Longer term vision for India's macro remains positive; the "Lollapalooza Effect" at play: Motilal Oswal Private Wealth

Key Insights:

- The strategy for **Equity** is toinvest 50% in lump sum and 50% in a staggered manner over the next 3 months in Multicap strategies and select Mid & Small Cap strategies (MFs, PMS, AIF) to achieve strategic equity allocation.

- ~70% - 80% of the **Fixed Income** portfolio should be biased towards high quality short to medium term accrual strategies with minimum investment horizon of 3 years. Within the above allocation, 20% - 30% can be allocated towards long maturity and high quality roll down strategies with minimum investment horizon of 5 years.

Mumbai, April 21, 2022: The Alpha Strategist by Motilal Oswal Private Wealth(MOPW) highlighted thatthe domestic Equity market fundamentals remain robust given healthy balance sheets, low debt-equity & improving ROEs leading to steady earnings growth outlook. The longer term vision for India's macro remains positive with gradual progression toward a $6 trillion economy over the course of this decade.

Nifty50 ended FY22 with gains of 19% YoY, marking another year of strong returns. Given the multitude of challenges (regional lockdowns due to the second COVID wave, gradual withdrawal of excess global liquidity, relentless rise in commodity prices, disruption in supply chains, and weak rural demand), the fact that the Nifty is down barely 5% from its recent high underscores its resilience. Markets never fail to astonish and what has been a pleasant development is the rise of DIIs investing in equities to the tune of over $26 billion in FY22 countering the outflows by FIIs ($17.1 billion).

BFSI & IT companies have been somewhat immune to the geopolitical crisis and could continue to do well; Metals & Mining companies have benefitted on the back of unyielding rise in commodity prices while the same has had a negative impact on consumption driven companies. Autos, consumer staples and cement could see a decline in margins due to rising commodity costs in Q4FY22 results while upstream Oil & Gas as well as Metals could see a sharp uptick during the same period. Almost half of NIFTY 50 companies would not have any direct impact of rising energy prices on its last quarterly results while 29% will have a positive impact and 18% would gain from rupee depreciation. On a high base, Nifty50 Q4FY22 PAT is expected to go up 23%.

The flagship publication by MOPW that has been sharing valuable insights monthly on the global and domestic economy as well as the behaviour and performance of various asset classes since its first edition in Jan 2013.

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According to Ashish Shanker, MD& CEO, Motilal Oswal Private Wealth, "We anticipate higher than usual volatility in the short term as market sentiment is likely to be influenced by the increased geopolitical risks in the backdrop of ongoing Russia-Ukraine conflict, higher inflation/ commodity prices, rate hikes by Global Central Banks. In these uncertain times, the actions of the government and the central banks will be closely tracked for next few quarters. Corporate earnings and commentaries will set the tone for markets as they will be monitored for margin compression on high input costs.We reiterate emphasis on Investment Charter, Asset Allocation, and a disciplined staggered deployment strategy for incremental equity investments.Our stance on this being a year of consolidation still holds."

Outlook and investment strategy on various asset classes as detailed in Alpha Strategist Report:

