3) Foreign investor selling amid slowing domestic investor flows

Key chart

Over the medium term, Indian equities are driven by earnings delivery.

Fig. 5 **Indian equities performance closely tracks forward earnings estimates**
MSCI India index level and 12-month forward earnings expectation



Source: Bloomberg, Standard Chartered

Equity views at a glance

Factors	Views	Comments
Economic environment	◑	**Growth-inflation dynamics remain supportive of equities.** Growth focused fiscal policy, improving real income levels and broadening growth momentum is likely to support corporate profitability. Volatile food article prices, remains a key risk.
Earnings growth	◑	**Earnings growth expectations are robust.** Nifty index delivered 23% EPS growth in FY 2024, significantly ahead of estimates. Bloomberg consensus earnings growth expectations for the Nifty Index for FY 2025 and FY 2026 stands at 10% and 14% respectively. EPS estimates for large-cap equities (Nifty index) have seen modest downward revision compared to broader markets.
Valuations	◓	**Valuations stretched**. Nifty 12-month forward P/E at 21.1x, is below its peak of 23x, but higher than its long-term average of 18x. Price-to-book value ratio (P/B) at 4.0x and Market cap to GDP ratio at ~146%, are above long-term averages. Mid-cap equities 12-month forward P/E trades at peak 58% premium to large-cap equities, significantly higher than its 10-year average premium of 20%.
Flows	◓	**Foreign investors remain buyers post the general election results.** YTD 2024, foreign investors have bought about USD 10.1bn worth of equities compared to USD 21bn inflows in CY 2023. **Domestic institutional investors remain buyers in 2024**. YTD 2024, domestic institutional investor inflows touched an all-time high are at USD 43bn, compared to USD 22.3bn inflows in CY 2023.

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 retain our preference for domestic cyclicals given resilient domestic growth, stable earnings growth, and our expectation of government and policy continuity. Overweight on Financials and Industrials is balanced with a defensive overlay via Overweight on Consumer Staples. We downgrade Materials to Underweight.

Financials – Overweight

Financials remain an overweight. The sector's strong linkage to domestic growth makes it attractive in a period of normalizing growth and declining interest rates. Healthy corporate balance sheets and strong loan disbursals is likely to off-set interest margin compression. Further, healthy asset class position given improved contingent buffers and increased regulatory supervision, is likely to contain slippages and provisioning requirements. Earnings expectations are robust, with ahead of market EPS growth of 26% and 13% for FY25 and FY26. The sector is trading at a 12-month forward P/E of 16.8x, lower than market valuation of 24.6x for MSCI India.

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 in FY 2025 annual budget, coupled with providing incentives to boost manufacturing and infrastructure spending is a strong structural driver for the sector. After a slow start to FY 2025 due to elections, new orders and execution has improved in Q2 amid robust public capex outlay, healthy order book and likely pick-up in private capex. Earnings outlook for the sector is among the strongest across sectors (FY25/FY26 EPS at 31%/22% y/y respectively), justifying premium valuations.

Consumer Staples – Overweight

Consumer Staples is an Overweight. Though, the revenue and growth outlook for the sector lags peers, we like it for its defensive nature in a period of growth normalization and policy easing. We find improved prospects for the sectors performance, supported by strong macros, early signs of improving rural demand, expectations of improving farm income on normal monsoons and likely government support to boost consumption in low-income households. Earnings outlook for the sector has improved from the past year (FY25/FY26 EPS growth at 7%/14% y/y). Valuations though stretched, are reasonable compared to pandemic-era highs.

