Mutual Fund Review

ICICI direct Research

March 19, 2024

Equity Market

Update

Indian equity market after making new highs continuously since last few months, witnessed selling pressure in the month of February and March. The selling pressure was witnessed across the segments, especially in the mid-cap and small-cap segment. The fall in the smallcap and midcap segment was triggered by the warning from the Indian regulator cautioning investors about the risk of "froth" in broader markets.

Global markets also witnessed volatility as uncertainty over the timing in the Federal Reserve's rate cut resurfaced following hotter-than-expected US inflation data.

While the month of January and February ended flat with intra-month volatility, the small-cap index fell by around 13% from its recent highs while midcap index was down by around 7%. Nifty is down less than 2% from its recent highs.

The US FOMC, in line with expectations, maintained the policy rate at 5.25-5.5% but the minutes of the US FOMC meeting highlighted that members were not in a rush to start cutting interest rates. RBI, as expected, kept the repo rate unchanged at 6.5%.

During the month of February, FPIs brought USD 200 mn of Indian equities in the secondary market, whereas DIIs bought shares worth USD 3 bn.

Real gross domestic product (GDP) for Q3 FY24 grew by 8.4% YoY. The GDP growth rates for the first two quarters of the year were also revised upwards by 40 basis points at 8.2% and 8.1%, respectively, with full year FY24 being revised up from 7.3% to 7.6%.

Outlook

Corporate earnings (ex-financials) at Nifty for Q3FY24 came in on expected lines with PAT growth on YoY basis deaccelerating to 15% for the quarter vs. 25%+ run-rate recorded in the previous two quarters i.e. 26% in Q1FY24 and 33% in Q2FY24. For Q3FY24 topline growth came in at 5% on YoY basis with EBITDA growing 12% on YoY basis amid 110 bps expansion in EBITDA margins.

Management commentary was encouraging over the resilience shown by the domestic economy amid muted global macroeconomic growth scenario, consistent government thrust on infrastructure development (capex outlay in union budget for FY25 pegged at ₹11.1 lakh crore, up 11.2% YoY) and stable commodity price outlook. Nifty earnings including financials was a marginally tepid show this time wherein PAT growth for the index for Q3FY24 was pegged at 13% vs. 15% for excluding financials universe. Interestingly for the small cap domain earnings growth was again very healthy at 20% on YoY basis. Going forward we don't foresee any risk to our double-digit earnings estimates.

Overall we continue to have a positive bias on Equity market. Valuations are rich relatively but we expect the premium to sustain based on expectations of improvement in corporate profitability and stable domestic macros and strong liquidity inflows. Many of the Smallcap and midcap stocks clearly are extremely expensive. Smallcap and Midcap funds should be avoided for lumpsum investments.

Monthly Report

Additional investments in equity should be done in a staggered manner or through SIP/STP route. Midcap and small cap funds should be avoided at current levels.

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Debt Market

Update

Globally, the FOMC maintained a status quo on policy rates and the likelihood of rate cuts in 2024 but pushed back the expectations for a March rate cut. US market rates remained volatile during the month as the market adjusted the timing of first-rate cut based on the incoming data related to the job market, inflation, and economic activity.

U.S. bond yields traded with caution in last few months with an upward bias in response to higher-than-expected headline and core CPI prints. In addition, higher-than-expected PPI print for the US also drove global yields higher. Market will be focusing on U.S. policy outcome and rate cut guidance during policy this month. Similarly, markets expect the BoJ to discontinue the negative interest rate policy and alter Yield Curve Control, while the BoE is expected to maintain a hawkish pause.

Within the overall downtrend, yield particularly globally have been under pressure since last few days due to unfavourable inflation and economic data. Overall, Indian bonds continue to outperform.

Indian G-Sec yields moved however traded in a narrow range with a downward bias, as favourable demand-supply dynamics on expectations of fiscal consolidation compressed the longer end yields. However in last few days, long dated yields have seen some pressure taking cues from global yields.

India's macro remain well placed on the growth-inflation dynamics with inflation for the month of February 2024 coming in at 4-month low of 5.09%. CPI inflation for the month of February 2024 came in at a similar level like last month and as per market expectations at 5.1%. Food inflation was up 30bps to 8.66% while Core inflation was down 30bps to 3.3%.

Crude oil price have rallied sharply by around 10% in last few weeks as increase in US refining activity could tighten global crude supplies. Additionally, surprise withdrawal in US crude oil inventories and potential supply disruption after Ukrainian attacks on Russian refineries supported prices to move north.

Outlook

Bond yields after drifting down slowly in last few months have seen some pressure in last few days on the back of rising global bond yields. Rising crude oil prices and uncertainty over timing of rate cuts by U.S. Federal Reserve has led to some pressure in global bond yields. The trend however remain downward with any rise in yields offering good entry point.

Long duration funds (long term funds/G-Sec funds with higher average maturity) offer good investment opportunity to get 10%+ return potential in the calendar year 2024.

We believe that we are in the larger down-cycle with respect to yields. Given debt market perform in cycles, the current down-cycle has started from June 2022 with 10-Year G-Sec yield at around 7.6%. The rally in the current cycle has just started which may last another 9-12 months with yield moving down towards 6.25% to 6.50%. Annualised return during the current cycle could be around 11% with incremental return in the year calendar year 2024 around 12%-14%.

Government Bond Index inclusion could be a game changer. JP Morgan's Bond index inclusion could alone lead to FPI inflows of USD 25bn or ₹ 2 lakh crore in Indian debt market. Apart from JP Morgans GBI-EM-GD index, Bloomberg Global Aggregate Index(Global Agg) is also likely to include Indian bonds in its index. It has an estimated AUM of USD 2.5 trillion and with 0.6%-0.8% weight, additional potential inflows could USD 15-20bn. Such inflows coinciding with global rate-cut cycle is likely to push bond yields lower resulting into lower cost of funds for Indian corporates.

We have been recommending duration funds since last 3-4 months highlighting attractive

Industry Synopsis

The last four month has witnessed a significant rise in the AUM of the MF industry crossing ₹54 lakh crore to all-time high at ₹54.5 lakh crore in February 2024 as compared to ₹46.7 lakh crore in October 2023. The rise in AUM was led by both inflows and mark-to-market gain in equity oriented funds.

The year 2024 started on a strong note with inflows in equity schemes during the first two month at ₹48600 crore. Ex-inflows, the first two months saw inflows of ₹39000 crore. This inflow is on the back of a strong year 2023 which saw inflows of ₹1.6 lakh crore into equity schemes after similar inflows of ₹1.6 lakh crore during the year 2022. Inflows (Ex-NFOs) were also healthy with 1.25 lakh crore and ₹1.3 lakh crore respectively in the calendar year 2023 and 2022.

