

ALPHA STRATEGIST

“Navigating the Maze”



WINNING PORTFOLIOS
POWERED BY KNOWLEDGE

May 2024 | Issue No. 137

- Despite stable long-term fundamentals, the current financial landscape faces increased volatility due to mixed global macro signals, central banks' monetary policies, geopolitical tensions, political indecisiveness.
- To “**navigate the maze**” of uncertainties, adopting a strategic asset allocation approach is essential for a balanced risk-return profile and resilience in turbulent times.

Investment Approach

- **Equities:** Implement a staggered investment strategy over 3 to 6 months for large, multi/flexi-cap stocks, and 6 to 12 months for select mid & small-cap strategies. Accelerate investments during market corrections to capitalize on lower prices
- **Fixed Income:** Increase duration through active and passive strategies to benefit from potential softening of yields over the next 1-3 years. Consider high yield NCDs, Private Credit strategies, and REITs/InvITs to enhance portfolio yield.
- **Gold:** View investments in gold as a hedge against inflation.





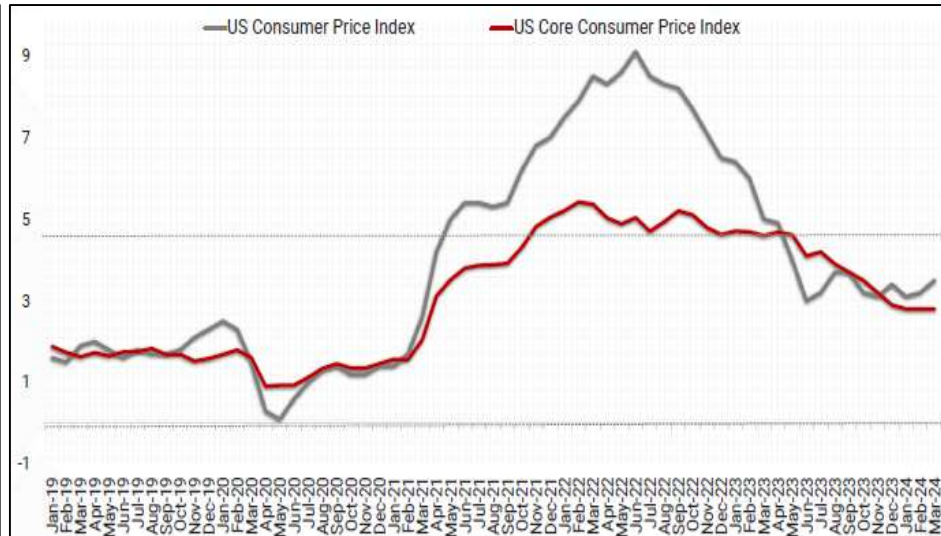
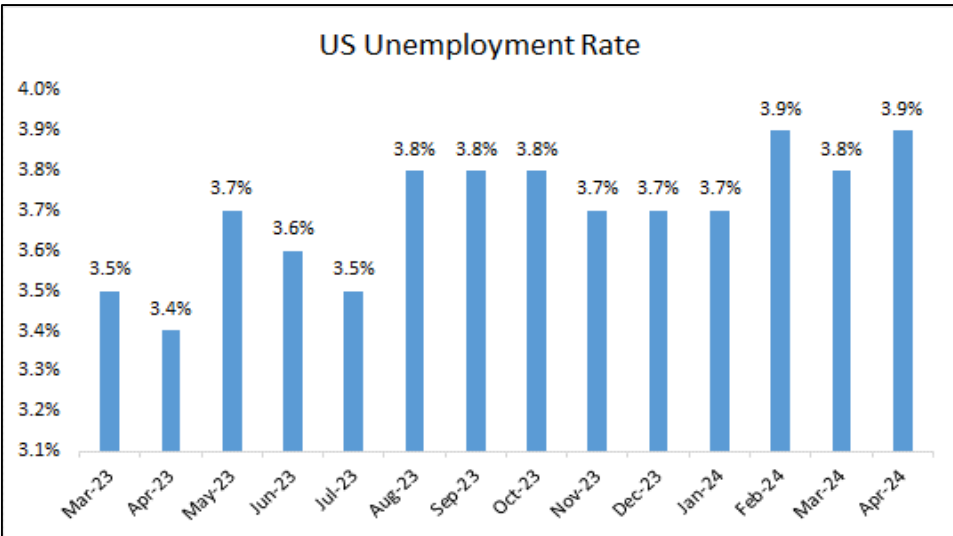
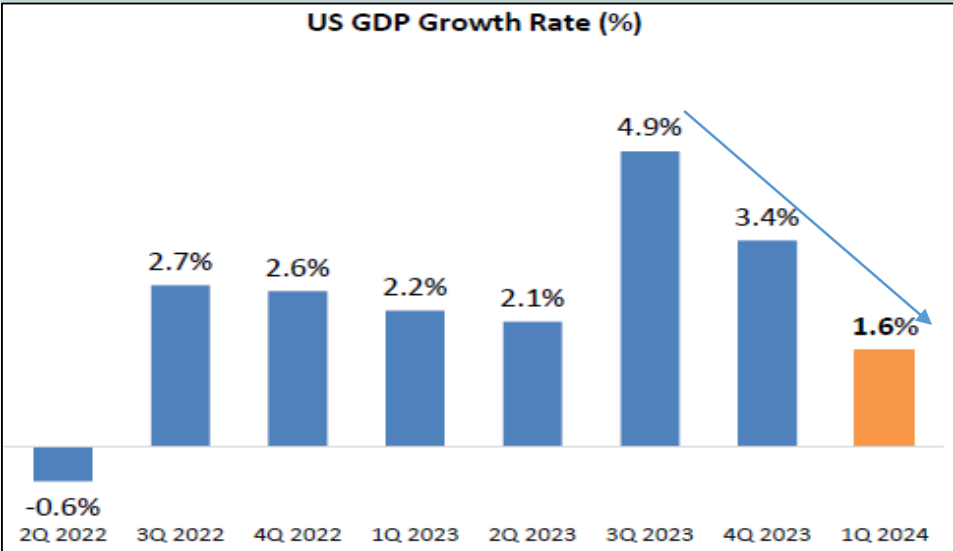
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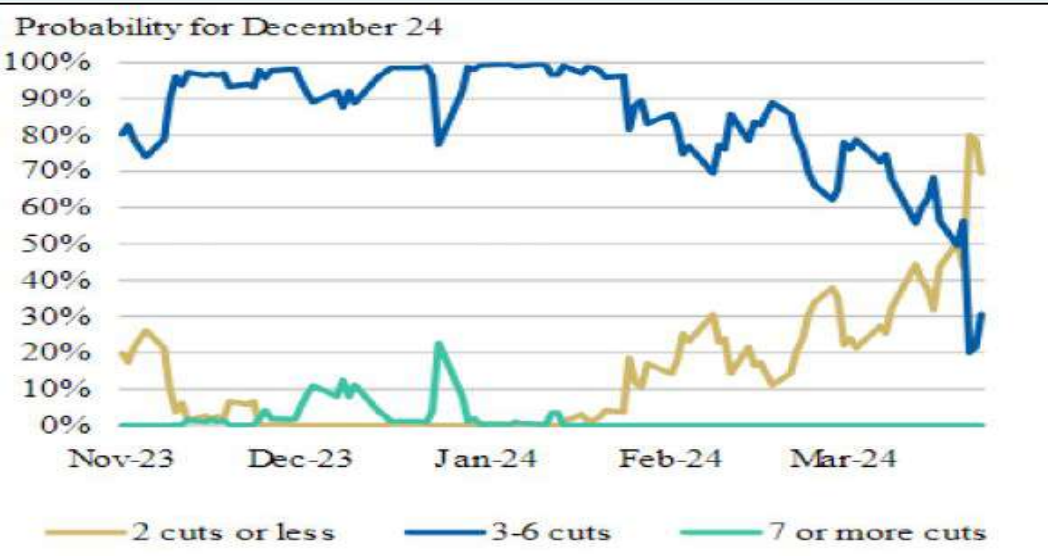
US economy showing mixed signal



