NETRA

Early Signals Through Charts

October 2024

Section 1

Multi-Assets, Winner's Curse & The Current Cycle

DSP

Multi-Asset Allocation Has Worked Across Countries, Over The Long Term

Multi-asset investing is more than just a strategy—it can be the go-to strategy for portfolio management. Asset allocation, if done conservatively and exercised over the long term, can solve for multi generational wealth creation. This strategy has worked across many markets and has given equity-like returns with lesser volatility.

We have outlined some of the major Developed and Emerging Markets, and across all markets, the Multi Asset strategy has achieved optimal outcome. In some cases, it has outperformed domestic equity in local currency terms. Another critical point to note is that over this 20-year period, Gold has outperformed equity markets in local currency terms across all markets, except for India.

The important point to highlight here is the difference in standard deviation, because most of the times a dismal period in one asset class will be offset by another asset class.

20-Year CAGR Returns In Local Currency By Asset Class and For Multi Asset Allocation Strategy

Nominal Local Currency 20-Yr CAGR	Inflation	Equity returns	Debt returns	International equity returns	Gold returns	Multi Asset returns	Standard Deviation (Domestic Equities)	Standard Deviation (Multi Asset)
Emerging Markets **(USD)**	6.0%	4.8%	5.8%	6.2%	9.7%	**6.7%**	19.5%	12.6%
India	**6.5%**	**14.5%**	**7.3%**	**9.5%**	**13.0%**	**13.3%**	**21.3%**	**11.3%**
China	2.2%	6.2%	4.3%	7.6%	8.8%	**8.8%**	25.2%	13.7%
Thailand	1.9%	4.1%	2.7%	4.9%	8.3%	**5.5%**	18.2%	10.2%
Pakistan	10.5%	14.8%	9.9%	14.9%	18.6%	**16.0%**	19.3%	11.4%
Japan	0.6%	4.7%	1.0%	7.6%	11.1%	**6.0%**	20.9%	12.5%
USA	**2.6%**	**8.5%**	**2.8%**	**3.5%**	**9.7%**	**7.4%**	**19.2%**	**11.1%**
UK	2.8%	3.0%	2.4%	6.8%	11.4%	**5.3%**	17.6%	10.3%

Source: Bloomberg, DSP. Data as of Sep 2024. All returns are in local currency except for Emerging Market (USD). Multi Asset is based on Annual rebalancing and the weights are: Domestic Equity – 50%; Debt – 20%; International Equity – 15%, Gold – 15%. Indices used For Equity: Emerging Markets (USD) – MSCI EM Index, India – Nifty 50, China – CSI300, Thailand – SET Index, Pakistan – KSE 100 Index, Japan – TOPIX, USA – S&P500, UK- FTSE 100 Index. For Debt, we have used: Emerging Markets (USD) – Bloomberg EM Sovereign Index, India – Crisil Short Term Bond, China - Bloomberg China Treasury, Thailand – Thai BMA Govt Bond Index, Pakistan - Bloomberg emerging fixed income – Pakistan, Japan - FTSE Japan Gov Bond, USA - Bloomberg US treasury bond index, UK - Bloomberg UK Gilt 1-5 year Index. International Equity for Emerging Markets (USD), India, Thailand, Pakistan, Japan, UK – MSCI ACWI and for China – MSCI ACWI ex China and for USA – MSCI ACWI ex US. Gold returns are in local currency except for Emerging Markets(USD).

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Gold Beats Equity In Most Emerging Markets

In emerging markets, Gold is an indispensable diversification asset.

Diversifying with gold is essential for emerging market portfolios due to its consistent outperformance compared to equities in most regions. Gold has delivered superior returns in local currencies across emerging markets, driven by economic and political instability, which often weakens currencies and boosts gold prices.

While India stands out with a more stable currency and strong equity performance, many other emerging markets face chronic challenges that make gold a valuable asset. India is the only exception, at this point, where local stocks are beating gold. But this isn't the case always.

Including gold in a portfolio acts as a hedge against volatility, protecting against risks while enhancing overall returns. For investors in emerging markets, gold offers both stability and growth potential in uncertain times.

Emerging Markets (Returns in 21st century)	Equity Market Returns (In Local currency)	Gold Returns (In Local currency)	Gold's Excess Returns over Equity Market
Turkey	21.2%	29.3%	8.1%
Argentina	38.4%	44.3%	6.0%
Brazil	8.6%	14.3%	5.7%
Poland	4.2%	9.0%	4.8%
Chile	7.4%	11.7%	4.3%
South Korea	5.8%	10.0%	4.2%
Malaysia	6.5%	9.7%	3.2%
China	5.7%	8.6%	2.9%
Mexico	10.5%	12.6%	2.1%
Hungary	9.0%	10.9%	1.9%
South Africa	13.5%	14.0%	0.5%
India	13.8%	12.3%	-1.5%

*All Market returns are TRI using TRA Function on BBG

*Data since 31-12-1999

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Source: Bloomberg, DSP. Data as of Sep 2024

The Winner's Curse

The Winner's Curse: In auctions with several bidders for a commodity of uncertain value, the winning party typically overpays. As a result, the "winner" ends up with an overpriced asset, which can lead to lower or negative returns in the future.

This pattern is common in equity markets and other assets globally. When a country's equity market significantly outperforms, the likelihood of future underperformance increases.

Examples of the winner's curse include the Dot-Com bubble, the Japanese stock market bubble, the U.S. housing boom in the 2000s, and the Chinese market boom in 2007. During these periods, the hype often seemed never-ending, supported by unshakable justifications.

However, history shows that there are no "new eras"—only cycles. **Impermanence always prevails.**

	Countries Ranked Based On Equity Index Returns (In USD), Highest To Lowest		
Rank	**1994-2004**	**2004-2014**	**2014-2024**
1	USA	Philippines	USA
2	Canada	Indonesia	India
3	Australia	India	Taiwan
4	China	Brazil	Japan
5	UK	Korea	Canada
6	Brazil	Malaysia	Australia
7	India	China	China
8	Taiwan	Canada	Indonesia
9	Korea	USA	Brazil
10	Malaysia	Australia	Korea
11	Japan	Taiwan	UK
12	Indonesia	Japan	Philippines
13	Philippines	UK	Malaysia

DSP

Source: Bloomberg, DSP. Data as of Sep 2024

India's Outperformance Gap Widens To A Record As Emerging Markets Struggle

India has outperformed S&P 500 Index even during a strong USD phase, diverging significantly from other EMs. The 4yr rolling CAGR of relative performance of India over US vs EM over US favours India and is currently at a differential of 18.2% CAGR, the highest number registered ever.

A large part of underperformance of Emerging markets can be attributed to the underperformance of China. Over the last few weeks, China has enacted a preliminary stimulus to help put a check on the slowing economic growth. If Chinese equities make a comeback, it could quickly command a large share of its missing foreign investor flows.

It would be difficult for India to hold on to this outperformance given its 90% premium to Ex India EM basket.

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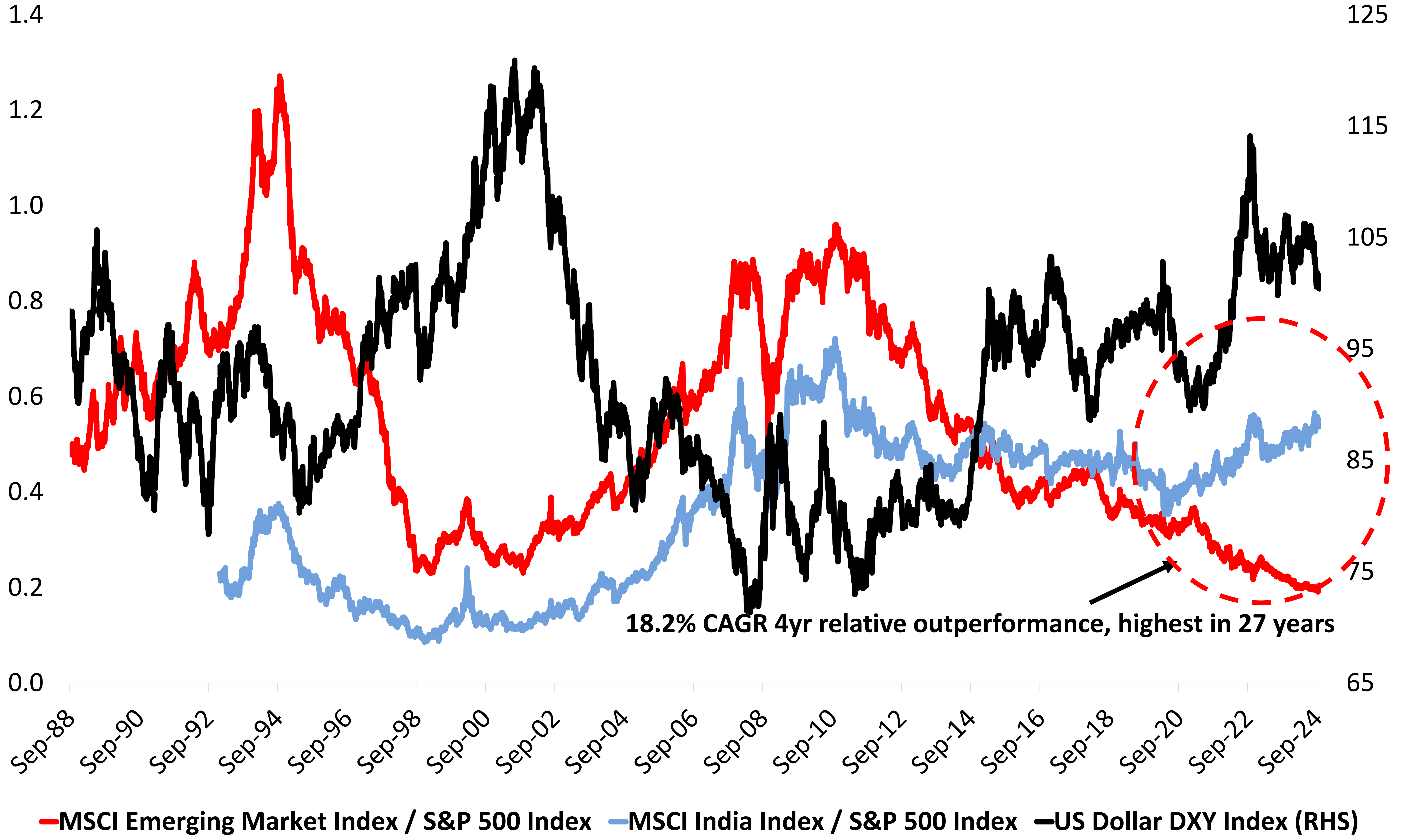