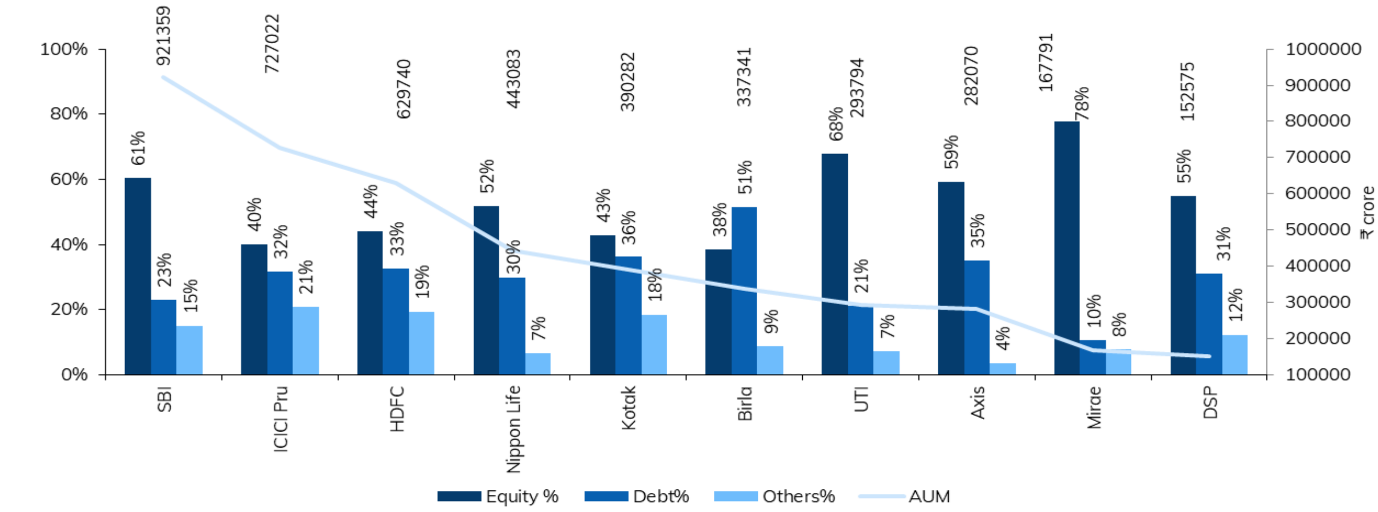
Monthly SIP flows continue to grow stronger and have increased to ₹19186 from ₹18838 crore in January 2024.

Inflows continue to be higher in smallcap funds (₹ 2900 crore) followed by Midcap funds (₹ 1800 crore). Largecap funds saw inflows of ₹ 900 crore in February 2024.

Debt funds witnessed higher inflows in categories like corporate bond and long duration funds.

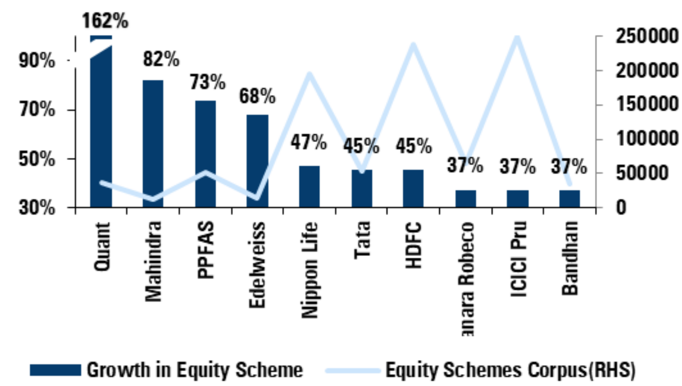
The year 2024 started on a stronger note with inflows in the first two months at ₹48600 crore. SIP flows almost touching ₹20000 crore per month run-rate.

Exhibit 1: Total AUM, break-up of major AMCs



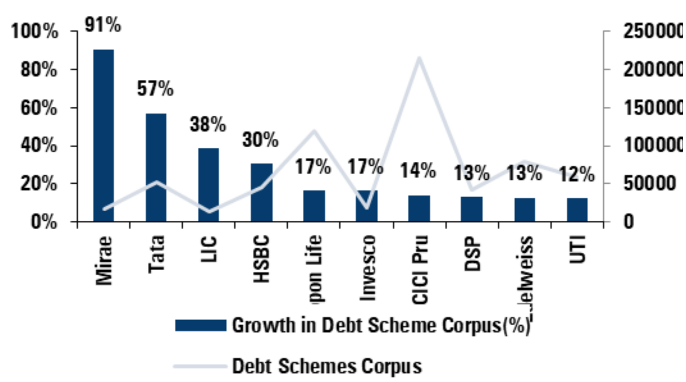
Source: ACE MF. Data as on month-end Feb 2024

Exhibit 2: Quant, Mahindra, PPFAS Edelweiss among AMCs w schemes in 2023



Source: ACE MF

Exhibit 3: Mirae, Tata among AMCs which saw higher grow 2023



Source: ACE MF

Equity funds: Pharma and Infrastructure funds starts the year with outperformance

Pharma funds saw significant outperformance since the start of the year 2024. Pharma funds have started outperforming since the later part of the year 2023. Pharma sector had underperformed prior to that and sector rotation was witnessed with flows moving into segments which had underperformed.

Infrastructure funds also continue to outperform after having seen significant outperformance in the year 2023. Infra funds have outperformed since last three years as cyclical sectors outperform from capex related expenditure driven by Government spending. Such continuous outperformance in last 3 years is only second time since 2005-2007. We believe that infrastructure funds still offer upside and existing investors may continue to hold these funds.

Smallcap/Midcap have underperformed significantly during the month of February and March 2024 as investors booked profit after significant outperformance.

Smallcap funds witnessed selling pressure in the month of February and March and underperformed significantly as investors booked profit after its significant outperformance in last four years. Smallcap index is down more than 10% from its recent highs while headline index is largely at similar levels. Active smallcap funds have outperformed the benchmark smallcap index in current recent fall.

The recent fall in the smallcap segment has to viewed in the context of small cap funds having outperformed consistently since last 4 years. Such continuous outperformance for 4 years only second time in the history and similar to 2014-2017 period. The risk-return trade-off looks unfavourable and investors may avoid putting lumpsum amount in the category.

