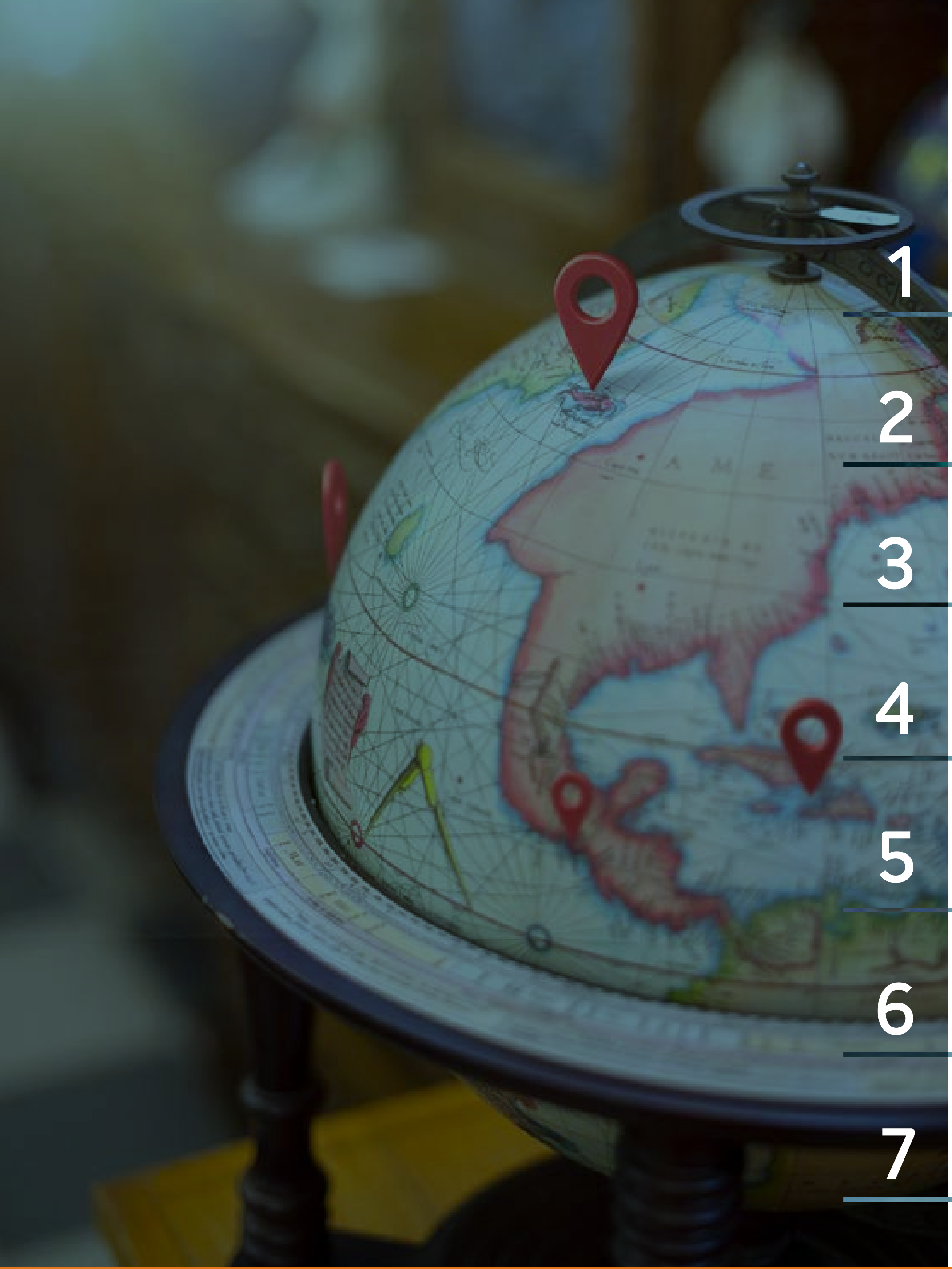
InCred Wealth

September

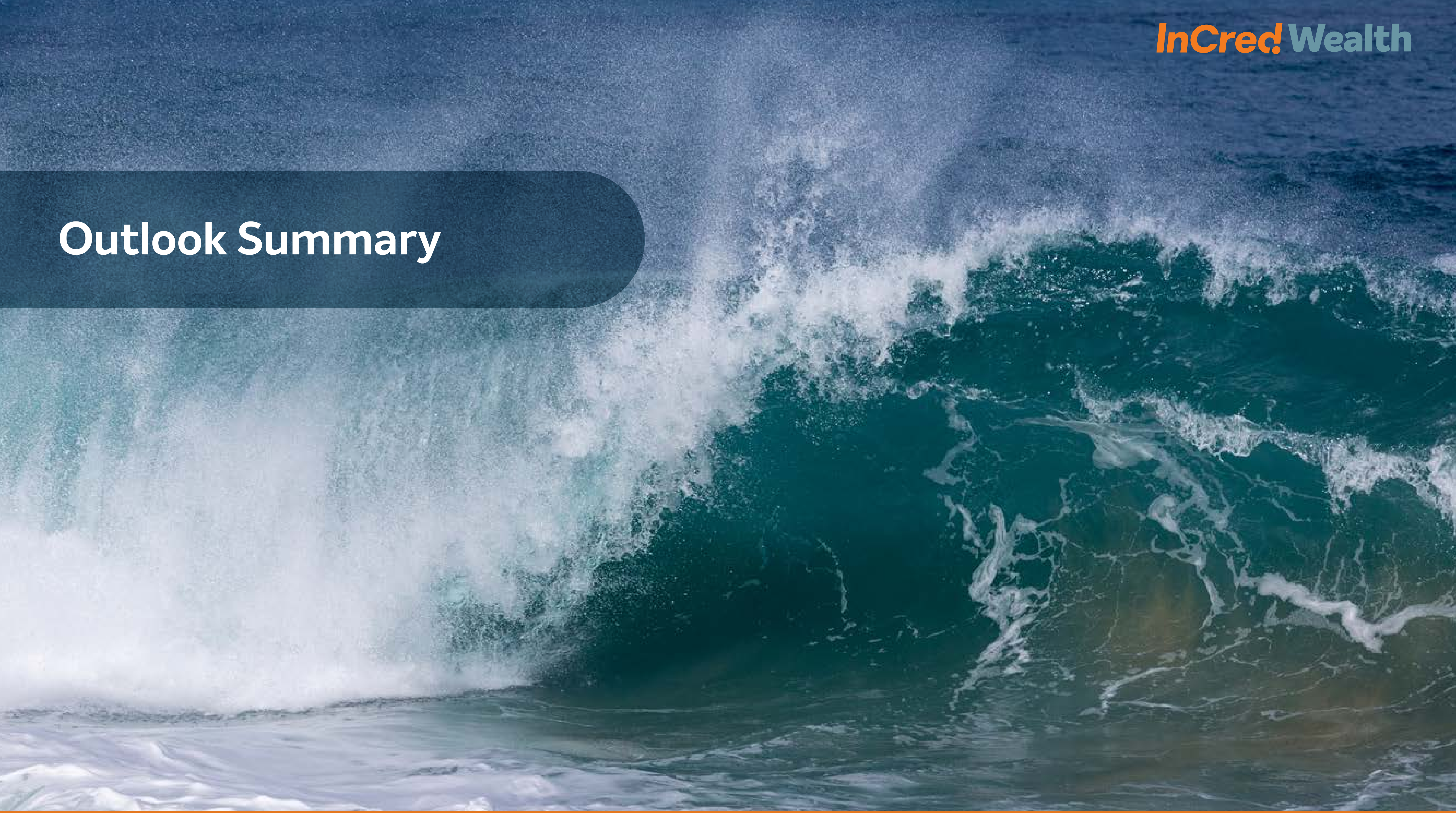
Market Outlook

Preference to Large Cap stocks; Fixed Income looks attractive



Index

Outlook Summary



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Large Cap

Earnings will be the eventual test for the market to progress from here with focus firmly shifting towards the drivers that could lead to any upward revisions.

- Nifty delivered 1.1% returns in August but underperformed global peers.
- FIIs were net buyers for the month investing \$0.9bn. DIIs flows strengthened to a 3-month high of \$5.9bn. CYTD24 FPI flows have remained positive with DII flows exceeding that of entire CY23 by 70%!
- Valuations for broader markets continue to be more expensive than large caps suggesting a greater comfort in large cap names.
- 1QFY25 earnings have been modest. Several private banks reported moderation in business growth. Growth was driven by domestic cyclicals.
- With markets at new high, returns from equities could be more stock specific and largely tepid at best in the near term. However, the long term (5yr-10yr) structurally positive story for India continues to hold. This demands investors to not skip the asset class and stay invested.
- We maintain a Neutral stance towards equities to accommodate the likely increase in risk perception which could impact multiples. Earnings trajectory, global monetary policy and unknowns emanating from geo-political turmoil could provide cues market moves from here on. We stay cautiously optimistic on the markets.

Asset Class	Sub-category	Index	Closing Level	InCred Outlook
Indian Equities	Large Cap	Nifty 50	25,236	Neutral

Key Takeaways

- **Investors to deploy 30% - 40% towards large cap as lumpsum investments with balance over next 6 months.**

Source: Prices as of 30th Aug'24; Bloomberg

Mid and Small Cap

March correction aside, Mid and Small caps delivered 60%+ returns in FY24 vis-à-vis 29% by Nifty 50 Index. Valuation excesses have not yet been corrected.

- Valuations of mid- and small-cap indices are trading at a premium of 70% and 50% to their own LPA (60% and 6% to Nifty-50 forward P/E).
- Nifty 50 or Large Cap stocks thus offer a reasonable margin of safety to allocate incrementally v/s Mid Caps and Small Caps

Asset Class	Sub-category	Index	Closing Level	InCred Outlook
Indian Equities	Mid and Small Cap	BSE Midcap	49,065	Underweight

Key Takeways

- **After the continued rally and relative rich valuations in SMID segment (with minimal earnings revision support) we believe it's a good time to book profits and remain underweight small and mid caps by bringing allocations closer to 10% and 20% respectively.**
- **Mid and small cap allocations to be staggered over 6m horizon but capped at tactically lower weights stated above.**

Source: Prices as of 30th Aug'24; Bloomberg

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Indian bonds are just starting to be discovered by FPIs from an allocation perspective and upside is massive. Being the 5th largest economy and heading towards being number 3 soon, alongside a superlative macro narrative, we expect a meaningful bond allocation to start building up.

- Our view remains that Indian government bonds, are attractively poised given that this moment represents a coming together of structural macroeconomic bullish factors for India and a global peaking of interest rates
- A resilient CAD and controlled inflation alongside consolidation seen on the fiscal front has further strengthened the case for bond investment.
- The current inflation targeting monetary policy regime is well entrenched in policy making. Proactive forex management has helped build formidable reserves and thus offers tremendous buffer to the INR v/s the Dollar.
- Fiscal deficit is expected to consolidate further at 4.9% of GDP for FY25 and glide path of achieving fiscal deficit of 4.5% of GDP in FY26 has been laid out. This allays any lingering fears over fiscal slippages that could result in adverse impact on bond yields.
- With demand expected to be robust, from supply side perspective, government bond supply is actually negative for this fiscal and the next. Thus, next 12m – 18m seem exceptionally well poised for government bonds.
- From bond valuation point of view, 10-year yields are at 35bps spread over the prevailing Repo rate. Also, real rate is at 3%, while RBI would prefer this to be in the range of 1.5% - 1.75% (repo over prevailing headline CPI). This leaves enough room for the nominal yields to fall.
- In summary, we continue to believe it is an ideal time to lock away current yields for longer duration (elongating portfolio maturities). Real money investors should focus on building duration in their portfolios. This is to safeguard portfolios from reinvestment risk that may arise when the investments made today mature.

