Quarterly Memo

CIO Quarterly Memo: Earnings and Macros

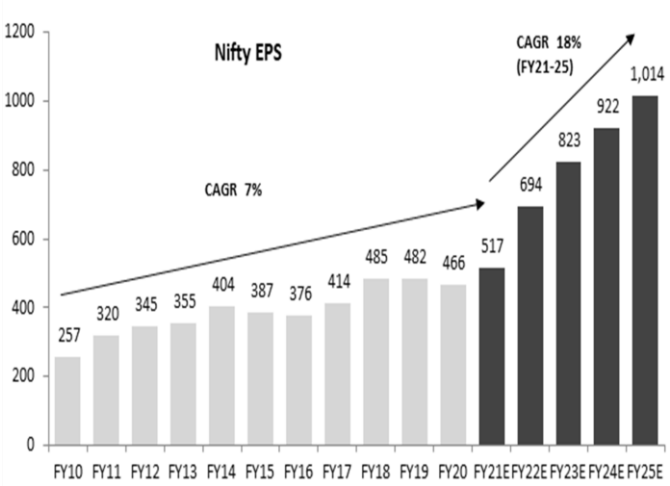
FY21 was an unprecedented year with one of the worst pandemics hitting in over a century on one hand and one of strongest years for the equity markets on the other. The benchmark NIFTY 50 delivered a whopping 78% returns supported by a low base and surge in global liquidity. According to a recent report by a leading media agency, the last 5 months have seen higher inflows in global equity markets than the last 12 years combined. This is quite resounding considering the economies across the globe that haven't yet come to full steam and the virus continues to linger around.

Stronger Earnings trajectory in the offing

While all this sounds like a bubble territory, indicating caution for investors, the corporate earnings are showcasing an encouraging improvement. On a year-on-year basis, the Q4FY21 earnings are likely to more than double for the benchmark NIFTY 50. In the last ten years NIFY delivered an earnings growth of 7% CAGR which was quite sluggish. But over the next four years, the NIFTY 50 is expected to deliver ~18% earnings CAGR over FY21-25. The growth will be led by a recovery in BFSI and Cyclical sectors. This is particularly encouraging as growth in these sectors is followed by growth in consumption-oriented sectors indicating the improvement in long-term growth potential.

Naveen Kulkarni
Chief Investment Officer

Naveen has over 17 years of experience in the financial services and Telecom sectors. In his previous role, he was responsible for Institutional and Retail research as Head of Research with Reliance Securities Limited. He also served as Co-Head of Research with Phillip Capital India Private Limited in his 11-year long association with the organization.



We are also happy to note that both Contra and Growth have outperformed the benchmark in FY21. Contra has outperformed the benchmark since introduction in June by 23% in FY21 while growth has marginally outperformed the benchmark. Retirement strategy has continued to meet its objectives of delivering absolute returns and minimizing drawdowns during the year. Our outperformance has been function of sector allocation strategy and managing the portfolio risk according to market conditions.

