

α ALPHA STRATEGIST

“Against The Odds”



WINNING PORTFOLIOS
POWERED BY KNOWLEDGE

Sept 2023 | Issue No. 129



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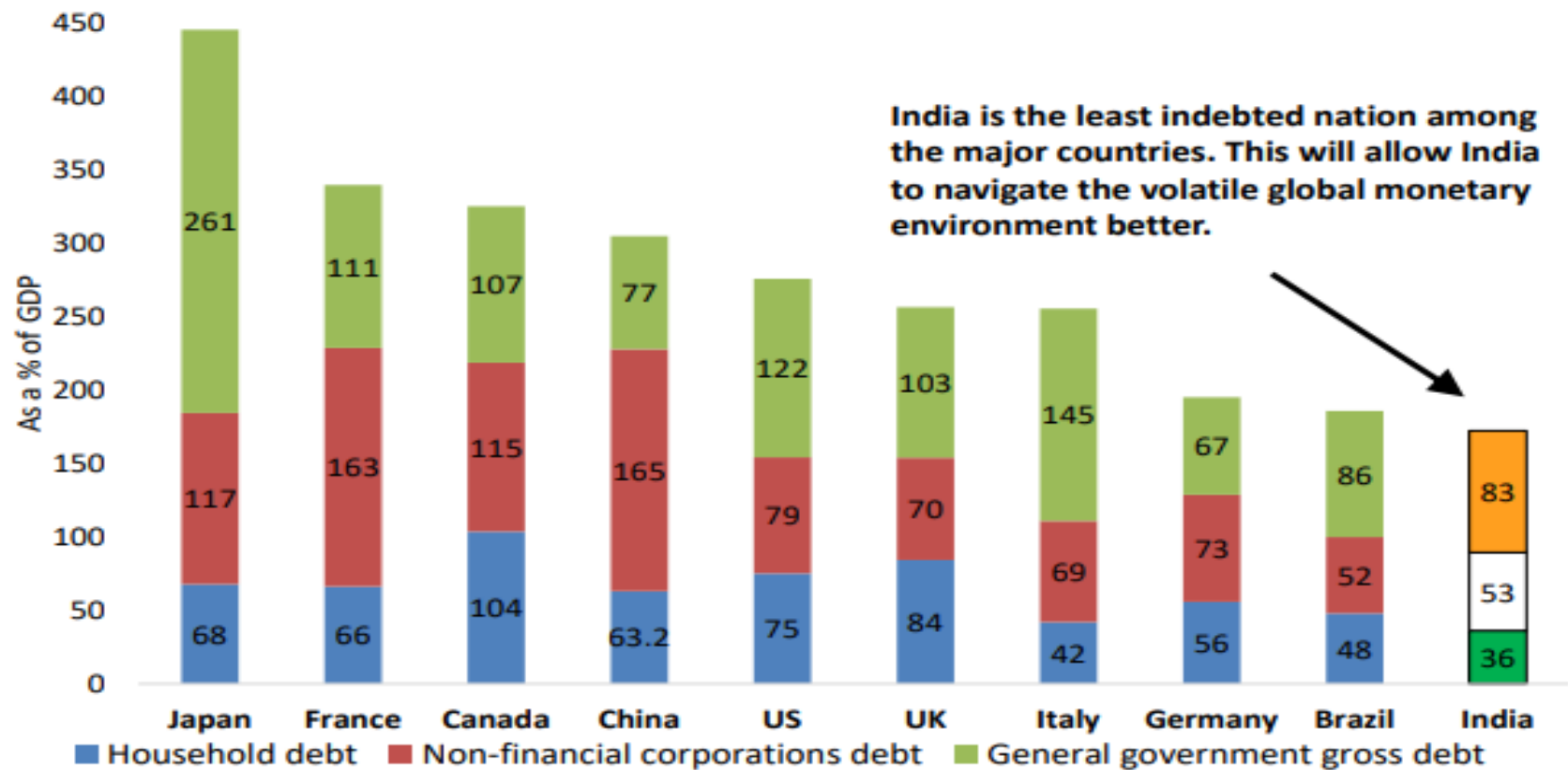
4. [Gold](#)

	2022	Projections (%)	
		2023	2024
World Output	3.5	3	3
Advanced Economies	2.7	1.5	1.4
United States	2.1	1.8	1
Euro Area	3.5	0.9	1.5
Germany	1.8	-0.3	1.3
France	2.5	0.8	1.3
Italy	3.7	1.1	0.9
Spain	5.5	2.5	2
Japan	1	1.4	1
United Kingdom	4.1	0.4	1
Emerging and Developing Asia	4.5	5.3	5
China	3	5.2	4.5
India*	7.2	6.1	6.3
Russia	-2.1	1.5	1.3



India Could Be The Least Vulnerable To High Interest Rates

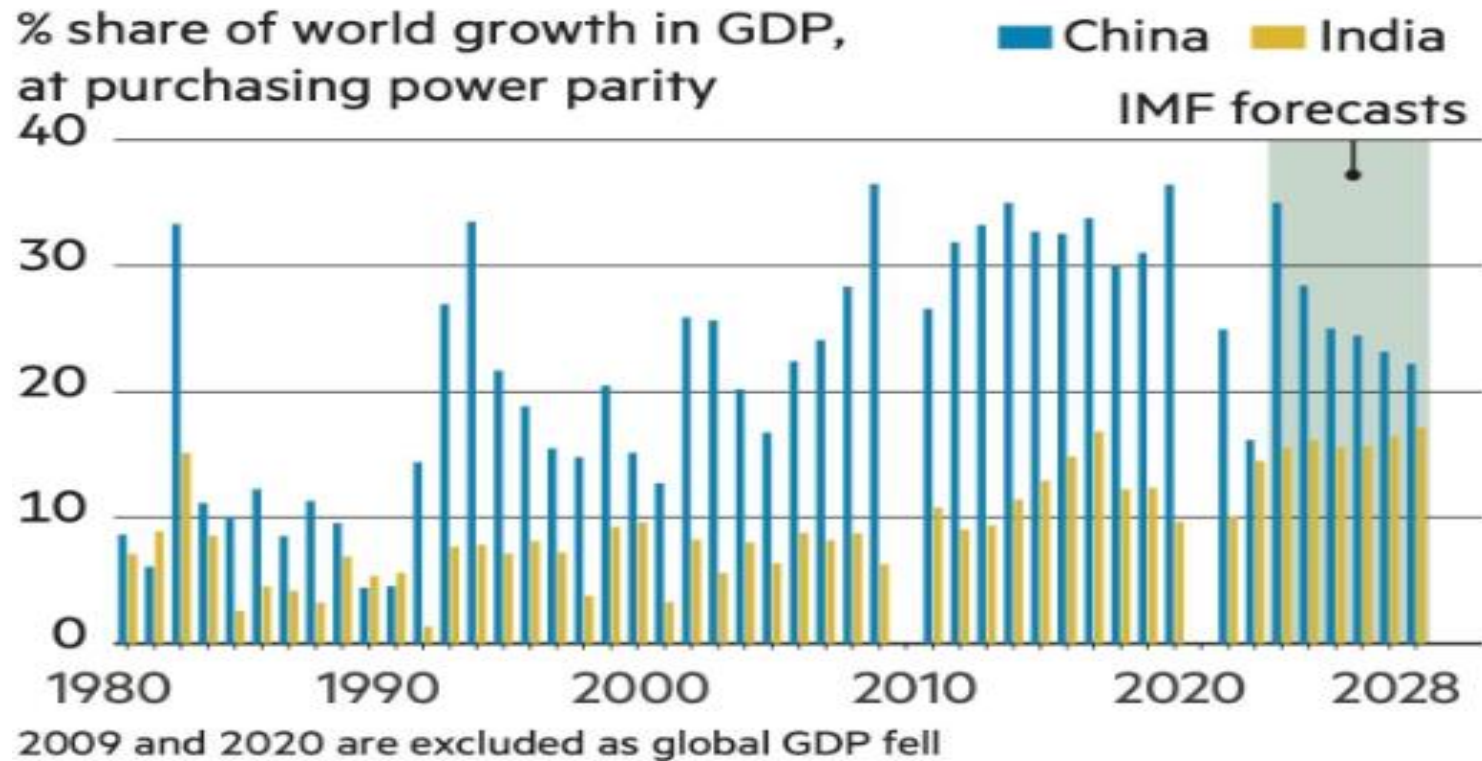
India, characterized by relatively low levels of leverage across sovereign, corporate, and household sectors, is poised to navigate this challenging landscape more effectively



Source: DSP MF



India to Rival China in Contribution to Global Growth



Source; IMF, FT



India Real GDP growth at a four-quarter high in 1QFY24

	% Share in real GDP (in FY23)	% y-o-y				
		Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24
Real GDP	100	13.1	6.2	4.5	6.1	7.8
Private Financial Consumption Expenditure (PFCE)	57.3	19.8	8.3	2.2	2.8	6
Government Final Consumption Expenditure (GFCE)	10.1	1.8	-4.1	-0.6	2.3	-0.7
Gross Capital Formation	36.2	20.8	6.5	5.2	7.8	7.1
Gross Fixed Capital Formation (GFCF)	34.7	20.4	9.6	8	8.9	8
Change in Stocks (CIS)	0.8	7.5	-2.6	-0.1	5.9	3.9
Valuables	0.7	58.7	-19.5	-38	-23.4	-21
Exports	20.9	22.4	19.6	12.2	11.1	11.9
Imports	27.3	6.7	33.6	23.1	10.7	4.9

Expenditure Approach. $GDP = PFCE + GFCE + GFCF + CIS + \text{Valuable} + \text{Export} - \text{Import}$

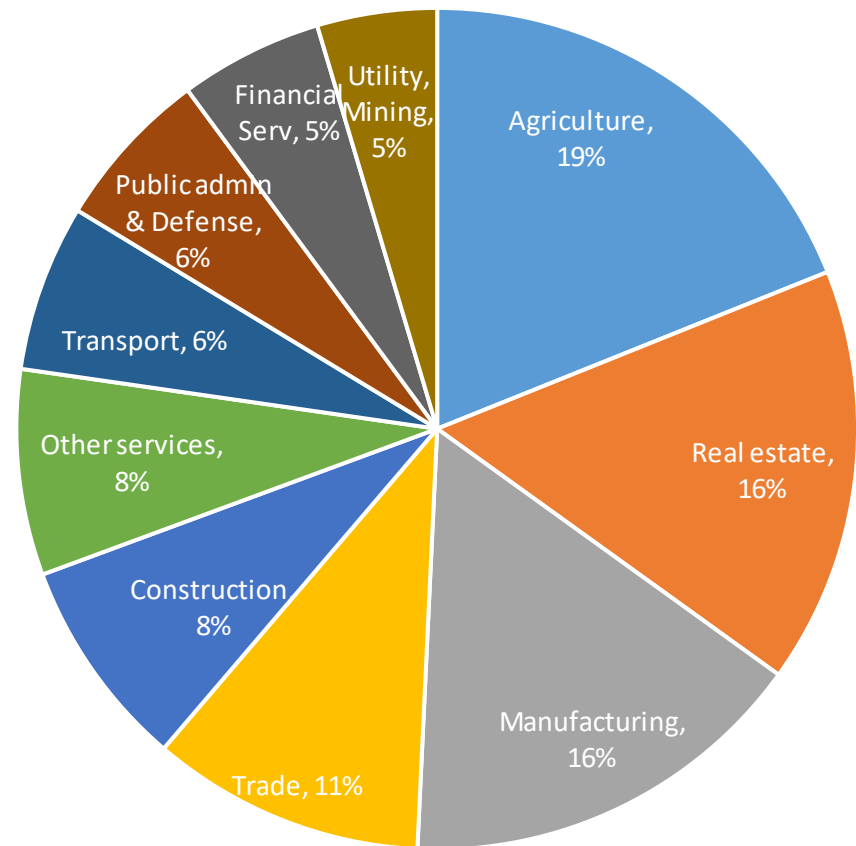
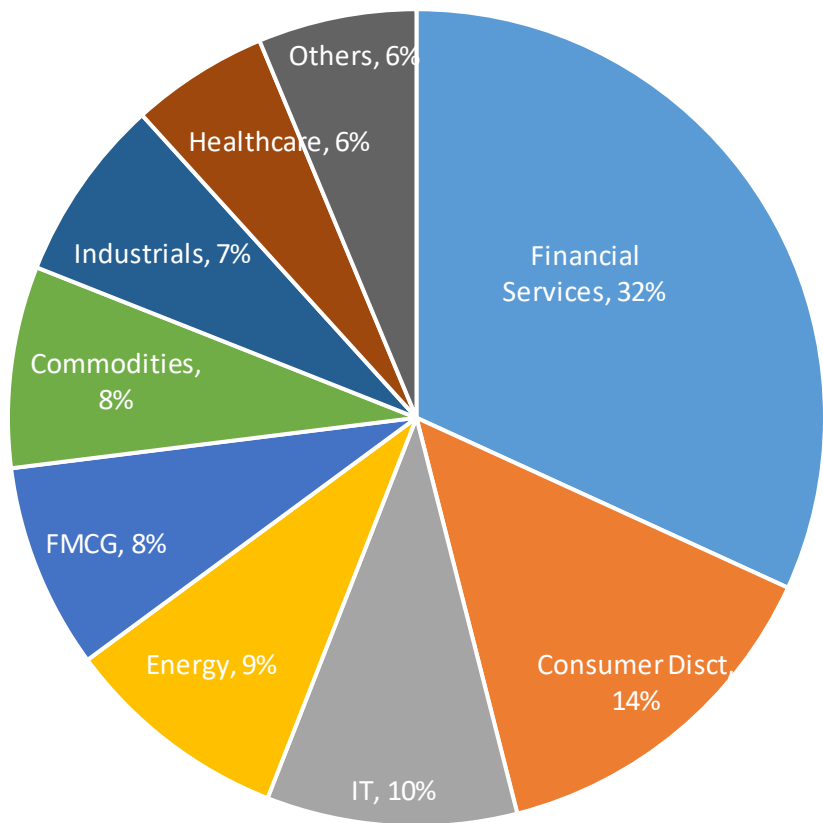
- Real GDP growth came in at a four-quarter high of 7.8% in 1QFY24 vs. 6.1%/13.1 in 4QFY23/1QFY23.
- Better growth was largely led by higher private consumption growth (6% in 1QFY24 vs. 2.8% in 4QFY23), best in three quarters.
- Investment growth too remained robust. It grew 7.1% in 1QFY24 vs. 20.8% in 1QFY23.
- On the other hand, exports contracted sharply in 1QFY24, printing at -7.7% vs. +19.6% in 1QFY23.
- Imports grew 10.1% in 1QFY24.



