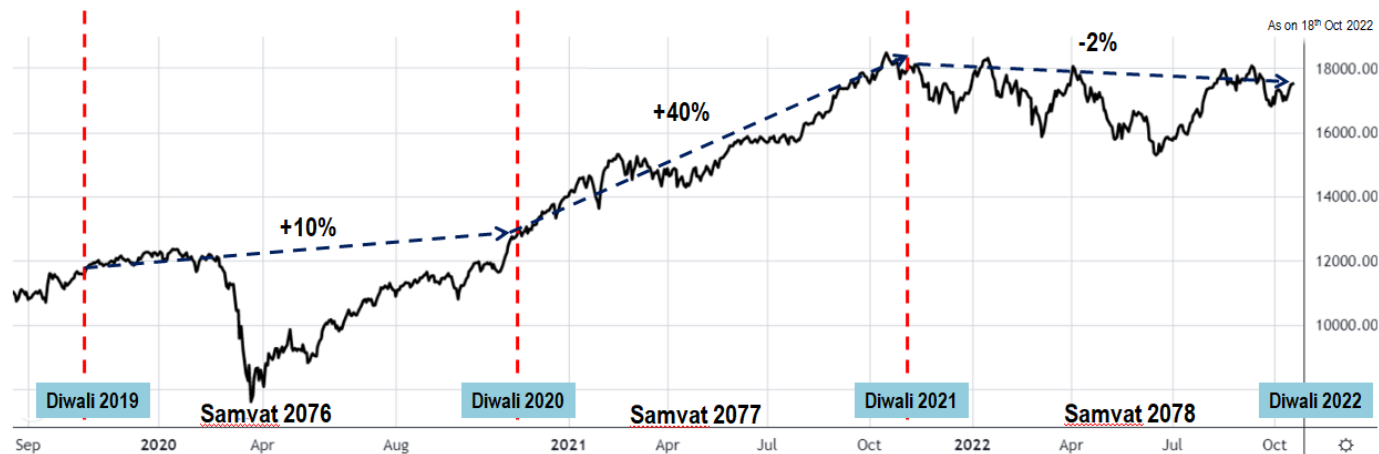




Market Perspective - Nov 22

Impact of Rising Interest Rates

Nifty Movement During last 3 Years



	Nifty 50	Nifty Small Cap 100
Diwali 19 to 20	10%	7%
Diwali 20 to 21	40%	81%
Diwali 21 to 22* till date	-2%	-13%

Indexes in 2022	Yearly Return%
NIFTY 50	-3.00%
SPX (US)	-16.80%
CAC 40(France)	-11.60%
DAX (Germany)	-20.60%

Global Indexes- Europe - From Pre Covid Levels (Jan 2020 till Now)



*Returns from 31Dec 2019 to 11 Oct 2022

Global Indexes- From Pre Covid Levels (Jan 2020 till Now)

