



# The Investing Pantheon

September 2024



*"The Investing Pantheon", harmonizes timeless wisdom with modern innovation. Just as the ancient Pantheon stands as a sanctuary for all Gods, our Investing Pantheon embraces comprehensive topics in investing, across asset classes and styles.*

# What Are We Saying?

"Doubt is an uncomfortable condition, but certainty is a ridiculous one." The current global landscape is ripe with economic (recession?), political (US elections? ) and geo-political (pagan attacks in Lebanon?) risks. It leaves us in a state of doubt but pushes us to be extra agile to track data. We are focusing even more on the external environment and are open to accepting the aspects of history that can solely be rhyming versus repeating. We believe pushing our muscle here, by deep diving into some of these concerns, will be a value-add to us and our investors.

## US Elections,

will be the talk of the town for the next few months, as we leave behind uncertainty of Fed's rate action. It will lead to market volatility, new conjectures and possibly more surprises

## India may benefit

from the global "China+1" strategy, given the leg work we have done in the last 6 years. However, India is not entirely insulated from negative impact on China

## Donald Trump and Kamala Harris

bring in starkly different set of manifestos. Historically, 'economy' likes Democrats whereas 'markets' like Republicans

## A risk-off asset allocation

will make the most sense right now. Think defensives within equity, long duration bonds and gold. It is a global 'wait and watch' scenario.

## China, and hence ROW is vulnerable

to US elections outcome. Higher tariffs will distort global trade and this time around, Rest Of the World(ROW) may choose to retaliate. In either case, global trade and therefore global growth may suffer

*Hard times shake out the short-sighted, but for the disciplined investor, it's when everything seems uncertain that differentiated opportunities arise. We are keenly watching the turn of the economic cycle.*

# The Manifestos...

Policy Area	Kamala Harris  Democrats	Donald Trump  Republicans
Tax Policy	<ul style="list-style-type: none"> <li>Increase the corporate tax rate to 28%.</li> </ul>	<ul style="list-style-type: none"> <li>Maintain the reduced <b>corporate tax rate</b> (21%) from the 2017 Tax Cuts and Jobs Act (TCJA).</li> </ul>
	<ul style="list-style-type: none"> <li>Treat <b>capital gains</b> as ordinary income for individuals earning over \$1 million annually.</li> </ul>	<ul style="list-style-type: none"> <li>Lower <b>capital gains taxes</b>, possibly to 15%, to encourage investment.</li> </ul>
	<ul style="list-style-type: none"> <li>Support proposals to <b>tax the wealthiest individuals</b> to reduce income inequality.</li> </ul>	<ul style="list-style-type: none"> <li>Strong opposition to <b>wealth taxes</b>; focus on reducing overall tax burden for high-income individuals.</li> </ul>
	<ul style="list-style-type: none"> <li>End tax loopholes for <b>carried interest</b>.</li> </ul>	<ul style="list-style-type: none"> <li>Maintain current tax treatment of <b>carried interest</b> to support private equity and hedge funds.</li> </ul>
Regulation	<ul style="list-style-type: none"> <li>Strengthen Dodd-Frank <b>regulations</b> to prevent financial crises.</li> </ul>	<ul style="list-style-type: none"> <li>Roll back Dodd-Frank <b>regulations</b> to reduce compliance costs and stimulate economic growth.</li> </ul>
	<ul style="list-style-type: none"> <li>Expand the powers of the <b>Consumer Financial Protection Bureau</b> (CFPB).</li> </ul>	<ul style="list-style-type: none"> <li>Limit the powers of the CFPB, arguing it restricts financial innovation.</li> </ul>
	<ul style="list-style-type: none"> <li>Implement stricter <b>regulations</b> on carbon emissions, impacting energy and manufacturing sectors.</li> </ul>	<ul style="list-style-type: none"> <li>Deregulate energy and manufacturing industries to boost domestic production and reduce costs.</li> </ul>
Trade Policy	<ul style="list-style-type: none"> <li>Support multilateral <b>trade agreements</b>, like rejoining the Trans-Pacific Partnership (TPP).</li> </ul>	<ul style="list-style-type: none"> <li>Favor bilateral <b>trade agreements</b>, impose tariffs on countries like China to protect U.S. industries.</li> </ul>
	<ul style="list-style-type: none"> <li>Less reliance on <b>tariffs</b>, focus on negotiation and diplomacy.</li> </ul>	<ul style="list-style-type: none"> <li>Use <b>tariffs</b> as a tool to renegotiate trade deals and protect American jobs</li> </ul>
Monetary Policy	<ul style="list-style-type: none"> <li>Support for the <b>Federal Reserve's</b> independence</li> </ul>	<ul style="list-style-type: none"> <li>Criticize the <b>Fed</b> for keeping interest rates too high; favor lower rates to stimulate the economy.</li> </ul>
	<ul style="list-style-type: none"> <li>Generally support low <b>interest rates</b> to promote growth, but with concern for inflation.</li> </ul>	<ul style="list-style-type: none"> <li>Advocate for even lower <b>interest rates</b> to boost economic activity and stock market growth.</li> </ul>

# ...The Manifestos

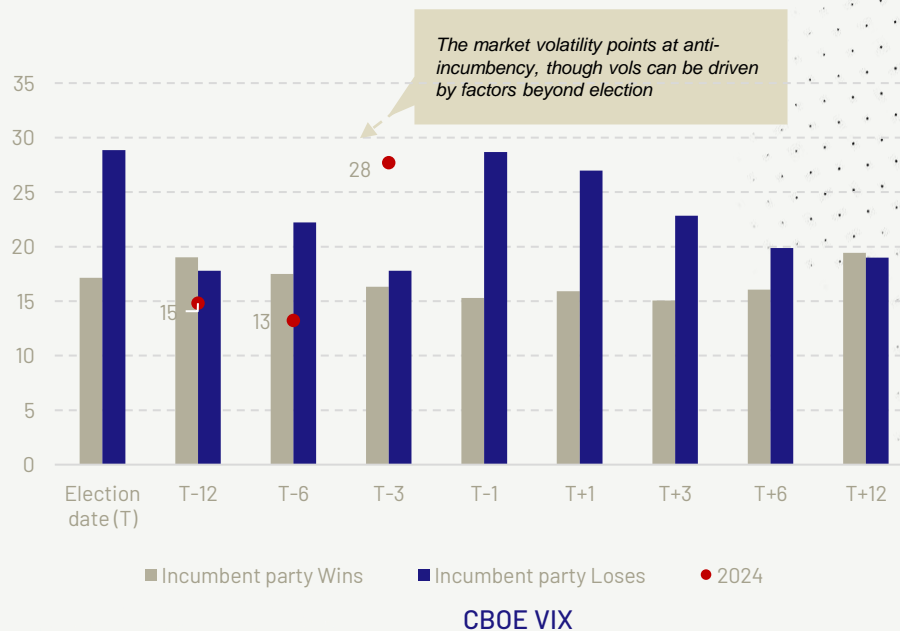
Policy Area	Kamala Harris  Democrats	Donald Trump  Republicans
Infrastructure	<ul style="list-style-type: none"> <li>Large-scale <b>investment</b> in green infrastructure, with funding from higher taxes on corporations and the wealthy.</li> </ul>	<ul style="list-style-type: none"> <li>Infrastructure <b>investment</b> focused on traditional sectors like roads and bridges, funded through public-private partnerships.</li> </ul>
	<ul style="list-style-type: none"> <li>Potential for growth in green energy <b>sector</b>, increased demand for materials related to renewable energy.</li> </ul>	<ul style="list-style-type: none"> <li>Boost to traditional infrastructure <b>sectors</b> (construction, steel, etc.); with potential benefits to oil and gas companies.</li> </ul>
Energy Policy	<ul style="list-style-type: none"> <li>Massive investment in <b>renewable energy</b>, subsidies for solar and wind, and phase-out of fossil fuels.</li> </ul>	<ul style="list-style-type: none"> <li>Strong support for oil, gas, and coal industries i.e., <b>fossil fuels</b>; expansion of drilling and fracking.</li> </ul>
Corporate Governance	<ul style="list-style-type: none"> <li>Push for stronger <b>labor</b> protections, potentially leading to higher wages and benefits, which may increase costs</li> </ul>	<ul style="list-style-type: none"> <li>Support for right-to-work laws, deregulation, and reduced <b>labor</b> costs, which could boost corporate profits.</li> </ul>
	<ul style="list-style-type: none"> <li>Strong emphasis on <b>ESG</b> criteria in corporate governance.</li> </ul>	<ul style="list-style-type: none"> <li>Less emphasis on <b>ESG</b>, focus on maximizing shareholder value.</li> </ul>
Trade and Tariffs	<ul style="list-style-type: none"> <li>Re-engage in <b>global trade</b> partnerships, reducing trade barriers.</li> </ul>	<ul style="list-style-type: none"> <li>Focus on <b>protecting</b> U.S. industries through tariffs and renegotiated <b>trade</b> deals.</li> </ul>
	<ul style="list-style-type: none"> <li>More stability in international <b>markets</b>, reduced uncertainty in global supply chains.</li> </ul>	<ul style="list-style-type: none"> <li>Increased <b>market</b> volatility due to trade wars and tariff policies.</li> </ul>
Corporate Regulation	<ul style="list-style-type: none"> <li>Support for more aggressive <b>anti-trust</b> enforcement, particularly against Big Tech.</li> </ul>	<ul style="list-style-type: none"> <li>Less aggressive on <b>anti-trust</b> enforcement, favoring business consolidation if it promotes growth.</li> </ul>
	<ul style="list-style-type: none"> <li>Advocate for increased <b>corporate accountability</b>, particularly in terms of environmental impact.</li> </ul>	<ul style="list-style-type: none"> <li>Focus on reducing <b>regulatory</b> burdens on businesses, promoting growth and investment.</li> </ul>
Fiscal Policy	<ul style="list-style-type: none"> <li>Advocates for reducing the <b>deficit</b> by increasing taxes on the wealthy and reducing military spending.</li> </ul>	<ul style="list-style-type: none"> <li>Willing to increase the <b>deficit</b> through tax cuts and increased military spending, with a focus on boosting economic growth.</li> </ul>
	<ul style="list-style-type: none"> <li><b>Focus</b> on social programs, healthcare, education, and climate initiatives.</li> </ul>	<ul style="list-style-type: none"> <li><b>Focus</b> on defense, infrastructure, and tax cuts</li> </ul>
Tech Regulation	<ul style="list-style-type: none"> <li>Support for increased regulation of <b>Big Tech</b> companies, including data privacy and anti-trust measures.</li> </ul>	<ul style="list-style-type: none"> <li>Generally opposed to increased regulation of <b>Big Tech</b>, favoring a hands-off approach to encourage innovation.</li> </ul>