Explaining The Difference Between Stock Market & Economy

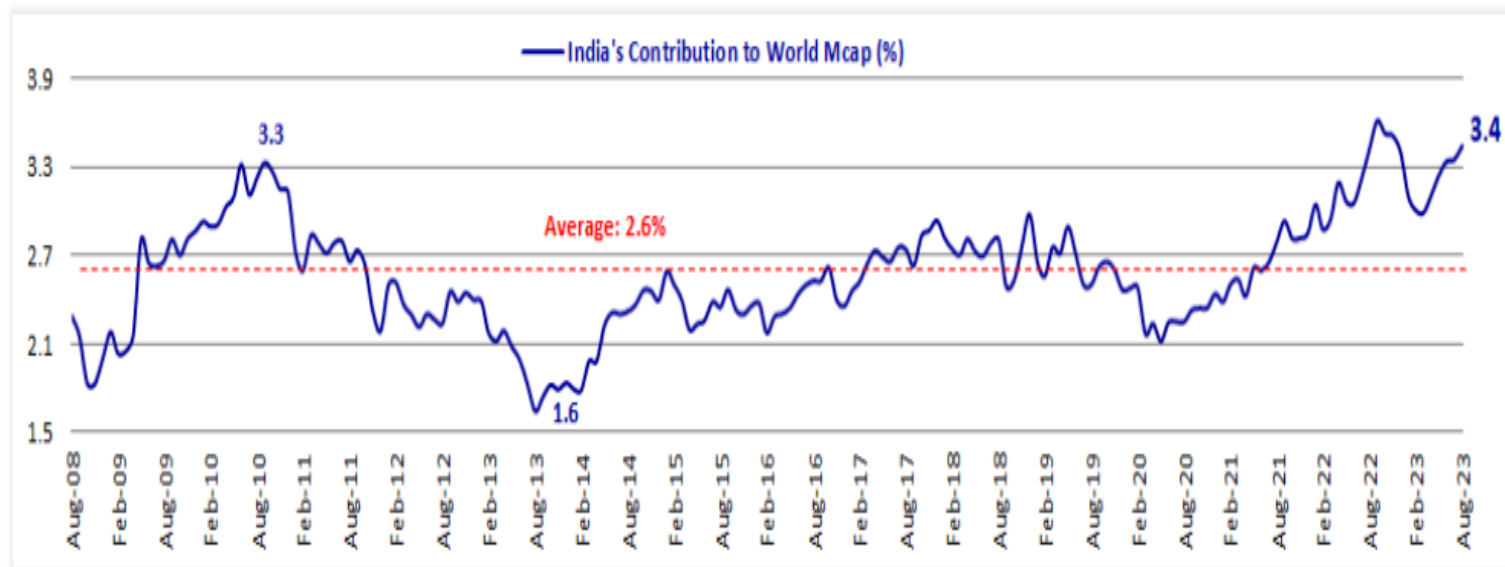
NSE 500 represents organised and strong growing companies of India...

...Where as GDP represent all the companies of India.



Rising Contribution to Global Market Cap

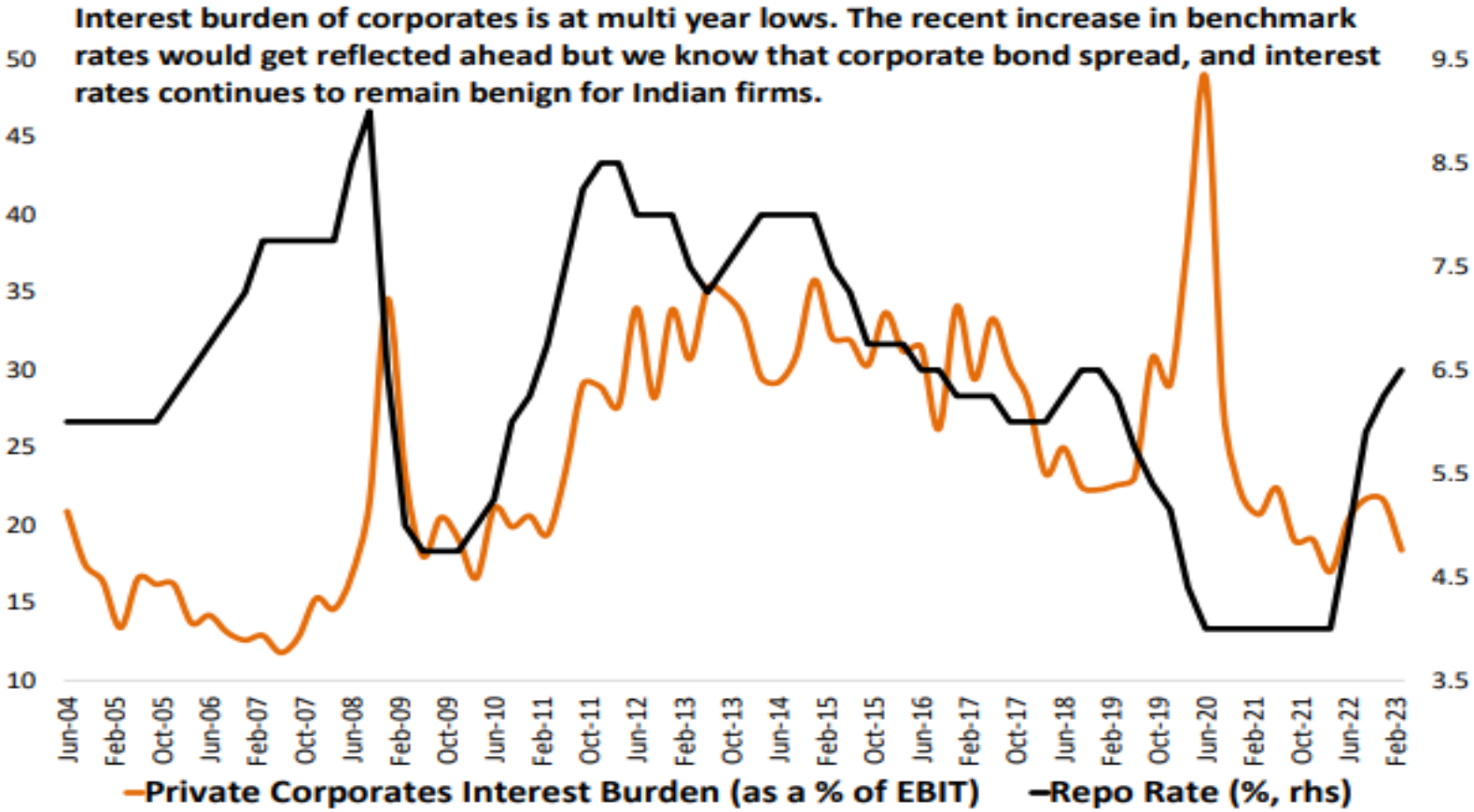
Trend in India's contribution to global Mcap (%)



In the last 10 years India's contribution to global market cap has **more than doubled** from 1.6% to 3.4%

