



The Investing Pantheon

October 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?

"The stock market is designed to transfer money from the Active to the Patient." Clearly, right now the markets are testing patience. The up move has become hard to explain, and a correction has become hard to digest. Several moving factors such as geopolitics, elections and policy stimulus is keeping the investing space interesting. We take this opportunity to review the global macro landscape.

Global growth is slowing

There's a deceleration in leading growth indicators. The step-up by DM central banks is a welcome move, EM banks are likely to follow soon.

However, US is softly landing

US has abated hard landing, with most economic data now showing improvement.

India will need monetary support

As fiscal policy needs to roll back support. High frequency data is pointing towards a slowing growth and therefore monetary policy is needed to step up and keep the economy reflat.

China needs more fiscal stimulus

To combat low growth and revive its property markets. Equity performance will be sensitive to news. Despite the recent run-up, valuations are still not over heated.

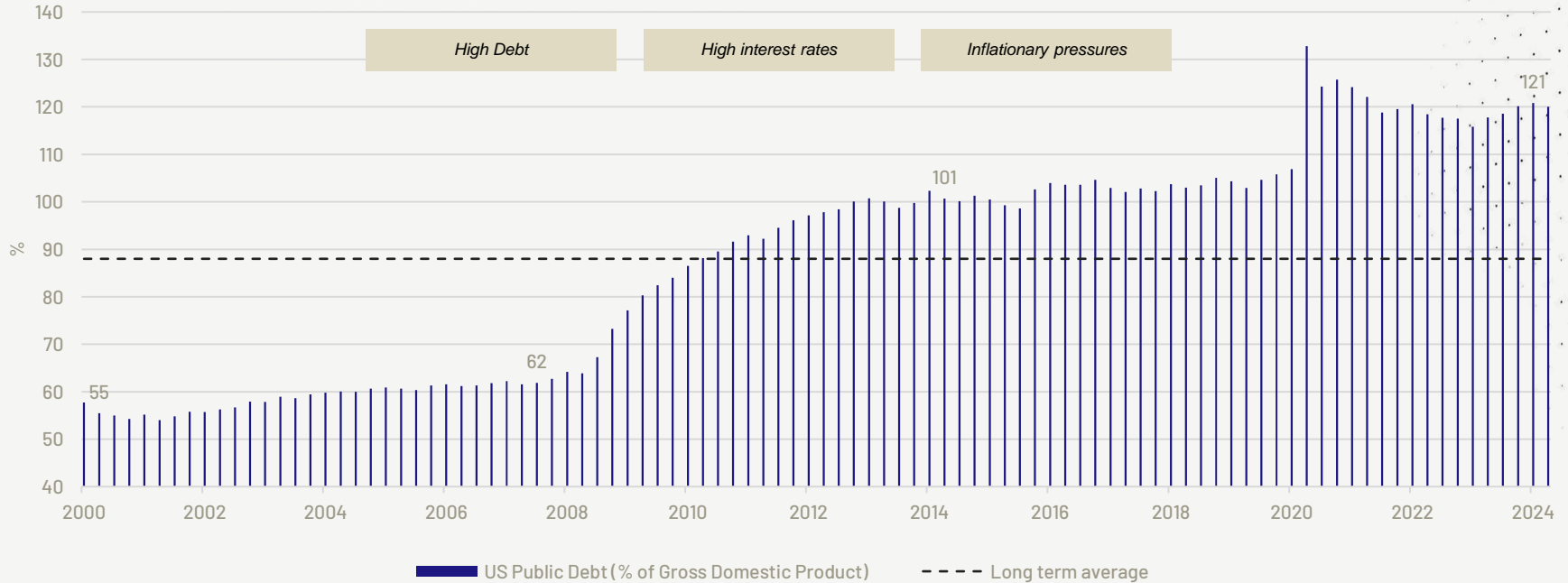
A risk-off asset allocation

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

We are keenly watching the turn of the economic cycle. Things are changing from high growth+ high inflation + high rates to lower growth on all 3 variables. China is trying to make a comeback. Amidst this, the most important thing is to adapt.

New Era Of US Debt

The current rate cut cycle is starting at unprecedented debt levels, possibly not seen since WWII.
'Beautiful deleveraging' will need high growth + lower rates

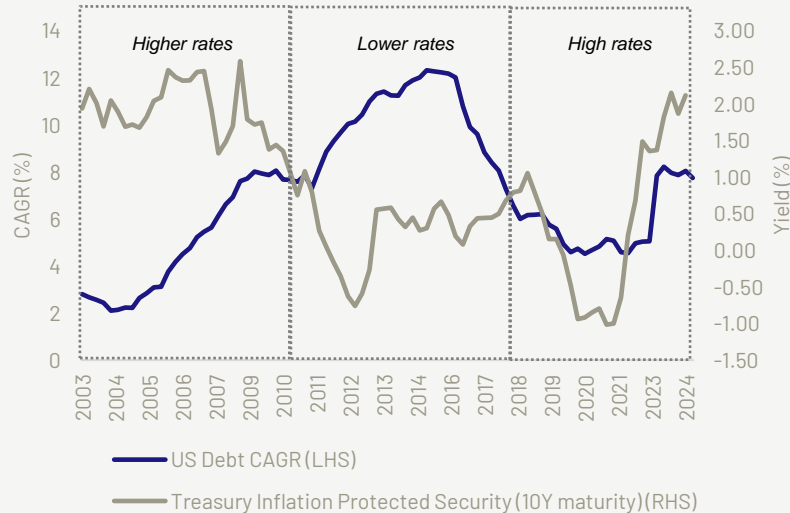


Source: fred.stlouisfed.org, Angel One Wealth, Data as on Oct, 2024

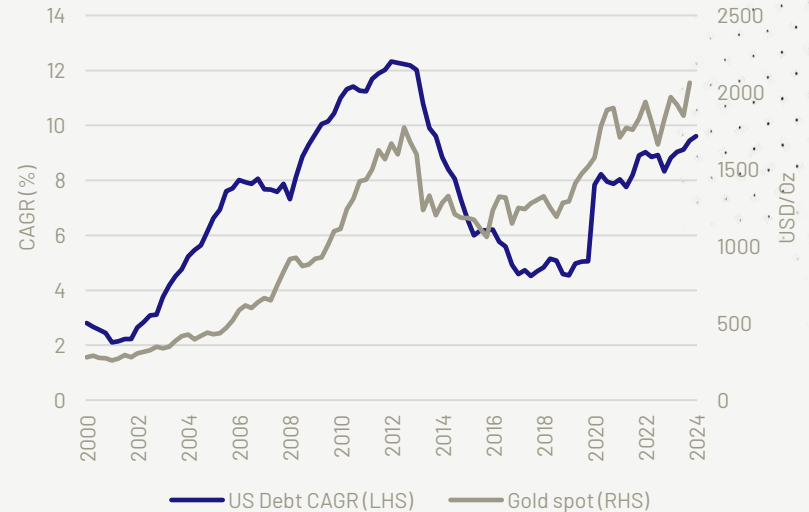
US is entering the rate cut cycle with unprecedented macros, especially high debt levels which has led to high inflation, crowding out, and has raised concerns on interest servicing despite US being the printing press of dollar. This is **one structural problem**, that countries (especially US) needs to abate for all global economies to recover from the current inflationary pressures. The single variable can change the dynamics of global macros, if the scenario of 'beautiful deleveraging' does not play out.

High US Debt Leads To High Inflation + Flight To safety

High US debt leads to high inflation which reflects on higher TIPS



Similarly, the flight to safety helps Gold prices



Source: fred.stlouisfed.org, Angel One Wealth, Data as on Oct, 2024

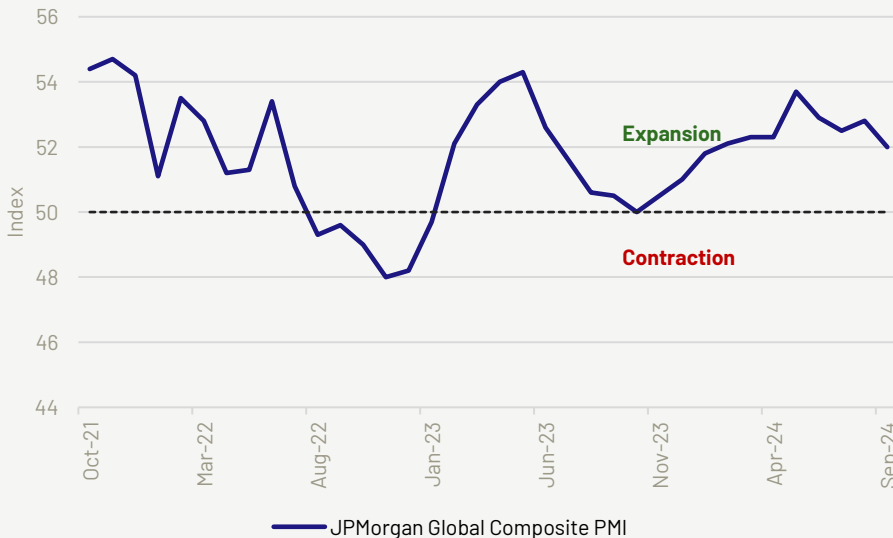
Source: fred.stlouisfed.org, Angel One Wealth, Data as on Oct, 2024

We have been sitting at a juncture of poor macros- high debt, high inflation, and high interest rates, alongside reasonable growth. This is changing now with Fed starting to cut rates. If global debt, inflation and interest rate correct, risky asset classes will be in flavor again. Until then, it's a slow adjustment path benefitting the safer assets.

