January 2022

Fintrust

bulletin...

Updates
- Economic Indicators
- Debt Market Outlook
- Equity Market Outlook

Articles
- The India ESG story is gradually beginning to unfold
- Investment Strategy for 2022: Should you go for Flexi-cap funds or Multi-cap funds?

Awards & Recognitions

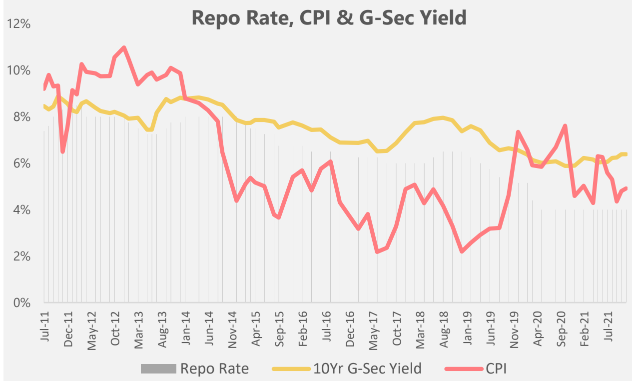
Disclaimer

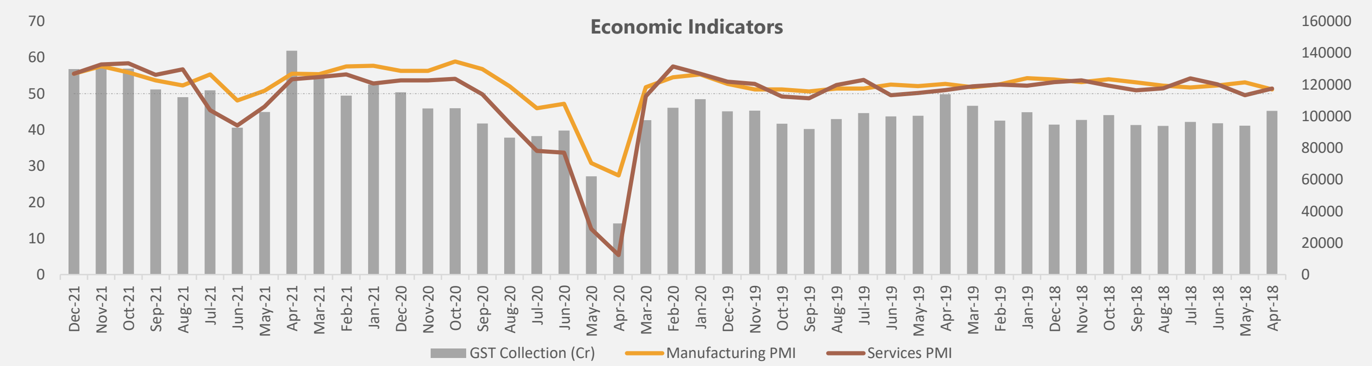
Economic Indicators

- The seasonally adjusted Manufacturing Purchasing Managers' Index (PMI) eased at 55.5 in December from November's ten-month high of 57.6. The PMI points to improved overall operating conditions for the sixth straight month.
- India's eight core sectors output grew 3.1% year-on-year in November 2021 compared to 7.5% in October 2021.
- Goods and Service Tax (GST) collections for December came in at Rs 1.29 lakh crore, compared with Rs.1.31 lakh crore in November, strengthening government revenue in the second half of the fiscal year 2021-22.
- Food aggregators and cab aggregators will have to collect and deposit tax of 5% beginning 2022, a move that will widen the tax base as vendors currently outside the GST threshold will become liable to GST when provided through these online platforms.
- According to the Center for Monitoring Indian Economy (CMIE), the unemployment rate rose to a four-month high of 7.9% in December. It is up 7.0% in November 2021 and is the highest since 8.3% in August 2021.
- Consumption in rural markets slowed amid unseasonal rains and crop damage in several parts of the country. Also, there was subdued electricity generation and demand in December 2021.
- Capital expenditure continued to lag, with November 2021 being another lackadaisical month. The Centre's Capex in November 2021 hit a four-month low of Rs 20,360 crore, down from Rs 23,919 crore in the previous month. It took the total for April-November 2021 to Rs 2.74 lakh crore, 13.5% higher than last year. The Centre's target for capital expenditure in FY22 is Rs 5.54 lakh crore.
- India's fiscal deficit in April-November came in at Rs 6.96 lakh Cr or 46.2% of the full-year budgeted target. India's current account posted a deficit of $9.6 bn or 1.3% of GDP during July-September 2021 quarter, compared to a surplus of $6.6 bn or 0.9% of GDP in the April-June 2021 quarter.