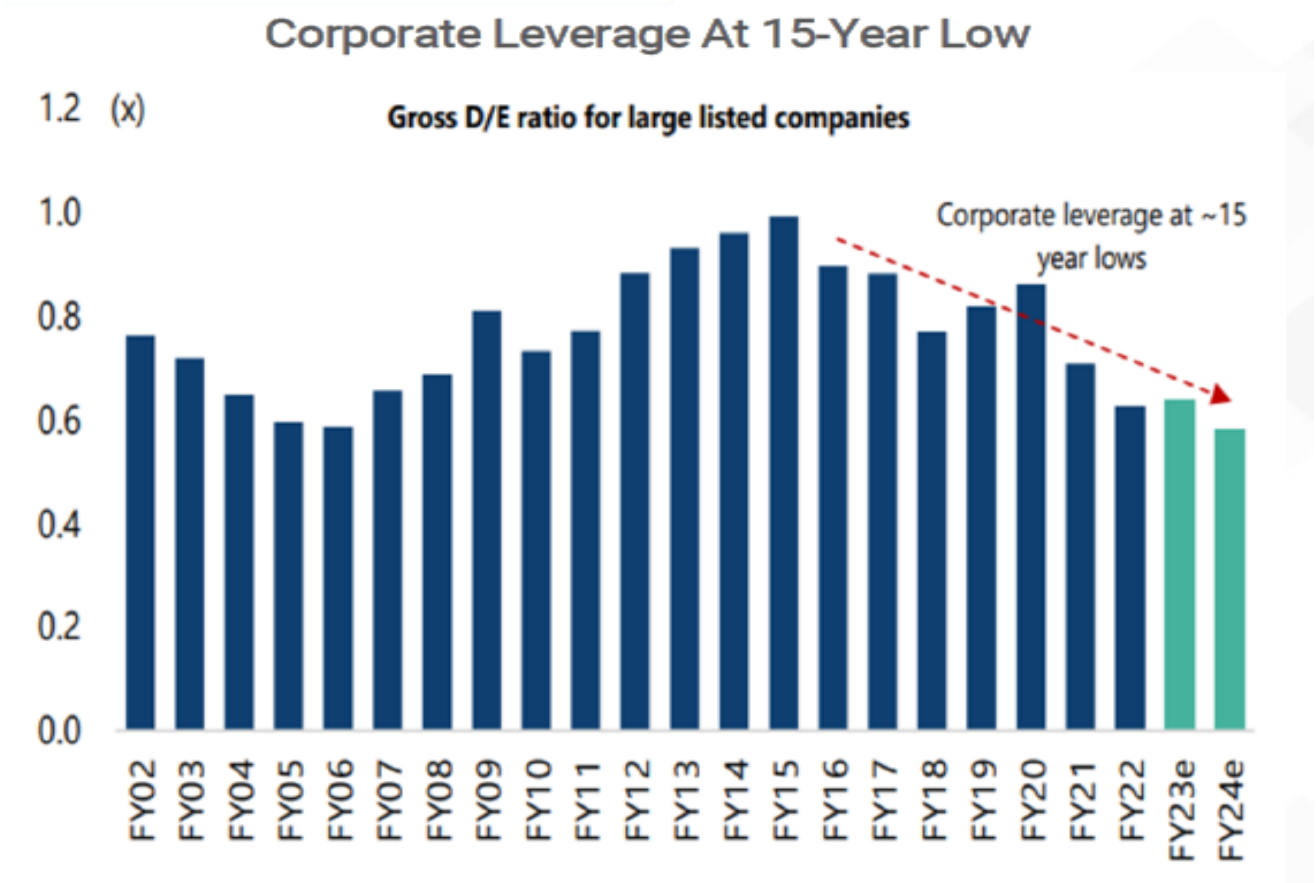


India Continues To Enjoy Easier Monetary Conditions In Spite of Rate Hikes



Source: DSP MF

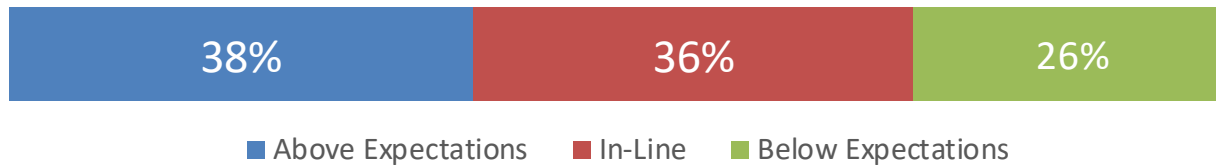




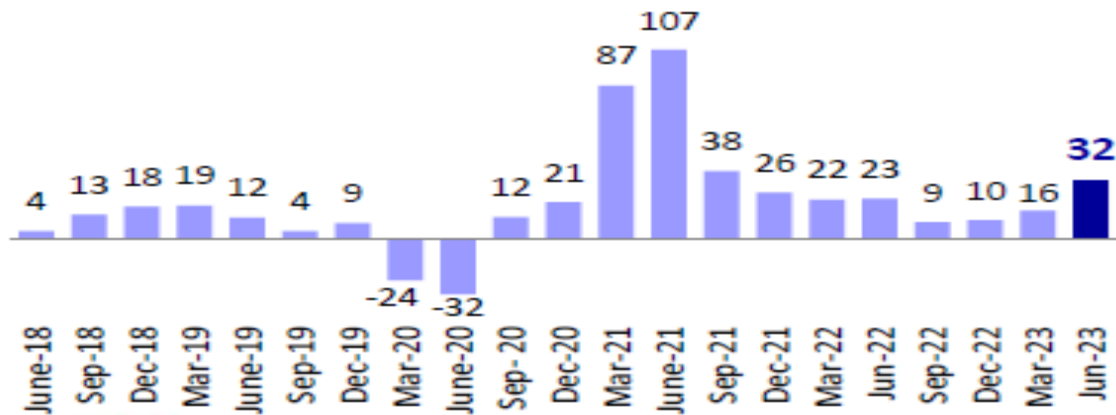
Source : Kotak AMC



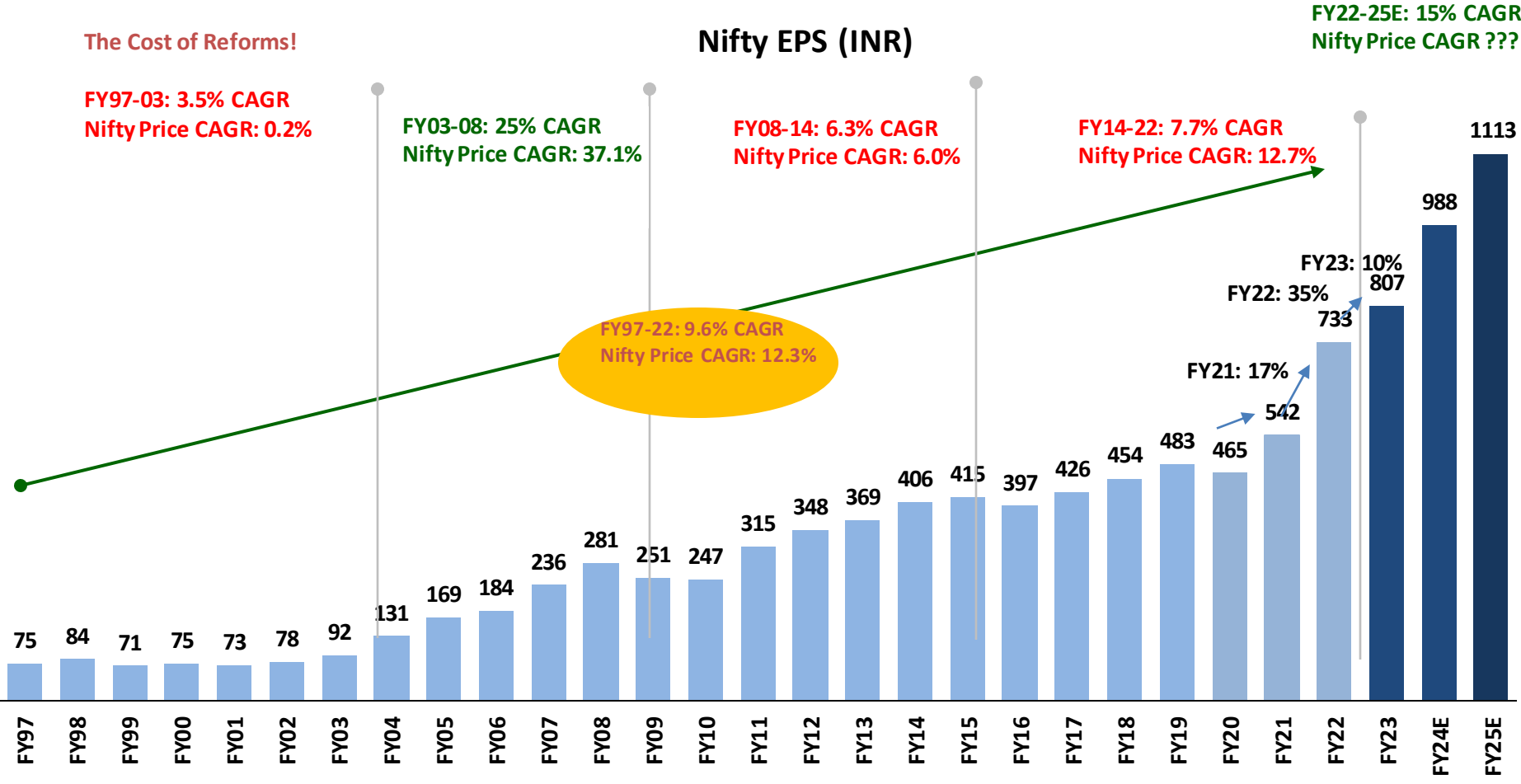
Nifty 50 Companies - PAT results



Nifty PAT +32% vs est 25%



Nifty 50 - Earnings Growth Outlook



- For three consecutive years now, Nifty 50 earnings have grown by double digits
- For FY24E Motilal Oswal Institutional Equities has raise FY24E EPS of Nifty by 2.5% to 988 (earlier 964)

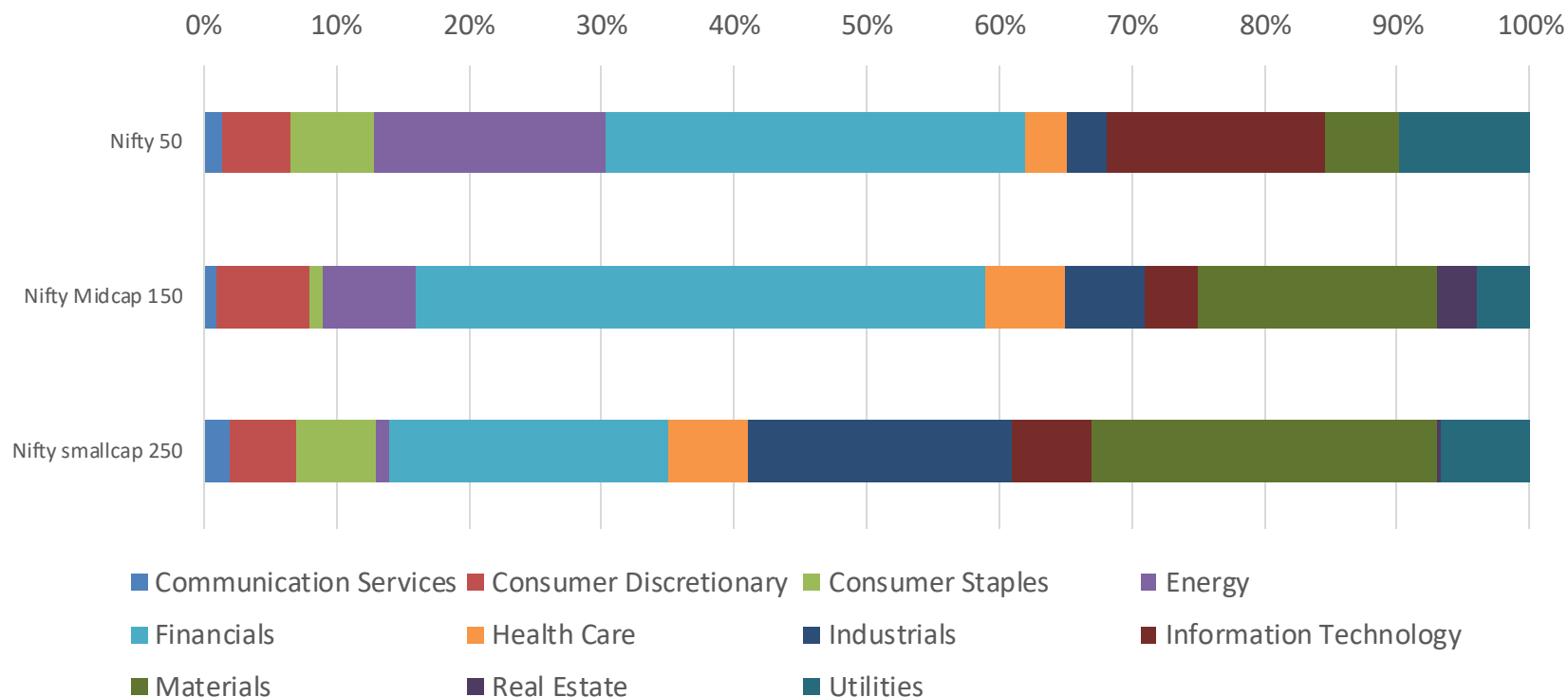


BFSI and Auto to drive earnings for the Nifty 50 in FY24E

Sector	PAT (INR b)						Growth YoY (%)					
	FY20	FY21	FY22	FY23	FY24E	FY25E	FY20	FY21	FY22	FY23	FY24E	FY25E
Automobiles	103	179	76	287	529	563	-53	74	-57	275	85	6
BFSI	799	1,009	1,395	1,971	2,492	2,960	55	26	38	41	26	19
Capital Goods	89	69	86	103	133	165	11	-22	24	21	28	25
Cement	100	100	130	115	131	145	46	0	31	-11	14	10
Consumer	289	292	319	384	447	503	20	1	9	20	16	13
Healthcare	93	129	172	181	209	242	10	38	33	6	15	16
Infrastructure	53	44	61	82	79	100	18	-17	40	34	-4	26
Metals	69	216	753	223	319	423	-70	213	249	-70	44	33
Oil & Gas	649	776	1,107	1,076	1,446	1,472	-22	20	43	-3	34	2
Retail	15	10	23	33	39	49	9	-35	138	40	20	24
Technology	781	836	958	1,022	1,088	1,285	4	7	15	7	7	18
Telecom	-41	-7	35	76	126	192	Loss	Loss	LP	115	66	52
Utilities	411	404	480	605	557	597	6	-2	19	26	-8	7
Others	36	46	56	72	75	80	11	26	23	27	4	8
Nifty	3,447	4,101	5,652	6,230	7,670	8,776	-1	19	38	10	23	14



Earnings Contribution Across Market Cap Indices

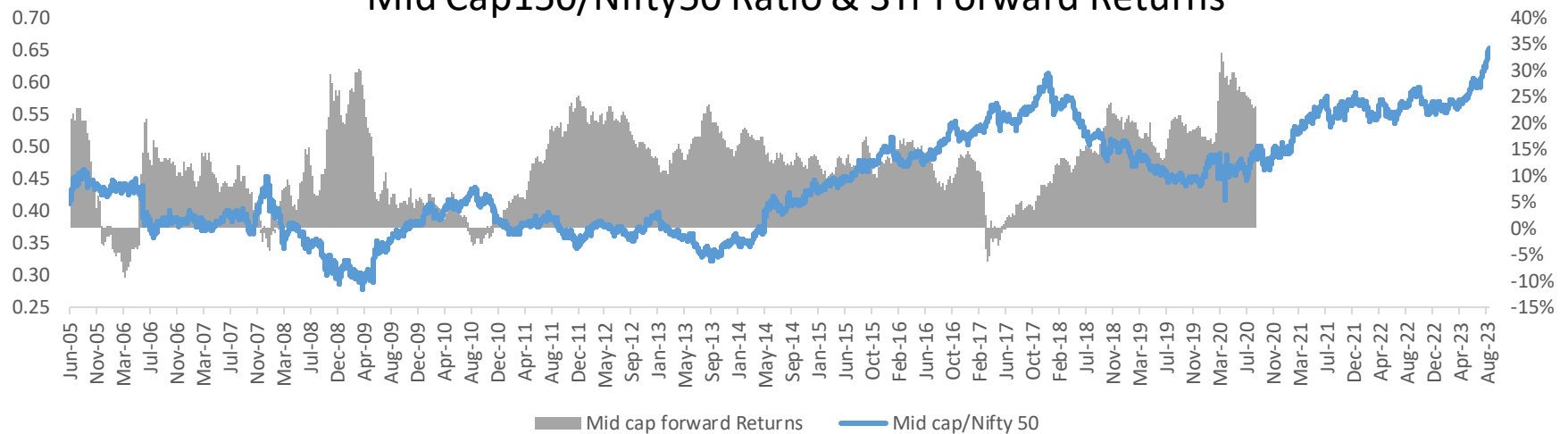


- Energy, Financials, IT contribute much higher to the large cap earnings
- Financials, Materials & industrials contribute a larger share to the mid and small cap earnings
- This will lead to participation of various sectors
- This could additionally be played though Flexicap and Multicap offerings