Global Growth Is Slowing

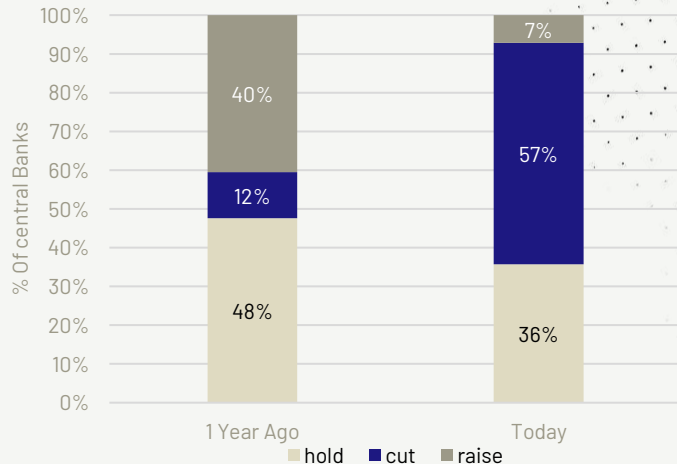
Global PMI has started to inch downwards..

Global trade which contributes to ~60% of Global growth has started to slow. This is reflecting in lead indicators slowing further



... and Central Banks have now stepped up to save growth

Only 7% of global central banks are now raising rates vs 40% a year ago



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

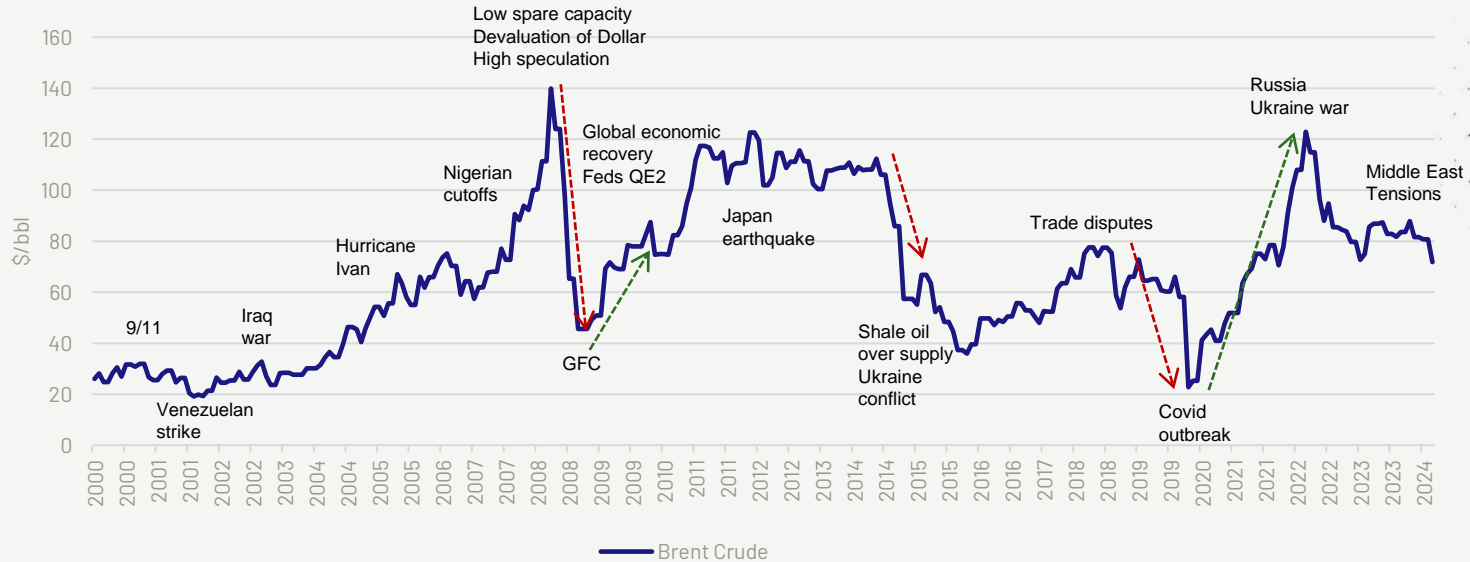
Data as on 14th Oct 2024

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

Across global economies, we are starting to see a slowdown. A rate cut now will help revive economic activity by stimulating demand and encouraging greater investment. Most Developed Markets (DMs) have embraced rate cuts but the Emerging Markets (EMs) are holding the leash on monetary expansion, given the concerns on inflation (especially the ones driven by reaction of crude amidst global uncertainty).

Crude Is Most Sensitive to Geopolitical Conflict

If Iranians block 'Strait Of Hormuz', the effects of the Middle Eastern Conflict will be seen widespread. Until then, there are cushions to crude prices.



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

Brent prices are experiencing fluctuations due to recent geopolitical tensions in the Middle East and concerns over potential supply disruptions. 20-25% of the global oil supply passes through the Strait of Hormuz. Situated between Iran and Oman, the waterway is a narrow but strategically important channel that links crude producers in the Middle East with key markets. Disruptions in oil supply through the strait can lead to higher oil prices. Without it, however, crude will continue to be cushioned by weaker Chinese demand, higher US production and OPEC informally settling for lower prices.

US Earnings Update: It Is Looking Strong

Corporate Profits are rising from strength to strength



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

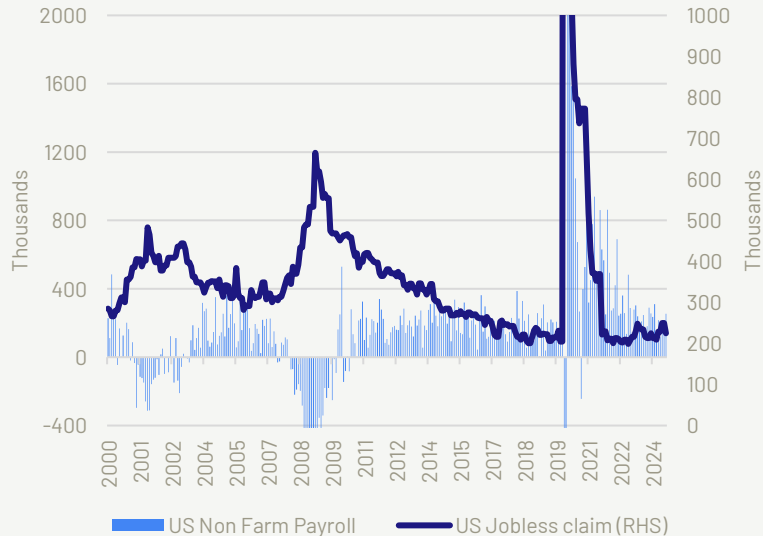
Note: Banks included for analysis: 1) JP Morgan 2) Morgan Stanley 3) Bank of America 4) Citi Bank 5) Wells Fargo

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

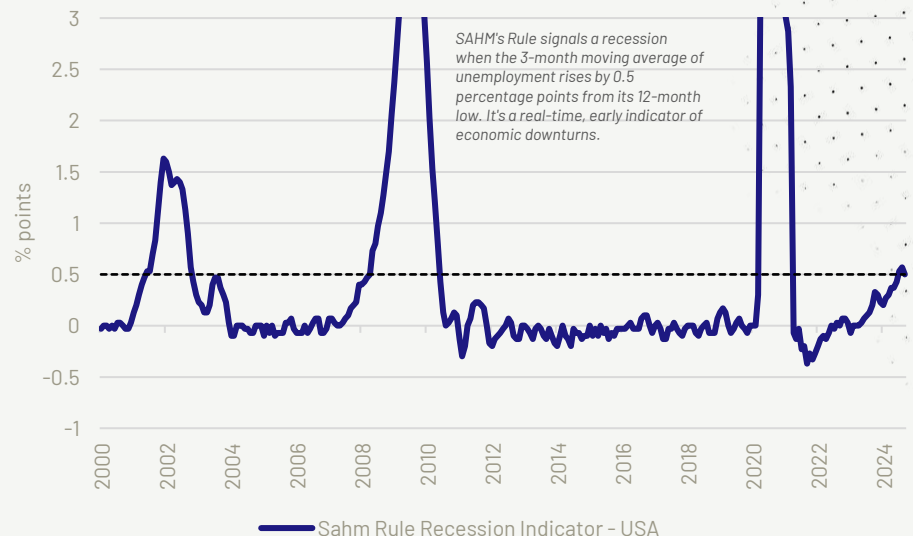
US corporate profitability has been on the rise, abating fears of hard landing. A coincident indicator of the economy, big banks' earnings are beating analysts' consensus estimates with soaring revenues from dealmaking, trading, and wealth management. Strong forward guidance from bank management teams is serving as a positive leading indicator for the broader market and economy. While the elections will create volatility in coming weeks, a stable US allocation makes sense.

US Economy Isn't Showing Sharp Slowdown

Non Farm Payroll data for September (254k) was the largest addition in the last 6 months...



