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Investment Strategy I 8 July 2024

India Market Outlook

H2 Outlook
Adapting to shifting winds

As we enter H2 2024, the start of major central bank rate cuts marks a key turning point for investors.

Domestic economic growth and corporate earnings momentum is likely to normalise from its strong pace but stay above-trend and ahead of peers.

We see it as a good time to adapt to these shifting winds through i) a diversified asset-allocation, (ii) overweight large-cap equities, (iii) overweight medium- and long-maturity bonds, (iv) owning gold as a diversifier and (v) keeping cash as dry powder for any opportunities.

How to adapt in the face of shifting winds?

Macro and key asset class views

Sector strategy and Opportunistic allocations

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)

Adapting to shifting winds

- As we enter H2 2024, the start of major central bank rate cuts marks a key turning point for investors as policymakers switch their focus towards supporting growth. Domestic economic growth and corporate earnings momentum is likely to normalise from its strong pace but stay above-trend and ahead of peers.
- We see it as a good time to adapt to these shifting winds through (i) a diversified asset-allocation, (ii) overweight large-cap equities, (iii) overweight medium- and long-maturity bonds, (iv) owning gold as a diversifier and (v) keeping cash as dry powder for any opportunities.
- Our opportunistic allocations continue to favour government policy beneficiaries – manufacturing and infrastructure sectors, a barbell sector strategy with a preference for domestic cyclicals, balanced with a defensive overlay. We prefer corporate bonds over government bonds on cyclically high spreads.

Investment strategies in the face of shifting winds

Our strategy of 'Sailing with the Wind' has performed well in 2024 on the back of a strong pre-election equity market rally and decline in domestic bond yields. Economic growth and corporate earnings performance continues to exceed consensus expectations. Further, the incumbent government voted back for the third consecutive term, albeit with a reduced majority has boosted risk sentiment.

We expect shifts in domestic fiscal and monetary policies to influence Indian assets performance in H2 2024. Economic growth and corporate earnings momentum is likely to normalise but stay above trend. Government continuity offers policy stability, but, a reduced majority could see a broadening of policy focus. **We see this potential inflection point as a good time for investors to 'Adapt to Shifting Winds'. We expect:** (i) a diversified asset allocation to be a prudent investment strategy given balanced risk-reward across equity and bonds; (ii) large-cap equities to outperform mid-cap and small-cap equities; (iii) medium- and long-maturity bonds to outperform short-maturity bonds, (iv) gold to remain a key portfolio hedge and (v) cash to be the dry powder for future opportunities.

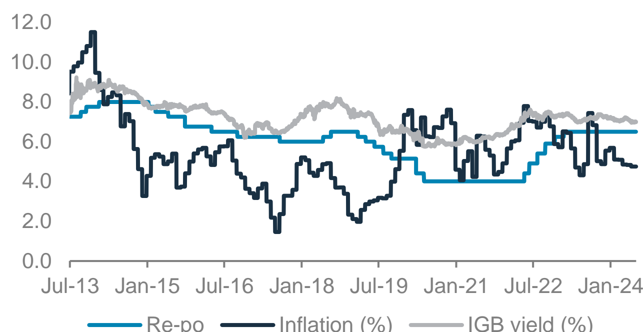
Fig. 1 **Large-cap equities are trading at a cyclically high discount to Midcaps**

12m forward PE discount (Nifty index over Nifty midcap)

Source: FactSet, Standard Chartered

Fig. 2 **Since the adoption of Inflation Targeting Framework, re-po rate, CPI and bond yields have declined**

CPI Inflation (%), IGB yield (%) RBI re-po rate (%)



Source: Bloomberg, Standard Chartered

Foundation allocation: Neutral Equities

Indian equities delivered strong returns in H1 2024 (Nifty index up 10.5%) driven by several positive structural and cyclical drivers. Domestic growth and corporate earnings continued to exceed consensus expectations amid declining bond yields and robust domestic investor flows. Further, government continuity was a strong tailwind for risk assets, assuaging investor concerns on policy focus. We expect the current strong macro and earnings cycle to sustain over the medium-term. However, in our Foundation allocations, we tactically stay Neutral on equities, given (i) normalization of the pace of domestic growth and corporate earnings in FY 2025, (ii) expensive valuations of domestic equities, both absolute and relative to peers, and (iii) our view of modest policy easing by the RBI, given still elevated headline inflation. Within equities, we stay overweight large-cap equities given better margin of safety in terms of both, earnings and valuations, compared to mid-cap and small-cap equities. In addition, large-cap equities' relatively better balance sheet strength could help it to withstand shifts in the macro environment.

