panorama

November 2024

Key Insights:

Record DII inflows (US$12 bn) counterbalance surge in FPI outflows (US$11 bn) in October 2024

- FPIs pulled 1.2% of the Assets Under Custody (AUC) in October 2024
- Financial services, oil & gas and consumer sectors witnessed heavy FPI outflows in absolute terms
- Relative to AUC, the oil & gas, construction & materials, and consumer sectors witnessed large outflows

Equity mutual funds are holding Rs 1.8 tn of cash (~6% of AUM) as of October 2024

- Flexi, sector/thematic, and small-cap funds are holding the highest amounts of cash
- There has been a significant increase in capital raised through new fund offers in H1FY25
- Sector/thematic funds account for approximately 87% of the total capital raised through NFOs in FYTD25
- Inflows into small-cap funds have moderated in FYTD25, while large-cap funds have witnessed a revival

Trump administration's pro-growth policies are expected to slow the disinflation process

- Public debt may increase to 143% of GDP in 2035 under Trump's policies, from the current base case of 125%
- The fiscal deficit may increase to 9.7% of GDP in 2035 from the current base case of 7%
- Markets have notably reduced expectations for the pace of monetary policy easing due to inflation fears

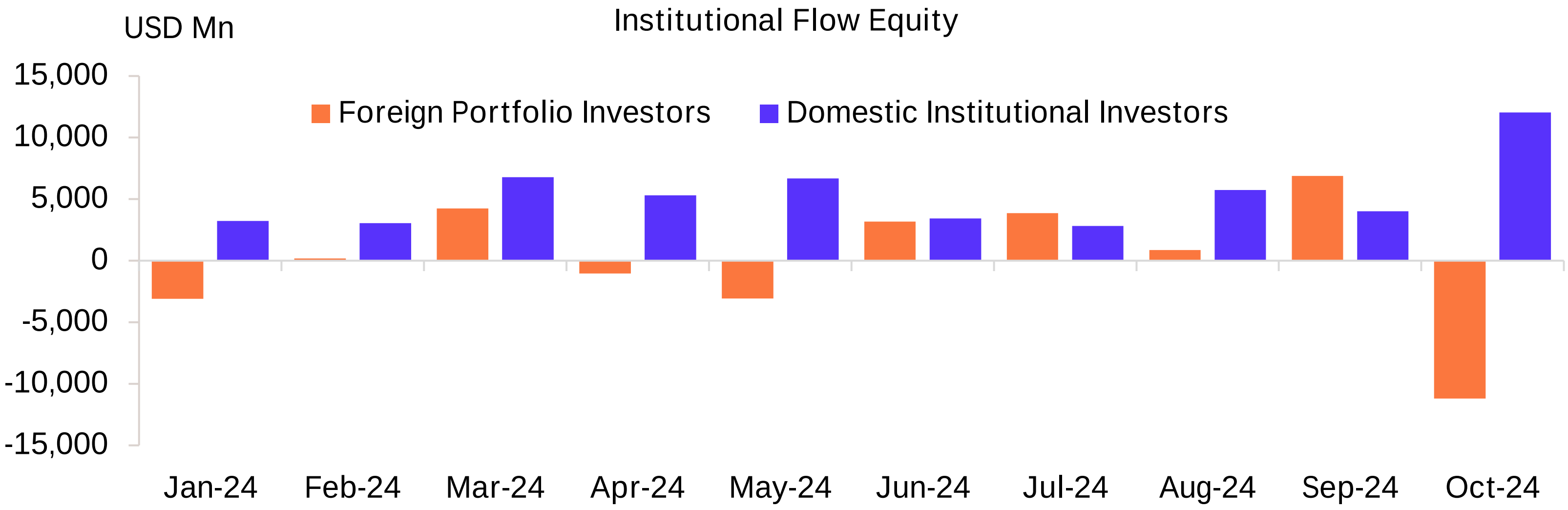
Trump's policies to boost gold, hurt oil, raise defence spending, and benefit Indian companies

- Central bank demand, high US debt, and an unpredictable policy environment under Trump favour gold
- Trump's emphasis on fracking and boosting US oil production should help keep oil prices stable
- Indian IT companies may benefit from improved US earnings, while others could gain from the China+1 strategy

Flow of Funds

Record DII inflows counterbalance surge in FPI outflows in October 2024

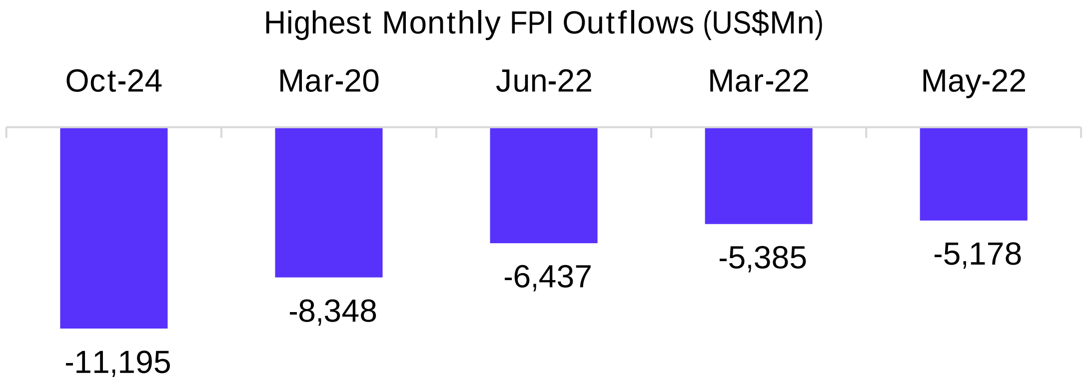
FPI pulled 1.2% of the Assets Under Custody (AUC) in October, lower than the 3% of AUC withdrawn in March 2020

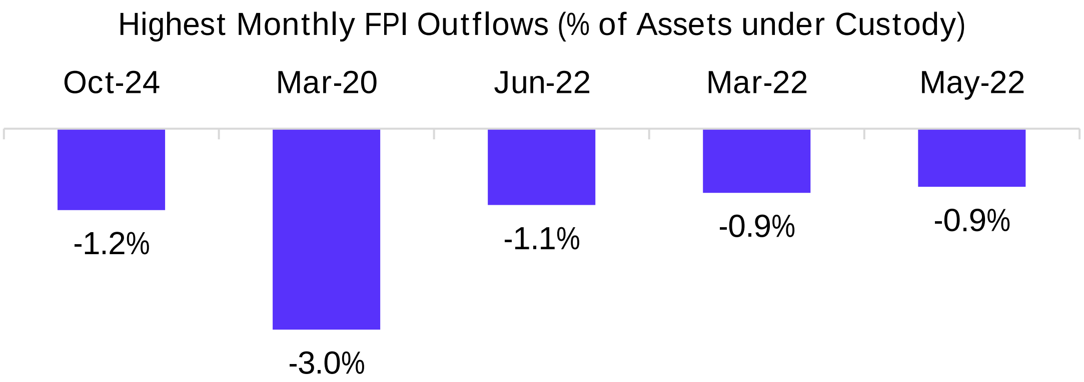


Record Foreign Portfolio Investor (FPI) outflows (US$11 bn) in October 2024 were matched by record Domestic Institutional Investor (DII) inflows (US$12 bn)