....while the Sahm Indicator hasn't sustainably breached its threshold – it might be on a downward trajectory amidst improving macro conditions



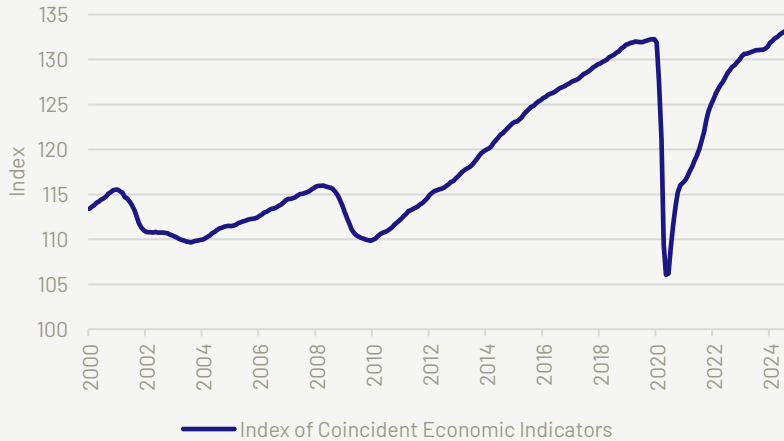
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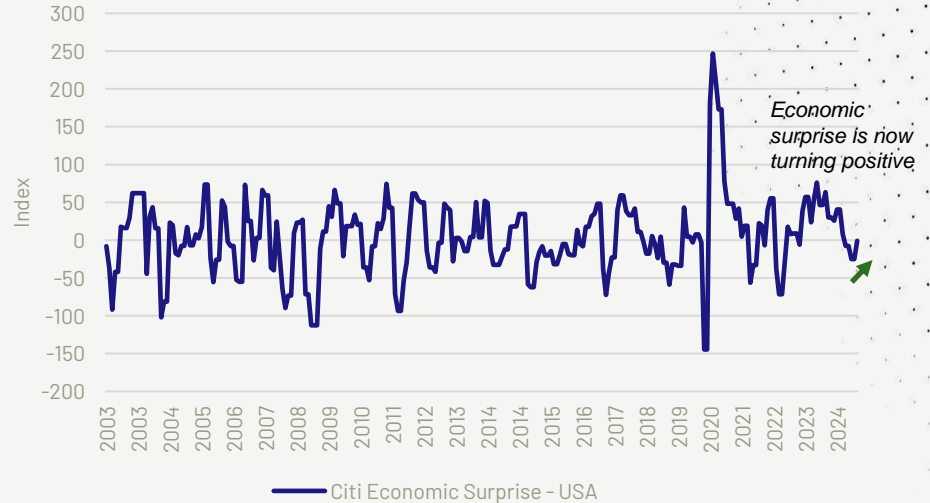
Robust jobs data has bolstered the belief that US may avoid a recession. A combination of stable inflation and steady employment growth marks a dramatic shift from the economic uncertainty that loomed few months ago. Investors are now looking to the ongoing earnings season and forward guidance hereon. Policy formulation post elections especially on 'taxes' and 'tariffs' will pave the way forward on employment and inflation.

US Economy Is Putting 'Hard Landers' Behind

ICEI Index is back to pre covid levels, with its upward trend indicative of an expanding economy...



... while the economic surprise index is also turning positive



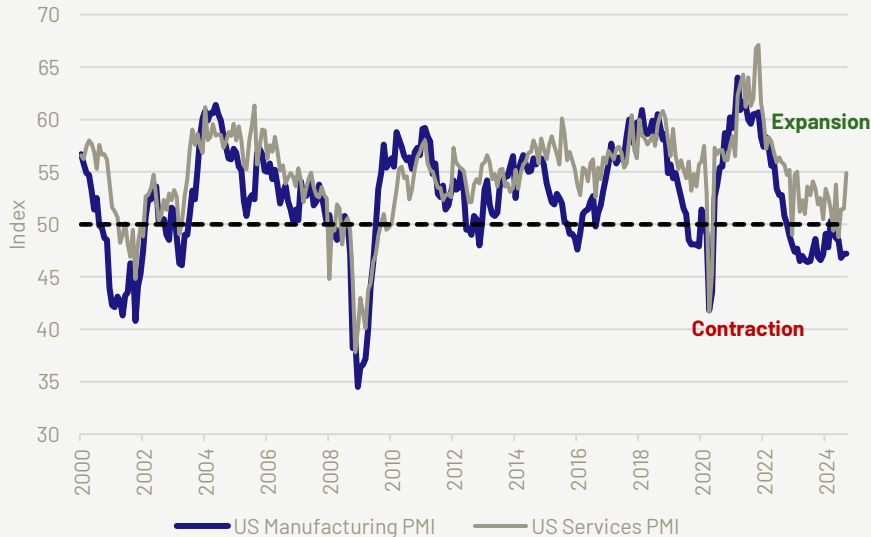
Source: Bloomberg, Angel One Wealth, Data as on Oct, 2024

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

Economic data has performed better than expected in recent times. The US is back to pre covid levels of economic activity and with a soft landing in picture. Sentimental indicators of US economy are poised towards an improvement even from these levels. A rate cut coming in when growth is still okay and inflation is under control will be a good omen- it may just have to wait for geopolitical uncertainties to pass.

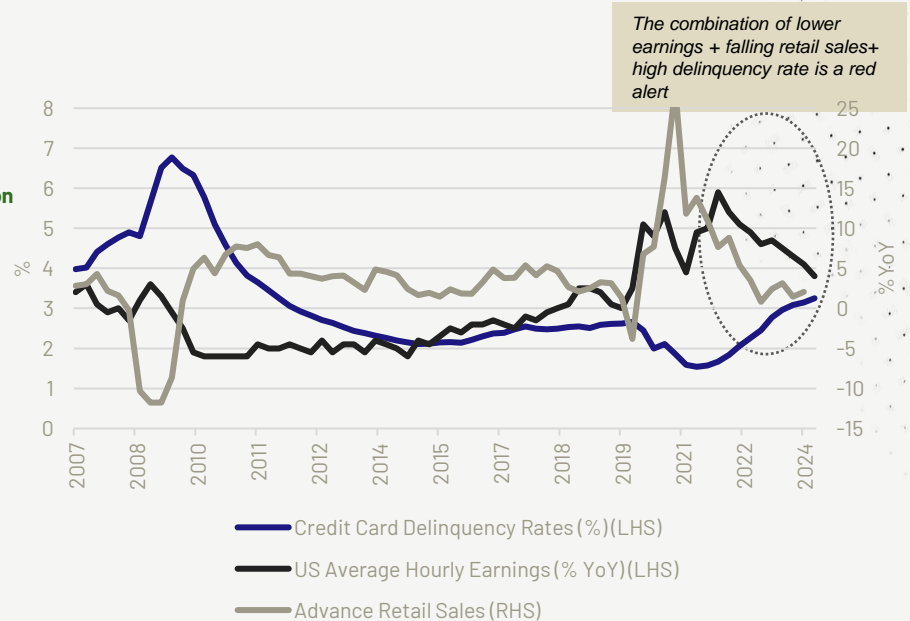
However, Some Signs Are Not Very Promising

US manufacturing PMI is in contraction, but services is still in expansion...



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

.... and there are some red alerts on the consumption front

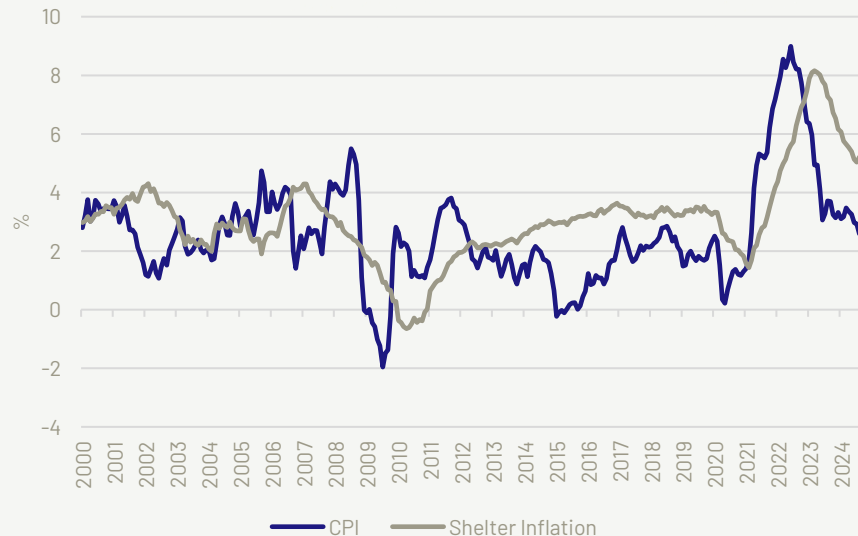


Source: fred.stlouisfed.org, Angel One Wealth, Data as on Oct, 2024

Not everything is hunky dory. US Manufacturing PMI has remained in zone of contraction and the divide between services and manufacturing has rather widened. Separately, on consumption front, the rise in delinquency rate is not a good sign, especially when it is coupled with lower earnings. There are reasons to be cautious, and a timely policy action can abate any deep loss of growth.