Equities

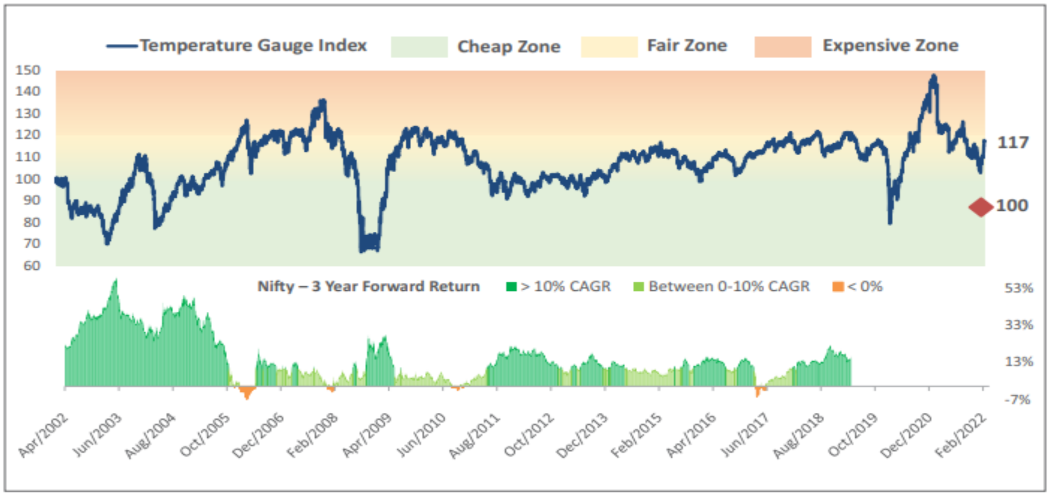
Most geopolitical crisis tend to have a short term impact on equities and are followed with a significant rebound once the risks have been priced in. However, it is important to assess the pass through effects from conflict to the economy. The ongoing Russia-Ukraine conflict and response from developed economies' to Russia is exacerbating the global supply shortage of energy and other commodities. This could keep inflation pressure high globally and some of the economies can witness growth slowdown. Europe seems to be more vulnerable given its energy supply dependence on Russia.

For India, every $10/bbl rise in crude oil increases the CPI by 50 bps, assuming a full pass through. Higher inflation especially of commodities, has an impact on corporates, as some sectors have their raw material cost linked to these imported commodities such as crude and crude linked derivatives. On the other hand, commodity suppliers could see good margins and profits at the expense of the end users. It would be prudent to assume some pressure on margins and subdued profitability for Corporate India. The benevolent factor comes in the form of Corporate India having a more deleveraged balance sheet which should help them see through these challenging times. Also, India's exports have registered a 2-year CAGR of 12.5%, lifting the capacity utilisation ratio to 72%, which is now in line with pre-Covid levels.

Despite input cost pressure and ongoing geopolitical uncertainties, the earnings growth trajectory for the MOFSL Universe continues to remain healthy. 4QFY22 earnings growth is expected to be ~19% YoY. While the aggregate growth is impressive, it is narrow and driven by three sectors: BFSI, O&G, and IT. More than half of the incremental growth is steered by BFSI, led by a modest revival in credit growth and improvement in asset quality trends. Upstream O&G companies are likely to benefit from the spike in crude oil prices in 4QFY22, driving aggregate earnings.

DII flows into equities in FY22 were the highest ever at USD 26.8b v/s outflows of USD18.4b in FY21, while FIIs witnessed equity outflows of USD 17.1b after five consecutive years of inflows.

MOPWM has crafted a unique model, **Temperature Gauge**, based on the **Motilal Oswal Valuation Index**. MOVI is basically an index which is calculated based on the Price to Earnings (PE), Price to Book Value (PB) and Dividend Yield (DY) on the components of Nifty 50. Using FY22 projected EPS for Nifty 50, the temperature gauge index is in the range of 110-115. Whenever Temperature Gauge Index has been at the levels of 110-115, the forward returns show more than 90% probability of positive returns.



Temperature Gauge Index using FY23E EPS is 100

Data as of 5th Apr'22, Source: Capital Line, Bloomberg Internal Research; Nifty EPS considered for FY22E is INR 731 and FY23E is 874, estimates are taken from MOFSL

