

EQUITY MARKET OUTLOOK

MARKET ENVIRONMENT

- Markets are having a sharp & swift reaction to the US Fed policy meet that recurs every 45 days.
- 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.

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

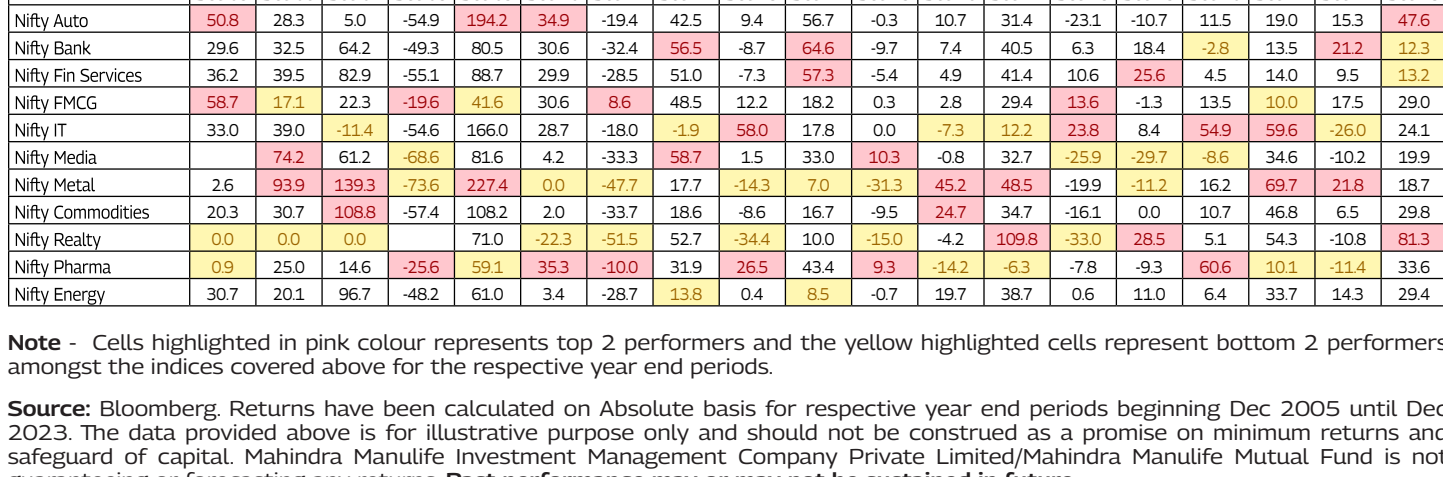
In CY23, small and mid-caps outperformed, in contrast to CY22. This rally was initially fuelled by expectations of rate cuts following the RBI's pause in April policy. However, current indications suggest a delay in rate cuts. Despite the strong returns in the small and mid-cap, valuations appear high, 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 mid-caps, and selective small-cap stocks.

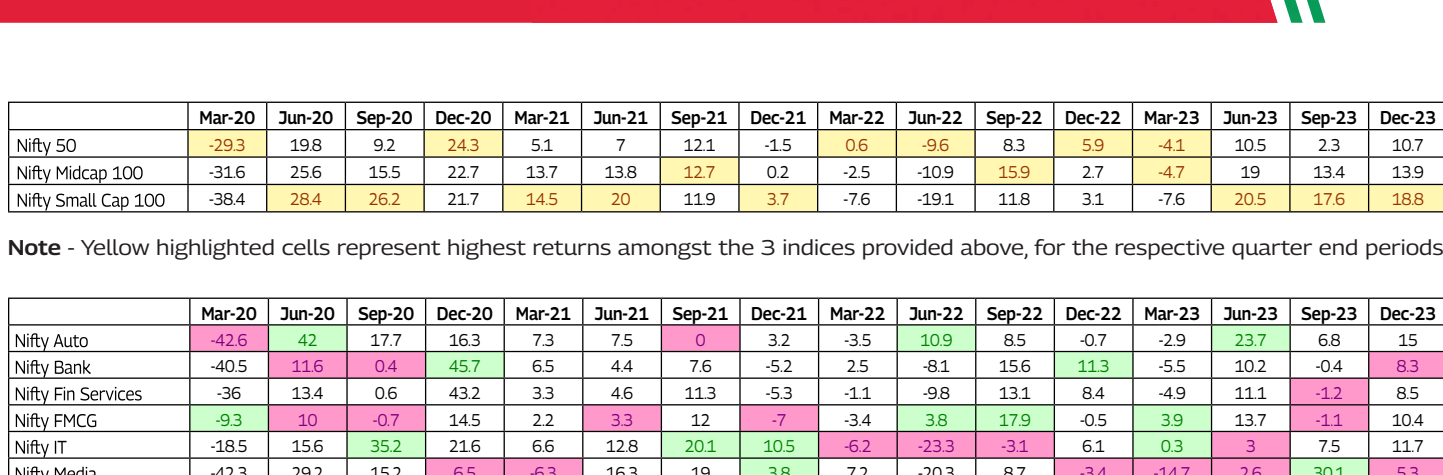
FLOWS

A part of the outperformance by small & mid cap has been led by investor flows into small & mid cap funds and partly by FPI switching from large caps towards small & mid caps. Rising share of SIPs in small & mid cap fund can give flow support.