Fig. 6 **Our sector views**

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

Source: Standard Chartered

Legends: Overweight | Neutral | Underweight

▲ Upgrade from last quarter | ▼ Downgrade from last quarter

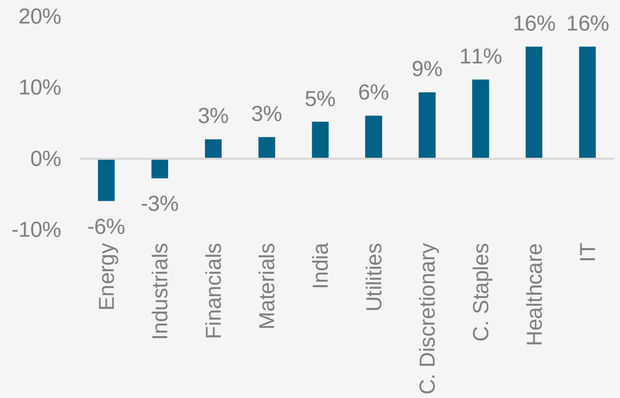
Fig. 7 **Sector valuation and earnings growth estimates**

	12-mth Fwd P/E (x)		EPS Growth (Y/Y)	
MSCI Sector	**Current**	**15yr Avg**	**FY25**	**FY26**
India	24.6	17.6	15%	17%
C. Discretionary	33.4	18.8	35%	19%
C. Staples	52.6	35.2	6%	14%
Energy	15.8	12.9	12%	7%
Financials	16.8	15.9	26%	13%
Healthcare	33.5	22.8	23%	19%
Industrials	38.8	22.3	31%	22%
IT	28.5	19.7	10%	11%
Materials	22.6	14.2	16%	35%
Utilities	21.6	12.4	7%	11%

Source: Bloomberg, Standard Chartered

Fig. 8 **Defensive sectors outperform in Q3 2024**

Q3 2024 sectoral performance (%) as of 4 Oct 2024



Source: Bloomberg, Standard Chartered.

Global Equities – at a glance

Key themes

We retain a core holding (Neutral) on global equities and expect them to perform in line with bonds and outperform cash. **We are Overweight US equities,** underpinned by our expectation that Fed rate cuts will achieve a soft-landing for the US economy. We expect US outperformance to be driven by its accelerating earnings growth heading in 2025. A cooling labour market and the US elections in November are near-term risks to the market.

We see UK equities as a core holding (Neutral) with an attractive dividend yield and valuation discount, alongside improving economic data. UK equities offer a defensive sector composition but the lack of growth sectors could limit outperformance. We are **Underweight Europe ex-UK equities** amid a deteriorating earnings outlook, despite cheap valuations.

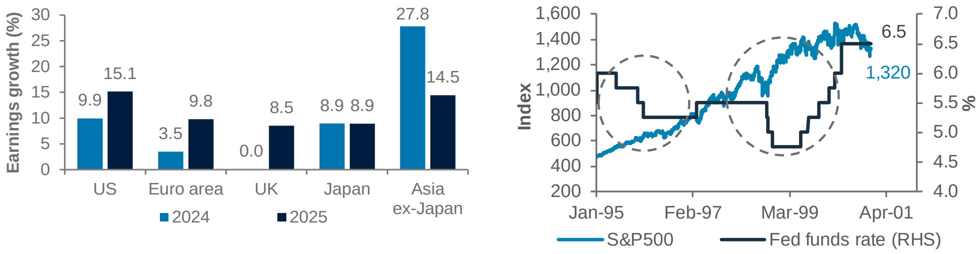
Asia ex-Japan equities are a core holding (Neutral). **Within the region, we are Overweight India equities**, supported by rapid economic growth and robust net inflows from foreign investors. China equities are a core holding (Neutral) for us with ongoing policy easing measures likely to help moderate concerns about economic growth in China. **We downgrade South Korea equities to Underweight** as price momentum has been poor amid market concerns about its significant exposure to weak demand for memory semiconductor chips. Japan equities are a core holding (Neutral). We are encouraged by improving share buybacks and the reflationary environment, although the transition to a new prime minister could result in some uncertainty.

