Sanctum Wealth

Sanctum View

November 17, 2023

Investment Strategy

US Q3 2023 GDP number exceeded forecasts, but our outlook remains cautious.

Eurozone GDP contracted in Q3, 2023, poised to enter a technical recession next quarter.

China's recovery remains lacklustre despite attempts at monetary revival.

The Indian economy continues to be resilient amid strong festive demand.

We expect Indian equities to be volatile in the short term, but we are optimistic over the long term.

You might also like our A Festival Of Confusion Not Light and Nothing Is For Certain Click here to read them for free.

Tread Lightly

Our note from the previous month had a rather cautious tone on the global macroeconomic outlook, contrasting the equity market mood over the past couple of weeks. The US Q3 real GDP numbers also exceeded the forecast at 4.9% (annualized). Naturally, this has raised questions about our view. Of course, we could be wrong, but in our defence, below is a table of past recessions in the US that shows it is common to have strong growth in the quarter when a recession began:

US GDP growth YoY% (in the quarter that recession began)

Start of Recession	Nominal	Real
November 1948	7.9%	3.9%
July 1953	6.4%	5.4%
August 1957	6.3%	3.1%
April 1960	3.5%	2.1%
December 1969	7.2%	2.0%
November 1973	11.1%	4.0%
January 1980	10.4%	1.4%
July 1981	14.1%	4.3%
July 1990	5.6%	1.7%
March 2001	4.7%	2.2%
December 2007	4.8%	2.2%
February 2020	2.5%	0.6%

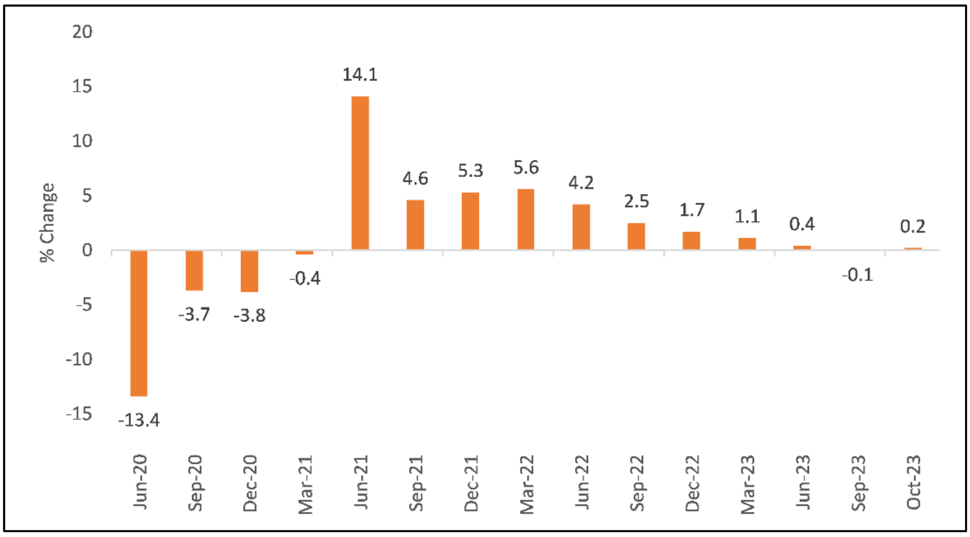
Source: BofA Global Investment Strategy, Bloomberg

Global Update

We often discuss how the bond markets serve as early warning indicators for risks in equities. Last week, the US government bond auction was rather weak. Primary dealers (big banks obligated to buy certain quantum, which they can later resell to other investors) had to absorb nearly 25% of the auction. That's an unhealthy amount and an indication of weak demand. The significance of this is that US government bonds are supposed to be the most liquid and have a 'reserve' status. However, there is growing concern about investors' ability to absorb all the fresh debt the US government must issue. To put this in context, since June 2023, the US has sold more than USD 1tn in T-bills.

Eurozone GDP contracted in the last quarter (Q3 2023), and with the fourth quarter traditionally being its weakest, the Eurozone is poised to enter a technical recession next quarter. The European Central Bank (ECB) held interest rates steady at 4% after ten consecutive hikes since July 2022, citing softer inflation prints.

