

February 23, 2024

## Equity Market

### Update

Indian equity market continued its uptrend in the year 2024 and scaled to new highs in the month of February. Relatively also Indian markets continue to outperform its global peers.

While the month of January ended flat with intra-month volatility, the mid-cap and small-cap indices continued their winning streak for the third consecutive month, rising by 5% and 7%, respectively. However, the month of February saw largecap funds outperforming the broader markets represented by midcap and smallcaps.

No major surprises came in the Union Budget helped the undergoing positive momentum. The Union Budget has maintained the capex led template to deliver socio-economic growth, while maintaining the fiscal prudence. Leveraging on the direct benefit transfer, multiple social benefit schemes focussing on GYAM (Gareeb, Yuva, Annadata and Mahila) continues to be successfully delivered.

Foreign Portfolio Investors so far in the year 2024 has been net sellers. The headline numbers from FPIs have been largely flat in the month of February after the sell-off seen in the January month. While in January, FPIs have sold nearly 26K crores, Feb month has been largely flat from flow's perspective.

### Outlook

Elevated levels of GST collections, festive season demand uptick, stable retail inflation, deflated input inflation, rising core sector outputs, and elevated credit growth augurs well for the Indian economy.

Prudent interim budget with a focus on fiscal consolidation, policy continuity can help reduce external risks and aid in attracting global investors.

Going forward the sentiment appears to buoyant supported by India's relatively better macros, possibility of higher foreign flows and the narrative around policy continuity in the upcoming general elections.

As we embark on CY24, there are green shoots in the form of continued corporate earnings momentum domestically, healthy GDP growth, benign commodity prices outlook as well as likely rate cut globally. Thus, there seem to be more positive than negatives ahead. Amidst this setup, India is in a sweet spot vis-à-vis global peers with macroeconomic stability and corporate earnings in sight.

Earnings growth remain healthy for Q3FY24 with growth in earnings at 15%. 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. 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. Going forward we don't foresee any risk to our double-digit earnings estimates.

Indian equity markets have shown remarkable strength to scale new all-time highs. Market falls have been shallow reflecting resilience as well. Given sustained earnings growth trajectory and global rate-cut trajectory, investors should avoid the temptation of going underweight in equity as an asset class in overall asset allocation.

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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.

Indian G-Sec yields moved in a narrow range with a curve flattening bias, as favorable demand-supply dynamics on expectations of fiscal consolidation compressed the longer end yields. Domestic systematic liquidity remained tight even as the RBI provided liquidity through VRR (Voluntary Retention Route), keeping the money market rates elevated.

Fiscal deficit target has been revised downwards for both FY24RE and FY25BE at 5.8% and 5.1% respectively. The fiscal deficit and the borrowing estimate were lower than market expectation at 14.1 lakh crore Vs market expectation of around 15 lakh crore. The continuation of fiscal glide path over the next two years is a structural positive.

Global bond yields after having cooled off rapidly in Nov 2023, yields saw range bound movement with sharp volatility since then in last three months. Various factors such as softer inflation print, rising unemployment figures and steady economic growth in the US built up hopes of rate cuts by the US Fed in the near future. U.S. 10-year G-Sec yield after having fallen by more than 100bps from the highs of around 5% to around 4%, has inched up to around 4.3%.

RBI in its recent policy meeting decided to keep the repo rate unchanged at 6.5% and retain stance at 'withdrawal of accommodation' with one external member voting for 25bps rate cut and change in stance. While growth forecast was revised to 7% for FY25 from 6.5% earlier, inflation forecast for FY25 was retained at 4.5%.

### Outlook

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%.

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.

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.

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

*Fall in global bond yields and moderation in commodity prices particularly crude oil prices bodes well for Indian debt market*

*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.*

## Industry Synopsis

The last three month has witnessed a significant rise in the AUM of the MF industry crossing ₹50 lakh crore to all-time high at ₹52.7 lakh crore in January 2023 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 at almost 2-year high at ₹22000 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.

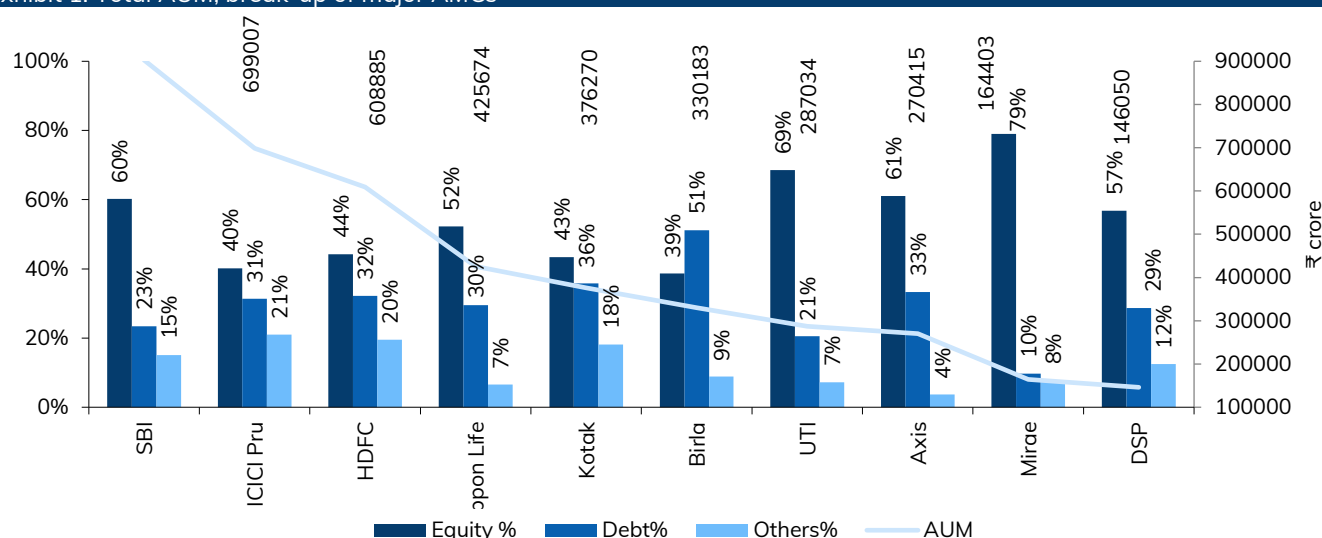
Monthly SIP flows continue to grow stronger and have increased from ₹176000 crore in December 2023 to ₹18800 crore in January 2024.

