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India Market Outlook

Manging expectations

Risk assets have maintained the positive momentum in Q1 2024, hitting new highs supported by still resilient economic growth momentum and strong corporate earnings delivery. The increased likelihood of global central bank policy easing in H2 2024 is an additional tailwind.

In foundation allocations, we are (i) Overweight equities with strong Q1 performance likely to extend in the near-term amid strong earnings delivery and pre-election optimism, (ii) Overweight medium/long-maturity bonds as bond yields gradually move lower and (iii) Overweight large-cap equities given greater margin of safety. Equities and Bonds are likely to outperform cash.

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

Four factors that can influence markets

How should investors position for the near-term uncertainties?

Key asset class views

Important disclosures can be found in the Disclosures Appendix.

Contents

01

Strategy

Investment strategy: Managing expectations 03

Perspectives on key client questions 05

Foundation: Our tactical asset allocation views 06

02

Macro overview at a glance

Our macroeconomic outlook and key questions 07

03

Asset classes

Bonds 08

Equity 09

Equity sector views 10

Global equities 11

FX & Commodities 12

04

Performance review

Foundation: Asset allocation summary 13

Performance of our calls 14

Market performance summary 15

Disclaimers 16

Investment strategy and key themes

Our top preferences
(12-month outlook)

Foundation overweight

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

Sector overweight

- Industrials
- Consumer Discretionary
- Healthcare

FX views

- Rangebound USD
- Modestly stronger INR

Managing expectations

- Risk assets have maintained the positive momentum in Q1 2024, hitting new highs supported by still resilient economic growth momentum and strong corporate earnings delivery. The increased likelihood of global central bank policy easing in H2 2024 is an additional tailwind. YTD 2024, MSCI India is up 7.5%, outperforming MSCI Asia-ex-Japan (+2.2%) and MSCI World (+7.4%). The 10-year IGB yield fell 5bps to 7.12%, while gold is up 10.8%. The INR is flat against the USD.
- In foundation allocations, we are (i) Overweight equities with strong Q1 performance likely to extend in the near-term amid strong earnings delivery and pre-election optimism, (ii) Overweight medium/long-maturity bonds as bond yields gradually move lower and (iii) Overweight large-cap equities given greater margin of safety. Equities and Bonds are likely to outperform cash.
- In opportunistic allocations, we prefer (i) Value-style equites, (ii) Investment sectors -manufacturing and infrastructure, and (iii) barbell-like sector positioning with an Overweight on domestic cyclicals (Industrials and Consumer Discretionary) balanced by an Overweight on Healthcare.

Resilient macros key support for Indian assets

In our Outlook 2024, we highlighted that India's robust macro fundamentals and strong corporate earnings cycle positioned Indian assets at a relative advantage amid a challenging global macro backdrop given hard landing risks for major developed economies. This led us to suggest investors to 'Sail with the Wind' by being overweight equities, which so far, has played out. Domestic growth remains above trend driven by robust public capex and investments growth. Consumption demand, though muted, is showing signs of pick up. Inflation continues to trend lower given lower commodity and food article prices, and core inflation easing to an all-time low.

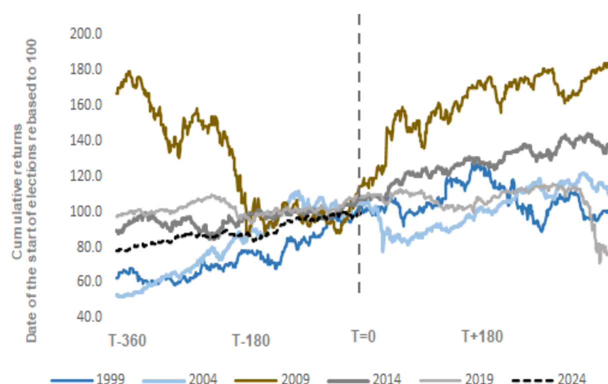
We expect strong domestic economic growth momentum to continue in 2024, supported by pre-election spending and improving consumption demand. Macro stability indicators continue to show improvement amid lower imports, robust forex reserves and the government prioritizing fiscal consolidation while sticking to a higher public capex plan in its annual budget for FY 2025.

We remain cognizant of the risks to the above near "goldilocks scenario" and stay on the watch for any unexpected deterioration in growth outlook and hard landing risks in major developed economies. In the near-term, we expect volatility to remain high as markets respond to the evolution in the following factors:

Fig. 1 In line with historical trend, equities have trended positively heading into the 2024 General Elections