Head's Up from the Central Bank

- According to the Reserve Bank of India's (RBI) financial stability report (FSR), though economic recovery has been uneven so far during the pandemic period, the omicron variant remains the major challenge along with rising inflation pressures.
- As per the RBI's FSR, the capital to risk-weighted assets ratio of scheduled commercial banks (SCBs) rose to a new peak of 16.6%, and their provisioning coverage ratio stood at 68.1% in September 2021.
- The RBI data showed the gross non-performing assets of SCBs declined to 6.9% at end-September 2021 from 7.3% at end-March 2021 and 8.2% at end-March 2020.





Debt Market & Other Indicators

- The interbank call money rate settled at 3.15% as of 31st December, compared with 2.50% a month earlier. Yields throughout the maturity had gone up in December.
- The yield on the 10-year benchmark 6.10% 2031 paper settled at 6.46% on 31st December compared with 6.37% a month earlier. Bond prices fell after the Centre unexpectedly announced an auction of the current benchmark paper in the last week against expectations of a new 10- year paper.
- WPI inflation galloped to 14.23% in November due to high oil and food prices, which might make the RBI's task of maintaining interest rates at a record low arduous.
- The rupee ended higher at 74.33 against the US dollar after the banks continued to sell dollars on behalf of exporters and positive trends in the domestic equity markets.
- WTI Crude rebounded sharply in December to $77, from $66 in November per barrel due to supply constraints and fading concerns about omicron's impact on economic growth.
- Bullion prices also surged as demand for hedging has gone up due to the uncertainties posed by the new variant of Covid.

Indicator	Dec 21	Nov 21	Trend
Call rate	3.15%	2.50%	▲
3Month CP	4.35%	3.94%	▲
1Year CP	4.91%	4.82%	▲
3Year AAA	5.60%	5.44%	▲
5Year AAA	6.20%	6.12%	▲
10Year G-Sec	6.46%	6.37%	▲

As on 3rd December 2021

Currency (USD)	Dec 21	Nov 21	Trend
US Dollar	74.33	75.09	▼
GBP	100.44	99.83	▲
EURO	84.21	85.12	▼
YEN	0.65	0.66	▼

Commodity (USD)	Dec 21	Nov 21	Trend
WTI Crude	76.99	66.47	▲
Gold	1815.87	1775.91	▲
Silver	23.35	22.77	▲

Debt Market Outlook

- Due to heightened inflation tolerance by the RBI, Nomura expects the RBI to hike the repo rate by 100 bps cumulatively in 2022, up from the earlier forecast of 75 bps, to tame inflation.
- We recommend investing in maturities of less than one year and taking calculated exposures in high yield securities. We also suggest investing in floating-rate bonds as their coupons will adjust to current market rates.

Domestic Equity Market

- Indian equities ended higher for December, along with all major global economies. While Nifty 50 and Nifty Midcap advanced by 2.2% and 2.7%, respectively, BSE Smallcap moved higher by 5.4%.
- Buying interest in IT, metals, consumer durables, auto and capital goods stocks brought more gains into the market. S&P BSE IT, S&P BSE Metals, S&P BSE Consumer Durables, S&P BSE Auto and S&P BSE Capital Goods rose 10.1%, 5.6%, 3.9%, 3.5% and 6.9%, respectively.
- The Bank Nifty has been the victim of the selling spree by FIIs, and relatively, it has been a significant underperformer on a YTD and 6-month basis.
- FIIs remained negative for the Indian markets for the third consecutive month, with a total sale of Rs.1,00,968 crores in the cash segment of the equity market. On the contrary, DIIs purchased Rs.66,262 Crores during the same period on the backdrop of good domestic demand.
- As of 15th December, two out of every three stocks in the BSE were overvalued, as is reflected in the fact that they were trading at valuations higher than their long-term valuations suggesting significant overvaluation.
- In past episodes of policy tightening, FII outflows from India ranged from 0.1% to 0.4% of market capitalization, and Asia may bear the brunt during the taper this time as well.
- With a "sell on rise" theme playing out in the markets, the bears persisted in countering the bulls on every marked up move resulting in increased volatility.

