July 2022

Fintrust

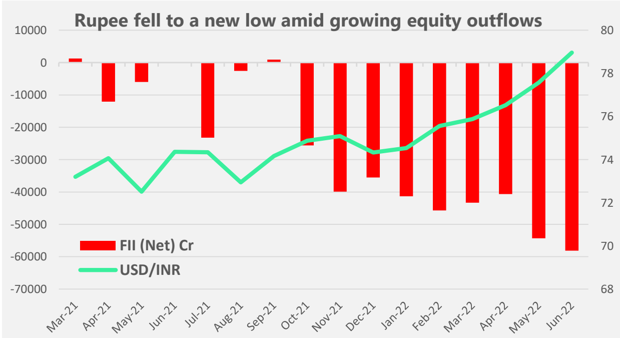
bulletin...

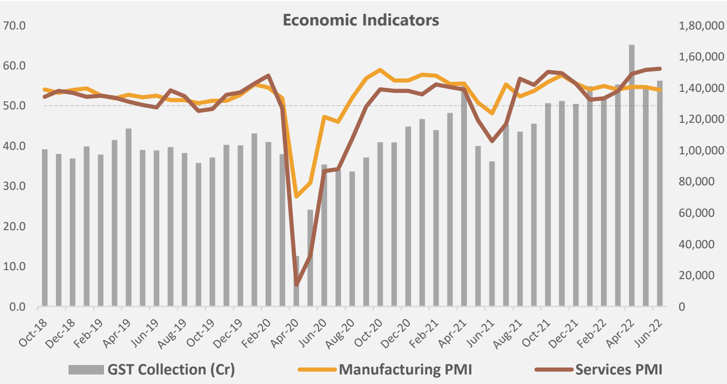
Economic Indicators

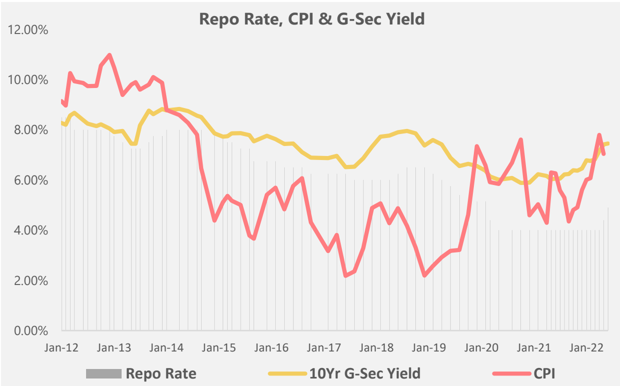
- The S&P Global India Manufacturing PMI declined to 53.9 in June 2022 from 54.6 in May 2022. Both output and new orders grew for the twelfth month. Also, export orders rose for the third month running, despite the rate of growth moderating from May's 11-year high.
- At 59.2, the June services PMI is the highest since April 2011. In May, the services PMI was 58.9. Demand for services improved, supporting a robust economic expansion for the sector over the first quarter of FY23.
- Input costs remained elevated by historical standards, though they did ease to a three-month low in June. Higher costs were passed on to consumers, with June witnessing the fastest rise in selling prices since July 2017.
- GST collection increased by 2.6% from the previous month to 1.45 lakh crores during June 2022. During the month, revenues from import of goods were 55% higher, and the revenues from the domestic transaction (including import of services) were 56% higher than the revenues from these sources during the same month last year.
- The government raised import taxes on gold while increasing levies on exports of gasoline and diesel in an attempt to control a fast-widening current account gap. The moves sent Reliance Industries Ltd. and other energy exporters tumbling.
- An emerging market investor exodus hit us amid the tumbling Rupee. FIIs remained negative for the ninth month, with a total sale of Rs. 4.27 lakh crore in the cash segment of the equity market for the past 15 months. During the same period, DIIs purchased Rs. 3.49 lakh crore worth of shares in the cash segment.
- Policymakers in many emerging markets face stark choices as they battle soaring inflation and capital flight as the major central banks tighten policy. Whether to raise rates and risk hurting growth, spend reserves that took years to build to defend currencies, or step away and let the market run its course.

