Nippon india Alternative Investments

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Navigating Volatility: Indian Economic Outlook & Investment Strategies in a Shifting Landscape

It was 2014 when the Modi government came to power. The Modi 1.0 agenda was all about economic reforms like the J.A.M Trinity (Jan Dhan, Aadhar and Mobile) with a goal to provide direct access and aid to all citizens of India. In the second term, we saw Modi 2.0 which recalibrated the IBC (Insolvency and Bankruptcy Code), Article 370 and Ram Mandir. However, since the June 2024 outcome resulted in a coalition government mandate, there is relatively less certainty on the bent of Modi 3.0.

Government capital expenditure has slowed down considerably in the first half of this financial year. Both State and center-level capex have slowed down materially, albeit the centre is back in action with capex spending. Central government capex spending increased by Rs 1.1tn in September alone, with the cumulative of Apr-Aug being Rs 3tn (Apr-Sep: >Rs 4tn). That said, the government has a tall task of maintaining a run rate of Rs 1.1tn in each of the remaining months to be able to achieve the target of Rs 11.11tn. Yet, we believe that in an election year, the government spending is more in the second half, with the largest spend seen in Q4 of the fiscal year. With global uncertainties rising and domestic consumption dwindling, the government is more likely to step up and take the lead to support growth. Also, we expect the RBI to cut atleast 50bps in CY25, which will further aid in the growth momentum.

Corporate Earnings have been lackluster. After a weak H1FY25 with mid single digit earnings growth for Nifty 500, markets still expect a strong recovery in the second half, as full year mid teens plus average growth has not yet fully been trimmed. We believe that the sluggish results season has already been priced in with earnings of 6-9% of earnings cut has led to market correction of 7-9%. Although the government is likely to accelerate capex slightly, global uncertainties and lagging private capex makes it difficult for the earnings to sharply accelerate in H2FY25.

Within Nifty 500 companies, BFSI posted strong 14% earnings growth and the laggards were the cyclical sectors like O&G, metals and cement. Ex of cyclicals, the Nifty 500 growth was 10-11%, which we believe is decent given the global uncertainties. In our view, markets are in a consolidation phase in the near term and we continue to remain bullish over the medium term. We expect sectors like Banking, IT, Pharma and Chemicals to do well.

Recent Market Update & Portfolio Actions

Samvat 2080 was an event-heavy year, that caused markets to transition quickly from risk-on to risk-off sentiment and vice-versa. Indian Lok Sabha elections were held between April to June 2024, the Yen carry trade unwinding occurred in the end of July 2024, Middle East tensions rose as multiple wars broke out during the year. All this caused equity markets to remain volatile around the world. That being said, during Samvat 2080 the Nifty 50 delivered ~26% and the Midcap and Smallcap indices delivered nearly twice as much.

To tackle this volatility, we gradually booked profits from frothy segments of the market. Starting in June this year we began trimming allocations to Defence and PSU stocks, and simultaneously increased allocation to defensive stocks in sectors that were consolidating like Consumption, IT and Pharma where growth was available at reasonable valuations.

As on 31st October 2024, our Multicap Equity AIFs have outperformed their benchmarks by a significant margin since inception. This outlines superior stock selection across market cycles.

Scheme Name*	3 months			1 Year		
	Portfolio	Nifty 500	Outperformance	Portfolio	Nifty 500	Outperformance
The Next Billion (NIEO - 4)	0.0%	-3.3%	3.3%	36.8%	35.4%	1.4%
The 5 Trillion Dollar Opportunity (NIEO - 5)	-1.8%	-3.3%	1.6%	36.4%	35.4%	1.0%
The Champions of the 21st Century (NIEO - 6)	-1.7%	-3.3%	1.6%	33.7%	35.4%	-1.7%
Reimagine India Opportunity (NIEO - 7)	-0.3%	-3.3%	3.0%	48.1%	35.4%	12.7%
Unlimited India (NIEO - 8)	-4.1%	-3.3%	-0.8%	34.0%	35.4%	-1.5%

Scheme Name*	2 Years (CAGR)			Performance Since Scheme inception (CAGR)		
	Portfolio	Nifty 500	Outperformance	Portfolio	Nifty 500	Outperformance
The Next Billion (NIEO - 4)	26.0%	21.4%	4.5%	17.5%	15.2%	2.4%
The 5 Trillion Dollar Opportunity (NIEO - 5)	26.9%	21.4%	5.4%	24.7%	18.9%	5.8%
The Champions of the 21st Century (NIEO - 6)	24.6%	21.4%	3.2%	22.6%	18.5%	4.1%
Reimagine India Opportunity (NIEO - 7)	30.7%	21.4%	9.3%	25.1%	18.3%	6.9%
Unlimited India (NIEO - 8)	27.0%	21.4%	5.5%	29.1%	26.9%	2.2%

***Disclaimer:** Pre-Tax and Post Expenses (except entry and exit charges) < 1 year Absolute Returns & > 1 Year CAGR, Data as on 31st October 2024. Past performance may or may not sustain in the future. NIFTY 500 Index is provided as a benchmark for comparison with portfolio performance. The Fund level performance and investor returns may differ based on their class tier, fee structure and date of payment