Market Perspective - Dec 2022

India Equity

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Nifty Took 1 Year to Come to a New High

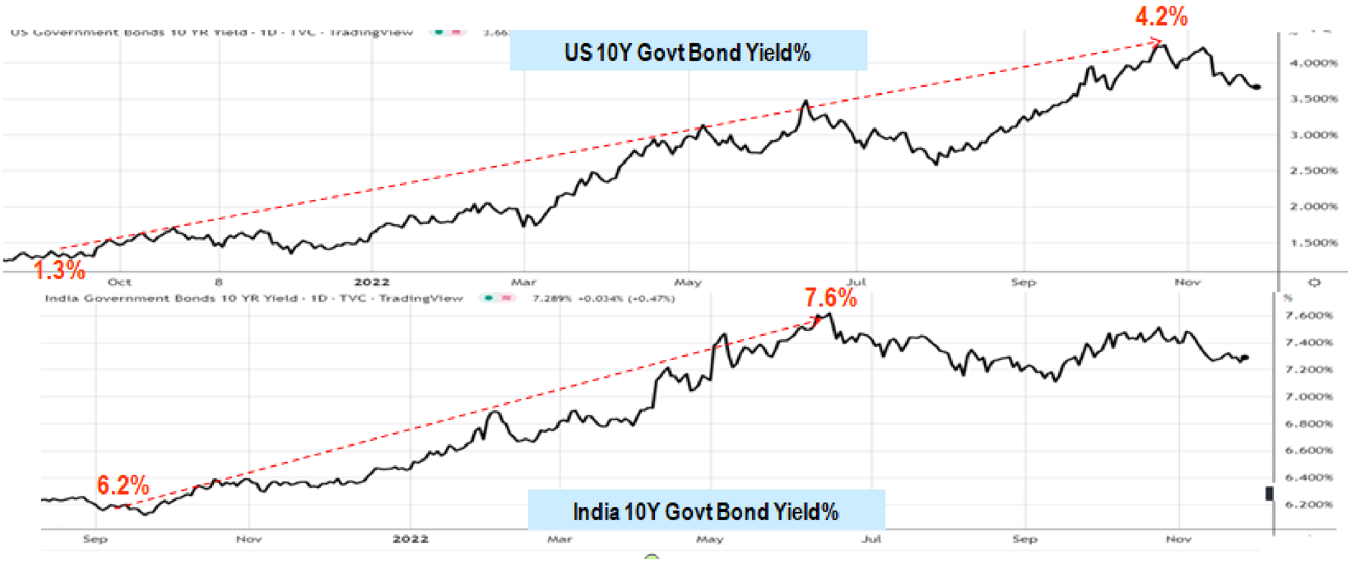
Factors Impacting Markets Fundamentals

High Interest rates
-
Impact on Valuation

High Inflation
-
Impact on Margin

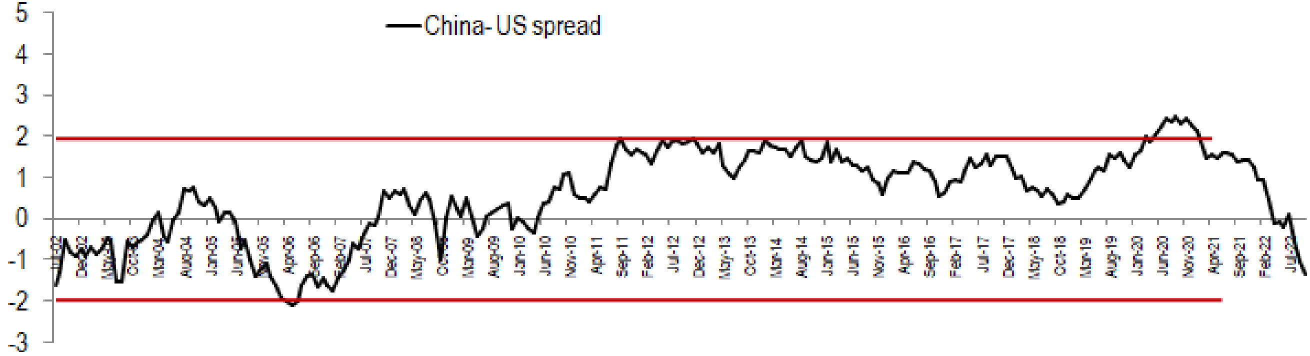
Geopolitical Woes
-
Impact on Currency

High Interest Rates Globally Impacted Valuations



Globally, Stock market indexes have followed the Interest rates movement. In US the 10Y bond yield rose from 1.3% to 4.2% while in India the rise was not that steep but rose from 6.2% to 7.6%. US market kept falling till Oct '22 from where the Bond the Yields have started falling too. In India after closing at a high of 18400 in Oct 21, Nifty fell to 15300 in Jun'22 coinciding with a rise in Interest rates from 6.2% to 7.6%. After that as the 10Y Bond Yield fell to 7.1%the Nifty rose to ~18000 levels.

