

Executive Summary of the 74th Global Investment Advisory Committee (GIAC) Meeting

3rd October 2024

Current stance

At its October meeting, the committee unanimously decided to reduce equity exposure from 60% to 50%, positioning the portfolios at a neutral level, owing to persistent concerns around China, the geopolitical tension in the Middle East, and upcoming state and US elections. Accordingly, the incremental 10% of equity allocation has been moved to debt, with the allocation and stance set to be re-evaluated after Diwali. Previously, the portfolios were fully overweight on equity, with allocations of 30% in the conservative portfolio, 60% in the balanced portfolio, and 94% in the growth portfolio. The committee further noted that while mid and small caps remained neutral, the conservative portfolio experienced more favourable alpha generation over the last month. On a six to nine months basis, the growth portfolio continues to outperform, even surpassing the Nifty index.

Key variables to monitor:



China stimulus scenario



State elections



US Fed rate movement



US elections



India earnings reports

What's changed since our last meeting:

The Federal Open Market Committee (FOMC) recently approved a 50-basis-point reduction in its key interest rate. However, Federal Reserve Chair Jerome Powell clarified that future rate cuts are likely to be smaller, possibly two more quarter-point reductions this year. The Fed's strategy will depend on economic data, balancing inflation control with support for the labour market.

The US economy expanded at a 3% annual rate during the April to June quarter, driven by strong consumer spending, inventory investment, and non-residential fixed investment. This is a marked improvement from the 1.6% growth in the first quarter, as reported by the Bureau of Economic Analysis. Jamie Dimon, CEO of JP Morgan, recently shared insights on the global economic landscape, emphasising ongoing inflation and recession risks. Despite these challenges, both the US and Indian economies have shown resilience. While China's economic slowdown persists, India and the US continue to perform better than expected.

China's central bank introduced its most significant stimulus since the pandemic, aiming to revive the economy and steer it closer to the government's growth targets. However, experts cautioned that additional fiscal support would be crucial to achieving these objectives. The wide-ranging measures, including increased funding and interest rate reductions, represent the latest effort by authorities to boost confidence in the world's second-largest economy. This comes in response to a series of underwhelming economic reports that have sparked fears of an extended structural downturn.

On the Indian front, S&P Global projects India to become the third-largest economy by fiscal 2030-31, forecasting an annual growth rate of 6.7%. Additionally, India's CPI inflation in August 2024 fell to 3.65%, significantly lower than the 6.83% recorded in the same period last year, marking one of the lowest CPI figures in the past five years.

Viewpoints



Given the ongoing uncertainties in China and broader geopolitical concerns, particularly in the Middle East, the committee has reduced equity exposure. While the markets have delivered strong returns, the consensus is that much of the "easy money" has already been made. The outlook for the next 6–7 months is for a high-volatility, low-return environment, signalling that a move towards a more defensive allocation might be prudent. The committee believes that while the situation may not develop into something severe, it is wise to stay prepared, keeping some dry powder available should there be a market correction or new opportunities arise.

With state elections in India and US elections approaching, a reduction in equity holdings has been finalised. The surplus is recommended to be placed in the money market to maintain liquidity for potential future deployments. This shift comes after a period of strong performance, where our portfolios have consistently outperformed benchmarks. While valuations remain elevated, the committee feels that market fundamentals are deteriorating, with potential earnings cuts expected to emerge by the year-end. Earnings pressure is anticipated due to rising commodity prices, which could affect end-users and lead to a few percentage points of cuts in earnings estimates. Markets currently trading at 20–26 times earnings could see either consolidation or a pullback over the next few months. Even in the absence of a sharp price correction, a period of time-based consolidation is expected. The committee holds the view that there is no significant rally to miss out on, given these conditions. For the first time post-COVID, GST collections have dipped to 6.5%, below the nominal GDP, indicating a slowdown in higher-end consumption.

In terms of sectoral outlook, the committee anticipates large caps to perform better in the near term. Meanwhile, regulatory changes from SEBI could prompt increased retail movement towards mid and small caps in the short term. The committee also believes the Nifty will establish a base around the 24,000 level, trading within a 24,000–26,000 range moving forward.

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