Asset Class	Sub-category	Index	Closing Level	InCred Outlook
Indian Equities	G-Sec	10-year G-Sec	6.86%	Positive on medium duration and high yield strategies
	AAA Corporate	3y AAA	7.52%	
	AA Corporate	3y AA	8.26%	
	A Corporate	3y A	9.77%	

Key Takeways

- **Upto 50% of fixed income to be allocated towards medium – long duration strategies.**
- **Further, allocation of upto 35% of fixed income portfolio towards high yielding assets (bonds/funds) is suggested**
- **Balance 15% of the fixed income portfolio can be allocated towards accrual / shorter term strategies**

Source: Bloomberg; Bond yields as on 30th Aug'24

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Global Equities

- Offer diversified growth story with preference across world, transformational technology, biotechnology etc., themes that are not available in India
- Prefer Global Equities to diversify portfolio from single currency and market risk

Asset Class	Sub-category	Index	Closing Level	InCred Outlook
Global Equities	US	S&P 500	5,648	Neutral
	Europe	MSCI Europe	176	
	China	Shanghai Composite	2,842	

Key Takeways

- Recommend buy on dips or staggered investment strategy

Precious Metal

- The rally this year was partly fueled by expectations the Fed would cut rates as many as three times in 2024, as stubborn inflation started to ease.
- Traditionally, a weaker USD and lower U.S. rates increase the appeal of gold. But a significant decoupling started to emerge in early 2022 and gold's relationship with U.S. real yields has broken down even further this year.
- A general aversion to short bullion financially, despite the outsized rally, underscores gold's structurally bullish drivers outside of U.S. real yields.
- Central bank buying and ETF flows to support gold prices / demand in 2024
- The structural bull case for gold remains intact, even as prices have risen sharply.

Asset Class	Sub-category	Index	Closing Level	InCred Outlook
Precious Metal	Gold	LBMA USD	2,513	Neutral

Key Takeways

- Gold prices have continued to hit fresh highs in 2024 due to escalating geopolitical risks and the interest rate outlook to budget deficit concerns, inflation hedging and central bank buying.

Source: Prices as of 30th Aug'24; Bloomberg

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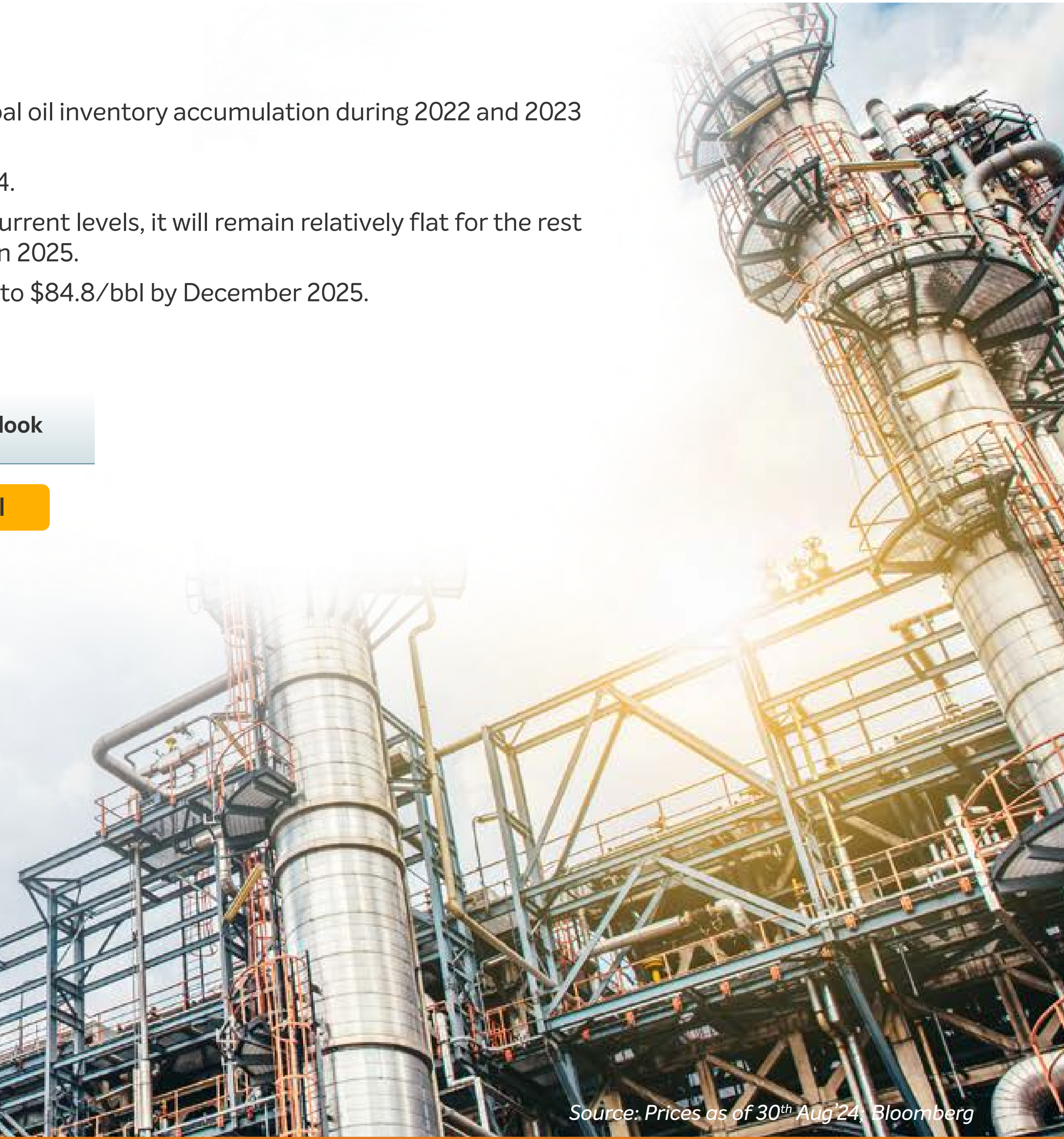
Commodities – Crude

- The impact of geopolitical escalations on oil prices has been limited because of prolonged global oil inventory accumulation during 2022 and 2023 and the lack of disruptions to oil production.
- US EIA's forecast is that global oil inventories will fall by 0.9 million barrels per day (b/d) in 2024.
- It is expected that the tighter oil market balance during 2024 will keep the Brent price above current levels, it will remain relatively flat for the rest of the year before increasing inventories start putting slight downward pressure on the price in 2025.
- Basis US EIA forecast the Brent crude oil price will average $87/bbl in December 2024 and fall to $84.8/bbl by December 2025.

Asset Class	Sub-category	Index	Closing Level	InCred Outlook
Commodities	Crude	Brent Crude (US$/bbl)	78.8	Neutral



Source: Prices as of 30th Aug'24, Bloomberg

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Developed Markets outperformed Emerging Markets in August

India underperformed EMs and DMs; Crude prices cooled off; Gold saw a moderate fall in prices;
While India equities continued a strong performance, Small/Mid performed inline; India bond yields cooled off v/s Jul'24

As of 30th August 2024 EM and DM	Current Level	1M	3M	6M	1Y	CYTD24	CY23	CY22	CY21	CY20	CY19
MSCI Emerging Markets	1,100	1.4%	4.9%	7.7%	12.2%	7.4%	7.0%	-16.9%	-4.6%	15.8%	15.4%
MSCI World Index (Developed equities)	3,661	2.5%	6.3%	9.7%	22.6%	15.5%	21.8%	-1.9%	20.1%	14.1%	25.2%
Key Equity Indices											
S&P 500	5,648	2.3%	7.0%	10.8%	25.3%	18.4%	24.2%	0.1%	26.9%	16.3%	28.9%
MSCI Europe	176	1.4%	1.4%	6.0%	14.4%	9.6%	12.7%	-0.6%	22.4%	-5.4%	22.2%
Nikkei	38,648	-1.2%	0.4%	-1.3%	18.5%	15.5%	28.2%	16.2%	4.9%	16.0%	18.2%
Shanghai Composite	2,842	-3.3%	-7.9%	-5.7%	-8.9%	-4.5%	-3.7%	-18.3%	4.8%	13.9%	22.3%
Nifty	25,236	1.1%	12.0%	14.8%	31.1%	16.1%	20.0%	25.2%	24.1%	14.9%	12.0%
BSE MidCap	49,065	0.9%	14.5%	24.7%	57.3%	33.2%	45.5%	47.5%	39.2%	19.9%	-3.0%
BSE SmallCap	56,022	1.2%	18.5%	23.9%	50.8%	31.3%	47.5%	44.9%	62.8%	32.1%	-6.8%
Other Assets (levels)											
Brent Crude	78.8	80.7	81.6	83.6	86.9	77.0	85.9	77.8	51.8	66.0	53.8
Gold	2513.4	3.6%	7.0%	22.7%	29.4%	20.9%	14.6%	15.1%	-4.3%	24.6%	18.4%
Dollar index	101.7	104.1	104.7	104.2	103.6	101.3	103.5	95.7	89.9	96.4	96.2
Credit/ yields (%)											
India 10-year G-sec	6.86	6.93	6.98	7.08	7.16	7.17	7.33	6.45	5.87	6.56	7.37
US 10-year G-sec	3.90	4.03	4.50	4.25	4.11	3.88	3.87	1.51	0.91	1.92	2.68
Germany 10-year G-sec	2.30	2.30	2.66	2.41	2.47	2.02	2.57	-0.18	-0.57	-0.19	0.24

Source: Bloomberg

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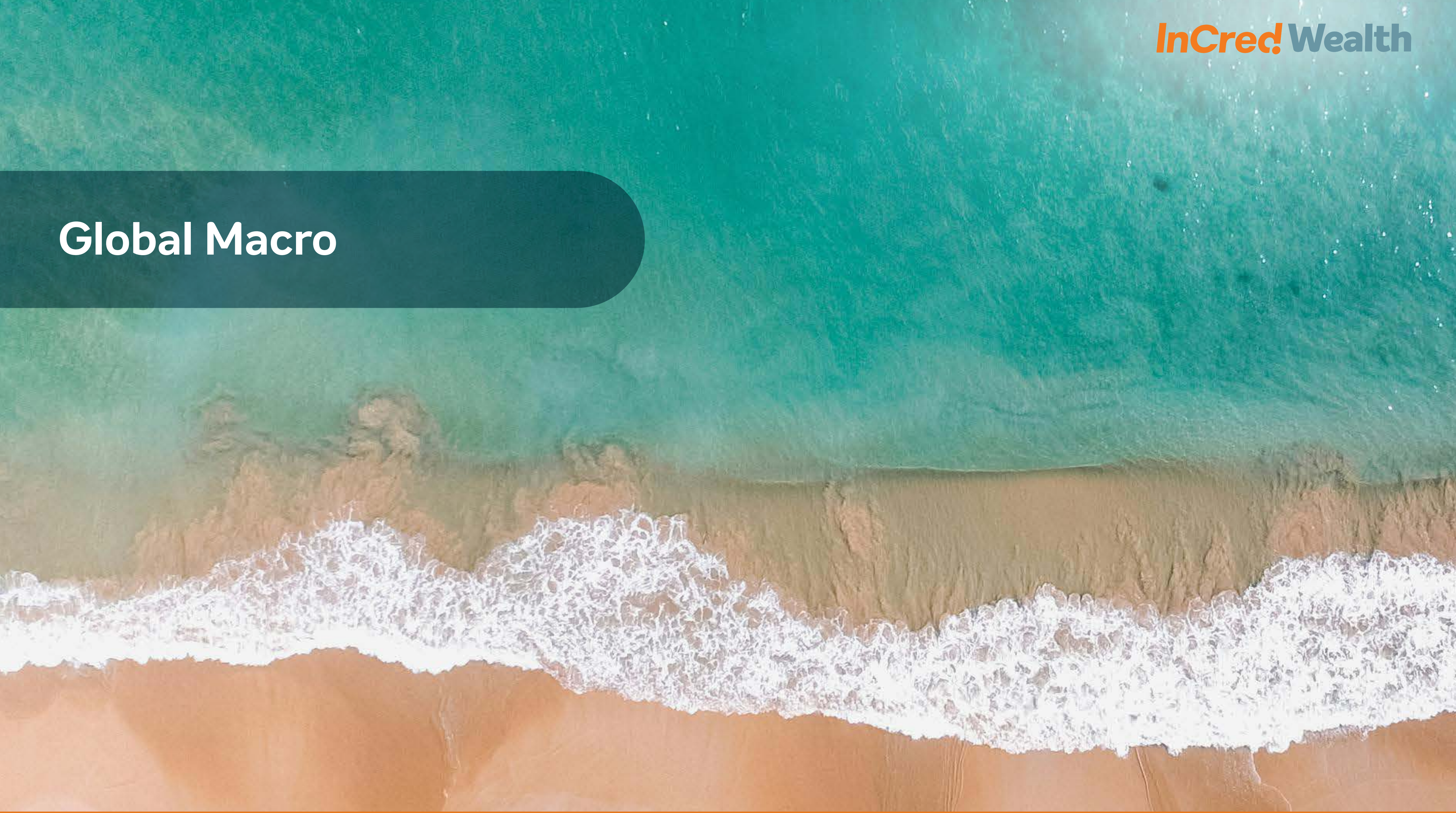
Broader markets perform inline with Nifty; IT and Pharma top sectors