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

-1Y	-6M	-3M	-1M	Election period	+1M	+3M	+6M	+1Y
58.7%	30.4%	19.0%	4.4%	5 Sep to 3 Oct 1999	0.2%	3.1%	20.4%	3.8%
94.7%	22.4%	-2.6%	6.9%	20 Apr to 10 May 2004	-16.3%	-15.1%	-1.9%	4.6%
-31.1%	3.1%	23.1%	22.2%	16 Apr to 13 May 2009	9.0%	25.6%	51.6%	56.2%
20.6%	13.4%	8.1%	2.6%	7 Apr to 12 May 2014	-0.6%	16.3%	18.7%	29.4%
11.3%	13.3%	7.2%	2.6%	11 Apr to 19 May 2019	-2.7%	-0.1%	-3.1%	-21.4%
27.9%	14.6%	3.7%	0.2%	19 Apr to 1 Jun 2024	?	?	?	?
20.6%	13.4%	8.1%	4.4%	Median	-0.6%	3.1%	18.7%	4.6%
83%	100%	83%	100%	% of +ve returns	40%	60%	60%	80%



Source: Bloomberg, Standard Chartered. For 2024 General Elections, trailing period returns considered as of 5 April 2024.

Lok Sabha polls

Since Q4 of 2023, Indian markets appear to be factoring that the incumbent government would retain its mandate in the upcoming general elections. This outcome justifies the market optimism as a decisive NDA victory would mean policy continuity, higher public investments and scope for expanding reforms to land, labour, and agriculture. These conditions supports strong investment-led economic growth and corporate profitability, with a repeat of 2019 performance likely to be positive for the markets.

History suggests that opinion polls do not take away the risk of surprise polling outcomes, as sentiments can swing before the actual poll with the 2004 Lok Sabha polls serving as a good example. An NDA coalition led by a weaker BJP (< 272 seats) could limit the elected government's ability to push through bold reforms and force a gradual shift towards boosting consumption. Income inequality and patchy rural growth post the pandemic remains a concern. Although a low probability, this outcome can trigger market volatility in the near-term. An INDIA alliance victory remains a tail-risk and could be an adverse shock to the market, as this outcome raises risk of policy reversal, with a likely moderation in capex and increased government spending on consumption which can be inflationary.

Nevertheless, we believe that medium-term prospects of Indian assets remain intact. India's broader macro conditions remain resilient on strong growth, declining inflation, fiscal prudence, improving external accounts and a stable INR.

Corporate earnings momentum

Strong corporate earnings momentum has sustained in the first 3 quarters of FY2024, with Nifty EPS clocking >20% growth so far. As per Bloomberg estimates, Nifty index EPS is expected to grow ~15% between FY 2024-2025 after clocking a growth of ~20% for the period FY 2020-2023. This makes the current cycle, the best earnings cycle since 2004-08. However, Indian equities trade at stretched valuation premiums, both on absolute and relative to peers, leaving little room for disappointment on earnings. Improving revenue growth would be critical to sustain earnings delivery going ahead, as the best of margin improvement is likely behind us with tailwinds from commodity and raw material price correction dissipating.

The RBI's policy stance

The RBI has maintained a status-quo on policy rate for over a year. Since October 2023, the RBI has been comfortable with banking system liquidity by regularly intervening with two-way liquidity operations to prevent build-up of excess surplus, ensuring overnight borrowing rates are anchored close to the policy rate. Strong domestic growth momentum reduces the need for policy rate cuts, given still elevated consumer price inflation. However, prolonged period of elevated real-policy rates could weigh on growth, which also remains the central bank's priority.

In our view, the RBI is likely to weigh incoming data, especially the momentum in food and commodity prices, before embarking on policy easing. We expect the RBI to cut rates later in the year as inflation declines closer to the RBI's medium-term target of 4% and growth momentum slows. However, the quantum of easing is likely to be shallow in this cycle given lower starting point and likelihood of higher inflation.

Weather related uncertainties

Monsoon remains critical for India's agricultural produce and inflation evolution in 2024. Earlier this year, the Indian Meteorological Department (IMD) forecasted a warmer start to the summer, with persistent El Nino conditions through the season. Heat-wave alerts and forecast of unseasonal rainfall in various parts of the country in April raises the risk of food inflation spike. Further, reduced water reservoir storage levels, especially in southern part of the country, offer limited cushion against an adverse rainfall scenario. A normal and well distributed monsoon would be key to tame volatile food article prices, which has kept headline inflation above the RBI's medium-term target of 4%, even while core-inflation has declined to an all-time low on muted demand side pressures.

Perspectives on key client questions

How should investors position for the near-term uncertainty given significant event risks?

Since we released our *Outlook 2024,* Indian assets have performed in line with expectations. Equities have continued the positive momentum heading into the general election season, in line with history. Bond yields have moved lower on improving demand-supply outlook. Given significant event risks in the near-term, a prudent investment approach could help tide through the uncertainty:

Rebalance portfolio to appropriate risk-appetite: The strong outperformance of risk assets over the past year (MSCI India index is up 38%) means that investors overall allocation to equities could be skewed because of market gains. Re-aligning asset class exposure to an investor's risk appetite can protect the portfolio from shocks should risk assets experience volatility.

