Sunny Days Ahead

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While predicting the shape of things is always fraught with difficulties and uncertainties, global growth could decelerate in 2024 because of geopolitical tensions and the lagged effect of cumulative tightening of the central banks. The global economy's growth will decelerate to 2.4% real gross domestic product (GDP). But one size doesn't fit all with economies performing divergently. 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.

Among the advanced economies, the US would outperform Europe and China's growth momentum could peter out in the second half of 2024.

UK's recessionary concerns arise from the shrinkage of UK's GDP by 0.1% in Q3 of 2023. 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.

National elections in over 60 countries (USA, India, European Union, Taiwan, South Africa, Indonesia, Mexico, Pakistan, Bangladesh, Venezuela, etc.), with some 4 billion people are scheduled in 2024.

Booming India's Economy-Global Growth Driver

India has been the fastest-growing major economy for the third successive year. Despite global headwinds, including geo-political realignment, India's economy would continue its strong and resilient growth. Sequentially India's GDP growth of 6.1 % in the March quarter was followed by 7.8 % in the June quarter and 7.6 % in the September quarter. The GDP for FY 2024 is likely to be 6.7% mildly decelerating to 6.2% in FY 2025, notwithstanding global economic slowdown. Jefferies unequivocally stressed *"India became the fastest-growing large economy in the world over the last two years mainly due to a renewed capex cycle, a well-capitalised banking system, robust credit growth, an upturn in the housing sector, robust domestic consumption and growing services exports… The long dormant capex cycle, both in housing and corporate, has just started picking up and should be a significant growth driver over the remainder of the decade"* (Jan. 2, 2023).

"Digitalization-driven productivity gains" (IMF) have emerged as a force multiplier in these turbulent times. India is poised to consolidate its global position by important transformative triggers and drivers. The demand side is propelled by consumer boom, ascendant middle class and green transition. The supply side is driven by demographic dividend, greater access to finance and streamlined infrastructure - 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, Production Linked Incentive (PLI) Scheme for setting up manufacturing facilities, start-up ecosystem, slowing credit growth with unsecured loans taking a hit and capital inflows. Quintessentially, India is in a sweet spot because of rising economic diversity, public policy of smothering shocks and 'crowding-in' of private investment because of government's capital expenditure.

Rupee-Dollar Movement

At the macro level, the Rupee-Dollar movement is a function of various factors. Such factors include inflation rates, interest rates, 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 multi-fold rise in the price of global commodities and the global inflationary spiral, the Indian Rupee was volatile in 2023. 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. With 2024 marking the end of the last year's aggressive rate hikes, the US dollar's southward move could be hastened by a series of swifter rate cuts.

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 range-bound from 82 to 84.

The movement of the Indian Rupee depends on the Fed Reserve's stance, moderating oil prices, India's current account deficit likely to be capped at 1.6% of GDP in FY 24 because of narrowed trade gap stemming from softening prices of some commodities, particularly oil, and robust growth in services exports, domestic inflation contained within the MPC's threshold, healthy 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.

Viewed thereof, 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 set to decline, and an economic deceleration in the US is on the anvil. Indian policies are expected to protect Indian assets from risk-averse/deleveraging headwinds, leading to a gradual reduction in interest rates.

Bull Run On the India Bourses

While Nifty surged by 20 % in 2023, this was no flash in the pan, no *"happenstance, ... coincidence"* (as Ian Fleming said through his immortal character James Bond in his novel *Goldfinger*). For, if the Nifty decadal returns are placed in a proper historical and comparative perspective, Nifty returns oscillated from a massive 31.4 % in 2014 to a low of 3% in 2016 (with negative 4.1 % returns in 2015) during the twelve-year period 2012 to 2023.

Indian equity markets invested Rs. 15,100 crore a month via MF SIPs in 2023 on an average, while 26.8 million new demat accounts till November showed large direct retail participation. Foreign investors first withdrew during the year but came roaring back to infuse the highest-ever Rs. 1.75 lakh crore, exceeding 2020's Rs 1.73 lakh crore.

