NETRA

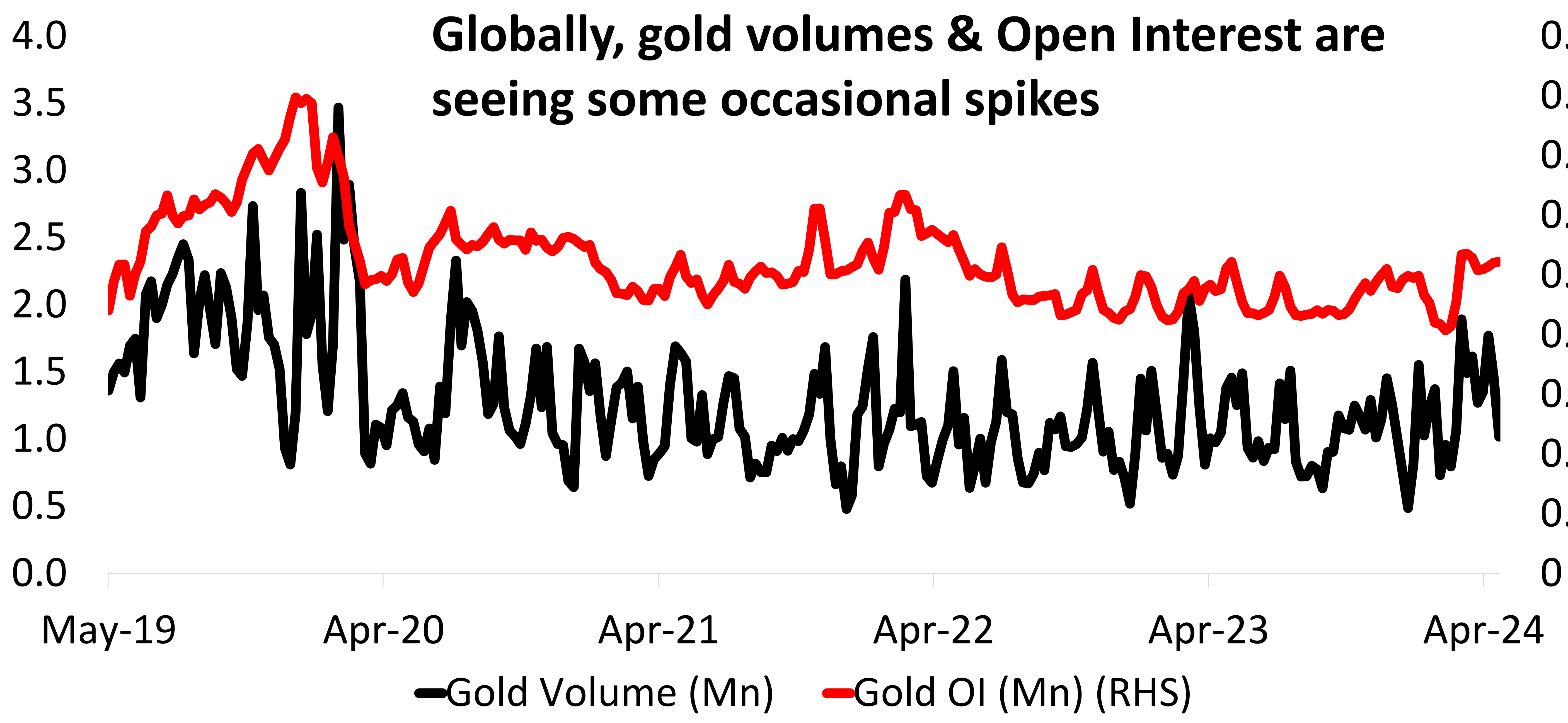
Early Signals Through Charts

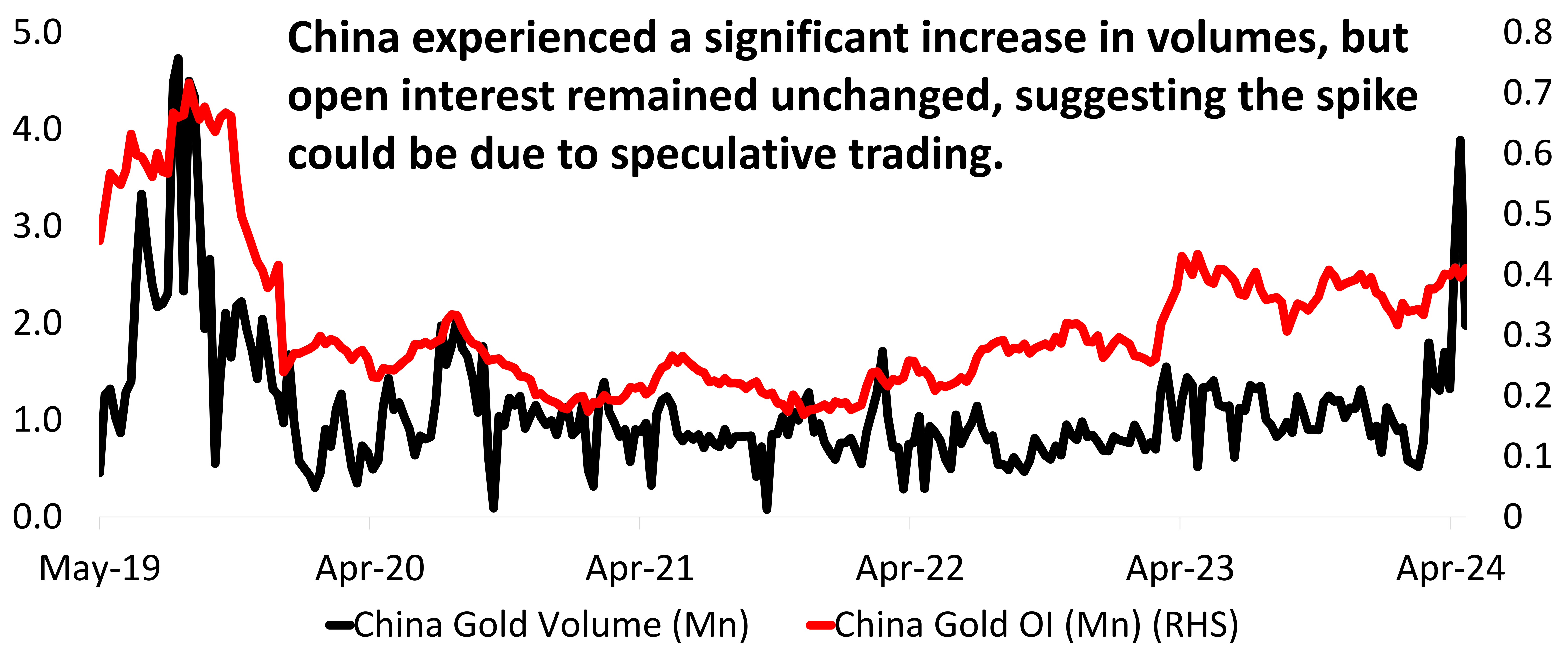
May 2024

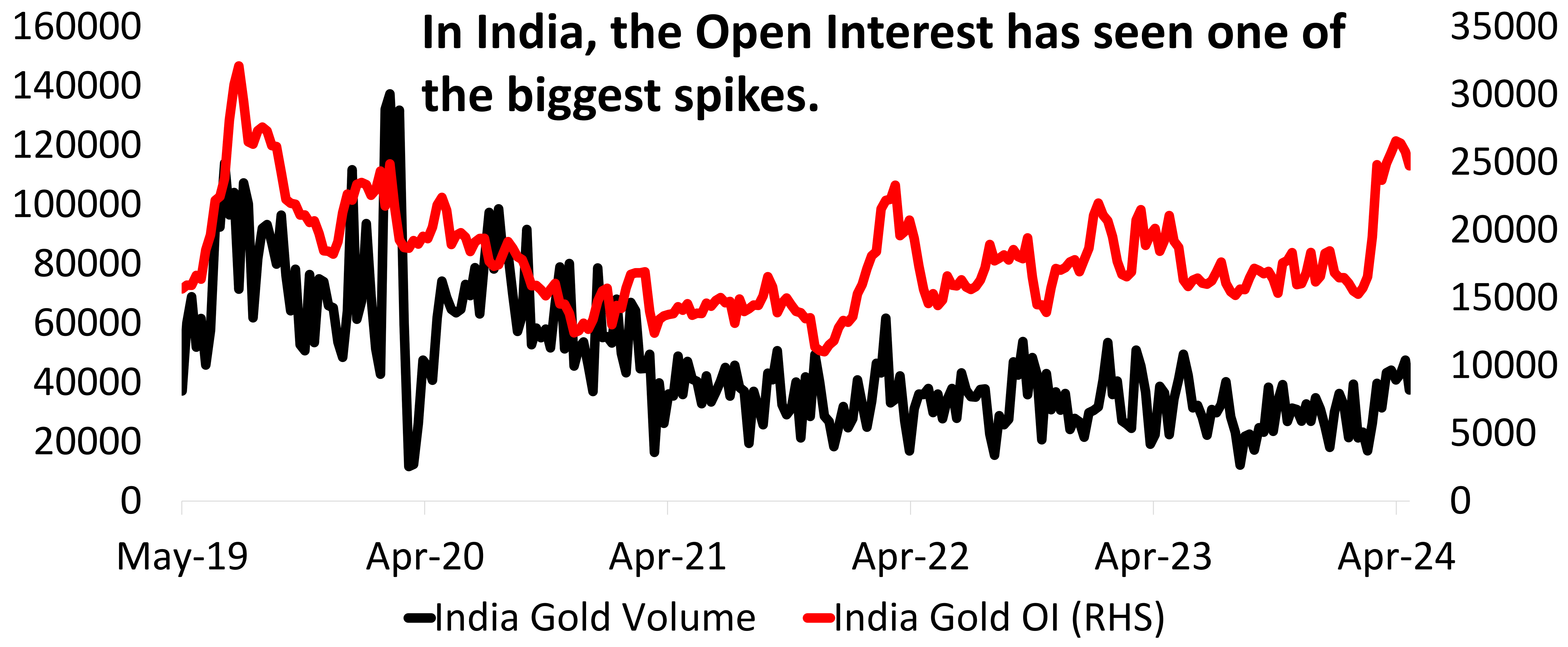
Data & Risk Flash, India in Numbers

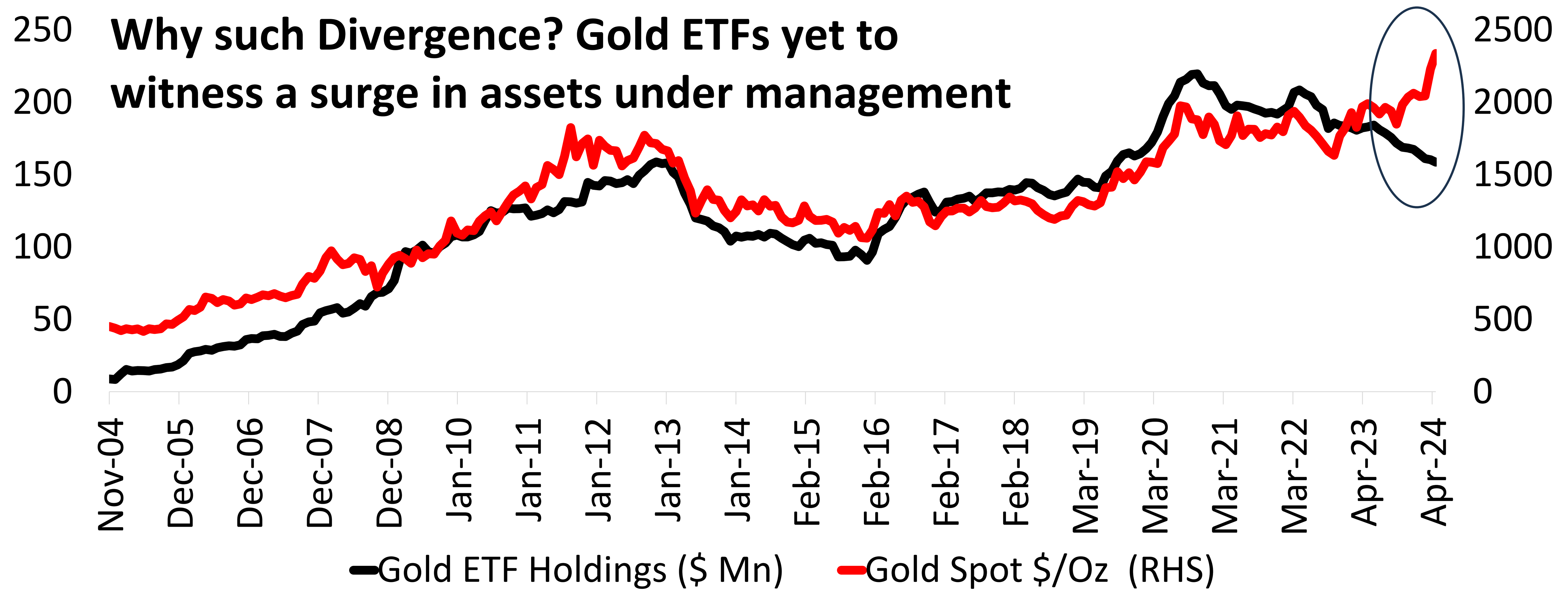
DSP

Data Flash: Gold Futures Showing Rising Confidence In Gold's New Bull Market









DSP

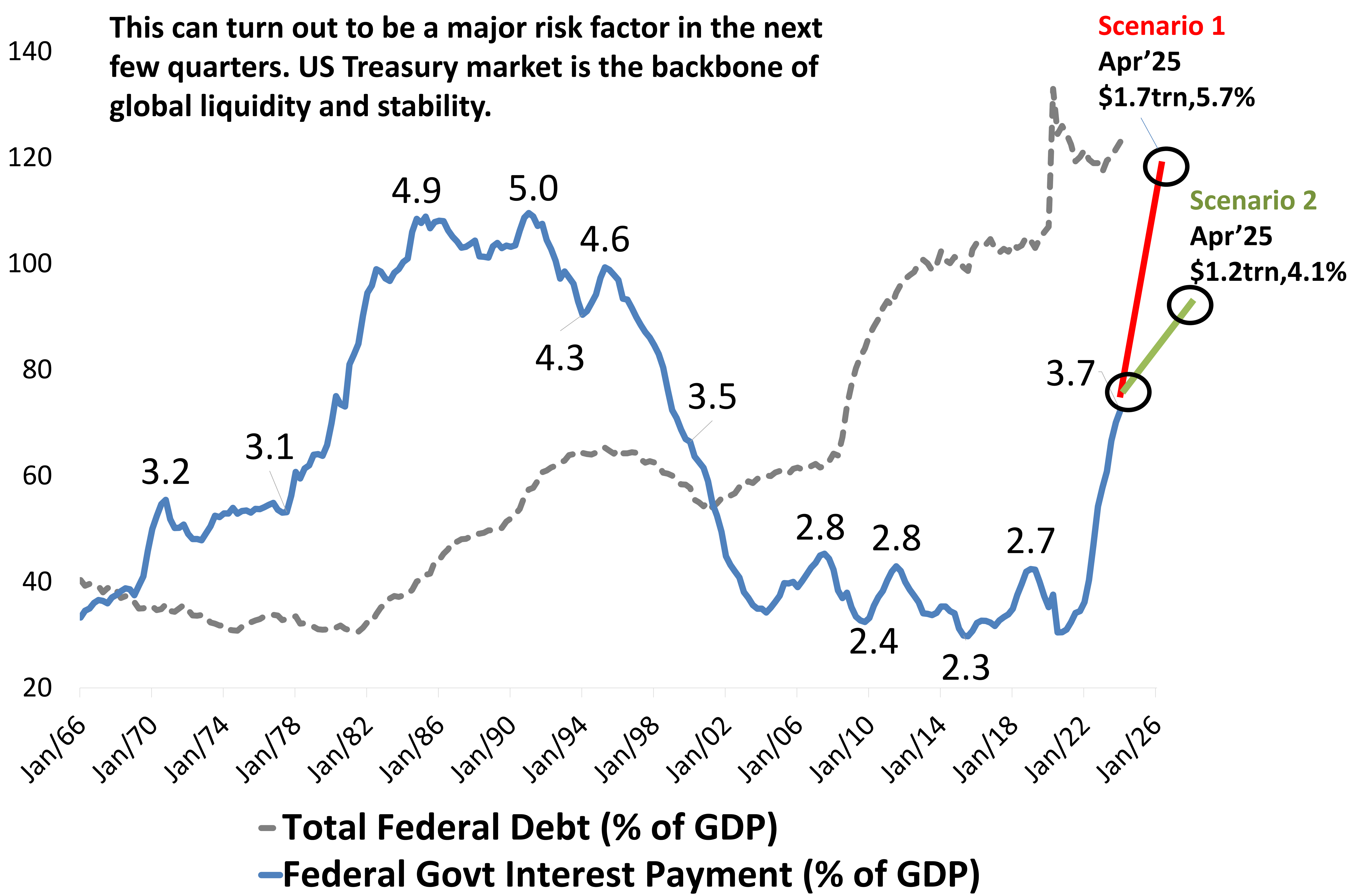
Source: DSP, Bloomberg; Data as on Apr 2024.

Risk Flash: US Interest Payment On An Unprecedent Ascent If the Fed Stays 'Higher For Longer'

What path the US Federal Reserve chooses to take with respect to the interest rate trajectory is unknown. But based on Congressional Budgetary Office estimates, if US Federal Reserve keeps the Fed Funds rate as it is over the next 12 months, the US interest payments expenditure will rise to an all time high of 5.7% of GDP at $1.7trn (see scenario 1 in the graph on the right)

However, if the Fed embarks on shallow rate cuts and delivers 150bps of interest rate cut, the Federal Interest payment expense will rise to 4.1% of GDP, the highest levels in nearly 25 years (see scenario 2 in the graph on the right)

This means that US fiscal position is likely becoming more arduous as we get deeper into 2024. The ability of US treasury to continue its break-neck pace of borrowing will come into question. A reversal or reduction in fiscal expenditure at a time when interest rates are at multi decadal highs is likely to be growth negative and a headwind for equity markets dependent on earnings growth. US Federal interest payments touched $1trn last month.