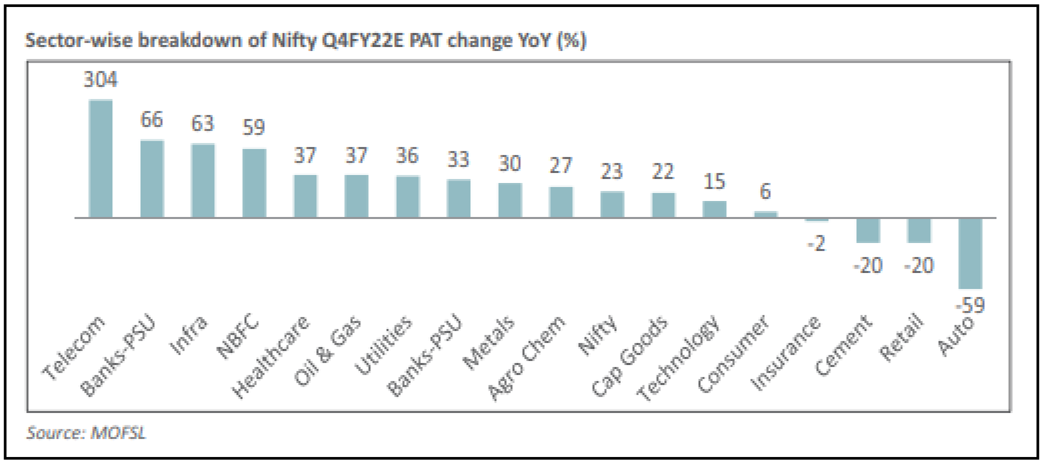
Key Sectoral Insights:

The key drivers in 4QFY22 are:

- **Private Banks:** MOFSL Banking universe can report 41%/39% YoY growth in PBT/PAT. Loan growth is projected to remain strong, led by the Retail and SME segments. Slippages are likely to remain modest across segments in 4QFY22, barring the MFI business, which may see some tail stress.
- **Metals:** MOFSL Metal stocks should see a modest 9% YoY growth in profits on a higher base (profits were up 4x YoY in 4QFY21), as higher coal prices impacted EBITDA margins of steel companies. EBITDA margin for the MOSFL Metals Universe is likely to decline by 710bp YoY to 22.1% in 4QFY22.
- **Consumer:** MOFSL Consumer stocks is likely to report muted cumulative growth numbers – revenue/EBITDA/PAT of 8%/7%/5% – in 4QFY22E. Sales growth will largely be led by price hikes as volume growth remains constrained, impacted by spiraling inflation and a slowdown in rural demand.

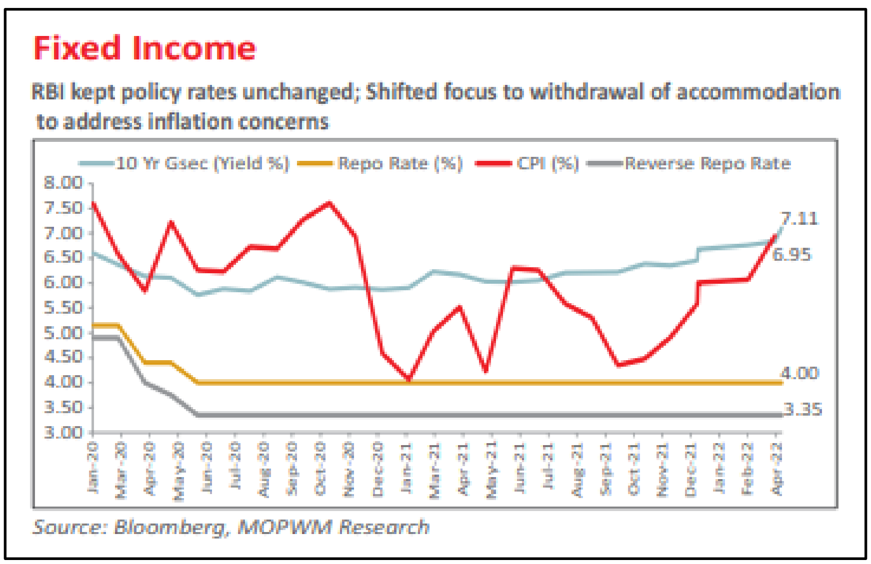
Key sectors which are likely to drag earnings:

- Autos – A sharp increase in fuel and commodity prices are likely to delay a recovery in margin for OEMs, despite some improvement in supply-side constraints (semiconductor shortages), MOFSL Auto stocks is likely to report an aggregate profit decline of 51% YoY despite an improvement in semiconductor supplies
- Cement: Higher coal and petcoke prices are likely to lead to a fall in profitability for companies, despite the likely increase in blended realizations by 7% YoY. MOFSL Cement Universe should report an EBITDA/PAT decline of 20%/26%.