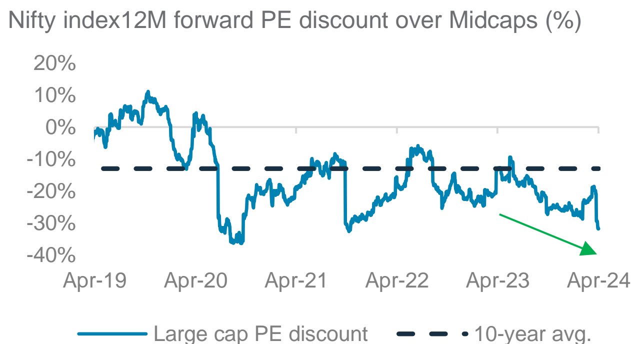
Stay overweight equities: For equity markets, relatively little has changed since the start of 2024. Resilient earnings delivery and robust macro fundamentals justify stretched valuations, which remains reasonable compared to previous peaks. Nifty index 12-month forward PE is trading at 20x compared to Oct 2021 peak of 23x and 10-year average of 17.7x. We are cautious on Mid-cap and Small-cap equities as they trade at expensive valuations to large-cap equities post the strong rally over the past year. Further, earnings revision for broader markets have turned negative compared to strong positive EPS revision last year.

Bonds to beat Cash. After falling sharply in early March, Indian bond yields have moved higher as markets unwound early rate cut expectations. For investors, we see this as an opportunity to lock-in attractive yields in medium and long-maturity bonds and high-quality corporate bonds. We expect bond yields to trend lower over the next 12 months supported by easing inflationary pressures, improving bond demand-supply outlook and fiscal prudence. We expect bonds to outperform cash.

Add portfolio hedges. 2024 is likely to witness intermittent bouts of volatility given a long election calendar and ongoing geo-political tensions. Allocation to gold could act as a portfolio hedge against any meaningful recession and geopolitical risks. Market-neutral strategies and liquid alternatives are other portfolio hedges as these assets have low correlation with traditional assets.

Fig. 2 **Broader markets are trading at cyclically high valuation premiums over large caps**

Nifty index12M forward PE discount over Midcaps (%)

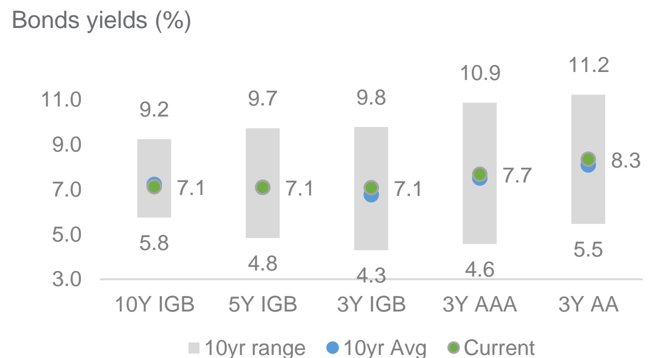


Source: Bloomberg, Standard Chartered

Fig. 4

Fig. 3 **Indian bond yields are trading closer to their long-term average**

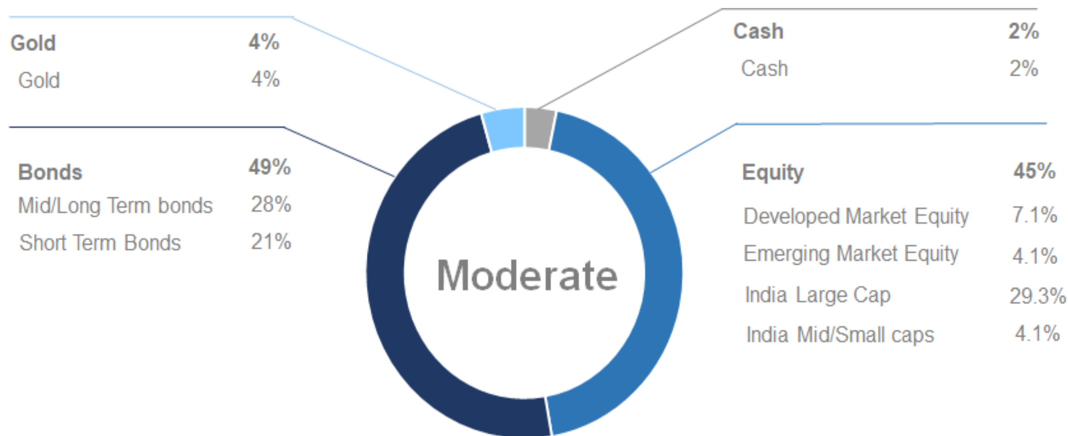
Bonds yields (%)



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 || - Low starting yield, 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 earnings growth amid robust consumption || - Impact of high interest rates
Asia ex-Japan/ Other EM	◆	+ Earnings rebound, China policy support || - China structural growth concerns
India – Large cap	▲	+ Robust growth, Stable earnings, Resilient domestic inflows || - Weaker exports amid slow global growth, Elevated valuations
India – Mid/Small Cap	▼	+ Strong macro fundamentals, Strong earnings growth || - Stretched relative valuations, Lower margin of saftey, Downard earnings revisions
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 continued focus on capex are tailwinds for growth. Further, pre-election spending could support weak consumption demand. In our view, CPI inflation is likely to trend lower in 2024 and track within the RBI's inflation target range of 2%-6% on disinflationary pressures from previous policy tightening and lower food and commodity prices on 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 are likely to be tighter than normal. Measures undertaken by the government in the last few years 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 support India's medium-term growth outlook. In our view, given underlying strong growth and contained inflationary pressures, the RBI is likely to keep policy rates on hold in H1 2024. We expect the RBI to cut rates later in the year as inflation declines closer to the medium-term target of 4% or growth impulses start to slow, though the quantum of easing is likely to be shallow.