China 50



BOVESPA



S&P 500

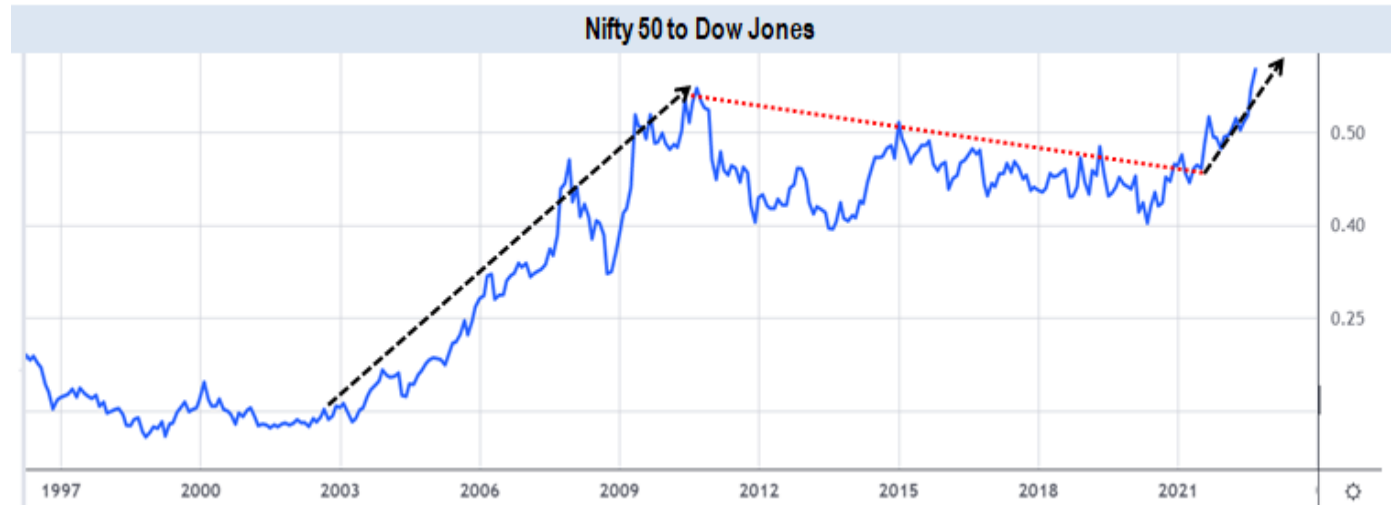


NIFTY 50



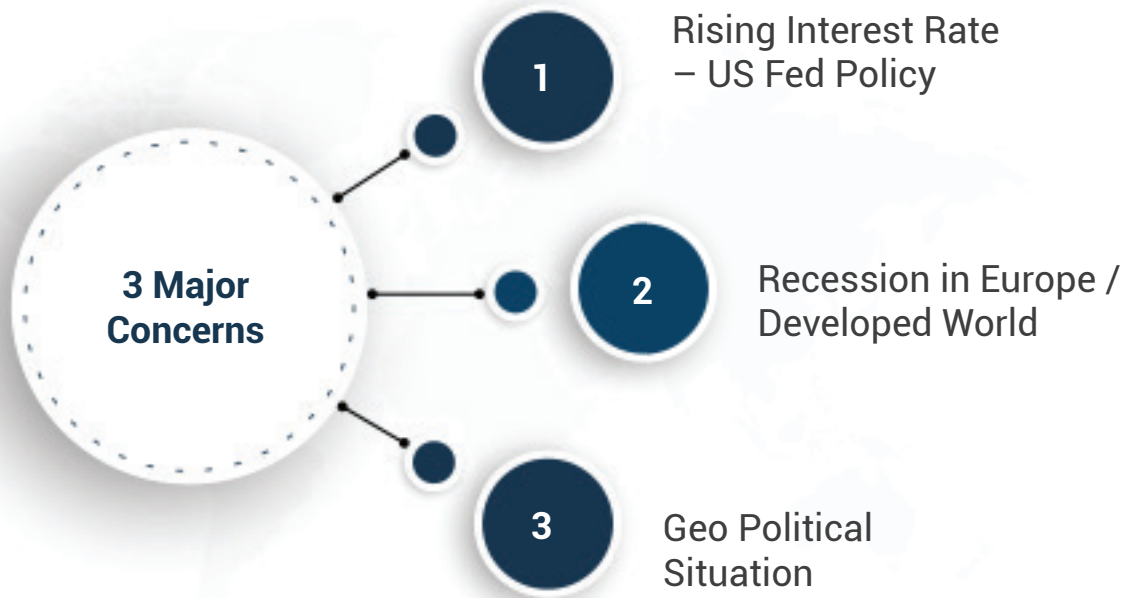
*Returns from 31 Dec 2019 to 11 Oct 2022

India Decoupling

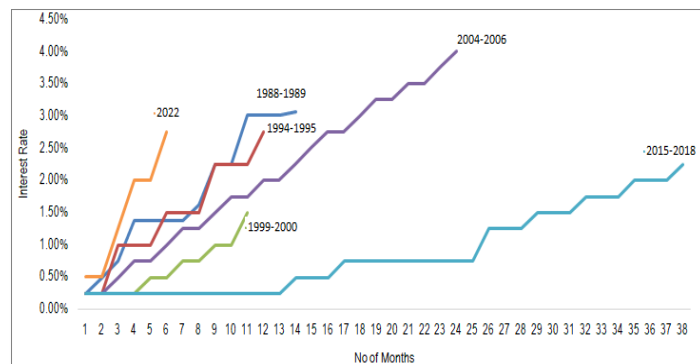


Indian market out-performance over US market was during 2002-2010 and had become popular as 'de-coupling' story. But during 2010-2021, US market had sharp out-performance. But starting middle of 2021 Indian market is out-performing and the trend has gathered good momentum lately.

