Narnolia®

Market Perspective

Sep 2023

India Equity Outlook

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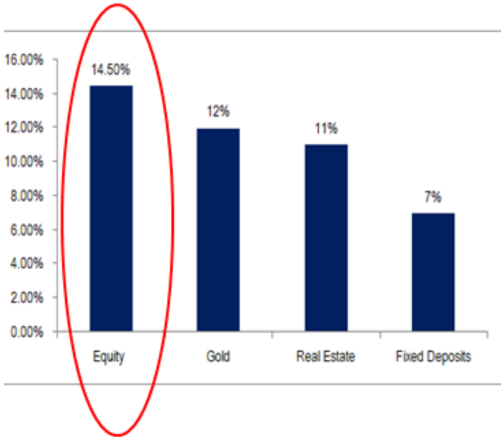
Indian Stock Market



In the last 20 years, Since Apr 2003, Nifty has moved from 935 levels to 19500 levels. This implies Indian Stock markets have multiplied 20 times in the last 20 years. When compared to other asset classes, Equity on an average has given 14.5% return which is highest amongst any other asset class. Gold returns has grown at a CAGR of 12%, real Estate by around 11% and Fixed Deposit returns have grown at a CAGR of 7% over the last 20 years.

Ask Yourself

Are you invested enough in Equity?

Portfolio Equity Investor: Want to invest for long term but waiting for the right time

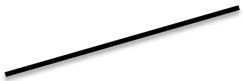
Considering the known fact that Equity has been the highest yield generator for last 20 years, we need to ask ourselves, whether we are invested enough in Equity or are we wanting to invest for long term but waiting for the right time to make position in the market. We are often lesser exposed to equity vis a vis our risk appetite. We normally get fearful during market swings and wait for right time to enter or increase exposure. That "right" time actually is never correctly capitalized by us.

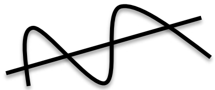
Market Movement Defined as Trend, Surge and Swing

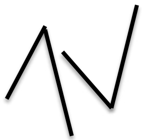
Return in the Market = Return from the underlying Trend

+/- Return from the underlying Swing at entry and Exit

+/- Return from Surge/ Shock during the period







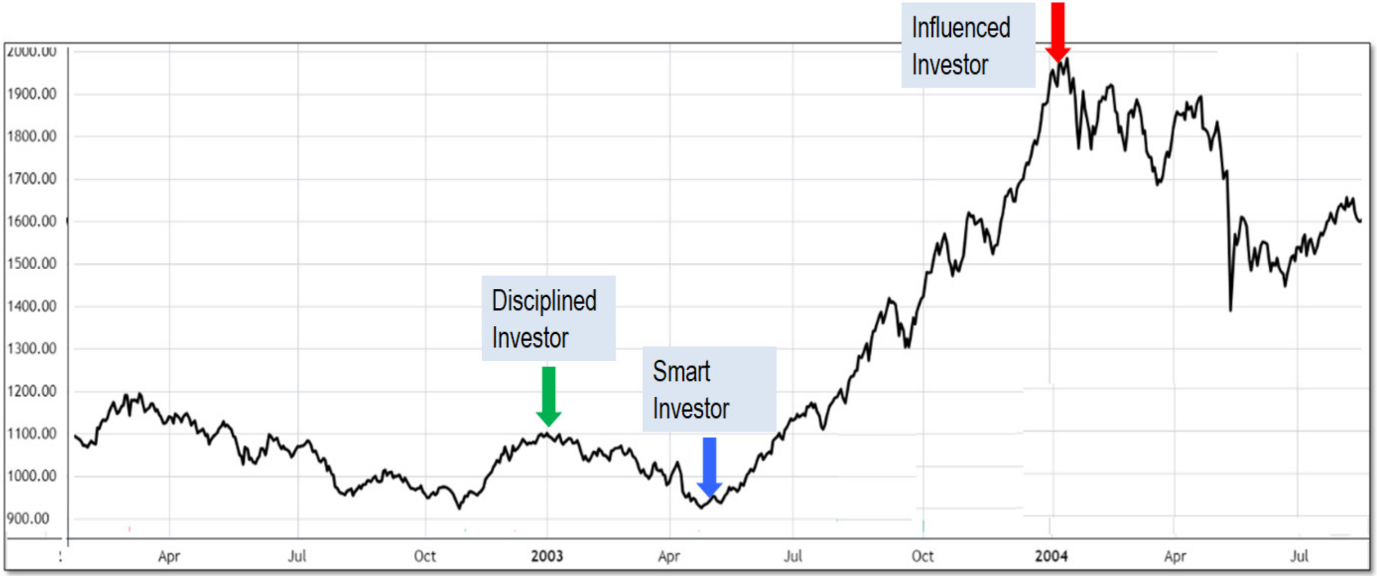
Trend	SWING	SURGE/ SHOCK
A general linear direction in which something is developing or changing over a long period. e.g. Nifty has given 20X return over the last 20 years	To move up and down while being suspended on the trend.	Highly Unusual events causes or are an impact or sudden movement which we name as surge both on the upside or the downside.