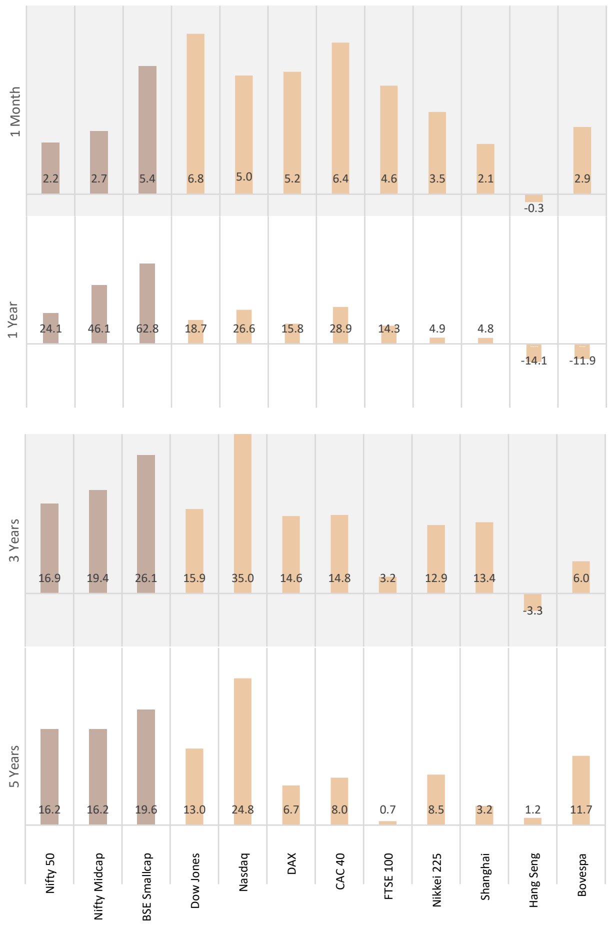
Broad Indices	Dec 21	Nov 21	Change
Nifty 50	17354	16983	2.2%
BSE Sensex	58254	57065	2.1%
Nifty Midcap	30443	29651	2.7%
BSE Smallcap	29458	27937	5.4%
S&P BSE 500	23811	23277	2.3%

Sectoral Indices	Dec 21	Nov 21	Change
S&P BSE Bankex	40409	40779	-0.9%
S&P BSE Metal	19246	18218	5.6%
S&P BSE Healthcare	26206	25502	2.8%
S&P BSE IT	37844	34382	10.1%
S&P BSE FMCG	13785	13716	0.5%
S&P BSE CD	44768	43101	3.9%
S&P BSE Auto	24818	23989	3.5%
S&P BSE Oil & Gas	17508	17502	0.0%
S&P BSE Realty	3841	3800	1.1%
S&P BSE CG	28751	26893	6.9%
S&P BSE Power	3482	3457	0.7%

Global Equity Markets

- Global equities mostly ended higher in December on year-end buying and some relief from the Omicron variant not being that severe compared to Delta.
- US industrial index Dow Jones and the US technology index Nasdaq surged 6.8% and 5.0%, respectively.
- US Treasury prices declined as the demand for the safe-haven bonds were dented after the Centers for Disease Control and Prevention (CDC) shortened its isolation recommendation for people who test positive to 5 days from 10 if they do not have symptoms. Also, the approval of Pfizer's Covid-19 pill for people aged 12 and above came as a positive boost.
- US economy grew at an annualised rate of 2.3% in the third quarter, compared with the prior estimate for 2.1% growth and 6.7% growth in the second quarter.
- US Chicago Purchasing Managers' Index (PMI) rose to 63.1 in December from 61.8 in November, signalling robust growth.
- Britain's FTSE advanced 4.6% in December due to gains in defensive stocks, a weaker pound and heavy buying in commodity, travel, industrial and financial stocks.
- Also, Britain's Nationwide house prices rose 10.4% on-year in December compared with a 10% rise in November.
- Other European equities also closed higher, with France's CAC 40 advancing 6.4% and Germany's DAX gaining 5.2% owing to year-end buying.
- Asian equities also showed a similar trend, with Japan's Nikkei and China's Shanghai Composite gaining 3.5% and 2.1%, respectively. Hongkong's Hang Seng ended flat with a 0.3% loss.
- Japan's core inflation surged to 0.5% on-year in November from a 0.1% rise in October.
- The People's Bank of China lowered the one-year loan prime rate to 3.8% from 3.85% but kept the five-year loan prime rate unchanged at 4.65%.

