EQUITY OUTLOOK

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Dear Investors,

In October, the Indian equity markets experienced a notable decline, influenced by a confluence of three key factors. Here's a detailed look at what led to this downturn:

1. Buoyant Liquidity and Adverse Electoral Outcomes

From June to September, the Indian equity markets witnessed a surge driven by buoyant liquidity. However, this period also saw adverse electoral outcomes and modifications to the capital tax regime, which contributed to market volatility. Investors, buoyed by the increased liquidity, initially drove up the markets, but the political uncertainties and regulatory changes began to cast a shadow over investor sentiment.

2. Global Allocators Reconsidering Stance on China

Another significant factor contributing to the fall in Indian equity markets was the shift in the stance of global allocators. Previously, many global investors had adopted an "Anything But China" approach due to various concerns surrounding the Chinese economy. However, with China announcing a series of stimulus measures aimed at bolstering its economy, there was a rethink of this earlier stance. As a result, foreign institutional investors (FIIs) began to reallocate their investments, leading to a sell-off in Indian equities. This reallocation was driven by the perception that China's stimulus measures could provide attractive investment opportunities, prompting a migration of capital away from India. FII have been on a selling spree in India – selling more than 100,000cr worth of Indian equities. Indian IPO market also have been punching above their weight, with almost 10% of world IPO market now happening in India (despite India accounting for less than 4% of world market cap), this constant supply of paper also drained investor cash levels down.

3. Slowing Earnings Growth

The third factor contributing to the market decline was the slowing earnings growth in the near term. Over the past 2-3 quarters, there has been a discernible slowdown in activity levels, attributed to various factors such as elections, heat waves, and monsoons. These factors collectively impacted economic activities and, consequently, corporate earnings. The results for the quarter ending in September painted a sombre picture, with more earnings downgrades than upgrades. This trend of slowing earnings growth dampened investor confidence and further fueled the market downturn.

While these factors have led to increased near-term volatility, it is important that investors keep the big picture in mind.

The Indian economy now accounts for approximately 3.75% of world GDP and, post the correction in equity markets, accounts for about 3.6% of world market capitalization. We believe the share of world GDP is going to rise significantly in the coming few decades, thus it is likely that our share of world market cap will also rise over the coming few decades.

Secondly, despite poor near-term earnings, the health of Corporate India is in very good shape, with very low leverage and significantly higher cash flows from operations over capex. Capex itself continues to be on an interesting trajectory—after being on the slow lane from 2011 to 2019, we have seen capex move up by 50% (post-Covid to pre-Covid levels) in aggregate for Corporate India. Capex done now will sow the seeds of growth in the future.

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Thirdly, the savings habits of Indian households are changing significantly. While most of our savings are still in physical assets like gold and land, and even within financial assets significantly in fixed deposits, there is potential for increased allocation to asset classes like equities to make the most of these corrections and falls.

It is important to recalibrate expectations from Indian equity markets – last 3-4 years have lead to significant wealth creation – some of our future gains had got pulled forward. One should tone down such expectations and believe in this asset class with a horizon of 5-10 years at the minimum. The nature of stocks that have outperformed markets in the last 3-4 years also is likely to change going forward, creating the need for greater agility. At Aditya Birla Sun Life Mutual Fund, our actively managed strategies have seen a significant shift in our larger holdings. To help you analyse our larger holdings, we have provided the Top 75 stocks of our fund house, which is reasonably diversified across sectors and market cap.

Thank you for the trust – market falls like this make the adage even more important to remember – "Time in the markets is more important than timing the markets"

Issuer(s) / Stock(s) / Sector(s) mentioned above are for the purpose of disclosure of the portfolio of the Scheme(s) and should not be construed as recommendation. The fund manager(s) may or may not choose to hold the same, from time to time.

Our Recommendations

Market Cap Specific	Hybrid Solutions	Thematic & Sectoral Solutions	Diversified across Market Cap
Aditya Birla Sun Life Frontline Equity Fund	Aditya Birla Sun Life Balanced Advantage Fund	Aditya Birla Sun Life India GenNext Fund	Aditya Birla Sun Life Multi-Cap Fund
Aditya Birla Sun Life Mid Cap Fund	Aditya Birla Sun Life Multi Asset Allocation Fund	Aditya Birla Sun Life Digital India Fund	Aditya Birla Sun Life Flexi Cap Fund
Aditya Birla Sun Life Small Cap Fund			

None of the aforesaid recommendations are based on any assumptions. These are purely for reference and the investor are requested to consult their financial advisors before investing.