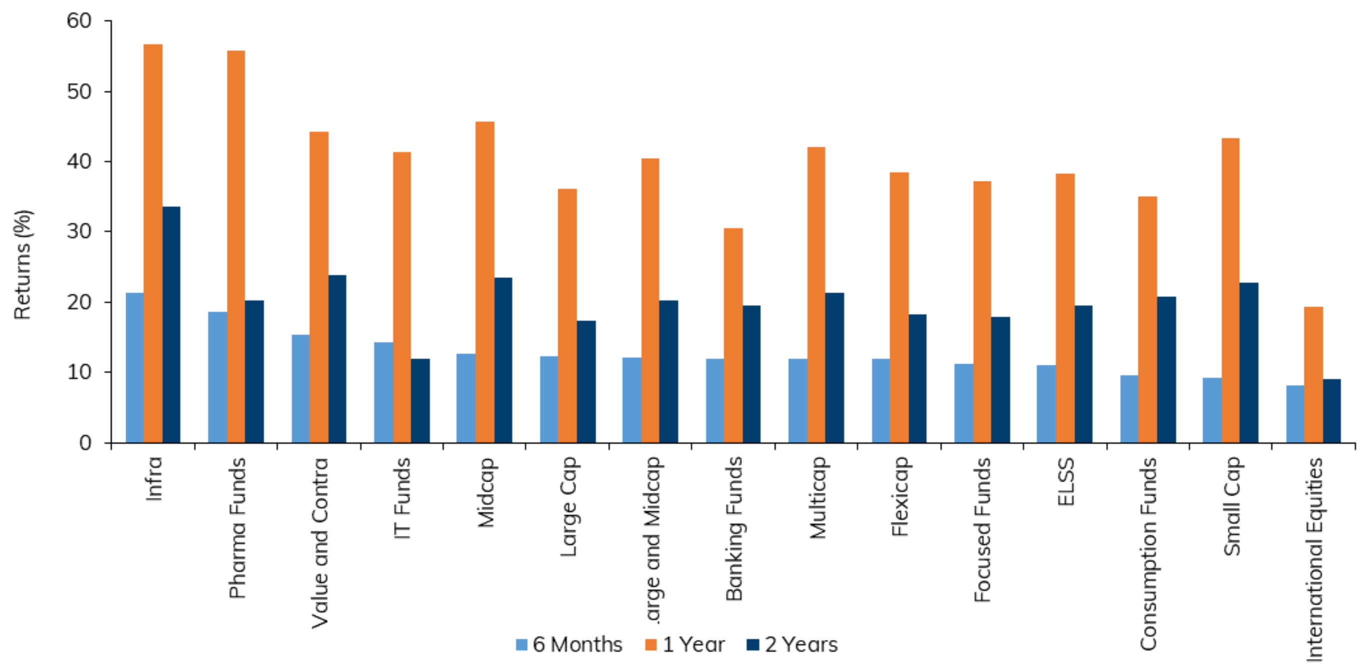
Risk-return trade-off is unfavourable for Smallcap/Midcap funds and Global (Nasdaq) oriented funds. Largecap funds are better placed for fresh allocation.

Segments which had rallied earlier like PSU banks, stocks in segments like railways, defence, public sector utilities etc. also witnessed profit booking.

Given significant underperformance of largecap funds in last 4 years, risk-return trade-off is better placed for the category.

Global funds have outperformed domestic funds in since the start of the year 2024.

Exhibit 4: Infrastructure funds have seen consistent outperformance in last 3 years along with PSU Banks. Pharma funds also outperformed in last one year.



Source: ACE MF. Category average returns as on March 15th, 2024.

Exchange traded funds (ETFs)

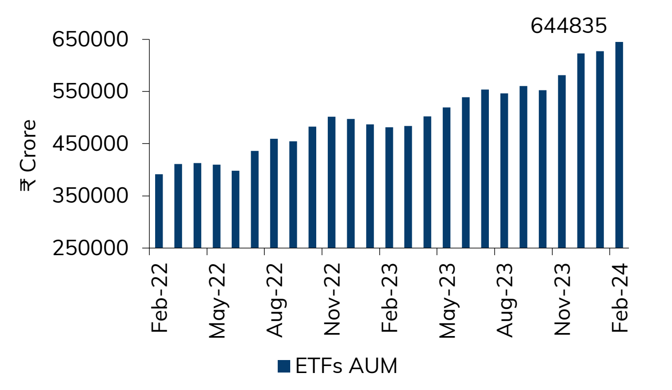
ETFs have already taken the world by storm, with assets under management (AUM) in such funds already surpassing that in traditional mutual funds in many countries. Passive funds emerged in the US more than two decades ago. The first modern day exchange traded fund (ETF) S&P SPDR (Spiders) started trading in the US in 1993. The market for ETFs has grown tremendously since then. Today, more than 2,000 ETFs are listed in the US. In India, the ETF landscape has gained traction since 2015 and has not only become much bigger but also more diverse. AUM for ETFs has grown from ~₹ 5400 crore in December 2014 to more than ₹ 6 lakh crore currently. While growth in ETF is driven by institutional flows led by EPFO in Nifty 50 and BSE Sensex ETF along with CPSE ETFs, inflows from individual investors have also started gaining traction.

This trend of allocation towards ETF is increasing and is likely to gain further traction. The ETF market is expected to grow on the back of continued thrust from the government and rising acceptance of such products as an investment vehicle by the retail segment.

ETFs are best placed from an asset allocation perspective as they do not carry any stock selection risk. Indian equity ETF market has grown with many categories of ETFs now available in large cap, midcap, thematic segments.

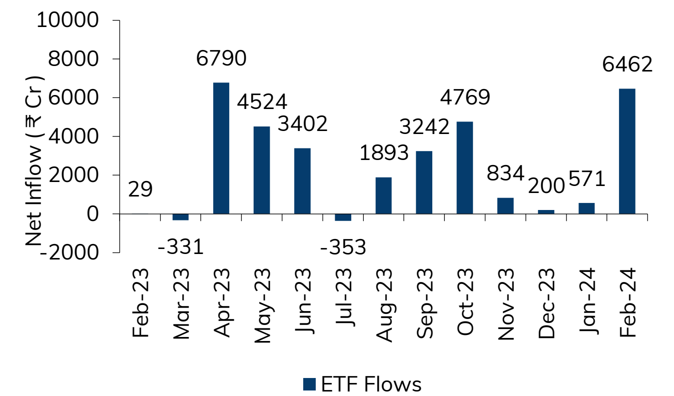
ETFs have a number of attractive features. Usually, they have much lower fees and can be bought and sold during the day as opposed to mutual funds that usually execute at the close. Earlier, there was primarily the Nifty or Sensex ETF but now there are many ETFs in the large cap space like Nifty Next 50 ETF. Similarly, in midcaps, Nifty Midcap 100 ETF and Nifty Midcap 150 ETF are available to take exposure to midcaps. Many thematic ETFs are also available like banking ETFs and Nasdaq 100 ETFs.