Performance of Indian & Global Indices



Note: *For Periods till 1 year the returns are absolute and for beyond 1 year, its CAGR returns*

Equity Market Outlook

- While new variants of the Coronavirus, elevated energy prices and constricted supply chains have and will continue to undermine optimism, high-frequency indicators like electricity demand, freight traffic through railways and ports etc., are some green shoots.
- According to Buffet Indicator, the ratio of total market cap over GDP is currently at 114.95%, which indicates the stock market is significantly overvalued. (recent 10 Year Maximum - 117.03%; recent 10 Year Minimum - 54.47%; recent 10 years mean - 79.22%).
- Investors will have to deal with contrasting trends in 2022. Greenflation, Bubblets, Baby bust are some of the key trends to watch out for, and we remain cautious as the valuations are high and expect the markets to be highly volatile in the near future.

The India ESG story is gradually beginning to unfold

According to Deloitte Center for Financial Services, ESG-mandated assets could make up half of all managed assets in the United States by 2025

By Prashant Joshi
Published in
financialexpress.com - 27th Dec 2021

The age of the passive, unconcerned investor, who would see nothing beyond profits and dividends, is now behind us. New-age investors are expecting answers from corporate houses where they've parked their money.

Their focus has changed from 'profit alone matters' to 'what is the source of profit?'. They're keen to know what's the impact of businesses on society at large. Additionally, they've faith that organisations conscious of the triple bottom line — people, planet, and profits — will deliver high risk-adjusted returns over the medium to long-term.

Businesses, too, have become increasingly conscious of their roles within the communities in which they operate. They respect stakeholders' growing demands for transparency. Corporates are also looking at sustainability as a dynamic marketing concept that offers long-term benefits like enhanced customer relationships and a strong reputation, all of which translate into growth.

In short, investors, businesses and even lenders have settled in the hallowed Environmental, Social, Governance (ESG) space.

For the uninitiated, the 'E' of ESG considers how a company delivers as a steward of the environment. Broadly, the 'E' encompasses an organisation's carbon footprint policies, water consumption, waste recycling and energy-conversation practices.

The 'S', rising to the forefront of corporate agendas, covers issues impacting employees, customers, consumers, suppliers and the local community.

The pandemic has brought the G into sharp focus, with companies now under intense scrutiny for their corporate conduct. The governance component relates to the board, leadership effectiveness, audit practices and business ethics.

That ESG is the thread that connects all categories of investors — institutional to High Networth Investors (HNI) to retail — could be gauged by a Deloitte report. According to Deloitte Center for Financial Services, ESG-mandated assets could make up half of all managed assets in the United States by 2025. Bloomberg has forecast global ESG assets to hit $53 trillion by 2025.

There is growing research that ESG issues can pose serious risks to operations and profits, thereby negatively impacting a stock's valuation. Companies actively addressing such risks should see fewer business disruptions and produce comparable or more reliable financial results over time. That means lower downside risk for shareholders.

The general perception is that we're still in the nascent stage of the ESG evolution. India has limited options to invest as of today. However, a slew of ESG-focussed funds has been launched in India recently, with many more lined up.

Several mutual fund houses provide access to ESG themes. The traction is building in the Portfolio Management Service (PMS)/Alternative Investment Fund (AIF) category, with Avendus, Philip Capital and other prominent fund houses offering ESG themes.