There are three types of market movements. One is the trend of the market over a period, the other is swings that market take along a particular trend and the third is the Surge/ Shocks that market witnesses in a short span of time along the trend.

Nifty-Trend-Swing-Surge

TREND	SWING	SURGE/ SHOCK

What is Your Temperament?



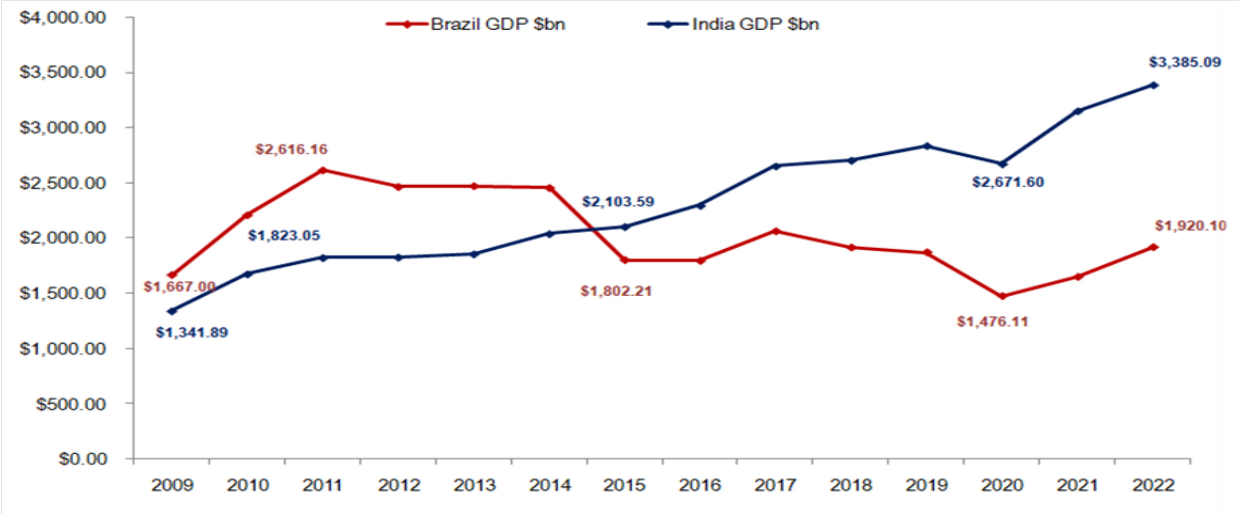
Check Your temperament here. The above chart explains 3 kinds of Investor.

- A Disciplined investor who invests on 1st of Jan 2003 and exits on 31st Dec 2022 .
- A Smart Investor who caught the swing right and invested at the low of the market in May 2003 around 920 levels and exits at the peak of 19500.
- An influenced Investor who invested at the peak of the market and exits at the low of Jun 2021 when the Index level was at 15600.