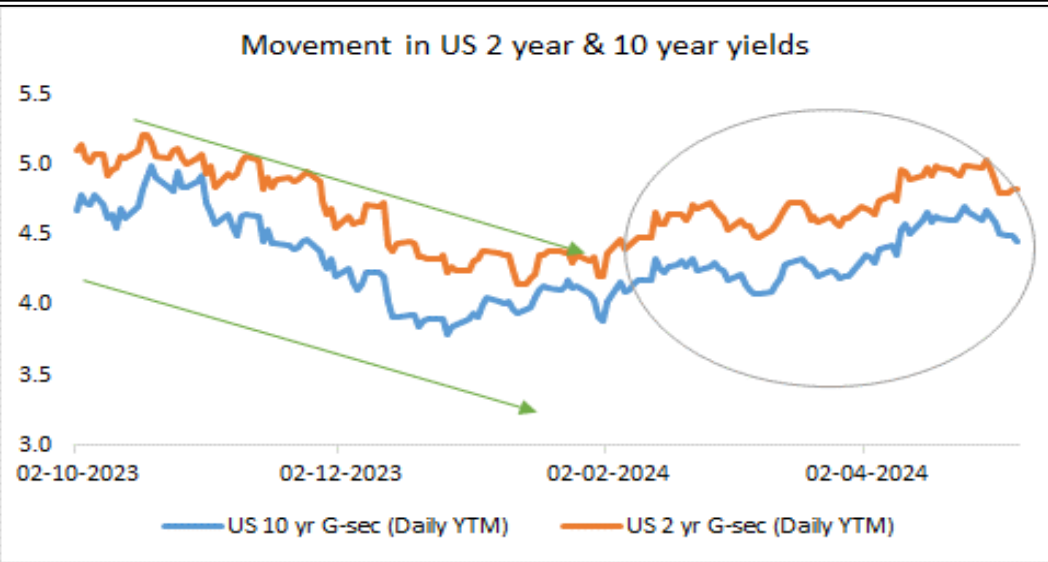
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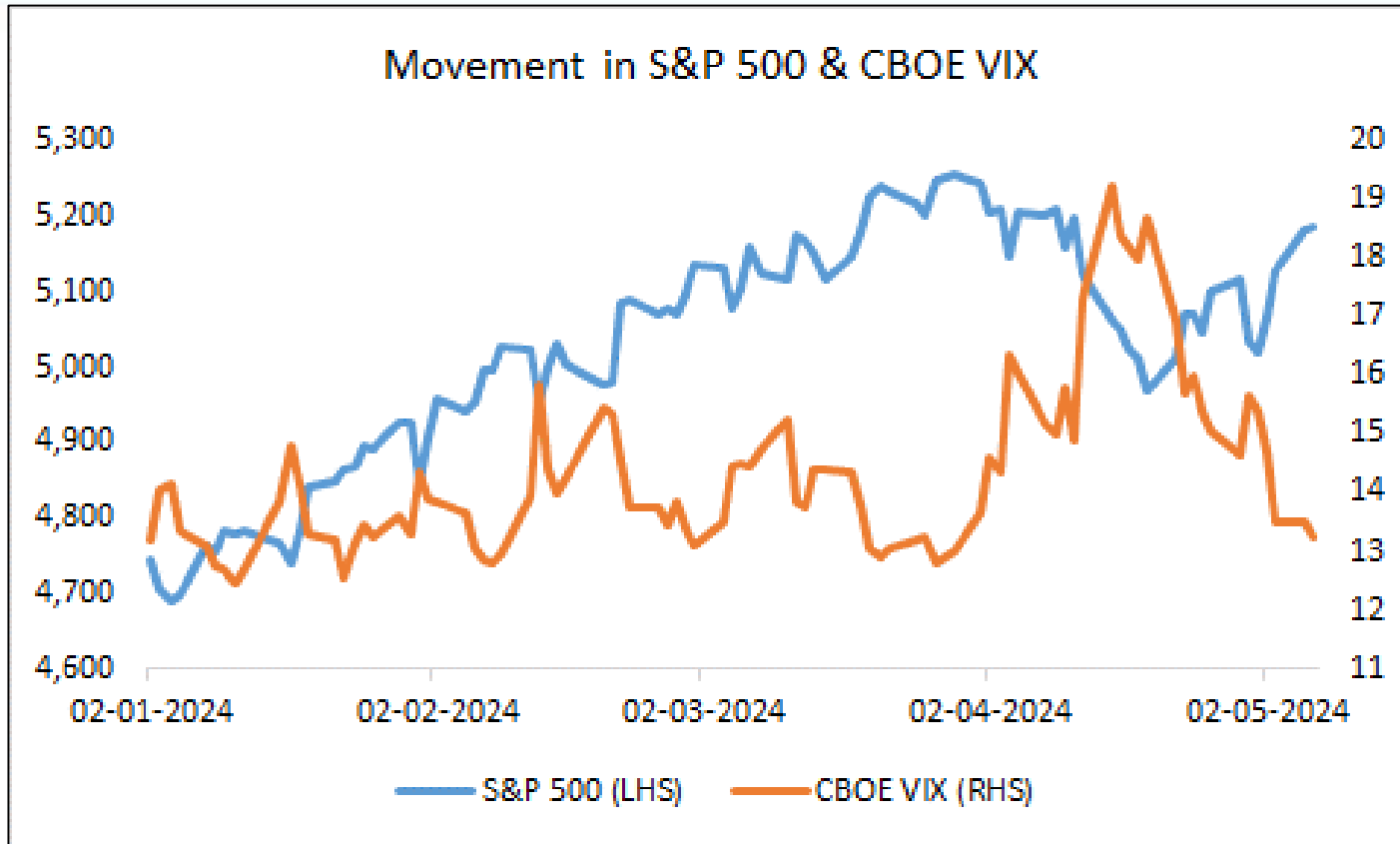
Probability of rate-cuts by FOMC and movement in yields



- FOMC's stance and stickiness in inflation has led market participants to reset their projections on rate cuts in CY24



- After a declining trend in the US bond yields there is again a spike-up in the volatility which has led to uptick in the yields



- The US Equity market also witnessed spurts of heightened volatility in CY24.
- The Chicago Board Options Exchange (CBOE) VIX which was in the range of 13-14 reached to 19 levels in the mid of April-24 before cooling down again

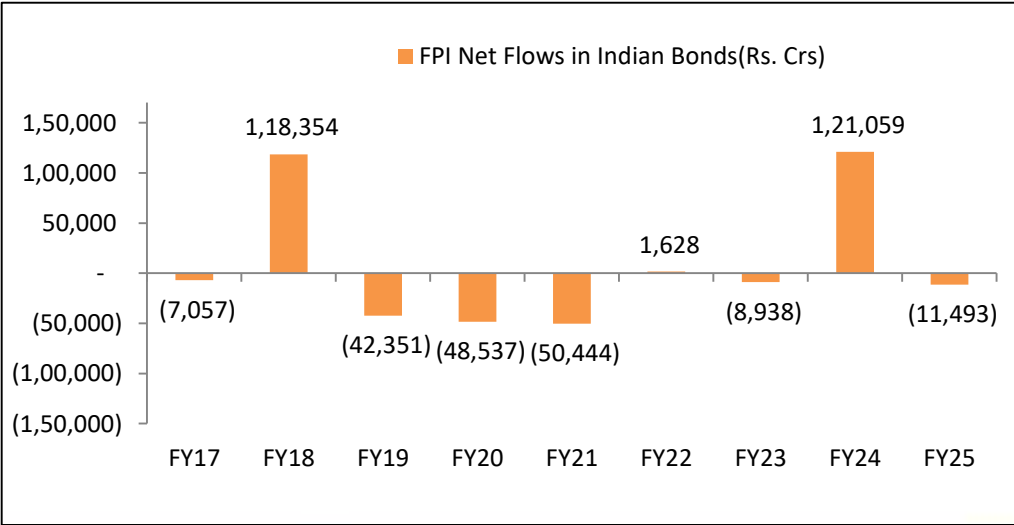


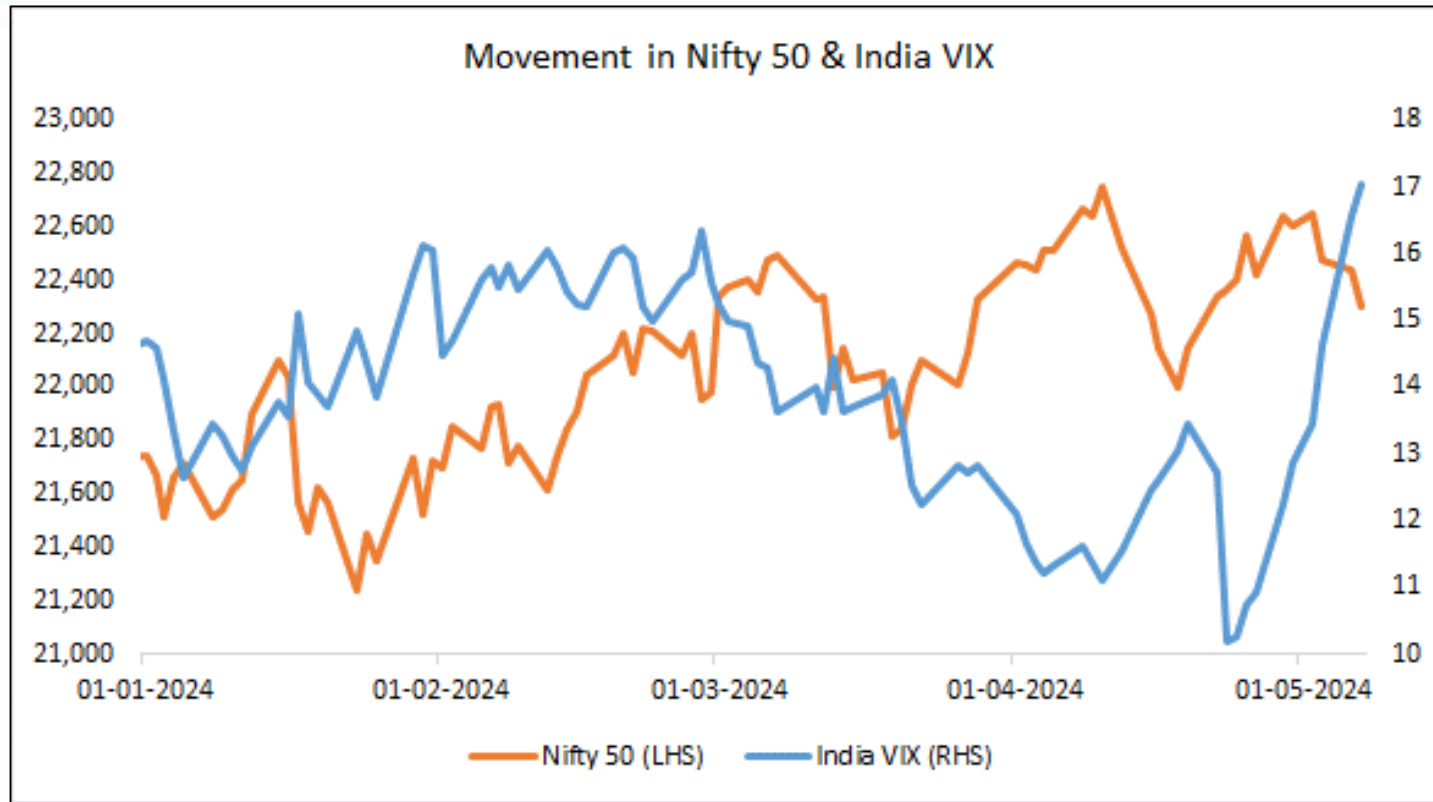
Impact on Indian Bonds on back of Global Factors



- In the current scenario, the domestic bond yields are trading in a range bound manner
- RBI may stay put longer before easing the rate cycle.
- Domestic Macros & Inclusion in Global Indices – positive for bond yields
- Downside risks may emanate from stickiness in US Treasury yields and Fed holding higher rates for longer, crude oil prices, geo political tension etc
- Time to shift gears towards duration through active and passive strategies

- FPI flows in Indian Bonds picked up post global index inclusion & strong macro fundamentals
- However, near term volatility and uncertainty on back of rising US yields, depreciating rupee, has led to outflows since April 24





- India VIX has been increasing since April 24, crossing the 17 mark.
- This marks the first time the index has reached such levels since December 2022, spanning a period of more than 17 months.



