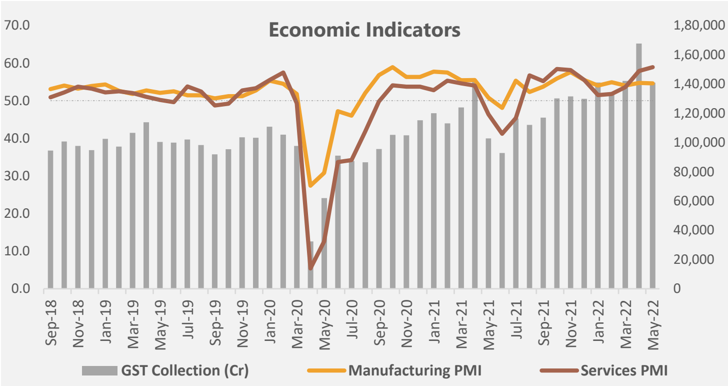
June 2022

Fintrust

bulletin...

Economic Indicators

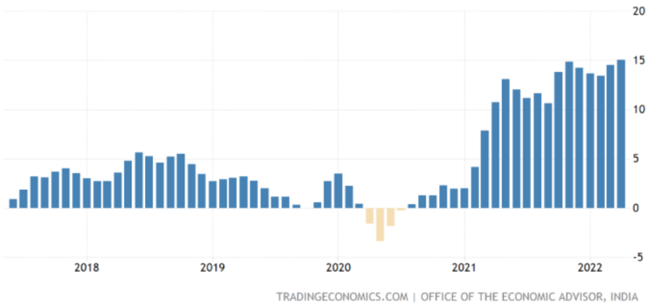
- The S&P Global India Manufacturing changed marginally to 54.6 in May 2022 from 54.7 in April, compared to the market consensus of 53.8. The latest reading marked the 11th straight month of expansion in the manufacturing sector, as both output and new orders grew at the same pace in the prior month, with new export orders rising to the fastest since April 2011.
- On the price side, input prices continued to rise due to higher prices in electronic components, energy, freight, foodstuff, metals, and textiles. Meanwhile, output price inflation accelerated to over eight-and-a-half years, as companies continued to transfer additional cost burdens to their clients.
- India's GDP grew 8.7% in FY 2021-22 as compared to a contraction of 6.6% in Fy 2020-21. In the revised budget estimates, the fiscal deficit stood at 6.7% of GDP for FY 2021-22, lower than 6.9% estimated by the Ministry of Finance.
- GST collection dropped 15.9% from the previous month to 1.41 lakh crores during May 2022. However, it is 44% higher than May 2021 collection. The monthly collection under the Goods and Services Tax (GST) peaked at Rs 1.68 lakh crore in April 2022, and the figures were above Rs 1.4 lakh crore for the third month in a row.
- The high cost of 'fuel and power' due to the Russia-Ukraine war along with those of primary articles, pushed up India's April 2022 wholesale inflation to a 5-month high of 15.08% from 14.55% in March 2022. It has been in double digits for all 13 months in a row.
- CPI inflation rose to an 8-year high of 7.79% in April from 6.95% in March. High price levels of fuel and food items, especially of vegetables, spices, oils & fats, along with household services, contributed to the sharp rise in inflation, a level which is seen as being partly responsible for preempting the unscheduled repo rate hike of 40 basis points by the RBI during the first week of May.



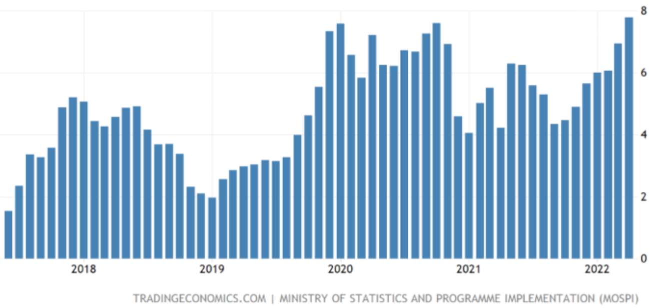
Head's Up from the Central Bank

- Following a surprise rate hike on 4th May, several members of the Monetary Policy Committee called for more hikes in upcoming meetings this year in a relatively short tightening cycle to control sticky-price pressures, which hit an eight-year high last month.
- RBI has entered into another phase of coordinated action between the fiscal and monetary authorities to check inflation. They have been taking steps, but certain sections of the market have somehow missed it.
- As the government has now taken action on wheat, various kinds of intermediaries, raw materials, and the big one on petrol and diesel, all these put together should have a sobering impact on inflation.
- India's foreign exchange reserve declined by USD 6.9 billion in 2022-23 to USD 597.5 billion as of 27th May 2022.