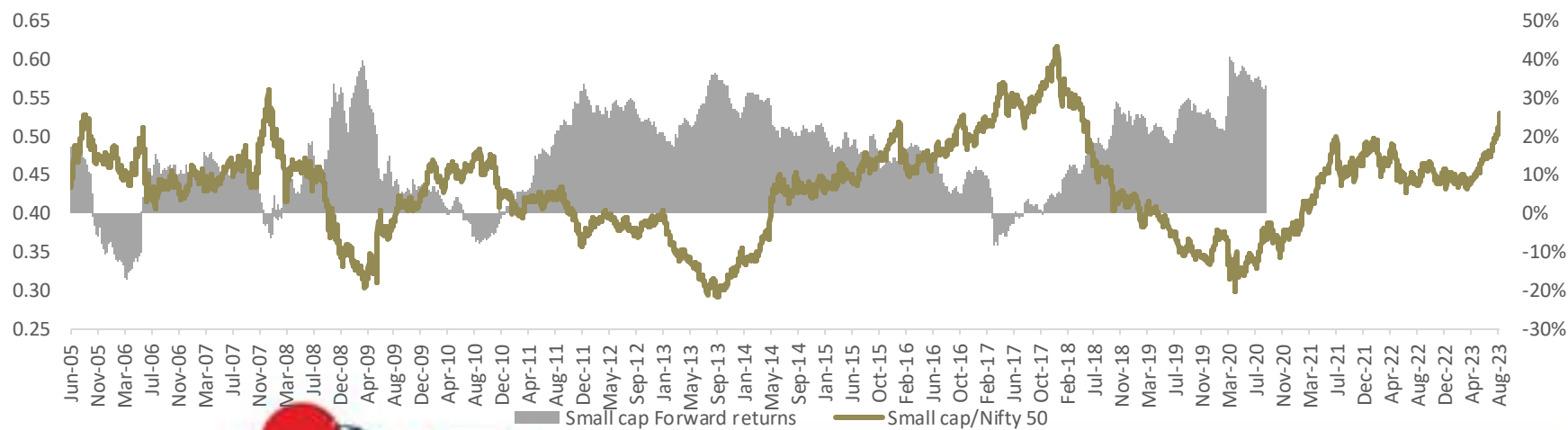
Source: internal research
As on 31-08-2023



Mid Cap150/Nifty50 Ratio & 3Yr Forward Returns

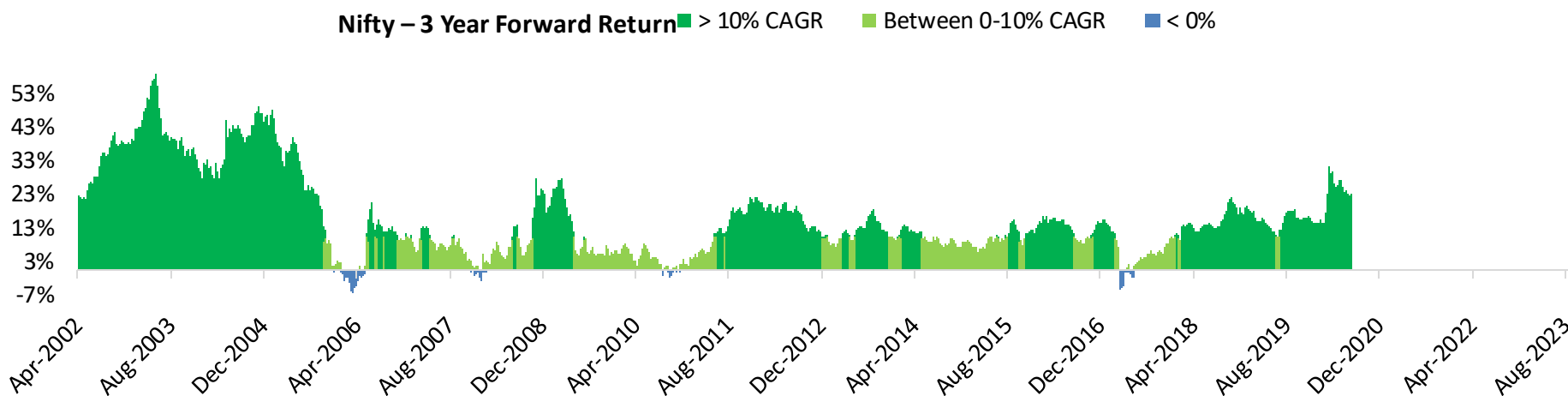
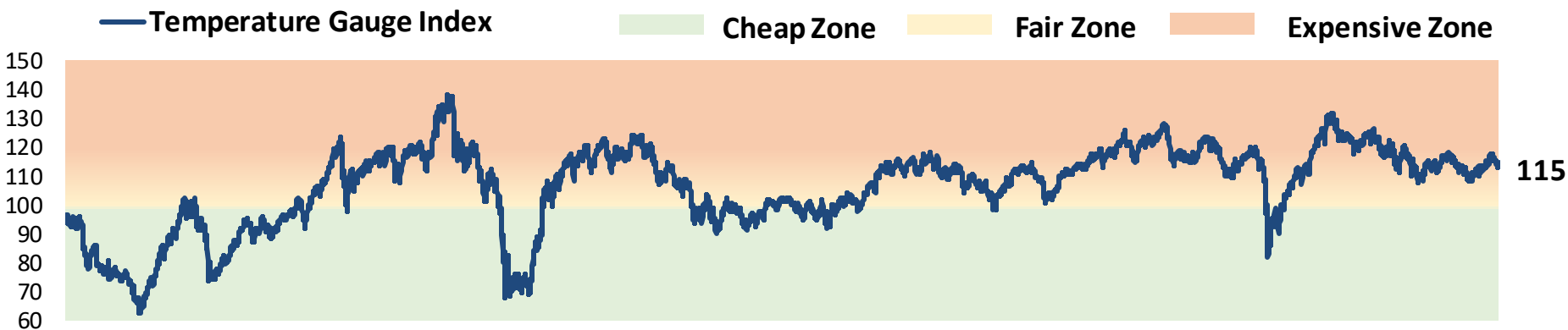


Small Cap250/Nifty50 Ratio & 3Yr Forward Returns



Temperature Gauge Index

- Temperature Gauge Index is an equally weighted index of EY-BY and MOVI Index
- It incorporates PE Ratio, PB Ratio, Div. Yield and G-sec Yield, and hence is a useful valuation metric.



Data as of 6th Sept'23, Source: Capital Line, Bloomberg Internal Research



Temperature Gauge Index – Sensitivity Analysis

Temperature Gauge Index - Sensitivity Analysis					
10 yr Gsec/ Nifty50	6.81%	7.01%	7.21%	7.41%	7.61%
18350	111	112	113	113	114
18600	111	112	113	114	115
18850	112	112	113	114	115
19100	112	113	114	115	116
19350	112	113	114	115	116
19600	113	114	115	116	117
19850	113	114	115	116	117
20100	114	115	116	117	118
20350	114	115	116	117	118
20600	115	116	117	118	119
20850	115	116	117	118	119
21100	115	116	118	119	120
21350	116	117	118	119	120

Data as of 6th Sept'23, Source: Capital Line, Bloomberg Internal Research

Pink cell Indicates Current Level of Nifty 50 and 10 yr G-sec levels



3 Yr Forward Returns Of Nifty At Different Levels Of Temperature Gauge Index

Nifty 50				3 Yr Return CAGR			% Times in CAGR range		
Index in Range	No. of Observations	% of Observations	Min	Max	Average	% Times Positive	6% to 10%	>=10%	
65	70	60	1%	24%	57%	43%	100%	0%	100%
70	75	202	3%	15%	51%	32%	100%	0%	100%
75	80	285	4%	14%	45%	37%	100%	0%	100%
80	85	168	2%	15%	43%	34%	100%	0%	100%
85	90	207	3%	12%	49%	33%	100%	0%	100%
90	95	539	7%	2%	47%	27%	100%	1%	97%
95	100	832	11%	1%	44%	18%	100%	1%	91%
100	105	714	9%	-2%	30%	13%	99%	8%	71%
105	110	771	10%	-4%	22%	10%	86%	13%	57%
110	115	1594	20%	-7%	22%	8%	69%	15%	22%
115	120	1458	19%	-4%	21%	8%	78%	32%	22%
120	125	804	10%	-2%	18%	8%	62%	22%	33%
125	130	135	2%	0%	16%	10%	49%	16%	30%
130	135	84	1%	-2%	4%	1%	56%	56%	0%
135	140	28	0%	-3%	0%	-1%	11%	11%	0%



➤ Below grid is based on Temperature Gauge Index

Valuation						
Expensive	Fair	Cheap	Underweight	Neutral	Overweight	Strategic Allocation
			No Action	Reduce	Reduce	100% Staggered
			Invest	Stay Invested	Stay Invested	50% Staggered 50% Lump-sum for Flexi Cap/Multi cap Completely Staggered for Mid & Small caps (Current Scenario)
		100% Lump sum				





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2. [Equity](#)

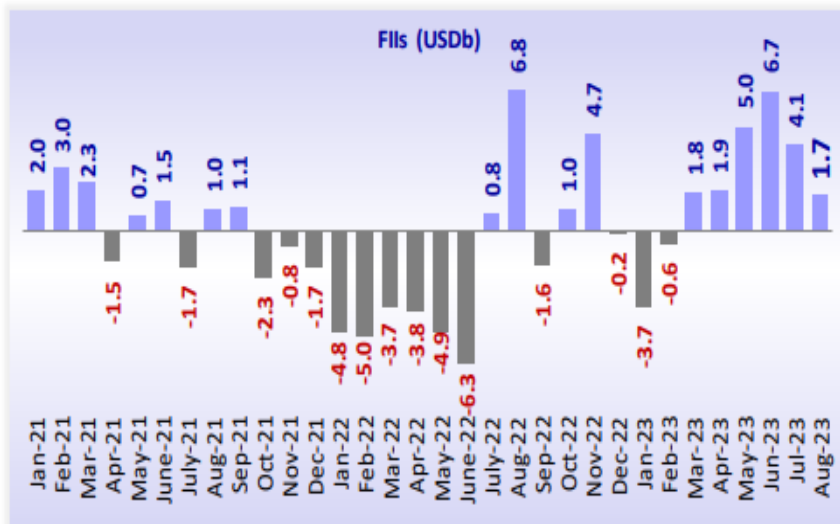
3. [Fixed Income](#)

4. [Gold](#)

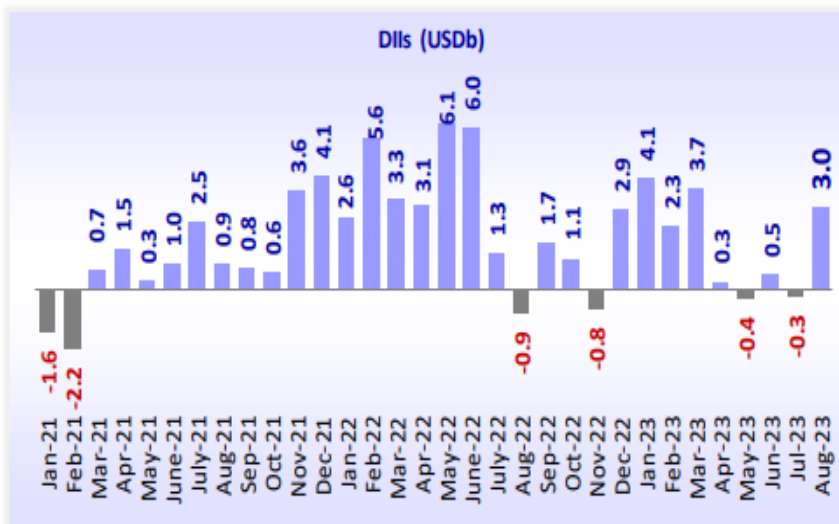
Flows – FIIs Staging A Come Back This Year

- ❖ FII flows continue to strengthen, with net inflows of USD16.9b in CY23YTD.
- ❖ DII inflows stood at USD13.2b in CY23YTD.