Fund Name	Inception Date	Fund Name	Inception Date
SBI Magnum Equity ESG Reg Gr	27-11-2006	Mirae Asset ESG Sector Leaders ETF	18-11-2020
Quantum India ESG Equity Reg Gr	12-07-2019	Mirae Asset ESG Sect Ldrs FOF Reg Gr	19-11-2020
Axis ESG Equity Reg Gr	12-02-2020	Kotak ESG Opportunities Reg Gr	18-12-2020
ICICI Pru ESG Reg Gr	09-10-2020	Aditya BSL ESG Reg Gr	24-12-2020
Quant ESG Equity Reg Gr	05-11-2020	Invesco India ESG Equity Reg Gr	22-03-2021

In an emerging country like India, engaging in an ESG theme will allow more companies to be ESG-compliant, which will lead to sustainable growth for future generations and contribute to wealth creation for both companies and stakeholders. In fact, in India, the Nifty ESG 100 index has delivered equal or more returns than broader Nifty indices, just like its global peers on a point-to-point and rolling basis.

Investors who prefer lesser volatility and drawdown may consider ESG investing. It is important to note that during the downcycles since 2018 and the market turbulence related to the COVID-19 pandemic, the ESG index (featuring companies with strong ESG track records) witnessed a lesser drawdown, which is reflected in lower volatility.

		Point to Point Return (%)							Mean Rolling Return (%)						
Index Name	Inception Date	1M	3M	6M	12M	24M	36M	60M	1M	3M	6M	12M	24M	36M	60M
Nifty 100 ESG	***31-03-2011***	***-0.54%***	***10.87%***	***23.50%***	***56.49%***	***28.44%***	***23.84%***	***19.03%***	***2.35%***	***7.57%***	***13.91%***	***24.84%***	***12.49%***	***12.48%***	***12.49%***
Nifty 50	03-07-1990	0.30%	12.11%	20.78%	51.79%	21.98%	19.38%	15.42%	1.94%	6.20%	10.99%	19.32%	8.47%	9.01%	9.47%
Nifty 100	01-12-2005	0.20%	11.48%	20.89%	52.19%	21.88%	19.02%	14.97%	1.93%	6.18%	11.03%	19.16%	7.95%	8.31%	9.46%
MSCI World ESG Leaders PR USD	***28-09-2007***	***8.17%***	***5.84%***	***11.76%***	***42.78%***	***23.64%***	***18.33%***	***16.53%***	***1.89%***	***5.41%***	***11.10%***	***21.15%***	***14.58%***	***12.77%***	***11.21%***
S&P 500 USD	09-08-1999	6.91%	4.78%	10.15%	40.84%	23.13%	19.31%	16.72%	1.90%	5.57%	11.07%	21.10%	13.50%	11.91%	11.69%

Returns: 12 Months and below are absolute and above are CAGR

The relatively lesser drawdown is more pronounced in the global markets and, of late, seen in India too. However, during upcycles, the domestic ESG theme has relatively done better.

	Down Cycle	Up Cycle	Down Cycle	Up Cycle	Full Cycle
Attribute	**Aug-2018 to Oct-2018**	**Nov-2018 to Jan-2020**	**Feb-2020 to Mar-2020**	**Apr-2020 to Oct-2021**	**Aug-2018 to Oct-2021**
Nifty 100 ESG	**-12.2%**	**16.9%**	**-25.9%**	**119.3%**	**66.8%**
Nifty 50	-11.1%	15.2%	-28.1%	105.5%	51.3%
Nifty 100	-11.7%	14.0%	-27.8%	104.8%	49.0%
MSCI World ESG Leaders PR USD	**-3.3%**	**14.8%**	**-15.2%**	**70.1%**	**60.2%**
S&P 500 USD	-6.5%	18.9%	-19.9%	78.2%	58.7%

The recent SEBI consultation paper for ESG fund regulates MFs to invest in only those companies covered under the mandatory Business Responsibility and Sustainability Reporting (BRSR).

The regulatory initiative is a welcome move as it aims to establish links between the financial results of a business with ESG performance. The framework proposed by SEBI is in line with international standards and will serve as a single resource for sustainability reporting by listed companies.

It applies to the top 1000 listed companies by market capitalisation for reporting voluntarily for FY2021–22 and mandatorily from FY2022–23. It only enhances disclosures on ESG standards by Indian companies which is so heartening to see.

Investment Strategy for 2022: Should you go for Flexi-cap funds or Multi-cap funds?

