

• High participation by leverage using options as investment strategy (India Derivatives market to Cash market volume is ~450:1) makes the market vulnerable to high volatility &/or quick sector rotation.

45 days.

focus is on the medium term (2-4 years). Valuations are the bridge for the intermediate term (6 months - 2 years) via sector rotations.

MARKET CAP BIAS

Markets are having a sharp & swift reaction to the US Fed policy meet that recurs every

It is getting tougher to predict markets in the very short term (3-6 months) and hence the

- In CY23, small and mid-caps outperformed, in contrast to CY22. This rally was initially fuelled by expectations of rate cuts following the RBI's pause in April policy. However, current indications suggest a delay in rate cuts. Despite the strong returns in the small and mid-cap segment, valuations appear high, especially with the likelihood of delayed rate
- cuts. In developed economies monetary policy primarily affects market valuations. However, in emerging economies like India, it has a greater impact on the overall economy and earnings. Considering the uncertainty, preference may be given to large caps, large

FLOWS

& mid cap funds and partly by FPI switching from large caps towards small & mid caps. Rising share of SIP's in small & mid cap fund can give flow support. **MOVERS & SHAKERS**

A part of the outperformance by small & mid cap has been led by investor flows into small

INDIA INDEX 16.0% 14.0% 12.0% Performance 10.0% 8.0% 6.0% 4.0%

Niftv

S&P

500

Index

4.4%

24.2%

Source: Bloomberg; Data as on December 29, 2023; Performance - Absolute returns

13.7%

Nifty

Commod

ities

Realty

Pharma

BSE

Small

Cap

Nifty

Energy

Midcap

Nikkei

225

-0.1%

28.2%

Dax

Index

3.3%

20.3%

47.3

-15.4

-4.3

Nifty

Midcap

100

Hang

Seng

Index

0.0%

-13.8%

14.9

21.9

46.1

Nifty

50

7.9%

20.0%

20

46.6

3.5

Nifty

Small

Cap 100

BSE 250

Cap

■1 Mth Performance Source: Bloomberg; Data as on December 29, 2023; Performance - Absolute returns

2.0% 0.0%

S&P Bse

Sensex

Index

Nifty 50

40.0% 30.0% 20.0%

10.0% 0.0% Auto

Bank

WORLD INDEX 50.0%

Ftse

100

Index

3.7%

3.8%

Cac 40

Index

3.2%

16.5%

Dec-05 | Dec-06 | Dec-07 | Dec-08 | Dec-09 | Dec-10 | Dec-10 | Dec-11 | Dec-12 | Dec-13 | Dec-14 | Dec-15 | Dec-16 | Dec-17 | Dec-18 | Dec-19 | Dec-20 | Dec-21 | Dec-22 | Dec-23 | Dec-23 | Dec-24 | Dec-25 | Dec-26 | Dec-26 | Dec-26 | Dec-27 | Dec-26 | Dec-27 | Dec-28 | Dec-29 | Dec-20 | Dec-20 | Dec-21 | Dec-20 | Dec

31.4

55.9

6.5

6.8

-5.1

Note - Cells highlighted in pink colour represents highest returns and yellow highlighted cells represent lowest returns amongst the 3

Media

Metal

Nifty IT

9.0%

Nasdaa

Compos

ite

Index

5.5%

43.4%

PERFORMANCE SNAPSHOT OF SECTORAL INDICES - YOY

17.9

19.2

-24.6

-31

39.2

36.8

FMCG

Dow Jones Indus. Avg 4.8%

36.3

35

39.8

29

54.8

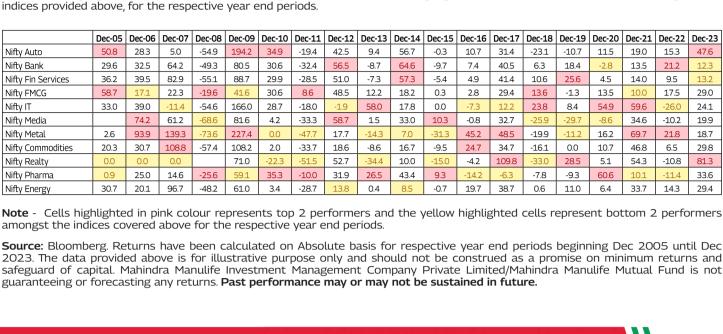
76.9

-51.8

-59.4

99

■1 Yr Performance



Note - Cells highlighted in green colour represents top 2 performers and the pink highlighted cells represent bottom 2 performers amongst the indices covered above for the respective quarter end periods. Source: Bloomberg. Returns have been calculated on Absolute basis for respective quarter end periods beginning Mar 2020 until Dec 2023. The data provided above is for illustrative purpose only and should not be construed as a promise on minimum returns and safeguard of capital. Mahindra Manulife Investment Management Company Private Limited/Mahindra Manulife Mutual Fund is not