Indian Bonds: Carry and price gains

Indian bonds yields are likely to see a sustained decline given a confluence of positive structural drivers. First, since India's adoption of the Inflation Targeting Framework in 2016, inflation, bond yields and policy rates have seen a secular decline with relatively minor overshoots. Further, the RBI's policy actions have been supported by supply-side interventions by the government to manage energy and food article prices, increasing the effectiveness in managing price stability. Second, the government has stuck to the path of fiscal consolidation and is on course to reach the fiscal deficit target of 4.5% by FY 2026, as committed to the parliament during the pandemic. Third and most important, Indian onshore bonds inclusion in EM Sovereign bond indices (JP Morgan and Bloomberg) and sovereign rating outlook upgrade (S&P Global) are strong tailwinds for bond investors. The above is an outcome of a series of past policy measures aimed at improving macro stability and domestic bond market access for overseas investors. Further, this is likely to improve the demand and liquidity in the Indian bond market, supporting better price discovery, lower yields and borrowing costs for the government and domestic corporates.

We expect the RBI to stay on hold till headline inflation declines closer to its medium-term target of 4% on a durable basis or if growth impulses start to fade. Our view of lower bond yields over the next 12-months, is driven by improved demand-supply dynamics for onshore bonds given lower government borrowing and steady inflows from mutual funds, insurers, and index-tracking foreign funds. This view supports our preference for medium-and-long-maturity bonds given the still attractive 'carry' or yields and the potential for higher price gains as yields decline.

Navigating market volatility with a balanced portfolio

H2 2024 could continue to witness intermittent surge in market volatility given a busy election calendar: key state elections in India and US presidential elections. The ongoing geopolitical tensions in the middle east and potential divergence in central bank policy easing cycle are added risks. We believe a diversified asset allocation, comprising a neutral allocation across bonds, equities, gold and cash remains a prudent strategy for the coming months.

Gold has been the top-performing asset class in H1 24, rising 14.4% YTD. What we find most interesting is how the gold rally continues to be driven by a tight demand/supply balance rather than falling bond yields. We see room for this to continue given central bank demand remains strong, while the direction of yields turns more supportive as rate cuts gather pace. While we maintain a core holding (Neutral) view on the asset class, H1 has been a lesson on why it is important to build an allocation to gold within Foundation portfolios.

Cash serves as source of dry powder for any future opportunities. Liquid alternatives, market-neutral and other strategies that have a low correlation to traditional assets are potential routes to achieve portfolio diversification.

Opportunistic allocations: A focus on growth

We expect policy continuity to continue with a broadening of policy focus to include higher outlays for welfare spending and stimulus to boost rural incomes and consumption in the low-income households. This view supports a barbell approach in our sector strategy.

We continue to prefer domestic cyclicals given our view of a sustained above-trend economic growth momentum. We retain our Overweight on Industrials. While the sector trades at expensive valuations, the sector's earnings growth remains ahead of peers. Industrial sector fundamentals remains strong on government reforms, improving infrastructure and a gradual pick-up in private investment.

We upgrade Financials to Overweight given its strong linkage to domestic growth, healthy earnings outlook and reasonable valuations compared to other sectors. Also, increased regulatory oversight, lower provisioning requirements, healthy asset quality and strong credit growth momentum is likely to support the sectors performance.

We balance our preference for domestic cyclicals though a defensive overlay with an upgrade of Consumer staples to Overweight. The sector has lagged peers in performance during H1 2024 amid weak volume and revenue growth on muted rural demand. We find better prospects for the sector in H2 2024, on reasonable valuations compared to earlier peaks, improved earnings and revenue growth outlook supported by a likely improvement in rural incomes and farm sector demand as better monsoon and likely government policy support boosts consumption for rural households.

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 relatively lower labour costs are additional tailwinds amid global companies looking to diversify their supply chains.

Within bonds, we find improved risk-reward in high-quality (AAA) corporate bonds, given cyclically high spread over government bonds and lower sensitivity to changes in interest rates. We expect credit spreads to narrow over the coming 12-months given improved corporate fundamentals, resilient earnings performance and lower borrowing costs given the outlook for a decline in yields.