Flexi-cap funds have the advantage of reducing their midcap / small-cap exposure to zero. In contrast, Multi-cap funds have to maintain a minimum of 25% exposure in midcap and small-cap stocks, which may increase the downside risk and volatility.

Quotes By Prashant Joshi
Published in
financialexpress.com - 23rd Dec 2021

Tweaking the asset allocation rules for multi-cap funds some time back, SEBI asked the fund managers to be true to their label and have a 25 per cent proportion of mid and small-cap funds as well in the portfolio. Industry experts say this has pushed many multi-cap funds to transform themselves into Flexi-cap funds, in order to retain the higher contribution of the large-cap into their portfolio.

So much so that the net assets under management (AUM) of Flexi cap funds stood at Rs 2,14,649.76 crore at the end of November. In comparison, multi-cap funds managed a net AUM of Rs 31,543.38 crore.

Even though the Flexi cap funds were seen better placed to handle market volatility, multi-cap funds have outperformed Flexi cap funds in 2021. Experts say this is majorly attributed to the run-up in small and mid-cap stocks. Flexi cap funds offered an average return of 31.89 per cent in 2021 compared to 40.92 per cent returns posted by the multi-cap category.

Prashant Joshi, Co-Founder and Partner, Fintrust Advisors says, *"Though this time market has performed in favour of Multi cap funds, during the volatile time when the quality and strength of the business offer the required cushion, Flexi cap funds with a higher contribution of large-cap stocks may perform better." The topper in the Flexi cap category offered 48.73 per cent returns in 2021, compared to 67.86 per cent returns by the topper in the multi-cap category.*

Joshi explains "The equity market recent rally, which is more pronounced in mid & small-cap, and the expectations of tighter monetary or fiscal policy across the globe can cast a shadow on equities markets. In case of downturns, the mid & small are more sensitive to the vagaries of the markets, exhibit high volatility, and may have more significant drawdowns."

He further adds, "In such a scenario, Flexi-cap funds have the advantage of reducing their midcap / small-cap exposure to zero. In contrast, Multi-cap funds have to maintain a minimum of 25 per cent exposure in midcap and small-cap stocks, which may increase the downside risk and volatility."

Will more multi-cap funds transform into flexibility caps?

According to Joshi, there may be more Multi caps funds offerings in the future. Multi caps have their advantages as they provide diversification across market capitalisation. "A Multi-cap fund allows the fund manager to adjust the market cap curve allocation in line with the economic and earnings cycles, offering better risk-adjusted returns in the long term," adds Joshi.

How should one go about asset allocation during the volatile period?

The dynamic asset allocation (DAA) approach can rescue during volatile times. Having said that, experts point out it must match the risk profile of an investor. It involves adjusting asset allocation across various asset classes and sub-asset classes basis the opportunity provided, volatility exhibited and correlation, to suit market conditions.

It also helps to reduce the risk and mitigate volatility at the portfolio level, and reap the benefits from opportunities provided by the various asset classes. "Reducing equity exposure and increasing debt when equity markets are expensive, and vice versa is an example of DAA. Shifting allocation to large-cap from mid and small caps basis the risk-reward expectations is an example of sub-asset DAA," adds Joshi.