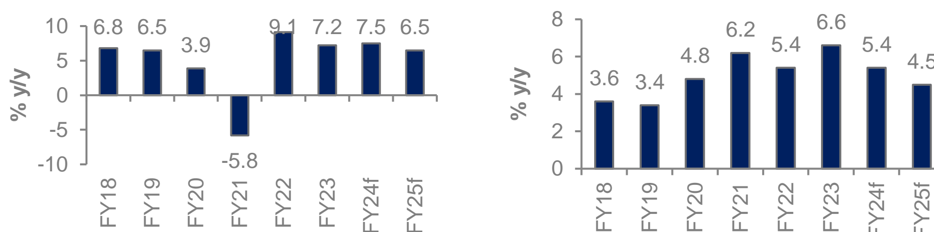
Key risks to our macro-outlook are: 1) Global growth slowdown, 2) Persistent high inflation, 3) Escalating geo-political tensions.

Key chart

For FY2025, India's GDP is expected to grow at 6.5% and CPI is expected to average 4.6%.

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 improved in March 2024.** Manufacturing PMI rose to 16-year high of 59.1 in March 2024 while Services PMI rose to 13-year high of 61.2. Industrial production grew 3.8% y/y in January 2024, lower than 4.2% growth recorded in the previous month.
Inflation	◓	**India's consumer price inflation remained flat at 5.1% in February 2024**, driven by muted growth in food article prices. Core inflation declined to an all-time low of 3.4% in February 2024.
Fiscal deficit	◓	**The government prioritized fiscal consolidation while supporting growth in the latest budget.** FY 2025 fiscal deficit is estimated at 5.1% of GDP vs revised target of 5.8% in FY2024. GST collections rose 12% y/y to INR 1.78trn in March 2024, second highest monthly print of all-time.
External	◓	**India's trade deficit rose to USD 18.7 bn in February 2024.** Imports rose by 12.2% y/y to USD 60.1bn, while exports rose by 11.9% y/y to USD 41.4bn. India's current account deficit widened to USD 10.5bn or 1.2% of GDP compared to USD 8.3bn or 1% of GDP in Q2 FY2024. The widening was driven by a rise in merchandise trade deficit even as net services surplus improved sequentially.
Monetary Policy	◓	**The RBI kept the policy repo rate unchanged at 6.5% in its February 2024 policy review for the seventh 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 average inflation forecast for FY 2025 at 4.5% y/y and real GDP growth forecast for FY 2025 at 7.0% y/y.

Source: Bloomberg, Standard Chartered India Investment Committee

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

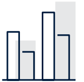
Bonds – at a glance

Key themes

We are neutral on bonds, as attractive absolute and real yields are counterbalanced by below-average yield premiums and stretched medium-term fiscal position. Nonetheless, improving bond demand-supply balance on lower than-expected government borrowing and India bonds' recent inclusion in the global bond index are tailwinds 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 that bond yields have peaked. We expect 10-year IGB yield to trade in the range of 6.75%-7.00% 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) Tight banking system liquidity and a lack of outright support from the RBI, and 3) Above-average inflation is likely to keep bond yields elevated.

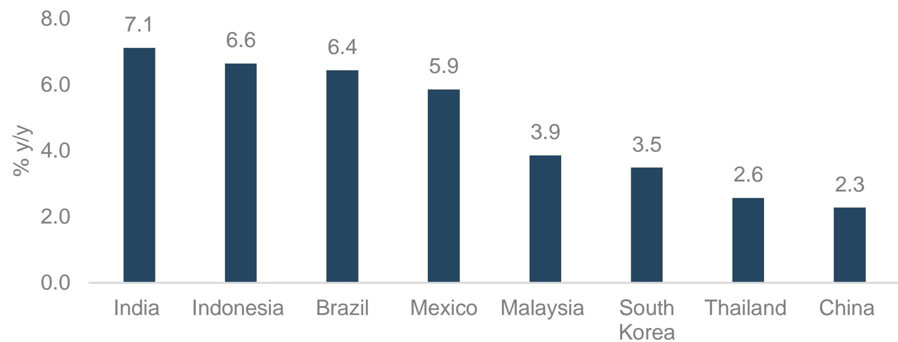


Key chart

India's nominal yield is better than most peers.