DSP

Source: CBO, DSP; Data as on April 2024.

Data Stacking: The 5-Year Look Back For Equities

The global market is currently experiencing a phase of remarkable optimism, buoyed by robust corporate performance and substantial earnings growth. Notably, amidst this landscape, Brazil has emerged as a standout case. It not only exhibits significant earnings growth, but this growth is accompanied by an equally impressive valuation trend.

Brazil is expected to post an earnings growth of 20% in FY25 and the current valuations make it an even more lucrative investment opportunity within Emerging Markets.

China is facing some economic struggles, which have led to market declines. Even though earnings have been downgraded, the stocks are now available at good valuations.
One of the lucrative sections of EM, by size.

India stands out for its impressive earnings growth, albeit accompanied by premium valuations. Consequently, Indian equities no longer represent a bargain opportunity. Indian equities lack margin of safety.

Country	5 Year Average ROE	Earnings Growth (5 Year CAGR)	Current P/E	Premium/Discount to 5-year average P/E
Brazil	16	17%	9	-27%
India	**14**	**13%**	**24**	**-3%**
France	10	10%	14	-15%
Eurozone	10	10%	15	-10%
Vietnam	14	8%	15	-12%
US	16	8%	24	8%
Canada	10	8%	18	1%
Philippines	10	5%	13	-30%
Taiwan	12	4%	25	41%
Malaysia	9	4%	16	-8%
China Mainland	10	3%	14	-6%
Mexico	14	2%	18	1%
Japan	9	2%	27	8%
UK	10	2%	14	1%
South Africa	15	-2%	17	11%
Indonesia	10	-2%	17	-21%
Australia	11	-3%	19	2%
Asia Ex-Japan	12	-4%	16	-5%
Hong Kong	10	-7%	10	-10%
Korea	7	-8%	19	19%

DSP

Source: DSP, Bloomberg; Data as on April 2024. Top 5 Most Expensive Markets (Red) & Bottom 5 Cheapest (Green)

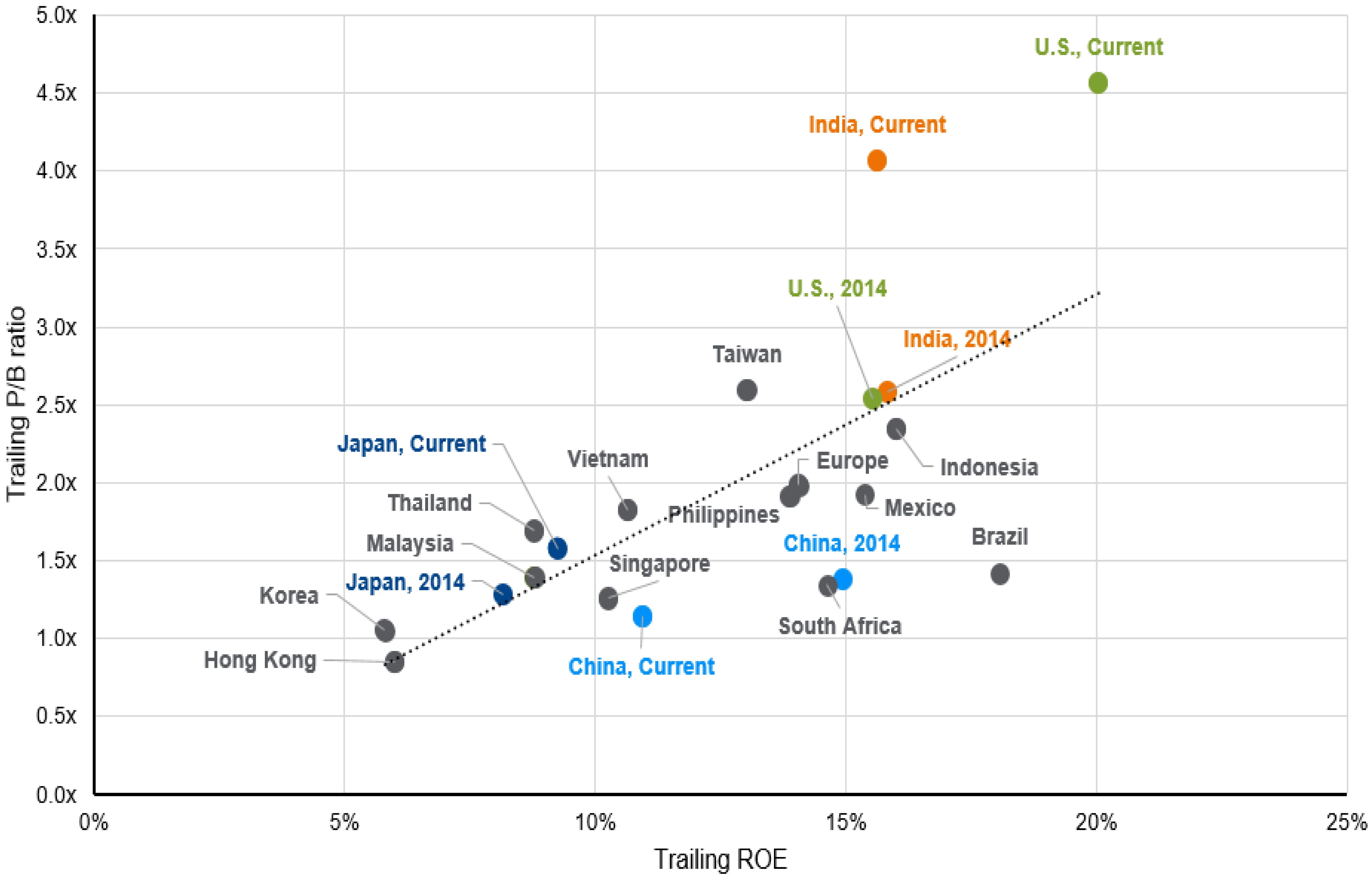
Data Stacking: The Current Picture for Equities

Emerging markets vary widely in quality, with India considered high-quality and traditionally expensive, while China and South Korea are perceived as lower quality and cheaper. Investors should assess these markets differently.

India's appeal stems from favorable demographics, economic reforms, and supply chain realignment. Despite its high price-to-book ratio (over 4x, akin to the U.S.), its return-on-equity matches that of the U.S., justifying a premium valuation. If India were to cheapen significantly, it could offer an excellent entry point for long term investors.

Similarly, the U.S. market features quality companies with elevated valuations, contrasting with Japan's historically opposite traits.

However, recent corporate governance reforms in Japan are driving improvements in ROE and P/B, offering investors a rare opportunity for market revaluation.



DSP

Source: DSP, Bloomberg, FactSet, MSCI, J.P. Morgan Asset Management. Numbers are based on MSCI indices except for the U.S. which is based on the S&P 500 Index. ROE = return-on-equity and P/B = price-to-book ratio. Last 12-months' figures. Guide to Investing in Asia. Data are as of April 26, 2024.

Data Stacking: Long Term Equity Returns Are An Exception, Not the Norm

Most equity investors believe that equity markets deliver superior returns over the long term. This is true. But only in a very few markets. Long term equity returns are an exception, not the norm

Over the past 30 years, among the 16 major indices, only US market has generated returns higher than US Bonds.

In USD terms, more than half of these markets have generated nil to negative real returns over the past 30 years.

Even in local currency terms, there is no index which has generated double digit real returns over the last three decades.

Country	Local Currency returns	Real Returns (Local Currency)	USD Returns	Real Returns (USD)	US Bond Market Index
	CAGR (30 Years)				
Malaysia	2%	-1%	0%	-3%	4.5%
China (HK Listed)	0%	-3%	0%	-2%	
Philippines	3%	-2%	1%	-2%	
Japan	2%	2%	1%	-2%	
Korea	4%	1%	2%	-1%	
Indonesia	9%	1%	2%	0%	
Hong Kong	2%	-1%	2%	0%	
France	5%	3%	2%	0%	
UK	3%	1%	3%	0%	
Australia	5%	2%	4%	2%	
Mexico	11%	3%	5%	3%	
Canada	6%	4%	6%	3%	
China Mainland	5%	2%	6%	3%	
Brazil	16%	9%	6%	3%	
India	**10%**	**4%**	**7%**	**4%**	
US-S&P 500	8%	6%	8%	**6%**	

DSP

Source: Bloomberg; Data as on Apr 2024. Bloomberg US Aggregate Index is considered for US Bond Market Index.

China's Equity Lags Despite Boasting a Far Larger GDP

China's equity markets have lagged Indian equity by a long stretch. China's current equity market capitalization is double that of India, at a time when it's GDP is 5 times that of Indian GDP.