# US Elections: Mixed Signals

While the polls are slightly more aligned towards the Democrats' victory...

Scenario	Probability
<b>Blue Sweep</b> Harris with a unified Democratic Congress	15%
<b>Harris with a divided Congress</b> Republican Senate and Democratic House	40%
<b>Red sweep</b> Trump with a unified Republican Congress	35%
<b>Trump with a divided Congress</b> Republican Senate and Democratic House	10%

....the markets are, however, pointing towards anti-incumbency



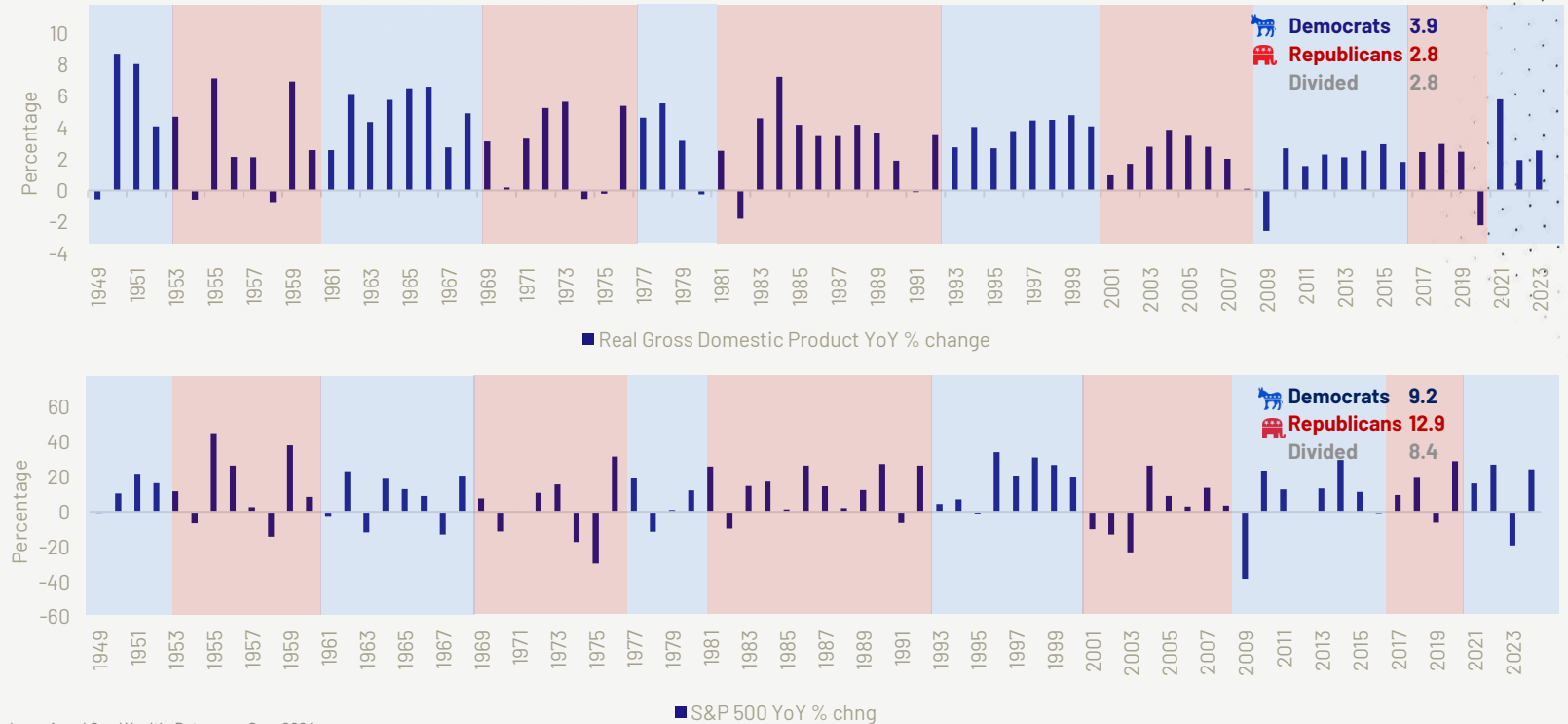
Source: UBS, Polls, Angel One Wealth, Data as on Sep, 2024

Source: Bloomberg, Angel One Wealth, Data as on Sep, 2024

Predicting the outcome of the US election is anybody's guess. It is dependent on internal factors such as swing states, voter mobilization and political polarization but also on external factors such as geopolitical wars and data wars. For now, it seems like Democrats are winning by a small margin. However, even in 2016, the opinion polls underestimated support for Trump in the swing states. We, therefore, believe that there are mixed signals and either can be a possibility.