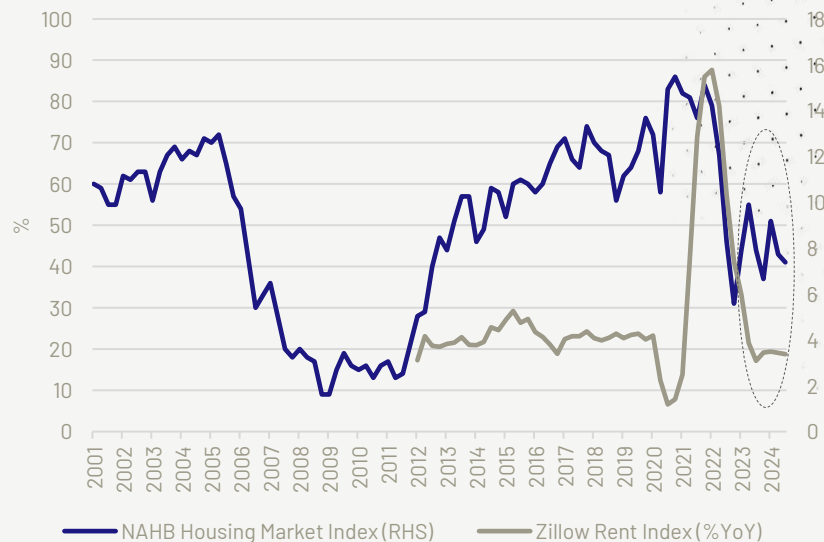
US Inflation Is Set To Ease

US CPI is set to walk its path towards 2% as 'shelter' which composes 36% of the basket eases....



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

... With lead inflation of housing indicators already turned

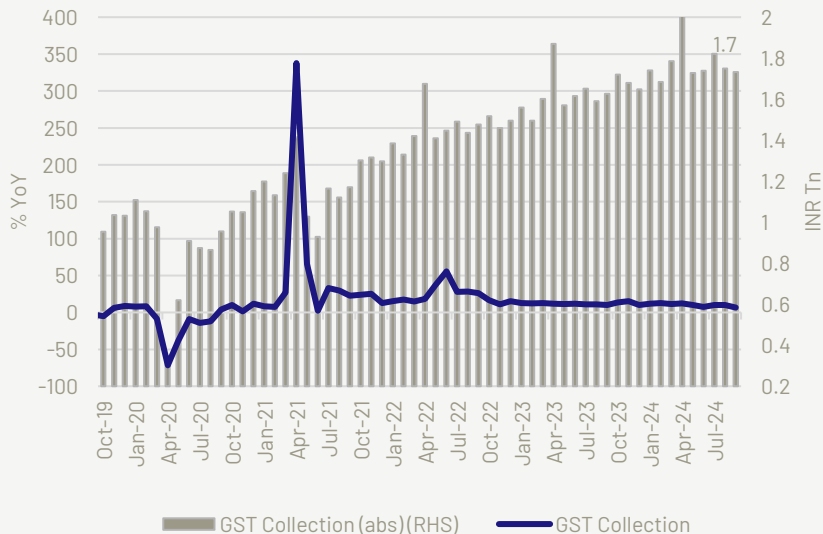


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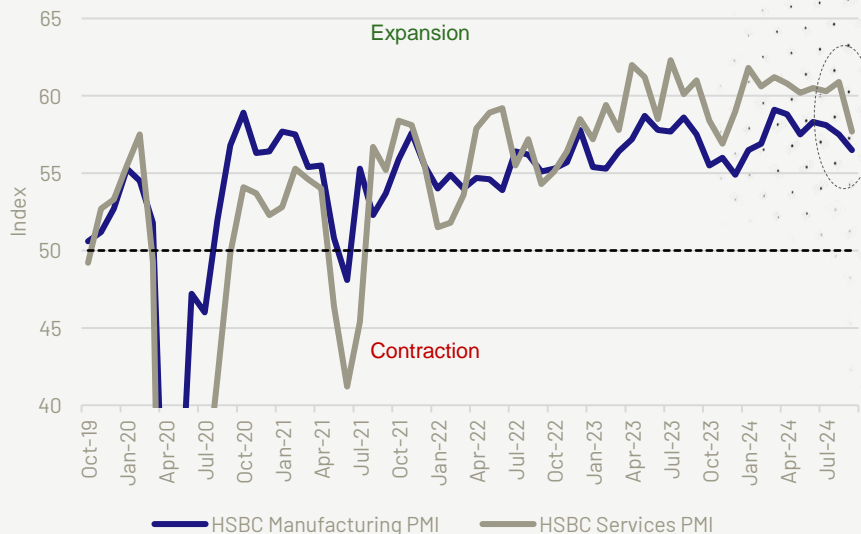
US inflation rose more than forecast in September, however its sticky housing component is showing signs of cooling. There is potential for optimism if home prices stabilize, yet affordability for the average American remains in question. Last week's blowout US jobs report, will likely amplify the debate whether the Federal Reserve will opt for a small interest-rate cut next month or pause after a large September reduction.

India's High Frequency Data Is Now Slowing

GST collections, at INR 1.7 tn, have fallen from the recent highs...



.. while PMI has started to dip, although it remains in expansion mode



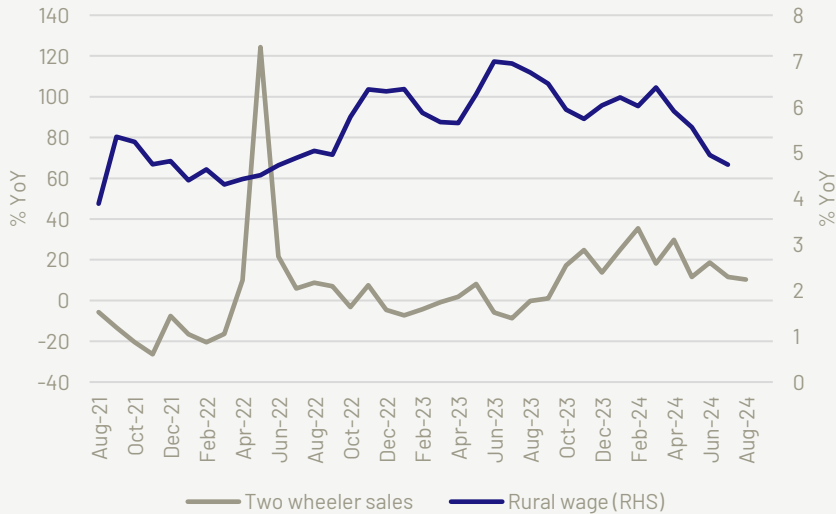
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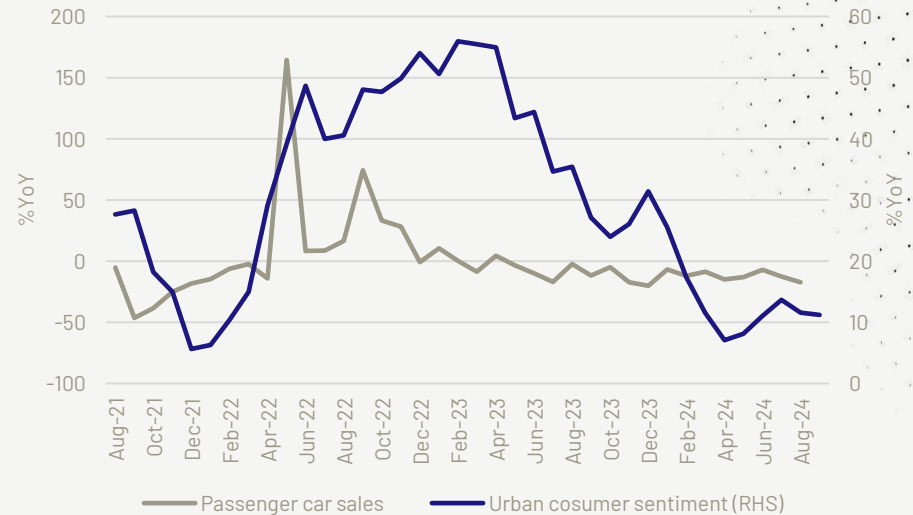
Sluggish GST collections are a sign of weakening demand amid falling consumer spending. GST revenue growth hit a 40-month low at 6.5% YoY, however, in absolute terms it is still close to the average for CY 24. There could be an element of seasonality involved here and all eyes will be on the festive season. If we have a sluggish festive season, then monetary reflation will be very much needed to support growth. The change of stance to 'neutral' is rather affirming.

India's High Frequency Data Is Now Slowing

Two-wheeler sales growth saw a fall as rural wages weaken...