However, as a percentage of Assets Under Custody (AUC), FPI outflows were 1.2%, much lower than the 3% outflows witnessed in March 2020

FPIs have withdrawn an additional US$3.0 bn till 25th November 2024



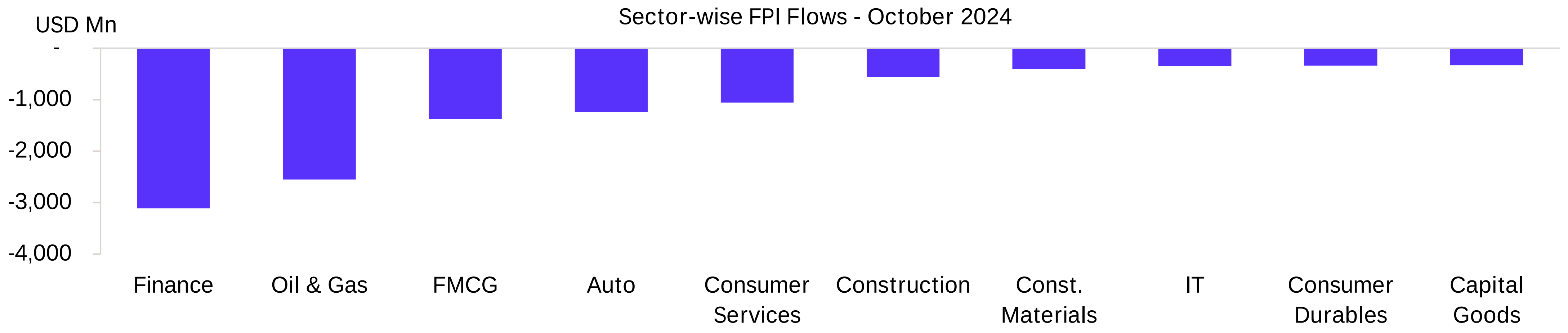


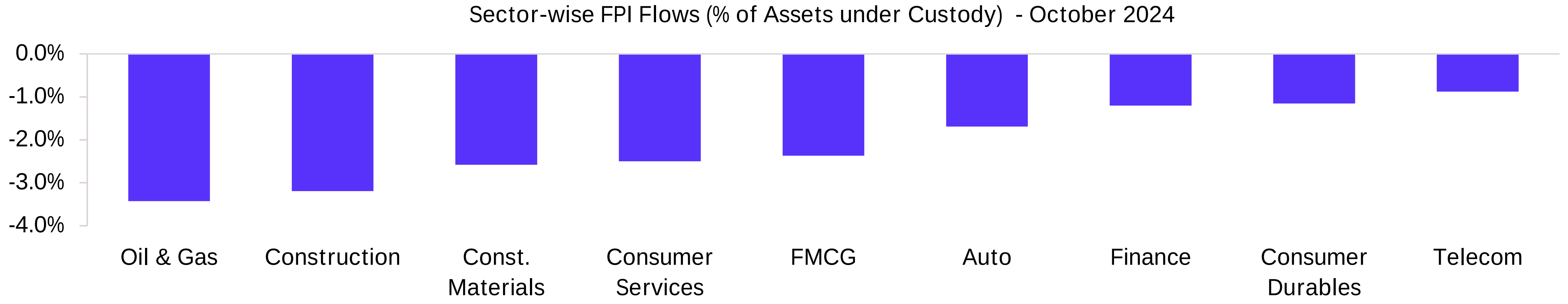
Source: CMIE, 360 ONE Asset Research

Note: % of assets under custody is calculated based on the previous month's assets

Financials, oil & gas and consumer sectors witness heavy FPI outflows

Relative to assets under custody, oil & gas, construction & materials, and consumer sectors witness large outflows



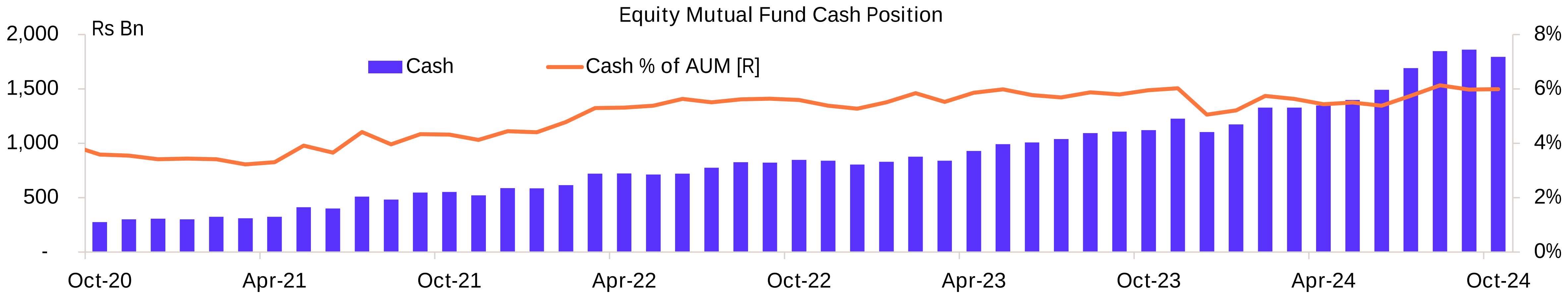


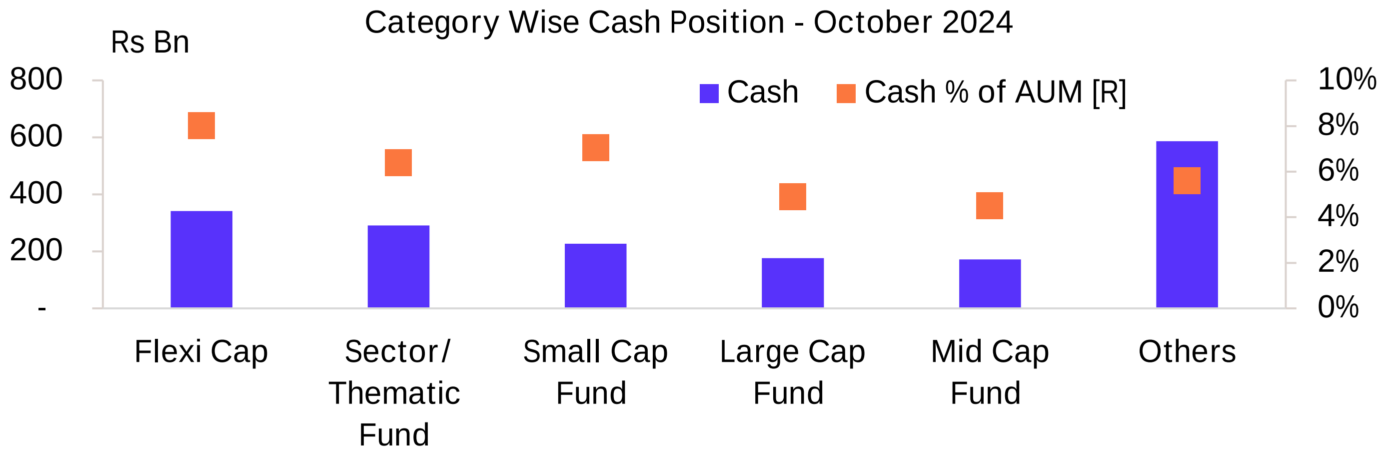
Source: CMIE, 360 ONE Asset Research

Note: % of assets under custody is calculated based on the previous month's assets