3 Major Concerns



US Interest Rate Hike Cycles in last 40 Years



Rate Hike Cycle	From	To	No of Mth	Hike%	Initial 6mths
1988-1989	6.75%	9.81%	~14	3.06%	1.37%
1994-1995	3.25%	6.00%	~12	2.75%	1.50%
1999-2000	5.00%	6.50%	~10.5	1.50%	0.50%
2004-2006	1.25%	5.25%	~24	4.00%	1.00%
2015-2018	0.25%	2.50%	~38	2.25%	0.25%
2022 onw	0.50%	3.25%	~6	2.75%	2.75%

Speed of increase in Interest Rate in highest in last 40 years

During 1988-89, the total hike was 3.06% within a span of ~14 months, and in the initial 6 months, the hike was only to the extent of 1.37%. Similarly, in '94-95 rate hike cycle, the hike in the initial 6 months was to the tune of 1.5% and so on. However, in the current rate cycle, in the last 6 months, the hike in interest rate has already crossed 2.75%. This pace of hike definitely signals that something very unusual is happening in the current rate cycle.

US Govt 10 Year Bond Yield Since 1913



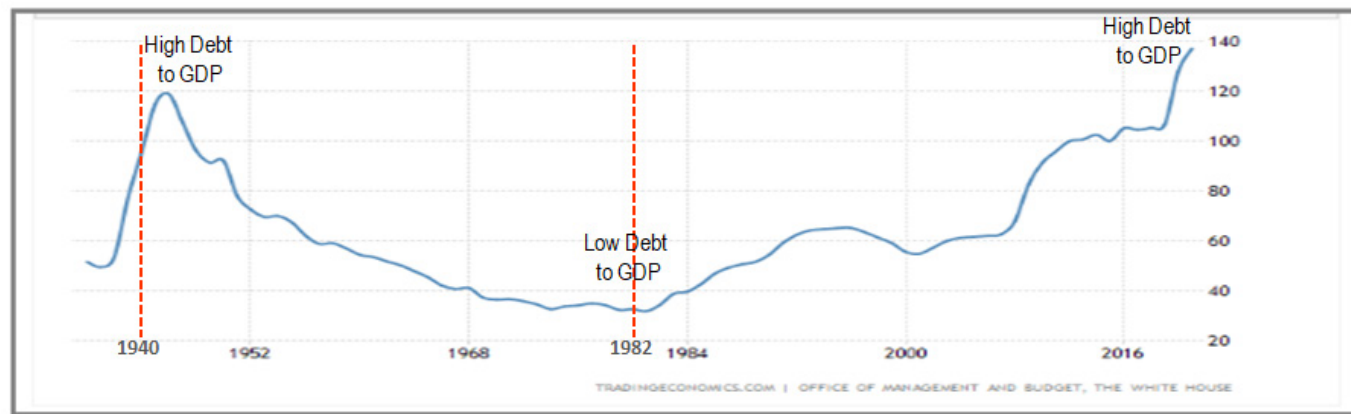
Above is 10 year bond Yield Chart for US since 1913. We can divide the chart in broad 2 periods:

- » 1941-1980- where US government Bond Yield went up from sub 2% to higher than 15%
- » 1981-2020- where the yields fell all the way to 0.5%.

The fall can again be seen in two parts- first where the interest rates were falling in 2008 which can be attributed to lower inflation due to globalization where manufacturing was getting shifted to lower cost geographies; and second, a more severe fall from 3% to close to 0% on the basis of huge liquidity infusion by central bankers.