Key chart

Equities supported with falling inflation and Fed pivot

Fig. 9 **US equities' consensus earnings growth in 2025 is expected to be the highest among major markets; US equities typically perform well in a post-rate-cut soft-landing**

Earnings growth across key regions in 2024 and 2025; S&P500 12m trend after past Fed rate cuts*



Source: FactSet, Bloomberg, Standard Chartered; *Fed rate cuts in 1987, 1995 and 1998 resulted in an economic soft-landing, while cuts in 1989, 2001 and 2007 failed to prevent recessions (Hard landing).

*Table below: Neutral China onshore vs offshore

Preference order	The bullish case	The bearish case
US equities ▽ ◇ ▲	+ Tailwinds from a soft-landing scenario + Broadening earnings growth + Technology sector propelling performance	– Overconcentration on Magnificent 7 – Macro uncertainties: e.g., US election – Expensive valuations. Elevated positioning
UK equities ▽ ◆ △	+ High dividend yield; Cheap valuations + Relatively defensive sectors + Recovery in economic data	– Weak earnings growth expected in 2024 – Light in growth sectors – Economic rebound may not sustain
Asia ex-Japan equities ▽ ◆ △	+ China's fiscal and monetary stimulus + Higher EPS growth projected in 2024 + Attractive valuations; Low positioning	– Soft survey data and economic activities – Lack of confidence from investors – Intensification of geopolitical tensions
Within AxJ	India ▲ China* ◆ Taiwan ◆	South Korea ▼ ASEAN ▼
Japan equities ▽ ◆ △	+ Rising share buybacks and dividends + Rising ROE from corporate reforms + Further improvement in earnings outlook	– Foreign net inflows decelerating – Rebound in JPY to hurt company earnings – Exposed to global cyclical slowdown
Europe ex-UK equities ▼ ◇ △	+ Appealing corporates' buyback & dividend + Cheap valuations + Loosening policies from the ECB	– Deteriorating earnings outlook – Increasing geopolitical tensions – Slump in economic sentiment

Source: Standard Chartered Global Investment Committee

Legends: ▲ Overweight | ▼ Underweight | ◆ Neutral

FX and commodities – at a glance

Key themes

We expect USD/INR to remain stable around 84 over the next 12 months. INR gains are likely to be limited as significant fund inflows to equity and bond markets is counterbalanced by the RBI continuing to purchase US Dollars to add to reserves with the goal of currency stability. Strong economic growth, stable balance of payments, contained inflation, and a mildly bearish USD outlook are key factors supportive of the INR over a 12-month horizon. However, slowing export growth amid weak global growth outlook, narrowing policy rate differential following the start of US Fed rate cutting cycle, potential rise in safe-haven demand (amid geopolitical tensions) and the US elections are likely to weigh on the INR**.**

We expect the USD index (DXY) to be largely flat over the next three months and move modestly lower over 12 months. Safe-haven demand (amid geopolitical tensions) and the US election drawing near are likely to provide near-term support to the greenback. Meanwhile, the Fed is likely to cut rates gradually until the US unemployment rate returns to neutral, which should narrow the USD yield advantage in the longer term. FX volatility remains around the 5-year average and we do not see any significant catalyst for it to rise for now.

We raise our 3- and 12-month gold price forecast to USD 2,600/oz and USD 2,800/oz, respectively. Gold prices charged higher to new all-time highs in September as the Fed commenced its rate cutting cycle with a jumbo 50bps cut. While expectations of Fed and other central bank rate cuts may be largely priced into the market, they could still provide some boost to gold prices when implemented. Consequently, global gold ETF inflows would also enjoy an uplift. Robust official sector purchases have been a strong anchor of demand in the recent years. The latest Q2 data continued to reflect that – central bank purchases in the first half of this year are the largest since the turn of the century. Given the structural nature of central banks' demand, we see that sustaining heading into 2025.