As of 30th August 2024	1M	3M	1Y	CYTD24	CY23	CY22	CY21	CY20	CY19
Overall Markets									
Nifty	1.1%	12.0%	31.1%	16.1%	20.0%	25.2%	24.1%	14.9%	12.0%
Nifty Equal weight	1.7%	14.0%	42.9%	21.4%	29.8%	38.0%	32.6%	17.6%	2.7%
BSE Mid cap	0.9%	14.5%	57.3%	33.2%	45.5%	47.5%	39.2%	19.9%	-3.0%
BSE Small Cap	1.2%	18.5%	50.8%	31.3%	47.5%	44.9%	62.8%	32.1%	-6.8%
Styles									
Nifty 200 Quality 30	2.4%	17.3%	43.2%	23.6%	29.9%	21.7%	nm	nm	nm
MSCI India Value	0.4%	11.3%	41.8%	22.3%	25.9%	24.1%	31.5%	23.7%	9.6%
MSCI India Growth	1.8%	13.8%	38.9%	23.6%	14.8%	20.0%	22.7%	10.1%	7.3%
Financials									
NSE Financials	1.0%	8.8%	20.6%	10.0%	13.2%	24.0%	14.0%	4.5%	25.6%
Nifty Bank	-0.4%	4.8%	16.7%	6.3%	12.3%	36.1%	13.5%	-2.8%	18.4%
Nifty Private Bank	-0.1%	6.0%	12.1%	3.3%	13.8%	37.9%	4.6%	-2.9%	16.2%
Nifty PSU Banks	-5.6%	-5.4%	56.4%	22.3%	32.3%	125.8%	44.4%	-30.6%	-18.3%
Asset heavy sectors									
BSE Oil and Gas	1.3%	15.1%	78.8%	43.3%	12.8%	31.5%	24.3%	-4.4%	7.2%
BSE Capital Goods	-3.3%	4.4%	61.8%	31.5%	66.9%	93.5%	53.4%	10.6%	-10.0%
BSE Utilities	-3.8%	5.3%	87.9%	33.9%	32.6%	62.0%	64.4%	-0.4%	-7.3%
NSE Infrastructure	-0.8%	8.7%	58.5%	29.1%	39.1%	47.5%	35.6%	12.2%	2.5%
Services oriented sectors									
NSE IT	4.7%	32.1%	37.3%	20.5%	24.1%	-8.2%	59.6%	54.9%	8.4%
BSE Telecom	2.4%	18.8%	71.1%	46.6%	30.8%	24.9%	43.0%	13.6%	12.9%
NSE Financial services	1.0%	8.8%	20.6%	10.0%	13.2%	24.0%	14.0%	4.5%	25.6%
Others									
NSE Media	-2.1%	12.5%	-8.2%	-11.9%	19.9%	7.6%	34.6%	-8.6%	-29.7%
NSE Auto	-1.9%	11.8%	67.0%	40.6%	47.6%	70.2%	19.0%	11.5%	-10.7%
NSE FMCG	1.6%	16.5%	23.4%	10.7%	29.0%	51.6%	10.0%	13.5%	-1.3%
NSE Pharma Index	6.6%	23.5%	53.8%	37.9%	33.6%	18.3%	10.1%	60.6%	-9.3%
NSE Real Estate	-3.7%	3.3%	88.6%	34.5%	81.3%	61.7%	54.3%	5.1%	28.5%

Broader markets performed inline; Growth style did better than Value strategy

- On CYTD basis, Nifty is up 16.1% with Mid Cap and Small Cap indices delivering 33.2% and 31.3% respectively.
- Broader markets performance over Large cap continues after delivering a healthy outperformance in CY22 and CY23
- Pharma (6.6%), IT (4.7%) and Telecom (2.4%) are top performing sectors in August 2024
- Value underperformed Growth in the past 1m
- Utilities (-3.8%), Real Estate (-3.7%) and Capital Goods (-3.3%) were the most underperforming sectors in August 2024.

Source: Bloomberg



Global Macro

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FOMC rate cut expected in Sept 2024

	Quarterly GDP Jun-24 SA qoq (%)	Inflation Jul-24 / Aug-24 yoy (%)	Current Policy Rate Jun-24	10Y bond yield 7-Aug-24
US	2.8%	2.9%	5.25% - 5.50%	3.71%
Europe	0.3%	2.2%	4.25%	2.22%
Japan	0.7%	2.6%	0.25%	0.89%

USA

The FOMC held rates at its meeting in July. It's now been over a year since the FOMC last raised the Federal Funds rate to its current target range of 5.25% to 5.5% in July 2023. Since then, rates have been held steady and we have seen further disinflation overall. In the last meeting, Powell has suggested that interest rates could be cut as soon as September if the U.S. economy follows its expected path. Powell highlighted that price pressures have been easing broadly in the economy and if coming data evolves as anticipated, support for rate cuts will grow. Futures markets are positioned for interest rates to be notably lower a year from now. The Fed Funds rates market foresees a Fed Policy rate below 4% in 12 months.

Europe

The European Central Bank decided to keep three key ECB interest rates unchanged, keeping the September move wide open. It however downgraded its Euro Zone economic prospects and predicted that inflation would keep on falling. Post cutting rates last month (from record highs) amidst stalling disinflation, the bank is proving more cautious about a follow-up step. There were a few hints to support investor bets on another reduction in September, however, including ECB President Christine Lagarde's comment that risks to growth were "tilted to the downside" – a change to her previous formulation that they were balanced, at least in the near-term.

Japan

In the surprise move on July 31, the central bank raised its short-term policy target to 0.25%, its highest in 15 years, from a zero-to-0.1% range, and released a plan for tapering its huge asset buying in a landmark shift away from a decade-long stimulus program. The July increase and subsequent comments by BOJ Governor signaling the chance of further rate hikes – along with indications that the Fed was preparing to cut rates – caused a spike in the battered yen and contributed to global market turmoil. BOJ policymakers discussed further rate hikes, prompting a hawkish shift in stance.

Source: Bloomberg

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Market Expectations of Fed Rate Cut

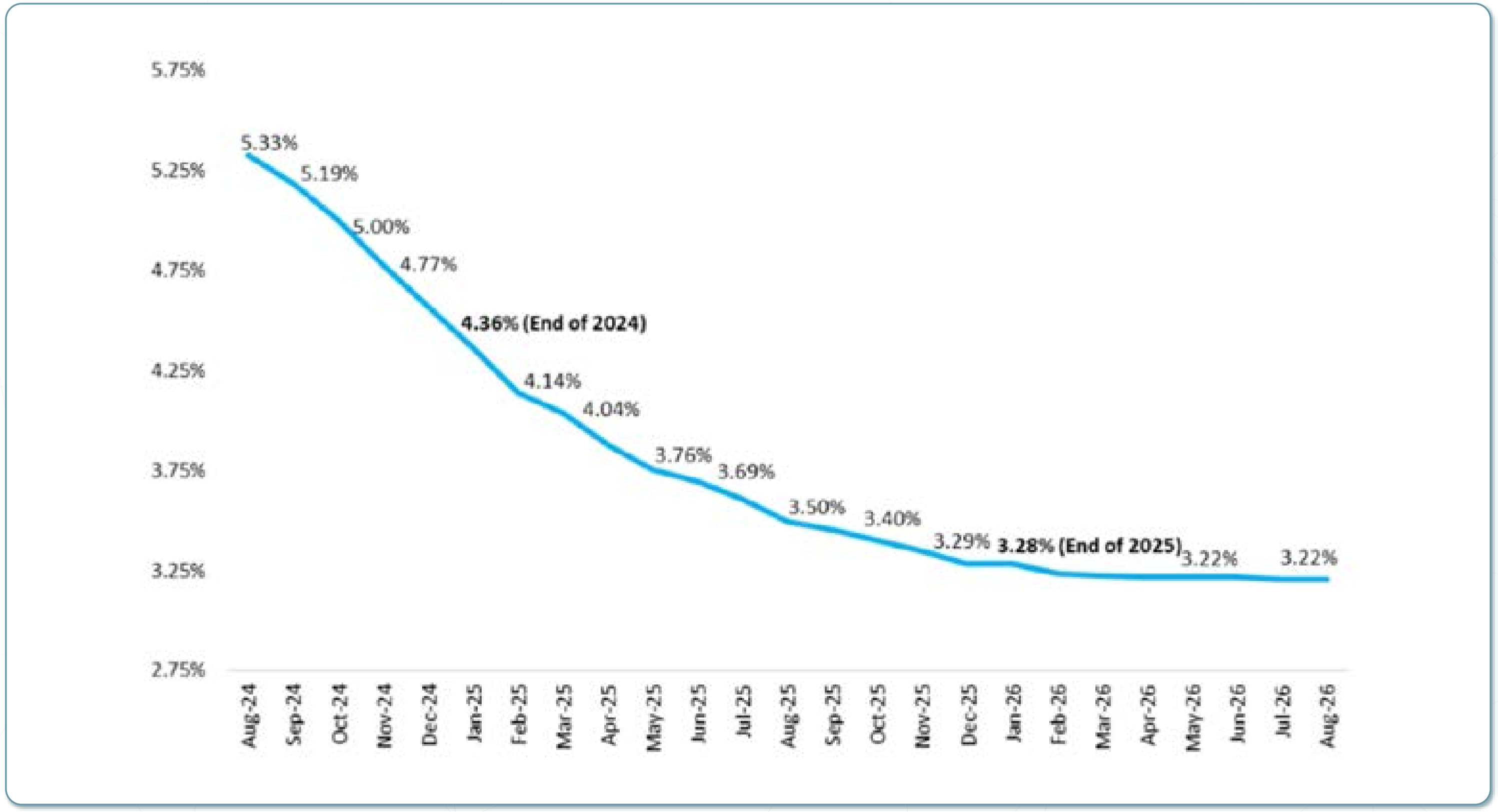

Figure 1. – Market Expectations of Fed Rate Cut

- The rate cuts are finally coming, with market participants expecting the Fed Funds Rate to be 100 bps lower by year end.

Source: Bilello.Blog

The Longest Inversion in History Is Over

Date	1 Mo	2 Mo	3 Mo	4 Mo	6 Mo	1 Yr	2 Yr	3 Yr	5 Yr	7 Yr	10 Yr	20 Yr	30 Yr
09/03/2024	5.38	5.31	5.19	5.10	4.80	4.35	3.88	3.73	3.65	3.73	3.84	4.21	4.13
09/04/2024	5.33	5.28	5.18	5.05	4.74	4.23	3.76	3.63	3.56	3.65	3.77	4.14	4.06

- The longest yield curve inversion in US history has ended at 783 consecutive days.
- For over two years, the longer-term 10-year Treasury yield has had a lower yield than the shorter-term 2-year Treasury yield, an atypical alignment.
- But today, we're back to a more normal upward slope, albeit a small one. The 2-year Treasury Yield of 3.76% is currently 1 bps below the 10-year Treasury Yield of 3.77% (as of previous week)
- Historically, the flip back to a positive sloping curve after a long inversion has occurred near the start of recessions
  - Recession started in an avg 6-7 months across 5 such instances witnessed during 1980 – 2007 period in US history
- But here's where it gets interesting:
  - The yield curve remains highly inverted if we look at the shortest end of the curve, with the 3-month Treasury yield of 5.18% far exceeding the 10-year Treasury yield (3.77%)!!
- This would change if Fed aggressively cuts rates.