India will Follow China – US Spread



Source: investing.com

We assume India will take guidance from China – US spread going further as the macro construct at this point of time is similar to what China had some 20 years ago. This implies bond yield spread to range in -2% to 2% . In the chart above, for period 2007-11, the spread was close to 0%

India to Resemble China

2022	India	Resembles	2007	China
2031	India	To Resemble	2011	China

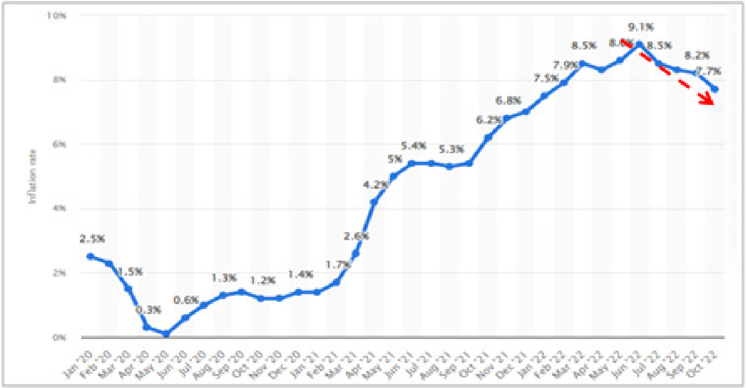
India's next decade will bear some resemblance to China's 2007-11 transition

US$ bn	China	India	China	India
	2007	2022	2011	2031E
Nominal GDP	3551	3358	7549	7771
GDP Per Capita (US$)	2688	2393	5596	5140
Private Consumption	1292	1987	2636	4468
Investment (GCF)	1438	1026	3523	2681
Exports	1353	674	2100	1880

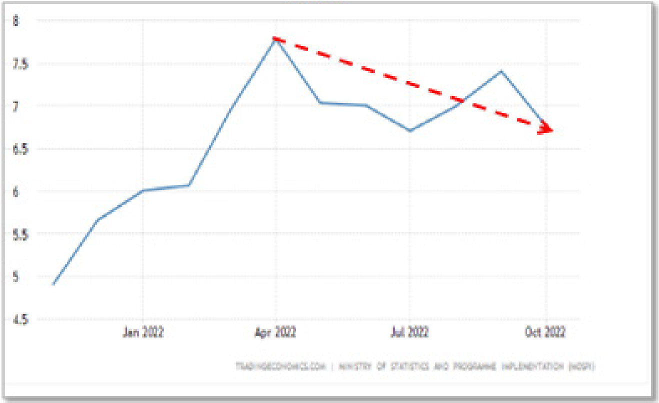
When we compare China's GDP, GDP per capita , Private consumption and other macros in 2007 to India's in 2022 we find a great similarity. Also, Our 2031E of GDP, Investments etc is comparable to 2011 figures in China.
China grew very rapidly from 2007 to 2011, i.e in 4 years where the GDP grew from $3551bn to $7549bn. We expect India will achieve that in 9 years what China achieved in 4 years.
Hence, as India's macros over 2022 to 2031 will resemble China's macros from 2007 to 2011, we expect India- US Bond Yield spread going forward will take guidance from China –US Bond Yield spread in the period 2007-11