Market Timing is Not Important, Your Commitment is

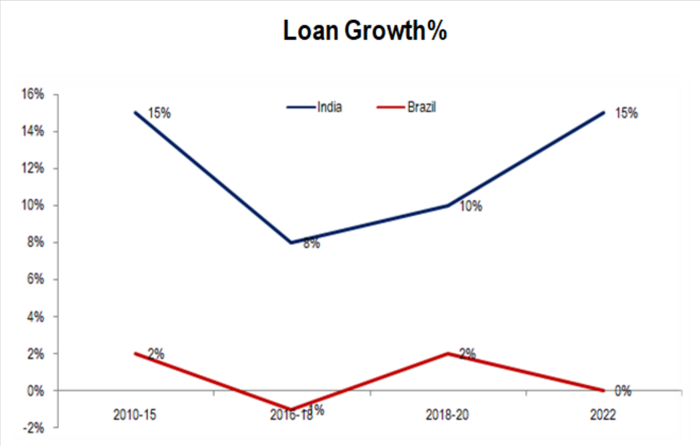
On a long term basis, there is not much difference in the return ratios for all the 3 types of investors. The disciplined earned a 14.5% CAGR which is nearly mid of the range of returns earned by Influenced and Smart investor i.e 12% to 16%. The thing that has to be kept in mind is it is not the market timing that is not important but your commitment is. It is for you to understand, who gets the higher delta? A person who invests 100% of his desirable investment in equity say 10lac and earns a 12% CAGR for 5 years OR A person who is able to commit only 50% of his Desirable Investment in Equity say 5 lac and earns a 16% CAGR for 5 years. The amount of delta is higher in the amount committed than in returns that we get.

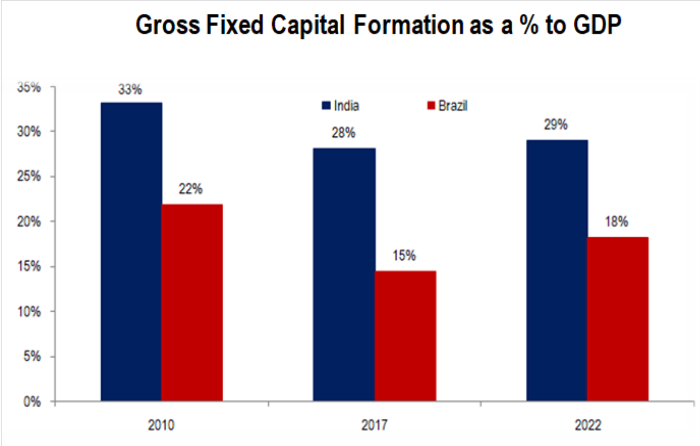
What is Trend Risk-Alert for Trend



It is important to understand that long term "Trend" of Indian Equities is positive. Indian stock market has multiplied 20x in 20yrs and this trend is expected to continue. How will we come to know that the trend is bad. Take example of Brazil. Before 2011, both the countries GDP were rising. But post 2011, GDP of Brazil started falling from $2.6tn in 2011 to $1.47 tn in 2020 and now at $1.9tn still below 2011 levels. India's GDP however continued up move from $1.8tn to $2.6tn in 2020 and now at $3.4tn

Trend Risk – India "Good to Great" Journey



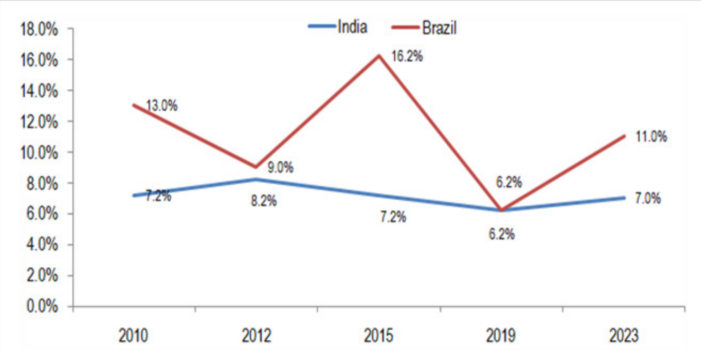


Loan growth of India is high at around 15% on an average while that of Brazil is only 0-2%. Similarly, the gross fixed Capital formation of India is 29% of GDP while that of Brazil is 18% - The bare minimum need to meet the maintenance capex.

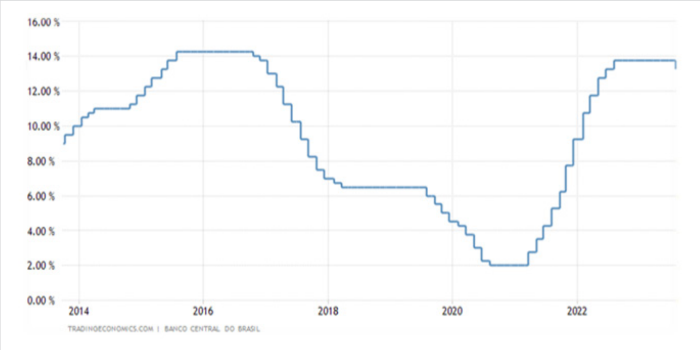
Tapering Loan growth and Gross Fixed capital formation below 20% will be indicative of worsening trend of the market.