Fig. 6 **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 similar to other Emerging Markets.** The 10-year IGB real yield at 2% similar to the average real yield of 2% for other major EMs.
Supply dynamics	◑	**Government bond supply dynamics have turned favorable.** The government pegged its gross borrowing for FY 2025 at about INR 14.8trn compared to INR 15.4tn in FY2024. 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 has improved to a marginal a surplus of INR 1.3trn in early April since hitting a deficit of INR 3.3trn in January 2024, the highest since 2010. Increased currency leakage ahead of general elections, could keep banking system liquidity tight in H1 2024.
Demand dynamics	◑	**Demand dynamics have improved**. Foreign investor inflows remain 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 62bps vs. 5yr avg. of 159bps. High-quality (AAA) bonds have turned attractive with the yield spread between 3Y AAA rated bond and 3Y G-sec rising to 62bps, higher than 43bps in Oct 2023 and close to 10Y avg. of 69bps.

Source: Bloomberg, Standard Chartered India Investment Committee

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

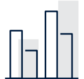
Equity - at a glance

Key themes

We are overweight Indian equities. 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 continuity are tailwinds for equities. Within equities, we are overweight large-cap equities given higher margin of safety in terms of earnings and valuation. We prefer value-style equities.

In our view, Indian equities is likely to be supported in H1 2024, by below positive drivers: 1) GDP growth and earnings outlook remains robust and continues to outpace its major peers. 2) Despite the strong performance in CY 2023, absolute valuation for Indian equities is lower 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, strong earnings delivery 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.

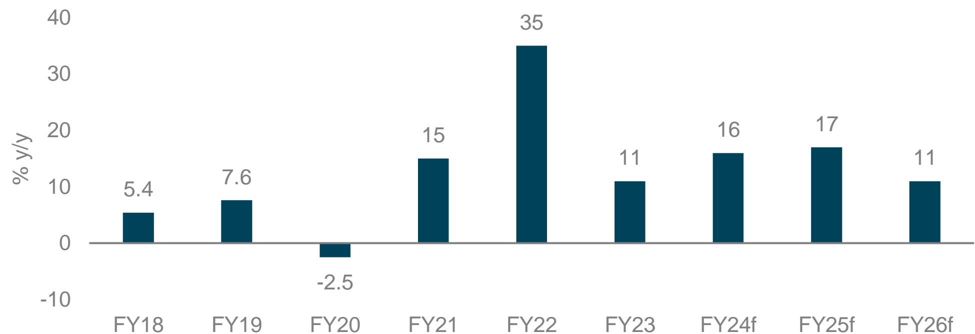


Key chart

Bloomberg Consensus expectation is for Nifty earnings to rise by 16% and 17% in FY 2024 and FY 2025.

Fig. 7 **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 on 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 17% respectively. EPS estimates for large-cap equities (Nifty index) have seen positive revisions over the past six months.
Valuations	◓	**Valuations have moderated**. Nifty 12-month forward P/E trades at 20x, is below its peak of 23x, but higher than its long-term average of 17.7x. Price-to-book value ratio (P/B) at 3.8x and Market cap to GDP ratio at ~137%, are above long-term averages. Nifty Mid-cap 12-month forward P/E trades at 46% premium to large caps, higher than its 10-year average premium of 17%.
Flows	◓	**Foreign investors have turned buyers in March 2024.** YTD 2024, foreign investors have bought about USD 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 are at USD 13.1bn 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 are overweight domestic cyclicals given our view of strong domestic growth momentum, peak in interest rates and contained inflation. We are Overweight Industrials and Consumer Discretionary sectors given our positive view on investment cycle and improving consumption on pre-election spending. We balance this with a defensive exposure via an Overweight on Healthcare.

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. Further, still robust public capex outlay, improving 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 36%/24% 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 discretionary segment. In addition, benign raw material prices and lower transportation costs is supportive of margins, partially offsetting slower volume growth. Though, the sector trades at a premium to the overall market, this is justified by superior earnings growth outlook (FY24/FY25 EPS at 99%/35% y/y) across sectors.

Healthcare – Overweight

Healthcare is an overweight sector. We prefer the sector for its defensive nature and as a hedge against an uncertain global backdrop and our overweight on domestic cyclicals. The sector is supported by robust domestic formulation growth, lower raw material costs, and a gradual downtrend in freight costs. Global sales have improved driven by increased niche launches, better traction 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 27x compared to 2020 peak of 36x and 22x long-term average).