12

19 7.6

10.9

15.3

-9.8

3.8

-16.2

-16.9

-10.5

-2.8

17.9

23.8

10.8

10

6.7

-3.4

16.3

7.4

14.1

10.5

-1.6

-2.1

-1.7

-1

8.4

-0.5

6.1

16.6

6.9

1.8

1.1

4.9

3.9

0.3

-18.2

-6.6

-10.3

-4.6

-11.8

11.1

13.7

12.9

8.6

14.6

8.2

8.5

10.4

11.7

16.6

18.9

9.1

22.5

7.5

10.1

7.5

10.7

10.6

Years ago when

4.6

12.8

16.3

31.1

14.9

16.6

9

14.5

21.6

45.1

22.2

12.6

6.6

22.2

17.7

7.5

guaranteeing or forecasting any returns. Past performance may or may not be sustained in future.

MARKET CAPITALIZATION - PERFORMANCE SNAPSHOT

2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022

■ Nifty Midcap 100 TRI (Represents Mid Cap) ■ Nifty Smallcap 100 TRI (Represents Small Cap)

to the post 2020 linking of lending and policy rates. The last 12-18-month rate hike cycle has shown the dependency of lender's profits on Policy rate. Our study below compares India's resource consumption and macro-data to China and the number of years ago that China was at India's present levels, analysing Chinese growth as

a roadmap for India's potential leap from \$3.4 to \$6.8 trillion. Significant spikes in resource

consumption, like fuel and electricity, are anticipated alongside steel demand.

Another sector that has come to depend on policy action are Lenders (Banks/NBFCs) due

existing players are needed. Positive policy steps are already visible in this respect.

Core/Basic Industries: Domestic manufacturing may drive growth in this decade, fuelled by PLI and "China + 1" demand. Growth needs core resources like power, fuel and metals. Based on current capacity, India risks shortages in electricity, steel, and other raw materials over the next 2-3 years. Metals and fuel can be imported, but power and refining require greenfield investments. Policies that encourage equity financing and reinvestment by

last business day of every calendrer year end. The data provided above is for illustrative purpose only and should not be construed as a promise on minimum returns and safeguard of capital. Mahindra Manulife Investment Management Private Limited/Mahindra Manulife Mutual Fund is not guaranteeing or forecasting any returns. Past performance may or may not be sustained in future.

Data (CY23) India Present China Present China was at India's present level Oil (million barrels per day) 4.4 12.8 24 Median Age (Years) 28 39 23 Urban Population as % of total 23 36 65 Electricity Consumed (kwh per Capita) 23 1032 5464 Net FDI Inflow (USD Bn) 49.9 180 22 Steel Consumption (mn ton) ~120 ~950 22 Air passengers CY2021 (Mn) 84 440 21 Exports (approx) ~450 ~3600 20 Imports (approx) ~700 ~2500 18 GDP (USD Trn) 3.4 18 16 GDP per Capita (USD) ~2400 ~12670 16 Market Cap (USD Trn) 3.7 10.7 11 Services (% of GDP) 48.6 52.8 9

10Y Gsec %	7.17	7.28	7.33
CPI (%)	5.55	4.87	5.88
IIP (YoY) %	11.74	5.83	-4.00
US 10Y %	3.88	4.33	4.05
Dollar Rupee	83.21	83.40	82.79
Source: Bloomberg; Data as on December 29, 2023 If there was a Hall of Fame of questions not asked, Jeff Bezos's insights invoke profound wisdom: "I very frequently get the question: 'What's going to change in the next 10 years?' And that is a very interesting question; it's a very common one. I almost never get the question: 'What's not going to change in the next 10 years?' I submit to you that that			
second question is the more important of the two." If in the investment world this question was asked "What's not going to change? "; a near refrain would be "Consensus fails, almost every time." 2023 proved again why such pejorative insinuations on Consensus are cast: here are the broad themes in early 2023: China economy restarts pushing global growth and commodity prices, US economy slows down and US rates start falling and lastly Oil and natural gas flaring up.			
In hindsight, none of the broader themes played out. China stumbled along through the year; US exhibited robust growth and US rates had touched a historic high in November. Oil and gas moved down despite continuing crisis in US and fresh crisis in the Middle East! As we reflect through the past year, the Investment Trite continues to rule "Prepare; not Predict"			
We pen down some thoughts on the past year; and attempt to look ahead!			
THE YEAR GONE BY			