Trend Risk – India "Good to Great" Journey

Bond Yields%
India: 6%-9%; Brazil: 6%-16%



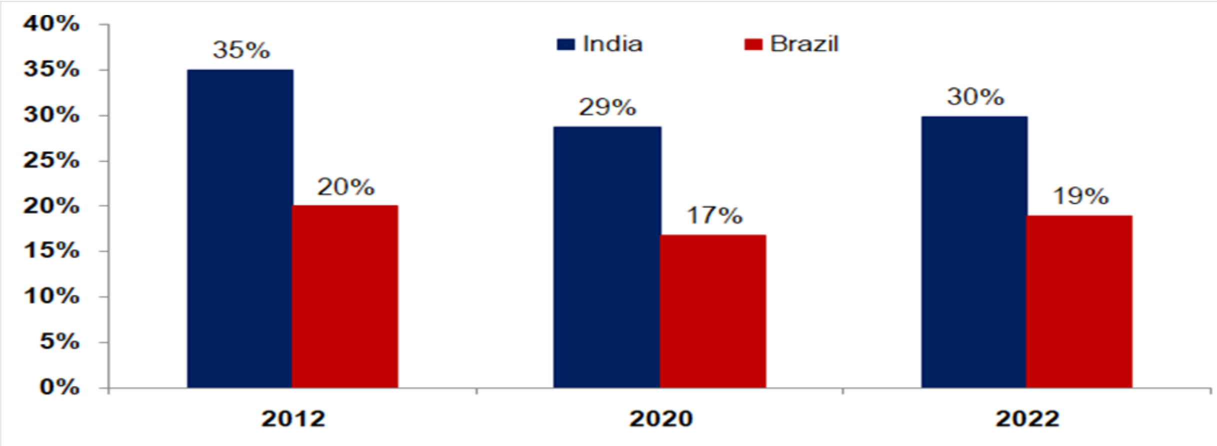
Selic / Repo Rate
India: 4%-8%; Brazil: 2%-14%



Another indication of worsening trend will be high and volatile interest rate . In India since 2010, the range of 10 year Bond Yield has been around 6-8% . For Brazil, the range of 10 year bond yield has been 6 to 16%.

Trend Alert – India “Good to Great” Journey

Gross Savings as a % to GDP



India's gross savings to GDP is at 30% while that of Brazil has fallen from 35% to 19%. Only when these ratios for the country gets worsen, we can assume that the country's long term trend is questionable.

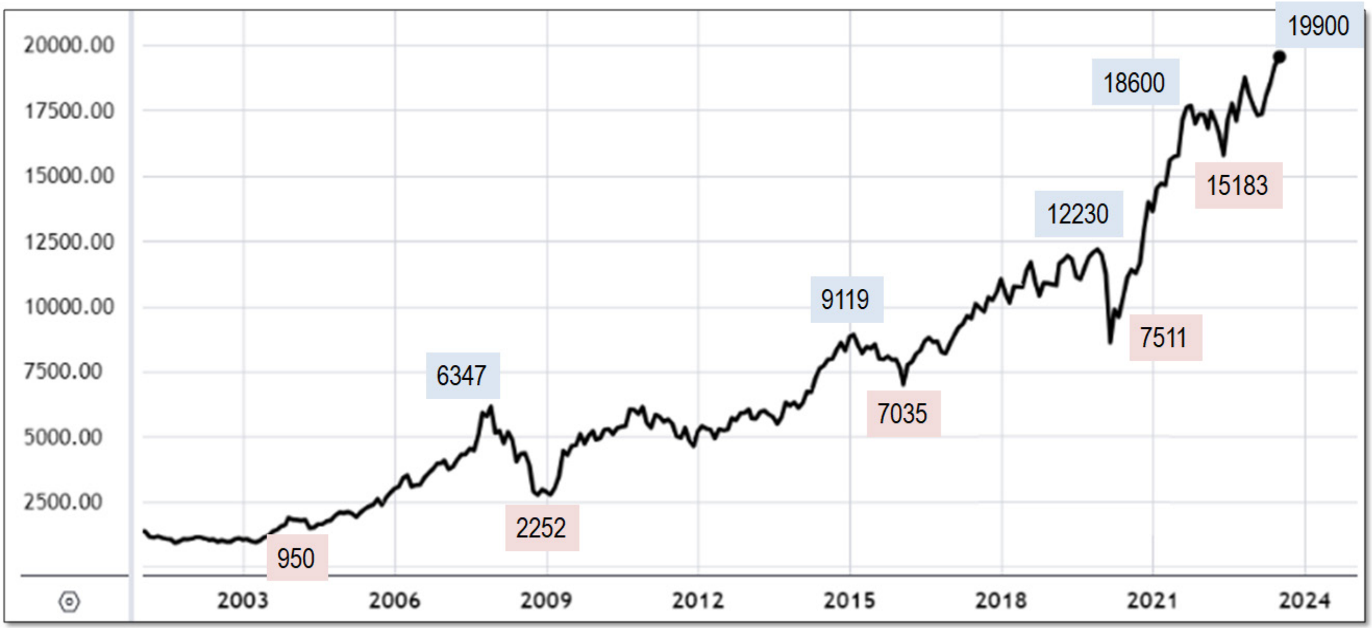
Operation Car Wash (Portuguese: Operação Lava Jato)

