Date: 12/04/2023

Well last quarter, we have seen a lot of action in domestic and global front. To start with, Hindenburg (US Based Research company) has alleged that the Adani Group is engaged in a stock manipulation and accounting fraud.

Closure of 3 regional banks in the US leading to panic, not just in the European banking sector, but also in Asian stock markets.

Sensex almost fell by 6000 points (63500 – 57500) NSE Cash turnover in the last quarter Jan 23-Mar 2023 fell by almost 60 %, indicating investor resistance to the exposure.

Current Market Scenario:

Broader indices fell 7-10 % in the last Quarter of FY 2022-23, but ***37% of Nifty 500 stocks are down at least 40 % from their 3 year high***. ***75% of Nifty 500 stocks are down at least 20% from their 3 year high.***

As discussed (In January 2023 Perspective – Link to Open), Investor chasing higher yield in Government Securities with longer maturities during a low-rate scenario suffered huge mark to market losses. The genesis of US Banking crisis stems from the same.

However, the Indian banking system is relatively strong. Some of the factors that contribute to the strength of the Indian banking system is its robust regulatory framework, diversified banking sector.

- Falling US Yields will support domestic equity rally in India, which has started (Fell from 4 % in starting week of March 2023 to 3.4 % currently). Lower yield will sustain, only If, US Federal Bank inflation target of 2-2.5% are met.
- There are two views to China reopening:
  EITHER: ***It will increase demand for commodities; which will increase inflationary pressures***
  OR : ***It will remove the persistent supply bottlenecks & lead to reduced inflationary pressures.*** We appreciate the fact that, we live in a world we don't understand. The ultimate form of preparation is not planning for a specific scenario, but a positioning that can handle uncertainty either ways.
- We are sitting on an over financialized world, where financial outstanding are 400% of the actual global GDP.
- The major risk in market is, if something breaks due to the USA inflationary figures and the US Federal Bank refuses to step in to rescue i.e. No rate cuts & No Quantitative Easing.

- We rely on fundamental over narratives. In last 30 Year, Nominal GDP Growth (GDP + Inflation) is 12.5 % approx. Nifty EPS Growth is 12.2 % and Nifty return is 12.8%. We expect 10 % Nominal GDP Growth for next 20 year.

Nominal interest rates mostly give negative real returns (Post inflation & taxes) in India. With the loss of indexation for debt funds, the only way to beat inflation over long term through financial asset is Equity funds.

Forecasting Numbers:

SENSEX guesstimates based on valuation implied framework tells:

- Sensex Levels 55,000 – 57,000 (Fair valuation zone) @ Overweight Equity 75 % +,
- Sensex Levels 51,000 – 53,000 (Cheap Zone) @ 90 % + Equity.

Our Appeal to investor:

We are not into forecasting or prediction. Nobody knows nothing. Our process helps us to know, where we are standing in terms of Valuation cycle. It never tells us where we are heading.

Action Plan for Investors:

Process is vital to ensure proper portfolio construction and better risk management. We must concentrate on process because it acts as a guard against mindless and view/gut-based investing.

Our Internal Model Asset Allocation currently shows 80-85 % max towards Equity for Aggressive investor. Ideal/prudent allocation at this valuation should be 60-62%.

Summing it Up:

The biggest problem with Financial modeling is emotions can't be inserted and tested. Undoubtedly tough days are here for equity investors, but also such periods have been the best to build investment base for a good period ahead.

In bear markets, we think bull market would never come. In bull markets, we think it would last forever. **"Cycle prevails"**