Exhibit 5: Rise in market leads to ETF AUM at touching ₹ 6.5 lakh crore



Source: AMFI

Exhibit 6: ETFs inflows rebounded after lower flows in last 3 months



Source: AMFI

Different category of investment options available under ETFs

Exhibit 7: Currently around 42 categories of ETFs available in Indian market

Nos.	Types of ETFs	Name of ETF	AUM (Cr)
I	**Largecap oriented ETFs**		
1	Nifty 50 ETF	Most AMCs	21580 (Highest- Nippon AMC)
2	Sensex ETF	Most AMCs	6082 (Highest-ICICI Pru)
3	Nifty 50 Equal Weight ETF	DSP Nifty 50 Equal Weight ETF	142
4	BSE 100 ETF	SBI-ETF BSE 100	8
5	Nifty 100 ETF	LIC MF ETF-Nifty 100	702
		Nippon ETF Nifty 100	216
		ICICI Pru Nifty 100 ETF	69
		HDFC Nifty 100 ETF	10
6	Nifty 100 Low Vol 30 ETF	ICICI Pru Nifty 100 Low Volatility 30 ETF	2662
		Kotak Nifty 100 Low Volatility 30 ETF	80
		Mirae Asset Nifty 100 Low Volatility 30 ETF	8
		HDFC NIFTY100 Low Volatility 30 ETF	7
7	S&P BSE Low Volatility ETF	Motilal Oswal S&P BSE Low Volatility ETF	36
8	Nifty Alpha Low Vol 30 ETF	ICICI Pru Alpha Low Vol 30 ETF	829
9	NIFTY100 Quality 30 ETF	HDFC NIFTY100 Quality 30 ETF	11
10	Nifty 200 Quality 30 ETF	SBI Nifty 200 Quality 30 ETF	73
		ICICI Pru Nifty 200 Quality 30 ETF	25
		Aditya Birla SL Nifty 200 Quality 30 ETF	32
11	S&P BSE Quality ETF	Motilal Oswal S&P BSE Quality ETF	14
12	Nifty 200 Momentum 30 ETF	Motilal Oswal Nifty 200 Momentum 30 ETF	35
		Aditya Birla SL Nifty 200 Momentum 30 ETF	38
		HDFC NIFTY200 Momentum 30 ETF	22
		ICICI Pru Nifty 200 Momentum 30 ETF	46
13	Nifty Next 50 ETF	Nippon India ETF Nifty Next 50 Junior BeES	4507
		SBI-ETF Nifty Next 50	2236
		UTI-Nifty Next 50 ETF	1807
		ICICI Pru Nifty Next 50 ETF	479
		Mirae Asset Nifty Next 50 ETF	174
		Aditya Birla SL Nifty Next 50 ETF	65
		HDFC NIFTY Next 50 ETF	15
14	Sensex Next 50 ETF	Nippon India ETF Sensex Next 50	33
		SBI-ETF Sensex Next 50	13
		UTI S&P BSE Sensex Next 50 ETF	12
15	Nifty 50 Value 20 ETF(NV20)	ICICI Pru Nifty50 Value 20 ETF	113
		Nippon India ETF Nifty 50 Value 20	110
		Kotak Nifty 50 Value 20 ETF	59
		HDFC NIFTY50 Value 20 ETF	23
16	Nifty Dividend Opportunities 50 ETF	Nippon India ETF Dividend Opportunities 50	45
17	NIFTY Growth Sectors 15 ETF	HDFC NIFTY Growth Sectors 15 ETF	8
II	**Midcap Oriented ETFs**		
18	Nifty Midcap 50 ETF	Kotak Nifty Midcap 50 ETF	31
19	Midcap 100 ETF	LIC MF Nifty Midcap 100 ETF	513
		Motilal Oswal Nifty Midcap 100 ETF	352
20	Nifty Midcap 150	Nippon India ETF Nifty Midcap 150	1271
		Mirae Asset Nifty Midcap 150 ETF	648
		ICICI Pru Midcap 150 ETF	295
		HDFC NIFTY Midcap 150 ETF	20
		UTI Nifty Midcap 150 ETF	4
21	Midcap Select ETF	ICICI Pru S&P BSE Midcap Select ETF	45
22	Nifty Midcap 150 Quality 50 ETF	DSP Nifty Midcap 150 Quality 50 ETF	81
III	**Multicap Oriented ETFs**		
23	S&P BSE 500 ETF	ICICI Pru S&P BSE 500 ETF	198
		HDFC S&P BSE 500 ETF	8
24	Nifty Alpha 50 ETF	Kotak Nifty Alpha 50 ETF	97
25	Nifty 200 Alpha 30 ETF	Mirae Asset Nifty 200 Alpha 30 ETF	28
IV	**Sectors/Thematic/ Global ETFs**		
26	Banking ETF	Nippon India ETF Bank BeES	6120
		Kotak Nifty Bank ETF	4604
		SBI Nifty Bank ETF	4560
		ICICI Pru Nifty Bank ETF	3151
		UTI Nifty Bank ETF	2966
		Aditya Birla SL Nifty Bank ETF	2537
		HDFC NIFTY Bank ETF	2311
		Axis NIFTY Bank ETF	160
		DSP Nifty Bank ETF	188
		Bajaj Finserv Nifty Bank ETF	82
		Mirae Asset Nifty Bank ETF	58
27	PSU Bank ETF	Nippon India ETF Nifty PSU Bank BeES	2561
		Kotak Nifty PSU Bank ETF	1379
		ICICI Pru Nifty PSU Bank ETF	42
		DSP Nifty PSU Bank ETF	20
		HDFC Nifty PSU Bank ETF	18

28	Private Bank ETF	ICICI Pru Nifty Private Bank ETF	1894
		HDFC Nifty Private Bank ETF	323
		SBI Nifty Private Bank ETF	228
		DSP Nifty Private Bank ETF	143
		Tata Nifty Pvt Bank ETF	8
29	Financial Services ETF	Mirae Asset Nifty Financial Services ETF	230
30	Nifty Financial Services Ex-Bank	ICICI Pru Nifty Financial Services Ex-Bank ETF	74
31	Nifty IT ETF	Nippon India ETF Nifty IT	2013
		ICICI Pru Nifty IT ETF	417
		Axis NIFTY IT ETF	164
		Aditya Birla SL Nifty IT ETF	129
		Kotak Nifty IT ETF	115
		SBI-ETF IT	127
		Tata Nifty India Digital ETF	69
		HDFC NIFTY IT ETF	63
		DSP Nifty IT ETF	50
		Mirae Asset Nifty IT ETF	15
		UTI Nifty IT ETF	7
32	Pharma/Healthcare	Nippon India Nifty Pharma ETF	639
		ICICI Pru Nifty Healthcare ETF	105
		Aditya Birla SL Nifty Healthcare ETF	38
		Axis NIFTY Healthcare ETF	17
		Motilal Oswal S&P BSE Healthcare ETF	12
		DSP Nifty Healthcare ETF	8
33	Nifty India Consumption ETF	ICICI Pru Nifty Consumption ETF	51
		Nippon India ETF Nifty Consumption	42
		Axis NIFTY India Consumption ETF	13
		SBI Nifty Consumption ETF	11
		Kotak NIFTY India Consumption ETF	1
34	Nifty Infrastructure ETF	ICICI Pru Nifty Infrastructure ETF	118
		Nippon India ETF Nifty Infrastructure BeES	80
35	Nifty 100 ESG Sector Leaders ETF	Mirae Asset Nifty 100 ESG Sector Leaders ETF	134
36	Nifty 50 Shariah ETF	Nippon India ETF Nifty 50 Shariah BeES	16
37	Global ETF	Motilal Oswal Nasdaq 100 ETF	7435
		Motilal Oswal NASDAQ Q 50 ETF	20
		Mirae Asset NYSE FANG+ ETF	2046
		Mirae Asset S&P 500 Top 50 ETF	663
		Nippon India ETF Hang Seng BeES	462
		Mirae Asset Hang Seng TECH ETF	241
38	CPSE ETF	CPSE ETF	36337
39	BHARAT 22 ETF	BHARAT 22 ETF	16624
V	**Commodities: Gold ETFs**		
40	Gold ETF	Most AMCs	8929 (Highest-Nippon AMC)
41	Silver ETF	ICICI Prudential Silver ETF	1701
		Nippon India Silver ETF	1518
		Aditya Birla Sunlife Silver ETF	264
		Kotak Silver ETF	224
		HDFC Silver ETF	144
		DSP Silver ETF	93
		UTI Silver ETF	55
		Edelweiss Silver ETF	50
		Axis Silver ETF	45
		Tata Silver ETF	36
		Mirae Asset Silver ETF	13
VI	**Debt ETFs**		
42	BHARAT Bond ETF - April 2025		11645
	BHARAT Bond ETF - April 2030		18519
	BHARAT Bond ETF - April 2031		13394
	BHARAT Bond ETF - April 2032		10987
	BHARAT Bond ETF - April 2033		5519
	Nippon India ETF Nifty 1D Rate Liquid BeES		12257
	ICICI Pru S&P BSE Liquid Rate ETF		2203
	DSP NIFTY 1D Rate Liquid ETF		1294
	Mirae Asset Nifty 1D Rate Liquid ETF		378
	Zerodha Nifty 1D Rate Liquid ETF		250
	Aditya Birla SL CRISIL Liquid Overnight ETF		88
	HDFC Nifty 1D Rate Liquid ETF		43
	Kotak Nifty 1D Rate Liquid ETF		37
	SBI NIFTY 1D Rate ETF		22
	SBI Nifty 10 yr Benchmark G-Sec ETF		2875
	ICICI Pru Nifty 10 yr Benchmark G-Sec ETF		499
	UTI Nifty 10 yr Benchmark G-Sec ETF		11
	Nippon India ETF Nifty 8-13 yr G-Sec Long Term Gilt		1595
	LIC MF Nifty 8-13 yr G-Sec ETF		2009
	Mirae Asset Nifty 8-13 yr G-Sec ETF		79
	Nippon India ETF Nifty 5 yr Benchmark G-Sec		126
	ICICI Pru Nifty 5 yr Benchmark G-SEC ETF		102
	Motilal Oswal Nifty 5 Year Benchmark G-Sec ETF		69
	UTI Nifty 5 yr Benchmark G-Sec ETF		11
	UTI Nifty 5 yr Benchmark G-Sec ETF		11
	Nippon India ETF Nifty SDL Apr 2026 Top 20 Equal Weight		7402
	Nippon India ETF Nifty CPSE Bond Plus SDL Sep 2024 50:50		1639
	Axis Nifty AAA Bond Plus SDL Apr 2026 50:50 ETF		1547