Source: Bloomberg, DSP. Data as of Sep 2024

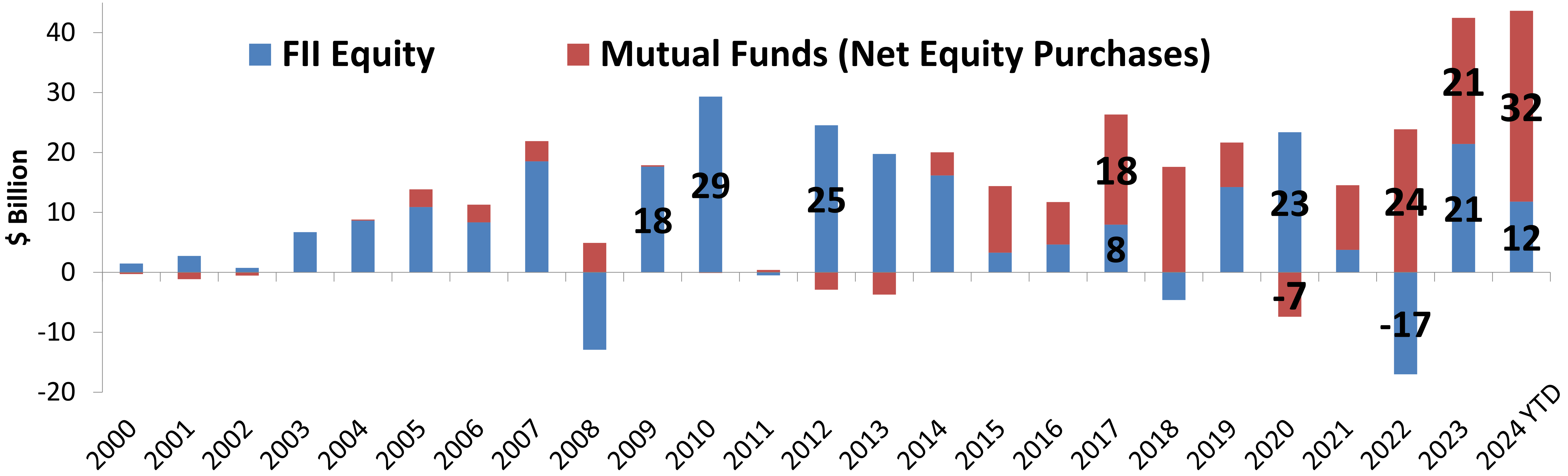
India Receiving Flows At The Cost of China Was A Mirage, Passive Flows To EM is What Matters

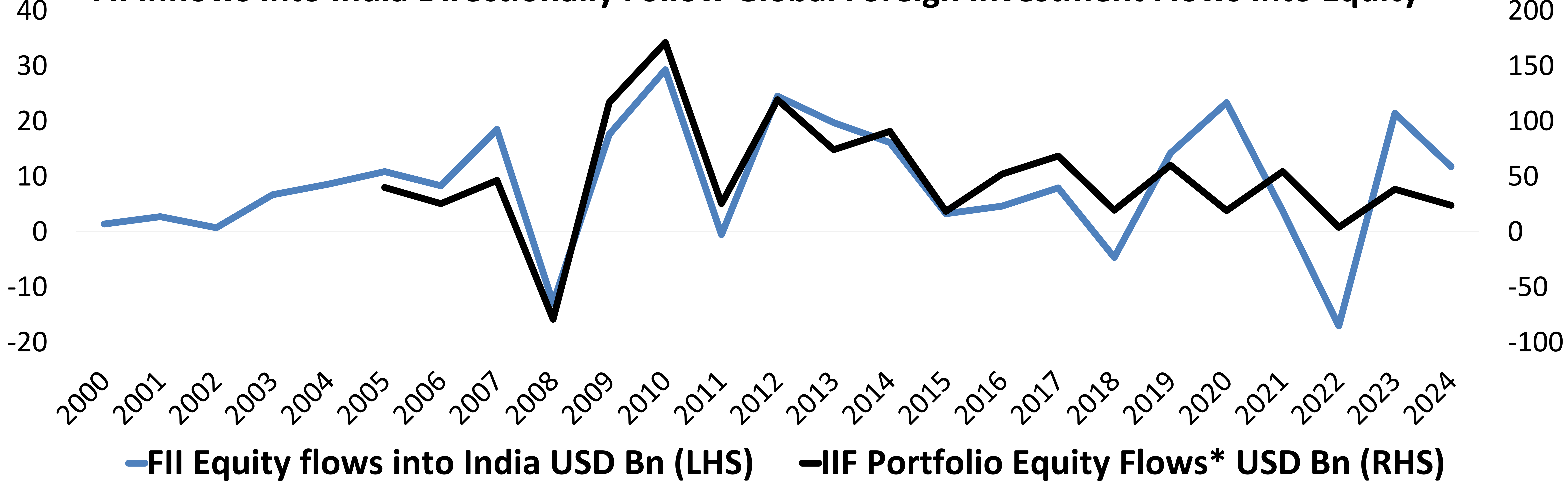
The false narrative, that India would likely receive Foreign institutional investment flows because China is not doing well, never played out.

There is another narrative which is devoid of logic – Investment flows can cause high returns a.k.a. liquidity chasing. Note how institutional inflows into Indian equities, both from FIIs and MFs have coincided with performance and DO NOT lead to performance. In fact, when seen from a valuation perspective, $86Bn worth of flows, which are equivalent to nearly 6 years of flows, have come in at the top quartile of valuations for Indian equities.

In fact, as per the historical data, India receives strong FII inflows when FII flows towards global, especially emerging, equities are positive & strong. The reason is that most of FII inflows are passive in nature and are deployed in proportion to emerging market weights.

That's another data telling you that flows chase returns and do not cause them.





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Source: Bloomberg, DSP. Data as of Sep 2024

*IIF Portfolio Equity Flows: Net non-resident purchases of EM stocks ("portfolio equity flows")

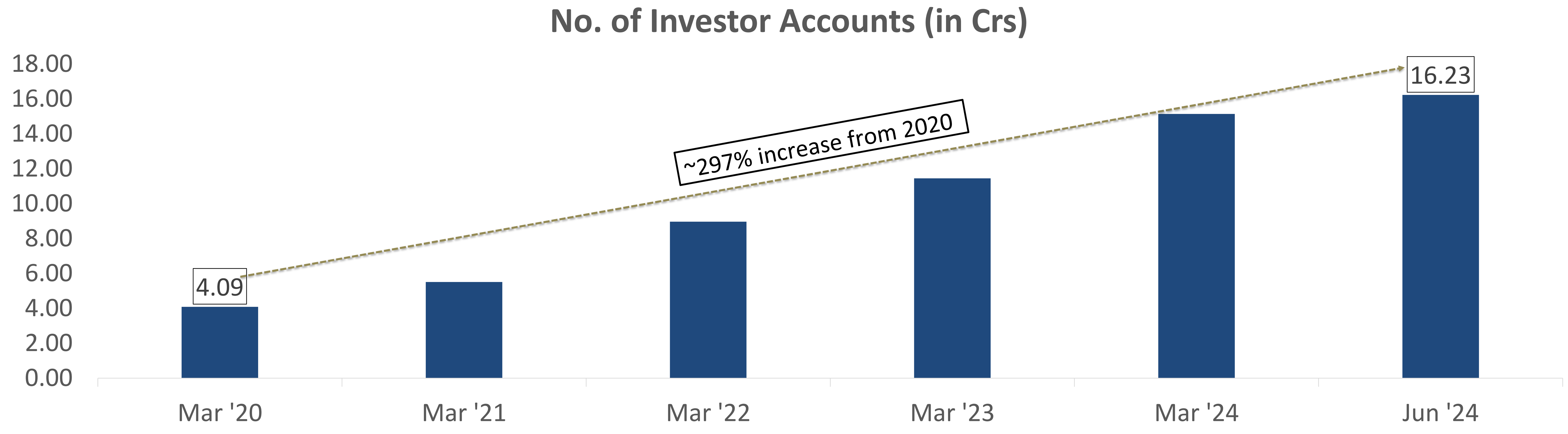
3 in 4 Investors Haven't Experienced A Bear Market!