Fig. 8 **Our sector views by**

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

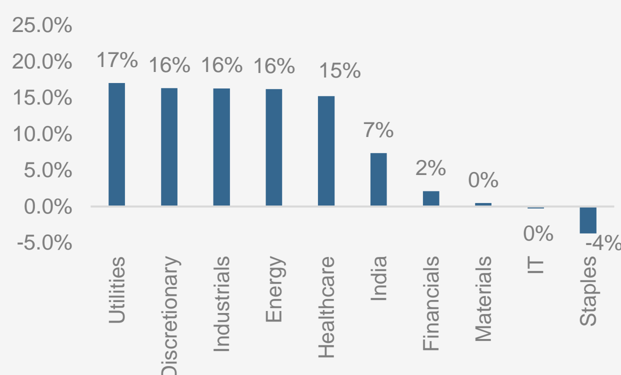
Fig. 9 **Sector valuations and earnings growth**

	12-mth Fwd P/E (x)		EPS Growth (Y/Y)	
MSCI Sector	**Current**	**15yr Avg**	**FY24**	**FY25**
India	19.7	17.0	15%	18%
Con. Discretionary	26.1	17.3	99%	35%
Con. Staples	43.0	33.6	14%	13%
Energy	14.7	12.7	20%	10%
Financials	16.4	16.4	16%	26%
Healthcare	24.8	21.9	16%	20%
Industrials	27.6	21.4	36%	24%
IT	20.2	19.1	3%	10%
Materials	16.6	13.4	-35%	28%
Utilities	12.7	12.2	3%	11%

Source: Bloomberg, Standard Chartered

Fig. 10 **Domestic sectors outperform**

YTD 2024 sectoral performance (%)



Source: MSCI, Bloomberg, Standard Chartered. 2023 YTD period from 31 December 2023 to 5 April 2024

Global equity – at a glance

Key themes

We are Overweight equities, with Japan our top Overweight. The Bank of Japan ending its decade-long 'negative rate policy' is a strong vote of confidence in the Japan economy. The BoJ still maintains an accommodative stance, corporate governance is improving and valuation still attractive. US equities is our other Overweight region. The Fed is likely to cut rates, despite slightly higher-than-ideal inflation rate. US companies continue to display strong pricing power, resulting in solid net margins.

We are Neutral Asia ex-Japan equities. We upgrade India to Overweight. Its economy is growing the fastest among key markets within the region. Fund flow has been strong, and India typically delivers solid returns in an election year. These factors more than compensate for its expensive valuation. We also upgrade Taiwan to Overweight, with strong GDP revisions, a bottoming manufacturing, and a strong semiconductor cycle. We stay Overweight Korea – rising demand for AI-related technology products is likely to support earnings, and the government's 'Value-up' programme may narrow the 'Korean discount' by addressing company cross-holdings and improving corporate governance. We are Neutral China equities. Valuation is cheap and sentiment bearish. Deflationary forces remain the key risk, but the government has been intensifying its policy stimulus.

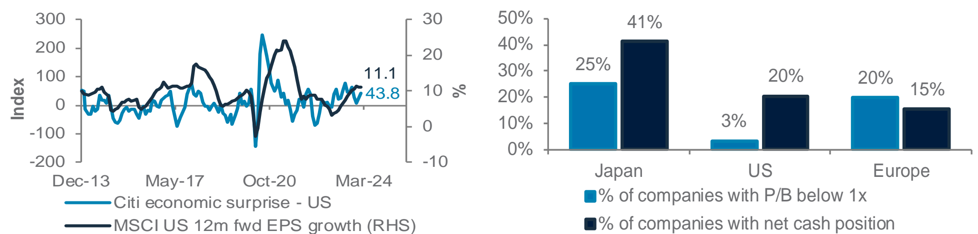
We downgrade Euro area equities to Underweight. Cheap valuation reflects weak EPS growth. Consumer confidence remains weak, and service inflation remains sticky. UK equities remain Underweight. It has excess exposure to defensive sectors.

Key chart

Strong US growth supporting corporate earnings. Japan companies still attractive in valuation vs. DM peers

Fig. 11 **US corporate earnings are riding on a strong economy. Still much potential for Japanese companies to narrow their discount vs. their DM counterparts**

US economic surprise vs. 12m fwd EPS growth; % of companies with P/B <1 and net cash



Source: FactSet, Bloomberg, 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 + Rising ROE from corporates reform + Further improvement in earnings outlook	– Less compelling in valuations – Rebound in JPY to hurt company earnings – Rising volatility from a tightening BoJ
	US equities ▽ ◇ ▲	+ Strong earnings growth and momentum + Technology sector propelling performance + Delayed economic slowdown	– Overconcentration on Magnificent 7 – Macro uncertainties: eg, US election – Expensive valuations. Elevated positioning
	Asia ex-Japan equities* ▽ ◆ △	+ Higher EPS growth projected in 2024 + Rising demand for semiconductors + China's fiscal and monetary stimulus	– Soft survey data and economic activities – Lack of confidence from investors – Persistence in geopolitical tensions
	Europe equities ▼ ◇ △	+ Well-priced for weak EPS growth + Improving corporate margins and ROE + Rebound in manufacturing data	– Weakening earnings growth – Heightened recession risk – Economic rebound unable to sustain
	UK equities ▼ ◇ △	+ High dividend yield + Valuations extremely cheap + Relatively defensive sectors	– Weak earnings growth expected in 2024 – Light in growth sectors – Forward guidance deteriorating