Source: ACE MF. AUM as on February 2023. In Sensex and Nifty ETFs, SBI and UTI AMC has higher AUM but dominated by institutional flows.

Exhibit 8: Return of various category of ETFs

Name	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Largecap Oriented ETFs							
Nifty 50 ETF	1.3	9.6	14.0	28.5	16.1	16.5	14.6
Sensex ETF	0.9	8.5	11.8	24.6	15.2	16.4	14.4
Nifty 50 Equal Weight ETF	2.8	12.8	21.7	43.3	-	-	-
BSE 100 ETF	2.0	11.2	16.0	32.3	17.2	17.1	-
Nifty 100 ETF	2.3	11.9	16.9	32.6	16.1	16.2	14.7
Nifty 200 Quality 30 ETF	1.1	9.3	17.6	34.3	17.5	15.8	-
Nifty 100 Low Vol 30 ETF	3.9	14.2	21.1	40.5	19.3	17.7	-
Nifty Alpha Low Vol 30 ETF	5.2	20.6	32.3	55.5	24.6		-
Nifty Next 50 ETF	7.3	24.3	32.5	59.1	20.5	18.1	17.7
Sensex Next 50 ETF	4.7	17.6	25.3	53.5	21.8	-	-
Nifty 50 Value 20 ETF(NV20)	3.5	14.9	23.4	35.3	22.1	20.0	-
Nifty Dividend Opportunities 50 ETF	2.8	18.6	31.9	51.7	27.2	20.4	-
NIFTY Growth Sectors 15 ETF	2.5	10.5	16.6	31.8	-	-	-
Midcap Oriented ETFs							
Nifty Midcap 50 ETF	1.6	13.6	24.0	63.3	-	-	-
Midcap 100 ETF	0.9	13.6	24.9	61.4	28.2	24.3	20.3
Nifty Midcap 150 ETF	1.0	12.7	22.7	56.9	27.0	25.0	-
Midcap Select ETF	4.1	14.2	26.2	58.9	20.1	18.7	-
Nifty Midcap 150 Quality 50 ETF	-0.4	7.2	10.8	32.1	-	-	-
Multicap Oriented ETFs							
S&P BSE 500 ETF	2.1	12.4	18.6	39.0	19.0	18.6	-
Nifty Alpha 50 ETF	1.4	20.0	36.0	82.9	-	-	-
Sector/Thematic/Global ETFs							
PSU Bank ETF	14.0	35.8	52.3	89.7	43.1	20.1	12.5
Nifty Bank ETF	1.5	3.4	3.6	15.3	10.3	11.5	15.9
Nifty Pvt Bank ETF	-1.3	-0.4	-0.1	12.9	8.0	-	-
Nifty Financial Services ETF	0.0	2.0	3.1	14.5	-	-	-
Nifty IT ETF	3.3	16.0	23.2	29.3	17.7	-	-
Healthcare ETF	7.2	18.3	26.0	59.8	-	-	-
Nifty India Consumption ETF	2.2	10.3	18.5	38.4	20.0	16.7	-
Nifty Infrastructure ETF	2.0	23.5	34.8	60.7	25.2	22.8	13.7
Nifty 100 ESG Sector Leaders ETF	2.0	11.0	16.3	30.5	14.4	-	-
Nifty 50 Shariah ETF	2.6	12.8	18.9	29.2	14.2	15.7	13.4
Hang Seng ETF	2.2	-3.7	-9.8	-13.4	-12.0	-5.3	2.0
Hang Seng TECH ETF	6.5	-13.0	-18.7	-12.0	-	-	-
Nasdaq 100 ETF	2.3	12.3	17.6	49.9	17.1	24.2	20.3
Nasdaq Q 50 ETF	4.4	11.9	10.3	12.2	-	-	-
NYSE FANG+ ETF	5.4	19.0	27.5	80.2	-	-	-
S&P 500 Top 50 ETF	3.6	12.4	16.3	42.7	-	-	-
CPSE ETF	7.7	38.6	66.3	104.8	50.8	26.6	-
Bharat 22 ETF	3.8	26.4	41.6	73.9	39.3	23.8	-
Commodities ETFs							
Gold ETF	-0.6	-0.7	5.2	11.0	9.1	12.1	6.7
Silver ETF	-2.9	-8.2	-6.0	9.5	-	-	-

Source: ACE MF. Return as on Feb 29, 2024

Exhibit 9: Largecap oriented ETFs: Nifty 50 remain better placed on consistency and diversification