FIIs continue to post strong inflows – the sixth straight month of inflows



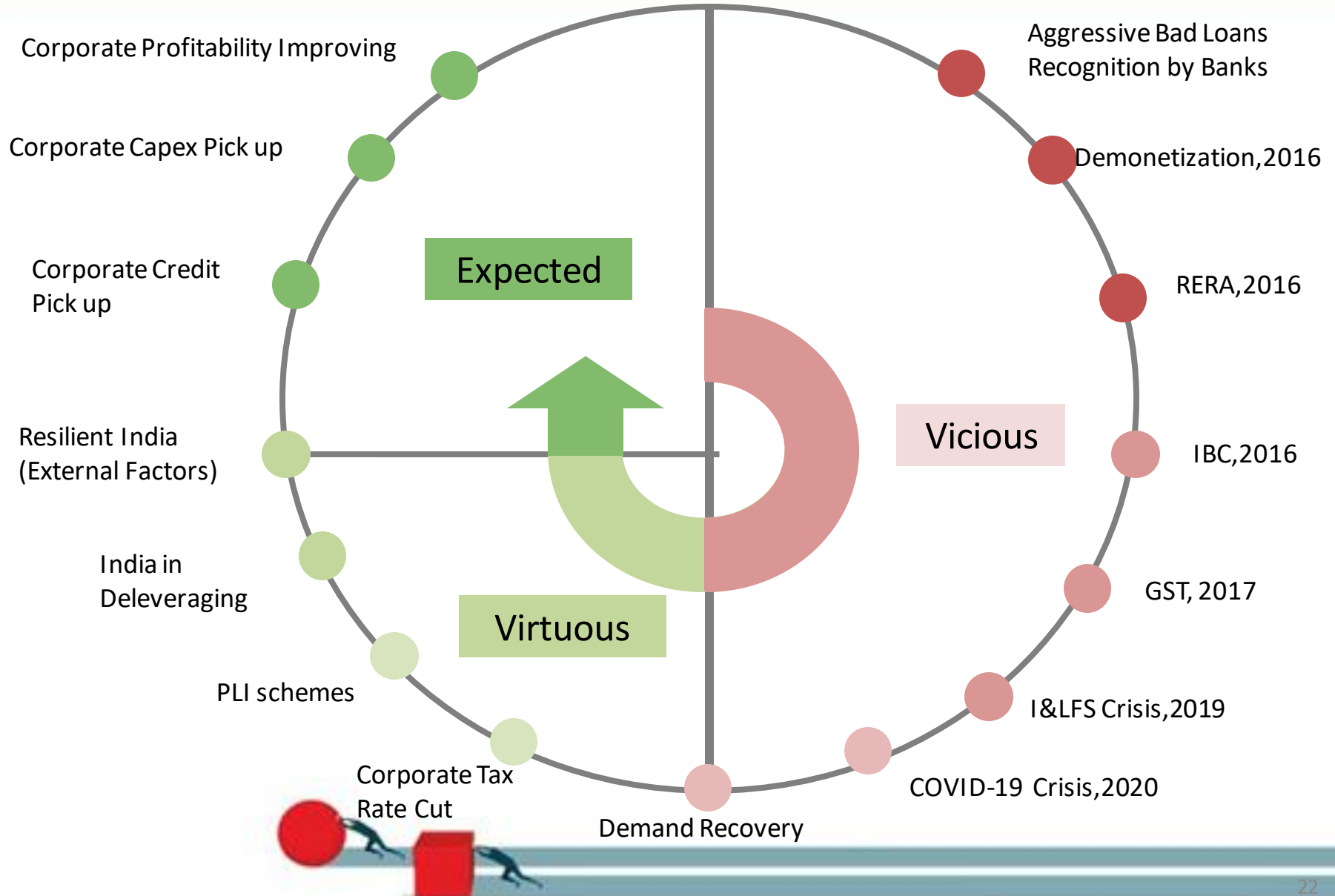
DII rebound with strong inflows, after muted flow over last four months



Source: MOFSL

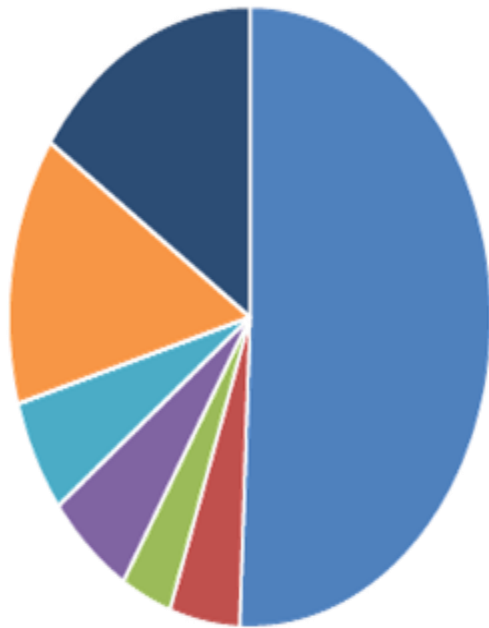


India growth story still intact – Vicious to Virtuous cycle



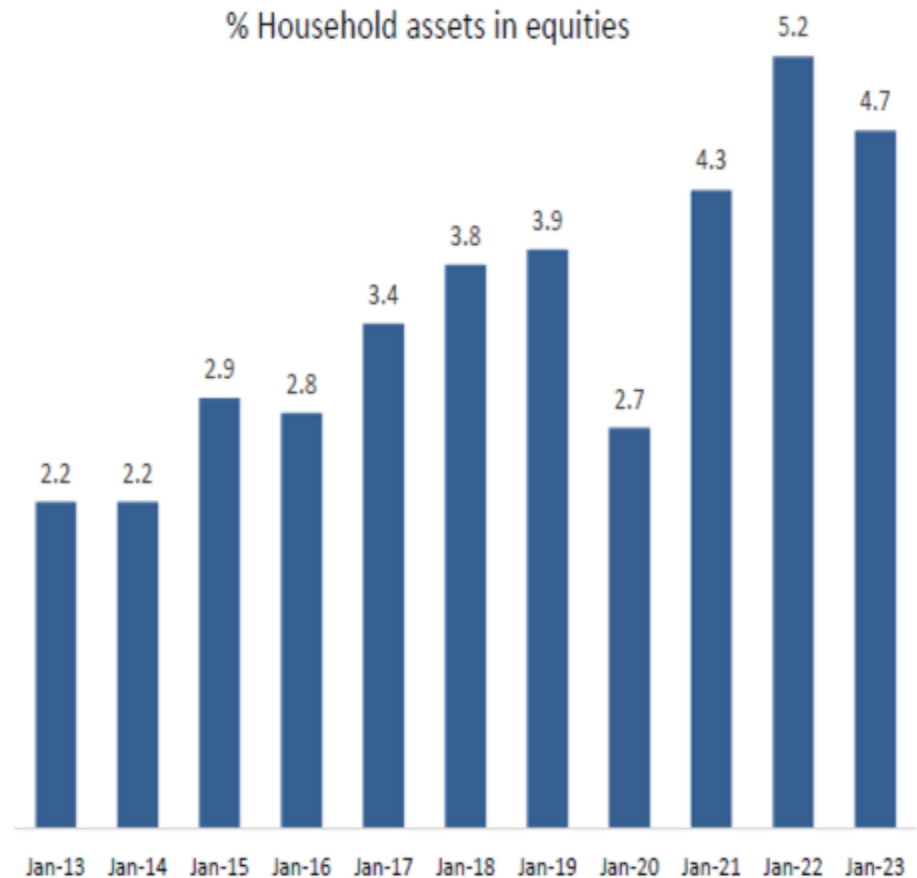
Scope For Share Of Equity To Rise In Household Savings

Total Indian Household Assets Mar'23: US\$ 11.1Trn



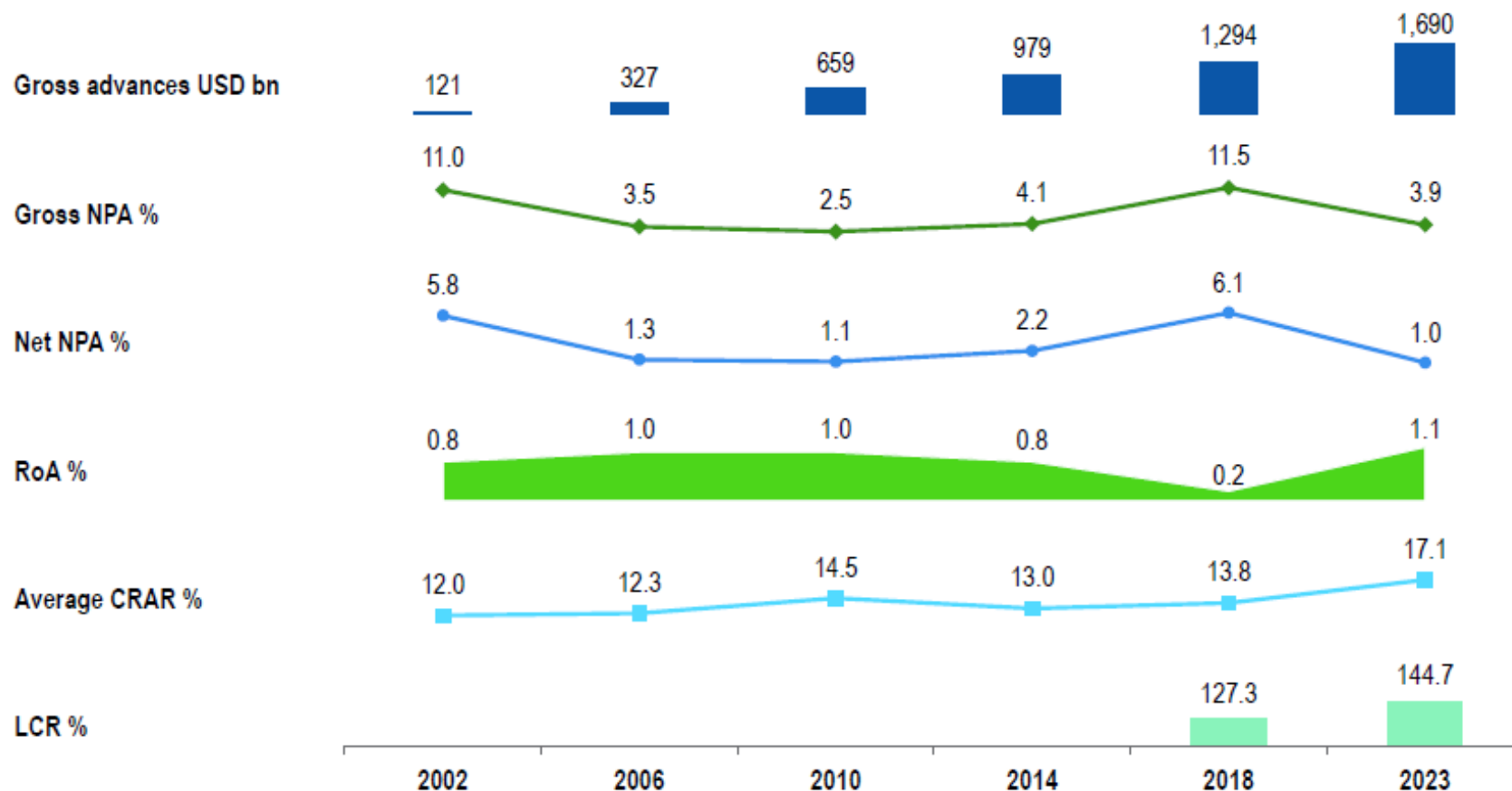
- Property
- Cash
- Insurance Funds
- Gold
- % Household assets in equities
- Provident & Pension Funds
- Bank Deposits

% Household assets in equities



Financial sector is healthy and sound

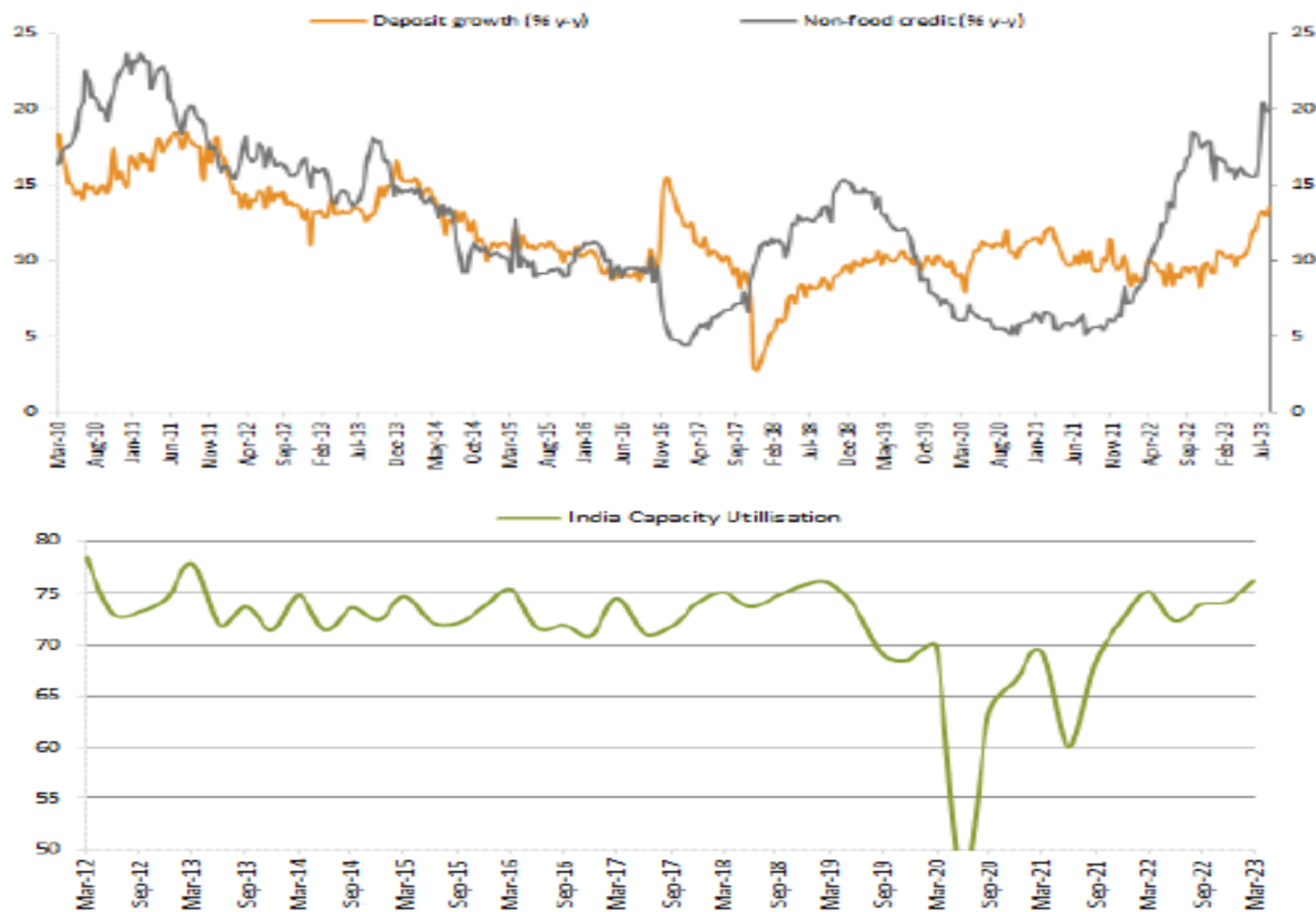
Banking sector soundness indicators have seen broad-based improvement