Inflows continue to be higher in smallcap funds (₹ 3300 crore) followed by Midcap funds (₹ 2100 crore). Largecap funds saw inflows of ₹ 1300 crore in January 2024.

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

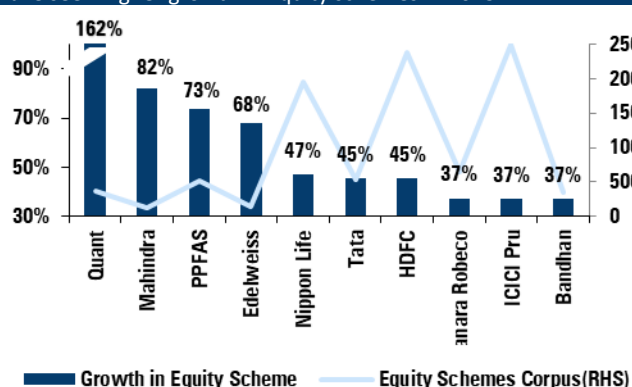
The year 2023 witnessed second consecutive year of inflows ₹ 1.6 lakh crore. The inflows were significantly higher in smallcap and midcap funds.

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



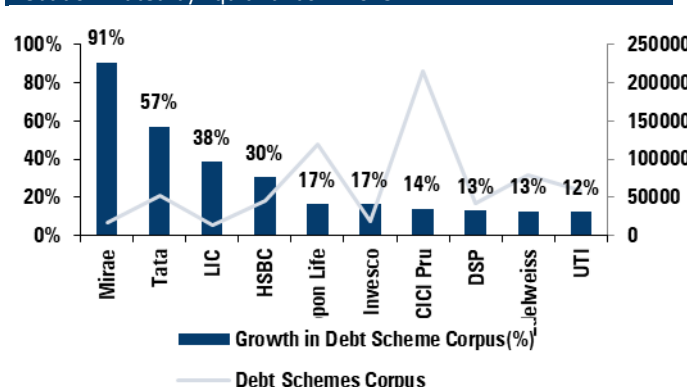
Source: ACE MF. Data as on month-end Jan 2024

Exhibit 2: Quant, Mahindra, PPFAS Edelweiss among AMCs which have seen higher growth in Equity schemes in 2023



Source: ACE MF

Exhibit 3: Mirae, Tata among AMCs which saw higher growth in Debt dominated by liquid funds in 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.

IT funds underperformed in January 2024 after it had outperformed in the calendar year 2023 after having underperformed significantly in the year 2022 tracking global market performance. In general, IT funds are the most consistent performing sector funds.

as investors booked profit after its outperformance in the year 2022. PSU banks however outperformed significantly. PSU banks have now outperformed significantly in last 3 years. They are by far the best performing segment in last 3 years.

Small cap funds continue to perform well and have 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.

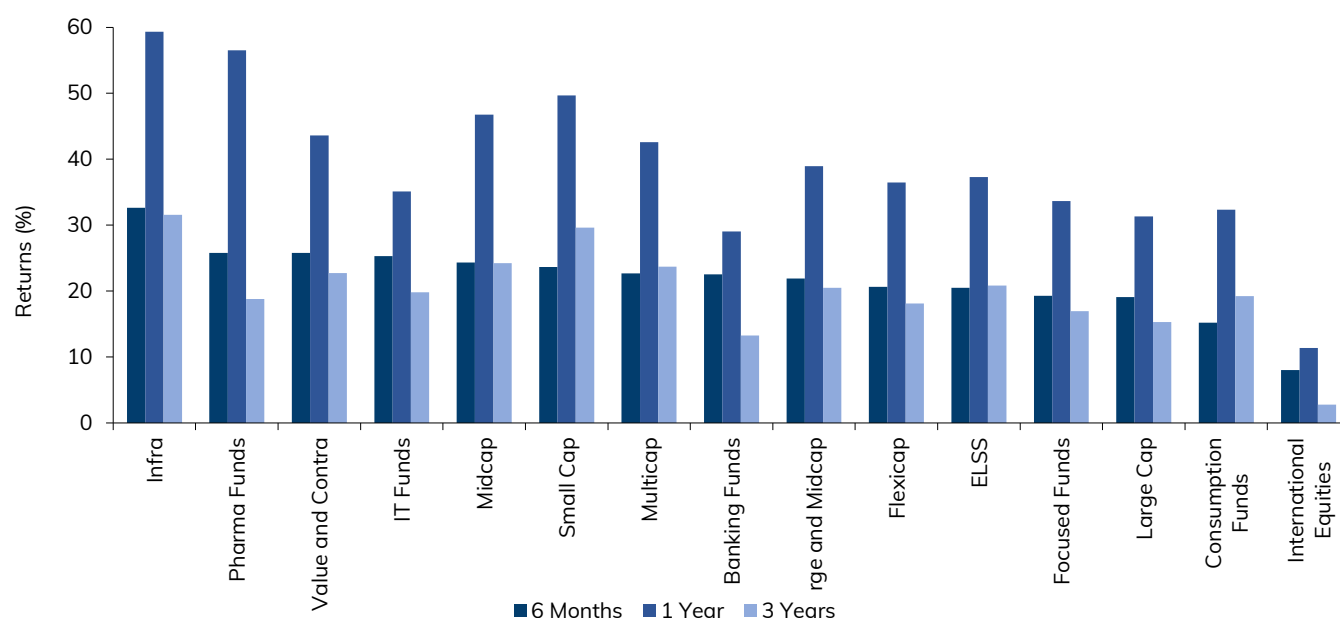
Given significant underperformance of largecap funds in last 4 years, risk-return trade-off is better placed for the category.