Equity mutual funds hold 6% of AUM in cash as of October 2024

Equity mutual funds hold Rs 1.8 tn in cash, with flexi-cap, sector/thematic, and small-cap funds holding the most





Equity Mutual Funds (MFs) continue to hold around 6% of Assets Under Management (AUM) as cash & cash equivalents

Cash holdings of equity MFs, as of October 2024, stand at Rs 1.8 tn

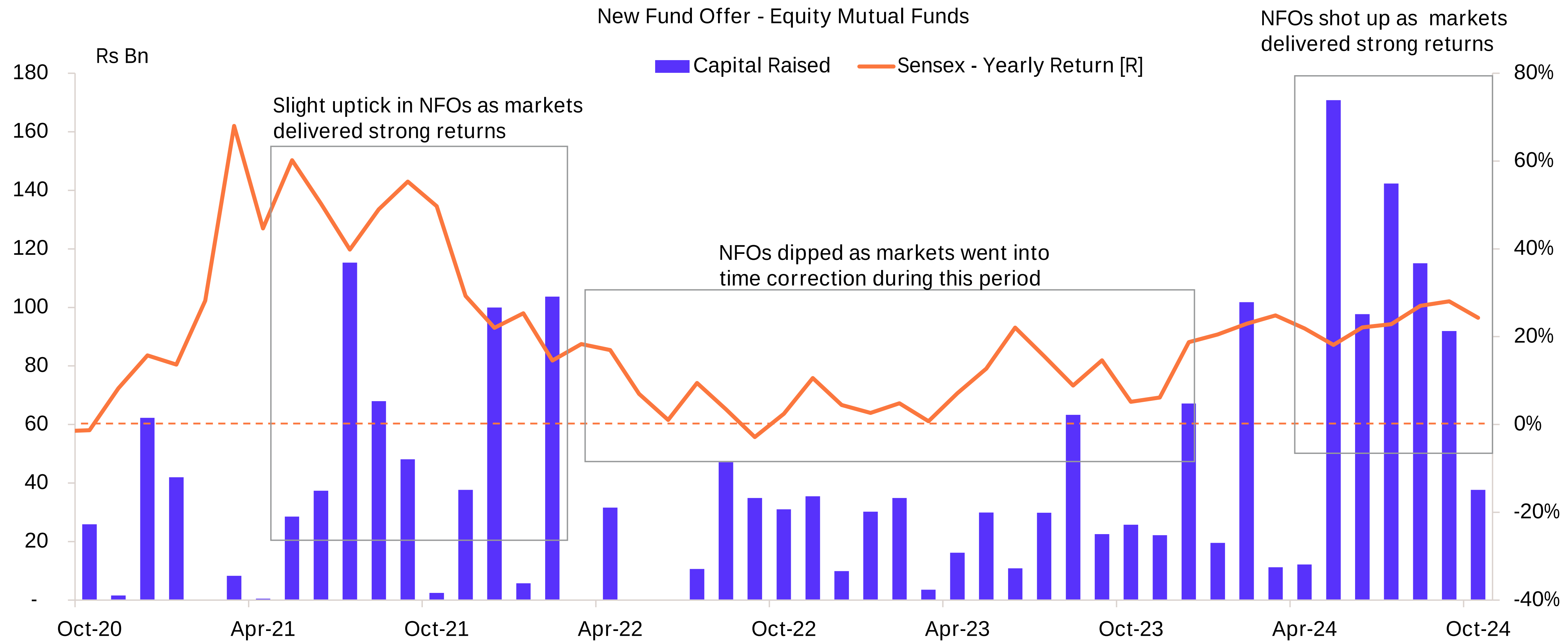
Cash holdings saw a marginal dip in October 2024, despite strong inflows, as mutual funds deployed capital during the market correction in October

Flexi, sector/thematic, and small-cap funds are holding the highest amount of cash

Source: ACE MF, 360 ONE Asset Research

Significant increase in capital raised through new fund offers in H1FY25

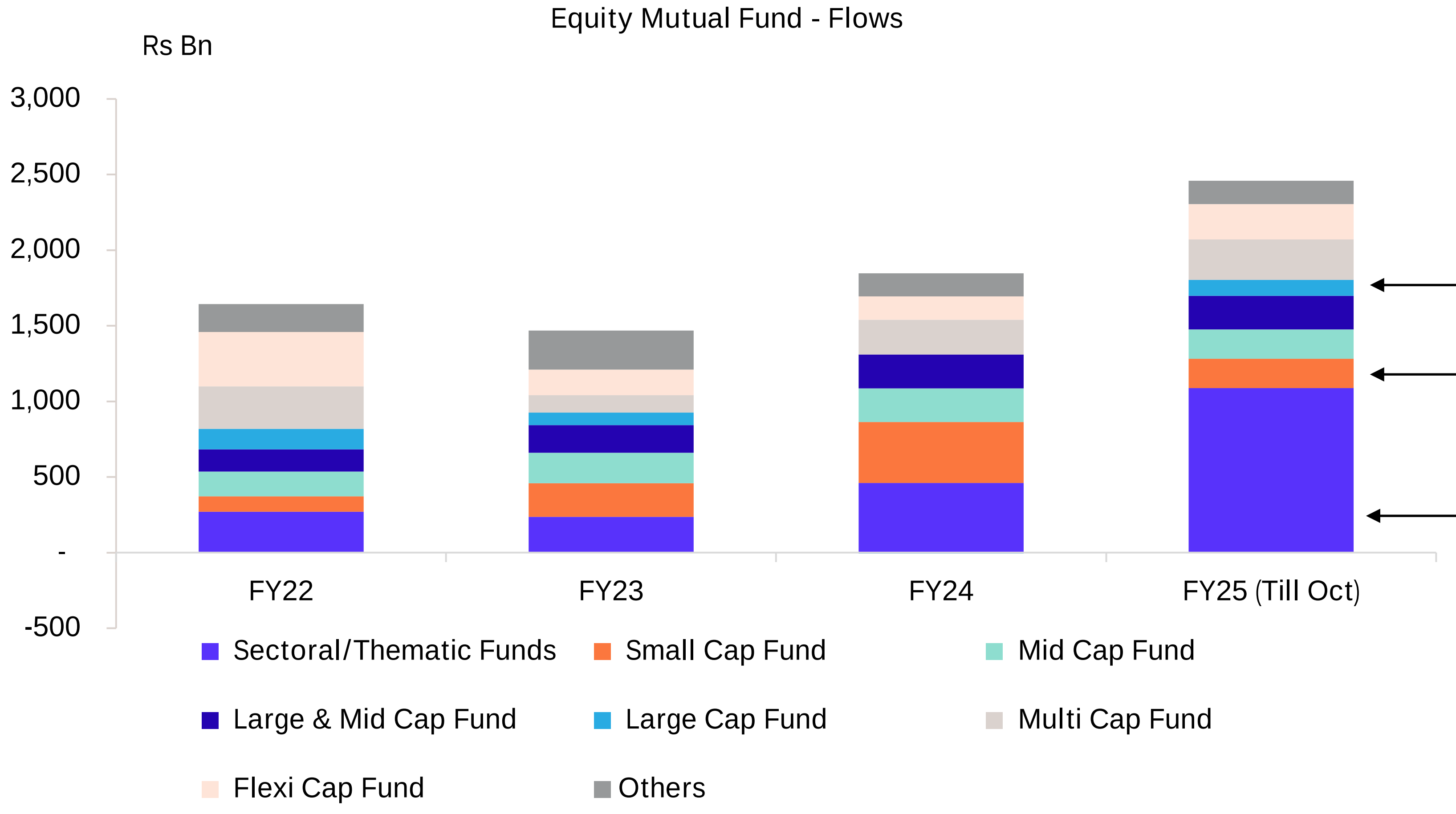
New Fund Offers (NFOs) often coincide with periods of strong market performance