Source: RBI Financial stability report June 2023, Standard Chartered Research



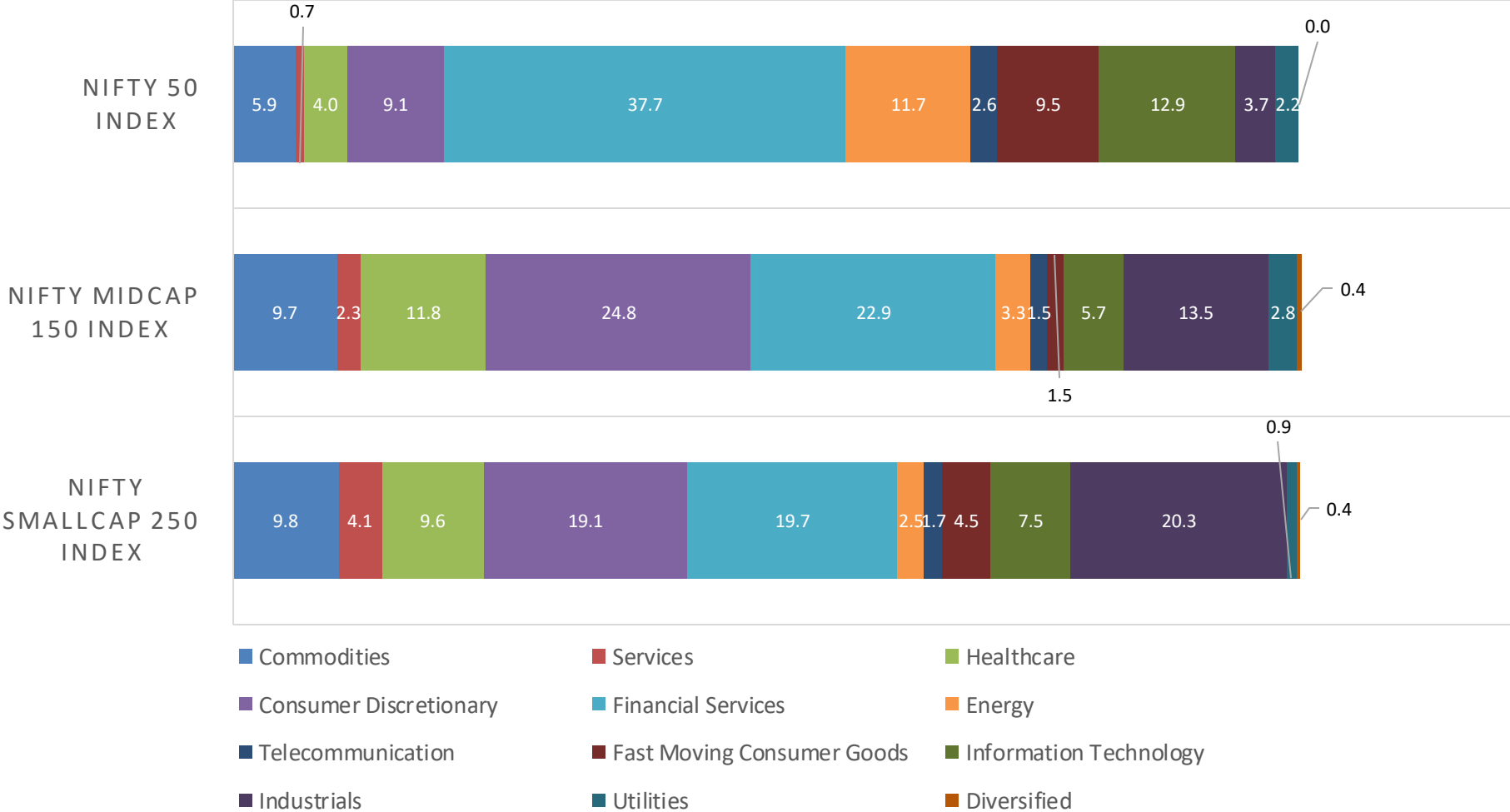
Credit Growth & Capacity Utilisation



Source: ABSL AMC



Sector Weights - Nifty 50, Mid cap 150 & Small cap 250



Source: internal research
As on 31-08-2023



Investment Style performance

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023 (CYTD)*	CAGR (2013- CYTD'23)*
Mom.	Mom.	Low Vol.	Value	Mom.	Low Vol.	Mom.	Low Vol.	Value	Value	Value	Mom.
12.90%	49.60%	13.50%	16.60%	57.50%	8.70%	10.60%	26.80%	56.90%	18.97%	20.02%	19.49%
Quality	Quality	Quality	Mom.	Value	Nifty 200	Nifty 200	Quality	Mom.	Quality	Mom.	Quality
11.60%	44.90%	13.20%	9.60%	46.00%	0.30%	10.00%	26.00%	53.80%	9.59%	15.72%	15.93%
Low Vol.	Low Vol.	Mom.	Quality	Quality	Mom.	Low Vol.	Mom.	Nifty 200	Nifty 200	Low Vol.	Low Vol.
11.00%	42.90%	10.80%	7.40%	39.70%	-1.70%	5.30%	20.00%	28.90%	4.92%	15.10%	15.74%
Nifty 200	Value	Nifty 200	Nifty 200	Nifty 200	Quality	Quality	Nifty 200	Quality	Low Vol.	Quality	Nifty 200
5.90%	40.00%	-0.80%	5.10%	35.20%	-3.90%	3.90%	16.80%	19.40%	2.32%	12.38%	13.17%
Value	Nifty 200	Value	Low Vol.	Low Vol.	Value	Value	Value	Low Vol.	Mom.	Nifty 200	Value
-7.00%	37.30%	-15.80%	4.40%	30.20%	-26.90%	-7.30%	12.80%	19.30%	-5.45%	9.15%	11.14%

S&P BSE Enhanced Value TRI

S&P BSE Low Volatility TRI

Nifty 200 Momentum 30 TRI

S&P BSE Quality TRI

Nifty 200 TRI



*CYTD'23 is till 5th Sep. Source: Nifty indices & BSE

Absolute Return Before Election	Year	Results	Absolute Return After Election		
			6 month	1 Year	3 Year
16%	2019	BJP	2%	-19%	44%
7%	2014	BJP	20%	18%	38%
29%	2009	Congress	14%	16%	15%
19%	2004	Congress	31%	43%	205%

Source : internal research, absolute returns for Nifty 50 TRI



➤ Our View:

- Earnings growth is expected to remain steady over the next few years
- Based on Trailing 12 months Nifty-50 EPS, Temperature Gauge Index suggests that Large cap valuations are in fair zone and closer to the cheap valuation zone

➤ Existing Investors:

- As per their risk profile, investors having the appropriate level of Equity allocation should continue to remain invested
- If Equity allocation is lower than desired levels, recommend to increase allocation by investing **50% in lump sum and 50% in a staggered manner over the next 6 months in Multicap strategies.**
- **Adopt a complete staggered approach for select Mid & Small Cap strategies (MFs, PMS, AIF)**

➤ New Investors:

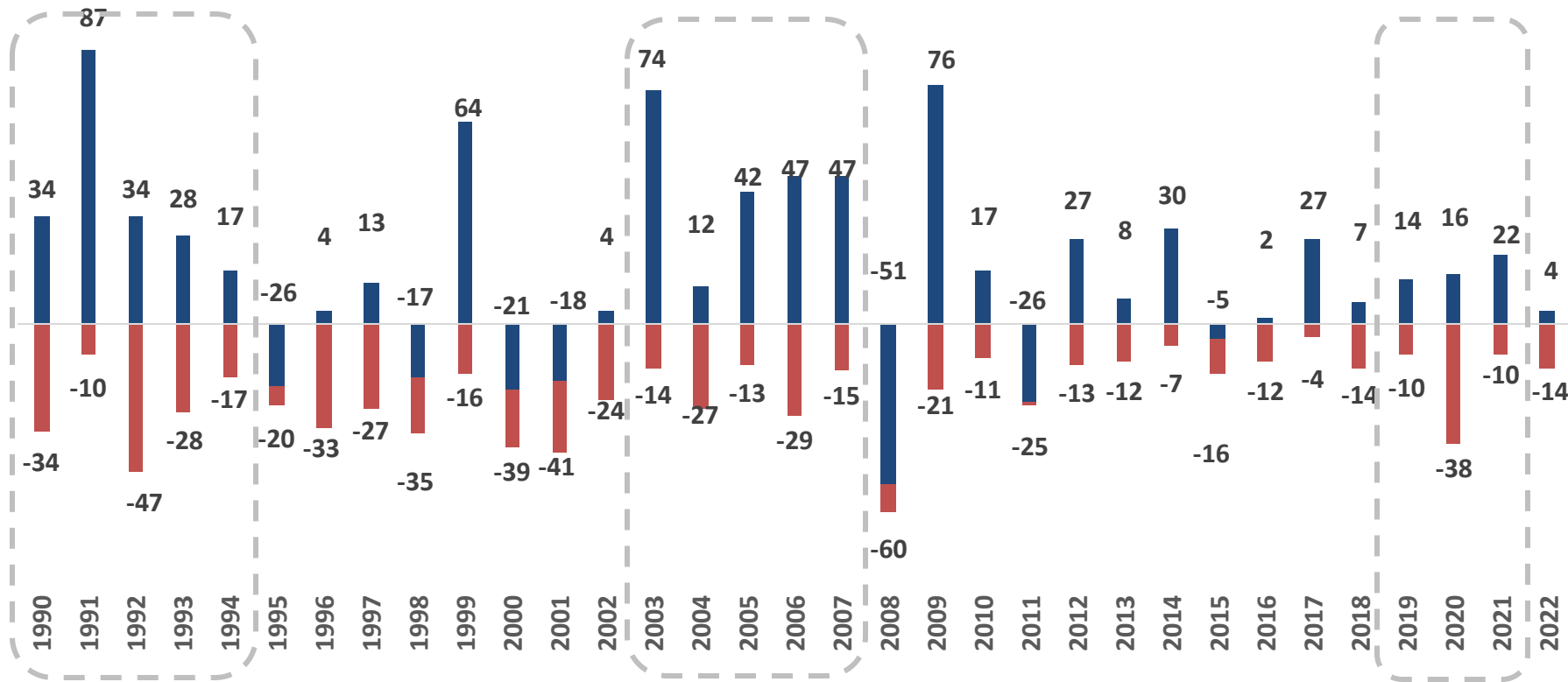
- Invest 50% in lump sum and 50% in a staggered manner over the next 6 months in Multicap strategies.
- **Adopt a complete staggered approach for select Mid & Small Cap strategies (MFs, PMS, AIF)**

➤ Accelerate deployment in the event of any sharp correction.



Equity Market CY Performance, Interim Corrections are a Normal

Sensex (1990 to 2022) – CY Return vs. Drawdown
■ Highest Intra year Fall (%)



Out of 32 years, while markets always had an interim decline, only in 9 years did the market end the year with negative returns. In other words, for 23 out of 32 yrs, the markets ended in positive – despite the temporary decline in between.
10-20% Temporary drawdown is almost a given every year.