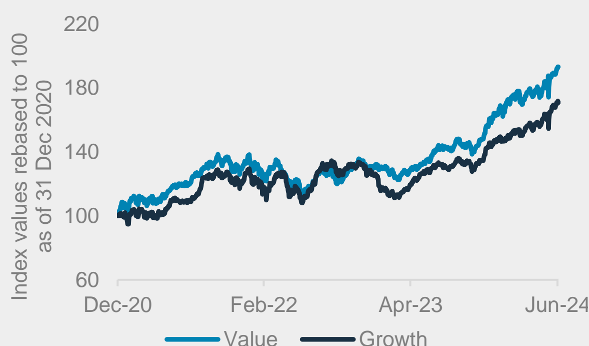
Closing preference for Value-style equities

Since the start of 2021, we preferred Value-style equities in our equity strategy – a style that favours companies trading at a discount to their perceived fair value. The revival of India's long struggling investment cycle post the Covid-19 pandemic, recapitalization of PSUs, focus on revamping domestic infrastructure and manufacturing ecosystem and defence indigenization, drove performance of sectors closely linked to the economy. Except for CY2022, Value strategy has benefitted investors portfolio returns immensely, given the sharp underperformance of Growth-style equities.

We now prefer a diversified equity strategy and close our preference for Value-style as drivers for its outperformance fade. Historically, value-style equities has performed well in an environment of improving macros and rising bond yields, as confidence in economic growth momentum builds and broadens. A period of stable or slower growth and declining bond yields tends to see a gradual rotation in style preferences. Further, earnings growth estimates for Value-style equities have started to normalize post the strong delivery over the last few years.

Fig. 3 Value style equities have outperformed Growth style significantly since Jan 2021

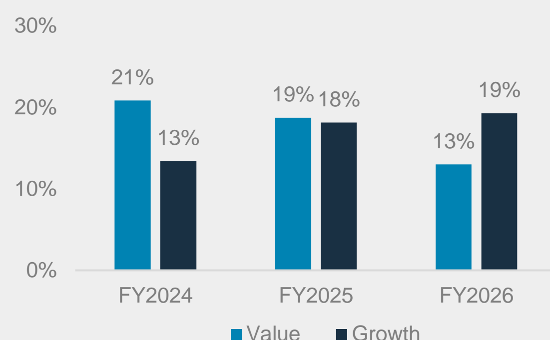
Performance of MSCI India Value and MSCI India Growth indices



Source: Bloomberg, Standard Chartered; Data since 1972

Fig. 4 FY2025-26 EPS growth estimates for MSCI India Growth outpace that of MSCI India Value index

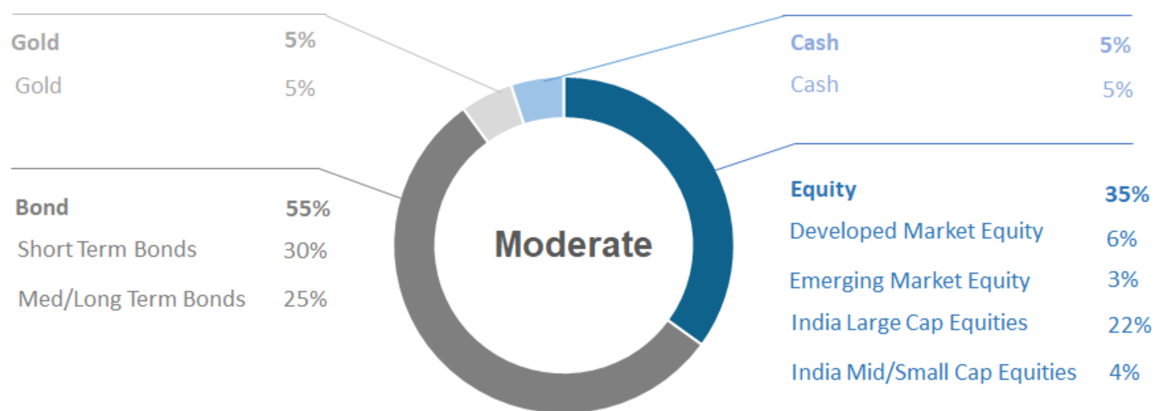
Earnings growth (%) estimate for MSCI India Value and MSCI India Growth indices



Source: Bloomberg, Standard Chartered; *Data since 1948

Foundation: Our tactical asset allocation

India allocation for a moderate risk profile



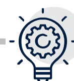
Our tactical asset allocation views (12m) INR

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 || - weaker exports amid slow global growth, stretched valuation premiums
India – Mid/Small Cap	▼	+ Higher relative earnings || - 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 in H2 2024. Resilient domestic demand, broadening government policy support and focus on capex are tailwinds for growth. In our view, CPI inflation is likely to trend lower and track within the RBI's inflation target range of 2%-6% on disinflationary pressures from previous policy tightening, lower food article prices amid prospects of a 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 remain 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, 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 early H2 2024 and cut rates later in the year as inflation declines closer to the medium-term target of 4% or growth impulses slow. 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 7.0% and CPI is expected to average 4.5%.