Source: ACE MF, 360 ONE Asset Research

Equity inflows surge in FY25, driven by sectoral/thematic fund NFOs

Inflows into small-cap funds moderate in FY25, while large-cap funds witness a revival



Flows into large-cap funds revive after a muted FY24

Flows into small-cap funds moderate significantly from FY24

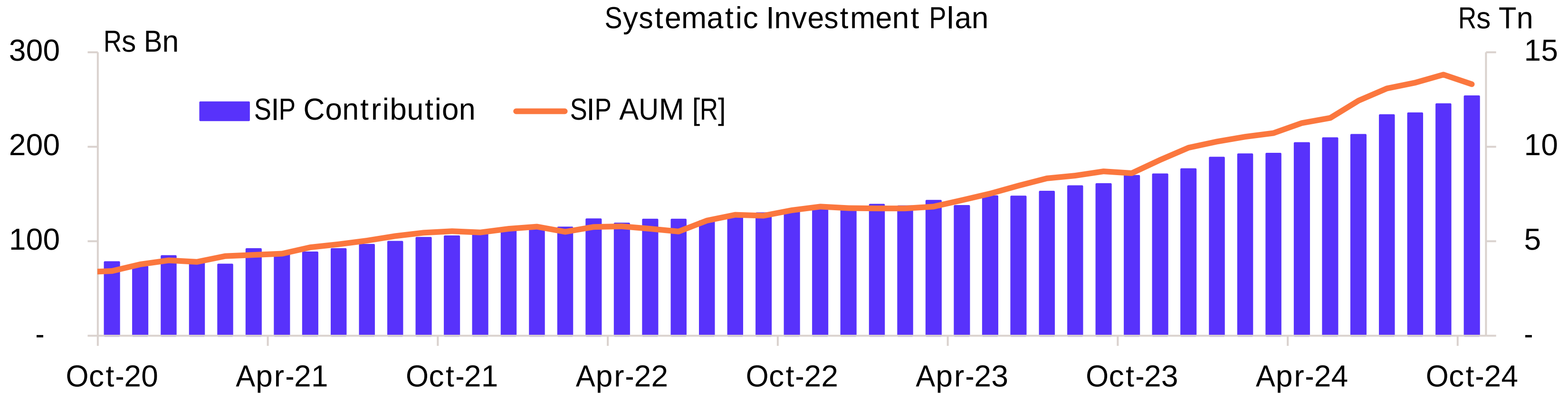
Equity fund flows are driven by sectoral/thematic funds

Sector/thematic funds account for approximately 87% of the total capital raised through NFOs in FYTD25

Source: CMIE, 360 ONE Asset Research

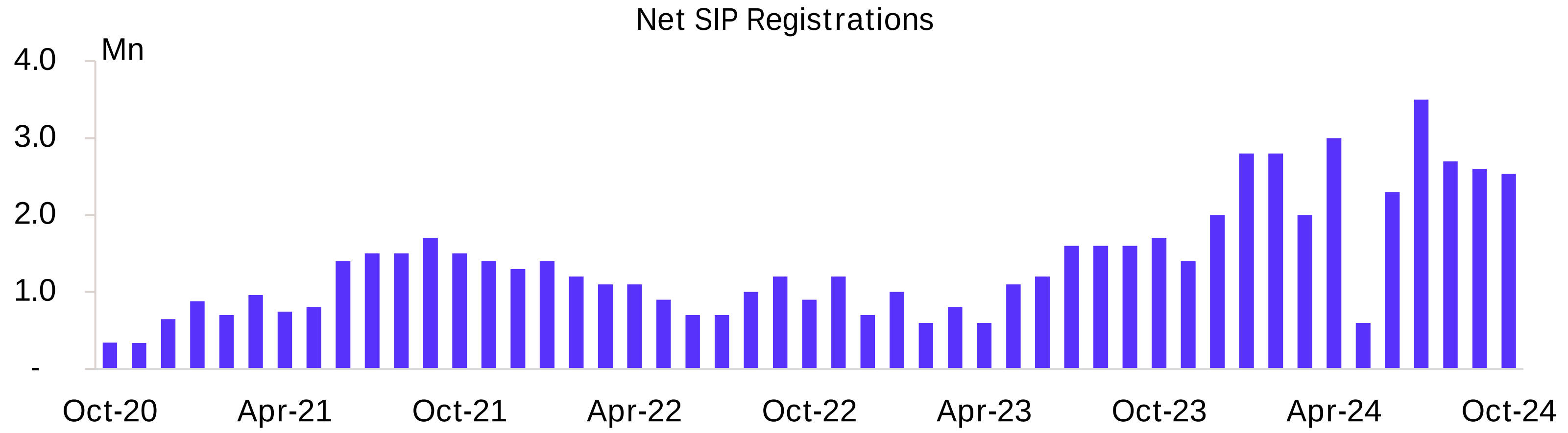
Monthly SIP flows continue to trend upwards each month

Net SIP registrations remain strong, indicating increased household participation in equity markets



Systematic Investment Plans (SIP) monthly contributions (gross) continue to scale new highs every month

The decline in SIP AUM in October 2024 is on account of the market correction



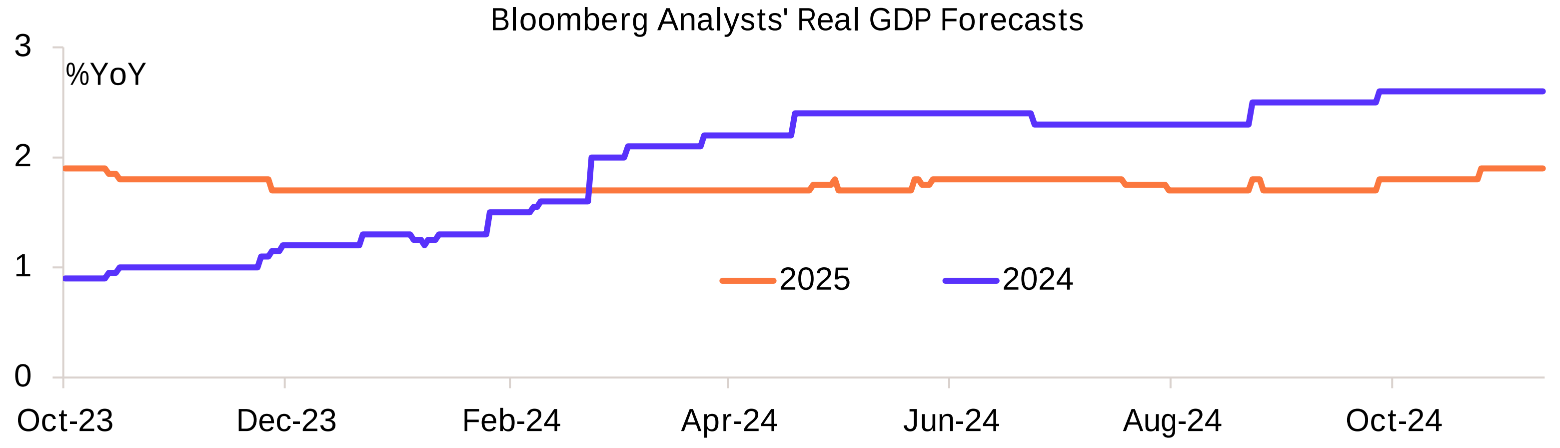
Net SIP registrations remain strong, reflecting a rise in household participation in equity markets through this route