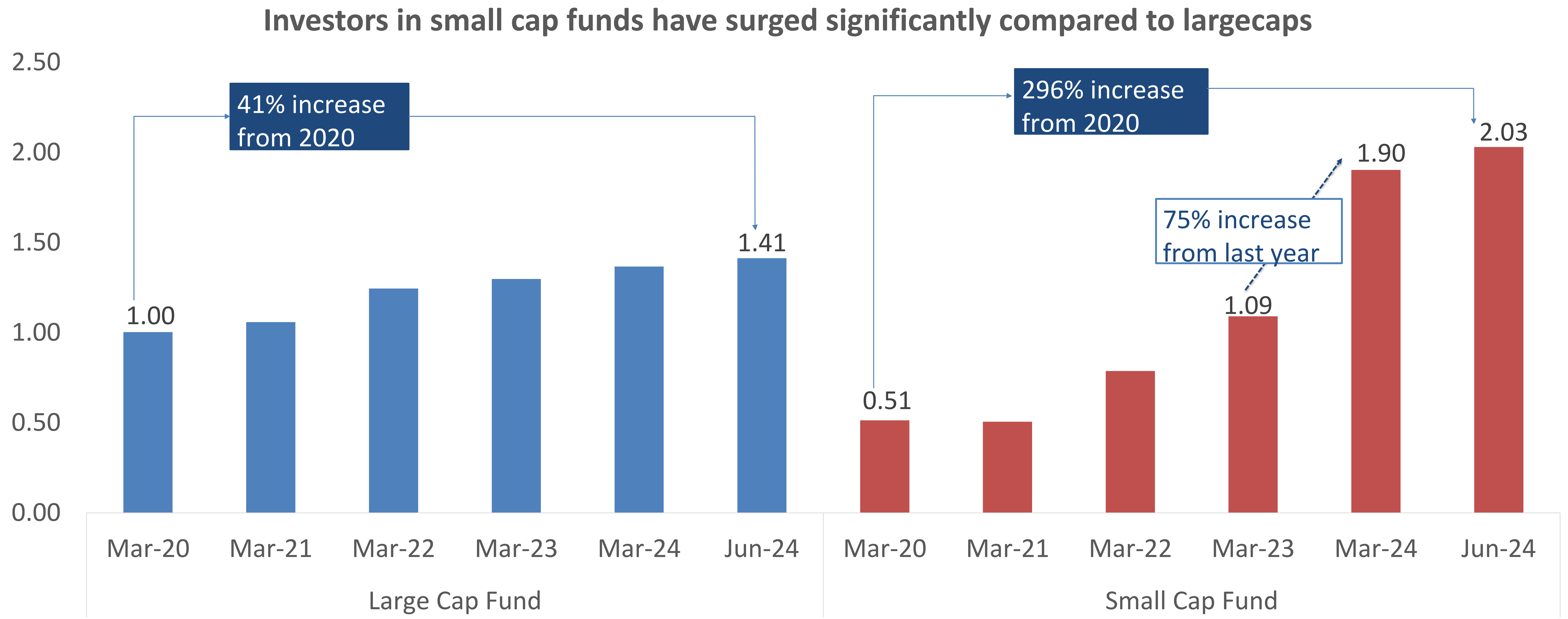
Markets have been on a steady upward trend since the COVID-19 lows, driven by a combination of loose fiscal policies, liquidity inflows, and historically low interest rates which fueled the credit binge in 2020 to 2022.

The ongoing market rally has resulted in triple-digit returns for many small and mid-cap stocks, attracting a growing number of investors, many driven by fear of missing out (FOMO).This trend is reflected in the surge of new investor demat accounts and the unprecedented number of new investors in small-cap funds.

Small-cap stocks have been the market's focal point for the past four years, delivering exceptional returns, while large-caps have largely been neglected by investors.

In fact, for the first time in history, the number of small-cap fund investors has surpassed that of large-cap fund investors. ***However, 75% of these new small-cap investors have never experienced a bear market. The critical question remains: how many will survive the next bear market ?***



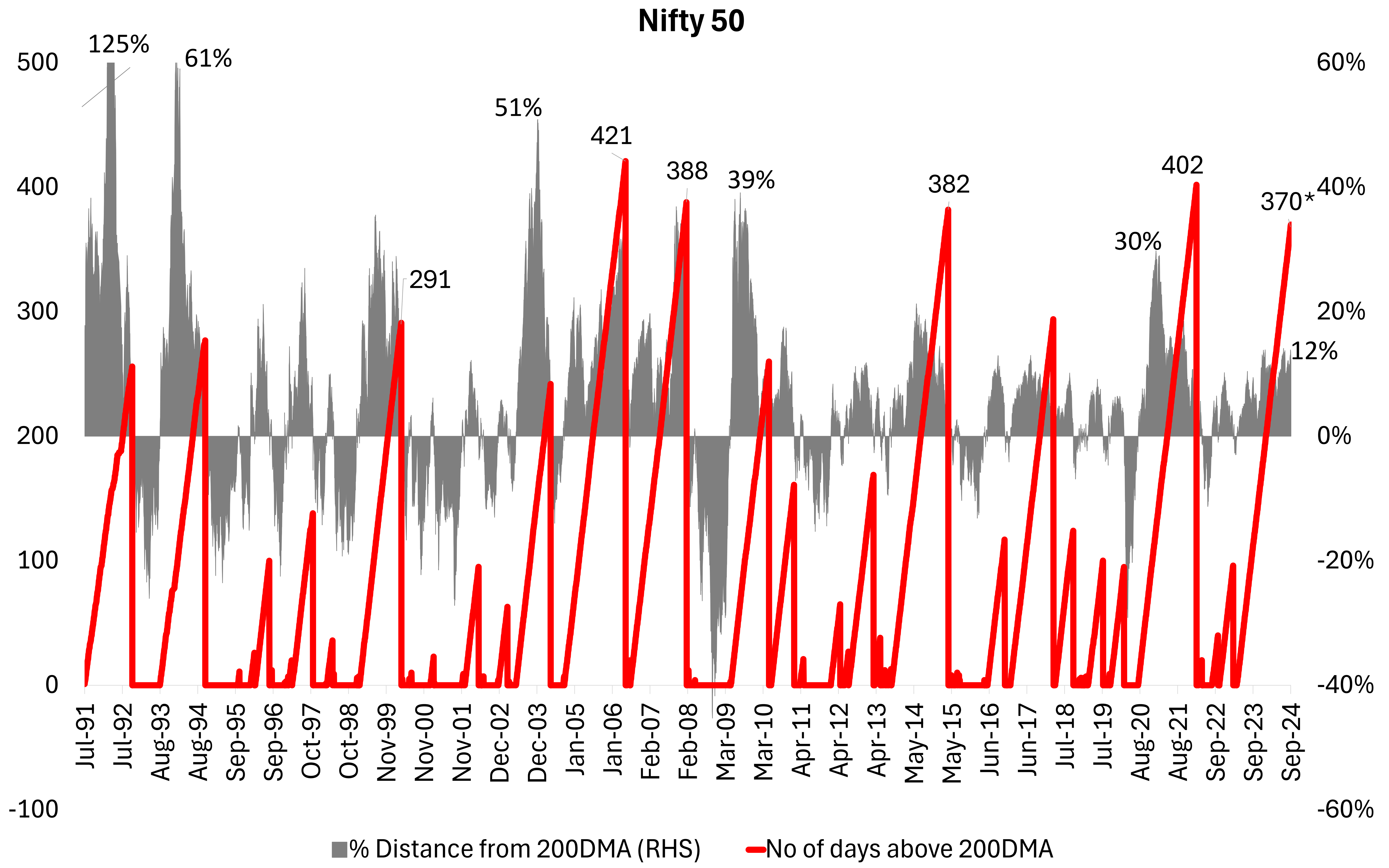


Source: SEBI, AMFI, DSP. Data as of Sep 2024

The Unsettling Calm – The Steady Move Stretches Further

Nifty Index has now spent 370 days above its 200 Day Moving Average (200DMA). 200DMA is the smoothened price move of the index and the time spent above it indicates the stable and steady move higher. Nifty Index is also a healthy 12% away from its 200DMA. This is nowhere close to its record number of 51% (last 30 years). To put this into context of price moves, it is critical to note the slope of the 200DMA. In a bear market, when prices are declining, the 200DMA also moves lower. A price bottom post a market crash is followed by a quick recovery. During such a phase the price moves quickly away from a 'still falling' 200DMA and thus these record readings are made during the aftermath of a bear market.

What, is then, the significance of the time spent and distance from 200DMA currently? Market up moves become shallower as they elongate. Notice how price finds it harder to move further from the 200DMA as time spent above 200DMA rises. Eventually this becomes an indicator of a slowing rate of change or a slowing momentum of the bull market. In the current market scenario, the momentum has slowed enough to let the bull market take a pause or a tumble.