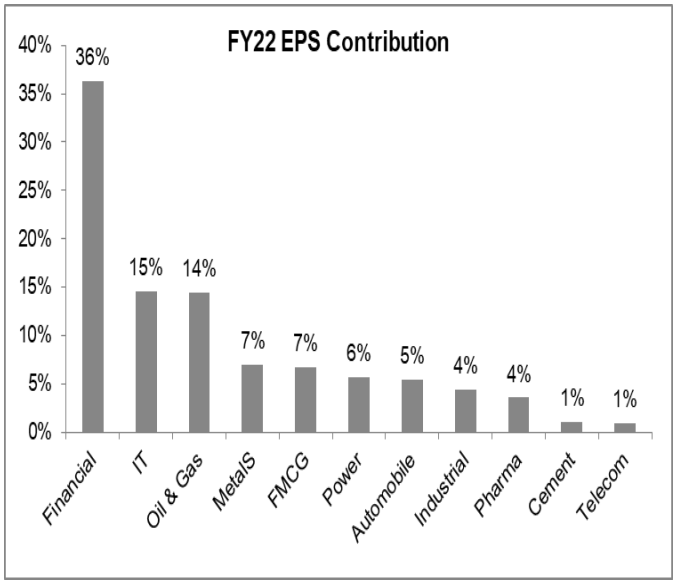
Cautiously optimistic

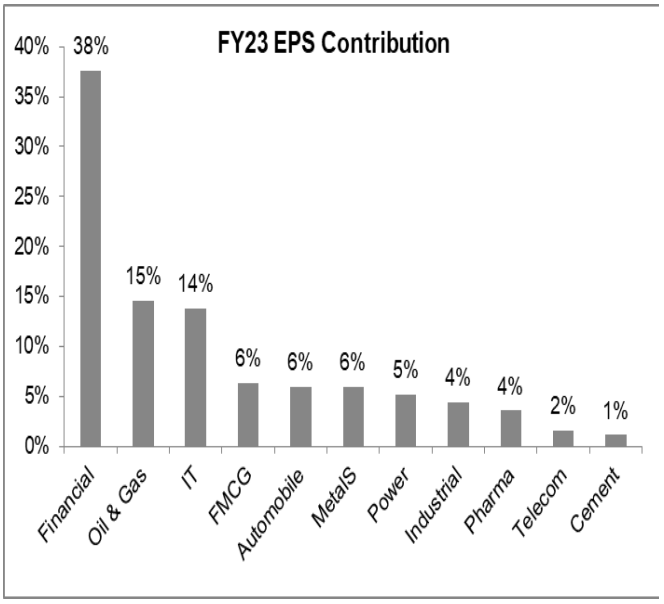
Even as there is lot to be bullish about, challenges are also emerging which will have an impact on the equity markets around the world. A few of the key challenges are the rising inflation around of the world as well as the rising bond yields. This is both positive as well as negative but in the short term, it will pose some challenges to the valuations for equities. The other major concern which can turn out to be major issue is the rapid advent of COVID-19 strain in India. The Maharashtra government has issued lockdown norms for weekends and the state could very well go under a full lockdown. Other states, seeing a significant surge in infections, may follow the suit and impose new restrictions.

More lockdowns will lead to a further economic slowdown in the short-term is well known. On the flipside, though this means more supply-side issues, we have observed that the demand never truly gets destroyed and it revives rather quickly post-relaxations. Also, monetary policy will continue to be accommodative to support growth and revival. All these factors mean the lockdowns will have an impact on the equity markets but they may also provide an opportunity to buy undervalued stocks and themes.

BFSI holds the key

In our strategies, we continue to focus on IT, BFSI, Consumer discretionary, and Cyclicals (in contra). Some of the key picks that have done very well over the last 6-9 months have been from these sectors. We have seen the market rewarding higher beta sectors. This could very well continue in FY22 if the earnings visibility continues to remain strong. BFSI will be a one of the most critical sectors for FY22 as it has highest weight in our portfolios as well as the benchmark indices. Management commentary of the private banks after QFY21 earnings on slippages for FY22 will be carefully followed. Now, not just slippages but growth will also be equally important as valuations for private banks are above their means which indicates that they are discounting higher growth in the forthcoming quarters.





Autos a concern but Pharma seeing interesting trends

Apart from BFSI, the Automobile sector will also be a key sector. Even though the sector delivered very strong returns in FY21, it has underperformed in the last 3 months due to margin concerns even though the volume growth remained strong. Inputs costs have increased significantly and the OEMs margins have been impacted. In 2Ws, inventory issues have also been observed in the channel. In this scenario, the sector's underperformance could continue for some time. At this stage, our allocation in the sector is quite low but we are evaluating opportunities. Pharma has underperformed for the last 4 months and December quarter numbers indicated pressure in the US business. However, as we progress, opportunities for the sector are rising and the sector could see improvement. In March, the sector outperformed along with Consumer staples. We have some allocation in the sector and continue to carefully evaluate emerging opportunities.

Broad market themes of Mid & Small cap and Large Cap value continue

Even as the market may see intermittent challenges, we believe the market structure continues to remain bullish. Our themes of mid and small caps in growth strategy and large cap value in contra strategy continue. Furthermore, we will continue to focus on quality in retirement strategy as it ensures the minimization of drawdowns.

Overall, we remain constructive on the market and continue to evaluate opportunities which can benefit from improving economic prospects. However, we might take cash positions as and when there could be chances of 10% plus correction. We keep evaluating the macroeconomic build up and watch Q4FY21 earnings carefully.

Happy Investing!

Naveen

Portfolio Strategy performance

Particulars	1M*	3M*	6M*	1Y	3Y	5Y
Growth						
Portfolio	-1.02%	4.35%	29.28%	68.69%	27.69%	25.16%
BSE 200	-0.34%	6.96%	31.55%	74.07%	12.37%	14.09%
Performance	-67	-261	-227	-538	1531	1107
Contra						
Portfolio	-2.01%	9.64%	42.47%	103.30%	22.01%	23.68%
BSE 200	-0.34%	6.96%	31.55%	74.07%	12.37%	14.09%
Performance	-166	269	1092	2923	963	959
Retirement						
Portfolio	0.82%	1.34%	17.79%	53.88%	20.24%	19.74%
BSE 200	-0.34%	6.96%	31.55%	74.07%	12.37%	14.09%
Performance	117	-562	-1376	-2020	787	565

* Live performance as on 31st March 2021