Equity market outlook for 2024 looks more promising than 2023. Here's why

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Synopsis
2024 will be a tale of two stories with the first stage in Q12024; the world witnessing a global slowdown and moderation of profit growth, ballooning of global debt and falling consumption due to high-interest rates.

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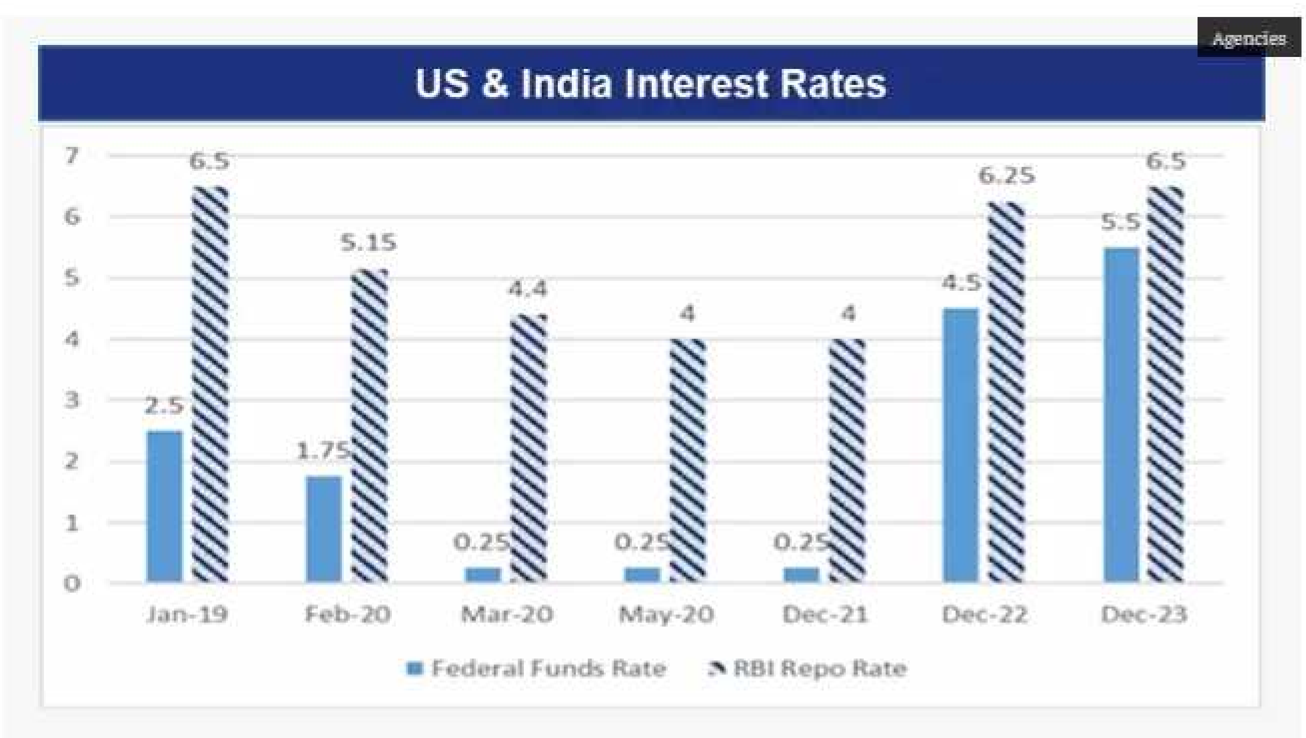
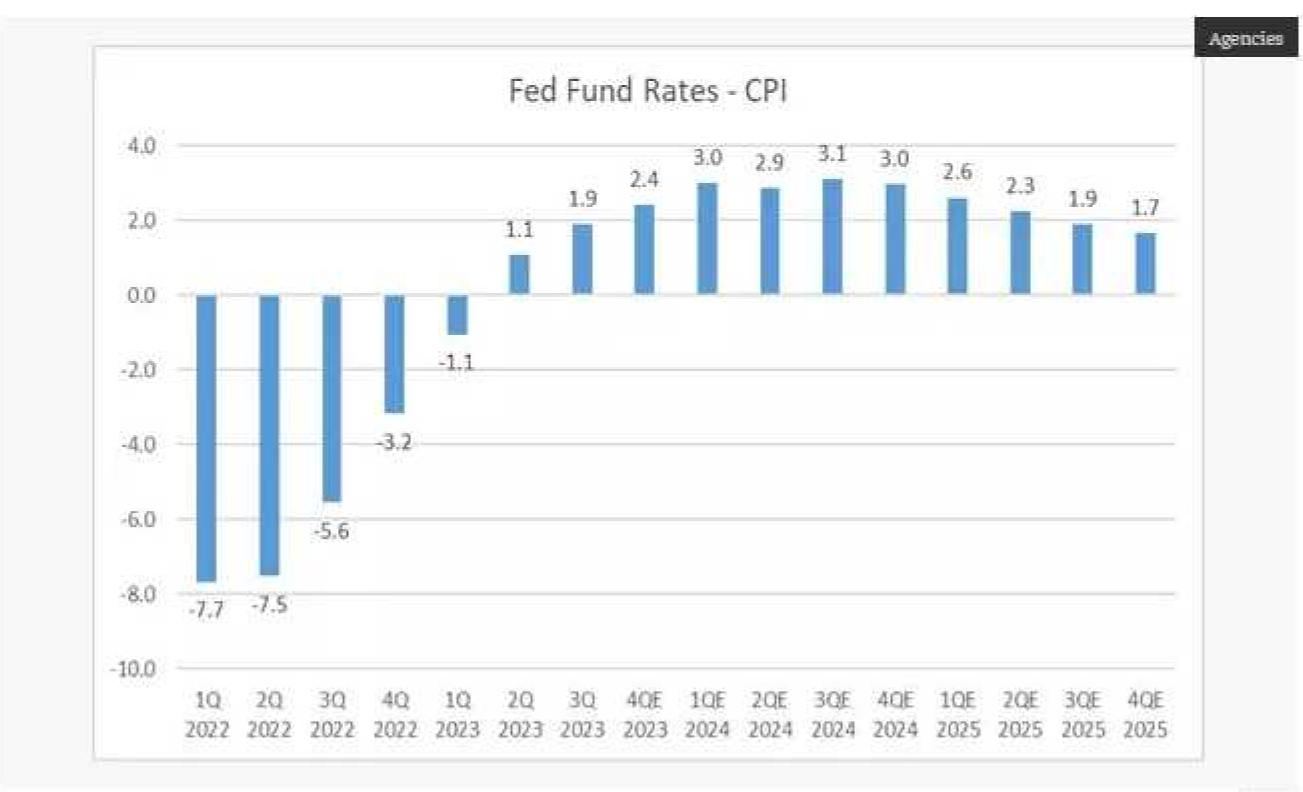
The year 2023 was very interesting. Initially, the world was concerned of a global recession after interest rates were hiked by 4.25% in 2022, and inflation was still not under control; the banks had moved from QE to QT (money supply easing to tightening) and money supply world over was slowing down. The bright spot in the world was the Chinese markets and economy, which had opened up post Covid and China had witnessed almost $2-2.5 trillion of growth October – December 2022.