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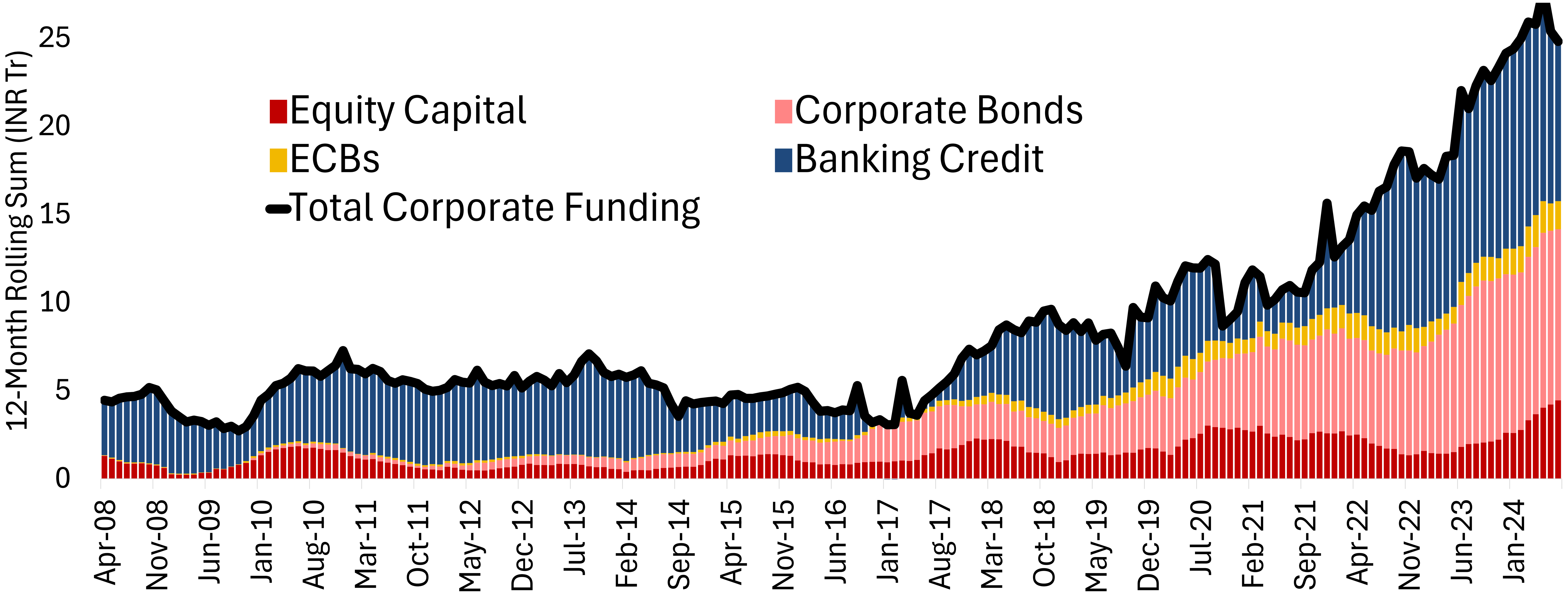
Source: Bloomberg, DSP. Data as of Sep 2024. *370 and counting

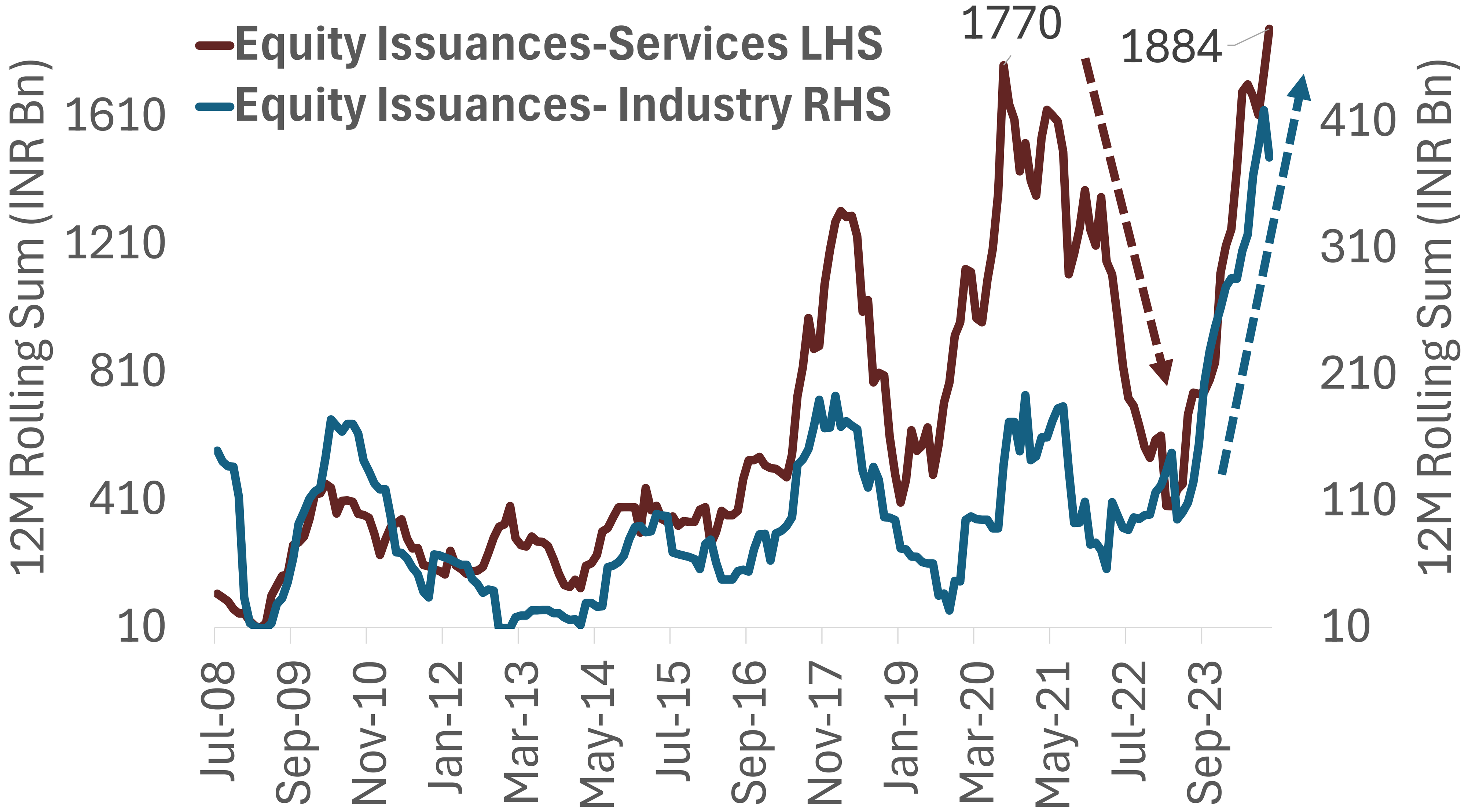
There Is A Flood of Funding, Almost Too Easy To Raise Capital

In previous editions of 'Netra,' we discussed how government capital expenditure remains strong but operates largely in isolation, providing an initial boost to demand. This push is expected to attract private investment. However, let's revisit an earlier stage of capital expenditure—capital raised.

The chart highlights a sharp increase in corporate fundraising post-pandemic. While bank credit was traditionally the primary source, equity and corporate bond issuances have grown significantly over the past four years.

In the equity space, 63% of funds raised in the last year came from IPOs, with the rest from additional offerings. However, the key question remains: how much of this capital will be directed towards productive capex? Corporate bonds are another major fundraising avenue. Of the ₹23 trillion in outstanding bonds issued over four decades, about one-third was issued post-pandemic. While much of this fundraising targets capital-intensive sectors, concerns remain over how much of this capital raised will translate into actual spending.





	Over the past 12 months		
	IPO	**Add Offering**	**Total**
Consumer	36%	26%	33%
Industrial	30%	18%	26%
Technology	8%	9%	8%
Fin Services	7%	17%	11%
Communication	6%	10%	7%
Banks	1%	7%	3%
Others	12%	13%	12%

DSP

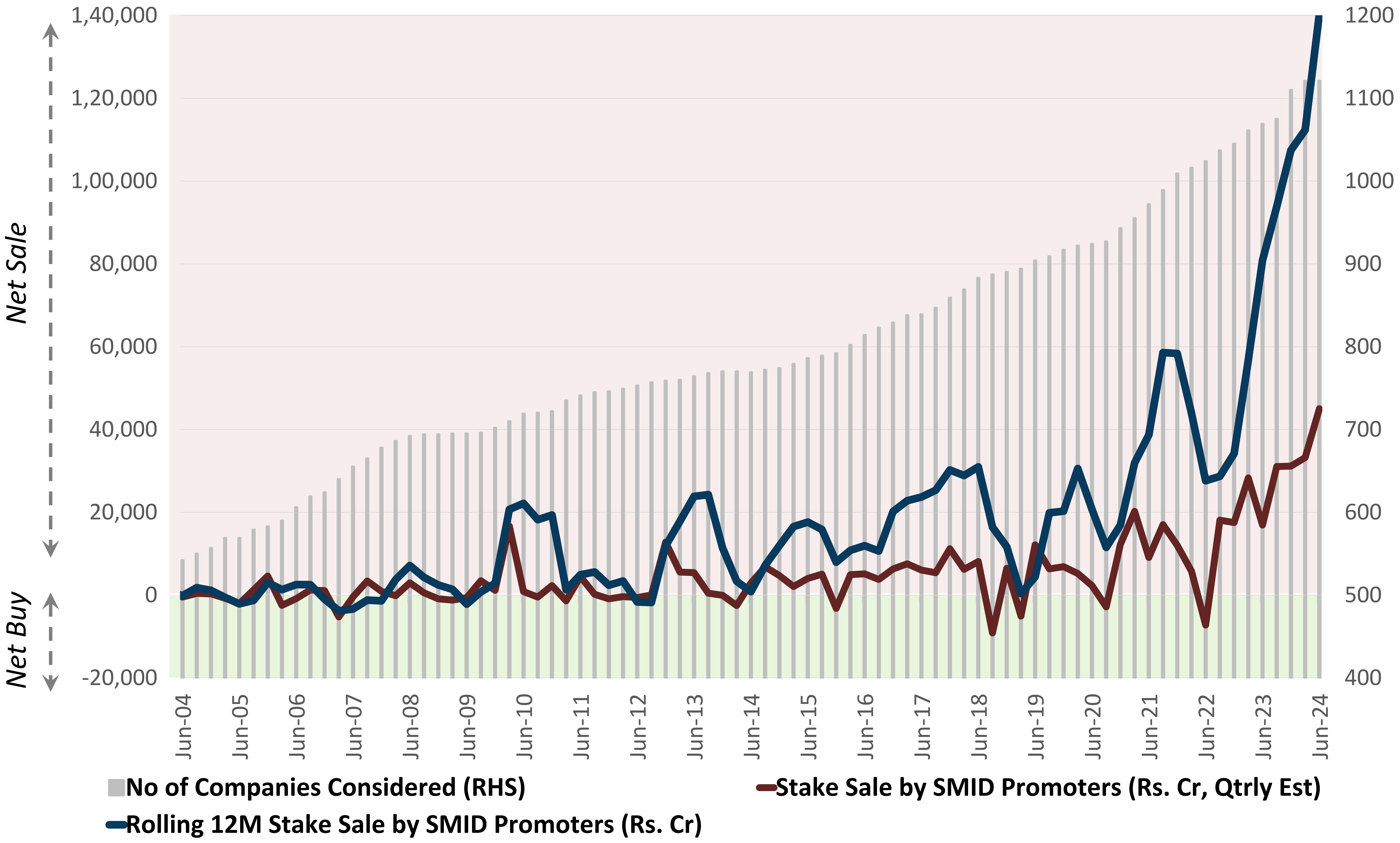
Source: Bloomberg Economics, CMIE, DSP. Data as of Sep 2024