# Economy Like Democrats, Markets Reward Republicans

Economy has usually done better under Democrats, but markets tend to be euphoric under Republicans

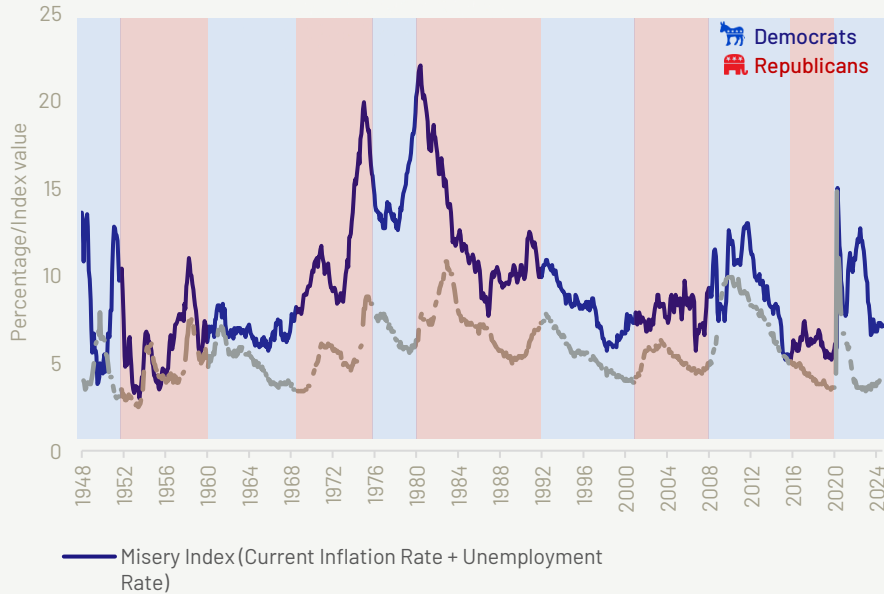


Source: Bloomberg, Angel One Wealth, Data as on Sep, 2024

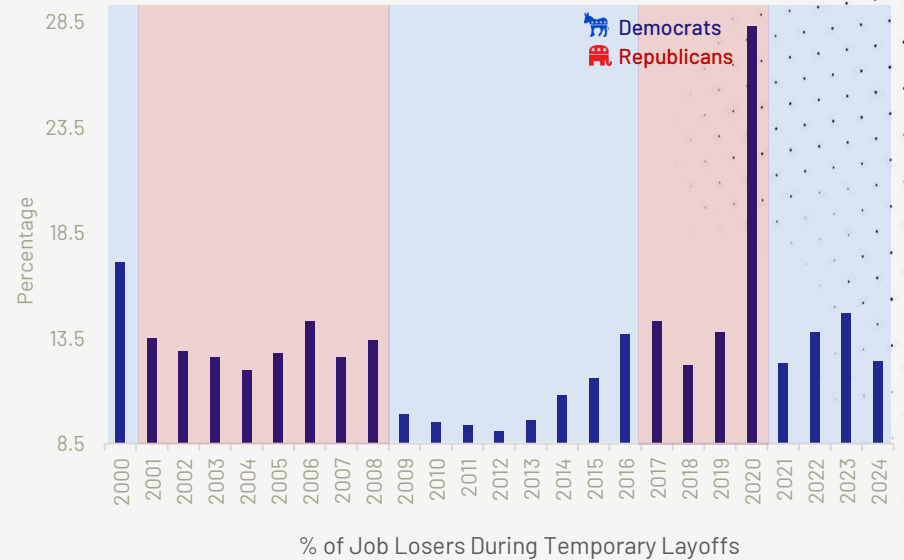
Over time, economy has done better under Democrats as they aim at more equitable growth, job creation and lower inflation. However, policies of free market, lower taxes and investor sentiments do better under the regime of Republicans.

# Democrats Tend To Do Better With The Economy

Misery Index and unemployment is lower for Democrats....



... and so is layoff in the economy



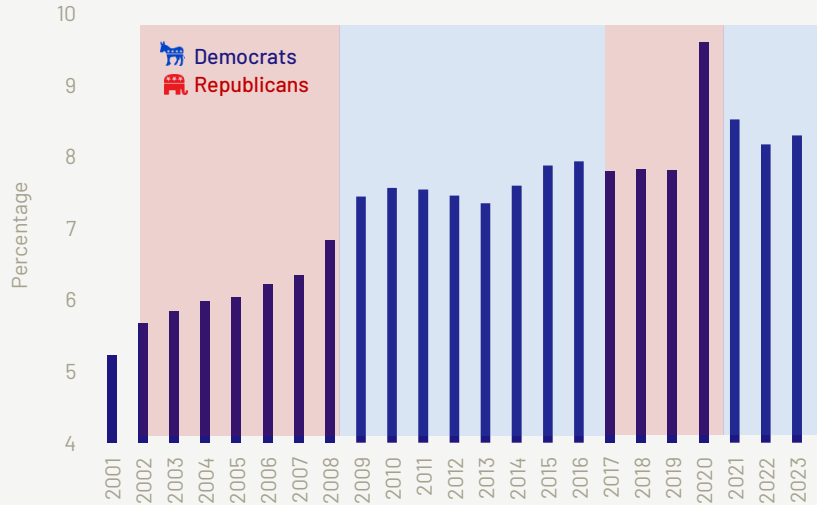
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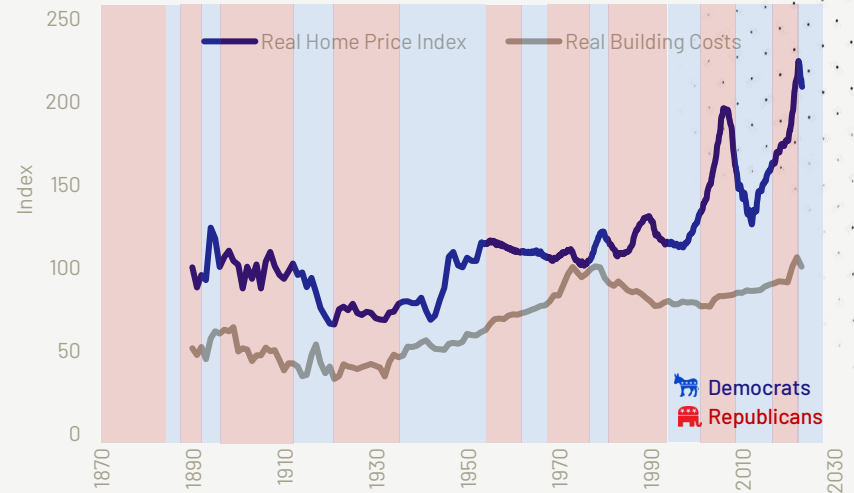
'Misery Index' is a sum of unemployment and inflation that signals the dual mandate of the Governments. It has some predictive power as party in power is penalized when the index is high and rewarded when it is low. The last tenure of the Democrats saw a high index as inflation surged post-covid but that has now been brought under control. Is this a good or bad sign for Kamala Harris?

# Democrats Continue To Prefer Healthcare And Housing For All

Healthcare expenditure tends to be higher under Democrats...