We lower our 12-month WTI oil forecast to USD 70/bbl on rising growth and supply risks. Crude oil prices slumped this month, driven by growing demand concerns amid a slew of soft data and pessimistic outlook. Concurrently, positioning has declined to a near-record short. While our base case is not a recession, we believe the global economy could cool further, weighing on oil demand. The demand-supply balance is likely to turn to a surplus, especially as the OPEC+ begins its recently delayed tapering plan in December. Reports of Saudi Arabia shifting from targeting price to market share is also an upside risk to supply. In the near term, we see WTI oil trading at around USD 70/bbl, albeit with some volatility. Firstly, the extreme bearish oil position is prone to a reversal. Secondly, geopolitical tensions, particularly in the Middle East, could escalate. Thirdly, the new agreement between rival Libyan factions to appoint a new central bank governor may see more supply returning to market.

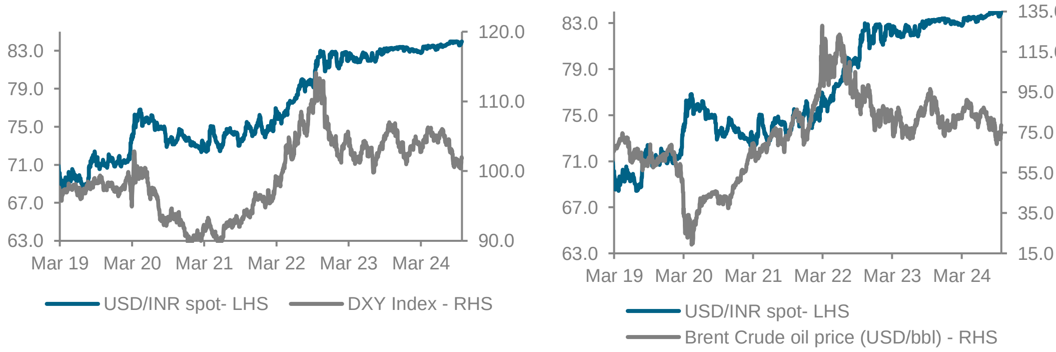
Key chart

Strong macros and robust foreign investor inflows to off-set impact of weak exports and safe-haven in demand in the near-term

Fig. 10 Robust foreign investor flows and strong macro are 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		◆	36.1	30.6	25.0	15.1	8.8
	Mid/Long-term Bonds		▲	18.9	24.4	15.0	9.9	6.2
Equity	DM Equity		▲	2.5	4.9	7.4	9.9	12.5
	Asia Ex-Japan / Other EM Equity		◆	1.4	2.8	4.2	5.6	7.0
	Indian Equities	Large-cap equities	▲	9.4	23.1	32.5	41.9	51.2
	▲	Mid/small-cap equities	▼	1.7	4.2	5.9	7.6	9.3
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
Equities	Indian large-cap equities to outperform mid-cap and small-cap equities	18-Dec-23			✗
Bonds	Indian mid-and long- maturity bonds to outperform short-maturity bonds	18-Dec-23			✓
Thematic	Indian corporate bonds to outperform government bonds	18-Dec-23			✗
	Indian Investment sectors to outperform Indian equities	18-Dec-23			✓
Sectors	India Consumer Staples to outperform Indian Equities	8-Jul-24			✓
	India Industrials Sector to outperform Indian Equities	18-Dec-23			✓
	India Financials Sector to outperform Indian Equities	8-Jul-24			✗