Global funds have outperformed domestic funds in only 3 out of 10 years. However, Nasdaq oriented ETFs or funds have outperformed largecap funds in 7 out of 10 years.

Smallcap/Midcap, PSU Banks and Infrastructure funds have outperformed significantly in last 4 years.

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

**Exhibit 4: Infrastructure funds have seen consistent outperformance in last 3 years along with PSU Banks. Auto/logistic funds also saw outperformance in last 2 years. Banking funds underperformed in the year 2023.**



Source: ACE MF. Category average absolute calendar year returns.

## Exchange traded funds (ETFs)

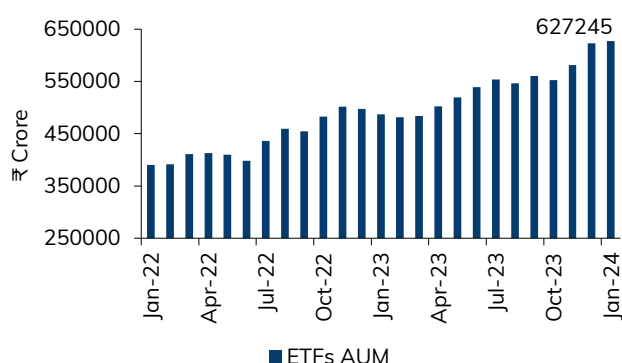
ETFs have already taken the world by storm, with assets under management (AUM) in such funds already surpassing that in traditional mutual funds in many countries. Passive funds emerged in the US more than two decades ago. The first modern day exchange traded fund (ETF) S&P SPDR (Spiders) started trading 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.

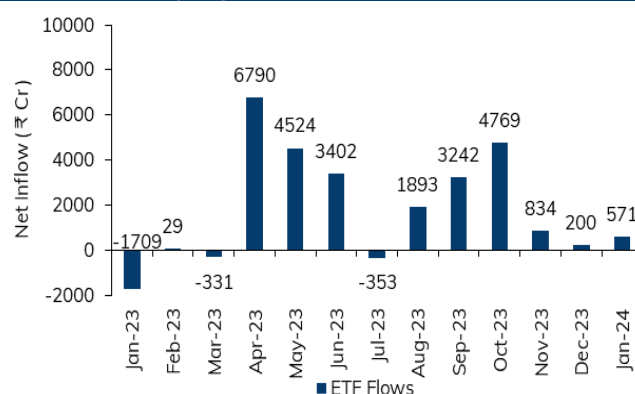
ETFs have a number of attractive features. Usually, they have much lower fees and can be bought and sold during the day as opposed to mutual funds that usually execute at the close. Earlier, there was primarily the Nifty or Sensex ETF but now there are many ETFs in the large cap space like Nifty Next 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 crossing ₹ 6 lakh crore**