2021 onward-Not necessarily a sharp rising trend but more like an elevation and then long period of sideways movement

Positive of Current High Interest Rate Regime: Fall in US Govt Debt to GDP

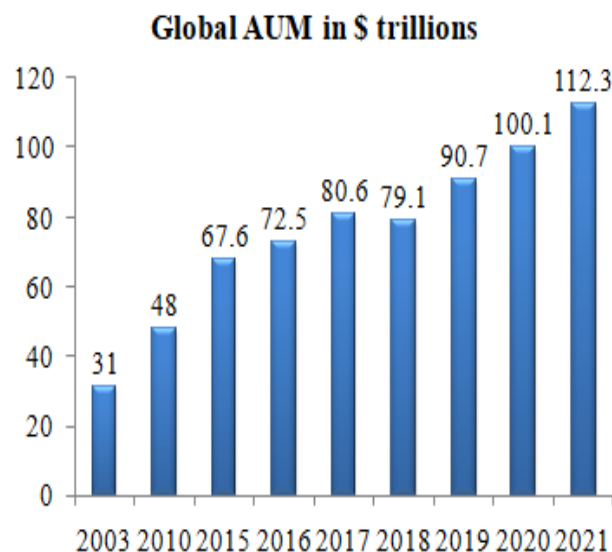


Currently, US Debt to GDP is at all time high of 137.2%

In 1940s period also, Debt to GDP was very high like in current period. As regards current debt, government will keep giving guarantees to important sectors, this will keep government Debt figure controlled (as guarantees are contingent liabilities and do not form part of balance sheet). Nominal GDP rising, Debt well within control will make Government Debt to GDP appear to fall.

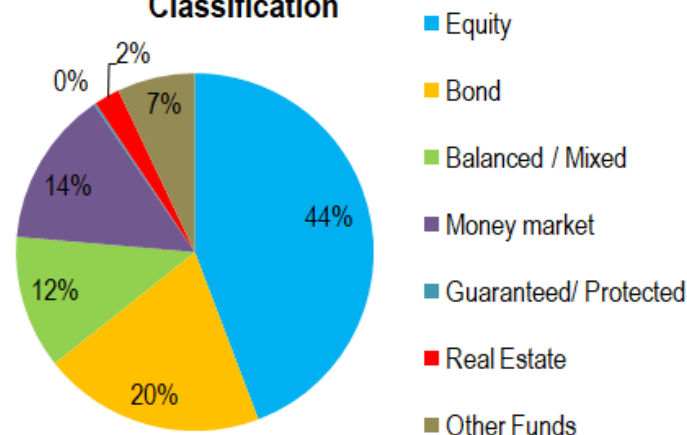
So this rising rate cycle has its own positives in longer term sense.

Negative of Current High Interest Rate: Fall in Incremental Allocation



Source: BCG Global Asset Management Market Sizing 2022

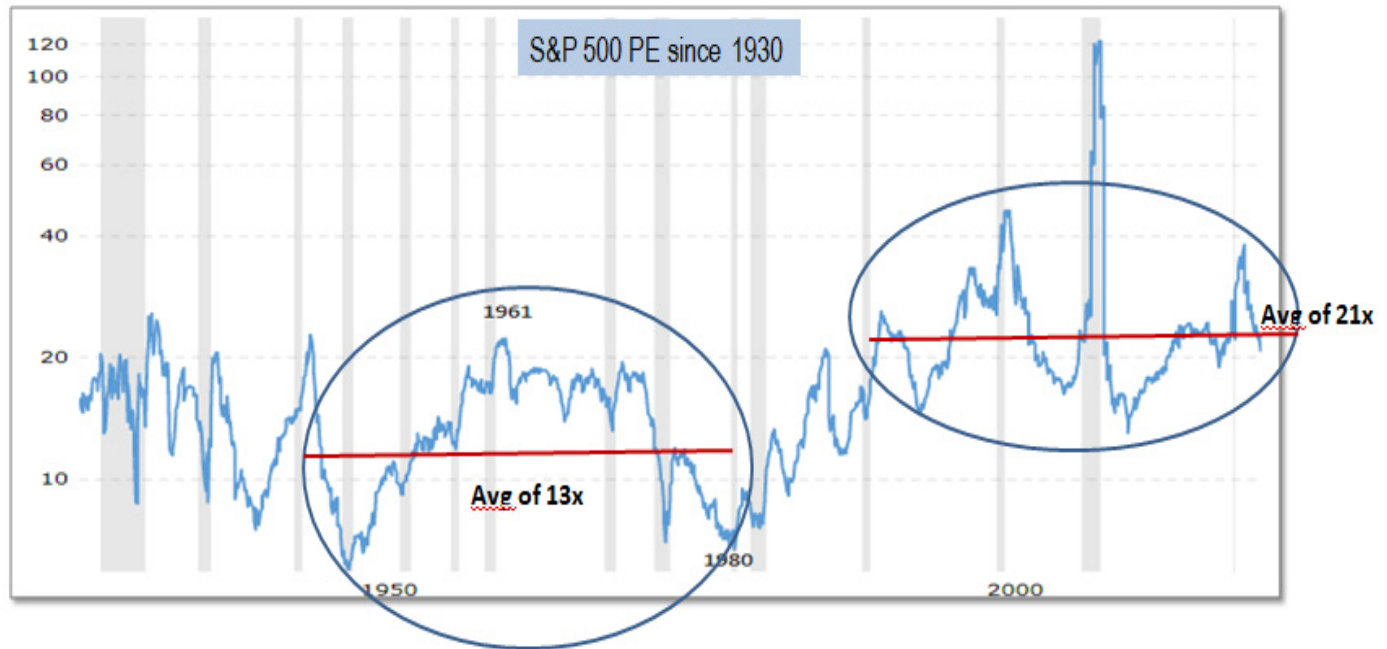
MF (59 \$ tr-Q2CY2022) Global AUM Classification