MOVERS & SHAKERS



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



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

PERFORMANCE SNAPSHOT OF SECTORAL INDICES - YOY

	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	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
Nifty 50	36.3	39.8	54.8	-53.8	75.8	17.9	-24.6	27.7	6.8	31.4	-4.1	3	28.6	3.2	12	14.9	24.1	4.3	20
Nifty Midcap 100	35	29	76.9	-94	99	192	-31	292	-51	85.9	6.5	7.1	47.3	-15.4	-4.3	21.9	46.1	3.5	46.6
Nifty Small Cap 100	62.2	41.6	87.3	-71	107	17.6	-33.9	36.8	-8.3	95	7.2	2.3	57.3	-29.1	-9.5	21.5	89.3	-13.8	95.6

Note - Cells highlighted in pink colour represents highest returns and yellow highlighted cells represent lowest returns amongst the 3 indices provided above, for the respective year end periods.

	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	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
Nifty Auto	50.8	28.3	50	-54.9	194.2	34.9	-19.4	42.5	9.4	56.7	-0.3	10.7	31.4	-23.1	-10.7	11.5	19.0	15.3	47.6
Nifty Bank	29.6	32.5	64.2	-49.3	80.5	30.6	-32.4	96.5	-8.7	64.6	-9.7	7.4	40.5	6.3	18.4	-2.8	13.5	21.9	12.3
Nifty Fin Services	26.2	28.5	62.9	-55.1	88.7	29.9	-28.5	51.0	-7.3	22.3	-5.4	4.9	42.4	1.6	25.6	4.5	14.0	9.5	12.1
Nifty FMCG	58.7	17.1	22.3	-18.6	41.6	30.6	8.6	48.5	12.2	18.2	0.3	2.8	29.4	13.6	-3.3	13.5	10.0	17.5	29.0
Nifty IT	33.0	39.0	-11.4	-54.6	166.0	28.7	-58.0	-1.9	58.0	17.0	0.0	-7.3	12.2	23.8	8.4	54.9	59.6	-26.0	24.1
Nifty Media	74.2	61.2	-68.6	81.6	4.2	-33.3	98.7	1.5	33.0	10.3	-0.8	32.7	-25.9	-23.7	-8.6	34.6	-10.2	24.9	19.9
Nifty Metal	2.6	19.9	138.3	-75.6	227.4	10	-47.7	17.7	-34.3	70	-21.3	-25.2	28.5	-19.9	-11.2	16.2	69.7	21.8	18.7
Nifty Commodities	20.3	29.7	108.8	-57.4	109.2	2.0	-33.7	38.6	-8.6	16.7	-9.5	-24.7	34.7	-36.1	0.0	10.7	46.8	6.5	29.8
Nifty Realty	0.0	0.0	0.0	0.0	71.0	-23.3	-51.5	5.2	-34.4	10.0	-15.0	-4.2	-10.8	-33.0	28.5	5.1	54.3	-10.8	81.3
Nifty Pharma	0.9	25.0	14.6	-25.6	59.1	35.3	-10.0	31.9	26.5	43.4	9.3	14.2	6.3	-7.8	-9.3	60.6	-10.1	-11.4	33.6
Nifty Energy	30.7	20.1	96.7	-48.2	63.0	3.4	-28.7	13.8	0.4	8.5	-0.7	19.7	38.7	0.6	11.0	6.4	33.7	14.3	29.4

Note - Cells highlighted in pink colour represents top 2 performers and the yellow highlighted cells represent bottom 2 performers amongst the indices covered above for the respective year end periods.

Source: Bloomberg; Returns have been calculated on Absolute basis for respective year end periods beginning Dec 2005 until Dec 2023. The data provided above is for illustrative purpose only and should not be construed as a promise or minimum returns and safeguard of capital. Mahindra Manulife Investment Management Company Private Limited/Mahindra Manulife Mutual Fund is not guaranteeing or forecasting any returns. Past performance may or may not be sustained in future.