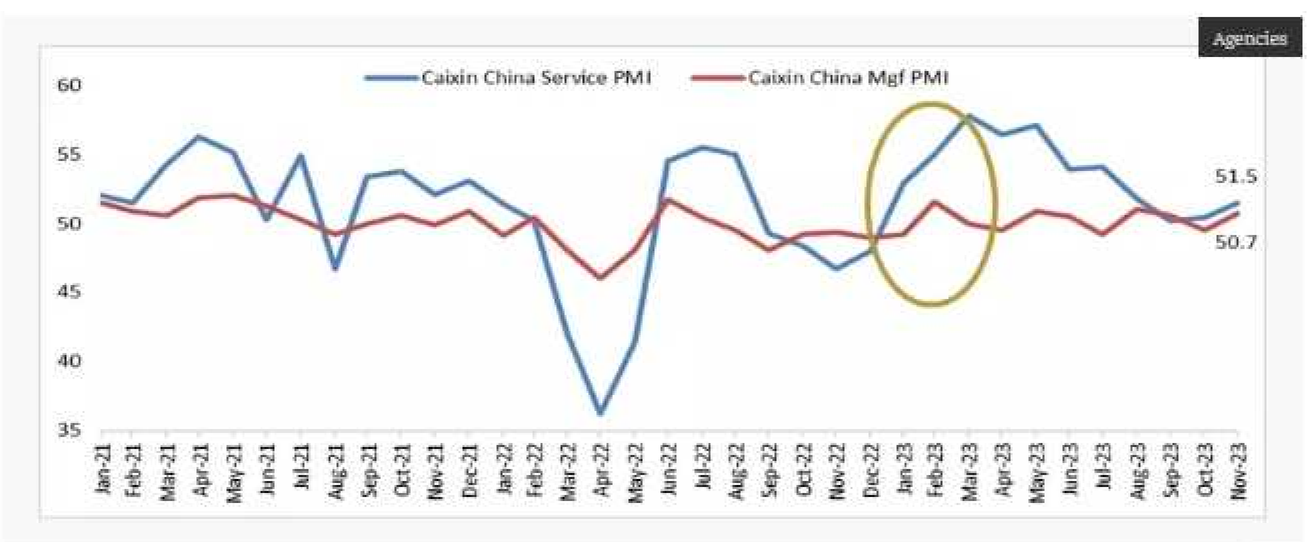
Both these expectations went wrong, and despite money supply shrinking the world over, the world GDP grew higher than expected driven by Japan and the US, which recorded 4.8-4.9% GDP growth in certain quarters higher than EM. With the US expected to end 2023 with a 2.6% growth in its GDP and Japan at 2%, the world economy expanded as against witnessing a "recession". This came at the cost of higher fiscal spending, however. The world equity markets had a great year - NASDAQ increased an impressive 39%, Nikkei 24%, India 18%. However Emerging markets has been largely flat this year and China is down ~13% so far.