Head's Up from the Central Bank

- RBI hiked the Repo rate by 50 bps to 4.90%.
- The Bank rate and Marginal Standing Facility (MSF) are maintained at 5.15%. CRR is maintained at 4.50% of Net Demand and Time Liabilities (NDTL). Reverse Repo remains unchanged at 3.25%.
- The projection for real GDP growth for FY23 is maintained at 7.2%, as projected in the last MPC.
- RBI raised its projection of annual inflation to 6.7% for FY23 from its earlier projection of 5.7%. The inflation projections are based on the assumption of a normal monsoon in 2022 and an average crude oil price of $105/ barrel.
- The surplus liquidity has moderated to Rs. 5.5 trillion during 4th May - 31st May from Rs. 7.4 trillion during 8th April - 3rd May 2022.







Debt Market & Other Indicators

- The interbank call money rate settled at 4.75% as of 30th June 2022, compared with 4.13% a month earlier.
- With the onset of the reversal of the interest rate cycle, yields throughout maturity have gone up in May, with most of the action concentrated on the shorter end of the curve. The weighted average yield on the 10-year G-Sec benchmark paper settled at 7.45% on 30th June 2022, compared to 7.42% a month earlier.
- Lower-than-expected domestic retail inflation data for May 2022 at 7.04% prevented a sharp fall in bond prices.
- The Rupee depreciated further against the US dollar during June, hitting lifetime lows due to the imported inflation factor. Further, foreign investors' consistent selling also stressed the local unit. The Rupee appreciated against other major currencies like Great Britain Pounds, Euro and Japanese Yen.
- A steeper fall in the local unit was contained after the dollar index fell for fear of recession as global central banks made their aggressive policy stance clear.
- Bullion prices have also maintained the downtrend from the previous month with the consistent upward movement of the US dollar index.
- Crude price corrected from $114.63/ barrel to $105.65/ barrel amid lower-than-expected demand, but it stayed well above the comfort level.

Indicator	Jun 22	May 22	Trend
Call rate	4.75%	4.13%	▲
3 Month CP	5.14%	4.92%	▲
1 Year AAA	6.21%	6.01%	▲
3 Year AAA	6.96%	6.94%	▲
5 Year AAA	7.26%	7.21%	▲
10 Year G-Sec	7.45%	7.42%	▲

Currency (USD)	Jun 22	May 22	Trend
US Dollar	78.96	77.57	▲
GBP	96.10	97.74	▼
EURO	82.73	83.30	▼
YEN	0.58	0.60	▼

Commodity (USD)	Jun 22	May 22	Trend
WTI Crude	105.65	114.63	▼
Gold	1807.36	1847.53	▼
Silver	20.30	21.70	▼

Debt Market Outlook

- Inflation is pushing to multi-decadal highs in major economies, crude oil prices continue to trend above $100/ barrel, and the global food and commodity prices remain elevated. While retaining the GDP forecast, RBI meaningfully raised its inflation forecast and projected inflation to be above the 6% level for three quarters. The MPC removed the word "accommodative" from its stance and decided to remain focused on withdrawing accommodation to ensure that inflation remains within the targeted range while supporting growth.
- Given the expected local rate hikes, the gradual reduction of liquidity, rate hikes by global central banks and the substantial supply of government securities, we expect yields to further harden in future. Investors may consider shorter maturity funds and floating rate funds as they provide a hedge against a rise in interest rates.

Domestic Equity Market

- Indian equities continued the downtrend, with major indices S&P BSE Sensex and Nifty 50 declining by 4.5% and 4.8%, respectively, for June. Broader indices saw a deeper cut, with Nifty Midcap 100 and S&P BSE Small-cap plunging 6.5% and 6.0%, respectively.
- Except for Autos, every major sector was down, with Metals, Consumer Durables, Banks, Realty, and IT significantly contributing to losses. These sectors were down between -14.5% to -5.7%.
- Metals were down due to the government's impact of export duty imposition and worries over global central banks' rate hikes. S&P BSE Metal dropped 14.5%.
- The Indian economy has been dealing with high levels of imported inflation because of high global commodity prices led by supply disruption, prompting the central bank to take speedier measures to anchor inflation and lower the systemic liquidity levels.
- Simultaneously, the government announced a set of crucial fiscal measures in May, including a reduction in fuel taxes, imposing a large export duty on steel products, waiving off the import tax on coking coal, and raising subsidies on fertilizers and cooking gas.
- The government extended the production-linked incentive scheme for the telecom industry by another year and expanded its scope to cover design-led manufacturing. It also raised incentives by Rs 4,000 crore under the amended scheme.
- These measures are expected to support the economy from elevated commodity prices and cap the possibility of a second-round effect of inflation that consistently high inflation levels could otherwise trigger.

