What happened in markets during October 2023?

How have our PMS funds fared?

Equities corrected. MSCI All Country Index fell by 3% MoM. In India, the midcap index fell by 4% while the Nifty 50 fell by 3%. Indian small caps corrected by mere 1%. FPIs selling totaling Rs.38,000 crores during Sep-Oct have contributed to relative underperformance of large and midcaps.

Equities corrected as markets finally embraced the “higher for longer” interest rates. The rise in volatility in the fixed income market rattled equities.

Talking about fixed income markets, the yields on the U.S. 10-year rose by 36 bps. The U.S. yield curve ended its inversion after 14 months with identical yields on the 2-year and 30-year treasuries. The yield curve in India is flat as a pancake. Latest inflation prints from Europe have surprised positively.

Yields on India’s G-Sec too rose by 18 bps. The yields went up in India post MPC meeting as the RBI governor announced the possibility of OMO sales. We expect Rs.50,000 crores of OMS sales in November in two tranches. Markets largely ignored the latest, better than expected, headline CPI print of 5.02% and core inflation at post COVID lows of 4.4%. Interestingly, the difference in the yields of the U.S. 10-year and India 10-year is at a 15-year low of 2.4%.

Crude oil corrected by 8% MoM. This is a big respite for India which imports >80% of its petroleum needs. The price of crude oil spiked in late September as speculative money bid up prices in the aftermath of conflict in the middle east.

The price of Gold rose by 7% MoM, both on account of rising geopolitical risks and markets perceiving the end of rate hikes in most DMs.

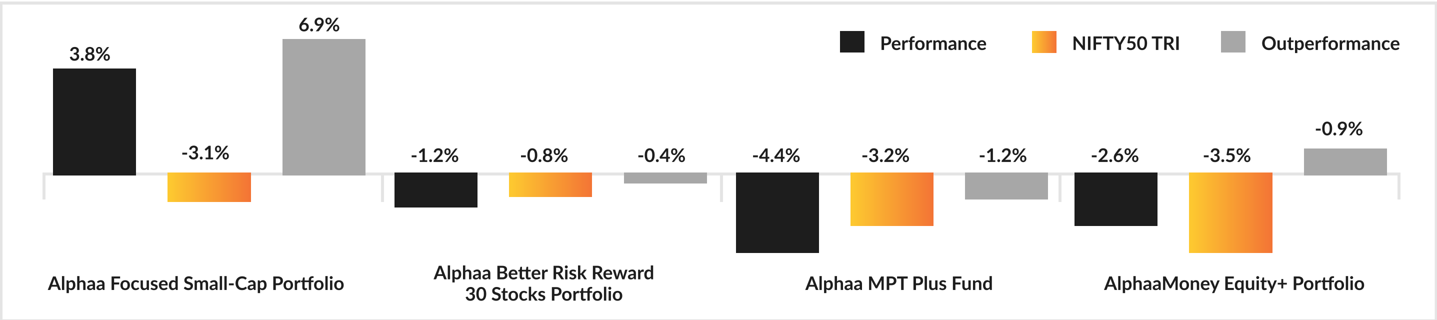
The outlook for global equities is positive and Indian equities are no exception. The reasons for a bright outlook and potential risks are as follows: -

1. The cost of capital for Indian corporations will come down in the medium term as foreigners start buying Indian Bonds post June 2024.
2. India is expected to enjoy the highest nominal GDP growth rate in the world for the next few years. That would translate into mid-teen kinds of growth in the corporate bottom-line.
3. We are seeing buoyancy in tax collections in India with the Tax to GDP ratio improving from 14% to 18% in the last 10 years. Contrast this with the fall in the same ratio in China from 19% to 14%.
4. The focus of central and provincial governments on capex spending bodes well for growth.
5. The ROEs for Indian corporations are improving in good measure. From single digit, MSCI India’s ROE is at 15% and expected to improve to 20% in a few years.
6. Recent correction has brought down 2-year forward PE for MSCI India below 17x. That’s reasonable given India’s fundamentals.

Risks to India story: -

1. In the run up to the 2024 elections, we could see loss of fiscal discipline as populism overwhelms.
2. Revival of the Chinese economy could result in FPI flows moving in that direction.
3. Household savings is down to multi decade lows in India. Something for policymakers to ponder.

Performance of our funds since inception:



Wishing you all in advance a Very Happy Diwali!