Source: AMFI

**Exhibit 6: ETFs inflows slowed down in last two months as markets move-up higher**



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)
<b>I Largecap oriented ETFs</b>			
1	Nifty 50 ETF	Most AMCs L9301 (Highest- Nippon AMC)	
2	Sensex ETF	Most AMCs 4561 (Highest-ICICI Pru)	
3	Nifty 50 Equal Weight ETF	DSP Nifty 50 Equal Weight ETF	133
4	BSE 100 ETF	SBI-ETF BSE 100	8
5	Nifty 100 ETF	LIC MF ETF-Nifty 100	682
		Nippon ETF Nifty 100	210
		ICICI Pru Nifty 100 ETF	66
		HDFC Nifty 100 ETF	8
6	Nifty 100 Low Vol 30 ETF	ICICI Pru Nifty 100 Low Volatility 30 ETF	2431
		Kotak Nifty 100 Low Volatility 30 ETF	64
		Mirae Asset Nifty 100 Low Volatility 30 ETF	7
		HDFC NIFTY100 Low Volatility 30 ETF	6
7	S&P BSE Low Volatility ETF	Motilal Oswal S&P BSE Low Volatility ETF	26
8	Nifty Alpha Low Vol 30 ETF	ICICI Pru Alpha Low Vol 30 ETF	732
9	NIFTY100 Quality 30 ETF	HDFC NIFTY100 Quality 30 ETF	11
10	Nifty 200 Quality 30 ETF	SBI Nifty 200 Quality 30 ETF	70
		ICICI Pru Nifty 200 Quality 30 ETF	16
		Aditya Birla SL Nifty 200 Quality 30 ETF	23
11	S&P BSE Quality ETF	Motilal Oswal S&P BSE Quality ETF	9
12	Nifty 200 Momentum 30 ETF	Motilal Oswal Nifty 200 Momentum 30 ETF	23
		Aditya Birla SL Nifty 200 Momentum 30 ETF	26
		HDFC NIFTY200 Momentum 30 ETF	11
		ICICI Pru Nifty 200 Momentum 30 ETF	20
13	Nifty Next 50 ETF	Nippon India ETF Nifty Next 50 Junior BeES	4030
		SBI-ETF Nifty Next 50	1986
		UTI-Nifty Next 50 ETF	1618
		ICICI Pru Nifty Next 50 ETF	426
		Mirae Asset Nifty Next 50 ETF	156
		Aditya Birla SL Nifty Next 50 ETF	56
		HDFC NIFTY Next 50 ETF	13
14	Sensex Next 50 ETF	Nippon India ETF Sensex Next 50	31
		SBI-ETF Sensex Next 50	12
		UTI S&P BSE Sensex Next 50 ETF	7
15	Nifty 50 Value 20 ETF(NV20)	ICICI Pru Nifty50 Value 20 ETF	98
		Nippon India ETF Nifty 50 Value 20	101
		Kotak Nifty 50 Value 20 ETF	55
		HDFC NIFTY50 Value 20 ETF	21
16	Nifty Dividend Opportunities 50 ETF	Nippon India ETF Dividend Opportunities 50	37
17	NIFTY Growth Sectors 15 ETF	HDFC NIFTY Growth Sectors 15 ETF	8
<b>II Midcap Oriented ETFs</b>			
18	Nifty Midcap 50 ETF	Kotak Nifty Midcap 50 ETF	27
19	Midcap 100 ETF	Motilal Oswal Nifty Midcap 100 ETF	342
20	Nifty Midcap 150	Nippon India ETF Nifty Midcap 150	1095
		Mirae Asset Nifty Midcap 150 ETF	595
		ICICI Pru Midcap 150 ETF	260
		HDFC NIFTY Midcap 150 ETF	15
		UTI Nifty Midcap 150 ETF	4
21	Midcap Select ETF	ICICI Pru S&P BSE Midcap Select ETF	41
22	Nifty Midcap 150 Quality 50 ETF	DSP Nifty Midcap 150 Quality 50 ETF	82
<b>III Multicap Oriented ETFs</b>			
23	S&P BSE 500 ETF	ICICI Pru S&P BSE 500 ETF	166
		HDFC S&P BSE 500 ETF	6
24	Nifty Alpha 50 ETF	Kotak Nifty Alpha 50 ETF	81
25	Nifty 200 Alpha 30 ETF	Mirae Asset Nifty 200 Alpha 30 ETF	25
<b>IV Sectors/Thematic/ Global ETFs</b>			
26	Banking ETF	Nippon India ETF Bank BeES	6516
		Kotak Nifty Bank ETF	4723
		SBI Nifty Bank ETF	4663
		ICICI Pru Nifty Bank ETF	3464
		UTI Nifty Bank ETF	3222
		Aditya Birla SL Nifty Bank ETF	2850
		HDFC NIFTY Bank ETF	2496
		Axis NIFTY Bank ETF	226
		DSP Nifty Bank ETF	168
		Mirae Asset Nifty Bank ETF	33
27	PSU Bank ETF	Nippon India ETF Nifty PSU Bank BeES	1846
		Kotak Nifty PSU Bank ETF	1205
		ICICI Pru Nifty PSU Bank ETF	21
		DSP Nifty PSU Bank ETF	14