Wholesale Price Inflation (WPI)



Consumer Price Inflation (CPI)



Debt Market & Other Indicators

- The interbank call money rate settled at 4.13% as of 31st May 2022, compared with 3.30% a month earlier.
- With the onset of the reversal of the interest rate cycle, yields throughout maturity have gone up significantly in May. The weighted average yield on the 10-year G-Sec benchmark paper settled at 7.42% on 31st May 2022, compared to 7.14% a month earlier.
- RBI hiked the Repo rates by 40 bps to 4.4% on 4th May. Reverse repo remains unchanged at 3.35%. The bank rate and marginal standing facility (SDF) stand adjusted to 4.15%. CRR increased by 50 bps to 4.50% of net demand and time liabilities (NDTL).
- The rupee depreciated further against all major currencies during May due to the high demand for these currencies as the world becomes more risk-averse.
- Bullion prices have also maintained the downtrend from the previous month with the consistent upward movement of the US dollar index.
- Crude prices moved significantly higher with the opening up of China after the strict Covid lockdown. Upward movement was supported by supply concerns, as the European Union agreed to a phased ban on Russian oil.

Indicator	May 22	Apr 22	Trend
Call rate	4.13%	3.30%	▲
3 Month CP	4.92%	4.40%	▲
1 Year AAA	6.01%	5.30%	▲
3 Year AAA	6.94%	6.17%	▲
5 Year AAA	7.21%	6.87%	▲
10 Year G-Sec	7.42%	7.14%	▲

Currency (USD)	May 22	Apr 22	Trend
US Dollar	77.57	76.53	▲
GBP	97.74	96.26	▲
EURO	83.30	80.72	▲
YEN	0.60	0.59	▲

Commodity (USD)	May 22	Apr 22	Trend
WTI Crude	114.63	104.69	▲
Gold	1847.53	1898.13	▼
Silver	21.70	22.83	▼

Debt Market Outlook

- As India’s monetary policy makers huddle to find ways to tame inflation, the question for them is not whether to raise borrowing cost or not, but by how much. We expect the six-member Monetary Policy Committee to probably raise the benchmark interest rate by 40 bps to 4.8% on 8th June.
- Though, we expect bond yields to rise on normalisation of monetary policy, an over-tightening policy error by central banks could drive volatility significantly higher even for the bond market. A diversified bond allocation can help investors tide through a rising interest rate cycle.

Domestic Equity Market

- Indian equity indices declined for May on global/ domestic inflationary pressures and fear of tighter monetary policy by the Reserve Bank of India. S&P BSE Sensex and Nifty 50 fell 2.7% and 3.0%, respectively. Broader indices saw a deeper cut, with Nifty Midcap 100 and S&P BSE Small-cap plunging by 5.3% and 7.8%, respectively.
- Except for Autos & FMCG, every major sector was down, with Metals, Power, Consumer Durables, Healthcare, Realty, and IT being the major contributor to losses. These sectors were down from -16% to -5.6%.
- FIIs remained negative for the eighth consecutive month, with a total sale of Rs. 3.69 lakh crore in the cash segment of the equity market for the past 14 months. During the same period, DIIs have purchased Rs. 2.02 lakh crore worth of shares in the cash segment.
- India recorded its highest ever textiles & apparel exports in the financial year 2021-22 at USD 44.4 Billion. This represents a 41% growth in exports compared to the previous financial year. The US was the biggest importer with 27%, followed by European Union at 18% and Bangladesh at 12%.
- The surge in energy cost weighs heavily on macros as we move ahead. India being a top importer of crude oil (over 84% of India's petroleum product demand) is bound to see a rise in fiscal deficit this fiscal.
- India received 24 million barrels of Russian crude in May, up from 7.2 million barrels in April and about 3 million in March, and is expected to receive about 28 million barrels in June. This bold decision by Government of India might ease some pressure as it represents around 18% of our monthly need.