a risk off trade and the US economy may be gradually moving towards it. Our fixed income portfolio strategy across our duration-oriented funds run in a similar vein a) Relatively heavy on duration (b) Preference for Gilts (c) A steepening of the Yield curve ■ While China announced a policy push for economic revival, they don't seem to be large

enough to push an inflationary pressure on commodity prices

THE ALL-IMPORTANT QUESTION

WHAT SHOULD THE INVESTOR DO?

Globally interest rates have always looked askance at the US interest rates. The narrative has now quickly shifted from "Higher for Longer" to "possible cuts." There is data to suggest that credit conditions have deteriorated. A deteriorating credit condition usually results in

■ The bear flattening of the yield curve specially in the 1-5-year segment has largely happened hinting at the possible end of the upward movement of the domestic rate

■ While AAA and NBFC credit spreads have increased, they now merit a gradual look in

THE LAST WORD

in ultra-short term and low duration category of funds.

beyond one year with a lower risk volatility.

predominantly investing in mid cap stocks)

information contained herein.

Bond fund merits attention.

- No market participant has the last word in financial markets. There never was one; there never will be one. The ebbs and flows of the market will continue for an aeon. We as market

mid-caps, and selective small-cap stocks.

Performance -10.0% -20.0% ■1 Mth Performance

Nifty 50

Nifty Midcap 100

Nifty Fin Services

Nifty Commodities

Nifty FMCG

Nifty Media

Nifty Metal

Nifty Realty

Nifty Pharma

Nifty Energy

Nifty IT

-36

-18.5

-42.3

43.4

-33.1

-41.2

-10.7

-30.1

15.6

25.6

24.6

15.5

39.1

29.4

■ Nifty 50 TRI (Represents Large Cap)

ECONOMIC OUTLOOK

35.2

12.6

8.8

4.6

17.9

4.4

Nifty Small Cap 100

PERFORMANCE SNAPSHOT OF SECTORAL INDICES - QOQ Jun-21 Jun-22 Jun-20 Dec-20 Mar-21 Sep-21 Dec-21 Mar-22 Dec-22 Mar-23 Jun-23 Dec-23 Sep-20 Sep-22 Sep-23 Nifty 50 10.5 10.7 13.8 -10.9 19 Nifty Midcap 100 -31.6 25.6 15.5 22.7 13.7 0.2 2.7 13.4 13.9 Nifty Small Cap 100 -38.4 21.7 11.9 -7.6 -19.1 11.8 3.1 -7.6 18.8 Note - Yellow highlighted cells represent highest returns amongst the 3 indices provided above, for the respective quarter end periods. Sep-20 Dec-20 Mar-21 Jun-21 Sep-21 Dec-21 Mar-22 Jun-22 Sep-22 Dec-22 Mar-23 Sep-23 -0.7 Nifty Auto 16.3 7.3 7.5 8.5 Nifty Bank 40.5 45.7 6.5 4.4 7.6 -5.2 2.5 -8.1 15.6 11.3 -5.5 10.2 -0.4

Data Source: ICRA. Data period: 1st January 2006 till 29th December 2023. Returns are absolute returns (1 year) calculated as of the

Population (bn) 1.4 1.4 O Source: Bloomberg. Data as on December 29, 2023 **Fiscal:** India's rapid adoption of a digital economy provided efficiency and transparency to tax collection (GST, Direct Tax, Road Toll). However, easy gains are exhausted, requiring economic growth for further fiscal improvement. We can expect government action through PSU divestments and capital gains tax hikes. In the past decade, the tax inequality between financial and business/salary income has narrowed. External Account: India's trade deficit is a structural issue. Manufacturing growth necessitates rising fuel imports, potentially making India the world's biggest incremental

Global flows: While FDI & FPI flows are unpredictable, remittance is a more stable source of forex (CY23e USD 125 billion). As context, our current forex reserves are ~\$600 billion.

