

# Crystal Ball Gazing: Playing the Nostradamus



**While predicting the shape of things likely to come in the year ahead is always fraught with difficulties and uncertainties, we expect global growth to decelerate in 2024 because of geopolitical tensions and the lagged effect of the process of cumulative tightening of the central banks. While the global economy will decelerate to 2.4% real GDP growth, one size doesn't fit all with different shades and hues. The world today is not a melting pot of divergent economies but perhaps, more appropriately, a mosaic, where diverse economies retain their distinctive shape and colour.**

by DR. MANORAJAN SHARMA

**A**mong the advanced economies, the US would outperform Europe and China's growth momentum could peter out in the second half of 2024. What is prognostically alarming is that receding economic tailwinds and heightened geopolitical uncertainties cause concern and consternation and force us to look at the future with some trepidation.

In these rocky times ahead, there could be interest rate cuts by most central banks. Domestically, it is a time to consolidate the

gains of development in the light of India's 'tryst with destiny'.

India emerged as the fastest-growing major economy in 2023. With global interest rates rising, the US dollar appreciating, and oil prices falling, India's economy is projected to continue its strong growth. The GDP for the fiscal year 2024 is expected to reach 6.7%, with a slight slow-down to 6.2% in the fiscal year 2025 due to the global economic slow-down. The "digitalization-driven productivity gains" (IMF) are welcome and clearly demonstrate that India has acquired its own place in the sun in these turbulent times. Going forward, we see India consolidating its position in the comity of nations by important transformative triggers and drivers. The demand side is likely to be propelled by consumer boom, ascendant middle class and green transition. The supply side is driven by demographic dividend, greater access to finance and streamlining of infrastructure facilities all along the line – in both physical and digital. There are also issues of K-shaped growth in the short term, with an accent on broad-based consumption growth, sustained public capital expenditure together with gradually rising private capital expenditure, slowing credit growth with unsecured loans taking a hit and domestic capital inflows. Essentially, India is in a sweet spot. I am reminded of William Wordsworth's famous lines in *The Prelude*:

*"Bliss it was in that dawn to be alive But to be young was very heaven".*

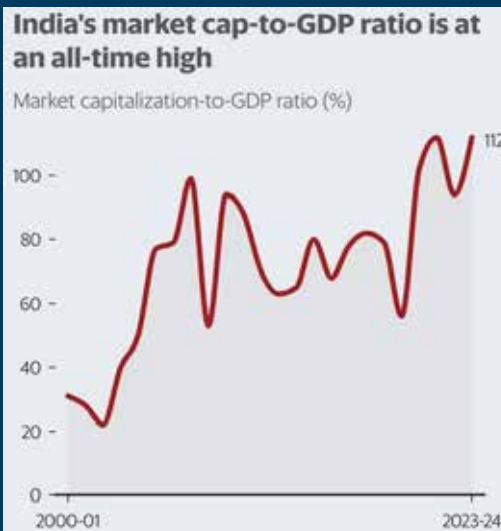
## Rupee-Dollar Movement

At the macro level, the Rupee-Dollar movement is a function of various factors. Such factors include inflation rates, interest rates, country's current account/balance of payments, government debt, terms of trade, political stability and performance, economic cycle (expansion, recession, peak or trough), speculation by the market participants, banks, importers and exporters etc. and crude oil prices. With the Indian Rupee declining by about 8% because of the multi-fold rise in the price of global commodities and the global inflationary spiral, the financial year 2023 was volatile and turbulent for the Indian Rupee. The rupee traded in the range of 80.88-83.42 against the US dollar between December 2022 and October 2023. The volatility in the forex market narrowed further to 82.90-83.42 against the US dollar post October.

The Indian Rupee disconcertingly fell below the psychological 83-level barrier against the greenback. The decline of the Indian Rupee has, however, been gradual and calibrated, partly because of the forex interventions of the RBI across various markets, including the spot, Non-Deliverable Forward (NDF), and futures markets aimed at containing the excessive volatility in the forex market. Going forward, we see the Rupee largely as range-bound from 82 to 84.

The movement of the Indian Rupee is likely to be a function of the Fed Reserve's stance, moderating oil prices, India's manageable current account deficit, domestic inflation to be contained within the threshold defined by the MPC, robust foreign exchange reserves of US \$ 600 billion, surging Foreign Portfolio Investment (FPI) inflows of Rs. 57,313 crore in December 2023 on top of the cumulative accumulation of Rs. 9,001 crore in November 2023 and greater global confidence in the India growth story.