... and housing prices get more controlled



Source: Bloomberg, Angel One Wealth, Data as on Sep, 2024

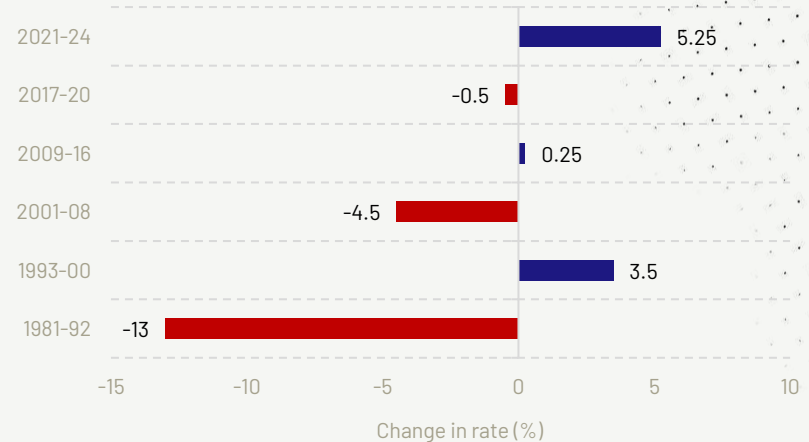
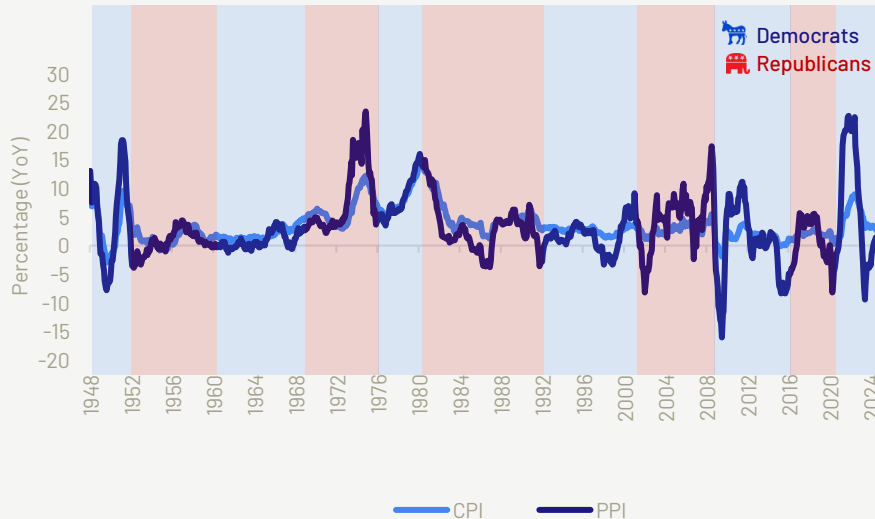
Source: Shiller, Robert J. "[U.S. Stock Markets 1871-Present and CAPE Ratio](#)", Data as on Sep, 2024

Democrats do stand for increasing government's healthcare expenditure and making housing for all a possibility. Republicans, on the other hand, are more inclined towards free market and market dynamics deciding for these factors. In either case, this time around, we believe housing prices is likely to ease and help inflation on its downward trajectory.

# Inflation & Rates Are Determined By More Global Macro Factors

Republicans have had higher inflation...

...but have also managed to get rate cuts, given the macro regime.



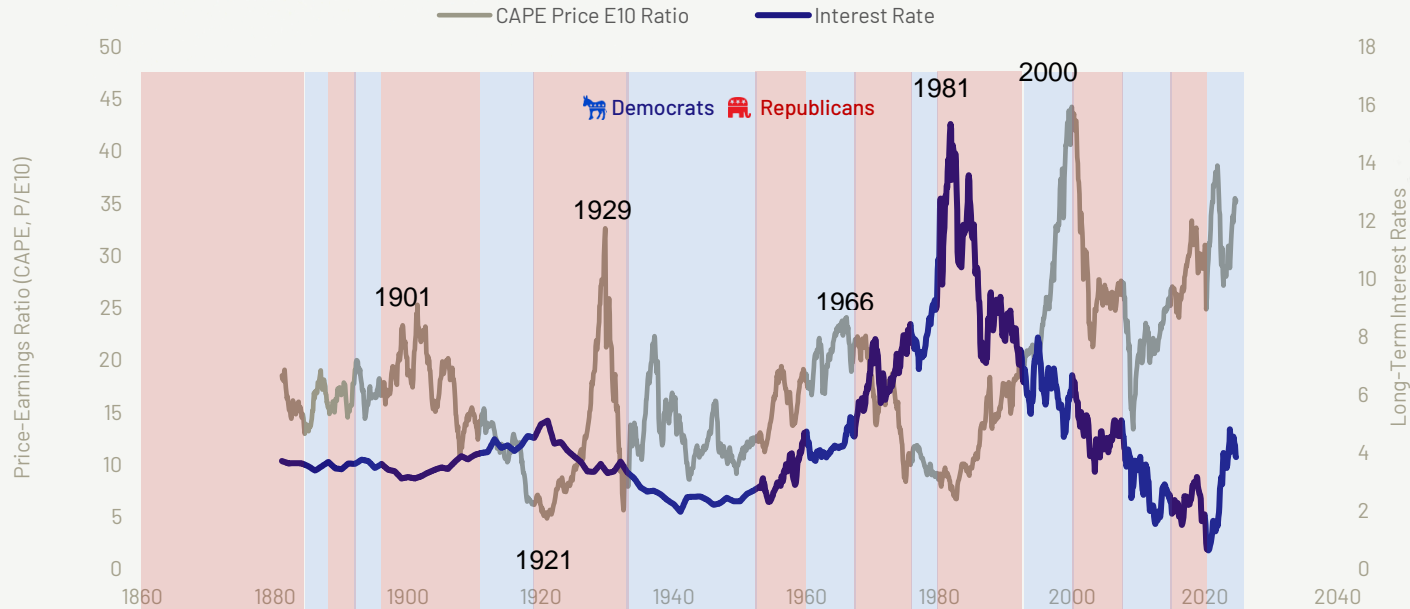
Source: Bloomberg, Angel One Wealth, Data as on Sep, 2024

Source: Bloomberg, Angel One Wealth, Data as on Sep, 2024

Inflation and rates are determined more by global macro factors. However, domestic policies can have some influence. For instance, Republicans are typically believed to have tax cuts and increased spending which means fiscal expansion can lead to inflation. Similarly, they are believed to exert influence on monetary policy. At the same time, Democrats are deemed to be populist which can also be inflationary. It mostly depends on the global macro environment one is in but inherent preferences can influence the economy.

# US Markets Are At Cyclically High Valuations

History of US markets show we are at high long-term valuations and high short-term rates

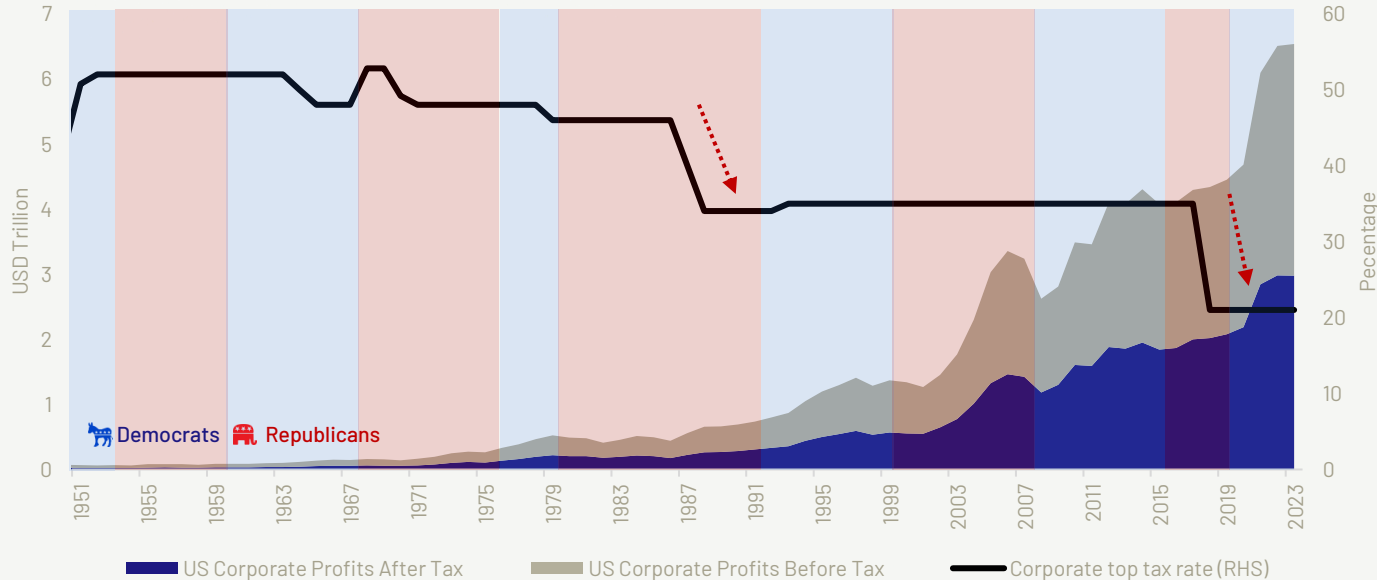


Source: Shiller, Robert J. "U.S. Stock Markets 1871-Present and CAPE Ratio", Data as on Sep, 2024

We will be entering the election season at high long-term valuations and high short-term interest rates. Fed has already started to cut rates and market euphoria is shrinking as seen in the breadth of market performance and sector rotation that is underway. Republicans winning the election will likely lead to short-term volatility, but markets may reward friendly policies ahead.