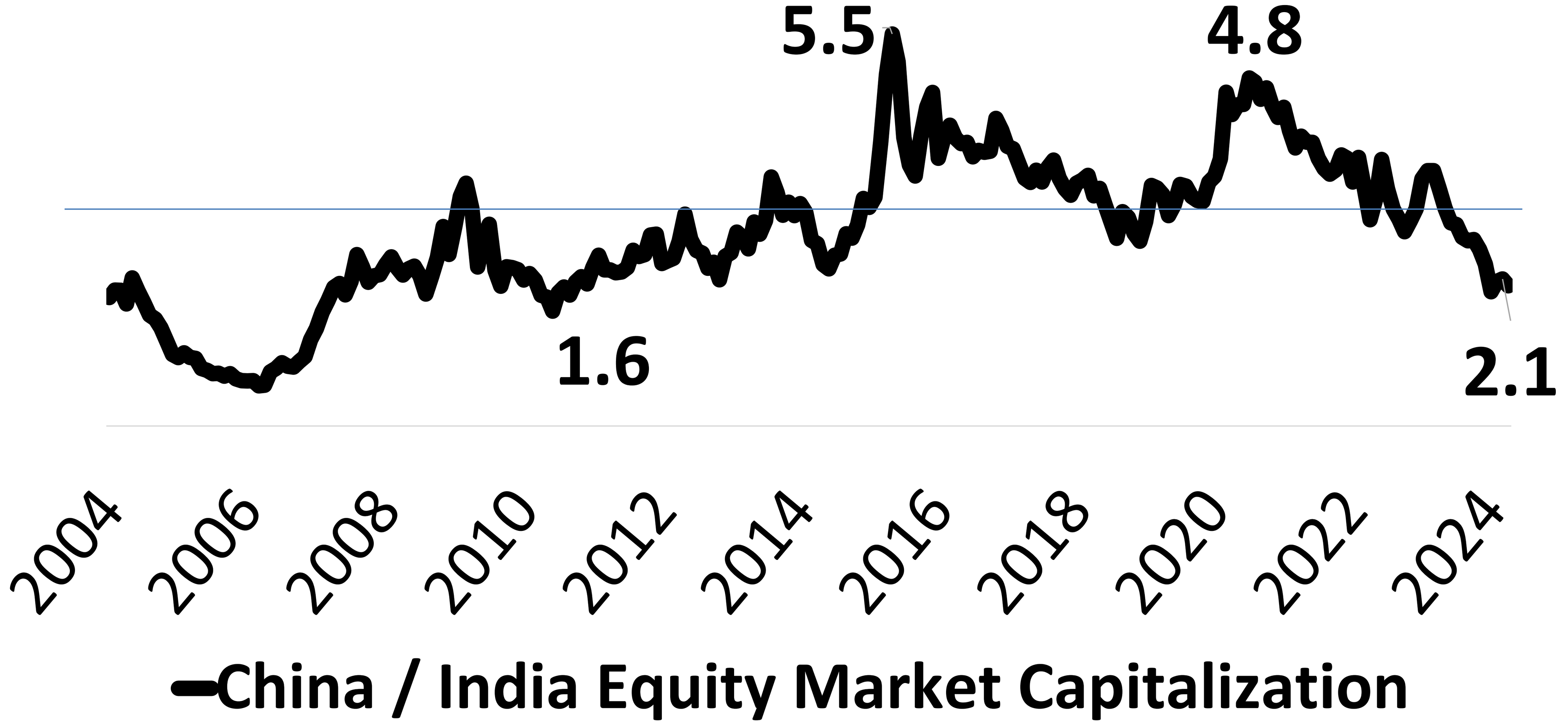
Between 2004 and 2021, China's economy outgrew India's GDP at a ferocious pace, but has lost some relative momentum since. Over the past 3 years, Indian economy and equity markets have outperformed China.

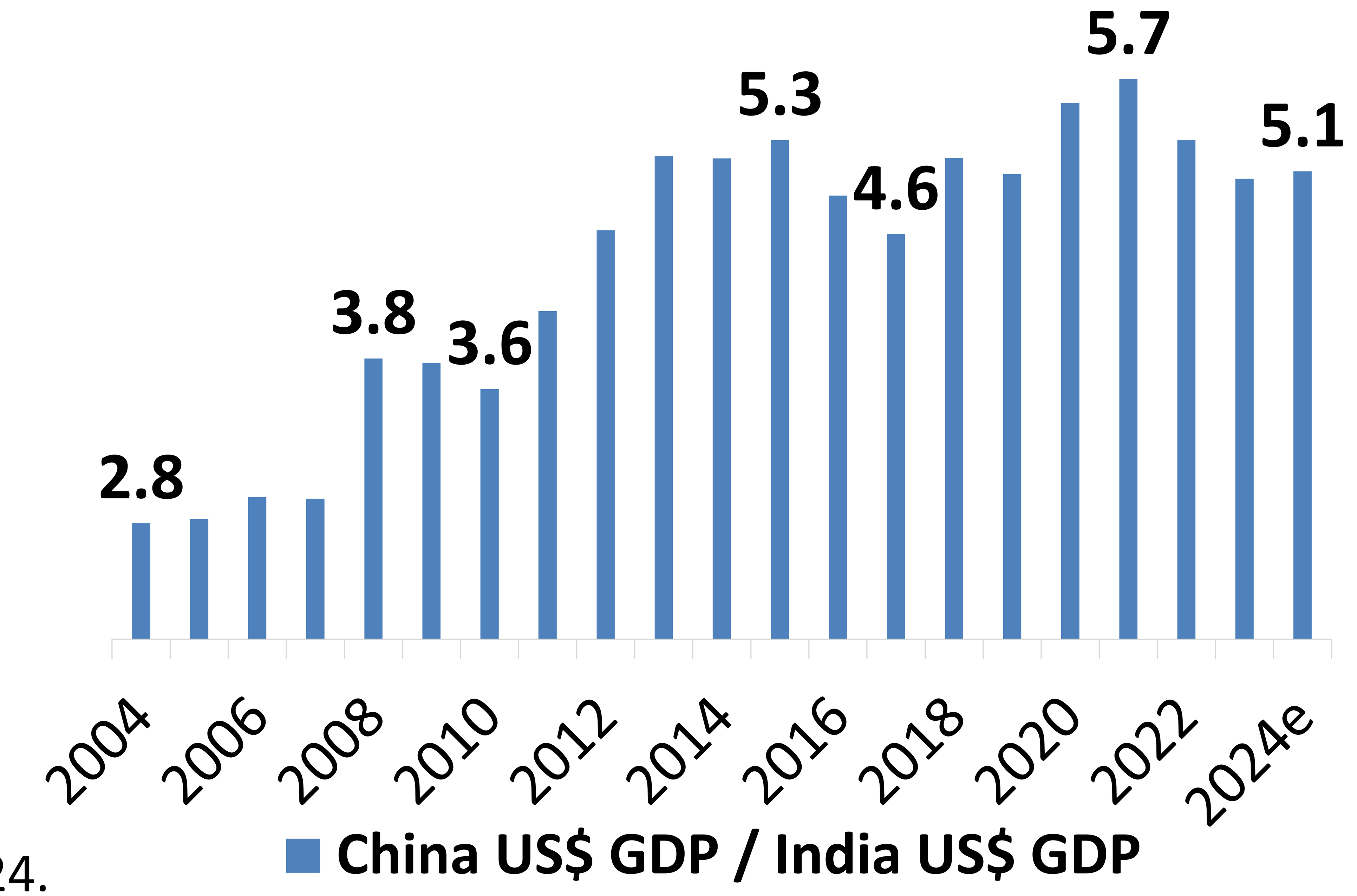
At this juncture, India's frontline stock index, the Nifty 50 Index trades at 23x trailing earnings, while the Shanghai Composite trades at 11x trailing earnings.

Can these valuations differential sustain? Can the size of the economy begin to converge, and India outgrow China over the next few years?

The market is behaving as if the answer to these two questions is a yes. But valuations attractiveness could be a major hurdle.