GDP Growth Y/Y [%]	2023 Q1	2023 Q2	2023 Q3	2023E	2024E	2025E
India	6.1	7.8	6.5	6.6	6.4	6.5
US#	2.2	2.1	4.9	2.6	1.4	1.8
China	4.5	6.3	4.9	5.1	4.2	4.0
Japan#	3.2	4.8	0.4	2.0	1.0	1.1
Euro Area	1.2	0.5	0.1	0.4	0.5	1.0
EM	4.0	4.8	3.9	4.2	4.0	4.0

Index / Sector	Returns %						
	1m	3m	Q1CY23	FYTD	1Y	3Y CAGR	5Y CAGR
NASDAQ	6	5	17	19	29	5	16
MSCI World	5	3	7	9	12	4	8
MSCI EM	3	0	4	-1	1	-8	0
MSCI India	8	6	-7	25	12	16	14
Barclay's Agg Bond Index	4	2	3	0	1	-4	1
BSE 500	8	6	-6	27	17	18	15
BSE Midcaps	8	11	-5	48	36	27	19
BSE Smallcaps	7	11	-7	54	39	33	23

If we were to look at Q12023, our prediction went right, China Caixin PMI increased and moved to expansive mode, US interest rates moved up further by 25 bps (one of its four rate hikes, before it paused in Sept. 2023). Chinese markets were smiling up 5% and the rest of the world was up 7%.

From April 2023, the Fed had three more hikes. And then from September 2023, the Fed paused its hike in interest rates to control the growing fiscal, growth slow-down and reduced inflation further to long-term average levels, despite inflation numbers having corrected downward.



We believe, 2024 will be a tale of two stories with the first stage in Q12024; the world witnessing a global slowdown and moderation of profit growth, ballooning of global debt and falling consumption due to high-interest rates. This should lead to GDP growth of 2024 for the world being lower than that of 2023. Also being an election year for many countries in the world, there could be much capex-related fiscal spending which may be delayed

The second story should pan out in Q2 or the second half of 2024 wherein we would witness falling Interest rates world over and a possible revival of consumption.

The equity market for 2024 looks overall more promising than 2023 primarily because fall in interest rates lead to lower cost of capital and increases earnings potential and also can lead to increasing Money supply coming into global equities.

India should outperform its peers due to its robust economic growth & India Inc. earnings growth. At one end the Indian GDP growth is incrementally adding ~15% of world GDP and at the other, it is only contributing to 1.5% of world profits and a similar weightage in MSCI world indices. India's tie-up with Russia is cushioning its biggest risk on crude from high prices due to any geopolitical risk. The Key risks to India are TWO a) the outcome of the 2024 Elections and the hope of a stable government; b) Geopolitical risks

Post elections, the possibility of FII ownership inching up 300-400 bps from 16.5% to 20% levels cannot be ruled out due to its stage being set for a profit growth stable country. This coupled with inclusion into JP EM bond India could lead to the highest ever inflows for the country.

(Source: JM Financial research)