PERFORMANCE SNAPSHOT OF SECTORAL INDICES - QOQ

	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Nifty 50	-29.3	39.8	9.2	24.3	5.1	7	12.1	3.5	0.6	-8.6	8.3	8.9	-4.3	10.5	2.3	10.7
Nifty Midcap 100	-31.6	25.6	15.5	22.7	13.7	13.8	12.7	0.2	-2.5	-10.9	15.9	2.7	-4.7	1.9	13.4	13.9
Nifty Small Cap 100	-38.4	28.4	26.2	23.7	14.5	2.0	11.9	3.7	-7.6	-19.1	11.8	3.1	-7.6	20.5	17.6	18.8

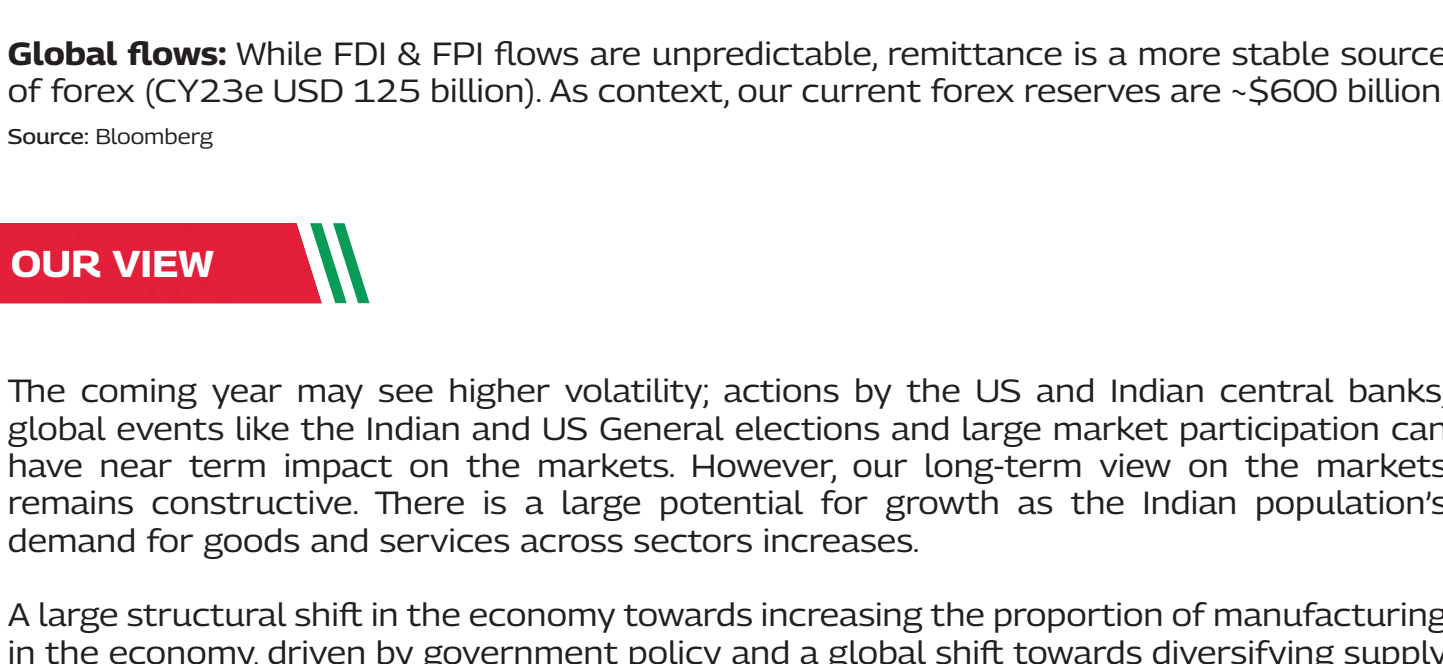
Note - Yellow highlighted cells represent highest returns amongst the 3 indices provided above, for the respective quarter end periods.