28	Private Bank ETF	ICICI Pru Nifty Private Bank ETF	2120
		HDFC Nifty Private Bank ETF	353
		SBI Nifty Private Bank ETF	407
		DSP Nifty Private Bank ETF	108
		Tata Nifty Pvt Bank ETF	9
29	Financial Services ETF	Mirae Asset Nifty Financial Services ETF	283
30	Nifty Financial Services Ex-Bank	ICICI Pru Nifty Financial Services Ex-Bank ETF	63
31	Nifty IT ETF	Nippon India ETF Nifty IT	2004
		ICICI Pru Nifty IT ETF	431
		Axis NIFTY IT ETF	157
		Aditya Birla SL Nifty IT ETF	121
		Kotak Nifty IT ETF	111
		SBI-ETF IT	73
		Tata Nifty India Digital ETF	62
		HDFC NIFTY IT ETF	59
		DSP Nifty IT ETF	48
		Mirae Asset Nifty IT ETF	13
32	Pharma/Healthcare	Nippon India Nifty Pharma ETF	504
		ICICI Pru Nifty Healthcare ETF	92
		Aditya Birla SL Nifty Healthcare ETF	37
		Axis NIFTY Healthcare ETF	15
		Motilal Oswal S&P BSE Healthcare ETF	9
33	Nifty India Consumption ETF	ICICI Pru Nifty Consumption ETF	48
		Nippon India ETF Nifty Consumption	38
		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	104
		Nippon India ETF Nifty Infrastructure BeES	59
35	Nifty 100 ESG Sector Leaders ETF	Mirae Asset Nifty 100 ESG Sector Leaders ETF	136
36	Nifty 50 Shariah ETF	Nippon India ETF Nifty 50 Shariah BeES	15
37	Global ETF	Motilal Oswal Nasdaq 100 ETF	7008
		Motilal Oswal NASDAQ Q 50 ETF	19
		Mirae Asset NYSE FANG+ ETF	1810
		Mirae Asset S&P 500 Top 50 ETF	617
		Nippon India ETF Hang Seng BeES	262
		Mirae Asset Hang Seng TECH ETF	217
38	CPSE ETF	CPSE ETF	30526
39	BHARAT 22 ETF	BHARAT 22 ETF	14867
<b>✓</b>	<b>Commodities: Gold ETFs</b>		
40	Gold ETF	Most AMCs	8621 (Highest-Nippon AMC)
41	Silver ETF	Nippon India Silver ETF	1277
		ICICI Prudential Silver ETF	903
		Aditya Birla Sunlife Silver ETF	255
		Kotak Silver ETF	230
		HDFC Silver ETF	124
		DSP Silver ETF	87
		UTI Silver ETF	52
		Edelweiss Silver ETF	49
		Axis Silver ETF	43
		Mirae Asset Silver ETF	13
<b>✓</b>	<b>Debt ETFs</b>		
42	BHARAT Bond ETF - April 2025		11745
	BHARAT Bond ETF - April 2030		18182
	BHARAT Bond ETF - April 2031		13061
	BHARAT Bond ETF - April 2032		10619
	BHARAT Bond ETF - April 2033		5372
	Nippon India ETF Nifty 1D Rate Liquid BeES		10507
	DSP NIFTY 1D Rate Liquid ETF		1195
	Mirae Asset Nifty 1D Rate Liquid ETF		294
	Kotak Nifty 1D Rate Liquid ETF		40
	SBI NIFTY 1D Rate ETF		13
	HDFC Nifty 1D Rate Liquid ETF		78
	Nippon India ETF Nifty SDL Apr 2026 Top 20 Equal Weight		7320
	SBI Nifty 10 yr Benchmark G-Sec ETF		2793
	ICICI Pru S&P BSE Liquid Rate ETF		2203
	Nippon India ETF Nifty CPSE Bond Plus SDL Sep 2024 50:50		1623
	Axis Nifty AAA Bond Plus SDL Apr 2026 50:50 ETF		1531
	Nippon India ETF Nifty 8-13 yr G-Sec Long Term Gilt		1492
	LIC MF Nifty 8-13 yr G-Sec ETF		1148
	ICICI Pru Nifty 10 yr Benchmark G-Sec ETF		459
	Nippon India ETF Nifty 5 yr Benchmark G-Sec		141
	ICICI Pru Nifty 5 yr Benchmark G-SEC ETF		101
	Mirae Asset Nifty 8-13 yr G-Sec ETF		78
	Aditya Birla SL CRISIL Liquid Overnight ETF		78
	Motilal Oswal Nifty 5 Year Benchmark G-Sec ETF		63

Source: ACE MF. AUM as on December 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
<b>Largecap Oriented ETFs</b>							
Nifty 50 ETF	3.0	12.9	15.4	25.8	15.3	16.9	15.0
Sensex ETF	2.4	11.4	12.9	22.0	14.2	16.7	14.8
Nifty 50 Equal Weight ETF	5.0	16.8	24.1	40.4	-	-	-
BSE 100 ETF	3.5	14.2	17.7	29.5	16.5	17.6	-
Nifty 100 ETF	3.8	15.0	18.2	29.4	15.3	16.6	15.1
Nifty 200 Quality 30 ETF	1.3	11.5	19.3	32.6	16.5	16.4	-
Nifty 100 Low Vol 30 ETF	5.5	16.9	22.6	38.2	18.5	18.2	-
Nifty Alpha Low Vol 30 ETF	7.6	23.4	33.8	53.3	23.5		-
Nifty Next 50 ETF	7.4	25.7	34.6	53.9	19.6	18.7	17.9
Sensex Next 50 ETF	5.7	20.1	30.0	51.0	21.7	-	-
Nifty 50 Value 20 ETF(NV20)	4.6	17.7	25.2	31.2	21.3	20.6	-
Nifty Dividend Opportunities 50 ETF	5.2	22.4	35.0	49.0	27.2	21.1	-
NIFTY Growth Sectors 15 ETF	2.0	11.1	16.0	27.6	-	-	-
<b>Midcap Oriented ETFs</b>							
Nifty Midcap 50 ETF	3.9	17.5	29.4	62.4	-	-	-
Midcap 100 ETF	2.6	17.8	30.5	61.4	29.4	25.4	20.8
Nifty Midcap 150 ETF	2.4	16.4	28.0	56.9	28.2	26.1	-
Midcap Select ETF	5.3	18.2	32.0	56.9	20.0	19.7	-
Nifty Midcap 150 Quality 50 ETF	0.8	9.0	15.4	33.2	-	-	-
<b>Multicap Oriented ETFs</b>							
S&P BSE 500 ETF	3.5	15.4	20.9	36.2	18.6	19.1	-
Nifty Alpha 50 ETF	2.1	20.4	38.6	78.3	-	-	-
<b>Sector/Thematic/Global ETFs</b>							
PSU Bank ETF	17.2	39.9	53.9	88.7	42.9	20.8	13.1
Nifty Bank ETF	2.2	8.0	7.3	16.5	10.0	11.8	16.5
Nifty Pvt Bank ETF	-0.7	3.7	4.0	13.9	7.7	-	-
Nifty Financial Services ETF	1.3	6.6	6.8	15.0	-	-	-
Nifty IT ETF	3.7	17.7	25.3	23.8	16.2	-	-
Healthcare ETF	10.9	20.8	27.0	57.5	-	-	-
Nifty India Consumption ETF	3.4	13.0	20.4	35.6	19.0	17.1	-
Nifty Infrastructure ETF	6.5	26.9	36.2	57.9	25.1	23.2	13.9
Nifty 100 ESG Sector Leaders ETF	3.6	13.7	18.6	27.0	13.4	-	-
Nifty 50 Shariah ETF	3.6	15.2	20.6	24.6	13.3	16.5	13.8
Hang Seng ETF	5.9	-9.3	-8.9	-19.5	-13.5	-5.6	2.0
Hang Seng TECH ETF	4.1	-20.5	-18.6	-23.9	-	-	-
Nasdaq 100 ETF	1.2	8.9	19.2	42.2	13.7	23.6	20.1
Nasdaq Q 50 ETF	4.6	9.5	10.8	5.9	-	-	-
NYSE FANG+ ETF	6.7	15.0	31.2	73.0	-	-	-
S&P 500 Top 50 ETF	3.0	9.1	16.8	35.3	-	-	-
CPSE ETF	14.8	43.3	74.0	110.5	53.0	28.7	-
Bharat 22 ETF	7.5	30.5	47.1	74.4	39.8	24.7	-
<b>Commodities ETFs</b>							
Gold ETF	-0.4	1.8	5.9	8.9	9.4	11.8	6.8
Silver ETF	-0.5	-2.6	0.3	7.2	-	-	-