Source: Standard Chartered Global Investment Committee

Legends: ▲ Overweight | ▼ Underweight | ◆ Neutral

FX and commodities – at a glance

Key themes

We expect the INR to strengthen modestly towards 82.40 over the next 12 months, albeit with more volatility. Ahead of peer's economic growth, attractive real yields, improving balance of payments outlook supported by strong equity and bond foreign investor inflows, softer commodity prices and strong FX-reserves are key factors supportive of the INR. However, slowing FDI inflows, weak manufacturing export growth amid slowing global growth, narrowing policy rate differential with the US and the possibility of the RBI shoring up FX-reserves are likely to pressurize the INR**.**

We expect the USD to be largely flat over the next 3 and 12 months. One unusual characteristic of FX markets today is low and falling FX volatility. G7 currency volatility is now not far from lows achieved over the past 3 decades. This, together with our view that major central banks, such as the Fed and the ECB, are likely to follow an increasingly converged rate cut path, means we expect the USD to stay rangebound around an unusually flat path over the next 3 and 12 months. Our EUR/USD view is largely a mirror image of this view, given its large weight in the US Dollar Index.

We remain Neutral on gold vs. other major asset classes, seeing it as a portfolio ballast against any meaningful recession and geopolitical risks. The gold market has been on a tear in March on higher tactical demand and continued central bank appetite. We expect gold prices to rise to USD 2,200/oz over the next 12 months as rate cuts materialise, dragging real yields lower. Meanwhile, institutional investors could increasingly add to their positions on higher rate cut expectations. Structural central bank demand remains a key driver, but they could delay purchases, given current elevated prices. However, overbought conditions and lacklustre ETF flows are short-term drags. Thus, gold is prone to corrections in the next 3 months, in our view.

We revise our 12-month WTI oil forecast higher to USD 81/bbl amid tighter demand-supply dynamics. On demand, conditions remain firmer than expected as most major economies, in particular the US and China, showed little signs of a slowdown. In terms of supply, the extension of OPEC+'s 2.2mb/d of voluntary cuts into the second quarter limits the upside for crude oil supply. Moreover, thin spare capacity and low producer elasticity mean that US output is unlikely to see new highs. In the near term, we maintain the view that the oil markets are likely to be in deficit given the elevated demand from the still-robust global economy. This suggests a higher WTI oil price at around USD 84/bbl in the next 3 months.

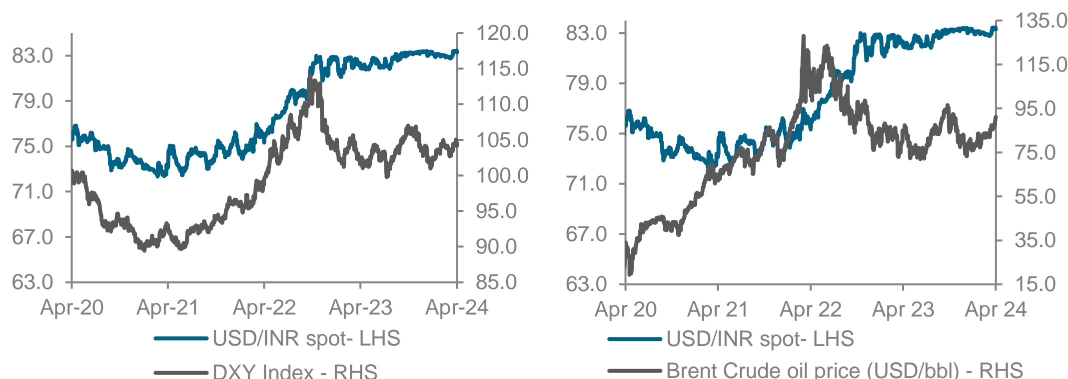
Key chart

Strong domestic growth, high real yield, improving balance of payments and a range-bound USD to support the INR.

Fig. 12 **Strong macro fundamentals and a range-bound 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			▼	14.6	2.1	1.9	1.8	0.0
Fixed Income			◆	57.7	49.0	33.7	20.0	11.2
Equity			▲	22.5	44.5	60.2	74.2	85.1
Commodities			◆	5.2	4.5	4.2	4.0	3.7
Level 1	**Level 2**	**Level 3**						
Cash & Cash Equivalents			◆	14.6	2.1	1.9	1.8	0.0
Fixed Income	Short-term Bonds		◆	38.2	27.5	21.3	12.2	6.6
	Mid/Long-term Bonds		▲	19.5	21.4	12.4	7.8	4.5
Equity	DM Equity		▲	4.2	7.1	10.1	12.8	14.9
	Asia Ex-Japan / Other EM Equity		◆	2.5	4.1	5.9	7.4	8.7
	Indian Equities	Large-cap equities	▲	13.9	29.3	38.8	47.4	54.1
	▲	Mid/small-cap equities	▼	1.9	4.1	5.4	6.6	7.5
Commodities (INR Gold)			◆	5.2	4.5	4.2	4.0	3.7
				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