In sum, there is a distinct possibility of the Indian rupee strengthening beyond the 80-dollar level in 2024, buoyed by foreign inflows



through Global Capability Centres (GCCs) remittances and lower crude prices. Global nominal interest rates are likely to decline, and an economic deceleration in the US is on the anvil. Indian policies are expected to shield Indian assets from risk-averse/deleveraging headwinds, leading to a gradual reduction in interest rates.

### Bull Run On the India Bourses

Indian stock market has yielded decent returns this year, with indices hitting record highs. Despite the S&P BSE Sensex ending 168.66 points lower at 71,315.09 on December 18, 2023, India's stock market has been on a roll. But the best is yet to be!

Why do we say this? Both because of global cues and domestic macroeconomic drivers. On the global level, India's economy is the fastest growing among major economies and is expected to grow by over 6% in the next couple of years. This makes India an out-performer and with steady growth seen over the medium-term, domestic equities are likely to move from one peak to another. On top of over 20% corporate earnings this year, corporate earnings are likely to increase further over the next six months.

This paradigm shift induced Goldman Sachs' report of Sept. 19, 2023 to justifiably maintain that with India's aggregate stock market value is likely to rise from \$3.5 trillion currently to over \$5 trillion by 2024. India could thus become the fifth largest in the world by market capitalization, surpassing the U.K. and the Middle East. This seemingly outrageous crystal ball gazing stems from three basic trends and tendencies underpinning strong macro momentum: Indian start-ups have raised \$10 billion through IPOs so far this year — exceeding what was raised in the last three years and more importantly, the pipeline for future public listings remains robust over the next two years. Hence, there is a distinct possibility that 150 private firms could potentially list on the stock market over the next 36 months, adding a whopping \$400 billion of market value over the next 2-3 years. This tectonic shift could herald a new era for the entire ecosystem. Zomato could be quickly followed by Paytm, Ola, and Flipkart leading to a bull run and the India growth story could, in many ways, parallel the Chinese story of the last decade. Tie your seatbelt and enjoy the ride!

Let us here strike a note of dissonance. While the big picture is unmistakably clear, a granular examination reveals a capital market divide with small-caps and mid-caps outperforming large-caps. It needs no clairvoyance to perceive irrational exuberance, bubble and unsustainably frothy valuations of mid-caps and small-caps (while Nifty gained 13% in 2023, Nifty midcap surged ahead at 39% small caps zoomed by 48%) as also, inter-alia, reflected in a significantly

higher price-to-book ratio than the long-term average in the Indian capital market. Consequently, a correction, particularly in the small-cap and mid-cap space cannot be ruled out. Given this scenario of a skew in the bourses and the possibility of a decrease in India's over-allocation in investors' emerging market portfolios, we are more sanguine about large-caps since they possess competitive advantage, sustainable growth potential and seem to be reasonably valued vis-à-vis mid/small-caps.

### Sectoral and Specific Trends

The inexorable march of India's digital economy has been both a cause and consequence of unimaginably transformed payments eco-system, over 800 million internet users and over half a billion smartphone users, rapidly surging digitization post-COVID-19 and enabling infrastructure and policy support. These and other forces and factors of resilient growth and structural transformation could boost India's share in the global stock market value from 2.8% currently to 3.7% over the next five years with segments like e-commerce, internet, internet retail, and media scripting a remarkable story, with the consumer discretionary and communication services sectors leading the way. Cyclical factors would join the party because of the renewed thrust on capex-cycle. Improving geopolitics and continued reforms and revival in FII flows would provide further tailwinds to the Indian growth saga. With BJP's steamroller victory in three major states and fast dissipating risks of political instability and a change in government at the Centre in 2024, the inherent strength and resilience of the Indian economy get strengthened. Good times are here to stay!

William Shakespeare wrote in his classic work *Julius Caesar*

*"There is a tide in the affairs of men.*

*Which, taken at the flood, leads on to fortune".*

Perhaps what Shakespeare wrote about *"a tide in the affairs of men"* applies equally to the affairs of nations. **DI**



#### ABOUT THE AUTHOR

Dr. Manoranjan Sharma is Chief Economist, Infomerics, India. With a brilliant academic record, he

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