Source: ACE MF. Return as on Feb 20, 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

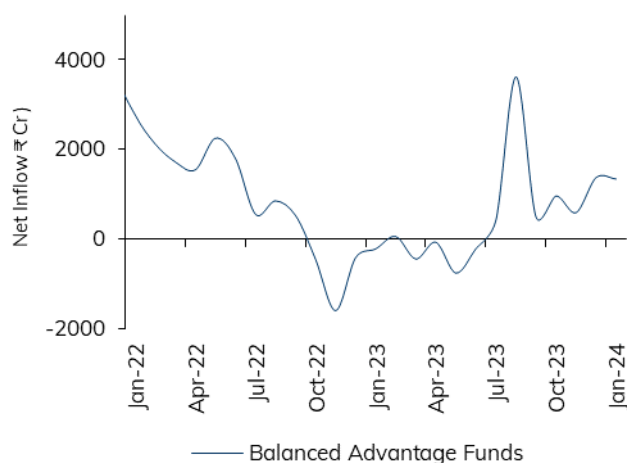
The hybrid funds category is dominated by aggressive hybrid funds (erstwhile balanced funds) and balanced advantage or dynamic asset allocation funds.

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.

**Exhibit 11: Balanced advantage funds witnessed inflows in last 3 months**



Source: AMFI

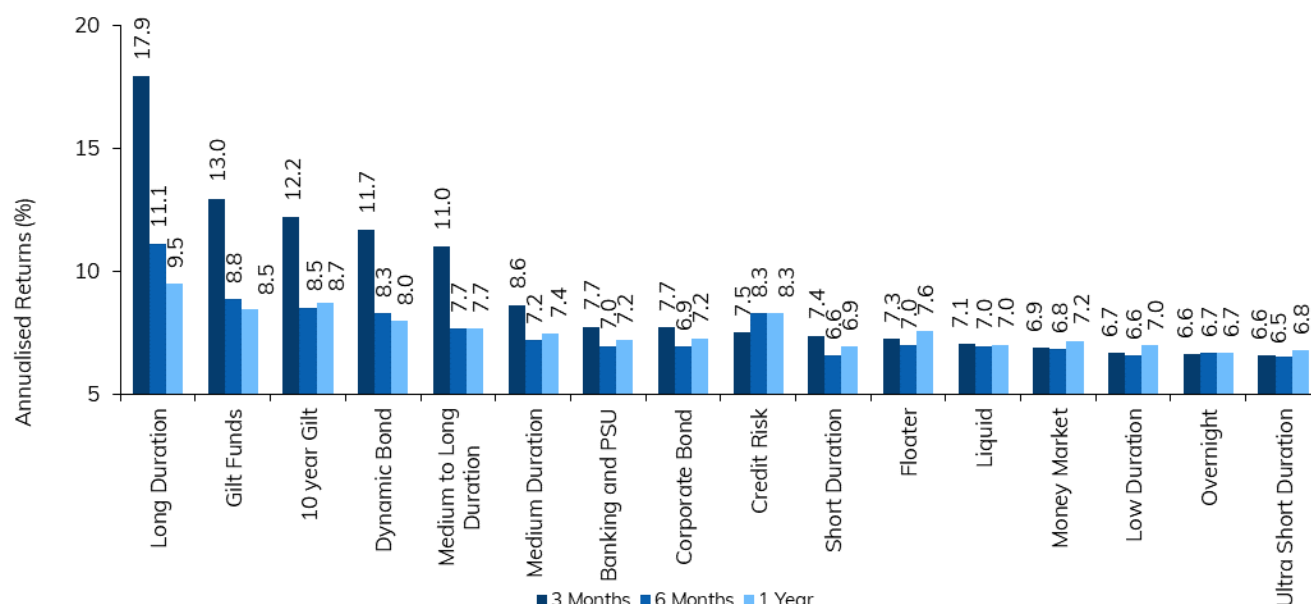
**Exhibit 12: BAFs, aggressive hybrid funds remain major hybrid category**

Hybrid Category	Inflow/(Outflow) during Jan 2024	AUM
Dynamic Asset Allocation/Balanced Advantage	1,340	2,41,084
Balanced Hybrid Fund/Aggressive Hybrid Fund	448	1,91,438
Arbitrage Fund	10,608	1,44,093
Multi Asset Allocation	7,080	60,325
Equity Savings	1,114	27,083
Conservative Hybrid Fund	47	26,547

Source: AMFI

## Debt Funds

**Exhibit 13: Fall in yields led to outperformance of duration funds in the year 2023**



Source: CRISIL. Category average returns as on February 20, 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 14: 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 15: ...leading to moderation in inflation