# Republicans Have Historically Opted For Corporate Tax Cuts

Historically, the two big tax cuts in US have happened in the Republican regime which has led to inflated PAT

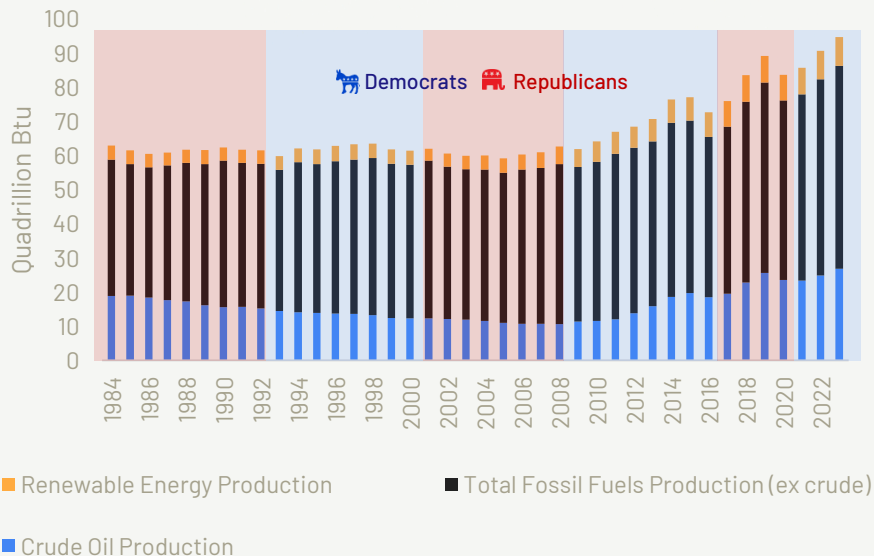


Source: Bloomberg, Angel One Wealth, Data as on Sep, 2024

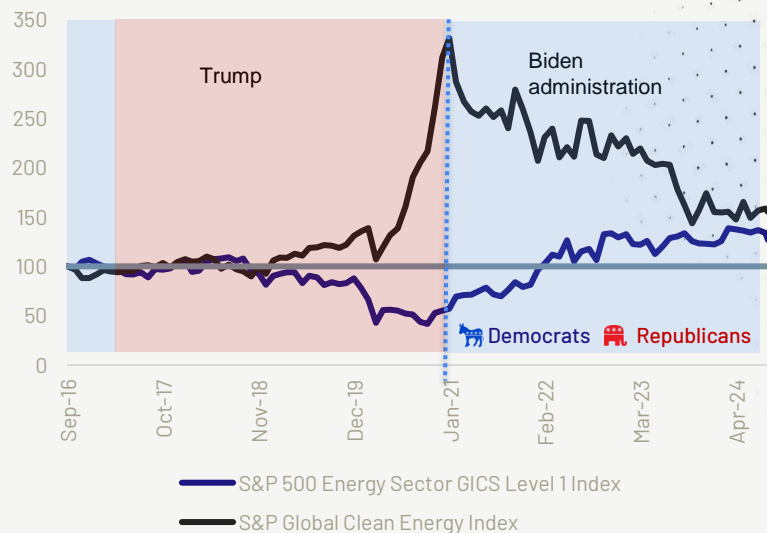
This time around, Trump is promising a status quo on current tax rate of 21% while Kamala Harris is looking at a tax rate hike to 28%. Quite obviously, markets are unlikely to appreciate tax hikes. Other Democrats' proposal on taxes such as tax on unrealized gains are all perceived to be negative for the markets.

# There's A Difference Between Numbers and Narrative on Energy

Traditional energy has done well under Republicans but renewable has not particularly suffered...



...and clean energy stocks have also done relatively better



Source: [www.cms.gov](http://www.cms.gov), Angel One Wealth, Data as on Sep, 2024

Source: Bloomberg, Angel One Wealth, Data as on Sep, 2024

Donald Trump is positioned to be pro-fossil fuels. However, in true sense, he's pro markets. He has pushed the production of fossil fuels and crude oil but hasn't taken away benefits for clean energy such as Investment Tax Credit (ITC) for solar energy or Production Tax Credit (PTC) for wind. Plus, state-level and firm-level initiatives continued to blossom under Trump. We believe that energy sector will therefore respond to global demand and supply and just the elections shouldn't sway the outlook one way or the other.

# Drivers Of US Sectors

## Financials



- Trump is likely to roll back some regulations under Dodd and Frank Act, which will increase the ease of doing business for banks
- New regulatory heads at the Fed, FDIC, OCC, CFPB and other agencies could assist the financial sector
- Rate cut cycle and macro regime will overall drive profitability

## Technology



- Irrespective of the election outcome, there are tensions in global semi-conductor space
- Global hardware supply chain would likely rebalance production to areas not subject to tariffs
- Democrats are expected to be harder on tech regulations but tend to award R&D

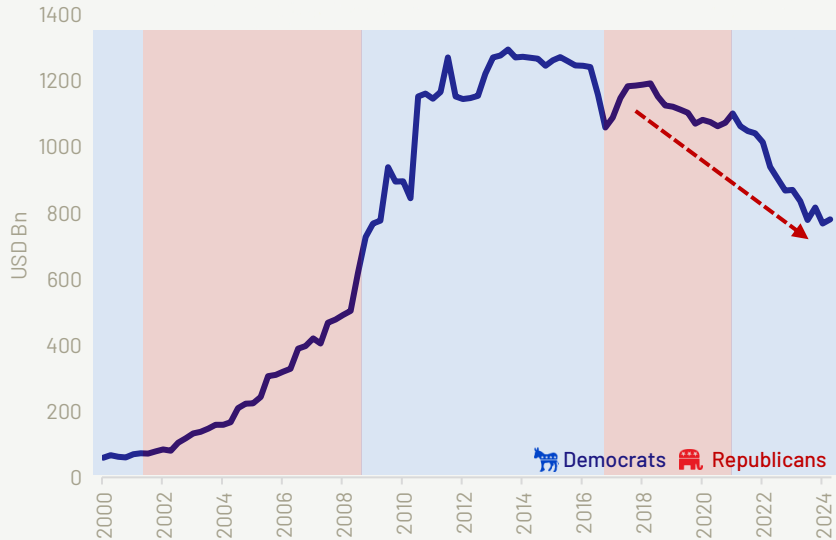
## Other Sectors



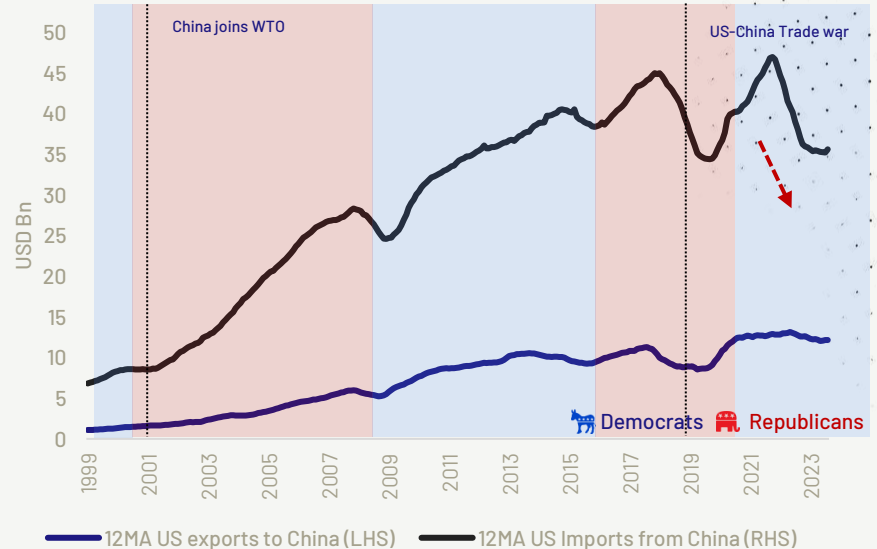
- Protective tariffs benefit the indigenous industries where product substitution can happen such as steel, paper etc
- Separately, sectors which are not affected by tariffs such as consumer staples, pharma etc can remain robust despite the election outcome

# De-Chinaization Of America Is Real

China holding of US Treasury has fallen significantly...