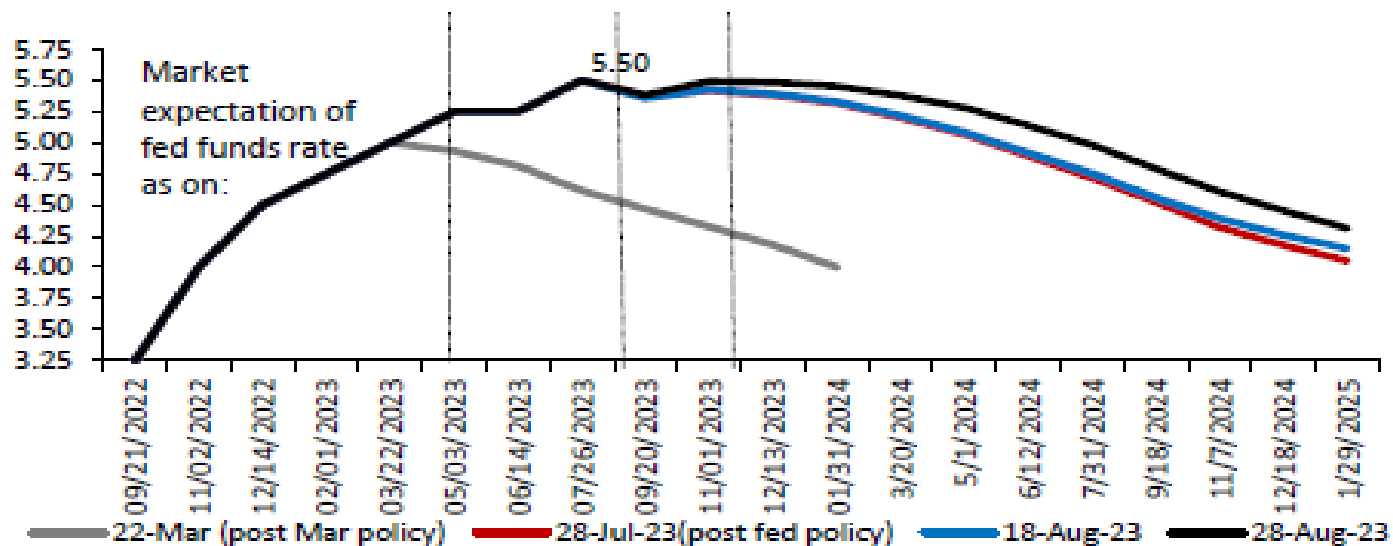
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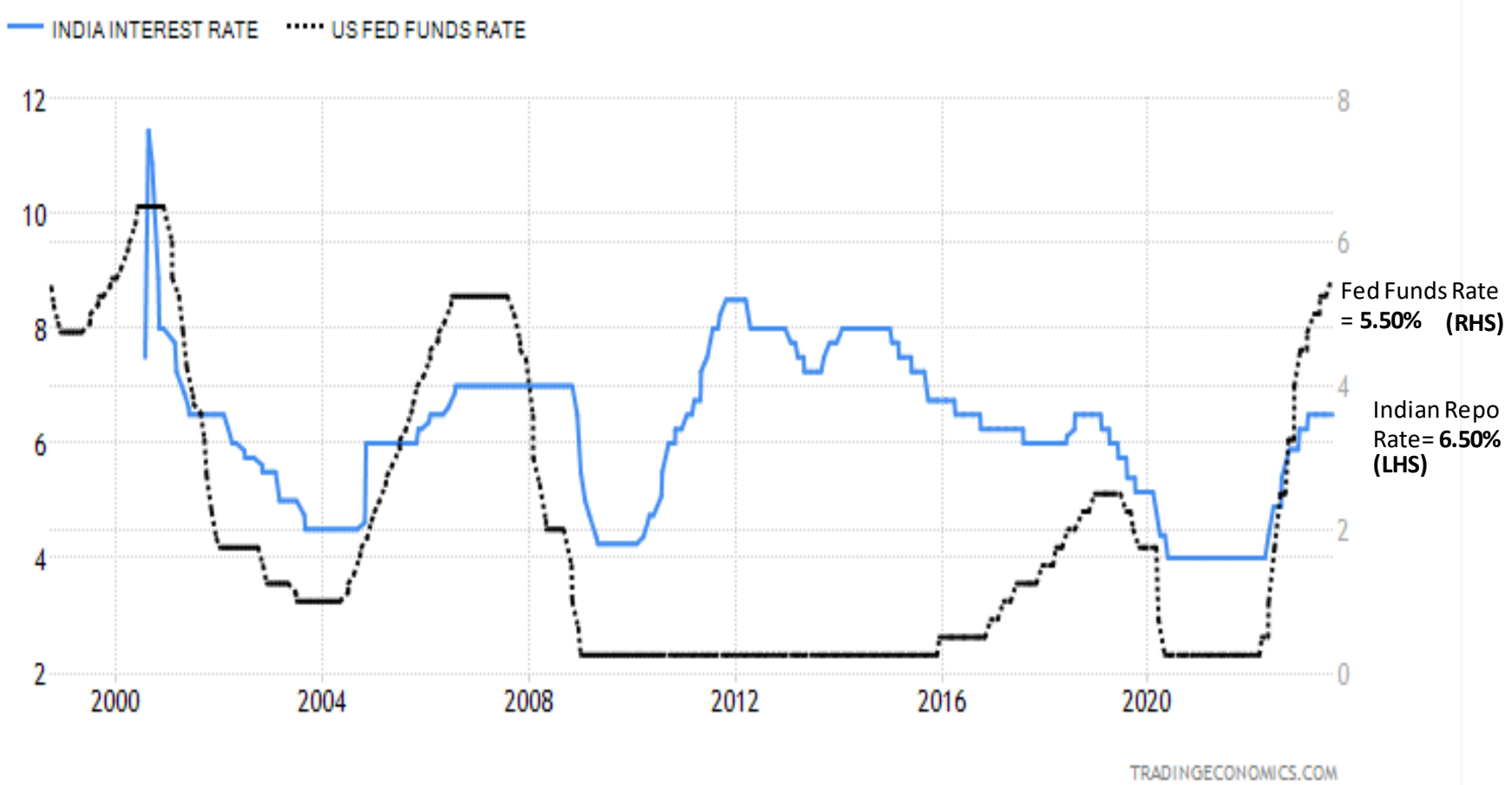
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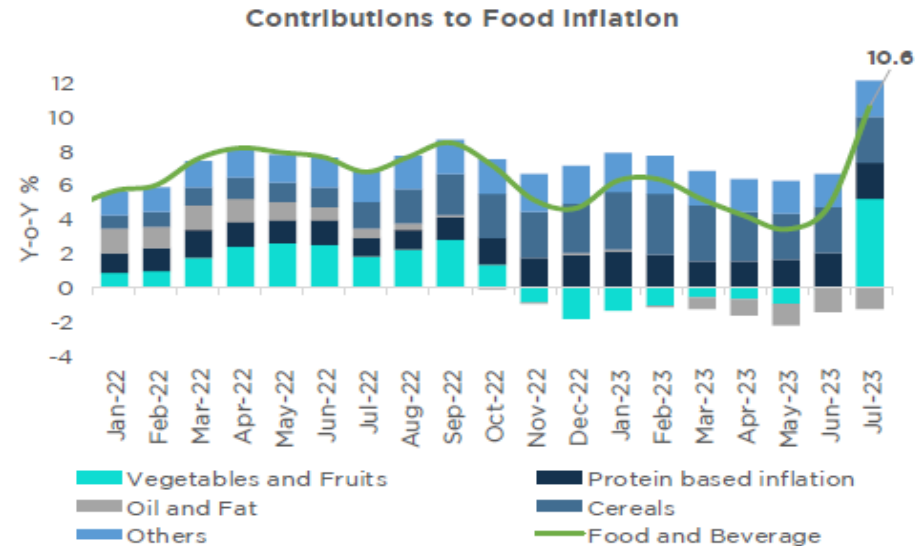
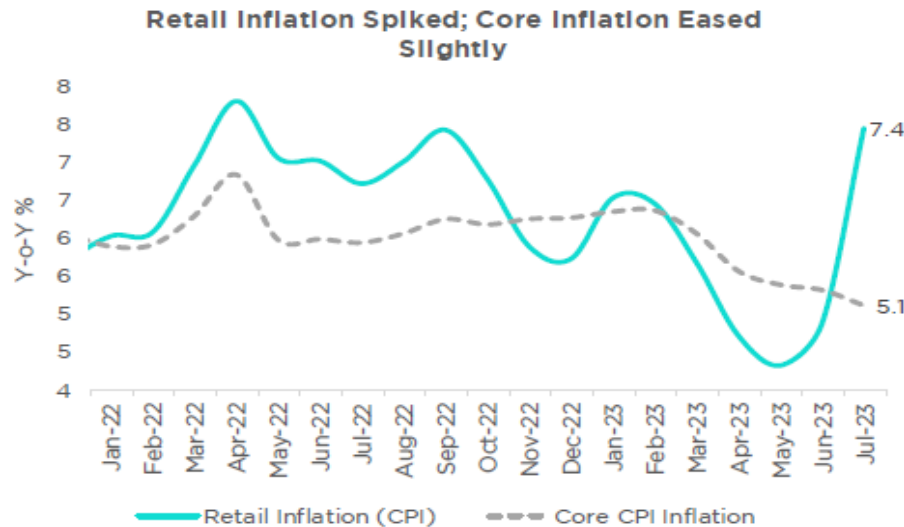
The market expectations now move towards higher for longer-
expect a pause in 2023



Gap Between Repo rate & Fed Fund Rate



Indian Inflation, Contributors & Market Projections



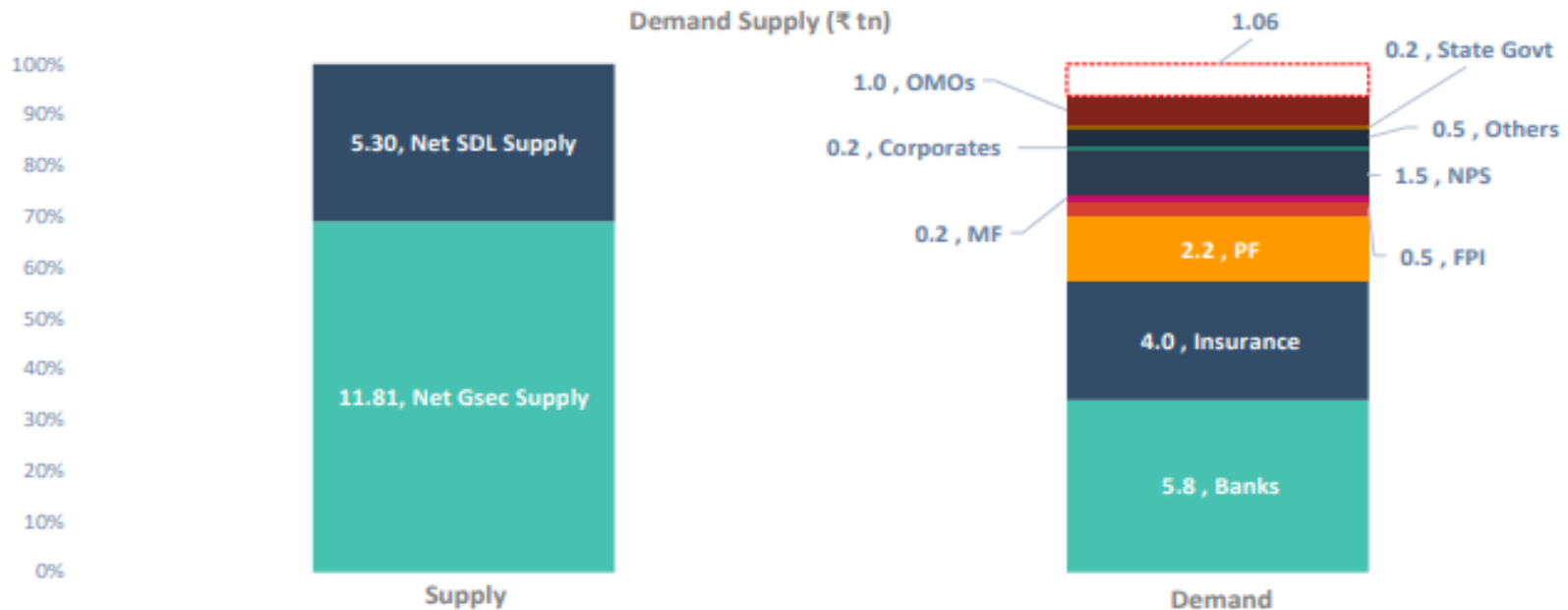
- Weather related factors has led to concern on food inflation. Compared to last year, there are multiple food items ranging from cereals to pulses, milk, spices and vegetables which has seen upward pressure to prices.
- Government has taken series of measures from open market sales of food stocks to export restriction, higher export duties and multiple other measures to ease supply shocks.
- Apart from that, fuel prices are being cut and there are hopes for further cuts in the coming months. This could help to take certain amount of pressures. That said, weather concerns are meaningful and keep us vigilant on food inflation and consequently food inflation.