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

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

Source: Bloomberg, Standard Chartered

Macro views at a glance

Factors	View	Comments
Economic growth	◑	**Economic activity remained strong in H1 2024.** Services PMI averaged 60.9 in H1 2024 compared to 59.5 in CY 2023 while Manufacturing PMI averaged 57.9 in H1 2024 compared to 56.8 in CY2023. Industrial production growth averaged 5% in H1 2024 compared to 5.9% in CY2023. India's GDP grew 8.2% in FY2024.
Inflation	◓	**India's consumer price inflation averaged 4.9% in H1 2024 compared to 5.7% in CY2023.** Core inflation declined to an all-time low of 3.1% in May 2024, averaging 3.3% in H1 2024 compared to 5.1% in CY2023.
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 FY 2024. GST collections averaged INR 1.8trn in H1 2024 compared to INR 1.63trn in CY2023. The RBI transferred a higher-than-expected dividend of INR 2.1trn to the government.
External	◓	**India's trade deficit averaged USD 18.9 in H1 2024 compared to USD 20.5bn in CY 2023.** India's current account deficit recorded a surplus of USD 5.7bn or 0.6% of GDP in Q4 FY2024 compared to a deficit of USD 8.7 bn or 1% of GDP in Q3 FY2024. For FY 2024, current account deficit moderated to USD 23.2bn or 0.7% of GDP, compared to USD 67bn or 2% of GDP in FY 2023, driven by narrowing merchandise trade deficit.
Monetary Policy	◓	**The RBI kept the policy repo rate unchanged at 6.5% in its June 2024 policy review for the eighth consecutive meeting.** The RBI retained its monetary stance of 'withdrawal of accommodation' and indicated flexible liquidity management through two-way actions. Further, the RBI revised its real GDP growth forecast for FY 2025 higher by 20bps to 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. Further, improving bond demand-supply balance on lower-than-expected government borrowing, higher-than-expected RBI dividend and India bonds' inclusion in the global bond index are tailwinds for bonds. We stay 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 6.50%-6.75% 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 most Emerging Market (EM) peers.

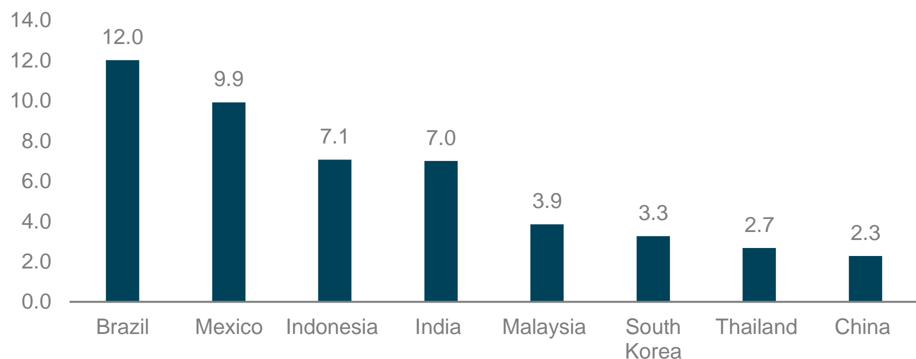
However, three factors for bonds remain unfavorable: 1) High fiscal deficit over the medium-term, 2) Tight banking system liquidity and a lack of outright support from the RBI, and 3) Above-average inflation is likely to keep bond yields elevated.

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 (%) adjusted for inflation



Source: Bloomberg, Standard Chartered.

Bond views at a glance

Factors	Views	Comments
Real Yields	◓	**India's inflation-adjusted yield is lower than other Emerging Markets**. The 10-year IGB real yield at 2.4% is below the average real yield of 3.4% 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 14.13trn 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 moved to a surplus of INR 1.5trn in early July after reaching a deficit of INR 1.6trn in June. Improving government spending could ease the pressure on banking system liquidity in H2 2024.
Demand dynamics	◑	**Demand dynamics have improved**. Foreign investor inflows remain positive YTD 2024 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 50bps vs. 5yr avg. of 156bps. High-quality (AAA) bonds have turned attractive with the yield spread between 3Y AAA rated bond and 3Y G-sec rising to 80bps, 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

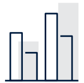
Key themes

We stay neutral on Indian equities. India's strong domestic growth momentum, up-trending earnings cycle and robust domestic investor inflows are counter balanced by above-average valuation premiums, both absolute and relative to peers. Further, we expect volatility to stay elevated in H2 2024 as the new government broadens its policy priorities amid an unusually busy election calendar with assembly polls in several key States. Within equities, we are overweight large-cap equities given higher margin of safety in terms of earnings and valuation.

