Equity monthly view for June 2022

S&P BSE SENSEX declined by -2.16 % on a total return basis in the month of May 2022.

It has underperformed developed market indices like S&P 500 (+0.18%) and Dow Jones Industrial Average Index (+0.32%). S&P BSE SENSEX has also underperformed MSCI Emerging Market Index (0.46%). The broader market has been weaker, S&P BSE Midcap Index has declined by -5.5% for the month & S&P BSE Small cap Index declined by 7.8%. The Power & Metal Sectors which have been hogging the limelight over the past few months were the biggest losers falling by 11.3% and 15.5% respectively. The BSE Auto Index was the only sectoral indices in the green moving up by 4.9%.

Quantum Long Term Equity Value Fund (QLTEVF) saw a decline of -1.1% in its NAV in May 2022. This compares to a -4.15% decline in its Tier I benchmark S&P BSE 500 & -3.78% decline in its Tier II Benchmark S&P BSE 200. Some of our stocks in the Auto & Financial sector showed resilience in an otherwise weak market & contributed to the outperformance. Cash in the scheme stood at approximately 2.3% at the end of the month. The portfolio is attractively valued at 13.6x FY24E consensus earnings vs. the S&P BSE Sensex valuations of 18x FY24E consensus earnings.

FPI outflows remain unabated

Month	FPI Flows (in USD mn)
Mar-20	-8,348.38
Mar-22	-5,384.94
May-22	**-5,178.19**
Feb-22	-4,742.25
Jan-22	-4,459.82

Source: NSDL

May-22 has seen FPI outflows of US$ 5.17 bn. This has been the thirst worst month of FPI flows since FPI investments were allowed to invest in India in 1991. Interestingly, of the five 'worst ever' months of FPI flows, 4 have come in this calendar year. Domestic institutional investors (Mutual Funds & Insurance put together) have been net buyers for May 2022 to the tune of US$ 6.57 bn.

Interest rates are expected to continue to move up in response to rising inflation

Geopolitical challenges & supply chain disruption are ensuring unabated inflation pressure across the globe. India's inflation problems are mostly imported & higher crude prices largely explain the same (India imports 85% of its crude oil requirement). To tackle rising inflation central banks are increasing interest rates & sounding hawkish. In India, the consensus expects RBI to increase repo by 180 bps increase in the current financial year. This should take repo to approximately 6-6.5%.

The repo rates have been at 6-6.5% levels many times in the past & Indian businesses & investors should not have a problem adjusting to this increase in the cost of capital after initial hiccups. Even history suggests that equity markets quickly adjust to higher rates. In fact, since 2005 in every rate hike cycle Indian equities have given positive returns.

Interest Hike Cycles		NIFTY		
	Hikes (bps)	**Hike Period Return**	**T-3 returns**	**T-6 Returns**
Oct'05-Jul'08	300	66.0%	29%	23%
Mar'10-Oct'11	375	6.2%	1%	3%
Sep'13 - Jan'14	75	11.3%	-3%	1%
Jun'18-Aug'18	50	9.2%	6%	3%

Source: Bloomberg.
T-3 is three months return prior to the first-rate hike
T-6 is six months return prior to the first-rate hike

FY2021-22 ends with an earning upgrade for Sensex

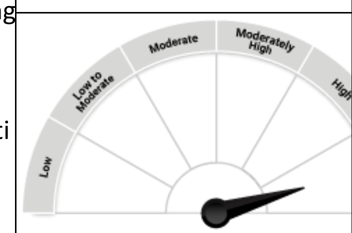
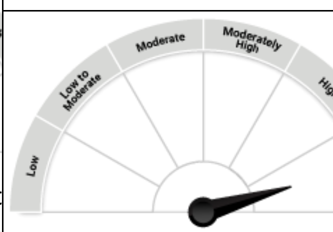
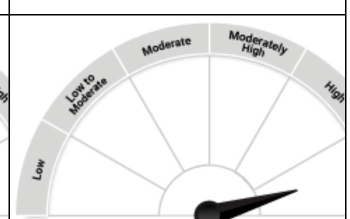
From FY2013-14 till FY20-21 the reported earnings of Sensex have always fallen short of expectations at the start of the year for reasons that are both manmade & natural. In 2016 it was demonetisation, 2017-GST, 2018-IL&FS crisis, 2020 & 2021 covid-19 induced lockdown. FY2021-22 has been the first year in the last nine years where reported earnings of Sensex have been higher than what was envisaged at the start of the year. Trends in residential real estate sales & hiring in the IT sector gives us the confidence to believe that this corporate earning upgrade cycle will continue for the next three-four years. The current environment of higher inflation might delay but will not derail it

EPS estimates	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Start of the year	1467	1557	1793	1625	1720	1887	2044	1910	**2291**
Actuals	1343	1516	1390	1432	1526	1681	1829	1543	**2321**
Deviation	-8.5%	-2.6%	-22.5%	-11.9%	-11.3%	-10.9%	-10.5%	-19.2%	**1.3%**

Source: Bloomberg

Equity investors who have invested in equity markets in the last two-three years have seen mostly positive returns & a swift recovery after every correction. The current volatility & slow grind of the markets will test their patience. The new-age investors need to reset their expectations & also understand that equity investing is a long-term game. They should have a 3-year + view while investing in equities. Investors also need to align the asset allocation plan to long-term financial goals. The near-term volatility in the market should be used by investors to increase allocation to equities in a staggered manner to align with the asset allocation plan.

Product Labeling

Name of the Scheme	**This product is suitable for investors who are seeking***	**Risk-o-meter of Scheme**	**Tier 1 Benchmark**	**Tier 2 Benchmark**
Quantum Long Term Equity Value Fund (An Open Ended Equity	• Long term capital appreciation • Invests primarily in equity and equity	 Investors understand that their principal will be at Very High Risk		

Scheme following a Value Investment Strategy) Tier I Benchmark: S&P BSE 500 TRI	related securities of companies in S&P BSE 200 index.			

*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.
The Risk Level of the Scheme in scheme Risk O Meter is basis it's portfolio as on May 31, 2022.
The Risk Level of the Tier I Benchmark & Tier II Benchmark in the Risk O Meter is basis it's constituents as on May 31, 2022.

Disclaimer, Statutory Details & Risk Factors:

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