

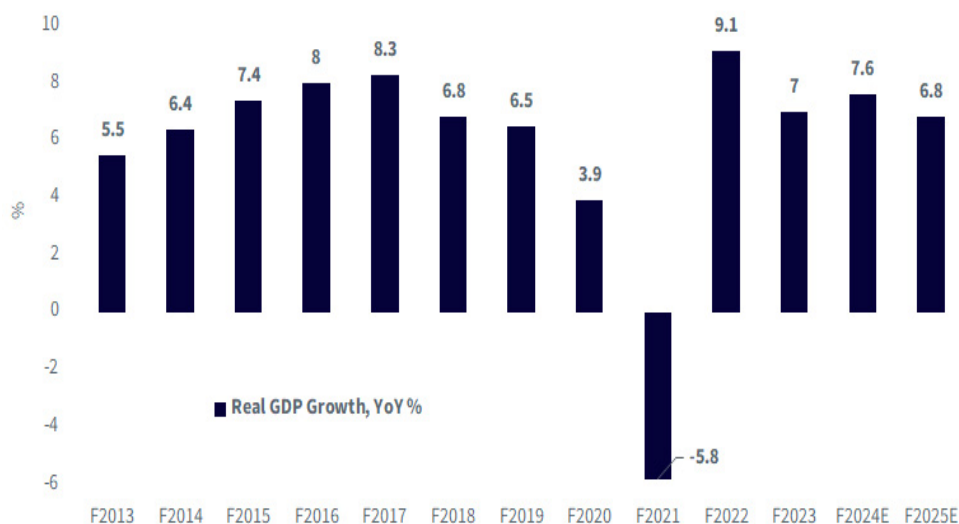
INDIAN EQUITIES REMAIN A BRIGHT SPOT IN GLOBAL EQUITY ALLOCATIONS

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The Indian economy, yet again, has outdone investor expectations with growth up by 8.4% in the third quarter of the 2024 financial year,¹ marking the fastest pace seen in six quarters. During the quarter, manufacturing (which accounts for 17% of the economy) posted the highest growth at 11.6% year on year (YOY), while agriculture (15% of the economy) remained a drag at -0.8% YOY as a result of uneven rain.² The services sector remained resilient, posting an increase of 7% YOY.²

GDP Growth Expected to Rise 7.6% in F2024



Sources: Indian Ministry of Statistics & Programme Implementation, WisdomTree, as of 3/1/24.

Weak global demand has been driving exports of goods and services lower with an increase of only 3.4% (vs. 5.3% in Q2).² With services positioned favorably, imports are rising at a faster clip of 8.3% (vs. 11.9% in Q2).² Despite the uptick in third-quarter GDP, underlying growth continues to be supported by investment, which grew at 10.6% YOY, led by government spending and residential real estate.¹ Private final consumption expenditure, an indicator of consumption demand, lagged with only a 3.5% increase, below the broader economy.²

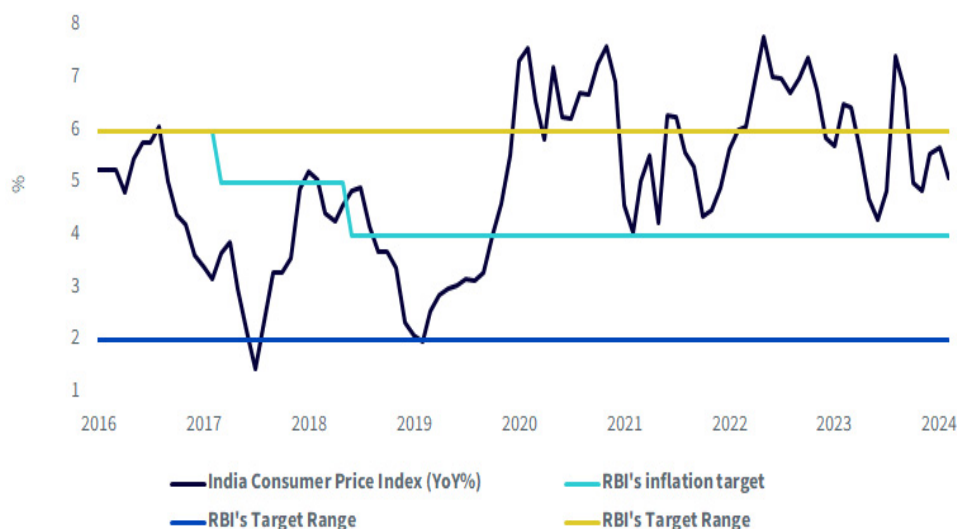
Positive GDP Surprise Should Not Make the RBI Hawkish

The Reserve Bank of India's (RBI) projection for growth in the third quarter, of 6.5%, was in line with [gross value added \(GVA\)](#), which grew at 6.5%.² The gap between [GDP](#) and GVA in the quarter can be explained by rising tax collections and a decline in government subsidies. Economic activity is expected to moderate over the coming quarters. The GVA, which excludes net indirect taxes, provides a better measure of underlying momentum in the economy.