How Much Did Promoters Sell In The Ongoing Equity Dilution Spree?

In the last month's DSPNetra, we had seen that the equity dilution levels were reaching the highs seen two decades ago - '23% of the small & mid cap companies have seen promoter share of ownership come down in the Jun-24 quarter.'

The pace of selling has especially seen a significant acceleration in the last two years with the rally in SMID stocks. In the past year, the **promoter selling in just the SMID (Small & Midcap) category stocks based on our estimates are at Rs 1.4 lakh crores.**

While the surging sale of promoter stake may not be a cause for concern on these businesses, it does highlight some concern on the valuations at which some of the SMID companies are currently trading.



Source: Capitaline, DSP. Data as of Jun 2024
Companies part of BSE Small Cap Index and BSE Midcap Index as of Aug-24 are considered for this analysis. Stake Sale Amount is estimated as Quarter over Quarter Change in Promoter Stake % multiplied by Prior Quarter End Market Capitalization. Qtrly Est – Quarterly Estimates.

Section 2

Opportunities - Tech, Banks, Staples and Precious Metals

Chinese Technology – A Value Opportunity or A Value Trap?

KraneShares CSI China Internet ETF	Market Cap (USD Bn)	Cash & Cash Equivalent (USD Bn)	ROE	P/E	P/B	P/S
TENCENT HOLDINGS LTD	526.2	50.7	18.6	21.6	3.8	5.3
ALIBABA GROUP HOLDING	253.2	107.3	7.1	11.3	1.5	1.6
MEITUAN-CLASS B	129.1	18.3	14.9	32.1	4.2	2.3
JD.COM INC	63.4	39.7	14.1	7.0	1.3	0.3
PDD HOLDINGS INC	188.0	39.2	49.5	10.4	3.8	2.8
TRIP.COM GROUP LTD	39.4	12.4	11.3	15.5	1.6	4.4
KE HOLDINGS INC	24.3	7.1	5.8	39.6	5.0	1.8
NETEASE INC	60.5	16.9	23.5	12.2	2.7	3.3
BAIDU INC	36.3	20.7	8.3	10.1	0.7	1.6
VIPSHOP HOLDINGS LTD	8.4	3.2	23.8	5.9	1.3	0.4
Sum or Average	**1328.7**	**315.6**	**17.7**	**16.6**	**2.6**	**2.4**
Cash as a % of Mcap		**23.7%**				

NYSE FANG+ Index	Market Cap (USD Bn)	Cash & Cash Equivalent (USD Bn)	ROE	P/E	P/B	P/S
APPLE INC	3463.4	153.0	160.6	33.6	50.4	8.8
MICROSOFT CORP	3181.5	75.5	37.1	36.4	11.9	13.1
NVIDIA CORP	2977.9	34.8	123.8	53.1	47.9	29.0
ALPHABET INC	2026.3	100.7	30.9	22.6	6.5	6.1
AMAZON.COM INC	1972.9	89.1	21.9	43.8	8.3	3.2
META PLATFORMS INC	1435.5	58.1	35.4	26.1	8.7	9.2
TESLA INC	832.1	30.7	21.1	113.4	10.9	7.6
BROADCOM INC	806.6	10.0	11.6	63.6	11.5	15.6
NETFLIX INC	303.6	6.7	31.6	43.7	13.4	8.3
SNOWFLAKE INC	38.2	3.2	-21.6	-	9.0	11.5
Sum or Average	**17037.8**	**561.8**	**45.2**	**48.5**	**17.8**	**11.2**
Cash as a % of Mcap		**3.3%**				

Nifty IT Index	Market Cap (USD Bn)	Cash & Cash Equivalent (USD Bn)	ROE	P/E	P/B	P/S
TCS	186.2	5.4	49.5	33.3	16.5	6.4
INFOSYS	94.6	4.4	33.8	29.4	9.4	5.1
HCL TECHNOLOGIES	58.6	3.2	24.7	29.4	7.0	4.2
WIPRO	33.9	5.4	15.4	24.9	3.6	3.1
LTIMINDTREE	21.7	1.1	23.9	41.3	9.5	5.2
TECH MAHINDRA	18.8	0.9	8.6	59.8	5.3	2.7
PERSISTENT SYSTEMS	10.1	0.2	24.5	72.9	16.4	8.1
L&T TECHNOLOGY SERVICES	6.8	0.3	25.8	44.6	10.9	5.9
MPHASIS LTD	7.0	0.4	18.6	36.1	6.4	4.2
COFORGE LIMITED	5.5	0.3	17.1	55.2	7.9	4.6
Sum or Average	**443.1**	**21.6**	**24.2**	**42.7**	**9.3**	**5.0**
Cash as a % of Mcap		**4.9%**				

Chinese Technology stocks are currently trading at significantly lower valuations as compared to both the NYSE FANG+ Index and India's Nifty IT Index. These Chinese companies hold substantial cash reserves, positioning them well to capitalize on strategic opportunities as they arise. Given the cyclically low valuations in Chinese tech sector, it could offer better opportunities than global technology space.

DSP

Source: Bloomberg, DSP. Data as of Sep 2024

How To Value Gold & Therefore Derive A Pricing For Silver

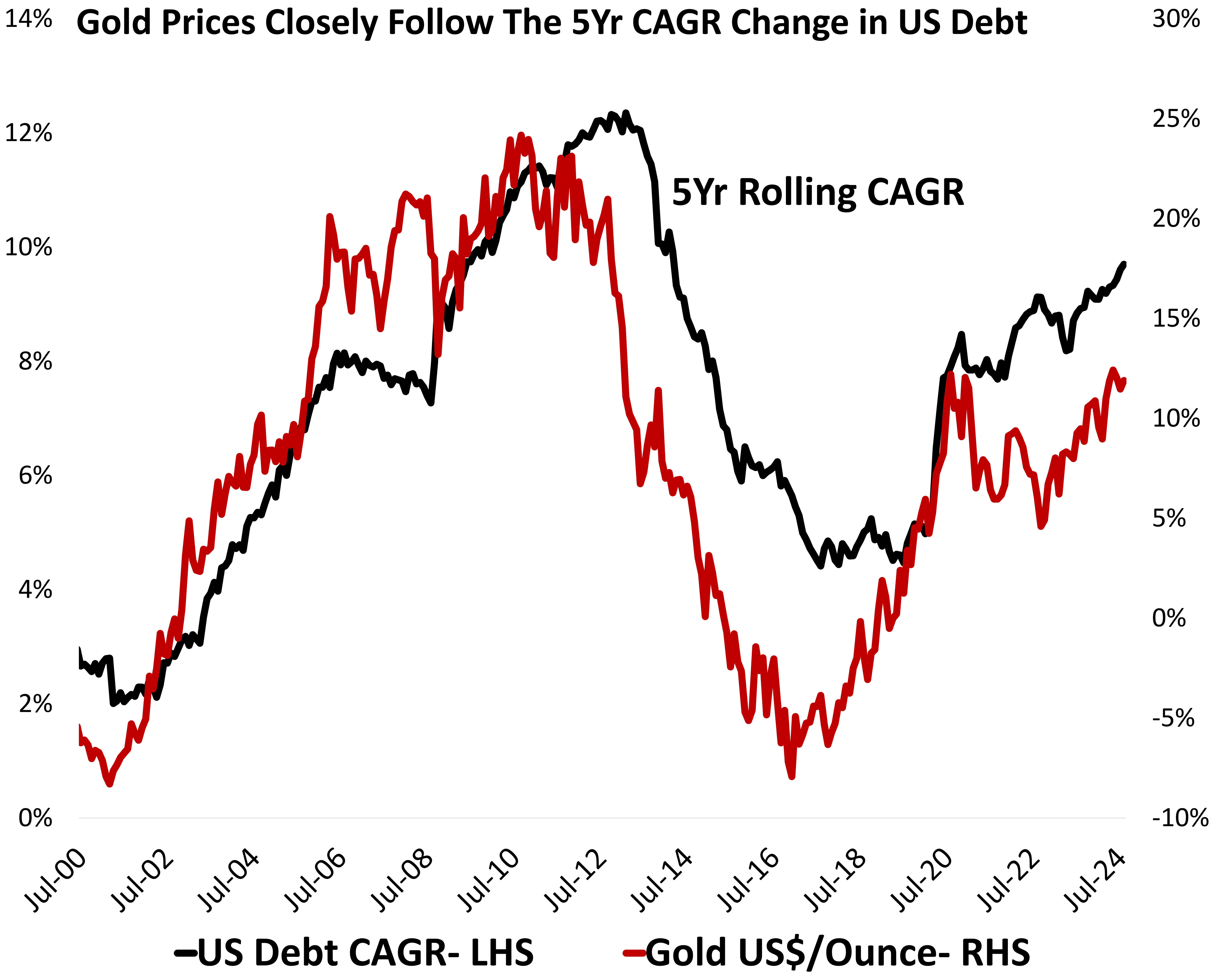
How To Value Gold		
Total mined Gold (above-ground stock in tonnes)	*1*	2,12,582
Total mined Gold (Bn troy ounce)	*2*	6.835
US M2 Money Supply (USD Bn)	*3*	21000
Value of total mined Gold per troy ounce w.r.t US M2	*4 = 3 ÷ 2*	3072
Additional EU Money Supply (taken at 50% of total) (USD Bn)	*5*	7500
Value of total mined Gold per troy ounce w.r.t EU M2	*6 = 5 ÷ 2*	1097
Final Value of total mined Gold per troy ounce	*7 = 6 + 4*	4170
Approx Price Range for Gold	*8*	**$3072 - $4170**