Potential upside for Silver!

Figure 2. – Gold-silver ratio narrows as supply deficit persists

- While gold has caught investor attention, Silver's rally has outpaced the yellow metal
- Ratio between the two precious metals shows that cheaper silver may have more room to run as it plays catch-up trade with gold's ascent.

Source: Bloomberg

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Crude's 200-DMA become new ceiling

Figure 3.

- Amidst gloomy economic outlook for China, crude futures are facing technical challenges / resistance to breach their 200 DMA
- Additionally, impending OPEC+ revival in production remains biggest obstacle to crude's gains

Source: Bloomberg

India Macro Outlook

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High frequency indicators continue to suggest a strong economy

- GST collections at ₹1.75 trn with 10% yoy growth; Auto sales were below Jul'24, Credit growth /PMI data indicate strong momentum
- Strong GST collections continue to depict a good recovery momentum
- Manufacturing PMI remains in expansionary phase

	As on	Unit	Latest	Last	One year back
O/s non-food Credit Growth	July-24	yoy (%)	15.1%	13.9%	14.7%
Consumption					
Auto Volumes					
PV	Aug-24	Units Sold	3,09,053	3,20,129	3,23,720
2W	Aug-24	Units Sold	13,38,237	14,43,463	12,59,140
Industries					
Power Consumption	Aug-24	yoy (%)	-4.7%	3.6%	16.1%
Manufacturing PMI	Aug-24	X	57.5	58.1	57.7
Core Industries output	June-24	yoy (%)	4.0%	6.4%	8.4%
Overall, Economy					
GST Collection	Aug-24	Rs Trn	1.75	1.82	1.59

Source: Bloomberg, FADA, Company Data

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Currency performance across major economies

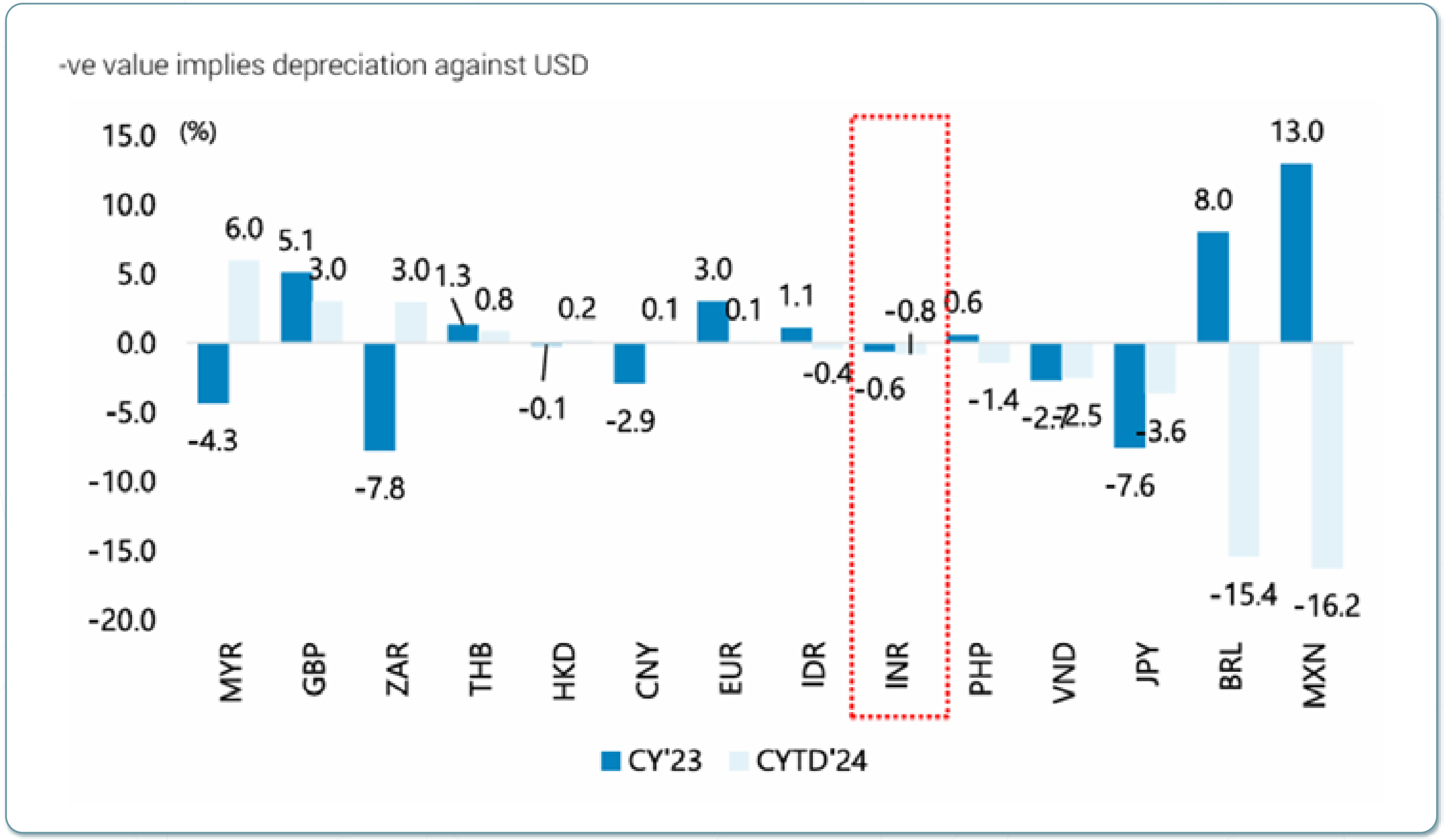

Figure 4. – Currency performance across major economies

INR has been most stable across major economies

Source: Bloomberg, Jefferies

Real GDP growth hits a 15-month low in Q1FY25

- The 1QFY25 real GDP growth at 6.7% YoY marks a sharp deceleration from the recent peak of 8.6% in 3QFY24 and RBI's projection of 7.1%.
- But beneath the headline is a strong rebound in core growth to 7.6%.
- Private demand, including consumption & investment, is revving up after a prolonged drag and is strong enough to overwhelm the fiscal drag.
- In nominal terms, exports and imports of goods and services accelerated similarly by 9.5% and 9.1% YoY respectively during 1QFY25. But in real terms, exports (8.7%) grew faster than imports (4.4%), largely due to the rebound in crude oil prices impacting the latter.
- After four quarters of slackening, growth in the services trade experienced a rebound.
- Recent RBI policy has raised FY25 real GDP growth forecast to 7.2% from 7%.
- While prospects of improved agri sector performance and waning pricing power of corporates, amid rising global competition forebode well for domestic consumption, the key variable to look for is real household income, which remains fragile

	As on	Unit	Latest	Last	1 year back
GDP quarterly	Jun-24	yoy (%)	6.70%	7.80%	8.20%
GDP Annual	FY24	yoy (%)	8.20%	7.00%	9.70%
Inflation	Jul-24	yoy (%)	3.50%	5.08%	7.44%
Policy Rate	Aug-24	%	6.50%	6.50%	6.50%
IIP	Jun-24	yoy (%)	4.20%	6.20%	4.00%
INR/USD	Aug-24	X	83.86	83.70	82.70

Source :Bloomberg, MOSPI

Kharif Swing improves – Positive for keeping Food Inflation in check

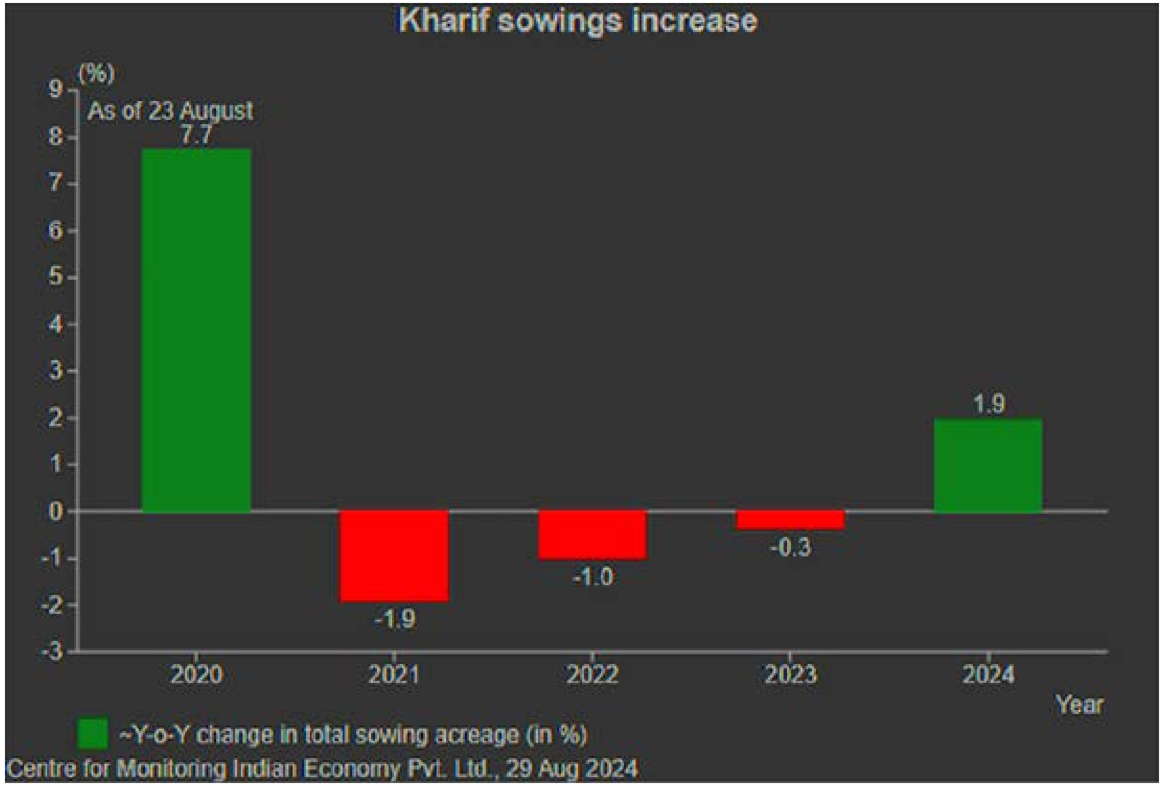

Figure 5. – Kharif sowings increase

- Following a lag in the months of June and July, kharif sowings picked up in August.

Flows, Valuations, Earnings

Source: J.P.Morgan Commodities Research

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FIIs continue to buy in Aug'24; MFs remain buyers of equities

- FIIs were net buyers of Indian equities $0.87bn in Aug-24. DIIs were net buyers at $5.98bn. MFs were net buyers at $4.22bn.
- FIIs have net bought Indian equities in CY24 to the tune of $5.16bn while MFs net bought India equities to the tune of $30.69bn in CY24.
- FIIs were net buyers in debt markets at $2.14bn while MFs were net sellers at $5.88bn in the month of Aug-24.
- In CY24, FIIs bought $13.08bn of Indian debt, while MFs sold $23.86bn.
- SIP flows have averaged ₹16,601cr in the last fiscal (₹12,998cr in FY23; 28% YoY); Jul'24 SIP flows were at ₹23,332 cr.