... while US has also tried to reduce its imports from China



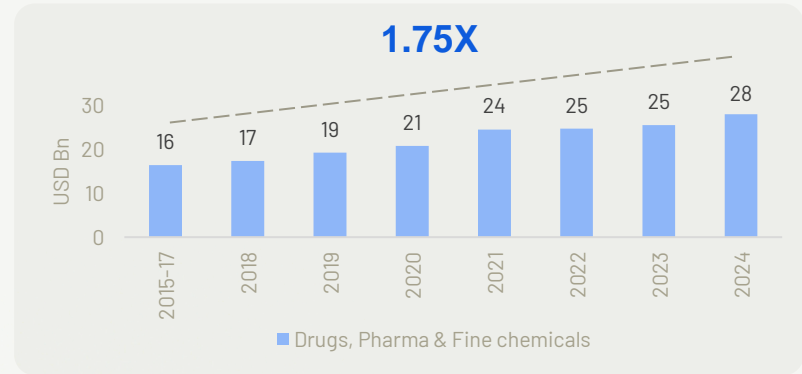
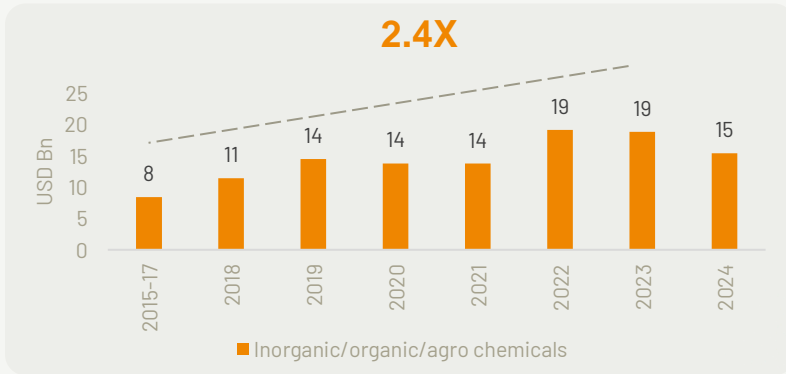
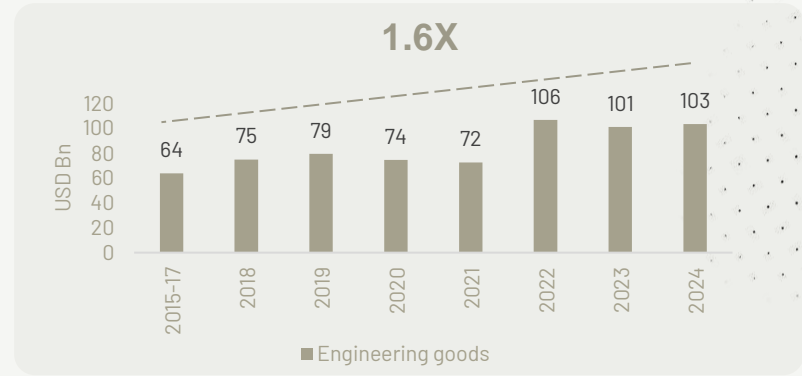
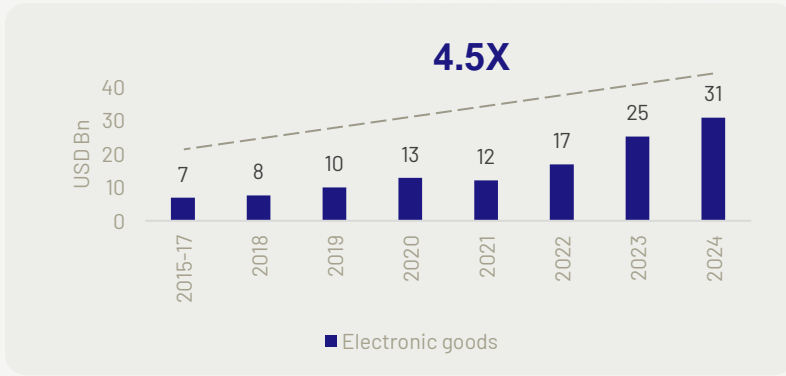
Source: Bloomberg, Angel One Wealth, Data as on Sep, 2024

Source: Bloomberg, Angel One Wealth, Data as on Sep, 2024

China has moved away from purchasing US treasuries, nurturing a regime of weaker dollar and stronger Gold. Meanwhile, US imports from China have fallen. It is cited in multiple researches that between 50-100bps of current US inflation comes directly from increased tariffs in the US economy.

# India Had Won Few Drops In The Ocean

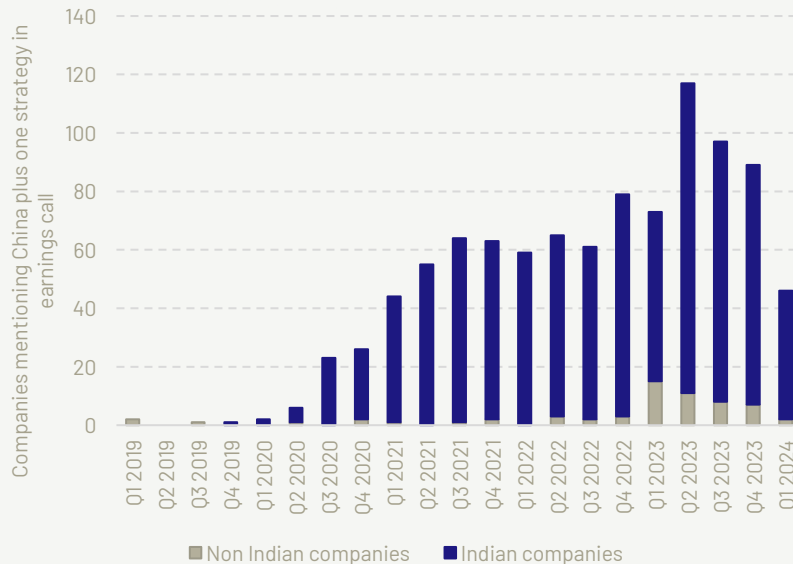
There are about 4 sectors where we could increase our exports as the world adopted China+ 1 strategy



# This Time Can Be Different For India: The Hope Is Alive

Indian companies seems to be harping on “China +1” strategy like never before...

... but our promise is not baseless given the initiatives



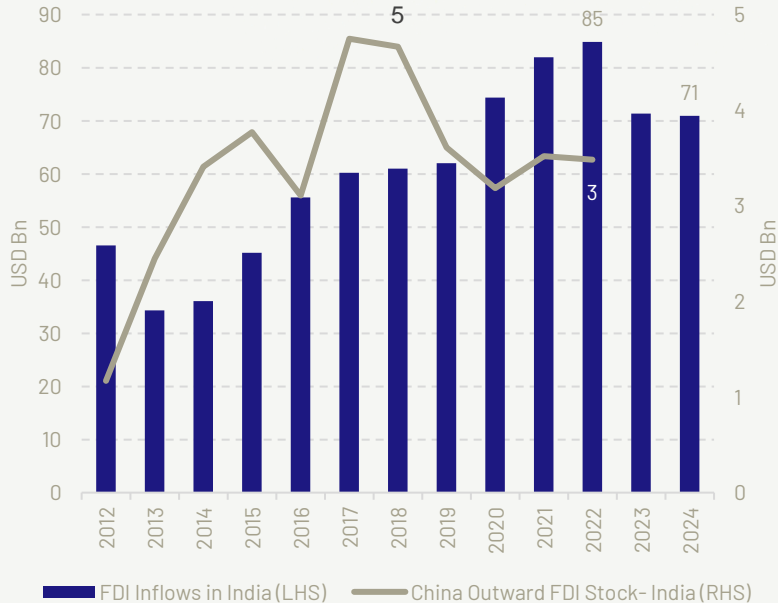
- PLI in industries with export potential, estimated fiscal support of USD 26 bn
- Manufacturing tax holiday for foreign cos setting manufacturing units in India
- ‘Make in India’ initiative to dissuade imports
- Improving infrastructure and focusing on skill development initiatives
- ‘Semicon India Program’ and ‘India Semiconductor Mission’ with outlay of USD 10 bn to support semis manufacturing

Source: Bloomberg, Angel One Wealth, Data as on Sep, 2024

Indian companies are promising to benefit from China +1 strategy. It is a common theme across investor presentations and earnings call. Can we really leverage on this strategy this time? We believe there are enough green shoots, winning over this opportunity is critical for the India 2047.