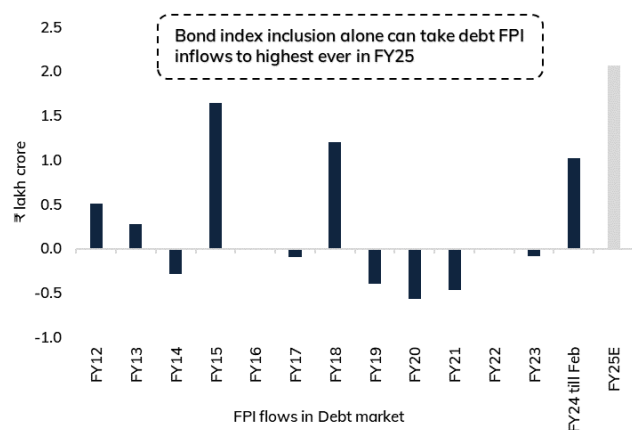
CPI (YoY-%)		
Countries	2023	2024
U.S.	4.1	2.6
Euro Area	5.4	2.7
Japan	3.3	2.3
U.K.	4.8	3.3
China	0.4	1.4
India	5.4	4.7
Brazil	4.7	3.5

Source: Bloomberg

### Government Bond Index inclusion: A game changer

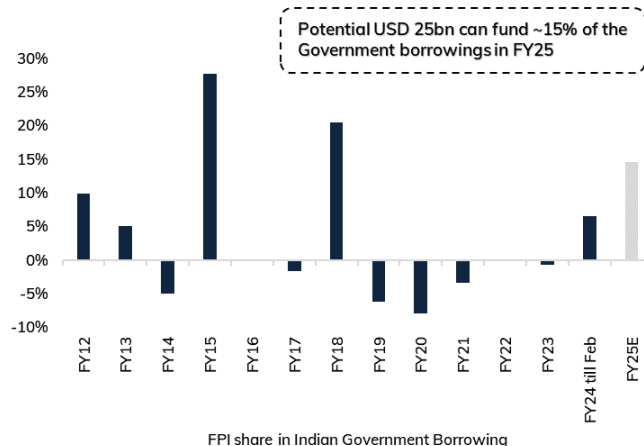
The year 2024 is likely to witness sharp slowdown in major economies like U.S. and China while growth in Euro region is also likely to be a sub-optimal. Resultantly, inflation is also likely to normalize post geo-political disruption.

Exhibit 16: JP Morgan's Bond index inclusion could alone lead to FPI inflows of USD 25bn or ₹ 2 lakh crore in Indian debt market



Source: Bloomberg

Exhibit 17: 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%
<b>Rate cut expetcation</b>	<b>0.90%-0.65%</b>



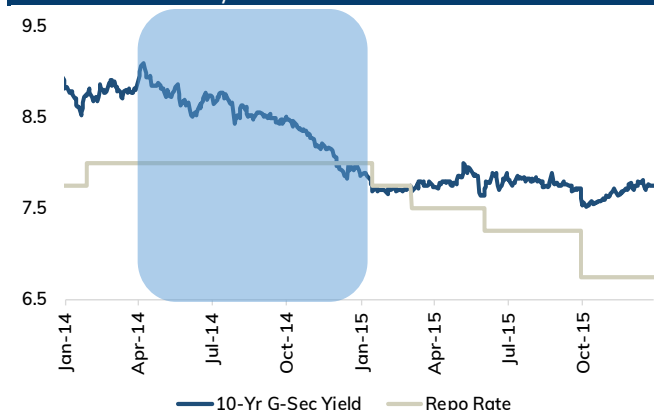
Yield-level Projection	
Historical 10-Year G-Sec Spread over Repo	0.75%
Expected Repo Rate	5.75%
Expected 10-Year G-Sec Yield	6.50%
Current 10-Year G-Sec Yield	7.20%
Expected rally based on rate cuts	0.70%
Further rally on FPI Flows	0.25%-0.30%
<b>Potential Rally in Yields</b>	<b>1.00%</b>

## 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.

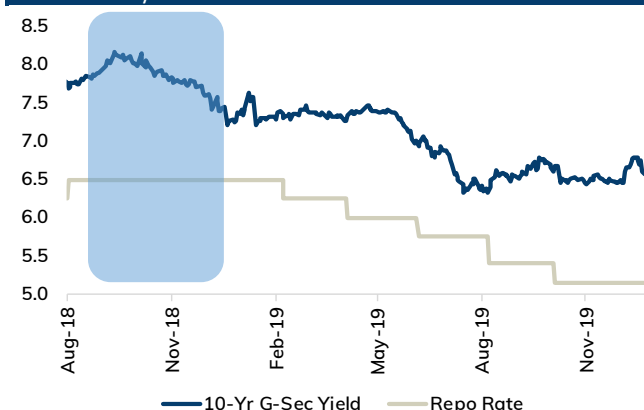
In 2015 rate-cut cycle, the 10-year G-Sec yield declined by around 115bps between April 2014 till January 2015. The total rate cut during the cycle was 200bps. Similarly, 10-Yr G-Sec yield declined by around 70bps during September-December 2018 before the start of the rate-cut cycle in February 2019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