Source: CMIE, 360 ONE Asset Research

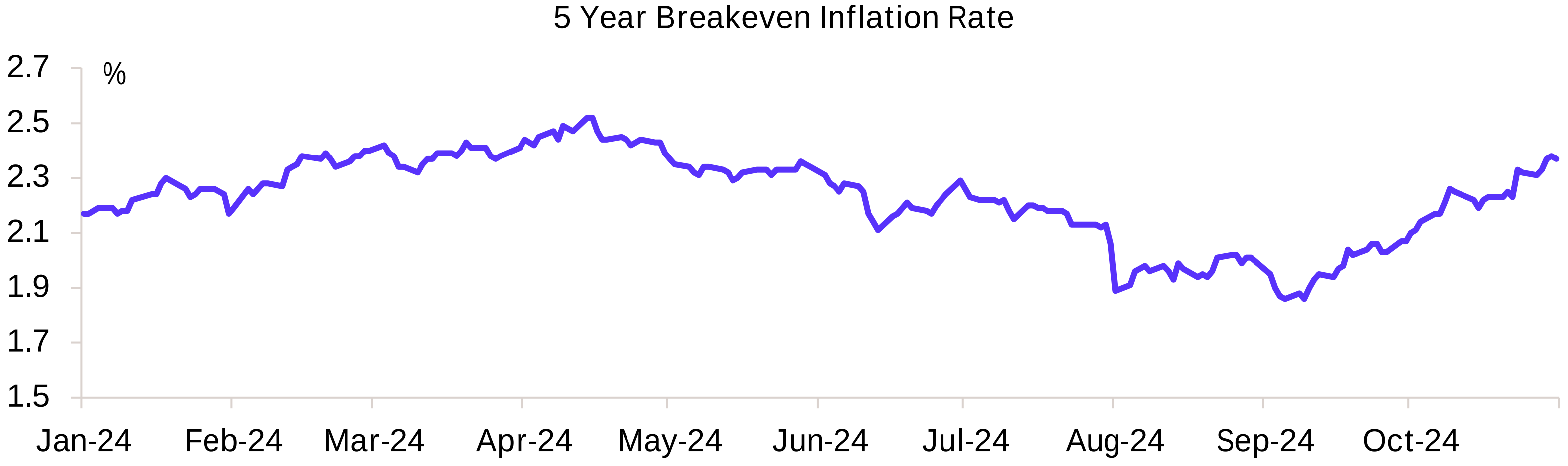
US & Trump Impact

Trump administration is expected to pursue pro-growth policies

However, policies like corporate tax cuts or import tariffs could also slow down the disinflation process in the US



The US real GDP growth projections for 2024 and 2025 are being revised upwards as economic growth remains robust, with further boosts expected from pro-growth policies (corporate tax cuts, higher fiscal deficit, etc.) under the Trump administration



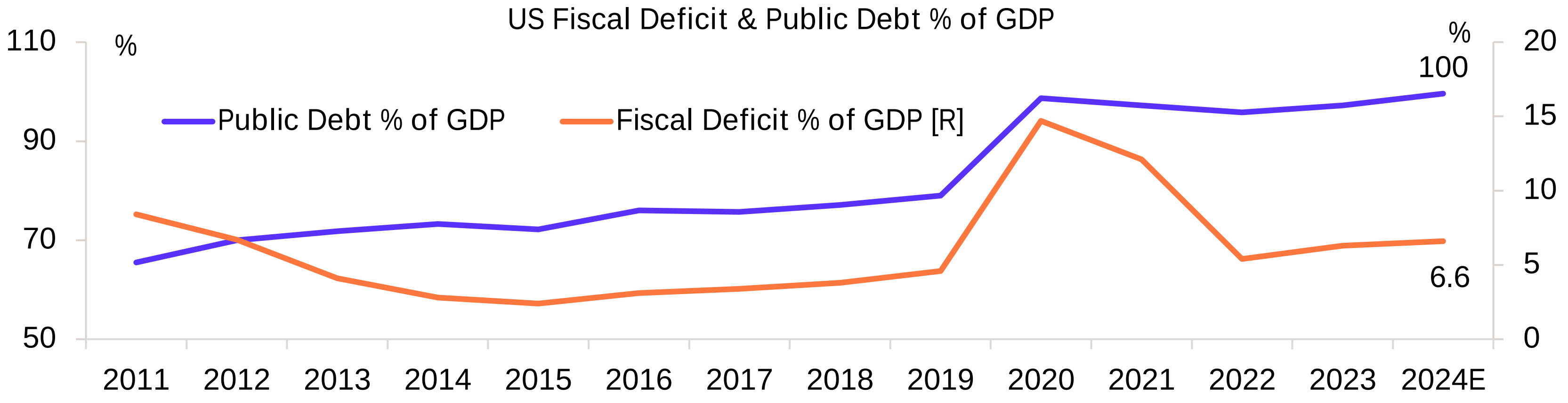
An increase in fiscal deficit and higher import duties are likely to slow the process of disinflation in the US

The 5-year breakeven inflation rate, which implies expected inflation in the next 5 years on average, has already started inching up

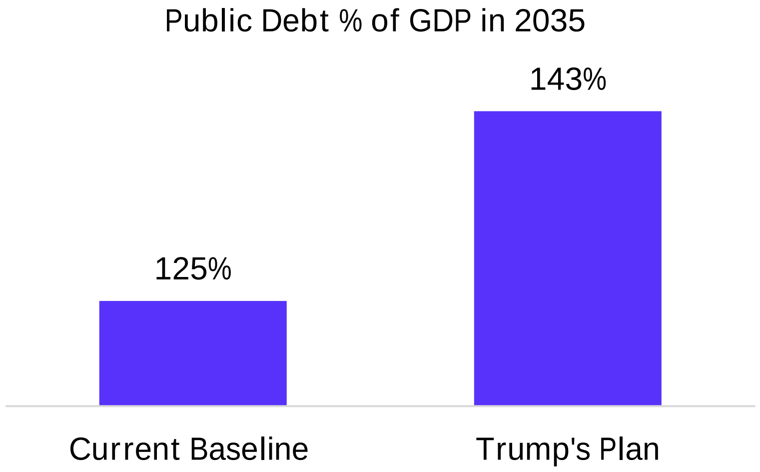
Source: Bloomberg, FRED, 360 ONE Asset Research