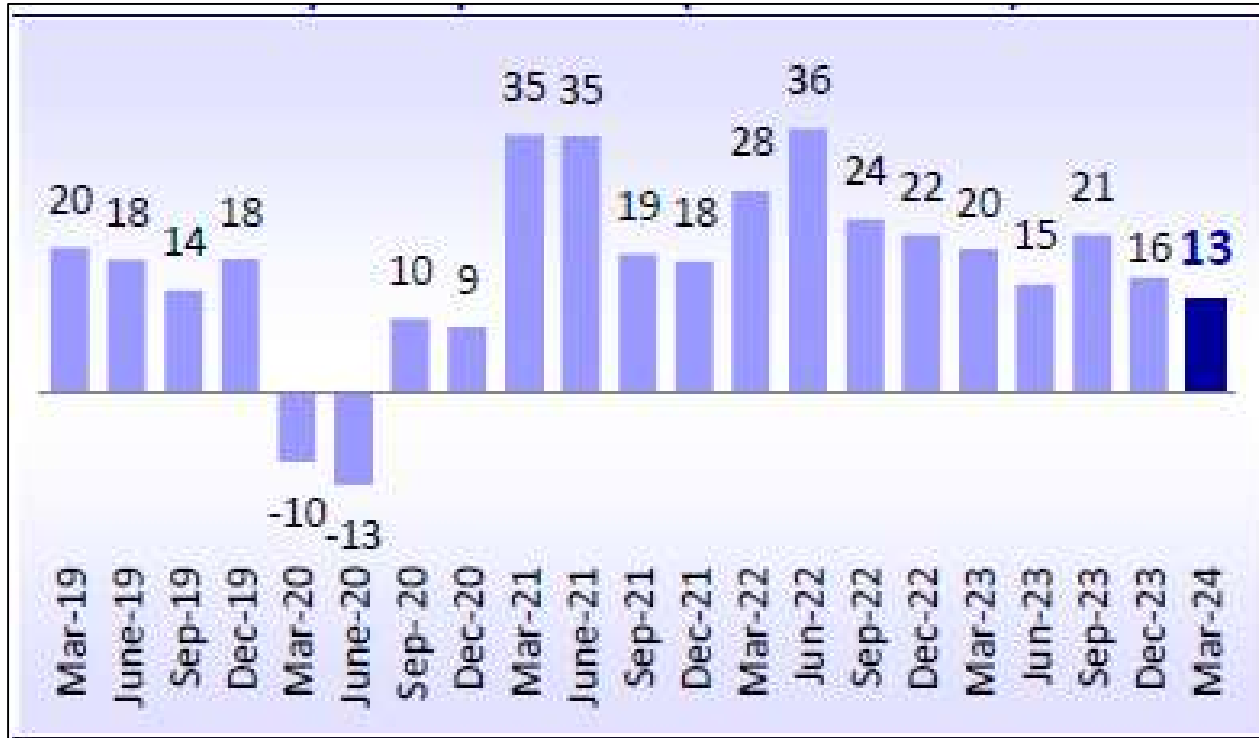
Earnings growth in Nifty 500 stocks (Mar-20 to Mar-24)

| Earnings Multibagger (Companies which at least doubled their Earnings) | | | Companies outperforming Nifty 500 Earnings growth of CAGR 18% | | |
|--|------------|------------|---|------------|------------|
| | No. | % | | No. | % |
| Large Cap | 14 | 14% | Large Cap | 21 | 22% |
| Mid Cap | 32 | 23% | Mid Cap | 41 | 29% |
| Small Cap | 48 | 18% | Small Cap | 62 | 24% |
| | 94 | 19% | | 124 | 25% |
| Earnings Detractors (Companies which gave negative growth) | | | Companies outperforming Nifty 50 Earnings growth of CAGR 16% | | |
| | No. | % | | No. | % |
| Large Cap | 27 | 28% | Large Cap | 27 | 28% |
| Mid Cap | 35 | 25% | Mid Cap | 48 | 34% |
| Small Cap | 111 | 42% | Small Cap | 74 | 28% |
| | 173 | 35% | | 149 | 30% |

- Nearly one in five firms have delivered earnings growth that have doubled or more during this period
- Every 4th firm has outperformed NSE500 Index earnings growth CAGR of 18% and nearly one in three have outperformed Nifty earnings growth of 16%.

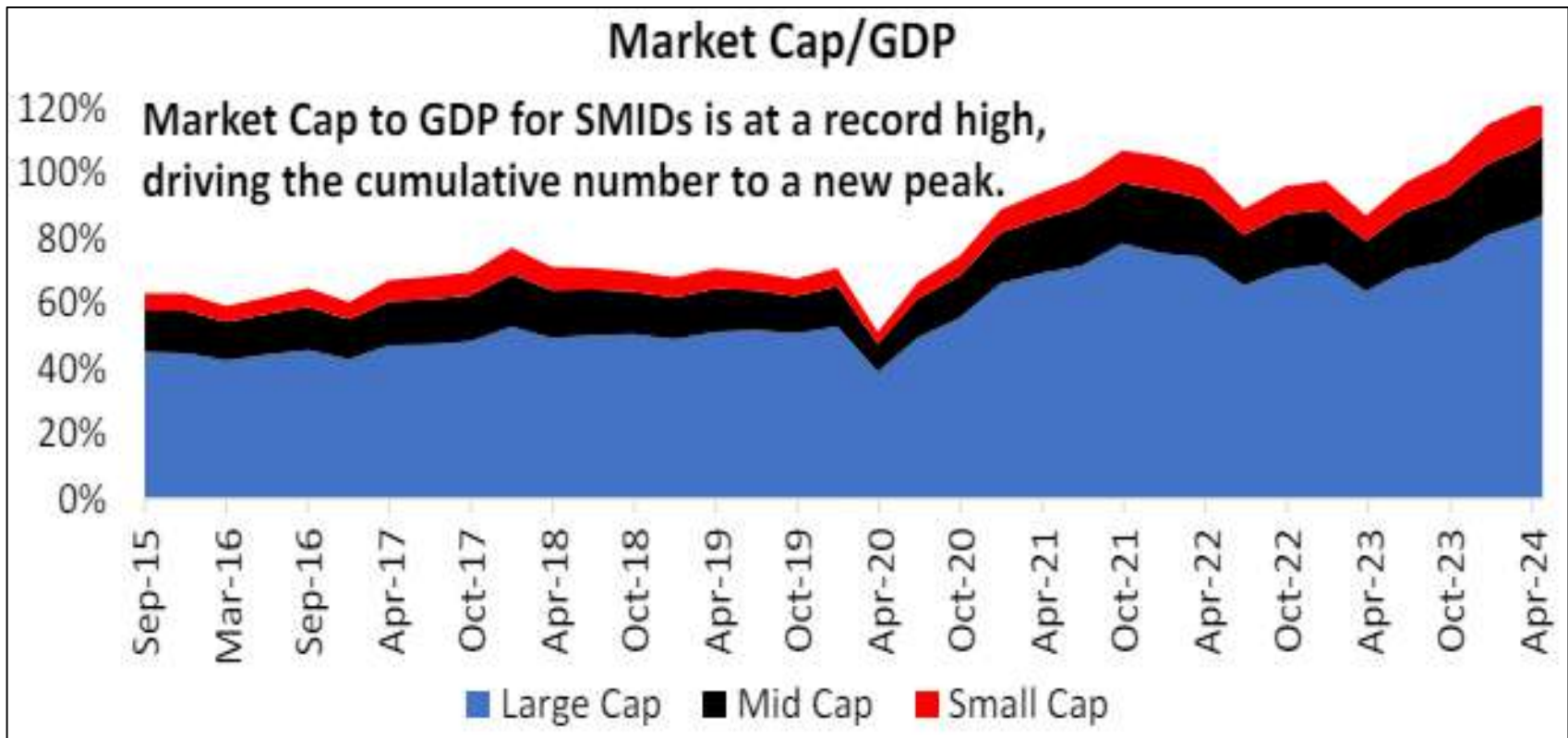


Nifty PAT up 13% YoY (est. of +8% YoY)



- For the 28 Nifty companies (coming out with results), earnings grew 13% vs. expectations of 8%
- The earnings growth was fueled by the domestic cyclicals, such as BFSI and Auto.





- The percentage of market cap to GDP for Small & Midcaps is at a record high.