OPERAÇÃO LAVA JATO

According to the Operation Car Wash task force, investigations implicate administrative members of the state-owned oil company Petrobras, politicians from Brazil's largest parties (including presidents of the Republic), presidents of the Chamber of Deputies and the Federal Senate, state governors, and businessmen from large Brazilian companies. The Federal Police consider it the largest corruption investigation in the country's history. It has included more than a thousand warrants for search and seizure, temporary and preventive detention, and plea bargaining, against business figures and politicians in numerous parties. At least eleven other countries were involved, mostly in Latin America, and the Brazilian company Odebrecht was deeply implicated. Investigators indicted and jailed some well-known politicians, including former presidents Fernando Collor de Mello, Michel Temer and Luiz Inácio Lula da Silva.- Wikipedia.

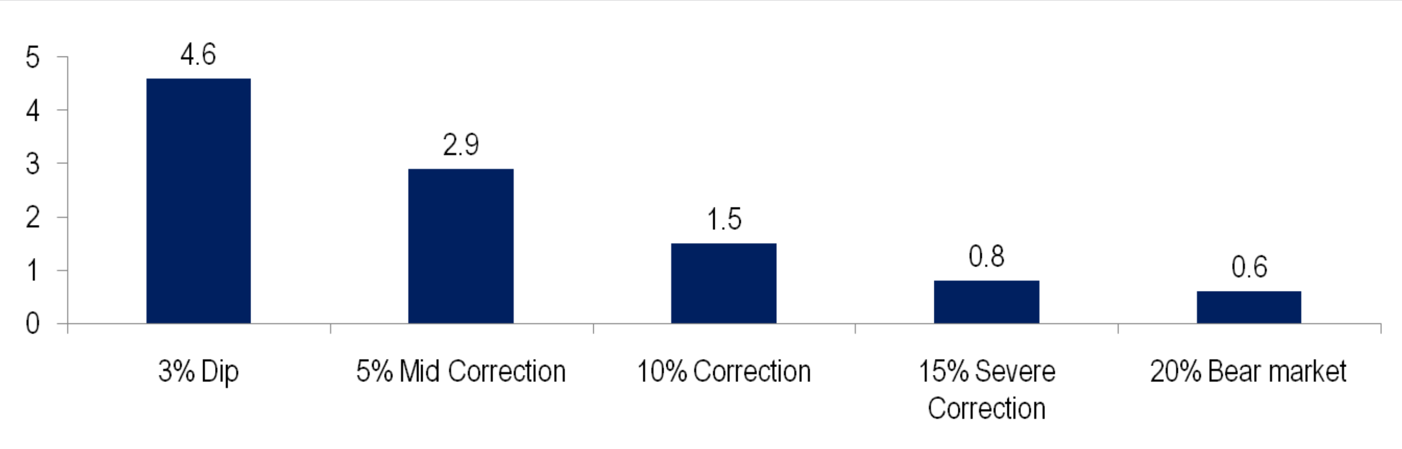
	Luiz Inácio Lula da Silva (born 1945)	1 January 2003	31 December 2010
	Dilma Rousseff (born 1947)	1 January 2011	31 August 2016[w]
	Michel Temer (born 1940)	31 August 2016[x]	31 December 2018
	Jair Bolsonaro (born 1955)	1 January 2019	31 December 2022
	Luiz Inácio Lula da Silva (born 1945)	1 January 2023	*Incumbent*