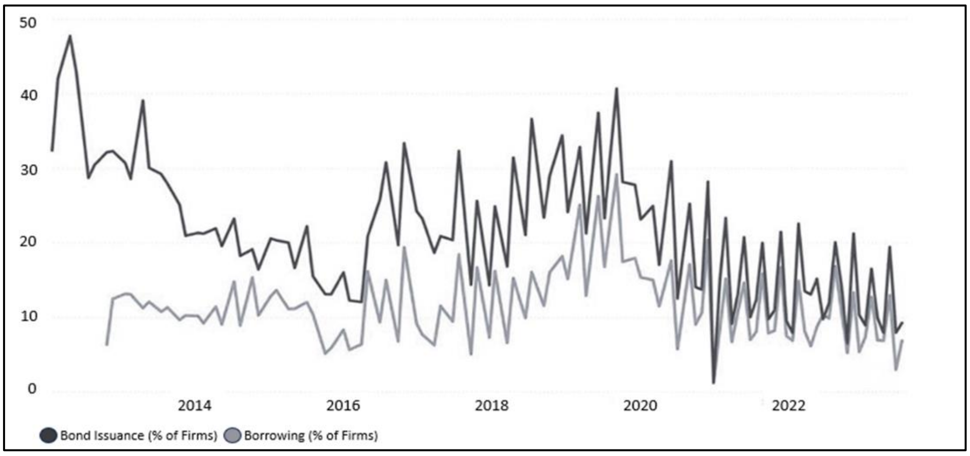
Eurozone Quarterly Real GDP Growth



Source: Bloomberg, Sanctum Wealth

China's recovery, despite monetary stimulus efforts, remains lacklustre. The latest funding boost initially created some optimism, but upon closer scrutiny, it appears that the funds were primarily allocated towards disaster relief in flood-hit areas, and corporate borrowing remains firmly low.

China Corporate Borrowing and Bond Sales (% firms)



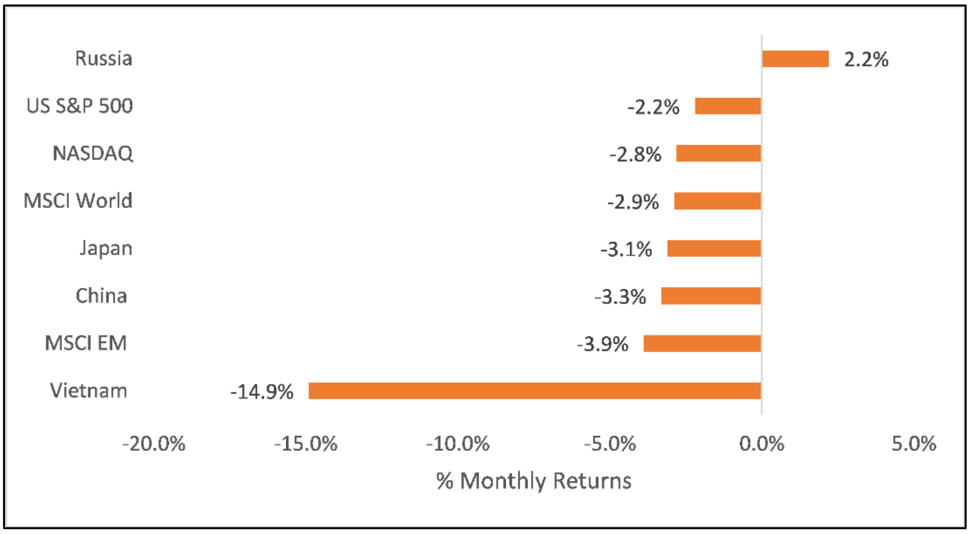
Source: CBB Data Analytics Platform

The worst could be over, even though the dragon may not soar soon.

We want to add that this time, despite the significant challenges posed by soaring interest rates and the sharp appreciation of the US dollar, none of the large emerging markets – including Mexico, Brazil, Indonesia, Vietnam, South Africa, and even Turkey – appear to be in debt distress, according to both the IMF and interest-rate spreads. Some of this resilience could be attributed to the growth potential and resilience of these emerging economies.

Global equity markets were volatile for most of the month, ending lower in most cases. Sentiment was adversely affected by the Israel-Hamas war and the spike in US yields.