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Performance of our calls

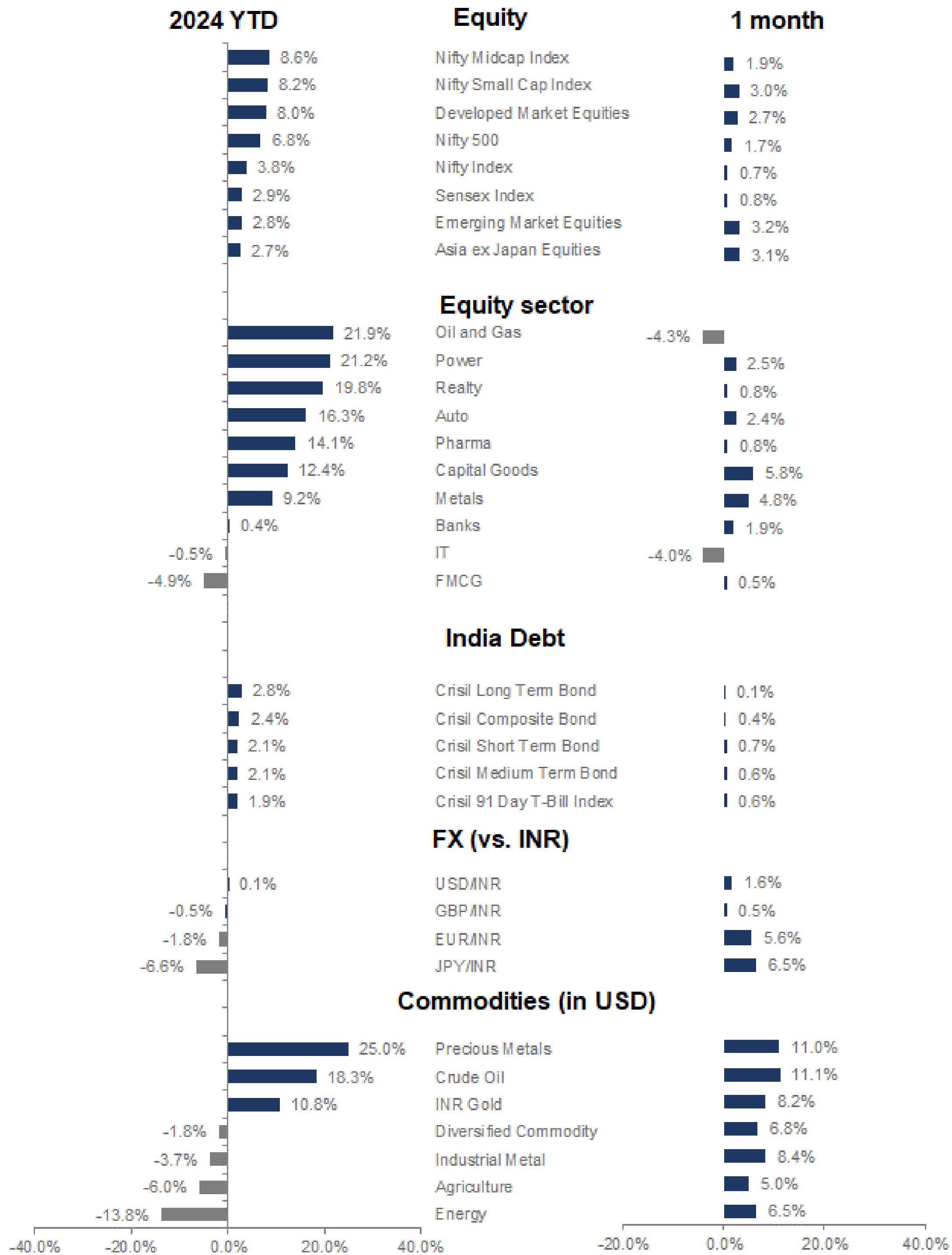
	Open calls	Open date	Close date	Absolute	Relative
Equities	Indian equities to outperform all other asset classes	18-Dec-23			✗
Equities	Indian large-cap equities to outperform mid-cap and small-cap equities	18-Dec-23			✗
Bonds	Indian mid-and long- maturity bonds to outperform short-maturity bonds	18-Dec-23			✓
Thematic	Indian corporate bonds to government bonds	18-Dec-23			✗
	Indian Investment sectors to outperform Indian equities	18-Dec-23			✓
	India Value equities to outperform Indian equities	18-Dec-23			✓
Sectors	India Industrial Sector to outperform Indian Equities	18-Dec-23			✓
	India Healthcare Sector to outperform Indian Equities	18-Dec-23			✓
	India Consumer Discretionary Sector to outperform Indian Equities	18-Dec-23			✓

Source: Bloomberg, Standard Chartered. Performance measured from 18 December 2023 (release date of our 2024 Outlook) to 5 April 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 5 April 2024. 1-month period from 5 March 2024 to 5 April 2024.

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