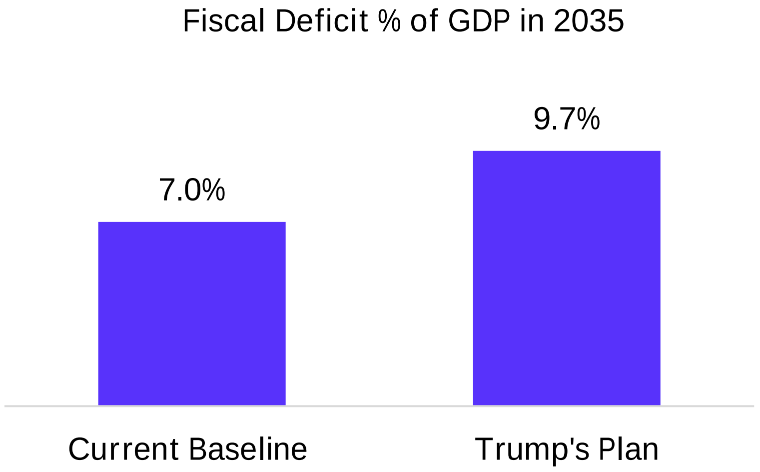
Trump’s policies are expected to further increase the fiscal deficit

US public debt to GDP is expected to increase to 143% by 2035 under the Trump Plan



US fiscal deficit as a percentage of GDP is already high, and debt to GDP continues to trend upwards





According to the Committee for a Responsible Federal Budget, public debt may increase to 143% of GDP in 2035 under Trump’s policies from the current base case of 125%

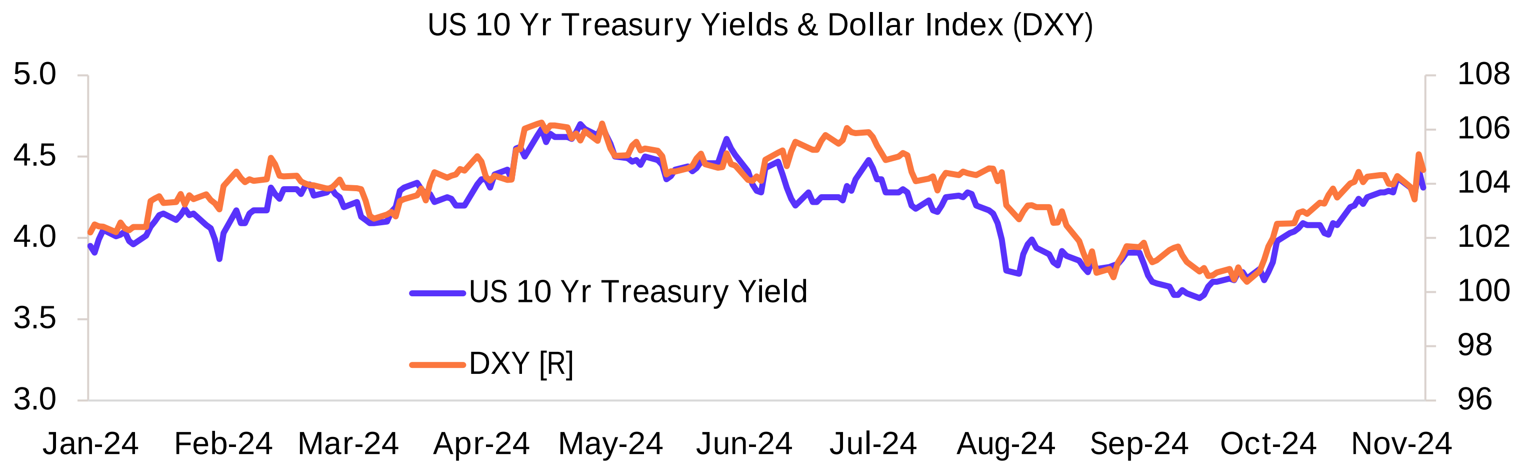
The fiscal deficit may increase to 9.7% of GDP in 2035 from the current base case of 7%

Source: Committee for a Responsible Federal Budget (CRFB), FRED, 360 ONE Asset Research

Note: Trump plan – Debt and Fiscal Deficit in 2035 are central estimates by CRFB, 2024 Debt and Fiscal Deficit are Office of Management and Budget (OMB) estimates

Yields rise and USD strengthens as markets adjust rate cut expectations

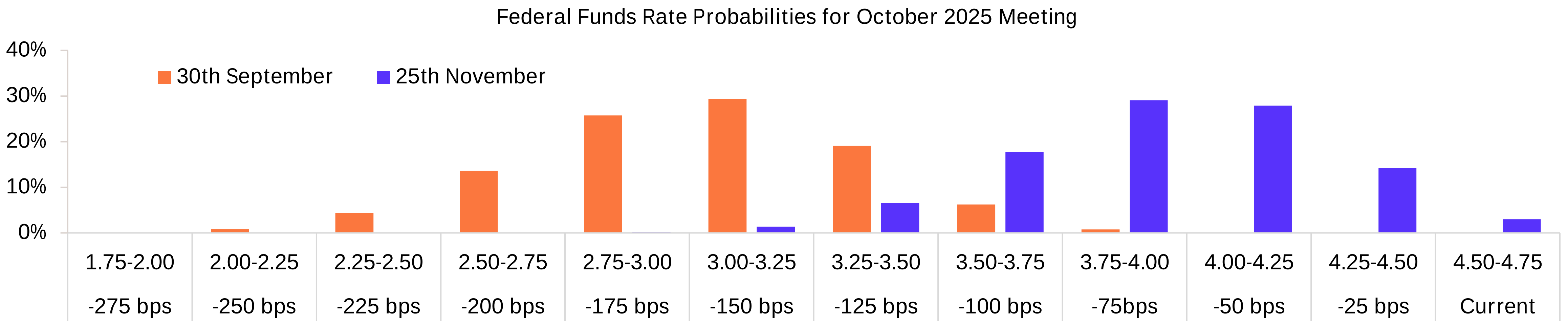
Markets have significantly lowered their expectations for the pace of monetary policy easing since September 2024



Since September 2024, Treasury yields have hardened, and the USD has strengthened as markets have notably reduced expectations for the pace of monetary policy easing by the Federal Reserve

As of 30th September, markets expected the Fed Funds Rate to be at 3.00-3.25% by October 2025; it has now increased to 3.75-4.00%

The degree of additional repricing in the Fed rate cut cycle will determine further increases in yields and the strength of the USD