Scheme Name	2015	2016	2017	2018	2019	2020	2021	2022	2023
DSP Nifty 50 Equal Weight ETF								7.7	30.6
ICICI Pru Nifty 100 ETF	-1.4	4.6	31.6	2.4	11.4	15.4	25.8	4.4	20.7
ICICI Pru Nifty 100 Low Volatility 30 ETF				6.9	4.9	23.6	23.6	1.5	31.2
ICICI Pru Nifty Alpha Low - Volatility 30 ETF							30.2	-3.6	38.2
ICICI Pru S&P BSE 500 ETF					8.8	17.8	31.3	4.4	26.1
ICICI Pru S&P BSE Sensex ETF	-3.8	3.4	29.0	7.1	15.5	17.0	23.1	5.8	20.3
Kotak Nifty Alpha 50 ETF								-16.6	41.8
Mirae Asset Nifty 100 ESG Sector Leaders ETF							23.7	1.5	18.6
Nippon India ETF Nifty 50 BeES	-3.2	3.9	30.0	4.6	13.5	15.7	25.5	5.6	21.3
Nippon India ETF Nifty 50 Shariah BeES	2.3	3.3	37.1	-6.4	4.4	37.6	30.7	-10.0	18.0
Nippon India ETF Nifty 50 Value 20		3.7	31.2	10.0	8.4	26.2	36.5	1.3	29.2
Nippon India ETF Nifty Dividend Opportunities 50	-8.5	12.7	28.5	1.1	0.6	15.8	33.5	4.6	43.5
Nippon India ETF Nifty Next 50 Junior BeES	7.1	7.2	46.3	-8.0	1.3	15.5	30.5	0.7	27.1
Nippon India ETF S&P BSE Sensex Next 50						16.0	30.5	4.8	34.1
SBI Nifty 200 Quality 30 ETF					5.0	25.5	25.5	-5.0	30.9
SBI S&P BSE 100 ETF		4.8	33.0	2.5	10.7	16.3	26.3	5.9	23.1

Source: ACE MF.

Exhibit 10: Midcap oriented ETFs. Midcap 150 and Midcap 100 index offer better consistency and diversification

Scheme Name	2015	2016	2017	2018	2019	2020	2021	2022	2023
DSP Nifty Midcap 150 Quality 50 ETF								-9.2	28.4
ICICI Pru S&P BSE Midcap Select ETF			51.4	-13.0	-3.5	19.4	32.5	-3.5	39.4
Motilal Oswal Nifty Midcap 100 ETF	6.7	6.8	46.6	-15.2	-3.5	22.1	46.8	4.1	47.4
Nippon India ETF Nifty Midcap 150						25.3	47.6	3.6	44.3
Nippon India ETF Nifty Next 50 Junior BeES	7.1	7.2	46.3	-8.0	1.3	15.5	30.5	0.7	27.1

Source: ACE MF.

Hybrid funds

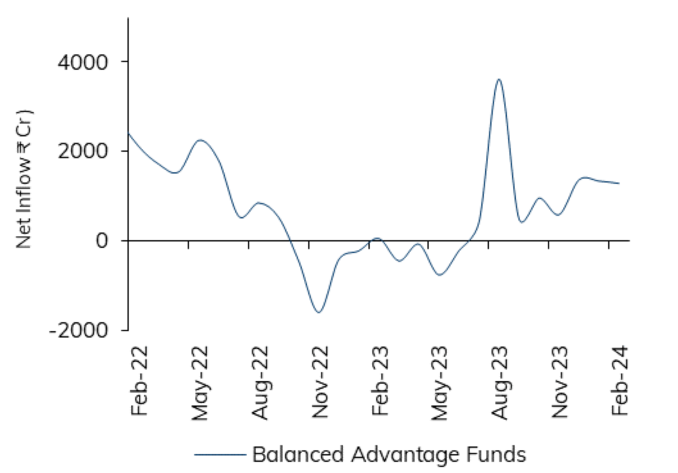
The hybrid funds category is dominated by aggressive hybrid funds (erstwhile balanced funds) and balanced advantage or dynamic asset allocation funds.

The trend of outflow continued in the aggressive hybrid category. The category has witnessed consistent outflows in the last many months.

Balanced Advantage Funds or Dynamic Asset Allocation category have been witnessing consistent inflows in the last few years as many investors prefer to invest in dynamically managed equity funds due to higher equity levels. The category has grown significantly over the last few years and AUM of the category is currently at ~₹ 2.3 lakh crore.

Arbitrage funds, as a category, have been popular among investors for parking money temporarily in a tax efficient manner.

Balanced advantage funds witnessed inflows in last 3 mnts



Source: AMFI

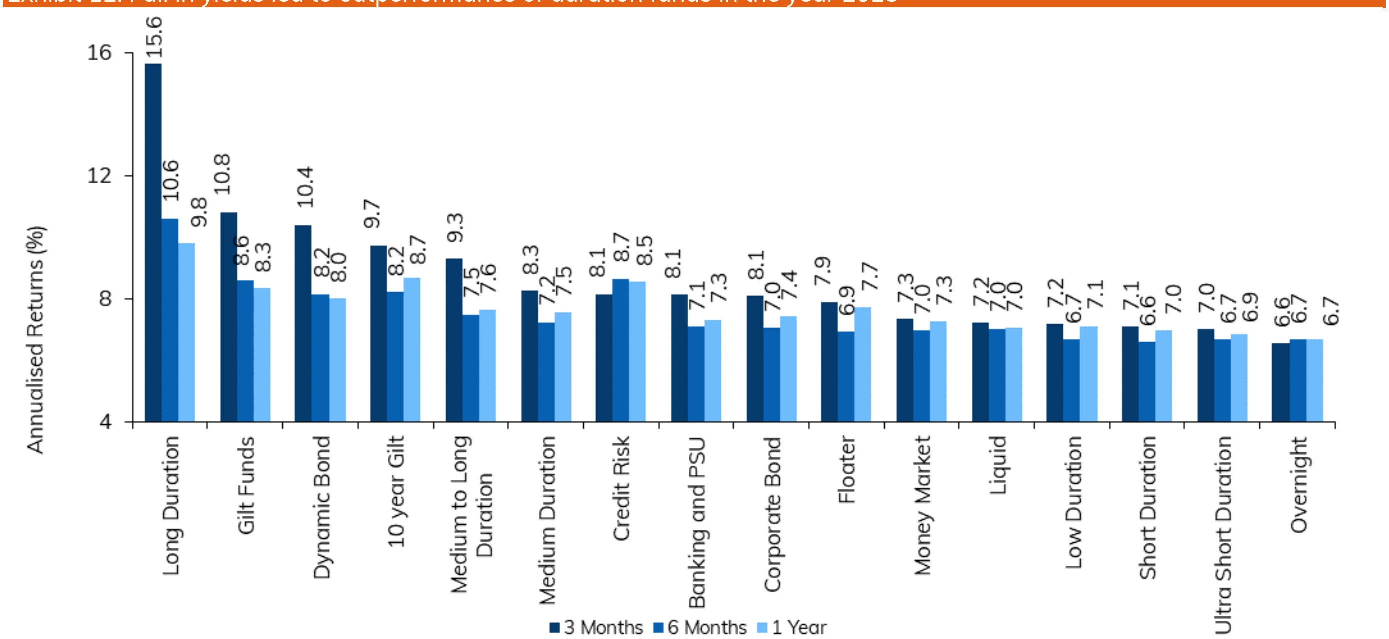
Exhibit 11: BAFs, aggressive hybrid funds remain major hybrid category

Hybrid Category	Inflow/(Outflow) during Feb 2024	AUM
Dynamic Asset Allocation/Balanced Advantage	1,287	2,45,822
Balanced Hybrid Fund/Aggressive Hybrid Fund	29	1,93,739
Arbitrage Fund	11,508	1,50,769
Multi Asset Allocation	4,043	64,695
Equity Savings	1,344	28,651
Conservative Hybrid Fund	(106)	26,702

Source: AMFI

Debt Funds

Exhibit 12: Fall in yields led to outperformance of duration funds in the year 2023



Source: CRISIL. Category average returns as on March 15, 2024.