**Exhibit 18: In 2015, 10-Yr G-Sec yield declined 100bps preceding the start of the rate-cut cycle in 2015**



Source: Bloomberg

**Exhibit 19: In 2018, 10-Yr G-Sec declined 70bps before the start of the rate-cut cycle in 2019**

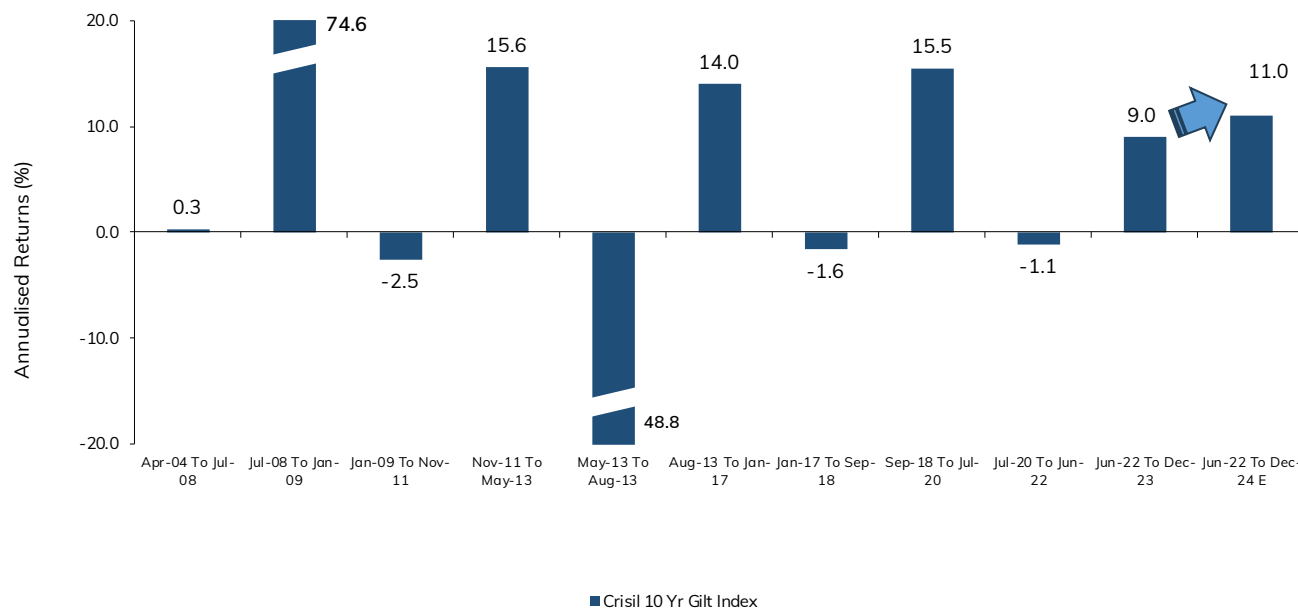


Source: Bloomberg

## 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 20: Return in the current cycle is likely around 11% with incremental being higher



Source: ACE MF.

## Mutual Fund Recommendation

### Exhibit 21: 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
Large and Midcap Funds	Nippon India Large Cap Fund
	Quant Large cap Fund
	HDFC Large and Midcap Fund
	ICICI Pru Large and Midcap Fund
	SBI Large and Midcap Fund
Flexicap/Multicap Funds	Aditya Birla Sunlife Flexi Cap Fund
	Axis Multicap Fund
	Franklin India Flexicap Fund
	HDFC Flexicap Fund
	HSBC Multicap Fund
Midcap Funds	JM Flexicap Fund
	Motilal Oswal Flexicap Fund
	Nippon Multicap Fund
	Parag Parikh Flexi Cap Equity
	Quant Active Fund
Smallcap Funds	HDFC Midcap Opportunities Fund
	Mirae Asset Midcap Fund
	Motilal Oswal Midcap Fund
	Nippon India Growth Fund
	Tata Midcap Fund
Focus Funds	Axis Smallcap Fund
	Franklin India Smaller Companies Fund
	HDFC Smallcap Fund
	HSBC Smallcap Fund
	ICICI Pru Smallcap Fund
Value/Contra Funds	Nippon Small Cap Fund
	Franklin Focused Equity Fund
	IIFL Focused Equity Fund
	Tata Focused Equity Fund
	ICICI Pru Value Discovery Fund
ELSS	Nippon India Value Fund
	SBI Contra Fund
	UTI Value Opportunities Fund
	Bandhan Tax Advantage Fund
	Canara Robeco Equity Taxsaver Fund
Balanced Advantage Funds	Franklin India Taxshield Fund
	HDFC Taxsaver Fund
	ICICI Pru LT Equity Fund (Tax Saving)
	SBI Long Term Equity Fund
	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 22: 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
	Aditya Birla Sun Life Money Manager Fund
Low Duration / Money Market	ICICI Prudential Savings Fund
	Kotak Low Duration Fund
	Aditya Birla Sun Life Short Term Fund
	HDFC Short Term Debt Fund
	ICICI Prudential Short Term Fund
Short Term	Nippon India Short Term Fund
	Axis Strategic Bond Fund
	HDFC Medium Term Debt Fund
	ICICI Prudential Medium Term Bond Fund
	Nippon India Nivesh Lakshya Fund
Medium Term	HDFC Long Duration Debt Fund
	SBI Long Duration Fund
	ICICI Prudential All Seasons Bond Fund
	Bandhan Dynamic Bond Fund
	Kotak Dynamic Bond Fund
Medium to Long Term/Long Term	Aditya Birla SL Corporate Bond Fund
	HDFC Corporate Bond Fund
	Bandhan Corporate Bond Fund
	L&T Triple Ace Bond Fund
	Aditya Birla Sun Life G-Sec Fund
Dynamic Bond Fund	Bandhan G-Sec Fund - Investment Plan
	DSP Government Securities Fund
	ICICI Prudential Gilt Fund
	Invesco India Gilt Fund
Corporate Bond	
Gilt	

Source: ICICI Direct Research



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