Source: <https://www.ici.org/research/stats/worldwide>

Rising interest rate will impact Incremental inflow of funds. The world AUM is \$112 trillion and \$60 trillion in Mutual Funds and out of this 44% is in Equity and 20% in Debt. Rising Interest rate will result in increase in % allocation to debt funds from current 20%. It will happen through higher allocation among incremental inflows and less on account of churning out from current allocation.

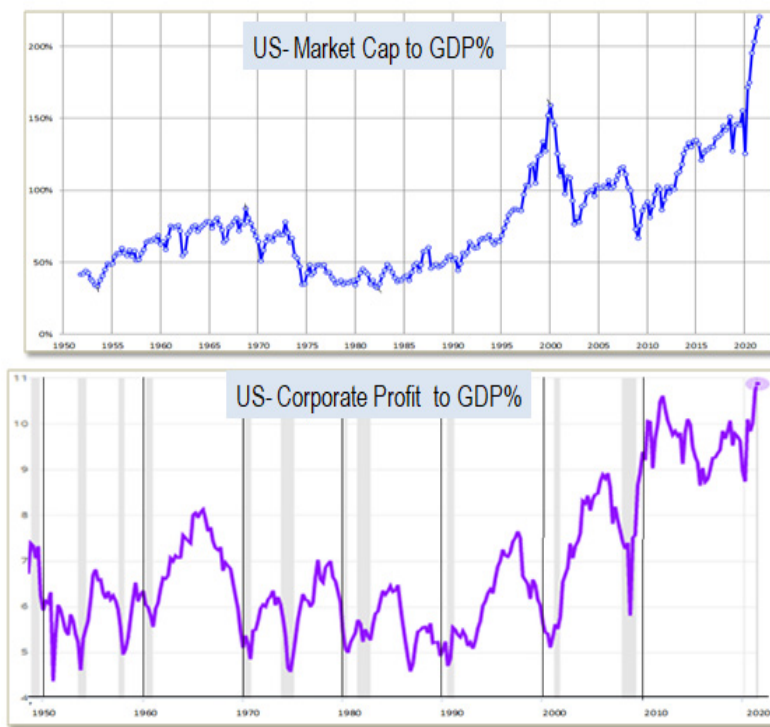
Negative of current High Interest Rate : De-Rating of PE multiple



Higher inflation looks to be a part of developed nations for a good period of time. Higher interest rates will impact Equity market valuation multiple negatively

Source: <https://www.macrotrends.net/2577/sp-500-pe-ratio-price-to-earnings-chart>

India is differently positioned: Context-“Corporate Profits to GDP”