Major Indices Returns (October 2023)



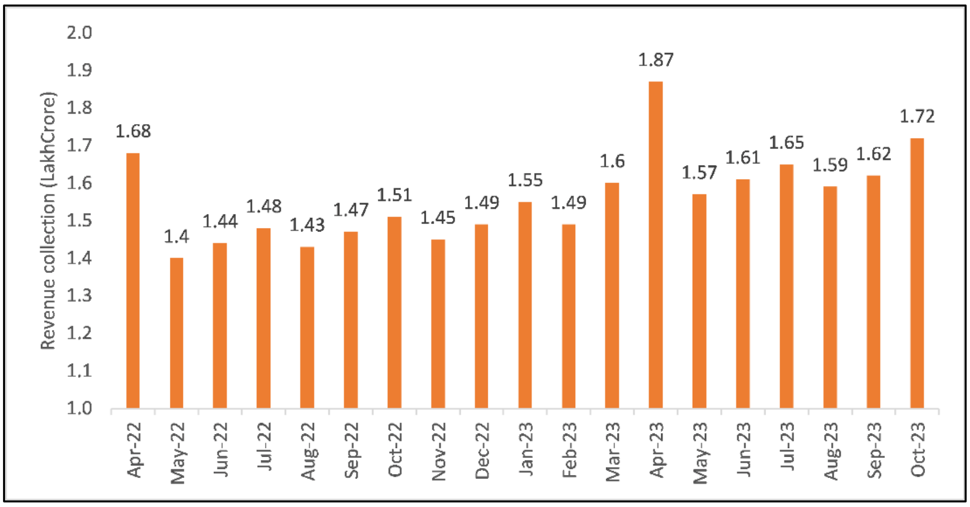
Source: Bloomberg, Sanctum Wealth

India Update

India continues to show resilience, and early indicators suggest that festive demand has been fairly strong. An E-commerce enablement SaaS platform, Unicommerce, reported that the industry has witnessed over 30% growth in order volumes during the festival season sales in 2023 compared to the corresponding period in the previous year.

Business traction is evident in GST collections, which rose by 13% YoY to Rs 1.72 lakh crs in October 2023 and were the second highest ever. However, India S&P Global Manufacturing PMI for October 2023 declined to 55.5 against 57.5 in September 2023.

GST Revenue (Lakh Crores)



Source: PIB, Ministry of Finance India

The El Nino effect could result in lower food production in the current Kharif cycle. While, based on initial numbers, it may not have a significant impact on inflation, we will await more data from the Ministry of Agriculture. Lower food production might adversely impact the rural economy and hence gain salience. Inflation has been trending down and is now within the tolerance band of the RBI, but we have not been anticipating any more rate hikes, so this isn't a needle mover.

After outperforming global markets in September 2023, Nifty underperformed last month but recovered some of the losses in the last few days of the month on the back of domestic buying. After six consecutive months of gain, mid and small-cap indices corrected last month. We expect continued volatility with some weakness in the near term.

Outlook

Equities: As mentioned above, we are cautious on equities in the short term but constructive over the long term. We reduced our midcap and small-cap exposure by nearly ten percentage points in our aggressive model portfolios. The recent correction in mid and small caps was not deep enough, and we continue our underweight position. All investors should be mindful of the volatility expected around general elections next year.

Fixed income: Fixed income has been range-bound for nearly a year now. This market is conducive to traders to generate alpha. Longer-term investors should buy and hold funds that largely match their investment horizon. Some exposure to duration could be considered. There has been a huge demand for private credit as it offers yield pick-up. Here, we would like to be very selective and choose managers extremely carefully.

Sanctum Wealth

Roopali Prabhu
Chief Investment Officer
roopali.prabhu@sanctumwealth.com

Hemang Kapasi
Head of Equities
hemang.kapasi@sanctumwealth.com

Alekh Yadav
Head of Investment Products
alekh.yadav@sanctumwealth.com

Jyoti Roy
Head of Equity Research
jyoti.roy@sanctumwealth.com

Rajiv Mehra
Portfolio Manager
rajiv.mehra@sanctumwealth.com

Sanctum Wealth Private Limited
AMFI registered Mutual Fund Distributor I Stock Broker I Depository Participant I Portfolio Manager I Research Analyst
Registered Office: CoWrks, Level 3, Birla Centurion, Compound, Pandurang Budhkar Marg, Worli, Mumbai 400030, Maharashtra, India |
Tel. +91 22 6177 9500 | sanctumwealth.com | CIN # U74140MH2015PTC264932