Fixed Income

- In the latest monetary policy meeting, MPC unanimously kept repo rates and reverse repo rate unchanged at 4% and 3.35% respectively and kept the stance accommodative.
- However, focus shifted to withdrawal of accommodation and restoring of liquidity management framework in order to address emanating risks from inflation while supporting growth.
- The policy de-emphasized the importance of growth in relative to inflationAs a result, yield curve, which is currently steep may flatten with short term yields rising faster than long term yields.
- RBI would follow a Nuanced and Nimble footed approach for liquidity management while maintaining sufficient liquidity in the system. RBI would engage in gradual and calibrated withdrawal of liquidity in multiyear frame without disruption.
- RBI hikes inflation projection 5.7% in for FY23 and lowered Fy23 GDP growth from 7.8% to 7.2%.



Gold

Unprecedented times have seen gold breach $2,000/oz levels at the start of March, just ~$3 shy from hitting an all-time high; we witnessed an appreciation of almost ~15% from the lows of ~$1785 in Jan to highs of $2069 in March. Series of updates not only on the geo-political front, but also from the major central banks kept market participants on the edge. With Russia-Ukraine war still raging, unyielding talks between the two nations, and imposition of sanctions on Russia by the western nations supported the metal prices on lower levels. Fed governor held an aggressive stance regarding the interest rate trajectory that gave a sharp push to the U.S. Treasury Yields and capped some gains for gold. Risk aversion sentiment for now continues to prevail in the markets, thus benefiting gold.

Gold Outlook: Looking ahead, focus will also be on the geopolitical developments especially with the ongoing Russia-Ukraine standoff, and the further measures taken by other countries to handle the current situation. Investors' will also keep an eye on economic data like the inflation, non-farm payroll, retail sales and a few others coming out of the U.S. Market participants will also focus on the very important Fed policy meeting scheduled in May, where comments regarding the rate hike trajectory, balance sheet unwinding, overall outlook of the economy and inflationary pressures will be important. Updates regarding the development in the geo-political tensions could continue boost the safe haven appeal for bullions; although any surprise announced by Fed could trigger volatility in the short term.

Silver

Over the past decade, demand for silver has been driven by industrial usage, renewable energy, and consumption in form of jewelry & silverware and as an investment avenue.Having said, price movements of silver in last 3 decades (1990 – 2021) suggests that:

- Silver has a higher co-relation with gold and a positive co-relation with Indian equities. This is in contrast to gold, which has the properties of negative correlation to Indian equities and has been a hedge against inflation.
- Though the compounded annualized returns for silver and gold has been ~10%, standard deviation for silver has been much higher (~28%) when compared to gold (~15%). In fact, standard deviation for silver is at similar levels to Indian Equities
- Similarly, maximum drawdown for silver (-57%) is almost double to that for gold (-25%)

From the above mentioned performance data analysis, one can interpret that silver is a relatively volatile asset and does not exhibit characteristics of gold. Hence in asset allocation, silver cannot replace gold and cannot be a part of core allocation. However, if one wants to invest in silver, it can be a tactical play of maximum up to 5% of their total investments.

