Trick or Treat

It is worthwhile to consider a Halloween landmark for markets as the world cleans up from this year's night of extravagant costumes and way too much candy. Halloween 2007 marked a pre-GFC peak for the global markets. They dropped the next day, mostly as a result of an announcement that Citigroup Inc. could have to cut its dividend.

Fig1: Treat for India (USD returns)

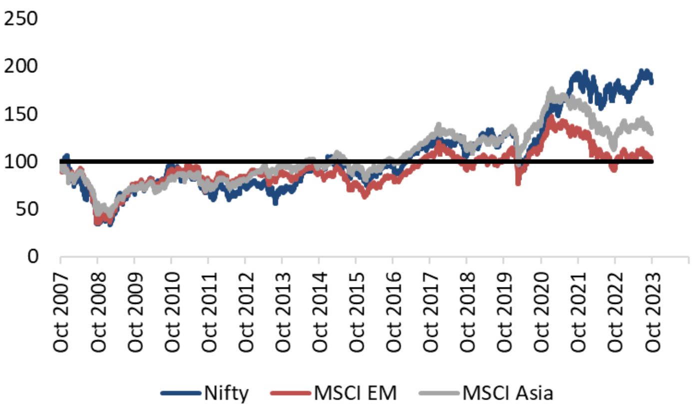
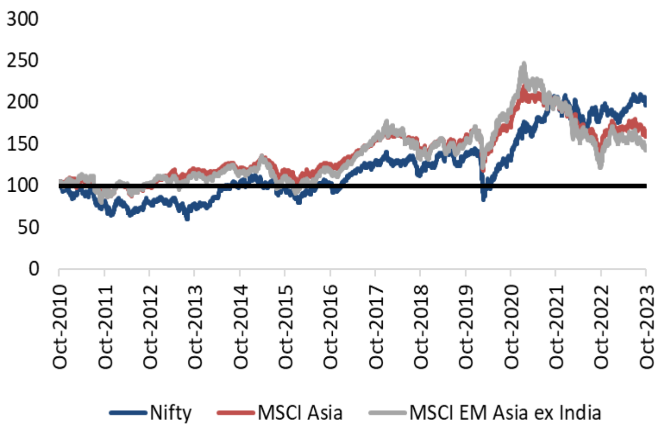


Fig2: Tricks for other Asian markets (USD returns)



Source: Bloomberg, AAA Research

Using MSCI indexes, this is the 16th Halloween in succession that the Indian equity market has closed higher than on the witching night in 2007. The Indian market in USD terms registered a gain of ~92% compared to the MSCI Asia Index gain of 40% and MSCI Emerging Market gain of just 6%. If one takes the period since 2010, India is a shining star and compared to almost flat returns of all other Asian markets, India stocks almost tripled in INR terms and doubled in dollar terms. Indians keep getting all the treats, thanks to structural reforms done by the governments. This is reflected in India's earnings per share which increased by almost fourfold over the last 16 years. The next decade belongs to India and when we think about how these charts might look in another dozen Halloweens from now, it is hard not to be surprised with continued good performance from Indian markets. But then the immediate question in the mind of investors is whether state elections will Trick the market.

The election season begins with five states – Madhya Pradesh (MP), Rajasthan, Chhattisgarh, Telangana, and Mizoram entering the election period in November 2023. Together it accounts for 83 Lok Sabha seats. While market pundits are busy forecasting the outcome of the election and its likely impact on the equity markets, we present here a brief of how markets behaved in the past 20 years:

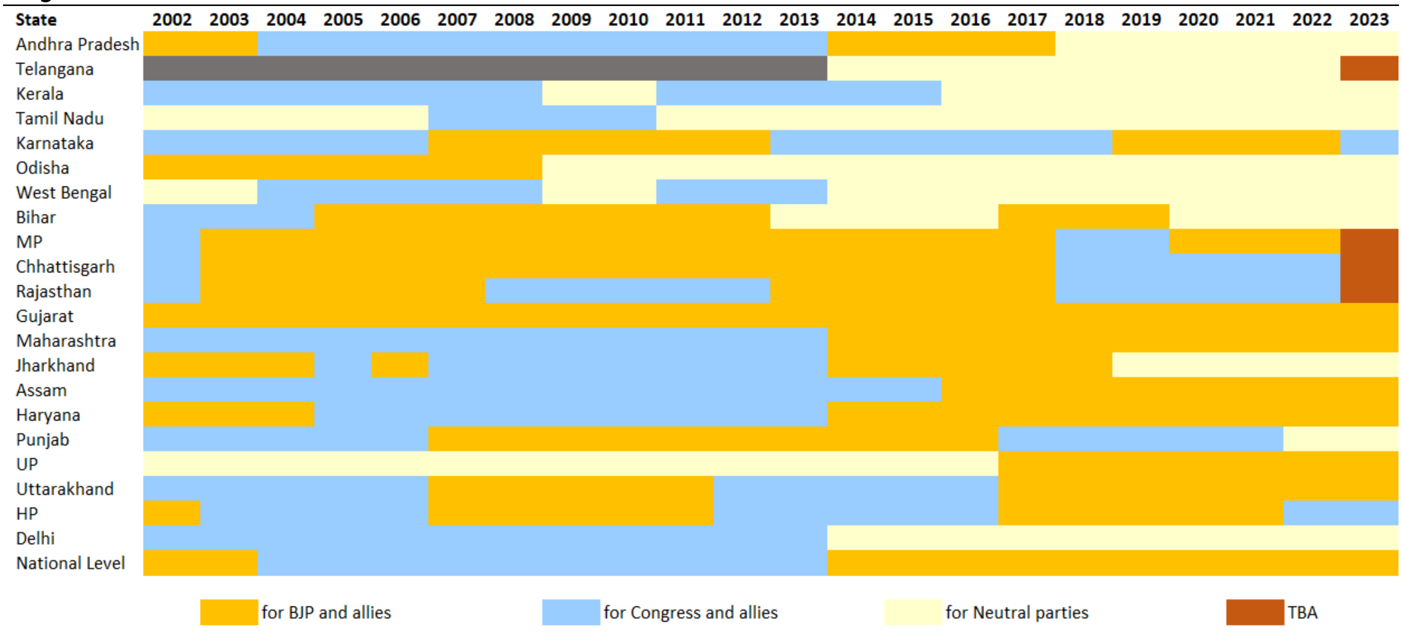
In 2003 and 2008, BJP+ won three important state elections (MP, Rajasthan, Chhattisgarh) but failed to win the central election. In the 2013 state elections, the then ruling parting in central government, Congress, and its allies, lost these three states and lost the central election, too. During the 2018 period, contrary to street expectations, BJP and its allies lost all three major central states of Rajasthan, Madhya Pradesh (MP), and Chhattisgarh, however, during the central election in 2019, BJP swept all three states. Except in 2003 when post-election Nifty witnessed a sharp rally of ~16.7% (one month post state election outcome), in all other three state election periods, Nifty remained in a range bound, which implies no impact on the market despite in-line as well as contrary state election outcomes (refer Fig 3). Lessons for politicians is that Indian voters is quite smarter and have started looking beyond caste and religion-based politics. The right governance is the only way forward for getting re-elected. The lesson for investors is that the outcome of state and central elections is not necessarily the same and predicting the market and making decisions in asset allocation based upon such events is not rewarding in the long term.

Fig3: State election and its impact on Indian equity market

State election result date	07-Dec-03		08-Dec-08		08-Dec-13		11-Dec-18	
1 month	Pre	Post	Pre	Post	Pre	Post	Pre	Post
Nifty TRI	1,811	2,183	3,647	3,588	7,989	8,036	14,656	14,955
Change (%)	3.4%	16.5%	-6.4%	5.1%	1.9%	-1.3%	-0.3%	2.4%

Source: Ace Equity, AAA Research

Fig4: State-wise distribution of Political alliance



Source: Wikipedia, AAA Research

Conclusion:

Domestic factors continue to keep India in a bright spot, with robust tax collections, strong credit growth, and a manageable current account deficit as the main contributors. Q2FY24 earnings season so far is in line with expectations, with cyclicals driving profit growth, while defensives lag. We maintain a positive outlook at current valuations.

AAA PMS Performance

Compounded Annual Returns (%)	1 Year	2 Years	3 Years	5 Years	10 Years	Since inception*
AAA IOP PMS	11.0%	7.2%	22.2%	15.4%	19.2%	18.0%
BSE 500 TRI (Benchmark)	9.6%	6.7%	22.0%	15.4%	14.7%	12.0%
BSE Midcap TRI	24.6%	12.5%	29.5%	17.7%	19.1%	13.4%
BSE Smallcap TRI	29.2%	15.9%	36.5%	22.2%	21.2%	13.3%
Nifty 50 TRI	7.0%	5.1%	19.3%	14.3%	13.1%	11.3%

Compounded Annual Returns (%)	1 Year	2 Years	3 Years	5 Years	Since inception#
AAA FOCUS PMS	3.7%	3.9%	17.8%	14.4%	13.2%
BSE 500 TRI (Benchmark)	9.6%	6.7%	22.0%	15.4%	12.0%
BSE Midcap TRI	24.6%	12.5%	29.5%	17.7%	14.5%
BSE Smallcap TRI	29.2%	15.9%	36.5%	22.2%	15.1%
Nifty 50 TRI	7.0%	5.1%	19.3%	14.3%	10.9%

Compounded Annual Returns (%)	1 Year	2 Years	Since inception@
AAA Budding Beasts PMS	30.0%	20.5%	29.2%
BSE 500 TRI (Benchmark)	9.6%	6.7%	15.6%
BSE Midcap TRI	24.6%	12.5%	23.1%
BSE Smallcap TRI	29.2%	15.9%	29.7%
Nifty 50 TRI	7.0%	5.1%	13.0%

(AAA Emerging Giants PMS Plan has been renamed as AAA Budding Beasts PMS Plan)
*(23 Nov 2009 – 31 Oct 2023); #(17 Nov 2014 – 31 Oct 2023); @(01 Jan 2021 – 31 Oct 2023)
Performance is after all expenses and fees from April 2018 onwards. Prior to April 2018, the performance is after all expenses and Fixed Management fees. Index performance is calculated using Total Return Indices, as per SEBI guidelines.

Note: Returns of Individual clients may differ depending on the time of entry in the strategy. Past performance may or may not be sustained in the future and should not be used as a basis for comparison with other investments. Performance related information provided herein is not verified by SEBI.

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