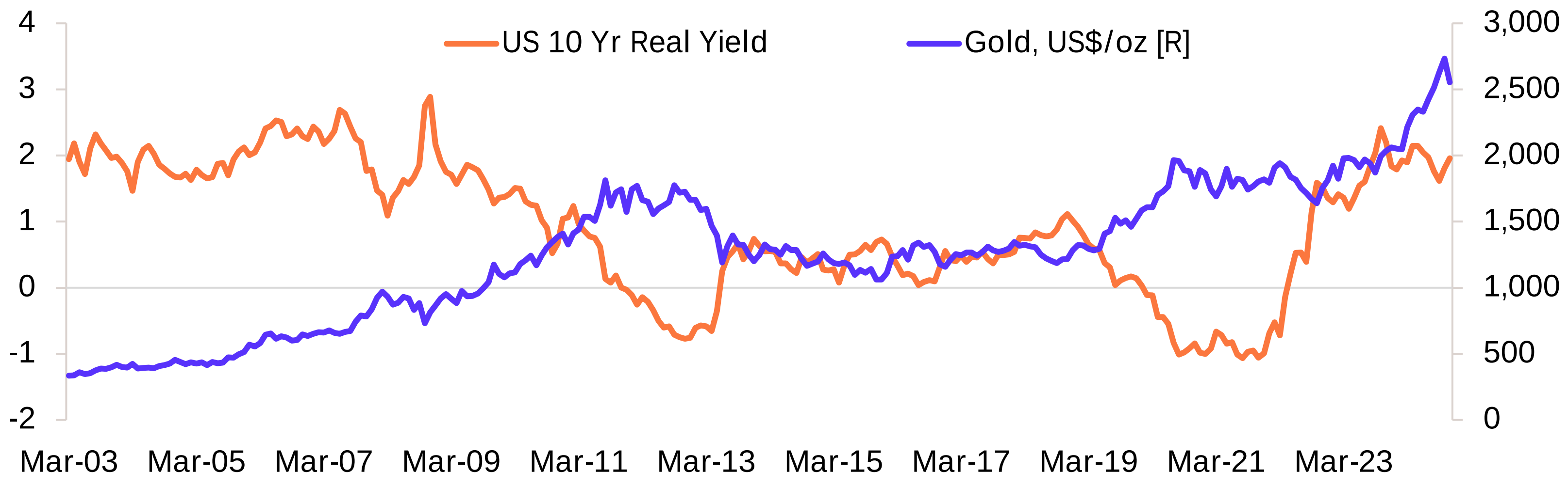


Source: CME FedWatch, Bloomberg, FRED, 360 ONE Asset Research

Central bank demand, high US debt and unpredictable policy favour gold

Trump's emphasis on fracking and boosting US oil production should keep oil prices stable

Real Yields Vs Gold



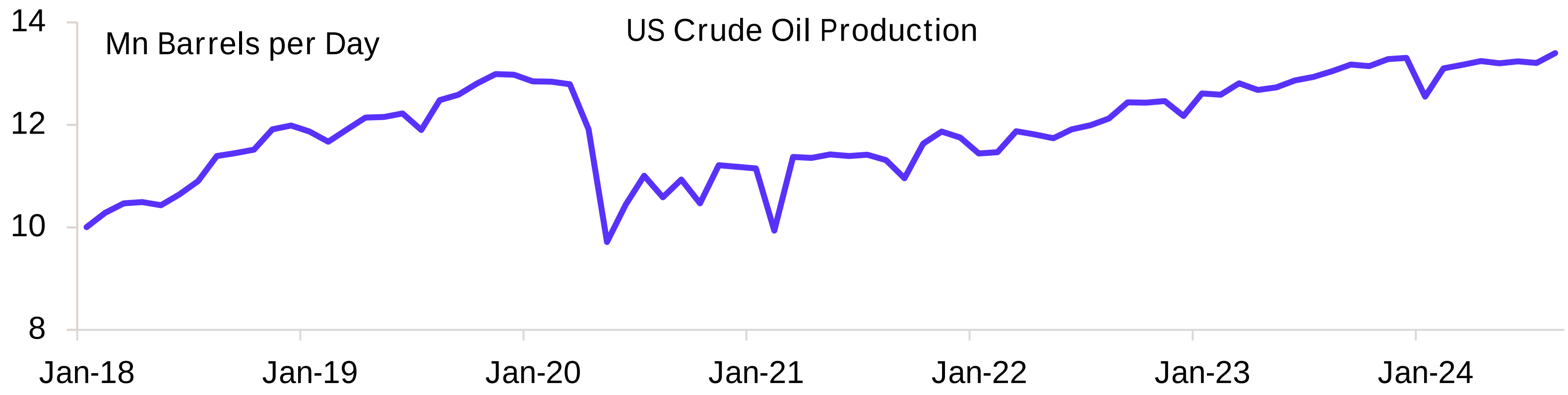
We expect central bank demand to remain the primary driver of gold prices

Recent increases in bond yields are expected to have only a short-term impact on gold prices

The inverse correlation between gold and yields has weakened over the past few years due to central bank demand

Additionally, the unpredictable policy environment and the expected increase in US debt under the Trump administration will also be positive for gold

US Crude Oil Production



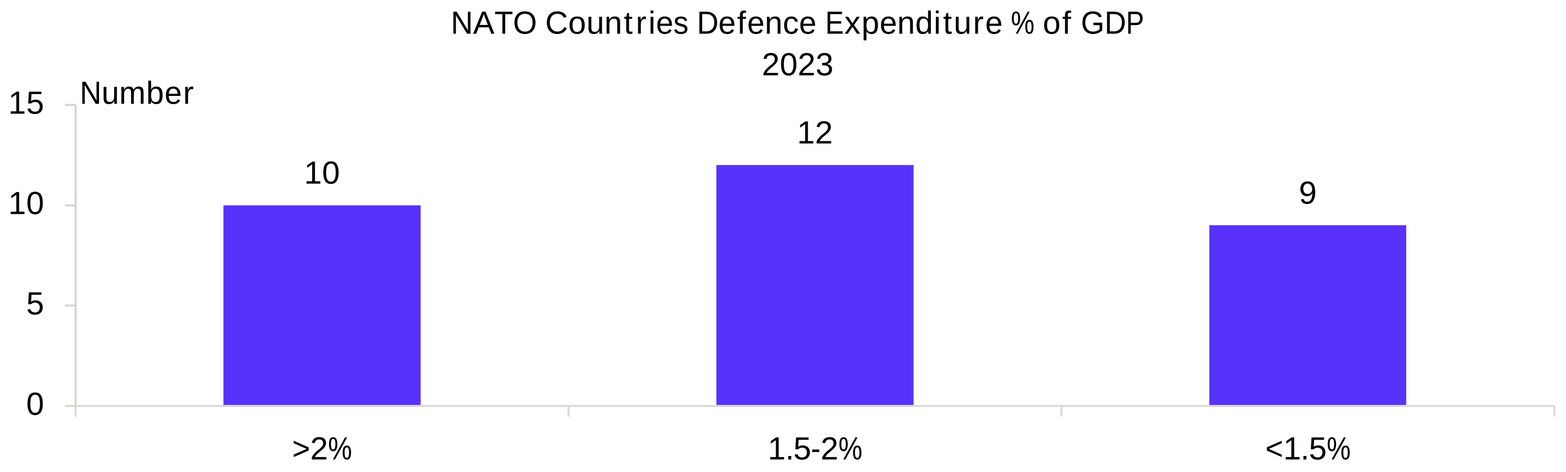
Trump is also widely anticipated to ease the process of securing leases for oil and gas drilling on federal lands and waters