...similarly, passenger car sales have contracted as outlook towards consumption weakens



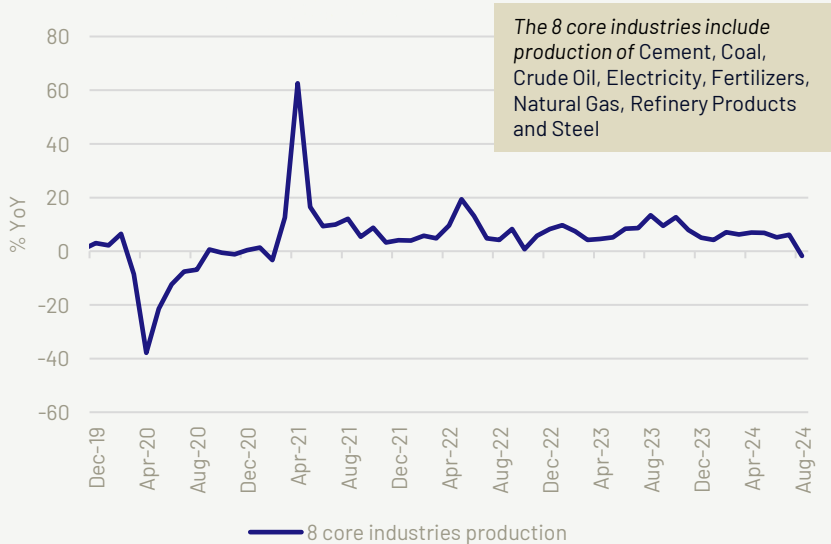
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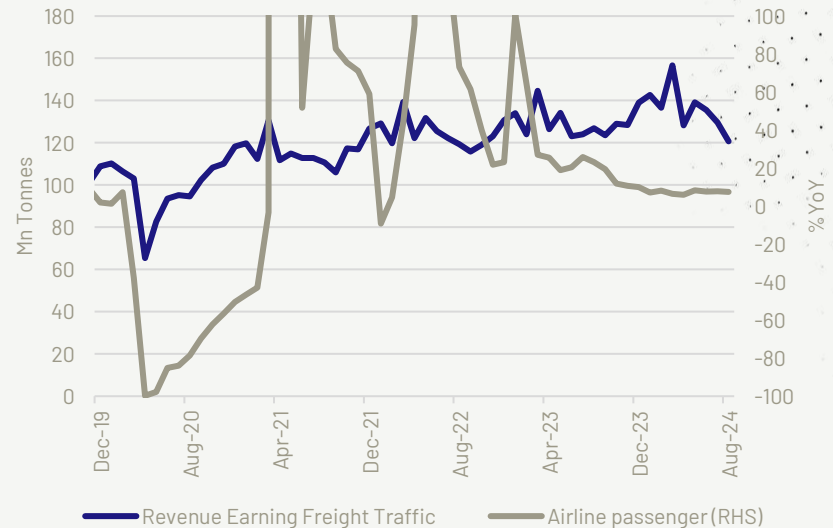
Rural India accounts for more than 50% of the overall two-wheeler sales. Rural wage growth has stagnated and has led to fewer discretionary spends. The fall in passenger car sales can be due to a pile up in inventory or can be a more structural slowdown which can linger for a few months. We believe numbers in the festive months will provide the best testament to either of the case.

India's High Frequency Data Is Now Slowing

The Index of 8 Core Industries has shown contraction



And general freight and passenger traffic growth is decelerating



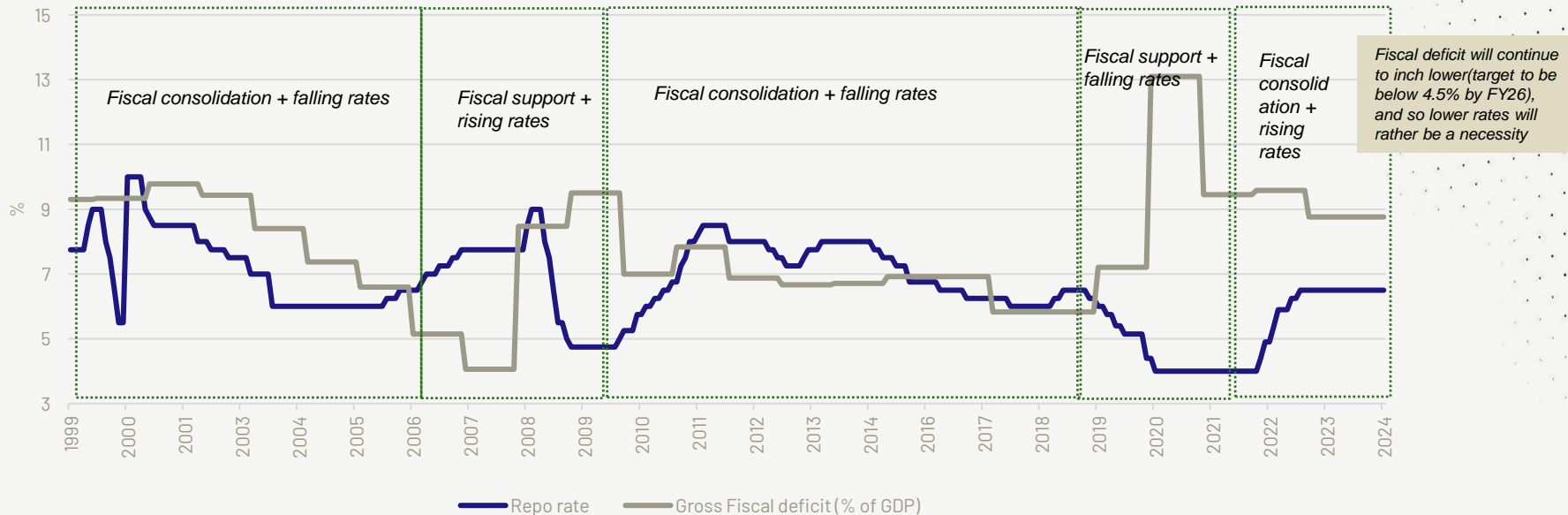
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Core production growth has recently fallen likely because of a high base following rapid growth last year, when core output expanded 13.4% YoY. Only two of the eight sectors – fertilizers and steel, reported a rise in production in August. Meanwhile, freight and airline traffic has been in a zone of latency post the covid spike. Production and trade, if simultaneously slowing, would be a red flag for the economy.

India Needs Monetary Support

Relatively tight fiscal policy will be needed to comply with FRBM, we need a more accommodative policy to balance its effects. A tight fiscal policy with rising rates will not be congenial for growth.

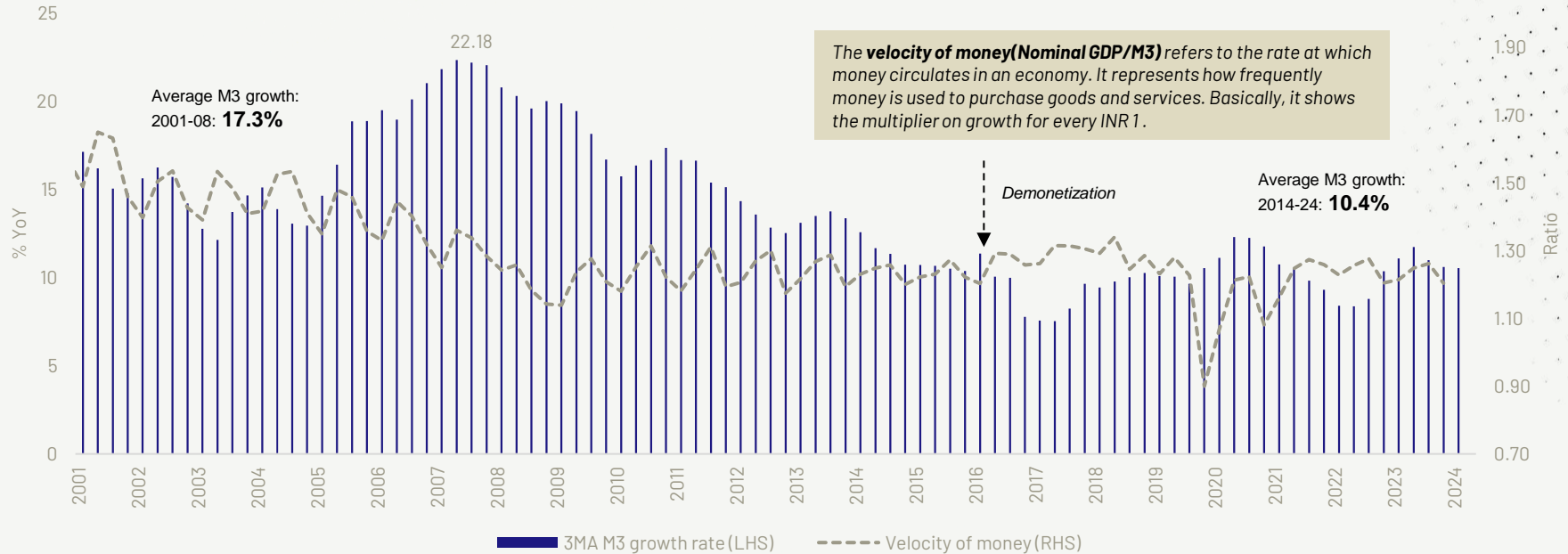


Source: CMIE, Angel One Wealth, Data as on Oct, 2024

A coordinated approach that combines fiscal consolidation with supportive monetary policies can create a conducive environment for sustainable growth in economy and markets. Bringing down the fiscal deficit is rather not optional and therefore it is the monetary policy that will have to do the heavy lifting to support growth.