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) Despite the strong performance in H1 2024, absolute and relative valuation for Indian equities is lower compared to previous peaks amid strong earnings delivery. 3) Stable inflows from domestic investors driven by inflows into systematic investment plans. 4) Pace of foreign investor inflows could improve amid more 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.

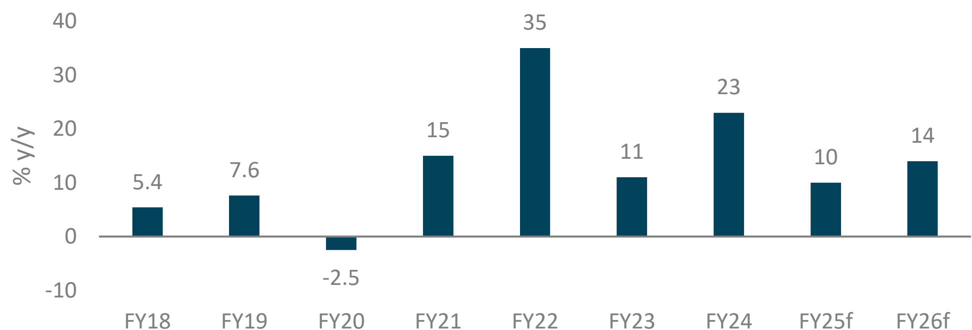
Key chart



Bloomberg Consensus expectation is for Nifty earnings to rise by 10% and 14% in FY 2025 and FY 2026.

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

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



Source: Bloomberg, Standard Chartered

Equity views at a glance

Factors	Views	Comments
Economic environment	◑	**Growth-inflation dynamics are supportive of equities.** Growth focused fiscal policy, improving real income levels and broadening growth momentum is likely to support corporate profitability. Rising food article prices amid skewed rainfall distribution and weather disruptions, remains a key risk.
Earnings growth	◑	**Earnings growth expectations are robust.** Nifty index delivered an earnings growth of 23% in FY 2024, 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 positive revisions since the start of the year.
Valuations	◒	**Valuations above fair**. Nifty 12-month forward P/E at 20.9x, is below its peak of 23x, but higher than its long-term average of 17.8x. Price-to-book value ratio (P/B) at 3.95x and Market cap to GDP ratio at ~149%, are above long-term averages. Nifty Mid-cap 12-month forward P/E trades at 57% premium to large-cap equities, significantly higher than its 10-year average premium of 18%.
Flows	◒	**Foreign investors have turned net buyers in July 2024.** YTD 2024, foreign investors have bought about USD 0.5bn 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 28.6bn 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, favourable earnings growth, and our expectation of government and policy continuity. We upgrade Financials and Consumer Staples to Overweight and Materials to Neutral. We downgrade Consumer discretionary and Healthcare to Neutral.

Financials – Overweight

We upgrade Financials to overweight. Robust domestic economic growth has sustained a broad-based uptick in credit growth. Healthy corporate balance sheets and strong loan disbursals is likely to off-set interest margin compressions due to high funding costs. Further, healthy asset class position given improved contingent buffers and increased regulatory supervision, is likely to contain slippages and provisioning requirements. Earnings expectations remain robust, with ahead of market EPS growth of 18% and 14% for FY25 and FY26. The sector is trading at a 12-month forward P/E of 17.4x, lower than market valuation of 23.8x 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, we expect new orders and execution to improve from Q2 amid robust public capex outlay, healthy order book and likely pick-up in private capex. Earnings outlook for the sector remains among the strongest across sectors (FY25/FY26 EPS at 27%/25% y/y), justifying expensive multiples for the sector.

Consumer Staples – Overweight

We upgrade Consumer Staples to Overweight. The sector earnings had trailed peers in FY 2024 on muted revenue and volume growth on weak rural demand, price cuts and competition from local players. 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 10%/12% y/y). Valuations though stretched, are reasonable compared to pandemic-era highs.