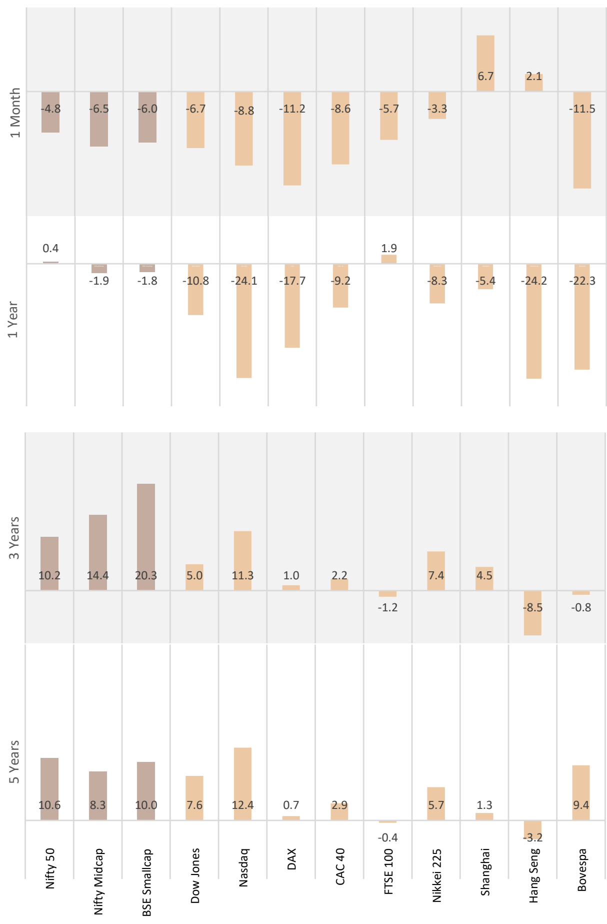
Broad Indices	Jun 22	May 22	Change
Nifty 50	15780	16585	-4.8%
BSE Sensex	53019	55524	-4.5%
Nifty Midcap	26453	28288	-6.5%
BSE Smallcap	24786	26405	-6.1%
S&P BSE 500	21325	22494	-5.2%

Sectoral Indices	Jun 22	May 22	Change
S&P BSE Bankex	38476	40781	-5.7%
S&P BSE Metal	15552	18189	-14.5%
S&P BSE Healthcare	21606	22486	-3.9%
S&P BSE IT	28313	30209	-6.3%
S&P BSE FMCG	13766	14196	-3.0%
S&P BSE CD	34699	37999	-8.7%
S&P BSE Auto	26768	26513	1.0%
S&P BSE Oil & Gas	18022	18633	-3.3%
S&P BSE Realty	3068	3276	-6.3%
S&P BSE CG	26026	27072	-3.9%
S&P BSE Power	4067	4216	-3.5%