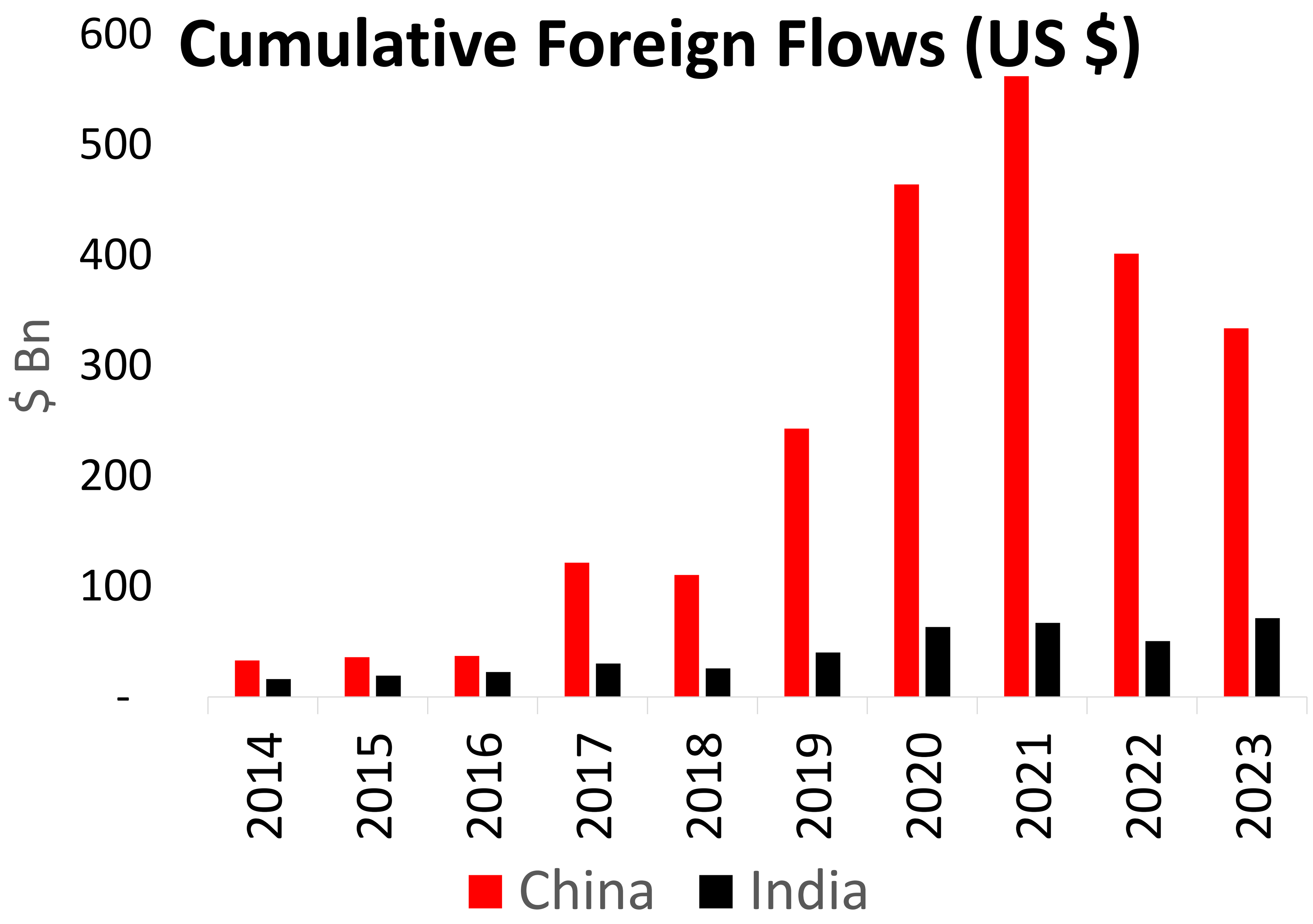
China's underperformance has been stark. It's fortunes likely linked to its growth outcomes.





India's strong and steady earnings growth has been the main driver of India's outperformance

EPS Growth (CAGR)	MSCI India	MSCI China
1 Year	13%	-2%
3 Year	19%	-9%
5 Year	10%	-5%
10 Year	8%	-4%
15 Year	7%	2%
20 Year	11%	5%



DSP

Source: DSP, Bloomberg; Data as on April 2024.

India: A Trillion Dollar of Annual Investments

India has come out of an investment winter. The investment to GDP ratio (measured as Gross Fixed Capital Formation to GDP) peaked in 2011 and remained low until the COVID-led disruption upended the supply chains. Post COVID recovery and a large push through government expenditure, the investments are making a come back.

Over the last seven and a half decades, $14trn has been spent on investments since independence. This includes spending on housing by households, infrastructure creation by the government, and private capital expenditure. India has spent $8trn on new investments over the last 10 years. As the base becomes large this number will repeat itself in the next 5 years.

What does this mean?
The size of India's annual investments is becoming large enough for it to get your immediate attention.

Gross Fixed Capital Formation in current US Dollars by country

1990	1995	2000	2005	2010	2015	2020	2023	CAGR
1269	1697	2373	2990	2756	4656	6240	8006	14.4%
1114	1594	1415	1251	2674	3778	4602	5774	4.7%
433	609	450	901	1303	1110	1289	**1109**	**8.1%**
297	321	395	543	664	672	837	1087	-0.1%
258	243	297	479	585	**604**	**728**	979	6.3%
148	238	294	447	**557**	524	616	620	2.3%
129	111	146	**269**	399	509	471	531	2.2%
95	92	**122**	256	379	371	384	490	4.1%
86	**91**	108	188	330	354	322	434	3.3%
84	83	44	136	311	281	301	416	4.9%

India **China** **Russia** **France** **United Kingdom**
Australia **Canada** **Japan** **Germany** **United States**

DSP

Source: World Development Indicators, Bloomberg, DSP; Data as of Apr 2024

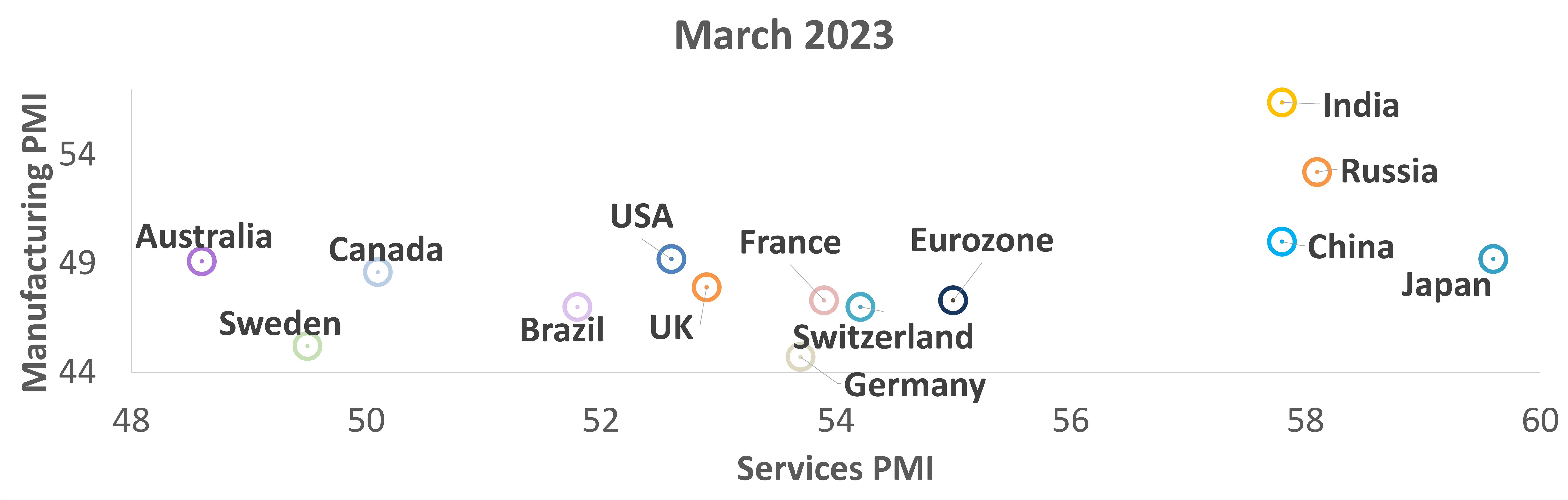
Indian Economy Dancing To Its Own Tune

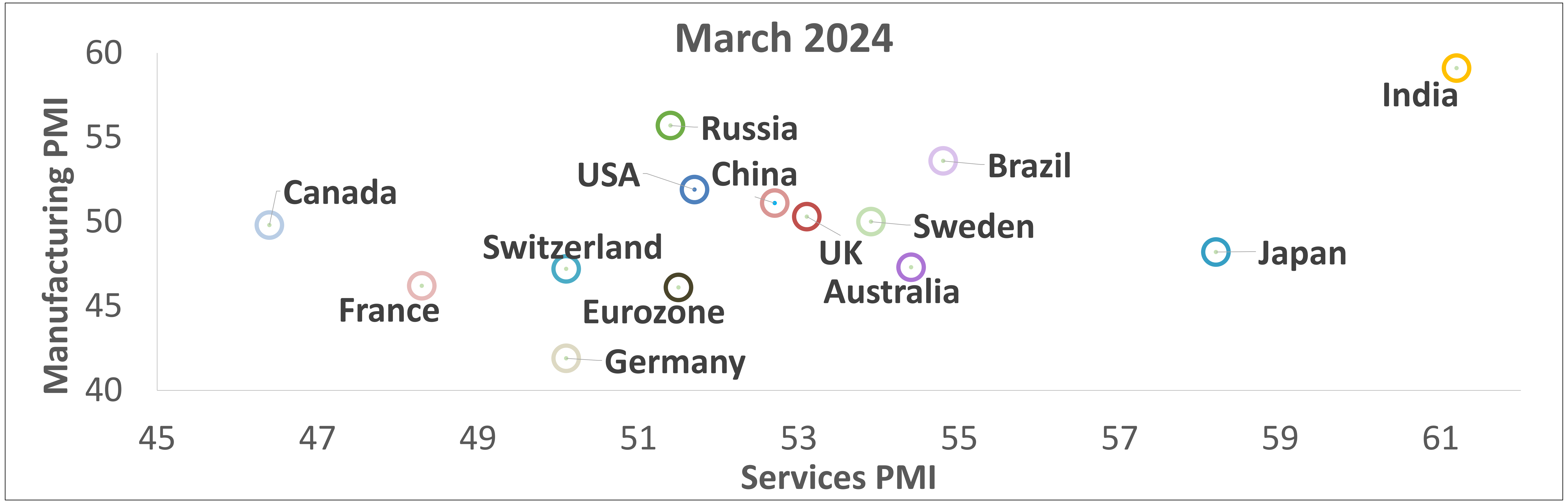
While the global economic landscape has been a bit wobbly, India has remained a steady ship in choppy waters. The economic growth has been consistently strong with corporate top line and profit growing steadily.