Monthly institutional flows (USD b)



Yearly institutional flows (USD b)





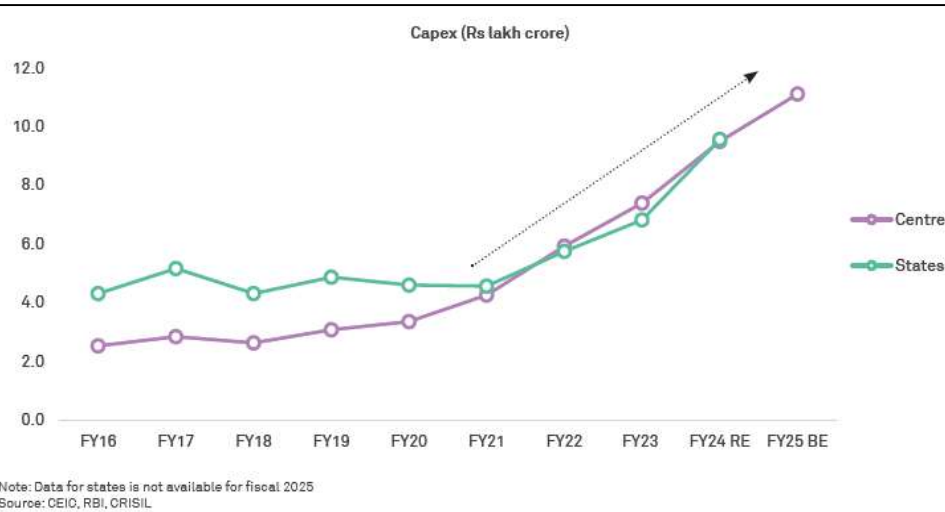
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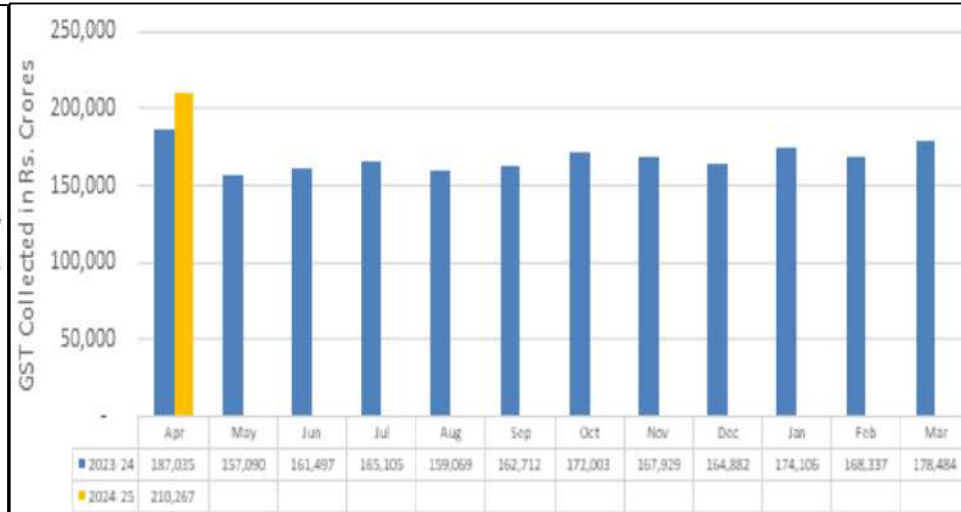
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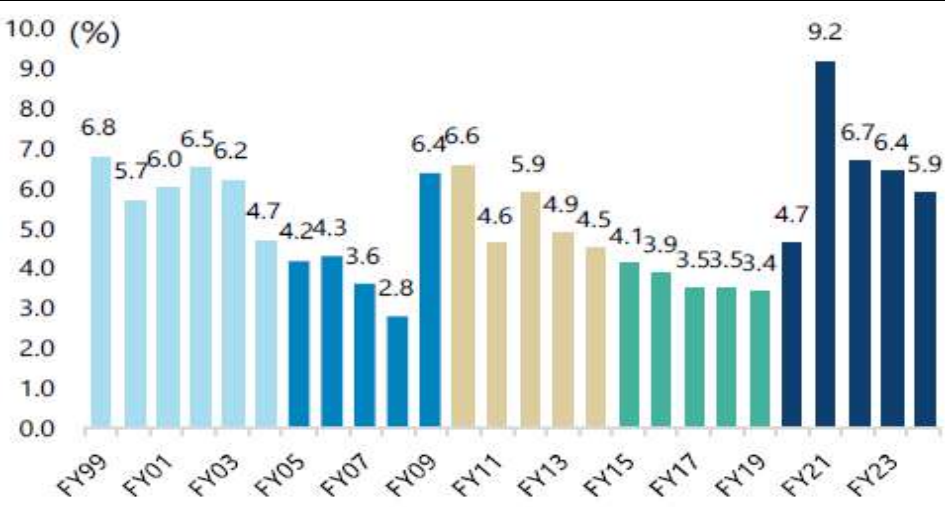
Government Capex on the rise



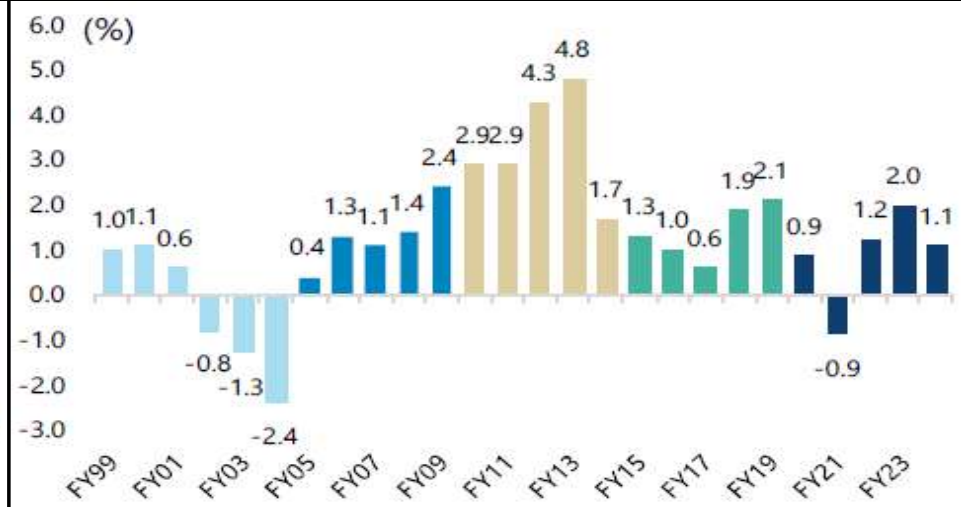
Rising trend for Gross GST collections (Rs. in Cr)



Gradual decline in Fiscal Deficit as a % of GDP



CAD (as % of GDP) is under control and below threshold



India - High Frequency Indicators

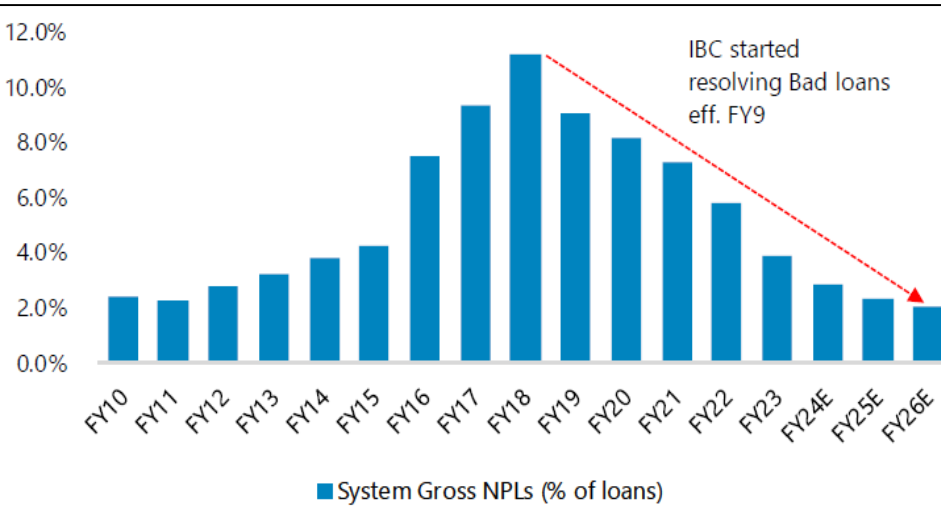
| Indicators | Mar-20 | Mar-21 | Mar-22 | Mar-23 | Mar-24 | 3yr CAGR |
|--|--------|--------|--------|--------|--------|----------|
| GST (Rs. Bn) | 976 | 1239 | 1421 | 1601 | 1785 | 12.9% |
| E-way Bill (Mn) | 40.7 | 71.2 | 78 | 91 | 104 | 13.3% |
| Energy Consumption (MU) | 100 | 123 | 130 | 128 | 139 | 4.2% |
| Composite PMI (Index) | 50.6 | 56.0 | 54 | 58 | 62 | - |
| Domestic: Passenger Vehicle Sales ('000) | 135 | 291 | 280 | 292 | 368 | 8.2% |
| Domestic: Two Wheelers Sales ('000) | 867 | 1497 | 1184 | 1291 | 1488 | -0.2% |
| Personal Credit (Rs. Tn) | 27.1 | 29.6 | 34 | 41 | 53 | 21.1% |
| Industrial Credit (Rs. Tn) | 28.7 | 28.8 | 32 | 33 | 36 | 8.2% |

- Economic Activity seem to be growing at reasonable pace over the last few years