Figure 6. - Jun-24 SIP flows hit an all time high at Rs 233bn, up 51%yoy

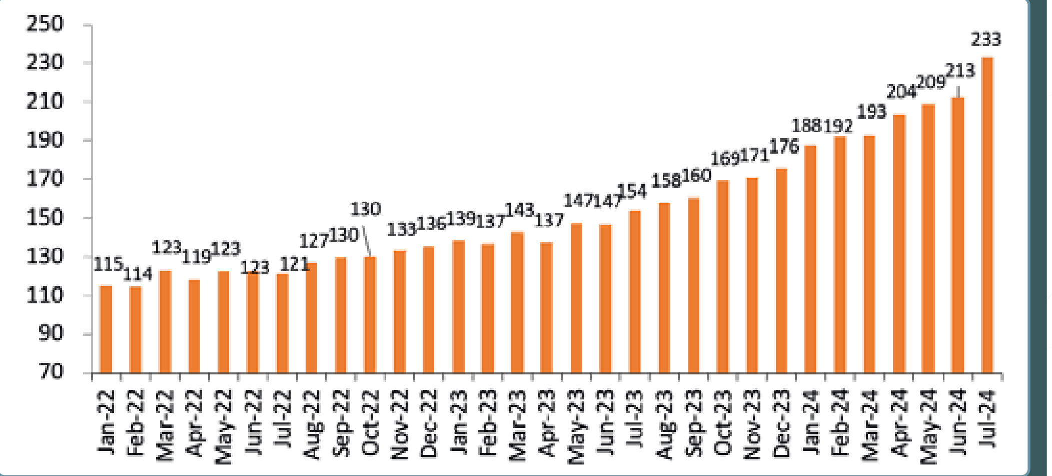


Figure 7. - FIIs, DIIs and MFs continue to be net buyers of Equities

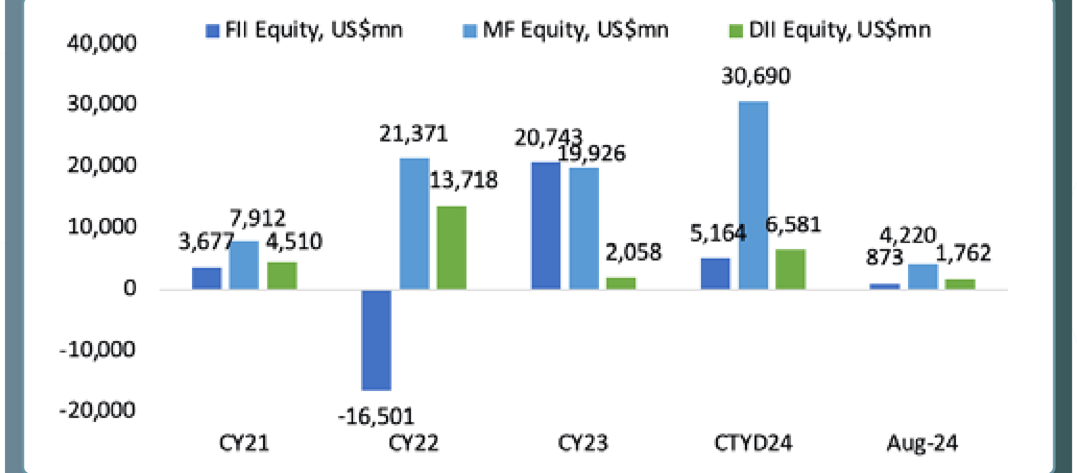
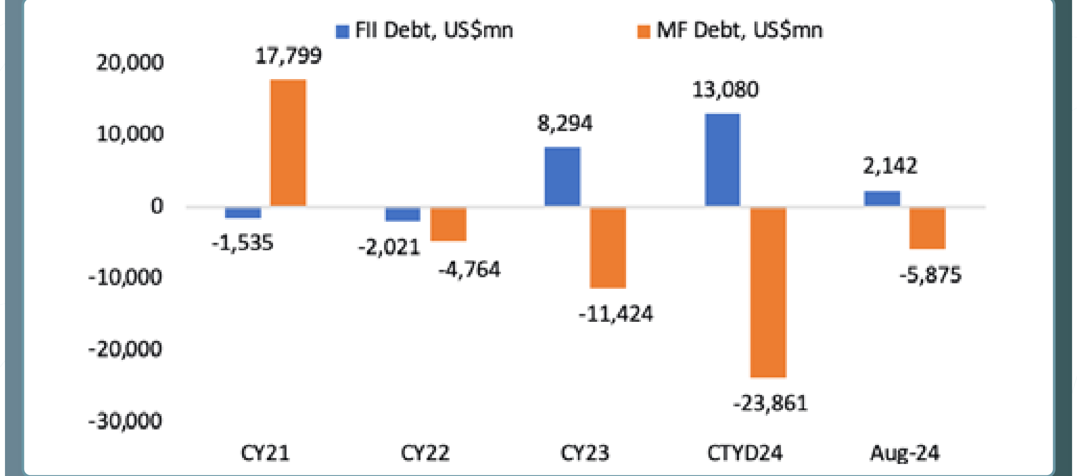


Figure 8. - FIIs turned net buyers of Indian debt in CY24; MFs have been sellers



Source: Bloomberg, NSDL, SEBI, AMFI

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India vs China weight in MSCI EM converge

Figure 9. – India vs China weight in MSCI EM converge

- Relative to China, India's weight in MSCI EM Investable Market Index (EM IMI) has infact now gone up to 22.27% v/s 21.58% of China's. This is a more comprehensive index compared to MSCI EM
- This could result in potential $4.0–$4.5bn worth of FPI inflows into Indian equities as EM funds that track the index will realign their allocations

Source: Bloomberg, Jefferies

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Nifty valuations significantly above long period average; further upside to be limited till valuation argument further improves.

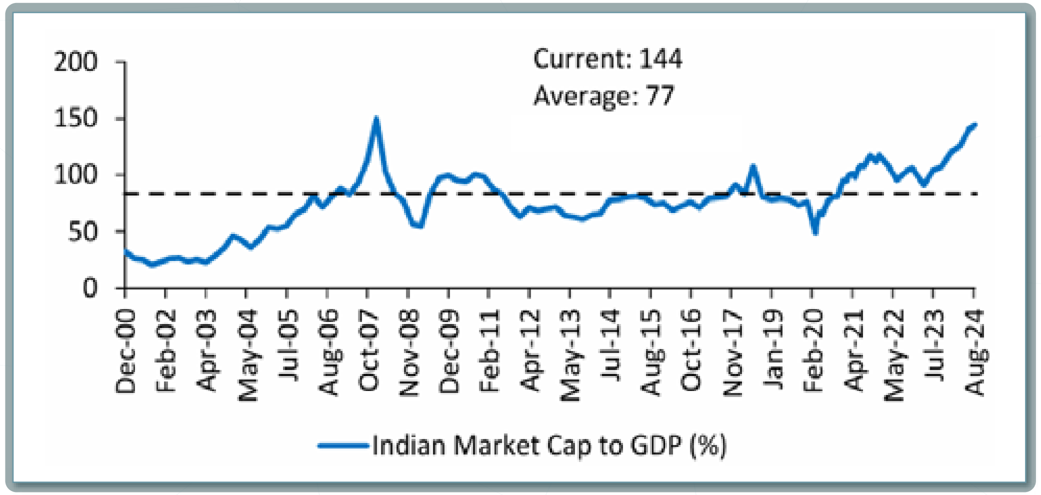


Figure 10. – India's market cap to GDP expensive, continues to move higher

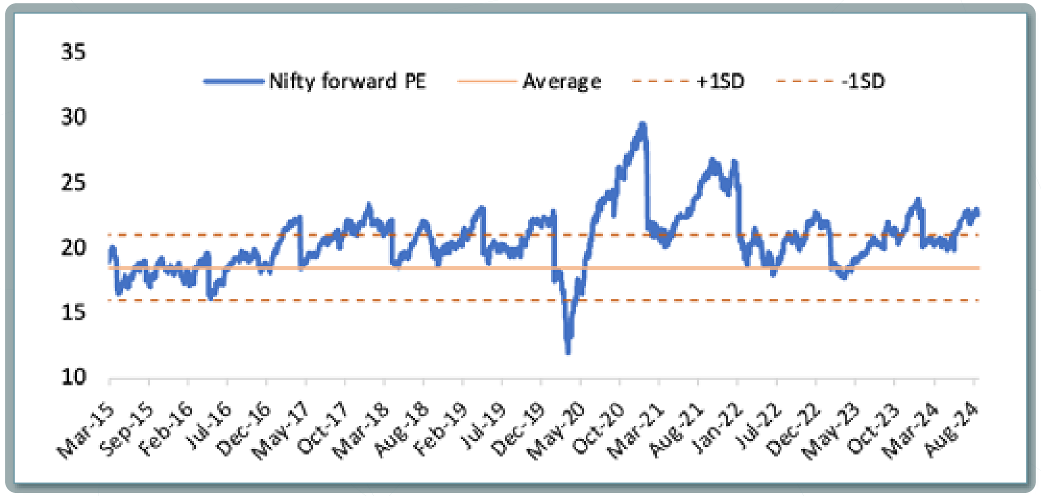


Figure 12. – Nifty forward PE has moved closer to 1sd above LPA

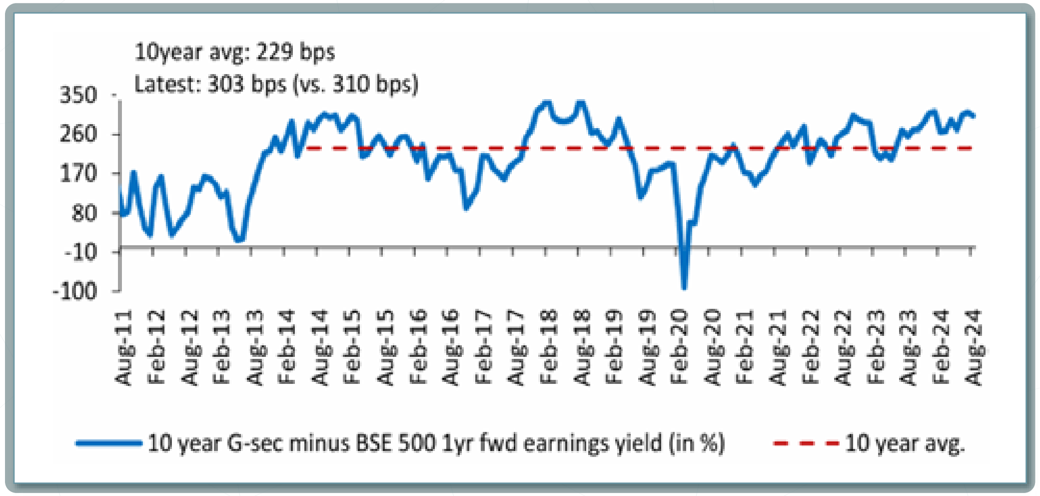


Figure 11. – Gap between G sec and Nifty earning yields indicate bonds are attractive