Persistent High Inflation Trend has Started Declining

US

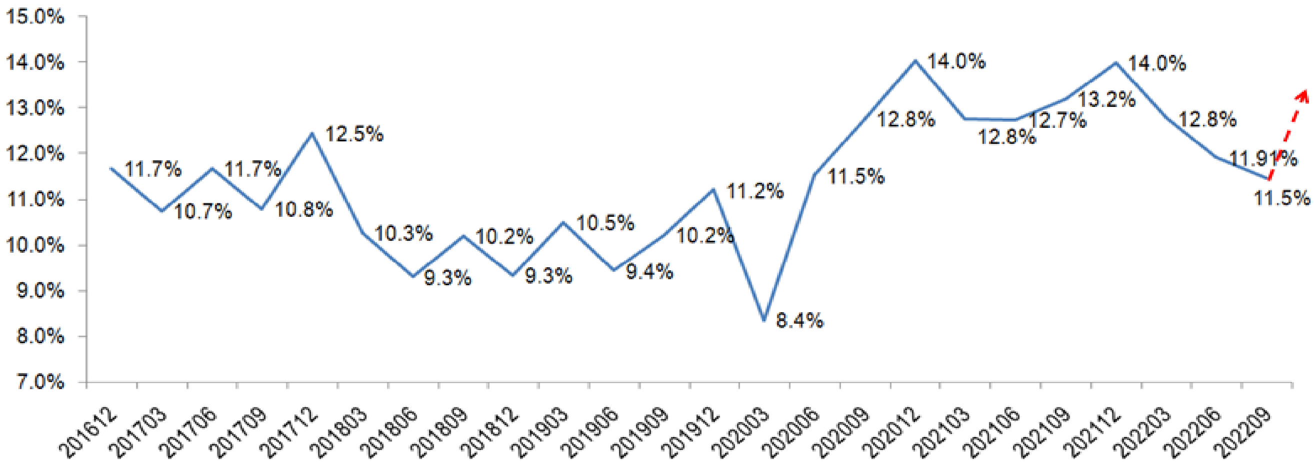


India



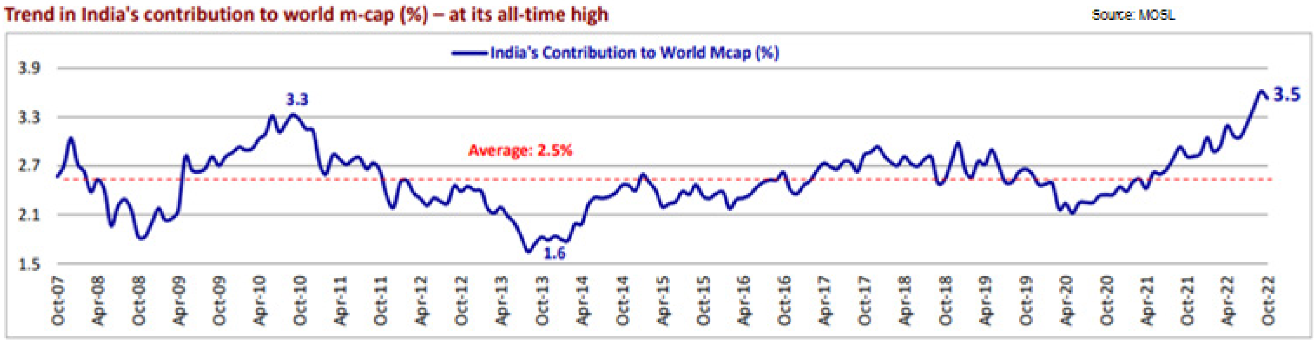
As regards Earnings, As inflation has started coming down, this will positively impactcorporate margins going forward

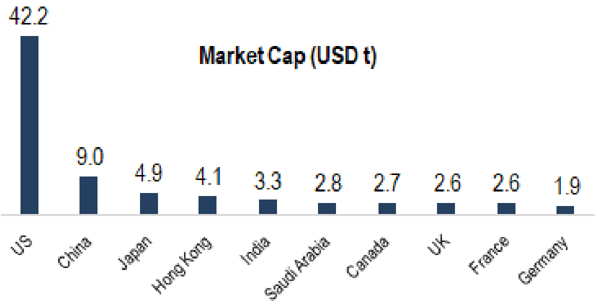
Net Profit Margin of NIFTY 500 to Get Better in Coming Quarters



Nifty EPS in the current quarter has seen upgrades post Quarterly results. The margin compression is there but is lesser than what was expected. The topline growth has been robust across sectors. Once the compression in margins normalize, earnings will start showing.

Are the Valuations Expensive?



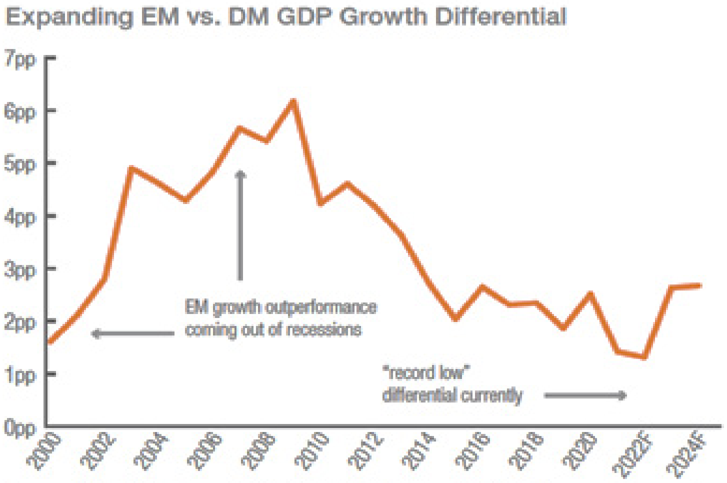


India GDP ~ 3.28% of World GDP BY 2030
at 7-8 trillion $ we will be 6.5-7% of world G

India Population ~ 17.7% of World's Population

India to World GDP currently is at 3.28% and India to World Market Cap is 3.5%. Considering the world GDP to grow at 2% and India GDP at $7 trillion in next 10 years, India as a % of World GDP will be ~6.5%. The Indian market will command a higher share in Market cap of the world, say 6%.