Global Equity Markets

- US stocks nosedived after the Fed announced the biggest rate hike since 1994 and hinted at sterner policy action to combat soaring inflation. It increased the benchmark federal-funds rate by 75 bps to 1.5-1.75%. It also hinted at hiking rates to 3.4% by the year-end. The industrial index - Dow Jones, and the technology index - Nasdaq, ended lower by 6.7% and 8.8%, respectively.
- US S&P Global manufacturing PMI fell to 52.4 in June from 57.0 in May, while the services PMI fell to 51.6 in June from 53.4 in May. The US existing home sales fell 3.4% month-on-month in May compared to a revised 2.6% decline in April.
- Britain's FTSE slumped 5.7% after the Bank of England (BoE), and Swiss National Bank chose to hike rates citing inflationary pressure and the US Fed's rate hikes. The BoE raised its benchmark interest rate by 25 bps to 1.25%.
- UK consumer prices rose 9.1% year-on-year in May compared to 9% in April, while the producer prices rose 15.7% year-on-year in May compared to an upwardly revised 14.7% rise in April.
- Other European equities also plunged, with Germany's DAX and France's CAC 40 losing 11.2% and 8.6%, respectively. Eurozone inflation rose 8.1% year-on-year in May compared with 7.4% in April.
- Japan's Nikkei corrected 3.3% on the back of central banks' rate action, recession fears, and renewed Covid-19 restrictions in China. The Bank of Japan kept its policy rate unchanged at -0.1%, and Japan's annual inflation rate was unchanged from the previous month at 2.5% in May.
- China's Shanghai Composite rose 6.7% as investors saw China's stimulus and easing of Covid-19 curbs as hopeful for economic recovery. Hong Kong's Hang Seng was also up by 2.1%.
- People's Bank of China (PBOC) infused fresh capital into the banking system to support the Covid-19 hit economy. The PBOC held its one-year and five-year loan prime rates unchanged at 3.7% and 4.45%, respectively.
- Foreign institutional investors favour China and Hong Kong over other emerging markets as the valuations are still reasonable.
- Crude prices corrected from $114.63/ barrel to $105.65/ barrel amid lower-than-expected demand.

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

- Among the positives, domestic capacity utilization levels have been on the rise, which could bode well for private Capex growth. This, along with support from government spending on infrastructure, the government's supply-side response, and the ongoing reopening of the economy, could aid consumption growth. Among the negatives, high global inflation led by geopolitical concerns, supply chain disruption, and weakening global growth could create a stagflationary situation.
- Tightening global liquidity conditions because of a rate hike by global central banks and reversal of quantitative easing has already resulted in large selling by foreign portfolio investors of Indian stocks in 2022. However, this is compensated mainly by a more extensive buying by domestic institutional investors during the same period. Moreover, domestic mutual funds continue to record inflows into equities.
- Overall, we expect equity markets to remain volatile as monetary policy becomes less supportive. However, recent market corrections continue to offer medium- to long-term investment opportunities. Investors may participate in a staggered manner and invest systematically for the long term.

Rebalancing portfolios will help investors fight market vagaries

Based on the returns of the investments, the weightage of each asset class should change, altering the portfolio's risk profile

By Prashant Joshi

Published in

Deccan Herald - 23rd May 2022

Creating a good investment portfolio is an art and a science. However, just "set it and forget it" is not enough to achieve the long-term investment goal. The portfolio gets out of balance over time, and the asset and sub-asset class weights fluctuate and change due to market movement. The result is that allocations deviate from the ideal asset mix, changing the portfolio's risk-return profile. Rebalancing is the act of bringing the portfolio back to its desired asset mix aligned to the investor's risk-return profile.

Based on the returns of the investments, the weightage of each asset class should change, altering the portfolio's risk profile. Rebalancing helps to keep risk within one's desired limit. It ensures that the portfolio isn't singularly dependent on the success or failure of a particular investment, asset class, or fund type. It helps one avoid relying too much on emotions when making important investment decisions and brings discipline. It allows aligning the investment with the goals by periodically rebalancing the portfolio. Rebalancing keeps portfolio drifts under check. Such drifts may not be evident because they can happen gradually. If one is not paying regular attention, they can skew the asset mix and expose to more risk.

An important question is when and how to rebalance? It is required when there is a significant shift in the asset mix vis a vis original and/or there is a change in an investor's risk profile and/or when an investor is closer to the goal. There are several methods to rebalance. An investor can either define a frequency with which they will continually assess the portfolio allocation's current status or set asset allocation ranges. In periodic (time-based) rebalancing, investors set a schedule, and rebalance the portfolio according to that time frame. For example, every 12 months, measure the actual investment mix against the target. Based on the variation, decide whether to make modifications or wait another year to rebalance. In tolerance-band (percentage-based) rebalancing, investors establish specific thresholds that - if crossed - trigger rebalancing.

This approach means the investor must monitor allocations more frequently than periodic rebalancing, which may only require one to check the portfolio annually. One can also consider a combination strategy, using both periodic and annual rebalancing with tolerance bands.