The coming year may see higher volatility; actions by the US and Indian central banks, global events like the Indian and US General elections and large market participation can have near term impact on the markets. However, our long-term view on the markets remains constructive. There is a large potential for growth as the Indian population's

A large structural shift in the economy towards increasing the proportion of manufacturing in the economy, driven by government policy and a global shift towards diversifying supply chains mean that there is a long runway for growth in the equity markets and there is no

We present a matrix detailing some movement in some key market (Domestic and global)

31-Dec-23

6.50

7.73

7.72

30-Nov-23

6.50

7.80

7.82

30-Dec-22

6.25

7.46

7.59

46.0%

14.6%

-8.0%

-24.6%

37.9%

Y/Y (in %)

-3.0%

-54.1%

-62.6%

12.7%

0.3%

-9.1%

-20.0%

-77.7%

Y/Y (in %)

--3.18

-2.33

-0.55

-0.16

-0.13

-0.09

0.00

0.20

2.00

buyer. A weak rupee might be the key to competitiveness.

demand for goods and services across sectors increases.

time better than now to participate in it!

BOND AND MONEY MARKET

Source: Bloomberg

OUR VIEW

and key event:

Parameters

RBI Repo Rate %

Coffee, Robusta (\$/kg)

Tea, avg 3 auctions (\$/kg)

Wheat, US HRW (\$/mt)

Rice, Thai 5% (\$/mt)

Source: World Bank Pink Sheet

Commodities

Crude Oil (\$/bbl)

Gold (\$/troy oz)

Aluminum (\$/mt)

Lithium Price Index

Copper (\$/mt)

Zinc (\$/mt)

Source: Bloomberg

10Y Gilt Yield

United Kingdom

United States

Hungary

Germany

Australia

Japan

trajectory.

measures.

Brazil

India

Natural Gas, US (\$/mmbtu)

Coal, Australian (\$/mt)

Sugar, world (\$/kg)

5Y AAA PSU %

1 year CD %

A TERRIBLE YEAR FOR CHOCOLATE AND COFFEE AFICIONADOS! **Commodities** Dec-23 Dec-22 Y/Y (in %) 67.5% 4.21 2.51 Cocoa (\$/kg)

2.99

0.48

2.71

291

644

weather conditions, while wheat saw a surplus production and thus a price fall.

Dec-23

75.72

2.53

141.82

2026

8400

2182

2502

263

All other commodities remained benign though Lithium collapsed by ~77%!

Dec-23

5.87

10.36

2.02

7.17

3.54

3.96

3.88

0.61

12.3

2023 stared with worries on elevated Natural Gas and Crude oil prices. The continuing war in Ukraine continued to raise concerns. The war continues today and despite the Israel crisis, Natural gas and coal fell substantially while crude remained benign through the year.

ENERGY PRICES AND COMMODITIES: COOLING DOWN

Cocoa prices and Coffee prices shot up in 2023 by ~50%. Rice was troubled by the

2.05

0.42

2.95

386

467

Dec-22

78.07

5.50

379.23

1798

8375

2402

3129

1182

Dec-22

9.05

12.69

2.57

7.33

3.67

4.05

3.88

0.41

10.3

Russia Source: Bloomberg OUR THOUGHT ON RATES

GLOBAL AND INDIA RATES

■ We believe that investors could move up the Risk continuum. We believe the carry and possibility of an RBI pause merit investments in fixed income funds.

■ The investors with a shorter time horizon of less than one year may continue investments

■ Short term fund category may be suitable for investors looking to stay for a time horizon

■ For a long investment horizon and with a suitable risk appetite, an allocation to Dynamic

- - Mid Cap Fund (Mid Cap Fund - An open ended equity scheme

Long term capital appreciation;

This product is suitable for investors who are seeking*:

 Investment predominantly in equity and equity related securities including derivatives of mid cap companies

Ino. 00000

- mahindra MUTUAL FUND **III** Manulife Transform Your Tomorrow Invest today and be a part of the evolving mid cap segment having the potential to grow and become the leaders of tomorrow.
- We continue to have the same last word as we penned last year.
- participants seek prudence, humility, and equanimity. Till then a Happy 2024!
- Mahindra Manulife
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