India is a Higher Top - Higher Bottom Market



Indian Stock markets are classic Higher Top and Higher Bottom Market. Over the last 20 years , we have seen various bull and bear phases of the Indian equities but the market has always made a higher Top and a higher bottom along the trend. We believe similar pattern to be exhibited for the next 20 years for India.

Volatility is the Toll we Pay to Invest



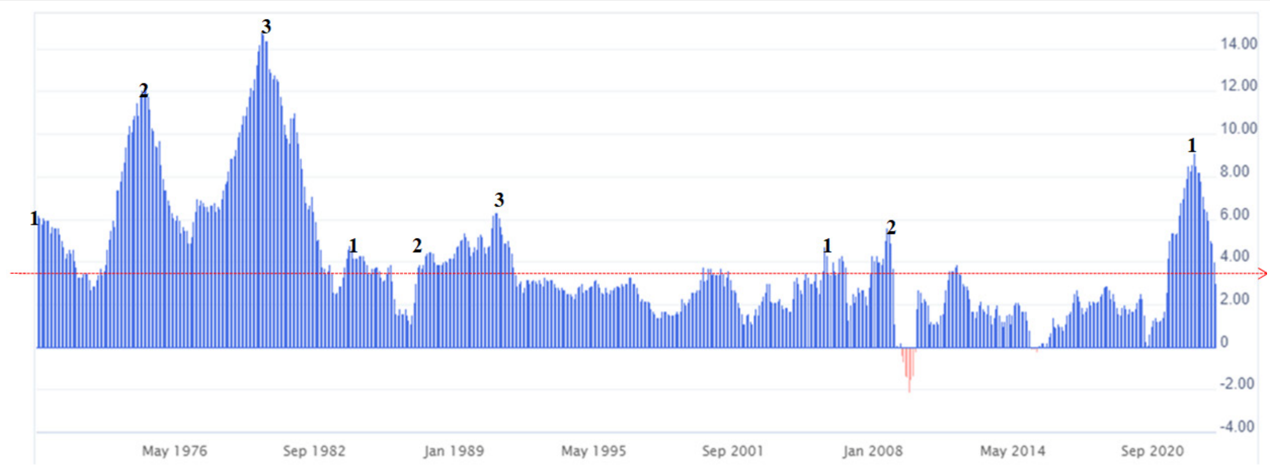
Market Volatility over a short or long time frame cannot be negated. In fact , Volatility is the toll we pay to invest. The above chart shows number of times market has fallen by 3% to 20% in a year when analyzed over the 20 years period. The chart shows that while Index multiplied 20 times in last 20 years, 5% correction has happened ~3times a year, 15% correction happened in every 1.5 years.

Indian Stock Market

Next 20 Yrs - Swing

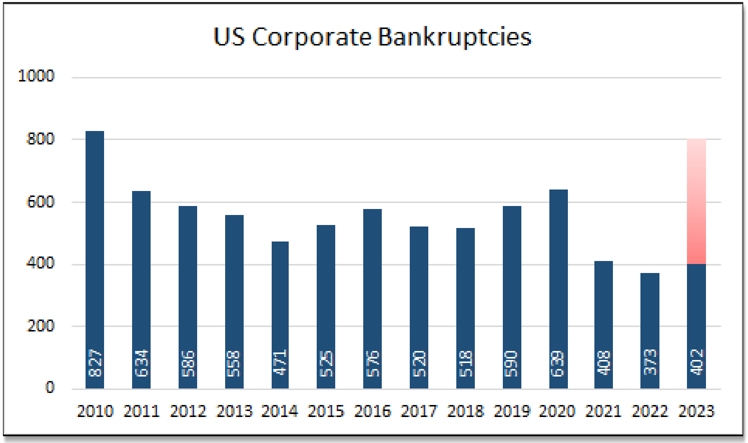
Let us address some short term concerns in the market so that we are able to properly utilize Swings in our market and help us in our overall Investment journey.