2024: The comeback year for Indian Debt market

Growth-inflation dynamics favour debt markets globally

The year 2024 is likely to witness sharp slowdown in major economies like U.S. and China while growth in Euro region is also likely to be a sub-optimal. Resultantly, inflation is also likely to normalize post geo-political disruption.

Exhibit 13: GDP growth likely to be sharply lower in 2024...

GDP (YoY-%)		
Countries	2023	2024
U.S.	2.6	1.4
Euro Area	0.6	0.8
Japan	2.0	1.0
U.K.	0.5	0.0
China	5.2	4.5
India	6.6	6.2
Brazil	2.9	1.8

Source: Bloomberg

Exhibit 14: ...leading to moderation in inflation

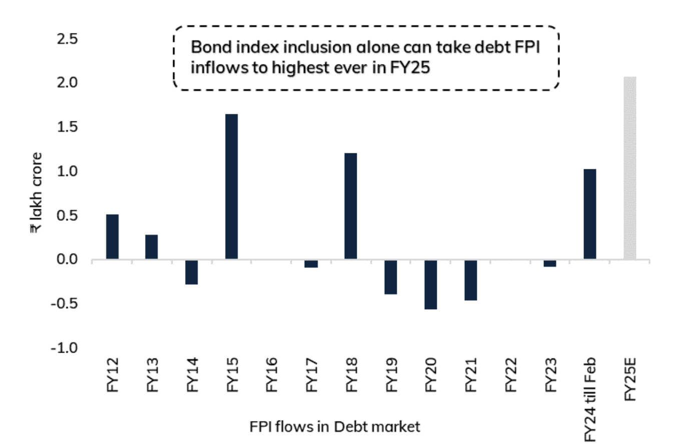
CPI (YoY-%)		
Countries	2023	2024
U.S.	4.1	2.6
Euro Area	5.4	2.7
Japan	3.3	2.3
U.K.	4.8	3.3
China	0.4	1.4
India	5.4	4.7
Brazil	4.7	3.5

Source: Bloomberg

Government Bond Index inclusion: A game changer

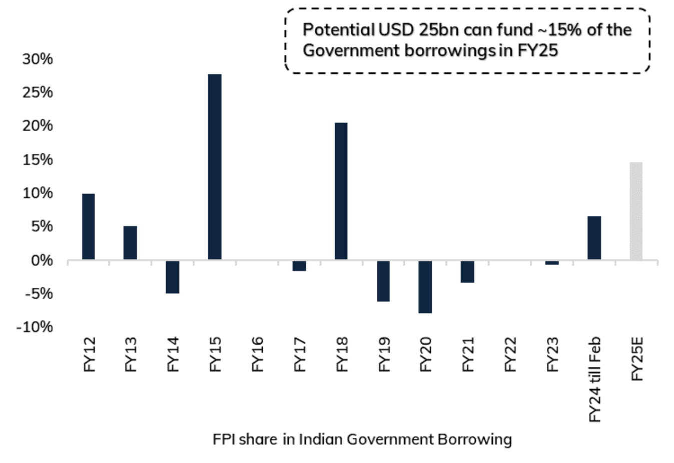
The year 2024 is likely to witness sharp slowdown in major economies like U.S. and China while growth in Euro region is also likely to be a sub-optimal. Resultantly, inflation is also likely to normalize post geo-political disruption.

Exhibit 15: JP Morgan's Bond index inclusion could alone lea crore in Indian debt market



Source: Bloomberg

Exhibit 16: FPI share in Government borrowing may rise to 15% in FY25, highest since FY19



Source: Bloomberg

India: Expected Rate cut: 75bps...Yield could move down 100bps

We expect RBI to cut rates by 75bps from the later part of the year 2024.

Historical spread of ~75bps of 10-Year over Repo rate could further move lower to around 50bps on the back of FPI Flows.

Effectively, while the RBI rate cut could be 75bps, the 10-Year yields could potentially fall by around 100bps from current level of 7.20% to 6.25%.

Rate Cut Projection	
RBI's inflation projection for FY24-25	4.60%
Indicated real rate	1.00%-1.25%
Expected Repo rate	5.60%-5.85%
Current Repo rate	6.50%
Rate cut expetcation	**0.90%-0.65%**

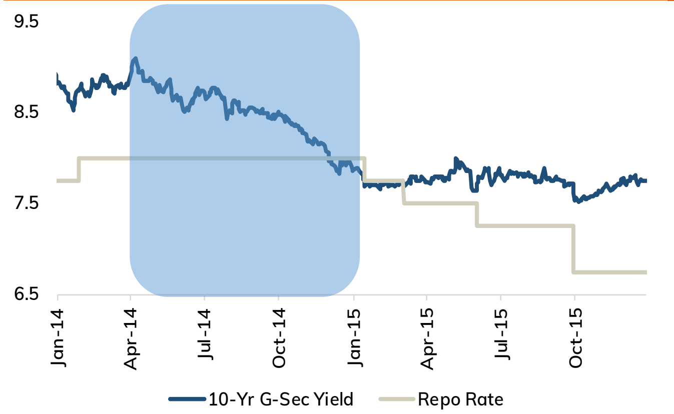
Yield-level Projection	
Historical 10-Year G-Sec Spread over Repo	0.75%
Expected Repo Rate	5.75%
Expected 10-Year G-Sec Yield	6.50%
Current 10-Year G-Sec Yield	7.20%
Expected rally based on rate cuts	0.70%
Further rally on FPI Flows	0.25%-0.30%
Potential Rally in Yields	**1.00%**

In 2015 rate-cut cycle , the 10-year G-Sec yield declined by around 115bps between April 2014 till January 2015. The total rate cut during the cycle was 200bps. Similarly, 10-Yr G-Sec yield declined by around 70bps during September-December 2018 before the start of the rate-cut cycle in February 2019 which last for 135bps.

G-Sec yield rally to precede rate cut

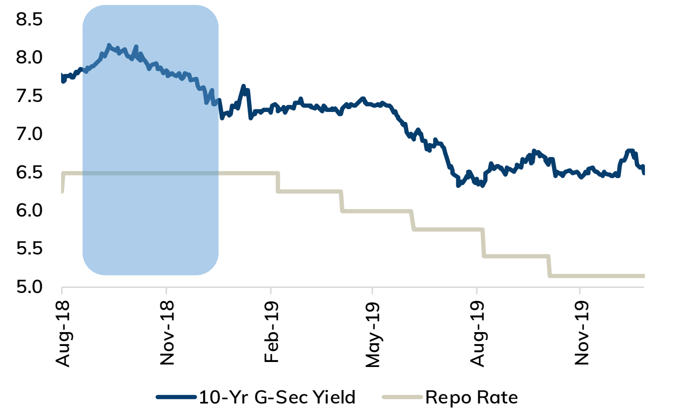
In previous two rate-cut cycle in 2015 and 2018, the rally in Government bonds precedes the actual Repo rate cut by RBI.