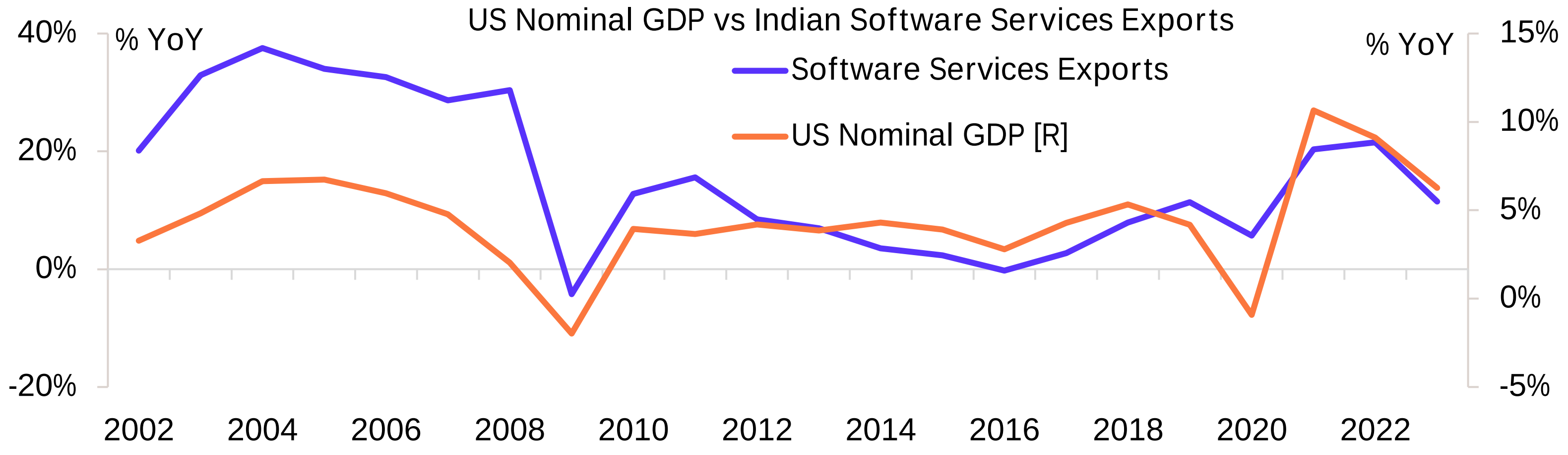
As a result, US oil production could increase, helping to keep crude oil prices stable

Source: Bloomberg, EIA, 360 ONE Asset Research

Global defence spending is expected to increase significantly

Trump's policies are expected to be net positive for the Indian IT sector





NATO countries are expected to increase defence spending to meet the commitment of allocating at least 2% of gross domestic product to defence

In addition, nations such as Japan, South Korea, and Taiwan may also look to raise defence budgets, aiming to reduce reliance on the United States for security

The Indian IT sector has substantial exposure to the US economy, with approximately 65-70% of its revenue derived from the US

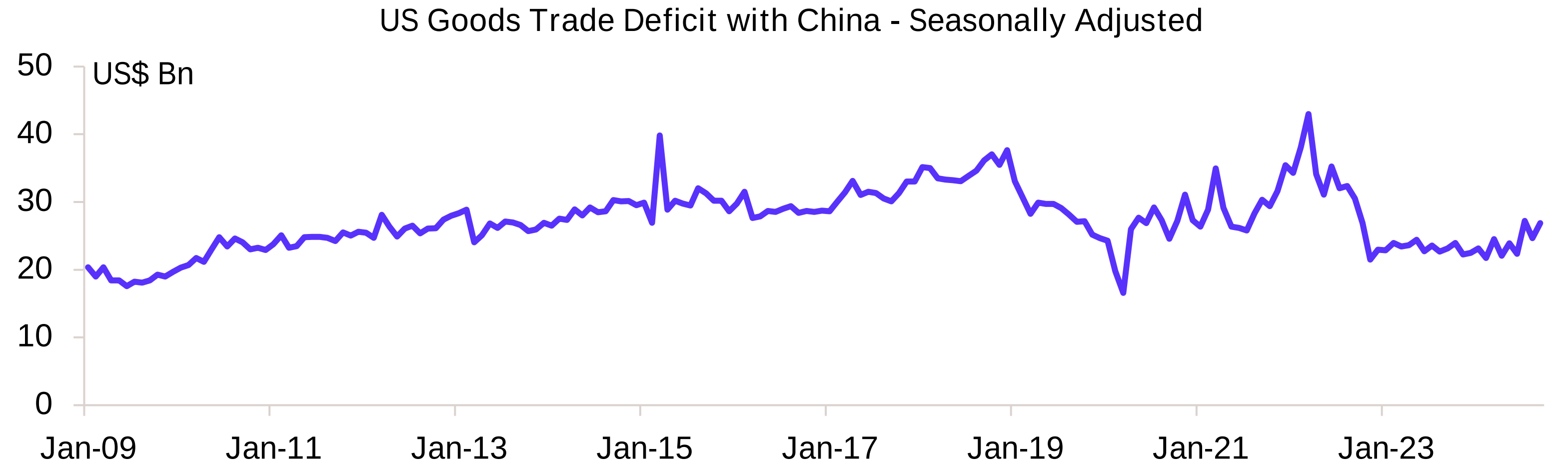
As a result, Indian software services exports tend to be positively correlated with the US GDP

Trump's tax cuts and pro-growth policies are expected to boost US corporate earnings and drive higher IT spending, benefiting Indian IT companies

Source: NATO, FRED, CMIE, 360 ONE Asset Research

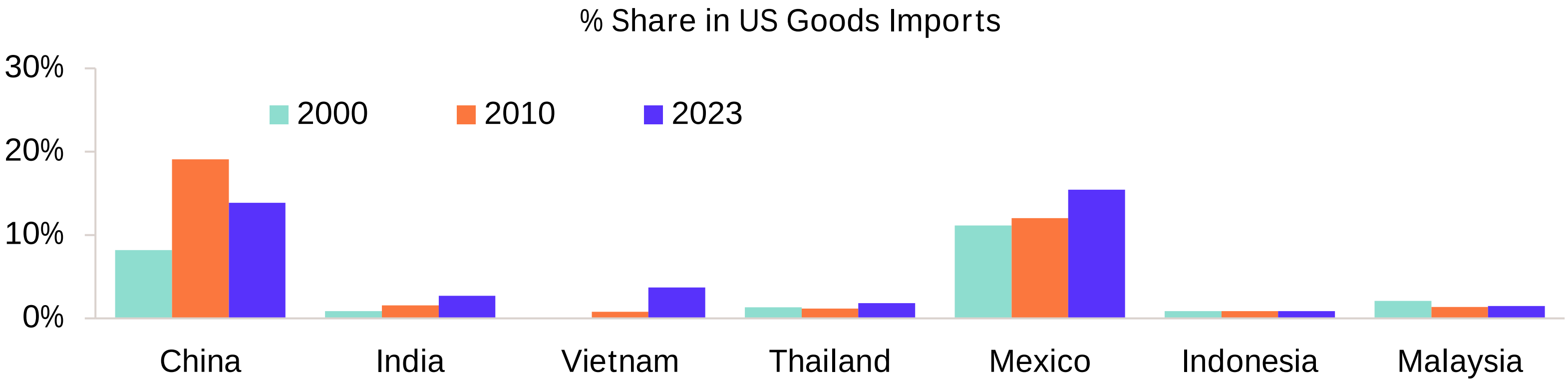
Trump administration is expected to increase tariffs on Chinese imports

This could reinforce the 'China+1' strategy and potentially benefit India



The US continues to run a heavy trade deficit with China

Trump has repeatedly indicated slapping import tariffs on Chinese imports to correct the imbalance



Other countries could also face import tariffs under the Trump administration

However, tariffs on Chinese imports are expected to be higher than those on imports from other countries

Thus, Trump's foreign trade policies may support the China+1 strategy and potentially benefit India

Source: census.gov, 360 ONE Asset Research

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