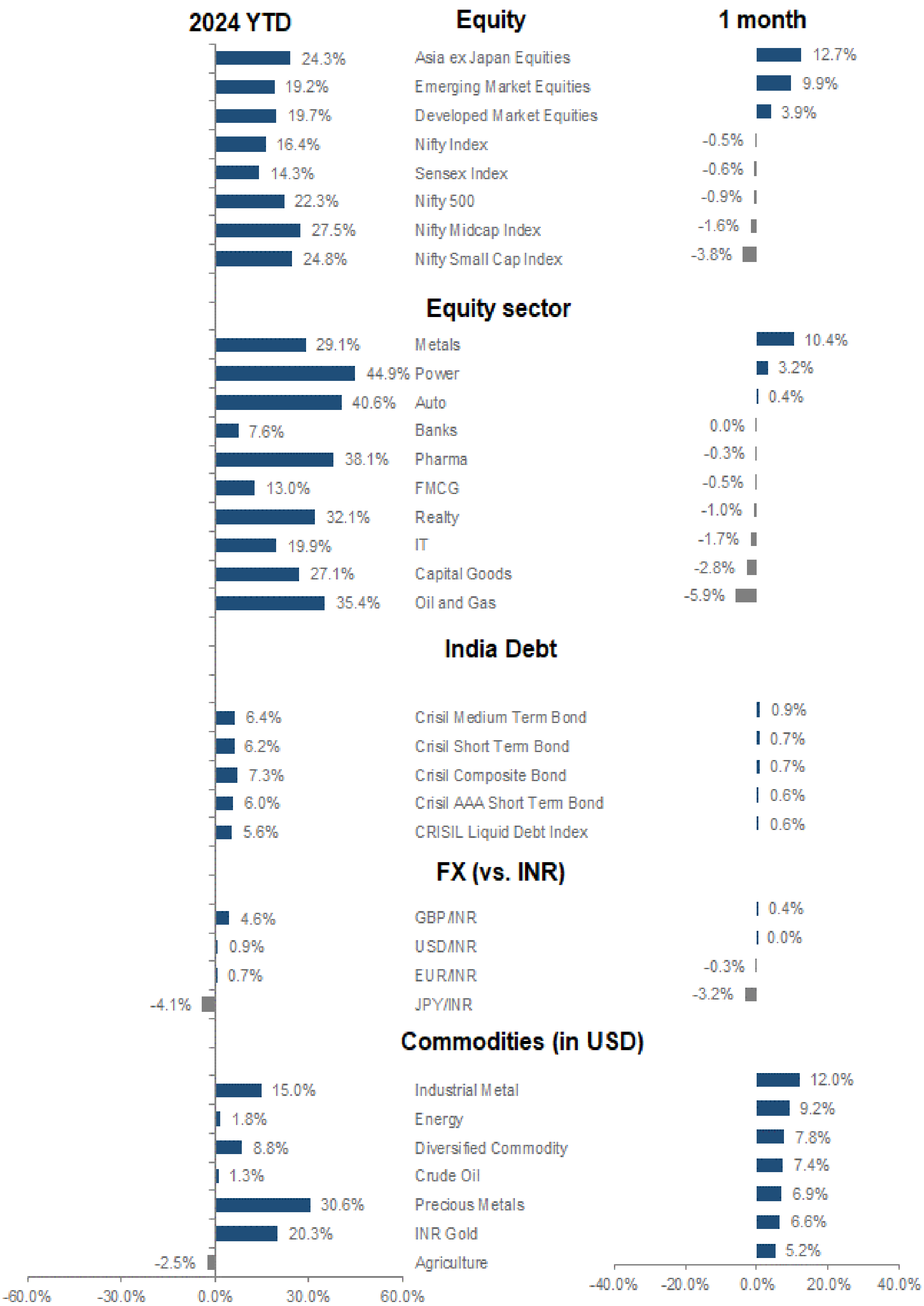
	Closed calls	Open date	Close date	Absolute	Relative
Equities	Indian equities to outperform all other asset classes	18-Dec-23	5-Jun-24		✗
Sectors	India Healthcare Sector to outperform Indian Equities	18-Dec-23	8-Jul-24		✓
	India Consumer Discretionary Sector to outperform Indian Equities	18-Dec-23	8-Jul-24		✓
Thematic	Indian Value style equities to outperform Growth style	18-Dec-23	8-Jul-24		✓

Source: Bloomberg, Standard Chartered. Performance measured from 18 December 2023 (release date of our 2024 Outlook) to 4 October 2024 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
*2024 YTD period from 31 December 2023 to 4 October 2024. 1-month period from 5 September 2024 to 4 October 2024.

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