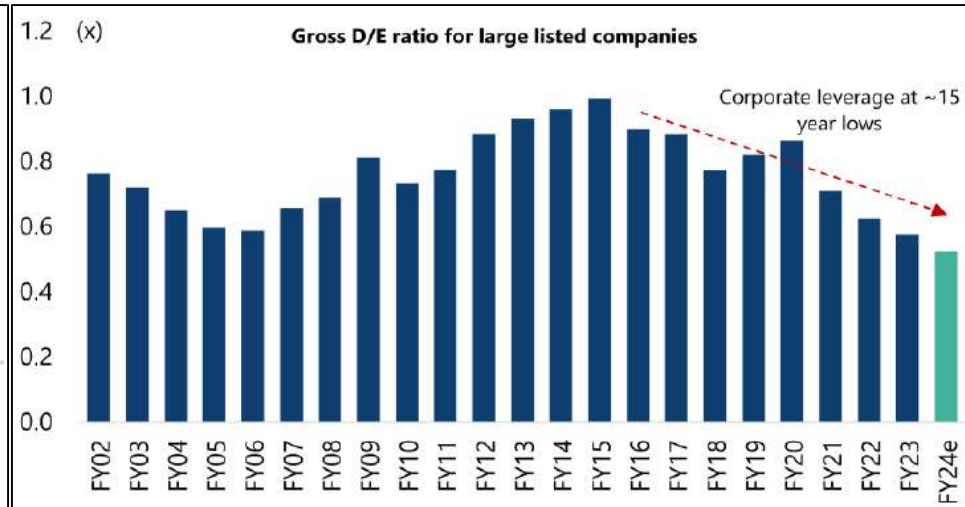


India Inc. – Strong Fundamentals

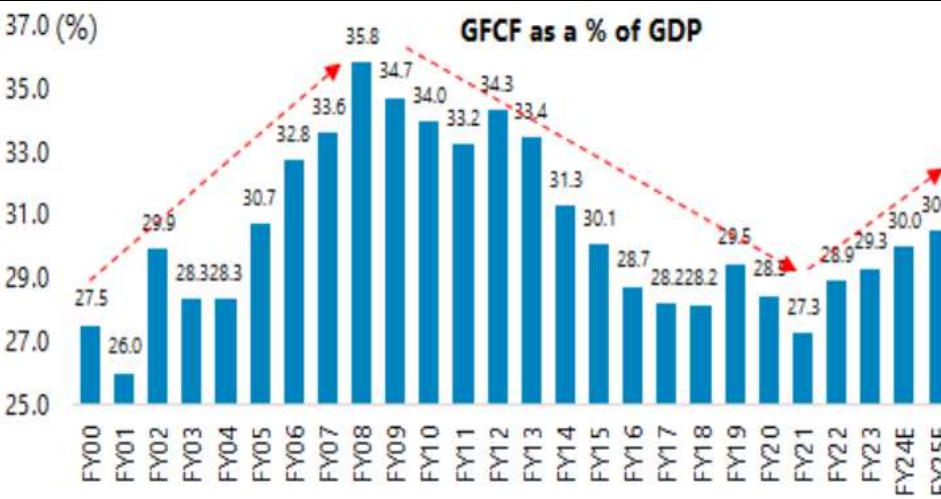
Decline in Gross NPLs



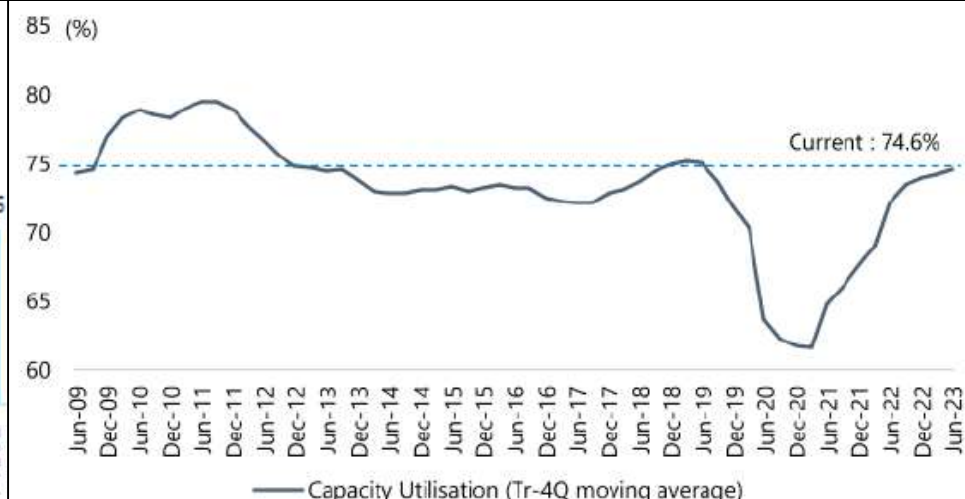
Corporate Leverage at 15 year low



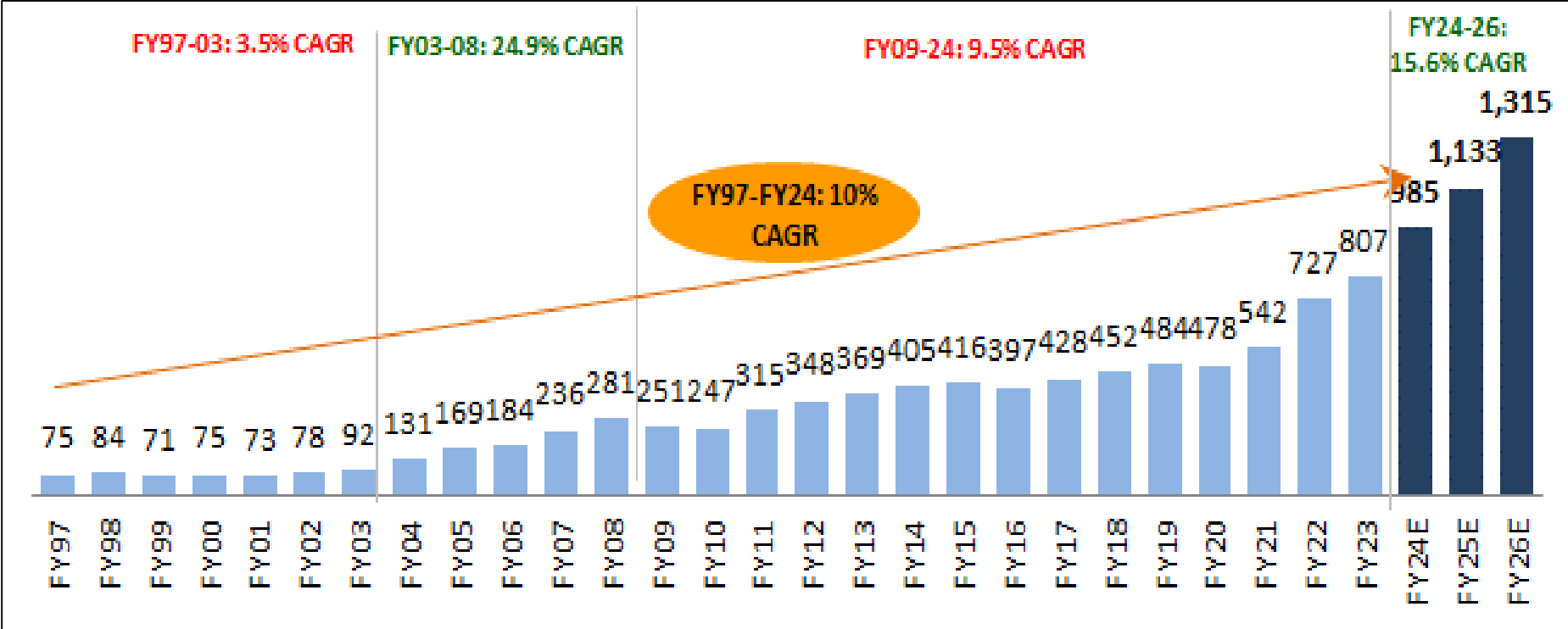
Trending Upwards, but still a long way from previous peak



Capacity Utilization at its 2019 peak



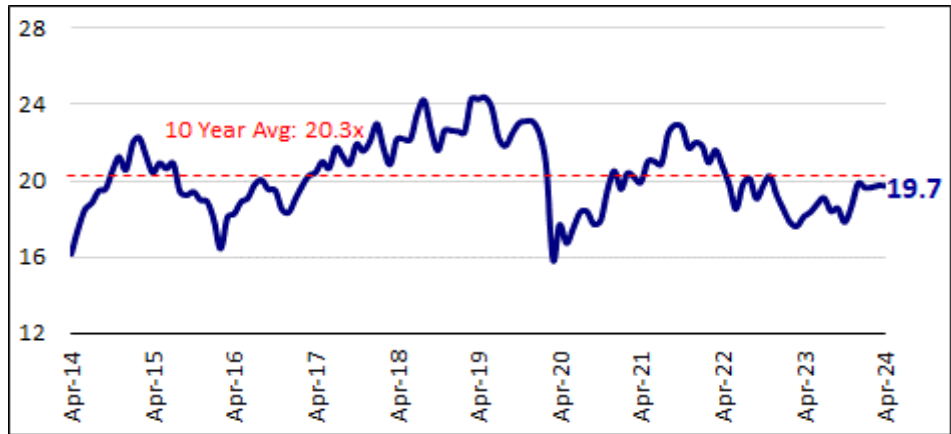
Nifty 50 - Earnings Growth Outlook



- For three consecutive years now, Nifty 50 earnings have grown by double digits and it is expected to have double digit growth for FY24

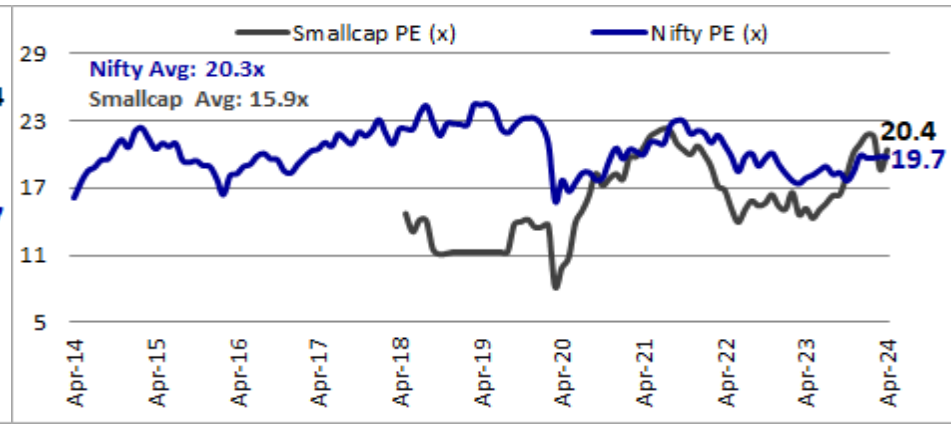
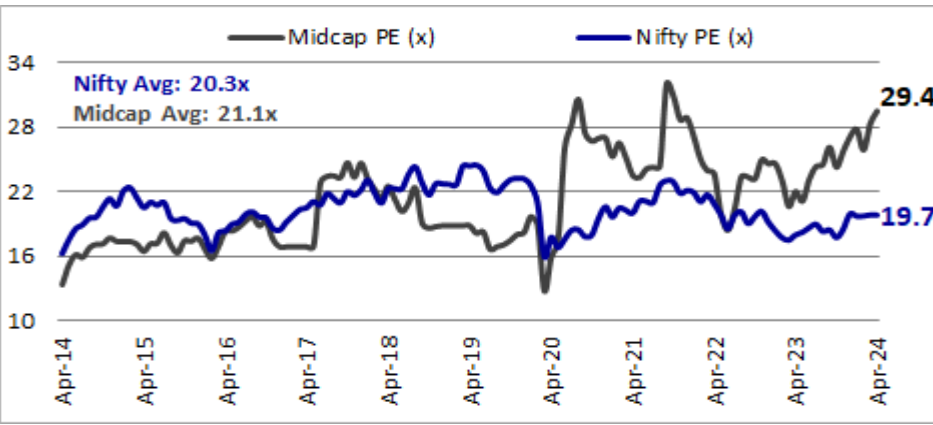