# India and China Are Also Interlinked

FDI inflows from China had fallen...



...but now talks of JVs are ripe again

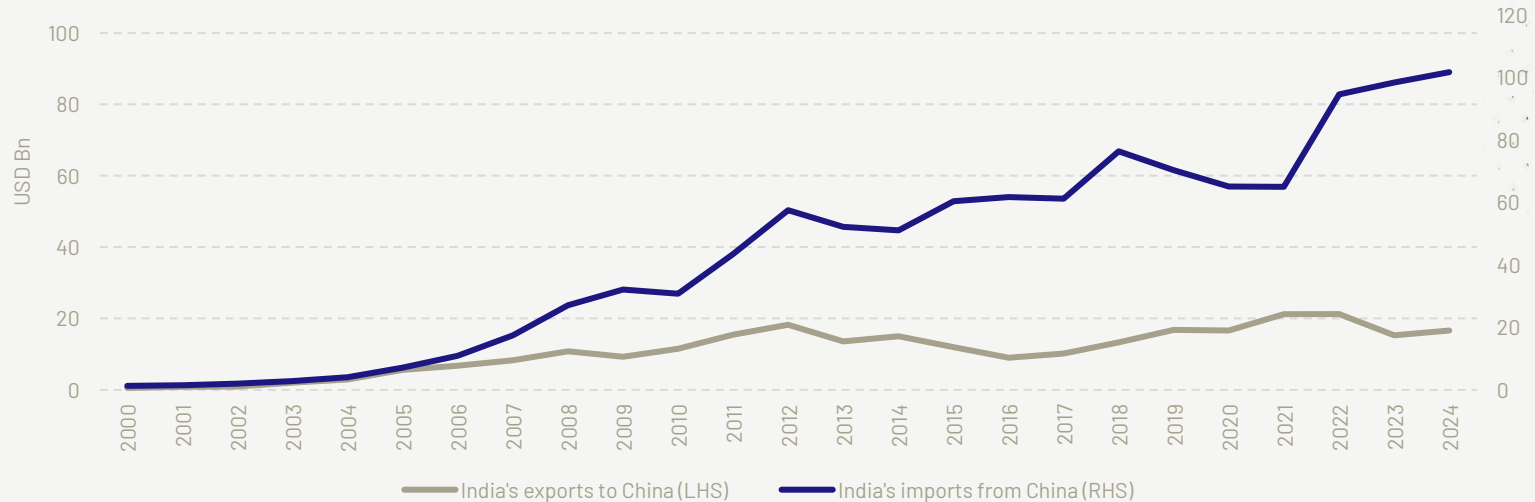
LCD Modules	HKC corporation	Dixon
Manufacturing phones	Xiaomi	Dixon
	BBK Group	Dixon and Karbonn
Manufacturing EVs	MG motor	JSW Group
Fashion	Shein	Reliance retail
Auto parts	Suzhou Inovance automotive company	Uno minda

Source: Bloomberg, Angel One Wealth, Data as on Sep, 2024

However, India can not fully look away from China. The two countries are inter-linked in many ways, and both need each other for growth. India is one of the fastest-growing major economies in the world, presenting a significant market opportunity for Chinese companies looking to expand their reach. Similarly, Chinese investments in India have the potential to boost local industries and create jobs.

# The Trade Dependencies Between 2 Nations Is Hard To Substitute For

It is hard for India to de-link its trade fully from China, and therefore our take on changing geopolitics will be important

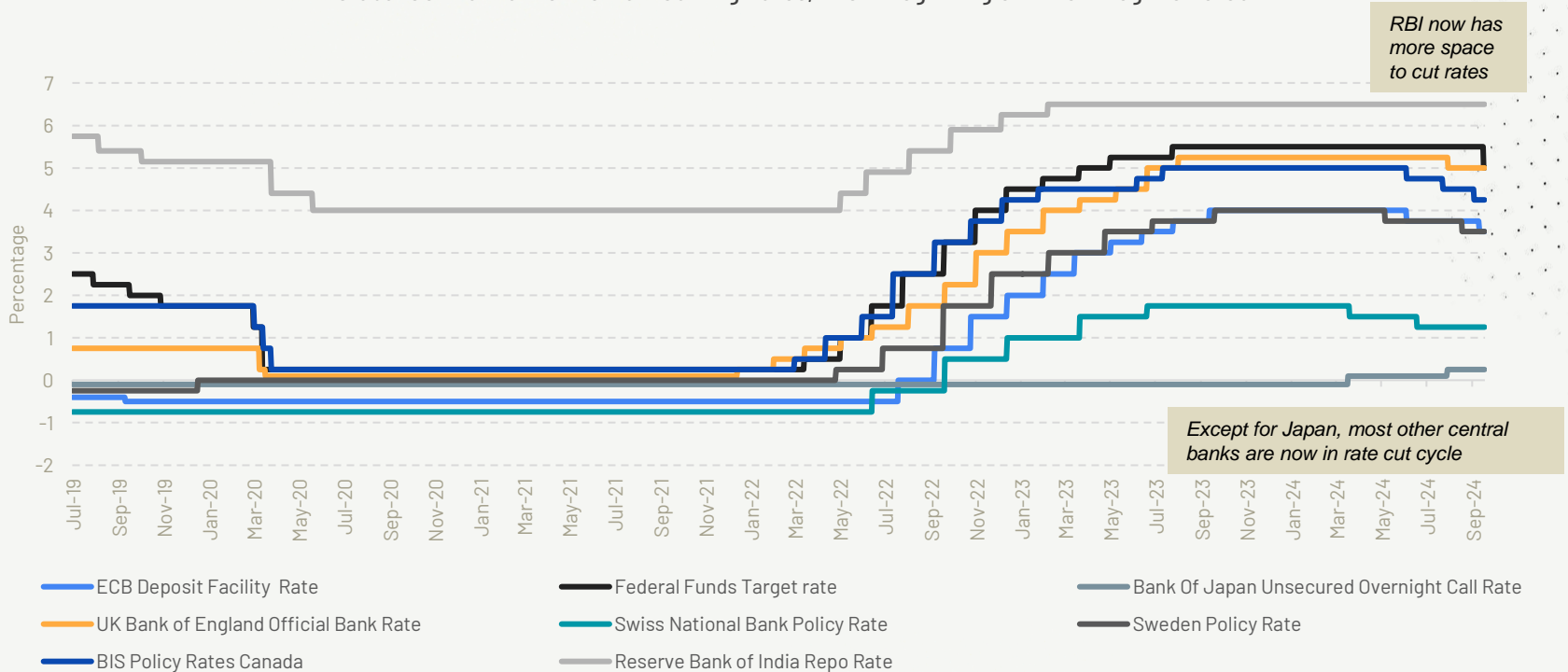


Source: CMIE, Angel One Wealth, Data as on Sep, 2024

The economic interdependence between India and China is marked by mutual needs that drive their bilateral relations. While India relies on China for essential raw materials, technology, and market access, China looks to India as a growing market for expansion and a source of vital resources. Despite ongoing geopolitical tensions and trade imbalances, both nations recognize the importance of maintaining economic ties to foster growth and stability in their respective economies.