Gold vs. Silver vs. Indian Equity

Asset Class	Equity-IND	Gold	Silver
CAGR from 1990 to 2022*	14.0%	10.0%	9.9%
Standard Deviation	27.6%	14.9%	27.6%
Maximum Drawdown	-55.1%	-25.1%	-56.8%
Maximum Returns - 3Y	59.6%	32.2%	50.8%
Minimum Returns - 3Y	-15.7%	-7.3%	-19.7%
Average Returns - 3Y	12.6%	10.2%	10.9%
Positive Observations (%) - 3Y	84.7%	83.8%	77.3%

Correlation	Equity – IND	Gold (INR)	Silver (INR)
Equity - IND	1.00		
Gold (INR)	-0.04	1.00	
Silver (INR)	0.11	0.63	1.00

Note: Correlation analysis is based on Month end return basis over last 30 years
Source: MOWM, Bloomberg

Returns Distribution (3Y Rolling Returns)	% Observations		
	Equity-IND	Gold	Silver
-20% to -10%	3.1%		6.8%
-10% to 0%	12.2%	16.2%	15.9%
0% to 6%	21.0%	19.9%	16.2%
6% to 10%	15.3%	12.8%	10.8%
10% to 15%	17.6%	19.6%	13.1%
15% to 20%	7.7%	13.6%	12.5%
20% to 30%	8.2%	17.3%	13.4%
Above 30%	15.6%	0.6%	12.0%

- Silver shows more volatility than Indian Equity (Based on Std. Deviation on Monthly Returns, Maximum drawdown)
- Hence, While Gold can have a strategic allocation in portfolios, Silver should be consider only for tactical allocation

STD is based on monthly returns, *CAGR is for period 1990 to 31st Mar 2022; Data updated as of end Mar'22. Equity-IND is represented by Sensex from 1990 to 2002 and Nifty 50 from 2002 onwards; MCX Spot Gold price in INR from 2006 till date; S&P 500 in INR 1990 onwards; Silver = USD Silver converted in INR. Disclaimer :Past Performance is no guarantee of future Results

Macro Economy

India

India's current account balance stood at USD23b (or 2.7% of GDP) in 3QFY22, higher than USD10b (or 1.3% of GDP) in 2QFY22. It implies a CAD of USD26.5b (or 1.2% of GDP) in 9MFY22 as compared to a surplus of USD32.1b (or 1.7% of GDP) in 9MFY21. Wider CAD was on account of larger merchandise trade deficit, which stood at 7.2% of GDP (or USD60.4b), after a deficit of 5.9% of GDP (or USD44.5b) in 2QFY22. Higher imports (up 52% YoY in 3QFY22) vis-à-vis exports (up 41% YoY) led to a wider merchandise deficit.

Average monthly GST collections rose 35.5% YoY to INR1.24t in FY22. Total Goods & Services Tax (GST) collections in FY22(P), at INR14.9 tn have exceeded FY22RE (revised estimate) level of INR13.5t by ~10%. This indicates a 35.5% YoY growth over collections of INR11t in FY21 compared with an envisaged growth of 23% YoY in the Union Budget 2022.

Global

US Inflation reached a new 40-year peak in February, according to the Federal Reserve's preferred gauge. The Commerce Department said Thursday that its PCE price index climbed 6.4% in February from a year ago – fastest since 1982. Excluding volatile food and energy costs, Core PCE rose 5.4% in February compared to the previous year. The recent data also showed energy prices spiraling upward quickly, with Oil briefly crossing $130 for the first time since 2014.

About Motilal Oswal Wealth:

Motilal Oswal Private Wealth (MOPW) is a part of Motilal Oswal Group – a brand that is trusted for knowledge based investing with a proven performance track-record over 30 years. MOPW was incorporated in year 2007 to cater Corporates/Institutions, High Net Worth and Ultra High Net worth Individuals. We use knowledge to identify the right mix of Fund Managers across asset classes to ensure that you have winning portfolio. "The more we know, the more you win" hence our wealth managers are empowered with the science and art of investing. In addition to these, you also experience new insights and ideas on wealth creation through our exclusive knowledge events.

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