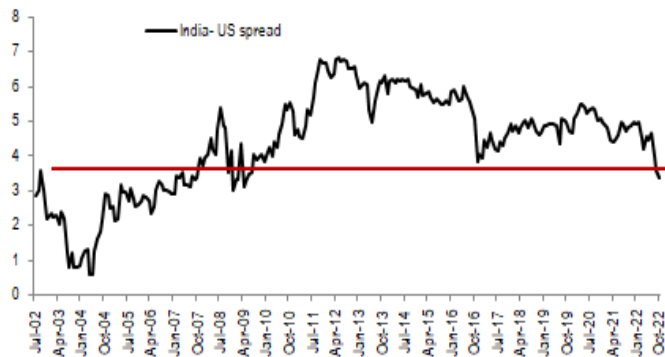
Increasing Corporate Profit to GDP in India will Support valuations

Most major economies may undergo valuation Multiple de-rating. In US the Corporate profit to GDP is already at high of 11% and hence the market Cap to GDP is high at 200%.

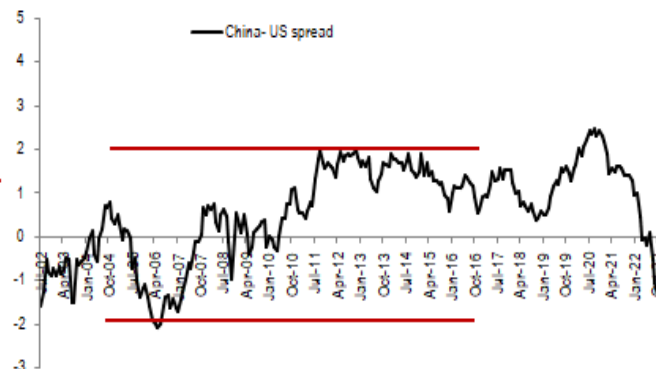
The de-rating in multiples will not happen in impact India as the undercurrent of increasing corporate profits to GDP will offset the compression, keeping valuations for Indian stock market intact. India's corporate profit to GDP is mere 4% and is expected to rise upto 7% by FY30. The market Cap to GDP is low at around 100%

As regards PE ,multiples for India since the new era of Government(since 2014) has always bounced back after testing 18x one year forward earnings. At 17700, we are trading at 19 times one year forward earnings.