Fig. 7 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

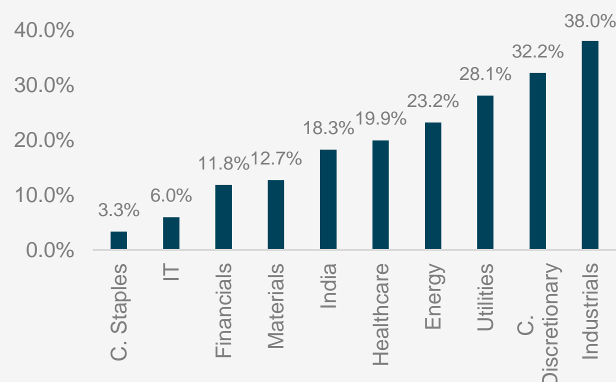
Fig. 8 Sector valuation and earnings growth estimates

MSCI Sector	12-mth Fwd P/E (x) Current	12-mth Fwd P/E (x) 15yr Avg	EPS Growth (Y/Y) FY25f	EPS Growth (Y/Y) FY26f
India	23.8	17.5	15%	16%
Cons. Discretionary	30.1	18.6	40%	18%
Cons. Staples	46.8	34.8	10%	12%
Energy	16.3	12.8	12%	7%
Financials	17.4	16.0	18%	14%
Healthcare	31.4	22.6	18%	16%
Industrials	41.6	22.3	27%	25%
IT	25.2	19.6	11%	10%
Materials	22.3	14.2	21%	34%
Utilities	20.7	12.4	8%	7%

Source: Bloomberg, Standard Chartered

Fig. 9 Domestic sectors outperform in H1 2024

YTD 2024 sectoral performance (%) as of 5 July 2024



Source: Bloomberg, Standard Chartered.

Global Equities – at a glance

Key themes

We are Overweight equities over bonds and cash, with US equities our most preferred region. We are positive on US earnings growth, particularly in the growth sectors. We downgrade Japan equities to core holding (Neutral). Improving corporate governance is still a plus but deteriorating earnings revision is likely to limit the upside. We upgrade Europe ex-UK equities to core holding (Neutral) amid an earnings recovery, even though the French snap elections may lead to volatility in the near term.

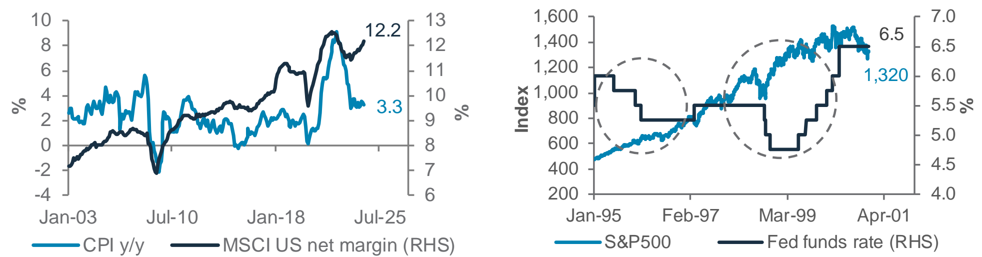
We have a core holding (Neutral) view on Asia ex-Japan equities, but we are Overweight Indian equities. Expensive valuations are justified by high return on equity and rapid economic growth. We trim Taiwan equities to core holding (Neutral); tailwinds from the AI themes and strong GDP revision are offset by the expensive valuations and high geopolitical uncertainties. We also downgrade Korea to core holding (Neutral) – we see fading effect from the government's 'Value-up' programme and quietening foreign interests. We are core holding (Neutral) China equities. Challenges of long-term economic growth and the property sector remain the key risks, supported by the piece-meal government policies. We remain Underweight on ASEAN, which is overly defensive in a global environment favouring high-beta stocks. Lastly, we downgrade UK equities to Underweight. Despite cheap valuations, the region is similar to ASEAN – overly defensive.

Key chart

Equities in sweet spot, with falling inflation, high margins

Fig. 10 **Falling inflation can help sustain expanding margins for US corporates. In late 1990s, equities continued to rally when the Fed successfully cut rates mid-cycle**

US net margin vs. CPI; Fed rate cut cycle and equity performance in 1995-2001



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

Preference order	The bullish case	The bearish case
US equities ▽ ◇ ▲	+ Strong earnings growth and momentum + Technology sector propelling performance + Delayed economic slowdown	– Overconcentration on Magnificent 7 – Macro uncertainties: e.g., US election – Expensive valuations. Elevated positioning
Japan equities ▽ ◆ △	+ Strong corporate balance sheets + Rising ROE from corporates reform + Further improvement in earnings outlook	– Foreign net inflows decelerating – Rebound in JPY to hurt company earnings – Forward guidance deteriorating
Europe ex-UK equities ▽ ◆ △	+ Improving earnings growth + Rebound in economic data + Loosening policies from the ECB	– Macro uncertainties from elections – Less compelling in valuations – Economic rebound unable to sustain
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 – Intensification of geopolitical tensions
Within AxJ	India equities ▲ South Korea equities ◆	Taiwan equities ◆ China equities* ◆
UK equities ▼ ◇ △	+ High dividend yield + Cheap valuations + Relatively defensive sectors	– Weak earnings growth expected in 2024 – Light in growth sectors – Lack of upside catalysts