Inflation Almost Always Makes More Than One Peak



Historical trend in US suggest that once Inflation starts falling after rise to 4% or above, it bounces back several times before finally settling down lower below 4%. For example, in 1970s, Inflation was at 6.7%, in 1972 it fell down to 2.9% and the again rose to 12.1% in 1974, fell down 4.9% in 1976, rose back till 1980 to level of 14.8% before falling to 1.1% in 1987. Underlying reasons for high Inflation i.e the supply side concerns has not got fully resolved yet and though the diversification is underway, it will take a long time before playing out fully. Moreover, the Geo-political tensions are not over yet. Any adverse event till supply chain diversification has not fully resolved can trigger another round of rally in various global commodity prices. Implication of high inflation is that interest rates will stay higher for longer. US FED has already spoken of lower less than 2% inflation only after 2025. This implies higher interest rates will exist for long which implies another spike in next 2 years.

US Bankruptcies - Indian Banks Upgraded




CNBC

Fitch warns it may be forced to downgrade dozens of banks, incl JPMorgan Chase

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Fitch Upgrades OE Score For Indian Banks: Says Banks Have Favorable Environment & Opportunities

by Trade Brains | Aug 16, 2023 | 4:30 pm | Economy, News

US Corporate Bankruptcies are rising are the number is expected to reach 800 by the end of this CY , a number which US faced in Year 2010. Fitch Ratings has downgraded the US' sovereign credit grade by one level from AAA to AA+ on the basis of 'ballooning fiscal deficits and erosion of governance' that have caused repeated debt limit emergencies over the past two decades. While this remains a talk for US , In India, there are upgrades being seen in the operating environment of Banks by global rating agency- Fitch

China's Economic Woes Getting Worse

China's economy on slow lane: Is the country's 4-decade glory run over?

The Chinese economy has overcome significant challenges in the past, yet the current economic obstacles it confronts have the potential to destabilise it for years.

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China's property market readying for collapse? As Evergrande files for bankruptcy, another major developer Country Garden looking at 7.6 billion loss

21 August, 2023

Country Garden has just weeks to come up with the cash to make interest payments on some of its bonds or join its peers in default. It also has hundreds of billions of dollars in unpaid bills.

- Weakened External Demand
- GDP Downgrades
- Poor Policy Support
- Property Property Woes
- Government Debt
- Demographic Decline

China economic woes may lead to deflationary pressures across globe which are struggling still with high inflation. Some emerging markets like India also see opportunities to attract the foreign investment that may be leaving China.

10 Year Market Cycle Emerging Markets and Developed Markets

	1985 to 1993	1993 to 2002	2002 to 2010	2010 to 2020	2020 to 2030
Outperformer	Emerging Market	Developed Market	Emerging Market	Developed Market	?
Emerging Market	390%	-46%	314%	-2%	?
----MSCI EM IDX					
Developed Market	118%	141%	14%	200%	?
----S&P 500 SPX					

There is evidence over last 50 years that every decade Emerging markets (EM) and Developed markets (DM) outperform each other alternatively. Outperformance in 1985-93 was by EM , in 1993-2002 by DM, 2002-2010 by EM again, 2010-2020 by DM. It can be concluded that this decade from 2020-2030 will belong to EM. There are reasons for this outperformance by Emerging markets over the developed markets say US.