# Global Central Banks Are Now Embarking On Rate Cut Cycle

Global Central Banks Are Now Cutting Rates, It Is A Beginning Of A New Regime hereon

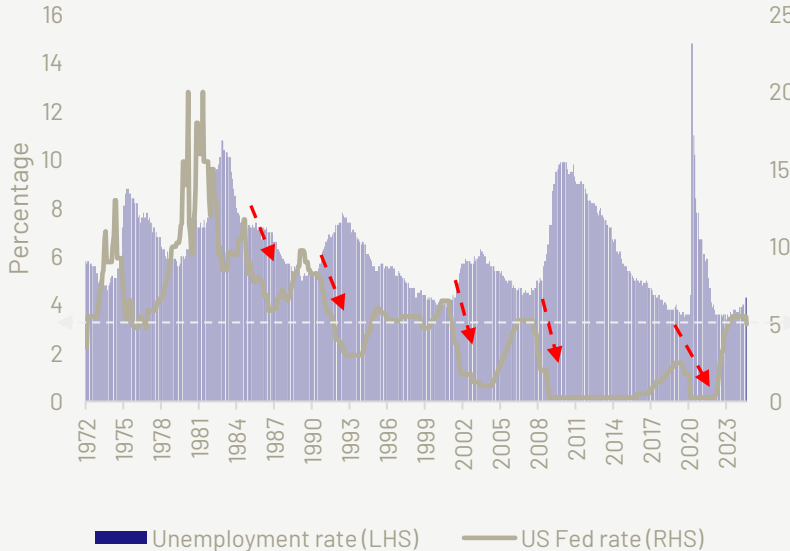


Source: Bloomberg, Angel One Wealth, Data as on Sep, 2024

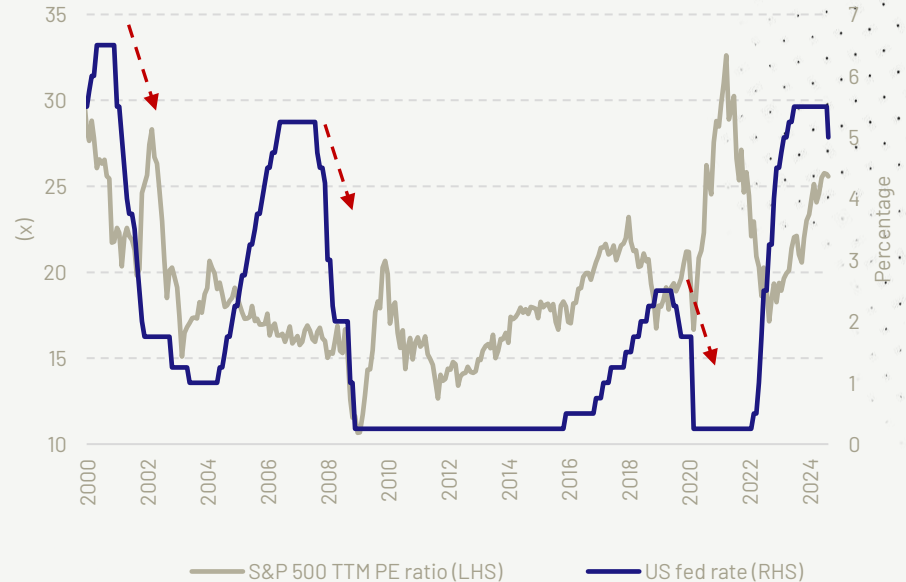
Global central banks are actively cutting rates now, with Fed delivering a major 50bps cut. This has created more space for other economies to cut rates while protecting their exchange rate. We may be entering a new regime of lower rates hereon.

# History Rhymes But May Not Repeat

US is entering the rate cut cycle with a lower level of unemployment than in previous cycles...



...can that mean we may avoid massive correction in equity valuations?



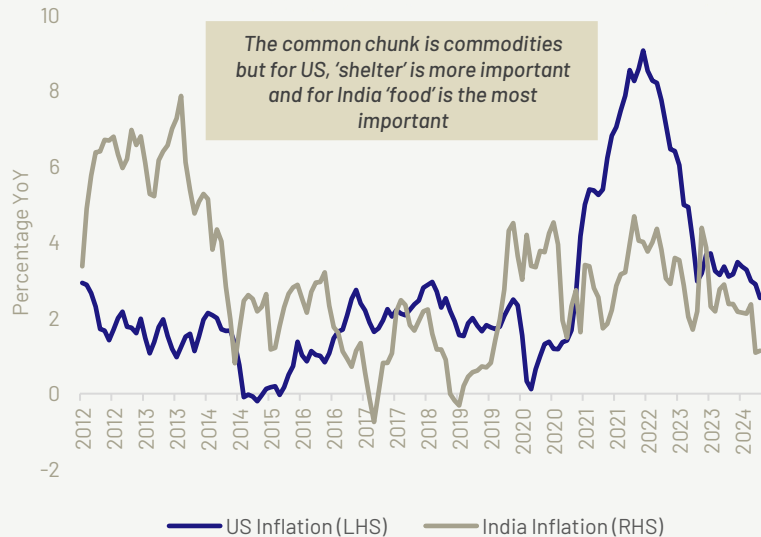
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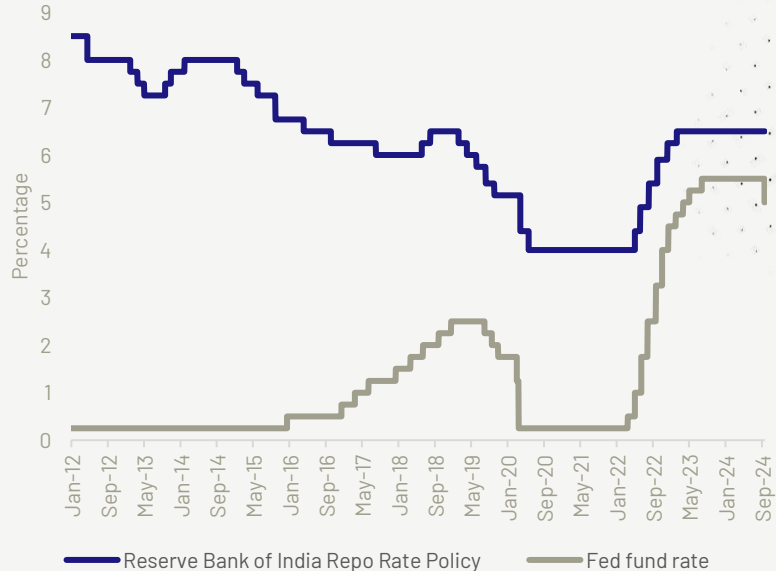
Compared to past cycles, we are entering the rate cut cycle with lower unemployment rate. It is hard to rule out a soft landing. There maybe a chance that equity valuations don't tumble just because of rate cuts. However, there can always be another factor that makes the markets respond! We remain data dependent in our view.

# Inflation Is Headed Lower, Rate Cuts To Follow In India?

There is a significant correlation between inflation of US and India



India may find space to cut rates hereon



Source: Bloomberg, Angel One Wealth, Data as on Sep, 2024

Source: Bloomberg, Angel One Wealth, Data as on Sep, 2024

If all goes as expected and domestic factors don't override, India inflation is likely to also head lower. Lower inflation with Fed cutting rates can help RBI with a space to cut rates. This can support the nascent signs of growth slowdown and can keep the economy close to its potential output level. We believe RBI can significantly reflate India's economy.



*In a nutshell,*

*There are no boring days in investing. The current landscape has important events lined up. This makes it even more important to be agile, to track data and to accept the changing macro regime.*

*We are excited for the new opportunities that markets will offer. Investing is an all-weather role and we are geared for it.*

# Please contact us for more details at [hello@aowealth.in](mailto:hello@aowealth.in)

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