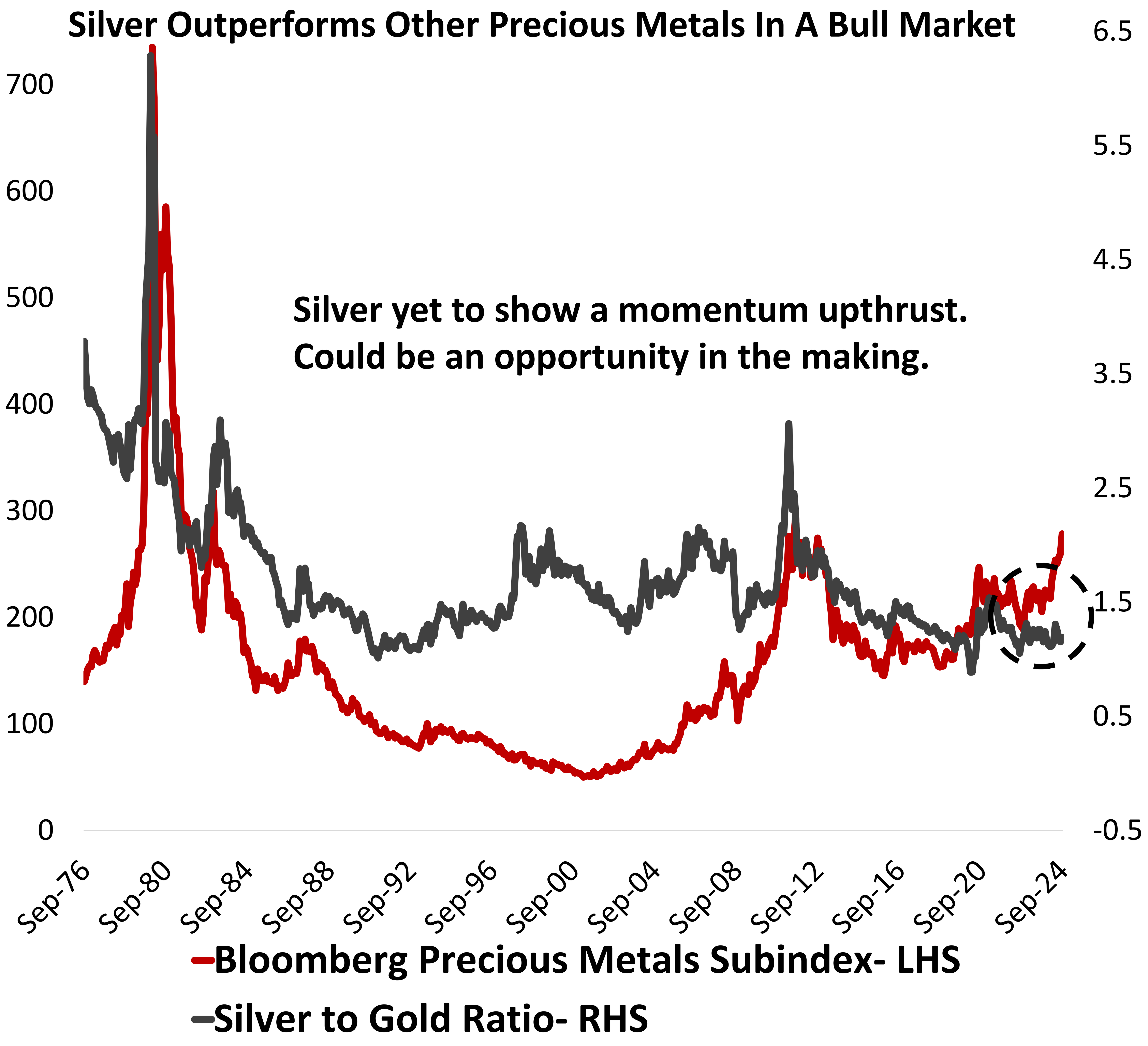
How To Value Silver		
Current Gold Silver Price Ratio	*1*	84:1
Historical Gold to Silver Ratio	*2*	
The Roman Empire		12:1
Medieval Europe		9.4:1
US Coinage Act of 1792		15:1
US Decision To Raise Gold price to $35 in 1939		98:1
Abandonment of Gold standard & aftermath		97.5:1
Average Gold to Silver Ratio in 21st Century	*3*	60:1
Assuming a Gold to Silver Ratio of 60:1		
Derived price range for silver	*4*	**$51 to $69.5**

DSP

Source: DSP, Metals Focus, Refinitiv GFMS, US Geological Survey, World Gold Council. Data as of Sep 2024.

Gold Is Responding To The Global Debt Binge? Silver Yet To Respond





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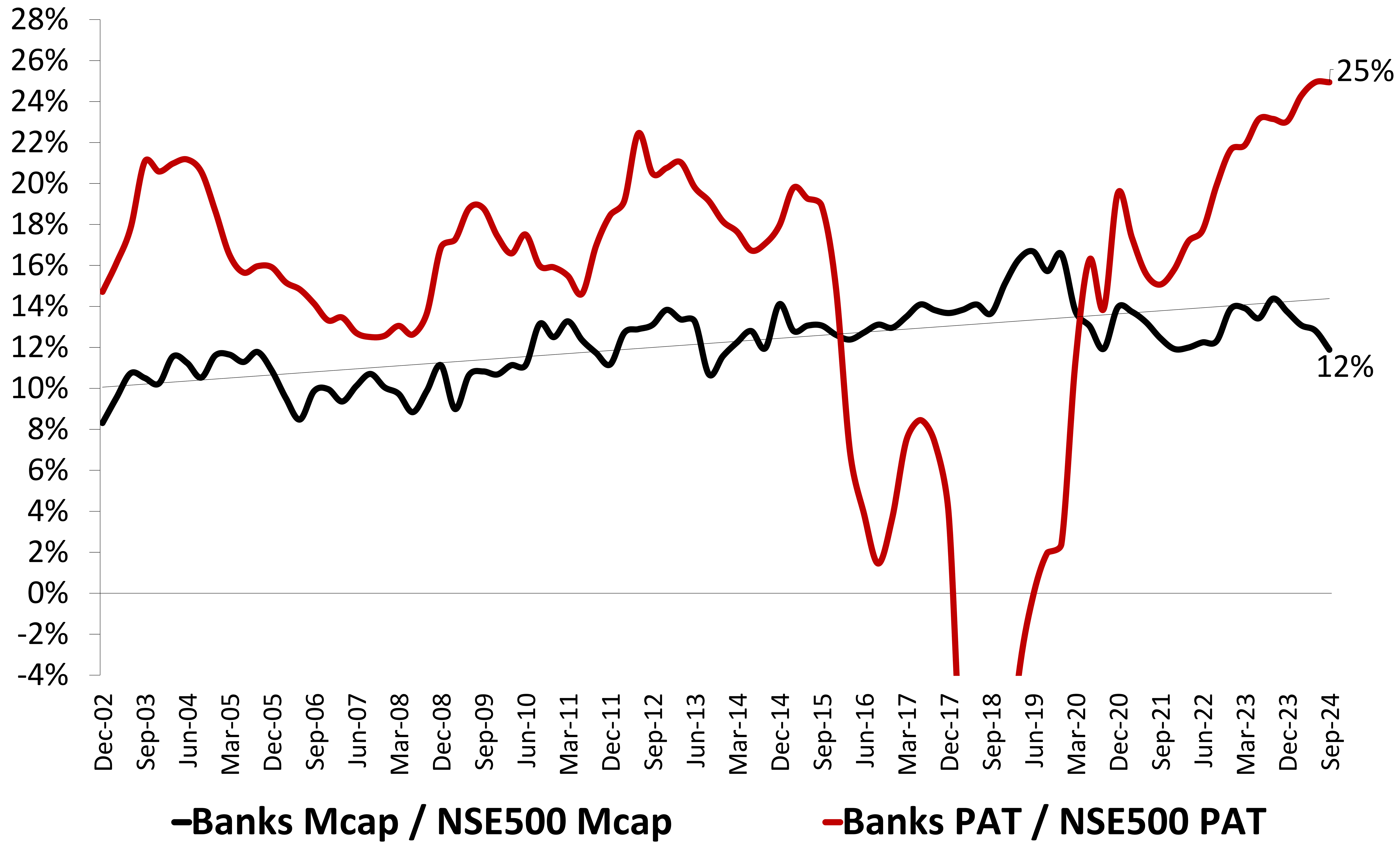
Source: DSP, Bloomberg, FRED. Data as of Sep 2024.