India's Money Supply Growth Has Been Slow

India's Money supply growth has slowed down, monetary reflation can support growth hereon

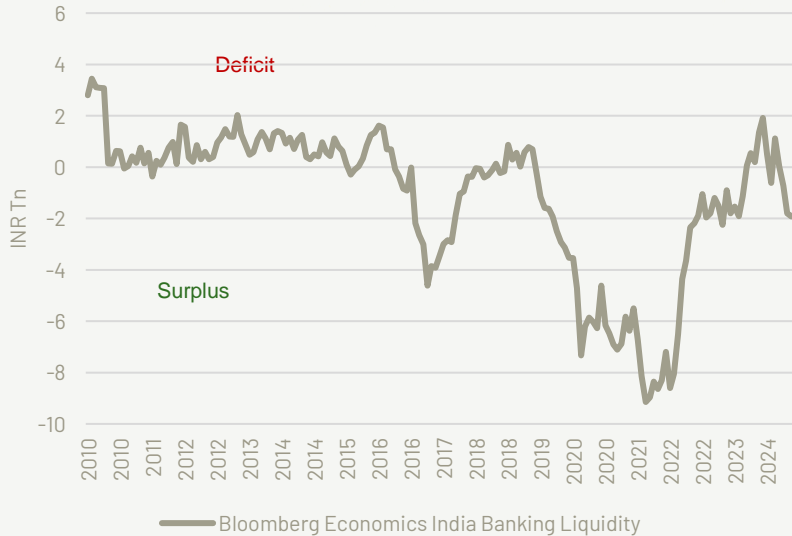


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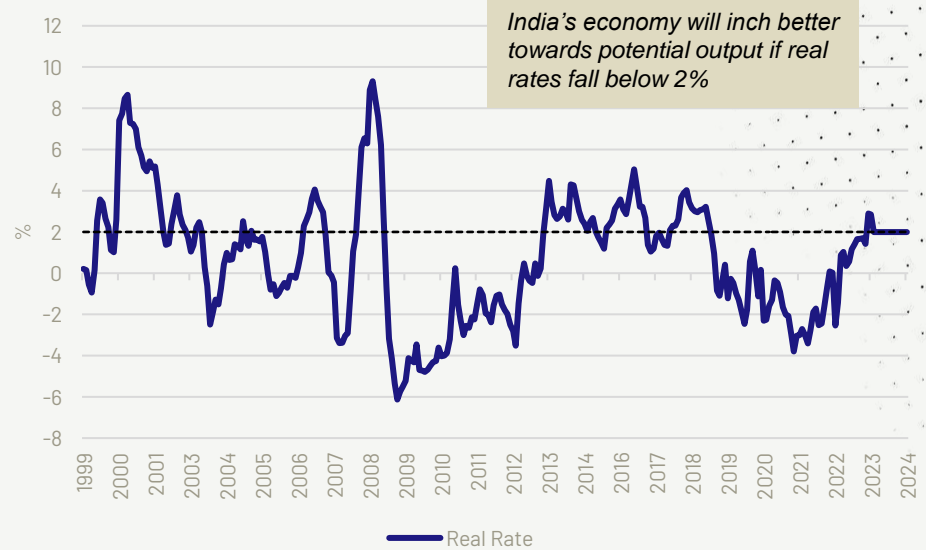
India's M3 has been consistently falling and has failed to keep pace with growth rate of Nominal GDP. M3 has slowed along with M1, with currency in circulation growing at less than half its pre pandemic rate of 13%. This needs to be addressed, to help the economy sustain its growth path. Velocity, in a sense, is a by-product of growth. Low velocity of money indicates that money is changing hands slowly, which can suggest people are saving more or holding onto their money but when growth rises, it can increase creating a virtuous circle for growth.

India's Monetary Reflation Is Needed For Next Growth Leg

India's banking liquidity has eased and should ideally remain in surplus...



... But real rates are still significantly high



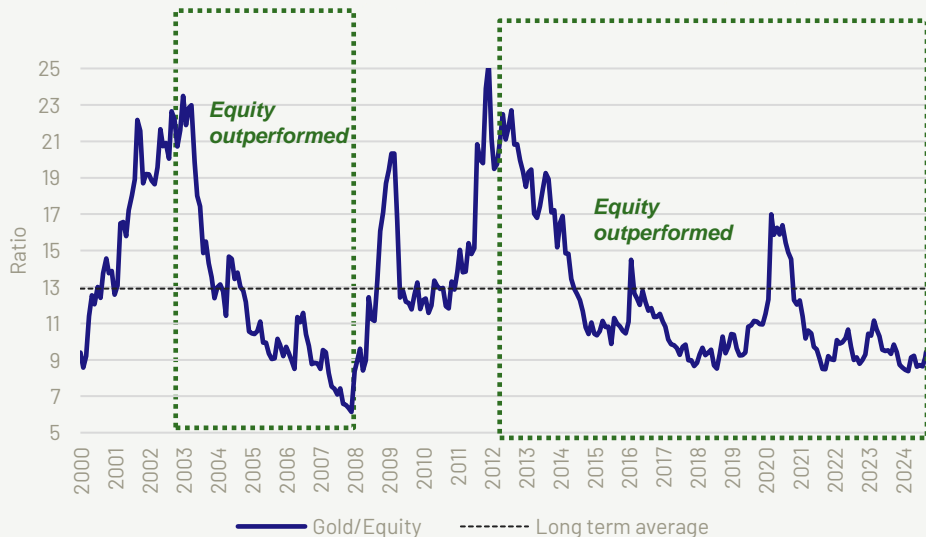
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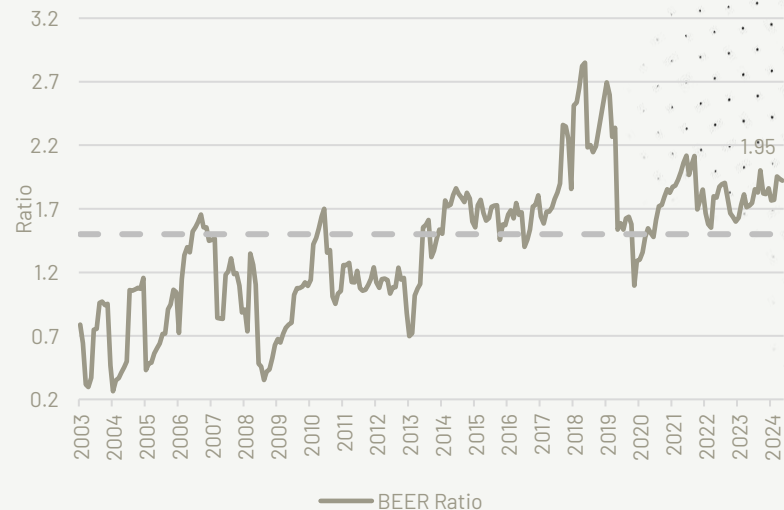
High real rates stall growth. Bringing down the real rates sub 2% will have merit for domestic growth. Not to forget however, that the transmission of rate cuts only happen when liquidity is in surplus. Therefore, MPC will have to fire on cutting rates and maintaining liquidity surplus for the monetary reflation to effectively play out in India.

India's Relative Valuations Are Unfavorable Towards Equity

Despite the recent outperformance in Gold, the relative price valuation still signals unfavorable equity



Similarly, relative to bond, equity remains expensive



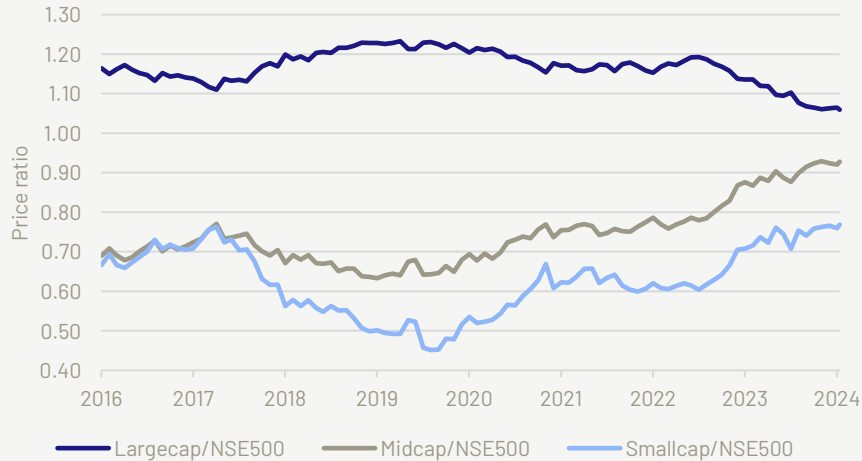
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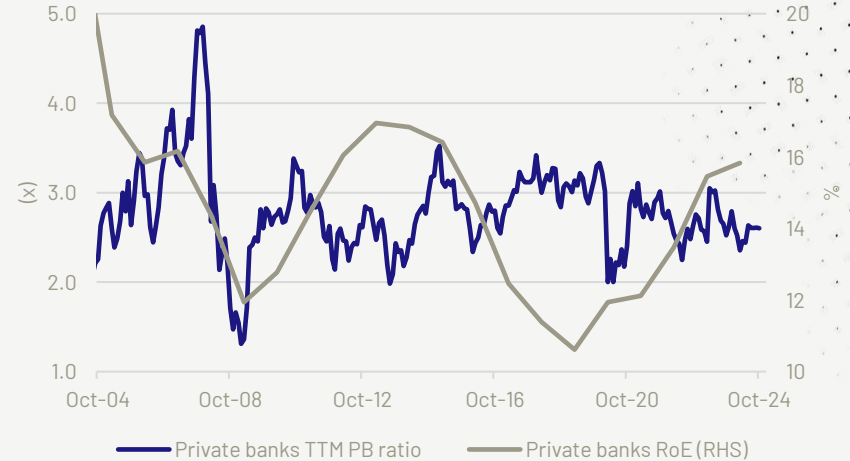
Despite the outperformance, Gold is still relatively cheap. BEER ratio at present stands at 1.9, which is even higher than India's own long-term average of 1.4. While some cool-off was seen in the BEER ratio recently, it is still trading above its LTA, indicating a slightly expensive valuation. So not just on absolute levels but also on relative terms, equity is a bit more expensive.