As is visible from the graph on the right, over the past 12 months, most economies have seen a slowdown in their manufacturing sector or services, or both. India, over the past year, has seen a consistent growth in economic output and business sentiment.

Its divergent economic trends have long been an outcome 'in-waiting', though never realized. But over the past year, India has shown a consistency which is probably the first evidence suggesting that India's economic and businesses cycle can withstand global turbulence of manageable magnitude.

The reason?
A stable external situation. Read ahead.





DSP

Source: Bloomberg, DSP; Data as on Apr 2024

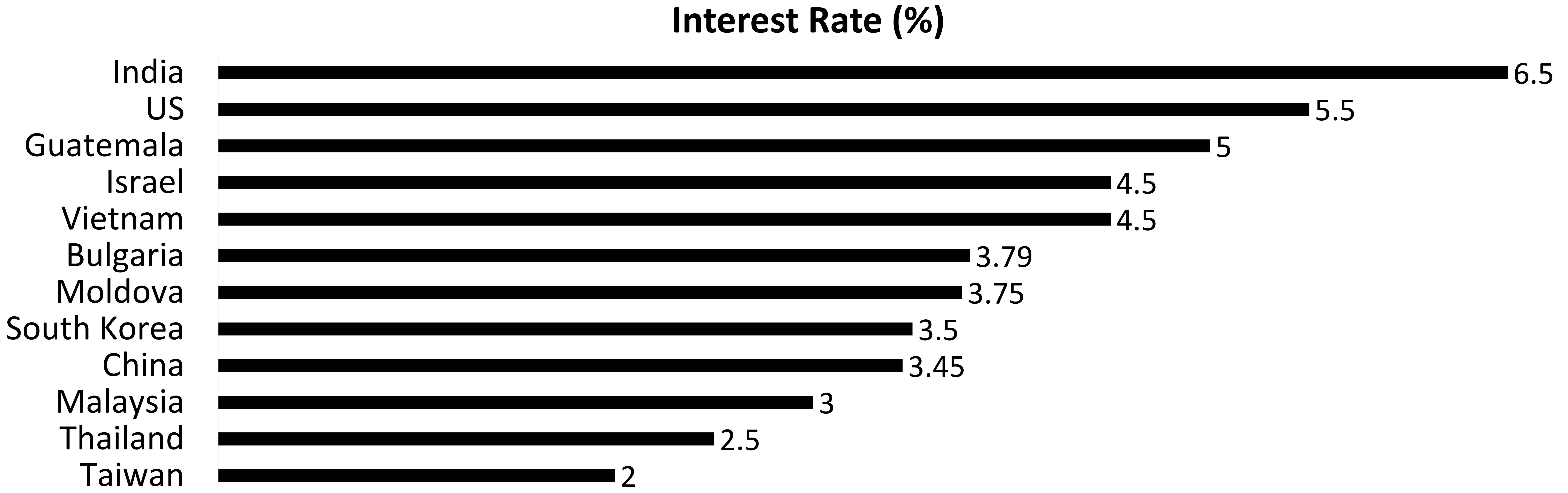
India Stands Out With High Real Rates

Most emerging market currencies are struggling with negative carry against the US Dollar. This has forced the central banks of these countries to be cautious in FX policy and setting their interest rates.

Recently, Indonesia has raised rates to 6.25% to support its currency as US Dollar strengthens. For India, a mix of strong current account, strong FPI inflows, especially in debt markets, and RBI's wait and watch approach has helped the currency. Strong services flows and remittances have been a big pillar of support which has kept India's macroeconomic outlook stable.

This circle of reinforcements has allowed monetary policy to remain stable in the face of a wobbly globe.

The biggest risk to this hypothesis flows from domestic price pressures, which for the time being remain benign, and through any spike in crude oil prices.