Banking: The Only Sector At Average Valuations And Under Owned

Banks now contribute 25% of the profits to the top 500 company universe. However, their Mcap as a % of the NSE 500 universe is now at 12%, compared to the trend average of 14.1%, suggesting a relative reduction in the banking sector's share of market capitalization.

Currently banking loan growth is growing just ahead of nominal GDP growth. Banks have reduced their unsecured credit's incremental growth. Credit costs for the banking sector also continue to remain stable. The asset quality for the entire sector is steady and is not deteriorating.

This means that banks remain one of the few sectors in the market that isn't overheated from a price performance perspective and also offers a margin of safety at a time when the broader market is at a premium valuation.



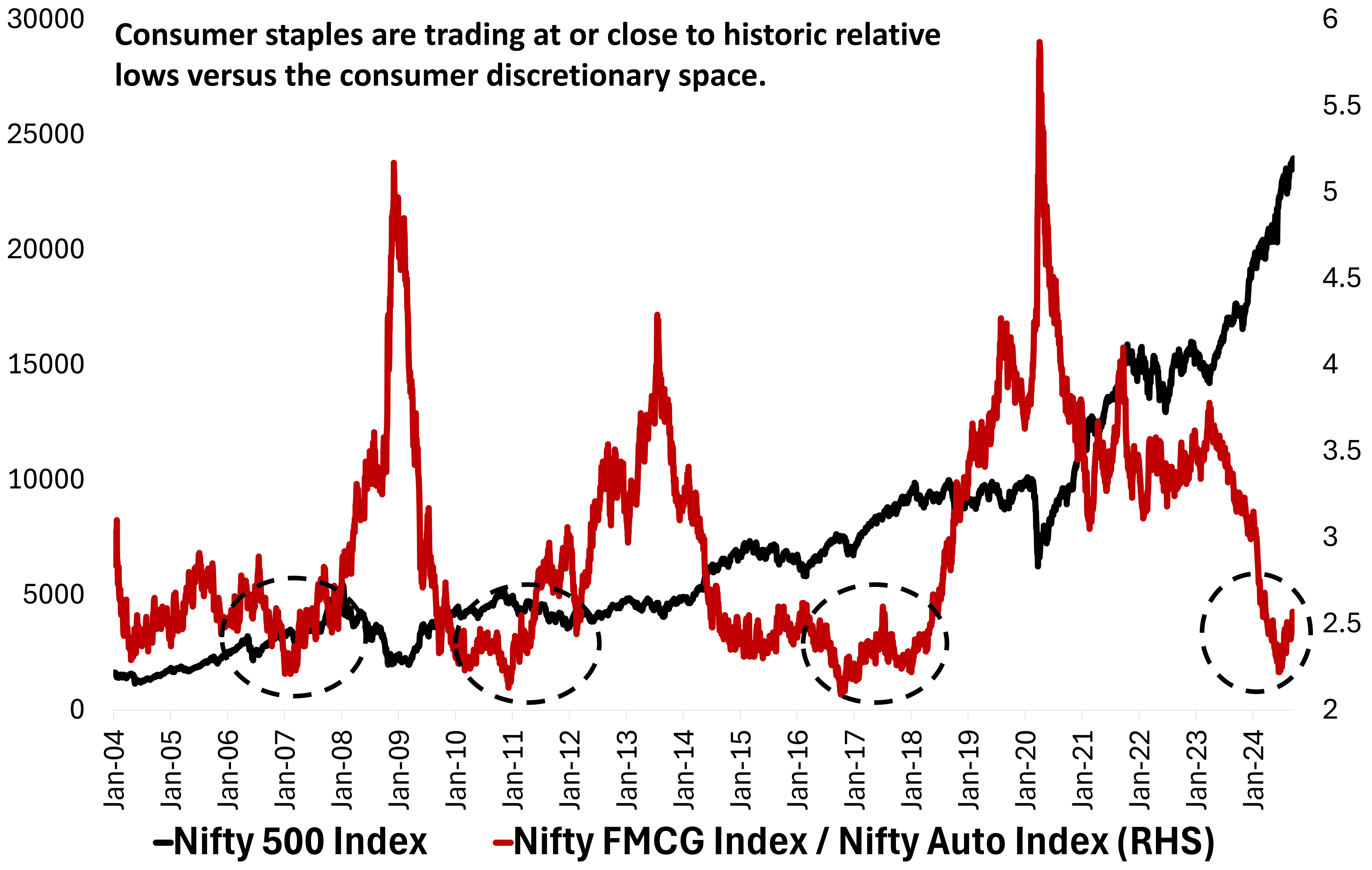
Source: Ambit Capital Research, DSP. Data as on 09 Sep 2024

Consumer Staples Offer Better Margin of Safety Than Consumer Discretionary

Sector rotation reveals market cycles, and over the past two years, the auto (consumer discretionary) sector has been a favorite. This was driven by strong nominal GDP growth, boosted by recovering consumer demand, restocking, and pent-up post-pandemic purchases. In contrast, consumer staples underperformed due to inventory depletion, a shift toward discretionary spending, and lack of volume growth.

Currently, consumer staples are priced more attractively compared to the consumer discretionary sector. This aligns with slowing nominal GDP growth, high inventory in discretionary sectors, and premium valuations in many businesses.

While staples may outperform relatively, they are not cheap, so return expectations should remain conservative on an absolute basis.



Source: Bloomberg, DSP. Data as of Sep 2024

Are Your Passive Index Funds On TRACK In Terms Of Being Low Cost?

Passive funds have seen a surge in popularity, with a significant rise in both new launches and fund inflows. A key reason behind investors' preference is their perceived 'LOW COST'.

But are they truly low cost?

Cost of owning a passive index fund is reflected in tracking difference of the fund. Tracking difference (TD) refers to the gap between the returns of a passive index fund and the benchmark it tracks. It can arise due to various reasons like Expense ratio, impact cost, inflow/outflow, dividend, fund manager skills etc. Based on the TD of last 1 year as highlighted in the graph, cost of owning passive index fund is similar to cost of active fund.

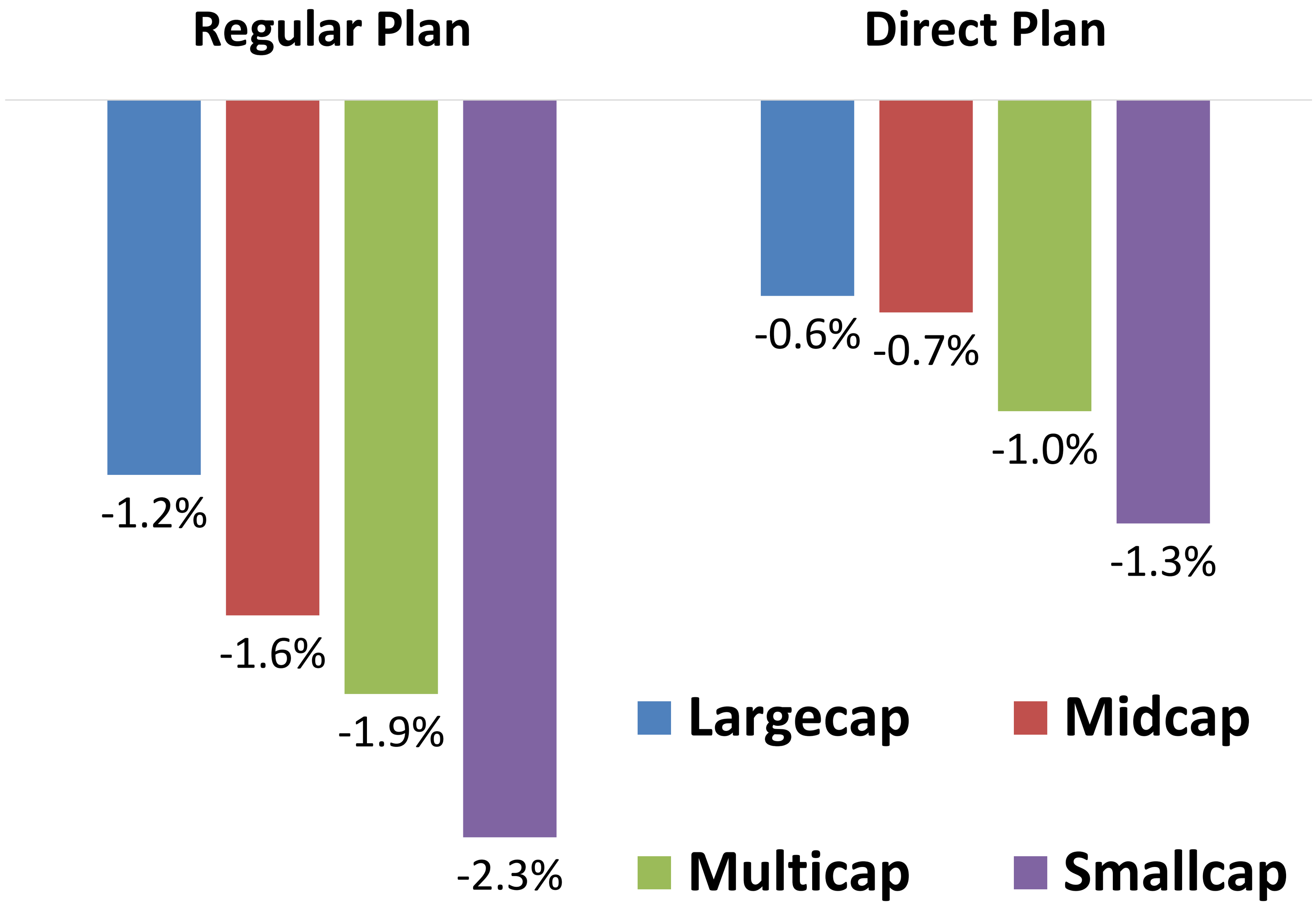
- Smallcap index funds have high TD compared to Largecap index funds
- Momentum factor funds have higher TD over other factors; Quality has least TD

Thus, prior to taking index performance on face value, its important to know the nature of index & tracking difference of live funds.