However, There Are Pockets Of Opportunity

Large caps have performed relatively less and have possibly more steam ahead...



... and private banks can see a turnaround given the marked improvement in ROE and lower valuations



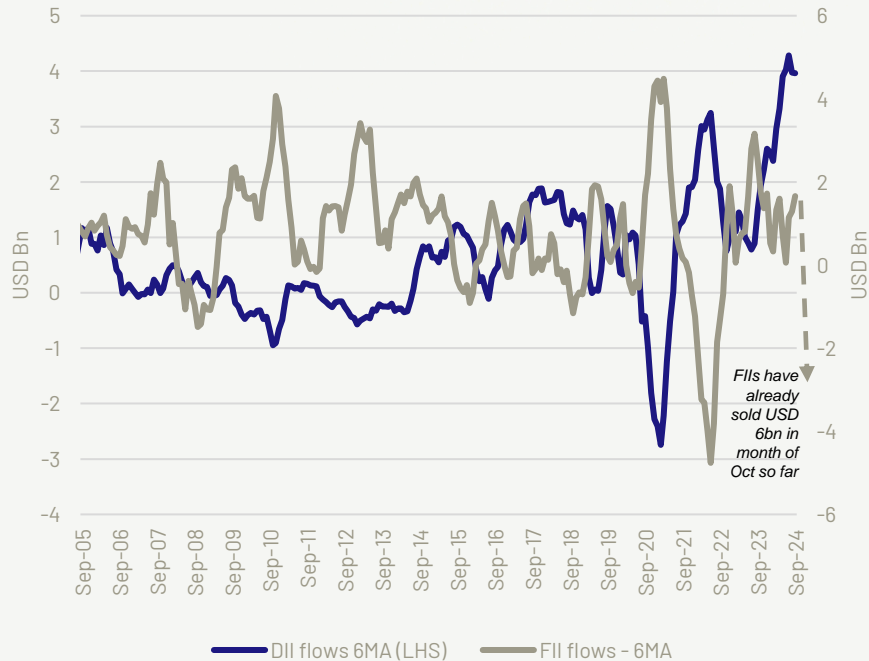
Source: Bloomberg, Angel One Wealth, Data as on Oct, 2024

Source: Angel One Wealth, Data as on Oct, 2024

Mid and small caps have delivered more than double returns as compared to large caps, which returned 138% over the past 5 years. This trend is however expected to change as large caps are better placed to handle a global slowdown as seen from Fed's September policy. FII inflows are currently more concentrated in large-cap than mid-cap stocks, further supporting this trend. Strong asset quality with NPAs below 1%, high ROE and valuation comfort warrant an overweight stance on private banks.

DII Flows Have Helped Manage The FII Volatility

DII's have kept the market robust, maybe for far too long?



FIIs seem to be chasing new opportunities.

Country	FII flow MTD (USD Mn)
India	-7619
S. Korea	-1776
Brazil	-610
Thailand	-541
Taiwan	-469
Turkey	-417
South Africa	-397
Indonesia	-345
Malaysia	-181
Qatar	-112
Vietnam	-68
Dubai	-58
Sri Lanka	0
Philippines	72
Japan	12676
China	?

India and China can both attract flows together, one is not necessarily a substitute for another. However, China's monthly numbers are not known, but seems like Japan is attracting many investors.

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

DII flows have gained momentum and risen to a record high, while FII's have held transitory positions in the Indian markets. While the 'equitization' of Indian savings has been underway since 2015, it accelerated dramatically. What can change? A) 50% of the investors will be seeing downturn for the first time and B) Net SIPs are not growing any more. Other behavioral aspects that are hard to predict since there's no precedence can harm flows hereon.

Sectoral Split Of FII Flows

FII's have invested in capital goods and financial services off-late

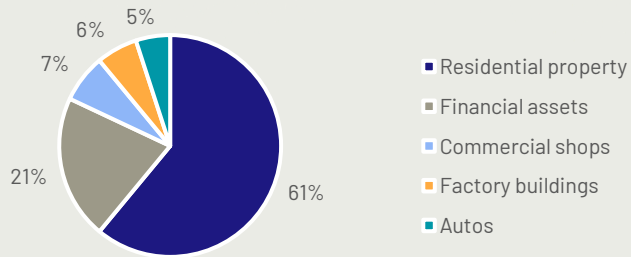
Sectors	FII/FPI in Equity : By Sectors (USD Mn)													
	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	CY24 YTD Flows
Automobile	77	-73	49	438	-250	668	196	134	-484	208	735	-283	-251	673
Capital goods	615	103	277	613	83	471	456	435	723	335	589	-37	477	3,532
Chemicals	-110	-89	-11	67	-136	-95	109	93	57	234	-61	-2	172	371
Construction	-409	-284	-13	587	-30	-518	38	-78	-472	-113	-102	-226	23	-1,478
Financial services	345	-1418	-479	3507	-3612	-1203	419	-1118	-1027	1098	-913	-1430	3244	-4,542
Healthcare	33	-130	179	442	-44	626	-115	-85	20	395	604	694	791	2,886
Information technology	227	-392	97	624	540	264	-200	-1146	-694	-117	1405	481	-145	388
Metals & mining	-609	-43	66	157	-196	-82	145	-29	-114	-358	874	-450	138	-72
Oil, gas & consumable fuel	-630	-362	40	-64	418	-427	-274	-284	-666	-315	194	144	-77	-1,287
Power	-1,172	-344	-355	127	309	-180	6	517	-365	-299	-454	-136	168	-434
Realty	92	-60	133	-80	5	172	588	-5	162	327	27	-139	641	1,778
Services	-117	-114	479	524	40	1331	1170	459	213	750	233	754	-145	4,805
Telecommunication	-56	213	99	290	319	-474	960	991	132	952	375	246	230	3,731
Consumer durables	14	-163	-43	137	-127	134	-161	-208	-91	10	-22	562	445	542
FMCG	-215	-335	-204	60	-319	-539	756	-948	-501	-110	117	429	584	-531
Total	-1,915	-3,491	314	7,429	-3,000	148	4,093	-1,272	-3,107	2,997	3,601	607	6,295	10,362

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

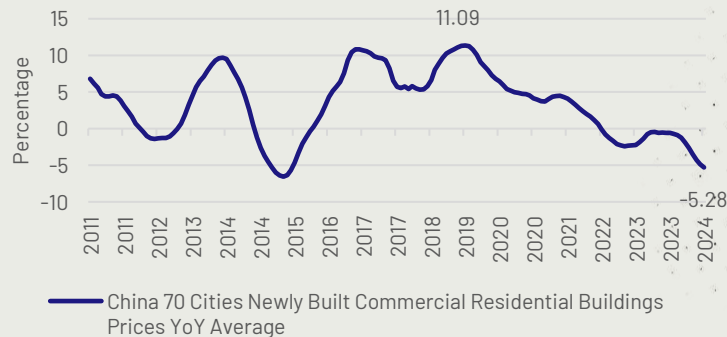
The surging liquidity from domestic inflows has resulted in a widening of India's valuation premium, which has caused considerable angst to foreign investors. Despite this, we see gradual increase in FII positions with September flows crossing USD 6 Bn spread majorly across Services, Telecom, Cap goods and Healthcare. In October, however, FIIs have been strongly withdrawing money.

What Went Wrong In China?: A Collapse of Net Worth

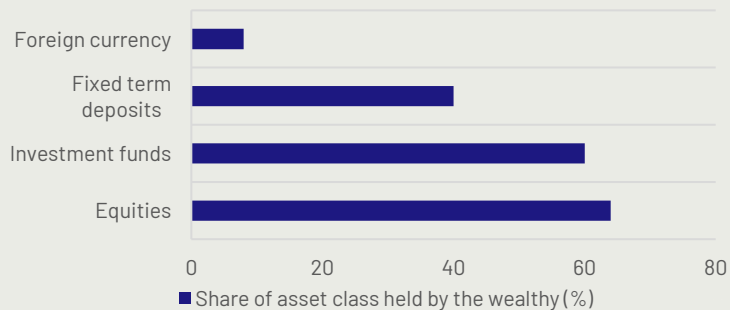
Most Chinese households held residential property....