There have also been encouraging signs of easing inflationary pressure, especially the moderation in food prices [inflation](#). The RBI has kept interest rates unchanged at 6.5% and maintained a hawkish stance for most of 2023. As we do not find signs of over-heating in the Q3 GDP data, we expect the RBI to maintain its February view of "waiting a bit

longer” to cut back on the resilient growth.

Inflation Is Approaching the RBI's Inflation Target

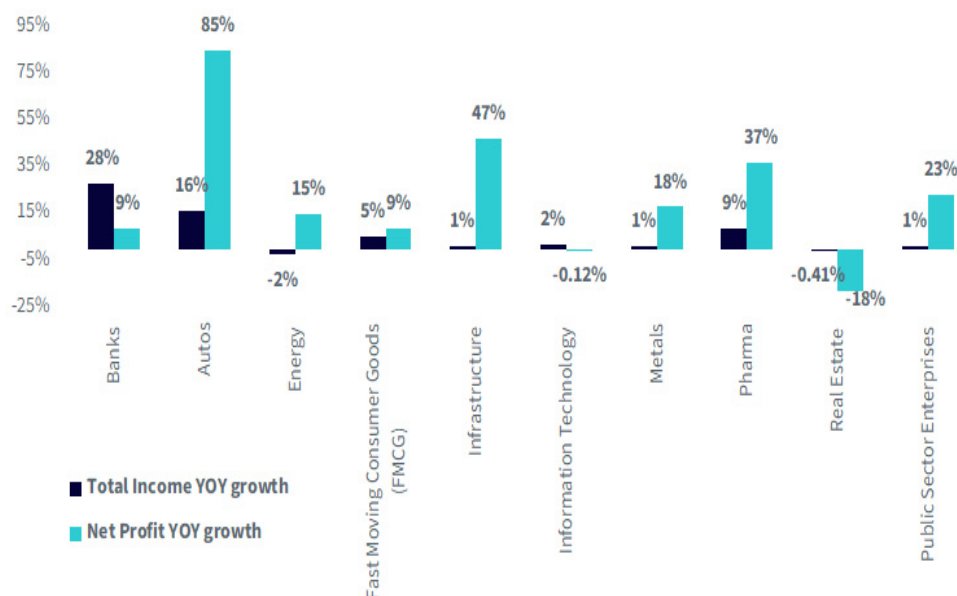


Sources: Bloomberg, WisdomTree, as of 1/31/24.

Resilient Earnings Results in Third Quarter

The [Nifty 50 Index](#) reported revenue growth of 9% in the third quarter alongside a net profit growth of 15%, exceeding consensus expectations. This highlights a slight decline in revenue expansion (14% over the past five quarters) yet was offset by higher profitability growth (12% over the past five quarters). Banks remained at the forefront from the aspect of revenue generation, while automobiles stood out among the top performers both from a revenue and earnings standpoint.

Nifty Index Earnings Results



Sources: ACE Equity, WisdomTree, as of 2/29/24. Please note: Public Sector Enterprises consists of companies where 51% of the company's outstanding share capital is held by the central and/or state government, directly or indirectly. You cannot invest directly in an index.

India's financial sector has been an important pillar for stability and growth prospects. The banking sector exhibited healthy business growth in the third quarter. However persistent [net interest margin \(NIM\)](#) pressure and high operational expenditure caused a dip in margins. Credit growth was driven by the retail sector. Retail loans formed 31% of banking

credit followed by services at 27.8%, industries at 23.5% and agriculture at 13%. The corporate sector saw a gradual pick up aided by medium-sized enterprises.

The automotive sector provided stellar results over the quarter, aided by the decline in commodity prices, alleviation of supply-chain challenges and stability in FX rates. The USD-INR (Indian rupee) held within a narrow 3% range in 2023, mostly between 80.00 and 83.50. INR depreciated by just 0.6% relative to USD in 2023 compared to over 10% in 2022. Auto volumes (excluding tractors) grew at 16% annually led by a healthy recovery in two-wheelers and stable growth across other segments. Two-wheelers witnessed the sharpest growth of nearly 19% YOY during Q3. Demand for premium cars also remained strong, mainly in the urban areas.

The subdued results of the information technology sector were influenced by macroeconomic conditions, lower discretionary spending and seasonality. Attrition rates hit all-time lows for India's IT sector in the quarter.