India-US 10 Year Bond Yield Spread will Remain Rangebound



Source: investing.com



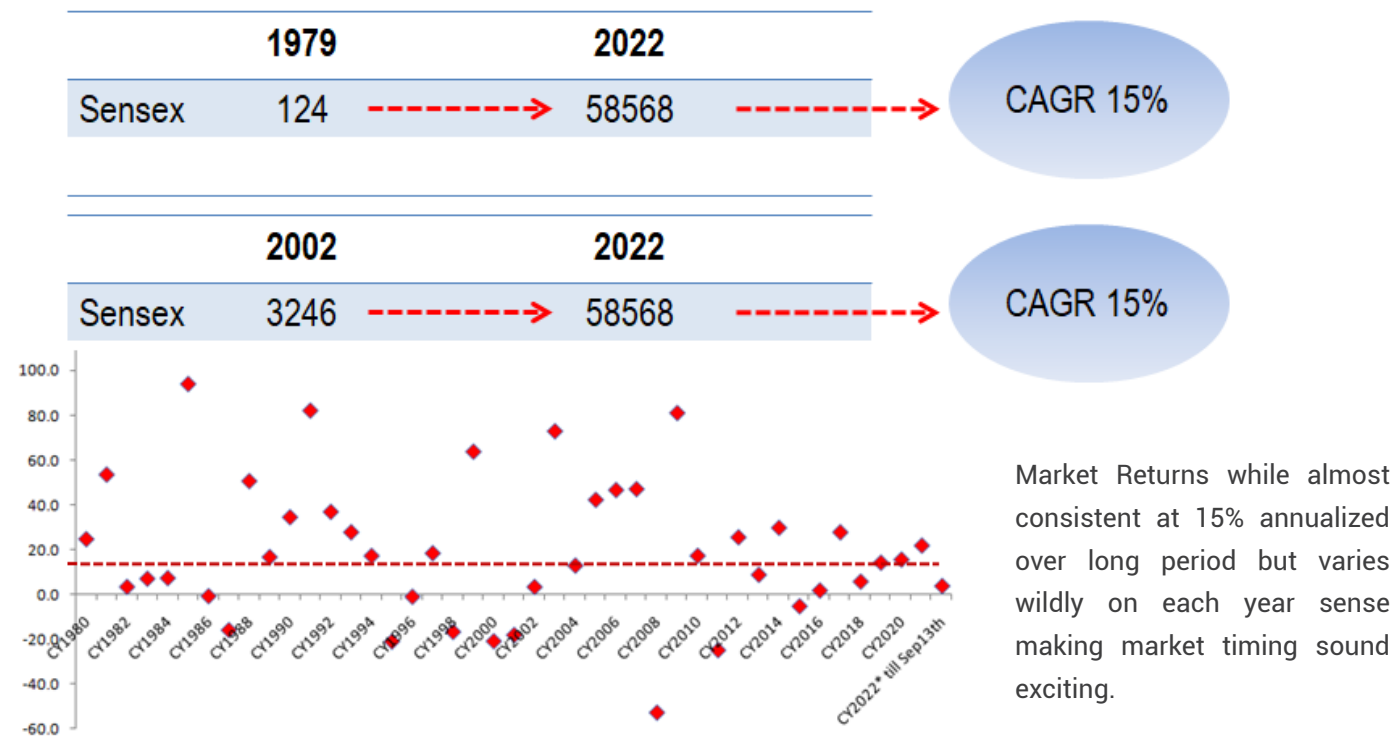
Source: investing.com

India will replicate China's Spread and not its past trend

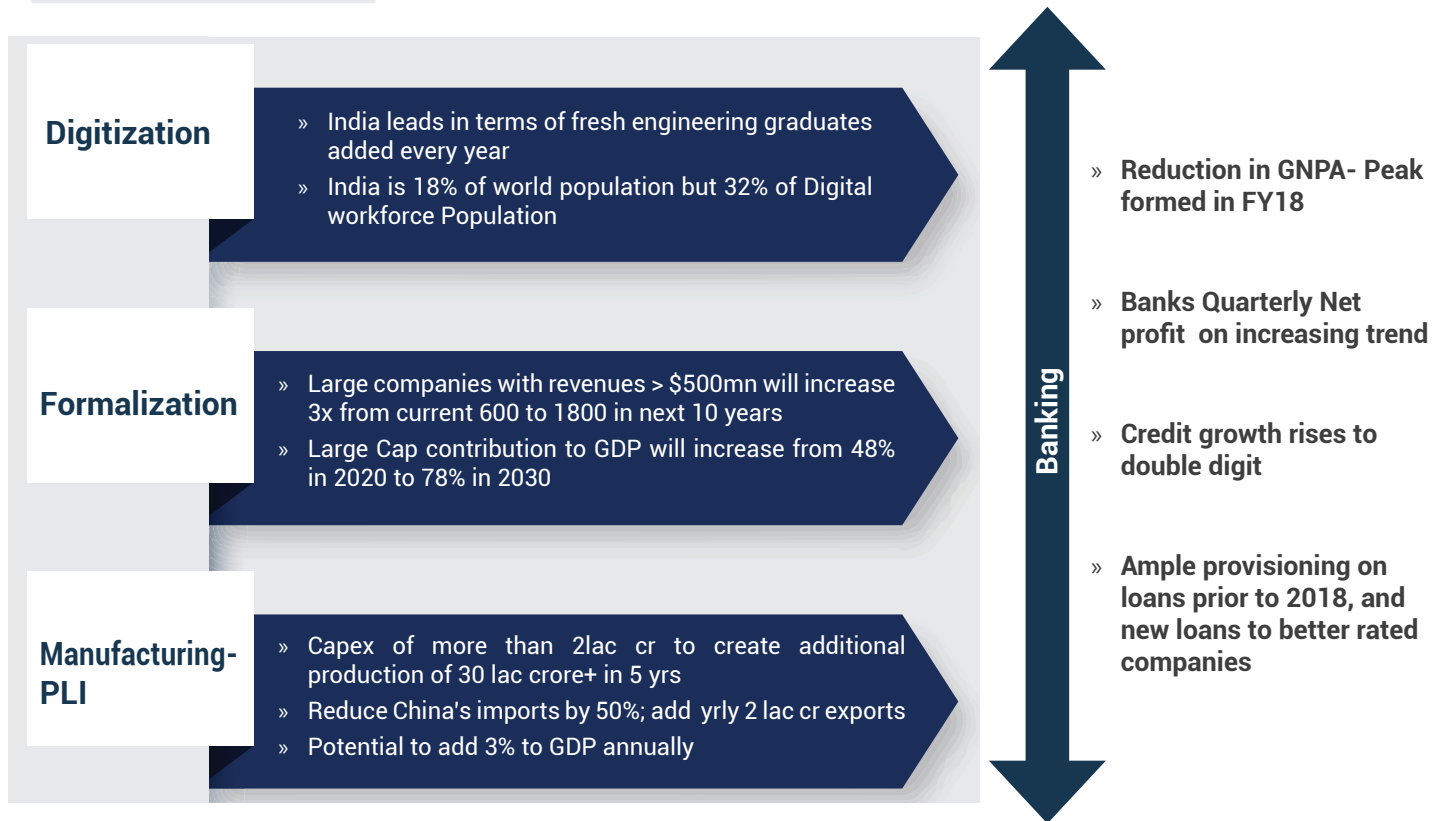
Rising Fed rate or say rising US 10 year Government bond yield will impact India bond yield movement as well. The India – US spread in 10 year Govt bond yield has been in the range of 3-6%, which means the current Bond yield In India may range from 6-9%. Bond Yield rally from current 7.6% to 9% will mean damage to Indian macros and hence stock markets.