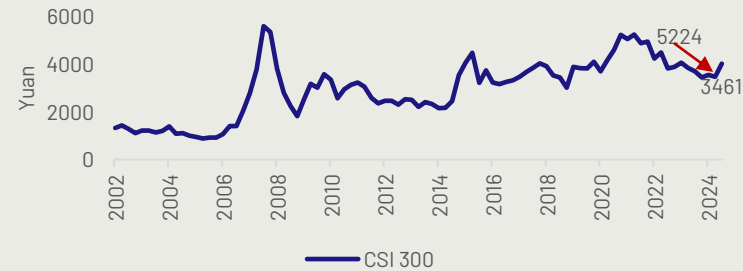
... the price of which tumbled



Similarly, investors had equity dominated portfolios



And the markets offered negative returns



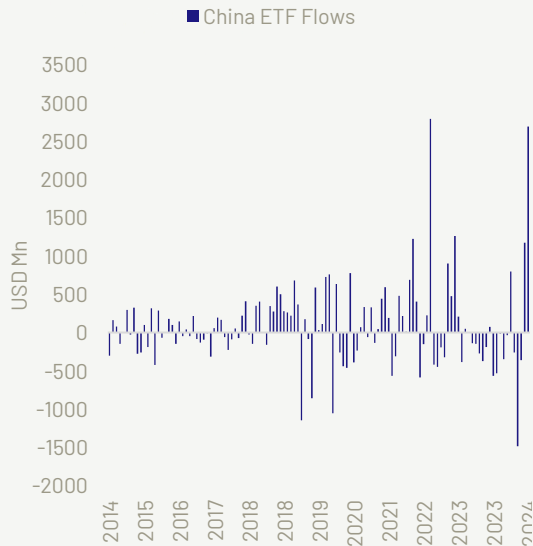
However, China Can Bounce Back

Beaten down Chinese stocks have a history of bouncing back...

Hang Seng			
Peak	04-02-1994	12157.57	
Trough	23-01-1995	6967.93	-43%
12m later	23-01-1996	10957.2	57%
Peak	07-08-1997	16673.27	
Trough	13-08-1998	6660.42	-60%
12m later	13-08-1999	12608.18	89%
Peak	28-03-2000	18301.69	
Trough	25-04-2003	8409.01	-54%
12m later	26-04-2003	12132.68	44%
Peak	30-10-2007	31638.22	
Trough	27-10-2008	11015.84	-65%
12m later	27-10-2009	22169.59	101%
Peak	28-04-2015	28442.75	
Trough	12-02-2016	18319.58	-36%
12m later	13-02-2017	23710.98	29%
Peak	17-02-2021	31084.94	
Trough	22-01-2024	14961.18	-52%

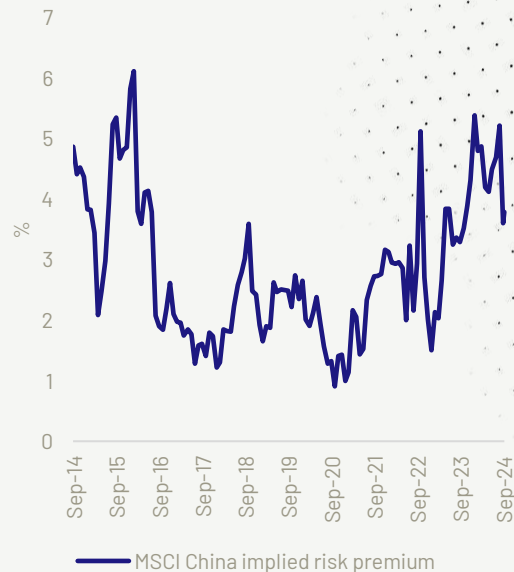
Source: Bloomberg, Angel One Wealth, Data as on Oct, 2024

... and flows can rather be supportive to the bounce back in markets...



ETF flows are cumulative flows of 4 major indices: Golden Dragon ETF, iShares China MSCI ETF, Xtrackers Harvest ETF, ChinaAMC ETF

... with risk premium now easing



The latest round of China stimulus (RMB 2Tn) indicates that policymakers have made a turn on cyclical policy management and increased their focus on the economy. Economic indicators such as fixed asset investment, foreign trade, and unemployment have also improved, however the sufficiency of the stimulus remains in question. China will need more focused stimulus to sustain growth hereon.

China May Need More Stimulus

Monetary stimulus trying its best to stimulate the economy



...but more efforts will be required from the fiscal front

Current Measures	Impact
The Ministry of Finance intends to issue 1 trillion yuan (\$142 billion) in special sovereign debt, primarily aimed at stimulating consumption	It will be used to enhance subsidies for the trade-in and replacement of consumer goods.
A 50-bps cut in outstanding mortgage rate	This would save households \$21 bn a year in interest expenses
China is considering injecting up to \$142 billion into large state-owned banks	This would be the first time since the 2008 global financial crisis that the Chinese government injects capital into large banks
The PBOC will offer full liquidity to commercial banks, enabling them to lend to listed companies for stock repurchase purposes.	The first tranche will be \$43 billion. This will incentivize companies to increase buybacks.
The CSRC has granted permission for securities exchanges to increase margin requirements for short selling from 80% to 100%.	This initiative would look to further stabilize markets

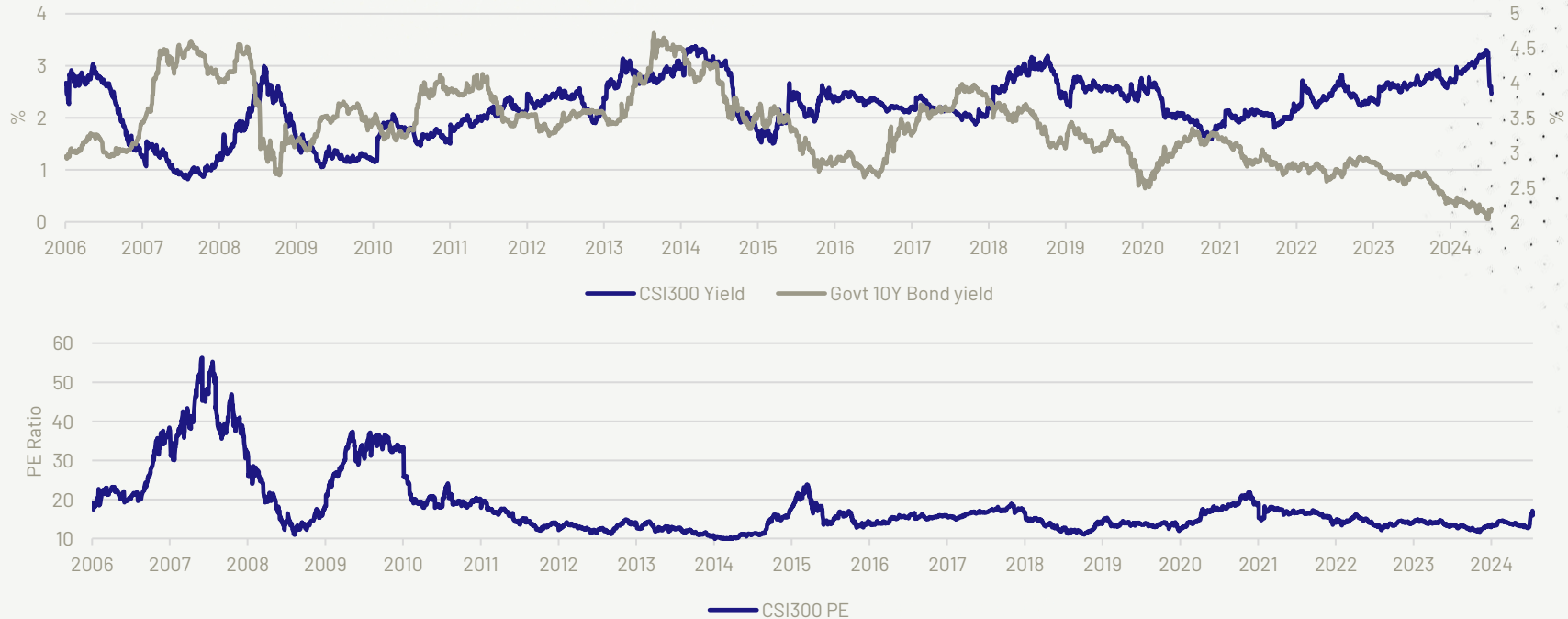
Source: Bloomberg, Angel One Wealth, Data as on Oct, 2024

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

China is under pressure to achieve its economic growth target of 5% for the year amid a backdrop of disappointing economic data. If China's big stimulus spend causes sustained increases in asset values, it could give rise to economic optimism. China's policies are expected to come in to help its property market, which will solve the root cause of each of its many problems.

Equity Valuations Remain Attractive

Despite the recent uptick, China valuations are still attractive



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

China has seen a run-up off late but it will be too early to classify China as expensive, especially as earnings projections keep getting revised amidst stimulus hopes. We remain invested in the space, continuing our tactical buy call.



In a nutshell,

The current global landscape is gearing for US elections and policies after. Meanwhile, asset classes are going back to basics- excesses in one direction creates excesses in another. We believe sector/asset class rotation will happen now and that's what keeps investing an interesting space- there are always opportunities! One can be eternal optimist in investing if one is open to multi-asset approach.

Please contact us for more details at hello@aowealth.in

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