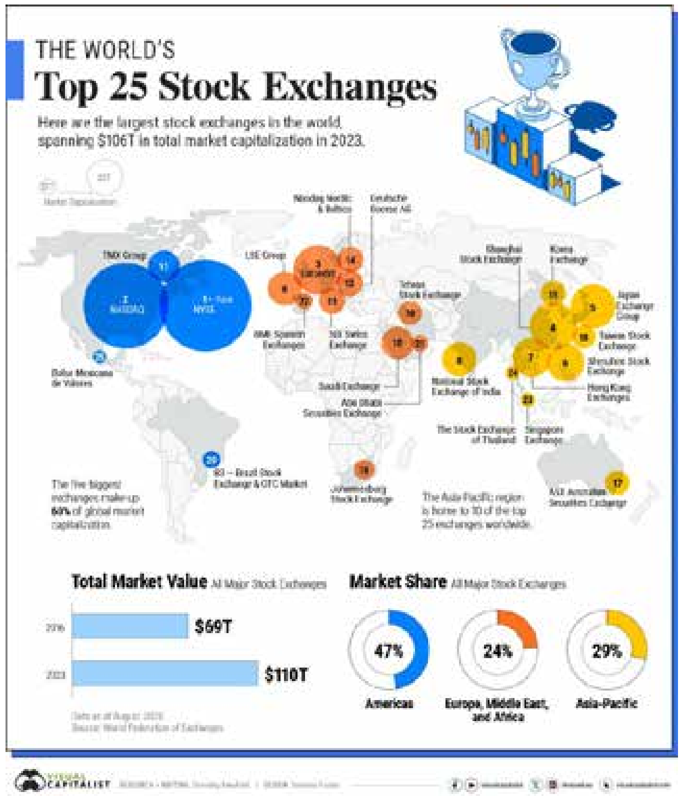
Nifty50 Returns of the last 12 years

(Only 1 negative year!)

- 2012: +27.7%
- 2013: +6.8%
- 2014: +31.4%
- 2015: -4.1%
- 2016: +3.0%
- 2017: +28.6%
- 2018: +3.2%
- 2019: +12.0%
- 2020: +14.9%
- 2021: +24.1%
- 2022: +4.3%
- 2023: +20.0%

This Nifty rise of 20 % in 2023 needs to be seen against the backdrop of 28.2 % rise in Japan (Nikkei), 22.3 % in Brazil (IBOV), 20.3 % in Germany (DAX), 18.7 % in Korea (Kospi), 16.8 % in France (CAC), 13.8 % in USA (Dow) and 3.8 % in UK (FTSE). There was, however, 0.3 % contraction in Singapore (STI), 3.7 % in China (Shcomp) and 13.8 % in Hong Kong (HSI). No wonder, then, India's market cap-to-GDP ratio zoomed from 23 % in December 2001 to 112 % in March 2023. India's stock market did well 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? Both because of global cues and domestic macroeconomic drivers. Globally, India's economy is the fastest growing among major economies on the back of growing demand, moderate inflation and stable interest rate regime. This makes India an out-performer and with steady growth of 6% over the medium-term, equities are likely to march northwards. On top of over 20% corporate earnings this year, corporate earnings are likely to rise further over the next six months. Other strands of this debate include India's manufacturing PMI rising to 56 in November 2023 (the 29th successive month of rise in factory activity) from October's 8-month low of 55.5 and net FPI inflows of US$ 24.9 billion (up to Dec. 6, 2023) as against net outflows in the preceding two years. FPI Flows would be influenced by peaking U.S. dollar, the high-octane May 2024 elections and India's greater heft in global markets.

This paradigm shift induced Goldman Sachs' report of Sept. 19, 2023 to justifiably maintain that India's aggregate stock market value is set 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 the sum 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, this rekindling of "animal spirits" 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!



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 20 % 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, large-caps inspire greater confidence since they possess competitive advantage, sustainable growth potential and are reasonably valued vis-à-vis mid/small-caps.

Inflation Trajectory

India's annual retail price inflation was 4.87 % in October, down from 5.02 % in September and 6.83 % in August. However, it rose to a three-month high of 5.55% in November 2023. Food inflation rose from 6.61 % in October to 8.7% in November 2023, the highest in three months. Agricultural production was hit by five-year low monsoon in 2023 due to El Nino. Hence, the MPC will continue to be wary of inflation since the macro prospects are characterized by volatile and uncertain food prices.

Gold Price

Gold prices are expected to reach Rs. 70,000 per 10 grams in the domestic market in 2024, driven by a stable rupee, geopolitical uncertainties, and slowing global economic growth. The price has reached record highs in the Middle East and India, reaching Rs. 63,060 per 10 grams on the commodity stock exchange MCX and USD 2,058 an ounce in the global markets. The steep rise in the price of gold is attributable to safety and liquidity considerations, its quality of being a portfolio diversifier, a hedge against inflation and movement in gold price versus US Dollar. Gold has emerged as a safe haven because of heightened geo-political tensions and the VUCA world. Demand for antique jewellery in South India surged by 15% in the wedding season, thereby exacerbating the demand-supply mismatches.

Sectoral and Specific Trends-A New Grammar of Growth

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 outperforming and consumer discretionary and communication services sectors surging.

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.

In sum, despite geopolitics, recessionary impulses in some developed economies, persisting high inflation in advanced economies, unsustainably high levels of public debt, re-emerging supply-chain disruptions and down-sized real household incomes, good times are here to stay domestically. This positivity springs from macroeconomic and financial stability, moderate input cost, enabling policy frame, prudent fiscal policy and sustained FDI inflows. Greater access to information, markets and opportunities are transforming the face of India and emancipating the conditions of countless persons-what Mahatma Gandhi called the *"teeming millions"* of India. But there is a manifest need for greater care and vigil in this *"new normal"* in crafting the India of tomorrow and to carry out mid-course corrections, as and when needed.

(Views are personal)