	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Nifty Auto	-42.8	42	17.7	16.3	7.3	7.5	0	3.2	-3.5	10.9	8.5	0.7	-2.9	23.7	6.8	15
Nifty Bank	-40.5	14.6	14.6	48.7	6.5	4.4	7.6	-2.2	2.5	-8.1	15.6	13.3	-5.5	10.2	10.4	8.3
Nifty Fin Services	-36	13.4	0.6	43.2	3.3	4.6	13.3	-6.3	-1.1	9.8	13.1	8.4	-4.9	11.1	12.1	8.5
Nifty FMCG	-9.3	10	0.7	14.5	2.2	3.3	1.2	7	-3.4	3.8	17.9	-0.5	3.9	13.7	1.1	10.4
Nifty IT	-38.5	15.6	35.2	21.6	6.6	12.8	20.1	10.5	6.2	-23.3	-3.1	6.1	0.3	3	7.5	11.7
Nifty Media	-42.3	29.2	15.2	18	4.3	16.3	19	3.6	7.2	-20.3	8.7	5.4	-14.7	2.6	10.1	8.3
Nifty Commodities	-34.1	25.6	10.6	45.1	22.3	33.3	7.6	-1.6	36.3	-2.4	-23.8	16.6	-38.2	12.9	10.1	18.6
Nifty Realty	-33.1	24.6	8.8	22.2	17.7	14.9	10.9	-2.1	7.4	-5.2	10.8	6.9	-6.6	8.6	7.5	18.9
Nifty Pharma	-41.2	15.5	4.6	48.1	6.5	2.0	49.4	-5.8	-4.3	-16.9	10	1.8	-10.3	34.2	10.7	36
Nifty Energy	-10.7	39.1	17.9	9.7	3	16.6	11.1	-1.7	-4.5	-10.5	6.7	1.9	-4.6	14.6	12	9.1
Nifty Auto	-30.1	29.4	4.4	13.6	7.5	9	15.3	-1	14.3	-2.8	11.8	1.1	-11.8	8.2	10.6	22.5

Note - Cells highlighted in pink colour represents top 2 performers and the yellow 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 or minimum returns and safeguard of capital. Mahindra Manulife Investment Management Company Private Limited/Mahindra Manulife Mutual Fund is not guaranteeing or forecasting any returns. Past performance may or may not be sustained in future.

MARKET CAPITALIZATION - PERFORMANCE SNAPSHOT



Data Source: ICRA. Data period: 1st January 2006 till 29th December 2023. Returns are absolute returns (1 year) calculated as of the last business day of every calendar year end. The data provided above is for illustrative purpose only and should not be construed as a promise or minimum returns and safeguard of capital. Mahindra Manulife Investment Management Company Private Limited/Mahindra Manulife Mutual Fund is not guaranteeing or forecasting any returns. Past performance may or may not be sustained in future.

ECONOMIC OUTLOOK

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

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

Data (CY23)	India Present	China Present	Years ago when 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	36	65	23
Electricity Consumed (kwh per Capita)	1032	5464	23
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
Population (bn)	1.4	1.4	0

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 Accounting:** India's trade deficit is a structural issue. Manufacturing growth necessitates rising fuel imports, potentially making India the world's biggest incremental buyer. A weak rupee might be the key to competitiveness.
- 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.

Source: Bloomberg

OUR VIEW

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 demand for goods and services across sectors increases.

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 time better than now to participate in it!

BOND AND MONEY MARKET

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

Parameters	31-Dec-23	30-Nov-23	30-Dec-22
RBI Repo Rate %	6.50	6.50	6.25
5Y AAA PSU %	7.73	7.80	7.46
1 year CD %	7.72	7.82	7.59
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 TERRIBLE YEAR FOR CHOCOLATE AND COFFEE AFICIONADOS!

Commodities	Dec-23	Dec-22	Y/Y (in %)
Cocoa (\$/kg)	4.21	2.51	67.5%
Coffee, Robusta (\$/kg)	2.99	2.05	46.0%
Sugar, world (\$/kg)	0.48	0.42	14.6%
Tea, avg 3 auctions (\$/kg)	2.71	2.95	-8.0%
Wheat, US HRW (\$/mt)	291	386	-24.6%
Rice, Thai 5% (\$/mt)	644	467	37.9%

Source: World Bank Pink Sheet

Cocoa prices and Coffee prices shot up in 2023 by ~50%. Rice was troubled by the weather conditions, while wheat saw a surplus production and thus a price fall.

ENERGY PRICES AND COMMODITIES: COOLING DOWN

Commodities	Dec-23	Dec-22	Y/Y (in %)
Crude Oil (\$/bbl)	75.72	78.07	-3.0%
Natural Gas, US (\$/mmbtu)	2.53	5.50	-54.1%
Coal, Australian (\$/mt)	141.82	379.23	-62.6%
Gold (\$/troy oz)	2026	1798	12.7%
Aluminum (\$/mt)	8400	8375	0.3%
Copper (\$/mt)	2182	2402	-9.1%
Zinc (\$/mt)	2502	3129	-20.0%
Lithium Price Index	263	1182	-77.7%

Source: Bloomberg

2023 started with worries on elevated Natural Gas and Crude oil prices. The continuing war in Ukraine continued to raise concerns. The war continues today and