Exhibit 17: In 2015, 10-Yr G-Sec yield declined 100bps preceding the start of the rate-cut cycle in 2015



Source: Bloomberg

Exhibit 18: In 2018, 10-Yr G-Sec declined 70bps before the start of the rate-cut cycle in 2019

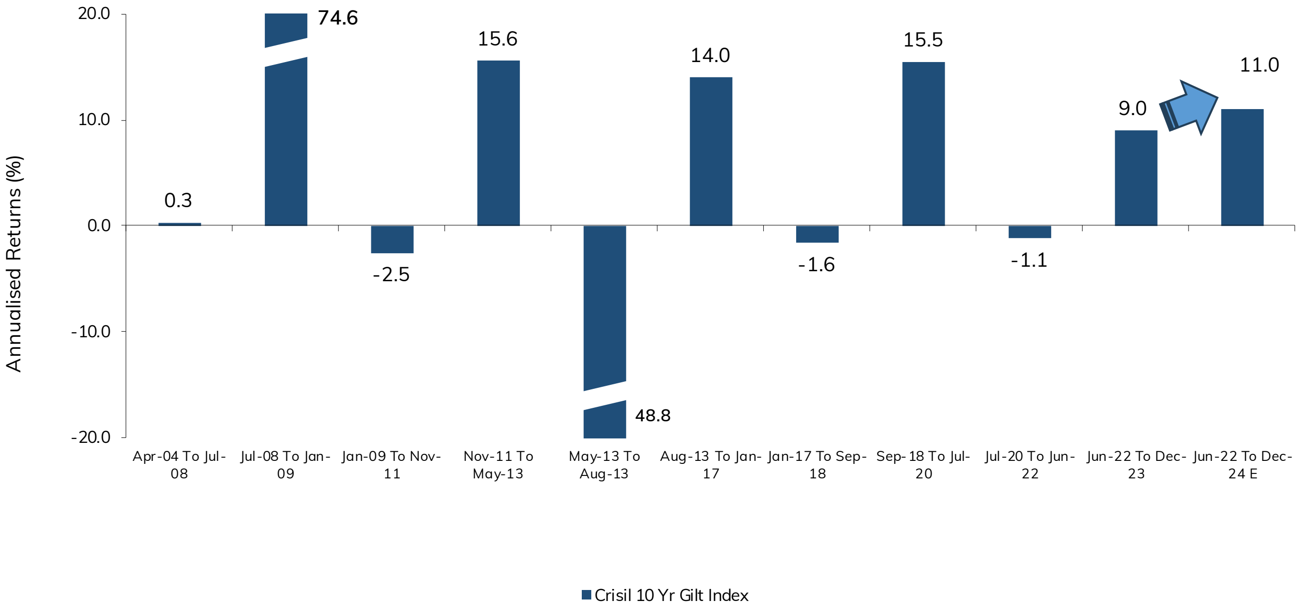


Source: Bloomberg

Calendar Year 2024 could offer 12%-14% return in duration funds

Debt market perform in cycles. Every down-cycle is followed by an up-cycle. The current up-cycle which started from June 2022 which 10-Year G-Sec yield was around 7.6%. The rally in the current cycle has just started which may last another 12-15 months with yield moving down towards 6.25%. Annualised return during the current cycle could be around 11% with incremental return in the year calendar year 2024 around 12%-14%.

Exhibit 19: Return in the current cycle is likely around 11% with incremental being higher



Source: ACE MF.

Mutual Fund Recommendation

Exhibit 20: Equity oriented funds

Top Picks across category	
Largecap Funds	Bandhan Largecap Fund
	ICICI Prudential Bluechip Fund
	DSP Top 100 Fund
	JM Large Cap Fund
	Kotak Bluechip Fund
	Nippon India Large Cap Fund
	Quant Large cap Fund
Large and Midcap Funds	HDFC Large and Midcap Fund
	ICICI Pru Large and Midcap Fund
	SBI Large and Midcap Fund
Flexicap/Multicap Funds	Adity Birla Sunlife Flexi Cap Fund
	Axis Multicap Fund
	Franklin India Flexicap Fund
	HDFC Flexicap Fund
	HSBC Multicap Fund
	JM Flexicap Fund
	Motilal Oswal Flexicap Fund
	Nippon Multicap Fund
	Parag Parikh Flexi Cap Equity
	Quant Active Fund
Midcap Funds	HDFC Midcap Opportunities Fund
	Mirae Asset Midcap Fund
	Motilal Oswal Midcap Fund
	Nippon India Growth Fund
	Tata Midcap Fund
Smallcap Funds	Axis Smallcap Fund
	Franklin India Smaller Companies Fund
	HDFC Smallcap Fund
	HSBC Smallcap Fund
	ICICI Pru Smallcap Fund
	Nippon Small Cap Fund
Focus Funds	Franklin Focused Equity Fund
	IIFL Focused Equity Fund
	Tata Focused Equity Fund
Value/Contra Funds	ICICI Pru Value Discovery Fund
	Nippon India Value Fund
	SBI Contra Fund
	UTI Value Opportunities Fund
ELSS	Bandhan Tax Advantage Fund
	Canara Robeco Equity Taxsaver Fund
	Franklin India Taxshiled Fund
	HDFC Taxsaver Fund
	ICICI Pru LT Equity Fund (Tax Saving)
	SBI Long Term Equity Fund
Balanced Advantage Funds	Aditya Birla SunLife Balanced Advantage Fund
	Bandhan Balanced Advantage Fund
	Baroda BNP Paribas Balanced Advantage Fund
	DSP Dynamic Asset Allocation Fund
	Edelweiss Balanced Advantage Fund
	HDFC Balanced Advantage Fund
	ICICI Prudential Balanced Advantage Fund
	Kotak Balanced Advantage Fund
	Nippon India Balanced Advantage Fund
	Sundaram Balanced Advantage Fund

Source: ICICI Direct Research

Exhibit 21: Debt funds

Top Picks across category	
Category	**Fund**
Overnight / Liquid / Ultra Short Ter	Aditya Birla Sun Life Savings Fund
	HDFC Ultra Short Duration Fund
	ICICI Pru Ultra Short Duration Fund
	SBI Magnum Ultra Short Duration Fund
Low Duration / Money Market	ıditya Birla Sun Life Money Manager Fund
	ICICI Prudential Savings Fund
	Kotak Low Duration Fund
Short Term	Aditya Birla Sun Life Short Term Fund
	HDFC Short Term Debt Fund
	ICICI Prudential Short Term Fund
	Nippon India Short Term Fund
Medium Term	Axis Strategic Bond Fund
	HDFC Medium Term Debt Fund
	ICICI Prudential Medium Term Bond Fund
Medium to Long Term/Long Term	Nippon India Nivesh Lakshya Fund
	HDFC Long Duration Debt Fund
	SBI Long Duration Fund
Dynamic Bond Fund	ICICI Prudential All Seasons Bond Fund
	Bandhan Dynamic Bond Fund
	Kotak Dynamic Bond Fund
Corporate Bond	Aditya Birla SL Corporate Bond Fund
	HDFC Corporate Bond Fund
	Bandhan Corporate Bond Fund
	L&T Triple Ace Bond Fund
Gilt	Aditya Birla Sun Life G-Sec Fund
	Bandhan G-Sec Fund - Investment Plan
	DSP Government Securities Fund
	ICICI Prudential Gilt Fund
	Invesco India Gilt Fund

Source: ICICI Direct Research

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