Source: Standard Chartered Global Investment Committee

Legends: ▲ Overweight | ▼ Underweight | ◆ Neutral

FX and commodities – at a glance

Key themes

We see USD/INR continuing to trade in an ascending channel towards 84 over the next 12 months, as persistent RBI purchases of USD limits INR gains. Above-trend and ahead of peers' economic growth, improving balance of payments, contained inflation, foreign investor inflows into onshore bonds and a mildly bearish USD outlook are key factors supportive of the INR over a 12-month horizon. However, a bullish near-term outlook on USD, slowing export growth amid weak global growth outlook, narrowing policy rate differential with the US are likely to pressurize the INR**.**

Under our base scenario, the US economy achieves a soft-landing and the Fed cuts rates, albeit only once this year. We believe this will result in the USD Index (DXY) initially rising slightly to 106 in 1-3 months, as it stays within an ascending channel and the Fed holds rates for longer than other major central banks. We expect the USD to only soften towards 105 once the Fed starts cutting rates, which we expect before year-end. **Overall, this means we hold a bullish bias on a 3-month horizon and a rangebound view with a bearish bias over a 12-month horizon.** FX volatility remains quite low, which is consistent with the small magnitude of expected moves.

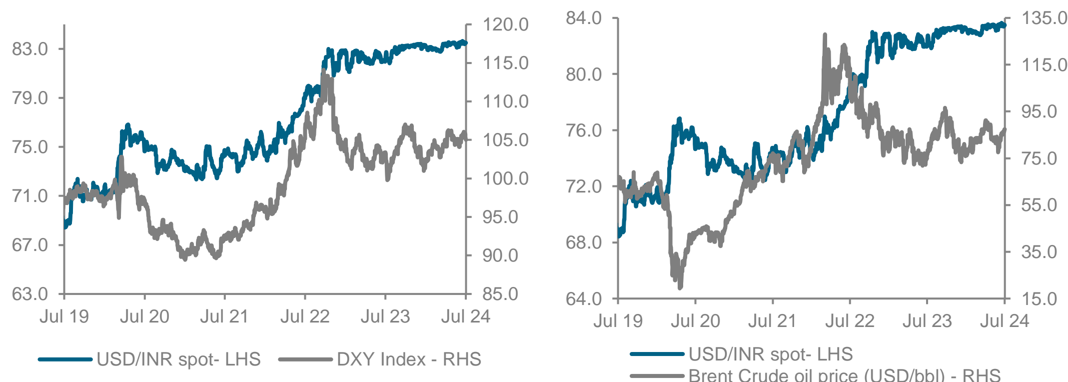
We upgrade our 12-month gold price forecast to USD 2,450/oz. Gold remains a Core Holding within our portfolio for its portfolio diversification benefits. We expect official sector demand to remain robust as central banks diversify their reserves. The start of the G7 rate cutting cycle, which we expect will broaden out to the Fed, is also supportive of the gold appetite. Both investor positioning and ETF flows are likely to improve as Fed rate cuts emerge. Physical consumption, especially in China and India, would continue to be supported by jewellery and alternate-fiat demand. In the next 3 months, the volatile Fed rate expectations and the slowdown in PBoC buying are likely to shift the market sentiment from being outrightly bullish to more balanced, suggesting that gold prices are likely to trade rangebound at around USD 2,300/oz.

We revise our 12-month WTI oil forecast lower to USD 75/bbl on higher supply expectations. OPEC+'s surprise move to gradually taper down the third round of cuts (2.2mb/d) after Q3 is likely to ease the supply tightness. Though, we believe the bloc could reverse the decision should market conditions deteriorate, putting a floor to crude oil prices. On the demand side, while the recent data are largely bearish, it is unlikely to collapse outside of a recession – not our base case. In the near term, we maintain the view that the oil markets are likely to be in a deficit with the extension of all three rounds of OPEC+ rate cuts. Coupled with the stretched short positioning, this suggests a higher WTI oil price at around USD 80/bbl in the next 3 months.