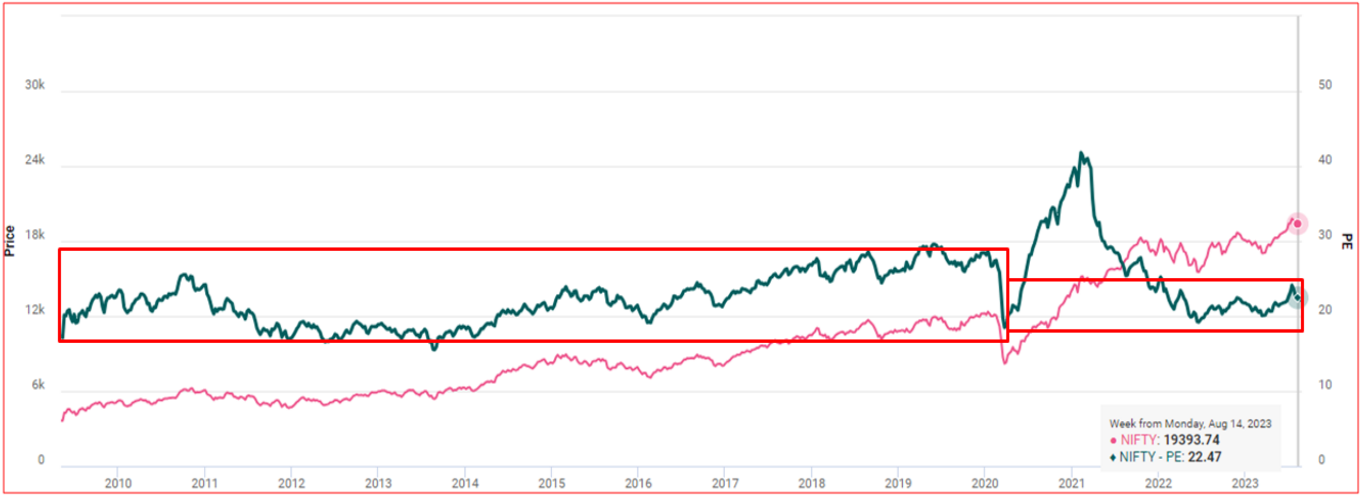
US- INDIA Return Comparison

2010-2020	US	India
Stock Market Returns	236.80%	168.80%
EPS growth of Companies	544%	152%(Nifty EPS)
Topline growth of companies	104%	150%
2020-2030E	**US**	**India**
Real GDP growth (E)	~2% CAGR	~6% CAGR
Nominal GDP growth (E)	~6% CAGR	~10% CAGR
Topline Growth of Cos (E)	~80%	150%
EPS growth of Cos(E)	~96%	270%

Since 2009, US Corporate profits grew by 544%. The reasons for high Net profit growth were- labour cost reduction via offshoring, lower interest costs, lower depreciation due to contract manufacturing by China, Korea, Vietnam, India etc and stock buybacks.

Going ahead, in the next decade, India (a part of Emerging market) GDP will grow at higher rate than US (Developed market). While US Nominal GDP will grow at 6% CAGR, India's nominal GDP is expected to grow at 10% CAGR. The revenues for Indian companies are expected to grow at 150% in next 10 years vis a vis 80% growth in revnues of US companies. The net profit growth of Indian companies will grow by 270% vs 96% by US companies. The benefits of high Net profit growth in US in the last 10 years will fade away in the next 10 years keeping Net profit growth only a little above the Topline growth unlike in the last decade where revenues grew by 104% and EPS of companies grew by 544%

Nifty PE has Already Adjusted to Newer Higher Interest Rate Regime



Nifty on an adjusted trailing twelve-month earnings basis since 2015 has traded mostly around the PE level of 24. Interestingly the 10-year government bond during this period has traded between yield of 6 percent and 8 percent. The same right now is at 7.2 percent or near the average only. So purely in terms of interest rate in the Indian economy a similar level of PE multiple should prevail. But post the global rate rise cycle that started early last year Nifty PE has already adjusted itself and is trading between 19 and 24 levels. So, while the Indian interest rate stays similar to its long term averages indicating higher PE multiple for Indian equity to stay, global rise in interest rate requires it to cool off a bit. And Nifty has already taken the global cues and has readjusted itself to the lower side in terms of valuation multiple.

Indian Stock Market

Next 20 Yrs - Trend

Indian Macros are now at a much better shape than what it was in last 20 years. Indian Equities have enough growth magnets to report 6%+ real GDP growth and a 10%+ nominal GDP growth which should translate into 14% CAGR for Equity Stock Markets.

TEAM INDIA

Growth Magnets

TOP ORDER

- Goods Export — BATTER
- Services Export — BATTER
- Credit Cycle — BATTER
- Defense Production — BATTER

MIDDLE ORDER

- Infra- Digital — KEEPER
- Infra Physical — ALL ROUNDER
- Foreign Flows — ALL ROUNDER
- MSME — ALL ROUNDER

LOWER ORDER

- Strong Tax to GDP — BOWLER
- Macro Stability — BOWLER
- Demographic Dividend — BOWLER