Nifty 50 PE 1 Year Forward - (10 Year Period)



Nifty Midcap 100 PE 1 Year Forward - (10 Year Period)

Nifty Smallcap 100 PE 1 Year Forward - (10 Year Period)

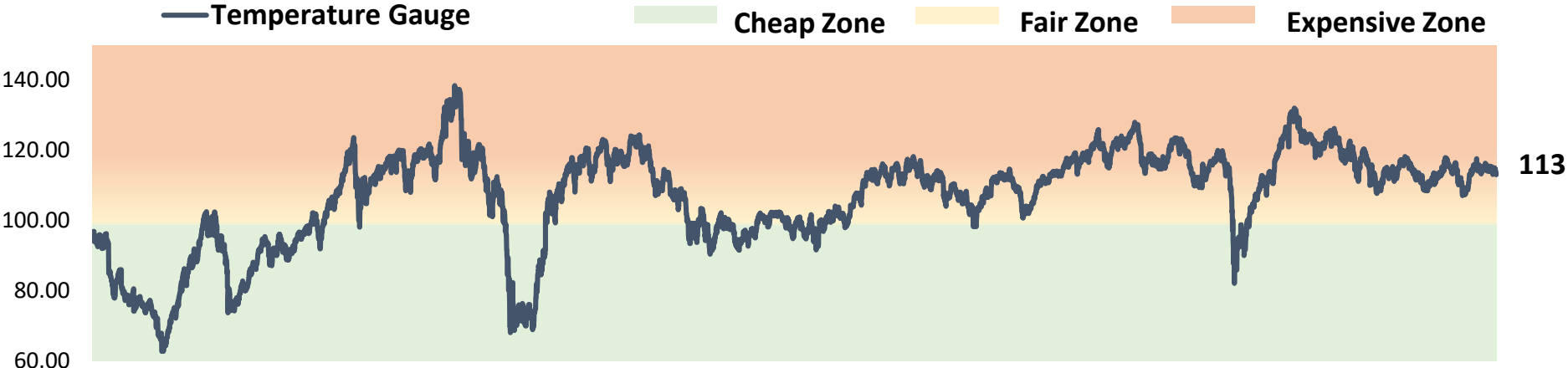


- Nifty Midcap forward PE & Nifty Smallcap forward PE are trading significantly higher & higher respectively compared to their respective long term average.

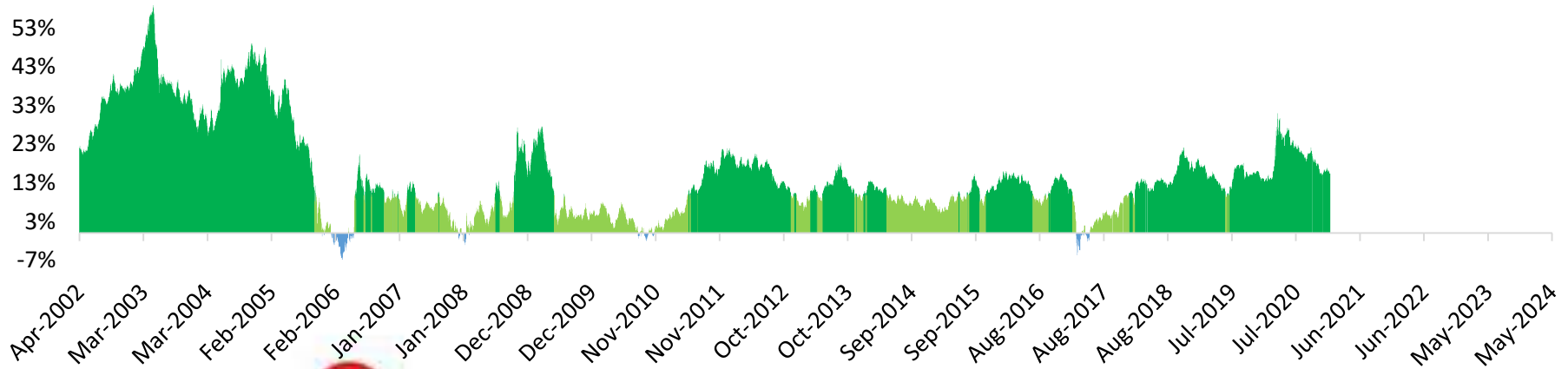


Temperature Gauge Index

- 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.



Nifty – 3 Year Forward Return ■ > 10% CAGR ■ Between 0-10% CAGR ■ < 0%



Data as of 08th May'24,
Source: Capital Line, Bloomberg Internal Research

Disclaimer: The above graph is for informational purpose. Past performance may or may not be sustained in future.

Temperature Gauge Index – Sensitivity Analysis

| Temperature Gauge Index - Sensitivity Analysis | | | | | |
|--|-------|-------|------------|-------|-------|
| 10 yr Gsec/ Nifty50 | 6.73% | 6.93% | 7.13% | 7.33% | 7.53% |
| 21050 | 109 | 110 | 111 | 112 | 113 |
| 21300 | 110 | 111 | 112 | 112 | 113 |
| 21550 | 110 | 111 | 112 | 113 | 114 |
| 21800 | 110 | 111 | 112 | 113 | 114 |
| 22050 | 111 | 112 | 113 | 114 | 115 |
| 22300 | 111 | 112 | 113 | 114 | 115 |
| 22550 | 111 | 112 | 113 | 114 | 115 |
| 22800 | 112 | 113 | 114 | 115 | 116 |
| 23050 | 112 | 113 | 114 | 115 | 116 |
| 23300 | 113 | 114 | 115 | 116 | 117 |
| 23550 | 113 | 114 | 115 | 116 | 117 |
| 23800 | 113 | 114 | 115 | 116 | 117 |
| 24050 | 114 | 115 | 116 | 117 | 118 |

Pink cell Indicates Current Level of Nifty 50 and 10 yr G-sec levels. Data as of 08th May '24



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% | 0% | 100% |
| 70 | 75 | 202 | 2% | 15% | 51% | 32% | 100.0% | 0% | 100% |
| 75 | 80 | 285 | 4% | 14% | 45% | 37% | 100.0% | 0% | 100% |
| 80 | 85 | 168 | 2% | 15% | 43% | 34% | 100.0% | 0% | 100% |
| 85 | 90 | 207 | 3% | 12% | 49% | 33% | 100.0% | 0% | 100% |
| 90 | 95 | 539 | 7% | 2% | 47% | 27% | 100.0% | 2% | 97% |
| 95 | 100 | 832 | 10% | 1% | 44% | 18% | 100.0% | 8% | 91% |
| 100 | 105 | 714 | 9% | -2% | 30% | 13% | 98.7% | 20% | 71% |
| 105 | 110 | 809 | 10% | -4% | 22% | 10% | 83.2% | 15% | 56% |
| 110 | 115 | 1729 | 21% | -7% | 22% | 9% | 67.0% | 30% | 23% |
| 115 | 120 | 1530 | 19% | -4% | 21% | 8% | 75.7% | 22% | 23% |
| 120 | 125 | 804 | 10% | -2% | 18% | 9% | 70.0% | 7% | 41% |
| 125 | 130 | 135 | 2% | 0% | 16% | 12% | 88.1% | 4% | 69% |
| 130 | 135 | 84 | 1% | -2% | 15% | 6% | 91.7% | 0% | 36% |
| 135 | 140 | 28 | 0% | -3% | 0% | -1% | 10.7% | 0% | 0% |