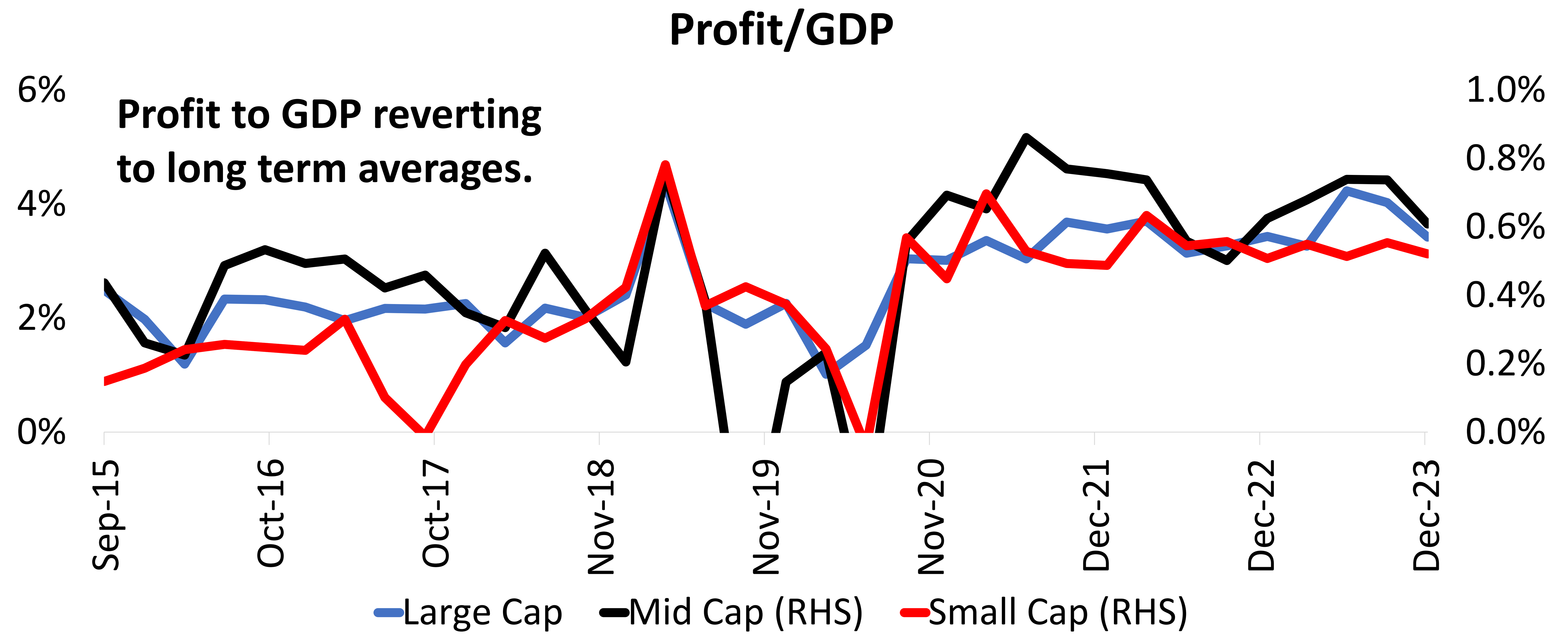


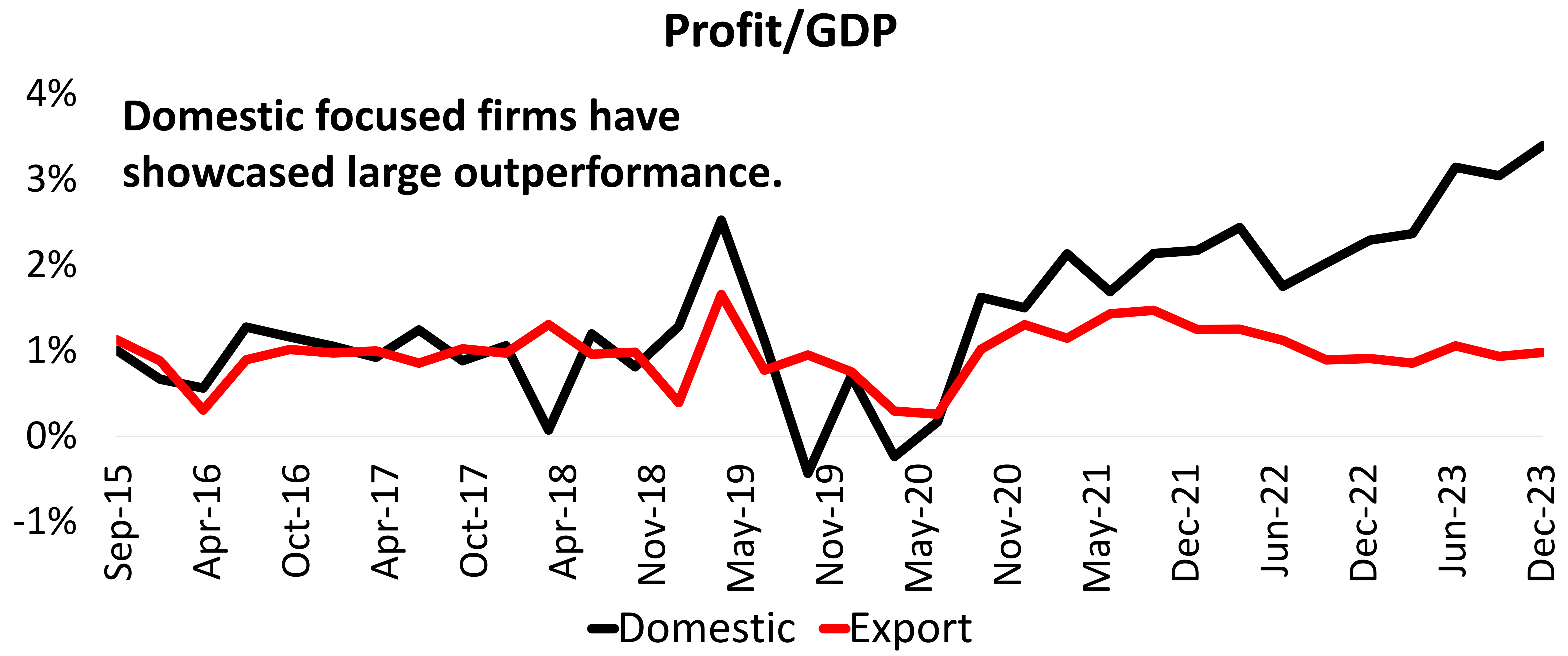
Balance of Payment Components (USD, Billions)	FY24	FY23	FY15 to FY12 (avg)	FY15	FY14	FY13	FY12
Current Account	-78	-67	-56	-27	-32	-88	-78
Merchandise	-240	-265	-170	-145	-148	-196	-190
Oil Trade Deficit	-96	-112	-96	-81	-102	-103	-99
Oil Trade Deficit (as a % of GDP)	-2.7%	-3.3%	-5.1%	-4.0%	-5.5%	-5.6%	-5.4%
Services	162	143	70	77	73	65	64
Remittance	103	101	65	66	65	64	63
Services + Remittance	265	244	134	142	138	129	128
Services + Remittance as a % of GDP	7.5%	7.2%	7.1%	7.0%	7.4%	7.0%	7.0%
Current Account Balance as a % of GDP	-2.2%	-2.0%	-3.7%	-1.4%	-1.8%	-5.7%	-5.7%

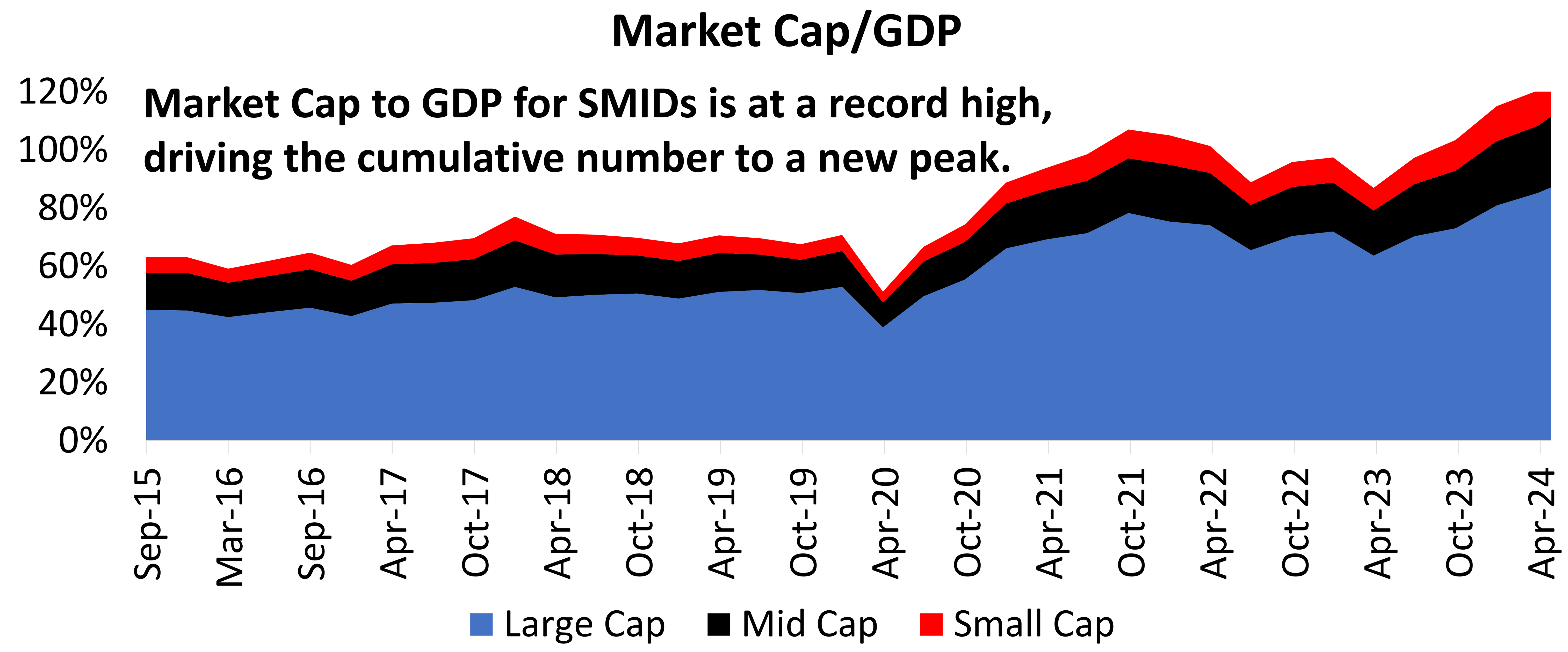
DSP

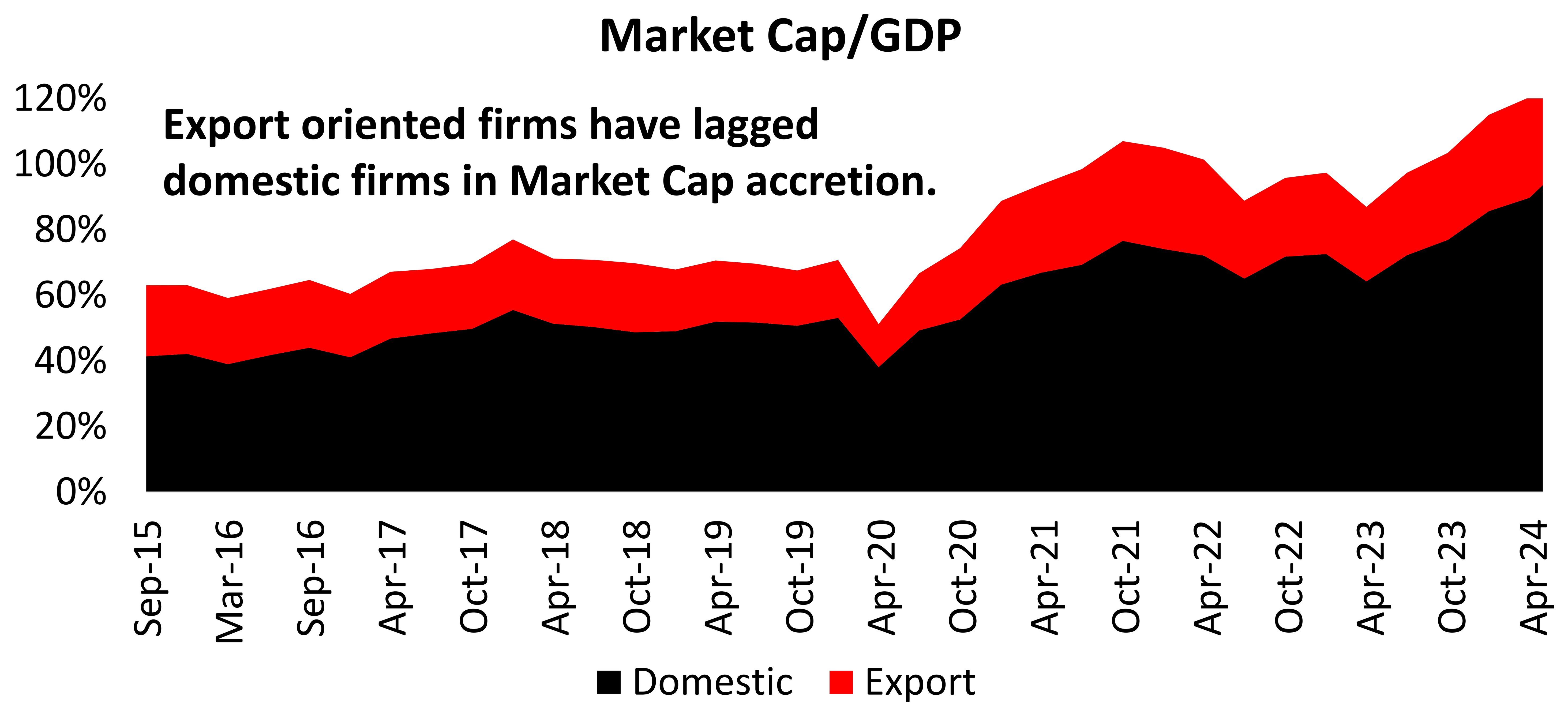
Source: Bloomberg, CMIE; Data as on Apr 2024.