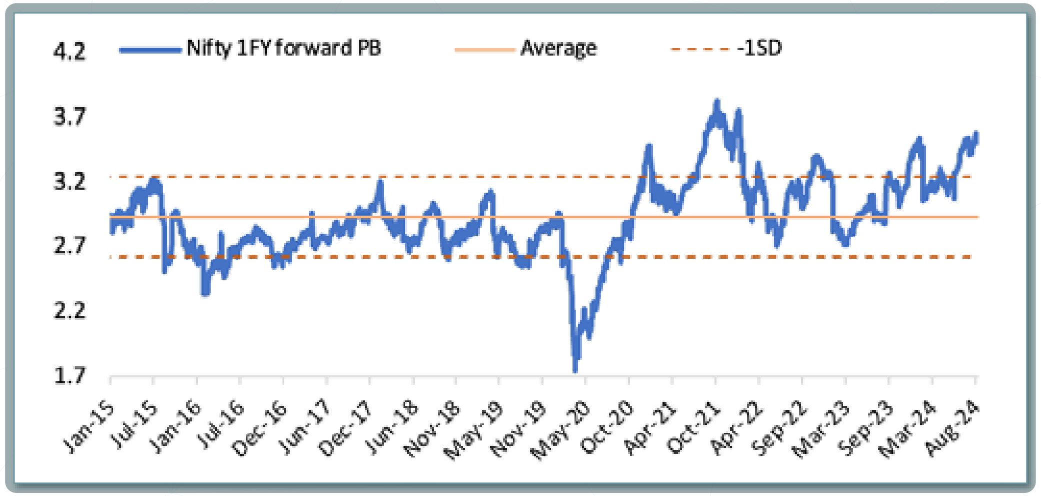


Figure 13. – Nifty PB at +2SD above LPA

Source: SBIMF Research, Bloomberg

Valuations are now at extremes

InCred Wealth

Median PE is significantly outpacing median earnings growth

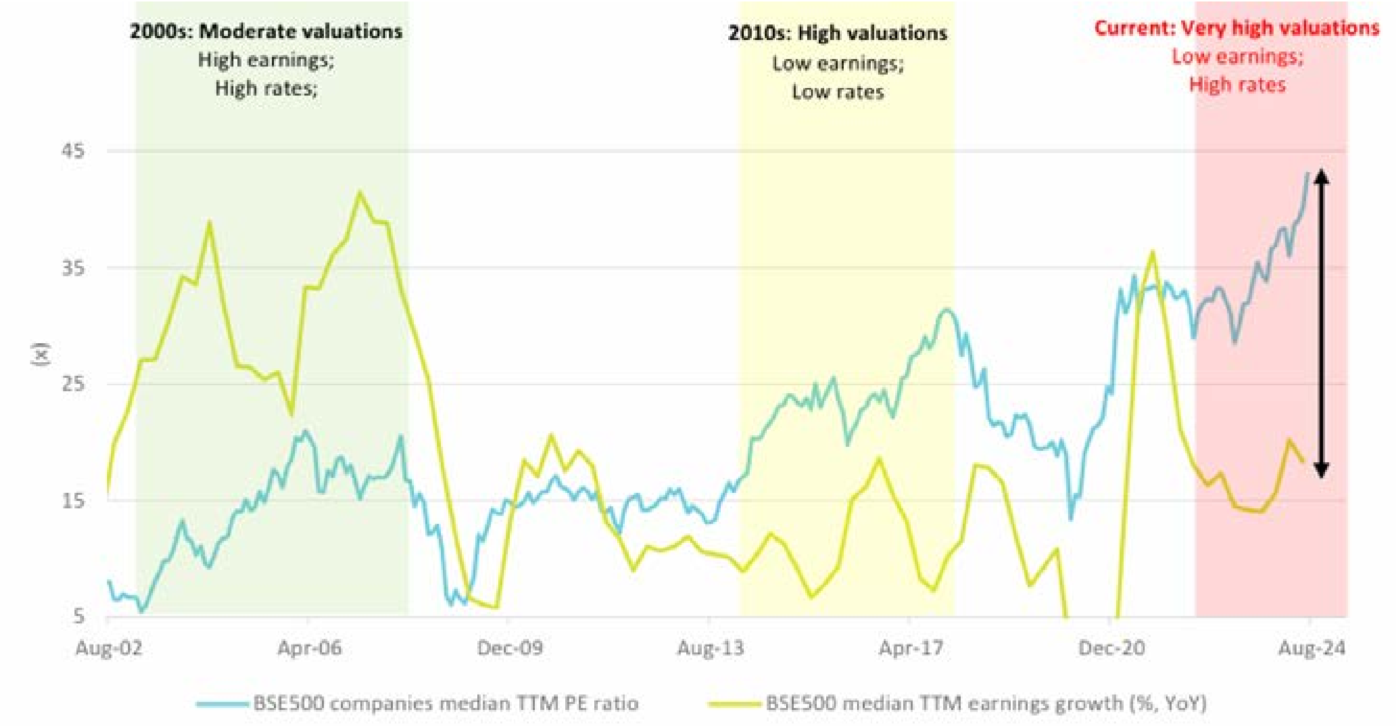


Figure 14.

- Aggregates hide exuberance!
- Median trailing P/E of BSE 500 index is @45x – ALL TIME HIGH
- This is at a time when median earnings growth of a BSE500 company is < 20%
- This large divergence is indeed concerning – Either rates fall sharply OR earnings improve drastically to justify lofty valuations

Source: Bloomberg, Nuvama Research

InCred Wealth

Historically, current valuations have resulted in weak 5Y returns

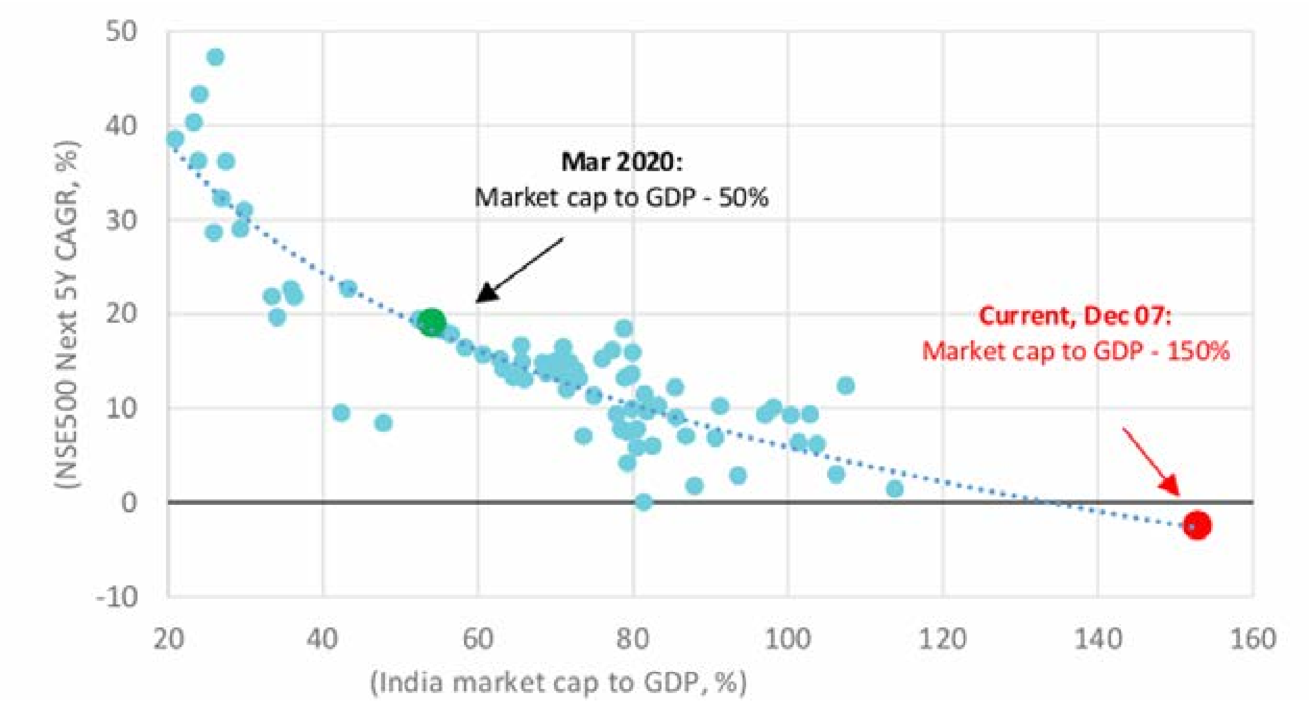


Figure 15. – India market cap to GDP, %

- Valuations are a very important guide for medium-term returns but are not the best timing tool.
- Infact, empirically in India the starting point of valuations explain 70–80% of the next five-year returns.
- Going by history, at current valuations, one should expect subpar 5Y returns (<5% CAGR)

Source: Bloomberg, Nuvama Research

InCred Wealth

Equity Market Outlook

InCred Wealth

Nifty delivered 1.1% returns in August but underperformed global peers.

- FIIs were net buyers for the month investing $0.9bn. DIIs flows strengthened to a 3-month high of $5.9bn. CYTD24 FPI flows have remained positive with DII flows exceeding that of entire CY23 by 70%!
- Earnings will be the eventual test for the market to progress from here with focus firmly shifting towards the drivers that could lead to any upward revisions.
- Valuations for broader markets continue to be more expensive than large caps suggesting a greater comfort in large cap names.
- Valuations of mid- and small-cap indices are trading at a premium of 70% and 50% to their own LPA (60% and 6% to Nifty-50 forward P/E).
- 1QFY25 earnings have been modest. Several private banks reported moderation in business growth. Growth was driven by domestic cyclicals. Nifty 50 Index EPS estimates for FY25 are cut by 1.2% and FY26E EPS estimates are also reduced further. Nifty EPS could rise 14%/ 16% in FY25/ FY26 respectively.
- Sectors with a reasonable upgrade in earnings are showing a sharp movement in their stock prices – suggesting some amount of overpricing.
- Even for the SMID space, with ~32% YTD returns earnings expectations have come down – further inflating the already premium valuations they command.
- SIPs / Domestic flows continue to provide support to the markets. Between Promoters, MNC parent, QIPs, IPO / OFS, Private equity fund, there seems to be ample profit booking / supply that is hitting the equity markets and is expected to do so in the coming year.
- With markets at new high, markets would be more discerning, returns would be more stock specific and largely tepid at best in the near term. However, the long term structurally positive story for India continues to hold. This demands investors to not skip equities and stay invested.

1: Nifty December 2024 target range based on adjusted EPS expectations

	-1SD	10 Year Average	+1SD
Nifty 1-year forward PE (ex-2020/21)	17.4	19.4	21.4
Nifty EPS expectations in FY26 (adjusted)		1180	
Nifty range at end of 2024	20,000	23,000	25,000

Key Takeways

- **We maintain a Neutral stance towards equities to accommodate the likely increase in risk perception which could impact multiples. Earnings trajectory, global monetary policy and unknowns emanating from geo-political turmoil could provide cues on market moves from here on. We stay cautiously optimistic on the markets.**

Source: Bloomberg; InCred Wealth

InCred Wealth

Existing equity holdings

i) It's a good time to revisit equity allocations across investor portfolios. As a steady state allocation within equities, we continue to suggest 60% to Large Caps, 25% towards Mid Caps and balance 15% towards Small Caps as an allocation strategy

ii) However, given the wide outperformance of SMID segment over Large Cap stocks, and the fact that this segment is trading at premium to its average valuations, we think it's necessary to exert some caution here and hence remain marginally underweight in Mid and Small caps. Basis this view, tactically we continue to remain overweight Large Caps (70% of portfolio) and restrict Mid Caps and Small Caps to 20% and 10% respectively.

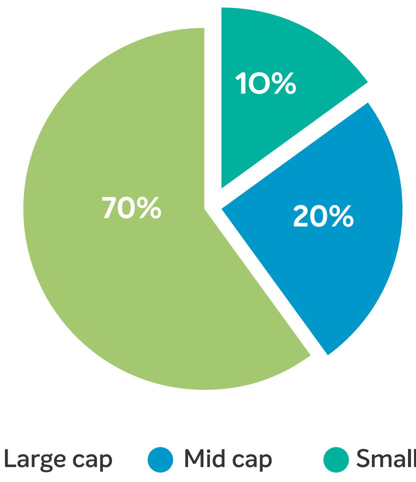
iii) If not already initiated, this continues to be a good time to take profits specially from mid and small cap investments made over past 2 years given the sharp rise in these segments of the market. We envisage a possibility of valuation rationalization here.

iv) Re-invest 30% -40% of these profits immediately as lumpsum back into equities with a large cap tilt. Balance 60% - 70% to be staggered over the next 6 months / partly on market dips.

v) For those under allocated towards the mid and small cap segment, its prudent to deploy over a 6 months stagger or longer.

vi) Alternative investment solutions such as MLD ideas can be considered that generally offer principal protection and accelerated participation in market up-move.

Equity Portfolio Allocation



Investors sitting on the sidelines with cash in portfolios

1) Points ii. through v. in the section above can be followed.

