FLASH NOTE!!

3-Dec-23

Dear Investors,

Hope all is great at your end. Given the "better-than-expected" surprise performance from BJP in the state elections, I thought of immediately sharing my views with you on the same.

Let me quickly highlight there are several positive developments brewing in the market and why I feel that these state elections results may act as a catalyst for an enduring rally:

- **State Elections**
  - As far as I could sense before the elections, most market participants were expecting a close fight between BJP and Congress in Rajasthan and MP, and people were expecting a less than 50% chance of a BJP win in Chhattisgarh. However, we have a positive surprise that BJP has won all the 3 Hindu heartland states and that too with a solid majority.
  - With the inauguration of Ram Mandir in Jan 2024, the momentum for BJP should further accelerate.
  - In my opinion, the market will start discounting continuity of Modi-led BJP government in the Centre in 2024 elections very soon *(possibly tomorrow itself)!!*
- **US Macro**
  - The sharp drop in US 10-year yields from the Oct high of 5.021% to 4. 197% (on Friday) is a very positive development (Exhibit 1).

Exhibit 1: US 10-year yields (Source: Tradingview)

  - While the commentary from the Fed is mixed, the bond yields are signalling that further tightening is highly unlikely and several economic pundits expect rate cuts in 2024.

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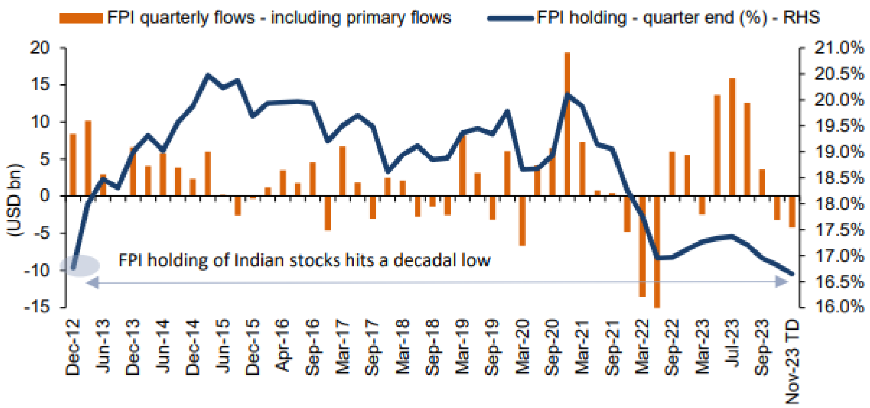
- **Global Macro**
  - Middle East: With the exchange of hostages between Israel and Hamas, the potential "black-swan" ugly scenario of the Middle East war becoming a catalyst for a World War seems to have been averted for now. This view is also supported by the fact that oil has also cooled off significantly from the recent high of US$95/bbl to US$75/bbl.
- **Indian Macro**
  - S&P Global Ratings has revised India's GDP growth projection for FY24 to 6.4% from 6% earlier on the back of strong domestic tailwinds.
  - The CPI inflation declined to 4.9% in October. Near team inflation outlook is stable from vegetable price correction and stable oil prices
  - India's economic growth for this quarter was supported by urban demand and service industry despite a slowdown in export due to global economic headwinds.
  - Domestic consumption remains resilient with utilities, services and construction showing robust growth.
- **Market construct**
  - FPI holdings have plummeted due to rise in US bond yields and that has led to FPI holdings of Indian stocks falling to their lowest level in a decade at 16.6% despite the strong resilience in the Indian economy (Exhibit 2):
  - DIIs have been continuous buyers and continue to shift their incremental savings from physical assets to financial assets.

Exhibit 2: FPI Holdings of Indian equities



Source: NSDL, BSE website, I-Sec research

Note: Nov'23 TD flows represents flows from 15th Aug, 23 to 15th Nov, 23.

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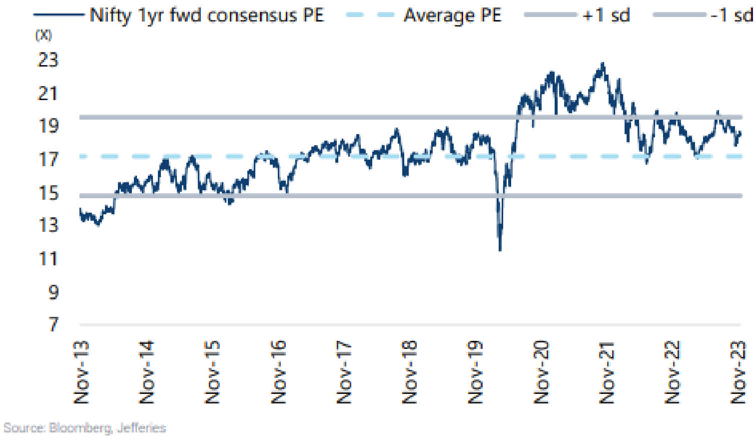
- **Valuations**
  - Despite the recent run-up in the market and the fact that we are sitting at an all-time high, the valuations are not crazy. They are just slightly above the mean (Exhibit 3).

Exhibit 3: Valuations (Source: Bloomberg, Jefferies)



Conclusion

Given the above major factors, my unequivocal recommendation would be to continue to remain invested and add to existing equity allocations from the next 2-3 years perspective. One should not be too concerned about the all-time high level of NIFTY as a factor in deciding on equity allocation. As the US interest rates cool-off and Indian growth remains steady/accelerates, I expect the equity compounding engine to continue to roll.

Happy to have a call anytime at your convenience.

Wishing you and your family Seasons Greetings!!

Warm regards,

Manish Gupta & entire MoneyGrow team

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