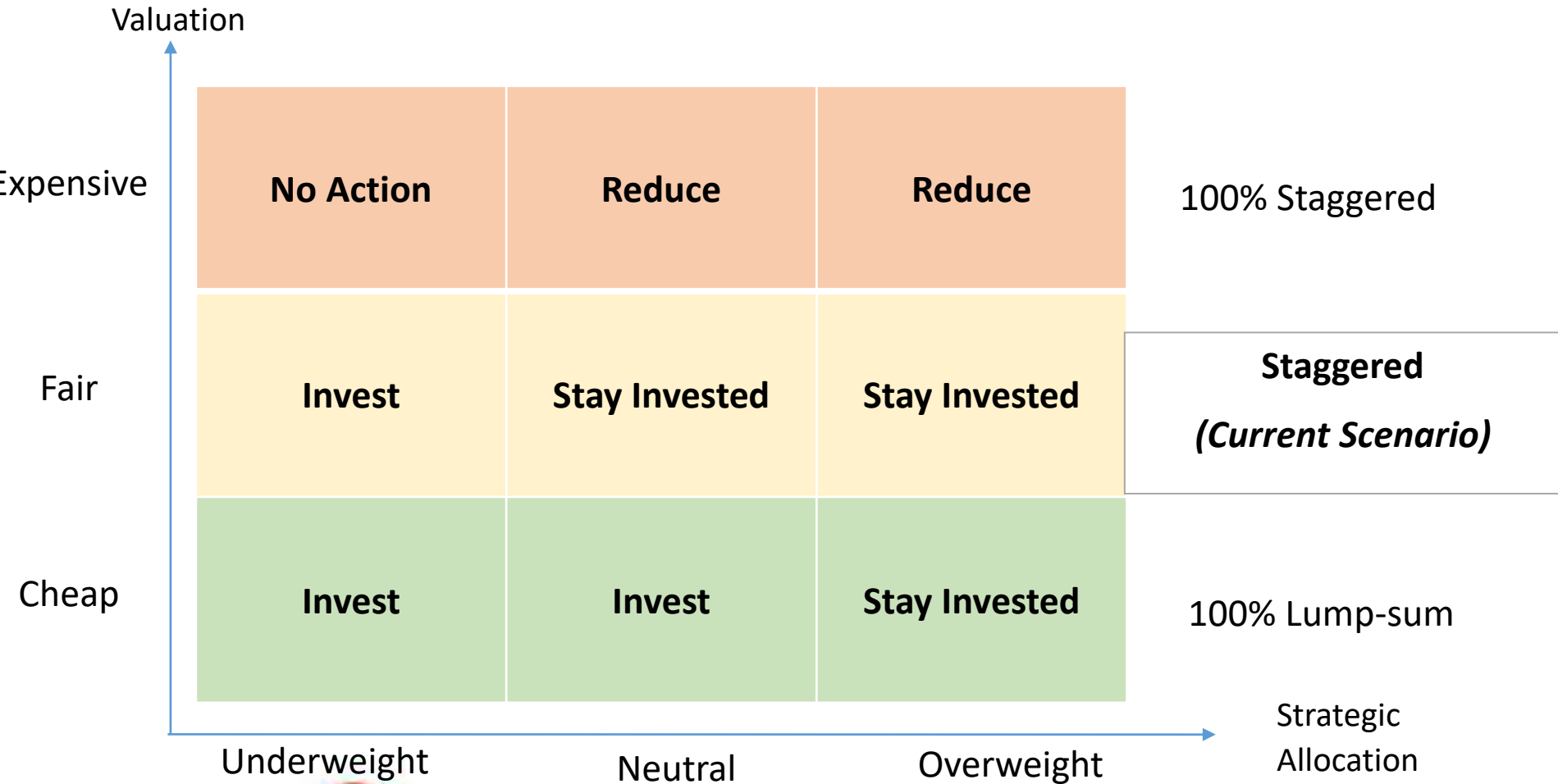
Data as of 08⁰⁸ May'24



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Equity Allocation & Deployment Grid

➤ Below grid is based on Temperature Gauge Index



- Equity market outlook continues to remain positive based on deleveraging of Corporate Balance Sheets, uptick in Capex cycle and an expected steady trend in profit growth over the next few years.
- However, in the current uncertainties, it is advisable to tread with caution by adopting a strategy which is balanced and resilient in turbulent times.
- Based on their risk profile, investors having the appropriate level of Equity allocation can continue to remain invested
- If Equity allocation is lower than desired levels, investors can increase allocation by implementing a staggered investment strategy over **3 to 6 months for large & multi cap strategies**, and 6 to 12 months for select mid & small-cap strategies.
- Accelerate deployment in the event of any sharp correction





1. [Highlights](#)

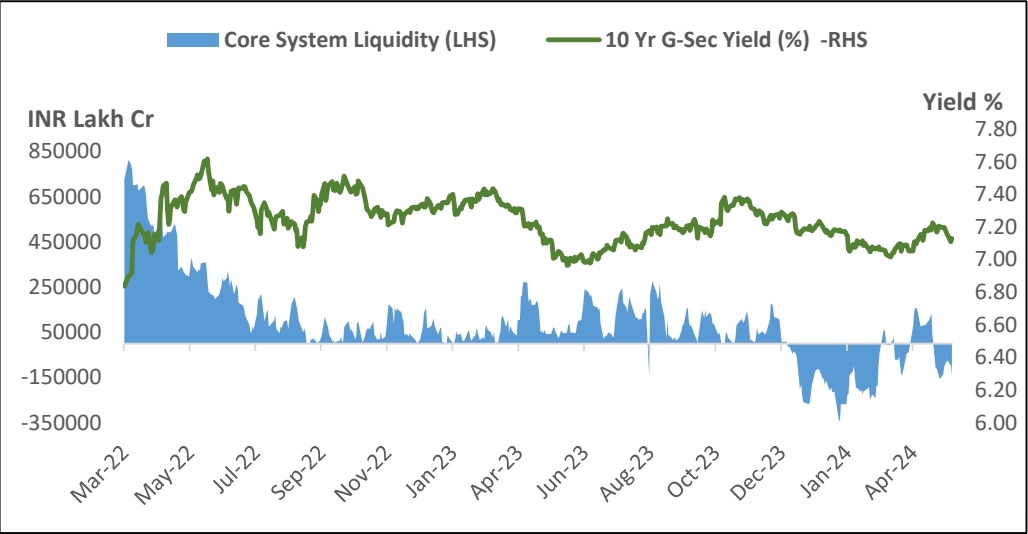
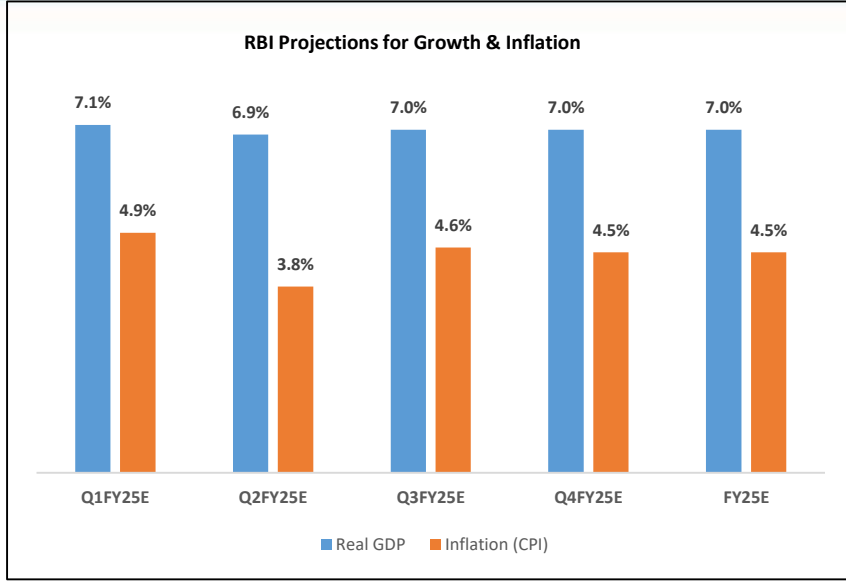
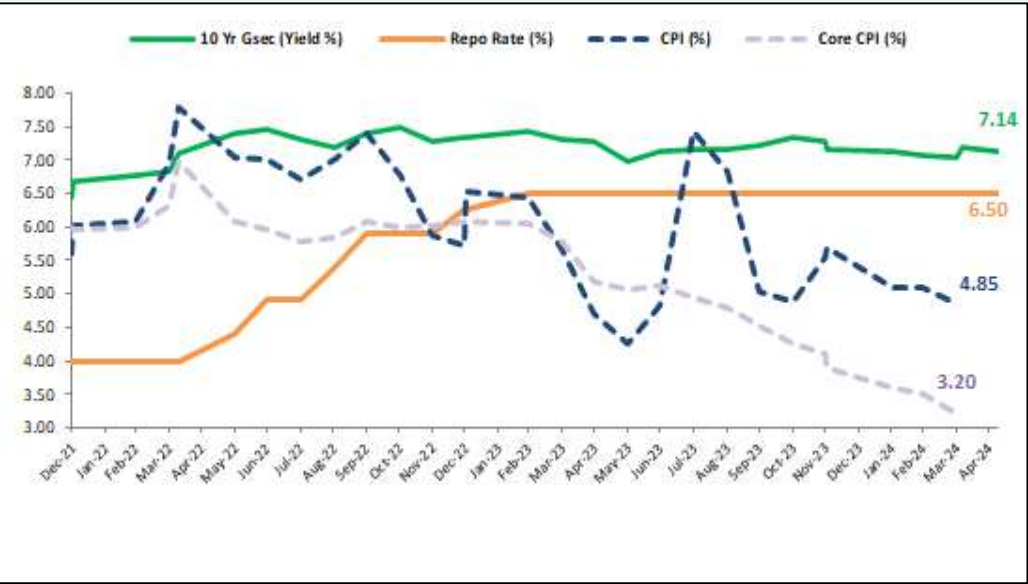
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RBI Remains in Wait & Watch Mode