Emerging Market Vs Developed Market Growth

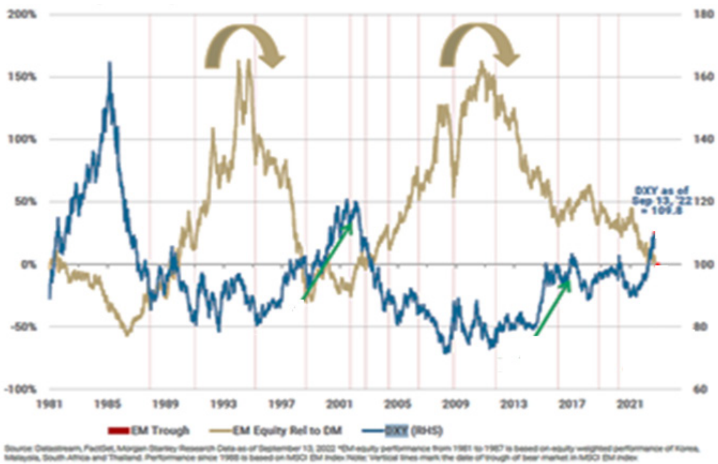


Source: IMF, World Economic Outlook Update October 2022. F=Forecast. **Forecast numbers are projections only and not guarantees.**

One noticeable thing is that spread of growth of Emerging markets to Developed Markets have improved. In the last decade, the growth of EM s Vs DMs have been declining and hence EMs have also been underperformer Vs DM. However, The current earnings growth suggest superior performance by EMs going forward as the spread of growth is rising

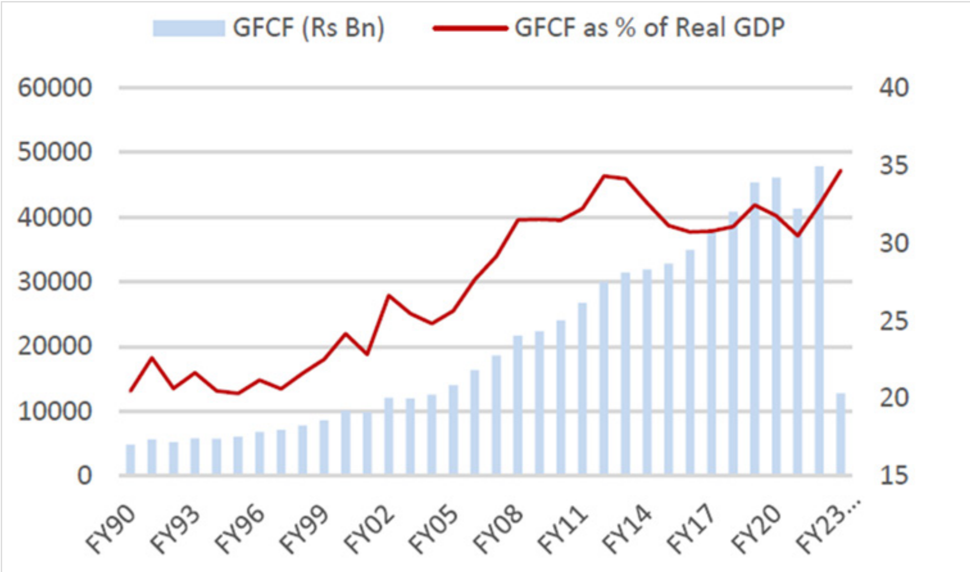
DXY Holds the Final Trigger

EM Out-performance has coincided with Dollar Weakness



Note that the Emerging Markets Outperformance Vs Developed Market Outperformance is strongly related to Dollar Index Movement. Strong outperformance of Ems in the period 2001 to 2007 was coincided by a fall in Dollar Index. Also, rise in Dollar index in period 1995 to 2000 was marked by fall in underperformance of EM vs DM.