How Much Is The Excess Supply

Excess supply can be matched

- G-sec supply is higher only by 7% over FY23, however demand is expected to rise much more
- Continuing strong demand from long end investors like EPFO, Insurance and PFs
- NSSF deposits at ₹ 1.94tn (till June) vs ₹ 1.34tn (till Jun'22)



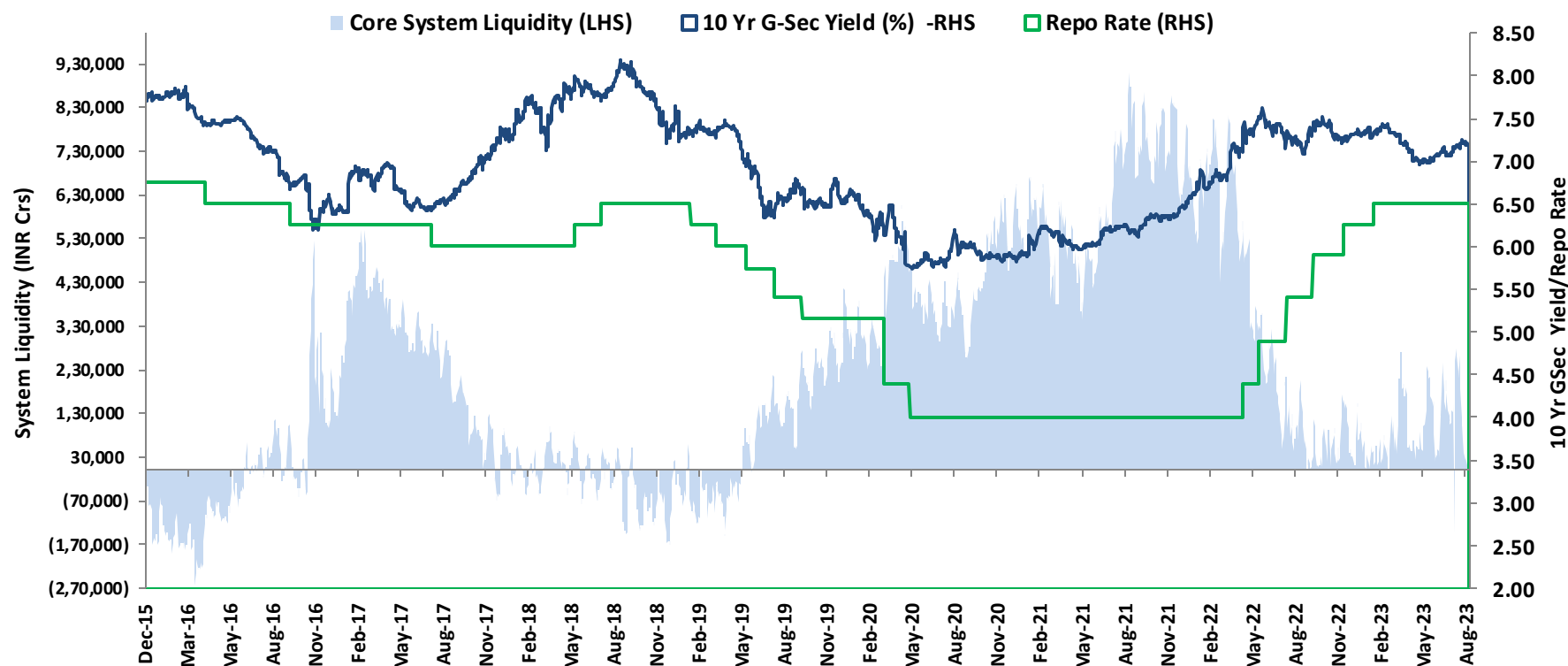
Takeaway:

Estimated excess supply of ₹ 1.06 tn is not very significant. NPS may grow at 20% (we have taken 13%), Banks may sustain current SLR ratio of 30.5% (we have taken 30%)



RBI to Actively Manage Liquidity

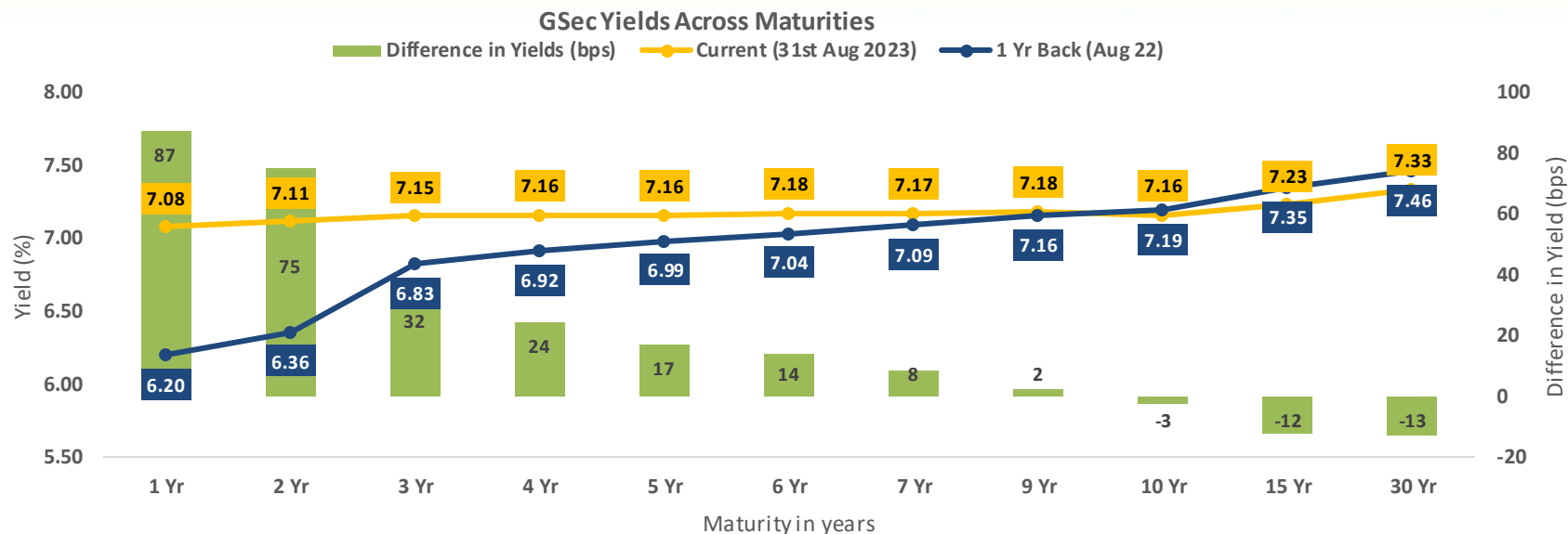
- RBI is expected to actively manage banking liquidity in the system till the inflation reverts back in the target range
- Recently RBI implemented temporary Incremental CRR of 10% to suck out excess liquidity. The objective was to align liquidity conditions with the stance and lift overnight rates closer to the repo rate.



Source: Bloomberg, MOW Research



Movement of Gsec Yield Curve

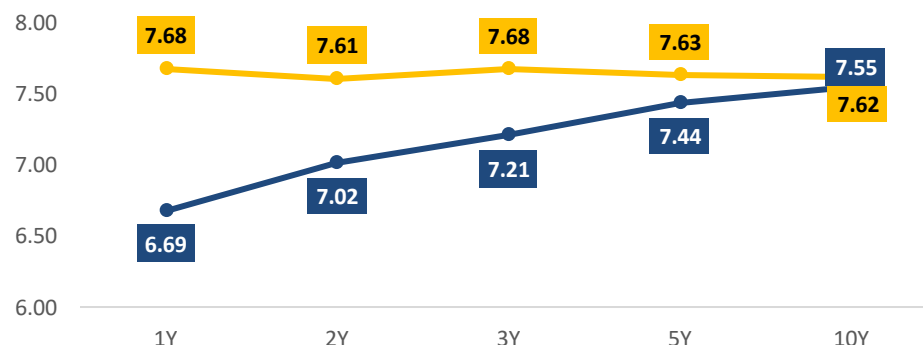


- Flatness in yield curve continues on account of monetary policy tightening, normalization of liquidity & global factors
- Short end of the yield curve has inched up relatively more than the longer end of the curve
- Term premium has reduced since beginning of CY23
- There is hardly any liquidity premium left for locking in yields beyond 5 years maturity. The sweet spot lies between 3-5 years maturity

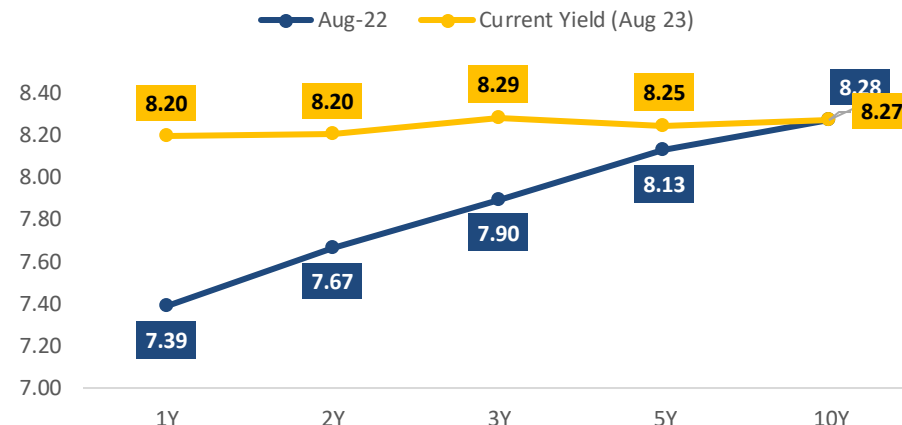


Movement Across The Credit spectrum

Movement of AAA Curve Across Maturities

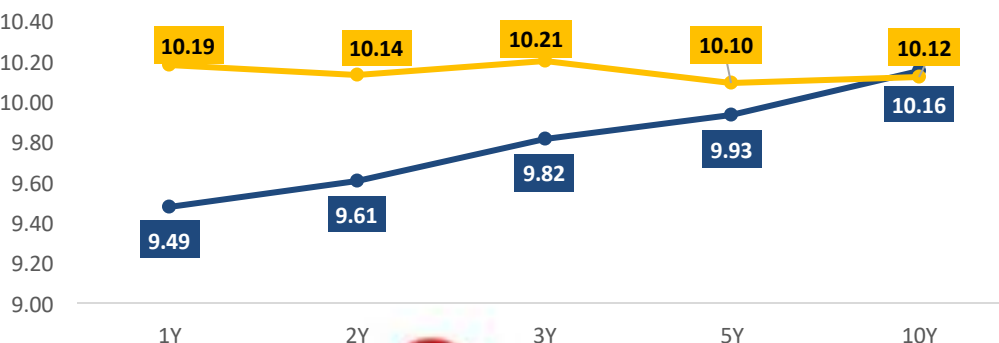


Movement of AA Curve Across Maturities



Movement of A Curve Across Maturities

Aug-22 Current Yield (Aug 23)



- Similar phenomena is seen in the credit yield curve
- Yield curve has become flat with short term yields rising more than long term yields
- **Core Part of the fixed income portfolio can be locked in at higher accruals (G-Sec/AAA) without taking extra duration and credit risk**



Fixed Income View

We recommend 'Accrual' should as a theme such that the average maturity of the portfolio does not go beyond 5 yrs.

- **65% - 70% of the portfolio should be invested in combination of**
 - High quality (G-Sec/AAA equivalent) accrual strategies through a combination of 3-5 years maturity portfolio
 - Equity Savings funds which aim to generate enhanced returns than traditional fixed income along with moderate volatility through a combination of equities, arbitrage and fixed income instruments.
- To improve the overall portfolio yield, **30% – 35% of the overall fixed income portfolio** can be allocated to select high yield NCDs, Private Credit strategies & REITs/InvITs.
- **For liquidity management or temporary parking**, investments can be allocated to Arbitrage/Ultra Short Term (minimum 6 months)/Liquid (1-3 months)/Overnight (less than 1 month) strategies.





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Gold & Silver – Historical Performance

MCX Gold Spot (INR/10 gm)



MCX Silver Spot (INR/Kg)

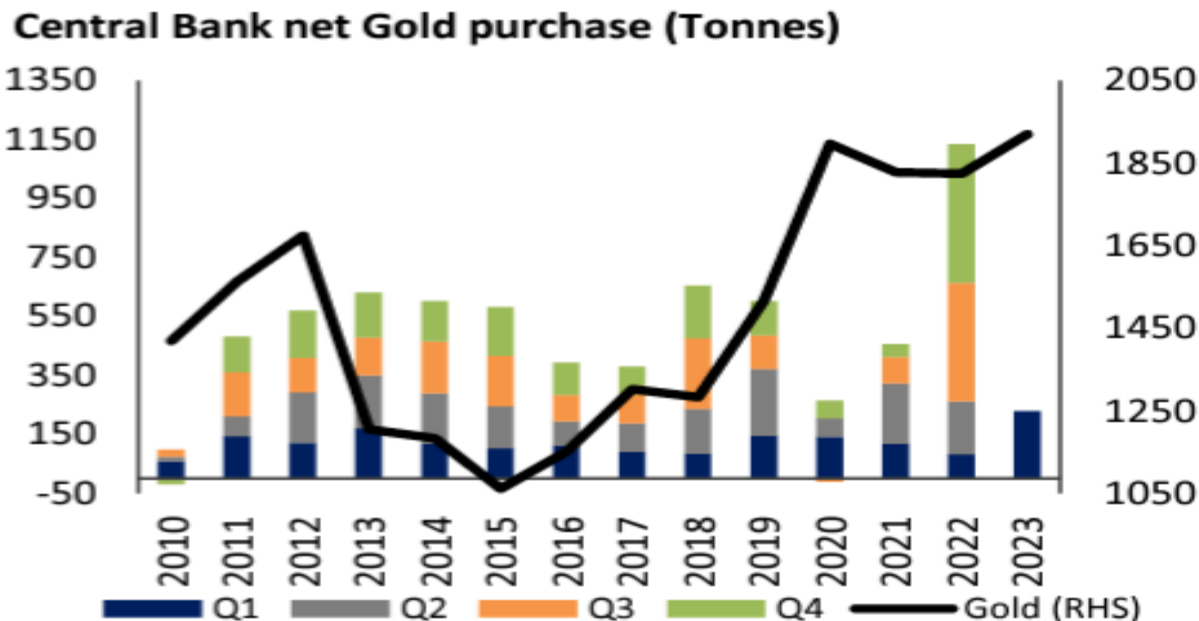


Particulars	Absolute Returns (%)				CAGR (%)	
	1 month	3 months	6 months	1 year	3 year	5 year
MCX Gold Spot (Rs)	0.0%	-1.4%	7.1%	16.2%	5.0%	14.5%
MCX Silver Spot (Rs)	1.3%	5.0%	18.6%	37.5%	4.3%	15.0%

Data till August'23
Source: Bloomberg; Internal Research



Gold – Outlook



Outlook: (current level at USD 1922 as on 4th July'23)

In USD terms, Gold is likely to range between \$1830-1850 on the lower side to \$2100 at the top

Source: MOFSL metals Quarterly



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