Category	InCred Outlook
Large Cap	Neutral
Mid and Small Cap	Underweight

Fixed Income Outlook

InCred Wealth

Yield curve continues to remain flat

- G-sec yields have come off over the past few months, across tenures.
- AAA Corporate bond yields have seen some hardening in the 5yr, 7yr and the 10yr corporate bond yield segment
- Movement in rates upto 1yr maturity has been the most subdued.
- Spreads in the AA / A rated segment continue to remain attractive in the 3yr maturity segment. Some spread improvement has been seen in the AAA 3yr segment in the past month.
- Yields were largely stable post the recent MPC policy meeting.

Figure 17. – Yield curve continues to remain flat

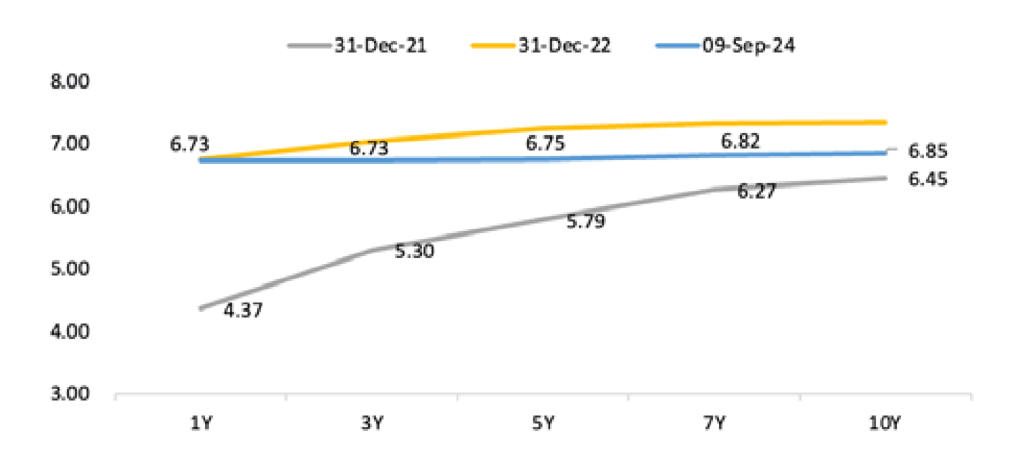
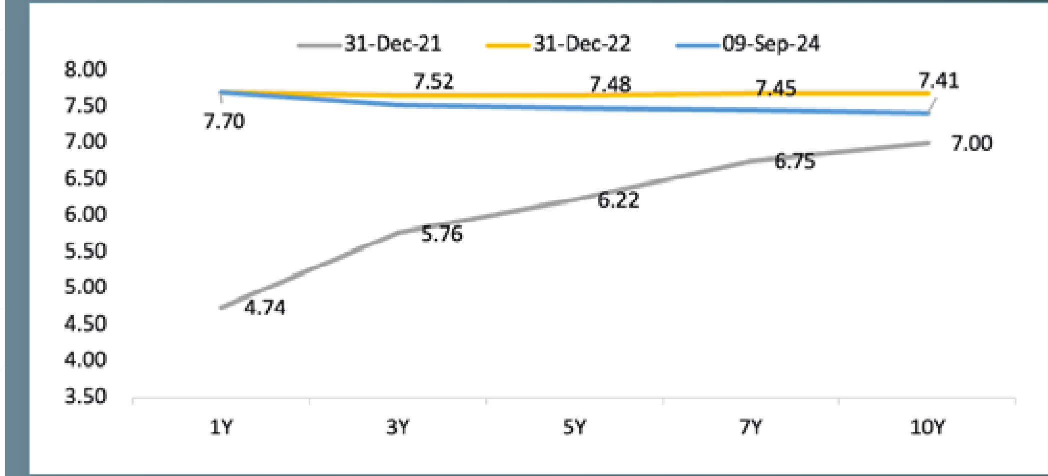


Figure 16. – Issuers with credit rating "A" offers higher credit spreads

3-year tenor	09-09-2024	Dec-23	Dec-22	Dec-21
G sec	6.73	7.23	7.04	5.30
Credit Spreads (bp)				
AAA over G sec	79	56	62	46
AA over AAA	74	67	63	69
A over AAA	225	249	246	260

Figure 18. – AAA Yields followed a similar pattern vis-à-vis G-Sec.



Source: Bloomberg

InCred Wealth

Banking system liquidity has improved in August; Remains in surplus

Figure 19. – Banking system liquidity shows a marginal surplus in Jul-Aug period

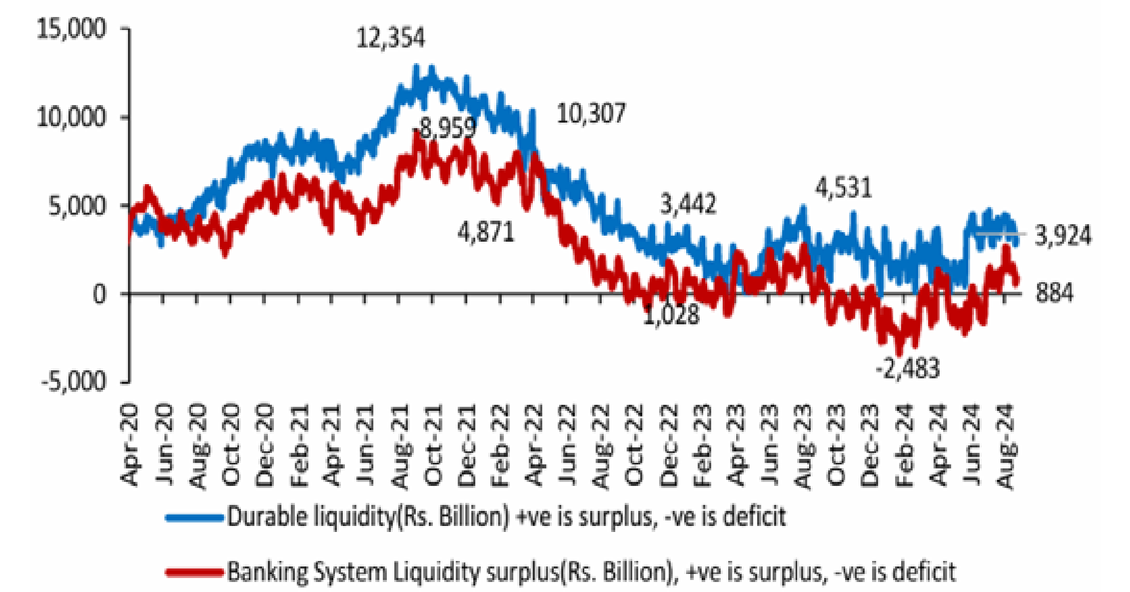
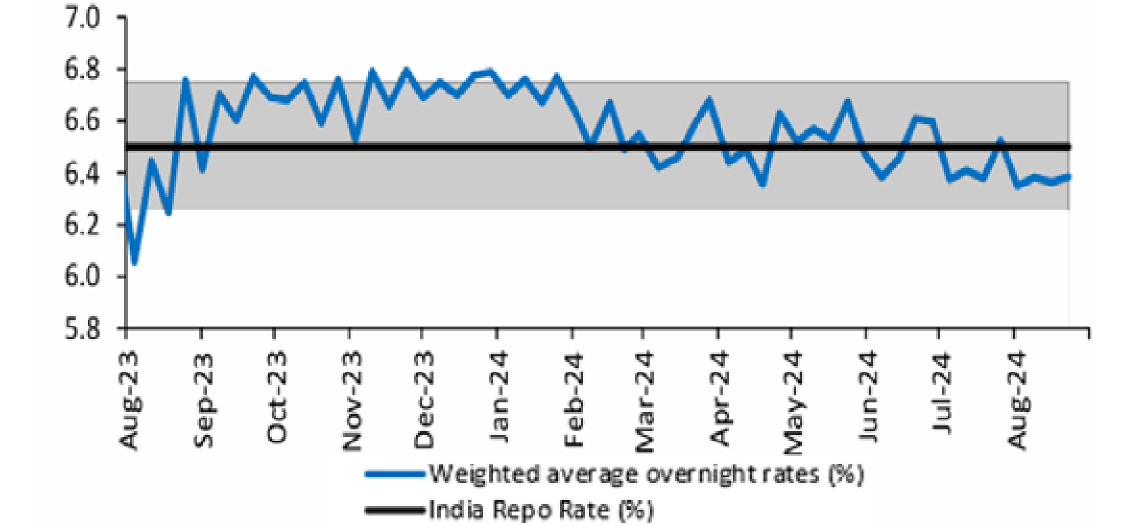


Figure 20. – Overnight rates align close to the Repo rate (shaded area is policy corridor)



Note: The shaded area represents the policy corridor- where upper end represents MSF and lower end represent reverse repo rate followed by SDF

- System liquidity continued to remain in surplus in August.
- Improvement in the liquidity has led to reduction in Variable Repo Rate auction (VRR) and overnight rates have stayed benign and are expected to remain so in the coming weeks.
- RBI conducted OMO sales in instances of prolonged surplus liquidity

Source: Bloomberg; SBI MF

InCred Wealth

Bond markets give a thumbs up to credible fiscal math

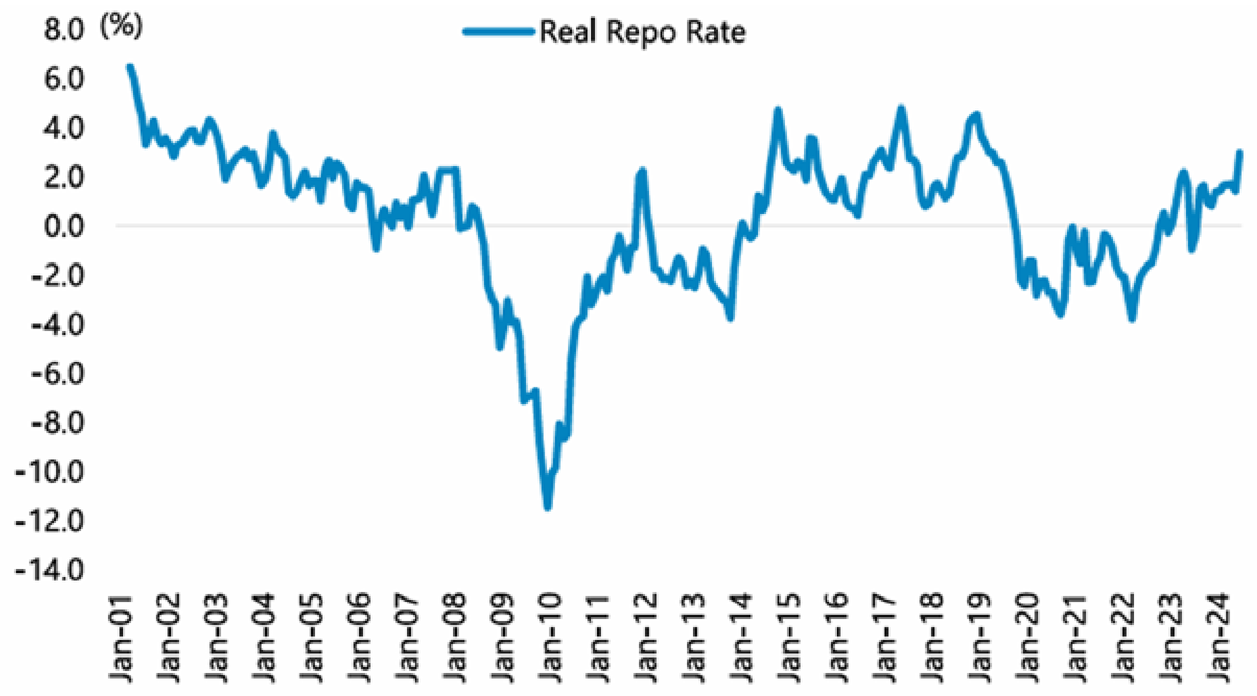


Figure 21. – Real Repo Rate

- **Real repo rates touched 3.0% in Jul'24, a 5yr high, building up a case for a rate cut with 'neutral' real rates seen at 1.5-1.75% range as per recent RBI studies – BUY DURATION**