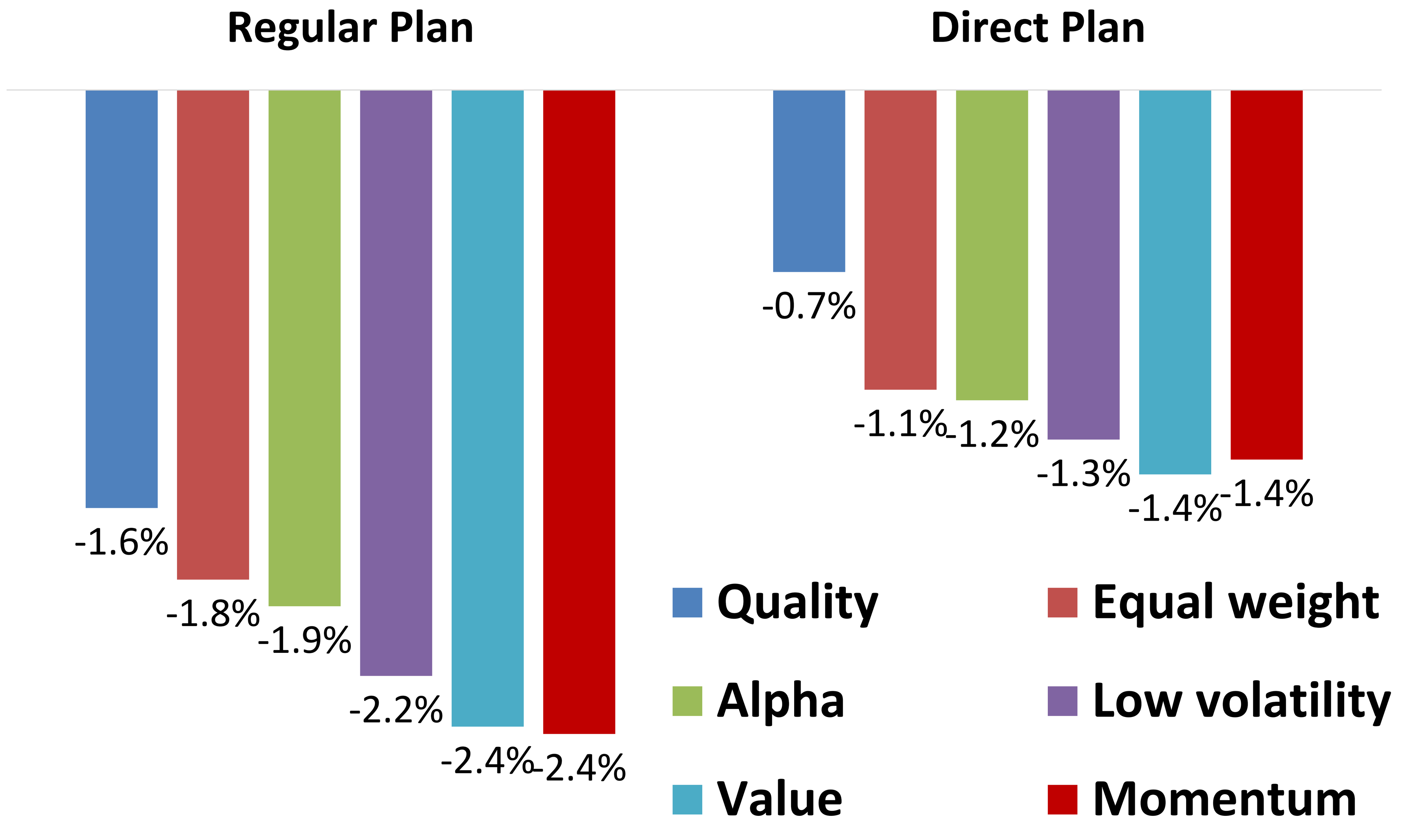
Last 1 year Tracking Difference (Index fund returns minus benchmark returns)

Type	Diversified	Sectoral/Thematic	Smart Beta
Regular Plan	-1.5%	-1.6%	-2.1%
Direct Plan	-0.8%	-0.7%	-1.2%

Diversified Funds



Smart Beta funds



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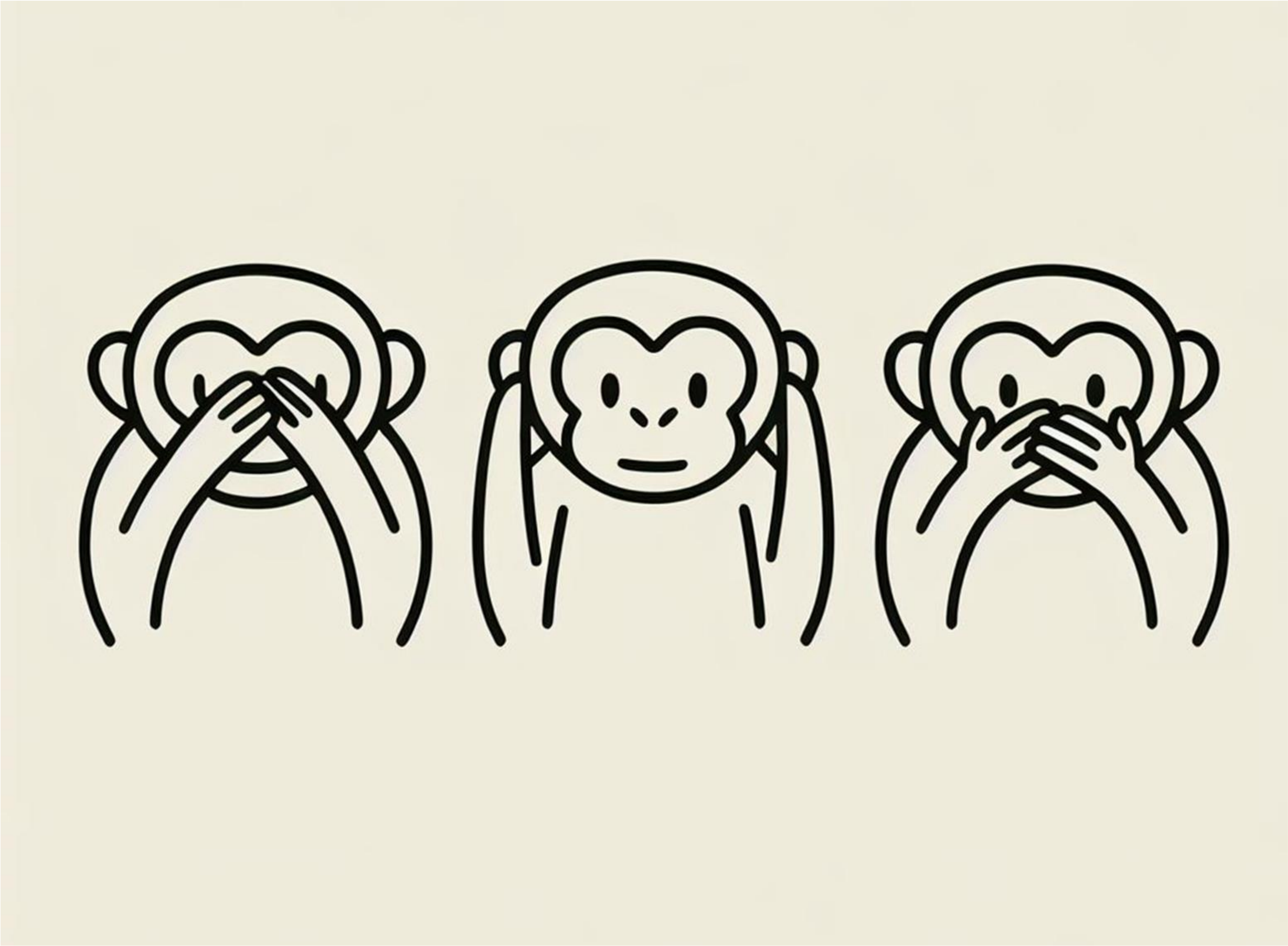
Source: AMFI, DSP. Data as of Aug 2024.
ETFs are excluded from above analysis as there are other associated costs with ETFs which are not accounted in tracking difference number published by AMFI (e.g. Brokerage, STT, Impact cost etc). Average tracking difference considered across categories.

Focus On What Is Under Your Control

Avoid Noise in all forms.

The *most important raw material for investing* is something that's already under your control:

Your Savings Rate



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