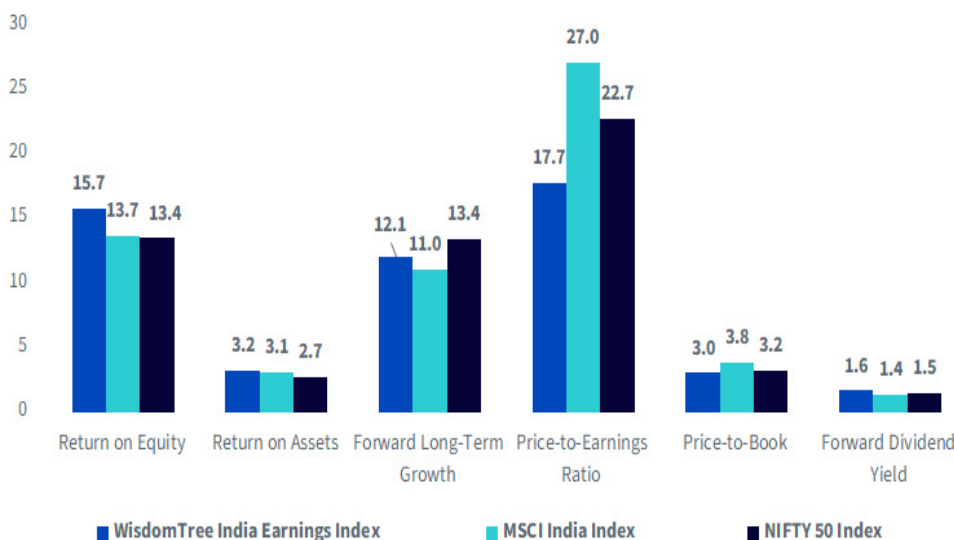
While the real estate sector dragged down overall earnings performance for the Nifty Index, the energy, pharma, metals and public sector enterprises (PSE) sectors displayed steady annual earnings growth in Q3.

Adopting an Earnings Bias to Tap into Indian Equities

For investors looking to tap into India's buoyant earnings growth at a discount, the [WisdomTree India Earnings Fund \(EPI\)](#), which seeks to track the [WisdomTree India Earnings Index](#), offers a unique opportunity as it aims to lower the valuation risk inherent in buying Indian equities. [EPI's](#) strategy represents the broadest possible cross-section of investable and profitable Indian companies.

At WisdomTree, we optimize [valuation](#), by weighting by earnings and eliminating unprofitable companies, thereby allowing the more profitable companies to dominate the weighting in the Index. The unique earnings tilt allows [EPI](#) to provide investors with access to the broad market but at a more reasonable valuation, evident from the chart below.

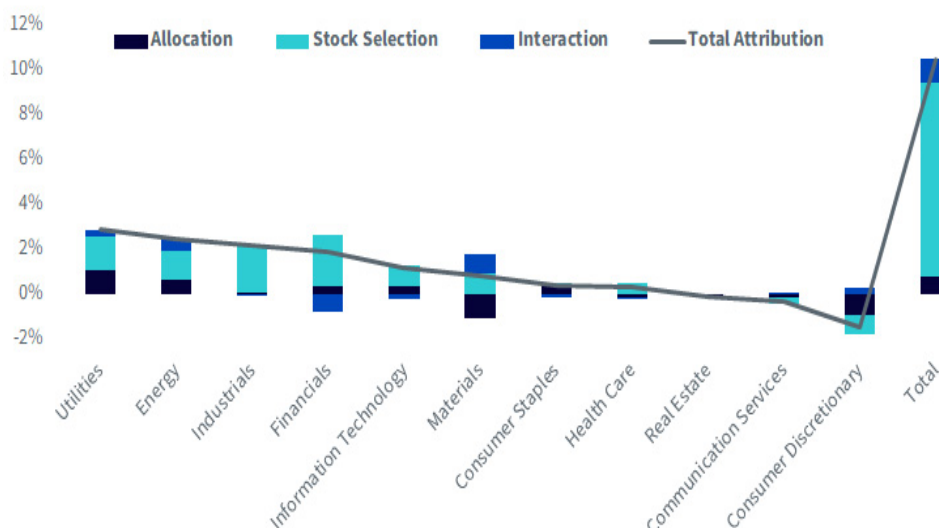
Comparison of Fundamentals



Sources: Bloomberg, FactSet, WisdomTree, as of 3/1/24. You cannot invest directly in an index.

By earnings-weighting our strategy, the portfolio takes on some unique sector tilts compared to a [market cap-weighted](#) approach. Over the past year, utilities, energy, industrials and financials provided the highest contributions across sectors, enabling the WisdomTree India Earnings Index to outperform the MSCI India Index by 10.49%.