InCred Wealth

Outlook

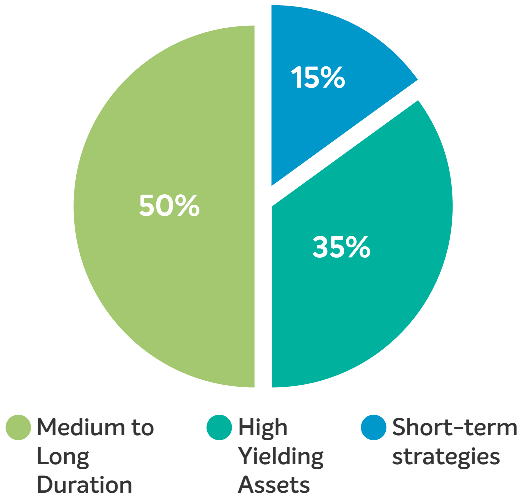
- Our view remains that Indian government bonds, are attractively poised given that this moment represents a coming together of structural macroeconomic bullish factors for India and a global peaking of interest rates
- A resilient CAD and controlled inflation alongside consolidation seen on the fiscal front has further strengthened the case for bond investment.
- The current inflation targeting monetary policy regime is well entrenched in policy making. Proactive forex management has helped build formidable reserves and thus offers tremendous buffer to the INR v/s the Dollar.
- Indian bonds are just starting to be discovered by FPIs from an allocation perspective and upside is massive. Being the 5th largest economy and heading towards being number 3 soon, alongside a superlative macro narrative, we expect a meaningful bond allocation to start building up.
- Fiscal deficit is expected to consolidate further at 4.9% of GDP for FY25 and glide path of achieving fiscal deficit of 4.5% of GDP in FY26 has been laid out. This allays any lingering fears over fiscal slippages that could result in adverse impact on bond yields.
- With demand expected to be robust, from supply side perspective, government bond supply is actually negative for this fiscal and the next. Thus, next 12m – 18m seem exceptionally well poised for government bonds.
- From bond valuation point of view, 10-year yields are at 35bps spread over the prevailing Repo rate. Also, real rate is at 3%, while RBI would prefer this to be in the range of 1.5% - 1.75% (repo over prevailing headline CPI). This leaves enough room for the nominal yields to fall.
- In summary, we continue to believe it is an ideal time to lock away current yields for longer duration (elongating portfolio maturities). Real money investors should focus on building duration in their portfolios. This is to safeguard portfolios from reinvestment risk that may arise when the investments made today mature.

Deployment Strategy

- Upto 50% of fixed income to be allocated towards medium – long duration strategies.
- Further, allocation of upto 35% of fixed income portfolio is suggested towards high yielding assets (bonds /funds)
- Balance 15% - 20% could be invested in accrual oriented short-term strategies

Category	InCred Outlook
Fixed Income	Positive on medium duration and high yield strategies

Fixed Income Portfolio Allocation



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Focused Investment Ideas

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AIF - Performing Credit

InCred Credit Opportunities Fund II

Tenure: 5.75 years

- The fund targets to create compelling risk-reward by taking thoughtful secured credit positions in flexible financing transactions to cater to the growth capital requirement of Indian Corporates with a balance between cash flows and strong collateral.
- Indicative 20+ transactions; striving to achieve a granularity of ~5% (single deal exposure)
- Target gross IRR of 16%+ (with monthly payout)
- Weighted average loan tenure will be between 36 to 42 months
- Focuses on regular coupons and principal amortization
- End use of funds will be capital for asset creation, working capital, capex, acquisition financing and other business needs
- Senior secured debt construct with security in the form of fixed assets, Brand IP, Share Pledge, Personal and Corporate Guarantee"

Northern Arc Finserv Fund - Debt (CAT II AIF)

Tenure: 4 years

- CAT II Debt AIF targets higher risk-adjusted returns and regular investor cashflows by investing in a diversified pool of debt securities of financial institutions
- AIF largely targets Agri business financing, Small Business Loans, Vehicle Finance, Microfinance, Consumer Finance, FinTech sub-sectors
- Nature of instruments: Secured & unsecured NCDs, Unsecured bonds, Redeemable preference shares, PTCs, MLDs, Debt funds
- 4 years fund tenure from first close of June 2024. Targeted Gross Yield: 14.50% pa XIRR, Quarterly coupon payment, Bullet principle repayment
- Earlier investment examples: Fusion Microfinance (Microfinance), EarlySalary Services(Consumer finance), Kogta Financial (Vehicle Finance)
- Client profile & suitability: Stable risk profile (RS S 6 & above)

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AIF - RE Debt

Sundaram RE Fund (Debt) - Fund IV

Tenure: 5 years

- Primary focus is on real estate, hotels, logistics and healthcare
- Focus on residential, hybrid and commercial
- 70-75% focused on self-liquidating projects / secured asset cash flows
- 25-30% backed by commercial assets / other collaterals with back-ended redemption structures
- Max exposure of 25% to single company, select sponsor backing/ operating leverage from Sundaram Group relationships
- 50-80 cr deal size / listed , unlisted investments NCD, mezzanine with Target gross IRR of 18% - 22%
- 3-4yrs deal tenors / quarterly repayments / 6-18m morat
- End use: construction / working cap / bridge funding / project acquisition / investor take-outs / refinancing
- Location: Primarily south india / opportunistic in Mumbai and Pune

Fund Status: Launched in Oct'23 / 375cr+ raised / 50% drawdown called for so far, FM may ask for 20-30% immediately / Fund tracking a 19% gross IRR/ Total 4 deals done: 2 (Dec'23) +2 (March'24)

AIF - PE Fund

InCred Growth Partners Fund – I

Tenure: 6 years

- Conducive investment environment for private equity investment - unlisted universe is large & widespread (~6000 pvt owned cos vs 1500 listed cos) and Investing during consolidation phase improves margin of safety with better potential of alpha generation.
- Fund will have a Mix of Growing Stars (Series B/C – high growth companies) and Glowing Stars (Series D+ – established companies)
- Focus on sectors such as Consumer, Financials, Technology, Enterprise/Others
- Fund would focus on companies that (i) have a dominant industry sway, (ii) are profitable atleast at CM3 level, (iii) are available at reasonable valuation multiples
- Fund Manager, Vivek Singla brings more than 18 years of investment experience. Joined InCred in June 2023. Demonstrated track record of delivering healthy returns. Few examples – lenskart (MOIC of 3.8x), Dailyhunt (MOIC of 3.2x), SMS Finance / Luminous (MOIC of 2.4x)

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Equity MF

Bandhan Core Equity Fund

Tenure: > 3 years

- **Bandhan Core Equity Fund(BCEF)**, a Large and Midcap focused fund with Largecap bias, appreciating investor's long term capital with a proven track record
- BCEF Philosophy centered around 3 legs: Dynamism, Anti-fragility and Macro-trend
- Porfolio construct focused on 3 specific buckets : 1. Quality Investing 2. Thematic opportunities 3. Value picks
- Star fund manager, Mr Manish Gunwani has taken over the management of the fund in the last ~1 year during which fund has consistently ranked in Top 1 quartile based on the performance metrics
- BCEF has much superior Risk-Returns metrics against other popular funds in Large & Midcap space
- BCEF also has greater Up-Capture Ratios (rallied more than the Benchmark) and one of the lower Downcapture Ratios

Hybrid MF

ICICI Pru Balanced Advantage Fund

Tenure: > 3 years

- ICICI Pru Balanced Advantage Fund is open ended Dynamic Asset Allocation Fund
- Fund is managed by Sankaran Naren (managing since 2017) and Manish Banthia (managing since 2009)
- Scheme uses an in-house asset allocation model to maintain an effective equity investment level closely linked to market valuations. Balance investment is in Debt, REITs/InvITS & cash equivalents
- Strategy is suited to current market phase wherein equities trade at all-time highs amid rising risks on global stage such as geo-political tensions, impending Fed rate cut cycle and national elections in major economies
- Fund is suitable for investors seeking to benefit out of market volatility (with a relatively conservative aproach) while maintaining fair equity allocation levels based on market phases
- As on May 31, 2024, the net equity exposure of the scheme stands at ~41%. The scheme is overweight to the Auto and Retailing sectors due to positive outlook
- Fund has outperformed benchmark (CRISIL Hybrid 50:50 Index -Moderate) over medium to long term. Delivered 19.69% returns in 1 year, 12.45% CAGR in 2 years and 11.36% CAGR since inception

InCred Wealth

Mirae Asset Multi Asset Allocation Fund

Tenure: > 3 years

- Mirae Asset Multi Asset Allocation Fund invests is a portfolio of multiple asset classes such as Equity & related securities, Debt & Money Market instruments, Gold/Silver and Commodity derivatives, REITs/INVITs to provide long term capital appreciation
- Broad range for investments across asset classes includes: Equity & Equity related instruments(65-80%), Debt (10-25%), Gold & Silver ETFs/Commodities(10-25%), REITs/INVITs(0-10%), Foreign Equities (0-15%)
- Net equity allocations are in the range of 40-75% based on valuations parameters such as Price to Book and Bond Yied and Earnings yield spread. Follows counter cyclical approach to investing (when PB is high, decreases equity exposure; when Yield Spread is high(Bond yield higher than equity yield), decreases equity allocation)
- Currently, scheme has 67% allocation in Equity and Arbitrage(-16.9%)[Net Equity 50.05%], Debt 19.62%, Gold/Silver/Copper 13.43%, REITs/INVITs: 0.47%

AIF - Long Equity

Incred Equity Advantage Fund

Tenure: 5 years

- InCred Equity Advantage Fund - I, Cat - III AIF, is looking to capitalize on Mean Reversion in strong businesses which went through a downcycle due to temporary disruptions. The fund would differentiate between value traps and value picks by decoding the nature and longevity of disruptions / operational issues

  Themes targetted: **1. Rural Recovery 2. Capex Investments 3. Healthcare related 4. Urban Discretionary 5. Tech & Telecom**

AIF - Long Short

InCred DEAR Fund

Tenure: > 3 years

- InCred Dynamic Equity Asymmetric Returns (DEAR) Fund – Cat III AIF which targets consistent Alpha over benchmark amid superior risk-returns profile
- AIF seeks to beat the benchmark consistently on a 2-years Rolling basis with much superior risk-adjusted returns compared to the benchmark amid similar volatility
- DEAR fund has the flexibility to capture higher upside in an up-trending market and aims to half index losses during downturns. This helps in avoiding psychological biases and deliver consistent alpha irrespective of market conditions
- On back-tested data, DEAR fund has delivered a CAGR of 27.24% over 13 years investment period vs 12.7% CAGR of BSE 100 TRI index amid much better risk adjusted returns
- Other Salient Features include Open ended nature of AIF, Twice a month subscriptions and monthly redemptions

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PMS Multi Cap

InCred Multicap PMS

Tenure: > 3 years

- InCred Multicap strategy, managed by Mr. Aditya Sood, adopts a balance across Large Cap, Mid Cap and Small Cap
- Benchmark agnostic bottom-up stock picking, High conviction portfolio of around 30 stocks
- Investment Framework: Buy ‘Great’ businesses at fair value, Buy ‘Good’ businesses at a discount and Avoid ‘Bad’ businesses

Equity MLD

Tenure: > 3 years

- **Issuer**: InCred Capital Financial Services Private Limited
- **Tenor**: ~24/26 Months
- **Principal Protection**: Principal Protected at Maturity
- **Particpation Rate**: 170%
- **Participation Range**: 0% to 20% Nifty Performance
- **Max Return**: 34%
- **Max IRR**: 14.46%
- **Observation**: 2 months average in 2 months average out

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Registered Office and Corporate Office Address: Unit No 1203, 12th Floor, B Wing, The Capital, C 70, B Block, BKC, Bandra (E), Mumbai 400051; Phone: +91 22 68446100;

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Thank you