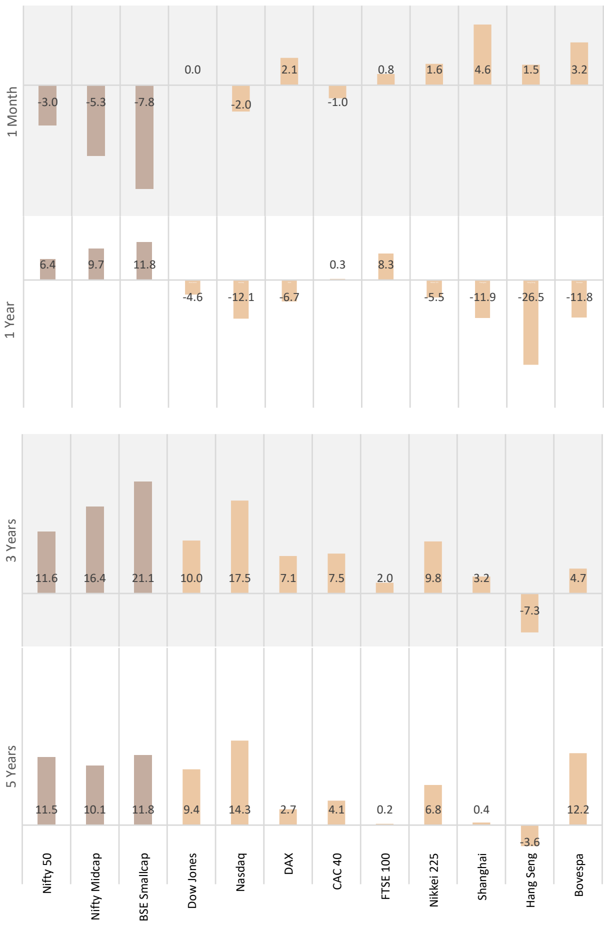
Broad Indices	May 22	Apr 22	Change
Nifty 50	16585	17103	-3.0%
BSE Sensex	55524	57061	-2.7%
Nifty Midcap	28288	29880	-5.3%
BSE Smallcap	26405	28612	-7.7%
S&P BSE 500	22494	23552	-4.5%

Sectoral Indices	May 22	Apr 22	Change
S&P BSE Bankex	40781	41534	-1.8%
S&P BSE Metal	18189	21655	-16.0%
S&P BSE Healthcare	22486	24341	-7.6%
S&P BSE IT	30209	31990	-5.6%
S&P BSE FMCG	14196	14082	0.8%
S&P BSE CD	37999	42667	-10.9%
S&P BSE Auto	26513	25210	5.2%
S&P BSE Oil & Gas	18633	19498	-4.4%
S&P BSE Realty	3276	3529	-7.2%
S&P BSE CG	27072	27371	-1.1%
S&P BSE Power	4216	4776	-11.7%

Global Equity Markets

- Globally, major stock markets experienced a flat to positive month as the growing concern regarding a sharp increase in inflation and global economic slowdown is slowly sinking in.
- While Dow Jones ended flat, Nasdaq is still facing the rout in tech giants with a 2% cut during May. The majority of the large tech stocks have maintained their downtrend from the previous two months.
- The S&P Global US Manufacturing PMI came at 57 in May, pointing to the slowest albeit robust growth in factory activity since January. Production and new orders eased, although employment picked up and backlogs of work increased. Also, business confidence fell to the lowest level since October 2020.
- European equities closed mixed, with UK's FTSE 100 and Germany's DAX gaining 0.8% and 2.1%, respectively, while France's CAC 40 closed lower by 1%.
- Inflation in European Union countries hit an all-time high of 8.1% in May, which is the highest since 1997, driven by a rise in food and energy prices. Core inflation which excludes volatile components like food, energy and alcohol, rose to 3.8% in May.
- With the opening up of China after the strict Covid lockdown, Asian equities were mostly positive. Japan's Nikkei gained 1.6%, China's Shanghai Composite was up by 4.6%, and Hong Kong's Hang Seng was up by 1.5%.
- The Caixin China General Manufacturing PMI increased to 49.1 in May from April's 26-month low of 46.0. That being said, the latest figure was the third straight month of fall in factory activity amid stringent COVID-19 control measures. Both output and new orders fell at a softer rate with further declines in both export orders and employment.
- Firms continued to cut purchases as firms looked to streamline stocks while delivery times lengthened sharply due to travel curbs. On prices, input cost inflation moderated for the second month in a row, while selling prices fell for the first time in 5 months to stimulate client 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

- With IMD predicting the rainfall during this monsoon season to be around 103% of the long-term average, inflation remains the most significant risk to the positive outlook. While we expect inflation to moderate over the course of 2022-23, persistent & sticky inflation could turn macro conditions unfavourable for risk assets.
- Even in a challenging environment, India's growth trajectory is intact, although it might moderate due to the challenging environment.
- We expect equity markets to remain volatile as monetary policy becomes less supportive. Strategies within equities will be critical to driving equity allocation performance.

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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