Key chart

Improving external accounts and robust macros to off-set in weakness in exports and USD strength in the near-term

Fig. 11 **Improving external accounts and robust macros 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		◆	35.8	30.3	24.8	14.9	8.7
	Mid/Long-term Bonds		▲	19.2	24.7	15.2	10.1	6.3
Equity	DM Equity		◆	2.9	5.8	8.7	11.7	14.6
	Asia Ex-Japan / Other EM Equity		◆	1.6	3.2	4.8	6.5	8.1
	Indian Equities ▲	Large-cap equities	▲	8.7	21.7	30.5	39.2	48.0
		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			✓
	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			✓

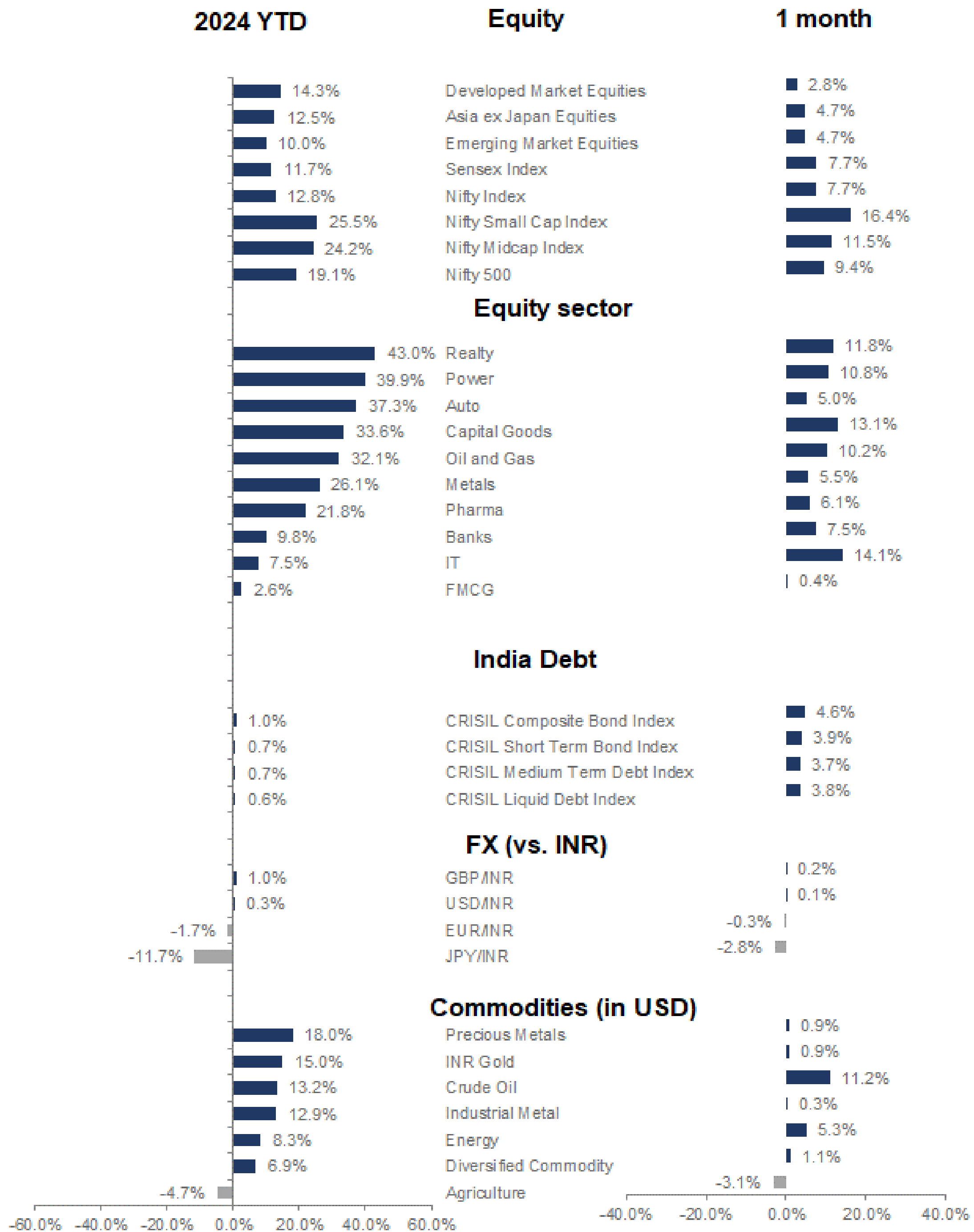
	Closed calls	Open date	Close date	Absolute	Relative
Equities	Indian equities to outperform all other asset classes	18-Dec-23	5-Jun-24		✗

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

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