Sector Attribution: 1-Year



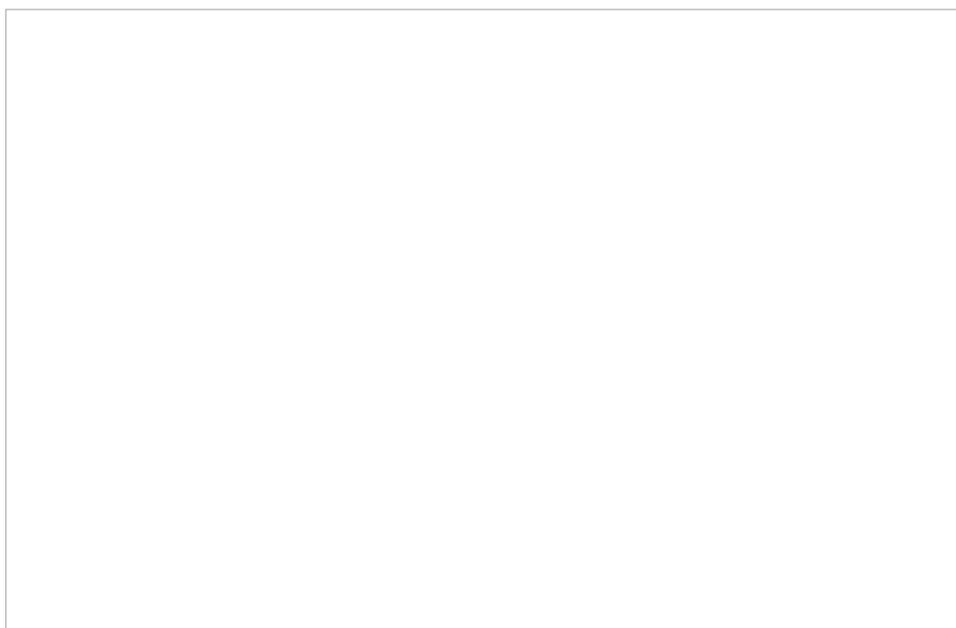
Sources: FactSet, WisdomTree, as of 1/31/24. You cannot invest directly in an index.

Less Concentration and Greater Diversification

The Q3 FY24 earnings results for the Nifty 50 Index (market cap-weighted) showed that **Tata Motors, HDFC Bank, Tata Steel, ICICI Bank** and **JSW Steel** contributed 56% of incremental YOY accretion in earnings. That, in our view, appears to be quite concentrated exposure within the Nifty 50 Index. The WisdomTree India Earnings Index's earnings-weighted strategy enables less concentration. The contribution to earnings growth from **Tata Motors, HDFC Bank, Tata Steel, ICICI Bank** and **JSW Steel** is much lower, at 26% for [WisdomTree India Earnings Fund](#) versus the Nifty 50 Index at 56% or even MSCI India at 33.6%.

The earnings-weighted methodology of the WisdomTree India Earnings Index also allows for greater diversification across size. While [MSCI India](#) has a much higher exposure to large caps at 84%, WisdomTree's India Earnings Index has 64% of its weight in large caps and the rest distributed across mid-caps at 25% and small caps at 11.2%. The attribution by size illustrates the benefit of diversification across size over the long term (three years) that helped WisdomTree India Earnings Index outperform the MSCI India Index by 7.51%

Size Attribution: 3 Years



Conclusion

India is the fifth-largest economy in the world and remains the fastest growing among the large economies with

sustainable real GDP growth of 6%–7% per annum predicted over the next several years. Government reforms, a systematic clean-up of the system and digitization have been the key catalysts in boosting its growth trajectory. If one considers the first nine months of India's financial year, ending March 31, we have seen stocks on the Nifty Index deliver 26% earnings growth.³ Expectations for [earnings per share \(EPS\)](#) growth remain high at 21% and 17% in FY24 and FY25. India appears well-cushioned against external vulnerabilities and is positioned favorably within global equity allocations.

¹ October to December, Q3 in financial year, ending 3/31/24

² Source: National Statistics Office

³ Source: ACE Equity

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For current Fund holdings, please click [here](#). Holdings are subject to risk and change.

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For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

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You cannot invest directly in an index.

DEFINITIONS

Gross Value Added (GVA) : A productivity metric that measures the difference between output and intermediate consumption. Gross value added provides a dollar value for the amount of goods and services that have been produced, less the cost of all inputs and raw materials that are directly attributable to that production.

Gross domestic product (GDP) : The sum total of all goods and services produced across an economy.

Inflation : Characterized by rising price levels.

Nifty Index : The National Stock Exchange of India's benchmark index for the Indian equity market.

Net interest margin : A measure of the difference between the interest income generated by banks or other financial institutions and the amount of interest paid out to their lenders (for example, deposits), relative to the amount of their (interest-earning) assets.

Valuation : Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

Market Capitalization : Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.

MSCI India Index : A market capitalization-weighted index designed to measure the performance of the Indian equity market.

Earnings per share : Total earnings divided by the number of shares outstanding. Measured as a percentage change as of the annual Index screening date compared to the prior 12 months. Higher values indicate greater growth orientation.