India's Market Cap to GDP At Record, Profits Lag









DSP

Source: DSP, Capitaline; Data as on Apr 2024.

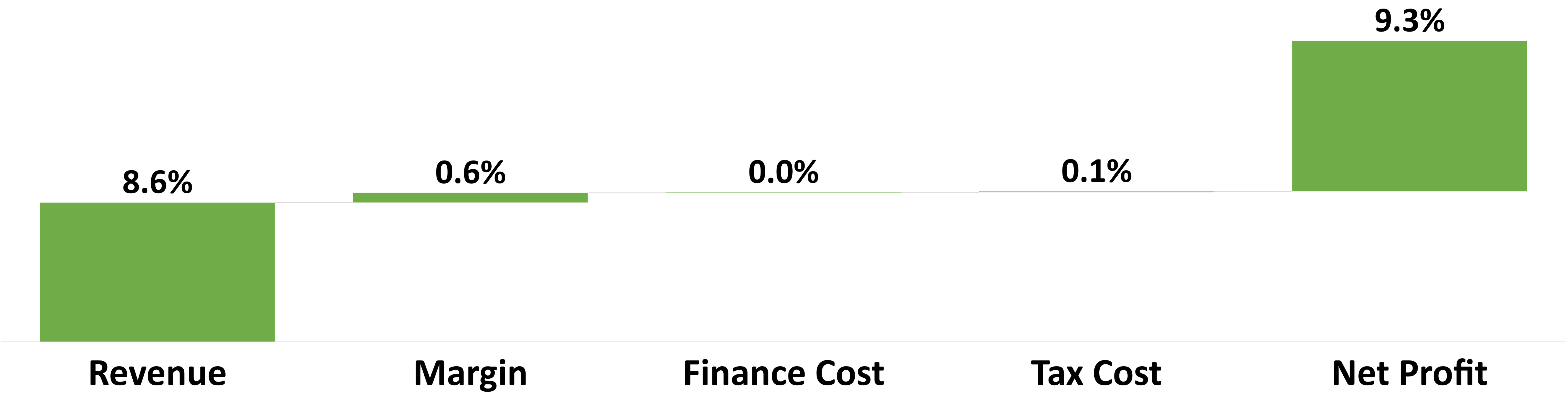
What Has Contributed To Corporate Profit Growth In India?

India has now become the second largest equity market in Emerging Markets. India's share in emerging markets has increased from 7.8% in 2020 to 17.7% at present. This substantial growth is primarily attributed to the increased profitability of companies, surpassing their pre-COVID growth rates, and to consistent performance of equity indices.

What contributed to healthy levels of profit for corporate India?
A growing topline and stable profit margins for Indian companies and a relatively stable financial and tax regimen. The effect is a double-digit Net Income/Profit Growth at a broad level over the last 20 years.

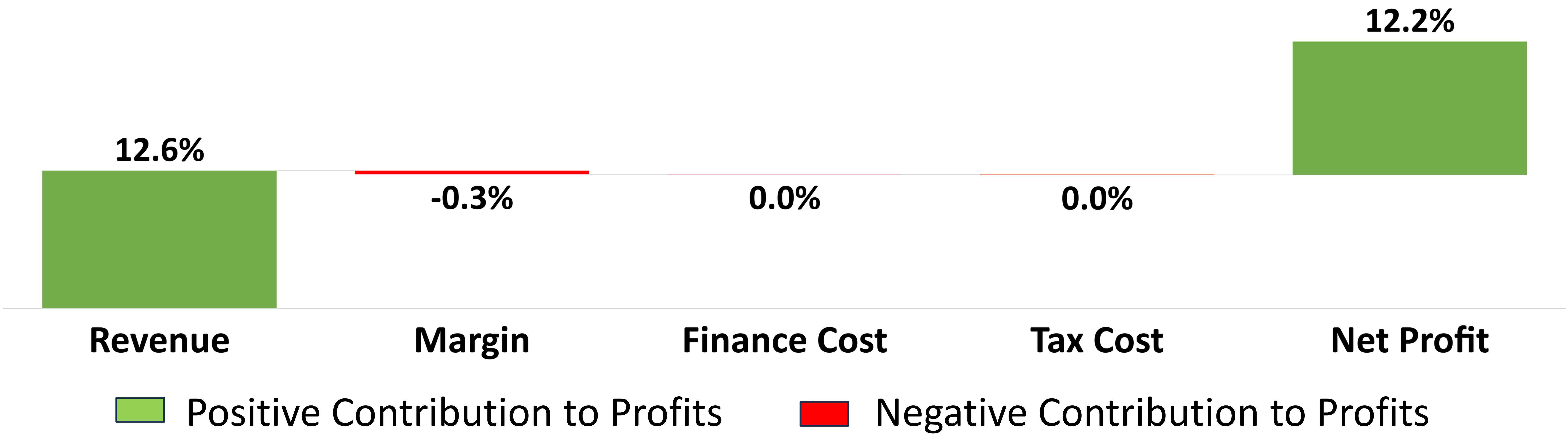
A deeper analysis reveals that this feat was achieved through enhanced capacity utilization and increased capital expenditure, which propelled revenue growth and consequently, profit growth.

Profit contribution in last 10 years



Data for NSE 500 Index companies in local currency

Profit contribution in last 20 years



DSP

Source: DSP, Bloomberg; Data as of Apr 2024. The data is of Nifty 500 companies.

Cyclicals Have Dominated This Bull Market Earnings Growth

From the last quarterly earnings (March 2020), before COVID led disruptions hit corporate earnings till the end of FY24, there is diverse performance from companies.

A significant portion of companies in the Commodities sector have seen their earnings double or more during this period. Sectors such as Commodities, Energy, and Utilities have exhibited robust earnings growth, suggesting a favorable environment for cyclical companies. However, the sustainability of this growth remains a pivotal question.

Conversely, major sectors including consumer discretionary, IT, and FMCG have experienced subdued earnings growth—a departure from the norm during periods of robust market performance. The prevalence of a bull market driven by cyclical companies introduces a degree of apprehension, as such markets are inherently prone to correction.

Earnings growth in Nifty 500 stocks (starting Pre-Covid as of March 2020) till 31st Mar 2024

Earnings Multibagger (Companies which at least doubled their Earnings)

Sectors	No.	%
Commodities	21	35%
Financial Services	25	28%
Energy	5	26%
Utilities	4	24%
Healthcare	7	16%
Industrials	10	15%
Consumer Discretionary	15	13%
Services	2	10%
Information Technology	2	10%
FMCG	3	9%
Telecommunication	0	0%

Earnings Detractors (Companies which gave negative growth)

Sectors	No.	%
Commodities	23	38%
Financial Services	21	24%
Energy	4	21%
Utilities	6	35%
Healthcare	15	34%
Industrials	26	40%
Consumer Discretionary	49	43%
Services	5	25%
Information Technology	5	24%
FMCG	12	34%
Telecommunication	2	33%

DSP

Source: DSP, Bloomberg; Data as on Apr 2024.

What's your seesaw to success?

DSP

Source: [Money Visuals, LLC]

Disclaimer

In this material DSP Asset Managers Pvt. Ltd. (the AMC) has used information that is publicly available, including information developed in-house. Information gathered and used in this material is believed to be from reliable sources. The AMC however does not warrant the accuracy, reasonableness and / or completeness of any information. The above data/ statistics are given only for illustration purpose. The recipient(s) before acting on any information herein should make his/ their own investigation and seek appropriate professional advice. This is a generic update; it shall not constitute any offer to sell or solicitation of an offer to buy units of any of the Schemes of the DSP Mutual Fund. The data/ statistics are given to explain general market trends in the securities market and should not be construed as any research report/ recommendation. We have included statements/ opinions/ recommendations in this document which contain words or phrases such as “will”, “expect”, “should”, “believe” and similar expressions or variations of such expressions that are “forward looking statements”. Actual results may differ materially from those suggested by the forward looking statements due to risks or uncertainties associated with our expectations with respect to, but not limited to, exposure to market risks, general economic and political conditions in India and other countries globally, which have an impact on our services and/ or investments, the monetary and interest policies of India, inflation, deflation, unanticipated turbulence in interest rates, foreign exchange rates, equity prices or other rates or prices etc.

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

DSP


DSP
ASSET MANAGERS
#INVESTFORGOOD