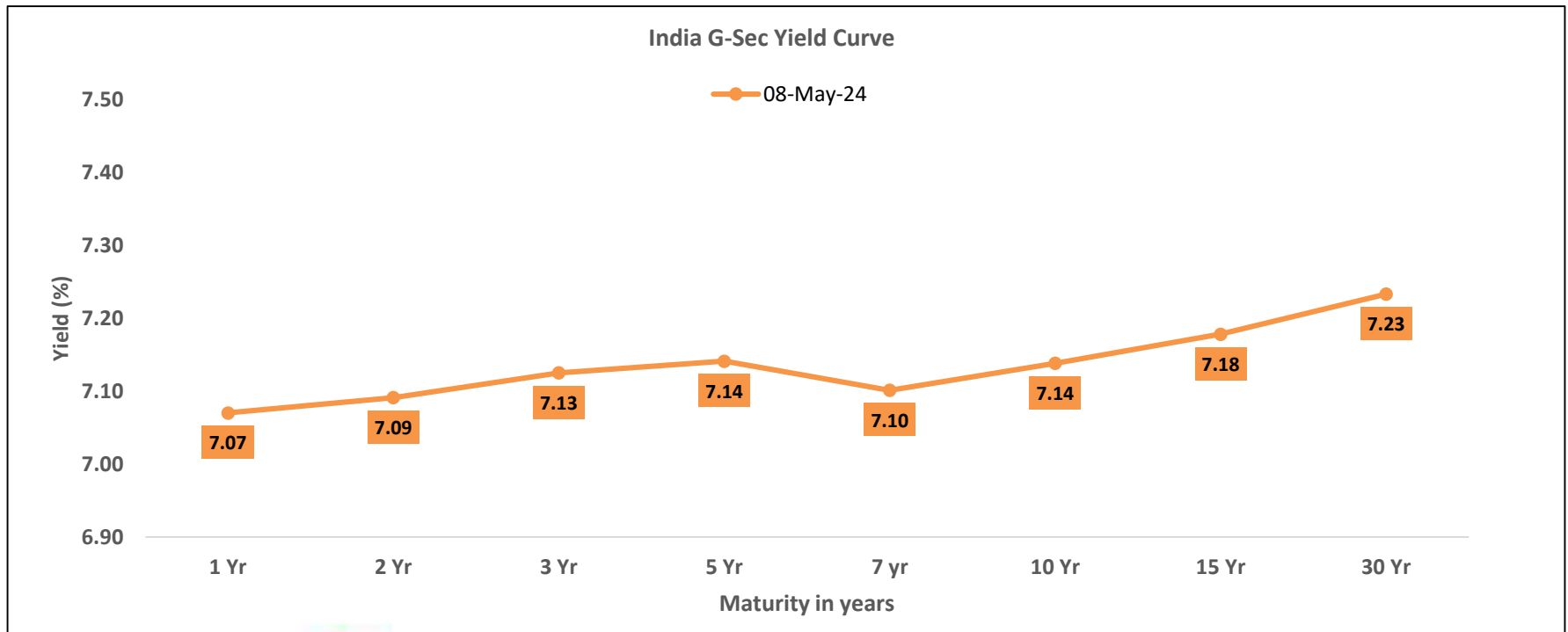
- While Being Focus on Financial Stability, Inflation and Liquidity



- RBI kept policy rates & stance of ‘withdrawal of accommodation’ unchanged
- Growth & inflation projections for FY25 remain unchanged with risks evenly balanced
- Liquidity to be managed in a flexible way so as to anchor overnight rates with the repo rate

G-Sec Yield Curve : Sweet Spot in 10 – 30 Year Maturity

- Inclusion in global bond index, path to fiscal consolidation, lower gross borrowing in FY25, favorable demand supply dynamics provide tailwinds to softening of longer maturity yields going forward
- The yield curve may further shift downwards on back of active liquidity management , shallow rate cut cycle by end of CY24, favourable demand supply dynamics and macro variables
- While deriving comfort from sound domestic macros, trend in crude oil prices and global yields may act as headwinds



We continue to hold our view to increase duration in the fixed income portfolio so as to capitalize on the softening of yields in the next 1-3 years

- **65% - 70% of the portfolio should be invested in combination of**
 - Passive long duration roll down strategies investing in G-Sec/High quality bonds having a combination of 10 - 30 years' average maturity. Such strategies aim to lock in at higher accruals and capitalize on duration on back of easing of yields
 - Actively managed debt strategies wherein the fund manager aims to capitalize on duration and accrual as per the evolving fixed income scenario
 - Equity Savings funds/Conservative multi asset funds which aim to generate enhanced returns than traditional fixed income with moderate volatility through a combination of equities, arbitrage, fixed income, commodities, REITs/InvITs
- 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 Floating Rate (min 9-12 months) Arbitrage/Ultra Short Term (minimum 6 months)/Liquid (1-3 months)/Overnight (less than 1 month) strategies.





1. [Highlights](#)

2. [Equity](#)

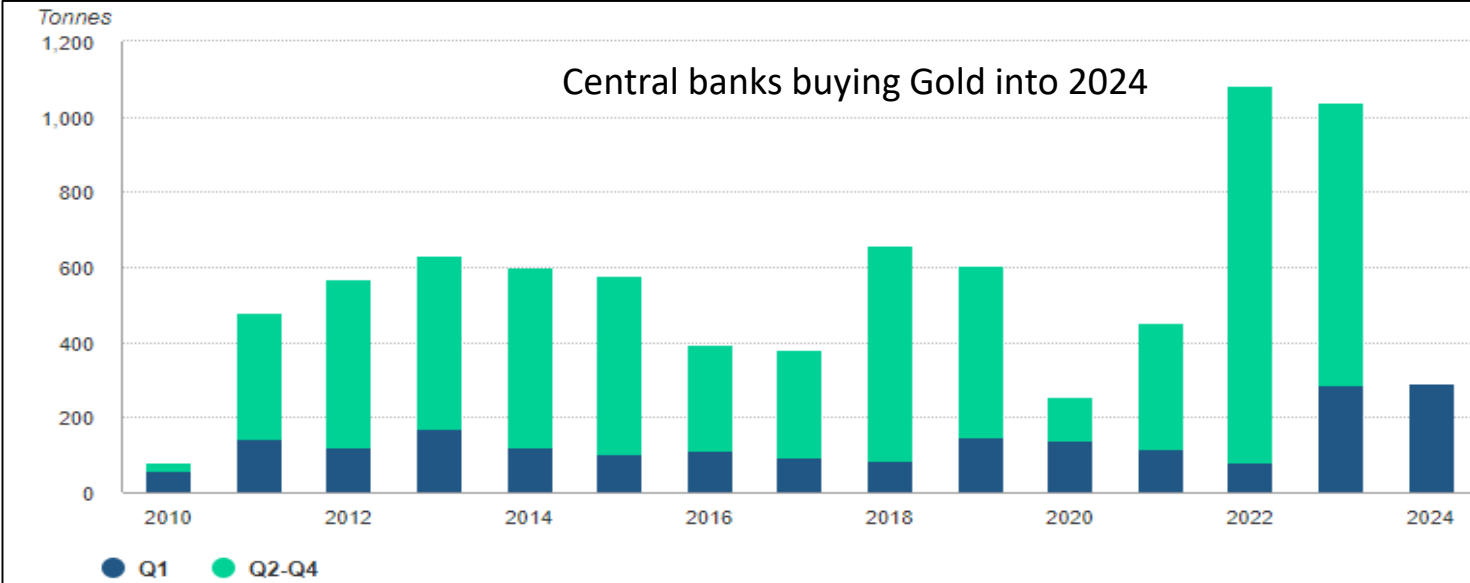
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Gold Price – breaking trend



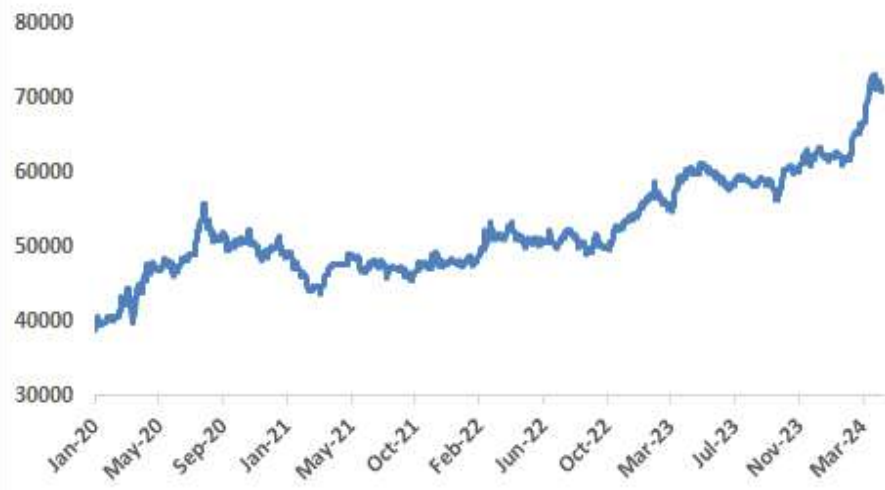
- Gold price has risen significantly despite rising real yields



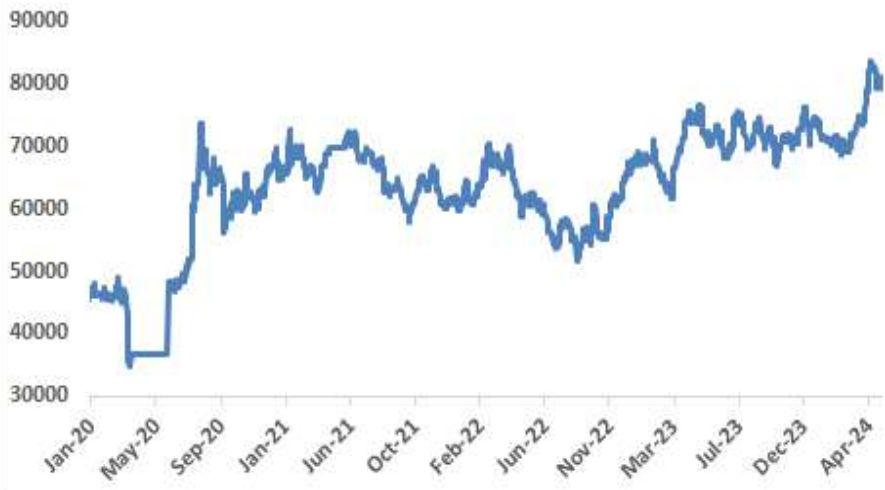
- Question remains Will Gold follow the trend or continue with the divergence?

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) | 2.6% | 14.7% | 18.5% | 16.8% | 14.6% | 17.8% |
| MCX Silver Spot (Rs) | 2.7% | 16.5% | 14.7% | 5.6% | 5.1% | 17.1% |



Data as on 7th May '24

Source: Bloomberg; Internal Research

Disclaimer: The above graph/data is for informational purpose. Past performance may or may not be sustained in future.

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