By selling high-performing investments and buying lower-performing ones, rebalancing can be achieved. It can also be done strategically by using other purchases and sales to rebalance. Often investors make regular portfolio contributions or withdrawals that can help them rebalance at a reduced cost. One should be cognizant of the cost involved while rebalancing. The impact of capital gain, exit loads and brokerage costs have an impact on the cost of rebalancing.

We plan, design and execute. But things may not go as per our plan. This is where rebalancing comes in. Portfolio construction gets high importance but rebalancing does not. Rebalancing ensures that the portfolio and the strategy remain relevant and help the portfolio survive through the tides of different market cycles and help attain the long-term investment goal.

Top investment strategies to adopt as an investor

Among the benefits of diversification across various investment styles, it helps to keep the portfolio risk and volatility within the targeted level and exploit opportunities across economic and business cycles.

Quotes By Prashant Joshi
Published in
FinancialExpress - 29th April 2022

A lot has happened over the last three years — the COVID-19 pandemic, the United Kingdom withdrawing from the European Union, China and India engaged in border skirmishes, Biden's inauguration as the President of the US, Kabul falling following the offensive Taliban attack, to the current Russian-Ukraine conflict, supply-side bottlenecks and multi decade-high inflation across various countries, to name a few.

Various investors, family offices and HNIs are changing the investment framework and strategies at the portfolio level targeted toward creating an all-weather portfolio. The objective of an all-weather portfolio is to navigate and withstand the vagaries of economic, business and asset cycles. As a result, they are moving away from a single investment style and/or a buy and hold framework to a multi-investment style and/or core and satellite framework.

In addition to the benefits of diversification across various investment styles, it helps to keep the portfolio risk and volatility within the targeted level and exploit opportunities across economic and business cycles.

Prashant Joshi, Co-founder and Partner, Fintrust Advisors, says, "The huge advantage is that it removes the classic source of performance leakage from an inadvertent single investment style and buy and hold approach, which can be short, mid or long term."

What is an investment strategy?

An investment style/strategy often describes the overarching approach taken by the fund manager when assembling a portfolio of assets. Investment strategy, Joshi explains, "provides some insight into which risks and returns investors are likely to be exposed to and what the drivers of those returns are likely to be."

The four most known investment styles are Value, Growth, Quality and Momentum. Investment styles can be divided and further sub-divided into a host of different, and often highly esoteric, ways like quality, momentum, cyclical, dividend growth, deep value, event-driven, special situations, to name a few.

How does it help investors?

Investment strategies help investors choose where and how to invest as per their expected return, risk appetite, time horizon and preferred investment styles. It is governed by a set of rules and procedures created to guide investors in designing their investment portfolios.

For instance, a barbell investment strategy means having a Value Style and a Growth style at the two ends. Having three equal buckets of Value, Growth and Momentum is a bucketing strategy, and having Value style at Core and Momentum style as the Satellite is Core and Satellite strategy.

Barbell investing involves investing in the two extremes. For example, high-risk and no-risk assets while staying away from those in the mushy middle to balance risk and reward. However, experts say, the emergence of various investment styles made it a challenging environment to have a barbell strategy.

Joshi of Fintrust Advisors points out, "Investors transitioned to bucketing style strategies where investments are held in three or more investment styles an investor understands and relates to. Many family offices and ultra HNI's have moved to the so-called core/satellite strategy where Core forms the bulk of the portfolio and Satellite complements it, which is tactical allocation whereby one takes a relatively higher risk and explores opportunities in order to earn higher portfolio returns."

Things to keep in mind

There is no one-size-fits-all approach. Within each strategy, the investment styles and their weights can change. "There are various blends of strategy and style that one can construct to make an investment framework," says Joshi.

Having said that, it is a must to have a thorough understanding of the risk and reward, supported by backtesting, scenario analysis, and other empirical evidence.

Anup Bansal, Chief Investment Officer, Scripbox, says, "An investor should identify the goal and risk tolerance level before embarking upon investing. They should also evaluate the riskiness of a fund's portfolio before investing and ensure their risk profile is in line with the overall investment strategy. "

Industry experts say, gone are those days when investors built portfolios on an ad-hoc basis without any real grasp of the investment strategy. Instead, Joshi adds, "people have understood that having the right investment style and strategy blend significantly improves their chances of success and is required for an All-Weather portfolio. And rightly so, as 'how' one invests is as important as 'what' one invests in."

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