Disclaimer

Fintrust Advisors LLP is a company incorporated under the Companies act 1956. Fintrust Advisors LLP is also registered as distributer of mutual funds. The information, data or analysis does not constitute investment advice or as an offer or solicitation of an offer to purchase or subscribe for any investment or a recommendation and is meant for your personal information only and suggests a proposition which does not guarantee any returns. Fintrust Advisors LLP or any of its affiliates is not soliciting any action based upon it. This information, including the data, or analysis provided herein is neither intended to aid in decision making for legal, financial or other consulting questions, nor should it be the basis of any investment or other decisions. The historical performance presented in this document is not indicative of and should not be construed as being indicative of or otherwise used as a proxy for future or specific investments. The relevant product offering documents should be read for further details. Fintrust Advisors LLP does not take responsibility for authentication of any data or information which has been furnished by you, the entity offering the product, or any other third party which furnishes the data or information. The above-mentioned assets are not necessarily maintained or kept in custody of Fintrust Advisors LLP. The information contained in this statement are updated as and when received as a result of which there may be differences between the details contained herein and those reflected in the records of the respective entities or that of yours. In the event where information sent through any electronic Media (including but not limited to Net Banking or e-mail) or print do not tally, for whatever reason, with the records available with the entity offering the product or the third party maintaining such information in each of the foregoing cases, the information with the entity offering the product or third party maintaining such information shall be considered as final. The benchmarking shown in document above is a result of the choice of benchmark Fintrust Advisors LLP uses for the various products. It is possible that some investments offered by the third parties have other benchmarks and their actual relative under- or out-performance is different from that provided in the statement. The recipient should seek appropriate professional advice including tax advice before dealing with any realized or unrealized gain / loss reflecting in this statement. The above data, information or analysis is shared at the request of the recipient and is meant for information purpose only and is not an official confirmation of any transactions mentioned in the document above. Service-related complaints may be acceptable for rectification of inaccurate data. You should notify us immediately and in any case within 15 days of receipt of this document date if you notice any error or discrepancy in the information furnished above, failing which it would be deemed to have been accepted by you. Fintrust Advisors LLP reserves the right to rectify discrepancies in this document, at any point of time. The sharing of information in relation to one’s assets may not be secure and you are required to completely understand the risk associated with sharing such information. The information being shared with Fintrust Advisors LLP can pose risk of information being stolen and or used by unauthorized persons who do not have the rights to access such information. Fintrust Advisors LLP or any of its group companies, its employees, and agents cannot be held liable for unauthorized use of such information. Our sales professionals or other employees may provide oral or written views to you that reflect their personal opinions which may be contrary to the opinions expressed herein. You should carefully consider whether any information shared herein and investment products mentioned herein are appropriate in view of your investment experience, objectives, financial resources, relevant circumstances & risk appetite. All recipients of this Information should conduct their own investigation and analysis and should check the accuracy, reliability and completeness of the Information. This Information is distributed upon the express understanding that no part of the information herein contained has been independently verified. Further, no representation or warranty expressed or implied is made nor is any responsibility of any kind accepted with respect to the completeness or accuracy of any information as may be contained herein. Also no representation or warranty expressed or implied is made that such information remains unchanged in any respect as of any date or dates after those stated herein with respect to any matter concerning any statement made herein above. In no event will Fintrust Advisors LLP and their officers, directors, personnel, employees or its affiliates and group company be liable for any damages, losses or liabilities including without limitation, direct or indirect, special, incidental, consequential damages, losses or liabilities, in connection with your use of the information mentioned in this document or your reliance on or use or inability to use the information contained in this document, even if you advise us of the possibility of such damages, losses or expenses. The contents of this document do not have any contractual value. The information contained in this document is confidential in nature and you are receiving all such information on the express condition of confidentiality. If you are not the intended recipient, you must not disclose or use the information in this document in any way whatsoever. If you received it in error, please inform us immediately by return e-mail and delete the document with no intention of its being retrieved by you. We do not guarantee the integrity of any e-mails or attached files and are not responsible for any changes made to them. This report and information therein is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Fintrust Advisors LLP and affiliates to any registration or licensing requirement within such jurisdiction. The information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of Fintrust Advisors LLP. Fintrust Advisors LLP in the course of conduct of its business activity may have financial, business or other interest in other entities including the subject mentioned herein, however Fintrust Advisors LLP encourages independence in preparing this information and strives to minimize conflict in preparation of the above information Fintrust Advisors LLP does not have material conflict of interest at the time of publication of this information. While every effort has been made to ensure that the information provided herein is accurate, timely, secure and error-free, Fintrust Advisors LLP, their directors, promoters, employees, agents and assigns shall not in any way be responsible for any loss or damages arising in any contract, tort or otherwise from the use or inability to use this information and its contents. Any material downloaded or otherwise obtained through the use of the website or email is at your own discretion and risk and you will be solely responsible for any damage that may occur to your computer systems and data as a result of download of such material. Any information sent from Fintrust Advisors LLP to an e-mail account or other electronic receiving communication systems/ servers, is at your risk and if the same is lost, incorrectly received, or sent to the incorrect e-mail or are accessible to third parties, Fintrust Advisors LLP is not and cannot be responsible or made liable for such transmission.