We assume India will take guidance from China – US spread going further as the macro construct at this point of time is similar to what China had some 20 years ago. This implies bond yield spread to range in -2% to 2% implying Indian average peak Bond Yield to remain around 8%.

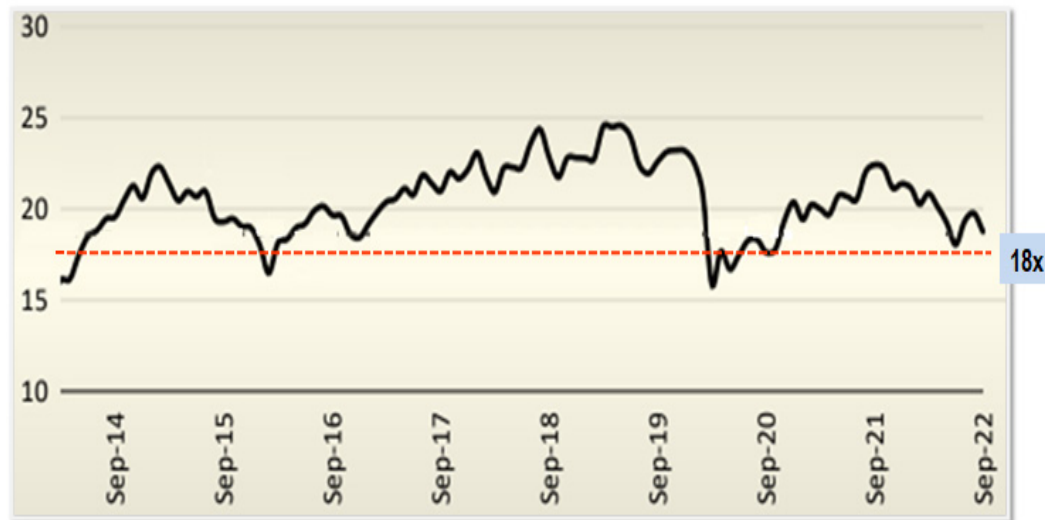
Market Return-Big Picture



Long Term Forces that Ensures Continuity in Indian Market Return



Historically, Nifty Takes Support at 18 Times One Year Forward PE



At 18x One year
Forward EPS, Nifty
level comes at 16300

Source: MOSL

Since 2014, for the past 8-10 years, Nifty has usually risen from the level attained at 18 times one year forward EPS. Currently, the Index trades at 17800 levels and hence is at 19.5 times One Year forward EPS. We assume that in case the markets fall considering the global macro economic issues, it should take support at 16300 levels (at 18 times one year forward). Hence, the Risk- Reward ratio is favorable for the investors.

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