

Executive Summary of the 68th Global Investment Advisory Committee (GIAC) Meeting

7th March 2024

Current stance

At its latest meeting, the committee has arrived at a consensus on maintaining the current stance across equity, debt and gold allocations, in the absence of actionable cues ahead of the upcoming Lok Sabha elections beginning in April and May. The committee is also factoring in an interest rate cut by the US Federal Reserve, in the month of June, which could lead to a drop in the yields on debt securities. Accordingly, there is a consensus on locking in yields at the current high rates. As of this meeting, the allocation to equities, in the balanced portfolio, stands at 56%, which is slightly overweight, and aligned with the optimism in the market. Both the balanced and aggressive portfolios have beaten their respective benchmarks, across the one-month and one-year durations, indicating the robustness of the ongoing allocation.

Key variables to monitor:



Lok Sabha elections



Fed rate movement



Gold performance

What's changed since our last meeting:

We are marginally cautious **because of technical factors** (rich valuations, crowded positioning, complacent and bullish sentiment) **instead of fundamentals**. That said, **fundamentals are evolving** and while the **"Big Three" tailwinds from before are still present** (resilient growth and earnings, disinflation and the dovish pivot in monetary policy), some **changes are afoot**. While the **disinflationary process is slowing and near-term global monetary policy is set to become more (not less) hawkish** (as the BOJ hikes while the ECB and FOMC wait until June to cut), we do **NOT think stocks face enormous hawkish risks**. The **#1 area of macro concern** for most seems to be **sticky inflation and "higher for longer" policy rates**. Reports indicate a decline in personal consumption expenditure (PCE) inflation to 2.4% in January from its peak in June 2022 at approximately 7.0%, signalling towards the possibility of inflation steadily moving towards the Fed's 2% target. Federal Reserve Chair Jerome Powell mentioned in recent testimony that they are nearing this target. While PCE inflation, the Fed's preferred metric, is expected to average 2.2% this year and 2.0% in 2025 and 2026, other inflation measures such as the consumer price index (CPI), core CPI, and core PCE are projected to remain above target until at least 2026. Forecasts indicate the U.S. economy will grow by an average of 2.1% this year, surpassing the non-inflationary growth rate of around 1.8% deemed by Fed officials, suggesting a cautious approach to rate cuts.

On the domestic front, India's GDP data for the third quarter of Financial Year 2023-24, released by the Statistics Ministry on February 29, revealed a growth of 8.4% during the October-December period. This unexpected growth surprised economists who had anticipated a contraction due to decreased government spending, sluggish industrial output, and erratic monsoon patterns. However, robust performance in the construction and manufacturing sectors surpassed expert predictions, contributing to the nation's overall economic resilience.

Viewpoints

The recent surge in gold prices has caught investors' attention. Further, as election fervour builds, there is optimism around the Nifty reaching new highs post-election and swearing-in ceremonies, with the Narendra Modi-led BJP government expected to come into power for its third consecutive term.

While the markets are witnessing steady money flows, there are concerns regarding a downturn in the rural economy, private capital expenditure, and diminished demand, with the impending code of conduct from April 1st likely to exacerbate challenges further. Despite potential consolidation in the months ahead, opportunities in small-cap sectors remain promising. However, navigating these opportunities poses challenges given the stock-specific nature of the same.



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