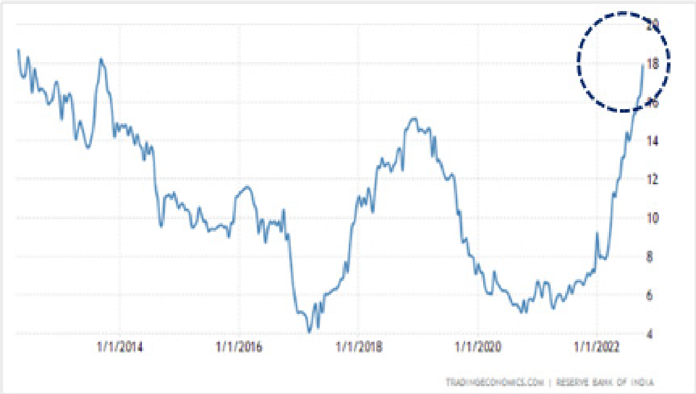
Investment Cycle Starting GFCF as % GDP

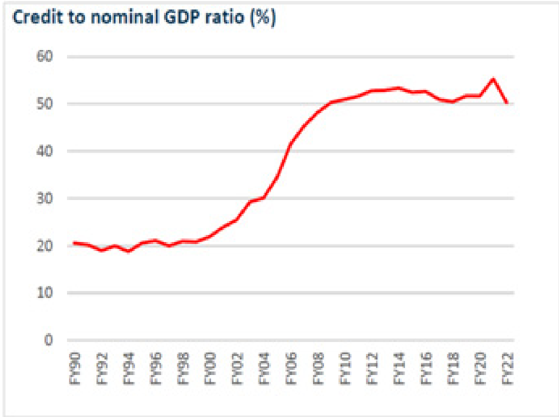


Gross Fixed Capital formation which was low as a % of GDP in the last decade has started inching up. This means, Investment in the country will be robust.

Bank Credit Growth

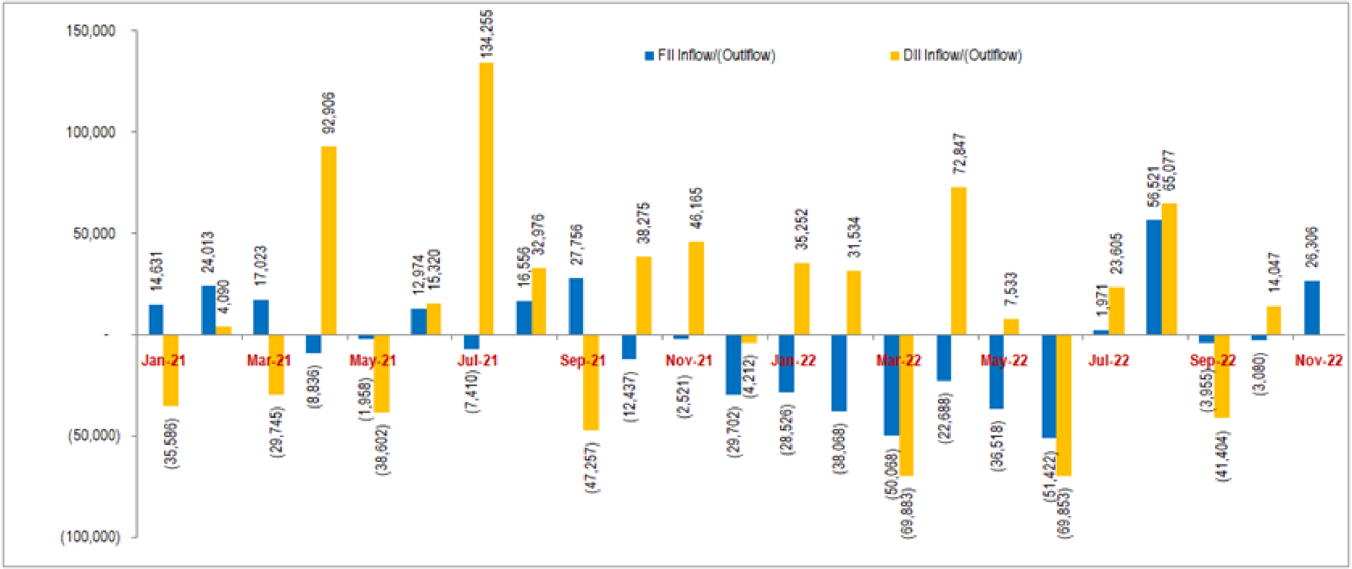
Bank credit growth hits high of 17.9% in Oct 22





The credit to industry has also seen highest growth since 2014, due to increased demand for working capital in an inflationary environment. Note that Indian corporate are now depending on banks for their funding requirements given bond yields have moved up sharply as compared to lending rates of banks.

Flow Analysis- FII/ DII



DIIs are powerful and a structural flow from DIIs should keep liquidity intact.

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